

SACE products International surety business and Financial guarantees

SACE SpA – Milan branch
Milan, February 17th, 2014



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- 2** Products and services
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Surety bond: definition

A Surety Bond is a contract/agreement among at least three parties:

- The Beneficiary/Project Owner - the party which is the recipient of the contractual obligation
- The Principal/Contractor - the primary party which has responsibility to perform the contractual obligation
- The Surety - which assures the obligee that the Principal can perform the task

Surety: cycle of the project and required bonds



❖ Insurance tools to guarantee the execution of contractual obligations: Surety

- Bid Bond
- Advance Payment Bond
- Warranty/ Maintenance Bond
- Performance Bond
- Retention Money Bond



Surety: types of Bonds covered by SACE

% of Contract	Up to 5%	Up to 30%	Up to 20%	Up to 10%	Up to 10%
	Bid Bond	Advance Payment Bond	Performance Bond	Maintenance Bond	Money Retention Bond
Risk Coverage	Failure to enter into the contract or to provide performance or other bonds pursuant to the tender.	Repayment of any sum advanced under or for the purpose of the Contract	Satisfactory execution of the Contract	Adequate performance for a specified time period following the execution of the Contract	Repayment of retention money paid in advance on the basis of the progress of works according to the terms of the Contract
Validity	Until Contract Award	Until Provisional Taking Over	Until Provisional Taking Over	Until Final Taking Over	Until Final Taking Over
Nature of Risk	failure to perform				

SACE support is available to:

- Italian companies
- Foreign branches/subsidiaries of Italian companies
- Joint Ventures participated by Italian companies
- Foreign companies involved in strategic projects in Italy

International Surety Dept. Activities

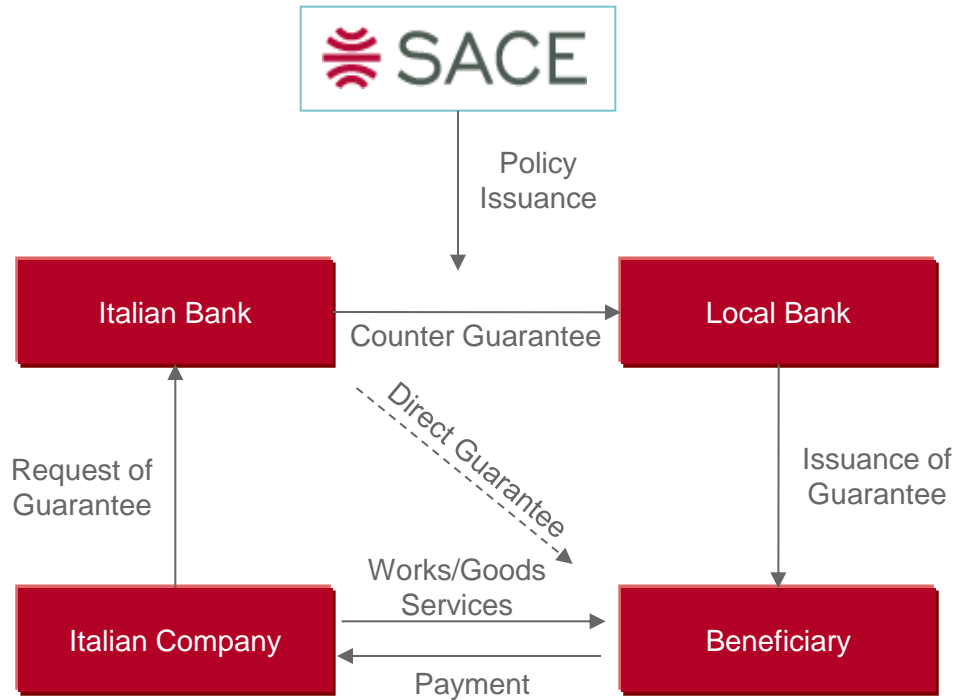
Our support to Italian exporters in the Surety Business is developed in three forms:

- (i) counter guaranteeing the Italian banks issuing the contractual bonds
- (ii) counter guaranteeing the local banks/sureties issuing the contractual bonds
- (iii) direct issuance of Surety Bonds*: ICC Rules 758

*option available only if SACE is accepted by the beneficiary as the issuing company



