Developments in the syndicated loan market

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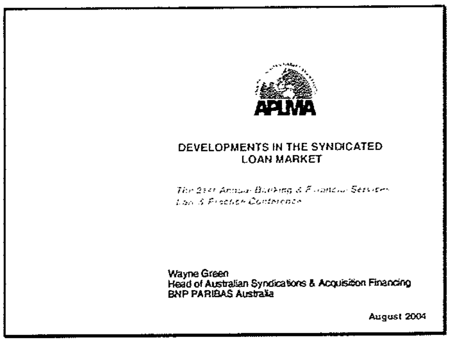

- The Australian Market in Perspective
- The Players in this market
- Current Trends
- Provide a Sectorial Overview and
- Do a little crystal ball gazing into what we can expect going forward.

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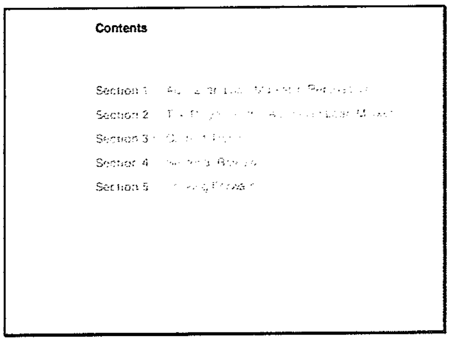

- To begin, this slide shows the size of the Australian Syndicated Loan Market over the past 4.5 years. We operate in a mature, well developed and active market which you can see has averaged volumes in the range of 20 to 25 billion U S dollars per annum. The first half of 2004 has seen volume of $14.9 billion so we can expect a bumper year for the rest of 2004. We benefit from a strong investment grade corporate sector and an active project finance/infrastructure market.

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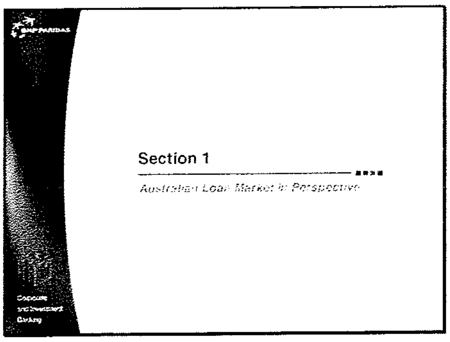

- But how does our market compare to the markets of neighbouring (and unfortunately I do not mean New Zealand)? Excluding Japan, Australia has the most prolific market, followed by Hong Kong and Taiwan

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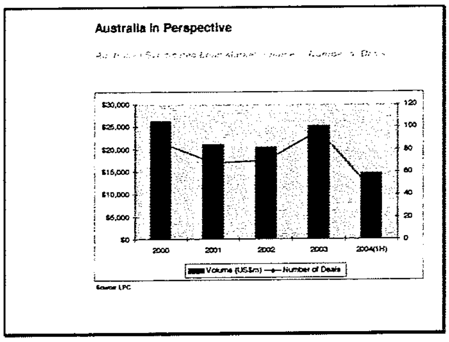

- When we take this to the next level and compare our market volumes to those of the rest of the world you can see that our market is a tad smaller when seen alongside others such as the Americas, which is the deepest market followed by Europe.

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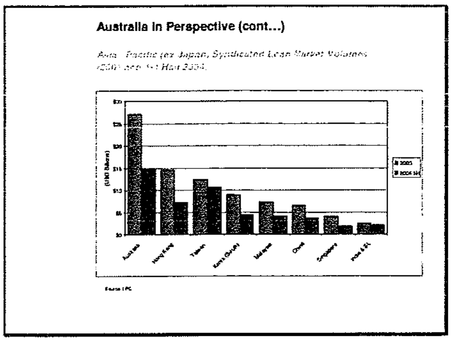

- Of course size is not everything but to think that on transaction launched by BNP Paribas in Europe earlier this year for Euro 16 billion to support Sanofi in their hostile bid for Aventis was larger then the total volume seen in Australia for the first half of 2004.
- Now this is not to say our market is less important, as without it our jobs would be less exciting, and we have seen many exciting transactions over the years that have entered new heights in size, complexity and distribution.
- No market would exist without its participants and we will have a look at the borrowers later on in my presentation. For now let's have a look at who are the leaders from the lending perspective.

