Greek Ship-Finance – a year of record growth and solid prospects

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In global ship-finance terms, financing Greek owners is one of the important and fastest growing sectors.

Using the latest published Petrofin Bank Research© over the last year, Greek shipfinance grew from US$36.112bn to $46.387bn as of 31/12/2006, i.e. a 28.45% loan portfolio increase.

Let me present the key results of this year's research together with the relevant analysis before presenting our views as to the main trends and prospects for 2007 and beyond.

Overview of Results

In the past 6 years we have witnessed a steady growth in banks' shiplending portfolios to the Greek market averaging 23% per annum.

In the table below **(Table 1)** we observe the overall growth in Greek shiplending for the market as a whole and for the three bank subgroups that comprise it, i.e. International Banks with a Greek presence, International Banks without a Greek presence and Greek banks.

Table 1

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April 2007

	Overall Greek shiplending portfolio in US$m as of 31st December 2006	*Percentage of growth between December 2001 and December 2006*	*Average yearly growth since 2001*	*Percentage of growth between December 2005 and December 2006*
International Banks WITH a Greek presence	**$24,252**	**244.00%**	**28.03%**	**24.11%**
International Banks without a Greek presence	**$14,788**	**140%**	**19.12%**	**47.15%**
Greek banks	**$7,347**	**122%**	**17.29%**	**12.63%**
Totals (rounded)	**$46,387**	**180.71%**	**22.93%**	**28.45%**

The international banks with a Greek presence are the banks that collectively top the list in Greek ship-finance. As of end 2006, they committed US$24.25bn to the sector, as compared to US$19.54bn in the preceding year – corresponding to a 24.11% portfolio increase. The *Royal Bank of Scotland* (Table 2) heads the group with their, by far the largest, portfolio of US$10.474bn. *RBS* remains the biggest lender to Greek shipping for yet another year. For a second year in a row, the second position is held by *HSH-Nordbank* (banks without a Greek presence) with a US$4.2bn portfolio, constituting a rise of 21% from the preceding year.

The top 10 banks’ ranking order follows in Table 2.

Table 2: The top ten banks ranked by portfolio size (in US$m)

Rank	Bank	Portfolio as of end 2006	Market share
1	**Royal Bank of Scotland**	**$10,474**	**22.58%**
2	**HSH-Nordbank**	**$4,196**	**9.05%**
3	**Deutsche Schiffsbank**	**$3,700**	**7.98%**
4	**DNB**	**$2,637**	**5.68%**
5	**Credit Suisse***	**$2,600**	**5.61%**
6	**HSBC**	**$2,240**	**4.83%**
7	**National Bank of Greece**	**$1,600**	**3.45%**
8	**HVB**	**$1,520**	**3.28%**
9	**Alpha Bank**	**$1,340**	**2.89%**
10	**Calyon***	**$1,300**	**2.80%**
*market estimate	***Total***	**$31,607**	**68.14%**

The listed top 10 bank portfolios account for 68.14% of the total Greek exposure, compared to 67.14% for 2005, 67% for 2004 and 65% in 2003. As such, the concentration ratio of the top 10 banks is rising.

Within the group of Greek banks, the *National Bank of Greece* has reclaimed its number 1 position among Greek banks and is 7th worldwide. *Alpha Bank* is second largest among Greek banks and 9th among the top 10.

In terms of market share, it is important to note that more than 22.5% belongs to RBS. This means that almost one in four loans is provided by the Royal Bank of Scotland.

The total number of banks involved in Greek shiplending is 39, as of 31st December 2006. This is reduced from 40, primarily due to the Marfin-Egnatia-Laiki merger during 2006.

In terms of nationality, and compared to the three previous years, the banks are distributed as follows:

Table 3: Distribution of banks engaged in Greek Ship-finance by nationality

Nationality	End 2003	End 2004	End 2005	End 2006
UK & Ireland	**5**	**5**	**4**	**5**
France / Belgium	**8**	**6**	**3**	**3**
Scandinavia	**2**	**2**	**2**	**2**
Germany	**10**	**10**	**9**	**10**
Holland	**5**	**5**	**4**	**3**
Greece	**15**	**14**	**14**	**12**
Other European	**4**	**4**	**2**	**1**
European Total	***49***	***46***	***38***	***36***
North America	**4**	**3**	**1**	**2**
Far East and other countries	**1**	**1**	**1**	**1**
World Total	***54***	***50***	***40***	***39***

The fall in the number of banks is primarily due to those with unwinding portfolios leaving the sector altogether as well as due to bank mergers and acquisitions.

