



Trends and challenges for ship finance

OECD Workshop on The Future of Shipbuilding, 29 November 2012
Bjørn P. Flaate, ABN AMRO Bank, Oslo, Norway

ABN AMRO has a long track-record in the Maritime Industry



Our Ambition: To be the leading bank in the Maritime & Logistics sector

The ABN AMRO Maritime Cluster

- ABN AMRO, through its predecessors has been active in the Maritime & Logistics industry since 1720
- Over the years we have remained committed to the various segments and have built up long-standing track-record and relationships in the market
- World-wide over 100 professionals at your service with in-depth market knowledge of the respective markets
- Strong foothold in The Netherlands with international franchise in Offshore & Shipping & Commodities

The Maritime Cluster meets our client's expectations by adopting the external Dutch maritime cluster philosophy to our organization

Energy, Commodities & Transportation: Business Model

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
- 275 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

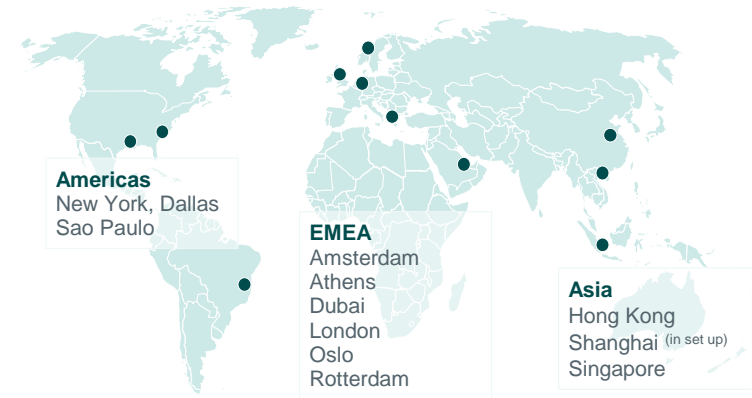
Principal Finance



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

Rankings

- **Top 3** global position in Floating Production Storage and Offloading systems
- **Top 3** position worldwide as commodity bank
- **Top 5** position in shipping syndicated loan markets



Factors influencing shipping finance today

Market Situation in Conventional Shipping Markets

Economic outlook in the Eurozone

Capacity and interest from banks

Bond Loans

Export Credit Agencies (ECAs)

Market Situation in Conventional Shipping Markets

“The imbalance in demand/supply is bound to continue for the next two years at least, leading to even lower earnings and asset values,” DVB said.

Tradewinds, 19 November 2012

Shipping debt-to-equity ratios still soaring

Lloyds List, 19 November 2012

“We see further payments on MVCs (Minimum Value Clauses) as likely given that we do expect asset values to drop further,” said Erik Nikolai Stavseth of Arctic Securities.

Tradewinds, 22 November 2012

“The tanker market has been down for the best part of four-and-a-half years but in the last eight months in particular we have seen spot rates that have barely allowed us to cover our operating costs,” he said.

Morten Arntzen, CEO Overseas Shipholding Group CEO

Financial Times, 14 November 2012

Economic outlook in the Eurozone

GDP growth (%)	2010	2011	2012e	2013e
United States	2.4	1.8	2.2	2.0
Eurozone	1.9	1.5	-0.5	0.2
Japan	4.6	-0.7	2.2	1.4
United Kingdom	1.8	0.9	-0.3	1.3
China	10.5	9.3	7.5	8.0
World	5.3	3.8	3.0	3.4

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

Capacity and interest from banks: Banks' Exits: 3 Waves

First wave 2008 / 2009:

