



Impact of Recent Market Developments on the Future of Financial Modelling

Hugo Teixeira, Structured Finance Europe

16 June 2010

Agenda

- The Financial Crisis
- Impact of the Crisis on Financial Markets
- Impact on Financial Models
- Key Challenges Ahead

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The Financial Crisis

World in 2007 – “The Sky is the Limit”

From **The Times**

December 15, 2007

Goldman Sachs makes \$4bn profit on daring sub-prime bet

RBS predicts record £10bn profit

Jill Treanor

The Guardian, Friday 7 December 2007

The New York Times

Lehman Profits Fall, but Give Wall Street a Lift

By JENNY ANDERSON

Published: September 19, 2007

Record profits at HSBC

Julia Kollewe

guardian.co.uk, Monday 5 March 2007 19.09 GMT

infranews

Financial Close Reached on North Middlesex Hospital

15 Aug 2007 | England | Healthcare

RBC and DKIB are providing half each of a £126m senior bank debt facility to fund the scheme. Margins on the debt are 80bps during construction, and 65bps post construction, rising to 75bps. Tenor on the debt is just short of 30 years. Gearing is 92.5:7.5.

A-65 Closes Syndi Over-Subscribed

17 May 2007 | France | Roads

Banks Pile into Welcome Break Syndi

05 Jul 2007 | UK | Other

NCP Syndi Poised to Close Oversubscribed

11 Jun 2007 | UK | Car Park

The Financial Crisis

World in 2009/2010 – “Structural Changes to the Markets”

The Economist

A Greek bailout, and soon?

Jan 28th 2010, 10:01

THE WALL STREET JOURNAL.

NOVEMBER 28, 2009

Dubai's Woes Shake U.A.E., Region

Alistair Darling to create new body to co-ordinate infrastructure projects

Nick Mathiason

The Guardian, Wednesday 9 December 2009

pfi Wednesday, 03 February 2010
PROJECT FINANCE INTERNATIONAL

ECAs can lead liquidity search

INFRASTRUCTURE JOURNAL
Supporting Infrastructure Investment

Chicago cancels Midway Airport deal

Robert Lovell 21/04/2009

The city of Chicago has cancelled plans for a new airport terminal that failed to come up with the financing

Government Cancels Titan Prisons Programme

24 Apr 2009 | UK | Accommodation

ProjectFinance

RBS ends long term project finance lending

27 February 2009

European Investment Bank

European Commission and European Investment Bank Launch new Instrument to Finance European Transport Network

