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Embracing new ways of thinking in funding shipping projects

Jacob Berman
(Managing Director – Standard Chartered Bank)

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Here for good

Traditional Methods of Shipping Finance

	Capital Provider	Capital Provider Need / Preference	Market Trend
1	**Equity Stakeholders** Investments from existing shareholders	• Logical decision whether to further inject "good" capital in stressed assets • Internal ability of business to generate additional free cash flow to meet future capital needs	↓↓
2	**Secured Bank Debt** Senior / subordinated debt provided by banks (bi-lateral / syndicate) using vessel as collateral	• Credit rating (Quality of financials) • Full vs Limited recourse • Floating interest rate • Short / Medium Tenor • Collateral on modern assets • Strong management team • Existing creditor relationships	↓↓
3	**Structured Leases** An arrangement where the seller of an asset leases back the same asset from the purchaser	• Asset Class • New vs Secondhand Vessel • Guarantee from related entities	↑

Emerging Alternatives in Shipping Finance

Gaining Momentum

- With post-financial crises reforms (Basel III) restricting bank lending, shipping companies are exploring alternative means of financing for new energy efficient vessels to remain competitive and fill the finance gap
- In 2008, 84% of ship finance was provided by banks, but this had fallen to 63% by 2014
- As per the Lloyd's List, 4 out of 10 top financiers to shipping belong to alternative funding organizations. Alternative financing has become more sophisticated with private analysis and number crunching

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Shipping Finance Market Trend

Emerging Alternatives

1. Export credit agencies ↑↑
2. Debt capital markets ↑↑
3. Equity capital markets (public and private placements / 144a) ↓
4. Private Equity / Institutional sponsors / Distressed investors ↑
5. Japanese Equity / Debt (JOLCO, JOL) ↑↑
6. Chinese Equity / Debt ↑↑

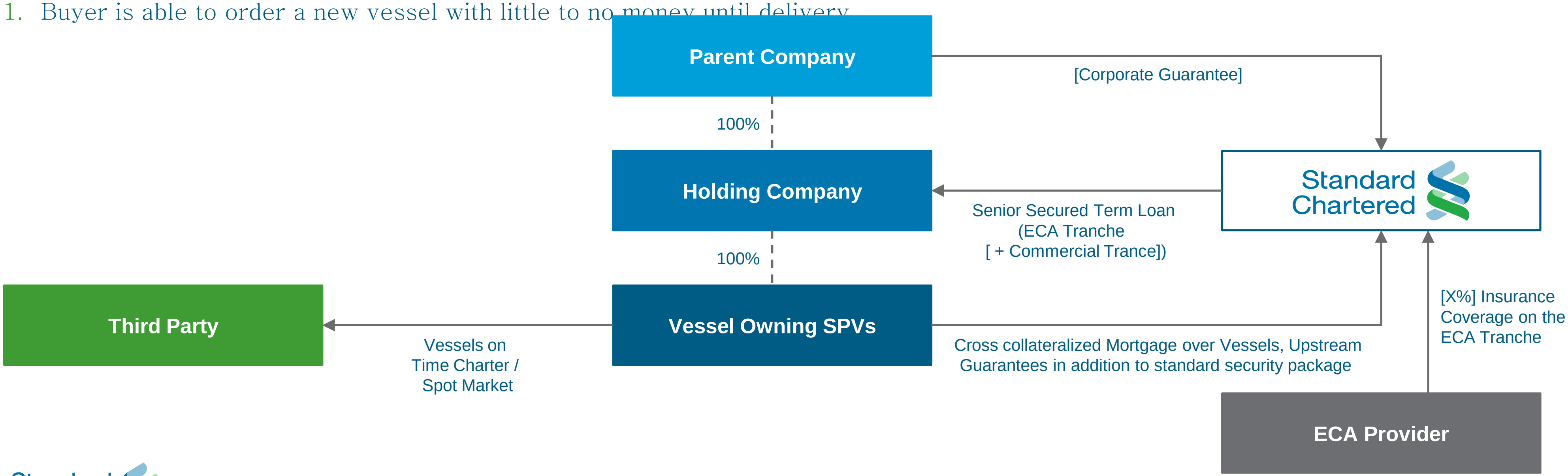
1. Export Credit Agencies ("ECA")

