Developments in the ship finance arena

Busan Financial Seminar

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ABN AMRO profile

A leading Dutch bank	
	▪ ABN AMRO is one of the ‘big three’ banks in the Netherlands with a strong position in retail, commercial and merchant banking ▪ Operating income mainly generated within the Netherlands from Dutch clients, predominantly in retail and commercial banking ▪ Largest Private Bank in the Netherlands as well as no. 3 position in the Eurozone ▪ Complemented by international activities including Private Banking, Clearing and Energy Commodities & Transportation (ECT)

A leading Dutch bank

- ABN AMRO is one of the ‘big three’ banks in the Netherlands with a strong position in retail, commercial and merchant banking
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Moderate risk profile and strong capital position

- Strong capital position (core Tier 1 of 10.9%)
- On track to comply with Basel III capital and liquidity requirements
- Credit rating A+ (S&P) Aa3 (Moody’s)
- Over 80% of customer assets[4)] are domestic with a high proportion of secured lending and an adequately provisioned loan book
- Dutch economy is stable with relatively low default rates also during the recent recession
- Further scope for profitability improvements through delivery of integration cost synergies and customer excellence program

Country of origin of clients and operating income range

Operating Income, EUR, H1 2011 annualised

Netherlands	International
Retail (4 – 4.7bn)	
Business Banking (1.1 – 1.8bn)	Private Banking (1.1 – 1.8bn)
Corporate Clients[1)] (0.5 – 1.1bn) Markets[1) 2)] (0.5 – 1.1bn)	
LC&MB[1) 3)] (>1.0bn)	ECT (> 0.5bn) Clearing (< 0.5bn)

1) Main clients are Dutch based clients. Services are offered in all time zones
2) Markets operating income excludes Clearing
3) Large Corporates & Merchant Banking excluding ECT
4) Relates to customer Loans and Receivables only, excludes amongst others Securities Financing

Energy, Commodities & Transportation

ECT offers high quality financial services to international companies that are active in the value chain of the ECT industries

Key success factors

- Global client network
- Long track record
- In-debt industry knowledge & research
- risk & portfolio management
- Expertise in Escrow & Settlement, Documentary Credits and Credit & Collateral Management
- 340 professionals with long term ECT industry expertise

Energy

- Oil & Gas
- Floating production systems
- Drilling
- Oilfield Services
- Infrastructure

Commodities

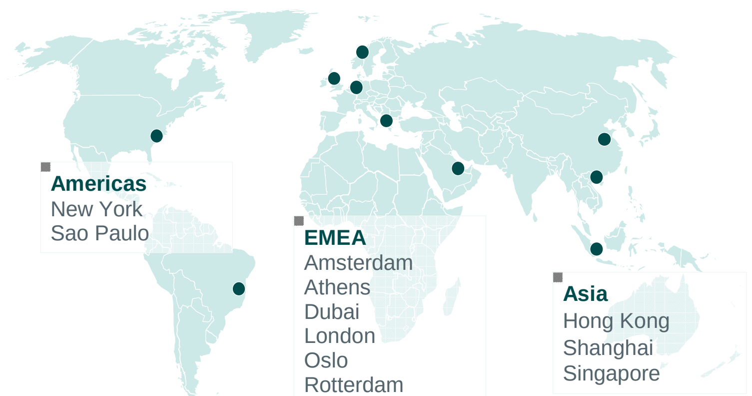
- Agri: cotton, cocoa, coffee, sugar, grains
- Metals: steel, ores and base metals
- Energy: crude oil, oil products, gas

Transportation

- Deep sea shipping industry
- Intermodal / Containers
- Aviation

Principal Finance

- Direct ECT investment activities
- Portfolio of assets (ships, containers) in projects related to and companies active in these assets



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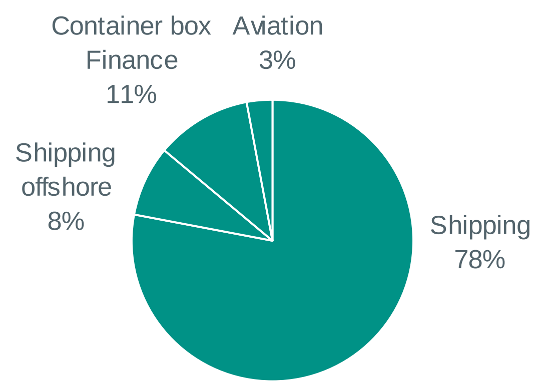
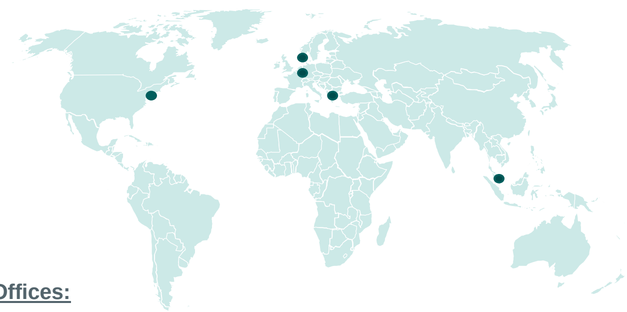
ECT – Transportation Overview

