

# Greek shipfinance stages a tentative recovery

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According to the latest Petrofin Bank Research ©, just published, Greek ship finance showed a 4.1% yoy increase over the last year to 64.02bn. The peak was reached in 2008 at \$73.23bn. This is encouraging news for Greek shipfinance, which has remained in the doldrums and falling short of matching Greek owners' appetite for newbuilding finance and vessel purchases.

The 5 Greek banks engaged in ship finance also showed a 3.17% yoy increase last year. International banks with a Greek presence declined by 4.23%, whereas International banks with a Greek presence grew by 17.23%.

The overall number of banks involved in Greek ship finance grew to 49, whereas European banks declined their exposure as a percentage of total shipfinance from 90% to 85%. The difficult banking and shipping markets has not permitted a number of fresh entrants into this sector.

RBS remained the market leader but with a 11.9% reduced market share. Top growing banks were China Development Bank, Nordea, China Exim, Kexim, China Everbright Bank, DVB, BNP, ABN Amro, Citibank, HSBC and Aegean Baltic. Clearly, shipfinance still has its champions which balance the strategic reduction by other key banks.

The top Greek shipping portfolios are shown in Table 1 and the portfolio of the Greek banks is shown in Graph 1.

## Overview

The shipping market fundamentals, last year, were showing signs of a modest recovery across all sectors throughout the year. As the year progressed, the drybulk and offshore sectors fell, whilst the tanker sector rose. Overall, though, in 2014, shipping confidence for a recovery in 2015 and beyond was quite prevalent, though not universal. Demand for international trade, in accordance with IMF estimates, was expected to increase in 2015/2016 at a faster pace, in both the dry and the tanker sectors, assisted by Quantitative Easing central bank policies and the decline in oil prices. On the supply side, there was concern over the dry bulk order book but it was felt that this would be absorbed over the next years, with an eventual recovery to come in 2016 – 2017, as predicted by most analysts.

Banks adjusted their lending in reflection of the quality of their loan portfolios, overall credit limits, the demand for finance by their clients and the quality of new loan proposals. Consequently, it is not surprising that banks in Greek ship lending followed suit and their portfolios grew by 4.1%, on a yoy basis, mark-



ing the first such growth since 2009. Even Greek banks, sensing that the country and Greek banks were coming out of its recession, recommenced ship lending and showed an overall growth of 3.05%. The overall totals, though, were still held back by the decline of some prominent ship lending banks, such as Commertzbank and RBS.

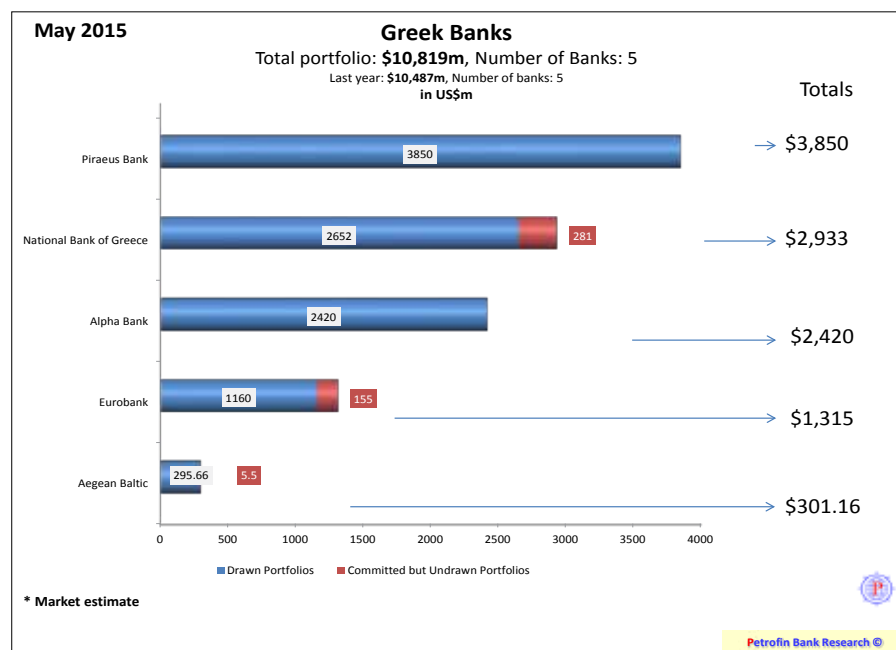
It should be noted that all banks tended to keep a large number of their non-performing loans, in the hope of market recovery, thus 'kicking the can down the road'. Banks were

