

Lending Capacity of Major Ship Finance Banks and the Implications for the Ship Finance Market



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I. Lending Capacity of Global Ship Financiers

1 Banks surveyed

■ 24 global shipping banks are included.

- ▶ **Europe(17)** : **(Germany)** Deutsche, HSH Nordbank, DVB, KfW IPEX, Commerzbank, Bremer Landesbank **(Sweden)** Nordia, SwedBank **(Norway)** DNB Bank
(UK) Lloyds, RBS **(France)** Credit Agricole, BNP Paribas **(Italy)** UniCredit
(Netherlands) ING **(Switzerland)** Credit Suisse **(Denmark)** Danish Ship Finance
- ▶ **US(3)** : JP Morgan Chase, Citi, BOA Merrill Lynch
- ▶ **Japan(2)** : Mitsubishi UFJ Financial Group (MUFG),
Sumitomo Mitsui Financial Group(SMFG)
- ▶ **China(2)** : ICBC, Bank of China

■ Data are collected from their annual reports.

2 Total assets

■ **Eleven banks have suffered contraction of total assets in terms of national currency between 2008 and 2014.**

► Those are Deutsche, HSH Nordbank, Commerzbank, Bremer Landesbank, Credit Agricole, UniCredit, ING, RBS, Credit Suisse, Danish Ship Finance and Citi.

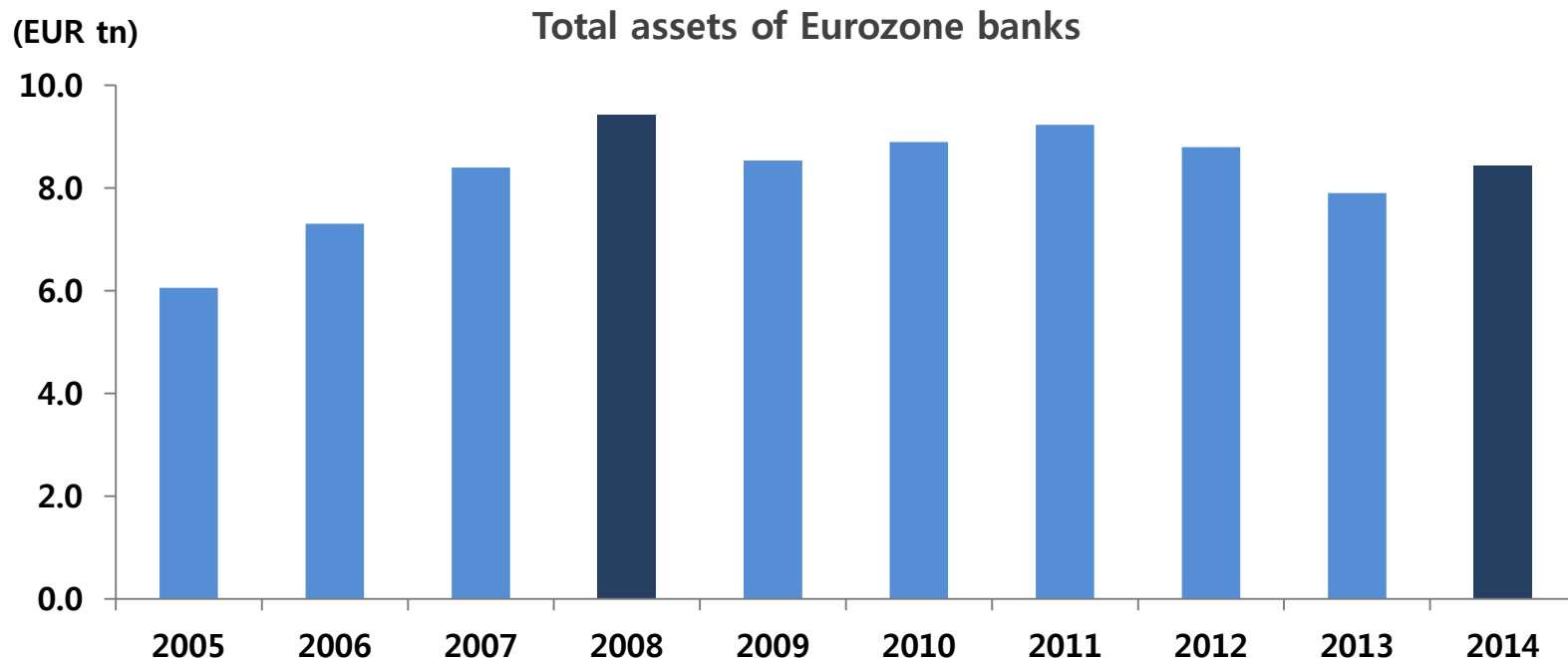
Total assets of 11 banks

(billion national currencies, %)

Company	Currency	2008	2014	% Change
Deutsche	EUR	2,202.4	1,708.7	-22.4
HSH Nordbank	EUR	208.4	110.1	-47.2
Commerzbank	EUR	625.2	557.6	-10.8
Bremer Landesbank	EUR	34.3	32.1	-6.3
Credit Agricole	EUR	1,784.0	1,762.8	-1.2
UniCredit	EUR	1,045.6	844.2	-19.3
ING	EUR	1,034.7	828.6	-19.9
RBS	GBP	2,401.7	1,050.8	-56.2
Credit Suisse	CHF	1,170.4	921.5	-21.3
Danish Ship Finance	DKK	81.7	69.4	-15.1
Citi	USD	1,938.5	1,842.5	-4.9

2 Total assets

- **Aggregate volume of assets of 10 banks in the euro area has declined to €8.4tn in 2014 from €9.4tn in 2008.**
- **In contrast, total assets of two Swedish banks(Nordia & SwedBank) and DNB Bank(Norway) have increased 18.9% and 35.3% respectively during the same period.**