Transportation Sub Sectors



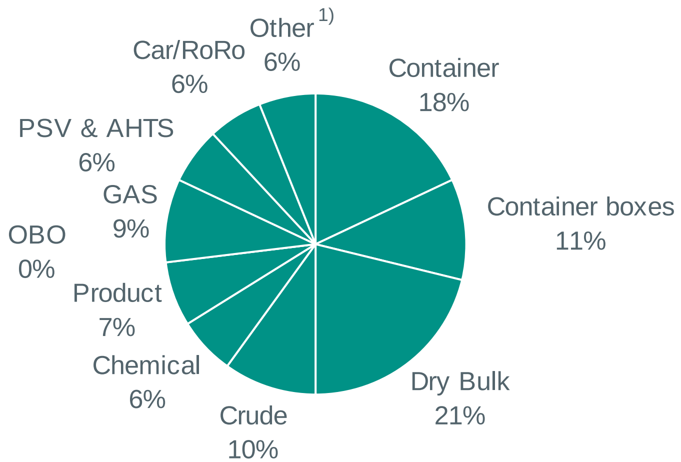
World-wide business



5 Offices:

Rotterdam (HQ)
Oslo
Athens
Singapore
New York (Intermodal)

Portfolio



1) Other includes Cruise, Ferries, MPP/General Cargo and Reefer vessels

General Overview Transportation

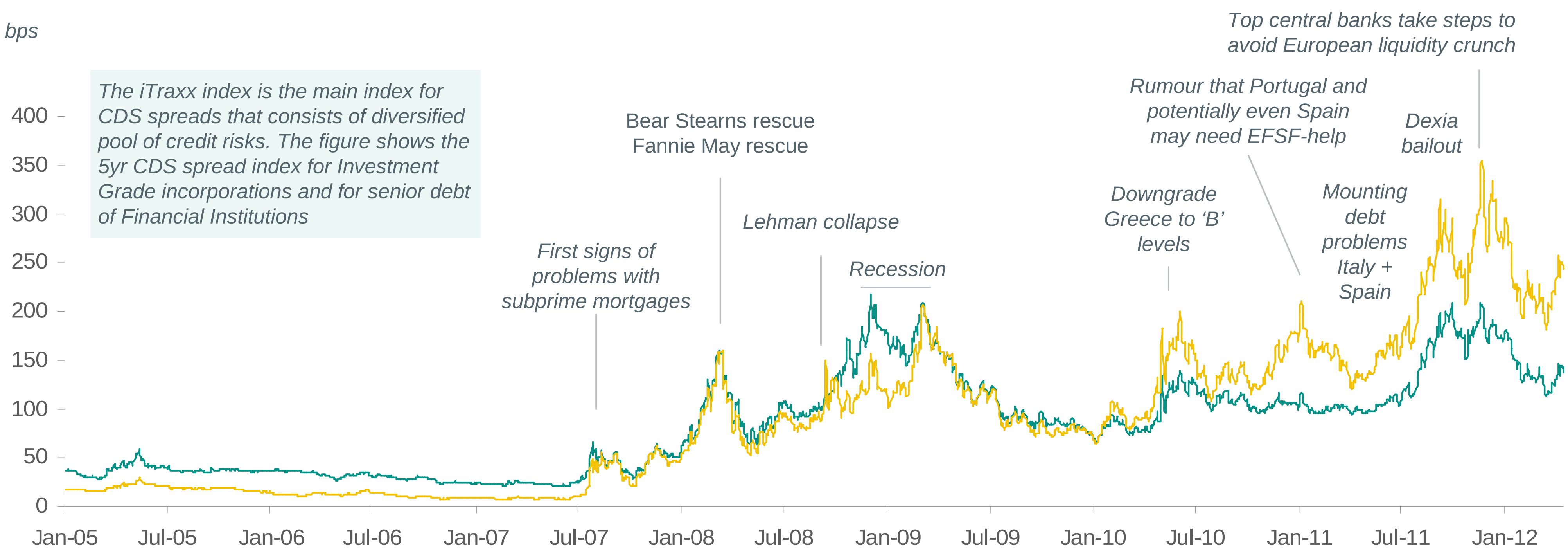
- Strategic growth area for ABN AMRO
- International portfolio and coverage (5 offices). Further international expansion envisaged in the future
- Current portfolio in excess of USD 7.5bn
- 42 dedicated professionals
- Innovative structures
- Relationship-driven strategy, based on developing long term profitable relationships with quality names
- Intermodal responsible for the world-wide coverage of the container box industry. Clients consist of the top 10 leasing companies and to lesser extent major container lines.
- Active in ship finance since 1900

2

A new world of banking

Temporary Changes	▪ Impact of recent macro economic developments on bank balance sheets • The balance sheets of many banks have been impacted by recent financial turmoil • In combination with the uncertain macro outlook this will impact availability of bank funding for the shipping industry ▪ EU crisis impact on funding cost • The EU sovereign crisis has led to a precaution towards European banks • This introduced Dollar funding issues for these banks • The fact that the shipping market is a US dollar market that is dominated by European banks impacts liquidity and pricing
Structural Changes	▪ Regulatory Pressure on Banks – Basel III • Basel III aims to raise quality of capital and introduce an overall maximum leverage ratio • Likely to result in changes in availability and terms of bank lending ▪ Regulatory Pressure on Insurers – Solvency II

Temporary changes effecting cost of funding…



- Credit Default Swap spreads of European financial institutions (yellow line in the figure) generally provide a good indication of the risk the market associates with these institutions. Therefore, it is strongly related to the funding costs of European banks
- The figure shows how the rates increase as the market faces more uncertainty. From 2004, when the iTraxx index was founded, until 2007 the spreads were relatively stable below 50 bps, with risk on financial institutions generally perceived as lower than on large investment grade incorporations. As the graph shows, however, from 2007 onward CDS spreads have become substantially more volatile and show an increasing trend up until date. Peaks in the spreads are encountered during the 2008 financial crisis and currently due to the sovereign debt crisis
- The strong increase in spreads recently witnessed is reflected in banks' funding costs and, therefore, in pricing of bank debt

