

## Emerging trends in Greek Shipfinance

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Shipping and shipfinance have both performed well over the last 12 months. This performance was against a backdrop of record high vessel freight rates and values reached in late 2004/early 2005 and the inevitable decline that followed over the last 12 months.

Whereas freight rates across all shipping sectors have fallen substantially and well below half of their recent heights for many vessel types, vessel values have not followed close suit and have fallen quite modestly in comparison. Vessel prices have shown such a resilience as a result of the still relative robust freights when set against those of only a few years ago, the abundance of investment funds looking for 'exciting' returns compared to other investments and the expectation, still held strong, of continuous good performance and returns in the light of the massive growth in international trade still being experienced by China and India, as well as the rest of the world economy. Consequently, rising

supply of shipping tonnage aided by increasing newbuildings and lack of scrapping has been so far well absorbed by the increase of demand by the world economy and international trade.

During this period, Greek shipping has performed especially well. Not only has the average age of the fleet improved from 23 years to 19 years over the last 2 years as a result of massive newbuilding orders and young second-hand vessel purchases, but Greek owners have enjoyed the benefits of high earnings and liquidity in an unprecedented scale. To the highly committed to shipping Greek owners, such liquidity has been largely used to modernise and grow their fleets, aided by an increasing use of the public markets, as well as in developing sizeable cash hoards for future acquisitions.

Although the pace of newbuildings and purchase of second-hand vessels has slowed down recently, the underlying theme is still one of positive growth and evolution by Greek shipping aiming to take advantage of any relative low vessel price opportunities to further grow and improve the quality of their fleets.

Consequently, during the last 12 months there have been no noticeable Greek owner failures or non-performance towards their banks. To the contrary, banks who are naturally cautious and expected a massive fall in both vessel prices and freights, witnessed a relative soft sliding which still keeps their loan portfolios healthy and performing. In addition, banks looking for lending opportunities among the largest and financially stronger owners have been aggressively competing for quality business by slashing spreads and fees and creating an 'owners' market.

Although cautiousness is still the order of the day, invariably all banks feel confidence in Greek shipping and its ability to withstand lower freights, should they occur. Moreover, banks understand well that Greek owners are looking to extend further and to seize any relative opportunities based on their good liquidity as well as the relatively low leverage of their fleets against what is still a robust net income stream of earnings from their fleet utilisation.

Although record high oil prices, geopolitical conflict fears, as well as a possible slow down in the rate of growth of China and increasing interest rates are of concern to both owners and banks, they both remain

confident of the future and in their belief of continuous good performance by the shipping industry.

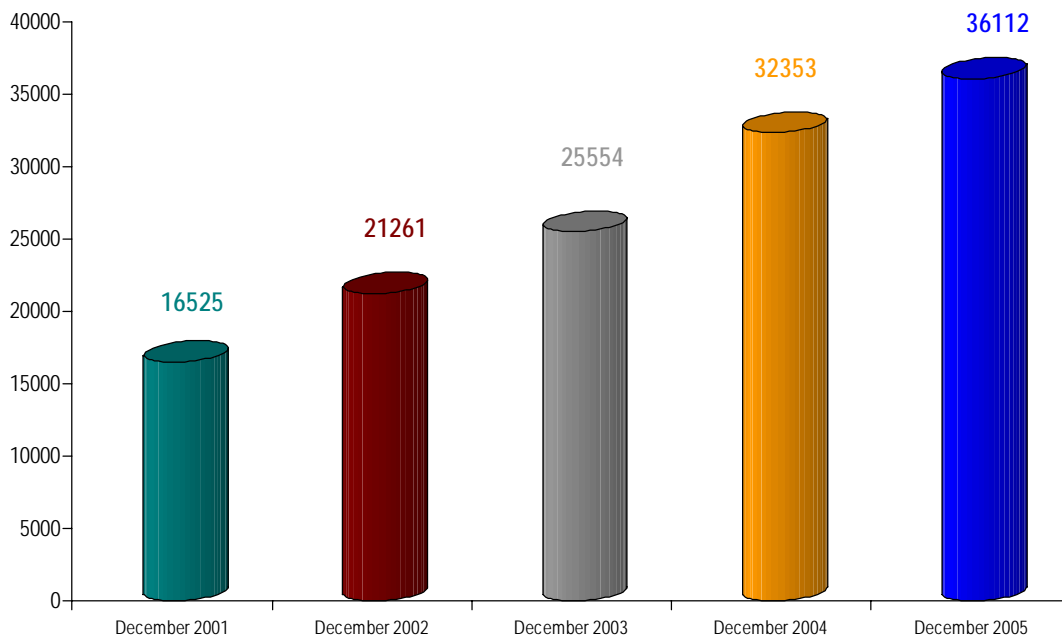
Greek shipping is of course at the fore post of this confidence and continues to perform very well. As a result, Greek shipfinance reflects this and Petrofin-Bank-Research©, published this April, shows that banks continue to trust Greek shipping since their lending to it has risen yet again.

