Impact of Sub-Prime Collapse on the Lending Market

Scotia Capital™

Prudential Capital Group

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Is The World Coming to an End?

"Panic or Prozac? When Will Liquidity Return?…"

– Citigroup, December 21, 2007

"Credit Markets Crumble…"

– Fitch Ratings, January 31, 2008

"With default rates on the rise and liquidity scarce, the loan market is in a state of disruptive transition unlike anything since the early 1990's…"

– S&PLCD, February 2008

"Corporate Loan Market Is Reeling as Values Tumble Sharply…"

– WSJ, February 6, 2008

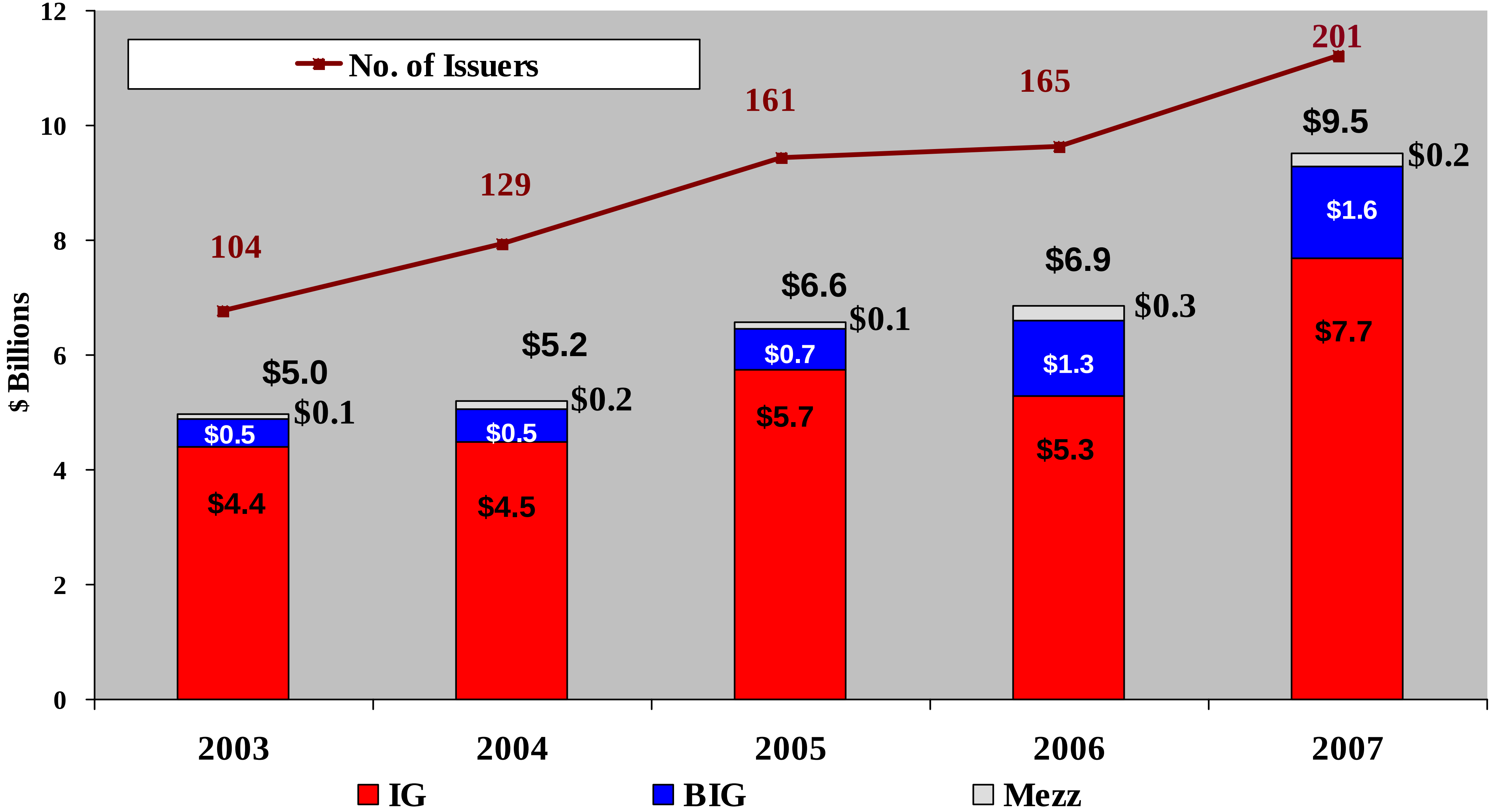
"New Hitches In Markets May Widen Credit Woes…"

– WSJ, February 11, 2008

Who is Prudential Capital Group?

- Relationship focused buyside lender.
- Leading provider of private capital for more than 60 years.
- Middle market focus, target companies $50 – 500 million in revenue.
- $42B portfolio of investments as of 12/31/2007 spread across 1,000 companies.
- Originated $9.5 billion of Investment Grade, Below Investment Grade, and Mezzanine debt in 2007.

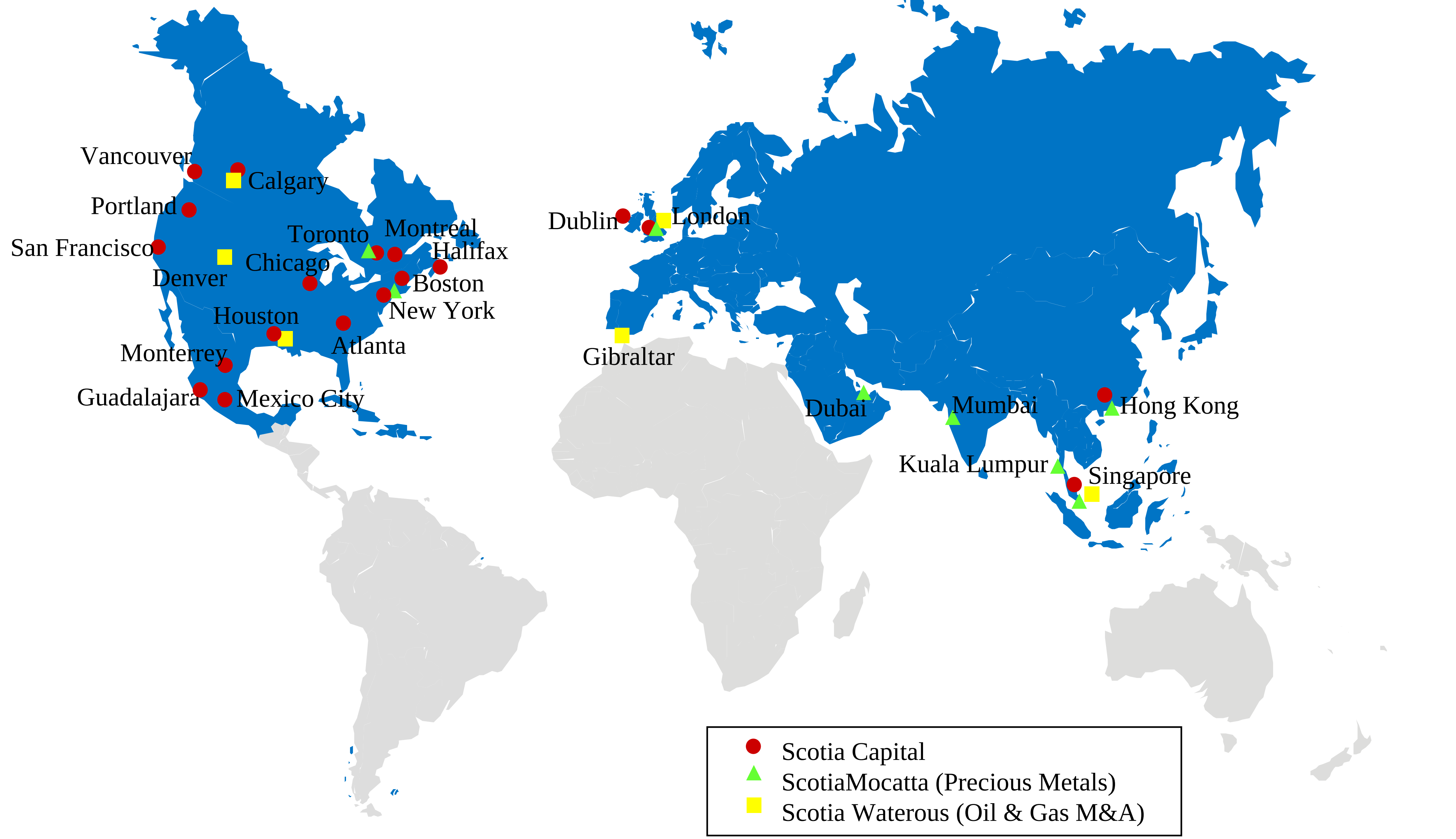
Prudential Capital Group Deal Volume 2003 - 2007



Who is Scotia Capital?

- Full service global and corporate investment bank.
- Top two Canadian bank acting as Lead Arranger / Agent and top Canadian bank in U.S. for syndicated loans.
- Provides corporate lending, project finance, debt and equity capital markets underwriting, risk management, foreign exchange, and financial and M&A advisory services.
- Organized by focused industry groups.

Scotia Capital Global Capabilities & Operations



Discussion Points

- **Sub-prime issues emerged as early indicators, but were merely a subset of a much larger structured finance market.**
- **That market was funding large LBO deals and has largely come to a halt.**
- **Traditional middle market lending is still reasonably active.**
- **Plenty of capital still available for middle market deals, both traditional corporate and middle-market buyouts.**
- **Liquidity driven rather than recession driven credit crunch.**

Where Did All the Money Go?

