Key Developments and Growth in Global Ship-Finance

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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 2015.

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 here our Petrofin Global Index published for the first time, designed to track over time Global shipfinance.

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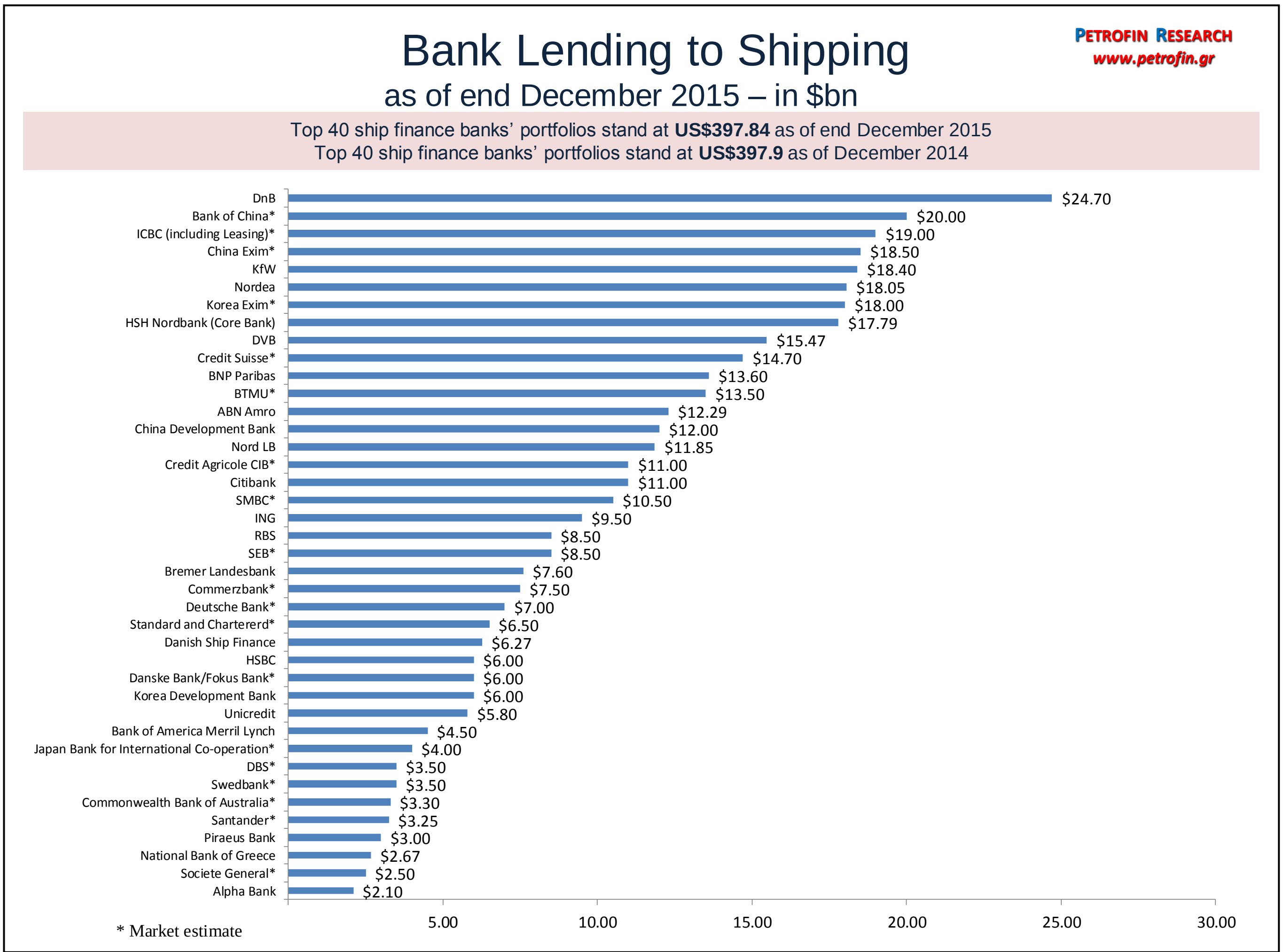
1. Top 40 Banks

We are pleased to present the latest Top 40 Global banks' lending as of December 2015, amounting to $397.84bn (see Graph 1). This is almost the same as the previous year's figure of $397.9bn.

