

DVB Bank AG

Frankfurt, Germany

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 -Dom Curr	Baa1		

Key Indicators

DVB Bank AG (CONSOLIDATED)

	[1]2001	2000	1999	1998	1997	[2]Avg/CAGR
Total assets (EUR bn)	10.97	9.47	6.87	6.57	5.33	19.8
Total capital (EUR bn)	0.70	0.64	0.33	0.28	0.19	38.8
Return on average assets	0.04	0.23	0.23	0.08	0.00	0.12
Recurring earning power[3]	0.31	0.34	0.40	0.26	0.56	0.37
Net interest margin	0.88	0.86	0.77	0.64	0.66	0.76
Cost / income ratio	83.57	82.77	80.18	86.27	75.02	81.56
Problem loans % gross loans	—	—	—	—	—	—
Tier 1 ratio (%)	5.00	5.70	4.50	5.20	6.80	5.44

[1] As of Dec. 31. [2] Compound Annual Growth Rate for total assets and total capital. [3] Preprovision income % average assets.

Opinion

Credit Strengths

- Ownership and two layers of external support
 - Successfully developing business franchise in the international transport industry
 - Continuing adjustments to operational systems and structures support the bank's new business model

Credit Challenges

- Becoming a fully integrated corporate finance specialist in the transport industry remains a challenge
 - Modest risk adjusted profitability and capitalisation is unlikely to improve meaningfully in the short term
 - Asset quality shows considerable resilience against deterioration in the operating environment, however, we remain cautious in view of DVB's modest risk absorbing capacity

Rating Rationale

The A3/P-2 deposit ratings of DVB Bank AG (DVB) are based on majority ownership by DZ Bank (rated A2/P-1/D) and the likelihood of the latter's support in the event of a crisis. Additional support could come from DVB's membership in the co-operative support mechanisms. DVB's C- financial strength rating reflects its modest risk-adjusted recurring profitability and capitalisation. In recent years, DVB has made some progress in successfully developing a franchise in the international transport industry 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.

A positive credit factor is the reduced profitability vulnerability of ReiseBank — a subsidiary of DVB, which focuses on currency exchange and cash transfer — as a result of the introduction of the Euro. In 2002, DVB reduced its role as a central bank to the Sparda banks — which are DVB's second-largest shareholders with 13.3% — which will help DVB to improve its efficiency. However, if DVB would decide to ter-

minate its co-operation with the Sparda banks in the medium to long-term it might threaten its membership in the association of co-operative banks in Germany (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken BVR).

Rating Outlook - Stable

The outlook for the deposit rating is stable based on the ownership by DZ Bank. Recently, DZ Bank took the decision to not sell DVB. In this context, a change in the ownership structure may have negative rating implications for DVB. We changed to negative the outlook for DVB's C- financial strength rating in September 2001, reflecting our concern that the deterioration in the international aviation industry and growing pressure in the some areas in the shipping industry may negatively affect the asset quality of DVB.

What Would Change the Rating - UP

We believe that when DVB has fully concluded its transformation to a specialised corporate finance bank, including the elimination of all legacy risks in its German corporate portfolio, it should show stronger financial fundamentals, which would justify a higher financial strength rating. The current debt and deposit ratings are enhanced by external support and therefore are less likely to be closely correlated with DVB's FSR in the medium term.

What Would Change the Rating - DOWN

A withdrawal of commitment from DZ Bank and from the co-operative support system. The FSR is currently constrained by the depressed outlooks for the shipping and airline industry. The FSR is vulnerable to a further deterioration in these industries.

Recent Results

As of September 2002 total assets declined by 15.6%. Profits from ordinary activities increased by 0.5% to € 26.12m.



Ownership by DZ Bank, Membership of BVR¹ Underpin Ratings

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

However, we believe that DZ Bank has a limited strategic interest in DVB, as DVB's role as the central bank of Sparda Banken has been reduced. In this context, any changes in the ownership structure have to be considered as a rating event.

DVB also benefits from a second external support: its membership in the support mechanisms of the German co-operative sector². Despite the strains that the Garantiefond has endured in the recent years, especially 2000 and 2001, we believe that the support mechanism still provides a considerable level of protection - especially for relatively small banks.³

DVB's Wholesale Funding Is Stabilised By Co-operative Sector

DVB is wholesale funded, with a significant share of short-term borrowing. This is inherently more vulnerable compared to a deposit funded bank. However, this factor is balanced by the fact that DVB is the central bank for the Sparda Banks, which are normally highly liquid retail banks that provide DVB with relatively stable interbank deposits. In addition, DVB holds a considerable amount of liquid securities and has access to committed undrawn back up facilities.

Successfully Developing International Transport Franchise

DVB's acquisition 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 as a specialised lender and corporate finance partner for its targeted sectors in the transport industry.

