

**Hamburg
Commercial
Bank**



Maritime Day 2019

European Banks and Shipping
Finance:
Trends, Opportunities and
Challenges

Matthias Happich
Shipping Clients Europe

Mariehamn, 09 May 2019

Hamburg Commercial Bank

We are a privately-owned commercial bank. As specialists with clear vision and proximity to the client, we have experience combined with being inquisitive and bold. We act with engagement and always at eye level. The roots of our bank are in the north; we are also represented in Germany's metropolitan regions and in selected markets of Europe and Asia.

Corporate Clients

Real Estate

Renewable Energy and Infrastructure

Shipping

Capital-market Business

Group key figures (IFRS)

Total assets (EUR m)

Core Tier 1 capital ratio (%)

Group net income before tax (EUR m)

Employees (Group)

31.12.2018

55,121

18.5

97

1,716

31.12.2017

70,382

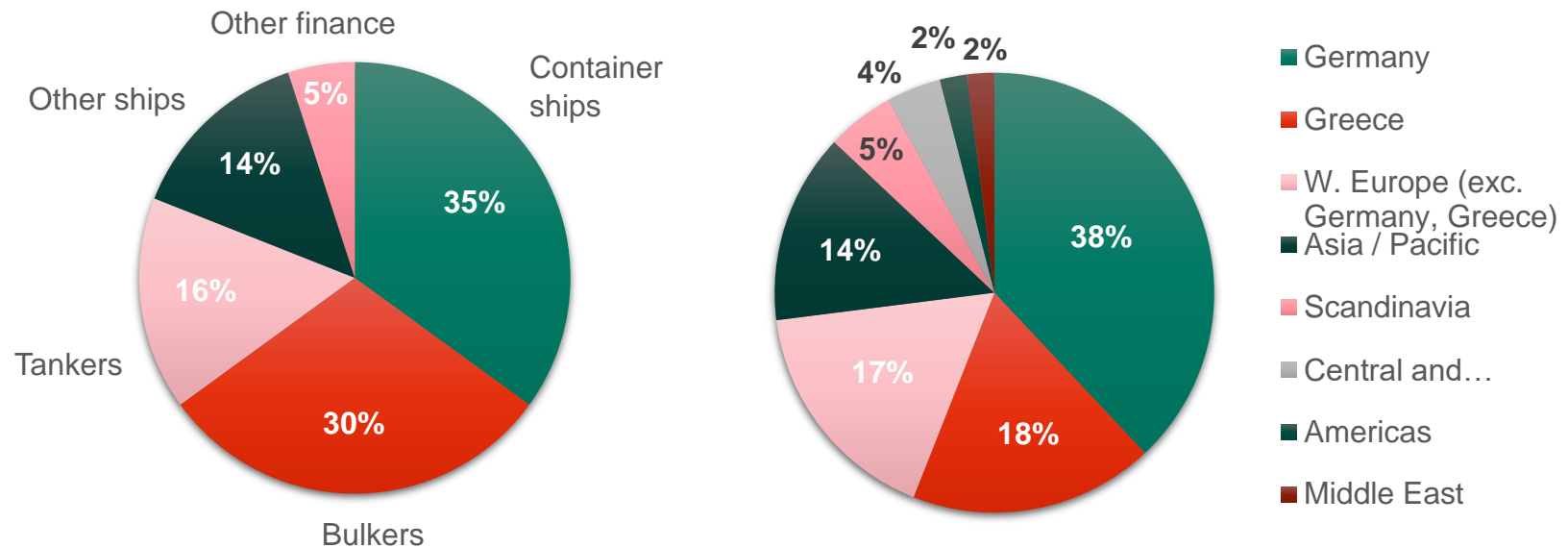
15.4

(453)

1,962

Our Shipping profile

1. We have been a recognized partner for our clients in ship financing for more than **75 YEARS**.
2. We are one of the **WORLD'S LEADING SHIP FINANCCERS**.
3. As a partner, we know what our clients need and create **ADDED VALUE** thanks to our integrated advisory approach.
4. We are represented in the major int. shipping locations (Hamburg / Athens / Singapore) – **BENEFIT FROM OUR EXPERTISE WORLDWIDE**.



