The prospects for Global and Greek shipping finance in 2009 and beyond.

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Recently published Petrofin Bank research© results show the slowdown of shipfinance activity as a result of the financial, shipping and economic crisis that has and continues to affect the shipping industry. Although total Greek shipping loans (drawn and committed) as of 31/12/08 grew year on year by 9.39% to $73.228bn, by the end of 2008 shipfinance had ground to a halt.

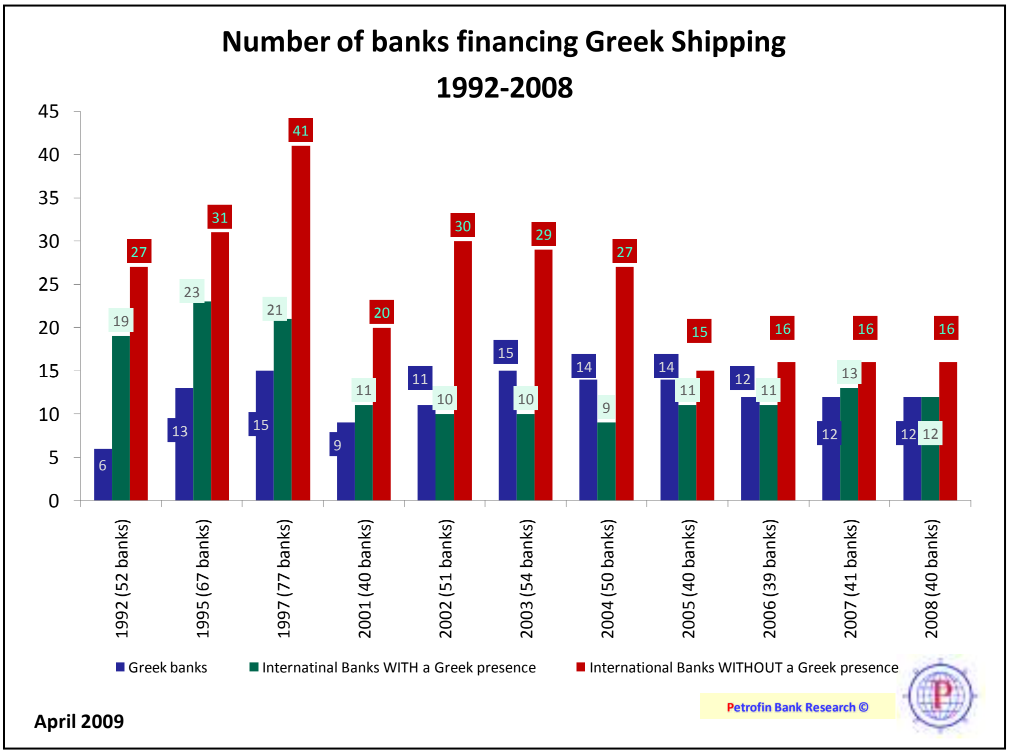
The 9.39% y.o.y growth stands in stark contrast to the 44.31% growth of the previous year.

As loan flow dried up, the commitments but undrawn totals actually fell by 8.9%, compared to the previous year's rise of 44.5%

The growth of Greek shipping finance over the period 2001 to 2008 can be seen in table 1 with the average annual growth being 23.7%.

The number of banks involved in Greek shipfinance fell by 1 to 40. Although there have been some new banks, e.g. Deka bank, Lloyds TSB and Fortis Bank NL (separate from Fortis Bank Belgium) there have been some departures such as BTMU Capital Corporation and Kexim bank, as well as some mergers, for example Commerzbank, Dresdner and Deutsche Schiffsbank and Lloyds TSB with Bank of Scotland. The number of banks financing Greek shipping from 1992 to 2008 is shown in Graph 1.

Graph 1



It should be noted that the capacity of each bank lender nowadays is significantly higher than that of about 15 years ago, especially as shipping has become a respected and relatively young assets industry.

