

MINISTRY PAPER No. _____

Refinancing of €204.4 million loan to The Development Bank of Jamaica from Banco de Desarrollo Economico y Social de Venezuela (Bandes) which was on lent to the National Road Operating and Constructing Company Limited (NROCC) and guaranteed by the Government of Jamaica

AND

Government Guarantee under the provisions of the Approved Organizations and Authorities (Government Guarantee) Act respect of a bond issue with a face value of US\$ equivalent of €204, 386,447 by NROCC under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act.

1.0 INTRODUCTION

1.1 The Honorable House of Representatives is being asked to approve:

(A) The refinancing of a €204, 386,447. Note through the Issue of a new bond by the National Road Operating and Constructing Limited (NROCC). The issuance of the bond will facilitate:

- a. Early repayment of an existing loan from Banco de Desarrollo Economico y Social de Venezuela (Bandes) to the Development Bank of Jamaica (DBJ) in the amount of €204,386,447 at 7.5% that was on lent to the National Road Operating and Constructing Company Limited (NROCC) at 7.75%.
- b. Unwinding of an existing €/US\$ cross currency derivative (swap) held with Citibank N.A that was used to hedge the Euro exposure of the above loan for which a conditional Government of Jamaica (GOJ) guarantee was issued in the amount of up to US\$79 million.
- c. Contribution of US\$35.15 for NROCC's subordinated loan to Trans Jamaica Highway Limited for the construction of phase 1B1 of Highway 2000 derived from the proceeds of the proposed bond issue.

(B) The issue of a new GOJ guarantee in the amount of the US\$ equivalent of €204, 386,447, the face value of the existing Notes being redeemed

2.0 BACKGROUND

2.1 Cabinet will recall that by its Decision No. 37/08, dated 3 November 2008, approval was given for a Parliamentary Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act, to come into effect in April 2009, in support of a loan of €204.4 million from the Development Bank of Jamaica Limited (DBJ) to NROCC The loan from DBJ to NROCC was lent at 7.75%, with the source of funds being a facility with the Banco de Desarrollo Economico y Social de Venezuela (Bandes) to DBJ in the amount of €204, 386,447.

2.2 Cabinet will further recall that by its Decision No. 22/09, dated 26 May, 2009, it had granted its approval for a Parliamentary Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act in the amount of US\$79 million to support the DBJ's satisfaction of certain credit conditions required by Citibank NA under the terms of a cross currency swap entered into in March 2008 as a means of hedging against the volatility of the Euro in relation to the loan of €204.4 million from DBJ to NROCC.

2.3 Following the swap the revised terms of the loan are as follows:

- a) The debt being serviced at the date of execution of the swap agreement was for the conversion of the €204,386,447 at the prevailing EUR/ US\$ spot rate of \$1.524 which translated to US\$310,896,000.
- b) The interest rate was revised to 8.29% in US\$ terms. Due to the weakening of the Euro, and as a result of the swap transaction, the debt service payments being made by DBJ and NROCC exceed the amount of the actual debt service amount due to the Note holders. That is, the actual payments are US\$25,773,300, versus US\$20,349,000, (the current conversion of the Euro to US\$).
- c) A Credit Support Annex (CSA) requiring an independent amount of US\$2.331 million to be posted at each payment period. To date, DBJ has posted an amount of up to US\$15 million, in addition to making debt service payments. The CSA allows for the amounts posted to be returned at the maturity of the swap.

3.0 ISSUE

3.1 NROCC and DBJ, in seeking to find a solution to unwind the swap and satisfy NROCC's pending obligations regarding Highway 2000 for Phase 1B1 in the amount of up to US\$35.15 million, requested that NROCC's advisors, PricewaterhouseCoopers (PwC) to examine the opportunities that may be available to it via its existing debt facilities for raising the additional funds. The constraints of the mandate issued by the parties are that:

- a. The level of GOJ's guarantees already in issue should not be exceeded.
- b. The existing GOJ's debt service obligations in absolute terms should not be increased.