"I Thought We Were Just Buying a House!"

"I THOUGHT WE WERE JUST BUYING A HOUSE!"

What Happened?

- **Institutional lenders and Investment Banks provided large warehouse facilities to aggregate loans for structured vehicles.**
- **Buyers of CDO tranches suffered mark-to-market writedowns due to very difficult price discovery conditions.**
- **Both the leverage and equity component of CDO appetite disappeared.**
- **Many CDO structures have begun to force liquidation of assets.**
- **Banks were also underwriting the debt of larger buyouts and providing huge financial commitments.**
- **Many of these deals are now "hung."**

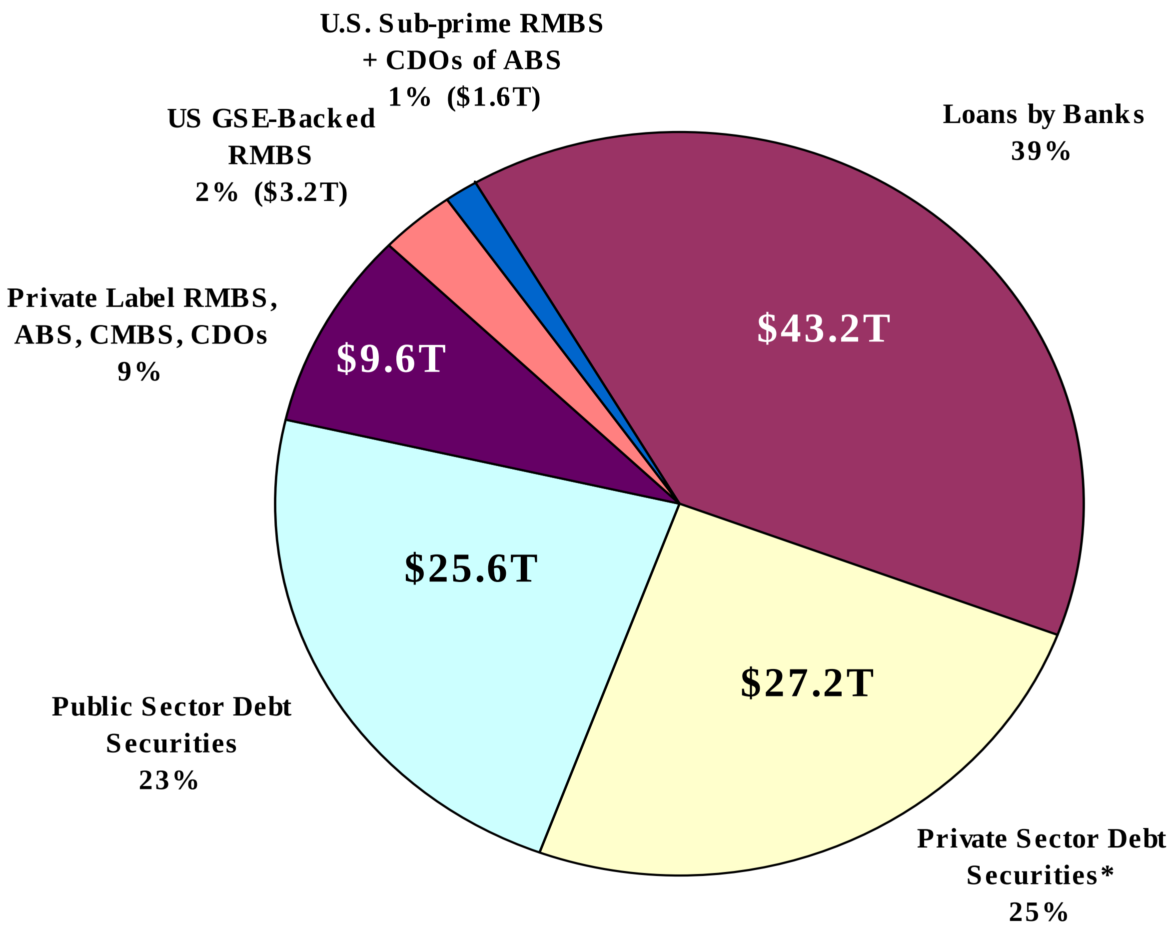
Declared Bank Writedowns and Equity Infusions

Bank	Amount of Writedown ($MM)	Amount of Equity Infusion ($MM)
Merrill Lynch	22,000	5,000
Citigroup	21,000	20,000
UBS	14,800	11,350
Morgan Stanley	9,600	6,600
Others	23,300	6,000
Total	**90,700**	**48,950**

Source: S&P 1.17.2008

- **Net impact approximates $41.8B**

Global Debt Capital Markets at YE 2006: $110.4T



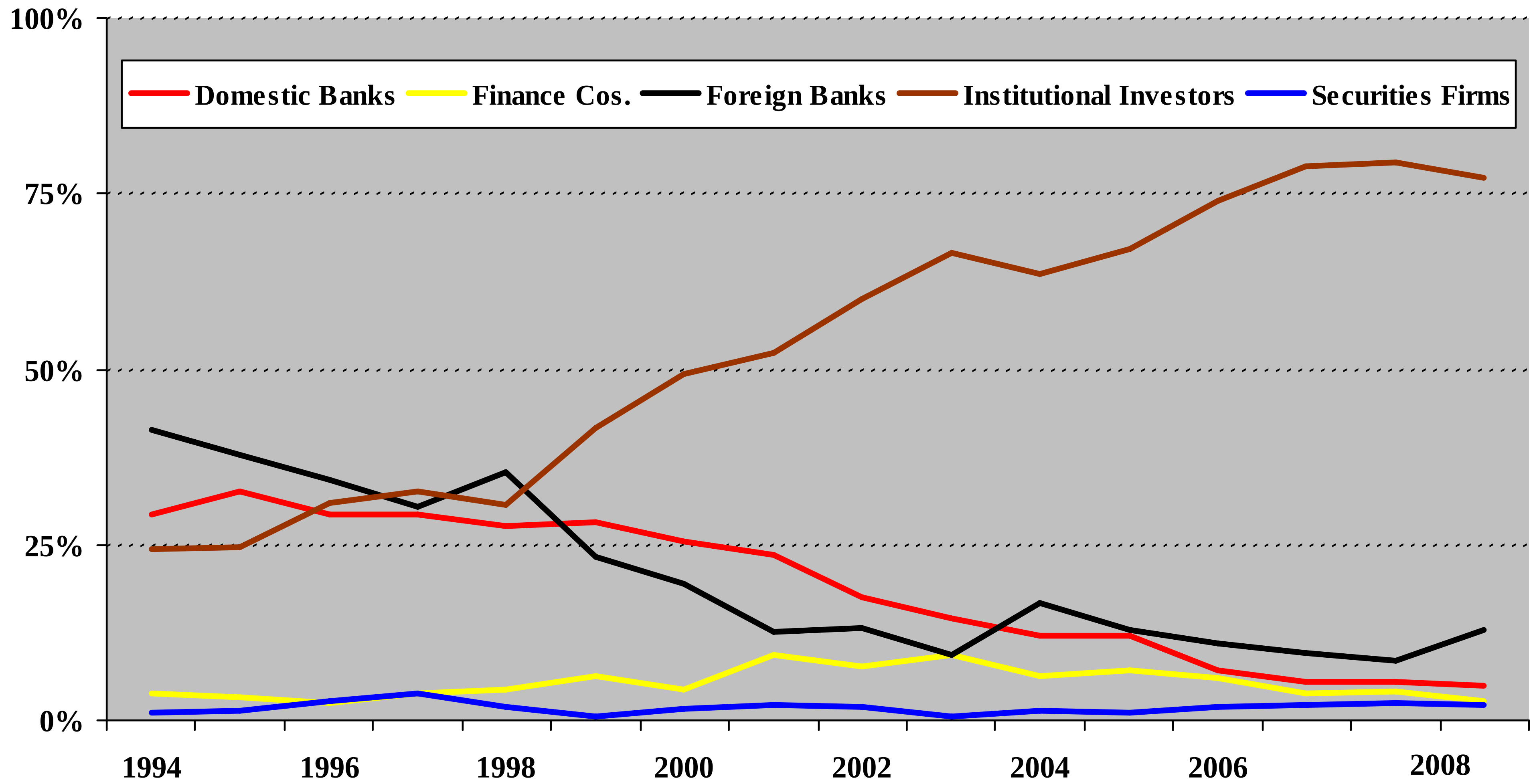
*Excluding structured finance; RMBS, ABS, CMBS, CDO, and GSE

