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Commercial Lenders' Perspective on Wind Power

A Presentation to the Alternative Energy Development Board

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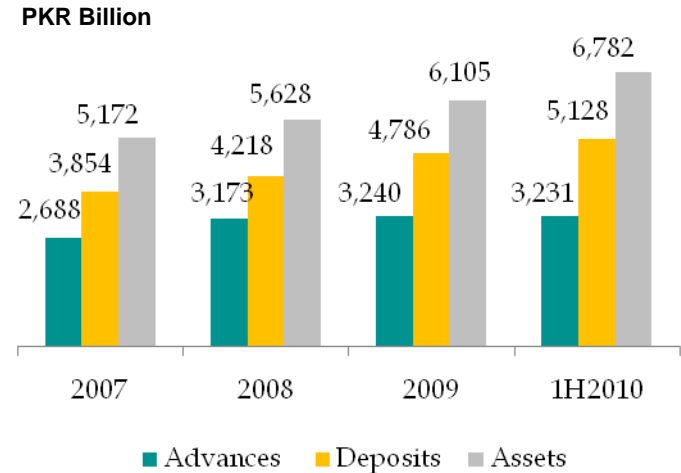
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Banking Sector in Pakistan

- 40 scheduled banks, 9 micro-finance institutions and 8 DFIs;
- The total asset base of banking sector increased to PKR 6,782bn, as of 1H, 2010;
- High public sector borrowing shifted asset-mix away from private sector to public sector;
- Risk-averse strategy of banks due to current economic and business environment.
- Sector comprises large, medium and small banks;

Banks Assets, Advances & Deposits





■ Large Banks

- Originator of most transactions based on balance sheet size.
- Transaction structuring driven by large banks
- Provide other services as financial advisory, administrative roles etc
- Sector specific appetite for up to 12 year tenor;



■ Medium Size Banks

- Cautious on tenor > 5 years
- Participate selectively, with small participation amount, in 12 year tenor
- Mostly inactive in transaction structuring

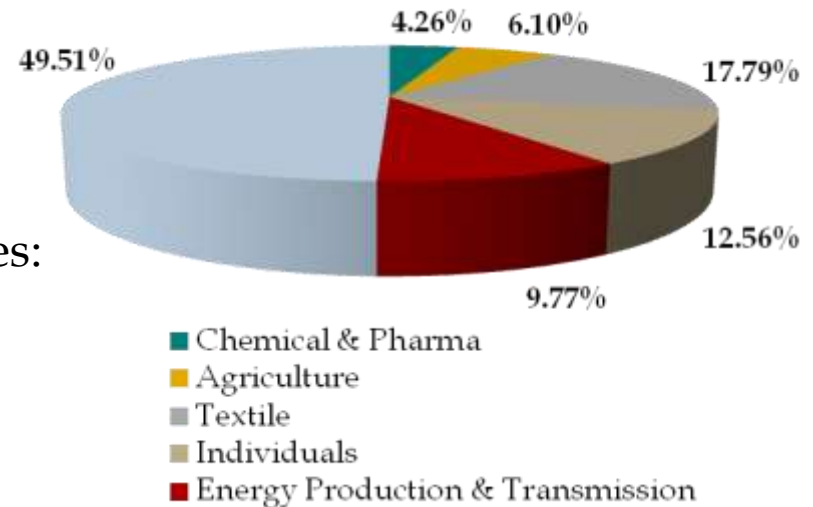


■ Small Banks

- Risk and tenor sensitive (< 5 years)
- Participate with very small amount in few transactions

- 10% of Banks' advances to energy sector
- Over last few years local banks were very active in conventional thermal IPPs
- Banks' cautious outlook on thermal projects, due to:
 - High exposure in thermal projects
 - Circular Debt
- At present banks are working selectively on power projects based on following technologies:
 - Wind
 - Bagasse
 - Hydel

Sector Wise Bank Advances



- Banks' increased interest in participation, due to:
 - Reputable sponsors;
 - Entry of global technology leaders / operators, example Vestas, Nordex, GE, Siemens etc.;
 - Wind risk borne by Power Purchaser/ GoP;
 - No import energy component
 - High exposure in conventional thermal projects

- Projects are showing considerable progress:
 - First Wind Powered IPP to achieve Finance Close shortly.
 - Several Projects in advance negotiation stages with:
 - ✓ EPC and O&M Contractors;
 - ✓ Banks for firm funding arrangement.



Commercial Banks' Funding Concerns

■ Funding Constraint

- Limited Debt products
 - ✓ No bond market
 - ✓ ECA financing almost negligible
 - ✓ Islamic Products still in development stage
- High public borrowing
- Power Sector exposure limits
- Long term liquidity constraints of small and medium banks

- Numerous projects in pipeline but limited banks' appetite
 - As per an estimate, 10 wind projects are in advance development stage
 - Big challenge to arrange c. PKR 100 Bn debt financing for 10 projects
 - Restricted LCY appetite, few FCY financiers
 - Banks' selective commitment to projects of strong sponsor repute / better returns

- Other Concerns:
 - delay in payments from Power Purchaser
 - Wind projects new and unexplored sector

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Considerations for Way Forward

- Banks and Regulatory institutions (including AEDB) to:
 - Structure and promote new financing products/vehicles including securitization through bonds, credit guarantee from MLAs, or through making a specialized energy fund
- Attract ECA financing specially from China
- Power Purchaser's payment cycle to be regularized through fiscal discipline;
- Share Carbon Credit benefits with the Project to attract international interest;
- Introducing shorter tenor debt in the tariff structure



THANK YOU