

# The 27th Training Program of Asian Exim Banks Forum (AEBF) on Project Finance

## How do ECA/MLA covered structures in PF transactions affect syndication?

June 6, 2014



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Sumitomo Mitsui Banking Corporation

Investment  
Banking

LEAD THE VALUE

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# SMBC: Introduction

<b>Corporate Name</b>	Sumitomo Mitsui Banking Corporation (SMBC)		
<b>Head Office</b>	1-2, Marunouchi 1 Chome, Chiyoda-Ku, Tokyo, Japan		
<b>Employees</b>	23,228		
<b>Network</b>	Domestic (Japan): 439 branches (excluding rep offices); Overseas: 69 branches (including overseas affiliated companies) as of February 28, 2014		
<b>Total Assets</b>	JPY125,729 bn		
<b>Capital Ratio</b>	18.02% (BIS Guidelines)		
<b>Credit Rating</b>		<b>Long-Term</b>	<b>Short-Term</b>
	Moody's	Aa3	P-1
	Standard & Poor's	A+	A-1
	Fitch	A-	F1
	* as of January 31, 2014		

- SMBC is a top-tier Japanese bank, which maintains relationships with over 210,000 companies in Japan.
- The history of the Sumitomo and Mitsui companies date back more than hour centuries, and both were founded as banks in the nineteenth century.
- SMBC's predecessor bank, Mitusi Bank was founded in 1876 in Tokyo, and Sumitomo Bank in 1895 in Osaka.
- SMBC was established in 2001 following the merger of the two leasing banks: Sakura, formerly Mitsui Taiyo Kobe; and Sumitomo.

# SMBC strength in Export & Agency Finance

SMBC is committed to be a global banking partner providing the highest quality of execution for Export Credit Agencies (“ECA”) and multilateral financings allowing as exhibited in its ability to secure senior roles in numerous landmark transactions.

## SMBC’s strengths in Export & Agency Finance include

### Strong Track Record

- A strong track record in arranging/executing ECA and multilateral financings, with SMBC being involved in major projects as ECA Coordinator and Mandated Lead Arranger. The recent and notable transactions include:

Roy Hill	Australia, 2014	ECA Coordinator, MLA
Nghi Son Refinery	Vietnam, 2013	ECA Agent, MLA, Documentation Bank, Account Bank
Ichthys LNG	Australia, 2012	ECA Coordinator, MLA, Facility Agent
Etileno	Mexico, 2012	Financial Advisor, MLA, ECA Coordinator
Reliance Industries	India, 2012-2013	SACE ECA Agent, K-Sure ECA Agent
Jubail Refinery	Saudi Arabia, 2010	MLA, KEXIM/K-Sure Agent

### Financing Capability

- Our strong balance sheet and ability to arrange financing especially for large scale projects

### Extensive Expertise on ECA and Multilateral Financing

- A extensive relationship with ECAs including Export-Import Bank of the United States (USEXIM), The Compagnie Française d'Assurance pour le Commerce Extérieur (Coface), Euler Hermes, Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI), Export-Import Bank of Korea (KEXIM), Korea Trade Insurance Corporation (K-SURE), Export-Import Bank of China (CEXIM), China Export & Credit Insurance Corporation (SINOSURE), Multilaterals and Development Financial Institutions

### Dedicated and Highly Experienced Global EAF Team

- Our team which has significant ECA and multilateral financing experience, with members who have previously worked with the relevant ECAs or multilateral agencies

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(Case Study for NHSFO) National Highway 20 in Vietnam

# ECA Guarantee / Insurance Programs – General Summary

ECAs guarantee the repayment obligations (principal and interest) of borrowers who use export credit facilities to purchase equipment. There are basically two types: Guarantee Programs and Insurance Programs\*.

