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International bank ship finance:
Latest trends and future outlook

presented by

Ted Petropoulos

MD

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Presentation outline

1. The wider banking picture
2. The status of global ship finance
3. Is there a capacity problem for ship finance going forward
4. How long will the credit crunch continue?
5. Are the changes in terms and margins a permanent or transient change in ship finance?
6. Asset finance lending versus cash flow lending
7. Can ship finance still rely on period charters?
8. Should ship finance anticipate shipping slumps by more flexible agreements?
9. Summary and conclusions

1. The wider banking picture

1. The wider banking picture

-The international banking / liquidity crisis is being dissipated but is not over yet

– lower inter-banking spreads

– greater liquidity

– partial return to normal in the inter bank market

– return of private depositors

– reduced need and commencement of repayments of state / central bank funds

– healing process has begun

1. The wider banking picture

-The global economic recession has stopped

– signs of anaemic economic recovery in the West

– strong growth by China (8%)

– continuing risk of deflation

– concern of a ‘W’ recovery

– IMF forecasts world economic growth of over 3% for 2010 – 2011.

1. The wider banking picture

-Consumer confidence still low

– spending still reduced

– concerns over rising unemployment

– high credit card, real estate and other provisions / losses – retail trade still in recession.

-International bank results mixed

– retail banks still feeling the brunt

– wholesale / investment banks turnaround to massive profits.

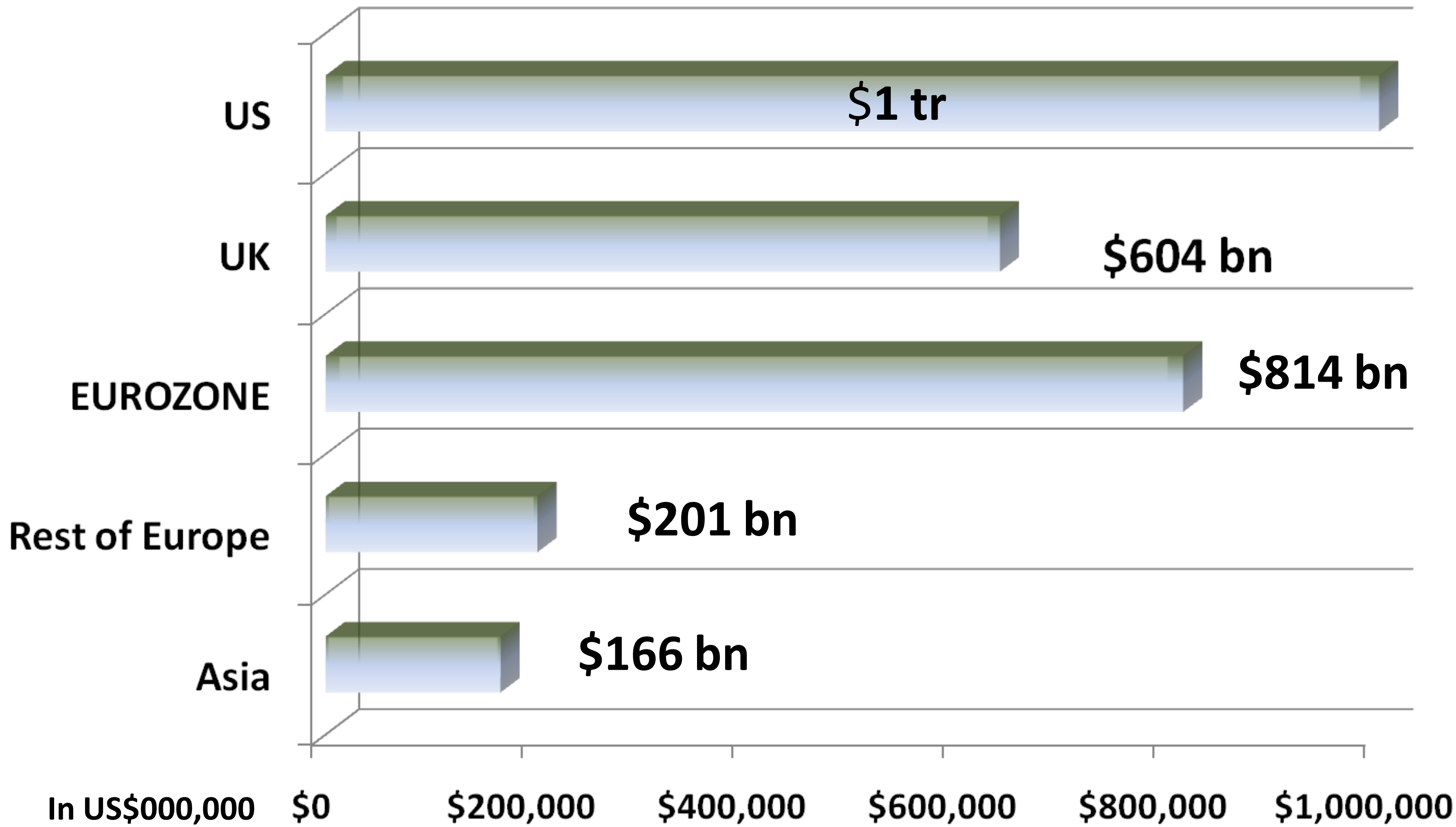
1. The wider banking picture

-IMF revised forecasts of total losses / provisions for the world banks' to reach $2.8 tr for the period 2007 – 2010 (Tables 1, 2 and 3 below)

