The leading specialist in international transport finance

Group Annual Report 2005

DVB

Content

DVB Group – overview

€ mn	**2005**	2004	(%)
Earnings data (in accordance with IFRS)			
Income	162.8	130.7	24.6
Net interest income after loan losses	98.4	70.0	40.6
Net interest income	113.3	95.5	18.6
Impairment losses on loans and advances	14.9	25.5	–41.6
Net fee and commission income	60.5	45.1	34.1
Net trading income	19.3	1.3	1,384.6
Hedge result (hedge accounting)	–23.0	–5.5	318.2
Net income from investment securities	8.7	10.8	–19.4
Net other operating income/expenses	–1.1	9.0	–112.2
General administrative expenses	104.3	88.7	17.6
Result from operating activities	58.5	42.0	39.3
Net profit	54.3	33.8	60.7
Balance sheet data (in accordance with IFRS)			
Business volume	12,610.4	10,595.6	19.0
Total assets	10,855.5	9,278.1	17.0
Loans and advances to customers	8,775.5	6,981.3	25.7
Deposits from customers	3,602.5	2,787.5	29.2
Securitised liabilities	2,860.7	2,750.6	4.0
Subordinated liabilities	494.7	483.3	2.4
Equity	629.6	450.4	39.8
Own funds according to the German Banking Act (KWG)			
Total	1,008.3	820.2	22.9
Core capital (Tier I)	663.5	509.9	30.1
Supplementary capital (Tier II)	344.8	310.3	11.1
Capital ratios according to the German Banking Act (%)			
Core capital ratio	6.8	6.7	
Total capital ratio	10.2	10.7	
Key financial indicators (%)			
Return on equity (before taxes) (RoE)			
IFRS	15.9	12.7	
German GAAP	17.1	15.7	
Cost/income ratio (CIR)			
IFRS	58.7	56.8	
German GAAP	53.6	57.8	
Information on the DVB Share			
Dividend (€)	2.25	2.00	
Dividend yield (%)	1.24	1.93	
Earnings per share (DVFA; €)	14.17	12.19	

Ratings	**2006**	2005	2004
Moody's Investors Service			
Long-term/short-term rating/ outlook	A2/P-1/stable	A3/P-2/stable	A3/P-2/stable
Financial strength/outlook	C-/stable	C-/stable	C-/stable
Standard & Poor's			
Long-term/short-term rating/ outlook	A-/A-2/stable	A-/A-2/stable	BBB+/A-2/stable

Corporate development

In this report, DVB Group is referred to as "DVB" or "the Bank", while DVB Bank AG is identified under its registered company name.

As "leading specialist in international transport finance", DVB offers value-added solutions to its clients. At the same time, the Bank consistently exploits the earnings potential available: 2005 was the second year in which our income was generated almost exclusively from our core international Transport Finance and Corporate Finance businesses.

The success of DVB's strategic focus was once again evident, as the Bank reported another set of outstanding results for the year. As a listed company, DVB prepared its financial statements in accordance with IAS/IFRS for the first time. Total income increased by 24.6%, to €162.8 million: net interest income after loan losses was up 40.6%, to €98.4 million, and net fee and commission income rose 34.1%, to €60.5 million. Net profit increased by a remarkable 60.7%, to €54.3 million.

The following key elements dominated DVB's business in 2005:

- We benefited from brisk new Transport Finance business, generating a total volume of €4.75 billion, with 222 transactions.
- DVB assumed a leading role in 76% of these deals.
- We continued to pursue attractive asset lending opportunities in Transport Finance market niches, exploring and expanding these franchises in a targeted manner.
- We continued to successfully develop DVB's Corporate Finance business.
- DVB's capital base was strengthened considerably – including a €105.4 million share capital increase, plus a significant earnings retention – paving the way for future growth in the Transport Finance business.

In 2005, DVB's expertise in the international transport markets was once again recognised with special awards from several leading industry publications:

Jane's Transport Finance bestowed awards for three transactions successfully concluded by DVB's Aviation, Land Transport, and Transport Infrastructure divisions:

- "Aircraft Debt Deal of the Year – Middle East" –
  Aircraft financing for Al-Jazeera Airways (Kuwait)
- "Road Finance Innovator" –
  Transamerica leasing transaction
- "Port Finance Deal of the Year" –
  Multi-Link Terminals transaction
  (financing provided for container terminals in the Baltic States)

DVB's Shipping Research was awarded "The Best Shipping Finance Research for 2005" by Lloyd's Shipping Economist, for the second year in a row. Our Advisory and M&A team won the "M&A Deal 2005" award by Marine Money, for the successful handling of an advisory mandate.

2005

GROUP ANNUAL REPORT

Wolfgang F. Driese
CEO and Chairman
of the Board of Managing Directors

born 1949 in Berlin

Client Areas:
Transport Finance Credit
- *Shipping*
- *Aviation*
- *Land and Infrastructure*

D-Marketing
Transport Finance
- *Syndications*
- *Securitisation*

Corporate Finance
- *Group Investment Management*

DVB LogPay GmbH

Product/Service Areas:
Group Risk Management
Group Financial Controlling
Group Corporate Communications
Group Compliance Office

Bertrand Grabowski
Member
of the Board of Managing Directors

born 1956 in Guerche-de-Bretagne (France)

Client Areas:
Transport Finance
- *Aviation*
- *Land Transport*
- *Transport Infrastructure*

ITFL International
Transport Finance Ltd.

Product/Service Areas:
Group Audit
Group Treasury

Dagfinn Lunde
Member
of the Board of Managing Directors

born 1948 in Tokke (Norway)

Client Areas:
Transport Finance
- *Shipping*

Corporate Finance
- *Advisory and M & A*
- *DVB Capital Markets LLC*

Product/Service Areas:
Group Human Resources
Operations & Information Systems & Organisation
Group Accounting and Taxes

Letter to our shareholders and business partners

Dear Ladies and Gentlemen,

“We want to continue to improve, year after year.” This quote from the letter to our shareholders and business partners for the year 2004 epitomises our reflections on the 2005 business year. The figures for the year under review clearly illustrate this objective.

We increased our result from operating activities by 39.3% to a record €58.5 million. If we exclude ReiseBank Group, which has subsequently been sold, the rise of approximately €17 million equates roughly to the figure for total net profit for the year 2002. Growth of 34.1% in net fee and commission income significantly exceeded our expectations, especially bearing in mind the tremendous increase already achieved in the previous year. We acted as arranger in over 70% of all new ship and aircraft financings extended by DVB in 2005, a factor that also resulted in high commission income. Likewise, we continued to successfully pursue our Corporate Finance and investment banking activities.

Record volume of new business (€4.8 billion gross) advocates DVB’s competitive edge. At the same time, it equates to around 60% of the volume of customer lending in Transport Finance at the start of 2005. A high level of investment in new vehicles, stable or rising prices for used transport vehicles, together with rising rental rates brought about a favourable environment for our new business in many segments. Despite a competitive environment that is becoming increasingly intensive, we succeeded in defending the new business margin across all Transport Finance divisions, at a high level of 1.64%. In general terms, and for our industry, this might appear to be an amazing feat: nevertheless, it corresponds to DVB’s business model, which incurs asset risks in a deliberate and selective manner. While we set great store by establishing long-term relationships of trust with our business partners, we are clearly an asset lender that takes into consideration the risk/reward perspective. As a rule, we therefore only enter into transactions that are fully collateralised.

We do not offer credit products and/or equity capital solutions unless all of our research, market and credit experts are convinced of an asset’s ability to attain an acceptable level of performance. Our business model demands a highly sophisticated and efficient risk management process. We have continuously refined and invested further in the methods and processes employed, specifically in this area.

Our key financial indicators also confirm the success DVB has achieved in 2005. According to the German Commercial Code (HGB), the return on equity climbed from 15.7% to 17.1%, and the cost/income ratio improved from 57.8% to 53.6%. Such measures of success are always attributable to the tremendous cooperation between many parties – our staff, clients and management. We would like to take this opportunity to extend our thanks for the valuable contribution they have made.

We would also like to express our gratitude to our shareholders, who provided us with an additional €105.4 million in funds, within the scope of the share capital increase that was carried out in October 2005.

Subscription terms in line with prevailing market conditions, a remarkable share price performance and yet another dividend increase are also indicative of the good relationship that exists between DVB and its shareholders, irrespective of the size of their investments. We will propose to the Annual General Meeting to pay an increased dividend of €2.25 per share.

We have set ourselves the following milestones for 2006, which we need to achieve on the lengthy route to becoming the best player in our global niche market:

- Approval of our internal rating model by the supervisory authorities; enhancing our risk management tools; refining our controlling instruments (including a model to project credit margins prior to entering into an exposure); introducing an automated consolidation process in our accounting system; and embarking on a long-standing process for increasing efficiency at front office level.

- Developing our investment management activities, which will also involve the expansion of our activities to other asset classes, such as container boxes and rolling stock; reviewing the organisational structure.

- Introducing the new product range to the market (results of the Design Phase III project group), which will include asset securitisation, advisory services for, and structuring of, IPOs and bond issues.

- Achieving the qualitative objectives, i.e. a return on equity (before taxes) of 17.4% and a cost/income ratio of 49.4%.

Our objective is sustainability of the results; this we will achieve by developing DVB Bank AG into the best operator on the market.

Wolfgang F. Driese	Bertrand Grabowski	Dagfinn Lunde
CEO and Chairman of the Board of Managing Directors	Member of the Board of Managing Directors	Member of the Board of Managing Directors

Report of the Supervisory Board

Dr. Thomas Duhnkrack

Dear shareholders,

The Supervisory Board, and the two committees established from amongst its members, have fulfilled the obligations imposed on them by the applicable statutes and the Bank's Memorandum and Articles of Association. They have taken decisions on transactions requiring approval, advised the Board of Managing Directors of DVB Bank AG, and have continuously supervised the management of the Group by the Board of Managing Directors during the 2005 business year.

Cooperation with the Board of Managing Directors

The Board of Managing Directors has regularly and comprehensively informed the Supervisory Board (and its committees), without delay, during Supervisory Board and committee meetings, on the planned business policy and strategic development of DVB Bank AG. It has presented the corporate planning framework (including financial, investment and human resources planning), and has informed the Supervisory Board on current events and transactions of fundamental importance. The Supervisory Board discussed such events and transactions with the Board of Managing Directors. Furthermore, regular consultations concerning the Bank's strategy, business policies, corporate management and planning, as well as risk management, took place between the Chairman of the Board of Managing Directors and the Chairman of the Supervisory Board, in addition to the meetings. The Chairman of the Supervisory Board was kept informed, on a timely basis, with regard to the current business development and risk situation, as well as on individual current topics, thus ensuring the permanent flow of information and exchange of opinions between the Board of Managing Directors and the Supervisory Board.

Meetings of the Supervisory Board

The Supervisory Board met during four plenary meetings in 2005; on 10 March 2005, 30 May 2005, 7 September 2005, and 8 December 2005.

During these meetings, the Board of Managing Directors informed the Supervisory Board about current developments at DVB Bank AG, the Group companies and core businesses, as well as concerning any special events and occurrences within the individual business divisions. In addition, the Board of Managing Directors and responsible department heads regularly provided reports on the business development in the various Transport Finance divisions, and informed the Supervisory Board and the Credit Committee about potential risk exposures in these areas.

The main emphasis of the session on 10 March 2005 was on the discussion and approval of the Group financial statements for 2004. The external auditors, who took part in the meeting, responded to questions in detail.

In the course of the Supervisory Board meeting on 30 May 2005, the Board of Managing Directors provided a detailed account of current developments in Shipping Finance, submitting forecasts on expected developments – with a particular focus on Container Finance (part of Shipping Finance). Another focal point of this meeting was a review of the material changes which will affect DVB Group as a result of the changeover to IFRS.

Aviation Finance was presented and discussed in detail during the Supervisory Board meeting on 7 September 2005. In addition, the Supervisory Board was informed, in general terms, about considerations to increase the share capital of DVB Bank AG.

The last meeting during the year under review took place on 8 December 2005. The Board of Managing Directors reported on current developments in DVB Group, and on the operative planning for the new 2006 business year, as well as on the share capital increase carried out.

There were no members of the Supervisory Board who attended less than half of meetings during the period under review. No conflicts of interest occurred during the period under review.

Committees of the Supervisory Board
During its three meetings, the Credit Committee discussed, in detail and in a timely manner, all exposures requiring its approval, as well as all major loans, and those loans subject to higher risks. Credit, market, country and liquidity risks – and also operational risks – were discussed in depth. During the meetings, detailed portfolio analyses were used to discuss the structure of the loan portfolio and risk management issues in detail. Also, the Committee's approval of lending policies for new business activities was applied for, and granted. The Board of Managing Directors kept the members of the Committee regularly informed about non-performing exposures and those subject to particular risks, and also about unusual events in the credit sector. During the November meeting, Wolfgang Kirsch was also elected as Deputy Chairman of the Credit Committee.

The Executive Committee met three times during the reporting period. During its meetings, the Executive Committee carefully considered personnel matters concerning the Board of Managing Directors and the tasks assigned to it by the Supervisory Board. Furthermore, the Committee was kept informed by the Board of Managing Directors as requested, and always in good time, of the conclusion of employment contracts with executive staff where the annual remuneration was in excess of a set threshold.

Dr. Thomas Duhnkrack kept the Supervisory Board informed on the activities of the Credit Committee, and on topics dealt with by the Executive Committee, to the extent that such issues were also discussed in the plenary meetings of the Supervisory Board.

Appointment of a new Member of the Board of Managing Directors
The Supervisory Board also appointed Bertrand Grabowski to the Board of Managing Directors, with effect from 1 May 2005.

Changes in the composition of the Supervisory Board
Hermann Möller and Dr. Peter Klaus retired from the Supervisory Board at the end of the Annual General Meeting on 10 June 2005. During the same General Meeting, Flemming Robert Jacobs and Robert Jan van der Burg were elected as members of the Supervisory Board, for the remaining term of office of the two retired members. In addition, Robert Jan van der Burg was elected member of the Credit Committee, with effect from 15 July 2005.

Corporate Governance developments
Compliance with the provisions of the German Corporate Governance Code was also discussed during the Supervisory Board meeting in December, with an emphasis on the results of a survey amongst Supervisory Board members, which was conducted to review the efficiency of Supervisory Board activities. The members of the Supervisory Board issued a Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (AktG), jointly with the Board of Managing Directors, based on the Corporate Governance Code as amended on 2 June 2005.

A summary of DVB Bank AG's Corporate Governance, including the wording of the Declaration of Compliance of December 2005 (as published in the electronic German Federal Gazette on 14 December 2005), is provided on pages 18–21 of this annual report, and also on DVB's website (http://www.dvbbank.com – Investor Relations – Corporate Governance – Declaration of Compliance).

Cooperation with external auditors for the financial statements 2005
The consolidated financial statements and the Group management report of DVB Bank AG for the 2005 business year have been examined, following an audit of the accounting records, and certified without qualification, by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the external auditors appointed by the Annual General Meeting.

The auditors' reports were distributed to all members of the Supervisory Board in good time before the Group balance sheet meeting held on 28 April 2006. The auditors who certified the consolidated financial statements were present at this meeting. During the meeting, they gave a detailed account of their audit as a whole, and provided detailed answers to questions from the members of the Supervisory Board regarding focal points of the audit.

The subsequent examination, by the plenary meeting of the Supervisory Board, of the consolidated financial statements and the Group management report as of 31 December 2005, as presented by the Board of Managing Directors, gave no cause for objections. The Supervisory Board approved the consolidated financial statements as at 31 December 2005 prepared by the Board of Managing Directors.

The Board of Managing Directors has prepared and submitted the mandatory report on business relationships with affiliated companies during the business year 2005; this report has been examined and certified without qualification by the external auditors, as follows: "Having duly examined and assessed this report in accordance with professional standards, we confirm that the report is free from factual misrepresentations, and that the Company did not pay any excessive consideration with regard to the transactions identified in the report." Following its review and examination of the report on business relationships with affiliated companies, the Supervisory Board approved the results of the audit of the financial statements. In particular, the Supervisory Board had no objections to the declaration made by the Board of Managing Directors pursuant to section 312 (3) of the AktG.

Thanks and appreciation
The Supervisory Board would like to thank its members who retired during the period under review, Dr. Peter Klaus and Hermann Möller, for their long-standing, valuable and constructive contributions.

The Supervisory Board would also like to thank the Board of Managing Directors, and all employees, for their strong personal contributions.

Frankfurt/Main, 28 April 2006

For the Supervisory Board

Dr. Thomas Duhnkrack
Chairman

Our employees

The key parameters for the strategic realignment of our Human Resources activities and their operative implementation in 2005 can be summarised in the following points: DVB's unique specialisation on Transport Finance, combined with a clear focus on asset lending; our market presence on the international transport markets; and the growth of DVB's Corporate Finance activities in these target markets.

DVB as an asset lender – impact on our staff and Human Resources activities

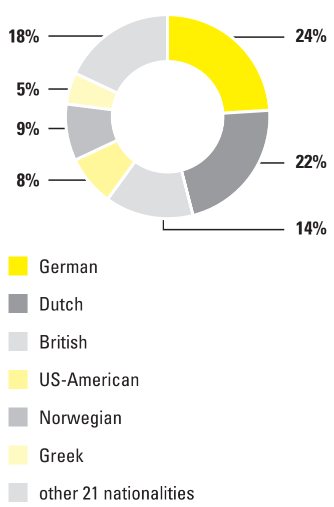
Asset lending: DVB's asset lending business is focused on transport operators and facilities

One of our key strengths lies in an in-depth knowledge of the assets in the respective Transport Finance segments. Alongside DVB's extensive internal asset research, this expertise is based on the market experience of each individual employee. We derive the four core requirements for staff members of the Transport Finance divisions from our core asset-oriented expertise:

- experience and knowledge in international banking, including special skills in dealing with credit risks and state-of-the-art financing structures;
- professional experience and/or a qualification gained in the respective Transport Finance industry segment, or with a financial services provider operating in the sector;
- in-depth knowledge of the assets of the respective Transport Finance segment; and
- a distinct affinity with the financed ships, aircraft, etc.

The criteria that DVB adopts in selecting its staff are reflected in the fact that our Transport Finance/Corporate Finance employees have more than ten years experience in their respective segments. The extensive analysis of the financed assets, conducted by our staff, lends authenticity and credibility to the claim – substantiated in our Mission Statement – that we are a unique global specialist: "We are the leading specialist in international transport finance".

Nationalities of our 203 employees in Transport Finance/Corporate Finance



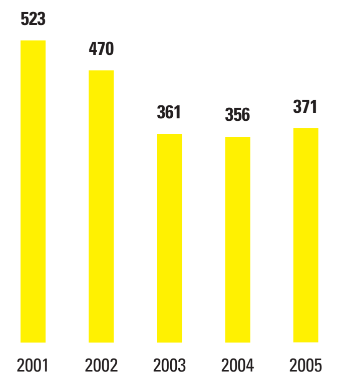
DVB as a global player – implications for our staff and Human Resources activities

We have established close contacts at all levels with our customers on the international transport markets: we have a good understanding of their business models and of the assets they employ. With eleven locations worldwide, we have established a presence in those transport markets in which our customers operate. Real client proximity is not simply enshrined in business programmes, but implemented in everyday business through our international personnel structure. DVB employs people from 27 different nationalities to service our international clients. 69 employees were recruited outside of their home countries, or employed at another location. We view this mobility as one of the key factors to DVB's success. After all, inter-cultural competence acquired by working at different locations is essential for establishing a relationship with our clients, many of whom also operate on a global scale.

A low level of fluctuation amongst the specialists in our Transport Finance/Corporate Finance segments underlines DVB's position as an attractive employer in global transport finance. The track record of resignations amongst our specialists shows a figure of 4.3% during the period from 2003 to 2005. This figure includes resignations initiated by employees, but excludes those resignations that are undoubtedly motivated by purely personal reasons.

Our remuneration system also reflects our international market presence: a long-term component is added on top of the basic salary and the annual variable bonus. Since the "DVB Shares" employee participation scheme had ended with the granting of shares and options in 2004, we launched a new programme in 2005 – the Long-Term Incentive Plan (LTI). Unlike "DVB Shares", the LTI is a cash plan where the employee is paid a specific sum of money, provided a previously-defined performance target has been reached or exceeded. Consistent with our long-term business strategy, DVB's return on equity has been defined as the parameter for a profit target, which is determined on the basis of our medium-term planning. We concluded a remuneration agreement with each of our employees in 2005, in which an individual bonus was determined. This target bonus – or up to a maximum of 250% of the target amount – will be paid in 2008, provided the performance target determined in the LTI is reached or exceeded in 2007. It goes without saying that the employee must still be employed by DVB in 2008 in order to receive the bonus payment. The objective of the programme is to promote loyalty amongst our employees, and at the same time enhance their interest in DVB's growth and long-term performance.

DVB staff levels (2001-2005)

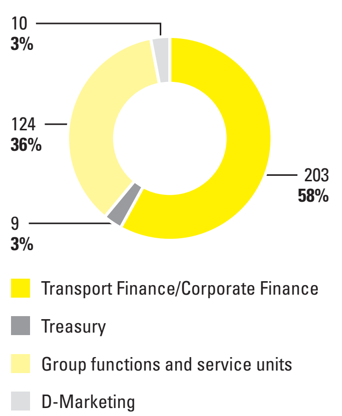


DVB brings specialists for strategically important business divisions on board – slight rise in employee numbers

One of DVB's strategic and financial objectives is to achieve a further sustained increase in fee and commission income. Arising from this, we extended our Corporate Finance division by dedicated Capital Markets and Securitisation unit, as well as setting up an Aviation Financial Consultancy service within Aviation Finance. Each unit is staffed by experienced specialists. We had already established the successful Container Business Unit within Shipping Finance during 2003/2004, as part of the interest income-oriented asset lending business of our Transport Finance segments. Following up, we started to establish a team of specialists for the new Cruise Finance business during 2005. Staff resources in the Transport Finance Credit – Shipping Team were also increased.

Our operative Human Resources activities also focused on the acquisition of specialists with international business skills during 2005. We therefore recorded, for the first time since 2001, a slight increase of 4.2% in staff numbers – DVB employed 371 staff worldwide (2004: 356) at the end of 2005. The adjacent graph illustrating the distribution of staff by business division shows only the 346 active employees and does not take into consideration those 25 members of staff that had entered the passive phase of partial retirement, those who were on maternity leave, or those who had taken parental leave at the end of 2005. The number of active employees in Transport Finance/Corporate Finance increased by twelve, to 203 persons (+6.3%), while there was little change in staff numbers in the central Group functions and service units, at 124 (2004: 120). Back office employees only account for roughly one-third of active staff levels – the personnel structure therefore remained balanced during 2005.

DVB active staff, by business division



Cruising in a new dimension

The establishment of the Cruise Finance Unit in 2005 saw DVB increase its focus on a sector that has not, historically, been regarded as core to our Shipping portfolio. In the event, the successful launch of the Unit led to the completion of a deal that ranks as one of Shipping's landmark deals in 2005.

The collaborative efforts of the New York and Monaco-based Shipping teams, together with our Advisory and Syndications teams, resulted in the delivery of a corporate refinancing structure for four luxury cruise vessels with a combined value of US$380 million.

In combination with an equity issue to its major shareholder, the deal saw our client enter into US$225 million of new seven-year debt facilities which were arranged by DVB in order to refinance the existing debt structure. Part of the new facility is provided on a revolving basis to support the client's future growth and expansion. In structuring this solution, DVB was able to reduce the client's overall financing cost.

The DVB Share

The chapter "The DVB Share" explains the reasons for, and implications of, the share capital increase carried out in October/November 2005. We also track the performance of equity markets and development of the DVB share price, as well as pointing out the key data relevant to our share and DVB's rating development.

Share capital increase

On 6/7 September 2005, the Board of Managing Directors and the Supervisory Board of DVB Bank AG adopted the resolution in principle to increase the capital of DVB Bank AG by approx. €100 million (in accordance with statutory Authorised Capital 2002/I).

On 12/14 October 2005, the Board of Managing Directors and the Supervisory Board then resolved to increase the issued share capital of DVB Bank AG by €21.7 million, from €77.9 million to €99.6 million, via the issue of 850,000 new notional no-par value bearer shares (unit shares) against cash – at a subscription ratio of seven old to two new shares. A range of between €115.00 and €130.00 was initially agreed for the subscription price. The capital increase was registered with the Commercial Register on 19 October 2005.

The new shares were underwritten by DZ BANK, subject to the obligation to offer them to shareholders of DVB Bank AG – at the agreed subscription ratio for indirect subscription – between 1 November 2005 and 14 November 2005. On 27 October 2005, the Board of Managing Directors of DVB Bank AG resolved to fix the subscription price at €124.00. The subscription rights were traded on schedule during the set time period.

The new shares were admitted to Official Trading on the Frankfurt Stock Exchange on 11 November 2005, and were listed on 15 November 2005. The new shares carry full dividend rights with effect from 1 January 2005 (ISIN DE0008045501). DZ BANK did not take any action for the purpose of stabilisation during the stabilisation period.

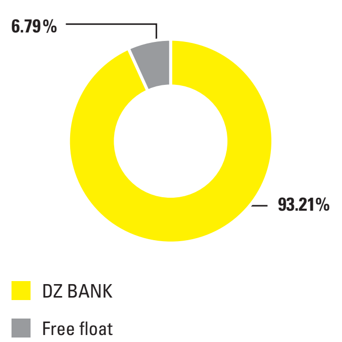
Objectives of the capital increase

This capital increase has further strengthened the liable capital of DVB Bank AG – the Tier I capital was increased by 30.1%, from €509.9 million to €663.5 million. The objectives of the capital increase were firstly to significantly strengthen our premier position as international asset lender in transport finance; secondly, to realise further profitable growth potential in the market segments in which we operate and thirdly (and at the same time), to stabilise our capital ratios – not least with a view to improving DVB's ratings.

Shareholder structure

Upon completion of the capital increase, DZ BANK, as the major shareholder of DVB, increased its stake slightly in the share capital of €99,622,973.37 – which itself is divided into 3,896,912 notional no-par value shares – from 92.98% at the end of 2004 to 93.21%. The remaining 6.79% are held in free float.

Shareholder structure as at 31 December 2005



Performance of equity markets

The German DAX blue-chip index regained its upward trend towards the end of 2005, albeit with some volatility – the euro on the other hand, came under pressure.

Share prices were unable to sustain the rally of 2004 into the first months of 2005. This was largely due to the dampening effect of the sharp rise in crude oil prices as a result of growing demand from emerging markets, especially from East Asia. Such was this demand that the price of crude oil on the world market was 50% higher in the first quarter of 2005 than in the same period of the previous year. Additional weak economic data drove down the DAX to an annual low of 4,178 points in April.

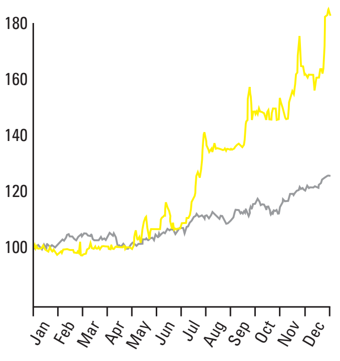
The euro was unable to replicate its rally of 2004 during 2005. Varying interest rate perspectives in the US and the euro zone rendered the US dollar more attractive at the expense of the euro, which came under pressure. This scenario prevailed until the end of 2005.

The DAX benefited from the devaluation of the euro and in September exceeded the 5,000 point mark again for the first time since May 2002. The hurricanes last autumn in the Gulf of Mexico drove up crude oil prices to a new historical high of US$67.00 per barrel. This burdened equity markets, before the DAX was boosted again by positive economic data from the US and the euro zone: the index climbed to 5,408 points at the end of 2005, representing a 27% rise over the start of the year.

Abbreviations and references

DVFA	*Society of Investment Professionals in Germany (Deutsche Vereinigung für Finanzanalyse und Anlageberatung)*
DZ BANK	*DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main*

DVB Share price performance 2005 (€)



Source: Bloomberg L.P.

DVB Share performance

The DVB Share performed very well in 2005. A comparison between the year-end prices of 2004 and 2005 shows that the share price climbed by 75.4%, from €103.75 to €182.00.

Up to mid-2005, turnover was average in the DVB Share, with moderate volatility. The lowest price of €98.00 was recorded on 9 February 2005. Turnover and prices revived significantly in the second half of the year, however. In mid-September, the price of the DVB Share rose strongly from €140.00, hitting a level of €151.00 on 20 September. It reached the high of €191.00 on 29 December. The year-end price was €182.00.

The reasons for this strong performance are attributable less to exogenous market factors, such as the development of the German equity market outlined above or the slight rise in bank stocks in the second half of 2005 (Dow Jones EURO STOXX Banks). In our view, the share price performance is due to the very positive development of DVB Group, in conjunction with a tight market due to the low free float of DVB shares. Speculation regarding a potential squeeze-out may also have influenced the share price.

DVB Share data

€	**2005**	2004	2003	2002	2001
Dividend	2.25	2.00	2.00	1.50	1.50
Dividend yield	1.24%	1.93%	2.29%	1.88%	1.67%
Business year high	191.00	111.00	87.80	90.30	104.00
Business year low	98.00	87.50	73.00	72.00	84.00
Year-end price	182.00	103.75	87.50	80.00	90.00
Earnings per share (according to DVFA)	14.17 [1]	12.19	6.24	2.44	1.12
Number of shares outstanding at year-end	3,896,912	3,034,462 [2]	3,020,147	3,005,791	3,003,224
Market capitalisation at year-end	709,237,984	313,617,471	264,262,862	240,463,280	270,290,160

1) For the purposes of calculation DVFA earnings per share, the number of unit shares created as a result of the capital increase was taken into account pro rata temporis, for a period of 1.5 months.
2) Includes shares resulting from the "DVB Shares" employee participation scheme, which were registered in February 2005.

A dividend of €2.00 per unit share was distributed during 2005. We will propose to the Annual General Meeting on 30 June 2006 to pay an increased dividend of €2.25 per unit share for the 2005 business year.

The capital increase had the effect of more than doubling the market capitalisation of DVB Bank AG as at year-end 2005. It rose by 126.1%, from €313.6 million (end of 2004) to €709.2 million.

DVB's ratings

Standard & Poor's announced an **upgrade** of DVB Bank AG's long-term rating – from BBB+ to A- – on 29 July 2005. The outlook remained stable. S&P simultaneously confirmed the A-2 rating for short-term liabilities. The upgrade took place in conjunction with an upgrade of DZ BANK, DVB's majority shareholder, honouring the stronger profitability, asset quality and capitalisation of DZ BANK and its subsidiaries. For DVB, this has also vindicated its strategic focus and acknowledged the market position achieved.

DVB Bank AG's long- and short-term ratings from **Moody's Investors Service** were unchanged at A3/P-2, with a stable outlook and a stable C- financial strength rating in 2005. Moody's announced an **upgrade** of DVB Bank AG's long-term rating – from A3 to A2 – on 31 January 2006. At the same time, the short-term rating was raised from P-2 to P-1, whilst the financial strength indicator remained unchanged, at C-. Reasons given for the upgrade included the successful completion of DVB's transformation to a specialist in Transport Finance, the consistent implementation of the strategic focus on these markets, and the outstanding expertise of DVB staff. Based on these factors, Moody's saw scope for further improvement in DVB's financial fundamentals. At the same time, the upgrade reflected the expectation that DZ BANK will continue to hold a majority stake in DVB Bank AG, with the capital increase carried out in 2005 being a visible sign of DZ BANK's continued commitment.

Financial Calendar 2006

2 May 2006
Press conference to present the financial statements and analysts' meeting in Frankfurt/Main

8 May 2006
Publication of Annual Reports of DVB Bank AG and of DVB Group (in German) on our website www.dvbbank.com

May 2006
Publication of the first quarterly report for 2006

end of May 2006
Printed German version of DVB Group's Annual Report available

20 June 2006
Publication of DVB Group's Annual Report (in English) on our website www.dvbbank.com

30 June 2006
Annual General Meeting

3 July 2006
Dividend payment (ISIN 804550)

3 July 2006
Distribution on profit-participation certificates (ISIN 804554 and 804556)

beginning of July 2006
Printed English version of DVB Group's Annual Report available

end of July/mid-August 2006
Publication of the interim report for the first half of 2006 (in German and English)

end of October/mid-November 2006
Publication of the third quarterly report for 2006

mid/end of December 2006
Publication of the 5th Declaration of Compliance for 2007

Corporate Governance report

In Germany, key Corporate Governance events during 2005 included EU recommendations designed to strengthen independent supervisory bodies, as well as amendments to the Corporate Governance Code, which were required to incorporate changes to the legal environment with respect to accounting and financial reporting (according to the German Financial Reporting Compliance and Accounting Reform Acts), and investor protection.

More information on Corporate Governance issues is available on our website www.dvbbank.com – Investor Relations – Corporate Governance.

Against this background, the German Government Commission passed various amendments to the German Corporate Governance Code (the "Code") on 2 June 2005.

This Corporate Governance report from DVB Bank AG focuses on the following aspects in particular:

- Fourth Declaration of Compliance for 2005 and 2006 – deviations from the Code's recommendations;
- the securities-based incentive system "DVB Shares" (section 7.1.3 of the Code);
- purchases and sales of shares in the Company by members of the Board of Managing Directors or the Supervisory Board subject to notification obligations (section 6.6 (1)), and share ownership of these persons (section 6.6 (2)); and
- remuneration of the Supervisory Board (section 5.4.7).

Fourth Declaration of Compliance for 2005 and 2006

The law obliges each company that does not fully adhere to the recommendations of the Code to expressly disclose such deviations each year, and to give specific reasons for such deviations, in a "Declaration of Compliance". As a global Transport Finance specialist, we have largely implemented the recommendations made by the Code. Only where DVB's specific situation requires otherwise have we decided not to comply with these recommendations.

DVB did not comply with four individual recommendations of the Code during 2005 and 2006: **section 4.2.4 sentence 2, section 5.2 sentence 2 lit. 2, section 5.3.2 sentences 1 and 2, and section 5.4.7 sentence 3 lit. 2.**

During 2006, DVB did not comply with the recommendations of the Code regarding four additional issues:

- **Section 4.2.3 sentence 7:** DVB considers the general setting of a cap, by the Supervisory Board, on the remuneration for the Board of Managing Directors (in order to provide for extraordinary, unforeseen developments) as inappropriate, since in the event of such developments, an adjustment to the variable remuneration would be justified. Notwithstanding this view, the Executive Committee of the Supervisory Board may, of course, agree to set a cap with individual members of the Board of Managing Directors.

- **Section 5.4.3 sentences 1, 2 and 3:** DVB does not see any necessity for the individual election of Supervisory Board members. When selecting candidates for membership, DVB ensures that prospective members possess the necessary professional aptitude

Abbreviations	
AGM	*Annual General Meeting*
Articles	*Memorandum and Articles of Association*
Code	*German Corporate Governance Code*
VAT	*value-added tax*

and personal skills. The candidates proposed by the Supervisory Board to the AGM are thus harmonised. Electing Supervisory Board members on an individual basis would hinder this approach. In the event of the judicial appointment of any Supervisory Board member, DVB does not consider it necessary to limit the term of office of members so appointed to the next AGM. Moreover, DVB strives to prevent the judicial appointment of Supervisory Board members. To this end, retiring members of the Supervisory Board shall retire with effect from the end of the next AGM to ensure, at the same time, the election of new members by the AGM. Given the Company's current shareholder structure, the majority shareholder puts forward the candidate for the Chairman of the Supervisory Board; an announcement is thus not required.

- **Section 5.4.4 sentences 1 and 2:** to date, neither the Chairman nor any member of DVB's Board of Managing Directors have ever been appointed Chairman of the Supervisory Board, or of any Supervisory Board committee, nor are there any such plans for the future. Therefore, DVB sees no need to adopt a regulation to this effect.

- **Section 7.1.2 sentence 3 lit. 1 and 2:** DVB is in the process of changing its accounting and financial reporting system to comply with recognised accounting principles according to IAS/IFRS during 2006. Publication of the consolidated financial statements for 2005 is scheduled for the end of April 2006, whilst the interim report for the first quarter of 2006 is expected to be published in June 2006. Subsequent quarterly reports will be made public within 45 days of each respective period under review.

In a separate Declaration of Compliance issued on 24 November 2005, DVB disclosed that it had exceeded the 45-day period stipulated in section 7.1.2 of the Code for the publication of third-quarter results 2005, by one day.

Securities-based incentive system "DVB Shares"

DVB Bank AG launched its "DVB Shares" employee participation scheme in 2000. Members of staff purchased a total of 15,464 employee shares, within the scope of five tranches, offered between 2000 to 2004. A total of 154,428 options were allocated on these shares, of which employees exercised a total of 35,305 options between 2003 and 2005. DVB's issued share capital was increased by an aggregate €902,558.00 as a result. A residual amount of 96,250 options was still unexercised as at 31 December 2005. These can be exercised in the years 2006 and 2007, provided that the financial requirements as defined by the AGM 2000 are met. The "DVB Shares" scheme will be terminated in 2007, after exercise or expiration of outstanding options, and will be replaced by a cash-based incentive scheme from 2008 onwards. More details are provided on pages 11 and 126–127.

Purchases and sales of shares in the Company by, and share ownership of, members of the Board of Managing Directors or the Supervisory Board subject to notification obligations (Directors' Dealings)

As at 31 December 2005, the members of the Board of Managing Directors held 6,346 shares in DVB Bank AG, plus 3,950 options. During 2005, members of the Board of Managing Directors exercised a total of 550 options. The members of the Supervisory Board held 70 shares in DVB Bank AG. No notices of purchases or sales (in accordance with section 6.6 of the Code) by members of the Board of Managing Directors or the Supervisory Board of DVB Bank AG were submitted during 2005.

Remuneration of the Supervisory Board

The annual remuneration of the services of the Supervisory Board members is regulated in article 18 of the Articles of DVB Bank AG.

The **total remuneration of the Supervisory Board** in 2005 amounted to €67,752.11, taking into account the tax rates applicable to the individual members of the Supervisory Board. Thus, total remuneration of the Supervisory Board decreased by 14% in comparison to the prior year (2004: €78,802.98, incl. 16% VAT), which is attributable to the reduction in the number of Supervisory Board members effective after the end of the AGM on 9 June 2004. As set out in the Articles, the Supervisory Board is now composed of six shareholder representatives and three employee representatives.

Of this total, €57,140.96 (2004: €67,350.04 incl. VAT) is attributable to the annual **remuneration of members of the Supervisory Board** in accordance with article 18 (1) sentences 3 and 4 of the Articles. Accordingly, all Supervisory Board members receive a base amount of €5,112.92 (pro rata temporis, if necessary). Pursuant to the Articles, the Chairman receives twice the base amount, and the Deputy Chairman one and a half times the base amount. In contrast to the shareholder representatives, the employee representatives will not be refunded 16% VAT, as their remuneration is not subject to value-added tax (article 18 (2) sentences 1 and 2 of the Articles). In accordance with article 18 (1) sentence 5 of the Articles, the **members of the Credit Committee** received an additional remuneration of €2,965.49 (incl. 16% VAT) apart from the base amount – with the exception of the employee representative Axel Clemens, to whom the amount of €2,556.46 was paid without VAT for the above-mentioned reasons. Thus, the total expense in respect of the activities of the Credit Committee was €10,611.16 (2004: €11,452.94 incl. VAT)

To replace the shareholder representatives who retired from the Supervisory Board after the end of the AGM on 10 June 2005 (Dr. Peter Klaus and Hermann Möller), Flemming Robert Jacobs, domiciled in Hurstwood, Surrey, UK, and Robert Jan van der Burg, domiciled in Dublin, Ireland, were appointed. As a result, for the first time, two members of the DVB Supervisory Board are domiciled outside Germany. Accordingly, DVB Bank AG is required to declare the taxes accruing on the remuneration for these members. Value-added taxes, taxes for membership of supervisory boards and solidarity surcharge were paid to the tax office.

The variable remuneration provided for in article 18 (1) sentence 6 of the Articles was not paid in 2005, as the requirements were not met.