In the past 4 years we have witnessed a steady growth in banks' shiplending portfolios to the Greek market. Following the trend, this year also shows consistent growth. The overall portfolio has risen from **\$32.353bn** to an impressive **\$36.112bn**. This represents a growth of **11.62%**.

In the graph below (Graph 1) we note the evolution of Greek ship finance since 2001.

Graph 1

*Total of Bank Portfolios available to Greek shipping - growth since 2001 in US\$m*



*April 2006*

Petrofin Bank Research ©

We note that the previous years' rise were more of a 'leaps and bounds' nature, whereas the as of end 2005 figure shows a softer rise. This trend is in line with what has been happening to shipping. Last year's impressive 26.61% increase was, of course, due to the remarkable strengthening of freight rates and tremendous demand for vessels that drove their prices to all-time historical heights. This unavoidably reflected in the volumes of the shipfinance, as the average loan increased accordingly, whereas the percentage of finance remained largely the same, averaging 65-70%.

For the purpose of analysis, we have divided banks into Greek banks, international banks with a Greek presence and international banks without a Greek presence.

Since 2001, all 3 categories of banks show a 21.6% steady average annual growth in Greek shiplending.

In the table below (Table 1) we observe the overall growth in Greek shiplending:

**Table 1: Overall Growth in Greek Shiplending**

	<i>Overall Greek shiplending portfolio in US\$ billions as of 31<sup>st</sup> December 2005</i>	<i>Percentage of growth between December 2001 and 2005</i>	<i>Percentage of growth over the last 12 months between December 2004 and December 2005</i>	<i>Average yearly growth since 2001</i>
<b>International Banks WITH a Greek presence</b>	<b>19.540</b>	<b>177.16%</b>	<b>40.2%</b>	<b>29.03%</b>
<b>International Banks without a Greek presence</b>	<b>10.049</b>	<b>63%</b>	<b>-16.74%</b>	<b>12.99%</b>
<b>Greek banks</b>	<b>6.523</b>	<b>97%</b>	<b>2.82%</b>	<b>18.48%</b>
<b>Totals (rounded)</b>	<b>36.112</b>	<b>118.53%</b>	<b>11.62%</b>	<b>21.58%</b>

It is important to note that the reduction in the exposure of the International Banks without a Greek presence (-16.7%) is due mainly to the shift, this year, of *Deutsche Schiffsbank* (current portfolio US\$3.4bn) to the International Banks with a Greek presence, as well as to the merger of the *Vereins und Westbank* with *HVB*, which has been in the list of banks with Greek presence for a number of years. Hence, also, the tremendous growth of the banks with a presence in Greece. Had *Deutsche Schiffsbank* remained in its previous sub-category, then the percentage growth from 2004 to 2005 would have been +11.4%!

The International Banks with a Greek presence are the banks that collectively top the list in Greek shipfinance. As of end 2005, they committed to the sector US\$19.54bn as opposed to US\$13.94bn the year before, in an increase of portfolio of 40%. The *Royal Bank of Scotland* heads the group, as well as coming first overall, with their, by far the largest, portfolio of US\$8.099bn. *RBS* remains for yet another year the biggest lender to Greek shipping with an average annual percentage growth of 32.85%. For the first time, the second position is held by *HSH-Nordbank* (banks without a Greek presence) with a US\$3.47bn portfolio, a rise of 22.28% from the year before.

