

# LLOYD'S SHIPPING ECONOMIST

*Greek Ship Finance Conference*

***ATHENS***

*24<sup>th</sup> – 25<sup>th</sup> May 2005*

**Current Trends in Greek Ship Finance**

*presented by*

***Ted Petropoulos***

***MD***

***PETROFIN S.A.***



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## *Section 1*

# **The Greek shipfinance market as an integral part of the Global shipfinance scene**



- Total worldwide shipping debt at the end of 2004 amounted to approx. \$230bn, which is approx. 20% up since last year
- Above estimate is based on the latest *Petrofin Bank Research* © and includes leasing, offshore and Trading House debts, as well as undrawn commitments
- Total number of shipping financing banks internationally, approx. 160.



- Annual shipping loan production is estimated at \$40bn, of which approx. two thirds involves the financing of newbuildings
- Total shipping IPO capital to be raised in year 2005, based on current projections, is \$5-6bn, representing approx 15% of IPO totals.
- The above estimates of annual loan production do not include loan restructurings.
- Given the extensive newbuilding orderbook and pick-up in second hand S&P activity, the annual loan production is expected to increase in the coming years



**-To the extent that IPO activity and other public market flotations raise capital that substitutes bank debt, such activity in the short term shall act as a retardant to shipping loan growth.**

**-In the medium term, though, to the extent that such IPOs and other public companies shall grow via use of bank debt, the effect shall be expansionary to shipping loan growth.**



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## *Section 2*

# The Greek shipfinance market

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# *The Greek Shipfinance market*



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- At the beginning of 2005, total Greek-related shipfinance debt, including commitments, amounted to \$32.35bn or 14% of the global total of \$230bn (*Petrofin Bank Research ©*)
- The Greek related shipping debt is expected to rise as a percentage of the global total over the years as newbuildings shall be delivered and Greek-related IPOs grow.
- Annual new loan production, excluding commitments and after loan repayments is estimated at \$4.5-5bn
- Total Greek shipfinance debt grew by 26.6% over the last year.

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# The *Greek* Shipfinance market



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The nationality of banks that provide shipfinance in the Greek market is as follows:

<i>Nationality</i>	<i>No</i>	<i>Loans</i>	<i>%</i>
–German	10	\$9.144	28.26
–Greek	14	\$6.344	19.61
–UK&Ireland 25.53	5	\$8.260	
–Dutch	5	\$2.325	7.2
–French incl Belgium	6	\$2.066	6.4
– Others	10	\$4.214	13
<b><i>Totals</i></b>	<b><i>50</i></b>	<b><i>\$32.35bn</i></b>	<b><i>100%</i></b>

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# *The Greek Shipfinance market*

## *Top 30 banks financing Greek shipping*

1	Royal Bank of Scotland (Piraeus+London)	6773
2	Deutsche Schiffsbank	3100
3	HSH Nordbank	2836,1
4	Credit Suisse*	1600
5	Calyon*	1500
6	National Bank of Greece	1400
7	Alpha Bank	1350
8	Citibank	1220
9	HSBC	1050
10	DVB Nedship	880
11	Emporiki Bank of Greece	870
12	Piraeus (incl. ETVA)	867
13	DNB	835
14	HVB	815
15	ABN	750



# *The Greek Shipfinance market*

## *Top 30 banks financing Greek shipping*

16	KFW	714,272
17	EFG Eurobank	567,3
18	Fortis Bank	550
19	Commerzbank	532
20	Bremer Landesbank	473,467
21	First Business Bank	443,6
22	BNP PARIBAS	400,5
23	Laiki	371,782
24	Nordea	363
25	Bank of Scotland	311,76
26	Vereins und Westbank	299
27	Egnatia	213
28	Dresdner bank*	200
29	Nord LB	120
30	Bank of Ireland	120



# *The Greek Shipfinance market*

- Collectively, German banks are the most active and significant lenders to the Greek market
- Individually, the RBS represents the most active and significant individual lender.
- The importance of Greek banks has risen enormously over the last 5 years. However, their rate of growth has slowed down over the last year.
- The Dutch banks are also increasing their presence both in loan volume terms, as well as in their provision of a variety of products and services to the Greek shipping industry.