3.2 In performing its mandate, PwC compiled and presented certain preliminary information and a sent out a request for proposals for financing to several local and international financial institutions, including:

- a. Blaylock Robert Van/ Capital and Credit Merchant Bank (Blaylock/CCMB)
- b. Credit Suisse/ Jamaica Money Market Brokers (CS/JMMB)
- c. Goldman Sachs (GS)

- d. OPEC Fund for International Development (OFID)
- e. Standard New York Securities (Standard New York Securities)

3.3 The proposals were evaluated and the joint CS/ JMMB proposal has emerged as the preferred proposal for the following reasons:

- a. CS/JMMB has identified an opportunity that will allow for the redemption of the existing Notes at a discount of up to €61.3 million (30% of the face value of the existing Notes). The funds that will become available as a result of the discount are anticipated to be used to unwind the cross currency derivative that has become disadvantageous to DBJ and by extension NROCC because of the significant weakening of the Euro against the US\$. In addition, it is anticipated that there will be funds remaining following the unwinding of the swap, which may be used to fund Phase 1B1 obligations of Highway 2000 in the amount of up to US\$35.15 million. The Notes will be repurchased by Jamaica Money Market (not the Government of Jamaica) through normal market trading, at a discount and savings to NROCC of up to 30% or €61.3million.
- b. The proposal sets out a bond offering of up to the US\$ equivalent of the €204.386 million (est. at US\$270 million based on the current exchange rates), which requires a GOJ guarantee of no more than currently obtains for the existing Notes.
- c. The marketing strategy is that distribution of the new note will be done locally, and on the international market by both CS and JMMB.

3.4 The above transaction presents a unique opportunity of redeeming the existing loan at a discount and issuing its replacement; further the issuance of the new instrument will not lead to an increase in the current debt service requirements of NROCC nor will it require any increase in the level of GOJ guarantees issued in respect of NROCC. In addition, the transaction will provide US\$35.15mm for the construction of phase 1B1 of Highway 2000 from Sandy Bay to Four Path and also contribute to the unwinding of the swap mentioned above.

3.5 Further this transaction may result in the termination of a conditional guarantee issued by the Government of Jamaica for US\$79 Million in favour of Citibank dated August 10, 2009.

3.6 The terms of the new bonds are as follows:

Interest rate/coupon	- 9.375% (per annum)
Tenor	- 12 years
Interest payable	- semi annually
Principal	- Repayments: bullet principal repayment on maturity
Amount	- up to US\$275 million
Offering	- Reg. S/144A
Timing	- Up to nine weeks from the signed mandate.

- 3.7 The financing terms of the transaction include a higher coupon and a shorter tenor, however, the transaction presents the opportunities to free the government from certain contingent liabilities inherent in the existing arrangement by way of the unwinding of the existing swap arrangement and removing the necessity to posting any further cash or collateral due to margin calls, as well as the requirement to fund a reserve account at each payment date.
- 3.8 Time is of the essence in achieving a successful close to this transaction, as there are several market variables that may affect the bond price including:
- a. The continued willingness of the existing Note holder to sell at a discount
 - b. There has been some rebounding of the Jamaican capital markets; following the rating agency upgrade in March 2010 as such the window of opportunity for redemption of the Notes may close if not pursued immediately.

4.0 FEES AND SECURITY

4.1 Section 3(2) of the Approved Organisations and Authorities (Government Guarantee) Act stipulates the payment to the Government of a commission not exceeding one per centum of the amount borrowed. Accordingly, it is proposed that NROCC pay to the Government a guarantee fee at the rate of 0.125% of the amount to be guaranteed, prior to the execution of the Guarantee.

4.2 In the event that the Government is required to make any payment under the loan to be guaranteed hereby, it is proposed that such payments would be a first charge upon the revenues and assets of NROCC to be repaid or liquidated on terms to be agreed with the Ministry of Finance and the Public Service.

5.0 CONSULTATIONS

5.1 NRROC and its advisors PwC has been in consultation with the Ministries of Transport and Works, and Finance and the Public Service regarding the proposed transactions.

