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Britain's Lloyds Bank Pulls Out of Rosneft-BP Loan

By The Moscow Times

June 03, 2014



LONDON — Lloyds Bank, part-owned by the British government, has withdrawn from a $1.5 billion to $2 billion trade finance deal involving oil major Rosneft, in a development highlighting the growing unease among Western banks in funding Russian deals.

Lloyds, along with Deutsche Bank, HSBC and Bank of China was a mandated lead arranger on the loan to finance BP's purchase of crude oil and refined products from Rosneft.

The loan would be similar to previous such deals Rosneft had with BP or trading houses Glencore and Vitol but, according to banking sources close to the deal, Lloyds decided to walk away after several weeks of hesitation.

The bank is 25 percent-owned by the British government, which has repeatedly condemned Russia over its actions in Crimea and eastern Ukraine. Rosneft's powerful chief Igor Sechin was hit by U.S. sanctions as part of a broader move to punish Russia for the annexation

of Crimea.

"Lloyds' decision to leave the deal is because it does not want to embarrass the government, considering the current political situation with Russia," said one of the bankers. "I think it was scared of going upstairs to ask permission."

BP, Rosneft and Lloyds all declined to comment.

It is not clear yet if another bank will replace Lloyds as an MLA, the banker said. The loan has support from several lenders including Japanese, European and Chinese banks.

Rosneft and BP, via a specially created company, are trying to complete the financing, which is backed by Rosneft's future oil production. The loan was launched to banks in November but progress has been slow.

The deal stalled after the U.S. proposed sanctions against Sechin, a close ally of President Vladimir Putin, at the end of April.

"[The deal] is grinding forward at a glacially slow pace," said the banker.

However, bankers are confident that the deal will still be completed.

"Lloyds walking away doesn't change anything," said a second banker. "Lloyds is not a Russian player, something will get done anyway. The surprise is not that Lloyds has walked away but that it is there in the first place — its involvement was only based on its relationship with BP."

The facility pays a margin of 200 basis points plus fees.

Rosneft has become increasingly reliant on pre-payment loans as other sources of financing, including the bond markets, dry up for Russian companies.

Many Russian bankers have acknowledged growing difficulties in raising funds due to tensions with the West and sanctions.

Many Western banking chiefs snubbed the main Russian investment forum at the end of May although Rosneft and BP signed an important deal to explore for hard-to-recover oil in Russia.

Rosneft is also negotiating a similar $1.5 billion to $2 billion deal with Swiss energy trader Vitol. BP has a stake of just under 20 percent in Rosneft.

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