



Moody's Investors Service

Rating Action: **Moody's downgrades DVB's BFSR to D+**

Global Credit Research - 28 Sep 2009

A1 long-term ratings confirmed

Frankfurt, September 28, 2009 -- Moody's Investors Service today downgraded the bank financial strength rating (BFSR) of DVB Bank SE (DVB) to D+ from C-, reflecting its expectation of weakening asset quality in the bank's loan portfolios. The D+ BFSR maps to a baseline credit assessment (BCA) of Baa3. DVB's A1 long-term debt and deposit ratings and A2 subordinated debt ratings were confirmed. The Prime-1 short-term rating was affirmed. The rating action includes the review for possible downgrade initiated in June 2009. The outlook on all the ratings is negative

WEAKENING ASSET QUALITY PROMPTED BFSR DOWNGRADE

Moody's decision to further downgrade DVB's BFSR to D+ (mapping to a BCA of Baa3) from C- (Baa2 BCA) after a review of its ratings 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 over the next 12-18 months.

Moody's placed DVB's senior unsecured debt and deposit ratings and its senior subordinated rating on review for possible downgrade in June 2009. The review focused on the bank's overall capacity to absorb possible credit losses and its ability to generate sufficient internal capital. Moody's also incorporated into its analysis DVB's investments in closed-end funds in the shipping, aviation and rail sectors, initiated by its investment management division

The outcome of Moody's stress tests on DVB reflects its view that the bank will post subdued earnings in the next few quarters and at the same time, may have to account for potentially considerable losses in 2010-11 on both its asset finance loan portfolios (in particular ship financing and aviation) and its correlated closed-end equity fund investments, which contain sizeable equity for ship finance.

Moody's acknowledges DVB's relatively strong regulatory capitalisation under Basel II (it reported a ratio of 14.4% at the end of H1 2009), which provides the bank with a buffer against the effects of adverse rating migrations. However, a strengthening US dollar could weaken regulatory capitalisation ratios as the bank's loan book is largely denominated in that currency, translating potentially adverse currency movements into higher risk-weighted assets.

Moody's views positively the bank's clear specialisation, dedicated management and long-standing experience in managing exposures in the transportation sector.

NEGATIVE OUTLOOK DRIVEN BY LOW PREDICTABILITY OF ACTUAL LOSSES IN SHIPPING

The negative outlook on the D+ BFSR reflects that Moody's worst-case scenario for the ship financing segment could potentially exert higher-than-expected pressure on the bank's capital levels, aggravated by losses from its equity fund investments, which could result in a downgrade over the next 12-18 months. The rating agency will therefore closely monitor actual credit losses and rising impairments from DVB's fund investments and evaluate the bank's ability to absorb such losses while maintaining its existing comfortable capital cushion.

LONG-TERM RATINGS BENEFIT FROM PARENTAL SUPPORT

DVB's senior unsecured ratings incorporate Moody's assessment of a very high probability of support from the parent, DZ BANK AG Deutsche Zentral-Genossenschaftsbank (rated Aa3/P-1, one of the two central banks in the German co-operative banking sector) and indirectly from the co-operative sector, represented by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken.

Regarding the negative outlook on the A1 ratings, Moody's emphasises that a downgrade of DVB's D+ BFSR by one notch would be likely to prompt a downgrade of its debt and deposit ratings.

RATING HISTORY AND MOODY'S METHODOLOGIES

The last rating action on DVB was on 23 June 2009 when Moody's downgraded DVB's BFSR to C- and placed all its ratings on review for possible downgrade.

The principal methodologies used in rating DVB were Moody's "Bank Financial Strength Ratings: Global Methodology", "Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology" and "Guidelines for Rating Bank Junior Securities", available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Frankfurt, Germany, DVB reported total assets of EUR17.9 billion at the end of June 2009 and a net profit of EUR48.7 million for H1.

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