

DVB Bank SE

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

Major Rating Factors

Rationale

Outlook

Related Criteria And Research

DVB Bank SE

Major Rating Factors

Strengths:

- Explicit and implicit support from 95% owner DZ BANK AG and from the German cooperative banking sector.
- Solid expertise and franchise in transport lending.
- Sound risk management and below-average risk appetite.
- Good operating performance before risk.

Counterparty Credit Rating

A/Stable/A-1

Weaknesses:

- Inferior strategic importance to the cooperative sector compared with core members.
- Significant cyclical credit risk from monoline business model as a pure transport finance wholesale bank.
- Moderate capitalization and limited financial flexibility.
- Weaker risk profile of the investment management business.

Rationale

The ratings on Germany-based DVB Bank SE (DVB) are based on Standard & Poor's Ratings Services' expectation that DVB will receive support from the German cooperative banking sector in case of need, owing to DVB'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 of the sector's protection scheme. Owing to our view of this implicit and explicit ownership support, for example, with regard to funding and liquidity, the long-term rating benefits from a four-notch uplift above our assessment of DVB's stand-alone credit profile. This also reflects our view of DVB as a strategically important subsidiary to DZ BANK. However, the ratings on DVB differ by one notch from those on core members of the sector, reflecting DVB's limited business integration into DZ BANK and the sector.

In our view, DVB's activities do not belong to the sector's strategic core businesses, despite DVB's good niche market position in transport finance on an international scale. We regard DVB'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 sector support and do not incorporate the likelihood of government support.

The ratings also reflect DVB's solid expertise and franchise in lending to the global transport sector, good prerisk earnings capacity, and in our opinion its sound risk management and comparatively low risk appetite. These factors somewhat mitigate our concerns about DVB's monoline business model and only moderate capital strength.

As a pure transport finance wholesale bank, DVB is exposed to significant cyclical credit risk during the potentially prolonged period of difficult transport markets, particularly in shipping. In our assessment of DVB's moderate capitalization as a buffer against severe credit stress, we also take into account DVB's, in our view, only limited financial flexibility. We do not expect DZ BANK 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.

DVB's capitalization as a rating weakness is highlighted in the risk-adjusted-capital (RAC) ratio of 5.4% (4.9% after

the net impact of concentration and diversification adjustments). Despite significant improvements over the past two years as a result of retaining earnings, the ratio compares unfavorably with an average of 7% (8% after diversification) for a sample of 75 global banks (data as of June 30, 2010). In our view, the much higher regulatory capital ratios, for example, the Tier 1 ratio of almost 19% under the Basel II advanced internal ratings-based approach, underestimate the risk inherent in DVB's core operations.

Given the severity of the global economic crisis, which was disproportionately felt in the transport markets, DVB's operating performance has been fairly resilient and significantly better than that of many peers, exceeding our expectations. DVB's rising risk provisioning needs have not exceeded its earnings capacity over the past three years. This is despite the considerable slump in international trade volumes, decreasing rates for transport services, and sizable overcapacities in various shipping and aviation markets.

This above-average performance reflects what we see as DVB's less aggressive underwriting approach, sound collateral and covenant management, and good diversity within its shipping and aviation portfolio by regions, objects, and customers. It also illustrates DVB's strengthened earnings capacity, owing to its ability to significantly raise margins, despite declining new business; the sum of interest and commission income rose significantly during the crisis.

For the coming years, we expect only small improvements in profitability before risk. This is owing to increasing margin pressure from competitors returning to the transport markets and mostly stable new business levels, reflecting the continually difficult environment for syndicated lending. We understand that increased commission income is also partly a result of loan restructuring agreements with clients, such as the extension of principal repayment dates against a fee, which adjusts cash-flow structures and precludes disclosure of these balances as problem loans.

As a result, DVB can spread its risk provisioning needs over a longer time frame, but this might only delay the recognition of problem loans if the economic recovery takes longer or is weaker than DVB expects. Based on our assumption of continually challenging conditions for the global economy and international trade, we therefore forecast in our base-case scenario that risk costs in the current and coming year might surpass the levels recorded in 2009 and 2010 and constrain DVB's earnings retention capacity. Even if economic conditions keep improving, the problem of sizable order backlogs for new ships, particularly tankers, bulkers, and container ships, and in some aviation segments remains in the near to medium term.

