

20th February 2012

Financial Times – World Shipping Congress

Are Western ship finance banks out for the count?

presented by

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HEAD

PETROFIN RESEARCH



A. Why are Western banks in trouble?

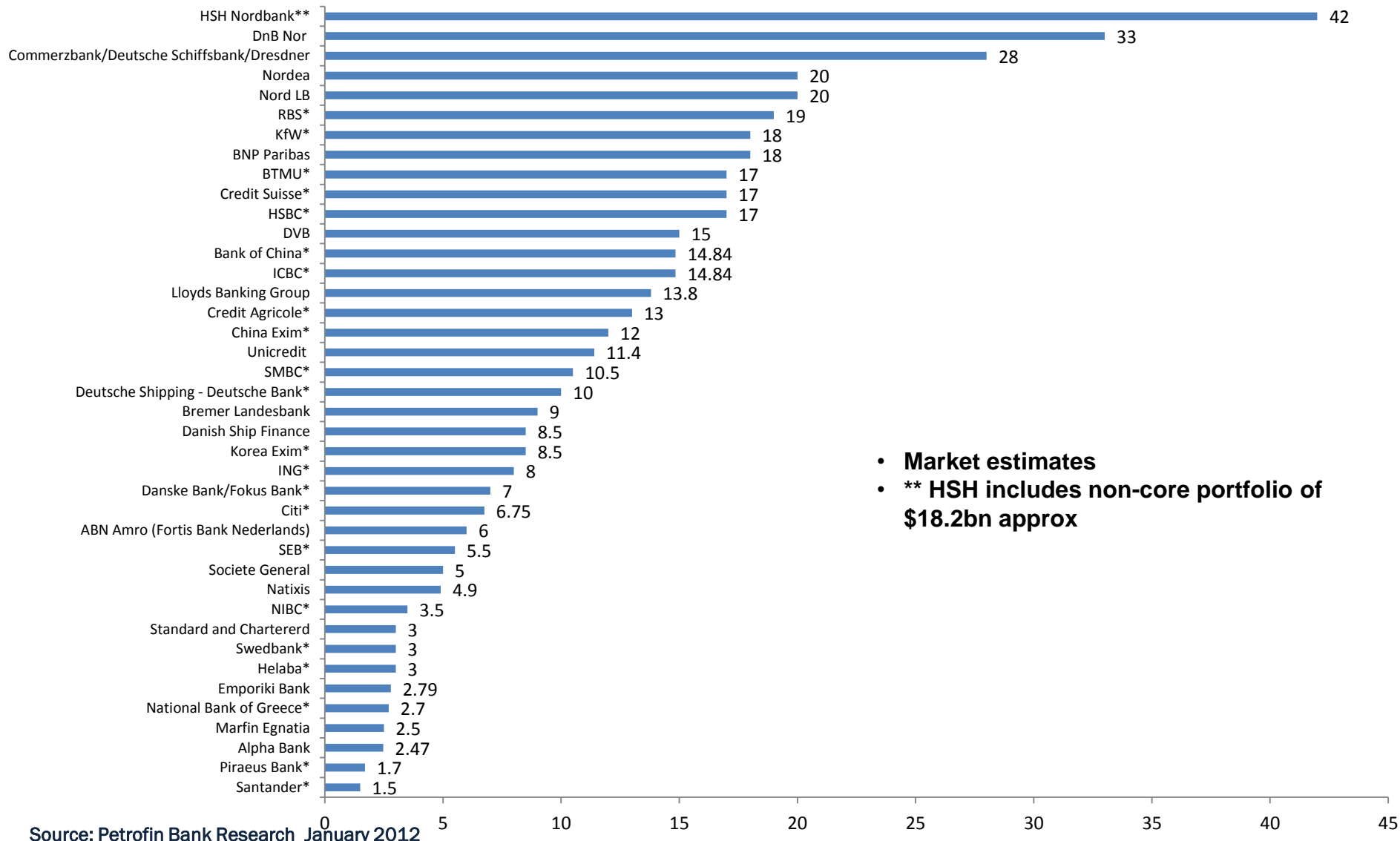
B. What steps are being taken to shore up their capital adequacy, liquidity and ability to lend?

