Key Developments and Growth in Global Ship-Finance

July 2017

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This year, we are releasing our Global ship finance research as a separate research analysis and will continue to do so in the future.

The bank loan portfolios to Global shipping presented here are as of 31st December 2016.

Petrofin Research © wish to thank all participating banks for their on-going support, without which this research would not have been possible.

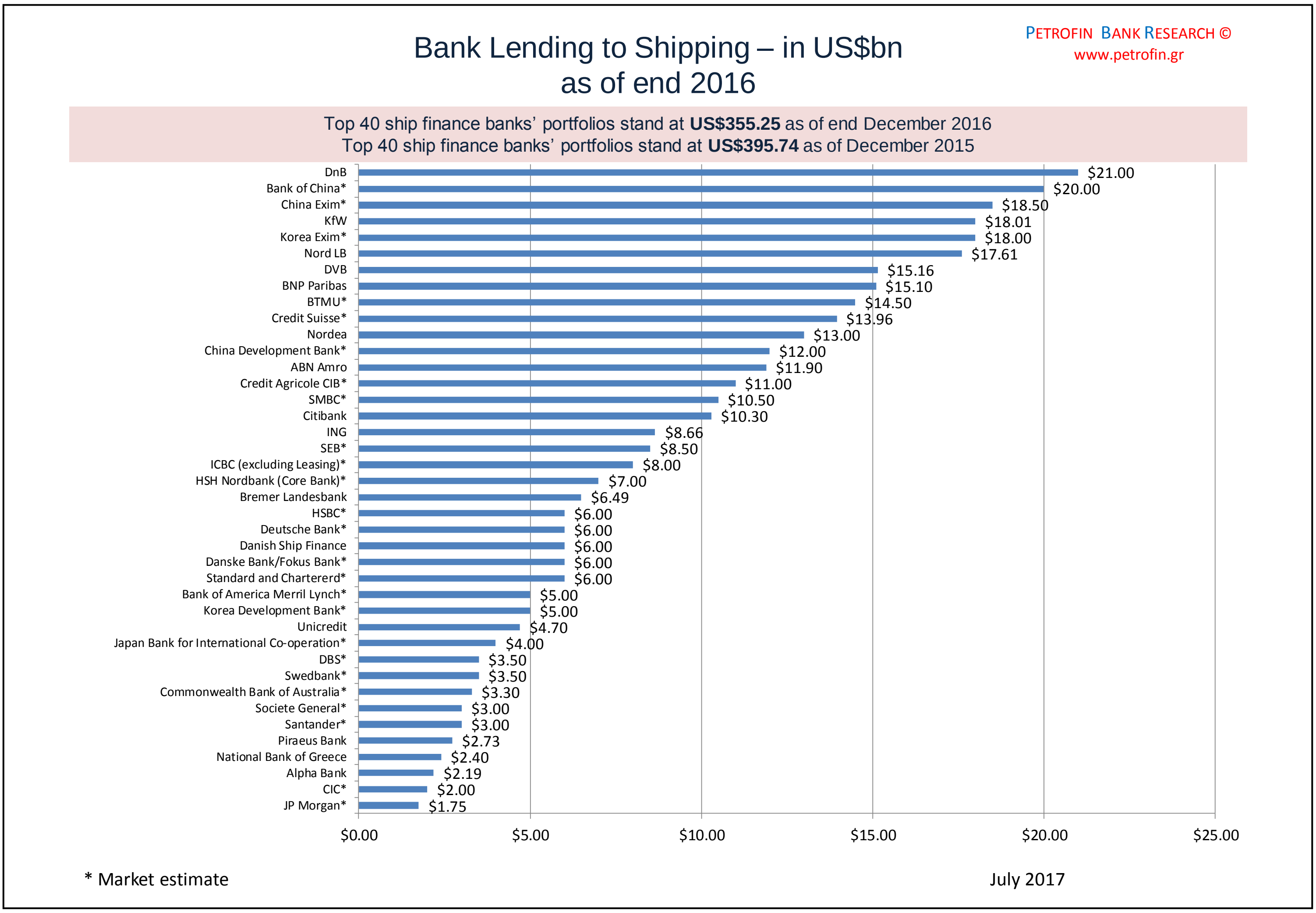
We also include the Petrofin Global Index, which monitors the global bank ship finance positions since 2008.