…followed by structural change: Basel III

- Raising the quality of regulatory capital
- Improving various aspects of regulatory driven risk management practices, both quantitatively and qualitatively
- Introduction of an overall maximum leverage ratio
- Measures to prevent pro-cyclical effects
- Addressing systemic risk and interconnectedness
- Introduction of a global liquidity standard
- Enhancing Risk Coverage

A. Capital Adequacy Ratio

B. Leverage Ratio

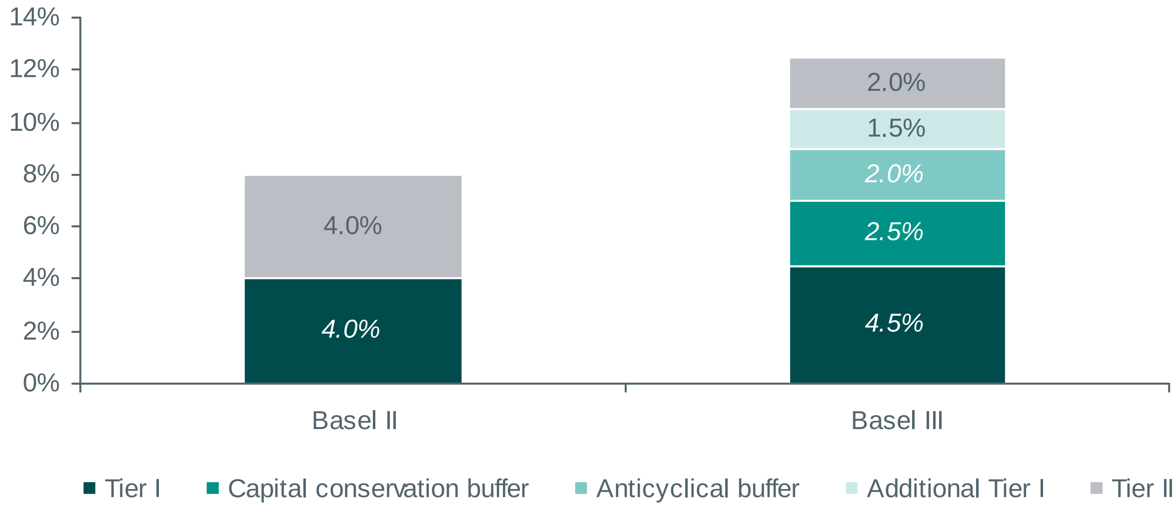
C. Liquidity Coverage Ratio

D. Net Stable Funding Ratio

Solvency requirements

A. Capital Adequacy Ratio

Min solvency requirements Base II vs Basel III



B. Leverage Ratio - Overall leverage ratio which is defined as Tier I capital / Total Exposure

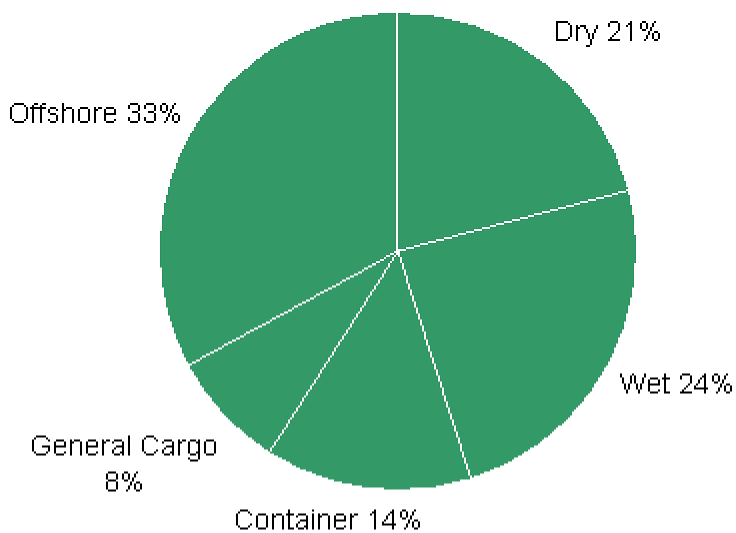
C. Liquidity Coverage Ratio - Banks must maintain an adequate level of unencumbered, high quality assets to meet their liquidity needs for a 30-day time horizon under an acute stress scenario

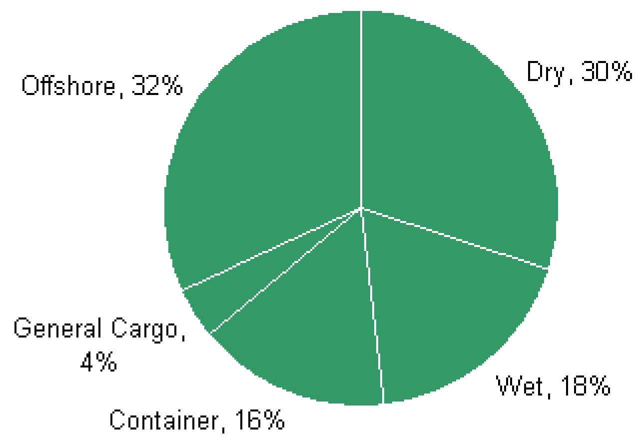
D. Net Stable Funding Ratio - This metric establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one year horizon. Meant to reduce mismatches in balance sheet composition.