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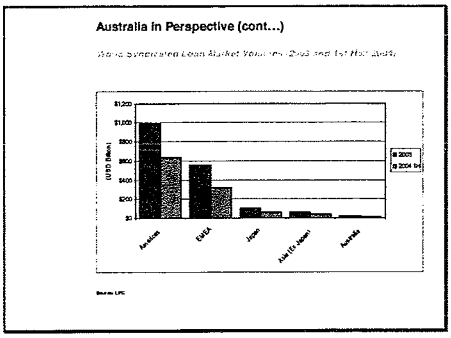

- This league table, which is the accepted method for measuring a bank's position in the syndicated loan market, shows the top 10 lead arrangers for 2003 and the first half of 2004.
- You will note that the 4 pillar Australian banks maintain the top positions, which is expected given their transactional relationships with domestic corporates and their access to "cheap" deposit funds.
- The remaining positions are hotly contested for by foreign banks.

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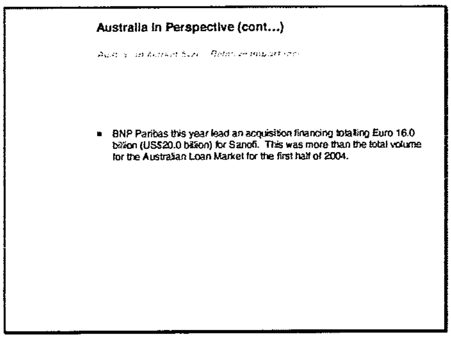

- Traditionally you see some jockeying for position by the foreign banks as they compete for transactions and occasionally they back off the market due to external forces.
- Participants come from all parts of the globe, with special interest from Asian banks as they look to diversify their loan book into stable economies of their close neighbours. Banks do come and go from the Australian market but those that leave are readily replaced.

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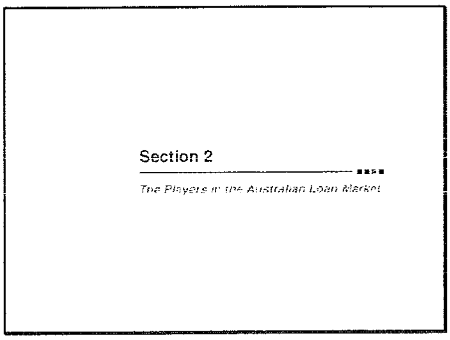

- Let's now look at the current trends and influences on the Australian Syndicated Loan Market.

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The Players in the Australian Loan Market

2001 League Table for Australia			
Position	Name	Volume (US$m)	# of Deals
1	NAB	4,428.2	29
2	ANZ	3,838.2	38
3	Westpac	3,807.6	32
4	CBA	2,513.3	28
5	Barclays	1,310.7	4
6	Deutsche Bank	1,179.0	4
7	ABN AMRO	958.5	5
8	UBS Warburg	833.6	2
9	CSFB	766.6	3
10	Citigroup	737.5	7

Source: LPC

1st Half 2002 League Table for Australia			
Position	Name	Volume (US$m)	# of Deals
1	ANZ	2,792.3	25
2	Citigroup	1,847.0	7
3	Westpac	1,728.5	16
4	ABN AMRO	1,701.8	8
5	NAB	1,373.6	13
6	CBA	1,116.7	12
7	BNP PARIBAS	661.0	6
8	HSBC	432.4	6
9	Deutsche Bank	405.8	4
10	Barclays	328.3	1

Source: LPC

- Firstly liquidity. As with any commodity market – it is driven by supply and demand. In our case, demand would certainly seem to out weigh supply – despite the best efforts of the Borrowers.
- Banks globally have an excess of capital and are very keen to take on loan assets. Larger final holds are common and this has lead to smaller bank groups taking out transactions on a club basis.
- Another result to come out of this is a trend to top heavy syndicates where the number of mandated lead arrangers out numbers the participants to the loan. This is known as the INVERTED PYRAMID syndrome.
- Increased demand has also lead to "rogue pricing" bids by banks to ensure they are selected into transactions and then hoping they are averaged up when the final terms of the transaction are negotiated.

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The Players in the Australian Loan Market (cont...)

- 4 "pillar" Banks maintain a natural dominance
- Heavy competition for remaining 6 places (in top 10) is strong
- Recent lift by UK Banks
- Increased interest from Asian Banks (for specific transactions)

- Pricing – well what can I say about pricing except to say that we are definitely in a downward spiral and this applies across all loan asset classes.
- An example would be BBB rated corporate loans where margins are down some 20-25 basis points over the past 12 –18 months.
- There is some good news in that we have not YET reached the crazy levels seen in 1996/97 where pricing was out of control AND our market still overs a premium of some 7-10 basis points over Hong Kong corporate loans.

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Section 3

Current Trends

- This strong demand has also seen tenors stretch out to where the 3 years maturity is more 5 years and 7 years is more readily seen and demanded by borrowers.

