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THE OPEC FUND FOR INTERNATIONAL  
DEVELOPMENT (The OPEC Fund)  
Vienna, Austria



Ordinary Capital Resources (OCR)  
INTERIM FINANCIAL STATEMENTS

September 30, 2022

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## STATEMENT OF FINANCIAL POSITION

AT SEPTEMBER 30, 2022  
 In millions of United States Dollars  
 (US\$)

	Note	SEP. 30 2022	SEP. 30 2021	DEC. 31 2021
<b>ASSETS</b>				
Cash Balances	4	86.2	634.3	432.0
Treasury Investments at FVTPL	5	857.0	947.7	926.4
Derivatives (not hedge accounting)		15.8	9.1	4.2
Accounts Receivable	6	60.2	40.7	47.9
Sovereign Loans at amortized cost	7	3,363.9	2,926.0	3,040.3
Non-Sovereign Loans at amortized cost	8	962.2	756.3	916.9
Trade Finance Facility Loans at amortized cost	9	462.6	388.9	403.5
Equity Investments at FVTOCI	10	113.9	99.1	110.3
Property and Equipment	11	204.8	195.8	203.9
<b>TOTAL ASSETS</b>		<b>6,126.5</b>	<b>5,997.9</b>	<b>6,085.4</b>
<b>LIABILITIES</b>				
<b>OTHER LIABILITIES</b>				
Accounts Payable		0.9	5.0	6.3
Trade Finance Guarantees Provision	9	1.6	2.0	3.1
Post-Employment Benefits	19	185.3	226.9	184.3
<b>TOTAL LIABILITIES</b>		<b>187.8</b>	<b>233.9</b>	<b>193.7</b>
<b>EQUITY</b>				
Member Country Contributions		3,104.1	3,104.1	3,104.1
Allowance for MCC Obligations		(602.5)	(685.3)	(680.5)
Net Member Country Contributions	12	2,501.6	2,418.8	2,423.7
Reserves	17	3,437.1	3,345.2	3,468.1
<b>TOTAL EQUITY</b>		<b>5,938.8</b>	<b>5,764.0</b>	<b>5,891.8</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,126.5</b>	<b>5,997.9</b>	<b>6,085.4</b>

The accompanying Notes are an integral part of these financial statements.

## INCOME STATEMENT

FOR THE PERIOD ENDING ON SEPTEMBER 30, 2022

In millions of United States Dollars (US\$)

	Note	<u>30.09.2022</u>	<u>30.09.2021</u>	<u>31.12.2021</u>
<b>INCOME</b>				
Interest Income from Development Financing				
Sovereign Loans		81.3	73.7	99.8
Non-Sovereign Loans		33.5	27.5	37.0
Trade Finance Loans		11.5	9.9	12.7
<u>Interest Income from Development Financing *</u>	14	<u>126.3</u>	<u>111.1</u>	<u>149.5</u>
Fees and Dividend Income				
Fee Income from Loans		5.0	5.2	9.1
Fee Income from Guarantees		4.0	3.5	4.6
Dividends Income from Equity Investments		2.1	4.6	5.5
<u>Total Fees and Dividend Income</u>	14	<u>11.2</u>	<u>13.2</u>	<u>19.1</u>
Other Income				
Net gain/loss from Treasury at FVTPL	15	(59.2)	3.5	1.7
Currency Valuation	20	11.3	14.1	17.1
Other Income	20	9.6	0.1	10.8
<u>Total Other Income</u>		<u>(38.3)</u>	<u>17.7</u>	<u>29.7</u>
Provisions for Impairment				
Sovereign Loans		(16.0)	-	3.8
Non-Sovereign Loans		(22.3)	-	18.3
Trade Finance Loans		2.2	-	4.0
Trade Finance Guarantees		1.5	-	(1.0)
<u>Total Provisions for Impairment</u>	18	<u>(34.6)</u>	<u>-</u>	<u>25.1</u>
<b>EXPENSES</b>				
General Administrative Expenses	16	(50.3)	(37.1)	(67.4)
Depreciation on Property and Equipment	11	(2.8)	(2.6)	(3.5)
<u>Total Expenses</u>		<u>(53.1)</u>	<u>(39.8)</u>	<u>(70.9)</u>
<u>NET PROFIT/ (LOSS)</u>		<u>11.4</u>	<u>102.2</u>	<u>152.5</u>

\* recognized based on the effective interest rate method

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDING ON SEPTEMBER 30, 2022

In millions of United States Dollars (US\$)

	Note	<u>30.09.2022</u>	<u>30.09.2021</u>	<u>31.12.2021</u>
<u>NET PROFIT/ (LOSS)</u>		<u>11.4</u>	<u>102.2</u>	<u>152.5</u>
OTHER COMPREHENSIVE INCOME				
Items not classified into the Income Statement:				
Equity investments at FVTOCI - net change in fair value	10	3.5	-	33.7
Revaluation of Property	11	(2.5)	-	3.3
Actuarial Gain/(Loss) on Post Employment Benefit Plans	19	(17.5)	-	55.0
<u>TOTAL OTHER COMPREHENSIVE INCOME / (LOSS)</u>	17	<u>(16.5)</u>	<u>-</u>	<u>91.9</u>
<u>TOTAL COMPREHENSIVE INCOME/ (LOSS)</u>		<u>(5.1)</u>	<u>102.2</u>	<u>244.5</u>

## STATEMENT OF CHANGES IN EQUITY

In millions of United States Dollars (US\$)

	Q3 2022							
	Member Country Contributions	Allowance for MCC Obligations	Net Member Country Contributions	General Reserve	Reserve for Grants	Other Reserves	Total Reserves	Total Equity
Opening Balance:	3,104.1	(680.5)	2,423.7	3,337.2	69.3	61.8	3,468.2	5,891.8
Grant Allocation	-	-	-	(11.0)	11.0	-	-	-
Return of Unutilized Grant balances	-	-	-	-	-	-	-	-
Transfers to SCR on behalf of MCs	-	-	-	(25.4)	-	-	(25.4)	(25.4)
Transfers to General Reserve	-	-	-	2.5	-	-	2.5	2.5
Disbursement of Grants	-	-	-	-	(3.0)	-	(3.0)	(3.0)
Net Profit/ (Loss) in the Year	-	-	-	11.4	-	-	11.4	11.4
Member Country Contributions	-	78.0	78.0	-	-	-	-	78.0
Other Comprehensive Income in the Year	-	-	-	-	-	(16.5)	(16.5)	(16.5)
Realized Gain/(Loss) on Equity Investments	-	-	-	-	-	-	-	-
Closing Balance	3,104.1	(602.5)	2,501.6	3,314.6	77.2	45.3	3,437.1	5,938.8

	Q3 2021							
	Member Country Contributions	Allowance for MCC Obligations	Net Member Country Contributions	General Reserve	Reserve for Grants	Other Reserves	Total Reserves	Total Equity
Opening Balance:	3,104.1	(724.0)	2,380.1	3,231.0	68.2	(30.1)	3,269.1	5,649.2
Grant Allocation	-	-	-	(16.0)	16.0	-	-	-
Return of Unutilized Grant balances	-	-	-	-	-	-	-	-
Transfers to SCR on behalf of MCs	-	-	-	(24.0)	-	-	(24.0)	(24.0)
Transfers to General Reserve	-	-	-	0.3	(0.3)	-	0.0	0.0
Disbursement of Grants	-	-	-	-	(2.3)	-	(2.3)	(2.3)
Net Profit/ (Loss) in the Year	-	-	-	102.2	-	-	102.2	102.2
Member Country Contributions	-	38.7	38.7	-	-	-	-	38.7
Other Comprehensive Income in the Year	-	-	-	-	-	-	-	-
Realized Gain/(Loss) on Equity Investments	-	-	-	0.3	-	-	0.3	0.3
Closing Balance	3,104.1	(685.3)	2,418.8	3,293.8	81.5	(30.1)	3,345.2	5,764.1

	2021							
	Member Country Contributions	Allowance for MCC Obligations	Net Member Country Contributions	General Reserve	Reserve for Grants	Other Reserves	Total Reserves	Total Equity
Opening Balance:	3,104.1	(724.0)	2,380.1	3,231.0	68.2	(30.1)	3,269.0	5,649.1
Grant Allocation	-	-	-	(16.0)	16.0	-	-	-
Return of Unutilized Grant balances	-	-	-	11.8	(11.8)	-	-	-
Transfers to SCR on behalf of MCs	-	-	-	(24.0)	-	-	(24.0)	(24.0)
Transfers to General Reserve	-	-	-	3.7	-	-	3.7	3.7
Disbursement of Grants	-	-	-	-	(3.1)	-	(3.1)	(3.1)
Net Profit/ (Loss) in the Year	-	-	-	152.5	-	-	152.5	152.5
Member Country Contributions	-	43.5	43.5	-	-	-	-	43.5
Other Comprehensive Income in the Year	-	-	-	-	-	91.9	91.9	91.9
Realized Gain/(Loss) on Equity Investments	-	-	-	(21.9)	-	-	(21.9)	(21.9)
Closing Balance	3,104.1	(680.5)	2,423.7	3,337.1	69.3	61.8	3,468.1	5,891.8

## STATEMENT OF CASH FLOWS

In millions of United States Dollars (US\$)	30.09.2022	30.09.2021	31.12.2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and other charges on Sovereign Loans	75.9	70.4	97.9
Interest and other charges on Non-Sovereign Loans	31.1	30.4	41.7
Interest and other charges on Trade Finance Loans	9.5	13.3	18.2
Fees on Trade Finance Guarantees	3.2	2.1	3.0
Dividends and other gain from Equity investments	2.1	5.6	6.4
Investment rebates and fees	0.7	1.3	1.3
Interest on time deposits	1.2	0.7	0.9
Administrative expenses	(43.4)	(39.5)	(51.5)
Realized Gains/(Losses) on FX Hedging Contracts	28.1	(1.0)	9.1
Others	7.1	2.1	(4.6)
<b>Cash Flows from Operating Activities</b>	<b>115.5</b>	<b>85.4</b>	<b>122.7</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Funding into External Portfolio investments	-	(400.0)	(400.0)
Withdrawals from External Portfolio investments	8.2	545.0	557.8
Sovereign Loan disbursements	(573.7)	(311.7)	(505.1)
Sovereign Loan repayments	216.8	223.3	303.7
Non-Sovereign Loan disbursements	(187.3)	(107.7)	(287.2)
Non-Sovereign Loan repayments	96.8	94.2	128.7
Trade Finance Loan disbursements	(329.4)	(193.9)	(338.1)
Trade Finance Loan repayments	261.4	331.2	464.4
Private Sector Equity Investments acquired	(1.5)	(4.9)	(5.2)
Private Sector Equity Investments sold	1.4	13.5	14.1
Purchase of Equipment and Software	(3.7)	(0.1)	(2.1)
<b>Cash Flows from Investing Activities</b>	<b>(511.0)</b>	<b>188.9</b>	<b>(69.0)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Member Countries' contributions	78.0	38.7	43.5
Cash Transfer to SCR on behalf of MCs	(25.4)	(24.0)	(24.0)
Grants disbursements	(3.1)	(2.3)	(3.1)
<b>Cash Flows from Financing Activities</b>	<b>49.5</b>	<b>12.4</b>	<b>16.4</b>
<b>TOTAL CASH FLOW IN THE PERIOD</b>			
Total Cash Flow in the Period	(346.0)	286.7	70.0
Total FX Variation on Non-USD Cash Flows	0.2	-	14.4
<b>TOTAL NET CASH FLOW IN THE PERIOD</b>	<b>(345.8)</b>	<b>286.7</b>	<b>84.4</b>
<b>CHANGES IN CASH AND CASH EQUIVALENTS</b>			
Opening Balance of Cash and Bank Accounts	432.0	347.6	347.6
Closing Balance of Cash and Bank Accounts	86.2	634.3	432.0
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(345.8)</b>	<b>286.7</b>	<b>84.4</b>

## ***NOTES TO THE INTERIM FINANCIAL STATEMENTS***

For the period ended September 30, 2022

The accompanying notes are an integral part of these interim financial statements.

### **NOTE 1 - ESTABLISHMENT AND NATURE OF OPERATIONS**

#### **Establishment of the OPEC Fund**

The OPEC Fund for International Development (the OPEC Fund or the Fund), located in Vienna, is a multilateral development finance institution. It works in cooperation with developing country partners and the international development community to stimulate economic growth and social progress in low- and middle-income countries around the world.

The organization was established by the member countries of OPEC in 1976 with a distinct mandate: to drive development, strengthen communities and empower people. The OPEC Fund's work is people-centered, focusing on financing projects that meet essential needs, such as food, energy, infrastructure, employment (particularly relating to MSMEs), clean water and sanitation, healthcare and education. Its vision is a world where sustainable development is a reality for all.

The OPEC Fund started as "The OPEC special fund", a temporary channel to mobilize resources for assistance, and, in 1981, evolved into an independent permanent Development Financial Institution (DFI) for Public Sector financing.

In 1998, the Ministerial Council [by virtue of Ministerial Council Decision No. 5 (XIX)] established its Private Sector operations, in response to growing demand among partner countries for financing non-sovereign enterprises, which is increasingly seen as the engine of economic and social growth.

In 2006, Ministerial Council [by virtue of MC Decision No. 2 (XXVII)] expanded the financing mechanisms to include Trade Finance to promote economic development. It is an additional window for supporting eligible developing countries in their efforts to achieve growth and prosperity.

In 2020, the Ministerial Council [by virtue of MC Decision No. 2 (XLI)] approved the Enhanced Management of OPEC Fund's Capital Resources, which entails (i) the establishment of the Special Capital Resources (SCR) fund through an initial transfer of loan and treasury assets from the existing capital resources of the OPEC Fund; and (ii) the OPEC Fund's existing capital resources being called Ordinary Capital Resources (OCR). In line with Article 8 of the Agreement Establishing the OPEC Fund, the resources of SCR must be held and managed entirely separately at all times from OCR.

In 2021, Fitch Ratings and S&P Global Ratings assigned credit ratings as (AA+ /F1+ (Stable) and (AA/A-1 + (Positive) respectively. In 2022, credit ratings were reaffirmed and a Global Medium Term Note Program was established.



The status, privileges and immunities of the OPEC Fund and of those connected with it in Austria are stipulated in the Headquarters Agreement between the Government of the Republic of Austria and the OPEC Fund signed on October 9, 2019. The OPEC Fund is a tax-exempt organization within the Republic of Austria and, by virtue of relevant provisions in its loan agreements, its assets and income are exempt from any taxation and charges in partner countries.

As per its Establishment Agreement and internal policy, the OPEC Fund does not have lending transactions with its member countries and other related parties including members of its governing bodies, management and staff.

