DVB

# Annual Report 2011

# Contents



**Symbols**

Reference to the internet
§ Legal notice
ⓘ Further information

# Key figures at a glance

| € mn | 1 Jan 2011–31 Dec 2011 | 1 Jan 2010–31 Dec 2010 | % |
|---|---|---|---|
| **Earnings data in accordance with IFRS** | | | |
| Income | 337.1 | 307.3 | 9.7 |
| Net interest income after allowance for credit losses | 199.1 | 141.0 | 41.2 |
| Net interest income | 258.3 | 193.0 | 33.8 |
| Allowance for credit losses | –59.2 | –52.0 | 13.8 |
| Net fee and commission income | 116.2 | 124.4 | –6.6 |
| Net income from financial instruments in accordance with IAS 39 | 4.4 | 30.2 | –85.4 |
| Results from investments in companies accounted for using the equity method | 0.1 | 5.8 | –98.3 |
| Net other operating income/expenses | 17.3 | 5.9 | – |
| General administrative expenses | –189.4 | –176.2 | 7.5 |
| Consolidated net income before taxes | 147.7 | 131.1 | 12.7 |
| **Key financial indicators (%)** | | | |
| Return on equity (before taxes) | 14.0 | 13.9 | 0.1 pp |
| Cost/income ratio | 47.8 | 49.0 | –1.2 pp |

| € mn | 31 Dec 2011 | 31 Dec 2010 | % |
|---|---|---|---|
| **Key items from the statement of financial position in accordance with IFRS** | | | |
| Business volume | 23,919.8 | 21,168.5 | 13.0 |
| Customer lending volume | 21,706.4 | 19,162.4 | 13.3 |
| Total assets | 22,031.0 | 19,316.8 | 14.1 |
| Loans and advances to customers | 18,739.0 | 16,445.0 | 13.9 |
| Deposits from customers | 4,460.3 | 4,408.8 | 1.2 |
| Securitised liabilities | 9,830.1 | 5,319.9 | 84.8 |
| Subordinated liabilities | 400.6 | 545.5 | –26.6 |
| Equity | 1,210.0 | 1,143.3 | 5.8 |
| **Own funds in accordance with the German Banking Act** | | | |
| Total | 1,304.4 | 1,309.0 | –0.4 |
| Tier 1 capital | 1,178.8 | 1,105.1 | 6.7 |
| Tier 2 and tier 3 capital | 125.6 | 203.9 | –38.4 |
| **Capital ratios in accordance with the German Banking Act (%)** | | | |
| Basel II | | | |
| Tier 1 ratio | 19.7 | 18.9 | 0.8 pp |
| Total capital ratio | 21.8 | 22.4 | –0.6 pp |

| Ratings | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Moody's Investors Service** | | | |
| Long-term debt and deposit rating | A1 | A1 | A1 |
| Short-term rating | P-1 | P-1 | P-1 |
| Bank financial strength rating | D+ | D+ | D+ |
| Outlook | negative | negative | negative |
| **Standard & Poor's** | | | |
| Long-term counterparty credit rating | A+ | A | A |
| Short-term credit rating | A-1 | A-1 | A-1 |
| Outlook | stable | negative | negative |

**18 January**
DVB client event at the Raffles Hotel in Singapore – DVB's members of the Board of Managing Directors, Messrs Wolfgang Driese, Dagfinn Lunde, Bertrand Grabowski and DVB colleagues welcomed 162 guests from various Asian nations, representing the shipping and the aviation industries.

**18–20 January**
Discussions with the media in Singapore and Beijing – DVB's members of the Board of Managing Directors presented the Bank's business model to media representatives.

**11 March**
Annual Accounts Press and Analysts' Conference – Messrs Driese and Lunde presented the preliminary, unaudited Group results for 2010.

**5 April**
More than 90 shipping industry representatives attended the "10th DVB Bank Breakfast Meeting" in Hamburg. Dr Martin Stopford, Managing Director of Clarkson Research, gave a speech entitled: "The crazy container rollercoaster ride – a look at the past decade, and at the next".

**16–17 May**
Another opportunity to exchange views with Chinese journalists in Beijing – Messrs Driese and Grabowski discussed the Chinese aviation market and DVB's strategic direction.

**9 June**
Ordinary Annual General Meeting in Frankfurt/Main – with 96.62% of DVB's share capital represented, shareholders passed all proposed resolutions, including a resolution to pay a dividend of €0.60 per share.

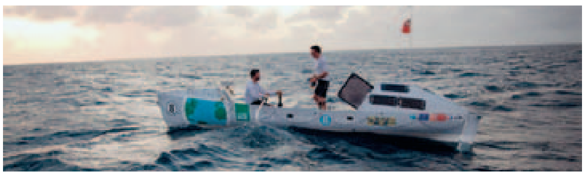
**19–20 September**
18th ISTAT European Conference in Barcelona – Mr Bertrand Grabowski moderated the "Financiers' Panel" consisting of high-ranking representatives from the aviation industry and banks, whilst Mr Bert van Leeuwen, Head of DVB's Aviation Research, headed the "Freighters' Panel".

**5 October**
Annual client reception at the Mandarin Oriental Hotel in New York City – Messrs Driese, Lunde and Grabowski welcomed 240 guests from the shipping, aviation, and land transport industries.

**9 November**
Client event held at the Taj Mahal Palace and Towers in Mumbai, India – Messrs Driese, Lunde and DVB colleagues met representatives from the shipping industry.

**21–24 November**
AusRAIL PLUS 2011 in Brisbane, Australia – Land Transport Finance gave a presentation at the largest rail trade show (combined with a rail congress) in the Southern Hemisphere with 1,000 conference participants, 345 international exhibitors and 5,000 exhibition visitors.

**4 December**
Winners of the world's toughest rowing race, or "Across the Atlantic in 40 days, 9 hours and 15 minutes" – Nick Moore and Toby Iles, two colleagues from Aviation Asset Management, took part in the "Talisker Whisky Atlantic Challenge". They set off from the Canary Island of La Gomera and crossed the entire Atlantic Ocean (2,591 sea miles or 4,798.5 km), to Barbados, where they were first to cross the line. Donations collected in support of this event will go to ShelterBox, a non-profit organisation helping people who are affected by disasters.



# The leading specialist in international transport finance

At DVB, we make deals work. This means striving to seek and develop intelligent and appropriate solutions that meet and even exceed our clients' needs and expectations. We go the extra mile to constantly and thoroughly research and study our industry. Often, this leads us to challenge conventional wisdom when offering our focused range of financing services.

# Shipping Finance – specific sector expertise

Transport markets were burdened by uncertainty on the commercial and financial markets during 2011, as well as by political events and natural disasters. Once again, numerous maritime shipping segments and regions suffered from an imbalance between capacity supply and demand. The fleet has been growing since 2009, through the arrival of many newbuild vessels – yet demand for transport capacity remained on a markedly lower level. Despite this challenging environment, our Shipping Finance team once again supported our clients in the seven sectors we cover (Container Business Group, Dry Bulk Group, Chemical, LPG & Product Tanker Group, Crude Oil & LNG Tanker Group, Offshore Support Group, Offshore Drilling & Production Group and Cruise & Ferry Group) with valuable expertise concerning different vessel types, value-creation chains, freight flows and networks. One of our major advantages is the ability to recognise developments in the various shipping sectors earlier than our competitors. During 2011, this enabled us, once again, to take an active stance, and to exploit the attractive opportunities which arose following the withdrawal of numerous competitors. Our motto thus remains unchanged: maritime shipping has a future.

Photographer
Bert van Leeuwen,
Head of Aviation Research,
Rotterdam

# Aviation Finance – integrated platform solutions

Whilst air traffic in most regions across the globe was still showing robust growth at the beginning of 2011, the market struggled to maintain this momentum during the course of the year. According to IATA statistics, passenger air transport (measured by the volume of passenger kilometres sold) grew by 5.9% overall. At the end of the year, air freight volumes (measured in terms of freight tonne kilometres sold), showed a slight decline, however, on account of a weakening global economy. Counter to initial expectations, there was no particular increase in competitive pressures in 2011. As a leading arranger, underwriter and provider of asset-based capital in aviation finance worldwide, the Aviation Finance team once again supported our clients from the global aviation industry with its sophisticated and innovative Aviation platform. By means of this comprehensive business approach, the team closed 2011 with a strong performance and established yet another impressive track record of highly structured transactions. DVB was thus one of the few financial institutions which remained active during the recent downturn, thereby proving – once again – a reliable partner to our clients.


Photographer
Wouter Radstake,
Head of Land Transport Research,
Frankfurt/Main

# Land Transport Finance – consistent client franchise

Land freight transport resumed its growth trend in Europe and North America during 2011, but failed to reach its pre-crisis record levels, especially in Europe. In Australia, however, the dynamic growth momentum in land freight transport volumes remained intact. Train and bus passenger volumes rose across all three continents, albeit with significant regional variations. Whilst capacity utilisation and leasing rates of European transport assets only recovered slowly, growth rates in the Australian and North American markets were markedly higher. During 2011, our Land Transport Finance team focussed on the existing target regions of Europe and North America; in addition, the team closed initial transactions in its new target region of Australia. Both our clients and our financing partners appreciate DVB's strategy of specialising on asset finance. This focus provides valuable impetus for the financing market that is otherwise defined by project finance facilities and corporate lending. This, and not least our persistent dialogue with clients about optimal financing structures, led to Land Transport Finance being commended again in 2011: We are proud to say that Jane's Transport Finance awarded us the renowned "Rail Finance Innovator" prize for our achievements in 2011.

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

Ladies and Gentlemen,

Last year, we included the following statement in our summary outlook for 2011: "Volatility will prevail – in the economy, on financial markets, in demand for transport services, and especially in the supply of additional transport capacity. Persistently high volumes of newbuild capacity will be pushed onto the markets during 2011 and 2012. As we said before: there is no reason to relax. At the very least, the risk of setbacks is higher than the chances of particularly positive news."

As it turned out, our expectations were fulfilled, even exceeded – unfortunately, in the negative sense.

What started in 2007 as a still-manageable subprime crisis (at least from today's perspective) and evolved into a financial markets crisis with the demise of Lehman Brothers, got out of control. It escalated into a sovereign debt crisis, and has ultimately led to a political crisis. As a consequence, market participants have lost confidence in virtually all secular bodies. There are two possible solutions: take bold steps in order to achieve change, or fail miserably. Politicians are dithering between these two extremes, and in a dangerous manner.

What is very clear, though, is DVB's ability to deliver, and to fulfil our targets. We have committed to furnishing our clients with optimal financing solutions, and to providing an appropriate return on equity (ROE) to our shareholders. Instead of judging our own performance however, we prefer to let the facts speak for themselves:

During the 2011 business year we committed an aggregate €5.6 billion (+27.3%) in new financings, in a total of 184 transactions. DVB's ROE stood at 14.0%, compared to 13.9% in the previous year.

Finally, we have posted pre-tax consolidated net income of €147.7 million. This means that our performance – which was 12.7% higher than our previous record posted in 2010 – was not only comfortably within our target range, but also very strong compared to other banks.

Only a strong ship can hold its course in rough seas. In a similar manner, only a profitable bank can continue to support its clients during times of crisis – and only a successful bank can muster the unqualified support of its shareholders.

Dagfinn Lunde, Member of the Board of Managing Directors

Bertrand Grabowski, Member of the Board of Managing Directors

We would like to thank all staff at our offices around the world for their exemplary commitment and contribution, whether in risk management, client service, or in administrative functions. Unfortunately, our environment – the storm surrounding us – shows no signs of calming. This means that all of us will remain under quite some pressure going forward.

Some explanations concerning the 2011 consolidated financial statements: Total income increased by €29.8 million to €337.1 million (+9.7%). At €116.2 million, net fee and commission income remained at a high level.

The development of interest income was influenced by two notable factors: €29.6 million in profit from the sale of container boxes by a shipping investment fund we manage, as well as impairments to the fair value of investments in these funds. Allowance for credit losses stood at €–59.2 million.

The 7.5% increase in costs needs to be seen in the context of higher staffing levels and the German bank levy.

Our second most important management indicator – after ROE – is the cost/income ratio (CIR), which also developed favourably (47.8%, compared to 49.6% in the previous year).

We will propose to the Annual General Meeting to pay an unchanged dividend of €0.60 per share.

One notable development during the year under review was the raising of our majority shareholder DZ BANK AG's credit rating – by one notch – by Standard & Poor's at the beginning of December 2011. DVB itself also benefited from the stability of the co-operative banking sector, seeing its long-term counterparty credit rating upgraded from A to A+ – a strong signal during these times of instability.

Overall, we anticipate that 2012 will be a very difficult year indeed. We will certainly not complain if things should turn out better than expected; however, the business environment we perceive for the year ahead leaves little room for positive surprises.

The European economies will see recessionary trends during the first half of the year, while the US will not succeed in cranking the growth engine sufficiently during the election year. Growth rates in the developing economies will also be somewhat lower. The sovereign debt crisis in Europe and the US has a direct impact on the banking sector, which will in turn burden the financing of companies. And finally, the maritime shipping sector will continue to be affected by excess supply created by additional capacity coming onto the market – with demand set to grow slower. Tanker, bulk and container shipping are the sectors that will be worst affected; in addition, we will see intensified predatory competition. The number of insolvencies is set to rise.

Active risk management remains DVB's top priority: it is essential to reach out – at an early stage – to those clients facing (or who might face) difficulties, in order to find a solution together. Throughout 2012, we want to continue originating new business on a selective basis, and to establish new client relationships in certain segments. It is crucially important to permanently optimise the risk profile of our portfolios – and hence, of the Bank as a whole. At the end of the day, we must provide an appropriate return on the capital entrusted to us. This is what our shareholders expect from us – and justifiably so.

We project results for 2012 to be in line with the previous year. Given the business environment we envisage, this represents a major challenge.

A challenge which we take on.

Yours sincerely,

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

Dagfinn Lunde
Member of the
Board of Managing Directors

Bertrand Grabowski
Member of the
Board of Managing Directors

Frankfurt/Main, March 2012
DVB Bank SE

## The Board of Managing Directors



**Wolfgang F. Driese**
CEO and Chairman of the Board of
Managing Directors and bank director
Born 1949 in Berlin, Germany

Client areas in business divisions:
Shipping Credit, Aviation Credit, Land Transport Credit
Shipping Research, Aviation Research, Land Transport Research
Financial Institutions
Investment Management
(Shipping & Intermodal Investment Management,
Aviation Investment Management)

Client areas in affiliates:
DVB LogPay GmbH
ITF International Transport Finance Suisse AG

Product/service areas:
Group Risk Management
Group Controlling
Group Corporate Communications
Group Compliance Office

Chairman of the Supervisory Board
DVB Bank America N.V., Willemstad, Curaçao

Chairman of the Board of Directors
DVB Holding (US) Inc., New York, USA
DVB Transport (US) LLC, New York, USA

Member of the Board of Directors
DVB Transport Finance Ltd, London, United Kingdom
DVB Group Merchant Bank (Asia) Ltd, Singapore
DVB Capital Markets LLC, New York, USA

Chairman of the Board of Directors
ITF International Transport Finance Suisse AG, Zurich, Switzerland
DVB Invest (Suisse) AG, Zurich, Switzerland

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**Bertrand Grabowski**
Member of the Board of Managing Directors and bank director
Born 1956 in Guerche-de-Bretagne, France

Client areas in business divisions:
Aviation Finance
Land Transport Finance

Client areas in affiliates:
DVB Transport Finance Ltd
TES Holdings Ltd

Product/service areas:
Group Audit
Group Treasury

Chairman of the Board of Directors
DVB Transport Finance Ltd, London, United Kingdom
TES Holdings Ltd, Bridgend, Wales, United Kingdom

Member of the Board of Directors
DVB Transport (US) LLC, New York, USA
DVB Capital Markets LLC, New York, USA
(since 1 December 2011)
DVB Holding (US) Inc., New York, USA
(since 20 December 2011)

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**Dagfinn Lunde**
Member of the Board of Managing Directors and bank director
Born 1948 in Tokke, Norway

Client areas in business divisions:
Shipping Finance
DVB Corporate Finance

Client areas in affiliates:
DVB Capital Markets LLC

Product/service areas:
Group Human Resources
Group Operations
Group Accounting and Taxes

Chairman of the Board of Directors
DVB Capital Markets LLC, New York, USA
DVB Group Merchant Bank (Asia) Ltd, Singapore

Member of the Supervisory Board
DVB Bank America N.V., Willemstad, Curaçao
Capital Equipment Management Holding GmbH, Hamburg, Germany

Member of the Board of Directors
DVB Holding (US) Inc., New York, USA
DVB Transport (US) LLC, New York, USA
DVB Service (US) LLC, New York, USA

Dear shareholders,

Since the summer of 2008, the financial markets and the real economy have seen a global crisis which has unfolded in several phases. The business year 2011 was characterised by the euro zone sovereign debt crisis and by the so-called Arab Spring. In the wake of these developments, global economic growth and the transport markets showed a mixed picture, with significant regional divergence.

DVB once again performed successfully in this challenging environment during the business year 2011. DVB's core Transport Finance business once again proved to be robust and crisis-proof. We would like to express our thanks to the Board of Managing Directors and to all members of staff for the performance shown and the results achieved. The Supervisory Board is confident that DVB will remain on track for success during 2012.

In 2011, the entire Supervisory Board concerned itself – in detail and on a continuous basis – with developments on the maritime shipping and the aviation markets, the risk management for the Shipping Finance and Aviation Finance portfolio, and with the Bank's liquidity needs. The manifold, ever more complex regulatory requirements the Bank is facing were also an ongoing topic of discussion in the Supervisory Board.

I would now like to turn to our detailed report on the activities of the Supervisory Board during the business year 2011. Throughout the past business year, the Supervisory Board and its committees, the Credit Committee and the Executive Committee, have fulfilled the obligations imposed on them by the applicable statutes, Memorandum and Articles of Association, and the Bank's Internal Regulations. We have taken decisions on issues requiring approval, closely advised the Bank's Board of Managing Directors, and have continuously supervised the management of the Company and the Group by the Board of Managing Directors. We were also consulted on decisions of fundamental importance, in good time.

## Co-operation with the Board of Managing Directors

Once again, we discussed numerous legal and regulatory changes during the business year 2011. The Supervisory Board placed great emphasis on supporting the Board of Managing Directors with the implementation of its strategic objectives, regarding compliance with all legal and regulatory provisions, and by giving advice.

Frank Westhoff
Chairman of the Supervisory Board

Dr Peter Klaus
Deputy Chairman of the Supervisory Board

Prof Dr h.c. Stephan Götzl

Flemming Robert Jacobs

Wolfgang Köhler

Dr Klaus Nittinger

Masahide Kubo

Dorinus Legters

Martin Wolfert

Key topics of discussion were DVB's business development and financial position in an increasingly challenging environment for European banks, developments on the international transport markets, as well as the Bank's activities in managing risk, liquidity, and capital. During Supervisory Board meetings, the Board of Managing Directors comprehensively informed us on the development of strategic parameters of DVB's business model, resulting adjustments to future business policy, as well as on corporate governance and planning (including the planning parameters for the Bank's financial resources, budgeted results, liquidity and human resources), as well as on transactions, results and events that were (and still are) important to DVB.

The Credit Committee in particular discussed DVB's risk situation and risk management in detail. During its plenary meetings, the Supervisory Board received regular and detailed information on these topics. Moreover, the Supervisory Board was informed about current events and transactions of fundamental importance which were subject to joint discussions with the Board of Managing Directors and – where required – approved by the Supervisory Board. Mr Wolfgang Driese, CEO and Chairman of the Board of Managing Directors, and Mr Frank Westhoff, Chairman of the Supervisory Board held regular discussions which focussed on issues specific to the Bank, and on decisions to be made, in a timely and comprehensive manner. The Board of Managing Directors informed us in writing of important developments between Supervisory Board meetings, thus permitting the Supervisory Board members to exercise their control function at any time.

In the past year, the Supervisory Board's activities and co-operation with the Board of Managing Directors were once again characterised by mutual trust and by open and constructive discussions.

### Meetings of the Supervisory Board

The Supervisory Board met during four scheduled plenary meetings in 2011; during these meetings, we regularly discussed the business development of the Bank and its subsidiaries. The Board of Managing Directors and the division heads gave a detailed account of the sector-specific and macro-economic environment on the international transport markets, as well as on the specific risk situation concerning ships, aircraft and rolling stock on the shipping, aviation and land transport markets.

Main issues during the meeting on 9 March 2011 were the key parameters of the 2010 consolidated financial statements, business development during the first months of 2011 as well as the consideration and confirmation of the single-entity financial statements of DVB Bank SE for the 2010 business year. The external auditors, who took part in this meeting, responded to our questions in full. We duly noted and approved the dividend proposal for 2010, and the Corporate Governance Report for 2010. We then discussed DVB's strategy for managing market, liquidity and operational risks, and how this is implemented in the Bank.

At the meeting on 28 March 2011, we discussed the IFRS consolidated financial statements 2010 with the auditors, and approved the consolidated financial statements. We adopted the proposals for resolutions to be passed by the Annual General Meeting 2011. The head of Internal Audit presented the annual Audit Report. We also concerned ourselves in detail with the remuneration system for the Board of Managing Directors, and with the amendments to the German Ordinance Regarding the Regulatory Requirements for Remuneration Systems of Institutions (InstitutsVergV). We retained an independent legal and remuneration adviser to review what amendments (if any) were required. We then discussed the assessment basis for variable remuneration for the Board of Managing Directors for the business year 2011, and determined bonus payments to the members of the Board of Managing Directors, based on the recommendations put forward by the Executive Committee. Also, we approved the payments to the Board of Managing Directors under the DVB Long-Term Incentive Plan (LTI) 2008. Mr Bertrand Grabowski, the member of the Board of Managing Directors responsible for Aviation Finance, provided a detailed report of the current business developments and the outlook for 2011, as well as the risk situation in the aviation industry.

Mr Dagfinn Lunde, the member of the Board of Managing Directors responsible for Shipping Finance, continued this detailed reporting during the meeting on 28 September 2011. In particular, he explained the current structure of the Shipping Finance portfolio, illustrating the risk situation in the various maritime shipping market segments, based on up-to-date research material. Furthermore, he gave a detailed account of recent developments in the Shipping Finance division. The head of Group Compliance presented the 2011 Compliance Report. During this meeting, we once again concerned ourselves with personnel matters. Specifically, we examined whether the remuneration of the Board of Managing Directors is appropriate and in line with market terms, by discussing the recommendations put forward by the independent legal and remuneration advisory and by the Executive Committee, passing the necessary resolutions for implementation. We renewed the appointment of Mr Wolfgang Driese as a member of the Board of Managing Directors; in the meeting on 28 September 2011 we approved his appointment as CEO and Chairman of the Board of Managing Directors of DVB Bank SE, for a term from 28 September 2011 to 31 May 2014.

The last Supervisory Board meeting during the year under review took place on 23 November 2011. Besides the report of the Board of Managing Directors concerning DVB's current business development, discussions focussed on the Bank's short-term and long-term strategic direction. In this context, we approved the planning for 2012, and discussed the medium-term planning until 2016 with the Board of Managing Directors. We also discussed various risk strategies in detail, covering equity investments, market price, liquidity, outsourcing and operational risks, giving recommendations to the Board of Managing Directors. Furthermore, we looked into factors contributing to the volatility of net income from financial instruments in accordance with IAS 39, especially regarding derivative hedges. We then looked into the Bank's operational implementation of the recommendations of the German Corporate Governance Code. By way of conclusion, the Remuneration Committee (which the Bank has established voluntarily, in accordance with section 6 of the InstitutsVergV) submitted its annual report.

There were no members of the Supervisory Board who attended less than half of the meetings. The attendance rate was 93%. No conflicts of interest arose during the period under review.

## Supervisory Board Committees

During its four meetings, the Credit Committee discussed and, where required, approved all credit exposures of DVB that were subject to reporting requirements by virtue of law or under the Internal Regulations, in detail and without delay. In addition, the Credit Committee was regularly involved in approving lending exposures, where such approval was required, by way of circulation. During the meetings, detailed portfolio analyses were used to discuss the structure of the loan portfolio (and related planning) and risk issues – specifically regarding credit, liquidity, country and market price risks. Of particular importance in this context were the performance of funded assets, risk management measures taken, and the specific analysis of individual non-performing exposures.

In addition, the Committee members discussed and adopted various strategies for specific shipping sectors, as well as changes to existing lending policies. Discussions on the credit risk strategy formed a focal point of deliberations. The Committee discussed the impact of changed regulatory provisions on DVB and its subsidiaries in detail, together with the resulting changes to risk positions. Furthermore, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, informed the members of the Credit Committee of the results of an audit of the Bank's lending business. 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 lending business.

The Executive Committee met twice during the period under review; one of these meetings was held as a conference call. In addition to the duties which the Supervisory Board has conferred upon the Executive Committee, the Committee in 2011 discussed, in particular, the legal and regulatory requirements governing the remuneration of the Board of Managing Directors and the implementation of these requirements. The Committee prepared the discussion of these issues in the plenary meeting of the Supervisory Board, and dealt with general personnel matters pertaining to the Board of Managing Directors. Furthermore, concerning the conclusion of employment contracts with executive staff, where the annual remuneration was in excess of a set threshold, the Committee was kept informed by the Board of Managing Directors as requested, and always in good time.

Mr Frank Westhoff, the Chairman of the Credit Committee and the Executive Committee, kept the entire Supervisory Board informed on topics dealt with by the Committees, to the extent that such issues were fundamentally important, or were also discussed in the plenary meetings of the Supervisory Board.

### DVB's Corporate Governance

Implementation of the recommendations of the German Corporate Governance Code was discussed in depth during the Supervisory Board meeting in November. Together with the Board of Managing Directors, we have issued the tenth Declaration of Compliance in accordance with section 161 of the German Public Limited Companies Act (referring to the German Corporate Governance Code as amended on 26 May 2010) which was published in the electronic German Federal Gazette and on DVB's website on 9 December 2011.

All Declarations of Compliance issued by DVB since 2002 are available for download from our website www.dvbbank.com > Investor Relations > Corporate Governance > Declarations of Compliance

Once again, we determined that, according to our own assessment, a sufficient number of independent members serve as Supervisory Board members. Dr Peter Klaus has assumed the role of an expert in finance within the Supervisory Board.

### Personnel change within the Supervisory Board – training and CPD measures

Mr Masahide Kubo was appointed to the Supervisory Board, as an employee representative, with effect from 1 October 2011. He succeeded Mr Kieran O'Keefe who retired from the Supervisory Board on 30 September 2011.

DVB supports us with respect to training or continuous professional development (CPD) measures we need to perform our duties as Supervisory Board members. Mr Masahide Kubo, a new member of the Supervisory Board who was appointed in 2011, thus received an introduction – tailored to his personal needs – to the statutory and legal duties of Supervisory Board members. During the period under review, the Bank also conducted three internal workshops concerning International Financial Reporting Standards (IFRS) which were attended by a majority of Supervisory Board members.

### Co-operation with external auditors for the financial statements 2011

The consolidated financial statements and the group management report of DVB Bank SE for the 2011 business year have been examined, following an audit of the accounting records, and certified without qualification, by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, the external auditors appointed by the General Meeting. The Chairman of the Supervisory Board obtained information on the scope of the audit in advance, and discussed focal points with the auditors in detail. The auditors' reports were distributed to all members of the Supervisory Board in good time before the meeting held on 29 March 2012, during which the consolidated financial statements were discussed. The auditors who certified the consolidated financial statements took part in this meeting. During this meeting, they gave a detailed account of their audit as a whole, and provided detailed answers to our questions regarding focal points of the audit.

The subsequent examination by the Supervisory Board of the consolidated financial statements and group management report as at 31 December 2011, gave no cause for objections. We thus approved the consolidated financial statements as at 31 December 2011 prepared by the Board of Managing Directors.

The Board of Managing Directors has prepared and submitted the report on relations with affiliated companies during the business year 2011; 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 relations with affiliated companies, the Supervisory Board approved the results of the audit of the financial statements. In particular, the Supervisory Board had no objections regarding the declaration made by the Board of Managing Directors pursuant to section 312 (3) of the German Public Limited Companies Act.

Frankfurt/Main, 29 March 2012
For the Supervisory Board

Frank Westhoff
Chairman

## Supervisory Board

**Shareholder representatives**

Frank Westhoff
Chairman
Member since 30 June 2006

Dr Peter Klaus
Deputy Chairman
Member since 10 June 2009

Prof Dr h.c. Stephan Götzl
Member since 10 June 2009
Flemming Robert Jacobs
Member since 10 June 2005

Wolfgang Köhler
Member since 21 September 2009

Dr Klaus Nittinger
Member since 10 June 2009

**Employee representatives**

Masahide Kubo
Member since 1 October 2011

Dorinus Legters
Member since 4 November 2008

Martin Wolfert
Member since 7 October 2008

## Supervisory Board Committees

**Credit Committee**

Frank Westhoff
Chairman

Dr Peter Klaus
Deputy Chairman

Flemming R. Jacobs

Martin Wolfert

**Executive Committee**

Frank Westhoff
Chairman

Dr Peter Klaus
Deputy Chairman

Dorinus Legters

In the following declaration pursuant to section 3.10 of the German Corporate Governance Code (the Code) and section 289a (1) of the German Commercial Code (HGB), the Board of Managing Directors and Supervisory Board of DVB Bank SE report on the Bank's corporate governance.

DVB is a leading global specialist in international transport finance. As a listed company, DVB must observe the provisions of the Code. The Board of Managing Directors and the Supervisory Board therefore use the Code as a guideline in order to enhance the transparency of business decisions for our shareholders, business partners, employees, and the general public. The two Boards regularly review the Code's recommendations – as amended annually by the Government Commission of the German Corporate Governance Code – and how DVB is implementing them.

DVB's corporate governance is shaped by four essential parameters:

- responsible and effective corporate governance and control by the Board of Managing Directors and the Supervisory Board, respectively;
- the protection of stakeholder interests (shareholders, investors, clients, business partners and staff);
- regular financial reporting and independent audits; and
- transparent communications.

## DVB's dual-board structure

DVB Bank SE opted for the dual-board structure comprising two Boards, in addition to the General Meeting: one managing the Bank and its business (managing body: Board of Managing Directors) and one supervising the management (supervisory body: Supervisory Board). DVB's dual-board structure is composed in the following manner: ❶

## The Board of Managing Directors – DVB's managing body

Pursuant to Article 7 of the Memorandum and Articles of Association of DVB Bank SE, the Board of Managing Directors consists of a minimum of two members who are appointed by the Supervisory Board for a period of no more than five years. The Board of Managing Directors currently has three members.

The Supervisory Board selects those candidates for appointment as members of the Board of Managing Directors who are best qualified in the context of the Bank's business model: specific expertise in the transport finance business is decisive, whereas criteria such as gender or nationality are irrelevant (section 5.1.2 (1) sentence 2 of the Code).

Reappointments, for no more than five years per term, are permitted. In principle, the term of office of a member of the Board of Managing Directors ends when reaching the age of 65; in this case, any reappointments are only permitted for one year each time, until the individual concerned has reached the age of 67.

**❶ Dual-board structure**

**Board of Managing Directors**

- Management body
- Corporate strategy
- Controlling
- Risk management
- Internal Audit
- Compliance
- Preparation of the financial statements and management reports
- Minimum of two members

reports to ↓ formally approves of ↑

← close co-operation to the benefit of the enterprise →

reports to →

← advises, approves, controls, appoints, dismisses

**Supervisory Board**

- Supervising body
- Examination, confirmation/approval of financial statements and resolutions
- Members: six shareholder representatives three employee representatives
- Credit Committee, Executive Committee
- Four scheduled meetings a year

reports to ↓ formally approves of ↑

**General Meeting**

- Each share carries one vote.
- Resolutions on e.g. the profit appropriation, changes of the Memorandum and Articles of Association as well as legal transactions requiring approval
- Appointment of the shareholder representatives on the Supervisory Board and of the auditor

The Board of Managing Directors manages the business in the Company's best interests and in order to achieve a sustained increase in its value. In doing so, the Board of Managing Directors considers the interests of shareholders, investors, clients, and business partners – as well as those of the Bank's employees. DVB's business model and its strategic position in the relevant global transport markets are determined and refined by the Board of Managing Directors in co-ordination with the Supervisory Board. In addition, the members of the Board of Managing Directors ensure that the Company is managed in accordance with legal regulations, the Memorandum and Articles of Association, and the Internal Regulations. Moreover, the Board of Managing Directors directs the parent company DVB Bank SE and the DVB Group using efficient management tools; specifically, these include financial controlling, risk management, and compliance.

Regarding the members of the Board of Managing Directors, no conflicts of interest pursuant to section 4.3 of the Code occurred during the 2011 business year.

More information on the composition of the Board of Managing Directors and the distribution of responsibilities amongst its members is available on page 11 of this annual report.

## The Supervisory Board – DVB's supervisory body

Pursuant to Article 11 (1) of the Memorandum and Articles of Association of DVB Bank SE, the Supervisory Board consists of total of nine members (comprising six shareholder representatives and three employee representatives). The current members of the Supervisory Board are appointed for the period until the conclusion of the General Meeting that passes a resolution on the formal approval for the fourth financial year following the commencement of their term of office; this will be the Ordinary Annual General Meeting to be held in 2014.

With regard to the election of Supervisory Board Members it shall be ensured that any such candidate will not attain the age of 68 years during their term of office as a Member of the Supervisory Board. In special cases, however, this threshold may be exceeded by two years.

The Supervisory Board continually advises and supervises the Board of Managing Directors in its management of the business. It is involved in every major business decision. Transactions that require Supervisory Board approval, pursuant to Article 18 of the Memorandum and Articles of Association, include the purchase and sale of companies, the conclusion of inter-company agreements and the development of new or the discontinuation of existing business segments that are of material importance for the DVB Group. In addition, the Supervisory Board is responsible for the appointment and removal of members of the Board of Managing Directors.

The Supervisory Board conducts its business in accordance with the respective Internal Regulations. It is directed by the Chairman of the Supervisory Board, who sets the agenda for each meeting, chairs the plenary meetings, and signs the meeting minutes. The Internal Regulations of the Supervisory Board also provide for various methods of casting votes; for each poll, the Chairman of the Supervisory Board selects the most appropriate method from amongst these options.

DVB's Supervisory Board has formed two committees, the Executive Committee and the Credit Committee.

- The Executive Committee consists of three Supervisory Board members, including the Chairman and Deputy Chairman of the Supervisory Board, plus an employee representative. The Committee's tasks are defined in its Internal Regulations: the Executive Committee is responsible for preparing resolutions on the conclusion, extension or termination of contracts with the members of the Board of Managing Directors, and regarding their remuneration; the resolutions are passed by the plenary meeting of the Supervisory Board.

- The four members of the Credit Committee are elected by the plenary meeting; they meet at least four times per year. Moreover, the Credit Committee also passes resolutions or holds polls by way of circulation; where appropriate, Committee members communicate via conference calls. By virtue of its Internal Regulations, the Supervisory Board has delegated authority to the Credit Committee for certain decisions to be taken on behalf of the Supervisory Board. Specifically, this includes dealing with all DVB Group exposures which must be submitted to the Supervisory Board for acknowledgement or approval, as well as all major loans and loans subject to higher risks. Where required, the Credit Committee approves any such loans. Moreover, the Board of Managing Directors co-ordinates the lending policies with the Credit Committee, and keeps the Committee informed on a regular basis about problem loans, exposures subject to higher risk, and unusual events related to the lending business.

The Supervisory Board has not established an Audit Committee. However, an independent member of the Supervisory Board has special skills and experience in the fields of accounting and audit of financial statements.

Moreover, the Supervisory Board has not established a Nomination Committee: instead, candidates are selected within the scope of a differentiated, multi-level co-ordination process involving the Board of Managing Directors, the Chairman of the Supervisory Board and the plenary meeting of the Supervisory Board. This process serves to identify those individuals who possess the requisite transport finance expertise, whilst also fulfilling the personal requirements set out in the Company's Memorandum and Articles of Association. Criteria such as gender or nationality are irrelevant for this purpose. The Supervisory Board then proposes the candidates chosen in this manner to the Annual General Meeting.

Communications between the managing body and the supervisory body are generally structured as follows: the Chairman of the Board of Managing Directors informs the Chairman of the Supervisory Board – regularly, without delay and always up to date – on the Bank's current business development and risk situation, on important decisions to be made, and on significant issues. The Supervisory Board is kept informed, regularly and comprehensively, on developments of strategic parameters pertaining to DVB's business model, resulting adjustments to future business policy, as well as on corporate governance and planning (including financial and human resources planning, and budgeted results).

The Internal Regulations of the Supervisory Board provide for an examination of efficiency, to be performed regularly, where the members of the Supervisory Board critically evaluate their own work.

For further information, please refer to the Report of the Supervisory Board on pages 12–16 of this report, which also gives a detailed description of the work of the Supervisory Board and the focal issues discussed during 2011, as well as the processes of communication and co-ordination between the Board of Managing Directors and the Supervisory Board. The current composition of the Supervisory Board, and of its committees, is shown on page 17.

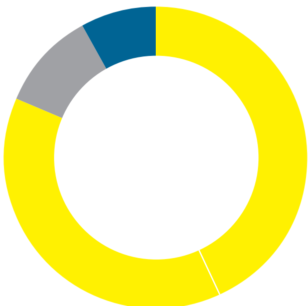
## Remuneration of members of the Board of Managing Directors and Supervisory Board

The main features of the remuneration systems for members of the Board of Managing Directors and the Supervisory Board, together with details regarding their remuneration and shareholdings, are set out in the remuneration report on pages 125–128, which is a part of the management report.

Please visit our website www.dvbbank.com > Investor Relations > Corporate Governance for general information on the Code and the way DVB Bank SE has implemented it. There, you will also find the full text of the Corporate Governance Report pursuant to section 3.10 of the Code, and the Corporate Governance Statement pursuant to section 289a of the HGB (which includes the detailed report on remuneration of the Board of Managing Directors and the Supervisory Board in accordance with sections 4.2.5 and 5.4.6 of the Code).

Expenses for the remuneration of current and former members of the Board of Managing Directors, and of members of the Supervisory Board totalled €3.5 million (2010: €3.3 million). The total amount is broken down as follows: ❶

**❶ Remuneration of the Board of Managing Directors and the Supervisory Board**



**Board of Managing Directors 81.6%**

thereof:

43.1% Fixed remuneration component

38.5% Bonus payments

**Former members of the Board of Managing Directors and their surviving dependants 10.6%**

**Supervisory Board 7.8%**

## General Meeting – protecting shareholders' interests

DVB's shareholders exercise their rights prior to or during the General Meeting, as provided by law and in the Memorandum and Articles of Association. The Ordinary Annual General Meeting of DVB Bank SE takes place during the first six months after the end of each financial year (Article 21 of the Memorandum and Articles of Association). Shareholders' regular duties include accepting the financial statements confirmed by the Supervisory Board and the consolidated financial statements approved by the Supervisory Board; passing resolutions on the appropriation of net retained profit and on the formal approval of the members of the Board of Managing Directors and the Supervisory Board, as well as electing shareholder representatives to the Supervisory Board and appointing the external auditors.

The invitation to the General Meeting of DVB Bank SE, including the agenda, is published in the electronic German Federal Gazette; it is additionally sent to our shareholders via the custodian banks. In addition, the convening notice and agenda can easily be accessed via our website as soon as the General Meeting has been convened. For easy reference, we also provide a summary agenda.

www.dvbbank.com > Investor Relations > General Meeting

The website also contains information on shareholder rights pursuant to sections 122 (2), 126 (1), 127, 131 (1) of the German Public Limited Companies Act (AktG). The Bank offers the additional service of allowing shareholders to appoint one of the proxies named by DVB to exercise their voting rights at the General Meeting. Pursuant to section 134 (3) sentence 4 of the AktG, we provide a proxy form which can be used for electronic transmission of a proxy by fax or e-mail.

Our Memorandum and Articles of Association do not currently provide for the casting of votes by post.

More information on the topics discussed during the Ordinary Annual General Meeting 2011 is available in the chapter "Equity markets and the DVB share" on page 38 of this annual report.

## Regular financial reporting and independent audits

We use financial reports to supply our shareholders and the general public with regular information about DVB's financial position and performance. DVB publishes two annual reports for each concluded business year. The annual report of DVB Bank SE comprises the Bank's financial statements in accordance with the HGB, whilst DVB Group's annual report contains its IFRS consolidated financial statements. Both sets of financial statements are prepared by the Board of Managing Directors. They are subjected to a review by the independent external auditors appointed at the Annual General Meeting before being confirmed (single-entity financial statements) by, or receiving final approval (consolidated financial statements) from the Supervisory Board.

The single-entity report of DVB Bank SE is only published on the Bank's website in German. The Group Annual Report is available for download from our website in both English and German. Since 2011, we have also published our Group Annual Report – in both languages – as an easy-to-read HTML report.

This report is expected to be available on our website www.dvbbank.com > Investor Relations > Publications > Financial Reports > DVB Group's Annual Report 2011, or directly via www.dvbbank-annualreport.com from the end of April 2012.

During the year, we also publish a half-yearly financial report that includes condensed consolidated financial statements and interim management statements during the first and second half of the year, covering key financial data for the first three months and the first nine months of the business year, respectively. All these financial reports are prepared according to IFRS.

The Annual General Meeting on 9 June 2011 appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as auditors for the 2011 business year. Their mandate covers the audit of the single-entity financial statements and the consolidated financial statements prepared by DVB for the 2011 business year, as well as any review of the condensed financial statements and interim management report as at 30 June 2011, and of the interim consolidated financial statements prepared prior to the Ordinary General Meeting 2012.

## Transparent communications

We regularly publish information relevant to shareholders and the general public, in addition to DVB's annual reports.

- We published an ad-hoc disclosure regarding DVB's preliminary and unaudited consolidated financial statements 2010 on 10 March 2011.

- Furthermore, on 21 July 2011 we published a Directors' Dealings notification on behalf of Mr Wolfgang F. Driese (CEO and Chairman of the Board of Managing Directors of DVB Bank SE), covering a transaction in notional no-par value shares of DVB Bank SE.

Our website www.dvbbank.com > Investor Relations > Publications > Directors' Dealings includes a link to news aktuell, a third-party media portal, where detailed Directors' Dealings notices published by DVB can be viewed.

- As a listed public company, DVB Bank SE is obliged to issue an annual Declaration of Compliance, in which the Board of Managing Directors and the Supervisory Board provide details on their compliance with the recommendations of the Code, and give reasons for any deviations. DVB published its tenth Declaration of Compliance on 9 December 2011; the declaration covers the years 2011 and 2012, and is available on the Bank's website.

All Declarations of Compliance issued by DVB since 2002 are available for download from our website www.dvbbank.com > Investor Relations > Corporate Governance > Declarations of Compliance.

- We also compile all publications relevant to shareholders which were published during each business year under review in an Annual Document pursuant to section 10 of the German Securities Prospectus Act (WpPG). We publish this document on our Investor Relations website.

- We actively use the internet for all relevant publications to ensure that information is provided to shareholders and the public in a timely, concurrent and comprehensive manner. The Bank's Investor Relations website is the point of contact frequently used by interested financial markets participants.

- Since 2008, we have also provided a dedicated information service: our Investor Relations Newsletter, "Performance". This is designed to actively relay target group-specific information about DVB's performance and its business divisions.

- Within the scope of both regular and ad-hoc events – including the Annual General Meeting, the Annual Accounts Press and Analyst Conference, follow-up rating discussions, road shows and one-on-one meetings – we maintain a continuous, direct and intensive dialogue with shareholders, rating and bank analysts, and the financial media.

- We compile the scheduled dates of material recurring events and publications in the financial calendar, which is published on the Bank's Investor Relations website in good time, and is permanently made available there. This allows all those interested to be informed without undue delay.

## Management tools

The key tools employed to manage the business are financial controlling, risk management, internal audit and the Compliance function.

## Financial controlling

The Board of Managing Directors has an extensive set of controls at its disposal: it uses them for a value-driven and integrated overall management of the Bank. In this context, that means taking into account both income and risk parameters. From an ex-ante point of view, the key task is to distinguish beneficial options from disadvantageous ones – with a focus on the transparent and consistent design of target systems, alternatives, and forecasts. Ex-post analyses, in contrast, are carried out within the framework of a systematic cycle of planning, management and control. This means identifying concrete measures and management options that are specifically designed to meet the requirements of the respective management areas.

The information gained through analysing risk-adjusted profitability provides transparency regarding the value created throughout the Group, and in the various units managed. The metrics used internally to assess the performance of each unit are economic value added (EVA) and return on risk-adjusted capital (RORAC). Both indicators measure the performance generated on the risk capital invested. Risk-adjusted profitability data are a key input factor for allocating capital and resources within the enterprise.

All of DVB's divisions and areas are covered by a uniform value-driven management system. Besides income, risk is another key dimension of all ex-ante and ex-post analyses.

In essence, the Group's focus is on achieving defined income and cost targets, whilst maintaining its risk-bearing capacity and ensuring compliance with regulatory requirements. In addition to the strategic plan and a detailed one-year plan, the standardised toolbox also provides for regular projections of full-year results carried out over the course of the year. The periodic management information system is built on top of an integrated data warehouse, with ad-hoc studies and analyses used as required.

DVB's tools for measuring risk-adjusted profitability are also embedded in the "Integrated risk and capital management system used throughout the DZ BANK Group".

## Risk management

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

The objective is to achieve a return on economic capital invested that is commensurate with the risk exposure. The risk management process encompasses all Group entities. The risk policy guidelines and structures for the professional management of these risks are laid down in the Risk Management Framework, which forms the basis for uniform administration and communication of all material types of risk throughout the Group. The areas of responsibility within the framework of the risk management process are clearly regulated. Responsibility for the proper implementation, organisation, and effectiveness of the Group-wide risk management system lies with the entire Board of Managing Directors of DVB Bank SE, as the parent company of the DVB Group. Based on the Group's risk-bearing capacity, the Board of Managing Directors decides on the risk strategy, including the applicable methodology and procedures used for measuring, managing and monitoring risk.

We operate a Group-wide risk management system, which complies with all statutory and regulatory requirements. This risk management system comprises the necessary provisions and measures with respect to risk strategy, risk-bearing capacity, risk management, and risk monitoring, plus a framework for the early detection of risks. In addition to the structural and procedural organisation, these also apply to the processes for identifying, assessing, managing, monitoring and communicating the risks.

For more details regarding risk management, please refer to the report on opportunities and risks on pages 132–152 of this annual report.

## Internal audit

DVB's internal audit acts on behalf of the Board of Managing Directors. Internal Audit's objective is to fulfil the duties to support the Board of Managing Directors and the Supervisory Board, as provided for by virtue of the law and regulatory provisions.

The annual audit plan defines formal audit activity, covering all of DVB's activities and processes based on a risk-oriented approach. Internal Audit monitors approved projects, and acts as an in-house consultancy – for example, in the context of systems development and reviews of policies and procedures.

Specifically, the Credit Audit team is responsible for auditing DVB's international Transport Finance business, its Investment Management activities and all related back office and support functions. The Central Audit team has audit responsibility for the Group functions located at DVB's Frankfurt/Main headquarters such as Group accounting and taxes, financial controlling and compliance. Central Audit is also responsible for auditing the DVB LogPay subsidiary. The IT Audit team has global audit responsibility for DVB's IT operations. This comprises auditing the organisation's technology processes and security as well as IT application controls. Furthermore, IT Audit focuses on systems and applications exposed to particular risks, carrying out effective IT controls for this purpose.

## Compliance

DVB defines "compliance" as adherence to the law and the Company's Memorandum and Articles of Association, as well as compliance with internal rules and regulations and voluntary obligations. The Compliance Office has been mandated by the Board of Managing Directors to ensure that regulatory compliance is implemented throughout the Group. Thus, the scope of the function specifically includes – but is not limited to – money laundering prevention, prevention of market abuse or market manipulation, anti-corruption, data protection, conflicts of interest, and compliance with the Markets in Financial Instruments Directive. In accordance with section 33 (1) sentence 2 no. 5 of the WpHG, the Head of Compliance submits a Compliance Report to the Board of Managing Directors and the Supervisory Board, at least once a year; this report complies with the requirements pursuant to sections 31 et seq. of the WpHG and of the MaComp (Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organisation and Transparency pursuant to sections 31 et seq. of the WpHG).

Compliance staff have been appointed in each of the Bank's locations, directly reporting in this capacity to the Head of Compliance. Where possible, automated monitoring systems have been implemented, which ensure that any potential breaches are automatically alerted to the central compliance function in Frankfurt/Main. The local Compliance Officers must additionally escalate any potential breach of internal policies/procedures as well as external rules and regulations.

Sustainable conduct – both commercially and socially – is a key element of DVB's corporate culture. To ensure a professional, uniform and exemplary standard of conduct, the Board of Managing Directors developed a Code of Conduct at the beginning of 2010. The values established in this Code of Conduct must be observed vis-à-vis our clients and business partners as well as all fellow employees.

The Code of Conduct outlines DVB's mission statement based on four core values:

- We offer our clients professional expertise on transport markets and transport assets – throughout all market cycles.
- We support our clients around the world with tailor-made financing solutions and a broad range of services. Our products meet all relevant legal and ethical standards.
- Entrepreneurial vision and strength guides our every thought and action.
- We create a working environment for all DVB staff that promotes knowledge, creativity, dedication, teamwork and diversity.

In this way, the Code of Conduct is also designed to manage ethical and legal challenges arising during day-to-day work, providing guidance in the event of any conflicts.

Our website www.dvbbank.com > Investor Relations > Compliance also contains DVB's Code of Conduct.

All staff attend regular trainings on compliance-related topics. We have partnered with an external provider to conduct web-based training sessions during 2011. Specifically, three mandatory webinars were carried out focused on money laundering prevention, operational risk and the Code of Conduct. Market abuse/conflict of interest trainings were rolled out during the fourth quarter of 2011. We also offer refresher training sessions for money laundering prevention, in the form of regional Group trainings where we use a training video covering the topics, provided information concerning special regional requirements, and offered the opportunity to discuss the key learnings. We will expand the programme to include additional topics during 2012.


In 2011, DVB once again achieved very good results on the troubled waters of the international transport markets with its focussed business model. Our main objective throughout every market situation is to secure and enhance the business model for the long term.

## Safeguarding the future

DVB has earned an excellent reputation as a specialised niche provider of advisory and financing services in the international transport finance business. We take the responsibility for maintaining and developing our good name and the DVB company brand very seriously. Our unique business model will continue to develop successfully on the cyclical transport markets as long as it lastingly secures confidence – from our clients, investors and staff – in DVB. A capable management structure is in place, and our management teams have extensive expertise in the global transport and financial markets.

In order to continually and successfully apply our focussed business model in cyclical and in some cases even volatile markets, it is crucial that we proactively identify all the risks that we are exposed to. We call upon financial controlling, risk management, internal audit and Compliance to ensure that all legal, regulatory and statutory requirements are being met. Compliance is responsible for preventing money laundering, market abuse or manipulation, ensuring data protection, handling conflicts of interest, and compliance with the Markets in Financial Instruments Directive. All employees receive compliance training on a regular basis to ensure that everyone is aware of and familiar with defined responsibilities and requirements.

Fostering fair and transparent competition is a cornerstone of our business philosophy which is underpinned by clearly-defined and strict compliance guidelines:

- Rules to promote fair competition (Conflict of Interest Policy)
- Rules to prevent corruption (Anti-Corruption and Bribery)
- Guidelines relating to accepting gifts and benefits (Gifts and Gratuities)
- Procedure for reporting any irregularities (Whistleblowing)

The Board of Managing Directors implemented a Code of Conduct in spring 2010, in order to secure and deepen employee awareness of, and understanding for, compliant and ethically faultless conduct. Beginning in 2012, we are expanding the scope of the Code of Conduct to apply to business partners and suppliers, where it is appropriate and makes sense to do so. We are proud of the experienced and effective team, which maintains exemplary standards of conduct towards clients and investors.

The Code of Conduct can be viewed on our website www.dvbbank.com under Investor Relations > Compliance.

## DVB's diversity management approach

DVB's business model is international in every respect:

- The Bank maintains a global presence at 13 key transport market locations: At our headquarters in Frankfurt/Main, in eight other European locations (Bergen, Cardiff, Hamburg, London, Oslo, Piraeus, Rotterdam and Zurich), in North and South America (New York and Curaçao) and in Asia (Singapore and Tokyo).

- Our client base is truly international.

- Our employees belong to a wide variety of cultural circles, and come from many different nations.

## Client structure and client loyalty

At the end of 2011, DVB's global client base comprised 652 clients or client groups (previous year: 617). These are divided between Shipping Finance with 51.4%, Aviation Finance with 25.7%, Land Transport Finance with 8.4%, ITF Suisse with 6.5% and Investment Management with 2.9%.

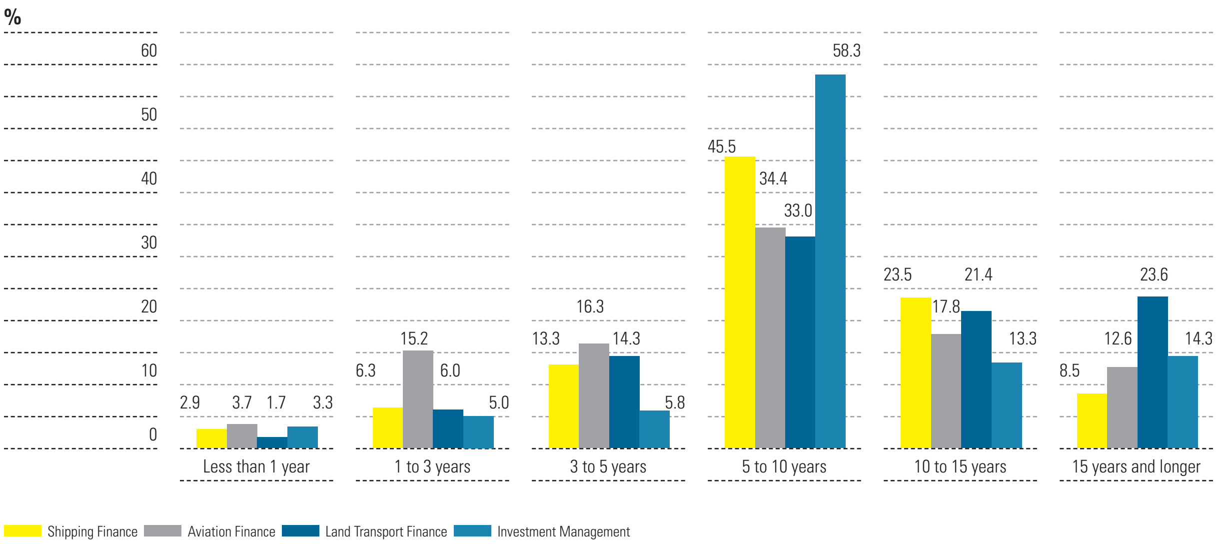
DVB pursues a cycle-neutral business model: this is why the Bank has remained a reliable partner to its clients, continuing to provide financing and advice even in a market environment that continues to be challenging. This strengthens the trust, and deepens the intensity of our client relationships for the long term.

Accordingly, we support our Transport Finance and Investment Management clients with their financing projects on a long-term basis: as at 31 December 2011, 75.3% of our clients had been using our range of services for more than five years (previous year: 54.2%). Of our client relationships in the Transport Finance and Investment Management business divisions, we have maintained

- 3.0% for less than one year,
- 8.2% for between one to three years,
- 13.5% for between three to five years,
- 42.4% for between five to ten years,
- 21.2% for between ten to 15 years, and
- 11.7% for 15 years and longer.