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Current Trends

- **Liquidity** - Banks have strong balance sheets / excess capital
  - Increased final holds - more club deals
  - Impact on Syndicate Structures - multiple leads and less participants - the "inverted pyramid" syndrome
  - Competition is fierce, "rogue" pricing has been seen.
- **Pricing** - Tightening across all asset classes
  - BBB corporate pricing down some 20 -25 bp
  - But still above levels seen in the crazy days of 96/97.
- **Tenor** - Pushing out
  - 3 years in now 5 years
  - 7 years is more common / requested

- Structurally, we have seen a relaxation or even an absence of financial covenants as a direct result of the competitive environment. Borrowers are more likely to seek to match their loan covenants with the looser covenants that are offered in alternative markets such as USPP where investors are much more charitable.

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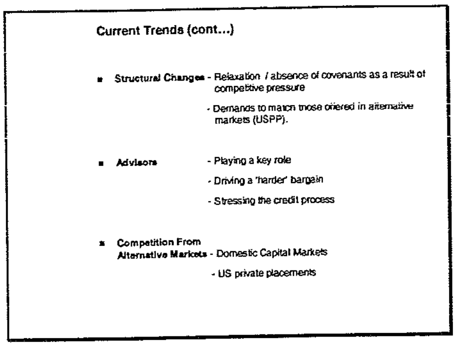

- A new threat to the traditional ARRANGER/UNDERWRITER is the "Advisor". Whilst they do play a key role, particularly in obtaining the best deal for their client, they are forcing the envelope in some cases and their bidding demands on banks does put pressure on the credit process where banks may have to go back to credit committee for approval of the re-worked terms. The following slide shows some of the more recent transactions where an adviser has run the process.
- The Advisor does not take any underwriting risk as every thing is done on a best efforts basis and they are only benefiting form the current high liquidity in the market. Eventually this will change as banks tighten their credit requirements. This is already being seen in one transaction being shown in the market.

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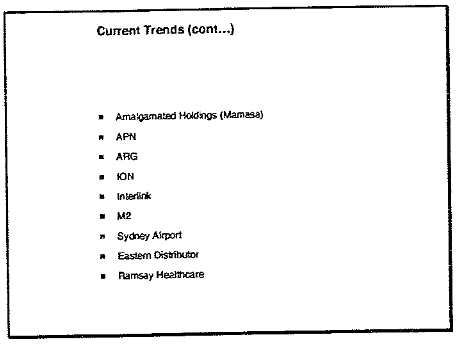

- Of course, for many borrowers the loan market is not their only alternative so lenders need to be aware of the competition offered by alternative markets such as domestic bonds or US private placements which are very popular for Australian corporates.

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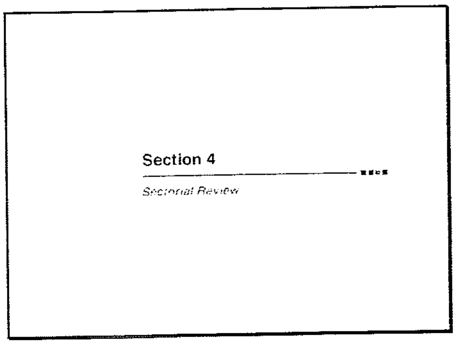

- On a sectorial basis, what has been happening?

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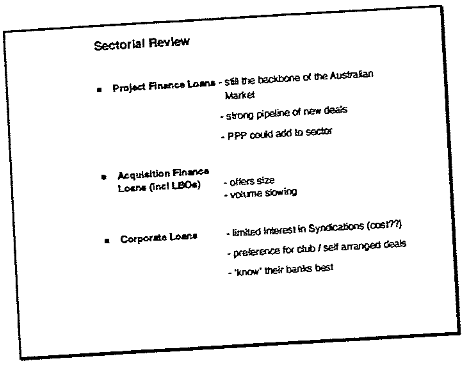

- Project Finance transactions, which includes infrastructure deals, continues to be active and the backbone to our Market. We are now seeing the refinancing of many energy related deals mostly brought about by sales of the infrastructure assets by disgruntled over seas owners.
- For example the Alinta Energy financing was to fund the acquistion of a portfolio of energy and gas assets from Duke as they exited Australia. Eddison Mission is following suit and the sale of the EPIC Energy West asset is yet to be concluded.
- The future for this sector looks strong with a healthy pipeline, some of which are listed later in this presentation.
- We also expect to see many more PPP transactions concluded as governments and sponsors reach agreement on the transfer of risks.

- Acquisition Finance (including Leveraged Buyout transactions) have always been in demand in the Australian market. These are usually sizeable deals that require a broad syndication (eg Burns Philp).
- More deals are expected this year as takeovers are finalised (TABcorp, Boral/Adelaide Brighton) but at this stage the number of deals appears to be slowing. That is not to say a hostile takeover of size could be declared at any time.

