

ECA Export Finance

An Alternative Source of Liquidity
IX. PCTA-CONFERENCE

September 21st, 2012



**EMEA Loan House
of the Year**

RBS and the ECA market

- ECA Finance is an important product offering within RBS Markets & International Banking and remains an important liquidity source for funding long term capex plans
- Our ECA team has arranged and executed ECA financing in 2012 with Euler Hermes, US Exim, Ksure, Sace, ONDD, EKN, EKF and Finnvera for transactions in excess of USD 1.75 billion across a variety of sectors and geographies
- RBS has recently structured and executed innovative funding solutions both in loan and bond format in order to tap different 'pockets' of investors and provide improved credit conditions for borrowing airlines. To date it remains the only international bank to have arranged a publicly rated bond backed with aircraft loans guaranteed by the three major European Export Credit Agencies
- RBS is one of the main financing player leading the discussions with the major European Export Credit Agencies for the development of an ECA Bond product including a direct guarantee of the bonds as well as purchasing the bonds as investor in order to improve the overall liquidity for such asset financing
- The Export Finance team has an excellent and long standing working relationship (over 20 years) with all the major Export Credit Agencies involved in aircraft financing including US Eximbank, Coface, ECGD and Euler Hermes with dedicated team members located in France, Germany and the United Kingdom

ECA Finance Pillars

Products

- Products offered by ECAs include
 - Guarantees
 - Insurance (buyer or supplier)
 - Direct loans
 - Fixed interest rate support
 - Equity investment insurance

Differences

- Subject to the general terms of the OECD Consensus, there are some differences between the various ECAs
 - Unconditional guarantee to the lenders (US, UK) vs insurance products
 - Percentage of cover differs from 75% to 100% and different types of cover are offered (political and/or commercial risks)
 - Premium charged by the ECAs can differ



Goals

- The objective of ECAs is to promote exports and to allow exporters from their respective countries to compete more effectively for contracts against exporters in other countries
- ECAs support around 85% (depending on the ECA) of the value of the export contract

Basics

- ECA financiers are medium and long term providers of financing to buyers of capital equipment/projects that are insured or guaranteed by Export Credit Agencies (ECAs)
- ECAs are state-owned or state-supported agencies primarily established to support the export of equipment and services from their home country

In a nutshell – key benefits of ECA Financing

1

Long tenors (construction/delivery + 5-12 years)

2

Attractive pricing

3

No negative carry – credit utilisation matches the investment (commitment fee only)

4

Credit terms similar or better to any other loan/bond and standard documentation

5

Typical cover 85-100% for political and commercial from AA/AAA counterparties (Government Entities)

6

Most ECAs also provide cover in respect of a certain portion of local costs (up to 30% of Export Contract value)

















7

Possibility to prepay, low prepayment penalties

8

Simplified documentation: multi-sourced master agreement framework









Export Credit Institution set-ups and products

	Country	ECA	Guarantee/insurance	Direct loan	CIRR IMU	Funding scheme
NA	 US	US EXIM	G'tee	Yes	No	PEFCO
	 Canada	EDC	G'tee	Yes	No	
Europe	 UK	ECGD	G'tee	No	Yes	
	 Germany	Euler Hermes	Ins	No	Yes	KfW/SG ²
	 Poland	KUKE	Ins	No	Yes	DOKE Programme/BGK
	 Netherlands	Atradius	Ins	No	No	
	 Italy	SACE	Ins	No	Yes	CDP
	 Austria	OeKB	Ins	No	Yes	OeKB
	 Finland	Finnvera	G'tee	No	Yes	FEC ¹ /SG
	 Norway	GIEK	Ins	No	Yes	Exportfinans ¹
	 Sweden	EKN	Ins	No	Yes	SEK
	 Denmark	EKF	Ins	No	Yes	ELO/SG
Asia	 China	Sinosure/CEXIM	Ins (Sinosure)	Yes (CEXIM)	Yes	
	 Japan	NEXI/JBIC	Ins/G'tee	Yes (JBIC)	Yes	
	 Korea	K-sure/KEXIM	Ins/G'tee	Yes (KEXIM)	Yes	
	 Australia	EFIC	G'tee	Yes	Yes	

Notes: (1) This Programme is currently expired and funding for new projects is not available – new schemes are under discussion. (2) SG = Securitization Guarantee

In many countries, export credits can now be funded through commercial banks or alternative investors

