SUMITOMO MITSUI BANKING CORPORATION

SMBC

Providing Renewed Impetus for PPP Project Bond Issuances

PPP FORUM
ACCESSING THE PHILIPPINE CAPITAL MARKET FOR PPPs

April 8, 2016
New World Makati Hotel
MANILA

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SMBC - Overview

- SMBC is a multinational banking and financial services company with extensive network spanning across continents.
- As at March 2015, SMBC holds US $1.5 trillion* in assets and is ranked one of the largest financial institutions in the world.
- Sumitomo and Mitsui companies were founded more than four centuries ago.
- The current SMBC was established in 2001 following the merger of two leading Japanese banks: Sakura Bank (formerly Mitsui Taiyo Kobe) and Sumitomo Bank.

Credit Ratings for SMBC

	Moody's	S&P	Fitch
Long Term	Aa3	A+	A
Short Term	P-1	A-1	F1

Correct as of 31 March 2015

*Assets : ¥183,442, 585 Million
FX Rate: ¥123.583 / USD $1

Chairman of the Board
Teisuke Kitayama

President
Takeshi Kunibe

Capital Stock*
¥ 1,770.9 bn

Head Office
1-1-2, Marunouchi, Chiyoda-ku, Tokyo, Japan

Number of Employees*
26,415

Network*
Domestic Branches 441
Overseas Branches 16

Total Assets*
¥ 154,724.1 bn

Capital Ratio*
17.93%

*Information as of 31 Mar 2015

Worldwide Industry Recognition

Consistently recognized for our strong performance and global resources

Global Project Finance Bank of the Year
PFI, 2014

Global Project Finance Bank of the Year
IJGlobal, 2014

#1 Mandated Arranger, Syndicated Loans for Asia
Thomson Reuters 2014

Top 10 Global MLA Bank
Dealogic, 2013

World's Best Banks Award
Global Finance, 2013 (Japan)

World's Best Subcustodian
Global Finance, 2013 (Japan)

Best Trade Bank in Japan
Trade Finance, 2013

Top 10 US Loan Co-Agent
Thomson Reuters, 2013

Yen Bond House of the Year
IFR, 2013

SMBC – Accolades

SMBC is proud to receive **“Global Bank of the Year 2014” award** from Thomson Reuters’ PFI Yearbook 2015 for an **unprecedented third time** and **“Asia Pacific Bank of the Year”** from IJ Global.

IJGlobal Asia Pacific Awards 2014

WINNER
Asia Pacific Bank of the Year
Sumitomo Mitsui Banking Corporation

PFI AWARDS 2014	**Global Bank oasf the Year 2014**	**AP Deal of the Year** Roy Hill, Sarulla, PAU	**Europe Deals of the Year**
PFI AWARDS 2013	**AP Deals of the Year** Nghi Son Refinery, NSW Ports	**Europe Deals of the Year** A1/A6 Motorway, Thameslink Rail	**Americas Deals of the Year** Sabine Pass LNG, Chaglla Hydro
PFI AWARDS 2012	**Global Bank of the Year 2012**	**AP Power Deal of the Year** Gulf U-Thai	**AP Infra Deal of the Year** Sydney Desalination
PFI AWARDS 2011	**AP Power Deal of the Year** Mong Duong 2	**AP Infra Deal of the Year** Wiggins Island	**Americas Renewables Deal of the Year** Seigneurie de Beaupre Wind Farms 2&3
pfi awards 2008	**Global Bank of the Year 2008**	**Global Advisor of the Yr 2006**	**Asia-Pac Advisor of the Yr 2006**

Source: Infrastructure Journal

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Awards

FT & IFC	IJ Global	IJ Global	IJ Global	Infrastructure Investor	Infrastructure Journal	Partnership Bulletin
Sustainable Bank of the Year (Asia-Pacific)	**Bank of the Year (Middle East)**	**Bank of the Year (Americas)**	**Bank of the Year (Asia-Pacific)**	**Bank of the Year (Europe)**	**Social Infrastructure MLA of the Year**	**Best Debt Funder**
Winner SMBC	Winner SMBC	Winner SMBC	Winner SMBC	Winner SMBC	Winner SMBC	Winner SMBC