## Objectives

The purpose of the OPEC Fund is to promote and reinforce cooperation between its Member Countries and other developing countries by providing financial support to assist the latter, on appropriate terms, in their quest for social and economic development. This objective is primarily achieved by:

- a) Extending loans on concessional and market-based terms for the implementation of development projects/programs and for budgetary/balance of payment support,
- b) Providing credit guarantees to support international trade finance and equity investments as minority interest with development impact, and
- c) Providing grants and technical assistance in support of development projects. This financial assistance is provided directly or channeled through intergovernmental organizations such as specialized agencies of the UN system and other international NGOs.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On July 18, 2019, the Ministerial Council [MC Decision No. 3 (XL)] approved the issuance of interim financial statements to be prepared in accordance with the OPEC Fund's accounting and reporting policies applicable to OCR as approved by the Governing Board, which are generally based on the International Financial Reporting Standards (IFRS), with exceptions of the items stated in Note 2.1.

Significant accounting policies, consistently employed by the OPEC Fund in preparing the accompanying OCR Special Purpose Interim Financial Statements, are summarized below.

### 2.1 Presentation Format

This document should be read in conjunction with the OPEC Fund's financial statements issued for the year ended December 31, 2021.

These special purpose interim financial statements have been prepared in accordance to the OPEC Fund's accounting and reporting policies applicable to OCR, which are in general based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) with exceptions outlined below. As a result, this set of financial statements cannot be considered fully compliant with IFRS and therefore are special purpose interim financial statements.

In order to provide comparable financial information, the OCR Special Purpose Interim Financial Statements includes the figures reported as of September 30, 2021 and December 31, 2021, in statement of financial position, income, other comprehensive income, changes in equity and cash flow statements. The notes include details for the current reporting date/period and the latest audited Financial Statements as of December 31, 2021. Two asset classes have been renamed from the latest audited Financial Statements as of December 31, 2021 (i) Public Sector Loans are referred as Sovereign Loans, and (ii) Private Sector Loans are referred as Non-Sovereign Loans.

The OPEC Fund's functional and reporting currency is, except where stated otherwise, the United States Dollar (US\$). Hence, financial Statements are presented in US\$, with figures rounded to US\$ millions, which may result in minor rounding differences.

These special purpose interim financial statements include items valued at year-end fair value, such as Property and Post Employment Defined Benefit Obligations. Recalculation of Defined Benefit Obligations based on the updated actuarial and financial assumptions as well as revaluation of Property were not updated as of September 30, 2022.

Other financial statements items were updated as of September 30, 2022 as follows:

- Valuation of Treasury Investments measured at fair value through profit or loss (FVTPL) was performed as of September 30, 2022.
- Valuation of Equity Investments accounted for as financial assets at fair value through other comprehensive income (FVTOCI) was performed as of September 30, 2022.
- Provisions for impairment of loan portfolio, including changes in exposure and other ECL parameters, were updated as of September 30, 2022. The net effect of applying the ECL provisioning policy to the OCR loans and guarantee portfolios is presented in Note 18.
- The administrative expenses to be allocated to SCR in 2022 were reflected in the special purpose interim financial statements based on the prorated estimated expenses for the financial year 2022.

It is important to note that valuation of Equity investments, update of provisions for the OCR loan portfolio and allocation of the administrative expenses to SCR were not performed in the reporting period ending September 30, 2021. In 2022, the Fund enhanced its interim reporting to include updates of these financial assets and liabilities reporting values.

IAS 34 Interim Financial Statements was not applied for preparation of the special purpose interim financial statements as of September 30, 2022.

The preparation of Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting and financial policies. Areas where judgments and estimates are significant include adequacy of provisions for impairment, measurement of financial instruments that are not traded in recognized markets, estimating liabilities on staff post-employment benefits and in evaluating materiality for the purpose of financial reporting and disclosure. Although management regularly relies on independent experts, such as actuaries and securities analysts, all assumptions and estimates are continually evaluated for reasonableness and consistency.

## 2.2 Functional and Reporting Currency

In accordance with Article 1.5 of the OPEC Fund's Financial Regulations, the OPEC Fund's functional and reporting currency is the United States Dollar (US\$).

Transactions in currencies other than the US\$ are converted at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the conversion at the quarter-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

The prevailing EUR/US\$ rates at the Statement of Financial Position dates were as follows:

September 30, 2022: 0.9788 EUR/US\$  
 December 31, 2021: 1.1373 EUR/US\$

Non-US\$ non-monetary items that are carried at historical costs are translated at the historical exchange rate i.e. the rate at the date of initial recognition. Non-US\$ non-monetary items that are carried at fair values are translated at the prevailing rate when the fair values are determined and the exchange difference if any, is recognized in Other Comprehensive Income (OCI) in accordance with IAS 21.

## 2.3 Fair Value Hierarchy

IFRS 13: Fair Value Measurement specifies classification of fair values based on a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities. This level includes listed share investments on stock exchanges.

Level 2: Fair value measurement at Level 2 uses quoted prices of similar assets or liabilities, or valuation techniques that rely on observable market inputs either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Fair value measurement at Level 3 uses valuation models and unobservable inputs.

The table below provides information as of September 30, 2022 and December 31, 2021 about the OPEC Fund's assets and liabilities measured at fair value.

Assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement. There were no transfers between levels of the fair value hierarchy during the reporting period.

Table 2.1: Fair Value Level of Assets and Liabilities

	30.09.2022		
	\$ million		
	Level 1	Level 2	Level 3
Treasury Investments	857.0	-	-
Derivatives	-	15.8	-
Loans at amortized cost	-	-	4,788.7
Equity Investments	-	-	113.9
Property and Equipment	-	-	204.8
<b>Fair Value of Assets by Level</b>	<b>857.0</b>	<b>15.8</b>	<b>5,107.4</b>

	31.12.2021		
	\$ million		
	Level 1	Level 2	Level 3
Treasury Investments	926.4	-	-
Derivatives	-	4.2	-
Loans at amortized cost	-	-	4,360.7
Equity Investments	-	-	110.3
Property and Equipment	-	-	203.9
<b>Fair Value of Assets by Level</b>	<b>926.4</b>	<b>4.2</b>	<b>4,674.9</b>

The treasury investments in the OPEC Fund's liquidity portfolio are carried and reported at their publicly quoted prices (Level 1 in the fair value hierarchy) when available. Otherwise inputs other than quoted market prices (Level 2 in the fair value hierarchy) are used for the valuation.

The OPEC Fund is using valuation methods and management assumptions to compensate for the lack of observable market data for the valuation of the asset reported at Level 3 in the fair value hierarchy.

## 2.4 Revenue and Expense Recognition

Income and expenses are recognized on an accrual basis. Interest income is recognized based on the effective interest rate method using the applicable interest rate over the period that the instrument is held and outstanding adjusted by non-accrual provision for non-performing loans.

The OPEC Fund's Sovereign Loans include service charges that are accrued and billed semi-annually over the period of the loans. Front-end, commitment and other fees are charged and accrued for respective loans according to the terms and conditions of any loan agreement, these are reported separately in the income statement under fee income from loans.

Dividends from equity investments are recognized when the OPEC Fund's right to receive them is established.

Income from treasury investments includes realized trading and unrealized mark-to-market gains and losses.

## 2.5 Property and Equipment

The OPEC Fund's Property and Equipment assets comprise freehold land and buildings, motor vehicles, computer software, furniture and fixtures, and office equipment. The costs of acquisition and repair of property and equipment in the amount less than US\$ equivalent of €5,000 (five thousand) are expensed as incurred, otherwise capitalized according to the OPEC Fund's Fixed Assets Policy. All assets, except land, are depreciated using the straight line depreciation method over a useful life of five years except for buildings.

Property is recognized at fair value in accordance with IAS 16 using the revaluation method based on the intrinsic property value method as well as the potential revenue value method calculated by an independent appraisal.

The latest assessment was performed in January 2018 and the value adjusted accordingly in the 2017 Financial Statement. An interim valuation was performed for the 2021 Financial Statements based on the House Price Index (HPI) published by Statistics Austria (Bundesanstalt Statistik Österreich). Any difference in value as a result of a revaluation was reflected in Other Comprehensive Income (OCI) under the heading of revaluation of properties.

The revaluation will be repeated every year based on the real estate index and every five years by an independent appraisal, as well as whenever there is a major change in market conditions.

Depreciation of buildings is calculated on a straight line basis over the estimated useful life of 33 years, except for the headquarters building, which has a useful life of 50 years. The depreciation amount corresponding to the valuation basis is charged to the Income Statement.

## 2.6 Treasury Investments

Treasury investments consist of a fixed income portfolio that is actively managed. Both the realized and unrealized gains and losses are recognized in the Income Statement (FVTPL) of the year in which they arise in accordance with IFRS 9: *Financial Instruments*.

## 2.7 Derivatives

Derivative contracts represent Foreign Exchange Forwards used for economic hedging purposes to manage the foreign exchange risks, which are valued at mark to market and accounted for at fair value through profit & loss (FVTPL) on the reporting date. The aggregated value of derivatives is reported as an asset when their fair value is positive and, conversely, as a liability when their fair value is negative.

## 2.8 Forms of Financing

The OPEC Fund's development financing includes mainly loans as well as other instruments such as credit guarantees, equity investments and grants:

### Loans

The OPEC Fund issues three main types of loans:

1. Sovereign Loans (formally Public Sector)

Long-term concessional loans with sovereign guarantee extended to low- and middle-income countries to finance development projects or to provide budget support.

For loan pricing purposes, there are two forms of sovereign loans: loans to low-income countries (LIC) and loans to middle-income countries (MIC). The distinction is based on Gross National Income (GNI) per capita. LIC and MIC loans are issued in US\$. Loan tenors are up to 20 years, and may include a grace period of 5 years.

Development finance institutions operate on the basis of collective action and mutual understanding. Thus, interest rates on LIC loans are set following the guidelines provided under the Debt Sustainability Framework put in place by the International Monetary Fund (IMF). The Framework guides the lending activities of Multilateral Development Finance Institutions in such a way as to obviate unsustainable levels of debts in LICs.

This loan portfolio also includes legacy loans from the blend facility, which combine commercial terms with concessional elements. Blend Facility loans were issued in either US\$ or euro. Pricing under the blend facility was determined based on market conditions and country risk, but always above MIC lending rates. Loan maturities range from 12 to 20 years with a grace period of 4 years.

## 2. Non-Sovereign Loans (formally Private Sector)

Non-Sovereign Loans provided to private sector entities and commercially run state-owned enterprises in developing countries for medium- and long-term and on market-based terms and conditions. The loans are issued in US\$ and Euro.

## 3. Trade Finance Loans

Short - and medium-term, market-based loans issued to sovereigns, state-owned enterprises and private entities in developing countries to directly or indirectly finance international trade.

OCR loans are intended to be held to collect and are solely for the purpose of collecting contractual cash flows (principal, interest and other charges). As part of its business model, the OPEC Fund does not sell its loans nor does it believe there is a comparable secondary market for the loans. Therefore, in accordance with IFRS 9, loans are measured at amortized cost meeting both of the following criteria:

- (i) the objective of the OPEC Fund OCR business model is to hold the asset to collect contractual cash flows; and
- (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Loans are recognized at fair value, which is the amount disbursed to borrowers minus repayments (outstanding), net of provisions for impairment, which are

determined as of September 30, 2022. Any material write-offs and contractual modifications are disclosed in the notes corresponding to each type of loan.

### Guarantees

The OPEC Fund OCR facilitates international trade by participating in risk-sharing facilities with other financial institutions that enter into trade transactions with local banks in partner countries. In this way, the OPEC Fund OCR and the confirming banks assume the credit and country/political risks of the issuing banks and are thus liable to pay the guaranteed party upon the occurrence of default events as specified in the trade finance guarantee contracts.

Upon the occurrence of a default event, the OPEC Fund OCR pays based on its share of the risk, provided that the conditions in the relevant risk-sharing agreement have been satisfied. The amount is treated initially as a loan and provisions are made immediately for the estimated amount of the loss from the outstanding exposure. The full amount of exposure is disclosed in Note 9 of the Interim financial statements. Any provision made is charged to the income statement.

Trade Finance Guarantees are recognized at the higher of the deferred premium and the amount required to settle any loss incurred as of the reporting date. The premium receivable, included in accounts receivable, is amortized over the period of the guarantee. The Trade Finance Guarantees provision, reported as a liability item in the balance sheet, is the present value of estimated losses.

### Equity Investments

Through the Private Sector Facility (PSF), the OPEC Fund OCR took equity positions in private enterprises and investment funds, in support of its development operations in partner countries. These investments are illiquid and neither for trading nor for short-term profits. They are long-term in nature with defined exit strategies.

Investments in entities in which the OPEC Fund OCR has a significant influence are recognized at cost and accounted for using the equity method in accordance with IAS 28 *Investment in Associates and Joint Ventures*. An entity has a significant influence over an investee if it has the power to participate in the financial and operating policy decisions of the investee.

As of the reporting date, the OPEC Fund OCR does not have significant influence through its Equity Investments, therefore the investments are recognized at fair value in accordance with IFRS 9 and changes in fair value between reporting periods, including those associated with exchange rate differences, are recognized in Other Comprehensive Income (FVTOCI).



## Grants and Technical Assistances

Grants and technical assistance are financial support provided by the OPEC Fund OCR from its capital resources directly or through a partner institution to a beneficiary.

On July 18, 2019, the Ministerial Council approved the initiative to enhance the OPEC Fund's Grant program as part of the implementation of the new Strategic Framework.

In addition, the OPEC Fund OCR acts as an Implementation Support Agency to provide support on the implementation of grant programs with other partner institutions.

Annually, the OPEC Fund OCR allocates part of its *General Reserve* to the *Reserve for Grants* account.

Since 2020, the annual allocation to the grant program is estimated at 13% of the average net income from the loan portfolio of the three preceding years, up to a maximum of \$25 million. This mechanism was approved by the Ministerial Council in 2019 [MC Decision No. 6 (XL)]. The Governing Board is responsible for approving the details of the implementation of the new grant program.

Grant disbursements are deducted directly from the OPEC Fund OCR reserves, which are part of its equity (Reserve for Grants account) with no impact in the Income Statement. A grant may be disbursed only if it is "committed" as evidenced by Governing Board approval for grants above \$1 million, otherwise approved by the OPEC Fund's Director-General and a signed agreement with the grantee, and if the grantee meets all stipulated conditions. Therefore, all undisbursed grants remain part of the *Reserve for Grants* account.

## 2.9 Impairment of Financial Assets

The Governing Board, by virtue of its Decision No. 4 of March 14, 2017, amended on March 19, 2018 and enhanced on June 25, 2020, approved the provisioning policy based on the Expected Credit Loss impairment model introduced in the final versions of IFRS 9 for financial instruments.

The Expected Credit Loss impairment model requires more timely recognition of expected credit losses based on management judgment. The model consists of three stages:

- Stage 1 (performing loans). These financial assets are expected to perform based on their contractual terms. IFRS 9 requires that an impairment amount equal to 12-months expected credit loss is recorded at initial recognition of the assets.

Loss Given Default (LGD), adjusted by the one-year Probability of Default (PD), is used as the basis for making provisions under Stage 1.

- Stage 2 (under-performing loans). These financial instruments have experienced a significant deterioration in credit quality since initial recognition but offer no objective evidence of a credit loss event. This requires setting up a lifetime expected credit loss provision.

