OAPEC Conference, *International Crisis and Its Impacts on the Arab Oil and Gas Sector*
November 22-24, 2010
Damascus, The Syrian Arab Republic

Funding and Financing in the Financial Crisis

ابيكورب
APICORP

Bassam Al-Tamimi
Senior Vice President
North African and Mediterranean Business Group
Project and Trade Finance Department (PTF)
Arab Petroleum Investments Corporation (APICORP)
Al-Khobar, Saudi Arabia

Outline

1. Impact of the Crisis on the local and regional banks
2. Sources of Financing for Projects (Pre and Post Crisis)
3. Terms for Financing of Projects (Pre and Post Crisis)
4. APICORP Performance in light of the crisis

1. Impact on the Local and Regional Banks

- Funding
- Cost of Funding
- Balance Sheet Management
- Provisioning / Write-offs
- Income Limitations

1.1 Funding of Banks

- Dry up of Interbank funding from international banks (some banks still active)
- Mistrust between the banks
- Local banks and Islamic banks fill in (in local and international currency)
- Central Banks/Government Intervention (confidence building)
  - Deposits,
  - Deposit guarantees,
  - Interbank guarantees,
  - equity injection
  - Reduction in cash reserve requirements
- Shareholder support (Equity injection, Long term deposits)
- Deposits from Government owned entities
- Deposits from large corporations

1.2 Cost of Funding

- LIBOR no longer reflection of banks funding cost
  – Prior to Crisis < 10 bps
  – During financial Crisis (100 – 250 bps)
  – Post Financial Crisis (40 – 80 bps)
- Cost of funding subject to
  – Period (1 week – 3 month)
  – Historical relationship with banks (existing lines)
  – Reputation, balance sheet strength, rating.
  – Period in the financial crisis.
- Cross currency funding cost differential for swapping
- Give and Take – opportunities for banks with surplus funds

1.2 Cost of Funding

- To call or not to call a market disruption
  - Loan agreements cover incidents of cost increase due to market disruption
  - Nature and condition of the client (is he a relationship client, how does he fair financially).
  - Negotiations – Premium over LIBOR
  - Bank reluctance to disclose cost of funding
  - The question asked: how long will the crisis last?
  - Result: most banks did not proceed with market disruption
- Restructuring and amendments likely entails additional fees and margins

1.3 Balance Sheet Management

- Maturity mismatch (extending the average maturity)
- Loan / Deposit ratio
- Capital Adequacy
- Meeting existing commitments (increases in 2007 and 2008) and off balance sheet liabilities
- Hold back on Lending (wait and see)
- Emergence of Secondary markets

1.4 Provisioning

- Write-offs of TARP's (CDO, CDS, Derivatives, etc…)(a few banks incurred heavy losses starting in 2007 and further additions in 2008)
- Provisioning (stock market lending (e.g. Kuwait), real estate lending (e.g. UAE), major corporates (Saad Group, UAE,…) (overall non performing loans doubled to around 6% in 2009 for GCC banks)
- Revised asset valuations (fair market)
- Refinancing and restructuring (oil and gas, petrochemical, etc…)– very limited amendments, restructuring, and provisioning and usually against fees.

1.5 Income Consideration

- Low LIBOR
- Deposit rates LIBOR + for foreign currency
- Limited income from Fees (Sukoks/Bonds, IPOs, PF, etc…)
- Improved margins on new loans

1.6 Impact on the MENA Banks

- GCC Banks relatively protected from crisis with strong support from governments, only minor casualties. Bank asset growth still modest at 4% in 2009 with larger increases in equity (13%).
- Other OAPEC banks more insulated from the financial crisis (under going reform, conservative lending practices, focused on local currency loans).
- IMF has commended the overall banking sector in the MENA region for its ability to weather the crisis.

