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Banks as Risk Management Partners: Liquidity, Price Risk and Credit Risk

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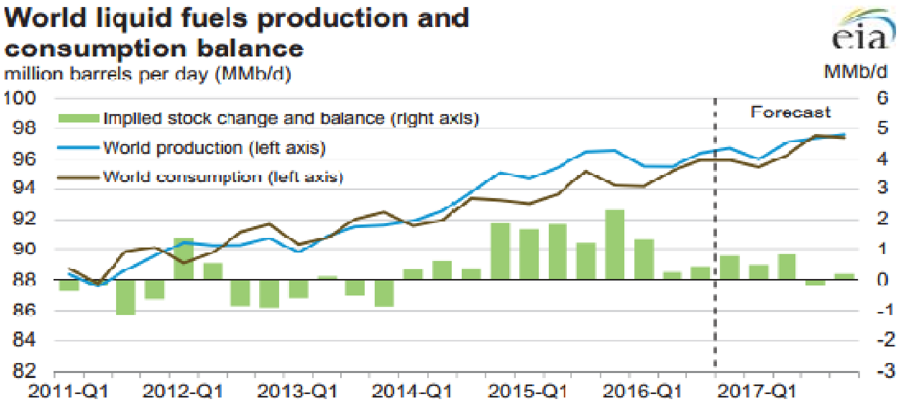
Why NBF strategy has targeted Energy Trade Finance for growth

- E&M strategy is to support the UAE's energy hub status, through the cycle:
    - UAE based energy traders
    - customers of the Fujairah oil terminal complex
        - trading
        - tankers
        - logistics

Market dynamics in a state of flux

- Demand is robust
- Supply is more robust
- Traders: low oil price has relieved some liquidity pressure, offset by volatility which has heightened other risks
- Banks perception that market risk has increased
    - Credit
    - Basel 3, IFRS 9
    - FX, Commodity, IR
- Lenders will re-evaluate adequate risk adjusted return on capital
- Banks face a choice regarding risk appetite:
    - understand and structure risks
    - exit



Source: Short-Term Energy Outlook, October 2016.

A lender's perspective

Opportunities

- Oil production up
- More physical oil moving via UAE
- Fujairah gaining momentum as shipping hub
- Vessels are exchanging hands – but terms / leverage varies greatly

Traders

- Does it make sense to own tankers?
- Can the business sustain a higher fixed cost base?
- Vessel management expertise?

Offshore Services

- Offshore Sector under margin pressure from NOC's and Majors
- Receivables aging up
- Valuations / asset re-employment outlook
- Are assets specialized and in demand?
- Cancellation Risk?

Debt Capacity

- Asset being financed – self- liquidating?
- Cash flow
    - Diversification
    - Volatility
- Working capital cycle
- Recourse/Security
- Balance Sheet – can it absorb C/F uncertainly

Banks are learning from recent experiences

Key themes

1. Finance Basics:
   - Some risks are for equity
   - Some risks are for debt

2. Openness – sharing information, acknowledging risk scenarios
   - Cancellation
   - Charter delays/default
   - Dry-dock provisions

1. Diligence on credit counterparties – enhancing cash flow certainty

2. Execution: market and credit risk
   - Liquidity Management: Global Transaction Services can be a key part of unlocking liquidity
   - Invoice discounting
   - Bank risk discounting
   - Equipment leasing
   - Asset finance

1. No crystal ball

2. We cannot anticipate all risks

3. We are in a cyclical business

4. Relationships are built through the cycle

Thank you

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