

IOSCO GEM COMMITTEE CONFERENCE “LONG-TERM FINANCING THROUGH CAPITAL MARKETS”

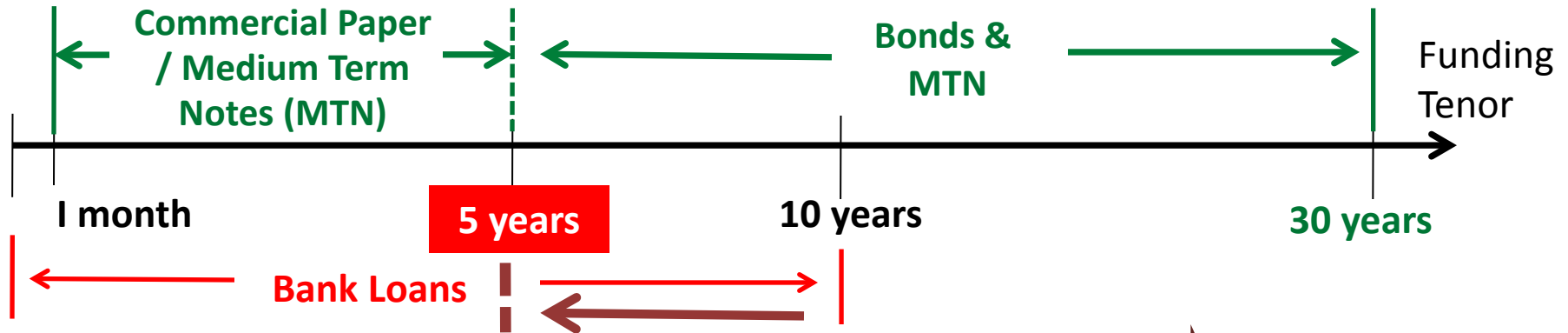
Panel Discussion #2 : Role of Intermediaries in Facilitating Long-Term Financing through Capital Markets

Lee K. Kwan
Chief Executive Officer
Corporate Banking, Treasury & Markets
CIMB Group



Instruments for Long-Term Financing

- i. Equity
- ii. **Bonds**
- iii. Mezzanine / Hybrid
- iv. **Syndicated Loans**



Banks' deposit / funding base

- Mostly non-maturity current & savings accounts;
- Short-term fixed deposits with tenor up to 12 months

Banking Asset - Liability Management (ALM) Conundrum last 50 years

Onset of Basel 3 / Liquidity Premium Cost

- Deposit Run-off rates, longer term wholesale funding, liquid asset holdings
- Reduce reliance on wholesale funding & banking leverage
- **Prohibitive & expensive for banks to lend long-term beyond 5 years**
- **Cost of Funds for 10 Year Floating Rate Loan becomes much more expensive than 1 Year Floating Rate Loan – about time**

Post 2008, 2012 & Basel 3, Role of Banks as Lender for Long-Term Projects has Significantly Diminished

1997/98 Asian Financial Crisis on Long Term Financing: Lessons Learnt, Asean Context

ASEAN+3 Countries	Malaysia	Thailand	Indonesia	Singapore	Korea
Currency Depreciation vs USD in 1997/98	From stable level at 2.50 to 4.71 (-89%)	From stable level at 25.93 to 55.5 (-114%)	From stable level at 2,407 to 12,950 (-438%)	From stable level at 1.43 to 1.79 (-25%)	From stable level at 885 to 1,963 (-122%)
Change of Interest Rates, 3M Interbank in 1997/98	From 7.4% to 14.9% - Increase of 7.6%	From 11.4% to 17.4%* - Increase of 6.0%	From 13.7% to 57.8% - Increase of 44.1%	From 3.4% to 13.0% - Increase of 9.6%	From 13.0% to 25.2%** - Increase of 12.2%
Crash in Equity market in 1997/98	From 1,265 to 263 (-79%)	From 728 to 254 (-65%)	From 659 to 261 (-60%)	From 1,894 to 940 (-50%)	From 667 to 310 (-54%)

By level of lethality on long term financing:

- **Currency mismatch** if left unhedged
- **Interest rate mismatch** if funded by floating interest rate
- **Funding mismatch negative spiral** results in lines being withdrawn especially prior to project completion revenue generation stage
- **Equity Markets unreliable** until asset is in revenue/profit generation stage way past cash burn construction stage

Source : Bloomberg, Reuters

*Thai 3M Banks' Repo Rate Average; ** Overnight Interbank Rate

Note : Movement in FX, interbank rates and equities are measured across ASEAN+3 countries on fixed periods selected between 1997 and 1998 with highest daily volatility

Biggest Lesson: Reliance on Foreign Currency Funding is Toxic For The Sovereign & Its Corporates