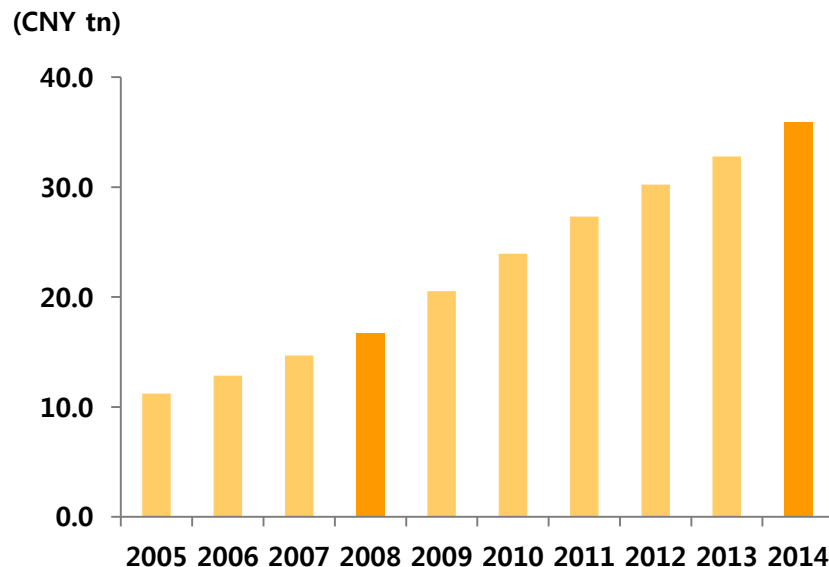


2 Total assets

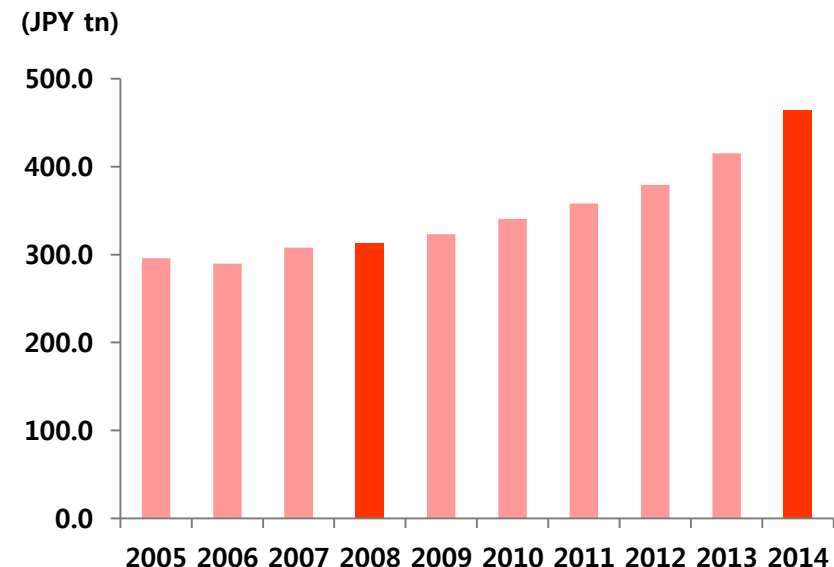
■ Asian banks have experienced sharp increase in total assets between 2008 and 2014.

▶ Total assets of Chinese(ICBC & BOC) and Japanese(MUFG & SMFG) banks have inclined by 114.6% and 48.3% respectively during the same period.