Source: S&P 1.17.2008

Current State of the Credit Markets

- Investor Base
- Issuance Volume
- Pricing Trends

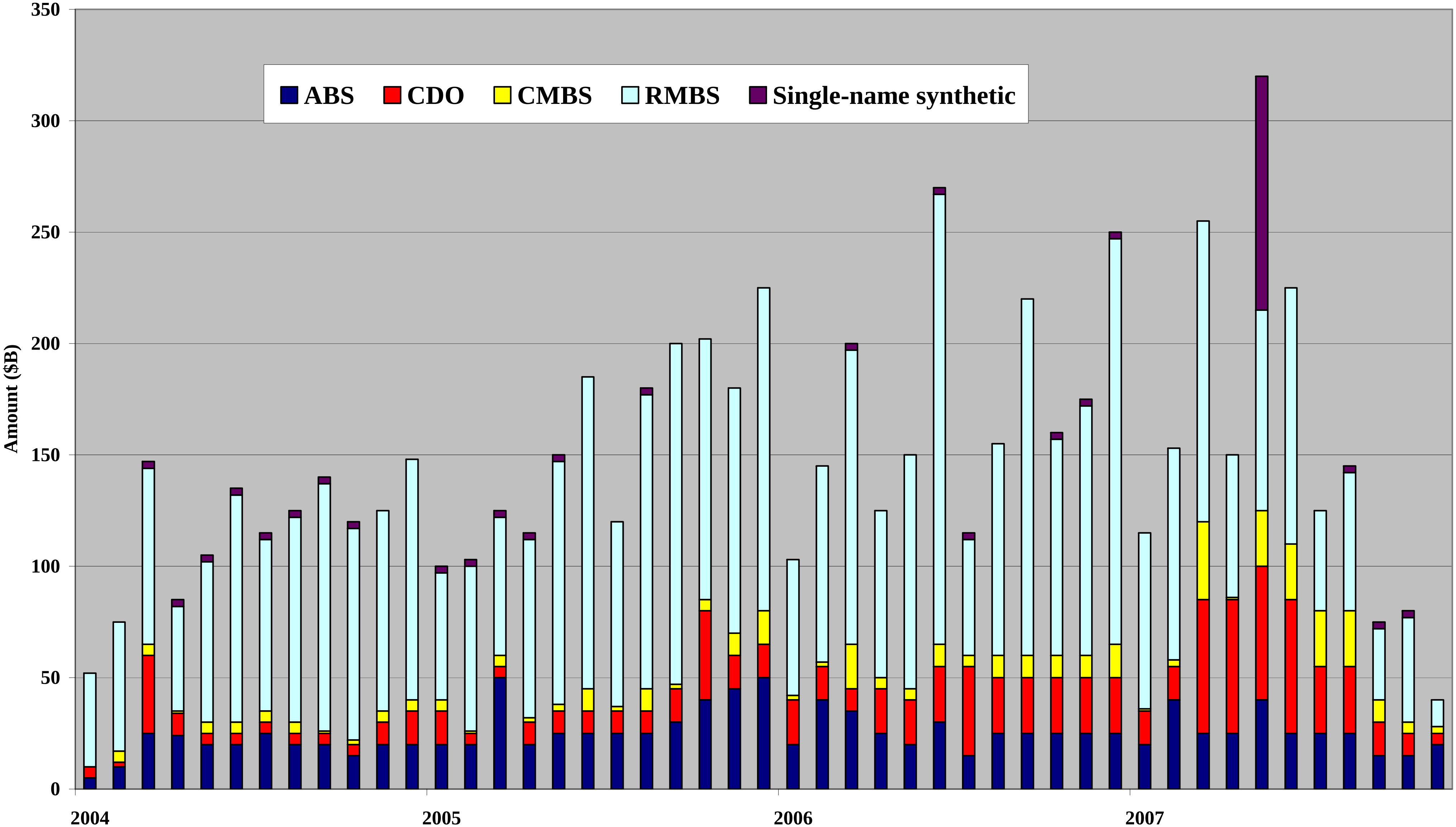
Investor Base: Primary Market for Highly Leveraged Loans



Excludes left and right agent commitments (including administrative, syndication and documentation agent as well as arranger)

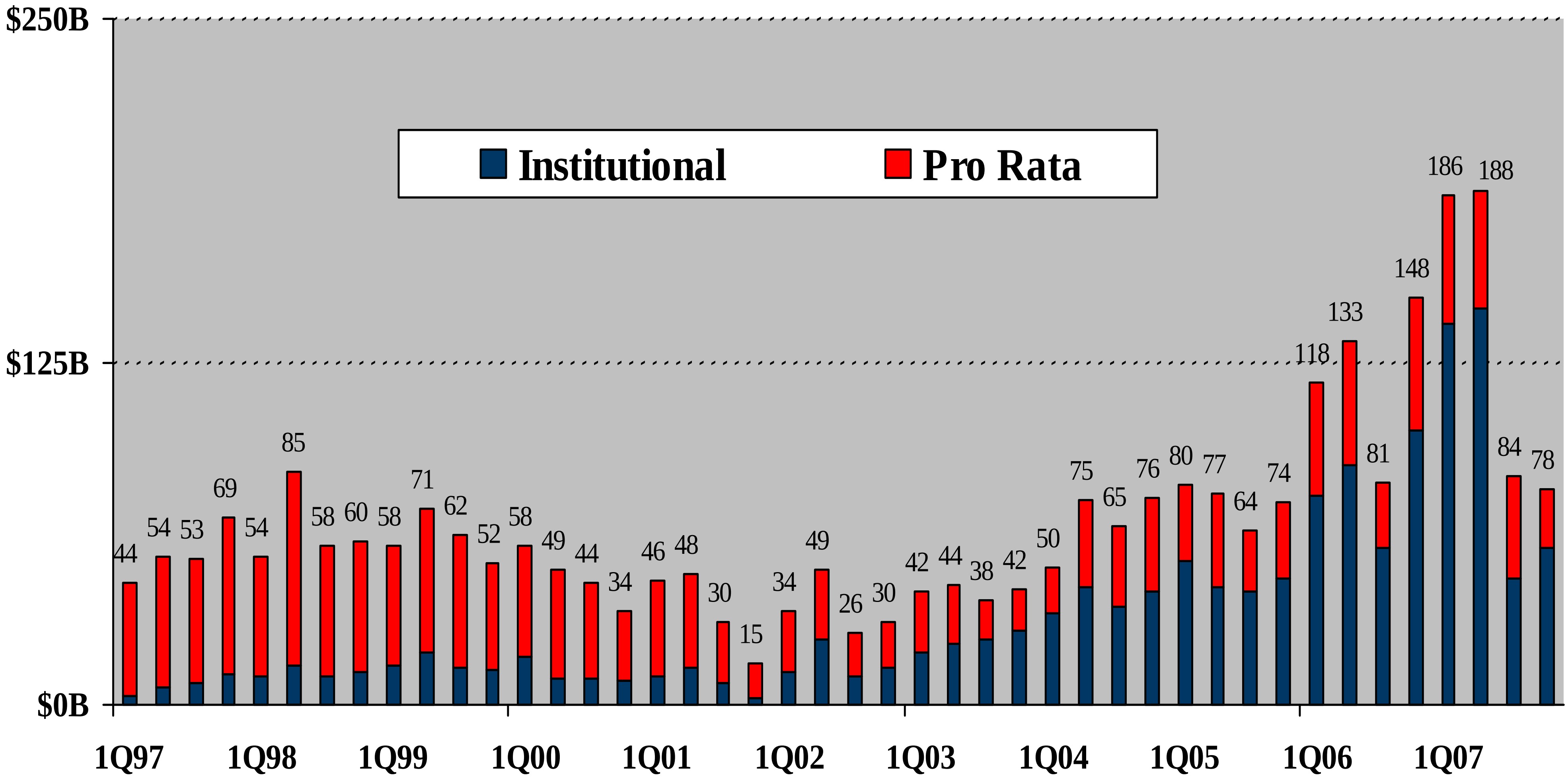
Source: S&P

Investor Base: CDOs Have Virtually Disappeared



Source: S&P 1.17.2008

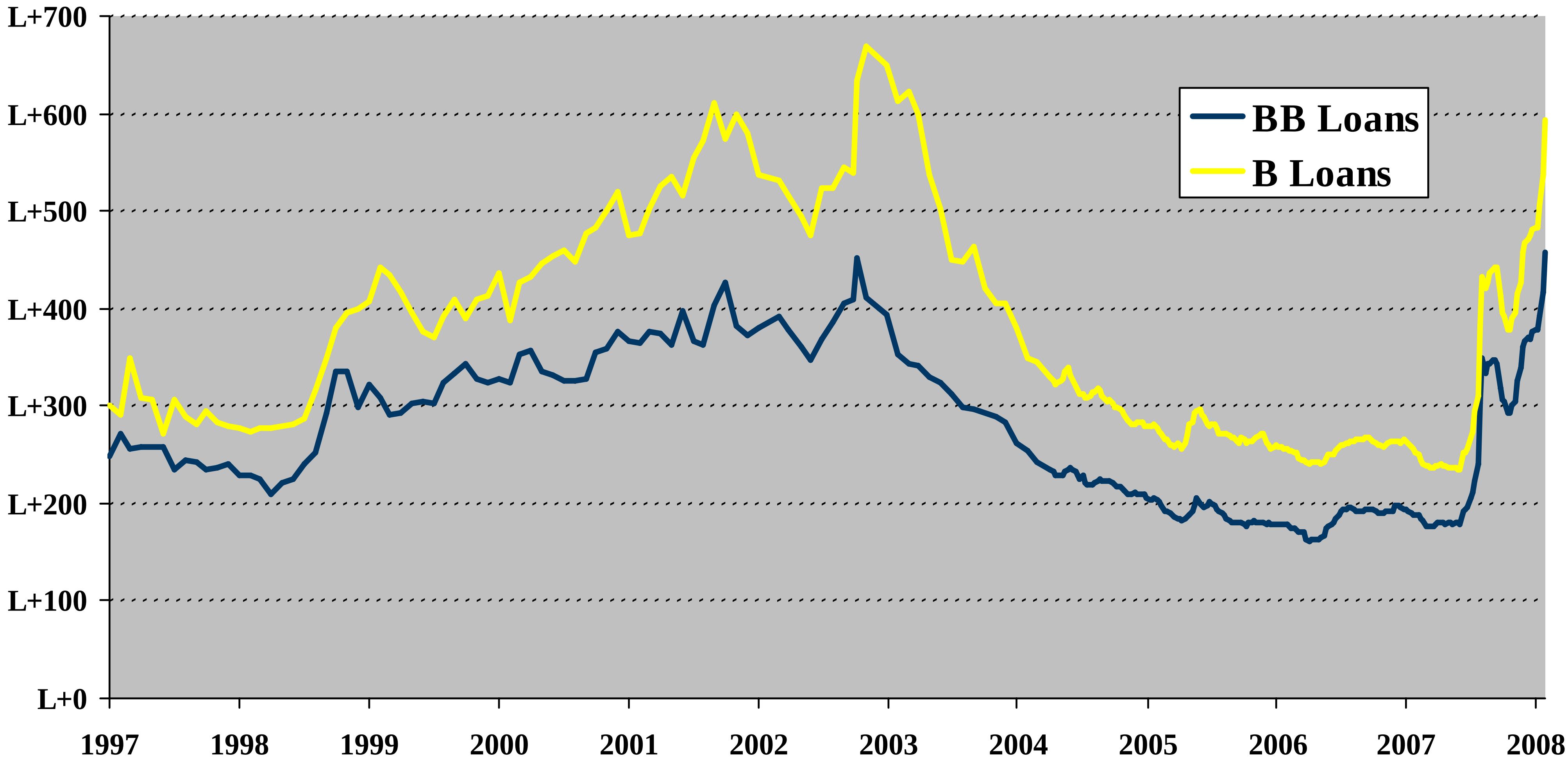
Issuance Volume: Dramatic Decrease in Leveraged Loans



