Where does the cash come from?

4th Euromed Management Maritime Forum 2010

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Traditional Money Supply versus New Money Supply

Traditional

EQUITY

- KG market in Germany
- Equity Markets in USA / Asia / Europe
- KS / CV market in Scandinavia / Holland
- Private equity (families)

DEBT

- Banks (local & international)
- Bonds (USA, Norway)

New

EQUITY

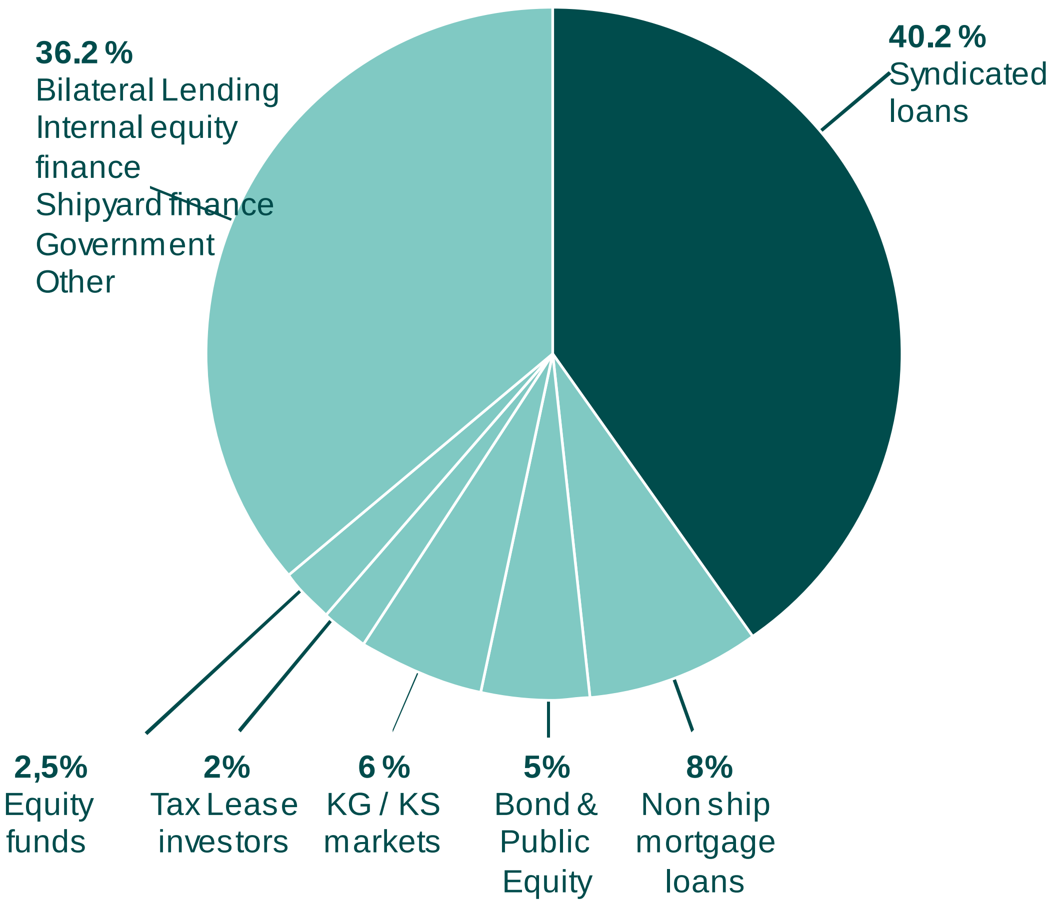
- Commodity producers and traders
- Funds of all types
- Private and public equity
- Chinese /Islamic money/funds
- Leasing
- Venture Capital (opportunity/distressed funds)

DEBT

- Sovereign Wealth Funds (governments)
- Chinese Banks / Funds
- Islamic funds
- Development Banks & Export Credit (‘ECA’s’)
- High yield bonds
- Convertible bonds

Traditional Sources of Capital for Shipping

Markets currently closed or extremely limited activity



Bank Loans have traditionally satisfied approx. 75% of capital requirements

Markets currently closed or extremely limited activity.