Total assets of Chinese banks

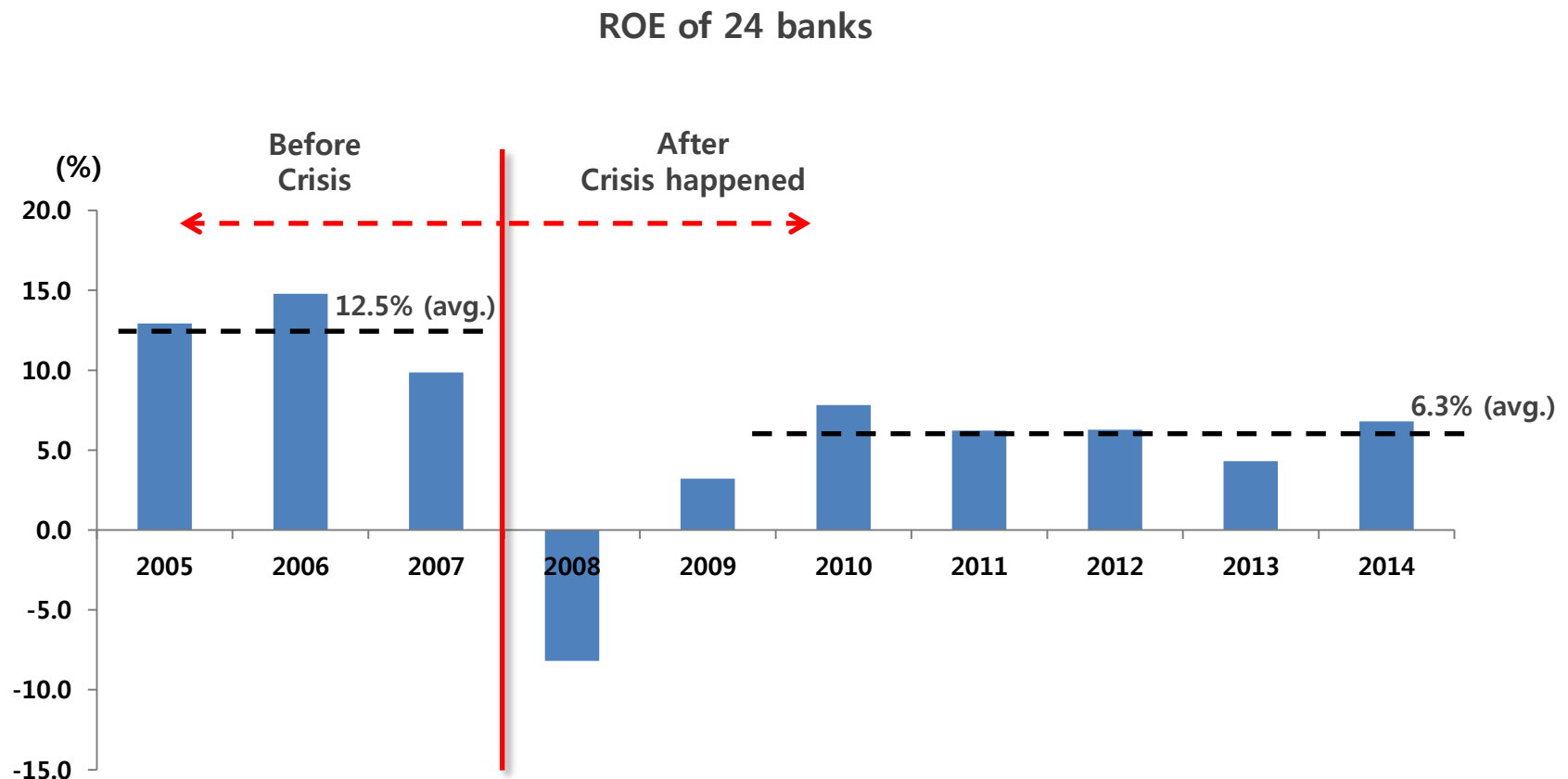


Total assets of Japanese banks



3 ROE

- ROE of 24 banks registered an annual average of 6.3% between 2010 and 2014, half the level in 2005 ~ 2007.

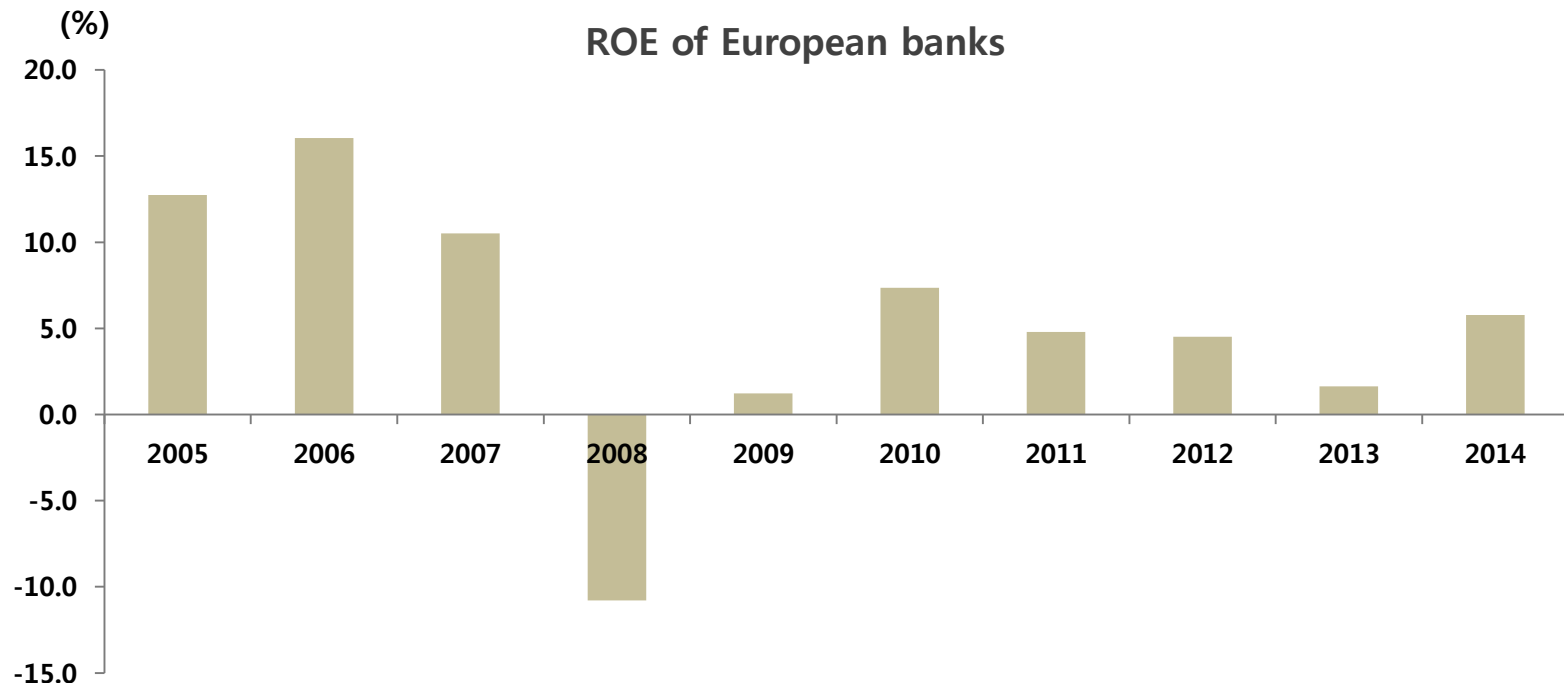


Note : Bremer Landesbank is not included in 2005.

3 ROE

■ Most European banks have experienced severe fall in ROE after the financial crisis.