DVB should remain profitable, however. Even in a stress scenario, in which we expect risk provisioning to rise to about 90 basis points on customer loans, net losses should only somewhat erode capital. In our view, disproportionately increasing exposures in DVB's Investment Management (IM) division--albeit from a still low level of €700 million--pose the highest risks under weak underlying conditions. In IM, DVB invests, together with institutional investors, in various transport asset classes. Exposures often carry lower collateral and higher leverage, with a relatively short investment horizon. Already in 2010, income from these investment vehicles decreased significantly. Fairly granular exposures mitigate our concerns that sizable impairment losses could in the future significantly hamper profitability.

Support from DZ BANK, which has increased since the capital market dislocation, is most tangible in terms of funding and liquidity, and DVB depends on this parental support to a very large extent. DVB offsets its cash-flow shortfalls mainly with the help of DZ BANK, given DVB's limited scope for secured funding against the sale and

repurchase of liquid assets. In addition, DZ BANK and the cooperative sector subscribe to a major proportion of DVB's medium- and long-term funding instruments. The issuance of ship covered bonds--the first of which DVB issued in 2010 (a €250 million three-year bond)--will only very slowly diversify DVB's funding sources, in our view. Owing to the overriding principle of matched funding, market risk--that is, interest rate risk in the banking book--is small. Given the very small size of investments held for liquidity purposes, DVB has, in our opinion, negligible exposures to credit and credit-spread risk from securities.

Outlook

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

Rating implications could be negative if the operating environment were to deteriorate over a prolonged period. This could occur if credit risk costs were to substantially exceed our forecast of about €200 million over the next two years, weakening DVB's stand-alone credit profile. The ratings could also be lowered if DVB's strategic importance for the cooperative banking sector lessened and DZ BANK considered divesting its stake in DVB.

We might consider positive rating implications if the aggregate strength of the German cooperative banking sector increased, accompanied by stronger-than-expected profitability and capitalization at DVB. An increase in DVB's still modest capitalization by DZ BANK would underpin our view of DZ BANK's longer-term commitment to DVB and constitute a stabilizing rating factor.

Table 1

DVB Bank SE Risk-Adjusted Capital Data						
(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)	
Credit risk						
Government and central banks	161	13	7.7	5	3.0	
Institutions	751	275	36.6	118	15.7	
Corporate	19,009	3,913	20.6	16,181	85.1	
Retail	0	0	0.0	0	0.0	
Of which mortgage	0	0	0.0	0	0.0	
Securitization	0	0	0.0	0	0.0	
Other assets	846	838	99.0	908	107.4	
Total credit risk	20,767	5,038	24.3	17,211	82.9	
Market risk						
Equity in the banking book¶	24	38	156.3	224	934.9	
Trading book market risk	--	164	--	246	--	
Total market risk	--	201	--	470	--	
Operational risk						
Total operational risk	--	574	--	731	--	

Table 1

DVB Bank SE Risk-Adjusted Capital Data (cont.)				
(Mil. €)	Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments				
RWA before diversification	5,813		18,413	100.0
Total adjustments to RWA	--		2,093	11.4
RWA after diversification	5,813		20,506	111.4
(Mil. €)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	988	17.0	998	5.4
Capital ratio after adjustments§	988	17.0	998	4.9

*Exposure at default. Securitisation exposure includes the securitization tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2010, and Standard & Poor's.

Table 2

DVB Bank SE Profitability Ratios					
	--Year-ended Dec. 31--				
(%)	2010	2009	2008	2007	2006
Net interest income/average earning assets	1.1	1.2	1.3	1.5	1.4
Net interest income/revenues	49.4	56.7	67.8	58.2	59.7
Fee income/revenues	31.9	28.8	37.8	28.6	27.9
Market-sensitive income/revenues	7.7	5.3	(19.4)	2.1	3.2
Personnel expense/revenues	26.0	26.3	32.7	29.7	29.3
Noninterest expenses/revenues	53.1	53.2	57.8	53.3	52.9
New loan loss provisions/revenues	13.3	21.3	5.9	6.9	9.8
Net operating income before loan loss provisions/loan loss provisions	351.7	219.9	713.9	680.8	483.2
Net operating income after loan loss provisions/revenues	33.6	25.5	36.3	39.8	37.4
Pretax profit/revenues	33.6	25.5	35.9	40.1	41.3
Tax/pretax profit	20.7	12.2	(5.0)	9.3	12.1
Core earnings/revenues	26.6	22.4	N/A	36.2	33.0
Core earnings/average adjusted assets	0.6	0.4	N/A	0.9	0.7
Noninterest expenses/average adjusted assets	1.1	1.0	1.1	1.3	1.2
Core earnings/average risk-weighted assets	N.M.	N.M.	N/A	1.0	0.8
Core earnings/average adjusted common equity	10.8	8.4	N/A	17.1	14.7
Pretax profit/average common equity	11.9	8.4	11.2	15.9	15.2