ECA backed facilities providing a stable source of financing

- **Capital Source:** Export Credit Agency (ECA) is capital provided by financing entities seeking to support the shipbuilding industry.
- **Trend:** ECA financing has become one of the most popular sources of alternative funding in recent years
  - Before the financial crisis, ECAs accounted for approximately 10 percent of shipping and offshore-related debt finance; now, their share has increased to more than 33 percent, amounting to USD 15 billion a year
  - The stability provided by an ECA-backed bond has sparked sufficient interest to support a bond deal at favorable pricing terms
- <u>Generally domestic new building vessels:</u>
  - ECAs are distinguished by their relationship with Government regulatory bodies. For instance, the world's largest ECA, the Export Import Bank of China (CEXIM), is governed by the Chinese Government. ECAs by and large focus on supporting their domestic shipbuilding industry

Advantage of Capital Market:

1. Buyer is able to order a new vessel with little to no money until delivery



2. Debt Capital Markets – Conventional / Islamic

Bridging the funding gap with bonds

- **Capital Source:** Investors seeking the opportunity to provide debt to the shipping space through fixed income structures
- Investors include pension funds, insurance companies, hedge funds, and other large investors
- **Key Types:** (1) Unsecured Bond, (2) ABS & EMTC, and (3) Sukuk
- **Trend:** Bond markets are an increasingly important source of liquidity for the shipping industry, as more shipping companies are issuing bonds to increase working capital and repay bank debt. Issuance of Equity and Bonds has more than doubled from USD 9.1Bn in 2008 to USD 20.9Bn in 2014. Capital market financing (Equity/Debt) accounts for 30 percent of the total financing extended to the shipping industry.
- **Key drivers to bond issuance:**
  - Minimum issuance size
  - Currencies
  - Assets class
  - Market Liquidity
  - Strong sponsor / management team
  - Support from related entities if necessary

Advantage of Capital Markets:

1. Ability to issue debt with longer maturities and fixed interest versus bank loans which typically entail a much shorter duration and are linked to floating rates

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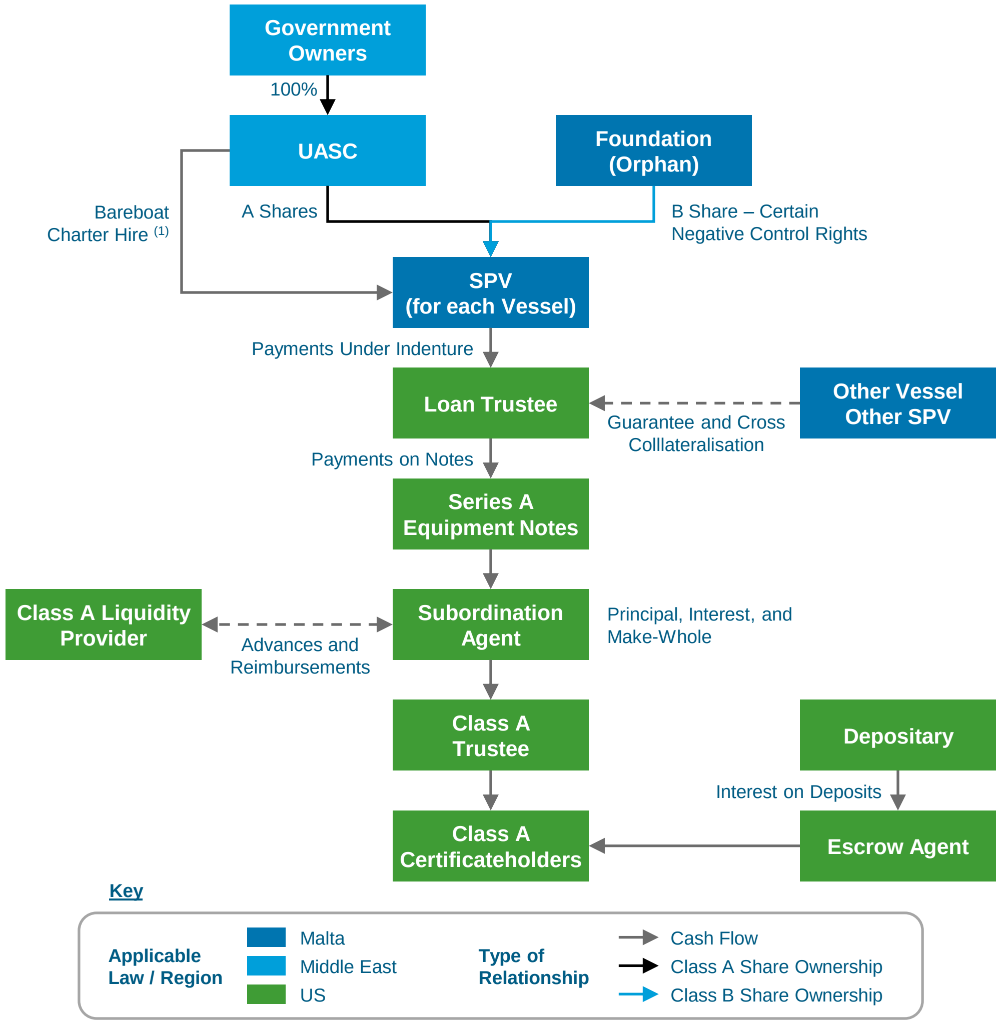
Debt Capital Markets – Enhanced Maritime Trust Certificates ("EMTC")