caught unawares by the huge decline of dry bulk shipping, in the last quarter of 2014 and the first 6 months of 2015. The BDI fell from 1500 in October 2014 to 573 in May 2015, which is a dramatic fall. Even more important is the decline of earnings, which fell to levels well below daily breakeven operating expenses. Hence, the whole dry bulk sector became cash flow negative, with owners needing to fund not only loan interest and principal payments to banks but, also, their own operating expenses shortfalls.

This has thrown the whole sector and vessel values into uncharted territories. Non-performing loans became more difficult to maintain and a number of, until recently, solid lending relationships started to show cracks. As the quality of many dry cargo loans declined to 'alarm' levels, so have loan losses and provisions grown.

Fortunately, the other key sector, that of dirty and clean tankers, recovered and vessel values and incomes rose. The same applied, to a lesser extent, in the container sector, which showed some signs of recovery.

The appetite for new lending in 2015 weakened, as the dry cargo problems manifested themselves and most banks started to spend considerably more time towards the realisation, sale or restructure of problem loans, as well as raising the standards of new ship lending. The renewed Greek crisis hit Greek banks hard. Increasingly, their liquidity was lost, on account of deposit withdrawals, lending to the state and in addressing the declining quality of their loan



Greek shipping portfolios as of end 2014				
Bank Ranking				
Rank	Rank	Drawn	Committed but Undrawn	Total
1	Royal Bank of Scotland	\$7,600	\$0	\$7,600
2	Credit Suisse*	\$5,300	\$619	\$5,919
3	DVB	\$4,200	\$347	\$4,547
4	Piraeus Bank	\$3,850	\$0	\$3,850
5	National Bank of Greece	\$2,652	\$281	\$2,933
6	HSH Nordbank	\$2,171	\$397	\$2,568
7	Commerzbank**	\$2,500	\$0	\$2,500
8	Alpha Bank	\$2,420	\$0	\$2,420
9	DNB	\$1,850	\$460	\$2,310
10	DB - Deutsche Shipping*	\$2,000	\$0	\$2,000
11	CHINA EXIM*	\$1,400	\$600	\$2,000
12	HSBC	\$2000	\$0	\$2000
13	ABN AMRO	\$1,725	\$263	\$1,988
14	BNP Paribas	\$1,644	\$311	\$1,955
15	Nordea	\$1,160	\$460	\$1,620
16	Citibank	\$1100	\$500	\$1600
17	China Development Bank*	\$1100	\$500	\$1600
18	Unicredit	\$1,480	\$93	\$1,573
19	ING*	\$1350	\$0	\$1350
20	Eurobank	\$1,160	\$155	\$1,315
21	KEXIM*	\$600	\$400	\$1000
22	KFW	\$616	\$316	\$932
23	Calyon*	\$800	\$0	\$800
24	Bremer Landesbank	\$694	\$36	\$730
25	Nord LB	\$615	\$40	\$655
26	China Everbright Bank*	\$350	\$150	\$500
27	CIT Maritime Finance*	\$400	\$0	\$400
28	Qatar National Bank*	\$335	\$0	\$335
29	Barwa Bank*	\$335	\$0	\$335
30	Aegean Baltic	\$296	\$6	\$301
31	LBG Shipping Finance **	\$300	\$0	\$300
32	NIBC	\$163	\$88	\$250
33	Natixis**	\$100	\$0	\$100
34	Deka*	\$100	\$0	\$100
35	Bank of Ireland **	\$33	\$0	\$33
	OTHER BANKS (14)	\$3,600		\$3,600
	Overall number of banks	49	Total Greek portfolio	\$64,019.5
May 2015				

portfolios. The adverse Greek financial conditions, also, began to affect some international banks with a Greek presence, which are seriously reviewing the possibility of leaving Greece but continuing to lend from abroad. A gathering trend has been for banks to offer clients the opportunity to purchase their loans at a discount. This discount, would vary but for performing loans is in the region of approximately 10%. The rationale is that a client would need to raise new finance with higher margins and fees and the above incentive is designed to compensate them for such a higher cost. Vulture funds also increasingly looked for loan opportunities and banks started to consider substantial discounts for non-performing loans.

