

# ***Petrofin S.A.***

*April 2005*

## ***Petrofin Bank Research ©***

*presents* **Key developments and growth in Greek Shipfinance**

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

as of 31<sup>st</sup> December 2004

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 to produce its yearly 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 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 have 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 have analysed the data over the last 4 years and show the annual rate of loan growth for each bank over the period.

## An Overview Of The Results

This year is marked by a very impressive rise in international bank exposure to Greek shipping. The overall portfolio has risen from **\$25.554bn** to an impressive **\$32.353bn**. This represents a growth of **26.6%**.

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 2004</b>	<b>Percentage of growth between December 2001 and 2004</b>	<b>Percentage of growth over the last 12 months between December 2003 and December 2004</b>	<b>Average yearly growth</b>
International Banks WITH a Greek presence	13.938	97%	37.67%	25.51%
International Banks without a Greek presence	12.070	95.78%	23.32%	25.1%
Greek banks	6.344	91.67%	12.45%	24.22%
Totals (rounded)	32.353	95.8%	26.6%	25.1%

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 4 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. They committed to the sector US\$13.94bn in total, in an increase of portfolio of 37.67% since last year. The Royal Bank of Scotland (Table 2) heads the group, as well as coming first overall, with their by far largest portfolio of US\$6.77bn. RBS remains for yet another year the biggest lender to Greek shipping. Deutsche Schiffsbank follows with \$3.1bn from the category of International Banks without a Greek presence.

We note that since 2001, there is an average 24-25% steady annual growth in Greek shiplending by all categories. This increase in lending is associated with the development of Greek shipping.

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

**Table 2: The top ten banks are the following and their portfolios are showing in US\$000ml:**

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
	<b>Total</b>	<b>21709,1</b>
	<i>Percentage of overall Greek shiplending held by the top 10 banks</i>	<b>67,10%</b>

These top 10 banks account for 67.1% of the whole Greek shipfinance volume. In 2003 the top 10 banks held 65% of the market.

The number of banks involved in Greek shiplending is 50, as of 31<sup>st</sup> December 2004. In terms of nationality, and compared to the previous year, they are as follows:

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

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

There have not been any dramatic changes in the nationality of banks involved. In addition to the Greek banks, German bank interest remains unwavering and so does everybody else's. The French/Belgian banks that have disappeared from the picture are the ones that have been appearing in the miscellaneous section with unwinding portfolios resulting from a change in bank policy.

