

# **The Economist Conferences**

*3rd International Maritime Conference*

**4th-5th October 2001**

**FORECASTING FOR BANKING AND SHIPPING  
FINANCE**

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# INTERNATIONAL SHIPPING BANKS

*Comparisons between 2001 and 2000*

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**August 2001**

COUNTRY / REGION	MAJOR ROLE		MINOR ROLE		TOTAL		%	
	2001	2000	2001	2000	2001	2000	2001	2000
UK & IRELAND	3	2	3	5	6	7	4.20%	4.40%
FRANCE, BELGIUM & LUXEMBURG	2	2	7	9	9	11	6.29%	6.92%
SCANDINAVIA incl DENMARK	4	4	5	6	9	10	6.29%	6.29%
GERMANY	8	7	11	15	19	22	13.29%	13.84%
NETHERLANDS	4	4	2	2	6	6	4.20%	3.77%
OTHER EUROPEAN	4	4	24	28	28	32	19.58%	20.13%
<i>Total of EUROPEAN BANKS</i>	<b>25</b>	<b>23</b>	<b>52</b>	<b>65</b>	<b>77</b>	<b>88</b>	<b>53.85%</b>	<b>55%</b>
NORTH AMERICA	5	8	12	10	17	18	11.89%	11.32%
FAR EAST & OTHER COUNTRIES	4	5	45	48	49	53	34.27%	33.33%
<b>GRAND TOTAL</b>	<b>34</b>	<b>36</b>	<b>109</b>	<b>123</b>	<b>143</b>	<b>159</b>	<b>100%</b>	<b>100%</b>



# INTERNATIONAL SHIPPING BANKS

## *Main observations (2001/2000)*

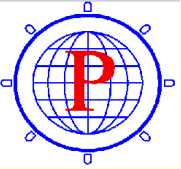
- Downward Global trend continuing, as total number of banks declined from 159 to 143 over the last year.
- The number of Major Role banks continues to decline i.e. from 36 to 34 banks worldwide.
- In Europe, the “golden triangle” banks (Scandinavia, Germany, Netherlands) have remained stable and steady providers of shipfinance.



# INTERNATIONAL SHIPPING BANKS

## *Main observations (2001/2000)*

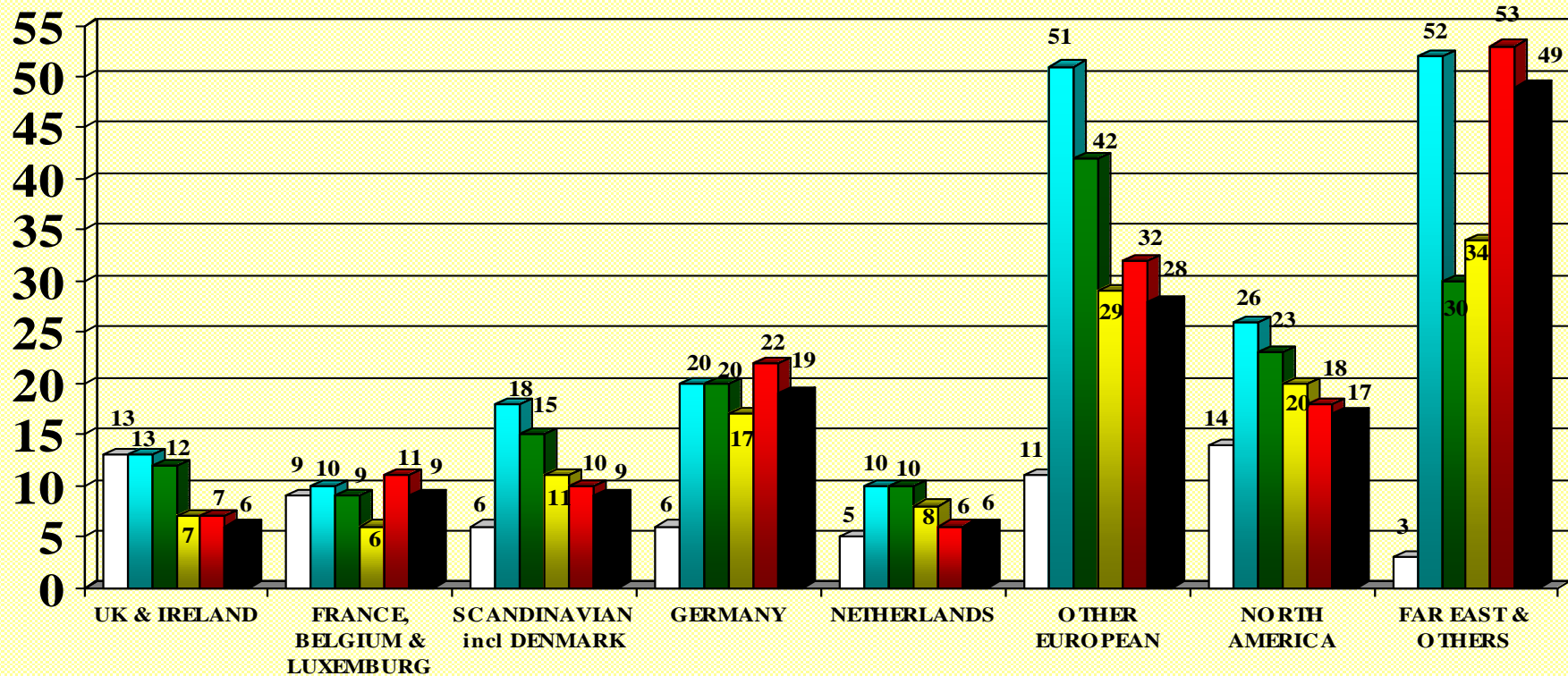
- Consolidation via mergers and acquisitions have reduced the number of banks in the remaining European areas.
- A slight reduction in the number of North American and Far Eastern shipfinance banks – with a notable decline in the number of US Major banks.