Agenda

2019 - Global Shipping Finance Back at the Pre-crisis Level?

Role of (European) Shipping Banks as a Source of Finance for Shipping Investments

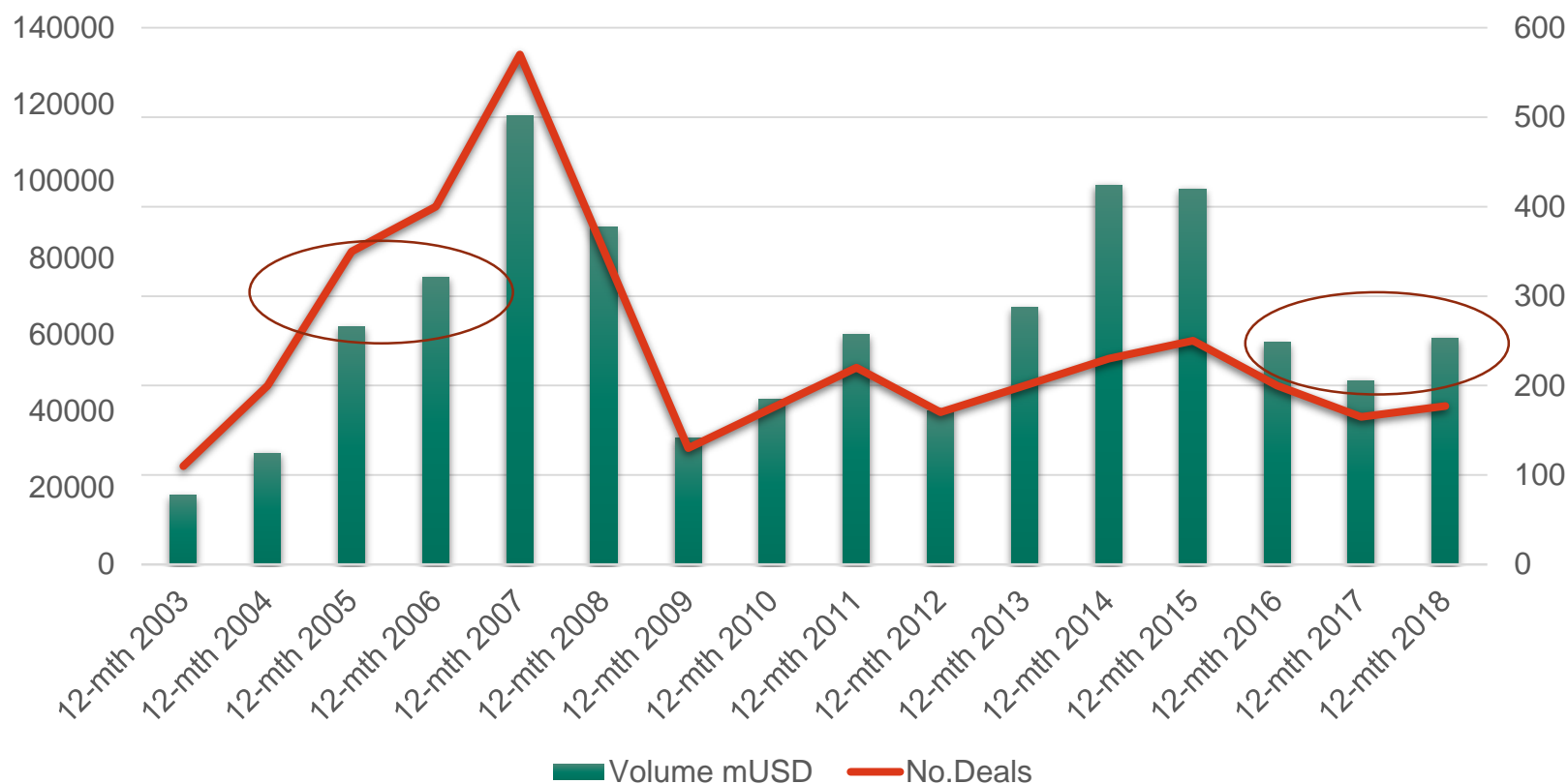
Lending Trends 2019

