



Deutsche Verkehrs-Bank AG

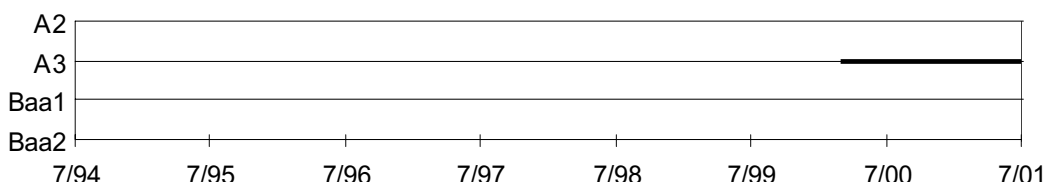
July 2001

Ratings and Contacts

Category	Moody's Rating	Other Short Term -Dom Curr	P-2
Bank Deposits	A3/P-2	Analyst	Phone
Bank Financial Strength	C-	Michael Dawson-Kropf/London	44.20.7772.5454
Senior Unsecured	A3	Samuel S. Theodore/London	
Subordinate MTN -Dom Curr	Baa1		

Rating History

Long-term Bank Deposits



Operating Statistics

Deutsche Verkehrs-Bank AG (CONSOLIDATED)

	[1]2000	1999	1998	1997	Average
Net income - group share (EUR bn)	0.02	0.02	0.00	0.00	0.01
Recurring earning power[2]	0.34	0.40	0.26	0.56	0.39
Net interest margin	0.86	0.77	0.64	0.66	0.73
Cost / income ratio	82.77	80.18	86.27	75.02	81.06
Return on average assets	0.23	0.23	0.08	0.00	0.14
Return on equity (period end)	5.82	8.77	3.29	0.15	4.51
Risk provisions % preprovision income	0.00	23.46	52.48	120.23	49.04

[1] For the 12 months ended Dec. 31. [2] Preprovision income % average assets.

Balance Sheet Statistics

Deutsche Verkehrs-Bank AG (CONSOLIDATED)

	[1]2000	1999	1998	1997	[2]Avg/CAGR
Total assets (EUR bn)	9.5	6.9	6.6	5.3	20.9
Total assets (USD bn)	8.9	6.9	7.7	5.8	—
Shareholders equity (EUR bn)	0.3	0.2	0.2	0.2	29.3
Average net loans % average assets	58.8	43.2	33.1	28.3	40.8
Average net loans % average deposits	226.5	160.4	121.4	109.5	154.4
Problem loans % net loans	—	—	—	—	—
Loan loss reserves % net loans	—	—	—	—	—
Tier 1 ratio (%)	5.70	4.50	5.20	6.80	5.5

[1] As of Dec. 31. [2] Compound Annual Growth Rate for total assets and equity.

Opinion

Rating Rationale

The A3/P-2 deposit ratings of Deutsche Verkehrs-Bank AG (VerkehrsBank) are based on majority ownership by DG Bank (rated A2/P-1/C-) and the likelihood of that bank's support in the event of a crisis. Additional support could come from VerkehrsBank's membership in the co-operative Finanzverbund.

VerkehrsBank's C- financial strength rating reflects modest risk-adjusted recurring profitability and capitalisation. Furthermore, becoming a fully integrated corporate finance specialist in the transport industry remains a challenge in view of the competition from larger banking groups and VerkehrsBank's limited financial resources.

However, in recent years, VerkehrsBank has made some progress through the acquisitions of an aircraft finance portfolio from Long-Term Credit Bank of Japan in 1998 and of Nedship Bank N.V. from Rabobank in 2000. We view positively that ReiseBank's profitability - a subsidiary of Verke-

hrsBank, which focuses on currency exchange and cash transfer - has become less vulnerable as a result of the planned introduction of the Euro (coins and notes) in 2002.

Rating Outlook

The outlook for the deposit rating is stable because of the ownership by DG Bank, the rating of which is underpinned by the cohesion in the German co-operative sector. Recently, DG Bank and GZ Bank (rated A1/P-1/C+) announced their intention to merge and create a new bank called DZ Bank. We expect the new owner to remain committed to VerkehrsBank, especially in view of VerkehrsBank's role as the central bank for SpardaBanken, a group of co-operative savings banks. In this context, a change in the ownership structure might have negative rating implications.

Recent Results

At 12/2000, profit before tax increased to EUR 35.9m, 57% over the prior year's result.