The provision amount is equal to present value of all estimated credit losses which are expected to be incurred during the lifetime of the financial instrument. Management may use its own judgment in assessing credit risk, including level of arrears, geo-political risk and other measurements.

- Stage 3 (loans in default). Financial assets that experienced certain events of default. The entity is still required to recognize lifetime credit losses. These financial assets are assessed individually to determine the provision amount using the discounted cash flow approach. Moreover, interest income will be calculated on the net carrying value of financial instruments (gross value minus provision) resulting in unrecognition of accrual interest income from the income statement.

Each loan in the OPEC Fund's portfolio (Sovereign, Non- Sovereign and Trade Finance) was assigned with a credit rating based on the Fund's internal credit rating scale (1-21) and taking into consideration historical as well as forward looking information from internal and external sources. The credit ratings are linked to the respective "Probabilities of Default" as estimated by a credit agency for one year as well as the remainder of the lifetime of the loan.

A Loss Given Default (LGD) rate is assigned to individual facilities indicating how much the OPEC Fund expects to lose on each facility if the borrower defaults. The rates for Non-Sovereign Loans (Private Sector and Trade Finance) are in accordance with the Foundation-IRB26 approach under the Basel Accord. The resulting average LGD rate for the non-sovereign portfolio is consistent with the Fund's recovery experience.

In case of a sovereign default, the OPEC Fund believes that its payment would be more likely to remain uninterrupted, benefitting from its preferred creditor status. These features are reflected in the LGD rate assigned to a sovereign exposure.

More details on the ECL provisioning policy to the OPEC Fund OCR's loans and guarantee portfolios, are presented in Note 18.

## 2.10 Post-Employment Benefits

### Staff Retirement and Medical Benefit Plans

The OPEC Fund has defined benefit retirement and medical plans for its non-local employees. In a defined benefit plan, the amount of benefits payable to an employee upon retirement is predetermined in relation to indices other than past contributions or returns on the plan's investments. The plans receive regular contributions from participant employees and the OPEC Fund as sponsors.

These contributions, plus any return on investment minus benefits paid, constitute the plan assets. The OPEC Fund's Governing Board may approve additional cash contributions to support the plans, when there is a deficit of liabilities over assets above a stipulated funding ratio threshold.

For the year-end financial statements, the OPEC Fund employs an independent actuary to determine its post-employment benefit obligations (pension, medical and other employees' benefits). Actuarial gains and losses are recognized immediately in the income statement or other comprehensive income during the year in which they arise, according to IAS 19 *Employee Benefits*. There is no actuarial calculation for these special purpose interim financial statements. Any movements in the net liability are incurred as the result of changes in the value of the plan assets and accrued portion of the service cost in the current reporting period.

The post-employment benefits net liability is reported on the statement of financial position as the present value of the defined benefit obligation adjusted for any unrecognized past service costs and actuarial gains or losses minus the fair value of the plan assets. Based on the Projected Unit Credit (PUC), the present value of a defined benefit obligation is the future cash flows associated with accrued past service, discounted at the rate of high quality corporate bonds. This provision is calculated for the year-end financial statements and carried forward without considering changes in the number of participants or key financial assumptions into the special purpose interim financial statements.

#### Other Long-term Post-Employment Benefits

OPEC Fund employees are entitled to end of service, relocation, travel and removal payments as well as payments in lieu of their unutilized annual leave upon separation. These are referred to as "Other Long-Term Post-Employment Benefits". Since 2003, an independent actuary determines the OPEC Fund's defined benefit obligation on "Other Long-term Post-Employment Benefits" based on the PUC method. There are no corresponding assets for these benefits. The full amount of the obligation is recognized as a liability in the financial statements in accordance with IAS 19 *Employee Benefits*.

Actuarial recalculation of Defined Benefit Obligations was performed at year-end, and was not subject for an update as of September 30, 2022.

#### **2.11 Member Countries' Contributions**

The OPEC Fund commenced operations with pledged and called contributions of \$391.5 million from member countries. There were further replenishments in 1977 (\$751.5 million), 1980 (\$655.5 million) and 1981 (\$664.7 million). The final call on all these pledged contributions was made on December 20, 2005 (Governing Board Decision No. 6 (CXIII)).

On June 16, 2011, the Ministerial Council approved a fourth replenishment in the amount of \$1 billion (MC Decision No. 4 (XXXII)). The Governing Board took note

of the pledged contributions made towards the Fourth Replenishment and approved, in accordance with Article 4.04 of the Agreement Establishing the OPEC Fund, the drawdown over a period of 8 years [Decision No. 5 (CXXXVIII)]. The second tranche of the 4th replenishment was called in December 2020 with drawdown over a period of 4 years [Decision No. 8 (CLXXIV)].

As of September 30, 2022, twelve member countries have pledged contributions related to the fourth replenishment for a total of \$998.4 million, which has been called in full. The payable contributions from the drawdown of the fourth replenishment (2013-2024) as well as the contributions in arrears (i.e. contributions called but unpaid) are reported as Allowance for MCC obligations.

Article 13 of the Agreement Establishing the OPEC Fund states that a Member Country may withdraw from the OPEC Fund. Whenever a country ceases to be a member, it shall remain under the obligation to pay its pledged contributions to the OPEC Fund up to the date of effectiveness of the termination of its membership.

## 2.12 Equity

Equity is defined as contributions called net of allowance for Member Country Contributions (MMC) obligations plus reserves. Reserves comprise general reserve, reserves for grants, and other reserves.

General reserve is the cumulative net income since the inception up to the reporting date less any transfer to the reserve for grants. On June 13, 2013, the Ministerial Council approved the restructuring of the reserve accounts whereby the amount of \$1,200 million was capitalized (MC Decision No. 5 (XXXIV)).

Reserve for grants consists of allocations to the grant programs including grants committed but not yet disbursed. In accordance with the Ministerial Council [MC Decision No. 5 (XXXIV)] on June 13, 2013, grants from the member countries' contributions have been reclassified into the reserve for grants.

Other reserves comprises of (i) actuarial gains/losses on post-employment benefits; (ii) revaluation gains/loss on property; and (iii) changes in Fair Value of Equity Investment as required by IFRS. These items are cumulative net gains/losses from other comprehensive income.

## 2.13 Statement of Cash Flows

The statement of cash flows is prepared using the direct method as recommended by IAS 7. It presents cash payments and receipts from operating, investing and financing activities during the reporting period.

Cash balances comprise of bank deposits with less than three months maturity from the date of the transaction, which are available for use at short notice and are subject to insignificant risk of changes in value.

## NOTE 3 – RISK MANAGEMENT

In its operations as a multilateral development finance institution, the OPEC Fund is exposed to the following risks: credit risk, market risk, operational risk, asset and liability management risk, liquidity risk and compliance risk.

The OPEC Fund manages these risks through its risk management framework comprising governance, policies, methodologies and processes.

Governance includes (i) the Governing Board, which reviews and approves risk policies in line with the OPEC Fund’s low risk appetite and approves all new loans; (ii) the Audit and Risk Committee of the Governing Board that provides oversight of the OPEC Fund’s governance, financial reporting, financial and risk management as well as internal control practices; (iii) the Risk Management Committee, which provides senior management oversight on risk management in the OPEC Fund; (iv) the Asset and Liability Committee that decides on major financial and risk issues relating to treasury operations, liquidity, asset and liability management, and financial reporting, and (v) the Loan and Credit Committees, which review and endorse all new sovereign and non-sovereign transactions respectively to the Governing Board.

Board-approved risk policies provide risk appetite and prudential limits on these risks as well as on leverage and capital adequacy.

The Risk Management Department (RMD) is responsible for the overall management of these risks and capital adequacy. RMD develops risk policies, guidelines, and methodologies to measure, monitor, and control risks, and assesses the creditworthiness of all sovereign borrowers and individual non-sovereign transactions. It conducts risk assessments of all new non-sovereign transactions, provides independent monitoring following origination, and, when necessary, assumes responsibility for managing impaired transactions.

RMD also monitors market and treasury risks, such as the credit quality of counterparties, interest rate risk, and foreign exchange risk, as well as liquidity and operational risks. For the aggregate operations portfolio, RMD monitors limits and concentrations, calculates expected credit loss for provisioning, and assesses capital adequacy against all major risks. RMD provides advice on risk management policies, measures and controls to the Risk Management Committee and the Governing Board for approval.

### Credit Risk

Credit risk is the risk of loss that could result if a borrower or counterparty defaults or if its creditworthiness deteriorates. Credit risk in lending operations is the primary risk faced by the OPEC Fund. Related to credit risk, the OPEC Fund also manages concentration risk, which arises when a high proportion of the portfolio is allocated to a specific country, industry sector, obligor, or group borrower.

The OPEC Fund assesses and assigns a risk rating to each sovereign operations (SO) borrower, non-sovereign operations (NSO) loan and trade finance guarantee, as well as treasury counterparty (Table 3.1). The internal rating scale comprises 21 risk categories and broadly corresponds to that of international rating agencies:

**Table 3.1: OPEC Fund's Internal Rating Scale**

Scale	Rating Agency Equivalent	Risk Category
1-9	AAA to BBB	Very Low Risk
10-11	BBB- to BB+	Low Risk
12-14	BB to B+	Moderate Risk
15-16	B to B-	High Risk
17-19	CCC+ to CCC-	Very High Risk
20-21	SD to D	Selective Default/Default

The OPEC Fund is exposed to credit risk in its sovereign, non-sovereign, and treasury operations. The operations portfolio consists of (i) SO loans with typical maturity of 20 years; (ii) NSO loans comprising mainly project finance and financial institution loans with typical maturity ranging from 3 to 20 years; and (iii) trade finance guarantees typically of less than one-year maturity. The treasury portfolio consists of fixed-income securities, cash, and cash equivalents.

The details of the credit risk exposures, including the weighted average risk rating for each asset class, are provided in Table 3.2. The weighted average risk rating of the sovereign exposure, after consideration of the credit uplift for the preferred creditor status that the OPEC Fund enjoys with its sovereign borrowers, improved to 11/BB+ as of September 30, 2022 from 12/BB as of December 31, 2021.

The weighted average risk rating of the non-sovereign exposure remains stable at 14/B+ and the treasury portfolio improved to 1/AAA as of September 30, 2022. Overall, the weighted average risk rating of the aggregate credit risk exposure remains stable at 10/BBB- for September 30, 2022 and December 31, 2021.

Table 3.2: Exposure to Credit Risk

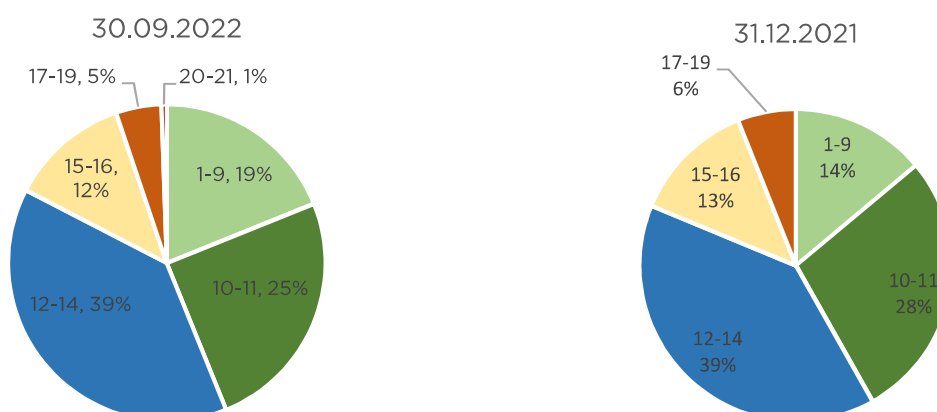
Exposure to Credit Risk				
As at 30 September 2022 and 31 December 2021				
30.09.2022			31.12.2021	
	Exposure	Rating	Exposure	Rating
	\$ million	1-21	\$ million	1-21
Sovereign Operations	3,590	11 BB+	3,167	12 BB
a. Loans	3,398	11 BB+	3,058	12 BB
b. Trade Finance	192	13 BB-	109	13 BB-
Non-sovereign Operations	1,524	14 B+	1,478	14 B+
a. Loans	1,320	14 B+	1,291	14 B+
b. Trade Finance Guarantees	90	14 B+	76	14 B+
c. Equity Investments	114	n.a	110	n/a
Treasury Assets	943	1 AAA	1,358	2 AA+
<i>Liquidity Portfolio</i>	916	1 AAA	1,322	2 AA+
a. Core Liquidity Portfolio	830	1 AAA	890	1 AAA
b. Operational Liquidity Portfolio	86	4 AA-	432	3 AA
<i>Investment Portfolio*</i>	27	6 A	36	6 A
c. Fixed Income	27	6 A	36	6 A
<b>Aggregate Exposure</b>	<b>6,057</b>	<b>10 BBB-</b>	<b>6,004</b>	<b>10 BBB-</b>

\*Legacy portfolio which expected to be fully converted to liquidity portfolio in 1H2023

### Credit Risk in Sovereign Operations

Sovereign credit risk is the risk that a sovereign borrower will default on its loan obligations. The OPEC Fund enjoys preferred creditor status in its borrowing countries. In line with its policy, the OPEC Fund does not write off or reschedule its sovereign loans.

Figure 3.1: Sovereign Loan Exposure by Credit Rating



## Credit and Equity Risks in Non-sovereign Operations

In non-sovereign operations, the OPEC Fund provides loans, trade finance guarantees, or equity investments to private entities without sovereign guarantees. Credit risk in non-sovereign operations is considered more significant than in sovereign operations, mainly because the OPEC Fund generally does not enjoy preferred creditor status in NSO.

Approximately 80% of the overall non-sovereign portfolio has (i) access to assets or collateral to support the transaction, or (ii) represents risk assets that are structurally lower risk (such as systemic banks and multilateral development banks).

In countries where the OPEC Fund offers credit facilities to private enterprises, commercially run state-owned enterprises or directly invests in equities, it enters into bilateral Agreements with governments for the Encouragement and Protection of Investments (AEPIs). Such an agreement ensures that the OPEC Fund is accorded terms and conditions similar to other multilateral development finance institutions. The AEPI includes, inter alia, immunity or exemption against expropriation of assets, taxation and currency restrictions.

### Credit Process

All new and existing non-sovereign transactions are subject to Board-approved risk policies as well as detailed guidelines for credit approval and monitoring. The Chief Risk Officer (CRO) ensures the application of such policies for independent risk management of the OPEC Fund's exposures, including adequate processes and methodologies to independently identify, measure, monitor and mitigate risks incurred by the OPEC Fund.

The Risk Management Committee oversees compliance and implementation of these policies and guidelines, while the Credit Committee is responsible for endorsing all major credit decisions to the Governing Board for approval.

