Sumitomo Mitsui Banking Corporation Europe Limited

EPEC Private Sector Forum- Financing Future Infrastructure

The future of PPP Financing

6th June 2012

SMBC
SUMITOMO MITSUI BANKING CORPORATION
EUROPE LIMITED

Sumitomo Mitsui Banking Corporation

SMBC is a global financial institution providing a wide range of banking and financial services

SMBCE's Infrastructure & PPP team is experienced in providing funding solutions to infrastructure schemes such as hospitals, schools, waste, water and social housing throughout the EMEA. Strong appetite for project funding in EU region

SMBC is the one of the largest banks worldwide by market capitalisation, with total assets of around US$1.1trn; Active in more than 60 countries; 68 branches or representative offices outside Japan

Long term credit ratings for SMBC are Aa3 (Moody's) and A+ (S&P)

SMBC Project Finance

Infrastructure & PPP
- Healthcare
- Education
- Social Housing
- Govt Accommodation
- Waste & Water
- Urban Regeneration
- Courts & Prisons
- Emergency Services
- Sports Stadiums

Transport & Telecoms
- Light & Heavy Rail
- Toll Roads
- Tunnels & Bridges
- Ports
- Airports
- Rolling Stock
- Fixed Line, GMS & UMTS
- Satellite

Energy & Natural Resources
- Pipelines for Oil & Gas
- Refineries, GTL & Petrochemical Plants
- Mining & Metals
- Oil & Gas Fields
- Power Intensive Industries
- Solar & Wind Power

