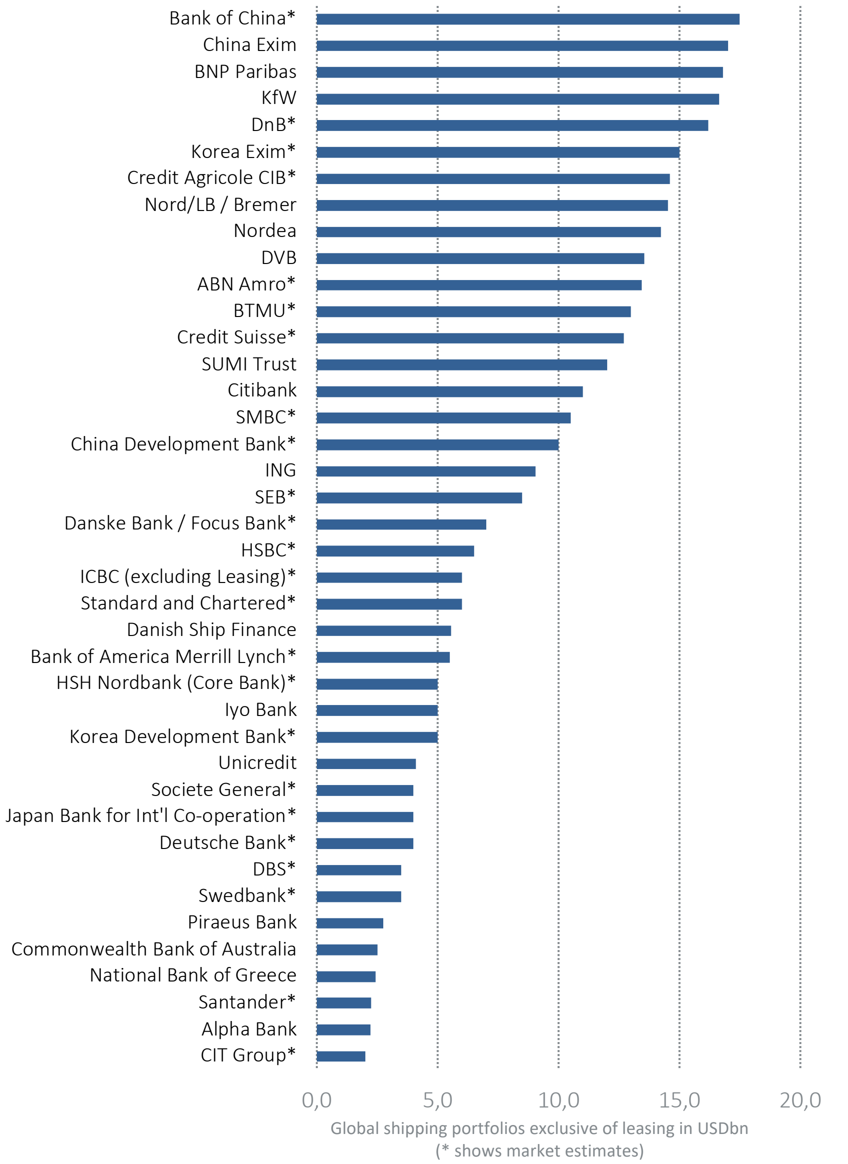
NOTOS NEWS | SHIP FINANCE

The latest Petrofin report reconfirms our prognosis. The global ship finance portfolio continues to decline, but the rate of decline is slowing down which is an indicator of the industry having hit rock bottom as we forecasted in our previous edition. However, the challenges persist and the consolation for now is a major improvement in the quality of remaining portfolios of the ship financing banks.

TECTONIC SHIFTS IN SHIP FINANCE

According to latest Petrofin Global Ship Finance report, top 40 ship financing banks had a combined shipping portfolio of USD 345bn at the end of 2017 which is a reduction of USD 10bn over the previous year. This decline, however, pales in comparison to the decline of USD 42.5bn the year before.

CHINESE BANKS REACH TOP POSITION IN BANK LENDING TO SHIPPING IN 2017



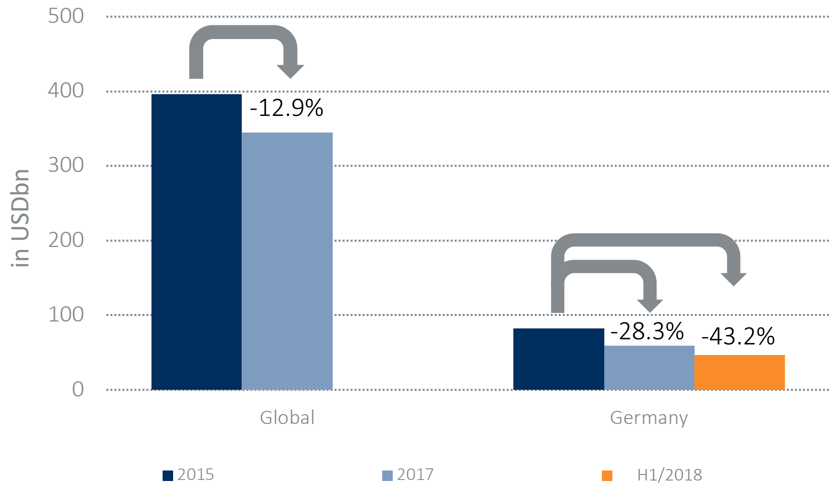
Source: Petrofin Global Bank Research 09/2018