- ▶ ROE have fallen to an average of 4.8% for 2010 to 2014 from two-digit in the mid-2000s.
- ▶ Swedish and Norwegian banks have maintained double-digit ROE for the past five years.
- ▶ HSH Nordbank, once the largest shipping lender, returned to positive territory in 2014 following three years of losses.

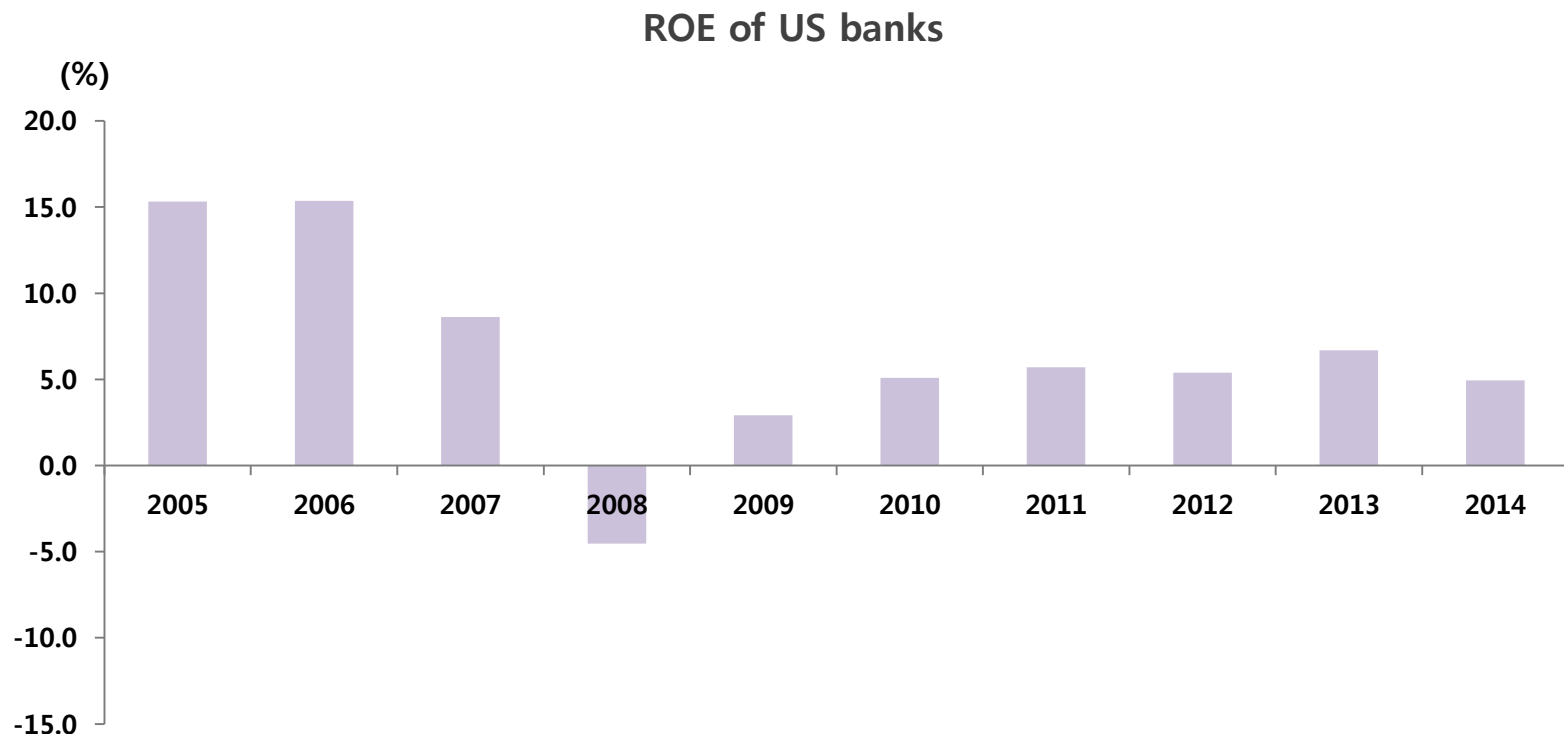


Note : Bremer Landesbank is not included in 2005.

3 ROE

■ **Average ROE of US banks have been around 5~6% for the period of 2010 to 2014.**

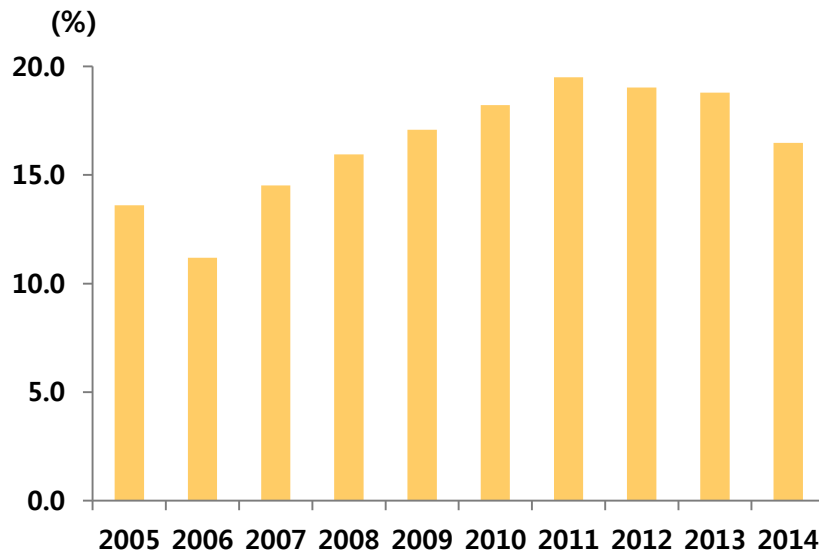
► They also showed two-digit ROE before the financial crisis.



