Growing rich

Bank lending to Greek shipping companies has increased sharply in the last two years. The latest survey by Petrofin Bank Research shows where the money is coming from

Recent research by Petrofin shows that the Greek shipping loan portfolio by both Greek and foreign banks increased sharply last year, despite the cash rich status of many Greek owners, as they sought to refinance loans at more favourable rates, as well as investing heavily in new tonnage.

Figures are analysed to show both outstanding loans and undrawn facilities. They also look at participation as lead manager in syndicated loans. Some banks, such as international bank Citigroup and Greek bank Aegean Baltic, command a larger presence than their own individual portfolios, as a result of their lead manager activities in syndications and club deals.

There was a further significant rise in the overall portfolio of ship lending to $36.112bn. This was up by 11.6% from 2004 and continues on a consistent upward path since the first such survey in 2001, when the total portfolio was $16.525bn. However, the biggest growth over the period has been from international banks with a presence in Greece and a portfolio of $19.54bn in 2005 with an average annual growth of 29%. This was partly due to two major foreign banks opening offices in Greece, namely Deutsche Schiffsbank and Natexis.

The leading 10 lenders to Greek shipping accounted for $24.24bn, or just over two thirds of the total lending. Two Greek banks feature in the top 10, but non-Greek European banks dominate, with Royal Bank of Scotland well ahead of the rest, as it has been for years. HSH Nordbank has increased its activity substantially, rising to second place.

The total number of banks involved in financing Greek shipping fell sharply in 2005, following a period of stability, from 50 in 2004 to just 40 at the end of 2005. The drop was partly due to consolidation among banks, but also because of those with unwinding portfolios leaving the sector altogether. The biggest reductions were in banks from France and Belgium and from North America.

Exposure of Greek banks has increased steadily and almost doubled from 2001 to 2005, although some have moved down the overall rankings as some international banks have stepped up their involvement. Eight of the leading Greek banks feature in the top 30 overall lenders to Greek shipping.

LEAD MANAGERS

The total loan portfolio controlled by lead managing banks was $7.24bn, a significant increase of 40% since 2004, although that year's figure had changed only marginally from 2003. These totals are the sums contributed by banks other than the lead managers. The big rise is partly indicative of the wave of initial public offerings (IPOs) last year, which often involved purchases of whole fleets. Citigroup continued as the clear leader in this category and its total controlled lending was up by 50% from 2004.

Greek banks are not, so far, particularly active in the lead manager role but some are beginning to step up their participation, including Alpha Bank, EFG Eurobank, National Bank of Greece and First Business Bank.

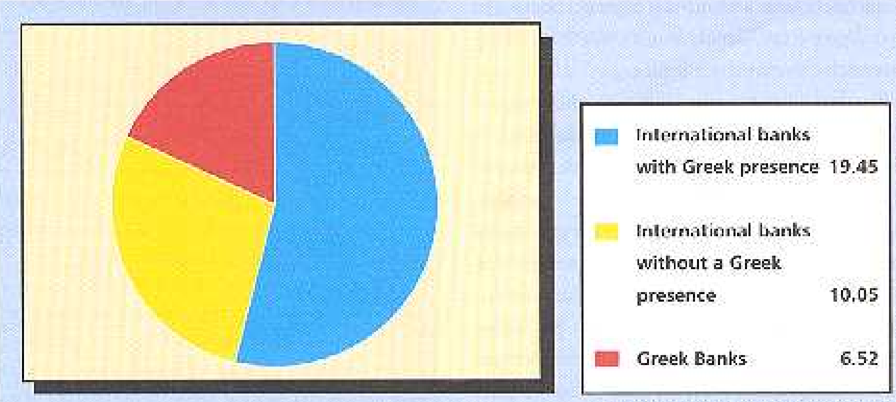
The Petrofin research, for the first time, also looked at facilities provided to Greek shipping companies for hedging derivatives, interest swaps and other derivative products. Those involved largely reflected the overall lending activity in Greece. Only two banks

Table 1: Top 10 banks involved in ship lending to Greece

Bank	Country	Portfolio ($bn)
Royal Bank of Scotland	UK	8.099
HSH Nordbank	Germany	3.468
Deutsche Schiffsbank	Germany	3.400
Credit Suisse	Switzerland	1.850
Calyon	France	1.500
Alpha Bank	Greece	1.400
HSBC	UK	1.170
National Bank of Greece	Greece	1.140
DVB	Netherlands	1.020
DnB NOR	Norway	1.067

Note: Totals include loans drawn and loans commited but not yet drawn
Source: Petrofin Bank Research

Sources of lending to Greek shipping market



Source: Petrofin Bank Research

offered facilities in excess of $1bn, Royal Bank of Scotland and Citigroup, but BNP Paribas and HSBC provided over $500m. So far Greek bank involvement is limited, but Alpha Bank and Piraeus Bank in particular offered over $100m.

Greek ship finance continues to grow and volumes have risen as newbuildings are being delivered or their finance secured. Although freight rates have fallen, ship values are still a multiple of those a couple of years ago. Banks are keen to lend to liquid clients seeking finance for young tonnage, where possible on front-loaded repayment schedules. Low interest rates continued in 2005 rendering loan finance a low cost alternative option.

