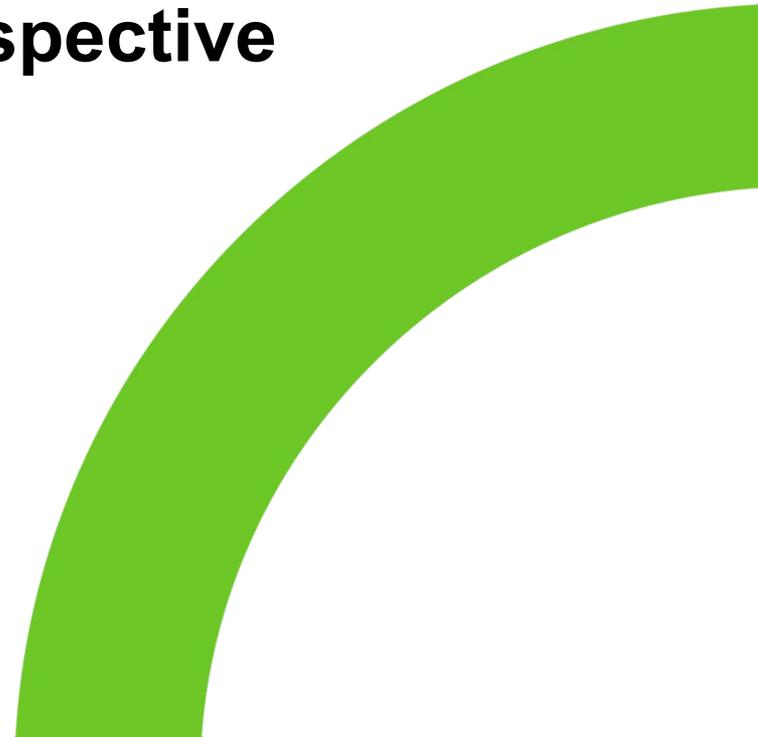


kpi bridge oil

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Counter Party Risk – from a Buyer's Perspective





UNLOCKING POTENTIAL

PREFIX



- On 7th of November 2014 OW Bunker Group collapsed
- This was only 7 months after a successful stock listing in Denmark (IPO)
- Some call it '*The Lehman Brothers of Bunkering*'
- Almost all industry players have been affected.. In one way or another
- The repercussions from the collapse are still felt largely across the industry
- **So what went wrong...?**

3 CAUSES FOR THE OW COLLAPSE:

1) Speculation:

- OW was a physical supplier and took risk when buying large volume cargoes
- OW had a Risk Management desk covering their cargo positions due to being a physical supplier
- This Risk Management desk became a 'Profit Center' when OW had to improve results for upcoming IPO (stocklisting)
- Risk Management turned into Risk Taking...
- In late 2014 OW had large open positions in the paper market which led to fatal losses



3 CAUSES FOR THE OW COLLAPSE:

2) Exorbitant CREDIT EXPOSURE to one single client

- Dynamic Oil Trading (DOT) had an unsecured credit exposure of **Usd 125 M** to one single client!

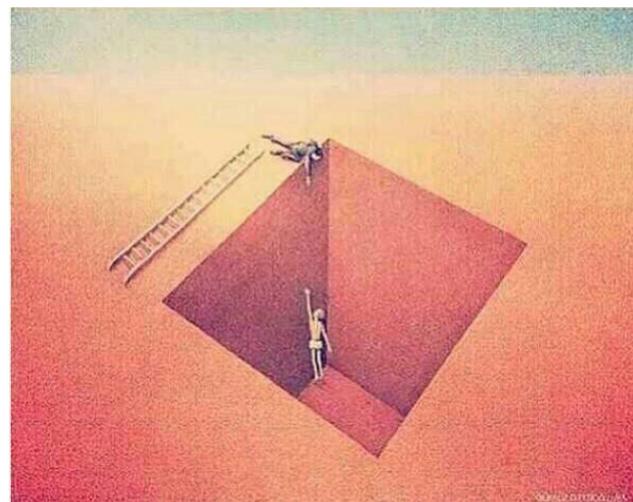
(Tankoil - a supplier they were financing)