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Opening Remarks

PPP FORUM
ACCESSING THE PHILIPPINE CAPITAL MARKET FOR PPPs

- **Need for infrastructure in SEA** countries remains high and the region is faced with the challenges of developing and financing an increasing number of infrastructure projects
- Concurrently, these countries have experienced **significant growth in their domestic bond markets** and the contractual savings are expanding
- Private sector financing for infrastructure projects in the region is still **largely dependent on bank debt** (with the notable exception of Malaysia)
- However, project finance banks are also faced with a number of **challenges relating to long-term financing** required by infrastructure projects (e.g. new banking regulation)
- Project bonds have been anticipated to play a greater role in mobilizing financing from **institutional investors** and to contribute to infrastructure development of the region
- However, use of **project bond financing has been relatively limited** for a variety of reasons – including:
  - Specific constraints relating to project bond structuring
  - Lack of depth of some capital market (resulting in illiquidity in the asset) and lack of a large private pension system
  - Strong local banking market eager to preserve its market share through aggressive pricing and terms
  - Insufficient knowledge of the bond market on the part of both public and private sectors leading to the perception of increased execution risks
  - Lack of bankable projects which meet investors’ minimum rating requirements

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What Project Bonds are

- Project Bonds: debt securities sold to **institutional investors** to finance the construction, operation or acquisition of a project asset
- Excellent fit for infrastructure and energy:
  - High level of compatibility between capital-intensive projects and long-dated financial instruments
  - Typical assets financed through project bonds incl. power, oil & gas, LNG and infrastructure
- Similar to project debt financing, Project Bonds are:
  - Typically "non- or limited-recourse", the primary source of repayment comes from the cash flows generated
  - Secured by all assets of the project company
- Main benefits include for infrastructure investors/sponsors:
  - Very **long term**: up to theoretically [30] years
  - **Large pockets of liquidity** and lending capacity: USD [1]bn or more for well-structured projects
  - **Fixed interest rate** with no swap breakage costs in case of early termination
  - **Local currency** ("natural hedge" of the currency denomination of revenue streams)
  - (Depending on prevailing market conditions) **competitive** funding costs
  - (Possibly more) **lightly covenanted**: institutional investors are more passive than banks and typically require less reporting and other covenants
  - **Diversification/specialization** of funding sources: commercial debt and debt capital markets
- Typically structured to investment grade rating or higher

Features of Project Bond vs. Bank Loan

KEY PARAMETERS	BONDS	COMMERCIAL LOANS
INVESTORS	- Wide range of institutional investors (pension funds, insurance companies)	- Banks - ECAs - Multilaterals
MATURITY	- Up to the term of the project - Up to 30 years	- Up to 7 years in U.S., Australia - Up to 20 years in Asia
RATING	- Rated - Rating agency process	- n/a
DRAWDOWN PROFILE	- Upfront drawdown - Differential between coupon and return on permitted investment: “negative carry”	- Drawdown only when needed - Flexible
EASE OF EXECUTION	- Coupon level and appetite depending on market conditions - Potentially affected by short-term sentiment	- Longer-term policies towards lending - High level of visibility through credit commitments
MONITORING/ CONSENTS/ WAIVERS	- To control matters that significantly affect their cash flow cover or security - Light monitoring post-closing - Sell in case of operational/financial issues	- To control over all changes to project contracts and impose tight controls on the project company - Negotiated and discussed with SPV - Continuous credit monitoring post-closing
REPAYMENT	- Prepayment fee - “Spence formula”: principal amount due with make whole premium	- Low penalties for prepayment (voluntary or mandatory) - Potentially high swap breakage costs if SPV “out of the money”
DOCUMENTATION	- Offering Memorandum - Private Placement Memorandum	- Information Memorandum