The enormous liquidity enjoyed by Greek shipping continues, with most owners choosing to invest at least some of their liquidity into newbuildings or young tonnage. International and Greek banks continue to commit themselves increasingly to Greek shipping, as banks are responding to the capital demands of the Greek market. However, with average loan amounts increasing it is becoming more difficult for smaller owners, which tend to seek to buy older vessels.

PROSPECTS

Despite Greek shipping's greater liquidity, and the rise of loan volume, there is evidence of banks becoming more cautious about increasing their exposure at today's high vessel values in relation to earnings. The easing off in IPO activity may also contribute to a slowdown in loan growth. In addition the pace of Greek newbuilding orders is slowing. These factors point to a slowdown in the rate of growth of ship lending to Greek shipping, but no sign of any loss of commitment. There is now a long exposure to Greek shipping by international banks and they are used to the professionalism of Greek owners and their ability to overcome a shipping slump. There are also signs that Greek banks are becoming more selective in their lending.

In the next couple of years the rate of growth may slow down further, although it will still be positive. Banks will seek to reposition themselves in view of the changing market conditions. Greek shipowner clients now tend to own larger and younger vessels (see page 7) and possess better organisation, financial ability and overall liquidity. Therefore, most banks expect 2006 to be unspectacular, but another year of good performance in the Greek market.

Table 2: Leading 10 Greek banks lending to shipping

Bank	Portfolio ($m)
Alpha Bank	1,480
National Bank of Greece	1,140
Emporiki Bank of Greece	930
Piraeus Bank	897
EFG Eurobank	602
Laiki Bank	476
First Business Bank	457
Egnatia Bank	266
Aegean Baltic	107
Omega Bank	60

Note: Totals include loans drawn and loans committed but not yet drawn

Source: Petrofin Bank Research

Table 3: Top 10 lead managers*

Lead manager	Managed portfolio ($m)
Citigroup	2,165
Aegean Baltic	1,153
Credit Suisse	800
Deutsche Schiffsbank	600
Fortis Bank	400
ABN Amro	320
Bank of Scotland	305
DVB Bank	285
HSH Nordbank	218
Commerzbank	171

Source: Petrofin Bank Research

*of syndicated and club deals for ship finance in Greece, based on loans committed by third party banks

Lending Banks

RBS

Royal Bank of Scotland is by far the leading bank in the Greek market with a portfolio of over $8bn at the end of 2005. Head of shipping finance at RBS, Lambros Varnavides said to LSE that so far in 2006 lending activity in the Greek market is only slightly slower than in 2005, but he expected a more significant slowdown next year if ship prices fall. But this could be followed by a recovery if owners seek to take advantage of lower secondhand prices.

"The lending market is still very competitive. Although interest rates are increasing margins are still low with some players still very aggressive on margins being offered. But RBS has to maintain a return on capital for its shareholders so cannot gain business at any price," he said to LSE.

Alpha Bank

Alpha Bank is the leading Greek bank involved in lending to shipping and, according to Petrofin Bank Research, is ranked sixth overall among lenders to Greek shipping. Alpha Bank has been involved in the field of financing Greek-owned shipping companies for the last nine years. New loans disbursed in 2005 were in excess of $350m.

"We had several heavy prepayments as well, due to the healthy market developments," Christos Kokkinis, manager of Alpha Bank shipping division told LSE. "Total amount outstanding (not including commitments) reached $1.2bn at the end of the year, making our bank the first among Greek banks and sixth overall."

Alpha Bank provides the full spectrum of operational products and services (including derivatives). "We also realise cross-sales, mainly focusing on private banking and advisory services for equity offerings," said Mr Kokkinis.

He commented to LSE: "Greek banks have managed to establish strong bonds with the local shipping community, although most of them (including our bank) entered the market only recently, in the mid to late 90s. We have been able to compete with large international banks, offering commitment, competitive service and flexibility. In the past few years, there has been a steady growth in Greek banks' ship lending, as a result of fleet renewal and ordering of newbuildings by Greek shipowners."

Most ship lending from Greek banks has traditional mortgage based lending, but several shipping IPOs were also concluded. "We believe that this trend will continue in the future, given that Greek shipping companies become more and more corporately structured," Mr Kokkinis told LSE.

ABN Amro

Head of shipping at Dutch bank ABN Amro, Dimitris Anagnostopoulos told LSE that the shipping loan portfolio of ABN Amro Greece has grown by almost 20% from the end of 2004 to the current figure of slightly in excess of $1bn, as part of the bank's global shipping portfolio of over $4.5bn.

The bank has expanded its services in Greece during the last 15 months to include export credit financing facilities, interest rate swaps and cross- currency swaps, either attached to a specific facility or

independently. "We have noticed increased interest of from our customers in trading FFAs through our London office," Mr Anagnostopoulos added.

"Due to the fact that we have witnessed a very strong shipping market over the last 2.5 years, we have seen in Greece most prudent owners have adapted to the falling shipping market by prepaying or refinancing a number of loans due to excess liquidity reducing the loan -to-value ratios. We have, moreover, seen a relative stabilisation of pricing for bank loans following a prolonged period of reducing margins. Despite these and the overall warnings from market analysts for softer freight rates, aggressive lending and relaxed covenants continues."