Key Developments and Growth in Global Ship Finance

June 2024

By Ted Petropoulos, Head, Petrofin Research ©.

We are pleased to present for the 16th year running our latest Global Bank ship finance research and the bank loan portfolios to global shipping presented as of 31st December 2023.

We also include the Petrofin Global Index, which monitors the global bank ship finance levels since 2008.

Petrofin Research © wish to thank all participating banks for their on-going support, without which this research would not have been possible.

Contents

Main findings

1. The Petrofin Index for Global Ship Finance which commenced at 100 in 2008, has shown a modest increase to 62 as of end 2023 from 61 in 2022.

2. Top 40 Banks' lending to shipping in 2023 stands at $284.27bn, compared to $282.89bn in 2022. This reverses slightly the downward trend since 2011.

3. Asian and Australian banks (APAC) show significant growth, especially their market share, which has increased from 43% to 45%. In terms of actual exposure their portfolio amounts to US$127.94bn compared to US$120.83bn in 2022. The USA remains range bound, whilst Europe has shown a marginal decrease. Europe still represents the biggest ship finance area at 50% of the top 40 banks, lending US$141bn.

4. Greek banks showed a significant yoy growth of 13% from US$13bn in 2022 to US$15bn in 2023. Greece's market share increased from 4.6% to 5.2%. French and Belgian and Other European banks portfolios also showed rises.

5. According to Petrofin Research, the total global bank lending of all banks, including local banks, is approaching US$375bn, i.e. approx. 62% of all types of the global ship finance total. Last year this percentage stood at 67%. We can provide a cautious, indicative figure for global ship finance, including all forms of lending - leasing, export finance and alternative providers - of approx. US$600bn. Interesting to note that Clarkson's estimate the global fleet value at US$1.5trn.

6. It should be noted that non-bank lending is showing considerable higher growth than bank lending over the years.

7. Japanese banks now figure more prominently in global ship finance holding 22% of the top 40 banks. This development is supported by the weak yen and rapid rise in Sale and Leaseback transactions (SLB). It should be noted that Japanese banks provide primarily loans to either Japanese owners or Japanese owned but international bareboat charterers.

8. Poseidon Principles now incorporates 35 signatories, which represent US$300bn in shipping finance.

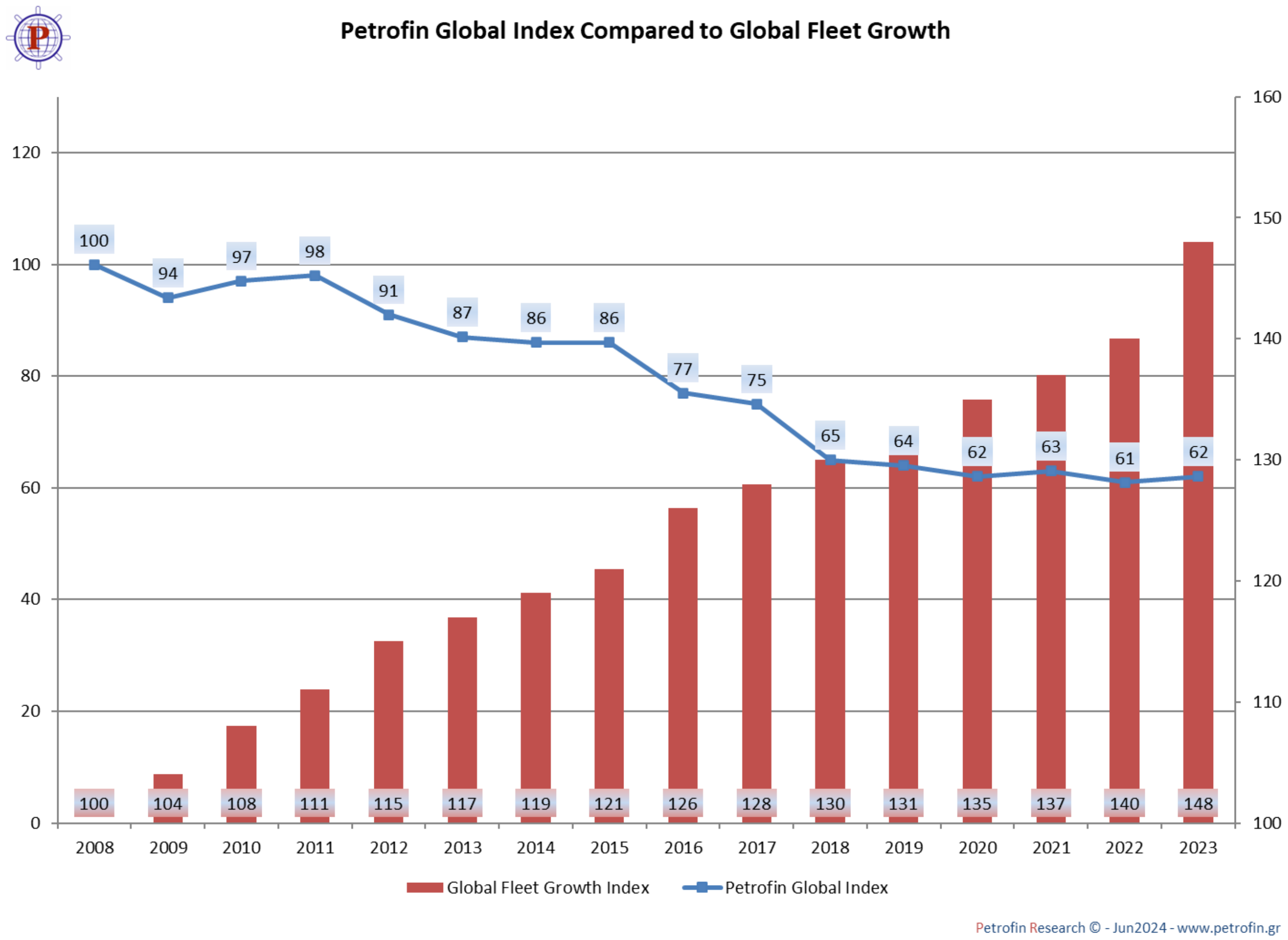
9. ESG considerations and bank strategies continue to favour bank ship lending towards eco vessels. There is increasing evidence that sustainability has become more prevalent in bank lending.

