Financial research methodology

Financing of Arctic drilling companies –

Greenpeace and Eerlijke Geldwijzer

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Introduction

This note provides an overview of the research methodology used for the study Financing of Arctic drilling companies (January 2020). The note is organized as follows: section 1 lists the selected companies that were researched; section 2 lists the financial institutions that were researched; section 0 describes the types of financing included in the study; section 4 explains the determination of the financial contributions per financial institution; section 5 outlines the research timeframe; and section 6 concludes by listing the sources used for the financial research.

1 Selected companies

The company selection is based on the top 30 of oil & gas companies that are active in the Arctic region. The selection is taken from the report Banking on Climate Change - Fossil Fuel Finance Report Card 2019.

The companies selected for this research are:

1. Gazprom
2. Novatek
3. Rosneft
4. Lukoil
5. ConocoPhillips
6. Wintershall
7. OMV
8. Equinor (formerly Statoil)
9. Total
10. ExxonMobil
11. BP
12. China National Petroleum Corporation (CNPC)
13. Petoro
14. Oil and Natural Gas Corporation (ONGC)
15. ENI
16. Silk Road Fund
17. Zarubezhneft
18. PetroVietnam
19. Norilsk Mining
20. Yargeo
21. Oil India
22. Indian Oil
23. Bharat Petroleum Corporation (BPCL)
24. Repsol
25. Hilcorp Energy
26. Neptune Energy
27. Lundin Petroleum
28. Bashneft
29. Independent Petroleum Company (NKK)
30. Idemitsu

Source: Rainforest Action Network (RAN), BankTrack, Indigenous Environmental Network (IEN), Sierra Club, Oil Change International, and Honor the Earth (2019), *Banking on Climate Change - Fossil Fuel Finance Report Card 2019*, online: https://www.ran.org/wp-content/uploads/2019/03/Banking_on_Climate_Change_2019_vFINAL1.pdf, p. 95.

2 Selected financial institutions

The selection of financial institutions is consists of a partial selection of Dutch financial institutions used by Eerlijke Geldwijzer (Fair Finance Guide Netherlands). The selection for this research consists of seven Dutch banks, two insurance companies active in the Netherlands, and three Dutch pension funds.

2.1 Banks

The seven banks included in the study are;

- ABN;
- ING;
- NIBC;
- Rabobank;
- Triodos Bank;
- Van Lanschot;
- Volksbank.

2.2 Insurance groups

The two insurance groups included in the study are:

- Aegon;
- Nationale Nederlanden (NN).

The two insurance companies are parent companies of an insurance group based in the Netherlands.

In this study the investment practice of a full insurance group and of all its investments is researched. The insurance companies are therefore mentioned with the name of the insurance company group.

2.3 Pension funds

The three pension funds included in the study are:

- Algemeen Burgerlijk Pensioenfonds (ABP);
- Pensioenfonds Metaal en Techniek (PMT);
- Pensioenfonds Zorg en Welzijn (PFZW).

All three pension funds are parent companies registered in the Netherlands. All three regularly publish their investments portfolios. All investments reported by these pension funds are included in this research.

3 Types of financing

The selected companies can be financed through two main types of financing: credit and investment. When financial institutions provide credit, it can be through loans or the underwriting of share and/or bond issuances. Investment, on the other hand, is when financial institutions invest in the equity and debt of a company by holding shares and/or bonds. This section outlines the different types of financing, how they were researched and the implications for the study.

3.1 Loans

The easiest way to obtain debt is to borrow money. In most cases, money is borrowed from commercial banks. Loans can be either short-term or long-term in nature. Short-term loans (e.g. trade credits, current accounts, leasing agreements) have a maturity of less than a year. They are mostly used as working capital for day-to-day operations. Short-term debts are often provided by a single commercial bank, which does not ask for substantial guarantees from the company.

A long-term loan has a maturity of at least one year, but more often of three to ten years. Long-term corporate loans are particularly useful to finance expansion plans, which only generate rewards after a certain period of time. The proceeds of corporate loans can be used for all activities of the company. Long-term loans are frequently extended by a loan syndicate, which is a group of banks brought together by one or more arranging banks. The loan syndicate will only undersign the loan agreement if the company can provide certain guarantees that interest and repayments on the loan will be fulfilled. Corporate loans are often used as project finance (a loan that is earmarked for a specific project) or as general corporate purposes or working capital. Sometimes, a loan's use of proceeds is reported as general corporate purposes when it will be used for a certain project. This is difficult to ascertain.

Moreover, another type of loan is a revolving credit facility. A revolving credit facility provides a company with an option to take up a loan from a bank (or more often: a banking syndicate) when it has an urgent financing need. It is similar to a credit card. Companies can use the revolving facility up to a certain limit, but they don't have to. Revolving credits are often concluded for a five-year period and then renewed, but many companies renegotiate their revolving credit facility every year with the same banking syndicate. Amounts, interest rates, fees and participating banks can change slightly every year. As the financial press often reports these renegotiations for larger companies, this might raise the impression that banks are lending huge sums of money to the same company every year. But: this concerns renegotiations of basically the same facility and a revolving credit facility is hardly ever actually called upon for a loan. Within the scope of this research revolving credit facilities are counted for every time that they are renewed.

Although revolving credit facilities are not always fully called upon, the syndicate of banks providing the facility do have the obligation to provide the entire amount of money when the company asks for it. Therefore, even if the company ends up never using the facility, the banks were still involved with the company during the period of the revolving credit facility and would have provided the company with the money when they asked for it.

