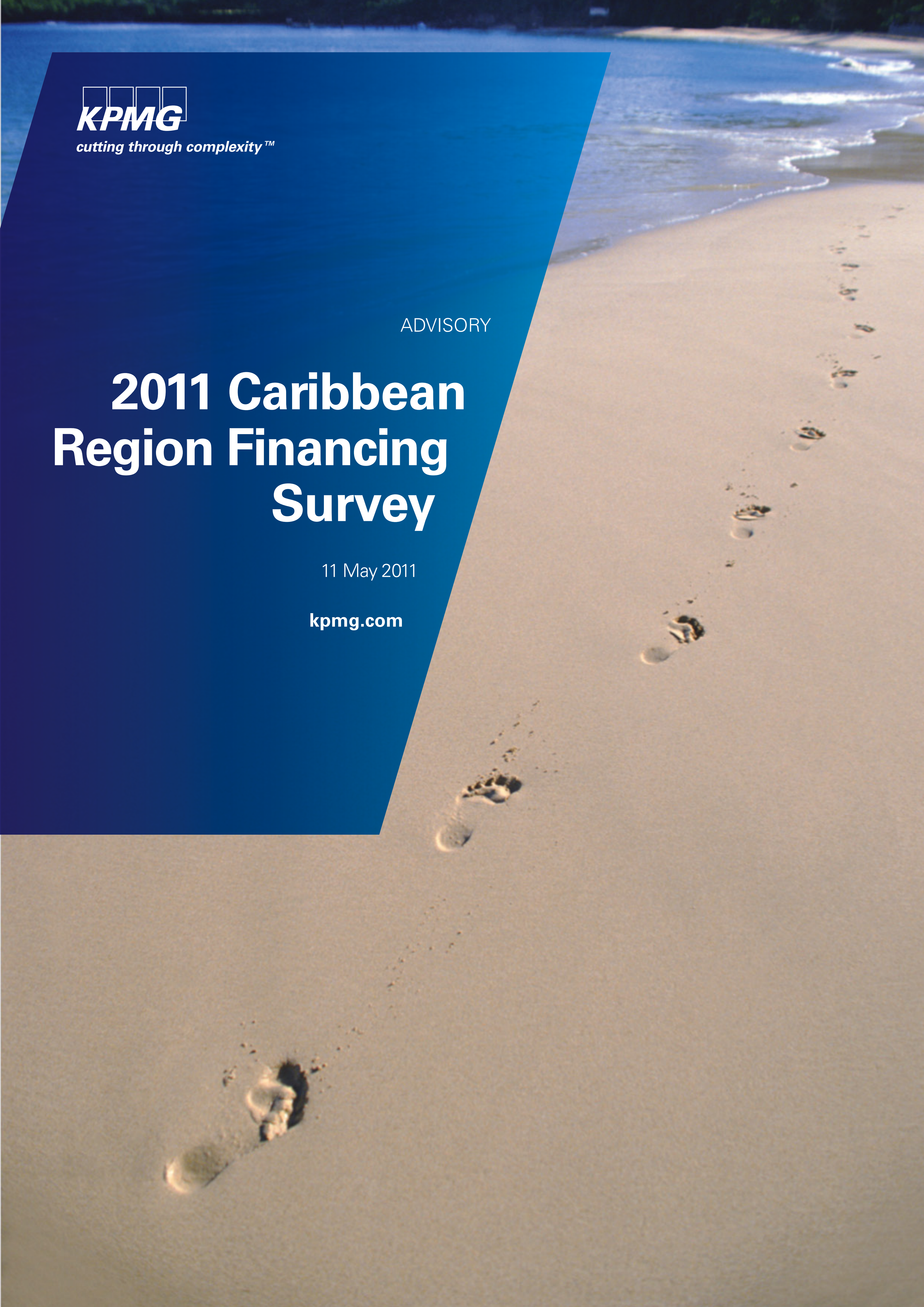

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ADVISORY

2011 Caribbean Region Financing Survey

11 May 2011

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Contents

Introduction

It is our pleasure to bring you KPMG's seventh annual Caribbean Region Financing Survey, focusing on lending in the hospitality and tourism sector in the Caribbean.

Our 2011 survey concentrates on financing trends, the outlook for the region and the identification of current changes in the lending environment.

This year, as well as talking with leading regional and development banks, we have for the first time included hotel financing brokers/consultants in our survey, to capture the emergence of this new source of financing in the sector. Feedback over the years leads us to believe that the survey results assist in understanding the lending environment faced by stakeholders in the region; the addition of project developers to the survey, we hope, will enhance the dialogue between developers and financiers.