5.2 As indicated above it is therefore recommended that:

- a. The proposal of CS/ JMMB be accepted and a mandate is awarded to them.
- b. New bonds in the amount of the US\$ equivalent of €204.4 million are issued.
- c. A replacement guarantee of up to €204.4 million (or the US\$ equivalent) be issued to the new bond holders.
- d. The existing Notes be the subject of an early redemption by NROCC, and subsequently by DBJ, and the associated GOJ guarantee released.
- e. The existing cross currency swap is terminated and the associated GOJ guarantee, released.

- f. The funding of Phase 1B1 obligations of NROCC in relation to Highway 2000 in the amount of up to US\$35.15 million from the proceeds of the bond issuance.

5.3 There is no funding available in the current year's Budget to effect the unwinding of the Swap between Citibank and DBJ and to provide support to NROCC in the amount of US\$35.15 million. In this regard, the transaction is supported. However, the appropriate timing of the transaction is a matter for consideration in order to ensure the smooth and successful completion given the possible execution risks associated with the issuance component of the transaction. The recommendation therefore, is for the underwriters to undertake the necessary preparatory work and cautiously assess the market before making an approach.

6.0 RECOMMENDATIONS

6.1 The Honourable House of Representatives is accordingly asked to approve:

- a) The retention of Credit Suisse/ Jamaica Money Market Brokers to issue the new bonds on behalf of NROCC.
- b) Issue of new bonds in the amount of the US\$ equivalent of the face value of the existing bonds of €204, 386,447 on the local and international markets which will fund the early redemption of the existing Notes, the restructuring or unwinding of the derivative and provide a further sum of up to US\$35.15 million to finance certain obligations of NROCC under the concession agreement of Highway 2000 for Phase 1B1.
- c) Issue a GOJ guarantee under the provisions of the Approved Organizations and Authorities (Government Guarantee) Act in the amount of the US\$ equivalent of the face value of the existing bonds of €204, 386,447, in favour of the local and international investors.
- d) Early repayment of an existing loan from Banco de Desarrollo Economico y Social de Venezuela (Bandes) to the Development Bank of Jamaica (DBJ) in the amount of €204,386,447 at 7.5%, that was on lent to the National Road Operating and Constructing Company Limited (NROCC), which will be financed via the issuance of the above instruments.
- e) Unwinding of an existing €/US\$ cross currency derivative (swap) held with Citibank N.A that was used to hedge the Euro exposure of the loan into US\$, for which a conditional Government of Jamaica (GOJ) guarantee was issued in the amount of up to US\$79 million.
- f) Refinancing of an existing loan of the National Road Operating and Constructing Company Limited (NROCC) in the amount of €204, 386,447 at 7.75% due to the Development Bank of Jamaica that was guaranteed by the GOJ.

- g) The charge of a guarantee fee at the rate of 0.125% in accordance with Section 3(2) of the Approved Organizations and Authorities Loan (Government Guarantee) Act; and
- h) The moving of the appropriate Resolution.



Audley Shaw, MP
Minister of Finance and the Public Service
June 16, 2010

BRIEF

1. Refinancing of €204.4 million loan to the Development Bank of Jamaica from Banco de Desarrollo Economico y Social de Venezuela (Bandes) which was onlent to the National Road Operating and Constructing Company Limited (NROCC) and guaranteed by the Government of Jamaica

2. Issue of a guarantee in respect of a bond issue with a face value of US\$ equivalent of €204, 386,447 by NROCC under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act.

The caption matters are to be presented for consideration of the House. HMF&PS should note that the transaction will constitute two separate transactions namely the repurchase of the existing Note at a discount, and the issuance of a new Note in the face value of the equivalent to the existing Note.

The transaction to be undertaken by the National Road Operating and Constructing Limited (NROCC) will facilitate:

- Early repayment of an existing loan from Banco de Desarrollo Economico y Social de Venezuela (Bandes) to the Development Bank of Jamaica (DBJ) in the amount of €204,386,447 at 7.5% that was on lent to the National Road Operating and Constructing Company Limited (NROCC) at 7.75%.
- Unwinding of an existing €/US\$ cross currency derivative (swap) held with Citibank N.A that was used to hedge the Euro exposure of the above loan for which a conditional Government of Jamaica (GOJ) guarantee was issued in the amount of up to US\$79 million.
- Contribution of US\$35.15M for NROCC's subordinated loan to Trans Jamaica Highway Limited for the construction of phase 1B1 of Highway 2000 derived from the proceeds of the proposed bond issue.