Graph 1: The Top 40 banks have a total of $397.84bn exposure to shipping.



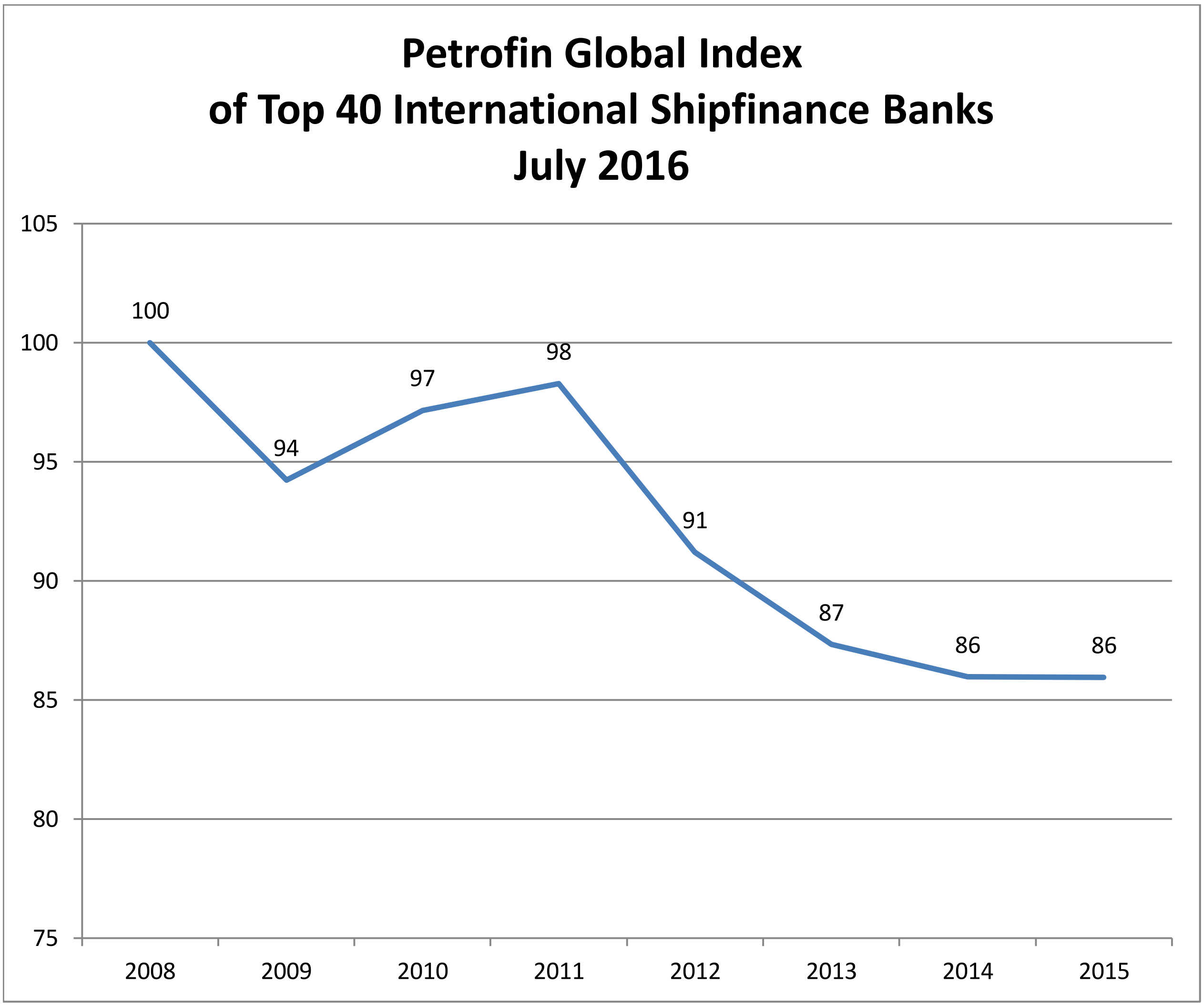
Within the total, however, whereas the actual figure is the same, there are differences in ship finance lending among the banks, which are indicative of different strategies to ship lending by individual banks.