Moreover, earlier in the year *Alliance and Leicester* announced they would enter the market, thereby bringing the UK and Ireland total up to 5.

In table 4 we present the top banks engaged in Greek shipfinance and their respective growth over the last year.

Table 4: Top 30 banks holding Greek shipping portfolios, as of 31st December 2006

Rank	*Bank position 2006*		*Growth since previous year*	*Bank position 2005*	
1	Royal Bank of Scotland	$10,474	29.32%	Royal Bank of Scotland	$8,099
2	HSH-Nordbank	$4,196	20.99%	HSH-Nordbank	$3,468
3	Deutsche Schiffsbank	$3,700	8.82%	Deutsche Schiffsbank	$3,400
4	DNB	$2,637	147.14%	Credit Suisse*	$1,850
5	Credit Suisse*	$2,600	40.54%	Calyon*	$1,500
6	HSBC	$2,240	91.45%	Alpha Bank	$1,480
7	National Bank of Greece	$1,600	40.35%	HSBC	$1,170
8	HVB	$1,520	52.00%	National Bank of Greece	$1,140
9	Alpha Bank	$1,340	-9.46%	DVB Nedship	$1,070
10	Calyon*	$1,300	-13.33%	DNB	$1,067
11	DVB Nedship	$1,251	16.92%	Citibank	$1,015
12	Citibank	$1,140	12.32%	ABN	$1,000
13	Piraeus Bank	$1,134	26.42%	HVB	$1,000
14	Emporiki Bank	$1,062	13.22%	Emporiki Bank	$938
15	Bank of Scotland	$982	94.90%	Piraeus	$897
16	Fortis Bank	$950	35.71%	Fortis Bank	$700
17	ABN	$900	-10.00%	KFW	$641
18	Marfin Bank-Laiki-Egnatia merged in 2006	$740	-	Commerzbank*	$608
19	Dresdner	$701	300.57%	EFG Eurobank	$602
20	Eurobank	$661	9.87%	Nordea	$526
21	Nordea	$650	23.57%	Bank of Scotland	$504
22	Commerzbank*	$608	0.00%	Laiki Bank	$476
23	Nord LB	$538	137.84%	First Business Bank	$457
24	KFW	$525	-18.10%	Bremer Landesbank	$448
25	First Business Bank	$467	2.11%	BNP Paribas	$401
26	Bremer Landesbank	$443	-1.12%	Egnatia	$266
27	Natixis	$413	123.24%	Nord LB	$226
28	BNP Paribas	$364	-9.27%	Natexis	$185
29	ING	$265	128.95%	Dresdner	$175
30	Kexim*	$250	66.67%	Kexim*	$150

*Market estimates

In table 5 we present the comparative 6-year statistics for each bank sub-group.

