IPAA – Private Capital Conference

New Capital Sources

BB&T Capital Markets
Energy Group
Alpheus Branch

- Born May 7, 1843; died Jan. 3, 1893

Biography

- Born into the prominent Branch family of Halifax County, NC
- Left school at 17 to enlist in the NC 3rd regiment in the Civil War
- Settled into farming life in Wilson, NC at war’s end, and had built a sizeable agricultural operation by 1872
- In 1872, teamed up with Thomas Jefferson Hadley to form Branch & Company, a bank which accepted deposits and loaned money to help rebuild farms and small businesses – first financial assistance for farmers and merchants in the community amid Reconstruction. Bought Hadley’s interest in 1887.
- Secured state bank charter in 1889 – Branch Banking and Trust Company

BB&T Philosophy

- Providing a sophisticated platform consistent with a large bank, while still providing the high-touch, responsive relationship consistent with a community bank
BB&T Overview

NYSE Traded  
BBT

Headquarters  
Winston-Salem, NC

Founded  
1872

Market Cap
$18.7 billion

Branches  
1,781

FTEs  
31,365

Asset Size  
$167.7 billion

 Deposits  
$115.1 billion

 Loans  
$103.9 billion

Total Invested Assets  
$87.1 billion

Clients  
6.56 million

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Sources: Deposit Market Share as of June 30, 2011.
2. BB&T Standalone Information

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New Capital Sources

Key Non-Bank Businesses
- AFCO/CAFO
- Capital Markets
- Grandbridge
- Insurance
- Lendmark
- Regional Acceptance
- Scott & Stringfellow
- Sheffield
BB&T Capital Markets Energy Group

• Target market
  – Upstream Sector – Independent Oil & Gas Companies
  – Midstream Sector - Gathering, Processing and Transportation
  – Typical loan size - $25MM to $100MM

• Traditional reserve-based lending
  – Lend against PDP reserves
  – Non-producing reserves capped at 25% - risk adjusted
  – Typical Borrowing Base Revolvers with Semi-Annual Redeterminations
  – LIBOR-Based Pricing
  – Onshore – Lower 48 States

• Midstream Lending
  – Target growing midstream companies in areas of significant drilling activity
  – Typically secured revolving credits

• Energy Group
  – Six member team of experienced energy lending professionals
  – Over 150 years of combined experience
  – Backed by the significant resources of BB&T and its capital markets platform.
Managing Operational Risk

Loss of Production Income (LOPI) & Contingent LOPI
• Consider existing and future production “Takeaway” Risks:
  – Pipeline Dependency Risks
  – Gas/Oil Processing Plant Risks

Contractual Risk Exposures
• Build up of Contractual Exposures at well site (often values exceed $40MM +)
• Assumption of responsibility for damage to contractors equipment

Environmental/Legal Issues
• Pollution (actual or otherwise). Fracturing may not trigger coverage.
• Defense costs

Control of Well/”Blowout” Risks etc
• Multiple Wells on the same pad – higher insurance limits likely required
• Enhanced Well Recovery/Casing Failure coverage – new coverage

Energy Lending Impact
• Banks are increasing scrutiny of attendant operational risks
Managing Operational Risk – McGriff Seibels & Williams

• **Broad Onshore/Offshore Upstream / E&P expertise** within the McGriff service team; Over 70 individual E&P clients

• **Niche focus** makes us better identifiers of risk, and able to create solutions to address specific issues unique to onshore and offshore E&P businesses including:
  - Loss of Production Income (LOPI) & Contingent LOPI
  - Gulf of Mexico Windstorm Risks
  - Fracturing Risks/Environmental Liability
  - Well Enhancement / Casing Failure Coverage
  - Contractual Risk Exposures

• **Broader energy experience (not just E&P)** provides market insight on a macro-level. Other specialties include:
  - Liquids / refined petroleum terminals and pipeline operations
  - Gas processing / midstream/Utilities (Electric and Gas) & IPPs
  - Offshore operations (midstream and E&P)
2012 Themes Impacting Energy Lending

Natural Gas Prices
- Oil and gas prices have come completely uncoupled
- Natural gas prices are low and will stay low
- Not a bubble but a sausage
  - Large inventory of wells drilled and not completed
  - Drilling to hold leases continues
  - Liquids rich drilling produces a lot of gas
- Lack of demand
  - Warm weather
  - Poor economy/lack of industrial demand

Energy Lending Impact
- Less capital available for gas biased borrowers
  - Limited ability to hedge
  - Lower Bank Price Decks
  - Reduced borrowing capacity for new deals
  - Anticipate smaller borrowing base increases during the Spring BB season
- Increased activity in conventional gas plays
2012 Themes Impacting Energy Lending

Europe and the European Banks

- Problems in Europe and the impact on the US economy
- Sovereign debt weighing on the balance sheets European banks
- US funding costs for Euro banks
- Limitation on capital to lend

Energy Lending Impact

- Reduced direct lending
- Reduced capacity for syndicated deals
- Counterparty risk
- Decisions from headquarters delayed
- Bankers distracted

• Know your bank/Know your banker
  - Consider casting a wider net
Contact Information

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