Category	Description
<b>Guarantee Programs</b>	<ul style="list-style-type: none"> <li>● ECA issues an explicit, irrevocable, unconditional promise to pay a lender.</li> <li>● Examples of this type of program are USEXIM, ECGD of the United Kingdom, JBIC of Japan or KEXIM of Korea.</li> </ul>
<b>Insurance Program</b>	<ul style="list-style-type: none"> <li>● ECA issues a guarantee in the form of an insurance policy. The ECA scrutinizes more closely the policy holder's claim to ensure they have conformed to the ECA regulations and the specific conditions of the policy cover.</li> <li>● Examples of this type of program are Coface of France, Euler Hermes of Germany, NEXI of Japan, K-Sure of Korea and most of the other ECAs of Europe and the Nordic Region (EKN, FGB, EKR and GIEK).</li> </ul>
<b>Tied &amp; Untied Programs</b>	<ul style="list-style-type: none"> <li>● There are two broad programs of ECA Financing: Tied Program and Untied Program</li> <li>● Tied Program (tied to equipment procurement) - Buyers credit as per OECD guidelines, like USEXIM, Coface</li> <li>● Untied Program (not tied to equipment procurement) - Special programs of ECAs like JBIC, KEXIM, Euler Hermes etc</li> </ul>

\* Some the ECAs such as USEXIM, JBIC and KEXIM can also provide direct loans with competitive pricings and tenors.

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# Multilateral (“MLA”) Guarantee Programs - ADB Programs

The financing programs available by Asian Development Bank (“ADB”) are as follows:

Program	Description
<b>Partial Credit Guarantee</b>	<ul style="list-style-type: none"> <li>● Covers both commercial and political risks</li> <li>● The coverage ratio cannot be 100%</li> </ul>
<b>Partial (political) Risk Guarantee</b>	<ul style="list-style-type: none"> <li>● Typically, covers Transfer Restriction, Expropriation, Political Violence, Contract Disputes</li> <li>● Able to also cover Non-Honoring of Sovereign Guarantor or Obligor</li> </ul>
<b>Refinancing Guarantee</b>	<ul style="list-style-type: none"> <li>● Under certain conditions, guarantees availability of financing from ADB, if commercial financing not available</li> </ul>
<b>Eligibility Criteria</b>	<ul style="list-style-type: none"> <li>● Trade (short term and medium term), and investment</li> <li>● Any type of debt (bank loans, bonds, shareholder loans)</li> <li>● Guarantees in local currency or foreign exchange</li> <li>● Guarantee holders can be local and foreign investors and financial institutions</li> <li>● Guaranteed percentage up to 100%, but encourages risk sharing</li> <li>● Long tenor (matches the terms of the guaranteed loan)</li> <li>● Procurement: good from ADB member countries and economy and efficiency</li> </ul>



# ■ MLA Guarantee Programs - MIGA NHSFO Program

Key features under Non-Honoring of Sovereign Financial Obligation (“MHSFO”)\* by Multilateral Investment and Guarantee Agency (“MIGA”) are as follows:

Item	Description
<p><b>Key Features</b></p>	<ul style="list-style-type: none"> <li>● Credit Guarantee to assist emerging market sovereigns and sub-sovereigns access funding</li> <li>● Terms of up to [15] years (in some cases a [20] term is allowed)</li> <li>● Coverage of up to [95]% (up to [90]% if sub-sovereign) of principal and interest</li> <li>● Cover equity investments, shareholder loans, shareholder loan guarantees, non-shareholder loans</li> <li>● Designed to be Basel II compliant</li> <li>● Pricing is market-based</li> </ul>
<p><b>Eligibility</b></p>	<ul style="list-style-type: none"> <li>● Direct payment obligation of the Government or Government guarantee to the obligations of a state-owned enterprise or public-private partnership</li> <li>● Financially and economically viable</li> </ul>

\* MIGA also has typical PRG program.

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(Case Study for NHSFO) National Highway 20 in Vietnam

# Comparison of PRI / EPRI / Comprehensive / NHSFO

There are some variations on the guarantee/insurance programs provided by ECAs/MLAs.