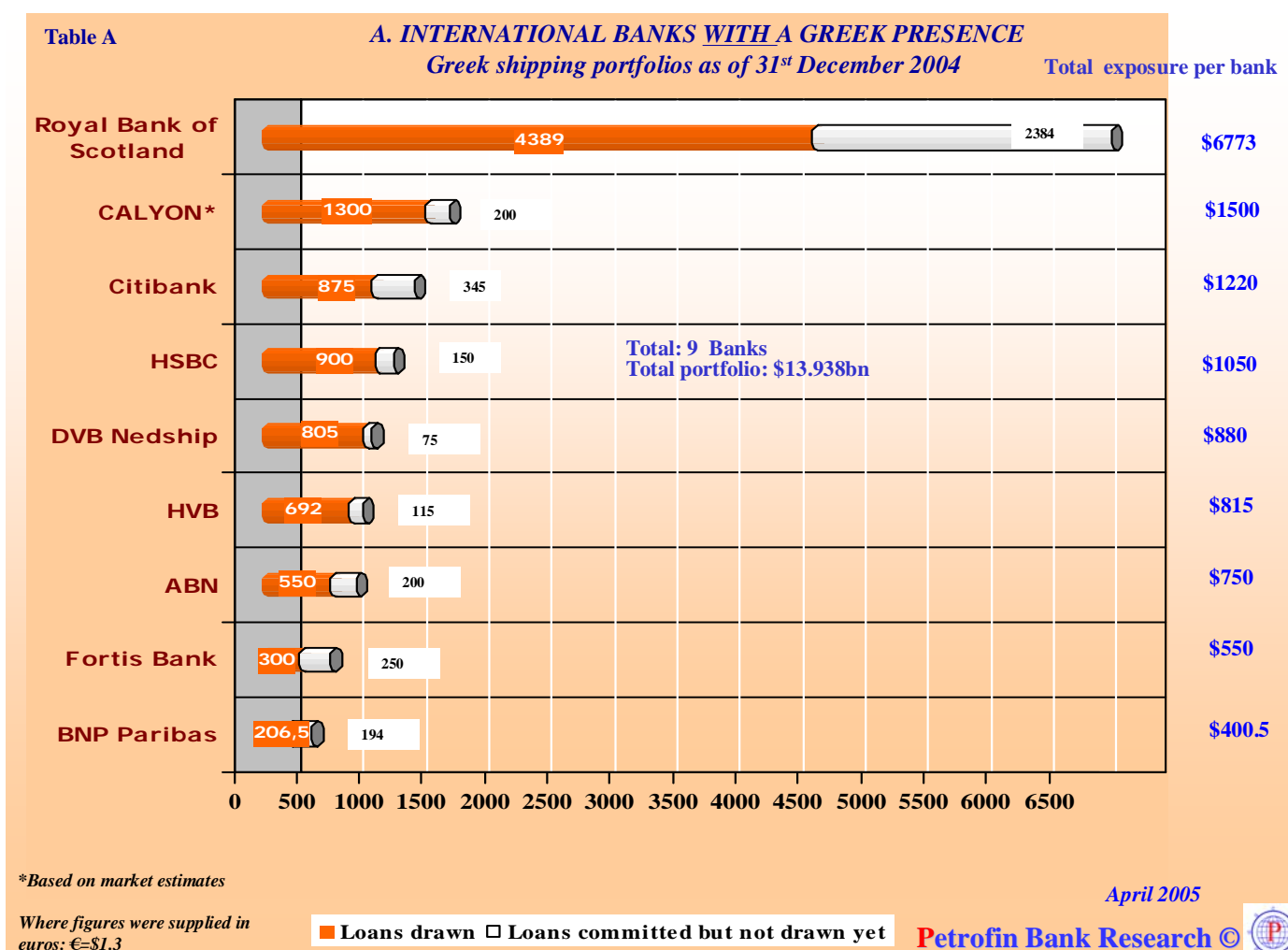
## Full Analysis:

### Foreign Banks WITH a Greek presence

**Table A** shows that the number of non-Greek banks with a physical Greek presence (9) is reduced by one compared to last year. This reduction is due to the merger between Credit Agricole Indosuez and Credit Lyonnais into Calyon Corporate and Investment Bank.

Once again, this is the leading group of banks commanding a total portfolio of **\$13.938.5bn**. The increase is an impressive **\$3.814bn** within the elapsed 12 months since December 2003 or **37.67%**!