Note: These numbers comprise U.S. dollar denominated loans and are subject to revision as LCD collects additional data.

Source: S&P 1.31.2008

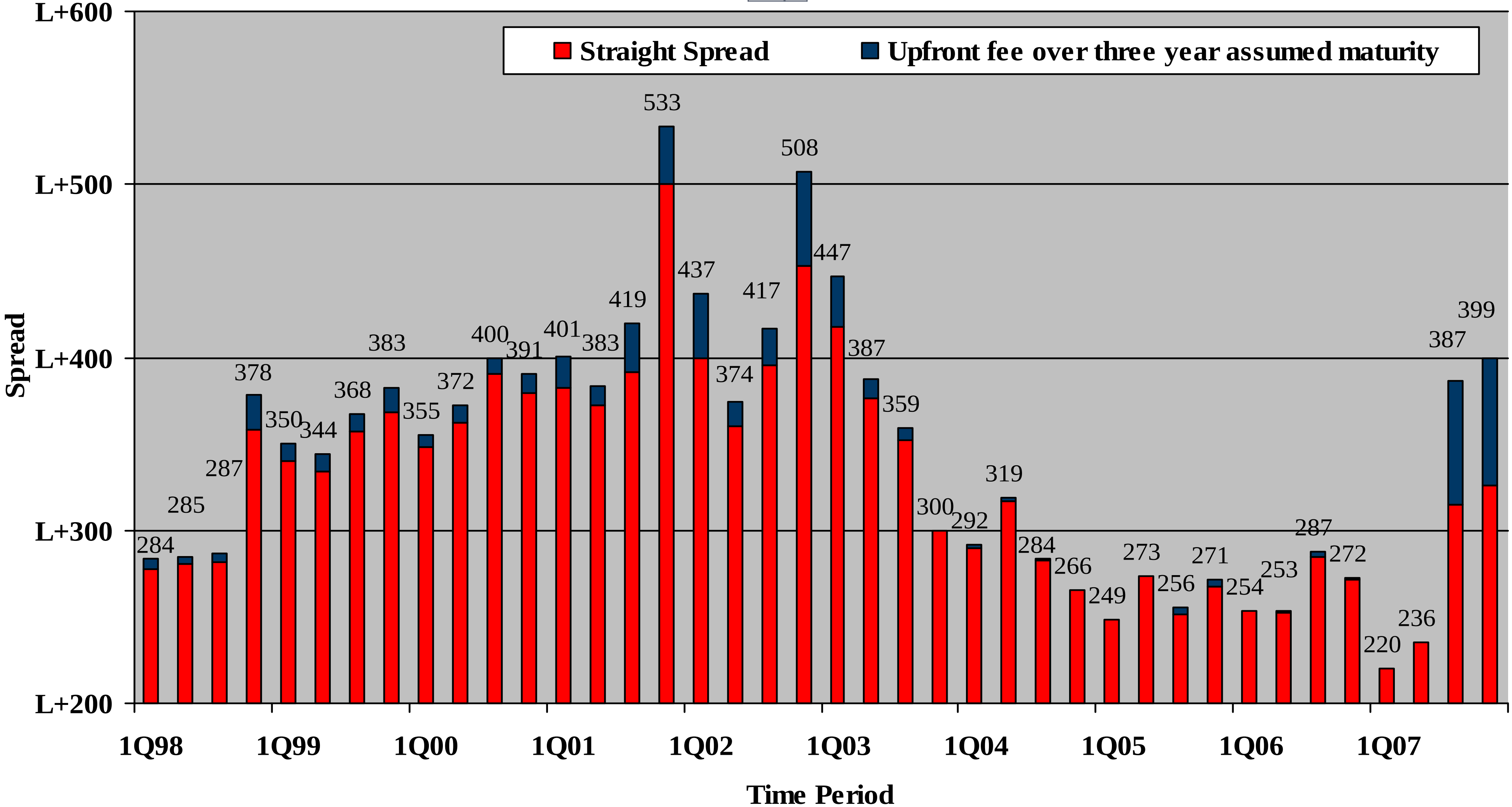
Pricing Trends: New Leveraged Loan Issuance Pricing Driven by Secondary Market Prices



Note: Excludes all loans trading at 70% of par or less and facilities in default 1997 – 1/25/08

Source: S&P 1.31.2008

Pricing Trends: Single B Leveraged Loan Spreads Feeling Brunt of Liquidity Shortfall



Assumes upfront fee is amortized evenly over an assumed three-year life; Upfront fee includes original issue discount. As of 10/5/06 LCD began using Corporate Credit Ratings by S&P and Corporate Family Ratings by Moody's for rated spread and rated upfront fee calculations.

Source: S&P 1.31.2008

Canadian Bank Market

- **Liquidity problems in the U.S. non-investment grade market and the Canadian non-bank ABCP market have caused caution and conservatism in the Canadian bank debt market.**
- **Canadian leveraged loan market not impacted as dramatically as the U.S.**
- **However, certain degree of Canadian bank market tightening; lenders demanding lower leverage and higher pricing.**
  - **3.25x Senior Leverage and 4.5x Total Leverage**
  - **Spreads have increased by 50 ~ 75 bps**

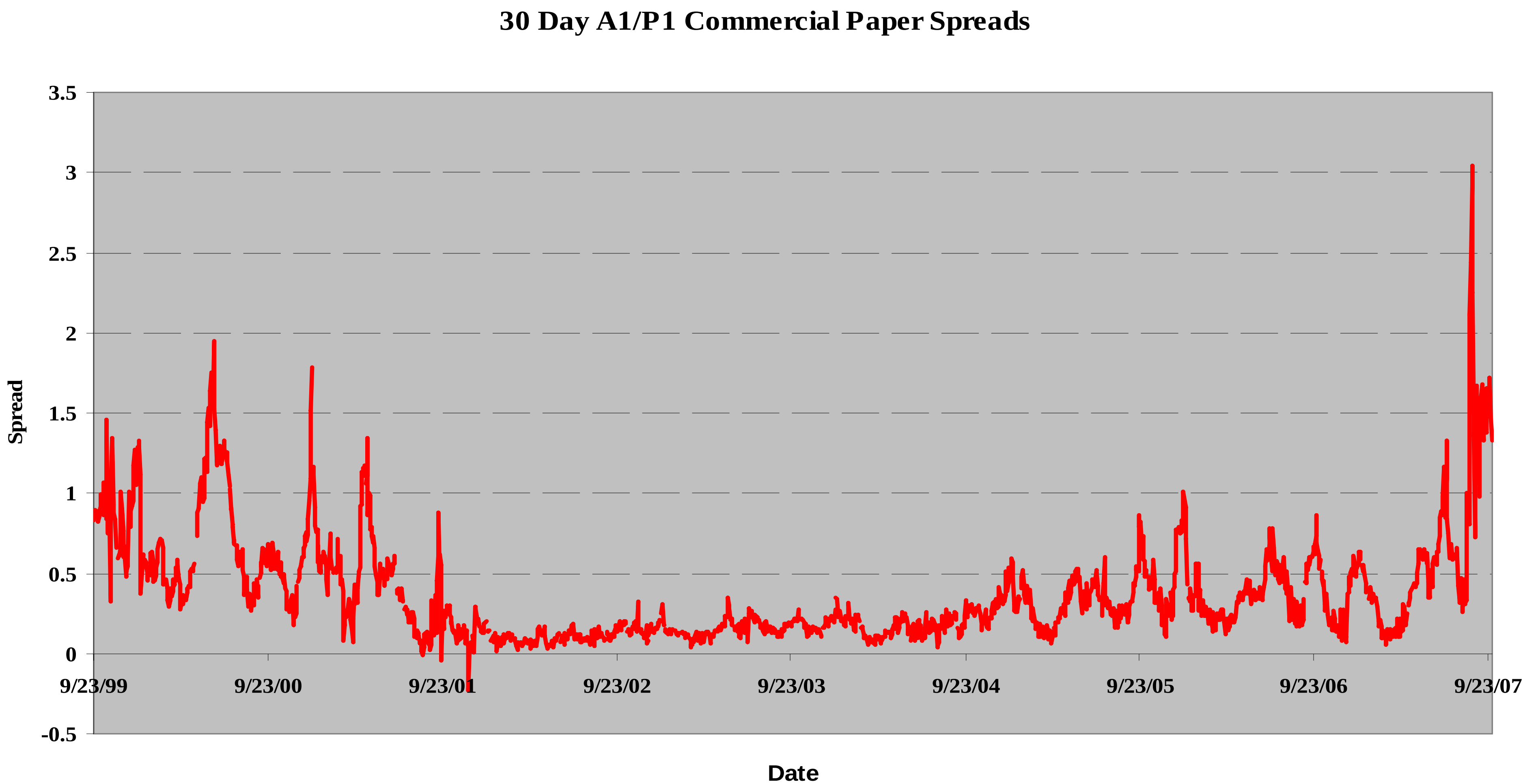
Canadian Bank Market

- Arrangers are unwilling to take underwriting risks without full market flex.
- Reasonably structured transactions getting done; however, more lender declines.
- In some cases, the syndication processes prolonged due to lenders' increased credit scrutiny.
- Credit spreads still at relative lows on a historical basis; however, pressure to widen Canadian spreads for both investment grade and non-investment grade loans due to banks increased cost of capital.
- Some banks exiting long-time relationships due to the lack of meaningful returns.