Category	Description
<b>Political Risk Insurance / Guarantee (PRI / PFG)</b>	<ul style="list-style-type: none"> <li>Political risk insurance/guarantee is usually required by foreign lenders for long tenor project finance in emerging markets.</li> <li>Typically covers 3 point political risks, <u>i.e. i) expropriation, ii) currency transfer and iii) political violence.</u></li> </ul>
<b>Extended Political Risk Insurance / Guarantee (EPRI / EPRG)</b>	<ul style="list-style-type: none"> <li>This program can be often seen in IPP projects in Asia where commercial banks require cover over the credit risks of an SOE offtaker and support/guarantee provided by the sovereign on the project.</li> <li>The above mentioned <u>3 point political risks as well as contract breach by the government contracting agencies</u> are covered under the EPRI/EPRG.</li> <li>ECAs usually require MOF support/guarantee over the obligations of SOEs under the offtake contracts.</li> </ul>
<b>Comprehensive Insurance / Guarantee</b>	<ul style="list-style-type: none"> <li>This program can be often seen in projects where MOF of the host countries provide the guarantees on the loans or projects with higher risk profiles (eg. projects with market risks, weaker offtaker, etc.) which may be difficult for commercial banks to take or those structured with recourse to the sponsor.</li> <li>US and European ECAs typically provide comprehensive insurance/guarantee for tied and untied loans. MLAs may also provide on a partial credit covered basis.</li> <li><u>Both political risks and commercial risks</u> are covered under this program.</li> </ul>
<b>Non-Honoring Sovereign Financial Obligation</b>	<ul style="list-style-type: none"> <li>This program applies if the borrower or guarantor is sovereign, sub-sovereign or state-owned enterprise.</li> <li>Failure to make a <u>financial payment obligation or guarantee</u> by sovereign or sub-sovereign entity will be covered under this program.</li> <li>It does not require the banks to obtain an arbitral award.</li> </ul>

# Comparison of PRI / EPRI / Comprehensive / NHSFO

		Political Risk Insurance/ Guarantee	Extended Political Risk Insurance/ Guarantee	Comprehensive Insurance/ Guarantee	Non-Honoring Sovereign Financial Obligation
<b>Political Risk</b>	Expropriation	×	×	×	×
	Currency Transferability	×	×	×	×
	Political Violence	×	×	×	×
	Breach of Contract		×	×	×
<b>Commercial Risk</b>				×	(SOE only)
<b>Providers</b>		Private Risk Insurers/MLAs/ECAs	Private Risk Insurers/MLAs/ECAs	MLAs/ECAs	MLAs

Note:

1. MLAs only provide partial comprehensive cover.
2. NHSFO is the program of MIGA limited to MOF guaranteed and/or SOEs only.

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# Impact on Credit Rating / Risk Weight / Syndication

Category	Credit Rating	Risk Weight (“RW”)	Syndication
<b>Political Risk Insurance / Guarantee (PRI / PFG)</b>	<ul style="list-style-type: none"> <li>Country ceiling will not be applied.</li> </ul>	<ul style="list-style-type: none"> <li>RW may be reduced based on the adjusted credit rating without country ceiling.</li> </ul>	<ul style="list-style-type: none"> <li>International Banks may consider to participate in the project financing even in the emerging countries with PRI/PRG.</li> </ul>
<b>Extended Political Risk Insurance / Guarantee (EPRI / EPRG)</b>	<ul style="list-style-type: none"> <li>Country ceiling will not be applied.</li> <li>Credit rating may be improved by mitigating the offtaker’s risk.</li> </ul>	<ul style="list-style-type: none"> <li>RW may be reduced based on the improved credit rating.</li> </ul>	<ul style="list-style-type: none"> <li>More appetite expected from International Banks with EPRI/EPRG in the countries where SOE offtaker’s credit risk is high.</li> </ul>
<b>Comprehensive Insurance / Guarantee</b>	<ul style="list-style-type: none"> <li>Country ceiling will not be applied.</li> <li>ECA’s credit rating will be applied in proportion with the ECA’s coverage.</li> </ul>	<ul style="list-style-type: none"> <li>RW of the ECA’s credit rating may be applied in proportion with the ECA’s coverage. (RW of the ECA covered portion is generally nil)</li> </ul>	<ul style="list-style-type: none"> <li>Higher appetite with longer tenor and competitive pricing can be expected from potential lenders including regional banks from the OECD countries.</li> </ul>
<b>Non-Honoring Sovereign Financial Obligation</b>	<ul style="list-style-type: none"> <li>Country ceiling will not be applied.</li> <li>MLA’s credit rating will be applied in proportion with the MLA’s coverage.</li> </ul>	<ul style="list-style-type: none"> <li>RW of the MLA’s credit rating may be applied in proportion with the MLA’s coverage. (RW of the MLA covered portion is generally nil)</li> </ul>	<ul style="list-style-type: none"> <li>Higher appetite with longer tenor and competitive pricing can be expected from potential lenders including regional banks from the OECD countries.</li> <li>It is possible for the lenders to part-out their assets in MLA uncovered portion to the third parties.</li> </ul>