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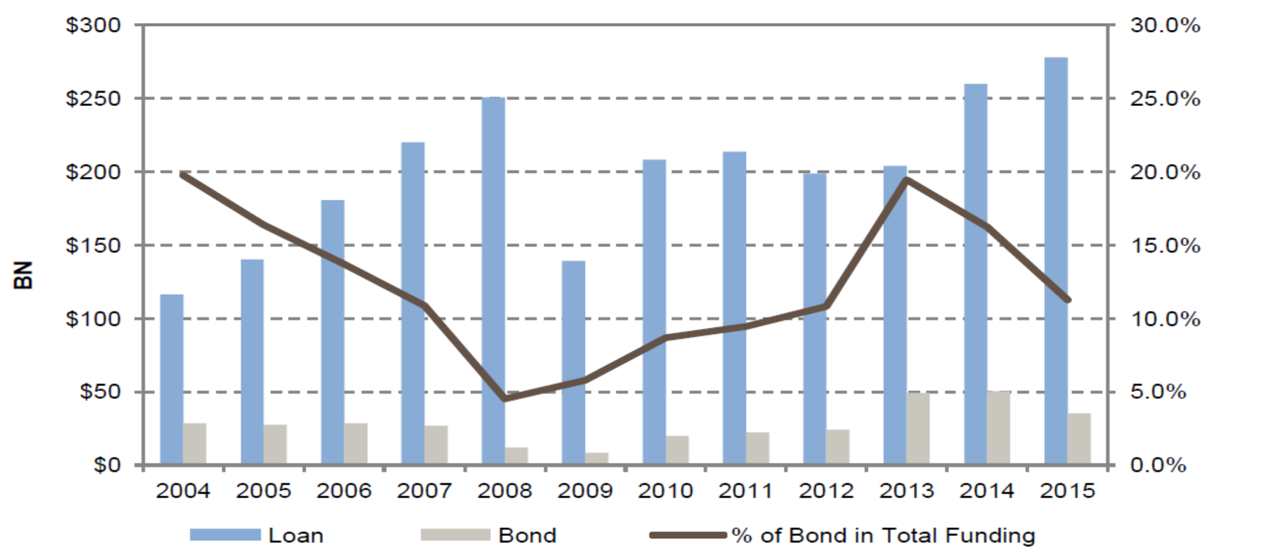
Overview of the Project Bonds Market

- Worldwide non- or limited-recourse project bonds issuance increased from USD 24.1bn in 2012 to USD 49.3bn in 2013, USD 50.3bn in 2014 but declined in 2015 to USD 35bn
- Geography:
  - Majority of project bonds were arranged in countries of high country ratings e.g. EMEA/Americas
  - In APAC, only Australia and Malaysia were active
  - Notable absence of other SEA countries (except Malaysia) and most recently in the Philippines
- Infrastructure and power were the lead sectors in the global bond table at USD 16.8bn and USD 15.1bn respectively. Oil & Gas projects raised slightly less than USD 3bn in the capital markets, in decline compared to 2014, reflecting more volatile market conditions and decreasing oil prices
- Banks are still predominant in SEA infrastructure financing by private sector (except Malaysia)

Projects Source of Capital



Source: PFIe

By Country / Region	Volume of Issuance (USD million)
USA	12,306
Canada	3,315
Mexico	3,027
Chile	2,746
Brazil	1,489
Peru	1,233
Others	691
Americas	**24,807**
UK	4,862
France	4,265
Italy	3,645
Israel	1,998
Czech Republic	906
Belgium	790
Denmark	744
Slovakia	684
Spain	592
Germany	580
Netherlands	518
Others	990
EMEA	**20,574**
Australia	3,148
Malaysia	1,686
New Zealand	117
Asia Pacific	**4,951**
Total	**50,332**

Source: PFIe

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Recent Examples of Project Bonds

