

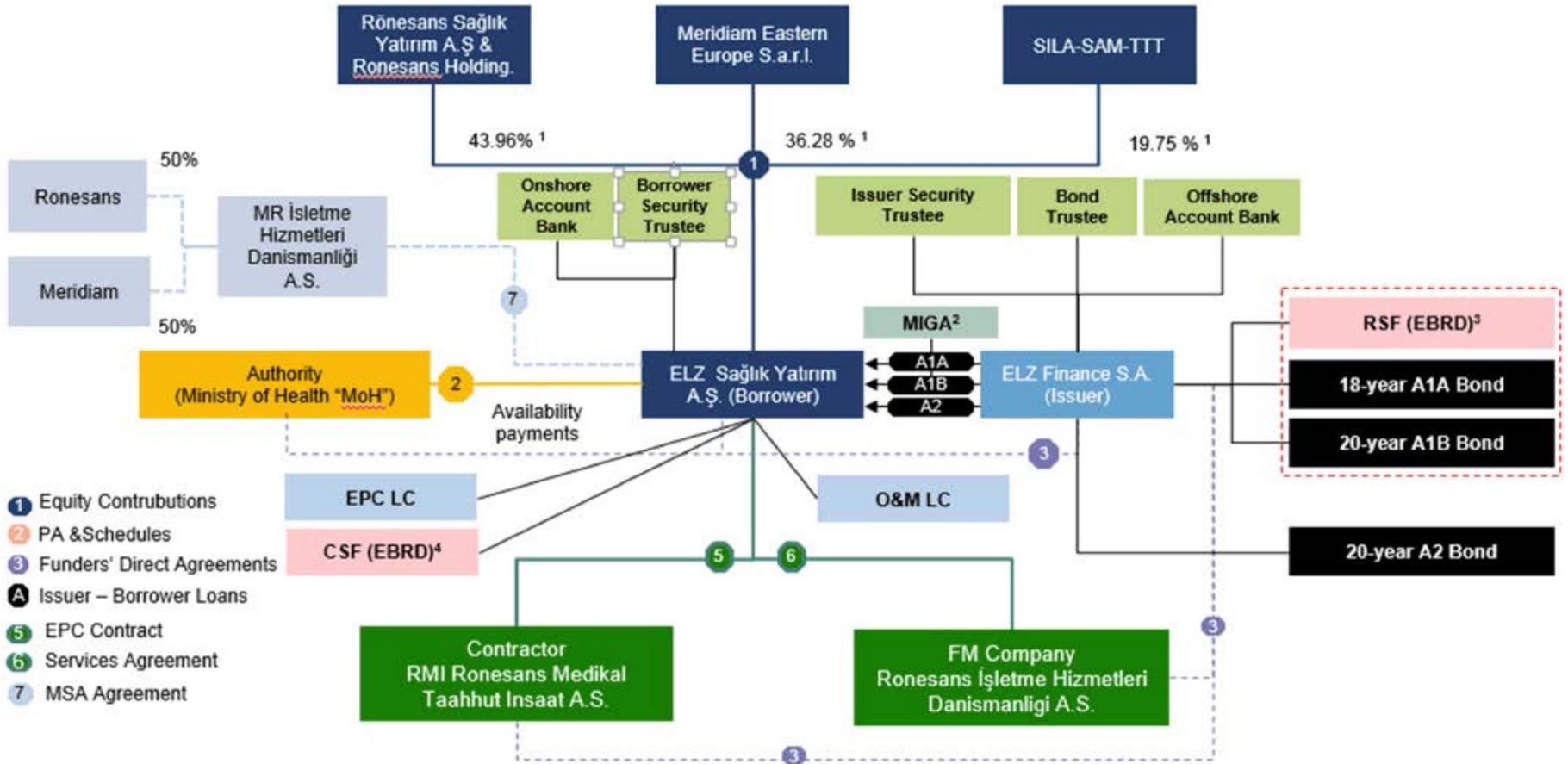


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# ELZ Finance S.A.