3 CAUSES FOR THE OW COLLAPSE:

3) LACK OF SUPPORT FROM THE BANK CONSORTIUM:

- The bank consortium led by ING Bank chose not to support OW Group in their final hour
- The banks had collateral for their loans to OW & DOT since all the receivables were assigned to them (pledged)
- Would the banks have been more inclined to save OW if they had not had the invoices pledged to them as collateral?



WHERE WERE THE PHYSICAL SUPPLIERS LEFT OFF?

- After the collapse of the OW Group a lot of Suppliers were left unpaid
- They had competing claims towards the end user and/or vessel owner:
 1. The 29 OW bankruptcy estates
 2. OW's banks to which the invoices were pledged (a consortium led by ING Bank)

Consequently:

- The Res Cogitans case in UK ruled in favour of the banks
- The interpleader cases in the US ruled in favour of the banks



WHERE WERE THE BUYERS LEFT OFF?

- After the OW Group collapse a lot of Bunker Buyers were left exposed to multiple claims:
 1. From a multitude of unpaid physical suppliers
 2. The 29 OW bankruptcy estates
 3. OW's banks to which the invoices were pledged



TIME TO ADDRESS THE ELEPHANT IN THE ROOM!



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THE OUTCOME

- Some End users seek to buy direct from the physical supplier
- Some Physical Suppliers seek to sell direct to the end users

...is it all game over and out for TRADERS then?



- Well, fortunately Not!
- Thankfully the vast majority has a more advanced approach..

BANKRUPTCIES SINCE OW:

Traders:



Suppliers:

Searights, Bunkers de Mexico, Wiljo, Bunkers International & MBT

Owners:

Copenship, Primorsk International Shipping , Mercator Lines,
Bulk Invest SAS (formerly known as Western Bulk ASA),
Lithuanian Shipping, Global Maritime Investments..

..and now possibly also Hanjin

..Risk prevails on all sides..



PLEDGING DEFINED

So what does it mean to 'pledge' your invoices to a bank?

- The bank has security in your invoices against the loans it gives to you
- In other words, you have assigned or 'pledged' your invoice to the bank
- This is a form of collateral for the bank against the loan they provide to the company
- Quite similar to a mortgage on a ship or on a house



CONSEQUENCES OF PLEDGING

What does it mean for buyers if the company goes into bankruptcy?

- It means that the bank(s) to which the invoices are pledged will demand payment from the buyer which the invoices are raised toward
- It also means that the bankruptcy estate(s) separately may claim for the same money from the buyer which the invoices are raised toward
- In other words, if a company has pledged their invoices to a bank, the customers of the company are potentially exposed to a double claim if the company goes bankrupt



PLEDGING AFTER BANKRUPTCY

If the company has assigned the receivables (invoices) to the bank how can the estate(s) then chase the same money?

Well, there are 3 things to consider, learning from the OW bankruptcy:



PLEDGING AND THE OW COLLAPSE (1)

After the OW collapse the bank syndicate led by ING had to make agreements with 29 different bankruptcy estates each representing the 29 different OW subsidiaries individually:

- Who should collect the money from the clients?
- The banks?
- The estates?

This is of course a very slow and bureaucratic process. While it is going on, ships are at risk of being arrested anywhere suitable. In future cases there is no guarantee beforehand that banks which have invoices assigned to them will be able to make similar agreements with the estate(s). And if they can not – buyers will be exposed to an extra claim – even if they buy from a physical supplier who has pledged their invoices!



PLEDGING AND THE OW COLLAPSE (2)

But if and when the banks and the estates have reached an agreement together, should everything not be ok then?

