

Positive growth for Greek shipfinance over the last year

By Ted Petropoulos, Petrofin S.A.

Petrofin Bank Research© is pleased to provide for the 5<sup>th</sup> year its annual research on all banks financing Greek shipping.

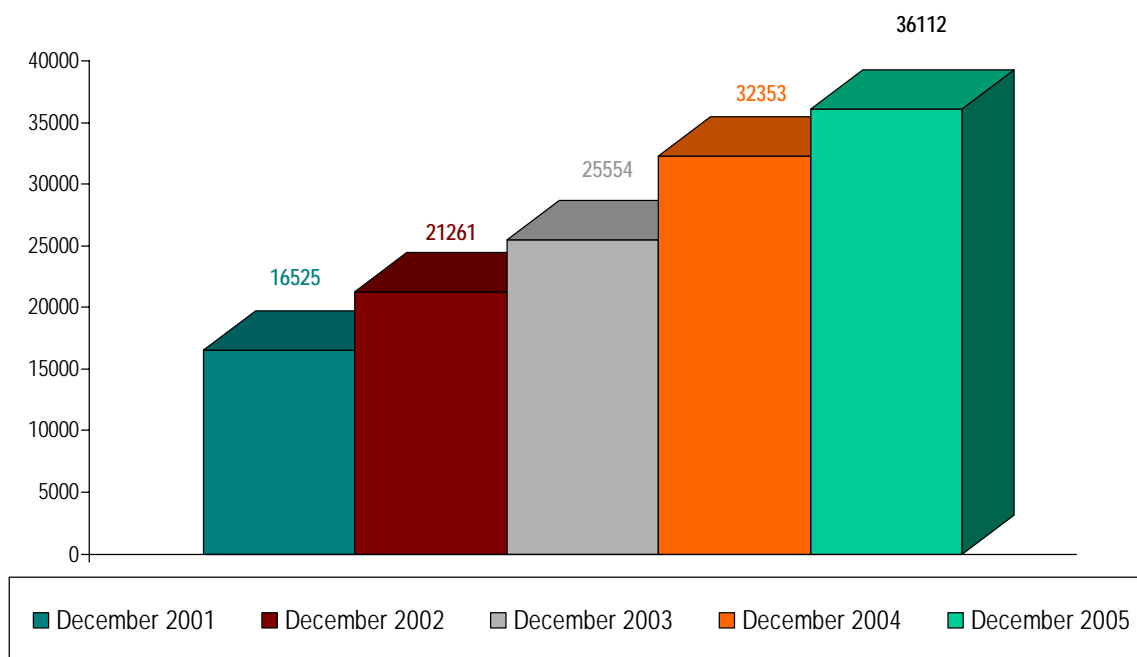
As per previous years, the banks are divided into 3 sub-categories, namely

- A) International (non-Greek) banks with a Greek presence, either in the form of a branch or a representative office,
- B) International banks without a Greek presence, and
- C) Greek banks

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%**. Last year's increase was more substantial (26.61%). This may be explained by a number of factors, discussed in the conclusion.

Graph 1

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



We note that since 2001, there is a 21.6% steady average annual growth in Greek shiplending by all categories. This increase in lending is associated with the development of Greek shipping.

In the table below (Table 1) we observe the overall growth in Greek shiplending of the 3 bank categories:

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

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

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 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%!

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.

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* (Table 2) 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. 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.

The top 10 banks' ranking order follows in Table 2.

**Table 2: The top ten banks and their portfolios in US\$bn:**

Rank	Bank	Portfolio as of end 2005
1	<b>Royal Bank of Scotland</b>	<b>8.099</b>
2	<b>HSH-Nordbank</b>	<b>3.468</b>
3	<b>Deutsche Schiffsbank</b>	<b>3.400</b>
4	<b>Credit Suisse*</b>	<b>1.850</b>
5	<b>Calyon*</b>	<b>1.500</b>
6	<b>Alpha Bank</b>	<b>1.480</b>
7	<b>HSBC</b>	<b>1.170</b>
8	<b>National Bank of Greece</b>	<b>1.140</b>
9	<b>DVB Nedship</b>	<b>1.070</b>
10	<b>DNB</b>	<b>1.067</b>
*market estimate	<b>Total</b>	<b>24.244bn</b>

All 10 top banks are this year above the US\$1bn mark and in terms of Greek banks, Alpha bank is number 6 worldwide, as well as number 1 among the Greek banks.

