

Poten 2017 Ranking – Top LNG Project Finance Lenders

China Development Bank (CDB) and Russia's Sberbank took first and second place in Poten's 2017 Ranking of LNG project finance lenders, between them providing a weighty \$9 billion, supplied in either euros or Chinese renminbi to the sector. All of the funding from these two financiers, who did not appear in the 2016 or 2015 rankings, went to Russia's Arctic 16.5-MMt/y Yamal LNG project.

Italy's Intesa San Paolo rounds out the top three, jumping up from number eight in the 2016 ranking, and is followed closely by another Russian lender, Gazprombank. Like CDB and Sberbank, Intesa San Paolo and Gazprombank also stepped up with big commitments to Yamal LNG, although Intesa also provided a loan to Cheniere Energy Partners (CQP) regasification/Creole Trail pipeline refinancing

Poten's 2017 ranking, which is for loans provided to project finance in calendar 2016, has been heavily skewed by Yamal LNG, which carries a total price tag of \$27 billion, and it has bolstered the ranking of the handful of lenders that supported the deal. Big project finance banks from Japan and Europe that typically appear higher up in the ranking table chose not to participate in the Arctic scheme after the US imposed certain defined and limited sanctions on the project's Russian stakeholder, Novatek.

The Export-Import Bank of China joined compatriot CDB on the Yamal LNG deal, and also provided a loan of around \$6 billion, but our Poten LNG project finance ranking does not include direct lending by export credit agencies (ECAs) – Poten compiles a separate ranking of ECAs (see **LNG Finance**, May '16). Poten's bank ranking focuses on commercial banks, but we have included development banks where they have provided significant funding alongside the commercial banks.

In addition to CDB, Korea Development Bank (KDB) is gaining stature as an LNG lender and moved up 19 places to number nine from number 28 in the 2016 ranking. KDB did not appear as a lender on Yamal LNG, but provided loans to the other big 2016 liquefaction project financing – the Tangguh train 3 expansion in Indonesia. KDB was also joint top lender with Societe Generale on the Bahrain LNG regasification scheme and also participated in financings for LNG carriers structured as project finance.

Japanese lenders occupied three of the top ten slots again in the 2017 ranking, showing their continued importance in LNG project finance, although in the 2016 ranking they were in first, second and sixth place, whereas this time around Bank of Tokyo Mitsubishi was fifth, down from second in the 2016 ranking, Sumitomo Mitsui Banking Corp was sixth, falling from first, and Mizuho was at number seven, down one place. In the 2015 ranking Japanese banks had occupied five of the top 10 slots as they provided large loans to US liquefaction schemes with Japanese customers and investors.

In the 2017 ranking, France's Societe Generale slipped to number eight from third in the previous year and was the only other European bank in the top ten aside from Intesa San Paolo. Another Russian Bank, VTB Bank, rounds out the top ten. It provided a \$260 million loan to Russia's Sovcomflot to fund the first Arc7 icebreaking LNG carrier that will serve the Yamal LNG project.

Poten Top LNG Lenders

Rank	Previous	Bank	Location	Amount \$ millions
1	-	China Development Bank	China	6,000
2	-	Sberbank	Russia	3,000
3	8	Intesa San Paolo	Italy	1,020
4	-	Gazprombank	Russia	1,000
5	2	Bank of Tokyo Mitsubishi	Japan	663
6	1	Sumitomo Mitsui Banking Corp	Japan	526
7	6	Mizuho	Japan	450
8	3	Societe Generale	France	376
9	28	Korea Development Bank	Korea	366
10	-	VTB Bank	Russia	260
Subtotal				13,661

Two Canadian banks appeared in the top ten in the 2016 ranking – Bank of Nova Scotia was in fourth and Royal Bank of Canada in 10th place. They had participated on the US liquefaction projects and with most of these schemes stalled for want of offtakers or tolling counterparties, they do not feature in the 2017 ranking. The same applies to the UK's Lloyds, which tends to focus on UK, Northern European and North American transactions. It had climbed to number nine in the 2016 ranking on the back of loans provided to US liquefaction projects, but does not appear in the 2017 ranking.

A total of 46 lenders from 20 countries provided most of the LNG project finance funds in the 2017 ranking (see Poten Top LNG Lenders table), compared to 61 lenders from 15 countries in the 2016 ranking (See **LNG Finance**, Jan '16). Total LNG lending by commercial banks (plus the two development banks included in the ranking) using project finance structures was at \$17.5 billion in calendar 2016, which is down slightly from about \$18.7 billion in 2015. Although both 2016 and 2015 levels are higher than the \$12 billion seen in 2014.