Canadian Bank Market

- Loan Portfolio Management scrutiny (i.e. hold level and pricing discipline) is an important consideration in the credit approval process.
  - Drawn credits are preferred as profitability models are biased in their favor.
  - Terms at and beyond 3 years require significantly larger capital charges.
  - As market pricing for bonds, CLO and CDS increases, banks are comparing alternative returns when evaluating new transactions.
  - Relationship transactions continue to be well received. Ancillary economics are used to enhance overall returns for the lenders.

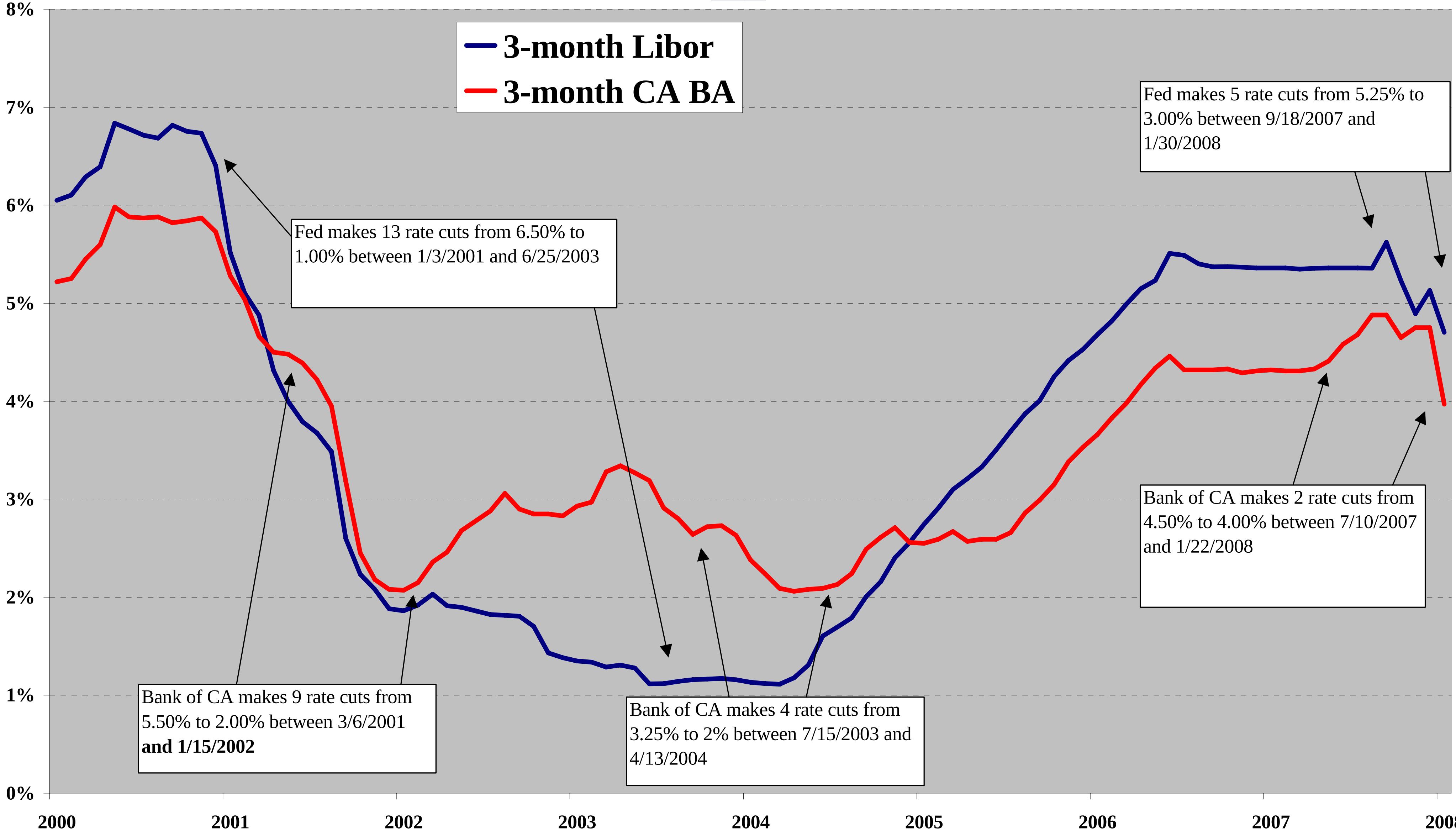
Impact on Commercial Paper Spreads: Buyers Disappear, and So Do Funding Advantages



At mid-year 2007, there was over US$1.15 trillion in asset backed CP – this level declined by 21% in just 2-months

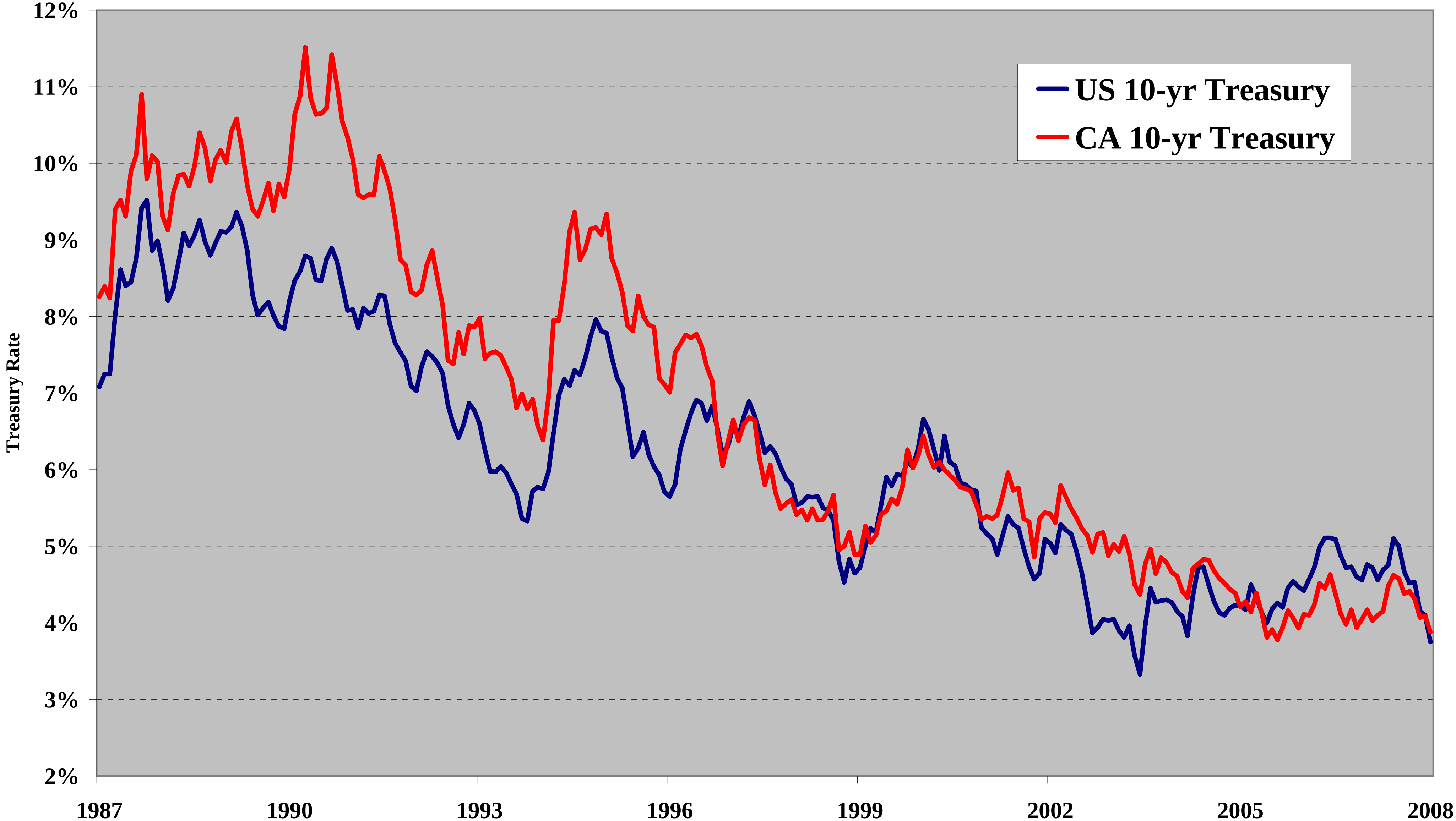
What Has This Done to the Cost of Borrowing?

