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Research Update:

DVB Bank SE Outlook To Negative On Difficult Transport Markets; 'A/A-1' Ratings Affirmed

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Rationale

On Jan. 30, 2009, Standard & Poor's Ratings Services revised to negative from stable its outlook on Germany-based DVB Bank SE (DVB). DVB is a wholesale commercial bank exclusively active in the worldwide transport sector and 95% owned by DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ Bank; A+/Stable/A-1), which in turn is the central institution of the German cooperative banking sector. At the same time, the 'A' long-term and 'A-1' short-term counterparty credit ratings on DVB were affirmed.

The outlook revision reflects our concerns about very difficult transport markets, particularly shipping, which we consider likely to depress DVB's performance over the longer term. This also increases our longer term concerns that DZ Bank's commitment to DVB could weaken, considering a potentially prolonged period of cyclically impaired returns and higher capital needs on its investment in DVB. It also reflects DZ Bank's increasing strategic focus on core businesses of the cooperative sector.

We affirmed the ratings on DVB and raised today the ownership-support element to four notches from three because we have no near-term concerns about ongoing solidarity support for DVB from the German cooperative banking sector. This is based on its 95% ownership by DZ Bank and its membership of the cooperative sector's protection scheme. It is also underpinned by DVB's increased substantial refunding through the sector, and a more recent capital increase by DZ Bank. Given DVB's weaker strategic importance and limited business integration into DZ Bank and the sector, however, we have moderately differentiated the ratings from those on strategic core members of the sector.

At the same time, we have lowered DVB's stand-alone credit assessment, reflecting our concerns that DVB's financial profile could more than moderately weaken, due to the global economic slowdown and from material exposures in the rapidly deteriorating and correlated transport markets. In particular, conditions for the shipping industry, by far DVB's largest business segment, have deteriorated sharply since fourth-quarter 2008, and market prospects remain bleak for the longer term.

We expect DVB's full-year 2008 pretax results to be only moderately below the bank's 90 basis points of risk-weighted assets by Sept. 30, 2008. However, we consider there is a heightened risk of an intensified and protracted period of profit compression at DVB. This reflects our concerns about DVB's business concentrations in difficult markets and increasing credit costs from record lows as of September 2008. Moreover, we expect earnings to be depressed by a decline in new businesses, syndications, and services to cross-sell; by increased funding costs, partly passed on to customers; and by a rise in noninterest-servicing debt. However, asset quality risks are partly mitigated

by DVB's solid experience and franchise in transport segments, sound risk and collateral management, and diversification by customers, objects, and regions financed.

We consider that DVB has low systemic importance in the German banking system, reflecting its size, the nature of its activities, and its lack of retail deposits and operations. As a bank, however, it could generally also qualify for support under the German government rescue package, if necessary.

Outlook

Although we are fully confident that DVB will receive ongoing ownership support from DZ Bank and the German cooperative banking sector in the near to medium term, the negative outlook reflects our longer-term concerns that its owner's commitment could weaken. This is because of a potentially prolonged period of cyclically weak returns on its investment in DVB and DZ Bank's potentially stronger focus on core businesses in the cooperative sector.

Moreover, we believe that DVB's strategic importance could weaken if its stand-alone financial and asset-quality metrics fail to demonstrate relative resilience against very difficult transport markets, particularly shipping.

We would consider a downgrade if the German cooperative banking sector reconsiders its investment in DVB or if DVB's stand-alone strength or operating environment deteriorates more severely and over a longer period than we currently anticipate.

We would revise the outlook to stable, mirroring the outlook of the cooperative banking sector, if DVB remains generally profitable during the downward cycle. We would also consider it positive if its majority owner, DZ Bank, further strengthened DVB's still-modest capitalization, at the same time underpinning its longer-term commitment to DVB.

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

Ratings List

Ratings Affirmed; Outlook Action

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

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