A shortage of bank debt is currently constraining the shipping industry, an industry that is heavily dependent on the banking market.

Source: various

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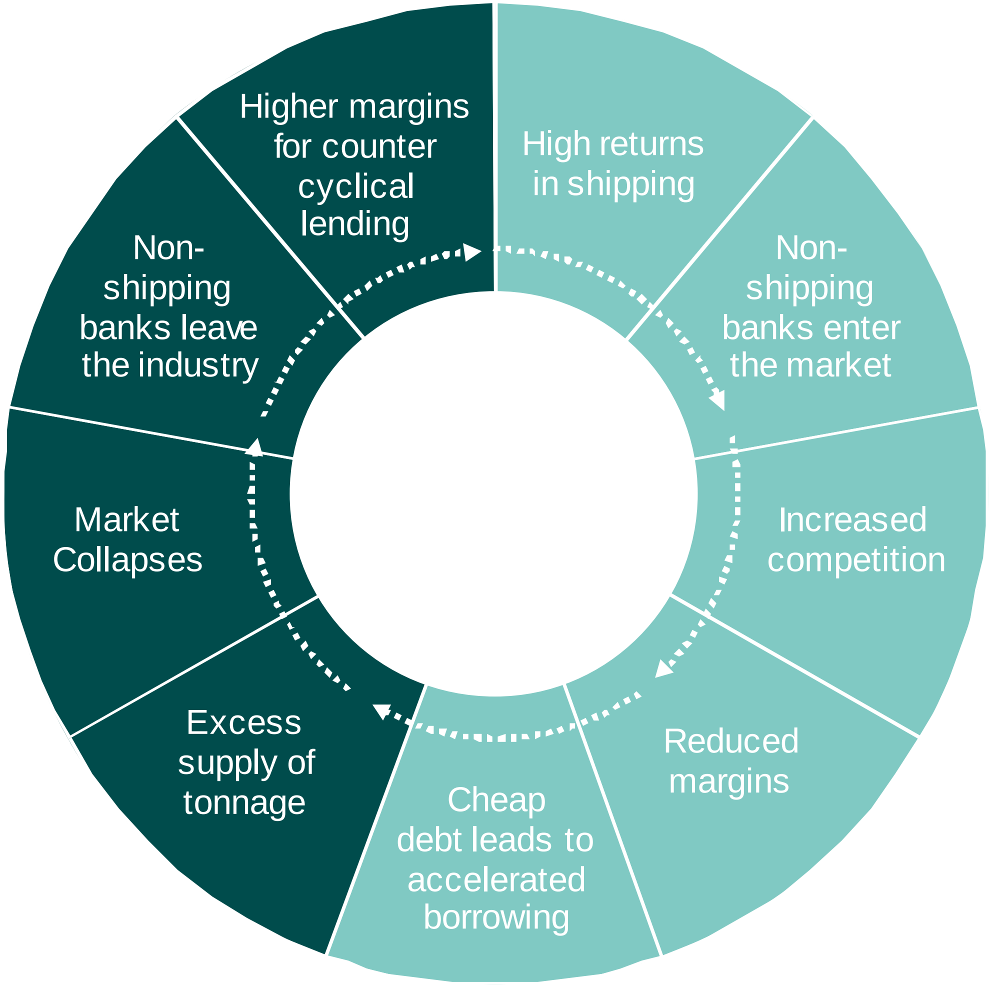
The Ship Finance Cycle

Current position in the cycle but with the unique difference that the financial crisis has **limited the lending capacity** of traditional shipping banks.