Coupon	Type of Debt	Maturity	Moody's Rating
Deutsche Verkehrs-Bank AG			
—	Euro Debt Issuance Program	—	Baa1
—	Euro Debt Issuance Program	—	A3
5.150%	Euro Medium Term Notes	2006	A3
—	Flt. Rt. German Notes	2005	A3
—	Flt Rt Euro Medium Term Notes	2003	A3
—	Flt Rt Euro Medium Term Notes	2003	A3
—	Flt Rt Euro Medium Term Notes	2002	A3
0.100%	Euro Medium Term Notes	2001	A3
—	Bank Financial Strength Rating	—	C-
—	Long-Term Bank Deposit Rating	—	A3
—	Short-Term Bank Deposit Rating	—	P-2

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Strengths/Opportunities

- Strong ownership and two layers of external support
- Developing business franchise in the international transport industry
- Initial success of the diversification of VerkehrsBank's subsidiary, ReiseBank, into other financial and non-financial services
- Operational systems and structures are adjusted to the bank's new business profile

Weaknesses/Challenges

- Modest capitalisation and risk-adjusted profitability is unlikely to improve meaningfully in the short to medium term
- Becoming a fully integrated corporate finance specialist in the transport industry remains a challenge

Background

In 2000, Deutsche Verkehrs-Bank AG (VerkehrsBank) advanced towards its goal of transforming itself from a small German wholesale bank, with a historical background in the railway industry, into a corporate finance specialist for the international transport industry.

In 1995, DG Bank (rated A2/P-1/C-) acquired the majority ownership in VerkehrsBank, mainly to ensure that this "fourth" central bank stayed within the co-operative sector¹. Since 1997, the bank has been restructured, which has included a clean-up of the loan portfolio and a refocusing on the following "core" business sectors:

- specialised corporate finance and lending for aviation, shipping, road & logistics, rail and infrastructure
- central bank function for Sparda Banken, a group of co-operative savings banks
- currency exchange, cash transfer, currency mailing, ATMs and non-financial services through its subsidiary ReiseBank

TWO LAYERS OF EXTERNAL SUPPORT: STRONG OWNERSHIP BY DG BANK AND MEMBERSHIP OF FINANZVERBUND

DG Bank holds a majority stake in VerkehrsBank and includes the bank in its list of subsidiaries, which are covered by a letter of comfort.

We believe that DG Bank's strategic interest in VerkehrsBank is strongly influenced by VerkehrsBank's role as the central bank of Sparda Banken. As such, the planned merger between DG Bank and GZ Bank² should have no direct impact on VerkehrsBank. However, any changes in the ownership structure have to be considered as a rating event.

VerkehrsBank also benefits from a second external support: its membership in the Finanzverbund³ of the German co-operative sector. Despite the strains that the Garantiefond has endured in the past two years, we believe that the support mechanism still provides a considerable level of protection — especially for relatively small banks.⁴

DEVELOPING BUSINESS FRANCHISE IN THE INTERNATIONAL TRANSPORT INDUSTRY

VerkehrsBank's acquisitions of an aircraft finance portfolio from Long-Term Credit Bank of Japan in 1998 and of Nedship Bank N.V. from Rabobank in 2000 has brought the bank closer to its goal of establishing itself as a specialised lender and corporate finance partner for its targeted sectors in the transport industry in a relatively short time.

Currently, over 90% of VerkehrsBank's customers and exposure are outside of Germany, and the bank owns a worldwide network of branches and representative offices in the major centres for ship financing and aviation.

1 The other three central banks are DG Bank AG (rated A2/P-1/C-), GZ Bank AG (rated A1/P-1/C+) and WGZ Bank eG (A1/P-1/C+).
2 At the beginning of 2001, DG Bank and GZ Bank announced their intention to merge. We placed under review for possible downgrade the A1 long-term debt and deposit ratings of GZ-Bank AG, as well as the bank's C financial strength rating. DG Bank's debt and deposit ratings were confirmed (senior at A2). The C-financial strength rating of DG Bank remains under review for possible downgrade.
3 *Garantiefonds* (a funded support fund which is also topped up by annual contributions from its members) and the *Garantieverbund* (a further contractually defined support measure which invariably takes the form of a performance-guarantee in favour of a co-operative bank in difficulty).
4 VerkehrsBank is relatively large in comparison to the primary banks in the co-operative sector but still small in comparison to the larger central banks, WGZ, GZ and DG Bank and the whole sector.

BECOMING A FULLY INTEGRATED CORPORATE FINANCE SPECIALIST IN THE TRANSPORT INDUSTRY REMAINS A CHALLENGE

We believe that VerkehrsBank's goal to become a fully integrated lender and advisor to the transport industry remains a challenge.