For more information please contact:
SARVJEET KAUR SHARMA
newsletter@notos-group.com
+49 40 6094 550 - 0

The report also points out that global fleet has grown by about 28% since 2008, although the portfolio of top 40 ship financing banks has dwindled by 25%. Majority of this vast gap was made up by Asian leasing companies. No wonder, the top 2 ranks, for the first time, are taken by Chinese banks with a combined portfolio of USD 34.5bn, as shown by the graph on the previous page. This represents the changing dynamics of the industry.

Nowhere else has the change been so pronounced as in German ship finance circles (see graph to the right). According to Hansa International Maritime Journal, the portfolio of top 7 German banks stood at EUR 82bn at the end of 2015 and now, it stands at EUR 46.5bn in mid-year 2018. To further emphasize the shift, it is worth pointing here that HSH Nordbank alone had a portfolio of EUR 41bn around ten years ago before the crisis began.

GERMAN BANKS' AND GLOBAL SHIP FINANCE PORTFOLIOS DECLINE



Source: Hansa International Maritime Journal 11/2018, Petrofin Global Bank Research 09/2018

HSH NORDBANK CLOSE TO PRIVATIZATION

The sale of HSH Nordbank to private investors is nearing completion. German private bank's association (BdB) has agreed to include HSH in its Deposit Protection Fund from the start of 2022, thereby removing a crucial obstruction on the way. The bank will stay for an extended period of three years under Institutional Protection Scheme of German savings banks.

The final straw in the deal is approval from Bafin and ECB which is likely to be finalized very soon. This will be the start of the new era for the bank, according to CEO Stefan Ermisch.

RESTRUCTURING OF HYBRID CAPITAL INSTRUMENTS

Following its privatization, the bank intends to restructure its regulatory capital base to streamline and strengthen it. It could be done by either termination or buy-back offer for outstanding hybrid capital instruments. As was previously announced by the bank, no coupon payments are expected on these instruments before 2024. However, according to Börsen-Zeitung, the institutional holders of these instruments are critical of such a move and this could lead to a litigation process.

HSH NORDBANK AT EUR 8M PROFIT BEFORE TAX FOR 9M/2018

The bank posted net income before taxes of EUR 8m for the first nine months of the year, as against a profit of EUR 201m in the previous year. Despite a negative impact of EUR 188m caused by privatization, including a one-off payment of EUR 100m to owner states for early termination of guarantee, the bank was successful in mitigating almost all its losses. This was made possible by the savings on cost side, solid business performance and restructuring successes in the ship loan portfolio, as stated by the bank.

Loan loss provisions amounted to EUR 60m (Q3/2017: EUR 332m), thanks to recovery trends and successful restructurings. CET1 ratio remains at a good level of 16.1%.

HSH Nordbank considers the interim result satisfactory and has also prolonged its contract with CEO Ermisch for another year which was to expire in November this year.

NORD/LB UNDER STRESS

In the recently concluded stress tests for European banks, it was revealed that all of the financial institutions passed the 'adverse scenario' testing of ECB. Nord/LB finished at the bottom of the table with a CET1 ratio of 7.07% under an adverse scenario. Nord/LB considers this result in line with its expectations and hence, will continue its strategy of boosting capital, reducing non-performing loans and transforming the group including the option of the part sale of the bank to new investors.

PLENTIFUL INTEREST FROM POTENTIAL INVESTORS

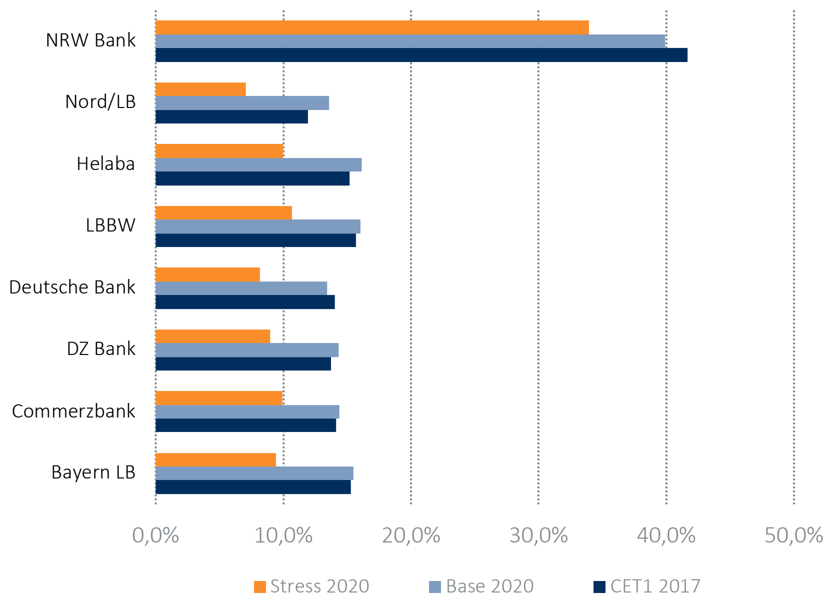
According to Tradewinds news, Nord/LB has already received 'more than ten' expressions of interest from the potential investors since its launch of a tender process at the end of September. The bank is reported to have shortlisted some strategic and financial investors whose offers fit best to its own vision. These investors have had access to its books since mid-October. Simultaneously, the owner state of Lower Saxony is reported to be considering whether to participate in a capital increase, according to the same report.

