

Key developments and growth in Greek Shipfinance

By Ted Petropoulos, Petrofin S.A.

Petrofin Bank Research© presents the loan portfolios to Greek shipping by Greek and International banks

as of 31st December 2005

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

Petrofin Bank Research© continues for the 5th year to produce its annual research on all banks financing Greek shipping. This is one of the most universally referred to and independent pieces of research used by both the banks and the international shipping community. Petrofin Bank Research© relies on the direct response of banks. Their willingness to participate in the research through the release of their Greek Shiplending portfolio figures ensures the reliability of the research. Petrofin wish to thank the banks for their continuous support without which this piece of research would not have been possible.

We continue with the segregation between loan outstandings per bank on the one hand and committed but undrawn loans on the other. This information is important in identifying both the overall Greek shipfinance risk for each bank and the sector as a whole, especially in a period when Greek owners have developed a pronounced shipbuilding activity. The committed but undrawn amounts indicate each bank's shiplending momentum.

The analysis of lead manager activities in syndications and club deals has also proved popular, as banks like *Citibank*, *Aegean Baltic* and others have commanded a larger presence than their own loan portfolios alone would justify as a result of their lead manager activities in syndications and club deals. This important area of Greek shipfinance shows the amounts of third bank participations managed by each bank. A number of banks have developed strategies of enhancing their

shipfinance yields by providing investment banking services to their clients which include putting together and managing large deals on a club or syndicated basis.

Lastly, for the first time this year we present the hedging derivative facilities that banks provide to their Greek clients. This is an interesting and dynamic sector for banks, although it is obvious that not all banks are involved in this activity.

In conducting the hedging derivatives research some difficulties were encountered, namely:

1. Several banks do not produce segregate figures for Greek shipping related derivatives activities.
2. Several banks have adopted a practice of incorporating a hedging limit for all clients as a matter of course, even though many such facilities remain unutilized.
3. Some banks do not regard this activity as a shipping related risk but instead view it as a treasury related risk.

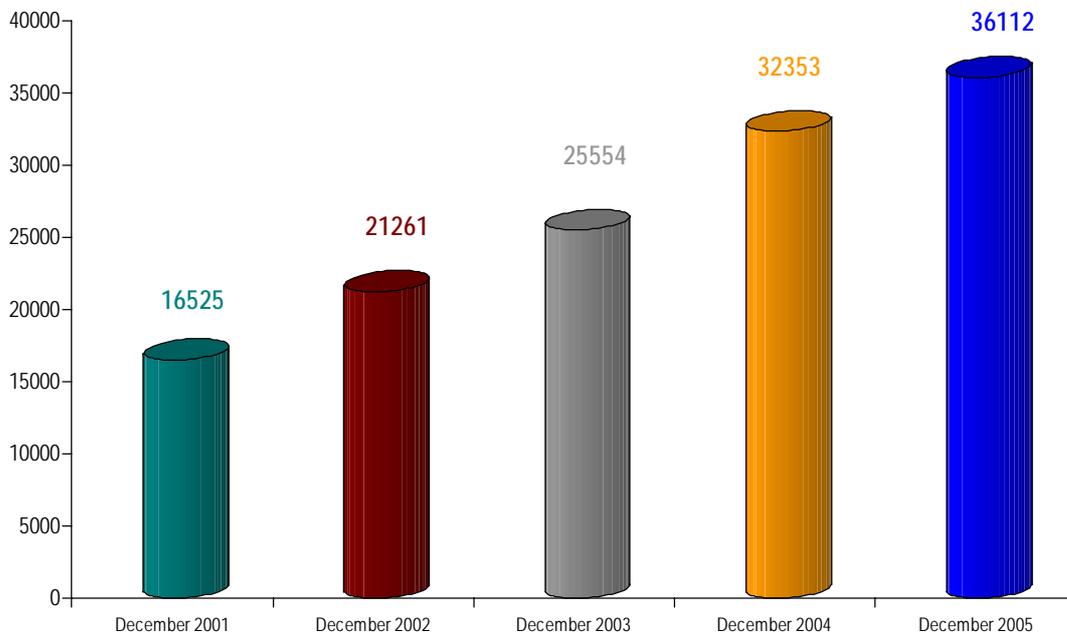
Nevertheless, the results of this piece of research are useful and should permit Petrofin to expand and develop this research further in years to come.