N/A--Not applicable. N.M.--Not meaningful.

Table 3

DVB Bank SE Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2010	2009	2008	2007	2006
Adjusted common equity/risk assets	N.M.	N.M.	N.M.	5.7	5.6
Tier 1 capital ratio	18.9	14.2	13.9	6.4	6.8
Adjusted total equity/adjusted assets	5.2	5.3	5.1	5.1	5.3
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	6.7	6.9	6.5	7.2	7.3
Common dividend payout ratio	26.5	37.5	26.6	0.0	0.0

N.M.--Not meaningful.

Table 4

DVB Bank SE Summary Balance Sheet					
	--Year-ended Dec. 31--				
(Mil. €)	2010	2009	2008	2007	2006
Assets					
Cash and money market instruments	114.3	252.4	642.9	470.9	458.2
Securities	294.3	388.2	612.7	287.3	243.3
Trading securities (marked to market)	193.1	282.4	531.3	149.8	96.6
Nontrading securities	101.2	105.8	81.4	137.5	146.7
Loans to banks (net)	410.3	401.2	321.7	1,324.5	305.5
Customer loans (gross)	17,613.5	15,490.4	15,271.0	10,798.1	9,784.5
Loan loss reserves	182.5	158.5	107.7	113.2	124.2
Customer loans (net)	17,431.0	15,331.9	15,163.3	10,684.9	9,660.3
Earning assets	18,318.1	16,279.8	16,205.4	12,604.2	10,628.5
Equity interests/participations (nonfinancial)	47.0	47.5	79.1	87.5	123.0
Intangibles (nonservicing)	111.7	111.8	104.6	89.5	82.0
Fixed assets	102.5	19.7	35.6	14.3	17.5
Derivatives credit amount	362.9	356.6	267.2	111.8	173.0
All other assets	442.8	359.3	149.7	83.8	36.3
Total assets	19,316.8	17,268.6	17,376.8	13,154.5	11,099.1
Intangibles (nonservicing)	111.7	111.8	104.6	89.5	82.0
Adjusted assets	19,205.1	17,156.8	17,272.2	13,065.0	11,017.1
Liabilities					
Total deposits	11,623.4	11,489.5	12,156.3	8,420.2	6,240.6
Noncore deposits	7,214.6	7,076.8	7,144.9	4,057.9	2,554.8
Core/customer deposits	4,408.8	4,412.7	5,011.4	4,362.3	3,685.8
Other borrowings	5,616.1	4,083.1	3,394.8	3,557.4	3,914.2
Other liabilities	684.7	637.5	826.8	383.7	239.5
Total liabilities	18,173.5	16,210.1	16,377.9	12,361.3	10,394.3
Total equity	1,143.3	1,058.5	998.9	793.2	704.8
Minority interest-equity	1.2	1.3	1.4	0.9	2.3
Common shareholders' equity (reported)	1,142.1	1,057.2	997.5	792.3	702.5
Share capital and surplus	118.0	118.1	118.3	99.7	99.5

Table 4

DVB Bank SE Summary Balance Sheet (cont.)					
Revaluation reserve	4.6	(3.1)	(20.1)	16.2	24.1
Retained profits	27.9	27.9	27.9	20.6	12.5
Total liabilities and equity	19,316.8	17,268.6	17,376.8	13,154.5	11,099.1

