Shipping Finance in 2010

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APM
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Introducing DVB

DVB Facts

- European company listed on the Frankfurt Stock Exchange with market capitalisation of c. EUR 1.1 bn (Dec 09)
- Rated A1/A for long term debt
- Majority owned by DZ Group, the largest co-operative banking group in Germany
- Net income before tax of EUR 86.6m in 2009
- Cost / income ratio of 49.6% over 2009
- EUR 17.2bn loan book (Dec 2009)
- Over 500 clients, all active in the transport sector, worldwide
- Over 500 professionals, all specialising in transport finance

Global Presence through 13 Offices

Bank Structure

Shipping

Aviation

Land Transport

- Investment Banking
- Investment Management
- Structured Asset Finance
- Risk Distribution
- Loan Participations
- Research in Shipping, Aviation and Land Transport

Ship Finance Division

1	**Container Box Group**	6	**Dry Bulk Group** (Dry Bulk, General Cargo, Combination Carrier, Barge)
2	**Cruise & Ferry Group** (Ferries, Yachts, Ocean / River Cruise)	7	**Floating Production Group** (FPSO, FSO, FPU)
3	**Crude Oil & LNG Tanker Group** (Crude, LNG, Asphalt / Bitumen)	8	**Offshore Drilling Group** (Jack up, Drill Ship, Semi Sub)
4	**Chemical & LPG Tanker Group** (Chemical, LPG and Specialist Tankers)	9	**Offshore Support Group** (AHTS, PSV, subsea and diving vessels, heavy lift vessels, others)
5	**Container Vessel and Liner Group** (Container Vessels, Car Carriers, RoRo's, Reefers)	10	**Product Tanker Group** (Product)

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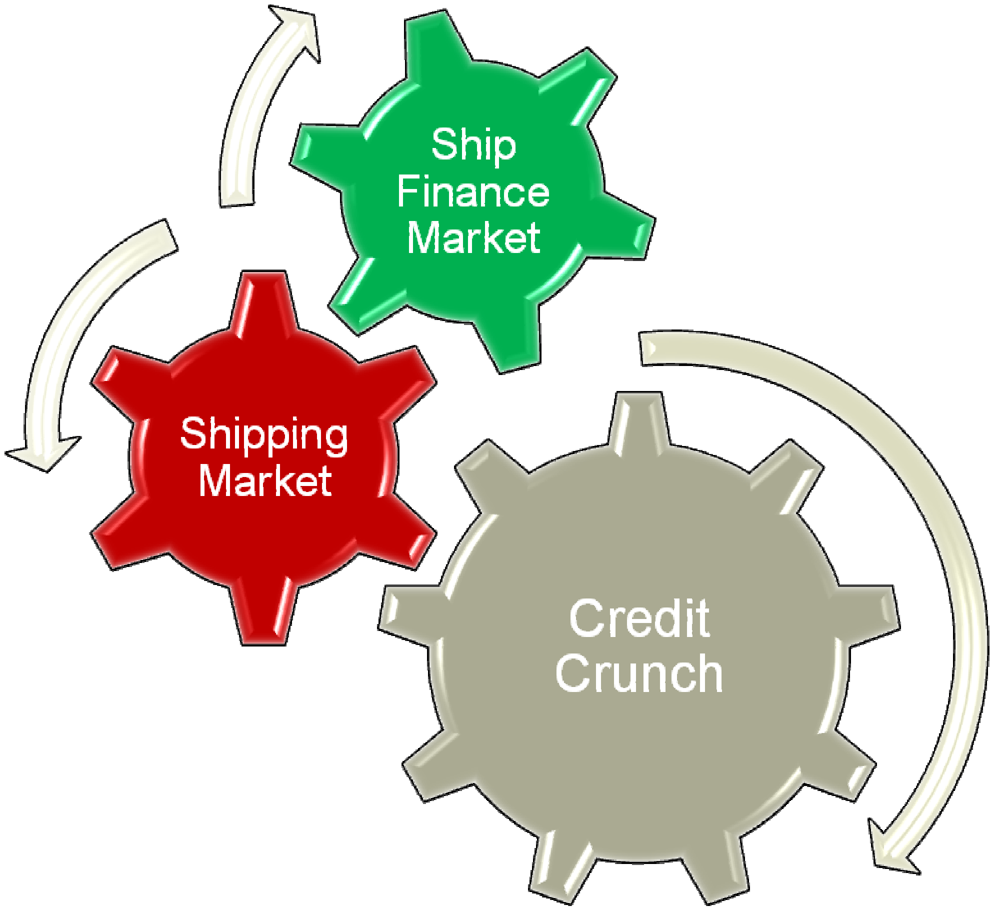
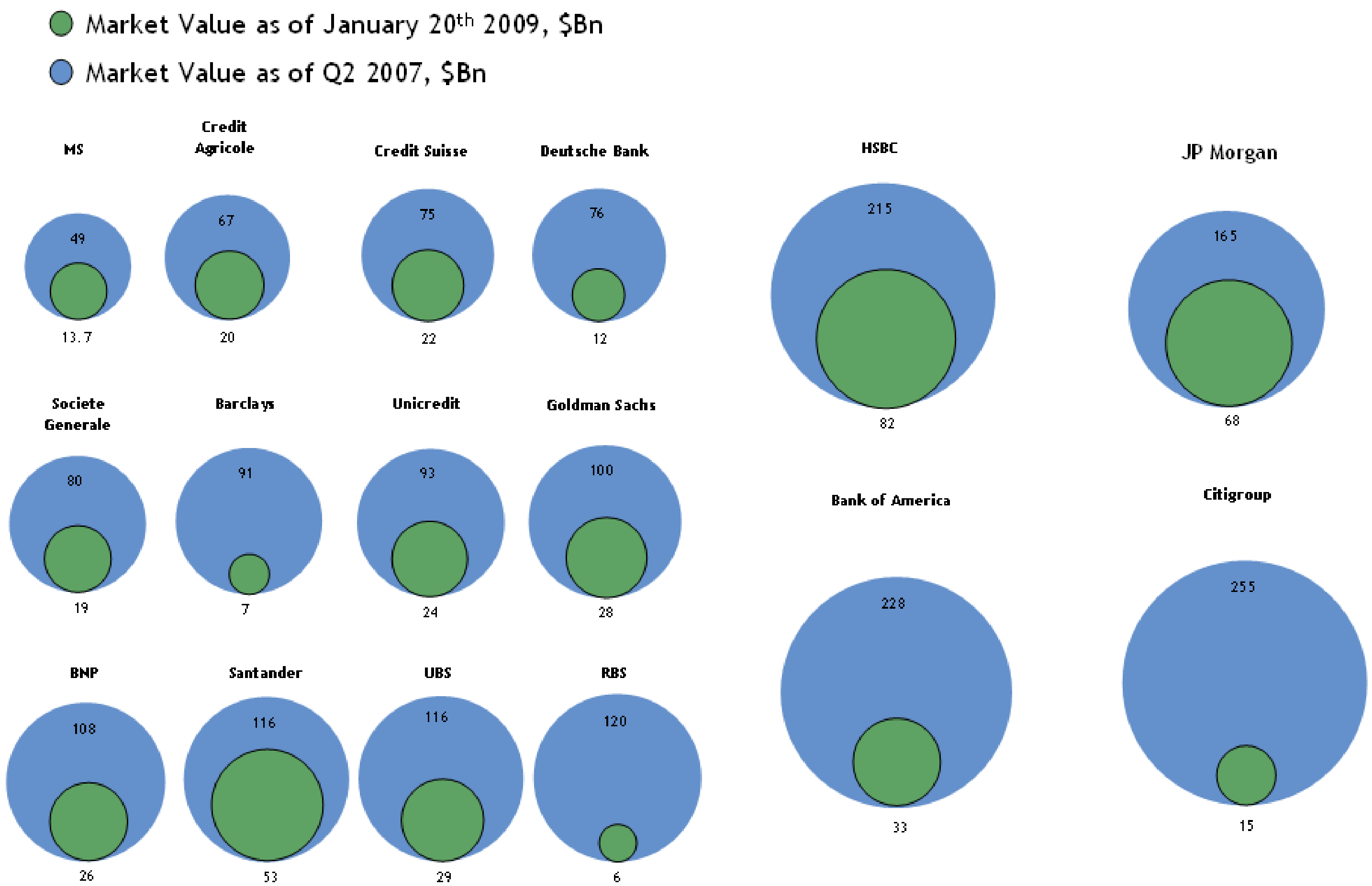