Libor / CA BA Rates on the Decline



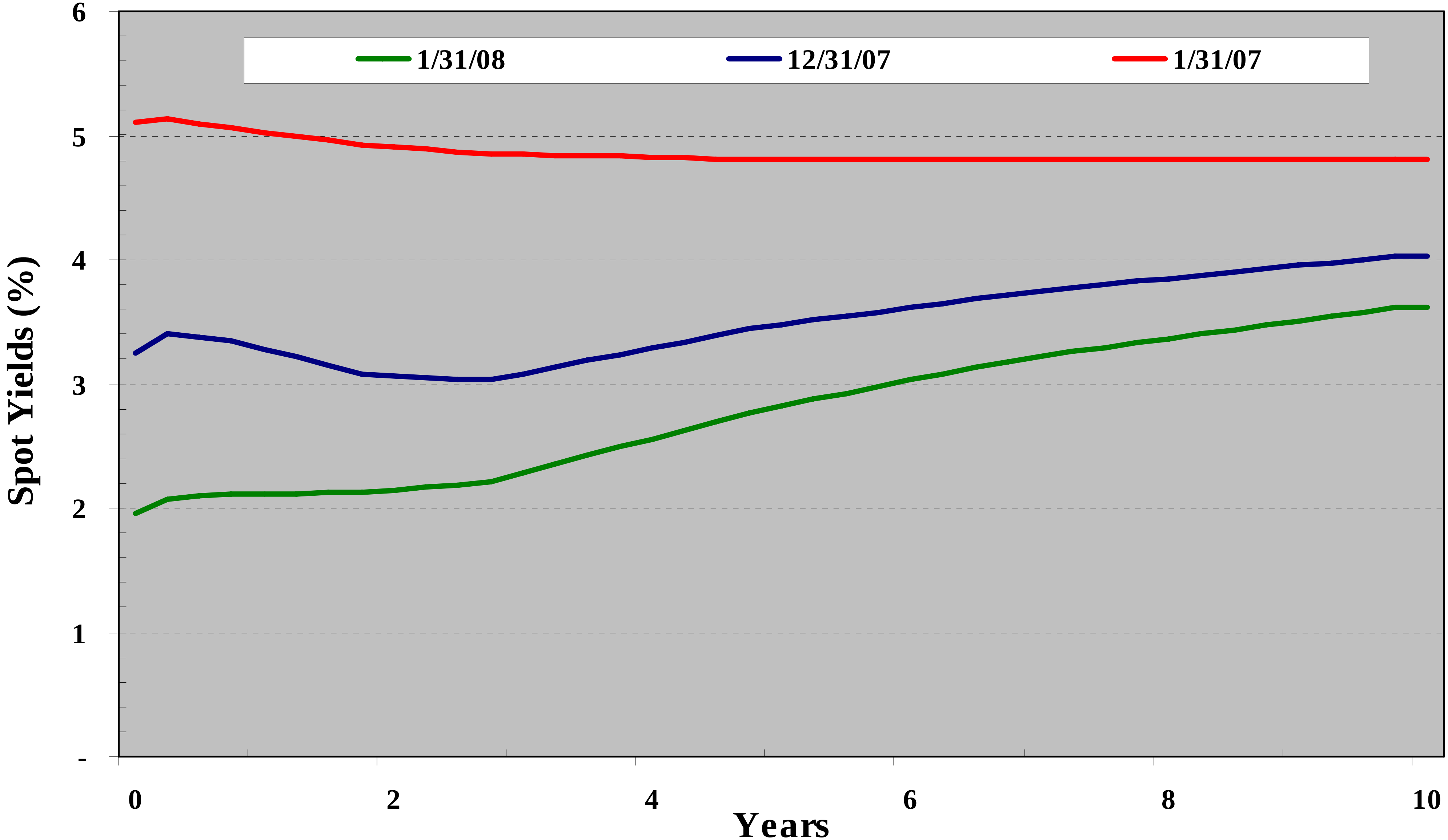
Source: Bank of Canada and British Bankers Association, Federal Reserve

US and CAD Rates at All Time Lows



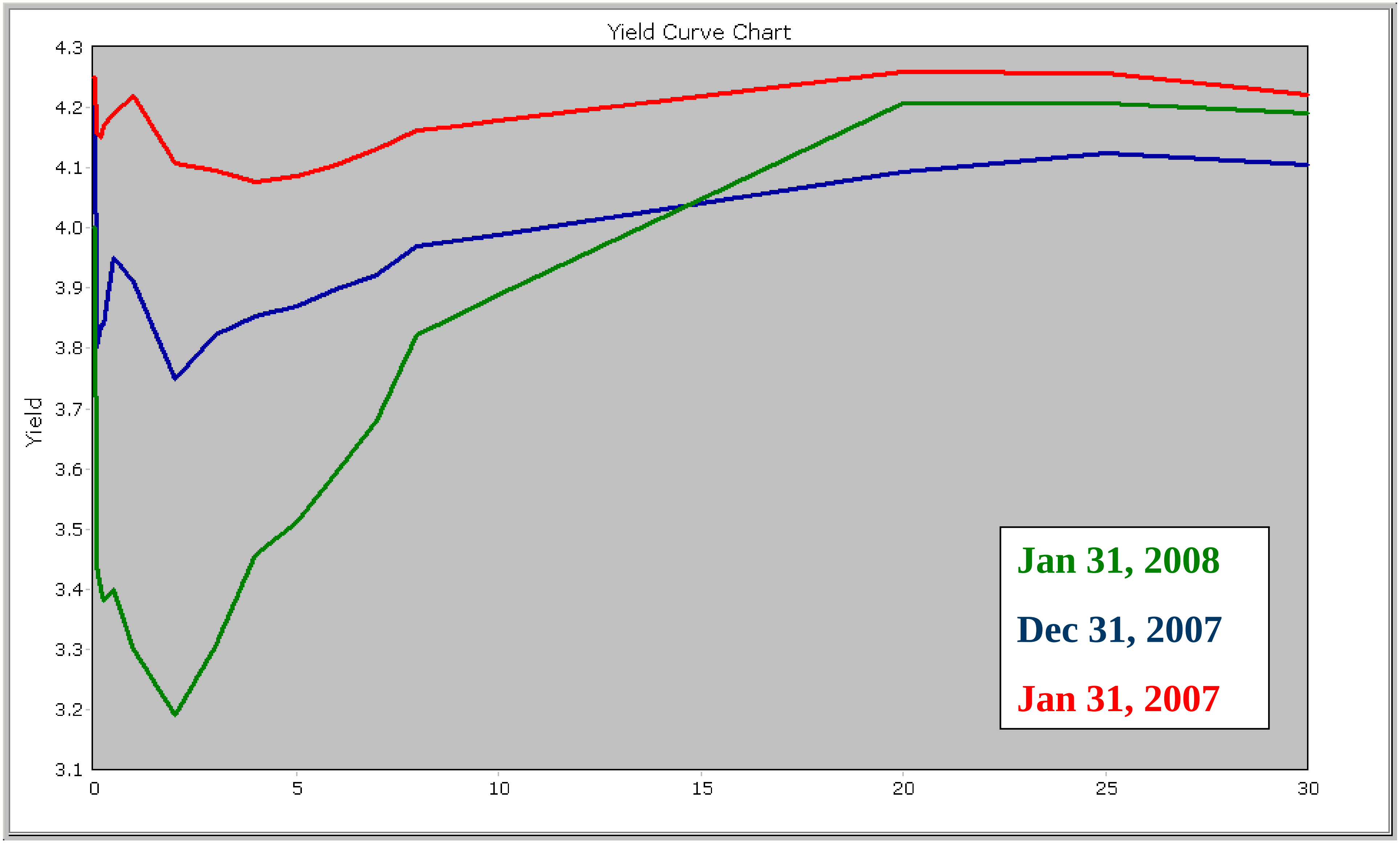
Source: Federal Reserve and Bank of Canada