The total number of banks involved in Greek shiplending is 40, as of 31<sup>st</sup> December 2005 (Graph 6). 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.

**Full Analysis:**

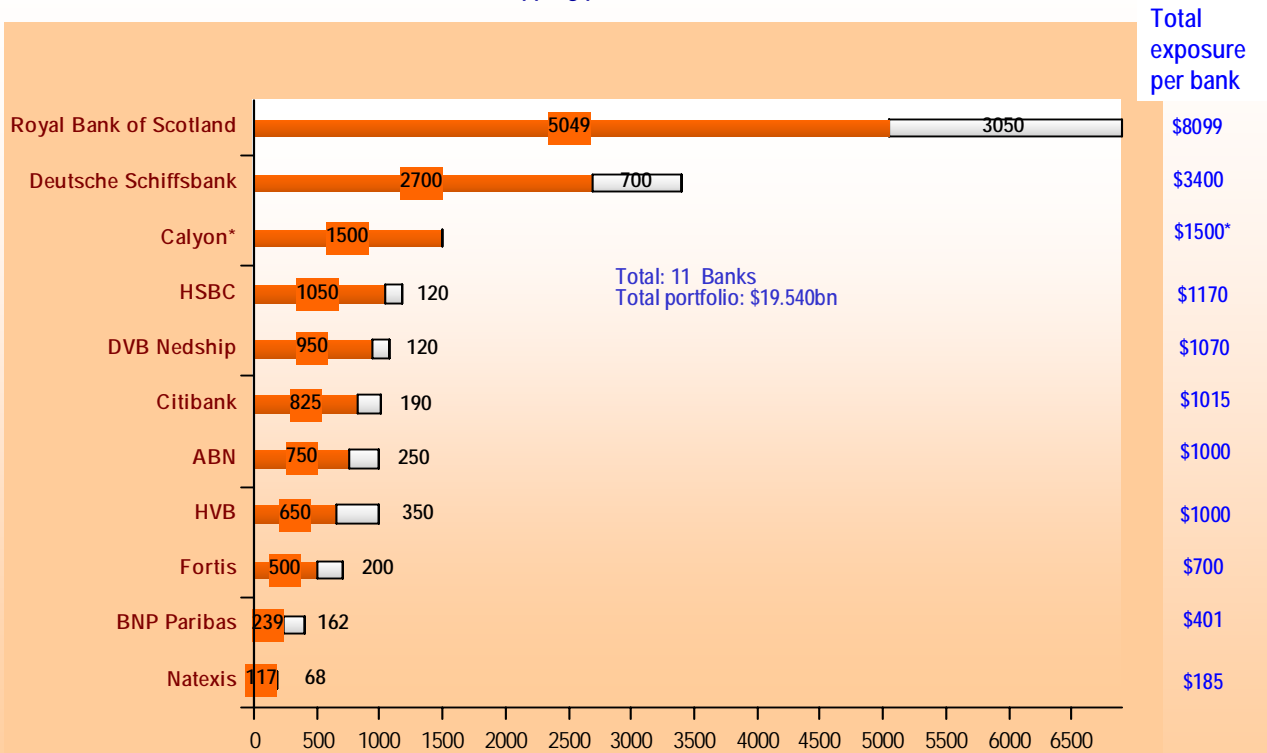
**International Banks WITH a Greek presence**

**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. This increase is due to the representative offices and partnerships in Greece of *Deutsche Schiffsbank* and *Natexis* who have been moved to this category from the list of International Banks without Greek representation.

