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Research Update:

DVB Bank SE Ratings Raised To 'A+' From 'A' On Bank Criteria Change; Outlook Stable

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Overview

- Following a review of Germany's cooperative banking sector under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have raised our long-term counterparty credit ratings on DVB Bank SE to 'A+' from 'A'. The outlook is stable.
- Our ratings on DVB Bank reflect its weak business position, moderate capital and earnings, moderate risk position, adequate liquidity, and average funding.
- The ratings are one notch below those on parent DZ BANK AG and seven notches above DVB Bank's stand-alone credit profile. This reflects the likelihood of extraordinary parental support and our assessment of DVB Bank's "highly strategic" status within the wider group.
- The stable outlook reflects our expectation that the ratings on Germany's cooperative banking sector are unlikely to change over the next two years. It also reflects our opinion that solidarity support within the sector will remain unchanged.

Rating Action

As we previously announced on Dec. 5, 2011, Standard & Poor's Ratings Services has raised its long-term counterparty credit rating on Germany-based DVB Bank SE to 'A+' from 'A'. The outlook is stable.

Rationale

Standard & Poor's bases its ratings on DVB Bank on the bank's "weak" business position, "moderate" capital and earnings, "moderate" risk position, "adequate" liquidity, and "average" funding, as our criteria define those terms. The bank's stand-alone credit profile (SACP) is 'bb'.

Under our bank criteria, we use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Germany is 'a-', based on an economic risk score of '1' and an industry risk score of '3'. Our economic risk assessment reflects Germany's highly diverse and competitive economy and a lack of major economic imbalances. An export-led nation, Germany remains vulnerable to swings in global economies, trade flows, and capital market trends, however. Industry risk benefits from Germany's extensive funding market and banks' domestic funding surpluses from low domestic credit growth and high savings rates. However, the sector's competitive dynamics result in relatively low

profitability, which is fueled by significant disparities in the commercial targets and business and risk profiles of market players.

We assess DVB Bank's economic risk on the basis of its customer loans to non-banks in broad regions such as Europe, North America, and Asia-Pacific. We believe this best reflects the underlying economic risk that the bank faces because its predominantly secured lending business is mostly international, and its underlying collateral (such as ships and aircraft) can be used in international markets. As a result of higher weighted economic risk, DVB Bank's foreign operations lead to an anchor of 'bbb+' compared with the 'a-' anchor of a commercial bank operating only in Germany.

In our view, DVB Bank has a "weak" business position, relative to the industry risk score of '3' for the average German bank. It reflects DVB Bank's exclusive concentration on wholesale business in highly cyclical international transport finance markets, particularly shipping and aviation. DVB Bank's solid expertise and franchise in lending to the global transport sector, and, in our opinion, its sound risk management and comparatively low risk appetite mitigate our concerns about the bank's monoline business model and high confidence sensitivity.

We view DVB Bank's capitalization as "moderate" in relation to its business concentrations. We project that the bank's risk-adjusted capital (RAC) ratio will remain between 5% and 6% until 2013, which is "modest" in view of the bank's concentrated exposures. We expect DZ BANK to maintain DVB Bank's capital levels at comparably moderate levels and to concentrate its resources on the core retail banking activities of the German cooperative sector. Positively, DVB Bank's demonstrably good earnings capacity before risk provisions buffers inherent risk and affords some financial flexibility. We acknowledge that DVB Bank's operating performance was fairly resilient and significantly better than that of many of its peers during the recent global economic crisis, which had a disproportionately severe effect on the transport sector. Since the crisis, DVB Bank's rising risk provisioning needs have not exceeded its earnings capacity which has strengthened through its ability to substantially raise margins.

We assess DVB Bank's risk position as "moderate". This reflects substantial wholesale risk concentrations in highly cyclical transport segments, particularly shipping finance and aviation finance, which respectively accounted for 53% and 30% of lending as at mid-2011. In addition, we see that potential risks are not covered by the RAC ratio, because of DVB Bank's concentrated exposure to transport, and possibly higher tail and collateral risk. Conversely, we take a positive view of DVB Bank's good diversity within its shipping and aviation portfolios in terms of region, underlying collateral, and customers. Moreover we note that the bank has sound risk collateral and covenant management, a comparatively low risk appetite, and demonstrably superior loss experience compared with many banks. Owing to the overriding principle of matched funding, market risk (interest rate risk in the banking book) is low. Given the very small size of investments held for liquidity purposes, DVB Bank has, in our opinion, negligible exposure to

credit and credit-spread risk from securities.