Availability of Ship Financing - Key Criteria to Secure Shipping Loans

Opportunities and Challenges

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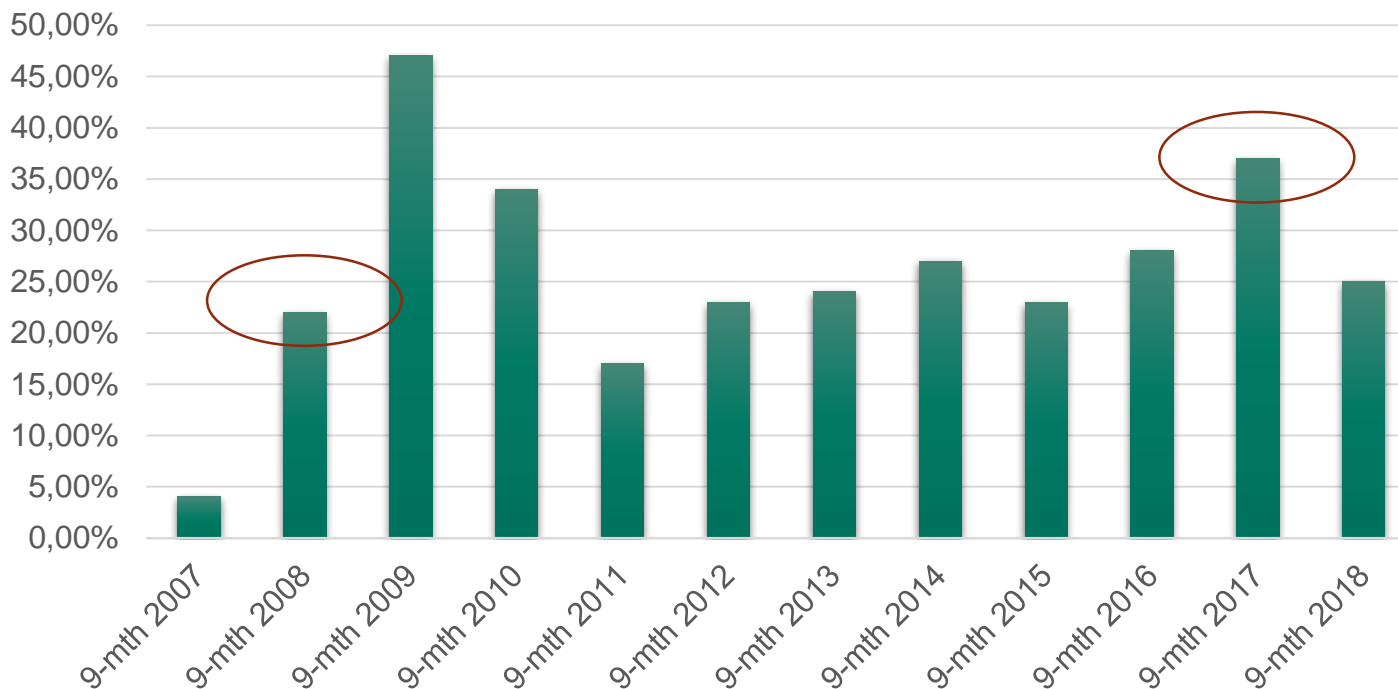
Syndicated Marine Finance Loan Volume