3

Value of the world fleet – Fleet size by vessel type as at year end 2011

US$ 841 bn Delivered Fleet **Total US$ 1,112bn** US$ 271 bn Orderbook





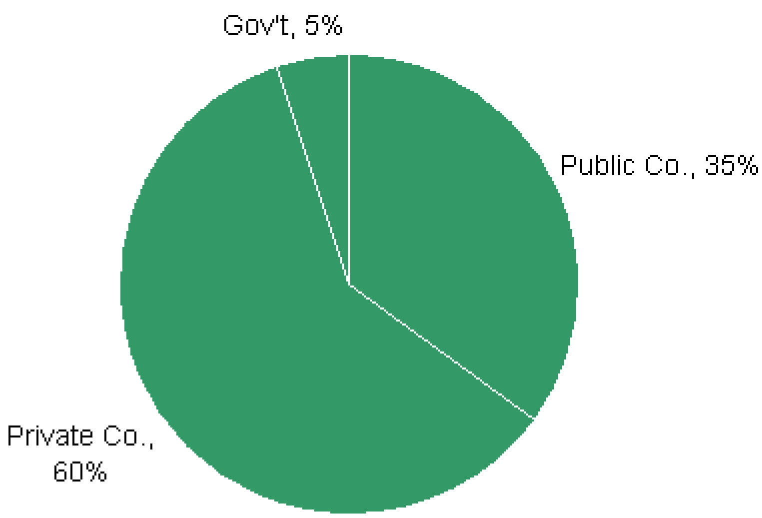
Source : Various brokers and Tufton Oceanic Limited

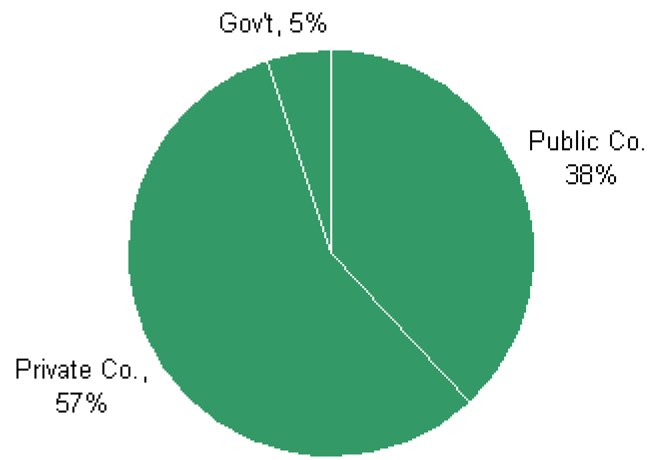
Who owns the fleet? – Fleet size by owner type as at year end 2011

US$ 841 bn Delivered Fleet

Total US$ 1,112bn

US$ 271 bn Orderbook





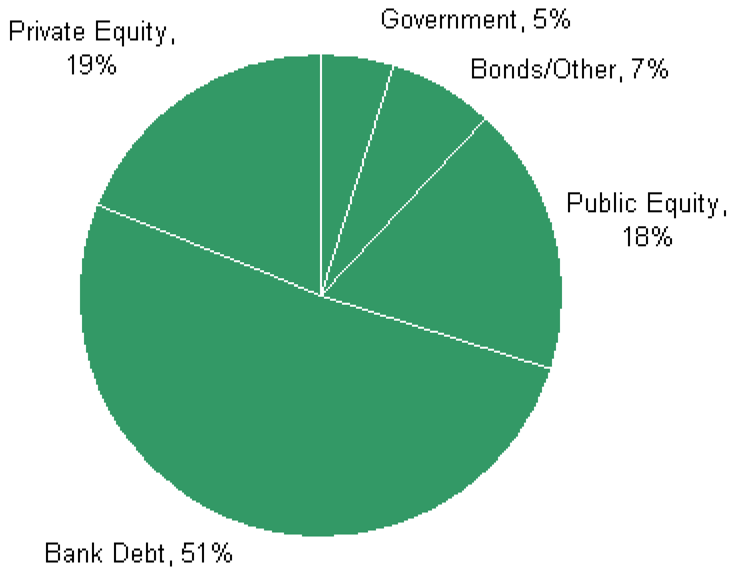
Source : Various brokers and Tufton Oceanic Limited

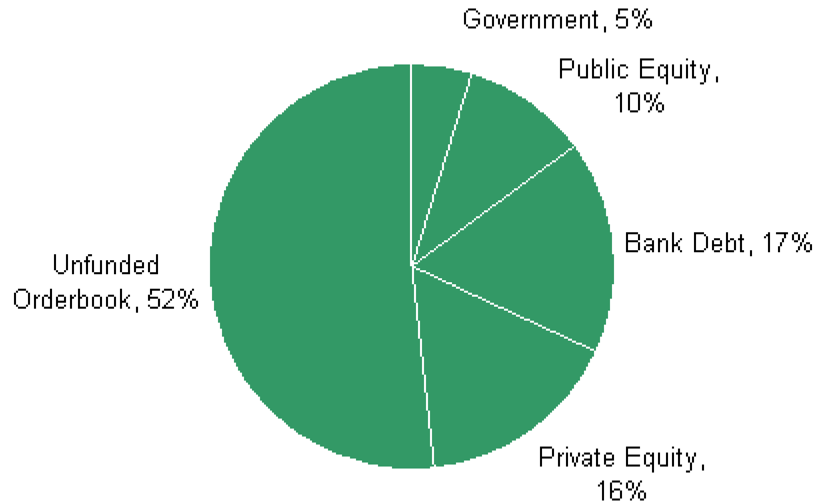
How the fleet is funded
– Fleet size by source of funding as at year end 2011