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



\*Based on market estimates

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

■ Loans drawn □ Loans committed but not drawn yet

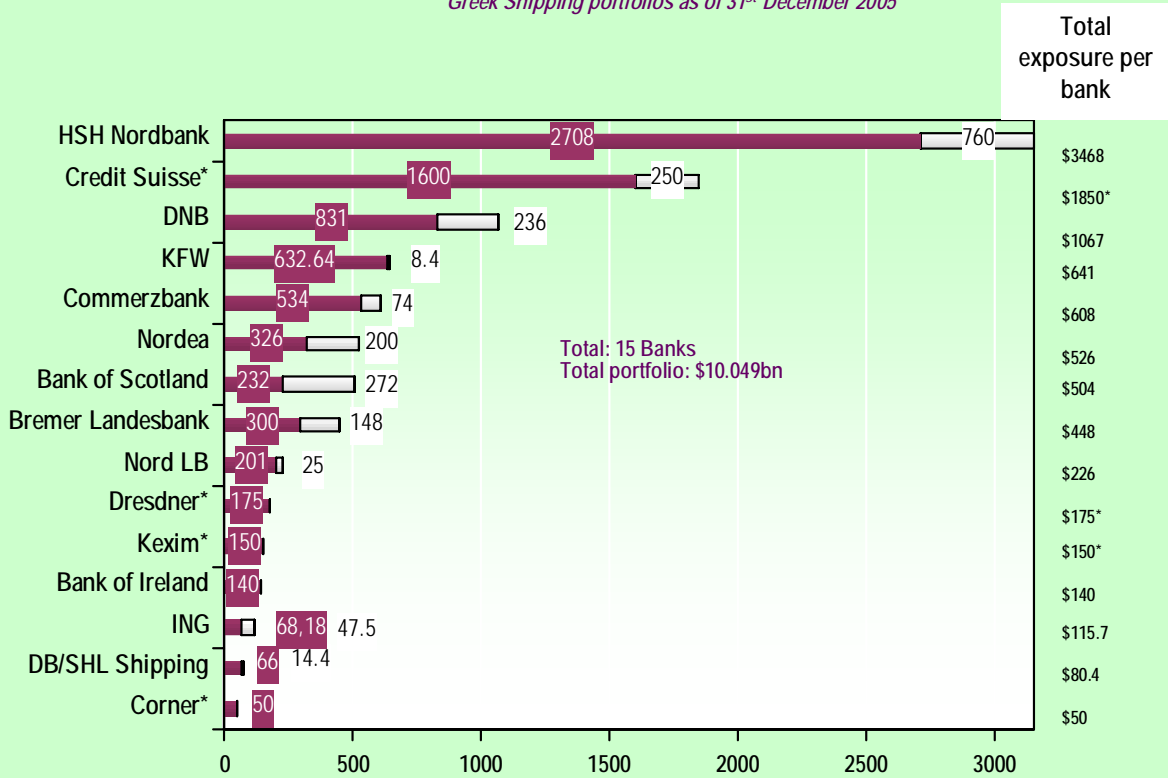
These banks have shown consistent growth throughout the last 5 years. Number 1 in Greek shipfinance over all categories remains the *Royal Bank of Scotland* which has shown an average yearly growth of 32.85%, as can be seen in Table 3, further down. The overall category has shown an average percentage growth of 29.03% per annum. As can also be seen in Table 3, the bank that has shown top growth of over 350% in this category over the last 12 months is *Natexis*, which has upped its commitment to Greek shipping also through local representation with XRTC.

**International Banks WITHOUT a Greek presence**

In **Graph 3** we observe that the sector shows a decrease from 27 banks to 15, for the reasons mentioned above. 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. The reduction in the portfolio is primarily due to the advent of local representation of *Deutsche Schiffsbank*, as explained in p.3, and *Natexis*, as well as the merger between *HVB* and *Vereins und Westbank*, (*HVB* belonging to the group of banks with Greek presence). Overall, international banks that are not represented in Greece are showing an ever-growing interest in the Greek shipping market.