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While debt from traditional sources decrease…

…new money may be locked in from other sources

- **Some of the main shipping banks struggling.**
  - ➢ Reduced appetite
  - ➢ Balance sheet constraints
  - ➢ Government intervention
  - ➢ Mergers → high concentration in one segment
- **KG / KS / CV market problematic.**
  - ➢ Charter defaults
  - ➢ Liquidity problems
  - ➢ Covenant breaches
  - ➢ High opex → lower returns
- **Family run companies**
  - ➢ Liquidity support needed in core business
  - ➢ Struggling with non-core investments
- **Private equity.**
  - ➢ Available in funds or family capital.
  - ➢ Mostly interested in distressed assets.
  - ➢ Short investor horizon (3-5 yrs) and high return requirements (>25%).
- **Public equity.**
  - ➢ IPO window closed due to uncertainties on supply side (orderbook) & demand side (double dip?). Management track record & transparency crucial.
  - ➢ Several successful follow-on issuances – vessel acquisitions & strengthening of balance sheets (covenant breaches)
  - ➢ Several companies in IPO preparation.
- **Bond Market**
  - ➢ Bonds market have been active since 2Q09.
  - ➢ Mostly used as alternative funding source.
  - ➢ Price difference to loan market is increasing.
- **Sovereign Wealth Funds.**
  - ➢ State-owned
  - ➢ Large sums of money to invest.
  - ➢ Governance and public purposes issues

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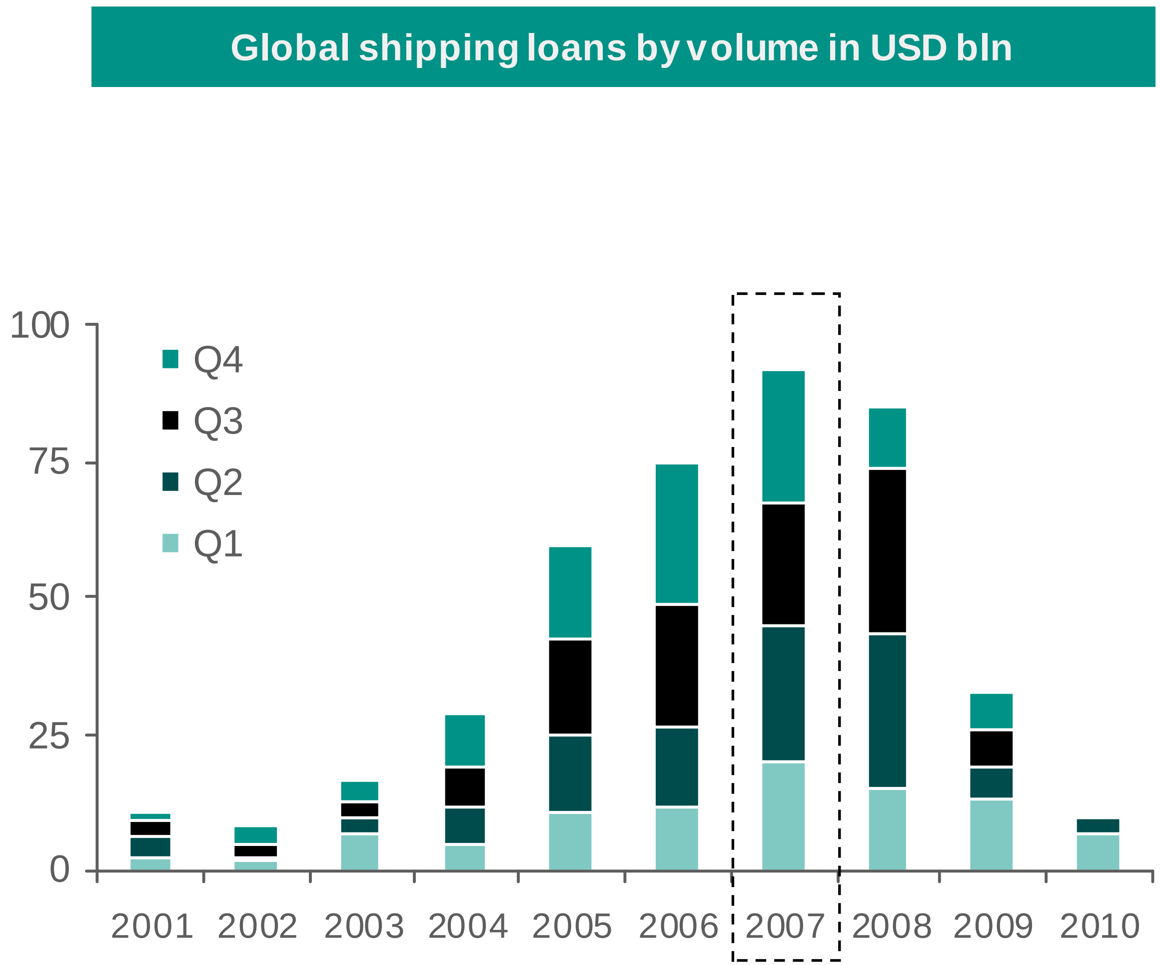
Credit tightness since mid 2008…..