Major ECAs with Funding Structures

	ECA	Underlying sovereign	Underlying sovereign rating	Guarantee
	Hermes	Germany	AAA/Aaa/AAA	<ul style="list-style-type: none"> Provides proportional guarantee of up to 95% of the eligible export value. Securitisation guarantee 100% of refinancing available
	Atradius DSB	The Netherlands	AAA/Aaa/AAA	<ul style="list-style-type: none"> Provides proportional guarantee of up to 95% of the eligible export value. Securitisation guarantee 100% of refinancing available
	ECGD	UK	AAA/Aaa/AAA	<ul style="list-style-type: none"> Provides 100% guarantee of the eligible export value
	EXIM	USA	AA+/Aaa/AAA	<ul style="list-style-type: none"> Provides 100% guarantee of the eligible export value
	Eksport Kredit Fonden	Denmark	AAA/Aaa/AAA	<ul style="list-style-type: none"> Provides proportional guarantee of up to 95% of the eligible export value. Securitisation guarantee 100% of refinancing available
	Finnvera	Finland	AAA/Aaa/AAA	<ul style="list-style-type: none"> Provides proportional guarantee of up to 95% of the eligible export value. Availability to provide securitisation guarantee 100% of refinancing currently being negotiated
	Exportkreditnämnden	Sweden	AAA/Aaa/AAA	<ul style="list-style-type: none"> Provides proportional guarantee of up to 95% of the eligible export value. Securitisation guarantee 100% of refinancing under discussion
	GIEK	Norway	AAA/Aaa/AAA	<ul style="list-style-type: none"> Provides proportional guarantee of up to 95% of the eligible export value. Securitisation guarantee 100% of refinancing under discussion

Funding ECA transactions

- The Financial Crisis had severe impact on Banks ability to fund ECA transactions – given their long term nature. At the hub of the crisis virtually no bank could fund these tenors
- Many has come back with a willingness to fund 7-8 years, although very recently some Banks seems to be leaving again. We believe Basel III is a contributing factor to this latest movement
- RBS is at the forefront of developing funding solutions for Export Finance transactions. Generally these fall into four categories
 - Public Permanent Funding Schemes in the Exporting Country (Such as Export Finans in Norway, SEK in Sweden and USExim in the US)
 - Temporary Public Funding Schemes (EU approved to be in place during Financial Crisis) in the Exporting Country (Such as ELO in Denmark, KFW in Germany and FEC in Finland)
 - Cooperation with Funding entities who wish to place liquidity in triple A paper (such as ECA guarantees) and do not have the reach to originate transaction in the Emerging Markets such as RBS
 - Securitisation of the ECA guarantee through SPC and the Bond Market
 - We believe that using such approaches in combination with traditional bank market lending makes RBS able to provide the most cost efficient ECA solutions

Access to the optimal funding option through RBS

Operational summary

- Each Export Credit Agency has different Modus Operandi and the Lead ECA can determine funding strategy and therefore price
- In the past years ECA Financing has experienced a number of innovations including direct and indirect guarantee on debt instruments other than loans
- RBS continues to maintain an on-going dialogue with major ECAs on re-financing structures and new funding tools for this type of assets

