21st Lloyd's Shipping Economist Ship Finance and Investment Conference 2008

Bank Ship Finance: Effects of the Credit Crunch and Future Prospects

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Issues to discuss today

1. Results of a Top International Ship Finance Bankers' survey, conducted by Petrofin S.A. between 27th to 31st October 2008.
2. Changing banks' attitudes towards shipping risk / reward.
3. Changes in the structure and terms of shipping loans.
4. Conclusions

1. Presenting the results of a top international ship finance banks' survey

We posed, between 27th to 31st October 2008, 14 questions to 23 top ship finance bankers, controlling over $210.6bn in shipfinance loans.

The results are as follows:

1. Presenting the results of a top international ship finance banks' survey

Q1: Do you think that ship finance activity will re-commence:

		Bankers' responses
1.	Within 3 months	8.70%
2.	Within 3-6 months	**34.78%**
3.	Within 6-12 months	30.43%
4.	Later	26.09%

So, if you are looking for finance right now, it will be very tough going. 35% of bankers believe you should knock on their door in 3-6 months' time, and a significant 30% do not want to see you until spring and beyond.

1. Presenting the results of a top international ship finance banks' survey

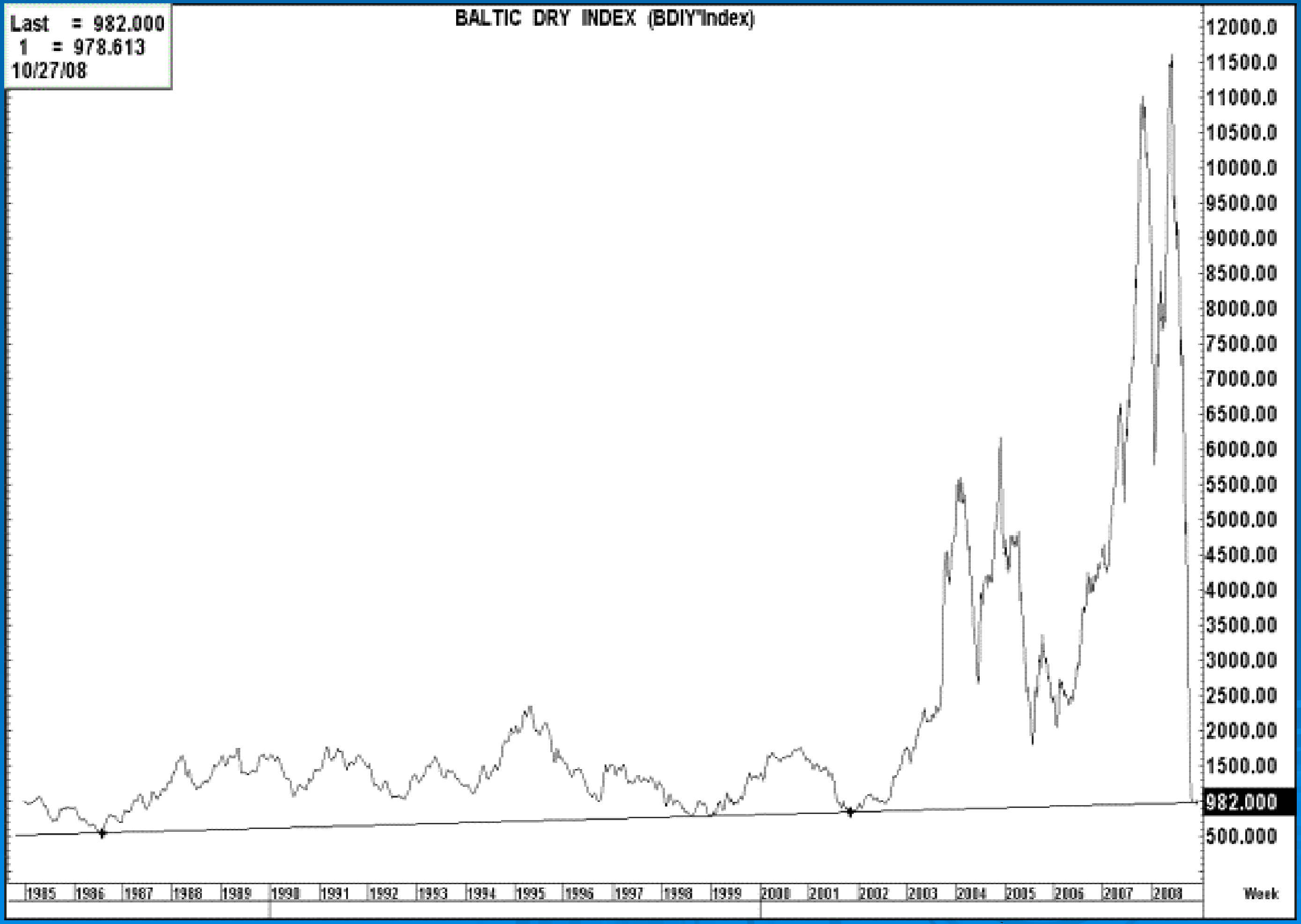
Q2: Do you think that the shipping freight markets across all sectors:

		Bankers' responses
1.	Have bottomed now	43.48%
2.	Shall bottom within next 3-6 months	34.78%
3.	Shall bottom within next 6-12 months	13.04%
4.	Shall bottom in over 12 months	8.70%

Just over 43% of the bankers believe that now is the worst we are going to see in freights. They seem to be highly influenced by the collapse in dry bulk rates. A 35%, however, expect the worst to occur until May and the rest are bracing up for a longer wait.

1. Presenting the results of a top international ship finance banks' survey

The BDI since 1985



1. Presenting the results of a top international ship finance banks' survey

Q3: Do you think that vessel prices across all sectors:

		Bankers' responses
1.	Have bottomed now	13.04%
2.	Shall bottom within next 3-6 months	26.09%
3.	Shall bottom within next 6-12 months	26.09%
4.	Shall bottom in over 12 months	34.78%

The situation is different regarding vessel prices. Most of the bankers believe that we have not seen the worst yet. This is a very reasonable thought, considering we have not seen ANY reported sales, yet, and given that vessel values lag behind movements in freight rates.

1. Presenting the results of a top international ship finance banks' survey

Q4: Do you expect China's economic growth, currently running at about 9%, in the next 12 months to:

		Bankers' responses
1.	Stay the same	13.04%
2.	Drop to 6-9%	**56.52%**
3.	Drop to 0-6%	21.74%
4.	Drop to negative numbers	4.35%
5.	Rise?	4.35%

Most of the bankers (56.5%) see a relatively mild drop in China's growth to 6-9%. This is encouraging. 22% of bankers, however, do not exclude a sharp worsening of China's performance.

1. Presenting the results of a top international ship finance banks' survey

Q5: Do you expect the overall global ship finance portfolio (loan+commitments) in the next 12 months to:

		Bankers' responses
1.	Increase by up to 10%	4.35%
2.	Stay the same	21.74%
3.	Reduce by up to 10%	**39.13%**
4.	Reduce over 10%	34.78%

Bankers' views are quite divided regarding the immediate future of the global ship finance portfolio. Most of them (39%) however, see a reduction of up to 10%. A significant 35% are more pessimistic, considering that practically nothing moves now. Bank finances have to stabilise before proceeding with more certainty in predicting loan volumes for next year.

1. Presenting the results of a top international ship finance banks' survey

Q6: For your own institution, do you expect your ship finance portfolio (loans+commitments) in 12 months' time to:

		Bankers' responses
1.	Increase by up to 10%	17.39%
2.	Stay the same	43.48%
3.	Reduce by up to 10%	21.74%
4.	Reduce over 10%	17.39%

Bankers see their portfolios' remaining the same for the next 12 months. 22% of them see them reduced by up to 10% and 17% see them even further reduced and an equal number of bankers see them increased.

1. Presenting the results of a top international ship finance banks' survey

Q7: Do you expect loan spreads over the next 12 months to change from current levels as follows:

		Bankers' responses
1.	Drop	4.35%
2.	Stay the same	13.04%
3.	Increase by up to 10%	34.78%
4.	Increase by 20%	26.09%
5.	Increase by over 20%	21.74%

35% of bankers see lending costs rising by up to 10%, whereas 26% see them increasing even further.

1. Presenting the results of a top international ship finance banks' survey

Q8: Do you think that the number of worldwide shipping banks over the next 12 months to:

		Bankers' responses
1.	Stay the same	4.35%
2.	Reduce by up to 10%	**39.13%**
3.	Reduce by 20%	**39.13%**
4.	Reduce by over 20%	17.39%

1. Presenting the results of a top international ship finance banks' survey

Q9: In the light of lower vessel prices and earnings do you foresee bad shipping loans (non-performing) for year 2009 to be:

		Bankers' responses
1.	under 1% of the bank shipping portfolio	8.70%
2.	1-3% of the bank shipping portfolio	21.74%
3.	4-5% of the bank shipping portfolio	26.09%
4.	Over 5% of the bank shipping portfolio	**43.48%**

Bankers expect, despite restructures, that bad loans shall rise significantly in 2009.

