

DVB Bank: setting the pace in transport finance

DVB Bank is the leading specialist in international transport finance. With a global reach and expertise across all transport sectors, DVB Bank has become a major force in financing transportation assets.

To what extent is DVB Bank focused on transport finance and how does the bank define its client base and business strategy?

We are focused entirely on transport, offering a full spectrum of financing solutions to leading companies in each sector. In addition to lending, DVB Bank provides value-added services in advisory and structuring, employing a team of industry specialists in all functions and at all levels.

We target an international client base in global markets with substantial growth potential. The bank has 11 offices and employs a multicultural, experienced, specialised and highly motivated team of professionals.

DVB Bank is close to our clients and markets and is able to make swift decisions on creative and innovative solutions. We take a cycle-neutral market approach that is stress-tested and risk-reward orientated.

I think it is clear to our competitors in the market that DVB Bank is striving to become one of the top three providers of financing solutions for the global transportation industry. We started out being a lender and have expanded to our current position as a major player across the transport finance spectrum. DVB Bank is unique in that we only finance the transport sector.

What financial products does the bank offer to clients in the transport sector other than simply arranging and structuring debt?

We provide more than just financing. For example, we provide equity solutions for companies and we are constantly increasing our product range. We have expanded our structuring capabilities for complex financing, and provide junior, mezzanine and senior loans, and offer alternatives in the capi-



Wolfgang F Driese, chairman of the board of managing directors, DVB Bank

tal markets. DVB Bank has established a capital markets unit in New York from which we can provide advice on private placements in the bond market, and advise and assist on opportunities for initial public offerings (IPOs). We are expanding and strengthening our activities on the group investment management side, which means that, through our own managed funds, we can make equity solutions available.

We have currently committed investment funds of about EUR700 million, which will double in the next few years. In those next few years, we will establish a separate unit to provide advice for sourcing equity which goes beyond our own funds. That means finding the optimum structure for our shipping clients in the German KG market, in the Norwegian KS market and interesting new markets in Singapore and Korea, tapping private equity or hedge funds.

The bank has learned from a recent survey of our customers that sourcing equity is a relatively high priority. The whole process revolves around finding

the most optimum solution for sizeable investment in transportation assets, including traditional bank financing, capital markets, including securitisation transactions and sourcing equity. We will continue to expand our advisory services on a regional level, which to a large degree involves a focus on merger and acquisition activity. I believe that our success is based on industry expertise and broad connections in the field. These can add an additional and highly valuable element to what we can offer our clients.

DVB Bank is not the largest institution offering finance to transport-related borrowers. How does the bank compete with larger institutions, and does size matter?

A key question is whether size matters for our clients. If a client mandates a financing based solely on the size of an institution, that client will probably seek out one of our competitors. On the other hand, if a client wants market expertise, if that client seeks advice on the optimum mixture of financing sources, that client would be well served by DVB Bank. If that client expects a reliable source of financing through all parts of the cycle, then he will come right to DVB Bank.

One can look at the size issue from a number of viewpoints. First, we have successfully completed some quite sizeable transactions across the industry. On the aviation side, DVB Bank has arranged a warehouse facility of more than USD300 million for a US operating lessor. In addition, we provided more than USD400 million in refinancing to allow a European airline to refinance its fleet. We have also arranged a refinancing facility of more than USD200 million for a cruise company.

But it is important to realise that the larger loans in the USD200 million to USD400 million range are not the norm in the market. I think they are the rare species on the demand scale. Most of the transactions we see are in the USD50 million to USD100 million range. Therefore, based on our track

record, we can successfully respond to large or smaller client requirements.

To put it into perspective, in terms of size, DVB Bank has a customer portfolio exceeding EUR12 billion. We started out 10 years ago with just EUR1.5 billion. Now we are generating approximately EUR6 billion in new business annually. We have grown rapidly and will continue to do so. We are in this business for the long haul.

Transport finance activity within many of the larger institutions pales before DVB Bank. While the bigger banks have larger balance sheets, most of their transport finance-related activities are smaller than ours. In many of the larger banks, the transport finance focus represents only about three per cent of overall activity. In the down-cycles, appetite for transport finance may vanish. We have no other mandate than being committed through all parts of the cycle.