US$10bn of Project Finance provided on projects in EMEA

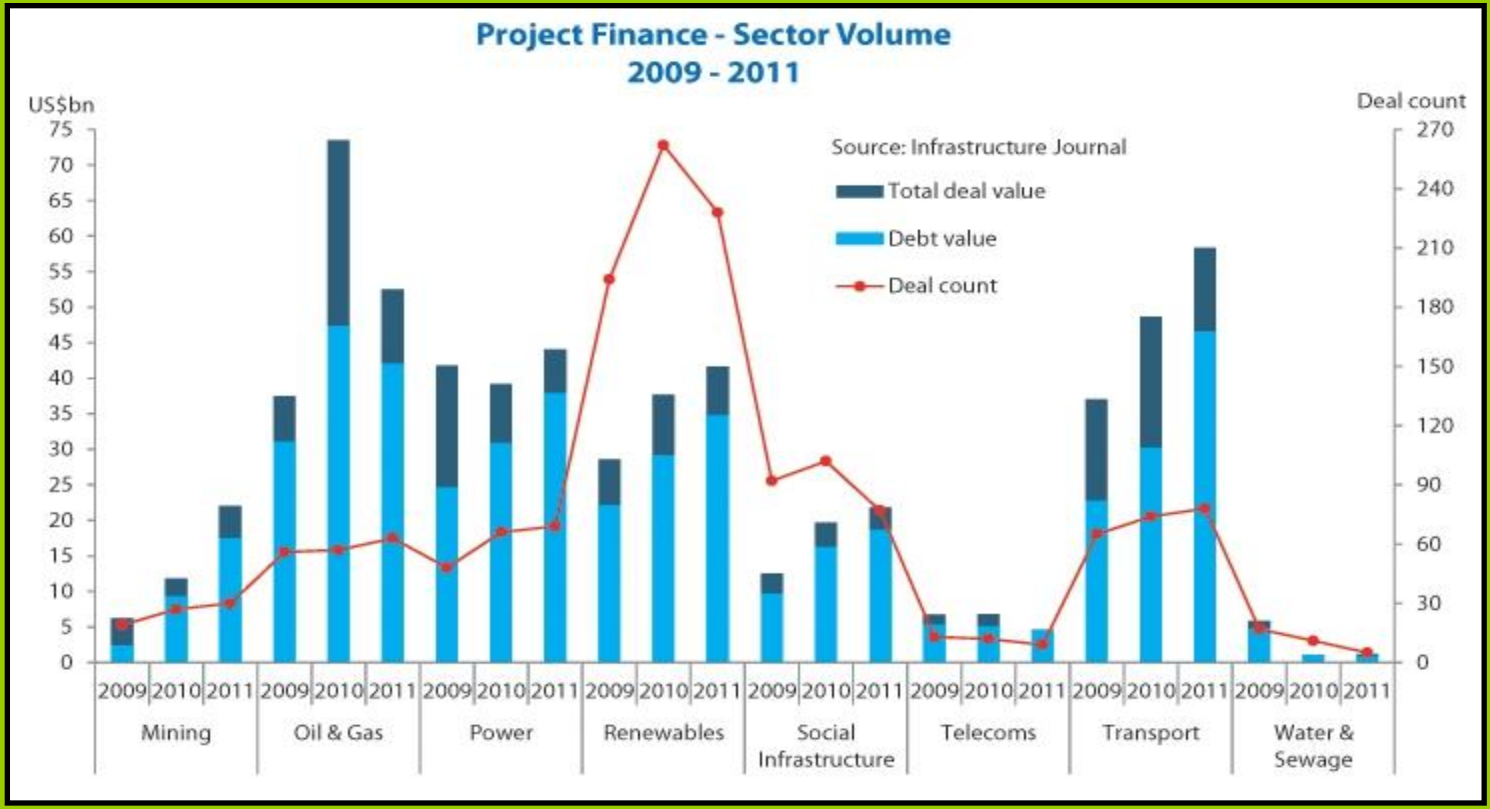
PPP Financing- current situation

- Senior debt margins currently 250bp-450bp;
- Cover ratios 1.15-1.25 ADSCR;
- Tenors 15-30 years depending on type of project;
- Fully amortising repayment in most cases, some use of mini perm-cash sweep where appropriate;
- Gearing 85:15 up to 90:10 depending on project;
- Smaller pool of banks, 10-15 active PPP banks in EU, more on case specific/ high profile projects;
- Reduction in bank appetite for longer tenor debt;
- More activity from institutional investors;
- Impact of banking crisis/ Eurozone instability + Basel III

= Impact is higher cost of funding for PPP projects

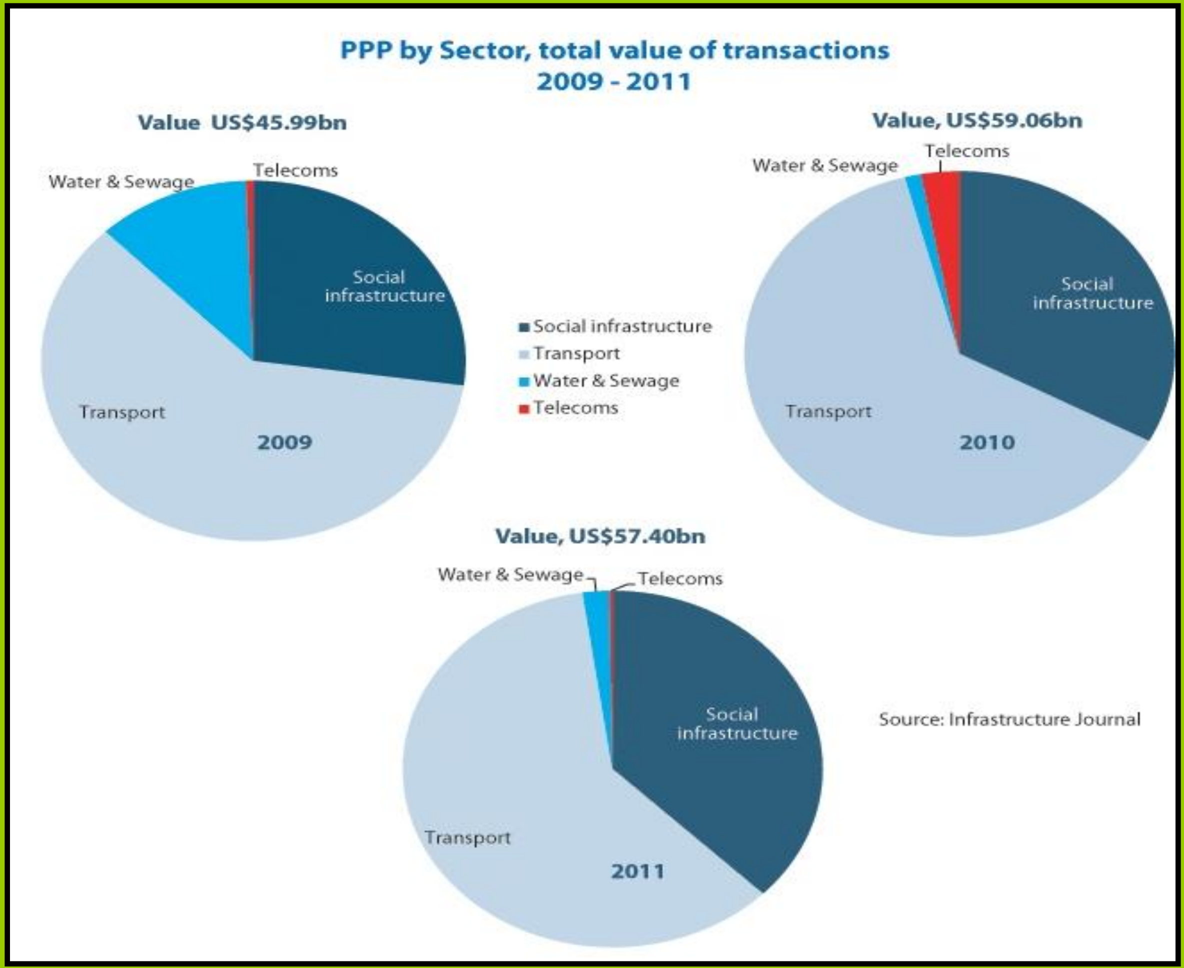
Capital costs, Liquidity costs, Basel II/ III are the drivers

Trends in project finance for infrastructure



Source: IJ Online

Trends in project finance for infrastructure



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What are the principle PPP sectors?