In accordance with article 18 (1) sentence 7 of the Articles, the remuneration was paid on 1 July 2005. The adjacent table provides a breakdown of remuneration for individual members of the Supervisory Board:

€	For Supervisory Board activities					For Credit Committee activities				
	Remuneration Supervisory Board	VAT	Taxes for membership in a supervisory board	Solidarity surcharge	**Remuneration Supervisory Board**	Remuneration Credit Committee	VAT	Taxes for membership in a supervisory board	Solidarity surcharge	**Remuneration Credit Committee**
		16%	30% 2)	5.50% 2)	**Total**		16%	30% 2)	5.50% 2)	**Total**
Shareholder and employee representatives, domiciled in Germany:										
Shareholder representatives:										
Dr. Thomas Duhnkrack, Chairman	10,225.84	1,636.13			11,861.97	2,556.46	409.03			2,965.49
Prof. Dr. Manfred Schölch, Deputy Chairman	7,671.60	1,227.46			8,899.06					
Wolfgang Kirsch	5,112.92	818.07			5,930.99	2,556.46	409.03			2,965.49
Hemjö Klein	5,112.92	818.07			5,930.99					
Employee representatives:										
Lutz Baumgartl	5,112.92				5,112.92					
Axel Clemens	5,112.92				5,112.92	2,556.46				2,556.46
Sabine Meyer	5,112.92				5,112.92					
Member of the Supervisory Board until 10 June 2005:										
Dr. Peter Klaus	2,273.60	363.78			2,637.38	1,136.20	181.79			1,317.99
Hermann Möller	2,273.60	363.78			2,637.38					
Shareholder representatives, domiciled outside Germany: 1) 2)										
Flemming Robert Jacobs, domiciled in Hurstwood, Surrey, UK Member of the Supervisory Board from 10 June 2005	2,856.21	456.99 1)	856.86	47.13	1,952.22					
Robert Jan van der Burg, domiciled in Dublin, Ireland Member of the Supervisory Board from 10 June 2005	2,856.21	456.99 1)	856.86	47.13	1,952.22					
Member of the Credit Committee from 15 July 2005						1,178.81	188.61 1)	353.64	19.45	805.72
Supervisory Board and Credit Committee:		6,141.26	1,713.73	94.25	**57,140.96**		1,188.47	353.64	19.45	**10,611.16**
Total – Supervisory Board and Credit Committee:										**67,752.11**

For Supervisory Board members domiciled outside Germany, the following applies:
1) Value added tax is declared by DVB Bank AG and paid directly to the responsible tax office.
2) Taxes for membership of supervisory boards, and solidarity surcharges, are declared by DVB Bank AG and paid directly to the responsible tax office. Both taxes are deducted from Supervisory Board members' remuneration.
The taxes paid by DVB to the tax office amounts to: 1) 2) 3,283.67

Climbing on strong wings

One of Aviation's landmark deals during 2005 involved the structure and arrangement of a Warehouse Facility on behalf of one of our Operating Lessor clients which, for the first time, was seeking the additional flexibility of a pre-committed "umbrella" facility in order to finance a broad range of prospective aircraft acquisitions.

With our client's objectives in mind, we crafted a facility that would enable the borrower to efficiently purchase and fund a range of target aircraft, each of which could be on lease to different airline operators. An integral aspect of a complex structure such as this is to provide a syndicate of lenders with appropriate levels of security and diversification of risk, thereby avoiding undue aircraft, lessee and geographical concentrations.

Close cooperation with our client and our banking partners resulted in the provision of a US$400 million Credit (Warehouse) Facility for the purchase of both new and used passenger and freighter commercial aircraft, with the freedom to make individual drawings subject to as little as 10 days' notice. The Facility was arranged on a "book-building" basis, with DVB acting as the agent and lead bank. Seven European and Asian banks joined us to form the syndicate of lenders.

First financial statements in accordance with IFRS

As a publicly traded company, DVB must – for the first time – prepare consolidated financial statements in accordance with IFRS for the business year 2005, pursuant to EU Regulation dated 19 July 2002 and the German Accounting Reform Act dated 10 December 2004.

The currently applicable IFRS provisions do not include a separate standard dealing with management reporting which would correspond to the EU regulations or the German Commercial Code (HGB). Pursuant to section 315a (1) of the HGB, DVB Bank AG, as a German parent company, is required to complement its IFRS consolidated financial statements with a Group management report in accordance with section 315 of the HGB.

The HGB regulations, in turn, were modernised by the above-mentioned German Accounting Reform Act in order to improve the information quality and the comparability of management reports for the benefit of investors. On 26 February 2005, the German Federal Ministry of Justice published GAS 15, Management Reporting, which extends the reform of the HGB with specific regulations against the backdrop of international developments, and includes further recommendations. The management report, prepared in compliance with GAS 15, should be utilised as an instrument of value-focused and future-oriented reporting. The aim is to provide investors with relevant information for their decisions, and which facilitates an assessment of the company.

In this annual report for the business year 2005, we apply GAS 15 on a Group level for the first time. Our discussion is composed of the following elements:

- Strategy, markets, competitive strengths
- Management report (in the narrower sense) pursuant to section 315 (1) sentences 1 to 4 of the HGB and in accordance with GAS 15
    - Development of the business divisions Transport Finance, Corporate Finance and Treasury
    - Economic situation
        - Key elements of, and external factors impacting on, the business development, plus preliminary remarks
        - Results of operations
        - Financial position
        - Net assets
- Report on events after the balance sheet date, in accordance with section 315 (2) no. 1 of the HGB
- Risk report, in accordance with section 315 (2) no. 2 a and b of the HGB
- Report on branches and subsidiaries, in accordance with section 289 (2) no. 4 of the HGB
- Report of the Board of Managing Directors on relations with affiliated companies, in accordance with section 312 of the German Stock Corporation Act
- Report on expected developments 2006/2007, pursuant to section 315 (1) sentence 5 of the HGB

Since DVB does not undertake any research and development activities, the Bank does not prepare a corresponding report in accordance with section 315 (3) of the HGB.

Abbreviations and references

AktG	*German Stock Corporation Act (Aktiengesetz)*
BilReG	*German Accounting Reform Act (Bilanzrechtsreform-gesetz)*
GAS	*German Accounting Standard (Deutscher Rechnungs-legungs Standard – DRS)*
GAS 15	*Management Reporting (DRS 15 – Lagebericht-erstattung)*
HGB	*German Commercial Code (Handelsgesetzbuch)*
IFRS	*International Financial Reporting Standards*

Strategy, markets, competitive strengths

Strategy: clear emphasis on selected transport segments and products

With its products and services, DVB pursues a unique strategy of focusing solely on selected segments of the international transport market. Our mission statement has become reality: "We are the leading specialist in international transport finance".

We segment the global transport market into shipping, aviation and land transport (road and rail), as well as the creation and operation of transport infrastructure facilities. Each of these markets is broken down into further sectors.

With eleven locations worldwide, we have established a strategic presence in the key traffic junctions. At the same time, this global presence allows us to adapt to our clients' regional market environments.

We offer our clients a range of value-added products and services, giving advice, structuring transactions and providing finance. They can call upon our asset lending, risk distribution and securitisation services; all of which are supported by our in-house research, which is dedicated to continuous and consistent analysis of transport markets and facilities. As a specialist for international transport markets, we also offer Corporate Finance advisory and structuring services in Advisory and M&A, Group Investment Management and Capital Markets.

Asset lending in the international transport market

The Transport Finance divisions Shipping, Aviation and Land Transport specialise in the provision of finance to facilitate the purchase of assets (asset lending). As well as offering our clients traditional collateralised lending, we also provide comprehensive, tailor-made solutions to meet their financing needs in a competitive international market environment. Our Transport Infrastructure division finances airports, ports and port facilities, as well as road and rail infrastructure. We also arrange structured cash flow financings for major infrastructural facilities, together with the associated equipment, as well as providing support for off-balance sheet financings.

Risk distribution – taking syndications one step further

We usually employ our own capital when financing the assets of our Transport Finance clients. Notwithstanding this commitment, we syndicate portions of this lending volume – which can be substantial – to other financial institutions on the international banking market. Our Syndications unit is concerned with the placement of credit risks with third parties, and therefore assumes the important role of raising liquidity and transferring risk, for DVB as well as for our clients.

Securitisation

To date, participants in the global transport market have tapped the capital markets as a financing source only to a very limited extent. Given the industry's constantly growing financing needs, the securitisation of receivables offers a very promising route to access the capital markets. This is why we have established a dedicated Securitisation team, to explore these liquid and cost-efficient funding sources for our clients.

Corporate Finance services

We participate in the value-added chain related to the financing of assets on the global transport market, in a financing as well as in an advisory capacity. In this context, we offer advisory and structuring services from our Advisory and M&A, Group Investment Management and Capital Markets teams.

The vast range of our Corporate Finance services is geared to meeting the financing requirements of our clients, with tailored products comprising structured and (in part) tax-optimised financing solutions. The product spectrum also consists of an advisory service for company acquisitions, strategic decisions regarding capitalisation and financing, as well as loan restructuring and acquisition finance.

DVB's competitive strengths

The key factor to DVB's success is appropriate valuation of the assets to be financed – in terms of their asset value as well as the long-term achievable revenue. Collateralisation of the lending exposure, incorporating the assets to be financed and the cash flows they generate, is central to this valuation.

An in-depth and extensive understanding of the market, and technical know-how regarding the assets and their main components, are a prerequisite to accurate valuation. It is this combination which allows us to adequately assess and value the collateral, and hence, to ensure our risk exposure is covered appropriately.

Our key competitive strengths distinguish us from other market participants:

- our **unique strategy of focusing** on providing financing solutions in selected sub-sectors of the international transport market;
- proprietary **in-house asset research** in Shipping, Aviation and Land Transport;
- broad **risk diversification** within each sub-sector;
- **staff specialising** in financings and advisory services in the selected markets; and
- **efficient decision-making structures,** leveraging our decentralised position in the international transport markets.

Consistent focus on profitability

We will continue to pursue our strategy of focusing on selected transport markets. Our aim is to further improve the efficiency of our services.

Within the scope of our strict focus on results, we plan to implement the following individual measures in order to further enhance our profitability:

- continuously extend and expand our specialist Transport Finance business units in attractive niche markets;
- extend our Corporate Finance franchise; and
- consistently exploit existing business opportunities.

Extension and expansion of specialist business units in Transport Finance niche markets

We established the specialist business unit for container financing back at the **end of 2003,** in line with our asset financing strategy. The steady increase in global trading not only drives the growing demand for container shipping capacity that we have been witnessing for some time now: the demand for container boxes is rising as well. In order to service this segment optimally, we have established our own Container Business Unit, which is operating very successfully indeed.

We have also become involved in cruise financing, as another niche market in Shipping Finance. The cruise shipping segment took some time to recover from the events of 11 September 2001. However, since 2004, this segment has seen strong growth and a return to previous profitability levels. Having identified substantial growth potential here, we established the Cruise Finance Unit at the **end of 2004.** Its business activities in 2005 included a transaction whereby we arranged a US$380 million refinancing facility for four luxury cruise ships.

With the same value-added considerations in mind, we also created the Aero Engine Finance Unit **in 2004.** This business unit within Aviation Finance aims to exploit the opportunities presented by the financing of aircraft engines, and to build up the necessary expertise in this area. The complexity of the assets should afford us the opportunity to establish ourselves in a market segment that has been serviced to date by only a small number of competitors with comparable market know-how.

During **2005,** we continued to observe and actively exploit business opportunities in niche international transport markets. For example, we established two specialist units within the Shipping Finance division – covering Yacht Finance and FPSO (Floating Production, Storage and Offloading facilities).

Expanding our Corporate Finance activities

While our Transport Finance divisions mainly generate interest income, Corporate Finance generates predominately fee and commission income, especially from structured financings and advisory services. We plan to further expand this business activity, just as we plan to extend the scope of our advisory products. Besides offering our clients greater access to alternative financing sources in the future, we will provide a range of related services, such as underwriting. This will broaden and deepen relationships with our clients, and at the same time improve the basis for our asset lending. Our Securitisation, DVB Capital Markets LLC and Forward Freight Agreement business units, which we established in 2005/2006, will develop and offer an extended range of services to our clients.

Leveraging existing business opportunities

We intend to further increase our financing volumes, in line with market growth in the respective market segments. It goes without saying that we will adhere to the regulatory capital requirements at all times. We are determined to expand our business as much as possible using existing staff and resources, in order to enhance the efficiency of internal processes. This leverage effect should also allow us to further increase our profitability.

Development of the business divisions

(as at 18 April 2006)

In this business development section, we illustrate both the general conditions surrounding our activities in the international transport markets as well as the development of our Transport Finance portfolios: Shipping, Aviation, Land Transport, and Transport Infrastructure. Similarly, for the Corporate Finance division, its Advisory and M&A, and Group Investment Management segments are examined in terms of factors affecting markets and portfolios. Finally, we discuss essential developments within Treasury.

Shipping – market review

The extensive Shipping Research 2005 will be available on our website www.dvbbank.com – Research.

The resilience of the world economy has been a revelation in 2005. Higher oil prices, a host of natural disasters, terrorist attacks, and political twists have had a limited impact on the continued strong world GDP growth, resulting in another good year for maritime transportation.

Mother Nature's surprises – in the form of heavy flooding, the aftermath of the Tsunami, mud slides, earthquakes, 26 'named' storms including Katrina and Rita (compared to the yearly average of ten – US Weather Service) and even locust swarms in Africa – is what the world economy had to overcome in 2005. Bird flu continues to claim human lives, and its potential global spread could be a threat to the world economy; an event of low probability but with a high impact (World Bank Study).

On the political front there was no let-up, with wars in more than a dozen countries apart from Afghanistan and Iraq. To add to which, Iran with its new leadership has been making the news in not the most favourable of ways.

Despite this, global monetary conditions have been accommodative: core inflation has been low (despite the high oil price), long-term interest rates remained low, and GDP growth across the world – for the most part – has been robust. The buoyancy of the current world economy augurs well for 2006 and bodes well for continued demand of shipping services during the year. The projected excess fleet capacity, through newbuildings entering the fleet, is however expected to result in softening of freight rates in a number of shipping sectors.

Abbreviations

bbl	*barrel*
bp	*basis point*
cst	*centistokes (measure of the viscosity of the fluid; in our context, the bunker fuel)*
GDP	*Gross Domestic Product*
LPG	*Liquified Petroleum Gas*
mt	*metric tonne (unit of weight equivalent to 1,000 kilograms)*
RASP	*Research & Strategic Planning*
TEU	*twenty foot equivalent unit*
VLCC	*Very Large Crude Carrier*

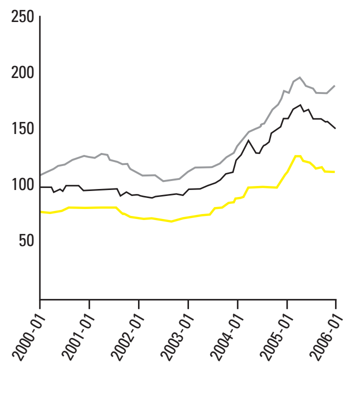
The much-publicised Chinese government measures, instituted to slow down their economy, has surprised many by not having had the desired effect. Global growth and world trade, led by the Chinese economy (expected GDP growth of 9.9% in 2005) and the US economy, continued its run of consecutive good years. Led by export growth, the European economy has begun to advance. This is a momentum that should continue through 2006; particularly if the euro remains at current exchange levels. Similarly, exports coupled with increasingly robust domestic demand, are driving growth in several Asian economies. The trade outlook for 2006 – without wild cards – is anticipated to be at least as good as 2005, with a possibility of being even stronger. Escalating inflation, precipitated primarily through higher oil prices, remains the most significant threat to global economic growth. In addition, all does not bode well for the Chinese economy. Along with its rapid and sustained growth, it is facing a number of infrastructure problems. A World Bank study states that China has 16 of the planet's 20 most air- polluted cities, and estimates that pollution costs China's GDP anywhere between 8-12% (Petroleum Economist). China still has bad debt to clear in its banking sector, estimated by USB AG at almost US$850 billion over the past 15 years. Furthermore, China has also seen the closure of 2,157 coal mines out of a total of 5,001 which the country had planned to shut down (Petroleum Economist). In 2004, according to the Chinese government, 24 provinces suffered power shortages. Besides, there has been widespread civil unrest, with uprisings throughout the country. Not encouraging signs, although ones that may be expected given the country's rapid growth.

All figures for the fleet profile and orderbook are from Lloyds Register – Fairplay with the exception of those for Crude, LPG and Products which are from Clarksons; and those for Chemicals, which are from Clarksons and Drewrys.

However the overall global economic resiliency displayed in 2005 suggests that it will take a combination of geopolitical and/or economic shocks to derail the current growth trend.

Global steel prices came down by 15% from their peak of US$ 653 per tonne in December 2004, to US$554 per tonne 2005 (MEPS (International) Ltd. and International Iron and Steel Institute). The downward trend is expected to continue as fears of excess capacity are growing, fuelled by increased crude steel production in China. From having been a major importer of steel for years, China only imported 300,000 mt more than the 25.1 million mt it exported during the first 11 months of 2005 (MEPS (International) Ltd. and International Iron and Steel Institute). It is difficult to predict how this will affect shipbuilding prices, as competition for newbuilding slots has been strong and orderbooks are full for the next two to three years. A reasonable expectation would be that the large orderbook will put pressure on earnings across most shipping sectors, and keep owners from ordering new vessels. At the same time, falling prices for steel should create room for negotiations on newbuilding prices which started to increase in 2003, and rose steadily until they peaked in May 2005. Since then prices have been on a downward trend. The only sign of an increase at the start of 2006 is for tankers, with a 2.1% increase on December 2005 prices.

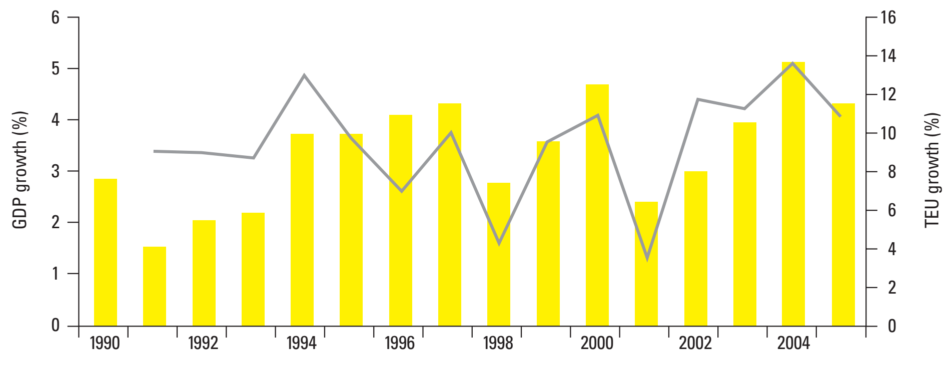
Newbuilding price index for tankers, bulk carriers and container ships



Source: Clarksons Research Studies

Container carrier time charter rates across sub-sectors averaged more in 2005 than they did in 2004. The year however was a dichotomous one: all industry tracking parameters, having increased steadily during the first half of the year, dramatically declined during the second half.

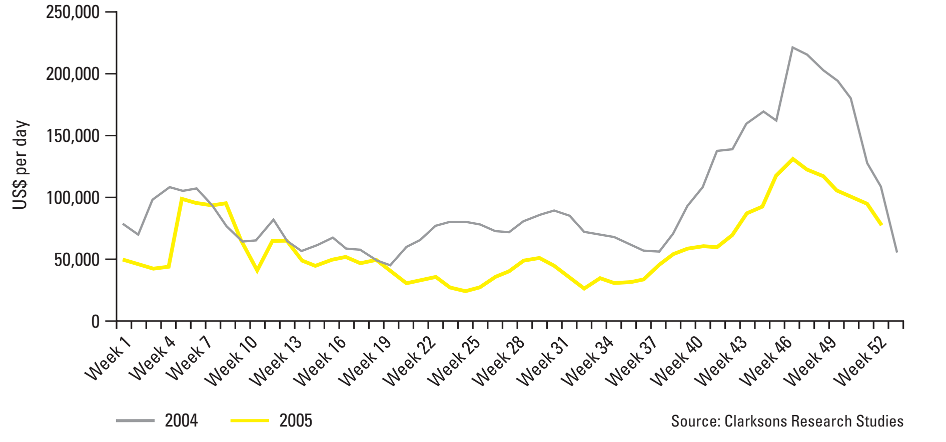
TEU growth vs. world GDP growth



Sources: Global TEU volumes: Drewry Shipping Consultants
GDP growth: Clarksons Research Studies

On the whole, tanker markets finished a very good year in 2005 although most sub-sectors saw a decline from the exceptionally strong markets in 2004. Crude oil tankers saw global oil demand growth slow to 1.3% compared to a high 3.8% in 2004, while volatility remained a key characteristic in the spot markets. Hurricanes Katrina and Rita created improved trading opportunities for product tankers and LPG carriers, while chemical carrier rates eased off from record highs in 2004.

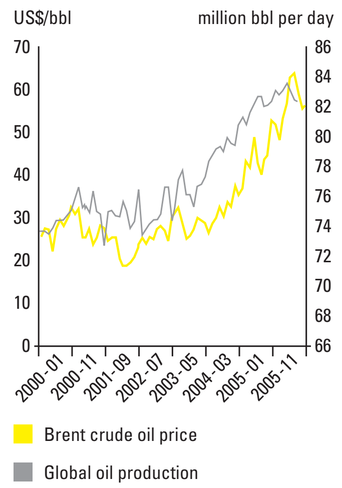
Average VLCC spot rates 2004 and 2005
Volatility remained a key characteristic in the crude carrier markets.



Source: Clarksons Research Studies

The end of the super-cycle in the dry bulk market witnessed in 2004 and beginning of 2005 has definitely arrived, with new deliveries outpacing growth in global dry bulk exports. China's increasing demand for iron ore and coal has set the pace, and vessel orders are now lined up as far as 2010. Growth in Chinese coal imports in 2005 increased by 25.9% to 25.2 million tonnes compared to an increase of 41.9% in 2004 (Australian Mineral Economics). Equally interesting is China's hunger for iron ore, with imports increasing 24.4% to 275 million tonnes in 2005 (Australian Mineral Economics). Seaborne shipments of iron ore are expected to rise 7% in 2006 to 706 million tonnes. China represented 46% of global demand for iron ore in 2005, consuming 695.8 million tonnes, with domestic demand for steel at an all-time high (Australian Bureau of Agricultural and Resource Economics). Chinese steel consumption increased 24.6%, from 280 million tonnes in 2004 to 349 million tonnes in 2005, and there are expectations of further growth in demand given the continuous development of factories, machinery and other types of heavy equipment (Australian Mineral Economics). With steel following a similar pattern to that of the increasing demand for ore, Handymax as well as Handysize could potentially reap some benefit from increased global steel exports. The increasing competition for dry cargo consignments, following the growth of the fleet, has seen newbuilding prices begin to soften, whereas time charter rates are on the downward slide. How far this development will continue will for the most part depend on continued growth and development of Chinese industry.

Crude oil price vs. global oil production



Source: US Department of Energy

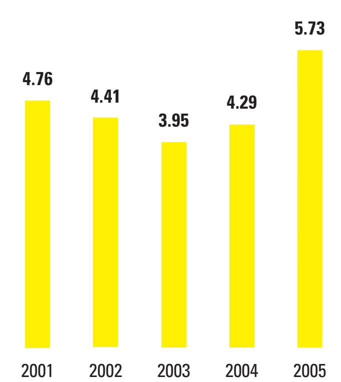
While freight rates in most sectors ended the year higher than in 2004, shipowners had to come to terms with much higher operating costs, primarily stemming from a 78% increase in bunker prices (380 cst) to US$290/tonne by year-end, basis Singapore (Clarksons Research Studies).

Shipping – portfolio analysis

2005 was another stellar year in terms of performance for the Shipping division, with results that again exceeded expectations and broke records.

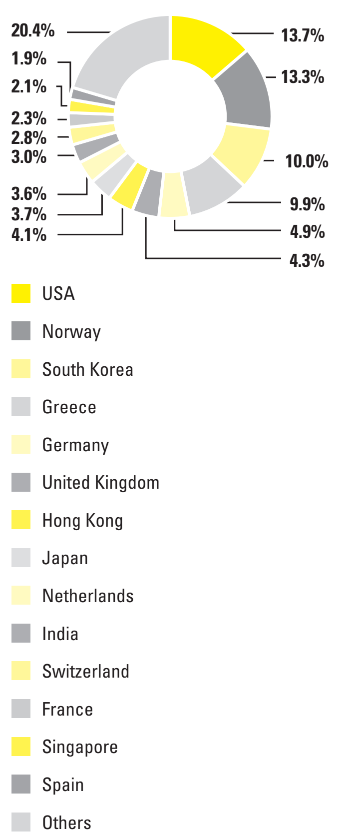
The volume of customer lending (loans and advances to customers, loan commitments, indemnites and guarantees) for 2005 was up 33.6% on 2004 figures, from €4.29 billion to €5.73 billion. 142 new transactions were completed during the year, resulting in a remarkable €3.19 billion of loans being underwritten; a 32.9% increase on 2004 results (€2.40 billion).

Lending volume 2001-2005 (€ bn)



The continued growth in the portfolio came during a year that saw an incredibly high volume of refinancing within the shipping market. Competition intensified substantially during 2005, as banks with an insatiable appetite for assets brought low margin deals to market that were supported by very lenient financing terms. The impact on DVB's Shipping portfolio was evident, with total repayments and pre-payments equating to 49% of the existing loan portfolio. Pre-payments alone amounted to a staggering 26% of the existing portfolio.

Shipping portfolio by economic risk



We have outlined the "Shipping landmark deal 2005" on pages 12-13. Please refer to the tombstones on the back cover for a number of other landmark Shipping deals in 2005.

The market characteristics that led to the portfolio developments witnessed in 2005 can best be described as unique. The fall in freight rates predicted twelve months ago did occur, albeit to levels that remained well above historic averages. This fall was not matched by an equivalent drop in asset values, however. Ship owners remained optimistic that the drop in rates was short-lived and that, based on expectations of continued global growth in the medium term, further investment in assets was commercially prudent. The new-building and sale and purchase markets remained buoyant as a result. With loan pricing weakening on the back of increasing competition developing within the ship finance market, owners were quick to take advantage of favourable terms to either refinance or support their investments in additional tonnage. This resulted in the high level of pre-payments experienced, and the significant volume of new business achieved by DVB during 2005.

DVB maintained a disciplined approach during this market frenzy, offsetting the reduction in portfolio size by focusing on business that offered appropriate risk returns and by utilising the benefits that syndication can offer in competing for deals. The result of this approach was a modest drop in average margin for the portfolio, from 144 basis points in 2004 down to 139 basis points in 2005.

One welcome drop was in relation to the average loan-to-value ratio. On the back of the decrease experienced in the previous twelve months, the average loan-to-value ratio dropped again, this time from 63.1% as it was in 2004, to 57.7% in 2005. This is particularly significant, considering that asset values in 2005 remained at or close to market peaks. In this context it provides a high degree of comfort as we move towards a declining market.

Business within the international shipping markets continues to be conducted primarily in US dollars. This is reflected within DVB's Shipping portfolio, which is 80.4% US dollar-denominated and typically expressed in US dollar terms. The strengthening of the US dollar during 2005 contributed in part to the outstanding euro-based results achieved by the Shipping division – the portfolio increased by 33.6%, from €4.29 billion to €5.73 billion. Even when viewed in US dollar terms, the results are more than satisfactory with the Shipping portfolio growing by 15.6%, from US$5.84 billion in 2004 to US$6.75 billion in 2005.

The Shipping division continues to enjoy worldwide recognition as a leading financial specialist. In 2005, the division concluded 142 new transactions compared with 113 in 2004 and 91 in 2003. DVB maintained a leading role for 73% of the 142 transactions. During the course of our activities, we have continued to focus on expanding our underwriting capacity and market position as arrangers and book-runners.

The development of the business units established to cover niche sectors within the shipping market is worthy of mention. The Container Box Unit had, without question, an outstanding year in 2005. Not only did it exceed budget in terms of interest income, but it also proved highly successful in delivering fee-based income through corporate finance mandates. February 2005 also saw the launch of the Cruise Finance Unit. This unit also had a successful year, bringing in both interest-based income as well as substantial fee income through its activities to date. This strategic initiative – to focus on niche sectors which fit outside the mainstream of shipping – has proven successful, and is a strategy that will continue to be developed. Further units will be brought on board throughout 2006, and others investigated as appropriate.

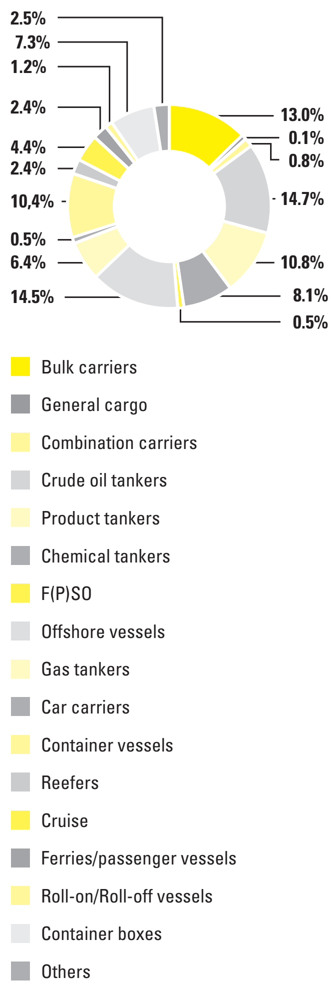
DVB's Corporate Finance teams have been key contributors to the success of the Shipping division during 2005, providing expert financial solutions in areas such as equity sourcing, tax-efficient financing structures, and M&A and advisory services. In this vein, these teams continue to complement the traditional lending business and further consolidate our market position as a leading financial specialist in the shipping sector.

It would be remiss to discuss the portfolio development in 2005 without commenting on the significance that our Research and Strategic Planning (RASP) department has in relation to this. The industry accolades once again bestowed upon them in 2005 bear testament to the quality of output they deliver and the significance of their contribution to the Shipping division's development. The strategic plan produced annually by RASP lays the foundations for guiding portfolio development each year. It is gratifying to see that, once again, their recommendations have proved correct with sectors such as offshore being a key focus and portfolio contributor during 2005.

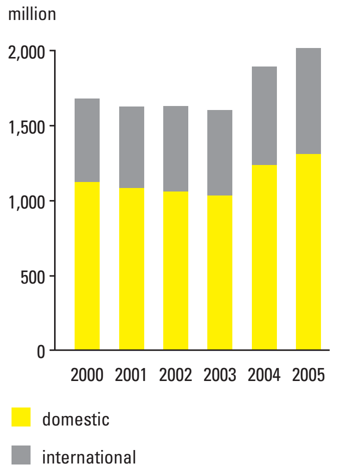
Our global presence continues to mirror the international scope of the shipping industry, and is substantiated by the geographic diversity of our portfolio. Exposure to all major economic markets remains well-diversified, with the largest economic exposures still relating to the USA (13.7%), Norway (13.3%), South Korea (10.0%) and Greece (9.9%).

In keeping with our motto of diversification, we continue to spread our risk across the various shipping sectors and remain vigilant to opportunities that lie outside of the mainstream sectors. In line with the recommendations proposed in the 2005 strategic plan, we have reduced our exposure in a number of the major sectors, with exposure to container vessels (most notably) reduced from 15.5% in 2004 to 10.4% in 2005. Also in keeping with the strategic plan and the diverse initiatives of DVB, we have increased our exposure in the offshore sector from 9.7% in 2004 to 14.5%, and increased our profile in the cruise sector from 1.6% in 2004 to 4.4% in 2005. Product tankers also saw some increase in their profile, up from 8.8% of the portfolio in 2004 to 10.8% in 2005. The change in the profile of the portfolio corresponds to attractive business opportunities identified in recovering markets, contrasted by the increased risk involved in financing the peaking "main-stream" sectors.

Shipping portfolio by vessel type

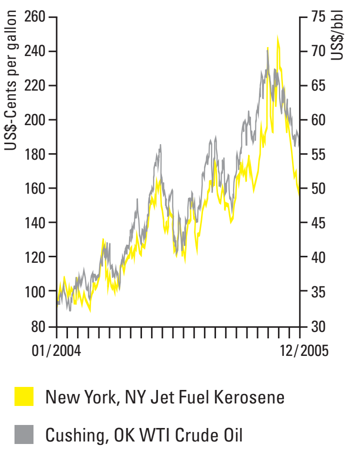


Global scheduled traffic (2000-2005) passengers carried (domestic and international)



Source: ICAO

Jet fuel spot prices – US petroleum spot prices for kerosene-type jet fuel (US$-cents per gallon) and crude oil (US$/bbl)



Source: US Energy Information Administration

Aviation – market review

The aviation weather in 2005 was relatively calm, compared to the stormy start of the decade.

Worldwide trends 2005

Global airlines enjoyed generally solid passenger traffic growth, figures albeit not at the double-digit levels of 2004. Air cargo growth was disappointingly low during 2005 as a result of economic slowdown and higher airfreight costs, causing some modal shift. Airlines in most regions showed relatively good results but – as in 2004 – in the US, carriers continued to struggle. Overall, the airlines were still unable to generate attractive returns for investors, despite significant improvements in operational efficiency. The entire industry continued to suffer under high fuel prices, but a number of the financially stronger airlines were still protected under their fuel hedging umbrellas; others meanwhile imposed fuel surcharges. Traffic growth, combined with a shift to fuel-efficient equipment and the disappearance of the surplus in modern aircraft sparked a record order-boom. Both Airbus and Boeing booked record order levels, with Airbus taking the lead in the single-aisle sales and Boeing dominating the larger twin-aisle segment. The two smaller jet manufacturers, Brazil's Embraer and Canada's Bombardier suffered under the problems in the North American regional jet market. The 50-seater regional jet segment came under pressure, as major fleets were threatened to be rejected by their operators. Production of 50-seaters has been halted, and both manufacturers are – at present – having to rely on their 70 to 100-seater sales in the commercial jet segment.

The **used-equipment market** improved further during 2005, as airlines all over the world started looking for additional capacity to deal with growing volumes. This resulted in a shortage of modern wide-bodies, causing upward pressure on lease-rates and, to a lesser degree, on used equipment prices. Aircraft leasing companies clearly benefited from this which made them attractive for new equity investors. An upturn in the demand for aircraft and limited supply, combined with a very liquid funding market, now creates the risk of a commercial jet "bubble". In particular, some ageing aircraft designs that enjoyed popularity as interim lift will soon be at risk as new-technology planes start rolling off the production line.

In 2005, we continued our long-standing tradition of building and maintaining a well-structured, diversified portfolio, supported by modern, in-demand commercial jet aircraft and engines. Our position in the aviation market was further enhanced by expanding our Advisory unit, as well as our structured finance and asset management capabilities.

Our business is largely influenced by three distinct but related **business cycles:**

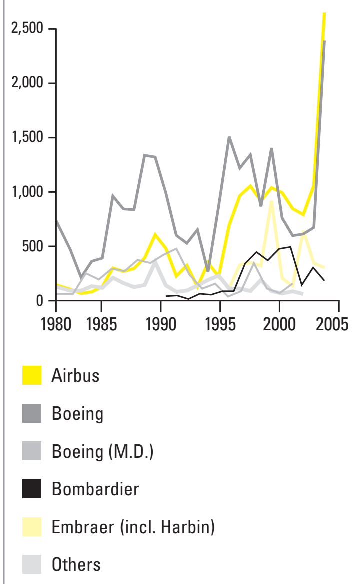
- The commercial aviation business cycle = demand and supply of commercial jets.
- The aviation finance cycle = availability of funds for aircraft purchasing.
- The life cycle(s) of aircraft designs = remarketability of individual types.

The outlook for the commercial aviation business cycle remains positive as traffic is set to continue its growth, and airlines take delivery of an increasing number of new aircraft, thereby stimulating demand for aircraft finance products.

Potential risks for the industry include a further increase in oil prices combined with expiring fuel hedges, while avian influenza is a wild card factor.

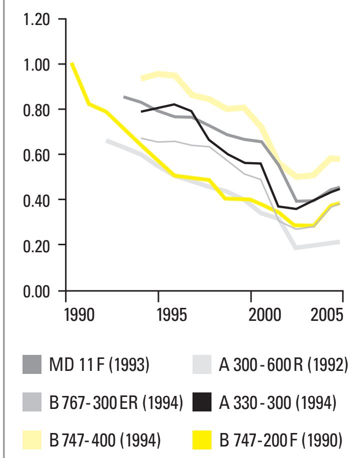
The influx of liquidity from non-specialist banks (re-)entering the aviation finance market, combined with the availability of government-supported export credit facilities may put some pressure on margins. As a specialist bank, DVB is aware of the cyclical nature of the commercial aviation market. Consequently, our strategy is aimed at building on our proven position as a stable and cycle-neutral provider of financial products to the global airline industry.

Western built jets (net orders)



Source: Airclaims, Manufacturers

Twin aisle aircraft – lease rental rate development (US$ mn)



Not based on „constant age".

Source: Airclaims

Abbreviations	
IATA	*International Air Transport Association*
ICAO	*International Civil Aviation Organisation*
LCC	*low cost carrier*
MAS	*Malaysian Airlines*
RPK	*revenue passenger kilometre*

Air transport developments

ICAO's preliminary figures for 2005 show a 5.5% RPK increase compared to a 14% increase during 2004. Average passenger load factor reached almost 75%, up from 73% in 2004. The preliminary IATA estimate for the 2005 financial result is an industry loss of US$6 billion, bringing the post-2001 total to about US$42 billion. US carriers were responsible for US$10 billion in losses, whilst European and Asian carriers booked profits of US$1.3 billion and US$1.5 billion respectively. For 2006 IATA projects a loss of US$4 billion. The 2005 result was mainly blamed on high fuel prices, but the impact may be more severe in 2006/2007 as fuel hedges expire. The industry continues to improve in efficiency, but airlines are being squeezed between higher fuel costs and yield pressure.

The low cost carrier (LCC) concept is now firmly established in virtually all regions. In the US, LCC's continue to expand even though the frontrunners seem to have difficulty maintaining profitability. Most of the US majors have been reorganising under Chapter 11 bankruptcy protection, in an attempt to match the LCC cost structures. Despite this, future profitability is still far from guaranteed. In Europe the number of LCC's continues to increase, and competition is set to intensify. In Asia and the Middle East the first wave of LCC's is now firmly established but the established airlines, with the possible exception of MAS, do not seem to be too much affected. Within Asia, India's newly established airlines placed some of the most spectacular jet orders, despite reported infrastructure bottlenecks.

The Aviation Research Newsletter is published on a bi-monthly basis on our website www.dvbbank.com – Research.

As an asset-backed lender, DVB relies predominantly on the value and remarketability of the aviation assets that are being financed. Although airline profitability is essential for the long-term demand for commercial aircraft, it is not the main determinant for the state of the aircraft finance market.

New aircraft market

Airline losses did not affect new aircraft sales, and indeed with 2,370 orders, the year set a new record. While Airbus outsold Boeing in the single aisle segment with 918 to 574 orders, the roles were reversed in the wide-body segment; Boeing dominating with 455 vs. 193. Meaningful new "regional jet" orders were only booked for 70+ -seaters as the 50-seater segment stagnated. Bombardier's 110-130-seater project was aborted early in 2006.

The order volume for individual aircraft types is mainly determined by the product life cycle. The continuing success of the Airbus A320 family and the Boeing 737 NG, plus the fact that both manufacturers have their hands full developing new wide-bodies, may extend these types' life cycles. It is now widely believed that the launch of the A320 and B737 successors will occur by 2012 but maybe earlier if fuel prices increase even further. The Boeing 767 "refused" to join the 757 and the 717 in aviation history books and picked up a few surprise orders.

In 2005 the new Boeing 787 was able to fully benefit from the combination of improving market circumstances plus the full impact of its new design features. For the competing Airbus A350 order intake is unlikely to have peaked in 2005, and it should fare better in 2006, despite strong competition from the B787. The A330 was able to maintain its strong position but will experience increasing competition from the B787 and its own stable-mate, the A350.

In the market segment of large wide-bodies 2005 brought some significant sales successes for the Boeing 777 family as it won a number of important sales campaigns from the Airbus A340. Airbus clearly dominates the top segment with its A380-800. On April 27 aviation history was made when the first A380 took off from Blagnac International Airport. Boeing showed no intention of leaving the top segment to Airbus, and launched a stretched version of its 747 flagship. This new "-8" version only booked orders in freighter configuration.

Despite a significantly improved aircraft market, the manufacturers continued to offer heavily discounted prices. One specific potential profit source came under fire, the so-called escalation clause. This clause allows a manufacturer to adjust the price-level for inflation in the period between the contract signing and the delivery. Contrary to the used equipment market, where prices of most current-generation aircraft continued to enjoy cyclical increases, it seems unlikely that new aircraft prices will be subject to a significant upward trend.

Used aircraft market

The abundant liquidity in the aviation finance market allowed any surplus aircraft to be easily absorbed by the strengthening of demand outside the US. A range of equity investors made the headlines this year by buying aviation assets, ranging from single aircraft for scrap to entire multi-billion dollar leasing companies. Some established lessors as well as some brave newcomers even (re)turned to speculative ordering. Used equipment was absorbed easily, against increasing lease rates and purchase prices as illustrated by the Boeing 737-'Classic' market, where large operators reduced their fleets by almost 100 units during 2005. Nevertheless lease rates and values continued to rise during the year.

Modern wide-body aircraft are hard to come by these days, ironically partly caused by their own upcoming replacement. Buying these new has become less attractive, due to the availability of significantly more advanced Boeing 787s or Airbus A350s within 2–5 years from now. However, to bridge this gap, interim lift from the secondary market is required. This in turn increases demand, which stimulates lease rates and short-term values.

Despite slow growth in global cargo volumes, strong demand from the cargo conversion market continued for the Boeing 747-400 and especially the Boeing MD-11. Conversion volume for some other types was limited by the increased demand for the "donor" aircraft in passenger service, making these planes too expensive for conversion. With the weakening of the US scope clauses and the surge in fuel prices, demand for the 50-seat and smaller regional jets dried up. Because of the overall lack of operators anywhere in the world able to absorb larger regional jet fleets, the 50-seaters came under pressure – albeit the magnitude of the drop in market rates and values is still hard to determine.