The Note being refinanced as well as the ancillary obligation thereto, in the form of a €/US\$ cross currency derivative (swap) held with Citibank N.A, that was used to hedge the Euro exposure of the referenced loan were both guaranteed by the Government of Jamaica. It is contemplated that by effecting the proposed transactions that:

- The level of GOJ's guarantees already in issue will not be exceeded.
- The existing GOJ's debt service obligations in absolute terms will not be increased.

CABINET SUBMISSION

Refinancing of €204.4 million loan to The Development Bank of Jamaica from Banco de Desarrollo Economico y Social de Venezuela (Bandes) which was onlent to the National Road Operating and Constructing Company Limited (NROCC) and guaranteed by the Government of Jamaica

AND

Issue of a guarantee in respect of a bond issue with a face value of US\$ equivalent of €204, 386,447 by NROCC under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act.

1.0 INTRODUCTION

1.1 Cabinet is being asked to consider and give its approval for:

(A) The refinancing of a €204, 386,447. Note through the Issue of a new bond by the National Road Operating and Constructing Limited (NROCC). The issuance of the bond will facilitate:

- a. Early repayment of an existing loan from Banco de Desarrollo Economico y Social de Venezuela (Bandes) to the Development Bank of Jamaica (DBJ) in the amount of €204,386,447 at 7.5% that was on lent to the National Road Operating and Constructing Company Limited (NROCC) at 7.75%.
- b. Unwinding of an existing €/US\$ cross currency derivative (swap) held with Citibank N.A that was used to hedge the Euro exposure of the above loan for which a conditional Government of Jamaica (GOJ) guarantee was issued in the amount of up to US\$79 million.
- c. Contribution of US\$35.15 for NROCC's subordinated loan to Trans Jamaica Highway Limited for the construction of phase 1B1 of Highway 2000 derived from the proceeds of the proposed bond issue.

(B) The issue of a new GOJ guarantee in the amount of the US\$ equivalent of €204, 386,447, the face value of the existing Notes being redeemed.

2.0 BACKGROUND

2.1 Cabinet will recall that by its Decision No. 37/08, dated 3 November 2008, approval was given for a Parliamentary Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act, to come into effect in April 2009, in support of a loan of €204.4 million from the Development Bank of Jamaica Limited (DBJ) to NROCC. The loan from DBJ to NROCC was lent at 7.75%, with the source of funds being a facility with the Banco de Desarrollo Economico y Social de Venezuela (Bandes) to DBJ in the amount of €204, 386,447.

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2.2 Cabinet will further recall that by its Decision No. 22/09, dated 26 May, 2009, it had granted its approval for a Parliamentary Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act in the amount of US\$79 million to support the DBJ's satisfaction of certain credit conditions required by Citibank NA under the terms of a cross currency swap entered into in March 2008 as a means of hedging against the volatility of the Euro in relation to the loan of €204.4 million from DBJ to NROCC.

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- a) The debt being serviced at the date of execution of the swap agreement was for the conversion of the €204,386,447 at the prevailing EUR/ US\$ spot rate of \$1.524 which translated to US\$310,896,000.
- b) The interest rate was revised to 8.29% in US\$ terms. Due to the weakening of the Euro, and as a result of the swap transaction, the debt service payments being made by DBJ and NROCC exceed the amount of the actual debt service amount due to the Note holders. That is, the actual payments are US\$25,773,300, versus US\$20,349,000, (the current conversion of the Euro to US\$).
- c) A Credit Support Annex (CSA) requiring an independent amount of US\$2.331 million to be posted at each payment period. To date, DBJ has posted an amount of up to US\$15 million, in addition to making debt service payments. The CSA allows for the amounts posted to be returned at the maturity of the swap.