# *The Greek Shipfinance market*

- In general, with the exception of the US banks, all major nationality Groups have increased their loan exposure to the Greek market**
  
- Individual shiplending bank figures are as follows:**

## Foreign banks without a Greek presence

Bank	Drawn	Undrawn	Total	Bank	Drawn	Undrawn	Total
Deutsche Schiffsbank	2400	700	3100	NIB Capital	75	n/a	75
HSH Nordbank	1912.3	923.8	2836.1	ING	69.86	n/a	69.86
Credit Suisse*	1200	400	1600	DB/SHL Shipping	35.14	19.5	54.64
DNB	700	135	835	Natexis	41	n/a	41
KFW	684.9	29.4	714.3	Miscellaneous (10)	325	n/a	325
Commerzbank	409	123	532				
Bremer Landesbank	333.4	140.06	473.47				
Nordea	263	100	363				
Bank of Scotland	311.76	n/a	311.76				
Vereins Und Westbank	199.1	99.9	299				
Dresdner*	200	n/a	200				
Nord LB	100	20	120				
Bank of Ireland	70	50	120				

Total: 27 banks

Total portfolio: \$12.07bn

\* Market estimates

**Petrofin Bank Research ©**  
**April 2005**





## Foreign banks with a Greek presence

Bank	Drawn	Undrawn	Total
<b>Royal Bank of Scotland</b>	<b>4389</b>	<b>2384</b>	<b>6773</b>
<b>CALYON*</b>	<b>1300</b>	<b>200</b>	<b>1500</b>
<b>Citibank</b>	<b>875</b>	<b>345</b>	<b>1220</b>
<b>HSBC</b>	<b>900</b>	<b>150</b>	<b>1050</b>
<b>DVB Nedship</b>	<b>805</b>	<b>75</b>	<b>880</b>
<b>HVB</b>	<b>692</b>	<b>115</b>	<b>815</b>
<b>ABN</b>	<b>550</b>	<b>200</b>	<b>750</b>
<b>Fortis Bank</b>	<b>300</b>	<b>250</b>	<b>550</b>
<b>BNP Paribas</b>	<b>206.5</b>	<b>194</b>	<b>400.5</b>

Total: 9 banks

Total portfolio: \$13.93bn



## Greek banks

Bank	Drawn	Undrawn	Total
<b>National Bank of Greece</b>	<b>1100</b>	<b>300</b>	<b>1400</b>
<b>Alpha Bank</b>	<b>1200</b>	<b>150</b>	<b>1350</b>
<b>Emporiki Bank</b>	<b>750</b>	<b>120</b>	<b>870</b>
<b>Piraeus Bank</b>	<b>785</b>	<b>82</b>	<b>867</b>
<b>EFG Eurobank</b>	<b>469.9</b>	<b>97.4</b>	<b>567.3</b>
<b>First Business Bank</b>	<b>385</b>	<b>58.6</b>	<b>443.6</b>
<b>Laiki Bank</b>	<b>309.38</b>	<b>62.39</b>	<b>371.78</b>
<b>Egnatia</b>	<b>175</b>	<b>38</b>	<b>213</b>
<b>Bank of Cyprus *</b>	<b>60</b>	<b>16</b>	<b>76</b>
<b>Aegean Baltic</b>	<b>55</b>	<b>18</b>	<b>73</b>
<b>Omega Bank</b>	<b>45.5</b>	<b>7</b>	<b>52.5</b>
<b>Aspis Bank***</b>	<b>40</b>	<b>n/a</b>	<b>40</b>
<b>Agricultural Bank of Greece</b>	<b>20</b>	<b>n/a</b>	<b>20</b>
<b>Marfin Bank **</b>	<b>0</b>	<b>0</b>	<b>0</b>