Aviation – portfolio analysis

DVB's specialisation and industry focus are central to our expectations of continued success, and the means by which we differentiate ourselves from the competition. Furthermore they serve to foster both an in-depth industry and asset know-how, accompanied by reliable decision-making.

On such a foundation, our Aviation team has developed a strong network of relationships with clients and prospects who perceive DVB as a bank that understands their business, and possessing the expertise to provide value-added financial solutions. Such relationships are maintained by remaining in constant touch with our clients: to further this, our global team of 26 specialists are located in the three key economic regions for aviation.

We have outlined the "Aviation landmark deal 2005" on pages 22–23. Please refer to the tombstones on the back cover for a number of other landmark Aviation deals in 2005.

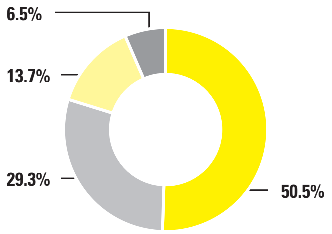
DVB's London branch is responsible for relationship management and business origination with aviation clients in Europe, the Middle East and Africa, while our New York Representative Office plays a key role in marketing and transaction negotiations in North and South America. DVB Group Merchant Bank (Asia) Ltd., based in Singapore, is responsible for relationships and business with clients in Asia, Australia and Oceania, and finally International Transport Finance Ltd., a subsidiary of DVB, facilitates the Bank's activities in the important Japanese aviation market through its Tokyo branch.

Management of DVB's aviation activity pursues a "one-stop shop" business model, whereby our clients can readily draw upon our expertise – from asset lending, structuring and investment, to advisory, financial consultancy and aviation research – in order to fulfill their differing requirements. Here, the prerequisites for our success are integration and cooperation amongst a team of professionals with a multi-disciplined background. As well as staff experienced in banking and structured finance, our Aviation division employs specialists with very specific aviation industry expertise sourced from manufacturers, airlines, aircraft lessors and asset managers.

Record level of new commitments

During 2005 we realised 58 new transactions with aviation clients, representing a record final take volume of €1,148 million (2004: €835 million). New business was concluded with established customers such as Pegasus Aviation (a leasing company), and Asiana Airlines, Air Tran and Frontier Airlines: in addition, we attracted 13 new clients including Air Nostrum (Spain), Qatar Airways, Jazeera Airways (Kuwait) and FlyNiki (Austria). The average margin on new, final take loan commitments during 2005 was 2.16% per annum.

Aviation portfolio by aircraft classes



Aviation portfolio by aircraft type collateral

A319	*7.6%*
A320	*13.2%*
A321	*4.5%*
A330	*5.5%*
A340	*6.1%*
B717	*0.9%*
B737	*20.0%*
B747–200F	*1.4%*
B747–400 Freighter/Combo	*2.3%*
B747–400	*8.6%*
B757	*2.5%*
B767	*5.6%*
B777	*2.2%*
CRJ100	*0.5%*
CRJ200	*3.9%*
CRJ700	*4.4%*
Embraer	*4.9%*
MD-11F	*4.0%*
MD80–87	*1.4%*
A300	*0.1%*
A310	*0.1%*
A318	*0.5%*

DVB is well recognised as a leading arranger, underwriter and provider of "asset-based" risk capital in aviation finance. This recognition was well illustrated in 2005 by the fact that – excluding DVB's purchases of aviation debt in the secondary market – we acted as arranger and/or agent bank in respect of 90% of our newly acquired business.

New financings in 2005 were well diversified by client and obligor (including by geographical region), as well as by aircraft classes and aircraft type collateral.

A sample of the transactions closed during the year are described below:

- DVB arranged and underwrote a "limited-recourse" part bridge-finance, and part term-debt facility, to assist a US operating lessor in its acquisition of six Boeing B737-700 aircraft on a long-term lease to a European low cost airline.
- We structured, arranged and co-underwrote a pre-delivery payment and term debt financing for a Middle East "start-up" airline to acquire four new Airbus A320-200 aircraft, together with a CFM56-5B4/P spare engine.
- We assisted a European operating lessor client by providing a loan which first allowed our client to purchase two medium-vintage Airbus A320-200 aircraft which were on a short-term (a few months) lease to a South American airline. At maturity of this lease, the aircraft were successfully remarketed and placed on a longer-term lease to a small European airline, and our flexible facility was in turn re-arranged so that our debt profile and term could then match that of the new lease.
- We arranged and co-underwrote the senior debt leverage of a structured operating lease financing of one new Airbus A330-300 aircraft for an Asian "flag-carrier" client. The transaction also involved sourcing a junior debt component and, to complete this complex transaction, an equity loan, which was provided by one of DVB's close lessor/investor relationships.

In late 2004 we established our Aero Engine Finance unit to focus on providing financial services to the global aero engine market. Since our core aircraft finance activities already required a high degree of engine expertise, the integration of this unit within our Aviation division has been seamless. The team has been instrumental in the origination and execution of a number of financing opportunities which would previously have been out of reach for us. To evidence the progress we have made to establish ourselves as a reliable financial partner for our aero engine clients, in December 2005 we arranged and fully underwrote the debt component of a US$50m+ acquisition of a portfolio of 13 commercial jet engines in support of a joint venture engine lessor.

The expected increase in aviation finance competition materialised in 2005, driven by improved market conditions and sentiment. Nevertheless, DVB's market penetration – the reward of our consistent and cycle-resistant approach to business, plus our track record of delivery – meant that we could more than offset this development. This was demonstrated by the record level of activity seen with our aviation client base.

Loan portfolio development

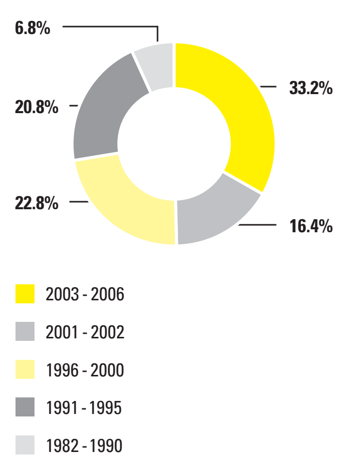
In 2005 the Aviation portfolio increased by 36%, from €2.20 billion to €2.99 billion. In US dollar terms – the Aviation portfolio was predominantly (95.9%) US dollar-denominated – the growth rate was 17.7%, an increase from US$3.00 billion to US$3.53 billion. The collateralised portfolio represented 99% of total lending volume. The collateral was predominantly Boeing/McDonnell Douglas (48.8%) and Airbus (37.5%) commercial jet aircraft, of which 33.2% were 2003-2005 vintage and (in total) 72.4% were within ten years of age.

The portfolio is well diversified by client: a total of 113 aviation clients equates to an average lending exposure of approx. €26.4 million per client. The division's largest individual client exposure currently stands at €94.0 million, and there are only 20 clients where our committed exposure is in excess of €50 million.

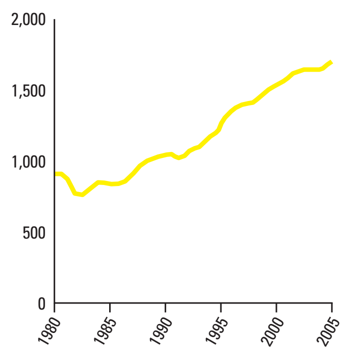
Risk is also geographically well diversified; however, it is presently orientated towards North/South America (45%) and Europe/Middle East/Africa (33%), with client exposure in Asia/Australia/Oceania (17%, down from 25% in 2004) having fallen for the time being, in view of the very competitive environment we have faced in this region.

During the year under review certain loans have been restructured and reorganised, in some cases involving the leasing of mortgaged aircraft assets to other airline operators. Such achievements are largely attributable to the considerable expertise of our Aviation Asset Management team, as well as to our newly established (in 2005) Aviation Special Projects team, which devotes attention to the close monitoring and remedial actions required in relation to (in particular) "watch-list" loans. We will continue to take whatever steps are necessary to safeguard DVB's position as secured lender, whereby we benefit from a first-priority mortgage over relevant aircraft to secure our loan commitment.

Aviation portfolio by vintage

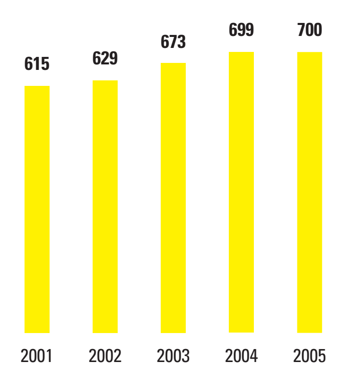


Rail freight in the US in billion ton-miles



Sources: Land Transport Research/BTS/FTR

Rail freight Europe (excl. Russia) in billion ton-km



Sources: Land Transport Research/UIC/ Private Rail Operators Network

Land Transport – market review

The global land transport market is multifarious and differentiated by a number of segments. We look at the key regions for our business, Europe and North America, to discuss the rail transport and road traffic/ logistics market segments.

Trends in rail freight transport

Rail freight carriers in Western Europe slightly increased their share of total freight volume (approx. 3,350 billion tkm), to an estimated 13–14%. Following a medium-term downswing, the share of rail in Eastern European freight volume is expected meanwhile to fall below 40%.

Falling prices and competitive pressure continue to impose the need for strategic action on state-owned railways in Europe. In Italy, Trenitalia increased its stake in TX Logistik, the privately owned German rail operator. Concerning overall strategy, Germany's Deutsche Bahn (DB) relied on acquisitions in the global logistics business. However, DB did not succeed in its attempt at acquiring a stake in Germany's Hamburger Hochbahn AG, and it also came away empty-handed in its effort to acquire VTG AG, the rail logistics company. In the course of 2005, private-sector railway operators managed to gain a share of German rail cargo of approx. 15% (the equivalent of some 14 billion tkm). Sweden's Green Cargo meanwhile entered into an international freight transport cooperation with DB. The announcement by the Slovak government to sell ZSSK Cargo, the Slovak rail freight business, attracted a great deal of attention from international operators; however, the sale has been postponed. In France, for the first time, SNCF faced a number of privately-owned foreign rail freight operators using the French rail network.

Trending gradually upwards, the share of rail cargo in the US has been estimated at approx. 30% of a total of 5,678 billion ton-miles in 2005. Inter-modal and container transport have remained unequivocally buoyant in the main railway markets. Owing to a substantial increase in traffic, US Class 1 railways operated once again at capacity limit. Network congestion eased toward the end of 2005, whilst large railway operators were in a position to increase prices in certain service areas. For 2005 as a whole, the number of wagon loads transported by rail in North America increased by 0.5% compared to 2004; Class 2 and Shortline operators saw wagon loads increase by as much as 6%, indicating the growing importance of smaller railways. There were no significant take-overs in the North American market. However, Kansas City Southern assumed full control of Mexican TFM by acquiring the remaining stake it did not already hold.

Trends in rail passenger transport

Deregulation in Europe has contributed to increased demand for regional passenger rail transport. For the first six months of 2005, the 15 countries forming the core of the EU witnessed an increase in passenger kilometres of 1.6% compared to the same period in the previous year. In contrast, due to rising mobility in individual car transport, the new EU member states registered a decline of 7.5%. Privately-owned railway operators with an international presence were able to increase their share in the (Western) European passenger market. The United Kingdom saw a continuing period of reorganisations of (and invitations to tender for) franchises awarded in the 1990s, possibly entailing a strengthening trend of industry consolidation favouring a small number of large operators. In the wake of surging investments, municipal transportation systems in the US enjoyed double-digit growth rates in passenger load.

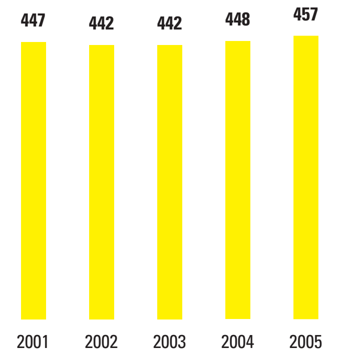
The market for rail vehicles

According to our estimates, international railway markets posted an average growth rate of approx. 4% p.a. in 2005, unchanged from 2004.

The market for rail vehicles (investments in rolling stock) tends to represent an average share of the global railway market in the order of approx. 40%. Traditionally, freight wagons and locomotives make up the strongest segments. Europe appears to have remained the most important market for rolling stock, followed by Asia, a region of vibrant development, and North America. In the absence of investments by formerly state-owned railways, we gauge Europe's growth rate for investments in rolling stock at around 2%. On the whole, the market for freight wagons remained stable; by contrast, the rental segment for locomotives and passenger train sets gathered momentum in 2005, as new rental companies entered the market with significant investment. While contributing to the standardisation of equipment, new entrants gave rise to speculation about lower leasing rates for passenger train sets and locomotives. The growing importance of Eastern European railway markets led to intensified efforts to modernise rail fleets. A survey conducted by CER anticipates that approx. €10 billion will be required for this purpose between now and 2012.

Thanks to healthy economic conditions in North America, demand for rolling stock was up by 5-6%, whilst high demand for transport capacity gave an additional boost to wagon leasing rates. American wagon manufacturers therefore were well positioned, producing 68,657 wagons, a 46% increase compared to 46,871 wagons in 2004. By year-end, order books were full, recording more than 69,000 freight wagons. At the same time, consolidation amongst wagon rental companies continued to a certain extent. After a record year in 2004, demand for locomotives remained strong in 2005. Alongside diesel-electric standard locomotives, a hybrid-powered locomotive designed for short-range assignments and shunting was introduced to the market. In spring 2005, the sale of General Motors Corporation locomotives unit, to a syndicate consisting of Greenbriar Equity Group LLC and Berkshire Partners LLC, was concluded.

Rail passenger Europe (excl. Russia) in billion passenger train-km



Sources: Land Transport Research/CER/UIC

Abbreviations and references

CER	*Community of European Railway and Infrastructure Companies*
DB	*Deutsche Bahn AG (German railways)*
GDP	*Gross Domestic Product*
OECD	*Organisation for Economic Cooperation and Development*
SNCF	*Société Nationale des Chemins de Fer (French railway operator)*
TFM	*Transportacion Ferroviaria Mexicana (Mexican railway operator)*
tkm	*tonne-kilometres (tonnes multiplied by distance in kilometres)*
ton-miles	*ton-miles (tons multiplied by distance in miles)*
ZSSK	*Slovak Railways*

Road traffic/logistics

The bus transport market remains highly competitive. International independent operators were able to gain market share, partly via acquisitions (e.g. the takeover of Germany's Sippel Group by the UK's Arriva plc). There are clear signs that brand loyalty in the bus market, together with purchaser allegiance towards domestic manufacturers (both legacies from the 1990's) are now giving way to a receptiveness towards international competition in the supply of bus equipment.

With growth rates surpassing GDP growth, the logistics market remains unfailingly buoyant – according to our estimates, markets in Europe, the US and Asia grew by 9%. In Western Europe, revenues increased by 5.4% p.a. on average in recent years, approaching a total of approx. €730 billion. Revenue growth in Central and Eastern Europe was at around 9% p.a. For 2005, logistics revenues in these countries are estimated at approx. €3.55 billion.

Land Transport – portfolio analysis

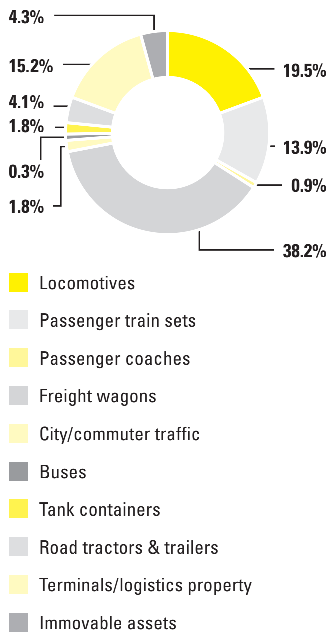
In 2005, the Land Transport division maintained the momentum seen over recent years. Due to the dynamic developments taking place in our core markets in Europe and North America, the portfolio grew both in terms of volume and income. DVB's flexibility, and its ability to actively take advantage of room for manoeuvre, were recognised by clients as outstanding strengths.

Total customer lending rose by €67.8 million (+7.6%) to €0.96 billion. This increase was achieved despite a number of both scheduled and unscheduled loan repayments. At 74, the number of clients was almost unchanged. There were further overall improvements in the collateralisation of our customer lending portfolio: by the end of 2005, 94.9% of all loans were secured by collateral (2004: 90.9%) – accordingly, the share of unsecured business declined to around 5.1%. The average loan-to-value-ratio declined by one percentage point, to 82.4%. This was in line with our target. Two factors contributed to this development: the value of collateral covering our exposure improved, whilst at the same time lower disbursements were agreed for new business. It should be noted that new business in its entirety is secured by valuable collateral.

In 2005, we have made further progress in enhancing the **regional diversification** of our Land Transport portfolio. We decided to increase our efforts to target the North American land transport market, which is more mature and transparent than other markets. The New York-based Land Transport Finance team was successful in implementing this decision, expanding the portfolio share attributable to the North American market to more than 25%. One offshore financing aside, our portfolio still comprises only country risks relating to OECD member states from North America and Europe.

In 2005, we concluded 14 structured loan facilities representing an underwritten volume of €230.2 million. 14.9% of the originated **new business volume** was syndicated to the international banking market. We took a leading role in 81% of new business. Ten basis points up at 149bp, we consider the average margin for new business very satisfactory.

Land Transport portfolio by asset type



We have outlined the "Land Transport landmark deal 2005" on pages 100–101. Please refer to the tombstones on the back cover for a number of other landmark Land Transport deals in 2005.

Essentially, our Land Transport Finance portfolio consists of the following assets:

In view of the lively development in the market for asset-based financing arrangements, we have focussed more strongly on financing **mobile equipment:** freight wagons (38.2%), locomotives (19.5%), and road tractors and trailers (4.1%).

At 72.5% (2004: 69.7%), the share of **rail projects** (locomotives, passenger train sets, passenger and freight wagons) in the portfolio has slightly increased. With 38.2%, financing freight wagons in Europe and the US represents by far the single largest segment. We continue to take a positive view of this development: a well-diversified fleet of freight wagons provides our loan portfolio with sound collateral.

In the course of a tender relating to the sale of a major European wagon rental company, we submitted a stapled-finance offer on behalf of the seller. We provided finance to a number of European passenger rail operators for investments in standard passenger train sets – a market that continues to develop dynamically. Strong demand for locomotives, especially in North America, led to new business; notable transactions in this segment included a large-sized deal with a US Class 1 freight rail operator. We also provided finance to our core clients in the rental market for wagons and locomotives.

Road traffic/logistics formed another important focus of our financing activities. Collaborating with a partner bank, we assumed a leading role in financing the successful acquisition of a large European trailer portfolio. Requiring transatlantic coordination, and documentation covering a range of different jurisdictions, this complex transaction received the "Road Finance Innovator 2005" award from Jane's Transport Finance. This "Landmark Deal 2005" concluded by Land Transport Finance is described at greater length on pages 100-101. In the US, we succeeded in entering the attractive market for inter-modal equipment, financing container chassis for an American rental company.

The extensive **product range** offered by Land Transport Finance comprises structuring and arranging senior debt, as well as providing subordinated loans and equity participations, and also includes advisory services for mergers and acquisitions. We were awarded a mandate to identify a partner in the European transportation market for one of our clients, an assignment lead-managed by our Corporate Finance division.

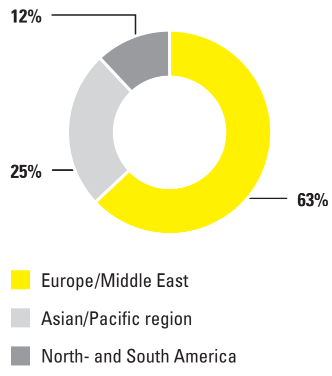
Transport Infrastructure – market review

The market for international project finance saw volumes rise by a substantial 20% to approx. US$140 billion. In 2005, investments in transport infrastructure recorded a rising share of total global finance volume, growing from 19.1% to 20.5%, making it the second-biggest investment sector in project finance, behind energy with a market share of 31.7%.

Source: Thomson Financial – Global Project Finance Review 4th Quarter 2005

The main geographic focus for transport infrastructure financing lay squarely in Europe and the Middle East (together representing 63% of total volume). These were followed by the Asia-Pacific region (25%) and the Americas (with a mere 12%). In 2005, (partial) privatisation continued – of state-owned airports or toll roads, for instance – as tight budgets encouraged outsourcing to private operator syndicates on a global scale.

The geography of global infrastructure financing



Source: Thomson Financial – Global Project Finance Review 4th Quarter 2005

Taking into consideration new regulations expected to be introduced in the wake of Basel II, we believe that project finance – being instrumental in limiting demand-side risks for private investors – will contribute to improved project ratings and thus to lower capital backing requirements. Already in 2005, expectations of this kind caused a moderate decline of credit spreads in the project finance market.

Airports

International airports face pressure to invest so as to be prepared for continuing substantial increases in air traffic. Short of cash, most public-sector airport operators are not in a position to undertake the requisite investments. Hence, the number of airport privatisations soared in 2005 – a trend likely to continue in the coming years. Mostly, (partial) privatisations were brought about by way of trade sale, with only a small proportion being financed through an IPO. Instances of partial sales of airports in 2005 can be found in Milan (Italy), Bratislava and Kosice (both Slovak Republic), Mumbai and Delhi (both India), Varna and Burgas (both Bulgaria) and Budapest (Hungary). Only in Mexico did an IPO occur, involving GAP (Grupo Aeroportuario del Pacifico).

Trade sale – selling to a private syndicate of bidders

Maritime ports and container terminals

Globalisation swells the flow of commodities. This entailed high rates of growth (of approx. 9%) in international container traffic in 2005. Ports of worldwide rather than regional significance, such as Hamburg, Rotterdam, Pusan and Los Angeles, play an outstanding role in this development, and the trend toward hub-and-spoke systems continues. It is likely that port capacity relating to container handling will expand or be newly created, especially in Europe, Russia and Asia, with China and India taking the lead in the Asian region.

Hub-and-spoke systems map the flow of commodities. The world's largest ports for container handling serve as so-called hubs. They are linked to other hubs by large container ships. In a spoke-like pattern, smaller container ships take the wares from the hubs to regional ports (spokes).

DVB benefited from the dynamic development of the Baltic region, structuring and arranging notable transactions in the port sector: Multi Link Terminals in Finland and Russia in 2004, followed by the Gdansk container terminal in Poland in 2005. We were able to take advantage of the booming market by financing LNG projects requiring special port infrastructure both on the export and the import side. We also participated in a number of other interesting LNG-related project finance deals.

Rail infrastructure

Rail infrastructure projects actually realised are still rare in Europe. However, there is continuing demand in the financing market for projects aided by national governments or the EU. As a result, long loan terms still predominate, and credit margins are low owing to public aid. In the PPP sector, a number of projects are underway designed to improve rail connections for airports. Cross-border, high-speed rail infrastructure projects are characterised by substantial investments and a high degree of organisational complexity, entailing long-range planning horizons and delays in the implementation stage. In view of these complex market conditions, we did not finance any new rail infrastructure projects in 2005.

The abbreviation "A" stems from the German name of the German Motorway Toll Act (Autobahnmautgesetz). The Act, which came into force in April 2002, provides the government with the means to provide indirect subsidies for transport infrastructure projects, raised through tolls charged for the use of Federal motorways by certain types of vehicle (HGVs). Toll income will be invested in improvements to roads and public transport. Private-sector third parties are included, in that they are eligible to operate elements of the toll collection system, obtaining service fees from the government.

Toll roads

Subsequent to the successful implementation of the HGV toll collection system in Germany, in March 2005 tenders were invited for the first of twelve planned, privately financed road projects using schemes where income from the general HGV toll is earmarked to fund motorway expansion projects (so-called "A model" schemes). The starting project is the Augsburg-Munich section of the A8 motorway in Southern Germany. We acted as financial advisor to one of the five bidder syndicates led by the Spanish toll road operator OHL Concesiones, which is well-established internationally. Similarly, a call for tenders for the second "A-model" project (the Eisenach-Görlitz section of the A4 motorway in East Germany) was issued in August 2005.

In April 2005, acting as arranger, our team of experts was able to implement funding of the Hungarian M6 motorway: the concession for this PPP project has a 22-year term, and covers modernisation and extension of a 59 km motorway section running from Budapest along the Danube in southerly direction. The section is part of the strategically important "5C" corridor of the EU's Trans European Network (TEN) road-building programme. Contingent upon the motorway's stage of completion and quality in operation, the private operator will receive "availability payments" from the Hungarian government.

Abbreviations

ECA	Export Credit Agencies
HGV	heavy goods vehicle
IPO	Initial public offering
LNG	Liquefied natural gas
PPP	Public-private partnership
RoRo	Roll-on/roll-off
TEU	twenty foot equivalent unit (standard unit for containers)

Transport Infrastructure – portfolio analysis

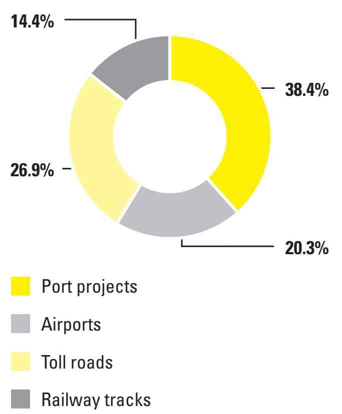
The business focus of the Transport Infrastructure Finance division is on the structured financing of big-ticket transport infrastructure projects funded by the private sector, as well as on project-specific financing advice (Financial Advisory).

The portfolio encompasses projects involving airports, ports, and container terminals, as well as rail infrastructure and toll roads. Projects relating to LNG terminals are considered part of the maritime ports category.

In 2005, we continued to expand the portfolio by 22.4%, from €523 million to €640 million. We have been able to optimise the structure of our portfolio in terms of quality, dispensing with transactions in the toll road segment, which we considered to have been refinanced at unattractive levels. We thus reduced the large share of toll road projects in the portfolio from 50% to 27%. At the same time, we entered into attractively-priced transactions in the ports, container terminals and airports segments.

The transactions detailed below appear especially noteworthy from our point of view:

Transport Infrastructure portfolio by project type



Container terminal project at Gdansk, Poland

Having worked on the project for an entire year as advisor and structuring agent, in October 2005 (by then, as sole Mandated Lead Arranger), we were to witness the implementation of an infrastructure project at Gdansk's North port, valued at around €180 million: the Gdansk Deepwater Container Terminal project.

Total investment of €180 million consisted in equal parts of a loan and equity. Equity was provided by GIF II (a fund managed by Macquarie Bank Ltd.) and DCT Gdansk Ltd., the company that obtained a 30+30 year lease from the Gdansk port authority.

The project's scope comprises design, construction and operation of a new deep-water container terminal to meet Poland's need for additional port and container handling capacity. The objective is to create a major logistic node with high-capacity links to the Polish motorway and rail networks. Being the first completely new, privately financed port project in Europe, it required extensive investment in infrastructure and suprastructure. This is Poland's largest international infrastructure investment to date.

The first stage of completion will result in an independently operating container terminal with a quay length of approx. 600 metres, 17 metres water depth, a handling capacity of 500,000 TEU p.a., and the ability to deal with today's largest container ships. In addition to the TEU capacity, additional RoRo capacity can be provided. Commissioning is scheduled for 2007. The project has been designed to allow for further terminal extensions, bringing total capacity to 1 million TEU in phase II.

Project Sabine Pass LNG, USA

Subsequent to our first LNG terminal transaction on the export side in 2004, we took part in a large LNG financing project for an import terminal in the US in 2005. The project is dedicated to constructing the largest American LNG terminal, which is located in Cameron Parish, Louisiana, alongside a deep-water canal, with two landing stages to receive LNG super-tankers with a maximum capacity of 250,000 cubic metres and maximum length of about 350 metres. Based on 20-year terminal user agreements (TUAs) entered into with ChevronTexaco and Total, LNG supplied by these two large oil and gas companies will be stored in large tanks on the site, and eventually vaporised to its natural gaseous state for delivery into the local gas pipeline network. The financing represents a total of over US$1 billion, with 20% of that amount raised through equity participations of the two sponsors and 80% representing bank loans.

Airport projects Ankara and Dalaman, Turkey

To provide finance for two attractive airport transactions in Turkey, we assumed the role of lead arranger and co-arranger, respectively.

The first arrangement served to finance the construction of a new international airport terminal in Dalaman on Turkey's Riviera coast, requiring a total investment of US$120 million, with US$40 million raised in equity and US$80 million representing debt. Dalaman is one of the prime destinations for Turkish tourism, serving more than a million passengers per year.

Please refer to the tombstones on the back cover for a number of other landmark Transport Infrastructure deals in 2005.

The second deal helped a new licensee to acquire the international airport Esenboga in the capital city of Ankara, to build extensions to the existing infrastructure and to modernise the airport. Again, the central task to be financed was the construction of a new terminal for domestic and international air traffic. About half of the approx. €240 million raised represented bank loans. The remainder was funded by equity (approx. €60 million) and an ECA facility (€55 million).

Syndications – market review

The syndicated loans market experienced a strong year during 2005. Stable economic conditions and strong profitability in the banking sector continued to ensure high liquidity levels in the market.

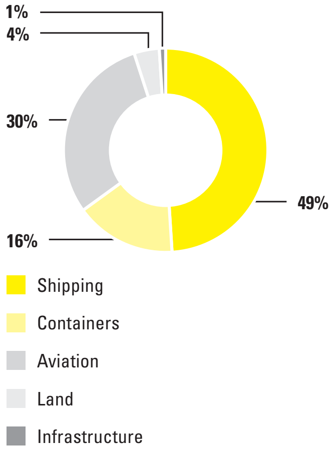
The syndicated loans market in general grew substantially during 2005 to an estimated volume of approx. US$3,153 billion from US$2,264 billion in 2004 (Dealogic). This was particularly as a result of a strong year in the debt syndication market for European borrowers, although the market in all other major geographies also increased.

The **shipping market** remained buoyant, with high charter and vessel prices. This resulted in low pricing and more relaxed covenants for cash-rich borrowers, as the ship finance market continued to compete aggressively for new business and re-financings. Despite the reduced pricing and excess liquidity, the majority of banks in this sector continued to enjoy a successful year. Similarly, the **aviation market** experienced continued growth in passenger and freight volumes. This produced further growth in financing requirements for the industry's operators, which in turn led to banks returning to the debt syndication market. Banks were however still selective, preferring the better assets and stronger aviation credits outside North America. Pricing for these credits continued to fall as their performance improved and as banks gained confidence and returned to the market.

The **project finance syndication market** was dominated by the privatisation and improvement of existing infrastructure such as airports, ports and roads, particularly in Europe. Banks active in the rail sector experienced a busy year in 2005, and also faced strong competition from operating lessors.

Syndications – portfolio analysis

Syndication deals by Transport Finance division – volumes sold down (%)



The Syndications team is focused on the syndication of primary debt transactions, including the development of new markets and structures to expand distribution channels for DVB and its clients.

In 2005, the Syndications team raised US$958.3 million from the market to successfully close 18 transactions launched, with a total volume of US$1.65 billion, for our Transport Finance divisions: Shipping (incl. container boxes), Aviation, Land Transport and Transport Infrastructure. An additional US$188.5 million was raised in 2005 for deals that closed in 2004, but for which the syndication was launched in early 2005; the majority of these were financing transactions for container boxes. This resulted in a total syndicated volume for 2005 of US$1.15 billion.

Shipping transactions made up the majority of volume raised in 2005 with a total of US$741.8 million syndicated, including container boxes which amounted to US$184.5 million. Aviation totalled US$347.5 million, while Land Transport came to US$44.2 million and Transport Infrastructure aggregated US$12.5 million.

During 2006 we will continue to seek new liquidity from the market, and broaden our syndication capabilities in respect of bank debt.

Advisory and M&A – market review and portfolio analysis

Our clients will to an increasing extent be exposed to the trend towards consolidation – or will even take the initiative in this direction. The "drivers" of global trade, transportation and competitive positioning, have already proved to be a catalyst for M&A (mergers and acquisitions) activity throughout the transportation industry, a trend which we believe will continue.

2005 was characterised by unparalleled growth in shipping Initial Public Offerings in the US, fuelled by the "China factor": large demand for transportation needs to ship imports and exports, with a corresponding – and unprecedented – spike in charter rates and ship values. Market players took this opportunity to float shares, using the proceeds to repay bank debt and acquire more shipping assets. Assisted by low interest rates and ample financing capacity, companies took advantage of interesting M&A opportunities. This was, in particular, visible in the container lines, container box lessors, chemical tanker and cruise industries.

Our Advisory and M&A team consists of members with extensive experience from international investment banking with focus on the transportation industry, designed to support our business focus and to expand our fee income business.

Advisory does not utilise DVB's capital; it sources income from mandated retainers and transaction-led success fees. The unit was awarded eleven new mandates in 2005, while four transactions were successfully closed during the year.

Please refer to the tombstones on the back cover for a number of other landmark Advisory and M&A deals in 2005.

Our strategy is to capitalise on a large client base, backed by DVB's balance sheet and underwriting capacity, and to provide these clients with a broader base of investment banking advisory products:

- M&A advice and execution (buying, selling or merging of assets, divisions or companies);
- Private placements (raising private equity);
- Corporate advice (general advice in all matters pursuant to corporate strategy, capital and finance strategy);
- Fairness opinions (valuations of companies or assets, pricing of equity);
- Debt restructuring (restructuring of on/off-balance sheet debt); and
- Acquisition finance (bridging all or part of the purchase price of a company or business).

Please refer to the tombstones on the back cover for a number of other landmark Group Investment Management deals in 2005.

Group Investment Management

NFC Shipping Funds – market review and portfolio analysis

NFC is a joint venture between DVB and Northern Navigation Inc., a holding company representing a group of private investors specialised in shipping equity investments.

The NFC Shipping Funds focus on (preferred) asset-based equity investments in the shipping and off-shore sectors. NFC acts as adviser to, and manager of, five NFC Shipping funds and managed total assets of US$294.1 million (€249.3 million respectively) as at year-end 2005.

The NFC Shipping Funds are capitalised by investors from the USA, Germany, Norway and Kuwait. Of the capital available, approx. US$140 million has been invested. Since 2001 NFC has closed 44 investments, sourced globally via its team of investment managers based in the USA, Norway, United Kingdom, Singapore and the Netherlands.

In 2005 NFC concluded 16 new investments, involving 40 vessels and one off-shore equipment. The asset value totalled US$660 million. In the same period, five investments involving 14 vessels were sold for a total value of US$215 million. Since 2001, the return on equity on all realised investments has been excellent, in some cases as high as 241%.

The asset-based approach of NFC, in combination with an in-depth knowledge of the shipping business and market coverage via the DVB network, provides a unique opportunity to invest in the shipping industry with partners that have a proven track record.

Deucalion Aviation Funds – market review and portfolio analysis

The Deucalion investment company funds are predominantly based in the Cayman Islands. Our senior investment managers, based in London and Rotterdam, act as advisors to each of the companies, sourcing appropriate investments to be funded by the relevant Deucalion fund vehicle.

Through these fund management activities, DVB has been able to expand its traditional product range of senior and junior financing to clients. In this context, DVB can arrange each risk layer, including the equity aspect, for the financing of aviation projects. As at year-end 2005 Deucalion managed total assets of US$292.9 million (€248.3 million).

During 2005 the Deucalion funds invested in eight aircraft and thirteen spare engines with a total transaction value of over US$200 million. The investment in spare engines is a new venture for the funds, and complements DVB's strategic move in 2004 into this sector on the aviation lending side.

The funds also participated in the profitable sale of two aircraft in 2005. These aircraft, which were purchased as passenger aircraft and then converted to freighters, were owned and managed by a joint venture between Deucalion and a major European bank.

Investment performance continues to benefit from the equity investment made in 2003 in Malaysian low-cost airline operator Air Asia. During 2005 the company made year-on-year improvements in revenue, income and available seat capacity (with the increasing aircraft fleet size). The airline also began to roll out in Thailand and Indonesia, whilst continuing to compete effectively in its Malaysian home market. The expansion is taking advantage of the strong demand for low-fare air travel in Asia, since deregulation of those markets in recent years. The weighted average share price when the shares were launched in the November 2004 IPO was MYR 1.23: they closed 2005 at MYR 1.59.

The Malaysian ringgit is the official currency of the Federation of Malaysia. The conventional market quotation is the number of Malaysian ringgits per US dollar. The value is currently pegged to a basket of currencies.

Source: Bloomberg L.P.

An existing investment, made in 2004 by the Deucalion Funds in four Boeing 747-400 passenger aircraft, was complemented by the execution of a contract with a major conversion facility to turn all four aircraft into freighters in 2009. The B747-400 freighter market is widely anticipated to be very strong in forthcoming years: securing these conversion slots is therefore key to accessing this lucrative investor market.

The Deucalion Funds continued to enjoy success in the secondary paper market, with ABS notes being added to the portfolio for the first time. The difficulties experienced by the US aviation industry ensured some volatility within the EETC and ETC markets, which the funds were able to exploit for trading profit during 2005.

Abbreviations

ABS	*Asset-backed securities*
EETC	*Enhanced Equipment Trust Certificates*
ETC	*Equipment Trust Certificates*
IPO	*Initial Public Offering*
MYR	*Malaysian ringgit (Malaysian currency)*

Treasury

2005 was an eventful and successful year for Treasury. Business development was characterised largely by three factors:

- Standard & Poor's raised our long-term rating in July 2005.
- We conducted our first public placement of a US dollar bond issue in Singapore, in September 2005.
- We successfully conducted a capital increase in October/November 2005.

Additionally, we extended the range of products offered by Treasury, to include an industry first: the forward freight agreement, developed by our Transport Derivatives desk.

DVB's ratings

For details on a further rating upgrade in January 2006, please refer to "The DVB Share" on page 17 and the report on events after the balance sheet date on page 75.

On 29 July 2005, the rating agency Standard & Poor's upgraded our long-term rating from BBB+ to A-. Given that the long-term rating from Moody's Investor Services remained unchanged at A3 since 2000, this resolved the so-called split rating, with different grades by two rating agencies. Both major rating agencies have therefore reinstated our long-term rating, which is particularly important for our medium- and long-term refinancing activities, to the single-A category.

Bond issue successfully placed on international markets

The US$400 million MTN issued in September 2005 by our subsidiary DVB Group Merchant Bank (Asia) Ltd. was very well received in Asia, being oversubscribed almost two-fold. With this issue, we expanded the investor base for our debt issuance programme: with a full 45% of the issue allocated to investors located in Asia, we successfully targeted this key market, which is significant to our business. The US dollar-denominated placement highlights our objective of increasingly refinancing our Transport Finance asset lending business on a matched-currency basis, gradually reducing the mismatch between US dollar lending and funding in euros.

Successful capital increase, and new supplementary capital (Tier II)

Please refer to the requirements, implementation and effects of the capital increase in "The DVB Share", on page 14, and in the management report – economic situation, on pages 66-68.

The increase of DVB's issued share capital was entered in the Commercial Register on 19 October 2005. This capital increase improved our capital base appreciably, whilst at the same time providing us with the potential for further successful growth in international Transport Finance.

The capital increase was very well received by the market. As a result, and including associated reserve appropriation from the premium, the core capital (Tier I) rose by 30.1%, from €509.9 million to €663.5 million at year-end 2005.

Similarly, we increased the supplementary capital (Tier II) in 2005, from €310.3 million to €344.8 million. We achieved this primarily through issuing a US$65 million subordinated promissory note loan. The volume of profit-participation certificates remained unchanged at €126.1 million.

Refinancing activities in 2005

The volume of DVB Group's refinancing **portfolio** as at the reporting date (deposits from other banks and customers, securitised liabilities and subordinated liabilities) rose by 13.8%, from €8.7 billion to €9.9 billion as at 31 December 2005.

It was the interest by market participants demonstrated in shorter-dated instruments that defined our **issuing activity** in 2005, for the purpose of refinancing our lending business. Our 12-month term deposits rose considerably over the previous year: to €500 million (2004: no 12-month euro term deposits) and US$250.5 million (2004: US$300 million). On the other hand, the volume issued within the scope of our Commercial Paper programme decreased to €543.5 million (2004: €529 million) and US$249 million (2004: US$522.5 million). The overall volume of our **money market activities,** which is the total of the two products referred to, rose slightly compared with 2004. On the **capital market** on the other hand, we raised €536.5 million (2004: €960.1 million) in long-term deposits and promissory note loans, as well as issuing €40 million and US$400 million respectively in medium-term notes, within the scope of our debt issuance programme (2004: €1,020 million – no US dollar issues). On an overall basis therefore, our capital market activities were down considerably on the previous year, to a total of €576.5 million and US$400 million. We reduced the refinancing costs for new transactions significantly, not least due to our improved long-term rating, in the second half of the year.

Forward freight agreement – extending the range of trading products

High growth rates in international trade have led to increased demand for transport capacity in recent years. Freight rates that depend in numerous ways on exogenous factors account for a large portion of transport costs. On the one hand, oil price developments and sustained strong economic growth in Asia point towards a continued rise in freight rates; whilst on the other hand, the expansion of freight capacity advocates an easing of price pressures.