Assessing the benefit of multilateral credit enhancement

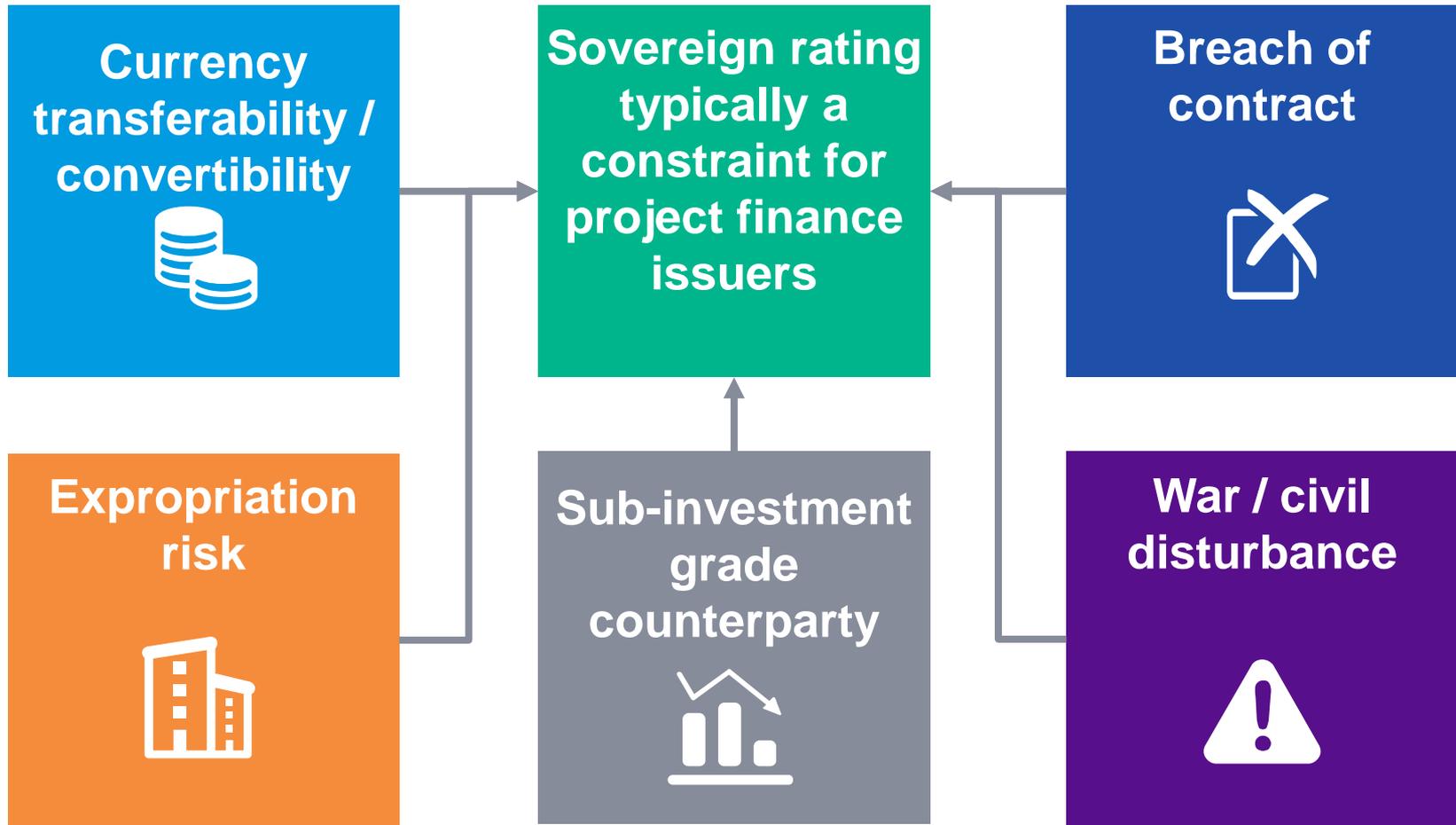
# Contractual structure



(1) These figures represent voting percentages; (2) PRI – Political Risk Insurance from MIGA in relation to the A1A and A1B Issuer – Borrower On-Loans; (3) RSF – Standby loan facility for the A1A and A1B Bonds from EBRD providing liquidity post MoH payment default; (4) CSF – EBRD facility functioning as a letter of credit, and part of construction support security package.