Total: 14 banks

Total portfolio: \$6.344bn

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**April 2005**

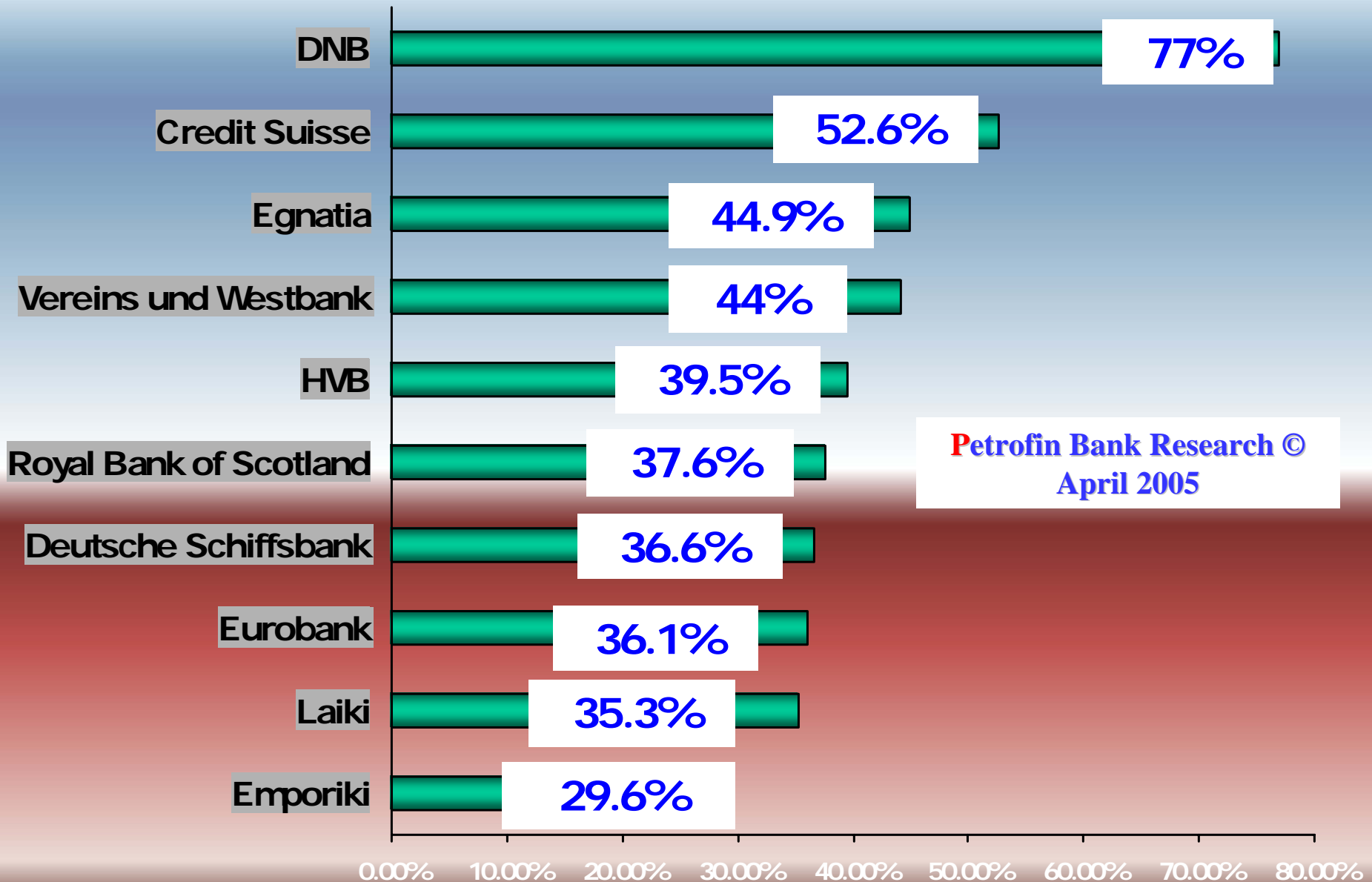
\* Laiki and BoC are included in Greek banks

\*\* Investment Bankers only

\*\*\* Market estimates

# Banks financing Greek shipping

## Top fastest growing banks over past 4 years







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## *Section 3*

# Interest in Greek shipfinance



**Interest in Greek shipfinance has been generated by:**

- a) **The satisfactory performance of Greek-owned shipping over the last years**
- b) **Fast growth in world GDP, international trade, freight rates and ship values, and the emergence of shipping as a performing industry**
- c) **The commitment and dedication of Greek owners**
- d) **The qualitative improvements across all aspects of Greek ship management**
- e) **The improvements in the age and condition of the Greek fleet**
- f) **The emphasis on newbuildings**



