

Syndicated Finance Update


Shipping is not an island

Rory Hussey
ING Asset Based Finance Syndications


28 February 2008

The players

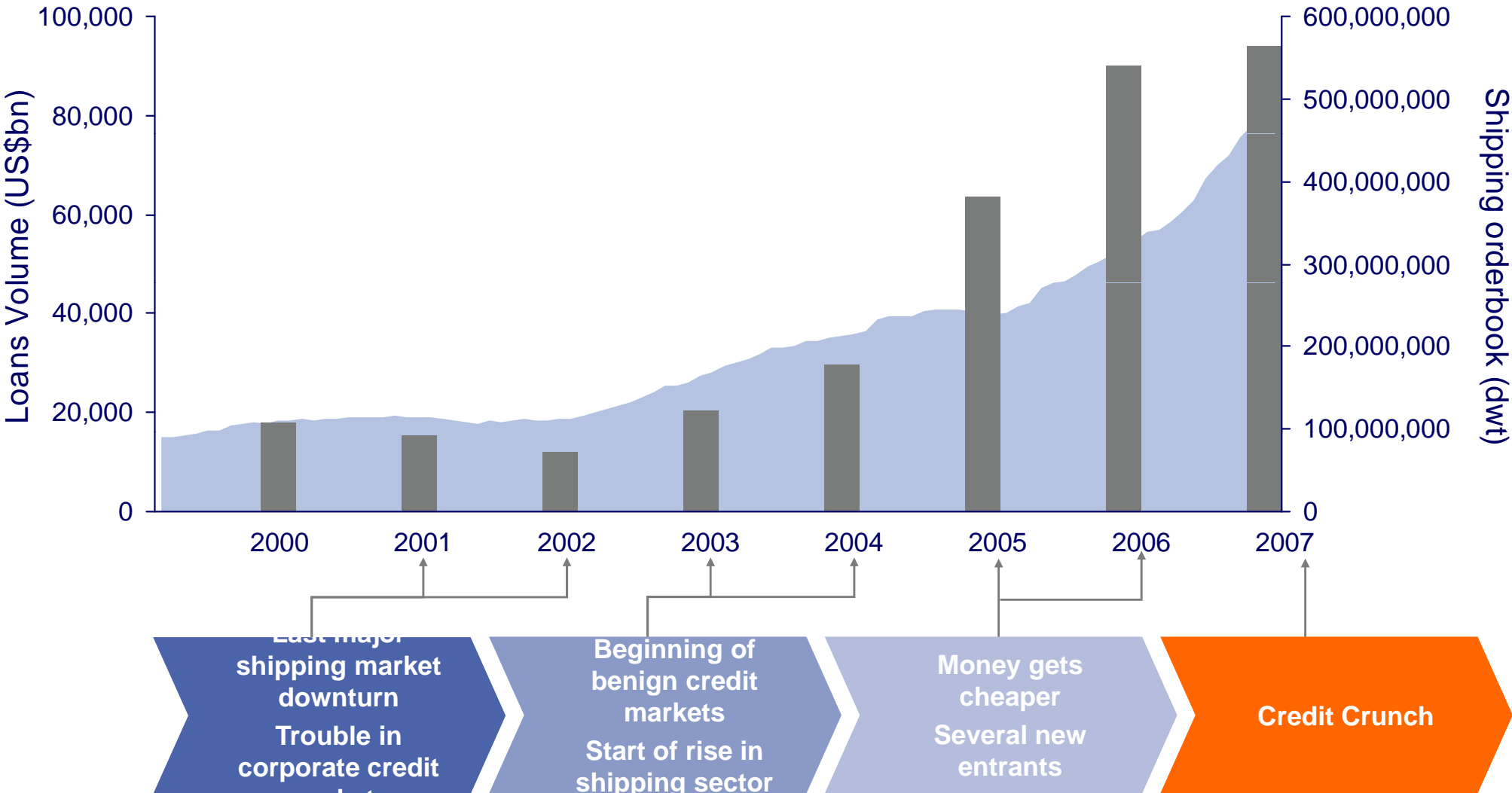
Top 20 Bookrunner table – syndicated shipping loans January to December 2007