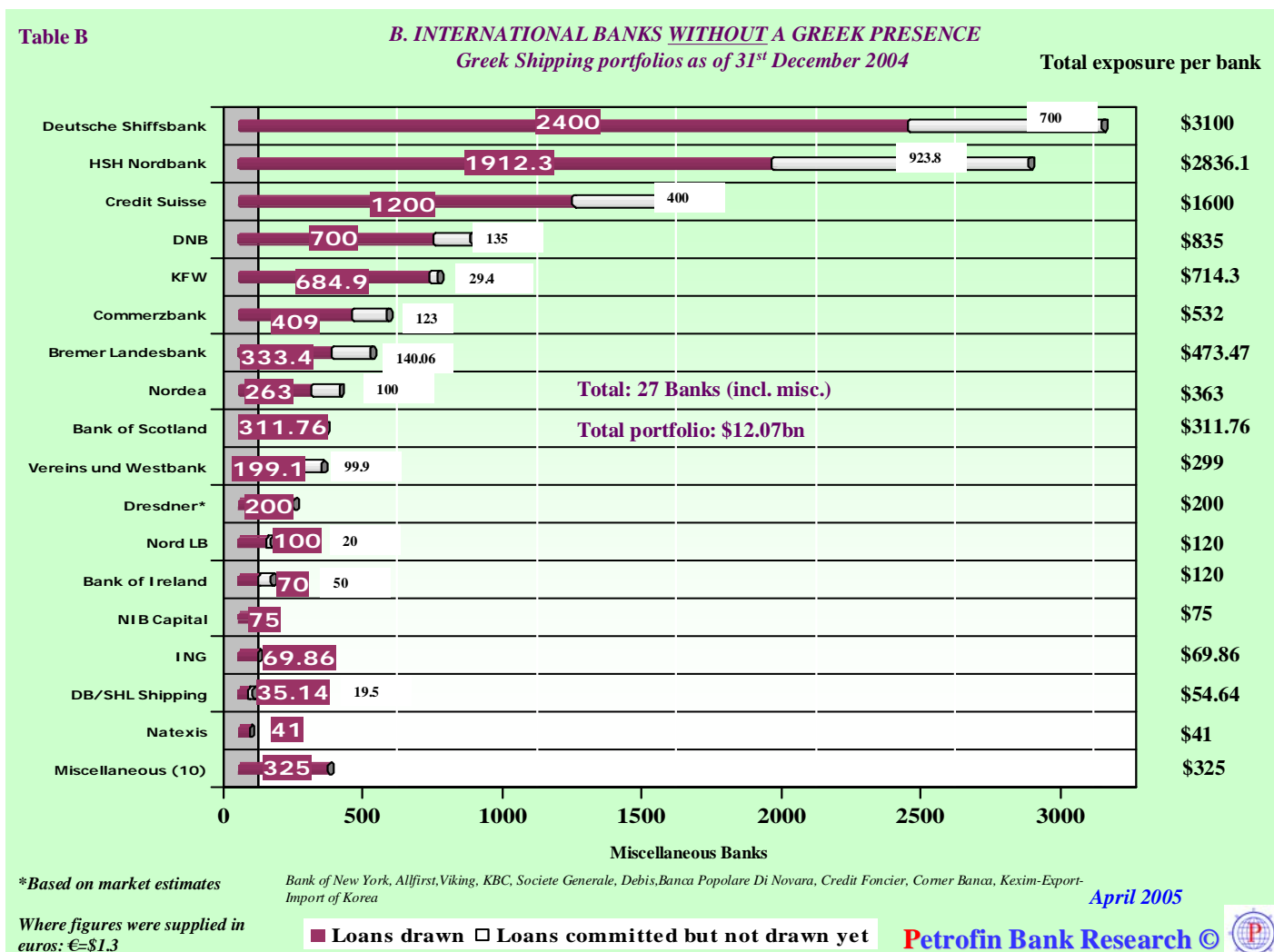
(see **Table A**).



These banks have shown consistent growth throughout the last 4 years. Number 1 in Greek shipfinance over all categories remains the Royal Bank of Scotland which has shown an average yearly growth of approx. 37.59%, as can be seen in Table 3 further down. The overall category has shown an average percentage growth of 25.51% per annum. As can be seen in table 3a further down, the bank that has shown top growth of **75.54%** in this category over the last 12 months is Citibank with an impressive rise in its bilateral loans from \$695 in December 2003 to **\$1220m** as of December 2004.

### Foreign Banks WITHOUT a Greek presence

In **Table B** we observe that the sector shows a decrease from 29 banks to 27. This decrease is offset by an impressive increase in Greek shiplending from **\$9,787.73m to \$12,070.13m**, i.e. a **\$2.282bn increase or 23.32%**. Following the general trend, this year, the increase reflects lending based on the newbuilding and second-hand vessel prices in the current climate. International banks that are not represented in Greece are showing an ever-growing interest in the Greek shipping market.