Table 5

DVB Bank SE Equity Reconciliation Table					
--Year-ended Dec. 31--					
(Mil. €)	2010	2009	2008	2007	2006
Common shareholders' equity (reported)	1,142.1	1,057.2	997.5	792.3	702.5
Plus minority interest (equity)	1.2	1.3	1.4	0.9	2.3
Minus dividends (not yet distributed)	(28.0)	(28.0)	(27.9)	(19.9)	(11.8)
Minus revaluation reserves	(4.6)	3.1	20.1	(16.2)	(24.1)
Minus nonservicing intangibles	(111.7)	(111.8)	(104.6)	(89.5)	(82.0)
Minus tax loss carryforwards	(1.2)	(5.1)	0.0	0.0	0.0
Adjusted common equity	997.8	916.7	886.5	667.6	586.9
Total Adjusted Capital	997.8	916.7	886.5	667.6	586.9
Adjusted total equity	997.8	916.7	886.5	667.6	586.9

Table 6

DVB Bank SE Profit And Loss					
--Year-ended Dec. 31--					
(Mil. €)	2010	2009	2008	2007	2006
Net interest income	192.6	192.3	189.3	172.4	145.7
Interest income	805.0	717.4	869.0	779.9	671.4
Interest expense	612.4	525.1	679.7	607.5	525.7
Operating noninterest income	197.4	147.1	89.8	123.6	98.4
Fees and commissions	124.4	97.8	105.5	84.8	68.2
Trading gains	19.5	26.3	0.1	(6.2)	(1.3)
Other market-sensitive income	10.7	(8.4)	(54.2)	12.3	9.1
Equity in earnings of unconsolidated subsidiaries	6.0	0.0	3.9	21.2	18.7
Other noninterest income	36.8	31.4	34.5	11.5	3.7
Operating revenues	390.0	339.4	279.1	296.0	244.1
Noninterest expenses	207.1	180.6	161.3	157.8	129.1
Personnel expenses	101.5	89.4	91.3	88.0	71.4
Other general and administrative expense	99.9	86.8	67.6	66.6	54.3
Preprovision operating income	182.9	158.8	117.8	138.2	115.0
Credit loss provisions (net new)	52.0	72.2	16.5	20.3	23.8
Operating income after loss provisions	130.9	86.6	101.3	117.9	91.2
Nonrecurring/special income	N/A	N/A	1.6	2.6	12.5
Amortization of intangibles	N/A	N/A	2.7	1.8	3.0
Pretax profit	130.9	86.6	100.2	118.7	100.7
Tax expense/credit	27.1	10.6	(5.0)	11.0	12.2
Net income (before minority interest)	103.8	76.0	105.2	107.7	88.5

Table 6

DVB Bank SE Profit And Loss (cont.)					
Minority interest in consolidated subsidiaries	(1.2)	1.5	0.3	(1.5)	(1.5)
Net income before extraordinaries	105.2	74.6	104.9	109.2	90.0
Net income after extraordinaries	105.2	74.6	104.9	109.2	90.0

N/A--Not applicable.

Table 7

DVB Bank SE Core Earnings Reconciliation Table					
	--Year-ended Dec. 31--				
(Mil. €)	2010	2009	2008	2007	2006
Net income (before minority interest)	103.8	76.0	105.2	107.7	88.5
Minus nonrecurring/special income	0.0	0.0	(1.6)	(2.6)	(12.5)
Plus or minus tax impact of adjustments	0.0	0.0	N/A	0.2	1.5
Plus amortization/impairment of goodwill/intangibles	0.0	0.0	2.7	1.8	3.0
Core earnings	103.8	76.0	N/A	107.1	80.5

N/A--Not applicable.

Related Criteria And Research

- Despite Significant Progress, Capital Is Still A Rating Weakness For Large Global Banks, Jan. 18, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Credit Stress Testing For Financial Institutions, April 29, 2009
- FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings Detail (As Of March 30, 2011)*

DVB Bank SE

Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured (11 Issues)	A
Short-Term Debt (1 Issue)	A-1
Subordinated (2 Issues)	BBB+

Counterparty Credit Ratings History

30-Mar-2011	A/Stable/A-1
30-Jan-2009	A/Negative/A-1
12-Dec-2006	A/Stable/A-1
23-Aug-2006	A-/Positive/A-2

Sovereign Rating

Germany (Federal Republic of) (Unsolicited Ratings)	AAA/Stable/A-1+
---	-----------------

*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.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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.