

DVB Bank AG

Description	
Country of Origin	Germany
Industry/Sector	Financials (specialist bank)
Background	<p>DVB Bank (formerly Deutsche Verkehrs-Kredit-Bank AG) was formed in 1923 by the German state railway authority together with various German banks. Until the mid 1990s, the bank principally looked after the financial needs of the state railway (Deutsche Bahn) and acted as the central bank for around 15 Sparda Banken (local railway co-operative banks). Deutsche Bahn listed DVB in 1988, and eventually sold its remaining stake to DZ Bank.</p> <p>Today, DVB is focused solely on transport financing and has sold all other banking operations. It is subject to the provisions of the German Banking Act and is supervised by the German Federal Financial Supervisory Agency (BAFin). DVB is no longer the central bank for the Sparda Banken but remains a member of the German co-operative banks group.</p>
Brief description of activity	<p>DVB (based in Frankfurt/Main) is an international advisory bank and finance house that specialises in the global transport market.</p> <p>DVB offers integrated financing solutions and advisory services in respect of shipping, aviation, land transport and transport infrastructure. The bank operates out of offices in Frankfurt/Main, Hamburg, London, New York, Rotterdam, Hong Kong, Singapore Tokyo, Bergen, Piraeus and Curaçao and is listed on the Berlin, Düsseldorf, Frankfurt and Stuttgart Stock Exchanges.</p>
Ownership structure	DVB is a public listed company, with 92.98% of issued share capital owned by DZ Bank as at end-2004, and the rest held by public and institutional investors via public listing on the Berlin and Frankfurt Stock Exchanges. DZ Bank withdrew its plans to sell DVB in 2002 and has since integrated DVB into the DZ Bank group.
Guarantees	<p>DVB does not benefit from external guarantees.</p> <p>However, as a member of the Association of Cooperative Banks in Germany, it benefits from a support mechanism known as "Garantiefond", which is a support fund topped up by annual contributions from association members. DVB would be able to seek support from the fund in event of need.</p>
Other information	<p>DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main</p> <p>DZ Bank is the result of the merger between DG Bank and GZ Bank in 2001, and was the 5th largest German bank by total assets at end-2004. Its main roles are:</p> <ul style="list-style-type: none"> • main central bank of Germany's cooperative bank sector, providing clearing, processing and other services to around 80% of Germany's 1,400 regional co-operative banks. • wholesale banking business – corporate banking, treasury, trading etc • holding company on behalf of the cooperative banks for operating subsidiaries including R+V Versicherung (insurance), Union Asset Management and norisbank (consumer finance). <p>For FY04, the DZ Bank Group reported pre-tax profit up 22.4% to €1,184mn, and a high Tier 1 ratio of 7.9%, up from 7.0% the previous year.</p>

Financial strength

Profitability

DVB's recent profit growth has been healthy, with pre-tax profit from ordinary activities up 16% YoY to €52mn in 2004. Net profit in 2004 appears lower than 2003 but this is attributable to a non-operational item (€36mn in deferred tax assets) which was recorded as a gain in 2003.

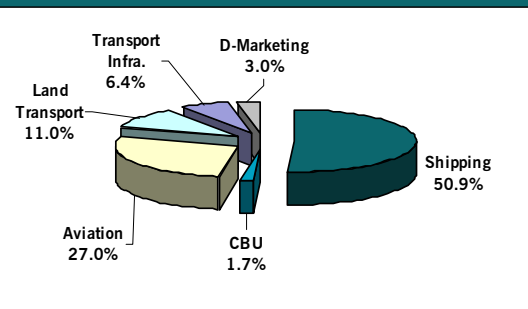
Pre-tax RoE was 16.2% in 2003 and 15.7% in 2004, a healthy level by European bank standards. Cost control has improved and is in line with most other European banks. The cost-income ratio stood at 57.8% in 2004, down from 71.1% in 2003. There had been concerns that the sale of 2 subsidiaries in 2003 (ReiseBank and Cash Express, which contributed around 48% of operating income) might affect DVB's earnings capacity but the bank has successfully restructured its activities to avoid this.

NB: H105 figures for DVB Bank indicate pre-tax operating profit before provisions rose 43.5% YoY to €33.3mn. This was boosted by a 6.3% YoY rise in net interest income and a 32.4% YoY rise in net commission income. RoE stood at 18.9%, while the cost-income ratio fell to 6.7 percentage points to 56.3%.