Sources: Marine Money, January 2019

It depends – and surely 2019 will provide mixed feelings

Club deals as a % of Syndicated Marine Finance Volumes



Sources: Marine Money, January 2019

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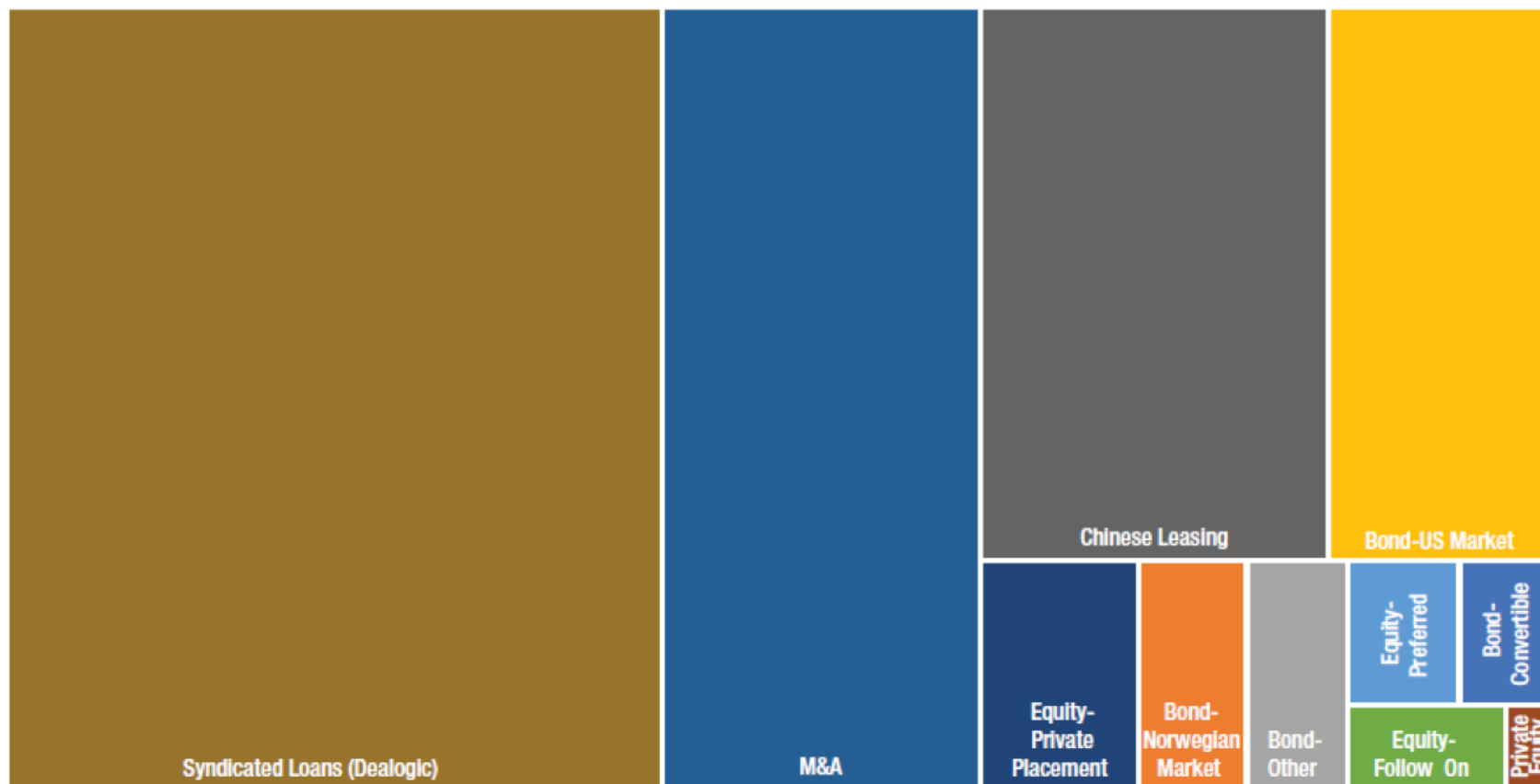
Opportunities and Challenges

Potential Sources to finance a Shipowner / Vessel

- **Equity:**
 - (a) Retention of Profits
 - (b) Initial Public Offerings / Follow up Offerings / Private Placements
 - (c) Private Equity / Hedge Funds
- **Capital Debt Markets:**
 - (a) Public Debt (International Bonds / Norwegian Bonds)
 - (b) Warrants / Convertible Bonds
 - (c) Private Placement Debt / Schuldscheindarlehen (German bonds)
- **Loans:**
 - (a) Export Credit Agencies
 - (b) Traditional Shipping Banks
 - (c) Original Equipment Manufacturer (OEM) Finance
- **Institutional Funding (US backed)**
- **Sale and Lease Back**
- **Project Financing / FinTech Financing**