- Government Bailouts
- Forced Mergers

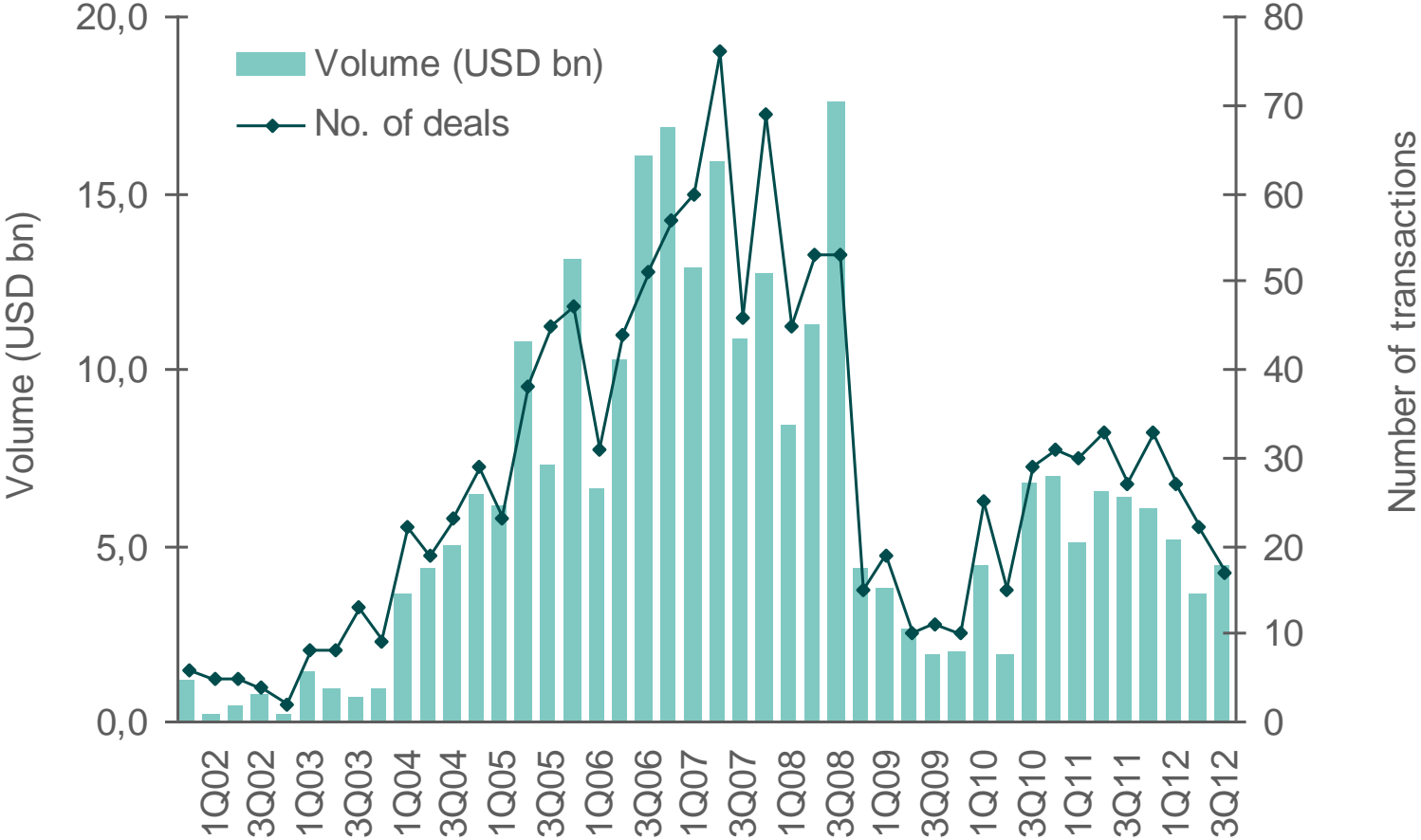
Second wave 2010 / 2011

- Dollar funding

Third wave 2012 - ...

