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1. Standard Chartered Bank in China

- Standard Chartered Bank is the oldest foreign bank in China. We opened our first branch in Shanghai in 1858, and are one of the first foreign banks to be locally incorporated in China.

- We have one of the largest foreign bank networks in China, with around 7,000 employees, spanning 29 cities with 27 branches, 78 sub-branches and 1 village bank, 106 outlets in total. We have strategic partnership with China Bohai Bank (19.9% shareholding) and the Agricultural Bank of China (~5% shareholding).

- Standard Chartered Bank is dedicated to building a sustainable business with consistent client-focus strategy. Corporate & Institutional Banking segment provides a wide range of innovative solutions to help corporate and institutional clients facilitate commerce and finance across some most dynamic markets in today’s global economy.

- Our full suite of comprehensive capabilities across Transaction Banking, Financial markets and Corporate Finance fundamentally allow us to deliver tailor-made well-rounded solutions, in particularly, to support Chinese firms going global and multi-national corporate expanding in China.
2. SCB Shipping Finance

Specialised Global Team

- Clear focus on servicing our existing client franchise within the Standard Chartered Bank footprint of Asia, Africa and the Middle East.
- Strong commitment to support existing client relationships throughout shipping cycles.
- Extensive product offering, including both debt and leasing products.
- Leveraging our excellent knowledge of regional trade and commodity flows, for e.g., India–SEA–China, Australia–North Asia, SEA–Middle East, China–Africa, etc.
- Utilising Standard Chartered Bank’s cross-border access to regional and local pools of liquidity to support our clients’ ship financing needs for both newbuild and second hand vessels.
- Part of Standard Chartered Bank’s Corporate & Institutional Banking Business.

Supported by a pool of 33 Shipping Finance Bankers based in Singapore, Hong Kong, Beijing, Tokyo, New York, and London.
### Debt & Operating Lease Structures

#### Debt

| Refinancing of vessel | • Finance of existing tonnage  
| | • Retention of ownership and residual value  
| | • Release of cash and structured repayment profile |
| Newbuild financing | • Finance of new-build on clients’ order book or new contract.  
| | • Construction period loan converting to term facility on delivery.  
| | • Client retains supervisory and management role during construction  
| | • Standard Chartered Saadiq offers financing that are Shariah compliant products  
| | • In accordance with the rules known as ‘Fiqh al-Muamalat’ (Islamic rules of transaction) |
| Islamic Financing |  |

#### Operating Lease

| Sale and leaseback | • Sale and leaseback of vessels to clients  
| | • Allowing for long term use without ownership and residual risks  
| | • Release of cash / equity for clients |
| Third party purchase and lease | • Acquiring asset from 3rd Party and lease onward to clients on long term  
| | • Provides flexibility for clients in event when capacity required in short term  
| | • Limited / zero upfront investment |
| Newbuild financing | • Financing new-builds on clients’ order-book or new contract, providing pre-delivery loans and converting into a sale and leaseback at delivery  
| | • Provides alternate financing solution for clients’ new-builds |

#### Debt Terms

- Credit Facility  
- Loan period 3-10yrs, balloon payments, structured amortisation profiles  
- Age of vessel to be less than 10yrs at inception of credit facility and vessel to be less than 18yrs upon maturity of facility  
- Fixed/floating rate (bilateral or syndicated)  
- Repayment and prepayment options, extension options

#### Lease Terms

- Bareboat Charter  
- Lease Tenors of 7 – 12 years  
- Age of vessels to be less than 10 years old at inception of lease. Age of vessels to be less than 18 years old at the expiry of lease  
- Fixed rate lease payments preferred
# 3. Sources of Ship Finance

| **Debt** | • The most popular  
• Global business  
• Cover all vessel types |
|-----------|--------------------------------------------------|
| **Operating Lease** | • Smaller business  
• Residual Value appetite  
• May not cover all vessel types |
| **Finance Lease** | • Typically Chinese Bank lead  
• All vessel types  
• No Residual risk |
| **ECA** | • South Korea, China, Japan, European (GIEK, ATRADIUS, COFACE, HERMES) |
3. Sources of Ship Finance

2014 Shipping Portfolio League Table

<table>
<thead>
<tr>
<th>Bank/Agency</th>
<th>Portfolio Size $Bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>DNB</td>
<td>29.0</td>
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<tr>
<td>HSH Nordbank*</td>
<td>25.5</td>
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<tr>
<td>Nordea</td>
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<tr>
<td>KEBN</td>
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<td>Bank of China</td>
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<td>SMBC</td>
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<td>BNP Paribas</td>
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<td>NORD/LB</td>
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<tr>
<td>RBS</td>
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<td>DekaBank</td>
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<tr>
<td>Bank of Ireland</td>
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</tbody>
</table>

* HSH total comprises Core Bank ($17 Bn) and RU ($8.5 bn)
**ICBC portfolio does not include ICBC Leasing’s totals.