# ***BANKS INVOLVED IN INTERNATIONAL SHIPPING FOR***

## ***1992, 1997, 1998, 1999, 2000 AND 2001***

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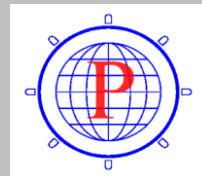
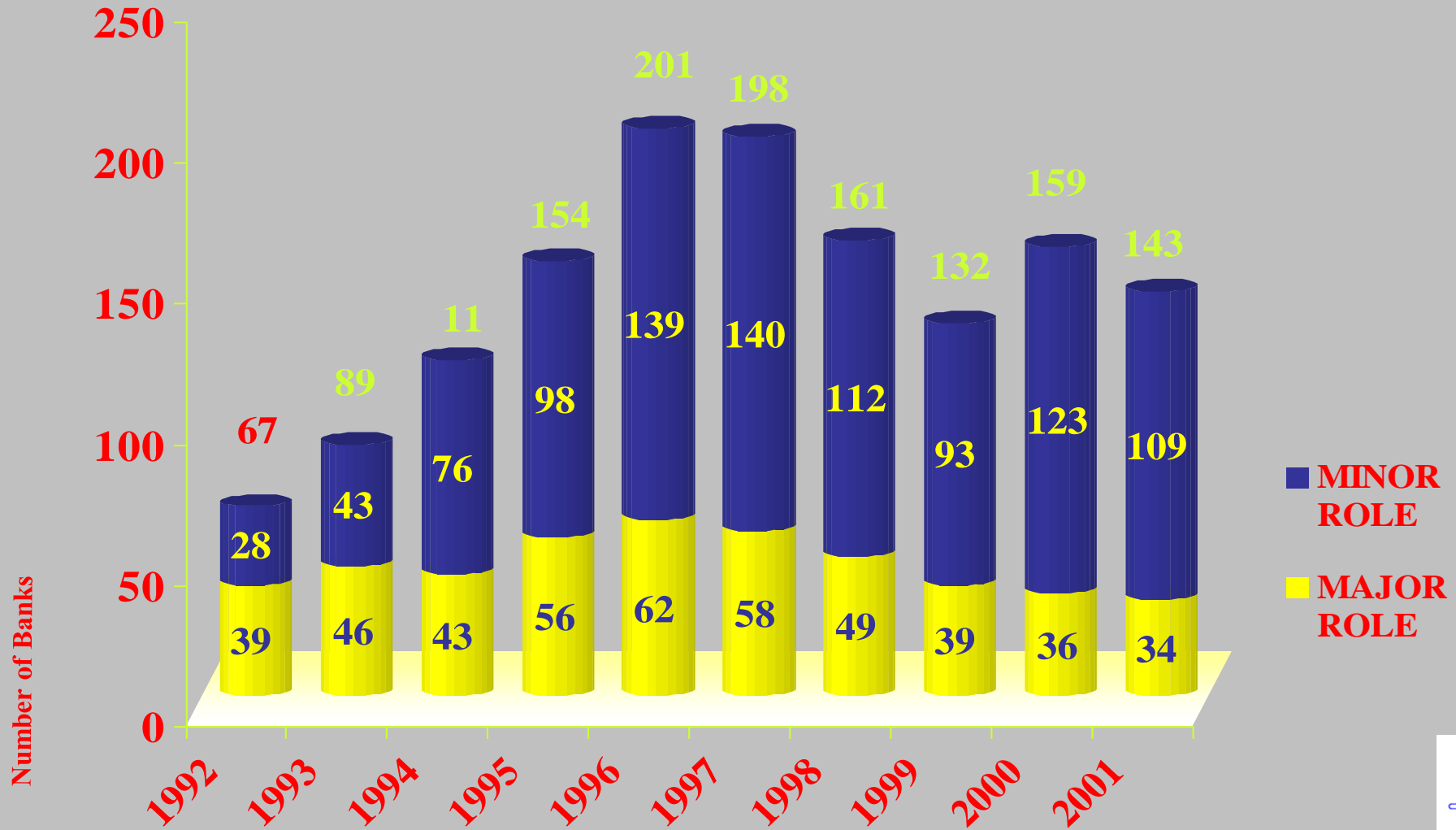
# INTERNATIONAL SHIPPING BANKS

## *Main observations*

*(1992 to 2001 by area)*

- A steady decline in the number of banks in the UK area from 13 in 1997 to 6 in 2001 and similarly for Scandinavian banks from 18 to 9 over the same 5 year period.
- Steady presence by German banks and, to a lesser extent, French.
- Steady decline in the number of other European banks but relatively steady performance by Far Eastern banks (1997/98 Far Eastern crisis excluded).

# BANKS INVOLVED IN INTERNATIONAL SHIPLENDING 1992 - 2001







# INTERNATIONAL SHIPPING BANKS

## *The trend for 2001 for beyond*

- We can now witness the definite and significant downward trend in Major Banks which began since 1996.
- This coincided with a) the acceleration of Bank mergers and acquisitions, b) high risk profile of shipping c) the emphasis away from credit and more towards financial products and services and d) setting of higher returns on capital employed by banks and the need to preserve capital.





# INTERNATIONAL SHIPPING BANKS

## *The trend for 2001 and beyond*

- **Minor Banks show a fluctuation that is influenced by the shipping cycles and the state of regional economies, as well as mergers and acquisitions.**
- **This is demonstrated in Minor Banks' recovery in 2000 where the end of the Far East crisis and the recovery of shipping after the 1998-1999 slump was noted and then acted upon accordingly.**
- **However, this year Minor Banks also showed a downward trend reflecting the continuing effects of consolidation and a downturn in economic prospects.**



# Key changes in shipfinance terms over the last decade



- **Considering the increase in owner / asset quality, loan spreads have remained stable or in many cases have risen over the last 5 years.**
- **Loan period (maturity) has been extended to reflect much younger vessel ages**
- **Loan termination is now set at 20 years old or below, even accounting for the presence of balloons.**

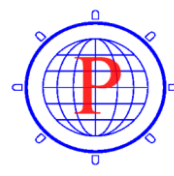


- **The percentage of finance has remained at approx. 70% despite increase in owner / fleet quality.**
- **Financial, chartering and operational information flow to banks have improved dramatically as to quality and swiftness of provision.**
- **Bilateral loans have increased especially when involving newbuilding finance.**