Contents

1. Top 40 Banks

We are pleased to present the latest Top 40 Global banks' lending as of December 2016, amounting to $355.25bn (see Graph 1).

Graph 1: The Top 40 banks have a total of $355.25bn exposure to shipping.

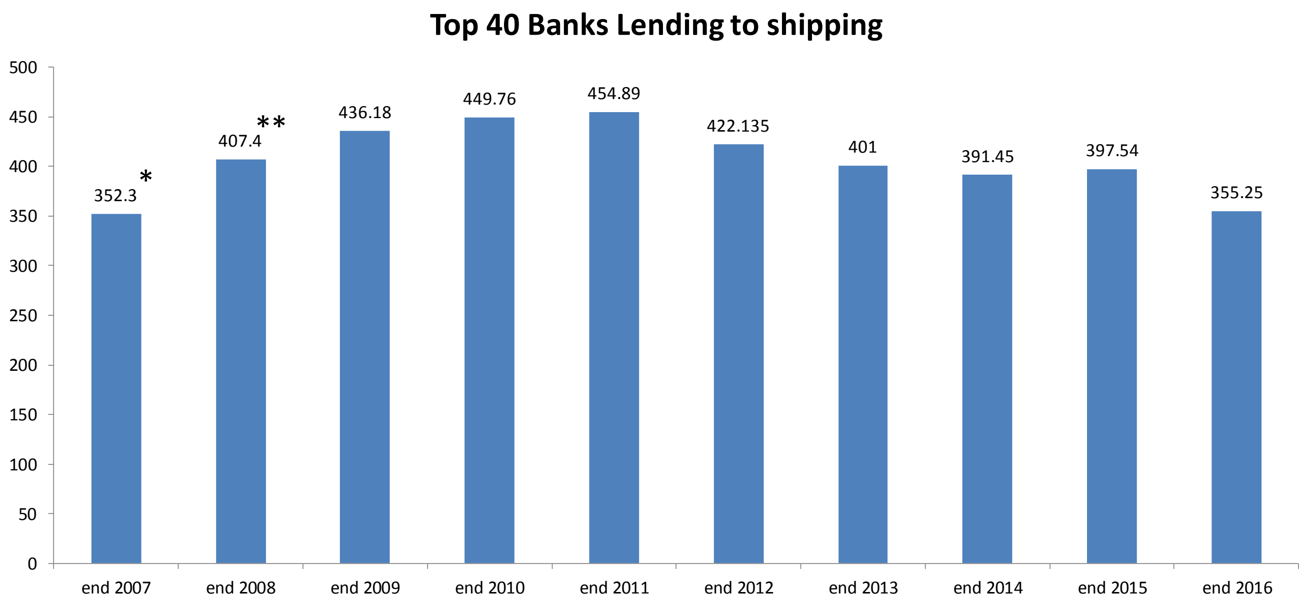


2016 marked a substantial drop in bank ship lending as can be seen in Graph 2. The fall by US$42.5bn is mainly attributed to the removal of Commerzbank and Royal Bank of Scotland, the lower bank portfolios by many banks, as well as a stabilization of exposure by Chinese banks, as a result of the sharp increase of Chinese Leasing.