Source: ProjectCo

# Emerging markets present a number of credit challenges for project finance lenders...



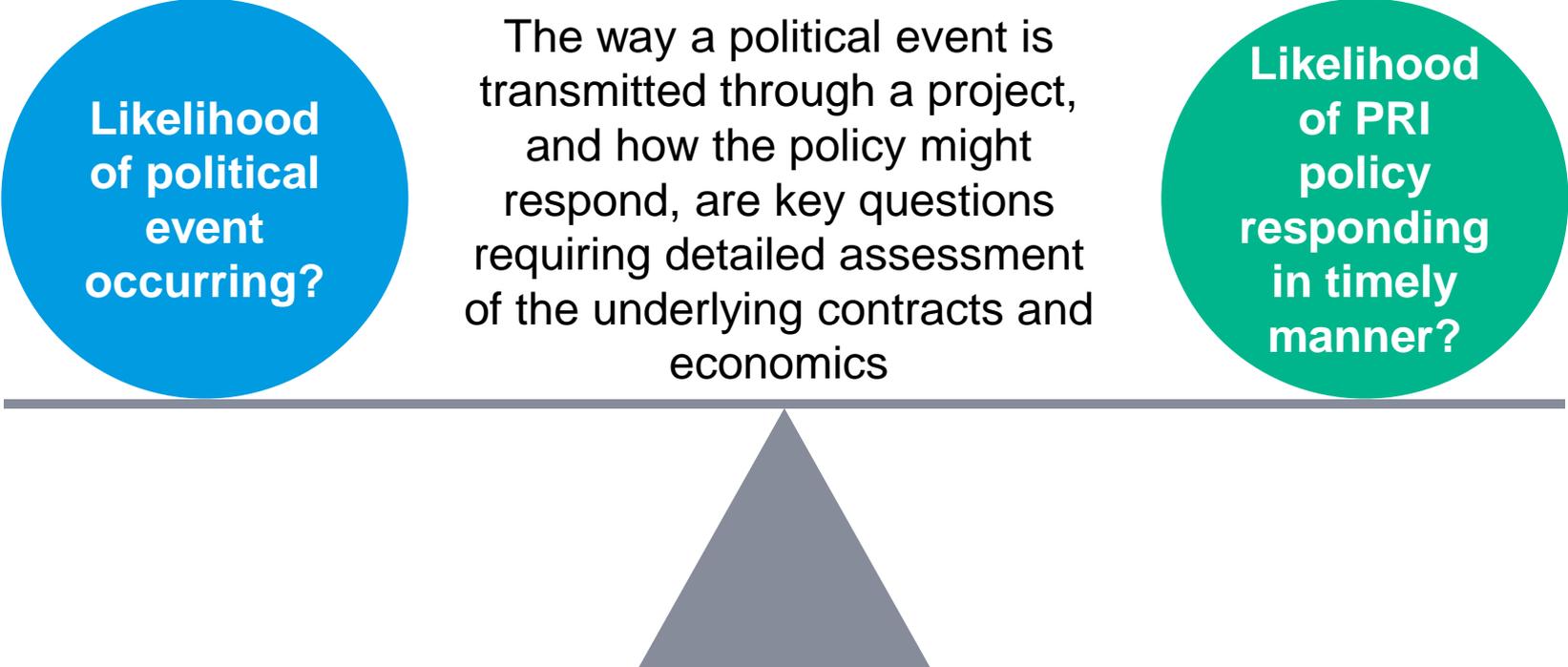
# ...but targeted risk mitigation has had tangible rating enhancement for ELZ Finance SA (Baa2 stable)