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

Greek Banks

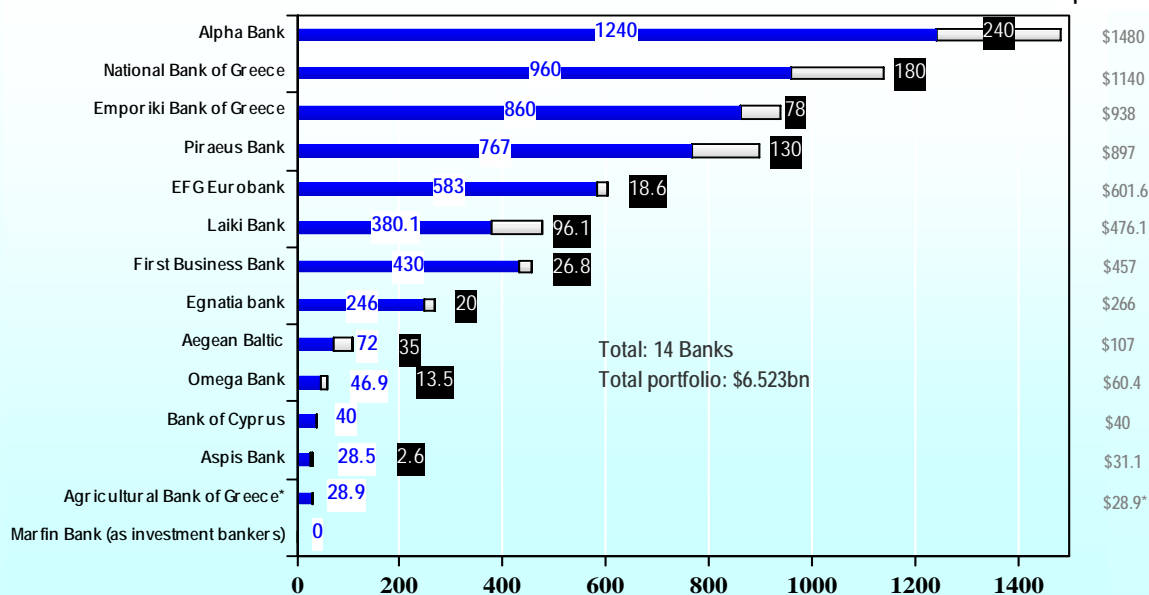
In **Graph 3**, we present the Greek banks whose total portfolio has remained stable at 14. The portfolio of the Greek banks has shown an increase of **2.82% from \$6.344bn to \$6.523bn**.

Graph 4

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



Total exposure per bank



\* Based on market estimates

■ Loans drawn n □ Loans committed but not drawn yet

April 2006

Petrofin Bank Research©

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)**.

As was the case for the last 2 years, there are still 8 Greek banks featuring in the top 30 in Greek shipfinance (**Table 3**). 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. During 2005, some of the Greek

banks have moved down the pecking order, whereas HSBC, DVB Nedship, Citibank, DNB, ABN and HVB have moved upwards (Table 3). Here, we 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.

