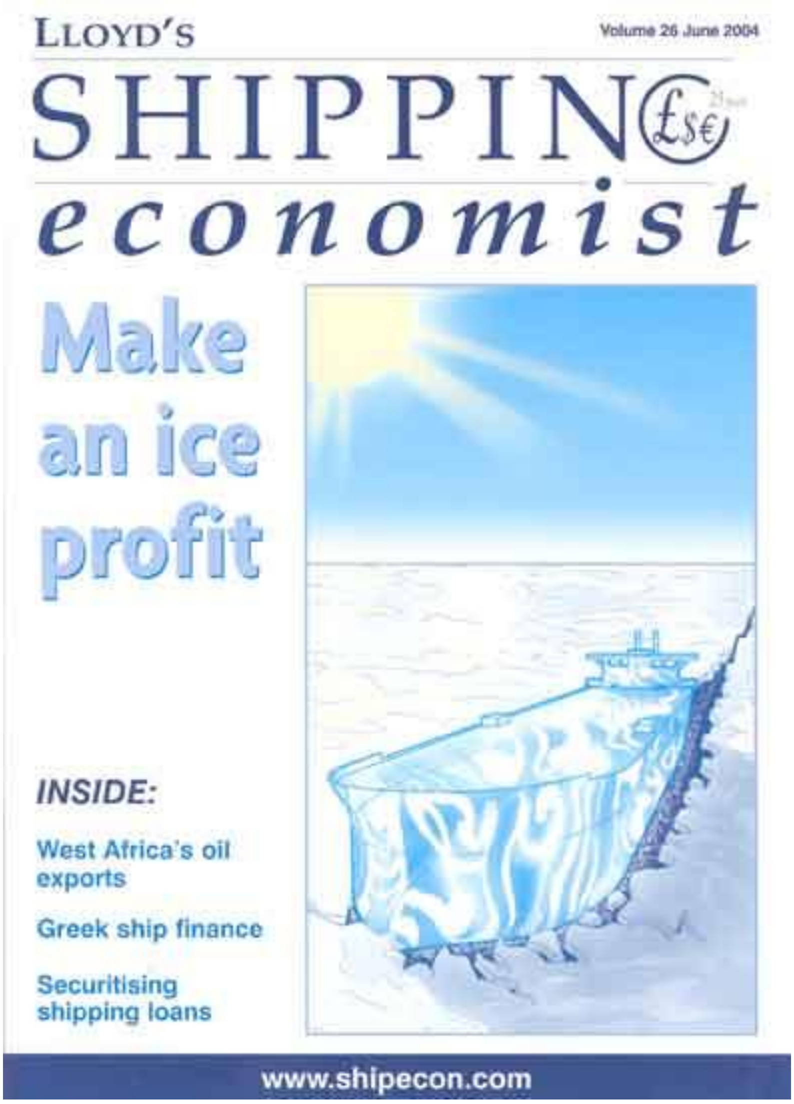
Greek shipping banks on the up



Ted Petropoulos, MD, Petrofin S.A.

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This article is based on the findings of the recently published latest Petrofin Bank Research and includes the loan portfolios of all banks engaged in ship finance to Greek owners, as at December 31, 2003.

The total number of banks engaged in Greek ship finance grew from 52 to a peak of 77 banks between 1992 to 1997. This growth was mainly attributable to more Greek shipping banks, up from six to 15, and foreign banks with no physical presence, up from 27 to 41.

Interestingly the number of foreign shipping banks with a presence in Greece remained more or less static, rising only marginally from 19 to 21.

The next four years saw a dramatic fall to a total of just 40 in 2001, with the fall evident across all three categories. The total recovered sharply in 2002 and subsequently rose to a peak of 55 in June 2003 and numbered 54 in December 2003. The contribution of Greek banks is impressive in that there are still 15 currently active, despite the significant number of bank mergers and acquisitions that have taken place over the last decade. The involvement of Greek banks in Greek ship finance may appear a natural development today but that was not the case a decade ago.

The Greek banks' ability to grow their lending has been aided by the liberalisation of foreign exchange, Greece's entry into the EU and the introduction of the euro. The enhanced performance of shipping, its relatively attractive risk/reward ratio and the lack of suitable alternative competitive lending opportunities within Greece, has also boosted the domestic banks' input.