Whilst the average length of client relationships differs between the business divisions, it is worth noting that Investment Management only commenced operations in 2001. ❶

**❶ Length of client relationship by business division**



## Diversity as a Human Resources management task

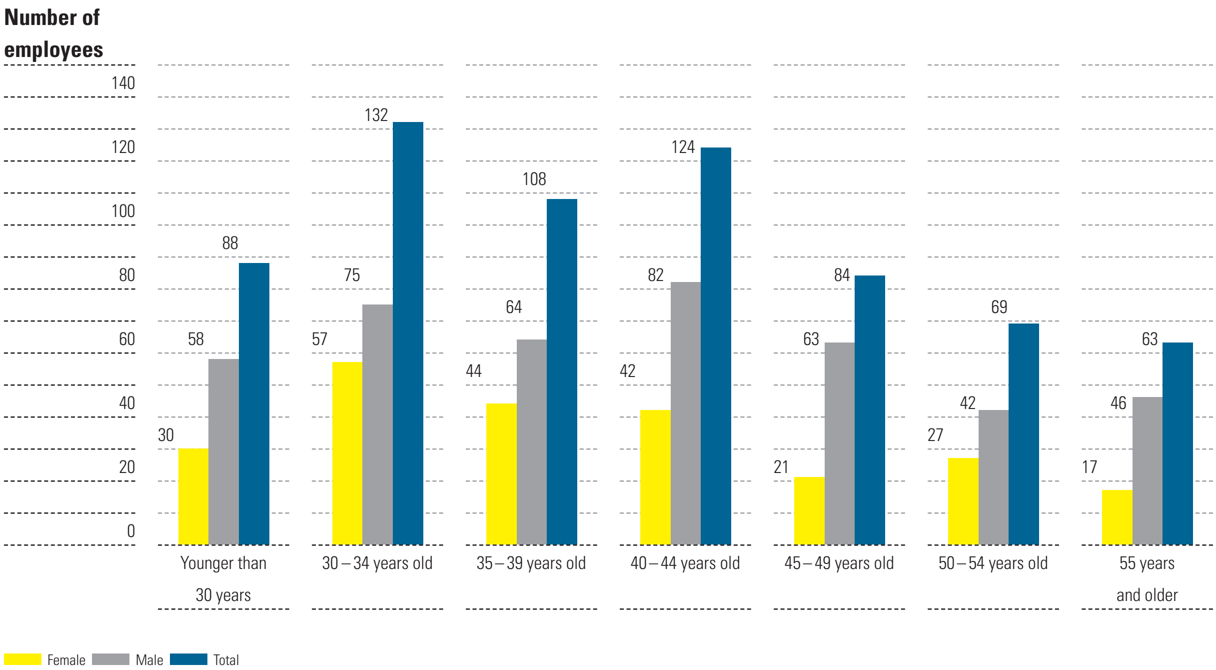
Diversity management has been a part of day-to-day life at DVB for quite some time. To cite a few statistical details, DVB's employees hail from a total of 38 different countries, and there are 33 different nationalities represented within our core Transport Finance business. ❶

Of the total of 668 employees, 430 were men and 238 women, as at the end of 2011. The breakdown by age and gender is as follows: ❷

### ❶ Nationalities in 2011

| | Employees at DVB | | Employees in Transport Finance/ Investment Management | |
|---|---|---|---|---|
| | Number | % | Number | % |
| German | 228 | 34.1 | 49 | 16.0 |
| British | 162 | 24.3 | 45 | 14.7 |
| Dutch | 75 | 11.2 | 57 | 18.6 |
| Singaporean | 38 | 5.7 | 22 | 7.2 |
| Norwegian | 34 | 5.1 | 32 | 10.5 |
| US-American | 26 | 3.9 | 21 | 6.9 |
| Greek | 19 | 2.8 | 18 | 5.9 |
| 31 other nationalities (DVB) | 86 | 12.9 | – | – |
| 26 other nationalities (Transport Finance/Investment Management) | – | – | 62 | 20.3 |
| **Total** | **668** | **100.0** | **306** | **100.0** |

### ❷ Age structure and gender allocation in 2011



## Human Resources work – focusing on sustainability

The core responsibility of our Human Resources department in 2011 was to provide lasting support to DVB's business development against the backdrop of the sovereign debt crisis in euro zone countries. After the crisis years of 2008 and 2009, we were able to return our focus to forward-looking Human Resources activities in 2010 and 2011. Examining the impact of the regulatory requirements upon our remuneration systems was another central task.

## Leadership and management principles

DVB consciously employs and maintains flat hierarchies to make short decision-making channels possible. This allows decision-makers to work on complex issues and transactions in a swift, precise and goal-oriented manner. Fast, clear and definitive decisions and implementation are one of DVB's key competitive advantages. Managers, as well as the members of the Board of Managing Directors, are also always accessible under our open door policy in order to engender internal transparency and an open exchange. Being receptive to new ideas and opinions (even contrary ones) is at the heart of our concept of management.

In an organisation with a manageable number of employees such as DVB, we believe it is more productive to promote a personal and individual-oriented approach, offering a high degree of autonomy rather than a top-down management style. Given this background, employee management, training and development are not administered centrally, and instead are primarily the responsibility of managers. Group Human Resources also provides support.

## Recruitment

To fill open positions, we first look for experienced specialists, whether it be in Transport Finance or in our product and service divisions. Accordingly, we generally recruit personnel with the help of recruitment consultants. Fortunately we have increasingly been able to fill positions through referrals from our own employees. No recruitment measures are necessary for our trainee programme, as there are sufficient qualified candidates who apply directly.

## Human Resources development

We have deliberately created two separate processes for employee review and bonus determination. Determining bonuses is based on achieving explicit quantitative and/or qualitative targets that have been mutually agreed upon by employees and their managers. Employees and their managers should also sit down together and discuss how the employee is progressing, examine potential, areas for development and other issues irrespective of any monetary considerations. Group Human Resources provides managers with materials designed to assist them in conducting structured and efficient employee review meetings. We revised these materials in 2011 to shift the focus more heavily from a pure performance assessment to identifying potential for development and advancement opportunities.

We have been conducting our trainee programme successfully for many years. The roughly 18-month programme covers all the major aspects of our Transport Finance business, including relationship management and loan management. The financial and global economic crisis made stable and definitive human resources planning challenging, which resulted in lower trainee appointments. Starting in 2011, the programme will again include a greater number of new trainees.

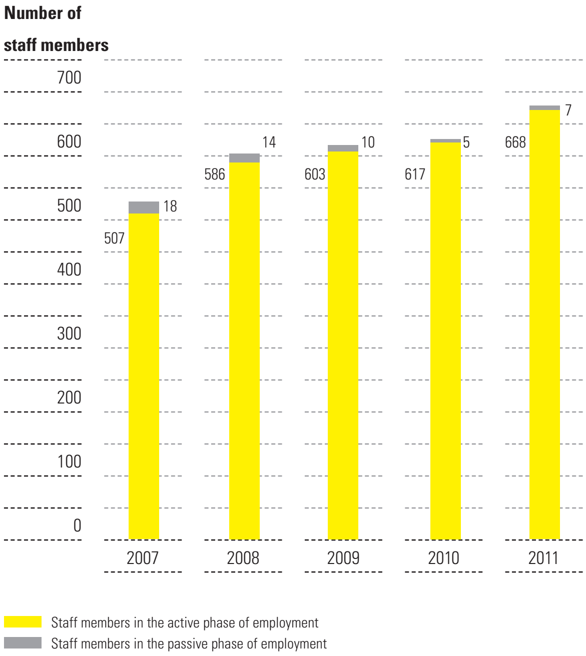
## Development of the personnel structure in 2011

The number of active employees increased by 51 (+8.3%) to 668 staff members in 2011. This figure does not reflect the seven employees with inactive employment relationships, such as the non-working phase of semi-retirement, maternity or parental leave. The staff information reported here from 2007 to 2011 also comprises employees in our subsidiary DVB LogPay GmbH for the first time. ❶

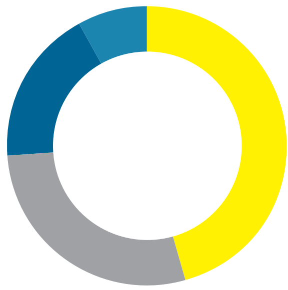
- We realised considerable efficiency enhancements in our back-office unit by hiring specialists to manage the complex administrative processing flows entailed when a deal is closed. This affords our Relationship Managers more time to acquire new clients and manage relationships.

- We also transferred employees from the product and service divisions to our core business areas.

**❶ Staff levels 2007 – 2011**




**❷ DVB's 668 employees by business division**



- **Transport Finance/Investment Management 306 (+24 staff)**
- **Product and service areas 189 (+4 staff)**
- **TES Aviation Group 120 (+11 staff)**
- **DVB Logpay 53 (+12 staff)**

Following a few years of stable staffing levels with only slight growth, we employed 306 staff members in our Transport Finance and Investment Management core business divisions in 2011, an 8.5% year-on-year increase (2010: 282). ❷ Four factors have contributed to this increase:

- As already mentioned, we once again expanded our trainee recruitment activities and were able to acquire young, creative and high-potential employees for DVB.

- We also grew our Mergers & Acquisitions team because we see corresponding potential in this business segment.

With 189 employees, staffing levels in the product and service units rose by 2.2% over the previous year (2010: 185 employees). Here we saw a continuation of the trend that has emerged over the past few years towards an increase in workload in response to greater legal and regulatory requirements that need to be absorbed by additional staff.

The subsidiaries TES Aviation Group and DVB LogPay GmbH employed 173 staff members, which corresponds to a 15.3% increase (year-end 2010: 150 employees).

For detailed statistical information about our employees, please refer to the "Non-financial performance indicators" chapter of the management report on pages 129–130 of this report.

## Demographics management

In demographics management, it is important to identify long-term trends and confront challenges to resolve them constructively. One long-term trend that we need to contend with is demographic development. It has a comparable impact throughout all the industrialised nations in which DVB is represented. On average, the population and workforce are ageing. This demographic development at DVB offices internationally was on the agenda of our internal Global Management Conference for the first time in 2010. At the end of 2011, 132 of the 668 employees were over 50 years old (19.8% of the workforce) and 159 staff members have been with DVB for more than 10 years (23.8% of the workforce). Given the heavy workloads and constantly arising new challenges, we are confronting the question of how DVB can motivate these experienced employees for the long term and secure their loyalty to DVB.

## Management Survey

In 2011 we conducted an employee survey with the particular aim of reviewing our approaches to demographics and diversity management. The questions concerned factors relating to loyalty and motivation as well as criteria that could contribute to employees' sense of achieving a work-life balance at the bank.

All employees working as Senior Vice Presidents or Managing Directors were surveyed. In these employee groups, two characteristics tend to come together relatively frequently: a long track record with DVB and only limited upward mobility in the Bank for their careers.

The striking results of the survey were presented in September 2011 at the Global Management Conference and discussed in detail. It became clear that the sense of loyalty to DVB amongst those surveyed was expressed by the high satisfaction scores:

- satisfaction with DVB and its business model
- job satisfaction
- satisfaction with the direct manager
- satisfaction with immediate work environment and immediate team
- appreciation of DVB's willingness and ability to solve its employees' problems on a case-by-case basis

In addition, key loyalty and motivational factors included the following characteristics:

- Our international corporate culture geared towards personal initiative and open communication promotes a high degree of identification with the company.
- The flat hierarchical structure of DVB and the extensive delegation of responsibility result in work that is diverse and multifaceted.

Those surveyed also expressed their desire for proactive Human Resources development and for new development perspectives, including outside traditional careers. In response, we are reviewing all existing training and Human Resources development instruments. Our aim is not to centralise the work managers are responsible for in overseeing, training and developing employees, but rather to better equip managers for their management duties. In more concrete terms, this means that:

- We will give our managers the right tools to make it easier for them to identify the individual training and development measures that an employee needs.
- Wherever possible, we will provide customised in-house training.
- We will set up a training platform for e-learning, web-based learning, etc.
- We will train managers how to properly employ these tools.

The results of the Management Survey have once again underscored that consistent professional development for management staff has been and must remain an important aspect of our Human Resources work. We believe it is our duty to support our managers in managing their demanding teams. DVB teams comprise experienced and ambitious specialists who often operate in a matrix organisation that spans multiple international locations. Managing these teams is a challenging task.

## Work-life balance

Flexibility is a cornerstone of achieving a work-life balance, which is why we at DVB believe that flexible work hours are so important – without amending our existing policy to make them possible. For years, there has been the so-called honours work schedule at every DVB office. This system of flexible working hours is based on flexitime without a set schedule. Employees schedule their workday themselves, in coordination with their managers, and take account of the times that they absolutely need to be present.

At the end of 2011, the share of part-time employees in DVB's staff increased to 9.3% – or 52 female employees and 10 male employees (year-end 2010: 7.0% or 37 female employees and 6 male employees). This underscores our receptive attitude to part-time solutions that, whenever possible and appropriate, we also encourage. In addition to this traditional way of scaling back working hours, we are also receptive to setting up schedules on an individual basis to make it possible to better balance professional and personal demands, not only as concerns motherhood and raising children, but also for family members who are ill or require care, for instance.

Another step in fostering a work-life balance at DVB is the option of working from home on a regular basis for special job demands or doing so on a short-term basis in certain situations. This type of flexibility is very important to DVB.

## Health and safety at the workplace

Promoting the health of our employees at the workplace is a top priority. We established the Committee for Occupational Health and Safety to be responsible for the creation, maintenance and development of safe and ergonomic workplaces, as well as the identification of potential risks and the prevention of accidents and work-related health problems. We contribute to a comfortable working environment with modern and high-quality office facilities that foster effective work.

Occupational health consulting is carried out by an external provider in Frankfurt/Main. This company supports the Bank in occupational safety, accident prevention and all other health and safety issues. At a local level, occupational safety experts are responsible for risk assessment and risk management and for enacting measures to prevent work-related health problems.

We offer most of our employees at all of our offices a thorough health check-up, and provide assistance with vaccinations when necessary. To protect our employees in the event of illness, disability or accident, we make an extensive insurance programme available at each of our offices, further supplemented by global policies.

Whilst the in-house restaurants at our locations in Rotterdam and Bergen are run by the local branches, DVB has handed over the operation of its exmployee restaurant in Frankfurt/Main to an external service provider.

## Environmentally friendly travel policies

DVB's Travel Policy stipulates that employees should ideally opt for public transit for business trips, and to get to work every day. We assist in getting job tickets whenever possible and practicable. In order to limit plane trips to only what is truly necessary, DVB believes in using phone and video conferences whenever possible and practical for meetings: these can be convened at every office (with the exception of Oslo and Tokyo) using state-of-the-art conference technology.

## Remuneration systems

The group of the 20 major industrial nations and emerging market countries, the G20, has launched a variety of initiatives relating to the remuneration systems in banks since 2009. They were implemented at a national level in 2010. With the InstitutsVergV (referred to in this section as the "Ordinance") which came into force on 13 October 2010, the German Federal Ministry of Finance has detailed the requirements for remuneration systems implemented by financial institutions, in the context of the KWG. The Ordinance applies to all employees of DVB, at all locations.

A distinction is made between (and different requirements applied to) "material institutions" and those which are not considered material for the purposes of the Ordinance. Banks like DVB, whose total assets amounted to not less than €10 billion but not more than €40 billion on the reporting dates of the last three financial years must determine, based on an internal risk analysis, whether they are "material institutions" or not. The Board of Managing Directors discussed this matter in multiple meetings and, after extensive analysis, reached the final conclusion in December 2010 that DVB is not considered a material institution. Accordingly, only the general requirements of the Ordinance apply to DVB and the Board of Managing Directors regards remuneration as follows:

- Remuneration is geared towards the Bank's strategic objectives.

- The ratio of fixed to variable remuneration is appropriate.

- The remuneration structure does not give rise to conflicts of interest regarding staff members working in front office or back office units.

- Employees were sufficiently informed of the remuneration systems that are relevant to them, in writing.

For payments made during 2011, the Board of Managing Directors has determined for the first time an appropriate upper limit for the ratio of fixed to variable remuneration.

In consultation with the Works Council, we amended our bonus policy in 2010. Qualitative aspects of performance that are difficult or impossible to assess and describe quantitatively should be better reflected in determining the bonus. Consequently, we introduced a modifier element into our bonus policy in 2011. This instrument provides the Board of Managing Directors with evaluation latitude in determining the bonus, whilst making case-by-case solutions possible.

## Collaborating with the works councils

In 2011 we were once again able to swiftly confront new challenges and develop pragmatic solutions. This was only possible thanks to the good cooperation that took place with the SE Works Council, as well as with local works councils in Germany and the Netherlands.

## Open communication – An essential part of DVB's culture

DVB is internationally active in selected segments of the transport market, and is accordingly represented at pivotal transport locations. A culture of open information and communication within DVB is imperative for us across all of our offices. The following instruments foster this culture:

- The Global Management Conference, which has been taking place annually since 2001, serves to promote and ensure close communication between the Board of Managing Directors and managers. Regular topics discussed include the Bank's strategic planning, operational issues and planning for other business activities as well as medium-term budgeting. The event is also accompanied by a supporting programme that aims at promoting team spirit amongst managers.

- Colleagues from the Transport Finance divisions gather at divisional meetings to discuss major market trends and conclusions for structuring the portfolio. The optimisation of organisational procedures and communication processes is also regularly on the agenda.

- Back office staff at DVB's international locations also meet once a year to discuss current issues. One of their objectives is to work together to optimise business processes.

- The regular virtual general employee meeting, a web-conference launched in 2009, enables employees to contribute their questions directly to the discussion between the SE Works Council and the Board of Managing Directors. This forum has successfully established itself as an important part of our corporate culture.

- Office parties are also organised locally at different locations as team-building measures.

Sovereign debt crisis – the situation for highly indebted sovereign governments in the euro zone did not ease in 2011. To the contrary, financing problems of financially weaker euro countries intensified.

After international rating agencies downgraded Portugal's credit rating, it appealed to the European Financial Stability Facility in May 2011 to avoid insolvency. The grim economic outlook, the debt situation in the euro zone and the increasingly prevalent concern that the sovereign debt crisis could rebound over the European financial sector spurred uncertainty on financial markets, despite the ratcheting up of the European Financial Stability Facility to €780 billion and another multi-billion euro rescue package for Greece. Refinancing conditions for Italy and Spain proceeded to deteriorate. The soothing power of the European Union summits was only short lived and further rating downgrades, mainly for Greece, Italy, Ireland, Portugal and Spain called the countries' reliability and creditworthiness into question. The flagging euro zone countries responded by implementing extensive austerity measures to get public finances under control.

## European Central Bank (ECB) enacted special interest rate and monetary policy measures

Whilst the benchmark interest rate in the euro zone was at a record low of 1.0% throughout 2010, the ECB Governing Council passed the first interest rate hikes since mid-2008 (in April and July 2011 by 0.25 percentage points respectively to a total of 1.5%). The key factors driving the ECB's monetary policy were the positive economic environment at the beginning of the year and hopes that the international financial markets would stabilise lastingly.

In August the ECB's Governing Council decided to alter its monetary policy in light of the re-emergence of the sovereign debt crisis.

- The ECB launched a new long-term refinancing operation with a lifetime of six months and

- again purchased €138 billion in bonds from flagging euro zone countries on the secondary market as part of the Securities Markets Programme that was started in May 2010.

In November the ECB Governing Council then made an about-face and lowered the benchmark interest rate in two stages to 1.0% until the end of the year in reaction to growing market uncertainty and a bleaker economic outlook in Europe. At the end of the year, the ECB expanded its measures aimed at improving the liquidity situation. For the first time, they adopted a refinancing operation with a lifetime of three years and established a €40 billion covered bond purchase programme in November. Both these measures represented a reaction to rising tensions on the European interbank market; in the wake of the intensifying sovereign debt crisis, European banks again suffered a crisis of confidence amongst one another. Growing mistrust resulted in significantly widening risk spreads for unsecured financial transactions and in rising overnight deposits to the ECB by banks. Access to US dollar liquidity in the euro zone was squeezed by growing mistrust of European banks amongst US financial institutions. The US Federal Reserve (Fed), the ECB and the central banks of Japan, the United Kingdom, Canada and Switzerland then provided European banks access to US dollars with cheaper US dollar swap transactions at the end of November 2011.

## US Federal Reserve maintained its zero-percent interest rate policy

The Fed, in contrast, continued to pursue the effectively zero-percent interest rate policy it embarked upon in 2010. The US overnight interest rate remained within a range of 0% to 0.25% and the Fed announced in August 2011 that it would not be raising the benchmark rate in the US before mid 2013. The US$600 billion state bond purchasing programme (quantitative easing 2) expired in mid 2011 according to plan, but the markets retained the liquidity that had been provided: In September 2011 the Fed decided to exchange US$600 billion in short-term US dollar bonds for longer-term bonds as part of a programme aptly named "Operation Twist." The Fed aims to use the lower long-term interest rate level this achieves to support the sluggish US economy and, first and foremost, to stimulate the US real estate market with low mortgage rates.

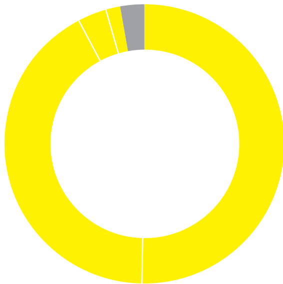
## Euro continued to suffer under sovereign debt crisis

The euro performed robustly as 2011 began. On the one side, the common currency was bolstered by expectations of an economic recovery in the euro zone, on the other side, the US dollar suffered under a poor economic outlook in the United States. At the beginning of May, the euro reached its annual peak at US$1.48. In May 2011, when discussions about a potential rescheduling of Greek debt began, euro listings were under increasing pressure until a significant downward trend kicked in during September, resulting in a loss of more than ten US cents down to US$1.32 within a few weeks. After a short recovery period, the euro continued its downward trend since November against the background of the escalating sovereign debt crisis; as at 30 December 2011, the euro was at US$1.29, down five US cents compared to 2010 (year-end 2010: US$1.34).

## DVB's financial markets activities

DVB continued to consistently implement its business model, which focuses on financing, structuring, and advisory services in the international Transport Finance business, throughout 2011. By generally avoiding the so-called credit surrogates business, the bank was protected from the direct negative impact of the financial markets and international sovereign debt crises. We also continued to increase the share of long-term financing in our funding mix, which allowed us to scale back our reliance on the money market even further in 2011. We benefited again from our integration into the German Cooperative Financial Services Network, which has sufficient liquidity available. DVB's funding volume with interest-bearing liabilities totalled €18.4 billion in 2011. Long-term funding accounted for 97.4%, an increase of 5.6 percentage points year-on-year. ❶

❶ **Refinancing instruments 2011**



**Long-term refinancing vehicles 97.4%**

thereof:

| | |
|---|---|
| 50.5% | Uncovered bearer bonds |
| 42.0% | Promissory notes/long-term deposits |
| 3.1% | Ship covered bonds |
| 1.8% | Own funds in accordance with the KWG |

**Short-term deposits banks/customers 2.6 %**

Given that our lending business in Shipping Finance and Aviation Finance is predominantely US-dollar-based, it is important for us to create a natural hedge between assets and liabilities with regard to currency exposure. We diligently pursued this objective in 2011 so that only €4.5 billion (–2.2%) of our aggregate funding was denominated in euro, while €13.9 billion (+23.0%) was denominated in US dollars.

We also grew our investor base by expanding on our first successful ship covered bond placement in 2010. Despite the difficult market environment, we again succeeded in placing €150 million and US$190 million in ship covered bonds with institutional investors.

## DVB's ratings

In March 2011, the rating agency Standard & Poor's (S&P) changed the outlook for DVB's rating from "negative" to "stable". Moreover, our Long-Term Counterparty Credit Rating improved from A to A+ as at 5 December 2011. S&P confirmed DVB's Short-Term Credit Rating A-1 and the stable outlook.

Since 2009, Moody's Investors Service has rated DVB Bank SE A1/P-1/D+/negative. These ratings remained unchanged in 2011.

During 2011, investor behaviour and equity market developments, characterised by turbulences of share prices, were both highly influenced by the debt crisis in the euro zone and widespread concerns regarding future developments of the world economy. Accordingly, the performance of the German blue-chip index (DAX) differed throughout the year, ranging between 4,965 and 7,600 points.

## Global price volatility on the stock markets

On the whole, 2011 was not a strong year for the DAX and other indices in Europe and throughout the world. In the first half of the year, trading on the DAX remained quite stable and reached its peak of 7,600 points on 2 May 2011, which also marked the highest point in three years since 15 January 2008. The robust performance was rooted in the unexpectedly positive results reported by German companies and hope for recovery as well as revived activity in the global economy. The "Arabian Spring", and the atomic and environment disaster in Japan, stymied positive developments on the DAX somewhat, but the German benchmark index only dropped below the 7,000-point mark temporarily. Then, at the end of July 2011, prices on the DAX plummeted; within two weeks, the index lost roughly 25% of its value and hit its low for the year on 12 September 2011 at 4,965 points. Bank shares were particularly hard hit. The sovereign debt crisis in Europe, particularly in Greece, and concerns about an uncontrollable crisis escalation had a very negative impact on investor confidence. Investor demand for especially secure forms of investments, and German federal bonds in particular, increased markedly. The jump in demand set prices soaring, particularly between July and September, and went hand in hand with equally dramatic loss in returns. Ten-year federal bonds lost 1.3 percentage points and hit a new historical low of 1.69%.

After climbing 16.1% by year-end 2010, the DAX closed 2011 with a year-on-year decline of 14.7% at 5,898 points. Other European exchanges were also affected by steep declines:

- The FTSE 100 (Financial Times Stock Exchange, London) fell by 5.6% to 5,572 points.
- The CAC 40 (the French benchmark index for the Parisian stock exchange) dropped 17.1% to 3,154 points.
- The FTSE MIB (Financial Times Stock Exchange, Milano Italia Borsa) lost an astonishing 25.2% and closed at 15,089 points.

The performance of the Chinese stock exchange was below-average in 2011 – the most important indices, the SH COMP (Shanghai Stock Exchange Composite Index) and CSI 300 (China Securities Index) were down by more than 20%. In contrast, the Dow Jones Industrial finished 2011 with a clear increase and, at 12,217 points, was up 5.5% on year-end 2010.

## DVB share shows good robustness

Although bank shares fell under pressure throughout 2011, DVB's share price proved to be satisfactorily robust under the described market conditions and exhibited remarkable stability compared to other market participants. Over the course of 2011, the volatility of DVB shares was moderate on subdued trading. The highest price for the year of €26.10 was touched on 26 January 2011. The lowest price of €23.50 was recorded on 5 August 2011. The year-end share price was €23.95. Accordingly, the Bank's market capitalisation was €1.1 billion. The comparatively stable share performance is attributable to the continued stability of the Bank's business development, and also to the narrow market in which the shares trade due to the low free float.

The shares of DVB Bank SE (ISIN: DE0008045501) are listed in on the Frankfurt Stock Exchange in the General Standard. Since the capital increase conducted in 2008, the share capital pursuant to the Memorandum and Articles of Association amounted to €118,791,945.12 and is divided into 46,467,370 notional no-par value shares.

Shareholders were paid a dividend of €0.60 per notional no-par value share from DVB Bank SE's net retained profit for 2010. The Board of Managing Directors and the Supervisory Board will propose at the Annual General Meeting on 13 June 2012 that the dividend payment remain unchanged at €0.60 per notional no-par value share for the 2011 business year. ❶ ❷

## Shareholder structure remained unchanged

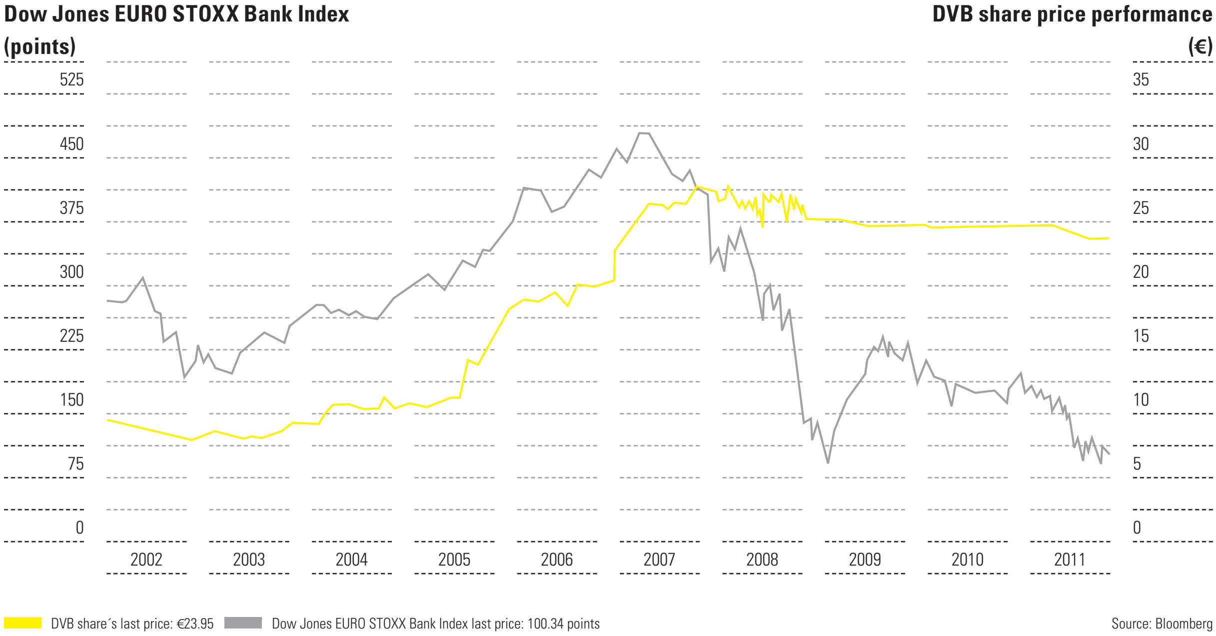
The shareholder structure was unchanged in the 2011 business year. DZ BANK AG remains DVB's majority shareholder. Its stake did not change in 2011 and remained constant at 95.45% at the end of the year. The remaining 4.55% of shares are held in free float.

### ❶ DVB share data (€)

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Business year high | 26.10 | 27.50 | 28.00 | 28.60 | 288.00 |
| Business year low | 23.50 | 24.50 | 21.00 | 20.00 | 203.25 |
| Year-end price | 23.95 | 25.00 | 25.00 | 26.10 | 282.00 |
| Number of shares outstanding at year-end | 46,467,370 | 46,467,370 | 46,467,370 | 46,467,370 | 3,982,737 |
| Market capitalisation at year-end | 1,112,893,512 | 1,161,684,250 | 1,161,684,250 | 1,212,798,357 | 1,123,131,834 |
| Dividends | 0.60 | 0.60 | 0.60 | 0.60 | 5.00 |
| Dividend yield | 2.51% | 2.40% | 2.40% | 2.30% | 1.77% |
| Payout ratio | 26.0% | 26.5% | 37.4% | 26.6% | 18.2% |
| Basic earnings per share | 2.32 | 2.28 | 1.61 | 2.44 | 27.67 |

Starting in 2008, figures reflect the 10-for-1 share split carried out on 18 August 2008.

### ❷ Share performance 2002 – 2011




Source: Bloomberg

## Shareholders and the General Meeting

On 9 June 2011, DVB Bank SE held its twenty-fourth Annual General Meeting since 1988 at its company headquarters in Frankfurt/Main. The agenda was published on time in the electronic German Federal Gazette and on our website, and distributed in a media bundle throughout Europe as required.

Item 1 on the agenda was the acceptance of the financial statements confirmed by the Supervisory Board and the approved consolidated financial statements. Agenda items 2 to 7 contained resolutions proposed by the Board of Managing Directors and/or the Supervisory Board:

- on the appropriation of net retained profit for the 2010 business year,
- on the formal approval of the members of the Board of Managing Directors and the Supervisory Board for the 2010 financial year,
- regarding the German Act on the Disclosure of Remuneration of Management Board Members,
- on an amendment to Article 18 of the Memorandum and Articles of Association and
- on the appointment of the external auditors for the 2011 business year.

In the general debate, shareholders and shareholder representatives asked numerous in-depth questions about all agenda items and specifically about the situation on the transport markets and the Bank's business development.

Given that DZ BANK currently has a 95.45% stake in the Bank's share capital, voting results and attendance have been stable for many years now. In the final vote, 96.62% of the shares entitled to vote were represented. Shareholders and shareholder representatives approved the individual resolution proposals with a clear majority of 99.9%. It should be noted in particular that our shareholders voted in favour of the dividend distribution of €0.60 per notional no-par value share that has remained unchanged since 2008, confirming the stable dividend policy of our Board of Managing Directors and Supervisory Board.

Our website www.dvbbank.com > Investor Relations > General Meeting contains comprehensive information.

# Financial calendar 2012

### 8 March

- Annual Accounts Press and Analysts' Conference
- Publication of the single-entity Annual Report 2011 on our website

### 29 March

- Publication of the German Group Annual Report 2011 on our website

### 15 May (at the latest)

- Publication of the Interim Management Statement during the first half of 2012 (for the first three months before 31 March 2012)

### 13 June

- Annual General Meeting Frankfurt/Main

### 14 June

- Dividend payment (ISIN: DE0008045501)

### 14 August (at the latest)

- Publication of the Half-Yearly Financial Report 2012

### 14 November (at the latest)

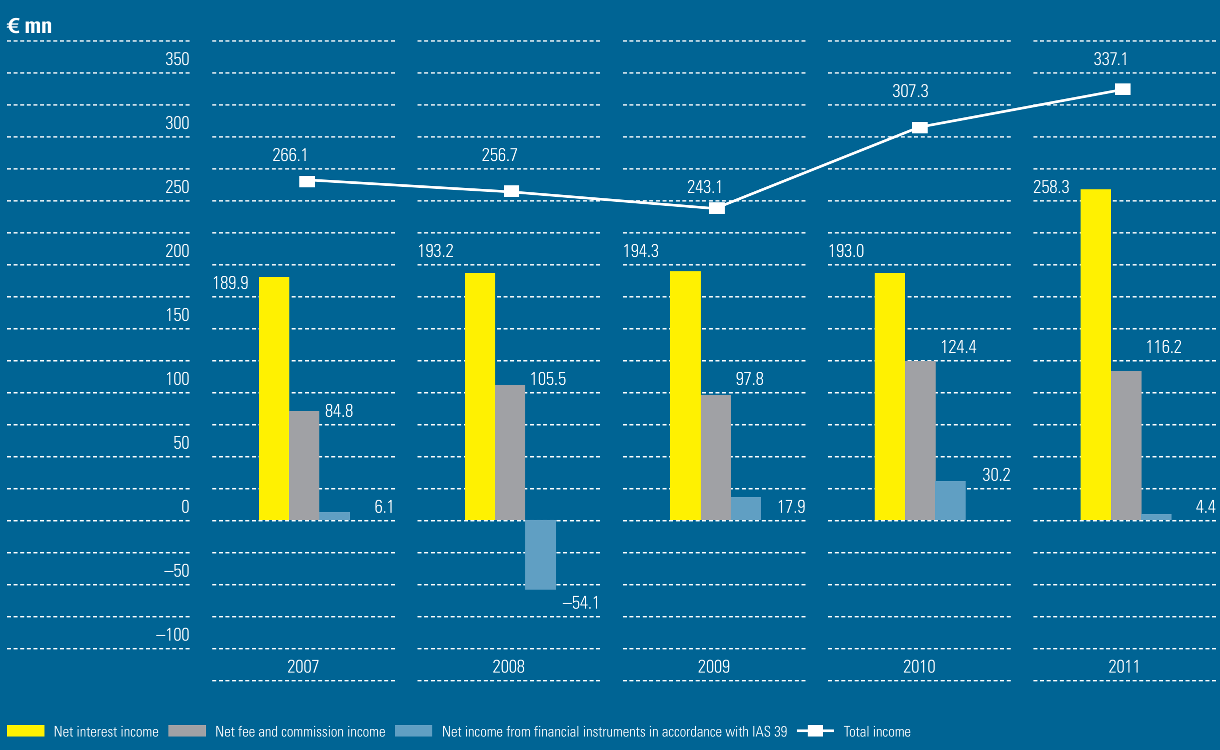
- Publication of the Interim Management Statement during the second half of 2012 (for the first nine months before 30 September 2012)

### 7 December

- Publication of the Declaration of Compliance for 2012/2013

# Group management report

## Earnings development 2007 – 2011



DVB's mission statement captures both the Bank's real accomplishments and its vision of the future: "We are the leading specialist in international transport finance." DVB's business model is characterised by a clearly defined focus, a unique specialisation, and a cycle-neutral approach.

In this report, the DVB Group is referred to either as "DVB" or the "DVB Group", whereas the parent European public limited-liability company is referred to by its registered name "DVB Bank SE".

DVB enjoys a unique position, thanks to its strategic focus on the international transport market, with the submarkets of shipping, aviation, and land transport. As a highly-specialised niche provider, the Bank offers its 652 clients and client groups from the international transport sector a broad range of customised financial services. We concentrate on arranging and providing structured financing solutions, on advisory services, and on investment activities for our clients. Notwithstanding the high cyclicality of the transport markets, the transport markets overall remain on a long-term growth trend. Understanding this recurring cycle of sequential transport market phases, DVB has developed a cycle-neutral business model that once again offered a wide variety of business opportunities during 2011 – despite the turbulent and challenging market environment.

## Core products and services

DVB has continuously enhanced its core skills over recent years. The Bank's financial services can largely be allocated to six value-adding areas. Our Asset & Market Research prepares in-depth analyses of transport assets and markets. Leveraging this business intelligence in our Shipping Finance, Aviation Finance and Land Transport Finance divisions, we support our clients in the key product areas of Structured Asset Financing, Private Equity Sourcing and Investments, Asset Management, Advisory Services, Risk Distribution, and Loan Participations. ❶

## Structured Asset Financing

Drawing on our core service of Structured Asset Finance, our three Transport Finance divisions offer financing solutions relating to transport assets. In addition to traditional asset finance, we offer our clients tailor-made structured and tax-optimised solutions for complex financing projects, often covering multiple jurisdictions.

**❶ DVB's clearly-defined business model**

## Private Equity Sourcing and Investments

Thanks to the extensive analytic output provided by our Asset & Market Research, and the resultant expertise, we are an ideal partner for clients requiring equity capital and investors seeking suitable investment projects in the relevant transport sectors. Our Investment Management division comprises two teams: Shipping & Intermodal Investment Management (SIIM) and Aviation Investment Management (AIM). SIIM comprises NFC Shipping Funds, Cruise/Ferry Investment Funds, Intermodal Equipment Funds (investing in container boxes and other transport equipment), and the Stephenson Capital Fund (investing in rolling stock for rail transport). AIM manages the Deucalion Aviation Funds, which comprise a portfolio of several closed-end funds investing in aircraft and aircraft engines.

## Asset Management

In 2011, we once again demonstrated that, in addition to being a financing and advisory specialist, we provide our clients with services that focus closely on the specific assets. Thus, we offer far more than the traditional range of banking services. Our asset-focused services – "close to the metal" – are available to operators and investors, but also to our competitors. Based in London, DVB's Aviation Asset Management provides our aviation clients with a broad spectrum of services ranging from lease management, lease advisory, technical management and analysis, to remarketing.

## Advisory Services

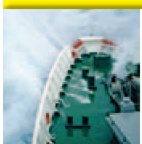
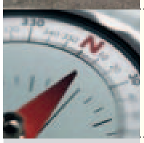
DVB's involvement in improving the value creation chain linking the various assets in the global transport market is not restricted to providing finance, but includes advisory services as well. These advisory services are available to existing clients in Shipping Finance, Aviation Finance and Land Transport Finance, as well as to other interested parties – covering consultancy related to corporate acquisitions and divestments, strategic decision-making on the finance and capital structure, refinancing, and the funding of acquisitions.

## Risk Distribution

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. Both for DVB and its clients, this placement of credit risks is important to ensure sufficient liquidity and adequate risk transfer.

1

**DVB's business divisons and products**

| | | |
|---|---|---|
|  | **Shipping Finance** | |
| | Business areas | Container Business • Cruise & Ferry • Crude Oil & LNG Tanker • Chemical, LPG & Product Tanker • Dry Bulk • Offshore Drilling & Production • Offshore Support |
| | Products and services | Structured Asset Financing • Risk Distribution • Advisory Services • Public Debt and Equity |
|  | **Aviation Finance** | |
| | Business areas | Passenger aircraft • Freighter aircraft • Aircraft engines |
| | Products and services | Structured Asset Financing • Risk Distribution • Advisory Services • Aviation Asset Management • Aero Engine Financing and Engine Asset Management |
|  | **Land Transport Finance** | |
| | Business areas | Rail rolling stock • Mobile road & logistics equipment |
| | Products and services | Structured Asset Financing • Risk Distribution • Advisory Services |
|  | **Investment Management** | |
| | Business areas | Fund management: Shipping & Intermodal Investment Management • Aviation Investment Management |
| | Products and services | Private Equity Sourcing and Investments |
| itf Suisse International Transport Finance | **ITF Suisse** | |
| | Business areas | Interbank market |
| | Products and services | Loan Participations (senior asset-based lending) |

**Asset & Market Research**

## Loan Participations

Our wholly-owned, Zurich-based subsidiary ITF International Transport Finance Suisse AG (ITF Suisse) was established in 2007. ITF Suisse actively participates in the international interbank market for senior asset-based lending, in the Group's strategic target segments of Shipping Finance, Aviation Finance, and Land Transport Finance.

## Asset & Market Research

Our Asset & Market Research teams provide the basis for the activities of our business divisions, leveraging our long-standing research know-how to provide financing products and advisory services, as well as optimising the raising of equity finance.

## Additional special products

Our customer-specific services for aircraft engines, provided by Cardiff-based TES Aviation Group, brings us even closer "to the metal". DVB's New York-based subsidiary DVB Capital Markets LLC, which holds a broker-dealer license, offers the product Public Debt and Equity to the transport sector; in particular, it provides our Shipping Finance clients with financial advisory services and supports them in raising capital in the US capital markets via underwritings, public offerings and private placements of equity, debt and equity-linked securities. ❶

## DVB's competitive strengths

Despite the difficult market environment in the wake of the sovereign debt crisis, DVB maintained its unique focus on selected transport markets, and its organisational structure in 2011. We strive to further expand our competitive position, through a continued efficiency enhancement of our products and services. We will take further steps to enhance our unique brand profile in terms of asset know-how and special asset services.

Our competitive strengths clearly set us apart from other market participants. It is this competitive edge that allows us to successfully deal with the challenges of cyclical markets, and to act in the best interests of our discerning clients. Our competitive strengths can be summarised as follows:

- DVB features a very clearly defined and cycle-neutral business model that offers a wide variety of business opportunities. We are acting on a global platform.
- DVB is committed to a conservative business policy and to long-term sustainability – much to our clients' benefit.
- DVB offers a focused range of products and services – including complementary products that go beyond the typical scope of banking.
- DVB operates with a flat hierarchy supported by a manageable business size, which in turn facilitates transparency as well as quick information flows and swift decision-making.
- DVB works on the basis of a renowned, award-winning and sophisticated Asset & Market Research. This enables us to be a professional partner to the transport industry.
- DVB holds a credit portfolio that is diversified by multiple criteria and categories including asset types, vintage, manufacturers, regions, borrowers, users and in terms of the assets' employment.
- DVB tenders a balanced risk profile and a forward-thinking, consistent approach to risk management.

## Global presence and legal structure

With offices in 13 locations – Frankfurt/Main, Bergen, Cardiff, Hamburg, London, Oslo, Piraeus, Rotterdam and Zurich (Europe), New York and Curaçao (North and South America), as well as in Singapore and Tokyo (Asia) – our business divisions Shipping Finance, Aviation Finance, Land Transport Finance, Investment Management and ITF Suisse have a worldwide presence in the transport markets and their various segments. This global presence at key transport locations enables us to take into account the international dimension as well as the local specifics of the markets in which our clients operate.

The following overview illustrates the legal structure of the DVB Group, including the parent company DVB Bank SE, with its registered office in Frankfurt/Main, the Group's material, fully-consolidated subsidiaries (shown in yellow shading), and its branches and representative offices (shown in blue shading). ❶

**❶ DVB's legal structure**

| Subsidiaries of DVB (each 100%) |
|---|
| DVB Holding (US) Inc., New York, USA<br>▪ DVB Capital Markets LLC, New York, USA<br>▪ DVB Transport (US) LLC, New York, USA |
| DVB Bank America N.V., Willemstad, Curaçao |
| DVB Group Merchant Bank (Asia) Ltd, Singapore |
| DVB Transport Finance Ltd, London, United Kingdom<br>▪ DVB Transport Finance Ltd, Tokyo Branch, Tokyo, Japan |
| ITF International Transport Finance Suisse AG, Zurich, Switzerland |
| DVB Holding GmbH, Frankfurt/Main, Germany<br>▪ 92,1% TES Holdings Ltd, Bridgend, Wales, United Kingdom |
| DVB LogPay GmbH, Eschborn, Germany<br>▪ 75,1% EuroToll Service GmbH, Eschborn, Germany |

| Branches and representative offices of DVB |
|---|
| DVB Bank SE, Rotterdam Branch, The Netherlands |
| DVB Bank SE, London Branch, United Kingdom |
| DVB Bank SE, Nordic Branch, Bergen/Oslo, Norway |
| DVB Bank SE, Shipping Department, Hamburg, Germany |
| DVB Bank SE, Representative Office Greece, Piraeus, Greece |

The ongoing global economic crisis, the euro zone sovereign debt crisis and expansion of the Arab Spring all impacted the global markets and economic activity. Regional divergences have been pronounced, with the common threat being the prevailing uncertainty.

In retrospect, 2011 can be described as a year of contradictions: in the first quarter optimism prevailed, whereas for the rest of the year it was the mirror opposite. This distinct reversal of sentiment applied to both Europe and the developing world. Natural disasters by way of the Japanese tsunami and nuclear incident played their role as well. In the US, however, the economic environment improved during the course of the year.

While governments in many countries came to the rescue of the private sector during the 2008/2009 financial crisis (especially financial institutions), many of these governments themselves came under pressure during the 2010/2011 sovereign debt crisis. Measures taken to counter the resulting economic crisis have varied across the Atlantic.

Besides searching for the elusive solution to the sovereign debt crisis, Europe has resorted to austerity measures which have taken a toll on economic growth. As unemployment in the euro zone hits fresh highs and consumer spending reduced, we saw the European Commission's Economic Sentiment Indicator decline to even lower levels. While the euro zone's economic growth figures for the fourth quarter of 2011 were not published at the time of writing this report, preliminary data suggest that the economy contracted in that period.

The increasing uncertainty as well as the mistrust in interbank lending is understandable. Despite liquidity in the financial system, banks are faced with uncertainty related to their holdings of euro zone sovereign debt and Basel III requirements to increase capital ratios. Nonetheless, at the same time, banks are asked to lend more into the commercial markets which quite a few are reluctant to do.

The US economy, being highly reliant on consumer spending, ended 2011 with some signs of recovery. Although the US economy faced headwinds, the unemployment rate began to trend down. Consumer borrowing, month on month, has increased almost without exception while the saving rate is down substantially. In addition to economic indicators moving in the right direction, the US is still able to finance its debt at historically low borrowing costs. The resulting weakness of the euro due to the ongoing euro zone crisis and strength of the US dollar can be partly explained by the above factors. Currency exchange rates impact asset prices. However, the drivers for change in asset prices vary across shipping, aviation and rail.

Growth in economic activity in China, India and the developing world slowed during 2011, as has been extensively reported. China's rapid shift towards domestic driven growth and less reliance on their exports has not received the same coverage. China's annual trade surplus has dropped for the past three years and currently is at around US$155 billion, down from around US$295 billion in 2008. Another fact that probably went unnoticed is that the Yuan strengthened by 4.7% versus the US dollar in 2011. This, however, did not slow down the growth in trade, resulting in China's trade surplus with the US widening to US$202 billion in 2011 from US$181 billion in 2010.

Be it the US, the euro zone, China, India or most of the developing world, inflation concerns diminished as the year progressed. As a result, more accommodative monetary policies are likely to come about in some countries.

Against the background of the sovereign debt crisis, the euro/US dollar exchange rate volatilities and a supply overhang that continues to grow in the shipping markets, our Shipping Finance division continued to selectively support its clients with capital throughout 2011. Our confidence to step forward whilst our competitors paused or even completely retreated is grounded threefold: our in-depth shipping expertise, our long-standing market experience and track-record as well as our credo that Shipping will be surviving.

## Shipping Finance – Market review

Maritime shipping in the vast majority of sectors is plagued by not only a huge oversupply of assets but also by an existing order book that defies logic. Newbuildings entered the fleet 2009 onwards in significant numbers. In addition to the uncertainty in the economic and financial markets, political events as well as natural disasters took their toll on shipping markets. The year, which began with some optimism mainly due to the financial stimulus provided under the quantitative easings (QE) 1 and 2, soon saw time charter rates and freight rates decline yet again. Cash flow challenges and stringent cost control became the order of the day for many shipowners.

### Dry bulk carriers

We have now seen a record number of newbuild deliveries four years in succession. In 2008 we saw a record 22.9 million dead weight tonnes (dwt; 331 vessels) being delivered, which in turn almost doubled in 2009 – and once more in 2010 with 78.5 million dwt (999 bulkers) delivered. Adding further to the pain, an unmatched 101.9 million dwt (1,228 bulkers) was delivered in 2011.

The dry bulk fleet stands at 9,174 vessels (600.3 million dwt) with an average age of 12.7 years. Only 65.1 million dwt or 1,831 vessels equating to 11% of the existing fleet are over 25 years of age. Most of these older vessels are concentrated in the Handysize subsector. Newbuild contracting of 33.1 million dwt (438 bulkers) was added to the order book in 2011, while 22.6 million dwt (266 bulkers) was reported cancelled from the overall order book. The dry bulk order book stands at 194.5 million dwt (2,386 vessels). This year will be notable for seeing the delivery of Vale Brasil, the first of several 400,000+ dwt vessels ordered by the metals and mining company Vale. These massive vessels will have a negative impact on asset values as well as freight rates for all dry bulk subsectors.

While supply of dry bulk vessels increased by 15.9% from 521.6 million dwt (8,352 vessels) to 604.7 million dwt (9,234 vessels) in 2011, demand for dry bulk commodities is estimated to have increased by 5.0% year-on-year to 3.4 billion tonnes. Seaborne dry bulk cargo volumes in 2010 equated to 3.3 billion tonnes, which was an increase of 13.8% over the 2009 volume of 2.9 billion tonnes. Chinese demand for iron ore has supported the recovery in dry bulk freight rates since 2009. Due to its domestic iron ore being of inferior quality, China will continue to import to meet its domestic demand. Iron ore demand from regions other than China was slower in 2011 than in 2010. There are two main varieties of coal: coking or met coal (used for steelmaking) and steam or thermal coal (used for power generation).


Thermal coal demand from Japan and Western Europe increased as these regions started to move away from nuclear energy as a result of the March 2011 earthquake and tsunami in Japan. India is forecast to significantly increase seaborne coal imports between now and 2015 to meet its chronic shortage of thermal coal for power generation. Thermal and coking coal imports to China are determined by the "price arbitrage" between domestic and international coal prices. Although coal import volumes will vary throughout the year, China will continue to import large volumes of both types of coal, and is expected to become the world's leading coal importer by 2013.

Due to an uptick in the freight markets in 2010, very few vessels were scrapped (118 vessels of 5.2 million dwt). However, with declining freight rates in 2011, we saw a sizeable increase in scrapping with 22.3 million dwt (356 vessels) sent for recycling. Although this is the highest scrapping ever in dwt terms, considering the current fleet size, this represents merely 3.6% of the current fleet. In 1986, by comparison, some 13.6 million dwt (406 bulkers) were scrapped – and although this was less than 2011's figure, it had a bigger impact since it represented 7% of the fleet at the time. So far, even though scrapping figures are clearly higher, we have not seen any sustainable improvement in freight rates and asset values other than seasonal upticks. With market fundamentals remaining weak due to demand-supply imbalance, a high rate of scrapping is required to offset the huge deliveries seen in the past four years as well as the high volume of the current order book.

## Container ships

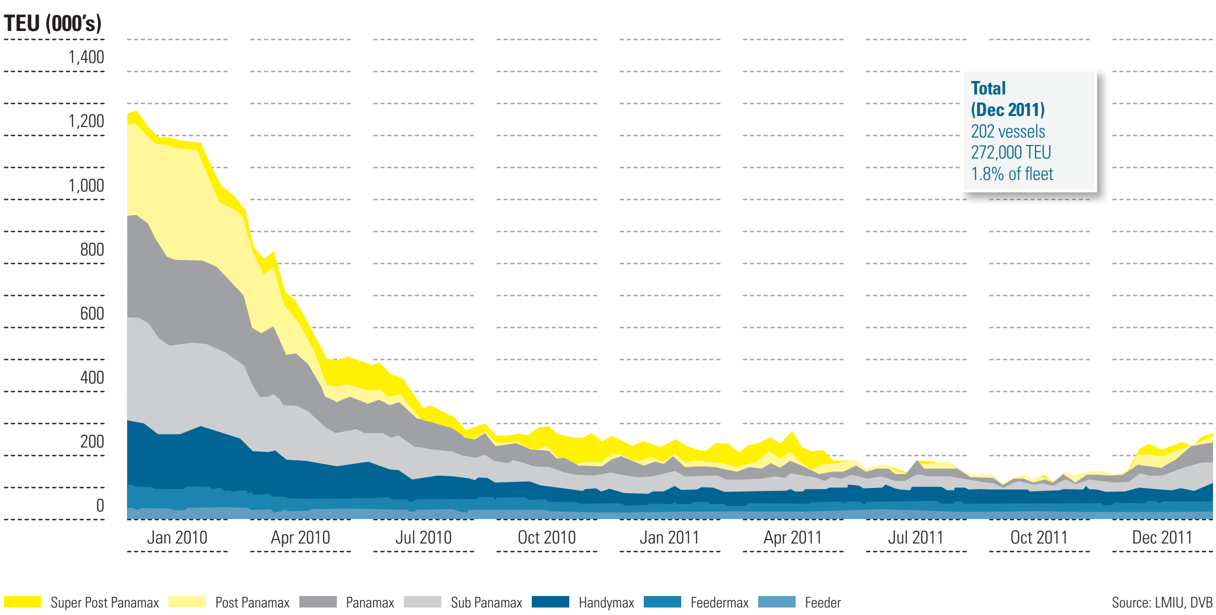
Container trade volume had dropped by 8.9% in 2009. However, 2010 saw a sharp recovery, with demand rising 12%. There was a strong pickup in freight rates in the long-haul trades. Much of the growth was due to governments' stimulus packages and inventory restocking in Western countries. Moving in to 2011, such demand levels did not last long as private demand failed to pick up. In the US, continued high unemployment alongside low housing prices, high fuel and commodity prices impacted consumer confidence. The liquidity injection from QE1 and QE2 in the US helped the container trade only in the short term. Meanwhile, Europe continued to experience a slowdown due to the sovereign debt crisis. At the start of 2012, the container vessel fleet stood at 5,089 vessels, aggregating 15.2 million Twenty-foot Equivalent Units (TEU) with an average age of 11.4 years. Overcapacity is still the biggest threat to the container vessel sector. There were 224 vessels of 1.8 million TEU contracted in 2011. The current order book stands at 630 vessels of 4.3 million TEU, representing 28.0% of fleet capacity and is concentrated in the Very Large Container Ships and Super Post Panamax sub-sectors, which together account for 73.4% of the order book. With scrapping activities slowing down, the monthly average in 2011 was 3,425 TEU; 74% lower than the monthly average in 2010. Also, with fleet growth estimated to be 8–9% in 2012–2013, scrapping needs to increase dramatically as demand is expected to be around 7.5%. However, the increase in idle tonnage will restrict the growth in active fleet capacity. During the fourth quarter of 2011, inactive capacity increased by 105,000 TEU to reach 254,000 TEU. Although any increase in idle tonnage is welcome and will restrict growth in active fleet capacity, it is temporary in nature – as seen from the peak in lay-up of 12.5% of total fleet capacity in January 2010 and the current inactive capacity which stands at just 1.7%. It should be noted that although the Chinese have not given any indication that they want to build up their container fleet, it would do them no harm to do so and at the same time provide Chinese yards with employment. However, we hope this is not the case, since fleet capacity will grow even further. Therefore the only really tangible solution is accelerated scrapping along with cancellations. ❶

## Crude oil tankers

The subdued economic growth registered in 2011, along with persistently high oil prices, kept oil demand growth at levels lower than previously anticipated. As per the International Energy Agency, oil demand for 2011 is estimated to have averaged 89.0 million barrels/day, approximately 1.1% higher than the 2010 figures. Demand growth stemmed primarily from Asian countries, while in Europe and North America demand contracted significantly.

