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Allianz Trade

Liquidity and Risk Management

Energy Solutions

Allianz Trade is committed to helping energy companies grow as they transition to a more sustainable future. Explore how Allianz Trade Energy solutions can enhance commercial liquidity and strengthen your balance sheet with Energy Credit Insurance and On-Demand Payment Bonds.

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The Evolution of Credit Management in the Energy Industry

The energy industry has traditionally used relatively simple tools to mitigate financial risks, such as cash postings, letters of credit, and open terms. The industry tends to be judicious when it comes to credit—expedited payment terms, regular maintenance on counterparty financial health, etc.—and so, in the past, these tools served their purpose well enough.

But there's one big problem with these tools: they tie up capital.

These days, energy credit executives must be able to achieve optimized liquidity despite the challenges of market volatility, regulation, and geopolitics. To enhance growth and achieve goals, executives must find a way to reduce credit exposure.

That's why Allianz Trade has developed an alternate set of financial tools for the energy industry. They are uncomplicated and sophisticated, and best of all, they don't tie up capital. In fact, these tools leverage billions of dollars of liquidity that are already available to the energy sector.

Companies add our tools to their credit policies because they positively affect their market liquidity and margins. Let's take a closer look at what these financial tools are and how they can impact your bottom line.

> “To enhance growth and achieve goals, executives must find a way to reduce credit exposure.

LIQUIDITY AND RISK MANAGEMENT ENERGY SOLUTIONS

The Path to Sustainability

Allianz Trade is committed to helping companies transition to a more sustainable future.

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The Path to Sustainability

At Allianz Trade, we care for tomorrow.

That's why we are proud to support energy companies with significant policy goals toward scope 1, 2, and 3 emissions in alignment with such as Climate Action 100 or Transition Pathway Alliance.

We believe adhering to Scope 3 emissions goals allows Allianz Trade to provide our support for companies seeking a transition to a sustainable energy future.

We are closely following the latest future-forward initiatives to ensure a more sustainable future, including ring fencing and carbon capture.

Ring Fencing

Ring-fencing occurs when a company segregates a portion of their assets to be operated independently, typically via a separate entity for regulatory reasons, asset protection for financing or tax purposes. Examples include:

- When a regulated utility or pipeline financially separate themselves from the unregulated business – like energy trading.
- When a company separates a specific project like the construction of solar or windfarm so investors in the new project are tied to the project only, but the project benefits from the balance sheet of the whole company.

Many renewable energy projects are ring-fenced due to the impacts on cost of capital. Allianz supports these businesses as they work to become more competitive in the renewable/clear energy space.

Carbon Capture & Carbon Credits

Allianz Trade is committed to learning about new ways to lower carbon emissions and support customers who are exploring future-forward approaches.

For example, carbon capture involves the transfer and storage of excess carbon dioxide from oil pipelines to be safely stored until it can be used in sustainable ways. Carbon offsetting, as well as carbon credits are also known ways part of companies working towards meeting their sustainability goals.

Consult the Allianz Trade Energy team to learn about how we are embracing future-forward solutions.

LIQUIDITY AND RISK MANAGEMENT ENERGY SOLUTIONS

Proven Risk Mitigation Tools for the Energy Industry

1. Energy Credit Insurance (Credit Clearing)
2. On-Demand Payment Bonds

In 2015, Allianz Trade created the Energy team, a specialized group of experts who understand the specific needs and counterparty nuances of energy markets. With more than a century of broad-based industry experience and the advanced credit risk mitigation expertise we are known for, the team took Trade Credit Insurance—our standard B2B offering—and transformed it into a suite of unique, flexible coverage options that are tailored for the energy industry.

The result? **Energy Credit Insurance** and **On-Demand Payment Bonds** that are fully integrated and compliant with industry practice and designed to increase open liquidity throughout the energy supply chain.

By replacing and/or enhancing our energy partners' current credit management tools with our optimized ones, we have helped them safely return billions of dollars of liquidity to the market. In doing so, the Allianz Trade Energy team has empowered its partners to move risk off their balance sheets and open up greater leverage—with little to no change to their current risk position.

This means less balance sheet burden, less capital cost, increased capital availability, and ultimately more margin opportunity for buyers, sellers, transporters, processors, and storage owners of the energy commodity.

Proven Risk Mitigation Tools for the Energy Industry (cont.)