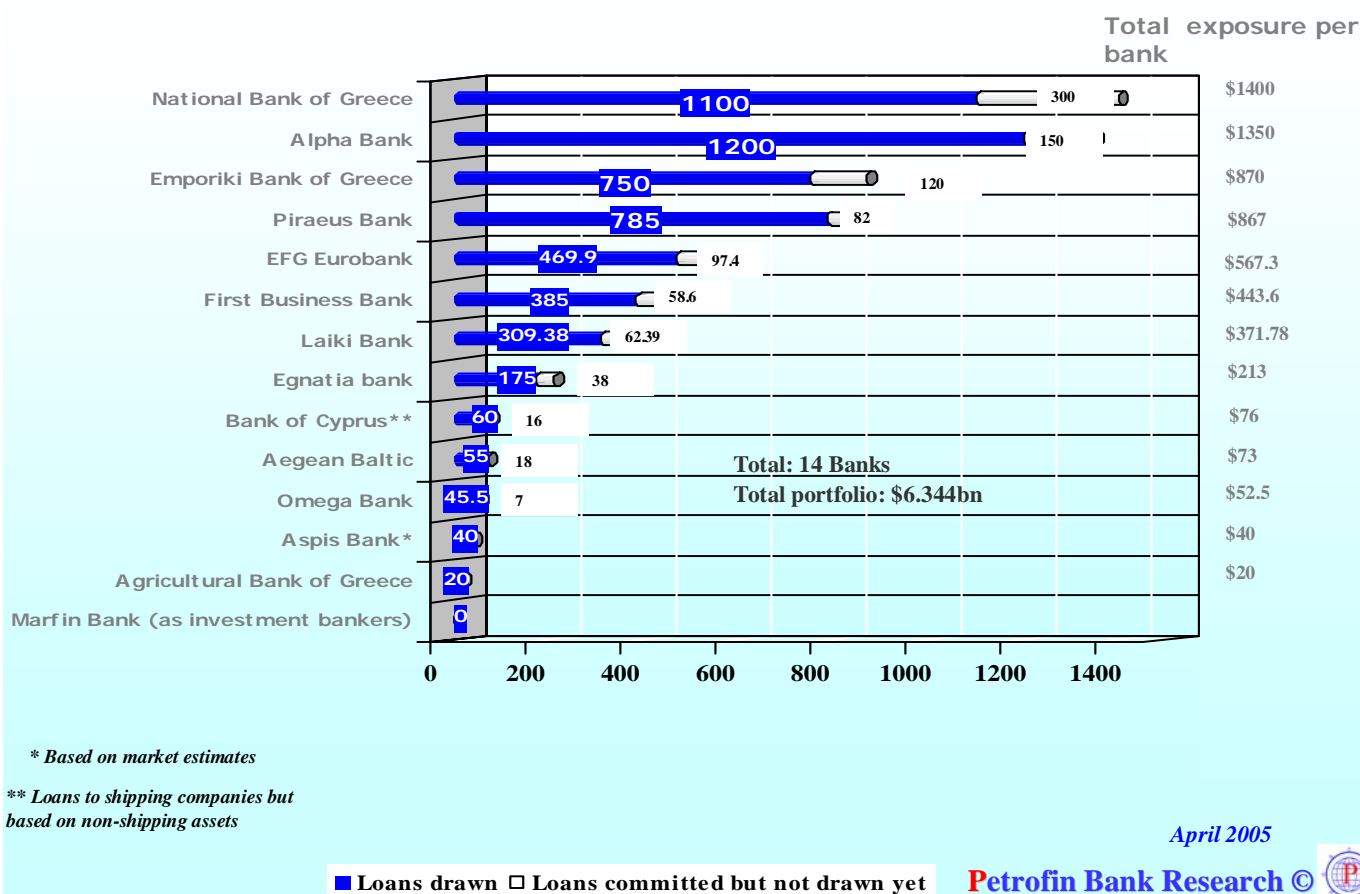
The miscellaneous sector comprises of 10 banks. Some that were included last year are not appearing any longer, as their winding down portfolios have been fully paid off. New inclusions, such as Cornèr, are known to have entered Greek shipping through selective lending to their private clients. The overall portfolio of the miscellaneous bank sector is estimated at \$325m.

## Greek Banks

In **Table C**, we present the Greek banks whose total has fallen from 15 to 14 reflecting the withdrawal of the General Bank from shipping. The portfolio of the Greek banks has shown an increase of **12.45%** from **\$5.641bn** to **\$6.344bn**, or in **monetary terms, exposure has increased by \$703m**.

Table C

### C. GREEK BANKS Greek shipping portfolios as of 31<sup>st</sup> December 2004



Greek bank exposure has been steadily increasing since December 2001, when our research was first published. Since then, the funds available to Greek shipping rose by over **90%** (**Table 1**). We note that Greek banks have become fully established in the sector. As per last year, there are 8 Greek banks ranking together within the top 30 in Greek shipfinance (see **Table 4**). It is important to observe that in this market of the huge volumes and huge numbers, Greek banks retained their competitiveness and are competing for Greek business on an equal footing with other international banks.