Impact of banks writedowns on market cap



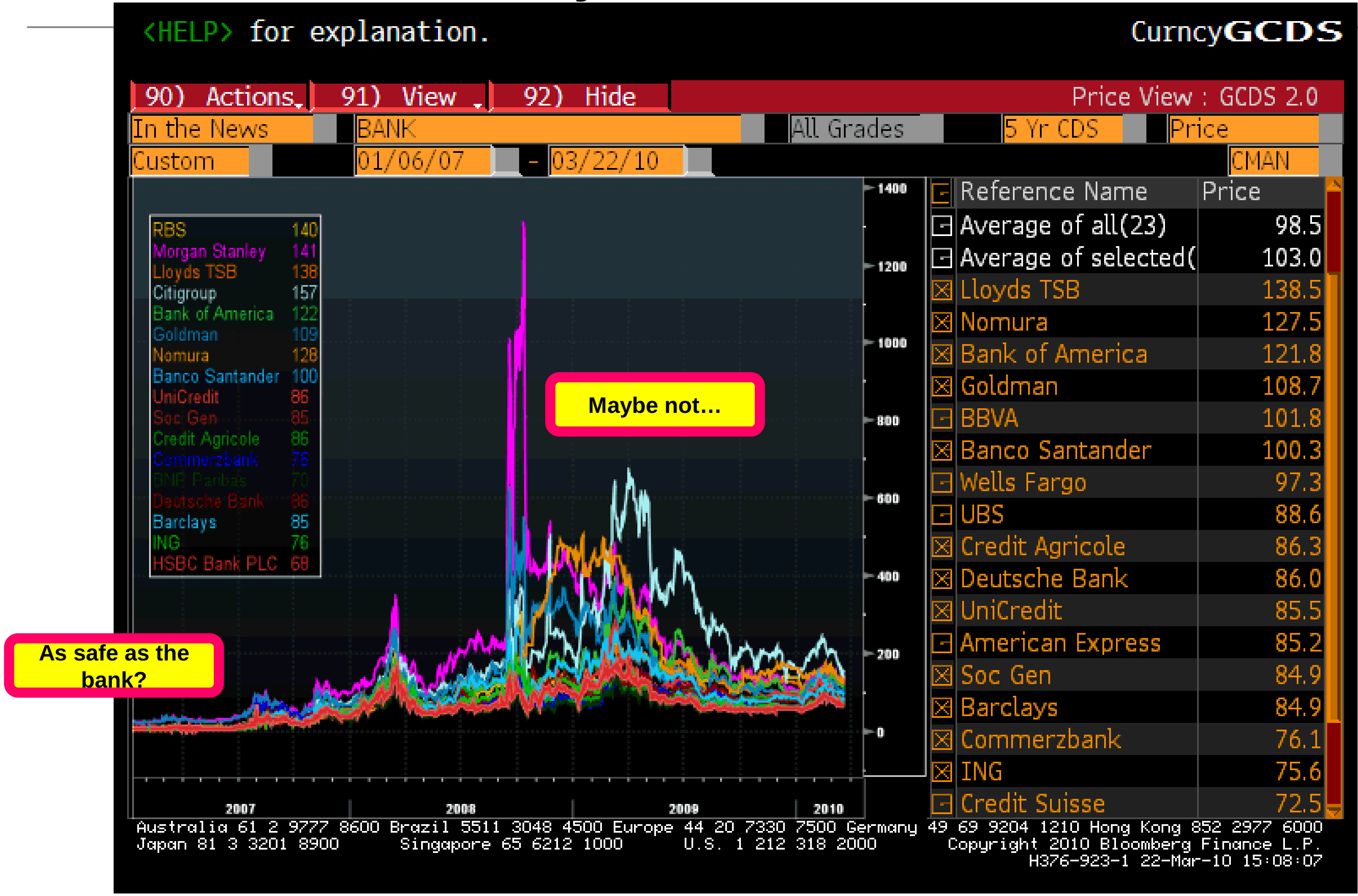
Source: Bloomberg, Jan 21th 2009

Lessons learned!