Multi-lateral enhancement supported rating 2 notches above Turkey's Ba1 sovereign rating

Multilateral involvement	Political risk insurance	Liquidity facility
<ul style="list-style-type: none"><li>- MIGA / EBRD preferred creditor status and potential deterrent effect given their activities in Turkey</li><li>- MIGA track record of resolving investment disputes</li><li>- EBRD technical and financial support for the Turkish PPP programme under €800m framework</li></ul>	<ul style="list-style-type: none"><li>- MIGA PRI policy designed to respond to (1) currency transfer / conversion restrictions; (2) expropriation; and (3) breach of contract (incl. arbitral award default and denial of recourse)</li><li>- However, policy requires waiting times, arbitration process, and achieving an arbitral award against the gov't before a claim for non-payment (breach of contract) can be made</li></ul>	<ul style="list-style-type: none"><li>- EBRD subordinated liquidity facility in construction and operations (covering c. 4 years of debt service), mitigates risk of protracted arbitration</li><li>- This facility can (1) keep the Issuer current on debt service while PRI claims process works through the necessary steps, after the DSRA has been consumed and (2) enhance recovery in an acceleration scenario</li></ul>

# Political risk insurance must be assessed with respect to the underlying project...

Relationship between project documents and the terms of the insurance policy is critical (e.g. scope of the insurer's liability and the process and timelines for making claims)



**Likelihood  
of political  
event  
occurring?**

The way a political event is transmitted through a project, and how the policy might respond, are key questions requiring detailed assessment of the underlying contracts and economics

**Likelihood  
of PRI  
policy  
responding  
in timely  
manner?**

## ...and policy definitions are standardised, but the project details drive reliability of response

**Expropriation by host government**

How is “Host Gov’t” defined? What is a “substantial benefit”, “fundamental right” in the context of the project?

**Breach of contract**

Requires achieving an arbitral award on the basis of underlying project agreement – can we be certain a breach has occurred?

**War, terrorism & civil disturbance**

Definition of insurable event? Definition of loss? Chain of causation – does event have “direct and immediate result”?

**Arbitration procedures**

Underlying project agreement sets dispute resolution procedures: seat of arbitration? Can gov’t apply to national courts for cancellation of award?

Note: The above is not exhaustive.

# PRI policy exclusions may have material credit impact

## Currency depreciation

Currency inconvertibility / non-transferability does not cover depreciation / devaluation. Debt and revenue mismatch requires mitigation

## Non-discriminatory measures

Actions by gov't that are general in nature – e.g. taxes, public safety, environmental protection – are not typically covered by the policy

## Regulatory change

Impacts from existing regulations, or unfavourable regulatory resets (if relevant<sup>1</sup>), would not likely qualify for breach of contract cover

## Breach of obligations

Policy would be invalid if, e.g., corrupt activity or breach of obligations to the gov't. Beneficiary must use reasonable efforts to minimise potential loss