**Table 3**

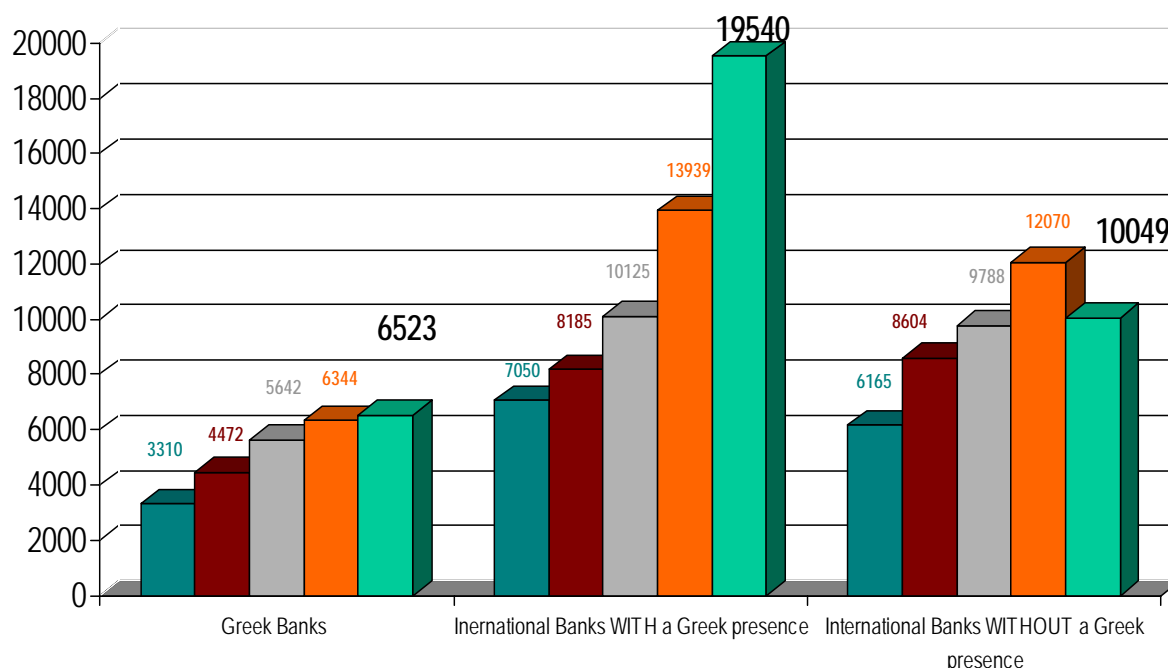
<b>Rank</b>	<b>Bank position 2005</b>	<b>Portfolio</b>	<b>Average annual growth</b>	<b>Bank position 2004</b>
1	Royal Bank of Scotland	8099	32,85%	Royal Bank of Scotland
2	HSH-Nordbank	3468	22,28%	Deutsche Schiffsbank
3	Deutsche Schiffsbank	3400	9,68%	HSH Nordbank
4	Credit Suisse*	1850	15,63%	Credit 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



To summarize, therefore, lending to Greek shipping entities by Greek and non-Greek banks has grown from \$16,525m in 2001 and \$21,261m in January 2003 to \$25,554m in December 2003 and jumped up to \$32,353m in December 2004 and \$36,112m by December 2005.

Graph 5

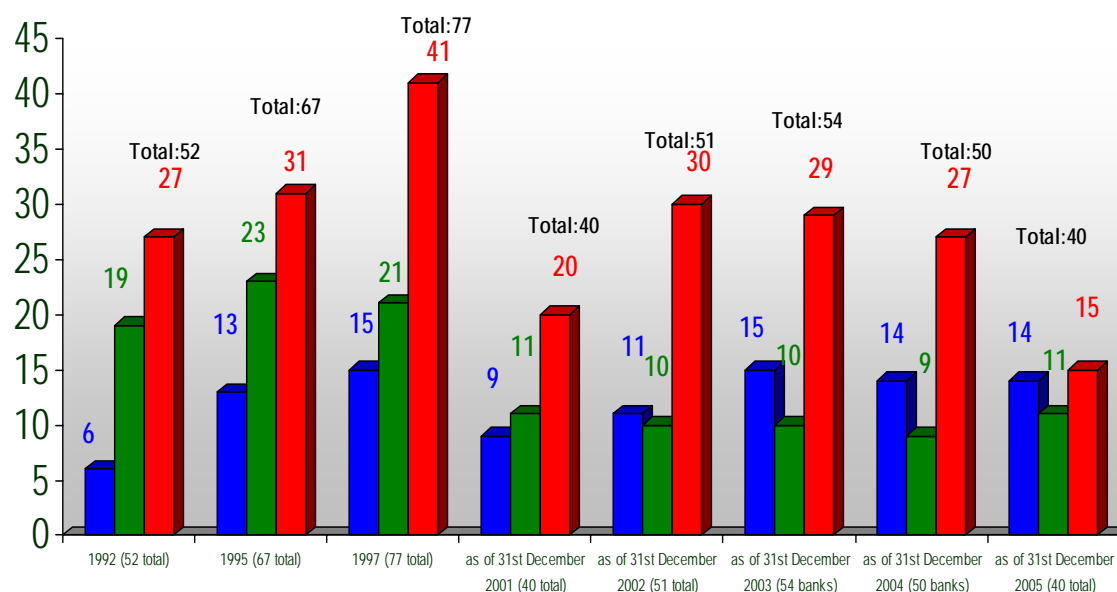
Total of Bank Portfolios available to Greek shipping in millions of US\$  
 as of 31<sup>st</sup> December 2005  
 Total: US\$ 36.112bn