*(cont.)*

**Interest in Greek shipfinance has been generated by:**

- g) The improvement in information and financial disclosure by Greek owners**
- h) An improvement in bank-client attitudes and relations**
- i) The increased internationalism and sophistication by Greek owners**
- j) Initially the still attractive spreads and overall returns for lenders**
- k) The evolution of a large number of owners (over 100) with attractive fleet, management, and financial characteristics and potential that together form the target list of most banks**



*(cont.)*

## **Interest in Greek shipfinance**

- 1) Greek owners currently split into**
  - a) Those patient and awaiting a market correction before investing**
  - b) Those who exploit short-term opportunities to buy/sell**
  - c) Those who are aggressive (often associated with IPOs), and**
  - d) The already committed ones via extensive n/b programmes.**



## *Section 4*

# The prospects for Greek shipfinance



## *Key trends in Greek shipfinance*

- **Despite the ongoing bank consolidation process via mergers and acquisitions, the overall number of banks engaged in Greek shipfinance has remained steady.**
- **These are new players, which are building up their loan volume and presence such as Omega bank, Aspis bank etc.**
- **Banks are increasingly ready to face BASEL II and have already adopted the risk assessment criteria.**



## *Key trends in Greek shipfinance*

- **Applying the criteria has furthered the prevailing two-tier market, whereby top owners can obtain reduced spreads whilst smaller owners frequently pay relatively higher spreads**
- **Overall Greek shipping margins have fallen over the past year by about 1/8 to 1/4 % as a result of**
  - 1. market demand and supply factor**
  - 2. individual bank aggressiveness**
  - 3. customer liquidity**



## *Key trends in Greek shipfinance*

- **For 2005 onwards margins are expected to remain at current levels , i.e. they have bottomed.**
- **Lending against charter free newbuildings still about 65-70%. However, the repayment profile is heavily front-loaded.**
- **There is no problem with credit limits for the vast majority of banks**
- **Loan amortization for newbuildings is still about 15 years for most banks.**





## *Key trends in Greek shipfinance*

- **Loan demand for shipping loans is now turning at a lesser pace than one year ago.**
- **Vessel age is not an issue for the right client.**
- **Banks are using non-credit income offers to substitute credit income.**
- **There is growing interest on syndicated and bilateral lending.**



## *Key trends in Greek shipfinance*

- **The Basel II criteria has created in many banks and increasingly dominant risk assessment department with direct influence on shiplending decisions and terms**
- **The entry and revitalisation of smaller banks into shipfinance has added much needed variety and flexibility to Greek shipfinance industry with corresponding benefits for the smaller owner often involving older vessels**



## *Key trends in Greek shipfinance*

- **Overall Greek shipfinance loan volumes are expected to grow. The process is strengthened by:**
  - a. **Newbuilding orders turning into vessel deliveries**
  - b. **Continuous concentration by Greek owners involving larger average vessel size**
  - c. **Increased value of Greek-owned fleet**
  - d. **Positive long-term outlook for the shipping industry**



## *Key trends in Greek shipfinance*

### **but hindered by:**

- ✓ **Caution over a possible market correction**
- ✓ **Caution over a slowdown in International trade growth as a result of the high price of oil and a slowdown in GDP growth of China.**
- ✓ **Caution over accelerated newbuilding deliveries and absence of scrapping.**
- ✓ **Loan prepayments by a number of owners**
- ✓ **Rising US interest rates**



## *Key trends in Greek shipfinance*

- **At prevailing average first quarter freight levels across all sectors, we estimate that Greek shipping is amassing liquidity via free cashflow (Net operating income after interest and principal debt service) at a rate of approx. \$1.8bn per month**
- **The above colossal monthly net liquidity cash inflow is being used for:**
  - ✓ **Fleet expansion**
  - ✓ **Increase in deposits**
  - ✓ **Other non-shipping investments, e.g. real estate**
  - ✓ **Personal investments in shares, bonds, etc.**
  - ✓ **Reduction of shipping and other bank debt**



## *Key trends in Greek shipfinance*

- **The high liquidity by Greek owners is increasingly attracting the attention of bank's private banking departments as well as the promotion of non-risk products and services by all banks**
- **There is increasing competition among banks for quality Greek shipping names**
- **The level of owner transparency has improved especially in providing quality fleet performance and financial data**