The question of how these freight rates develop in the future is vitally important to our Shipping Finance customers, in particular the international shipping companies. The forward freight agreement (FFA) is a derivative product that allows these future freight rates to be hedged. Freight rates on specific routes at specific dates can be bought and sold, without the necessity for physical delivery. Trading in FFAs has been started in 2006.

In June 2005, we established a London-based Transport Derivatives desk within Treasury, enabling us to offer FFAs to our customers. We have already made considerable progress in putting together the product team; besides regulatory requirements, preparations focus on risk assessment and the operational implementation of the new product type.

Economic situation

2005 was the second year during which DVB's income was generated almost exclusively from its core international Transport Finance and Corporate Finance. Our strong earnings – which climbed 24.6% to €162.8 million – confirmed the success of our strategic focus. Net interest income after loan losses was up 40.6%, to €98.4 million, and net fee and commission income rose 34.1%, to €60.5 million. The result from operating activities was up a significant 39.3%, to €58.5 million.

Key elements of, and external factors impacting on, the business development, plus preliminary remarks

Key elements dominating our business in 2005

- the high-volume new business in Transport Finance;
- the continued establishment and expansion of attractive market niches in the Transport Finance asset lending business; and
- the successful expansion of our Corporate Finance advisory business.

External factors

Due to its operations in international Transport Finance and Corporate Finance, the development of the euro/US dollar exchange rate has a particular impact on DVB's consolidated financial statements. In 2005, the effect of a strong US dollar against a weaker euro had a significant impact:

- The increase in the nominal volume of customer lending was considerably higher in euro terms (+32.1%) than on a US dollar basis (+14.4%). 76.3% of the overall volume of customer lending was denominated in US dollars, representing 80.4% of the lending business in Shipping and 95.9% in Aviation.

- The US dollar/euro exchange rate also had a considerable bearing on the net interest and net fee and commission income generated in the two largest Transport Finance segments. However, only around one-third of the lending volume in the Transport Finance divisions Land Transport and Transport Infrastructure is denominated in US dollars, so that the income generated in these segments was less susceptible to changes in the exchange rate.

- Earnings that were mostly US dollar-denominated were offset by costs that were mainly incurred in euros. DVB used derivatives to hedge the net income derived from the difference between US dollar-denominated income and euro-denominated costs, so that these revenues remained largely unaffected by fluctuations in the exchange rate during the course of the year.

Preliminary remarks

As from the business year 2005, DVB has applied IFRS/IAS in the preparation of its consolidated financial statements. This means that the figures for DVB's results of operations, financial position and net assets for the business years 2004 and 2005 are presented in

Abbreviations and references

AfS	*Available for sale*
bp	*basis points*
CIR	*Cost/income ratio*
Commercial Register	*Handelsregister (HR)*
DZ BANK	*DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main*
ECB	*European Central Bank*
HGB	*German Commercial Code (Handelsgesetzbuch)*
IAS	*International Accounting Standards*
IFRS	*International Financial Reporting Standards*
KWG	*German Banking Act (Kreditwesengesetz)*
LoR	*Loans and receivables*
LTV	*Loan-to-value ratio*
RoE	*Return on equity*

accordance with IFRS/IAS. In accordance with the exemption option stipulated in IFRS 1.36A, DVB does not apply IAS 39, "Financial Instruments: Recognition and Measurement", for the 2004 comparative figures.

Results of operations

DVB's **income** developed favourably in 2005, increasing by 24.6%, from €130.7 million to €162.8 million. When calculating the net interest income in accordance with IFRS, three additional factors were taken into consideration when compared with the German Commercial Code (HGB):

- impairment losses on loans and advances were already included in the net figure;
- interest expenses for silent partnerships were also taken into account; and
- income generated from operating leases and the corresponding expenditure was also included in the calculation of net interest income.

€ mn	**2005**	2004	Change € mn	Change %
Income	**162.8**	**130.7**	**32.1**	**24.6**
Net interest income after loan losses	98.4	70.0	28.4	40,6
Interest and similar income	560.2	426.1	134.1	31.5
Interest income	547.3	423.8	123.5	29.1
Current income	12.9	2.3	10.6	460.9
Interest expenses	446.9	330.6	116.3	35.2
Impairment losses on loans and advances	14.9	25.5	–10.6	–41.6
Net fee and commission income	60.5	45.1	15.4	34.1
Fee and commission income	66.4	52.7	13.7	26.0
Fee and commission expenses	5.9	7.6	–1.7	–22.4
Net trading income	19.3	1.3	18.0	1,384.6
Hedge result (hedge accounting)	–23.0	–5.5	–17.5	318.2
Net income from investment securities	8.7	10.8	–2.1	–19.4
Net other operating income/expenses	–1.1	9.0	–10.1	–112.2

Net interest income after loan losses rose by 40.6%, from €70.0 million to €98.4 million.

Net interest income (before loan losses) increased by 18.6% on a Group level, from €95.5 million to €113.3 million. This figure included a sharp increase in net interest income generated in Transport Finance, which climbed 25% from €87.7 million to €109.6 million. In Shipping, net interest income was up 8.4%, to €46.5 million. It rose by 24.9% to €33.1 million in Aviation, by 42.1% to €8.1 million in Land Transport, and by 27.8% to €4.6 million in Transport Infrastructure. Corporate Finance & Capital Market Products managed to almost double net interest income, to just under €17.3 million (+98.9%).

Interest income rose by 29.1% to €547.3 million. This was generated mainly by our lending business in Transport Finance, which contributed €493.3 million. In addition, operating lease income of €42.1 million was derived largely from the NFC and Deucalion Funds, which must be consolidated. Current income of €12.9 million includes distributions from investments, and from joint ventures.

Interest expenses of €446.9 million (+35.2%) are composed of €420.6 million in refinancing costs for the Transport Finance lending business, €19.5 million in operating-lease expenditure, and €6.8 million in expenses for silent partnership contributions.

Impairment losses on loans and advances fell by 41.6%, from €25.5 million to €14.9 million.

€ mn	**2005**	2004	Change € mn	Change %
Impairment losses on loans and advances	**14.9**	**25.5**	**–10.6**	**–41.6**
Additions	32.2	49.6	–17.4	–35.1
Reversals	–17.1	–28.1	11.0	–39.1
Direct write-offs	0.7	5.0	–4.3	–86.0
Recoveries on loans and advances previously written off	–0.9	–1.0	0.1	–10.0

Additions totalled €32.2 million:

- €26.8 million for the Aviation portfolio,
- €5.2 million for D-Marketing, and
- €0.2 million for the Shipping portfolio.

This figure was offset by €17.1 million in amounts released:

- €8.7 million in the Aviation portfolio,
- €6.3 million in D-Marketing, and
- €2.1 million in general loan loss provisions for D-Marketing.

Total allowance for losses on loans and advances rose by 7.2%, from €112.8 million to €120.9 million: D-Marketing accounted for €58.5 million, the Aviation portfolio for €51.9 million, the Shipping portfolio for €4.7 million, and Land Transport and Transport Infrastructure for €2.5 million.

Thanks to the high level of collateralisation of our Transport Finance activities, provided by the financed assets in the asset lending business (Shipping, Aviation and Land Transport), and the full coverage of the Transport Infrastructure portfolio exposure through concessions, no country risk provisions are required; this is also true pursuant to IAS 39. Additionally, at 0.3%, the share of commitments that involve a high degree of country risk relative to the overall volume of customer lending is very low.

Net fee and commission income also posted a notable increase of 34.1%, from €45.1 million to €60.5 million on a Group level. The Transport Finance contribution rose by 12.9%, from €51.9 million to €58.6 million. The growth in Shipping was particularly striking, increasing by 26.8% to €32.6 million. Aviation improved slightly, by 4.6% to €13.6 million, while Transport Infrastructure also increased significantly, by 26.9% to €3.3 million. Net fee and commission income generated by Land Transport however, was unchanged from last year, at €1.2 million.

Fee and commission income amounted to €66.4 million, of which 82.4% or €54.7 million was generated by Transport Finance. This figure was offset by fee and commission expenses of €5.9 million (–22.4%) – including, in particular, expenses incurred for guarantees and indemnities.

DVB made use of the fair value option in accordance with IAS 39 (EU version of November 2005), in order to offset measurement inconsistencies (referred to as 'accounting mismatches') in the items **net trading income** and **hedge result (hedge accounting).** Net trading income thus amounted to €19.3 million; this included standalone derivatives in the trading portfolio, plus derivatives subject to ineffective hedging relationships, as well as designated hedged items. On the other hand, the result from hedge accounting was €–23 million; this figure includes derivatives with effective hedge relationships.

Net income from investment securities, which comprises the disposal of investment securities (LoR, AfS) and companies accounted for at equity, fell from €10.8 million to €8.7 million.

Net other operating income/expenses was down considerably, from €9.0 million to €–1.1 million. This was mainly due to the absence of any reversals of provisions, and a result of a decline in income from the disposal of property and equipment etc. as well as in rental income.

Development of the result from operating activities before tax

The **result from operating activities before tax** developed positively, increasing from €42 million to €58.5 million (+39.3%).

€ mn	2005	2004	Change € mn	Change %
Income	**162.8**	**130.7**	**32.1**	**24.6**
General administrative expenses	**104.3**	**88.7**	**15.6**	**17.6**
Staff expenses	55.3	46.0	9.3	20.2
Operating expenses	44.9	37.9	7.0	18.5
Depreciation, amortisation, impairment and write-ups	4.1	4.8	–0.7	–14.6
Result from operating activities before tax	**58.5**	**42.0**	**16.5**	**39.3**

General administrative expenses, which are deducted from income, increased by 17.6% to €104.3 million.

Staff expenses rose by 20.2%, from €46 million to €55.3 million. This increase was down to two factors: firstly, it reflected the setting-up of specialist teams worldwide in Transport Finance and Corporate Finance. Secondly, it also reflected the provisions that were set aside in the 2005 business year for higher bonuses which will be paid to DVB staff in 2006, reflecting the positive results achieved in the business year under review.

At €44.9 million, operating expenses were up 18.5% on the previous year (2004: €37.9 million). The key factors behind this increase were:

- advisory expenses of €13.9 million, which were broken down as follows:
  - €5.8 million for legal and audit expenses;
  - €8.1 million for other advisory services (incl. IT consultancy expenses);
- occupancy expenses of €7.9 million;
- ancillary staff expenses of €8.2 million; and
- contributions and charges of €6.6 million.

Depreciation, amortisation, impairments and write-ups of €4.1 million were down slightly on the previous year (2004: €4.8 million).

Development of net profit

Net profit climbed 60.7%, from €33.8 million to €54.3 million.

€ mn	2005	2004	Change € mn	Change %
Result from operating activities	**58.5**	**42.0**	**16.5**	**39.3**
Income tax expense	1.6	7.6	–6.0	–78.9
Minority interest	2.6	0.6	2.0	333.3
Net profit	**54.3**	**33.8**	**20.5**	**60.7**

The result from operating activities was subject to an actual tax burden of €10.0 million, which was offset by €8.4 million in income related to deferred taxes. Thus, a total of €1.6 million in income tax expense was reported.

Minority interest income, which was recognised with respect to third-party funding contributions to the fully-consolidated NFC and Deucalion Funds, accounted for €2.6 million (2004: €0.6 million).

Distributable profit, and appropriation of profits

Distributable profit rose from €6.6 million to €9.5 million (+43.9%).

€ mn	2005	2004	Change € mn	Change %
Net profit	**54.3**	**33.8**	**20.5**	**60.7**
Profit carried forward from the previous year	0.7	0.5	0.2	40.0
Transfer to retained earnings	45.5	27.7	17.8	64.3
Distributable profit	**9.5**	**6.6**	**2.9**	**43.9**

Profit attributable to treasury shares carried forward from previous periods increased by €0.2 million to €0.7 million. Additionally, €45.5 million (+64.3%) was transferred from current operations to retained earnings.

We will propose to DVB Bank AG's Annual General Meeting, which will be held on 30 June 2006, to pay an increased **dividend** of €2.25 per unit share for the 2005 business year. This represents a dividend yield of 1.24%, based on the year-end share price of €182.00.

Financial position

Liabilities in the balance sheet

DVB's liabilities recognised on the balance sheet increased as a result of the expansion of the asset lending business in Transport Finance, by 12.5% to €9.9 billion (2004: €8.8 billion). Deposits from other banks rose by 7.4%, from €2.7 billion to €2.9 billion. Deposits from customers increased by 28.6%, from €2.8 billion to €3.6 billion. Securitised liabilities were up slightly by 3.6%, from €2.8 billion to €2.9 billion. Subordinated liabilities were unchanged from the previous year, at €0.5 billion.

Own funds as defined by the German Banking Act

Own funds as defined by the German Banking Act (KWG) increased by 22.9% to €1,008.3 million (2004: €820.2 million).

€ mn	**2005**	2004	2003	2002	2001
Issued share capital	99.6	77.6	77.2	76.8	76.8
Reserves	419.4	296.6	270.1	203.4	175.3
Silent partnership contributions	77.5	77.5	77.5	77.5	77.5
Reserves eligible for inclusion and adjustments in accordance with the KWG	67.0	58.2	64.6	81.5	78.4
Core capital (Tier I)	**663.5**	**509.9**	**489.4**	**439.2**	**408.0**
Subordinated liabilities	242.2	200.0	201.0	199.0	207.0
Profit-participation certificates	126.1	126.1	126.1	164.5	164.5
Reserves eligible for inclusion and adjustments in accordance with the KWG	–23.5	–15.8	–12.5	–16.2	–11.2
Supplementary capital (Tier II)	**344.8**	**310.3**	**314.6**	**347.3**	**360.3**
Tier III funds	**–**	**–**	**–**	**–**	**3.1**
Own funds as defined by the KWG [1]	**1,008.3**	**820.2**	**804.0**	**786.5**	**771.4**

1) taking into consideration reserves and transfers to reserves from net profit

Strengthening DVB's liable capital is key to its objective of realising further profitable growth potential in international Transport Finance. Hence, the following measures were adopted in 2005 to strengthen our capital base:

- increasing the issued share capital by €21.7 million via the issue of 850,000 new notional no-par value bearer shares (unit shares) against cash contribution;
- strengthening the capital reserve, through allocating the €83.7 million premium from the capital increase;
- transferring €45.5 million from current operations to retained earnings; and
- increasing the subordinated liabilities, by issuing a US$65 million subordinated promissory note loan.

In addition, the issued share capital was already increased in September 2005, by €0.3 million to €77.9 million, through shares issued within the scope of "DVB Shares", the employee participation scheme.

The details of the aforementioned measures are described below:

Strengthening the core capital (Tier I) through the share capital increase in 2005

On 6/7 September 2005, the Board of Managing Directors and the Supervisory Board of DVB Bank AG adopted the resolution in principle, to increase the capital of DVB Bank AG by approx. €100 million, utilising the Authorised Capital 2002/I, as stipulated in the Memorandum and Articles of Association.

On 12/14 October 2005, the Board of Managing Directors and the Supervisory Board then resolved to increase DVB Bank AG's €77.9 million share capital by €21.7 million, to €99.6 million, against contribution in cash, via the issuance of 850,000 new notional no-par value bearer shares (unit shares) at a subscription ratio of seven old to two new shares. A range of between €115.00 and €130.00 was initially agreed for the subscription price. The capital increase was registered with the Commercial Register on 19 October 2005.

The new shares were underwritten by DZ BANK, subject to the obligation to offer them to shareholders of DVB Bank AG – at the agreed subscription ratio for indirect subscription – between 1 November 2005 and 14 November 2005. On 27 October 2005, the Board of Managing Directors of DVB Bank AG resolved to fix the subscription price at €124.00. The subscription rights were traded on schedule during the set time period.

The new shares were admitted to Official Trading on the Frankfurt Stock Exchange on 11 November 2005, and were listed on 15 November 2005. DZ BANK did not take any action for the purpose of stabilisation during the stabilisation period.

In summary, the issued share capital (as defined in article 4 of the Memorandum and Articles of Association) was increased by €21.7 million to €99.6 million. The new shares carry full dividend rights from 1 January 2005.

Strengthening the core capital (Tier I) by increasing the reserves

A total of €122.8 million was allocated to reserves, which therefore increased by 41.4% to €419.4 million. The focus was on strengthening the capital reserve via the €83.7 million share capital increase premium.

Both measures had the effect of increasing the **core capital (Tier I)** by a total of 30.1% to €663.5 million (2004: €509.9 million).

Strengthening the supplementary capital (Tier II)

Subordinated liabilities climbed overall by 21.1%, from €200.0 million to €242.2 million. The issue of a subordinated promissory note loan in the amount of US$65 million was offset by liabilities repaid during the course of the year.

At €126.1 million, profit-participation certificates eligible for inclusion according to the KWG were unchanged over the previous year.

The **supplementary capital (Tier II)** thus increased by 11.1%, from €310.3 million to €344.8 million.

We consistently complied with the capital ratio in accordance with sections 10 and 10a of the KWG (Grundsatz I).

Risk-weighted assets and capital ratios, as defined by the German Banking Act

%	**2005**	2004	2003	2002	2001
Core capital quote	6.8	6.7	6.8	5.8	5.0
Total capital ratio	10.2	10.7	11.1	10.4	9.5

Since 76.3% of international Transport Finance exposure is US dollar-denominated, the performance of the US dollar and its exchange rate to the euro also impacted on risk-weighted assets and hence on the capital ratios. Risk-weighted assets rose, not only as a result of the prospering new business but also due to currency effects arising from the strength of the US dollar. Core capital, and hence euro-denominated own funds, also increased. The capital ratios were recalculated upon confirmation of the financial statements. Part of the effect generated by the inflow of capital funds was offset by portfolio growth and exchange rate developments.

The total capital ratio therefore fell slightly to 10.2%; the core capital ratio, on the other hand, increased slightly to 6.8%.

Return on equity and cost/income ratio

The management of DVB Group during 2005 focused on the key financial indicators of return on equity (RoE) and cost/income ratio (CIR).

%	IFRS		HGB	
	2005	2004	**2005**	2004
Return on equity before taxes	15.9	12.7	17.1	15.7
Cost/income ratio	58.7	56.8	53.6	57.8

The RoE calculated in accordance with IFRS performed well in 2005, rising from 12.7% to 15.9%, while the CIR, which was also calculated in accordance with IFRS, deteriorated only slightly, from 56.8% to 58.7%.

When applying HGB rules, both ratios performed in line with strategic targets, with RoE up 1.4 percentage points to 17.1% in 2005. The CIR fell by 4.2 percentage points to 53.6%, thus approaching the target level of 50%.

We calculated the return on equity (RoE) before taxes in accordance with IFRS as follows: The result from operating activities before tax of €58.5 million was divided by the total of the weighted capital (issued share capital, capital reserves and retained earnings) to the amount of €368.9 million. This equated to a ratio of 15.9%.

We calculated the cost/income ratio (CIR) in accordance with IFRS as follows: The general administrative expenses figure (excluding amortisation of goodwill) of €104.3 million was divided by the total of net interest income (before loan losses), net fee and commission income, and net income from investment securities), to the amount of €177.8 million. This corresponded to a ratio of 58.7%.

Net assets

Business volume and total assets

At €12.6 billion, business volume in 2005 was up 18.9% on the previous year (2004: €10.6 billion). Besides total assets of €10.9 billion, the figure also includes irrevocable loan commitments of €1.5 billion and contingencies of €0.3 billion.

Lending volume over time

DVB's lending volume rose by 18.3% compared with the previous year, from €10.4 billion to €12.3 billion.

€ bn	**2005**	2004	Change € bn	Change %
Loans and advances to banks	0.9	1.0	–0.1	–10.0
Loans and advances to customers	8.8	7.0	1.8	25.7
Securities (incl. equity investments)	0.4	0.8	–0.4	–50.0
Guarantees and indemnities	0.3	0.2	0.1	50.0
Irrevocable loan commitments	1.5	1.1	0.4	36.4
Derivatives	0.4	0.3	0.1	33.3
Lending volume	**12.3**	**10.4**	**1.9**	**18.3**

At €0.9 billion, loans and advances to banks were down slightly on the previous year (2004: €1.0 billion). In line with our strategy, loans and advances to customers climbed by a significant 25.7%, from €7.0 billion to €8.8 billion. This was due to the high-volume new business, especially in Shipping, Aviation and Transport Infrastructure. The volume of securities (incl. equity investments) held was halved, from €0.8 billion to €0.4 billion. Guarantees and indemnities were up from €0.2 billion to €0.3 billion, while irrevocable loan commitments increased by 36.4%, from €1.1 billion to €1.5 billion. The rise in both figures was also attributable to the high-volume new business. As in previous years, we employed derivative instruments for hedging purposes, offering them (to a very limited extent) to our clients as well. The volume of derivatives increased by 33.3% to €0.4 billion.

Nominal volume of customer lending by business division

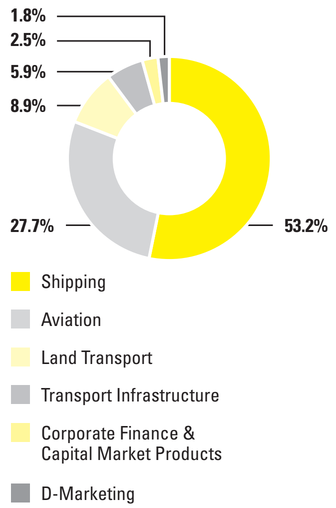
DVB's nominal customer lending (the aggregate of loans and advances to customers, guarantees and indemnities, and irrevocable loan commitments) comprises the asset lending business of our Transport Finance and loan exposures no longer in line with our strategy, which are managed by D-Marketing.

Prospering new business in the Shipping (+32.6%), Aviation (+37.5%) and Transport Infrastructure (+60.2%) segments drove up customer lending by 32.1%, from €8.16 billion to €10.78 billion.

The breakdown of customer lending is as follows: Shipping accounted for the lion's share (53.2%), followed by Aviation (27.7%). 8.9% was attributable to Land Transport, and 5.9% to Transport Infrastructure. We have identified high growth potential in the Corporate Finance & Capital Market Products segment, which accounted already for a share of 2.5% in 2005. We are therefore recording this segment separately for the first time in the year under review. At 1.8%, the D-Marketing share continued to fall.

In the long term, our strategy is for Shipping and Aviation to each account for 40% of the portfolio. The aggregate target figure for Land Transport/Transport Infrastructure is around 20%.

Customer lending by business division



Portfolio analysis – key factors

The following factors defined portfolio developments during 2005:

- Euro/US dollar exchange rate development: the US dollar was considerably stronger in 2005. Customer lending climbed by 32.1% in euro terms, which was considerably stronger than on a US dollar basis (+14.4%), whereby 76.3% of overall customer lending was denominated in US dollar (Shipping: 80.4%; Aviation: 95.9%).

- Strengthening DVB's leading role: in 2005, DVB extended its role in international transport finance and was increasingly involved in transactions where the Bank took the leading role (67% – which represents a plus of 6 percentage points).

- Corporate Finance & Capital Market Products: with effect from 2005, we have aligned the fast-growing Corporate Finance business, together with Advisory and M&A, Group Investment Management (including NFC Shipping Funds and Deucalion Aviation Funds) and Capital Markets.

Portfolio analysis – volume trends

In order to detail the effects of the euro/US dollar exchange rate, we have illustrated the development of lending volume by business division over a five-year period, in terms of euro and US dollar.

- The Shipping portfolio grew by 15.6% in US dollar terms, from US$5.84 billion to US$6.75 billion. Due to currency effects, the increase was greater in euro terms, growing by 33.6%, from €4.29 billion to €5.73 billion.
  The same scenario applied to the Aviation portfolio, which grew by 17.7% in US dollar terms from US$3.00 billion to US$ 3.53 billion. The increase in euro terms was significantly higher, up 35.9% from €2.20 billion to €2.99 billion.

- In contrast, only one-third of the Land Transport portfolio is denominated in US dollars, and two-thirds in euros. This portfolio grew slightly by 6.7%, from €0.90 billion to €0.96 billion. In US dollar terms, it even posted a small decline of 7.4%, from US$1.22 billion to US$1.13 billion.

Similarly, roughly one-third of the Transport Infrastructure portfolio is denominated in US dollars and half in euros. The rest is denominated in pound sterling. In euro terms, the portfolio grew strongly by 23.1%, from €0.52 billion to €0.64 billion. US dollar-based growth on the other hand, was minimal at 7.0%, from US$0.71 billion to US$0.76 billion.

Development of customer lending by business division in euro and US dollar from 2001-2005

€	**2005**		2004		2003		2002		2001	
	bn	%	bn	%	bn	%	bn	%	bn	%
Shipping	5.73	53.2	4.29	52.6	3.95	52.2	4.41	55.3	4.76	55.3
Aviation	2.99	27.7	2.20	27.0	2.02	26.7	2.15	27.0	2.08	24.2
Land Transport	0.96	8.9	0.90	11.0	0.80	10.6	0.69	8.7	1.10	12.8
Transport Infrastructure	0.64	5.9	0.52	6.4	0.47	6.2	0.27	3.4	0.19	2.2
Corporate Finance & Capital Market Products	0.27	2.5	–	–	–	–	–	–	–	–
D-Marketing	0.19	1.8	0.25	3.1	0.33	4.4	0.45	5.6	0.48	5.6
Total	**10.78**	**100.00**	**8.16**	**100.00**	**7.57**	**100.00**	**7.97**	**100.00**	**8.61**	**100.00**

US$	**2005**		2004		2003		2002		2001	
	bn	%	bn	%	bn	%	bn	%	bn	%
Shipping	6.75	53.1	5.84	52.6	4.98	51.9	4.62	55.1	4.23	52.8
Aviation	3.53	27.8	3.00	27.0	2.60	27.1	2.30	27.4	1.82	22.7
Land Transport	1.13	8.9	1.22	11.0	1.00	10.4	0.72	8.6	1.25	15.6
Transport Infrastructure	0.76	6.0	0.71	6.4	0.59	6.2	0.28	3.3	0.16	2.0
Corporate Finance & Capital Market Products	0.32	2.5	–	–	–	–	–	–	–	–
D-Marketing	0.22	1.7	0.34	3.1	0.42	4.4	0.47	5.6	0.55	6.9
Total	**12.71**	**100.00**	**11.11**	**100.00**	**9.59**	**100.00**	**8.39**	**100.00**	**8.01**	**100.00**

	2005	2004	2003	2002	2001
€/US$ reference rate published by the ECB (31 Dec)	1.1797	1.3621	1.2630	1.0487	0.8813

Portfolio analysis by earnings contribution

We have analysed earnings by comparing the development of the Transport Finance portfolios in the years 2005 and 2004. We have broken down the portfolio into total and new commitments, which we have then differentiated further by key ratios and indicators.

The portfolio development clearly underlines the success enjoyed by DVB in the transport finance business: the volume of new business rose strongly, with the Bank increasingly taking a leading role, and interest margins and LTV ratios continuing to develop favourably.

New business

Despite a global economic environment that was still challenging, DVB generated a significant amount of long-term, collateralised new business in 2005: Shipping contributed €3.19 billion (+32.6%), Aviation €1.15 billion (+37.5%), and Transport Infrastructure €0.19 billion (+60.2%). In contrast, new Land Transport business posted a slight decline of 8.7% to €0.23 billion (2004: €0.25 billion).

DVB played an increasingly greater leading role in Transport Finance – the share of transactions led by DVB in the overall portfolio rose from 61% to 67%. The leading role share of new commitments was in fact 76% (2004: 74%) – particularly in Land Transport and Transport Infrastructure, which extended their leading role considerably in new business, thus developing in line with Shipping and Aviation.

The average interest margin of 162bp for new business was unchanged from the previous year (163bp). The margins in Transport Infrastructure increased favourably, up 66bp to 243bp, while Aviation and Land Transport improved by 10bp each. The interest margin in Shipping Finance on the other hand, contracted slightly by 5bp.

Total portfolio

The average LTV ratio of the individual Transport Finance segments indicates the relation between loans granted and the market value of the financed assets. The positive development of recent years remained intact: the LTV ratio of the total portfolio improved by a favourable 13.3 percentage points. The ratio in Shipping and Aviation fell significantly. It was down slightly in Transport Infrastructure, while Land Transport remained unchanged at last year's level.

The CIR in Transport Finance rose slightly overall to 23.7% (2004: 22.4%). While Land Transport and Transport Infrastructure succeeded in further reducing the CIR slightly, Shipping, Aviation and Corporate Finance & Capital Market Products reported a slight increase. This was attributable to the expansion of our advisory services and our product range, as well as the establishment of the relevant specialist teams. Both measures aim to realise the earnings potential we have identified in high-growth market niches.

Overall, the RoE in Transport Finance fell slightly to 33.0% (2004: 36.4%). Although net profit in Transport Finance increased overall by 21.1%, from €92.3 million to €111.8 million, this increase was outweighed by the development of weighted capital, which climbed 25.2% to €338.9 million. What this means in detail is that Aviation and Transport Infrastructure were able to improve their RoE, while Land Transport was virtually unchanged from the previous year and the RoE in Shipping declined.

Portfolio analysis by earnings contribution

€ mn	Shipping		Aviation		Land Transport		Transport Infrastructure		Corporate Finance & Capital Market Products		Total		
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	Change %
Overall portfolio													
Customer lending	5,725.0	4,292.1	2,988.1	2,203.3	958.8	891.0	640.3	522.7	274.1	–	10,586.3	7,909.1	33.8
Loans and advances to customers	4,811.9	3,597.5	2,754.1	2,041.3	837.3	760.7	320.1	287.6	176.5	–	8,899.9	6,687.1	33.1
Loan commitments, guarantees and indemnities	913.1	694.6	234.0	162.0	121.5	130.3	320.2	235.1	97.6	–	1,686.4	1,222.0	38.0
Number of customers (primary obligor groups)	235	228	113	96	74	75	24	24	31	–	477	423	13
Leading role (%)	70	63	70	63	67	67	44	41	45	–	67	61	6[3]
Average LTV ratio (%)	57.7	63.1	79.0	87.2	82.4	83.4	45.0	50.4	n/a	–	65.6	78.9	–13.3[3]
CIR (%)[1]	22.2	21.5	14.1	13.7	29.6	30.1	16.6	21.6	38.2	33.3	23.7	22.4	1.3[3]
RoE (%)[2]	36.3	45.3	20.2	19.9	19.5	19.7	34.1	26.0	248.6	379.9	33.0	36.4	– 3.4[3]
Portfolio New commitments													
Number of new transactions	142	113	58	52	14	20	8	6	–	–	222	191	16.2
Underwritten	3,189.9	2,404,9	1,148.0	835.0	230.2	252.0	185.8	116.0	–	–	4,753.9	3,607.9	31.8
Syndicated to third parties	297.7	520.0	7.8	21.0	34.3	5.0	0.0	0.0	–	–	339.8	546.0	–37.8
Final take	2,892.2	1,884.9	1,140.2	814.0	195.9	247.0	185.8	116.0	–	–	4,414.1	3,061.9	44.2
of which: loan commitments as at 31 Dec	508.0	443.2	205.6	105.6	69.2	58.3	185.2	38.7	–	–	968.0	645.8	49.9
Book building	186.9		268.5						–		455.4	0.0	–
Leading role (%)	73	72	88	89	81	44	65	39	–	–	76	74	2[3]
Average margin (bp)	139bp	144bp	216bp	206bp	149bp	139bp	243bp	177bp	–	–	162bp	163bp	–1[3]

1) Computed in accordance with IFRS – without allocating overhead expenses and before impairment losses on loans and advances
2) Computed in accordance with IFRS – without allocating overhead expenses, after impairment losses on loans and advances, and before taxes
3) Change in percentage points

Report on events after the balance sheet date

in accordance with section 315 (2) no. 1 of the German Commercial Code (HGB)
(as at 18 April 2006)

Moody's Investors Service upgrades DVB's ratings

Moody's announced an upgrade of DVB Bank AG's long-term rating – from A3 to A2 – on 31 January 2006. At the same time, the short-term rating was raised from P-2 to P-1, whilst the financial strength indicator remained unchanged, at C-. For more details, please refer to the section on the DVB Share (on page 17), and to the information presented in this management report (on page 58).

Deucalion Engine Leasing (Ireland) Limited established

DVB Bank AG established Deucalion Engine Leasing (Ireland) Limited in February 2006. The new entity is a joint venture with Engine Lease Finance Corporation (ELF), the largest independent lessor of aircraft engines worldwide. This cooperation represents another milestone in the recent expansion of our engine finance business, extending to financing and investment in this segment.

Group structure reorganised

DVB Group Merchant Bank (Asia) Ltd., Singapore, and DVB Bank America N.V., Curaçao, Netherlands Antilles, were previously managed within DVB Group as subsidiaries of DVB Bank N.V., Rotterdam (see the report on branches and subsidiaries on page 88). On 21 February 2006, the Board of Managing Directors of DVB Bank AG resolved to change this holding structure. Subject to consummation of all required agreements and fulfilment of all regulatory requirements, said companies will become direct subsidiaries of DVB Bank AG, Frankfurt/Main. A purchase price was agreed, on an arm's length basis, on 4 April 2006. The particular purpose of this measure is to enhance the structural clarity and transparency of DVB Group; it also serves to further reduce administrative expenditure.

Other events

DVB's Advisory and M&A team established a global business structure in March 2006. Established in 2002, the Corporate Finance division had been operating exclusively from London. As a first step, a **Singapore-based team of advisors** was established in March 2006.

Rolf Michael Betz, member of the Board of Managing Directors of DVB Bank AG, retired from office at the end of his contractual term on 31 March 2006.

A Land Transport **research team,** based in Rotterdam, started operations on 3 April 2006.

There were no **other issues** of material importance to the assessment of the income and financial situation of DVB Bank AG and DVB Group after the end of the 2005 business year. Statements made in the report on expected developments have been confirmed by the development of business in the first months of the 2006 business year.

Risk report

in accordance with section 315 (2) no. 2 a and b of the German Commercial Code (HGB) (as at 18 April 2006)

The following section illustrates the three key elements of DVB's risk management system:
- *organisation of the risk management and risk control process;*
- *DVB's capacity to carry and sustain risk/ risk capital; and*
- *typical types of risk associated with DVB's business.*

The risk report presented below provides a breakdown of DVB's Transport Finance sub-portfolios by collateralisation structure and LTV range (under "Portfolio management and control", on pages 81–83). The portfolio values analysed there reflect nominal values of the DVB Group portfolio. They have thus been derived from the same basis as the portfolio analysis in the management report – economic situation. (Cf. "net assets – portfolio analysis" on pages 71–74).

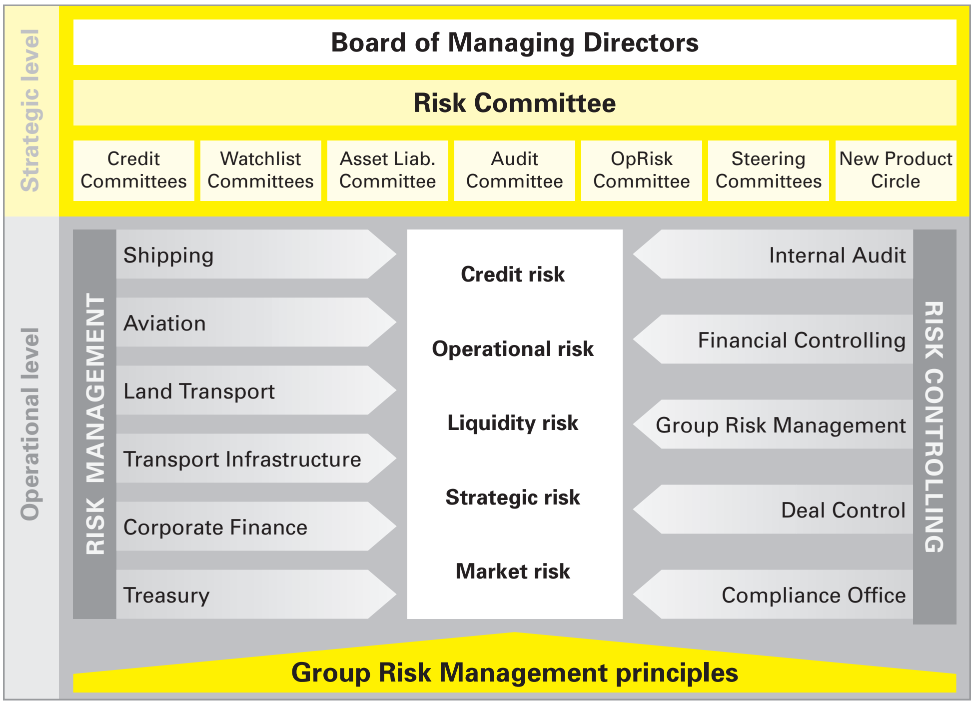
Assuming risks in a targeted and controlled manner – achieving returns that are commensurate with the risks taken – is an integral part of DVB's overall management strategy as an international asset lender.

Based on DVB's ability to carry and sustain risks, the Board of Managing Directors defines the risk policy, which provides the guidelines for assuming, monitoring and managing risks. Our Group-wide system for the early detection, monitoring and management of risks not only complies with the legal framework, but also satisfies our commercial requirements.

Organisation of the risk management and risk control process

The adjacent chart illustrates the functional separation of DVB's risk management and risk control processes.

A distinction is made between "operative" and "strategic" risk management. **Operative risk management** is defined as the implementation of the risk strategy by the various business divisions, as prescribed by the Board of Managing Directors. In addition to defining risk policy guidelines, **strategic risk management** also encompasses coordination and support of operative risk management processes by cross-divisional committees.



The **Risk Committee,** comprising the member of the Board of Managing Directors responsible for risk management, together with the heads of Group Risk Management, Group Financial Controlling and Group Treasury, acts as a forum for the discussion of all the main strategic and methodical issues with regard to the Bank's overall risk exposure. Its duties also include the derivation of the economic capital within the scope of DVB's capacity to carry and sustain risks, as well as the allocation of risk capital to the business units.

Within the **Group Credit Committee,** comprising the entire Board of Managing Directors and the heads of Credit and Industry units, the entire Board of Managing Directors decides on DVB's individual loan commitments that do not exceed 12.5% of the Bank's liable capital, provided that the unsecured portion of an exposure does not exceed €30 million. The approval of the Supervisory Board Credit Committee is required additionally for exposures exceeding these thresholds. Credit approval decisions are taken jointly by the heads of credit departments and industry sectors, based on DVB's applicable lending policies and within the framework of loan approval authorities for the relevant industry sector, rating level, and amount.

Watchlist Committees, comprising the members of the Board of Managing Directors responsible for risk management and the respective industry, together with the responsible head of Credit, have been established for each industry sector. These committees monitor exposures that are subject to higher potential or actual risks, making decisions as required.

Abbreviations and references

ALCO	*Asset Liability Committee*
DZ BANK	*DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main*
HGB	*German Commercial Code (Handelsgesetzbuch)*
IRM	*Internal rating model*
KWG	*German Banking Act (Kreditwesengesetz)*
LGD	*loss given default*
LTV	*Loan-to-value ratio*
MaK	*Minimum Requirements for the Credit Business (Mindestanforderungen an das Kreditgeschäft)*
OASIS	*Object Finance Administration and Security Information System*
OpRisk	*Operational risk*
SAP	*Major ERP software platform*
VaR	*Value at risk*

The **Asset Liability Committee,** comprising the members of the Board of Managing Directors responsible for risk management and asset/liability management, plus the heads of Group Treasury, Group Risk Management, Group Accounting and Taxes, and Group Financial Controlling, decides on key elements of interest rate strategy and on asset/liability positions, and also on the Bank's liquidity management.

The **Audit Committee,** comprising the responsible member of the Board of Managing Directors and the heads of Group Audit, Group Risk Management, and Operations, co-ordinates internal auditing operations, approves short- and medium-term audit planning and decides on the type and extent of special audits.

The **OpRisk Committee** consists of the member of the Board of Managing Directors responsible for risk management and the heads of Group Risk Management, Operations and Group Audit. In addition to co-ordinating the operational risk process, the committee regularly supports the management of these risks, reviews the established OpRisk framework, and uses audit and operational risk reports to monitor and assess the development of these risks.

Steering Committees, comprising members of the Board of Managing Directors, plus the representatives of departments involved in a project, manage and monitor project progress; they are responsible for the successful and scheduled implementation of a project, within budget.

The **New Product Circle** (comprising the heads of service units) analyses and discusses the framework within which DVB may offer new products to its clients, or explore new markets or market segments.

The independent **risk control** function comprises the identification, quantification, limitation and monitoring of risks, plus risk reporting.

Capacity to carry and sustain risk/risk capital

DVB conducts a review of its risk-bearing capacity on an annual basis. This includes determining the aggregate risk cover, which comprises components eligible for inclusion as regulatory capital plus those of DVB's undisclosed reserves which can be realised at short notice, and the sustainable net profit for a given business year. Hence, the capital elements used to determine aggregate risk cover go beyond those recognised for regulatory purposes.

DVB's aggregate risk cover amounted to €1,172 million at the end of 2005 (2004: €984 million). The increase was mainly due to the capital increase carried out during the year under review, and the planned profit retention.