Counter Guarantee for banks (Insurance Policy)



Counter Guarantee Policy features

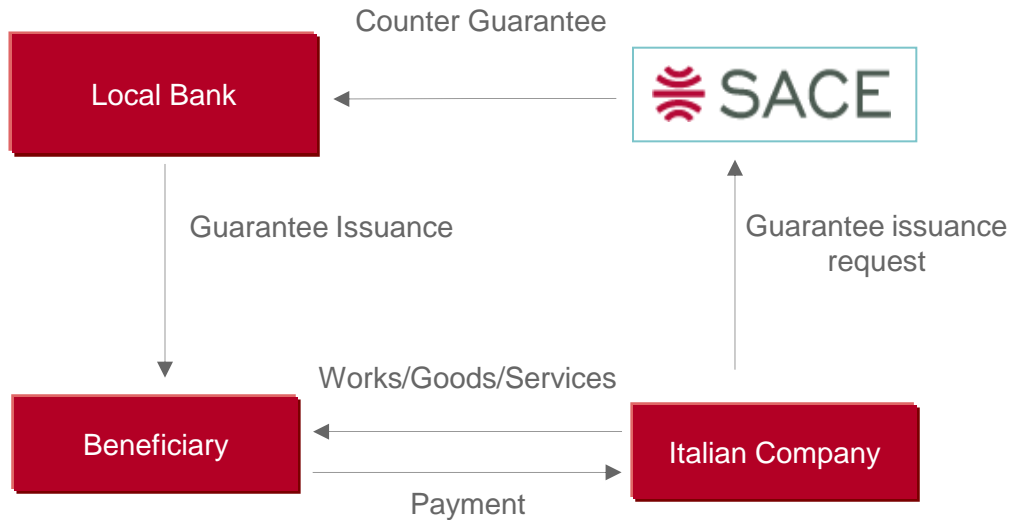
Beneficiaries: Italian banks issuing bonds on request of the Italian company (and/or its foreign subsidiaries)

Risk sharing: up to 70% of the bond value (potential increase of up to 100% on a case-by-case basis). *Pari-passu* with the bank on all the collaterals and on the Indemnity Agreement (Indemnity letter between the exporter and the bank)

SACE remuneration: SACE is “Risk/Price taker”: pro - rata share with the remuneration charged by the bank. No additional SACE fees will be included



Counter Guarantee to local banks



Counter Guarantees to local banks

Beneficiaries: Local Banks issuing bonds in favor of the Beneficiary as counterparts to Italian Companies

SACE cover: up to 100% of the bond value; first demand guarantee under URDG 458/758

SACE remuneration: SACE is “Price maker”: bond remuneration calculated on the amount covered by SACE and to be negotiated with the Italian Company