1) ASSET VALUES RESPOND TO THE SUPPLY OF MARKET LIQUIDITY
2) ASSET VALUES ARE SENSITIVE TO RISK APPETITE AND GEARING
3) BANKS ARE VULNERABLE DUE TO HIGH GEARING, LOW CASH AND MISMATCH FUNDING
4) NO MARKET CONFIDENCE NO INTERBANK MARKET
5) NO INTERBANK MARKET, NO MONEY FOR CLIENTS
6) DUE TO HIGH BANK LEVERAGE, EVERY USD1BN LOST FROM EQUITY IS USD20BN LESS LENDING
7) IN EXTREMIS, GOVERNMENTS WILL HELP OUT, BUT THERE ARE STRINGS ATTACHED, AND SHIPPING FINANCE ISN'T A PRIORITY.

Next - four factors in the shipping finance market:
Pricing, Players, Availability and Terms and Conditions

Pricing: CDS levels pre- and post- Lehman collapse – we're not out of the woods yet



What we pay drives what you pay!

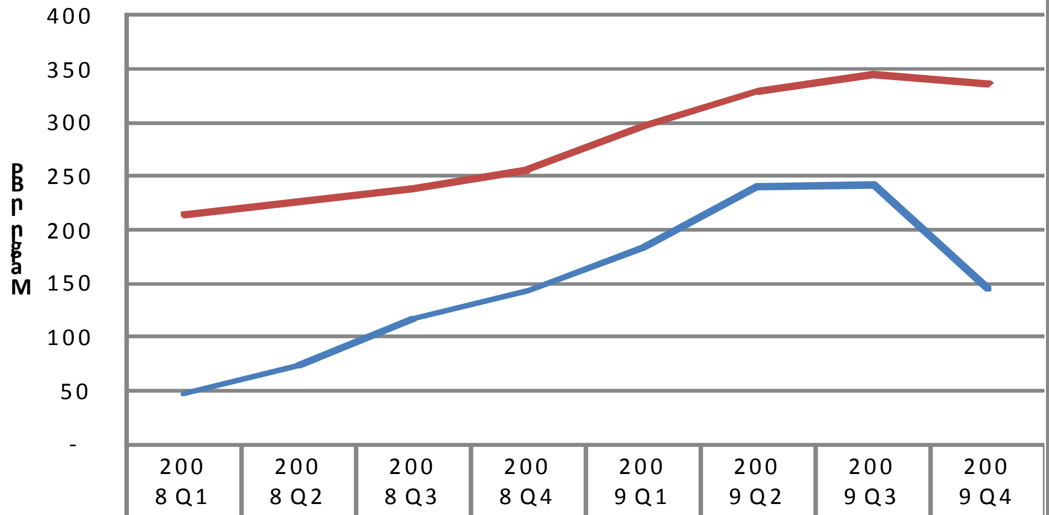
Pricing: Corporate Investment Grade and Sub Investment Grade

General Syndication market is starting to pick up, but only for top tier corporate names!

Pricing for <u>top credits</u> is coming down, caused by

- **banks' flight to quality**
- **competition from bonds**
- **scarcity of deals**

Pricing for <u>second tier and below</u> will remain high for time being



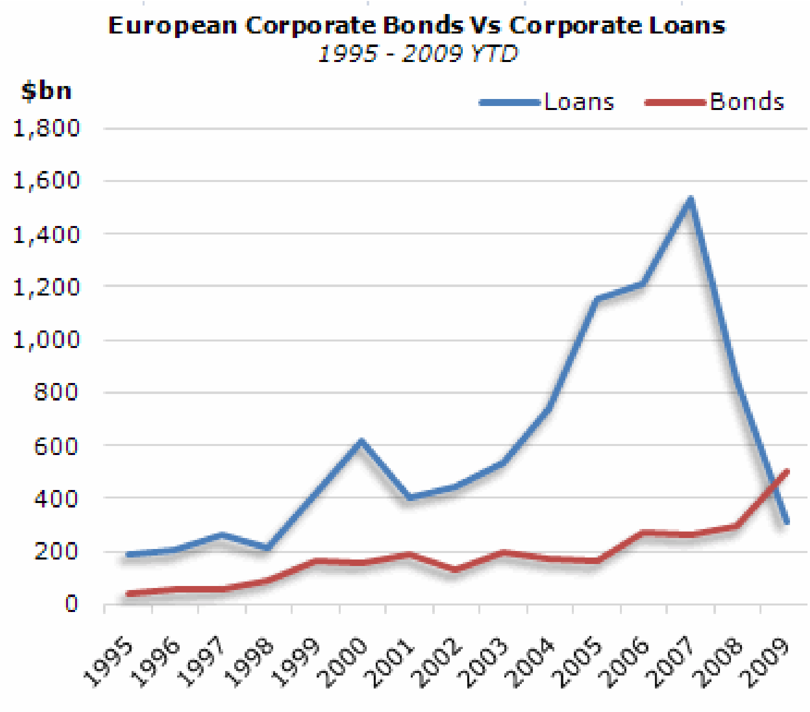
	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Average Investment Grade	47	73	116	143	183	240	242	145
Average B-BB	214	227	238	256	296	328	344	336

