

Doubts rise over RBS lending role

Opinions remain divided over Royal Bank of Scotland's future as nationalisation draws closer.

The UK government's increased stake in the Royal Bank of Scotland (RBS) is raising further doubts about the company's future as a shipping lender, although a senior banker tells TradeWinds that the bank is staying the course.

RBS's already battered stock plummeted further this week after it said 2008 losses could reach \$42bn, a record for a corporation in the UK. The UK government's stake is heading to 70%, up from 58%, and many pundits expect full nationalisation.

None of this augurs well for RBS's ability to continue in its tradition as one of shipping's biggest lenders, especially as government constraints discourage international lending in favour of helping domestic clients, sources say.

RBS is not a player in the current market, several sources add.

"Nobody is active, so that hardly makes them unique," said one competing banker.

What is more of an issue, he says, is RBS's future ability to lend internationally, particularly to the Greek shipping community in which it has held a leading position over the years.

"With the government's increasing role, lending to Greek shipping is not going to be acceptable," he said. "With domestic customers struggling to get mortgages, the government is going to take a very dim view of making a loan to Stelios out there on his yacht." The finance man hastened to add that this is not an issue just for RBS but for any European bank that has taken government assistance and will face increased mandates to focus its lending within the country.

But in an interview this week, RBS global head of shipping Lambros Varnavides was not placing much stock in such forecasts.

"The government action strengthens the bank," Varnavides said.

"We see it as a positive development for just about everyone with the exception of the bank's shareholders," he said, noting parenthetically that he had felt the pain as a member of that group.

"Shipping isn't an especially large part of the business in a bank as big as ours," Varnavides said. "It meets the criteria of the new management. It's a traditional, solid business with a loyal customer base that has performed well and for those reasons it will be well viewed." While Varnavides acknowledges that some UK banks face scrutiny for not lending enough domestically, that does not apply to RBS, he says.

"We've been lending more on the domestic side," he said. "We're also an international, global bank and the government wants us to stay that way." Varnavides says RBS does have a budget in place for shipping debt in 2009 but he declines to share details.

RBS got a strong vote of confidence this week from one of its leading clients, New York-listed Eagle Bulk Shipping, which cited its "long and trusting relationship with RBS" in a statement to TradeWinds.

Chief financial officer Alan Ginsberg notes RBS's status "in the top leagues of shipping lending" and consistent support of good shipping credit worldwide.

"The recent amendment to our long-term facility in this depressed market environment is a testament to the bank's strength and commitment to the shipping industry," Ginsberg said.

"We are extremely pleased with our relationship and we take comfort from the support for the bank by the UK government. We are confident this will stand the test of time."

RBS said in late 2007 that its shipping portfolio was about \$23bn, with roughly \$11bn of that in the Greek market. This was before it took in \$6bn from the portfolio of acquisition ABN Amro. (The bank's

broader acquisition of ABN Amro has been a key factor in its financial woes.) Estimates from Athens-based analyst Petrofin placed the Greek portfolio as high as \$12.9bn at the end of 2007, with \$8.6bn drawn.

The view in the Greek market is also that RBS will be forced to pull back its lending there.

One source says that in the current market, defaults on loans will come and funding a large portfolio is very expensive. It is difficult to syndicate, the funds are not interested in buying and so "the only choice will be a gradual reduction or to sell at a discount", he says.

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