Greek Shipping Summit

Where is the credit crunch leading?

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Where is the credit crunch leading?

- Results of a Top International Ship Finance Bankers' survey, conducted by Petrofin S.A. in late October 2008

- Changing banks' views on risk / reward and structuring of loans

- Where is the credit crunch leading

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, who collectively hold over $210.6bn in shipping loans portfolios.

The results are as follows:

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.

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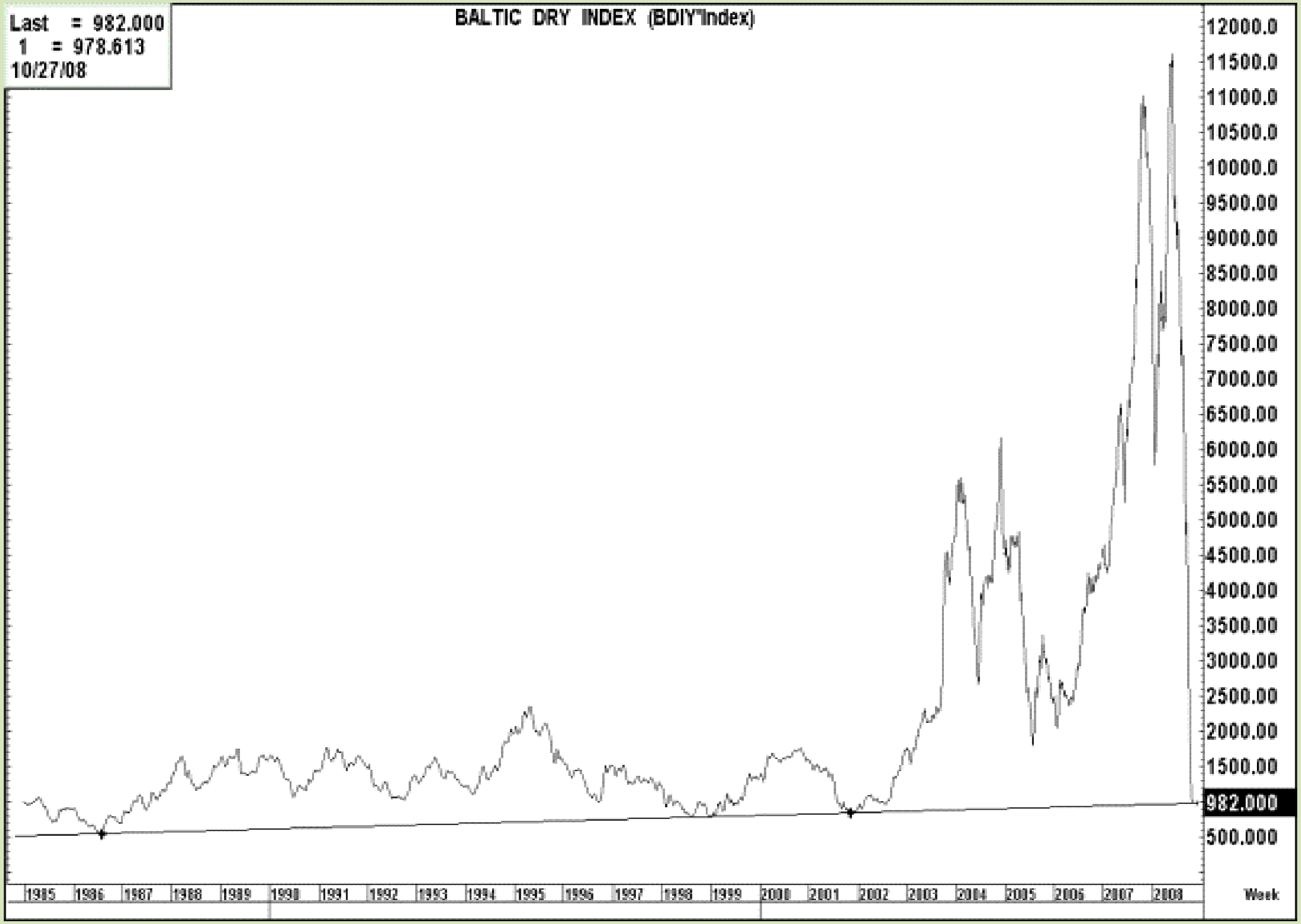
Q2: Do you think that the shipping freight markets across all sectors:

	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.