## *Key trends in Greek shipfinance*

- **Banks have managed to grow their loan volumes substantially without though increasing their credit staff numbers proportionately. Consequently, average loans per shipping officer has grown and banks have become more efficient in promoting, as well as managing, their loan portfolios**
- **The above improvement has taken place despite increasing Basel II and other internal reporting requirements**



## *Key trends in Greek shipfinance*

- **Due to the high vessel values as well as vessel sales by Greek owners, banks are experiencing more loan prepayments than before. This allows for greater loan turnover enhancing profitability, as well as the opportunity to adjust their loan portfolios**
- **Problem loans have been non-existent for the last years, which supports bank's confidence, but renders them increasingly cautious and committed to keeping financially secure owners only**





## *Key trends in Greek shipfinance*

- **Interest in shipping investment banking is buoyant both by owners and banks. There are currently over two dozen Greek shipping companies pursuing fresh capital, IPOs, SPACs and other methods to become public and / or raise additional capital.**
- **There has been no significant new innovation in shipfinance products or structures. Shipfinance remains essentially a mortgage driven industry**



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## *Section 5*

# Issues facing the Greek Shipfinance industry today

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## *Market related*

- ✓ **How long will this booming market last?**
- ✓ **How far will be the fall once it starts sliding**
- ✓ **Have the markets established a new higher trading range or will they revert back to 2001/2002 levels?**
- ✓ **How long and how strongly will the Chinese locomotive run?**
- ✓ **Will there be yet more fresh shipbuilding capacity developed in China / the wider Far Eastern area?**

# *Issues facing the Greek Shipfinance industry today*



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## *Market related*

- ✓ **Will charterers continue to honour their charter obligations in the event of a big fall in freights?**
  
- ✓ **How stable will be the US dollar?**
  
- ✓ **How high will US interest rates rise?**
  
- ✓ **How long will newbuilding prices hold high so as to support second-hand values?**

# *Issues facing the Greek Shipfinance industry today*



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## *Loan portfolio related*

- ✓ **Is owners' current low leverage the result of artificially high prices and, therefore, deceptive?**
- ✓ **Have owners' breakeven t/c rates for non-period chartered vessels risen to historically high levels?**
- ✓ **How many owners' n/b orders for delivery in 2-3 years' time remain fixed?**
- ✓ **How much of owners' liquidity remains in shipping companies and available for future loan support?**
- ✓ **How will owners react to an abrupt fall in the market?**

# *Issues facing the Greek Shipfinance industry today*



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## *New business related*

- ✓ **What constitutes safe lending today?**
  
- ✓ **Structuring loans in today's market environment and in anticipation of the future**
  
- ✓ **Can shipfinance banks afford to remain outside new shiplending to their best clients?**
  
- ✓ **What vessel type, size, age should be preferred?**



## *New business related*

- ✓ **Do period charters or FFAs provide an answer to banks concerned about future cashflow?**
- ✓ **Should banks develop a long-term rather than a short-term point of view? Since China, India and the other growth centres will continue to provide long-term growth and as the fundamentals of the shipping industry remain positive, should banks not worry about short term corrections?**



## *Spread / yield issues*

- ✓ **Are banks compensated sufficiently for the inherent risk of shiplending?**
- ✓ **Is competition driving spreads too low?**
- ✓ **Does enhanced client size, fleet quality, age, management, systems and reporting allow banks to lend profitably at even lower spreads?**



# *Issues facing the Greek Shipfinance industry today*



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## *Loan structural issues*

- ✓ **Are banks tempted on account of high freight rates to require to unrealistically short loan repayment periods?**
- ✓ **Should banks provide clearer incentives for owners to develop corporate ownership structures?**

# *Issues facing the Greek Shipfinance industry today*



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## *Other issues*

- ✓ **What are the risks for Western banks in Far Eastern banks targeting Greek owners for finance for their newbuildings at exceptionally advantageous rates?**
  
- ✓ **Are banks likely to lose their biggest clients' loans in favour of paper debt?**
  
- ✓ **Are IPOs and public listings a benefit to shipfinance banks or a threat?**