Customer lending base

At end-2004, DVB's total loan portfolio was divided between the following sectors:

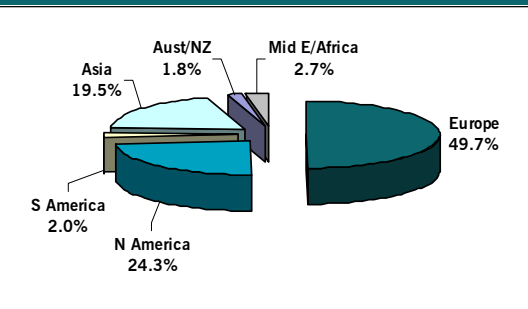
Customer loans by sector, end-2004



Source: DVB. "D-Marketing" loans are non-core loans being wound down. CBU=Container Business Unit

In geographical terms, DVB's lending is focused on Europe and North America, as shown below:

Customer loans by geography, end-2004



Source: DVB. "D-Marketing" loans not included..

<p>Asset quality</p>	<p>Asset quality is strong across all the major loan portfolios, helped by the fact that a large proportion of loans is collateralised by underlying assets (ships, aircraft, etc). Levels of collateralisation in the four main loan portfolios are shown below:</p> <table border="1" data-bbox="625 577 1388 840"> <thead> <tr> <th colspan="6">Levels of collateralisation, end-2004 (%)</th> </tr> <tr> <th>Portfolio</th> <th>Non-collateralised</th> <th><60%</th> <th>60-85%</th> <th>>85%</th> <th>Other collateral</th> </tr> </thead> <tbody> <tr> <td>Shipping</td> <td>5.5</td> <td>77.1</td> <td>7.1</td> <td>1.7</td> <td>8.6</td> </tr> <tr> <td>Land Transport</td> <td>9.1</td> <td>52.1</td> <td>14.3</td> <td>12.7</td> <td>11.8</td> </tr> <tr> <td>Aviation</td> <td>1.7</td> <td>69.1</td> <td>18.9</td> <td>9.0</td> <td>1.3</td> </tr> <tr> <td>Trans. Infrastruct</td> <td>0</td> <td>94.7</td> <td>5.3</td> <td>0</td> <td>0</td> </tr> </tbody> </table> <p>Source: DVB. Figures show percentage of each portfolio in each level of collateralisation.</p> <p>The level of weak loans has remained very low, as reflected in the low provision costs incurred each year. Asset quality has been weaker in the non-core (“D-marketing”) portfolio – however this comprises only 3% of total loans and is being gradually wound down.</p>	Levels of collateralisation, end-2004 (%)						Portfolio	Non-collateralised	<60%	60-85%	>85%	Other collateral	Shipping	5.5	77.1	7.1	1.7	8.6	Land Transport	9.1	52.1	14.3	12.7	11.8	Aviation	1.7	69.1	18.9	9.0	1.3	Trans. Infrastruct	0	94.7	5.3	0	0
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<p>Capitalisation</p>	<p>DVB’s capital ratios improved in FY03 and FY04, with the Tier 1 ratio at 6.8% and 6.7% respectively compared to under 6% in previous years (by German Banking Act standards). However, in H105 Tier 1 fell to 5.6% because of the impact of the stronger USD (in which much of DVB’s business is denominated). The bank has announced plans to raise around €100mn new share capital which will again boost the Tier 1 ratio to above 6%.</p> <p>The capital base at end-FY04 comprised a fairly high proportion of retained earnings (41% of capital and reserves at end-FY04) and issued share capital (17%). Silent participation certificates (<i>Stille Einlagen</i> – which are generally seen as a weaker form of capital) only made up 17% of capital and reserves at end-FY04.</p>																																				
<p>Funding</p>	<p>DVB currently operates two main debt issuance programmes:</p> <ul style="list-style-type: none"> • €5bn Euro Commercial Paper Programme – for shorter-term issues • €5bn Debt Issuance Programme – for medium-term (MTN) issues. Issuance has been a mix of fixed and floating rate paper, primarily in €. <p>Apart from issuing through DVB Bank AG, the bank also issues MTNs through:</p> <ul style="list-style-type: none"> • DVB Group Merchant Bank (Asia) Ltd (“DVB Asia”) – this is DVB’s Singapore-based merchant banking business, focusing mainly on shipping and other transport-related financing business. • DVB Bank America NV – based in Curacao, this operation offers financing for shipping, aircraft and other transport-related activities. <p>In both these cases, the MTNs are guaranteed by the parent.</p>																																				