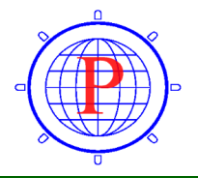
- **Banks have set clear overall yield targets for individual clients as well as their total shiplending portfolio, which are being closely monitored by Head Office.**
- **There has been a change in the fundamental structure of shiplending terms. The overall number of senior shipfinance bankers has been slowly declining as the number of shipfinance banks has declined.**

**However, the number of shipping bank analysts has increased. The overall result is a leaner management handling larger average loan portfolios, i.e. an increase in personnel efficiency and a reduction of costs.**



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## The prospects for International Shipfinance



# Ship Finance – Shipping in the light of globalization

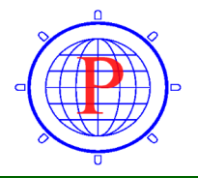
- Consolidation takes place due to competition and economies of scale (globalization)
- Due to larger capital constraints and requirements (Basl II accord), shipping viewed as a TIER 1 capital intensive industry is not a preferred sector
- The above exerts pressure on shipping requiring banks to adjust their credit policy terms and client profile so that their overall yields can increase via the provision of services
- KBC – a recent example





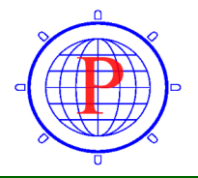
# Ship Finance – Shipping in the light of globalization

- Bank consolidation:
    - If Bank does not become globalized then it is vulnerable to takeovers. *Self-preservation*
  - Bank numbers go down
- BUT***
- Ship finance capacity is still rising
  - The problem is with the numbers and not with the capacity for the time being



# Ship Finance – Shipping in the light of globalization

- Due to globalization, bank consolidation and changes in ship finance policy, banks have developed a client corporate opportunities approach rather than a relationship approach
- Size as well as quality have become of primary importance for both banks and clients



# Ship Finance – Shipping in the light of globalization

- **Although mergers and acquisitions on an international basis will continue, we foresee a definite slowdown**
- **The “flight to quality, size and young age” strategy followed by banks over the last 3-4 years shall pay off in terms of reduced loan write-offs and problems among top tier clients**



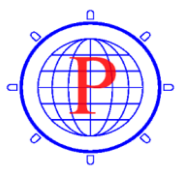
# Ship Finance – Shipping in the light of globalization

- **As loan quality improves and loan numbers rise, there will be increased interest in loan securitisation, which will open further profitable opportunities for the main lenders.**
- **Relief from the enormous shipfinance burden will come from the further development of the International Capital markets for quality large owners.**



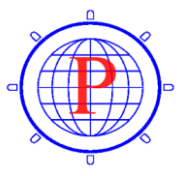
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# The impact on shipping of the September 11<sup>th</sup> tragic events



## ***1. Initial***

- a. Disruption of patterns of trade**
- b. Withdrawal and delay of cargoes**
- c. Cashflow impact**
- d. Loss of Confidence / defensive posturing**
- e. Eclipse of long-term chartering fixtures**
- f. Effects on values**
- g. But also reduction of interest rates**



## **2. *Medium term effects***

- a. US recession, decline in Global economic growth and International Trade**
- b. Increased insurance costs**
- c. But also unprecedented support from lax monetary and fiscal policies on a worldwide basis when in the absence of additional shocks should lead to a robust economy in 2002 / 2003 but from a lower base**
- d. Worldwide investment liquidity at very high levels helpful for shipping**





- e. **Shipfinance not directly affected by the attacks but indirectly affected by its implications on shipping clients**
- f. **Reassessment of the role of shipfinance for each bank shall take place as part of each bank's review of risk areas. This procedure is actually taking place and may accelerate the departure of some banks from shipfinance**
- g. **However, there is evidence of a reassessment of investment in shipfinance by "niche" banks / institutions, especially for the long neglected small-medium size clients**
- h. **Shipfinance shall develop even more into a banker's market with enhanced yields and terms for banks.**