2007-2010 total estimated bank losses and provisions

Table 1

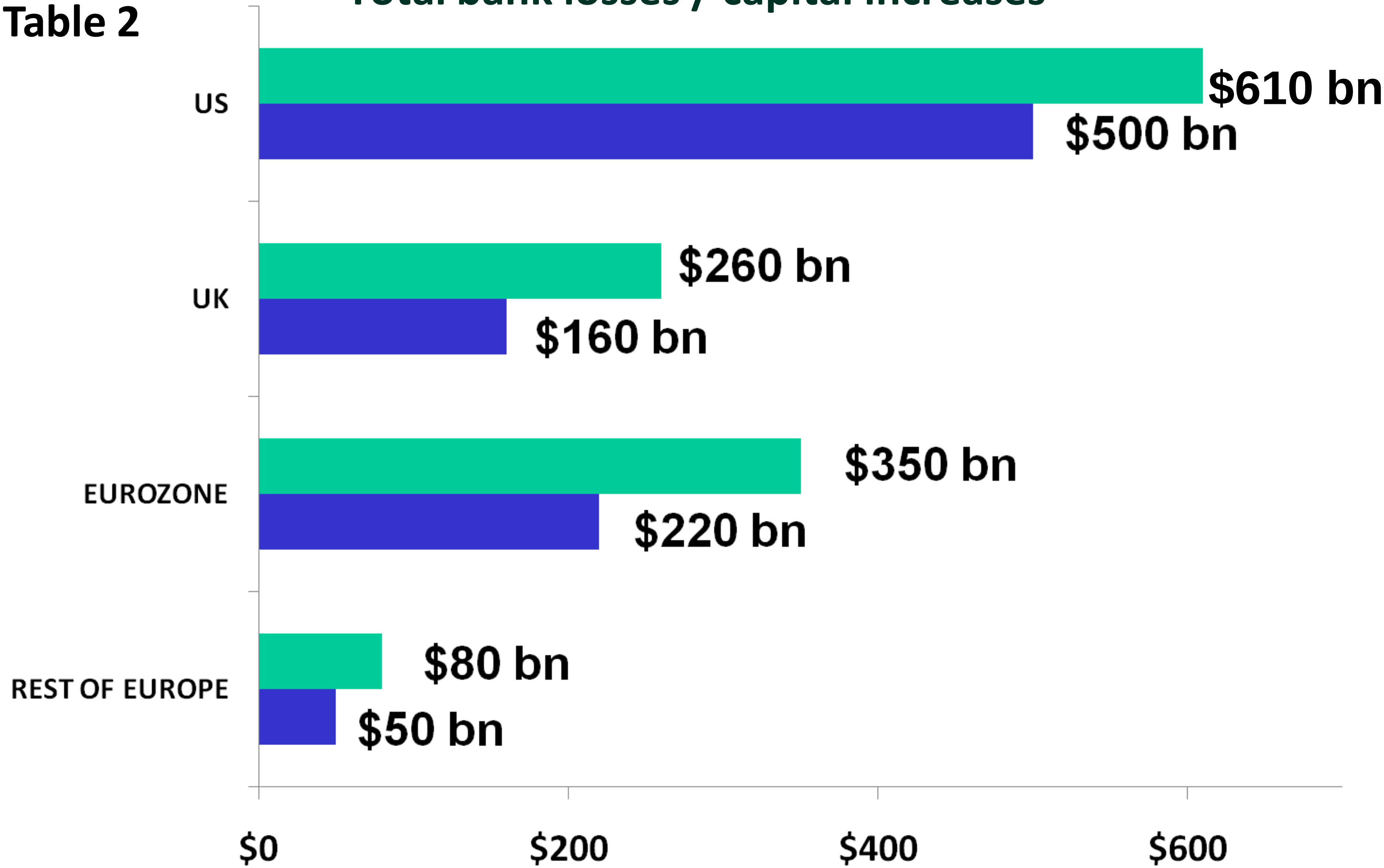
Total $2.8 tr



Source: IMF

2007 – 1st half 2009
Total bank losses / capital increases

Table 2



Source: IMF

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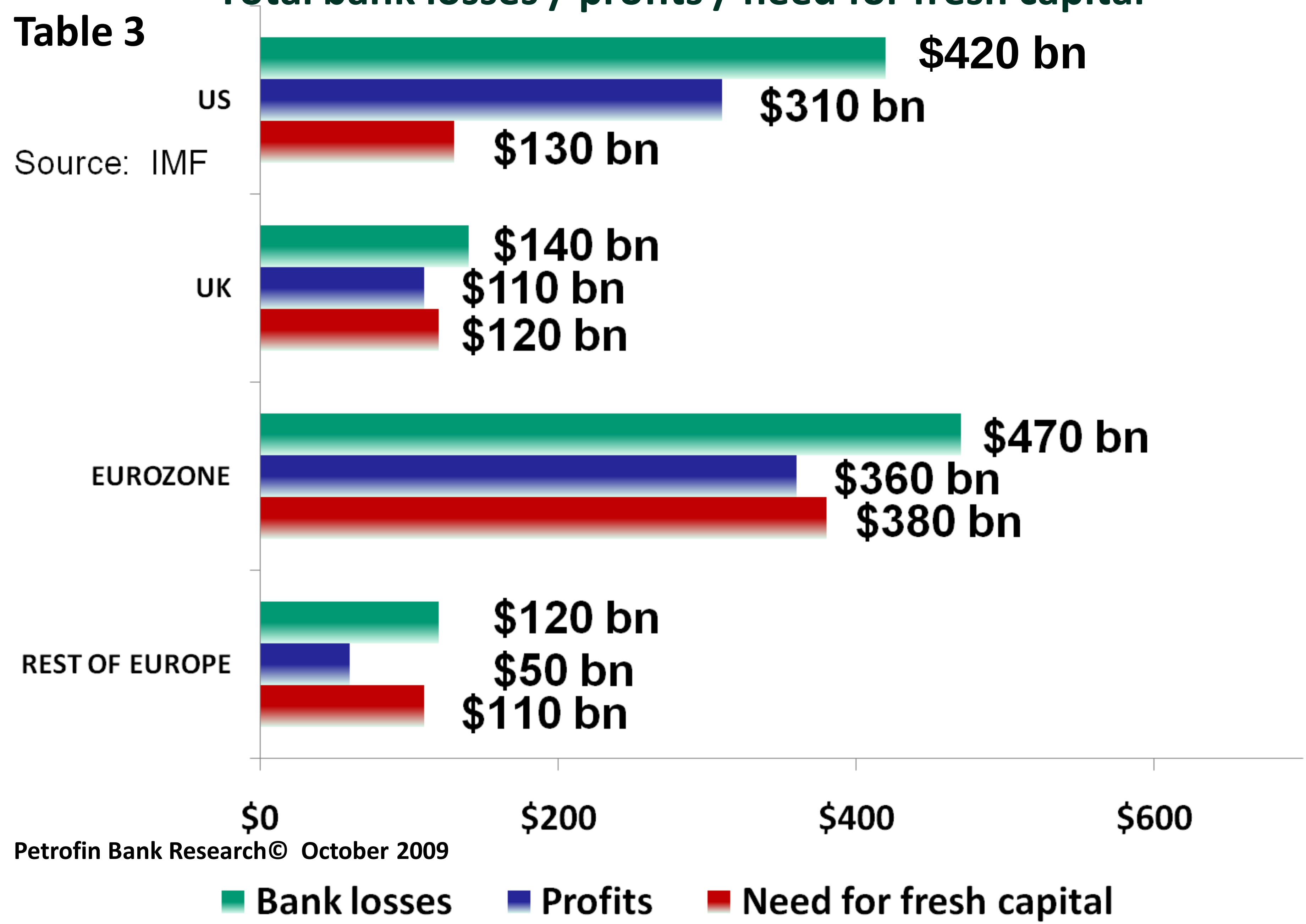
2007 – 2nd half 2009
Total bank losses / profits / need for fresh capital

Table 3

Source: IMF



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1. The wider banking picture

-For the period July 2009 to end 2010 further provisions / lending for the US/European banks of $1.15 tr are expected whilst bank profits are anticipated at $0.94 tr.

-Fresh capital of $0.84 tr is required to meet capital adequacy ratios

1. The wider banking picture

-Banks intend to use the bank stock rally and increasing confidence by investors to tap the stock markets for the required capital to repay state / central bank loans and eliminate them as shareholder.

-Far East banks not affected, have maintained growth and are keen to exploit western bank weaknesses / opportunities.

-Increasing prospects of the banking system having recovered from 2011 onwards.