US Yield Curve Returning to a Normal Slope



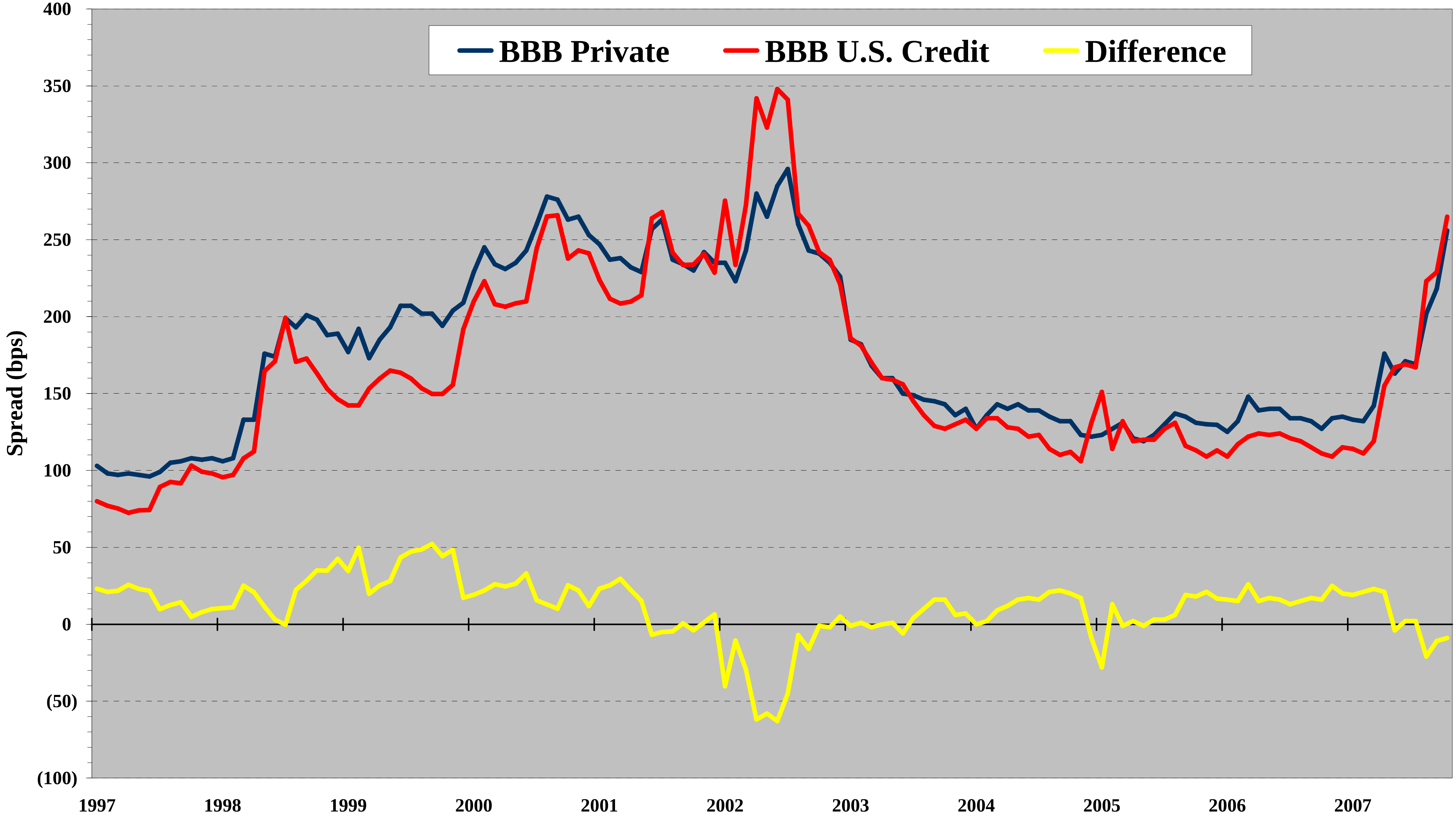
Source: Federal Reserve

Canadian Yield Curve Steepening



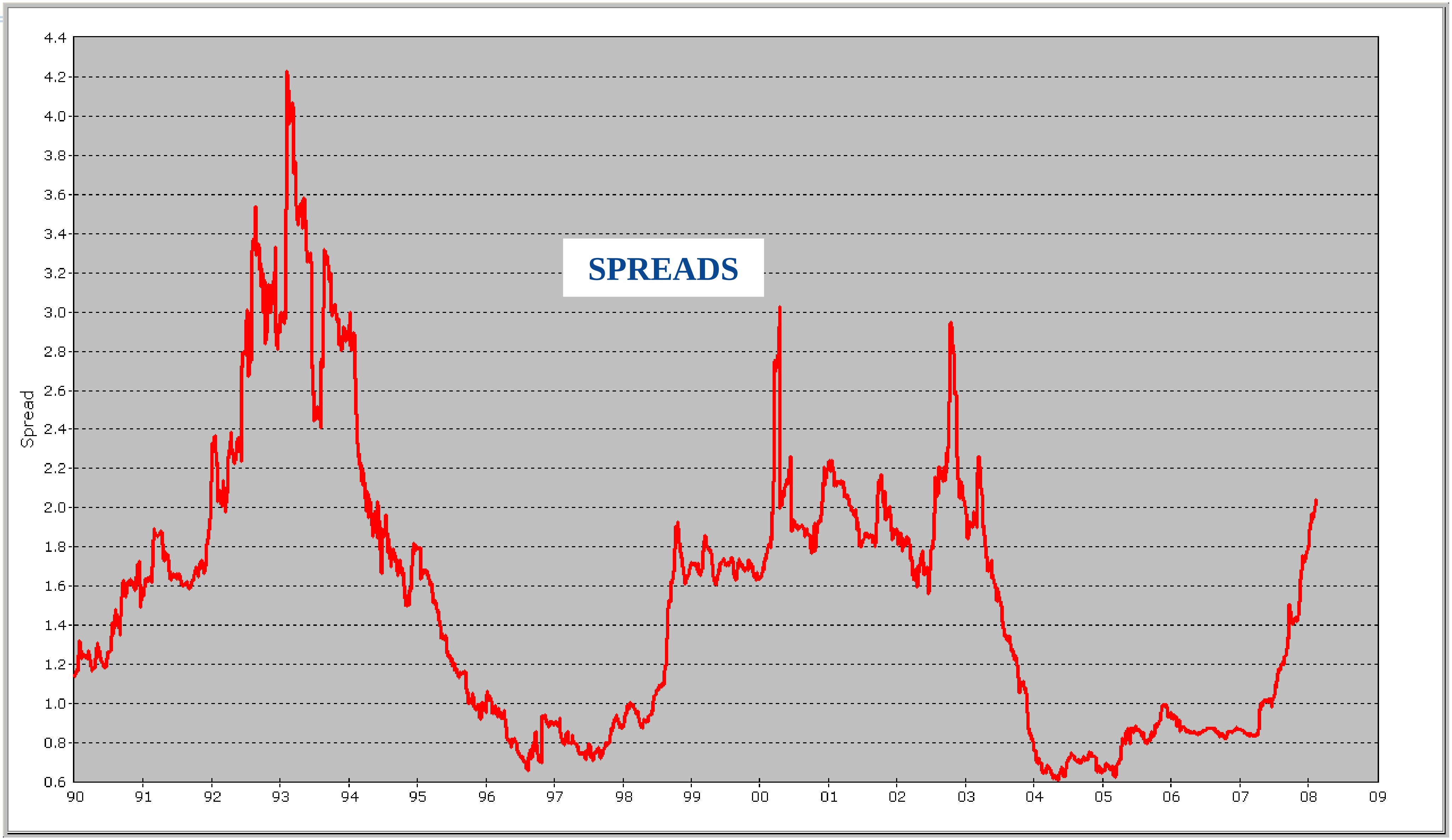
Investment Grade Spreads

U.S. Spreads Rising After Historic Lows



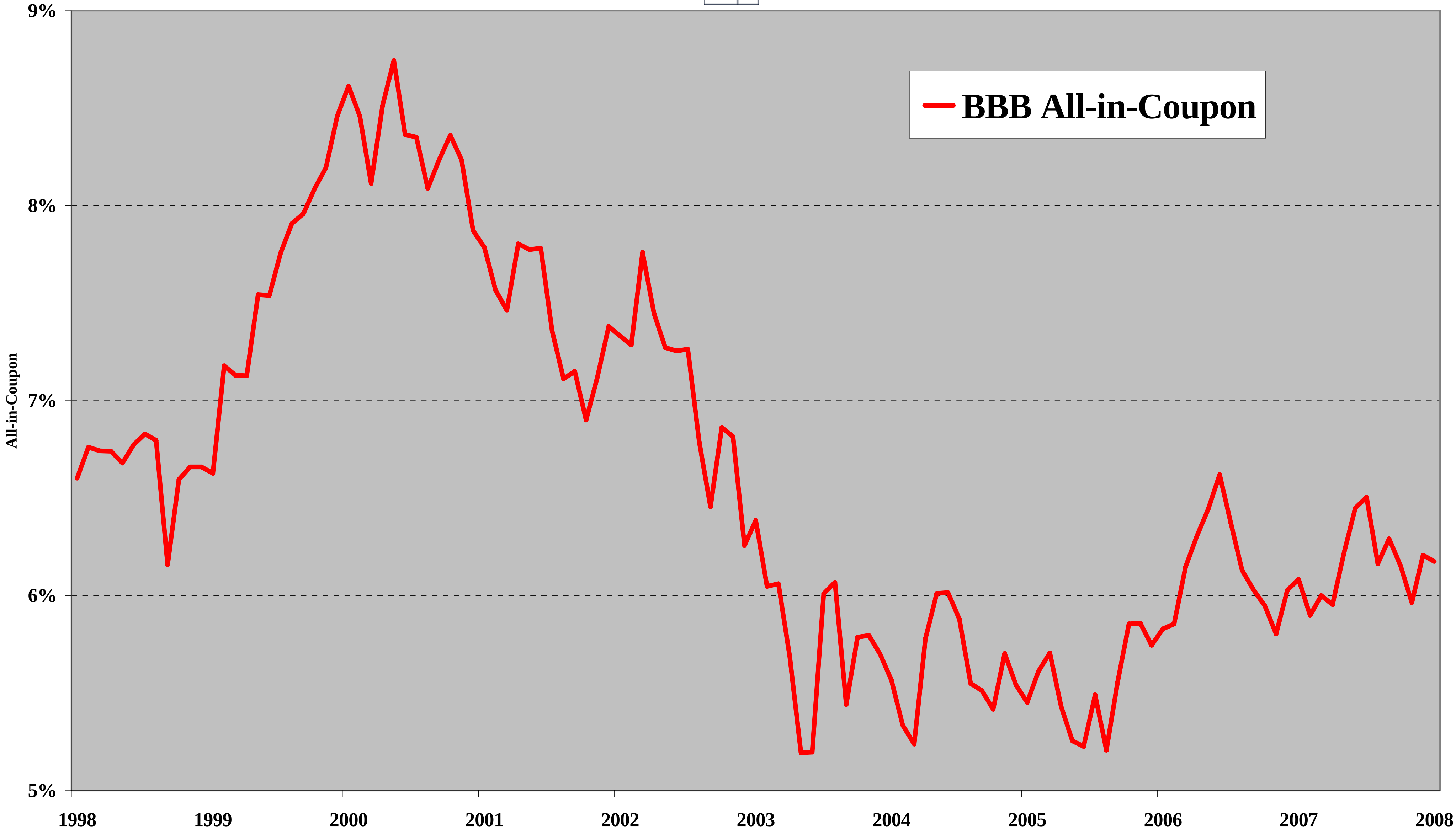
Source: Banker Survey and Lehman U.S. Credit Index