This is how the top 30 banks fared as of end 2005:

**Table 2: Top 30 banks holding Greek shipping portfolios as of 31<sup>st</sup> December 2005**

Rank	Bank position 2005	Portfolio	Average annual growth	Bank position 2004
1	Royal Bank of Scotland	8099	32,85%	Royal Bank of Scotland
2	HSH-Nordbank	3468	22,28%	Deutsche Schiffsbank
3	Deutsche Schiffsbank	3400	9,68%	HSH Nordbank
4	Credit Suisse*	1850	15,63%	Credit Suisse*
5	Calyon*	1500	not available	Calyon*
6	Alpha Bank	1480	9,63%	National Bank of Greece
7	HSBC	1170	11,43%	Alpha Bank
8	National Bank of Greece	1140	-18,57%	Citibank
9	DVB Nedship	1070	21,59%	HSBC
10	DNB	1067	27,78%	DVB Nedship
11	Citibank	1015	-16,8%	Emporiki Bank
12	ABN	1000	33,33%	Piraeus
13	HVB	1000	22,7%	DNB
14	Emporiki Bank	938	7,82%	HVB
15	Piraeus	897	3,46%	ABN
16	Fortis Bank	700	27,27%	KFW
17	KFW	641	-10,26%	EFG Eurobank
18	Commerzbank	608	14,29%	Fortis Bank
19	EFG Eurobank	602	6,05%	Commerzbank
20	Nordea	526	44,9%	Bremer Landesbank
21	Bank of Scotland	504	61,66%	First Business Bank
22	Laiki Bank	476	28,07%	BNP PARIBAS
23	First Business Bank	457	3,02%	Laiki Bank
24	Bremer Landesbank	448	-5,38%	Nordea
25	BNP Paribas	401	0,12%	Bank of Scotland
26	Egnatia	266	24,88%	Vereins und Westbank
27	Nord LB	226	88,33%	Egnatia
28	Natexis	185	351,22%	Dresdner bank*
29	Dresdner*	175	-12,5%	Nord LB
30	Kexim*	150	not available	Bank of Ireland

\* Market estimates

It is evident that Greek shiplending has been going from strength to strength. Irrespective of the number of banks that have entered or left the sector, the overall

picture of the last 5 years is one of continuous commitment and growth. Here, we should also note that up to rank 13 all these banks have reached and exceeded the \$1bn mark, whereas in the previous year only 9 banks had achieved this.

The total number of banks involved in Greek shiplending is 40, as of 31<sup>st</sup> December 2005. This is reduced down from 50, primarily due to mergers as well as some withdrawals from the Greek market by banks without a core emphasis in shiplending.

In terms of nationality, and compared to the 2 previous years, they are as follows:

**Table 3: Number and nationality of Banks engaged in Greek Shipfinance**

<i>Nationality</i>	<i>End 2003</i>	<i>End 2004</i>	<i>End 2005</i>
<b>UK &amp; Ireland</b>	5	5	4
<b>France / Belgium</b>	8	6	3
<b>Scandinavia</b>	2	2	2
<b>Germany</b>	10	10	9
<b>Holland</b>	5	5	4
<b>Greece</b>	15	14	14
<b>Other European</b>	4	4	2
<i>Total European</i>	<u>49</u>	<u>46</u>	<u>38</u>
<b>North America</b>	4	3	1
<b>Far East and other countries</b>	1	1	1
<i>Grand Total</i>	<u>54</u>	<u>50</u>	<u>40</u>

Also, the reduction in the number of banks is also due to unwinding portfolios coming to an end by those who were intent in leaving the sector anyway.

Examining the situation more closely, **Graph 2** shows that the number of non-Greek banks with a physical Greek presence (11) has gone up by 2 compared to last year. In actual fact, these banks have shown consistent growth throughout the last 5 years.