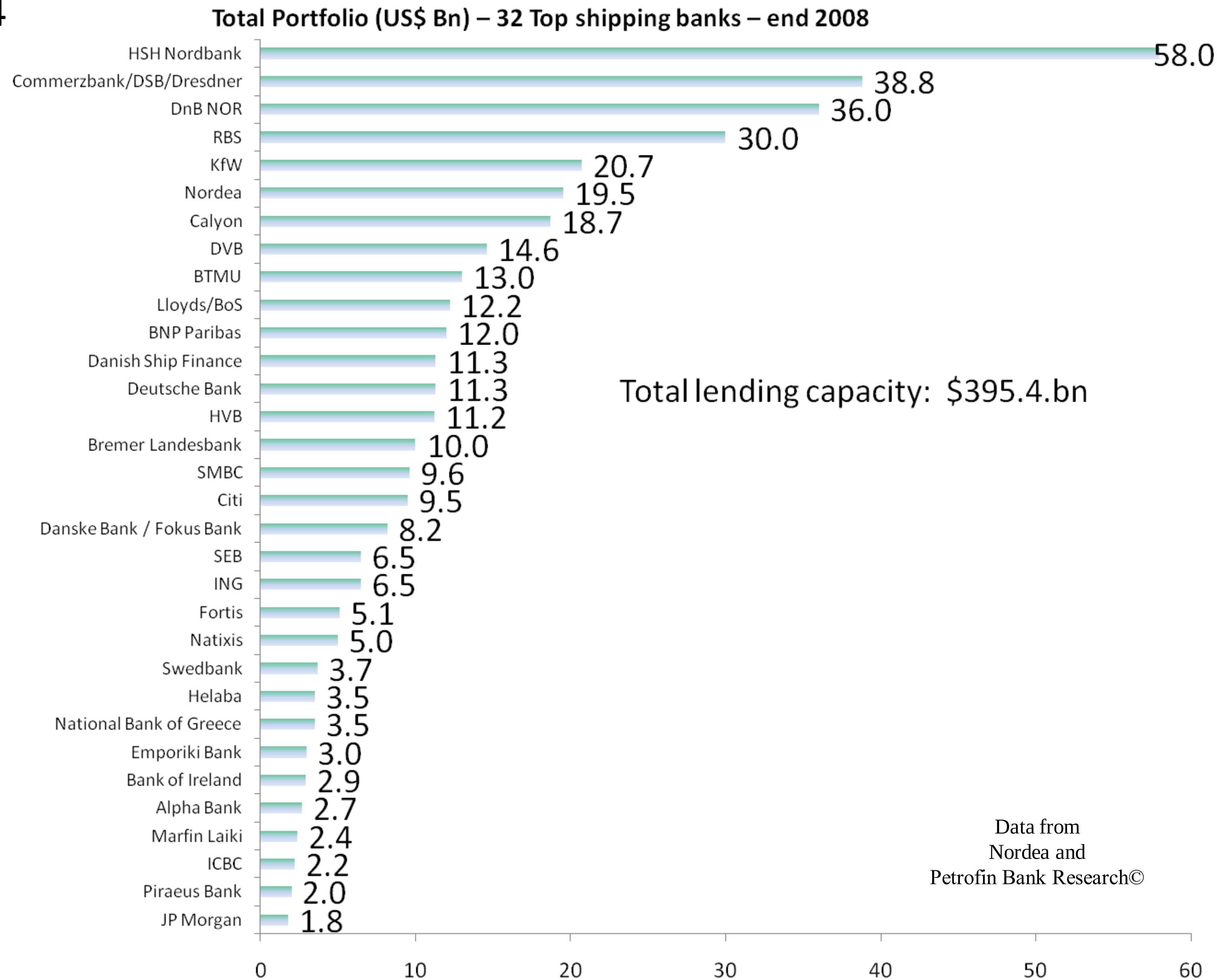
-Banks will need to re-commence active lending by 2011 to generate better returns on capital employed and promote rising share prices / future capital expansion and acquisitions.

2. The status of global ship finance

- Global lending figures (drawn and committed) at the end of 2008 estimated at $450bn.

- The top 32 shipping banks have a total loan portfolio of $395.4bn or 87.9% of the total (see Table 4)

Table 4



Total Portfolio (US$ Bn) – 32 Top shipping banks – end 2008
HSH Nordbank 58.0
Commerzbank/DSB/Dresdner 38.8
DnB NOR 36.0
RBS 30.0
KfW 20.7
Nordea 19.5
Calyon 18.7
DVB 14.6
BTMU 13.0
Lloyds/BoS 12.2
BNP Paribas 12.0
Danish Ship Finance 11.3
Deutsche Bank 11.3
HVB 11.2
Bremer Landesbank 10.0
SMBC 9.6
Citi 9.5
Danske Bank / Fokus Bank 8.2
SEB 6.5
ING 6.5
Fortis 5.1
Natixis 5.0
Swedbank 3.7
Helaba 3.5
National Bank of Greece 3.5
Emporiki Bank 3.0
Bank of Ireland 2.9
Alpha Bank 2.7
Marfin Laiki 2.4
ICBC 2.2
Piraeus Bank 2.0
JP Morgan 1.8
Total lending capacity: $395.4.bn
Data from
Nordea and
Petrofin Bank Research©
0
10
20
30
40
50
60

2. The status of global ship finance

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- **The Greek ship finance figures at the end of 2008 were $78.23bn**

- **The above totals may underestimate the contribution of Far Eastern and Middle Eastern banks which do not make their figures available.**

- **2009 witnessed a severe drop in fresh lending as well as a significant reduction of loan commitments.**