Global and regional macroeconomic indicators, including the price of oil, world food and commodity prices, and the socio-political developments in northern Africa and the Middle East are some of the issues capturing the attention of bankers and developers. Lenders continue to exhibit a cautious approach to lending and see a gradual improvement in the Caribbean tourism sector. This year, they have expressed greater concern on international world developments and acknowledge that many factors are at play. They expect borrowers to appreciate the same. Notwithstanding that there has been a tightening in lending criteria overall, it is positive news that we continue to have strong lending institutions that remain committed to the region and are willing to lend to projects with strong fundamentals.

Please feel free to contact us for further clarification, questions or comments regarding this survey.

We take this opportunity to again thank the participants in our survey for their invaluable feedback.

Raymond Campbell
Partner
KPMG in Jamaica

Lisa Taylor
Partner
KPMG in Barbados

Commentary

A Region in Transition

The past year, when measured against the recent past, was one of increased economic anxiety with many countries in the region trying to reposition their economies, and their tourism product in the shadow of growing competition. The genesis of this increased competition has been the global economic slowdown, a financial crisis that has been, for the most part, more pronounced in the Western Hemisphere. Additional competition has appeared as more economies have sought to replace revenue lost from exports of agricultural products and small manufacturing industry, with new tourism offerings.

To varying degrees, countries and hotel operators are responding to the changes, with differing levels of success.

Given the contribution of tourism to the national gross domestic product of regional economies, its contribution to the construction sector and the impact on the national labour forces we have developed this annual research covering nine countries and 19 lenders and financiers.

KPMG professionals from across the region carried out telephone interviews from February to April 2011. The respondents were senior corporate bankers and senior executives of niche financiers, and represent a total of US$2.8 billion in exposure to the tourism sector.

The countries represented were:

Bahamas	**Dominican Republic**
Barbados	**Jamaica**
Bermuda	**Trinidad & Tobago**
British Virgin Islands	**Turks & Caicos Islands**
Cayman Islands	

This report summarizes the responses we received. It provides some insight into the views that lenders and financiers have of the sector, what comprises a good credit risk and their expectations of borrowers.

36%

Only 36 percent of the survey participants have positive views for the prospects of the Caribbean tourism industry over the next 12 months.

Trends in lending

The right type of credit risk can still attract funding

Financiers have responded to the increased risk in the overall environment by decreasing loan to value ratios, increasing debt and interest coverage ratios, and interest rate spreads.

Whereas 30 percent of financial assistance was currently focused on existing properties and established hotel operations, over the next 12 months, approximately 41 percent of lending is expected to be focused on these areas.

Flight to quality

The downturn in the global economy continues to impact lenders, with new and increased credit facilities being made available to established hotel operations and operators with strong track records. Borrowers are, in most cases, well capitalized borrowers and, ideally, part of a recognized chain of branded properties. A strong operator and hotel brand is seen as a prerequisite in order to survive and, in some instances, thrive within the increasingly price competitive market, where hotel properties are faced with operating cost pressures.

Property Transformation trumps "greenfield" development

In addition to the focus on existing and stabilized hotel operations, with a strong sponsor, parent or being part of an international group, lenders approved loans to borrowers aimed at repositioning the hotel operation project to achieve a more competitive position in the market place and to more narrowly defined market segments. This trend mirrors the trends in other product sectors as consumers become more discerning as to the product features that they wish to purchase.

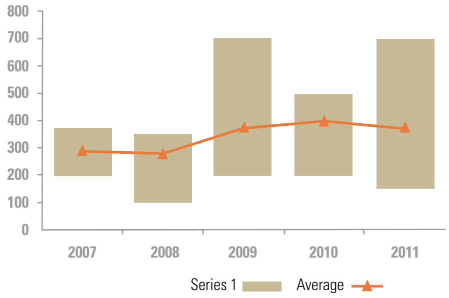
Very little lender financing activity was to "greenfield" or boutique properties.

On existing properties where borrowers began to have difficulties, renegotiation and restructuring activities have increased. This has often been preceded by more active monitoring of loan portfolios including frequent meetings with borrowers and ongoing monitoring of financial reports of their operations.

Pricing of risk

Financiers have increased the spread of interest rates for loans to the tourism sector, with the variance between the lowest and highest interest rates being the largest since we began collecting data for the survey.