Recent Project Bond Transactions

Date	Transaction	Region	Sector	Asset Type	Currency	Amount	Coupon	Coupon Type	Tenor (yrs)	Avg. Life (yrs)	Rating
Jan-16	North West Redwater Partnership	North America	O&G	Bitumen Refinery	CAD	850.00	4.250% and 4.750% in 2 tranches	Fixed	13.3 and 21.3 in 2 tranches	NA	A3 / -- / --
Jan-16	New Ross N25 By-Pass Designated Activity Co (N25)	EMEA	Infrastructure	Road	EUR	145.37	2.684%	Fixed	26.0	15.6	Baa1 / -- / --
Jan-16	Udine Hospital	EMEA	Infrastructure	Hospital	EUR	40.00	NA	NA	NA	NA	-
Jan-16	Civic Nexus (Southern Cross Station)	Asia-Pacific	Infrastructure	Railway Station	AUD	202.00	NA	NA	17.0	NA	-
Dec-15	MRE-Silverstone-I	EMEA	Infrastructure	Care Home	EUR	186.00	3.600%	Fixed	11.0	NA	-- / BBB / --
Dec-15	Irish Courts	EMEA	Infrastructure	Court Buildings	EUR	72.50	NA	Fixed	26.5	NA	-
Dec-15	Armstrong Energy (TRFC 2015-1)	EMEA	Power	Solar	GBP	29.50	1.198%	UKPRI	19.2	NA	-
Dec-15	Wind MW (Meerwind)	EMEA	Power	Wind	EUR & USD	974.28	2.125%, 3.590% and 5.020% in 8 tranches	Fixed	6.0 and 11.5 in 8 tranches	NA	Baa3 / BBB- / BBB (2021) & BBB- (2027)
Dec-15	ConEdison Development	North America	Power	Solar	USD	159.00	4.530%	Fixed	25.0	14.3	NAIC 2
Dec-15	ZapSibNeftekhim OOO	EMEA	Other	Chemicals	USD	1,750.00	2.000%	Floating	14.9	NA	-
Dec-15	Etrion Solar Portfolio	EMEA	Power	Solar PV	EUR	35.00	Euribor + 225bps	Floating	14.0	NA	-
Nov-15	University of Melbourne	Asia-Pacific	Infrastructure	University	AUD & USD	197.17	NA	NA	20, 25 and 30 in 4 tranches	NA	NAIC 1 (AA+)
Nov-15	Australian National University	Asia-Pacific	Infrastructure	University	AUD	200.00	3.980%	Fixed	10.0	NA	-- / AA+ / --
Nov-15	Jimah East Power Sdn Bhd	Asia-Pacific	Power	Coal	MYR	8,980.00	4.980% to 6.760% in 36 serial tranches	Fixed	5.0 to 23.0 in 36 serial tranches	NA	AA- (MARC)
Nov-15	IE2 Holdco (Viesgo)	EMEA	Power	Power Distribution	EUR	500.00	2.375%	Fixed	8.0	NA	-- / BBB- / --

+ Project Bond used for the refinancing of a geothermal project in the Philippines …

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Key Constraints in the Development of Project Bonds

	Key Constraints	Possible Implications
1 Relative Limited Analytical Capability	• Complexity involved in structuring projects • Institutional investors may have not yet built teams within their organisations that are capable of structuring and negotiating project financings • Inability to replicate expertise of banks consistently active in PF (fixed income investors typically look at a wide variety of investments) • Heavy reliance on investment banks and credit rating agencies	✗ Heavy reliance on investment banks and credit rating agencies, monolines ✗ Institutional investors shy away from complex project financings and focus on government bonds
2 Lack of Monitoring Capability	• Passive investors lacking of "in house" expertise • No credit monitoring post-closing • No standard benchmark for measuring the performance of a project	✗ Heavy reliance on credit rating agencies ✗ Temptation to sell in case of distress
3 Bond Administra-tion	• Most waivers/consents require the consent of a majority in interest • Large number of passive investors • Contact and identification of beneficial owners with voting rights, etc.	✗ Greater flexibility for the sponsors to make decisions ✗ Requirement for rating agencies' confirmation ✗ Sell down bond instead of implementing remedial plan
4 Rating Hurdle	• Strict minimum of investment grade or above • Few emerging countries meeting this threshold (political and economic system risks, external debt profiles, currency transfer/convertibility) • Most bank-funded projects would probably be rated below investment grade due to construction, operational and/or demand risks	✗ Few projects would meet institutional investors' investment criteria ✗ Requirement for credit enhancement