VerkehrsBank has only just started integrating the various business segments that it recently acquired. In the future, the various segments can be expected to fertilise each other and provide more fee-driven services. However, so far, VerkehrsBank has achieved only modest synergies from the combination of specialised finance expertise in the various fields of international transport.

In this context, VerkehrsBank faces the challenge of strengthening the penetration of its selected customer group — the number of core customers varies between business segments but in aggregate ranges between 500-700 worldwide — especially in view of competition from larger, more diversified and financially stronger banking groups or specialised and established competitors.

MODEST CAPITALISATION AND RISK-ADJUSTED PROFITABILITY IS UNLIKELY TO IMPROVE MEANINGFULLY IN THE SHORT TO MEDIUM TERM

VerkehrsBank's improving, albeit modest, risk-adjusted profitability benefits considerably from the commission income from ReiseBank, less so from the earnings in the new corporate finance area.

In transport finance, the bank will generate its earnings mostly in the short and medium term with lending activities in the shipping and aircraft areas. As a result, the risk-adjusted recurring earnings should not improve considerably in the short to medium term.

VerkehrsBank's economic capitalisation is modest due to a historically low profitability and the resulting low level of its own capital-generating power. Furthermore, the acquisitions of the LTCB aircraft portfolio and Nedship Bank have led to a considerable growth in VerkehrsBank's risk-weighted assets.

The level of economic capital is further strained by the considerable amount of goodwill for Nedship Bank.

INITIAL SUCCESS OF REISEBANK'S DIVERSIFICATION INTO OTHER FINANCIAL AND NON-FINANCIAL SERVICES

We believe that VerkehrsBank's revenue base has become less vulnerable due to the planned introduction of Euro coins and notes in 2002. We view positively ReiseBank's diversification of its earnings, mainly through ATM, cash-transfer in co-operation with Western Union and the sale of non-financial products.

Having said that, ReiseBank's franchise depends on the convenience factor of its branches' location, thus implying that the potential product range will be limited to commoditised and low margin products.

OPERATIONAL SYSTEMS AND STRUCTURES ARE ADJUSTED TO THE BANK'S NEW PROFILE

VerkehrsBank is making considerable investments in a new IT platform and is developing new risk management systems to better fit its international business profile. We view this development as an important step in the transformation process and expect some efficiency gains in the short to medium term, especially in the area of controlling and underwriting and improved management information systems.

Deutsche Verkehrs-Bank AG

	12/31/00	12/31/99	12/31/98	12/31/97
Summary Balance Sheet (EUR million)				
Cash & central bank	121	1,013	140	192
Due from banks	1,844	1,226	3,061	2,777
Securities	899	1,199	877	794
Net loans	6,244	3,370	2,434	1,507
Loan loss reserves (LLR)	—	—	—	—
Insurance assets	0	0	0	0
Fixed assets	21	14	15	18
Other assets	343	53	37	42
Total assets	9,472	6,875	6,565	5,331
Total assets (USD million) [1]	8,918	6,903	7,661	5,820
Demand deposits	1,065	964	1,042	873
Savings deposits [2]	1,431	786	828	504
Due to banks	4,709	3,970	3,579	3,411
Market funds	1,521	688	770	285
Insurance liabilities	0	0	0	0
Other liabilities	111	137	63	68
Total liabilities	8,836	6,545	6,280	5,141
Subordinated debt	142	63	44	0
Shareholders' equity	329	177	151	151
Total capital funds	635	330	285	190
Total liabilities & capital funds	9,472	6,875	6,565	5,331
Derivatives - notional amount	15,500	10,300	8,385	9,194
Derivatives - replacement value	—	—	—	—
Contingent Liabilities	1,549	824	609	439
Risk weighted assets (RWA)	—	—	—	—
Assets under management (EUR million) [3]	—	—	—	—
Number of employees	906	796	784	—
Summary Income Statement				
+Interest income	413	265	190	168
-Interest expense	366	231	166	142
=Net interest income	48	35	23	26
+Trading income	8	11	13	13
+Fees & commissions	90	73	60	53
+Insurance income (net)	0	0	0	0
+Other operating income	17	17	16	28
=Operating income	163	136	112	120
-Personnel expenses	60	49	47	46
-Other operating expenses	65	54	45	39
= Operating funds flow	39	33	21	35
-Amortisation/depreciation	11	6	6	5
(Total operating expenses)	135	109	97	90
=Preprovision income (PPI)	28	27	15	30
-Risk provisions	0	6	8	36
+Other non operating adjustments [4]	2	1	-1	7
+Extraordinary profit / loss	0	0	0	0
=Pretax income	31	22	7	1
-Taxes	11	7	2	0
=Net income	19	16	5	0
-Minority interests	0	0	0	0
=Net income (group share)	19	16	5	0
Growth Rates (%)				
Net loans	85.25	38.50	61.48	—
Total assets	37.77	4.72	23.16	—
Customer deposits (demand and savings)	42.62	-6.38	35.78	—
Net interest income	37.23	47.82	-9.30	—
Fee and commission income	23.59	22.47	12.83	—
Operating expenses	24.12	12.54	7.95	—
Preprovision income	4.47	74.81	-48.38	—
Net Income	23.22	212.30	2,042.95	—

