The New Normal in Shipping Finance
Harris Antoniou

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Fortis Bank Nederland
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2. How to deal with it - alternatives
3. Fortis Bank Nederland - committed to shipping
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.

- Higher margins for counter cyclical lending
- Non-shipping banks leave the industry
- Market Collapses
- Excess supply of tonnage
- High returns in shipping
- Non-shipping banks enter the market
- Increased competition
- Reduced margins
- Cheap debt leads to accelerated borrowing
Traditional Sources of Capital for Shipping

- Bank Loans have traditionally satisfied approx. 75% of capital requirements.
- A severe shortage of bank debt is currently constraining the shipping industry, an industry that is heavily dependent on the banking market.
- Markets currently closed or extremely limited activity.

- Bilateral Lending
- Internal equity finance
- Shipyard finance
- Government
- Other

- Syndicated Loans

- Equity funds 2.5%
- Tax Lease investors 2%
- KG / KS markets 6.0%
- Bond & Public Equity 5.0%
- Non ship mortgage loans 8.0%
Funding demand remains high…

Expected need for ship financing May ’09 (60% leverage)

Source: Clarksons
Credit tightness since mid 2008…..

- In 2007 approximately USD 100 bln was lent to the shipping industry in the syndicated and non syndicated loan market

- 2008 showed a decline with a further sharp decrease in 2009

Source: Dealogic, syndicated and significant bilateral transactions
….and shipping finance continued to decrease

- The high volume in 1Q09 was mainly driven by AP Moller Maersk’s USD 6.5 bln debt restructuring

Source: Dealogic, syndicated and significant bilateral transactions
Basically coming to a standstill in 2009
## Trends in bank debt

### Strict conditions
- Refocus on core clients & quality names
- Smaller facilities
- Little syndicated loan activity, bi-lateral and club deals
- Pricing increase
- Tighter covenants
- Declined appetite for LT debt; increased premium for LT funding

### Less Liquidity
- Many big players in ship finance have significantly reduced activity due to:
  - pressure from governments to act more domestically,
  - credit related problems due to aggressive lending during shipping boom,
  - concentration risk resulting from recent mergers
  - reduction of bank’s balance sheets

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So today it’s all about:

- **Core clients**
- **Core regions**
- **Core sectors – is this still shipping?**
Conclusion: Major Shift in Ship finance has occurred

How to deal with this?
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Imbalance in capital supply and demand

Demand for and availability of capital are not necessarily at the same part of the hemisphere.
Alternative sources of debt increase in relevance

- New funds need to be sourced – from pension & insurance funds, sovereign wealth funds, Islamic funds, bond and equity market, commodity producers and traders, etc.

- Part of the gap will be filled by DCM/ECM and private deals with institutional investors.

- Public equity & high yield bond markets open up again, also for Shipping
Investors looking for alternatives

<table>
<thead>
<tr>
<th>Instead of traditional investments…</th>
<th>…investors are looking for</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Institutional investors are reducing exposure to traditional asset classes in particular equity</td>
<td>• Long-term assets with a preference for higher yielding</td>
</tr>
<tr>
<td>• Very low yields on government bonds and recent sovereign concerns reduce their attractiveness</td>
<td>• Inflation protected</td>
</tr>
<tr>
<td></td>
<td>• Low correlated risk</td>
</tr>
<tr>
<td></td>
<td>• Corporate bonds</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure investments</td>
</tr>
<tr>
<td></td>
<td>• Other long-term and low-correlated investments</td>
</tr>
</tbody>
</table>
High yield bonds attractive substitute for loan debt

Structural benefits:
- More *recession-resistant* capital structure
- Longest-tenor debt in capital structure and ‘junior’ layer of debt
- Diversify investor base and create trading liquidity for benchmarking and repeat issuance
- Minimize or avoid expensive equity issuance and dilution

Interest rates is the next ‘Big Worry’ after this recession
- Borrowers looking to lock-in low fixed-rate coupons via bond transactions

Allows larger / more conservative borrowers to raise acquisition currency
- Bond market is increasingly re-opening for acquisition related financings
Fortis’ role in the new market (1/2)

Establishing (Shipping) Funds

- Investors will benefit from:
  - carefully selected and diversified portfolio of new shipping loans
  - attractive risk - return profile.
  - Limited risk exposure; financing of assets < 10 year historic average values; conservative leverage position of 0 – 45% of current market values.
  - FBN’s expertise in the global ship finance, its existing client base and its 200+ years of history in this sector.