EUROMONEY

January 2010

Rise of the multilaterals

Babcock & Brown restructuring

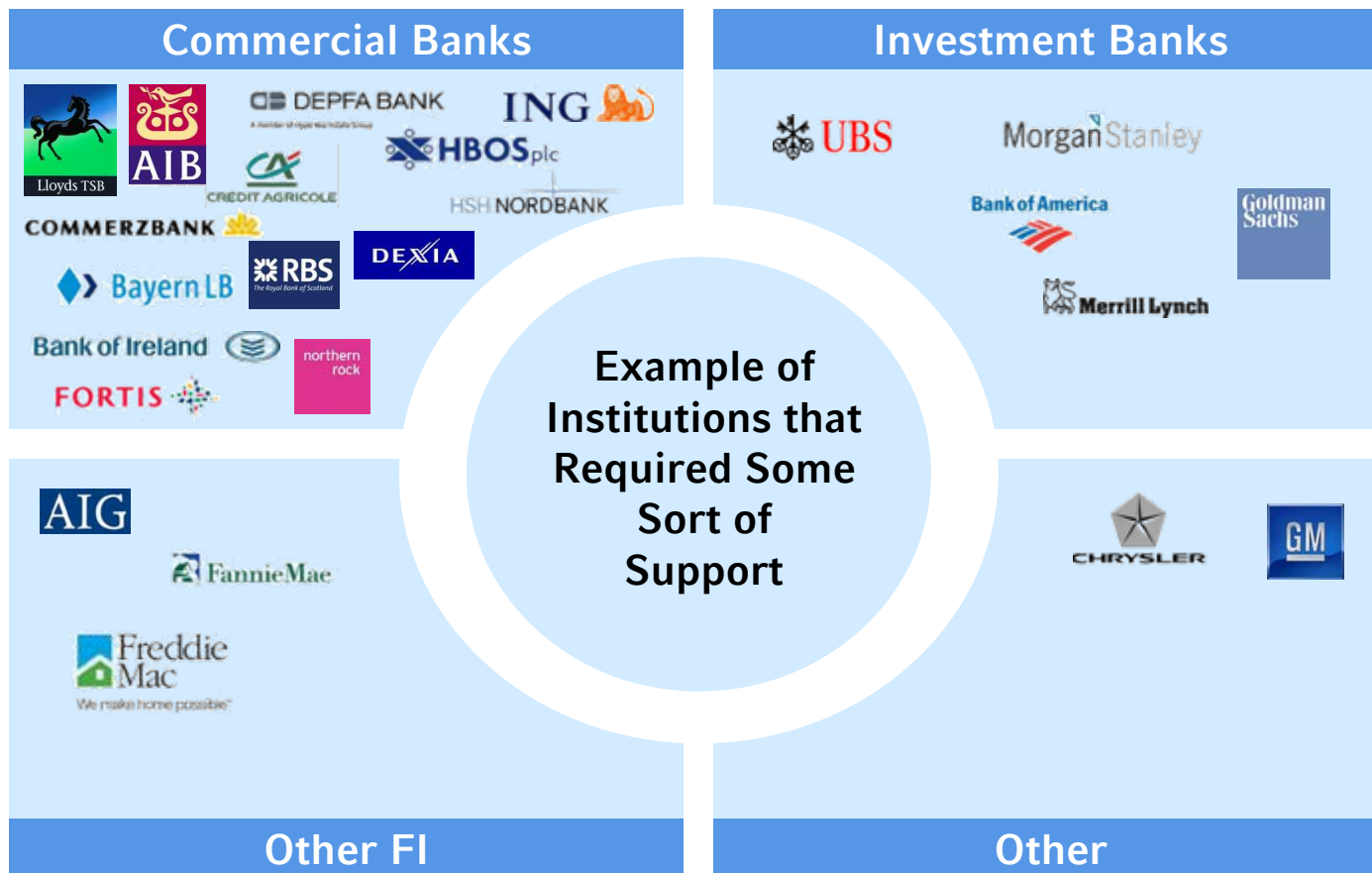
Babcock & Brown faces bankruptcy following creditor vote

13 Mar 2009

Financial Times

The Financial Crisis

Really 'Too Big to Fail'?