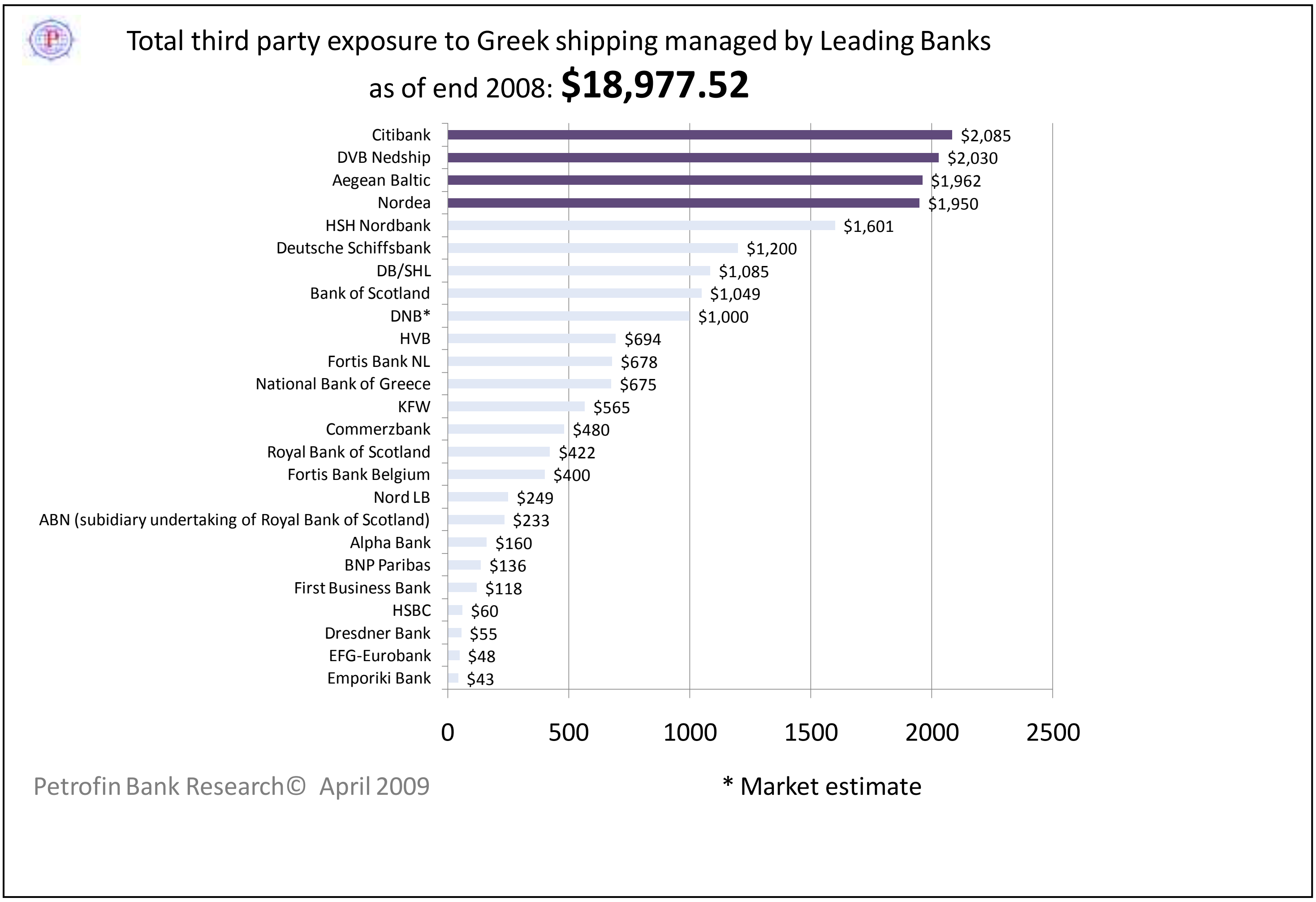
International banks with a Greek presence still command the lion's share of 53.2 % of the total loan portfolio followed by International banks without a Greek presence at 23.7% and Greek banks at 23.1%. Interestingly, Greek banks and international banks with a Greek presence grew very slowly last year at 5.25% and 6.97% respectively. The top 10 banks held 65% of the market and their share has ranged between 63.5 to 68% over the last few years.

In view of their well publicized difficulties, Royal Bank of Scotland is the market leader with 19% and HSH-Nordbank second at 7.7%. it will be very interesting to see how these banks' Greek loan portfolios perform in the current year and whether they can maintain their market share. In table 2 the top 10 banks are ranked by portfolio size.