In host country terms, Chinese banks were the biggest providers of debt to LNG project finance in calendar 2016 with around \$6.6 billion or about 38% of the \$17.5 billion total. Although the bulk came from China Development bank, other Chinese banks provided loans to the Tangguh project and Cheniere CQP refinancing. In 2015 Chinese banks had only provided \$749 million worth of funding which was about 4% of the total LNG project finance lending. It should be noted that Chinese financiers are increasingly appearing in LNG transactions as equity investors aside from participating on the debt side of project financings, and are also big providers of sale and leaseback structures for LNG shipping companies.

Russian banks provided around \$4.3 billion or 24% of the LNG project finance funds in the 2017 ranking, in contrast to the year before when they were absent from the ranking. Eleven European lenders from seven countries provided around \$2.8 billion of funding or almost 16% of the total LNG project finance loans in the 2017 ranking, which is down sharply from the 43% or almost \$8 billion provided by 19 European banks in the 2016 ranking.

Poten Top LNG Lenders [continued]

11	12	Bank of America Merrill Lynch	US	231
12	22	ABN Amro	Netherlands	230
12	14	Industrial & Commercial Bank of China	China	230
12	17	JP Morgan	US	230
15	20	BNP Paribas	France	220
16	4	ING	Netherlands	197
17	11	Credit Suisse	Switzerland	155
17	7	HSBC	UK	155
17	16	Morgan Stanley	US	155
20	15	Credit Agricole	France	154
21	29	Bank of China	China	144
21	-	China Construction Bank	China	144
21	42	DBS Bank	Singapore	144
21	42	Oversea-Chinese Banking Corp	China	144
25	17	Shinsei Bank	Japan	143
25	-	United Overseas Bank	Singapore	143
27	21	Commonwealth Bank of Australia	Australia	100
27	-	Bancolombia	Colombia	100
27	36	Canadian Imperial Bank of Commerce	Canada	100
30	24	Natixis	France	97
31	-	Apicorp	Saudi Arabia	73
32	-	Banistmo	Panama	70
33	19	Standard Chartered	UK	63
34	-	Banco General	Panama	60
34	-	Global Bank	Panama	60
36	-	First Bank of Florida	US	50
36	-	KfW	Germany	50
38	-	Ahli United Bank	Bahrain	48
39	-	Bank Mandiri	Indonesia	25
39	-	Bank Negara Indonesia	Indonesia	25
39	-	Indonesia Infrastructure Finance	Indonesia	25
39	-	Bank Rakyat Indonesia	Indonesia	25
43	23	Santander	Spain	24
44	18	BBVA	Spain	23
44	33	Caixa Bank	Spain	23
46	-	Kutxabank	Spain	11
Total				3,871

Criteria

Includes participation in LNG project financings that closed in 2016 on projects with a total value of \$50 million or more. Rankings include liquefaction projects, LNG import terminals and ship or FSRU financings that are structured as non- and limited-recourse financings. Includes loans that are both uncovered and covered by export credit agencies. Does not include amounts taken by participants in the secondary market. Best efforts are made to provide accurate information. Some figures are Poten estimates. Rankings are for comparative purposes and are not intended to be comprehensive. For questions or comments, please contact mlovatt@poten.com

Japanese banks contributed about \$1.8 billion or around 10% in the 2017 ranking, down from \$3.3 billion or almost 18% in the 2016 ranking. Other Asian banks provided about \$853 million or 4.8% compared to \$2.7 billion or 15% the year before. With fewer US liquefaction projects to fund, US and Canadian banks saw their share of LNG project finance loans slip to about \$766 million or 4.4%, compared to \$4.4 billion or 24%. With Bahrain LNG wrapping up its financing in 2016, a couple of Middle Eastern banks appeared in the 2017 ranking such as Arab Petroleum Investments Corp, which is a regional player based in Saudi Arabia, and Bahrain-based Ahli United Bank. Some South American lenders also joined the 2017 ranking by providing loans to the AES Colon LNG regasification facilities in Panama.

The 2016 ranking had seen the appearance of 17 Indian banks that supported two LNG import projects, but they tend to only support projects in India and there was little activity in the sub-continent in LNG through calendar 2016. For the 2017 ranking, there were 18 banks that had not appeared in the 2016 ranking, of which four were from Indonesia, supporting the Tangguh transaction, three were from Russia, three from Panama, two from China, two from the Middle East, and one apiece from Colombia, Singapore, US, Germany and Spain.

