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**Ship Finance in Greece:
Where do we go from here?**

presented by

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Section A.

A review of Greek Shipfinance over the last 10 years

Section B.

The development of the *one-and-a-half-tier* market

Section C.

Key changes in shipfinance terms over the last decade

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Section A.
A review of Greek Shipfinance over the last
10 years

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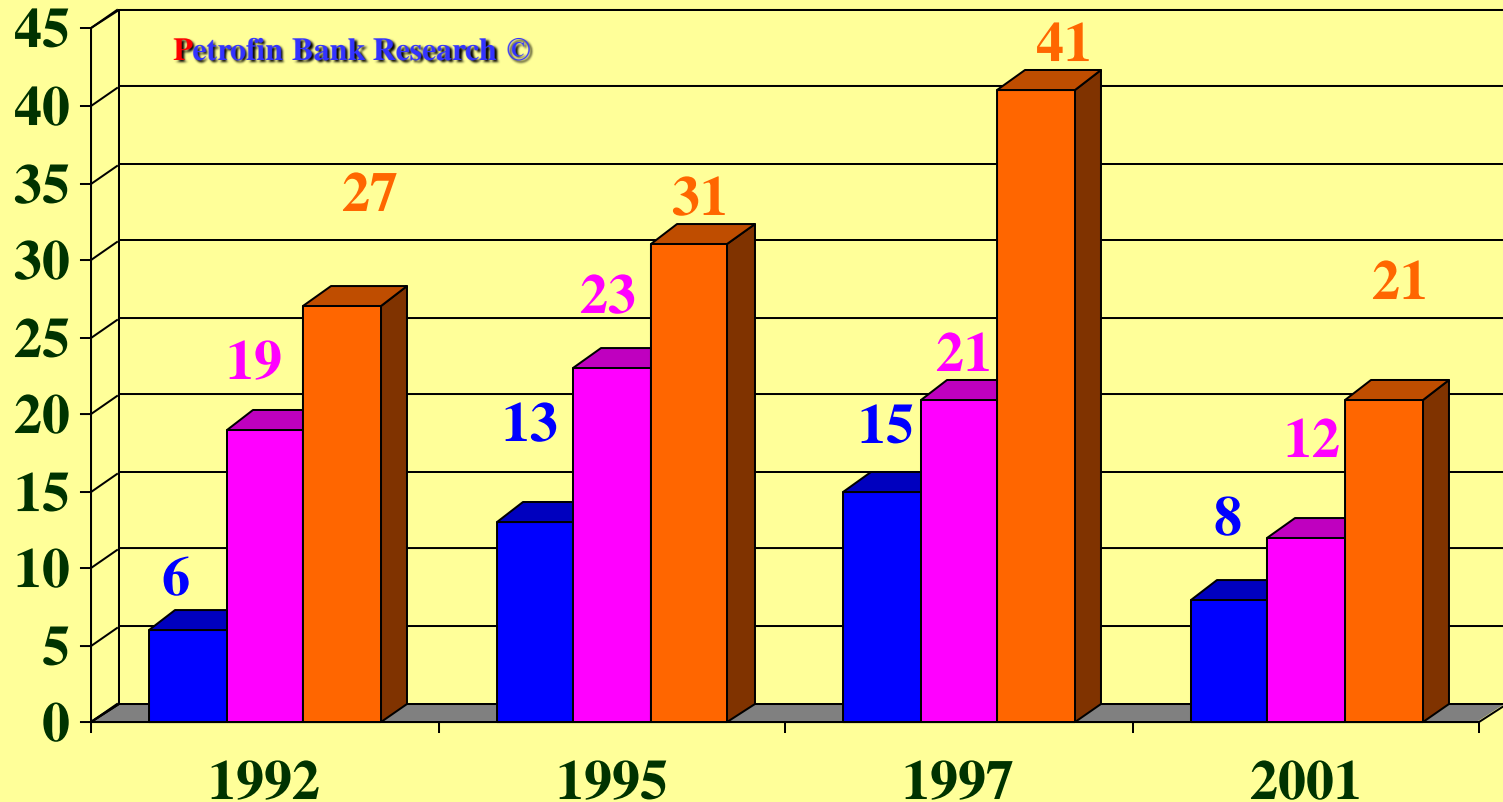
Main trends and developments in Greek Shipfinance over the last 10 years