Structured Finance Bonds

- In 2015, United Arab Shipping Company successfully issued Enhanced Maritime Trust Certificates (EMTC). The issuance received strong interest from institutional investors in North America, Europe and the Middle East
- **Pricing Date:** 16 Apr 2015
- **Facility:** USD 162 Mio, Tenor 12.00 Years (WAL 7 Years)
- **Use of Proceeds:** The proceeds were used to finance the debt portion of two 2012-built 13,500 TEU container vessels
- **Security:**
  - First priority cross-collateralized and cross-defaulted ship mortgages
  - First priority assignment of earnings under the bareboat charters
- Security: 68%
- Rating: Investment Grade (Fitch, KBRA)



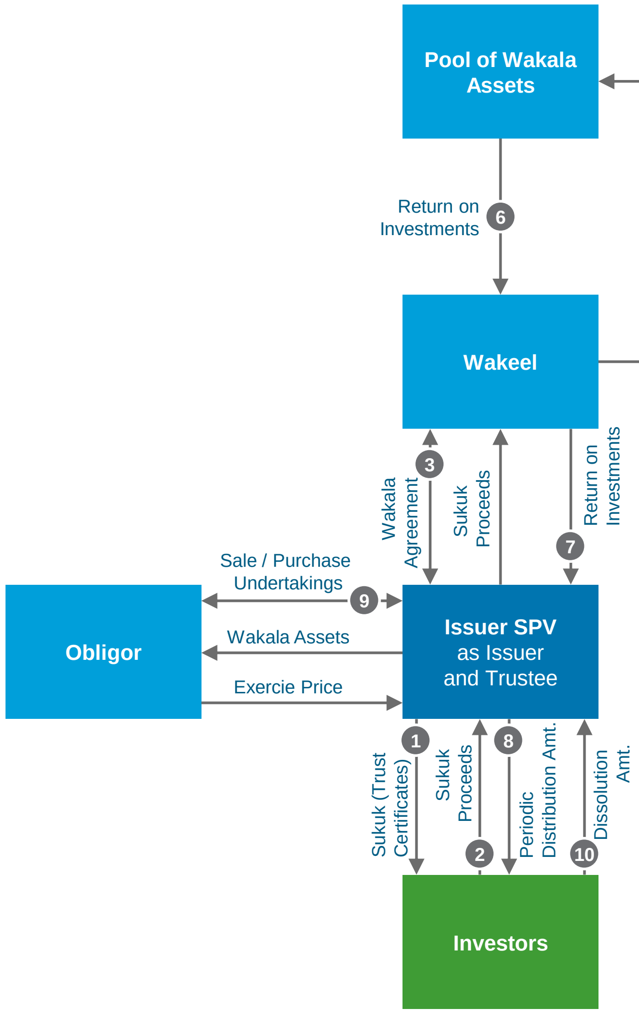
Notes:

(1) UASC leased (or chartered) Vessels from SPVs, providing its own crew, pursuant to an English law governed Bareboat Charter Agreement (a "Bareboat Charter"). Payments under the Bareboat Charter are at least sufficient to make payments under the Equipment Notes. UASC will in addition pay all taxes, insurances, and maintenance costs (a "triple net" lease)