- Credit portfolio related issues
- Basel 3 and other regulatory pressures

Fewer syndicated shipping loans



Source: Dealogic

One the bright side, lower interest rates

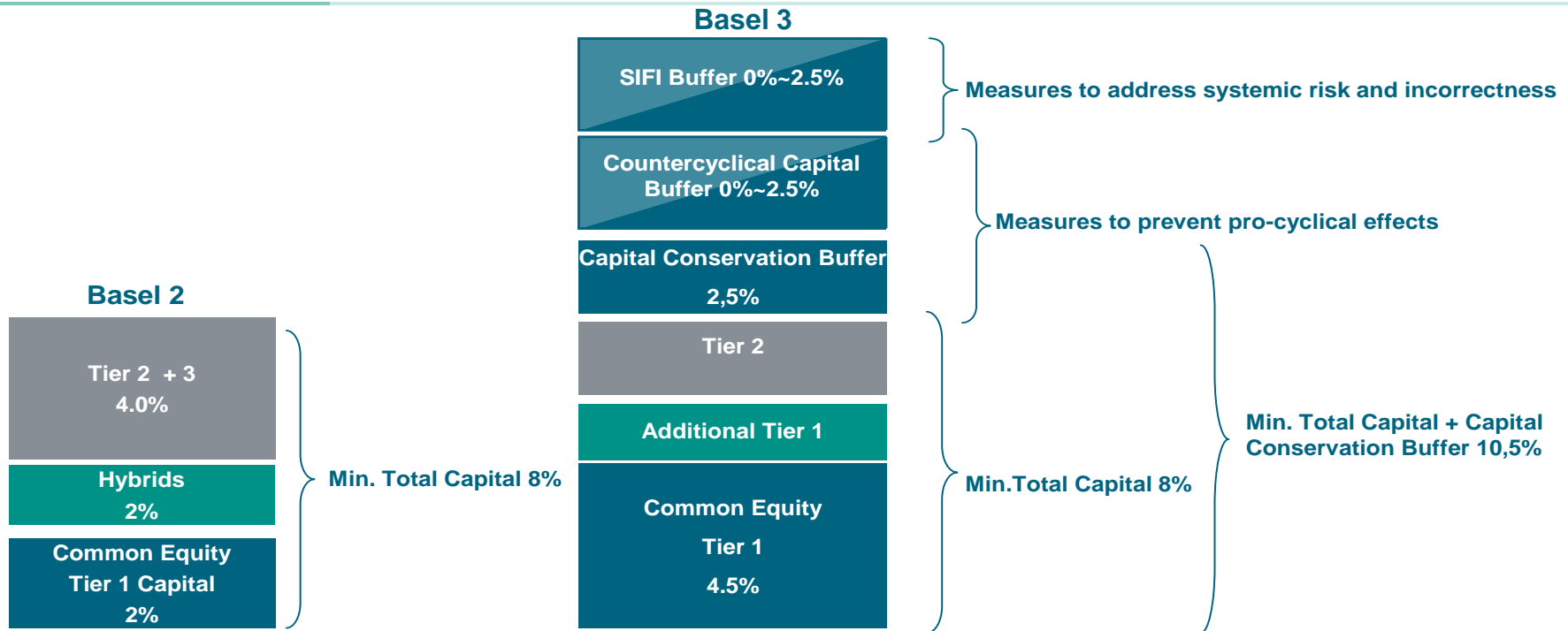
3 month USD LIBOR



Main features of “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

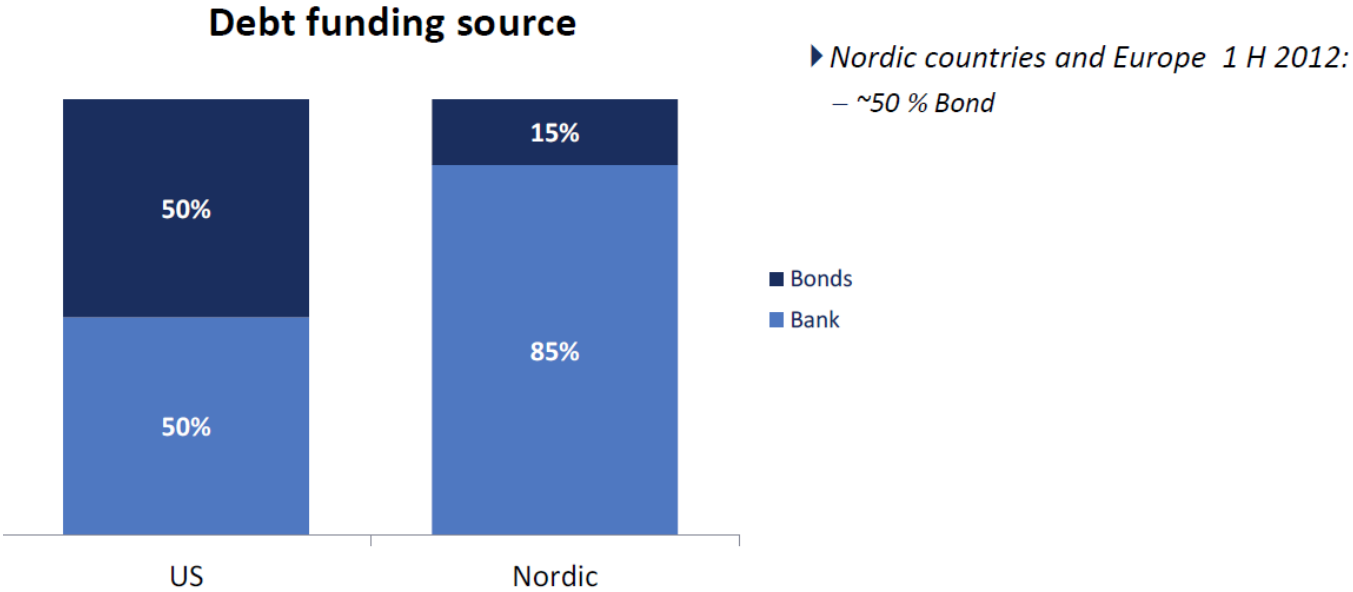
The capital requirement for Basel III raises the quality and amount of regulatory capital