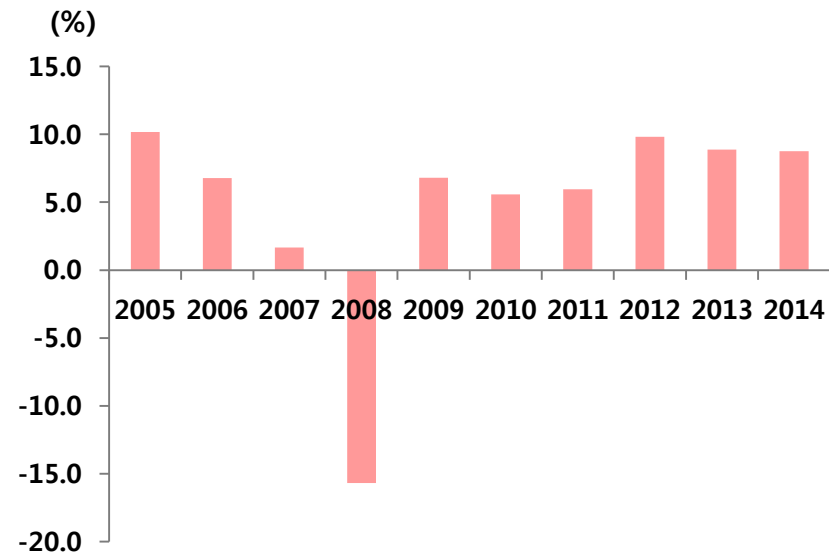
3 ROE

- Chinese banks have maintained high performance in profitability, but a little down in 2014.
- Japanese banks' ROE have shown around 9% since 2012.

ROE of Chinese banks

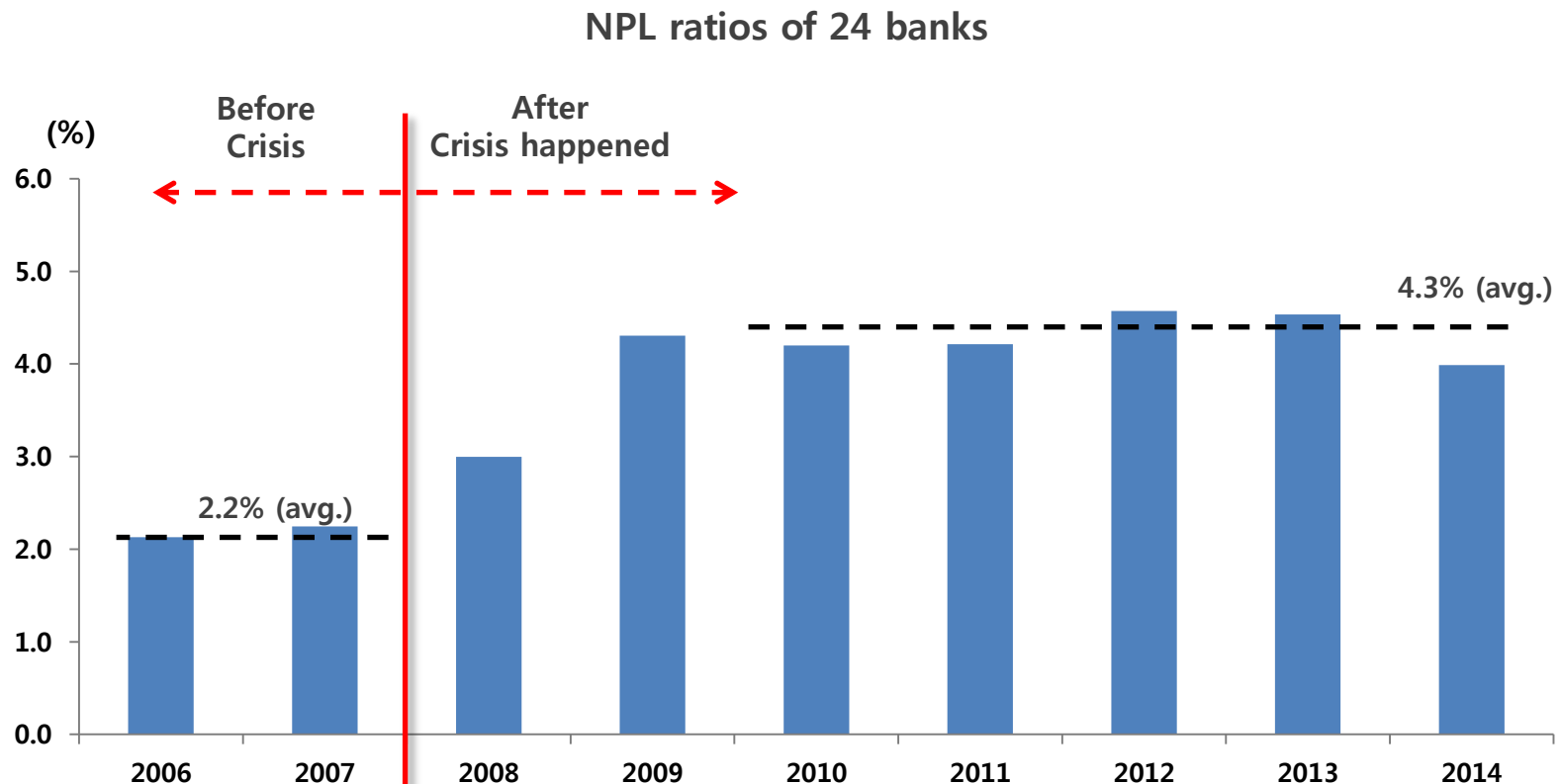


ROE of Japanese banks



4 NPL

- **NPL ratio has remained an average of 4.3% after the financial crisis, twice as large as it was before the crisis.**