Loan markets

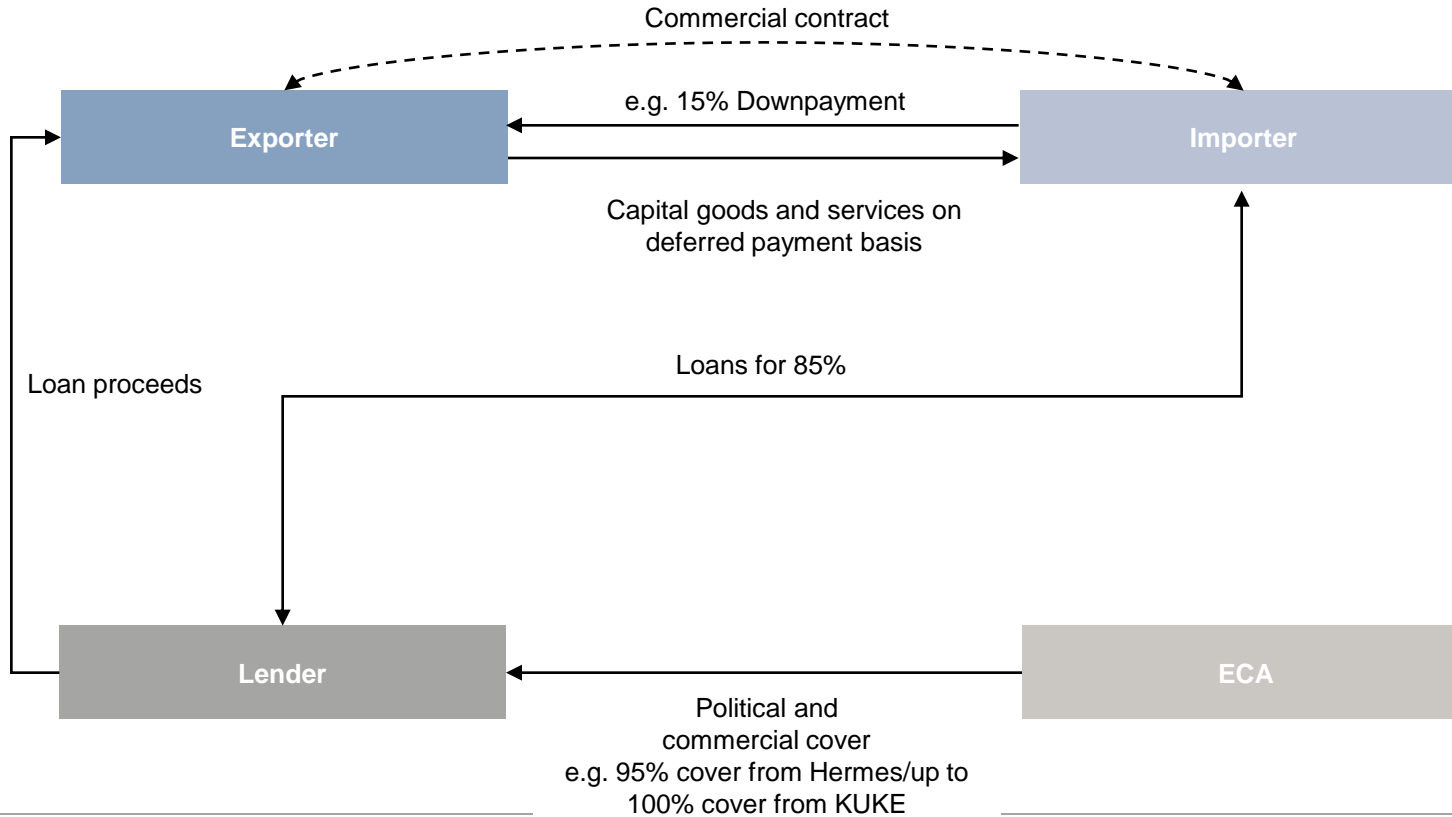
- The loan market has historically provided a competitive and flexible funding route for ECA-guaranteed loans
- Drawdown of the facility has been available as soon as the respective ECA's guarantee becomes available
- Competitive bank funding remains available
- Bank standard terms, such as market disruption clause, remain a feature
- It is a known product and easy to execute

Capital markets

- The capital markets route could provide term funding for assets without using bank lines and capacity
- RBS has structured various transactions of this nature that have been placed with bond investors
- This option can be as flexible as the loan option if the appropriate lender/investor is identified from the outset
- The European ECAs are at various stages of development in the ECA Bond product including a direct guarantee of the bonds

RBS has extensive experience of arranging and placing ECA guaranteed paper in both the loan markets and capital markets

Basic loan structure



Indicative pricing on a corporate basis

Principal assumptions

- EUR/USD100 million facility
- 2+10 years, average life of 6.25 years
- Premium range based on good quality corporate borrowers
- Upfront fees of 100bp

Export Credit Agency	Hermes	US EXIM	EKN	EKF
Currency	EUR	USD	USD	USD
Percentage of Cover	95%	100%	95% (100% for sovereign)	95%
Premium indications (equivalent annualised)	5.33% – 6.55% (85bp – 105bp) Sov 4.14% (66bp)	5.79% – 7.12% (92bp – 114bp) Sov 4.49% (72bp)	5.41% – 6.78% (86bp – 108bp) Sov 4.43% (71bp)	5.41% – 6.65% (86bp – 106bp) Sov 4.2% (67bp)
Funding Cost (liquidity and bank margin)	90 – 130bp	90 – 120bp	160 – 180bp	160 – 180bp
Annualised fees	16bp	16bp	16bp	16bp
All-in	191 – 251bp (Sov 172 – 212)	199 – 250bp (Sov 178 – 208bp)	260 – 304 bp (Sov 247 – 267bp)	260 – 302bp (Sov 243 – 263bp)

