

8th Greek Shipping and Ship Finance Conference
Athens

3rd – 4th May 2012

**Prospects for New Bank Finance
in 2012**

presented by

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HEAD

PETROFIN RESEARCH



Presentation outline

1. The global ship finance market

2. Analysis and trends in global ship finance

**3. What is the risk appetite for shipping finance by banks?
Will there be finance for everyone?**

4. Petrofin Bank Research for Greek ship finance

5. Where will new lenders come from?

6. Summary and Conclusions

1. The global ship finance market



- Global ship lending figures (drawn and committed) as of 01/12/2012 are estimated at \$525bn.
- The above includes the offshore support sector but excludes rigs and shipyard finance

1. The global ship finance market



- Although there has been an improvement in data flow from the Far East, the above totals may still underestimate the contribution of Far Eastern and Middle Eastern banks which do not make their figures readily available.
- The period 2009-2012 witnessed an upheaval in ship finance and its bank mix, as well as a significant reduction of loan commitments.
- Given the current total no of vessels in the global fleet of 86,905 (Clarkson's Fleet Register) of all types, sizes and ages, the average debt amounts to \$6m per vessel.

1. The global ship finance market

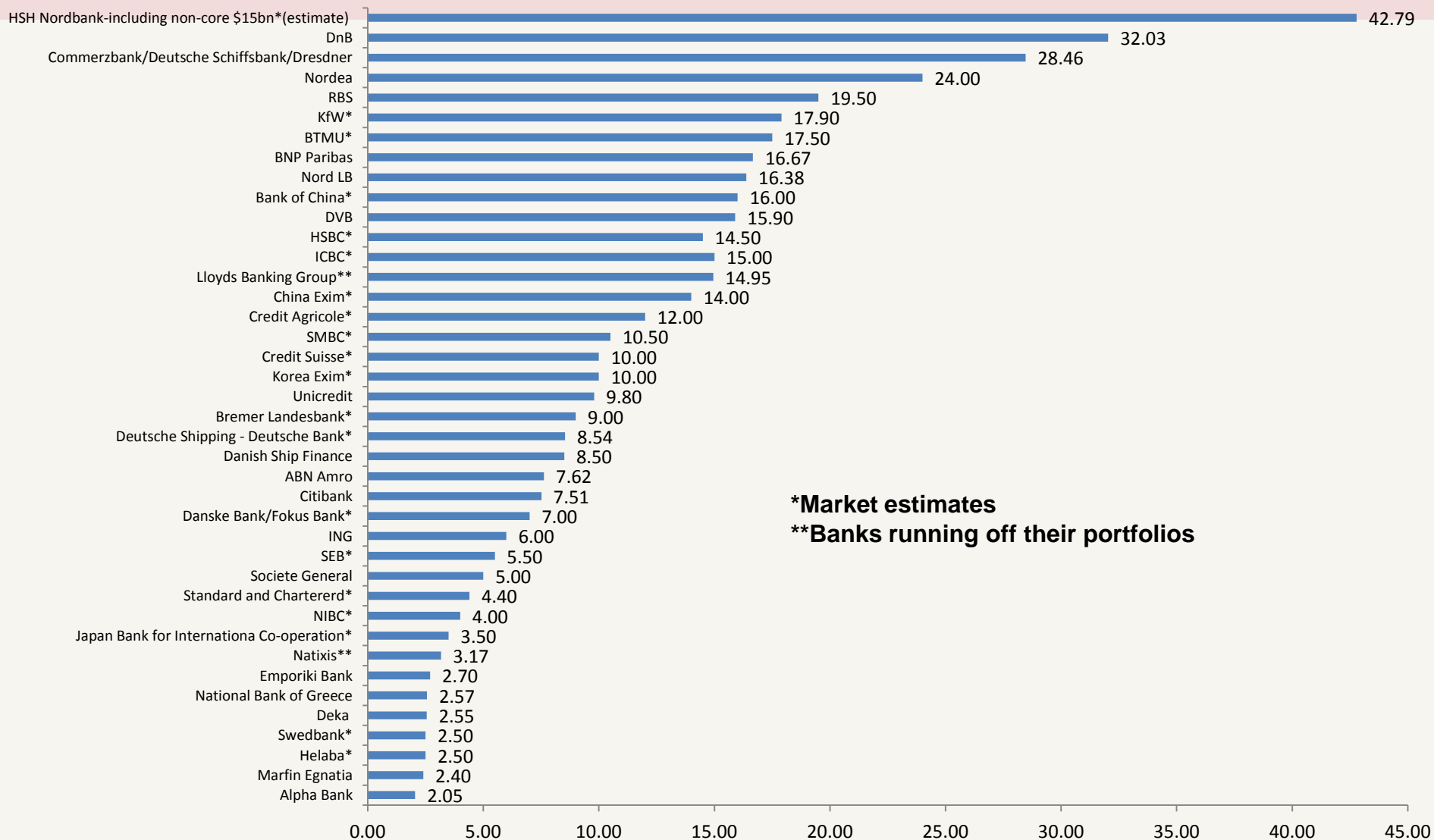


- In Graph 1, we present in this conference the latest Petrofin Bank Research © released today, on the shipping loan portfolio of the top 40 global ship finance banks, as of end 31/12/2011, representing \$454.89bn of total loans (86.65% of the total).