2. The status of global ship finance

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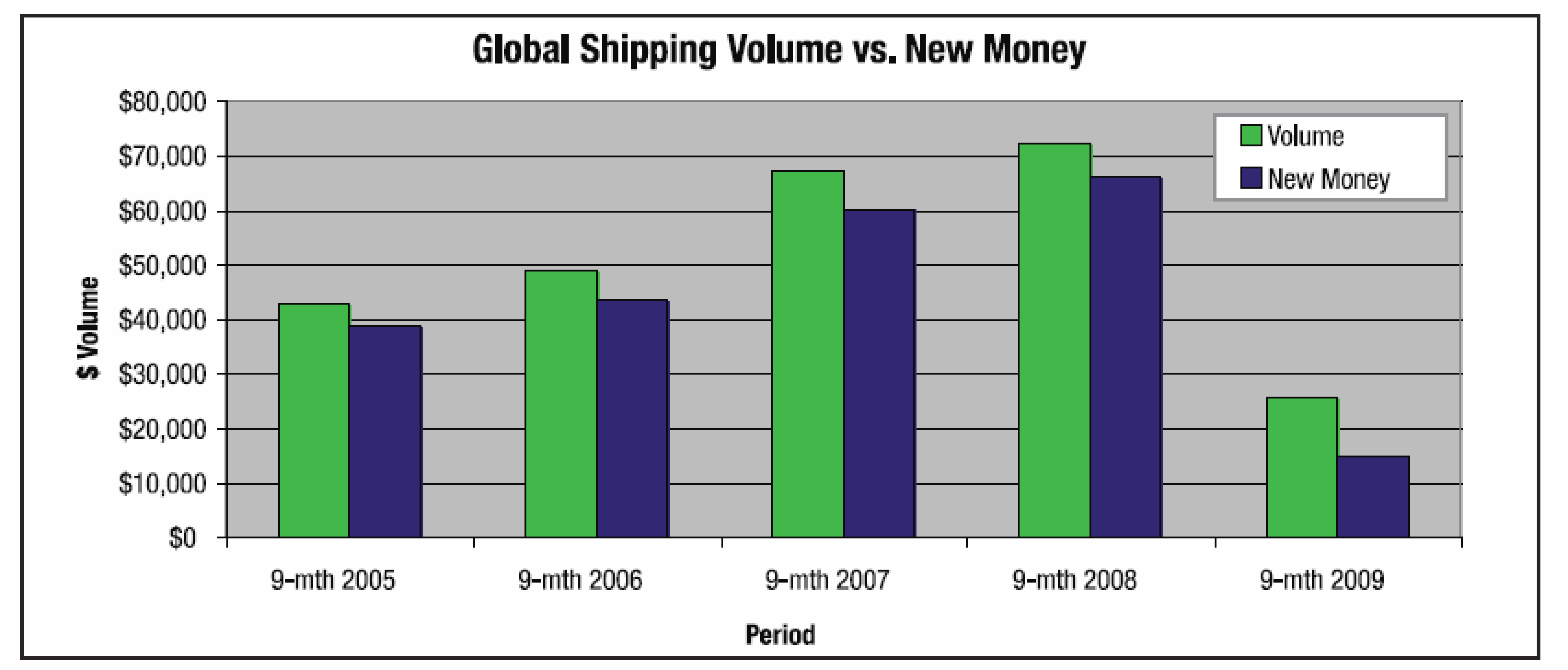
- Global shipping volumes for syndicated loans in the first 9 months of 2009 fell from $72.2bn in the corresponding figures for 2008 to $25.6bn (Table 5)

Table 5



Source: Marine Money Freshly Minted – October 8th 2009

2. The status of global ship finance

- **Due to refinancings and lower advances for new deals, new money lending also fell from approx. $67bn to $15bn over the same period.**

- **Of the top 32 shipping banks, 2 (RBS and HSH), representing 19.55% of total global lending, have declared their intention to significantly downscale their loan portfolios.**

2. The status of global ship finance

- Furthermore, 13 banks, representing 30.8%, of the global loan book appear to note a neutral / unclear policy towards ship finance