(a) Foreign Currency Indebtedness vs FX Reserves

Asean+3 Countries	1997		2013	
	FX Reserves (USD'bil)	Government External Debt / FX Reserves	FX Reserves (USD'bil)	Government External Debt / FX Reserves
Malaysia	21	24%	135	4%
Thailand	27	22%	167	12%
Indonesia	17	318%	99	114%
China	146	77%	3,821	2%
Korea	20	55%	347	16%

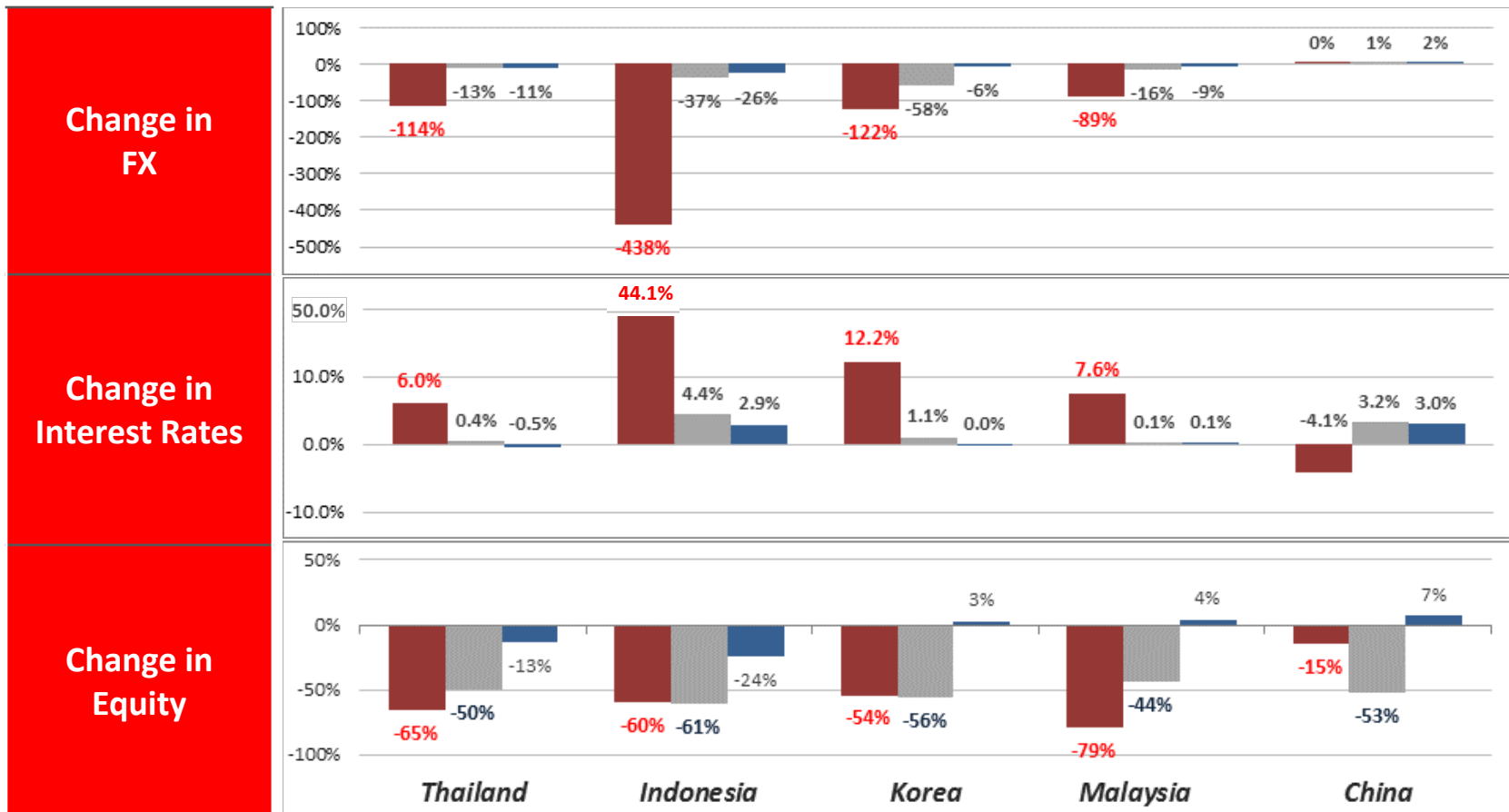
(b) Foreign Holdings of Local Currency Bonds vs FX Reserves

Asean+3 Countries	Current Account (% of GDP)			Foreign Holding of Local Currency Govt Bonds (% FX Reserves)
	1997	Average 2006-2012	2013	2013
Malaysia	-5.9%	+13.2%	+3.8%	29%
Thailand	-0.8%	+3.1%	-0.7%	11%
Indonesia	-2.2%	+0.8%	-3.3%	27%
China	+3.9%	+5.7%	+2.0%	-
Korea	-0.9%	+2.3%	+6.0%	16%