Fronting fee: to be agreed with the Local Bank

Indemnity Agreement: between SACE and the Italian Company



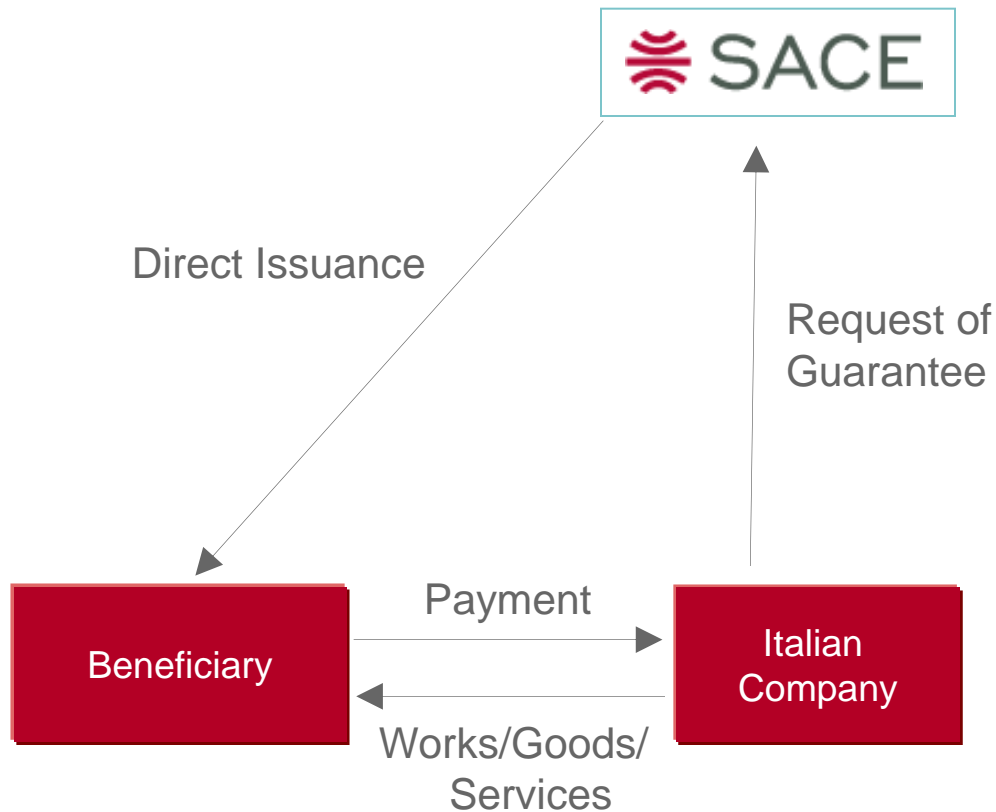
Benefits for Banks

- The SACE cover for the banks on the surety business is a first demand unconditional and irrevocable guarantee
- Banks' Capital Requirements: Under Basel II SACE is zero risk weighted, being our guarantee fully backed by the Italian Government (“sovereign guarantee”)
- SACE support increases the capacity of the Guarantor for the Eligible Contractors



Direct issuance to Beneficiary

Option Available if SACE is accepted by the beneficiary as the issuing company



Direct issuance

Beneficiaries: Foreign Companies as counterparties of Italian Enterprises

Eligible contractors: Italian Companies and/or their foreign subsidiaries

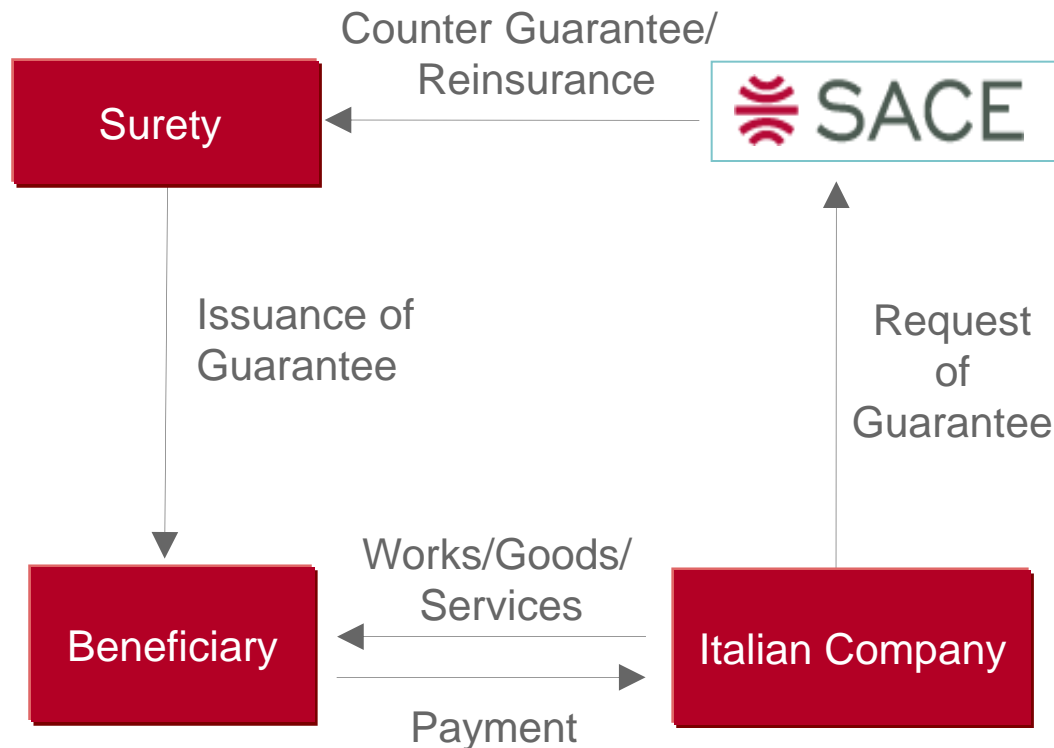
SACE cover: up to 100% of the bond requested; first demand guarantee under URDG 758