Key Constraints in the Development of Project Bonds *(Cont'd…)*

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	Key Constraints	Implications
5 **Execution Risks**	• No firm commitment underwriting • Most issuers have no commitment until pricing • Pricing highly dependent on prevailing but volatile market conditions • Lack of visibility and certainty on sustainability of tariff proposal in bidding situations	✗ Competitive tension between bank debt financing and bond financing ✗ Buffer in pricing assumptions ✗ Fall back financing plans in case of sudden changes in capital markets
6 **"Negative Carry"**	• As a result of the above, most issuers prefer certainty of a single bond issuance • Negative carry between return on interest/coupon paid and permitted investment returns	✗ Bond tranching and deferred issuances ✗ Option to secure bond coupon
7 **Construc-tion Risks**	• Duration of the construction period • Technical complexity involved • Higher risk profile	✗ Focus on brownfield / operating assets ✗ Missed opportunities
8 **Lack of Standardi-zation**	• Major differences across projects • Different jurisdictions and structures • Lack of comparability between projects	✗ Inability to deploy large funds to infrastructure ✗ Heavy due diligence exercise involved for each project, not supported by teams of experts

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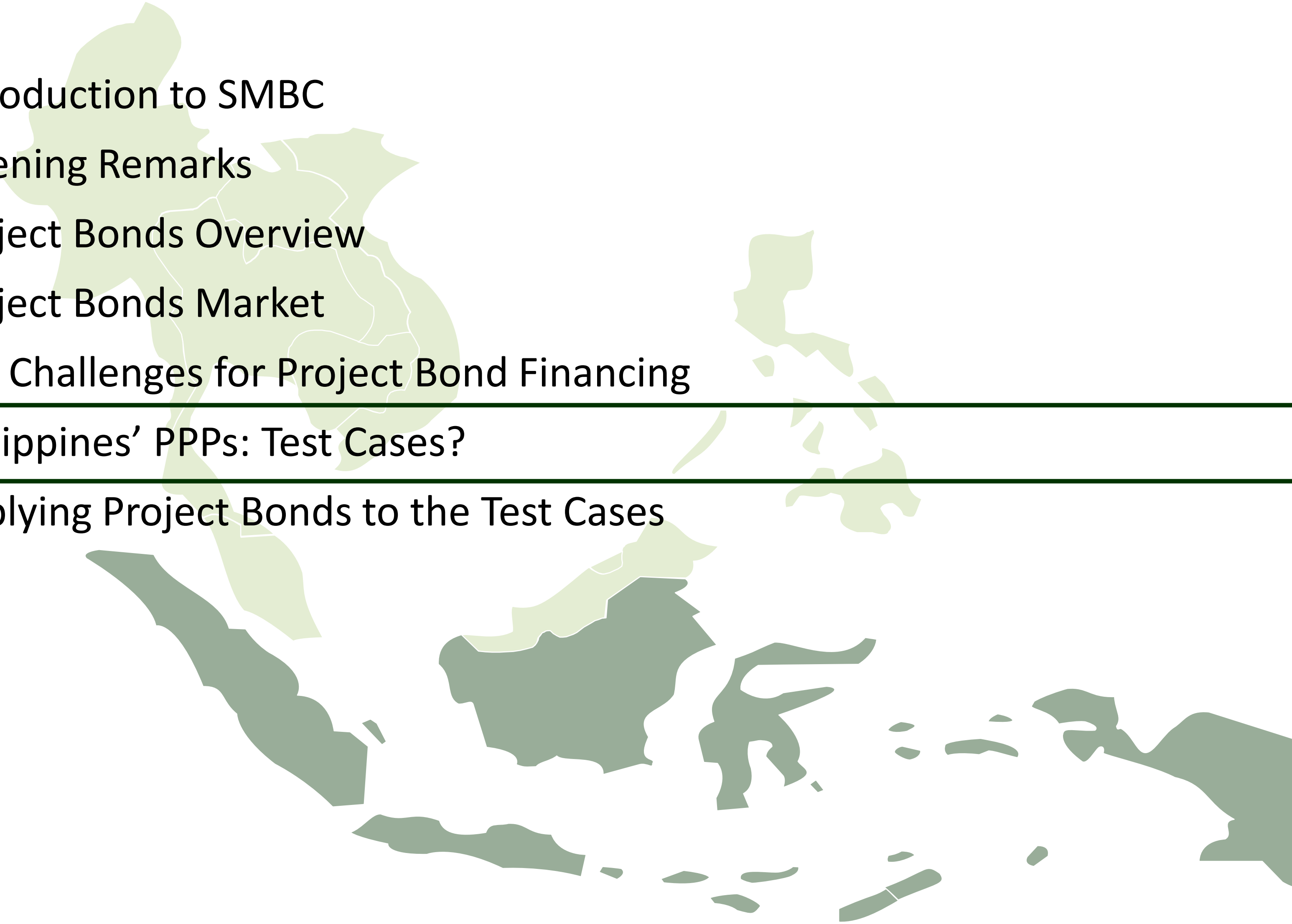