3.0 ISSUE

3.1 NROCC and DBJ, in seeking to find a solution to unwind the swap and satisfy NROCC's pending obligations regarding Highway 2000 for Phase 1B1 in the amount of up to US\$35.15 million, requested that NROCC's advisors, PricewaterhouseCoopers (PwC) to examine the opportunities that may be available to it via its existing debt facilities for raising the additional funds. The constraints of the mandate issued by the parties are that:

- a. The level of GOJ's guarantees already in issue should not be exceeded.
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3.2 In performing its mandate, PwC compiled and presented certain preliminary information and a sent out a request for proposals for financing to several local and international financial institutions, including:

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- d. OPEC Fund for International Development (OFID)
- e. Standard New York Securities (Standard New York Securities)

3.3 The proposals were evaluated and the joint CS/ JMMB proposal has emerged as the preferred proposal for the following reasons:

- a. CS/JMMB has identified an opportunity that will allow for the redemption of the existing Notes at a discount of up to €61.3 million (30% of the face value of the existing Notes). The funds that will become available as a result of the discount are anticipated to be used to unwind the cross currency derivative that has become disadvantageous to DBJ and by extension NROCC because of the significant weakening of the Euro against the US\$. In addition, it is anticipated that there will be funds remaining following the unwinding of the swap, which may be used to fund Phase 1B1 obligations of Highway 2000 in the amount of up to US\$35.15 million. The Notes will be repurchased by Jamaica Money Market (not the Government of Jamaica) through normal market trading, at a discount and savings to NROCC of up to 30% or €61.3million.
- b. The proposal sets out a bond offering of up to the US\$ equivalent of the €204.386 million (est. at US\$270 million based on the current exchange rates), which requires a GOJ guarantee of no more than currently obtains for the existing Notes.
- c. The marketing strategy is that distribution of the new note will be done locally, and on the international market by both CS and JMMB.

3.4 The above transaction presents a unique opportunity of redeeming the existing loan at a discount and issuing its replacement; further the issuance of the new instrument will not lead to an increase in the current debt service requirements of NROCC nor will it require any increase in the level of GOJ guarantees issued in respect of NROCC. In addition, the transaction will provide US\$35.15mm for the construction of phase 1B1 of Highway 2000 from Sandy Bay to Four Path and also contribute to the unwinding of the swap mentioned above.

3.5 Further this transaction may result in the termination of a conditional guarantee issued by the Government of Jamaica for US\$79 Million in favour of Citibank dated August 10, 2009.

3.6 The terms of the new bonds are as follows:

Interest rate/coupon	- 9.375% (per annum)
Tenor	- 12 years
Interest payable	- semi annually
Principal	- Repayments: bullet principal repayment on maturity
Amount	- up to US\$275 million
Offering	- Reg. S/144A
Timing	- Up to nine weeks from the signed mandate.

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- 3.7 The financing terms of the transaction include a higher coupon and a shorter tenor, however, the transaction presents the opportunities to free the government from certain contingent liabilities inherent in the existing arrangement by way of the unwinding of the existing swap arrangement and removing the necessity to posting any further cash or collateral due to margin calls, as well as the requirement to fund a reserve account at each payment date.
- 3.8 Time is of the essence in achieving a successful close to this transaction, as there are several market variables that may affect the bond price including:
- a. The continued willingness of the existing Note holder to sell at a discount
 - b. There has been some rebounding of the Jamaican capital markets; following the rating agency upgrade in March 2010 as such the window of opportunity for redemption of the Notes may close if not pursued immediately.

4.0 FEES AND SECURITY

4.1 Section 3(2) of the Approved Organisations and Authorities (Government Guarantee) Act stipulates the payment to the Government of a commission not exceeding one per centum of the amount borrowed. Accordingly, it is proposed that NROCC pay to the Government a guarantee fee at the rate of 0.125% of the amount to be guaranteed, prior to the execution of the Guarantee.

4.2 In the event that the Government is required to make any payment under the loan to be guaranteed hereby, it is proposed that such payments would be a first charge upon the revenues and assets of NROCC to be repaid or liquidated on terms to be agreed with the Ministry of Finance and the Public Service.