Does DVB Bank solicit feedback from clients on how the bank is viewed in the market and how does the bank stack up to other institutions that are active in the transport sector?

In 2006, for the very first time, DVB Bank hired a professional market research company, based in Atlanta, to see how we are viewed by our client base. We were highly ranked in terms of quality of people. That means knowledge of the transport industry and expertise in the myriad forms of financing transport. At DVB Bank, we believe that employing the top tier of professionals is the only way for the bank to be successful over the long term.

In reviewing the results of the research, we found some comment that a few customers were looking for the cheapest pricing on plain vanilla transactions. DVB Bank is more interested in providing our clients with a more structured solution, using a different approach that may provide a client with an optimal solution that may not be apparent at first glance. Therefore, if there is an international competition for providing the cheapest form of finance, DVB Bank may not be the answer. We do not take a commoditised approach to the transport market. We want to work with a client, recognising individual financing requirements. We are a better partner for highly structured value-added solutions than someone who is in the mainstream of providing high volumes of financing at the cheapest end of the market.

Capital markets deals have been scarce for transport companies in the last several years. Do you see a resurgence of capital markets transactions?

We see the capital markets coming back and that is why we have a separate capital markets unit to be able to provide this to our customers and we have seen shipping companies coming to the IPO market to finance future growth. We also see the bond market coming back, particularly for shipping companies. Depending on the cycle, it is obvious that the capital markets will come back for the aviation industry and there will be a growing demand. In order to really be able to present a full spectrum of products to our customers, we have positioned ourselves in the capital markets.

Where do you see growth opportunities for the bank? Has the current lack of tax-driven structures in transport finance adversely affected the bank's activities?

For DVB Bank, the rail sector is a growth area and we will put considerable emphasis on rail finance. We have grown the rail finance business from the bottom up. While much of the growth in the aviation and shipping sectors has come about through mergers and acquisitions, that has not been the case with rail finance. To meet the growing challenges of the rail finance sector, we have expanded our teams in New York, Frankfurt and London to support our focus on North America and Europe.

While many tax-driven products have vanished, there is still a need to finance the industries that once relied on that form of finance. We are still arranging tax-driven structures on the shipping side, such as tax leases, but we are aware that there are limitations. While the tax-driven leasing market is not growing anymore, we have been successful in recently bringing the Japanese operating lease (JOL) back to the aviation industry. There are always regulatory changes and trends and movements that we try to identify and provide appropriate solutions for our clients. And we will continue to see — and this relates particularly to the rail finance sec-

tor — more demand for a risk partnership related to residual values. Being expert in transport assets and being an asset-based lender, DVB Bank expects to see a continuing development of this trend in the rail industry.

Will the bank expand in financial products and expertise offered to meet the challenges of an increasingly demanding market? What is the bank's approach to the cyclicity inherent in the transport sector?

At DVB Bank, we have expanded our role in group investment management. We have also established a cruise finance unit and an aircraft engine financing unit. We also offer asset-management services that are geared to the cyclicity of the transport industry. With our in-house expertise on asset re-possession, re-marketing and technical inspection, we can advise clients and offer third-party assistance for investors that have entered into any of the various segments of the transport business.

As an example, DVB Bank recently received a mandate from an airline to advise on sourcing new aircraft, evaluating the offerings of one manufacturer against another manufacturer. We will advise on comparing efficiency gains from manufacturers with the aircraft price. While DVB continues to focus

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on the assets that we finance, we will continue to be a lender and to take risks although our dominating focus will continue to be on the assets.

I would like to reiterate that DVB Bank is committed to the transport industry through peaks and troughs. Our cycle-neutral approach means that we will support our clients through market highs and lows, providing them with optimal structures during market highs. DVB Bank has worldwide coverage and at the same time acts locally. Our global reach coupled with local expertise allows us to stay on top of regional developments, political situations and proposed regulatory changes that are crucial to our clients.

Most importantly, DVB Bank's high level of expertise, dedicated in-house research and broad range of products allows us the ability to develop innovative financing solutions within a short decision-making timetable. ■