Interest rate margin (bps)

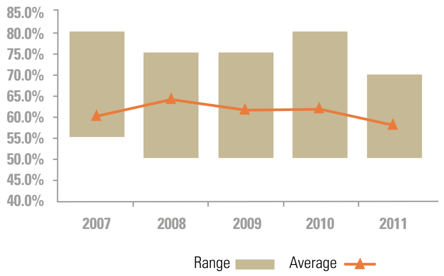


For the best clients, interest margins over base rate fell by 50 basis points, reflective of the increased competition for higher quality loans and some improvement in the global market as a result of the increased confidence as the larger economies stabilized following the financial crisis rescue packages.

Borrowers take more risk

Lenders are also requiring borrowers to take additional risk in hotel projects by lowering loan to value ratios. The impact of this is twofold (i) the lenders are able to reduce exposure as thinly capitalized projects are not likely to be financed, and (ii) a decrease in property values is likely to further impact existing loan exposures by creating restructuring conversations.

Loan to value



Lenders who were surveyed indicated that the number one characteristic of successful applicants was owner equity.

Loan to value ratios are the lowest since we began tracking this metric in the survey and average loan to values are also at historic lows.

The lower loan to value ratios when combined with the higher rates that are being charged for many loans in the portfolio it is apparent that lenders are much more cautious than may be generally understood.

Cash flow is still King!

Lenders who were surveyed also indicated that debt service and cash flow ratios have become more stringent.

Debt service ratio

Debt service ratios are at their highest level, since we began tracking this indicator in the survey. Average debt service ratios fell, possibly indicating that a greater percentage of the portfolio are higher quality creditors who are able to negotiate more aggressively, given the increased competition for their business.

Interest coverage ratios have increased significantly compared to last year, and are much lower than they were immediately after the financial crisis. Given the historical view it appears that interest coverage is close to long term expectations of lenders.

Interest coverage

73%

When asked what are the key indicators of a turnaround in the tourism sector 73 percent cited improvements in US and global economic outlook.

Outlook for Tourism

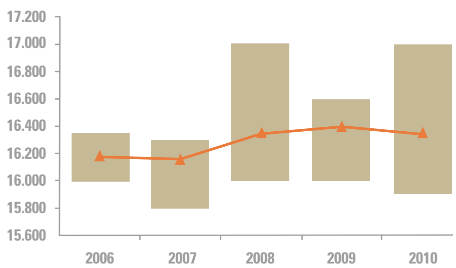
An uphill effort

There are many challenges facing the tourism sector in the region, some of which are local and within the control of regional leadership, and others which are outside of the region and over which regional leaders can exert little control.

Since the last survey there has been the implementation of the UK travel tax, increased awareness of regional crime in the international press, the conflict in the Middle East and North Africa, and significant increases in the price of oil on the world market.

The impact of these challenges, on the heels of the world's largest and deepest recession since the Great Depression, has come at a price. Regional stopover visitor arrivals have fallen in each of the last three calendar years and are now lower than they were in 2006.

Tourism stopover arrivals



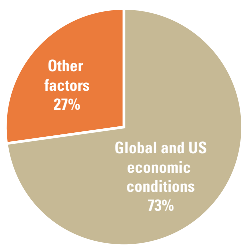
As would be expected some markets have fared better than others, however our survey did not seek to identify participants' feedback as to why some markets performed better.

With regard to stopover visitors, some of the winners were Cuba, Dominican Republic and Jamaica, with Puerto Rico and Bahamas being the biggest losers.

Many of the markets experienced little or no improvement in stopover visitor arrivals over the last five calendar years. Given the role that tourism plays in economic activity across the region this is likely to be a concern for policy makers.

Survey participants ranked global economic issues as being the most significant challenge and the strongest indicators of a turnaround in the tourism sector.

Tourism stopover arrivals



Interestingly issues such as operating costs, social issues, the UK travel tax, and the quality of hotel product were each thought to pose a significant challenge to the sector, by approximately two percent of the survey participants.

What makes a good project?

Those lenders who were surveyed believe that globally branded projects, which are well capitalized and carry low levels of debt to equity are the best positioned to succeed.

Lenders, not surprisingly, ranked low leverage as a key characteristic of successful projects. A well capitalized project and the presence of a global brand were seen as the two critical characteristics of successful hotel projects.

There was no clear consensus as to the importance of a range of other factors including airlift, beach front, whether or not it was targeted as a luxury property, or the level of government support.

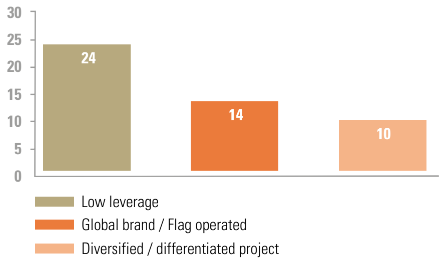
For those projects that had stalled, the responses from survey participants as to what was required to move the project forward focused on sponsor actions and in particular the need for (i) an assessment of the market, and (ii) an injection of additional equity to recapitalize the project.