An overview of the results

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



April 2006

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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

	<i>Overall Greek shiplending portfolio in US\$ billions as of 31st 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>
International Banks WITH a Greek presence	19.540	177.16%	40.2%	29.03%
International Banks without a Greek presence	10.049	63%	-16.74%	12.99%
Greek banks	6.523	97%	2.82%	18.48%
Totals (rounded)	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:

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

The above portfolios account for 67.14% of the total Greek exposure, similar to top 10 banks accounting for 67% of the whole Greek shipfinance volume in 2005 and 65% in 2004.

All 10 top banks this year are 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 31st 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 of Banks engaged in Greek Shipfinance

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

Banks are reduced primarily because of those with unwinding portfolios having left the sector altogether.

Full Analysis:

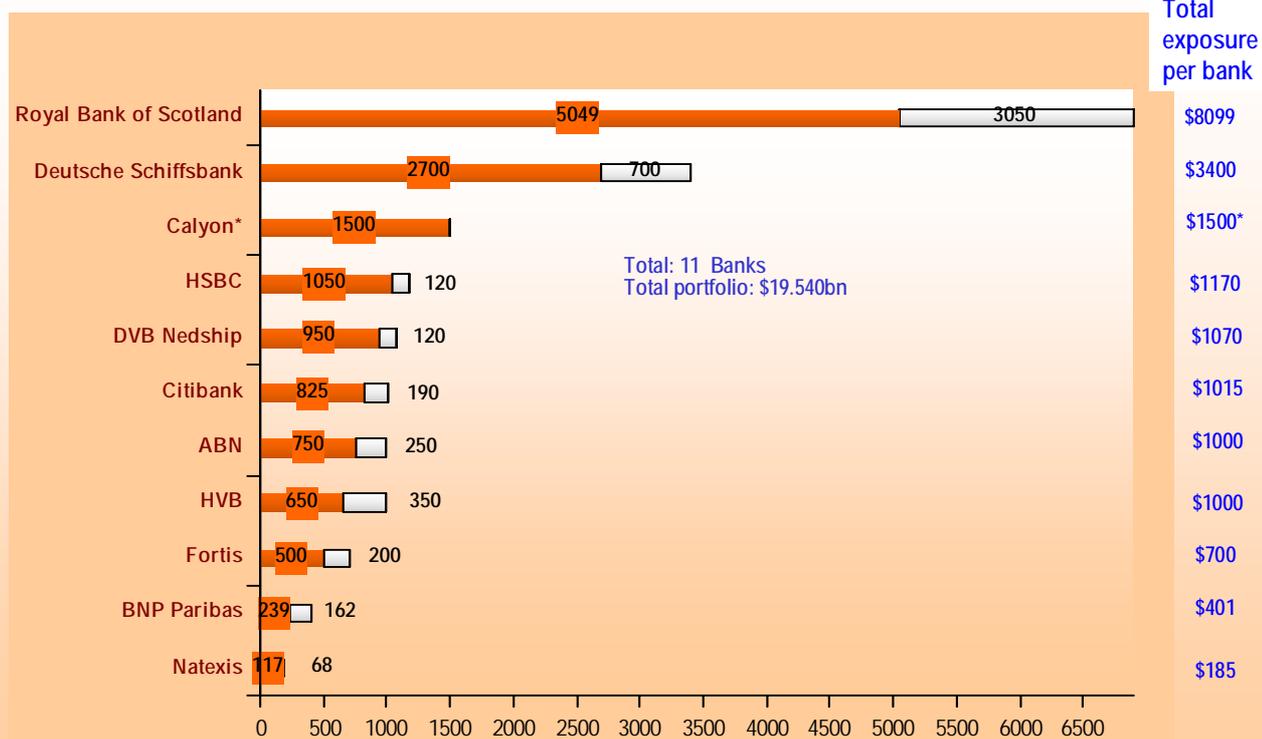
International Banks WITH a Greek presence

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 31st December 2005



*Based on market estimates

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

Loans drawn □ Loans committed but not drawn yet

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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 4, p.12, further down. The overall category has

