Chinese Financial Leasing as an Option for Fleet Renewal
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Chinese Leasing Development
Chinese Leasing Development

National strategies for promoting China's economic development:
- Supply-side Reform
- New-style Urbanization
- Regional Development (e.g. Development of Yangtze River Economic Belt, Coordinated Development of Beijing, Tianjin and Hebei)
- One Belt and One Road Initiatives
- Made in China 2025
- Action Plan for Energy Development Strategy
- “Broadband China” Strategy


9 years CAGR 61.83%
Chinese Leasing Development

Peers Group Outline

100Bn Club Financial Leasing Firms
By total assets as of 2017YE (RMB Bn, Ex Rate 6.33)

- Currently, CIB Leasing has limited exposure to Shipping Business;
- The figures of ICBC Leasing do not consolidate its overseas portfolio which mainly consists of Aviation and Shipping; In this case, ICBC Leasing is the first largest financial leasing company in China;
- Almost every company has significant and diversified exposure to China domestic leasing business among infrastructure\public transportation\medical service\power plant…

100Bn Club Financial Leasing Firms
By ROA as of 2017YE (%)
The Company was established in March 2008. It is one of the first five bank-affiliated financial leasing firms approved by the State Council, and is one of the 40 financial leasing companies regulated by China Banking Regulatory Commission.

The Company is a core wholly-owned subsidiary and sole financial leasing platform of China Merchants Bank (CMB). The Company’s registered capital was RMB 6 Bn and its total assets was RMB 151.6 Bn as of 2017YE.

The Company is a leading player in equipment, aircraft, shipping and supplier lease segments; developing vigorously in green lease segments such as energy-saving and environmental protection.

Total Assets (RMB Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Assets (RMB Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>22.8</td>
</tr>
<tr>
<td>2011</td>
<td>37.5</td>
</tr>
<tr>
<td>2012</td>
<td>55.9</td>
</tr>
<tr>
<td>2013</td>
<td>75.8</td>
</tr>
<tr>
<td>2014</td>
<td>103.4</td>
</tr>
<tr>
<td>2015</td>
<td>104.0</td>
</tr>
<tr>
<td>2016</td>
<td>137.0</td>
</tr>
<tr>
<td>2017</td>
<td>151.6</td>
</tr>
</tbody>
</table>
CMB Financial Leasing Overview

**Built up supplier leasing business and released the first supplier leasing project**
- September 2009

**Built up aircraft leasing business and successfully completed the first SPV lease**
- November 2010

**CMB injected capital of RMB 2 Bn**
- 2012

**Capital injection of RMB 3 Bn, registered capital reached RMB 6 Bn, and leasing asset balance exceeded RMB 100 Bn**
- 2014

**CMBIL successfully issued first offshore USD bond in Aug. 2014**
- 2014

**Obtained the approval to establish the specialized subsidiary in Shanghai Free Trade Zone**
- 2015

**CMBIL successfully issued first financial leasing asset securitization product**
- 2015

**CMB Financial Leasing was established with the registered capital of RMB2 Bn**
- March 2008

**Launched first flag of convenience operating lease project, which is the first of its kind in China on the back of SPV in free trade zone with US dollar as financing currency**
- August 2011

**Acquired 100% ownership of CMBIL**
- 2016

**Obtained credit ratings from Moody’s, S&P and Fitch**

**CMBIL successfully issued first offshore USD bond under its own credit rating in Nov. The issue size was $1.26 Bn**
- 2016

**CMBIL started to operate**
- 2016
CMB Financial Leasing Overview

Weakly Pro-cyclical Industries, including Health, Culture, Tourism, Education, Energy Saving & Environmental Protection, Telecom

Public Utility & Infrastructure

Aviation, Shipping, Transportation

Industries with High Pollution, High Energy Consumption or Over Capacity

2013: 3.6% 3.1% 5.4% 5.9% 7.5%
2014: 6.3% 10.7% 13.0% 16.7% 16.9%
2015: 16.5% 21.7% 30.1% 45.1% 49.4%
2016: 37.6%
2017: 17.4%