US$ 841 bn Delivered Fleet

Total US$ 1,112bn

US$ 271 bn Orderbook





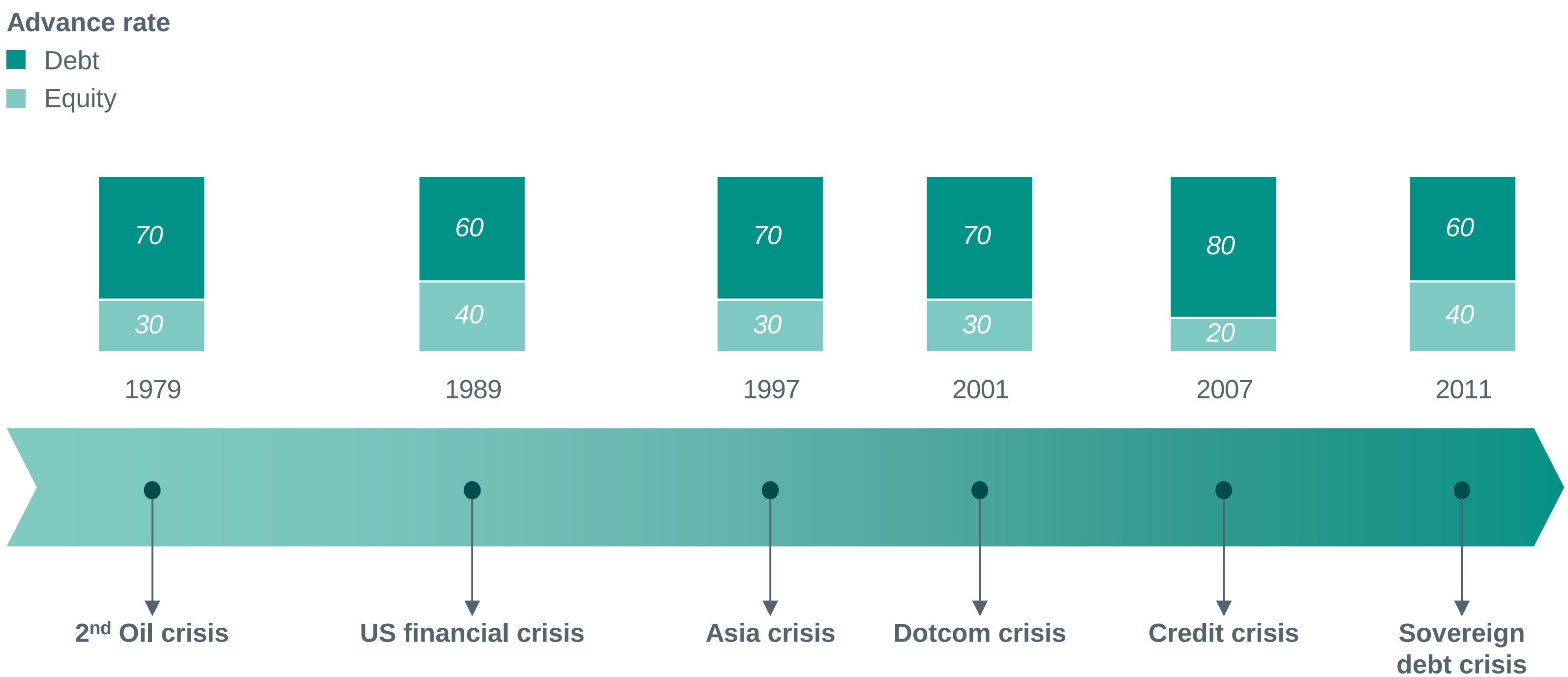
Source : Various brokers and Tufton Oceanic Limited

Developments in Ship Finance

Shipping banks	▪ European banks who traditionally dominated the industry, are most suffering from EU crisis ▪ Shipping is USD industry, whilst access to USD for especially European banks reduced ▪ Some bank are exiting the industry or putting their non-core portfolio up for sale ▪ Non-performing loans increasing, restructurings & waivers ▪ Focus on risks, new regulations, less on growth of portfolio
Financing appetite low	▪ Focus on core clients and leaving non-core clients ▪ Ancillary business / Cross-sell more important ▪ Strong credit profile: high quality, conservatively structured transactions