In **Graph 6** we observe a fluctuation in the number of banks since 1992 financing Greek shipping and an overall downward trend in the last 4 years. However, as shown in this piece of research, portfolios have grown and Greek shipfinance is booming:

Graph 6

*Number of banks financing Greek Shipping  
 as of 31<sup>st</sup> December 2005*



■ Greek banks ■ International banks with physical presence ■ International banks without physical presence

April 2006

Petrofin Bank Research ©

**General remarks on the 2005 analysis**

Greek shipfinance continues to grow and indeed a good pace was maintained yet again last year.

Shipfinance volumes have also risen as newbuildings are being delivered or their finance is secured. Although in 2005 there has been a relative drop in freight rates, vessel values have not, as usual, followed suit closely. Each new loan is, therefore, based on values which are still a multiple of those of a couple of years ago. Banks are keen to lend to liquid clients seeking finance for young tonnage despite the high vessel values relying, where possible, on front-loaded repayment schedules. Low

interest rates continued in 2005, something that rendered loan finance a low cost alternative option for liquid owners, although interest rates are now rising steadily. Furthermore, due to high vessel values, the levels of finance represent a deceptively small percentage of owners' fleet values, which encourages further lending.

The enormous liquidity enjoyed by Greek shipping continues with most owners choosing to invest at least some of their liquidity into newbuildings and / or young tonnage. The year 2005 also saw a record application flow for the US public market often coupled by fresh bank lending after initial listings.

The market has shown some signs of correction, but nothing too dramatic 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. Banks, based on their considerable, by now, experience in shipping, are quite happy with their results and the still relative high vessel values and client liquidity / cash flows provide them with enough comfort so as to continue lending.

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

The only reason that the International Banks without a Greek presence portfolio has not risen is that some of those banks decided to acquire local representation, underlying a greater commitment by those banks. The other 2 categories of banks grew again last year with non-Greek banks growing faster than Greek banks.

In conclusion, International and Greek banks continue to commit themselves to Greek shipping. This commitment is becoming stronger by the year, as banks are responding to the great capital demands of shipping and the Greek market, in particular.

**April 2006**

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.

The risk / reward aspect for shipping today, is quite high in anticipation of even higher rewards. With the average loan amount increasing, it is important to note that finance is becoming more difficult for smaller owners who also seek to buy older vessels.

### **The prospects for 2006 and beyond**

Despite Greek shipping's greater liquidity and the rise of loan volume in the past year there is evidence of banks becoming increasingly more cautious as to increasing their exposure at today's high vessel values relative to earnings. The recent easing off of IPO activity may contribute to a slowdown in loan growth. In addition, the pace of Greek newbuilding orders is slowing down. The above factors together with a natural overall caution and reduced vessel sales between owners, has resulted in a slow down in the rate of growth of shipping loans to Greek clients, as we had predicted last year. This does not by any means imply that there is any sign of banks becoming wary of the future. On the contrary, there is now a long exposure to Greek shipping by international banks and these banks are now quite used to the professionalism and seriousness of Greek shipowners and their ability to overcome a shipping slump. There are signs that Greek banks are becoming even more selective.

We believe that in the next couple of years the rate of growth may slow down even further, although it will still be mildly positive. We consider this as a healthy development for Greek shipping finance for 2006 and beyond. Banks will seek to reposition themselves in view of the different market conditions. In addition, banks are by now very familiar with shipping cyclicalities and better prepared to deal with shipping slumps. Furthermore, their clients tend to own larger and younger vessels and possess better organisation, financial ability and overall liquidity. Consequently, most banks anticipate an unspectacular 2006 and a further year of good performance.