C. Are there tangible and significant prospects of a western bank recovery?

Bank Lending to Shipping – Top 40 banks

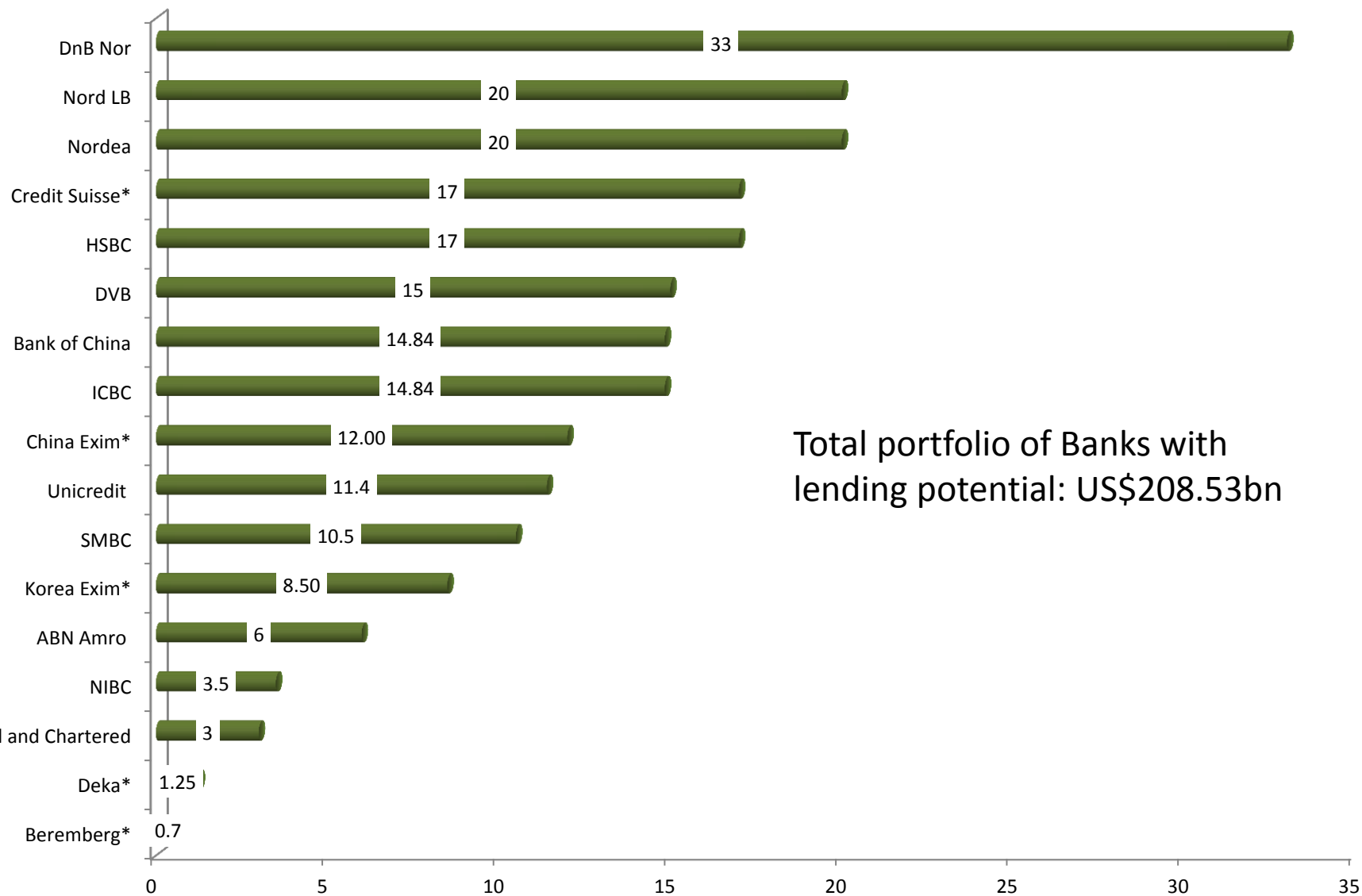
- Loans of leading 40 ship finance banks approximately at **\$459.69bn**
- Last year's top 40 bank loan portfolios: **\$449.76bn**

Most banks are decreasing their exposure. The increase noted is due to the revision primarily of the Chinese portfolios, as more information regarding Chinese ship finance becomes available.



