

CROYDON & LEWISHAM STREETLIGHTING REFINANCING

FINANCIAL CLOSE PROTOCOL

MARCH 2023

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2. Introduction

2.1 PURPOSE OF THE CLOSING PROTOCOL

The purpose of this protocol (the “**Protocol**”) is to detail the activities to be undertaken in the lead up to financial close (“**Financial Close**”) by the parties specified to be involved in the closing process for the refinancing of the Croydon & Lewisham Streetlighting PFI project (the “**Project**”).

The refinancing will involve:

- the repayment of the existing senior term loan facility (the “**Existing Loan**”) and the cancellation of the associated change in law facility;
- the issuance of a new senior fixed rate term loan facility (“**Aviva Loan**”) plus associated change in law and debt service reserve facilities; and
- breaking the current interest rate swaps between the Borrower and the Existing Hedge Providers (“**Existing Interest Rate Swaps**”).

This protocol is intended to provide control and co-ordination during the process of closing and fixing the coupon and the notional of the Aviva Loan.

The close process will produce a financial close financial model which determines various items for the legal documents, including the size of the Refinancing Gain, the size of the Aviva Loan, the size of swap breakage costs and the size of any upstream loan.

2.2 DRY RUNS

Pricing is currently scheduled for [27 February] 2023 with swap termination on [1 March] 2023. Dry runs of the process detailed in this paper will be undertaken in advance of Financial Close in order to ensure that all parties are familiar with the process and procedures. The purpose of the dry run process is to:

- Practise the stages of the Protocol, in order to ensure that the planned process satisfies all the requirements of the parties involved;
- Ensure that all parties involved in the process know what is required of them, at what time their pricing becomes “live”, at what time their go/no-go decisions are to be taken;
- Ensure that the financial close process proceeds as quickly and smoothly as possible in order to minimise the risk that movements in market rates around the date of Financial Close prevent and delay an orderly Financial Close; and
- Allow pricing and swap breakage costs to be tracked in the period leading up to the date of Financial Close.

Lessons learned in the dry runs will be incorporated on an ongoing basis within the Protocol.

The dry runs will be run as “dress rehearsals”, i.e. with most if not all parties who will be involved on the date of Financial Close, with the intention of proceeding as if the dry run day is in fact the Financial Close.

Proposed dates for the dry runs are set out below:

Dry Run Timetable	Date	Time	Location
1.	10 January 2023	11:00	By conference call
2.	23 February 2023	10:30	By conference call
3.	TBD	[xx]:00	By conference call

Times stated above are provisional depending on the relevant parties' availability and are subject to change dependent on progress and timetable.

3. Key parties

Organisation	Role	Representative
Croydon and Lewisham Lighting Services Limited	Borrower	[Tom Cunningham]
The Mayor and Burgesses of the London Borough of Croydon The Mayor and Burgesses of the London Borough of Lewisham	Authority	Darrell Jones (Croydon) Katherine Nidd (Lewisham)
Aviva	Incoming Debt Provider	Alex Woods Selma Salkovic
Lloyds Debt	Existing Facility Agent	Mabel Osei
Lloyds Swap	Existing Hedge Provider	Richard Murphy Tim Saigol
NIBC Swap	Existing Hedge Provider	Marco Bakker Mirja Ciere
Operis Advisory	Borrower Financial Advisor	Chris Aldred Darryl Ooi David Rushton Kishan Patel Robbie Coulson
Local Partnerships	Authority Financial Advisor	Mike Read David Ball
Chatham	Borrower Hedging Advisor	Hugo Cusani Ashfar Uddin Afham Raoof Karen Pang Omar Khattab

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		Rishin Patel
Freeths	Borrower Legal Advisor	James Larmour
CMS (Aviva)	Aviva Legal Advisor	Michael Urquhart William Simmons
CMS (Exiting Lender)	Existing Lender Legal Advisor	Jenny Allan
Browne Jacobson	Authority Legal Advisor	Craig Elder Paul Hill Neil Kates James Busby
Operis Audit	Model Auditor	Alex Winkler David Rosel Emily Drew

The table below summarises the key final variables that will be confirmed during the close process, the party responsible and anticipated timing (it is in the expected chronological order).