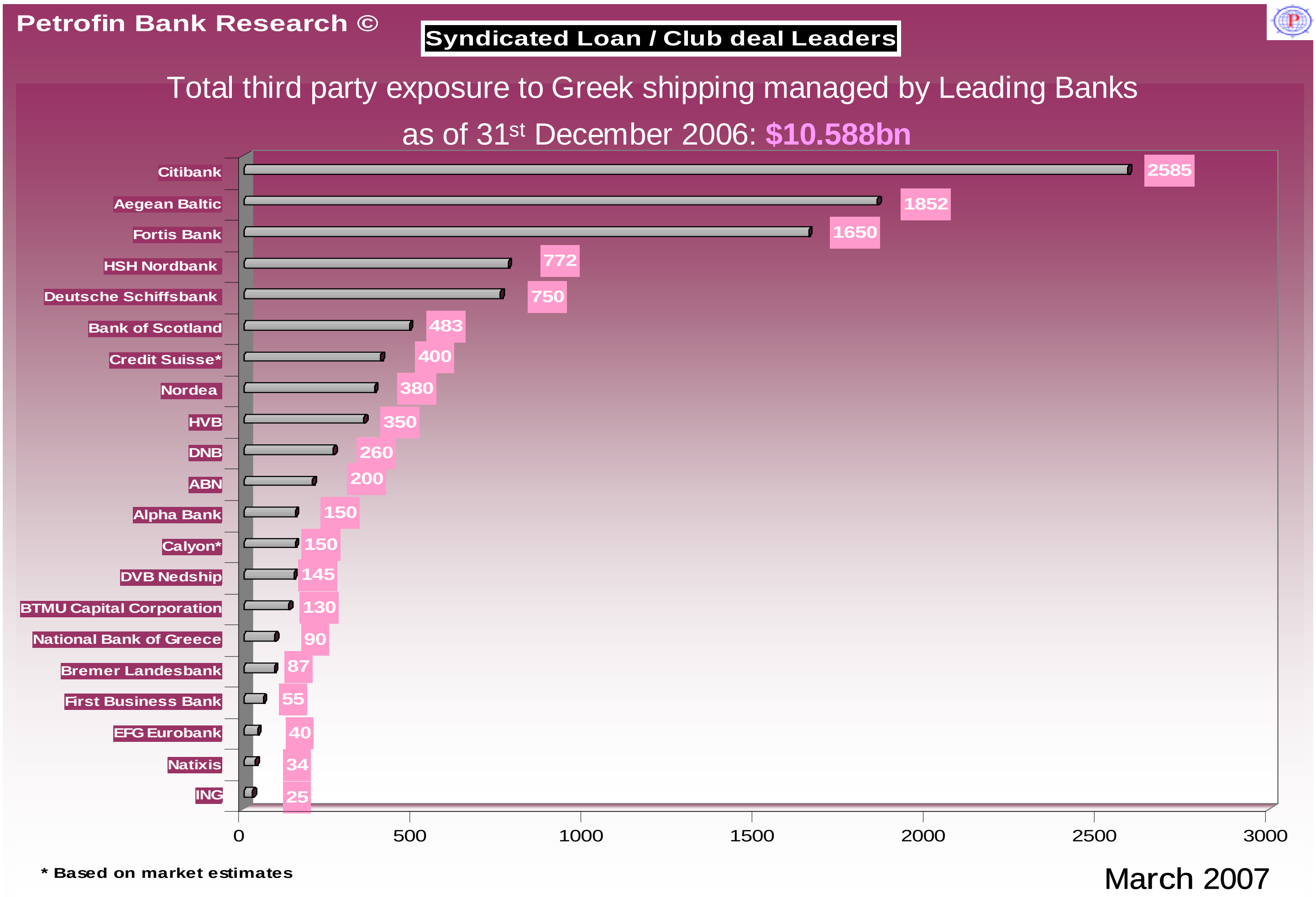
Table 5 summarises the comparative statistics for the Greek ship-finance market.

	Dec-01	Dec 2002	Dec-03	Dec-04	Dec-05	Dec 2006	Greek Shipping loan volumes					
	Number of banks						Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
International banks WITH a Greek presence	11	10	10	9	11	11	7.050bn	8.185bn	10.124bn	13.938bn	19.450bn	24.252bn
International banks WITHOUT a Greek presence	20	30	29	27	15	16	6.165bn	8.604bn	9.788bn	12.07bn	10.049bn	14.788bn
Greek banks	9	11	15	14	14	12	3.31bn	4.472bn	5.642bn	6.344bn	6.523bn	7.347bn
Totals	*40*	*51*	*54*	*50*	*40*	*39*	$16.525bn	$21.261bn	$25.554bn	$32.353bn	$36.112bn	$46.387bn

Lead Managers

In **Graph 1 we present the lead manager activities for each bank.**

Graph 1



These reflect loans contributed by banks ***other than the lead managers***. The total loans controlled by lead managing banks for December 2006 is up from $7.24bn last year to **$10.588bn.** It represents an increase of **46.18%** over the past year. In December 2004 the figure stood at **$5.16bn** and at **$5.056bn** in December 2003.

The fresh figures show a significant increase in the total loans controlled by lead managing banks over the last 12 months. This is indicative of the banks' wish to share the risk, since the amounts involved in shipping have risen impressively, initially due to the IPO wave of the last two years, which involved purchases of whole fleets, but primarily due to the huge demand for vessels in view of booming world trade. In Table 6 we observe that *Citibank* is once again the top syndication leader with the *Aegean Baltic* holding firm in second position.

The number of banks in this category have dropped from 23 to 21 (see Table 6) reflecting the recent internal re-shuffling of the group. Some banks have exited the sector, whereas others have entered it. We may presume that the growth in capital demanded by Greek owners for both fleet renewal and entry into public markets, will stimulate more coalitions to meet this rising demand.