Lenders are cautious on capital consumption

The shipping industry benefited from a liquidity glut post millennium

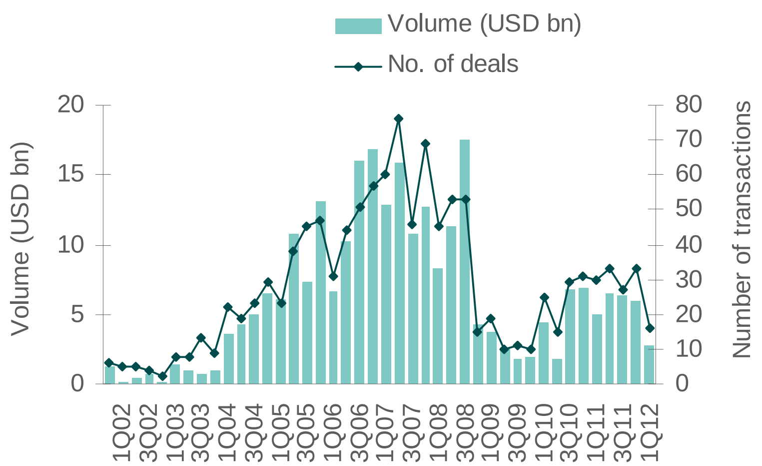


Indicative Terms & Conditions

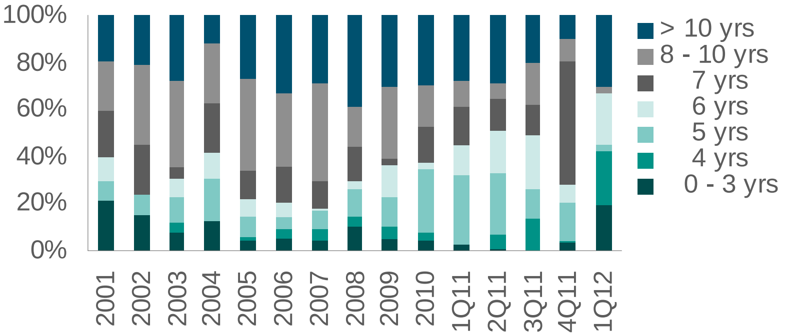
	past	2012
Tenor	▪ Longest maturity in ship finance, 8-12 years	▪ 5 – 7 years ▪ Due to banks funding costs long tenors are expensive
Repayment profile	▪ 15-17 years	▪ Up to 15 years ▪ Often shorter in combination with a short charter to bring residual asset risk down
Leverage	▪ 80% – 90%	▪ Up to 70%
Covenants	▪ Covenant light, high thresholds	▪ Stricter covenants ▪ Less flexibility in covenant waivers
Structure	▪ Non-recourse possible, employment beneficial, standard security package	▪ Conservative leverage in case of no employment ▪ Non-recourse structures difficult to finance ▪ Standard security package plus pledge of shares in SPV's ▪ Step-in right in time charter contracts
Pricing	▪ Libor 1%-3%	▪ Will increase due to increased funding costs [>3%]

Lower syndicated loan volumes expected, tenors shorter due to limited USD availability

Lending volumes down



Tenors shorter



ABN AMRO is a leading bank in the Shipping market

ABN AMRO as Mandated Lead Arranger

- In the Shipping Mandated Lead Arranger ("MLA") league table for Q1 2012 ABN AMRO is at the 3rd position in terms of volume
- With 22 transactions in 2011, ABN AMRO is a clear leader in the sector. ABN AMRO was involved in major transactions, and our share in total deal volume equaled a total deal volume of EUR 5,756 million. Among others FSL, Hapag Lloyd, STX Pan Ocean, Ship Finance International, Rickmers, SIEM Offshore, GasLog, Boxships Inc, and Naviera Teekay

MLA table syndicated Shipping & Transportation loans

Ranking by Mandated Lead Arranger

Pos.	Mandated Lead Arranger	Deal Value ($) (m)	No.	%share
1	DNB Bank ASA	13,719.77	52	65.51
2	Nordea Markets	9,028.76	29	43.11
3	ABN AMRO Bank	5,538.93	18	26.45
4	SEB	6,184.81	16	29.53
5	ING	4,747.36	16	22.67
6	Credit Agricole CIB	4,745.36	13	22.66
7	HSH Nordbank	4,937.90	11	23.58
8	Deutsche Bank	3,894.47	9	18.59
9	Citi	3,043.82	9	14.53
10	Sumitomo Mitsui Financial Group	1,227.62	8	5.86
	Subtotal	**18,550.37**	**85**	**88.57**
	Total	**20,943.73**	**107**	**100.00**

Data source: Dealogic

Global shipping banks play an important role supported by local liquidity

Local funding to tap additional liquidity

Source: ABN AMRO Loan Syndications

Bank's considerations for financing

Conclusion	▪ Banks reconsider their strategy towards long term USD dollar lending ▪ Emphasis on existing relationships, with possibilities to expand the relationship with other activities besides debt finance ▪ More conservative financing structures (shorter tenor, conservative leverage, higher margin) ▪ Clear insight in financial (cash flow) information is increasingly important ▪ Club deals favoured over underwritings ▪ Structural change in availability of debt finance require a different financing mix and higher equity Involvement
Considerations for shipowners	▪ Diversify bank relationship ▪ Concentrate on ship finance banks dedicated to the Marine industry instead of pure foucs on most competitive margin

4

Who Bridges the Funding Gap

Capital markets (public and 144a)

Existing stakeholders (shareholder's, bank, shipyard)

Ship-owners / Partnerships

Export finance (CEXIM, KEXIM, GEIK)

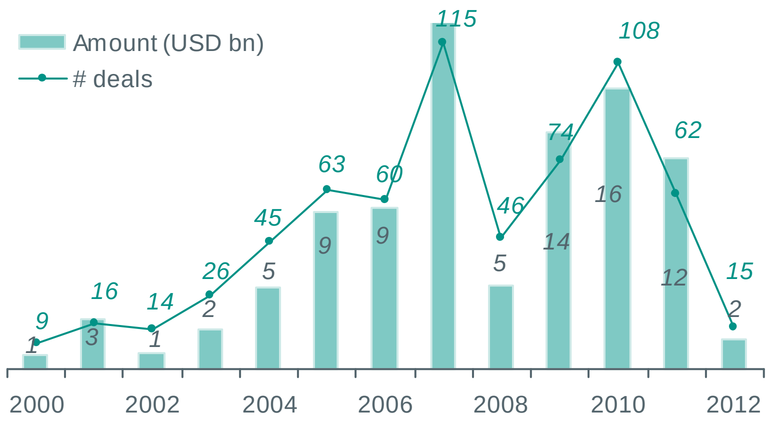
Government sponsored (KDB, others)