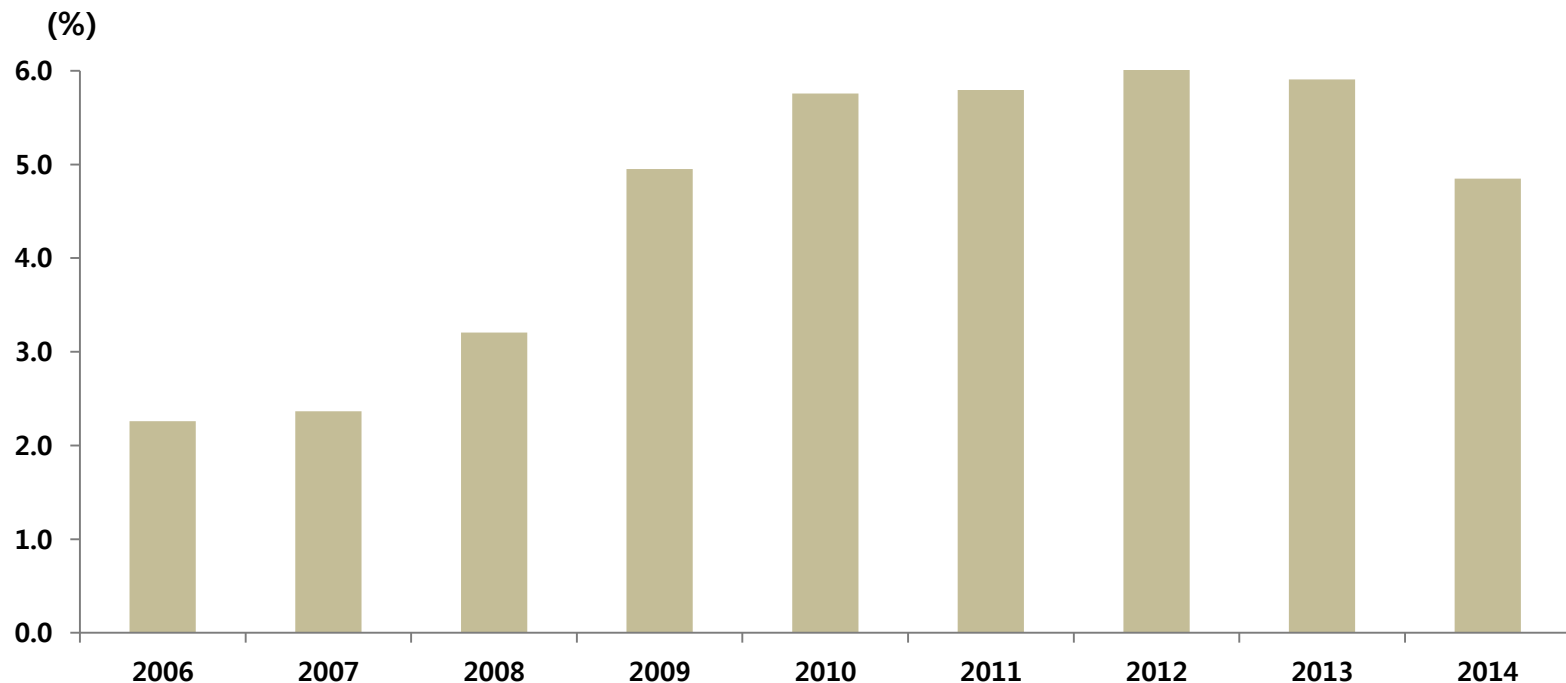
Note : Credit Agricole is not included in 2006.
Danish Ship Finance is not included in 2006 and 2007.

4 NPL

■ **NPL ratios of European banks have inclined to 5~6% for 2009 to 2014 from 2~3% for 2006~2008.**

► NPL ratios of Swedish, Swiss and Norwegian banks were relatively low.