- Common Equity = Common shares (or equivalent for other legal forms) + retained earnings + other comprehensive income.
- Certain components are excluded from Basel 3 capital definitions amongst others:
 - Goodwill and intangible assets
 - Deferred Tax Assets
 - Defined benefit pension fund assets
 - Innovative hybrids with incentive to redeem (step-ups) do not qualify any longer as capital
- Capital Conservation Buffer will need to be in the form of "Common Equity"
- Under Basel III Tier 3 capital will be abolished

Bond Loans - replacing bank loans

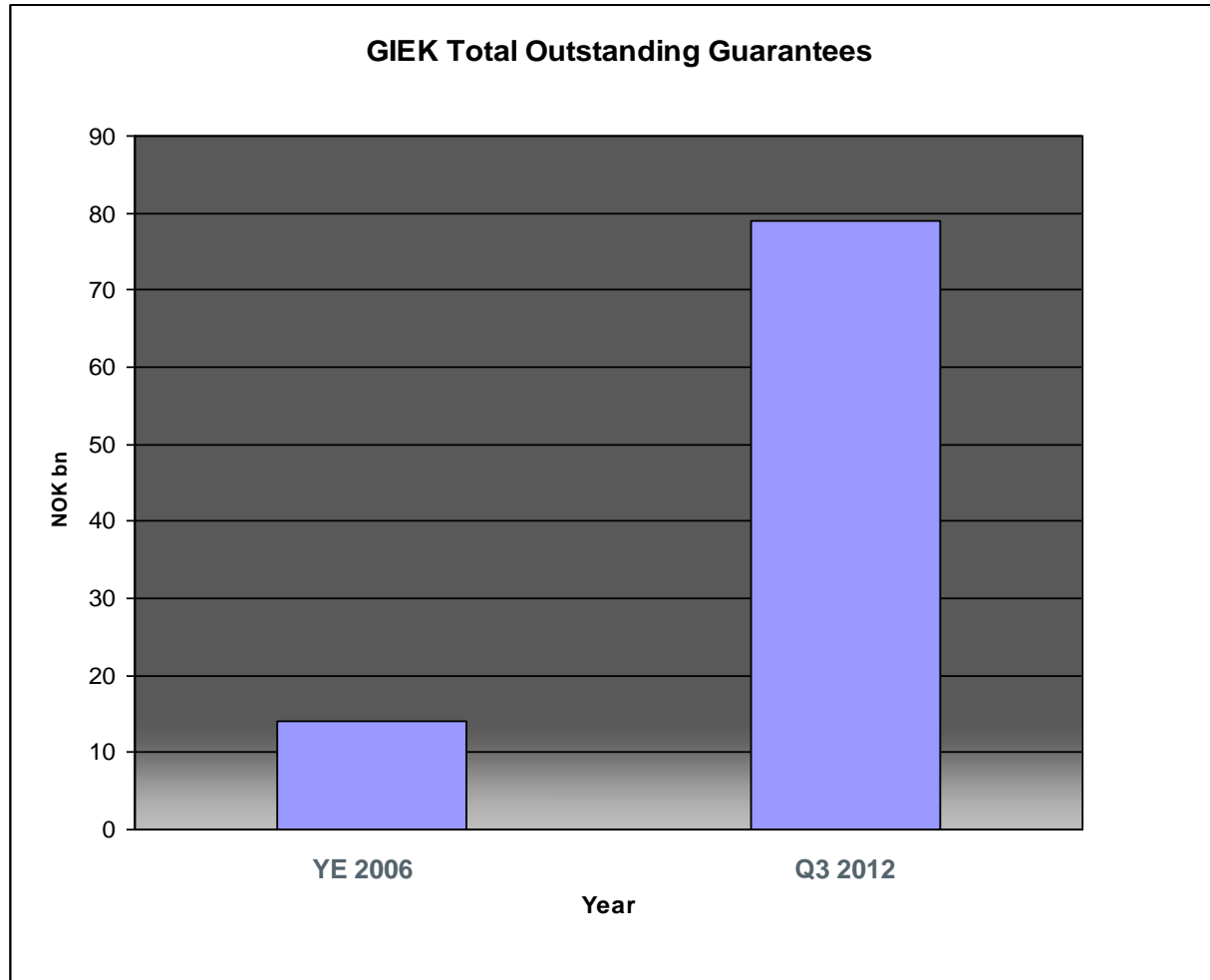
The Bond market will continue to develop



2011 Numbers. Source: S & P, Dealogic and Pareto

Source; Pareto Securities

Export Credit Agencies (ECAs) much more important



Source: GIEK (Garanti-instituttet for Eksportkreditt)

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THANK YOU