1 Energy Credit Insurance (Credit Clearing)

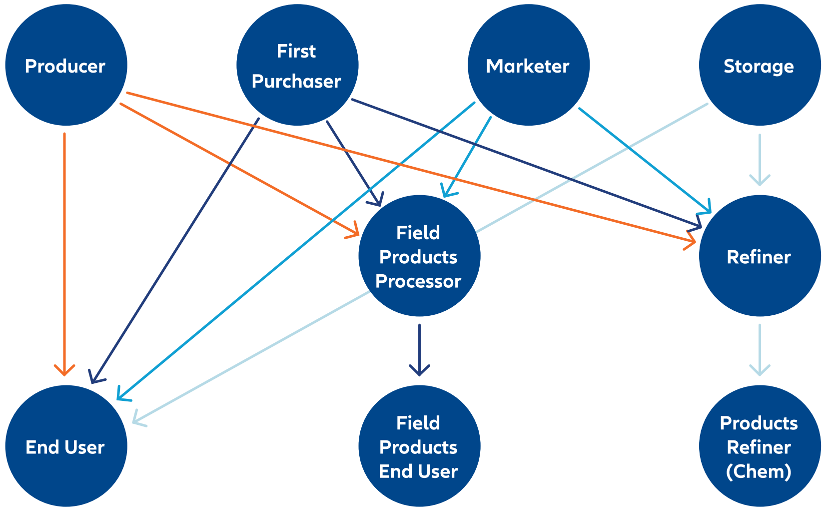
Energy Credit Insurance (ECI) is a partnership between our policyholders and Allianz Trade (the third-party underwriter) to clear physical credit. Our policyholders use ECI to transfer a covered counterparty's receivable risk to Allianz Trade in return for a small premium.

If the covered counterparty doesn't pay, you can submit a claim to Allianz Trade. If this happens, you can expect a deductible and/or copay, just like any standard insurance policy, as well as a straightforward claim procedure and reasonable payout timeframes.

Once your counterparties are covered by ECI, you can confidently transact with them on open credit. In addition to payouts, we can also monitor risk and assist with debt collection. ECI covers the majority of commodity transactions, and it's flexible, which means you can obtain coverage for many of the entities that you work with now or in the future.

The price of the coverage is easily absorbed in transaction values and can be completely opaque to the counterparty. Using ECI frees up balance sheet overhead, improves the credit rating of your receivable base, and promotes more liquidity at better margins. In other words, ECI is a catalyst for growth. The other good news? It works across the entire supply chain.

Energy Credit Insurance: Mitigating risk across a complex supply chain



Proven Risk Mitigation Tools for the Energy Industry (cont.)

2 On-Demand Payment Bonds

On-Demand Payment Bonds (ODPs) are similar to letters of credit. At base, both are used as assurance posting guarantees that a contractor will honor the terms of the contract and follow governing laws and regulations. ODPs can be used to satisfy collateral and assurance requirements and support commodity transactions.

The advantage of ODPs is that they turn underutilized capital into utilized capital. Letters of credit tie up capital and ODPs do not—they are designed to maximize capital and increase liquidity. This is because capital is not constrained by collateral posting requirements. You are free to invest those funds elsewhere.

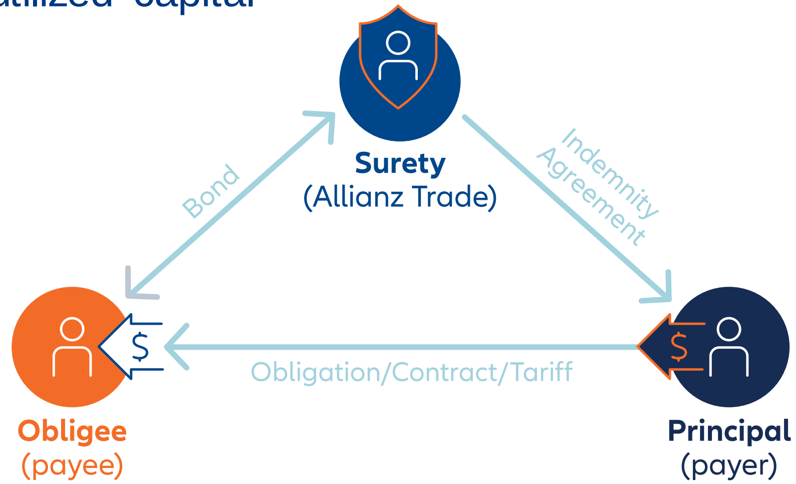
Here's how it works. There are three parties involved: the principal (the payer), the obligee/beneficiary (the payee), and the surety (Allianz Trade). If the principal doesn't pay the obligee, Allianz Trade steps in, pays the obligee, and exercises rights on the principal. All parties agree via the bond itself, and the claim terms are clearly spelled out for everyone involved—in this way, the ODP is no different than a letter of credit.