- The number of Banks financing Greek owners has dramatically declined over the last 4 years, i.e. from 77 banks in 1997 to 41 banks in total presently.
- The decline is clear and is spread across all the following categories:
 - a. Non-Greek banks with a Greek presence
 - b. Non-Greek banks without a Greek presence
 - c. Greek banks

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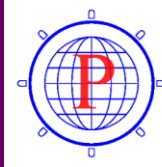
Number of banks financing Greek Shipping – June 2001



■ Greek banks ■ Non-Greek with physical presence ■ Non-Greek without physical presence

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The decline can be attributed to:

- 1) Unprecedented international merger and acquisition activity as banks seek globalized role**
- 2) Departure / disappearance of many traditional names**
- 3) Decreased interest by banks without a physical presence as they concentrate in other geographical centres**
- 4) Departure from the market due to loan losses / bad experience**

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Examples of disappearing names

Non - Greek	Greek
Barclays	Makedonias Thrakis
Hambros	Bank of Central Greece
Credit Lyonnais *	Bank of Crete
National Westminster	Ergobank
DNB **	Ionian Bank
ANZ / Grinleys	Dorian Bank
Guinness Mahon	Interbank
Allfirst/First National Bank of Maryland **	
Paribas	
RZB	
CCF	

* Maintains a link via XRTC

** Some residual Greek loans

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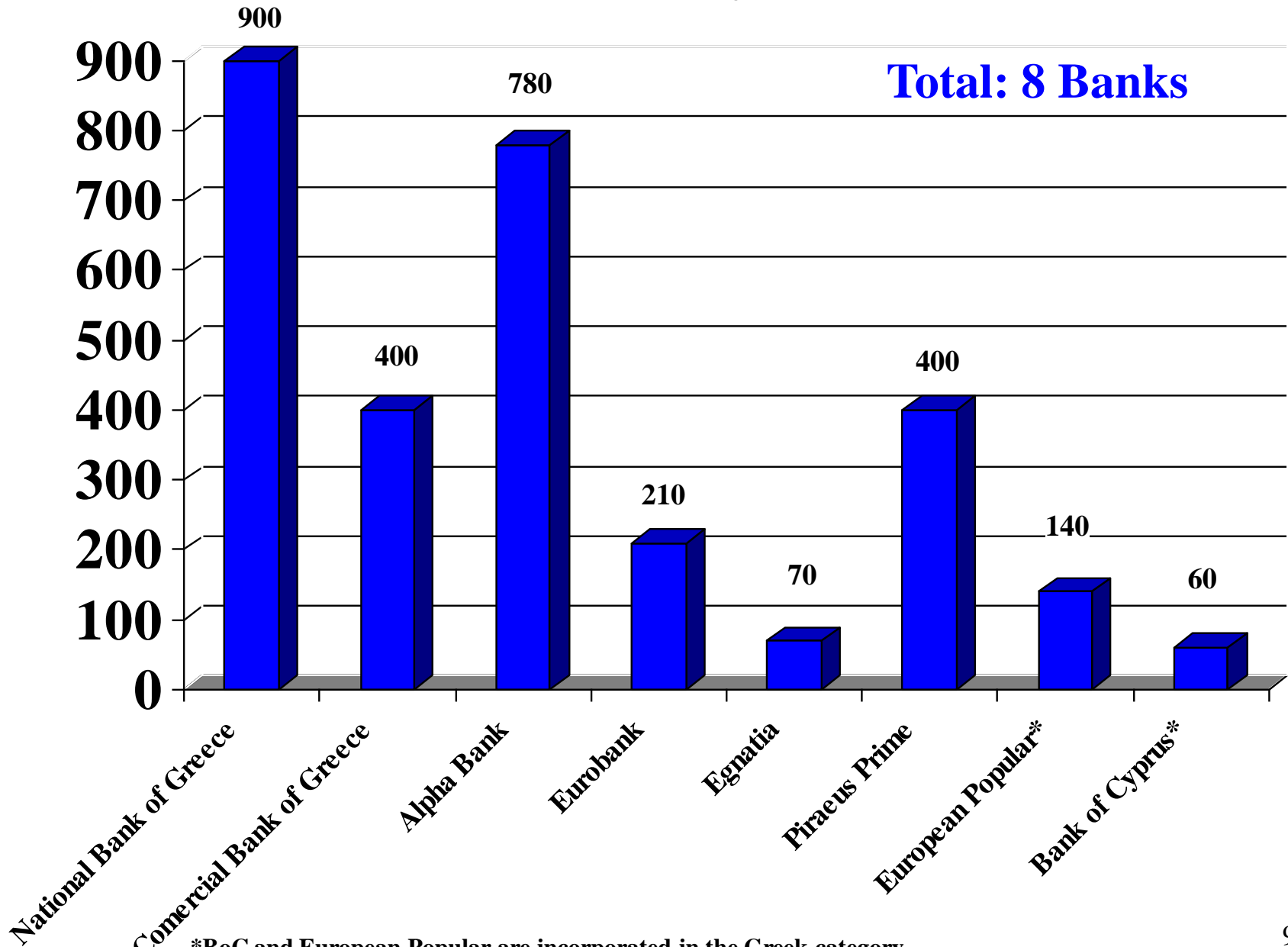
- 5) **However, bank numbers are not the complete story. What really matters is shipfinance capacity**
- 6) **Overall, current bank lending to Greek shipping has risen over the last 5 years from an estimated \$9bn in the mid-90s to \$16.630bn today**
- 7) **The above bank lending does not incorporate committed but unutilized facilities which are estimated in excess of \$3bn**
- 8) **A number of banks, such as Citibank, ABN, Indosuez and Fortis manage a significant additional loan portfolio on a syndicated basis**