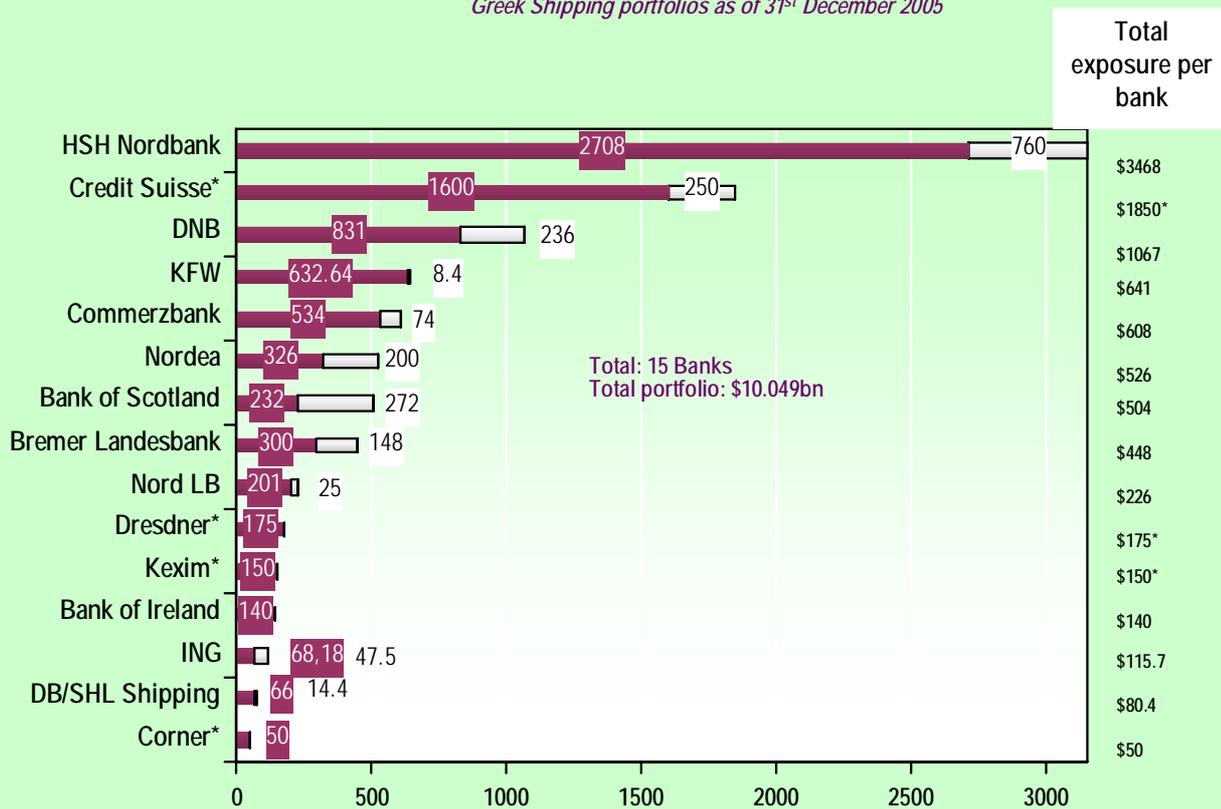
shown an average percentage growth of 29.03% per annum. As can also be seen in Table 4, the bank that has shown top growth of over 350% in this category over the last 12 months is *Natexis*, which has upped its commitment to Greek shipping also through local representation with XRTC.

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.4, 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 31st December 2005



