Export finance solutions

The UK economy is pinning its hopes on exports to play a major role in the recovery. The UK government has responded by launching a number of new initiatives earlier this year aimed at helping exporters. Lloyds Bank Corporate Markets is supporting these initiatives to complement and strengthen its export finance offerings for the benefit of its UK corporate clients.

Overseas trade helps domestic recovery

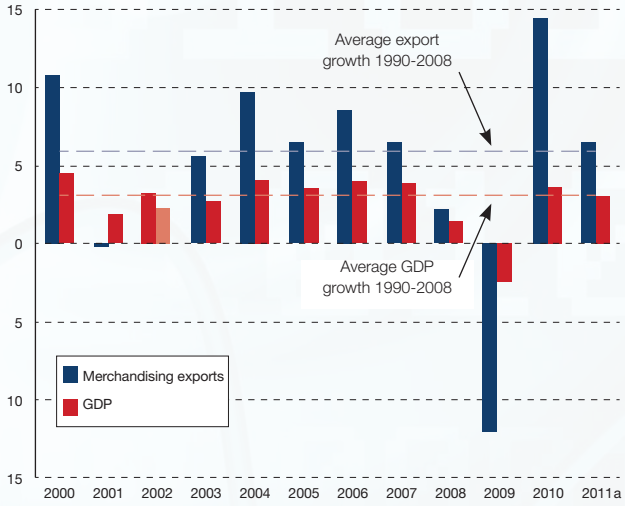
Simon Banham

"Exports are quite rightly viewed as potentially a key component of the UK's economic recovery and Lloyds Bank Corporate Markets is helping its clients in every way it can to encourage companies to export, providing solutions which help facilitate this. As illustrated below 2010 saw considerable improvement in world trade, with the trend expected to continue in 2011. Growth was led principally by the Far East and the US, as indicated key markets for UK exporters," says Simon Banham, Head of Trade and Cash Sales at Lloyds Bank Corporate Markets.

An encouraging trend in merchandise exports

Growth in world merchandise exports

(Year to year percentage change in dollar values)

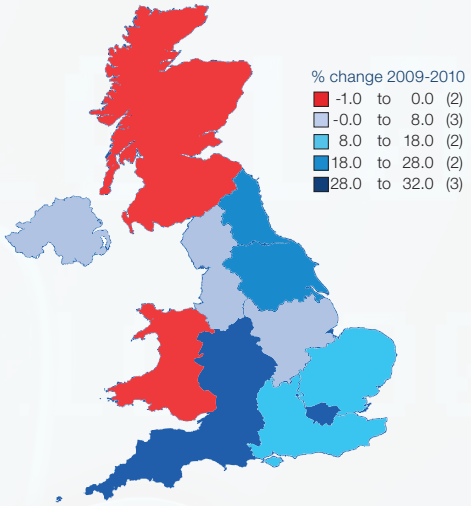


Source : WTO

- An improving trend has been seen since Q2 2009, leading to expansion of 14.5% in 2010, the strongest growth since 1950. Asia saw 23% growth and the US 15%.
- WTO expect to see growth of 6.5% in 2011. Thereafter annual growth of circa 5% – 10% is predicted, in line with historic trend.

UK exports by region

- Exports for 2010 stood at £262 billion, a YOY increase of 16.2% – spread across 51,000 companies.
- This was driven by England increasing 15.5% to £190 billion. Scotland fell 1% to £15 billion. Wales fell 0.1% to £9 billion. Balance is unknown. Further breakdown is as follows:



Region	£ billion	Region	£ billion
South East	42	North West	25
North East	12	Yorkshire	14
West Midlands	17	East Anglia	23
East Midlands	15	London	28
South West	14		

This Product Profile describes how Lloyds Bank is responding to help UK exporters with its export finance solutions, leveraging the government initiatives outlined overleaf.

Export finance solution

Lloyds Bank Corporate Markets has developed an export finance solution designed to support exporters to meet their working capital requirements and is typically provided by way of either a loan or through the provision of guarantees. Structured to meet financing needs either pre- or post-shipment, the facility is typically secured by a letter of credit (L/C) opened in favour of the exporter or a similar instrument.

The size of facility will be dependent on a range of criteria including:

- The gross margin of the underlying goods.
- The quality of the underlying goods – this will be suitably assessed by reviewing track record, quality of suppliers and customer processes.
- The quality of order book – the underlying goods will typically be subject to either a high percentage of orders from good quality end-buyers and/or a demonstrable track record of sales to a diversified quality customer base.

Where an L/C is provided the bank will take an assignment over the proceeds. All goods must be insured during the life of the transaction and insurance documents issued to the order of Lloyds Bank or with Lloyds Bank named as loss payee.