1. Presenting the results of a top international ship finance banks' survey

Q10: New building cancellations are widely expected. At what percentage do you think this is going to be of the total order book for all sectors?

		Bankers' responses
1.	Under 5%	4.35%
2.	5-10%	8.70%
3.	10-15%	0%
4.	Over 15%	**86.96%**

It is significant that bankers overwhelmingly went for over 15% of the order book likely to be cancelled. Strangely, the next choice is 5-10% of the order book, instead of the category 10-15%. This shows some important fluctuation of extremes regarding something as uncertain as the fate of newbuidlings.

1. Presenting the results of a top international ship finance banks' survey

Q11: Will the number of US and UK publicly listed shipping companies over the next 12 months

		Bankers' responses
1.	Stay the same	4.35%
2.	Reduce by up to 20%	56.52%
3.	Reduce by more than 20%	39.13%

56.5% believe that shipping companies listed in the public markets will reduce by more than 20% as a result of privatizations, mergers and / or bankruptcies.

1. Presenting the results of a top international ship finance banks' survey

Q12: Do you expect the international banks regulatory environment to emerge from the crisis:

		Bankers' responses
1.	Harsher	73.91%
2.	The same	26.09%
3.	More relaxed	0%

Everybody agrees that banks will be more stringently regulated regarding their exposures and capital ratios.

1. Presenting the results of a top international ship finance banks' survey

Q13: Assuming current oil prices of about $65p.b., do you think that in 12 month's time the price will be:

		Bankers' responses
1.	Higher	27.27%
2.	About the same	54.55%
3.	Lower	18.18%

A more varied approach by bankers to this question, depending on their expectations as to the state of the world economy in 12 months' time.

1. Presenting the results of a top international ship finance banks' survey

Q14: Do you think the banking / confidence crisis and ensuing recession is going to last:

		Bankers' responses
1.	Up to a year	34.78%
2.	Up to 2 years	**52.17%**
3.	Up to 3 years	4.35%
4.	Over 3 years	8.70%

2. Changing banks' shipping risk / reward views

- Era of abundant and inexpensive ship finance has come to an end.
- Banks must price into their reward terms the scarcity of lendable funds
- Ship finance is competing with other potential lending sectors in terms of both risk and reward.
- Dramatic falls in vessel prices and freights and the uncertain market prospects are not helping banks' appetite for fresh ship finance.

2. Changing banks' shipping risk / reward views

- Large order book and global recession fears still of major concern for ship finance.

- Lending for over-exposed sectors, e.g. drybulk, containers, will be even more curtailed.

- In view of high uncertainty as to future economic and shipping conditions, long term lending is unattractive.

2. Changing banks’ shipping risk / reward views

- Pre-delivery finance, plagued with concerns over credit-worthiness of pre-delivery yard guarantees.

- Shipping banks’ concerns over their existing loan portfolio a negative factor towards fresh lending.

- Concerns over charterers ability / willingness to honour period charterers’ commitments is of mounting concern to banks.

2. Changing banks' shipping risk / reward views

- Overall shipping risk has been sharply revised upwards.

- Shipping rewards need to be substantially higher to compensate for higher risk and scarcity of lendable funds.

3. Changes in the structure and terms of shipping loans

Assuming that banks are willing to entertain fresh shiplending and are able to obtain sufficiently high rewards, we foresee the following changes to shipping loans' structure and terms:

- In view of concerns over vessel income, banks may still require period charters from first class and fully performing charterers.
- Charterers' status and performance will be required by banks prior to approving names.

3. Changes in the structure and terms of shipping loans

- Loan periods may be reduced substantially

- Loan percentages will be adjusted down to vessel's secured ability to repay plus assumed income at considerably lower levels for the uncovered years.

- In the absence of quality secured income, banks may require additional collateral and / or income stream from other client assets.

- In addition to loan / asset covenants, additional financial covenants, may be required.