- In 2007 a total of USD 91 bln was lend to the shipping industry in the syndicated and non syndicated loan market
- In 2008 volume levelled off to a total of USD 85 bln with a weak Q4.
- 2009 showed a strong decline with a total of only USD 32 bln as a result of credit tightness.
- First half 2010 a total of almost USD 10 bln in shipping loan is again proving to be a difficult year.

Source: Dealogic, syndicated and significant bilateral transactions

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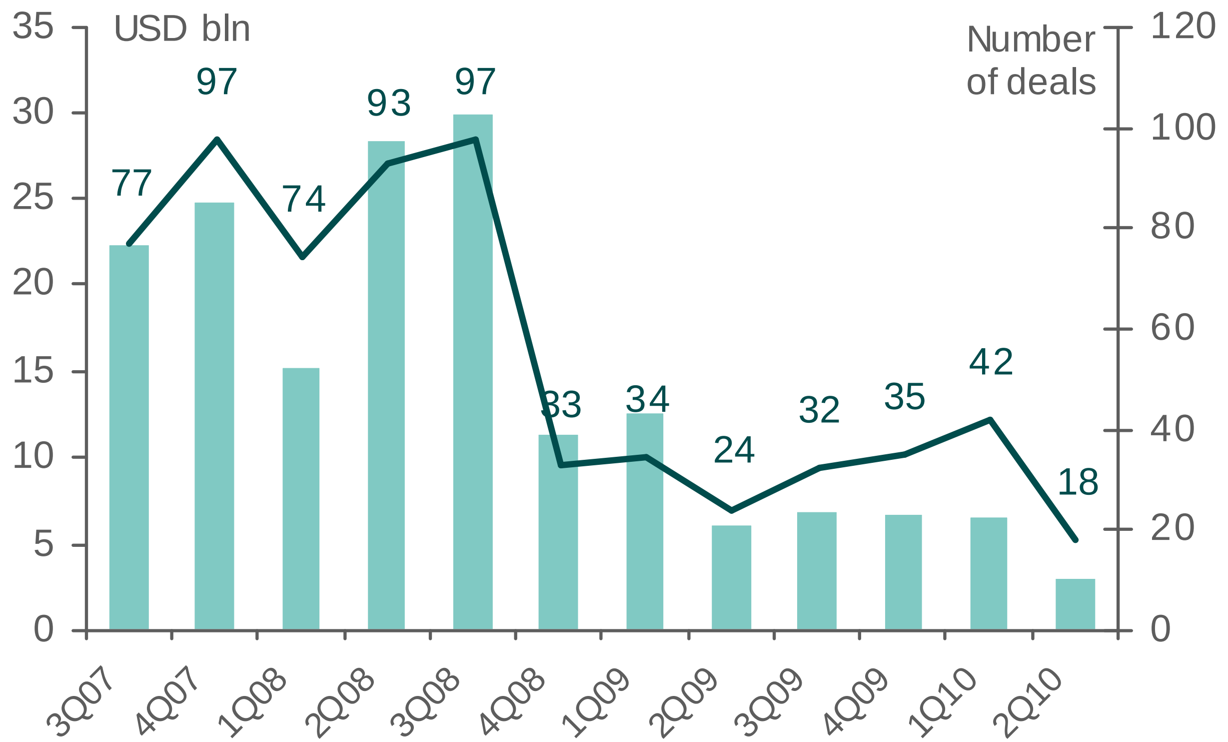
and shipping finance remains modest in 2009 and H1 2010.