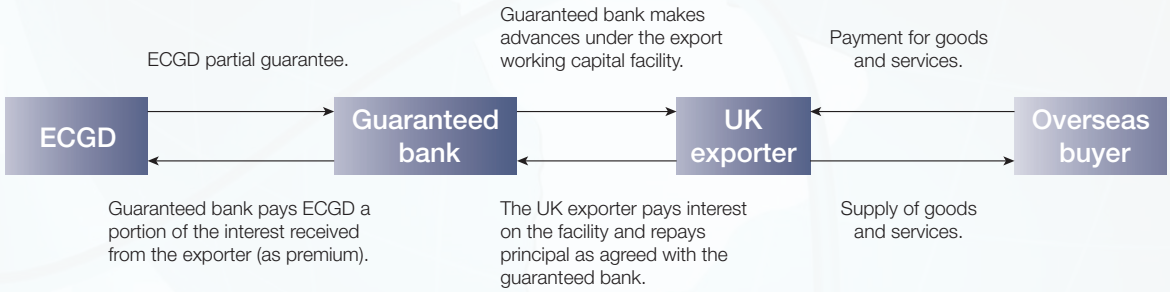
The next two solutions detailed below are UK government-led initiatives which Lloyds Bank is supporting.

Export credit guarantees department (ECGD) – export working capital scheme

This is one of four new ECGD products announced in February to coincide with the publication of the Trade and Investment white paper. The scheme is being introduced to assist UK exporters gain access to working capital finance (both pre- and post-shipment) in respect of specific export contracts with a value of £1m and above. Under the scheme, ECGD will provide partial guarantees to banks to cover the credit risks associated with approved export working capital facilities. Where a bank provides such a facility in respect of a UK export contract, ECGD can typically guarantee 50% of the risk.

It is envisaged that the scheme will be particularly useful in circumstances where a UK exporter wins an overseas contract that is higher in value than is typical for it or wins more overseas contracts than it has done before. The types of transaction supported under the scheme are likely to be structured working capital facilities where, for example, the bank may wish to introduce additional control mechanisms relating to drawings under the facility or to monitor repayment in line with the cash flows arising from the underlying contract. The scheme is not intended to cover funding provided as part of a general overdraft facility.

How does it work?



What are the benefits of the scheme?

The principal benefit for the UK exporter is that it is able to obtain the necessary working capital finance from its bank to support an export transaction in circumstances where its bank does not have sufficient risk appetite for the full facility amount.

"The scheme is designed to help a bank meet a funding request which they are fully supportive of but are unable to proceed with due to an absence of suitable security cover," says Simon Banham.

Risks covered

The bank is protected, to the extent of ECGD's guarantee, against the failure of the UK exporter to repay amounts due under the working capital facility upon its expiry, cancellation or termination.

Eligibility

The following criteria must be met:

- The guaranteed bank should normally be incorporated in an EU or OECD country and be regulated by a regulator acceptable to the ECGD.
- The exporter must be operating in business in the UK.
- The facility must relate to a contract between the exporter and a buyer outside the United Kingdom (which includes the Channel Islands and the Isle of Man) under which the exporter supplies goods and/or services to the buyer.
- Advances under the facility must be used to pay or reimburse the exporter for payment of expenses incurred in tendering for or performing the export contract.
- The export contract must have a minimum of 20% UK content.
- The maximum value of the working capital facility cannot be greater than 75% of the export contract's value.
- The export contract to which the facility relates should normally have a value of more than £1m.

(Note: for export working capital requirements under £1m, the Department for Business Innovation and Skills (BIS) Export Enterprise Finance Guarantee (ExEFG) scheme may be more appropriate. However, ECGD will consider applications for smaller amounts where they cannot benefit from support under the ExEFG.)

Maximum/minimum facility amount

There is no maximum (or minimum) value for the working capital facility, although the total value of the export contract should normally be greater than £1m.

Maximum/minimum term

The facility must have a maximum term of less than two years. There is no minimum term.

Cost

The guaranteed bank pays the ECGD a guarantee fee which is typically a proportion of the interest margin received by the bank from the UK exporter for providing the working capital facility.

ECGD bond support scheme

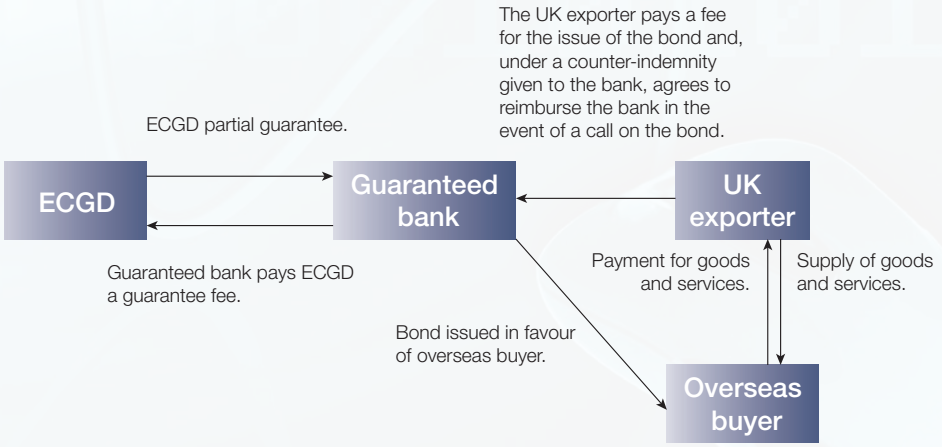
ECGD has launched the bond support scheme announced in the 'Trade and Investment for Growth' white paper.

