

DVB Bank SE

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Major Rating Factors

Strengths:

- Ownership support from 95% owner, the German cooperative banking sector through sector's central bank.
- Solid expertise and franchise in transport lending.
- Sound risk management and risk appetite.

Counterparty Credit Rating

A/Negative/A-1

Weaknesses:

- Less strategic importance to cooperative sector than core members.
- Monoline business model reflected in elevated cyclical credit risk as a pure transport-finance wholesale bank.
- Modest capitalization and limited financial flexibility.

Rationale

The ratings on Germany-based DVB Bank SE (DVB) are based on our expectation of solidarity support from the German cooperative banking sector in the event of need as a result of the bank's 95% ownership by the cooperative sector's central bank, DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK, A+/Stable/A-1), and DVB's membership in the sector's protection scheme. As a consequence, the long-term rating on DVB benefits from a four-notch uplift above the bank's stand-alone strength. In addition, this uplift reflects the bank's status as a strategically important subsidiary of DZ BANK. We continue to moderately differentiate the ratings on DVB by one-notch from core members of the sector, reflecting DVB's limited business integration within DZ BANK and the wider sector and our view that the bank's activities are not among the sector's strategic core businesses, despite DVB's good niche market position in transport financing on an international scale. Given DVB's low systemic importance (in our opinion) within the German banking sector, which in turn reflects the size and nature of its mainly international and exclusively wholesale banking activities, we solely incorporate implicit cooperative banking sector support into the ratings, rather than incorporating an element of government support.

In addition, the ratings reflect DVB's solid expertise and franchise in lending to the global transport sector and the bank's sound risk management and risk appetite, which mitigate our concerns about further weakening asset quality. DVB's monoline business model as a purely transport-finance wholesale bank exposes it to elevated cyclical credit risk during a potentially long-lasting period of difficult transport market conditions, particularly in shipping. We regard DVB's capitalization as a buffer against further intensifying credit stress as modest. This is reflected by the bank's weak risk-adjusted-capital (RAC) ratio of 3.9% (after the impact of sector and business and risk type concentration and geographic diversification effects; 4.5% before our adjustments). In our view, the RAC ratio better represents the risk inherent in DVB's core operations than the bank's much higher regulatory capital ratios. For example, the Tier 1 ratio (under Basel 1) is about 6%, while under the advanced IRB approach it is more than twice as high at about 13%. In addition, we consider DVB's financial flexibility to be limited, because we believe that DZ BANK will focus its resources mainly on the core businesses of the cooperative sector in the years ahead, rather than support growth via capital injections into the transport finance segment with its currently unfavorable risk profile.

We regard DVB's medium-term profitability prospects and earnings retention capabilities as weak. In our base case, risk provisioning requirements and write-downs on investment vehicles, which together with external investors are exposed to shipping and aviation portfolios, will rise further in 2010, and might remain at elevated levels in 2011. Under this scenario, which is based on the assumption of ongoing highly challenging conditions for the global economy and international trade, we consider a negative bottom-line result possible over the period 2010-2011. DVB's 2009 profitability remained positive, but showed a substantial increase in risk costs. Losses in 2010 and 2011 should prove relatively limited, however, and below average compared with the results of competitors in the transport finance business, given our opinion that DVB takes a less aggressive underwriting approach, employs sound collateral management, and has good diversity within its shipping and aviation portfolio in terms of regions covered, modes of transport, and customers. However, loan restructuring agreements with clients--for example extending deadlines for repayments of principal--could delay the recognition of problems and problem loans and help spread risk provisioning needs over a longer period if the anticipated economic recovery takes longer than expected. Given the very small size of the bank's investment portfolio held for liquidity purposes, DVB has negligible exposure to credit and credit spread risk from securities. In our base case, the bank's negative earnings trend is only partly offset by improving operating performance as a result of rising interest margins in new business, which might remain constrained as a result of uncertain economic conditions and limited scope for syndicated lending.

Support from DZ BANK, which has increased during the recent capital market dislocation, is most tangible in terms of funding and liquidity, where DVB is dependent on its parent to a very large extent. While cash-flow shortages are mostly offset with the help of DZ BANK, given DVB's limited scope for secured funding via liquid assets, DZ BANK and the wider cooperative sector also subscribe to a major proportion of the bank's medium- and long-term funding instruments. Owing to the overriding principle of matched funding, market risk, that is interest rate risk in the banking book, is low.

Outlook

The negative outlook reflects the possibility that DVB's earnings prospects may continue to weaken and our longer-term concerns about the bank's strategic importance, and, as a result, its owner's commitment. In addition, it reflects our expectation that the ratings will continue to rely on ongoing explicit and implicit ownership support from DZ BANK and the wider German cooperative banking sector in the near to medium term.

We could lower the ratings if the operating environment were to deteriorate more severely and over a longer period than we currently anticipate with an adverse impact on DVB's stand-alone strength and ability to demonstrate relative resilience against very difficult transport markets. We could also lower the ratings if DZ BANK were to consider a divestment of its investment in DVB.