5.0 CONSULTATIONS

5.1 NRROC and its advisors PwC has been in consultation with the Ministries of Transport and Works, and Finance and the Public Service regarding the proposed transactions.

5.2 As indicated above it is therefore recommended that

- a. The proposal of CS/ JMMB be accepted and a mandate is awarded to them.
- b. New bonds in the amount of the US\$ equivalent of €204.4 million are issued.
- c. A replacement guarantee of up to €204.4 million (or the US\$ equivalent) be issued to the new bond holders.
- d. The existing Notes be the subject of an early redemption by NROCC, and subsequently by DBJ, and the associated GOJ guarantee released.
- e. The existing cross currency swap is terminated and the associated GOJ guarantee, released.

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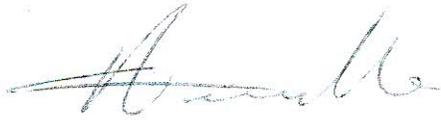
- f. The funding of Phase 1B1 obligations of NROCC in relation to Highway 2000 in the amount of up to US\$35.15 million from the proceeds of the bond issuance.

5.3 There is no funding available in the current year's Budget to effect the unwinding of the Swap between Citibank and DBJ and to provide support to NROCC in the amount of US\$35.15 million. In this regard, the transaction is supported. However, the appropriate timing of the transaction is a matter for consideration in order to ensure the smooth and successful completion given the possible execution risks associated with the issuance component of the transaction. The recommendation therefore, is for the underwriters to undertake the necessary preparatory work and cautiously assess the market before making an approach.

6.0 RECOMMENDATIONS **CONFIDENTIAL**

- 6.1 Accordingly, Cabinet is requested to grant its approval for the following:
 - a. The retention of Credit Suisse/ Jamaica Money Market Brokers to issue the new bonds on behalf of NROCC.
 - b. Issue of new bonds in the amount of the US\$ equivalent of the face value of the existing bonds of €204, 386,447 on the local and international markets which will fund the early redemption of the existing Notes, the restructuring or unwinding of the derivative and provide a further sum of up to US\$35.15 million to finance certain obligations of NROCC under the concession agreement of Highway 2000 for Phase 1B1.
 - c. Issue a GOJ guarantee under the provisions of the Approved Organizations and Authorities (Government Guarantee) Act in the amount of the US\$ equivalent of the face value of the existing bonds of €204, 386,447, in favour of the local and international investors.
 - d. Early repayment of an existing loan from Banco de Desarrollo Economico y Social de Venezuela (Bandes) to the Development Bank of Jamaica (DBJ) in the amount of €204,386,447 at 7.5%, that was on lent to the National Road Operating and Constructing Company Limited (NROCC), which will be financed via the issuance of the above instruments.
 - e. Unwinding of an existing €/US\$ cross currency derivative (swap) held with Citibank N.A that was used to hedge the Euro exposure of the loan into US\$, for which a conditional Government of Jamaica (GOJ) guarantee was issued in the amount of up to US\$79 million.
 - f. Refinancing of an existing loan of the National Road Operating and Constructing Company Limited (NROCC) in the amount of €204, 386,447 at 7.75% due to the Development Bank of Jamaica that was guaranteed by the GOJ.

- g. The introduction into the House of Parliament of the appropriate Ministry Paper; and
- h. The moving of the appropriate Resolution of the House of Representatives.



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Audley Shaw, MP
Minister of Finance and the Public Service
June 3, 2010

RESOLUTION

BE IT RESOLVED, that with reference to Ministry Paper No. dated June 15, 2010 which was laid on the Table of the House of Representatives on June 22, 2010, that the Honourable House of Representatives approved (i) the refinancing of €204.4 million loan to The Development Bank of Jamaica from Banco de Desarrollo Economico y Social de Venezuela (Bandes) which was on lent to the National Road Operating and Constructing Company Limited (NROCC) and guaranteed by the Government of Jamaica; and (ii) the granting of a Government Guarantee to NROCC under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act for loans amounting to the USD equivalent of €204.386,447