Bank Lending to Shipping

Ship finance based on data as of end 2011 – in \$bn

- Loans of leading 40 ship finance banks approximately at \$454.89bn
- Last year's top 40 bank loan portfolios: \$449.76bn

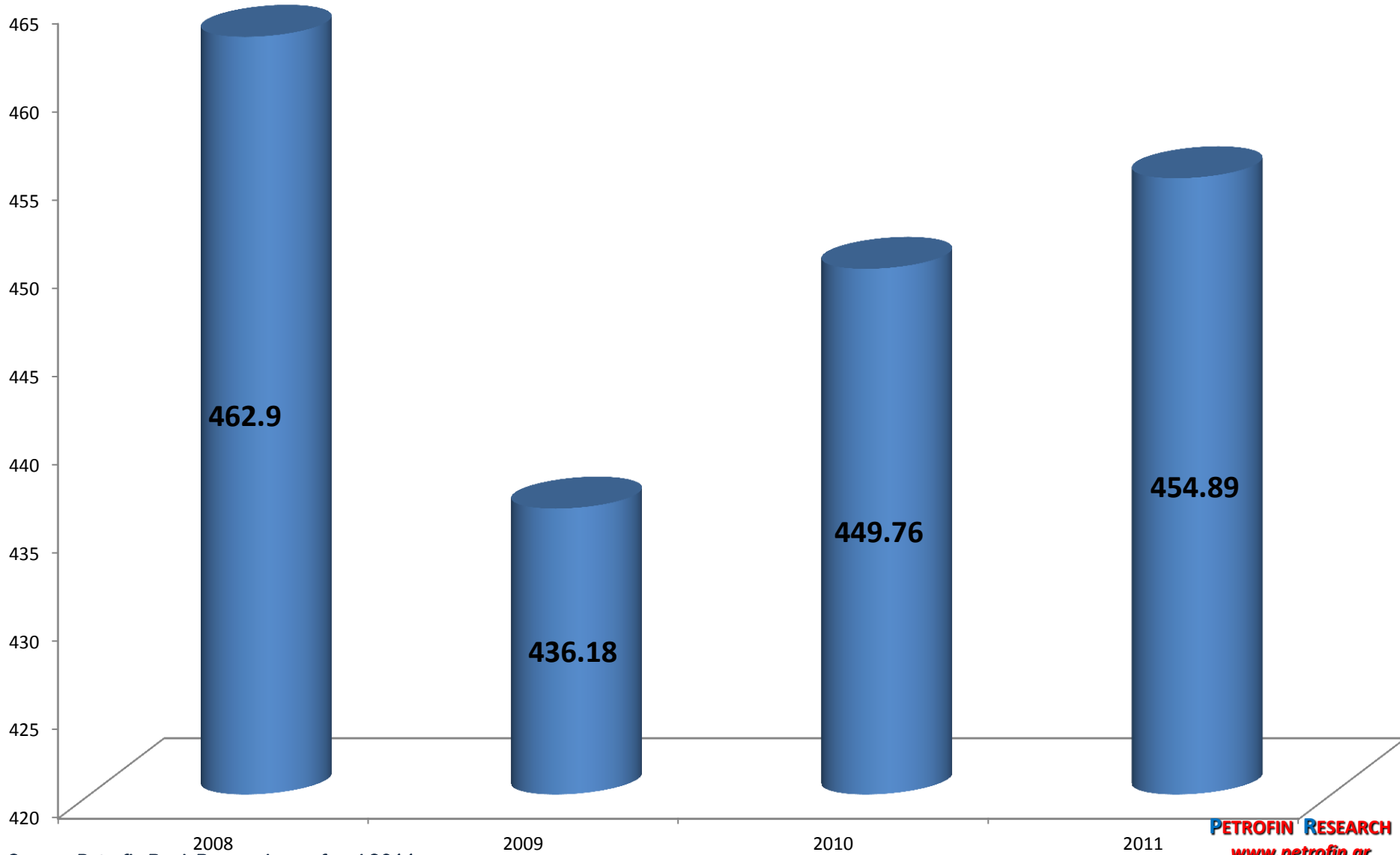


*Market estimates

**Banks running off their portfolios

Graph 2

Top 40 banks– 2008 – 2011 In USbn

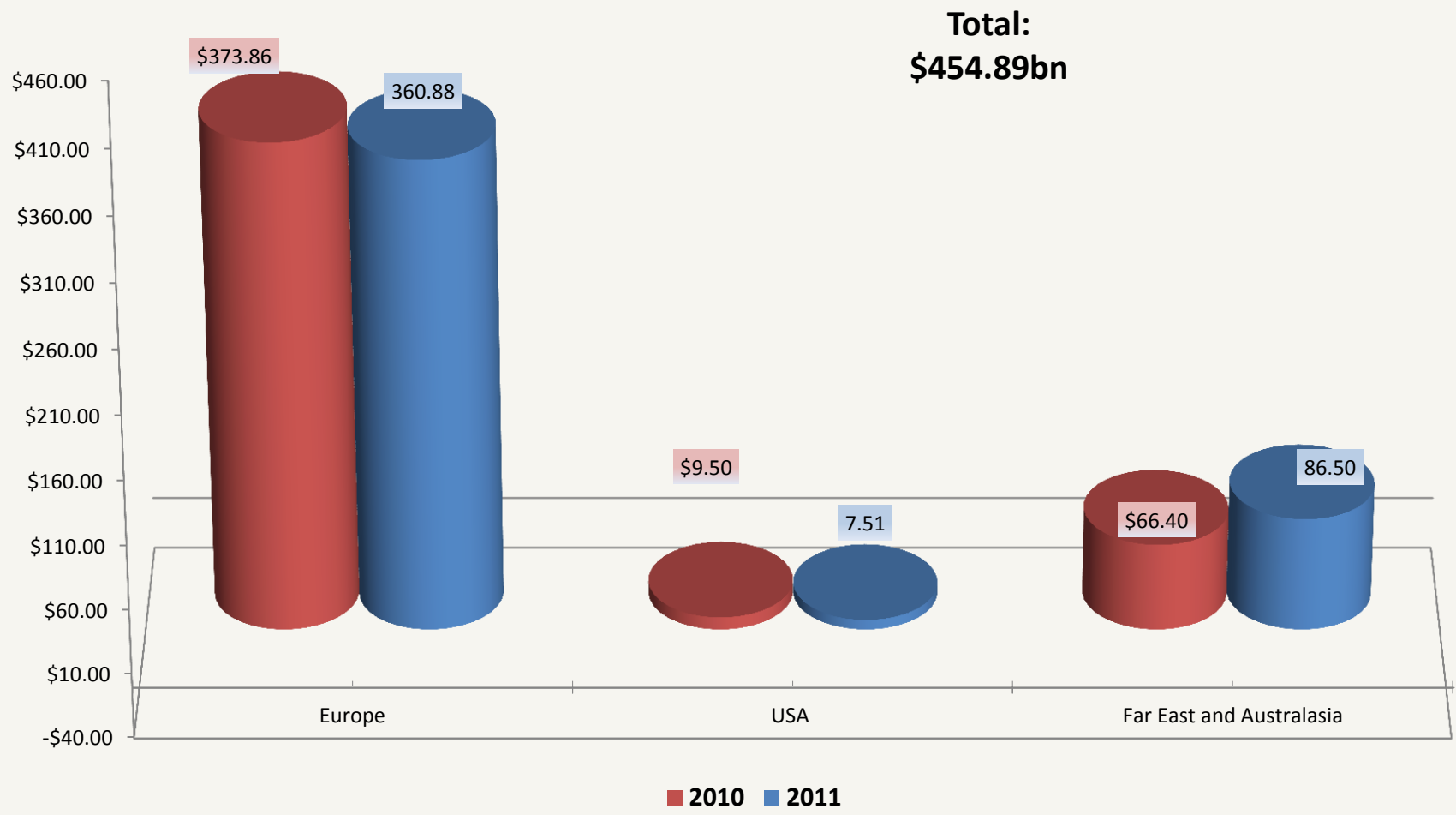


Source: Petrofin Bank Research as of end 2011

Graph 3

Bank Lending to Shipping

Geographical distribution of global ship finance – 2010 -2011 – in \$bn



Source: Petrofin Bank Research May 2012

1. The global ship finance market



- Global shipping portfolio is estimated to have risen to \$525bn, last year, although, the top 40 banks show only a modest increase from \$449.76 to **\$454.89**. The reason lies with the growth of small ship finance banks, outside the top 40, in sharp contrast to the majority of the major European banks, which still hold the lion share of the top forty.



