

Innovation Series
GLOBAL CORPORATE TRUST

Big Blue

The massive Blue City project finance deal is one example of the radically expanding role of trustees



THE BANK OF NEW YORK MELLON.



As the project finance market becomes more sophisticated and far-reaching, issuers, underwriters, and investors are demanding greater flexibility, creativity, and capabilities from their corporate trust provider.

Fifteen years ago, project finance was a relatively simple affair. Most deals were U.S. infrastructure projects in which debt was repaid from the revenues generated by the ensuing project. Today, globalization, deal complexity, and rising project costs are rapidly changing project finance, with each deal increasing in scope, size, and structure.

In this rapidly evolving market, trustees are often selected by borrowers and arrangers to administer and support both conventional financing and emerging debt structures in a variety of new ways. This is leading to increased trustee responsibilities, making the trustee a key partner in the overall plan and central to the success of the project.

Growth in Emerging Markets

In 2006, 50% of all project finance deals occurred in EMEA, with a growing number emanating from Asia-Pacific and the Middle East. One example of the trend toward globalization and expansion of the trustee's role can be seen in The Bank of New York Mellon's efforts on behalf of Blue City, a massive, master-planned development project slated to be built on the northern coastline of Oman. Notable for its multijurisdictional and multicurrency aspects, Blue City was recently awarded Euromoney's Project Finance magazine's Middle East Leisure Deal of the Year.

Blue City is one example of the trend toward expansion of the trustee's role.

Blue City

The Blue City is Oman's largest real estate project and is located about 90 kilometers northwest from the center of Muscat, Oman's capital. Blue City is scheduled to be completed in 10 phases over a 15- to 20-year period, with a total expected investment of \$15 to \$20 billion. The overall project is a joint effort of Omani and Bahraini private sector investors and developers, acting through Al Sawadi Investment & Tourism Company LLC (ASIT) in cooperation with the Omani government. Bear Stearns acted as arranger and joint lead manager.

Upon completion, Blue City is expected to be home to more than 250,000 permanent and visiting residents and will become a tourist and business destination of national, regional, and international relevance, as well as a significant source of job creation in Oman.

Each of the project's 10 development phases has stand-alone goals, along with concomitant funding. Phase 1, funded through five classes of securitized notes with maturities to 2016, raised \$925 million in the largest funding of its kind. The first phase is primarily for residential and tourism development, with leisure and retail components that include a 27-hole tournament-standard golf resort and four hotels.

Trustee a Key Partner

On this landmark tourism development project, The Bank of New York Mellon was selected by Blue City Investments 1 Limited to provide multiple corporate trust services, including acting as trustee, registrar, agent, cash manager, account bank, lookback calculation agent, and Irish paying agent.

What makes this deal different is that the trustee is involved in every part of the transaction, well beyond the trustee's normal project finance role. The Blue City project required a hybrid approach, with structured finance, credit enhancement, real estate financing, and project finance rolled up into one seamless package.