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Bank Portfolios available to Greek shipping in millions of US\$



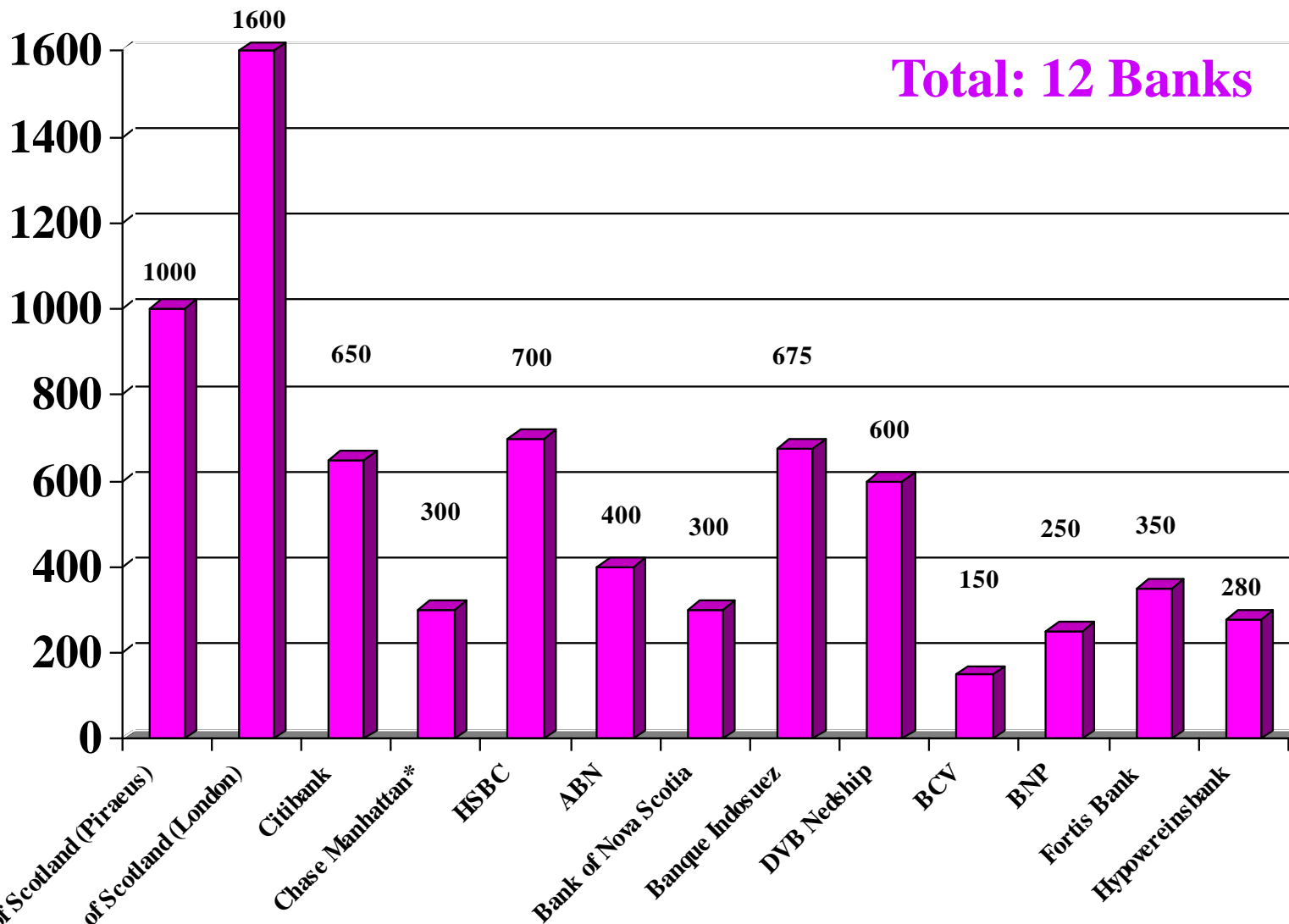
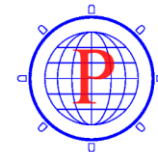
A. GREEK BANKS - June - 2001