Currently, more than 90% of DVB'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.

At the end of 2000 DVB set up DVB Capital, its corporate finance and investment banking unit, building on the already existing corporate finance team. DVB Capital is the bank's attempt to extend its customer lending relationship into higher margin products and services, such as structured finance, syndication, advisory services, and mezzanine lending. We view this step positively and DVB Capital is developing successfully, although its contribution to pre-provision funds is not meaningful yet.

Challenge to Become Full-Service Transportation Finance Specialist

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

DVB has been integrating the various business segments that it acquired over the two years. In the future, the various segments can be expected to pollinate each other and provide more fee-driven services. However, DVB so far has achieved only limited synergies from the combination of specialised finance expertise in the various fields of international transport.

DVB faces the challenge of further penetrating 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.

Having said that, in 2002 DVB made further progress generating non-interest income in corporate finance and if DVB continues to strengthen its franchise without taking undue risk it could improve DVB's risk profile.

¹ Association of co-operative banks in Germany (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken BVR).

² 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).

³ DVB 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 and DZ Bank and the whole sector.

Capitalisation and Profitability Unlikely to Improve in Short Term

DVB's modest risk-adjusted profitability benefits from the commission income from its subsidiary ReiseBank and to a growing extent from the earnings in the new corporate finance area. After years of improving results, 2002 risk-adjusted earnings will be more or less in line with 2001, which is good for a German bank, but reflects the majority non-domestic origin of its business. In addition, DVB benefited in 2002 from growing contributions from its treasury activities, where DVB took advantage of a steepening of the yield curve.

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. However, growing success in loan syndication and corporate finance is leading to a better diversification of DVB's earnings.

Reisebank is not taking other than operating risks, although it was hurt by the introduction of the Euro.

DVB's economic capitalisation is modest due to a historically low profitability and the resulting low level of its own capital-generating power. Economic capitalisation is strained by the considerable amount of goodwill for Nedship Bank, some concentration risks in DVB's loan portfolio, and the modest level of recurring earnings.

However, the sale of non-core assets, the planned warehousing of loans, and prudent growth targets should help DVB to strengthen its level of capitalisation somewhat in 2003.

DVB is aiming for the advanced approach under Basel II and because of the high share of secured lending the bank expects a positive impact on its regulatory capital levels in the future.

Operational Systems, Structures Adjusting to Support Business Model

DVB has been 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 costs, loan underwriting, and improved management information systems.

We expect further positive impact on DVB's profitability from the termination of its work intensive central bank functions especially in the area of mass payment transactions and securities trading and administration, which are planned to be concluded in 2003.

Asset Quality Shows Considerable Resilience

DVB's loan portfolios in its core businesses of shipping and aviation, excluding the "old" DVB German corporates loans, which are managed down, are showing a considerable resilience in this depressed market environment. The main reasons are that DVB is well diversified in the various sub-segments of these two industries and also by geographical areas. Additionally, about 90% of DVB's loan portfolio in these segments are collateralised and the quality of the collateral is good.

Strong collateral helped DVB avoid losses despite its exposure to larger bankruptcies in 2001 and 2002, especially in the aviation industry.

However, we are concerned about the continuing depressed market conditions for the global aviation and shipping industry and that some of DVB's uncollateralised exposures represent concentration risks, especially in view of DVB's somewhat limited risk absorbing capacity.

Issuer Profile

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Among the co-operative banks rated by Moody's Financial Services Ltd, DVB Bank AG is the fourth largest (out of four) with total consolidated assets of Euro 10.97 billion as of year-end 2001.

Headquartered in Frankfurt am Main, and founded in 1923, the bank changed its name from Deutsche Verkehrs Bank AG to DVB Bank AG on June, 13 2002. In 2000, DVB 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, DZ Bank⁴ (A2/P-1/D) acquired the majority ownership in DVB, mainly to ensure that this fourth central bank stayed within the co-operative sector. Since 1997, the bank has been restructured, which has included a cleanup of its loan portfolio and a refocusing on the following core business sectors:

- Wholesale customers and structured financing for aircraft, shipping, railroads, logistics, infrastructure, and consultancy services
- Limited central bank function for Sparda Banken (a group of co-operative savings banks) other central bank functions were transferred to third parties
- Reise Bank AG (traveller's bank): currency exchange, cash transfer, currency mailing, ATMs and non-financial services

DVB Group operates branches and subsidiaries in Germany and owns an international network in the major centres for abroad for aircraft and ship financing. The group employed 940 employees world-wide at year-end 2001. The bank holds stakes in a number of other financial institutions. The most significant are the following:

100% Cash Express, Czech Republic

100% DVB Processing GmbH, Germany

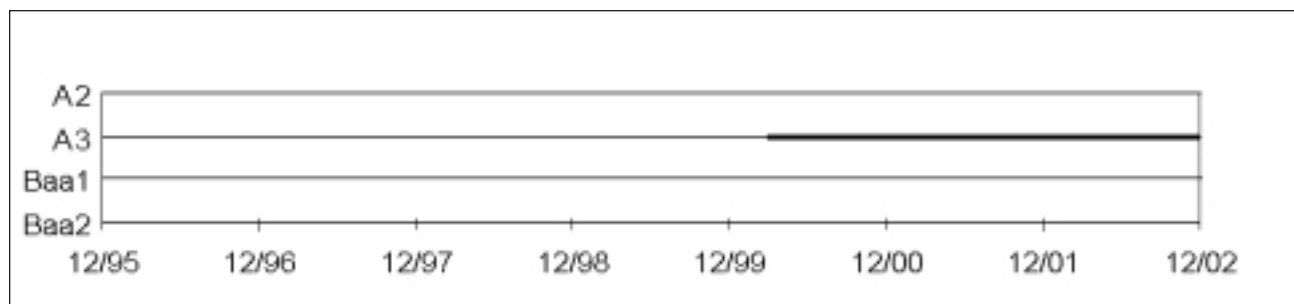
100% Nedship Bank (Nederlandse Sheeps hypotheekbank N.V., The Netherlands)

100% Reise Bank AG, Germany

100% International Transport Financing Limited, United Kingdom

50% DVL Deutsche Verkehrs-Leasing GmbH, Germany

Rating History Long-term Bank Deposits



⁴ DG Bank became DZ Bank after the merger with GZ Bank in 2001.

DVB Bank AG (Consolidated)

	31/12/01	31/12/00	31/12/99	31/12/98	31/12/97
Summary Balance Sheet (EUR million)					
Cash & central bank	202	121	1,013	140	192
Due from banks	2,560	1,844	1,226	3,061	2,777
Securities	1,126	899	1,199	877	794
Net loans	6,858	6,244	3,370	2,434	1,507
Loan loss reserves (LLR)	—	—	—	—	—
Insurance assets	0	0	0	0	0
Fixed assets	31	21	14	15	18
Other assets	195	343	53	37	42
Total assets	10,972	9,472	6,875	6,565	5,331
Total assets (USD million) [1]	9,719	8,918	6,903	7,661	5,820
Demand deposits	1,034	1,065	964	1,042	873
Savings deposits [2]	1,677	1,431	786	828	504
Due to banks	5,418	4,709	3,970	3,579	3,411
Market funds	1,953	1,521	688	770	285
Insurance liabilities	0	0	0	0	0
Other liabilities	187	111	137	63	68
Total liabilities	10,268	8,836	6,545	6,280	5,141
Subordinated debt	211	142	63	44	0
Shareholders' equity	329	329	177	151	151
Total capital funds	704	635	330	285	190
Total liabilities & capital funds	10,972	9,472	6,875	6,565	5,331
Derivatives - notional amount	11,104	15,500	10,300	8,385	9,194
Derivatives - replacement value	—	—	—	—	—
Contingent Liabilities	1,679	1,549	824	609	439
Risk weighted assets (RWA)	—	—	—	—	—
Assets under management (EUR million) [3]	—	—	—	—	—
Number of employees	940	906	796	784	—
Summary Income Statement					
+Interest income	530	413	265	190	168
-Interest expense	452	366	231	166	142
=Net interest income	78	48	35	23	26
+Trading income	6	8	11	13	13
+Fee and commission income	98	90	73	60	53
+Insurance income (net)	0	0	0	0	0
+Other operating income	10	17	17	16	28
=Operating income	192	163	136	112	120
-Personnel expenses	66	60	49	47	46
-Other operating expenses	78	65	54	45	39
= Operating funds flow	48	39	33	21	35
-Amortisation/depreciation	17	11	6	6	5
(Total operating expenses)	160	135	109	97	90
=Preprovision income (PPI)	32	28	27	15	30
-Risk provisions	16	0	6	8	36
+Other non operating adjustments [4]	14	2	1	-1	7
+Extraordinary profit / loss	-19	0	0	0	0
=Pretax income	10	31	22	7	1
-Taxes	6	11	7	2	0
=Net income	5	19	16	5	0
-Minority interests	0	0	0	0	0
=Net income (group share)	5	19	16	5	0
Growth Rates (%)					
Net loans	9.83	85.25	38.50	61.48	—
Total assets	15.84	37.77	4.72	23.16	—
Customer deposits (demand and savings)	8.60	42.62	-6.38	35.78	—
Net interest income	63.55	37.23	47.82	-9.30	—
Fee and commission income	9.18	23.59	22.47	12.83	—
Operating expenses	18.62	24.12	12.54	7.95	—
Preprovision income	12.05	4.47	74.81	-48.38	—
Net Income	-76.47	23.22	212.30	2,042.95	—
Income Statement in % Average Risk Weighted Assets					
Net interest income	—	—	—	—	—
Trading income	—	—	—	—	—
Fee and commission income	—	—	—	—	—
Insurance income	—	—	—	—	—
Operating income	—	—	—	—	—
Operating expenses	—	—	—	—	—
Preprovision income	—	—	—	—	—
Risk provisions	—	—	—	—	—
Extraordinary profit	—	—	—	—	—
Net income	—	—	—	—	—