Graph 2: Top 40 banks lending to shipping between 2007 and 2016

Source: Petrofin Bank Research © - July 2017

Top 40 Banks Lending to shipping 2007 – 2016 in $bn



* Figure based on 26 banks

** Figure based on 32 banks

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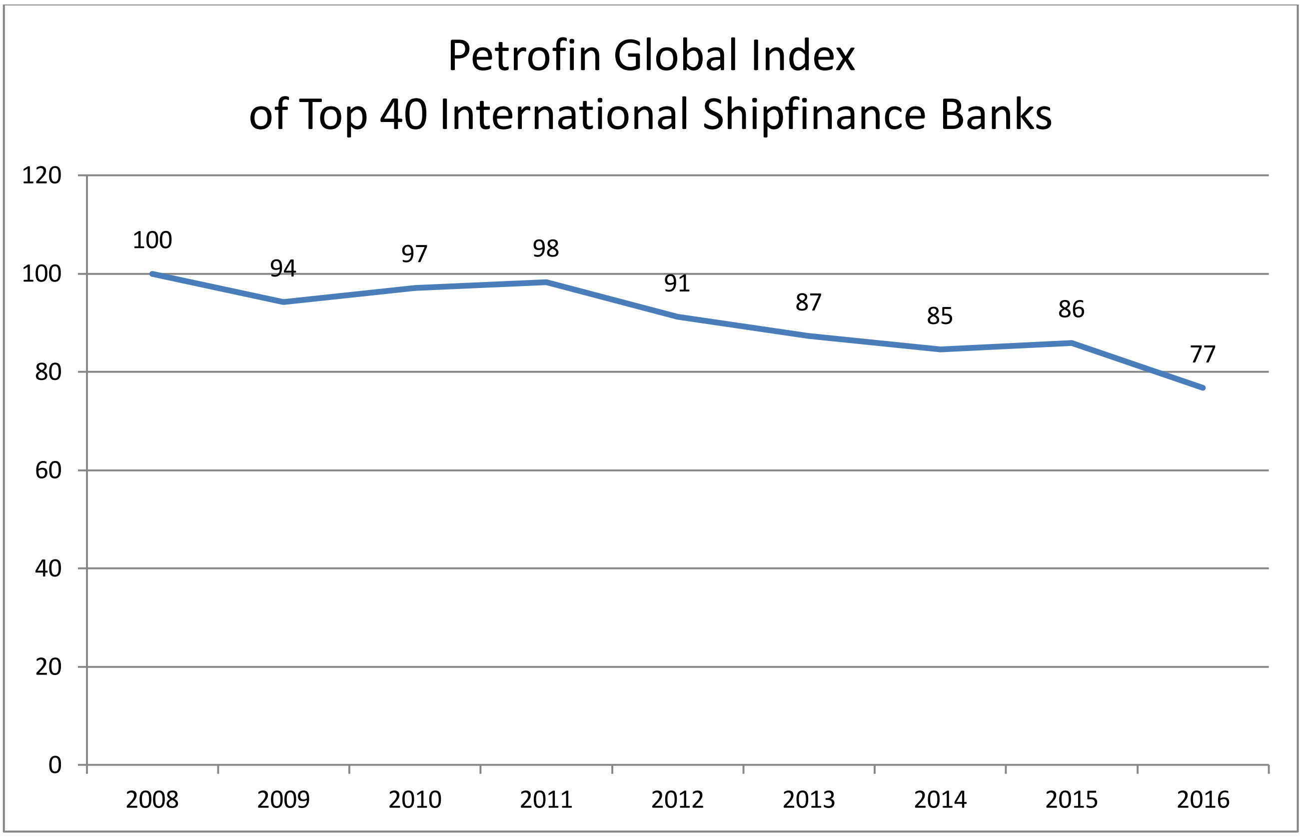
Global bank finance now stands at the 2007 levels. Bank sentiment is still affected by loan losses and high provisions, sales of portfolios to financial institutional funds, international and European restrictions and the still not so bright outlook of shipping, which makes shipping banks quite cautious and seeking safety through known and large clients, higher margins and low finance percentages, as well as stringent terms.

2. Petrofin Global Index of Shipfinance

In Graph 3, the Petrofin Global Index from 2008 till 2016[1] is in sharp decline for 2016. This becomes more apparent after last year's small rise. The index is standing at its lowest point since first published in 2008.