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# (Case Study for EPRG) Cirebon IPP

## Cirebon IPP

Indonesia

Amount: USD595m

Documentation Bank  
Mandated Lead Arranger  
KEXIM Coordinator

2010

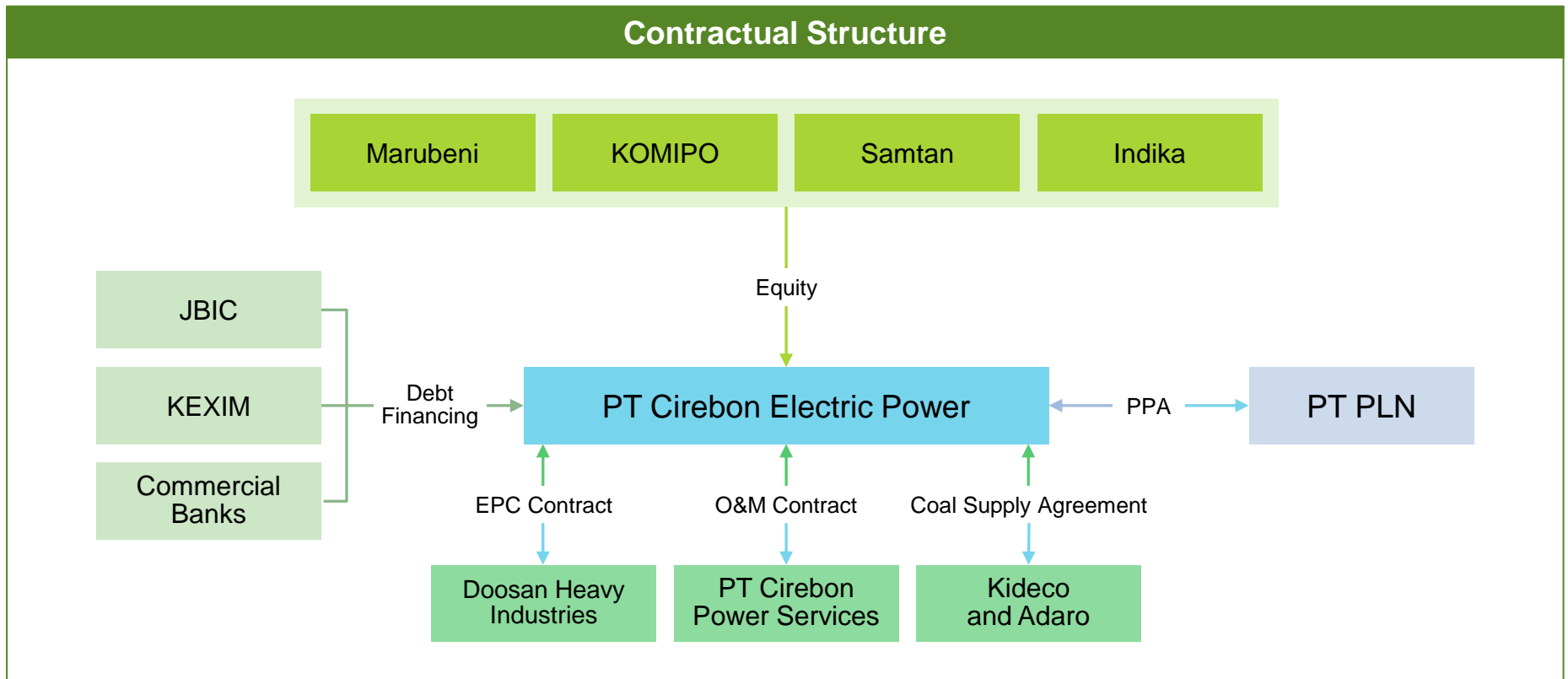
Project	Financing of 1 x 660 MW coal-fired power plant in Cirebon, Indonesia
Sponsors	Marubeni Corporation Korea Midland Electric Power Samtan Co PT Indika
Borrower	PT Cirebon Electric Power Co
EPC Contractor	Doosan Heavy Industries
Offtaker	PT Perusahaan Listrik Negara - PLN
Financial Close	March 2010
Project Cost	US\$850 million
Total Debt	US\$595 million
Tenor	18 Years
Expected COD	October 2011