(2) SPVs have the right, subject to conditions, to issue subordinated Series B Equipment Notes and to cause the issuance of subordinated Class B Certificates subsequent to the initial funding

Debt Capital Markets – Islamic

- In 2015, National Shipping Company of Saudi Arabia (Bahri) completed floating rate issue of a debut Islamic bond ("Sukuk Al Wakala")
- **Pricing Date:** July 18 2015
- **Facility:** SAR 3.9 Bn, Tenor 7.00 Years (Bullet maturity in July of 2022)
- **Pricing:** SIBOR rate + 80ps (Floating rate issue)
- **Purpose:** To finance the acquisition of Vela
- **Security:** Unsecured
- **Sukuk al-wakala Structure (Agency Arrangement):** A principal (the investor) appoints an agent (wakeel) to invest funds provided by the principal into a pool of investments or assets and the wakeel lends it expertise and manages those investments on behalf of the principal for a particular duration, in order to generate an agreed upon profit return. The principal and wakeel enter into a wakala agreement, which will govern the appointment, scope of services and fees payable to the wakeel, if any.



Notes: Sample structure of Sukuk al-wakala

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4. Japanese Equity / Debt (JOL & JOLCO)

- The JOL structure originated in March 1999 as a result of the Japanese Tax Authority's (NTA) change in the basis upon which investors in a Japanese Leveraged Lease (JLL) could claim depreciation on cross-border or double dip leases

Japanese Operating Lease ("JOL")

- A Japanese Operating Lease (JOL) is an operating lease funded by an equity investment from a Japanese entity and non-recourse senior debt provided on-shore in Japan.
  - 100% financing of used vessels under a sale/leaseback or from a third-party lessor (with an operating lease attached)
  - The lease terms are generally no longer than 10 years

Japanese Operating Lease with Call Option ("JOLCO")

- Used to finance new vessels and have a minimum lease term of 10 years.
- Have a call option (early buyout option or EBO), and lessees often expect to exercise the call option on the EBO date.
- Lessees look at a JOLCOs as a debt financing, i.e. it is on balance sheet financing

