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Exclusive: Germany's top banks step up efforts to offload toxic shipping debt

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# Exclusive: Germany's top banks step up efforts to offload toxic shipping debt

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LONDON/FRANKFURT (Reuters) - Top national lenders Deutsche Bank <DBK Gn.DE> and Commerzbank ([CBKG.DE](#)) are stepping up efforts to offload distressed shipping loans, finance sources said, as the German banking system grapples with \$100 billion in toxic debt from the sector.

FILE PHOTO - Banners of Deutsche Bank and Commerzbank are pictured in front of a trader at the stock exchange in Frankfurt, Germany, September 30, 2016. REUTERS/Kai Pfaffenbach

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While the shipping sector is showing signs of recovery after a near-decade long downturn, it is still struggling with an excess of ships and sluggish growth in global trade, which has led to some shipping companies going to the wall.

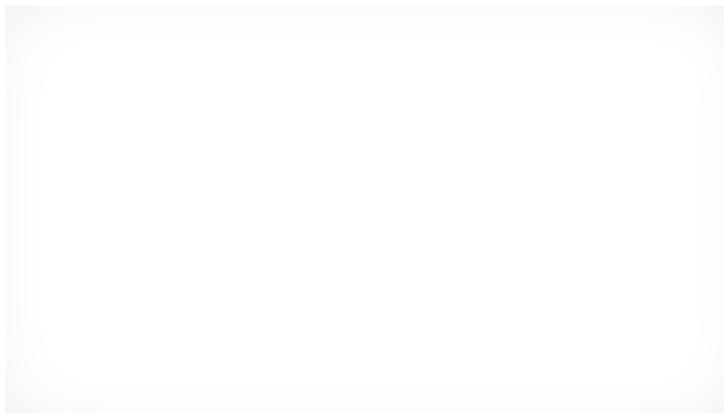
German banks, once global leaders in ship financing, have written off billions of euros in loans to shipping companies, while other European lenders - facing capital pressure from regulators - have quit the business.

Two finance sources with knowledge of the matter said Deutsche Bank, Germany's flagship lender, is looking to ringfence at least \$250 million of distressed shipping loans and package them in a unit within the group, with a view to selling the debt going forward.

"The idea is to package them together in one part of the bank - given how many units there are in Deutsche - and then look to sell them off at a discount. This appears to be a new approach by them," one of the sources said.

It was unclear how long the process would take, but the source said further tranches of loans could also be transferred.

A third finance source said Deutsche had been looking at warehousing distressed shipping loans for some time.



The bank declined to comment.

In its quarterly results last month, Deutsche said its loan exposure to the shipping sector was approximately 5 billion euros (\$5.90 billion). "A high proportion of the portfolio is sub investment-grade rated in reflection of the prolonged challenging market conditions over recent years," it said.

In July 2016, sources told Reuters that Deutsche Bank was looking to sell at least \$1 billion of shipping loans.

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However, Deutsche's 2016 annual report showed its loan exposure to shipping was still around 5 billion euros - indicating little movement to date.

German banks are estimated by shipping finance sources to be holding at least \$100 billion in distressed shipping loans and shipping finance sources say much of this debt is unlikely to be recouped in full, meaning heavy losses on investments.

Banks in Germany were particularly exposed to container shipping, a market that has been weak for years.

In a separate move two finance sources said Commerzbank, Germany's second biggest bank, had in recent weeks sold over \$300 million of shipping loans to Germany's Berenberg Bank and investment fund Cross Ocean Partners.

Berenberg told Reuters it had purchased "middle three-digit shipping loans from Commerzbank in conjunction with a U.S. private equity/debt fund", without providing further details.

Commerzbank declined to comment, while Cross Ocean did not respond to requests for comment.

Commerzbank said this month it had reduced its shipping portfolio by more than 30 percent - or 1.5 billion euros - in the first nine months of this year to 3.3 billion euros, and the bank was on track for a year-end target of around 3 billion euros.

It added that it was considering running down its shipping portfolio "even faster than planned".

"The ship finance rundown will be almost completely finalised well before the original 2020 target," Commerzbank's Chief Financial Officer Stephan Engels told a November earnings call.

This week U.S. buyout fund Cerberus [CBS.UL] acquired a 3 percent stake in Deutsche Bank, becoming one of the bank's biggest shareholders.

Cerberus has also built a 5 percent stake in Commerzbank - adding to further speculation of a merger between Germany's top lenders.

Sources told Reuters in September that Germany's DZ Bank [DETGNY.UL] is looking for a quick sale of its shipping finance business DVB after its transport division booked provisions for bad loans of 445 million euros in the first half.

(\$1 = 0.8477 euros)

Editing by Susan Fenton

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