NORD/LB CLOSES FIRST HALF OF THE YEAR WITH PROFIT

The bank had earnings before taxes and restructuring expenses of EUR 68m. Although previous year's figure stood at EUR 468m, it is barely comparable due to new IFRS 9 accounting standard. Risk provisions amounted to EUR 31m, but the bank reports that more are expected in the course of the year. CET1 ratio stood at 12.4% and non-performing loans were further down to EUR 7.7bn (H1/2017: EUR 9.1bn). The bank aims to cut such loans down to EUR 5bn by the end of 2019.

On one hand, the bank is working hard on improving its profitability through focus on its 'One Bank' transformation programme and on the other, on strengthening its capital ratios via exploring various capitalization models and potential investors' talks.

ECB STRESS TEST 2018 RESULT FOR GERMAN BANKS



Source: Handelsblatt 02.11.2018

DVB BANK TO BE SOLD IN PARTS

DZ bank, the parent company of DVB bank, is close to making a sale deal for some parts of DVB bank, as reported by Hansa Online and Tradewinds news. However, the maritime portfolio is reported not to be part of the sale. Aviation and land transport division are said to be on the sale list and the buyers include Japan's Mitsubishi UFJ Financial Group and Orix Corp and Australia's Macquarie Group. The details have not been officially confirmed from either side.

COMMERZBANK'S RADICAL OFFLOAD OF SHIPPING LOANS

Commerzbank had a reported maritime portfolio of EUR 23bn in 2009. At the end of third quarter of 2018, it reported a portfolio of EUR 1.1bn which is another EUR 3.1bn less than one year ago. Most recently, it sold a portfolio of EUR 300m to Berenberg bank. Its bad bank division, ACR, reported a profit of EUR 90m (Q3/2017: a loss of EUR -210m). At the same time, it has improved its CET1 ratio and landed at place four in this year's stress tests as against the bottom place in 2016 stress tests.

DEUTSCHE BANK'S PORTFOLIO FURTHER DOWN

Deutsche Bank continues its journey down the restructuring road and is selling a portfolio of EUR 800m to financial investors Oak Hill Advisors and Varde. Its total shipping portfolio amounted to EUR 3.7bn at the end of 2017. In the 2018 stress tests, it landed at the second last place amongst German banks.

OUTLOOK REMAINS CHALLENGING FOR 2019

Given the challenging banking environment, we expect the share of Asian financial institutions and leasing firms in global ship finance to maintain its upward trend. The big German players are expected to remain cautious in their new business deals in the short term and hence, the overall financing situation will remain tight for some more time to come.

DISCLAIMER

This document has been prepared and approved by Notos Consult GmbH and is for informational purpose only. The information presented in this report is intended for the recipient to whom it was delivered. Reproduction or distribution of this document in whole or in part is not permitted without the express written consent of Notos Consult GmbH.

This document contains forward-looking statements. We caution the reader that forward-looking statements are not guarantees of future performance. Past returns are no indication of future returns. The development of the industry, markets and companies described in this document, may differ materially from the forward-looking statement contained herein.

Information and opinions contained in this document have been compiled from sources believed to be reliable. Unless otherwise stated, any statements herein are based on our own estimates at the time of publication. Notos Consult GmbH makes no representation as to the accuracy or completeness of any of the information contained herein and accepts no liability for loss arising from the use of the information provided.

This document is not an offer of any kind. This report has been prepared separately from any proposed offering of any security and as such information herein must not be relied upon as having been authorized or approved by the issuer of such security.

PUBLISHER

NOTOS CONSULT GMBH
BALLINDAMM 17
20095 HAMBURG
GERMANY

CONTACT

T +49 40 6094 550 – 0
F +49 40 6094 550 – 92
INFO@NOTOS-GROUP.COM

REGISTERED OFFICE: HAMBURG
REGISTRATION COURT:
AMTSGERICHT HAMBURG | HRB 120813

MANAGING DIRECTORS:

DR. JENS ROHWEDER
DR. CHRISTINA STAHN