Source: Marine Money

Pre delivery

Bank

Pre delivery loan

Corporate Guarantee – Pre delivery and Post delivery

Borrower/Vessel Owner

Pre delivery instalments

Shipyard

Security package:
- Assignment of Shipbuilding Contract
- Assignment of Refund Guarantee (from Refund Guarantor acceptable to Lender)
- Corporate Guarantee

Post delivery

Bank

Post delivery loan

Charter contract

Borrower/Vessel Owner

Refund Guarantor

Security package:
- Mortgage over Vessel
- Assignment of Charter Contract
- Assignment of vessel earnings, insurances and requisition compensation
- Charge over bank account
- Pledge of shares of Borrower
- Corporate Guarantee
- Ship Manager’s undertaking

Note: In some cases, Corporate Guarantee is replaced by Standby Charter

- **Senior Lender**
  - 70% Asset Backed Loan

- **Bank**
  - 100% Owner
  - Standby Letter of Credit for P+I

- **Lessor/SPV**
  - Lease Agreement
  - Lease Payments
  - Purchase of vessel
  - Sales Proceed

- **Leasing Company**
  - 100% Owner
  - Possible Recourse
Leasing

Lessee/Client

Purchase of vessel

Sales Proceed

Bareboat charter hire

Bareboat charter, plus call option (1)

Standby Letter of Credit for P+I

70% Asset Backed Loan

Senior Lender

Bank

100% Owner

Leasing Company

Lessor/SPV

100% Owner

Lessee/Client

Call option

Purchase of vessel

Sales Proceed

Note:
(1) Profit sharing between Leasing and Client Company upon sale of vessel (for any amount above call option)
1. Lender(s) provides a loan to Borrower, which could be disbursed:
   a) Directly to the Shipyard; and/or
   b) Reimbursed to Borrower for payments already made to the Shipyard
2. Borrower services the loan by paying interest/ principal to Lender(s)
5. Case Study

Transaction highlights

- **Scalable Opportunity.** This transaction demonstrates SCB’s ability to deliver high quality clients and products. SCB is well positioned to arrange and advise on further finance lease and operating lease transactions for other major clients of the Bank. This adds a new business line beyond SCB’s lending and operating leasing businesses.

- **Seamless Execution & Cross Sell.** SCB introduced the transaction to the Chinese leasing company (lessor) and structured the transaction to meet the requirements of both the Chinese leasing company (lessor) and the seller / lessor. SCB also engaged Transaction Banking to provide the required escrow services.
6. Market Updates - the good, the bad & the ugly

- **TANKERS**
  - Clarksons Average Tanker Earnings

- **CONTAINERS**
  - Clarksons Average Containership Earnings

- **BULKERS**
  - Clarksons Average Bulker Earnings
1. Yes, as long as oil market remains oversupplied

2. A structural overcapacity of oil keeps oil prices low. Cheap oil prices boost refining margins, encouraging refineries to increase crude intake, boosting crude imports and product exports.

3. However, surge in tanker supply in 2016 and 2017 could dampen earnings. As such, we expect tanker earnings to fall, but the sector will remain profitable through 2017.
Containers – midsize players to suffer

1. **Weaker container vessel demand growth relative to GDP.** Container vessel demand growth used to grow at 10% per annum, with GDP growing at 4-5% per annum (1996-2010). Since 2011, container vessel demand growth has fallen to 5% per annum with GDP growing at a similar rate.

2. **Supply growth has shrunk, but not fast enough.** Supply growth for 2016 and 2017 is still expected at 3%, driven by orders of very large container vessels by the big players.

3. **Charter rates are forecasted to remain at low levels for at least another year.** Large operator liners will focus on growing market share and consolidation, while liners in the niche feeder business can still operate profitably.
1. **Record demolition in Q1 2016.** 15 Mn DWT (2% of today’s current fleet) was sent to the torches in Q1, the highest on record.

2. **Newbuild ordering has also fallen.** No dry bulk orders were placed in Q3 2015, the first time on record. Similarly, only a handful of vessels were ordered in Q1 2016.

3. However, **dry bulk demand growth is too weak to eliminate the structural overcapacity of vessels.** Delivery schedule for 2016 remains high and even more demolitions, cancellations and conversions need to occur first before freight rates can recover. This is unlikely to occur before the 2H 2017, but there is reason to be optimistic for 2018.
Chinese Shipbuilding – tough times ahead

1. In 2010, China had more than **3,000 shipbuilding enterprises**, mostly speculative yards. This number has drastically dwindled to only around **300 today**, and only a little more than 100 yards have active day-to-day operations.

2. In the first 11 months of 2015, China Association of the National Shipbuilding Industry (CANSI) reported that 54 of the country’s leading shipyards received 92.5% market share the country’s newbuilding tonnage, meaning that easily a **few hundred other yards from among the estimated 300 have gotten zero new orders** for the entire year.

3. Only **20-30 Chinese shipbuilding companies** could be left standing in a few years following this period of consolidation.
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