At the end of each year, the Board of Managing Directors approves the risk capital budget for the next business year. Risk capital has to cover all risks, and is defined as the economic capital or total loss limit that DVB is willing to invest over one year. Risk capital must be sufficiently high to cover aggregate unexpected ("worst-case") losses, given a 99.95% (2004: 99.82%) probability.

The risk capital for 2006 was set at a level of €460 million (2004: €318 million), taking into account correlation effects, and subject to the additional proviso that, even in the event of all unexpected losses materialising, DVB must still comply with regulatory minimum capital requirements. This significant increase was primarily the result of using a markedly higher confidence interval to calculate risk capital than in the previous year, reflecting the higher ratings of DVB Bank AG. Risk capital is distributed across individual types of risk as follows:

€ mn	**2006**	2005		
	Risk capital limit	Risk capital limit	Utilisation as at 31 Dec 2005	Average utilisation
Counterparty risk	415	280	190	196
Market risk	21	21	12	11
Operational risk	28	25	22	22
Strategic risk	37	27	26	26
Correlation effects	–41	–35	–29	–29
Total	**460**	**318**	**221**	**226**

We use internal models to measure counterparty and market risks. A basic indicator approach in accordance with Basel II is used to estimate potential loss exposure associated with operational risk, whilst the strategic loss exposure is determined using a best-practice approach.

When determining the level of risk capital, we consider correlation effects deduced from empirical market data, taking into account correlations among the various types of risk, and regarding counterparty risks within the loan portfolios in Shipping, Aviation, Land Transport and Transport Infrastructure.

Although liquidity risk is also monitored and checked continuously, it is not managed through risk capital, but by means of other management tools.

Types of risk

The following types of risk are relevant to DVB's business:

We define counterparty risk, which comprises credit, issuer, counterparty and country risks, as potential losses arising from an unexpected default or deterioration in our counterparties' credit quality. Given the focus and structure of our business, counterparty risk represents the largest individual risk category.

Counterparty risk

With respect to individual transactions, counterparty risk is managed and limited by setting a corresponding limit on the basis of cautious lending principles and sector-specific lending policies. At a portfolio level, we allocate the volume of risk capital approved by the Board of Managing Directors. Determining and managing country risks is crucial in view of the international emphasis of our lending business. Hence we plan and limit country risks within the scope of the overall management of the Bank, and in accordance with the country limit planning system of DZ BANK.

Given the dominant position of counterparty risk in DVB's business, we have developed an internal statistical and mathematical rating model (IRM) for our global Transport Finance business. The model complies with the "Advanced Approach" requirements under Basel II. In addition to the probability of default associated with a given client, we determine the expected loss given default ("LGD") for the unsecured portion of a loan and the anticipated extent of the claim at the time of default (exposure at default, "EAD"). The Advanced Approach includes the various kinds of collateral (such as mortgages on aircraft or ships, or indemnities), whereby we can establish the anticipated realisation proceeds by means of our own data history.

The counterparty rating is based on a multi-level statistical system that was developed from a database of externally-rated companies for which all relevant balance sheet data is available. Assigning the internal to external rating classes enables us to use external default probabilities.

The assessment of the future collateral value of financed assets is fundamental to determining the potentially impaired proportion of a specific lending exposure (LGD) in our collateralised lending business. The method used for this purpose determines the future collateral value of an asset on the basis of simulation calculations. In addition to external valuations (expert opinions) and market data, we also utilise the expertise of our market specialists in assessing specific collateral.

We successfully rolled out the IRM for the Shipping and Aviation portfolios, which together accounted for as much as 81% (approx.) of the overall loan portfolio at the end of 2005. The gradual implementation for the remaining, smaller loan portfolios is scheduled until 2009: at this point, the IRM will be used for the rating of virtually all of DVB's loan portfolio.

The results of the IRM provide vital information for lending decisions, too: in addition to expected loss and unexpected loss (both of which will be mandatory under the future regulatory framework), the model also determines standard risk costs which are, in turn, incorporated for setting the minimum required margin.

Over the medium term we plan to expand our IRM into a portfolio-based concept, as in future, we envisage managing counterparty risks at a portfolio level within the framework of a value-at-risk approach.

Portfolio management and control

Data framework and tools

DVB has organised its portfolio management and control processes on two levels. Group Risk Management is responsible for developing and implementing portfolio management tools and methodology, and for preparing analyses of DVB Group's overall portfolio (in line with the requirements under MaK). On a divisional level, each Transport Finance division is responsible for analysing and managing their respective portfolios within the framework set by the Board of Managing Directors, and with a view to mitigating risk by way of diversification. DVB Research provides valuable support in this process.

DVB's proprietary database application OASIS is a state-of-the-art tool for analysing and managing the Bank's loan portfolio. In addition to compiling all quantitative and qualitative data covering every Transport Finance exposure, OASIS also captures the legal and economic risk structure details: it thus provides all the data required to manage the portfolio. Moreover, the database represents a core source of information for the IRM. Data entry is subject to the principle of dual control throughout the system. Because it is integrated into the loan approval and administration processes, OASIS also helps to minimise operational risks.

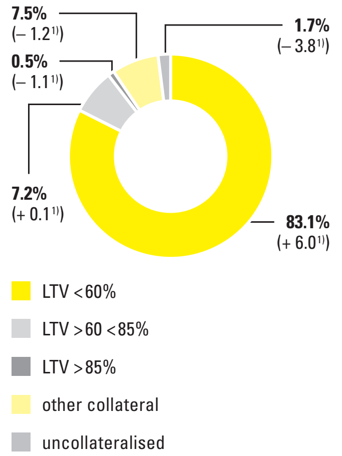
Analysis of individual loan portfolios

The following section provides an overview of the structure of our loan portfolios, together with collateralisation structure and developments.

DVB's **Shipping portfolio** (which includes the Container Business Unit) once again developed very favourably during the business year under review. The portfolio, which is largely denominated in US dollars (80.4%), grew by 33.6% to €5.7 billion at the end of 2005. The strength of the US dollar during the course of the year was mirrored by a corresponding weakness of the euro. Adjusting for exchange rate movements, the growth rate was 18.6%.

The portfolio is dominated by exposures secured by mortgages on ships. Loans with a maximum LTV ratio of 60% account for a share of €4.8 billion. Thanks to new business collateralised in this way, the relative share of exposures secured by mortgages increased once again, both in absolute amounts and as a percentage.

Shipping portfolio – LTV classes



1) Change in percentage points

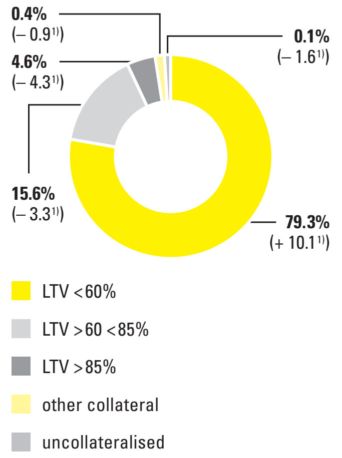
The table below illustrates the collateralisation structure of our Shipping portfolio:

€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by mortgages	5,202.3	90.8%	3,686.2	85.9%
Other collateral	427.8	7.5%	369.3	8.6%
Uncollateralised	94.9	1.7%	236.6	5.5%
Lending volume	**5,725.0**	**100.0%**	**4,292.1**	**100.0%**

The share of uncollateralised loans, or exposures secured by other forms of collateral, was reduced in line with the strategy defined by the Board of Managing Directors. The adjacent chart provides a breakdown of exposures secured by mortgages, by LTV range (loan amounts have been allocated to LTV classes proportionately).

We were successful in further expanding our business during the year under review, in a commercial aviation environment that showed some improvement over previous years. Our **Aviation portfolio** stood at €3.0 billion at the end of 2005, up 35.9% on the previous year. As this portfolio is also predominantly in US dollars (95.9%), the currency-adjusted growth rate was lower, at 18.2%.

Aviation portfolio – LTV classes



1) Change in percentage points

The table below illustrates the collateralisation structure of our Aviation portfolio:

€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by mortgages	2,973.1	99.5%	2,137.8	97.0%
Other collateral	12.7	0.4%	27.5	1.3%
Uncollateralised	2.3	0.1%	38.0	1.7%
Lending volume	**2,988.1**	**100.0%**	**2,203.3**	**100.0%**

With 99.5% of the lending volume secured by mortgages, the Aviation portfolio also reflects the strict enforcement of our conservative lending policy. Lending volume of €2.4 billion has an LTV ratio not exceeding 60%.

The significant increase in the proportion of the portfolio with an LTV ratio below 60% also reflects the continued recovery in aircraft values.

The **Land Transport portfolio** also showed structural improvements in the year under review, growing by 6.7% to €959 million. Adjusting for exchange rate movements, the growth rate was 2.2%.

The table below illustrates the collateralisation structure of our Land Transport portfolio:

€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by mortgages	837.5	87.3%	704.4	79.1%
Other collateral	72.8	7.6%	105.5	11.8%
Uncollateralised	48.5	5.1%	81.1	9.1%
Lending volume	**958.8**	**100.0%**	**799.8**	**100.0%**

We also actively pursued the reduction of uncollateralised business in our Land Transport portfolio. Not only did unsecured exposures decline by four percentage points during the year under review – new business acquired in 2005 also helped to boost the share of business secured by mortgages, by 8.2 percentage points. A total lending volume of €638 million had an LTV ratio not exceeding 60%.

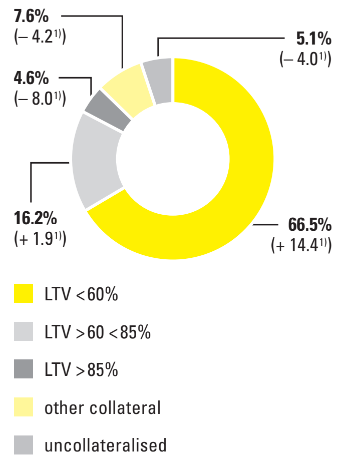
With a 23.1% increase to €640 million, the **Transport Infrastructure portfolio** also developed favourably during 2005. Adjusting for exchange rate movements, the growth rate was 17.3%.

The table below illustrates the collateralisation structure of our Transport Infrastructure portfolio:

€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by concessions	640.3	100.0%	522.7	100%
Other collateral	0.0	0.0%	0.0	0.0%
Uncollateralised	0.0	0.0%	0.0	0.0%
Lending volume	**640.3**	**100.0%**	**522.7**	**100.0%**

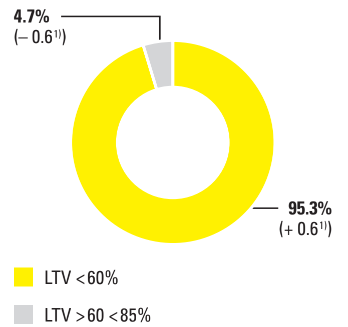
The collateralisation structure was virtually unchanged from the previous year. Collateral for all of our infrastructure finance projects includes an assignment of operating concessions. The collateral value is equivalent to the present value of future cash flows.

Land Transport portfolio – LTV classes



1) Change in percentage points

Transport Infrastructure portfolio – LTV classes



1) Change in percentage points

Early warning systems and risk provisioning

We use a diversified set of tools for the early recognition, monitoring and management of sub-performing or non-performing loans. Our watchlist procedures ensure that these loans are identified at an early stage, and that such exposure is included in a watchlist for intensified handling. During regular meetings of the Watchlist Committees, chaired by the member of the Board of Managing Directors responsible for risk management, decisions are taken regarding risk mitigation strategies and measures, as well as concerning any loan loss provisions required.

Net impairment losses on loans and advances in DVB's Transport Finance portfolios totalled €14.9 million for the year under review. Allowances for losses on loans and advances amounted to €59.1 million at the end of 2005.

Continued reduction of loan exposures that are no longer in line with our strategy

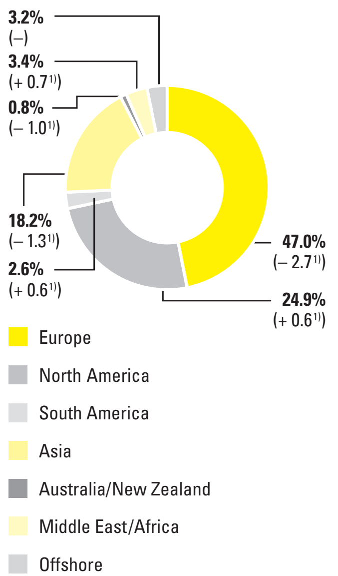
Loan exposures that are no longer in line with our strategy are managed by the D-Marketing unit. We were able to reduce this lending volume by a further 24%, from a nominal volume of €251 million at the end of 2004 to €192 million (nominal) at the 2005 year-end. Whilst impairment losses recognised and reversals of provisions virtually offset each other, total allowances for loan losses were down to €55.3 million, due to €10.5 million in charge-offs. We continue to expect the total loan loss allowance for this part of our portfolio to adequately account for the higher risk exposure in this segment.

Country risks in Transport Finance

We mitigate more serious country risk exposure by applying a commensurate transaction structure (for example, by a combination of collateralisation, use of offshore accounts, maintaining cash flows in fully-convertible currencies, political risk insurance cover, etc.).

The breakdown of country risks in our portfolio is largely unchanged compared to 2004. Our Transport Finance exposure continues to be concentrated in Europe, North America and Asia. Country risks are managed and limits applied on the basis of net country risk exposure, deducting 60% of the market value of assets eligible for inclusion.

Country risks in Transport Finance



1) Change in percentage points

Net country risk exposure was again lower compared to the previous year. Furthermore, net country risk for emerging markets amounted to just 0.3% of the overall Transport Finance portfolio.

Country risk is defined as the risk that DVB suffers loan losses or other monetary losses in a particular country, as a result of social/political and/or macro-economic developments or events. This comprises risk traditionally associated with the concept of country risk (conversion and transfer risk, payment freeze or moratorium), plus political and economic policy risks.

Operational risk

Monitoring and managing operational risks largely comprises the development of a methodology for identifying, quantifying and managing risk, and maintaining an adequate risk reporting system. In view of DVB's moderately complex – yet highly transparent – processes, we consider the so-called Basic Indicator Approach in accordance with Basel II as appropriate. Given that we do not possess, in common with many other banks, the historical volume of data required for a well-founded statistical observation, we will not implement the Advanced Approach.

DVB already implemented the organisational infrastructure and framework to measure and manage operational risk, as required under the Basic Indicator Approach, back in 2003. Organisational measures taken include the establishment of a central OpRisk Committee, as well as the creation of an OpRisk Manager for each of DVB's worldwide locations. The tools we have implemented to manage and monitor operational risk are self-assessments carried out at least once a year in respect of each location, on a divisional or departmental level, plus the loss database where losses incurred due to operational risks are recorded. Quarterly reports are submitted to the Board of Managing Directors and the OpRisk Committee; where appropriate, this is supported by ad-hoc reporting. We recorded a total of 16 (2004: 9) loss cases with aggregate damages of €895,000 (2004: €223,000) during the year under review.

In line with the requirements set out by the Basel II Accord, operational risks at DVB are defined as the risk of losses resulting from inadequate or failed internal processes, human or technical failure or external events.

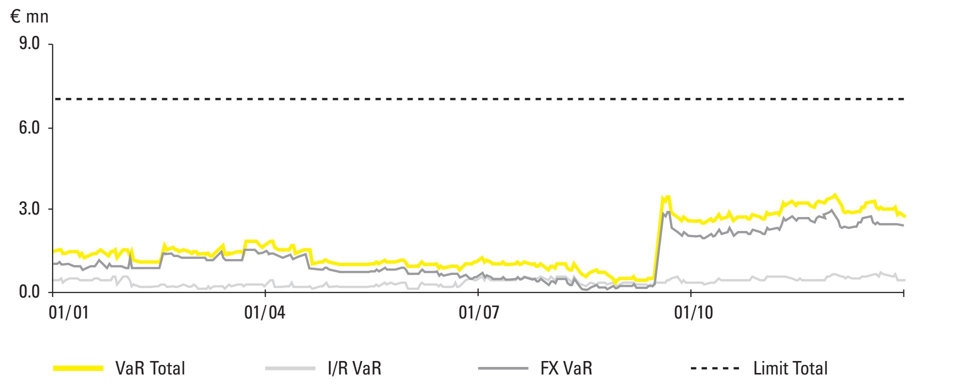
We define market risk as the potential loss incurred through price fluctuations in the equities, foreign exchange and interest rate markets (including associated derivatives).

Market risk

Group Treasury is responsible for managing market risks in both the banking and the trading books. The ALCO meets fortnightly, to review the market risk exposure for the entire Bank and to reach fundamental agreements on risk orientation. We use a consistent VaR method for calculating the market risk in our banking and trading books. Using this VaR method, the maximum loss that may arise due to market price risks during a holding period of one day is quantified at a confidence level of 99% on the basis of a historical simulation. The functionality of the VaR method is assured by means of a back testing procedure. During the back testing procedure, the gains and losses of the items included in the trading book and the banking book are calculated on a daily basis, using the actually-occurred market price changes, and are compared with the values determined using the VaR method.

The chart below illustrates utilisation of market risk limits during 2005:

Market risk



Trading Control, which is responsible for monitoring market risks, has direct access to the trading and settlement systems, allowing it to observe whether limits are maintained. The market risks incurred are therefore subject to constant measurement and limit monitoring through Trading Control, which reports to the Board of Managing Directors on a daily basis.

The significant increase in September 2005 was a result of foreign exchange hedges: within the framework of the budgeting process for DVB Group, projected US dollar income for 2006 was sold on a forward basis during 2005. As a consequence, only the foreign exchange sale was recognised in 2005; the corresponding income will accrue in 2006.

The risk positions are managed on the basis of limits approved by the Board of Managing Directors. In addition, we subject our positions to a monthly stress test, based on an entire interest rate cycle. The calculations applied to such stress tests are discussed regularly in the ALCO. This is designed to ensure a timely reaction to developments. We also used the results of monthly stress testing as a parameter when determining market risk limits for 2006.

Strategic risk

We define strategic risk as the potential decrease in our enterprise value that could arise from our strategic positioning in a constantly changing environment involving markets, clients, competitors and the political and legal frameworks, etc.

DVB's business policy is managed by way of strategic decisions taken within the scope of closed-door strategy meetings by the entire Board of Managing Directors, and, where appropriate, by the Supervisory Board. For the 2005 business year, these were measured on the basis of the volatility of operating income using a 99.82% confidence interval.

The confidence interval used to calculate risk capital limits was raised to 99.95% at the end of 2005, reflecting the higher ratings of DVB Bank AG. The limit increase for strategic risk reflected the changes to the methodology coming into effect for 2006.

Liquidity risk

This risk relates to the possibility that we may not be in a position to meet current and future payment obligations within the specified time or to the specified extent.

Our liquidity risks are analysed and managed centrally on the basis of Treasury guidelines laid down by the Board of Managing Directors. Group Treasury, which reports to both the ALCO and the entire Board of Managing Directors, assumes responsibility for this process. Decisions on major refinancing projects are made by the ALCO.

Anticipated cash flows are calculated, aggregated and offset by transactions on the money and capital markets, on the basis of continuously updated plans for liquidity flows and cash flow forecasts. These are prepared using SAP data and state-of-the-art asset-liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German Banking Act, ensures that timely and appropriate corrective measures can be taken. Ample access to short-term money market liquidity and extensive liquidity provisions ensure that DVB has access to adequate liquidity reserves. Various medium- and long-term refinancing measures were used to further strengthen the Bank's structural liquidity position. The Liquidity Principle according to the German Banking Act was consistently adhered to during 2005.

Summary and outlook

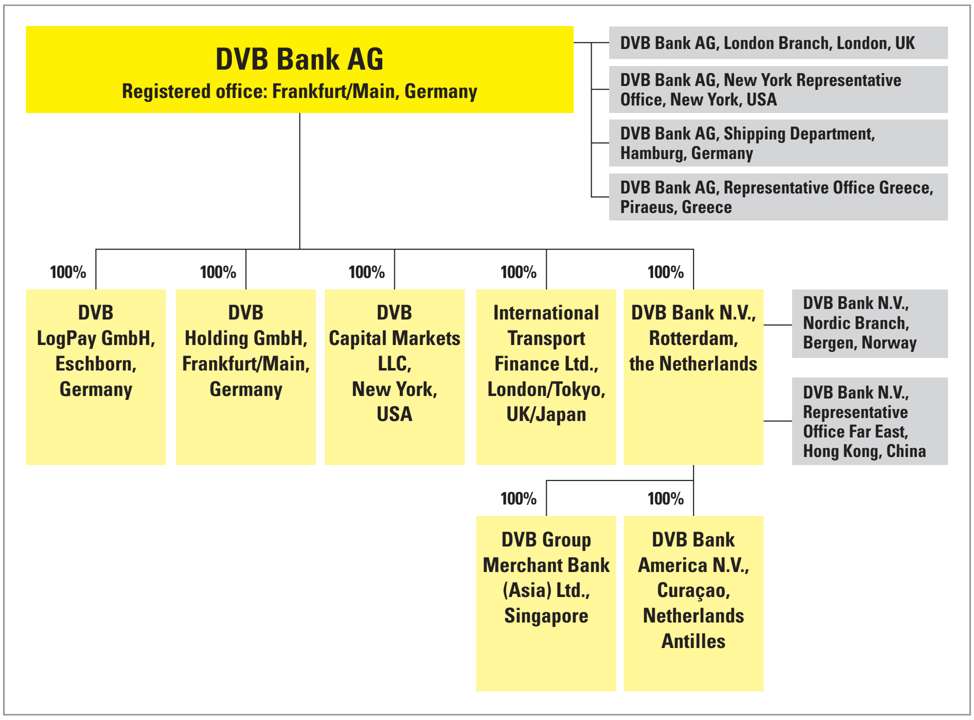
DVB has organised its risk management and risk control functions in a manner that complies with legal and regulatory requirements. The system is appropriately designed to efficiently monitor and manage all risks that DVB is exposed to. The methods to capture and manage risks were the subject of continuous development during 2005. We will continue to refine our risk monitoring and risk management systems, to ensure compliance with the Basel II framework as well as with the requirements of modern Bank management, focused on risks and returns.

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2005. There were no breaches of the risk capital limits allocated to different types of risk within the framework of the concept to manage the Bank's ability to carry and sustain risk. We are confident that this compliance will also prevail throughout the 2006 business year.

Report on branches and subsidiaries

in accordance with section 289 (2) no. 4 of the German Commercial Code (HGB)
(as at 18 April 2006)

The chart illustrates the legal structure of DVB Group as at 31 December 2005, the registered office of the parent company DVB Bank AG, material, full-consolidated subsidiaries (yellow shading), and branches and representative offices (grey shading).



Report of the Board of Managing Directors on relations with affiliated companies

in accordance with section 312 of the German Stock Corporation Act (AktG)
(as at 18 April 2006)

Pursuant to sections 15 and 18 of the German Stock Corporation Act (AktG), DVB Bank AG is affiliated to DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main, and its group companies. As at 31 December 2005, DVB Bank AG has been included in the consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main.

In accordance with section 312 (3) of the AktG, the Board of Managing Directors has disclosed to the Supervisory Board the extent of the relationship with affiliated companies: "Adequate consideration was received by our Company, in line with circumstances in which transactions subject to reporting requirements were carried out, of which the Board of Managing Directors were aware of at the time. During the year under review, the Board of Managing Directors did not carry out or omit any reportable measures."

Report on expected developments 2006/2007

in accordance with section 315 (1) sentence 5 of the German Commercial Code (HGB)
(as at 18 April 2006)

This chapter outlines our assessment of potential market developments for Transport Finance, Corporate Finance and Treasury during 2006 and 2007, plus a projection of DVB's financial situation.

The report on expected developments contains forward-looking statements, including statements concerning the future development of DVB.

We would like to point out that the assessments and forecasts contained herein will always be subject to the risk of erroneous perception or judgement errors, and may thus turn out to be incorrect. By their very nature, any deliberations regarding developments or events in the future are conjecture rather than precise predictions. Future developments may indeed diverge from expectations, not least as a result of fluctuations of capital market prices, exchange rates or interest rates; or due to fundamental changes in the economic environment.

Although we believe the forward-looking statements to be realistic, due to the reasons discussed above we cannot accept any responsibility that they will actually materialise. We do not intend to update any of the forward-looking statements made in this report.

Shipping – markets

Market developments in each shipping sector are driven by a host of factors that impact demand and available supply. Our views as to how these factors will translate for the major shipping markets are indicated below, grouped to indicate a positive, neutral or cautious outlook.

Positive

1. Product carriers
2. Chemical carriers
3. LPG (Liquified Petroleum Gas)
4. Offshore: AHTS (Anchor Handling Tugs Supply)
5. Offshore: PSV (Platform Supply Vessels)
   also known as OSV (Offshore Supply Vessels)
6. Offshore: Floating Production Storage & Offloading vessels
7. Offshore rigs
8. Cruise
9. ROPAX ferries (Roll on-Roll off/passengers)
10. RORO vessels (Roll on-Roll off)

With oil companies engaged in E&P (exploration & production) with renewed vigour, the offshore sectors are well placed. Limited fleet additions, in the light of sustained demand dynamics in the other sub-sectors listed above, makes their prognosis favourable.

Neutral

1. Dry Bulk sector
2. LPG (Liquified Petroleum Gas – VLGC (Very Large Gas Carrier) only)
3. Reefers
4. LNG (Liquified Natural Gas)
5. PCTC (Pure Car & Truck carriers)
6. Container (size up to & including modern Panamax)

Rated neutral on the basis that the sectors will not perform as well as in 2004-2005 but will remain above the lows experienced in 1999-2000. For LNG, rates and margins have become unattractive. For PCTC we need to see the dust settle, with the shakeout taking place in the US.

Caution

1. Super Post-Panamax container vessels
2. Post-Panamax container vessels
3. The crude tanker sector

The limited deployment possibilities for container vessels of these sizes together with the looming enormous orderbook is likely to constrain employment prospects. The crude sector will see supply exceed demand, but will remain volatile due to ongoing geopolitical issues and other wild card events which will cause mini cycles within the year – as they usually have done in the past.

Shipping – portfolio

In line with our prediction from this time last year, 2005 saw most sectors reach their peak and start to decline.

Despite the decline, freight rates remained comfortably above historic averages for the year and shipping companies are expected to have delivered strong results again in 2005. The counter side to this industry success is the level of interest it raises in a finance sector hungry for assets. 2005 saw several major banks driving down margins, and offering very lenient financing structures on shipping assets valued at or near the top end of the market.

These trends are expected to continue throughout 2006 and 2007. The massive influx of newbuildings due during this period, particularly in the container and tanker sectors, will see freight rates continue to fall, with vessel values following suit. We also expect to see margins driven down further, at least during the first half of 2006, with a turnaround in the cycle not expected until later in the year. Maintaining traditional lending relationships during such times is particularly difficult and calls for a greater focus on the additional business opportunities offered by DVB through its corporate finance activities.

Despite this somewhat reluctant view of the market, we remain upbeat about the opportunities in 2006. The options offered through syndications and securitisation enable us to compete for business at more precise levels than we have seen in the past. This in turn allows us to maintain the traditional support shown to the bulk, tanker and container shipping companies with which we enjoy long-standing relationships. Further, the establishment of specialised business units focusing on niche sectors remains a rewarding strategy. The launch of the Cruise Finance Unit at the beginning of 2005 has delivered positive results already, and looks set to build on this during 2006. The Floating Production Financing team, which started its activities in January 2006, provides DVB with a significant competitive advantage in this specialised sector. Finally, the Container Box Unit continues to develop on the strength and success it has achieved to date.

Overall, our focus is little changed from that of 2005. We are not targeting significant growth in our portfolio, but rather seeking to further enhance the portfolio's risk profile and client base. We are confident that the Shipping division will continue to build on its success to date, and that it is well positioned to achieve ongoing growth and profitability.

Abbreviations and references

CIR	*Cost/income ratio*
HGB	*German Commercial Code (Handelsgesetzbuch)*
IPO	*Initial price offering*
KWG	*German Banking Act (Kreditwesengesetz)*
LNG	*Liquified natural gas*
RoE	*Return on equity*

Aviation – markets

After a very good year in 2005, our business outlook for 2006 and 2007 is still positive.

Depending on fuel price developments, it seems the airline industry as a whole will not yet become profitable in 2006 although a breakeven result may not be too far away: 2007 is currently believed to become the first year where a modest profitability can be expected. Apart from the air freight segment, air transport is predominantly a consumers' market – contrary to shipping, which is mainly an industrial market. Air transport consequently is more sensitive to shocks caused by political unrest, diseases and general consumer sentiment. With a record order volume in 2005, the number of aircraft deliveries will increase further. Combining the elements above might lead to a further increase in demand for aircraft finance and lease products. This growing demand will help to absorb the increasing influx of liquidity from non-specialist banks and equity investors, although some margin pressure may be unavoidable in specific market segments. By developing new, high added value products and services DVB is well positioned to avoid most of this margin pressure. In addition, our strategy is aimed at avoiding transactions that rely too much on temporarily inflated aircraft values: indeed, DVB conducts business whilst fully recognising the inherently cyclical character of the industry. The commercial jet market is expected to improve further, to reach a peak in – or around – 2008.

Aviation – portfolio

We will continue to adopt a proactive approach to our growing risk-weighted asset portfolio, in line with our well-established lending guidelines and disciplines.

In view of DVB's constant and global presence in the aviation finance market, and the recognition and understanding of our strategy by our clients and partners, we are able to generate a strong pipeline of potential new transactions, even in a (now) more competitive environment. With such pipeline already covering opportunities which will materialise in 2006 and 2007, we can be confident in our ability to maintain the momentum in our business, which has seen our Aviation portfolio – in US dollar terms – almost double over the last five years.

The return of non-specialist banks to the market might lead to further margin pressure in certain areas of aviation finance. On the other hand, we expect more specialised segments to continue to attract relatively limited competition. In general, opportunities for profitable growth will come from:

- the booking of new (primary) loan business, where we usually act as arranger, underwriter and agent;
- certain debt purchases in the secondary market, where above-average yields are typically earned; and
- our "pure fee"-generating activities, including financial consultancy, structured finance and syndication.

In 2006 and beyond, we further expect to create a "cycle-resistant" business model: one which will enable us to be equally profitable in a market downturn as in an upturn. An important initiative for the current year is to further develop our (aircraft/engine) asset management platform, to act as service provider not only to DVB's core activities, but also to third parties (financial institutions, investors, etc.) who would typically have a requirement to buy in such specialised expertise.

Land Transport – markets

We continue to envisage further transport services growth during 2006 and 2007 in the global land transport sectors we cover; the sectors themselves are expected to remain stable.

We expect the market deregulation initiated within the **European rail market** to lead to a significant increase in the market share of private freight and passenger transport operators. International long-haul services will gain in importance, especially in cross-border dry bulk transport. This is one of the segments where rail transport is particularly attractive. We envisage more extensive standardisation of rolling stock, combined with increasing demand for project finance. In the **North American rail market,** all Class 1 railway operators expect strong demand for rail transport services to prevail, both in general wagon loads and in intermodal transport. Continuous and ongoing demand for freight wagons has created a positive market environment for wagon leasing companies, who benefit from rising leasing rates. Class 2 and Shortline railway operators in North America will also benefit from rising wagon load volumes and stronger revenues during 2006 and 2007.

In European **passenger transport,** we expect passenger numbers to continue growing on average – particularly in local public rail transport. Strong regional operators, as well as those with international operations, see significant potential for the provision of transport services, and for investments in rolling stock. In the US, the outlook for rising passenger numbers in local and regional urban transport systems is positive.

The **logistics market** is maintaining its momentum on a global scale. Thanks to the increasing impact of outsourcing, the estimate for growth rates in Europe, the US and Asia is unchanged, at around 9% p.a. until 2008. Contract logistics are expected to remain the driving force in the European logistics market. In North America, the economic growth outlook will continue to provide support for the US logistics market, with higher freight rates considered possible. Potential is particularly strong for new mobile equipment investments. From our point of view, providing optimum financial resources for such projects is a key factor for the development of the logistics market. In the bus markets, it is the international operators that see particular growth potential, whereas leading manufacturers expect demand for new buses to be subdued. We continue to expect a low number of major transactions involving buses in the future.

Land Transport – portfolio

We will expand our market and asset research activities in Land Transport Finance during 2006 and 2007. This is based on three key objectives:

- We will be in a position to actively respond to changes in a heterogeneous market environment, adjusting our market presence at an early stage, where necessary.
- The expansion will strengthen our project finance expertise on a long-term basis, enabling us to offer tailor-made products to our clients, in an efficient manner.
- We will project a more distinctive profile of DVB, both in the international banking market and in the land transport segments we cover.

In parallel, we are in the process of consistently expanding our structuring know-how. This will enable us to satisfy the requirements of our clients and business partners even more efficiently. As a specialist leveraging extensive asset know-how, we will present our (target) clients with innovative and convincing structures, and with our ability to assume project-specific risks within the framework of our Credit Policy. Our focus for the next two years will be on mobile equipment, particularly rolling stock for rail transport (modern freight wagons, locomotives, and passenger equipment), on road vehicles, logistics equipment (such as tank containers), and on buses.

Transport Infrastructure – markets and portfolio

Our expertise in advising on, structuring, and arranging finance for ports and container terminals in the Baltic States will remain at the forefront of our business in 2006. Having been mandated for advisory and structuring services, we are already in the process of implementing such a transaction. We see further potential for new infrastructure projects in 2006 and 2007, particularly in the growth regions of Asia, Eastern Europe, and the Americas.

The trend to (partially) privatise airports, ports, as well as rail and road infrastructure, will continue to prevail in the years to come. Given the relief provided to public-sector budgets through the availability of private-sector capital for new and existing infrastructure projects, the positive development of PPP transactions throughout Europe is expected to continue in the future – reflecting the interests of public-sector entities.

The momentum in developing new LNG projects will remain intact, as LNG has evolved as an increasingly competitive alternative to crude oil, diversifying the energy supply of industrialised countries. We also expect privatisations of further regional and international airports in the coming years; in the meantime, partial privatisations of some international airports (e.g. Paris, Athens, Hong Kong, or Prague) might be conducted via IPOs. In the North American market, the focus is expected to be on project financings for toll roads and additional LNG import terminals.

In our advisory business, we intend to leverage our extensive expertise in implementing toll concessions for German motorways to win advisory mandates put out to tender. In this context, we are in a position to cover schemes where income from the general HGV toll is earmarked to fund motorway expansion projects (so-called 'A model' schemes), as well as those where toll charges are levied specifically for individual roads ('F model' schemes). We will continue to work on our existing advisory mandate (awarded in 2005) in the port and container terminal sector.

'F model' schemes: The abbreviation 'F' stems from the German name of the Private Financing of Major Roads Act (Fernstraßenbaufinanzierungsgesetz). The Act, which came into force in 1994, permits the government to assign planning, construction, maintenance and operation of major roads – together with the related financing – to third parties, against permission to levy tolls for usage of the specific road project.

For 'A' model schemes please see page 50.

Syndications – markets and portfolio

The outlook for the syndication market in 2006 remains strong.

Ship owners are expected to enjoy another year of financing at favourable terms, as banks continue to show enthusiasm for the sector despite lower margins. They are therefore likely to once again make use of the improved terms to consolidate and refinance their existing facilities, despite their cash-rich position. There might, however, be a strengthening of terms for the weaker names, since many banks expect the shipping market to decline over the coming twelve months, which will affect the weaker names first. The expected fall in freight rates and values may begin to push pricing up in 2007.

In the aviation industry, airlines – as well as operating lessors – are also likely to benefit from increased appetite in the sector and improved terms, with banks also showing more appetite for asset risk in addition to full recourse lending. Aviation pricing in the US may finally begin to come down in 2006, whilst in Asia and Europe pricing may stabilise despite an escalation of fleet deliveries in 2007. This increase in capacity and pressure on yields is not expected to affect results for most carriers, and therefore pricing in the syndication market, in 2007.

Securitisation – markets and portfolio

The capital markets today represent a largely untapped pool of debt finance for the transport sector. Given the asset-intensive nature of the sector, "Securitisation" is a logical route for accessing the capital markets to meet increasing funding demands.

DVB recognised the opportunities available and has put a Securitisation team in place to give the Bank the capability to access this deep and low-cost funding source.

DVB's strategy is to merge its sector risk expertise and appetite with the deep sources of funding available from a capital market which is shy of those same risks in their raw form. The application of securitisation techniques - such as asset pooling, debt tranching and risk transfer of transport assets - will create opportunities to provide both bespoke client financing and risk transfer for DVB, by tapping the capital markets.

The Securitisation team was completed during the first quarter of 2006. The team is currently working together with the various sector teams within DVB to explore new opportunities for DVB's clients. Simultaneously, in conjunction with internal risk and control areas, proper processes and procedures are being established. The Securitisation team, via the sector teams, will be able to provide clients with loan structuring and advisory services. We will also offer a "conduit process", for pooling specifically originated loans for sale to the capital markets through a securitisation bond issue. It is anticipated that the first of these transactions will materialise during 2006.

Corporate Finance – Advisory and M&A

Advisory and M&A is optimistic with respect to the outlook for 2006 and 2007 – this is how to summarise DVB´s market assessment.

In many transportation sectors we experienced peak values during 2005. The market is now correcting, due to oversupply in several shipping sectors and somewhat slower demand growth in China. However, company willingness and financial means available for acquisitions will drive an increasing M&A business facilitating cross-border transactions – where Advisory can add value. To match this, and also be present in local high growth markets, Advisory is establishing itself in DVB's Singapore and New York offices.

Corporate Finance – DVB Capital Markets

DVB is establishing DVB Capital Markets LLC (DVB Capital Markets) to provide capital raising and financial advisory services to transportation companies, including access to the US capital markets via equity and debt public offerings, private placements, and other corporate finance and investment banking services.

We believe that development of a capital markets capability through this new unit will enhance the Bank's transport finance franchise by providing a broader range of services critical to helping clients meet their strategic objectives. Moreover, the new unit will provide an opportunity for DVB to generate incremental fee income.

To launch the new business unit, DVB Capital Markets has applied to the NASD (formerly known as the National Association of Securities Dealers) for membership as a "broker-dealer". Approval is anticipated by May 2006. In addition, subsequent to receiving regulatory approval to proceed with the planned US activities, DVB Capital Markets intends to develop similar capability in the other significant capital markets for the transportation sector, notably Singapore and Oslo.

DVB Capital Markets is retaining a limited number of highly qualified investment banking professionals, who will work closely with DVB's relationship managers to originate and structure capital markets transactions. We expect that the unit will gradually expand, to consist of five full-time investment banking professionals by the end of 2006, and furthermore that the unit will close its initial transactions during 2006.

Corporate Finance – Group Investment Management

NFC Shipping Funds

The NFC Shipping Funds have sufficient capital available, and adequate investor interest, to expand the business substantially over the next years. The last two (very favourable) years for the shipping industry have however attracted new (and not always experienced) investors to the shipping industry. As a consequence, some investment transactions have been concluded at terms which NFC qualifies as unattractive. We estimate the increased competition for investment projects as being currently the biggest limitation for NFC. This situation was already, however, present during 2005, when (as previously mentioned) the funds were still able to conclude 16 new transactions.

NFC is exploring opportunities to benefit from the increased competition, by expanding the business strategy to include equity arranging on top of the current equity investing policy. By employing this strategy, NFC's sourcing opportunities and track record are used to take equity underwriting positions, which are subsequently sold down on a case-by-case basis to various shipping investors. This strategy only applies to those investments which are – for various reasons – not suitable for the NFC Shipping Funds themselves.

The performance of the investments in the NFC Shipping Funds is excellent, with an average IRR (since the start) of 32% – and there is no specific reason to assume that this will change in 2006 and 2007. Our knowledge of the industry, the relationship network, track record, and the asset-based approach, are all strong mitigating factors; but the shipping industry remains a volatile business, whereby sudden market developments can rapidly increase or decrease expected returns.

Deucalion Aviation Funds

The aviation market outlook for 2006 and 2007 remains positive despite the risks of increasing fuel prices and rising interest rates dampening some of the expected demand. Expected demand growth for aircraft is likely lead to a consequent increase in the demand for leasing of aircraft and spare engines. The Deucalion funds are well positioned to take advantage of this development. We expect to increase the volume of our managed funds in respect of owned aircraft and spare engines. With regard to investments in direct equity positions in airlines and other aviation-related businesses, as well as investments in secondary market secured paper, the funds may invest on an opportunistic basis. Finally, we will continue to monitor the markets closely, so as to identify opportunities to sell existing investments at a profit.

Treasury

Bearing in mind that our asset lending is denominated largely in US dollars, whilst most of our funding is euro-denominated, exchange rate developments will continue to impact appreciably on our refinancing considerations. We plan to further increase the US dollar-denominated share of our bond issues in 2006/2007.

The anticipated new business volume in Transport Finance should generate increased issuing activity during 2006, whereby we will focus increasingly on our **money market and capital market issuing programmes.** €500 million is planned for issuance within the scope of our Commercial Paper programme, and we expect to issue some €1 billion through our debt issuance programme. Most of the issuing volume will be in US dollars. We expect to issue €500 million in **promissory note loans** during 2006. Given that the investor base for these products is predominantly German, this leaves little scope for large-volume US dollar-denominated issuance.