**Potential transmission of sovereign risks to project, outside of the PRI scope**

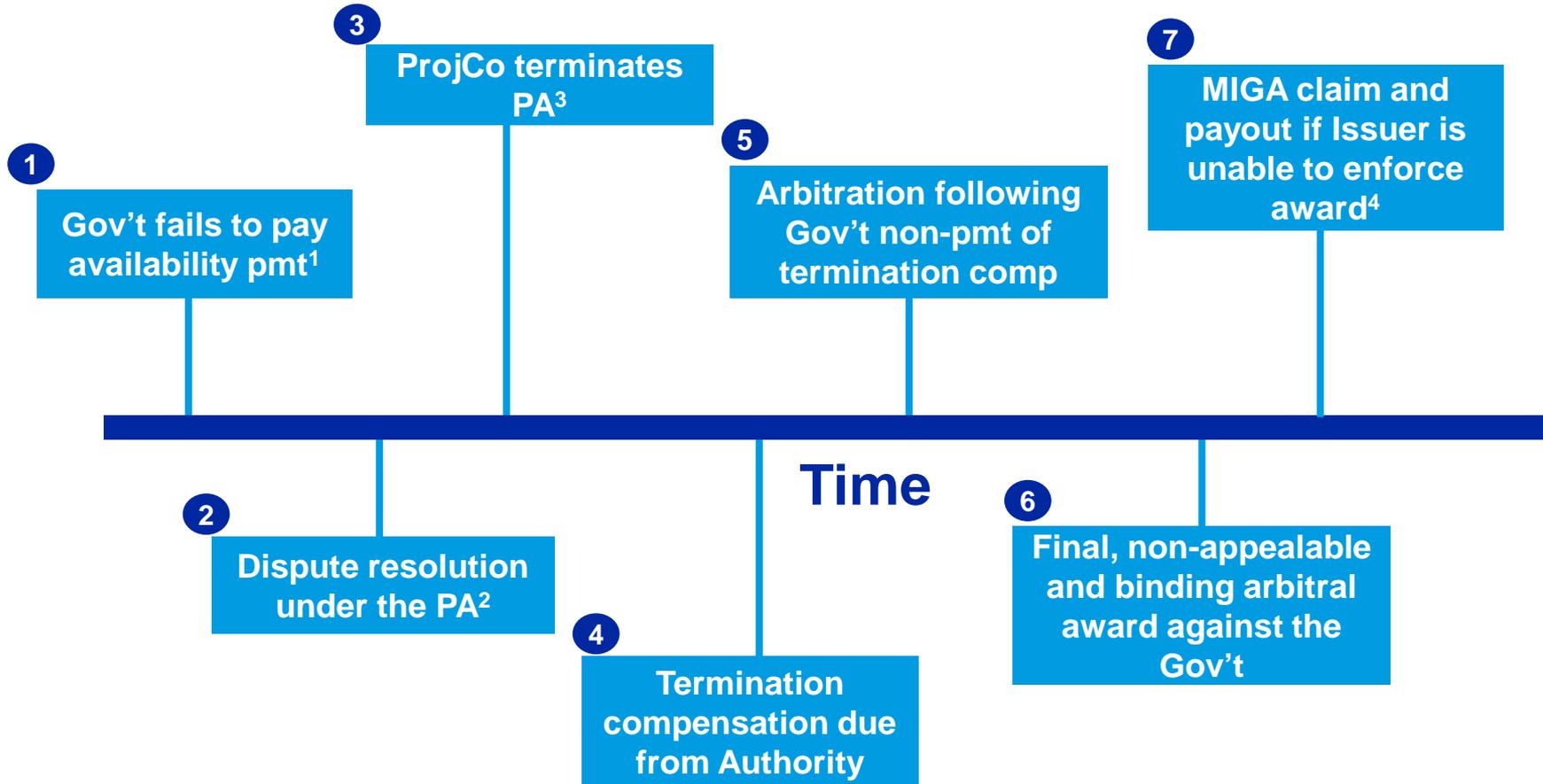
Notes: (1) for example, period regulatory review of allowed returns for utilities

# ELZ rating is supported by underlying project terms

Favourable project agreement terms complement (and interact with) credit enhancement