SACE remuneration: SACE is “Price maker”: bond remuneration calculated on the amount covered by SACE and to be negotiated with the Italian Company

Indemnity Agreement: between SACE and the Italian Company



Counter guaranteeing the Sureties



Counter Guarantee / Reinsurance to the sureties

Beneficiaries: Sureties issuing bonds in favor of Foreign Companies as counterparts to Italian companies

SACE cover: up to 100% of the bond value

SACE remuneration: SACE is "Price maker": quoted by SACE and agreed with the Italian company

Fronting fee: to be agreed with the Surety

Indemnity agreement : between SACE and the Italian company

Form of cover

Reinsurance: based on a Treaty between SACE and the Surety or based on a reinsurance contract *ad hoc*;

Counterguarantee: first demand unconditional guarantee based on international standard (URDG 758) and negotiated case by case

Benefits

SACE intervention can facilitate the issuance of local guarantees for Italian exporters in “difficult” countries/markets where SACE cannot issue directly the bonds

SACE required documents

- Annual Consolidated financial statements of the Exporter and Interim Financial results (last two years)
- General description of the project
- Cash flow of the contract
- Texts of the bonds to be issued either by the bank or by SACE
- Commercial Contract
- Technical project documentation (for large and complex projects)

SACE Pricing

- **Variables**
 - credit rating of the counterparty
 - Tenor of the bond

- **Counterguarantee (Insurance Policy)**
 - SACE shares pro-quota the risk fee that the bank charges
 - SACE decides on a case by case basis whether or not to yield a management fee to the bank

- **Direct Issue**
 - SACE defines and negotiates with the Exporter the fees to be applied based upon the above mentioned variables



Subjects

Policy Holder: Bank S.p.A.

Exporter: Società1 S.p.A. (Rating: BB+)

Local Bank: Foreign Bank



Project

Country of destination: **Kazakistan**

Project Description: Upgrade and reconstruction of road sections to increase transport efficiency and to improve road management and traffic safety in Kazakhstan.



Contract

Type of offer: public tender

Contractual payments: at milestones – about 2% of the contractual value

Penalties: 0,05% per day, up to a maximum of 10% of the contractual value

Law and Forum: Italian Law, Court of Verona

Controversy Resolution: Ordinary Court

Bonds requested and SACE support

Bond requested:

- Advance Payment Bond: € 3.16 mln [10% of the contract]
- Performance Bond: € 6.32 mln [20% of the contract]

Bond duration:

- Advance Payment Bond: 38 months [pre-defined expiry date]
- Performance Bond: 39 months [pre-defined expiry date]

SACE cover: 70%

SACE remuneration: 90 bppa



Risks and Mitigants

- Società1 hadn't had any previous experience in the country nor with the same beneficiary
 - ➔
 - The difficulty of the opera was quite low because the path of the road was essentially plan, consequently no viaducts nor galleries were involved.
-
- The Guarantees were at first demand and unconditional.
 - ➔
 - Società1 had a high credit-worthiness



Subjects

Policy Holder: Enterprises Consortium

Exporter: Società2 S.p.A. (Rating: B)

Guarantor: Società2 Holding (Rating: BB)



Project

Country of destination: **Venezuela**

Project Description: The project consists of building an hydroelectric power plant. The project includes primary civil three transition dams, a spillway and powerhouse, electromechanical equipment with linkage to the transmission system. Società2 is the electromechanical equipment supplier.