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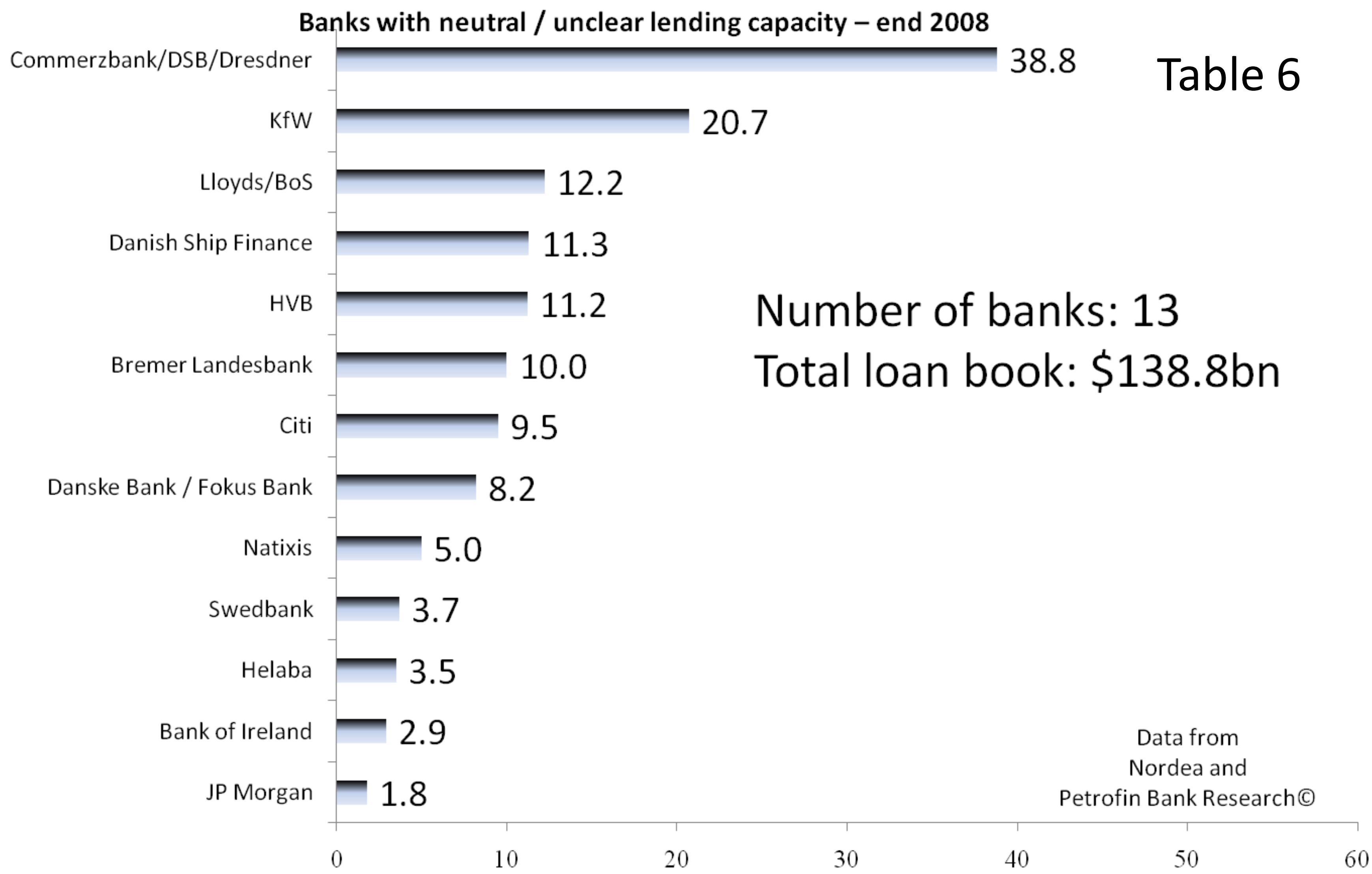
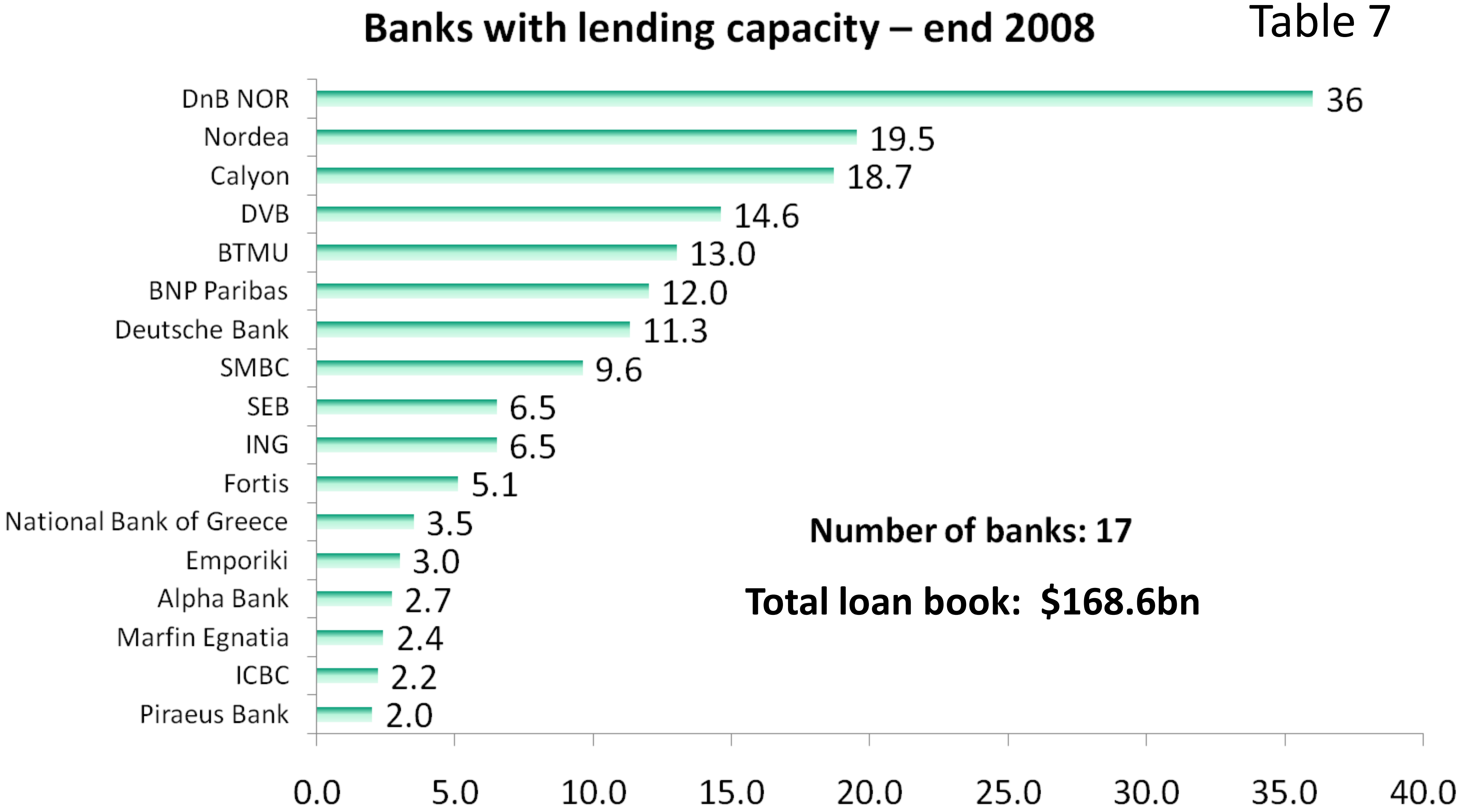