- Health/ Education;
- Transport (road/ rail/ airport/ port/ tunnel);
- Water treatment/ management/ desalination;
- Waste treatment;
- Prisons;
- Defence;
- Central Government buildings;
- Sports stadiums

Benefits of using PPP structures

- Many countries see the benefit of PPP due to the discipline it brings to the construction delivery/ O&M phase;

BUT: aversion to high perceived cost of funding a PPP

- Limited Recourse/ Off Balance Sheet;
- Tax Relief (on sub debt interest);
- Risk sharing- passing risks to those best able to manage them;
- Project can be managed in isolation/ arms length;
- Single purpose corporate entity (can be limited company/ LP/ GP);
- Has a set purpose- limits exposure to other activities of sponsor;
- Enables project financing to be raised/ high gearing;
- Enables liquidity of equity stakes.

Financing structures currently being used in PPP

- Vanilla, long term amortising loan structures, 15-30 year tenor;
- Occasional use of mini-perms (hard/ soft);
- Pure construction finance;
- Construction finance with take-out (Belgium, Canada, Australia);
- EIB/ AfDB/ IFC financed;
- Bank/ bond structures;
- Long term private placement bonds;
- Re-appearance of project bonds in refinancing (unwrapped);
- Securitisation;
- Sponsor balance sheet funding (UK waste projects).

The Future: what are the new developments?

- New developments are taking place in France ("dailly" structure); / Germany (construction finance/ forfaiting) / Netherlands (RPI linking and zero solvency structure);
- Canada innovative in terms of bringing unwrapped bond finance to infrastructure projects;
- Australia/ Canada- shorter tenor/ mini perm structures;
- Islamic funding- murabaha/ sukuk bond/ ijara lease;
- Blended tenors;
- Senor subordinated/ mezzanine tranche;
- Implications of Basel III on financing infrastructure;
- PPP model coming under scrutiny in the UK, but there are limited alternatives;
- Whilst PPP model being heavily used elsewhere, France particularly active

The Future: State support?

- French “dailly” structure: fully state guaranteed debt tranche post construction (85-100% of total debt);
- German forfaiting finance: state guaranteed post construction;
- Netherlands zero solvency structure: state guaranteed post construction

= All of the above result in low capital requirement under Basel regs, qualify for lower funding margin. BUT- funding illiquidity has caused funding margins to increase from around 10bp to 150-180bp;
= Eligibility for Covered Bond/ Pfandbrief

- Australia/ Canada- shorter tenor/ mini perm structures (state takes refinancing risk post construction phase);

= Lower funding margin due to short debt tenor

- UK- “prudential” borrowing: local government borrows funds to refinance the bank-funded project post construction;

= Lower funding margin due to short debt tenor

The Future: Finance structure change?

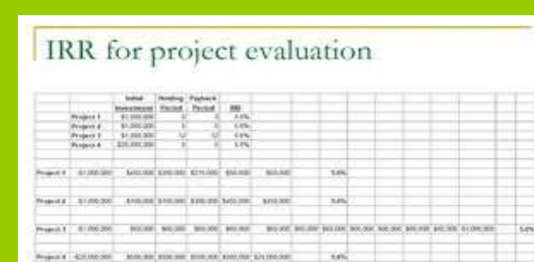
• Blended tenors: introduction of split tenor structure, shorter tenor tranche, amortising (bank funded) + long tenor tranche (institution funded);
= lower overall cost of funding

• Construction phase finance: bank funded during construction with refinancing to institutional investor/ bond finance post construction;
= lower overall cost of funding BUT, single A credit rating required (Solvency II directive)

• Mezzanine tranche: introduction of mezzanine (first loss) tranche, provided by infrastructure fund/ specialist investor, alongside senior tranche. Senior tranche obtains single A credit rating, attracts a bond financing;
= lower overall cost of funding

Who are the investors in PPPs?

- Stakeholder Investors: EPC Contractor/ O&M Contractor
- Project Investors:
  - Pension funds;
  - Sovereign wealth funds;
  - Primary infrastructure funds;
  - Secondary infrastructure funds;
  - Contractor led infrastructure funds;
  - EIB?;
  - Debt funds?
- Reduction in contractor direct investment- majority shareholdings going to funds



Recent examples of pension fund involvement in SPV finance

- Project bond investors: Gatwick Airport, Eversholt Rail, Angel Trains, Thames Water;
- French toll roads;
- Bond refinancing (pre credit crunch);
- Direct investment in project debt (Aviva);
- Direct equity participations (HS1);
- Indirect through participations in infrastructure funds;
- Indirect through participations in mezzanine funds

New infrastructure/ PPP projects in EU region

- France: Dams/ Canals/ Universities/ Stadiums/ HSR;
- UK: Waste/ Schools/ Health/ Rail + Mersey Gateway;
- Benelux: Govt offices/ Prisons/ Roads/ Trams;
- Germany: Health/ Roads;
- Poland: Health/ Waste

- PPP still the essential delivery structure, with innovation being taken forward in structuring & financing

Thank You

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