(c) Much Improvements since 1997/98

Source: CEIC, World Bank, ADB AsianBondsOnline, Bloomberg

Asean + 3: Resiliency Getting Stronger Against External Shocks



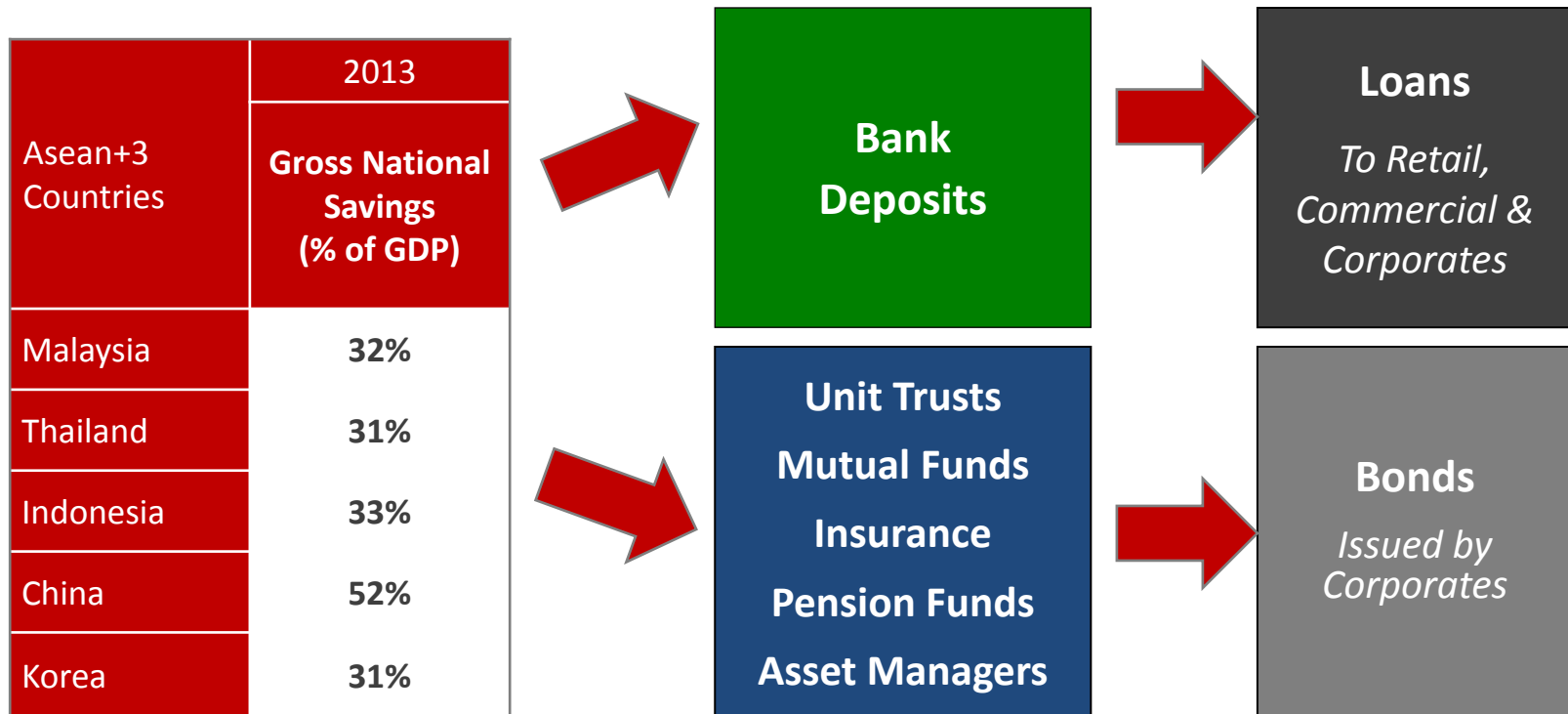
Source: CEIC, Bloomberg, S&P

■ 1997 Asian Financial Crisis ■ 2008 US Subprime Crisis ■ 2013 QE Tapering

1997/98 Asia crisis, 2008 US Global crisis, 2012 European Sovereign and Banking crisis, 2013 US Tapering: Reliance on Foreign Currency Funding is Toxic for Asean Sovereigns and its Corporates Especially Long Dated Financing

Why Does Asean+3 Need to Rely on Foreign Currency Funding when Savings Rate is High?