- Market estimates
- ** HSH includes non-core portfolio of **\$18.2bn approx**

Banks with lending potential

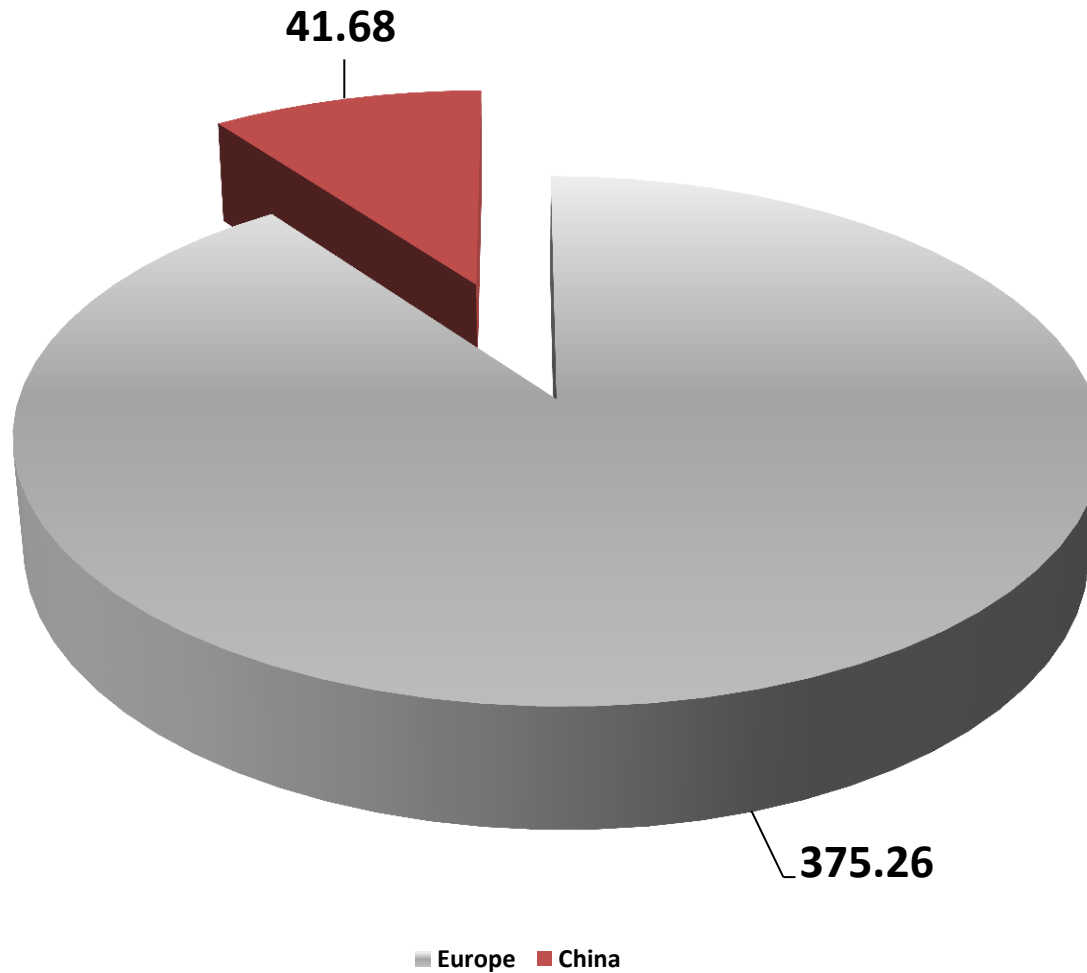




Europe vs China

Europe: 89.63% of
total ship finance

China: 9.07% of total
ship finance





A. Why are Western banks in trouble?

1. Over expansion / overleveraging
2. Exposure to 'investment products'
3. Breakdown of the interbank market
4. Flight to safety by depositors towards central banks
5. Severe liquidity crisis
6. Mismatch of assets and liabilities profile
7. Increased provisions due to faltering European economies