Confirmation	Value	Timing	Party
Redemption Amount	[£x]	COB, FC - 3	Lloyds Debt
Fixed Rate	[x.xxxx]%	15:00 at FC - 2	Aviva and Chatham
Aviva Facility Size	[£x]	16:00 at FC - 2	Operis Advisory
Mid-market Swap Breakage Costs	[£x]	FC	Chatham

The Fixed Rate Debt Coupon will be fixed to the nearest hundredth of a basis point. The Aviva Facility Size and the Mid-market Swap Breakage Costs will be fixed to the nearest whole pound.

Note: swap breakage cost quoting process:

- Mid-market Swap Breakage Costs will be quoted by Lloyds on the FC call (excluding execution spread), and NIBC and Chatham to confirm agreement. It is agreed that no xVA rebate will be applicable for this transaction.
- Chatham will email each of the Existing Hedge Providers individually prior to the FC call (copying in Borrower and Operis) requesting formal confirmation of the pre-agreed execution spread.
- Then once the Mid-market Swap Breakage Costs are agreed on the FC call, Chatham will circulate an email to all relevant parties (Borrower, Authority, Existing Hedge Providers, Borrower Financial Advisor and Authority Financial Advisor) with a breakdown of the total swap breakage cost (including execution charge). Existing Hedge Providers and Borrower to confirm agreement by return email.

4. Pre-Financial Close Activities

4.1 UPDATED PRICING

A full list of activities is given in the Steps Plan circulated by the legal advisors. This document contains a summary of those that are relevant to the rate fixing process.

4.1.1 Lloyds Debt to provide a redemption statement (excluding swap breakage costs). The redemption statement should assume that the refinancing occurs on the scheduled date of FC and should be provided no later than COB on FC-3.

4.1.2 Aviva and Chatham to agree the Fixed Rate based on the Bloomberg screen rate at [15:00] on FC-2.

This will be calculated by taking the applicable interpolated mid-market yield to maturity of the SONIA swap rate as set out on Bloomberg page YCSW0141 for the weighted average life of the fixed rate debt (in years, to 2 decimal places) and adding a margin of 175 bps.

At [15:00] on FC-2, Chatham will also provide up to date swap breakage costs, consisting of the Mid-market Swap Breakage Costs and execution spread.

4.2 MODEL UPDATE PROCESS

4.2.1 Operis Advisory will optimise the model based on this redemption amount, Fixed Rate and these swap breakage costs plus a contingency amount of £375k to determine the Aviva Facility Size. The optimisation procedure is details in Appendix B.

4.2.2 Operis Advisory will provide this version of the model (the “Draft Post Refinancing Model”) to Operis Audit, Local Partnerships and Aviva.

4.2.3 Operis Audit to confirm acceptance of the Draft Post Refinancing Model to proceed to the Financial Close process.

4.2.4 Local Partnerships to confirm acceptance of the Draft Post Refinancing Model to proceed to the Financial Close process.

4.2.5 Aviva to confirm acceptance of the Draft Post Refinancing Model to proceed to the Financial Close process.

4.3 DRAWDOWN APPROVAL PROCESS

4.3.1 Chatham to provide updated Mid-market Swap Breakage Costs and confirm that normal trading conditions are present in the market at [9:00] on FC-1.

4.3.2 Operis Advisory to confirm to the Existing Facility Agent and Aviva that the aggregate of (i) the initial advance from Aviva and (ii) the balance standing to the credit of the DSRA at FC will be sufficient to meet the amount set out in the Redemption Statement in relation to the loan plus the latest Swap Breakage Costs estimates.

4.3.3 If the Mid-market Swap Breakage Costs exceed the contingency amount of £375k, Operis Advisory to provide Aviva with an estimated amount of any second transfer of funds.

4.3.4 Following positive market confirmation from Chatham and redemption confirmation from Operis, Aviva to begin internal drawdown approval process and send net completion monies to CMS (Aviva) on basis of undertaking.

4.4 PRE-CALL PROCESS

4.4.1 Chatham to provide updated Mid-market Swap Breakage Costs and confirm that normal trading conditions are present in the market at [9:00] and [10:50] on FC.

4.4.2 If, at either provision, the Mid-market Swap Breakage Costs exceed the contingency of £375k, the actions in 4.2 will be repeated.

4.5 FINANCIAL CLOSE

Financial Closing Call

The pricing call will be conducted remotely.

Date: [1 March 2023]

Time: [11:00]

URL: [xxx]

Code: [xxx]

Operis Advisory will manage the pricing call process.