Graph 3: Petrofin Global Index of shipfinance –between 2008 - 2016



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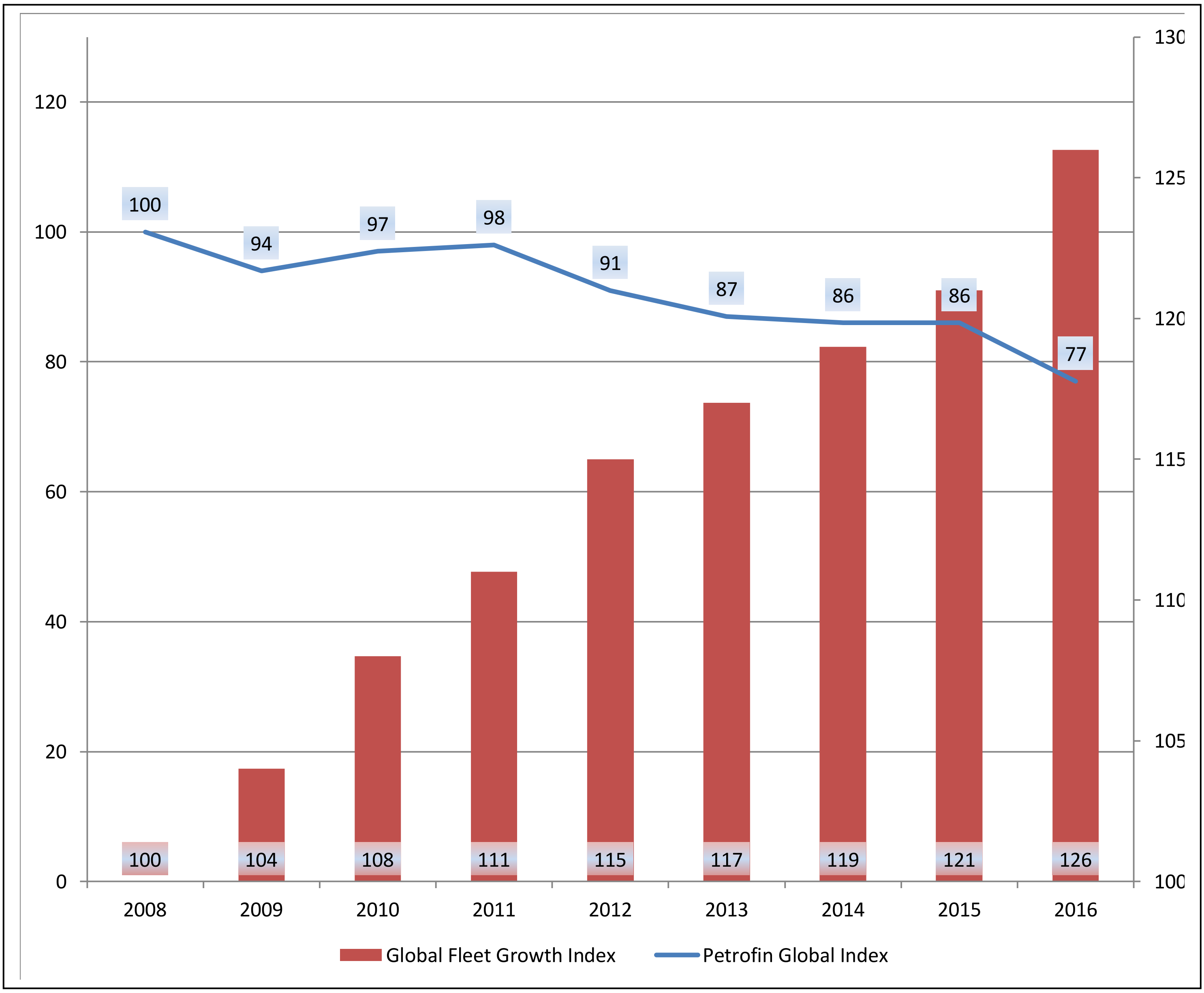
[1] The database is under continuous review

Graph 4: The Petrofin Global Index, compared to the indexed growth of the global fleet (fleet data from Clarkson's (World Fleet Register)