It is important to see the total ship finance figure in another light. Between 2014 and 2015, the total number of vessels in the world fleet rose by 1.76% from 89,676 to 91,256 vessels (Clarkson's World Fleet Register). Such growth and fleet investment was achieved without an increase in ship finance. As such, it is fair to conclude that there was more reliance on non-bank finance sources and/or enhanced equity by owners.

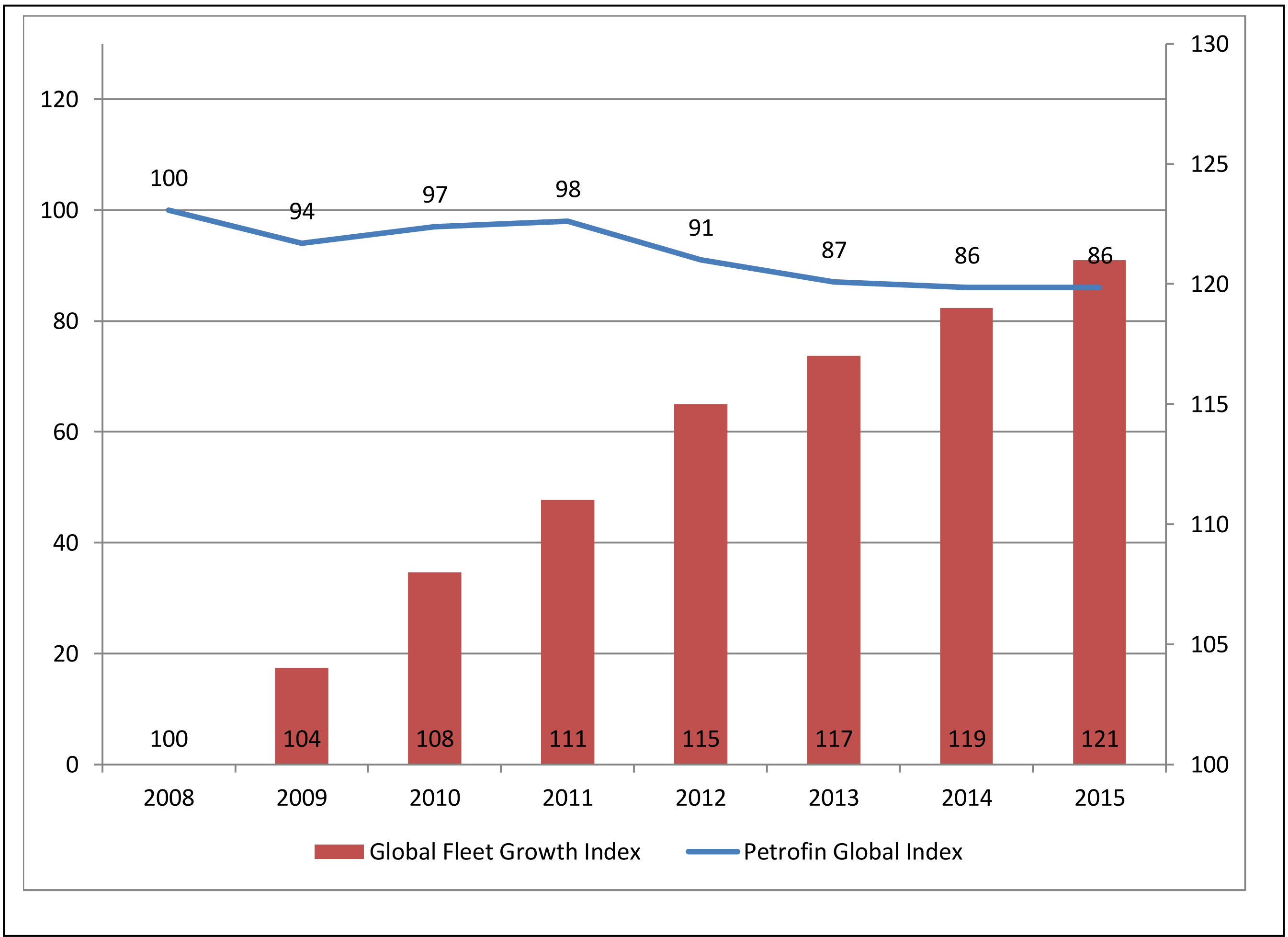
2. Petrofin Global Index of Shipfinance

In Graph 2 you will observe the Petrofin Global Index from 2008 till 2015. As you will see, the index which commenced at 100 in 2008 fell rapidly as a result of the Global finance crisis in 2008. It almost recovered back by 2011 and fell significantly thereafter, reaching 86 in 2014 and 2015. However, as is shown on Graph 3, during this period, the global fleet index in terms of number of vessels grew from 100 to 121, i.e. a 21% increase in the world fleet. Consequently, it is fair to conclude that the bank ship finance in relation to the world fleet has been contracting as a source of shipping funding in the last 8 years.