Alternative finance companies

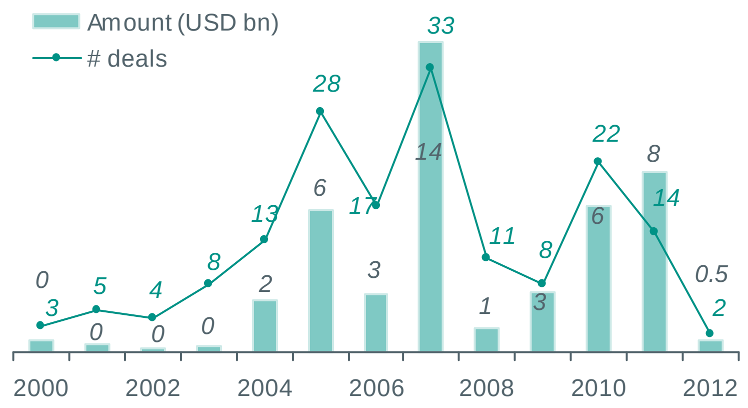
Distress Vehicles (private equity / others)

The public listing option

Equity issuance in the 'transportation by ship' sector



IPOs in the 'transportation by ship' sector



Equity issuance Shipping	▪ Global equity capital markets issuance in shipping peaked in 2007 and has fallen back since, before steadily returning the past years ▪ Expected 2012 shipping equity issuance mainly rights-issues related to (semi-)distressed situations, to repair bank covenants and create necessary liquidity

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Debt Capital Markets

What is Debt Capital Markets?	▪ Debt Capital Markets refers to the bond markets. The bond market provides companies with an alternative to traditional bank loans or syndicated loans in order to diversify funding sources. There are various types of bonds that can be issued.
What are the advantages of bonds versus bank loans?	▪ Diversify funding to reduce reliance on banks ▪ Obtain maturities > 5 years (typically loan market <5 years) ▪ The debt capital markets are large and deep offering increased amounts than sometimes available by banks ▪ Increase visibility with investors in the capital markets ▪ Attractiveness of funding costs versus alternatives depends on market circumstances
What criteria need to be considered when determining what type of bond to issue and which market is most appropriate?	▪ Public versus private ▪ Investment grade (>BBB-) versus high-yield (<BBB-) ▪ Secured versus unsecured ▪ US market versus European or Asian market ▪ USD versus EUR or local currency

Bond Markets and Shipping: A Summary of 2011

Shipping Bonds in Vogue

- Bonds remain as a vital source of funding for shipping companies in Asia
- Proceeds raised were typically used to repay bank debt, refinance maturing bonds and/or bolster working capital
- Shipping companies were able to issue bonds tailored to their circumstances and market conditions. These range from straight forward "plain vanilla" corporate bonds through to more complex ones such as convertible bonds and Shariah compliant bonds
- In general, bond yields have risen against the uncertain global economic environment
- 44% of the total shipping bond volume issued in Asia was completed in 3Q2011

Bond Markets and Shipping: A Summary of 2011

A Record Number!!!

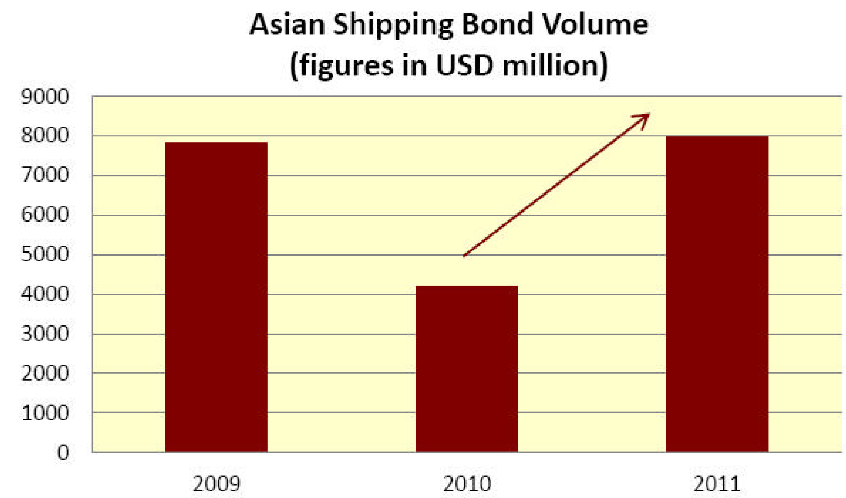
- Historically, shipping companies issue bonds to supplement larger bank debt facilities

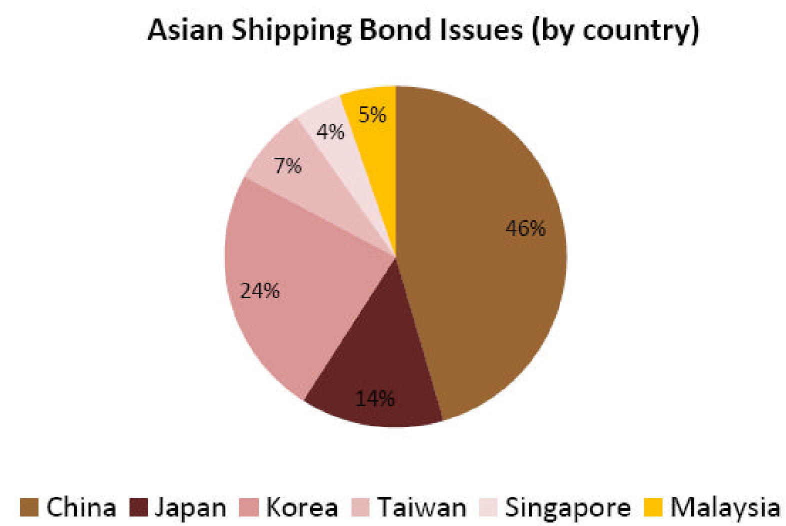
- In 2011, total shipping bond issues in Asia surged 90% to USD7.97 billion from USD 4.12 billion in 2010. This figure has surpassed the historical high of USD 7.81 billion in 2009