2013: 3.9%
2014: 8.7%
CMB Financial Leasing Overview

Aircraft Finance

Shipping Finance

about 40% investment made by Aviation and Shipping Team

Culture & Tourism

Healthcare

New Energy

Logistics

New Business Development

Infrastructure

Utility

Energy Saving & Environmental Protection

City Transportation

Tunnel Boring Machine

Eight Financial Solutions

Energy Finance Solution

Energy Saving & Environmental Protection Finance Solution

Healthcare Industry Finance Solution

Equipment Manufacturing Finance Solution

Aircraft Finance Solution

Shipping Finance Solution

Inter Financial Leasing Finance Solution

Utility, Culture & Tourism Finance Solution
CMB Financial Leasing Overview

Global Presence of CMBFL Leasing Assets

- **Transportation**
  Land transportation and various kinds of vessels

- **Manufacturing Equipments**
  Manufacturing equipments with leading technology

- **Other Equipments**
  Electricity, telecom, construction equipment etc.
CMBFL Shipping Business Highlights
CMB Financial Leasing Shipping Business

135 vessels, of which 29, or 21.5%, are under operating leasing
CMB Financial Leasing Shipping Business

Shipping Leasing Business Development Status

• The Company has established a comprehensive shipping financial service system, covering finance lease, structured products, overall project finance planning, shipping asset management, new project investment/financing management, etc.
• The Company has gained full asset management capacity on some ship types.
• Leveraging on excellent asset portfolio and a comprehensive onshore/offshore coordinated shipping financial service system, the Company has attracted a number of high quality shipping finance clients.

Cooperation with Domestic and Overseas Clients

• Domestic clients include SOEs like China Cosco Shipping Group, China Merchants Group and China Communications Construction Group etc.
• Overseas clients include AP Moller, Teekay LNG, CMA-CGM, Excelerate, Scorpio and Seaspan etc.
• Maintained good relationship with relevant parties, such as shipyards, shipowners, classification societies, consulting/research companies, law firms etc.

Shipping Leasing Asset Balance and Percentage (RMB Bn, Ex Rate 6.33)
CMB Financial Leasing Shipping Business

Leasing Assets by Types
- FSRU: 14%
- LNG: 6%
- VLGC: 14%
- Tanker: 1%
- Others: 2%
- Chemical Tanker: 2%
- Containership: 2%
- Bulk Carrier: 11%
- PCTC: 4%
- Cruise Ship: 40%

Leasing Assets by Structures
- Operating Lease: 67%
- Finance Lease: 33%

Leasing Assets by Regions
- China: 19%
- Europe: 49%
- North America: 5%
- Asia: 27%

As of End 2017
Chinese Financial Leasing into Shipping
Top 10 Chinese Shipping Finance Institutions in 2017

- Data Collected from China Export Credit Agencies and banks shed more light on the whole market of Chinese Shipping Finance;

- Top 10 Shipping Finance Institutions in terms of drawdown and insurance undertakings;

- China invested $17 billion in total in Shipping Finance in 2017;

- China EXIM and CDB are policies banks which used to support ship built in Chinese Shipyards;

- In total, Chinese Banks contributed $5.8 billion Shipping Finance in 2017, among which around $0.9 billion is ship mortgage loan to Chinese leasing firms, who contributed $12 billion in total;

- The sum of bank and leasing data, filtered by $0.9 billion banks to leasing loan, indicates that China Invested $17 billion in total in Shipping Finance in 2017;
Drawdown of major leasing firms in 2017

- The Wall Street Journal reported that China poured $20 billion into shipping finance in 2017 in an article “China, Flush With Cash, Sets Sights on Shipping” dated December 23, 2017;

- This is the 2nd time in a row that the drawdown from Chinese leasing firms reached $12 billion. While the non-bank leasing firms achieved 35% growth, drawdown from the bank leasing firms dropped by 10% who still contributed over 70% of the total;

- Total shipping assets from participating leasing firms have reached $47 billion at the end of 2017;

*Drawdown amount for CSSCS does not include their own shipping investment. *Note: The drawdown data include duplicated counting of a few transactions between above firms, which are not filtered. An exchange rate at the year end at 6.51 CNY/USD is applied to calculate shipping assets while an annual average rate at 6.76 CNY/USD is applied to summarize drawdowns.