Rank	Bookrunner	Amount (US\$m)	No.	% share
1	Nordea Bank AB	16,142	75	17.2
2	DnB NOR Bank ASA	15,601	77	16.6
3	Citi	6,924	26	7.4
4	HSH Nordbank	4,824	22	5.1
5	Fortis	4,387	17	4.7
6	ING 	4,123	16	4.4
7	BNP Paribas	4,023	20	4.3
8	RBS	3,606	7	3.8
9	Sumitomo Mitsui Banking Corp	2,180	21	2.3
10	JP Morgan	2,139	3	2.3
11	Calyon	1,602	6	1.7
12	HSBC	1,201	4	1.3
13	Goldman Sachs	1,175	1	1.3
14	ANZ	1,114	2	1.2
15	Intesa Sanpaolo	1,102	3	1.2
16	Mizuho	1,085	20	1.2
17	Mediobanca	1,058	2	1.1
18	Wells Fargo & Co	1,028	3	1.1
19	Credit Suisse	800	2	0.9
20	ABN AMRO	772	3	0.8
Total		93,852	353	100.0

Top 20 Mandated Arranger table – syndicated shipping loans January to December 2007

Rank	Bookrunner	Amount (\$m)	No.	% share
1	Nordea Bank AB	12,854	92	13.7
2	DnB NOR Bank ASA	12,359	96	13.2
3	HSH Nordbank	6,081	39	6.5
4	ING 	4,980	28	5.3
5	RBS	4,900	14	5.2
6	Fortis	4,892	32	5.2
7	Citi	4,045	34	4.3
8	BNP Paribas	3,829	29	4.1
9	Sumitomo Mitsui Banking Corp	3,454	34	3.7
10	Calyon	2,696	20	2.9
11	JP Morgan	1,609	7	1.7
12	Credit Suisse	1,581	6	1.7
13	ABN AMRO	1,535	9	1.6
14	Mizuho	1,516	25	1.6
15	Mitsubishi UFJ Financial Group	1,497	15	1.6
16	SG CIB	1,258	9	1.3
17	Goldman Sachs	1,250	2	1.3
18	UniCredit Group	1,183	9	1.3
19	Bank of Scotland	962	3	1.0
20	Deutsche Bank	918	7	1.0
Total		93,852	353	100.0

Ship finance market in the naughties



2007 – A year that started like any other

Volumes up

- 2007 was a record setting year
- Ever increasing volumes/orderbook
- Continued boom in offshore

Pricing continued to decline

- Pricing bottomed out in early summer 2007
- Margins at lowest level since 1996 and overall returns lowest ever

Risk premiums narrow

- Compression between investment grade companies and other pricing
- Failure to differentiate risk

Relaxation of terms

- Non-amortising structures
- Covenants also weakened
- Advance rates high compared to historical averages

From Leverage to Shipping

Market meltdown	Bank market effect
Leverage	<ul style="list-style-type: none"> • Loss of liquidity from funds for leveraged deals • Arrangers stuck with large long positions • Panic in credit committees and some syndications lead to tightened terms and conditions
Securitization	<ul style="list-style-type: none"> • Inability to track down sub prime exposures • More difficult to get assets off balance sheet • Reduces important liquidity source for borrowers
ABCP	<ul style="list-style-type: none"> • SIV and other off balance sheet vehicles suspected of sub-prime exposure • Short-term funding back on balance sheet • Pressure on capital adequacy ratio
Interbank	<ul style="list-style-type: none"> • Sub-prime write-downs threaten capital adequacy, cutting lending and interbank trust • Treasury departments aim for longer-term funding, pushing up banks' cost of capital • Liquidity issues particularly in dollars

