

BNP Paribas

Derivatives House of the Year

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Awards 2011

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This year's *Derivatives House of the Year* award goes to BNP Paribas for the growth of its commodities business over the past 18 months, its involvement in several key commodity deals and its particular successes in building up its hedge funds, sovereign hedging, natural gas hedging and investor businesses.

The growth of its commodity offering is the result of a deliberate strategy started five years ago to create closer links between the bank's commodity financing and derivatives teams. "We've always had a deep understanding of commodities through our finance business, and been very strong in derivatives, but there had been no strong focus on marrying those two competencies," says Amine Bel Hadj Soulami, BNP Paribas' global head of commodity derivatives, who was appointed to that role in 2006 to do just that.

It took almost 18 months before the division was "really ready", Bel Hadj Soulami recalls. "We built very strong systems first," he says. "We don't do anything we're not happy with."

Under his direction, the bank broadened and diversified its client-base. "Historically our clients were producers and traders," says Bel Hadj Soulami. "In the last four years we've expanded into large corporates and hedge funds, which gives us a broad range of clients resulting in a diversified portfolio. Now we have a critical mass, we can systematically go to our clients and make sure we're offering everything we can."

The growth in the bank's hedge fund business, which really took off at the end of last year, again comes down to careful planning, says Bel Hadj



Jose Cogolludo and Amine Bel Hadj Soulami, BNP Paribas

Soulami. "The bank's capital markets business started to make a very strong push with hedge funds four years ago but we didn't feel our platform was ready to offer a competitive edge and we wanted to make a strong impression before on-boarding those clients," he says. "So we only started pushing for it a year ago. It's been an immediate success."

Sovereign hedging has been another focus for the bank with some six deals completed in the past 12 months. "It's an area we hope to grow in and one in which we feel we have an edge because of our strong presence in emerging markets," says Jose Cogolludo, BNP Paribas' global head of sales and marketing, commodity derivatives. "We have good access to governments in Africa, Latin America and the former Soviet Union through our structured finance business and it's often easier to approach these deals on the back of a financing relationship than by offering stand-alone hedging."

In 2010, BNP Paribas was one of three banks working with an African crude importer who wanted to hedge against rising oil prices through buying options in its local currency. BNP Paribas was able to participate in, and place, the bond issue and take on all the foreign exchange risk of this trade.

The bank's work to create the correct systems and infrastructure has also paid dividends in the European natural gas sector where BNP Paribas is a leader in hedging oil-indexed gas trades.

"We feel quite strongly that we are the number-one dealer in this activity in Italy, and a leader across Europe," says Cogolludo. "We now price options on those gas formulas, which was not possible before. Very few banks do this."

"We said we wouldn't take on this business until we had the ability to price and book and industrialise it," says Bel Hadj Soulami. "We created an automatic system, which means we're faster at pricing it and we're much more efficient at risk managing it."

On the investor side, the company's Oscillator strategy, which is now three years old and has assets under management of around \$700 million, has met all its objectives including outperforming the Dow Jones-UBS Commodities TR Index by 33%.

Another milestone for the bank came in September last year when it completed the purchase of Fortis in the US. "This meant that we could then fully launch our physical gas and power activities in the US," says Bel Hadj Soulami. "We felt it was a strong sign to the market of our commitment to this business."

The bank has played a lead role in several landmark commodity deals over the past year, including the Kasigau Corridor REDD project, a 23-year initiative that aims to avoid 14 million tonnes of carbon dioxide equivalent and protect forests in south-eastern Kenya. It also played the role of hedge co-ordinator for a Kosmos Energy financing deal in West Africa.

Key to all this success has been strong support from senior management at the bank, says Bel Hadj Soulami. "The team feel they are part of a group with good momentum, which is positive in terms of attracting and retaining top talent." ■