10. Despite good efforts towards decarbonisation, there still remain doubts as to the required technology and its cost to meet the zero-emission target eventually. Such concerns are shared amongst all stakeholders including lenders.

1. Petrofin Global Index of Ship finance

As illustrated in Graph 1, the Petrofin Global Index (from 2008 to 2023) has remained stable in 2023 with a slight rise from 61 to 62.

Graph 1: The Petrofin Global Index, compared to the indexed growth of the global fleet (fleet data from Clarkson's World Fleet Register).

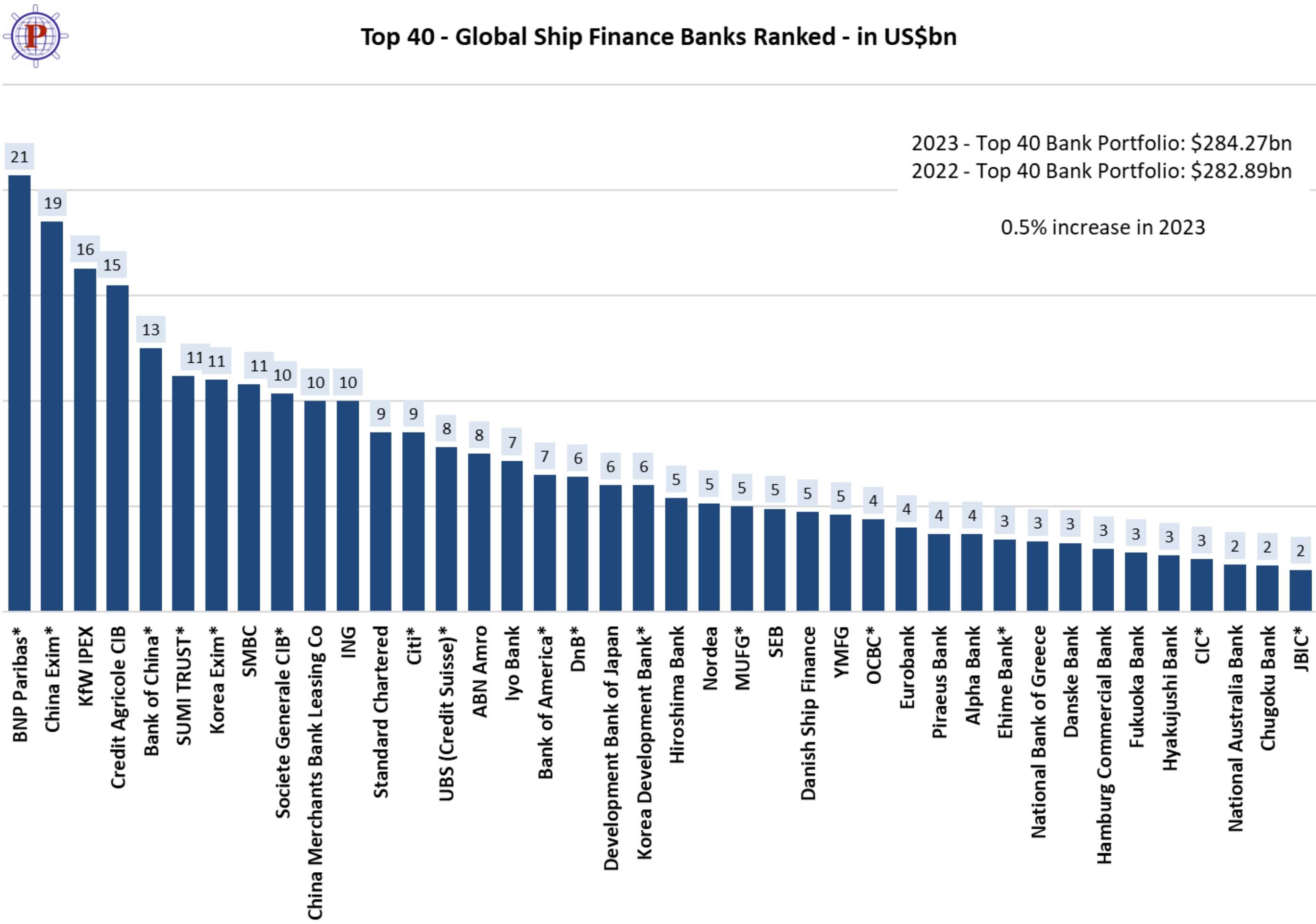


The growth of the global fleet continues to be funded primarily from non-banking sources, such as leasing, alternative lending, export finance, private equity from Funds, public markets and investors.

2. Top 40 Banks

We are pleased to present the latest Top 40 Global banks' lending as of December 2023, amounting to US$284.27bn.