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

■ Loans drawn □ Loans committed but not drawn yet

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Greek Banks

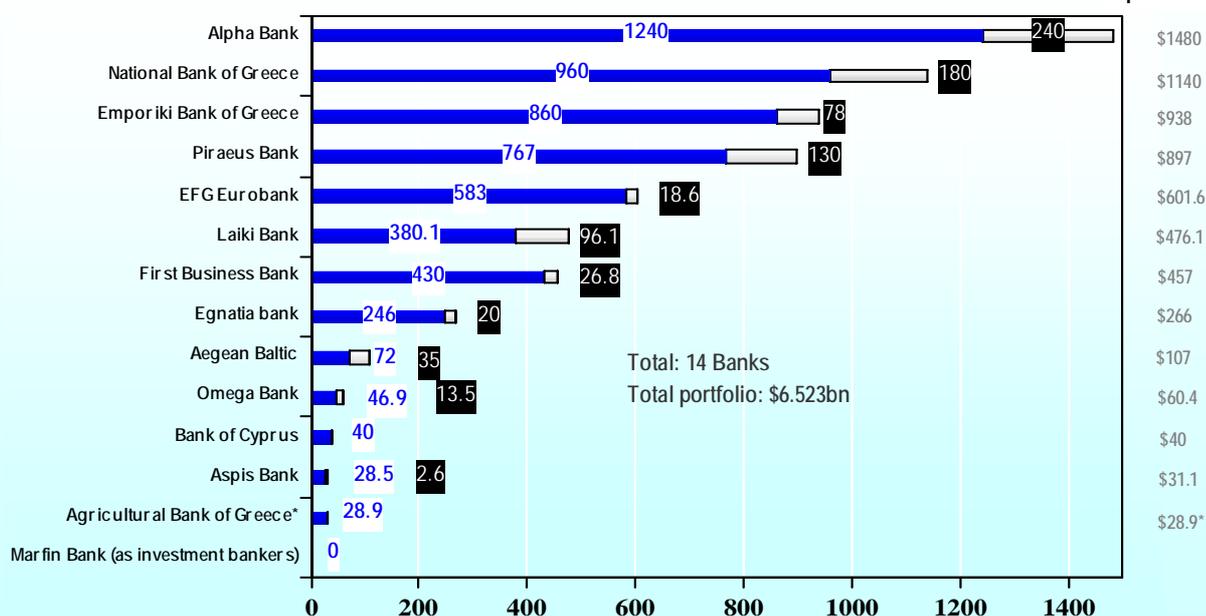
In **Graph 4**, we present the Greek banks whose total portfolio has remained stable at 14. The portfolio of the Greek banks has shown an increase of **2.82% from \$6.344bn to \$6.523bn**.

Graph 4

*C. GREEK BANKS
Greek shipping portfolios as of 31st December 2005*



Total exposure per bank



* 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)**.

As was the case for the last 2 years, there are still 8 Greek banks featuring in the top 30 in Greek shipfinance (see **Table 4, p.12**). 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 4). 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.

We see, therefore, that the top 30 banks in Greek shipfinance are as follows:

Table 4: Top 30 banks holding Greek shipping portfolios as of 31st 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

In summarizing, we present in **Table 5** the comparative statistics for the Greek shipfinance market.

Table 5

	December 2001	December 2002	December 2003	December 2004	December 2005	Shipping loan volumes				
	Number of banks					December 2001	December 2002	December 2003	December 2004	December 2005
International banks WITH a Greek presence	11	10	10	9	11	7.050bn	8.185bn	10.124bn	13,938.5m	19,450m
International banks WITHOUT a Greek presence	20	30	29	27	15	6.165bn	8.604bn	9.788bn	12,070m	10,049m
Greek banks	9	11	15	14	14	3.31bn	4.472bn	5.642bn	6,344.2m	6,523m
Totals	40	51	54	50	40	\$16.525bn	\$21.261bn	\$25.554bn	\$32.353bn	\$36,112m

In **Tables 6a, 6b and 6c** we note the percentages of Greek shipping portfolio growth over the last 12 months and the Average Annual Growth over the last 5 years:

Table 6a

		% of Bank portfolio growth between December 2003 and December 2004	% of Bank portfolio growth between December 2004 and December 2005	% Average Annual Growth since 2001
International Banks with a Greek Presence	Royal Bank of Scotland	50.51%	19.58%	32.85%
	Citibank	75.54%	-16.8%	11.79%
	Calyon*	n/a	n/a	n/a
	HSBC	13.51%	11.43%	13.7%
	DVB	13.26%	21.59%	15.56%
	HVB	36.97%	22.7%	35.12%
	ABN	41.51%	33.33%	25.74%
	Fortis	15.79%	27.27%	15.02%
	BNP Paribas	22.29%	0.12%	9.89%
	Natexis	-27.3%	351%	81.11% (3-year data)
Deutsche Schiffsbank	24.5%	9.68%	28.42%	

