

## **Deutsche Verkehrsbank's 'A' Long-Term Ratings Lowered to 'BBB+; Outlook Revised to Negative**

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LONDON (Standard & Poor's) Aug. 30, 2001--Standard & Poor's today lowered its long-term counterparty credit, certificate of deposit, and senior unsecured debt ratings on Deutsche Verkehrsbank AG (DVB) to triple-'B'-plus from single-'A'-minus and, at the same time, affirmed its 'A-2' short-term counterparty credit, certificate of deposit, and commercial paper debt ratings. The outlook is negative. See list below for all rating actions.

The rating actions follow the conclusion of Standard & Poor's review of the merger of **GZ-Bank AG Frankfurt/Stuttgart** (GZ-Bank) and DG Bank Deutsche Genossenschaftsbank AG (DG Bank), the two largest central banks of the German cooperative banking sector, and of the strengths of the cooperative banking sector itself. The rating actions also reflect uncertainties about DVB's strategic importance to its parent, the newly established **DZ Bank Deutsche Zentral-Genossenschaftsbank AG** (DZ Bank), and its future role in the cooperative sector.

Although the ratings on DVB, which is majority owned by DZ Bank, continue to be fully based on the German cooperative banking sector's system of solidarity and its comprehensive protective scheme, which has prevented insolvencies of member institutions for more than 60 years, Standard & Poor's no longer considers DVB to be an integral member of the DZ Bank group and the cooperative banking sector.

DZ Bank will undergo significant restructuring due to the former DG Bank's severe asset quality problems. DZ Bank will have to implement a sustainable business model, which is commensurate with its resources and ability to absorb unexpected losses. Starting from low profitability and capital levels, the workout of problem loans, cost cutting, and strategic reorientation aimed at downsizing and focusing on core activities and markets will be crucial. Furthermore, DVB's function as a central bank for a group of 15 local cooperative banks, which operate under the name Sparda Banken, will be assumed by its parent, DZ Bank. Both developments raise doubts about DVB's future membership of the cooperative banking sector.

DVB had total consolidated assets of €9.9 billion at mid-year 2001. In the course of a restructuring in 1997, DVB

revised its strategy and started to focus on the transport sector, which today accounts for about 85% of its lending volume of €8.3 billion, reflecting the acquisitions of the ship financier, Nedship Bank, in 2000, and a portfolio of mainly aviation loans from Long-Term Credit Bank of Japan Ltd. in 1998. DVB's profitability levels remain unsatisfactory and are depressed by its high cost-to-income ratio. Its capitalization is weak considering the goodwill from the acquisition of Nedship Bank and its dated hybrid capital instruments.

**OUTLOOK: NEGATIVE**

The outlook reflects that of its parent, DZ Bank, and the uncertainties about DVB's future role within the DZ Bank group and the cooperative banking sector.

**RATINGS LOWERED; OUTLOOK REVISED TO NEGATIVE FROM STABLE**

	Ratings	
	To	From
Deutsche Verkehrsbank AG		
Counterparty credit ratings	BBB+/Negative	A-/Stable
Certificate of deposit	BBB+	A-
Senior unsecured rating	BBB+	A-
Subordinated rating	BBB	BBB+

**RATINGS AFFIRMED**

Deutsche Verkehrsbank AG	
Counterparty credit ratings	A-2
Certificate of deposit	A-2
Commercial paper rating	A-2

**Credit Profile:**