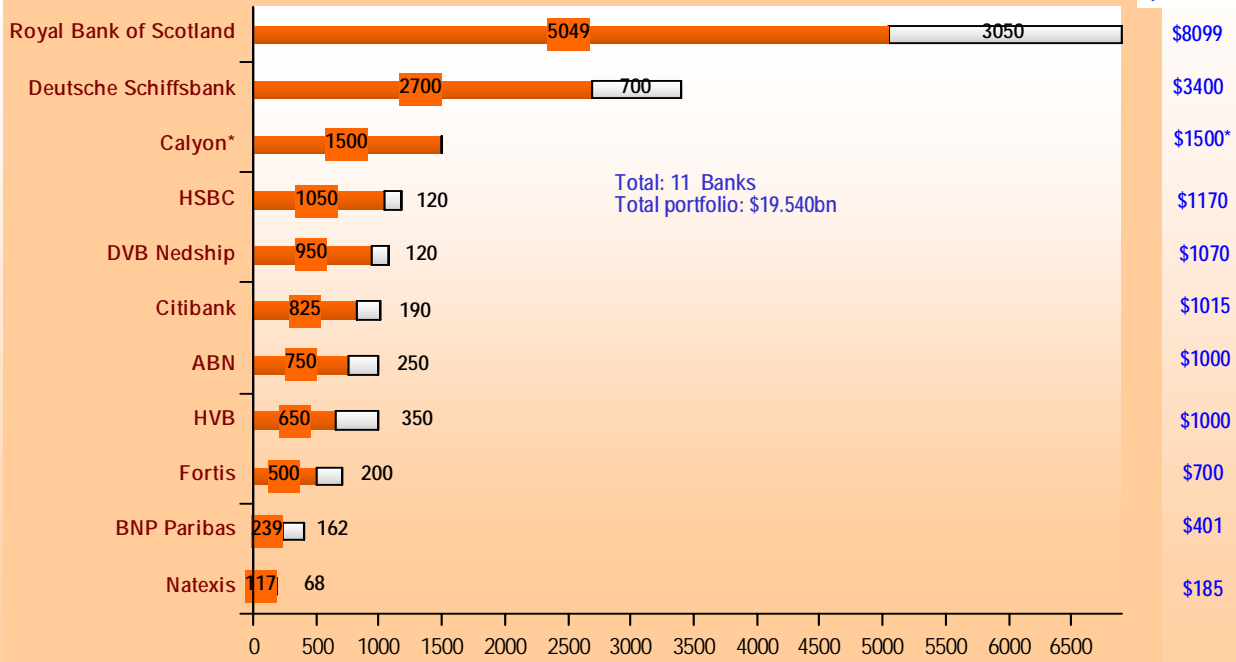
Once again, this is the leading group of banks commanding a total portfolio of **\$19.540.5bn.** *Deutsche Schiffsbank* is the prime contributor to this impressive increase of 40.19% by bringing in a portfolio of \$3.4bn.



