Project Bonds:
An Alternate Way Forward

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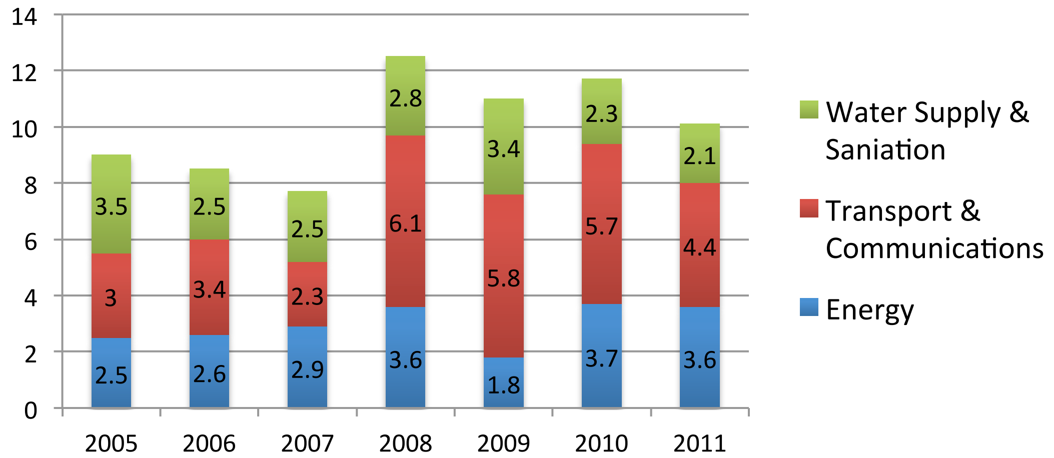
Asian Infrastructure Requirement and Funding Gap

- Asia Infrastructure requirements between 2010 and 2020 is US$8 trillion or US$730bn to US$750bn per year.
  - 68% for new capacity
  - 32% for maintenance and replacement
- Private Sector investment in Asia infrastructure averaged US$13bn per year over the last 20 years.
- Annual Asia infrastructure aid rose from US $8bn to US$11bn over 2005-2007 to 2008-2011

Asia Infrastructure Directed International Aid



Emerging Asia Infrastructure Investment Requirements Top 10 Countries 2010-2020	
Countries	US$ Billions
PRC	4,368
India	2,172
Indonesia	450
Malaysia	188
Pakistan	179
Thailand	173
Bangladesh	145
Philippines	127
Vietnam	110
Kazakhstan	70

Bank Capital Shortage

- Traditional Capital Sources Under Pressure - The prefered market to tap for funding infrastructure projects as historically be the loan market:
  - i) Long Tenor;
  - ii) Asset Based Collateral;
  - iii) Flexiblity
- Basel III based regulations have had a profound impact on Project Finance
  - i) Matched Funding Required. Banks will be required to secure long term funding.
  - Ii) Increased Capital Buffer Required. Banks will be required to put aside greater provisions for long term project loans.

  Both will be expensive. The response has been to exit the business or dramatically reduce exposure.
- Traditional Syndication Model Under Pressure
  - i) Many of the traditional syndicate participants – usually small European banks are now either unwilling or unable to pick-up project finance loans.
  - Ii) Large banks have also reduced exposure. Royal Bank of Scotland previously one of the world's largest project financers has placed its entire project finance portfolio in "on-core"

Project Finance The Statistics 2013

- Project finance deals globally - US$204 billion

- Top 6 Arrangers from Japan, India, China and Korea
    - Mitsubishi UFJ Ranked 1st US$11.5 billion 5.7% market share
    - State Bank of India Ranked 2nd US$10 billion 4.9% market share
    - China Development Bank 3rd US$8.3 billion 4.1% market share

- European Banks
    - Credit Agricole Ranked 7th was the highest ranked European bank
    - SocGen Ranked 16th down from 8th in 2012
    - BNP Paribas Ranked 17th down from 9th in 2012

- Regional Statistics
    - Europe, Middle East & Africa US$90 billion up 25%
    - Americas – US$51 billion up 21%
    - Asia – US$63 billion down 29%

Thomson Reuters Jan 17, 2014

Project Bonds A Capital Raising Tool

- Project Bonds Defined- Project bonds are debt securities, issued by companies which realize the project in the form of project financing operations. Project bonds can finance the realization phase of the asset, when the project has not yet produced positive cash flows. In the case of traditional bonds, companies could only issue bonds when the asset had already been realized.

- Ready Investor Base– Pension Funds, Insurance Companies, Dedicated Infrastructure Funds and other institutional investors. Yields higher than Government bonds, Long dated cashflows able to match liabilities.

- Credit Enhancement Required – Institutional investors require investment grade credit ratings with a preference for “A” and above. can mitigate construction risk.

- Local Currency Project Bonds can access domestic institutional investors and mitigate currency risk.

Project Bonds versus Bank Debt Characteristics

Project Bonds	Bank Debt
Longer funding duration- maybe cheaper, Longer certainty of funding	Shorter maturity, refinancing risk
Fixed rate funds – no interest rate swap needed	Typical floating rate finance
Investors don't want prepayment risk – Long term yield focus	Prepayment flexibility – generally no make whole.
Bondholders are passive – difficult to organize – Less project interference	Relationship lender - very active
Difficult to modify terms	More flexibility- client driven mentality
Lighter covenants; Less discretion	Heavily negotiated covenant package with closer monitoring
Default: trade-out not work-out	Default: typically work-out
One closing: no drawdowns	Less market risk; committed funding and drawdowns when required
Lower cost of funds but all-in funding cost should also consider swap cost, cost of carry, reserving /rating requirements, credit enhancement cost, financial ratios	No cost of carry
Ratings are vital; may have to pierce the sovereign ceiling	Ratings not normally required or obtained
Public listing no confidentiality agreement, potential liability	No public disclosure required

Unlocking the Capital Markets

Key Criteria For Project Bonds

- Capital Outside The Banking System
- A Functioning Public Bond Market –
  - Sufficient Governance & Transparency in Financial Reporting
- Level Playing Field Between Bonds and Loans
- Project Specific Credit Enhancement
- Words of Caution

Questions & Answers

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