* Market estimate

Table 6b

		% of Bank portfolio growth between December 2003 and December 2004	% of Bank portfolio growth between December 2004 and December 2005	% Average Annual Growth since 2001
International Banks WITHOUT a Greek presence	HSH-Nordbank	21.51%	22.28%	21.9% (3-year data)
	Credit Suisse*	77.78%	15.63%	42.39%
	DNB	29.46%	27.78%	63.31%
	KFW	-17.9%	-10.26%	1.67%
	Commerzbank	36.41%	14.29%	23.6% (4-year data)
	Bremer Landesbank	14.36%	-5.38%	8.35%
	Nordea	29.64%	44.9%	7.09%
	Bank of Scotland	23.71%	61.66%	5.95%
	Dresdner*	0%	-12.5%	-12.36% (4-year data)
	Bank of Ireland	166.67%	16.67%	76.38% (3-year data)
	Nord LB	-21.88%	88.33%	21.30% (3-year data)
	ING	107.92%	65.57%	23.33%
	DB Shipping	56.11%	47.14%	3.52%
	Corner*	n/a	n/a	n/a
Kexim*	n/a	n/a	n/a	

* Market estimate

Table 6c

		% of Bank portfolio growth between December 2003 and December 2004	% of Bank portfolio growth between December 2004 and December 2005	% Average Annual Growth since 2001
Greek Banks	National Bank of Greece	1.52%	-18.57%	6.09%
	Alpha Bank	12.5%	9.63%	17.37%
	Emporiki Bank	2.35%	7.82%	23.75%
	Piraeus	-5.76%	3.46%	20.53%
	Eurobank	59.85%	6.05%	27.87%
	First Business Bank	18.45%	3.02%	11.09%
	Laiki Bank	33.88%	28.07%	33.48%
	Egnatia	148.25%	24.88%	39.62%
	Bank of Cyprus	16.92%	-47.37%	-9.64%
	Aegean Baltic	111.59%	46.58%	76.11% (3-year data)
	Omega Bank	75%	15.01%	41.87% (3-year data)
	Agricultural Bank of Greece*	n/a	n/a	n/a
	Marfin Bank**	n/a - investment bankers	n/a - investment bankers	n/a - investment bankers
Aspis Bank	n/a	-22.52%	n/a (2-year data)	

* Market estimate **Investment bankers

Lead Managers

We shall now turn to the lead manager activities for each bank which is presented for the fifth time internationally by **Petrofin Bank Research** © in **Graph 5**.

Graph 5

*Lead Managers for Greek shipfinance Syndicates / Club Deals
(excluding their own loan outstandings to show the amounts committed by 3rd party banks)
in millions of US\$ - as of end 31st December 2005*



* Market estimate

April 2006

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The total loans controlled by lead managing banks for December 2005 is **\$7.24bn**. It represents an increase of 40.3% since December 2004 (**\$5.16bn**) and 43.16% when compared to December 2003 (**\$5.056bn**). These are loans contributed by banks **other than the lead managers**. In cases where there is more than one lead manager, the syndicate / club amounts involved are split accordingly. The fresh figures show a significant increase in the total loans controlled by lead managing banks over the last 12 months, as opposed to the marginal one noted last year. This is indicative of the banks' wish to share the risk, since the amounts involved in shipping are rising exponentially, especially with the IPO wave last year, which also involved purchases of whole fleets. In Table 7 we observe that *Citibank* is once again the top

syndication leader with the *Aegean Baltic* holding its second position steady, both with significant rises in their leading loan positions. The number of banks has gone up from 20 to 23 out of the total involved in financing Greek shipping (see Graph 7, p.21). This is an increase that involves an internal re-shuffling of the group, as some banks have left the sector, whereas others have entered it. From the Greek banks, *Emporiki* and *Aspis* have entered, whereas *Laiki* and *Piraeus* have left. The *National Bank of Greece* is also showing a presence this year. We may presume that the more capital demanded by the Greek owners for either renewing their fleets or for entering various public markets, the more banks will form coalitions to meet this rising demand. Also, *HSBC* appears for the first time in the group of leaders.