Global shipping loans by quarterly volume and Nº of deals



- Trend seems to be smaller deal-size
- Average deal size in 2008: USD 286 mln.
- Average deal size in 2009: USD 261 mln (distorted by the refinancing of 1 large transaction).
- Average deal size in H12010: 164 mln

Source: Dealogic, syndicated and significant bilateral transactions

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….with traditional shipping banks pulling out or silent…..

TOP 20 Mandated Lead Arranger Table
Syndicated Shipping loans - 1H 2008

Rank	Mandated Arranger	Amt ($m)	No.	%share
1	Nordea	4,237	34	12.5
2	HSH Nordbank	3,668	20	10.8
3	DnB NOR	3,401	28	10.0
4	Fortis	2,819	20	8.3
5	ING	2,293	20	6.8
6	BNP Paribas	1,834	16	5.4
7	RBS	1,404	9	4.1
8	Calyon	1,184	9	3.5
9	Danske Bank	1,131	4	3.3
10	Deutsche Bank	897	4	2.7
11	DZ Bank	864	9	2.6
12	Dresdner Kleinwort	847	8	2.5
13	Citi	775	3	2.3
14	HSBC	744	5	2.2
15	UniCredit	643	6	1.9
16	SEB	529	4	1.6
17	Bank of America	509	3	1.5
18	Mitsubishi UFJ Financial Group	496	3	1.5
19	JPMorgan	455	2	1.3
20	Svenska Handelsbanken	453	4	1.3

TOP 20 Mandated Lead Arranger Table
Syndicated Shipping loans - 1H 2010

Pos.	Mandated Lead Arranger	Deal Value ($) (m)	No.	%share
1	DnB NOR	844	17	8.6
2	Nordea	763	12	7.8
3	Mizuho	642	9	6.5
4	BNP Paribas	505	3	5.1
5	Mitsubishi UFJ Financial Group	491	4	5.0
6	SEB	403	2	4.1
7	Sumitomo Mitsui Banking Corp	391	4	4.0
8	ING	381	6	3.9
9	ABN AMRO Bank	332	6	3.4
10	Citi	325	2	3.3
11	Qatar National Bank	275	1	2.8
12	SBI Capital Markets	260	1	2.6
13	JBIC	249	1	2.5
14	Scotia Capital	243	4	2.5
15	Credit Agricole CIB	208	3	2.1
16	HSBC	197	3	2.0
17	Deutsche Bank	196	3	2.0
18	Bank of America Merrill Lynch	185	3	1.9
19	DZ Bank	171	3	1.7
20	NIBC Bank	132	2	1.3
	Total	**9,839**	**60**	**100.0**

Source: Dealogic

Some trends in bank debt

- Focus on core clients & quality names
- Smaller facilities
- Increased syndicated loan activity, but still bi-lateral and club deals
- Underwriting sketchy – only for quality credits
- Some downward pricing pressure for quality names
- Tight covenants

- Reshuffling of lending market players as:
  - Some banks remain cautious for new (shipping) business
  - Geographic refocus – national link, support local
  - Mergers affected the capacity of the merging banks as a whole
  - Reduction of bank's balance sheets
  - Government intervention

So today it's all about:

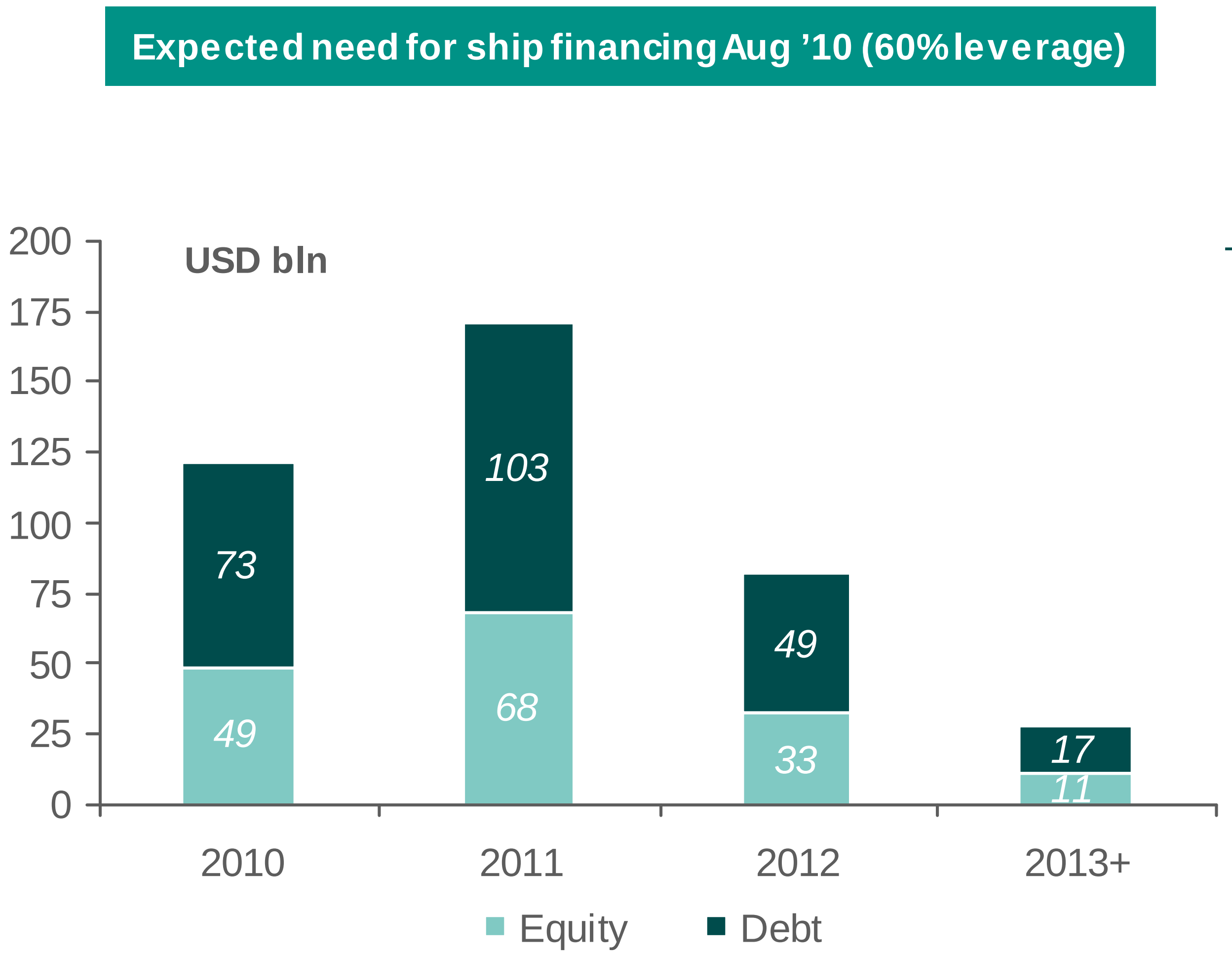
- Existing & Core client
- Core region
- Core sectors – is this still shipping?
- (and full recourse, only strong parties, high quality assets, high returns)

Still a “bankers” market

Loan Market

- Syndicated loan market seem to be picking up but still many bilateral and club deals
- If open for business main focus on core clients and cherry picking
- Banks are still busy with restructurings, waivers and anticipating covenant breaches
- Conservatism omnipresent:
  - Leverage approx. 55% - 65%
  - Tenors between 5 – 7 years
  - Recourse/Corporate guarantee structures
  - Strong and strict covenants
  - Strong vessel employment is a must
- Margin tendency ~ 300 bps
- Upfront minimum ~ 100 bps
- In shipping bank markets the mood is improving
- Still some internal competition for capital within banks (so comparison of deals across industries)

The funding demand remains high (despite cancellations)



Total Funding demand:

USD 402 bln

Source: Clarksons

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Banks/governments in Asia support shipping industry….

The global financial crisis has accelerated a shift eastwards in the centre of ship finance as the traditional European banks continue to struggle. Many governments in Asia have come up with plans to lend to the shipping or shipbuilding industry that they consider to be crucial to their country's economic well being.

- ECA's act as facilitators for obtaining vessel financing
  - ➢ Used to be cheaper financing.
  - ➢ Currently facilitator of attracting finance (as capital allocation on the ECA guaranteed part is (next to) zero).