*BoC and European Popular are incorporated in the Greek category.
BoC's shipping loans are secured on non-shipping assets

Bank Portfolios available to Greek shipping in millions of US\$

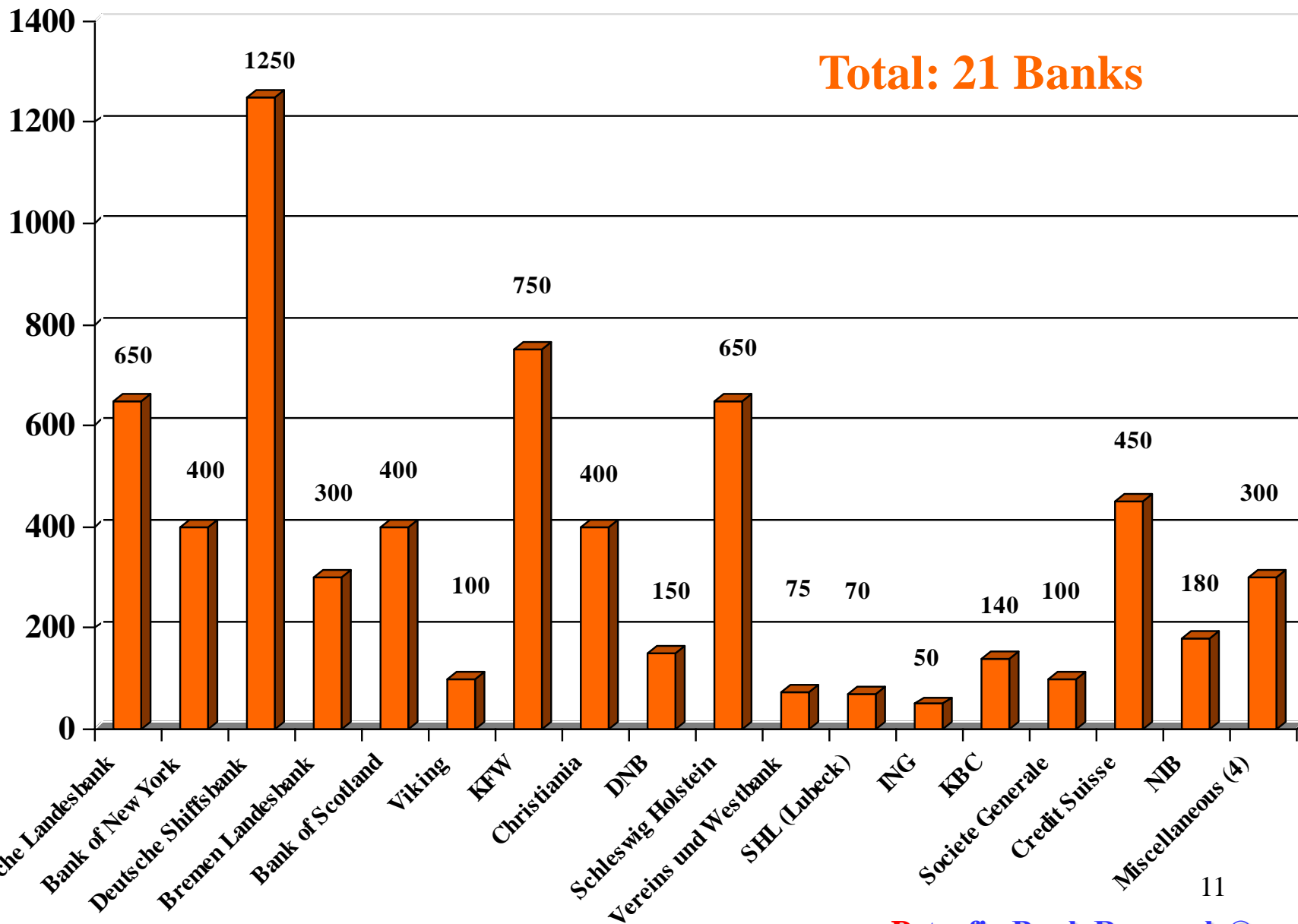
B. FOREIGN BANKS WITH A GREEK PRESENCE - June - 2001