Table 7: Leading banks in syndication loans and club deals

LEADERS 2005	end 2005 - in US\$m1	LEADERS 2004	end 2004 - in US\$m1
Citibank	2165	Citibank	1475
Aegean Baltic	1153	Aegean Baltic	855
Credit Suisse*	800	Deutsche Schiffsbank	750
Deutsche Schiffsbank	600	ABN	300
Fortis Bank	400	DVB Nedship	248
ABN	320	HSB Nordbank	223,08
Bank of Scotland	305	Nordea	218
DVB Nedship	285	HVB	171
HSB Nordbank	218	Commerzbank	131
Commerzbank	171	Piraeus	124,5
Nordea	160	Alpha Bank	120
HVB	120	Fortis Bank	115
DNB	90	DNB	95
Bremer Landesbank	84,4	KFW	92,95
Alpha Bank	80	EFG Eurobank	92,6
HSBC	70	Calyon*	80
EFG Eurobank	46,7	BNP PARIBAS	32
National Bank of Greece	40	First Business Bank	23,2
KFW	39,84	Bremer Landesbank	9,275
BNP PARIBAS	35	Laiki	4,475
First Business Bank	33,53		
Aspis Bank	17		
Emporiki Bank of Greece	10		
GRAND TOTAL	7243,5		5160,1

Derivative products

This year we have decided to include a section covering the facilities that banks provide to their clients in terms of hedging derivatives, interest swaps and other derivative products. The response from banks has been mixed. We believe, however, that the results below are of interest to the readers, as this sector in hedging loans against fluctuations is a rising one.

The situation, therefore, as of end 2005, is as follows:

Table 8

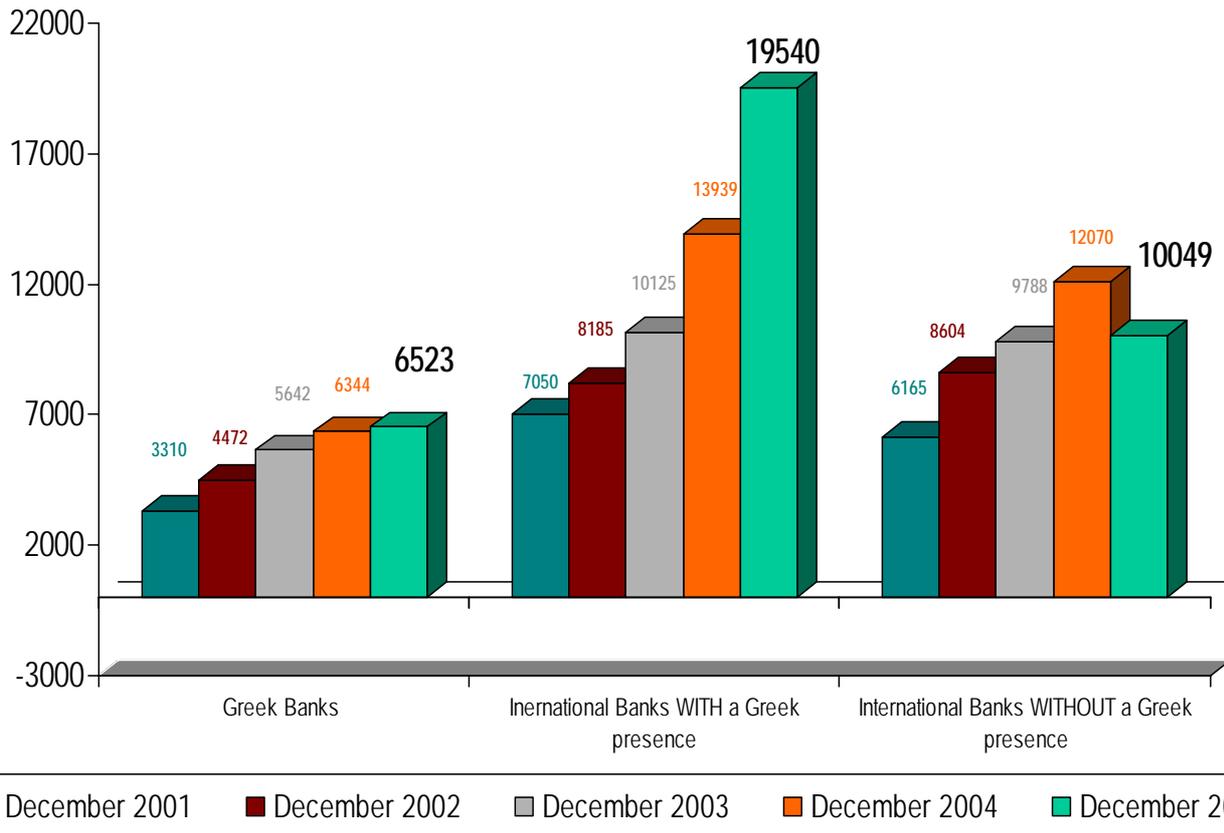
Bank	Limits / Lines / Approved in US\$mil	Utilised in US\$mil
Royal Bank of Scotland	3770	2670
Citibank	1150	not available
Credit Suisse*	800*	not available
BNP Paribas	750	559
HSBC	550	not available
Alpha	284	not available
HVB	200	not available
Bank of Scotland	168	151
Fortis bank	150	70
Piraeus Bank	140	not available
Nordea	100	not available
ABN	100	not available
DNB	80	40
DB/SHL shipping	24	not available
ING	5	not available
Aegean Baltic	2	not available
EFG Eurobank	not available	99.5
National Bank of Greece	not available	150