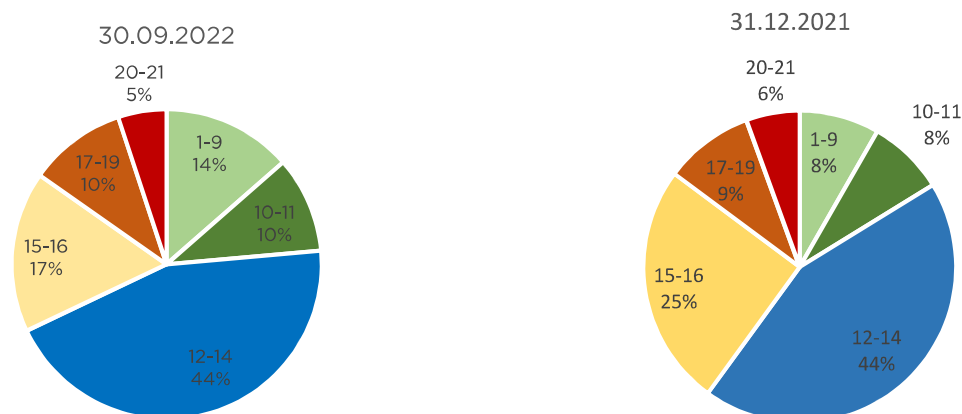
The credit approval and monitoring process is designed to ensure sound banking principles and good corporate governance. It aims to provide and reinforce a systematic means to recognize and mitigate risks through structuring during the approval, monitoring and, if needed, the recovery process. The Credit Committee reviews all non-sovereign transactions, both at concept review stage and at final review stage prior to project submission to the Governing Board for approval. Such review ensures that all major commercial, regulatory, and reputational risks are identified and managed and developmental considerations, credit strength, financial viability and good corporate governance are evident in the selection, analysis, approval and monitoring of transactions.

Once transactions are approved, they are monitored from signing until full repayment. Factors reviewed include: country and sector risk developments, project implementation, operational and financial performance of the borrower



or equity investment, key emerging risk issues, credit risk rating and key drivers for rating upgrades or downgrades for debt transactions, appropriate valuations for direct equity investments and private equity funds, key financial ratios and covenant compliance.

**Figure 3.2: Non-Sovereign Loan Exposure by Credit Rating**



### Credit Risk Exposure Management

The OPEC Fund manages credit risk exposures in accordance with Board-approved strategic and prudential limits.

Strategic limits manage the relative share of major asset classes in the OPEC Fund’s operations in line with long-term capital adequacy. These limits include: (i) the Capital Utilization Rate (CUR) for credit and market risk exposures in treasury operations shall not exceed 5%; (ii) CUR for NSO exposures shall not exceed 25%; and (iii) non-sovereign equity investments shall not exceed 10% of OCR equity.

Prudential limits manage the size of individual exposures in line with prudent risk management principles as well as to ensure that aggregate risk exposures are adequately diversified to avoid large correlated losses. The prudential country limit, covering both sovereign and non-sovereign operations, is contingent on the risk rating of individual countries. Credit risk exposure in very low risk countries is capped at 15% of OCR equity and exposures in higher risk countries are subject to lower ceilings ranging from 12.5% to 5% of OCR equity. To ensure sector diversification within the country, non-sovereign exposure to financial institutions and infrastructure is capped at 60% of the non-sovereign country limit and other sectors are capped at 30%. To ensure diversification of non-sovereign exposures, the policy sets the single obligor limit based on the obligor risk ratings and percentage of OCR equity.

## Non-Performing Loans

A non-performing loan (NPL) is a loan that is in arrears for 180 days or more for sovereign operations, or 90 days or more for non-sovereign operations; or a NSO loan that is deemed impaired by the Operations Department or Risk Management Department.

NPL ratio decreased to 1.4% as of September 30, 2022, from 1.6% as of December 31, 2021. There is no NPL for sovereign operations for the both periods. Overall provisioning rate increased to 2.5% from 2.2% as at December 31, 2021 (Table 3.3).

**Table 3.3: Credit Risk Indicators**

	30.09.2022			31.12.2021		
	SO	NSO	Total	SO	NSO	Total
Outstanding Loans	3,590	1,320	4,910	3,167	1,291	4,458
Expected Credit Loss (ECL) on Loans	34	87	121	18	80	98
Provisioning Rate	1.0%	6.6%	2.5%	0.6%	6.2%	2.2%

## Expected Credit Loss

In accordance with IFRS 9, the OPEC Fund calculates loan impairment on an expected credit loss (ECL) basis.

A three-stage model for impairment is applied based on changes in credit quality since origination, with the stage allocation being based on the loan's risk rating and such changes. At origination, loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the loan, as reflected in a change in its risk rating, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12-month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses.

Where there is objective evidence that an identified loan asset is impaired, under IFRS 9, the asset is classified in Stage 3. For sovereign operations, loan assets that are in arrears for 180 days or longer are deemed to be impaired. For non-sovereign operations, the criteria that the OPEC Fund uses to determine that there is objective evidence of an impairment loss include, among others, interest or principal payment overdue by 90 days or more, default deemed likely by RMD, or evidence of material credit negative events.

Table 3.4 below shows gross provisioning against sovereign and non-sovereign loans, including NSO trade finance guarantees, by ECL stage and rating category. The difference in total amount of ECL compared to Table 3.3 is due to the inclusion of ECL due to exposure to NSO trade finance guarantees.

**Table 3.4: Provisioning by credit rating and ECL Stage**

**September 30, 2022**

Risk Rating Category	STAGE 1	STAGE 2	STAGE 3	Grand Total
1-9/Very Low Risk	0	0	0	0
10-11/Low Risk	1	0	0	1
12-14/Moderate Risk	8	1	0	8
15-16/High Risk	11	6	0	17
17-19/Very High Risk	9	51	0	61
20-21/Selective Default/Default	0	4	32	36
<b>Total</b>	<b>29</b>	<b>62</b>	<b>32</b>	<b>123</b>

**December 31, 2021**

Risk Rating Category	STAGE 1	STAGE 2	STAGE 3	Total
1-9/Very Low Risk	0	0	0	0
10-11/Low Risk	1	0	0	1
12-14/Moderate Risk	8	1	0	9
15-16/High Risk	13	7	0	19
17-19/Very High Risk	17	22	0	39
20-21/Selective Default/Default	0	0	33	33
<b>Total</b>	<b>39</b>	<b>29</b>	<b>33</b>	<b>101</b>

### Concentration Risk

The OPEC Fund's policy requirement is that the five and ten largest sovereign or non-sovereign exposures shall not exceed 40% and 60% of total sovereign and non-sovereign exposures, respectively. As of September 30, 2022, the five largest exposures accounted for 24% of operations exposures compared to 20% as of December 31, 2021 and the ten largest exposures accounted for 36% of operations exposure compared to 34% as of December 31, 2021.

Table 3.5 Concentration Risk

US\$ million	30.09.2022	US\$ million	31.12.2021
<b>Top 10 Largest Exposures</b>		<b>Top 10 Largest Exposures</b>	
Egypt	328	Egypt	292
Bangladesh	296	Bangladesh	223
Morocco	230	China	149
Pakistan	200	Morocco	144
China	156	Bosnia-Herzegovina	143
Argentina	137	Pakistan	136
Bosnia-Herzegovina	128	Sri Lanka	125
Sri Lanka	121	Argentina	122
Nicaragua	121	Oman	119
Oman	119	Nicaragua	114
<b>Total Sovereign and Nonsovereign Exposures</b>	<b>5,113</b>	<b>Total Sovereign and Nonsovereign Exposures</b>	<b>4,645</b>
<b>Five largest exposures/Total Sovereign and Nonsovereign Exposures</b>	<b>24%</b>	<b>Five largest exposures/Total Sovereign and Nonsovereign Exposures</b>	<b>20%</b>
<b>Ten largest exposures/Total Sovereign and Nonsovereign Exposures</b>	<b>36%</b>	<b>Ten largest exposures/Total Sovereign and Nonsovereign Exposures</b>	<b>34%</b>

The OPEC Fund's portfolio is diversified across a variety of industries and complies fully with the prudential sector limits. Figure 3.3 and figure 3.4 show the sector diversification of sovereign loans and non-sovereign loans respectively, for September 30, 2022 and December 31, 2021. The sovereign and non-sovereign sector exposures are well diversified across 54 and 36 countries, respectively, as of September 30, 2022 and 55 and 39 countries as of December 31, 2021.

Figure 3.3: Distribution of Sovereign Loans by Sector

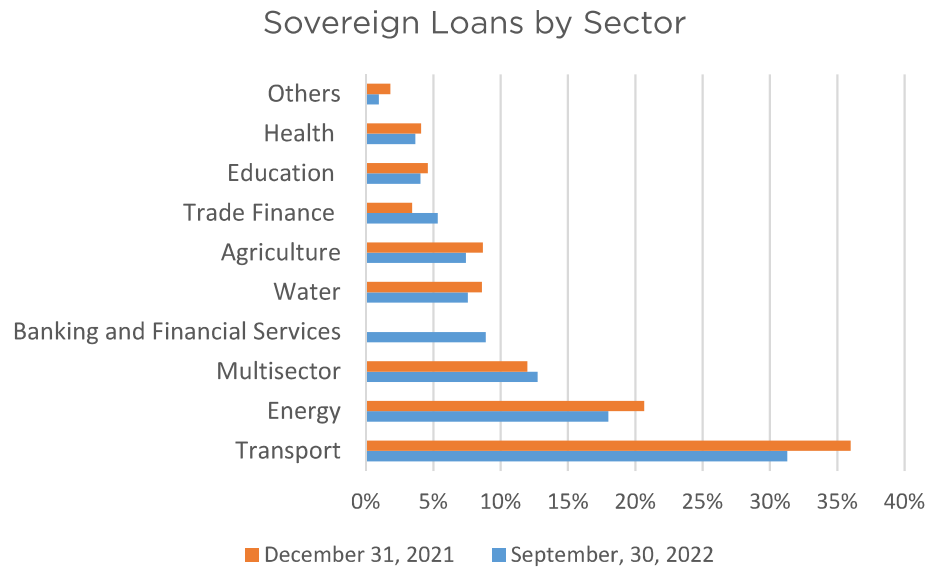
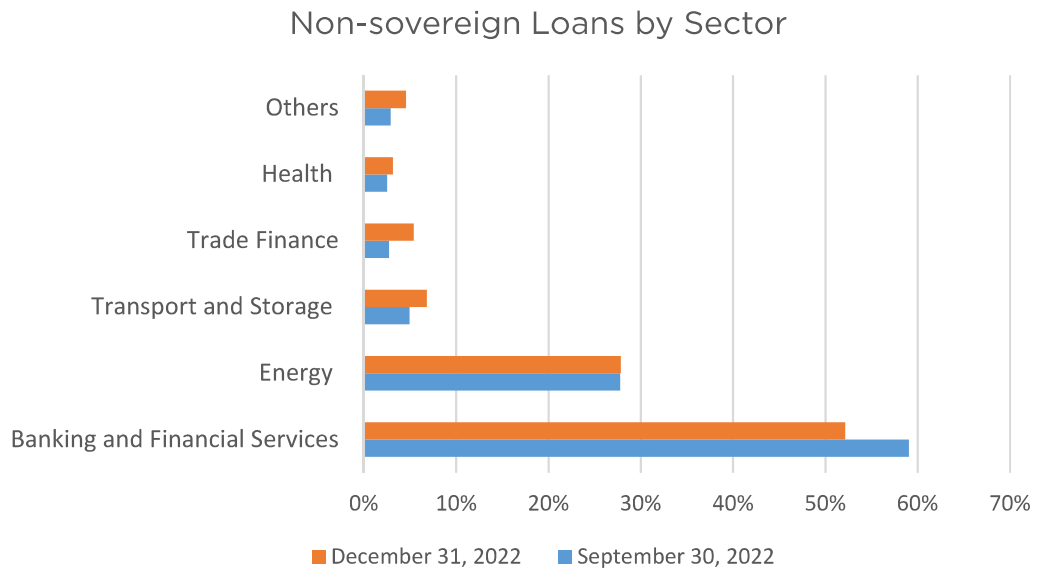


Figure 3.4: Distribution of Non-sovereign Loans by Sector



## Credit Risk in Treasury Liquid Portfolio

Issuer and counterparty defaults are the main credit risks in the OPEC Fund's treasury operations, mainly the liquidity portfolio. Issuer default is the risk that a bond issuer will default on its interest and/or principal payments, while counterparty default is the risk that a counterparty will not meet its contractual obligations to the OPEC Fund.

To mitigate issuer and counterparty credit risks, the OPEC Fund generally transacts only with institutions that are rated by leading international rating agencies and that satisfy a minimum rating criteria governed by the OPEC Fund's Treasury Risk Management Policy (TRMP). The liquidity portfolio is invested in highly rated assets, with substantial allocation to money market instruments and government and government-related debt securities. In addition, the TRMP establishes exposure limits for fixed income assets, depository and contractual relationships, and other liquid assets held in the liquidity portfolio.

As of September 30, 2022, the treasury portfolio comprises high quality and liquid fixed income securities and cash or cash equivalents with a weighted average credit rating of 1/AAA, which is improved from December 31, 2021. Liquid assets are split between the Operational Liquidity Portfolio for cash deposits and call accounts and the Core Liquidity Portfolio for fixed income securities. The average ratings of the Core and Operational liquidity portfolios are 1/AAA and 4/AA- as of September 30, 2022.