Non-Greek banks with a physical presence have declined in numbers from 19 in 1992 to 10 in December 2003, mainly due to mergers and acquisitions, although, as is detailed later in this article, their lending totals have increased significantly over the same period.

Non-Greek banks without a physical presence grew from 27 to 41 between 1992 and 1997, but declined thereafter to 29 at the end of 2003. Apart from mergers and acquisitions, this was also due to some withdrawals of banks for which maintaining a small presence was not within their overall ship finance strategy.

LOAN PORTFOLIOS

Since December 2001, Greek banks' lending grew by 70.5% over the two-year period to the end of 2003, whereas non-Greek bank lending (without a physical presence) grew by 58.8% and non-Greek bank lending (with presence) grew by 43.4% over the same period (see table 1).

TABLE 1

	December 2001	January 2003	December 2003	Loan Portfolios			% Change Dec01-Dec 03
Category	No of Banks			December 2001	January 2003	December 2003	
Category A Banks	11	10	10	7.050bn	8.185bn	10.125bn	43.4%
Category B Banks	20	30	29	6.165bn	8.604bn	9.788bn	58.8%

Category C Banks	9	11	15	3.310bn	4.472bn	5.642bn	70.5%
Totals	40	51	54	$16.52bn	$21.261bn	$25.555bn	
Notes: Bank categories: A - Foreign banks with a Greek presence; B - Foreign banks without a Greek presence; C - Greek banks							

However, the latter banks have recently increased their activity and have overtaken for the first time the banks without a physical presence in terms of total portfolios. The total Greek loan participation of all banks increased from $21.261bn in January 2003 to $25.554bn in December 2003, i.e. an increase of 20.2% in just one year, although there was some slowdown in the rate of growth in the second half of 2003.

The underlying reasons for this growth have been, on the one hand, the appetite of Greek owners for modern tonnage and newbuildings (in anticipation of a favourable ship- ping market) and, on the other hand, the attractive risk/reward balance and the strong performance of Greek shipping. Banks thus saw an opportunity to lend significantly higher amounts of funds to Greek shipping while feeling comforted by the positive macroeconomic prospects of the international economy and shipping industry as well as the strength and quality improvements of their Greek clients.

With over 310 ships on order by Greek owners for deliveries up to 2008, these ship finance totals are expected to increase over the forth- coming years, as newbuilding orders evolve into drawn down loans.

MAJOR LENDERS

The top 25 banks engaged in Greek ship finance are listed in Table 2 according to the size of their shipping portfolios.

TABLE 2 - Top 25 banks holding Greek shipping portfolios (December 2003)

Rank	Bank	Nationality	Greek presence	Greek portfolio($m)
1	Royal Bank of Scotland	UK	Yes	4,500
2	Deutsche Schiffsbank	Germany	No	2,490
3	HSH Nordbank	Germany	No	2,334
4	National Bank of Greece	Greece	Yes	1,379
5	Alpha Bank	Greece	Yes	1,200
6	Credit Agricole Indosuez	France	Yes	1,100
7	HSBC	UK	Yes	925
8	Piraeus (including ETVA)	Greece	Yes	920
9	Credit Suisse	Switzerland	No	900
10	KfW	Germany	No	870

11	**Emporiki Bank of Greece**	**Greece**	**Yes**	**850**
12	**DVB Nedship**	**Germany**	**Yes**	**777**
13	**Citibank**	**US**	**Yes**	**695**
14	**DnB**	**Norway**	**No**	**645**
15	**HVB**	**Germany**	**Yes**	**595**
16	**ABN Amro**	**Netherlands**	**Yes**	**530**
17	**Fortis Bank**	**Netherlands**	**Yes**	**475**
18	**Bremer Landesbank**	**Germany**	**No**	**414**
19	**Commerzbank**	**Germany**	**No**	**390**
20	**First Business Bank**	**Greece**	**Yes**	**374.5**
21	**EFG Eurobank**	**Greece**	**Yes**	**354.9**
22	**BNP Paribas**	**France**	**Yes**	**327.5**
23	**Vereins und Westbank**	**Germany**	**No**	**314**
24	**Nordea**	**Norway**	**No**	**280**
25	**Laiki Bank**	**Greece**	**Yes**	**277.7**

Source: Petrofin Bank Research©

Although Royal Bank of Scotland (RBS) is still the market leader, UK banks number only two and they include HSBC. This vividly demonstrates the withdrawals over the years from key roles of prominent British banks such as, Barclays, National Westminster, Bank of Scotland as well as many of the old merchant banks such as, Hambros, Guiness Mahon, H. Ansbacher and several others.