Unfortunately not

- In spite of the fact that these agreements were made, the various estates continued fighting against the bank syndicate led by ING in the many Interpleader cases filed in the US. The reason for this is that each individual estate is targeting to win as much money as possible for themselves and the individual estate they represent. Again this is why the cases are dragging – the law is not clear in many jurisdictions. In the meantime the destiny of the buyers is unclear.



PLEDGING AND THE OW COLLAPSE (3)

But once the US courts have made their ruling, everything is okay... Right?

Well...

- In the event that a court ruling would go against the bank syndicate led by ING, saying that only suppliers should receive money from the buyer, there is no-one who can guarantee that the banks will not try and arrest the ships in more favorable jurisdictions afterwards. In other words, the banks may take the same position as many physical suppliers are doing – namely to protect their own interest by seeking arrest wherever it suits them best – irrespectively of other court rulings in other jurisdictions.



PLEDGING IN TODAY'S MARKET

Who is pledging their invoices?

- Several Physical Suppliers as well as Bunker Trading companies are still pledging their invoices to their banks.
- Pledging of invoices is also widely used outside the Bunkering Industry.

Why do they do that?

- Their customers may not take notice that the bank has collateral in the invoice from their supplier or trader
- Pledging the invoices to the banks may provide the trader/supplier cheaper and bigger loans
- They may not be able to get the loans without pledging (assigning) the invoices!

What about Factoring, is this not the same as 'pledging' of invoices then?

- No, there is a significant difference

What is the difference?

- If you have a client on Factoring the bank will only claim the money from the client after having paid either the company or the estate

What does this mean?

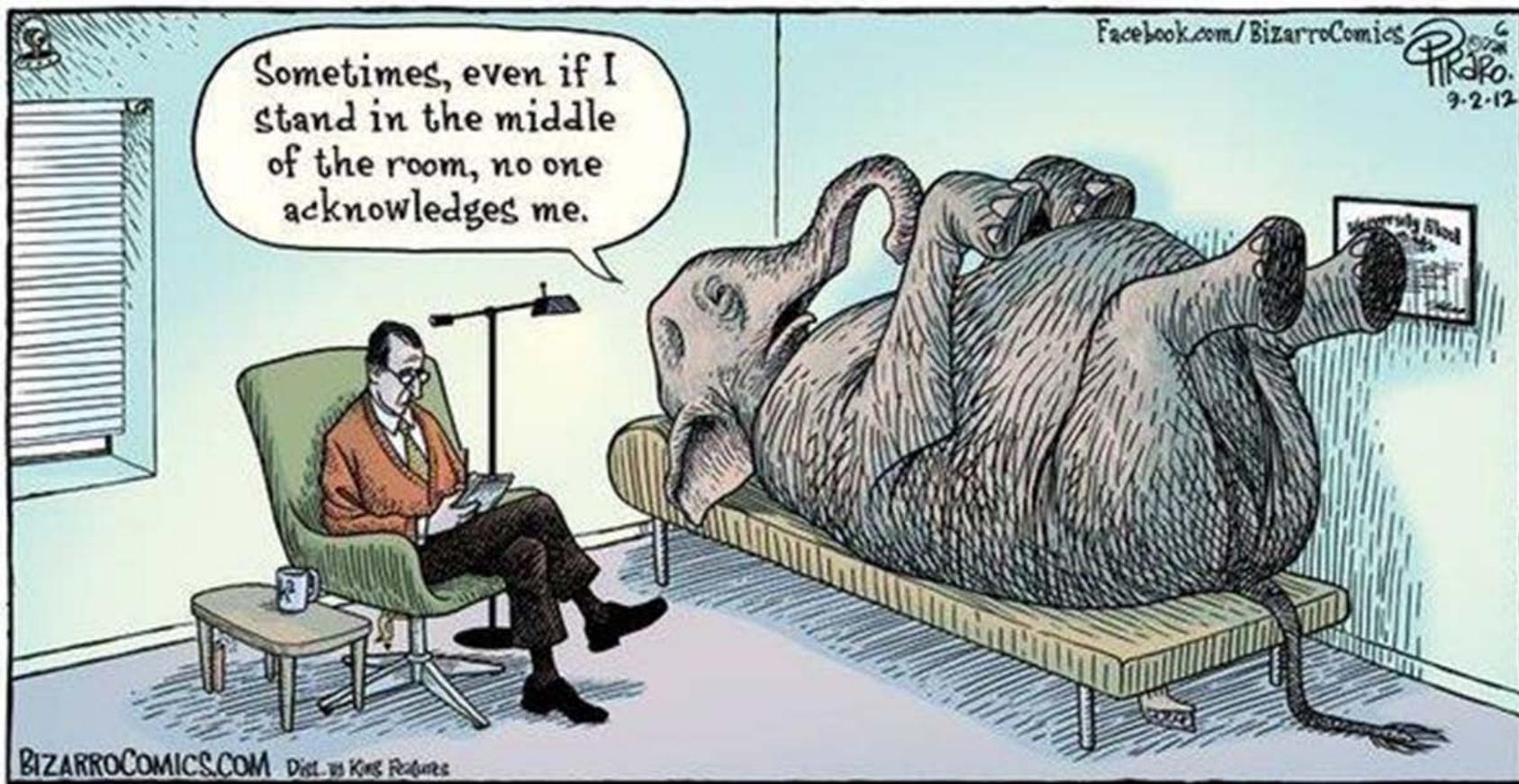
- It means that the Bankruptcy Estate will not claim the same money too from the client who the invoice is raised towards in case the company goes bankrupt
- Only the Factoring Bank can claim the money = only one party to pay