Sources: Marine Money , Tradewinds

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Export Credit Agencies - Korea

Korea Exim Bank (KEXIM) & Korea Export Insurance Corporation (KEIC)

KEXIM & KEIC in 2009:

- available to shipbuilders and suppliers: USD 7.6 bln.
- available to owners: USD 9.2 bln (domestic & foreign)

- Maximum 12 yrs tenor (could be shorter).
- Insurance premium can be incorporated in the finance.
- KEXIM:
  - ➢ Both based on LIBOR or CIRR funding (OECD).
  - ➢ Preference for funding as opposed to guarantees.
- KEIC: only guarantees.

Sources: Marine Money, Tradewinds

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Export Credit Agencies (China)

China > China Exim Bank

- In 2009 provided USD 8.5 bln in USD denominated loans to domestic and international shipowners.
- Heavily involved in yard backing (refund guarantees, yard financing etc.)
- Provided newbuilding loans to support the Chinese shipbuilding industry
- Long term agreement with Jiangsu Rongsheng Heavy Industries worth USD 7.35 bln
- Strong commitment to provide finance to both domestic and international shipowners (NITC, Bourbon, etc)

China > Commercial banks

- Bank of China, ICBC, China Development Bank as commercial lenders.
- Bank of Communications, China Construction Bank, China Merchant Bank as refund guarantors.
- Increasingly selective approach – only larger & established players (Torm, UASC, OSG, Schulte, STX Panocean etc)

China > Sinosure coverage

- Deals for PIL (BoC), Torm (BoC & SocGen)
- Only viable through Chinese banks (up to now only via Bank of China).

Sources: Marine Money, Tradewinds

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High yield bonds: an attractive substitute for loans in '09...is emerging as a source of growth capital

Leveraged loan market gradually improved in 2010...

- Investor sentiment in the leveraged loan market improved in 2010 as issuers cleaned up their balance sheets, cut costs and reduced leverage levels resulting in lower default rates
- Liquidity has been enhanced by record high yield bond issuance, refinancings and amend-and-extend activity. US leverage loan volume in 1Q10 was $71Bn, up 118% y-o-y
- Despite greater market liquidity, thinner spreads and issuer-friendly structures, there was a pullback in May/June due to credit market volatility and sovereign debt issues in Europe
- Nevertheless leveraged lending regained momentum in late June, issuing $95Bn in 2Q10, up 26% from 1Q and 32% vs. 2Q09
- Although leveraged loans are re-emerging, both loans and bonds will be used in a wave of M&A and LBO activity. The leveraged loan forward calendar stands at $17.5Bn as of end August

Interest rates is the next "Big Worry" after recession

- Seasoned borrowers have taken proactive steps to manage upcoming 2011 – 2014 debt maturities

High yield bonds provide structural benefits not available through other forms of debt

- Create a more "recession-resistant" capital structure (via incurrence -based covenants vs. maintenance tests in loans)
- In many cases, create longest-tenor debt in capital structure and "junior" layer of debt (although recently many bonds were structured as secured, incl. secured by 1st priority liens)
- Diversify traditional investor base and create trading liquidity for subsequent benchmarking and repeat issuance
- Often minimize or avoid expensive equity issuance and dilution

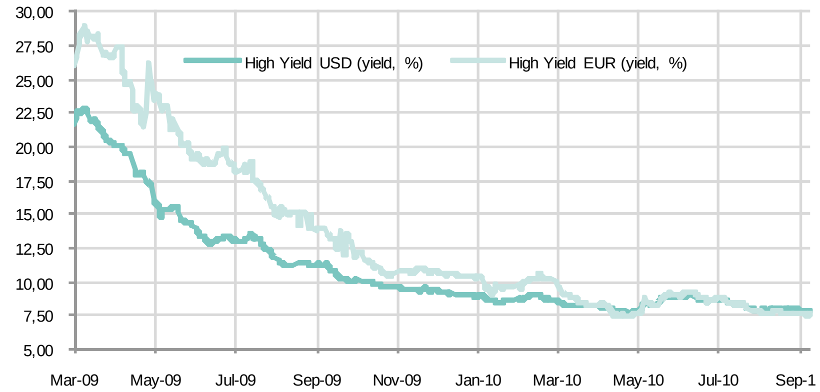
Allows larger / more conservative borrowers to raise acquisition currency