Nonetheless, despite the admittedly meagre increase in oil demand, the main challenge for all subsectors in 2011 was fleet oversupply. Newbuild contracting reduced significantly compared to 2010. Tanker deliveries in 2009 stood at 228 vessels, which along with the over 180 vessels per year recorded in 2010 and 2011 kept considerable pressure on the crude tanker market during 2011 and led to a further decline in employment rates for all tanker sizes. In addition, scrapping (which in 2010 had increased to the highest levels since 2003) declined significantly in 2011. During 2011 the net increase recorded in the crude tanker fleet was approximately 5%. Earnings in 2011, across all subsectors, were anaemic at best and showed an alarmingly decreasing trend: one-year time charter rates for Very Large Crude Carriers (VLCC) declined by over 37% during the year while on the spot market freight rates were more often than not well below operational expenditure (OPEX). Asset values that remained unreasonably high during most of 2010 finally caught up with the freight market and recorded a shocking decline across all subsectors. A five-year old VLCC lost over 33% in value over the past twelve months. ❷

❶ **Container vessel idle capacity in 2010–2011**




Source: LMIU, DVB

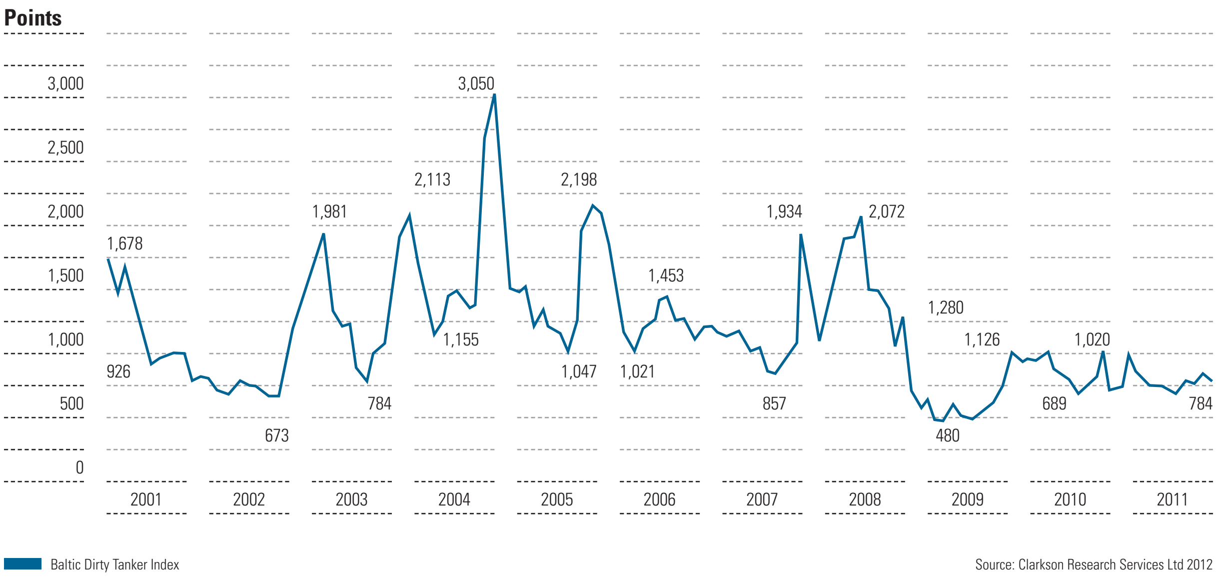
## Offshore vessels

Exploration and Production (E&P) spending increased in 2011 as expected, confirming the recovery trend initiated in 2010. Growth in demand for oil as well as geopolitical events pushed oil prices up, leading to a price increase of nearly 25% year-on-year. US Gulf activity started to pick up in 2011 following the end of the drilling moratorium imposed after the Deepwater Horizon accident. The drilling and the offshore supply markets both benefited from this improved environment, resulting in reasonable day rate earnings for most subsectors despite continued deliveries of vessels as well as reactivation. The jack-up market witnessed flat day rates despite improved utilisation as activity recovered in the US Gulf. Day rates for semi-submersible vessels improved on average worldwide over the year, with a strong recovery in the US Gulf. Drillship day rates remained rather flat throughout the year. Anchor Handling Tug and Supply vessels (AHTS) benefited from a better recovery than Platform Supply Vessels (PSVs) in the North Sea, while the opposite occurred in the US Gulf where PSVs recorded increased day rates as AHTS day rates remained rather flat. In Asia-Pacific and West Africa, day rates for PSVs and AHTS also remained flat as a whole. Unsurprisingly, the recovery proved uneven, with the state-of-the-art units benefiting more from the recovery than older and less sophisticated units. Investments in offshore vessels increased significantly in 2011, with over US$35 billion invested in new contracts. Ordering activity was especially strong for drilling rigs, with a historical high number of drillships ordered.

## Cruise vessels

Robust booking levels in the first quarter of 2011 in themselves assured the major players that 2011 would be a satisfactory year, at worst. Lines reported good results for the first half of 2011, although since then, the cautious consumer sentiment has impacted the ability of cruise lines to fill the remaining berths on their near-term cruises. The IMO MARPOL (Marine Pollution) regulations that came into force in 2011 do not permit the carriage of heavy oil in bulk in any tanks south of the 60th parallel and is directed at Antarctic-bound cruise vessels. As a result, larger cruise vessel calls to Antarctica have been limited which is a positive development for the smaller expedition cruise vessels. Capacity in the expedition cruise segment of the market has been steadily decreasing and now accounts for just 1.9% (69 vessels, 8,928 Lower Berths (LB)) out of the total cruise fleet of 349 vessels (463,834 LB). With no newbuildings contracted, but a demographically limited clientele for such cruises, the demand for expedition cruises is expected to be steady despite the economic uncertainty. This is also valid for luxury cruises. Growing demand has seen this segment of the cruise market expand in recent years: it now accounts for around 9.1% (42,274 LB) of all cruise ship capacity in LB terms.

**2 Baltic Exchange Dirty Tanker Index (determined on a monthly basis)**




Source: Clarkson Research Services Ltd 2012

## Shipping Finance – Strategy

Our sectorised approach to Shipping Finance translates into a broad and profound coverage of the shipping sectors, enabling DVB to collect and amass in-depth knowledge of the assets, clients, value-chains, cargo flows and networks in the distinct sectors. This expert knowledge allows us to recognise and understand developments in particular sectors and the general market quicker than the competition, and to act proactively when required. This expertise is unique to our Shipping Finance team. More so, this approach and commitment bring us closer to our clients, and have solidified our reputation as a trusted partner in the shipping industry.

Shipping Finance increased its lending volume in 2011 capitalising on attractive opportunities arising from the retreat of many competitors. DVB aims to continue this path during 2012. Our approach, described below, was tested by the crisis: the results prove that it works.

## Organisational set-up

The organisation is run on a few basic principles, namely an intimate knowledge of the market, assets and clients, an ability to respond quickly to a changing market environment, as well as an ownership and responsibility from top to bottom. These principles have shaped the organisational set-up and the way the business is steered.

The Shipping Finance client coverage teams were reorganised during 2008, from a geographic client orientation to a sector-oriented focus, reflecting the shipping companies' global operating model. The shipping and offshore clients – and the industry – have thus been covered by distinct sector groups working in unison. ❶

The main benefits of this sector approach are:

- Increased knowledge of the respective sectors – sector teams have become sector experts as opposed to shipping finance generalists.
- Relationship managers are more in tune with the industry and have intimate knowledge of their clients' specific needs, the assets in each sector, and the networks and value-chains within these sectors.

**❶ Shipping Finance – Seven global sectors**

| | | | |
|---|---|---|---|
| 1 | **Container Business Group**<br>(container vessels, container boxes, car carriers, reefers) | 5 | **Dry Bulk Group**<br>(barges, dry cargo, combination and bulk carriers) |
| 2 | **Cruise & Ferry Group**<br>(ferries, yachts, ocean/river cruise, RoRo's) | 6 | **Offshore Drilling & Production Group**<br>(jack-ups, drill ships, semi-subs, FPSO, FSO, FPU) |
| 3 | **Crude Oil & LNG Tanker Group**<br>(crude oil and Liquefied Natural Gas tankers) | 7 | **Offshore Support Group**<br>(AHTS, PSV, subsea, diving and heavy lift vessels, others) |
| 4 | **Chemical, LPG & Product Tanker Group**<br>(chemical, specialist, Liquefied Petroleum Gas, product and asphalt/bitumen tankers) | | |

- Research also covers the various sectors individually. Our market coverage and research result in clients enjoying the benefit of increased expertise, whilst at the same time sector market intelligence is fed back into the research department.

To further improve the quality and efficiency of this approach, Shipping Finance reduced the number of sectors from eight to seven on 1 October 2011. Following this new setup, at year-end the Shipping Finance's customer lending volume divided as follows among our seven sector groups:

- 19.7% Container Business Group
- 18.2% Dry Bulk Group
- 17.9% Chemical, LPG & Product Tanker Group
- 14.9% Crude Oil & LNG Tanker Group
- 14.0% Offshore Support Group
- 8.2% Offshore Drilling & Production Group
- 7.1% Cruise & Ferry Group

In addition to the sector approach, the organisational structure of Shipping Finance is flat. There are no more than two layers between the client's relationship manager and the responsible member of the Board of Managing Directors. This makes Shipping Finance extremely nimble, and permits top management attention to address an issue directly when required. Shipping Finance prides itself on the quality of its staff: great effort has been put into attracting, retaining and developing the best shipping finance professionals. These professionals are not only technically proficient, but also have a passion for the shipping industry. We have realigned resources, and strengthened the division's risk management infrastructure. This provides us with an outstanding bench of shipping professionals, both in breadth and depth of experience. The combination of the above organisational characteristics and quality staff has enabled Shipping Finance to identify possible dangers and act quickly in response to the changing environment. This is evidenced in the speed and degree that the value maintenance clause (VMC) and other covenant breaches are handled, and in the proactive restructurings geared to reducing exposure and avoiding big loan losses. The combination of sectorisation, flat organisational structure, quality staff throughout Shipping Finance, and award-winning research (our research department was elected "Best Shipping Finance Research" by Lloyds Shipping Economist in 2004, 2005, 2006 and for the last time in 2008 when the award was discontinued) is what drives innovation within the sector teams taking initiative. It is these characteristics that allow us to better serve our clients, gauge risks better, and to be entrepreneurial. It has made us successful in the past, and will drive us forward in the future.

## Approach to ship finance

Our approach to ship finance rests on the following four characteristics: first of all our risk management is engrained in the process, from client acquisition and due diligence to the preparation of proposals to loan management and the continuous monitoring of the loans. This approach ensures that the risks committed to are manageable and that loans are assessed impartially throughout the term. Moreover, the empirical and fundamental research supports all aspects of the decision-making process, from proposals to reviews. The second characteristic is that our portfolio is well diversified across sectors and geographic regions. Thirdly, we know the assets and analyse each financed vessel thoroughly to ascertain its adequacy. Fourthly, the vessels are tracked from the shipyard to the scrapyard, in order to ascertain that quality, tradability (and hence values) are within adequate parameters.

DVB's risk management platform plays a central role in proactively identifying possible problem areas and credits, in order to preclude small problems from turning into large ones and to stay ahead of the curve. This proactive approach is evidenced best by the stringent observation of quarterly stress testing procedures aimed at flushing out any possible upcoming issues in the portfolio. We have also increased the frequency of calling on clients, and have institutionalised the formal reporting of these call reports. Additionally, we created a restructuring unit in 2009 to provide a dedicated resource capable of supporting restructuring efforts in the shipping sectors. This capability was further strengthened in 2011 by merging the previously commercially-focused Shipping Asset Management team into the risk department's restructuring unit. This move has added a valuable and unrivalled work-out competence to an already sophisticated risk management and restructuring platform.

These measures have served to further ingrain risk management within the Bank's main processes, and this is further supported by the complete involvement of research and risk management throughout the life cycle of a loan ("cradle-to-grave concept"). This – combined with intimate knowledge of our clients and markets, engendered by sectorisation – has supported a solid financial performance during the last years, and the maintenance of a healthy and sound loan portfolio.

## Shipping Finance – Products

During 2011, Shipping Finance continued to serve its clients with products tailored to meet their specific business needs. The following range of products and services are offered:

- Structured Asset Financing
- Advisory Services
- Public Debt and Equity – Capital Markets and Private Placements

Asset & Market Research forms the basis of our unique business model in Shipping Finance.

## Structured Asset Financing

Structured Asset Financing comprises all lending activities of Shipping Finance. As principal activity, key product and chief revenue driver, the lending business encompasses mainly senior secured and second lien structures. The main focus of our lending activities is to customise each financing to the specific needs and circumstances of the client, whilst ensuring that risk and profitability are adequately addressed. Our sector teams market the lending product globally through offices in Bergen, Hamburg, London, Oslo, Piraeus, Rotterdam, Singapore, Tokyo, New York and Curaçao.

## Advisory Services

DVB's Corporate Finance team (DVBCF) covers the full range of advisory, mergers and acquisitions (M&A), capital markets and related corporate finance services. In particular, DVBCF provides clients with balance sheet optimisation solutions, restructurings, debt and equity raisings and M&A advice. Our DVBCF professionals are all seasoned individuals with strong corporate finance backgrounds, recruited from the bulge-bracket investment banks. They are located in London, Oslo and New York. The New York team primarily focuses on engagements in the US, whilst the London and Oslo professionals cover activities in other regions of the world. Some of the DVBCF professionals in London and Oslo are embedded within the sector teams Offshore Support Group and Chemical, LPG & Product Tanker Group, respectively, in order to achieve a seamless combination between the expert knowledge in the respective sectors and a dedicated and focused advisory function. This kind of embedded advisory activity functions well, allowing closer co-operation and a more co-ordinated approach to clients.

## Public Debt and Equity

In 2010 and early 2011, the low-interest environment as well as attractive covenant and bullet structures customary for the bond market drew many larger shipping companies to the high-yield and public debt market. Additionally, larger shipping companies in search of fresh equity to fund acquisitions and/or repair their balance sheets were also attracted to the public equity markets. Yet when the general economic environment and shipping market deteriorated during the second half of 2011, the capital markets were effectively closed for shipping companies. A reopening cannot be expected before the shipping market stabilises and cash flow and asset values become more predictable and reliable. DVBCF will be well positioned to serve our client base when the time comes. The team helps to broaden and deepen our Shipping Finance product range, specifically to access the US and selected global capital markets, including private placements and public offerings of debt and equity securities. This is considered an essential component in providing funding solutions to clients, and it is marketed to them in close co-operation with the sector teams.

## Shipping Research

The focus of Shipping Research (SR) is on the discovery, creation and dissemination of knowledge surrounding the assets DVB finances, its shipping markets/sectors and trade flows in distinct sectors. In addition to this research function, SR is also responsible for the strategic planning, technical supervision/review of the assets financed and under consideration, as well as for the commercial assessment of critical shipping contracts such as those for shipbuilding, contracts of affreightment and other employment contracts when so instructed by the Credit Committee.

The team covers 15 main sectors and 66 subsectors within the shipping and offshore markets, providing analysis via newsletters and research papers on the sectors and subsectors. Additionally, semi-annually SR produces a strategic outlook for the Board of Managing Directors and relationship managers in the form of a strategic plan. The team is completely woven into the Shipping Finance loan life cycle and provides essential market, sector, asset and technical expertise for each credit decision.

SR is composed of twelve professionals with various backgrounds in the shipping industry and with hands-on experience in commercial management, sales and purchase, chartering and technical operations of vessels. Last but not least, they each possess a background in economics and finance. Moreover, SR has its own Technical Committee, consisting of master mariners and chief engineers reporting directly to the head of SR.

## Shipping Finance – Portfolio analysis

Despite a difficult market environment, the Shipping Finance business model performed well and was able to not only increase revenues, but also (just as importantly) managed to control losses and maintain a healthy and well performing loan book. With some large traditional shipping banks retrenching and even exiting the market, Shipping Finance remains committed to serving its client base without compromising on its risk management. This commitment is evidenced by the strongly increased loan production year-on-year, whilst maintaining a prudent risk posture.

## Structured Asset Financing – Loan portfolio

The currently constrained activity of larger traditional shipping lenders presented good opportunities for Shipping Finance in 2011 to fill the void and win attractive risk-reward transactions with customers that were previously out of reach, in terms of pricing. Our business model brought about better insight and coverage of the market due to our dedicated and sector-focused expertise. At the same time we were still able to continue committing capital selectively to the most attractive business opportunities. This combination created an effective and profitable proposition in 2011 and allowed Shipping Finance to choose the deals offering the best risk-reward profile. Consequently, new customer lending (loans and advances inclusive of guarantees and indemnities) totalled €2.5 billion over 93 new facilities in 2011, compared to a new business volume of €2.3 billion over 84 facilities in 2010.

Despite the positive development of new customer lending and the increasing number of new transactions, net segment income before taxes declined by 27.8% to €81.2 million. Total income decreased to €121.6 million, from €147.5 million in the previous year. Net interest income was down 15.2%, to €91.4 million, as a result of higher funding costs allocated to the interest expense. Due to the difficult conditions on the maritime shipping markets, allowance for credit losses was recognised in an amount of €35.2 million, an increase of 39.7%. Total allowance for credit losses in Shipping Finance was €79.3 million in 2011, compared to €103.8 million at the end of 2010. This level of provisioning provides a necessary cushion for potential losses. Shipping Finance thus remains in control of its loan book, and the portfolio is adequately provisioned for.

**Segment results Shipping Finance[1)]**

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Net interest income | 91.4 | 107.8 | –15.2 |
| Allowance for credit losses | –35.2 | –25.2 | 39.7 |
| Net interest income after allowance for credit losses | 56.2 | 82.6 | –32.0 |
| Net fee and commission income | 61.4 | 69.5 | –11.7 |
| **Income** | **121.6** | **147.5** | **–17.6** |
| **General administrative expenses** | **–40.4** | **–35.0** | **15.4** |
| **Net segment income before taxes** | **81.2** | **112.5** | **–27.8** |

1) Only those costs are allocated to DVB's operating business divisions for which they are directly responsible. General costs of operations, overheads or, for example, IT costs are not allocated to the operating business divisions.

We concluded our new transactions with established and new clients. Some of the 2011 transaction highlights were:

- A US$137.2 million export credit facility together with the Export Import Bank of China (CEXIM) for SK Shipping Co. Ltd to support the construction of two VLCCs at Dalian Shipbuilding Industry Corporation, China. The facility finances the first VLCC export deal from China to Korea and is a major milestone for the Chinese shipbuilding industry. We are proud that DVB is involved in this significant transaction, which enhances our shipping business both in Korea and China, towards CEXIM.

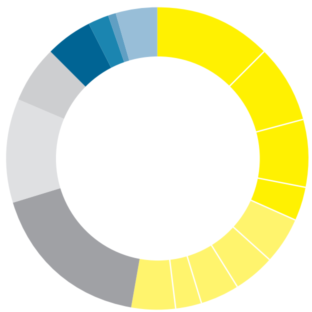
- DVB as Agent, and together with ABN AMRO as Mandated Lead Arranger, closed a US$400 million facility for DSM II, a UDW drillship (10,000 feet of water depth) delivered in November 2011. The Norwegian Export Credit Agency supported the transaction with a US$207 million guarantee for the Norwegian content. The DSM II will be employed by Petrobras (Brazilian corporation performing in several sectors of the oil, gas and energy industry) pursuant to a three-year contract. The transaction was closed successfully and sold down in the midst of a difficult market environment.

- In June 2011 Globus Maritime Limited successfully completed its first follow-on offering on NASDAQ in the selling of 2,750,000 shares at a share price of US$8/share, raising US$22 million of gross proceeds. This was the first lead transaction under the DVB/Knight Capital Group marketing umbrella. Globus felt they had chosen the right party for this deal since other investment banks close to Globus tried to convince them to cancel the offering.

The customer lending volume developed strongly in 2011 too, leading to a 9.7% growth of the Shipping Finance loan book to €11.3 billion, up from €10.3 billion at the end of 2010. Note that the loan portfolio growth in US dollar terms was 6.6%, from US$13.7 billion to US$14.6 billion. The strong loan production numbers were countered by high pre- and repayments of about 30%. The Shipping Finance portfolio remains well diversified across the shipping spectrum, in terms of sector/subsector, asset, geographic exposure, client concentration and types of financing. Diversification and granularity in the portfolio are key pillars of Shipping Finance's risk management philosophy. Additionally, based on Shipping Research's input, the portfolio is managed away from perceived higher risk areas.

Looking at the financed vessel types, the overall Shipping Finance portfolio shows a high degree of diversification. The tanker exposure, accounting for 31.8% of the overall portfolio, grew from €3.1 billion to €3.6 billion – mainly due to an increase in financed double-hull crude oil tankers, chemical tankers and gas tankers. At the same time Shipping Finance decreased its exposure to product tankers to 7.2% from 8.5% in 2010. Offshore support vessels make up the second-largest portfolio share, which increased to 21.0% (€2.4 billion). In view of the currently challenging market conditions, the bulk carrier and container carrier/container box exposures were reduced to 17.7% and 17.2%, respectively. ❶

**❶ Shipping Finance portfolio by vessel type**



**Tankers 31.8%**
thereof:
12.7% Crude oil tankers
8.2% Chemical tankers
7.2% Product tankers
3.7% Gas tankers

**Offshore 21.0%**
thereof:
5.0% Anchor handlers
4.4% Plattform supply vessels
4.1% Drillships
2.9% Rigs
4.6% Others

**Bulk carriers 17.7%**

**Container carriers 10.9%**

**Container boxes 6.3%**

**Cruise ships 5.0%**

**Ferries/ passenger vessels 2.1%**

**F(P)SO 0.9%**

**Others 4.3%**
thereof:
1.4% Car carriers
0.8% General cargo
0.8% Reefers
0.2% Roll-on/Roll-off vessels
1.1% Miscellaneous

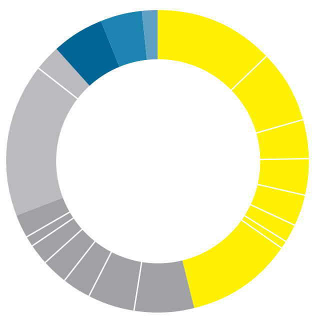
Geographically, the portfolio is also well diversified, being mainly oriented towards Europe (46.3%). Of this European exposure, the exposure to German clients was further reduced to 3.9% (–0.3 percentage points), while the share of Norwegian exposures grew to 12.9% (+1.2 percentage points). Client exposure towards Australia/Asia decreased by 3.1 percentage points, to 23.1%, whereas exposure in North and South America has gone up 0.7 percentage points to 19.0% and in the Middle East up 1.4 percentage points to 5.7%. ❶

Another key pillar of DVB's risk management approach is to quickly take action in response to any covenant breaches (VMC and otherwise). The vessel values are monitored diligently to establish impending VMC breaches quickly and to be able to take swift action. To further illustrate the point: during 2011 a total of 50 transactions had a VMC breach. Thereof, 20 transactions were repaired, 15 transactions were waived and 15 transactions still have an outstanding VMC breach. The total funds required to repair the outstanding VMC breaches equals €96.5 million.

From a risk perspective the portfolio was performing well: the loan-to-value ratio (LTV), one key metric of loan performance, stayed almost the same: 86.5% of the overall loan exposure had an LTV ratio equal to or lower than 60% at the end of 2011, compared to 87.1% at the end of 2010.

During 2011, the granularity of the Shipping Finance portfolio was good, with the average lending exposure per client standing at €33.0 million (a marginal increase from €32.1 million in 2010). The largest individual client exposure stood at €206.9 million compared to €199.9 million in 2010. The number of clients where exposure exceeded €50 million totalled 65 at year-end 2011 versus 64 at year-end 2010.

**❶ Shipping Finance portfolio by country risk**



**Europe 46.3%**

thereof:
- 12.9% Norway
- 7.9% Greece
- 4.0% United Kingdom
- 3.9% Germany
- 3.5% Cyprus
- 1.8% Switzerland
- 0.8% The Netherlands
- 11.5% Others

**Australia/Asia 23.1%**

thereof:
- 6.2% South Korea
- 5.0% Singapore
- 3.3% China
- 2.7% India
- 2.1% Hong Kong
- 1.2% Japan
- 2.6% Others

**North and South America 19.0%**

thereof:
- 16.2% USA
- 2.8% Others

**Mittle East 5.7%**

**Offshore 4.5%**

**Central America/ Carribbean 1.4%**

**Shipping Finance Deal of the Year 2011**


## Shipping Finance Deal of the Year 2011

In March 2011, the Crude Oil & LNG Tanker Group (CLG) successfully closed a US$172 million sale-and-leaseback transaction on behalf of American Eagle Tankers (AET), for two 1994-built Aframax tankers and two 2002-built VLCCs. AET, a subsidiary of Malaysian MISC Berhad, is a specialised tanker company focused on the US Gulf lightering market. Lightering involves the transfer of cargo from one ship to another thereby reducing a vessel's draft to enter draft-restricted ports. In the US Gulf mainly Aframax tankers execute this practice.

DVB was the sole arranger of the lease, arranging and underwriting a debt facility of US$128 million. Also it agreed upon a back-to-back exclusive mandate with ICON Capital Corp. The two Aframaxes and two VLCCs were acquired by ICON and chartered back to AET for a period of three years and ten years, respectively. From AET's perspective, the transaction achieved a 100% financing, resulted in a capital gain, and eliminated any residual value risk on the vessels which will be 20 years old when the charters expire. Because of time constraints, CLG initially committed US$128 million to finance ICON's acquisition of the vessels, but managed to successfully syndicate US$50 million to a partner bank which stepped into the transaction on the first roll-over date at the end of June 2011.

All in all, the transaction illustrated characteristics that are actively encouraged at DVB, namely: teamwork, in this case even cross-border between Singapore, London and New York as well as creativity and perseverance to deliver and execute a complicated transaction in a short timeframe, whilst balancing the interests of the different parties involved.

## Risk management and Restructuring Asset Management

Risk management is completely woven into the life cycle of all loans. It is not limited to simply conducting due diligence pre-closing: it is a platform for continuous vigilance, and monitoring of the overall portfolio health and loan management. The risk platform is in place, and functioning well – however, increased volatility of the macro-environment coupled with increased clock speed in the shipping ecosystem has led our Group Risk Management (GRM), supported by Shipping Research, to implement measures that spot impending problems before they materialise. To this end, the following initiatives (driven by GRM) are now institutionalised:

- Higher frequency of client calling:
  Formalised and improved feedback from each client interaction where the involvement of credit officers was mandatory, and elevation of the risk dialogue with clients through the use of a minimum requirement questionnaire.

- Increased reporting:
  Monthly VMC and arrears overview; Closely Monitored List frequency changed from quarterly to monthly.

- Stress testing procedure (stressing Probability of Default and valuations) on a quarterly basis – the results form the basis for discussion between our relationship managers and their clients. They also feed into an Early Warning List.

- Continuous event-driven rating updates and reviews of the portfolio to refresh ratings and values.

- Shipping Research is fully involved in the credit process – not only with market research but also all technical aspects of the respective assets are researched and commented on, in order to flag any possible negative effects on the tradability and value of the assets financed.

- During 2011 the Shipping Asset Management team was merged into the Restructuring Unit Shipping (RUS), thereby creating a new and more capable Restructuring Asset Management (RAM) team. Through this combination the restructuring competence of DVB's credit department gains additional work-out competence and is better able to support and handle special and distressed loan situations. RAM is fully involved in the stress testing of the portfolio and dedicated to providing support, along with advising the sector teams on all stressed/distressed loans. RAM is also involved in all Watch List committee discussions.

The above-mentioned protocols are geared towards flagging possible problems early, and allocating adequate resources to assess, quantify, qualify and formulate an appropriate and swift response.

RAM's team of restructuring and work-out specialists reports directly to the Head of Credit, and the Chairman of the Board of Managing Directors. At the end of 2011, 9.4% of the loan portfolio was on the Closely Monitored List (2010: 14.0%). 6.8% of the portfolio was on the Watch List subject to close monitoring and a formal monthly review (2010: 6.8%). Moreover, 1.3% of the portfolio is being discussed by the early-warning Risk Management Forum and 1.8% of the portfolio was classified as special credits. All of this monitoring materially decreases the likelihood of unpleasant surprises.

DVB's risk management infrastructure, combined with its unique sector coverage model and supported by Shipping Research's market research and technical expertise, provides the Bank with exclusive positioning in the market, and is a source of lasting competitive advantages.

## Shipping Finance – Outlook 2012 for the key shipping segments

In the current economic environment, the level of demand for shipping is uncertain. The order book in the majority of sectors is large and we will see a decrease in time charter and freight rates. Given the oversupply of tonnage, even if a healthy level of demand emerges, we will witness destructive competition amongst industry players with the consequent impact on profitability. The outlook for 2013 looks better, although equally uncertain at this time.

Despite the challenging global economic conditions, world oil demand is forecast to surpass 95 million barrels/day by 2016. Most of the increase in demand is projected to come from developing economies in Asia and Africa: this in turn contributes to approximately two-thirds of absolute demand stemming from the transportation sector.

Increased demand for energy, combined with the lack of a commercially viable and available substitute for transportation fuel, is assumed to further boost the price for oil in the years to come. Oil prices for 2012–2013 could possibly average between US$110–US$115/barrel. This is a positive trigger for E&P activities and global E&P capital expenditure is estimated to increase by approximately 6.7% (year-on-year) from 2011 to 2016.

Onshore reserves are gradually being depleted, with supply being replenished by offshore discoveries. Although known onshore crude deposits in Saudi Arabia and other regions still exist, these are yet to be tapped. In the meantime, tightening global spare production capacity is making offshore production increasingly important for the energy markets. Deepwater subsea production in particular is expected to play a focal role going forward: for the period 2012–2016, a growth of 43% in this sector is forecast, compared to the previous five years.

## Offshore vessels

In the offshore market, the uneven recovery between subsectors which started in 2011 is forecast to remain, with sophisticated units performing better as these will replace older units and benefit from growth in areas requiring state-of-the-art equipment. The most active areas will be in the so-called Golden Triangle, formed by the US Gulf, Brazil and West Africa, where fields are primarily located in deep and ultra-deep waters requiring sophisticated equipment. Recent discoveries in the North Sea are also increasing prospects for this region. More specifically, despite growing demand, the jack-up market as a whole will most likely remain subdued due to continued deliveries, with only the high-end units experiencing improved rates. The semi-submersible market, on the other hand, will in our view show signs of improvement in 2012, since this segment will benefit from demand in the Golden Triangle while supply is tightening. Demand for drillships will also benefit from increasing activity in these regions; however, the significant number of orders in 2011 for sophisticated drillships will put downward pressure on utilisation rates from 2013 onwards. AHTS and PSV markets should benefit from this increased drilling activity, while assets associated with deep and ultra-deepwater activities will continue their strong utilisation rates. The state-of-the-art AHTS market is expected to recover strongly, while the recovery will be moderate for the less sophisticated units over the next two years. A similar scenario is anticipated for PSVs.

## Crude oil tankers

On the commodity side, the precarious state of the global economy along with the inherent weaknesses of the crude tanker market point to another difficult year for owners. Based on the alarming economic challenges that Europe and North America are faced with, as well as the slowdown of the Asian economies, our world oil demand growth forecast for 2012 has been downgraded significantly. Accordingly, our crude tanker market forecast has also been revised downwards. However, the main challenge will stem from fleet oversupply. We expect oil demand and thus tanker demand to increase further in 2012, albeit marginally: yet the fleet expansion recorded in previous years is bound to continue in 2012 as well. Fleet employment is therefore forecast to decline further. Low fleet utilisation is expected to have a further negative impact on earnings, despite any seasonal spikes in the spot market. Asset values are also projected to remain under pressure for all crude oil tanker subsectors. Market fundamentals are deemed to remain soft in 2013 as well: crude oil demand is anticipated to further increase but so will fleet supply and thus the pressure on utilisation rates will remain. Earnings and asset values are expected to flatten and remain close to 2012 levels.

## Product tankers

The demand situation in the product tanker market has improved somewhat, and projected refinery completions in the Middle East and Asia are also providing some respite to trade projections. Fleet developments in the product tanker market over the last couple of years have also shown some improvements compared to the crude tanker market. Nonetheless, the fleet oversupply situation remains and its effect on market balance cannot be understated. The current order book still stands at 14% of the existing fleet – newbuilding orders were placed despite vessel deliveries reaching their peak in 2010. Therefore, fleet utilisation is unlikely to reach the heady levels of 2007 (around 94%) any time soon. In our assumed scenario, we are expecting a slow and protracted recovery process that begins towards the end of 2012, with the prospects for larger vessels looking better than those for smaller vessels. However, our forecasts for the product tanker market remain subject to serious downside risks associated with the sovereign debt crisis in Europe which has the potential to derail global growth at extremely short notice. Our improving view for 2013 is also not immune to these major macroeconomic risks.

## Liquefied natural gas tankers

As anticipated, the demand for liquefied natural gas (LNG) tankers started demonstrating a significant improvement from 2010 onwards. This optimism is further fed by a number of liquefaction plants that will come on stream between 2012 and 2014. As the demand for natural gas increases in the future, seaborne demand for LNG should increase as consuming countries in Asia and Europe become more reliant on imports. Key threats to a sustained improvement include poor demand growth in Europe and a further delay in liquefaction plants coming on stream in the Middle East and Australia. In the longer term, unconventional sources of natural gas, such as shale gas in the US and China, have the potential to derail demand growth for LNG transportation, although we have to keep in mind that the incubation period for such projects is four to five years. However, optimism in demand growth is balanced by the projected increase in the size of the fleet. The LNG order book currently stands at 18% of the existing fleet. More importantly, a large number of vessels were ordered in 2011, resulting in the present order book being double the size of the same time last year. Most of these newly ordered vessels are likely to be delivered in 2014. Therefore, the bull rally in LNG tanker freight rates may come to a premature end if the increase in fleet capacity coincides with delays in liquefaction facilities in Australia and an increase in US shale gas activity by 2014–2015. Therefore, while we are optimistic in terms of earnings and asset value prospects for LNG tankers during the next two years, our optimism is likely to temper as we approach 2014.

## Dry bulk carriers

On the dry bulk side, we saw a record number of newbuild deliveries in 2011 (about 1,228 vessels or 101.9 million dwt), surpassing the newbuild deliveries of 2010 (about 999 vessels or 78.5 million dwt) by a huge margin. Moreover, the number of vessels scheduled to enter the market in 2012 (about 1,644 vessels or 136.5 million dwt) is higher than what was scheduled for 2011 (about 1,592 vessels or 136.8 million dwt). Thus, we can anticipate yet another record-breaking year in terms of newbuild deliveries. As a result, we forecast earnings and asset values to continue to decline through 2012, if not 2013. The problem could be further compounded if some ship financing banks are forced to foreclose and sell the assets in their portfolio. With the anticipated difficulties owners may experience in covering operational expenditure, not to mention interest and capital repayment, we may very well see further bankruptcies. Such distressed asset sales could result in a further decline in asset values. The silver lining that is being overshadowed is that the global seaborne commodity demand is projected to increase by about 8% to 3.7 billion tonnes in 2012. However, a slowdown in China or a global economic recession could revise these demand forecasts downwards.

## Container ships

During the financial crisis, the container vessel sector experienced a drastic drop in freight rates, time charter rates and asset values, leading to massive losses for both independent owners providing tonnage and liner operators. Although scrapping, lay-up, cancellation, delivery delays and slow steaming had helped to ease the burden of overcapacity, we are unlikely to see a repeat of these prudent measures in the immediate future. Starting from early 2010, the drive for market share resulted in a rapid increase in time charter rates for the large subsectors; however, the upswing in time charter rates seems to have ended before the second half of 2011. Freight rates are forecast to further moderate as the overhang in the order book gets delivered, which is why we may see a further drop in time charter rates during 2012. The pace of container vessel contracting had started to increase from the second half of 2010, and continued until the first half of 2011. However, newbuilding prices of container vessels have been falling since the beginning of the second half of 2011 and are expected to remain suppressed over the next couple of years. The downward pressure on newbuild prices will filter down to second-hand values, restricting the upside potential in their recovery.

## Cruise vessels

Last but not least, all indications are that ocean cruise demand will be stable at current levels through 2012, although downside risks exist. Cruise line per diems are likely to drop if the present economic climate persists. The outlook in 2013 is cautiously optimistic: only 17% of the US population has ever taken a cruise and the percentage is much lower in Europe. A small uptick in sentiment could therefore be sufficient to tip industry dynamics in favour of cruise lines. The Costa Concordia disaster, with live coverage over almost all the media, will give some cruise customers pause for thought – at least in the short term. In the meantime, given that this grave accident took place during the "wave" booking season, some of the contemporary operators will experience a hit on their 2012 sales. It is apparent that crew training as well as other safety and technical enhancements will need to be stepped up dramatically. The key issue that the cruise industry will have to grapple with is how to ensure that each new group coming on board will have fun, whilst being responsive and orderly in a moment of crisis and having access to sufficient lifeboats. That indeed is the real challenge.

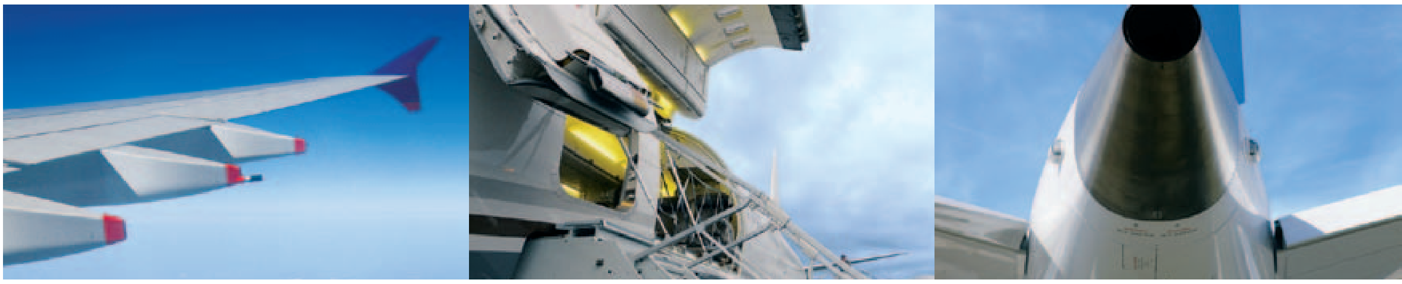
## Shipping Finance – Portfolio outlook 2012

Negative news and sentiment dominate the shipping market nowadays. It has become somewhat fashionable to view the whole shipping market critically, without considering that the market itself consists of many sectors and subsectors – each having its own supply/demand dynamics and long-term drivers. Many times we have warned about the state of certain sectors but as a focused expert we have the ability to differentiate and identify those sectors and subsectors that are expected to keep performing well.

It is this expertise that will drive our decisions on where to employ our capital going forward. We aim to grow our portfolio selectively and with measure in 2012, focusing on the offshore and the gas sectors that continue to enjoy solid prospects. These sectors have high entry barriers and require a high level of technical proficiency, thus providing insulation from the supply-driven volatility characteristic of the bulk shipping market. Yet with asset values depressed in some segments, some attractive low-risk propositions abound in the bulk segments as well.

With the expectation that volatility will prevail, our Shipping Finance will take a selective stance on new business. The abiding market conditions will enable us to reach a new clientele that was previously out of our margin scope. These players are established shipping companies with proven operational and commercial track records of riding out the cycles, corporate names with limited exposure to open market risk (either through committed contracted employment and/or by being close to the underlying cargo flows) and those with the proven ability to access multiple sources of financing (instead of being dependent upon only one source of capital).

In 2012 the number of inactive vessels, defaults and corporate restructurings is expected to increase. Shipping companies with large capital expenditure programmes and unfunded commitments and/or upcoming balloons are at particular risk. We thus expect 2012 to be a year of increased volatility and stress, but crisis also brings opportunities for those players with knowledge, expertise and dedication. With its extensive coverage and expert sector knowledge, Shipping Finance is well positioned for the year ahead. It has the right combination to do well in this difficult market and secure business with the most attractive risk-reward profile. Our Shipping Finance business model has been tested through the crisis and we are confident in its ability to evolve and adapt quickly to external shocks. Risk Management and Shipping Research are geared up, prepared and fully ingrained in the life cycle of all loans – and our vigilance has been sharpened through robust and frequent stress testing. Our restructuring expertise has been improved, and RAM continuously supports the client coverage teams and disseminates best practices. Our focus is clear – stay in control, and minimise losses.

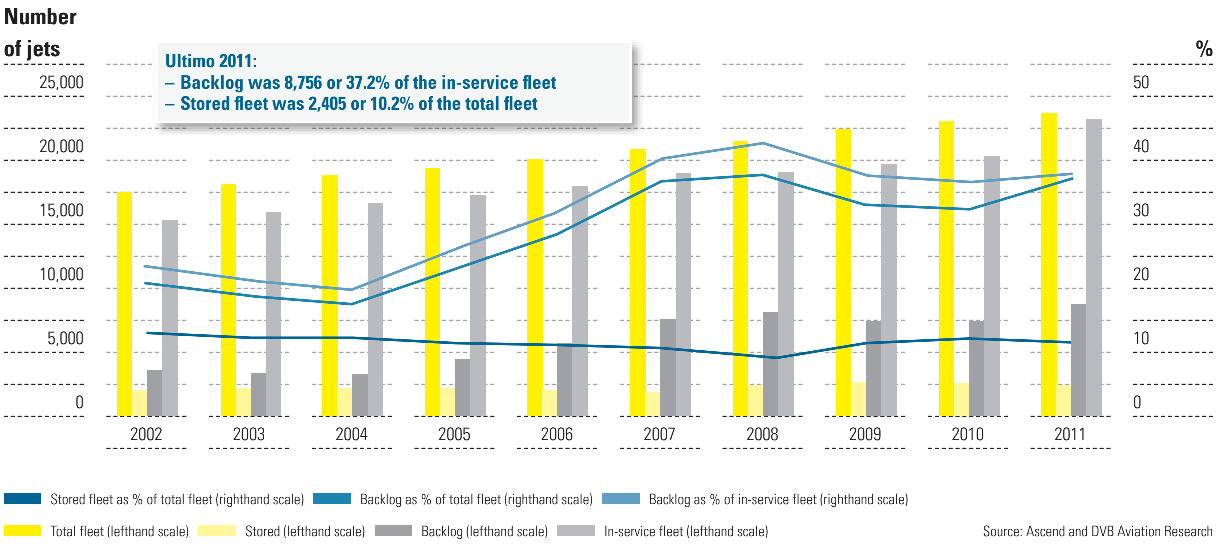


For Aviation Finance, 2011 was a strong year. Contrary to initial expectations, there was no significant increase in competitive pressure. DVB was well positioned to assist airlines and lessors that faced funding problems, contributing to a further strengthening of our franchise. Our deep asset and market understanding once more allowed us to optimise our products and services to the characteristics of the specific equipment, to the benefit of both the client and the Bank.

## Aviation Finance – Market review

After the rapid recovery in 2010, the aviation industry encountered numerous challenges in 2011 against the background of turmoil in the global political and economic environment. Early in the year, despite the impact of the Arab Spring and the earthquake in Japan on traffic, air traffic still reported robust growth in most regions of the world. Later in the year, the market struggled to keep up the growth dynamic when the European sovereign debt crisis evoked a new round of fear concerning a possible double-dip global economic recession. Fortunately, emerging markets – particularly China and South America – were still able to deliver strong growth, both in terms of traffic and aircraft demand. Towards the end of the year, a new round of financial turmoil hit the markets as no apparent feasible solution to the worsening sovereign debt crisis could be found. As a result, many European banks were short of US dollar funding which led to concerns about liquidity constraints in the aviation finance sector; some banks eventually withdrew from the market. Although not a surprise, American Airlines' filing for Chapter 11 bankruptcy protection in November 2011 sent out another warning signal to the industry. On the more positive side, air travel demand in Asia and South America was still growing thanks to the sharp growth in middle class households with growing disposable income. Also, financial institutions from these regions became more and more involved in aircraft financing, which helped to close the gap left by European banks. Japan's Sumitomo Mitsui Financial Group's US$7.3 billion purchase of Royal Bank of Scotland's aircraft leasing portfolio is an example of this trend.

**1 Backlog and storage as percentage of commercial jet fleet (western-built jets)**



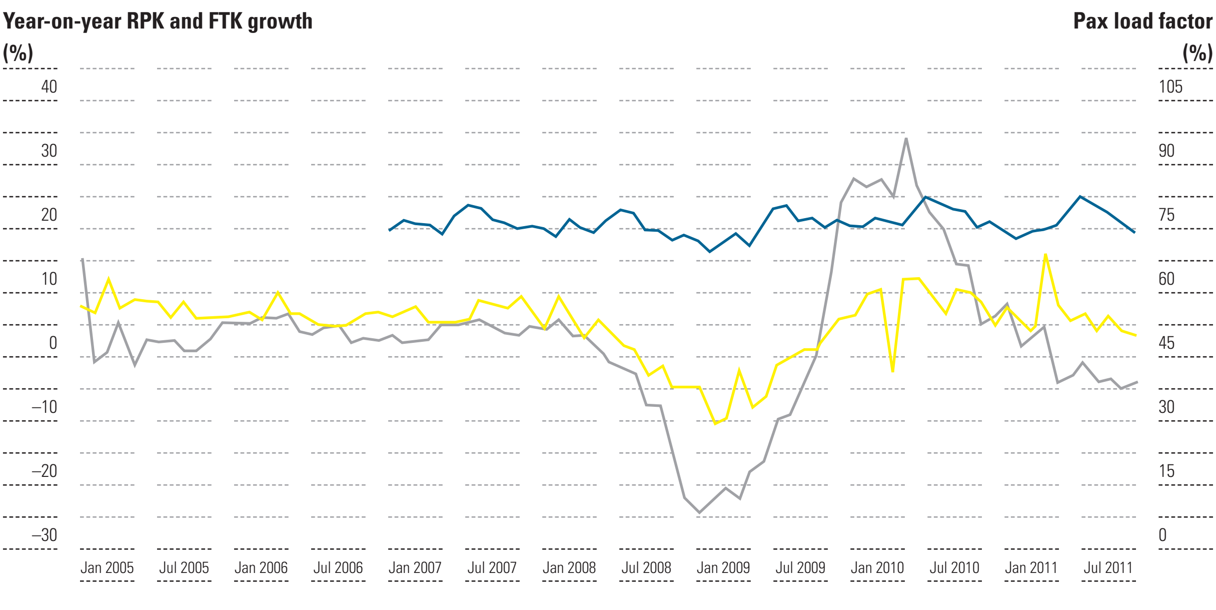

Source: Ascend and DVB Aviation Research

The commercial aviation industry booked a historical record of new orders and deliveries in 2011 and early 2012. As shown in the following graph, this order-stream does not seem to be abating, despite economic, traffic and finance concerns. The number of surplus aircraft in storage did not increase any further although this can partly be explained by the break-up of older planes. The year 2011 will also be remembered by the industry, particularly by Boeing, as a milestone year for new aircraft programs. The unexpected launch of a re-engined version of the Boeing 737, dubbed the 737 MAX in summer 2011, was a significant event in the all-important narrowbody segment of the market. Further, after almost 3.5 years of delay, the first revolutionary, all-composite Boeing 787 was delivered to Japanese airline ANA in September. Finally, in the freighter market, the new Boeing 747-8F celebrated its – delayed – debut in the air cargo market. Overall, 2011 was not a stellar year for the commercial airlines, but the aviation industry certainly did not follow other sectors into another recession. For the major commercial jet manufacturers, 2011 was in fact a very strong year. ❶

## Traffic growth and profitability

In 2011, the global airlines continued on their growth path – but during the year this turned out to be increasingly difficult. This once again demonstrated the strong correlation of the industry to the health and stability of the world economy. While for the first half of 2011, the International Air Transport Association (IATA) recorded 8.0% growth in international revenue passenger kilometres (RPK), the figure dropped to 6.9% for the year as a whole. Domestic traffic actually improved slightly during the year, with 4.0% growth during the first half of the year and 4.2% for the full year. Latin America took the lead and recorded a 10.2% increase in RPK, followed by Europe increasing 9.5% after a weak 2010 on relatively strong export activities. The expanding Middle East carriers realised 8.9%. Asia/Pacific with 4.1%, North America with 4.0% and Africa with 2.3% all fell behind. ❷

**❷ Air traffic volume**




Source: IATA

The growth of the market was translated into positive cash flow and profitability for most airlines, although significant differences between individual airlines can be noted. According to the market data from IATA covering the first nine months of 2011, airlines' financial performance in terms of operating margin and net profit margin was reasonably good with EBITDA in the three largest regions (Europe, North America, Asia) between 5% and 10% of revenues. The high fuel price has continuously been a major threat to the bottom lines of airlines, however. After net profits peaked in the third quarter of 2011, it seems airline cash flows and margins were squeezed in the fourth quarter, continuing into 2012 as a result of reduced traffic growth and soaring fuel prices.

Thanks to persistent passenger traffic growth and despite poor performance in the air freight segment, the airline industry as a whole is expected to have made a profit in 2011. In September 2011, IATA upgraded its industry profit expectations to US$6.9 billion (up from US$4.0 billion projected in June). Despite the improvements, industry profitability at these levels is still weak considering the industry's total revenues of US$594 billion (1.2% net margin), but this is not uncommon in the airline industry. Significant variations in performance by region and by airline are expected: European airlines' profitability is likely to be hit by the recession in their home markets. Contrasting performances are shown by North American airlines, where capacity cuts made in previous years partially protect the profitability of those airlines that were able to restructure in the past few years. The largest profit will be recorded by Asian airlines which will take almost 50% of the forecasted industry profit total.

## Cargo market

In contrast to the passenger market, the freight market started to shrink in 2011 after the short but sharp bounce-back of 2010. The overcapacity warning that we signalled before has unfortunately become a painful reality. Freight traffic growth started to decline sharply by the middle of the year. According to IATA figures, total Freight Tonne Kilometres decreased by 0.7% for the full year, while capacity in Available Tonne Kilometres increased by 4.1%. This implies that many pure cargo operators must once more be under huge pressure and indeed during the first weeks of 2012 several operators filed for bankruptcy protection. Apart from the weak economy, the problems in the cargo market are caused by the decrease of military charter volumes as well as the increasing competition from "belly-hold" cargo capacity offered by passenger airlines in their new-generation widebodies.

## Orders and deliveries

With the launch of the re-engined, more fuel efficient Airbus A320neo family at the end of 2010, the speculation about a new generation of Airbus narrowbodies was over. Following the recovery of global air passenger traffic in 2010 and the threat of increasing fuel-related costs, the market demonstrated great enthusiasm for fleet expansion and renewal by placing a record number of orders in 2011. Airbus benefited strongly from its A320neo, and outsold Boeing almost two-to-one in 2011. The European manufacturer won a total net order volume of 1,531 aircraft, giving it a record market share of 60% by volume of new aircraft ordered. That tally included 1,166 net orders of A320neos, which easily took the crown for best-selling aircraft family in 2011. This once again demonstrates market demand in this traditionally popular 150-seat market segment.

While many industry observers had expected Boeing to launch an all new narrowbody aircraft, the success of the A320neo eventually prompted Boeing to update and re-engine its own best-selling 737NG family. On 20 July 2011, American Airlines announced the decision on its narrowbody fleet replacement programme, and signed a Letter of Intent to order 100 planes of what is now called the Boeing 737 MAX, the successor to the current 737NG. As the 737 MAX design details did not become clear until late in the year, the type received only 150 net orders, but around 700 commitments. These may become real orders once the design of the plane will be frozen. With the launch of the 737 MAX instead of an all new design, the risk of a destabilisation of the narrowbody market – with a potentially negative impact on equipment values – has abated somewhat, assuming A320neo and 737 MAX sales will be reasonably balanced.

The sales volume of other – in-production – narrowbody aircraft types was clearly under pressure due to the launch of the A320neo and B737 MAX aircraft families. However, several major orders were placed for a combination of the current as well as the new generation, suggesting these late-production current-generation aircraft may be used as interim lift. As expected, the shorter A319 as well as its counterpart, the Boeing 737-700, continued to lose attraction, as airlines and lessors concentrated on the larger members of the families that offer better seat-mile fuel efficiency. The introduction of the re-engined aircraft by Airbus and Boeing in the narrowbody segment has reinforced their duopoly against market entrants from Canada, Russia and China. Bombardier's CSeries, a smaller Canadian narrowbody competitor with 110 to 130 seats capacity, has not yet received the same traction as the Airbus and Boeing products, despite its all new design and advanced technology. Among the other potential competitors, China is still deemed to become a serious contender within the next two or three decades. China's COMAC's C919, to be powered by state-of-the-art western-built engines, is expected to enter service in 2016 at the earliest, and won another 115 net orders in 2011, mainly from Chinese domestic customers.

With respect to the widebody market, the generation change scenario is much clearer. After approximately 3.5 years of delay, the first commercial deliveries of Boeing's 787 Dreamliner to ANA took place. Boeing developed the 787 to replace the aging 757 and 767 aircraft, as well as potentially the lower end of the 777 aircraft family. Despite its claimed fuel efficiency and other high-tech features, only 13 net 787 orders could be added to the – admittedly already very full – order book in 2011, after cancellations for 33 aircraft.

Airbus' response to the B787 is the slightly higher capacity A350 family, which is to eventually succeed the A330 and A340. Airbus claims the A350 and A330 will be produced in parallel for some time, since the A350 production ramp-up is expected to take two/three years. In a similar fashion to the B787, the A350 only booked 13 new orders, but had to deal with a total of 41 cancellations. In contrast, 2011 was a very good year overall for the A330 aircraft family. The B787 delays have been positive for A330 demand, and it will take several years before B787 and A350 can push the A330 out of the market. The A330 aircraft family managed to keep its strong interim lift position and recorded a total net order of 85 aircraft. Reportedly, Airbus is even considering a further upgrade of the A330. In 2011, Boeing's 777 was the king of the medium to large widebody sector in terms of new orders (net +200). The B777-300ER is considered to be one of the most popular in-production widebody aircraft types, and it alone booked 150 net orders last year after production of the competing A340 came to an end. No new competitor aircraft in this market segment are expected until around 2017 when Airbus will start producing the slightly smaller A350 XWB-1000. Based on seat-mile costs considerations, the B777-300ER is increasingly being selected as a replacement for the venerable B747-400 Jumbo-jet, whose successor, the B747-8, failed to impress: it only received a net three orders. Positive news was the fact that the first B747-8F Freighter finally got delivered.