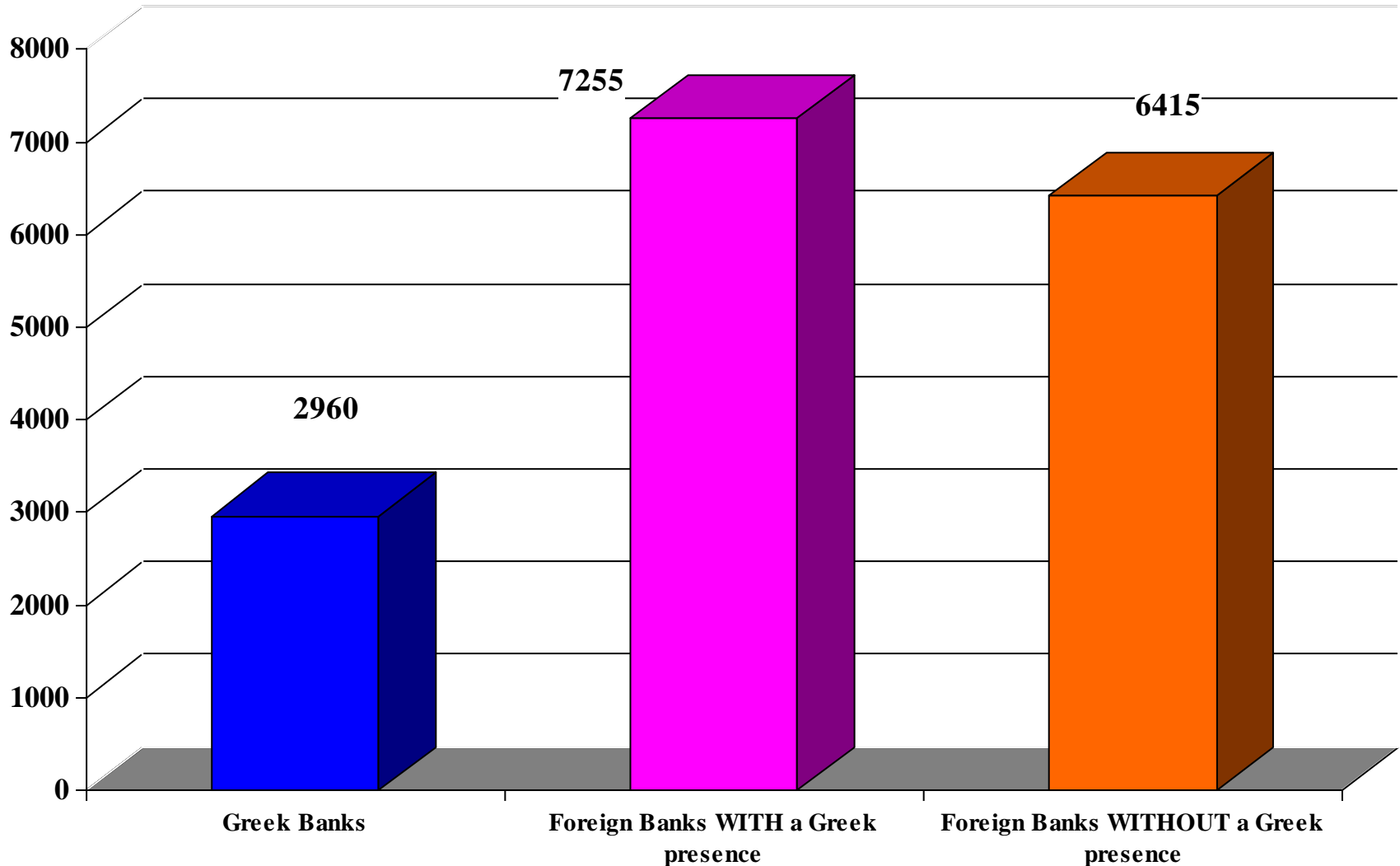
*Chase maintains a services office

Bank Portfolios available to Greek shipping in millions of US\$

C. FOREIGN BANKS WITHOUT A GREEK PRESENCE - June - 2001



Total of Bank Portfolios available to Greek shipping in millions of US\$
June – 2001
Total: US\$ 16.630bn