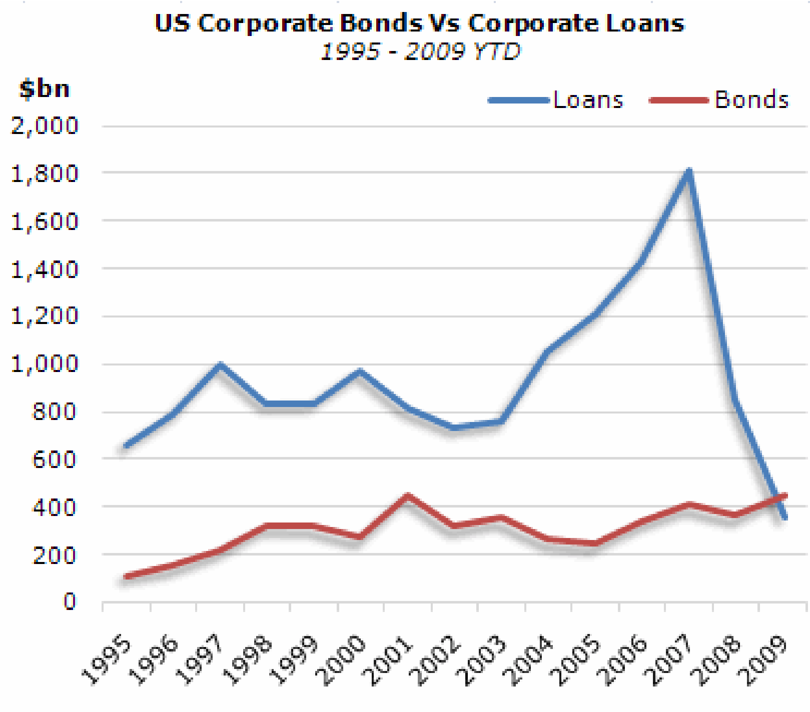
Source: Dealogic

Note: chart reflects general <u>global</u> market; not limited to shipping

Bonds compete with bank debt on corporate market

Bond issues surpass loan market for first time on record!

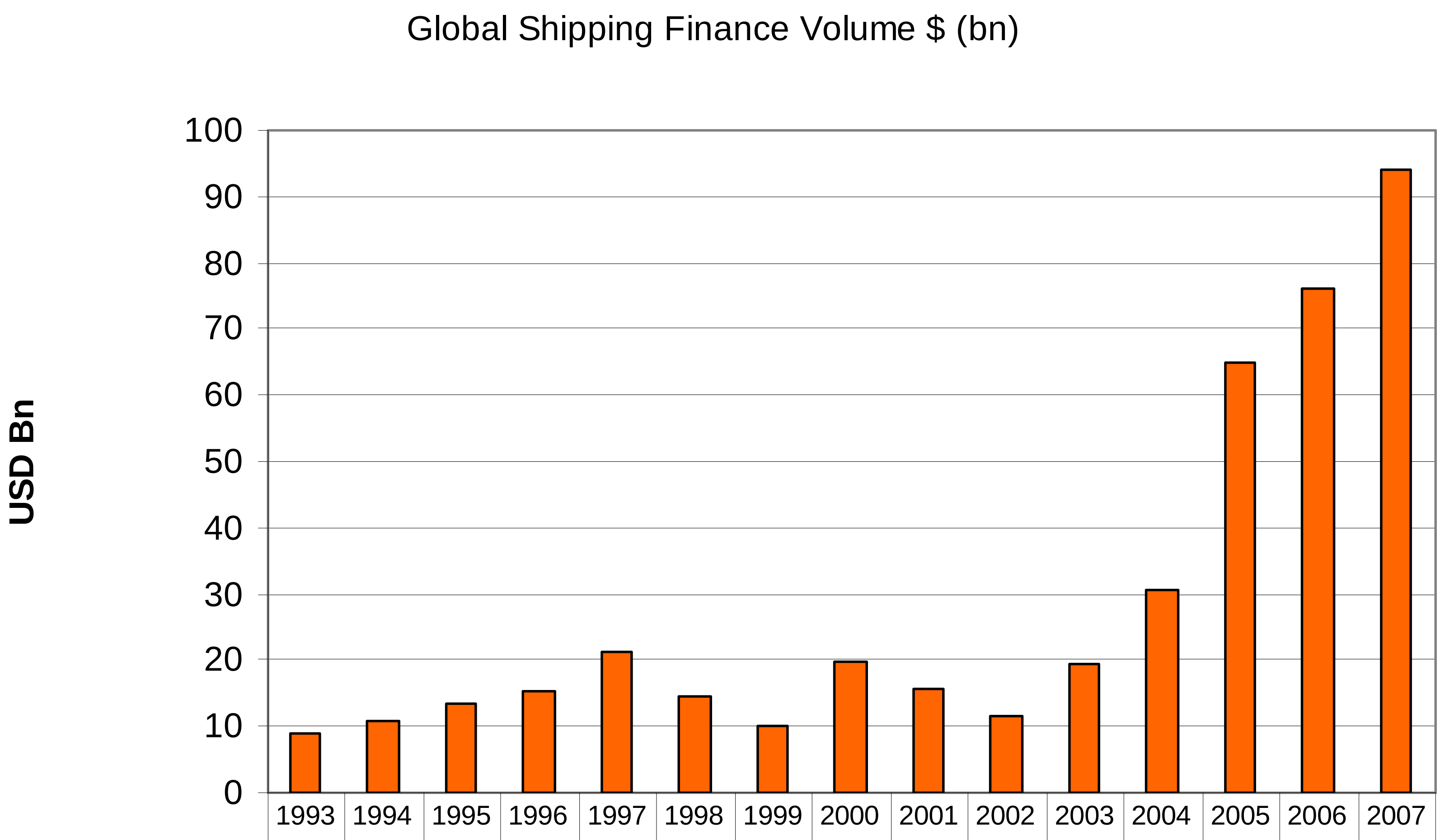




Source: Dealogic

Note: Dealogic focuses on European and US corporate bond markets but local bond markets are a good source of liquidity as well, though predominantly in local currency