Airbus' A380 megajet seems to keep doing well, gaining 19 net orders last year bringing total order backlog to 174 aircraft. It seems the A380 slowly finds recognition as the new queen of the skies, also within the financial community. With regard to regional jet orders, it was very clear that 50–70-seat jets lost market interest due to seat-mile cost concerns and potential changes of pilot salary scales – this historically stimulated the use of smaller aircraft (so-called scope clauses). In the regional jet category, only the Embraer 190 stood out in a positive way, with a total net order intake of 53 aircraft in 2011.

## Production and deliveries

With regard to production and deliveries, the two dominant aircraft manufacturers broke a record by delivering more than 1,000 aircraft in a single year. Most deliveries were to carriers in the developing economies of Asia and the Middle East, which represented about 35% of the 2011 total deliveries. Specifically, Boeing and Airbus delivered 490 and 544 aircraft respectively in 2011, an increase by approximately 6% compared to the volume of last year. Especially, production in the narrowbody segment expanded rapidly: while Boeing's production level was virtually unchanged with 372 B737NGs, Airbus delivered 421 A320 family aircraft and, thus, recorded a 5% increase. Going forward, Airbus and Boeing announced plans to expand narrowbody production. Airbus plans to increase output from today's 31 per month to 42 per month to be reached in 2012. Boeing aims at a gradual increase to 42 B737s per month in 2014 from today's 35 per month.

With respect to widebodies, the B777 production remained stable at 73 aircraft last year, one less than the previous year. The B767 had 20 aircraft delivered, eight more than in 2010 and mainly -300ER variants. The A330 production line added 87 aircraft to the market last year (same as 2010). Eventually, the first B787 and B747-8F were delivered, but due to technical/production challenges and significant re-working required for the first deliveries, a slower than anticipated production ramp-up could not be avoided.

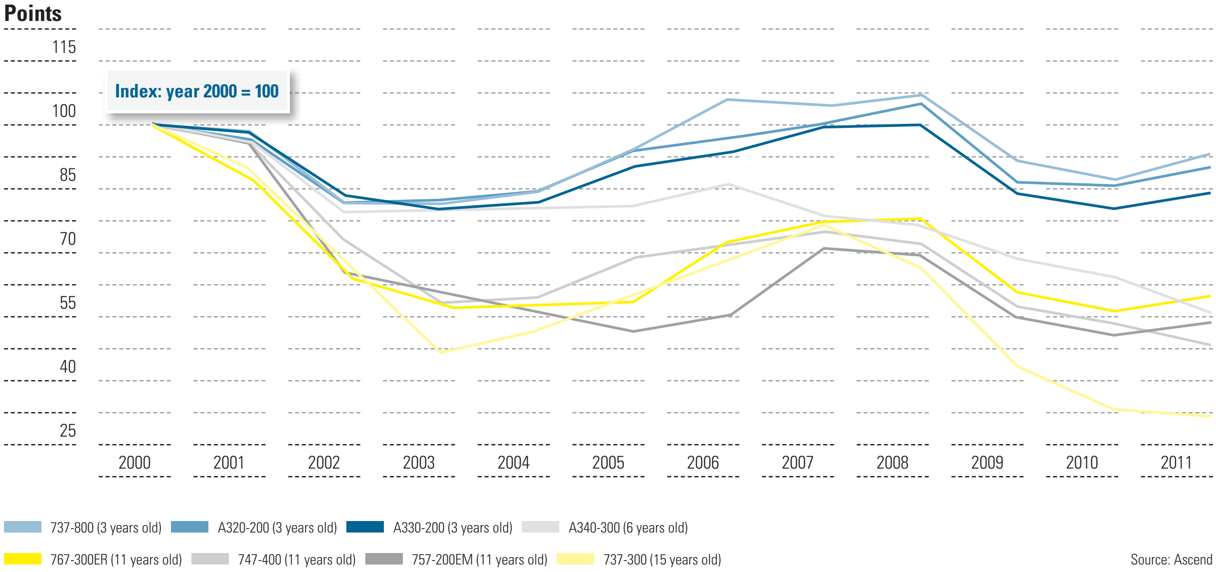
## Aircraft financing

The increasing production rate of aircraft manufacturers has made the market more and more concerned about potential oversupply. While it is true that both Airbus and Boeing have a very strong order book, there are growing concerns about potential over-ordering by airlines and lessors based on possibly unrealistic growth expectations. While the vast majority of the ordered aircraft will probably be delivered to their original customers, the over-capacity issue may manifest itself more in the used equipment segment of the market. During 2011, it became more evident that relatively young used aircraft had great difficulty in finding new operators, especially operators of good standing and prepared to pay appropriate lease rates. As shown in the following graph, used equipment prices showed a mixed picture in 2011 but in general – and with several exceptions, notably for the older types – firmed up somewhat. During the second half of the year the market softened overall. There are many reasons why older aircraft may be falling out of favour, including the airlines' desire for the latest technology equipment, the abundant availability of equity for investment in new aircraft only, as well as the lack of debt funding for used equipment. ❶

Operating lessors sponsored by new equity investors are placing significant orders for new aircraft. The aggregate volume of sale-and-leaseback transactions of (nearly) new aircraft brings the share of the lessors in the global fleet to record highs. For some of the more popular aircraft types, the lessors' share is actually close to or even exceeding 50%. One may argue that the role of the lessors transforms a duopolistic market (Airbus, Boeing) into a free market with many suppliers (the lessors), resulting in a potential loss of pricing power. The potentially resulting increased availability of used equipment is a clear threat to asset values. Older types of previous-generation planes are usually pushed out of the market first in the replacement cycles – even more so when the replacement cycles coincide with an industry downturn. Ample availability of the new products, in combination with a severe industry downturn, could have strong value implications for the previous-generation products. Furthermore, the import limits (i.e. age restrictions) imposed by many countries could also harm the liquidity of older aircraft.

From a demand perspective, the limited availability of debt funding is an increasing concern after major European aviation banks faced US dollar constraints at the end of 2011. The new, more restrictive and potentially more expensive terms and conditions offered by the export credit agencies (ECA) as a result of the new Aircraft Sector Understanding, did not have much effect in 2011 as most transactions enjoyed "grandfather rights". Once more the ECAs played the most important role with – according to Boeing data – about 30% of the total amount of aircraft delivery financing. Thanks to positive financial results, airlines themselves contributed about 25% and about 20% came from the commercial banks. The self-funded contribution from operating lessors was 10% and the oft-glorified capital markets chipped in just about 10%.

**❶ Aircraft values (constant age; mid-year data)**




Source: Ascend

## Aviation Finance – Strategy

DVB features a unique platform of Aviation Finance services and products, and an impressive track record of highly structured transactions to go with it. The Aviation platform has been built meticulously, with innovation and a view to being a constant provider of aviation capital and services during different economic cycles. This strategy is truly a reflection of the Aviation Finance mission statement: "To be able, as a hybrid institution, at any period in time and at any point along the industry cycle, to provide our customers with the most efficient blend of capital and services".

Today, DVB is one of the largest providers of recourse and non-recourse commercial debt to passenger and cargo airlines, and to aircraft lessors worldwide, with a total exposure that has grown steadily to €6.9 billion, financing 839 aircraft and 60 spare engines. We view the continuing development of our asset-based lending practice as a way of further profitably expanding our business in the sector, and specifically consider our willingness to assume residual value risks – based on in-depth research, together with our knowledge of the market and specific aircraft – as a competitive advantage. As such, DVB will continue to adopt a proactive approach to maintaining and growing its portfolio, in line with well-established lending guidelines and principles. Our strategy is to build on this core business, and to provide aviation customers with a seamless one-stop shop to develop financing solutions for core aviation assets. No other aviation finance bank can boast its own aircraft asset management team, let alone its own combination of an aircraft asset management team and an aero engine asset management team.

This collection of specialists, allied to the asset and market research capability, ensures that the Bank remains a consistent and intelligent arranger and supplier of commercial debt and equity capital, as well as a provider of good advice and tailored solutions to its client base, in all market conditions.

Our Aviation Finance clients can today readily draw upon the following range of expertise, in order to fulfil their differing requirements:

- Structured Asset Financing, comprising recourse and non-recourse lending and arranging, plus structured finance activities (including tax and non-tax-based leases);
- Advisory Services, including fund raising/financing strategy, optimal capital structure and sale-and-leaseback transactions;
- Aviation Asset Management, providing third-party aircraft remarketing, lease management as well as technical and general consultancy services;
- Aero Engine Financing and Engine Asset Management, including the services of TES Aviation Group;
- Asset & Market Research as the basis of the one-stop shop concept, with a core focus on the equipment market;
- Private Equity Sourcing and Investments, via the Aviation Investment Management team, managing the Deucalion Aviation Funds (aircraft, aero engines, airline equity, asset-backed bonds, etc.).

A prerequisite for DVB's success is co-operation amongst a team of professionals with a multi-disciplined background. As well as staff experienced in banking and structured finance, Aviation Finance employs individuals with very specific aviation industry expertise gathered from a prior background with airlines, manufacturers, aircraft/engine lessors and asset managers. Our geographic franchise comprises all of the world's significant aviation finance markets: London, New York, Singapore, Tokyo and Frankfurt/Main.

The biggest differentiator between DVB and its competitors is the fact that Aviation Finance offers far more than the traditional range of banking services. We provide the best choice of structures and services "at the crossroads of money and metal", supported by a strong research team. Our aim is to ensure that these distinctive features are fully recognised and valued by our clients and prospects.

Into 2012, and indeed beyond, DVB's vision now is to optimise its resources and relentlessly continue to monitor its risk positions. It has available capital for new business, as well as a platform and staff skill sets to which others aspire. Aviation Finance is already operating at a level on which it can be confident of achieving its goal of a cycle-neutral business model: one which will enable DVB to be equally active (and therefore profitable) in a market downturn as in an upturn. What Aviation Finance now strives for is to further increase efficiency across the board, for the mutual benefit of the Bank and its clients, and thus to stay ahead of its competitors.

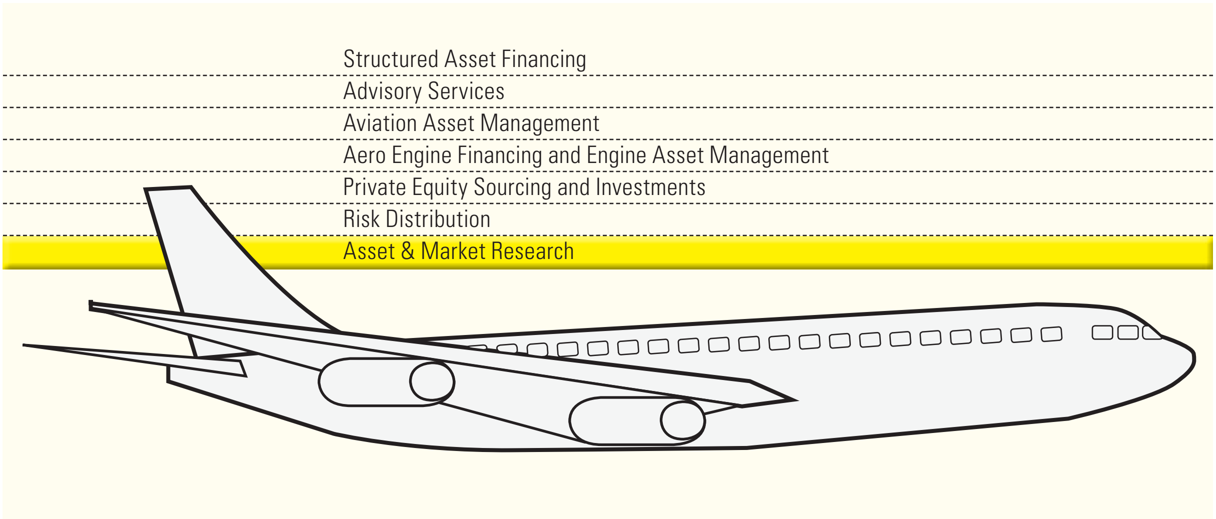
## Aviation Finance – Products

Through its "one-stop shop" business model, our Aviation Finance division offers a wide range of value-added products and services. ❶

### Structured Asset Financing

The Structured Asset Financing activity of the Aviation Finance division is at the heart of its client offering. With a loan portfolio of €6.9 billion and a new business final-take of €2.7 billion in 2011, DVB is a market leader in commercial and asset-based financing for aircraft and related equipment. The Aviation Finance teams actively seek out new business, both in isolation and in conjunction with the arranging and structured financing activities. Some of the Bank's competitors are more than keen to pursue such "structured" activities (including tax- and non-tax-based leases); however, unlike DVB, they are unwilling to apply their balance sheets in support of these initiatives. DVB does not provide export credit loans as they are not deemed to offer the proper risk-reward balance for our business.

❶ **Aviation Finance – "one-stop shop" business model**



A team of 20 Aviation Finance relationship managers is located in London, New York, Singapore and Tokyo, with the objective of covering all three key economic regions for aviation. The core lending business comprises both recourse and non-recourse finance. In this latter category, DVB routinely takes residual risk on the sales proceeds of aircraft upon maturity, an activity which requires the formulation of an own-expert opinion of residual values. Here, the specialist research activities of Aviation Research are a necessary and crucial differentiator.

## Advisory Services

DVB acts as an adviser to its aviation clients via the Aviation Financial Consultancy (AFC) unit. The team expanded its activities with a base in Singapore in 2011 and includes professionals with extensive banking, leasing and airline backgrounds. Providing its clients with an unbiased view and opinion, they add additional/ innovative perspectives to a client's project or, more generally, to the client's balance sheet. AFC specialises in providing advice to airlines, lessors and investors, with its range of advisory services including financing advice (commercial, export credit, pre-delivery payment), lease-versus-buy analysis, aircraft procurement advice, advice in relation to (and the execution of) sale-and-leaseback transactions, business plan and development strategy reviews and restructuring advice.

## Aviation Asset Management

The Aviation Asset Management (AAM) team, comprising eleven professionals located in London, New York and Singapore, provides the full range of aircraft management services – this being third-party aircraft remarketing, lease management, and technical and general consultancy services – to airlines, lessors, investors, bondholders and financial institutions. It is backed in this activity by extensive market knowledge and established industry relationships and reputation.

Services are provided either as a fully packaged solution or on a standalone basis to best suit the needs of the customer. The AAM team has extensive experience in the tough commercial aviation environment, having previously worked for Original Equipment Manufacturers (OEM), (aircraft and aero engine) lessors as well as airlines, gaining valuable collective experience in dealing directly with aviation clients. The team currently has over 60 aircraft under lease management and remarketing contracts for third parties, making it one of the key players in the aviation asset management arena.

As an integral part of the Aviation platform, AAM also adds value to the Bank's broader customer requirements, often playing an active role in the evaluation of asset exposures being contemplated by the financing teams, and as part of a transaction team mandated to perform an advisory project.

## Aero Engine Financing and Engine Asset Management

TES Aviation Group (TES), an independent majority-owned subsidiary of DVB, acquired in July 2007, is part of DVB's Aviation platform and its range of services. Cardiff (Wales)-based TES is a leading aero engine asset management company, with an owned and managed engine portfolio valued in excess of €2.0 billion.

TES is an active purchaser and/or manager of aircraft and aero engines to service its growing engine part-out, parts sales and aero engine leasing businesses. As an aircraft matures, the percentage of the aircraft value that resides in the engines gradually increases to the point where ultimately the part-out of the aircraft becomes commercially viable. TES actively identifies such opportunities which (supplemented by engine lease revenue streams) present an opportunity for an aircraft or engine to be dismantled for its constituent parts.

TES has an unrivalled technical expertise gained from both the management of a €2.0 billion portfolio of 600 aero engines across all mid- to large-thrust engine types, and the annual management of an engine maintenance expenditure in excess of €200 million. By combining TES's lease engine services, together with their overhauled piece-part supply services and technical expertise, the company is able to provide a full range of risk management solutions, engineering, and consultancy services to owners and operators of aircraft engines.

Aviation Finance also engages in the financing of spare engines, either for airlines directly or in operating lease structures. This activity is run by the Structured Asset Financing teams alongside the aircraft financing business; but, by being able to call upon the specialist advice of TES, Aviation Finance can be sure of a high quality asset analysis.

## Asset & Market Research

The Aviation Research (AR) and Airline Research & Analysis (ARA) teams are comprised of five researchers based in London and Rotterdam, who perform high-quality, independent research to support the strategy and activities of Aviation Finance.

AR has a direct reporting line to DVB's Chief Executive Officer and its main focus is on the aviation equipment market and on aircraft technology, to the extent that these influence aircraft values and liquidity. Responsibilities range from preparing asset evaluation reports for internal purposes, to assisting the commercial units with information and analyses about aircraft, aero engines and the aerospace market in general. Together with Group Risk Management and Aviation Credit, AR is responsible for developing DVB's asset-related strategy as well as its internal policies with respect to asset-related lending criteria.

ARA has a direct reporting line to the Head of Industry and provides Aviation Finance with a range of unbiased air transport market and airline industry information and analysis. ARA's focus is on the commercial airline market, broken down by geographic region, industry sector and subsector, and, as a member of various deal teams, ARA provides active consultancy, comparative analysis and due diligence protocols.

Both teams frequently present their findings during aviation conferences, external presentations and in trade press articles.

## Aviation Finance – Portfolio analysis

DVB is renowned as a leading arranger, underwriter and provider of asset-based capital in aviation finance. It was one of the few financial institutions which remained active during the latest downturn, and thereby proved – once again – a reliable partner to its clients in difficult times.

## An integrated platform approach, across a global footprint

Aviation Finance has a strong network of relationships with clients and industry partners, who perceive DVB as a bank that understands their business and which possesses the expertise to provide value-added financial solutions. Such relationships are maintained by remaining in close and constant touch with its clients, achieved through the coverage of its relationship management teams in London, New York, Singapore and Tokyo. The client activities of these teams are supported by the Aviation Financial Consultancy (based in London and Singapore) and Aviation Asset Management (based in London, New York and Singapore) teams. The platform is further complemented by TES Aviation Group, a leading engine asset management company, based in Cardiff (Wales), UK, in which DVB has a majority shareholding. Aviation Finance's scope of products and services is positioned to offer a "cradle to grave" solution for aircraft and related equipment, ranging from, at one end of the life spectrum, providing pre-delivery finance for aircraft still to be delivered, to a tear-down solution for aircraft and spare engines, at the other end. Within this spectrum DVB provides a range of structured asset finance, advisory and asset management services, following the life cycle of aero equipment.

**Aviation Finance Deal of the Year 2011**


## Market leadership and Aviation Finance Deal of the Year 2011

In times of industry and financial turbulence, a few players set the path for others to follow. In 2011, DVB was again a leader in an air finance market still relatively starved of commercial banking liquidity. The financing of new equipment was not an area of significant stress, given the availability of export credit agency (ECA; guarantee) support, the appetite of the leasing companies for such assets, and, where necessary, the manufacturers being prepared to step in to fund backstop deliveries for their customers. For non-ECA supported transactions, the stellar credits among the airline and leasing companies were able to secure funding; however for the rest, it remained hard work to secure their aircraft financing/refinancing needs, in particular for used equipment, or to raise financing for pre-delivery payments (PDP). Since DVB's Aviation Finance does not target low-risk, low-margin ECA-supported business, each dollar of the US$3.4 billion we loaned during 2011 was "in demand" commercial finance. Across our Structured Asset Financing activity, we continued to support the needs of our core clients, but also added new clients to our portfolio. As the year came to a close, we had completed a satisfying mix of new and used aircraft financings for a group of clients in terms of geographic location and credit standing.

Some of the transaction highlights of 2011 are included in the sections below. We have, however, selected a commercial financing for Jackson Square Aviation (JSA), a San Francisco-based aircraft leasing company, as the most important Aviation Finance deal concluded in the year. DVB had provided bridge loans to finance eight aircraft, on lease to five different airlines which JSA had targeted for a capital markets transaction. As markets became more volatile and the likelihood of a capital markets facility materialising in 2011 decreased, JSA approached the market to request a long-term financing solution for an 18-aircraft portfolio (including the eight already financed by DVB under the bridge financing). DVB successfully structured a five-year limited-recourse term facility for an 11-aircraft portfolio on a cross-collateralised basis and arranged the US$435.4 million financing facility together with NordLB and Citibank. DVB and NordLB each provided US$192.7 million in financing, with Citibank committing US$50 million, and DVB acted as the Facility Agent for the portfolio. While JSA has been very active in the debt financing market, this is its largest facility to date, and the first to mix widebody and narrowbody aircraft. With a current pipeline of 30 committed aircraft, and looking to grow further, JSA is considered a strategic client that will offer further platform opportunities for DVB going forward.

## Structured Asset Financing – Loan portfolio

During 2011 Aviation Finance realised 78 new transactions with aviation clients, representing a new final-take volume of €2.7 billion (2010: 45 new transactions with a final-take volume of €1.8 billion). Due to this excellent performance in new business origination (+50%), net interest income rose by 3.9% to €74.0 million, with interest margins maintaining a high level of 325 basis points. Allowance for credit losses amounting to €5.7 million was recognised. Total allowance for credit losses in Aviation Finance stood at €48.0 million in 2011, compared to €41.2 million at the end of 2010. We believe that this level of provisioning provides a necessary and adequate cushion against possible losses. Total income declined by 7.0% to €102.9 million and net segment income before taxes decreased by 11.7% to €85.5 million.

**Segment results Aviation Finance[1)]**

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Net interest income | 74.0 | 71.2 | 3.9 |
| Allowance for credit losses | –5.7 | 0.9 | – |
| Net interest income after allowance for credit losses | 68.3 | 72.1 | –5.3 |
| Net fee and commission income | 34.5 | 38.5 | –10.4 |
| **Income** | **102.9** | **110.6** | **–7.0** |
| **General administrative expenses** | **–17.4** | **–13.8** | **26.1** |
| **Net segment income before taxes** | **85.5** | **96.8** | **–11.7** |

1) Only those costs are allocated to DVB's operating business divisions for which they are directly responsible. General costs of operations, overheads or, for example, IT costs are not allocated to the operating business divisions.

New business was concluded with established customers such as AerCap, AWAS, Guggenheim Aviation Partners, Lion Air and Wizz Air. In addition, DVB attracted ten new clients including CDB Leasing, Norwegian Air Shuttle, TAP and THY. The average margin on new final-take loan commitments during 2011 was 325 basis points per annum. This level represented a reduction from the 2010 level of 338 basis points, but with competition again more active, especially in the first half of the year, it was nevertheless an excellent result. DVB acted as arranger and/or agent bank (i.e. leading role) in respect of all except three of its newly acquired business transactions. New financings in 2011 were well diversified by client and obligor, as well as by aircraft type.

Some of the 2011 transaction highlights were:

- Lead Arranger of a US$168 million multi-tranche Commercial Loan comprised of a senior tranche, mezzanine tranche and subordinated tranche to finance four new A321-200 aircraft, each equipped with two V2533-A5 engines, for US Airways. DVB also acts as Administrative Agent and Co-Participant for the senior loan tranche.

- Arranger/Underwriter of a US$29 million senior-secured limited recourse debt facility for CIAF Leasing used to finance the acquisition of one Boeing 737-800 on lease to TUI Travel plc. This transaction was the first one undertaken by a new joint-venture company, based in Egypt, between the Civil Aviation Finance Holding Co., the Civil Aviation Support and Development Fund, and prominent lessor Aviation Capital Group.

- Arranger/Underwriter of a variety of limited recourse financings to support DVB's lessor clients. These included: for Avolon, one new B777-300ER on lease to Air France; for AWAS, two B737-800's on lease to Garuda; and for DAE, one B777-200F on lease to Emirates.

- Consistent with DVB's market leadership in the used equipment market, the Bank arranged a variety of bilateral term loan refinancing transactions, including: for TAM Airlines, four 1999-vintage A319 aircraft; and for SAS, four 2001/2002-vintage A321-200 aircraft.

- Arranger/Agent of a Pre-Delivery Payment (PDP) financing for Norwegian Air Shuttle in respect of five B737-800 aircraft, each equipped with CFM56-7B26 engines, delivering in 2012 and 2013. Other PDP financings/refinancings were concluded for NACIL (Air India – seven B787's) and Avolon (five B737-800's).

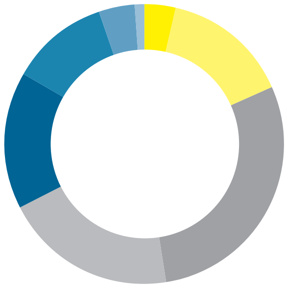
At the end of 2011 the Aviation Finance portfolio stood at €6.9 billion (2010: €5.6 billion). In US dollar terms: the Aviation Finance portfolio was 97.8% US dollar-denominated and the portfolio volume grew by 20.0% to US$9.0 billion (2010: US$7.5 billion). This increase included the impact of a one-off portfolio purchase on the secondary market. The collateralised portfolio represented 99.7% of the total volume.

Focusing on the manufacturers, our portfolio represents a healthy balance between Boeing (47.9%) and Airbus (44.7%) aircraft while other mainly Embraer-manufactured equipment amounts to 7.4%.

Narrowbody aircraft remains the dominant aircraft class, increasing to 55.2% (2010: 49.2%). This is as we like and expect, since in general, narrowbody aircraft represent the most liquid aircraft type from a security perspective (i.e. ease of remarketing to other operators). The portfolio breakdown by asset type saw the share of financed widebody aircraft and regional jets continue to decrease to 30.0% (2010: 34.4%) and 6.9% (2010: 9.2%) respectively, whereas the share of freighter aircraft increased slightly to 7.9% (2010: 7.2%). ❶

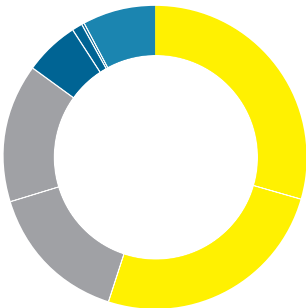
In terms of the age of aircraft financed, almost half of the portfolio (47.7%) is three years old or less. Whilst Aviation Finance is experienced in financing aircraft across the full age spectrum, it is generally the case that younger aircraft (as well as narrowbody aircraft, as mentioned) are more readily sold or leased in case of need (i.e. a client default), so this age profile of the portfolio represents a very solid base. ❷

**❷ Aviation Finance portfolio by vintage**



- **To be built 3.8%**
- **Up to 1 year old 14.6%**
- **1 to 3 years old 29.3%**
- **4 to 6 years old 19.9%**
- **7 to 10 years old 15.8%**
- **11 to 15 years old 11.5%**
- **16 to 20 years old 4.0%**
- **21 to 25 years old 1.1%**

**❶ Aviation Finance portfolio by aircraft type**



**Narrowbody pax 55.2%**
thereof:
29.5% Airbus
25.7% Boeing

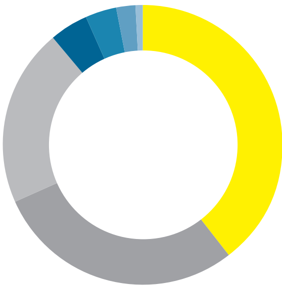
**Widebody pax 30.0%**
thereof:
15.2% Airbus
14.8% Boeing

**Regional jets 6.9%**
thereof:
5.7% Embraer
1.1% Bombardier
0.1% Fokker

**Freighter (Boeing) 7.9%**

The portfolio is also well diversified by client. A total of 171 aviation clients equates to an average lending exposure of €40.5 million per client. The largest individual client exposure for Aviation Finance currently stands at €201.1 million, and there are 41 clients where its committed exposure is in excess of €50 million. Risk is also geographically well diversified, despite a shift towards the Americas (2011: 41.8%, 2010: 36.1%) from Europe, the Middle East and Africa (2011: 33.5%, 2010: 41.5%). Client exposure in Asia and Australia/Oceania has remained relatively stable at 21.2% (2010: 22.4%), however we expect an increase of activity in 2012 given the growth opportunities in this market. ❶

❶ **Aviation Finance portfolio by country risk**



**North America 39.7%**

**Europe 28.8%**

**Asia 20.4%**

**Middle East/Africa 4.7%**

**Offshore 3.5%**

**South America 2.1%**

**Australia/Oceania 0.8%**

The engine financing portfolio (run by the Structured Asset Financing teams alongside the aircraft financing activities) has reduced to €83.1 million from €107.3 million in 2011, a reflection of the limited volume of transactions seen in the market for this niche asset class.

## Structured Asset Financing – Risk management

A lot of hard work to build a profitable loan portfolio can be undone as a result of loan losses in the business. With this factor in mind, Aviation Finance has built a strong risk culture over many years, which starts with our client-facing relationship managers and continues through each stage (including Aviation Credit, Aviation Research and Credit Committee) until a new commitment is granted, and continues thereafter throughout the term of the relevant exposure.

At the heart of our consideration for each new exposure is the Deal Committee, which meets to discuss – at an early stage – possible new transactions, with a view to spotting risk and structural deficiencies, finally arriving at a consensus – be it positive or negative. The committee comprises all teams of Aviation Finance, and includes the Member of the Board of Managing Directors responsible for Aviation Finance, the Head of Industry, the heads of Aviation Credit, Aviation Research and Aviation Asset Management, and each Regional Head of Aviation Finance. Only those transactions authorised by the Deal Committee will move to the next stage, and subsequently be presented to DVB's Credit Committee. As a tribute to its efficiency, the failure (or decline) rate at the Deal Committee is significant, a tribute to our culture of risk selectivity and consensus-building.

Once a transaction is booked, it will be monitored for any required action on an ongoing basis (by the respective relationship manager and credit officer) and through the review and stress test processes. If appropriate, an exposure will be taken on to the Early Warning, Closely Monitored, or Watch List reporting. The ongoing management of risk is aided by a rigid Call Report discipline and through a regular full portfolio review by Aviation Finance senior management, to proactively identify concrete actions to be taken.

The Aviation platform has been built in such a manner as to be optimally prepared for a downturn and to deal with any stress scenarios in the loan portfolio, including restructurings and aircraft repossessions. The management quality of such "stressed" transactions is clearly enhanced by our dedicated Aviation Special Projects team, which will take responsibility, working alongside Aviation Credit, for relevant work-out cases. The team may also be supported by AAM and/or TES as aircraft/engine asset managers.

During 2011, we had a small number of transactions requiring restructuring or remedial action. However, under the leadership of Aviation Special Projects, we have been able to conclude loan amendments and restructurings, successfully mitigating losses otherwise anticipated for future years.

In general, we believe that our proactive approach to risk management gives us excellent visibility over potential trouble spots within the loan portfolio, and we remain alert to opportunities to conclude "defensive" new financings – where we can simultaneously improve our risk position on existing exposure to a client, through cross-collateralisation for example. In all cases, Aviation Finance will continue to take whatever steps necessary to safeguard its position as a secured lender.

## Aviation services

In 2011, the success of Aviation Finance contained strong contributions from the pure aviation services activities. The AAM, AFC and the Tokyo-based Structured Asset Financing teams have continued to enhance the reputation of DVB's aviation business as the "leading aviation merchant bank". These teams were engaged in a wide range of mandates, each leading to healthy "non-risk" fee earnings. Some of the highlights were:

- AFC was appointed to assist Lion Air with respect to its aircraft ownership.

- AFC was appointed as Financial Adviser by CPPIB in relation to the potential acquisition of a large portfolio of leased aircraft.

- AFC acted as Financial Adviser to The Green Liner to review their end of life aircraft strategy.

- AAM closed 33 aircraft transactions in 2011, including the sale of a B747-400 freighter for Cargolux and the releasing of two A319s to an African carrier after early termination from the previous lessee.

- AAM acted as technical conversion manager on behalf of a European financial investor in connection with the freighter conversion of three passenger B747-400 aircraft.

AAM finished 2011 with a managed portfolio of 65 aircraft under lease management/remarketing contracts for third parties, and continues to be one of the key players in today's industry for asset management services. DVB, spearheaded by its Tokyo team, has been focusing on developing its franchise and range of activities in the important Japanese aviation market. This focus, and our local presence, has paid dividends in recent years, and 2011 was no different. Across the Aviation platform, over the last twelve months we have concluded transactions and partnerships with such prestigious names as All Nippon Airlines, Marubeni Corporation and Development Bank of Japan Inc. The commitment by DVB to develop its service capability and dedicated resources is expected to yield further rewards in the coming period, as a key component to DVB's cycle-neutral business approach.

## Aero Engine Financing and Engine Asset Management – Activities of TES

In 2011 TES consolidated its 2010 entry into the CF6-80C2 market becoming one of the leading suppliers of quality overhauled piece parts. TES successfully expanded its product range by entering into the CF6-80C2 (B747/B767) acquisition, lease and part-out business, and was able to secure sizeable volumes of engines from Japan Airlines (JAL) and All Nippon Airlines (ANA). Additionally, TES selectively entered the CFM56-3 (B737) marketplace, securing a portfolio of "True Engines". The "True Engine" is a defined term of the OEM and represents the highest possible standard of equipment. During the period, TES was also able to secure further core products, namely RB211-535E4 (B757) and PW4000 (B767) engines, to enter its lease/part-out programmes. Further it secured major supply agreements with a number of key Maintenance Repair and Overhaul agencies (MROs). TES remains the largest independent (of any MRO or OEM) aero engine risk management organisation, managing 600 engines across all major mid- to large-thrust product types, with an expanding client base of airlines, aircraft lessors and asset financiers.

The year also saw TES further expand its global footprint with the opening of a state-of-the-art management, logistics and distribution centre in Dallas, Texas, USA. Dallas provides an important centre for TES in servicing key materials supply programmes in the US market, as well as servicing a growing number of engine leasing and management services clients. The opening of the Dallas facility builds on the successful opening of the Singapore facility in 2010 which continues to provide comprehensive local coverage and solutions in the important Asian-Pacific market. More generally, the successful integration of TES under DVB's Aviation Finance umbrella has continued to be a clear differentiator from our competitors. In short, the breadth, depth and quality of the dialogue we can conduct with our customers go far and beyond that of a non-specialised banking organisation.

## Aviation Finance – Outlook 2012 for the key aviation segments

Despite a relatively good performance of the passenger market during 2011, the outlook for 2012 is not so clear. While in many global regions the industry as such seems relatively well organised and capable of a positive financial result, factors beyond the control of the airlines could change the picture completely. The preliminary 2011 global system-wide traffic growth of 4.2%, expressed in tonne kilometres performed (TKP), will be difficult to repeat in 2012. IATA's baseline forecast of December 2011, however, still assumes a 2.9% TKP increase in 2012, whereas IATA's banking crisis scenario might swing this figure to –1.3%. The banking crisis scenario is based on an OECD scenario that starts with a disorderly sovereign default in the euro zone, sending the OECD area into recession with a very negative impact on global trade. While in IATA's baseline scenario the anticipated capacity growth of 3.1% ATK already slightly exceeds the expected demand growth, in the crisis scenario – even with an anticipated stagnant capacity – the situation will be even worse.

For 2012, IATA expects the strongest expansion to take place in Latin America. The anticipated 8.3% (ATK) capacity increase even lags behind the 8.5% growth in demand (in TKP). Latin America, however, is expected to be very sensitive to the global economic developments so under the crisis scenario capacity expansion would only be 3.3%, and demand even less at 2.3%. Regardless of the economic crisis, the Middle East airlines are likely to continue their strong expansion. In 2012, Middle East carriers are expected to increase their capacity by 5.8%, fairly close to the anticipated baseline demand projection of 5.7%. Under the crisis scenario, a still-robust Middle East capacity expansion of 4.8% will still slightly exceed the anticipated 4.5% increase in demand. Africa is projected to see TKP growth of 3.5% (crisis scenario: 0.3%). The Asia-Pacific carriers are expected to see demand grow by 2.0% (crisis scenario: –0.2%). Growth in the mature European and North American market is projected to be 2.5% and 2.2%, respectively. Obviously Europe is more sensitive to the crisis scenario, seeing growth turn negative to –3.7%, worse than the North America crisis figure of –1.0%.

Under the baseline scenario, IATA still expects airlines to show a net profit of US$3.5 billion, about half the US$6.9 billion the airlines made in 2011. The European sovereign debt crisis would undermine the profitability of the global airlines significantly: under this scenario, a net loss of US$8.3 billion could be the result. One factor that can significantly change the picture will be the fuel price. Normally, weak economic growth results in lower oil prices. But it cannot be excluded that in 2012 the Iran conflict could cause further rise in oil prices, despite a weak economic environment. Currency exchange fluctuations may even exacerbate the situation for European carriers. Given these circumstances, DVB believes that some airlines may not be able to avoid bankruptcy during 2012/2013.

Despite the many uncertainties, airlines as well as leasing companies continued to place orders for new aircraft in 2011 and a solid order intake for selected new airliner programmes is expected to continue in 2012. In the twin-aisle segment Boeing finally delivered its long-awaited advanced 787 Dreamliner, but due to production problems the delivery volume remains limited. Airbus will not yet have its advanced twin-aisle opponent, the A350, available in 2012 either – consequently, demand for the older types, especially the Airbus A330 and Boeing 777 remains strong. The risk remains that once deliveries of B787 and A350 aircraft gain momentum, an oversupply of relatively young current generation aircraft that served as interim lift could materialise in a few years. With the air-cargo market in the doldrums, prospects for freighter conversion of older twin-aisle aircraft such as the B747-400 are limited and in many cases the only viable option may be break-up for part-out.

The single-aisle market segment was very much influenced by Airbus' launch of a more efficient re-engined version of the popular A320 family, dubbed the A320neo, in December 2010. Over 1,200 "neos" were sold last year. Contrary to earlier expectations that Boeing would develop an all new single-aisle aircraft, the Seattle-based firm followed the European example and launched a re-engined version of its best-selling 737 family, named the 737 MAX. It was only towards the end of 2011 that Boeing started to book firm orders for the 737 MAX but it is expected that during 2012 a significant volume of this type will be sold. The launch of the 737 MAX may preserve the market symmetry between the A320 and the B737 that has ensured relative stable values for new aircraft in the all-important single-aisle market for many years. While the backlog for current generation single-aisle aircraft is significant and stretches well into 2016, several market observers have questioned the manufacturers' stated policy of increasing production. These observers fear that the planned record output will result in an oversupply situation, with negative impact on equipment values.

DVB believes that even without the increased production there is a distinct risk of growing pressure on values of the current generation narrowbodies once the new generation A320neo and B737 MAX enter service. DVB research indicates that historically aircraft values have been most impacted by a combination of the availability of a superior technology successor aircraft, coinciding with a downturn in the demand for air transport. Especially in case of continued high fuel prices, the claimed 15% fuel burn improvement of the new aircraft will compel operators to replace their fleets, despite maybe slightly higher purchase prices for the new aircraft. The fact that a significant percentage of single-aisle aircraft is only leased by airlines – and not owned – may facilitate a quick transition to the next generation. Within the A320 and B737 families, DVB has noted a strong move away from the smaller family members, the A319 and B737-700. Relatively strong demand for air travel and better fuel efficiency per seat of the larger aircraft are amongst the reasons for this development.

DVB anticipates that the market for used single-aisle aircraft will once more come under pressure. Even relatively young aircraft of popular types frequently prove difficult to place with solid lessees, and often for disappointing lease rates. Market prices for these aircraft reflect this softness. There is no single cause for this problematic used equipment market, and factors that are believed to contribute include the airlines' desire to operate new equipment, the high production rates of new equipment, the approaching end of production for the current generation, and the focus of equity investors and financiers on new aircraft. This situation has limited financiers' appetite for used equipment transactions.

For 2012 and probably even more so in 2013, DVB is concerned that maybe not all aircraft transactions will be able to attract debt funding as a result of the financial and economic crises. While there are significant amounts of equity available for investment in new or very young aircraft, availability of debt funding is limited as many banks do not prioritise this activity. This so-called funding gap will most likely not affect the market for new commercial jets as this segment has the benefit of strong political support from government-owned ECAs.

While commercial bank funding may be a bottleneck, the ECAs will most likely once again take a significant share of the estimated US$90–95 billion funding requirement for new aircraft. 2012 will be the last year that airlines and lessors can benefit from relatively advantageous conditions offered by the ECAs. A new agreement amongst the ECAs, the so-called Aircraft Sector Understanding, could potentially drive up the cost of ECA-backed facilities, maybe to the benefit of commercial banks and capital market structures. The ECAs, however, generally do not play a role in the financing of used aircraft, a segment of the market where DVB is traditionally very active. For the coming years it seems DVB will be one of the very few financiers in this market segment. While the economy may start to improve in the second half of 2012, a tight supply situation in the air finance market may continue – even throughout 2013.

## Aviation Finance – Portfolio outlook 2012

DVB remains among the few active players in global air finance. The economic and financial crises have resulted in a number of our banking competitors withdrawing from the market, some perhaps temporarily, but most of them permanently. At this early point in the year, yet another group of European banks is presently in a state of paralysis, and at best is going to see the scale of its aviation activities severely curtailed for 2012. This effect is to a certain extent counterbalanced by a few new bank entrants, including a number of Japanese banks, lured to aircraft finance by the expectation of a more favourable "risk versus reward" balance. The tendency of such new entrants will, however, be a "flight to quality", and as such, competitive pressure on pricing and other terms will be limited to certain client/equipment combinations only, most of them away from DVB's core franchise. The result is that in some segments of our Structured Asset Financing activity, competition will remain limited.

DVB continues to experience a healthy level of demand for its risk capital and services. The need to carefully select how Aviation Finance will deploy its resources will be a continuing theme in the year ahead. Making the right decisions, particularly on where and how to deploy risk-weighted assets, will be the key to achieving another profitable period. Aviation Finance has assembled a team that boasts a wealth of experience and multi-disciplined backgrounds; in short, a team which is more than capable of ensuring that good decisions will be made and delivering on a promise of performance.

We have long maintained that a market of uncertainty is a market of opportunity for a specialised institution such as ours, with the excellent results that we have achieved through the period 2009 to 2011 being proof of this. In view of our highly asset-focused approach, we believe that we are better positioned than most of our competitors to support our aviation client base. The Bank will be open for business throughout 2012 and beyond, but will use its deep knowledge of the underlying assets to avoid hidden risks often seen in transactions. Our cycle-neutral approach, allied to a discipline that balances commercial pressure with the requirement to maintain a quality portfolio, will be the key ingredients to ensure that Aviation Finance enjoys continued success.

As mentioned, current demand for the Bank's capital and services is good. We relish, not fear, competition: based on its broad market coverage, strength of client relationships and track record, DVB is confident in its ability to maintain the momentum which has seen the Aviation Finance portfolio more than double in size over the last five years. In its Structured Asset Financing activity for 2012, Aviation Finance is confident of achieving new, final-take commercial loan business of US$2.0–2.5 billion, which seems more than justified based on the volumes we have achieved in recent years. The average loan margin of such business will surely rise above the level seen in 2011, as this is necessary simply to cover recent increases in cost of liquidity, but this will be achieved without any compromise to the quality of the risk-reward ratio. At the same time, we are confident of an increasing level of demand for our aviation services, most notably advisory and asset management. Our strong reputation in these activities is evenly distributed over all segments of our core market: airlines, lessors and investors alike.


During 2011, Land Transport Finance not only focused on its two main target regions, Europe and North America, which were both showing clear signs of recovery. We also booked our first transactions in the new target region of Australia. Both our clients and our financing partners appreciate DVB's unchanged strategy of specialising on asset finance. It provides valuable impetus for the financing market that is otherwise defined by project finance and corporate lending.

## Land Transport Finance – Market review

The land transport freight markets in Europe and North America strengthened again in 2011, although not as much as in 2010. Pre-crisis transport performance peak levels have not been reached yet, especially in Europe. In Australia there was still no sign of any slowdown. On all the three continents where Land Transport Finance is active, there were hardly any exceptions to an overall picture showing increased ridership of trains and buses. But there certainly were regional differences: while in Europe utilisation and lease rates of land transport assets recovered slowly, they increased much faster in Australia and North America. In Europe, the backlog of rolling stock orders diminished, while surging in the other two regions. Europe still focuses on the extension of the high-speed rail network, Australia has just begun a first study on high speed rail, and in the US promises for financing high-speed could not be kept. However, similarities can be seen: strong increases in the purchase prices for new equipment, strengthening secondary markets, huge investment costs to meet the legally required introduction of (new) train safety equipment, a shortage of truck and train drivers, and heavier and longer heavy goods vehicles (HGVs). Besides that, hybrid electric propulsion solutions (sometimes with batteries for storage of braking energy) in combination with traditional combustion engines are being tested for all land transport asset categories.

## Rail freight – Europe

The International Union of Railways (UIC) reports that 8.5% more freight train kilometres were achieved in the European Union (EU) during the first three quarters of 2011 when compared with 2010. For the same period, preliminary performance figures show an increase of 7.8% in tonne-km, which would mean trains became lighter on average. According to the International Transport Forum of the Organisation for Economic Co-operation and Development, volumes were still 7% below pre-crisis levels, as at 30 June 2011.

Despite this positive trend, four small rail freight companies went into receivership. The incumbents of Bulgaria and Greece were declared technically insolvent and major restructuring is needed. As in 2010, the biggest incumbents were able to expand abroad again, although Deutsche Bahn (DB) kept fairly quiet. Trenitalia took full control over TX Logistik and Rail Cargo Austria over Linea. Lessor VTG bought smaller lessors Sogerent and Railcraft, and Deutsche Leasing took over Hannover Mobilien Leasing. The market share of leasing companies for new deliveries of standard gauge European freight cars diminished again, a clear signal that lessors are waiting for utilisation and lease rates to improve even further. One new locomotive leasing company started business, but one lessor aligned with a manufacturer ceased its marginal business. Strongly rising purchase prices and maintenance costs for freight cars are major concerns for freight car owners. Due to the big accident in Viareggio in 2009, reprofiling intervals for wheelsets have shortened and therewith the resulting technical lifetime. Also, the introduction of several Technical Specifications for Interoperability by the European Commission in 2006 led to higher costs. Penalties for noisy freight cars in several European countries could require the fitting of more expensive brake shoes or the installation of disk brakes. According to the International Union of Wagon Keepers, the extra adaptation and maintenance costs reach up to 62.8% of the full-service daily costs for an average freight car, depending on the intensity of use, region of use and fleet size. Switzerland will not even allow noisier cars to travel on its

network as from 2020. On the manufacturing side, two small-sized freight car builders became insolvent. But the three insolvent International Railway Systems rolling stock plants have resumed production again, following a refinancing. A real Asian influence and a possible downward pressure on newbuild freight car prices have not materialised yet. Polish national railway company PKP Cargo has postponed its final decision whether to go ahead with the planned freight car manufacturing joint venture with China's CNR Corporation Limited, but France's Arbel Fauvet Rail restarted production in 2011 under Indian ownership.

Due to the recent crisis, the developing recession in Europe and a healthy aversion to placing speculative orders, planned standard gauge freight car deliveries were only up 54.1% to 6,237 units, still down 47.7% from 2008's record year and 60.6% from replacement needs based on an average economic lifetime of 40 years. New locomotive deliveries were also lagging behind, with 438 in 2011 (–26.4% from 2010). Bombardier brought two real innovations to the European market: the integration of a small diesel engine in an electric locomotive – to be used at non-electrified terminals – as well as the world's first four-engine mainline diesel locomotive, ordered by DB in order to save on maintenance costs, emissions and fuel. Vossloh expanded its diesel electric locomotive portfolio with two new types, and is working on a hybrid diesel/electric locomotive type. The latter type is also part of the efforts of GLG Gmeiner Lokomotivenfabrik. Alstom launched a new hybrid diesel/battery shunting locomotive, a dual diesel engine shunting locomotive and a single diesel engine shunting locomotive, but could not sell any electric locomotives. Polish Newag sold four six-axle freight electric locomotives it developed in 2008 and is working on a four-axle multiple current electric locomotive. PESA, also based in Poland, is doing the same, but offers only four-axle locomotives and a mainline diesel locomotive as well. The European market leaders in building electric locomotives (Bombardier and Siemens) will get serious competition. The market is saturated with diesel locomotives and their new production models, so that even more recent locomotive designs stand little chance. Nevertheless, the first Asian manufacturer, CNR, has entered the European market by selling 16 heavy duty shunting broad gauge diesel locomotives to EVR Cargo in Estonia. Given the track record of Chinese locomotives delivered abroad, it can only be hoped that these will perform much better in order to pose a serious alternative to European-built locomotives. However, CNR still does not have a standard gauge locomotive on offer which would fulfil the European requirements.

## Rail freight – North America

A good beginning, some uncertainness in the middle, and then a good ending: that describes US rail traffic in 2011. The Association of American Railroads (AAR) reported that combined North American rail volume for 2011 on 13 reporting US, Canadian and Mexican railroads totalled 19,822,529 carloads (up 2.5% from 2010), and 14,834,486 trailers and containers (up 5.3% from 2010). Measured in tonne-miles, the US rail freight performance increased by 3.2% to 1,736.7 billion, which is only 2.0% below the 2006 all-time peak level. Nevertheless, in the US, total carloads were still down 12.4% and intermodal volume down 3.2% from the 2006 level. That means that the average distance travelled per carload has increased and/or an increased average maximum payload per freight car contributed to this. As expected, the average system velocity decreased, while terminal dwell time increased normally – hinting at more freight cars being needed. And indeed, the AAR reports that the number of freight cars in storage declined from 527,060 on 1 July 2009 to 273,390 (equalling 18.0% of the North American freight car fleet) on 1 January 2012. Given 130,059 cars scrapped or otherwise removed, 111,613 cars have been returned to service. 62,107 new cars came into service between July 2009 and

December 2011. According to Rail Theory Forecasts, about 44,000 new freight cars were delivered in 2011 (+175.0%). 838 locomotives were built for the North American market in 2011, 65.3% more than in 2010. Four shortline railroad conglomerates were on shopping tour again and bought a total of six shortlines in the US. Only three very small shortline railroads went into receivership, and one US shortline was restructured. 17,500 freight cars in three portfolios changed hands due to financial constraints of their owners in the credit crisis, but significant discounts were not given. Fleet diversification led to the sale of 1,200 freight cars by a lessor, and VTG Rail bought SC Rail Leasing America, Inc. ❶

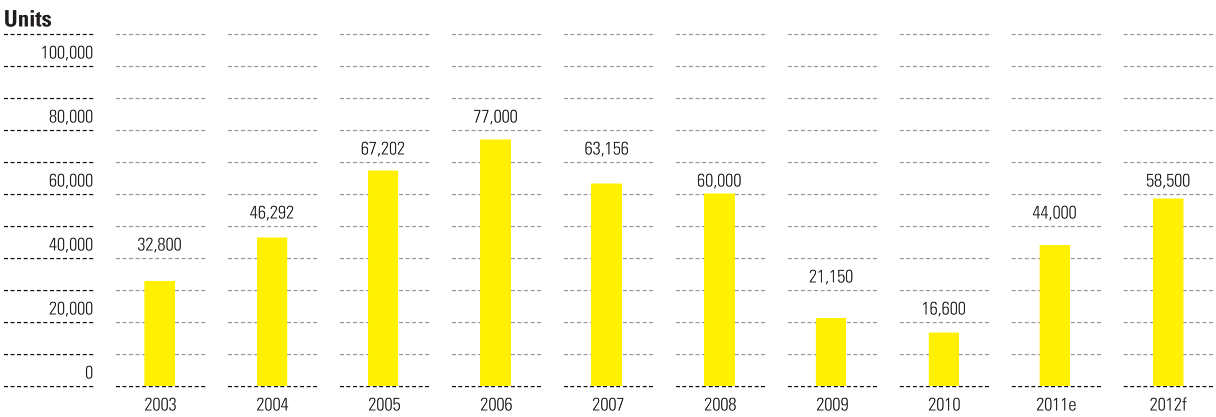
## Rail freight – Australia

According to the Australasian Railway Association, the total rail freight performance measured in tonne-km increased 8.2% from July 2008 to June 2009 and a further 8.0% in the same reporting period of 2009/2010, primarily due to escalating demand for ore and coal. The ore and coal trades (accounting for 75% of rail freight performance) have increased by 30.5% and 11.7% respectively, since reporting period 2007/2008. On the freight car side, it can be reported that a massive 6,911 units were built in 2011 (+301.1%), most of them to transport coal or iron ore. Also, 144 locomotives were built, representing an increase of 105.7%. Certainly helped by the favourable US$/AUD exchange rate, a new development is that for the first time in many years, locomotives completely built in the US have been ordered for duties outside the isolated Pilbara iron ore mining rail network. Normally, diesel locomotives for the Australian market are built in Australia by either UGL Rail or Downer Rail, which team up with US-based major locomotive and engine manufacturers such as General Electric (GE) or Electro Motive Diesel, in order to develop locomotives or to acquire diesel engines and other major components. Their diesel locomotive production duopoly has been broken now. UGL Rail/GE has a narrow-gauge version of the European GE PH37ACmi "Powerhaul" locomotive on the drawing board. And Downer Rail/Progress Rail already sold Tasrail 17 narrow-gauge locomotives, a version of the North American Progress Rail PR22: there is a stronger PR36 variant in development.

## Passenger rail – Europe

The UIC reported 0.6% more passenger train-km in the EU for the first three quarters of 2011 compared with 2010. For the same period, preliminary performance figures show an increase of 0.7% in passenger-km. This hints at slightly better occupied trains. More open access operators entered the market, but they have a hard time competing with incumbents, sometimes involving price dumping. However, incumbents who venture abroad as new entrants are not spared from backlashes: most of these tales of distress can be traced to business plan mistakes. DB-owned Wrexham, Shropshire & Marylebone Railway (in the UK) went into receivership because of low ridership. However, undeterred, DB went on to buy open access company Grand Central Railway, also in the United Kingdom. On 4 March 2011 the French public transport companies Veolia Transport and Transdev merged, but by the end of the year Veolia announced it wanted to sell its part again. Meanwhile, Transdev took over

**❶ US freight car deliveries**




2011 figure is estimated and 2012 figure is forecasted.

Source: Rail Theory Forecasts (January 2012) the other 50% of its joint venture with EuRailCo. With regard to the leasing business, worth noting was that British passenger coach lessor Cargo-D went into receivership. During the year, 828 standard gauge, non-high-speed train sets were delivered (+2.1%) as well as 505 standard gauge coaches (–6.8%). This is another sign of a stable rail passenger market, since a lot of this rolling stock was ordered in the trough of the recent financial and economic crisis.

## Passenger rail – North America

According to the American Public Transportation Association (APTA), higher fuel prices, improved real-time passenger information and a recovering economy contributed to a ridership increase across the board. Between January and September 2011, subway ridership was up 3.2%; for light rail (streetcars, trolleys) it was up 4.4% and for commuter rail up 1.7% over the same period in 2010. Amtrak carried 30.2 million passengers (up 5.1%) in its 2011 fiscal year that ended 30 September 2011, the most the railroad has carried since its creation in 1971. However, APTA stated that nearly 80% of US public transit systems have raised fares or cut service, or plan to do so shortly, in response to declines in local and state funding support. In 2011, 595 train set cars and coaches were delivered, 21.8% less than in 2010 due to unexpectedly slow deliveries of train sets in previous years.