North South Railway PPP

Project Characteristics

⇨ Project Description

- Improvement of Philippine National Railway system
- Construction, financing, operations and maintenance (i) High Speed Commuter Line from Tutuban to Los Banos, (ii) Long Haul Rail Line from Tutuban to Legazpi, (iii) Long Haul Extension Line from Legazpi to Matnog and (iv) Long Haul Branch Line from Calamba to Batangas
- Project Costs ~ Php 171bn (USD 3.80bn)
- Concession period: 34 years (30 years from completion)
- PPP Scheme: Build – Gradual Transfer – Operate – Maintain

⇨ Payment Structure

- Construction Support: milestone payments over the 4 year construction period
- Availability Payments: first 11 years of operations
- Farebox Revenues: collected from end users during operations
- Ancillary Revenues: commercial revenues during operations

Candidate for Project Bond Financing

✓ Project of national importance

✓ Large liquidity required to fund the project

✓ Long term concession matching institutional investors' liabilities

✓ Payment support in the first years of operation (ramp up)

? Construction risks: ability to structure construction bank debt refinanced with project bond

? Phasing approach

? Land procurement issues

? Certainty on budget allocation (MYOA)

? Political risks and Government support

? Market fluctuations and credit enhancement post-Year 15

Regional Prisons PPP

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ACCESSING THE PHILIPPINE CAPITAL MARKET FOR PPPs

Project Characteristics	Candidate for Project Bond Financing

Project Characteristics

- ⇨ Project Description
  - Construction and maintenance of modern prison facility in Fort Magsaysay, Nueva Ecija
  - Facility for 26,880 inmates, incl. staff housing and administrative buildings, areas for rehabilitation and security equipment
  - Project costs ~ Php 50.2bn (USD 1.12bn)
  - PPP Scheme: Build – Transfer – Maintain (BTM)
  - Concession Period: 20 years (17 years post-Completion)
- ⇨ Payment Structure
  - Construction Support: milestone payments in 4 instalments during the 3 year construction period
  - Yearly performance-based payment with deduction regime (based on availability and maintenance standards)
  - Indexed maintenance fee

Candidate for Project Bond Financing

- ✓ Project of strategic importance
- ✓ Relatively large liquidity required to fund the project
- ✓ Long term concession matching institutional investors' liabilities
- ✓ Availability- and performance-based payments during operations ensuring high level of visibility in the cash flows projections

- ? Counter-party credit worthiness / risks
- ? Political risks and Government support
- ? Certainty on budget allocation