Deutsche Verkehrs-Bank AG

	12/31/00	12/31/99	12/31/98	12/31/97
Income Statement in % Average Risk Weighted Assets				
Net interest income	—	—	—	—
Trading income	—	—	—	—
Fees income	—	—	—	—
Insurance income	—	—	—	—
Operating income	—	—	—	—
Operating expenses	—	—	—	—
Preprovision income	—	—	—	—
Risk provisions	—	—	—	—
Extraordinary profit	—	—	—	—
Net income	—	—	—	—
Liquidity, Funding (including sub debt) & Balance Sheet Composition				
Avg. liquid assets % avg. total assets	38.55	55.93	65.93	70.60
Avg. net loans % avg. total assets	58.81	43.18	33.13	28.27
Avg. customer deposits % avg. total funding	27.68	28.42	28.63	27.14
Avg. interbank funds % avg. total funding	56.58	59.28	61.67	67.25
Avg. market funds (excl. interbank) % avg. total funding	14.40	11.45	9.30	5.61
Avg. sub debt % total funding	1.34	0.84	0.78	0.00
Avg. liquid assets % avg. customer deposits	148.45	207.73	241.64	273.40
Avg. net loans % avg. customer deposits	226.47	160.38	121.41	109.48
Avg. market funds reliance [5]	-69.29	-130.47	-204.45	—
Avg. RWA % avg. total assets	—	—	—	—
Breakdown of Operating Income in %				
Net interest income % operating income	29.16	25.55	20.93	21.66
Trading income % operating income	5.04	8.11	11.67	10.55
Fees & commissions % operating income	55.15	53.65	53.04	44.14
Insurance income % operating income	0.00	0.00	0.00	0.00
Other operating income % operating income	10.65	12.69	14.36	23.66
Profitability				
Yield on avg. earning assets (%)	5.80	4.57	3.54	3.45
Cost of interest bearing liabilities (%)	4.77	3.62	2.94	2.79
Net interest margin (%)	0.86	0.77	0.64	0.66
Recurring earning power (PPI % avg. assets)	0.34	0.40	0.26	0.56
Risk-weighted recurring earning power (PPI % avg. RWA)	—	—	—	—
Return on average assets (%)	0.23	0.23	0.08	0.00
Return on avg. RWA (%)	—	—	—	—
Return on equity (period end) (%)	5.82	8.77	3.29	0.15
Net interest income coverage of risk provisions	—	5.49	2.90	0.72
Risk provisions % preprovision income	0.00	23.46	52.48	120.23
Internal capital growth (%)	4.71	4.92	3.29	—
Dividend payout ratio (%)	56.42	52.05	0.00	0.00
Efficiency				
Cost/income ratio (operating expenses % operating income)	82.77	80.18	86.27	75.02
Operating expenses % average assets	1.65	1.62	1.63	1.68
Operating income / employee (EUR thousand)	180.34	170.73	143.15	—
Operating expenses / employee (EUR thousand)	149.28	136.88	123.49	—
PPI / employee (EUR thousand)	31.07	33.85	19.66	—
Total assets / employee (EUR million)	10.45	8.64	8.37	—
Asset Quality and Risk Measurement				
Problem loans % net loans	—	—	—	—
LLR % problem loans	—	—	—	—
LLR % net loans	—	—	—	—
Risk provisions % net loans	—	0.19	0.33	2.38
Problem loans % (shareholders' equity + LLR)	—	—	—	—
Replacement value % shareholder's equity	—	—	—	—
Capital Adequacy (Period End)				
Tier 1 ratio (%)	5.70	4.50	5.20	6.80
Total capital ratio (%)	10.20	8.60	8.80	9.30
Shareholders' equity % total assets	3.48	2.58	2.30	2.84
Equity participations % shareholders' equity	0.39	0.57	0.67	0.68

[1] USD figure uses the historical exchange rate against the EUR (against the DEM prior to 1999).

[2] Full disclosure may not be available for all years. The amount is then included in "demand deposits".

[3] As reported by the bank

[4] This may include value adjustments of securities.

[5] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)]



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Report Number: 68970