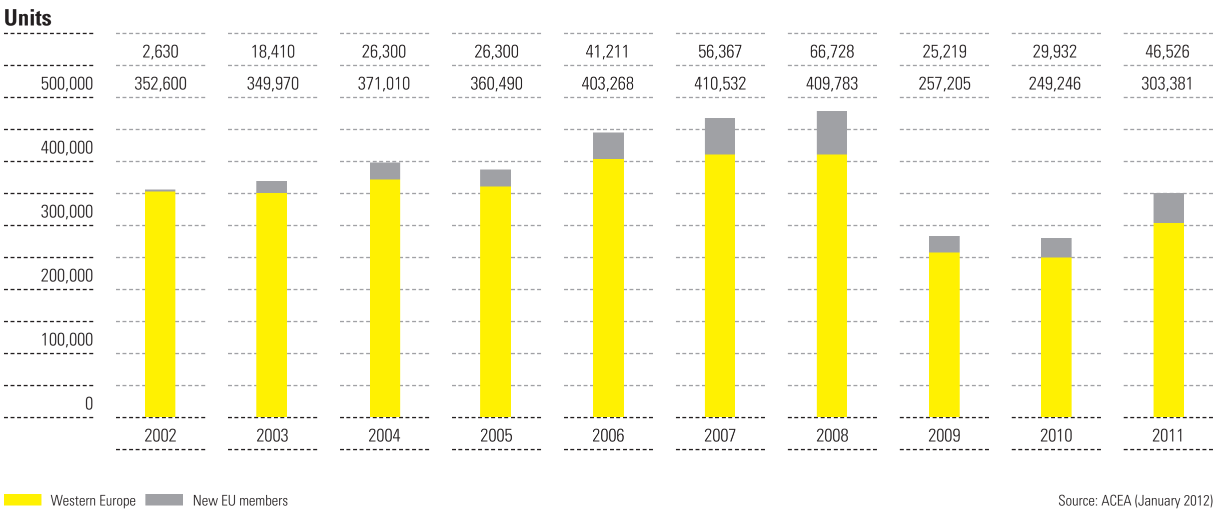
## Road freight – Europe

The International Transport Forum reports that road freight in the EU continues to recover slowly, being still 9.6% tonne-km down from its pre-crisis level recorded on 30 June 2008. According to the European Automobile Manufacturers' Association (ACEA), demand for new trucks rose 29.0% overall, to 315,447 commercial HGVs in the EU. Since the level of new trailer sales is still low, the trailer fleet is both ageing and shrinking. It is therefore no surprise that the market for used trailers recovered further. On the leasing side of the business, Ryder Europe, a subsidiary of the US-based Ryder System Inc., took over British lessor Hill Hire plc and its 4,000 HGVs. On the manufacturing side, Volkswagen completed the purchase of a majority stake in fellow German truck producer MAN. The company also controls manufacturer Scania. ❶

## Road freight – North America

The American Trucking Associations' (ATA) advance seasonally adjusted For-Hire Truck Tonnage Index, indicating the transport performance carried out by trucks run by the associated companies, increased 5.9% (the strongest yearly increase since 1998) to a level of 24.5% above the trough in March 2009. According to automotive data and marketing provider R.L. Polk & Co.,

**❶ New commercial vehicle registration in the EU (>3.5 tonnes)**




Source: ACEA (January 2012)

333,212 commercial new self-propelled vehicles were registered for Gross Vehicle Weight (GVW) Class 3-8 in the US during the first nine months (17.6% of which by companies involved in the rental/leasing of vehicles). This is an increase of 20.5% over 2010. This figure was quite similar in Canada, with an increase of 20.9%. When compared to the low point during the same period of 2009, this represents an increase of 34.4%. Transportation consulting firm FTR Associates states that 2011 ended with about 312,000 GVW Class 8 truck orders, slightly above the combined annual order levels from the previous two years, highlighting the need for truck fleet renewal and replacement. Between December 2010 and September 2011, the total US commercial vehicle population declined by 2.3% and in Canada by 2.7% according to R.L. Polk & Co, especially older vehicles built before the year 2000. For the same period, a total of 649,923 commercial vehicles changed ownership in the US (+23.9%), with an average 19% higher sales price for trucks with higher mileage when compared to 2010. According to ACT Research Co., new truck prices rose 19% since the US Environmental Protection Agency (EPA) changed emission regulations pre-2010. Net orders for total trailers grew 38% year-on-year, while newbuild trailer orders jumped 69% in the US. On the leasing front, Ryder Systems Inc. bought three truck and trailer lessors in California, which added 2,900 HGVs to its vehicle portfolio. Scrapstone Intermodal Services LLC bought a 7,300 unit-strong intermodal dry van trailer fleet from GE Capital.

## Land Transport Finance – Strategy

Our business model encompasses research, advisory and financing activities on the international transport markets. Our Land Transport Finance platform is a competent and flexible player in these markets. Once again, we were one of the few financiers that have consistently supported market participants throughout all cycles – and continue to do so. This strategy has proven very positive for our clients as well as for the Bank.

Our differentiated platform forms a solid basis for our leading market position: we continue to pursue a clear strategy with our Transport Finance business, where we focus on our strengths and always adhere to the key principles of asset finance. The following aspects are derived from our business model and represent key success factors, both individually and in combination with each other:

- the flat hierarchy within DVB, which allows for short and direct decision-making processes;
- the resulting opportunity to react quickly on the markets we cover;
- our detailed and profound knowledge of markets, financed transport assets, clients, trends and current and expected asset value developments;
- the conservative risk approach, which benefits us considerably for credit assessment and in managing our exposures;
- the consistent, reliable responsibility taken by the Land Transport Finance team for transaction execution;
- the cost discipline and careful consideration given to the relationship of risk and returns; and
- our commitment and creativity in structuring transactions for our clients.

This, and not least our persistent dialogue with clients about optimal financing structures, led to Land Transport Finance being commended again in 2011: Jane's Transport Finance awarded us the renowned "Rail Finance Innovator" prize for our achievements in 2011, of which we are proud.

During 2011, Land Transport Finance not only focused on its two main target regions, Europe and North America, which were both showing clear signs of recovery. We also booked our first transactions in the new target region of Australia. Our clients and our financing partners both appreciated our strategy of specialising on asset finance, which can provide new valuable impetus for the market that is otherwise defined by project finance and corporate lending. This was also evident at the AusRAIL PLUS 2011 event in Brisbane, Australia. With 1,000 conference participants, 345 international exhibitors and 5,000 exhibition visitors, this is the largest rail trade show (combined with a rail congress) to take place in the Southern Hemisphere, at which Land Transport Finance gave a presentation on rail asset finance attracting great interest.

Our relationship managers in Frankfurt/Main and New York successfully pursued new business, and supported our clients throughout the year. In doing so, our focus on financing transport assets once again paid off – both in primary and secondary debt markets. Our clients appreciate the commitment of all team members in the markets we are active in, which translates into a real competitive advantage for us. Land Transport Research provides the Land Transport Finance team of experts with strategic and operational support for every credit and risk decision taken. Our research also contributes market analyses directly to clients upon demand.

Our activities in all our core regions were accompanied by a thought process directed at further expanding the scope of our core business, our product mix, and our client coverage, in line with our strategy. We succeeded in placing two transactions on the Australian rail market. Especially during the second half of the year, we developed new ideas and established new contacts in this region.

The underlying principle for any decision was to accompany our clients in their existing business activities, and to support them in exploring new areas of business. We will continue to adhere to the key principles of asset finance. Unlike some of our competitors, we do not indulge in erratic strategy changes. Also, when financing rolling stock, we will continue to refuse applying structures and terms common to public-sector financings. The reasons for DVB not participating in all transactions discussed were similar to those of 2010:

- low margins offered by competitors that undermined our bids that were based on an attractive risk/return ratio;
- renewed deferrals of asset investments or postponement of transport franchise tenders by public entities;
- politically motivated transaction decisions by individual clients which excluded commercially attractive options for us; and
- changes made to deal structures, which then were no longer in line with our asset finance focus.

We fully appreciate the increasing maturity of our markets. We recognise the growing cyclicality of the sector segments, and are able to ascertain where opportunities lie therein. Our clearly defined asset finance set-up and our cycle-neutral strategy have yielded good results over the past years. The continuity of our market approach has paid off.

### Land Transport Finance – Mission Statement

We highly value our client relationships. The goal is to increase our client franchise as the leading financing partner in the rail and road asset markets in our core regions. Based on

- our unique understanding of the market,
- our focus,
- our continuous capacity to execute transactions, and
- our flexibility,

we offer added value by

- advising clients on intelligent asset finance solutions; and
- taking appropriate risk positions that capitalise on the cyclical nature of the underlying sectors.

We are confident that our cycle-neutral approach will continue to be successful for our business, which is best for a mutually beneficial co-operation with our clients. We believe that the well-reasoned expansion into fully-developed, stable and mature regions – such as Australia in 2011 – will have a positive impact on the portfolio composition, risk diversification, income and business potential.

## Land Transport Finance – Products

During 2011, Land Transport Finance continued to offer a range of products to our clients of which Structured Asset Financing – in the form of debt asset finance – was the most important. Our two teams in Frankfurt/Main and New York advised important clients on structuring and/or optimising their investment decisions, as well as on the regional expansion or strategic takeover of fleets or target companies. In addition, and where required, Land Transport Research offered detailed market assessments within the Bank, and to clients where in demand.

## Structured Asset Financing

Our activities in the Land Transport Finance markets in Europe, North America and Australia span the freight and passenger markets in both rail and road transport. In this area we offer a range of asset-based lending, be it of a shorter nature (such as bridging facilities) or complex, structured mid- to long-term asset financing solutions. The key approach is lending collateralised by rail or road transport assets that are evaluated at market prices. In many instances, we were approached regarding the assumption of residual value risks, for which we were delighted to make quotations. Many financings were concluded as non-recourse transactions (i.e. with no recourse to a sponsor). Land Transport Finance generated business in the respective regions from our well-established core client base, as well as from new target clients. In order to find the optimal credit profile for the individual need, we were able to show flexibility in choosing specific structural elements, co-operating with those partners contributing beneficially to economic feasibility or to the transaction's individual risk elements, and combining alternative approaches to make transactions happen. The reference point for all considerations is the potential remarketing on secondary markets. We always tried to avoid political risks and sovereign credit elements – this is clearly a strategic decision not only pursued during the European sovereign debt crisis. Bank partners also appreciate our sector expertise and risk evaluation competence for large-volume fleet financings. We were active in selecting and involving partner banks for large-volume transactions – together with our Financial Institutions team – and in assuming agent roles. As a matter of preference, we worked together with our clients in the primary market, but also acquired loans on the secondary market from a financier that wanted to refocus its strategic orientation.

## Advisory Services

Advisory services were in very strong demand throughout the year, especially given the changes to the composition of the banking market and the opportunities for accessing the capital markets. Clients sought expert advice, especially for debt raising, restructurings, balance sheet optimisation, sale-and-leaseback structures, and mergers & acquisitions. Land Transport Finance was involved in various discussions with our core clients, feeding creative ideas – in some cases in co-operation with DVB's experts in London – on most of the aspects mentioned above. In this context, several concrete proposals for disinvestment of asset fleets, transactions for German KG structures, and strategic expansion plans through potential acquisition of either corporate targets or rolling stock fleets, were exchanged with clients. We continue to analyse most of these approaches for future transactions.

A close co-operation and communication exists between Land Transport Finance and DVB Capital Markets and DVB Corporate Finance. We tendered for several advisory mandates during the year – particularly in Europe – and are awaiting the corresponding decisions in the 2012 business year.

## Asset & Market Research

Land Transport Research provides consistently high-quality and independent research. It reports directly to the CEO and Chairman of the Board of Managing Directors. This makes DVB unique in its business model and market position, and is a core element of our asset finance strategy. Land Transport Research thus is a crucial contributor to the Bank's transport asset finance activities and internal decision-making process. The main focus of Land Transport Research is the assessment of all rail and road asset markets and technology, the preparation of asset value analyses, plus the analysis of underlying trends and regulatory requirements – to the extent that these have an influence on the valuation and liquidity of the transport assets we finance.

Land Transport Research provides valuations, projections and market opinions, as well as analyses of market segments and fundamental risk assessments. It also enhances the Bank's risk strategy with asset valuations and risk data from the rail and road asset markets.

Externally, Land Transport Research regularly provides market reports to clients to aid their decisions on strategic options. Also, the Head of Research is frequently invited to speak at relevant land transport conferences and to contribute trade press articles.

## Land Transport Finance – Portfolio analysis

The Land Transport Finance team closed 13 new transactions in 2011, with new financings signed in Europe, North America and Australia. The general propensity to invest in 2011 was still below pre-crisis levels, albeit considerably higher than in 2009/2010. Investment activity was particularly weak in the European freight car segment, whereas in North America it was rather robust. Furthermore, given the perception of a more positive market environment, hardly any fleet operator was willing to sell at prices where they would have to realise losses. On this basis, we not only concentrated on business opportunities in primary markets, but also in secondary debt markets.

During the year under review, the transactions we closed successfully were all secured by first-ranking security positions. We arranged or participated in larger-volume credit facilities within the scope of club deals, granted bilateral bank loans to clients, concluded (non-recourse) transactions with special purpose entities, and structured solutions with leasing features, on the basis of finance leases as well as operating leases. Within the scope of non-recourse transactions, we also assumed implied asset risk in the funded rolling stock ourselves. In these cases, we worked particularly closely with Land Transport Research on the assessment of the specific features of the asset type, the current supply and demand situation, the projected performance of the relevant transport assets, future market movements and external trends. This analysis also incorporated expected regulatory and technical changes, since these determine the potential for remarketing on the secondary market, as well as future lease rates.

## Structured Asset Financing – Loan portfolio

As in previous years, Land Transport Finance was active in all its target markets throughout the entire business year. Once again, many clients contacted us directly with the intention of tapping our expertise to fulfil their specific asset funding needs. This is understandable in times of uncertain economic conditions – to us, this was yet another sign that our specialisation and focus is being recognised and appreciated by the market. This helped us to maintain a special position towards our clients, since quite a number of our competitors were treading water – strategically, and in their client relationships. Thanks to the growing propensity to invest, above all in the North American and Australian rail markets, the need to refinance transport assets, and the fact that fleet owners need to constantly renew their asset portfolios (by way of replacement investments), Land Transport Finance was able to close 13 new transactions with a total volume of €373.7 million (2010: 11 transactions with a volume of €261.0 million). The volume of new business followed up on the positive trend of the pre-crisis years.

Land Transport Finance had a record year again in terms of income. The segment result before taxes amounted to €15.5 million, a 10.7% increase on the 2010 result of €14.0 million. Income rose by a total of 12.0% to €18.7 million. Net fee and commission income improved by a substantial 69.4%, to €6.1 million. Net interest income after allowance for credit losses fell slightly by 3.8%, to €12.6 million. The fact that no allowance for credit losses needed to be recognised for Land Transport Finance was particularly positive and noteworthy. Compared with shipping and aviation finance, the transaction structures for financing rail and road transport assets are less prone to risk. Total allowance for credit losses in Land Transport Finance as at 31 December 2011 was therefore unchanged, at a minimal €1.6 million.

**Segment results Land Transport Finance[1)]**

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Net interest income | 12.6 | 13.8 | –8.7 |
| Allowance for credit losses | 0.0 | –0.7 | – |
| Net interest income after allowance for credit losses | 12.6 | 13.1 | –3.8 |
| Net fee and commission income | 6.1 | 3.6 | 69.4 |
| **Income** | **18.7** | **16.7** | **12.0** |
| **Administrative expenses** | **–3.2** | **–2.7** | **18.5** |
| **Segment result before taxes** | **15.5** | **14.0** | **10.7** |

1) Only those costs are allocated to DVB's operating business divisions for which they are directly responsible. General costs of operations, overheads or, for example, IT costs are not allocated to the operating business divisions.

Key deals and highlights of Land Transport Finance during 2011 included the following:

- Joint Arranger, Joint Bookrunner, Mandated Lead Arranger and Syndication Agent for a US$450 million senior-secured, long-term credit facility and a US$100 million non-recourse warehousing finance facility for a client in the US. The transaction was used to finance the acquisition of a railcar leasing company with a fleet of 10,405 freight cars.

- Mandated Lead Arranger for refinancing one of Europe's leading railcar leasing and rail logistics companies with a total volume of €450 million for an amortising loan and a revolving €37.5 million facility. The transaction was collateralised primarily by the fleet of more than 40,000 railcars. In combination with a parallel transaction, the loan allowed our client to restructure its entire underlying financing package, as well as extending it in size and gaining flexibility.

- Two transactions for Australia's leading rail rolling stock lessor totalling €45.3 million to finance freight locomotives and new freight cars. The senior-secured loans allowed the client to extend its leading market position, and to optimise the composition of its financing partners. With these deals, Land Transport Finance established a prominent position in the Australian asset finance business within a single year.

- Mandated Lead Arranger and Administrative Agent for a US$111 million amortising and revolving credit facility for a fleet of approximately 26,000 chassis for overseas and domestic containers. The transaction helped our long-standing American client to finance investments at a time when various competitor banks were focusing on other business, for strategic or tactical reasons.

- Joint Lead Arranger and Syndication Agent for a combined US$375 million term loan and revolving credit facility for financing 159,000 intermodal chassis in the US. This large-volume transaction was used to refinance the client's existing loans and enabled it to purchase additional chassis fleets.

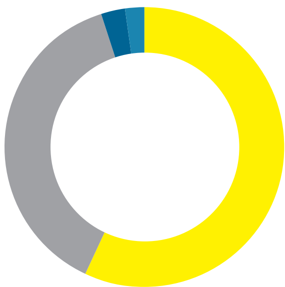
- DVB used the opportunity provided by the market withdrawal of a European bank and acquired a partial stake in a highly-attractive amortising loan on the secondary market for a strategically positioned rail lessor in Europe, whose portfolio of transport assets is well utilised. We anticipate that this client will benefit from Europe's dynamic rental market and expect further consolidation in this market segment. This transaction not only brought us a new client – it also made a significant contribution to income and towards diversifying the Land Transport Finance portfolio.

In addition to rail deals, we also signed transactions in the road asset sector during the year. This made a positive contribution to the diversification of the Land Transport Finance portfolio in terms of sector, region, asset and client. More than 60% of new exposure was accounted for by financing new or used freight cars. Railcars are the backbone of the rail transport sector, which had already accounted for the lion's share of the Land Transport Finance portfolio in previous years. More than 22% of the new transactions relate to financing container chassis, which slightly increased the road asset segment share of DVB's portfolio, in line with our strategy.

Remaining new business comprised locomotive and passenger trainsets, which continued to follow the rising importance of this market segment in European rail transport. However, the relatively small share of asset financing in regional passenger rail segment or locomotive leasing sector does not adequately reflect the growing momentum that is evident in this market segment.

Around 48% of new deals were booked into our European rail portfolio, 47% into the North American portfolio and the remaining 5% into Australia. This highlights the shift in economic dynamics: through greater investments in rolling stock, the North American rail market is recovering more quickly to pre-crisis levels than the European market segments. The Australian economy was relatively unaffected by the turbulence and uncertainty that beset the western markets. It also benefited from the positive developments in China. ❶

**❶ Land Transport Finance portfolio by country risk**



**Europe 57.1%**

**North America 38.1%**

**Australia/Oceania 2.8%**

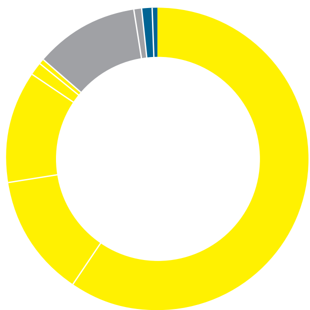
**South America 2.0%**

The new regional shifts were reflected in the overall portfolio. Loans to clients domiciled in North America accounted for 38.1% (up 2.6 percentage points year-on-year), whilst 57.1% of the lending exposure was to European clients (down 5.2 percentage points year-on-year). Australia accounted for 2.8% of the portfolio, which was just ahead of the slightly lower 2.0% share (–0.2 percentage points) attributable to South American clients.

Overall, our Land Transport Finance business was very positive, since the total volume of loans disbursed rose by €119.4 million or 6.7% by year-end 2011, to €1.6 billion (2010: €1.5 billion). In respect of the overall portfolio, 86.5% of the transactions covered rail assets (2010: 86.3%). 59.6% of the rail portfolio was attributable to freight cars (2010: 58.8%). This asset class features an excellent risk profile – due to its granularity – and is spread over different railcar types, regions and continents, borrower (groups), lessees and age profile of the railcars. While being a low-technology asset without own propulsion or signalling equipment on board, the freight car as equipment and collateral has the extra benefit of being in an advanced development state by engineering and operational efficiency. This makes this asset class extremely attractive, especially under potential repossession or remarketing/redeployment perspectives, in the event of security enforcement. The share of locomotives and regional passenger trainsets hardly changed due to lower volume of new business: it fell to 12.9% and 12.0% of the portfolio, respectively (2010: 13.2% and 12.7%). Although the market for road assets is still saturated in many areas by existing fleets, we succeeded in closing valuable deals in the chassis segment, thus increasing the share of the road asset portfolio to 11.9% (2010: 10.7%). ❶

As we were able to book larger volume transactions during 2011, the average lending exposure per client moved up significantly to €28.8 million (2010: €24.9 million). The addition of three new borrowers improved the diversification of the portfolio. Only one client had an individual exposure higher than €100 million (but lower than €150 million), while ten clients had committed exposures in excess of €50 million, as in the previous year. This raises no concerns in terms of elevated cluster risk.

**❶ Land Transport Finance portfolio by vehicle type**



**On rail 86.5%**

thereof:
- 59.6% Freight cars
- 12.9% Locomotives
- 12.0% Regional passenger train sets
- 1.5% Passenger coaches
- 0.5% City/commuter traffic

**On road 11.9%**

thereof:
- 11.1% Road tractors and trailers
- 0.8% Tank containers

**No longer in line with the Bank's strategy 1.6%**

thereof:
- 1.3% Terminals/logistics property
- 0.3% Other immovable assets

## Structured Asset Financing – Risk management

97.6% of the Land Transport Finance portfolio is collateralised by assets; other collateral accounts for merely 1.5% of the total volume, while unsecured business is less than 1%. There was little change in the risk situation in our target markets of Europe, Australia and North America in 2011.

Being aware of risks is a material element of our work when entering into a transaction as well as when monitoring existing exposures. Our loan approval process, which may include up to three levels, includes a detailed analysis of each new deal regarding the risk factors it may be exposed to. All potential new transactions are first discussed in weekly Deal Committee meetings, attended by the responsible member of the Board of Managing Directors, the entire Land Transport Finance team as well as Land Transport Credit and Land Transport Research. Transactions that are given the "green light" in these meetings are then finalised in negotiations with the client, and submitted to DVB's entire Board of Managing Directors for approval. Where required by the Land Transport Finance lending policy, new transactions also need to be approved by the Supervisory Board's Credit Committee. Decisions on new deals always require an independent opinion from Land Transport Research.

Once new deals are booked, the portfolio is constantly reviewed and categorised by risk class. In stages of increased risk relevance, the entire portfolio is run through the early warning system (with finance projects tagged green, yellow, and red). Higher risk deals are added to the Closely Monitored List, and critical transactions placed onto the Watch List.

The risk levels within our portfolio – equalling the intrinsic stability of the land transport markets – are comparatively low; this was evident in 2011, too:

- Thanks to our tight and pre-emptive internal risk control management, the improved market environment and due to our well-considered appetite for risk, there was no need to allocate any clients to higher risk categories.

- No allowance for credit losses was necessary for Land Transport Finance loans as at year-end 2011.

- One small restructured deal was progressing well and improving compared to the situation at the end of the prior year. This was due to the better leasing situation of the financed assets.

In general, the rail transport sector showed clear signs of market recovery, with increases rather than losses in asset values. On average, the renewal lease rates for rolling stock leasing once again exceeded those for maturing transactions, and fleet utilisation rose again, so that the market appears to have left the worst behind it. The situation stabilised in principle for road assets as well. With a portfolio share of less than 12%, the risk as at the reporting date was not critical.

**Land Transport Finance Deal of the Year 2011**


## Land Transport Finance Deal of the Year 2011

We successfully closed an acquisition financing facility for an affiliate of Perella Weinberg Partners in May 2011. The client is investing in long-lived tangible assets, within the scope of its asset-based strategy. The financing facilitated the takeover of the freight car leasing business from AIG for operating leases in the US rail industry. The acquired company now operates under the name Flagship Rail Services LLC.

The initial US$450 million term loan and US$25 million warehouse transaction was syndicated to a group of nine banks comprising American, European and Asian lenders. DVB served as Joint Lead Arranger, Joint Bookrunner, Mandated Lead Arranger, and Syndication agent. An accordion option incorporated into the original warehouse facility was exercised in November 2011 and successfully increased the size of that deal to US$100 million.

DVB's commitment to the facility at initial close and after the November increase represents the largest share in this transaction, materially. Despite difficulties in the European financial markets and during a very challenging funding period for all banks, DVB was able to demonstrate its detailed knowledge of local asset finance markets, its willingness to perform, and its commitment to its core business in closing and funding this and other transactions during 2011.

## Land Transport Finance – Outlook 2012 for the key land transport segments

Judging from several company announcements, it can be expected that the land freight transport prices will increase up to 10% in the coming year. Due to the crisis and the associated overcapacity, transport companies had not been able to (significantly) increase their prices during the last few years. The 2012 price raises will contribute to fewer losses of railway companies in Europe and to better profits in Australia and North America.

## Rail freight – Europe

The European Commission's 2011 Transport White Paper calls for 30% of road freight moving over 300 km to be transferred to rail and water by 2030, rising up to 50% by 2050, by which time the majority of medium-distance passenger traffic should also go by rail. In addition, it wants the core TEN-T rail network to be completed by 2030 with a suitability for 22.5 tonnes axle load and 100 km/h, matching most of the specifications of newbuild freight cars during the past two decades. The minimum train length would however be increased to 750 meters. Still uncertain are the long-expected sales of incumbent railway companies in Eastern Europe, Greece and Portugal – or any search for strategic investors. The equipment manufacturers will most probably concentrate on the rail passenger market, because the planned deliveries of locomotives (2012: down 26.5% to 322; 2013: 257) and standard gauge freight cars (2012: down 57.4% to 2,657; 2013: 2,443) will certainly not require their full production capacity.

## Rail freight – North America

The market expects volume growth of between 1% and 2% for both 2012 and 2013. The second-largest North American railroad, BNSF, expects its freight volume to return to pre-recession level in 2013. There will be a negative impact on rail volume if a larger number of coal plants shuts down faster than expected. More stringent Tier 3 environmental standards will kick in for new diesel locomotives in 2012. Most manufacturers have developed a Tier 3 compliant diesel engine, and tests have already been conducted under normal railroad operating conditions. Canadian National will be the first North American freight railroad to test a natural gas powered locomotive in 2013. So far, 613 locomotives are planned for delivery in 2012 (–26.8%) and only 82 in 2013. Rail Theory Forecasts expects about 58,500 (+33.0%) new freight car deliveries for 2012. The total backlog reported by manufacturers in January 2012 was 64,575 freight cars.

## Rail freight – Australia

Australia is set for an €93.3 billion infrastructure boom according to current investment plans, as the nation adds ports and railways to feed the demand from China and India for coal and iron ore. According to Australasian Railway Association, the federal government's new carbon tax regulation, which will come into force on 1 July 2012, will cost the rail sector around AUD100 million per year, while heavy road vehicles are exempted for two years. Australasian Railway Association's preliminary research suggests that intermodal and grain rail freight will shrink by 4% as a direct result of the carbon tax. But luckily, 2012 will be a very good grain handling year, following an excellent 2011 harvest. 11.1% more locomotives (160 units) are planned to be built in 2012, with an increased share produced by foreign manufacturers, especially from the US. On the freight car side, it can be reported that 4,663 units are already scheduled for delivery in 2012 (–32.5%).

## Passenger rail – Europe

More open-access passenger railway companies have announced start-ups for 2012. In October 2011, the European Commission Transport Commissioner stated that proposals for further liberalisation will be drafted in 2012 to permit competition from foreign open access operators on national routes, thereby extending the scope of liberalisation. In Germany, more than half of the subsidised rail passenger transport networks will be put out to tender in the next five years. Stronger bidding interest is expected from several domestic and foreign companies. This is likely to produce subsequent investment volume of around €8.8 billion in new vehicles. A major challenge is the long certification process of new vehicles to be built from 2012 onwards. Passenger equipment will also get more expensive, due to three new EU regulations. However, as from 2017, and depending on national issues like electric current and train safety systems, it should be possible to employ locomotives and passenger equipment across the entire standard gauge system in the EU, thereby significantly enhancing the remarketability of this kind of rolling stock. The number of standard gauge, non-high speed train sets scheduled for delivery is still a respectable amount of 752 (–9.2%) in 2012, reaching 855 in 2013.

## Passenger rail – North America

National passenger railroad Amtrak could face competition once the Federal Railroad Administration's proposed rule (mandated by Congress in 2008 to open up two routes for bidding for five years) will become effective on 12 February 2012. 937 train set cars and coaches (+57.5%) have been planned for delivery in 2012, and 622 in 2013. Mexico ordered 210 of those – its first order in a long time.

## Road freight – Europe

Most of the road freight developments in the near future will stem from a necessity to adhere to stricter emission standards, and the possibility to operate (first as a test case) with heavier and larger HGVs in Germany, Sweden and the United Kingdom. 2012 demand for new trailers in Europe is forecasted by consulting group CLEAR to fall below the level of 2011.

## Road freight – North America

In 2011, ATA predicted that freight tonnage will grow 24% by 2022 with revenue rising by as much as 66%. FTR Associates expects a total of 280,000 GVW Class 8 trucks (–10.3%) to be ordered in 2012. Tighter credit markets will likely cap overall fleet growth, particularly for smaller carriers without access to capital markets. Given that the industry is likely to remain in a prolonged equipment replacement cycle as the average fleet age approaches seven years (highest on record) in addition to more stringent future EPA regulations, this will be a key determinant as to whether the industry can continue to maintain a favourable supply-demand environment supportive of mid-single-digit rate growth.

## Land Transport Finance – Portfolio outlook 2012

Structured Asset Financing will continue to be our core business. The transaction pipeline is diversified and very promising for all our core markets. On the basis of new business already processed, we anticipate attractive financing volumes for 2012, even though the propensity to invest in the land transport markets remains defined by uncertainty. We also see good opportunities for advisory mandates, albeit to a lesser extent for capital market transactions. We expect European asset finance demand to emanate predominantly from anticipated orders for passenger trainsets, whilst the focus in North America is likely to be on refinancing larger freight car portfolios, or investments in locomotives. Demand in Australia for traction (new locomotives) and efficient railcar fleets – especially for transporting raw materials – is undiminished.

We are optimistic with regard to the development of our high-quality portfolio, both for rail asset and road asset transactions. Both sectors remain key areas for us.

As a consequence of the economic downturn, a number of operating lessors in North America and Europe are likely to have passed the trough of their lease income, so that we expect an improvement of the risk level in our portfolio, provided the global economy does not deteriorate again. We will continue with our policy of maintaining tight risk analysis; portfolio management remains a top priority in our business. We have the discipline, the staff and the processes in place to avoid hidden risks in our business that may come to the surface as a consequence of the now clearly higher cyclicality in our land transport markets. The composition of the Land Transport Finance portfolio – regions, clients, market segments – is expected during 2012 to remain largely consistent at current diversification levels. Nonetheless, we believe that Australia will offer greater momentum than North America and Europe, and therefore intend to further expand the Australian share of the portfolio.

Currently, demand is up on financing solutions and service resources to be provided by the Land Transport Finance platform. We are perfectly positioned, enjoy excellent recognition, a good track record, strong client relationships, and continue to retain a clear focus on our core business. Supported by these factors and stable conditions in our target markets, we believe we can preserve our leading position in the market.

# Important deals 2011[1]

**AAE Railease**
Term Loan Facility
5,473 freight wagons of various types
€310 mn
Club Deal

**AerCap**
Portfolio Financing
12 x B737-800
Co-Arranger

**AET**
Sale-and-Leaseback Financing and Swap Line
2 x 1994 built Aframaxes and
2 x 2002 built VLCCs
US$172 mn
Agent, Arranger & Underwriter

**Avolon**
PDP Financing
5 x B737-800
Arranger

**AWAS**
Senior Debt
2 x A320
1 x B737-800
Arranger

**Buss Capital**
Senior Loan to finance 188,512 TEU for BCI4 fund
US$182 mn
Arranger & Debt Provider

**CDB Leasing**
Portfolio Financing
4 x A319
2 x A320
1 x A330-200
Arranger

**CPP Investment Board**
Industry Financial Advisor with respect to
the purchase of a leasing portfolio

**Danske Færger A/S**
Term Loan
Double-ended shuttle ferry
€20 mn
Bilateral Lender

**Deep Sea Supply**
Sale of 2 x AHTSs to TOPAZ
US$40 mn
Broker

DVB
Aviation Asset
Management

**DVB's Aviation Asset Management**
33 commercial aircraft sold/leased and
65 aircraft under management
in 2011

DVB
Aviation
Investment
Management

**DVB's Aviation Investment Management**
Investment Advisor to equity funds owning
52 commercial aircraft, 66 engines and
2 airline equity investments

**Flagship Rail**
Senior Term and Warehouse Acquisition Financing
Diversified fleet of 10,405 railcars
US$450 mn/US$100 mn
Joint Arranger & Bookrunner,
Mandated Lead Arranger & Syndication Agent

**Flexi-van**
Term Loan and Revolving Credit Facility
Fleet of 159,000 intermodal chassis
US$375 mn
Joint Lead Arranger & Syndication Agent

**GE SeaCo**
Fairness Opinion – Sale to HNA/Bravia Capital
Transaction value of US$1.1 bn
Financial Advisor to the Board of Directors
of SeaCo Ltd

**Globus Maritime Ltd**
Post-Delivery Financing
1 x Panamax and
1 x Supramax bulker vessel
US$40 mn
Bilateral Lender

**Guggenheim Aviation Partners**
Operating Lease Financing
2 x A330-300
3 x B777-200ER
Arranger

**Hapag Lloyd**
Post-Delivery K-Sure/Senior Secured Financing
10 x 13,200 TEU/fleet of used container boxes
US$925 mn/US$150 mn
Mandated Lead Arranger

1) Unaudited information (not included in audit opinion)

# Important deals 2011[1)]



**ICBC Finance Leasing**
Senior Debt
4 x A320-200
1 x B737-800
Arranger

**Jackson Square Aviation**
Portfolio Financing
11 x new narrowbody aircraft
Arranger

**M.T. Maritime Management (USA) LLC**
Reducing Revolver Facility and Swap Line
6 x modern stainless steel chemical tankers
US$100 mn
Lead Arranger

**Metro Exploration & Odfjell Drilling AS**
Loan facility for the financing of the
ultra-deepwater drillship "Deepsea Metro II"
US$400 mn
Mandated Lead Arranger & Agent

**Navios Maritime Acquisition Corp.**
8.625% First Priority Ship Mortgage Notes due 2017
US$105 mn
Co-Manager

**Ocean Rig UDW**
Loan facility to finance 2 x drillships delivered from
Samsung Heavy Industries in January and March 2011
US$800 mn
Mandated Lead Arranger

**Pantheon LPG Carriers LLC**
Equity investment for the purpose of
the formation of the joint venture and
acquisition of 2 x 7,200 CBM LPG carriers

**Petredec Ltd**
Pre- and Post-Delivery Financing
1 x new building VLGC
US$50.8 mn
Bilateral Lender

**SAS**
Finance Lease
4 x A321-200
Arranger

**SK Shipping Co. Ltd**
Pre- and Post-Delivery Financing
2 x 320,000 dwt VLCCs
US$137.2 mn
Mandated Lead Arranger, Agent & Security Trustee

**TAM**
Synthetic Operating Lease
4 x A319
1 x V2533 engine
Arranger

**TAP**
Finance Lease
4 x A319
2 x A320
3 x A330-200
Co-Arranger

**Target Maritime Holdings Ltd**
Post-Delivery Financing
2 x Kamsarmax bulker vessels
US$44 mn
Bilateral Lender

**Terra Maris I LLC**
US$97 mn purchase of
a marine container portfolio of 56,000 CEU
Equity investment of US$31.8 mn

**TN Cruise Invest Ltd**
Owner of Expedition Cruise Ships
Term Loan
4 x expedition cruise vessels
US$40 mn
Bilateral Lender

**US Airways**
Multi-Tranche Debt Facility
4 x A321-200
Arranger

**VARUN Offshore**
Senior Secured OSV Fleet Refinancing
US$150 mn
Joint Lead Arranger

**VTG Group**
Term Loan and Revolving Credit Facilities
Diversified fleet of over 40,000 freight and tankcars
€450 mn
Mandated Lead Arranger

1) Unaudited information (not included in audit opinion)

DVB's skills and expertise as an arranger and syndicate member mean that customers have the comfort of certainty with regard to funding their projects. 2011 was a year where most banks faced two different dynamics during the year, as the economic improvement of 2010 moved towards a halt in the second half of 2011 amid growing concerns surrounding the European sovereign debt crisis. Despite this tightening market environment, DVB's Financial Institutions team successfully raised bank debt for a number of transactions during 2011.

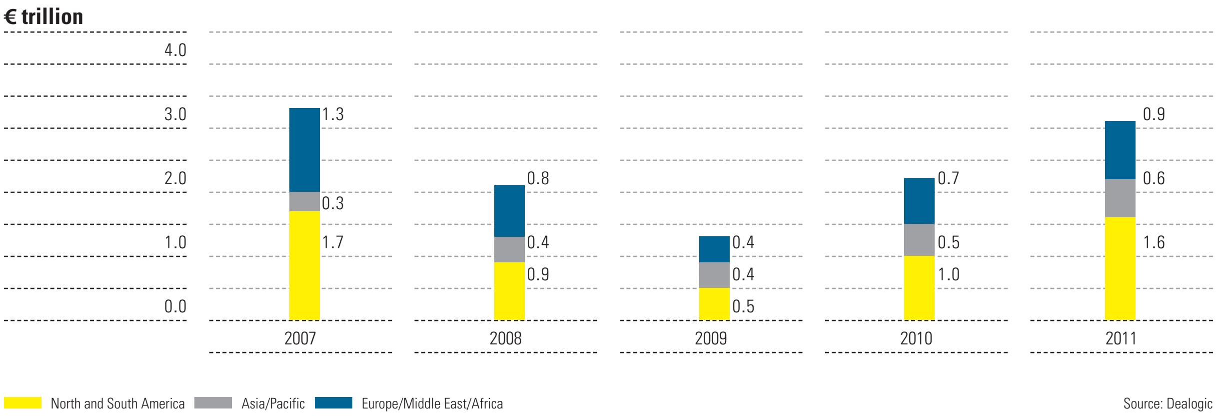
## Financial Institutions – Market review

Global syndicated loan volumes increased by 40.9% to €3.1 trillion in 2011 compared to €2.2 trillion in 2010. By region, the syndicated loan volume in North and South America increased most – reaching €1.6 trillion in 2011. In Asia/Pacific, volumes rose by 20.0% to reach €0.6 trillion by year-end 2011 (previous year: €0.5 trillion). Europe/Middle East/Africa reached €0.9 trillion, an increase of 28.6% (2010: €0.7 trillion). ❶

These figures show that lending in 2011 continued the 2010 uptrend, reaching levels only achieved in the pre-crisis years. Benefiting from an improvement in economic condition inherited from 2010, banks actively lent throughout the first half of 2011 – although they mainly focused their lending strategies on strong corporate clients providing good quality credit risk. Pricing came under pressure as more and more lenders entered this top-tier corporate market. As a result, deal terms began to loosen. During the second half of 2011 the European sovereign debt crisis took hold resulting in many European banks slowing their lending during the third quarter. In the fourth quarter a number of European banks became highly selective or closed for new lending opportunities as banks' balance sheet usage came under scrutiny. A number of European banks was required to strengthen their capital ratios by end-June 2012, following further European Central Bank stress test results. In the leveraged loan market lending continued to increase, but at lower levels, indicating that there was still a trend towards better quality credits during 2011. Bank debt liquidity remained comparatively limited for specialised markets, non-recourse transactions, or borrowers outside the top-tier segment: this restricted the downward pressure on pricing. The underwriting and syndication market continued selectively during the first half of 2011 for the top-tier corporate borrowers, whilst other borrowers could only tap the club deal or bilateral loan market. The bond market remained an alternative to the bank debt market. Total bond issuance reached €2.1 trillion, an increase of 5.0% over 2010.

The syndicated deal volume in transportation finance – including shipping, aviation and rail asset finance – rose by 40.2% to €51.6 billion in 2011, compared to €36.8 billion in 2010. The shipping finance market (including the offshore segment) was also a market of two trends during 2011. The deleveraging effect on banks' balance sheets during 2009 and internal restructuring of shipping finance teams and portfolios during 2010 allowed banks to increase their lending activity in the shipping finance market during the first half of 2011. Even those banks whose portfolios were merged during 2010 began to lend once again, albeit on a selective basis.

**❶ Global syndicated loan volume per year**




Source: Dealogic

Overall, liquidity in the shipping finance market improved during the first half of 2011 when compared to 2010, but remained below the level of the boom years of 2005 and 2007. Most banks continued to target the same top-tier clients, thus creating downward pressure on pricing and an increase in financing of the offshore market. The result was a persistent two-tier finance market. In addition, an underwriting market for secured corporate shipping deals re-emerged together with an increase in the underwriting of offshore transactions. Generally, conservative lending structures and high pricing (compared to historic norms) continued to prevail, despite downward pricing pressure. During the second half of the year higher expected lending volumes did not materialise due to the liquidity and funding issues of banks resulting in lower than anticipated lending volume for full year 2011. Dealogic data also reveals that in 2011 approximately €25.1 billion of the loan volume went into new projects, with 39.6% being lent to new offshore projects. Unreported bilateral lending and smaller club transactions also were prevalent in the shipping finance market during 2011. Government lending and guarantees via export finance houses bolstered the shipping finance market, most notably in a significant volume of offshore transactions. In addition, regional disparities became evident in lending, particularly in the second half of the year. Asian banks were active in their domestic markets, as their US dollar funding costs were not as significantly impacted as those of the European banks.

For the aviation finance market, 2011 was an altogether active year: the first half was notably more active than the second, when many banks had to deal with liquidity constraints and funding issues. Moving from the third into the fourth quarter some banks decided to put their aviation business on hold. Others even exited the market completely. Without any new banks coming into the market, those commercial debt deals that did get completed were closed by a small number of active aviation banks and a few returning banks that had previously stopped lending to the aviation market in 2009/2010. Beyond that, aircraft finance also came from sources such as the export credit agencies (the export-import banks) and the bond markets in addition to commercial debt. A select number of new non-bank institutions came into some aviation transactions. The remaining banks could afford to be selective, and therefore stayed focused on perceived top-tier airlines. New aircraft financing showed conservative structures that were corporate in style rather than asset-based. The shortage of liquidity and high cost of US dollar funding caused margins to increase during 2011, especially in Europe and Africa. In addition, pricing in North America also increased due to tight liquidity. Asian banks remained largely immune to this situation, and were the most liquid until towards the end of the second half 2011, when US dollar funding costs increased – albeit less significantly than for European banks. Generally, many banks with liquidity preferred local deals rather than international transactions since these could be closed with local currency – particularly in the Middle East and parts of Asia. As has been seen in the preceding years, only a handful of banks were able to look at older aircraft (mid- to end of life) and/or take pure asset risk.

In the rail industry, liquidity remained tight as a number of banks continued to reduce their lending to the rail sector, which they regarded as non-core. During 2011 a few new institutions looked at the sector and came into some rail deals. This development is expected to continue into 2012 where appropriate transactions present themselves.

## Financial Institutions – Strategy

During 2011, the Financial Institutions team supported DVB's core business activities in Shipping Finance, Aviation Finance and Land Transport Finance – and their customers' needs – by ensuring that sufficient third-party bank debt liquidity was identified in order to adequately transfer risk from DVB's lending book. Introducing third-party bank debt into its transactions enables DVB to diversify the credit risk it keeps on its lending book, and to subsequently avoid concentration risk. The ability to arrange and syndicate means that customers have the comfort of certainty with regard to funding their projects. Therefore, a good track record in successful syndications increases the likelihood that DVB will be mandated by customers for larger financing projects.

As lead arranger and book runner, competent execution of DVB's tasks is crucial to success. Participant institutions may be less familiar with the customer or project involved, so strong reliance is placed on the skills, experience, capability and information provided by the Financial Institutions team. A careful and clear presentation of a particular project by its team, in the form of an information memorandum, is essential – and reduces the difficulties that may arise in the syndication process.

During 2011 the Financial Institutions team has continued the process of co-ordinating private equity and mezzanine facilities across the organisation, and has introduced a number of new equity and mezzanine investors to the Investment Management and Advisory teams in order to assist their clients in making asset and/or company purchases.

The key drivers that Financial Institutions has used to formulate its successful strategy are the following:

- Maintaining and expanding relationships with financial institutions;
- Based on these relationships, developing and maintaining a good understanding of each financial institution's risk appetite and requirements, especially in a dynamic environment where those institutions have been changing their strategies for lending and investment;
- Close co-operation with DVB's global transport finance network, research and advisory teams; competitive pricing structures based on up-to-date information, access to global networks and ad-hoc analysis;
- Effective management and monitoring of the syndication process; personalised, tailor-made approach towards the participant partners;
- An understanding of the wider economic conditions and how they affect transportation financing; adapting to changing market conditions.

## Financial Institutions – Products

The Financial Institutions team offers two key services: firstly, risk distribution, which is the ability to syndicate debt to other lenders, and secondly, assistance in raising capital in the form of private equity and mezzanine facilities from financial institutions.

Risk distribution can be conducted on an underwritten basis, or on a book-building basis. A syndication on an underwritten basis means that the customer has certainty of funds, and that the liquidity and placement risk (as to whether or not sufficient bank debt liquidity can be identified for a certain transaction) is taken over by DVB. A syndication on a book-building basis means that DVB does not take over the liquidity and placement risk from the customer.

There is no difference in the actual execution of the syndication exercise, whether this is done on an underwritten or a book-building basis. In both scenarios, the Financial Institutions team uses the same information memorandum template and invitation letters – and also in both scenarios, the team profits from the expertise present in the various DVB business divisions (including but not limited to credit and research functions) to maximise the liquidity raised in the market. Since mid-2008 we have seen a shift in the bank market from syndication on an underwritten basis to syndication on a book-building basis. In line with the general market, DVB's syndication activities have also moved more towards the book-building exercises. This general trend was prevalent during 2011, but with some selective underwriting of transactions taking place.

The vast majority of the transactions being syndicated by the Financial Institutions team are new ("primary") transactions, rather than transactions closed at an earlier stage (often referred to as "secondary"). DVB's Financial Institutions team is not an active participant in the secondary debt trading market. The partners that the team links with in a transaction are generally commercial banks or export credit agencies. In addition, the team is actively involved in finding club deal partners, where a transaction is being conducted on that basis.

The Financial Institutions team also acts as a central co-ordinator of relationships with financial institutions, by

- providing private equity and mezzanine facilities, in order to attract these institutions' appetites across the transportation sectors;
- finding value from cross-platform synergies within DVB; and
- building new relationships in order to assist clients in finding different capital sources for their transactions in conjunction with the Investment Management and Advisory teams.

The Financial Institutions team is instrumental in identifying the appropriate partners for varying capital requirements for customers' transactions. However, executions of such transactions are conducted by the Investment Management and/or Advisory teams.

## Financial Institutions – Portfolio analysis

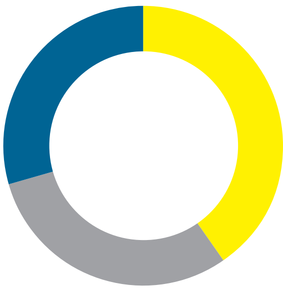
The trend of increased lending continued during 2011, as further liquidity returned to the market. As a result the Financial Institutions team was able to utilise this for some of DVB's transactions, selling down an overall volume of €453.3 million in 2011.

On the aviation side, Financial Institutions concluded the syndication of a number of both operating lessor and direct airline transactions throughout the course of the year 2011. These deals were club transactions for which the team introduced new partners after having spent significant time on nurturing these new financial institution relationships. Financial Institutions concluded debt raising and/or debt sell-down for a total of seven aviation transactions, i.e. 40.4% of DVB's total sell-down volume in 2011.

On the shipping side, our Financial Institutions team was able to successfully sell shipping and offshore transactions for key Shipping Finance clients helping to refinance existing assets and/or new tonnage additions – a total of three transactions which accounted for 30.2% of Financial Institution's total sell-down volume. In each case Financial Institutions assisted in bringing together a stable international group of banks with experience and knowledge in shipping and/or offshore.

During the first half of 2011, the Financial Institutions team assisted in the successful book-building process for the financing of a rail operating lessor, which was acquired by new shareholders. This accounted for 29.4% of the bank debt raised by Financial Institutions. ❶

❶ **Total sell-down volume by business division**



**Aviation Finance 40.4%**

**Shipping Finance 30.2%**

**Land Transport Finance 29.4%**

## Financial Institutions – Market and portfolio outlook 2012

In 2011 loans accounted for 64% of global corporate financing, and lending volumes were higher in total. During the first half of 2011, higher lending volumes resulted in a decrease in average pricing for quality credits and a loosening of credit terms and structures. However, pricing started to increase during the second half of 2011, even for better quality credits, as the sovereign debt crisis raised concerns in the market regarding sovereign debt restructuring requirements and the impact this would have on the balance sheets and capital ratios of financial institutions. A number of European banks that were the mainstay of international transport finance were required to rein in their lending capacity during the second half of 2011, the result of higher US dollar cost of funding and liquidity issues. DVB expects the trend of highly selective international cross-border lending to continue during 2012 as many European banks intend to deleverage and improve their capital ratios with the hope of restoring lower US-dollar cost of funds. As seen in 2011, it is highly unlikely that pressure on US-dollar liquidity costs will ease: pricing and terms will therefore remain reflective of such conditions for transportation deals overall. We do not believe there will be any new significant lenders entering the transport finance market in 2012, but if higher pricing levels continue to prevail we may see the entry of additional alternative financial institutions investing in the market on a limited basis. Macroeconomic issues, the outcome of the sovereign debt crisis and the performance of the transportation industry will impact lending levels overall and our syndication business 2012 – making this coming year a challenging one.

In line with the general market, DVB expects the sources of transport finance to continue to remain limited during 2012. Selective lending will persist, with the majority of financial institutions continuously focusing on credit quality and deal terms. The most prevalent deals will be bilateral and club transactions.

In 2011 the shipping market continued to see funding gap issues between the order book and available selective debt financing. The impact of original contract prices for vessels against conservative debt financing terms with tightening credit conditions being offered by active lenders has reduced the overall lending capacity, thus resulting in additional equity being provided by shipowners. This is a trend which will continue during 2012. We have seen at least one further significant international shipping finance lender leave the market in 2011, with a few others having significantly reduced their lending. The significant "flight to quality" demonstrated by banks in 2010 will return, and the focus on lending to core customers with perceived strong financial and business profiles seen during the second half of 2011 will continue in 2012. Smaller shipping companies will again find it challenging to attract more finance.

The selective financing strategy of banks has resulted in some alternative, albeit more expensive, pockets of liquidity coming from investors and funds in the form of equity and mezzanine which bridged some funding gaps. In addition, many shipowners require industry-based charters to attract lenders that prefer financing new and/or young tonnage – this trend is expected to continue in 2012. It is very likely that those banks still able to use balance sheet capacity to lend will have a preference for well-structured offshore and/or LNG transactions with good-quality long-term oil major charters and/or strong off-takers in place. Regional disparities in pricing and banking appetite will again be an issue, and especially Asian shipowners will find it easier to raise finance as liquidity is more abundant in these regions – particularly in domestic currency.

The potential for a dynamic year exists in the aviation market for 2012 – in the fields of funding new deliveries, supporting the ambitious growth plans of new leasing companies, or refinancing a number of existing transactions. In 2012 airlines and leasing companies will continue to use multiple sources of funding where appropriate, in order to diversify funding sources and mitigate any funding risk. There are no signs indicating that more new banks will enter the commercial debt market than in 2011, but there will still be a significant amount of deal opportunities available. DVB expects 2012 to produce a similar level of competition from a small number of active aviation commercial banks that existed in 2011, but with liquidity still being actively sourced and obtained from other types of financing such as the export credit agencies, export-import banks, the bond markets and a few opportunistic lenders. In addition, 2012 will see pockets of liquidity coming from a limited number of alternative investors and institutions in the form of senior debt on a selective basis. The number of lenders able to finance older assets will also remain small, and the significant funding gap seen in 2011 will linger because most active lenders will continue to focus on financing the new equipment needs of top-tier companies.

On a regional basis, the trend of local banks being more regionally focused (particularly in Asia-Pacific and the Middle East) rather than internationally focused is expected to continue. However, a small number of institutions may be able to look at international deals for better credit quality counterparts as they did in 2011. We expect to see further upward pressure on pricing in Europe/Middle East/Africa and the North American region due to financial market volatility.

DVB expects to see more opportunities for rail transactions in 2012 than in 2011. A few new institutions have shown interest in the rail sector and/or increasing their exposure, as a means of diversifying their existing asset class and overall portfolio. With capacity in the bank debt market shrinking during the second half of 2011, we will see available capacity being highly selective. It will concentrate on transactions involving younger assets, strong lessors and in some cases more focus on domestic home markets.

DVB's Investment Management division is active as a fund initiator, investment adviser and asset manager in the market for closed-end funds in the international transport sector. The funds initiated by DVB are geared towards professional investors.

The closed-end fund market is a further option for financing assets. Transport companies frequently operate, but no longer own the transport assets to be financed, such as aircraft, vessels, container boxes, rolling stock, etc. Operators are more willing to contemplate alternative financing structures: closed-end funds in particular are increasingly being considered as an alternative to traditional sale-and-leaseback finance, thanks to the increased availability of investment capital for such funds. Moreover, funds can also provide transport companies with direct equity investments in a diverse range of forms. Likewise, participation in a closed-end fund has evolved into an alternative for professional investors who wish to benefit from long-term cash flows and returns whilst diversifying their risks.

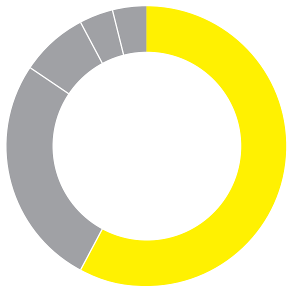
At the outset of the Investment Management division in 2001, DVB predominantly committed own equity when providing equity finance. During the second stage, DVB acquired the first partners for investment funds. At present DVB is in the third stage, where the main task will be to assume a management function on behalf of third parties – but with a material equity risk exposure to be assumed by DVB. Above all, DVB sees strong demand from institutional investors for joint investment management projects such as joint ventures. This means that DVB will be able to provide its clients with equity finance at an even higher level – for example, in the form of sale-and-leaseback transactions. DVB's motto thus remains unchanged: we are able and willing to assume risks – provided that they are adequately priced.

DVB's asset and market expertise – gained through extensive research and the resultant business intelligence – gives us a competitive edge. We are thus an ideal partner for clients requiring equity capital and investors seeking suitable investment projects in the relevant transport sectors. Accordingly, DVB's Investment Management division comprises two teams of experts:

- The Shipping & Intermodal Investment Management (SIIM) team unites the Bank's Investment Management activities in the shipping, intermodal transport and rail transport sectors.
- The Aviation Investment Management (AIM) team manages the aircraft investments of the Deucalion Aviation Funds.

The aggregate investment volume of funds initiated by DVB amounted to €771.7 million as at 31 December 2011, with AIM accounting for €447.3 million (58.0%) and SIIM for €324.4 million (42.0%). ❶

**❶ Breakdown of the investment volume by fund**



**AIM 58.0%**

**SIIM 42.0%**

thereof:

26.7% NFC Shipping Funds

7.7% Container Funds

3.8% Cruise/Ferry Funds

3.8% Stephenson Capital

## Shipping & Intermodal Investment Management

Since 2009, Shipping & Intermodal Investment Management (SIIM) has comprised all of DVB's shipping, intermodal, rail and cruise funds. In total, SIIM has had more than €3.0 billion in assets under management, across a wide range of assets. The shipping investment management activity has been operating since 1999, and was previously known as NFC Shipping Funds. The intermodal investment management was set up by DVB at the end of 2006, and consists now of two funds, which act as the investment vehicles through which DVB and private investors jointly invest in intermodal equipment. The cruise investment management activity started in November 2007 when DVB, along with Buss Capital (a German specialist for "KG" financings), set up an investment fund targeted at the passenger shipping sector. This fund has been fully invested, and the focus is now on working in close co-operation with our partner to manage the existing investments and arrange for appropriate exits. The rail investment management activity has been active since 2007 with the establishment of Stephenson Capital Funds. It is set up as a joint venture with a leasing company which invests in railcars managed by our joint venture partner.