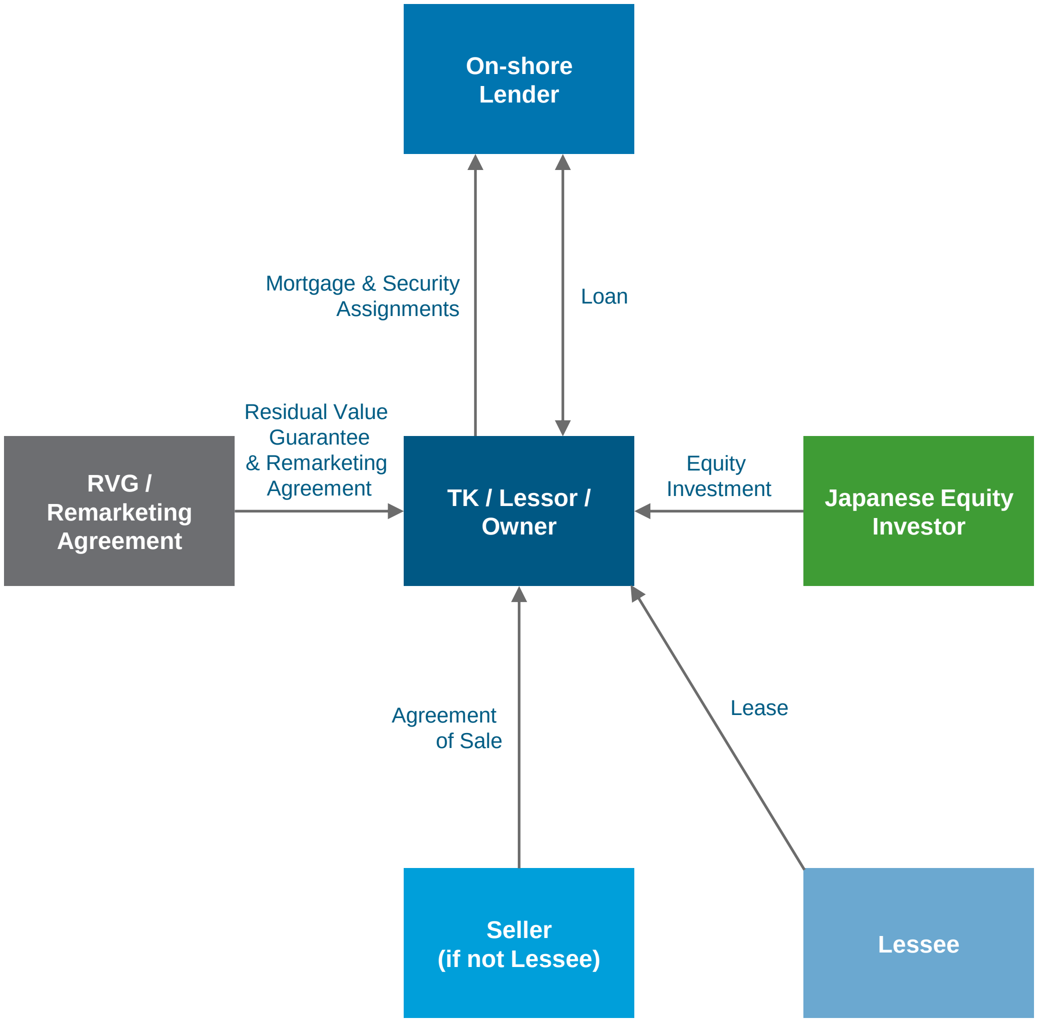
Advantage of JOL /JOLCOs

- Offers competitive lease rates and off balance sheet financing.
  - This is achievable because the owner of the vessel (i.e., the Japanese equity investor) is entitled to claim depreciation tax benefits in Japan. In order to receive the tax benefits associated with owning the vessel, the Japanese equity investor must accept residual value exposure as well as demonstrate knowledge and expertise of leasing

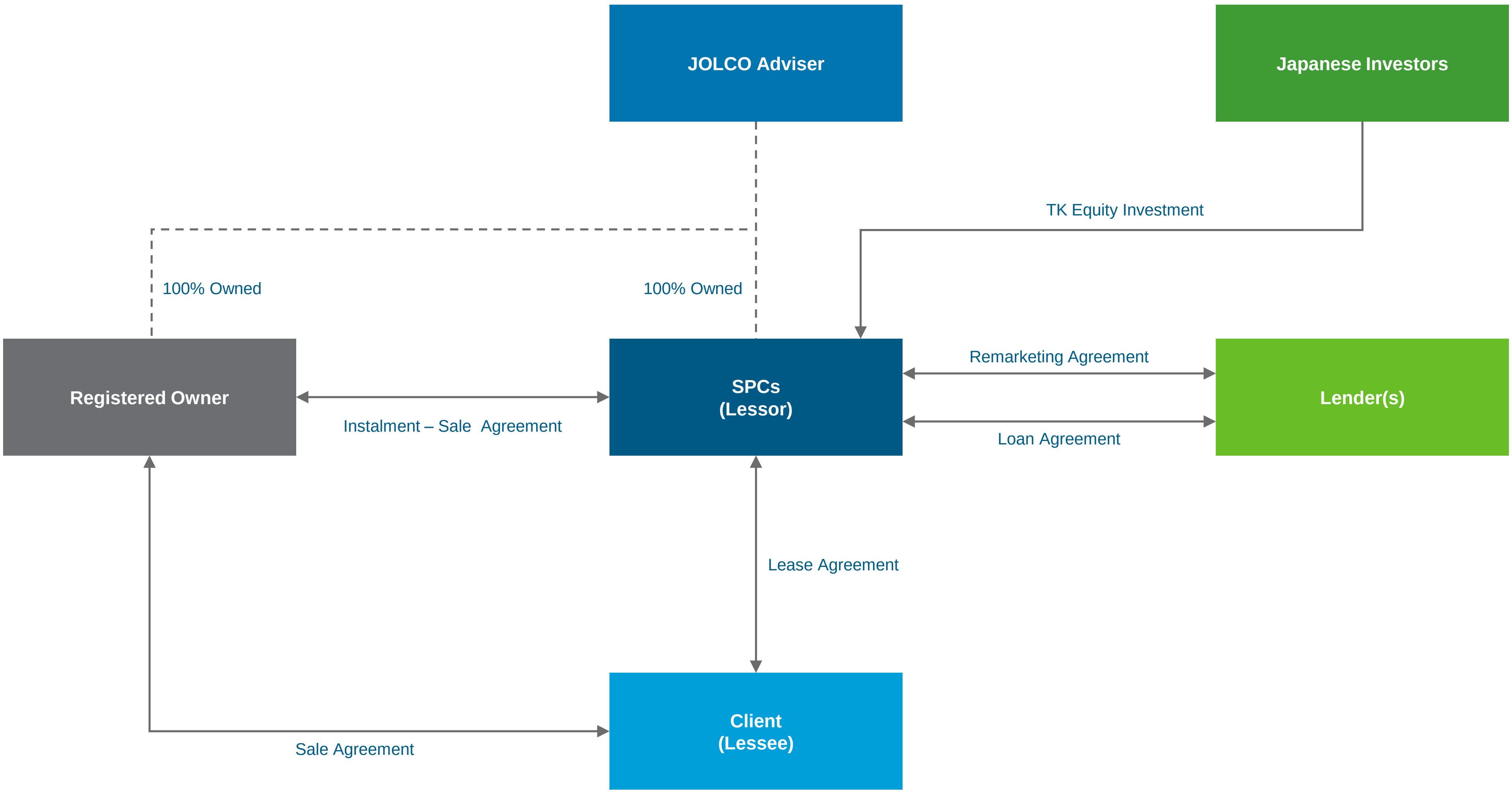
Japanese Operating Lease ("JOL")