Graph 2: The Top 40 banks

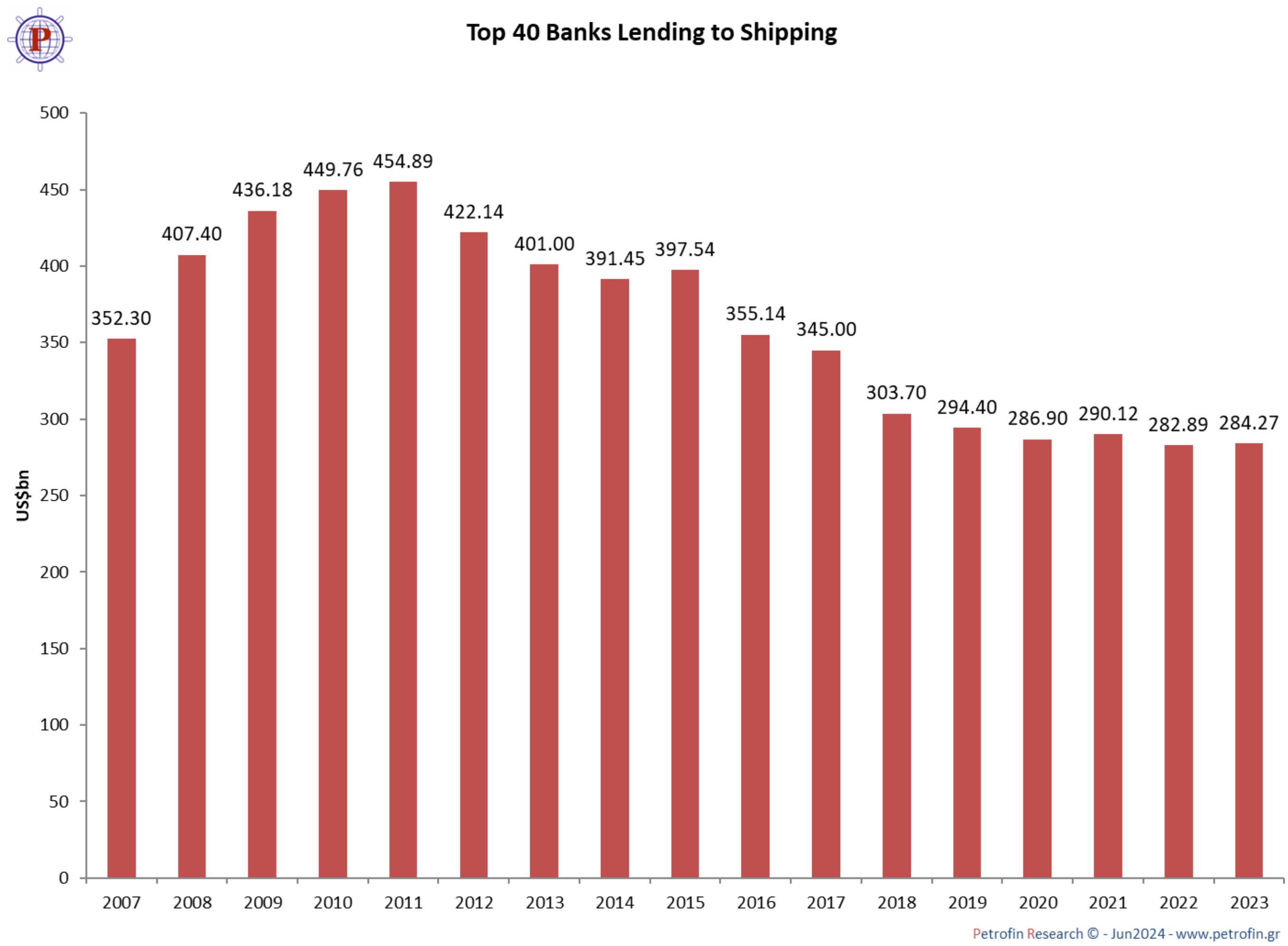


*Market estimate

Above may include export finance

There have been numerous place changes in the middle and lower size banks in global ship finance. We also note the increased presence of Japanese banks.

Graph 3: Top 40 banks lending to shipping between 2007 - 2023



