



Performance

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People • Passion • Products



Carsten Gerlach,
Managing Director,
DVB Bank SE

“It’s our job to find sustainable solutions for the challenges in our lending business.”

The interview was conducted by Elisabeth Winter,
Head of Group Corporate Communications, Frankfurt.

Carsten Gerlach and his team develop solutions – solutions for loans which do not develop as expected, particularly in the wake of the ongoing crisis in the international shipping markets, and the slump in oil prices. Having headed DVB’s new Credit and Asset Solution Group (CASG) since 1 January 2016, Carsten Gerlach is responsible for work-out cases in the Bank’s Transport Finance business. In this interview, he talks about the challenging tasks, the broadly diversified team of experts, and the unit’s goals.

Carsten, what are the tasks of CASG, and how is your team put together?

Well, our name – Credit and Asset Solution Group – already defines the tasks at hand: our business is solution management – we find solutions for the challenges presented by non-performing credit exposures. This means that we endeavour to recoup funds for DVB from loans which were drawn, but which fail to perform as expected. We pursue a dual approach for this purpose: firstly, we focus on the loan agreement and on the borrower; secondly, we focus on the financed asset – for example, a vessel.

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Hence, my team has two principal tasks and therefore covers two areas.

Firstly, restructuring tasks:

Here, the focus is on the borrower and its overall economic situation, as well on guarantors or shareholders who have an interest in the borrower’s continued solvency, and might thus be prepared to support repayment of the loan to DVB. Our main focus is on devising restructuring measures, in order to prevent forced sales of the financed assets, which might involve considerable losses.

We have established several restructuring teams, comprising a total of 15 specialists. One team – located in London and Amsterdam – deals primarily with the Bank’s Shipping Finance portfolio, whilst another team – predominantly located in Oslo and Frankfurt – covers assets employed in the offshore business, for example those used in deep-sea oil production. This also involves special vessels required in the oil production sector, including supply vessels, anchor handling vessels, construction vessels, drillships, survey vessels or security vessels. A further team is dedicated to aircraft financings. As you can see, we are bundling our significant market and asset expertise.

Secondly, tasks related to assets, or the realisation of assets:

If the customised restructuring measures specifically designed for each individual exposure fail to take effect, or are no longer effective, then in principle we have the opportunity of realising collateral. This is because virtually all of our financings are collateralised by the financed asset. Moreover, we are willing and able to take over control of the asset for a period of time, actively marketing it in order to realise the collateral.

Clearly, this sets us apart from our competitors:

- while many banks are interested in collateralising transactions with the financed vessel, in order to tie up less equity,
- they shy away from assuming control of the asset (the vessel) in case of emergency – simply because they lack the respective asset expertise.

At CASG, we employ a dedicated team of technical shipping experts – the TechCom team comprising ship’s captains, engineers, and shipbrokers. These colleagues are responsible for ship asset management for our Shipping Finance and Offshore Finance businesses: their tasks include the technical management and administration of vessels under DVB’s control. This technical management comprises carrying out ship inspections, as well as organising shipyard appointments for necessary repairs. It’s designed to ensure the swift, successful marketing of the vessel. After all, our objective is not to establish DVB as a ship owner – we want to find efficient and economically viable solutions for the Bank, to deal with individual problem exposures. That is why our goal is always to re-integrate the vessel concerned into the economic cycle as quickly as possible.

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By the way, there is another asset management team working for the Bank: our Aviation Asset Management team, established outside CASG as part of the Aviation Finance platform. In contrast to TechCom, Aviation Asset Management also works on behalf of the Bank’s clients and competitors. Nonetheless, in the case of non-performing aircraft financings, the working relationship between Aviation Asset Management and CASG is just as close as that which exists between TechCom and CASG.

Before you took over responsibility for CASG, you handled restructuring exposures for DVB’s Aviation Finance business. Is there any difference to exposures in the Shipping Finance and Offshore Finance divisions?

Well, the core mandate – restructuring and minimising damage in distressed exposures – has not changed. There is no difference, whether the exposure concerned is a financing from Shipping Finance, Offshore Finance, Aviation Finance, or Land Transport Finance – it always comes down to the same thing: preventing defaults or, at the very least, minimising their consequences. To prevent defaults altogether – now that is something even we will not always be capable of achieving.

We have defined various severity levels of loans in danger of default. First, we have the so-called ‘closely-monitored’ exposures. These are cases which, as a rule, are not (yet) on our agenda at CASG. But since we might have to get involved, sometimes we start to take a closer look at a very early stage. But once a transaction is moved onto the so-called Watch-List, CASG will generally assume responsibility.

Another consideration is the amount of time that needs to be invested in such a demanding transaction. The point is that we want to relieve our relationship management – which is predominantly tasked with acquiring new business – from necessary restructuring or even realisation tasks, both in terms of time and human resources. You see, thanks to its high level of expertise, DVB is capable of originating new transactions even in challenging market conditions. This is why we managed to remain profitable in 2015, despite higher allowance for credit losses. Our relationship managers’ ability to originate high-quality new business remains a priority. However, CASG’s duty is to ensure the best outcome for the Bank, with specialist teams.

Carsten, does „getting the best outcome“ also encompass using restructuring to reduce allowance for credit losses? And what might such a restructuring actually look like?