RBS – leading export finance franchise in EMEA



EMEA Trade Finance and ECA backed loans (2004-2012ytd)

Pos.	Bank Name	Deal Value (\$) (m)	No.	%share
1	BNP Paribas	33,640.3	153	5.02
2	RBS	32,870.8	123	4.90
3	Credit Agricole CIB	24,758.9	118	3.69
4	Citi	20,130.5	121	3.00
5	SG CIB	18,951.3	101	2.83
6	Deutsche Bank	18,040.2	97	2.69
7	ING	17,479.4	110	2.61
8	Mitsubishi UFJ Financial Group	14,052.1	77	2.10
9	Commerzbank Group	13,346.1	116	1.99
10	UniCredit	12,497.0	100	1.86
Total		670,285.2	3,453	100.00

Latest update: 23/01/2012

- RBS is very active in the Export Credit Agency-led financing market
- RBS has arranged a wide range of ECA backed loans supported by a variety of ECAs in several locations
- Product specialists are based in both Importer and Exporter countries

CIT Group

USD 350,000,000
ECA Covered Term Loan Facility

Joint Arranger & Sole German Lender

December 2011
United States

Tata Communications

USD 108,000,000
USEXim Backed Buyer Credit Facility

Sole Arranger

November 2011
India

Guardian Industries

EUR 150,000,000
ECA Covered Term Loan Facility

Mandated Lead Arranger

September 2011
Luxembourg

Tele-Fonika Kable Sp zoo SKA

EUR 13,000,000
Hermes Backed Buyer Credit Facility
Financed by AKA

Mandated Lead Arranger

August 2011
Poland

Idea Cellular Ltd

USD 150,000,000
EKN Backed Buyer Credit Facility
Funded by SEK

Mandated Arranger & Original Lender

August 2011
India

Jurong Aromatics Corporation Pte Ltd

USD 1,557,000,000
Project Financing
Senior Debt, Working Capital Facility,
Interest Rate Hedging

Mandated Lead Arranger, Structuring Bank,
Bookrunner, Hedge & Joint Coordinator

May 2011
Singapore

Nord Stream AG

EUR 2,500,000,000
Multi-tranche Secured Financing

Financial Advisor & Mandated Lead Arranger

April 2011
Russia

Nord Stream AG

EUR 3,900,000,000
Multi-tranche Secured Financing

Financial Advisor & Mandated Lead Arranger

May 2010
Russia

Tata Teleservices Ltd

USD 55,000,000
Finvera Backed Term Loan for the
Financing of Telecommunication
Equipment and Services from NSN

Mandated Lead Arranger, Participant, Agent, &
Account Bank

January 2010
India

Telkomsel

USD 318,000,000
ECA Backed Export Finance Facility
Fully Funded by SEK

Joint Lead Arranger

December 2009
Indonesia

Stora Enso

EUR 55,374,253
Finvera Backed Finnish
Buyer Credit Facility
Fully Funded by SEK

Sole Arranger

November 2009
United Arab Emirates

Vodafone Essar Ltd

USD 340,000,000
ECA Backed Export Finance Facility
Fully Funded by SEK

Mandated Lead Arranger

December 2009
India

Tanqia Free Zone Company

EUR 117,300,000
Hermes Term Loan
Supplier – Consortium Bilfinger Berger

Arranger & Agent

2009
United Arab Emirates

Tata Teleservices Ltd.

USD 200,000,000
Finvera backed Term Loan
For The Financing of Telecommunication
Equipment and Services From NSN

Mandated Lead Arranger, Participant,
Agent and Account Bank

November 2009
India

MMK Atakas

EUR 384,000,000
SACE Export Credit Facility

Mandated Lead Arranger

November 2009
Turkey

Turk Telekomunikasyon A.S.