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 31<sup>st</sup> December 2004**

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
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

\* 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	<i>Shipping loan volumes</i>			
	<i>Number of banks</i>				December 2001	December 2002	December 2003	December 2004
<b>International banks WITH a Greek presence</b>	11	10	10	9	7.050bn	8.185bn	10.124bn	13,938.5m
<b>International banks WITHOUT a Greek presence</b>	20	30	29	27	6.165bn	8.604bn	9.788bn	\$12,070.10m
<b>Greek banks</b>	9	11	15	14	3.31bn	4.472bn	5.642bn	\$6,344.18m
<i>Totals</i>	40	51	54	50	\$16.525bn	\$21.261bn	\$25.554bn	\$32.353bn



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 4 years:

**Table 6a**

		<b>% of Bank portfolio growth over the last 12 months</b>	<b>% - Average Annual Growth</b>
<b>International Banks with a Greek Presence</b>	Royal Bank of Scotland	50.51%	37.59%
	Citibank	75.54%	23.35%
	Calyon*	n/a due to merger	n/a due to merger
	HSBC	13.51%	14.47%
	DVB	13.26%	13.62%
	HVB	36.97%	39.53%
	ABN	41.51%	23.31%
	Fortis	15.79%	11.2%
	BNP Paribas	22.29%	13.35%

\* Market estimate

Table 6b

		<b>% of Bank portfolio growth over the last 12 months</b>	<b>% - Average Annual Growth</b>
<b>International Banks WITHOUT a Greek presence</b>	HSH-Nordbank	21.51%	n/a due to merger
	Deutsche Schiffsbank	24.5%	35.36%
	Credit Suisse*	77.78%	52.63%
	DNB	29.46%	77.23%
	KFW	-17.9%	5.98%
	Commerzbank	36.41%	28.54% (3-yr data)
	Bremen Landesbank	14.36%	13.36%
	Nordea	29.64%	-3.18%
	Bank of Scotland	23.71%	-7.97%
	Vereins und Westbank	-4.78%	44.06%
	Dresdner*	0%	-12.29% (3-yr data)
	Bank of Ireland	166.67%	n/a 2-year data
	Nord LB	-21.88%	n/a 2-year data
	NIB Capital*	25%	-25.31%
	ING	107.92%	11.79%
	DB Shipping	56.11%	-7.93%
	Natexis	-27.30%	n/a 2-year data
<i>Miscellaneous</i>	35.42%		

\* Market estimate

Table 6c

		<b>% of Bank portfolio growth over the last 12 months</b>	<b>% - Average Annual Growth</b>
<b>Greek Banks</b>	National Bank of Greece	1.52%	15.87%
	Alpha Bank	12.5%	20.06%
	Emporiki Bank	2.35%	29.56%
	Piraeus	-5.76%	26.83%
	Eurobank	59.85%	36.11%
	First Business Bank	18.45%	13.93%
	Laiki Bank	33.88%	35.33%
	Egnatia	148.25%	44.91%
	Bank of Cyprus	16.92%	8.2%
	Aegean Baltic	111.59%	n/a – 2-year data
	Omega Bank	75%	n/a – 2-year data
	Agricultural Bank of Greece*	0%	n/a – 2-year data
	Marfin Bank	n/a – investment bankers	n/a – investment bankers
	Aspis Bank*	n/a	n/a