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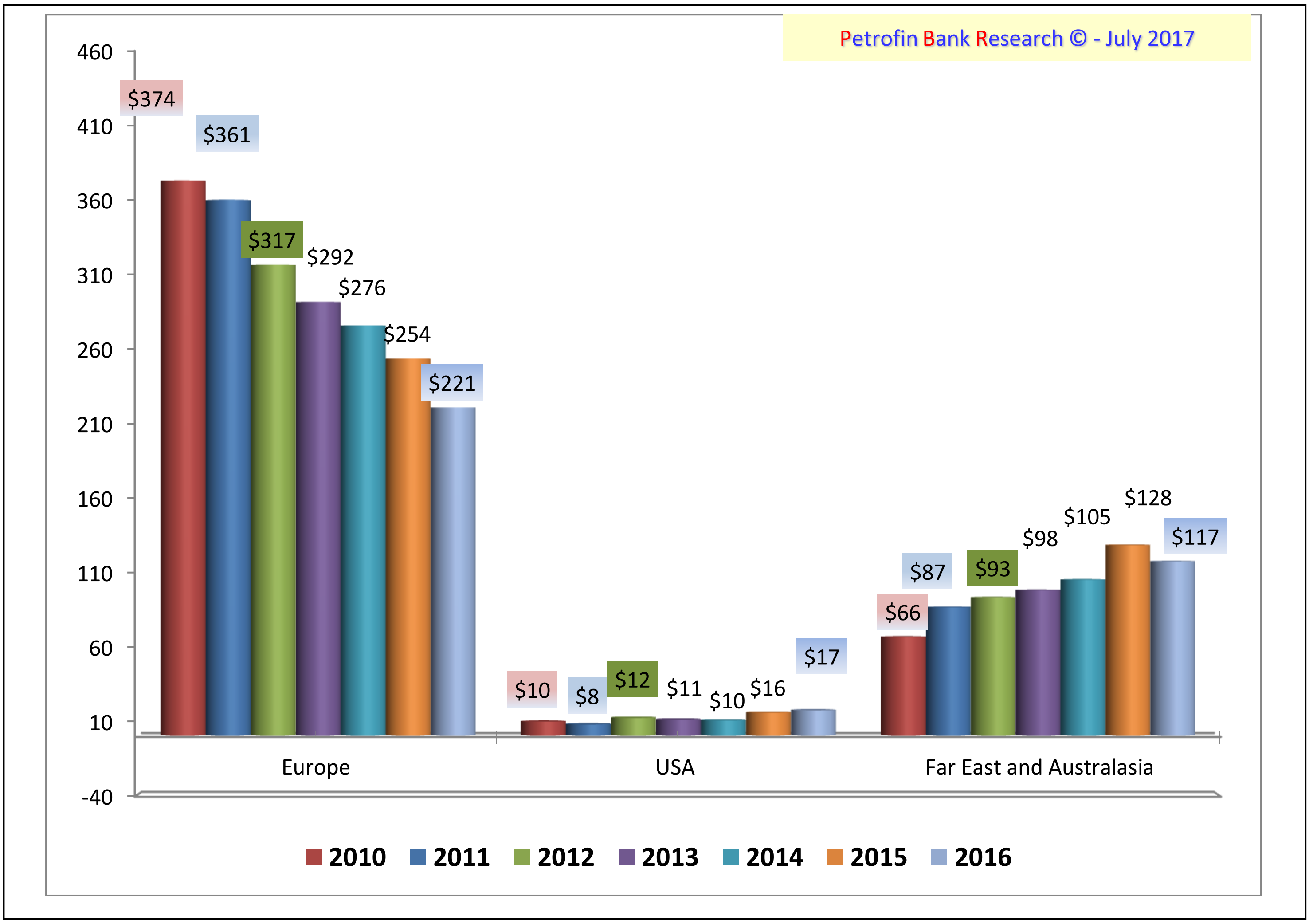
We note that although bank finance is coming down, the global fleet is expanding. This implies a) lower average bank finance per vessel, and b) new vessels are being financed by a combination of equity, leasing, funds and private individuals' equity. The fall is mostly attributed to the decline of interest and ability by Western banks to maintain their loan portfolios.