We could revise the outlook to stable, mirroring the outlook of the wider cooperative banking sector, if DVB remains generally profitable during the continuing downturn in the cycle. We would consider it positive if DZ BANK were to further strengthen DVB's still-modest capital, and in so doing underpin its longer-term commitment.

Other factors that could affect the ratings on DVB are changes in the German cooperative banking sector's aggregate strength and the solidarity of member institutions.

Table 1

DVB Bank SE Profitability Ratios					
	--Year-ended Dec. 31 --				
(%)	2009	2008	2007	2006	2005
Net interest income/average earning assets	1.2	1.3	1.5	1.4	N/A
Net interest income/revenues	61.6	67.8	58.2	59.7	55.8
Fee income/revenues	31.0	37.8	28.6	27.9	33.0
Market-sensitive income/revenues	5.7	(19.4)	2.1	3.2	(2.0)
Personnel expense/revenues	N.A.	32.7	29.7	29.3	30.1
Noninterest expenses/revenues	49.6	57.8	53.3	52.9	59.3
New loan loss provisions/revenues	22.9	5.9	6.9	9.8	8.1
Net operating income before loan loss provisions/loan loss provisions	219.9	713.9	680.8	483.2	502.0
Net operating income after loan loss provisions/revenues	27.5	36.3	39.8	37.4	32.6
Pretax profit/revenues	27.5	35.9	40.1	41.3	31.9
Tax/pretax profit	12.1	(5.0)	9.3	12.1	2.7
Core earnings/revenues	24.1	N/A	36.2	33.0	31.8
Core earnings/average adjusted assets	N.A.	N/A	0.9	0.7	N/A
Noninterest expenses/average adjusted assets	N.A.	1.1	1.3	1.2	N/A
Core earnings/average risk-weighted assets	N.A.	N/A	1.0	0.8	0.6
Core earnings/average adjusted common equity	8.9	N/A	17.1	14.7	11.5
Pretax profit/average common equity (%)	8.4	11.2	15.9	15.2	N/A

N.A.--Not available. N/A--Not applicable.

Table 2

DVB Bank SE Capital Ratios					
	--Year-ended Dec. 31 --				
(%)	2009	2008	2007	2006	2005
Adjusted common equity/risk assets (%)	N/A	N/A	5.7	5.6	5.6
Tier 1 capital ratio	14.2	13.9	6.4	6.8	6.8
Adjusted total equity/adjusted assets	4.8	5.1	5.1	5.3	4.7
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	6.3	6.5	7.2	7.3	6.9
Common dividend payout ratio	37.5	26.6	0.0	0.0	0.0

N/A--Not applicable.

Table 3

DVB Bank SE Summary Balance Sheet					
	--Year-ended Dec. 31 --				
(Mil. €)	2009	2008	2007	2006	2005
Assets					
Cash and money market instruments	252.4	902.0	470.9	458.2	165.3
Securities	435.7	612.7	287.3	243.3	298.9
Trading securities (marked to market)	282.4	531.3	149.8	96.6	83.7
Nontrading securities	153.3	81.4	137.5	146.7	215.2
Loans to banks (net)	401.2	62.6	1,324.5	305.5	760.6
Customer loans (gross)	15,510.1	15,271.0	10,798.1	9,784.5	9,112.1

Table 3

DVB Bank SE Summary Balance Sheet (cont.)					
Loan loss reserves	158.5	107.7	113.2	124.2	120.9
Customer loans (net)	15,351.6	15,163.3	10,684.9	9,660.3	8,991.2
Earning assets	16,347.0	16,205.4	12,604.2	10,628.5	10,288.0
Equity interests/participations (nonfinancial)	N.A.	79.1	87.5	123.0	134.9
Intangibles (nonservicing)	210.6	104.6	89.5	82.0	80.1
Fixed assets	N.A.	35.6	14.3	17.5	13.6
Derivatives credit amount	356.6	267.2	111.8	173.0	317.9
All other assets	359.3	149.7	83.8	36.3	93.0
Total assets	17,268.6	17,376.8	13,154.5	11,099.1	10,855.5
Intangibles (nonservicing)	210.6	104.6	89.5	82.0	80.1
Adjusted assets	17,058.0	17,272.2	13,065.0	11,017.1	10,775.4
Liabilities					
Total deposits	11,489.5	12,156.3	8,420.2	6,240.6	6,417.9
Noncore deposits	7,076.8	7,144.9	4,057.9	2,554.8	2,932.2
Core/customer deposits	4,412.7	5,011.4	4,362.3	3,685.8	3,485.7
Other borrowings	4,083.1	3,394.8	3,557.4	3,914.2	3,472.2
Other liabilities	637.5	826.8	383.7	239.5	342.8
Total liabilities	16,210.1	16,377.9	12,361.3	10,394.3	10,232.9
Total equity	1,058.5	998.9	793.2	704.8	622.6
Minority interest-equity	1.3	1.4	0.9	2.3	4.1
Common shareholders' equity (reported)	1,057.2	997.5	792.3	702.5	618.5
Share capital and surplus	118.1	118.3	99.7	99.5	99.6
Revaluation reserve	(3.1)	(20.1)	16.2	24.1	25.2
Retained profits	27.9	27.9	20.6	12.5	9.5
Total liabilities and equity	17,268.6	17,376.8	13,154.5	11,099.1	10,855.5

N.A.--Not available.