1. The global ship finance market

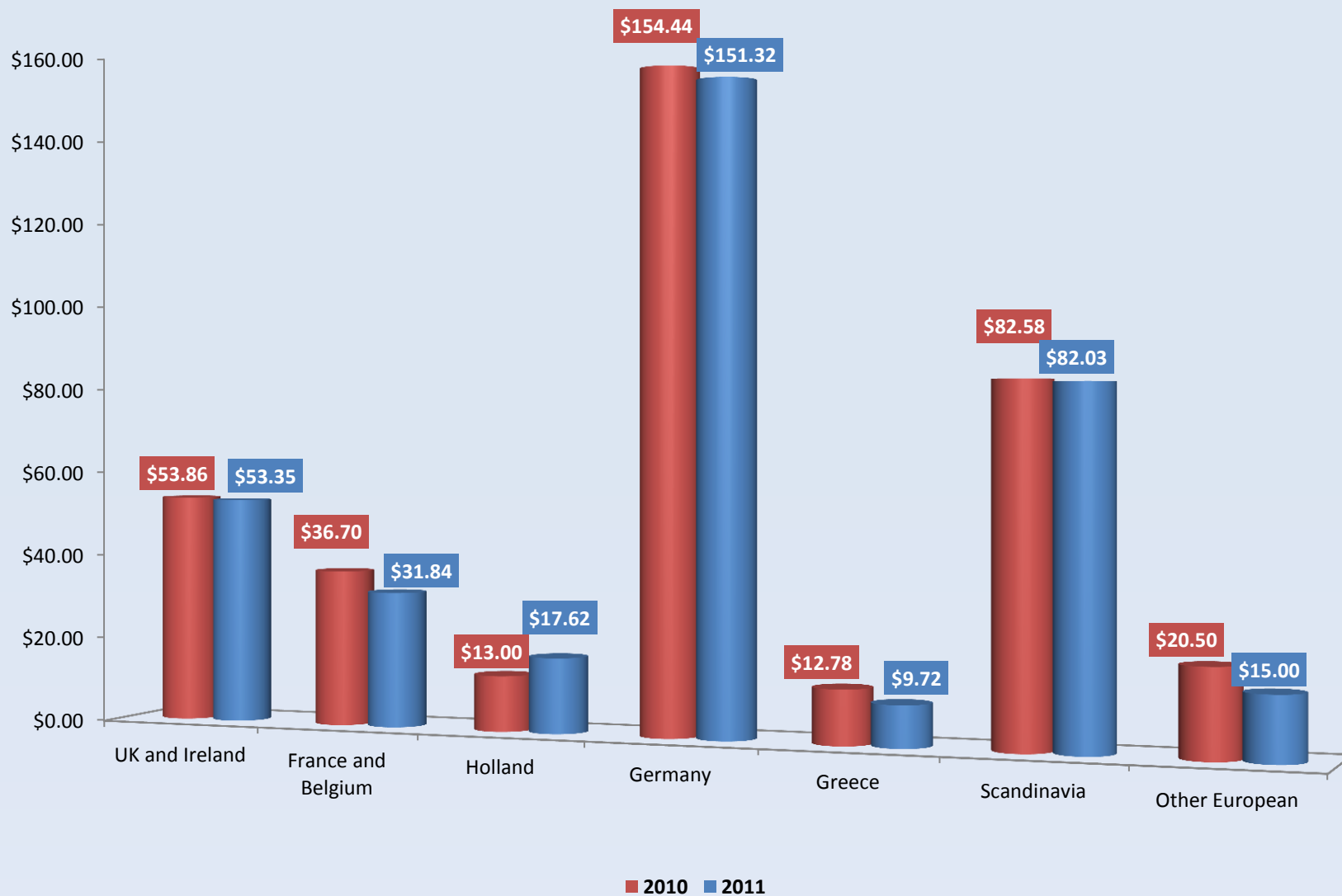
- Last year, the top 6 shipping banks, with a combined portfolio of \$175.6bn, accounted for approx. 40% of the top 40 shipping finance exposure.
- This year the top 6 banks' share is \$164.8bn compared to \$167.68 last year, accounting for 31.37% of the top 40 ship finance banks.
- Lastly, European bank exposure accounted for 83.12% of the top 40 total in 2010 and **79.33%** as of end 2011.



European banks – Comparison between 2010 and 2011

-3.47% overall decrease in 2011

Graph 4





2. Analysis and trends of global ship finance

Trends and expectations over the next 3 years

2. Analysis and trends of global ship finance



The global bank lending is affected by:

- Continuing de-leveraging process now in its fourth year.
- The IMF global GDP growth estimates for 2012, 2013 and 2014 are: 3.5%, 4.1% and 4.4% respectively. China's growth too slowed down to under 9% but expected to rebound in 2013-2014.
- Expected relaxation of European austerity programme to stabilize and assist in the recovery of the European economy.

2. Analysis and trends of global ship finance



The global bank lending is affected by:

- The recapitalization of European banks in 2012-2013 shall slowly increase banks' ability to lend to shipping.
 - International liquidity and confidence expected to recover
- Helped by market inefficiencies (slow steaming, long GOA passages, congestion, etc) international trade growth expected in the region of 4-5% in 2012, rising to 5-6% in 2013 and 2014.