Since 2020 the global portfolio for the top 40 does not show major fluctuations. The yoy increase of the portfolio in 2023 amounts to US$1.38bn.

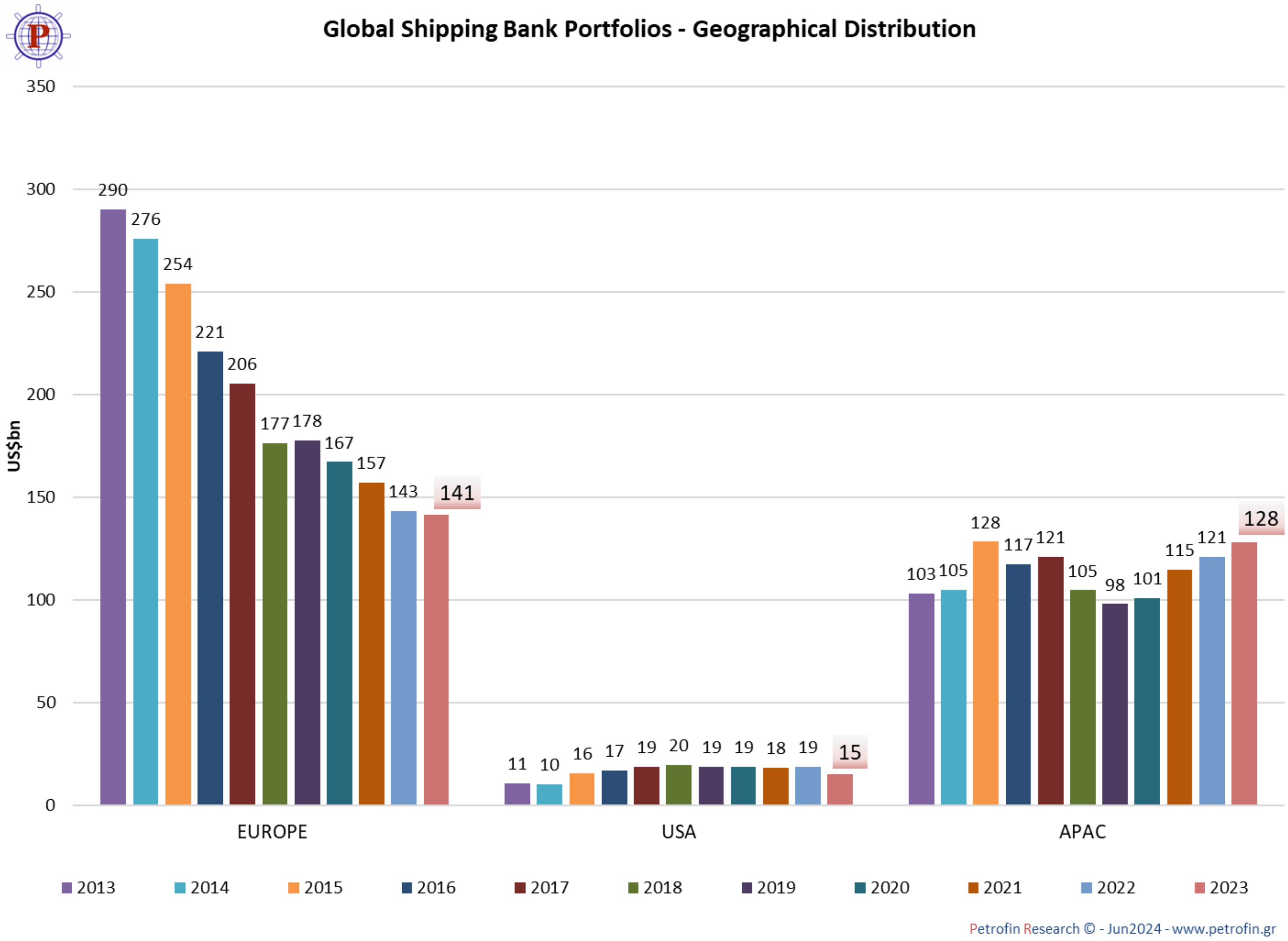
Further to our Top 40 bank research, we also monitor 43 additional banks (Table 1 below), whose totals approach approx. US$38bn towards global ship finance. We have maintained the top 40 banks framework for comparison purposes.