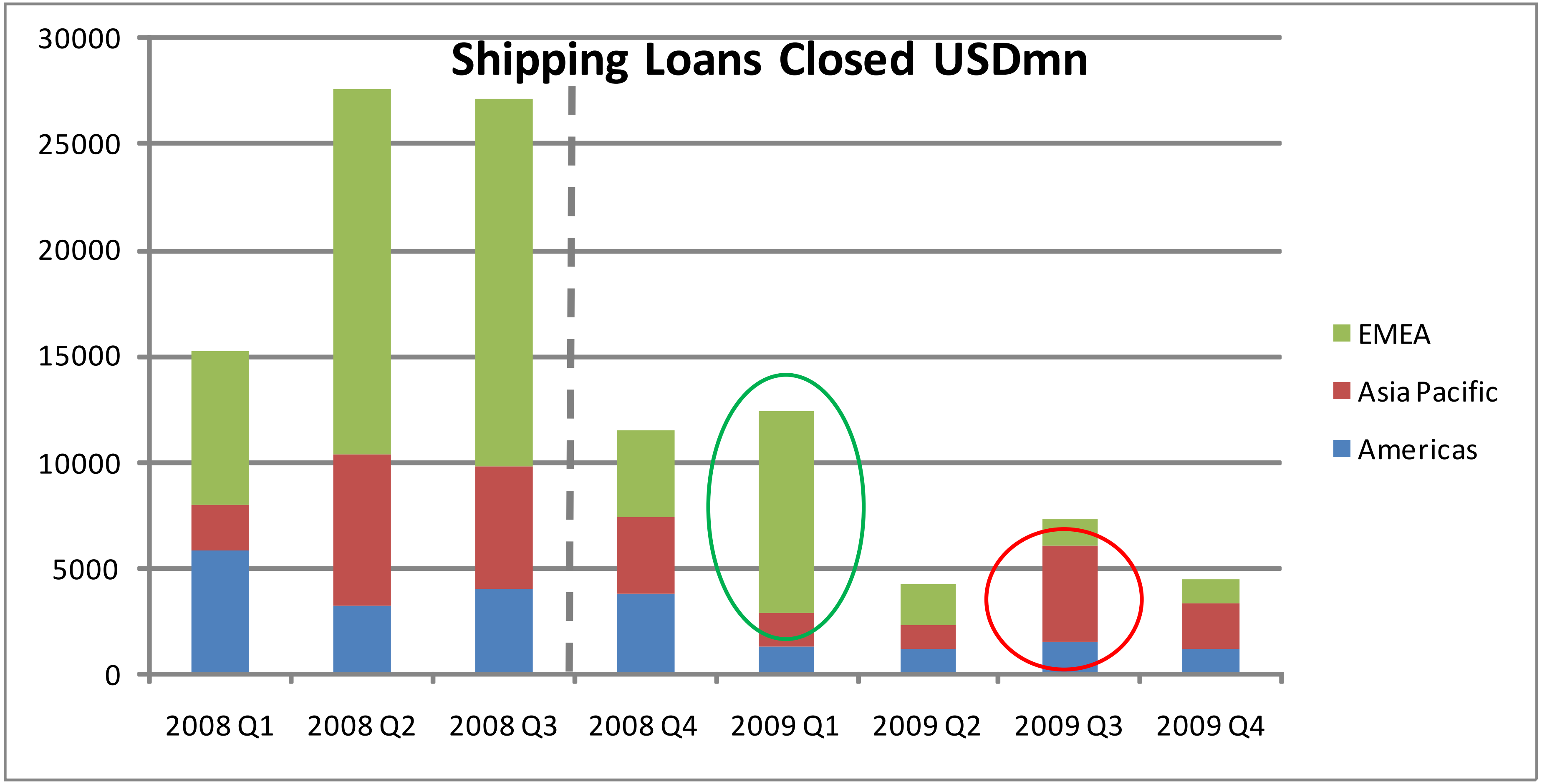
Availability: The Global Shipping Loan Market



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Volume $ (bn)	9	11	13	15	21	15	10	20	16	12	19	31	65	76	94