However, ODPs have several key advantages, including:

- 100% risk cover
- Cost-effectiveness
- Counterparty friendly terms
- A bond that is unsecured and "callable" at any time during the coverage period

The result is a net positive to any application for both parties.

On-Demand Payment Bonds: Turning underutilized capital into utilized capital



Benefits of Allianz Trade Energy Risk Management Tools

Energy Credit Insurance (ECI) and On-Demand Payment Bonds (ODPs) can be used with traditional tools, such as open, prepay, and letters of credit (LC), but many of our partners find that our optimized tools can fully replace the need for other strategies.

Consider the following table that compares all five tools.

		ECI	LC	Open	Prepay	ODP Bond
Highlights	Provides for Risk Transfer	✓	✓	✗	✓	✓
	Bankruptcy Protection*	✓	✓	✗	✓	✓
	Slow Pay Protection	✓	✓	✗	✓	✓
	External Credit Support	✓	✗	✗	✗	✓
	Strong Credit Issuer	✓	✓	✗	✗	✓
	Covers All Commodities	✓	✓	✗	✓	✓
	Unsecured Obligation	✓	✗	✓	✗	✓
Implementation & Maintenance	Ease of Implementation	✓	✓	✓	✓	✓
	Ease of Documentation Requirements	✓	✓	✓	✓	✓
	Ease of Maintenance	✓	✓	✓	✗	✓
	Counterparty Friendly	✓	✗	✓	✗	✓
	Flexible	✓	✗	✗	✗	✓
	Industry Specific Support	✓	✓	✓	✓	✓
Cost & Valuation	Cost Effective for Company	✓	✓	✓	✗	✓
	Cost Effective for Counterparty	✓	✗	✓	✓	✓
	Counterparty Flexible	✓	✗	✓	✗	✓
	Contract Integration	✓	✗	✓	✗	✓

* Recent precedent suggests LCs may be vulnerable to recall in bankruptcy

Why Do You Need a New Liquidity Management Strategy?

Because credit fuels an energy company's growth.

We all know that a constrained credit environment limits the potential for any company to increase revenue and create value. In short, the energy industry has likely never been more constrained in terms of credit than it is now due to two primary factors: regulation and an uncertain, volatile market.

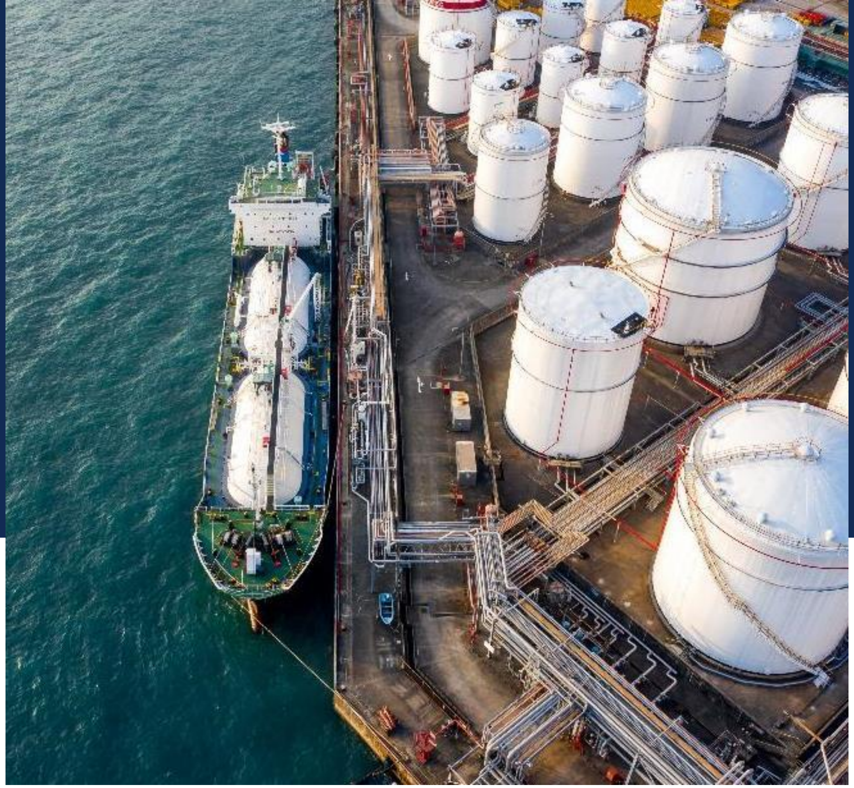
1. Regulation has changed the dynamic of US energy markets.