Graph 2: Introducing the Petrofin Global Index of shipfinance –between 2008 - 2015



Graph 3: Introducing Petrofin Global Index – compared with Global Fleet development index – between 2008 - 2015



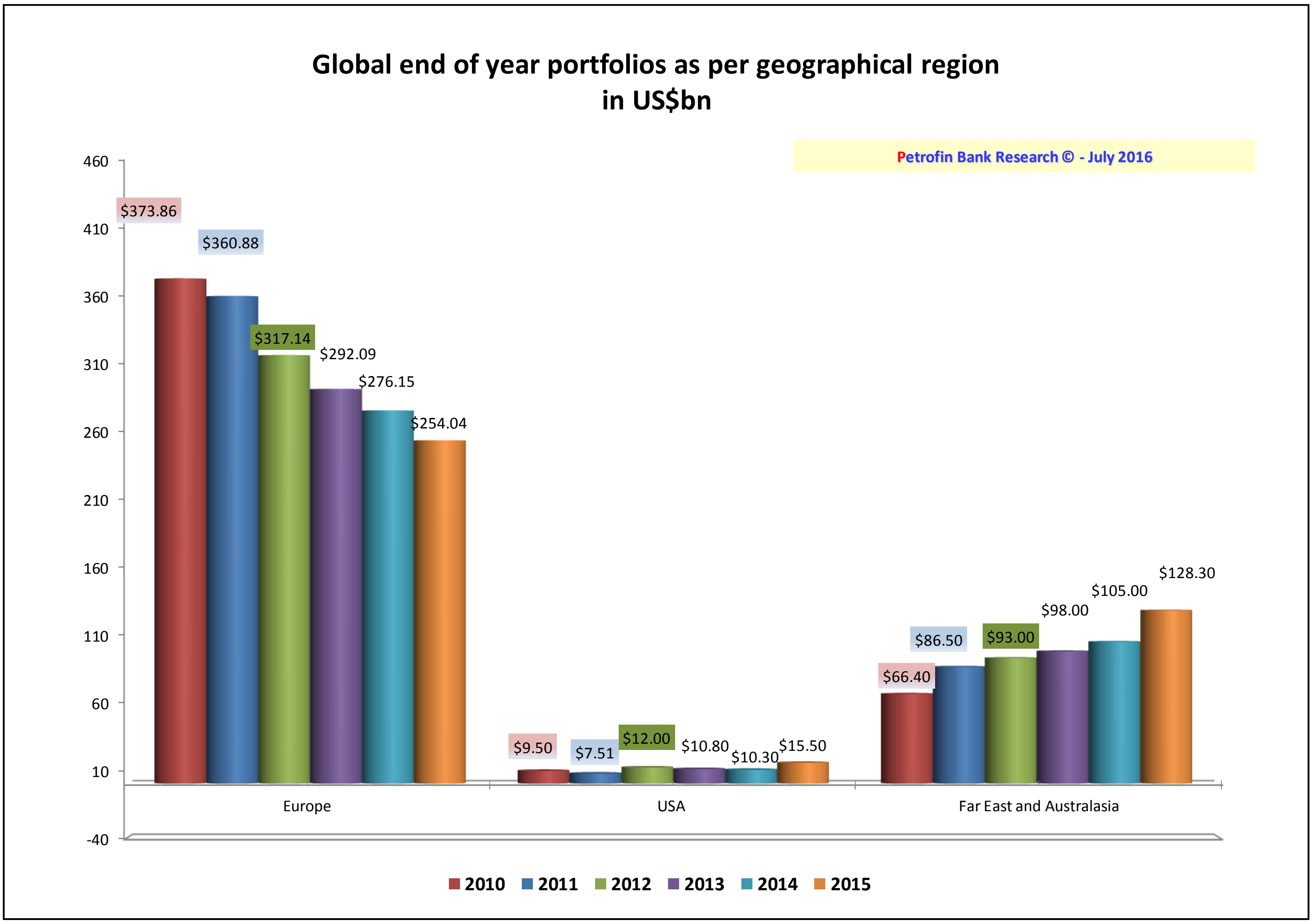
According to Clarkson's Intelligence, as of the end 2016, the total cargo fleet orders stood at a further 2,867 vessels or 15% of the current fleet. It is expected, therefore, that as the fleet shall grow at a faster pace than ship finance by banks, that there will be further declines in the importance of banking related shipfinance as opposed to other forms of finance and investment/equity.