The flow of funds and the related loan and lease agreements among the participants in a JOL are shown.

1. In a JOL, the vessel purchased by the Japanese equity investor is often a used aircraft
2. The Japanese equity investor funds approximately 20-30% of the acquisition cost of the aircraft and becomes the owner of the aircraft via a Special Purpose Entity called a TK
3. An international bank with on-shore lending capabilities provides the balance of the aircraft purchase price (approximately 70-80%) via a senior secured mortgage loan
4. The senior loan is structured such that the loan will amortize to a balloon payment due at maturity
5. The Lessee pays rent to the SPC which is sufficient to pay the monthly loan payment including a minimal dividend return to the Japanese equity
6. To insure the residual value of the aircraft at the lease maturity, the owner of the aircraft often enters into an agreement with a Remarketing Agent during the lease negotiations to insure the sale or release of the aircraft and may also obtain a Residual Value Guaranty



Japanese Operating Lease with Call Option (“JOLCO”)



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SCB Capabilities

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Extensive Shipping Finance & Lease Product Offerings

- The Standard Chartered Shipping Finance team was established 2007 – 27 bankers based in key global centres.
- In depth product knowledge and exceptional execution pedigree – team includes qualified ship officer, legal, tax, structuring and Islamic financing capabilities.
- Established track record of delivering client-centric shipping sector solutions across the bank's footprint

1 Range of Services

- Senior debt and junior debt
- Assets & receivables backed financing (loans & bonds)
- Pre-delivery payment structures
- Export Credit Agency backed structures
- Advisory (procurement and new build programmes, M&A)
- Off-balance sheet solutions
- Islamic solutions
- Local currency solutions
- Operating / Finance lease structures
- Hedging / Financial Markets
- Cash Management and Transaction Banking

2 Vessel Coverage

- Bulkers
- Tankers
- Containerships
- Gas carriers
- Offshore vessels (E&P and marine services)

Selected Awards

Marine Money International	Shipping Finance Debt Deal of the Year 2015	BW Pacific Limited
Seatrade Maritime Awards Middle East, Indian Subcontinent & Africa	Deal of the Year 2015	Topaz Energy Marine Limited
Marine Money International	Shipping Private Equity Deal of the Year – East 2015	Greathorse Chemical
The Asset Asian Awards Triple A	Best Transportation Finance House 2014	Standard Chartered Bank
Lloyd's List Awards Global | 2014	Deal of the Year 2014	SapuraKencana / Seadrill
Global Transport Finance	Shipping Equity Deal of the Year 2014	Greathorse Chemical
Global Transport Finance	Shipping Innovator of the Year 2014	Standard Chartered Bank
Global Transport Finance	Debt Deal of the Year (North America) 2014	Pacific Drilling
Global Transport Finance	Shipping Leasing Innovator of the Year 2013	Standard Chartered Bank

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