- Senior debt comprises JBIC Direct Loan (US\$ 214.2m), KEXIM Direct Loan (US\$142.8m) and Commercial Covered Loan (USD 238m).
- JBIC and KEXIM jointly provided 100% Extended Political Risk Guarantee for the Commercial Covered Loan.
- SMBC acted as Documentation Bank, KEXIM Coordinator and Mandated Lead Arranger.



# (Case Study for EPRG) Cirebon IPP



- EPC Contract is fixed price, date certain turnkey with performance guarantees and LDs
- The project company has entered into 25-year Power Purchase Agreement for a total capacity of 660 MW
- O&M contractor is providing day-to-day operations, and ongoing maintenance and major overhauls
- There are 100% Extended Political Risk Guarantees (EPRG) provided by JBIC and KEXIM to 4 international commercial banks which, amongst other, provides cover for PLN non-payment risk in addition to typical 3 point political risks.

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# (Case Study for Comprehensive) Nghi Son Refinery and Petrochemical Project

## Nghi son Refinery and Petrochemical Project

Vietnam

Amount: USD5.0bn

Documentation Bank  
Facility Agent for Coface,  
SACE, ECGD and KEXIM  
Onshore Account Bank

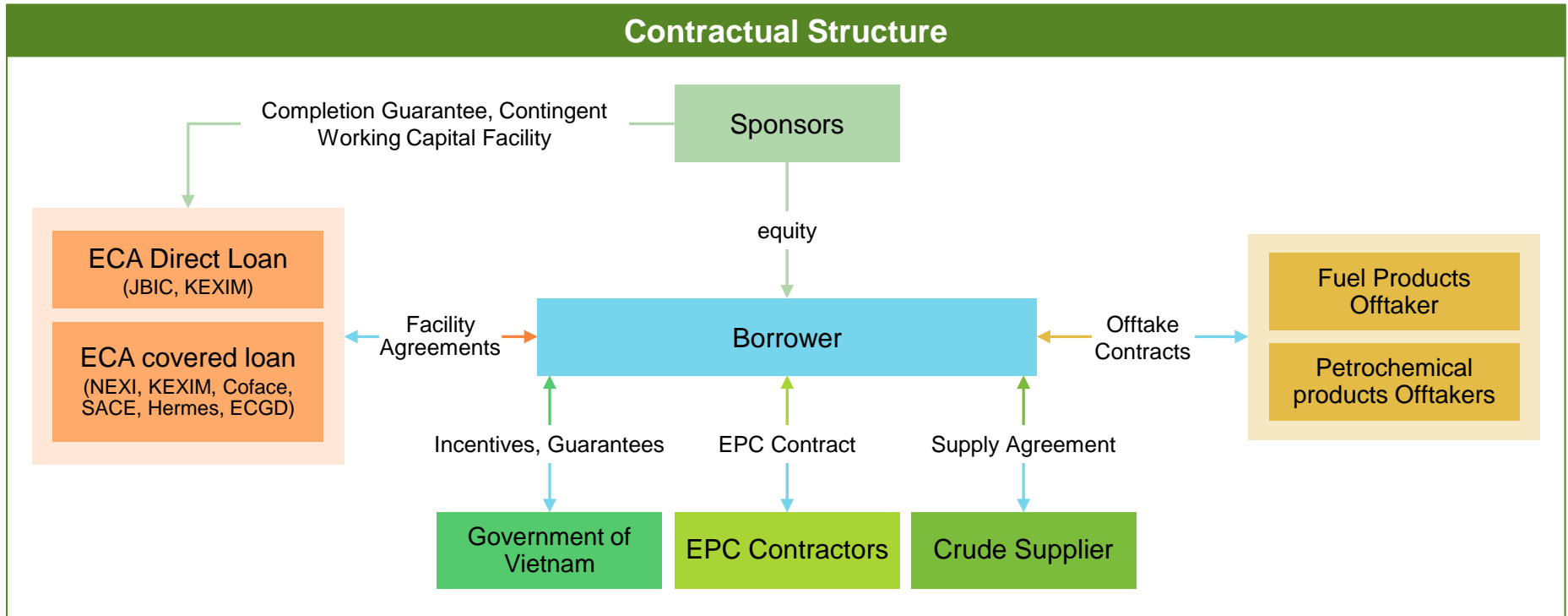
2013

Project	Nghi Son Refinery and Petrochemical Project which will be built 180km south of Hanoi with 200,000 barrel-a-day crude processed capacity
Sponsors	Idemitsu Kosan, Kuwait Petroleum Corporation PetroVietnam, Mitsui Chemical
Borrower	Nghi Son Refinery Petrochemical LLC