WHAT ARE THE DIFFERENCES BETWEEN PLEDGING AND FACTORING RECEIVABLES?

- If receivables are **pledged**, the lender has recourse against both the original buyer of the goods and the borrower
- When receivables are **factored**, they are generally sold, and the buyer (lender) has no recourse to the borrower.



MOVING FORWARD



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CONCLUSION

Does your supplier or trader pledge it's invoices?

- If they do you might potentially be exposed to a double claim
- You may potentially be exposed to a long, time consuming and expensive legal bout with the bank(s) and estate(s)
- Your counter party may not enjoy same support from the banks as someone not pledging

Why would someone refrain from pledging their invoices?

- To secure their customers and/or suppliers and give them a safer position when dealing with them

What did KPI Bridge Oil do after the collapse of OW?

- We obtained an improved financing agreement with our banks after the OW collapse
- We obtained a much higher loan facility
- We obtained a facility with cheaper interest rates and better conditions overall
- We consider this a massive signal from our banks that they believe in our company
- We have a solid equity (approx Usd 48M in KPI Bridge Oil Group in 2016)



TAKE A COMPANY LIKE KPI BRIDGE OIL

- Substantial backing from first class, well established banks
- Investment not speculation
- Private ownership, solid equity
- Our invoices are not pledged to third parties



10 QUESTIONS BUYERS SHOULD ASK THEMSELVES:

How well do I know my counter party?

Ownership style?

Pledged their
invoices?

Proper Credit screening
and approval procedures?

Sound balance sheet
& acceptable
gearing?



Part of a larger
group?

Credit
Insurance in
place?

Have a long trading
history?

Have a sound
reputation?

Are they having full support from their banks and owners?

THINGS WE LEARNED

- **Know your Counter Party:**
- How strong is your counter party in general?
- Where are you left - if your counter party fails?
- Who offers you better terms & conditions overall?



SAFEGUARD YOURSELF

What can you do?

- ✓ Select your counter party carefully
- ✓ Have a sophisticated view
- ✓ Know your counterparty - and their financing schemes
- ✓ Protect your company from potential added risk



ANY QUESTIONS?





Thank you for your attention!

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