9) The increase in overall capacity can be attributed to the following reasons:

- a. Remaining shipping banks have a clearer focus, knowledge and commitment to the Greek shipping market*
- b. The consolidation of bank numbers has not withdrawn substantial capacity, as their loan portfolios were taken over by those banks remaining in the field*
- c. The rapid increase of shipfinance lending by Greek banks from approx \$1bn in 1995 to over \$2.960bn today*

From London Shipping Economist, November 1997

Article: 'Greek finance-from strength to strength', p. 4

“The number of (Greek) banks and even more importantly their combined shiplending portfolios are expected to increase substantially over the next decade.”

- d. The switch to financing larger owners / larger loans*
- e. The switch to financing newbuildings*

Ship finance in Greece: Where do we go from here?



Section B.

The development of the *one-and-a-half-tier* market

From Seatrade Naftiliaki – Winter 1997

Article: *'A year of anxiety and consolidation'*, p. 6

“The traditional two-tier finance market has been replaced by a ‘one and a half’ tier market, whereby unless the owner is in the selected list, finance on previously flexible and inexpensive terms has become harder”

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Key characteristics of main tier market

- **The development of bank target client lists which define future marketing strategy**
- **Entering bank target client lists is only possible after a great deal of analysis and scrutiny**



- **Main tier clients are characterized by the following:**
 - a. *Large size: 10-15 vessels and over*
 - b. *Young fleets often involving newbuildings*
 - c. *Well organized and proven management*
 - d. *Clear investment and financial strategy*
 - e. *Large individual loan transactions involving over \$15-20m and large individual client loan exposure*
 - f. *Good use of bank's non-credit services and global networking*



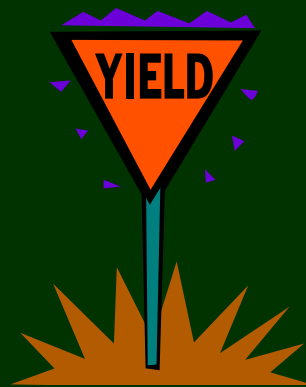
➤ **(cont.) Main tier clients are characterized by the following:**

- g. Use of investment banking services and / or other more rewarding involvement with lending bank*
- h. Adequate yield terms to cover minimum yield targets set by Head Office incorporating all loan and ancillary shipping related income*
- i. Ability to develop an “added value” relationship for mutual bank-client benefit*



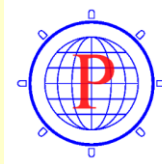
The small to medium shipfinance sector

- **This sector forms the forgotten “half” of the shipfinance market**
- **There are clear signs of a “credit crunch” for owners in this category, i.e. lack of finance, higher yields, tougher terms, lower % lending**



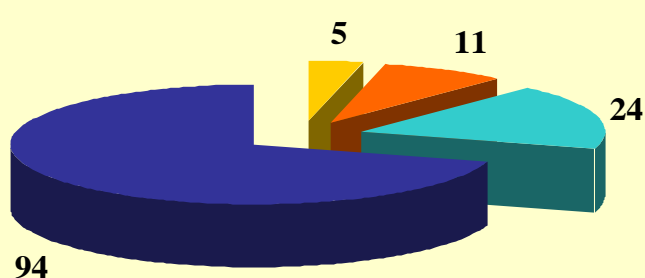
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The small to medium shipfinance sector

- Petrofin Research© 2001 shows that out of a total of 785 Greek shipping companies 83.45% operate fleets of under 9 vessels. As such, the appetite for shipfinance by the small to medium sector clearly exists.



Petrofin Research ©

Fleet size : *5 - 8 vessels*

No of companies : 134

% of total of Greek companies : **17%**



Vessels 0 - 9 years of age



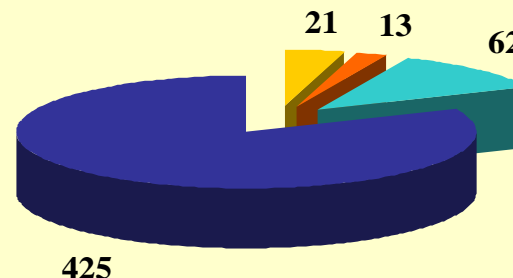
Vessels 10 - 14 years of age



Vessels 15-19 years of age



Vessels 20+ years of age



Fleet size : *1-4 vessels*

No of companies : 521

% of total of Greek companies : **66.45%**

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The small to medium shipfinance sector