Current shipping conditions are not attractive to shipping banks, as all sectors are displaying signs of pressure in vessel values and earnings due to overbuilding, existing surpluses and large orderbooks. In addition, current financial conditions are also not conducive to more ship lending. Indeed, it is fair to say that, on a global basis, lending has slowed down substantially post 2008 as banks try to downsize and as bank regulations and supervision, e.g. ECB, Basel III, have increased. Unable to increase their capital base, banks are forced to restrict their lending and choose to lend among the best risk/reward industries. Currently, shipfinance is not a leading contender for loans.

3. Nationality and Commitment of Banks

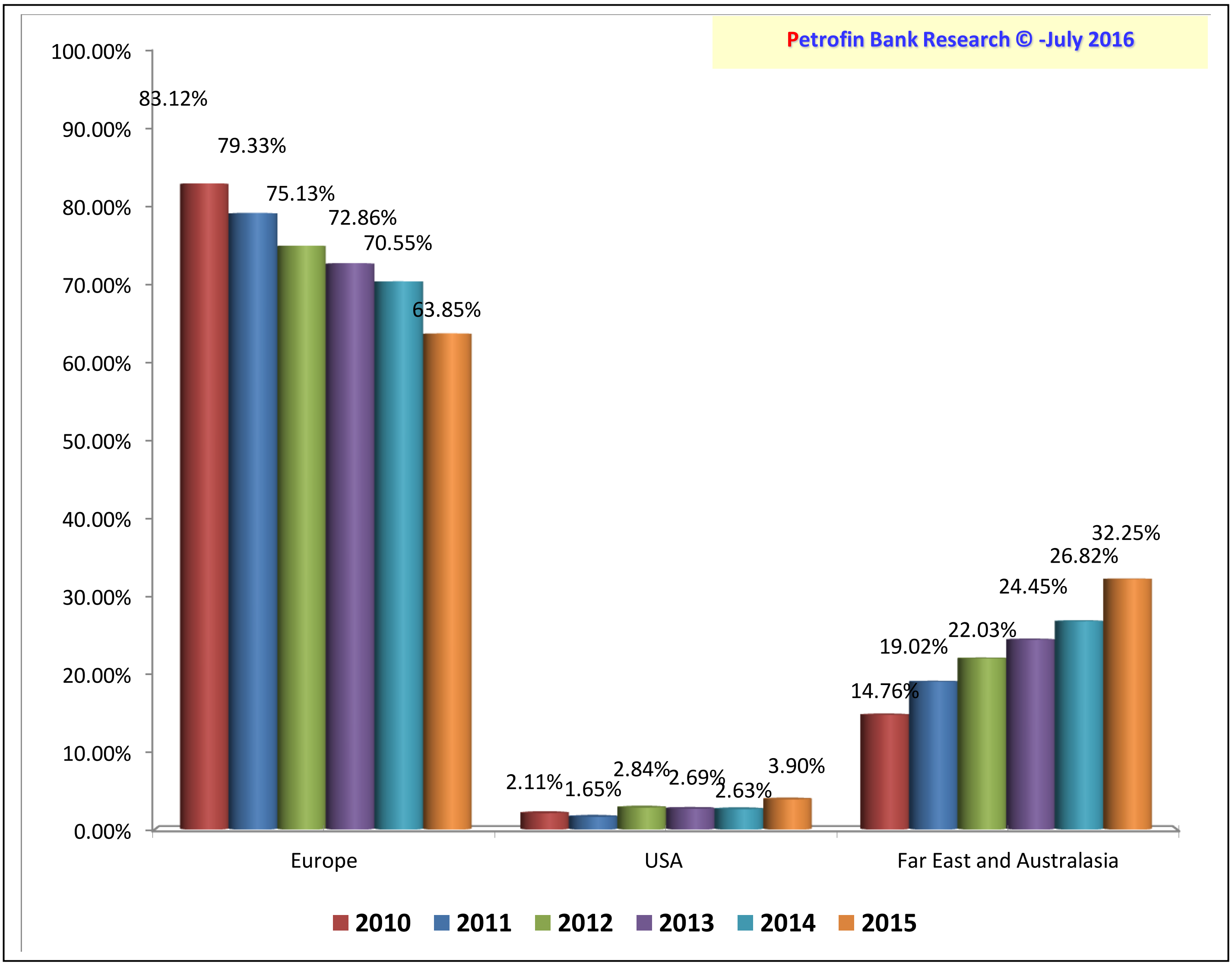
In Graph 4, you will see the trend of shipfinance per geographical region, over the years. The overall trend is one of a consistent decline by Western banks (worst hit by the financial crisis) over the years and an increase by Far Eastern and Australasian banks.