The following figures and tables provides the breakdown of liquidity portfolio by counterparty credit rating, asset type and country exposure:

**Figure 3.5: Liquidity Portfolio by Credit Rating - Total Liquidity Portfolio**

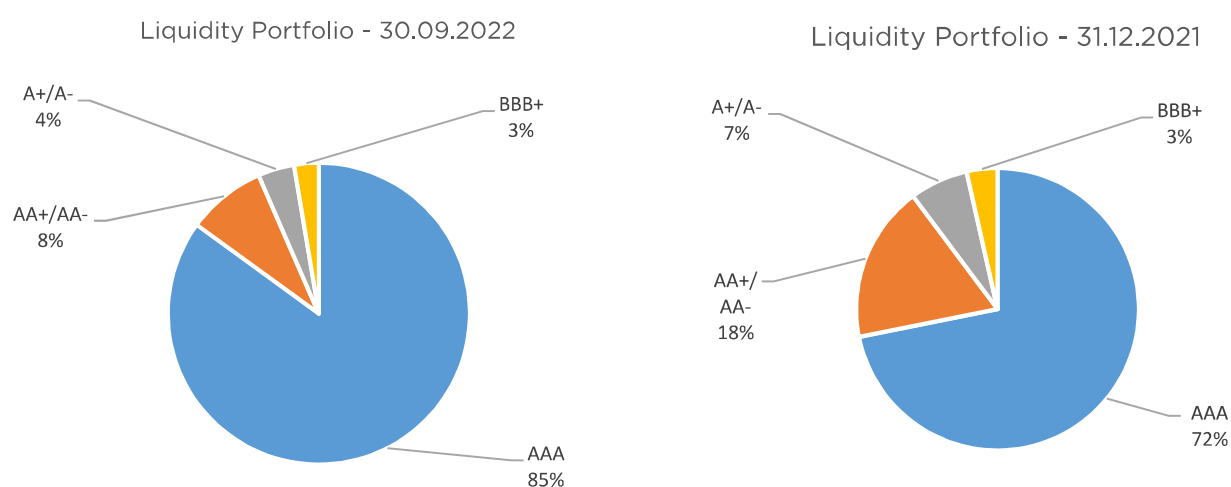


Figure 3.6: Liquidity Portfolio by asset type - Total Liquidity Portfolio

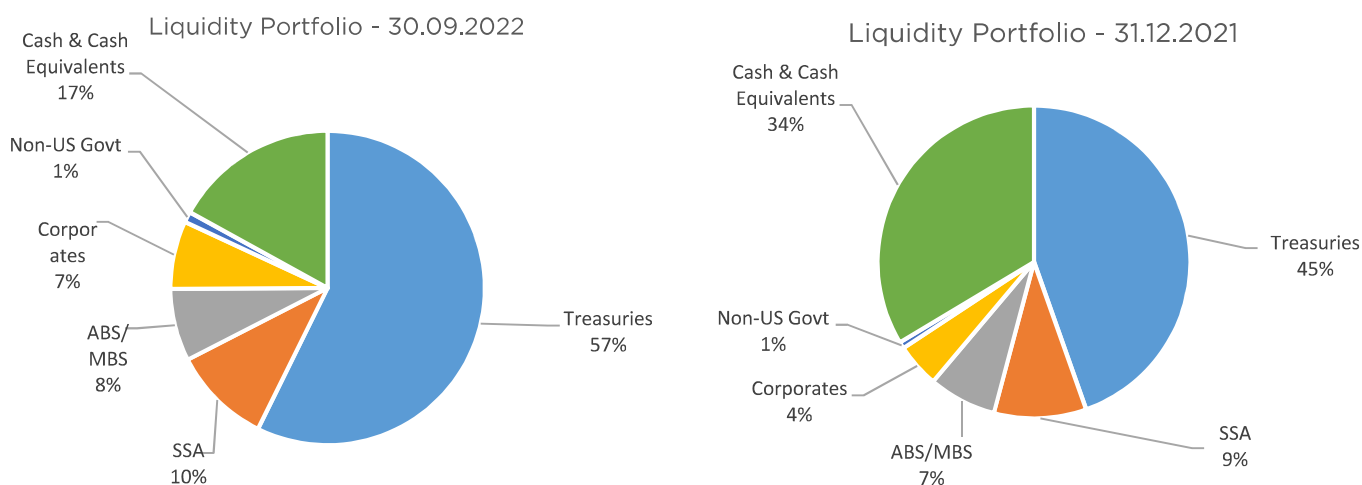
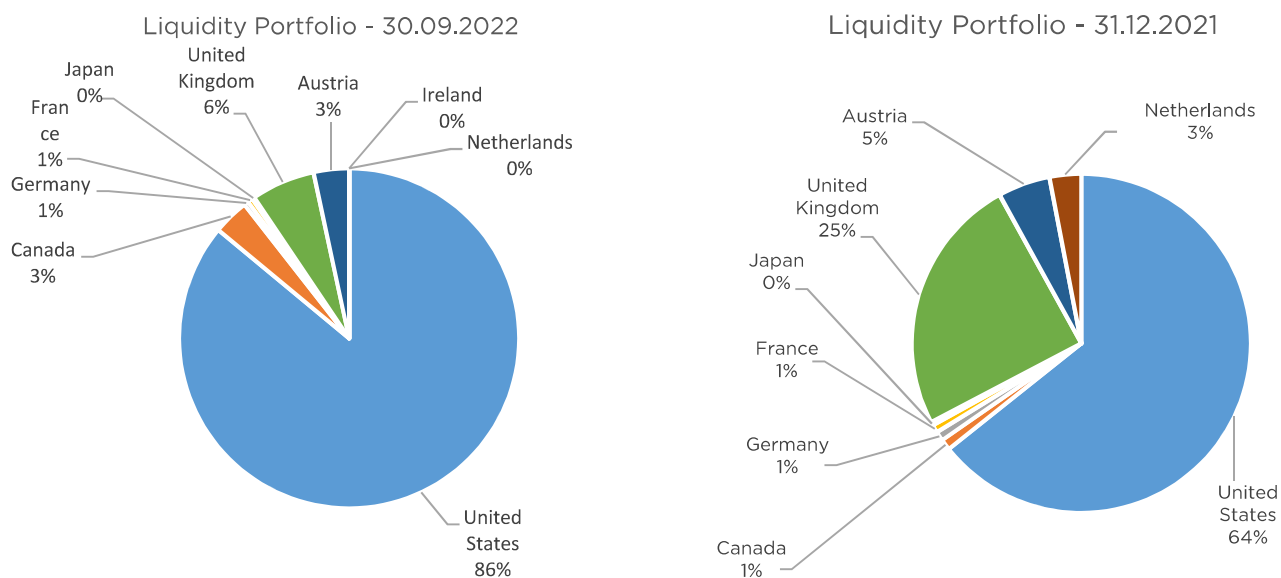


Figure 3.7: Liquidity Portfolio by Country - Total Liquidity Portfolio



### Market Risk

Market risk relates to interest rate, currency, and equity price risk in the operations portfolio and treasury liquidity portfolio. In line with OPEC Fund's low risk tolerance, the TRMP sets (i) strategic limits on eligible asset classes, mainly liquid and high quality bonds issued by sovereign, sovereign agency, and supranational; and (ii) prudential limits on credit, counterparty, concentration, market, and liquidity risks. The primary objective of the TRMP is to ensure the

safety and liquidity of the OPEC Fund’s liquid assets. In line with the match funding principle of the Fund’s Asset and Liability Management Policy (discussed below), the risk characteristics (interest rate and currency) of Treasury investments are matched to those of anticipated liabilities (i.e., market borrowings).

### Interest Rate Risk

To control the interest rate risk in the treasury liquidity portfolios, the Treasury Risk Management Policy sets prudential limits on the value-at-risk (VaR) and durations of the portfolios (Table 3.6). As of September 30, 2022, the OPEC Fund complied with this limits.

**Table 3.6: Duration and VaR of Liquidity Portfolios**

Portfolio	Policy Limit	Duration/VaR	
		30.09.2022	31.12.2021
Operational Liquidity	Duration: 3 months	0.0 months	0.8 months
Core Liquidity	Duration: 2-4 years	2.2 years	2.8 years
Liquidity Portfolio	1% of Equity	0.2%	0.1%

Notes: one-year VaR at 95% confidence interval measured as % of Available Capital.

### Currency Risk

In line with the Board-approved asset and liability management policy, the OPEC Fund will generally not take currency risk in its operations. The currencies of the OPEC Fund’s assets, liabilities, and equity will be largely matched. The loan and treasury investments portfolios are largely denominated in US dollars. Residual currency risk relates to euro loans and equity investments in non-sovereign operations, which are funded by equity. As of September 30, 2022, the residual currency risk amounted to €10 million compared to €5.5 million as of December 31, 2021.

### Equity Risk

Equity investments under Private Sector and Trade Finance Operations are carried out through equity funds and direct equity investments. The equity funds portfolio comprises of emerging market funds with net valuation of \$72.7 million. A sensitivity analysis using the 1 year standard deviation of the MSCI Emerging Markets Small Cap Index of 42.3% as of September 30, 2022 would increase or decrease the portfolio by +/- \$30.7 million.

The direct equity portfolio of \$41.2 million comprises of equity investments in unlisted companies, which cannot be linked to observable market prices (Level 3).



## Liquidity Risk

Liquidity generally refers to the ability to quickly convert assets into cash without material loss in value.

The liquidity portfolio is managed to meet net cash requirements (NCR), mainly disbursements, redemption, and administrative expenses less repayments and ensure uninterrupted availability of funds for operations when market access may be closed. The Liquidity Policy, together with the Treasury Risk Management Policy, the Asset and Liability Management Policy, and the annual Borrowing Program, provide the framework for managing the Fund's liquidity.

The liquidity portfolio comprises fixed income securities, money market instruments and cash that provide operational funding and core liquidity buffer for NCR. The management of liquid assets is undertaken through three different portfolios: Core Liquidity Portfolio, Operational Liquidity Portfolio and the Discretionary Liquidity Portfolio. The Liquidity Policy requires that OPEC Fund hold a Prudential Minimum Liquidity (PML) under normal market conditions of the higher of (i) 60% of the next 3-year NCR, where NCR is the aggregate amount of all cash flows including, among other things, debt redemption, disbursements of loans and equity investments, income transfer for grant operations, loan repayments, operating income, and scheduled payments of member countries' contributions; or (ii) at least 250% of short-term debt (outstanding debt maturing less than 1 year). As of September 30, 2022, available Treasury assets of \$943 million compared to PML approved by the Asset and Liability Committee for 2022 of \$566 million.

## Operational Risk

In line with Board-approved policy, the OPEC Fund manages operational risk arising from its staff, processes, systems and external events through the setting of policies and procedures covering functions and activities it performs. The Fund has low tolerance for operational risk and accordingly:

- Operational risk is monitored via periodic assessments as well as ongoing monitoring via Key Risk Indicators (KRIs),
- Risks are assessed as low, medium or high based on direct and indirect loss criteria including reputational impact, and
- Risks which are assessed as medium or high require risk treatment (accept, avoid, mitigate/reduce or transfer) to ensure management of operational risks outside of the risk tolerance. KRIs may also be set up to monitor risks based on the risk rating.

In addition, there are regular monitoring and compliance checks conducted by Internal Audit to ensure compliance with policies and procedures. Reports of the results of internal audit monitoring are regularly discussed with management and reported to the Director-General and the Audit & Risk Committee. The OPEC

Fund has internal control procedures that ensure potential customers are identified and vetted in line with its Compliance Policy.

Furthermore, the OPEC Fund has a disaster recovery plan ensuring that its systems are fully backed up, and operations can be conducted from off-site in case of any damage or natural disasters, which may prevent it from operating from its principal office.

### **Compliance Risk**

The OPEC Fund's Compliance function is independent of the Fund's operational departments. The Head of Compliance has full and free access to senior management and the Chair of the Audit & Risk Committee. The OPEC Fund defines compliance risk as material financial loss, or reputational damage to which the OPEC Fund may be exposed as a result of non-compliance with regulatory or established compliance policy obligations. Compliance obligations include but are not limited to Anti-Money Laundering & Counter Terrorism Financing (AML/CTF), Anti-Bribery & Corruption, Conflicts of Interest (CoI) and Fraud. The OPEC Fund has a low risk tolerance and is not prepared to accept breaches of compliance obligations. Where material compliance risks are identified, appropriate mitigation and control measures are put in place to minimize financial losses or reputational damage.

### **Capital Adequacy**

The objective of the capital adequacy policy is to ensure that the OPEC Fund maintains adequate capital to withstand potential large losses relating to major risks in its operations. In line with its low risk tolerance, the policy sets prudential targets on minimum capital adequacy ratio (CAR) of 30%, maximum capital utilization rate (CUR) of 85%, and maximum leverage (debt-to-equity ratio) of 150% to be maintained at all times. The policy covers the following major risks: credit and equity investment risks in lending and treasury operations, market risk, and operational risk.

The CAR is measured as the ratio of equity to total risk weighted assets and the CUR is the ratio of required capital to available capital. The CAR and CUR stood well within the policy limits at 63% and 47%, respectively, at September 30, 2022.

### **Asset and Liability Management**

Asset and Liability Management (ALM) risk is the risk that the OPEC Fund will incur financial losses due to mismatches between the financial terms of its assets and liability or equity.

Accordingly, the ALM policy framework specifies that the OPEC Fund will (i) minimize exposure to currency risk, (ii) ensure that debt funded assets will be largely matched with their underlying liabilities in respect of the financial terms and (iii) ensure that refinancing risk will be subject to conservative guidelines with respect to the maturity profile of assets and liabilities and pricing.

The ALCO is responsible for overseeing the compliance and implementation of the ALM policy with independent assessment, monitoring and reporting provided by RMD.

## Replacement of LIBOR

The London Interbank Offered Rate (LIBOR) is an interbank rate that gives an indication of the average rates at which banks could obtain wholesale, unsecured funding. It is calculated from submissions made by a selected panel of banks and has a range of tenors (overnight, 1 week, 1, 2, 3, 6 and 12 months). It is published each London business day and is administered by ICE Benchmark Administration (IBA).

The fundamental weaknesses of the interest rate calculation methodology applied by LIBOR is its estimate-based approach, which relies on expert judgement. Accordingly, global regulators and market participants began a process of phasing-out LIBOR across all currencies and tenors and identifying appropriate alternative reference rates.

In July 2017, the United Kingdom's Financial Conduct Authority (FCA) announced that it would no longer compel banks to submit rates for LIBOR beyond 2021. On 5 March 2021, the IBA, the administrator of LIBOR, and the FCA, the regulatory supervisor of the IBA, announced that:

- (i) After 31 December 2021: all British pound sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings will no longer be available; and,
- (ii) After 30 June 2023: all the remaining US dollar settings will cease to be available.

On July 29, 2021, the Alternative Reference Rates Committee (ARRC) formally endorsed "Secure Overnight Financing Rate (SOFR) term rates" as the replacement of US dollar LIBOR. This was the outcome of their assessment of a deep and active SOFR cash and derivatives markets, as well as the rate's calculation ability to meet the required principles of sound governance, transparency and accountability.

While its exposure to LIBOR is limited due to assets being largely funded by equity, the OPEC Fund established an inter-departmental taskforce in 2019 to manage the transition from LIBOR. This taskforce has assessed the impact of the LIBOR transition on the Fund's lending operations, planned market borrowings and related derivatives, and information technology systems. In this regard, fall back provisions for replacing LIBOR with a new reference rate have been developed and included in loan contracts (both new and legacy). In addition, the documentation for borrowings and derivatives will include the necessary provisions on the LIBOR replacement.

The Governing Board has approved the use of SOFR as the reference rate for the Fund's US dollar loans and Sovereign and Non-Sovereign Loan pricing guidelines, for new loans from 2022, have been revised accordingly. In line with the Fund's match-funding principle and Asset and Liability Management Policy, the funding and derivative operations will also be based on the same reference rate.

### COVID-19 Pandemic and War in Ukraine

The COVID-19 pandemic has enormous negative impacts on countries globally, causing deep economic recession and substantial damage to people's health and jobs. As a result, OPEC Fund committed about \$1 billion for COVID-19 related projects or programs in line with Board-approved business plans.

The war in Ukraine has negatively affected the global economic recovery from the pandemic. In addition, food and energy prices have increased sharply, adding to inflationary pressure that further dampens the recovery. These impacts, combined with the lingering effect of the pandemic, led to elevated risks in developing countries and increased volatility in financial markets globally. As of 30 September 2022, OPEC Fund had no exposures to Ukraine or Russia. In line with its Board approved policies, OPEC Fund maintains (i) solid liquidity with liquid assets totalling \$916 million at 30 September 2022 or 162% of the required Prudential Minimum Liquidity; (ii) extremely strong risk bearing capacity based on its risk-adjusted Capital Adequacy Ratio of 64% as of 30 September 2022, well above the policy prudential limit of 30%; and (iii) compliance with all key prudential limits under Board approved policies. OPEC Fund continuously monitors and assesses new developments and consequent risks in line with its risk management processes.