3. Nationality and Commitment of Banks

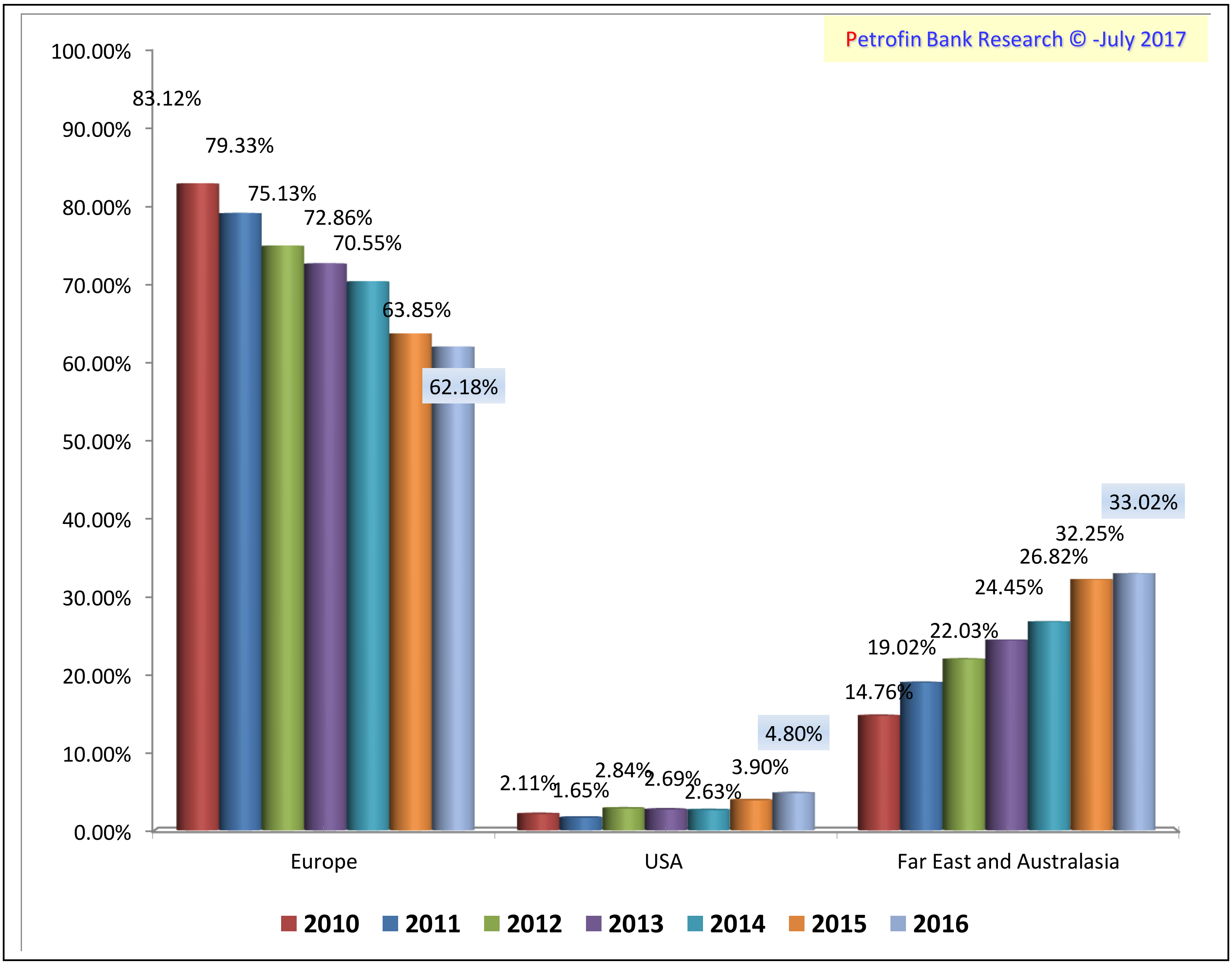
Graph 5 shows the trend of shipfinance per geographical region, over the years. Although the decline in Europe is very consistent, it is important to note that the Far East also shows a small fall, primarily due to the dominance of Chinese Leasing in financing new and second hand vessels. Ship leasing is not included in our research as the assets are owned by the leasing companies.