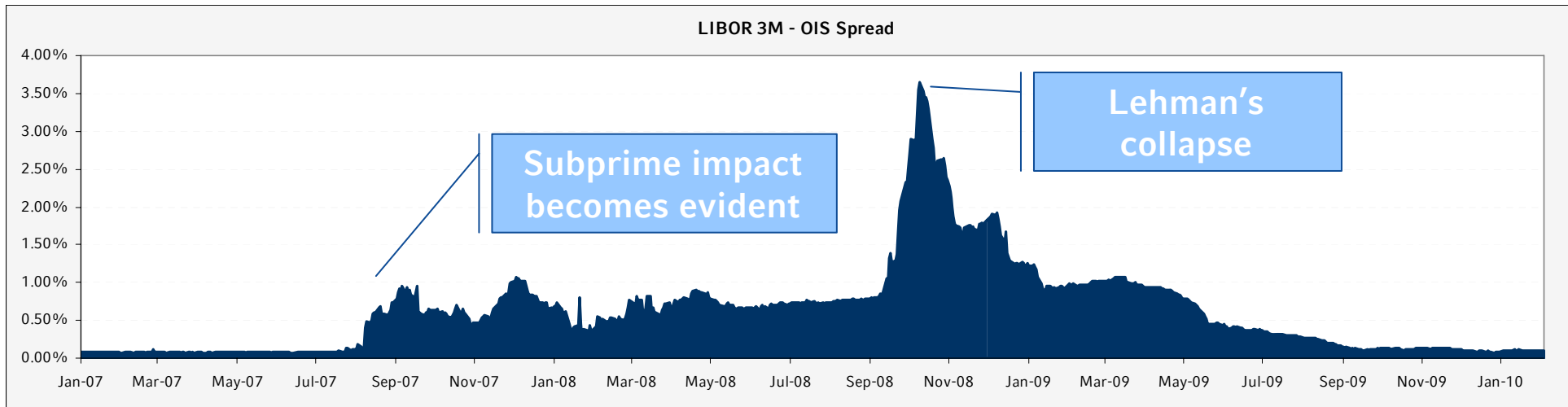
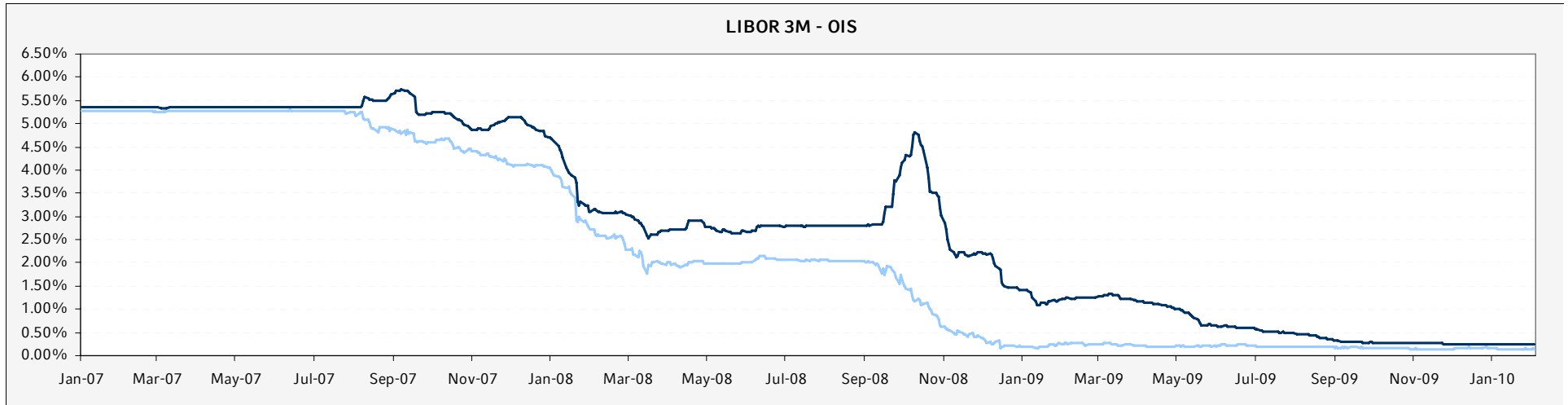


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Impact of the Crisis on Financial Markets