## NOTE 4 - CASH BALANCES

Table 4.1: Cash Balances

	30.09.2022 \$ million	31.12.2021 \$ million
Call Accounts	86.2	352.0
Deposit Accounts	-	80.0
<u>Total</u>	<u>86.2</u>	<u>432.0</u>

Cash, call and deposit accounts are placements with commercial banks collectively referred to as the Operational Liquid Portfolio (OLP), which have an original tenor equal to, or less than, three months. OLP is managed in-house; its objective is to provide liquidity for Operation's disbursements and administrative expenses. The OLP investment guidelines provide a framework in terms of risk, return and liquidity.

It is the OPEC Fund's policy to place deposits only with banks having a minimum of 'A1/P1/F1' short-term rating assigned by internationally recognized credit rating agencies as well as a maximum exposure per counterparty as approved by the Asset and Liability Committee.

Cash balances include \$0.1 million as of September 30, 2022 (\$0.6 million in 2021) allocated to provide support on the implementation of grant programs with other partner institutions. The OPEC Fund participates as an Implementation Support Agency (ISA) with other development financial institutions and international partners.

## NOTE 5 - TREASURY INVESTMENTS

Treasury Investments and the OLP are collectively referred to as the liquidity portfolio. Its objective is to meet the OPEC Fund's long-term financial and operational growth target. Since 1997, the OPEC Fund has maintained a diversified liquidity portfolio in terms of asset allocation, investment strategies and asset managers' structure.

The liquidity portfolio consists of three sub portfolios: OLP, core liquidity portfolio (CLP) and discretionary liquidity portfolio (DLP).

The OLP is managed internally and holds liquid assets, mainly in short term deposits and current accounts, for use in meeting net cash requirements during the year. OLP is benchmarked against 1M U.S. Treasury T-bills.

The CLP holds the prudential minimum liquidity and any excess liquidity as determined in the Borrowing Program. Half of the CLP liquidity is invested in 3Y US Treasury Note and the remaining portion is externally managed in a multi-asset fixed income mandate in a highly rated securities seeking better risk adjusted returns, such as in AAA-rated Asset-backed/Mortgage-backed securities. CLP is benchmarked against 3Y U.S. Treasury Notes.

The DLP will potentially hold proceeds from advance borrowings that are undertaken for strategic or cost efficiency considerations. DLP is benchmarked against 6-months US LIBOR.

The asset classes of treasury investments (liquidity portfolio) as of September 30, 2022 and December 31, 2021 is presented in the following table:

Table 5.1: Treasury Investments at FVTPL

	30.09.2022		31.12.2021	
	\$ million	%	\$ million	%
Global Credit Bonds	27.3	3%	36.3	4%
Treasuries	524.9	61%	589.5	64%
Sovereigns, Supranational and Agencies	93.0	11%	126.2	13%
Asset-backed securities / Mortgage-backed securities	69.4	8%	92.9	10%
Corporates	68.1	8%	60.3	7%
Non-US Government	64.3	8%	9.0	1%
Other Liquidity	10.0	1%	12.2	1%
Fixed Income Investment Portfolios	857.0		926.4	
<b>Total Treasury Assets at FVTPL</b>	<b>857.0</b>		<b>926.4</b>	

In Note 3 details of the currency composition of the OPEC Fund's balance sheet including the treasury investments are provided as well as the value at risk of the liquidity portfolio.

## NOTE 6 - ACCOUNTS RECEIVABLE

The composition of accounts receivable as of September 30, 2022 and December 31, 2021 is presented in the following table:

Table 6.1: Accounts Receivable

	30.09.2022 \$ million	31.12.2021 \$ million
Sovereign Loans		
Interest and Fees Receivable	30.3	25.0
Non-Sovereign Loans Interest and Fees Receivable		
Interest and Fees Receivable	18.1	16.4
Provision for Overdue Interest	(6.5)	(10.2)
Total	11.6	6.2
Trade Finance Loans		
Interest and Fees Receivable	4.8	2.1
Provision for Overdue Interest	-	-
Total	4.8	2.1
Trade Finance Guarantees Fees Receivable	3.2	2.4
Dividends Receivable	0.1	0.1
Interest Accrued on Deposit Accounts	-	-
Other Receivables	10.2	12.2
<b>Total Accounts Receivable</b>	<b>60.2</b>	<b>47.9</b>

Other receivables include SCR balances due to OCR, as well as VAT refund receivable from the Austrian Ministry of Finance and other minor receivables.

## NOTE 7 – SOVEREIGN LOANS

The Sovereign Loans outstanding as of September 30, 2022 and December 31, 2021 are presented in the following table:

Table 7.1: Sovereign Loans Outstanding

	30.09.2022 \$ million	31.12.2021 \$ million
Disbursements	8,999.4	8,459.8
Repayments	(5,601.7)	(5,401.7)
Sovereign Loans Outstanding	3,397.7	3,058.1
Provision for Sovereign Loans	(33.8)	(17.8)
Total	3,363.9	3,040.3

As stated in Note 2, the Governing Board approved a provisioning policy based on IFRS 9 Expected Credit Loss model. The policy is forward looking and considers the OPEC Fund's management judgement on internal credit rating, which is a scale that classifies countries into 21 categories based on their credit risk profile.

The implementation of the new provisioning policy in 2020 resulted in changes in the provisioning estimates for Sovereign Loans. Details on the provisioning calculation based on the ECL model are provided in Note 18. The movement in the accumulated provision for Sovereign Loan impairment as of September 30, 2022 and December 31, 2021 is as follows:

Table 7.2: Provision for Sovereign Loans

	30.09.2022 \$ million	31.12.2021 \$ million
Opening Balance	17.8	21.6
Change in Provisions charged to Income Statement	16.0	(3.8)
Closing Balance	33.8	17.8

As of September 30, 2022 and December 31, 2021 there are no principal repayments, interest and service charges receivable overdue by six months or more.

The geographical distribution of total overdue amounts as of September 30, 2022 and December 31, 2021 is as follows:



Table 7.3: Sovereign Loans - Overdue Amounts by Region

	Total Overdue Principal Outstanding	of which overdue by six months or more		
		Principal Repayments	Interest & Service Charges	Total
At September 30, 2022				
\$ million				
Africa	1.4	-	-	-
Asia	0.7	-	-	-
Latin America and Europe	-	-	-	-
<b>Total</b>	<b>2.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
At December 31, 2021				
\$ million				
Africa	0.5	-	-	-
Asia	-	-	-	-
Latin America and Europe	-	-	-	-
<b>Total</b>	<b>0.5</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTE 8 - NON-SOVEREIGN LOANS

The amounts of Non-Sovereign (Private Sector) Loans disbursed and outstanding as of September 30, 2022 and December 31, 2021 are presented below:

Table 8.1: Non-Sovereign Loans Outstanding

	30.09.2022 \$ million	31.12.2021 \$ million
Disbursements	2,610.2	2,478.1
Repayments	(1,496.7)	(1,431.8)
Sub-total	1,113.6	1,046.3
Write-Off	(65.1)	(52.7)
Non-Sovereign Loans Outstanding	1,048.5	993.6
Provisions for Non-Sovereign Loans	(86.3)	(76.6)
Total	962.2	916.9

As stated in Note 2, the latest version of the provisioning policy was approved by the Governing Board in June 2020. Details of the implementation of the new provisioning policy are provided in Note 18.

In June 2022, the Governing Board approved write-offs of PSF loans for \$12.7 million. This amount was deducted from the cumulative provision for impairment as shown in table 8.2.

The movement in the accumulated provision for NSO loan impairment as of September 30, 2022 and December 31, 2021 is as follows:

Table 8.2: Provisions for Non - Sovereign Loans

	30.09.2022 \$ million	31.12.2021 \$ million
Opening Balance	76.6	94.9
Write-off in the year	(12.7)	-
Change in Provisions charged to Income Statement	22.3	(18.3)
Closing Balance	86.3	76.6

Principal repayments, interest, and fees receivable overdue by three months or more as of September 30, 2022 and December 31, 2021 are presented in the following table:

**Table 8.3: Overdue Amounts from Non-Sovereign Loans**  
(Overdue by 90 days or more)

	30.09.2022 \$ million	31.12.2021 \$ million
Principal Repayments	7.4	19.6
Interest and Fees	5.0	9.4
<b>Total</b>	<b>12.4</b>	<b>29.0</b>

PSF Loans with overdue balances over 90 days are classified as non-performing loans. The ECL calculation estimates the level provision for impairment on overdue principal balances related to non-performing loans (stage 3). Overdue interests and fees are fully unrecognized from the income statement.

The geographical distribution of overdue amounts as of September 30, 2022 and December 31, 2021 is as follows:

**Table 8.4: Non - Sovereign Loans - Overdue Amounts by Region**

	Total Overdue Principal Outstanding	of which overdue by 90 days or more		
		Principal Repayments	Interest & Fees	Total
At September 30, 2022				
\$ million				
Africa	5.8	4.1	1.6	5.7
Asia	3.8	3.3	3.4	6.7
Latin America and Europe	-	-	-	-
<b>Total</b>	<b>9.7</b>	<b>7.4</b>	<b>5.0</b>	<b>12.4</b>
At December 31, 2021				
\$ million				
Africa	3.2	2.7	0.4	3.1
Asia	17.7	17.0	8.6	25.5
Latin America and Europe	-	-	0.4	0.4
<b>Total</b>	<b>20.9</b>	<b>19.6</b>	<b>9.4</b>	<b>29.0</b>

## NOTE 9 – TRADE FINANCE FACILITY (TFF) LOANS AND GUARANTEES

As of September 30, 2022 and December 31, 2021, the amount of outstanding TFF Sovereign (SO) and Non-Sovereign (NSO) Loans is presented below:

**Table 9.1: Trade Finance Facility Loans Outstanding**

	30.09.2022 \$ million			31.12.2021 \$ million		
	SO	NSO	Total	SO	NSO	Total
Disbursements	2,221.5	2,683.5	4,905.0	2,082.5	2,580.7	4,663.2
Repayments	(2,029.5)	(2,374.6)	(4,404.1)	(1,973.2)	(2,246.1)	(4,219.3)
Sub-total	192.0	308.9	500.9	109.3	334.5	443.9
Write-Off	-	(37.0)	(37.0)	-	(37.0)	(37.0)
Trade Finance Facility Loans Outstanding	192.0	271.9	463.9	109.3	297.6	406.9
Provision for Trade Finance Loans	(0.5)	(0.7)	(1.3)	(0.4)	(3.0)	(3.4)
Total	191.5	271.1	462.6	108.9	294.5	403.5

As part of the TFF, the OPEC Fund signed risk participation agreements with several financial institutions amounting to \$1,198 million as of September 30, 2022 (\$1,200 million in 2021). The actual exposure from these guarantee contracts amounted to \$442 million (\$353 million in 2021) as of reporting date.

In accordance with the accounting policy disclosed in Note 2, the accrued income and expected loss amounts from Trade Finance Guarantees have been recognized in the financial statements.

As of September 30, 2022 and December 31, 2021, the movement in TFF provision for loan impairment and Trade Finance guarantees loss provision are as follows:

**Table 9.2.A: Provision for Trade Finance Loans**

	30.09.2022 \$ million			31.12.2021 \$ million		
	SO	NSO	Total	SO	NSO	Total
Opening Balance	0.4	3.0	3.4	0.7	42.3	42.9
Write-off in the year	-	-	-	-	(35.5)	(35.5)
Change in Provisions charged to Income Statement	0.1	(2.3)	(2.2)	(0.2)	(3.8)	(4.0)
Closing Balance	0.5	0.7	1.3	0.4	3.0	3.4

Table 9.2.B: Provision for Trade Finance Guarantees

	30.09.2022 \$ million	31.12.2021 \$ million
Opening Balance	3.1	2.0
Write-off in the year	-	-
Change in Provisions charged to Income Statement	(1.5)	1.1
Closing Balance	1.6	3.1

As of September 30, 2022, there are no principal repayments, interest and service charges receivable overdue by three months or more.

## NOTE 10 - EQUITY INVESTMENTS

The OPEC Fund holds a number of strategic equity positions in private enterprises as well as equity investment.

As stated in Note 2, equity investments are initially recognized at transaction price and subsequently adjusted to be presented at fair value through other comprehensive income (FVTOCI).

The fair value measurement of equity investments is performed using the latest available Net Asset Value reports provided by the equity investments funds. The valuation of the equity investments is categorized as Level 3 in the fair value hierarchy.

As of September 30, 2022 the total book value of equity investments was \$126.4 million.

The following table shows the fair value of the investments and dividends recognized during the year to date as of September 30, 2022 and December 31, 2021:

**Table 10.1: Equity Investments**

	30.09.2022	31.12.2021	30.09. 2022	31.12.2021
	Fair Value \$ million	Fair Value \$ million	Dividends Income \$ million	Dividends Income \$ million
Equity Fund Investments				
Africa	55.3	55.4	0.2	2.1
Global	58.6	54.9	1.9	3.4
Total Equity Fund Investments at FVTOCI	113.9	110.3	2.1	5.5

The following table shows movements in equity investments during the year to date as of September 30, 2022 and December 31, 2021.

**Table 10.2: Movements in Equity Investments**

	30.09.2022	31.12.2021
	\$ million	\$ million
Opening Balance at Cost	126.3	157.3
Purchases during the period	1.5	5.2
Disposals during the period	(1.4)	(36.2)
Closing Balance at Cost	126.4	126.3
Fair Value adjustment	(12.5)	(16.0)
Closing Balance at Fair Value	113.9	110.3

## NOTE 11 – PROPERTY AND EQUIPMENT

In accordance with IAS 16, property is recognized at fair value according to the OPEC Fund’s fixed assets policy. Fair value is based on the result of revaluation method based on independent appraisals and carried at a revalued amount for property such as freehold land and buildings performed every five years. Any difference in value as a result of a revaluation is reflected in other comprehensive income (OCI) in the year-end financial statement.

The fair value measurement of real estate property is based on the inputs in the valuation technique and is categorized as Level 3 in the fair value hierarchy.