## SIIM – Market review

Earnings levels in the mainstream shipping markets indicate that the post-crisis recovery trend (most evident during the first half of 2010) has not been sustained. Earnings for larger-size dry bulk carriers and tankers in particular have been under pressure since 2011. This is clearly illustrated by the Baltic Exchange Dry Index (BDI), one of the most commonly used indicators for the dry bulk market. The BDI stood at 1,738 points on 23 December 2011, the last index day in 2011, compared to around 4,000 in May 2010. Smaller-size and specialised shipping segments have fared better in 2011, with stable or improving freight markets (for example the offshore (support) market and the LPG carrier market). This development is in line with SIIM's analysis and investment policy, focusing on smaller-size and specialised assets in these segments. Asset values have followed the earnings trend, with a significant drop in second-hand vessel prices across various ship types – with the exception of the earlier-mentioned specialised and smaller-size assets. The first half of 2011 showed improvement in the ship finance market, with recovery in lending volumes and an increasing number of active banks. However, this development came to an abrupt end during the second half of the year, because of the various problems in the financial markets and the European sovereign debt crisis in particular.

For container boxes, 2011 was characterised by overall good performance. Container boxes continue to have strong secondary market prices as there are still limited disposals from primary marine transport. Container newbuilding prices have declined from highs of US$2,950 per Container Equivalent Unit (CEU) to US$2,350 per CEU.

In the rail market we notice a gradual but slow recovery, with very limited newbuild ordering. Utilisation rates of railcars are increasing. Investment opportunities remain limited as European state railways are generally consolidating their positions in a relatively low-growth market. Even though railways struggle with profitability, there are no real distressed sales or liquidity needs given the continued influence of state ownership/support. The US market still has a general oversupply of railcars, and we have not yet seen any interesting investment opportunities.

## SIIM – Strategy

The SIIM management activities combine to offer a sophisticated business approach, an experienced management team and a wealth of market knowledge. This is further leveraged by DVB's in-house asset and market research capabilities, and deep knowledge of the respective assets. All the SIIM funds provide equity, equity bridge loans, preferred equity, sale-and-lease/manage-back structures to the shipping, offshore and intermodal, cruise and rail sectors.

On the shipping side, the focus continues to be on the development and holding of a diversified portfolio of shipping and offshore investments, creating a stable cash flow, with upside potential depending on shipping market developments and targeting opportunities for asset appreciation. Furthermore, since 2010 we have started setting up investment portfolios with joint venture partners taking commercial and operational risks. We have therefore established strategic joint ventures ("platforms") with first-class market operators in three well-defined niche shipping markets:

- Product tankers, together with Navig8 (Singapore);
- Small LPG carriers, together with Diamantis Pateras (Greece);
- Feeder container vessels, together with Buss Capital (Germany).

All of the above were selected due to inter-alia market fundamentals, the perceived remarketability and asset values being historically low. In each platform we are building a portfolio of charters with different durations, and together with our joint venture partners we share all the operational and commercial risk as well as the full upside deriving from future capital appreciation of the assets. All our joint venture partners are well-established and reputable operators in each market segment. Future exit opportunities are represented by sale & purchase and trade sales, initial public offerings and refinancing opportunities. Although limited opportunities are available at the moment, we also aim to further capitalise and build on our sale-and-leaseback portfolio.

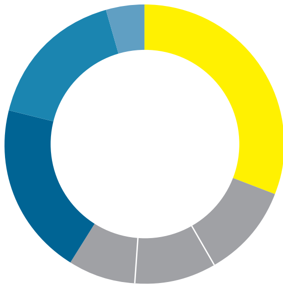
On the intermodal side, we want to use the existing container investments and our track record in this segment to further grow our container portfolio. With a combination of equity available and cash flow generated by the existing investments, we invest directly in operational leases through the existing platform for our finance lease investments.

For the rail fund, we are in discussions to further grow the railcar operating lease portfolio with our joint venture partner, whilst simultaneously deconsolidating it.

## SIIM – Products and portfolio analysis

As at year-end 2011, the equity invested across all SIIM managed funds totalled €324.4 million. During 2011, SIIM has managed its shipping portfolio through market circumstances that are still challenging, establishing joint venture platforms in selected niche markets and with stringent control of performance under its portfolio of transactions. At the end of the year the shipping portfolio had 36 investments totalling €206.2 million and containing about 70 vessels. It was mainly invested in offshore vessels (31.1%), chemical, LPG and product tankers (27.9%), and bulkers (19.9%). ❶

❶ **SIIM – Shipping portfolio by asset type**



**Offshore vessels 31.1%**

**Tankers 27.9%**

thereof:

10.6% Chemical tankers

9.5% Product tankers

7.8% LPG tankers

**Bulkers 19.9%**

**Container ships 16.8%**

**Other investments 4.3%**

Also on the intermodal side, in 2011 the focus was to closely monitor and manage our existing investments and to invest in opportunity-driven and counter-cyclical new investments. During the third quarter we sold part of an operational lease portfolio, releasing equity and generating a substantial profit. Furthermore, we have taken advantage of market conditions, investing in finance leases at attractive terms. As at year-end, intermodal funds had seven investments amounting to €59.5 million. The funds invest in standard marine containers, employed in both operational and finance lease portfolios.

The cruise and ferry fund currently has four investments: a junior loan with substantial ownership potential, one junior debt transaction, a stake in a private equity transaction that went from a minority position to an equal partnership position, and ownership of a newbuild ferry under long-term bareboat charter to a European operator servicing a long-term government contract. As of 31 December 2011, SIIM had invested €29.1 million in this fund.

The rail fund has expanded its joint venture with a European railcar leasing company during 2010. The joint venture currently owns several hundred railcars. The focus in 2011 was on building a sizeable railcar operating lease portfolio with our joint venture partner to approximately €150 million in equipment value. The investment volume of the rail fund totals €29.6 million.

SIIM's risk management in the portfolio is devoted to continuously monitoring the health and performance of our investments. It profits from the invaluable knowledge, industry insight, and technical expertise that we derive from our Shipping Research as well as from our commercial activity with frequent and proactive meetings with our counterparties. Each investment is subject to a number of quarterly checks and valuations, such as the monitoring of value maintenance clauses and other debt covenants, the request for updated valuation from a preselected list of reputable brokers, detailed investor reporting, and quarterly budget forecast. All of these reports are also delivered to the independent board of directors and industry experts of our funds. On a semi-annual basis, we run asset impairment tests and discounted cash flow analyses. On a yearly basis, our funds and Special Purpose Companies are independently audited. All our vessels are inspected at least once a year (or more frequently if required) by our independent technical adviser. A number of those procedures are escalated further, with thorough monthly checks for investments classified as Early Warning, Closely Monitored or Watch List cases. Due to the challenging market conditions, SIIM's allowance for credit losses increased to €11.1 million in 2011 (2010: €8.2 million).

## SIIM – Market and portfolio outlook 2012

For 2012, we expect the demand for shipping to be clearly affected by the increased uncertainty of the global economic recovery due to two factors: the slower recovery of the developed economies since the beginning of the year, and the significant increase in fiscal and financial uncertainty, which has been particularly pronounced since August 2011. The impact of this last-mentioned factor will very much depend on the (success of) corrective policy measures, particularly in relation to the European sovereign debt crisis. On the positive side, the emerging markets – which are very important for the shipping markets – continue to show relatively strong growth, although they are obviously not immune to the developments of the advanced economies, especially in relation to their export markets. In particular for the larger size and standard type of ships, we expect continuing supply-side pressure on the freight markets for the coming years.

Low- to mid-cycle earnings are to be expected for the main shipping segments for the immediate years ahead, followed by a gradual recovery of market balance and earnings from 2014 onwards, provided the current lower pace of newbuilding ordering is sustained. Smaller and specialised shipping is expected to be more resilient to overall economic development, because of better fundamentals both on the demand side (sector-specific drivers, as mentioned) and the supply side (smaller newbuilding order books). For these sectors we expect the current, relatively healthy state of the freight markets to continue for the coming years. Due to the fact that liner companies have limited capital in a recovering market, we expect a continued strong demand for leasing containers. The rail market is expected to see only gradual recovery, with limited newbuild orders.

For 2012, SIIM will continue to maintain the strong focus and discipline necessary to closely monitor and manage the existing portfolio. At the same time we will continue to further strengthen the platforms built up during 2010–2011, with the aim of attracting third-party investors.

## Aviation Investment Management

Established in 2001, DVB's Aviation Investment Management (AIM) acts as the investment adviser to the Deucalion Aviation Funds, which consist of a series of actively managed closed-end funds. These funds act as the investment vehicles through which institutional investors and DVB together invest equity in aviation assets. As advisers to the funds, AIM's senior investment managers (based in London, New York and Singapore) are responsible for sourcing and managing aviation investments and assets. Each of the funds has an independent board of directors. DVB is not represented on any of these boards and does not control any of the funds.

## AIM – Market analysis

The macroeconomic outlook clearly deteriorated during 2011. While the first half of the year followed the trend seen in the second half of 2010, notably some optimism reflected in generally strong global traffic growth, the US economy is not recovering as fast as expected, and Europe is struggling with a sovereign debt crisis which could fundamentally harm the financial and economic strength of the region. Asia/Pacific remains the only region in "growth mode", but with weakened export markets also subject to uncertainties. 2011 was a strong year for passenger traffic but, given the economic uncertainties, a weakening is anticipated. Amid oil prices on average higher than 2010, airlines showed good discipline in controlling capacity and matching seats to demand, as well as good cost control. Asset utilisation rates remained high. The cargo markets, a leading indicator for the passenger sector and indeed trade flows generally, saw a material fall-off in traffic in the second half of the year.

The aircraft equipment market remained strong, with orders for new aircraft well over double the numbers booked in 2010. Manufacturer production backlogs remained close to record highs. Appetite to finance this new equipment remained strong from banks, lessors and export credit agencies – but the stress in the financial markets towards year-end, with significantly higher funding and liquidity costs for banks (particularly in US dollars), created concern that bank liquidity for asset acquisitions in 2012 will be in short supply.

In the aircraft operating leasing market, in which the Deucalion funds are very active, 2011 continued to be noticeable for the aggressiveness of leasing companies competing for new sale-and-leaseback transactions. Fuelled largely by funding from institutional private equity, competition has been intense for new aircraft finance. Good news for the borrower (i.e. the airlines) – but resulting in upward pressure on aircraft prices and downward pressure on lease rates. This has lowered the risk-reward ratio and (in the opinion of AIM) is presenting investment scenarios for new aircraft that cannot be justified given the return criteria of the Deucalion funds. This focus of lessors and banks on the financing of newer equipment is clearly at the expense of used equipment prices where we have seen continued downward pressure. Airlines showed a preference for new, fuel-efficient aircraft and very few commercial banks demonstrated a willingness to leverage used aircraft transactions. As a consequence, some lessors and some airlines took material impairment charges on the book values of older aircraft which were considered to be exceeding market values, a practice that in turn raises questions over the appropriateness of widely accepted depreciation policies.

## AIM – Strategy

DVB's focus and expertise in transport finance are both unique and unparalleled. AIM uses this competitive advantage to structure investment opportunities for the funds that will conservatively generate returns above a target of 15% by investing across the aviation sector, with an emphasis on the acquisition of physical aircraft and engine assets subject to long-term operating leases. The funds are generally opportunity-driven, not volume-driven, with a focus on a short- to medium-term trading strategy that optimises returns throughout an asset's economic cycle.

## AIM – Products and portfolio analysis

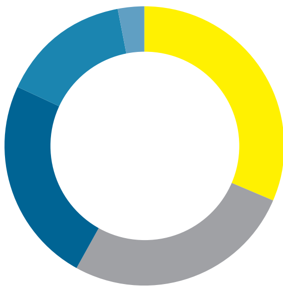
The funds have a primary focus on ownership of aircraft assets through direct equity investments, chiefly via operating lease and sale-and-leaseback transactions, but also in the acquisition of "end-of-life" aircraft and engines with a view to immediate or near-term disassembly. The funds also invest in aero engines, airline equities and passenger-to-cargo conversions – and from time to time, secured aircraft bonds and mezzanine loan investments.

Compared to 2010, fund activity remained robust. During the year the funds acquired or entered into binding Letters of Intent to acquire 22 commercial jet aircraft (2010: 22 as well) and three separate commercial aero engines for a total transaction value of about US$0.9 billion. The aircraft types acquired were B747-8F, B747-400, B767-300, B737-800, A330-300, A330-200 and A310, all manufactured between 1991 and 2012, but with the majority of the operating lease aircraft being widebody passenger aircraft of mid-life vintage. The funds also sold ten commercial jet aircraft and three commercial aero engines, originally acquired by the funds between 2006 and 2010. All of these transactions are excellent examples of the opportunistic investment and trading strategy of the funds. Included within the acquisitions were two B747 passenger aircraft acquired for the purpose of conversion to full freighters, for placement on long-term lease contracts. As at the end of the year, one aircraft had been redelivered as a freighter and is now on a long-term lease. The second aircraft will come out of conversion in the second quarter of 2012. Also included in the acquisitions were four B747, two B767, one A310 and three spare aero engines acquired specifically for disassembly. In these disassembly transactions, the funds entered into contracts to consign the airframes to a US company and consign the mixture of CF6-80C2 and PW4000 engines to TES, DVB's majority-owned engine management company, for the purposes of disassembly, repair and sale of serviceable engine parts. These disassembly investments follow the acquisition of five B747-400 passenger aircraft in 2010, with the same strategy in mind. These projects have been performing above expectations. Included within the asset sales for 2011 was one B737-300 aircraft which was converted to a freighter and sold.

One of the Deucalion funds remained a shareholder in Malaysian low-cost airline operator AirAsia, an equity investment made in 2003 prior to the initial public offering in 2004. The majority of the fund's shareholding in AirAsia was sold in 2006 and 2007, and the holding is now very modest. The weighted average share price when the shares were launched in the November 2004 initial public offering was 1.23 Malaysian ringgit (€0.25); they closed 2011 at 3.77 Malaysian ringgit (€0.92).

As at year-end 2011, the equity invested across all Deucalion funds totalled €447.3 million and was provided by four sophisticated institutional investors located in Europe, North America and Asia. The asset portfolio performed as contracted, with no arrears or defaults for the year. The return on equity on all realised investments in 2011 has remained good. All new asset investments in 2011 have been structured in the expectation of achieving returns significantly above the target of 15%. At year-end 2011, all of the operating assets within the funds were employed on long-term leases and the portfolio remains well diversified by lease maturity, aircraft/asset type, geography and counterparty. The aggregate portfolio across all funds consists of Airbus aircraft (47.9%), Boeing aircraft (44.2%) and other investments (7.9%). The greatest share of the funds' aircraft portfolio is made up of passenger narrowbodies (31.4%), passenger widebodies (26.9%) as well as freighter widebodies (23.7%). ❶

**❶ AIM portfolio by asset type**



- **Passenger narrowbody 31.4%**
- **Passenger widebody 26.9%**
- **Freighter widebody 23.7%**
- **Engines 15.2%**
- **Other 2.8%**

Risk management is a key daily focus for AIM. DVB's expertise in aviation ensures direct access to specialists that provide macro- and micro-views, analyses and tools to comprehensively monitor aircraft technical issues, aircraft values and trends, as well as airline and counterparty credit risk. Each investment is subject to at least monthly compliance checks, quarterly valuations and detailed investor reporting, semi-annual impairment tests, annual independent auditing of all funds and regular proactive meetings with lessees or the ultimate risk counterparties. In addition, all funds have an independent board of directors – with each board led by a director possessing significant aircraft and aviation industry experience. Where relevant, an asset may be taken to an Early Warning, Closely Monitored or Watch List, depending upon the nature of the risk, actual or perceived, which implies more regular monitoring and typically involves the implementation of key action plans. As at year-end 2011, only one investment was on the Watch List (with none on either of the Early Warning or Closely Monitored Lists). For 2011, AIM reported a reversal of allowance for credit losses of €3.1 million (2010: addition of €7.0 million).

## AIM – Market and portfolio outlook 2012

The Deucalion funds are currently invested in a portfolio that is performing very well. The funds are well positioned to take advantage of the investment environment emerging in this phase of the economic cycle, be those sale-and-leaseback or airframe and engine disassembly opportunities. The funds have sufficient access to capital to take advantage of the current and expected opportunity, and – importantly – premised upon the investment philosophy that has served the Deucalion funds so well since 2001, namely:

- to leverage the extensive aviation asset expertise, asset research capability and airline relationships within DVB; and
- to opportunistically invest in and manage aviation assets with disciplined and rigorous attention not only to the risks today, but – just as importantly – structuring investments with an eye on the future.

AIM expects to see a strong increase in Deucalion's volume of funds under management during 2012, principally through increased ownership of aircraft and aero engines on operating lease, but also in the expectation of significant additional investment into further aircraft disassembly opportunities. Although investor appetite (and therefore competition for the funds) will not likely lessen in 2012, DVB's knowledge of the industry, the strength of its aviation platform, and its asset-based approach provide the funds with a truly unique asset-focused platform to take advantage of the current market conditions with a well-informed and researched view of the future. Whilst aviation remains a volatile and cyclical industry, in its capacity as investment adviser to the funds, AIM will remain focused and disciplined, sourcing the best risk/reward opportunities by making full use of its unique combination of money and metal expertise – and also by taking the opportunity of selling existing portfolio assets at a profit.

ITF Suisse is active in the global interbank market, underwriting subparticipations in syndicated transport finance deals. Our subsidiary once again posted a profit for the business year ending 31 December 2011.

## ITF Suisse – Market analysis

Established in May 2007, the Zurich-based wholly-owned subsidiary of DVB Bank SE commenced business operations in August of that year. Immediately following ITF Suisse's establishment, its target market for syndicated transport finance loans was burdened by the subprime crisis, and by the subsequent drying-up of the international interbank market. The consequences of this situation were strongly reduced transport volumes, distorted lending margins, as well as falling vessel values and – accordingly – clearly lower freight rates.

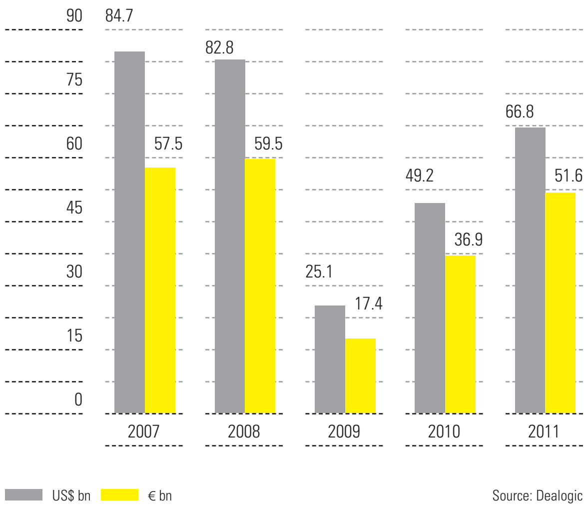
In 2008, financial market participants had initially assumed that the market environment would quickly recover. In fact, the downtrend for freight rates and vessel values persisted until 2010. As a result, some market participants faced liquidity shortages, leading to a large number of existing transactions being restructured; this trend prevailed in 2011.

In this market environment, consolidation could be observed amongst arranging and participating banks. Following the lows in 2009, the aggregate volume of transport finance exposures offered for syndication more than doubled in 2010, to €36.9 billion. 2011 saw yet another strong increase, whereby volume rose 39.8% to €51.6 billion. ITF Suisse also processed significantly higher new business volumes during the year under review, with both the number and the volume of financings presented more than doubling year-on-year. ❶

## ITF Suisse – Strategy

ITF Suisse's strategy is to facilitate international transport finance transactions by subparticipating in interbank syndications. Covering the sectors of maritime shipping, aviation and land transport, the subsidiary leverages DVB's research expertise in Shipping Finance, Aviation Finance and Land Transport Finance. ITF Suisse is committed to conducting a professional business, with swift and reliable decisions – in particular, through the combination of a restrictive, yet transparent lending policy and short reporting lines. Since the terms and conditions of exposures considered by ITF Suisse are already fully negotiated, it has no need for time-consuming structuring processes: this also facilitates fast decision-making.

**❶ Syndicated transport finance volumes**




Source: Dealogic

This is also made possible by having an experienced team, and integration within the DVB Group. Thanks to its streamlined and cost-efficient organisational structure, ITF Suisse is in a position to accept the lower earnings contributions that are customary in this type of business. Having established itself in the market, the company has built a network of contacts with the relevant banks in the European syndication market. The business model has proved to be successful and sustainable, and so will be pursued.

## ITF Suisse – Products

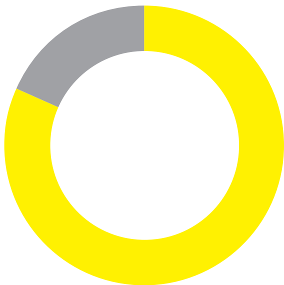
ITF Suisse exclusively engages in subparticipations in transport finance deals (in the maritime shipping, aviation and land transport segments) syndicated in the international interbank market. Hence, the company's client base consists solely of banks looking for syndication partners. DVB thus leverages its independent ITF Suisse brand to be active in an important market segment. The transactions must fulfil defined risk criteria, with senior collateralisation being provided in principle by the financed transport asset.

## ITF Suisse – Portfolio analysis

Over the course of the 2011 business year, ITF Suisse was presented with 66 financing opportunities having a total volume of €1.4 billion (2010: 26 financings with an aggregate volume of €0.6 billion). After being evaluated, eight of these transactions, with an aggregate volume of €252.6 million were realised by the end of the year (2010: eight transactions amounting to €187.9 million). New business originated continued to be subject to critical risk analyses. The risk profile of these transactions reflects ITF Suisse's demanding internal lending policies, and the interest terms agreed upon covered the higher funding costs.

ITF Suisse's customer lending volume of €882.8 million as at 31 December 2011 comprised the aggregate volume of financings disbursed during 2011 of €780.7 million, plus €102.1 million in irrevocable loan commitments. Customer lending comprises 81.7% (equivalent to €720.9 million) of exposures collateralised by ship mortgages, and 18.3% (€161.9 million) of financings collateralised by aircraft. ❶

**❶ Aggregate financing volume by transport sector**



Shipping finance 81.7%

Aviation finance 18.3%

The entire portfolio is collateralised by first-ranking liens on the financed assets. LTV ratios developed as follows in 2011:

**Changes in LTV ratios**

| % | 2011 | 2010 | pp |
|---|---|---|---|
| LTV ≤ 60% | 81.6 | 78.2 | 3.4 |
| LTV > 60 ≤ 80% | 11.5 | 12.9 | –1.4 |
| LTV > 80 ≤ 100% | 3.7 | 5.7 | –2.0 |
| LTV > 100% | 1.7 | 3.2 | –1.5 |
| Other collateral | 1.5 | 0.0 | 1.5 |
| **Total** | **100.0** | **100.0** | – |

The average loan-to-value ratio for ITF Suisse's portfolio was 73.1% at year-end 2011.

Nine of the maritime shipping finance exposures, with an aggregate volume of €202.7 million, were on the Watch List as at 31 December 2011. Four of these transactions were affected by the insolvency of one client. At year-end, viable restructuring concepts were developed for two of these transactions; concerning the other two, negotiations with the banks that had lead-managed the respective deals were ongoing, and close to agreement. ITF Suisse emphasises so-called pay-as-you-earn concepts for any restructuring, whereby repayment schedules are brought into line with forecast charter rates. In this way, the shortfalls in repayments expected to be incurred until a full market recovery can be offset by special redemptions at a later stage during the term of the loan. For all exposures, full loan repayment is ensured within the vessels' usual economic lifetime.

## ITF Suisse – Market and portfolio outlook 2012

ITF Suisse has established itself in the market as a syndication partner for banks, for the financing of transport assets. The syndication market itself clearly shows the influence of the financial markets crisis, which has been ongoing for almost four years now. Following a subdued performance in 2011, no sustainable improvement is thus expected for 2012. An environment characterised by the sovereign debt crisis, excess capacity in various maritime shipping sectors, and strong regional divergence in the aviation industry does not provide the basis for a return to normality. On the other hand, a growing number of market participants are either unwilling or incapable of providing financing to the transport industry. This shortage of financing increasingly provides ITF Suisse with business opportunities to enter into attractive new business. During 2012, ITF Suisse will use existing as well as new contacts to achieve its ambitious target of taking new business of up to US$800 million on its books. In this context, ITF Suisse continues to emphasise the importance of risk analyses and assessments, in order to keep risk exposure from new business at a very low level – in line with its restrictive lending policy. Monitoring and closely managing existing exposures is also a top priority. To date, ITF Suisse has been able to successfully restructure all its problem loans, also drawing on the support of its parent company DVB Bank SE. This close cooperation will also be available – and realised when needed – during 2012.

Following the difficult market in the previous years, the interbank market is expected to trend sideways at best during 2012. A return to normal is not expected to occur before 2013. Developments in the individual sectors of international maritime shipping will diverge considerably, with no sustainable recovery anticipated in some sectors, particularly as a consequence of still-rising excess capacity. Please refer to pages 58–60 of this report for a more detailed assessment of developments in shipping markets during the forecast period 2012.

ITF Suisse will continue to grow in 2012, stabilising its achievements. Continuous, timely risk monitoring will be essential for this purpose, closely observing the relevant markets, as will be maintaining regular exchange with syndication lead managers, and with DVB's experts.

DVB posted a new record result in 2011, with consolidated net income before taxes of €147.7 million. The Bank not only exceeded last year's record figure by 12.7%, but the previous record – posted in 2007 and thus before the global economic crisis – was also surpassed, by no less than 24.4% higher.

Despite the government debt crisis in Europe and the continued difficult business environment in some international shipping segments, DVB was able to further pursue its strategic focus on international transport finance during 2011.

The following details are worth noting when assessing this positive business performance:

- Consolidated net income before taxes for 2011 climbed by 12.7% over the previous year, to €147.7 million (2010: €131.1 million). DVB's income rose by 9.7% in 2011, from €307.3 million to €337.1 million.

- DVB entered into interesting structured and large-volume new business in Shipping Finance, Aviation Finance and Land Transport Finance: 184 new transactions, representing a volume of €5.6 billion (2010: 140 new deals with a volume of €4.4 billion). Based on a generally cycle-neutral lending policy, DVB continued to successfully implement its tried-and-tested strategy of pricing exposures in line with the risks involved. It achieved an average margin of 313 basis points on new Transport Finance business (2010: 327 basis points).

- New business with pricing exposures in line with the risks involved drove up net interest income after allowance for credit losses by 41.2%, to €199.1 million (2010: €141.0 million). Allowance for credit losses amounted to €–59.2 million (2010: €–52.0 million). Individual impairments in the amount of €96.9 million (2010: €86.0 million) and portfolio impairment in the amount of €7.5 million (2010: 11.2 million) were recognised.

- Net fee and commission income, which primarily includes fees and commissions from lending business, asset management and advisory fees, remained at a high level with €116.2 million (2010: €124.4 million).

- Net income from financial instruments in accordance with IAS 39 showed a significant 85.4% decrease, from €30.2 million to €4.4 million, reflecting market volatility in interest rates and currencies during the course of 2011.

- The key strategic indicators that the DVB Group uses to manage its business reflected a successful business performance: return on equity before taxes was 14.0% (previous year: 13.9%), while we were able to cut the cost/income ratio to 47.8% (previous year: 49.0%).

- At €23.9 billion, the volume of business in 2011 was up 12.7% on the previous year (2011: €21.2 billion). Besides total assets of €22.0 billion (2010: €19.3 billion), the figure also includes irrevocable loan commitments of €1.9 billion (2010: €1.9 billion).

## Business framework in 2011

We have discussed in detail the business framework determining DVB's financial position and performance, and its consolidated financial statements (including the notes) in the chapter "Economic environment" (page 45) and in the market analyses of Shipping Finance (pages 46–49), Aviation Finance (pages 62–66), Land Transport Finance (pages 80–84), Financial Institutions (pages 96–97), Investment Management (pages 102 and 105), and ITF Suisse (page 108). Reference is made in full to these observations; at this point, we will limit ourselves to a summary analysis of developments.

## Regional differences in transport markets

The collapse of Lehman Brothers in September 2008 marked the starting point for a sharp downturn in business activities, lasting until mid-2009. In the second half of 2009, the economy began to turn around: a global recovery ensued, which saw pre-crisis levels being attained by the end of 2011, although the recovery was not evenly spread. While emerging markets featured above-average growth, economies in Europe and the US generated very little growth, if any. This picture was reflected by a differentiated development on regional transport markets. In particular, stagnating or slightly increasing demand in numerous transport markets was offset once more by a larger increase in market supply.

## Developments in the key shipping markets

Supply and demand developments also had an impact on container, crude oil and bulk shipping. In terms of transport volumes and performance, these market segments are particularly important for the worldwide maritime shipping industry. Due to the sharp increase in new tonnage, they were plagued by overcapacity.

- Charter and freight rates in the container shipping industry came under increasing pressure during the second half of 2011. The container carrier time charter index (maintained by Clarksons since 1993) rose to 70 points in the first half of 2011, but then fell continuously during the second half of the year to reach 46 points in December, compared with 59 points in December 2010. The index declined as the capacity discipline – which gained ground in the wake of the global economic crisis – was gradually replaced by a more aggressive, partly speculative growth in capacity with the aim of maintaining or increasing market shares.

- Worldwide crude oil demand rose slightly in 2011 compared with 2010. This was due exclusively to economic growth in the emerging economies, whilst industrialised nations showed poor demand. Positive demand developments in the carrier shipping industry were partly offset by increasing capacities in this segment as well. The continued excess supply led to unchanged high pressure on freight and charter rates.

- The performance of the Baltic Exchange Dry Index – the freight rate index for the transportation of dry bulk goods – mirrored this ongoing market deficiency. As at 23 December 2011 (the last day the index was calculated in 2011), the index stood at 1,738 points (24 December 2010: 1,773 points). On average, the index stood at only 1,541 points during the course of 2011, while 2,758 points were recorded for 2010.

Thus, vessel values have not recovered. Prices for newbuilds and second-hand vessels remained at the 2010 level, with some exceptions trading at lower prices.

Given the importance of these three market segments for world transportation volumes, the fact that container, crude oil and bulk carriers represented 41.3% of DVB Group's broadly diversified Shipping Finance portfolio made the exposure balanced.

## Rising oil and fuel costs

Fuel costs, which are a major cost factor for shipping companies, remained at a relatively high level until the end of 2011. Spot Brent crude oil traded on European markets (London) was at US$108.09 per barrel as at 30 December 2011 (year-end 2010: US$93.23 per barrel). Price increases for other crude oil benchmarks were similar: spot prices for the US-traded West Texas Intermediate rose to US$98.83 per barrel as at 30 December 2011 (year-end 2010: US$91.38 per barrel). Speculative trading was partly responsible for higher oil prices, linked to the Arab Spring political unrest that took in the shift of power in Libya and rising tensions concerning Iran.

## Development of equity markets, DVB share and ratings

During 2011, investor behaviour and turbulent equity market developments were both highly influenced by the debt crisis in the euro zone and widespread concerns regarding future developments of the world economy. Accordingly, the performance of the German blue-chip index (DAX) fluctuated throughout the year (between 4,965 and 7,600 points). Despite these difficulties, DVB's share price performance during 2011 once again proved to be strong and relatively stable compared to its peers. Over the course of the year, the volatility of DVB shares was moderate on subdued trading. The highest price for the year of €26.10 was touched on 26 January 2011. The lowest price of €23.50 was recorded on 5 August 2011. The year-end share price was €23.95. Accordingly, the Bank's market capitalisation was €1.1 billion.

In March 2011, Standard & Poor's (S&P) changed DVB's rating outlook from "negative" to "stable". Moreover, our Long-Term Counterparty Credit Rating improved from A to A+ as at 5 December 2011. S&P confirmed DVB's Short-Term Credit Rating A-1 and the stable outlook. Since 2009, Moody's Investors Service has rated DVB Bank SE A1/P-1/D+/negative. These ratings remained unchanged in 2011.

## Effects of the US dollar/euro exchange rate

The development of the euro/US dollar exchange rate always has a particular impact on DVB's consolidated financial statements. As in previous years, exchange rate trends differed throughout 2011. The euro delivered a strong start to the year. On the one hand, the currency was bolstered by expectations of an economic recovery in the euro zone, and on the other the US dollar suffered under a poor economic outlook in the United States. At the beginning of May, the euro reached its peak for the year at US$1.48. Starting that month however, as discussions about a potential rescheduling of Greek debt began, euro listings came under increasing pressure until a significant downward trend kicked in during September, resulting in a loss of more than ten US cents within a few weeks, down to US$1.32. After a short recovery period, in November the euro then continued its downward trend against the background of the escalating government debt crisis; as at 30 December 2011, the euro was at US$1.29, down five US cents compared to year-end 2010 (US$1.34).

Due to the currency fluctuations described above, nominal customer lending volume showed greater increases on a euro basis (+13.0% to €21.7 billion) than in dollar terms (+9.8% to US$28.1 billion). 88.5% of the overall volume of Transport Finance customer lending was denominated in US dollars, representing 89.5% of the lending business in Shipping Finance and 97.8% in Aviation Finance. The US dollar/euro exchange rate also had a considerable bearing on the net interest and net fee and commission income generated in these two largest Transport Finance segments. In contrast, only 41.1% of the lending volume in the Land Transport Finance division is denominated in US dollars, so that the income generated in this segment was less susceptible to exchange rate movements.

Earnings that were mostly US dollar-denominated were offset by costs that were mainly incurred in euro. DVB uses derivatives to hedge the net US dollar income: accordingly, these revenues were largely unaffected by fluctuations in the exchange rate during the course of the year.

## Financial performance

### Income

DVB's income rose by 9.7% in 2011, from €307.3 million to €337.1 million. ❶

### Net interest income after allowance for credit losses

Net interest income after allowance for credit losses rose by 41.2%, from €141.0 million to €199.1 million.

Net interest income rose by 33.8%, from €193.0 million to €258.3 million. Net interest income generated by the Investment Management division more than doubled, from €17.4 million to €35.5 million. This figure includes income from the sale of a container portfolio in the amount of €29.6 million. The Aviation Finance division also increased its net interest income, by 3.9% to €74.0 million. Net interest income in Shipping Finance was down by 15.2% to €91.4 million, whilst in Land Transport Finance it declined by 8.7%, to €12.6 million.

Interest income rose by 11.2%, from €805.4 million to €895.9 million, and was composed as follows:

- €634.6 million (+4.5%): Interest income mainly from product Structured Asset Financing in Transport Finance
- €34.1 million (–6.3%): Interest income from finance leases
- €212.6 million (+33.5%): Current income from operating leases, derived largely from the funds managed by the Investment Management division (which must be consolidated)
- €1.8 million (previous year: €0.4 million): Current income from equity investments and other investment securities (i.e. joint ventures)

❶ **Financial performance (€ mn)**

| | 2011 | 2010 | % |
|---|---|---|---|
| **Income** | **337.1** | **307.3** | **9.7** |
| **Net interest income after allowance for credit losses** | **199.1** | **141.0** | **41.2** |
| Net interest income | 258.3 | 193.0 | 33.8 |
| Interest and similar income | 895.9 | 805.4 | 11.2 |
| thereof: interest income | 681.5 | 645.8 | 5.5 |
| thereof: current income | 214.4 | 159.6 | 34.3 |
| Interest expenses | –637.6 | –612.4 | 4.1 |
| Allowance for credit losses | –59.2 | –52.0 | 13.8 |
| **Net fee and commission income** | **116.2** | **124.4** | **–6.6** |
| Fee and commission income | 122.8 | 133.3 | –7.9 |
| Fee and commission expenses | –6.6 | –8.9 | –25.8 |
| **Net income from financial instruments in accordance with IAS 39** | **4.4** | **30.2** | **–85.4** |
| Net trading result | –0.6 | 0.3 | – |
| Hedge result | 10.7 | 3.5 | – |
| Result from the application of the fair value option | –0.4 | –0.8 | –50.0 |
| Result from derivatives entered into without intention to trade | –3.9 | 16.5 | – |
| Net result from investment securities | –1.4 | 10.7 | – |
| **Results from investments in companies accounted for using the equity method** | **0.1** | **5.8** | **–98.3** |
| **Net other operating income/expenses** | **17.3** | **5.9** | **–** |

The trend in interest margins for new DVB business is as follows:

| Basis points | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Shipping Finance | 304 | 331 | 333 | 180 | 137 |
| Aviation Finance | 325 | 338 | 375 | 214 | 159 |
| Land Transport Finance | 280 | 218 | 363 | 179 | 114 |
| ITF Suisse | 283 | 292 | 244 | 115 | 90 |

Interest expenses of €637.6 million (+4.1%) are composed of €488.1 million (2010: €488.9 million) in refinancing costs for the Transport Finance lending business, €131.1 million (2010: €101.0 million) for operating-lease expenditure, and €18.4 million (2010: €22.5 million) pertaining to expenses for silent partnership contributions and subordinated capital.

Net allowance for credit losses increased from €–52.0 million to €–59.2 million.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Additions | –104.6 | –97.3 | 7.5 |
| Reversals | 41.2 | 54.9 | –25.0 |
| Direct write-offs | –0.6 | –10.9 | –94.5 |
| Recoveries on loans and advances previously written off | 4.8 | 1.3 | – |
| **Net loan loss provisions** | **–59.2** | **–52.0** | **13.8** |

Allowance for credit losses comprised specific allowance for credit losses, portfolio-based allowance for credit losses and provisions. Specific allowance for credit losses (2011: €54.7 million; 2010: €51.3 million) and portfolio-based allowance for credit losses (2011: €4.3 million; 2010: €1.3 million) were above the previous year's level. The following two tables show the development, broken down by business division, for 2010 and 2011: ❶ ❷

**❶ Allowance for credit losses by business division 2010 (€ mn)**

| | Additions | Reversals | Direct write-offs | Recoveries on loans and advances previously written off | Total |
|---|---|---|---|---|---|
| Shipping Finance | –47.7 | 23.0 | –1.3 | – | –26.0 |
| Aviation Finance | –18.6 | 19.2 | –0.9 | 0.0 | –0.3 |
| Land Transport Finance | –1.2 | – | – | – | –1.2 |
| Investment Management | –8.0 | – | –8.3 | 1.1 | –15.2 |
| Business no longer in line with DVB's strategy | –10.4 | 2.0 | 0.0 | 0.2 | –8.2 |
| Other | –0.1 | 0.1 | –0.4 | 0.0 | –0.4 |
| **Total specific allowance for credit losses** | **–86.0** | **44.3** | **–10.9** | **1.3** | **–51.3** |
| Shipping Finance | –7.6 | 7.1 | – | – | –0.5 |
| Aviation Finance | –0.8 | 2.1 | – | – | 1.3 |
| Land Transport Finance | 0.0 | 0.5 | – | – | 0.5 |
| ITF Suisse | –0.5 | 0.2 | – | – | –0.3 |
| Business no longer in line with DVB's strategy | –0.6 | – | – | – | –0.6 |
| Other | –1.7 | 0.0 | – | – | –1.7 |
| **Total portfolio-based allowance for credit losses** | **–11.2** | **9.9** | **–** | **–** | **–1.3** |
| Shipping Finance | – | 0.7 | – | – | 0.7 |
| Business no longer in line with DVB's strategy | –0.1 | 0.0 | – | – | –0.1 |
| **Total provisions** | **–0.1** | **0.7** | **–** | **–** | **0.6** |
| **Total** | **–97.3** | **54.9** | **–10.9** | **1.3** | **–52.0** |

**2 Allowance for credit losses by business division 2011 (€ mn)**

| | Additions | Reversals | Direct write-offs | Recoveries on loans and advances previously written off | Total |
|---|---|---|---|---|---|
| Shipping Finance | –57.1 | 21.7 | –0.3 | 1.6 | –34.1 |
| Aviation Finance | –16.2 | 10.8 | – | 1.0 | –4.4 |
| Land Transport Finance | –0.1 | 0.1 | – | – | 0.0 |
| Investment Management | –14.5 | 4.4 | – | 1.8 | –8.3 |
| Business no longer in line with DVB's strategy | –9.0 | 0.9 | –0.1 | 0.4 | –7.8 |
| Other | –0.0 | 0.1 | –0.2 | 0.0 | –0.1 |
| **Total specific allowance for credit losses** | **–96.9** | **38.0** | **–0.6** | **4.8** | **–54.7** |
| Shipping Finance | –2.6 | 0.4 | – | – | –2.2 |
| Aviation Finance | –3.1 | 2.0 | – | – | –1.1 |
| Land Transport Finance | –0.1 | 0.1 | – | – | 0.0 |
| Investment Management | – | – | – | – | – |
| Business no longer in line with DVB's strategy | –0.5 | 0.1 | – | – | –0.4 |
| Other | –1.2 | 0.6 | – | – | –0.6 |
| **Total portfolio-based allowance for credit losses** | **–7.5** | **3.2** | **–** | **–** | **–4.3** |
| Shipping Finance | – | – | – | – | – |
| Aviation Finance | –0.2 | – | – | – | –0.2 |
| Business no longer in line with DVB's strategy | – | – | – | – | – |
| **Total provisions** | **–0.2** | **–** | **–** | **–** | **–0.2** |
| **Total** | **–104.6** | **41.2** | **–0.6** | **4.8** | **–59.2** |

The following developments were recorded for the individual portfolios in 2011:

- Shipping Finance
  €36.3 million allowance for credit losses in total, thereof:
  €60.0 million were added through specific and portfolio-based allowance or credit losses, and
  €23.7 million were released or recovered on written-off loans and advances.

- Aviation Finance
  €5.7 million allowance for credit losses in total, thereof:
  €19.5 million were added through specific and portfolio-based allowance for credit losses and provisions, and
  €13.8 million released or recovered on written-off loans and advances.

- Investment Finance
  €8.3 million allowance for credit losses in total, thereof:
  €14.5 million were added through specific allowance for credit losses, and
  €6.2 million were released or recovered on written-off loans and advances.

- Business no longer in line with DVB's strategy
  €8.2 million allowance for credit losses in total, thereof:
  €9.5 million were added through specific and portfolio-based allowance for credit losses, and
  €1.4 million were released or recovered on written-off loans and advances.

Total allowance for credit losses (composed of specific allowance for credit losses, portfolio-based allowance for credit losses and provisions) declined by 18.6% as at 31 December 2011, from €182.9 million to €148.9 million, comprising mainly the following items:

| | |
|---|---|
| €79.3 million | for the Shipping Finance portfolio |
| €48.0 million | for the Aviation Finance portfolio |
| €12.1 million | for business that is no longer in line with DVB's strategy |
| €4.6 million | for the Investment Management portfolio |
| €2.3 million | for the ITF Suisse portfolio |
| €1.6 million | for the Land Transport Finance portfolio |

For details on the development of allowance for credit losses please see the report on opportunities and risks (pages 144–146). It portrays the changes by business division and region, among other things.

As in the previous year, no country risk provisions were required. The Structured Asset Financing's credit exposures of DVB's Shipping Finance, Aviation Finance and Land Transport Finance business divisions are almost exclusively collateralised by the transport assets we finance; thus, at only 0.5% (2010: 0.3%) in terms of net risk exposure, the share of commitments that involve a high degree of country risk was once again very low.

### Net fee and commission income

Consolidated net fee and commission income, which primarily includes fees and commissions from lending business, and increasingly asset management and advisory fees, remained at a high level with €116.2 million (2010: €124.4 million). While consolidated net fee and commission income in Land Transport Finance rose by 69.4% to €6.1 million, it declined in Shipping Finance by 11.7% to €61.4 million and in Aviation Finance by 10.4% to €34.5 million.

Fee and commission income in total decreased to €122.8 million (–7.9%). A notable 7.6% decline was seen in fee and commission income generated in the lending business – down to €100.1 million, as a result of declining commitment commissions achievable on the market during the course of the year. Declining fee and commission expenses (–25.8% to €6.6 million) could not entirely offset the decrease in income.

### Net income from financial instruments in accordance with IAS 39

Net income from financial instruments in accordance with IAS 39 deteriorated from €30.2 million to €4.4 million. Strong volatility in the interest rate and foreign exchange markets throughout 2011 was reflected in the following items:

- Net trading result amounted to €–0.6 million (2010: €0.3 million), including standalone derivatives in the trading portfolio.
- On the other hand, the hedge result (comprising derivatives with effective hedge relationships and the related hedged items) increased to €10.7 million.
- The result from the application of the fair value option amounted to €–0.4 million (2010: €–0.8 million) and included the previous year's designated hedged items and associated derivatives.
- The result from derivatives entered into without intention to trade declined from €16.5 million to €–3.9 million.
- Net result from investment securities changed from €10.7 million to €–1.4 million.

### Results from investments in companies accounted for using the equity method

Results from investments in companies accounted for using the equity method declined from €5.8 million to €0.1 million.

### Net other operating income/expenses

Net other operating income/expenses increased from €5.9 million to €17.3 million. This figure included other operating income of €26.4 million from the deconsolidation of companies held in the Investment Management division in the amount of €4.0 million, and income in the amount of €9.8 million generated by our subsidiary TES Holdings Ltd. Miscellaneous other operating expenses amounted to €9.1 million (–70.6%).

## Consolidated net income before taxes

Consolidated net income before taxes rose by 12.7%, from €131.1 million to €147.7 million. General administrative expenses, which are deducted from income, increased by 7.5% to €189.4 million.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| **Income** | **337.1** | **307.3** | **9.7** |
| **General administrative expenses** | **–189.4** | **–176.2** | **7.5** |
| Staff expenses | –109.0 | –101.5 | 7.4 |
| Non-staff expenses | –75.6 | –69.0 | 9.6 |
| Depreciation, amortisation, impairment and write-ups | –4.8 | –5.7 | –15.8 |
| **Consolidated net income before taxes** | **147.7** | **131.1** | **12.7** |

### Staff expenses

Staff expenses rose by 7.4% from €101.5 million to €109.0 million, due to two factors:

The number of employees rose by 51 (+8.3%) to 668 staff members in 2011. With 306 employees, staff levels in our core Transport Finance and Investment Management business divisions during 2011 were 8.5% above the previous year's level (year-end 2010:

282 employees). With 189 employees, staffing levels in the product and service areas rose by 4 staff members (+2.2% compared to the year-end 2010). The number of employees at DVB's subsidiaries TES Aviation Group and DVB LogPay GmbH rose by 15.3% to 173 staff members (year-end 2010: 150 employees).

Reflecting the very good business performance in 2011, provisions were recognised for variable remuneration of staff, both for traditional bonuses and for payments under DVB's Long-Term Incentive Plan.

## Non-staff expenses

At €75.6 million, non-staff expenses were up 9.6% on the previous year (2010: €69.0 million). The key factors behind this increase were:

- advisory expenses of €25.7 million (2010: €25.3 million), which break down into:
  - – €13.3 million for legal and auditing fees (including €1.4 million for the audit of the financial statements and other advisory services), as well as
  - – €12.4 million for other advisory services (including IT consultancy services);
- ancillary labour costs of €16.8 million (2010: €11.9 million);
- occupancy expenses of €9.5 million (2010: €10.8 million); as well as
- contributions and fees of €8.2 million (2010: €7.3 million) in particular for the bank levy.

## Depreciation, amortisation, impairment and write-ups

Depreciation, amortisation, impairment and write-ups decreased by 15.8%, from €5.7 million to €4.8 million.

## Development of consolidated net income

Consolidated net income climbed by 6.2%, from €104.0 million to €110.4 million.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| **Consolidated net income before taxes** | **147.7** | **131.1** | **12.7** |
| Income taxes | –37.3 | –27.1 | 37.6 |
| **Consolidated net income** | **110.4** | **104.0** | **6.2** |
| thereof: consolidated net income attributable to non-controlling interests | 3.3 | –1.2 | – |
| thereof: consolidated net income attributable to shareholders of DVB | 107.1 | 105.2 | 1.8 |

Consolidated net income before taxes (€147.7 million) was subject to an income tax burden of €–37.3 million, including current taxes in the amount of €–46.5 million and income related to deferred taxes of €9.2 million.

Consolidated net income thus amounted to €110.4 million. Consolidated net income attributable to non-controlling interests rose to €3.3 million (2010: €–1.2 million). This reflects the share of results economically attributable to non-controlling shareholders in consolidated entities. Consolidated net income attributable to shareholders of DVB rose by 1.8%, from €105.2 million to €107.1 million.

## Distributable profit and appropriation of profits

Distributable profit remained stable at €27.9 million. €79.2 million (+2.5%) was transferred from current operations to retained earnings.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| **Consolidated net income** | **110.4** | **104.0** | **6.2** |
| Consolidated net income attributable to non-controlling interests | –3.3 | 1.2 | – |
| Transfer to retained earnings | –79.2 | –77.3 | 2.5 |
| **Distributable profit** | **27.9** | **27.9** | **0.0** |

We will propose to DVB BANK SE's Annual General Meeting, which will be held on 13 June 2012, to pay a dividend of €0.60 per notional no-par value share for the 2011 business year, to be paid from DVB Bank SE's net retained profit. This represents a dividend yield of 2.51%, based on the year-end share price of €23.95.

## Financial position

DVB's total assets increased by 14.0% to €22.0 billion (2010: €19.3 billion).

## Liabilities on the statement of financial position

Deposits from other banks fell by 27.8%, to €5.2 billion. Deposits from customers rose slightly to €4.5 billion. Securitised liabilities were up by 84.9% as at the reporting date, from €5.3 billion to €9.8 billion, whilst subordinated liabilities declined by 20.0% to €0.4 billion (previous year: €0.5 billion).

## Development of own funds

Own funds as defined by the German Banking Act (Kreditwesengesetz – "KWG") totalled €1,304.4 million, a decline of 0.4% over the previous year (2010: €1,309.0 million). ❶

## Total tier 1 capital in accordance with section 10 (2a) of the KWG

Tier 1 capital, as defined in section 10 (2a) of the KWG, increased by 6.7% in 2011, to €1,178.8 million (2010: €1,105.1 million). Reserves increased by a total of 7.3%, from €968.4 million to €1,039.0 million.

## Tier 2 capital in accordance with section 10 (2b) of the KWG, and eligible tier 3 capital in accordance with section 10 (2c) of the KWG

Tier 2 capital decreased by 38.4%, to €125.6 million (previous year: €203.9 million). The eligible subordinated liabilities declined by €80.8 million or 35.1%, to €149.1 million, owing to maturing liabilities. The regulatory capital requirements under Basel II were fulfilled at all times in the year under review. To ensure compliance with the Basel I floor rule pursuant to section 339 (5a) of the SolvV (which was once again extended), DVB raised an additional US$80 million in subordinated funds (as defined in section 10 (5a) of the KWG) in January 2012, until the profit to be retained from the results 2011 has been confirmed and recognised.

❶ **Own funds as defined by the KWG (€ mn)**

| | 2011 | 2010 | % |
|---|---|---|---|
| Issued and fully paid ordinary shares | 112.4 | 113.1 | –0.6 |
| Capital reserve plus other reserves eligible for inclusion | 272.7 | 291.2 | –6.4 |
| Special items for general banking risks (section 340g of the HGB) | 766.3 | 677.2 | 13.2 |
| Other components of tier 1 capital | 54.8 | 53.2 | 3.0 |
| Items deducted from tier 1 capital (section 10 (2 a) sentence 2 of the KWG) | –3.9 | –3.6 | 8.3 |
| Items deducted from tier 1 capital (sections 10 (6 and 6a) of the KWG) | –23.5 | –26.0 | –9.6 |
| **Total tier 1 capital** | **1,178.8** | **1,105.1** | **6.7** |
| Total tier 2 capital before deductions and eligible tier 3 capital | 149.1 | 229.9 | –35.1 |
| Items deducted from tier 2 capital | –23.5 | –26.0 | –9.6 |
| **Tier 2 capital and eligible tier 3 capital** | **125.6** | **203.9** | **–38.4** |
| **Net adjusted available capital plus eligible tier 3 capital[1)]** | **1,304.4** | **1,309.0** | **–0.4** |

1) Taking into account reserves and transfer to reserves from net profit

## Refinancing

The Frankfurt-based Group Treasury is responsible for securing refinancing throughout the Group. The unit also manages DVB's trading activities at a centralised level, and hedges the market risk exposure of direct and indirect subsidiaries, thus indemnifying these entities against market risks. DVB conducts trading activities in risk management products for its own positions and on behalf of its clients. It does so in order to hedge against market risk exposure from the customer lending business, and to hedge profit contributions – which are predominantly generated in currencies other than the euro – against exchange rate fluctuations. With a diversified range of funding products, Group Treasury targets a broad spectrum of domestic and international investors. The product range represents an attractive offer to existing and new investors.

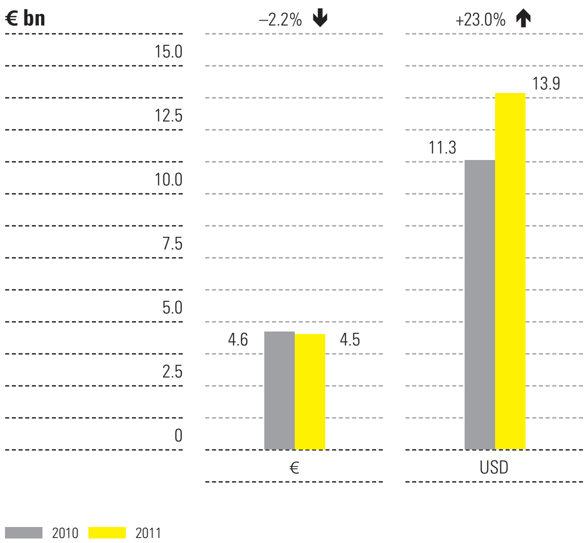
### Impact of the crisis affecting international financial markets and the European government debt crisis on DVB's refinancing activities

DVB continued to consistently implement its business model, which focuses on financing, structuring, and advisory services in the international Transport Finance business, throughout 2011. The Bank chose not to expose itself to the so-called credit surrogate business, and was therefore protected against any direct negative impact from the markets crisis. Turbulent conditions on international financial markets led to yet further loss of confidence – in particular on the banking sector, resulting in a sharp increase in refinancing costs. Despite the difficult market environment, DVB was able to further broaden its investor base. After its successful initial public offer of ship covered bonds in 2010, DVB was able to place another three ship covered bonds with international investors with a total volume of €150 million and US$190 million.

### Refinancing volume and currency breakdown

Despite the continued high refinancing costs, we continued to implement structural adjustments bringing the euro-denominated liabilities side of DVB's balance sheet in line with US-dollar denominated assets, which we had embarked on in 2007, in order to create a natural hedge. The aggregate funding volume in 2011 amounted to €18.4 billion (interest-bearing liabilities), of which only €4.5 billion (–2.2%) was denominated in euro, compared with €13.9 billion (+23.0%) in US dollars. ❶

**❶ Refinancing volume by currency**




### Refinancing volume – maturity breakdown

As in previous years, and despite the ongoing increase in liquidity costs, we once again focused increasingly on long-term, albeit more expensive, refinancing vehicles during 2011. We benefited again from our integration into the German Cooperative Financial Services Network, which has sufficient liquidity available.

