

International Conference on Promoting PPP in the UNECE Region

5-8 June 2007
Tel Aviv

Contents

1. Bank Leumi - Facts and Information
2. Bank Leumi and Project Finance in Israel
3. Significant Funding Issues Necessary to Develop PPP Projects
4. The Israeli Experience with Project Finance

Bank Leumi - Facts and Information

Leumi Group Highlights

- ❑ Founded in 1902
- ❑ Strong franchise in:
 - ❑ Upper-middle market retail customers
 - ❑ Middle market customers
 - ❑ Corporate customers
- ❑ One of the two largest banking groups in Israel with over 200 branches worldwide

Bank Leumi – Subsidiaries and Branches



2006 Financial Results

	2006		% Change 2005/2006
	NIS millions	\$ millions	
Total Assets	289,341	68,483	4.10%
Deposits from the Public	231,823	54,869	4.50%
Credit to the Public	183,800	43,503	0.60%
Net Interest Income	5,989	1,417	15.13%
Other Income	3,871	916	4.11%
Non Interest Expenses	7,257	1,717	19.55%
Net Operating Profit	2,850	674	-8.66%
Net Profit *	3,534	836	65.00%
ROE *	22.10%		
Equity to Risk Assets	11.56%		
Primary Capital to Risk Assets	7.53%		

* Net Profit and ROE for 2006 include profits from non-ordinary operations 6

Bank Leumi and Project Finance in Israel

- ❑ Bank Leumi, which is involved in many different activities in the Israeli economy, participated in the privatization process led by the Government of Israel in the late 1990s.
- ❑ Today the bank is considered to be a leading player in project finance.
- ❑ Bank Leumi is involved in many PPP projects in Israel, primarily as an arranger.

The current total debt of the projects financed by Bank Leumi is in the billions of NIS.
- ❑ The bank funds large projects through a consortium of institutional investors and financial institutions.

Projects Financed by Bank Leumi

Desalination Projects

- ❑ VID – Ashkelon – 100 mm³ per year (lead arranger together with institutional lenders).
- ❑ Maagan Hatpala – Maagan Michael – 8.5 mm³ per year (sole lender).
- ❑ Cyprus Larnaka – 17mm³ per year.
(co-arranger together with HypoVeriense Bank and Cyprus Popular Bank).



Infrastructure and Other Projects in Bank Leumi

- ❑ IPP Ashkelon (Independent Power Plant)
- ❑ CityPass - Jerusalem light train (co-arranger with Bank Hapoalim)
- ❑ Private Prison in Beer Sheva
- ❑ Swissport Cargo Services Israel Ltd
- ❑ Cross-Israel Highway - the first toll road in Israel. (As a lender, the project was arranged by Bank Hapoalim)



Projects Currently under negotiations:

- ❑ Fast Lane - The first dynamic lane in Israel
- ❑ Tel Aviv light train
- ❑ 531 Road
- ❑ Other Projects



Significant Funding Issues Necessary to Develop PPP Projects

1. Project Selection

It is highly important to identify high budget projects (no less than 50 million dollars) in infrastructure sectors (energy, transportation, water, etc.)

2. Risk Distribution and Risk Management

Making the right risk distribution and defining accurately the risk boundaries of each party is crucial for project funding to be successful.

Allocation of Risks in Project Finance

Risk	Sponsor /Bank	Construction Contractor	Operator Contractor	Tenderer	Major Suppliers	Insurance
Completion of Construction	X	X				X
Delays in Construction		X		X		
Cost Overruns	X	X		X		
Operating Risk	X		X		X	
Supply Risk	X				X	
Revenue Risk	X			X		X
Environmental Risk	X	X	X	X		X
Regulatory Risk/ Change in Law	X			X		
Interest Exchange Rate	X			X		
Adverse Conditions				X		X
Political Risks	X			X		X

3. Building a Consortium of Concessionaires

A combination of foreign and local entrepreneurs has a big advantage, especially in technological projects.

4. Funding

A mature and advanced capital market is essential for funding PPP projects. An advanced capital market is based on the following aspects:

- ❑ Long-term funding sources with a fixed interest rate.
- ❑ An “institutional market” that is willing to take part in the funding (e.g. insurance companies, pension funds, mutual funds).
- ❑ Rating agencies

5. The Bank's Role

5.1 It is highly important that a commercial bank that leads the funding will properly fulfill its role in each one of the project's phases and in the following capacities:

- Senior lender
- Arranger and/or Underwriter
- Facility agent
- Security trustee

5.2 Project finance is included in the area of “specialized lending” according to the Basel 2 accord. Currently, it is hard to define a model that will accurately evaluate the financial risks and therefore the capital allocation needed.

6. Consultancy with Experts

Project finance demands special expertise and relying on highly professional and skilled experts, especially in the following areas:

- ❑ Legal issues
- ❑ Accountancy
- ❑ Tax issues
- ❑ Technical issues and\or Civil Engineering
- ❑ Transportation
- ❑ Insurance
- ❑ Environment

The Israeli Experience with Project Finance

Experience in Israel

PPP projects in Israel have shown significant progress in the following areas:

	At Inception	Today
Risk distribution	Was not properly defined	Experience has been gained. Each party is aware of the risk boundaries
The tenders' conditions and the agreements' wording	There were different versions and different conditions for each tender	In many cases, the same versions of tenders or agreements are used
Structuring the financial terms	No methodology and time consuming	Defined methodology

	At inception	Today
Involvement of institutional investors in long-term finance	Hesitation and sometimes reluctance	Willingness to join
Involvement of foreign banks	Did not exist	Currently exists
Negotiation process until the final closing	Very long (up to several years)	Shorter (1-1.5 years)

The experience gained in PPP projects in Israel in recent years has led to a better understanding and analysis of the project.

As a result, the funding groups today enjoy a more acceptable level of risk and consequently, project finance remains one of the main strategic targets of Bank Leumi.