

Research Update:

Outlook On Germany-Based DVB Bank Revised To Stable On Improving Risk Profile; Ratings Affirmed At 'A/A-1'

Primary Credit Analyst:

Volker von Kruechten, Frankfurt (49) 69-33-999-164; volker_vonkruechten@standardandpoors.com

Secondary Contact:

Harm Semder, Frankfurt (49) 69-33-999-158; harm_semder@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Outlook On Germany-Based DVB Bank Revised To Stable On Improving Risk Profile; Ratings Affirmed At 'A/A-1'

Overview

- In our view, DVB Bank SE has demonstrated good resilience over the past two years despite uncertainties in global transport markets, and its risk profile has strengthened, thanks to better-than-expected profitability.
- We continue to include a four-notch uplift in our assessment of DVB's stand-alone credit profile, reflecting our expectation of ongoing support for DVB from its 95% owner DZ BANK AG and from the German cooperative banking sector.
- We are revising our outlook on DVB to stable from negative and affirming the 'A/A-1' ratings.
- The stable outlook reflects our expectation that DVB will be able to cope with continually challenging international transport markets and maintain sufficient profitability to absorb still sizable credit losses.

Rating Action

On March 30, 2011, Standard & Poor's Ratings Services revised its outlook on Germany-based DVB Bank SE to stable from negative. At the same time, the 'A' long-term and 'A-1' short-term counterparty credit ratings on DVB were affirmed.

Rationale

The outlook revision reflects DVB's track record of sound operating performance before and after risk provisions, despite the difficult operating environment over the past two years. The rating action also stems from our view that uncertainties about the sustainability of the recovery of global transport markets should weigh less on profitability in coming years than we had previously anticipated. DVB's risk profile has strengthened as a result of reduced asset-quality concerns and significant earnings retentions. This is reflected in the improved risk-adjusted-capital (RAC) ratio of 5.4%, which remains relatively weak compared with international peers', however.

The ratings are based on our expectation that DVB will receive ongoing explicit and implicit ownership support from its 95% owner, DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ; A+/Stable/A-1), and the German cooperative banking sector. Our view of DVB as a strategically important subsidiary to DZ, combined with DVB's membership of the cooperative sector's protection scheme and close integration into DZ regarding funding and

liquidity, grant the rating a four-notch uplift above our assessment of DVB's stand-alone strength.

The ratings also reflect DVB's solid expertise and franchise in international transport finance and sound risk management. The ratings are constrained by DVB's monoline wholesale banking business model, which makes it less strategically important to the mainly retail-oriented cooperative banks. The one-notch differential between the ratings on DVB and those on core members of the cooperative sector reflects DVB's limited business integration into sector activities. In addition, we regard DVB's capitalization and limited financial flexibility as an only moderate buffer against considerable credit risk from very cyclical transport markets.

Given the severity of the global recession, which was disproportionately felt in shipping and aviation markets, DVB's operating performance has shown resilience over the past two years, exceeding many peers' and our expectations. Due to good cost efficiency, reflected in a stable cost-to-income ratio of 53%, DVB has been able to address rising nonperforming loans and the resulting risk provisioning needs. In our opinion, this also reflects DVB's less aggressive underwriting approach, sound collateral and covenant management, and good lending portfolio diversity. DVB's ability to raise net margins on declining new business volumes during the crisis highlights its sound transport finance franchise. In the coming years, we expect further small improvements in profitability before risk. However, intensifying competition in transport markets and relatively low new business levels might increasingly exert margin pressure.

In view of our assumption of continually challenging conditions for international trade, we believe that risk costs in 2011 and 2012 might surpass those of 2009 and 2010, constraining DVB's earnings retention capacity. In our view, problems such as sizable order backlogs in some shipping and aviation segments and related pressure on charter rates will remain in the near to medium term. Nevertheless, we estimate that DVB's capital would only slightly erode if risk provisioning needs were to rise to about 90 basis points in a stress scenario.

DVB's significantly expanding Investment Management division poses the highest risks under weak conditions, in our opinion. This is because its exposures carry lower collateral and higher leverage, with a relatively short investment horizon. The still low portfolio level of about €700 million and fairly granular exposures mitigate our concerns about sizable impairments losses, however.

The RAC ratio of 5.4% (4.9% after a net concentration adjustment) at year-end 2010 highlights our assessment of DVB's only moderate capital strength. Despite significant improvements over the past two years through retained earnings, the ratio compares unfavorably with an average of 7% (8% after diversification at midyear 2010) for a sample of 75 global banks. We regard DVB's financial flexibility as limited in the medium term because we do not expect DZ to support DVB's business growth with capital injections, but rather

to focus its resources on the core retail banking activities of the cooperative sector. Support from DZ, in terms of funding and liquidity, has increased since the capital market dislocation, and DVB depends on its parent to a very large extent, in our view.

Outlook

The stable outlook reflects our expectation that DVB will be able to cope with continually challenging international transport markets and maintain sufficient profitability to absorb still sizable credit losses. The outlook also reflects our expectation that DVB will benefit from ongoing explicit and implicit ownership support from DZ. We believe that, at least in the medium term, the owners will remain committed to DVB in case of need, despite our longer-term concerns about DVB's strategic importance for the cooperative banking sector.

Rating implications could be negative if the operating environment were to deteriorate over a prolonged period and credit risk costs rise substantially beyond our forecast of €200 million over the next two years. These factors, among others, could hamper DVB's stand-alone strength. The ratings could also be lowered if DVB's strategic importance for the cooperative banking sector lessened and DZ considered a divestment of its stake in DVB.

We might consider a positive rating action if the aggregate strength of the German cooperative banking sector were to increase and DVB's profitability and capitalization were stronger than we expect. An increase in DVB's still-moderate capitalization by DZ would demonstrate DZ's longer-term commitment to DVB and we would regard it as a stabilizing rating factor.

Related Criteria And Research

- Despite Significant Progress, Capital Is Still A Rating Weakness For Large Global Banks, Jan. 18, 2011
- Credit Stress Testing For Financial Institutions, April 29, 2009
- FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

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

Additional Contact:

Research Update: Outlook On Germany-Based DVB Bank Revised To Stable On Improving Risk Profile; Ratings Affirmed At 'A/A-1'

Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

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) 495-783-4011.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.