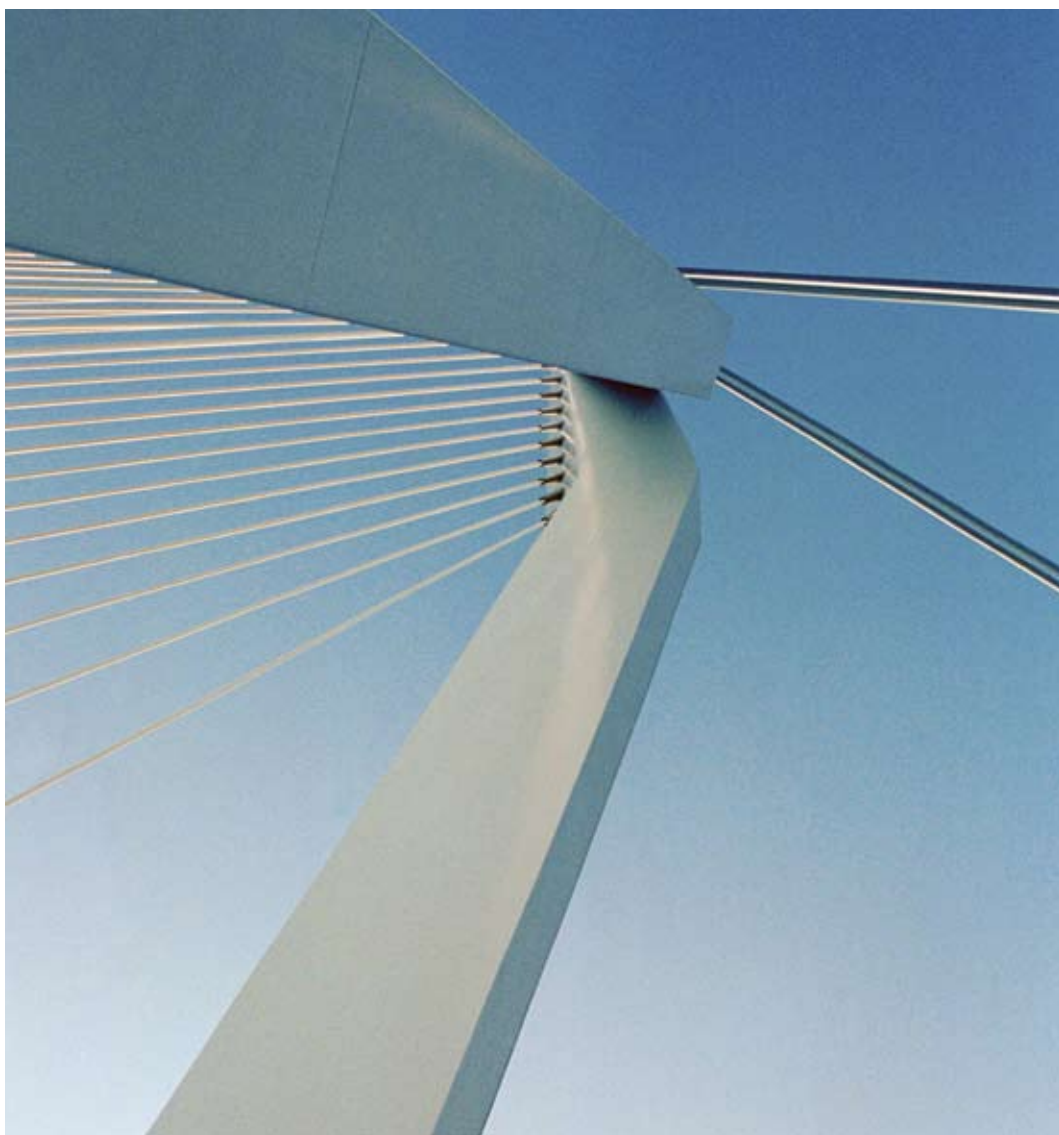
Phase 1 groundbreaking, for example, was delayed by architectural revisions. As trustee, The Bank of New York Mellon was required to review certain consent requests and acknowledge that the resulting consent to delay would not jeopardize bondholder rights or result in rating downgrades.

The ownership structure, securitization, and international cash flows also make this project different. For example, the notes are protected by reserve accounts backing payment of principal and interest on certain series, a credit insurance policy backing payment of principal on certain series, real estate collateral, cash flows resulting from sale of the residential properties, and operating cash flows from the non-residential assets once operational.

The successful sale of residential properties will ultimately determine whether the project can move forward. As trustee, The Bank of New York Mellon is charged with making that determination on the part of the investors by applying a capital expenditures test and a residential sales test. The Bank's global analytics group will perform the tests, monitoring and performing calculations based on raw data provided by various parties.

Another component typically associated with structured finance is the international cash flow arrangement. This transaction's offering documentation allows for ongoing payments to contractors and service providers in any major currency of their choosing, with the currency risk being absorbed by the account itself.

What clients are looking for today is full transparency—the supporting, foundational information about every aspect of the portfolio.



To Success

What does it take to provide all of these essential roles in such complex transactions? For one, it takes true global capabilities. For example, in this case, The Bank of New York Mellon's subsidiary in Dublin, AIB/BNY Fund Management (Ireland) Limited, is acting as the Irish paying agent; The Bank's various operations centers in Europe are supporting the administration of the trust accounts and note payments.

And the overall coordination of the transaction is being managed out of the Bank's headquarters in New York.

What else does it take? It also takes deep corporate trust experience and a commitment to providing clients with a single point of contact who can seamlessly orchestrate a multifaceted, multijurisdictional, multicurrency responsibility.