USD 378,000,000
EKN Backed Term Loan
For The Financing of
Telecommunication
Equipment and Services From Ericsson

Mandated Lead Arranger

September 2009
Turkey

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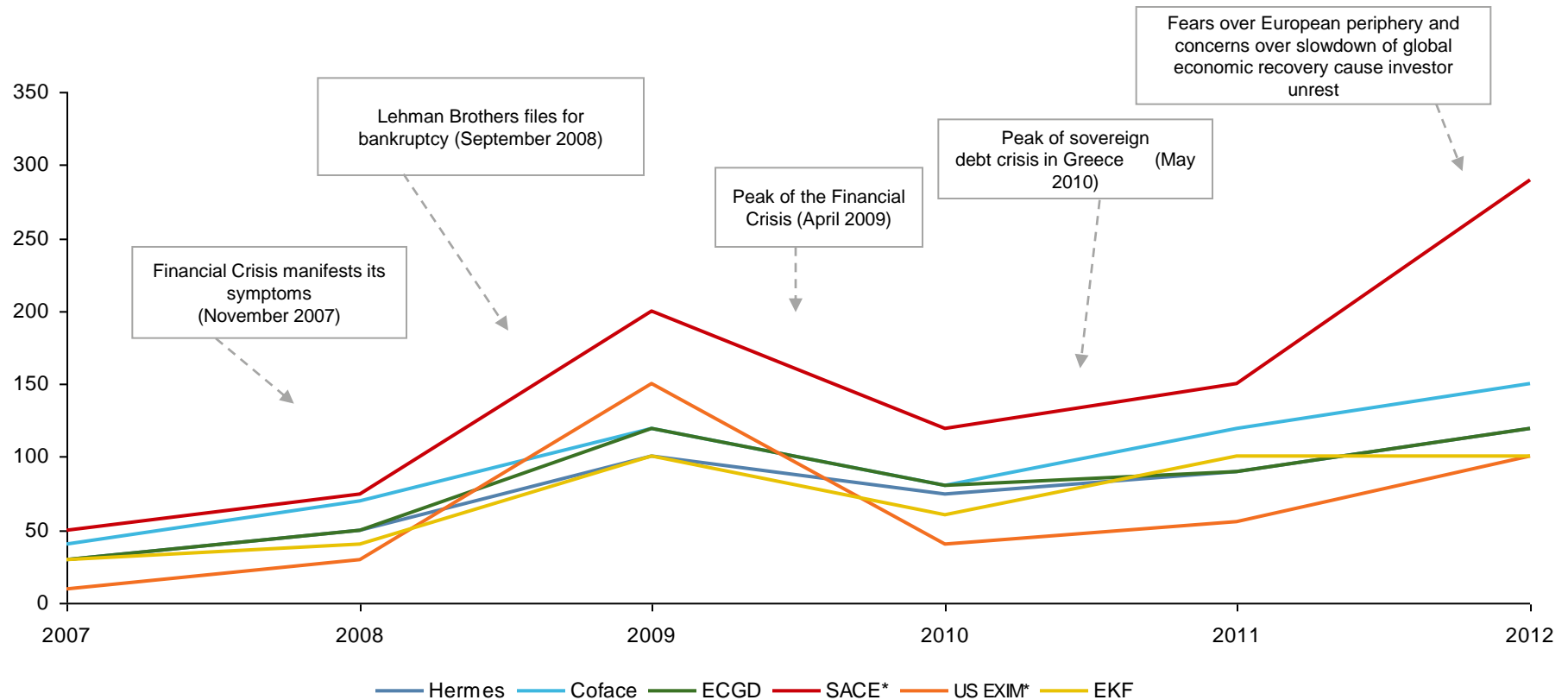
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Appendix: 2011 ECA Market Summary

Major ECA facilities spreads evolution 2007-2012

- Before the 2007 crisis, spreads on ECA covered facilities did not experience significant changes or variations. However in 2009 the market ballooned as a result of the financial crisis which materially increased the cost of funding due to limited liquidity in the banks' market
- Following the temporary recovery of the financial system in 2010 the margins began to fall, but in 2011 credit spreads have started to soar again due to the uncertainty surrounding global financial markets, the impact of Basle III and the recent European sovereign debt crisis

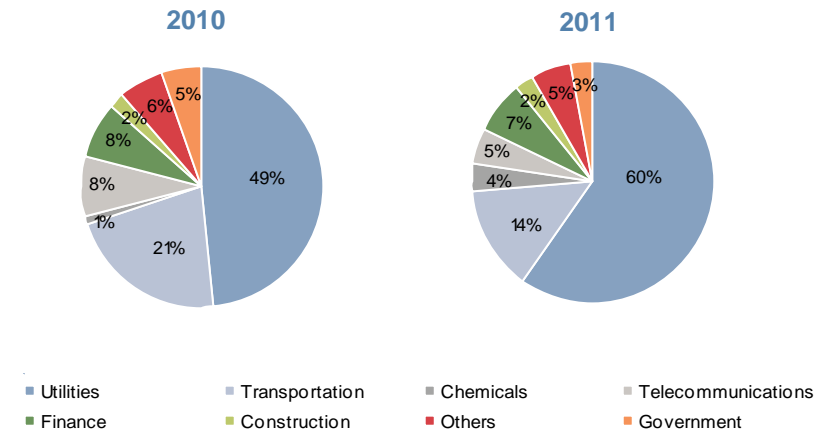


Source: RBS. Note: Assumptions (1) US EXIM and SACE 100% guaranteed. Other ECAs 95% guaranteed. 10y maturity in USD