One of the themes in these responses was that where the project had stalled, there was erosion in the credibility of the sponsors, and their initial assessment of the project's feasibility.

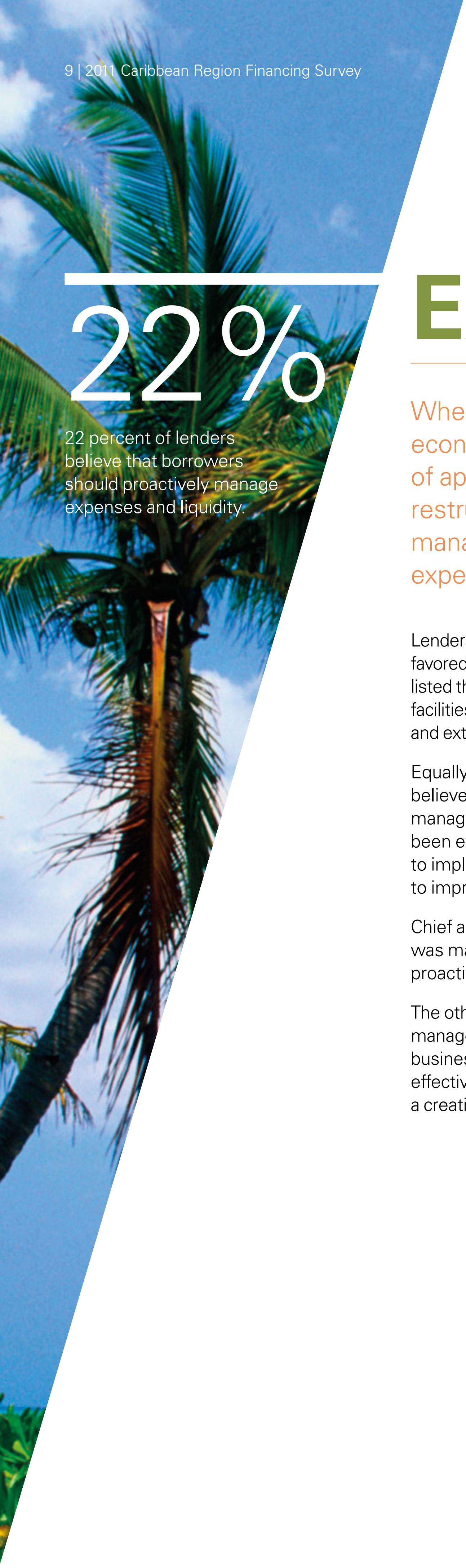
Seven of the 19 survey participants felt that sponsors should conduct a review of the feasibility assessment of the hotel project, and undertake a review of the competitive positioning of the hotel project.

The surveyed lenders did not indicate a willingness to take a "hair cut" on their current debt exposure.

Q. What are the characteristics of projects that have not failed and what are the characteristics of projects that are currently able to secure financing?



Base: 70 responses to question



22%

22 percent of lenders believe that borrowers should proactively manage expenses and liquidity.

Existing loans

Where clients have been negatively impacted by the economic downturn, lenders have embraced a number of approaches to assist the borrowers including a restructuring of the facility and increased relationship manager meetings to work through issues with borrowers experiencing difficulty.

Lenders when asked what were the most favored approaches to assisting clients, listed the restructuring of the existing loan facilities including covenant amendments and extension of loan maturities.

Equally important, the lenders surveyed believe that there was a need for management of the clients who have been experiencing difficulties, to implement a number of changes to improve operating performance.

Chief among the expectations of lenders was management of expenses and a proactive focus on liquidity and capital.

The other key actions were for management to demonstrate a proactive business plan with a focus on an effective marketing campaign and a creative sales strategy.

While the participants' answers in this question were not tied to the questions regarding what are the characteristics of successful hotel projects, we did note that many of the respondents who focused on additional marketing and sales strategy, also listed the hotel's flag and being a part of a large global brand as key success factors.

Q. Also, on existing loans, what are your expectations of your clients that have been negatively impacted by the economic downturn in terms of actions you wish to see from them during this period?

Base: 48 responses to question

KPMG’s Caribbean Travel, Leisure and Tourism Contacts

KPMG firms are represented in more than 20 countries in the region and have a specific knowledge and understanding of the of the business, cultural, and economic issues which influence the conduct of business in each country.

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