The following activities will take place during the pricing call. To ensure a swift process, each participant should say their lines without prompting. Operis Advisory will speak up if the process needs to be halted for any reason.

Any party can call off the process by saying “Stop” at any time before the Borrower confirms the execution at Step 8:

Step	Activity	Who
1/	<p>Operis Advisory to call out each party and each party to confirm presence on the call.</p> <p>This is [...] on behalf of the Authority. The Mayor and Burgesses of the London Borough of Croydon and The Mayor and Burgesses of the London Borough of Lewisham confirm that they have reviewed and accept the calculation of Refinancing Gain in the Draft Post Refinancing Model and are satisfied that the refinancing may proceed.</p> <p>This is [Alex Woods] on behalf of Aviva. Aviva is satisfied that all CPs under the finance documents have been met, or have agreed to be waived by Aviva and it is happy for the refinancing to proceed.</p> <p>This is [Mabel Osei] on behalf of Lloyds Debt. Lloyds Debt in its capacity as Facility Agent confirms that the existing lenders are happy for the refinancing to proceed.</p> <p>This is [xxx] on behalf of Lloyds Swap. Lloyds Swap confirms that it is happy for the refinancing to proceed.</p>	<p>Operis Advisory</p> <p>Authority</p> <p>Aviva</p> <p>Lloyds Debt</p> <p>Lloyds Swap</p>

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	<p>This is [xxx] on behalf of NIBC Swap. NIBC Swap confirms that it is happy for the refinancing to proceed.</p> <p>This is [Tom Cunningham] on behalf of the Borrower. The Borrower confirms that it is happy for the refinancing to proceed.</p>	<p>NIBC Swap</p> <p>Borrower</p>
2/	Operis Advisory to confirm whether this is live pricing or dry run.	Operis Advisory
3/	If live pricing, Operis to confirm that Pre-Financial Close Activities (Section 4) are complete.	Operis Advisory
4/	<p>Operis to confirm the average life of the Aviva Loan is [x.xx] years.</p> <p>Aviva to confirm pricing off this average life.</p>	<p>Operis Advisory</p> <p>Aviva</p>
5/	<p>Operis Advisory to state the Fixed Rate.</p> <p>The Fixed Rate is [x.xxxx]% including a margin of 175 bps.</p> <p>Aviva to confirm that the Fixed Rate is still available:</p> <p>This is Aviva. The Fixed Rate of [x.xxxx]% is still available.</p> <p>Borrower to confirm acceptance of the Fixed Rate.</p> <p>This is the Borrower. We confirm acceptance of the Fixed Rate.</p>	<p>Operis Advisory</p> <p>Aviva</p> <p>Borrower</p>
6/	<p>Operis to identify the existing swaps to be terminated by quoting the trade reference numbers:</p> <p>Lloyds: 18209587CM</p> <p>NIBC: T20621</p> <p>Chatham to outline high-level details of the swaps that will be terminated.</p> <p>Borrower confirms agreement</p> <p>Lloyds confirms agreement</p> <p>NIBC confirms agreement</p>	<p>Operis Advisory</p> <p>Chatham</p> <p>Borrower</p> <p>Lloyds Swap</p> <p>NIBC Swap</p>
7/	NIBC Swap and Chatham to confirm acceptance of Lloyd Swap's quote for the swap breakage costs.	

