



Moody's Investors Service

## Rating Action: **Moody's downgrades DVB's BFSR to C-; ratings on review**

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Global Credit Research - 23 Jun 2009

Frankfurt, June 23, 2009 -- Moody's Investors Service today downgraded the bank financial strength rating (BFSR) of DVB Bank S.E. (DVB) to C- from C. The C- BFSR maps to a baseline credit assessment (BCA) of Baa2. The BFSR has been placed on review for possible further downgrade. Moody's also placed DVB's A1 senior unsecured debt and deposit ratings and its A2 senior subordinated rating on review for possible downgrade. DVB's Prime-1 short term rating has been affirmed.

### WEAKENING ASSET QUALITY PROMPTED BFSR DOWNGRADE

Moody's decision to downgrade DVB's BFSR to C- from C was prompted by its expectation that the bank, a specialised transport finance lender, will suffer from significant asset quality deterioration and, subsequently, rising credit losses. Moody's believes that the economic deterioration in DVB's main operating markets, the shipping and aviation industries, could be more severe than in previous downturns due to the global and synchronised nature of the current recession.

The BFSR is constrained by DVB's profile as a transport finance lender with a main focus on two markets that are -- in Moody's opinion -- correlated during the current global recession and are likely to suffer from a sharp downturn and/or prolonged slump.

Moody's acknowledges DVB's relatively strong regulatory capitalisation under Basel II (reported with 13.9% in 2008), which buffers the bank somewhat against the effects of adverse rating migration. Moody's also notes, however, that its regulatory capitalisation is much weaker under Basel I (reported with 6.2% in 2008). Mandatory compliance with Basel I until the end of the year leaves the bank vulnerable to negative rating migration and rising risk-weighted assets due to adverse currency movements.

### REVIEW TO FOCUS ON CREDIT LOSS ABSORPTION CAPACITY AND INTERNAL CAPITAL GENERATION CAPACITY

Moody's review will mainly focus on two areas: (i) the bank's overall capacity to absorb possible credit losses, and (ii) its ability for internal capital formation going forward.

Moody's assessment of DVB's credit risk and loss absorption capacity will incorporate a stress analysis of the bank's loan portfolio. Given the cyclical nature and currently sharply rising credit risk of DVB's main business lines, shipping and aviation, the rating agency will re-examine and reassess the bank's risk absorption capacity, taking into account expected rating migration risks and possible adverse currency movements.

Furthermore, as Moody's expects future profitability to be subdued, the review will focus on the bank's constrained internal capital generation going forward.

### LONG-TERM RATINGS BENEFIT FROM CO-OP SUPPORT

DVB's A1 senior unsecured debt and deposit ratings reflect Moody's assumption of a very high support probability coming mainly from the co-operative sector, represented by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), in the event of a stress scenario.

The review of the debt and deposit ratings is primarily based on the review of the BFSR. As such, a mild downgrade of DVB's BFSR would lead to an equally mild downgrade of the debt and deposit ratings.

### PREVIOUS RATING ACTION AND METHODOLOGIES

Moody's last rating action on DVB was on 11 May 2007, when the bank's long-term debt and deposit ratings were upgraded to A1 from A2 and the BFSR to C from C-.

The principal methodologies used in rating DVB are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found on [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating DVB can also be found in the Credit Policy & Methodologies directory.

DVB is headquartered in Frankfurt. The bank reported total assets of EUR17 billion as of 31 December 2008 and a net profit of EUR105 million for the full year.

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