The average LNG contribution per institution climbed in the 2017 ranking to \$381 million, from \$300 million in the 2016 ranking and also up from \$256 million in the 2015 ranking. The hike in the average contribution in the 2017 ranking was primarily a result of the mammoth contributions to the Yamal LNG project, while in the 2016 ranking it spiked on the large contributions to Cheniere's Corpus Christi project in Texas.

Liquefaction transactions determine bank placing

In addition to the two large liquefaction projects – Russia's Yamal LNG and Indonesia's Tangguh LNG train 3 – funds were supplied in the 2017 rankings by banks for four regasification plants and a handful of LNG carriers which were structured as project financings. In similar fashion to the last couple of years, participation in liquefaction project financings largely determined the 2017 rankings. This year Russia and Indonesia replaced the US, which had dominated financings in the previous two years. The banks attracted to the deals closed in calendar 2016 were not only from the countries in which projects are located, but also from countries that are home to joint venture partners or offtakers on these schemes. With Chinese entities both sponsoring and acting as offtakers on the Yamal LNG project, Chinese banks were expected to appear as lenders.

Yamal LNG's financing closed in a stepwise fashion, with funding from Russia's sovereign wealth fund followed by the loans from the Russian banks, then Chinese banks, then Intesa San Paolo along with Japan's ECA, Japan Bank for International Cooperation, with just a handful of lenders contributing large amounts. Tangguh LNG's commercial bank lenders, numbering 17, came in simultaneously to provide \$2.145 billion, and the other transactions also closed in similar fashion to Tangguh. The Cheniere regas plant attracted 16 lenders providing \$2.8 billion and Bahrain LNG had nine lenders providing \$743 million.

Deals in 2017 ranking see more ECA cover

More ECA cover was seen on bank loans to LNG projects in the 2017 ranking versus the previous year, which is a function of the switch in geographical location. Of the big three US deals that helped determine the 2016 ranking, only Sabine Pass Liquefaction (SPL) train 5 included ECA cover. Of the \$4.6 billion debt for SPL train 5, \$2.85 billion is a term loan provided by 25 banks; \$600 million is a senior secured credit facility provided by South Korea's ECA Kexim and Shinhan Bank; \$400 million is a credit facility covered by Kexim; and \$750 million is an amended and restated credit facility provided by South Korea's other ECA, K-Sure and the Korea Development Bank. The \$8.4 billion financing for Corpus Christi's trains 1 and 2, and the \$3.6 billion for Freeport train 3 were uncovered. So of the \$18.7 billion in commercial bank loans that make up the 2016 ranking only about \$1.75 billion was covered, although in some of the projects commercial bank debt was provided alongside direct loans from ECAs.

For the 2017 ranking, Poten estimates around \$10 billion of the total \$17.5 billion debt was uncovered, with a significant \$5.37 billion covered by ECAs. Furthermore, the \$2.145 billion provided by banks to Tangguh train 3 was a trustee borrowing scheme where the sponsors provide guarantees across the full repayment horizon. The presence of

these guarantees means that some financiers and researchers treat this transaction as a corporate, rather than project finance deal, but Poten has included it in the 2017 ranking.

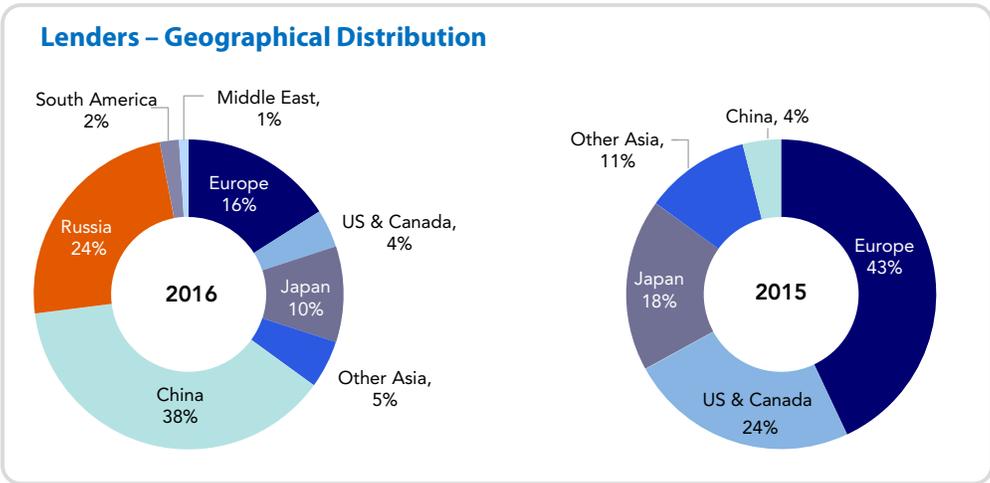
The \$5.37 billion in ECA-covered bank debt for the 2017 ranking is comprised of \$4 billion from Sberbank and Gazprombank to Yamal LNG, which is insured by Russian ECA Exiar; \$790 million from Intesa San Paolo, of which \$400 million is covered by Italian ECA Sace and \$300 million by France’s ECA Coface; and \$584 million for Bahrain LNG which is covered by Korea’s K-Sure. In some of the calendar 2016 financings, ECAs also appear as direct lenders, although, as mentioned these contributions are not included in Poten’s assessment of commercial bank lending to LNG via project financing structures.