This **refinancing mix** will further strengthen our independence from a specific issuing product or from any one group of investors in the future.

US dollar-denominated **subordinated issues** are planned for 2006 as well. In part, this will offset the lower eligibility of some subordinated promissory note loans, as the related inclusion ratio in accordance with the German Banking Act will be reduced to 40% in 2006. On the other hand, we will raise additional supplementary capital, whose extended eligibility for inclusion was facilitated by the capital increase conducted in 2005.

Refinancing volume targeted for 2007 within the scope of our issuance programmes and promissory note loans is dependent on our new business planning. This will be finalised in the fourth quarter of 2006; at this point in time we are therefore unable to make a statement on the anticipated refinancing volume for 2007.

Financial outlook for DVB – 2006 and 2007

- We will continue to focus on **stabilising and improving our ratings from Standard & Poor's and Moody's Investors Services.** The ratings upgrades by S&P (during the business year 2005) and Moody's (at the beginning of 2006) have shown that DVB is on the right track. Improved profitability, together with DVB's stable risk situation and the sound expansion of capital will continue to play a major role in this context.

- We are forecasting DVB's **income** generated in Transport Finance and Corporate Finance in the selected transport segments to continue growing in 2006 and 2007 – especially net interest income. We also see further growth potential regarding net fee and commission income, even though the growth rates in 2006 and 2007 are not expected to reach the levels seen in the 2005 business year.

- Thanks to our consistent cost discipline, increases in **general administrative expenses** will remain below income growth. As in 2005, we will continue to expand the Transport Finance and Corporate Finance segments, introducing new products and bringing additional staff on board. In addition, we also envisage recognising provisions for higher bonus payments to DVB staff in 2006 and 2007.

- DVB's profitability has improved more strongly than anticipated in the budget – the **result from operating activities** (before tax) is thus expected to continue to develop favourably.

- Our **financial targets** are defined below, on the basis of RoE and CIR (in accordance with the HGB), and the core capital ratio (as defined by KWG):

  We plan to achieve further growth in **RoE** on a medium-term horizon; depending on the level of interest rates, our target is 20%. Continuing the development seen in the last years, we envisage keeping **CIR** below 50% during 2006 and 2007. Furthermore, we intend to stabilise the **core capital ratio,** at a level of 7%.

Moving beyond borders

DVB was awarded "Road Finance Innovator" by Jane's Transport Finance in November 2005. Our Land Transport Division co-arranged and co-underwrote a senior secured debt financing structure to support the acquisition of a European trailer leasing business by two major US private equity investors.

The borrowing entities were based in the Cayman Islands, while the financing documents were governed by US law and guaranteed by US asset-owning enterprises. The 17,000 trailers that provided security for the transaction were located in six European jurisdictions (UK, Denmark, Sweden, Belgium, The Netherlands and Germany). Each jurisdiction involved specific domestic security filing and perfection requirements, all of which were coordinated within the tight timeframe dictated by the vendor's closing requirements. DVB and a partner bank provided full funding and subsequently arranged a syndicate of lenders.

This landmark deal represented a truly trans-Atlantic transaction and served to demonstrate DVB's global asset finance expertise and comprehensive understanding of the diverse land transport markets.

Consolidated balance sheet as at 31 December 2005

Assets (€ mn)	Note #	31 Dec 2005	31 Dec 2004	%
Cash and balances with the central bank	(27)	48.9	100.9	–51.5
Loans and advances to banks	(28)	877.0	998.5	–12.2
Loans and advances to customers	(29)	8,775.5	6,981.3	25.7
Allowance for losses on loans and advances	(30)	–120.9	–111.0	8.9
Positive fair values of hedging derivatives	(31)	317.9	224.9	41.4
Financial assets held for trading	(32)	83.7	37.1	–
Investment securities	(33)	350.1	746.5	–53.1
Intangible assets	(34)	80.1	80.4	–0.4
Property and equipment	(35)	350.2	209.4	67.2
Income tax assets	(37)	83.4	5.8	–
Other assets	(38)	9.6	4.3	–
Total assets		**10,855.5**	**9,278.1**	**17.0**

Equity and liabilities (€ mn)	Note #	31 Dec 2005	31 Dec 2004	%
Deposits from other banks	(39)	2,932.2	2,698.0	8.7
Deposits from customers	(40)	3,602.5	2,787.5	29.2
Securitised liabilities	(41)	2,860.7	2,750.6	4.0
Negative fair values of hedging derivatives	(42)	110.7	9.2	–
Financial liabilities held for trading	(43)	63.5	19.0	–
Provisions	(44)	48.8	44.0	10.9
Income tax liabilities	(45)	98.9	15.9	–
Other liabilities	(46)	13.9	20.2	–31.2
Subordinated liabilities	(47)	494.7	483.3	2.4
Equity	(48)	629.6	450.4	39.8
Issued share capital		99.6	77.3	28.8
Capital reserve		199.5	109.3	82.5
Retained earnings		299.7	256.2	17.0
thereof: Fund for general banking risks		82.4	82.4	0.0
Revaluation reserve		26.6	0.0	–
Hedging reserve – cash flow hedges		–1.4	0.0	–
Currency translation reserve		–8.0	–0.6	–
Distributable profit		9.5	6.6	43.9
Minority interest		4.1	1.6	–
Total equity and liabilities		**10,855.5**	**9,278.1**	**17.0**

Consolidated income statement for the period from 1 January to 31 December 2005

€ mn	Note #	1 Jan 2005 – 31 Dec 2005	1 Jan 2004 – 31 Dec 2004	%
Interest income		560.2	426.1	31.5
Interest expenses		446.9	330.6	35.2
Net interest income	(17)	113.3	95.5	18.6
Impairment losses on loans and advances	(18)	14.9	25.5	–41.6
Net interest income after loan losses		98.4	70.0	40.6
Fee and commission income		66.4	52.7	26.0
Fee and commission expenses		5.9	7.6	–22.4
Net fee and commission income	(19)	60.5	45.1	34.1
Net trading income	(20)	19.3	1.3	–
Hedge result (hedge accounting)	(20)	–23.0	–5.5	–
Net income from investment securities	(20)	8.7	10.8	–19.4
Net income from financial instruments in accordance with IAS 39	(20)	5.0	6.6	–24.2
General administrative expenses	(21)	–104.3	–88.7	–17.6
Net other operating income	(22)	–1.1	9.0	–
Result from operating activities before tax		**58.5**	**42.0**	**39.3**
Income tax expense	(23)	–1.6	–7.6	–79.0
Profit after tax		**56.9**	**34.4**	**65.4**
Minority interest		–2.6	–0.6	–
Net profit [1]		**54.3**	**33.8**	**60.7**
Profit carried forward from previous years		0.7	0.5	40.0
Transfer to retained earnings		–45.5	–27.7	64.3
Distributable profit		**9.5**	**6.6**	**43.9**

1) Portion of DVB Group's after-tax profit attributable to shareholders of DVB Bank AG

Consolidated cash flow statement

€ mn			31 Dec 2005	31 Dec 2004
1.		**Profit for the period (including minority interests and before tax)**	**58.5**	**42.0**
		Non-cash items included in the profit for the period and reconciliation to cash flow from operating activities		
2.	+/–	Depreciation, amortisation, impairment and write-ups of loans and advances, property and equipment, and investment securities, as well as result from re-measurement under hedge accounting	9.8	11.9
3.	+/–	Increase/decrease in provisions	87.9	9.0
4.		Change in other non-cash items		
	+/–	Hedging instruments with positive fair values	–93.0	39.3
	+/–	Hedging instruments with negative fair values	101.5	1.3
5.	+/–	Other non-cash income/expenses	0.0	0.0
6.	+/–	Gains/losses on disposal of investment securities, and property and equipment	–1.8	–8.4
7.	+/–	Other adjustments (mainly relating to net interest income)	–113.2	–95.5
8.	**=**	**Subtotal**	**49.7**	**–0.4**
		Changes in assets and liabilities from operating activities		
9.		Loans and advances		
	+/–	to banks	121.5	255.7
	+/–	to customers	–1,794.2	–413.0
10.	+/–	Financial assets held for trading	–42.8	–8.3
11.	+/–	Other assets from operating activities	–82.9	0.0
12.		Deposits		
	+/–	from other banks	234.2	–1,083.4
	+/–	from customers	815.0	674.8
13.	+/–	Securitised liabilities	110.1	575.4
14.	+/–	Financial liabilities held for trading	44.5	–5.8
15.	+/–	Other liabilities from operating activities	–6.4	0.9
16.	+/–	Interest and dividends received	560.2	426.1
17.	–	Interest paid	–446.9	–330.6
18.	+/–	Income taxes paid	–1.6	–7.6
19.	**=**	**Cash flow from operating activities**	**–439.6**	**83.8**
20.		Cash receipts from the disposal of		
	+	investment securities	396.5	0.0
	+	property and equipment	0.0	0.0
21.		Cash payments to acquire		
	–	investment securities	0.0	–135.4
	–	property and equipment	–141.6	–65.2
22.	+	Cash receipts from the disposal of consolidated companies and other business units	0.0	0.0
23.	–	Cash payments to acquire consolidated companies and other business units	0.0	0.0
24.	+/–	Net change resulting from other investing activities	-1.0	–0.8
25.	**=**	**Cash flow from investing activities**	**253.9**	**–201.4**
26.	+	Cash proceeds from additions to equity (capital increases, sale of treasury shares, etc.)	112.5	2.0
27.		Cash payments to owners and minority shareholders		
	–	Dividend payments	–5.9	–5.9
	–	Other cash payments	0.0	0.0
28.	+/–	Net change resulting from other financing activities	27.1	–0.6
29.	**=**	**Cash flow from financing activities**	**133.7**	**–4.5**
30.		Net change in cash and cash equivalents (total of items 22, 30 and 34)	–52.0	–122.1
31.	+/–	Effects of exchange differences, as well as effects resulting from changes in consolidated group and from re-measurement, on cash and cash equivalents	0.0	0.0
32.	**=**	**Cash and cash equivalents at beginning of period**	**100.9**	**223.0**
33.	**=**	**Cash and cash equivalents at end of period**	**48.9**	**100.9**

Consolidated statement of changes in equity

€ mn	Subscribed capital	Capital reserve	Retained earnings
IFRS equity as at 1 Jan 2004 (IAS 39 not applied)	**77.2**	**107.4**	**228.4**
Currency translation			
Net profit			
Transfer to retained earnings			27.7
Total recognised income and expense for the business year 2004	**0.0**	**0.0**	**27.7**
Capital increase	0.1	0.1	
Employee participation scheme		0.7	
Dividend payment			
Changes in treasury shares		1.2	
Changes in consolidated group and other changes			
IFRS equity as at 31 Dec 2004 (IAS 39 not applied)	**77.3**	**109.4**	**256.2**
Effect from first-time adoption of IAS 39			–4.6
IFRS equity as at 1 Jan 2005 (IAS 39 applied)	**77.3**	**109.4**	**251.6**
Currency translation			2.4
Net profit			
Transfer to retained earnings			45.5
Revaluation of AfS financial instruments			
Cash flow hedge			
Total recognised income and expense for the business year 2005	**0.0**	**0.0**	**48.0**
Capital increase	22.3	85.0	
Employee participation scheme		0.6	
Dividend payment			
Changes in treasury shares		4.5	
Changes in consolidated group and other changes			0.1
IFRS equity as at 31 Dec 2005 (IAS 39 applied)	**99.6**	**199.5**	**299.7**

The summation of individual line items included in the table may result in rounding differences.

Revaluation reserve	Hedging reserve – cash flow hedges	Currency translation reserve	Distributable profit/ accumulated loss	Equity before minority interest	Minority interest	**Equity**
0.0	**0.0**	**0.0**	**6.5**	**419.6**	**0.9**	**420.4**
		–0.6		–0.6		–0.6
			33.8	33.8	0.7	34.4
			–27.7	0.0		0.0
0.0	**0.0**	**–0.6**	**6.1**	**33.2**	**0.7**	**33.8**
				0.2		0.2
				0.7		0.7
			–5.9	–5.9		–5.9
				1.2		1.2
				0.0		0.0
0.0	**0.0**	**–0.6**	**6.7**	**448.9**	**1.6**	**450.4**
25.3	7.0			27.8		27.8
25.3	**7.0**	**–0.6**	**6.7**	**476.7**	**1.6**	**478.2**
		–7.4		–5.0		–5.0
			54.3	54.3	2.6	56.9
			–45.5	0.0		0.0
1.2				1.2		1.2
	–8.3			–8.3		–8.3
1.2	**–8.3**	**–7.4**	**8.7**	**42.2**	**2.6**	**44.8**
				107.3		107.3
				0.6		0.6
			–5.9	–5.9		–5.9
				4.5		4.5
				0.1		0.1
26.6	**–1.4**	**–8.0**	**9.5**	**625.5**	**4.1**	**629.6**

Notes

Contents

Notes

Abbreviations and references

AfS	*available for sale*
AktG	*German Stock Corporation Act (Aktiengesetz)*
Articles	*Memorandum and Articles of Association*
CIR	*Cost/income ratio*
DCF	*discounted cash flow*
DZ BANK	*DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main*
EStG	*German Income Tax Act (Einkommensteuer-gesetz)*
HGB	*German Commercial Code (Handelsgesetzbuch)*
IAS	*International Accounting Standards*
IASB	*International Accounting Standards Board*
IFRIC	*International Financial Reporting Interpretations Committee*
IFRS	*International Financial Reporting Standards*
KWG	*German Banking Act (Kreditwesengesetz)*
RoE	*Return on Equity*
SIC	*Standing Interpretations Committee*
VaR	*Value-at-Risk*
VAT	*Value added tax*

Basis of accounting

For the business year 2005, for the first time, the consolidated financial statements of DVB Bank AG were prepared in accordance with International Financial Reporting Standards (IFRS) and the additional requirements of German commercial law under section 315a (1) of the German Commercial Code (HGB), pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. IFRS encompasses the individual standards called IFRS, as well as the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Notes to the accounting policies applied

For the companies included in the IFRS consolidated financial statements, the following accounting policies were applied on a consistent and uniform basis.

(1) Accounting policies

(a) IFRS provisions applied
The following standards and interpretations were complied with as published by the European Union in the Official Journal:

IFRS 1	"First-time Adoption of International Financial Reporting Standards"
IFRS 2	"Share-based Payments"
IFRS 3	"Business Combinations"
IFRS 5	"Non-current Assets Held for Sale and Discontinued Operations"

IAS 1	"Presentation of Financial Statements"
IAS 7	"Cash Flow Statement"
IAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10	"Events after the Balance Sheet Date"
IAS 12	"Income Taxes"
IAS 14	"Segment Reporting"
IAS 16	"Property, Plant and Equipment"
IAS 17	"Leases"
IAS 18	"Revenue"
IAS 19	"Employee Benefits"
IAS 21	"The Effects of Changes in Foreign Exchange Rates"
IAS 24	"Related Party Disclosures"
IAS 27	"Consolidated and Separate Financial Statements"
IAS 28	"Investments in Associates"
IAS 30	"Disclosures in the Financial Statements of Banks and Similar Financial Institutions"
IAS 31	"Interests in Joint Ventures"
IAS 32	"Financial Instruments: Disclosure and Presentation"
IAS 33	"Earnings per Share"

IAS 36 "Impairment of Assets"
IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"
IAS 38 "Intangible Assets"
IAS 39 "Financial Instruments: Disclosure and Presentation"
IAS 40 "Investment Property"

SIC 7 "Introduction of the Euro"
SIC 12 "Consolidation – Special Purpose Entities"
SIC 15 "Operating Leases – Incentives"
SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets"
SIC 25 "Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders"
SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"
SIC 29 "Disclosure – Service Concession Arrangements"
SIC 32 "Intangible Assets – Web Site Costs"

IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities"

(b) First-time adoption of IFRS

IFRS 1 contains the principles for first-time preparation of (consolidated) financial statements in accordance with IFRS. Accordingly, the standards and interpretations effective as of the balance sheet date are generally required to be applied retrospectively. Exemptions from this principle apply to finally regulated matters in the form of options, or prohibitions of a retrospective application of individual IFRS provisions.

The exemptions and options as stipulated in IFRS 1 – to the extent relevant for DVB – were applied as follows.

■ **Accounting for business combinations**

Business combinations that occurred before the date of transition to IFRS as at 1 January 2004 were not adjusted retrospectively in accordance with IFRS 1.B1. The classification of the business combinations made under HGB was maintained. The assets acquired and liabilities assumed were recognised as at 1 January 2004 in accordance with IFRS provisions, except for financial instruments governed by IAS 39. The goodwill determined under HGB as at the date of transition to IFRS was not adjusted for the IFRS financial statements. Adjustments in accordance with IFRS 1.B2(g) were not required.

■ **Fair value or revaluation as deemed cost**

DVB did not elect to apply the exemption as stipulated in IFRS 1.16.

■ **Changes in existing decommissioning, restoration and similar liabilities included in the cost of property and equipment**

Asset retirement obligations included in the cost of property, equipment and leasehold improvements were adjusted retrospectively to the provisions of IAS 16.

■ **Employee benefits**

Cumulative actuarial gains and losses incurred until the date of transition to IFRS were fully recognised for all pension obligations. Actuarial gains and losses incurred after the date of transition to IFRS were accounted for under the corridor method.

■ **Designation of previously recognised financial instruments**

In accordance with IFRS 1.25A, certain financial instruments were allocated to the categories "Financial assets designated as at fair value through profit or loss" and "Financial liabilities designated as at fair value through profit or loss", effective as at the date of first-time adoption of IAS 39 (1 January 2005).

■ **Measurement of financial assets or financial liabilities at fair value upon initial recognition**

The provisions of IFRS 1.25G in connection with IAS 39 AG76 and AG76A were applied prospectively from 1 January 2005.

■ **Share-based payment**

IFRS 2 "Share-based Payment" was applied to equity instruments granted after 7 November 2002. The standard was not applied retrospectively if the equity instruments became exercisable before the date of transition to IFRS.

(c) Opening balance sheet

The opening balance sheet of DVB was prepared in accordance with the provisions set out in IFRS 1 as at 1 January 2004.

(d) Presentation of comparative information for financial instruments

With regard to accounting for financial instruments, IFRS 1 provides for an election not to present comparative information in accordance with the provisions of IAS 32 and IAS 39. DVB uses this election. As a result, the comparative information for financial instruments is presented on the basis of the amounts recorded under HGB as well as the application of the structure of the IFRS financial statements. The effects from the first-time adoption of IAS 32 and IAS 39 as at 1 January 2005 are explained in Note (16).

(e) Group of consolidated companies and consolidation methods

■ **Group of consolidated companies**

The group of consolidated companies of DVB Bank AG comprises all significant subsidiaries which DVB directly or indirectly controls within the meaning of IAS 27. These companies currently include DVB Holding GmbH, Frankfurt/Main; DVB LogPay GmbH, Eschborn; DVB Capital Markets LLC, New York; Hangar Vermietungs- und Verpachtungs GmbH, Frankfurt/Main; International Transport Finance Ltd., London; as well as these companies' subsidiaries; and DVB Bank N.V., Rotterdam, together with its subsidiaries. DVB Bank AG's share in these subsidiaries' capital amounts to 100% each. Subsidiaries are initially consolidated on the date on which control was acquired over the subsidiary within the meaning of IAS 27; they are de-consolidated on the date on which DVB Group no longer exercises control over the subsidiary. In addition, the following companies were included in the group of consolidated companies in accordance with IFRS because DVB Bank AG may exercise control over such companies within the meaning of SIC–12:

Deucalion Ltd., Cayman Islands,
Deucalion Capital II Ltd., Cayman Islands,
Deucalion Capital IV Ltd., Cayman Islands,
Deucalion Capital I (UK) Ltd., Cayman Islands,
NFC Shipping Fund II LLC, Marshall Islands,
NFC Shipping Fund III LLC, Marshall Islands,
NFC Shipping Fund IV LLC, Marshall Islands,
NFC Shipping Fund V LLC, Marshall Islands,
NFC Underwriting Fund LLC, Marshall Islands.

The companies Deucalion Capital I Ltd., Cayman Islands, and Deucalion Capital III Ltd., Cayman Islands, are both jointly controlled by DVB and another Group-external company. DVB does not own any equity interest in these companies.

As at 31 December 2005, DVB Bank AG had the following equity investments in other companies:

€	Share holding %	**Carrying amount of investment**	Net profit/loss	Equity
I. Companies included in the consolidated financial statements				
DVB Bank AG, Frankfurt/Main	–	–	–	–
DVB LogPay GmbH, Eschborn [1]	100.00	2,000,000	2,026,471	2,000,000
DVB Holding GmbH, Frankfurt/Main	100.00	25,000		[3]
DVB Objektgesellschaft mbH, Frankfurt/Main	100.00	0		[3]
DVB Capital Markets LLC, New York	100.00	848		
International Transport Finance Limited, London [2]	100.00	5,100,535	1,413,647	2,420,793
Ocean Clementine Ltd. Partnership, London	100.00	1		[3]
Ocean Gwendolen Ltd. Partnership, London	100.00	1		[3]
Hangar Vermietungs- u. Verpachtungs GmbH, Frankfurt/Main	100.00	25,000	–1,319,841	25,000

€	Share holding %	**Carrying amount of investment**	Net profit/loss	Equity
I. Companies included in the consolidated financial statements (continued)				
DVB Bank N.V., Rotterdam	100.00	320,320,480	52,356,049	
DVB Bank America N.V.	100.00	103,372,400	4,956,614	103,372,400
DVB Container Finance America LLC, Marshall Islands	100.00	85	0	85
Shipping Capital Antilles N.V.,	100.00	2,365,590	17,797,020	2,365,590
Netherlands Shipmortgage Corporation Ltd., Hamilton	100.00	0	0	0
AER Holdings N.V.,	100.00	76,371	–2,099	76,371
DVB Group Merchant Bank (Asia) Ltd., Singapore	100.00	120,017,633	30,899,868	120,017,633
DVB Container Finance Asia, Singapore	100.00	1	27,330	1
Shipping Capital B.V., The Hague	100.00	5,515,706	525,950	5,515,706
Everhard Beleggingen B.V., Rotterdam	100.00	–3,017,123	–576,007	0
Infifion III B.V., The Hague	100.00	652,442	2,589	652,442
Nedship Participation (Norway B.), Rotterdam	100.00	180,747	381,372	180,747
Scheepvaart Maatschappj Peter B.V., Rotterdam	100.00	135,973	–151,388	135,973
Infifon XI B.V., The Hague	100.00	26,001	0	26,001
Nedship Shipping B.V., Rotterdam				
Nedship Scheepvaarthuis B.V., Rotterdam	100.00	–166,447	–52,698	0
Scheepvaart Maatschappij Ewout B.V., Rotterdam	100.00	16,081	0	16,081
Illios Tourist Houses Development Ltd., Piraeus	100.00	0	0	0
Nedship International Inc., Greenwich, CT 06830/USA	100.00	1,091,377	–147,615	1,091,377
Hollandse Scheepsbank Hypotheekbank N.V., Rotterdam	100.00	711,042	0	711,042
Nedship Financial Consultants E.P.E., Piraeus, Greece	100.00	48,309	–68,742	48,309
II. Affiliated companies not included in the consolidated financial statements [4]				
II. a.) Subsidiaries not included in the consolidated financial statements				
Crosby Court GmbH & Co. KG, Eschborn	100.00	1		1,215,574
Balcraig S.A	100.00	0	0	0
Zweite GfW Gesellschaft für Waggonleasing mbH & Co.KG, Hamburg	99.50	5,087		[3]

€	Share holding %	**Carrying amount of investment**	Net profit/loss	Equity
II. b.) Associates not included in the consolidated financial statements				
Sextant Finance (Holding) Ltd., Brit. Virg. Isl.	50.00	1	0	1
Navigations Finance Corp. N.V., Brit. Virgin Islands	50.00	0	0	0
Buccaneer Navigation Ltd., Bahamas	50.00	0	0	0
DVL Deutsche Verkehrs-Leasing GmbH, Eschborn	39.00	1,001,406		[3]
DVL Deutsche Verkehrs-Leasing GmbH, Berlin	39.00			[3]
Leuvestein V.O.F, Rotterdam	33.33	0	0	0
ARS Altmann AG, Wolnzach	25.00	12,500,000		12,900,000
West Supply III AS, Haugesund	22.22	63,347	0	63,347
West Supply III KS, Haugesund	20.00	533,572	378,821	533,572
Anna Elisabeth B.V., Veere	20.00	17,785	0	17,785
Anna Gabriele B.V., Veere	20.00	17,785	0	17,785
Anna Catharine B.V., Veere	20.00	17,785	0	17,785
Anna Constance B.V., Veere	20.00	17,785	0	17,785
III. Equity investments				
KRAVAG-HOLDING AG, Hamburg [3]	10.00	8,634,697		
GVZ-Entwicklungsgesellschaft Trier mbH, Trier	5.00	1,278		[3]
BNL Gesellschaft Neue Länder GmbH & Co.KG, Berlin	0.33	1		[3]
Liquiditäts-Konsortialbank GmbH, Frankfurt/Main	0.23	295,743		[3]
Münchener Hypothekenbank eG, Munich	500 shares	35,000		[3]
DG Verlag Deutsche Genossenschafts-Verlag eG	0.03	3,000		[3]
IV. Investment securities [5]				
OOCL Shipping B.V	37.50	31,682,207	2,348,612	31,682,207
MALC Lease Eleven B.V.	25.00	15,552,274	890,132	15,552,274
MALC Lease Twelve B.V.	25.00	17,569,883	803,092	17,569,883
MALC Lease Thirteen B.V.	25.00	15,048,124	715,331	15,048,124

1) There is a profit and loss transfer agreement with DVB Bank AG.
2) Net profit distributed to DVB Bank AG within the relevant period.
3) Not disclosed due to lack of materiality (IAS 8.8).
4) Not included due to lack of materiality (IAS 8.8).
5) No significant influence due to IAS 28.6.

Consolidation methods

Business combinations are accounted for in accordance with IFRS 3 in connection with IAS 27 by offsetting DVB's share in net assets acquired (measured initially at fair value) and the cost of the business combination. Any excess of the cost of the business combination over DVB's share in net assets acquired is capitalised as goodwill and tested for impairment annually, or earlier if there are indications that an impairment might have occurred. Goodwill may not be amortised over its expected useful life, under IFRS.

Any receivables and liabilities, as well as expenses and revenue occurring between Group companies, are eliminated. Intra-group profits are eliminated in accordance with IAS 27. Shares in subsidiaries that are not consolidated due to their minor significance are measured at cost and reported in investment securities.

In accordance with IAS 28, investments in associates are generally included in the consolidated financial statements at the relevant share in equity (using the equity method). Investments in associates of minor significance, and the investment in ARS Altmann AG, Wolnzach, are measured at cost.

(f) Currency translation

The functional currency of DVB is the euro. Functional currency is the currency of the primary economic environment in which the Bank operates. At DVB, the functional currency is the currency in which receipts from financing activities are generated and in which receipts from operating activities are usually retained.

Under IFRS, monetary assets and liabilities denominated in a foreign currency, as well as non-monetary items measured at fair value and denominated in a foreign currency, are translated at the spot exchange rate on the balance sheet date. Forward currency contracts are measured using the current forward rate. Any differences arising from the translation of monetary assets and liabilities are recognised in profit or loss.

(g) Financial instruments in accordance with IAS 39

Categories of financial instruments

Financial instruments within the scope of IAS 39 must be allocated upon initial recognition to one of the measurement categories stipulated in IAS 39 according to their specific characteristics. The following categories are used in the consolidated financial statements:

Financial assets at fair value through profit or loss

This category is divided into the two sub-categories "Financial assets held for trading" and "Financial assets designated as at fair value through profit or loss".

Financial assets held for trading

All non-derivative financial assets acquired primarily for the purpose of short-term resale are irrevocably allocated to this category upon initial recognition. In addition, all derivative financial instruments with positive fair values that are not part of a designated and effective hedging relationship are also classified as "held for trading". Changes in the fair value occurring between two balance sheet dates are recognised in net trading income.

Financial assets designated as at fair value through profit or loss
In line with the fair value option, as modified by the IASB in 2005, all financial assets whose measurement would otherwise result in accounting mismatches and that are measured at fair value, or which include an embedded derivative which is likely to be required to be separated, may be allocated to this category. In the consolidated financial statements, this category was exclusively used to eliminate accounting mismatches resulting from interest rate risks and to avoid hedge accounting. Changes in the fair value of "financial assets designated as at fair value through profit or loss" occurring between two balance sheet dates are recognised in net trading income. Financial assets designated as at fair value through profit or loss are reported in the balance sheet item to which they would have been allocated if the fair value option had not been applied.

Held-to-maturity investments
Held-to-maturity investments are those non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity and that, in contrast to the category "Loans and receivables", are quoted in an active market. The category "Held-to-maturity investments" is currently not used by DVB.

Loans and receivables
Generally, all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market should be allocated to the category "Loans and receivables". At DVB, the category "Loans and receivables" includes loans extended to debtors and receivables acquired. Items of this category are measured at amortised cost using the effective interest method. Accordingly, premiums and discounts are amortised over the term of the assets. Commitment fees received are recognised as deferred liabilities until disbursement of the loans, and subsequently amortised by analogy with premiums and discounts. Amortised premiums, discounts and commitment fees are recognised in net interest income.

Available-for-sale financial assets
All financial assets that cannot be allocated to one of the above-mentioned financial asset categories have to be classified as "Available-for-sale financial assets". They are measured at fair value. Changes in the fair value occurring between two balance sheet dates have to be recognised in a revaluation reserve directly in equity until the relevant assets are realised.

Financial liabilities at fair value through profit or loss
This category is divided into the two sub-categories "Financial liabilities held for trading" and "Financial liabilities designated as at fair value through profit or loss".

Financial liabilities held for trading
All non-derivative financial liabilities sold primarily for the purpose of short-term repurchase are irrevocably allocated to this category upon initial recognition. In addition, all derivative financial instruments with negative fair values that are not part of a designated and effective hedging relationship are also classified as "held for trading". Changes in the fair value occurring between two balance sheet dates are recognised in net trading income.

Financial liabilities designated as at fair value through profit or loss
In line with the fair value option, as modified by the IASB in 2005, all financial liabilities whose measurement would otherwise result in accounting mismatches and that are measured at fair value, or which include an embedded derivative which is likely to be required to be separated, may be allocated to this category. In the consolidated financial statements, this category was exclusively used to eliminate accounting mismatches resulting from interest rate risks and to avoid hedge accounting. Changes in the fair value of "Financial liabilities designated as at fair value through profit or loss" occurring between two balance sheet dates are recognised in net trading income. Financial liabilities designated as at fair value through profit or loss are reported in the balance sheet item to which they would have been allocated had the fair value option not been applied.

□ **Other liabilities**
All financial liabilities within the scope of IAS 39 that cannot be allocated to one of the above-mentioned financial liability categories have to be classified as "Other liabilities".

■ **Recognition and de-recognition of financial instruments**
Derivative financial instruments are recognised on the trade date. Non-derivative financial instruments are predominantly recognised on the settlement date. Changes in the fair value occurring between the trade date and the settlement date are recognised in profit or loss.

Financial assets and financial liabilities are de-recognised when there are no longer any rights to receive payments in future, or when such rights have been transferred to third parties and DVB does not retain any substantial risks and rewards with regard to the financial assets and financial liabilities.

■ **Impairment, and reversals of impairment losses of financial instruments**
If there was objective evidence for an impairment of financial assets on the balance sheet date, an impairment test was performed in accordance with the provisions set out in IAS 39. For financial instruments of the category "Loans and receivables", the carrying amount as at the balance sheet date is compared with the present value of expected future cash flows. In accordance with IAS 39, the original effective interest rate of the corresponding asset has to be used as the discount rate. The original effective interest rate is the rate that exactly discounts originally estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

For financial instruments of the category "Available-for-sale financial assets", which are measured at fair value, it has to be examined whether there is objective evidence for impairment in the case of a cumulative negative revaluation reserve. In this case, the negative revaluation reserve for the financial instrument concerned must be fully de-recognised from equity, and recognised in profit or loss.

If individual financial instruments are insignificant when considered separately, or if no impairment as at the balance sheet date could be determined on an individual basis, such assets are tested for impairment on a portfolio basis together with other similarly insignificant assets or assets not individually subject to impairment.

If it is established during an impairment test that the reasons for an impairment previously recognised in profit or loss no longer exist, the relevant impairment loss is reversed. For assets measured at amortised cost, this reversal is limited to such amortised cost which would have resulted had no impairment occurred.

(h) Embedded derivatives

In accordance with IAS 39, derivative financial instruments embedded in non-derivative financial instruments (embedded derivatives) have to be separated from the host contract and accounted for and measured separately, when their economic characteristics and risks are not closely related with the economic characteristics and risks of the host contract, a separate instrument with the same terms would meet the definition of a derivative, and the entire instrument is not measured at fair value through profit or loss. If the requirements for the separation of the embedded derivative are not met, the embedded derivative may not be separated from the host contract. At DVB, there are currently no embedded derivatives which are required to be separated.

(i) Hedge accounting

Within the framework of DVB's financial risk management strategy, the Bank enters into various derivatives for the purpose of hedging against interest rate and foreign currency risks. IAS 39 provides for specific regulations which allow hedging relationships to be reported in the financial statements in an economically meaningful way. The aim of these provisions is to eliminate accounting mismatches between the hedged items and the hedging derivatives used. In accordance with IAS 39, there are three different types of hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. The designation of these hedging relationships depends on meeting the strict requirements defined in IAS 39.

Fair value hedge

The purpose of fair value hedges is to offset changes in the fair value of the hedged item by means of opposite changes in the fair value of the hedging instrument.

This means that the changes in the fair value of the hedged item attributable to the hedged item, as well as the opposite changes in the fair value of the hedging instrument, are recognised in profit or loss. Hedged items of the category "Loans and receivables" are measured at amortised cost in line with the general measurement principles of this category. The amortised cost is adjusted subsequently by the fair value change attributable to the hedged risk. Hedged items of the category "Available-for-sale financial instruments" are measured at fair value. Only the fair value changes that exceed the amount of the hedged change in the market value are recognised directly in equity in the revaluation reserve. In the case of fully effective hedging relationships, the fair value changes recognised in profit or loss offset each other completely during the term of the hedging relationship. The changes in the fair value recognised in the carrying amount of the hedged items have to be amortised through profit or loss until not later than the termination of the hedging relationship.

DVB designates hedging relationships in order to hedge the fair value of fixed-rate loans to customers, fixed-income securities, fixed-rate liabilities from refinancing activities as well as foreign currency risks related to financial assets and liabilities. Interest expenses and interest income from hedged items, as well as from the hedging instruments, are recognised in net interest income.

Cash flow hedge

The purpose of cash flow hedges is to offset changes in uncertain future cash flows from hedged items by means of opposite changes in cash flows from hedging instruments.

Within the scope of accounting for cash flow hedges, the hedging instruments are measured at fair value. Changes in the fair value attributable to the effective portion of the hedging relationship have to be recognised directly in equity in the hedging reserve for cash flow hedges. Changes in the fair value attributable to the ineffective portion of the hedging relationship have to be recognised in profit or loss. Changes in the fair value or the cash flows of the hedged items have to be recognised in accordance with the general principles of the relevant measurement category. After the termination of a cash flow hedge relationship, the changes in value that have been previously recognised directly in equity will be recognised in profit or loss simultaneously when the previously hedged items are recognised in profit or loss.

At DVB, cash flow hedge relationships are designated to hedge foreign currency risk from interest payments denominated in foreign currencies.

Effectiveness test

The effectiveness of a hedging relationship is tested within the scope of a retrospective effectiveness test using the dollar-offset method. Under this method, the cumulative changes in the fair value of the hedged items attributable to the hedged risk are compared with the changes in the fair value of the hedging instruments. If the changes in the fair values of the hedging instruments and the hedged items compensate each other within the range of 80% to 125%, as defined in IAS 39, the hedging relationship is regarded as effective. Within the scope of the prospective effectiveness test required under IAS 39, a sensitivity analysis is performed on the basis of the so-called basis point value method.

(j) Accounting estimates

Estimates and assessments necessary for recognition and measurement in accordance with IFRS are made in line with the relevant standard (best estimate). Such estimates and assessments are continuously re-assessed and are based on historical experience and additional factors, including expectations with regard to future events which appear to be reasonable in view of the particular circumstances. If estimates were necessary to a larger extent, the assumptions made are explained in detail in the note to the item concerned.

(2) Cash and balances with the central bank

This item includes cash on hand and the balances held at the central bank.

(3) Loans and advances to banks and customers; allowance for losses on loans and advances

Loans and advances to customers and banks mainly include advances and loans extended to customers and banks, as well as money market assets. Loans and advances are generally measured at amortised cost. Individual loans and advances to customers are measured at fair value under the fair value option. Changes in the fair value are recognised in net trading income. If the loans and advances were designated as hedged items in effective fair value hedges, the carrying amount includes fair value changes attributable to the hedged risk.

The allowances for losses on loans and advances were determined in accordance with the provisions of IAS 39. The allowances are calculated by estimating the amount and the time of expected future cash flows from loans and advances, taking into account proceeds from the realisation of collateral, and by discounting them with the individual original effective interest rate of the loan or advance concerned. If the present value of the expected future cash flows so determined is less than the carrying amount, an addition to valuation allowances is recorded. If the present value exceeds the carrying amount as at the balance sheet date, and if a valuation allowance was recognised in previous business years, the carrying amount is increased correspondingly by means of a write-up, not exceeding amortised cost. If loans have not been reviewed for impairment on an individual basis due to their minor significance, a portfolio-based valuation allowance (portfolio impairment) is recognised on the basis of historical experience.

(4) Financial assets and liabilities held for trading

Financial assets and liabilities held for trading mainly include interest and currency derivatives with positive and negative fair values which are not used as hedging derivatives under hedge accounting. Financial assets and liabilities held for trading are measured at fair value. Changes in the fair value are recognised in net trading income.

If a quoted market price was available for derivative financial instruments listed in an active market, such market price was used as the basis for the determination of the fair value. For derivative financial instruments not quoted in an active market, as well as those non-derivative financial instruments accounted for under the fair value option, the fair value is determined by means of generally accepted measurement methods. Financial instruments without option characteristics were exclusively measured in accordance with the so-called discounted cash flow (DCF) method. Under the DCF method, the expected future cash flows are discounted using the market interest rate applicable at the measurement date. Derivative financial instruments with option characteristics are measured on the basis of the Black-Scholes model.

(5) Investment securities

Investment securities include bonds and other fixed-income securities, equities and other non-fixed-income securities, as well as shares in unconsolidated affiliated companies and equity investments.

Investment securities are measured in accordance with the relevant measurement category. Investment securities of the category "Available-for-sale financial assets" are measured at fair value, which is determined for financial instruments that are quoted in an active market on the basis of quoted market prices. If such a quoted market price is not available, the instruments are measured using measurement methods, such as the discounted cash flow method. Fair value changes of instruments included in this category are generally recognised directly in equity in the revaluation reserve. If the fair value of individual investment securities cannot be determined, they are measured at cost.

Investment securities of the category "Loans and receivables" are measured at amortised cost.

(6) Intangible assets

Intangible assets mainly comprise goodwill. In addition, purchased and internally generated intangible assets are capitalised if the recognition criteria set out in IAS 38 are met. In accordance with IFRS 3 in connection with IAS 38, goodwill is not subject to amortisation, but is tested for impairment at least annually pursuant to IAS 36. Other intangible assets are amortised on a straight-line basis over the expected economic life, which ranges from three to eight years.

(7) Property and equipment

Property and equipment includes land and buildings, leasehold improvements as well as operating and office equipment. These assets are measured at depreciated cost, according to the cost model mentioned in IAS 16. The useful lives of items of property and equipment are as follows.

Asset category	Useful life	Depreciation method
Land and buildings	50 years	straight-line depreciation
Operating and office equipment	5–25 years	straight-line depreciation
Leased assets	7–25 years	straight-line depreciation
Leasehold improvements	10 years	straight-line depreciation

In addition, property and equipment also includes investment properties, which, in aggregate, are of minor significance for DVB's consolidated financial statements. This includes such land and buildings mainly held to earn rentals. These land and buildings are measured at depreciated cost in accordance with IAS 40 in connection with IAS 16.

Property and equipment where individual material parts have a useful life which differs from that of the entire asset, and therefore have to be depreciated on an individual basis, were not held by DVB during the business year or at the balance sheet date.

(a) Leasing

In accordance with IAS 17, a lease is classified as an operating lease if it does not transfer to the lessee substantially all the risks and rewards incidental to ownership. In contrast, a lease is classified as a finance lease if it transfers substantially all risks and rewards to the lessee.

■ **DVB Group as lessor**

If beneficial ownership to the leased asset remains with the Group company, then the lease can be regarded as an operating lease. Leased assets are carried at cost less any depreciation accumulated over the useful life. If there is a guaranteed residual value for the leased asset at the end of the lease term, the asset is depreciated on a straight-line basis over the term of the lease down to the guaranteed residual value.