Very clearly, successful restructuring will lower the need for recognising allowance for credit losses; it will also lower additional risk costs, which burden the Bank’s net interest income. Indeed, there is a whole range of restructuring options. I believe that no two restructurings are identical. The situation is always different: debtor reactions vary, assets aren’t the same. Particularly when it comes to the shipping sector, assets are far more differentiated than in aviation. Hence, our business has many variables. What we are coming across more often in the bulk trade and offshore segments – due to bad market conditions – is that the vessels themselves are barely able to cover their operational costs, never mind generating sufficient cash flow for interest payments or redemptions. When this happens, we develop measures to help the client: specifically, by deferring payments or suspending repayments – we might consider reducing interest margins. There are a lot of different mechanisms in our figurative toolbox.

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Especially when it comes to clients who have voluntarily contributed own funds in the transaction, we’re really quite happy to work with them. After all, cooperative solutions are in our own best interest.

Of course, there are classical insolvencies – where we need to secure the asset and realise it. Our priority is always to find a ‚new home‘ for the asset – that means, a new operator. Warehousing is a buzzword you hear a lot. To date, we have contributed several vessels into our own internal warehouse, by managing the special purpose entities established for continued operation of the vessels ourselves. At present, however, we try to avoid this approach. Instead, we seek third parties to organise such continued operations – and thus to assume operating risk. As long as the Bank is the only source of financing for the asset, we must consolidate it, taking it onto our books.

At the end of the day it’s always our goal to liquidate the asset to recover the underlying loan. Actually possessing the physical asset is never the end game. As I pointed out at the outset, we never want to hold assets over the long term. Yet sometimes, market conditions force us to hold assets over a longer period of time – because we want to wait for the market to pick up gain, allowing for a higher recovery rate. In such cases, we are looking at expected cash flows, calculating expected operating costs. What we always need to take into account is this: every ship that lies at anchor – unemployed – costs money. Every airplane parked in the desert – costs money. Now whilst a vessel in employment also incurs maintenance costs for its operator, a viability analysis needs to take into account how good or bad the specific employment is for the asset. For instance, the issue needs to be clarified as to whether the vessel’s continued operation would involve further maintenance that would be far more expensive than a temporary decommissioning – in which case employment would make no sense from our point of view. As you can see, this is about taking a comprehensive view of the individual case – which always requires a deep understanding of the relevant asset. Our internal asset management capabilities are very advantageous in this respect.

[What targets have you set yourself for 2016?](#)

To start with, this newly-established team is working hard to get things up and see what is working and what isn’t. And of course, we want to deal constructively with as many tasks and cases as possible – and there are quite a few of them. We will find our place, leveraging the wealth of skills and experience in my team, gained in Shipping Finance, Offshore Finance, and Aviation Finance.

[Carsten, thank you very much for the interview.](#)

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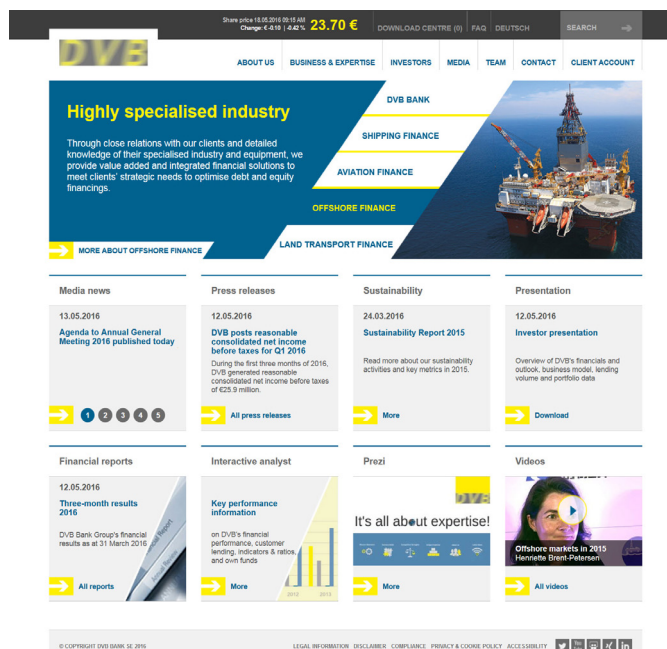
DVB website industry winner

DIE WELT awarded www.dvbbank.com with its 'client-oriented website – gold rating'.

Sabine Schlieben, Group Corporate Communications, Frankfurt/Main

“Congratulations! Your website has been awarded with the WELT seal of quality ‘customer-focused website – gold rating’.” This surprising piece of news was brought to us by analytics and consultancy firm ServiceValue at the beginning of 2016. ServiceValue partners with the daily paper DIE WELT annually to independently investigate the client focus of over 250 different websites of listed companies. Key criteria include how easily a site can be found, how user-friendly it is, the use of multimedia resources and whether corporate information is presented in a transparent way. In the actual analysis, DVB Bank was the banking industry winner and took in the 29th place in the overall ranking.

We are delighted that www.dvbbank.com is so well-received as we continuously face the challenge of presenting information about the Bank to a variety of target groups – including clients, business partners, investors, analysts, and employees – through multiple communication channels. A website is now a vital medium and showcases the Bank in the world wide web. For a lot of stakeholders looking for information, it is their first port of call, and a lot of visitors associate a professional website with a serious company. That is why it is important that users are presented with a clear structure and up-to-date, transparent and relevant content that demonstrate DVB’s strengths. The nearly 12,000 visits and roughly 35,000 page views testify to the fact that the extensive and current information about the Bank, its business divisions and financial markets and media activities are being researched, and that interested visitors are being given a helpful glimpse into DVB’s universe. The award also confirms that our concept is on target and that the market has noticed our customer and stakeholder focus.



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