Canada – BBB Corporate Bond Universe



Source: Scotia Capital – DEX

The Net Effect: All-in-Coupons Remain at Historic Lows



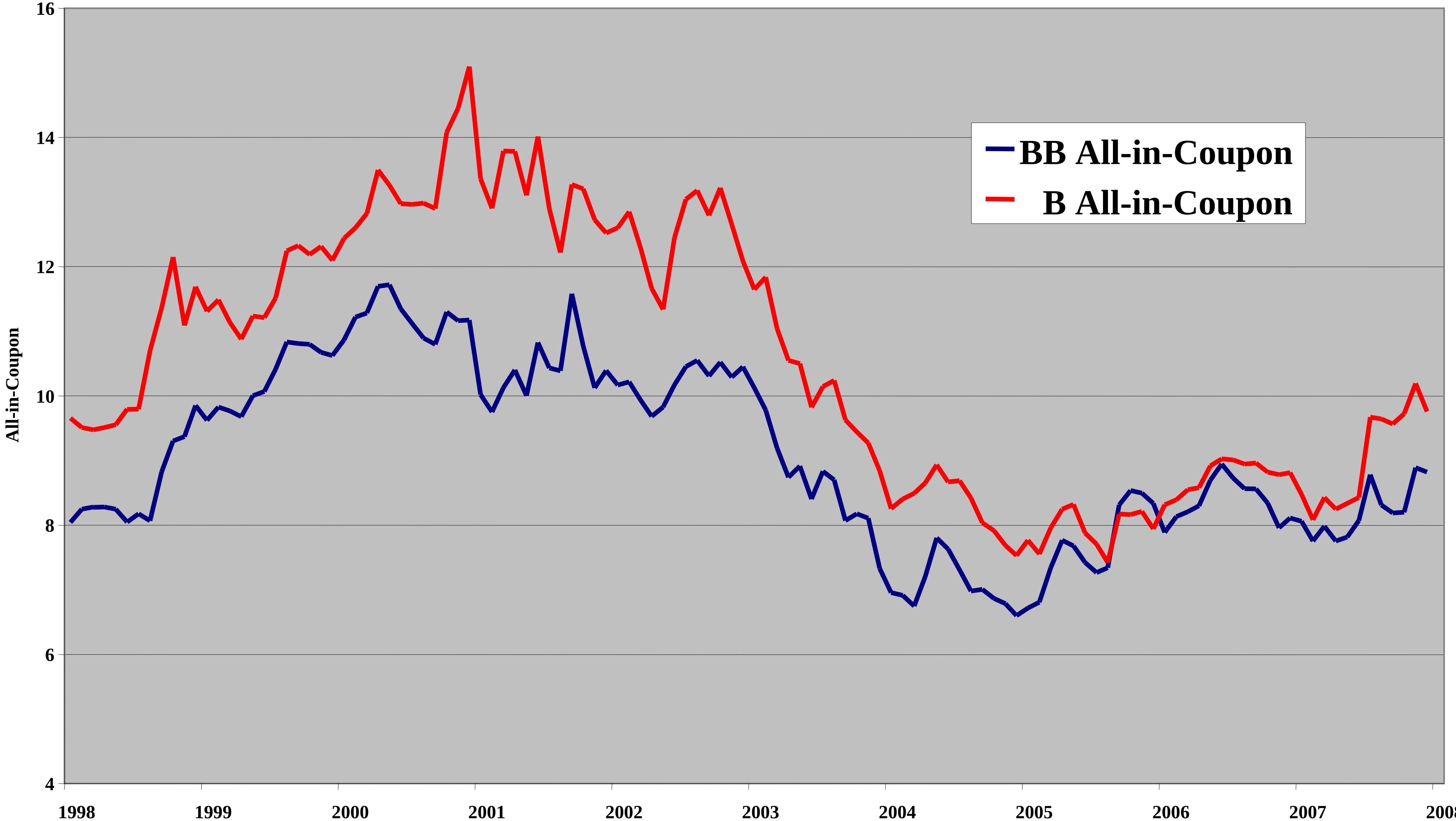
Source: Banker Survey and Lehman U.S. Credit Index

Canada – BBB Corporate Bond Universe

Source: Scotia Capital – DEX

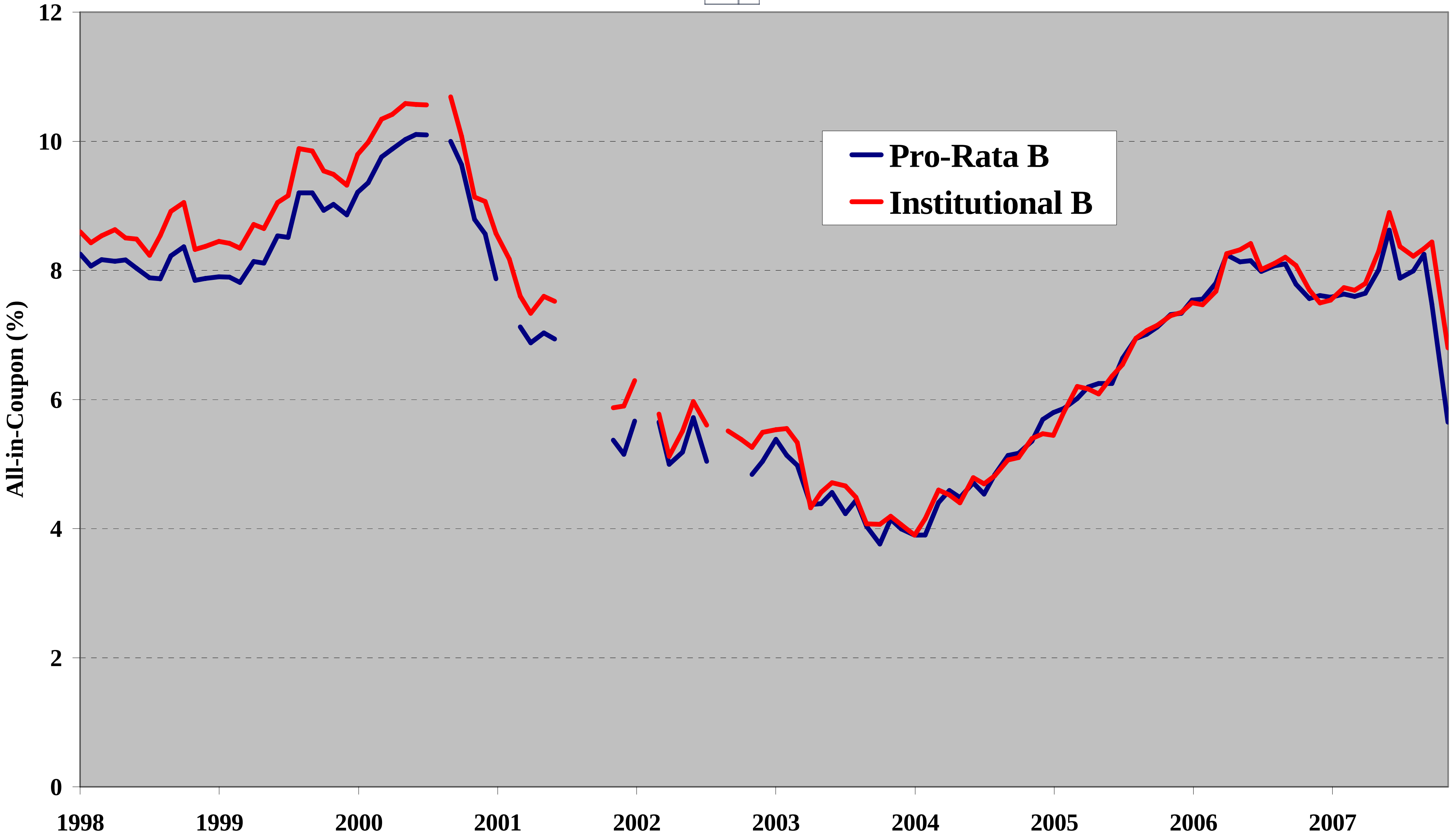
Non-Investment Grade Spreads

Credit is Still Cheap for Non-Investment Grade Issuers



Source: Banker Survey

Historical All-in Floating Rate Coupons Decreasing



Source: S&P

Conclusion

Concluding Thoughts

- **Plenty of performing companies.**
- **Specific sectors more vulnerable (i.e. homebuilding, newsprint, etc.).**
- **Structured finance market still working through issues.**
- **Caution exists in market, however, we see plenty of capital available for good middle-market operating companies.**
- **Although spreads are wide, all-in-coupons are very attractive.**

2008 Outlook

- Per S&P ~$100bn overhang remains.
- New issuance outlook for large institutional market weak until backlog worked out.
- Fewer issues for middle market lending.
- For both markets, spreads not likely to tighten rapidly and terms will revert to historical norms.

How Does This Get Fixed?

- **Wider spreads fueled by the erosion of investor confidence – ultimate recovery will depend on a recovery (on a product by product basis) in confidence levels**

- **All Central Banks work to provide more liquidity into the markets to cheapen the cost of funds for banks and investors**

- **All risk has been re-priced with segments still showing volatility but investors are beginning to segment assets and risk based on issue specific criteria.**