2. Sources of Financing Projects

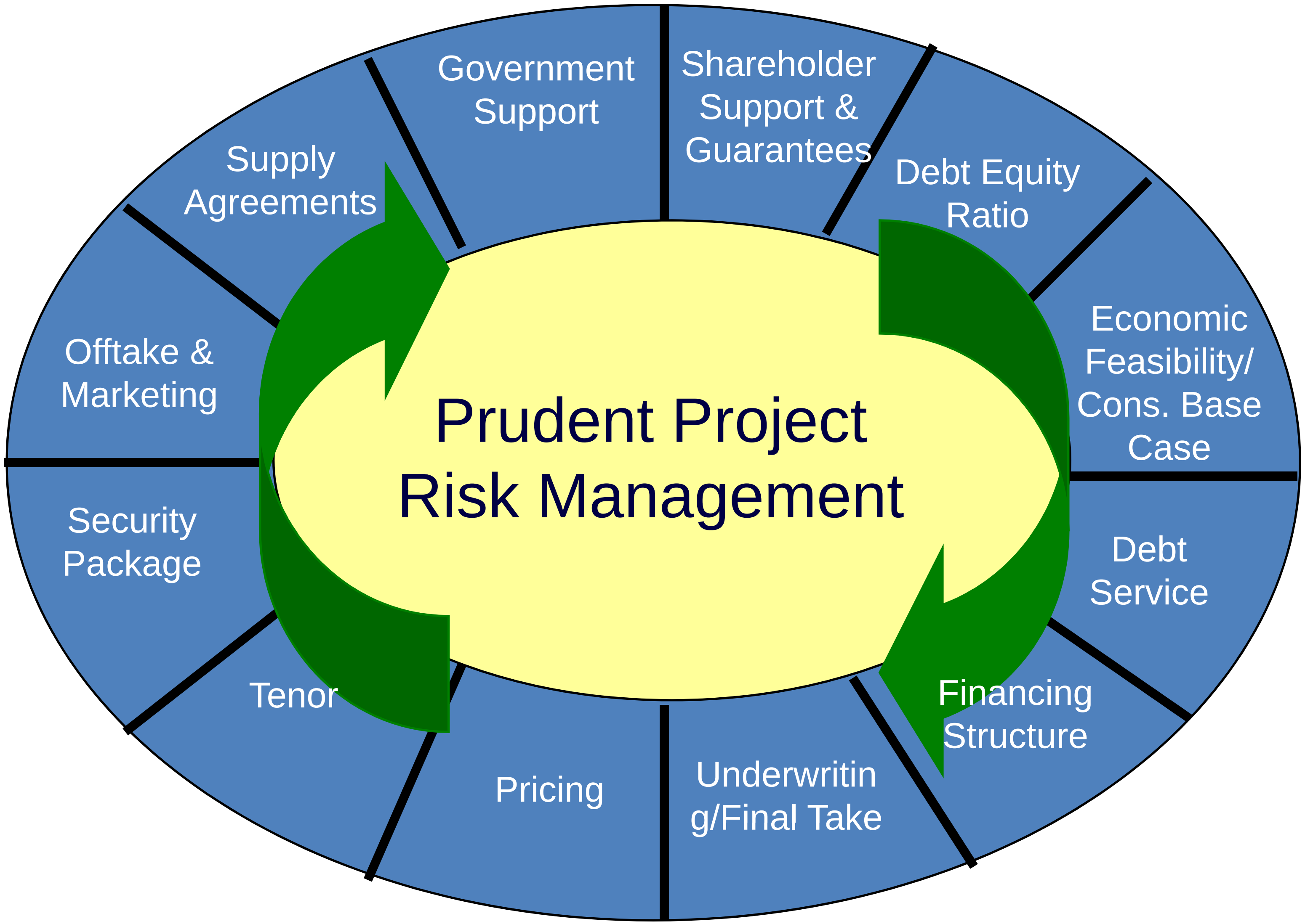
Equity

- National Oil Companies
- Government Entities/SWF
- International Oil Companies
- Technical Partners
- Local Companies
- Holding Co. Corporations
- Investment Banks
- Funds
- Private Equity
- IPOs

Debt

- Local Banks
- Regional Banks
- International Banks
- Sukuk/Bonds
- Local Development Banks
- Int. Development Banks
- ECA’s
- Mezzanine Financing
- Shareholder Loans

3. Key Determinants of Project Financing



4. APICORP and the Financial Crisis

- APICORP has successfully managed to weather the crisis.
- APICORP has a very high quality portfolio of assets with low NPL of 0.7% (as attested by Moodys).
- Support from APICORP's shareholders was limited to commitments to make medium term deposits (USD 1,000 million) at attractive rates, pro-rata with their equity stake, of which USD 300 – 400 million was called.
- APICORP has maintained profitability in 2008 (USD 28 mm) with increasing profits in 2009 (USD 59 mm) and first half of 2010 (USD 47 mm)..As at the end of 2009, its total assets were over USD 4.1 billion and net worth USD 1.1 billion.
- APICORP has been successful in getting a rating from Moodys in June 2010 of A1 for long term and Prime 1 rating short term lending (the highest).
- APICORP has successfully concluded its first bond issuance of SR 2000 million last October 2010..
- APICORP continues to seek new financing and equity transactions with the aim of gradually growing its asset portfolio in line with its mission and objectives.

Thank You

Arab Petroleum Investments Corporation

http://www. apicorp-arabia.com