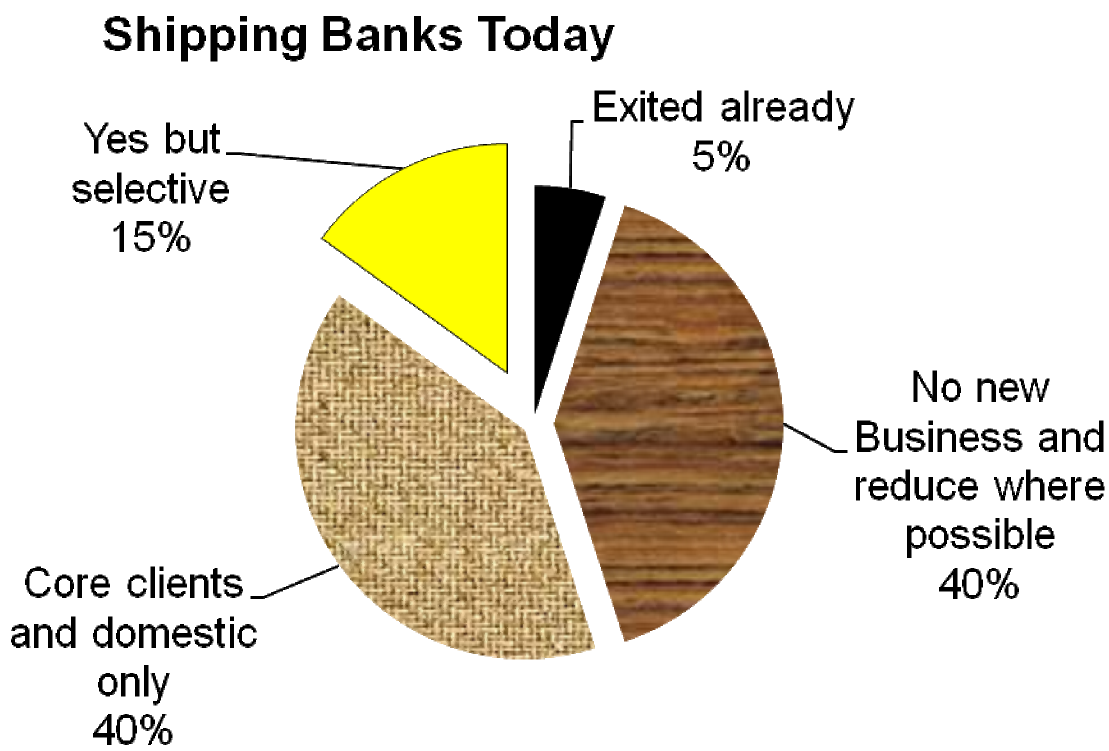
Source Dealogic

Availability: Shipping Finance Volume 2008-9



Source: Dealogic

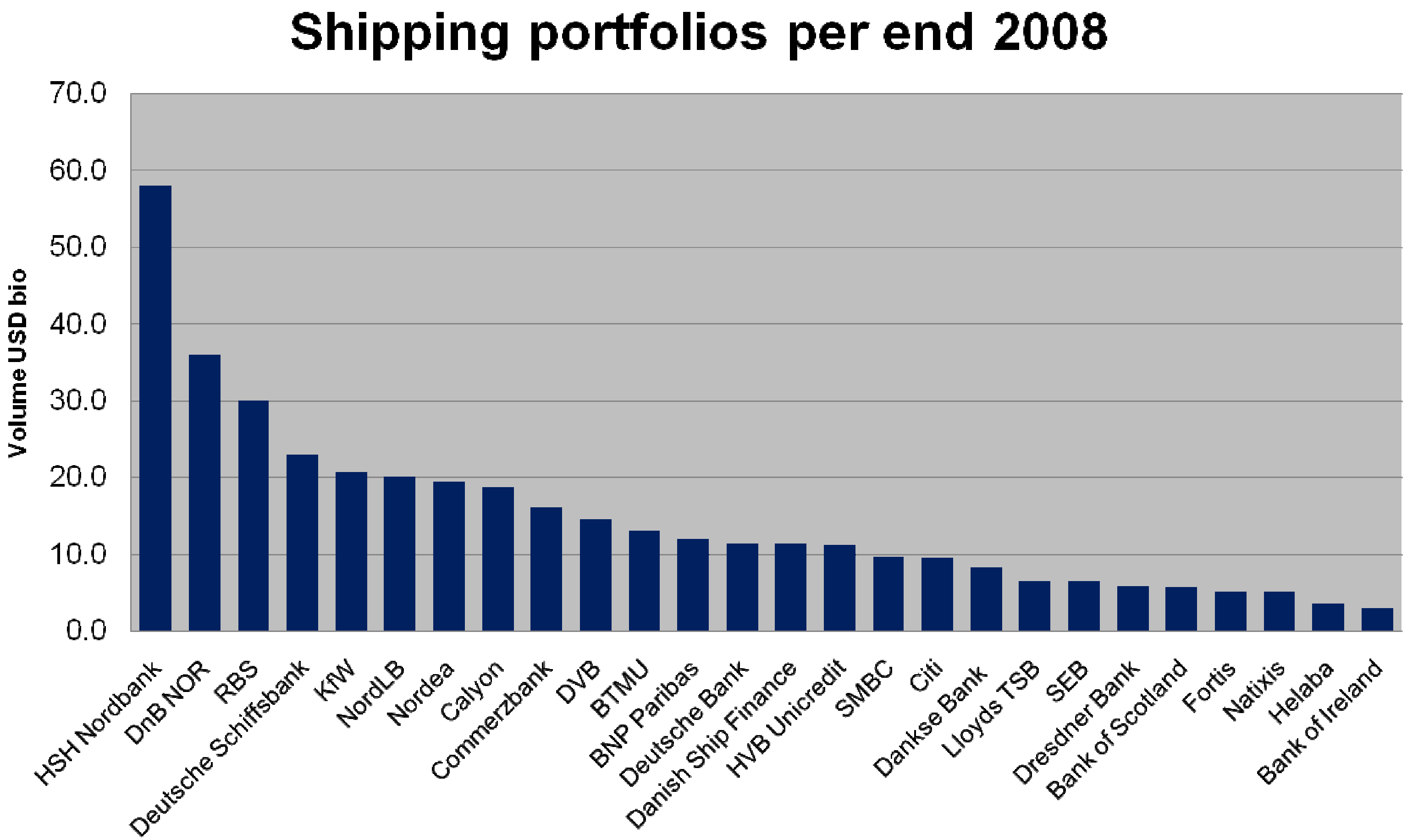
Players:



The result is a shortage of money to fund the order book.

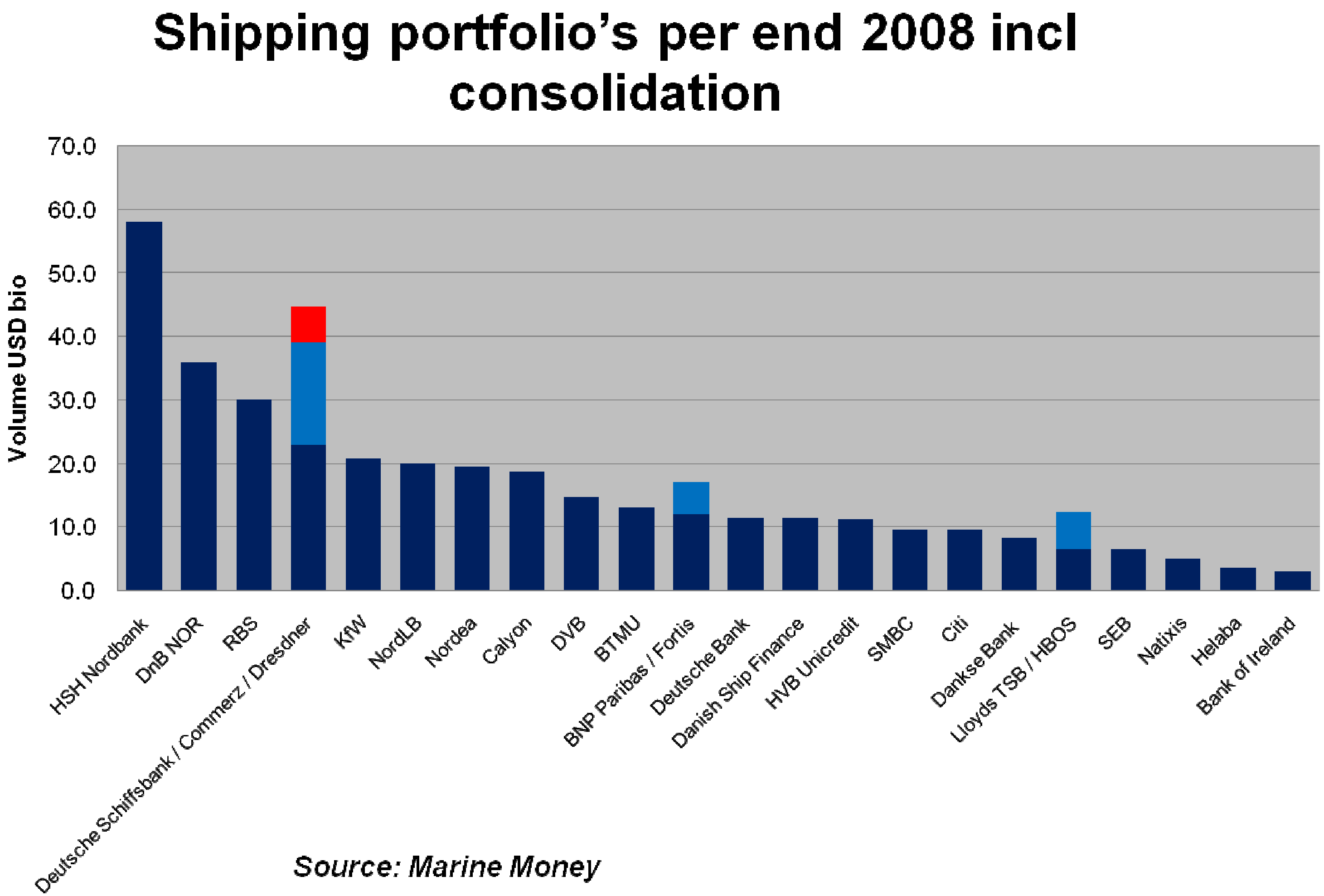
Increasing role for ECAs and other funds in ship exporting countries.