2. Analysis and trends of global ship finance

The global bank lending is affected by:

- Increasing market and consumer uncertainty undermining confidence and growth in 2012 but expected to recover in 2013.
- Basel III, imminent capital adequacy constraints and enhanced central bank supervision
 - Current bank share prices restrict ability to raise new capital
 - European banks increasingly turning to state or EU support
 - Bank risk appetite has been significantly reduced



2. Analysis and trends of global ship finance

The global bank lending is affected by:

- Liquidity via the international money markets still constrained due to lack of counterparty confidence and banks' preference to hold on to liquidity.
- Deposits increasingly channeled to central banks and not to the interbank market, for risk reasons.
 - Increased sovereign and customer risk provisions/losses
 - Higher cost of capital, specially for European banks
 - European banks hardest hit amidst a recessionary European economic environment whilst Far Eastern banks still have lending capacity.



2. Analysis and trends of global ship finance

Global ship finance affected by:

The lending ability and willingness of banks to lend to the shipping industry

- The lending ability is severely restricted by the reasons mentioned earlier
- The willingness is affected by:



2. Analysis and trends of global ship finance

Global ship finance affected by:

- The uncertain prospects for the shipping industry, i.e. over capacity/ excessive supply across most shipping sectors and cyclicity considerations
 - Low vessel prices and cashflows
 - Insufficient cashflows to secure both debt repayments and operational requirements for an increasing number of owners across all client sizes
- Deteriorating quality of lenders' existing loan portfolios; rising level of provisions and losses



2. Analysis and trends of global ship finance

Global ship finance is affected by:

- Bleak shipping capital market prospects/inability to raise capital
 - Low market values of shipping quoted companies
- Risk / reward for lending to the shipping industry versus other sectors / lending opportunities
 - Will ship finance banks re-lend what they receive via their loan portfolio run offs?



2. Analysis and trends of global ship finance

Global ship finance affected by:

- Reduced competition among shipfinance lenders
 - Quoted vs. unquoted shipping borrowers
- Exit/reduction strategies by some European lenders
 - Availability of secured income



2. Analysis and trends of global ship finance

BUT

- High loan margins and fees
- Stricter client selection favouring larger clients
 - Higher loan margins and fees
 - Stricter terms and financial covenants
 - Lower level of loan to asset advances
 - Ability to attract new lenders



3. What is the risk appetite for shipping finance by banks? Will there be finance for everyone?

- We divided the top 40 banks between banks with a reduced capacity, banks with lending capacity and banks with neutral/unclear policy.

- We compared the findings with those of 2010 to determine if the ship finance climate is improving, has remained static, or is worsening.

- The results are shown in Graph 5, below:

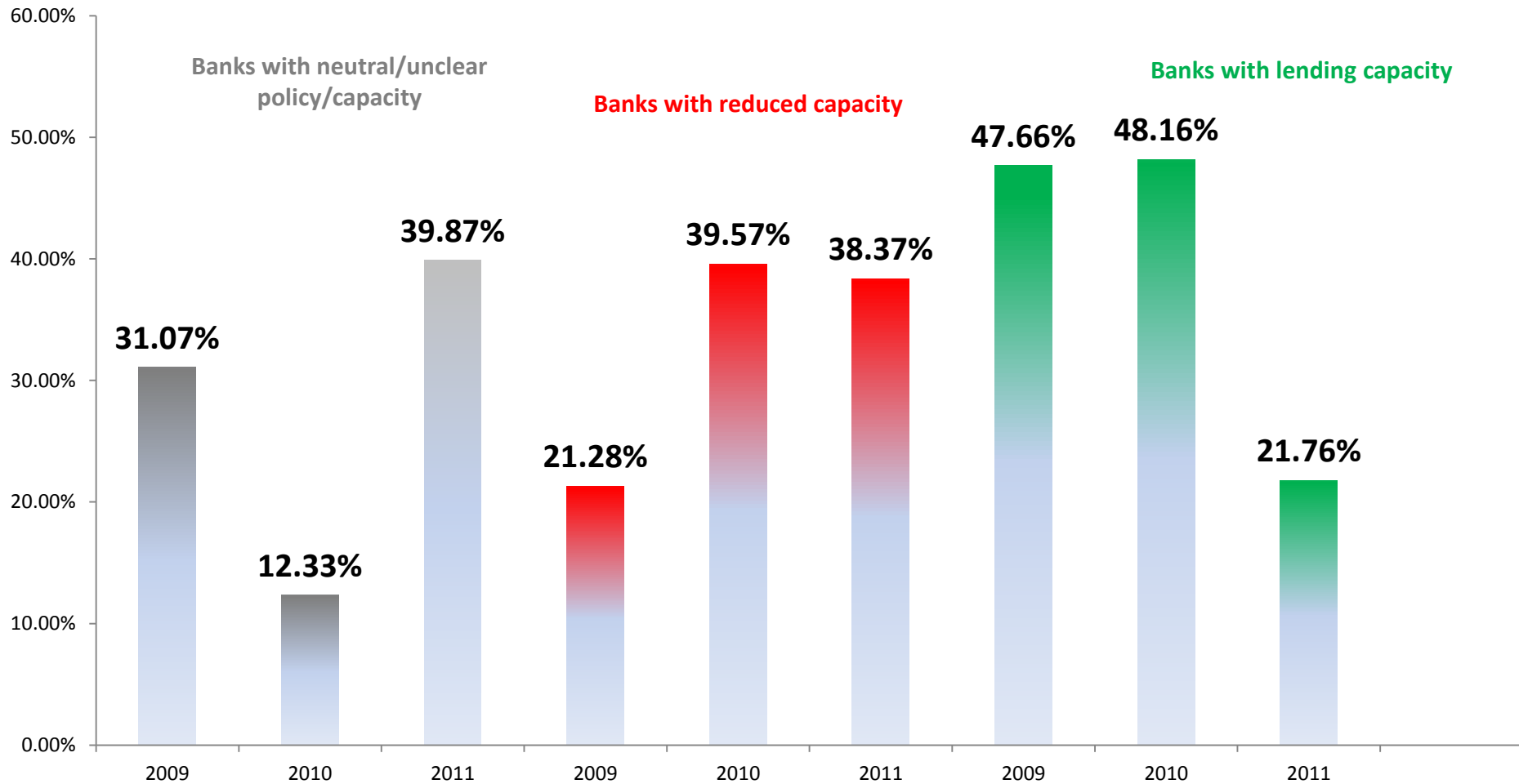


Global ship finance portfolios

2009, Top 40 banks: 462.9bn
2010, Top 40 banks: \$449.76bn
2011, Top 40 banks: \$454.89bn

May 2012

Graph 5





3. What is the risk appetite for shipping finance by banks? Will there be finance for everyone?

- We note that a lot more banks have joined the unclear policy/capacity sector
- The lending capacity has receded
- The picture that emerges is that there is not sufficient finance for all, but only for the select few.