Graph 4: Breakdown of Global shipfinance portfolios according to geographical area, in US$bn



The need to support their own local shipping has been a strong motive underlying the expansion of the Far Eastern banks. Their national policies are in tune with local bank interests and this has provided a useful solution to a number of owners with local newbuilding orders seeking finance.

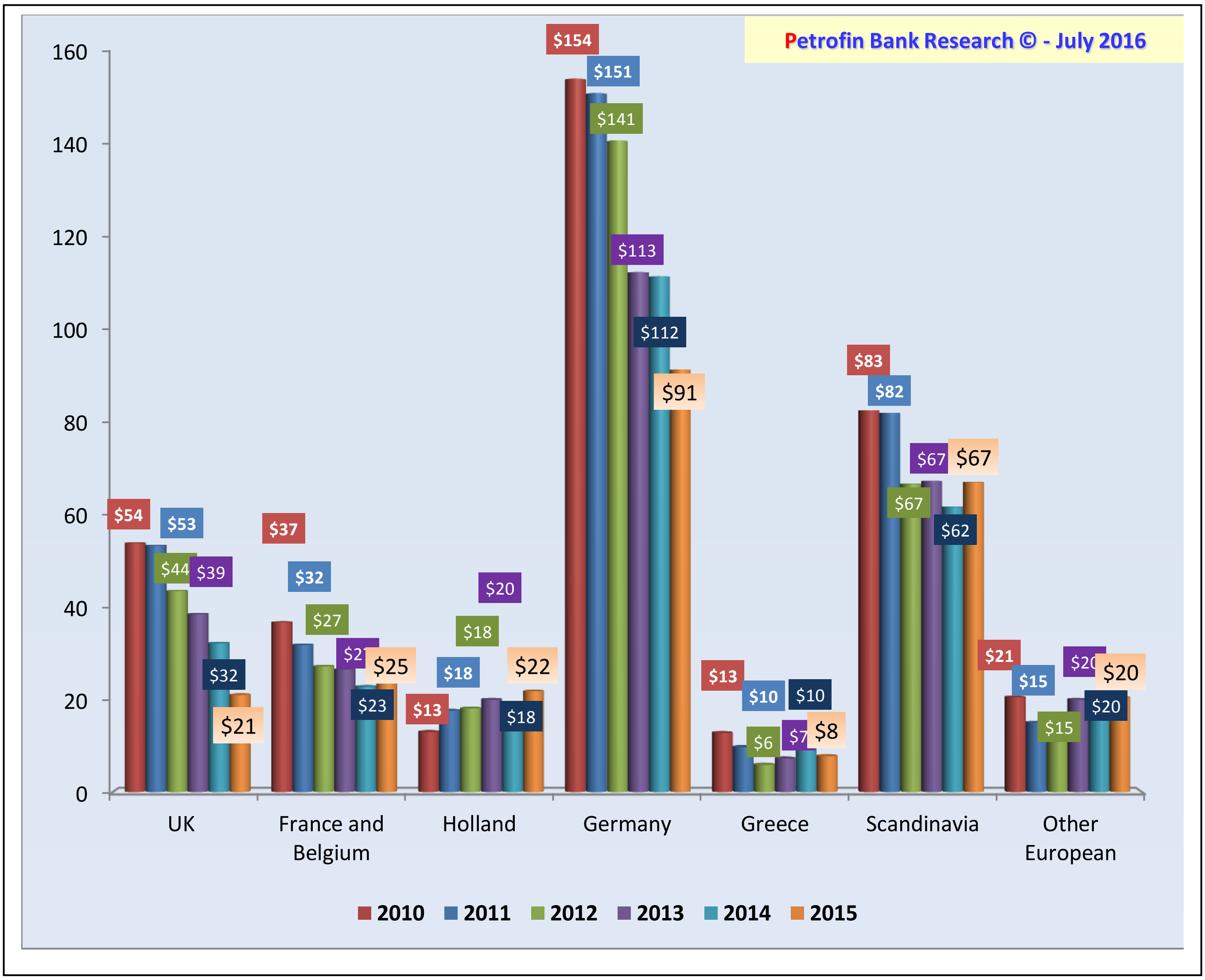
Graph 5: Breakdown of Global shipfinance portfolios development according to geographical area, in % share of total



