

Credit Opinion: DVB Bank AG

DVB Bank AG

Frankfurt, Germany

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A2/P-1
Bank Financial Strength	C-
Senior Unsecured -Dom Curr	A2
Subordinate -Dom Curr	A3
Other Short Term -Dom Curr	P-1
Parent: DZ Bank Deutsche Zentral-Genossenschaftsb. AG	
Outlook	Stable
Bank Deposits	A2/P-1
Bank Financial Strength	C-
Senior Secured -Dom Curr	A2
Senior Unsecured	A2
Subordinate -Dom Curr	A3
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	P-1

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Key Indicators

DVB Bank AG (Consolidated)

	[1]2004	2003	2002	2001	2000	[2]Avg/CAGR
Total assets (EUR billion)	9.25	9.07	9.30	10.97	9.47	-0.59
Total assets (EUR billion)	9.25	9.07	9.30	10.97	9.47	
Total capital (EUR billion)	0.93	0.90	0.73	0.70	0.64	9.96
Return on average assets	0.35	0.78	0.32	0.04	0.23	0.35
Recurring earning power [3]	0.49	0.49	0.30	0.31	0.34	0.39
Net interest margin	1.16	1.15	0.93	0.80	0.64	0.94
Cost / income ratio	72.13	76.75	84.56	83.57	82.77	79.96
Problem loans % gross loans	-	-	-	-	-	0.00
Tier 1 ratio (%)	6.70	6.80	5.80	5.00	5.70	6.00

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

Opinion

Credit Strengths

Credit strengths of DVB are:

- Solid franchise and market expertise in the international transport industry.
- Asset quality has demonstrated considerable resilience to difficult operating environment, besides a certain comfort in any event because of secured lending.
- Financial fundamentals increasingly reflect the successful transformation into a specialised lender, with acceptable risk-weighted returns and efficiency.
- Ownership by DZ Bank and two layers of external support through membership in co-operative banking support mechanisms.

Credit Challenges

Credit challenges for the bank are:

- The bank reached its target to become a fully integrated corporate finance specialist in the transport industry. However, there is still potential for growth and deepening the franchise.
- Risk-adjusted profitability and economic capitalisation have improved, but risk-absorption capacity remains somewhat vulnerable to a meltdown scenario in the shipping or aviation industries.
- In addition to the inherent industry concentration, some limited single risks exist represented by unsecured exposures.
- DVB's stand-alone funding profile is somewhat vulnerable, as DVB benefits from its integration in the co-operative banking sector.

Rating Rationale

The A2/P-1 debt and deposit ratings of DVB Bank AG (DVB) are based on its majority ownership by DZ Bank Deutsche Zentral-Genossenschaftsbank AG (DZ Bank, rated A2/P-1/C-) and the likelihood of the latter providing support in the event of a crisis. Additional support could be derived from DVB's membership in the co-operative banking sector's support mechanisms. DVB's C- financial strength rating (FSR) reflects its focussed and well executed strategy of being a specialised lender to the transport finance industry and improving, but moderate, risk-adjusted recurring profitability and economic capitalisation. The FSR also takes into account the bank's established position in a cyclical and competitive industry.

DVB aggregated business which is in restructuring or does not fall under its core business operations in the so called D-Marketing unit. The bank made good progress in recent years to control and reduce risks related to this portfolio and we no longer see strains being put on the financial indicators from these legacy assets.

In the past two years, DVB has gradually exited from its role as a central bank to the Sparda Banks, a move that has helped it improve its efficiency. However, its continued membership in the Association of Co-operative Banks in Germany (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken or BVR) is now solely linked to its ownership by DZ Bank. We monitor DVB's ownership structure carefully, not only because of the support mechanisms but also because the bank's funding profile benefits from its links to DZ Bank.

Rating Outlook

DVB's ratings have a stable outlook.

What Could Change the Rating - UP

We acknowledge that DVB has in the mean time successfully completed its transformation process into a specialised corporate finance bank, including the elimination of all legacy risks in its German transport and corporate finance portfolio. This should result in a further strengthening of its financial fundamentals in the medium term, which would justify a higher FSR. The current debt and deposit ratings are enhanced by external support and are therefore less likely to be closely correlated with DVB's FSR in the medium term.

We view positively DVB's increased expansion into corporate finance and advisory activities - including the bank's active management of collateralised assets -, mezzanine and equity financing, but caution that undue growth in unsecured credit exposure could limit the upside potential for the FSR.

What Could Change the Rating - DOWN

A withdrawal of commitment from DZ Bank and the co-operative support system. In 2003 DZ Bank decided against

selling DVB for the foreseeable future. In this context, a potential, however currently unlikely change in the ownership structure would have rating implications for DVB. The FSR is vulnerable to an event risk, which would most likely be linked to a meltdown scenario in the shipping or aviation industries.

Recent Results

As at 30 June 2005, total assets increased by 11% to EUR 10.268 billion compared to the June 2004 figure. Operating profit, excluding loan-loss provisions, rose by 43.5% to EUR 33.3 million since 30 June 2004.

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