Revenue generated from leases is recognised on a straight-line basis over the lease term and reported in net interest income unless another recognition procedure is appropriate.

If almost all risks and rewards incidental to ownership of the leased asset are transferred to the lessee (finance lease), DVB recognises a receivable due from the lessee. This receivable is measured at the amount of the net investment in the lease at the time the lease is concluded. Received lease payments are divided into an interest element, which is recognised in profit or loss, and a capital portion. Income is recognised on an accrual basis as interest income.

■ **DVB Group as lessee**

The lease payments from operating leases are recognised in general administrative expenses. The expense is determined by analogy with a lease payment on a systematic basis which is representative of the time pattern of the user's benefit. During the business year 2005, there were no contractual arrangements to be classified as finance leases.

(b) Impairment of intangible assets, and property and equipment, and reversals of impairment losses

Intangible assets, and property and equipment, are tested for impairment at least annually. Opinions prepared by external experts are predominantly used as a basis to determine the value of property and equipment. If the recoverable amount determined on this basis has fallen below amortised cost as at the balance sheet date, a write-down for impairment is made. If the recoverable amount of intangible assets is lower than the carrying amount, an impairment loss is recognised through profit or loss.

If it is established during an impairment test that the reasons for an impairment previously recognised in profit or loss no longer exist, the relevant impairment loss is reversed.

(8) Current and deferred taxes

Current and deferred taxes are accounted for pursuant to the provisions of IAS 12 "Income Taxes". Accordingly, deferred taxes have to be recognised for differences in the carrying amounts of assets and liabilities in the IFRS balance sheet and the tax accounts, to the extent that such differences will reverse in future. Deferred tax assets on tax loss carryforwards are recognised when the timing and the amount of their recoverability in the future can be reliably determined.

(9) Deposits from customers and other banks

Deposits from customers mainly comprise customer deposits and promissory note loans held by customers. The item "Deposits from other banks" includes borrowings from other banks, money market placements as well as promissory note loans held by banks.

The deposits are predominantly measured at amortised cost on the basis of the original effective interest rate. Individual deposits from customers and other banks are measured at fair value under the fair value option in order to eliminate accounting mismatches. Changes in the fair value are recognised in net trading income.

(10) Securitised liabilities

The item "Securitised liabilities" includes in particular commercial paper, bearer bonds and mortgage bonds (Pfandbriefe) issued by DVB. Items of this category are generally measured at amortised cost, which is determined using the effective interest method. Individual securitised liabilities are measured at fair value, under the fair value option in order to eliminate accounting mismatches. Changes in the fair value are recognised in net trading income.

(11) Provisions

This item includes defined benefit pension obligations, provisions for early retirement, partial retirement and jubilee payments, as well as other provisions. The defined benefit obligations are measured in accordance with IAS 19, taking into account expected salary and pension increases using the projected unit credit method. Actuarial gains and losses are recognised in profit or loss under the corridor method. A recognition in profit or loss is indicated when the cumulative (unrecognised) actuarial gains or losses exceed the higher of either 10% of the present value of the total obligations or 10% of the fair value of plan assets. The actuarial gains or losses are distributed over the average remaining working life of the active employees.

The other provisions are measured in accordance with IAS 37, using the best estimate of the expected future expenses required to settle the obligation.

(12) Subordinated liabilities

The item "Subordinated liabilities" includes subordinated loans from banks, subordinated bearer bonds and profit-participation rights issued by DVB as well as silent partnership contributions. The items are predominantly measured at amortised cost using the effective interest method. Certain subordinated financial instruments are measured at fair value through profit or loss under the fair value option, in order to eliminate accounting mismatches.

(13) Equity

Equity represents the residual interest in the assets of a company after deducting all of its liabilities. At DVB, it comprises subscribed capital, capital reserve, retained earnings and reserve for treasury shares as well as specific reserves resulting from the application of IAS 39 in order to temporarily recognise certain gains or losses from re-measurement. This mainly includes the revaluation reserve for available-for-sale financial instruments, as well as the hedging reserve for cash flow hedges. The individual components of the treasury shares held by DVB Bank AG are deducted from equity using the so-called "par value method". Gains and losses arising from transactions with treasury shares are recognised directly in equity.

(14) Trust activities

Trust activities performed by DVB on its own behalf, but for the account of third parties, are not recognised in the balance sheet since the IAS/IFRS recognition criteria are not met.

(15) Employee participation schemes

Within the scope of employee participation schemes, employees of DVB had the possibility – during the business years 2000-2004 – to acquire shares of DVB Bank AG at a preferential price (employee shares) subject to certain requirements. Each employee was entitled to acquire up to 50 shares at a discount of 20%. The date for the calculation of the purchase price to be paid for the employee share, which was available for purchase for the last time during the 2004 business year, was 11 March 2004. This calculation resulted in a preferential price of €79.20 per share.

In addition to employee shares, staff were granted bonus stock options subject to certain requirements. The group of eligible persons included the members of the Board of Managing Directors, employees of DVB, as well as the members of the management and employees of domestic and foreign subsidiaries which were, at that date, currently and permanently employed at DVB. DVB granted stock options to persons belonging to this group, without payment of a consideration, to an extent determined by the Board of Managing Directors or – if the Board of Managing Directors itself was concerned – by the Supervisory Board. The granting of stock options in the business year 2004 required the previous acquisition of a defined number of shares in DVB (own investment). The exercise of options granted in 2003 (2004) is possible during the business year 2006 (2007) within a pre-determined period of time after the Annual General Meeting, if, at the same time, a defined minimum return on equity for the business year preceding the exercise of the stock options (reference year) was achieved.

The employee participation schemes are generally accounted for in accordance with the provisions set out in IFRS 2, except for employee shares and stock options acquired or granted before 7 November 2002, which will not be adjusted retrospectively to comply with the provisions contained in IFRS 2. Stock options are measured on the basis of the Black-Scholes model. A volatility of the share price of 20.15%, determined using the one-year average price of the DVB Share, was used as the basis. The exercise price of the stock options granted in the business year 2003 (2004) amounts to €81.60 (€80.58).

(16) Notes to the effects from the transition from HGB to IFRS

The transition from HGB to IFRS resulted in the following effects on DVB's reported equity as at 31 December 2003:

€ mn	Subscribed capital	Capital reserve	Retained earnings	Revaluation reserve	Hedging reserve – cash flow hedges	Currency translation reserve	Minority interest	Distributable profit/ accumulated loss	**Total equity**
Equity under HGB as at 31 Dec 2003	**154.7**	**107.1**	**163.0**	**0.0**	**0.0**	**0.0**	**0.0**	**6.5**	**431.3**
Effects resulting from first-time adoption (IAS 39 not applied)									
Liquidation of the fund for general banking risks	0.0	0.0	82.4	0.0	0.0	0.0	0.0	0.0	82.4
Transfer of contributions by typical silent partners to liabilities	–77.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–77.5
Transfer of treasury shares to equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee participation scheme	0.0	0.3	–0.3	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of asset retirement obligations as liabilities	0.0	0.0	–0.1	0.0	0.0	0.0	0.0	0.0	–0.1
Changes in pension provisions	0.0	0.0	–4.8	0.0	0.0	0.0	0.0	0.0	–4.8
Adjustment of other provisions	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	1.1
Adjustment of allowances for losses on loans and advances	0.0	0.0	14.7	0.0	0.0	0.0	0.0	0.0	14.7
Changes in the consolidated group in comparison to HGB	0.0	0.0	5.6	0.0	0.0	0.0	0.9	0.0	6.5
Total of effects resulting from first-time adoption before deferred taxes (IAS 39 not applied)	–77.5	0.3	98.6	0.0	0.0	0.0	0.9	0.0	22.3
Adjustment of deferred taxes (IAS 39 not applied)	0.0	0.0	–33.2	0.0	0.0	0.0	0.0	0.0	–33.2
Total of effects resulting from first-time adoption after deferred taxes	–77.5	0.3	65.4	0.0	0.0	0.0	0.9	0.0	–10.9
Equity under IFRS as at 1 Jan 2004 (IAS 39 not applied)	**77.2**	**107.4**	**228.4**	**0.0**	**0.0**	**0.0**	**0.9**	**6.5**	**420.4**

The transition from HGB to IFRS resulted in the following effects on DVB's reported equity as at 31 December 2004. The effects already existing as at 31 December 2003, as well as the effects from first-time adoption of IAS 39 as at 31 December 2004, were reported separately.

€ mn	Subscribed capital	Capital reserve	Retained earnings	Revaluation reserve	Hedging reserve – cash flow hedges	Currency translation reserve	Minority interest	Distributable profit/ accumulated loss	**Total equity**
Equity under HGB as at 31 Dec 2004	**154.8**	**107.2**	**189.5**	**0.0**	**0.0**	**0.0**	**0.0**	**6.6**	**458.1**
Effects from first-time adoption as at 31 Dec 2003	–77.5	0.3	65.4	0.0	0.0	0.0	0.9	0.0	–10.9
Liquidation of the fund for general banking risks	0.0	0.0	0.0	0.0	0.0	–1.2	0.0	–13.4	–14.7
Employee participation scheme	0.0	0.7	0.0	0.0	0.0	0.0	0.0	–0.7	0.0
Effects from currency translation	0.0	0.0	0.0	0.0	0.0	0.9	0.0	4.3	5.1
Transfer of treasury shares to equity	0.0	1.2	0.0	0.0	0.0	0.0	0.0	–1.2	0.0
Changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	–0.3	0.7	5.6	6.2
Differences in net profit for 2004 under HGB and IFRS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.7	6.7
Differences in the appropriation of earnings between HGB and IFRS (IAS 39 not applied)	0.0	0.0	1.3	0.0	0.0	0.0	0.0	–1.3	0.0
Equity under IFRS as at 31 Dec 2004 (IAS 39 not applied)	**77.3**	**109.3**	**256.2**	**0.0**	**0.0**	**–0.6**	**1.6**	**6.6**	**450.4**
First-time adoption of IAS 39 (incl. deferred taxes)	0.0	0.0	4.5	25.3	7.0	0.0	0.0	–9.0	27.8
Differences in the appropriation of earnings between HGB and IFRS resulting from the application of IAS 39	0.0	0.0	–9.0	0.0	0.0	0.0	0.0	9.0	0.0
Equity under IFRS as at 1 Jan 2005 (IAS 39 applied)	**77.3**	**109.3**	**251.7**	**25.3**	**7.0**	**–0.6**	**1.6**	**6.6**	**478.2**

The reconciliation of net income, as reported under HGB in the previous financial statements as at 31 December 2004, to profit after tax under IFRS as at the same date, is as follows:

€ mn	31 Dec 2004
Net income under HGB	**32.5**
Adjustment of valuation allowances for losses on loans and advances	–13.4
Goodwill amortisation	4.3
Differences in the measurement of pensions and similar obligations	1.3
Capitalisation of intangible assets	1.2
Gains from transactions with treasury shares	–1.2
Employee participation scheme	–0.7
Reversal of provisions	–0.3
Recognition of asset retirement obligations as liabilities	–0.4
Revaluation of deferred taxes	4.9
Changes in consolidated group	6.2
Profit after tax under IFRS	**34.4**

Notes to the consolidated income statement

(17) Net interest income

Net interest income can be broken down as follows in the year under review:

€ mn	2005	2004[1]	%
Interest income from			
lending and money market transactions	493.3	364.4	35.4
bonds and other fixed-income securities	11.9	31.2	–61.9
operating leases	42.1	28.2	49.3
Current income from			
equities and other non-fixed-income securities	2.0	0.1	–
equity investments and other investment securities	10.9	2.2	–
Total interest income	**560.2**	**426.1**	**31.5**
Interest expenses for			
deposits	323.7	209.5	54.5
securitised liabilities	74.5	77.0	–3.2
subordinated liabilities	29.2	30.2	–3.3
other liabilities	0.0	0.0	–
operating leases	19.5	13.9	40.3
Total interest expense	**446.9**	**330.6**	**35.2**
Net interest income	**113.3**	**95.5**	**18.6**

The transfer of the hedging reserve for cash flow hedges to the income statement, due to the receipt of hedged interest payments denominated in US dollars, resulted in an expense of €1 million, which is reported in the item "Interest income from lending and money market transactions". This compares with correspondingly higher interest income from US dollar loans.

(18) Impairment of losses on loans and advances

The allowance for losses on loans and advances changed as follows:

€ mn	2005	2004[1]	%
Additions	32.2	49.6	–35.1
Reversals	17.1	28.1	–39.1
Direct write-offs	0.7	5.0	–86.0
Recoveries on loans and advances previously written off	0.9	1.0	–10.0
Total	**14.9**	**25.5**	**–41.6**

(19) Net fee and commission income

Net fee and commission income can be broken down as follows in the year under review:

€ mn	2005	2004[1]	%
Fee and commission income from			
securities business	0.0	0.1	–
payment transactions	0.7	1.1	–36.4
guarantees and indemnities	1.6	2.0	–20.0
lending business	54.7	45.8	19.4
other fee and commission income	9.4	3.7	–
Total fee and commission income	**66.4**	**52.7**	**26.0**
Fee and commission expenses from			
securities business	0.8	0.9	–11.1
payment transactions	0.2	0.2	0.0
guarantees and indemnities	1.7	3.0	–43.3
lending business	0.6	0.5	20.0
other fee and commission expenses	2.6	3.0	–13.3
Total fee and commission expenses	**5.9**	**7.6**	**–22.4**
Total	**60.5**	**45.1**	**34.1**

To the extent that interest for irrevocable loan commitments was received, such interest is deferred on the liability side over the term of the loan commitment and recognised as interest income over the term of the underlying loan, using the effective interest method. Interest on commitments for roll-over loans with interest rates fixed over a short period of time is recognised at the date of payment, and shown as fee and commission income from lending business.

(20) Net income from financial instruments in accordance with IAS 39

Net income from financial instruments in accordance with IAS 39 comprises net trading income, the hedge result and net income from investment securities.

(a) Net trading income
Net trading income can be broken down as follows in the year under review:

€ mn	**2005**	2004[1]	%
Net trading income from derivative financial instruments	**16.5**	**1.3**	–
Result from derivatives	0.1	–0.1	–
Result from foreign currency transactions	16.8	2.7	–
Result from interest and dividend payments	–0.4	–1.3	–
Result from the application of the fair value option	**2.8**	**0.0**	–
Advances and loans designated as at fair value through profit or loss	–0.1	0.0	–
Securitised liabilities and subordinated loans designated as at fair value through profit or loss	2.9	0.0	–
Total net trading income	**19.3**	**1.3**	–

In the year under review, the fair value changes in loans, advances, securitised liabilities and subordinated loans designated as at fair value through profit or loss reported in net trading income almost exclusively result from changes in market interest rates.

A result from re-measurement reported in net trading income, amounting to €–2.4 million (prior year: €0.0), was determined on the basis of measurement models.

(b) Hedge result (hedge accounting)
The hedge result can be broken down as follows in the year under review:

€ mn	2005	2004[1]	%
Result from re-measurement			–
Result from derivatives (income)	23.6	2.3	–
Result from hedged items (expense)	36.7	7.8	–
Total	13.1	5.5	–
Realised result (expense)	9.9	0.0	–
Total expense	**23.0**	**5.5**	–

The realised result is mainly a consequence from the realisation of the difference between the repayment amount and the result from re-measurement of hedged items which was not amortised as at the date of repayment.

Changes in the fair value of hedging instruments used in cash flow hedges were recognised directly in equity – to the extent that such changes relate to the effective portion of the hedging relationship – or in the income statement in net trading income, to the extent that such changes relate to the ineffective portion of the hedge.

The entire result from re-measurement of hedging relationships, amounting to €23.0 million (prior year: €0.0), was determined on the basis of measurement models.

(c) Net income from investment securities
Net income from investment securities can be broken down as follows in the year under review:

€ mn	2005	2004[1]	%
Result from investment securities measured at amortised cost	0.4	–0.1	–
Result from investment securities available for sale	–0.4	5.4	–
Result from equity investments	8.7	1.4	–
Result from other investment securities	0.0	4.1	–
Total	**8.7**	**10.8**	**–19.4**

The result from equity investments primarily results from the disposal of an equity investment during the reporting year, which was recognised in profit or loss. Net income from investment securities for the business year 2005, as well as for the prior year, does not include results from re-measurement arising from the application of measurement models.

(21) General administrative expenses

General administrative expenses were as follows in the year under review:

€ mn	**2005**	2004	%
Staff expenses			
Wages and salaries	45.8	37.3	22.8
Social security contributions	4.4	4.2	4.8
Expenses for pensions and other employee benefits	5.1	4.5	13.3
Total	**55.3**	**46.0**	**20.2**
Operating expenses			
Expenses for hired workers	0.9	0.8	12.5
Contributions and fees	6.6	5.8	13.8
Legal and auditing fees	5.8	4.1	41.5
Other advisory services (incl. IT advisory)	8.1	5.0	62.0
IT costs	1.5	0.9	66.7
Occupancy expenses	7.9	8.3	–4.8
Procurement of information	2.5	4.6	–45.7
Public relations	0.3	0.4	–25.0
Ancillary labour costs	8.2	6.0	36.7
Other operating expenses	3.1	2.0	55.0
Total	**44.9**	**37.9**	**18.5**
Depreciation, amortisation, impairment and write-ups			
Property and equipment, and investment property	2.7	3.8	–28.9
Intangible assets	1.4	1.0	40.0
Total	**4.1**	**4.8**	**–14.6**
Total general administrative expenses	**104.3**	**88.7**	**17.6**

External services include fees for auditors in the amount of €1.4 million. These fees are comprised of the following individual items:

€ mn	2005
Auditing fees	1.1
Other testation and valuation services	0.2
Tax advisory services	0.0
Other services	0.1
Total	**1.4**

(22) Net other operating income

Net other operating income was as follows:

€ mn	2005	2004	%
Other operating income			
Income from the disposal of property and equipment, and investment property	1.8	3.3	–45.5
Rental income	0.8	1.4	–42.9
Income from the reversal of provisions	0.0	3.8	–
Income from the recovery of taxes not related to income	0.3	0.2	50.0
Miscellaneous other operating income	1.9	5.5	–65.5
Total	**4.8**	**14.2**	**–66.2**
Other operating expenses			
Losses from the disposal of property and equipment, and investment property	0.0	0.2	–
Expenses for additions to provisions	–1.0	0.3	–
Expenses for taxes not related to income	0.3	0.0	–
Miscellaneous other operating expenses	6.6	4.7	40.4
Total	**5.9**	**5.2**	**13.5**
Total net other operating income	**–1.1**	**9.0**	–

(23) Income taxes

Income taxes were as follows in the year under review:

€ mn	2005
Current taxes on income	
for the current year	–10.0
for prior years	0.0
Deferred income taxes	
for the current year	8.4
for prior years	0.0
Total	**–1.6**
Deferred income taxes	
from temporary differences	8.4
from tax loss carryforwards	0.0
Total	**8.4**

The following reconciliation shows the relationship between the expected tax expense and the current tax expense:

€ mn	**2005**
Result from operating activities before tax	58.5
Tax rate in DVB Group (in %)	40.86
Expected income tax expense	**-23.9**
Tax effects from tax-exempt income and non-tax deductible expenses	0.0
Tax effects on permanent differences	0.0
Tax rate differences with regard to earnings components that are subject to taxation in other countries	22.2
Tax decreases/increases due to changes in tax rates	–0.1
Unrecognised deferred tax assets on tax loss carryforwards	–3.8
Current tax expense/income relating to prior periods	4.0
Other effects	0.0
Reported income taxes	
Current taxes	–10.0
Deferred taxes	8.4
Total	**–1.6**

The expected tax rate for DVB Group is composed of the corporate income tax rate of 25%, which is currently applicable in Germany, plus a solidarity surcharge of 5.5% as well as an average trade tax rate of 19.68%. Taking into account the deductibility of trade taxes from the corporate income tax, DVB Group's tax rate amounts to 40.86%.

(24) Earnings per share

	2005	2004[1]	%
Net profit/loss (€ mn)	54.3	33.8	60.7
Average number of ordinary shares outstanding	3,113,634	2,958,150	5.3
Options outstanding at the balance sheet date	96,250	113,805	–15.4
Basic earnings per share (in €)	**17.45**	**11.43**	**52.7**
Diluted earnings per share (in €)	**17.28**	**11.36**	**52.1**

The outstanding options are exclusively held by DVB employees. There were no outstanding financial instruments with rights to conversion in the business years 2004 and 2005.

(25) Cost/income ratio

%	in acc. with IFRS **2005**	in acc. with IFRS 2004	in acc. with HGB **2005**	in acc. with HGB 2004
Cost/income ratio	58.7	56.8	53.6	57.8

Please see the management report – economic situation for details with regard to the calculation of the cost/income ratio.

(26) Segment reporting

The segment report illustrates how the individual business divisions contribute to DVB's overall results. It is based on the internal management reporting system which plays a key role as a forecasting, management and control instrument in our divisional structure. Segmentation according to business divisions highlights the Bank's strategic focus on its core competence in Transport Finance. Within this framework, the internal reporting system does not take into account DVB's legal structure, but follows the strategic orientation and classification criteria applicable thereto.

(a) Two-tiered segment report
DVB's five reporting segments in the primary reporting format are: Transport Finance, Treasury, business that is no longer in line with our strategy (D-Marketing), Service Centres and Overheads.

- **Transport Finance** includes DVB's activities in the segments of Shipping, Aviation, Land Transport and Transport Infrastructure as well as Corporate Finance & Capital Market Products.

- **Treasury** includes DVB Bank AG's Treasury and DVB's funding and hedging activities.

- **D-Marketing** comprises the residual business that DVB intends to dispose of. This includes non-transport business, business with transportation clients that do not meet volume and earnings requirements over the long term, as well as lending exposures requiring settlement.

- The heading **Service Centres** aggregates costs of service and control units as well as costs for cross-divisional strategic projects.

- Earnings contributions that do not fall under the individual business divisions' areas of responsibility are presented under **Overheads** (Other/Reconciliation/Consolidation). This also includes adjustments that are necessary in order to reconcile the management figures from internal reporting (which are shown in the segment reporting of the operating business units) with the corresponding data from external accounting. This segment also includes income from balance sheet items not allocated to specific business lines.

(b) DVB Group

€ mn	Group 2005	Group 2004	Transport Finance 2005	Transport Finance 2004	Treasury 2005	Treasury 2004	D-Marketing 2005	D-Marketing 2004	Service Centres 2005	Service Centres 2004	Overheads 2005	Overheads 2004
Net interest income after loan losses	98.4	70.0	92.3	71.3	6.7	14.8	3.4	–4.7	0.3	0.0	–4.3	–11.5
Net interest income	113.3	95.5	109.6	87.7	6.7	14.8	2.4	3.1	0.3	0.0	–5.7	–10.1
Impairment of losses on loans and advances	–14.9	–25.5	–17.3	–16.3	0.0	0.0	1.0	–7.8	0.0	0.0	1.4	–1.3
Net fee and commission income	60.5	45.1	58.6	51.9	–0.7	–0.5	0.1	0.2	0.0	1.0	2.4	–7.5
Net income from financial instruments in accordance with IAS 39	5.0	6.6	1.2	–1.1	–2.7	0.8	0.0	1.6	0.0	0.0	6.5	5.2
Other operating income/expenses (net)	–1.1	9.0	–0.3	1.4	0.0	0.0	–1.1	0.3	0.7	1.2	–0.4	6.1
Income	**162.8**	**130.7**	**151.9**	**123.6**	**3.3**	**15.2**	**2.4**	**–2.6**	**1.0**	**2.3**	**4.3**	**–7.7**
General administrative expenses	–104.3	–88.7	–40.0	–31.3	–2.1	–2.0	–1.6	–2.3	–33.7	–34.6	–26.8	–18.6
Staff expenses	–55.3	–46.0	–30.9	–24.6	–1.3	–1.2	–1.0	–1.3	–14.9	–13.9	–7.3	–5.1
Operating expenses incl. depreciation/amortisation/impairment	–49.0	–42.7	–9.1	–6.7	–0.8	–0.8	–0.6	–1.0	–18.8	–20.6	–19.5	–13.5
Result from operating activities before tax	**58.5**	**42.0**	**111.8**	**92.3**	**1.2**	**13.2**	**0.8**	**–4.9**	**–32.7**	**–32.3**	**–22.5**	**–26.2**
Income taxes	–1.6	–7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–1.7	–7.6
Minority interest	–2.6	–0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–2.6	–0.6
Net profit/loss	**54.3**	**33.8**	**111.8**	**92.3**	**1.2**	**13.2**	**0.8**	**–4.9**	**–32.7**	**–32.3**	**–26.7**	**–34.5**
Risk-weighted assets (average) [1]	**9,003.5**	**8,059.8**	**8,273.3**	**7,241.3**	**257.5**	**321.6**	**206.3**	**276.0**	**0.0**	**0.0**	**266.4**	**220.9**
Capital (weighted)	**368.9**	**330.7**	**338.9**	**253.4**	**10.5**	**11.3**	**8.5**	**9.7**	**0.0**	**0.0**	**10.9**	**56.3**
Cost/income ratio [2]	**58.7%**	**56.8%**	**23.7%**	**22.4%**	**64.0%**	**13.1%**	**117.3%**	**–**	**3,479.0%**	**1,521.9%**	**928.0%**	**–**
Return on equity (before taxes)	**15.9%**	**12.7%**	**33.0%**	**36.4%**	**11.2%**	**116.9%**	**9.4%**	**–50.4%**	**–**	**–**	**–206.4%**	**–46.6%**

1) Owing to DVB's business focus, the risk-weighted assets are considered representative for the assets of the individual segments in accordance with principle I of the German Banking Act (Grundsatz I KWG).
2) excl. impairment of losses on loans and advances

The secondary reporting format provides a breakdown of the core strategic Transport Finance business into the following market segments: Shipping, Aviation, Land Transport and Transport Infrastructure as well as our activities in the area of Corporate Finance & Capital Market Products.

(c) Transport Finance

€ mn	Transport Finance		Shipping		Aviation		Land Transport		Transport Infrastructure		Corporate Finance & Capital Market Products		TF Support & Overheads	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Net interest income after loan losses	92.3	71.3	47.1	49.8	15.3	7.6	8.1	5.7	4.6	2.1	17.3	8.7	0.0	–2.6
Net interest income	109.6	87.7	46.5	42.9	33.1	26.5	8.1	5.7	4.6	3.6	17.3	8.7	0.0	0.3
Impairment of losses on loans and advances	–17.3	–16.3	0.6	6.9	–17.9	–18.9	0.0	0.0	0.0	–1.5	0.0	0.0	0.0	–2.8
Net fee and commission income	58.6	51.9	32.6	25.7	13.6	13.0	1.2	1.2	3.3	2.6	7.8	9.4	0.0	0.0
Net income from financial instruments in accordance with IAS 39	1.2	–1.1	1.2	–1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income/expenses (net)	–0.3	1.4	0.3	1.6	–1.3	0.0	0.0	0.1	0.0	0.0	0.7	0.0	0.0	–0.3
Income	**151.9**	**123.6**	**81.2**	**76.0**	**27.6**	**20.6**	**9.4**	**7.0**	**7.9**	**4.7**	**25.8**	**18.1**	**0.0**	**–2.8**
General administrative expenses	–40.0	–31.3	–17.9	–14.9	–6.4	–5.4	–2.8	–2.1	–1.3	–1.3	–9.8	–6.0	–1.8	–1.6
Staff expenses	–30.9	–24.6	–14.0	–11.9	–5.0	–4.3	–2.3	–1.3	–1.1	–0.9	–7.2	–4.9	–1.3	–1.3
Operating expenses incl. depreciation/amortisation/impairment	–9.1	–6.7	–3.9	–2.9	–1.4	–1.1	–0.4	–0.8	–0.2	–0.5	–2.6	–1.1	–0.5	–0.3
Result from operating activities before tax	**111.8**	**92.3**	**63.3**	**61.2**	**21.2**	**15.2**	**6.6**	**4.9**	**6.6**	**3.4**	**16.0**	**12.0**	**–1.8**	**–4.4**
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit/loss	**111.8**	**92.3**	**63.3**	**61.2**	**21.2**	**15.2**	**6.6**	**4.9**	**6.6**	**3.4**	**16.0**	**12.0**	**–1.8**	**–4.4**
Risk-weighted assets (average) [1]	**8,273.3**	**7,241.3**	**4,253.4**	**3,860.6**	**2,563.9**	**2,181.0**	**825.8**	**708.1**	**473.5**	**371.0**	**156.7**	**90.6**	**0.0**	**30.0**
Capital (weighted)	**338.9**	**253.4**	**174.3**	**135.1**	**105.0**	**76.3**	**33.8**	**24.8**	**19.4**	**13.0**	**6.4**	**3.2**	**0.0**	**1.1**
Cost/income ratio [2]	**23.7%**	**22.4%**	**22.2%**	**21.5%**	**14.1%**	**13.7%**	**29.6%**	**30.1%**	**16.6%**	**21.6%**	**38.2%**	**33.3%**	**–**	**–**
Return on equity (before taxes)	**33.0%**	**36.4%**	**36.3%**	**45.3%**	**20.2%**	**19.9%**	**19.5%**	**19.7%**	**34.1%**	**26.0%**	**248.6%**	**379.9%**	**–**	**–419.2%**

1) Owing to DVB's business focus, the risk-weighted assets are considered representative for the assets of the individual segments in accordance with principle I of the German Banking Act (Grundsatz I KWG).
2) excl. impairment of losses on loans and advances

(d) Basis of segment reporting
Each of the strategic segments in DVB's Transport Finance business are **globally oriented.** In view of the fact that DVB's markets do not display any major geographical peculiarities, we do not present a geographical classification.

The segment reporting **reflects the operating business.** It was prepared in accordance with the principles set out in IFRS. Both income and expenses are generally shown at market prices, and allocated to the responsible business division. Net interest income is calculated on the basis of market interest rates. In addition, this item also includes the return on the capital allocated to each business division. The imputed allocation of equity is in line with the capital ratio according to the German Banking Act (Grundsatz I) and is based on the calculated average risk-weighted assets and the amounts to be included for market risks (risk asset equivalents). General administrative expenses include the directly allocable components of staff expenses, operating expenses, as well as amortisation and depreciation of property and equipment, and intangible assets. Allowance for losses on loans and advances includes net additions to specific valuation allowances for credit risks, as well as recoveries on loans and advances previously written off and general valuation allowances (portfolio impairment). Taxes are currently not allocated to the business divisions.

Our benchmarks in relation to the **profitability** of DVB and the individual segments are result from operating activities and the RoE and CIR indicators.

Owing to the specific business focus of DVB, risk-weighted assets represent the **assets** of the individual segments.

Notes to the consolidated balance sheet

(27) Cash and balances with the central bank

€ mn	**2005**	2004	%
Cash on hand	0.0	0.0	–
Balance with central banks	48.9	100.9	–51.5
Public sector debt securities and bills eligible for rediscounting with central banks	0.0	0.0	–
Total	**48.9**	**100.9**	**–51.5**

This item includes a minimum reserve requirement in the amount of €18.2 million.

(28) Loans and advances to banks

€ mn	2005	2004[1]	%
Loans and advances	123.9	174.3	–28.9
payable on demand	92.7	146.6	–36.8
with a limited term	31.2	27.7	12.6
Money market transactions	753.0	824.2	–8.6
payable on demand	23.7	301.6	–92.1
with a limited term	729.3	522.6	39.6
Other loans and advances to banks	0.1	0.0	–
Total	**877.0**	**998.5**	**–12.2**
German banks	472.6	576.2	–18.0
Foreign banks	404.4	422.3	–4.2
Total	**877.0**	**998.5**	**–12.2**

(29) Loans and advances to customers

€ mn	2005	2004[1]	%
Loans and advances	8,739.9	6,666.4	31.1
payable on demand	97.0	126.7	–23.4
with a limited term	8,642.9	6,539.7	32.2
Money market transactions	0.0	300.0	–
payable on demand	0.0	0.0	–
with a limited term	0.0	300.0	–
Other loans and advances to customers	35.6	14.9	–
Total	**8,775.5**	**6,981.3**	**25.7**
German customers	1,113.6	1,141.5	–13.9
Foreign customers	7,661.9	5,839.8	31.2
Total	**8,775.5**	**6,981.3**	**25.7**

Loans and advances include items totalling €22.0 million measured at fair value through profit or loss under the fair value option. In the HGB consolidated financial statements as at 31 December 2004, these transactions were reported with a carrying amount of €22.0 million. The fair value of these items as at the same date amounted to €22.1 million.

(a) Receivables from finance leases

As at 31 December 2005, DVB had finance leases for shipping containers and aircraft engines with a total lease term between five and eight years. These leases are reported under other loans and advances from customers with a limited term in an amount of €30.6 million (prior year: €12.5 million). As at 31 December 2005, there were no lease payments outstanding.

€ mn	**2005**	2004[1)]	%
Gross amount of receivables due			
within 1 year	6.5	3.0	–
within 1 to 5 years	23.2	12.1	91.7
after more than 5 years	8.5	0.0	–
Total gross investment	38.2	15.1	–
Less unearned finance income	7.6	2.6	–
Total net investment	**30.6**	**12.5**	–

(30) Allowance for losses on loans and advances

The allowance for losses on loans and advances is based on rules applied consistently throughout DVB, and covers all identifiable risks. For losses incurred, but not identified, a portfolio-based valuation allowance (portfolio impairment) is recognised on the basis of historical experience. Allowances for country risks were not required.

€ mn	Specific valuation allowance		Portfolio impairment		Total	
	2005	2004[1)]	**2005**	2004[1)]	**2005**	2004[1)]
Balance as at 1 Jan	107.5	83.4	3.5	20.0	111.0	103.4
Effects from first-time adoption of IAS 39	–2.6	0.0	4.5	0.0	1.9	0.0
Additions	32.0	48.8	0.0	0.5	32.0	49.3
Reversals	26.2	24.3	2.1	17.0	28.3	41.3
thereof: utilised	12.6	14.3	0.0	0.0	12.6	14.3
thereof: released	13.6	10.0	2.1	17.0	15.7	27.0
Changes in consolidated group	0.0	0.0	0.0	0.0	0.0	0.0
Changes resulting from exchange rate fluctuations	4.3	–0.4	0.0	0.0	4.3	–0.4
Balance as at 31 Dec	115.0	107.5	5.9	3.5	120.9	111.0

The allowance for losses on loans and advances of €120.9 million (prior year: €111.0 million) exclusively relates to loans and advances to customers.

(31) Positive fair values of hedging derivatives

€ mn	**2005**	2004[1)]	%
Hedging instruments with positive fair values			
Interest rate products	307.1	87.8	–
Currency-related products	10.8	137.1	–92.1
Other products	0.0	0.0	–
Total	**317.9**	**224.9**	**41.4**

Due to the fact that IAS 39 was not applied for the business year 2004, the reported amounts exclusively include the interest accruals of derivative financial instruments.

(32) Financial assets held for trading

€ mn	2005	2004[1)]	%
Derivative financial instruments with positive fair values			
Interest rate products	81.5	32.9	–
Currency-related products	2.2	4.2	–47.6
Other products	0.0	0.0	–
Total	**83.7**	**37.1**	–

Due to the fact that IAS 39 was not applied for the business year 2004, the reported amounts exclusively include the interest accruals of derivative financial instruments.

(33) Investment securities

€ mn	2005	2004[1)]	%
Bonds and other fixed-income securities	177.3	614.9	–71.2
Money market instruments	0.0	0.0	–
Bonds and notes	177.3	614.9	–71.2
Equities and other non-fixed-income securities	37.9	8.4	–
Equity investments	21.0	9.2	–
Shares in unconsolidated, affiliated companies	113.9	114.0	–0.1
Total	**350.1**	**746.5**	**–53.1**

Equity investments also include shares in associated companies, which were measured at cost.

(a) Fair values of negotiable securities

€ mn	listed		unlisted	
	2005	2004	**2005**	2004
Bonds and other fixed-income securities	160.8	614.9	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0
Bonds and notes	160.8	614.9	0.0	
Equities and other non-fixed-income securities	37.9	8.4	0.0	0.0
Total	**198.7**	**623.3**	**0.0**	**0.0**

(34) Intangible assets

€ mn	**2005**	2004	%
Goodwill	74.7	74.7	–
Other intangible assets	5.4	5.7	–5.3
Total	**80.1**	**80.4**	**–0.4**

(35) Property and equipment

€ mn	**2005**	2004	%
Land and buildings	5.2	5.3	-1.9
Investment property	4.6	6.0	-23.3
Operating and office equipment	3.2	4.2	-23.8
Assets held under operating leases	336.6	192.7	74.7
Other property and equipment	0.6	1.2	-50.0
Total	**350.2**	**209.4**	**67.2**

As at 31 December 2005, DVB Group companies were lessors for ships, aircrafts and shipping containers provided under operating leases. The lease term was six to eleven years for ships, five to seven years for aircraft, and eleven years for shipping containers.

The sum of future minimum lease payments as at 31 December 2005 is as follows:

€ mn	**2005**	2004	%
Total future minimum lease payments			
due within 1 year	41.2	25.3	62.8
due within 1 to 5 years	138.7	88.8	56.2
due after more than 5 years	20.1	19.3	4.1

(36) Statement of changes in non-current assets

Depreciation and amortisation of land and buildings, operating and office equipment, software and other intangible assets are recognised in the item "Depreciation, amortisation, impairment and write-ups", which is included in general administrative expenses.

Goodwill is not amortised on a systematic basis, but written down when the cost of an acquisition exceeds DVB's share in the fair value of net assets acquired as at the date of acquisition. This impairment test is performed at least once a year. For this purpose, goodwill has to be allocated to the cash generating units from which it results. In DVB Group, the cash generating units correspond to the business divisions.

Goodwill, which is reported under intangible assets at DVB, mainly results from the acquisition of DVB Bank N.V. (formerly: Nedship Bank N.V.). As a result, this goodwill was allocated to the Shipping business division. The impairment test performed as at the balance sheet date did not require an additional write-down for impairment.

€ mn	Cost 1 Jan	Additions at cost	Disposals at cost	Reclassi-fications	Exchange rate changes	Cost 31 Dec	Write-ups
Land and buildings	7.3	0.1	0.0	0.2	0.0	7.6	0.0
Investment property	6.1	0.0	1.3	0.0	0.0	4.8	0.0
Operating and office equipment	15.7	0.9	0.4	–0.3	0.0	15.9	0.0
Leased assets	232.5	171.4	39.9	0.0	11.8	375.8	0.0
Other property and equipment	1.2	0.1	0.0	–0.8	0.0	0.5	0.0
Intangible assets (excl. goodwill)	12.3	0.6	0.0	0.9	0.0	13.8	0.0
Goodwill	74.7	0.0	0.0	0.0	0.0	74.7	0.0
Total	**349.8**	**173.1**	**41.6**	**0.0**	**11.8**	**493.1**	**0.0**

Intangible assets include internally-generated assets with a carrying amount of €1.0 million.

(37) Income tax assets

€ mn	**2005**	2004	%
Current income tax assets			
Germany	1.0	4.2	–76.2
Foreign countries	1.3	0.0	–
Deferred income tax assets			
Temporary differences	81.1	1.6	–
Loss carryforwards	0.0	0.0	–
Total	**83.4**	**5.8**	–

Deferred tax assets on tax loss carryforwards in the amount of €55.3 million were not recognised by DVB, since the Bank expects that it will not necessarily generate taxable profits in the countries in which the tax loss carryforwards exist.

Depreciation and amortisation	Cumulative depreciation, amortisation and impairment from prior periods	Depreciation, amortisation and impairment-disposals	Depreciation, amortisation and impairment-exchange rate changes	Cumulative depreciation, amortisation, impairment and write-ups	**Carrying amount as at 31 Dec**	Carrying amount as at 31 Dec of the prior year
0.3	1.9	–0.2	0.0	2.4	5.2	5.3
0.1	0.1	0.0	0.0	0.2	4.6	6.0
2.0	11.5	0.8	0.0	12.7	3.2	4.2
20.4	20.5	3.1	1.4	39.2	336.6	192.7
0.0	0.0	0.0	0.0	0.0	0.6	1.2
1.6	6.7	–0.1	–0.1	8.3	5.4	5.7
0.0	0.0	0.0	0.0	0.0	74.7	74.7
24.4	**40.7**	**3.6**	**1.3**	**62.8**	**430.3**	**289.8**

Deferred tax assets were recognised for the following balance sheet items:

€ mn	**2005**	2004	%
Loans and advances to banks and customers, incl. allowances for losses on loans and advances	3.7	0.0	–
Deposits from customers and other banks	63.6	0.0	–
Securitised liabilities	1.7	0.0	–
Subordinated liabilities	1.3	0.0	–
Other balance sheet items	10.8	1.6	–
Total	**81.1**	**1.6**	–

(38) Other assets

€ mn	2005	2004	%
Current tax receivables	0.8	0.5	60.0
Advance payments and prepaid expenses	1.2	0.8	50.0
Miscellaneous other assets	7.6	3.0	–
Total	**9.6**	**4.3**	–

(39) Deposits from other banks

€ mn	2005	2004[1]	%
Loans and advances	966.8	1,602.7	–39.7
payable on demand	8.6	80.5	–89.3
with a limited term	958.2	1,522.2	–37.1
Money market transactions	1,965.2	1,095.0	79.5
payable on demand	204.1	198.0	3.1
with a limited term	1,761.1	897.0	96.3
Other deposits from other banks	0.2	0.3	–33.3
Total	**2,932.2**	**2,698.0**	**8.7**
German banks	2,457.1	2,121.3	15.8
Foreign banks	475.1	576.7	–17.6
Total	**2,932.2**	**2,698.0**	**8.7**

Deposits from other banks also include such loans and advances with a total carrying amount of €118.0 million, which are measured at fair value through profit or loss under the fair value option. In the HGB consolidated financial statements as at 31 December 2004, these transactions were reported with a carrying amount of €110.0 million. The fair value of these items as at the same date amounted to €120.9 million.