The net book value of property and equipment as of September 30, 2022 and December 31, 2021 are presented as follows:

Table 11.1: Property and Equipment

	as of 30.09.2022			
	\$ million			
	Property	Equipment	Work in Progress	Total
Purchases at Cost:				
Opening Balance	83.3	2.3	2.1	87.7
Purchases during the reporting period	-	-	3.7	3.7
Disposals during the reporting period	-	-	-	-
Closing Balance	83.3	2.3	5.8	91.4
Accumulated Depreciation:				
Opening Balance	(29.4)	(2.1)	-	(31.5)
Depreciation during the reporting period	(2.7)	(0.0)	-	(2.8)
Closing Balance	(32.2)	(2.1)	-	(34.3)
Closing Balance at Cost	51.1	0.2	5.8	57.1
Fair Value Adjustment				
Opening Balance	147.7	-	-	147.7
Adjustment during the reporting period	-	-	-	-
Closing Balance	147.7	-	-	147.7
Closing Balance at Fair Value	198.8	0.2	5.8	204.8

as of 31.12.2021

\$ million

	Property	Equipment	Work in Progress	Total
Purchases at Cost:				
Opening Balance	83.3	2.1	0.2	85.6
Purchases during the reporting period	-	0.2	1.9	2.1
Disposals during the reporting period	-	-	-	-
Closing Balance	83.3	2.3	2.1	87.7
Accumulated Depreciation:				
Opening Balance	(26.0)	(2.0)	-	(28.0)
Depreciation during the reporting period	(3.4)	(0.1)	-	(3.5)
Closing Balance	(29.4)	(2.1)	-	(31.5)
Closing Balance at Cost	53.8	0.2	2.1	56.2
Fair Value Adjustment				
Opening Balance	140.7	-	-	140.7
Adjustment during the reporting period	7.0	-	-	7.0
Closing Balance	147.7	-	-	147.7
Closing Balance at Fair Value	201.5	0.2	2.1	203.9



## NOTE 12 - MEMBER COUNTRY CONTRIBUTIONS

### Contributions Called

Member Country Contributions Called as of September 30, 2022 and December 31, 2021 consisted of the following:

Table 12.1: Status of Member Country Contributions

	30.09.2022	31.12.2021
	\$ million	\$ million
Initial contributions	391.5	391.5
First replenishment	751.5	751.5
Second replenishment	655.5	655.5
Third replenishment	664.7	664.7
Fourth replenishment	998.4	998.4
<b>Total Pledged and Called</b>	<b>3,461.5</b>	<b>3,461.5</b>
Capitalization	1,200.0	1,200.0
Transfer to establish SCR	(1,557.4)	(1,557.4)
<b>Total Member Country Contributions</b>	<b>3,104.1</b>	<b>3,104.1</b>
Allowance for MCC Obligations	(602.5)	(680.5)
<b>Net Member Country Contributions</b>	<b>2,501.6</b>	<b>2,423.7</b>

On June 13, 2013, the Ministerial Council [by virtue of MC Decision No. 5 (XXXIV)] approved changes to the reserve accounts whereby \$1,200 million of the reserve accounts were capitalized.

On June 24, 2020, the Ministerial Council approved the establishment of the special fund SCR whereby the amount of \$1,557 million was transferred to SCR [MC Decision No. 2 (XLI)].

On December 16, 2020, the OPEC fund called the second tranche of the fourth replenishment in the amount of \$399 million to be drawn in the period 2021 - 2024.

Allowance for Member Country contribution obligations of \$603 million as of September 30, 2022 (\$681 million in 2021) represent amounts due from member countries on called contributions, including drawdown due in 2021 - 2024.

The following tables provide more details on the status of Member Country contributions as of September 30, 2022 and December 31, 2021:

Table 12.2.A: Status of Member Country Contributions as at September 30, 2022

Member Country	Contributions \$ million		
	Pledged & Called	Paid	Allowance for MCC Obligations
Algeria	52.7	46.6	6.1
Ecuador	3.5	2.5	1.1
Gabon	1.3	1.0	0.3
Indonesia	6.3	5.1	1.1
Iran	404.7	112.9	291.8
Iraq	113.4	99.9	13.4
Kuwait	189.0	167.0	22.0
Libya	115.9	58.1	57.9
Nigeria	121.0	99.4	21.6
Qatar *	46.8	46.8	-
Saudi Arabia	524.5	463.5	61.0
U.A.E.	86.8	71.7	15.1
Venezuela	238.3	127.0	111.3
Total	1,904.1	1,301.6	602.5

\* Withdraw from OPEC Fund membership

Table 12.2.B: Status of Member Country Contributions as at December 31, 2021

Member Country	Contributions \$ million		
	Pledged & Called	Paid	Allowance for MCC Obligations
Algeria	52.7	43.5	9.2
Ecuador	3.5	2.5	1.1
Gabon	1.3	1.0	0.3
Indonesia	6.3	5.1	1.1
Iran	404.7	112.9	291.8
Iraq	113.4	99.9	13.4
Kuwait	189.0	156.1	32.9
Libya	115.9	58.1	57.9
Nigeria	121.0	96.4	24.6
Qatar *	46.8	46.8	-
Saudi Arabia	524.5	402.6	121.9
U.A.E.	86.8	71.7	15.1
Venezuela	238.3	127.0	111.3
Total	1,904.1	1,223.6	680.5

\* Withdraw from OPEC Fund membership

## NOTE 13 – GRANTS

Grants and technical assistance are financial support provided by the OPEC Fund from its capital resources directly or through a partner institution to a beneficiary.

Annually, the OPEC Fund allocates part of its general reserve to the reserve for grants account, which part of OPEC Fund's equity.

The allocation of resources to the grant program is based on the following principles:

- a) Linking the grant allocation to the financial return, subject to a ceiling,
- b) Setting the grant allocation to 13% of the average net income from the loan portfolio in the three previous financial years,
- c) Limiting the annual grant allocation to \$25 million, and
- d) Suspending further grant allocation whenever the balance of the grant account exceeds \$100 million.

On June 22, 2022, the Ministerial Council [MC Decision No. 5 (XLIII)] approved the Financial Year 2021 OCR Net Income Allocation and allocated \$11 million to the reserve for grants.

The status of the grant program as of September 30, 2022 and December 31, 2021 is presented as follows:

**Table 13.1: Status of Grant Program**

Total of Grant Program	30.09.2022 \$ million	31.12.2021 \$ million
Total Grants Uncommitted Allocation	57.1	46.1
Total Grants Committed Allocation	637.6	637.6
Total Grants Allocation	694.7	683.7
Total Grants Disbursed	617.5	614.4
Total Grants Undisbursed	77.2	69.3

## NOTE 14 – INCOME FROM DEVELOPMENT FINANCING

Income from development financing comprised of interest recognized using the effective interest rate methodology, service charges, and fees from loans, dividends, guarantees and equity investments.

The following table presents details for the periods ended September 30, 2022 and December 31, 2021:

**Table 14.1: Income from Development Financing**

\$ million	Africa	Asia	Rest of the world	Total
	30.09.2022			
Interest Income from Sovereign Loans	22.4	28.7	30.2	81.3
Interest Income from Non-Sovereign Loans	12.8	10.5	10.2	33.5
Interest Income from Trade Finance Loans	7.3	2.9	1.2	11.5
<u>Total Interest Income from Development Financing</u>	<u>42.5</u>	<u>42.1</u>	<u>41.6</u>	<u>126.3</u>
	31.12.2021			
Interest Income from Sovereign Loans	29.2	33.6	37.1	99.8
Interest Income from Non-Sovereign Loans	10.5	16.6	10.0	37.0
Interest Income from Trade Finance Loans	5.6	3.8	3.3	12.7
<u>Total Interest Income from Development Financing</u>	<u>45.3</u>	<u>54.0</u>	<u>50.4</u>	<u>149.5</u>

**Table 14.2: Fees and Other Income from Development Financing**

\$ million	Africa	Asia	Rest of the world	Total
	30.09.2022			
Fee Income from Sovereign Loans	0.3	0.5	-	0.7
Fee Income from Non-Sovereign Loans	1.8	1.2	0.5	3.5
Fee Income from Trade Finance Loans	0.3	0.5	0.1	0.8
Fee Income from Guarantees	(0.2)	0.5	3.7	4.0
Dividends Income from Equity Investments	0.2	-	1.9	2.1
<u>Total Fees and Dividend Income</u>	<u>2.4</u>	<u>2.6</u>	<u>6.2</u>	<u>11.2</u>
	31.12.2021			
Fee Income from Sovereign Loans	0.1	0.2	-	0.3
Fee Income from Non-Sovereign Loans	3.3	2.2	0.5	6.0
Fee Income from Trade Finance Loans	1.3	0.6	0.7	2.7
Fee Income from Guarantees	1.1	3.5	0.0	4.6
Dividends Income from Equity Investments	2.1	-	3.4	5.5
<u>Total Fees and Dividend Income</u>	<u>8.0</u>	<u>6.5</u>	<u>4.6</u>	<u>19.1</u>

## NOTE 15 - GAIN/(LOSS) FROM TREASURY INVESTMENT

Income from treasury investments designated at fair value through profit or loss and interest income recognized from deposit accounts applying the effective interest method for the periods ended September 30, 2022 and December 31, 2021 consisted of the following:

Table 15.1: Net gain/(loss) from Treasury Investments at FVTPL

	30.09. 2022 \$ million	31.12.2021 \$ million
From Operational Liquidity Portfolio		
Interest Income on Current and Deposit Accounts	1.2	0.8
From Treasury Investments		
Net Gain/(Loss) from Fixed Income Portfolio	(61.4)	(9.8)
Net Gain/(Loss) from Hedge Fund Portfolio	1.0	10.8
<u>Sub-total</u>	<u>(60.4)</u>	<u>1.0</u>
<u>Total</u>	<u>(59.2)</u>	<u>1.7</u>

In nine months of the 2022, the OPEC Fund received \$1.0 million (\$10.8 million in 2021) income related to legacy hedge fund investments. This income is reported as gains from hedge fund portfolio.

## NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES

The statement of general administrative expenses for the periods ended September 30, 2022 and December 31, 2021 is presented below:

Table 16.1: General Administrative Expenses

	30.09.2022		31.12.2021	
	€ million	\$ million	€ million	\$ million
Governing Board Expenses	0.7	0.7	0.2	0.3
Salaries and Other Benefits	28.7	30.7	36.3	42.8
Operational Expenses	3.8	4.0	5.3	
Non-recurrent Expenses	1.1	1.2	1.3	1.4
<u>Total Administrative expenses</u>	<u>34.4</u>	<u>36.6</u>	<u>42.4</u>	<u>49.8</u>
<u>Post-Employment Benefits Expenses</u>	<u>13.2</u>	<u>13.8</u>	<u>15.5</u>	<u>17.5</u>
<u>Total General Administrative expenses</u>	<u>47.5</u>	<u>50.3</u>	<u>57.8</u>	<u>67.4</u>

Actual administrative expenses were within the respective budget allocations as approved by the Governing Board, representing a utilization rate of 61% of the 2022 budget.

Administrative expenses are mainly incurred in euros, therefore the reported amount in US\$ is subject to currency movements.

Details of the Post-Employment Benefits Expenses are provided in note 19.

## NOTE 17 - RESERVES

### General Reserve

General reserve is cumulative net income since the inception of the OPEC Fund up to the reporting date minus any transfer to the reserve for grants, SCR on behalf of Member Countries and capitalization.

On June 13, 2013, the Ministerial Council [MC Decision No. 5 (XXXIV)] approved the restructuring of the reserve accounts whereby:

- (i) All reserve accounts were merged into the general reserve account,
- (ii) \$1,200 million of the reserve accounts were capitalized,
- (iii) The balance of reserves were allocated into two reserves accounts, namely general reserve and reserve for grants, and
- (iv) Another reserves account for other comprehensive income was created.

On June 22, 2022, the Ministerial Council [MC Decision No. 5 (XLIII)] approved the Financial Year 2021 OCR Net Income Allocation as follows:

- (i) \$116.1 million allocation to general reserve,
- (ii) \$25.4 million transfer to SCR on behalf of Member Countries, and
- (iii) \$11.0 million allocation to reserve for grants.

### Reserve for Grants

As stated in Note 2, the Agreement Establishing the OPEC Fund empowers the OPEC Fund to provide grants in support of development projects to eligible beneficiaries as well as humanitarian aid to partner and OPEC Fund member countries. The reserve for grants includes the cumulative grant allocations. It should be noted that the reallocation of grants from Member Countries' contributions according to the Ministerial Council decision taken on June 13, 2013 [MC Decision No. 5 (XXXIV)] does not affect the cumulative amount allocated to grants. The status of the reserve for grants is presented in Note 13.

### Other Reserves

Other reserves comprises (i) gains/loss due to fair value changes of equity investments as required by IFRS 9; (ii) actuarial gains/losses on post-employment benefit plans according to IAS 19; and (iii) revaluation gains/loss on property based on IAS 16.

The following table presents the status of the Other Reserve as of September 30, 2022 and December 31, 2021:

Table 17.1: Other Reserves Adjustments

	Adjustments and Dissolving in the Reporting Period			
	\$ million			
	Equity Investments (IFRS 9)	Property Revaluation (IAS 16)	Employee Benefits (IAS 19)	Total Other Reserves
Balance as of January 1, 2022	(16.0)	126.1	(48.3)	61.8
Net change in fair value of Equity Investments	3.5	-	-	3.5
Revaluation of Properties	-	-	-	-
Reclassification of Property Revaluation	-	(2.5)	-	(2.5)
Actuarial Gain/(Loss) on Post Employment Benefit Plans	-	-	(17.5)	(17.5)
Balance as of September 30, 2022	(12.5)	123.5	(65.9)	45.3
Balance as of January 1, 2021	(49.7)	122.8	(103.3)	(30.1)
Net change in fair value of Equity Investments	33.7	-	-	33.7
Revaluation of Properties	-	7.0	-	7.0
Reclassification of Property Revaluation	-	(3.7)	-	(3.7)
Actuarial Gain/(Loss) on Post Employment Benefit Plans	-	-	55.0	55.0
Balance as of December 31, 2021	(16.0)	126.1	(48.3)	61.8



## NOTE 18 – PROVISION FOR IMPAIRMENT

The OPEC Fund's Governing Board approved the OPEC Fund OCR's Provisioning Policy in compliance with IFRS 9, in its 172<sup>nd</sup> session in June 2020 [Decision No. 4 (CLXXII)] in line with the principle of Expected Credit Loss (ECL) as described in the final version of the accounting standard for financial instruments.

According to IFRS 9, ECL represents the average credit losses weighted by the probabilities of default (PD), whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan. A number of critical accounting estimates and judgements are therefore made in the calculation of impairment of loan investments.

ECL is calculated individually and specific provisions for impairment are recognized in the income statement on all outstanding loans following the ECL provisioning model required by the standard. Each loan in the OPEC Fund's portfolio (Sovereign, Non- Sovereign and Trade Finance) was assigned with a credit rating based on the internal credit rating scale (1-21) and taking into consideration historical as well as forward looking information from internal and external sources. The credit ratings for Sovereign Loans are initially obtained from external sources and then reviewed internally to apply up to three notches uplift based on the preferred creditor status where applicable. The resulting credit ratings correspond to probabilities of default (PD) as estimated by credit agency for one year as well as the remainder of the lifetime of the loan.

The OPEC Fund evaluates the credit risk of each borrower in its internal rating process, which is closely aligned with external credit rating agencies, with adjustments for strategic significance of the OPEC Fund's Partner Countries. In general, the scales 1-14 represent borrowers with no significant increase of credit risk to the OPEC Fund that could be rated between investment grade and B+ by the rating agencies. 15-19 represent average ratings of between B to CCC-. 20 represents average ratings below CC+ and 21 represents a D rating.