Shipping is not an island

Effect on new deals

Slowdown in the market as owners and banks adopt a 'wait and see' approach

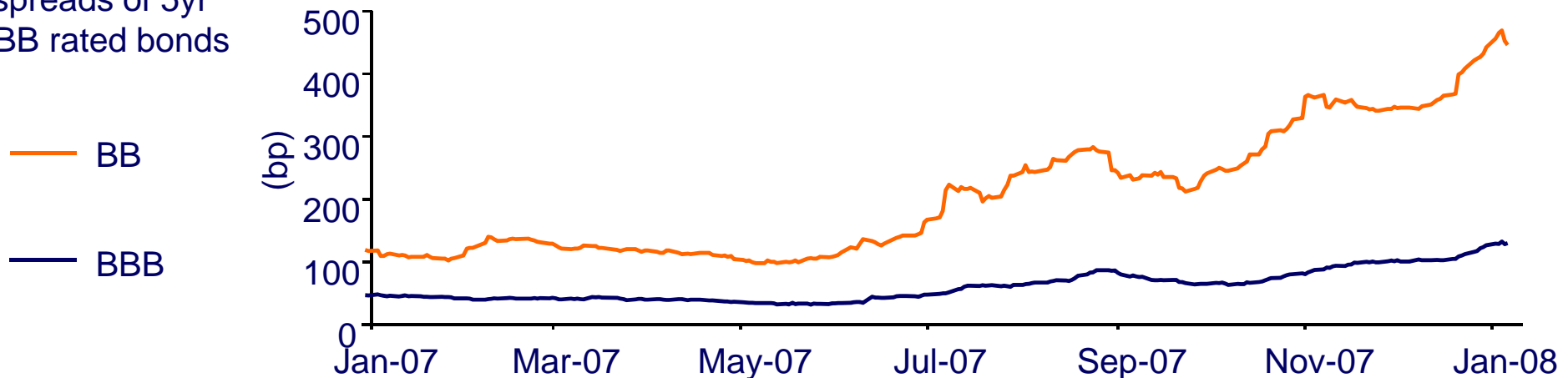
Conservative structures

- Amortisation increased, lower advance rate, no more covenant lite
- MLP structure under pressure
- Shorter tenors to avoid internal funding penalties

Pricing increases

- At the top end BBB/A crossover credit have increased from 55/60 bps level to 75/80 bps
- Fees have increased proportionately more than margins
- Further down the credit quality curve the greater the increase in pricing

ASW spreads of 5yr
BBB & BB rated bonds



Effect on new deals (*cont'd*)

Less appetite for underwriting

- Uncertainty in bank market increases sell-down risk
- Participants less willing to be stuffees
- Smaller ticket sizes
- Sub underwriting out of favour (risk no control)

Market Flex

- Back and standard in some form on all underwritten deals
- Strongly disliked by owners
- Only of limited use if deal fails to sell first time around

Geography/Sector

- Financial system is global – ‘we are unaffected’ cannot be true
- Reverberations continue; latest casualties are Gulf and Asian banks
- Greek and Nordic region relatively unaffected
- Offshore – number of deals – but will they sell?

Competition

- Some see opportunity to low-ball bids to gain market share
- Bilateral/club deals in favour

 ***There is a move away from syndicated deals, but given liquidity constraints this is unsustainable***

Recent shipping syndications

A number of high profile deals have stuck in the market...

What do they have in common?

- Tend to be lead by a sole MLA
- Aggressive structures
- Lack of strong relationship bank group

Successful deals




(US\$845m)

✓

✓

✓

✓

✗

✓



(US\$845m)

✓

✓

✓

✓

✗

✓

Mega deals for new names have struggled and will continue to do so

Use of flex sources name in market, although is generally required

Senior management must also exert pressure on relationship banks

Limits sell-down requirement

Non-amortising deals, high advance rates spell trouble

Many keys to successful deal

What does the future hold for banking?