Well functioning Local Currency Loan Deposit Banking and Capital Markets
Crucial to Intermediate Savings and Financing Including Long Term Financing



Long Term Financing & Sustainability: Identifying Investor Demand and Their Risk Return Requirements

- Key is to identify pools of investible funds whose risk return investment requirement is for Long Tenor Fixed Rate Returns
- Thereafter Structuring & delivering Long Tenor Fixed Rate investible assets that fit the risk return requirement of this investment profile
- Focus is on Investor Buy Side Demand that fits their risk return profile; If there is demand, supply / issuance will follow

Identifying Demand for Long Tenor Fixed-Rate Assets: Power of Annuity Interest Rate Compounding & Saving for Retirement

	Countries	Annual Savings from 30 to 55 Year Old	Fixed Rate of Return (%)	Amount saved after 25 years	
1	Malaysia	MYR 65k / USD 20k equivalent)	5.5%	MYR 3.3 mil / USD 1 mil equivalent)	Power of Interest Rate Compounding on Annuity Savings
2	Thailand	THB 646k / USD 20k equivalent)	4.8%	THB 30.0 mil / USD 0.9 mil equivalent)	
3	Indonesia	IDR 113 mil / USD 10k equivalent)	9.6%	IDR 10.4 tri / USD 0.9 mil equivalent)	

Savings for Retirement, Risk Return requirement:

- Annual Annuity Savings + Long term Fixed Interest compounding gives certainty and clear visibility how much money there is when he/she is 55 years old
- **No need for upside beyond fixed rate of return**
- **What's most critical is minimizing downside risks over long term tenor of bonds**
- ASEAN is high savings region where savings rate > 30% of GDP. Potentially at least 20% of savings (6% of GDP) is meant for retirement which requires risk return profile of long term fixed rate assets with minimum downside risks

Investor Segment With Appetite for Long Tenor Fixed Rate Investment Assets

- ✓ Pension Funds
- ✓ Whole Life Insurance
- ✓ Term Life Insurance
- ✓ Asset Managers
- ✓ Individuals Investing Directly Themselves (Private Banking / Preferred Banking / High Net Worth)
 - Amounting up to 50% of order book in Asia

Structuring & Role of Intermediary Crucial: Large Cash Burn upfront, Revenue stream only much later but requires highly safe profile to fit Long Term Fixed Rate Investors' Risk Return Requirements

Infrastructure Project SPV

Liabilities

20 Year Long-term fixed rate Bonds /Sukuk
 (how much liability can the asset cashflow SAFELY support with no mismatches in currency & interest rate risks)

Shareholders' funds (SHF)

- Equity First Loss Piece

Hybrid / Mezzanine

$$\sum \text{Total Liabilities \& SHF} = \sum \text{Total Assets}$$

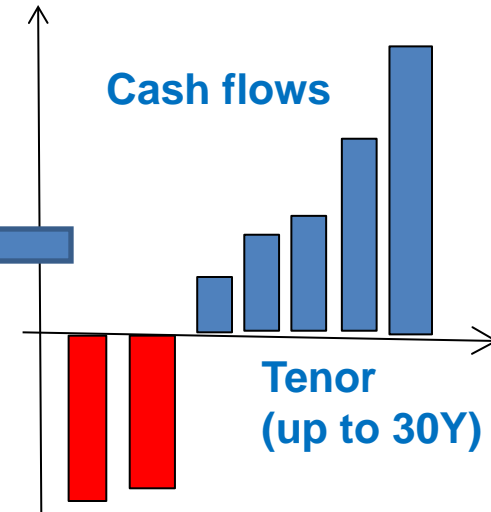
Assets

(Power/Toll Roads/MRT/Water)

Revenue / Cashflows from Concession up to **30 Years**

- End consumers pay for usage
- Priority to bondholders

Cash flows



Structuring & Delivering Long Tenor Fixed-Rate Investible Asset Product That Satisfies Conservative Risk Return Profile is Key

Infrastructure Project SPV

Liabilities

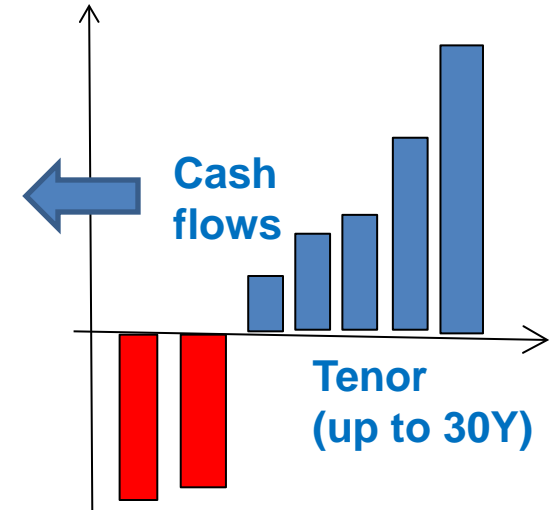
20 Year Long-term
fixed-rate
Bonds /Sukuk

Assets

(Power/Toll Roads/MRT/Water)

Revenue / Cashflows from
Concession up to **30 Years**

- End consumers pay for usage
- Priority to bondholders



Project Financing Advisor/Structurer Crucial plus Ability to Provide Bridge Financing (sincerity and alignment in their advisory)

