TE TAI ŌHANGA
THE TREASURY

New Zealand Export Credit
Surety Bond Guarantee

What is a Surety Bond Guarantee?

A Surety Bond is a financial guarantee provided to your Buyer, which provides assurance that the contracted work will be performed and/or any losses incurred due to your non-performance will be indemnified.

Surety bonds are often between 50% - 100% of the contract value and are required to be issued by specialist surety bond providers instead of banks. If you are a SME business, you may experience difficulty obtaining surety bonds because you are unlikely to be known by the offshore surety bond issuers, nor able to meet their minimum financial criteria.

We have indemnity arrangements with several licensed surety bond providers, which may enable you to access surety bonds required for Federal or State funded projects in the United States, Canada, Puerto Rico or the United States' Pacific Territories.

Benefits

Our Surety Bond Guarantee can help you compete with larger international firms on United States or Canadian government-funded contracts. Specific benefits include:

- obtaining a bid bond or surety bond letter from a licensed surety bond provider, confirming your ability to meet the surety bond requirements under a Canadian or US Federal or State funded project
- securing government funded projects in the United States, Canada, Puerto Rico, or the United States' Pacific Territories and
- negotiating better deposits and milestone payments, given that you are providing a Surety Bond.

What is covered?

Contracts that receive government funding from the United States or Canadian central or state / provincial governments often require suppliers to provide surety bonds equal to 50% - 100% of the contract value, compared with the 5% –10% bank guarantees that are more common elsewhere.

Our Surety Bond Guarantee is directly provided to a surety bond provider and underwrites the total value of the surety bond(s).

<u>The types of surety bonds that we can support include:</u>

- Bid bond* that demonstrates your ability to meet the other surety bond requirements in the event of contract award, as well as protects your buyer against loss from re-tendering a project in the event you are unwilling or unable to take on a contract after being awarded it

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- Performance bond that assures the performance of the contract, and the indemnification for any losses incurred by the buyer in the event you do not meet your contractual obligations

- Labour and material payment bond which protects your buyer from loss if you do not pay your subcontractors, labourers and material suppliers in the course of the delivery of your contract

- Warranty bond* that protects your buyer from loss if you fail to meet your warranty obligations after completing the contract.

* NZEC will only guarantee bid and warranty bonds if they are in conjunction with performance and/or labour and material payment bonds that also requires a NZEC guarantee.

If a surety bond is issued on your behalf, and you experience difficulties on a project or are in a default situation, the surety company may take several actions.

<u>These depend on the options contained in the particular bond form and may include</u>:

- providing finance to the original contractor

- providing support to ensure the contract's completion

- arranging for a new contractor to complete the project or

- paying the cost of completion up to the penal sum of the bond.

It is important to note that our guarantee is not bond insurance but is rather an indemnification to a surety bond provider to enable you to bid for and secure a surety bond. In the event of a surety bond being called and indemnified by us, we will then seek recourse from you.

Our cover can be issued in the following currencies: NZ dollar, Australian dollar, US dollar, Canadian dollar, the euro, Japanese yen, Chinese renminbi, or UK sterling.

How it works

If you face a surety bond requirement and do not have a relationship with a surety bond provider, then please contact us.

Our support requires us to understand your business and the underlying export contract. Our assessment focuses on the technical, managerial and financial capacity of your business to successfully perform the export contract.

If we approve your application and you accept our offer, we will issue a Letter of Instruction to issue a surety bond(s) to either:

- Liberty Mutual Insurance Company – for all United States, Puerto Rico and Guam projects;

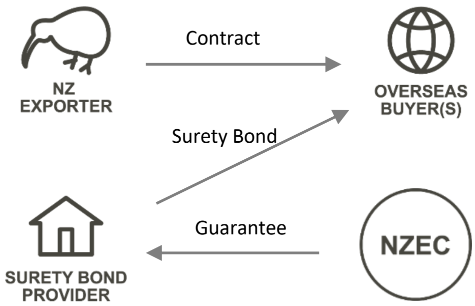
- Liberty International Underwriters Canada – for all Canadian projects; or

- AIG Australia Limited – for all United States Pacific Territories (including American Samoa).

Our Government-backed guarantee enables the above surety bond providers to issue surety bonds on your behalf in support of a tender or contract award. Our guarantee substitutes any financial pre-qualification and/or securities that you may otherwise have had to provide the surety bond provider. In the event of a surety bond being called, we will promptly indemnify the surety bond provider.

There is some standard documentation that you will be required to review and sign for the surety bond provider. In addition, a standard condition of our cover is that we both enter into a Recourse Agreement which recognises that you have an obligation to repay us in the event of a surety bond being called and NZEC indemnifying the surety bond provider.

How the Surety Bond Guarantee works is summarised in the diagram below:



If you anticipate bidding for a contract that has US or Canadian surety bond requirements, then we recommend that you approach us as early as possible. If you would like to email us an enquiry for our indicative feedback, please complete our **information checklist** available on our website. https://exportcredit.treasury.govt.nz/what-we-do/how-apply

How to apply

To apply for a Surety Bond Guarantee, you complete the **application form** available on our website (https://exportcredit.treasury.govt.nz/what-we-do/how-apply) and pay a non-refundable assessment fee of $1,000.

The key eligibility criteria for our support are:

- confirmation that you are a New Zealand registered company or a subsidiary of a New Zealand registered company domiciled overseas
- confirmation that the surety bond relates to a US or Canadian Federal or State funded contract
- signed acknowledgment of our anti-bribery declaration (https://exportcredit.treasury.govt.nz/corporate-responsibility/new-zealand-export-credit-anti-bribery-policy),
- evidence of economic benefits to New Zealand relating to your performance of the export contract and
- demonstration of your managerial, financial, and technical capabilities to perform the export contract.

In order to understand your business and assess the related performance risks, we request the following information:

- a description of your business, management and key shareholders
- financial accounts of your company
- your company and project cashflow forecasts for the tenor of the bond

Treasury:4096443v1

- a summarised description of the works, and any examples of similar contracts that you've performed
- the buyer and the key parties (including offshore suppliers) involved in the delivery of the contract, and examples of your prior working relationships
- a summary of your current lending terms and arrangements and
- a copy of the surety bond(s).

What it costs

We charge $1,000 assessment fee.

If we approve your application, we do not charge any premium for the issuance of an initial bid bond or bondability letter in support of your tender.

If you are awarded a contract and surety bonds are issued, we will charge a premium against the surety bond amount. This premium is based on our assessment of your credit and performance risks. Normally this premium is paid in full upon issuance of the surety bond(s).

For surety bonds issued in United States, our premium pricing includes the fee charged by Liberty Mutual Insurance Company.

For surety bonds issued into the US Pacific Territories (via AIG Australia) and in Canada, our premium does not include the surety bond provider's fee. This is to be paid separately by you.

It is market practice in Canada for the surety bond provider to charge you 20% of their fee if a bid bond or bondability letter is provided, and the performance surety bond requirements are subsequently waived by your Buyer.

Contact us

For more information, please contact us or visit our website:

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