As Western shipbuilding has largely disappeared (except for specialist vessels), Western banks are under less pressure to maintain their shipfinance presence in their home countries / Europe. The collapse of the KG system has accelerated the departure of many German banks. German banks still support the owners of their 'home base', but reduce finance to owners from other countries. This is not a universal rule as some banks have a small national shipping interest or have built up a substantial and well performing international clientele. Still, the trend is not particularly supportive of other nationalitie, such as Greek owners who are viewed as international owners.

Putting the European bank global shipfinance portfolios under the microscope we observe that Dutch and Scnadinavian banks show a small growth and the marked decline in commitment is shown by the most traditional lenders, such as the German, British and Irish and Greek banks (Graph 6).

Graph 6: European banks' global shipfinance development



4. The outlook for 2017 and beyond

There are signs that Far East ship finance appetite is slowing down, as well as that there has been a slowdown in new orders and a restructure of the Chinese shipbuilding industry with much unnecessary capacity being eliminated.
With prevailing shipping conditions not helpful either, it is possible that Far Eastern shipfinance growth will slow down in the short run. However, the position may also be changing in the West with the effective departure of the major banks that decided to leave the industry, e.g. RBS, Commerzbank, HSH and others. Once the above banks shall disappear, it is likely that the remaining banks plus newcomers in the field of shipfinance, may signal the commencement of a base and, possibly, a rise in Western shipfinance.

Despite the above, some banks clearly found the success formula to grow during this difficult period, with Credit Suisse, ING, Unicredit, BNP Paribas and ABN Amro backing the trend. Of course, we also need to highlight the continuous growth (both in relative and absolute number) of all the Far East lenders, who supported local newbuilding orders with new loans. Interestingly, some Far East banks and leasing entities have begun to focus on quality Greek names (both public and private), as the rate of new ordering has slackened and their experience with Greek owners has been largely positive.

Looking into the future, it is obvious that the adjustment process by both the markets and the banks will continue over the next couple of years. As, however, the depressed shipping sectors shall recover, it is expected that shipfinance appetite shall return. The scene will be different, though, as the European domination will further weaken and Far Eastern and other nationality of banks will fill the vacuum. We envisage that new banks shall also join shipping, aiming for the small to medium owners. The risk / reward of shipfinance is changing and will become all too apparent when the recovery prospects for shipping will solidify.

Lastly, we should mention the increasing presence of non-banking finance institutions that are often the only finance alternative for owners, as well as the development of niche ship finance in the PG, Singapore and other local areas. As traditional bank finance continues to be scarce, conditions for non-banking instruments and local finance shall improve. The special position of Chinese ship leasing companies should be mentioned as a popular means of finance offered by Chinese leasing companies who are invariably owned or supported by local banks.

Overall, for shipfinance lending to rise, an improvement in shipping market conditions is necessary. For some sectors, such as dry bulk and containers, this is not expected soon. Beyond shipping itself, the strengthening of balance sheets and capital ratios of banks across the world and more supportive international financial conditions are required for bank lending to increase once more to the benefit of global growth is general and shipfinance in particular.

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