- Bond market is increasingly re-opening for acquisition related financings

Primary market set a new volume record in 2010, driven by rates near historic lows and strong appetite for credit

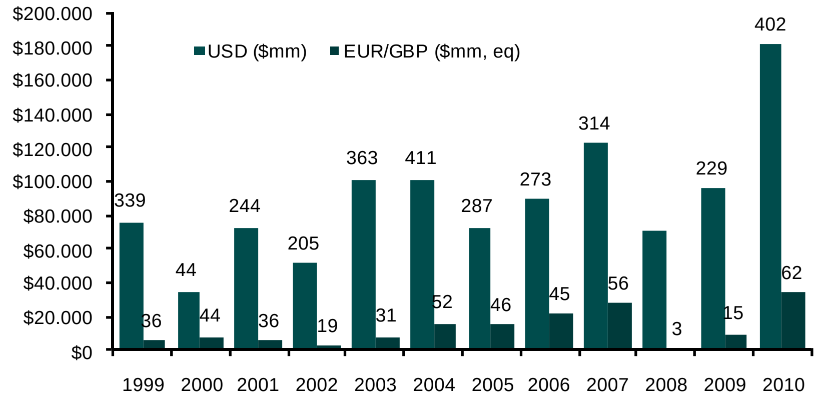
- Since the beginning of ‘09, secondary high yield market has seen average spreads declining from nearly 2,000 bps over Treasury (yield of 25%) to 625 bps (yield 7.75%) currently
- By the end of August 2010, new issuance volume surpassed $209Bn, setting a new record
- Vast majority of activity has been driven by refinancing (i.e. Borrowers replacing loans, or extending existing bond debt)
- Market is increasingly re-opening for M&A and LBO- related financings and first-time issuers
- Several shipping companies have taken advantage of strong bond market conditions – so far exclusively for debt refinancing
- Low rates stimulate continuing strong demand for credit, giving borrowers a unique opportunity to lock-in low cost of capital for refinancing and growth

With rates near historic lows...



Source: ADI

... Issuance set new record in 2010



Source: Sunrise Capital Markets
Note: $ volume (Y axis) and # of issues (Labels)

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Islamic Funds

QInvest and ABN AMRO Bank create first Sharia'a Compliant Mezzanine Shipping Fund

- Initial size: circa USD 100 mln
- Target to provide mezzanine financing in deep sea vessels.
- All main shipping sectors (dry bulk, wet bulk, containers).
- Deal size: USD 5 – 35 mln.
- Loan life of 5 years.
- Addition to Senior secured financing (aim to bridge funding gap) – up to 80% leverage on second secured basis.
- No pre-delivery finance.
- Looking for attractive running cash yield with potential upside (equity kicker) on vessel appreciation.

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Conclusions

- Bank finance availability slowly increasing
- Shift in banking landscape – some banks focused on risk management – some are moving out of shipping, merging and/or reducing balance sheets.
- Many banks still focus on Core Client, Core Region, Core Sectors
- Bank finance terms and conditions still unfavourable for ship owners
- New funds come from banks, ECA's, sovereign wealth funds, Islamic funds, yard Seller's Credits, bond and equity market, commodity producers and traders, etc
- Public equity & high yield bond markets open up again, also for Shipping but only under specific circumstances.
- ABN AMRO is open for new shipping business as it continues to expand its global network of offices for shipping finance.
- ABN AMRO introduced a Sharia'a Compliant Mezzanine Shipping Fund, increasing leverage for owners (bridging the funding gap).
- ABN AMRO has access to the Debt and Equity Capital Markets in the US through a co-operation with Sunrise Securities Corp. in New York and Horizon Capital.
- ABN AMRO will continue to find innovative solutions for Shipping Sector

Conclusions

The situation is improving, but we are not there yet.

Thank you!