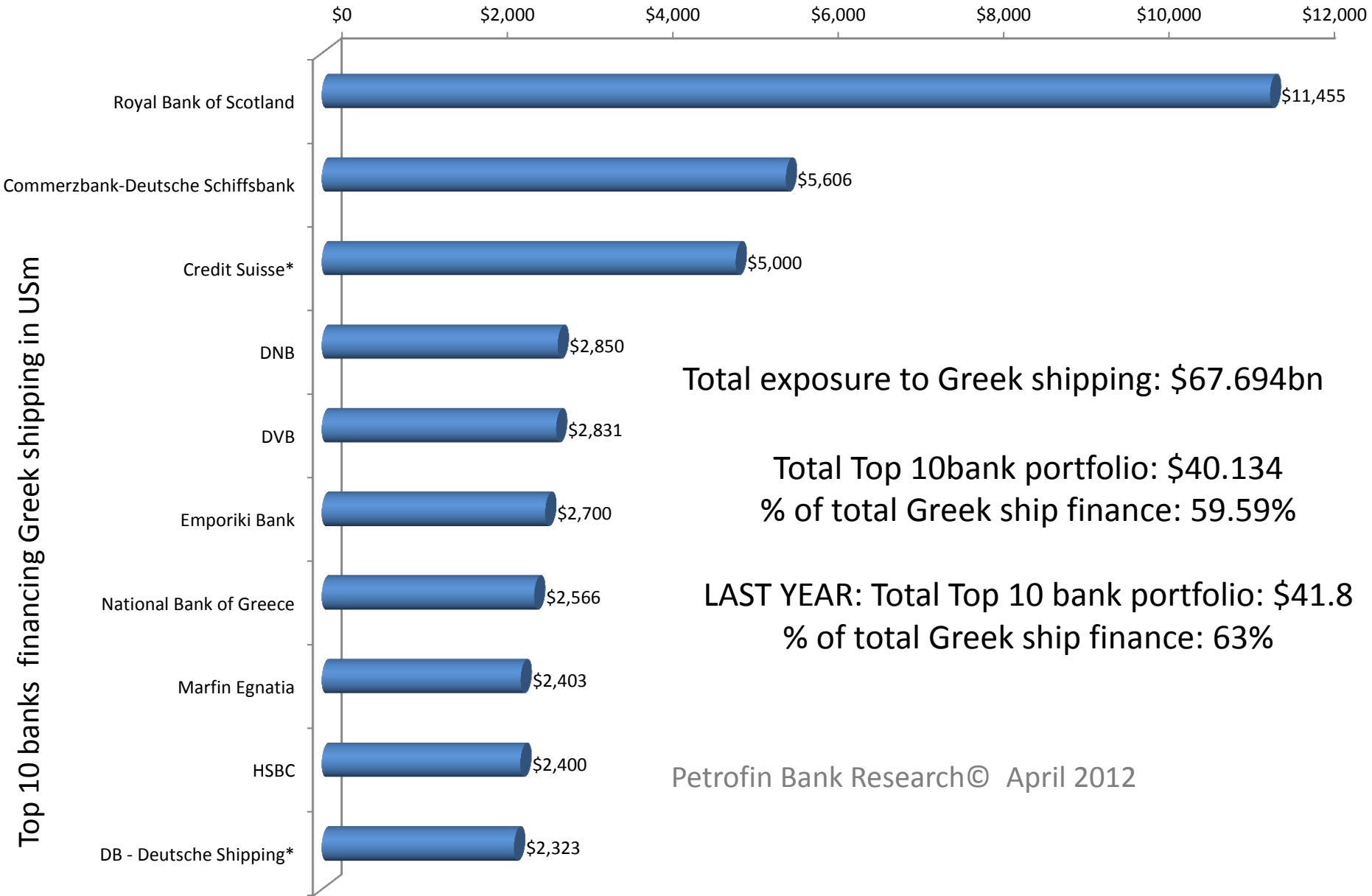


4. Petrofin Bank Research for Greek ship finance

Greek ship finance – presenting the latest Petrofin Bank Research as of end 2011, released April 2012



Top 10 banks financing Greek shipping



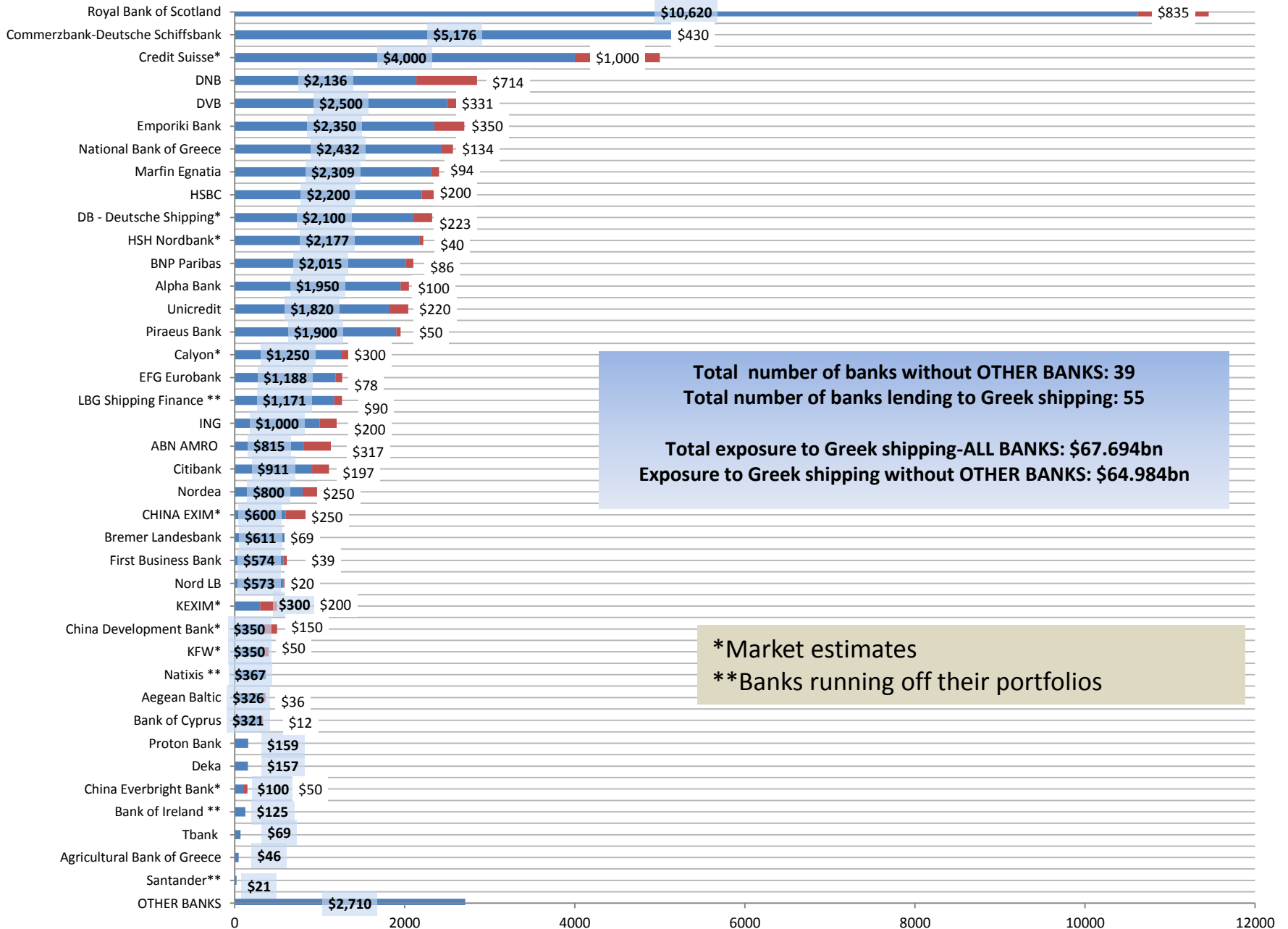
Petrofin Bank Research© April 2012

* Market estimate

■ Top 10 banks financing Greek shipping

All banks financing Greek shipping

All banks financing Greek shipping in US\$



Total number of banks without OTHER BANKS: 39
Total number of banks lending to Greek shipping: 55