2. The status of global ship finance

- 17 banks, or 53% have credit capacity and / or the commitment to increase their lending (subject to market conditions)

Table 7



2. The status of global ship finance

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- For Greek ship finance, RBS and HSH account for 26.8% or $19.65bn of the Greek total. There are 8 banks representing $8.9bn of the Greek total portfolio ($73.2bn), which have a neutral or unclear policy towards shipping and 13 banks representing $29.2bn of the Greek portfolio which have capacity to lend (subject to market conditions).

2. The status of global ship finance

-It is projected that at the end of 2009, global lending shall have been reduced to approx. $410 to $420bn, mainly as a result of

a newbuilding cancellations eliminating banks commitments

B reductions of committed facilities for newbuildings that are progressing

c utilisation of the natural wastage of the loan book via repayments, vessel sales, pre-payments.

d marked slowdown in fresh lending

2. The status of global ship finance

- Banks have exploited client asset cover breaches and / or restructures and / or limited fresh lending to increase their loan portfolio yields.

-Bank losses and to a lesser extent loan provisions, have been minimised. Thus far, this conciliatory approach has been winning strategy, but is still too early in the cycle.

-Banks are keeping a weary eye on the newbuilding order book, the rate of newbuilding deliveries and the level of scrapping. Recent Clarksons' figures point to an approx. 29% drop of the rate of deliveries down to levels of 2006.

2. The status of global ship finance

-Banks have been primarily occupied with their own capital adequacy and liquidity problems. Emphasis, thus far, has been to monitor shipping loan performance and assess loan provisions.

-The drybulk recovery in 2009 has supported banks' conciliatory approach. However, the large fall in tanker vessel values and earnings and the collapse of the container market is of growing concern.

-Widespread belief in the shipping industry that banks' attitude to waivers, restructures and non-performing loans shall harden in 2010.

3. Is there a capacity problem for ship finance going forward?

-It is anticipated that the global newbuilding order book at the end of 2009 shall have fallen to $450bn for the period 2010 to 2013 inclusive (4 years)

-It is projected that newbuilding cancellations and / or delays shall average at least 25% over the period reducing the order book over the 4-year period to approx $337.5bn.

- Assumed max 60% leverage or approx $200bn of which half already committed and contained in the global loan figures.

3. Is there a capacity problem for ship finance going forward?

-Consequently, uncommitted newbuilding finance over the 2010-2013 period estimated at $100bn.

-Global second-hand and resale market for first 9 months of 2009 amounted to $10.7bn (www.gmoundreas.gr) or a projected approx. $14.25bn for 2009. We anticipate 50% new finance minus 25% sellers finance being retired being the equivalent of approx. $3.6bn for 2009.

3. Is there a capacity problem for ship finance going forward?

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-We project for 2010 – 2013

a a pick up in S&P activity

b increased financial requirements for mergers and acquisitions, and

c finance for the additional but limited orders placed. In summary, we anticipate organic additional finance requirements of approx $50bn over the 4 year period

3. Is there a capacity problem for ship finance going forward?

-**Total estimated fresh new finance requirements of approx $150bn over 4 years, requiring approx 37.5% of current global loan totals**

-**Due to the severe cash flow squeeze across all sectors and despite owners injections of new capital, the natural wastage of the global loan book, (via repayments) is assumed at approx 8% p.a. or approx. $33bn p.a.**

3. Is there a capacity problem for ship finance going forward?

-It is anticipated that the above natural wastage shall improve over the years and especially from 2012 onwards.