EPC Contractor	JGC (consortium leader), Technip, Chiyoda, SK E&C, and GS E&C
Offtaker	PetroVietnam, Marubeni Corporation, Itochu Corporation, Idemitsu Kosan, Mitsui Chemical, Kuwait Petroleum Corporation
Financial Close	June 2013
Project Cost	US\$9.0 billion
Total Debt	US\$5.0 billion (55% of the Project Cost)
Tenor	16 Years
Expected COD	June 2017



- Senior debt comprises JBIC Direct Loan (US\$ 1650m), KEXIM Direct Loan (US\$660m) and commercial bank loans covered by ECAs (USD 2,690m).
- NEXI, KEXIM, ECGD, Coface, Euler Hermes and SACE provided 90-100% comprehensive guarantee/insurance over the commercial bank loans.
- SMBC acted as Mandated Lead Arranger, Documentation Bank, Facility Agent for Coface, SACE, ECGD, KEXIM and Onshore Account Bank.

# (Case Study for Comprehensive) Nghi Son Refinery and Petrochemical Project



- Sponsors showed their strong commitment to the Project by having significant equity contributions, completion guarantee and other support including working capital facility to address issues associated with foreign exchange risk.
- Development risk is mitigated by a fixed, lump-sum EPC contracts with reputable contractors.
- The senior credit facilities are benefited by completion guarantee from the sponsors as well as comprehensive guarantee/insurance from various ECAs.
- There are 2 ECAs' direct loan facilities and 6 ECAs' facilities with 31 commercial banks including Japanese regional banks.

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# (Case Study for NHSFO) National Highway 20 in Vietnam