NPL ratios of European banks

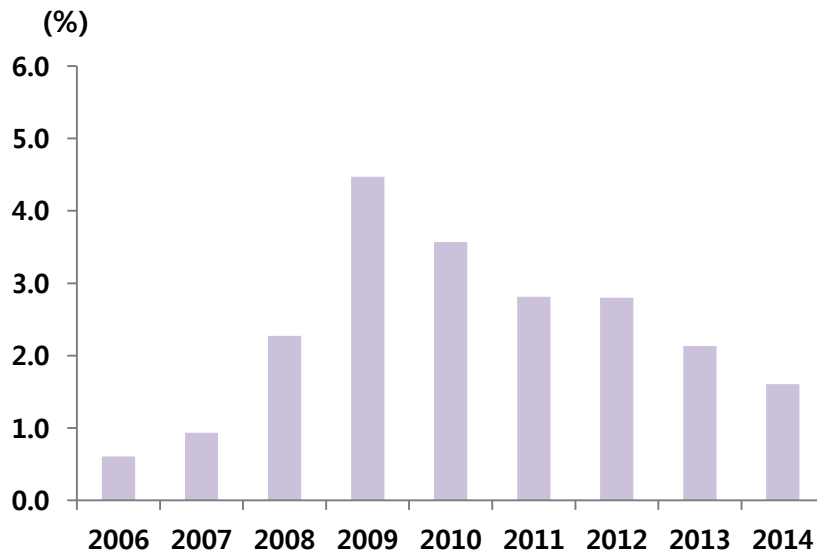


Note : Credit Agricole is not included in 2006.
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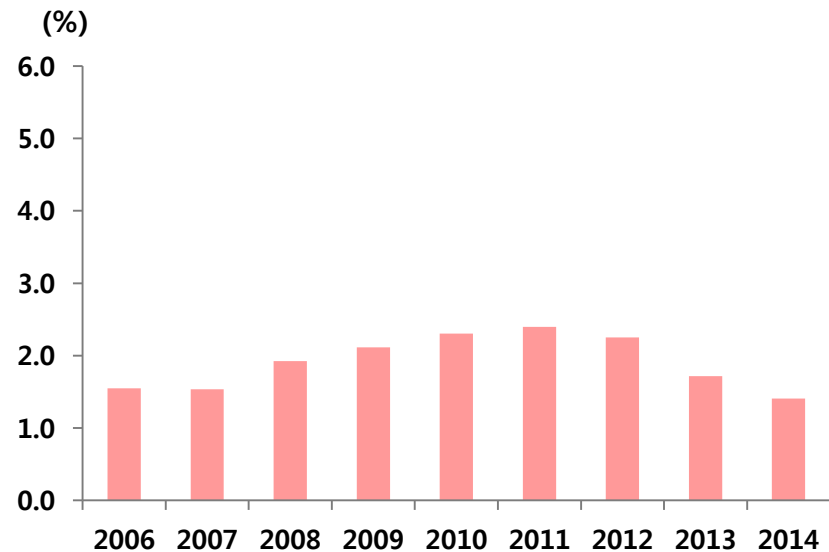
4 NPL

- **NPL ratios of US banks have also deteriorated since the financial crisis, but showing decreasing trend.**
- **Japanese banks have also shown similar pattern as US banks.**

NPL ratios of US banks



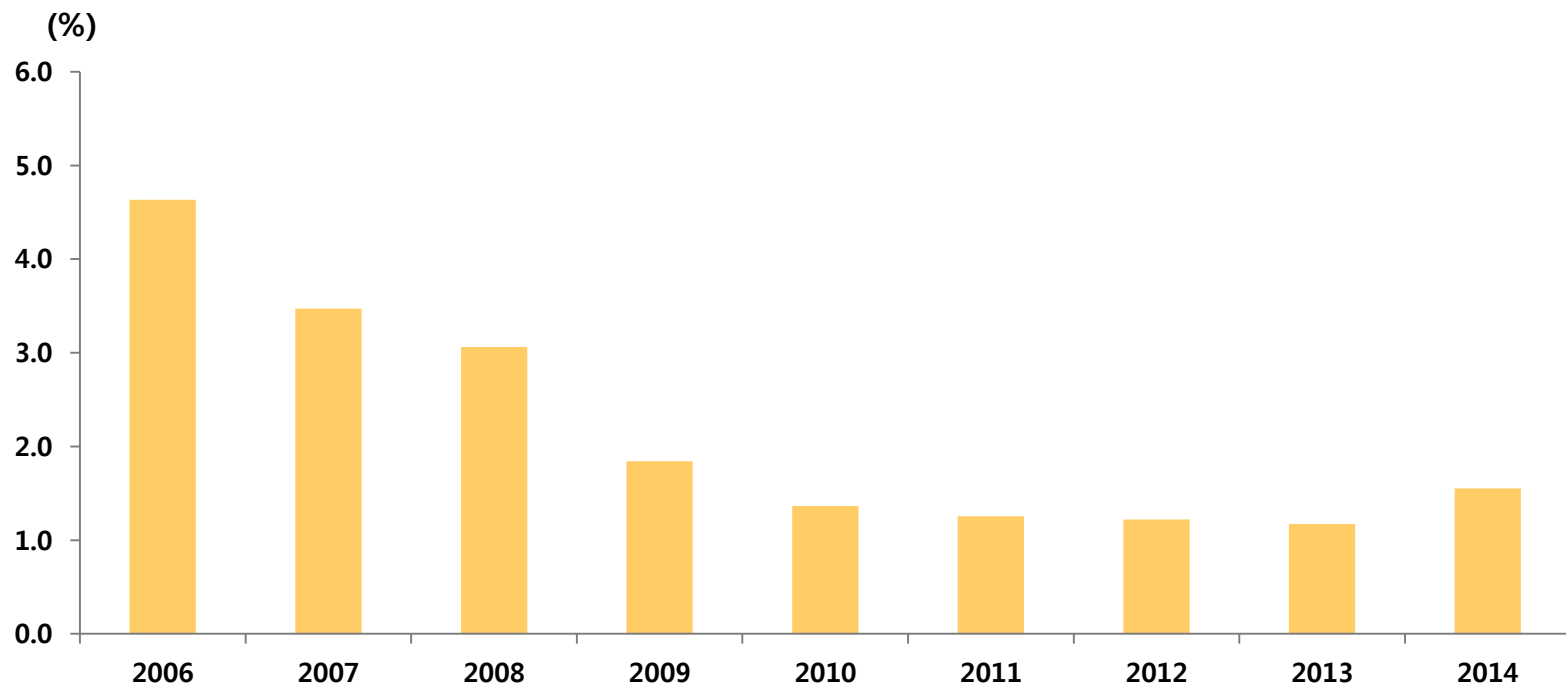
NPL ratios of Japanese banks



4 NPL

- **NPL ratios of Chinese banks have declined to around 1~2% after financial crisis, down from 3~5% before the crisis.**