	Banks – as of end 2008	Portfolios	% change since previous year	Market share
1	Royal Bank of Scotland	$13,980	8%	19.09%
2	HSH Nordbank	$5,671	-3.88%	7.74%
3	Deutsche Schiffsbank	$5,650	17.71%	7.72%
4	Credit Suisse*	$4,900	40%	6.69%
5	National Bank of Greece	$3,545	48.22%	4.84%
6	DNB	$3,042	39.48%	4.15%
7	Emporiki Bank of Greece	$2,970	57.14%	4.06%
8	Calyon*	$2,750	10%	3.76%
9	Alpha Bank	$2,650	-1.01%	3.62%
10	Marfin-Laiki	$2,435	8.22	3.33%
	Top 10 banks total	$47,593		64.99%
	Petrofin Bank Research © - April 2009			

The tendency to share risk is reflected by the growth of Greek shipping syndicated loans, where 25 lead managers managed third bank portfolios of $18.98bn, up by 46% from last year's $13bn. Please see Graph 2.

Graph 2



Readers wishing to read the research in full can visit Petrofin's free website: www.petrofin.gr.

The Greek banks

As can be seen in the table below, there has been a significant switch in ranking places, compared to last year:

Greek banks
Portfolio comparison of the last 2 years

end 2008					end 2007				
Rank	Bank	Drawn	Undrawn	Total	Bank	Drawn	Undrawn	Total	Rank
1	National Bank of Greece	$2,382	$1,164	$3,546	National Bank of Greece	$1,555	$837	$2,392	3
2	Emporiki Bank	$1,650	$1,320	$2,970	Emporiki Bank	$950	$940	$1,890	5
3	Alpha Bank	$2,100	$550	$2,650	Alpha Bank	$2,067	$610	$2,677	2
4	Marfin-Laiki	$2,035	$400	$2,435	Marfin-Laiki	$1,200	$1,050	$2,250	4
5	Piraeus	$1,960	$118	$2,078	Piraeus	$2,085	$1,291	$3,376	1
6	Eurobank	$1,001	$298	$1,299	Eurobank	$970	$640	$1,610	6
7	First Business Bank	$768	$108	$876	First Business Bank	$627	$176	$803	7
8	Bank of Cyprus	$302	$147	$449	Bank of Cyprus	$132	$138	$270	8
9	Aegean Baltic	$273	$51	$324	Aegean Baltic	$160	$52	$212	9
10	Proton Bank	$130	$12	$142	Proton Bank	$149	$41	$190	10
11	Agricultural Bank of Greece	$88	$0	$88	Agricultural Bank of Greece	$48	$0	$48	12
12	Aspis Bank	$88	$0	$88	Aspis Bank	$102	$20	$122	11
	Totals	$12.77	$4.17	$16.9	Totals	$10.046	$5.795	$15,8	

The National Bank of Greece is back at the first place, after 3 years, and Emporiki has climbed up to the second position, in terms of overall exposure. In terms of drawn exposure it is the Alpha bank that retains its second place. Piraeus is down to the 5th place after the first which it held last year.

Greek banks and their dedication to Greek shipping are clearly affected. Although it is doubtful that they will choose to move away from shipping, since they have seen their fair share of shipping cycles over the years, they are reducing their exposure, alongside their loan restructuring.

The outlook for 2009 and beyond

Banks have found themselves having lent to an industry that faces cashflow problems and a number of non-performing charterers and / or failures. This has adversely impacted on the ability of shipping clients to meet scheduled loan repayments. Vessel values too have fallen rendering many loans to be in default and requiring loan provisions. Moreover, loan portfolio yields reflect previous lending conditions and are much lower than the loan yields that could be obtained by fresh lending now.

Banks, therefore, are called to handle problems associated with their declining quality loan portfolios including granting loan covenant breach waivers, loan repayments moratoria and / or restructures.

Shipfinance exposure from being a very rewarding activity is now seen as a great weight which banks have to bear. The same applies to Greek shipping.

Banks, on the whole, have been professional and accommodating in facing the shipping crisis. Banks are aware that adopting a tough line will only result in early realised losses at a time they can ill afford. Banks' flexibility though is hindered by their own weakened financial state and the need to conserve capital and cash. In addition, the immediate prospects for shipping are bleak. Initially, there was an order bubble to be faced from 2010/2011 onwards but demand for shipping was booming. However, the supply concern has by now decreased a little due to high scrapping and some newbuildings not being physically constructed with more to come. The demand for shipping, though, has collapsed and shipping now faces a much lower utilisation ratio with too many vessels chasing the cargo movements that have remained. This has prompted the recent $250bn trade finance stimulus announced by the G20, as it has been reported that international trade has fallen by 9% today, compared to last year. The above rate is indicative of the problem, in the light of a 1% fall in global GDP.