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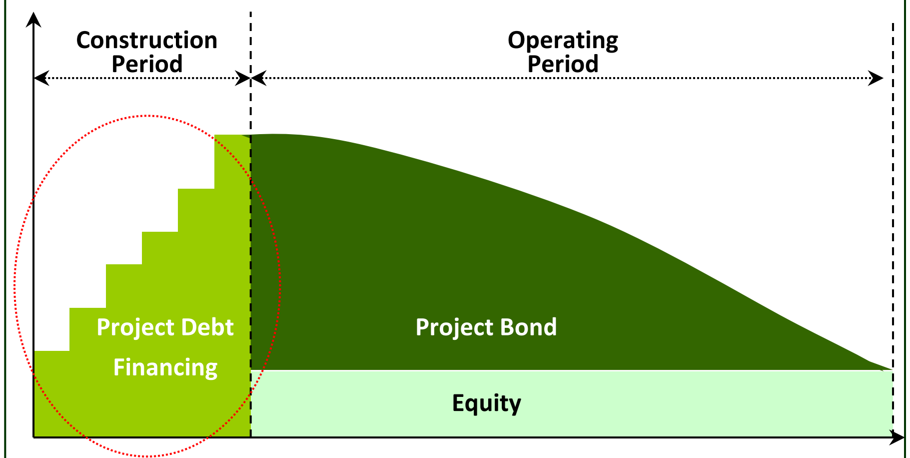
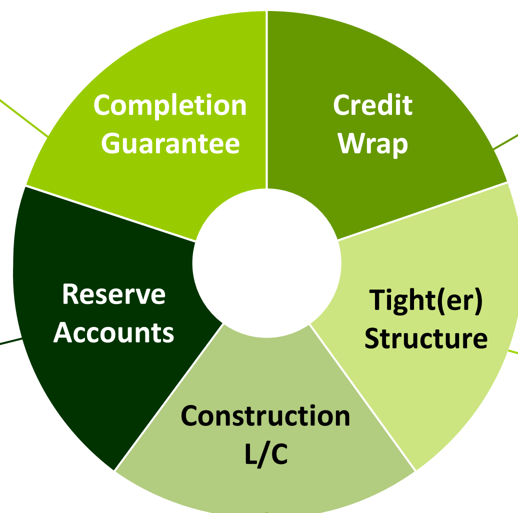
Combining Project Debt and Project Bond …

Combination of PF Debt and Project Bond

- Construction risks and structuring taken by PF banks
  - PF banks best able to appreciated construction risks and structure adequate mitigants
  - Minimization of "negative carry"
  - Reducing constraints on banks' balance sheet
  - Project bonds best fit post-COD operating period
- Long term refinancing of bank "mini perm" construction loans
- "Hybrid" structure combining bank debt financing and project bond



Project Derisking



- De-risking the project during the most critical phase of construction
- Completion guarantee from a credit worthy entity

- Providing either full or partial guarantee from a highly rated guarantor
- Standard form of cover: unconditional and irrevocable

- Reserve accounts sized to a periodic debt service (DSRA)
- Reserve accounts to address specific risks (e.g. in case of potential delay in achieving completion)

- High performance bond to mitigate construction risks
- High cover ratios to mitigate operating risks
- Moderate leverage to create larger capital cushion

- Syndicate of lenders to aggregate capacity

… Credit Enhancement …

Monolines

- ✓ Instrumental in supporting the expansion of project bonds in the US and in Europe
- ✓ Unconditional and irrevocable guarantee of the payment of the principal and interest with no forced acceleration: “AAA” wrap for projects
- ✓ Serves as “Controlling Creditor”: single point of contact for issuers on insured debt
- ✓ Due diligence on assets and monitoring credit exposure on behalf of bondholders
- ✓ …. but virtually disappeared from the PF market post-Lehman crisis

EIB

- ✓ Project Bond Credit Enhancement (PBCE)
- ✓ Ensuring debt service for Project Bond investors up to the total size of the instrument
- ✓ Credit uplift from a typical [BBB-] rating by up to 3 notches to [A-]
- ✓ Either (1) Funded (subordinated loan) or (2) Unfunded (letter of credit) guarantee instrument