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

The BDI since 1985



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.

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.

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.

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.

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.

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%

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.

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.

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.

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.

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.

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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%

Changing banks’ view on risk, reward and structuring of loans

As the times of abundant and inexpensive ship finance have come to an end, and new bank regulation policies are being shaped, banks are forced to reconsider their views regarding shipping risk and reward.

Changing banks' view on risk, reward and structuring of loans

- 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 fall in vessel prices and freights and the uncertain market prospects are not helping banks' appetite for fresh ship finance.

Changing banks’ view on risk, reward and structuring of loans

- Over-exposed sectors are re-examined (dry bulk and containers) and their finance curtailed.

- Loan tenors to be reduced, in view of the markets’ prospects’ uncertainty.

- Pre-delivery finance abandoned in favour of post-delivery finance.

Changing banks' view on risk, reward and structuring of loans

- In view of concerns over vessel income, banks may still require period charters from first class and fully performing charterers

- Charterers' status and performance to date to be thoroughly scrutinised.

Changing banks' view on risk, reward and structuring of loans

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

- Shipping risk sharply revised upwards.

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

Changing banks' view on risk, reward and structuring of loans

- In approving new loans, owners will need to prove their credibility and ability to survive as well as their commitment towards their company.

- Greater emphasis on club deals / best efforts transactions

- Existing clients favoured

Changing banks' view on risk, reward and structuring of loans

- Pricing of a loan according to cost of funds and not LIBOR, seen as a must for future lending.

- Special issues arising for public companies

Where is the credit crunch leading to?

The dream is over, now for the nightmare

- A new financial and economic world order is in the process of establishing itself.

- It is difficult to estimate precisely where the credit crunch is taking us.

- What we can do in order to assess its impact in shipping, is to look at what stable fundamentals we have.

Where is the credit crunch leading to?

- *Fundamentals*

- So far, a financial / banking problem has lead into a shipping problem.

- Slowdown in international trade as against the benefits of orders’ freeze / cancellations.

- Sharp revision downwards of freights, especially in the dry and container markets

Where is the credit crunch leading to?

- *Fundamentals*

- Sharp revision downwards of vessel prices and cash flows affecting asset / loan ratios for all bank portfolios

- Lack of credit for a significant, although unspecified, period of time, affecting cargo movement, trade and transportation.

- International growth slowing down, impacted by recession.

Where is the credit crunch leading to?

- *Effects*

- Newbuilding cancellations taking place due to shipyard failures, lack of finance and cancellation of speculative orders.

- Falling freights and values may leave a large number of owners exposed to their banks.

- Loan re-negotiations are likely to start upon expiry of current high charters (if performing)

- The S&P market is at a standstill.

Where is the credit crunch leading to?

- *Effects*

- Can and will owners commit fresh funds?

- When will public companies be able to find additional capital in the light of depressed share prices? Will banks support their clients with restructures?

- Banks will be called to support their clients with restructures and accepting covenant breaches whilst crisis lasts.

Where is the credit crunch leading to?

What is to be done in order for owners to stay afloat

- Keep costs low
- Hold on to liquidity
- Keep communications and negotiations with banks open
- Negotiate with charterers

Where is the credit crunch leading to?

What is to be done in order for owners to stay afloat

- Re-work financial strategies

- Work hard to keep vessels as best employed as possible

- Contain / reduce interest rate risk

- Keep up with vessels’ maintenance

- Dispose of old vessels

- Raise additional capital, if possible

Where is the credit crunch leading to?

What it will all mean in the future

- All change

- Owners, banks and charterers will need to closely co-operate and adjust to the credit and market crisis

- Flexibility and adjustment to the new era will be required by both banks and owners

- Survivors will reap the benefits of low vessel prices when the market shall recover.

Conclusions

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

THE LEHMAN BROTHERS

GUIDE TO EXOTIC CREDIT DERIVATIVES

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