The biggest presence in the top 25, both in terms of number of banks and loan portfolios, is German banks, which total seven. Germany is closely followed by Greece, which in this year's research, for the first time, has seven participants in the top 25 list. Dutch banks are well represented with three entries, French banks have two, as have Scandinavian banks, while the US is represented by the solitary presence of Citibank.

It is significant that, over the years, Greek ship lending has become a predominantly European bank busi- ness with a particularly strong contribution by German banks.

Banks taking the role of lead managers are shown in the accompanying graph. These figures relate to third party bank loans managed by banks that have specialised in such work. Citibank, once again, remains the clear market leader with $1.396bn under management, followed by Deutsche Schiffsbank and ABN Amro.

The total under management at the end of 2003 amounted to $5.056bn, slightly down from $5.257bn six months earlier. The slight decrease indicates a greater emphasis by banks towards bilateral bank-client lending, instead of club/syndicated loans.

Nevertheless, this role remains a valuable addition to the standing and profitability of banks engaged in ship finance as lead managers.

FUTURE PROSPECTS

Greek owners have demonstrated a high level of commitment to shipping investment. Moreover, they have shown good anticipation of market trends, demonstrated adaptability to the changing market and regulatory environment and have significantly strengthened their organisations as well as their capital base and liquidity. Importantly, they have developed the necessary financial transparency, clear strategies and have developed closer professional relationships with banks. The movement of Greek owners towards younger tonnage, including newbuildings, has assisted banks in expanding their loan portfolios. The combination of all these factors has provided significant encouragement to banks to increase their lending to Greek owners by substantial amounts.

The recent shipping boom has not only improved bank collateral ratios but has also substantially increased the liquidity and capital base of their Greek clients. As such, many Greek owners are able to demonstrate, in addition to their usual strengths, a dramatically improved balance sheet and profit performance with enormous liquidity reserves, supported in many cases by secured period charters. Consequently, Greek owners now have an enhanced ability to maintain their growth and further improve the quality of their fleets.

Banks that have engaged in Greek ship lending have been pleased by the performance of the industry and their clients to a very high extent. The anticipated effects of Basel II seem to have been managed and all banks have developed risk assessment criteria that have enhanced the perceived relative quality of shipping loans. Despite Basel II prospects, increased bank competition, especially for the large clients, has caused bank spreads and fees that grew in years 2001/2002 to subside as a result of both the competition and an overall re-evaluation of Greek ship lending.

It is expected that over the next decade the number of Far East banks engaged in Greek ship finance will increase. This will result from, not only the growth of such banks within a fast growing region of the world, but also the greater international presence and importance of Greek shipping, coupled with their interest in newbuildings constructed in Far East yards. We have already seen the entry of Kexim (Korean Export Import bank) ,with a single $75m loan for local construction. There seems little doubt that others will follow.

The most interesting aspect, how- ever, will be whether, as many expect, Chinese banks will enter Greek ship finance in order to provide 'ready made' finance packages in support of Chinese shipyards. Such banks often operate with spreads of at least 0.5%

below those of western banks and, as such, their entry may well have serious implications for the Greek ship- ping industry and lenders.

Nonetheless, with the generally positive background and prospects as well as the continuous stream of new- building deliveries, it is anticipated that total bank lending to Greek ship- ping will increase over future years.

A number of influences will, how- ever, affect the rate of increase. It will mostly depend on:

. New orders from Greek owners continuing to be placed over the next few years.

1. *Sales of over-age Greek vessels during this good market.*
2. *Interest in additional modern tonnage once vessel prices subside.*
3. *Prospects for the world economy, international trade and shipping.*
4. *Further development of new- building capacity in the Far East, which may produce an excess supply of vessels.*
5. *The future of US interest rates, the US dollar and the price of oil.*

The overall number of banks engaged in Greek ship finance is not expected to alter dramatically, as most banks that are now active in Greece have clear strategies and commitment towards Greek shipping.

**** Ted Petropoulos is managing director of Petrofin Bank SA. The loan portfolios of all banks and the full Petrofin Bank Research is on the Petrofin web- site at www.petrofin.gr.***

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