Contract

Type of offer: public tender

Contractual payments: at milestones

Penalties: up to a maximum of 10% of the contractual value

Law and Forum: Venezuelan Law, Court of Caracas

Controversy Resolution: Arbitrary – CACC Caracas

Bonds requested and SACE support

Bond requested:

- Advance Payment Bond: VEF 11.97 mln (€ 3.42 mln) [15% of the contract]
- Performance Bond: VEF 11.79 mln (€ 3.42 mln) [15% of the contract]
- Warranty Bond: VEF 3.99 mln (€ 1.14 mln) [5% of the contract]

Bond duration:

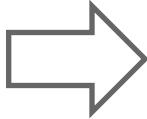
- Advance Payment Bond: 21 months [expiry date at PAC]
- Performance Bond: 28 months [expiry date at PAC]
- Warranty Bond: 12 months [expiry date at FAC]

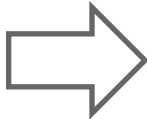
SACE cover: 100%

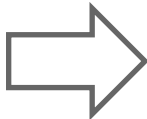
SACE remuneration: 200 bppa



Risks and Mitigants

- Società2 didn't have a sufficient creditworthiness  ▪ Società2 Holding, the parent company, signed the Indemnity Letter in favor of SACE

- In case of default, the indemnity was to be paid in local currency (Bolivar Fuerte)  ▪ A "Crystallization clause" was inserted in the Indemnity Letter signed by the Guarantor.

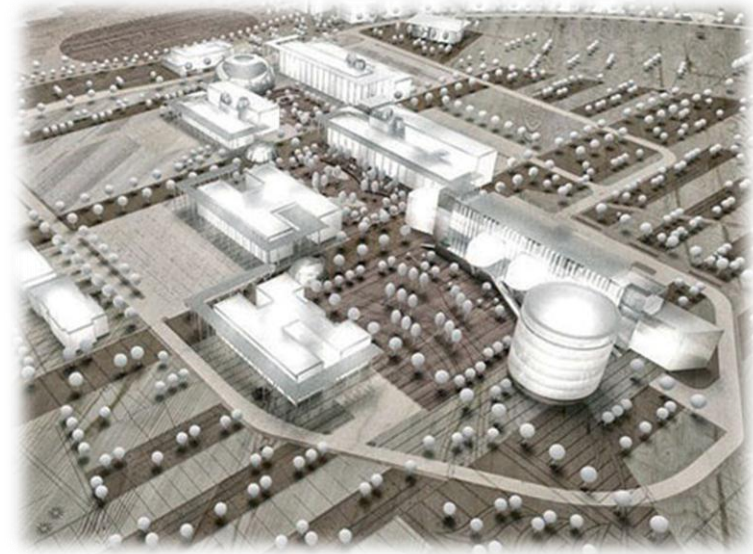
- The Overlapping of the Performance and Warranty bonds: the issuance of the WB was a condition for the release of the PAC  ▪ In the guarantee form, the expiry of the Performance Bond was a condition for the effectiveness of the Warranty Bond



Subjects

Policy Holder: Bank3 S.p.A.

Exporter: Società3 S.p.A. (Rating: BB-)



Project

Country of destination: **Libya**

Project Description: the project consists of the construction of modern buildings at the new campus of the University, including the departments and supporting services such as central management, central library, cafeterias and restaurants.



Contract

Type of offer: public tender

Contractual payments: at milestones – about 2% of the contractual value

Penalties: 0,05% per day up to a maximum of 10% of the contractual value

Law and Forum: Libyan Law, Court of Tripoli

Controversy Resolution: Ordinary Court

Bonds requested and SACE support

Bond requested:

- Advance Payment Bond: € 9.42 mln [15% of the contract]
- Performance Bond: € 6.28 mln [10% of the contract]

Bond duration:

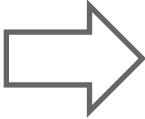
- Advance Payment Bond: 36 months [pre-defined expiry date]
- Performance Bond: 42 months [pre-defined expiry date]

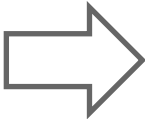
SACE cover: 80%

SACE remuneration: 120 bppa



Risks and Mitigants

- “High risk” country: risk of unfair calling of the bonds  ▪ An “Independent engineer clause” was inserted in the form of the SACE counter-guarantees

- Retroactive counter-guarantees: SACE support was requested 4 months after the issuance of the guarantees by the bank  ▪ SACE received a certified communication signed by the Exporter and the Policy Holder that no claims or adverse events have been verified by the time SACE issued the counter-guarantees



Subjects

Policy Holder: American Surety
Exporter: Società4 S.p.A. (Rating: BBB-)



Project

Country of destination: **U.S.A.**

Project Description: the project consists of the demolition and the replacement of a bridge, including roadwork, drainage, signing, guardrail, landscaping and work platform.