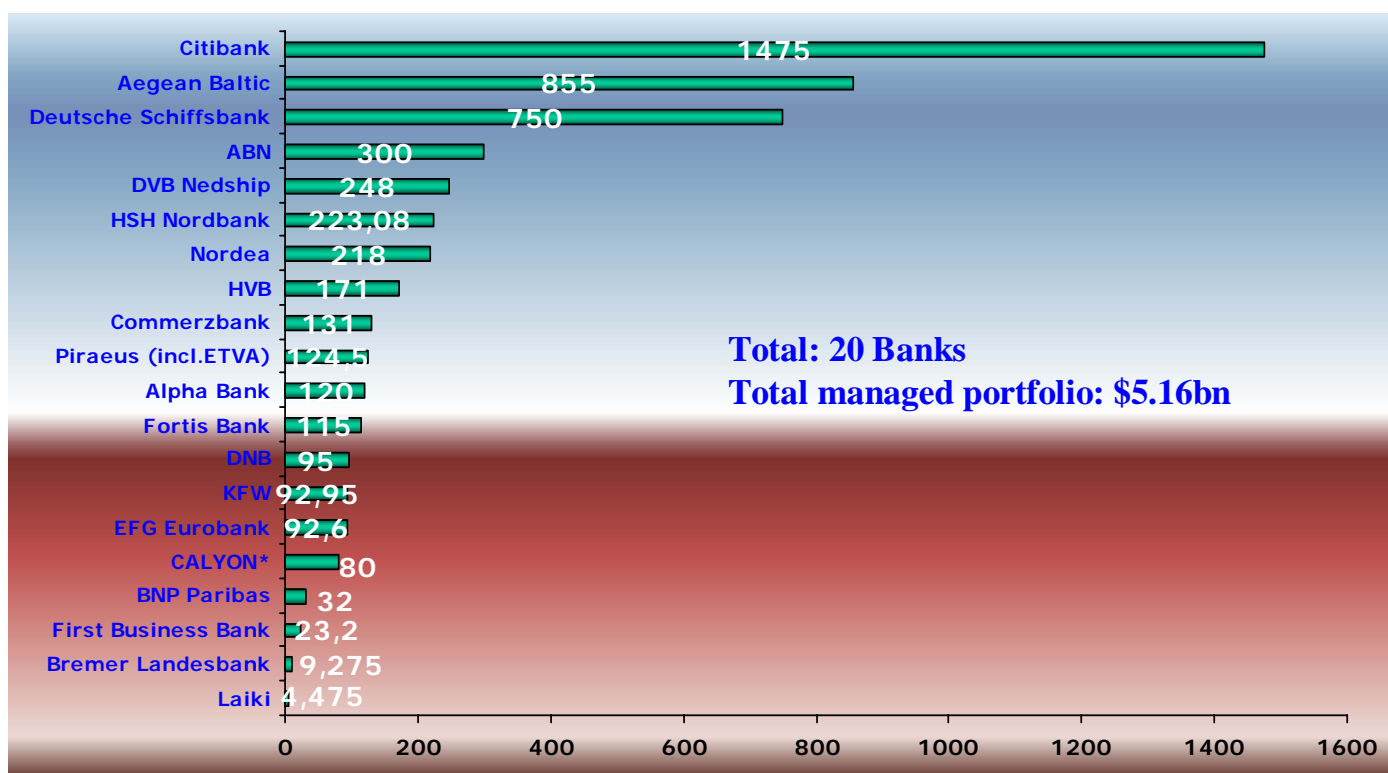
\* Market estimate

## Lead Managers

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

**Table D**

*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 31<sup>st</sup> December 2004*



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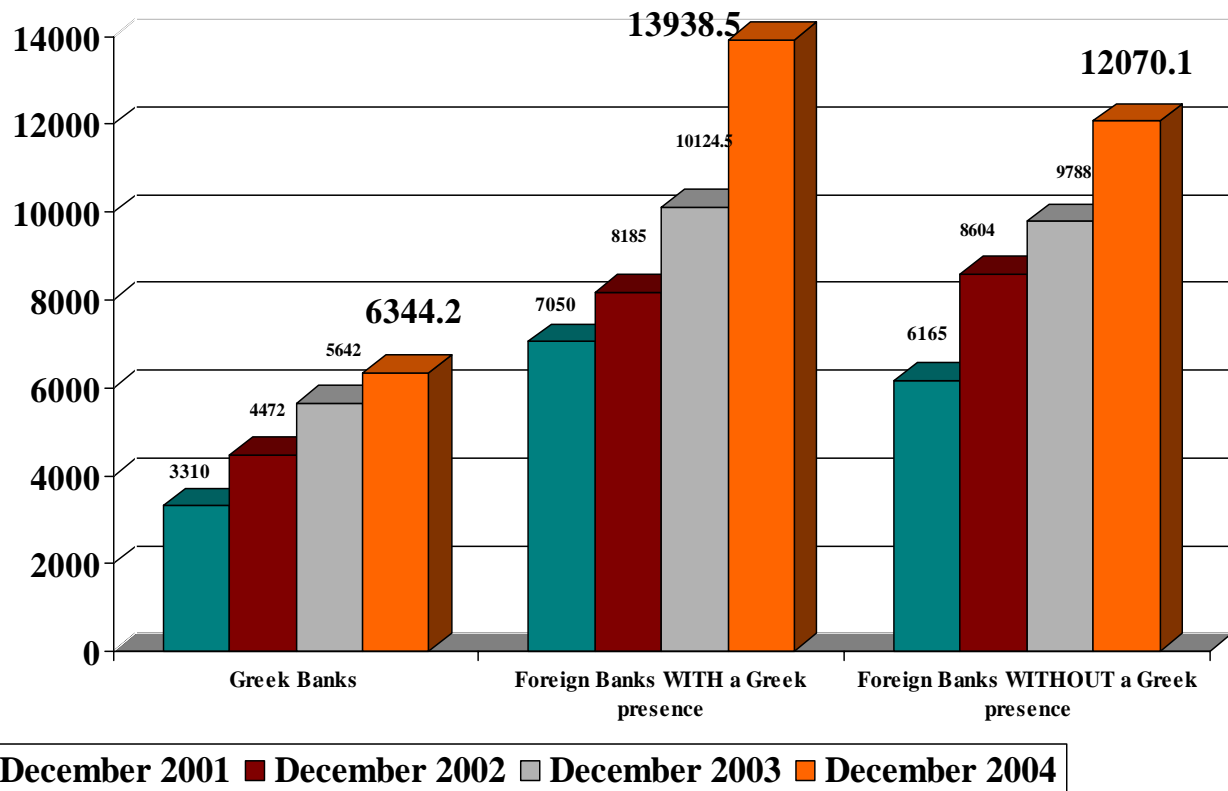
**Petrofin Bank Research ©**