Table 6: Leading banks in syndication loans and club deals

LEADERS 2006	end 2006 – in US$ml	LEADERS 2005	end 2005 – in US$ml
Citibank	$2,585	Citibank	$2,165
Aegean Baltic	$1,852	Aegean Baltic	$1,153
Fortis Bank	$1,650	Credit Suisse*	$800
HSH Nordbank	$772	Deutsche Schiffsbank	$600
Deutsche Schiffsbank	$750	Fortis Bank	$400
Bank of Scotland	$483	ABN	$320
Credit Suisse*	$400	Bank of Scotland	$305
Nordea	$380	DVB Nedship	$285
HVB	$350	HSH Nordbank	$218
DNB	$260	Commerzbank	$171
ABN	$200	Nordea	$160
Alpha Bank	$150	HVB	$120
Calyon*	$150	DNB	$90
DVB Nedship	$145	Bremer Landesbank	$84
BTMU Capital Corporation	$130	Alpha Bank	$80
National Bank of Greece	$90	HSBC	$70
Bremer Landesbank	$87	EFG Eurobank	$47
First Business Bank	$55	National Bank of Greece	$40
EFG Eurobank	$40	KFW	$40
Natixis	$34	BNP PARIBAS	$35
ING	$25	First Business Bank	$34
		Aspis Bank	$17
		Emporiki Bank of Greece	$10
GRAND TOTAL	$10,588	GRAND TOTAL	$7,243

Derivative Products

The volume of derivative products and hedging lines is very volatile. There are also perception differences in what are considered derivative products across banks. We view derivative products as mainly those related to interest and foreign exchange hedging but not those related to bunker hedging, FFAs, etc.

RBS reports an enormous increase in lines this year from $3.77bn to almost $11.5bn.

The positions as of end 2006 are as follows:

Table 7

end of 2006 Bank	Limits/Lines/Approved in US$mil	end of 2005 Bank	Limits/Lines/Approved in US$mil
Royal Bank of Scotland	11474	Royal Bank of Scotland	3770
Fortis bank	1200	Citibank	1150
Credit Suisse*	533*	Credit Suisse*	800*
Emporiki	458	BNP Paribas	750
HSBC	400	HSBC	550
HVB	250	Alpha	284
Marfin+Laiki+Egnatia	185	HVB	200
Aegean Baltic	180	Bank of Scotland	168
National Bank of Greece	170	Fortis bank	150
ABN	165	Piraeus Bank	140
Piraeus Bank	110	Nordea	100
Nordea	100	ABN	100
DNB	85	DNB	80
EFG Eurobank	75	DB/SHL shipping	24
Bank of Scotland	55.268	ING	5
BNP Paribas	53.26	Aegean Baltic	2
ING	36	EFG Eurobank	not available
Alpha	30	National Bank of Greece	not available
DB/SHL shipping	27		
Dresdner Bank	10		
Bank of Ireland	4.69		
Citibank	not available		

** Based on market estimate*

General Remarks on the 2006 Analysis, Prospects for 2007, and Beyond

Greek ship-finance continues to grow in leaps and bounds.

Ship-finance volumes have been boosted as newbuildings are being delivered or their finance is secured. Despite the relative drop in freight rates in 2006, vessel values have not followed suit, influenced by the positive market prospects, the abundance of liquidity and the investment potential of shipping. Each new loan is, therefore, based on prevailing values that are multiples of those of a couple of years ago. Last year's report indicated that banks increasingly relied on front-loaded repayments to secure their exposure in view of values having risen above any historical precedent. 2006 has witnessed a shift in bank cautiousness with front-loaded payments becoming the norm, to the extent that all available cashflow is occasionally demanded for the first 1 - 2 years, in order to reduce residual exposure. This policy shift has gone hand in hand with a secure 1 - 2 year time charter, often cited as a requirement.

The rise in interest rates over the period has not curbed the purchase spree – perhaps due to the enormous liquidity that Greek shipping continues to enjoy. Most owners have chosen to invest at least some of their liquidity into newbuildings and / or young tonnage.

The market has shown some signs of correction, but nothing too dramatic during 2006. There followed a robust market in the latter half of 2006 and early 2007. The big question of whether a slump will follow the recent boom remains to be answered.