Table 1: Other banks

OTHER BANKS PORTFOLIO = $38bn
ADCB*
ADIB*
Aegean Baltic
Astrobank
Bank of Cyprus
Berenberg*
CaixaBank*
Cassa Depositi e Prestiti (CDP)*
Chailease
Commonwealth Bank of Australia*
Corner*
CTBC Bank*
DBS*
Deka*
Deutsche Bank*
DZ Bank (DVB)*
First Citizens Bank*
Helaba*
Hellenic bank
HSBC*
HVB Group
ICBC (excluding Leasing)*
JA Mitsui
Macquary
Maritime and Merchant Bank
Mizuho*
National Bank of Fujairah*
Natixis*
NIBC
Nord LB
Oita Bank
Orix Finance*
Pancreta Bank
Pareto Bank
Sanin Godo Bank
Santander*
SBI Shinsei Bank
Sparebank 1 SR-Bank*
Sparebanken Vest*
Swedbank*
Thailand EXIM*
Tokyo Century Corp*
UOB*
* Market estimate Petrofin Research © - Jun2024

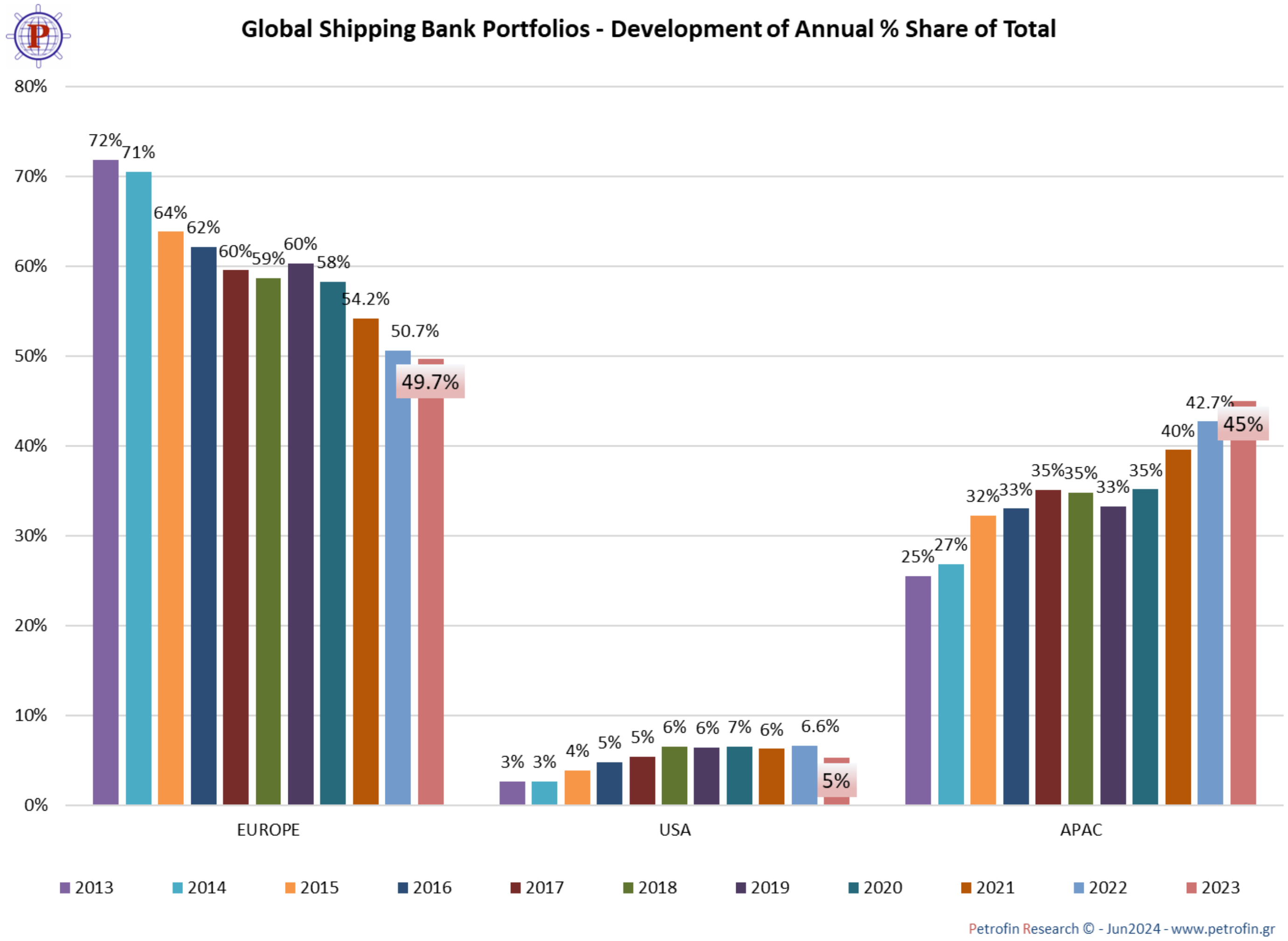
3. Commitment of Banks by Geographical Area