At year-end, the funding base included 97.4% long-term funds (2010: 91.8%). The liquidity profile with long-term maturities is shown below:

- 50.5% issues under our medium-term note programme (2010: 31.4%);
- 42.0% promissory note loans/long-term deposits (2010: 55.3%);
- 3.1% ship covered bonds (2010: 1.9%);
- 1.8% interest-bearing equity as defined by the KWG (2010: 3.2%).

Short-term funding was once again scaled down considerably, to 2.6% (2010: 8.2%). This funding volume mainly comprises short-term deposits from clients. In addition, DVB holds short-term bank deposits which are exclusively used for fine-tuning purposes.

## Refinancing volume – structure of refinancing vehicles

The structural comparison of the individual refinancing vehicles portrays the following scenario: the long-term issues under the medium-term note programme rose by 86.0% to €9.3 billion (2010: €5.0 billion), whilst long-term promissory note loans declined by 12.5% to €7.7 billion (2010: €8.8 billion). The volume of outstanding ship covered bonds increased from €0.3 billion in 2010 to €0.5 billion. Short-term bank/client deposits declined by 53.8%, to €0.6 billion. ❶

## Capital ratios (KWG)

**Capital ratios (Basel II)**

| % | 2011 | 2010 | Change |
|---|---|---|---|
| Tier 1 ratio | 19.7 | 18.9 | 0.8 pp |
| Total capital ratio | 21.8 | 22.4 | –0.6 pp |

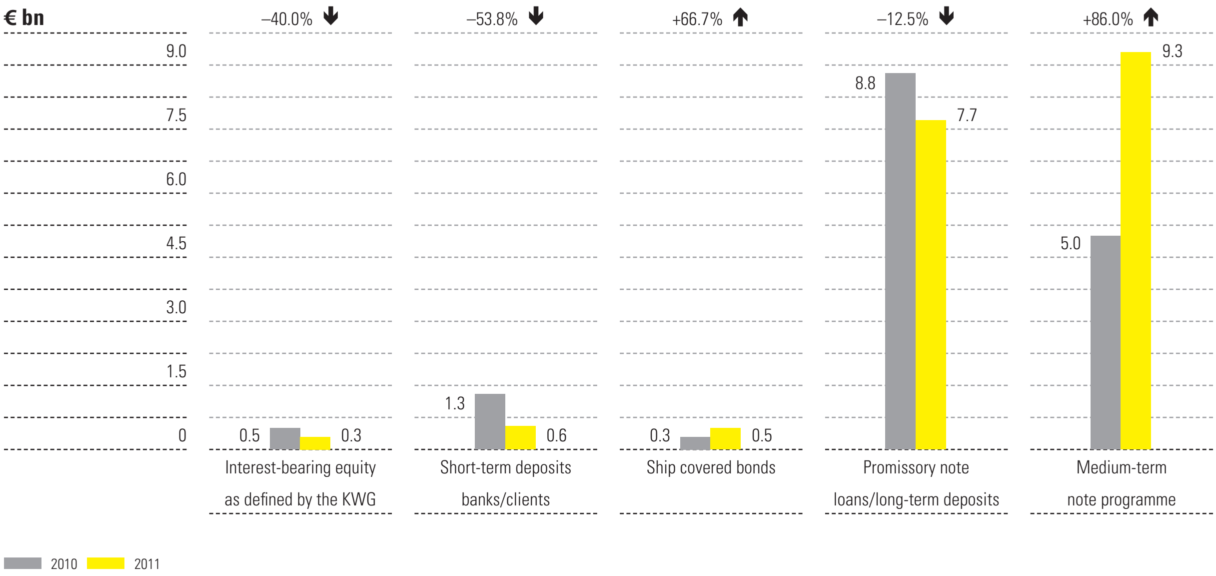
Since 2008, DVB has reported capital ratios determined in accordance with the provisions of the Basel II regime (Advanced Approach). On this basis, the tier 1 ratio was 19.7% (+0.8 percentage points) and the total capital ratio was 21.8% (–0.6 percentage points), each calculated including the appropriation of profits.

## Return on equity and cost/income ratio

During 2011, DVB continued to use the return on equity (ROE) and the cost/income ratio (CIR) to manage its business – amongst other parameters. The ROE (before taxes) calculated in accordance with International Financial Reporting Standards (IFRS) increased by 0.1 percentage points, from 13.9% to 14.0%. In 2011, the ROE was calculated as follows: consolidated net income before taxes (excluding consolidated net income attributable to non-controlling interests) of €144.4 million was divided by the total of the weighted capital (issued share capital, capital reserve and retained earnings, excluding the fund for general banking risks and non-controlling interests) of €1,028.4 million.

The CIR calculated in accordance with IFRS was reduced from 49.0% to 47.8%. It was calculated as follows: the general administrative expenses figure of €189.4 million was divided by €396.3 million – the total of net interest income (before allowance for credit losses), net fee and commission income, net income from financial instruments in accordance with IAS 39, results from investments in companies accounted for using the equity method, and net other operating income/expenses.

❶ **Structure of refinancing vehicles**

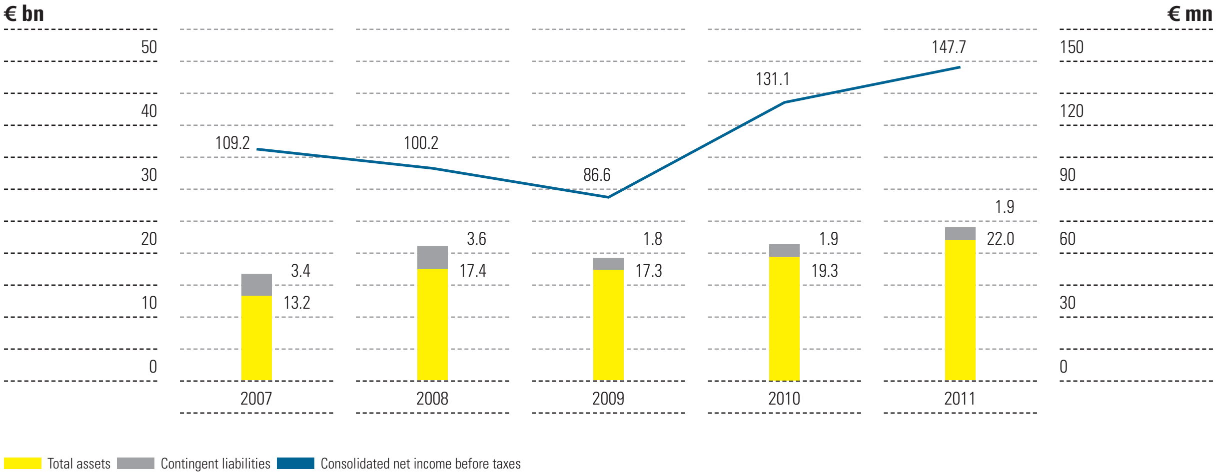


## Net assets

### Business volume

At €23.9 billion, the volume of business in 2011 was 12.7% higher than the previous year (2010: €21.2 billion). Besides total assets of €22.0 billion, the figure also includes irrevocable loan commitments of €1.9 billion. ❶

**❶ Development of business volume and consolidated net income before taxes**



## Lending volume over time

Lending volume of €22.3 billion was up 13.2% on the previous year.

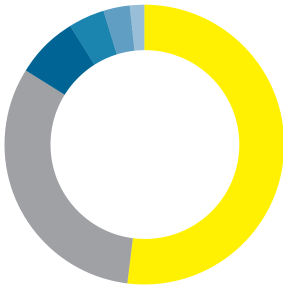
| € bn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances to banks | 0.5 | 0.4 | 25.0 |
| Loans and advances to customers | 18.7 | 16.4 | 14.0 |
| Securities (including equity investments) | 0.6 | 0.1 | – |
| Financial guarantee contracts from guarantees | 0.2 | 0.3 | –33.3 |
| Contingent liabilities from irrevocable loan commitments | 1.9 | 1.9 | 0.0 |
| Derivatives | 0.4 | 0.6 | –33.3 |
| **Lending volume** | **22.3** | **19.7** | **13.2** |

Loans and advances to banks increased by 25.0%, to €0.5 billion (previous year: €0.4 billion). Loans and advances to customers rose by 14.0%, to €18.7 billion (previous year: €16.4 billion). This increase also includes approximately €378 million in exposures acquired by Aviation Finance. The volume of securities (including equity investments) rose from €0.1 billion to €0.6 billion. Financial guarantee contracts from guarantees were at €0.2 billion (previous year: €0.3 billion). At €1.9 billion, contingent liabilities from irrevocable loan commitments remained stable at last year's level. As in previous years, DVB employed derivative instruments for hedging purposes, offering them (to a limited extent) to its clients as well. The volume of derivatives held decreased from €0.6 billion to €0.4 billion.

## Nominal volume of customer lending by business division

DVB's nominal regulatory volume of customer lending (comprising loans and advances to customers, guarantees and indemnities, irrevocable loan commitments and derivatives) includes Structured Asset Financing in Transport Finance, the fund management activities in Investment Management, the activities on the interbank market of our subsidiary ITF Suisse and the exposures no longer in line with DVB's strategy held by Transport Infrastructure and D-Marketing. In 2011 more buoyant new business in Shipping Finance, Aviation Finance, Land Transport Finance, Investment Management, and ITF Suisse, drove up customer lending by 13.0%, to €21.7 billion (2010: €19.2 billion). This was distributed across the business divisions as follows: ❶

**❶ Customer lending by business division (%)**



**Shipping Finance 52.1% (–1.5 pp)**

**Aviation Finance 31.8% (+2.6 pp)**

**Land Transport Finance 7.4% (–0.4 pp)**

**ITF Suisse 4.1% (+0.5 pp)**

**Investment Management 3.2% (–1.0 pp)**

**Business no longer in line with DVB's strategy 1.4% (–0.2 pp)**

## Portfolio analysis

### Volume trends

In order to detail the effects of the exchange rate on the portfolios, we have analysed the development of the customer lending volume by segment over a five-year period, both in terms of euro and US dollar. The Shipping Finance portfolio grew by 6.6% in US dollar terms, to US$14.6 billion (previous year: US$13.7 billion). Due to currency effects, the increase was greater in euro terms, namely 9.7% to €11.3 billion (previous year: €10.3 billion). The Aviation Finance portfolio grew by 20.0% in US dollar terms, to US$9.0 billion (previous year: US$7.5 billion). The increase in euro terms was 23.2% to €6.9 billion (previous year: €5.6 billion). ❶

### Earnings contributions

Earnings were analysed by comparing the development of the Transport Finance portfolios in the years 2010 and 2011, breaking down the portfolio into total and new exposures, and then differentiating data further by key ratios and indicators.

**❶ Volume trends 2007 – 2011**

| € bn | 2011 | % | 2010 | % | 2009 | % | 2008 | % | 2007 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Shipping Finance | 11.3 | 52.1 | 10.3 | 53.6 | 9.1 | 52.6 | 10.5 | 56.8 | 8.4 | 58.7 |
| Aviation Finance | 6.9 | 31.8 | 5.6 | 29.2 | 5.2 | 30.1 | 4.9 | 26.5 | 3.6 | 25.2 |
| Land Transport Finance | 1.6 | 7.4 | 1.5 | 7.8 | 1.4 | 8.0 | 1.5 | 8.1 | 1.1 | 7.7 |
| Investment Management | 0.7 | 3.2 | 0.8 | 4.2 | 0.6 | 3.5 | 0.6 | 3.2 | 0.5 | 3.5 |
| ITF Suisse | 0.9 | 4.1 | 0.7 | 3.6 | 0.6 | 3.5 | 0.5 | 2.7 | 0.1 | 0.7 |
| Business no longer in line with DVB's strategy | 0.3 | 1.4 | 0.3 | 1.6 | 0.4 | 2.3 | 0.5 | 2.7 | 0.6 | 4.2 |
| **Total** | **21.7** | **100.0** | **19.2** | **100.0** | **17.3** | **100.0** | **18.5** | **100.0** | **14.3** | **100.0** |

| US$ bn | 2011 | % | 2010 | % | 2009 | % | 2008 | % | 2007 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Shipping Finance | 14.6 | 52.0 | 13.7 | 53.5 | 13.1 | 52.6 | 14.6 | 56.4 | 12.3 | 58.3 |
| Aviation Finance | 9.0 | 32.0 | 7.5 | 29.3 | 7.4 | 29.7 | 6.9 | 26.6 | 5.3 | 25.1 |
| Land Transport Finance | 2.1 | 7.5 | 2.0 | 7.8 | 2.0 | 8.1 | 2.1 | 8.1 | 1.7 | 8.1 |
| Investment Management | 0.9 | 3.2 | 1.0 | 3.9 | 0.9 | 3.6 | 0.9 | 3.5 | 0.8 | 3.8 |
| ITF Suisse | 1.1 | 3.9 | 0.9 | 3.5 | 0.8 | 3.2 | 0.7 | 2.7 | 0.2 | 0.9 |
| Business no longer in line with DVB's strategy | 0.4 | 1.4 | 0.5 | 2.0 | 0.7 | 2.8 | 0.7 | 2.7 | 0.8 | 3.8 |
| **Total** | **28.1** | **100.0** | **25.6** | **100.0** | **24.9** | **100.0** | **25.9** | **100.0** | **21.1** | **100.0** |

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **€/US$ reference rate published by the ECB (31 Dec)** | **1.2939** | **1.3362** | **1.4406** | **1.3917** | **1.4721** |

## New business

DVB succeeded in increasing the volume of structured and large-volume new business in Transport Finance: 184 new transactions, representing a volume of €5.9 billion, were concluded during 2011 (previous year: 140 new deals with a volume of €4.4 billion). The volume of new business in Shipping Finance (final take) increased to €2.5 billion (+8.7%), in Aviation Finance to €2.7 billion (+50.0%), and in Land Transport Finance from €0.3 billion to €0.4 billion. DVB played a leading role in 74.2% of new deals in the three Transport Finance segments. At 313 basis points, the average interest margin for the new Transport Finance business was lower than in the previous year (327 basis points).

Taking into account the total volume of DVB's new business, including Investment Management and the business activities of ITF Suisse, 210 new transactions representing a volume of €6.0 billion were concluded (2010: 166 new deals with a volume of €4.8 billion), achieving an average margin of 309 basis points (2010: 316 basis points).

## Total portfolio

The average LTV ratio of the individual Transport Finance segments reflects the relation between loans granted and the market value of the financed transport assets. This ratio deteriorated by 1.0 percentage point in the total portfolio, to 71.7% (2010: 70.7%). Performance in this important indicator, which provides information on the loan-to-value ratio, was not uniform in the Transport Finance portfolios: A decline of 1.3 percentage points to 73.0% was posted in Aviation Finance. On the other hand, the LTV ratio in Shipping Finance rose from 67.1% to 69.9% and in Land Transport Finance from 77.7% to 78.1%.

The CIR increased in all three Transport Finance segments: by 5.5 percentage points in Shipping Finance to 25.8%, by 3.4 percentage points in Aviation Finance to 16.0% and by 1.2 percentage points in Land Transport Finance to 16.9%. The ROE fell in the three Transport Finance segments: by 5.1 percentage points in Shipping Finance to 24.2%, by 8.4 percentage points in Aviation Finance to 40.7% and by 1.6 percentage points in Land Transport Finance to 43.5%. In Investment Management, the ratio fell by 5.4 percentage points to –6.4%. It should be noted that the ROE and CIR indicators are determined excluding overheads; hence, they are not comparable to the ratios for the entire Bank. ❶

**❶ Earnings contributions (€ mn)**

| | Shipping Finance | | Aviation Finance | | Land Transport Finance | | Investment Management | | ITF Suisse | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | % |
| **Total portfolio:** | | | | | | | | | | | | | |
| Customer lending | 11,287.1 | 10,280.0 | 6,917.6 | 5,556.9 | 1,613.9 | 1,494.5 | 702.7 | 758.1 | 882.8 | 704.6 | 21,404.1 | 18,794.1 | 13.9 |
| Loans and advances to customers | 10,155.0 | 8,845.2 | 6,208.9 | 5,155.6 | 1,486.4 | 1,338.5 | 631.3 | 673.5 | 780.7 | 622.8 | 19,262.3 | 16,635.6 | 15.8 |
| Loan commitments, guarantees and indemnities | 1,132.1 | 1,434.8 | 708.7 | 401.3 | 127.5 | 156.0 | 71.4 | 84.6 | 102.1 | 81.8 | 2,141.8 | 2,158.5 | –0.8 |
| Number of customers (primary obligor groups) | 342 | 320 | 171 | 154 | 56 | 60 | 19 | 23 | 43 | 32 | 631 | 589 | 7.1 |
| Leading role (%) | 78.1 | 74.3 | 77.6 | 82.3 | 60.4 | 62.7 | 84.3 | 88.8 | 5.5 | 3.0 | 73.8 | 75.9 | –2.1 pp |
| Average LTV (%) | 69.9 | 67.1 | 73.0 | 74.3 | 78.1 | 77.7 | n/a | n/a | 73.1 | 79.4 | 71.7 | 70.7 | 1.0 pp |
| CIR (%)[1] | 25.8 | 20.3 | 16.0 | 12.6 | 16.9 | 15.7 | 140.0 | 64.0 | 20.7 | 21.8 | 47.8 | 49.0 | –1.2 pp |
| ROE (%)[2] | 24.2 | 29.3 | 40.7 | 49.1 | 43.5 | 45.1 | –6.4 | –1.0 | 15.0 | 15.3 | 14.0 | 13.9 | 0.1 pp |
| **New business:** | | | | | | | | | | | | | |
| Number of new transactions | 93 | 84 | 78 | 45 | 13 | 11 | 18 | 18 | 8 | 8 | 210 | 166 | 26.5 |
| Underwritten | 2,662.4 | 2,354.0 | 2,864.0 | 1,860.1 | 373.7 | 261.0 | 165.7 | 211.7 | 252.6 | 187.9 | 6,318.4 | 4,874.7 | 29.6 |
| Syndicated | 139.2 | 7.5 | 183.3 | 58.0 | – | – | – | – | – | – | 322.5 | 65.5 | – |
| Final take | 2,523.2 | 2,346.5 | 2,680.7 | 1,802.1 | 373.7 | 261.0 | 165.7 | 211.7 | 252.6 | 187.9 | 5,995.9 | 4,809.2 | 24.7 |
| Leading role (%) | 79.6 | 72.9 | 72.2 | 86.4 | 46.0 | 71.1 | 41.0 | 73.3 | – | – | 69.9 | 75.2 | –5.3 pp |
| Average margin (bp) | 304 | 331 | 325 | 338 | 280 | 218 | 200 | 178 | 283 | 292 | 309 | 316 | –7 |

1) Determined in accordance with IFRS – excluding the allocation of overhead expenses and before allowance for credit losses
2) Determined in accordance with IFRS – excluding the allocation of overhead expenses, after allowance for credit losses, and before taxes

## Regulatory requirements for remuneration systems

With the "Ordinance Regarding the Regulatory Requirements for Remuneration Systems of Institutions" (referred to in this section as the "Ordinance"), which came into effect on 13 October 2010, the German Federal Ministry of Finance has detailed the requirements for remuneration systems implemented by financial institutions, in the context of the German Banking Act. The Ordinance applies to all employees of DVB, at all locations.

## Not a "material institution"

A distinction is made between (and different requirements applied to) "material institutions" and those which are not considered material for the purposes of the Ordinance. Banks whose total assets amounted to a minimum of €10 billion, but not exceeding €40 billion on the reporting dates of the last three financial years must determine, based on an internal risk analysis, whether they are "material institutions" or not. On the basis of a comprehensive analysis and self-assessment in December 2010, the Board of Managing Directors of DVB Bank SE reached the final conclusion that DVB is not considered a material institution. Accordingly, the Bank only needs to comply with the general requirements set out in the Ordinance.

The result of the analysis can be summarised as follows: DVB's business model is characterised by a moderate risk affinity. Risks assumed are transparent and manageable. Loans are only extended on the basis of strict lending policies, and following in-depth market and asset research carried out by DVB's in-house research teams. Once DVB has assumed credit risks, it applies a sophisticated risk management system to continuously handle and monitor the exposure. In this way, the Bank ensures that financed assets can be realised if need be, for example, via secondary markets. Besides this traditional lending business, DVB does not offer any particularly risk-prone services such as investment banking or securities business.

## "Risk takers"

Section 5 of the Ordinance sets out additional requirements for employees who exert a material influence on the Bank's risk profile (so-called risk takers). Every institution is required to carry out a self-assessment in order to review and determine which individuals are considered risk takers. Having already carried out this self-assessment in December 2009 (with an update in December 2010), DVB's Board of Managing Directors has determined that the Bank's only risk takers are the three members of the Board of Managing Directors themselves. This decision is based on the following risk analysis under the self-assessment:

From its 13 office locations, the Bank offers customised products and advisory services to its clients in the shipping, aviation and land transport sectors. The structures of these financing solutions are often sophisticated and complex, spanning multiple jurisdictions, and they are generally collateralised by the transport assets being financed.

DVB's international lending business involves risk positions that are managed in accordance with the following regulations: lending decisions are governed by the relevant lending authorities and lending policies. In accordance with the lending authorities, DVB's lending decisions are taken on three levels:

- by the Shipping Finance, Aviation Finance and Land Transport Finance business divisions (specifically, by the responsible member of the Board of Managing Directors together with the Head of Credit);
- subject to approval by the entire Board of Managing Directors; and
- in certain circumstances, with the approval of the Supervisory Board's Credit Committee.

Depending on the specific risk parameters that have been set, lending decisions below a certain limit can be made by the business divisions together with the respective members of the Board of Managing Directors, provided the extension of credit meets the criteria laid out in the lending policies. These lending policies stipulate guidelines regarding the type of financing, collateralisation by the financed asset, the term of the loan, the loan-to-value ratio, etc. Lending decisions require approval by the entire Board of Managing Directors where the exposure concerned exceeds the business divisions' lending authorities, or is outside the scope of the lending policies. If a certain exposure limit is exceeded, approval must also be obtained from the Supervisory Board's Credit Committee.

## General requirements of the Ordinance

The general requirements for remuneration systems, as set out in section 3 of the Ordinance, also apply to institutions – such as DVB – which are not classified as material institutions as defined by the Ordinance. Having discussed the remuneration aspects stipulated in section 3 of the Ordinance, the Board of Managing Directors has assessed DVB's situation as follows:

- Remuneration is geared towards the Bank's strategic objectives.
- The ratio of fixed to variable remuneration is appropriate.
- The remuneration structure does not give rise to conflicts of interest regarding staff members working in front office or back office units.
- Employees are sufficiently informed of the remuneration systems that are relevant to them, in writing, via the available means of communication (such as brochures).

Furthermore, the Board of Managing Directors has determined an appropriate upper limit for the ratio of fixed to variable remuneration, which applied to payments made during 2011 for the first time. DVB will ensure that guaranteed bonuses will only be paid according to legal regulations. In addition, DVB will devise a regulation prohibiting employees from seeking protection against lower variable remuneration.

## Remuneration Committee

DVB has voluntarily established a Remuneration Committee. This committee presented its analysis of remuneration systems to the Supervisory Board in 2010 for the first time, and again in November 2011. According to this analysis, the regulations are appropriate and designed to promote DVB's objectives without any incentives to assume excessive risk positions.

## Remuneration of members of the Board of Managing Directors and Supervisory Board

The remuneration of the Board members amounted to €3.5 million:

| € 000's | 2011 | 2010 | % |
|---|---|---|---|
| Board of Managing Directors | 2,853.5 | 2,671.1 | 6.8 |
| Former members of the Board of Managing Directors and their surviving dependants | 370.5 | 362.6 | 2.2 |
| Supervisory Board | 273.7 | 269.9 | 1.4 |
| **Total** | **3,497.7** | **3,303.6** | **5.9** |

## Remuneration of the Board of Managing Directors

The Supervisory Board has determined the remuneration structure for the Board of Managing Directors. In 2011, the overall remuneration of the Board of Managing Directors comprised a fixed component of 52.9% and a variable component of 47.1%.

The HGB requires companies to disclose personalised remuneration (and remuneration components) of members of the Board of Managing Directors in the financial statements and consolidated financial statements. Pursuant to sections 286 (5) and 314 (2) sentence 2 of the HGB, a company may waive such personalised disclosure of executive remuneration if the General Meeting adopts a resolution to that effect, with a qualified majority vote of no less than three-quarters of the share capital represented during the passing of the relevant resolution. By virtue of a resolution passed by the Annual General Meeting held on 9 June 2011 (agenda item no. 5), with the requisite majority of the share capital represented, DVB Bank SE has opted to waive the personalised disclosure of remuneration paid to members of the Board of Managing Directors for a period of five years.

### Fixed remuneration component

The fixed remuneration component of DVB Bank SE's Board of Managing Directors totalled €1,508,474.79 in 2011 (2010: €1,633,630.37). It comprises monetary remuneration components, pension commitments and special benefits. ❶

### Variable remuneration component

The variable remuneration component of DVB Bank SE's Board of Managing Directors comprises a cash bonus, and potentially a bonus under DVB's Long-Term Incentive Plan (LTI). The Board of Managing Directors received variable remuneration amounts totalling €1,345,000.00 in 2011, comprising cash bonus payments for the business years 2009 and 2010, plus a bonus under the LTI 2008 (for comparison: variable remuneration paid in 2010 for the business years 2008/2009 totalled €1,037,500.00).

Details explaining the variable remuneration components:

Target bonuses under the LTI 2008 were allocated under the scheme in 2008; these bonuses were conditional upon the budgeted business performance being achieved during the target year 2011. This performance target is measured on the basis of a pre-defined economic value added figure and the consolidated net income before taxes. In the event of the actual business performance exceeding the target, the Supervisory Board has discretion to increase the bonus to be paid, over and above the target amount.

The cash bonus payments paid to members of the Board of Managing Directors are determined on the basis of agreements on operational targets. These objectives, which are agreed upon between the Supervisory Board and the respective member of the Board of Managing Directors, are related to objective criteria for the relevant financial year (referring to financial indicators such as economic value added and consolidated net income before taxes) as well as to the personal performance of each individual member of the Board of Managing Directors. The amount of the bonus depends on the (measurable) extent to which the targets were achieved.

As a prerequisite for the payout, no notice of termination may have been given with regard to the contract of the respective member of the Board of Managing Directors as at the time of payment, unless it be where a member of the Board of Managing Directors retires from office for reasons of age, or due to non-renewal of a contract.

The cash bonus for the business year 2011 will be awarded in four tranches: 50% during 2012, and three tranches of 16.66% each, awarded during the following business years 2013 to 2015. Payment of these future tranches is conditional upon allowance for credit losses not exceeding a certain threshold during the year prior to disbursement. Moreover, all four bonus tranches are restricted to the effect that 50% of each tranche is subject to an additional one-year retention period. This means that these parts will not be disbursed immediately. During the retention period, the value of the retained amounts will be replaced by a remuneration instrument linked to the Bank's performance.

❶ **Remuneration of the Board of Managing Directors – fixed remuneration component (€)**

| | **2011** | **2010** | **%** |
|---|---|---|---|
| Monetary remuneration components | 971,666.67 | 960,000.00 | 1.2 |
| Pension commitments including contributions to pension provisions | 320,003.79 | 483,818.18 | –33.9 |
| Special benefits | 216,804.33 | 189,812.19 | 14.2 |
| thereof: allowances for company car or monetary equivalent | 56,116.22 | 56,042.23 | 0.1 |
| thereof: rent subsidies | 29,849.68 | 29,186.51 | 2.3 |
| thereof: insurance cover and employer contributions to foreign social security schemes | 130,838.43 | 104,583.45 | 25.1 |
| **Fixed remuneration component** | **1,508,474.79** | **1,633,630.37** | **–7.7** |

## Remuneration of the Supervisory Board

The annual remuneration of Supervisory Board members is governed in Article 19 (1) and (2) of DVB Bank SE's Memorandum and Articles of Association: the members of the Supervisory Board receive €20,000.00, the Chairman of the Supervisory Board receives €30,000.00, and the members of the Credit Committee receive an additional €10,000.00 each. The remuneration is paid on 1 July of each year. Where said remuneration is subject to value-added tax, this tax shall be paid in addition to the remuneration (Article 19 (3) of the Memorandum and Articles of Association). Further details, such as the reimbursement of travelling expenses and other cash expenses, daily allowances and similar issues, are governed by Article 19 (4) of the Memorandum and Articles of Association.

Total remuneration expenses paid in 2011 by DVB Bank SE for members of the supervisory bodies amounted to €273,700.00. Taxes amounting to €35,455.00 were transferred directly to the tax authorities on behalf of Supervisory Board members domiciled outside Germany. Therefore, the members of the Supervisory Board received remuneration of €238,245.00 for their actions as Supervisory Board and Credit Committee members. ❶

## Shareholdings of the Board of Managing Directors and the Supervisory Board

As at 31 December 2011, the Board of Managing Directors and the Supervisory Board did not hold, in aggregate, more than 1% of the shares issued by DVB Bank SE.

❶ **Remuneration of the Supervisory Board 2011 (€)**

| | | Supervisory Board remuneration | Credit Committee remuneration | Value added tax 19% | Total |
|---|---|---|---|---|---|
| **Shareholder representatives:** | | | | | |
| Frank Westhoff, Chairman | | 30,000.00 | 10,000.00 | 7,600.00 | 47,600.00 |
| Dr Peter Klaus, Deputy Chairman | | 20,000.00 | 10,000.00 | 5,700.00 | 35,700.00 |
| Prof Dr h.c. Stephan Götzl | | 20,000.00 | – | 3,800.00 | 23,800.00 |
| Flemming Robert Jacobs, domiciled in the UK | | 20,000.00 | 10,000.00 | 5,700.00 | 35,700.00 |
| Wolfgang Köhler | | 20,000.00 | – | 3,800.00 | 23,800.00 |
| Dr Klaus Nittinger | | 20,000.00 | – | 3,800.00 | 23,800.00 |
| **Employee representatives:** | | | | | |
| Masahide Kubo, domiciled in the UK (since 1 October 2011) | | 5,000.00 | – | 950.00 | 5,950.00 |
| Dorinus Legters, domiciled in the Netherlands | | 20,000.00 | – | 3,800.00 | 23,800.00 |
| Kieran O'Keefe, domiciled in Ireland (until 30 September 2011) | | 15,000.00 | – | 2,850.00 | 17,850.00 |
| Martin Wolfert | | 20,000.00 | 10,000.00 | 5,700.00 | 35,700.00 |
| **Total remuneration** | | **190,000.00** | **40,000.00** | **43,700.00** | **273,700.00** |
| **Tax deduction for Supervisory Board members domiciled outside Germany (paid directly to the responsible tax office):** | | | | | |
| VAT | 19% | | | | 13,300.00 |
| Taxes for membership in a Supervisory Board | 30% | | | | 21,000.00 |
| Solidarity surcharge | 5.5% | | | | 1,155.00 |
| **Total tax deductions** | | | | | **35,455.00** |
| **Remuneration excluding tax deductions for Supervisory Board members domiciled outside Germany** | | | | | **238,245.00** |

## Employees

At the end of 2010, the number of DVB staff members in active employment was 617; by the end of 2011, the number had risen to 668, up 8.3%. This figure does not reflect staff with inactive employment relationships, such as those in the non-working phase of their semi-retirement, or those on maternity or parental leave. ❶

The number of staff members in active employment in Transport Finance/Investment Management increased by 24, to 306 persons (up 8.5%). Reflecting the greater workload created by the increase in regulatory requirements stipulated by lawmakers and banking supervisory authorities over the past several years, the number of staff employed in the product and service areas kept growing – to 189, up 2.2% (2010: 185 persons).

DVB's business model is international in every respect. On the one hand, this could be seen in the diversity of nationalities: DVB Group's employees hailed from a total of 38 different countries in 2011, and there are 33 different nationalities represented within our core Transport Finance business. On the other hand, 435 staff members (2010: 400) in active employment worked in our various international locations in 2011; in other words, they are active in those international transport markets where the Bank's clients are located. At 233, the number of staff in active employment at DVB's German locations in Frankfurt/Main and Hamburg (Shipping Finance, including the Container Business Group) showed a marked increase over the previous year (2010: 217). ❷

### ❶ Distribution of staff by business division

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number | % | Number | % |
| **Staff members in an active employment relationship** | **668** | **99.0** | **617** | **99.2** |
| Transport Finance/Investment Management | 306 | 45.3 | 282 | 45.4 |
| Product/service areas | 189 | 28.0 | 185 | 29.7 |
| TES Aviation Group | 120 | 17.8 | 109 | 17.5 |
| DVB LogPay | 53 | 7.9 | 41 | 6.6 |
| **Staff members in an inactive employment relationship** | **7** | **1.0** | **5** | **0.8** |
| **Total** | **675** | **100.0** | **622** | **100.0** |

### ❷ Distribution of staff members in active employment, by location

| | DVB | | | Transport Finance/Investment Management | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | % | 2011 | 2010 | % |
| **Europe** | **540** | **498** | **8.4** | **193** | **178** | **8.4** |
| Frankfurt/Main | 225 | 210 | 7.1 | 32 | 32 | 0.0 |
| Cardiff | 120 | 109 | 10.1 | – | – | – |
| London | 82 | 75 | 9.3 | 65 | 57 | 14.0 |
| Rotterdam | 55 | 54 | 1.9 | 45 | 44 | 2.3 |
| Bergen | 18 | 16 | 12.5 | 16 | 14 | 14.3 |
| Piraeus | 13 | 12 | 8.3 | 12 | 11 | 9.1 |
| Zurich | 11 | 9 | 22.2 | 8 | 7 | 14.3 |
| Hamburg | 8 | 7 | 14.3 | 7 | 7 | 0.0 |
| Oslo | 8 | 6 | 33.3 | 8 | 6 | 33.3 |
| **Asia** | **65** | **61** | **6.6** | **57** | **53** | **7.5** |
| Singapore | 61 | 57 | 7.0 | 53 | 49 | 8.2 |
| Tokyo | 4 | 4 | 0.0 | 4 | 4 | 0.0 |
| **North and South America** | **63** | **58** | **8.6** | **56** | **51** | **9.8** |
| Curaçao | 33 | 26 | 26.9 | 29 | 22 | 31.8 |
| New York | 30 | 32 | –6.3 | 27 | 29 | –6.9 |
| **Total** | **668** | **617** | **8.3** | **306** | **282** | **8.5** |

The age structure of DVB staff was as follows during the year under review:

- 13.2% were less than 30 years old;
- 35.9% were aged between 30 and 40 years;
- 31.2% were aged between 40 to 50 years; and
- 19.7% were more than 50 years old.

Experience in Transport Finance – or in the global transport industry in general – is one of the key indicators that characterises the vast expertise of our employees. In DVB's core business (Shipping Finance, Aviation Finance, Land Transport Finance, Investment Management and ITF Suisse) our employees had an average of 12.3 years relevant industry-specific experience during the year under review. Of these employees, 36.7% had more than 15 years, and 16.3% more than 20 years of relevant experience.

Staff fluctuation due to voluntary resignations was 5.0% in 2011 (2010: 4.7%).

Further non-financial performance indicators are described under "Employees and sustainability" (page 26–33).

## Award-winning transaction

Our Land Transport Finance team was awarded "Rail Finance Innovator of the Year" in 2011 by Jane's Transport Finance, the renowned British trade publication.

In February 2011, a US cargo airline filed for creditor protection under Chapter 11 of the United States Bankruptcy Code. Through its Aviation Investment Management division, DVB owns two aircraft on lease to this airline, which are also debt financed by DVB. Given the most recent information on the planned restructuring of the airline and the market value of the aircraft, we do currently not see a requirement for an impairment.

As part of a rating action concerning 100 financial institutions worldwide, Moody's announced on 16 February 2012 that it had initiated a review of DVB Bank SE's ratings, and would thus review its assessment of the Bank's credit quality and creditworthiness within a three-month period.

The Board of Managing Directors and Supervisory Board will propose to DVB Bank SE's Ordinary Annual General Meeting, which will be held on 13 June 2012, to pay a dividend of €0.60 per notional no-par value share.

There were no other issues of material importance to the assessment of the financial position and financial performance of DVB Bank SE and the DVB Group after the end of the 2011 business year. Statements made in the report on expected developments have been confirmed by the development of business during the first months of the 2012 business year.

Assuming risks in a targeted and controlled manner – achieving target returns that are commensurate with the risks taken – is a key part of DVB's management strategy.

## Principles of risk management

In general, we define risks as unfavourable future developments which may have a detrimental effect on the Bank's financial position, financial performance, or liquidity. In this context, we differentiate between counterparty credit risk, operational risk, market price risk, business risk, as well as liquidity and equity investment risk. DVB's business model requires the ability to identify, measure, assess, manage, monitor and communicate risks. As a guiding principle for all of its business activities, the Bank assumes risk only to the extent required to achieve the objectives of its business policy.

Against this background, the Bank's Board of Managing Directors – as the responsible body – has established an adequate and viable risk management system that fulfils the Bank's own commercial needs and complies with legal requirements. With the methods, models, organisational rules and IT systems implemented, DVB is able to recognise material risks at an early stage, and to respond appropriately by taking suitable measures. The suitability and effectiveness of DVB's risk management system are regularly reviewed by internal and external auditors.

Notwithstanding the fundamental suitability of the risk management system, circumstances are conceivable where risks are not identified in good time, or an adequate, comprehensive response is not possible. The methods and models used to measure risks

The report on opportunities and risks presented below provides a breakdown of our Transport Finance subportfolios by collateralisation structure and LTV range under "Structural analysis of the credit portfolio", on pages 138–140. Due to the fact that all material subsidiaries of the DVB Group are integrated into DVB's divisional risk management system, which incorporates the lending activities of affiliated enterprises, the portfolio values analysed reflect nominal values of the DVB Group portfolio, in accordance with applicable rules pursuant to the HGB.

are appropriate for managing DVB's business. Despite due care taken in developing models, and regular reviews, however, there may be scenarios where actual losses or liquidity needs exceed the values forecasted by risk models and stress scenarios.

## Organisation of the risk management process

### Structural organisation

DVB operates a Group-wide risk management system, which complies with all statutory and regulatory requirements. This risk management system comprises adequate provisions and measures with respect to risk strategy, risk-bearing capacity, risk management, and risk monitoring, plus a multi-level framework for the early detection of risks. In addition to the structural

**1 Risk management and risk controlling**

**Strategic level**

**Board of Managing Directors**

**Risk Committee**

Group Credit Committee • Watch List Committee • Asset Liability Committee • Audit Committee • OpRisk Committee • Steering Committees • New Product Circle

**Operational level**

| **Risk management** → | **Types of risk** | ← **Risk controlling** |
|---|---|---|
| Shipping Finance | Counterparty credit risk | Internal Audit |
| Aviation Finance | Operational risk | Financial Controlling |
| Land Transport Finance | Market price risk | Group Risk Management |
| Investment Mangement | Strategic risk | Deal Control |
| ITF Suisse | Liquidity risk | Compliance Office |
| Treasury | Equity investment risk | |

**Risk management principles**

and procedural organisation, these measures also apply to the processes for identifying, assessing, managing, monitoring and communicating the risks. The chart below illustrates the functional separation of DVB's risk management (in the narrower sense) and risk control processes: ❶

DVB's narrowly-defined risk management system distinguishes 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 co-ordinates and supports operative risk management processes by cross-divisional committees.

The risk control function – which is independent from risk management in the narrower sense – comprises the identification, quantification, limitation and monitoring of risks, plus risk reporting. Our differentiated and sophisticated quarterly DVB Group Risk Report, which is submitted to the entire Board of Managing Directors and the Supervisory Board, provides a detailed view of the Group's risk situation. Furthermore, we have installed reporting systems for all relevant types of risk. This ensures that the risks are transparent at all times to the authorised persons with responsibility for those risks.

## Accounting/financial reporting

DVB's accounting department ensures that the Bank's accounting and financial reporting comply with applicable rules, particularly with IFRS. For this reason, the Bank has established a risk management system that manages, monitors and controls the accounting function. This internal control system is designed to counter operational risks by ensuring that employees' actions, the technologies deployed, and the design of workflows are geared towards compliance with applicable legal rules. Based on legal rules for consolidated financial reporting, and taking into account the regulations set out in the Group Accounting Manual, DVB has implemented Group-wide processes that provide for efficient risk management and effective control of Group accounting and financial reporting. These processes access common data processing and database systems. Within the scope of its audit function, Internal Audit is actively involved in these processes.

Accounting and financial reporting comprise qualitative and quantitative details regarding DVB Group entities and subgroups: these details are not only required for preparing statutory reports, but also provide the basis for the internal management of DVB Group's business divisions. For this reason, binding procedures have been established for the recording and controlling of data. To ensure that the financial reporting systems are commercially viable, the data are processed in an automated manner, using adequate IT systems. Extensive control mechanisms have been implemented to ensure the quality of processing, and also to reduce operational risks. For instance, input and output data used within accounting systems are subject to numerous manual and automatic checks. Moreover, accounting and consolidation entries are duly recorded and checked. The availability of human and technical resources required for accounting and financial reporting processes is ensured through adequate business continuity concepts, which are continuously refined and regularly verified using appropriate tests. A Group Accounting Manual, continuously updated, documents the uniform application of accounting policies in writing. The contents of this manual, and the related compliance of DVB staff involved in accounting and financial reporting processes, are examined by external audit firms within the scope of statutory audits.

The Bank uses external appraisers to assist in determining the amount of pension provisions, as well as the collateral values of vessels and aircraft. The Bank's operational guidelines contain a list of eligible appraisers. Introduced processes are continuously reviewed regarding their appropriateness, and with respect to the impact of new products or facts, or regulatory changes. To safeguard the high level of quality of DVB's accounting systems, those staff entrusted with financial reporting duties are properly trained, in line with their individual needs, regarding the legal framework and the IT systems used. When implementing legal changes, external consultants and auditors are involved at an early stage, to enhance the quality and efficiency of financial reporting.

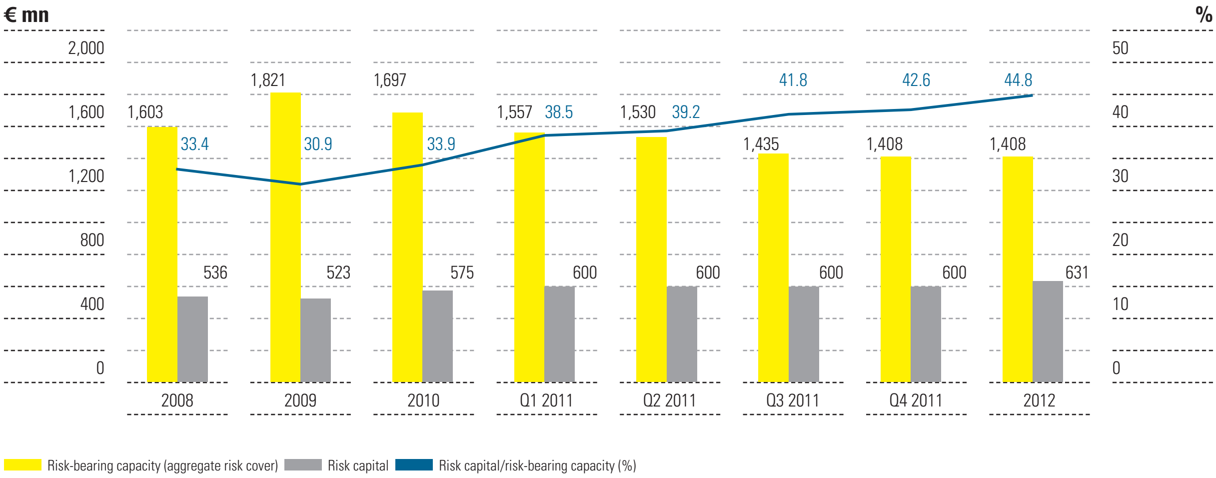
## Risk-bearing capacity/risk capital

We determine DVB's economic risk-bearing potential within the scope of the analysis of the Bank's risk-bearing capacity, and on the basis of the consolidated financial statements according to IFRS. Taking the aggregate risk cover as a basis, the Board of Managing Directors sets maximum loss thresholds for the business year, at the end of the preceding year. Aggregate risk cover comprises equity and quasi-equity components, whereby deductions reducing aggregate risk cover – such as the recognition of intangible assets, the difference between expected loss calculation using the risk methodology and existing impairments and capital buffers – are taken into account and deducted accordingly. A full review of DVB's risk-bearing capacity is carried out each quarter, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk, as amended in 2010). For this reason, aggregate risk cover is subject to fluctuations throughout the year.

The development of DVB's aggregate risk cover and maximum loss threshold (risk capital) over recent years is shown below: ❶

The decline in aggregate risk cover in 2011 was attributable to the fact that certain items and matters (such as intangible assets, the difference between expected loss and existing impairments, capital buffers, etc.) were deducted from aggregate risk cover. Such deductions are in line with most recent regulatory requirements.

❶ **Development of risk-bearing potential**



The Board of Managing Directors set the maximum risk threshold (risk capital) for 2012 at €631 million (2011: €600 million), taking into account correlation effects. Risk capital is distributed across individual types of risk as follows: ❶

DVB marginally changed the allocation of risk capital limits among the various types of risk in 2011, whereby the overall risk limit remained unchanged. When determining the level of risk capital, we consider correlation effects among the various types of risk, deduced from empirical market data.

We also considered additional stress tests in determining risk capital levels, to safeguard DVB's continued existence even in an extremely unfavourable market environment. The historical stress scenario we used involved applying increased haircuts to collateral values, higher default rates observed for each rating grade, as well as a change in the euro/US dollar exchange rate (30 September 2008 to 30 September 2009) that was derived using data during the financial markets crisis. In a second hypothetical stress scenario, we simulated a serious crisis (a "double-dip" recession) hitting the global transport sector (with a collapse in asset values, deteriorating borrower credit quality, very unfavourable development of the euro/US dollar exchange rate, etc.). DVB's aggregate risk cover fully covered expected and unexpected losses under both stress scenarios. ❷

We use internal models to measure counterparty credit risks and market price risks. Loss exposure associated with operational risk is measured using the Basic Indicator Approach under Basel II. We changed the calculation methodology for business risk (formerly referred to as "strategic risk") and equity investment risk to a value-at-risk-based approach in 2011, using a state-of-the-art method to determine potential losses. Although liquidity risk is also monitored and checked continuously, it is not managed through risk capital, but by means of plans for liquidity flows, cash flow forecasts and stress scenarios.

## ❶ Risk capital (€ mn)

| | 2012 | 2011 | | |
|---|---|---|---|---|
| | Risk capital limit | Risk capital limit | Amount utilised at year-end | Average utilisation |
| Counterparty credit risk | 525 | 502 | 499 | 405 |
| Market price risk | 50 | 50 | 42 | 45 |
| Operational risk | 60 | 52 | 51 | 51 |
| Business risk | 30 | 28 | 28 | 23 |
| Equity investment risk | 40 | 35 | 35 | 12 |
| Correlation effects | –74 | –67 | –65 | –58 |
| **Total** | **631** | **600** | **590** | **478** |

## ❷ Aggregate risk cover (€ mn)

| | Historical stress scenario | Hypothetical stress scenario |
|---|---|---|
| Expected loss (less existing allowance for credit losses) | 155 | 263 |
| Unexpected loss | 796 | 1,018 |
| **Total** | **951** | **1,281** |
| **Aggregate risk cover 2011** | **1,408** | **1,408** |

## Types of risk

### Counterparty credit risk

With respect to individual transactions and clients, counterparty credit risk is managed and limited by setting corresponding limits, on the basis of cautious lending principles and sector-specific lending policies. These specify in particular that each transaction must be collateralised by valuable assets (aircraft, ships etc.). At a portfolio level, we allocate the volume of risk capital approved by the Board of Managing Directors to the various business divisions. Determining and managing country risks are crucial in view of the international emphasis of our transport asset lending business. Hence we plan and limit country risks within the scope of the overall management of the Bank, and in accordance with the annual country limit planning system of the DZ BANK Group.

### Internal Rating Model

Given the dominant position of credit risk in DVB's business, we have developed a statistical and mathematical Internal Rating Model (IRM) for our Transport Finance portfolios. The model complies with the "Advanced Approach" requirements under Basel II. In addition to the probability of default (PD) 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 use of the Advanced Approach means that all types of collateral (such as aircraft and ship mortgages, as well as indemnities) are eligible to reduce exposures. For this purpose, we are in a position to provide evidence for expected realisation proceeds on the basis of proprietary time series.

The counterparty rating is based on a multi-level statistical system, developed from a pool of externally-rated companies for which all relevant financial reporting data were available. Assigning the internal rating to the 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 (the 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.

To ensure model adequacy, we conduct an annual review of the IRM to validate the risk parameters PD and LGD both quantitatively and qualitatively. Due to the prevailing high volatility that was evident on international transport markets, we decided to maintain the more frequent update of the asset valuation model's market data (introduced in 2009) during 2011, and will continue to do so until international transport markets have stabilised. In addition to determining regulatory capital adequacy, IRM results are also used as an integral instrument for management of the entire Bank. For example, the results of the ratings will be taken into consideration in regulating responsibilities; expected and unexpected losses are included in the integrated risk limiting system via the concept for managing the Bank's risk-bearing capacity; and the standard risk costs, which are also calculated using the Model, are an integral part of the estimate with respect to individual transactions for calculating the minimum margin.

### Portfolio management and control

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 various analyses of the Group's overall portfolio (reporting pursuant to the requirements of the MaRisk). 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. In doing so, they rely on the support provided by our in-house research teams. The proprietary database application OASIS (Object Finance Administration and Security Information System) is a state-of-the-art management information system used for the analysis and management of our loan portfolios. 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 the 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 significantly helps to minimise operational risks. The Bank continuously develops the OASIS system, to keep it in line with constantly growing requirements.

### Structural analysis of the credit portfolio

The lending volume is calculated in line with DVB's internal portfolio management criteria. Lending volumes are broken down by nature of instruments exposed to credit risk: traditional credit risk, securities business, as well as derivatives and money market business. The quantitative credit portfolio details disclosed below for the overall credit portfolio show DVB's maximum credit risk exposure. The risk exposure is disclosed on the basis of gross lending volumes, i.e. without taking into account credit-risk mitigation techniques and also excluding allowance for credit losses. The volumes included correspond to the nominal amount of loans, banking book investment securities, and undrawn commitments, and to market values of derivatives. The maximum credit risk amount also includes all irrevocable loan commitments and financial guarantees. Any divergence between data used for internal management purposes and figures shown in external financial reporting is largely attributable to differences in the scope of consolidation as well as differences in the amounts recognised and/or carried. The following three tables provide an overview of credit risk concentration and maximum credit risk exposure, broken down by business divisions ❶, regions ❷ and residual terms ❸. The row "Other" aggregates Group Treasury and business that is no longer in line with DVB's strategy.

**❶ Credit risk concentration and maximum credit risk exposure by business division (lending volume – € mn)**

| | Loans, commitments and other non-derivative off-balance sheet assets | | Securities | | Derivative financial instruments | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| Shipping Finance | 11,069.2 | 10,098.3 | 110.9 | 103.3 | 107.0 | 78.3 |
| Aviation Finance | 6,893.2 | 5,555.6 | – | – | 24.4 | 1.3 |
| Land Transport Finance | 1,611.9 | 1,491.4 | – | – | 2.0 | 3.1 |
| Investment Management | 699.0 | 754.7 | – | – | 3.7 | 3.4 |
| ITF Suisse | 882.8 | 704.6 | – | – | – | – |
| Other | 528.4 | 652.7 | 424.9 | 100.0 | 507.7 | 422.0 |
| **Total** | **21,684.5** | **19,257.3** | **535.8** | **203.3** | **644.8** | **508.1** |

Lending volume – 83.6% of which is denominated in US dollars – was up by 14.5%. Adjusted for exchange rate effects, it rose by 11.4%.

**❷ Credit risk concentration and maximum credit risk exposure by region (lending volume – € mn)**

| | Loans, commitments and other non-derivative off-balance sheet assets | | Securities | | Derivative financial instruments | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| Europe | 9,052.9 | 8,940.0 | 425.0 | 108.8 | 553.8 | 444.0 |
| North America | 5,820.1 | 4,462.7 | 25.6 | 28.5 | 42.9 | 27.2 |
| Asia | 3,990.9 | 3,850.0 | 85.2 | 66.0 | 21.7 | 15.5 |
| Middle East/Africa | 1,032.6 | 842.9 | – | – | 2.1 | 1.4 |
| South America | 856.6 | 648.9 | – | – | 15.5 | 12.3 |
| Offshore | 756.8 | 400.1 | – | – | 8.8 | 7.7 |
| Australia/New Zealand | 174.6 | 112.7 | – | – | – | – |
| **Total** | **21,684.5** | **19,257.3** | **535.8** | **203.3** | **644.8** | **508.1** |

**❸ Credit risk concentration and maximum credit risk exposure by residual term (lending volume – € mn)**

| | Loans, commitments and other non-derivative off-balance sheet assets | | Securities | | Derivative financial instruments | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| ≤ 1 year | 2,328.7 | 2,397.8 | 25.0 | 50.0 | 22.1 | 29.6 |
| > 1 year ≤ 5 years | 9,296.5 | 7,350.0 | 508.1 | 124.8 | 221.5 | 175.9 |
| > 5 years | 10,059.3 | 9,509.5 | 2.7 | 28.5 | 401.2 | 302.6 |
| **Total** | **21,684.5** | **19,257.3** | **535.8** | **203.3** | **644.8** | **508.1** |

### ❶ Collateral values for the entire portfolio, by collateral type[1)]

| | Traditional lending business | | Securities business | | Derivatives and money market business | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land charges, mortgages, registered liens | 16,985.8 | 14,669.5 | 97.2 | 93.0 | 87.4 | 61.4 |
| Transfers of ownership, assignments, pledges of receivables | 283.9 | 337.0 | – | – | – | – |
| Financial collateral | – | – | – | – | 352.1 | 239.4 |
| **Total** | **17,269.7** | **15,006.5** | **97.2** | **93.0** | **439.5** | **300.8** |

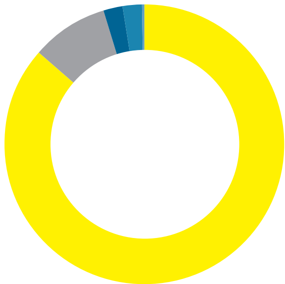
1) The collateral values shown were only included up to the amount of the corresponding lending volume, except for financial collateral, which was included without deduction.

The following overview ❶ breaks down the volume of collateral for the total portfolio by collateral type, and by the type of instrument exposed to credit risk. Collateral for traditional lending, securities business, and for derivatives and money-market business is shown excluding netting agreements. Collateralisation details are based on market values, with a 40% haircut having been applied.

The following section provides an overview of the structure of our Transport Finance subportfolios, together with collateralisation developments.