(40) Deposits from customers

€ mn	2005	2004[1)]	%
Loans and advances	3,480.1	2,726.3	27.6
payable on demand	213.0	104.7	–
with a limited term	3,267.1	2,621.6	24.6
Money market transactions	116.8	60.9	91.8
payable on demand	0.0	5.2	–
with a limited term	116.8	55.7	–
Other deposits from customers	5.6	0.3	–
Total	**3,602.5**	**2,787.5**	**29.2**
German customers	2,785.2	2,281.2	23.3
Foreign customers	817.3	506.3	61.4
Total	**3,602.5**	**2,787.5**	**29.2**

Deposits from customers also include such loans and advances with a total carrying amount of €99.8 million, which are measured at fair value through profit or loss under the fair value option. In the HGB consolidated financial statements as at 31 December 2004, these transactions were reported with a carrying amount of €91.4 million. The fair value of these items as at the same date amounted to €102.1 million.

(41) Securitised liabilities

€ mn	2005	2004[1)]	%
Commercial paper	70.3	25.0	–
Bearer bonds	2,790.4	2,725.6	2.4
Total	**2,860.7**	**2,750.6**	**4.0**

Securitised liabilities also include such bearer bonds with a total carrying amount of €20.5 million, which are measured at fair value through profit or loss under the fair value option. In the HGB consolidated financial statements as at 31 December 2004, these transactions were reported with a carrying amount of €17.8 million. The fair value of these items as at the same date amounted to €18.4 million.

(42) Negative fair values of hedging derivatives

€ mn	2005	2004[1]	%
Hedging instruments with negative fair values			
Interest rate products	40.4	8.3	–
Currency-related products	70.3	0.9	–
Total	**110.7**	**9.2**	–

Due to the fact that IAS 39 was not applied for the business year 2004, the reported amounts exclusively include the interest accruals of derivative financial instruments.

(43) Financial liabilities held for trading

€ mn	2005	2004[1]	%
Derivative financial instruments with negative fair values			
Interest rate products	58.3	18.9	–
Currency-related products	5.2	0.1	–
Total	**63.5**	**19.0**	–

Due to the fact that IAS 39 was not applied for the business year 2004, the reported amounts exclusively include the interest accruals of derivative financial instruments.

(44) Provisions

€ mn	2005	2004	%
Provisions for pensions and similar obligations	15.9	16.2	–1.9
Other provisions	32.9	27.8	18.3
Total	**48.8**	**44.0**	**10.9**

The pension commitments agreed upon with DVB employees generally depend upon the period of service and salary. They can be distinguished with regard to the base amount, which is granted for a number of years of service, and the top-up amount which applies when the period of service exceeds 25 years.

The pension commitments agreed upon with employees of DVB Bank AG additionally include a commitment for benefits to surviving dependants (widow(er)s and orphans) as well as for benefits in the case of invalidity.

The pension obligations changed during the year under review as follows:

€ mn	**2005**	2004
Present value of the pension obligations as at 1 Jan (DBO)	30.2	27.9
Plan assets	–10.7	–10.2
Unrecognised actuarial gains/losses	–3.3	0.0
Unrecognised past service cost	0.0	–1.2
Carrying amount of pension provisions as at 1 Jan	**16.2**	**16.5**
Change in the year under review		
Service cost	2.1	1.7
Interest expense	1.4	1.4
Effects of plan adjustments	–0.7	0.0
Return on plan assets	–0.5	–0.4
Actuarial gains and losses recognised in profit or loss	0.1	0.0
Benefits paid	–2.7	–3.0
Carrying amount of pension provisions as at 31 Dec	**15.9**	**16.2**
Present value of the pension obligations as at 31 Dec (DBO)	34.2	30.2
Plan assets	–11.3	–10.7
Unrecognised actuarial gains/losses	–7.0	–3.3
Carrying amount of pension provisions as at 31 Dec	**15.9**	**16.2**

The interest cost of €1.4 million is recorded under staff expenses.

The calculation of the present value of the pension obligations is based on the following actuarial assumptions:

%	2005	2004
Interest rate	3.75	5.25
Expected salary increase	2.50	2.50
Pension increase	1.30	1.50

For the first time, in the business year 2005 DVB used the new mortality tables called "Richttafeln 2005 G", by Prof. Klaus Heubeck, for the measurement of the pension provisions related to the employees of DVB Bank AG.

Other provisions in DVB are as follows:

€ mn	2005	2004	%
Asset retirement obligations	1.0	0.9	11.1
Lending business	1.7	2.9	–41.3
Miscellaneous other provisions	30.2	24.0	25.8
Total	**32.9**	**27.8**	**18.3**

The provisions changed during the year under review as follows:

€ mn	Balance as at 1 Jan	Utilisation	Reversal	Additions	Reclassi-fications	Changes in consoli-dated group	**Balance as at 31 Dec**
Asset retirement obligations	0.9	0.0	0.0	0.1	0.0	0.0	1.0
Lending business	2.9	1.4	0.0	0.2	0.0	0.0	1.7
Miscellaneous other provisions	24.0	13.4	0.3	21.0	–1.1	0.1	30.2

Other provisions also include provisions for special measures: Since 2000, the European Commission has been conducting investigations involving several European banks due to alleged unlawful agreements regarding the fee structure for transactions in foreign coins and notes. On 14 October 2004, the European Court of Justice delivered a judgement in our favour, declaring the European Commission's administrative order imposing a fine on DVB Bank AG to be void. The European Commission objected to this judgement at the end of 2004; the proceedings are thus still pending.

Hence, the provisions set aside in 2001 to cover any legal costs and the possibility of an unfavourable outcome of the proceedings have not been released. The course of the proceedings reaffirms our view that it is not necessary to increase the provisions.

(45) Income tax liabilities

€ mn	**2005**	2004	%
Current income tax liabilities	17.2	13.4	–
Deferred income tax liabilities	81.7	2.5	–
Total	**98.9**	**15.9**	–

Deferred tax liabilities were recognised for the following balance sheet items:

€ mn	**2005**	2004	%
Financial assets held for trading and hedging instruments	77.0	0.0	–
Investment securities	1.5	0.0	–
Property and equipment	2.4	1.6	50.0
Securitised liabilities	0.0	0.0	–
Provisions	0.5	0.0	–
Other balance sheet items	0.3	0.9	–77.8
Total	**81.7**	**2.5**	–

(46) Other liabilities

€ mn	2005	2004	%
Other tax liabilities	3.4	0.0	–
Miscellaneous other liabilities	10.5	20.2	–48.0
Total	**13.9**	**20.2**	**–31.2**

The other tax liabilities mainly result from unpaid value-added tax of foreign branches and foreign subsidiaries.

(47) Subordinated liabilities

€ mn	2005	2004[1]	%
Subordinated promissory note loans	429.9	418.4	2.7
Subordinated bearer bonds	64.8	64.9	–0.2
Total	**494.7**	**483.3**	**2.4**

Subordinated liabilities also include such subordinated promissory note loans with a total carrying amount of €10.8 million which are measured at fair value through profit or loss under the fair value option. In the HGB consolidated financial statements as at 31 December 2004, these transactions were reported with a carrying amount of €10.0 million. The fair value of these items as at the same date amounted to €11.2 million.

(48) Equity

Equity can be broken down as follows:

€ mn	2005	2004	%
Issued share capital	99.6	77.3	28.8
Capital reserve	199.5	109.3	82.5
Retained earnings	299.7	256.2	17.0
Revaluation reserve	26.6	0.0	–
Hedging reserve – cash flow hedges	–1.4	0.0	–
Currency translation reserve	–8.0	–0.6	–
Distributable profit	9.5	6.6	43.9
Total equity before minority interest	**625.5**	**448.8**	**39.4**
Minority interest	4.1	1.6	–
Equity	**629.6**	**450.4**	**39.8**

a) Issued share capital
As at the balance sheet date, the subscribed capital of DVB Bank AG consists of 3,896,912 no-par value bearer shares. During the year under review, the issued share capital of DVB Bank AG of €77,893,068.42 was increased against cash contributions by €21,729,904.95 through the issue of 850,000 new no-par value bearer shares. The subscription price of the new shares was fixed at €124. Trading in the new shares commenced in November 2005.

b) Capital reserve
The capital reserve includes the premium from the issuance of shares, incl. subscription rights, exceeding the nominal value or the imputed value.

c) Treasury shares
The treasury shares held by DVB Bank AG as at the balance sheet date are deducted from equity using the so-called "par value method". For this purpose, the treasury shares are divided into the components "Subscribed capital" and "Capital reserve". Gains or losses arising from transactions with treasury shares are offset against retained earnings. The amount of treasury shares held as at the balance sheet date was insignificant.

d) Retained earnings
Retained earnings include the legal reserve, other retained earnings, as well as the fund for general banking risks.

The legal reserve amounts to €1.3 million as at 31 December 2005, and is subject to restrictions with regard to distribution to shareholders.

Other retained earnings comprise the undistributed profits of DVB Group, including the cumulative amounts resulting from consolidation measures recognised in profit or loss as well as the effects from the first-time adoption, i.e. the transition to, IFRS as at 1 January 2004 and the first-time adoption of IAS 39 as at 1 January 2005.

In addition, retained earnings also include the fund for general banking risks, totalling €82.4 million.

Notes to financial instruments

(49) Derivative financial instruments

Derivative financial instruments are used by DVB primarily to hedge interest rate and foreign currency risks. For this purpose, DVB enters into interest rate swaps, forward rate agreements, cross-currency swaps and foreign currency swaps with banks and customers. The related hedged items are loans and advances to banks and customers, deposits from customers and other banks, securitised liabilities and subordinated liabilities. In addition, individual forward currency contracts are entered into in order to hedge foreign currency risks from expected interest payments denominated in US dollars.

The major part of derivative financial instruments is reported in the balance sheet in the items "Positive fair values from hedging derivatives" and "Negative fair values from hedging derivatives". Derivative financial instruments held by DVB which are not reported as a hedging instrument within the scope of an effective hedging relationship are included in the item "Financial assets held for trading" or "Financial liabilities held for trading".

The fair value of derivative financial instruments is mainly determined using generally accepted measurement methods, e.g. the discounted cash flow (DCF) method or option pricing models.

(50) Maturity groupings and fair value of derivative financial instruments

€ mn	up to 1 year	1 to 5 years	more than 5 years	Remaining term to maturity **Total 31 Dec 2005**	Total 31 Dec 2004	**positive 31 Dec 2005**	Fair values **negative 31 Dec 2005**	positive 31 Dec 2004	Fair values negative 31 Dec 2004
Interest rate products									
Interest rate swaps	82.8	174.3	77.1	334.2	297.0	385.3	–88.3	401.0	–120.8
Forward rate agreements	–0.1	–0.4	0.4	–0.1	–0.7	0.2	–0.3	0.0	0.0
Interest rate options	–6.0	0.0	0.0	–6.0	–7.0	1.6	–7.6	4.1	–9.9
Total interest rate products	**76.7**	**173.9**	**77.5**	**328.1**	**289.3**	**387.1**	**–96.2**	**405.1**	**–130.7**
Currency-related products									
Forward currency contracts	6,538.3	0.0	0.0	6,538.3	5,049.5	11.8	–73.2	154.7	–1.8
Cross-currency swaps	–2.2	–4.3	–0.1	–6.6	5.0	1.4	–2.6	5.0	–0.1
Total currency-related products	**6,536.1**	**–4.3**	**–0.1**	**6,531.7**	**5,054.5**	**13.2**	**–75.8**	**159.7**	**–1.9**
Total	**6,612.8**	**169.6**	**77.4**	**6,859.8**	**5,343.8**	**400.3**	**–171.9**	**564.8**	**–132.6**

(51) Market risks

The material market risks to which DVB is exposed are interest rate and counterparty risks.

The management of market risks in the banking book and the trading book is the responsibility of Treasury. The market risks are determined for both the trading book and the banking book on the basis of the same VaR procedure. Using this VaR method, the maximum loss that may arise due to market risks during a holding period of one day is quantified at a confidence level of 99% on the basis of a historical simulation. The functionality of the VaR method is assured by means of a back testing procedure. During the back testing procedure, the gains and losses of the items included in the trading book and the banking book are calculated on a daily basis, using the actually-occurred market price changes, and are compared with the values determined with the VaR method.

(52) Interest rate risks

At DVB, interest rate risks may occur in connection with fixed-rate loans and advances to banks and customers, securities, deposits from other banks and customers, securitised liabilities and subordinated liabilities. In addition, the Bank may be exposed to interest rate risks from transactions involving variable interest rates, to the extent that the relevant term for the interest rate arrangement exceeds the term which is managed by DVB. At DVB, interest rate risks are primarily managed on an individual contract basis.

(53) Counterparty risks

We define counterparty risk, which comprises credit, issuer, counterparty and country risks, as potential losses arising from an unexpected default or deterioration in our counterparties' credit quality. With respect to individual transactions, counterparty risk is managed and limited by setting a corresponding limit on the basis of cautious lending principles and sector-specific lending policies.

The gross lending volume in the year under review totalled €12.3 billion (prior year: €10.4 billion) and includes the following transactions:

€ bn	**2005**	2004	%
Loans and advances to banks	0.9	1.0	–10.0
Loans and advances to customers	8.8	7.0	25.7
Securities (incl. equity investments)	0.4	0.7	–50.0
Guarantees and indemnities	0.3	0.2	50.0
Irrevocable loan commitments	1.5	1.1	36.4
Derivatives	0.4	0.3	33.3
Total	**12.3**	**10.4**	**18.3**

(54) Currency risks

Currency risks mainly result from interest payments denominated in foreign currencies. DVB enters into forward currency contracts in order to hedge currency risks. These contracts take into account both the amount and the date of the interest payments to be expected in the following business year. This hedging relationship is accounted for in the financial statements by designating cash flow hedges.

(55) Fair values of non-derivative financial instruments

€ mn	Fair value 31 Dec 2005	Carrying amount 31 Dec 2005
Assets		
Cash and balances with the central bank	48.9	48.9
Financial assets held for trading (non-derivative)	0.0	0.0
Loans and advances to banks	878.0	877.0
Loans and advances to customers	9,104.1	8,775.5
Investment securities (excl. shares in unconsolidated, affiliated companies)	238.9	236.2
Equity and liabilities		
Financial liabilities held for trading (non-derivative)	0.0	0.0
Deposits from other banks	2,946.2	2,932.2
Deposits from customers	3,638.6	3,602.5
Securitised liabilities	2,878.2	2,860.7
Subordinated liabilities	528.3	494.7

The fair value of derivative financial instruments is presented in conjunction with the maturity groupings of derivative financial instruments.

(56) Maturity groupings of non-derivative financial instruments

€ mn	Payable on demand	Remaining term to maturity up to 3 months	Remaining term to maturity from 3 months to 1 year	Remaining term to maturity from 1 year to 5 years	Remaining term to maturity more than 5 years	**Total**
Loans and advances to banks	92.7	614.4	132.4	52.2	0.0	891.7
Loans and advances to customers	96.8	1,427.1	1,552.0	4,657.2	2,912.2	10,645.3
Investment securities	0.0	4.9	25.5	113.5	61.6	205.5
Total	**189.5**	**2,046.4**	**1,709.9**	**4,822.9**	**2,973.8**	**11,742.5**
Deposits from other banks	9.0	976.4	1,138.1	808.6	217.1	3,149.2
Deposits from customers	214.7	240.8	244.2	1,302.9	2,281.6	4,284.2
Securitised liabilities	0.0	500.7	340.3	1,965.2	0.0	2,806.2
Subordinated liabilities	0.0	10.6	28.0	311.1	244.0	593.7
Total	**223.7**	**1,728.5**	**1,750.6**	**4,387.8**	**2,742.7**	**10,833.3**

The amounts reported for the individual time bands reflect the undiscounted future cash flows (interest and capital payments).

Other disclosures

(57) Subordinated assets

During the year under review, DVB did not hold subordinated assets to any considerable extent.

(58) Off-balance sheet commitments

€ mn	**2005**	2004	%
Contingent liabilities from guarantees	258.6	224.4	15.2
Irrevocable loan commitments	1,496.3	1,093.1	36.9
Total	**1,754.9**	**1,317.5**	**33.2**

(59) Average number of employees

The average number of employees changed during the year under review as follows:

Employees	2005 DVB Bank AG	2005 DVB Group	2004 DVB Bank AG	2004 DVB Group
Female	88	129	89	131
Male	163	235	162	228
Total	**251**	**364**	**251**	**359**

(60) Related party disclosures

(a) Remuneration and shareholdings of Board members
The emoluments paid to Board members during 2005 amounted to:

€ '000	2005	2004
Board of Managing Directors	1,926	1,466
Supervisory bodies	67	79
Former members of the Board of Managing Directors and their surviving dependants	351	341
Total	**2,344**	**1,886**

(b) Remuneration of the Board of Managing Directors
The structure of emoluments of the Board of Managing Directors of DVB Bank AG is based on the Internal Regulations for the Executive Committee of the Supervisory Board which have in turn been adopted by the Supervisory Board. Accordingly, the overall remuneration of the Board of Managing Directors is composed of a fixed component of 64.8% and a variable component of 35.2%. The variable component consists of a traditional bonus, in addition to stock options.

Fixed remuneration

The fixed component of the remuneration of DVB Bank AG's Board of Managing Directors totalled €1,247,032.72 in 2005 (2004: €912,745.87).

■ Variable remuneration – bonus

Bonus payments to members of the Board of Managing Directors are calculated on the basis of target agreements (to be laid down for any business year) between the Executive Committee and the Board member concerned. The amount of the bonus depends on the extent to which the targets were achieved. Two-thirds of the targets refer to the achievement of objective criteria, such as the RoE and CIR stipulated for the relevant business year. In addition, individual performance is evaluated and weighted with one third. The bonus for the current business year is then paid out in two tranches of 50% each, in each of the two following business years. A prerequisite for the payout is, however, that no notice of termination has been given with regard to the employment relationship as at the time of payment. Bonuses of €678,800.00 were distributed to the Board of Managing Directors in 2005 (2004: €552,800.00).

■ Variable remuneration – stock options

As an additional variable remuneration component providing a long-term incentive, members of the Board of Managing Directors have, since 2000, received an annual allocation of free options for the purchase of DVB shares within the framework of the "DVB Shares" employee participation scheme. In this context, the Supervisory Board allocates a number of free options for the purchase of DVB shares at its discretion. The participation scheme was limited in time, and ended in 2004. These options can only be exercised after a waiting period of three years, and only on the condition that DVB's RoE in the reference year has reached or exceeded a minimum threshold.

The Annual General Meeting in 2000 laid down this threshold for the respective reference year. The exercise price for each option corresponds to the unweighted average closing price of DVB shares on the Frankfurt Stock Exchange in respect of the first five days following expiry of the waiting period, less a discount which increases in proportion to the extent to which the relevant performance goal has been exceeded. The discount can amount to a maximum of 50%. The exercise price is, however, at least equal to the notional proportion of issued share capital that one share represents.

As the value of the options depends on the RoE in the respective reference year, it is not at present possible to calculate any intrinsic value.

Members of the Board of Managing Directors own a total of 3,950 options to purchase shares of DVB Bank AG. In the 2005 business year, members of the Board of Managing Directors exercised a total of 550 options.

(c) Remuneration of the Supervisory Board

The annual remuneration of the services of the Supervisory Board members is regulated in article 18 of the Memorandum and Articles of Association of DVB Bank AG (Articles).

The **total remuneration of the Supervisory Board** in 2005 amounted to €67,752.11, taking into account the tax rates applicable to the individual members of the Supervisory Board. Thus, total remuneration of the Supervisory Board decreased by 14% in comparison to the prior year (2004: €78,802.98, incl. 16% VAT), which is attributable to the reduction in the number of Supervisory Board members effective as at 9 June 2004. As set out in the Articles, the Supervisory Board is now composed of six shareholder representatives and three employee representatives.

Remuneration of the members of the Supervisory Board in 2005 is broken down as follows (€):

€	For Supervisory Board activities					For Credit Committee activities				
	Remuneration Supervisory Board	VAT	Taxes for membership in a supervisory board	Solidarity surcharge	**Remuneration Supervisory Board**	Remuneration Credit Committee	VAT	Taxes for membership in a supervisory board	Solidarity surcharge	**Remuneration Credit Committee**
		16%	30% [2]	5,50% [2]	**Total**		16%	30% [2]	5,50% [2]	**Total**
Shareholder and employee representatives, domiciled in Germany:										
Shareholder representatives:										
Dr. Thomas Duhnkrack, Chairman	10,225.84	1,636.13			11,861.97	2,556.46	409.03			2,965.49
Prof. Dr. Manfred Schölch, Deputy Chairman	7,671.60	1,227.46			8,899.06					
Wolfgang Kirsch	5,112.92	818.07			5,930.99	2,556.46	409.03			2,965.49
Hemjö Klein	5,112.92	818.07			5,930.99					
Employee representatives:										
Lutz Baumgartl	5,112.92				5,112.92					
Axel Clemens	5,112.92				5,112.92	2,556.46				2,556.46
Sabine Meyer	5,112.92				5,112.92					
Member of the Supervisory Board until 10 June 2005:										
Dr Peter Klaus	2,273.60	363.78			2,637.38	1,136.20	181.79			1,317.99
Hermann Möller	2,273.60	363.78			2,637.38					
Shareholder representatives, domiciled outside Germany: [1) 2)]										
Flemming Robert Jacobs, domiciled in Hurstwood, Surrey, UK Member of the Supervisory Board from 10 June 2005	2,856.21	456.99 [1]	856.86	47.13	1,952.22					
Robert Jan van der Burg, domiciled in Dublin, Ireland Member of the Supervisory Board from 10 June 2005 Member of the Credit Committee from 15 July 2005	2,856.21	456.99 [1]	856.86	47.13	1,952.22	1,178.81	188.61 [1]	353.64	19.45	805.72
Supervisory Board and Credit Committee:		6,141.26	1,713.73	94.25	**57,140.96**		1,188.47	353.64	19.45	**10,611.16**
Total – Supervisory Board and Credit Committee:										**67,752.11**

For Supervisory Board members domiciled outside Germany, the following applies:
1) Value added tax is declared by DVB Bank AG and paid directly to the responsible tax office.
2) Taxes for membership of supervisory boards, and solidarity surcharges, are declared by DVB Bank AG and paid directly to the responsible tax office. Both taxes are deducted from Supervisory Board members' remuneration.
The taxes paid by DVB to the tax office amounts to: 1) 2) 3,283.67

Of this total, €57,140.96 (2004: €67,350.04 incl. VAT) is attributable to the annual remuneration of members of the Supervisory Board in accordance with article 18 (1) sentences 3 and 4 of the Articles. Accordingly all Supervisory Board members receive a base amount of €5,112.92 (pro rata temporis, if necessary). Pursuant to the Articles, the Chairman receives twice the base amount, and the Deputy Chairman one and a half times the base amount. In contrast to the shareholder representatives, the employee representatives will not be refunded 16% VAT, as their remuneration is not subject to value-added tax (article 18 (2) sentences 1 and 2 of the Articles).

In accordance with article 18 (1) sentence 5 of the Articles, the members of the Credit Committee received an additional remuneration of €2,965.49 (incl. 16% VAT) apart from the base amount – with the exception of the employee representative Axel Clemens, to whom the amount of €2,556.46 was paid without VAT for the above-mentioned reasons. Thus, the total expense in respect of the activities of the Credit Committee was €10,611.16 (2004: €11,452.94 incl. VAT)

For the shareholder representatives who retired from the Supervisory Board after the end of the Annual General Meeting on 10 June 2005 (Dr. Peter Klaus and Hermann Möller), Flemming Robert Jacobs, domiciled in Hurstwood, Surrey, UK, and Robert Jan van der Burg, domiciled in Dublin, Ireland, were appointed to the Supervisory Board. The latter has also been a member of the Credit Committee of DVB Bank AG since 15 July 2005.

As a result, two members of the DVB Supervisory Board have their domicile outside Germany. Accordingly, DVB Bank AG is required to declare the taxes accruing on the remuneration for these members and to pay these taxes directly to the responsible tax office. Consequently, value-added taxes (16%) of €1,102.59 and taxes for membership in supervisory boards (30%) in accordance with article 50a (2) of the German Income Tax Act (EStG) amounting to €2,067.37 as well as solidarity surcharge of 5.5% thereon totalling €113.71 were paid to the tax office.

The value-added tax does not lead to a reduction in remuneration, because it will be additionally paid by DVB to the relevant Supervisory Board member in accordance with the Articles. In contrast, taxes for membership in supervisory boards and the solidarity surcharge are directly deducted from the remuneration of both members.

The variable remuneration provided for in article 18 (1) sentence 6 of the Articles was not paid in 2005, as the requirements were not met.

In accordance with article 18 (1) sentence 7 of the Articles, the remuneration has to be paid each year on 1 July.

(d) Shareholdings of the Board of Managing Directors and the Supervisory Board
As at 31 December 2005, the members of the Board of Managing Directors held 6,346 shares in DVB Bank AG. The members of the Supervisory Board held 70 shares in DVB Bank AG.

(e) Pension liabilities to former members of the Board of Managing Directors
€3.18 million (2004: €3.23 million) has been set aside as provisions for pension liabilities to former members of the Board of Managing Directors and their surviving dependants.

(f) Related companies
With regard to the presentation of the business relationships between DVB Bank AG and DZ BANK, we refer to the discussion about related companies included in the report of the Board of Managing Directors.

We maintain standard banking relationships on an arm's length basis with companies related to the DZ BANK Group. There were no loans to executive staff during the year under review. In addition, we refer to the details provided for in the subordinate status report of DVB Bank AG.

(61) Financial statements of DVB Bank AG

DVB Bank AG is a parent company and, at the same time, a subsidiary of DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main, prepared consolidated financial statements and a group management report as at 31 December 2005, which was submitted to the Local Court of Frankfurt/Main and which includes DVB Bank AG.

(62) Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act

Section 161 of the German Stock Corporation Act (AktG) requires the board of managing directors and supervisory boards of listed companies to issue a declaration of compliance with the German Corporate Governance Code (the Code) on an annual basis. They declare, by means of such a declaration, that the recommendations of the Code have been and are being complied with, and comment upon exceptions.

DVB Bank AG's Board of Managing Directors and Supervisory Board published their fourth Declaration of Compliance in accordance with section 161 of the AktG on 14 December 2005 in the electronic German Federal Gazette and simultaneously made the text permanently available to the public on DVB's website under www.dvbbank.com "Investor Relations – Corporate Governance – Declaration of Compliance".

In November 2005, DVB Bank AG's Board of Managing Directors and Supervisory Board issued a further Declaration of Compliance, which was published on 24 November 2005 in the electronic German Federal Gazette and simultaneously on DVB's website under www.dvbbank.com "Investor Relations – Corporate Governance – Declaration of Compliance".

Final comments

1) The comparative figures for the business year 2004 were prepared in accordance with IFRS 1.36A without taking into account the provisions of IAS 39 and IAS 32.

Frankfurt/Main, 19 April 2006

DVB Bank AG

The Board of Managing Directors

Wolfgang F. Driese | Bertrand Grabowski | Dagfinn Lunde

Auditors' report

We have audited the consolidated financial statements prepared by DVB Bank Aktiengesellschaft, Frankfurt/Main, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January 2005 to 31 December 2005. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB") are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB, and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – "IDW"). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, in accordance with the applicable financial reporting framework, and in the Group management report, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group, and expectations as to possible misstatements, are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system, and the evidence supporting the disclosures in the consolidated financial statements and the Group management report, are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, gives a true and fair view of the Group's position, and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 20 April 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rönnberg	pp. Gröninger
German Public Auditor	German Public Auditor

Executive bodies and offices held

Board of Managing Directors

Wolfgang F. Driese
CEO and Chairman

Rolf Michael Betz
(until 31 March 2006)

Bertrand Grabowski
(from 1 May 2005)

Dagfinn Lunde

Supervisory Board

Supervisory Board members elected by the General Meeting of DVB Bank AG:

Dr. Thomas Duhnkrack
Chairman

Prof. Dr. Manfred Schölch
Deputy Chairman

Flemming Robert Jacobs
(from 10 June 2005)

Robert Jan van der Burg
(from 10 June 2005)

Wolfgang Kirsch

Hemjö Klein

Supervisory Board members elected by employees of DVB Bank AG:

Lutz Baumgartl

Axel Clemens

Sabine Meyer

The following members retired from the Supervisory Board at the end of the Annual General Meeting on 10 June 2005:

Dr. Peter Klaus

Hermann Möller

Supervisory Board Committees

Credit Committee

Dr. Thomas Duhnkrack
Chairman

Wolfgang Kirsch
Deputy Chairman
(from 23 November 2005)

Robert Jan van der Burg
Member
(from 15 July 2005)

Executive Committee

Dr. Thomas Duhnkrack
Chairman

Prof. Dr. Manfred Schölch
Deputy Chairman

Lutz Baumgartl
Employee representative

Offices held by members of the Board of Managing Directors

(Disclosure pursuant to section 285 no. 10 of the HGB)

Wolfgang F. Driese CEO and Chairman, Bank director	DVB Bank N.V., Rotterdam	Chairman of the Supervisory Board
	DVB Bank America N.V., Curaçao	Chairman of the Supervisory Board
	KRAVAG-SACH VVaG, Hamburg	Member of the Supervisory Board (until 23 June 2005)
	International Transport Finance Ltd., London	Chairman of the Board of Directors
	DVB Group Merchant Bank (Asia) Ltd., Singapore	Member of the Board of Directors
Rolf Michael Betz Bank director (until 31 March 2006)		
Bertrand Grabowski Bank director (from 1 May 2005)	International Transport Finance Ltd., London	Member of the Board of Directors
Dagfinn Lunde Bank director	DVB Bank N.V., Rotterdam	Chairman and CEO
	DVB Capital Markets LCC, New York	Chairman of the Board of Directors (from 21 October 2005)
	DVB Bank America N.V., Curaçao	Member of the Supervisory Board
	DVB Group Merchant Bank (Asia) Ltd., Singapore	Member of the Board of Directors
	Nedship International Inc., New York	Member of the Board of Directors
	Sextant Finance (Holdings) Ltd., Greenwich, USA	Member of the Board of Directors (until 30 September 2005)

Offices held by members of the Supervisory Board

(Disclosure pursuant to section 285 no. 10 of the HGB)

Supervisory Board members elected by the General Meeting of DVB Bank AG:

Dr. Thomas Duhnkrack

Chairman, Bank director, Member of the Board of Managing Directors DZ BANK	VR-Leasing AG, Eschborn	Chairman of the Supervisory Board
	DZ Equity Partner GmbH, Frankfurt/Main	Chairman of the Supervisory Board
	DZ Equity Partner Management GmbH, Frankfurt/Main	Chairman of the Supervisory Board
	DZ BANK Polska, Warsaw	Member of the Supervisory Board
	debis AirFinance, Amsterdam	Member of the Supervisory Board (until 30 June 2005)

Prof. Dr. Manfred Schölch

Deputy Chairman, Lawyer and Deputy Chairman of the Board of Managing Directors Fraport AG	Flughafen Frankfurt-Hahn GmbH, Frankfurt-Hahn	Chairman of the Supervisory Board
	Airport Council International (ACI), Brussels	President

Flemming Robert Jacobs

(from 10 June 2005) Chief Executive Officer and Director (rtd.) Neptune Orient Lines, Singapore	Damcos, Naestved	Member of the Supervisory Board
	DVB Bank N.V., Rotterdam	Member of the Supervisory Board
	Samskip, Reykjavik	Member of the Supervisory Board
	Stena International B.V., Amsterdam	Member of the Supervisory Board
	Stena Line B.V., Amsterdam	Member of the Supervisory Board
	Stena Sphere, Gothenburg	Member of the Supervisory Board
	Panama Canal, Balboa-Ancon	Member of the Advisory Boards
	Lloyds Register, London	Member of the General Committee
	Ultramar Group, Santiago	Senior Advisor to the Board
	AAE, Baar, Switzerland	Senior Advisor to the Chairman

Wolfgang Kirsch Bank director, Member of the Board of Managing Directors DZ BANK	DZ BANK Polska, Warsaw	Chairman of the Supervisory Board
	norisbank Aktiengesellschaft, Nuremberg[1]	Deputy Chairman of the Supervisory Board
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg[1]	Deputy Chairman of the Supervisory Board
	BAG Bankaktiengesellschaft, Hamm	Member of the Supervisory Board
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall[1]	Member of the Supervisory Board
	Österreicherische Volksbanken-Aktiengesellschaft, Vienna	Member of the Supervisory Board
	EDEKABANK Aktiengesellschaft, Hamburg	Member of the Supervisory Board
	VR-Immobilien AG, Frankfurt/Main[1]	Member of the Supervisory Board
	VR-LEASING Aktiengesellschaft, Eschborn[1]	Member of the Supervisory Board
	DZ BANK Ireland plc., Dublin	Director, Board of Directors
	Banco Cooperativo Español S.A., Madrid	Director, Board of Directors

1) Offices held within the DZ BANK Group. Pursuant to section 100 (2) sentence 2 of the German Stock Corporation Act, the five offices on Group Supervisory Boards marked shall not count towards the maximum number of Supervisory Board offices under section 100 (2) sentence 1 no. 1 of the German Stock Corporation Act.

Hemjö Klein Businessman	Live Holding AG, Buchschlag	Chairman of the Board of Managing Directors
	Compass Partners International Limited, London	Executive Council
	Convergence CT Inc., Pleasanton, CA, USA	Member of the Board of Directors
	Saugutack Capital Partners, Stamford, CT, USA	Member of the Board of Advisors
Robert Jan van der Burg (from 10 June 2005) Managing Director (rtd.) KLM Financial Services Dublin	Orix Aviation Systems, Dublin	Special Advisor to the Board (since 1 August 2005)
	KLM Financial Services B.V., Amstelveen	Managing Director (until 17 June 2005)

Supervisory Board members elected by employees of DVB Bank AG do not hold any other office.

DVB's offices

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IT'S ALL ABOUT RELATIONSHIPS

Air Canada

Embraer Club Facility
(Mortgage Financing)
18 x Embraer 190s

Co-Arranger
& Co-Underwriter

Air Europa Lineas Aereas S.A.U.

Japanese Operating Lease
and Finance Lease Facilities

2 x B737-800
Co-Arranger

America West Airlines

Operating Lease Financing

2 x A320-200 on lease to
America West Airlines
arranged by Pegasus Aviation
Finance Company

Senior Debt Arranger

Asiana Airlines

Operating Lease Financing

1 x A330-300 on lease to
Asiana Airlines
arranged by
Avion Capital Limited

Joint Debt Arranger
& Underwriter

Atlantska Plovidba d.d.

Pre and Post-Delivery
Financing

USD 52,000,000
Arranger & Underwriter

ATM Havalimani Yapim ve Isletme A.S.

Financing of
Dalaman International Airport

USD 52,000,000
EUR 24,000,000
Co-Arranger

Connex Regiobahn GmbH

Operate Lease Financing
7 Bombardier TALENT DMUs for
Connex Regiobahn GmbH

EUR 19,000,000
Sole Debt Provider
Joint RV risk taker

CR Airways

Finance Lease Financing

1 x CRJ-700

Arranger & Underwriter

DeepWater Container Terminal

Debt Structuring
for a Container Port

EUR 100,000,000
Mandated Lead Arranger &
Financial Advisor

Deucalion Aviation Funds

Various new transactions
with gross project value
in excess of
USD 200,000,000

Investment Advisor

Fahrzeugmanagement Region Frankfurt RheinMain GmbH

Further Financing
of 10 Alstom
CORADIA LINT DMUs

Sole Debt Provider

Gateway Container International Limited

Sale of 260,000 CEU container
box fleet placed in the German
private investor KG market

Mandated Lead Arranger
Corporate Finance acted as
advisor to the seller

Grand View Development

Corporate Finance advised
container box lessor
Grand View Development (HK)
in the acquisition of
Hamburg-based
Unit Equipment Services AG

HCI Capital AG/ Hellespont Group

KG-Financing of
3 Suezmax Tankers

USD 208,000,000
Arranger,
Underwriter & Agent

Interpool, Inc.

Senior Secured Loan
for Trac Lease Inc.,
100% owned by Interpool, Inc.,
for the USD 122,500,000
financing of
intermodal chassis

Syndicated Lender

Jazeera Airways

Finance Lease Facility

4 x A320-200 and
1 x CFM56 Spare Engine

Arranger & Agent

Latvian Shipping Company

Pre and Post-Delivery
Secured Term Loan

USD 360,000,000
Arranger, Agent &
Security Trustee

Metrostar Management Corp.

Financing of
1 Very Large Crude Carrier
M/T CRUDE TOPAZ

USD 93,200,000
Agent, Co-Arranger &
Security Trustee

Montego Bay Jamaica Airport

Financing of the
Sangster International
Airport

USD 120,000,000
B-Loan Participation

Mount Faber KS

Senior and Junior
Debt Financing
for the Sale and Leaseback
of 4 Vessels
for Ezra Holdings Ltd

USD 66,342,500
Debt Arranger & Agent

SOME IMPORTANT DEALS 2005

MSC
Secured Amortizing Fleet Facility
USD 100,000,000
Arranger, Agent & Security Trustee

NFC
Shipping Funds
acted as Arranger, Equity Provider & Agent for various clients including:
for a total amount of USD 400,000,000
Investment Advisor

NIKI Luftfahrt GmbH
Finance Lease Facility
2 x A320-200
Arranger & Agent

Oak Hill Special Opportunities Fund, L.P.
Term Loan Facility with Maintenance Reserve Facility
5 x B737-300 on operating lease to SkyEurope
Arranger & Agent

PCE Premium Capital Emissionshaus/Reederei Alnwick Harmstorf
KG-Financing for a 2,524 TEU Container Vessel
USD 45,000,000
Sole Debt Provider

Pegasus Aviation Finance Company
JETBRIDGE
Revolving Credit Facility with Term-Out Option up to USD 400,000,000
Mandated Lead Arranger & Agent

PLM Financial Services, Inc./ Kansas City Southern
Bridge Loan to PLM Financial Services, Inc. for 30 locomotives leased to The Kansas City Southern Railway Company
USD 54,600,000
Sole Lender

Precious Shipping Public Company Limited
Revolving Acquisition and Refinancing Facility
USD 250,000,000
Lead Arranger

Rigdon Marine
Senior Secured Credit Facility
USD 170,000,000
Arranger & Underwriter

Sabine Pass LNG, L.P.
Financing of the Sabine Pass LNG Receiving Terminal
USD 822,000,000
Participant

Silversea Cruise Holding, Ltd
Secured Revolving and Term Loan Facility
USD 225,000,000
Mandated Lead Arranger, Bookrunner, Agent & Financial Advisor

Stolt-Nielsen S.A.
Secured Multicurrency Revolving Loan
USD 400,000,000
Mandated Lead Arranger & Underwriter

TAM Linhas Aereas
Lease of
1 x A320-200
Co-Arranger & Co-Underwriter

Tankerska Plovidba d.d.
Pre and Post-Delivery Secured Term Loan
USD 85,000,000
Arranger & Underwriter

TAV Esenboga Yatirim Yapim A.S.
Project Financing for Ankara International Airport
EUR 178,000,000
Lead Arranger

Top Tankers Inc.
Financing of 2 Suezmax Tankers
USD 56,500,000
Lead Arranger

TTL Equipment Management
Structured Debt Facility Acquisition of European trailer rental and trading business with more than 17,000 trailers
Co-Arranger, Co-Underwriter & Administrative Agent

US Airways
Synthetic Operating Lease
3 x CRJ-700
Arranger & Underwriter

Volito Aviation AG
Term Loan Facility
2 x A320-200 on operating lease to Aigle Azur
Arranger & Agent

WestJet Airlines
Operating Lease Financing
2 x B737-800 on lease to WestJet Airlines arranged by Pegasus Aviation Finance Company
Senior and Junior Debt Arranger

This announcement appears as a matter of record only.

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Board of Managing Directors of DVB Bank AG (page 2):
René Spalek, Offenbach/Main, Germany

Chairman of the Supervisory Board of DVB Bank AG
(page 6):
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
Frankfurt am Main, Germany

Shipping (page 12):
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Aviation (page 22):
Boeing Co.

Land Transport and Transport Infrastructure (page 100):
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DVB Bank AG

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