Total exposure to Greek shipping-ALL BANKS: \$67.694bn
Exposure to Greek shipping without OTHER BANKS: \$64.984bn

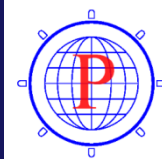
*Market estimates
 **Banks running off their portfolios




4. Petrofin Bank Research for Greek ship finance

	December 2001	December 2002	December 2003	December 2004	December 2005	December 2006	December 2007	December 2008	December 2009	December 2010	December 2011*
Growth percentage		28.66%	20.19%	26.61%	11.62%	28.45%	44.31%	9.39%	-8.478%	-1.17%	2.20% -1.89%
Total Greek Shipping Portfolio	\$16,525m	\$21,261m	\$25,554m	32,353m	\$36,112m	\$46,387m	\$66,941m	\$73,228m	\$67,020m	\$66,235	\$67,694 \$64,983
Petrofin Bank Research © - April 2012											

*16 other banks were added this year through syndications of Greek public companies. Without these, the overall Greek portfolio is down by 1.89%. With them, it is up by 2.2%



4. Petrofin Bank Research for Greek ship finance

Petrofin Bank Research © April 2012 	Overall Greek ship lending portfolio as of end 2011	Overall Greek ship lending portfolio as of end 2010	Overall Greek ship lending portfolio as of end 2009	Overall Greek ship lending portfolio as of end 2008	Percentage of growth between December 2010 and December 2011	Percentage of growth between December 2009 and December 2010	Percentage of growth between December 2008 and December 2009	Percentage of growth between December 2001 and December 2011	Average yearly growth since 2001
International Banks WITH a Greek presence	\$35,290.47	\$35,882.29	\$36,777.31	\$38,984.4	-1.65%	-2.43%	-5.66%	400.57% (Between 2001 and 2010: 408.97%)	17.48% (Between 2001 and 2010: 19.82%)
International Banks WITHOUT a Greek presence	\$17,886.81	\$14,468.76	\$14,101.65	\$17,299.5	+23.62%	+2.60%	-18.49%	190.13% (Between 2001 and 2010: 134.69%)	11.24% (Between 2001 and 2010: 9.94%)
Greek banks	\$14,517.08	\$15,883.60	\$16,140.55	\$16,944.24	-8.60%	-1.59%	-4.74%	338.58% (Between 2001 and 2010: 379.87%)	15.93% (Between 2001 and 2010: 19.04%)
Total	\$67,694.36	\$66,234.65	\$67,019.51	\$73,228.14	+2.20%	-1.17%	-8.48%	309.65% (Between 2001 and 2010: 300.81%)	15.14% (Between 2001 and 2010: 16.68%)

Petrofin Bank Research © - April 2012



4. Petrofin Bank Research for Greek ship finance

Trends and expectations for Greek ship finance over the next 3 years



4. Petrofin Bank Research for Greek ship finance

Greek ship finance has been adversely affected by

- 1) Reliance on western banks, which have an overall limited ability to maintain lending / expand
- 2) Difficult position of Greek banks due to the Greek Economic crisis
- 3) Difficulties faced by some of the lending banks to the Greek sector



4. Petrofin Bank Research for Greek ship finance

Greek ship finance has been adversely affected by

- 4) Absence of significant new banks (other than Far Eastern banks)
- 5) Uncertain prospects for the shipping industry
- 6) Concern over future vessel values and future cashflows affecting banks' loan portfolios



4. Petrofin Bank Research for Greek ship finance

However,

1. Greek shipping has been remarkably free of shipping company failures
2. Greek owners are proving adept to coping with shipping crises
3. Greece's confidence in shipping remains strong
4. Greek shipping still cashflow positive
5. Bank loan portfolios for Greek shipping still strong
6. Current tight Greek ship finance conditions enhance bank loan yields and ability to obtain stricter terms / financial covenants



4. Petrofin Bank Research for Greek ship finance

However,

7. Loan to asset new advances remain attractively low
8. Banks able to select clients / loan transactions
9. Greek shipping's cash reserves an attractive consideration for banks
10. Credit relationships between banks and Greek borrowers remain strong and mutually supportive
11. Greek shipping sector remains attractive in relation to other potential lending sectors

5. Where will new lenders come from?

- Europe
- Far East
- USA
- OTHER





Summary and conclusions

We remain reasonably optimistic of a gradual return of confidence, both for the banking industry as well as for shipping from 2013 onwards, assisted by a recovering global economic and banking environment.