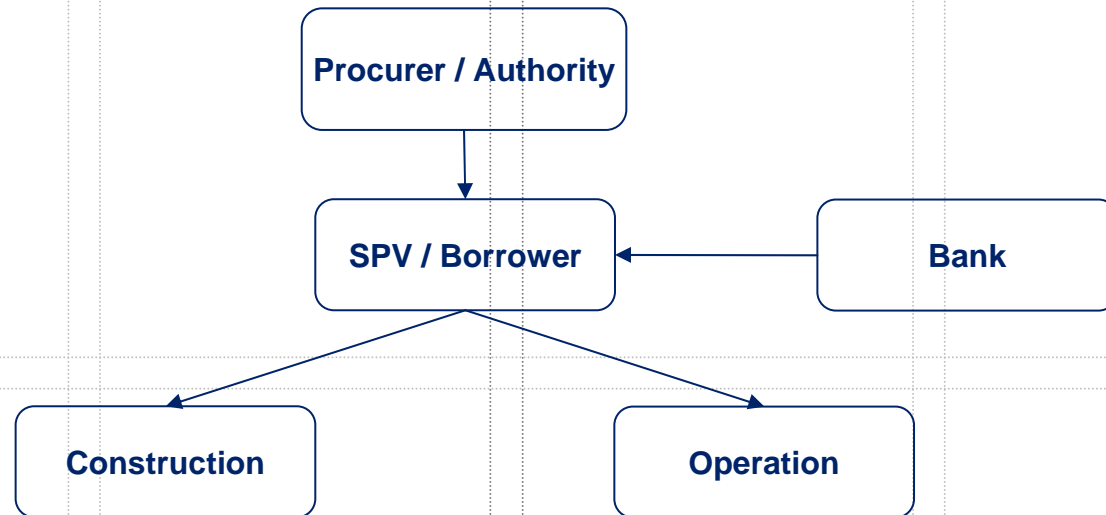


Institute of Risk Management

David Newman

Global Banking & Markets

Typical Project Structure



➤ Key for lenders

1. Understand risks
2. Ensure they are allocated to party best placed to take them.
3. Ensure those unallocated (left with borrower) are priced / considered.
4. Balance Equity risks / Senior debt risks.

Key Risk Areas for Bank in Project Finance PPP / PFI

- Performance of construction contractor.
- Performance of operator.
- Volume risk.
- Technology risk.
- Change in law risk.
- Termination risk.

Performance / Solvency of Contractor & Operator

- Simple & common sense checks.
- What happens if something goes wrong.
- Bank security package – risk mitigant.
- Working with technical / legal advisers & their role.
- Insurance Package.

Lender's Insurance Adviser Due Diligence Role

“Assisting to check the SPV is capable of remaining whole, and able to continue to pay debt service, following an insurable event”

Two elements of the Insurance Adviser's typical scope of work:

- The process of “fortuitous” risk identification
- Confirmation of the required project insurances

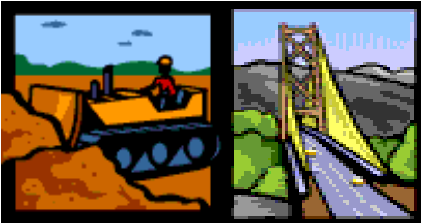
The process of “fortuitous” risk identification

- Team effort requiring liaison with other project participants
- Technical Adviser, project background and evaluation of key risks
- Legal Advisers, who is/should carry what risk contractually?
- SPV / Lenders, what risks are commercially acceptable at project level
- SPV Insurance Adviser, SPV subcontractors
- Past experiences of all parties on similar projects

Lender's Insurance Adviser Due Diligence Role

Normal areas of focus of insurance

Asset



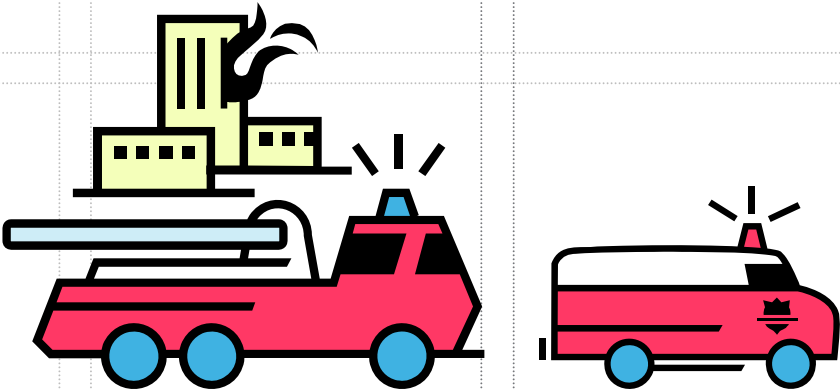
Construction "All Risk" /
Material Damage Insurance

Revenue



Delay in Start-up /
Business Interruption Insurance

Project Liability



Public Liability Insurance

Lender's Insurance Adviser Due Diligence Role

Other elements of IA role:

- Review of contractual undertakings
- Insurer security (Minimum S&P rating of A-)
- Independent review of the project policies
- Risk of premium change over time

Volume Risk Management

- Types of Projects:
 - Roads.
 - Transport / Car Parks / Ports.
 - MSS.
 - Stadia.

- Why do Bank need assess Volume Risk?

- How do we assess Volume Risk?

- Case Study – Emirates Stadium.

- Other mitigants to Volume Risks.

Technology Risk

➤ IT.

➤ Plant Machinery.

➤ Processes.

➤ Engineering.

Termination Risk

- PPP / PFI position clear for most defaults / terminations.
- Contractor default usually key risk.
- What is the risk / cure.

Summary – Bank risk mitigants

- Comprehensive risk register – risk is placed with party best placed to manage it.
- Precedents from business.
- Input technical, Legal, insurance advisers.
- Avoid unproven technology / countries.