	<p>As per the previous step, Lloyds and NIBC confirmed agreement to the swap details. Can Lloyds quote the live mid-market breakage cost for its swap and then can NIBC confirm the quoted figure is also acceptable for the live mid-breakage cost for its swap? The Pre-agreed execution spreads for each bank will be added post trade.</p> <p>This is Lloyds Swap. The live mid-market breakage cost for our swap is [x].</p> <p>NIBC Swap confirms.</p> <p>Chatham confirms.</p> <p>If NIBC Swap and Chatham do not agree the swap breakage costs then Lloyds Swap will provide an updated quote until the figures are agreed.</p> <p>Operis Advisory to confirm that the total Mid-market Swap Breakage Costs are within £375k of the level from the Pre-Financial Close Activities and that the initial advance from Aviva and funds in the DSRA are sufficient to meet the amounts due to Exiting Lenders and Existing Hedge Providers.</p> <p>Operis Advisory confirms that the Mid-market Swap Breakage Costs are within tolerance and that the initial advance from Aviva is sufficient.</p> <p>If not then the process should be paused. Aviva and Chatham will then agree an updated fixed rate based on the relevant Bloomberg screen rate (which may result in a change to the Aviva Facility Size).</p> <p>Based on the updated swap breakage costs and the updated fixed rate, Operis Advisory should prepare a new Draft Post Refinancing Model.</p> <p>The steps in Section 4.2 should be repeated based on the updated Draft Post Refinancing Model and then the Financial Closing Call should restart from Step 1.</p>	<p>Operis Advisory</p> <p>Lloyds Swap</p> <p>NIBC Swap</p> <p>Chatham</p> <p>Operis Advisory</p>
8/	<p>Borrower to instruct termination of the swaps.</p> <p>This is the Borrower, please terminate the swaps now.</p> <p>Existing Hedge Providers to confirm that the swap has been broken.</p> <p>Lloyds Swap confirms the swap has been broken.</p> <p>NIBC Swap confirms the swap has been broken.</p> <p>If any party says “Stop” before or whilst Borrower is speaking then the process will stop and will be recommenced. Once Borrower has said “now” the process cannot be called off.</p>	<p>Borrower</p> <p>Lloyds Swap</p> <p>NIBC Swap</p>
10/	<p>Chatham to confirm the quantum of Mid-market Swap Breakage Costs and the Fixed Rate for the new Aviva Loan.</p>	<p>Chatham</p>

4.5.1 Activities immediately following Financial Closing Call

- 4.5.1.1 Chatham to send email to all parties confirming Fixed Rate.
- 4.5.1.2 Chatham to send individual emails to Existing Hedge Providers (copying the Borrower and Operis Advisory) confirming the breakdown of the total swap breakage costs (Mid-market Swap Breakage Cost quoted on call and execution spread).
- 4.5.1.3 Borrower and Existing Hedge Providers to confirm agreement to total swap breakage costs by return email.
- 4.5.1.4 Operis Advisory to circulate final Financial Model to Borrower, Aviva, Authority Financial Advisor and Model Auditor.
- 4.5.1.5 Model Auditor will conduct final checks and produce the final model audit Financial Close opinion letter.
- 4.5.1.6 The financial gaps for the Aviva loan to be entered into the Gaps List Letter, Facility Agreement, Project Agreement Deed of Variation and other relevant documentation to reflect final model outputs.
- 4.5.1.7 Size of the refinancing gain to be confirmed to the Authority and the Borrower.
- 4.5.1.8 Financial Close is now complete.

5. Appendix A – Optimisation Procedure

The financial model has been set up with the following scenarios:

- **Scenario 1 (Operating Model Reconciliation)** – A scenario replicating the results of the latest operating model for the project.
- **Scenario 2 (Operating Model Reconciliation, adjusted)** – As Scenario 1, adjusted to correct errors present in the operating model.
- **Scenario 3 (Step 1)** – A refinancing scenario assuming no gearing up, as a reference case for the refinancing gain calculation.
- **Scenario 4 (Step 2)** – The base case scenario for the refinancing.

The procedure below specifies the steps required in order to re-optimize the financial model for the final swap breakage costs:

1. Set Excel to manual calculation.
2. Ensure the senior sizing switch for scenario [3] “Step 1” at [‘Inputs NTB’!L80] is set to TRUE and for scenario [4] “Step 2” at [‘Inputs NTB’!M80] is set to FALSE.
3. Ensure the proportion of authority gain to be taken upfront in scenario [4] “Step 2” at [‘Inputs NTB’!M726] is set to 100%.
4. Update the new swap break cost inputs at [‘Inputs NTB’!L565:M566] to reflect the quoted swap break cost for the existing Lloyds and NIBC senior swaps and a buffer of zero.
5. Select scenario [3] “Step 1” by setting 'Inputs NTB'!D6 to [3].
6. Run the model’s full copy/paste macro either (i) by selecting “Run full copy/paste macro”, from the Croydon Lewisham Model drop-down menu or (ii) by pressing the corresponding button within the “Optimisation” section of the Inputs NTB worksheet.
7. Once there are zero audit fails¹ as reported at Inputs NTB A8, select Scenario [4] “Step 2” by setting 'Inputs NTB'!D6 to [4].
8. Run the model’s full copy/paste macro until there are zero audit fails. This scenario, scenario [4] “Step 2” is the base case.

¹ In the event the full copy/paste macro completes running, but the number of audit fails is greater than zero, the full copy/paste macro will need to be run again.