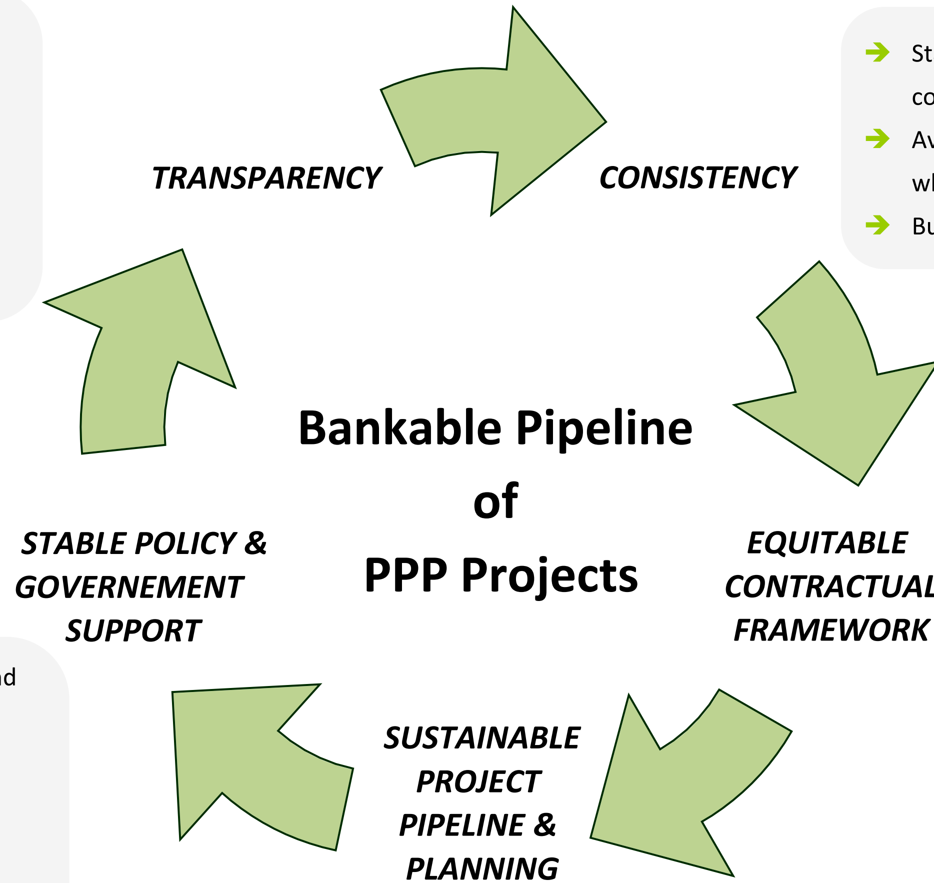
In SEA Region

- ✓ CGIF:
  - Trust Fund of the ADB with contributors originated from ASEAN +3 and ADB
  - Highly rated guarantor (AA and AAA by S&P’s, respectively on Global Scale and ASEAN Scale)
  - Monitoring agent and Controlling Creditor
- ✓ Multilaterals:
  - ADB
  - MIGA
  - IFC

… and Ensuring Bankability of the PPP Projects

- Fair and transparent competition through open tendering process
- No discrimination between bidders
- Clear evaluation criteria
- Equation linking transparency, competition and "Value for Money"

- Standardisation and consistency of the PPP concession contracts
- Avoiding the temptation of reinventing the wheel
- Build up investors' and lenders' trust



- Key principle of PPPs = allocation of risk to the party best suited to handle it
- Avoiding deviation from international market standards "best practices"
- For example, Land Procurement in the case of NSRP
- For example, deduction risks need to be quantifiable in the case of Prisons PPP

- Visibility on the MYOA allocation and approval
- Counterparty risks
- Clear dispute resolution and independent arbitration
- Government support and ultimate responsibility: Availability Payments, Milestone Payments

- Roadmap for infrastructure projects
- Critical mass to attract investors and lenders,
- Establishment of a successful PPP track record