Banks keep pace with expanding Greeks

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As the Greek ship finance market tops $21bn, a 2003 study shows that the scene is no longer dominated by foreign banks with a physical presence on the waterfront

Take the overall picture of an expanding Greek owned fleet and combine it with a trend for owners to invest in costlier newbuildings and the overall implication for the industry's ship finance scene is surely obvious. More lending is needed than ever before.

Since so many Greek shipowners are in fact proceeding with impressive fleet renewal programmes, it implies that banks are responding admirably to the market's requirements, even if questions persist over the ability of some of the country's myriad smaller operations to raise the amounts of finance they would wish.

The main developments in the banking market supporting Greek shipping are clearly indicated by a fresh study of the ship finance scene this year by Petrofin Bank Research.

It shows that a crop of banks has entered the market of late, boosting the overall number of participants against the overall trend in recent years of a numerical reduction in players.

But fluctuations in the number of banks engaged in financing the Greek fleet do not appear to determine the industry's overall financial backing, which has been steadily increasing regardless of individual additions or withdrawals.

The overall exposure of banks to Greek Shipping, including commitments as well as drawn loans, has risen year-on-year by 28.6%, topping $21bn at the start of 2003. According to Petrofin, this is shared between the books of a total of 51 banks, compared with just 40 at the end of 2001.

The growth in the market's volume “demonstrates that the surviving banks regard Greek ship lending as a core activity within their overall ship finance lending policy,” states the survey, which mainly uses numbers provided by the banks themselves.

There have been plenty of changes over recent years in the identity of the main financiers of the industry, with German lenders and local Greek banks rising to the fore, to a great extent taking the place of American banks that led an earlier wave of support for Greek owners but which have now scaled back or slid away.

In terms of overseas banks, the figures suggest that Greek owners nowadays are as likely to be bankrolled by institutions without a physical presence in Greece, as they are to do business with a branch in Piraeus.

One of the most important changes in the sector of late has been the merger, completed at the start of June, between Hamburgische Landesbank and the Schleswig -Holstein landesbank, LB Kiel, to create HSH Nordbank.

The unified institution, easily the world's largest ship finance institution with a $16bn portfolio worldwide, becomes the second- largest force in the Greek market. The Petrofm study shows the two banks in January as having separate portfolios summing up to $2.1bn.

The German giant gained an indirect presence in Greece last autumn with the opening of Athens based Aegean Baltic Bank, 51 % owned - initially by LB Kiel - with a 49% participation by several independent Greek bankers and marine finance experts.

According to Ian Davis, London based senior shipping advisor at HSH Nordbank, Aegean Baltic will function independently but in close cooperation with the German major stakeholder. While the Greek bank will be flexible, "among other things the intention is that it will serve smaller owners with whom we would like to have a relationship for the future", but who might otherwise fall outside the big bank's parameters, says Mr Davis.

In Petrofm's study, Aegean Baltic was already managing $450m in syndicated or club loans at the start of this year.

HSH Nordbank's unified portfolio propels it ahead of fellow German institution Deutsche Schiffsbank, now third-largest lender to Greek shipping. Both are among a list of 30 banks identified by Petrofin as being involved in the industry without having a formal presence on Greek soil. This is up from 20 banks managing their Greek portfolios this way last year. Of new names active in the market, the main arrival appears to be another German player, Dresdner Bank, estimated as having a portfolio of about $260m. But Petrofm also notes that several other banks eased into the market more quietly' "with a limited but promising exposure",

Lending by banks without a physical Greek presence surged by almost $2.5bn in the course of last year, up to $8.6bn. "Banks that have not made the commitment of a Greek presence are capable of entering or withdrawing from the " market more easily," comments Petrofin. "Nevertheless, the main providers are still there to be seen and their interest in Greek shipping is growing as evidenced by their higher loan figures."

This has more than compensated for a gradual dwindling in the ranks of foreign banks with a branch or representative office on the Greek waterfront, now down to a mere 10 since the closure last year of JP Morgan Chase's offices. That is only half the number that boasted a physical presence in the mid-l 990s.

As might be expected, the portfolios of the non-Greek banks that have established an entity in Greece are on average larger than those of the more numerous band of banks conducting their business at arm's length.

They are led by the longstanding largest individual lender to the Greek market, Royal Bank of Scotland, which at January had a portfolio of $3bn in drawn loans and another $500m in commitments. Petrofin notes that $1.25bn of RBS' outstanding loans were booked by the Piraeus branch and another $1.75bn through the bank's London shipping unit.

Other leading portfolios among foreign banks with a local entity include those of Banque Indosuez ($925m), HSBC ($730m) and DVB Nedship ($710m). Following these come Citibank and Bayerische Hypo-Und Vereinsbank, respectively the only American and German banks with branches in Piraeus.

To add to Citibank's own $650m portfolio, however, Petrofin says the bank acts as lead manager for another $l.4bn in syndicated loans and club deals. Altogether 18 banks in the market are said to have been active in putting together and managing such deals, with other leading names in this market including ABN-AMRO, said to act as manager on about $400m in loans by other banks in addition to a similar amount in its own loan outstandings.

Meanwhile, the survey bears out the recent trend for Greek banks to take a more active presence in financing the industry. Including two Cypriot institutions the total of Greek banks has risen from nine to II with the recent additions of Aegean Baltic and investment banker Marfm Bank.

Petrofin underlines the sharp increase in overall lending by local banks, which stands at a total of about $4.5bn. This marks a 35% expansion last year, following a 52% increase just the year before.

In Petrofin's tables, Alpha Bank for the first time appears to be vying with the National Bank of Greece as the largest Greek lender the industry, the portfolios of both banks being just above $lbn. The survey notes that Piraeus Bank, which has absorbed the Hellenic Industrial Development Bank, as well as Commercial Bank of Greece and Cyprus' Popular Bank have all increased their portfolios.

According to Petrofin managing Director, consultant Ted Petropoulos, expansion in Greek ship finance has taken place largely against a backdrop of market recession in shipping, rendering it even more important".

Greek owners have also had to reluctantly accept " increases in banks' spreads and fees in anticipation of Basel II conditions although these will not directly effect banks until 2006, he says.

This has been made easier to digest by prevailing low rates of interest. But Mr Petropoulos sees higher loan yields, combined with a recovery in the world economy and shipping, as providing a "powerful incentive" for banks to further increase lending to owners in future.

It could also prove "a magnet for additional banks - especially European - entering the Greek ship finance market", he feels.

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