The Role of Bank Lending as a Source of Capital for Shipping Investments

The 2018 Deal Landscape by US Dollars



Sources: Marine Money, 2019

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Lending Trends 2019



1. Rising uncertainty as a result of US-China „trade war“, economic slowdown, resigned investments, interest rate policies, Brexit and approaching IMO 2020 regulations
2. Decreased availability of traditional equity and bank debt / Investor interest (PE) in shipping cools further down
3. Increasing demand for Chinese leasing and institutional credit
4. Banks focus on large corporate clients (top tier), bank and loan book sales
5. Increased regulatory pressure (Continuous Stress Tests / Asset Quality Review / Basel II / Basel III) - focus on quality
6. Green Shipping to attract more focus
7. Margins and fees to remain on current levels
8. Bank lending still available for corporate clients and very good projects, but...
9. ...some further Europeans bank might leave the ship finance arena
10. Bilateral loans and Club deals with underwritings on best effort only

Sources: Marine Money, 2019

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Key Criteria to Secure Shipping Loans Today - Attractive 3 C`s go hand in hand with...

1. **CLIENT (quality company / project sponsor):**

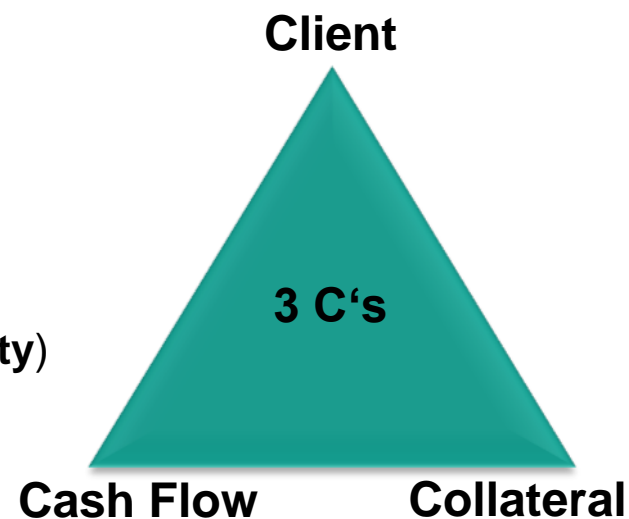
- Strategy of owners / company / management
- Experienced management (first mortgage)
- Track record
- Long term and industrial strategy
- Financially robust (Liquidity and equity)
- Ownership Support and access to further capital

2. **CASH FLOW (credible cash flow / debt service ability)**

- Previous financial performance
- Firm contracts (rate and tenor)
- Market outlook (ability for new contracts)
- Client base / competitors / substitute

3. **COLLATERAL (Strong asset base / creditor position)**

- Modern, flexible and liquid asset based upon proven design
- Large and diversified fleet
- Qualified yards for constructing newbuilding's



Key Criteria to Secure Shipping Loans Today - ...well structured 3 C`s

1. CLIENT COVENANTS:

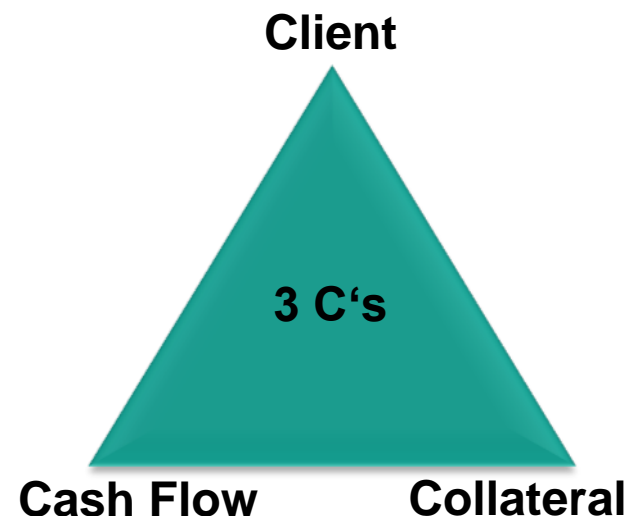
- Ownership clauses
- Further debt?
- Value adjusted equity ratio
- No change of business
- No mergers / de-mergers