Key data

€mn (y/e 31 st December)	2004	2003
Balance sheet		
Total assets	9,250	9,065
Customer loans	6,957	6,547
Interbank borrowing	2,683	3,781
Customer deposits	2,782	2,108
Debt in issuance	2,753	2,178
Tier 1 ratio (%)	6.7	6.8
P&L		
Net interest income	100	96
Net commission income	47	35
Depreciation/write-downs/LLPs	11	21
Pre-tax profit from ord. activities	52	45
Deferred tax assets	(6)	36
Net profit	33	72
Cost-income ratio (%)	57.8	71.1

Source: DVB, Daiwa Securities SMBC Europe Ltd. LLP=loan loss provisions.

Ratings

	Moody's	S&P	Fitch
DVB Bank	A3/Stable/P-2	A-/Stable/A-2	Not rated
DZ Bank	A2/Stable/P-1	A/Stable/A-2	A/Stable/F1

Source: Moody's, S&P, Fitch.

Moody's ratings and outlook

DVB Bank

Moody's ratings for DVB Bank are based on majority ownership by DZ Bank and the likelihood of DZ's support in the event of a crisis. Support could also be derived from DVB's membership in the German co-operative bank support mechanisms. Since 1998, DVB has made progress in developing a franchise in international transport financing. Moody's views positively DVB's conservative provisioning and sustained reduction of the non-core portfolio. DVB has gradually exited from its role as central bank to the Sparda Banks, which will help improve its efficiency. However, this means its continued membership in the Association of Co-operative Banks in Germany now depends solely on its majority shareholder DZ Bank, which (Moody's believes) views DVB as a non-strategic investment. Moody's monitors DVB's ownership structure carefully, not only because of the support mechanisms but also because DVB's funding profile benefits from the links to DZ Bank and the Sparda Banks. The outlook is stable. (30 November 2004)

DZ Bank

Moody's ratings for DZ Bank reflect its relationship (guarantee fund and cooperative guarantee agreement) with and support from the cooperative banks. The ratings also reflect its more modest earnings and economic capitalisation. Moody's sees DZ Bank as an important player in the German banking market as the country's sixth largest bank and the central organisation of the co-operative banking sector. DZ Bank's restructuring of domestic operations should lead to considerable cost savings and has already lead to an improved risk profile. The outlook is stable due to DZ Bank's significant role within the German financial cooperative sector. (30 November 2004)

S&P's ratings and outlook

DVB Bank

S&P raised DVB Bank's ratings from BBB+ to A- on 29th July 2005 along with those of DZ Bank (see below). S&P's ratings on DVB and other rated member banks of the cooperative banking sector are based on the German cooperative banking sector's solidarity and comprehensive protective scheme, which has prevented member institutions insolvencies for more than 60 years, and reflect S&P's view of the sector as a single economic group. DVB's counterparty credit ratings benefit to a lesser extent from its membership, however, because of uncertainties regarding DVB's future role within the cooperative sector and its strategic importance to its 93% owner DZ Bank AG. S&P believes, however, that DVB would receive support from the cooperative sector if it experienced financial difficulties as long as it remains a member institution. (24 August 2004)

DZ Bank

S&P raised DZ Bank's ratings from A- to A on 29th July 2005 reflecting the ongoing progress at DZ and the local cooperative banks in achieving sustainable improvements in profitability asset quality and capitalisation. S&P's ratings on DZ and member banks of the German cooperative banking sector are based on the sector's system of solidarity and its comprehensive protective scheme. The ratings also reflect the sector's important market position, particularly in domestic retail banking, its stable funding sources and sound capitalization. The ratings are constrained, however, by the sector's moderate profitability due to its high cost base and loan-loss provisions. The outlook is stable, based on improved risk management across the sector, positive effects from restructuring and the consolidation trend among cooperative banks. (29 July 2005)

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