ECA cover helps banks mitigate against risk in developing countries and also allows banks to apply less tier one capital to long-tenored project financings because ECAs typically carry investment grade ratings. This has the advantage for sponsors of bringing down pricing. If the loans from the Russian banks were not covered by Exiar, they would have been higher than the 470 basis points provided to Yamal LNG. Intesa San Paolo provided its covered loans at 250 bps and China Development Bank priced its uncovered loans to Yamal LNG at 330-355 bps, although the development giant’s funding cost and approach is difficult to compare with that of commercial lenders. For Bahrain LNG, the \$584 million in covered funding is understood to have been priced at a low 150 bps, while the uncovered \$160 million is pegged at around 350 bps. The corporate guarantees on Tangguh kept a lid on its funding and it was priced at thin margins of 175 bps.

The main appeal to lenders of the Yamal LNG and Tangguh deals are the long-term contracts with investment grade counterparties which allow for payback of loans. The regas financings also benefit from long term contracts, as do the LNG carriers from long time charters.

Standout years 2015 and 2016 hard to match

Both calendar 2015 and 2016 were standout years for bank participation on LNG project finance transactions. They not only eclipse the \$12 billion of bank funding provided in 2014, and \$9 billion seen in 2012, but also come close to 2012’s record levels. In 2012 banks, along with ECAs, funded Australia’s Ichthys LNG, which is the largest ever project financing across any sector, and also Australia Pacific LNG and SPL trains 1 and 2 in the US. This gives about \$17 billion of bank funding for liquefaction projects alone.



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But the big transactions that determined the 2017 rankings do not tell the whole story. Without the closing of Yamal LNG, which saw its financing plan delayed by sanctions, it would have been a very subdued year for LNG project finance. Without Yamal LNG the total bank funding for project finance in the LNG sector would have fallen to only \$6.7 billion. The year was characterized by low oil and gas prices, prompting project sponsors to delay final investment decisions on liquefaction projects. And how many big liquefaction project financings go ahead this year will depend on whether project sponsors are successful in attracting buyers or tolling counterparties or whether they are intrepid enough or have sufficiently deep pockets to proceed with financings without having sold the bulk of their production. How much appetite banks would have for liquefaction project financings that do not follow tried and tested models is difficult to gauge. Although it is likely that if lenders will require additional protection from sponsors if new deals differ significantly from the accepted template. It is also difficult to assess how profoundly

lenders will be affected by toughening bank guidelines which suggest that more capital be applied against long-tenored loans typical in project finance transactions. Although banks are lobbying for more flexibility on these rules (see Banking and regulations section).

One potentially record-setting transaction – the Eni-led Coral South floating liquefaction project in Mozambique – is currently awaiting bank responses on a request for funding. With a requirement of around \$4 billion in bank loans, it will help determine the 2018 Poten bank ranking. It will be the first ever floating liquefaction scheme to be funded using a project finance structure. As seen on the transactions that determined the 2017 rankings, it appears that on Coral South that banks are leaning towards providing loans mostly on an ECA-covered basis (see this section below).

With gas prices at low levels, and the LNG market becoming deeper and more flexible, and floating storage and regasification units providing a quicker and cheaper way to access gas, the 2018 bank ranking may be influenced by import rather than export projects. This could bring a greater variety of banks into the rankings, but it will take many regasification project sponsors to seek funding to match the volumes required by one Yamal LNG or even one Tangguh.