The "China", and increasingly the "India", factors are still extensively discussed and are generally accepted as the major driving force behind today's market. China's high growth rate of 10.7% for 2006[1], its persistent demand for resources and rising exports worldwide are keeping transportation under full steam. On the supply side, newbuilding deliveries have also risen substantially across all sectors, although in sheer numbers the supply position remains limited until 2008/2009. Hence, there is a tug-of-war between increasing demand and increasing supply. As such, the interaction between evolving market perceptions and the

[1] *China Quarterly Update—February 2007*, World Bank.

growth of international trade can drive this market to extremes.

With their considerable experience in shipping, the banks are quite pleased with the performance of their loan portfolios and rising vessel values. Moreover, the buffer of client liquidity and the steady stream of cash flows provide enough comfort for banks to continue lending on the principles of client selection, front loading repayments and tight monitoring.

Banks are generally pleased with the market prospects but factor into their credits a fall in the markets after a couple of years. Consequently, loan breakevens do fall drastically at that time to levels close to historical averages.

Greek ship-finance has attracted the attention of the international business community for its returns and steady growth in recent years. Despite the words of caution that have sounded across the industry, business people from other sectors show an ever-increasing interest in shipping through their participation in the forms of shareholding / partnerships etc. In addition, considerable private and public equity is now being channelled into Greek shipping.

Equilibrium is sensitive to the congestion factor and the ton mile requirements development, which nowadays determine to a large extent either the over-demand or over-supply position and consequently vessel values and freights.

The banks are also reassured by the good quality of their loan portfolios and the near zero record of bad loans for yet another year.

The risk / reward ratio for shipping today is quite high in anticipation of even higher rewards. With the average loan amount increasing, smaller owners interested in buying older vessels face restricted access to finance and are forced to accept higher fees/spreads and tighter terms. This has generated interest among the smaller banks involved in Greek shipping.

In 2006, the appetite for Greek shipping was underlined by the public markets, whereby Omega, Star, Goldenport, Paragon, Aegean, etc, joined the pubic market spectrum. Indeed, the pace of Greek companies becoming public accelerated as the year progressed, as well as in 2007

(Capital). The effect on Greek ship-finance has been positive as public companies set up large committed stand-by loan facilities to finance their fleet growth and acquire other companies or fleets. This trend has allowed banks to develop their financial structuring techniques with intricate financial schemes often involving the use of derivative products and flexible finance terms.

Leasing, sale and lease-back and other financing schemes have also developed in 2006, as has the use of derivative / structured products offered by banks.

A number of ship-finance banks have linked shiplending with private banking (i.e. Credit Suisse) and often the private banking departments have targeted shipping clients as offering excellent marketing opportunities given the enormous accumulation of liquidity by Greek owners that look for higher investment returns than deposit interest as well as the opportunity to invest in non-shipping projects.

A high degree of commitment is needed by shipping banks and their senior management in order for them to remain competitive. Banks that have not made ship-finance one of their target sectors, wishing to remain in the sidelines, find themselves in an unsustainable position. They will have to either change their policy or leave the industry. As such, ship-finance has become a field only for committed banks that have invested in dynamic personnel and large loan portfolios.

Although most shiplending personnel remain loyal to their banks there has been increasing movement between banks as some banks seek to expand their ship-finance presence. Moreover, a steady flow of shipping bankers are absorbed as chief financial officers by Greek companies listed in the public markets.

The Greek ship-finance community has matured considerably over the past decade, with participants developing a sense of pride in being involved in a huge success story. There is also a mutually shared wish to secure Greek shipping as it develops into a modern quality sector in competition with other emerging shipping nations across the world.

In early 2007 and in line with the market, loan volumes continued to grow and indeed have accelerated. As the prospects for 2007 remain largely positive, it is expected that the year 2007 will develop into another solid year of growth in ship-loan portfolios, as well as for loan syndications / club deals and use of derivative and hedging products. The appetite for Greek shipping by the public markets and by the private equity industry has accelerated, with shipping attracting unprecedented levels of capital. Although potentially dangerous since a serious market correction will occur sooner or later, it nevertheless remains a highly enjoyable experience for most owners and banks who relish basking in the investment spotlight.

Consequently, shipping and ship finance have begun to display all the signs of a sector nearing the top of its cycle and with these there is an increasing need for caution. However, 2007 and the years ahead are expected to display further solid growth and development.