*market estimate

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 6).

Graph 6

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



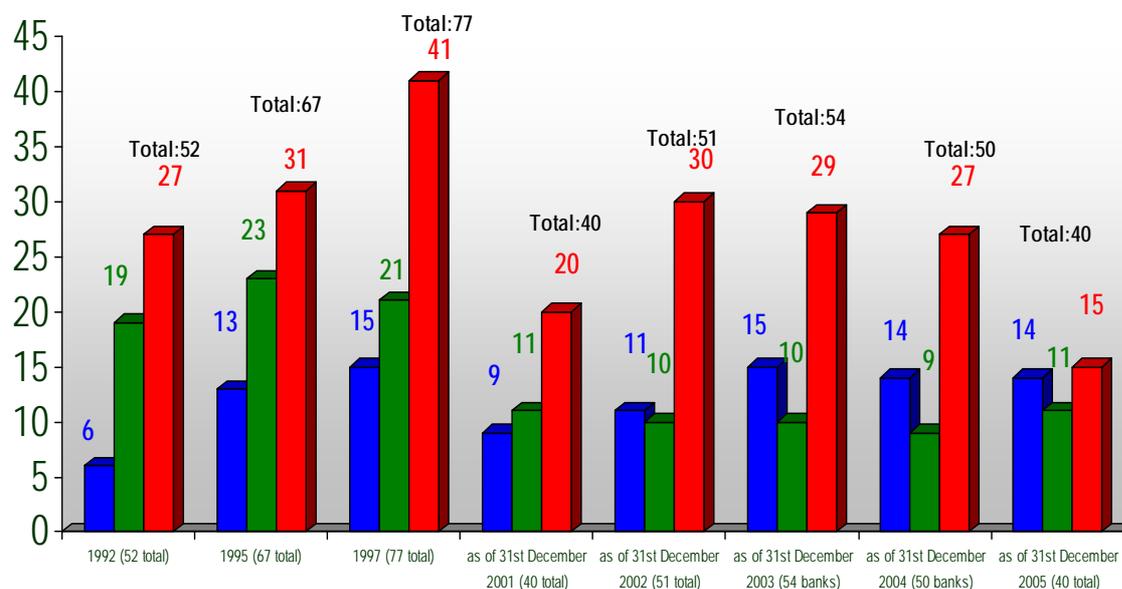
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In **Graph 7** we observe a fluctuation in the number of banks since 1992 financing Greek shipping and an overall downward trend in the last 4 years. However, as shown in this piece of research, portfolios have grown and Greek shipfinance is booming:

Graph 7

Number of banks financing Greek Shipping as of 31st December 2005



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

April 2006

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General remarks on the 2005 analysis and prospects for 2006 and beyond

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 was 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.

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.