- For the first time in history, China has emerged as the largest shipping bond issuer

- The domestic bond market continues to serve as a major source of liquidity for Korean shipping companies. The top four shipping companies had raised USD 125 million more bonds in 2011 than in 2010

- Japanese shipping companies re-emerged as major bond issuers after one year hiatus

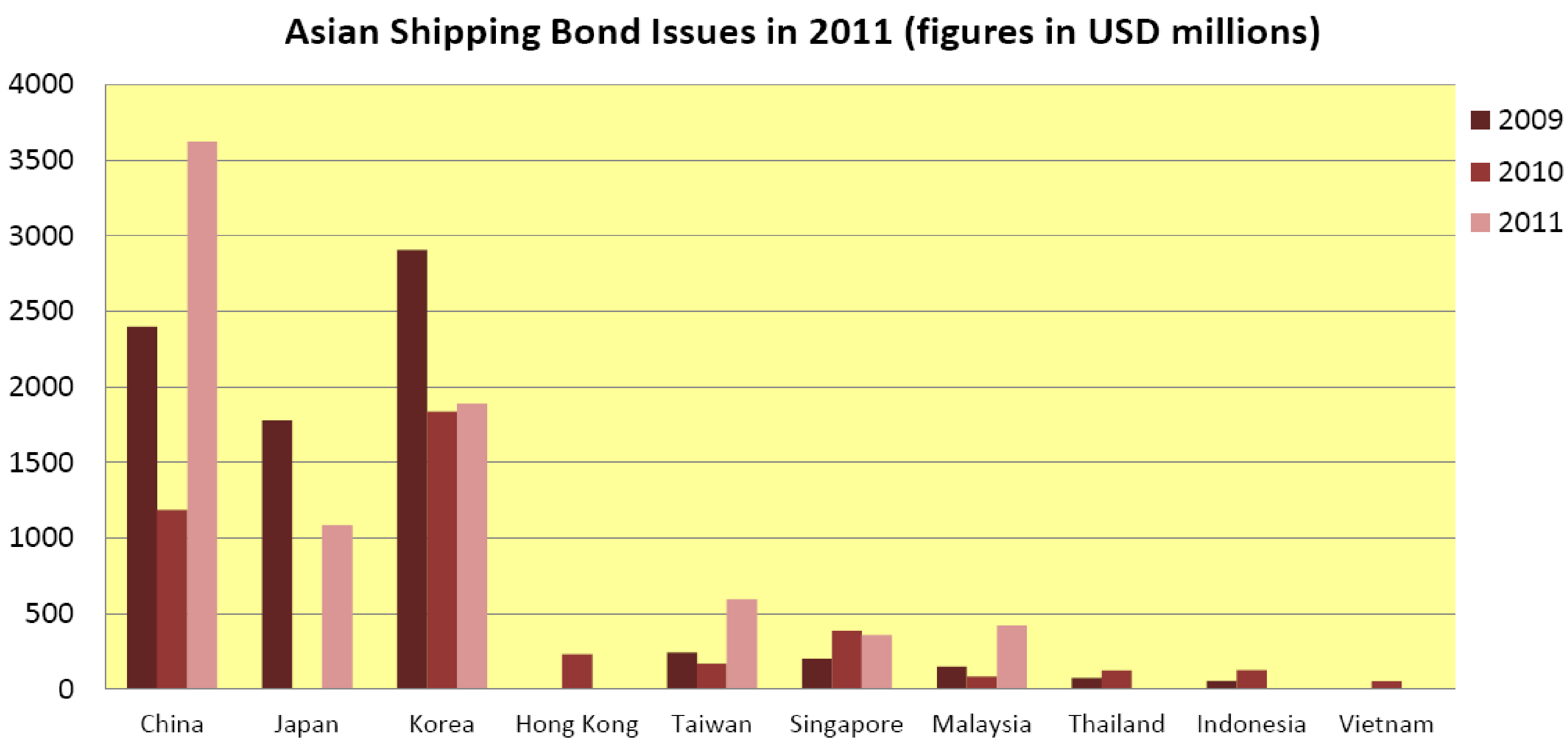




Bond Markets and Shipping: A Summary of 2011

A Record Number but activities are predominant in North Asia

▪ No shipping bond issues in Thailand, Indonesia and Vietnam, suggesting that investors are wary of investing in emerging market assets



Source: Marine Money

Bond Markets and Shipping: A Summary of 2011

Reasons for the Surge in Bond Issues in Asia

- The sharp rise can be attributed to the following reasons:

i) Material contraction in the banks' appetite for shipping loans. Many European banks are going through a difficult period , reducing and restructuring their shipping loan portfolios.

Their lending capacity will remain constrained by regulatory requirements and higher cost of funding

ii) Historical low interest rate environment and the abundance of liquidity in Asia have encouraged fixed income investors to seek alternative bond investments

Conclusion

- The challenging Shipping Markets is faced with an equally changing financing environment
- Such times require thorough reassessment of existing relationships, which parties will ride the shipping and financing storm
- Have an open dialogue on various financing structures (equity, debt, bonds, etc)


Q & A