Graph 4: Global Shipping Bank Portfolios – Geographical Distribution



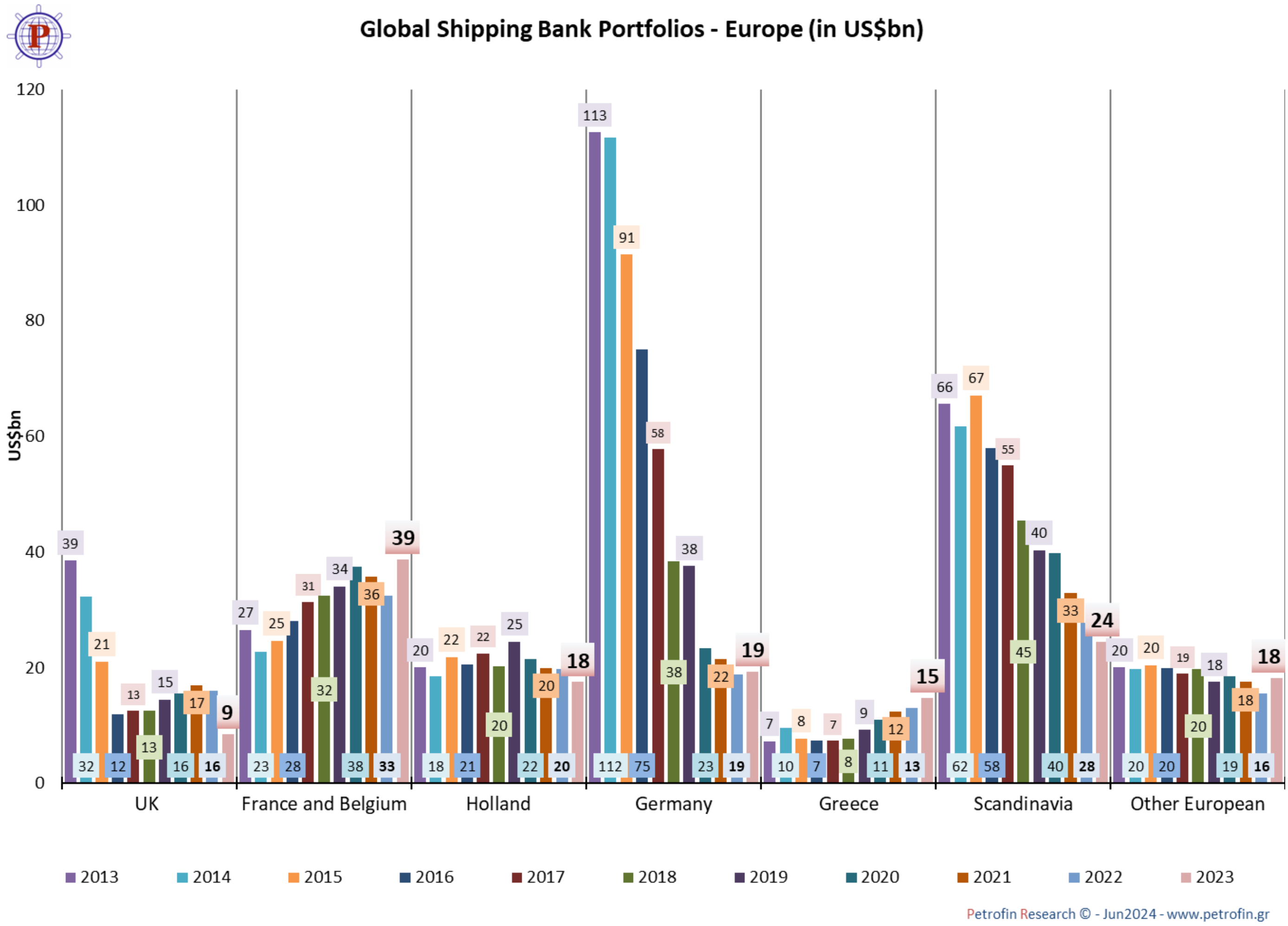
In Graph 4, we note at first glance that Europe's descent has eased a little, whereas APAC have gone up to their 2015 highest recorded level. USA banks have gone down.

Graph 5: Global Shipping Bank Portfolios – Development of Annual % Share of Total



In percentage terms (Graph 5), the shrinking distance between Europe and APAC is impressive in terms of global portfolio share. The European market share for the first time in our records is below 50%.

Graph 6: European Banks



France & Belgium and Greece are the only European areas that showed an increase. Collectively, Other European banks, not included in the Top 40, are also up. Holland is down, Germany is stable and the UK is nearly halved, with the HSBC rapid portfolio reduction.

Summary and Conclusion

The global banking industry continued to face many challenges in 2023. The geopolitical challenges of the Ukraine war, increased sanctions and higher energy prices, the Houthi Red Sea attacks and the Israeli Hamas conflict added further complications. Unfortunately, none of the above appear to be solvable in the near future. The above led to increased trade dislocation. Nevertheless, global GDP grew by 3.2% in 2023 and is expected to grow at a similar pace in 2024, but in terms of ton mile demand, analysts show a much higher increase of 4.1% in 2024 and 5% forecasted in 2025.