Contract

Type of offer: public tender

Contractual payments: at milestones

Penalties: up to a maximum of USD 3.782 per day

Law and Forum: Florida State Law, Court of Miami

Controversy Resolution: Alternate Dispute Review Board or State Court

Bonds requested and SACE support

Bond requested:

- Performance and Payment Bond: USD 10.93 mln [100% of the contract]

Bond duration:


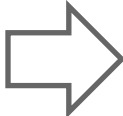
- Performance and Payment Bond: open-ended (expiry date at the completion of the work)

SACE cover: 60%

SACE remuneration: 100 bppa



Risks and Mitigants

- The SACE counter-guarantee was on a “first loss” basis 
 - SACE remuneration was higher than that applied in the case of a “pro-rata” basis counter-guarantee
-
- The SACE counter-guarantee was open ended, “pari passu” with the guarantee issued by the surety 
 - The track record of Società4 was very positive: several similar projects completed successfully

Easier access to credit

- For **SMEs**: insurance cover for funding of activities to promote growth in international markets granted under framework agreements with leading financial intermediaries
- For **Large Corporations**: insurance cover for loans earmarked for specific investments abroad or to cover requirements for working capital in connection with international contracts

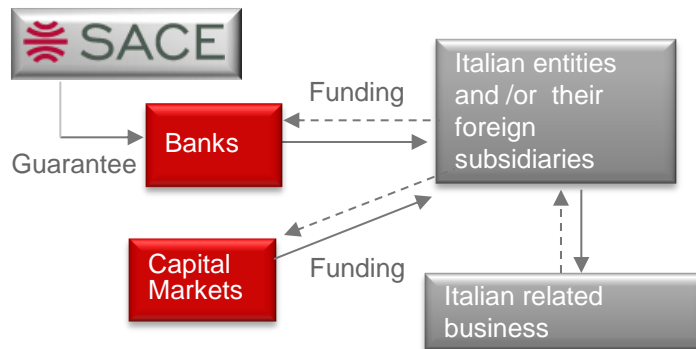
Advantages for the company that receives the loan

- Availability of favourable credit terms
- Access to loans with longer payment schedules

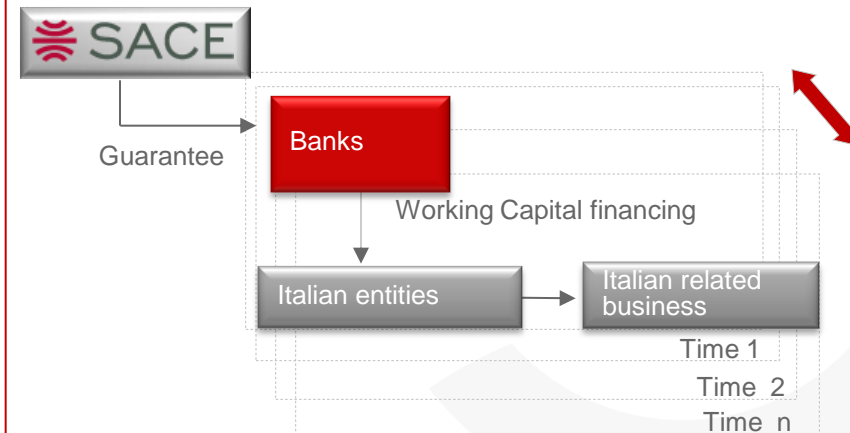
We facilitate access to credit by guaranteeing bank loans to companies

Structure

(I) Cross Border Invest. Facility



(II) Pre – Shipment



Target Clients

Italian corporates and /or their Foreign Subsidiaries/Affiliates in search of financing for strategic investments abroad, namely: (I) M&A, JVs, setting up of new production units as well as new subsidiaries (Trade Related & Cross Border Investment Facilities) and (II) working capital needs (Pre-shipment) for exports and civil works abroad.

Main Features

- First demand guarantee in favour of the funding bank
- Risk participation with the funding bank, on a % to be agreed, against non-payment risk
- Freeing up borrowers credit lines
- Participation Fee paid by the funding bank to SACE on an up front / running basis




Thank you for your attention!



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