- **The lack of appetite by banks for smaller clients are primarily due to:**
 - a. *An association by banks of shipping risk to the fleet size of an owner*
 - b. *Smaller owners have older fleets, which are not attractive to banks*
 - c. *Smaller owners are outside the client target list of banks*
 - d. *Banks have experienced more frequent difficulties when lending against smaller owners involving older vessels.*
 - e. *Increasing loan yields and tougher covenants are not perceived to offset lower credit quality*
 - f. *Traditional smaller / niche banks have totally disappeared from the shipfinance scene*
 - g. *Shipping credits have become standardized and there is little room allowed by bank credit policies for innovative shipfinance*
 - h. *Banks have enjoyed good ship loan demand from newbuildings, which absorbs loan capacity easily and in line with credit policy. Consequently, small loans to small owners are time consuming and an “uphill” task*

Ship finance in Greece: Where do we go from here?



Section C.

Key changes in shipfinance terms over the last decade

Ship finance in Greece: Where do we go from here?

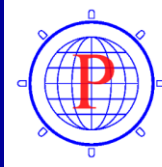
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- **Considering the increase in owner / asset quality, loan spreads have remained stable or in many cases have risen over the last 5 years.**
- **Loan period (maturity) has been extended to reflect much younger vessel ages**
- **Loan termination is now set at 20 years old or below, even accounting for the presence of balloons.**



- **The percentage of finance has remained at approx. 70% despite increase in owner / fleet quality.**
- **Financial, chartering and operational information flow to banks have improved dramatically as to quality and swiftness of provision.**
- **Bilateral loans have increased especially when involving newbuilding finance.**



- **Banks have set clear overall yield targets for individual clients as well as their total shiplending portfolio, which are being closely monitored by Head Office.**
- **There has been a change in the fundamental structure of shiplending terms. The overall number of senior shipfinance bankers has been slowly declining as the number of shipfinance banks has declined.**

However, the number of shipping bank analysts has increased. The overall result is a leaner management handling larger average loan portfolios, i.e. an increase in personnel efficiency and a reduction of costs.



Section D.

The prospects for Greek shipfinance

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1. **The decline in the number of shiplending banks involved with Greek shipping shall slow down. Specifically, we foresee the following:**
 - a. *Although mergers and acquisitions on an international basis will continue, we foresee a definite slowdown*
 - b. *The consolidation among Greek banks will continue, but once again, the limits for future consolidation are now significantly reduced*
 - c. *As the quality and average age of the Greek fleet in general and that of the leading owners in particular shall greatly improve, we foresee increased appetite and investment in Greek shipping by non-Greek banks without necessarily a Greek physical presence*



- d. *We foresee new banks entering the Greek shipfinance market focusing on the opportunities offered by the smaller to middle market owners, who are facing a significant credit squeeze.*

- e. *In consequence, we foresee a stabilization in the rate of decline of shiplending banks to Greek shipping and an eventual increase as the decade develops.*

- f. *We foresee the development of Greek shipping venture funds and specialized financial institutions, whose purpose would be to assist new entrants into Greek shipping without, however, sacrificing fleet age and quality criteria.*



- **Greek shipping loan portfolios shall increase substantially. Specifically, we foresee the following:**
 - a. *The “flight to quality, size and young age” strategy followed by banks over the last 3-4 years shall pay off in terms of reduced loan write-offs and problems among top tier clients*
 - b. *As the quality of Greek shiplending portfolios in general shall continue to improve, there will be a re-assessment by international banks towards shipping overall and Greek shipping in particular.*
 - c. *Bearing in mind the above and in the light of the relative scarcity of higher yielding loan assets, banks shall increase their shiplending capacities significantly over the next decade.*



- d. *The increase in Greek shiplending is to a great extent prescribed by the newbuilding boom and new vessel deliveries that are set to take place in 2001, 2002 and beyond.*

- e. *Existing loan book run-offs are slower than in the past leading to higher average loan portfolios over time*

- f. *Financing Greek shipping's "flight to quality" will involve enormous loan capital resources that have traditionally been met by shiplending banks*



- g. As loan quality improves and loan numbers rise, there will be increased interest in loan securitisation, which will open further profitable opportunities for the main lenders.*

- h. Relief from the enormous shipfinance burden will come from the further development of the International Capital markets for quality large Greek owners.*