Global ECA Market summary 2011

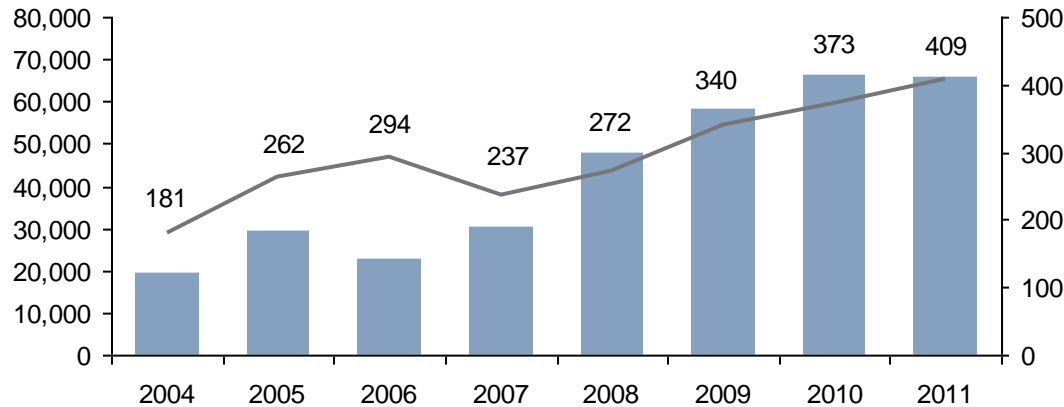
- In 2011 ECA loan facilities reached a record 409 deals, up 10% from 2010 (373 transactions). However, the total amount of financing decreased by 2% to USD68.0 billion compared with 2010 record volume of USD69.2 billion
- ECA facilities for the Transportation sector experienced a material decrease in volume (30% compared to 2010) whereas the most sizeable increase occurred for Utilities borrowers (22% YoY) The latter remains the largest sector for ECA Facilities during the year with USD40.8 billion. Whilst Utilities and Transport sectors combined have maintained a similar market share YoY (c.70%), the financing for borrowers in Chemical sector increased taking 4% of total volumes
- In 2010 EXIM, Coface, ECGD and Hermes covered 52% of all ECA facilities. In 2011 these ECA agencies accounted for only 36% of the total amount of ECA-backed loans, with increased activity coming from Asian ECAs, in particular K-SURE, which guaranteed 11% of total ECA financing volumes
- RBS acted as a Mandated Lead Arranger in 4 out of 10 largest Trade and Export Finance transactions in 2011: Barzan Gas Co, Nord Stream Pipeline, Trafigura Baheer and Metalloinvest

2010 vs 2011 ECA facilities by Sector



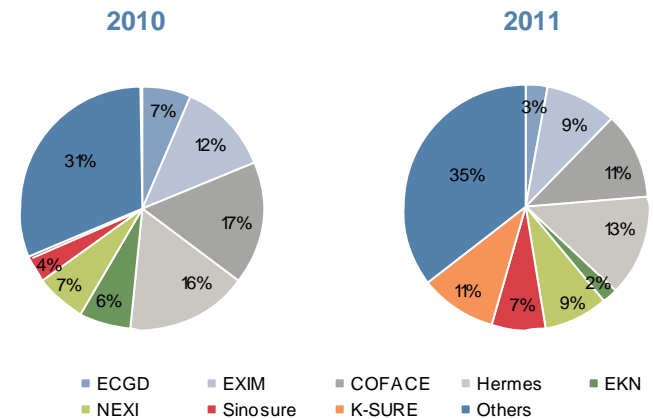
Source: Dealogic

Total ECA facilities 2004-2011 (USD bn – LHS) and numbers of deals (RHS)



Source: Dealogic

2010 vs 2011 ECA facilities Breakdown



Source: Dealogic

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