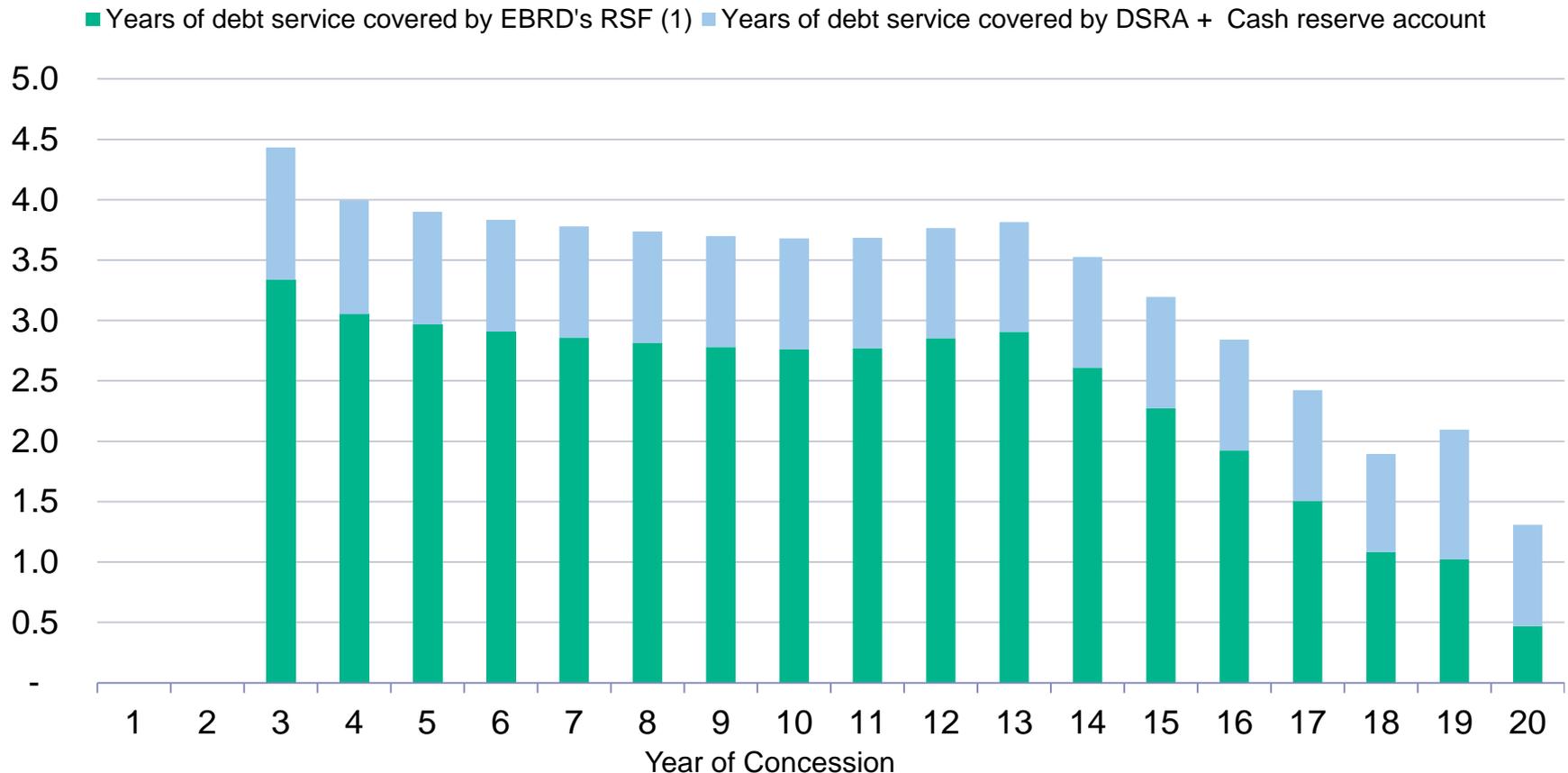
# The process for claiming under the PRI policy's breach of contract cover....



Notes: (1) Subject to grace period; (2) If Gov't renders the operation of the dispute resolution procedure impossible or exceptionally hazardous, the policy holder may claim for "Denial of Recourse" under the PRI; (3) After six month standstill under the finance docs; (4) subject to compliance with policy terms and conditions, including applicable waiting period (180 days from Date of Award).

# ...exposes lenders to arbitration, and potential liquidity strain, but the EBRD facility provides resilience

Nearly 4 years of debt service liquidity available for most of the tenor



Source: ELZ Finance SA financial model; Moody's

Notes: (1) RSF = Revenue Support Facility; (2) Years 1 and 2 are the construction phase

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