- i. There is a clear and definite role for the Athens Stock Exchange in the development of Greek shipping. We foresee that by the end of the decade there will be a well developed and active shipping presence in the ASE.*



- 3. We foresee an acceleration in the consolidation process of the numbers of Greek shipping companies over the next decade. Specifically, we foresee the following:**
- a. The number of Greek shipping companies will decline over the decade from 785 at present to fewer than 300 by the end of the decade.*
 - b. The average size of Greek shipping company fleets shall increase from approximately 5 vessels today to 10 vessels over the period.*
 - c. Consequently, we foresee a decline in the number of the overall Greek fleet from approximately 4,000 vessels today to 3000 vessels by the end of the decade.*
 - d. The overall deadweight capacity of the Greek owned fleet shall not decrease and may well increase as Greek owners replace small, older units with younger and considerably larger ones*



- e. *The overall value of the Greek fleet shall increase substantially in line with its much younger age and largely unchanged overall DWT capacity*

- f. *A large number of Greek owners shall develop into global owners in their specific market segments, that will provide enhanced chartering, operating and investment returns. Such global players shall require the support of global shipping banks*

- g. *Greek owners shall develop their own “chartering pools” seeking to offset the relative advantage enjoyed until recently by large charterers and often bypassing charterers in favour of direct relationships with producers / end users.*



4. Changes in shipfinance terms

We foresee a gradual softening of loan yields and terms as Greek loan quality improves. Specifically, we foresee the following:

- a. As the inherent quality of the new model Greek loan portfolio develops, attracting greater interest by the international banking community, we foresee average loan yields to fall by approximately 20% over the period.*
- b. As younger fleets require longer repayment periods, we foresee a lengthening of the average loan period. The above process has already commenced and will intensify as older loans of shorter duration are replaced with new loans for younger vessels involving a longer duration*



- c. *We foresee the entry into the shiplending scene of large insurance companies, Allianz, ING, etc. to cover the longer term aspect of a loan transaction in conjunction with a commercial bank meeting the shorter term. These loans shall require to be of the highest quality in order to attract such long-term funds from the insurance companies.*

- d. *Greek shipping will increasingly use a corporate structure involving clear ownership and disclosure in order to become eligible for the international capital markets. Shipfinance banks will offer enhanced terms and lower cost products for such corporate entities.*

- e. *As Greek shipping develops its corporate ownership style, traditional mortgage lending shall be increasingly replaced by corporate loans on an unsecured basis.*



- f. A greater number of Greek shipping companies will become rated by the international rating agencies, such as Moody's and Standard and Poor's thus opening significant opportunities in the use of the capital markets for quality paper (debt instruments) involving longer periods and a reduced cost of borrowing.*
- g. The need for major shipping banks to maintain a physical presence in Greece for shipping credit monitoring and marketing reasons shall wane. The decision to establish and maintain an office shall depend increasingly on each bank's branch and product network strategy rather than for shipping purposes alone.*
- h. There will be a resurgence of the syndications market for shipping as increased client size shall result in loan volumes that cannot be handled by a single bank or by bilateral deals.*



Section E.

Conclusion

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- ✓ **Greek shipping and shipping banks that are financing Greek shipping are undergoing a “quality revolution”**
- ✓ **The results shall be the transformation of both over the next decade**
- ✓ **Greek shipping shall become considerably less fragmented and shall continue to dominate the world shipping scene.**
- ✓ **Greek shipping companies, however, will become considerably larger, corporately structured and minded and shall become global players.**



- ✓ **Greek owners shall become increasingly involved in International Joint Ventures and participations.**
- ✓ **Shipfinance banks shall become more drawn into Greek shipping as a source of quality profits and credit exposure.**
- ✓ **There will be increased opportunities by shipfinance banks to offer additional services linked to the investment capital markets, securitization, syndication and to assist their Greek clients to develop into global players.**



- ✓ **New banks and financial institutions will exploit the “vacuum” left by the large shipfinance banks among the small to medium owners.**
- ✓ **Insurance and other international institutions will become increasingly drawn to the Greek shipping market.**
- ✓ **Greek shipping shall evolve into a more efficient, leaner, safer, better managed and quality minded industry able to compete for finance and services by banks, financial institutions and the capital markets on a global rather than national and regional basis.**
- ✓ **Greek shipping offers to all participants rare and rewarding challenge and opportunities over the next decade.**

Be sure not to miss it!!!!!!

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