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Dear Customer

CHANGES TO THE OECD ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS (I.E. THE CONSENSUS)

I am writing to let you know about some changes to the Consensus regarding maximum repayment and flexible repayment structures that came into effect on 1 July.

Please note that these changes do not apply to transactions covered by the various OECD Sector Understandings on terms for Civil Aircraft, Ships and Nuclear Power Plant.

The attached ANNEX provides a review of the changes. Full details of the new Arrangement text are available on the OECD website www.oecd.org which should be read in conjunction with the attached ANNEX.

If you have any questions about these changes please ask your ECGD business team.

Yours sincerely

John Weiss

JOHN WEISS



INVESTOR IN PEOPLE

ANNEX

HIGHLIGHTS

The OECD Participants * have

1. Revised the terms of the Project Finance Understanding and incorporated these terms as a permanent feature of the Arrangement (new Article 7 and Annex X),
2. Defined the scope for allowing some flexibility in the repayment profile for 'standard' export credit business to better match the repayment profile to the available cash flows. (New Article 14 - which replaces Article 13)
3. Introduced a new 15 years maximum repayment terms for certain Renewable Energy and Water projects (New Annex IV)
4. *Australia, Canada, the European Community, Japan, Korea, New Zealand, Norway, Switzerland and the United States.

DETAIL

1 PROJECT FINANCE

Criteria

The characteristics of a Project Financing Transaction, which are listed at Annex X of the Arrangement, have been slightly amended

The General Description in the previous Arrangement text is now criteria 1a).

The word 'Greenfield' has been removed from criteria 1b) so that a major extension to an existing project may be considered for the same terms as the original project, subject to the transaction meeting all the other criteria.

There is minor rewording at criteria 1f) that clarifies that the transaction involves a non-sovereign buyer/borrower with, as before, no sovereign repayment guarantee.

There are no other changes to the Basic Criteria.

All Project Financing Transactions

The following applies to all PF cases regardless of the market;

- No repayment of principal may exceed 25% of the loan [no change]
- The first repayment of principal must be

- For at least 2% of the loan value [new] and
- Paid within 2 years of the starting point of credit [no change]
- Interest shall be paid
 - At least yearly [new] and
 - The first payment shall be paid within 6 months of the Starting Point of Credit (SPOC) [new]

There has also been a reduction in the length of time that must elapse before an ECA can make an offer of cover, having notified other countries of their intention to provide support for a Project Financing Transaction

Reference to 'Credit, Insurance or Guarantee' has been replaced by 'Loan' in recognition of the reality of PF business.

Projects in High Income OECD Countries

There are now two sets of terms for projects in High Income OECD countries. However the UK considers that most transactions in these markets can proceed without the need for ECGD support. In the event that ECGD is able to join a syndicate in support of a Project Finance Transaction in one of these markets the following maximum terms are available, although shorter terms may be more appropriate;

Where the combined ECA support is more than 35% but less than 50% of the loan syndication

- The maximum repayment term is 10 years [new] with a maximum Weighted Average Life of 5.25 years [no change]

Where the combined ECA support does not exceed 35% of the loan syndication,

- The maximum repayment term is 14 years with a maximum Weighted Average Life of 7.25 years

There are certain additional criteria for Projects Finance Transactions in High Income OECD countries. The ECA must

- Be a minority partner with pari pasu status throughout the 'life of the loan' [previously – 'a significant portion of the credit'], and
- Set premium rates that do not undercut available private market financing and that are commensurate with the corresponding rates being charged by other financial institutions that are participating in the syndication [new]

2 Non-Project Financing Business – Article 14

For most export credits the traditional repayment terms of equal 6 monthly instalments of principal and interest will continue to be the norm, with Annuity

or equalised instalments available for leasing transactions. However it is now possible to offer some flexibility in the repayment profile, although these 'non standard terms' will only be agreed on an exceptional and duly justified basis where there is a cash flow need.

Flexible Terms

- First repayment of principal may be made 12 months rather than 6 months after the starting point of credit, and may be as low as 2% of the loan value.
- The first repayment of interest, however, still needs to be paid within 6 months of the 'SPOC'.
- Thereafter annual payments of principal and interest are possible, although ECGD will generally require interest to be paid 6 monthly as at present.
- The size of each principal instalment may be varied but cannot exceed 25% of the loan value, within any 6 month period

Such flexible repayment terms must be repaid within

- 8.5 years in a Category 1 market, although 5 years remains the standard length of credit, and
- 10 years in a Category 2 markets.

The following maximum Average Weighted Life limits control the scope for flexibility

- For Sovereign Borrowers the maximum AWL is 4.5 years in Category 1 markets and 5.25 years in Category 2 markets
- For Non Sovereign Borrowers the maximum AWL is 5 years in Category 1 markets and 6 years in Category 2 markets
- Except for non-nuclear power plants, where the maximum credit is 12 years and the maximum AWL is 6.25 years.

3 Renewable Energy and Water

There is a new Sector Understanding for Renewable Energies and Water Projects at Annex IV that provides for a maximum credit of 15 years. These terms will operate for a 2-year trial period during which time the OECD will review experience gained. The eligible sectors are listed at Appendix 1.

Agreement has not been reached to extend these terms to Hydro Electric power plant as well, however this issue will be considered later this year.