DVB Bank AG (Consolidated)

	31/12/01	31/12/00	31/12/99	31/12/98	31/12/97
Liquidity, Funding (including sub debt) & Balance Sheet Composition					
Avg. liquid assets % avg. total assets	33.03	38.55	55.93	65.93	70.60
Avg. net loans % avg. total assets	64.09	58.81	43.18	33.13	28.27
Avg. customer deposits % avg. total funding	27.17	27.68	28.42	28.63	27.14
Avg. interbank funds % avg. total funding	52.86	56.58	59.28	61.67	67.25
Avg. market funds (excl. interbank) % avg. total funding	18.13	14.40	11.45	9.30	5.61
Avg. sub debt % total funding	1.84	1.34	0.84	0.78	0.00
Avg. liquid assets % avg. customer deposits	129.71	148.45	207.73	241.64	273.40
Avg. net loans % avg. customer deposits	251.68	226.47	160.38	121.41	109.48
Avg. market funds reliance [5]	-25.51	-69.29	-130.47	-204.45	—
Avg. RWA % avg. total assets	—	—	—	—	—
Breakdown of Operating Income in %					
Net interest income % operating income	40.59	29.16	25.55	20.93	21.66
Trading income % operating income	2.89	5.04	8.11	11.67	10.55
Fee and commission income % operating income	51.25	55.15	53.65	53.04	44.14
Insurance income % operating income	0.00	0.00	0.00	0.00	0.00
Other operating income % operating income	5.27	10.65	12.69	14.36	23.66
Profitability					
Yield on avg. earning assets (%)	5.50	5.80	4.57	3.54	3.45
Cost of interest bearing liabilities (%)	4.71	4.77	3.62	2.94	2.79
Net interest margin (%)	0.88	0.86	0.77	0.64	0.66
Recurring earning power (PPI % avg. assets)	0.31	0.34	0.40	0.26	0.56
Risk-weighted recurring earning power (PPI % avg. RWA)	—	—	—	—	—
Return on average assets (%)	0.04	0.23	0.23	0.08	0.00
Return on avg. RWA (%)	—	—	—	—	—
Return on equity (period end) (%)	1.37	5.82	8.77	3.29	0.15
Net interest income coverage of risk provisions	4.81	—	5.49	2.90	0.72
Risk provisions % preprovision income	51.39	0.00	23.46	52.48	120.23
Internal capital growth (%)	0.00	4.71	4.92	3.29	—
Dividend payout ratio (%)	100.00	56.42	52.05	0.00	0.00
Efficiency					
Cost/income ratio (operating expenses % operating income)	83.57	82.77	80.18	86.27	75.02
Operating expenses % average assets	1.57	1.65	1.62	1.63	1.68
Operating income / employee (EUR thousand)	204.22	180.34	170.73	143.15	—
Operating expenses / employee (EUR thousand)	170.67	149.28	136.88	123.49	—
PPI / employee (EUR thousand)	33.55	31.07	33.85	19.66	—
Total assets / employee (EUR million)	11.67	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	0.24	—	0.19	0.33	2.38
Problem loans % (shareholders' equity + LLR)	—	—	—	—	—
Replacement value % shareholder's equity	—	—	—	—	—
Capital Adequacy (Period End)					
Tier 1 ratio (%)	5.00	5.70	4.50	5.20	6.80
Total capital ratio (%)	9.50	10.20	8.60	8.80	9.30
Shareholders' equity % total assets	3.00	3.48	2.58	2.30	2.84
Equity participations % shareholders' equity	1.52	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)]

Coupon	Type of Debt	Maturity	Moody's Rating
DVB Bank AG			
—	Euro Debt Issuance Program	—	Baa1
—	Euro Debt Issuance Program	—	A3
6.000%	Sub. German Bonds	2011	Baa1
—	Flt Rt Euro Medium Term Notes	2008	A3
4.280%	Euro Medium Term Notes	2006	A3
5.150%	Euro Medium Term Notes	2006	A3
5.000%	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	2003	A3
—	Flt Rt Euro Medium Term Notes	2003	A3
—	Medium-Term Note Program	—	P-2
—	Bank Financial Strength Rating	—	C-
—	Long-Term Bank Deposit Rating	—	A3
—	Short-Term Bank Deposit Rating	—	P-2

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