Sub prime

- Continues to roll on
- Declared losses of US\$160bn against recent estimate of US\$400bn total
- Reverberations of credit crunch around higher quality mortgages as well

Monoline Insurers

- Downgrade could lead to losses of US\$200bn
- Banks slow to agree bailout package

Problems in CDS

- Increased counterparty risk
- Will creditors work with borrowers in default situations?

US Recession

- Slowdown faster than expected
- Worries about hard landing, and increase in credit card and personal loan defaults
- Liquidity crisis spreads to credits – Leverage loans fall from 94 to 80s

Global slowdown

- Outside US and West Europe conditions are weakening
 - Chinese & Gulf Banks reined in
 - reports of growing concern in Korea and Taiwan

Depressed Conditions

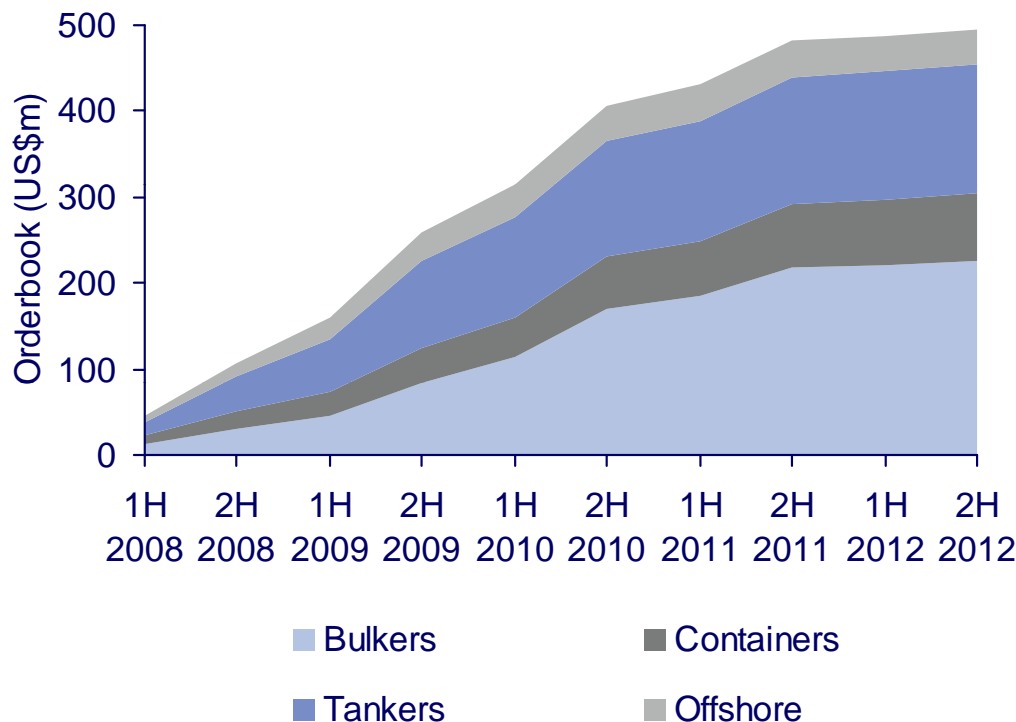
- Lending conditions remain tough through 2008

Shipping is not an island

 ***No asset class, and no country is an island...***

Will there be a further credit crunch for shipping?

A massive order book



- Strongest ordering is seen in dry bulk sector
- Evidence of owners renegotiating contracts
- Problems with Greenfield yards in Korea and China
- Signs of strain in the shipping markets

A huge financing requirement

Full orderbook through 2012 = **US\$500bn**

Assuming 65% financing requirement = **US\$325bn**

Average of **US\$81bn** per annum

- Does not include S&P market, refinancings and additional newbuilding orders placed