The total loans controlled by lead managing banks for December 2004 is **\$5.16bn** as opposed to **\$5.056bn** in December 2003. 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 marginal increase in the total loans controlled by lead managing banks over the last 12 months which is indicative of a greater emphasis given by banks towards direct bank-client loans instead of club / syndicated ones.

Of the total of **50 banks (Table F)** involved in Greek shipfinance, **20** are in a lead manager position. Clearly, again this year the market leader in the table is Citibank. The Aegean Baltic is occupying the second position for the first time followed by Deutsche Schiffsbank. Again reflecting their strategies of not being involved in syndication or club deals, RBS and HSBC have abstained from this activity.

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** (Table E).

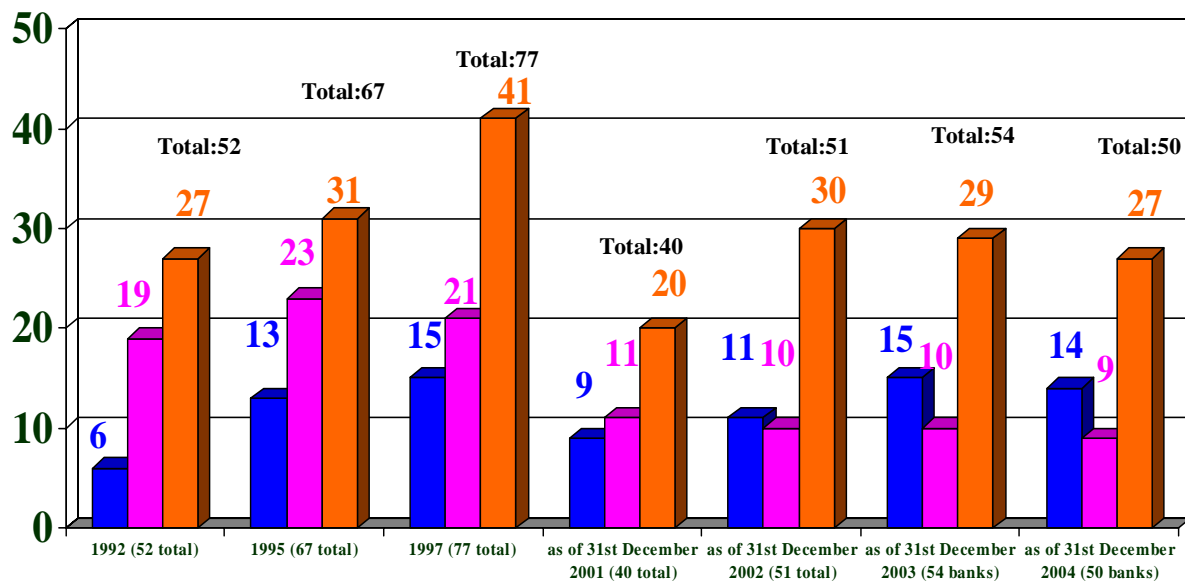
**Table E** *Total of Bank Portfolios available to Greek shipping in millions of US\$ as of 31<sup>st</sup> December 2004*  
*Total: US\$ 32.353bn*