- Direct participation in Fortis deals is also a possibility.

- FBN and Qatari Investment bank QInvest created a mezzanine fund aiming to fill the gap between what is available in the banking market and equity portion.
Fortis’ role in the new market (2/2)

<table>
<thead>
<tr>
<th>Regional imbalance</th>
<th>Capital Markets &amp; Traditional banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian surplus in liquidity and looking for investment opportunities.</td>
<td>FBN has access to the Debt and Equity Capital Markets through a co-operation with Sunrise Securities Corp. in New York.</td>
</tr>
<tr>
<td>95% of all vessel ship yards are in Asia, looking for:</td>
<td>FBN will continue to find innovative solutions for Shipping Sector</td>
</tr>
<tr>
<td>▪ investment vehicles,</td>
<td></td>
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<tr>
<td>▪ co-sponsors</td>
<td></td>
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<tr>
<td>▪ experienced ship finance structuring parties</td>
<td></td>
</tr>
<tr>
<td>▪ Asian investors start entering alternative investments</td>
<td></td>
</tr>
<tr>
<td>▪ Asian yield requirements &lt; US/EU yield requirements</td>
<td></td>
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</tbody>
</table>
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Fortis has a long track record in the ECT Industries

<table>
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<tr>
<th>Energy</th>
<th>Commodities</th>
<th>Transportation</th>
<th>Principal Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients active from upstream to distribution:</td>
<td>Clients active in:</td>
<td>Clients active in:</td>
<td>Direct investments activities in ECT industries</td>
</tr>
<tr>
<td>Offshore Oil (field) and Gas services</td>
<td>Agri</td>
<td>Deep sea shipping industry</td>
<td>Portfolio of assets in projects related to and companies active in these assets</td>
</tr>
<tr>
<td>Power &amp; Utilities</td>
<td>Metals</td>
<td>Intermodal</td>
<td>Top 5 Shipping syndicated loan markets</td>
</tr>
<tr>
<td>Carbon Banking</td>
<td>Energy</td>
<td>Aviation</td>
<td>Top 3 Oil field services industry</td>
</tr>
<tr>
<td>Renewables</td>
<td></td>
<td></td>
<td>Top 5 Commodity bank worldwide</td>
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</tbody>
</table>

- **Top 5 Shipping syndicated loan markets**
- **Top 3 Oil field services industry**
- **Top 5 Commodity bank worldwide**
We have come a long way since last year…

Some of our Transportation Group Milestones 2009

- 25 deals over US$ 800 mln
- Announcement of new strategy (May)
- T joins up with Forum of the Future (July)
- T together with Capital Link organises first ever Shipping Webinar (23 September)
- Opening Singapore office + booked our first deals (16 October)
- Q-Invest – 12 November
...and we are moving forward fast

- Market leader in the Netherlands in wholesale banking
- International network with activities in 25 countries
- A leading position in specific sectors/services, such as Energy, Commodities & Transportation and Brokerage, Clearing & Custody

One bank with AMBITIONS without PRETENTIONS

In the year ahead we will work together to create a new, strong Dutch bank under the brand name ABN-AMRO
Strategic fit of Fortis Bank Nederland & ABN AMRO
ECT and the new organisation

How will this affect you?

- Business as usual is top priority
- Client remains central
- ECT minimal affected by integration plan
- ECT is acknowledged as one of the growth pillars within the new bank
- New combination allows us to:
  - Offer sufficient product capabilities to cater for our clients
  - Leverage on the combined International Network
ECT presence - Where our clients lead us

* Representative office scheduled to open soon
Conclusion - What ECT can offer you

<table>
<thead>
<tr>
<th>Our capabilities:</th>
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</thead>
<tbody>
<tr>
<td>Strong Origination network</td>
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<tr>
<td>Strong Structuring and execution capabilities</td>
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<tr>
<td>Operational excellence in our Commodities and Shipping mid and back office</td>
</tr>
<tr>
<td>Adequate capital resources to meet (some of ) your funding requirements</td>
</tr>
<tr>
<td>Innovative approach to breach the funding gap (if any)</td>
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Thank You