Graph 2

**A. INTERNATIONAL BANKS WITH A GREEK PRESENCE**  
*Greek shipping portfolios as of 31<sup>st</sup> December 2005*

Total exposure per bank



\*Based on market estimates

Where figures were supplied in euros:  
 €=\$1.2

Loans drawn □ Loans committed but not drawn yet

April 2006

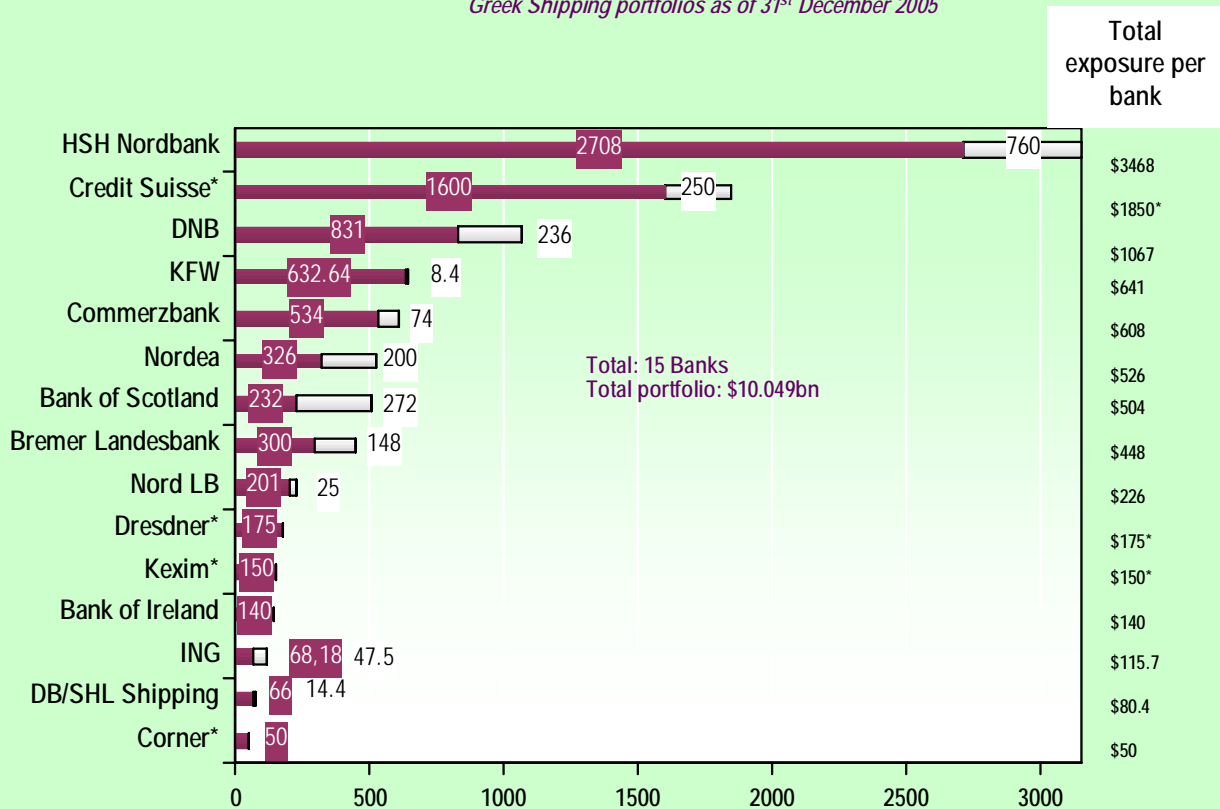
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In **Graph 3** we observe that the sector of international banks without a Greek presence shows a decrease in numbers from 27 banks to 15. This decrease is accompanied by a decrease in portfolio for the first time in 5 years from \$12,070.13m in 2004 to \$10,049m in 2005, i.e. a -16.74% reduction. It should be noted that with the exception of 3 banks, the rest in this sub-category have shown a steady growth. Despite the decrease, international banks that are not represented in Greece are showing an ever-growing interest in the Greek shipping market and the fact that local partnerships and local representative offices are opened, shows just that.