2. CASH FLOW COVENANTS

- Debt service cover ratio
- NIBD / EBITDA
- Minimum liquidity
- Dividend restriction

3. COLLATERAL COVENANTS

- Asset Protection Clause (ACR)
- Negative Pledge
- Insurance / Maintenance / Classification / Flag



2. Green Finance – not just a temporary fashion



Coping with digitisation and the effects of political imbalances on ton-miles could be seen as more pressing concerns at the moment than ‚green finance‘, but beware:

Banks

- Climate change being considered a threat to the financial system, in December 2017 Central Banks and Supervisors founded the „Network for Greening the Financial System“ (NGFS) !
- Sustainable finance gradually gains importance for public and investor relations

Regulations

- Emissions (Sulphur cap)
- Ballast Water (D2 compliance)
- Scrapping (Hong Kong Convention)
- Non-compliance might lead to loss of insurance cover (and of finance)

Investors

- Getting in: Asset funds observe increasing demand for investments contributing to the ‚well below 2° Celsius‘ target
- Staying in: Active exit from questionable investments



Public

- The maritime industry has a negative public reputation in terms of environmental sustainability
- Growing consumer awareness on sustainable products is likely to spill over to supply chains



Shipping companies should consider supporting carbon-lighter transport solutions and communicate their objectives with clients and financing partners.

Key Criteria to Secure Shipping Loans Today



Which further boxes need to be ticked off?

- Additional business (Hedging, Transaction Service, Deposits)
- Attractive Pricing / Risk Return reward
- Future market prospects
- Transparency and Honesty

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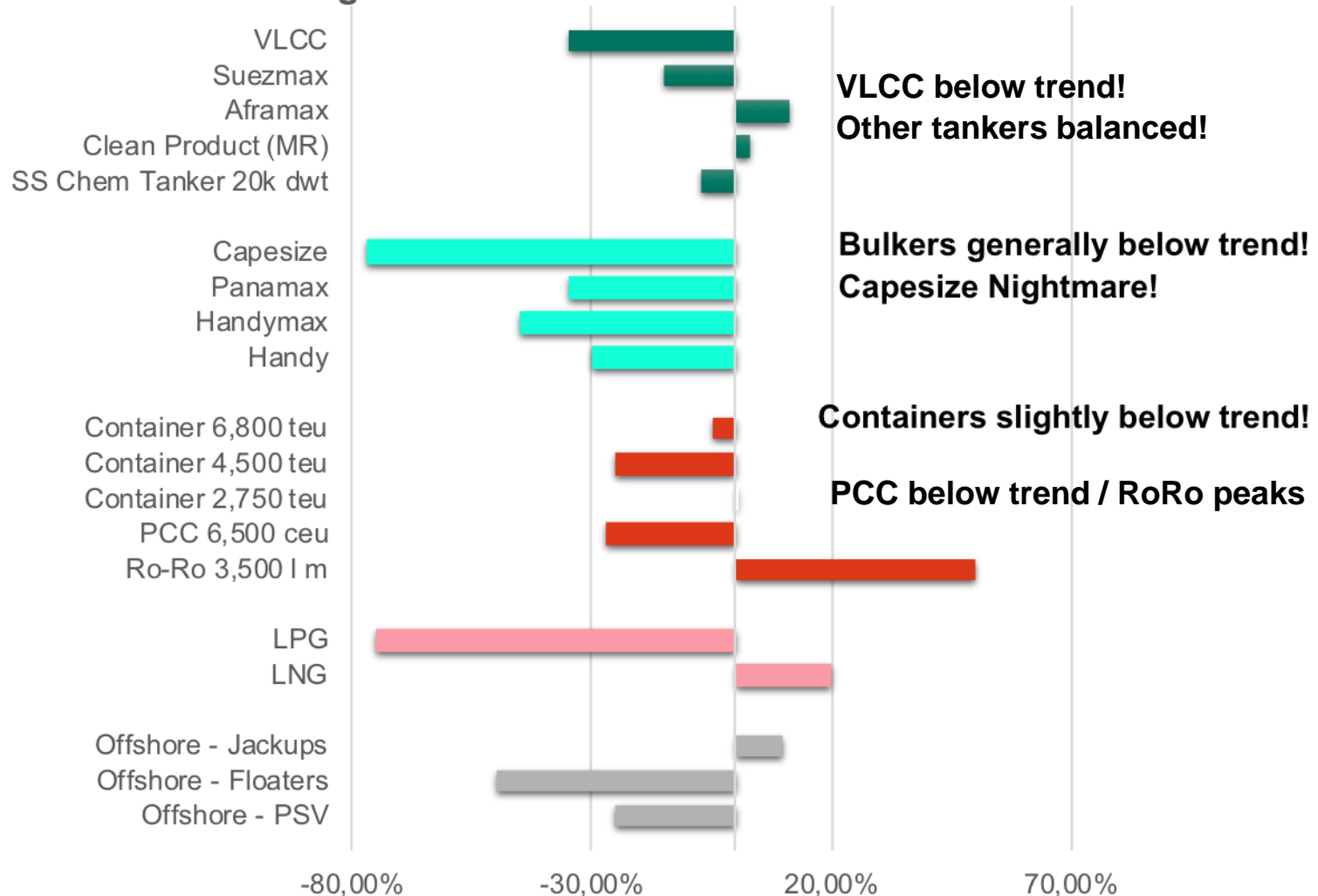
Lending Trends 2019 / Green Finance