In our view, DVB Bank's funding is "average" and liquidity is "adequate" and we expect them to remain so, reflecting ongoing support from DZ BANK. Since the capital market dislocations of the 2008-2009 crisis, parental funding and liquidity support have increased and DVB Bank depends on this to a large extent. DVB Bank offsets its cash-flow shortfalls mainly with the help of DZ BANK, given DVB Bank's limited ability to source secured funding against the sale and repurchase of liquid assets. In addition, DZ BANK and the wider cooperative sector subscribe to a major proportion of DVB Bank's medium- and long-term funding instruments. The issuance of ship covered bonds--the first of which DVB Bank issued in 2010--will only very slowly diversify DVB Bank's funding sources, in our view.

The long-term counterparty credit rating is one notch below that on DZ BANK, representing a seven-notch uplift above DVB Bank's own SACP. This incorporates our expectation that DVB Bank would receive extraordinary group support in the event of stress from DZ BANK and ultimately from the wider German cooperative banking sector. We base this on DVB Bank's high strategic importance from its 95% ownership by DZ BANK, its membership in the cooperative banking sector's protection scheme, and demonstrable and tangible ongoing support in the form of funding and liquidity. However, the ratings on DVB are one notch lower than those on the core members of the sector due to its lower strategic importance and business integration within the sector.

We regard DVB Bank's importance to the German banking system as low, reflecting its size and mainly international and exclusively wholesale operations. Consequently, the ratings rely solely on implicit and explicit cooperative banking sector support and do not incorporate the likelihood of extraordinary government support.

The 'A' issue ratings on DVB Bank's nondeferrable senior subordinated debt reflect our belief that the cooperative banking sector will support payments on these instruments. This notwithstanding, Germany's legal and regulatory framework, in our view, allows the authorities to instigate restructuring of a failing bank to the detriment of nondeferrable subordinated debt.

Outlook

The stable outlook reflects the stable outlook on Germany's cooperative banking sector. We expect the rating on DVB Bank to remain at least one notch lower than the rating on the sector's core entities. This reflects DVB Bank's "high" strategic importance to DZ BANK according to our group methodology and our expectation of ongoing support for DVB Bank from the DZ BANK group and ultimately the cooperative banking sector.

The outlook on Germany's cooperative banking sector is stable because we believe the ratings are unlikely to change over the next two years. In addition, we believe solidarity support within the sector will remain

unchanged. Although we currently anticipate a weakening of economic and financial market conditions globally, we believe that the sector's key credit metrics will remain more resilient than and superior to the average for the German bank industry.

Any rating actions on Germany's cooperative banking sector and DZ BANK could affect the ratings on DVB Bank. A positive rating action that affects only DVB is unlikely over the medium term. However, this could result if DZ BANK were to firmly integrate DVB into the group as a core member as defined in our group methodology.

Ratings Score Snapshot

Issuer Credit Rating	A+
SACP	bb
Anchor	bbb+
Business Position	Weak (-2)
Capital and Earnings	Moderate (-1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support	7
GRE Support	0
Group Support	7
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

Related criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Related research

- Ratings On German Banks' Lower Tier 2 Sub Debt Lowered Due To Bank Restructuring Act; Other Debt Ratings Not Affected, Feb. 28, 2011
- S&P Comments On Decision To Lower Ratings On German Banks' Lower Tier 2 Sub Debt Due To Bank Restructuring Act, Feb. 28, 2011

Ratings List

Upgraded

	To	From
DVB Bank SE		
Counterparty Credit Rating	A+/Stable/A-1	A/Stable/A-1
Certificate Of Deposit	A+/A-1	A/A-1
Senior Unsecured	A+	A
Subordinated	A	BBB+

Ratings Affirmed

Commercial Paper	A-1
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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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