- Corporate loan volumes have not shown any signs of slowing but companies are showing less interest in syndications as a means of arranging their financing. This is a basic symptom of the high liquidity and allows the client to avoid the costs associated with an underwriting.
- Club deals are more common in this sector and in a number of cases corporates are self-arranging their loans on a bilateral basis with common documentation as they know their banks nest.

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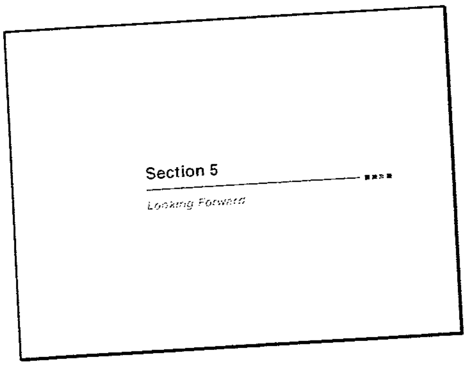

- SO what can we look forward to in the future from the Australian Syndicated Loan Market.

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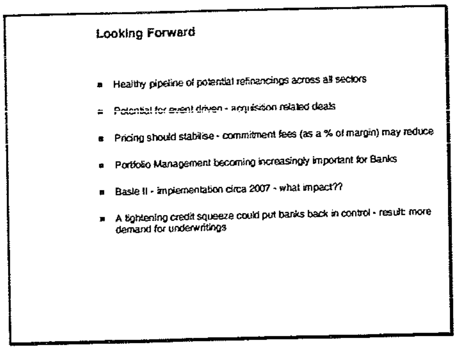

- From all accounts there will be a steady stream of new transactions and refinancings with contributions expected from all sectors. The following slide will give you some idea of likely transactions but this is by no means an exhaustive list.
- Of course there will always be the surprise element to our market where an event driven/hostile acquisition can be declared. Many corporates are cashed up (our friends at Burns Philp are about to receive a substantial amount of cash that they must use or give it back to the banks) and no doubt are reviewing opportunities as we speak.
- It is our expectation (and hope) that pricing will begin to level off although we have not yet seen undrawn fees reach the low percentages of margins as they have in Europe.
- Traditionally, commitment fees in Australia have been approx 40% of margins but we have seen levels as low as 27% in recent European deals.
- Further influences on our market will come from banks desires to more actively manage their portfolios and take the opportunity to adjust their sectorial weightings where they can.
- The real impact from the implementation of Basle 2 is yet to be fully assessed by banks so the outcome of this on bank balance sheets could affect their demand for loan assets.
- Like every market, there are cycles and the loan market is no exception. A tightening of credit conditions could put banks back in control and generate more underwritten deals – our bread and butter.

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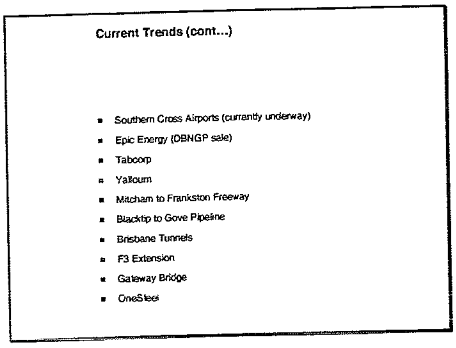

- Here is a glimpse of some of the deals that will be forthcoming in the second half of 2004 and beyond.
- That brings me to the conclusion of our presentation. We trust you have gained some benefit from the points raised and a better in sight into the world of loans syndications. At this point I would like to thank the contributors to my presentation especially Robert Armstrong of the NAB for allowing me to borrow some of his ideas.
- I thank you for your attention and we look forward to working with you on future transactions. Would be pleased to answer any questions you may have.

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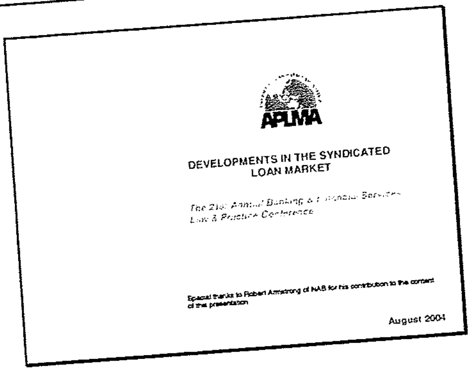
APLMA
DEVELOPMENTS IN THE SYNDICATED LOAN MARKET
Special thanks to Robert Armstrong of NAB for his contribution to the content of this presentation
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