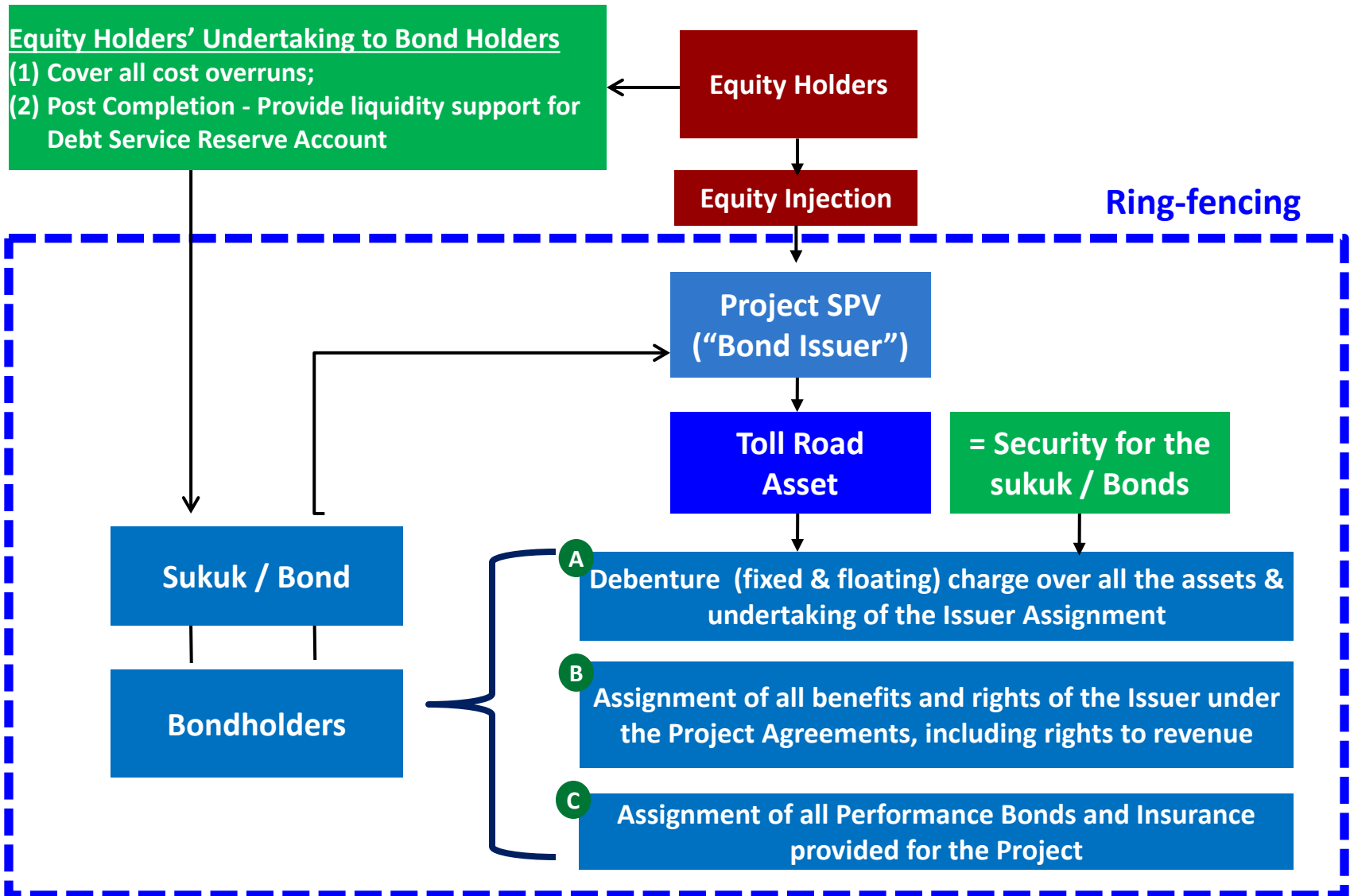


Structuring & Delivering Long Tenor Fixed-Rate Investible Assets

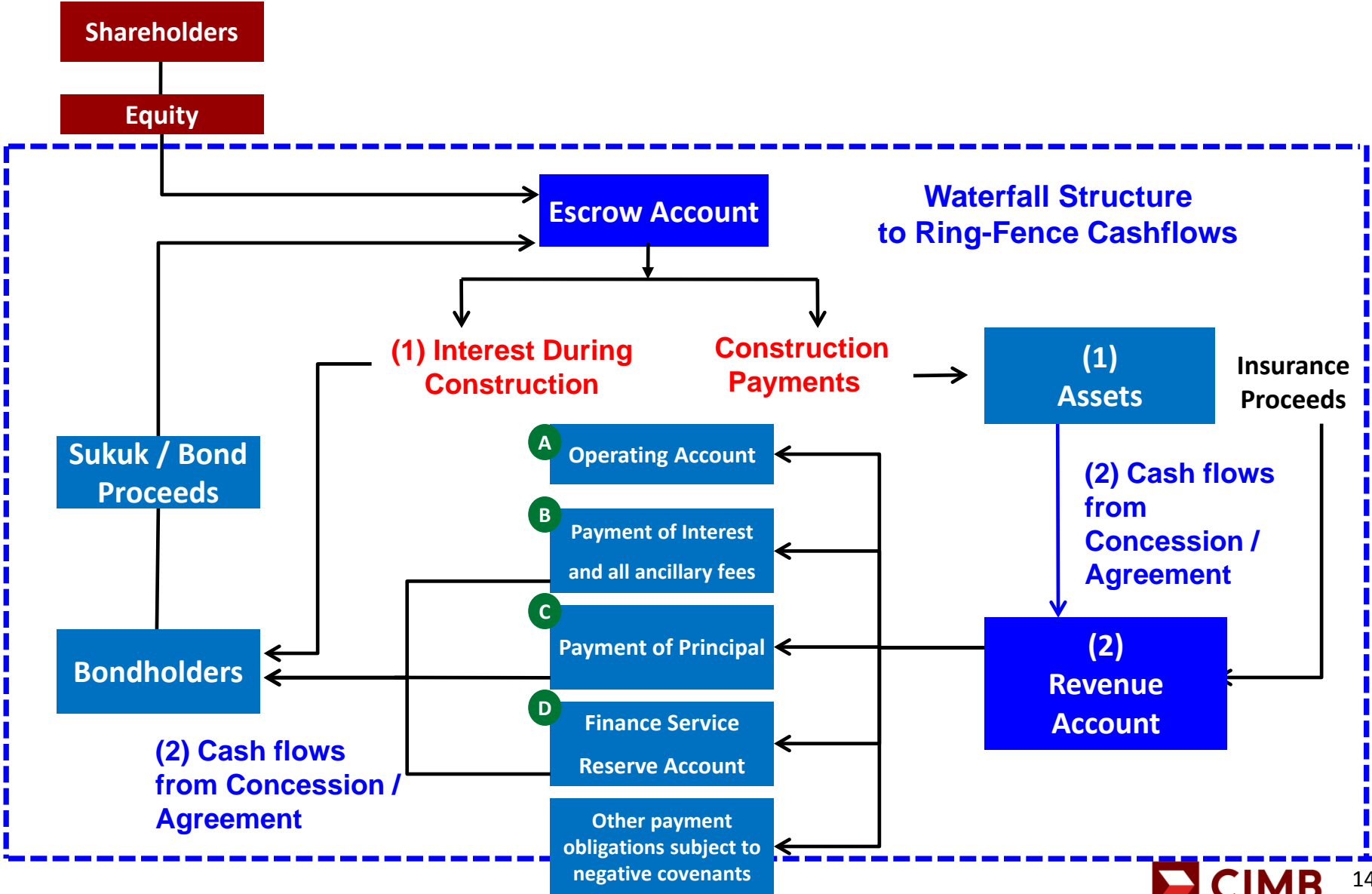
- Key Success Factors

1. No currency mismatch => Revenue in Local Currency, Financing must be in Local Currency
2. If funding is in foreign currency, cross currency hedge on full tenor – most lethal risk from 97/98 Asia financial crisis
3. Funding tenure mismatch: must be well past construction stage into revenue generation stage
4. Fixed interest rate vs Floating interest rate – needs certainty of fixed rate financing costs as long tenor results in higher interest rate (duration) risks
5. **Concession asset & cashflows tightly ring-fenced, especially from equity shareholders, to minimize risks to bond holders and maximize appeal and commercial viability**

Ring-Fencing of Assets to Protect Bondholders (From Equity Shareholders)



Ring-Fencing of Asset Cashflows to Protect Bondholders (from Equity Shareholders)



Structuring & Delivering Long Tenor Fixed-Rate Investible Assets

- Key Success Factors

6. Sanctity of contracts & political expediency
 - contractual price hike for toll roads, power tariff & water tariffs
 - politically expedient to prevent tariff increases
 - destroys viability of long term financing & bond investor confidence

7. Legal & regulatory protection for Bond Investors where Information Memorandum must be strictly enforced – bond investors do not expect extra protection from beyond what's stipulated in the Info Memo
 - **Bond Holders Should Never Accept Any Haircuts Without Wiping Out Equity Shareholders in its ENTIRETY and Seizing/Taking Over 100% Ownership of Asset (Equity by definition is FIRST LOSS – slide 10)**

8. Success is about demand and investor confidence, not about issuance. Once there is demand, supply/issuance will come. Bondholders have no upside beyond collecting their periodic coupons and principal at maturity.