The Dodd-Frank Act and similar legislation have changed the way credit and risk work in energy markets. Banks and other institutions can't offer the robust risk and credit strategies they once could. For example, banks can't engineer vertically integrated solutions for customers anymore. The exchanges and major participants now serve a similar purpose, but they lack flexibility. All of this means less credit availability and less liquidity across the energy industry.

2. The market is increasingly volatile.

The energy industry has seen its fair share of disruption over the last 20 years, and it's not going away anytime soon. Technology, global integration, political changes (and conflict), and increased population all affect the market and the integrity of supply and demand. Commodity values constantly shift, leaving companies with fluctuations in their financial statements. Our tools are meant to ease some of the exposure to this fluctuation, allowing for additional investment and growth.

Why Do You Need a New Liquidity Management Strategy? (cont.)



Unfortunately, the anticipation of the next challenge often creates a rift between those tasked with safeguarding assets—which requires conservative, often restrictive, policies for credit management and assurance—and those tasked with growing the business—which requires financial investment.

In other words, the two camps are often at odds. After all, restrictive policies tend to reduce the liquidity needed for commercial growth.

Fortunately, as we've seen, a new liquidity management strategy that includes tools such as ECI and ODPs allows energy companies to protect assets and increase liquidity at the same time. Allianz Trade works with energy companies to safely extend and assure counterparty credit while maintaining your desired risk position.

Capital optimization is the highest and best use of internal capital resources, and it is at the forefront of energy companies' strategic approach. At the same time, insurance and surety carriers, who represent the largest balance sheets in the world, are looking to mobilize their resources for the best possible return. The energy and financial sectors both understand the importance of making every dollar count. The industries have evolved to work in tandem, and they recognize that new strategies may well be the difference between resilience and demise. Allianz Trade is committed to energy and to deploying in these markets.

How Modern Risk Mitigation Tools Benefit Your Bottom Line

Allianz Trade provides a suite of resources—including Energy Credit Insurance (ECI) and On-Demand Payment Bonds (ODPs)—specifically designed to empower commercial traders and risk managers to gain market share while minimizing credit exposure.

Our solutions offer a natural return on investment and peace of mind by securing the only unsecured asset on your balance sheet. With that in mind, let's explore how our modern risk mitigation tools benefit your bottom line.

How Modern Risk Mitigation Tools Benefit Your Bottom Line (cont.)

Transact with Confidence

One of the first benefits of adopting a modern risk mitigation strategy is transacting with confidence. When it comes to credit, assurance, and liquidity management, tools such as ECI and ODPs have a proven track record. They are supported by the largest capital pools in the world and have provided billions of dollars in capital relief since their adoption within the energy industry.

When you transfer risk to Allianz Trade, your company can feel confident about expanding sales on open credit to new and existing customers. We offer credit approval support, working with your credit and commercial teams to offer credit line options without increasing your risk. And you'll gain peace of mind, knowing that you have added new tools to mitigate your credit exposure.

In fact, globally we cover nearly $1 trillion in trade transactions each year.

Compound Your Financial Benefits

Until recent years, industry restrictions left opportunity on the table. When growth is essential to success, for corporations and their employees, making the most of every economic resource is critical. Releasing stranded capital tied up in counterparty postings or assurance requirements is now crucial to commercial growth.

Consider that every dollar value restricted by credit or stranded in assurance postings has not only associated cost but also opportunity value. The secondary effects on the balance sheet, VAR, and liquidity compound the risks.

By clearing the credit and payment risks to a third party with ECI and OPDs, you gain the liquidity uplift and the associated economic and opportunity benefits at the same time. Suddenly, stranded capital moves from a neutral position on the balance sheet to a position in which it can be used—and at a lower cost than it could be when traditional credit management strategies are used.

Lower costs, stronger counterparty credit positions, and more fungible capital capacity all add up to greater liquidity.

> "Releasing stranded capital tied up in counterparty postings or assurance requirements is now crucial to commercial growth

How Modern Risk Mitigation Tools Benefit Your Bottom Line (cont.)

Increase Free Cash Flow

In the past, stakeholders always looked at earnings to measure the health, stability, and attractiveness of a company. Today, that is no longer the case. In the minds of shareholders, analysts, and counterparties, free cash flow is the new gold standard of financial performance metrics. Free cash flow can't be manipulated as easily as net income. Any financial process that demonstrably increases free cash on hand is, in this market, something management values. We find the words "free cash flow" in both quarterly updates and financials. But because free cash flow is a metric outside the realm of generally accepted accounting principles (GAAP), there's no standard definition of the term.