Hybrid Deal Structure

Blue City is expected to set a precedent for other project finance transaction structures, especially if this one proves to be successful.

It's a win-win, all the way around. For the host government, development can be funded without the need to raise taxes or tap existing budgets. In addition, the new jobs will require more advanced and diverse skills, so workers will be able to earn more income to spend in their local communities. Local contractors get long-term building contracts. Investment banks realize opportunities in new regions, creating private investor funding tranches that offer varying levels of safety and return, fully or partially backed by the ongoing development and sale of the real estate.

Time will tell whether this new hybrid form of project finance will be the magic elixir that enables emerging market countries to obtain new development, new jobs, and new sources of tax revenue with minimal risk. Nevertheless, we stand ready to meet the expanding trustee role head-on, supporting the needs of issuers and their advisors through close personal attention to all aspects of their transactions.

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Samir Pandiri joined the Bank in 2005 and is responsible for managing the international services business, which includes the EMEA, Asia and Americas regions, and the Investment Management Group for the Bank's Global Corporate Trust Division. Prior to joining The Bank of New York, Samir spent nearly 15 years at other financial services organizations, with expatriate business management assignments in Hong Kong, London, and New York. The global trust services team within the corporate trust division comprises more than 800 professionals who are experts in innovative types of financings and have in-depth understanding of both their local markets and their respective client needs.

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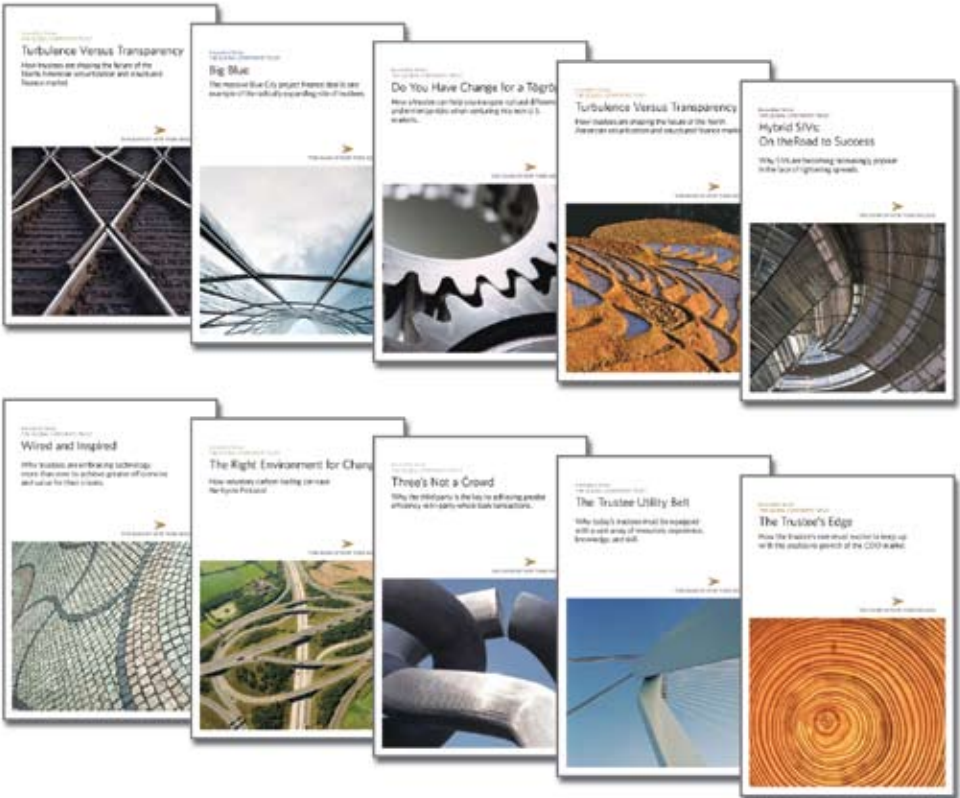
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Who's Helping You?



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Welcome to Blue City, the landmark development in Oman that is a case study for the rapidly evolving world of project finance and expanding role of trustees. In this Global Corporate Trust Innovation Series edition, Samir Pandiri discusses the financial complexities of building Blue City and the future of project finance it represents.

Who's Helping You?



By Samir Pandiri



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