Graph 5: Breakdown of Global shipfinance portfolios according to geographical area, in US$bn



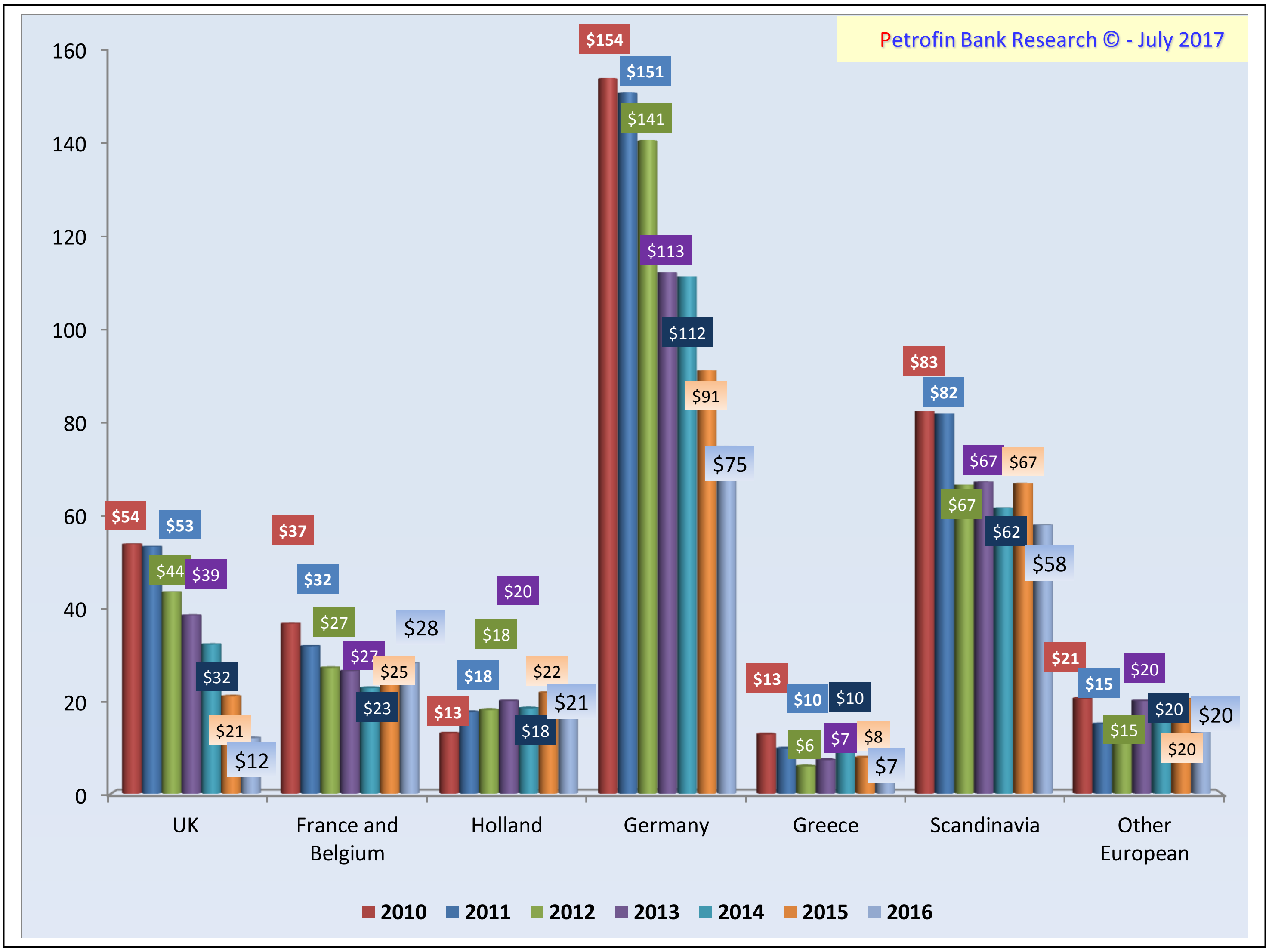
In the Graph below (Graph 6), it is important to observe that the fall in Far Eastern ship finance did not affect its share of the global portfolio. On the contrary, Far Eastern share has increased (from 32% to 33%) as European banks are declining faster. It should be noted that, although the Royal Bank of Scotland and Commerzbank may still have some shipping portfolio left, we have not included them this year, as they are selling these loans or the vessels at a fast pace.