Graph 3

**B. INTERNATIONAL BANKS WITHOUT A GREEK PRESENCE**  
*Greek Shipping portfolios as of 31<sup>st</sup> December 2005*



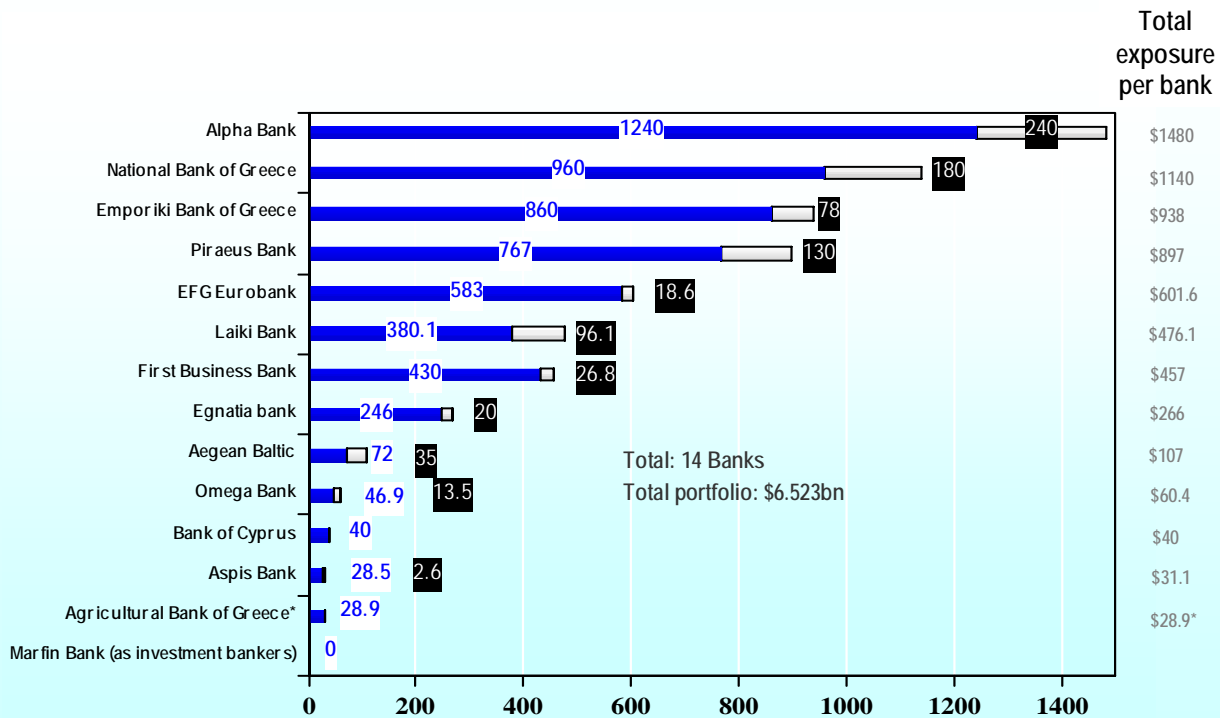
\*Based on market estimates  
 Where figures were supplied in euros: €=\$1.2

■ Loans drawn □ Loans committed but not drawn yet

In terms of Greek banks (**Graph 4**), their number has remained stable at 14. Their portfolio marked an increase by **2.82% from \$6.344bn to \$6.523bn**.

Graph 4

**C. GREEK BANKS**  
*Greek shipping portfolios as of 31<sup>st</sup> December 2005*



\* Based on market estimates

April 2006

■ Loans drawn □ Loans committed but not drawn yet

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Greek bank exposure has been steadily increasing since December 2001, when our research was first published. Since then, the funds available to Greek shipping have risen by **97% (Table 1)**.

It is important to observe that in this market of huge volumes and huge numbers, Greek banks retained their competitiveness and are competing for Greek business on an equal footing with other international banks. General remarks on the 2005 analysis and prospects for 2006 and beyond

Overall, a good pace of growth was maintained yet again last year.

As newbuildings are being delivered or their finance is secured, shipfinance volumes have also risen. Although, the observed softening of freight rates has had an impact on the growth volume of Greek shipfinance, banks continue to trust Greek shipping and this is the major trend that has emerged from our study.

My belief is that there will be a further slowdown in the rate of growth of Greek shipfinance, but it will still be in the positive. The effect on Greek shipping of such behaviour by the banks is supportive, since banks have become experienced in the volatile sector of shipping and as well as safeguarding their interests, they have also emerged as great supporters of the industry.

Although the market has shown some signs of correction, nothing too dramatic happened during 2005. The big question of whether a slump would follow the recent boom is still unanswered. The 'China', and increasingly the 'India', factors are still extensively discussed and are generally accepted as the major driving force behind today's market. China's annual growth continues, its demand in resources and its rising exports worldwide are keeping transportation in full steam. However, newbuilding deliveries have also risen substantially across all sectors. Hence, it is a tug-of-war between increasing demand and increasing supply.

Greek Shipfinance has attracted the attention of the international business community for its returns and steady growth in the last years.

The banks are also comforted by the good quality of their loan portfolios and the near zero record of bad loans for yet another year.

Consequently, most banks anticipate an unspectacular 2006 and a further year of relatively good performance.