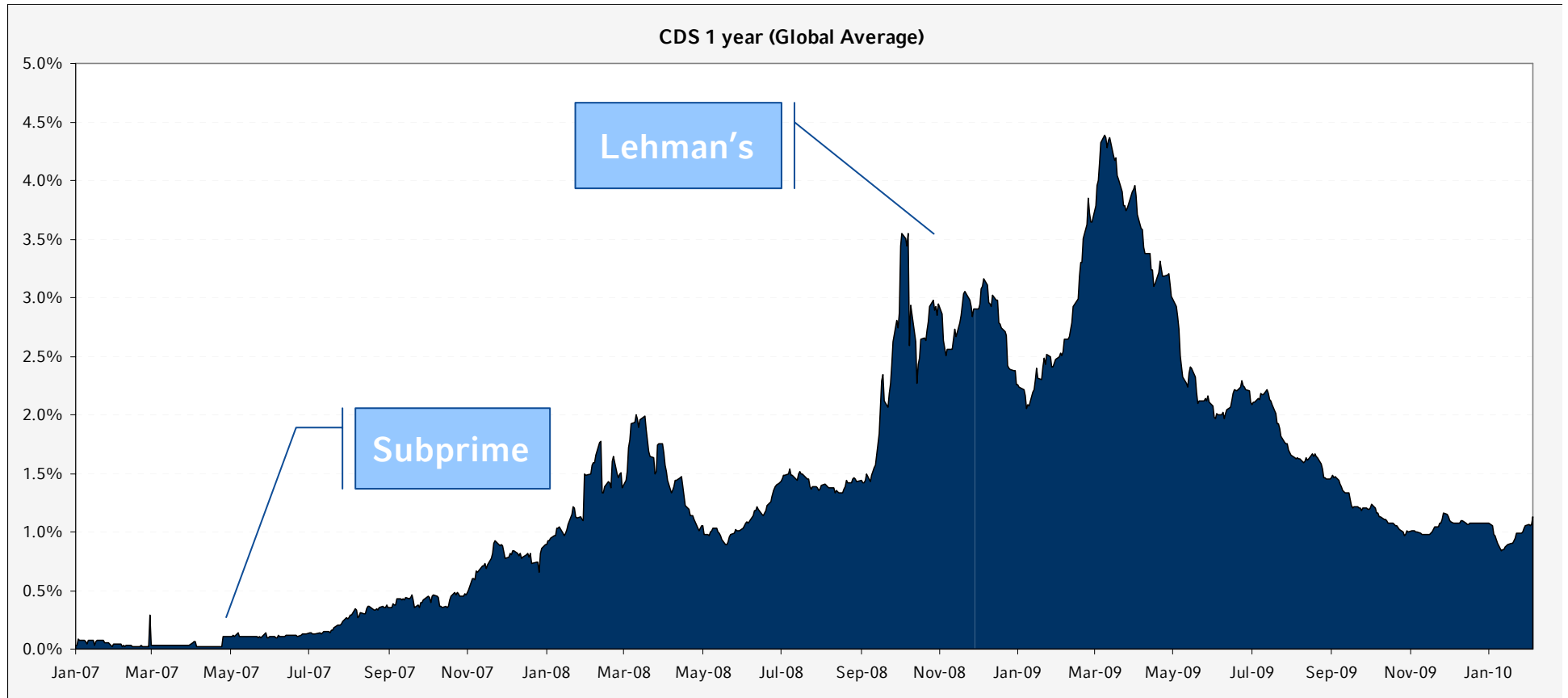
Systemic Risk Drives Liquidity



Source: Bloomberg

Impact of the Crisis on Financial Markets

Illiquidity Drives Banks' Creditworthiness



Source: Bloomberg

Impact of the Crisis on Financial Markets

Crisis With Profound Impact on PPP/PFI Market

Banking System

- Bankruptcy of several financial institutions
- M&A across the financial sector
- Refocusing on specific markets & sectors
- Need for government intervention

- Decrease on market trust
- Lower market liquidity (long tenors)
- Increased liquidity costs
- Increased pricing

PFI/PPP Market

- Market segmentation
- Lower liquidity
- Higher risk awareness

- Short vs long-term lending
- Selectiveness on investment choice
- Thorough analysis from risk departments
- Affirmation of specific financial players

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Impact on Financial Models

Changes to FM driven by External and Internal Forces

Market Driven

- Development of new funding structures
- Additional market players
- Higher risk of changes to financing structures
- New risk factors

Driving Forces of Change on PPP/PFI Financial Models

Internally Driven

- Detailed analysis from risk departments
- More severe downsides
- Development of clear guidelines regarding financial models

Impact on Financial Models

Changes to FM driven by External and Internal Forces (cont.)

Market Driven

Background

- Significant infrastructure gap
- Reduced liquidity
- Accommodate preferences of different lenders

Market Impact

- Innovative funding structures (e.g. 'soft' mini-perms)

Impact on Financial Models

- Multiple Base Cases
- Financial covenants calculation
- Increase in the number of financial covenants

Background

- Liquidity constraints
- Pressure from Governments

Market Impact

- Increased participation from EBRD, EIB and multilaterals

Impact on Financial Models

- Multiple debt tranches
- Specific downsides
- Multiple financial covenants (e.g. LGTT)

Impact on Financial Models

Changes to FM driven by External and Internal Forces (cont.)

Market Driven

Background

- Credit approval less straightforward
- Difficulties in syndicating equity

Market Impact

- Higher risk of changes to financing structures

Impact on Financial Models

- Higher level of flexibility required

Background

- Strong and steep recession
- No similar situation on recent past

Market Impact

- Emergence of new risk factors (e.g. inflation)

Impact on Financial Models

- New variables to be modelled some with complex mechanics (e.g. RPI swaps)
- Financial covenant calculation (acquisition financing)

Impact on Financial Models

Changes to FM driven by External and Internal Forces (cont.)

Internally Driven

Background

- Increased defaults
- Selectiveness on investment choice
- Higher risk awareness

Market Impact

- Detailed analysis from risk departments

Impact on Financial Models

- Sensitivities run by credit
- Models prepared to run typical sensitivities
- Complex models (macros) to be avoided

Background

- Higher risk awareness
- Traditional downsides not so conservative
- Higher headroom required

Market Impact

- Requirement for more severe downsides

Impact on Financial Models

- Models to run on “unrealistic” scenarios
- Non-refi scenario often Base Case
- Breakeven on key variables: a “must”
- Shortfalls, release reserves, cash trap

Impact on Financial Models

Changes to FM driven by External and Internal Forces (cont.)