As PE funds took a step back from dry bulk but continued for tankers and container vessels, a ship financing gap appeared for strong owners, looking to acquire vessels at distressed levels or even to just finance their newbuilding orders.

Providing a new finance in the tanker sector and indeed most of the other sectors did not change significantly other than the fact that banks became overall less optimistic and more cautious in their lending and terms. In the dry bulk sector though, it became very difficult to provide a loan if income projections fell below operating expenses. Hence, banks started restructuring their loans to even lower percentages of below 50% and at the same time, insisting on having a strong corporate support and enhanced liquidity with deposits in place, to cover the first year or two of the loan debt service. Some owners accepted these terms but a number wished to obtain higher loans, on the premise that the extremely low vessel prices entailed a reduced historical risk, which could justify a higher leverage. However, this belief was not shared by the banks, which wished to limit their shipping risk, due to the poor cash flow and as the prospects of such recovery were unclear. This divergence of views gave rise to the development of privately owned financial institutions (often US based) that would fill the gap left by the banks. Such funds would aim to provide loans on a similar basis as commercial banks but at higher percentages of up to 65%-70% but with considerably higher margins in the region of approximately 6%-9% per annum (depending on the quality of the security and client), in addition to hefty arrangement fees and possibly an element of profit sharing. Often, these providers would be PE funds seeking secure returns on lending. In order to become more competitive and keep the loan breakeven rates low, such lenders would offer longer loan amortisation and reduced repayments for the first couple of years.

Another development has been most prominent in the Far East and involves Far Eastern leasing companies, leasing vessels to interested clients at higher intrinsic rates of interest (6%-8%, on average), usually involving Chinese or Korean and lately Japanese newbuildings. A number of owners wishing to acquire vessels inexpensively but unwilling to borrow at expensive rates, opted for cash purchases, which would allow them the lowest breakeven rates in these troubled times. In conclusion, therefore, the poor dry bulk market has allowed the development of non-banking finance, to develop on the basis of the limited interest by traditional banks. This trend is expected to continue. As such, the banking ship finance totals understate the actual level of finance obtained by Greek owners, as there are no figures available for non-banking finances.

The assumption of supervisory responsibility by the ECB for all EU banks is a welcomed development and is expected to comfort depositors that all banks within the EU would be subject to uniform rules of compliance and capital adequacy. Over time, this should enable the return of the interbank market to levels that would reflect (at least in part) the levels reached before the financial crisis. This would assist the funding of commercial banks, as they recommence their expansion, when their deleverage process would come to an end.

Looking ahead to the next couple of years, it would appear that Greek ship finance may not continue to grow, as a greater number of banks are re-aligning their ship lending budgets and await a prolonged shipping recovery and/or are reviewing the quality of their existing loan portfolios. Thus far, new bank lenders have been few and can mostly be found in local Far Eastern and Middle Eastern banks, providing some finance to Greek owners with a Far Eastern presence. Such loan volumes are not high but local names have started to appear in new shipping loans. The demand for newbuilding finance continues unabated, as a huge part of the current order book remains not financed. However, Greek owners are increasingly needed to delve deeper into their pockets for additional capital as often commercial values have fallen to levels below newbuilding contracted ones. A number of owners are currently negotiating newbuilding delivery extensions with the shipyards, in order to allow more time to take delivery, in the hope that both the market and ship finance conditions shall improve. In conclusion, therefore, the banking ship finance market shall continue to be restrained in the years to come and Greek ship lending is not expected to rise in line with the development of the Greek fleet and the level of newbuilding deliveries, as owners shall increasingly rely on non-banking sources of finance, as well as their own resources, to meet the industry's challenges.