The tanker market continued its strong performance, supported by slow fleet growth in 2023 and similarly in 2024-25, as well as buoyant ton mile demand. Vessel prices remained high and earnings too. In contrast, in 2023 dry bulk had a weaker charter market in 2023 with lower earnings but rising prices by 13% yoy, in anticipation of better markets in 2024-2025. The offshore sector and the car carrying sector continued their strong performance both in earnings and vessel values, whilst the remainder markets were rather mixed. (Clarkson's)

The overall Clarkson's second hand price index grew moderately from 146 to 149 yoy in 2023 but has since jumped to 173 as of 1st June 2024.

On the whole, bank lending conditions were challenging as in many sectors vessel earnings did not rise as much as vessel prices, thus rendering ship finance cash flows to be unsupportive. Banks on the whole resisted the urge to lend more than 60% on an LTV basis without additional supporting factors and, furthermore, faced increased competition and eroding loan margins. Thus, it was not a case of whether banks had the capacity to lend, but whether there were sufficient lending opportunities. Many banks concluded numerous loans only to find themselves on similar footings at year end, due to loan repayments/prepayments on account of high interest rates. On the whole, the global banking sector managed to show a modest rise in ship finance as of end 2023 which represented a year of overall stability, whilst loan provisions were kept commendably low.