Graph 6: Breakdown of Global shipfinance portfolios development according to geographical area, in % share of total



Putting the European bank global shipfinance portfolios under the microscope we observe that even Dutch and Scandinavian banks now are showing a slowdown (Graph 7). The French banks show a slight growth, as CIC has moved up in the top 40 banks this year.

Graph 7: European banks' global shipfinance development



Germany, traditionally the biggest lender, is falling sharply again this year. Greece, financing primarily the Greek fleet, has, under the well known economic situation of the country, managed to control their declining portfolios and have carefully continued to lend small amounts to clients. The UK and Ireland group has lost Bank of Ireland who have withdrawn from shipping. Other European banks show stability and continue cautiously.

4. The outlook for 2018 and beyond

Shipping markets are maintaining their cyclicality. The dry bulk market did recover from its lows in the early part of 2017, but since then has retraced a large part of its gains. Nevertheless, the rise in vessel values and earnings has provided some comfort to both owners and the banks, as well as a glimmer of hope.

The dirty and clean tanker markets are looking especially weak with very little in the way of immediate recovery prospects. The same and more applies to the offshore and LPG sectors and, to some extent, to the chemical markets. There was a brief rise in the container market, but it was short lived. In general, therefore, shipping markets across the board are not supportive to fresh bank lending.

Loan portfolios of banks have slimmed as a result of vessel sales, write offs, loan sales and normal reductions via repayments. This has been useful for Western banks seeking to contract their lending as a result of capital constraints. The one ray of hope is the US banks who are coming out of the difficult years in a more robust way and whose capital ratios are stronger and which have room to expand.

As outlined in the global ship finance survey, the Far East is showing a slowdown with shipfinance down and being taken up by leasing and export finance. In addition, Japanese banks have recently restarted lending to their domestic clients especially in the dry sector.

However, it is obvious, that these options are not open to medium / small owners. Chinese Leasing companies heavily rely on the size of the owner's company in order to discuss any transaction. As traditional bank finance has decreased substantially, this has left the medium to small owners relying on own funds and private equity. Nevertheless, some banks are preparing to join ship finance, which seem to cater for the medium to smaller owners. As these banks appear to have started committing funds during 2015-2016, we are bound to see them featuring in our research, in due course. Some examples are Warburg Bank and Maritime and Merchant Bank.

As a general conclusion, we anticipate that over the next couple of years, global shipfinance may form a base. The departure of the previous big lenders, RBS and Commerzbank and the reduction of HSH Nordbank, plus a lot of retrenchment by others, is expected to complete soon. On the other hand, successful banks with a bigger appetite for shipping, such as Credit Suisse, ING, BNP Paribas, ABN Amro and DVB should assist in the above base being formed.

Quality large Greek owners have begun to receive direct interest from Japanese and Chinese lenders in support of local newbuildings. Those owners with a good record in dealing with Far Eastern yards have an advantage.
Finally, for the banking sector as a whole, a recovery may only be anticipated when public market conditions shall be able to support fresh capital increases via the

public markets. Such capital for banks would allow them to grow again and it is expected that their interest in shipfinance shall return especially as the available margins are attractive and the clients and loans involved, of a very high level.

We shall continue to monitor global shipfinance via regular reports and the publication of our annual global index.