Admittedly, via the financial stimuli and assistance being administered by governments and central banks, an economic recovery is being pursued. Mr. Obama and Mr. Bernanke have already reported seeing the light at the end of the tunnel.

Moreover, banks often with central banks' and state help, have started on the long road of cleaning up their balance sheets, recapitalisation, downsizing and financial recovery.

Inter-bank confidence (as expressed in the rate banks lend to each other) has improved and it is expected that the financial and banking system will continue to recover throughout 2009.

This recovery is of vital importance for shipping as well as the general economy, as only strong banks have the necessary flexibility to continue supporting their clients and smoothing out the efforts of the crisis.

Remarkably, as of early April, there have been hardly any shipping failures, despite the severity of the crisis. This is a good testimonial to the commitment, ability and co-operation of both banks and their clients thus far.

The prospects for fresh lending in 2009, however, remain bleak as the industry's prospects are also not conducive to new lending and the banks' capacity remains strained.

Banks have utilized clients' requests for waivers and / or restructures to increase their loan yields. Although this process will take some time, banks are expecting substantial improvement in their loan portfolio running yields which will assist them toward any loan provisions that are needed.

However, with new loan spreads having doubled / tripled over the last year, the returns from shipping loans are now quite exciting. Moreover, as it is a lender's market, loan terms are now very stringent and the percentage of finance has fallen to about 50% of the now much lower vessel values.

Admittedly, there are other industries which are now offering similar rewards but shipping has the advantage of being a real asset industry which when involving sound owners, young vessels and low finance is a relatively secure and high return industry.

In addition, there are many cash rich owners looking to take advantage of today's low values and are not looking for high loan to asset financing.

Moreover, banks willing to lend have an additional competitive advantage, as very few banks are active lenders at present. Moreover, the main lenders such as RBS and HSH have internal problems that have still not been overcome and are unlikely to be the fierce competitors they were in the last years.

Through mergers and acquisitions as well as departures from shipfinance, it is expected that the number of Greek ship lending banks will gradually reduce over the years. Until financial and risk / reward conditions shall support the influx of new banks and shipping prospects improve, shipping finance shall continue to be at a premium and enjoying higher loan yields.

The trend in favour of loan syndications is set to continue as risk dissipation is still being pursued across all sectors. It is possible that some large bank's loan portfolios may be securitized and spread widely among other financial institutions, investors and central banks.

It is our opinion that the Greek shipfinance loan totals are now contracting due primarily to fast loan repayments and as new transactions are indeed rare. There are hardly any new shipbuilding orders being declared and the year should record a further switch from committed but undrawn loans to drawn loans as commitments for newbuildings are converted to drawn loans.

We anticipate that modest fresh lending will resume in the second half of 2009 and that shipping loan portfolios shall cease to contract in 2010 provided that by that time an economic and possibly a shipping recovery shall have commenced. Overall, though, we anticipate that the total loans to Greek shipping and to global shipping will decline in 2009 for the first time in the last 8 years.

Previous excellent years for Greek shipping had resulted in the industry enjoying good overall liquidity which is currently being utilized to shore up the industry's performance in the face of adversity and which will provide the financial springboard for further investments into young tonnage in the years ahead.

Greek shipping has always come out stronger from a shipping crisis and there is no reason to doubt that it will do likewise this time. What is different this time, however, is the severity of the shipping crisis, in conjunction with an economic and banking crisis. As such, the difficulties at this time are greater for both Greek shipping, as well as for the global shipping industry.

In general, banks that finance Greek shipping are expected to weather the storm and avoid high losses as well as gain good fresh clients and build up both the quality and yield of their loan portfolios, provided that they continue to support their clients and provide some moderate lending, on a selective basis. Their ability to do so will hinge on the duration and the depth of the current economic, international trade, banking and shipping crisis.

The key, therefore, for both banks and clients is "staying the course" and surviving. The challenge will be to re-emerge stronger from the crisis.