NPL ratios of Chinese banks

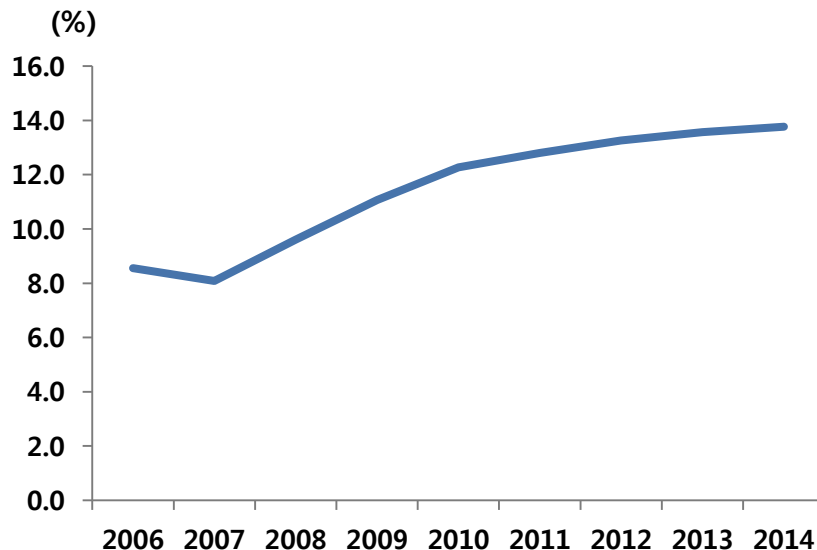


5 Capital

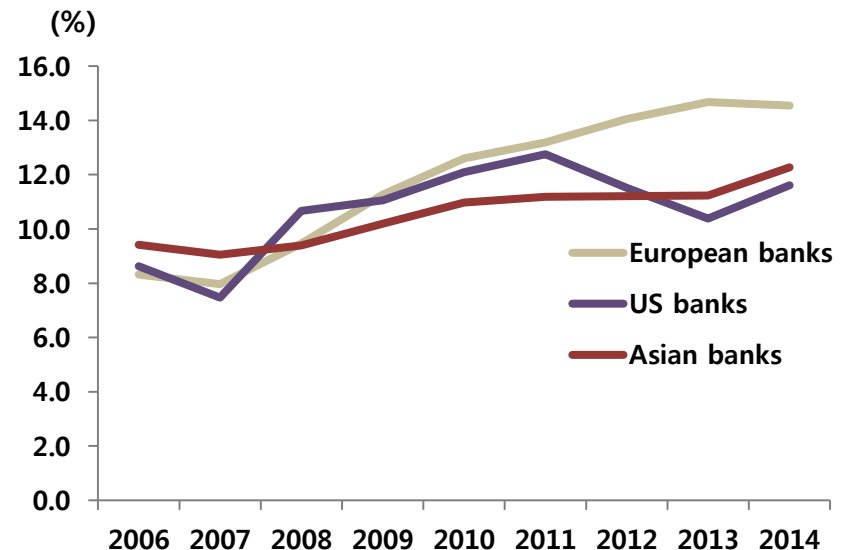
■ **Tier 1 capital level has been much improved since the crisis, in part because of strengthened regulation such as Basel III.**

- ▶ European banks have remained above 14% for 2012 to 2014.
- ▶ US banks have registered around 11% for the same period, a little bit lower than European peers.
- ▶ Asian banks have shown similar level as US banks.

Tier 1 capital ratios of 24 banks



Tier 1 capital ratios by region



6 Summary

- **Many European banks seem underway of restructuring to enhance soundness of their balance sheets.**
 - ▶ The countries with high level of exposure to the shipping sector are Germany, Italy, and the Netherlands.
 - ▶ However, banks surveyed passed the stress test taken by the European Banking Authority (EBA) in 2014.
 - Most banks were robust enough to withstand even severe stress.
- **US banks have shown declined profitability and higher non-performing loans after the financial crisis.**
- **Asian banks' balance sheets are strengthened further and profitabilities are in good shape.**

II. Implications

Implications

- **European banks need more time for further restructuring in returning actively to the shipping markets. A number of traditional lenders to the shipping sector exited or pulled back significantly in the sector.**

However, their advisory and capital market services will be continued, based on their in-depth knowledge in shipping sector.

- ▶ We also reduced the shipping portfolio by selling nine container ships. We are aiming for a volume of €20bn for our real estate and shipping portfolio by 2016.
(Commerzbank, Annual Report 2014)
- ▶ Provision for credit losses also increased, and in CB&S, from higher charges to shipping companies. (Deutsche Bank, Financial Report 2014)
- ▶ As a result, we will still continue to consider more project-related transactions, conservatively structured and with cash flow visibility.....(DVB, Group Annual Report 2014)
- ▶ RBS's exposure to the shipping sector, which is mostly RCR and CIB, declined 9% during the year, from £ 11.4 billion to £ 10.4 billion. The reduction was a result of scheduled loan repayments, secondary sales(RCR) and prepayments. (RBS, Annual Report 2014)

Implications

- **US banks look like more interested in capital markets rather than loan markets.**

- ▶ For instance, Citi group has been highly active in the market for secondary debt, acting as the middle man for a \$52m chunk of Genco debt and acting as agent for Nordea's exit from Eitzen Chemical.

Implications

- **Asian banks are expected to front-runners for the job of ship finance providers in the coming years, at least for their domestic clients.**
 - ▶ Bank of China has ranked top five shipping banks for the first time with \$20bn exposure at the end of 2014.
 - ▶ Following the signing of MOU on maritime cooperation between the Greek and Chinese government. Greek shipping companies signed more than \$2 bn of new ship financing agreements with Chinese banks by mid – 2014. (Marine Money, August / September 2015)
 - ▶ Chinese financial leasing companies have become significant global tonnage providers and financiers in just three years since entering the shipping market for the first time in 2013. Their success is attributable to ample liquidity from their owning banks. (Marine Money, August / September 2015)
 - ※ ICBC Financial Leasing is the largest maritime leasing company in China with total shipping (and offshore) assets over \$7 billion as of the end of 1Q 2015.
 - ▶ The strong balance sheets of Japanese financial institutions have attracted ship owners to look to Japan to diversify their capital sources.

Thank you