-Consequently, assuming that retiring debt was channelled into new lending, the additional ship finance global requirements are not excessive from a demand point of view.

3. Is there a capacity problem for ship finance going forward?

-Turning to the supply side, the determination / appetite of existing lenders appears weak, as

a) 2 banks with over $88bn by loan volume are either exiting ship finance or significantly reducing their exposure

b) higher loan loss provisions likely to sway banks against ship finance

c) overcapacity problems due to large order book have not been overcome yet

d) the recovery prospects for all sectors and the container sector in particular are poor

e) European banks' champion role in ship finance may be reviewed as losses / provisions bite and appetite is reduced

f) shipping industry has failed to anticipate, protect and support itself and the banks from both the shipping crisis and over ordering as well as its effects, i.e. re-establishing ship finance, once again as a high risk industry

3. Is there a capacity problem for ship finance going forward?

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-The Greek shipfinance industry is especially vulnerable as the two top lenders, RBS and HSH are downscaling. Banks are focusing on home clients and Greek banks account for only approx. 25% of Greek ship finance requirements.

-It is thus very likely that lending capacity by western banks shall reduce at a time when the shipping industry's fresh requirements are anticipated to require their continuing presence at current volume levels.

-So, who will cover the shortfall?

-new lenders (maybe form the Far East?)?

-more owner capital (private and via stock markets)?

-more private equity capital (funds, institutional, etc)?

4. How long will the credit crunch continue?

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-In the short term (1-2 years) and despite high loan margins market affected by:

- -Low level values and poor earnings
- -High loan provisions
- -Loan demand exceeds supply
- -Banks still recovering from banking crisis
- -Poor prospects of new entrants (other than Far East)

4. How long will the credit crunch continue?

-In the medium term (3-5 years):

-Improved vessel values and earnings

-Reduction of order book

-Healthier loan book

-Reducing / no loan provisions

-Stronger banking systems – healthier prospects

-Influx of new lenders

-Shipfinance risk / reward again attractive compared to other types of lending

4. How long will the credit crunch continue?

-Consequently, credit crunch conditions are expected to be eliminated within the next 2-3 years

5. Are the changes in terms and margins a permanent or transient change in ship finance?

-Pre-crisis pricing levels far too low to cover inherent risk involved

-Banks used over-leverage to over-lend

-Bank competition fierce for top clients

-Above conditions need considerable time to reoccur

-Banks need to de-leverage

-Banks need time to clean up loan portfolios and re-consider ship lending in a positive light

5. Are the changes in terms and margins a permanent or transient change in ship finance?

-Very unlikely for pricing levels within the next 3-5 years to revert to near pre-crisis low levels.

-New lending capacity to remain relatively scarce for at least 2-3 years depending on market conditions and prospects

-Credit pricing models will need to reflect loan losses and provisions. Loan pricing may soften but expected to remain well above pre-crisis levels. Therefore, a permanent change.

-As lending capacity and competition shall increase in 3-5 years, margins shall weaken and strict lending parameters shall once again relaxed.

6. Asset finance lending versus cash flow lending

-To a large extent both failed as methods of lending

-Asset protection at times of crisis still elusive

-Age of asset only collateral comfort

-Cash flow lending failed due to charterer failures and charter rate reductions / renegotiations

-Few charterers performed as scheduled without renegotiation attempts especially for long period charters and / or newbuilding linked charters given the magnitude of the fall.

-Client performance more reliant on client quality, commitment and ability including availability of liquidity reserves and willingness to commit fresh funds

7. Can ship finance still rely on period charters?

-Absence of updated and adequate financial data including forward charter commitments / FFAs and COAs.

-Charterers reluctant to reveal financial information to owners and even to owners' bankers

-Banks just like owners, prefer to rely more on reputation

-Charterers that rely on contracts and FFAs for hedging are safer. However, hard evidence and reporting scarcely available

-Many charterers enticed by speculation and forgot about hedging

7. Can ship finance still rely on period charters?

-Few charterers are public companies

-Banks or owners need to reconsider charterers performance insurance

-Charterers need to increase the information flow to credit agencies for more meaningful reports

-Reliance on period charters alone too dangerous. It can assist a loan transaction, but not to be used to justify a much higher loan or to turn a weak credit into a strong one.

8. Should ship finance anticipate shipping slumps by more flexible agreements?

- Learning from the recent lessons
- Provide build-in flexibility in anticipation of a future shipping crisis
- PAYE with min/max limitations
- Earnings recapture provisions
- Render the period chartering decision more of an owner's decision and not the bank's
- Price in additional margins for use of flexibility provisions
- Aims to address all but very extreme and sustained crises
- Built-in flexibility to assist in syndicated credits

9. Summary and conclusions