3.2 Share issuances

Issuing shares on the stock exchange gives a company the opportunity to increase its equity by attracting a large number of new shareholders or to increase the equity from its existing shareholders.

When a company offers its shares on the stock exchange for first time, this is called an Initial Public Offering (IPO). When a company's shares are already traded on the stock exchange, this is called a secondary offering of additional shares. To arrange an IPO or a secondary offering, a company needs the assistance of one or more (investment) banks, which will promote the shares and find shareholders. The role of investment banks in this process is therefore very important.

The role of the investment bank is temporary. The investment bank purchases the shares initially and then promotes the shares and finds shareholders. When all issued shares that the financial institution has underwritten are sold, they are no longer included in the balance sheet or the portfolio of the financial institution. Nevertheless, the assistance provided by financial institutions to companies in share issuances is crucial. They provide the company with access to capital markets, and provide a guarantee that shares will be bought at a pre-determined minimum price.

3.3 Bond issuances

Issuing bonds can best be described as cutting a large loan into small pieces, and selling each piece separately. Bonds are issued on a large scale by governments, but also by corporations. Like shares, bonds are traded on the stock exchange. To issue bonds, a company needs the assistance of one or more (investment) banks which underwrite a certain amount of the bonds. Underwriting is in effect buying with the intention of selling to investors. Still, in case the investment bank fails to sell all bonds it has underwritten, it will end up owning the bonds.

3.4 (Managing) shareholdings

Institutional investors, such as banks, insurance companies, pension funds and asset managers, can, through the funds they are managing, buy shares of a certain company making them part-owners of the company. This gives the bank a direct influence on the company's strategy. The magnitude of this influence depends on the size of the shareholding.

As financial institutions actively decide in which sectors and companies to invest, and are able to influence the company's business strategy, this research will investigate the shareholdings of financial institutions of the selected companies. Shareholdings are only relevant for stock listed companies. Not all companies in the study are listed on a stock exchange.

Shareholdings have a number of peculiarities that have implications for the research strategy. Firstly, shares can be bought and sold on the stock exchange from one moment to the next. Financial databases keep track of shareholdings through snapshots, or filings. This means that when a particular shareholding is recorded in the financial database, the actual holding, or a portion of it, might have been sold, or more shares purchased. Secondly, share prices vary from one moment to the next.

3.5 (Managing) investments in bonds

Institutional investors can also buy bonds of a certain company. The main difference between owning shares and bonds is that owner of a bond is not a co-owner of the issuing company; the owner is a creditor of the company. The buyer of each bond is entitled to repayment after a certain number of years, and to a certain interest during each of these years.

Similarly, to shares, bonds can be bought and sold from one moment to the next. Bondholdings are also reported by the holding investor through regular filings.

4 Financial institution financing contributions

The financial databases do not always include details on the levels of individual financial institutions' contribution to a deal. Individual bank's contributions to syndicated loans and underwriting were recorded to the largest extent possible where these details were included in the financial databases. In many cases, the total value of a loan or issuance is known, as well as the number of banks that participate in this loan or issuance. However, the amount that each individual bank commits to the loan or issuance has to be estimated. This research uses a two-step method to calculate this amount. The first uses the ratio of an individual institution's management fee to the management fees received by all institutions. This is calculated as follows:

$$\text{Participant's contribution: } \left(\frac{individual\ participant\ attributed\ fee}{sum\ of\ all\ participants\ attributed\ fees} * principal\ amount\right)$$

When the fee is unknown for one or more participants in a deal, the second method is used, called the 'bookratio'. The bookratio (see formula below) is used to determine the commitment distribution of bookrunners and other managers.

$$\text{Bookratio: } \frac{number\ of\ participants - number\ of\ bookrunners}{numbe\quad of\ bookrunners}$$

Table 1 shows the commitment assigned to book runner groups with this estimation method. When the number of total participants in relation to the number of bookrunners increases, the share that is attributed to bookrunners decreases. This prevents very large differences in amounts attributed to book runners and other participants.

Table 1 Commitment assigned to book runner groups

Bookratio	Loans	Issuances
> 1/3	75%	75%
> 2/3	60%	75%
> 1.5	40%	75%
> 3.0	< 40%*	< 75%*

* In case of deals with a bookratio of more than 3.0, we use a formula which gradually lowers the commitment assigned to the bookrunners as the bookratio increases. The formula used for this:

$$\frac{\frac{1}{\sqrt{bookratio}}}{1.443375673}$$

The number in the denominator is used to let the formula start at 40% in case of a bookratio of 3.0. As the bookratio increases the formula will go down from 40%. In case of issuances the number in the denominator is 0.769800358.

5 Time frame

Loans and underwritings of banks and insurance groups were researched for closing/issue dates in the period January 2016 - December 2019.

Bond- and shareholdings of banks and insurance groups were researched at most recent filing dates in December 2019. Bond- and shareholdings of ABP were researched at most recent publication dates in December 2019. Bond- and shareholdings of PMT en PFZW were researched at most recent publication dates in September 2019.

6 Data sources

The loans and underwriting services provided by the banks and insurance groups have been gathered through financial databases Bloomberg and Refinitiv (formerly known as Thomson Reuters Eikon).

Project finance has been gathered through project finance database IJGlobal. Additional information has been searched in trade finance database TradeFinance Analytics, annual reports of the selected companies, company websites, and company registers, followed by a general media search.

The bond- and shareholdings data for the banks and insurance groups has been gathered through financial databases Refinitiv EMAXX and Refinitiv Eikon.

The bond- and shareholdings data for the pension funds is based on pension fund investment portfolio disclosures.