## BT20 National Highway 20

Vietnam

Amount: USD250m

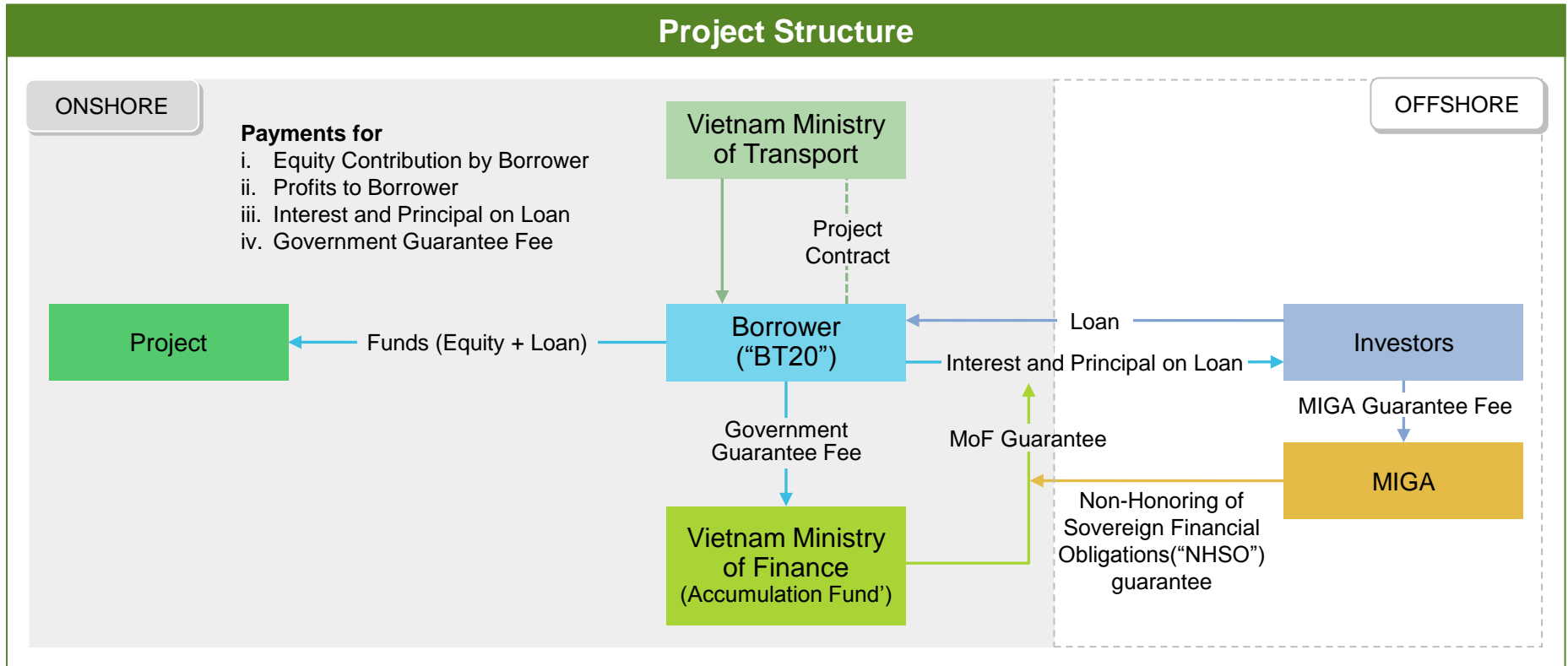
Mandated Lead Arranger  
MIGA Agent  
Facility Agent

2014

Project	The project is to renovate the National Highway 20 which is an existing 123km public highway in Vietnam linking the Dau Giay, Dong Nai province to Bao Loc City, Lam Dong province.
Sponsors	<ul style="list-style-type: none"> <li>• Dong MeKong Construction Manufacture and Trading Service Company Ltd.</li> <li>• PVC1 Joint Stock Company</li> <li>• Cuu Long Corporation for Investment, Development and Project Management of Infrastructure</li> <li>• Building Materials Corporation No. 1 Company Limited –Ministry of Construction</li> </ul>
Borrower	BT20 – Cuu Long Joint Stock Company
Guarantor	Ministry of Finance in Vietnam and MIGA
Financial Close	March 2014
Project Cost	c US\$275 million
Total Debt	US\$250 million
Tenor	15 Years
Expected COD	2015

- The project will renovate and widen the existing National Highway 20 (“NH-20”). Strategic project for Vietnam for both the social and economic development of the Central Highlands region. Particularly, NH-20 will benefit the alumina industry in this region. Additionally, the Central Highlands is one of three priority areas in Vietnam where there is a strong political incentive to foster development.
- The transaction benefits from a sizable support from MIGA, through the application of the agency’s Non-Honouring Sovereign Financial Obligation cover. In addition to this MIGA’s guarantee, the project benefits from a 100% guarantee from the Ministry of Finance in Vietnam.

# (Case Study for NHSFO) National Highway 20 in Vietnam



- Split of MIGA guarantee cover among lenders was innovative, with MIGA covered lenders being 100% covered for their principal and interest portion, and the other lender being fully uncovered for its principal and subordinated for its interest portion.
- SMBC acted as Mandated Lead Arranger, MIGA Agent and Facility Agent.
- Thanks to NHSFO program provided by MIGA, this transaction was successfully syndicated with participation from 11 banks including Japanese regional banks.

**Thank You !**

**Jun Palanca**

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