Source: Smarine
Shipping assets from major leasing firms at the end of 2017

- As of end of 2017, these leasing firms own $47 billion shipping assets in total. Top three grew their assets by 21% in 2017;
- While Chinese leasing firms are considered as new capital source for global shipping finance, the $12 billion shouldn’t be all treated as incremental finance to global shipping industry because most leasing firms also borrow mortgage loans from traditional shipping banks to finance shipping deals. For example, China EXIM Bank provided ship mortgage loan of around $700 million to Chinese leasing firms in 2017. Not only Chinese banks, but also western banks, such as BNP Paribas, Credit Agricole, DVB, KFW, NORD/LB, Societe Generale and Standard Chartered, all have provided finance to Chinese leasing firms in 2017, part of the amount could otherwise be lent to ship owners. Given the high leverage of leasing business, the incremental amount to global shipping should be much less than what optimists have thought;

Source: Smarine
An Option for Fleet Renewal
Demand for Fleet Renewal

- Larger Sized Vessel
  - e.g. in the past few years, Capesize to Valemax;
  - e.g. 10,000 TEU container vessel to 22,000 TEU vessel;
  - e.g. 140,000 CBM LNG to 172,000 CBM LNG;

- Environmental Friendly and Safety Management
  - e.g. SOx and Nox emission control;
  - e.g. SOLAS and ISM requirement;
  - e.g. Ballast Water Treatment;

- New Design and More Eco-ships
  - e.g. LNG Ships from Steam Turbine to DFDE and MEGI;
  - e.g. Optimized Speed and Consumption;

- Trade Volume Increasing
  - e.g. LPG trade increased from 64.1 million tonnes per year in 2013 to 93.1 million tonnes per year in 2017.

Even the world fleet size is affected by supply and demand, there are always fleet renewal requirements which makes shipping becoming more innovated, clean and efficient;
Chinese Financial Leasing provides tailor made solution

**Finance Lease for new ships**
- On balance sheet financing provides liquidity for the client;
- Flexible structure, provides Pre and Post Delivery financing;
- The financing are specially used for buying a ship;
- Leasing company take legal title of a ship at beginning and a purchase obligation for the Bareboat Charterers are Maturity;

**Finance Lease for existing ships**
- On balance sheet financing to financing debt-free ships or refinance;
- The financing could be used as supplementary liquidity or for buying new ships;
- Shorter tenor but normally same profile applicable to new ships;
- A sale and lease back which transfer legal title at beginning and maturity;

**Operating Lease for new ships**
- Currently off-balance sheet transaction with a real sale and bareboat charter back to the Lessee;
- The lessee has the “right to use the ship” on a hell and high water bareboat charter basis;
- Normally, purchase options will be set up during the charter period or a the end of the charter;
- A pre-delivery Novation of Shipbuilding Contract and Refund Guarantee;

**Operating Lease for existing ships**
- Currently off-balance sheet transaction with a sale of the ships and bareboat charter back to the Lessee;
- The lessee has the “right to use the ship” during the charter and “option to buy” at the maturity;
- The funds from selling the ships could be used as supplementary liquidity or for buying new ships;
## Strong Financial Flexibility and Diversified Funding Sources

<table>
<thead>
<tr>
<th>Diversified Financing Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Interbank borrowings, onshore and offshore USD syndicated loans</td>
</tr>
<tr>
<td>● Asset backed financing with various structures</td>
</tr>
<tr>
<td>● Shareholder support including equity injection</td>
</tr>
<tr>
<td>● Insurance funds and asset securitization</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sufficient and Extensive Bank Credit Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Obtain credit lines from worldwide financial institutions</td>
</tr>
<tr>
<td>● Established strategic partnership agreements with major state-owned banks and policy banks such as CCB, China Export-Import Bank and PSBC</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Efficient Fund Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Cash pool at Head Office to efficiently manage funds of domestic SPVs</td>
</tr>
<tr>
<td>● Consistently maintain high capital adequacy ratio and low liability ratio</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Steady Asset-liability Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Dynamically match liability with assets in terms of currency and tenor to effectively manage interest rate risk and foreign exchange risk</td>
</tr>
<tr>
<td>● Integrate liquidity management, maturity structure management and market risk management, leading to improvement of asset and liability management system</td>
</tr>
</tbody>
</table>
Summary

• Chinese Financial Leasing companies are expanding fast in the past few years and enjoying a comparatively healthy shipping portfolio;

• Chinese Financial Leasing companies are commercial institutions and not policy driven;

• The role of Chinese Financial Leasing companies could be Pure Capital Providers, Owners of Good Assets and Investors of Promising Projects;

• The funding sources are mainly from traditional shipping banks. The expanding of leasing business won’t put excessive funds into the shipping market and break the supply-demand balance. Leasing is an supplementary option for bank financing with more flexible structures;
Create Value Together & Achieve Bright Future

15th March 2018