Table 4

DVB Bank SE Equity Reconciliation Table					
--Year-ended Dec. 31 --					
(Mil. €)	2009	2008	2007	2006	2005
Common shareholders' equity (reported)	1,057.2	997.5	792.3	702.5	618.5
Plus minority interest (equity)	1.3	1.4	0.9	2.3	4.1
Minus dividends (not yet distributed)	(28.0)	(27.9)	(19.9)	(11.8)	(8.8)
Minus revaluation reserves	3.1	20.1	(16.2)	(24.1)	(25.2)
Minus nonservicing intangibles	(210.6)	(104.6)	(89.5)	(82.0)	(80.1)
Adjusted common equity	823.0	886.5	667.6	586.9	508.5
Adjusted total equity	823.0	886.5	667.6	586.9	508.5

Table 5

DVB Bank SE Profit And Loss					
	--Year-ended Dec. 31 --				
(Mil. €)	2009	2008	2007	2006	2005
Net interest income	194.3	189.3	172.4	145.7	102.4
Interest income	N.A.	869.0	779.9	671.4	549.3
Interest expense	N.A.	679.7	607.5	525.7	446.9
Operating noninterest income	121.0	89.8	123.6	98.4	81.2
Fees and commissions	97.8	105.5	84.8	68.2	60.5
Trading gains	0.0	0.1	(6.2)	(1.3)	19.3
Other market-sensitive income	17.9	(54.2)	12.3	9.1	(23.0)
Equity in earnings of unconsolidated subsidiaries	(2.0)	3.9	21.2	18.7	19.6
Other noninterest income	7.3	34.5	11.5	3.7	4.8
Operating revenues	315.3	279.1	296.0	244.1	183.6
Noninterest expenses	156.5	161.3	157.8	129.1	108.8
Personnel expenses	N.A.	91.3	88.0	71.4	55.3
Other general and administrative expense	N.A.	67.6	66.6	54.3	50.8
Net operating income before loss provisions	158.8	117.8	138.2	115.0	74.8
Credit loss provisions (net new)	72.2	16.5	20.3	23.8	14.9
Net operating income after loss provisions	86.6	101.3	117.9	91.2	59.9
Nonrecurring/special income	0.0	1.6	2.6	12.5	0.0
Nonrecurring/special expense	0.0	0.0	0.0	0.0	0.0
Amortization / Impairment of intangibles	N.A.	2.7	1.8	3.0	1.4
Pretax profit	86.6	100.2	118.7	100.7	58.5
Tax expense/credit	10.5	(5.0)	11.0	12.2	1.6
Net income (before minority interest)	76.1	105.2	107.7	88.5	56.9
Minority interest in consolidated subsidiaries	1.5	0.3	(1.5)	(1.5)	2.6
Net income before extraordinaries	74.6	104.9	109.2	90.0	54.3
Net income after extraordinaries	74.6	104.9	109.2	90.0	54.3

N.A.--Not available.

Table 6

DVB Bank SE Core Earnings Reconciliation Table					
	--Year-ended Dec. 31 --				
(Mil. €)	2009	2008	2007	2006	2005
Net income (before minority interest)	76.1	105.2	107.7	88.5	56.9
Minus nonrecurring income	0.0	(1.6)	(2.6)	(12.5)	0.0
Plus nonrecurring expense	0.0	0.0	0.0	0.0	0.0
Plus or minus tax impact of adjustments	0.0	N/A	0.2	1.5	0.0
Plus amortization/ impairment of goodwill/ intangibles	0.0	2.7	1.8	3.0	1.4
Core earnings	76.1	N/A	107.1	80.5	58.3

N/A--Not applicable.

Ratings Detail (As Of March 30, 2010)***DVB Bank SE**

Counterparty Credit Rating	A/Negative/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured (9 Issues)	A
Short-Term Debt (1 Issue)	A-1
Subordinated (2 Issues)	A-

Counterparty Credit Ratings History

30-Jan-2009	A/Negative/A-1
12-Dec-2006	A/Stable/A-1
23-Aug-2006	A-/Positive/A-2
29-Jul-2005	A-/Stable/A-2

Sovereign Rating

Germany (Federal Republic of)	AAA/Stable/A-1+
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Related Entities**DZ BANK AG Deutsche Zentral-Genossenschaftsbank**

Issuer Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A+/A-1
Commercial Paper	A-1
Junior Subordinated (1 Issue)	A-
Senior Secured (2 Issues)	AAA
Senior Secured (306 Issues)	AAA/Stable
Senior Unsecured (32 Issues)	A+
Short-Term Debt (3 Issues)	A-1
Short-Term Secured Debt (2 Issues)	A-1+
Subordinated (7 Issues)	A

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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