Internally Driven

Background

- Different modelling skills
- Higher risk awareness
- Problem driven by poor models

Market Impact

- Development of clear guidelines re financial models

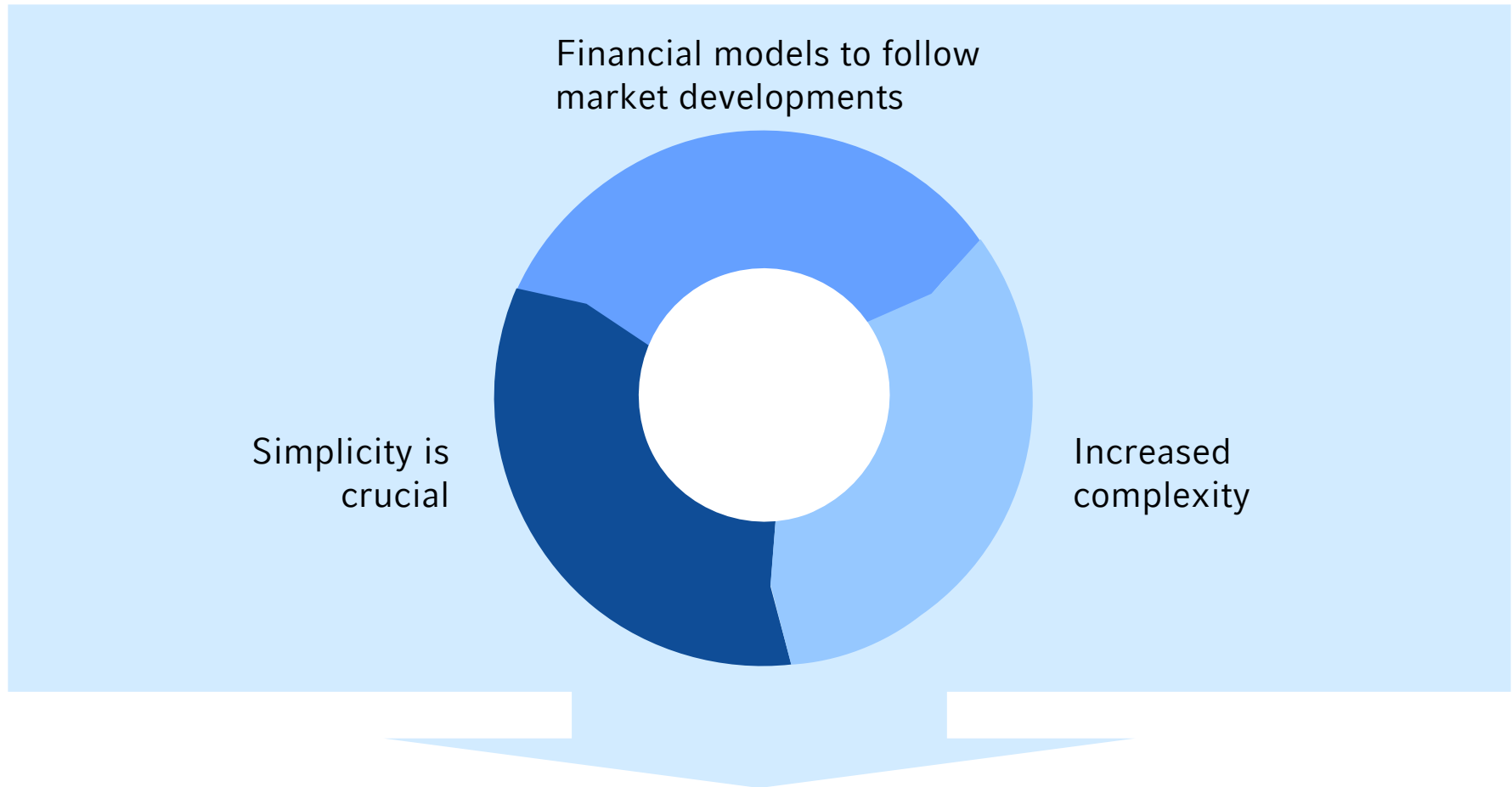
Impact on Financial Models

- Fully functional financial models
- Development of internal standard PFI models
- External model audit not sufficient

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Key Challenges Ahead





Thank You.

Contact Data

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