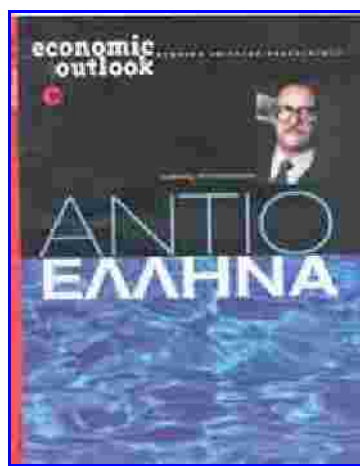










Greeks have specialised in investing in old vessels and have the ability to manage them well. However, now that our shipping has become a real force in Europe and internationally, the management is also starting to change both in depth and extent and goes beyond that of purely entrepreneurial character.

Number of shiplending banks falling

October 1999



According to a study conducted by Petrofin research, the overall number of shiplending banks has fallen from 161 in late 1998 to 100 in 1999, bringing the number down to the 1994/95 levels. The fall can be attributed to various factors, namely:

-  The pronounced shipping slump since 1997;
-  The poor risk/reward offered by shipping;
-  The record number of incidences of bank consolidation in the banking industry through mergers and acquisitions;
-  The greater emphasis shown by banks to risk free products and services;
-  The heavy capital requirements of the shipping industry and the 100% equity risk weighing on shipping loans;
-  The relative attractiveness of other lending sectors that compete with shipping.

It is significant to note that the number of active shiplending banks has fallen back to the original 1992 levels, i.e. from 49 banks in 1998, to 39 banks in 1999. The market considers that banks that have a higher shiplending involvement as a percentage of their lending assets are "higher risk" and as such these banks have placed an emphasis on reducing their dependency on shiplending.

The number of active minor shiplending banks has also fallen from 112 in 1998 to 93 in 1999 for the same reasons as the above, as well as the relative unattractiveness of the shiplending sector over the past years. This has reduced the number of new entrants into the market and encouraged the exit of a number of banks that had a low commitment to the industry in the first place.

It is interesting to note that the European subtotal has fallen from 32 major banks in 1998 to 26 in 1999, with the minor banks falling from 76 to 52 over the same period. This represents a major fall and it would seem that the Asian crisis had an initial major impact on the Far Eastern banks which was later followed by the European banks as the shipping crisis intensified.

With regard to the relative performance, it can be observed that Germany and Holland continue to be the main providers of finance with their numbers remaining fairly static. The UK however, continues to decline in importance followed by France and Scandinavia. The effects of the Far East crisis seem to have abated somewhat, and interestingly enough the number of Far Eastern banks has actually risen from 30 in 1991 to 39 in 1999, but this is still below the 1997 level of 52 banks.

It is noteworthy, within each subsector, that the Greek banks that had shown little interest in shiplending until 1995, have increased their numbers, as well as their loan portfolios. Although the number of banks may have declined, the shiplending capacity has not declined to the same extent. The greater emphasis on quality and size, as well as the age of the assets has resulted in a massive shift of interest towards new buildings and higher lending limits for a smaller number of clients.

Shipping banks have tended to promote their non-risk products and services and as such, shiplending is regarded as an essential prerequisite for the cross selling of other bank services.

The bank numbers shown reflect the commercial shiplending sector and do not cover the significant newfound interest in shipping by US and European investment banks. Although their role is minor and short-term, they are, however, significant in attracting long-term funding to the industry, as well as via the capital markets.

What of the future?

On the whole, just like shipping itself is a cyclical industry, so is shiplending, and as such, with the recovery of shipping now expected over the next couple of years, it is reasonable to expect that the number of shiplending banks will also grow.

It is believed that the following long-term trends will shape these numbers, together with the shipping interest of industrial countries or regions:

As shipping is increasingly concentrated in the hands of Greek and Far Eastern owners, so will the local banking industries respond and their interest rise.

The role of the traditional major European lenders will continue to decrease but international banks that have an active syndication business will remain important to the industry.

Major international banks will seek to combine their shipping interests with opportunities offered by the capital markets and, as such, the

distinction between commercial and investment banks will increase.

Long-term funding requirements of the shipping industry will attract the interest of insurance companies and other investment and pension institutions.

The increased size and corporate structure of the shipping industry will attract international interest in equity and quasi-equity involvement by investment institutions.

A return of junk bonds will be seen but on a more selective basis, with the role and responsibility of sponsoring banks increasing. The exit mechanisms shall be better defined and easier to implement than hitherto and a greater co-operation between the commercial banks and capital market institutions is foreseen. Commercial banks shall provide the higher risk portion.

Increasing attempts shall be made to securitize shipping so as to create room under shipping limits for fresh lending, as well as to reduce overall risk exposure.

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