A significant increase in credit risk depends on a number of factors and compared to the borrower's initial rating at the loan's signature date. These factors include: a) repayment risk (e.g. arrears), b) external rating of the borrower, c) country risk and d) any other risk factor or information available for risk management judgement.

The model calculates the ECLs as of reporting date. In addition, the OPEC Fund assesses individually the amount of provisions for loans on stage 3 by considering the probability of multiple discounted cash flow scenarios. Then, the amount of provisions is adjusted accordingly. Provisions for impairment are

counter-asset accounts netted against the outstanding of the loan portfolios, to ensure that the carrying amount reflects the loans' fair value.

Trade finance guarantees (TFG) are unfunded operations. The provision amount is calculated based on the risk assessment of the open exposure at the reporting date, which represents the actual total risk that the OPEC Fund is assuming under various risk-sharing programs. The provision of trade finance guarantees is reported as a liability in the Statement of Financial Position and the change in the provision amount, from one year to another, is reflected in the Income Statement.

Provisions are also calculated for bank balances and interest receivables following the ECL methodology. The resulting amount is netted against Accounts Receivable and the change in the provision amount, from one year to another, is reflected in the Income Statement.

### **Loss Given Default Rates**

A Loss Given Default (LGD)-rate is assigned to individual facilities indicating how much the OPEC Fund expects to lose on each facility if the borrower defaults. The rates for Non-Sovereign Loans (Private Sector and Trade Finance) are in accordance with the Foundation-IRB26 approach under the Basel Accord. The resulting average LGD rate for the non-sovereign portfolio is consistent with the Fund's long-term recovery experience.

In the case of a sovereign default, the OPEC Fund believes that its payment would be more likely to remain uninterrupted, benefitting from its preferred creditor status. These features are reflected in the LGD rate assigned to a sovereign exposure.

### **Probability of Default Rates**

In 2021, the OPEC Fund carried out a modelling enhancement by updating the PD tables from the same external source as the rating template. The change ensures that the probability of default, used for the ECL calculation, is directly aligned with the rating methodology. The change contributed to decreased provisions on loans is presented on table 18.4 under changes in risk parameters.

### **Cumulative Provisions**

Changes in cumulative provision for impairment amounts as well as the respective decrease due to de-recognition of assets (write-off) are presented in the following table:

Table 18.1 Loan Portfolios' and TFG Provision Amounts

Cumulative Provision for Impairment		Balance at	Change in	Write-off	Balance at	Change in	Write-off&FX	Balance at
	Note	31.12.2020	2021	2021	31.12.2021	YTD Q3 2022	YTD Q3 2022	30.09.2022
\$ million								
Sovereign Loans Provisions	7	21.6	(3.8)	-	17.8	16.0	-	33.8
Non - Sovereign Loans Provisions	8	94.9	(18.3)	-	76.6	22.3	(12.5)	86.3
Trade Finance Loans Provisions	7,8	42.9	(4.0)	(35.5)	3.4	(2.2)	-	1.3
TFG Provisions (Liability)	9	2.0	1.1	-	3.1	(1.5)	-	1.6
<b>TOTAL</b>		<b>161.4</b>	<b>(25.1)</b>	<b>(35.5)</b>	<b>100.9</b>	<b>34.6</b>	<b>(12.5)</b>	<b>123.0</b>

As presented in the table above, there was an increase of \$16 million in the provisions for Sovereign Loans, and \$22.3 million for Non-Sovereign Loans, trade finance provisions decreased by \$2.2 million. These movements are primarily associated to an assessment of credit risk and an increase of outstanding in the loan portfolio. Additionally, \$12.7 million write-offs of Non-Sovereign loans performed in Q, 2022, which reduced the cumulative provision for impairment.

### Stage Assignment

A “three-stage” model for impairment is applied based on changes in credit quality since origination (signature), with the stage allocation based on the financial asset’s PD. At signature, loans are classified in Stage 1 and the rating at origination is recognized based on the internal credit rating (after considering preferred creditor status). If there is a significant subsequent increase in credit risk associated with the asset, it is transferred to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12-month period, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of impairment is identified, the asset is transferred to Stage 3, as described below.

In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2, a combination of quantitative and qualitative risk metrics are employed. For Sovereign Loans, a rating downgrade of at least 4 notches constitutes a significant increase in credit risk, whereas for non-sovereign exposure, a rating downgrade of at least 2 notches constitutes a significant increase in credit risk or if the loan is placed under watch list. In addition, there is no significant increase in credit risk for movements within investment grade.

The staging model relies on a relative assessment of credit risk, that a loan with the same characteristics could be included in Stage 1 or Stage 2, depending on the credit risk at the origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

The following tables provide the amount of provisions for the loans on each stage of the ECL provisioning model and the gross carrying amounts of

underlying loans per each stage as well as the TFG provision as of September 30, 2022 and December 31, 2021:

Table 18.2A The OPEC Fund's Provision by ECL Stage

ECL provision	Sovereign Loans	Non - Sovereign Loans	Trade Finance Loans	Trade Finance Guarantees
\$ million	As of September 30, 2022			
Stage 1	9.1	17.1	1.3	1.6
Stage 2	24.6	36.9	-	-
Stage 3	-	32.4	-	-
Total	33.8	86.3	1.3	1.6
\$ million	As of December 31, 2021			
Stage 1	12.6	19.7	3.4	3.1
Stage 2	5.2	23.7	-	-
Stage 3	-	33.3	-	-
Total	17.8	76.6	3.4	3.1

Table 18.2B The OPEC Fund's Outstanding Loans by ECL Stage

Loans Outstanding	Sovereign Loans	Non - Sovereign Loans	Trade Finance	Total
\$ million	As of September 30, 2022			
Stage 1	3,227.5	845.6	463.9	4,537.0
Stage 2	170.1	135.9	-	306.0
Stage 3	-	67.0	-	67.0
Total	3,397.7	1,048.5	463.9	4,910.0
\$ million	As of December 31, 2021			
Stage 1	3,029.5	816.5	406.9	4,252.9
Stage 2	28.6	105.6	-	134.1
Stage 3	-	71.5	-	71.5
Total	3,058.1	993.6	406.9	4,458.6

## Sensitivity analysis

The sensitivity of the loan portfolio provisions at September 30, 2022 to the key variables used in determining the level of ECL provisions is presented in the following table:

Table 18.3 Sensitivity Analysis

Adjusted Risk Parameter	Recalculated Provision \$ million	Change in Provision \$ million	Change in Provision %
PD Ratings			
All loans upgraded 2 notches	62.4	(59.2)	-49%
All loans downgraded 2 notches	326.7	205.0	169%
LGD			
All loans decreased by 10%	88.3	(33.3)	-27%
All loans increased by 10%	154.4	32.8	27%

Adjusting the PD ratings has a dual impact in that a changed PD rating results in a change in the PD rate applied in the ECL calculation, but can also lead to a change in the staging of a loan, given the significant increase in credit risk since loan signature will trigger a change for including an asset in Stage 2. Both of these effects are captured in the above analysis.

The following tables provide a reconciliation and analysis of the movements in loans outstanding and the associated impairment provisions for each of the stages of impairment ECL model:

Table 18.4.A Movement in Provisions and Loans Outstanding by ECL Stage

	12-month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
\$ million				
Opening Balance	35.8	28.8	33.3	97.9
New loans originated	1.1	-	-	1.1
Transfer to Stage 1	2.1	(2.1)	-	-
Transfer to Stage 2 - SICR	(36.9)	36.9	-	-
Transfer to Stage 3 - credit-impaired	-	(7.5)	7.5	-
ECL release due to repayments	(3.3)	(0.7)	(0.4)	(4.4)
ECL release - write offs	-	-	(12.7)	(12.7)
Changes in risk parameters	28.7	6.1	4.7	39.5
Closing Balance	27.5	61.5	32.4	121.4

	12-month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
\$ million	Q3 2022 Movement in Loans Outstanding			
Opening Balance	4,252.9	134.1	71.5	4,458.6
New loans originated	126.8	-	-	126.8
Transfer to Stage 1	25.0	(25.0)	-	-
Transfer to Stage 2 - SICR	(240.8)	240.8	-	-
Transfer to Stage 3 - credit-impaired	-	(20.4)	20.4	-
Net of disbursements/(repayments)	373.1	(23.4)	(12.3)	337.4
Write offs	-	-	(12.7)	(12.7)
Closing Balance	4,537.0	306.0	67.0	4,910.0

Table 18.4.B Movement in Provisions and Loans Outstanding by ECL Stage

	12-month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
\$ million	2021 Movement in Provisions			
Opening Balance	53.8	42.7	62.9	159.4
New loans originated	8.9	-	-	8.9
Transfer to Stage 1	13.3	(13.3)	-	-
Transfer to Stage 2 - SICR	(1.5)	1.5	-	-
Transfer to Stage 3 - credit-impaired	-	(2.7)	2.7	-
ECL release due to repayments	(5.1)	(2.4)	-	(7.5)
ECL release of COVID-19 provisions	(6.0)	(5.7)	-	(11.8)
ECL release - write offs	-	-	(31.3)	(31.3)
Changes in risk parameters	(27.5)	8.8	(1.1)	(19.8)
Closing Balance	35.8	28.8	33.3	97.9

	12-month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
\$ million	2021 Movement in Loans Outstanding			
Opening Balance	4,030.5	158.8	92.6	4,282.0
New loans originated	485.6	-	-	485.6
Transfer to Stage 1	33.9	(33.9)	-	-
Transfer to Stage 2 - SICR	(55.3)	55.3	-	-
Transfer to Stage 3 - credit-impaired	-	(16.3)	16.3	-
Net of disbursements/(repayments)	(241.9)	(29.8)	(1.9)	(273.6)
Write offs	-	-	(35.5)	(35.5)
Closing Balance	4,252.9	134.1	71.5	4,458.6

## NOTE 19 – POST EMPLOYMENT BENEFITS

As part of the post-employment benefits, the OPEC Fund has a defined benefit Staff Retirement Plan (SRP) and a Medical Benefits Plan (MBP) for its non-local employees. Additionally, OPEC Fund employees are entitled to end of service, relocation, travel and removal payments as well as payments in lieu of their unutilized annual leave upon separation. These are referred to as “other long-term post-employment benefits” (OLTPEB).

The following table provides a summary of Post-Employment Benefit Liabilities recognized in the balance sheet as of September 30, 2022 and December 31, 2021:

Table 19.1: Post-Employment Benefits Liabilities

	30.09.2022	31.12.2021
	\$ million	\$ million
Staff Retirement Plan	102.5	91.2
Medical Benefit Plan	66.2	72.6
Other Long-term Post-Employment Benefits	16.6	20.5
<b>Total</b>	<b>185.3</b>	<b>184.3</b>

In accordance with IAS 19 amendment Employee Benefits, actuarial gains and losses are to be recognized in Other Comprehensive Income and reported in the year-end financial statements. The special purpose interim financial statements include movements on plan assets and the respective portion of the estimated service cost, with the result of movements on plan assets recognized in Other Comprehensive Income.

Although employee benefits, as defined benefit plans, impose risk on the OPEC Fund, the materiality of the scheme relative to the OPEC Fund’s total assets avoids any entity-specific, plan-specific or significant concentration risk. A funding report provided by a qualified actuary includes a sensitivity analysis for significant actuarial assumptions such as the discount rate and expected return on assets.

In this special purpose interim financial statement, the value of the liabilities at the reporting date is affected by charging the respective portion of the 2022 estimated financial cost, change in value of the plan’s assets and the impact due to fluctuation in the value of the Euro, which is the currency of the underlying Post-Employment Benefits.

The status of each Post-Employment Benefit Plan as of September 30, 2022 and December 31, 2021 is presented as follows:

Table 19.2: Interim Adjustment of the Post-Employment Benefit Liabilities

	Staff Retirement (SRP)		Medical Benefits (MBP)		Other L-T Employee (OLTEB)		Total	
	€ million	\$ million	€ million	\$ million	€ million	\$ million	€ million	\$ million
Net Liability at December 31, 2021	80.2	91.2	63.8	72.6	18.1	20.5	162.1	184.3
Estimated Defined Benefit Cost	8.3	8.6	3.4	3.6	1.5	1.5	13.2	13.8
(Gain)/Loss from plan assets	16.2	17.1	0.4	0.4	-	-	16.6	17.5
Sub-Total (Gain)/Loss	24.5	25.8	3.8	4.0	1.5	1.5	29.8	31.3
FX and payments	-	(14.5)	-	(10.4)	(2.5)	(5.4)	(2.5)	(30.3)
Net Liability at September 30, 2022	104.7	102.5	67.6	66.2	17.0	16.6	189.3	185.3



## NOTE 20 - CURRENCY VALUATION AND OTHER INCOME

As stated in Note 2, the OPEC Fund's functional and reporting currency is the US dollar. However, the Governing Board endorsed the principle of lending in any currency other than the US\$ [Decision No. 11 (XC) dated March 8, 2000]. Since then, the loan portfolio includes a portion of loans denominated in euro. The value of these loans is translated at the prevailing EUR/US\$ rate at the Financial Statements date, foreign currency gain or loss is reported in the income statement.

Foreign exchange risk exposure from the loan portfolio is regularly monitored and managed according to the hedging strategy. The Fund uses primarily forward contracts, which are valued at mark-to-market on the reporting date.

The liability of post-employment benefits is denominated in euro as pensions and benefits to retirees are paid in this currency. Therefore, the reported value in US\$ at the Financial Statements date includes foreign currency gain or loss reported in the income statement.

A summary of the results of the currency valuation of the euro loans on Sovereign, Non- Sovereign and Trade Finance Loans as well as of the hedging strategy and post-employment benefit liability for the periods ended September 30, 2022 and December 31, 2021 are presented in the following table:

**Table 20.1: Currency Valuation**

	30.09.2022	31.12.2021
Prevailing Exchange Rate (EUR/USD):	0.9788	1.1374
Exchange Rate Variation	\$ million	\$ million
Gain/(Loss) on Sovereign Loans	(16.5)	(9.0)
Gain/(Loss) on Non - Sovereign Loans	(23.8)	(12.0)
Gain/(Loss) on Trade Finance Loans	(15.0)	(2.5)
Gain/(Loss) from Hedging Strategy	39.6	23.4
Gain/(Loss) on Post-Employment Benefit	27.5	16.1
Gain/(Loss) on Other Asset and Liabilities accounts	(0.6)	1.2
<b>Total Currency Valuation</b>	<b>11.3</b>	<b>17.1</b>

In nine months of 2022, other income corresponds mainly to the estimated portion of administrative expenses allocated to SCR in the amount of \$8.1 million (\$10.8 million in 2021). This allocation is a direct cost transfer without any mark-up.

**Table 20.2: Other Income**

	30.09.2022	31.12.2021
	\$ million	\$ million
SCR share of administrative expenses	8.1	10.8
Other Gain/(Loss)	1.5	-
<b>Total Other Income</b>	<b>9.6</b>	<b>10.8</b>