The unwillingness of most banks to provide higher LTVs led to the rapid growth of SLB transactions in China, Korea and Japan, as well as all forms of alternative lending, spearheaded by Funds. The increase of newbuilding orders despite rising newbuilding prices, especially in the LPG, tanker, LNG, Car Carriers and Container sectors, was increasingly financed by leasing and not bank finance. The main reason for the above is the higher LTV offered by lessors and Funds of 70-75% or higher, especially for large and financially strong repeat clients.

ESG and the Banking Industry - The main concerns of shipping currently

Regulations on emissions are creating challenging conditions to all stakeholders including banks. There are still uncertainties as to whether there will be standardized and trusted new technologies, when they might be available and what their cost will be.

Owners will need to consider the sustainability of such new technologies and whether market conditions will provide the necessary income to amortise such investments. At the moment, there does not appear to be a sufficient incentive in terms of enhanced income flows from the available dual fuel vessels but this is something that may change. Given the above uncertainties, banks will have to adapt their credit policies as to new technology related loans. In the meantime, via the increased newbuilding order flow, it is self-evident that many owners are opting for Tier III conventional technology, in which banks find more comfort and do meet the latest available regulation criteria.

According to Clarkson's nearly 50% of the orderbook is alternative fuel capable. As depicted in Table 1, the majority of orders are LNG, ethanol and LPG fuelled vessels. However, LNG and LPG are considered bridging fuels since they are fossil fuels with lowers emissions, meaning that they are not suitable for the carbon net zero deadline. Therefore, when looking at the non-fossil fuels the actual percentage is even smaller.

Table 1

Orders per type of alternative fuel

as of end Mar 2024 (No. Orders and GT)

	No. Orders	GT
LNG	886	79,033,597
Methanol	227	20,313,780
LPG	107	4,572,541
Ethane	43	2,082,579
Hydrogen	20	469,349
Nuclear	7	331,080
Ammonia	13	974,602
Biofuel	18	95,908

Source: Clarkson's Petrofin Research © - Jun2024

The orderbook for ammonia, a fuel very much discussed, is still quite small (Table 1) but has been gaining more traction recently. Indicatively, ammonia orders for 2026 are 8 (Table 2). These vessels' total GT is 534k. Engines are still under development and some major shipyards have not even started sea trials. Nevertheless, the caution observed in 2024Q1 appears to be reversing, as since April the ammonia fuelled vessels have seen a surge in contracts and enquiries. Still, it is uncertain which fuels shall prevail and which fuels will be readily available on a global basis by the energy providers. However, it is expected that the financing of the alternative fuel orders will gather pace as the deadlines for net zero are approaching.

Table 2

Orderbook Schedule

as of end Mar 2024 (No. Orders and GT)

	2024	2025	2026	2027	2028	2029	2030	2031	2032
LNG	231	277	215	136	24	3	-	-	-
Methanol	25	63	89	42	8	-	-	-	-
LPG	15	18	31	41	2	-	-	-	-
Ethane	4	11	13	15	-	-	-	-	-
Hydrogen	5	8	4	2	1	-	-	-	-
Nuclear	1	-	1	1	1	-	2	-	1
Ammonia	-	3	8	2	-	-	-	-	-
Biofuel	7	11	-	-	-	-	-	-	-

Source: Clarkson's Petrofin Research © - Jun2024

With the onset of Basle IV capital restrictions, due to come into effect in 2025, the competitiveness of the global banking industry will be tested compared to the unregulated lenders. Evidently not all banks will be affected equally as the new capital requirements model that will apply to all, will be influenced by each bank's lending record. In sum, banks that are in ship finance in 2024 are committed to shipping and have the capacity to grow but may be restricted due to the regulations and competition from the non-banking sector.

On the whole, we expect that the trends already identified in 2023 global ship finance will continue. Although we have witnessed recently a rush of eco Tier III conventional newbuilding orders with deliveries in 2026-27, bank demand is not expected to reflect this for some time to come. Additionally, as dual fuel technology and especially ammonia is gathering pace, this should boost ship finance utilisation in the years to come. We do not anticipate major changes in the LTV figures or margins with some exception for alternative fuel and renewables financing.