Players:



Source: Marine Money

Players: Consolidation of banks: impact for shipping



Source: Marine Money

Players: Strategic reasons for reducing shipping book

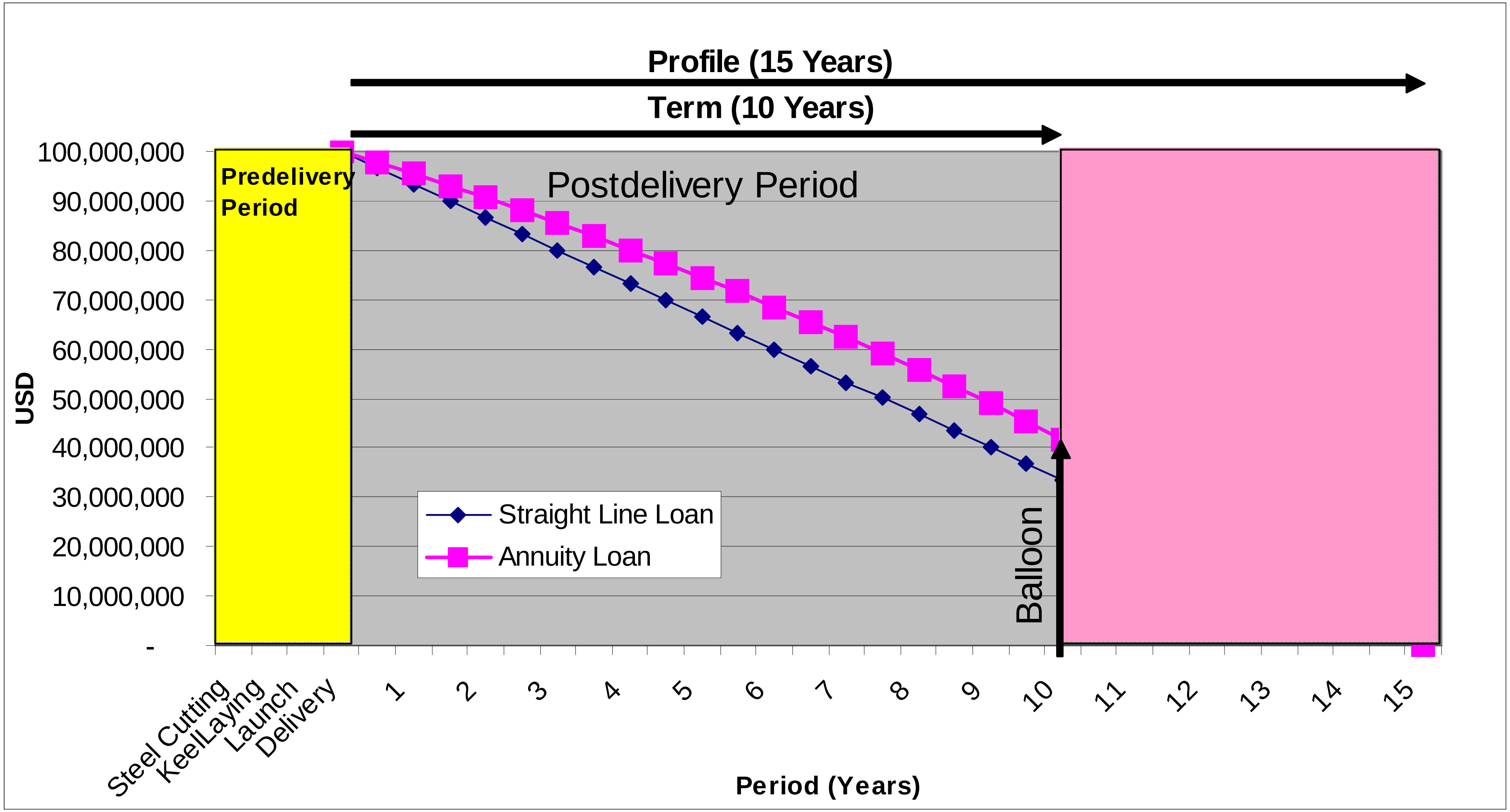
Shipping market requires an <u>increase</u> of lending, but general bank market trend is to <u>reduce</u> the shipping exposure…

- **Strategic Change - Banks that have formally exited shipping finance**
- **Internal Competition for Capital**
- **Consolidation – duplication of or excessive exposure**
- **Shipping Market – banks which have large problem portfolios in shipping**
- **Repair - Banks that are in a de-leveraging process (to repair the balance sheet after general losses)**