Here's the most common definition used by major corporations today: operating cash flow (a GAAP-defined term) minus capital expenditure. But companies also meld dividends, debt, capital leases, and divestitures of property, plant, and equipment into their calculations. Any financial process that minimizes cash margining requirements increases the amount of reportable cash to the bottom line. What a company does with the cash is up to the CFO, but make no mistake, whether it's an increase in degrees of freedom or an increase in cash on hand, the benefit to the company in cash operating efficiency is marked.

ECI and ODPs return capital to a fungible, more liquid state, which results in increased cash flow—and an improved bottom line.

Allianz Trade Energy solutions, and the team that supports them, can alleviate concerns and prove the ROI with data. We work with your specific needs to optimize the use of—and application for—ECI and ODPs. Visit allianz-trade.us/energy to get in contact with us.

Utilization in Action: How to Implement Liquidity Tools

From renewable assets to power switches from wellheads to burner tips, Energy Credit Insurance and On-Demand Payment Bonds apply to supply chain transaction points and assurance requirements for credit support. Because these tools work almost universally, opportunities for capital/credit optimization on both sides of the balance sheet are almost limitless. Let’s explore a few case studies that illustrate the financial power of Energy Credit Insurance and ODPs.

For more information, please visit allianz-trade.us/energy

CASE STUDY:

Pipeline Assurance for Firm Transport

Enhancing Its Balance Sheet

A large natural gas producer sought an unsecured instrument to free up capital that was better used for operations by posting an On-Demand Payment Bond (ODP) instead of a standard letter of credit for a firm transport contract to various pipelines.

Volume:	20,000 MMBTU/D
Contract terms:	15 years
Notional value*:	$20MM
Goal:	Free up working capital and reduce costs of capital.
Solution:	The producer posted an ODP to the pipeline, which was an equivalent form of adequate assurance accepted by the pipeline, however unsecured. The producer increased its overall liquidity by $20MM and reduced costs while satisfying the requirements of the pipeline.
Results:	• The pipeline accepted the ODP as additional assurance in accordance with FERC 636. • The pipeline received enhanced credit exposure and the shipper gained capital relief: a win-win situation. • An enhanced balance sheet encouraged both parties to expand their relationship. • Decreased shipping costs and improved margin to the shipper..

*of collateral requirement

CASE STUDY:

Collateral Alternative to Independent System Operator (ISO)

Increasing Its Working Capital

A large utility has posting requirements to various ISOs. The utility implemented a collateral optimization strategy and determined that posting surety bonds and/or fronted letters of credit offered by insurance providers increased balance sheet liquidity and lowered the costs of capital.

Volume:	Varies seasonally, collateral requirement base value $40MM
Notional value:	$40MM
Goal:	Release working capital currently restricted by letter of credit posting.
Solution:	The ISOs accepted an Allianz Trade Energy ODP instead of the letter of credit posting.
Results:	• The integrated utility was able to reduce working capital commitment. • The enhanced working capital/liquidity was deployed to enhance revenue-generating operations. • The utility’s already solid balance sheet was further enhanced. • All ISO market participants received a superior credit rating of collateral. • ISOs improved market participants’ liquidity without taking on additional risk.

LIQUIDITY AND RISK MANAGEMENT ENERGY SOLUTIONS

CASE STUDY:

Clearing Physical Credit Exposure to Third-Party Balance Sheet to Increase Revenue & Profit

Profiting Without the Additional Risk

A commodity trader needed additional open credit to lock in a deal. Its internal credit limit was capped out, and requiring the counterparty to post a letter of credit was not a favorable option.

Notional value:	$25MM credit line required by the buyer based on contract terms. Commodity trader only had $15MM in open credit available to the buyer from its internal credit limit.
Goal:	Capture contract/sale and additional profit without adding open credit exposure to the balance sheet.
Solution:	The trader purchased an ECI policy for $10MM in value that covered both accounts receivable exposure and physical market-to-market exposure (known as spread loss risk).
Results:	The trader was able to project $25MM in open credit to the buyer while maintaining the $15MM credit limit on its balance sheet. This led to an increase in volume, revenue, and profit without adding any additional risk—all at a cost lower than the trader's required internal cost of capital.

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Tailored Risk Management Solutions for the Energy Industry

Energy Credit Insurance and On-Demand Payment Bonds are specifically designed to empower energy companies to gain market share while minimizing credit exposure. Our suite of financial tools provides:

- Enhanced liquidity
- Safer sales growth
- Credit approval support
- Reduced bad debt reserves
- Mitigated concentration risk
- Greater return on investment

Are you interested in partnering with Allianz Trade to improve your bottom line? Contact one of our Energy team members today at allianz-trade.us/energy.*

*Eligible companies must have a Scope 3 Emissions plan supported by Climate Action 100 and Transition Pathway Alliance