In **Table F** we observe a fluctuation in the number of banks since 1992 financing Greek shipping and an overall downward trend in the last 3 years. However, as shown in this piece of research, portfolios have moved up and Greek shipfinance is booming:

**Table F**

***Number of banks financing Greek Shipping  
as of 31<sup>st</sup> December 2004***



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

*Banks financing Greek shipping*

April 2005

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### **Remarks on the analysis as of end 2004 and prospects for 2005 and beyond**

Greek shipfinance continues to grow and indeed the pace accelerated last year. In view of the enormous liquidity enjoyed by Greek shipping on account of record high freights and high vessel sale value, the high appetite for loan finance may appear at first glance to be surprising. After all, it is more economical to use deposits rather than borrow at this period in time.

However, the position is not as simple in practice. Shipfinance volumes rise as newbuildings are being delivered or their finance is secured. In addition, each new loan is based on values which are a multiple of those of a couple of years ago, whereas loan repayments via vessel sales usually involve much smaller amounts. Banks are keen to lend to liquid clients seeking finance for young tonnage despite the high vessel values relying on front-loaded repayment schedules. Owners too are happy to secure finance and maintain their liquidity aside for future or alternate use. Low interest rates render loan finance a low cost alternative option for liquid owners. Furthermore, due to high vessel values, the levels of finance represent a deceptively small percentage of owners' fleet values.

The big question in everybody's lips at the moment is how long this market is going to last and when, rather than if, the correction comes, how steep will the fall be. The "China" factor is extensively discussed and is generally accepted as the major driving force behind today's market. Its annual growth, its demand in resources and its rising exports worldwide are keeping transportation in the full steam. Banks based on their considerable by now experience in shipping, are analysing these factors and are quite happy with their results so that the currently high prices of such volatile assets as vessels are not considered a prohibitive lending factor. It is important to observe that the loan structure has been altered fundamentally compared to previous lending policies. Whereas a few years ago repayment in the first year/couple of years was kept low and was increasing for the following years, this time round loan repayment is heavily front-loaded so that the high charter incomes can repay the loan almost down to scrap very quickly. Bank risk is, therefore, greatly reduced provided the market shall last for a couple of years or so or alternatively secure charters can be achieved.

From the owner's point of view, whilst a secure 1-to-2-year time charter in this market maybe a ticket to obtaining finance, it does not allow, though, owners to take advantage of the very high spot rates. The owner is often in a position where the opportunity to obtain finance is not favourably balanced off against the loss of the extra substantial income from the spot market. In most cases, however, given the current vessel prices, the choice to proceed without bank finance is not attractive, as committing large amounts of equity does not make much business sense.

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

All 3 categories of banks grew substantially last year with non-Greek banks growing faster than Greek banks. The total Greek shipfinance loan portfolios for all banks rose from \$25.55bn to \$32.35bn in 12 months.

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 this market in particular.

The reasons behind the banks' increasing confidence in Greek shipping are the very impressive cash flows, the exponential rise in the prices of the vessels and the impressive deposit accounts of the owners themselves, who are in a position to repay old debts and cash-collateralize new ones. We have extensively interviewed banks on the risk / reward aspect for shipping today and most came up with a similar analysis and result in their calculations. Whereas in the past the risk was lower compared to the reward, now the risk is quite high in anticipation of an even higher reward.

### **The prospects for 2005 and beyond**

Despite Greek shipping's greater liquidity, loan volume has risen substantially in the past year. There is some evidence, though, of banks (especially Greek banks) becoming increasingly cautious as to increasing their exposure at today's high vessel values. However, client appetite has remained strong and has provided such banks with the opportunity to concentrate their lending to their best clients. The recent IPO activity may result in significant loan reductions as equity is used to substitute bank debt. In addition, the pace of newbuilding orders is slowing down. The above factors together with a natural overall caution may result in a slow down in the rate of growth of shipping loans to Greek clients over the next couple of years. The above development can be seen as a healthy development for Greek shipping finance from 2005 and beyond.