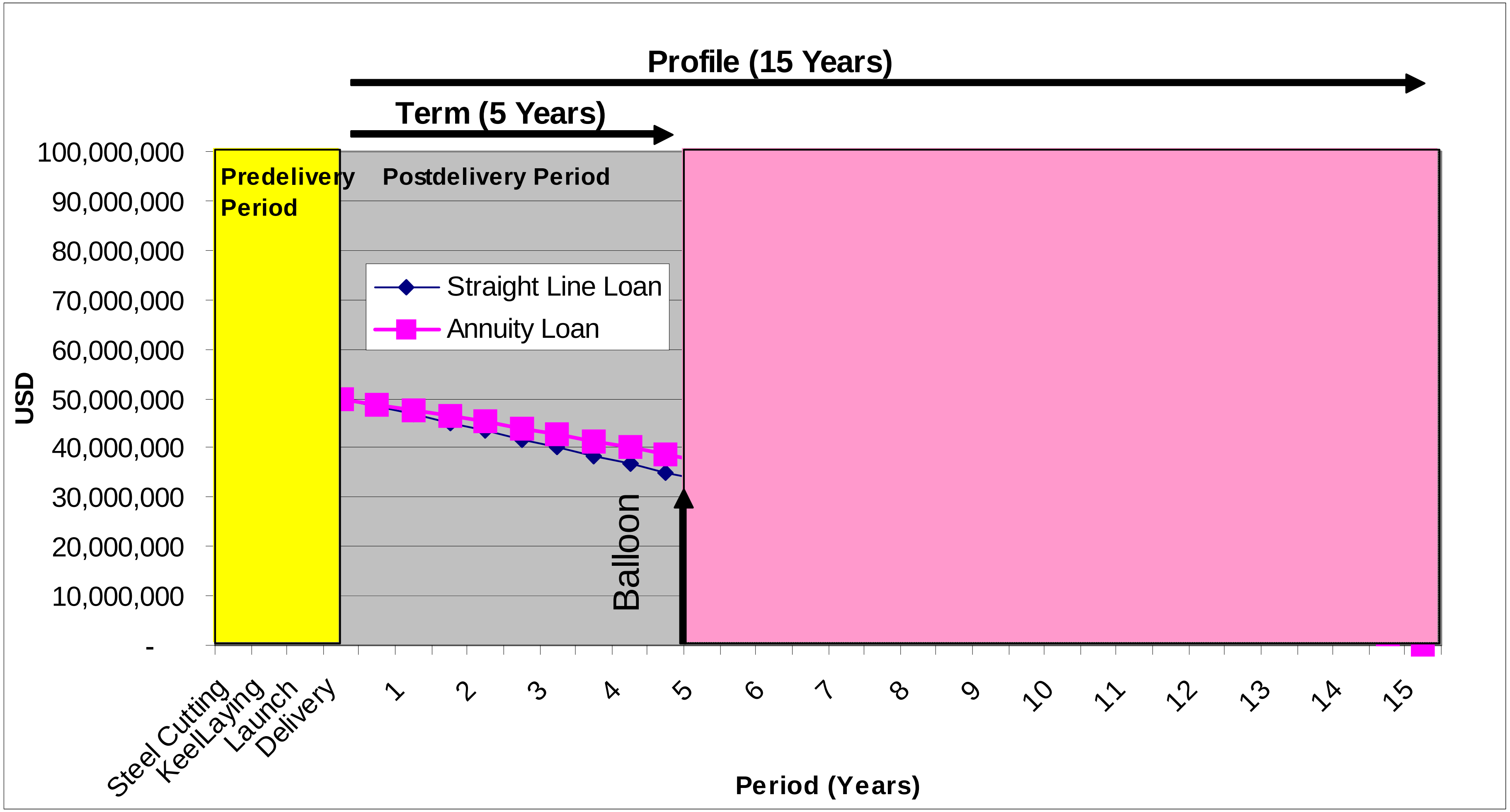
Availability of new liquidity for shipping transactions

- A number of the larger international shipping banks remain practically closed for new lending to the shipping industry
- But we do see new entrants and re-entrants; these banks are currently able to “cherry pick” and have no legacy portfolio.
- The production of these new entrants and re-entrants is however substantially lower than the annual production that a number of the larger shipping banks (that are currently inactive) used to deliver
- Local banks can fill part of this gap in certain countries (China, Japan and to some extent Korea)
- Substantial increase of market share for Asian (esp Chinese) lenders as a result of credit crunch
- In addition there is a larger role for ECA’s / Exim banks
- Last but not least for top tier credits the bond markets prove to be a good alternative

Terms: Typical Structure for Pre and Post Delivery



Terms: Typical Structure for Pre and Post Delivery – Credit Crunch – Smaller, Shorter and Later!



What senior lenders look for

- Low advance ratios: 50-70% of **current market value**, on relatively young ships.
- Low residual risk: 40-60% of historical average values, with the averages excluding the recent peak years.
- Tight value maintenance covenants, to cover both residual risk as capital requirement risk (Basel II) for the bank.
- Cashflow covered by solid employment, and/or the project to be backed by a strong and reputable shipping company with proven access to cargo, or of course, by a party that controls sustained cargo flows (e.g. in the case of dry-bulk; mines, mills, big and established commodity traders)
- Less, or no, pre-delivery risk and short tenor 5-7 years the max
- Banks are very weary of non-recourse deals and of speculative investments. We see a lot of opportunistic funds trying to structure deals, but they struggle to get senior debt finance.

Conclusions

- Liquidity is improving slowly, mainly for top names where pricing comes down; Capital remains tight and pricing remains high for non-top-tier, but money is available for well structured projects.

- Terms remain conservative with low advance ratio's and shorter tenors

- Significant shift of ship finance market share to Asian lenders, but with strong domestic agenda, in support of local shipping or shipbuilding industry.

- Some new entrants / re-entrants appear, but these volumes are relatively small and insufficient to fund the entire orderbook.

- Since "Lehman" we saw a protectionist trend, but slowly banks start to lend into other countries again (good for "ship finance import countries");

- Alternative sources such as Bonds / ECA's can be used but will not fill the gap and will also focus on top names.

- Weaker or speculative shipping credits will continue to struggle to find liquidity

- It is crucial that the bank-losses on shipping books remain limited, to ensure that these banks stay in the market to support the shipping industry.

Thank you for your attention!!

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