Availability of Ship Financing - Key Criteria to Secure Shipping Loans

Opportunities and Challenges

Cycle Position February 2019

% deviation from average since 2009



Sources: Clarksons Research Services Limited, 2019

Fresh Opportunities? (1)

Ro-Ro

- Steady charter rates and second hand values – but already for a longer period
- Projection of approximately 2% fleet growth
- Orderbook at 8% of whole fleet
- lower newbuilding activity with only 7 vessels in 2019 (-13%)
- Upper End of the cycle – albeit seems to be a plateau

Cruises

- Firm charter rates
- High orderbook at 25% in relation to fleet
- Still rising arm on cycle

Fresh Opportunities? (2)

Dry bulk sector

- Declined average earnings at start 2019 (-30% per month); challenging market conditions ahead
- Orderbook at 11% of global fleet
- Second-hand vessels available at relatively low price levels – questions is whether a willing seller is available
- Lower end of cycle

Tanker sector

- Improved market outlook with orderbook at 10% of fleet
- Declining year-on-year investments at steady second-hand tanker prices
- Balance of demand and supply growth will be outpaced by future accelerating tanker demand
- Middle rising arm of cycle

Fresh Opportunities? (3)

Container sector

Smaller tonnage (below 3,000 teu)

- Softening charter rates
- Orderbook at around 13% of fleet with a preference for the feeder market

Medium (below 8,000 teu) and Larger tonnage (above 8,000)

- Increased time charter rates
- Orderbook at totally 12% of fleet (distributed 1% (!)- 54% between segments)
- Scrubber fitting might limit growth of active capacity
- Since orderbook will be at the smallest level since 2004, market balance of supply and demand remains strong
- Middle rising arm of cycle

Summary

- Somehow balanced shipping markets but on low levels – however no real crisis mode (despite current bulk turbulences)
- Numerous finance instruments for owners available / bank financing however to remain finance source no. 1 due to limited availability to other sources for shipping (especially PE / Bonds financing)
- (European) Banks has mostly digested/sold bad shipping loans but coping now with additionally regulatory requirements and „bad“ reputation of ship finance
- As a consequence (European) banks will become very picky with regard to new transactions across all shipping segments
- Compliance of potential borrowers with 3 C concept and green finance is very much required
- But high likelihood that present market is a very attractive market for opportunities

– if you can afford it.

Hamburg Commercial Bank Shipping – Global Reach



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