

A GAME CHANGER?

STRUCTURED FINANCE AND INNOVATION DEAL OF THE YEAR

By George Weltman

Transaction: United Arab Shipping Company's \$162 million EMTC

Winner: Deutsche Bank, Citi

The number of nominations made this year's winning transaction in two categories hard to ignore. It did not hurt that it is described as "... a significant step in the development of the U.S. capital markets as a source of debt financing for the shipping sector at a time when shipping companies are seeking new sources of capital to address long-term capital expenditure requirements." Those are big shoes to fill particularly since the need has been in place since the financial crisis as the traditional lenders to the shipping industry have scaled back their exposure to the sector.

The inaugural \$162 million Enhanced Maritime Trust Certificates ("EMTC") from United Arab Shipping Company is the first shipping transaction of its kind to incorporate structured finance technology by ensuring favorable legal protection, timely creditor access to the vessel collateral and a liquidity facility similar to

an Enhanced Equipment Trust Certificate ("EETC"). Specifically, the cross collateralization, cross default and liquidity support features were incorporated into the structure, as were "asset ring fencing" features from other structured financings involving special purpose entities for purposes of addressing a variety of substantive consolidation and bankruptcy related risks that exist in traditional ship financing structures, including those posed by non-US shipping companies availing themselves of the protections of Chapter 11 of the U.S. Bankruptcy Code or other insolvency regimes. As a result of these structuring features, concerns regarding the negative impact of the automatic stay provisions of the U.S. Bankruptcy Code were significantly alleviated. These incorporated proven creditor protections are designed to enhance the rating of the ultimate issuer in order to obtain an investment grade rating for the debt issuance, and provide a unique but replicable

model for the sector at large.

The transaction involves the sale by UASC of two of its Very Large Containerships (13,470 TEU) for \$239.5 million to two newly formed Maltese SPVs owned by UASC. By incorporating the owners in Malta, the transaction benefited further from the innovative combination of creditor protections inherent in the Malta Merchant Shipping Act and the Malta Securitisation Act. UASC will then agree to bareboat charter the vessels for 15 years from the SPVs. Funding of the acquisition will come from the sale of the EMTCs representing a 68% loan to value, with the equity portion funded by the SPVs from a capital contribution from UASC. The certificates will have a final maturity of 12 years and a weighted average life of 7 years and will be secured by first priority cross-collateralized and cross-defaulted ship mortgages and a first priority assignment of earnings under the bareboat charters. The lenders

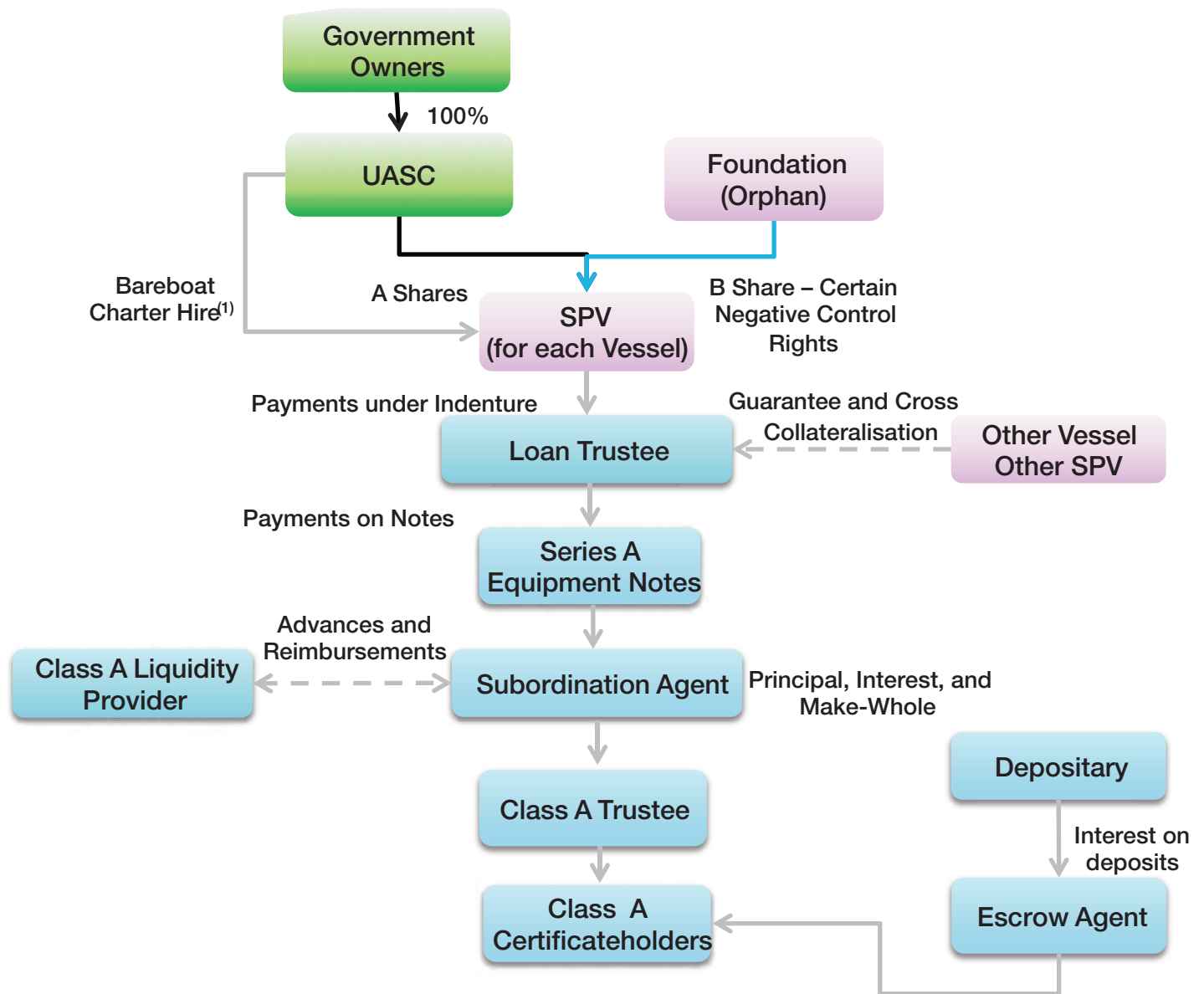
will also benefit from a liquidity facility representing three semi-annual interest payments. The chart on the following page provides an overview of the structure of the transaction.

The transaction had its challenges as well. Given the limited number of prior shipping and Middle East-based private placement transactions, this deal marks a historic first featuring both a unique asset class for this market space based in a distinct jurisdiction. The bankers successfully worked with a global pool of investors spanning North America, Europe and the Middle East to build comfort around UASC's unique business profile, Middle East geography and the shipping industry

Whether in fact the transaction, as suggested, sets an actionable template for all shipping companies for future alternative secured debt financings is yet to be determined, but one can hope.



EMTC STRUCTURE



(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