3. Changes in the structure and terms of shipping loans

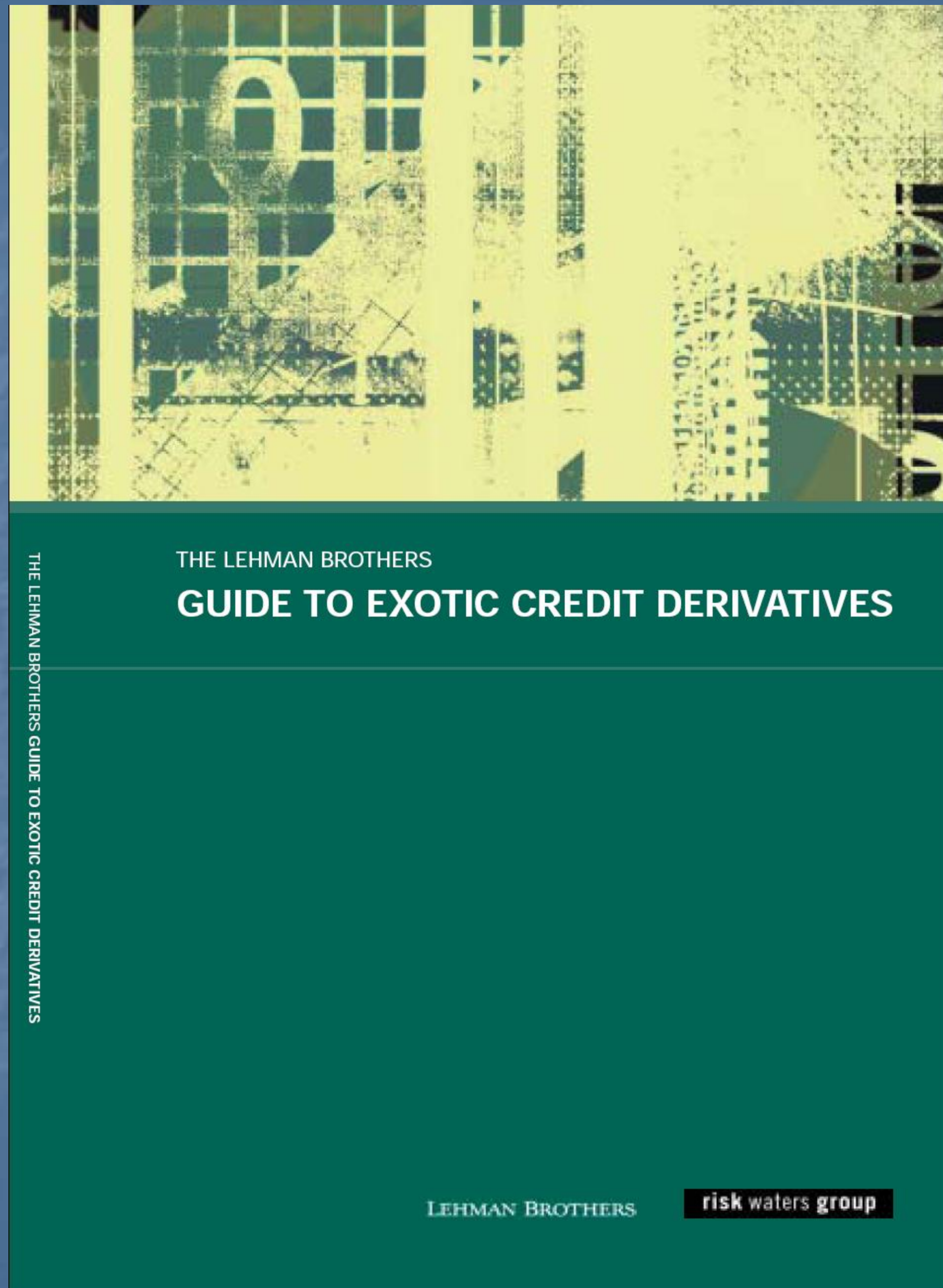
- In approving new loans, owners will need to prove their credibility and ability to survive as well as their commitment towards their company.
- Preference in post-delivery loan finance and not in pre-delivery finance.
- Greater emphasis on club deals / best efforts transactions
- Existing clients favoured.

3. Changes in the structure and terms of shipping loans

- Large clients will be advised and assisted in obtaining loans from the international paper markets.
- Preference for loans to be interest hedged.
- Pricing of a loan according to cost of funds and not LIBOR seen as a must for future lending.

4. Conclusions

And now for something completely different for those who are still interested in structured products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