What is the bond support scheme?

Under the scheme ECGD provide partial guarantees to banks in respect of UK exports. Where a bank issues a contract bond (or procures its issue by an overseas bank) in respect of a UK export contract, ECGD can typically guarantee 50% of the value of the bond and up to 80% for advance payment and progress payment bonds.

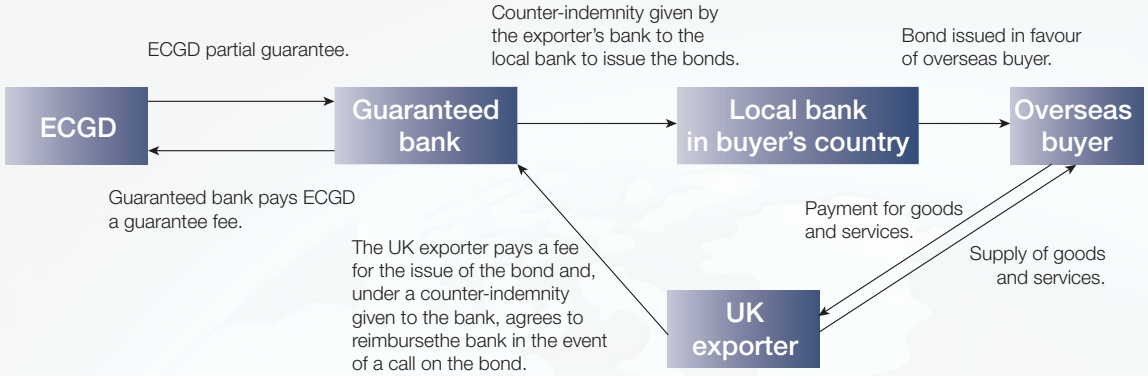
"Bonding requirements for an exporter can often be considerable, especially where the company is looking at a step change in its business through the underlying contract. In many cases bond issuance can tie up valuable working capital by the need to fully or partially cash back a facility. The scheme is designed to meet these growth ambitions whilst releasing cash back into the business," says Simon Banham.

How does it work?



Product Profile

How does it work if a local bank is required to issue bonds?



What are the benefits of the scheme?

- The guaranteed bank is able to issue the bond (or procure its issue by an overseas bank) even if it doesn't have sufficient risk appetite on the exporter for the full amount.
- The bank receives a guarantee from ECGD to cover the percentage of the amount due to it if the exporter fails to reimburse the bank following a call being made on the bond by the buyer.
- The bank can, for the duration of the ECGD guarantee, increase its risk appetite for the exporter.
- For advance payment and progress payment bonds, the bank can increase the amount of working capital available to the exporter.

Eligibility

The following criteria must be met:

- The guaranteed bank should normally be incorporated in an EU or OECD country and be regulated by a regulator acceptable to ECGD.
- The exporter must be operating business in the UK.
- The bonds required should normally have a value of more than £1m.
- The export contract must have a minimum of 20% UK content.

Maximum amount

There is no minimum or maximum value for each bond, although the total value of bonds to be issued under each export contract must be greater than £1m. ECGD will typically guarantee 50% of the full value of a bond, but for advance payment, progress payment or other cash-related bonds, ECGD may guarantee up to 80% of their value.

"For me exporters have a great opportunity to both exploit the expected growth in world trade and support the UK recovery in the process. We remain positioned to support this journey through both a strong product range and market expertise delivered locally," concludes Simon Banham.

Lloyds Banking Group's corporate business provides comprehensive expert financial services to businesses ranging from privately owned firms to multinational corporations and financial institutions. As well as offering the expertise and capabilities our clients need to compete successfully in the marketplace, we are proud of the relationships we build with our customers. We work closely with them to understand their business and offer the best financial solutions to meet their distinctive needs.

The wide range of services and innovative solutions we can deliver includes;

- dedicated relationship banking;
- capital market funding;
- debt and equity finance;
- treasury and risk management services;
- structured finance solutions;
- asset finance;
- leasing;
- company registration and employee share schemes;
- competitive e-trading facilities.
- import and export trade finance;
- tailored cash management solutions; and
- structured credit investments and securitisation facilities.

For further information please contact:

Simon Banham, Head of Trade and Cash Sales, Lloyds Bank Corporate Markets

Tel: +44 (0) 20 7356 2446
Email: simon.banham@lloydsbanking.com

LLOYDS BANK
CORPORATE MARKETS

in association with LLOYDS BANK CORPORATE MARKETS