CIMB Largest Arranger of Infrastructure Project Bonds Across Asean

Sector	Number of Issues / Programmes	Issuance / Programme Size (in USD billion equivalent)	Issuance Tenure
Power + Energy	21	USD13 billion	Up to 20 years
Toll Roads + MRT	23	USD20 billion	Up to 27 years
Water	6	USD15 billion	Up to 18 years
Total	50	USD48 billion	Up to 27 years

2013 Bloomberg ASEAN Domestic Bond League Table

	Name	Amount (USD mil)	Market Share (%)
1	CIMB	8,331.7	12.7
2	Bangkok Bank PCL	5,633.1	8.6
3	HSBC Bank PLC	4,497.6	6.9
4	RHB	4,205.4	6.4
5	Maybank	4,106.3	6.3
6	Standard Chartered Bank	4,078.0	6.2
7	Siam Commercial Bank PCL	3,982.2	6.1
8	DBS Group Holdings Ltd	3,970.1	6.1

2013 Bloomberg Global Sukuk League Table

	Name	Amount (USD mil)	Market Share (%)
1	HSBC Bank PLC	7,009.0	16.3
2	CIMB	4,479.6	10.4
3	Maybank	3,027.1	7.0
4	Standard Chartered Bank	2,967.3	6.9

Very compatible with Islamic Financing / Sukuk as asset based financing

Case Study #1

RM3.7 billion Sukuk by TNB Western Energy Berhad (Power Sector)

SPV = TNB Western Energy Berhad

2. Liabilities

20 Year Sukuk
RM3,655 million

- YTM from 5.06% to 5.80%
- Debt / Equity = 3 : 1

3. Shareholders' Funds
RM1,283 million

Σ RM4,938 million

Tranche	Tenure	Nom. Value (RM Mil)	Yield to Maturity
1	10.5	100.0	5.06%
2	11.0	105.0	5.10%
3	11.5	105.0	5.14%
4	12.0	110.0	5.18%
5	12.5	110.0	5.21%
6	13.0	115.0	5.23%
7	13.5	115.0	5.26%
8	14.0	120.0	5.29%
9	14.5	120.0	5.32%
10	15.0	120.0	5.35%
11	15.5	120.0	5.37%
12	16.0	130.0	5.44%
13	16.5	130.0	5.46%
14	17.0	135.0	5.48%
15	17.5	135.0	5.50%
16	18.0	140.0	5.52%
17	18.5	140.0	5.54%
18	19.0	145.0	5.76%
19	19.5	145.0	5.78%
20	20.0	1,315.0	5.80%
Total		3,655.0	

1. Assets :

- 1,000 MW coal fired power plant
- 25 years of project cashflows from power purchase agreement (PPA) with Tenaga Nasional Bhd, starting from commercial operation in Oct 2017

= Σ RM4,938 million

Case Study #2 : Cross-Border Financing for Oil & Gas Sector

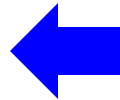
MYR600 million / USD188 million equivalent Sukuk by Trans Thai-Malaysia (Thailand) Ltd

SPV = TTM Sukuk Berhad

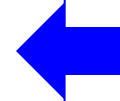
2. Liabilities

15 Year Sukuk
RM600 million

- YTM from 4.00% to 5.05%
- Debt / Equity Covenant = 70 : 30



Tranche	Tenure	Nom. Value (RM Mil)	Yield to Maturity
1	5	50.0	4.00
2	6	50.0	4.10
3	7	50.0	4.20
4	8	50.0	4.30
5	9	50.0	4.40
6	10	55.0	4.50
7	11	55.0	4.61
8	12	60.0	4.72
9	13	60.0	4.83
10	14	60.0	4.94
11	15	60.0	5.05
Total		600.0	



1. Assets:

- Gas pipeline to transport natural gas to PTT PCL
- 20 years of project cashflows from Services Agreement with PTT PCL, starting from commercial operation