A. Why are Western banks in trouble?



8. Slowdown of the world economic growth for 2012 to approx. 2.5% (World Bank Global Economic Prospects report)
9. Slowdown in 2012 estimated Chinese growth to approx. 7% (lowest of approx. 8 years – Chinese State data)
10. Sovereign debt crisis issues
11. Lack of confidence and trust by all to all

A. Why are Western banks in trouble?



12. Emergence of “credit crunch” conditions
13. Reduced risk appetite by banks
14. BASLE II capital adequacy requirements (9% on 01/07/2012)
15.) Poor capital markets especially for banks
16. In conclusion, according to the European Banking Authority, European banks need \$153.8bn within 2012 in new core capital

B. What steps are being taken to shore up their capital adequacy, liquidity and ability to lend?



- a. Fed Bank and ECB to the rescue
- b. ECB short term and medium term liquidity to banks
- c. Enforcement of capital adequacy rules
- d. Greater scrutiny over loans and other provisions
- e. ECB/EU provision of new capital to selective banks
- f. Segregation of commercial and investment banking risk
- g. Measures designed to bolster the economy

C. Are there tangible, significant prospects of a Western bank recovery?

1. European fourth quarter 2011 recession figures compelling for politicians.
2. Continued massive central bank funding boosting liquidity
3. ECB to provide long term liquidity to European banks
4. “German rules” regarding state deficits to be reconsidered / postponed in view of European recession fears
5. Expected resolution of Greek euro crisis in 2012/2013
6. Euro-crisis to abate as 2012 progresses



C. Are there tangible, significant prospects of a Western bank recovery?

7. Western economic growth slowdown to reverse in 2013
8. Chinese growth to recover to 9-10% in 2013
9. Pick up in international growth to over 3.1% in 2013 as per World Bank
10. Pick up in international trade to 5.7% in 2013 as per the UN
11. Deleveraging process by European banks to slow down
12. Far Eastern banks to continue to gain market share
13. Gradual restoration from 2013 onwards of inter-bank market



C. Are there tangible, significant prospects of a Western bank recovery?

14. Higher European bank capital adequacy to boost lending
15. Risk appetite by both banks and investors to slowly recover
16. Higher consumer and industrial sentiment/confidence from 2013 onwards
17. Recovery of stock markets and the financial sector in particular over the next two years
18. Bottoming out of vessel values and earnings in 2012 across most sectors, coupled with lower order-book and higher scrapping together with a pick up in international trade, leading to a tentative recovery in 2013-2014
19. Far Eastern yard over-capacity to be reduced but not eliminated. Over-ordering peril always around the corner.



C. Are there tangible, significant prospects of a Western bank recovery?

20. Banks shall use anemic recovery in 2013/2014 to work through their problem loan situations/recoveries
21. Bank lending appetite for quality borrowers to return from 2013 onwards
22. Attractive ship lending margins shall encourage new lenders
23. Recovery of shipping public company market values leading to greater ability to raise capital.
24. Reversal of exit decisions by some shipping banks
25. Gradual restoration of competitiveness towards ship finance by western banks and desire to compete for loan business outside strict customer base





In conclusion, Western banking, financial, liquidity, confidence, economic growth and bank loan appetite will stage a robust recovery from 2013 onwards.

Shipping market conditions too are expected to stage a modest recovery from 2013 onwards, rendering ship finance more attractive on a risk / reward basis for Western banks

Thank you for your attention