3. Shareholders' Funds

RM270.4 million

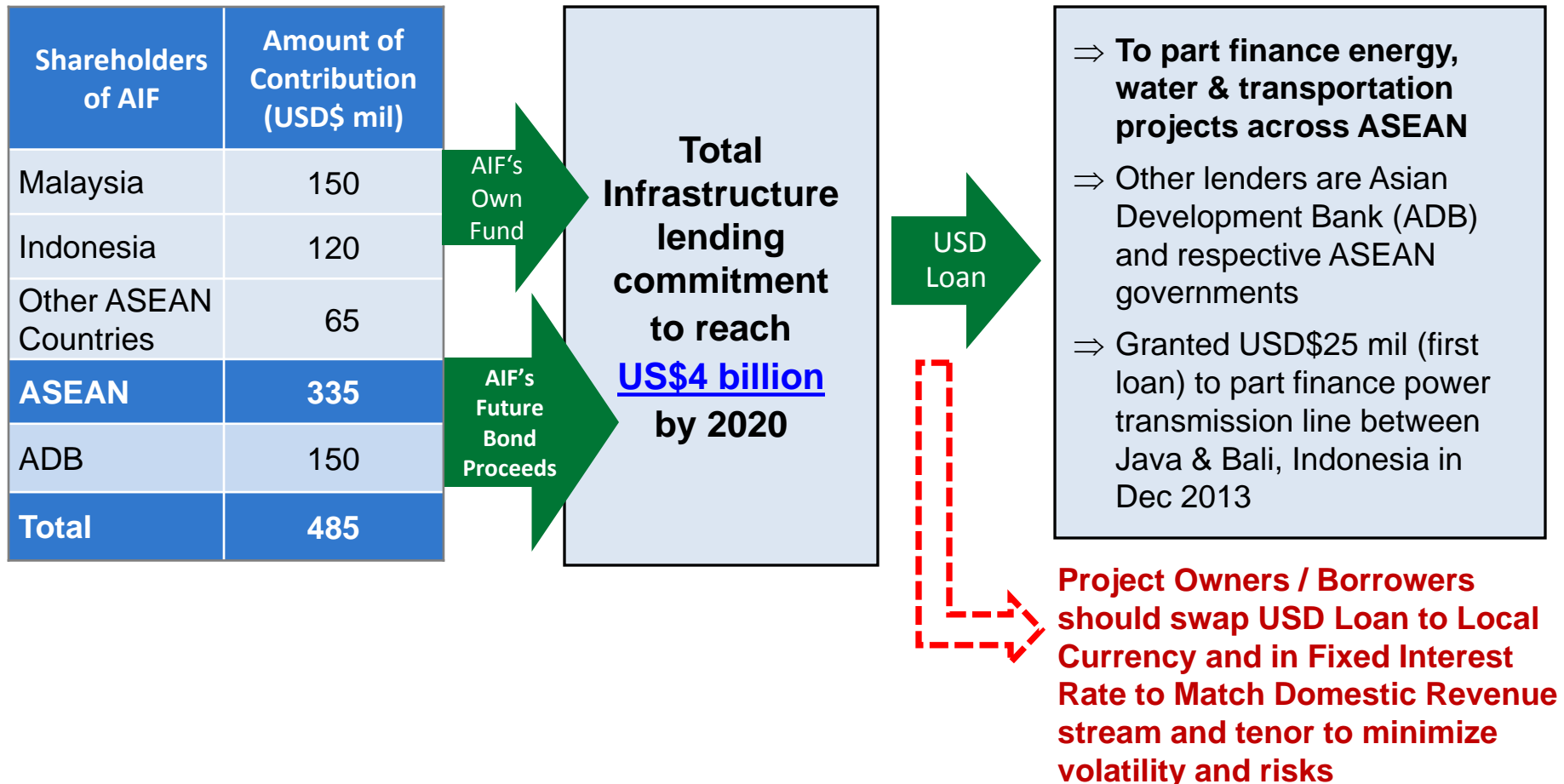
Σ RM870.4 million

= Σ RM870.4 million

Alternative Source of Long-Term Financing

✓ Pooling of Countries' FX Reserve : Asean Infrastructure Fund (AIF)

- Fund size : **USD\$485 million** (Sept 2011)



Conclusion

- Clear lessons from 1997/98 Asian financial crisis re long term financing: currency mismatch, interest rate mismatch, funding tenor mismatch and that foreign currency funding is unreliable
- Sustainability is about identifying investible pools of money where the risk return requirement is for long term fixed rate returns
- In high savings nations in Asean, large pools of money POTENTIALLY available – but must fit the risk return profile where downside risks are low
- Project advisory to bond structuring & origination crucial ranging from what portion can be commercially funded (vs equity/mezzanine/first loss piece) and putting in place structure to maximize safety to protect bond holders (especially from equity shareholders)
- Legal, judicial & regulatory enforcement of the terms as stated in the Bond Information Memorandum is crucial – bond holders do not expect anything more but whatever is stated in the Information Memorandum / Prospectus must be enforced (example 100% Equity Wipeout First Loss before Bond Haircut)
- Identifying and building demand and developing investor confidence is key to success as if there is demand, supply will come

Important Notice

This presentation has been prepared by CIMB Group exclusively for the benefit and internal use of the recipient in order to indicate, on a preliminary basis, the feasibility of possible transactions. Terms contained in this presentation are intended for discussion purposes only and are subject to a definitive agreement. All information contained in this presentation belongs to CIMB Group and may not be copied, distributed or otherwise disseminated in whole or in part without the written consent of CIMB Group.

This presentation has been prepared on the basis of information that is believed to be correct at the time the presentation was prepared, but that may not have been independently verified. CIMB Group makes no express or implied warranty as to the accuracy or completeness of any such information.

CIMB Group is not acting as an advisor or agent to any person to whom this presentation is directed. Such persons must make their own independent assessment of the contents of this presentation, should not treat such content as advice relating to legal, accounting, taxation or investment matters and should consult their own advisers.

CIMB Group or its affiliates may act as a principal or agent in any transaction contemplated by this presentation, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income. Nothing in this presentation is intended to be, or should be construed as an offer to buy or sell, or invitation to subscribe for, any securities.

Neither CIMB Group nor any of its directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) from any statement, opinion, information or matter (express or implied) arising out of, contained in or derived from or any omission from the presentation, except liability under statute that cannot be excluded.

Thank You