Our Shipping Finance portfolio, which is largely denominated in US dollars (89.5%), grew 9.7% to €11.3 billion. The euro weakened during 2011, falling by 3.7% against the US dollar during the course of a volatile year. Adjusting for exchange rate movements, the portfolio growth rate was 6.5%. 99.9% of the portfolio (€11,272.6 million) is secured by mortgages on ships; only €14.5 million is secured by other forms of collateral. There were no uncollateralised exposures at the reporting date (2010: €6.7 million). ❷

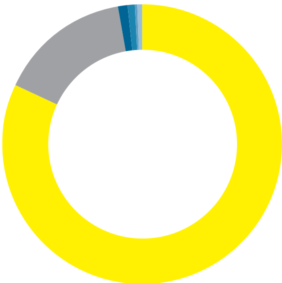
### ❷ Shipping Finance portfolio – LTV classes



- 86.5% (–0.6 pp) in LTV ≤ 60%
- 8.9% (+0.0 pp) in LTV > 60 ≤ 80%
- 2.3% (–0.1 pp) in LTV > 80 ≤ 100%
- 2.2% (+0.8 pp) in LTV > 100%
- 0.1% (–0.1 pp) Other collateral
- 0.0% (–0.1 pp) Uncollateralised

Our Aviation Finance portfolio stood at €6.9 billion at the end of 2011, a marked increase of 23.2% on the previous year. This portfolio is also predominantly denominated in US dollars (97.8%). Adjusting for exchange rate movements, the portfolio growth rate was 20.5%. The Aviation Finance portfolio also reflects the strict enforcement of our lending policies characterised by conservative collateralisation structures. 99.7% of the lending volume (€6,898.0 million) is secured by mortgages on aircraft. Thereof, a lending volume of €5,720.5 million has an LTV ratio not exceeding 60%. Only €7.9 million is secured by other forms of collateral, and exposures of €11.7 million are uncollateralised. ❶

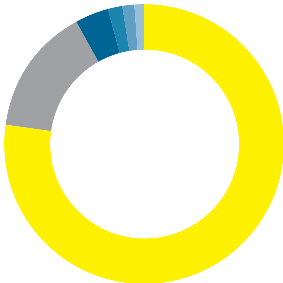
**❶ Aviation Finance portfolio – LTV classes**



- **82.7% (+1.9 pp) in LTV ≤ 60%**
- **15.1% (–0.8 pp) in LTV > 60 ≤ 80%**
- **1.3% (–1.0 pp) in LTV > 80 ≤ 100%**
- **0.6% (–0.1 pp) in LTV > 100%**
- **0.1% (+0.1 pp) Other collateral**
- **0.2% (–0.1 pp) Uncollateralised**

Our Land Transport Finance portfolio, 41.1% of which is denominated in US dollars, and 54.7% in euros, grew by 6.7% year-on-year, to €1.6 billion. Adjusting for exchange rate fluctuations, the portfolio size increased by 7.7%. 97.6% of the lending volume (€1,575.6 million) is secured by mortgages (virtually unchanged from the previous year), with €1,247.4 million having an LTV ratio not exceeding 60%. Only €23.9 million of the portfolio is secured by other forms of collateral, and exposures of €14.4 million are uncollateralised. ❷

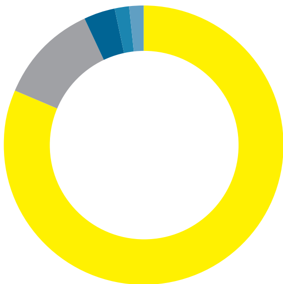
**❷ Land Transport Finance portfolio – LTV classes**



- **77.3% (+0.7 pp) in LTV ≤ 60%**
- **14.8% (–0.5 pp) in LTV > 60 ≤ 80%**
- **3.8% (–0.1 pp) in LTV > 80 ≤ 100%**
- **1.7% (+0.0 pp) in LTV > 100%**
- **1.5% (+0.2 pp) Other collateral**
- **0.9% (–0.3 pp) Uncollateralised**

DVB integrated Loan Participations as a new product into its business model in mid-2007. Since then, Zurich-based ITF Suisse has participated in non-complex transactions fulfilling strict lending policy requirements. The volume of this segment rose to €882.8 million in 2011 (up €178.2 million year-on-year). The portfolio consists of transactions related to Shipping Finance (81.7%) and Aviation Finance (18.3%). 98.5% of the portfolio (€870.0 million) is secured by mortgages on ships or aircraft; only €12.8 million is secured by other forms of collateral. ❶

**❶ ITF Suisse portfolio – LTV classes**

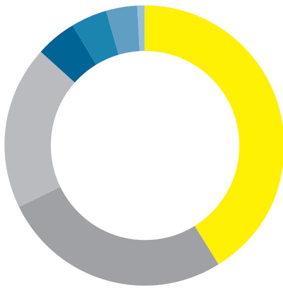


- 81.6% (+3.4 pp) in LTV ≤ 60%
- 11.5% (–1.4 pp) in LTV > 60 ≤ 80%
- 3.7% (–2.0 pp) in LTV > 80 ≤ 100%
- 1.7% (–1.5 pp) in LTV > 100%
- 1.5% (+1.5 pp) Other collateral
- 0.0% (+0.0 pp) Uncollateralised

## Country risk exposure within customer lending

The Bank mitigates more serious country risk exposure by applying a commensurate transaction structure – for example, by measures such as collateralisation, use of offshore accounts, maintaining cash flows in fully-convertible currencies, political risk insurance cover, etc. We determine country risks on the basis of primary obligor groups. ❷

**❷ Country risk exposure within customer lending**



- Europe 41.2% (–3.8 pp)
- North America 26.8% (+3.4 pp)
- Asia 18.8% (–1.9 pp)
- Middle East/Africa 4.8% (+0.4 pp)
- South America 4.0% (+0.5 pp)
- Offshore 3.6% (+1.2 pp)
- Australia/New Zealand 0.8% (+0.2 pp)

The breakdown of country risks in DVB's portfolio was largely unchanged compared to 2010. DVB's Transport Finance exposure continues to be concentrated regionally in Europe, North America and Asia. Country risks are managed, and related limits defined, on the basis of net country risk exposure, with a 60% haircut applied to the market values of eligible financed assets. Net country risk exposure was virtually unchanged from the previous year. The net country risk exposure to countries subject to higher default risks (including Greece, Angola, Vietnam and Ecuador) only amounts to 0.5% of the Transport Finance portfolio.

## Continued reduction of exposures that are no longer in line with the Bank's strategy

The Transport Infrastructure portfolio – which is no longer in line with the Bank's strategy – was reduced by a further 17.0% during the business year under review, to €281.7 million. Collateral for all of our infrastructure finance projects includes an assignment of operating concessions. With €9.5 million in allowance for credit losses recognised during 2011 and utilisation of €16.4 million, aggregate allowance for credit losses on this portfolio amounted to €3.8 million at year-end. Lending exposures bundled in the D-Marketing unit, which is also no longer in line with DVB's strategy, were reduced by a further 28.0%, from €28.9 million to €20.8 million at the end of 2011. Total allowance for credit losses for this portfolio amounted to €8.3 million at the end of 2011. We continue to expect the total allowance for credit losses for this part of our portfolio to be adequate.

## Early warning system, problem loans, allowance for credit losses

We use a diversified set of tools for the early recognition, monitoring and management of subperforming or non-performing loans. Our multi-level early identification procedure ensures that these loans are identified at an early stage, and that such exposure is included in monitoring lists, for intensified handling.

During regular meetings of the Watch List 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 write-downs required. We conduct stress tests at an overall portfolio level (based on stress scenarios designed to ascertain a sufficient level of capital, and to verify the Bank's risk-bearing capacity), as well as for the Shipping Finance, Aviation Finance and Land Transport Finance subportfolios. Within the scope of these tests, all individual exposures are subjected to dramatic changes of multi-dimensional parameters (such as LTV ratio and rating class) as part of diverse stress scenarios. The purpose of these tests is to assess which exposures might be susceptible to impairment in the event of certain negative developments implied by the stress scenarios. Any such individual exposures are classified as "early warning" cases, and monitored closely. Non-performing loans (NPL) that are more than 90 days overdue amounted to a consolidated nominal value of €276.4 million at the end of 2011 (2010: €177.8 million). This equates to an NPL ratio of 1.2% (2010: 0.9%) in relation to total lending volume. The volume of NPL is offset by collateral with a market value of €268.9 million (2010: €111.1 million), and covered by adequate value adjustments. The following tables indicate the non-impaired, non-overdue lending volume as a portion of the overall portfolio, broken down by division and region. ❶ ❷

**❶ Non-impaired, non-overdue lending volume by business division (€ mn)**

| | Total portfolio | | Non-impaired, non-overdue portfolio | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Shipping Finance | 11,287.1 | 10,279.9 | 10,592.5 | 9,416.5 |
| Aviation Finance | 6,917.6 | 5,556.9 | 6,674.3 | 5,406.8 |
| Land Transport Finance | 1,613.9 | 1,494.5 | 1,603.8 | 1,483.6 |
| Investment Management | 702.7 | 758.1 | 684.6 | 671.9 |
| ITF Suisse | 882.7 | 704.6 | 862.2 | 704.6 |
| Other | 1,461.1 | 1,174.7 | 1,445.7 | 1,112.0 |
| **Total** | **22,865.1** | **19,968.7** | **21,863.1** | **18,795.4** |

**❷ Non-impaired, non-overdue lending volume by region (€ mn)**

| | Total portfolio | | Non-impaired, non-overdue portfolio | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Europe | 10,031.7 | 9,492.8 | 9,452.8 | 8,771.9 |
| North America | 5,888.6 | 4,518.4 | 5,707.1 | 4,382.7 |
| Asia | 4,097.8 | 3,931.5 | 3,912.3 | 3,753.7 |
| Middle East/Africa | 1,034.7 | 844.3 | 1,015.8 | 820.2 |
| South America | 872.1 | 661.2 | 872.1 | 568.1 |
| Offshore | 765.6 | 407.8 | 753.7 | 407.8 |
| Australia/New Zealand | 174.6 | 112.7 | 149.3 | 91.0 |
| **Total** | **22,865.1** | **19,968.7** | **21,863.1** | **18,795.4** |

Lending volume that is neither impaired nor past due continues to account for the lion's share of the portfolio, at 95.6% (2010: 94.1%).

The collateralisation details disclosed below are based on market values, with a 40% haircut having been applied. The following table indicates overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral, by division. ❶

The following table indicates overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral, by region. ❷

**❶ Overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral, by business division (€ mn)**

| | 30 days or less past due | | Over 30, up to 60 days past due | | Over 60, up to 90 days past due | | More than 90 days past due | | Fair value of collateral (60% of market value) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Shipping Finance | 167.8 | 194.9 | 9.6 | 91.1 | 21.0 | – | 81.6 | 37.8 | 194.1 | 254.2 |
| Aviation Finance | 98.8 | – | 1.1 | – | – | – | – | – | 76.3 | – |
| Land Transport Finance | – | – | – | – | – | – | – | – | – | – |
| Investment Management | – | – | – | – | – | – | – | – | – | – |
| ITF Suisse | 20.6 | – | – | – | – | – | – | – | 11.3 | – |
| Other | – | – | – | – | – | – | – | – | – | – |
| **Total** | **287.2** | **194.9** | **10.7** | **91.1** | **21.0** | **–** | **81.6** | **37.8** | **281.7** | **254.2** |

**❷ Overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral, by region (€ mn)**

| | 30 days or less past due | | Over 30, up to 60 days past due | | Over 60, up to 90 days past due | | More than 90 days past due | | Fair value of collateral (60% of market value) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Europe | 129.2 | 125.4 | – | 30.2 | – | – | 42.4 | 7.4 | 116.2 | 131.8 |
| Asia | 84.0 | 19.6 | 1.1 | 52.4 | 11.5 | – | 10.8 | 30.4 | 74.1 | 73.9 |
| Middle East/Africa | – | 13.5 | 9.6 | 8.5 | – | – | – | – | 7.5 | 21.8 |
| South America | – | 24.2 | – | – | – | – | – | – | – | 17.0 |
| North America | 62.1 | 12.2 | – | – | 9.5 | – | 28.4 | – | 77.1 | 9.7 |
| Australia/New Zealand | – | – | – | – | – | – | – | – | – | – |
| Offshore | 11.9 | – | – | – | – | – | – | – | 6.8 | – |
| **Total** | **287.2** | **194.9** | **10.7** | **91.1** | **21.0** | **–** | **81.6** | **37.8** | **281.7** | **254.2** |

The following two tables indicate the lending volume for which a specific allowance for credit losses has been recognised, together with related collateral, by division and region, respectively. ❶ ❷

Taking into account the fair value of collateral (60% of market value), 81.0% (2010: 72.3%) of the impaired portfolio (based on the amount after specific allowance for credit losses) is duly collateralised.

On the reporting date, DVB held €156.2 million (2010: nil) in property and equipment as a result of restructuring measures. The Bank intends to sell or lease these assets, taking into consideration the relevant market situation and leveraging the know-how of DVB's Asset Management teams.

**❶ Lending volume for which a specific allowance for credit losses has been recognised and related collateral, by business division (€ mn)**

| | Amount before specific allowance | | Specific allowance | | Amount after specific allowance | | Fair value of collateral (60% of market value) | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Shipping Finance | 414.6 | 539.6 | –61.7 | –88.3 | 352.9 | 451.3 | 293.2 | 364.4 |
| Aviation Finance | 143.3 | 150.1 | –36.8 | –31.4 | 106.5 | 118.7 | 95.6 | 93.4 |
| Land Transport Finance | 10.1 | 10.9 | –1.2 | –1.2 | 8.9 | 9.7 | 5.1 | 6.2 |
| Investment Management | 18.0 | 86.2 | –4.6 | –9.8 | 13.4 | 76.4 | – | – |
| ITF Suisse | – | – | – | – | – | – | – | – |
| Other | 15.4 | 62.7 | –7.5 | –19.5 | 7.9 | 43.2 | 2.7 | 41.5 |
| **Total** | **601.4** | **849.5** | **–111.8** | **–150.2** | **489.6** | **699.3** | **396.6** | **505.5** |

**❷ Lending volume for which a specific allowance for credit losses has been recognised and related collateral, by region (€ mn)**

| | Amount before specific allowance | | Specific allowance | | Amount after specific allowance | | Fair value of collateral (60% of market value) | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Europe | 407.1 | 557.9 | –47.5 | –92.3 | 359.6 | 465.6 | 278.2 | 336.5 |
| North America | 81.5 | 123.4 | –36.3 | –26.7 | 45.2 | 96.7 | 38.8 | 66.5 |
| Asia | 78.2 | 75.5 | –21.4 | –18.3 | 56.8 | 57.2 | 54.6 | 39.2 |
| South America | – | 68.9 | – | –10.1 | – | 58.8 | – | 41.6 |
| Australia/New Zealand | 25.3 | 21.7 | –4.9 | –2.6 | 20.4 | 19.1 | 22.2 | 21.7 |
| Offshore | – | – | – | – | – | – | – | – |
| Middle East/Africa | 9.3 | 2.1 | –1.7 | –0.2 | 7.6 | 1.9 | 2.8 | 0.0 |
| **Total** | **601.4** | **849.5** | **–111.8** | **–150.2** | **489.6** | **699.3** | **396.6** | **505.5** |

The following four tables illustrate the development of the allowance for credit losses for the business years 2010 and 2011, by division and region. For this purpose, allowance for credit losses – which is determined in accordance with IFRS – is broken down into specific allowance for credit losses, portfolio-based allowance for credit losses, and provisions.

In the breakdown by business division, the "Other" item contains allowance for credit losses in the portfolios which are no longer in line with the Bank's strategy. ❶ ❷

❶ **Allowance for credit losses by business division – 2011 (€ mn)**

| | 1 Jan 2011 | Additions | Utilisation | Reversals | Changes resulting from exchange rate fluctuations, and other adjustments | **Net amount as at 31 Dec 2011** | Direct write-offs | Recoveries on loans and advances previously written off |
|---|---|---|---|---|---|---|---|---|
| Shipping Finance | 88.3 | 57.1 | –64.8 | –21.7 | 2.8 | 61.7 | 0.3 | 1.6 |
| Aviation Finance | 31.4 | 16.2 | –1.3 | –10.8 | 1.3 | 36.8 | – | 1.0 |
| Land Transport Finance | 1.2 | 0.1 | – | –0.1 | 0.0 | 1.2 | – | – |
| Investment Management | 9.8 | 14.5 | –16.3 | –4.4 | 1.0 | 4.6 | – | 1.8 |
| ITF Suisse | – | – | – | – | – | – | – | – |
| Other | 19.5 | 9.0 | –18.6 | –1.0 | –1.4 | 7.5 | 0.3 | 0.4 |
| **Total specific allowance for credit losses** | **150.2** | **96.9** | **–101.0** | **–38.0** | **3.7** | **111.8** | **0.6** | **4.8** |
| Shipping Finance | 15.5 | 2.6 | – | –0.4 | 0.0 | 17.7 | | |
| Aviation Finance | 9.5 | 3.1 | – | –2.0 | – | 10.6 | | |
| Land Transport Finance | 0.4 | 0.1 | – | –0.1 | – | 0.4 | | |
| ITF Suisse | 1.1 | 1.2 | – | | – | 2.3 | | |
| Other | 5.8 | 0.5 | – | –0.7 | – | 5.6 | | |
| **Total portfolio-based allowance for credit losses** | **32.3** | **7.5** | **–** | **–3.2** | **0.0** | **36.6** | | |
| **Total impairments and allowances** | **182.5** | **104.4** | **–101.0** | **–41.2** | **3.7** | **148.4** | | |
| Shipping Finance | – | – | – | – | – | – | | |
| Aviation Finance | 0.2 | 0.2 | – | – | –0.1 | 0.3 | | |
| Other | 0.2 | – | – | – | – | 0.2 | | |
| **Total provisions** | **0.4** | **0.2** | **–** | **–** | **–0.1** | **0.5** | | |
| **Total allowance for credit losses** | **182.9** | **104.6** | **–101.0** | **–41.2** | **3.6** | **148.9** | | |

## ❷ Allowance for credit losses by business division – 2010 (€ mn)

| | 1 Jan 2010 | Additions | Utilisation | Reversals | Changes resulting from exchange rate fluctuations, and other adjustments | **Net amount as at 31 Dec 2010** | Direct write-offs | Recoveries on loans and advances previously written off |
|---|---|---|---|---|---|---|---|---|
| Shipping Finance | 71.6 | 47.7 | –13.6 | –23.0 | 5.6 | 88.3 | 1.3 | – |
| Aviation Finance | 39.1 | 18.6 | –10.3 | –19.2 | 3.2 | 31.4 | 0.9 | 0.0 |
| Land Transport Finance | – | 1.2 | – | – | – | 1.2 | – | – |
| Investment Management | 1.7 | 8.0 | – | – | 0.1 | 9.8 | 8.3 | 1.1 |
| ITF Suisse | – | – | – | – | – | – | – | – |
| Other | 15.3 | 10.5 | –5.1 | –2.1 | 0.9 | 19.5 | 0.4 | 0.2 |
| **Total specific allowance for credit losses** | **127.7** | **86.0** | **–29.0** | **–44.3** | **9.8** | **150.2** | **10.9** | **1.3** |
| Shipping Finance | 14.8 | 7.6 | – | –7.1 | 0.2 | 15.5 | | |
| Aviation Finance | 10.8 | 0.8 | – | –2.1 | – | 9.5 | | |
| Land Transport Finance | 0.9 | 0.0 | – | –0.5 | – | 0.4 | | |
| ITF Suisse | 0.8 | 0.5 | – | –0.2 | – | 1.1 | | |
| Other | 3.5 | 2.3 | – | 0.0 | – | 5.8 | | |
| **Total portfolio-based allowance for credit losses** | **30.8** | **11.2** | **–** | **–9.9** | **0.2** | **32.3** | | |
| **Total impairments and allowances** | **158.5** | **97.2** | **–29.0** | **–54.2** | **10.0** | **182.5** | | |
| Shipping Finance | 0.7 | – | – | –0.7 | – | – | | |
| Aviation Finance | 0.2 | – | – | – | – | 0.2 | | |
| Other | 0.1 | 0.1 | 0.0 | 0.0 | – | 0.2 | | |
| **Total provisions** | **1.0** | **0.1** | **0.0** | **–0.7** | **–** | **0.4** | | |
| **Total allowance for credit losses** | **159.5** | **97.3** | **–29.0** | **–54.9** | **10.0** | **182.9** | | |

The following two tables illustrate the development of allowance for credit losses by region. No regional breakdown is provided for portfolio-based allowance for credit losses and provisions since the amounts involved were not material for the overall Group during 2010 and 2011. ❶ ❷

### ❶ Allowance for credit losses by region – 2011 (€ mn)

| | 1 Jan 2011 | Additions | Utilisation | Reversals | Changes resulting from exchange rate fluctuations, and other adjustments | **Net amount as at 31 Dec 2011** | Direct write-offs | Recoveries on loans and advances previously written off |
|---|---|---|---|---|---|---|---|---|
| Europe | 92.3 | 51.4 | –77.0 | –20.3 | 1.1 | 47.5 | 0.5 | 4.1 |
| North America | 26.7 | 30.4 | –16.9 | –8.4 | 4.5 | 36.3 | 0.1 | 0.7 |
| Asia | 18.3 | 11.1 | –7.1 | –3.1 | 2.2 | 21.4 | – | – |
| South America | 10.1 | 0.3 | – | –6.0 | –4.4 | 0.0 | – | – |
| Australia/New Zealand | 2.6 | 2.1 | – | –0.1 | 0.3 | 4.9 | – | – |
| Middle East/Africa | 0.2 | 1.6 | – | –0.1 | – | 1.7 | – | – |
| Offshore | – | – | – | – | – | – | – | – |
| **Total specific allowance for credit losses** | **150.2** | **96.9** | **–101.0** | **–38.0** | **3.7** | **111.8** | **0.6** | **4.8** |
| **Total portfolio-based allowance for credit losses** | **32.3** | **7.5** | **–** | **–3.2** | **0.0** | **36.6** | | |
| **Total impairments and allowances** | **182.5** | **104.4** | **–101.0** | **–41.2** | **3.7** | **148.4** | | |
| Total provisions | 0.4 | 0.2 | – | – | –0.1 | 0.5 | | |
| **Total allowance for credit losses** | **182.9** | **104.6** | **–101.0** | **–41.2** | **3.6** | **148.9** | | |

### ❷ Allowance for credit losses by region – 2010 (€ mn)

| | 1 Jan 2010 | Additions | Utilisation | Reversals | Changes resulting from exchange rate fluctuations, and other adjustments | **Net amount as at 31 Dec 2010** | Direct write-offs | Recoveries on loans and advances previously written off |
|---|---|---|---|---|---|---|---|---|
| Europe | 79.4 | 43.3 | –16.1 | –27.1 | 12.8 | 92.3 | 7.5 | 1.3 |
| North America | 22.0 | 18.0 | –10.3 | –11.7 | 8.7 | 26.7 | 0.9 | – |
| Asia | 21.1 | 9.5 | – | –0.2 | –12.1 | 18.3 | 2.5 | – |
| South America | 2.4 | 10.2 | –2.6 | – | 0.1 | 10.1 | – | – |
| Australia/New Zealand | – | 2.6 | – | – | – | 2.6 | – | – |
| Middle East/Africa | 2.8 | 2.3 | – | –5.2 | 0.3 | 0.2 | – | – |
| Offshore | – | – | – | – | – | – | – | – |
| **Total specific allowance for credit losses** | **127.7** | **86.0** | **–29.0** | **–44.3** | **9.8** | **150.2** | **10.9** | **1.3** |
| **Total portfolio-based allowance for credit losses** | **30.8** | **11.2** | **–** | **–9.9** | **0.2** | **32.3** | | |
| **Total impairments and allowances** | **158.5** | **97.2** | **–29.0** | **–54.2** | **10.0** | **182.5** | | |
| Total provisions | 1.0 | 0.1 | 0.0 | –0.7 | – | 0.4 | | |
| **Total allowance for credit losses** | **159.5** | **97.3** | **–29.0** | **–54.9** | **10.0** | **182.9** | | |

## 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 as appropriate. For this purpose, we have established a central OpRisk Committee, and appointed an OpRisk Manager for each of DVB's worldwide locations.

The tools we have implemented to manage 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. Within the specifications of the DZ BANK Group, we also apply risk indicators that conform to the requirements of the standard approach within the scope of DZ BANK Group procedures. Quarterly reports containing the results are submitted to the Board of Managing Directors and the OpRisk Committee; where appropriate, this is supported by immediate reporting.

We recorded a total of 14 (2010: nine) loss cases with aggregate damages of €1.3 million (2010: €0.3 million) during the year under review. The Board of Managing Directors sets the maximum threshold for operational risk.

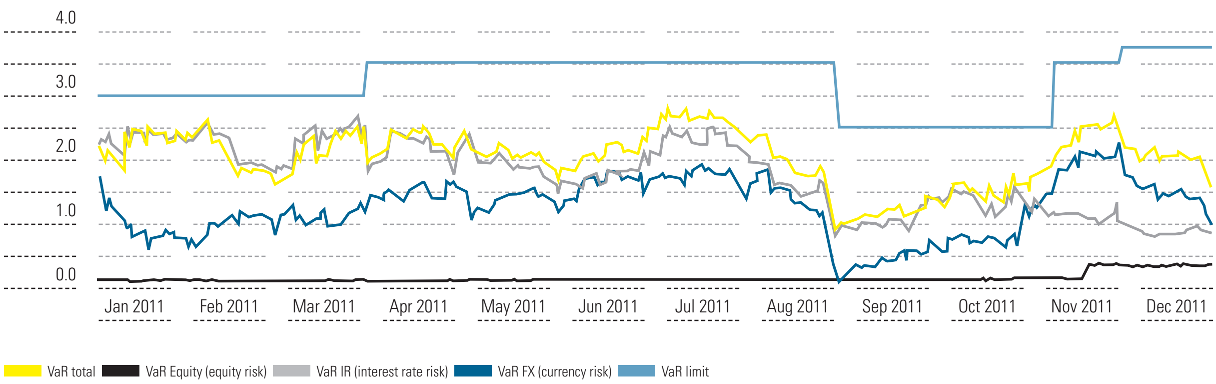
We have devised and implemented business continuity plans to minimise such operational risks in particular which may be caused by external disruptions to business processes, and to our services. These plans are risk-oriented; they provide for numerous measures designed to restore key workflows and services within a reasonable amount of time, and with appropriate quality. The viability of business continuity plans is revised periodically.

## Market price risk

Group Treasury is responsible for managing market price risks in both the banking and the trading books. The Asset Liability Committee (ALCO) meets monthly, to review the market price risk exposure for the entire bank, and to reach fundamental agreements on risk orientation. We use a consistent VaR method for calculating the market price risk in our banking and trading books. Using this VaR method, the maximum loss that may arise due to market price changes during a holding period of one day is quantified at a confidence level of 99% on the basis of a historical simulation. The effectiveness of the VaR method is assured by means of a back-testing procedure. During this 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 market changes that actually occurred, and are compared with the values determined by the VaR method. In addition, we carry out an annual adequacy check which includes an in-depth review of the risk model. We also analyse whether and which risks are material within the scope of an annual risk inventory. ❶ ❷

In principle, DVB neutralises interest rate risks through interest rate swaps, which are used to transform assets and liabilities with fixed interest rates into variable-rate positions. The Bank endeavours to maintain a neutral currency position, and hence uses foreign exchange swaps to hedge against foreign exchange risks. Therefore, DVB's market price risk exposure tends to be rather insignificant. The development of market price risk exposure was mainly driven by two factors during 2011: on the one hand, DVB incorporated its Investment Management business into the analysis of market price risks at the beginning of the year, which increased VaR. At this point, we deliberately included risk-exaggerating effects; these were adjusted for upon final clarification in August, at which time VaR was again significantly reduced. The inclusion of this division into the Bank's VaR calculations meant that we achieved a uniform measurement of market price risk exposure throughout the DVB Group. On the other hand, market price volatility increased during the second half of the year, which in turn led to more pronounced VaR fluctuations. Higher volatility of market prices also caused several outliers in the back-testing process. As a consequence, the market price risk model needed to be adjusted by multiplying market risk parameters by an increasing factor.

**❶ Daily VaR (€ mn)**




**❷ VaR in the banking business (€ 000's)**

| | Currency risk | Interest rate risk | Equity risk | Offseting effect[1] | Total |
|---|---|---|---|---|---|
| **31 Dec 2010** | **568.2** | **168.9** | **167.5** | **–369.3** | **535.3** |
| Average | 1,280.6 | 1,770.7 | 196.1 | –1,179.8 | 2,067.6 |
| Minimum | 133.5 | 809.6 | 149.7 | –162.8 | 930.0 |
| Maximum | 2,272.5 | 2,725.5 | 444.0 | –2,575.8 | 2,866.2 |
| **31 Dec 2011** | **1,000.4** | **873.0** | **422.5** | **–694.1** | **1,601.8** |

1) Compensating effects offsetting currency, interest rate and equity risks

Risk controlling, which is responsible for monitoring market price risks, has direct access to the trading and settlement systems, allowing it to monitor whether limits are observed. The market price risks incurred are therefore subject to constant measurement and limit monitoring by risk controlling, which reports to the Board of Managing Directors on a daily basis. The risk positions are managed on the basis of limits approved by the Board of Managing Directors, which are in turn derived from the risk capital approved by the Board. Besides daily VaR (based on a one-day holding period and a 99.00% confidence interval), we also determine VaR based on a one-year holding period and a confidence interval of 99.95%; the results are compared to the risk capital we take into account when determining usage of aggregate risk capital. In addition, we determine market price risks using a monthly stress test, based on an entire interest rate cycle. The calculations applied to such extreme situations are discussed regularly in the ALCO. This is designed to ensure a timely reaction to developments. We also used the results of monthly stress tests as a parameter when determining market price risk limits for 2012. We expanded our stress tests to include two additional scenarios in 2011, which we have since calculated on a monthly basis as well. One scenario is designed specifically to map market price developments during the most recent financial markets crisis. We developed an additional hypothetical scenario, which is based on an extensive analysis of long-term market parameters, where we considered both potential market changes and DVB's specific exposures. The scenario derived in this manner does not incorporate any risk-offsetting effects; it thus represents a worst-case scenario.

## Business risk

DVB's business policy is defined by the entire Board of Managing Directors, within the scope of closed-door strategy meetings. The policy is then discussed and agreed upon with the Supervisory Board, in accordance with the Memorandum and Articles of Association and the respective internal regulations. The Bank has allocated risk capital for business risk since 2011, measuring risk exposure using a VaR approach with a 99.95% confidence interval, based on the volatility of monthly profits.

## Liquidity risk

Our liquidity risks are centrally analysed and managed on the basis of Group 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 a 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 KWG, ensures that timely and appropriate corrective measures can be taken. The latest software generation provides us with a state-of-the-art tool that fully complies with all requirements for a modern liquidity risk measurement environment. The application's functionality fulfils both the requirements under the MaRisk and the Bank's internal needs for managing, analysing and reporting on liquidity risks.

Risk controlling is responsible for monitoring liquidity risk; for this purpose, it carries out analyses independently from Group Treasury. In addition to multiple base cases, the analyses include various stress scenarios and a worst-case scenario. All cash flows from the Bank's existing business are taken into account, plus simulated cash flows from pending loan commitments and the Bank's budgeted new business. The results of these daily analyses are aggregated in a report, which is included in the daily reporting package to the entire Board of Managing Directors. The stress tests applied include specific stress factors which have a negative effect upon the Bank's liquidity. Specifically, we simulate a short-term increase in liquidity needs resulting from an early drawdown of credit lines, as well as a reduction in cash inflows, due to borrower defaults or lower repayments. In addition, we simulate market-induced changes such as interest rate or exchange rate fluctuations. The underlying assumptions for the scenarios used are reviewed, and adjusted if appropriate, at regular intervals. In the event of an anticipated liquidity shortage, risk controlling triggers a defined escalation procedure, in co-ordination with Group Treasury. Should the measures taken by Group Treasury within the scope of the initial escalation level prove insufficient, the Risk Committee is informed in a second escalation level, in order to take appropriate countermeasures.

Following some relief on the capital markets during the first half of the year, the European sovereign debt crisis deteriorated once again during the second half, creating obstacles to international funding. Against this background, DVB's integration into the German Cooperative Financial Services Network once again proved to be a key factor during 2011, as the liquid German cooperative banking sector permitted us to cover our funding requirements with these partners, at prevailing market terms, at all times. In this way, we maintained a sufficient funding basis throughout the crisis.

We have also reflected this situation in our stress scenarios, having devised new stress tests during 2011 which will more strongly reflect the integration into the German Cooperative Financial Services Network. These new stress tests are set to replace existing ones from 2012 onwards. In this context, existing stress factors will be retained, and will be incorporated into the new stress tests which were defined in accordance with new regulatory requirements. Assuming a going concern, these require sufficient liquidity reserves for a one-month "survival period", even under stress conditions, to ensure DVB's continuation. If the liquidity run-off profile indicates a shortage of liquidity reserves during this period, countermeasures to improve liquidity must be taken without delay. We have implemented an escalation procedure for this purpose which is monitored by risk controlling on a daily basis. Responding to these requirements, we significantly increased our liquidity reserves held in the form of highly liquid securities during 2011, from €50 million to €400 million (nominal amounts).

Besides conducting its own stress tests, DVB is also integrated into DZ BANK's liquidity risk measurement process. DVB obtains stress test results determined by DZ BANK on a daily basis; these results count towards the liquidity limit set by DZ BANK. Any shortfall below the minimum limit will also trigger an escalation process designed to remedy such an overstep at short notice.

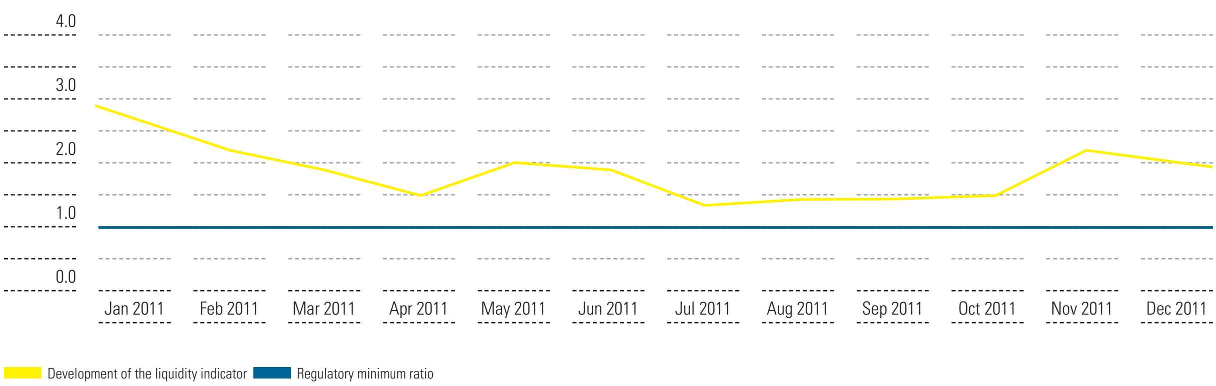
We carry out an annual adequacy check for liquidity risks as well, which includes an in-depth review of the risk model. We also analyse whether and which risks are material within the scope of an annual risk inventory.

DVB consistently adhered to regulatory liquidity principles throughout 2011. Its liquidity indicator – the ratio of available cash and cash equivalents to payment obligations due – averaged 1.82 (2010: 2.43) during the year, and was once again clearly above the minimum regulatory level of 1.00. ❶

## Equity investment risk

We include DVB Bank SE's material subsidiaries, whose business activities are fully integrated in DVB Group's risk management process, in the consolidated financial statements. Starting in 2011, equity investments that need not be consolidated are shown under equity investment risk rather than under counterparty credit risk. We also adjusted the relevant risk measurement methodology as part of this change. Potential losses from such investments are estimated using a VaR approach with a 99.95% confidence interval, whereby value fluctuations of assets financed through the investments are used as risk drivers for the volatility of the equity investments' carrying amounts.

**❶ Liquidity ordinance**



## Opportunities available to DVB

DVB has a unique and clearly focused business model: to arrange and provide structured finance, advisory services and investment activities to our clients who are active in the international transport markets. Notwithstanding the cyclicality of these markets, the transport business overall is benefiting from a long-term growth trend. Thanks to its profile as a renowned specialist for financing and advisory services to the international transport industry, there are manifold opportunities available to DVB, even in the still challenging market environment, which the Bank intends to use.

- To diversify our risk exposure, we pursued a balanced structure in our Transport Finance portfolios at an early stage. Exposures are diversified by multiple criteria and diverse categories, including asset type, vintage, manufacturer, region, borrower, user and asset employment. Leveraging our broadly diversified and well collateralised portfolios, we are generally in a position to seize profitable opportunities, even during downturn phases.

- Against the background of tight refinancing and a restricted capital base, in conjunction with higher refinancing risks, competitors have adopted a clearly more restrictive lending policy; some have stopped lending altogether. In particular, this applies to banks and investors who exposed themselves to the transport finance business opportunistically, in a positive market environment.

- In contrast, the strategy we have adopted is cycle-neutral: this is why the Bank has remained a reliable partner to its clients, continuing to provide financing and advice even during the persistently difficult environment. This will further intensify our client relationships, bolstering long-term trust, and will also attract new clients. In the prevailing market environment, this sustainable strategy provides DVB with a substantial competitive edge.

- Due to limited financing alternatives and less price competition, we are still in a position to offset higher refinancing risks with higher interest margins. Furthermore, the Bank is able to negotiate financing and collateralisation structures that are even more conservative than the high standards already applied in our credit portfolios.

- DVB has the opportunity to further expand its advisory and other service offerings, and to increasingly provide them to clients, banks, and investors. This is especially true with regard to Aviation Asset Management and Shipping Asset Management. This provides the opportunity to explore potential sources of income which are not linked to lending, and which are virtually risk-neutral.

- At an early stage, we decided to develop and implement an Internal Rating Model covering all three Transport Finance divisions which complies with the requirements of the Advanced Approach under Basel II. This gives DVB an advantage over various competitors, as it enables the Bank to manage its financing volume on a selective and risk-aware basis.

Applying the structure of a SWOT analysis, DVB Group's strengths, weaknesses, opportunities, and threats are summarised as follows:

**SWOT analysis**

| Strenghts | Weaknesses |
|---|---|
| - Unique business model with a clear focus | - Relatively high sector exposure |
| - Highly qualified, experienced staff | - Global presence requires high staff resources |
| - Extensive market and asset expertise | - High staff costs due to high levels of employee qualification in terms of academic expertise and experience |
| - Flat hierarchies, high degree of flexibility, lean decision-making | - No material client deposits |
| - Customised products and services | - Dependence on the money and capital markets, in particular on the German Cooperative Financial Services Network |
| - Cycle-neutral business approach, ensuring the Bank remains a reliable partner even during times of crisis | - Exposure to the euro/US dollar exchange rate, with an impact on growth and results |
| - Global presence in all key transport markets | |
| - High level of client service | |
| - Close contacts to manufacturers and leasing companies | |
| - Advanced risk management and pricing systems | |
| - Access to the extensive liquidity offered by the German Cooperative Financial Services Network | |

| Opportunities | Threats |
|---|---|
| - Growth potential thanks to diminishing competition | - Distortions on the money and capital markets, in the broadest sense |
| - Realisation of margins in line with risks taken | - Asset values in the various market segments have declined |
| - Expansion of anti-cyclical Investment Management activities | - Prevailing global financial markets crisis, sovereign debt crisis in Europe, increasing US debt levels, slowdown in the world economy, recession affecting various regions, deflationary trends |
| - Building new client relationships | - Unanticipated rise of the US dollar against the euro |
| - Funding available through the German Cooperative Financial Services Network | - Further government support for our bank competitors |
| - Expanding the advisory and other services offered to clients, investors and banks | - Spikes in crude oil prices |
| - Boosting our reputation as a reliable partner to the international transport industry | |

## Conclusion

DVB has organised its risk management functions in a manner that complies with legal and regulatory requirements. Its risk management system is appropriately designed to efficiently monitor and manage all risks that the Bank is exposed to, allowing it to consciously take on and control risks, and to exploit the opportunities available.

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2011. The overall risk capital limit was adhered to at all times during the business year under review. The regulatory capital requirements under Basel II were fulfilled at all times in the year under review. To ensure compliance with the Basel I floor rule pursuant to section 339 (5a) of the SolvV, which was once again extended, DVB has raised an additional US$80 million in subordinated funds as defined in section 10 (5a) of the KWG in January 2012, until the profit to be retained from the results for 2011 has been confirmed and recognised. The Bank's ability to meet its payment obligations was never compromised during the period under review, despite prevailing market distortions. Given DVB's existing organisational rules for managing liquidity risk, and its membership of the German Cooperative Financial Services Network, the Bank was able to deal with the impact of the financial markets and sovereign debt crises on its liquidity situation in an adequate manner.

From today's perspective, we believe that:

- DVB will continue to have access to sufficient liquidity throughout the 2012 business year;
- the Bank will comply with regulatory solvency requirements; and
- the Bank's risk profile will remain in line with its economic risk-bearing capacity.

Hence, there are no indications for any threats to DVB's continued existence.

DVB's business model weathered the sovereign debt crisis. In particular, our close client relationships and deep understanding of the transport assets we finance have proven themselves to be key factors. We therefore presume that our business model for the 2012 forecast period will continue to prove stable and resilient.

## Macroeconomic outlook 2012

A distinction must be made between austerity and structural reforms. Continuing rounds of austerity, without structural reforms, will just further cripple the economy. With financial institutions feeling the negative consequences of the sovereign debt crisis, the impact on investment and asset values can be expected to be quite pronounced. It is evident that economic expansion will remain constrained while the balance sheets of banks continue their current contraction. The uncertainty surrounding the euro zone, with politicians continuing to play at being economists while keeping their parties' political agenda intact, further exacerbates the situation. Therefore, our expectation is that the euro zone economy will continue to contract in the first and perhaps also second quarter of 2012.

The US Federal Reserve lowered its 2012 US gross domestic product (GDP) growth forecast to between 2.5% to 2.9%. Our own forecast suggests that while US GDP growth may reach such levels, the majority of possible economic scenarios point to a growth rate closer to 2.0%.

The value of the US dollar along with the volatile political landscape in the Middle East suggests that oil and other commodity prices are likely to be range-bound around current levels with an upward bias. Current projections for the euro/US dollar exchange rate range from US$1.15 to the euro to US$1.35, evidencing the uncertainty that currently prevails.

Market participants have, to an extent, become accustomed to the prevailing uncertainty. There could be an upswing in sentiment should policy measures even partially resolve current challenges. The crisis that started in the West has shown once again that the developing world is not immune, although there is some divergence in regional fortunes.

Nonetheless, the slowdown in the developing world is becoming evident and 2012 growth rates are expected to be moderate compared to those seen in 2011. All these factors point to a challenging year ahead. While 2011 began with some optimism which later soured, 2012 has started under difficult circumstances. We can only hope at this point in time that the year will end on a far better note than that on which it began.

§

The report on expected developments contains forward-looking statements, including statements concerning the future development of the DVB Group for the year 2012. In designing the group management report, we have strived to provide a comprehensive, yet clearly structured and easy to read overview. Hence, for each division we have first outlined business developments during 2011, directly followed by a detailed forecast of market and portfolio developments in the year 2012.

The following parts of the texts therefore constitute an integral part of the report on expected developments:
– Shipping Finance outlook (pages 58–61)
– Aviation Finance outlook (pages 76–79)
– Land Transport Finance outlook (pages 92–93)
– Financial Institutions outlook (pages 99–100)
– Investment Management outlook (pages 104 and 107); as well as
– ITF Suisse outlook (page 109)

As usual, any 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 based on conjecture rather than precise predictions. Actual future developments may therefore diverge from expectations, not least as a result of fluctuations in capital market prices, exchange rates or interest rates, or similar causes of uncertainty; or due to fundamental changes in the economic environment. Although we believe the forward-looking statements to be realistic, DVB cannot accept any responsibility that they will actually materialise, for the reasons outlined above. We do not intend to update any of the forward-looking statements made in this report.

## Outlook on financial performance

DVB aims to use the challenging macroeconomic environment as an opportunity to further expand its range of financing solutions, advisory and other services tailored to transport assets in maritime shipping, aviation, and land transport. We continue to support our clients in the transport market, whereas many competitors are still adopting a reticent stance at least on an international level. Given the continued difficult situation in certain maritime shipping segments, the Shipping Finance portfolio in particular might be exposed to additional burdens during 2012.

In our opinion, it will take some time for the excess transport capacity that is available on international transport markets to be reduced, and to restore equilibrium of supply and demand. Thanks to our in-house research, our differentiated risk management capabilities, and our expertise in executing transactions, DVB expects to be affected by distortions on the shipping markets to a lesser extent than other banks. From our perspective, those transport market distortions which are already known are unlikely to have any impact on DVB's income during 2012.

## Outlook on the financial position

DVB's integration in the German Cooperative Financial Services Network will remain very important indeed during 2012, since the liquidity available in the Network allows us to obtain funding from our partners, at market terms. We therefore expect to maintain a comfortable funding basis throughout 2012. DVB will continue to focus on long-term funding instruments. Given that our lending exposures in Shipping Finance and Aviation Finance are almost exclusively denominated in US dollars, we will continue to employ a natural hedge between assets and liabilities during the forecast period, by raising funding volumes in US dollars. Furthermore, we aim to broaden our investor base, for example, through additional ship covered bond issues. During the forecast period, we also plan to issue aircraft covered bonds, if the necessary legal and commercial framework is established. Specifically, this includes obtaining a licence from the German Federal Financial Supervisory Authority, building the cover assets pool, and obtaining a programme rating from Moody's. Any issue will also be subject to the right market conditions.

## Trend outlook and summary

DVB envisages controlled growth in 2012, with selected new and stable business opportunities and interest rate margins that appropriately price the risks involved. We have also prepared ourselves for an ongoing higher level of allowance for credit losses. DVB has defined a target ROE (before taxes) of between 12% and 15% for 2012; the target CIR is set to remain below 50%.

In summary, we believe that transport and financial market developments are subject to a plethora of unpredictable factors that are beyond the control of market participants. Therefore, DVB is not in a position to make any concrete forecasts regarding its profitability or other key financial data beyond this trend indication.

## Disclosures pursuant to section 315 (4) no. 6 of the HGB

Please refer to sections 84 and 85 of the AktG and Article 7 (3) of the Bank's Memorandum and Articles of Association regarding the appointment and removal of Members of the Board of Managing Directors. Pursuant to sections 133 and 179 of the AktG, amendments to the Memorandum and Articles of Association of DVB Bank SE are resolved by the General Meeting.

## Disclosures pursuant to section 315 (4) no. 7 of the HGB

Pursuant to Article 4 (2) of the Memorandum and Articles of Association ("Authorised Capital 2010"), the Board of Managing Directors is authorised to increase the share capital by up to €50 million. This authority will expire on 8 June 2015. Furthermore, pursuant to Article 4 (3) of the Memorandum and Articles of Association ("Conditional Capital 2010"), the share capital is subject to a conditional capital increase not exceeding €25 million through the issuance of convertible bonds and bonds cum warrants. The Board of Managing Directors is authorised to determine the details of the conditional capital increase.

In accordance with section 71 (1) no. 7 of the AktG and by virtue of a resolution passed by the Annual General Meeting on 9 June 2010, DVB Bank SE is authorised to purchase and sell its own shares (treasury shares) for the purpose of securities trading. This authorisation will expire on 8 June 2015.

## Additional information pursuant to section 315 (4) of the HGB

Information regarding the provisions of sections 315 (4) nos. 1 and 3 of the HGB are available in the Notes, on page 192. The provisions of sections 315 (2) no. 3 and (4) nos. 2, 4, 5, 8 and 9 of the HGB are not applicable to DVB Bank SE in 2011.

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

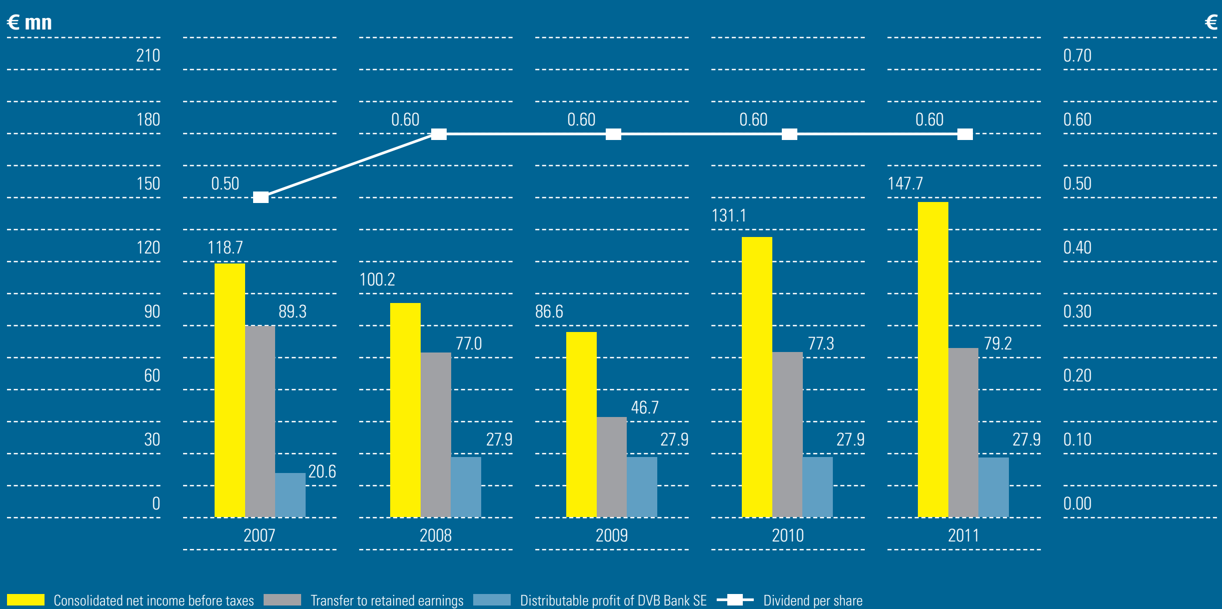
Pursuant to sections 15 and 18 of the AktG, DVB Bank SE is affiliated to DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, and its Group companies. As at 31 December 2011, DVB Bank SE has been included in the consolidated financial statements of DZ BANK Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main.

In accordance with section 312 (3) of the AktG, the Board of Managing Directors has separately disclosed to the Supervisory Board the extent of the relationship with affiliated companies: "With respect to transactions and actions identified in the report on business relationships with affiliated enterprises, adequate consideration was received by our Company in respect of any transaction, and the Company did not suffer any disadvantage as a result of actions taken or omitted, in line with circumstances prevailing at the time such transactions were entered into, of which we were aware at the time."

1) These tables are part of the Notes.

# Consolidated financial statements

## Appropriation of profits 2007–2011



## Income statement



| € mn | Note | 1 Jan 2011 – 31 Dec 2011 | 1 Jan 2010 – 31 Dec 2010 | % |
|---|---|---|---|---|
| **Income statement** | | | | |
| **Net interest income after allowance for credit losses** | | **199.1** | **141.0** | **41.2** |
| Net interest income | (15) | 258.3 | 193.0 | 33.8 |
| Interest income | | 895.9 | 805.4 | 11.2 |
| Interest expenses | | –637.6 | –612.4 | 4.1 |
| Allowance for credit losses | (16) | –59.2 | –52.0 | 13.8 |
| **Net fee and commission income** | (17) | **116.2** | **124.4** | **–6.6** |
| Fee and commission income | | 122.8 | 133.3 | –7.9 |
| Fee and commission expenses | | –6.6 | –8.9 | –25.8 |
| **Net result from financial instruments in accordance with IAS 39** | (18) | **4.4** | **30.2** | **–85.4** |
| Net trading result | (18.1) | –0.6 | 0.3 | – |
| Hedge result | (18.2) | 10.7 | 3.5 | – |
| Result from the application of the fair value option | (18.3) | –0.4 | –0.8 | –50.0 |
| Result from derivatives entered into without intention to trade | (18.4) | –3.9 | 16.5 | – |
| Net result from investment securities | (18.5) | –1.4 | 10.7 | – |
| **Results from investments in companies accounted for using the equity method** | (19) | **0.1** | **5.8** | **–98.3** |
| **General administrative expenses** | (20) | **–189.4** | **–176.2** | **7.5** |
| **Net other operating income/expenses** | (21) | **17.3** | **5.9** | **–** |
| **Consolidated net income before taxes** | | **147.7** | **131.1** | **12.7** |
| Income taxes | (22) | –37.3 | –27.1 | 37.6 |
| **Consolidated net income** | | **110.4** | **104.0** | **6.2** |
| thereof: consolidated net income attributable to non-controlling interests | | 3.3 | –1.2 | – |
| thereof: consolidated net income attributable to shareholders of DVB Bank SE | | 107.1 | 105.2 | 1.8 |
| | | | | |
| **Earnings per share** | | | | |
| Average number of ordinary shares issued | | 46,145,504 | 46,170,534 | –0.1 |
| **Basic earnings per share (€)** | | **2.32** | **2.28** | **1.8** |
| **Diluted earnings per share (€)** | | **2.32** | **2.28** | **1.8** |

## Appropriation of profits

| € mn | 1 Jan 2011 – 31 Dec 2011 | 1 Jan 2010 – 31 Dec 2010 | % |
|---|---|---|---|
| Consolidated net income (after taxes) | 110.4 | 104.0 | 6.2 |
| Consolidated net income attributable to non-controlling interests | –3.3 | 1.2 | – |
| Transfer to retained earnings | –79.2 | –77.3 | 2.5 |
| **Distributable profit** | **27.9** | **27.9** | **0.0** |

| € mn | Note | 1 Jan 2011 – 31 Dec 2011 | 1 Jan 2010 – 31 Dec 2010 | % |
|---|---|---|---|---|
| **Consolidated net income** | | **110.4** | **104.0** | **6.2** |
| Other comprehensive income: | | –14.8 | 8.4 | – |
| Revaluation of AfS financial instruments | | –2.0 | 1.8 | – |
| thereof: changes in fair value | | –6.3 | 2.7 | – |
| thereof: reclassifications to the income statement | | 4.3 | –0.9 | – |
| Cash flow hedges | | –20.1 | 6.0 | – |
| thereof: changes in fair value | | –9.5 | –17.9 | –46.9 |
| thereof: reclassifications to the income statement | | –10.6 | 23.9 | – |
| Currency translation | | 0.5 | 0.5 | 0.0 |
| thereof: changes from currency translation | | 0.5 | 0.5 | 0.0 |
| thereof: reclassification to the income statement | | – | – | – |
| Actuarial gains and losses | (42) | 0.4 | 0.2 | – |
| Deferred taxes on income and expenses not recognised in the income statement | (22) | 6.4 | –0.1 | – |
| **Total comprehensive income** | | **95.6** | **112.4** | **–14.9** |
| thereof: total comprehensive income attributable to non-controlling interests | | 3.3 | –1.2 | – |
| thereof: total comprehensive income attributable to shareholders of DVB Bank SE | | 92.3 | 113.6 | –18.8 |

## Statement of financial position



| Assets (€ mn) | Note | 31 Dec 2011 | 31 Dec 2010 | % |
|---|---|---|---|---|
| Cash and balances with the central bank | (24) | 80.9 | 114.3 | –29.2 |
| Loans and advances to banks | (25) | 491.8 | 410.3 | 19.9 |
| Loans and advances to customers | (26) | 18,739.0 | 16,445.0 | 13.9 |
| Allowance for credit losses | (27) | –148.4 | –182.5 | –18.7 |
| Positive fair values of derivative hedging instruments | (28) | 475.0 | 362.9 | 30.9 |
| Trading assets | (29) | 287.8 | 193.1 | 49.0 |
| Investment securities | (30) | 484.7 | 110.9 | – |
| Investments in companies accounted for using the equity method | (31) | 103.7 | 37.3 | – |
| Intangible assets | (32) | 107.9 | 111.7 | –3.4 |
| Property and equipment | (33) | 1,244.6 | 1,271.0 | –2.1 |
| Income tax assets | (35) | 77.5 | 106.3 | –27.1 |
| Other assets | (36) | 86.5 | 336.5 | –74.3 |
| **Total** | | **22,031.0** | **19,316.8** | **14.1** |

| Liabilities and equity (€ mn) | Note | 31 Dec 2011 | 31 Dec 2010 | % |
|---|---|---|---|---|
| Deposits from other banks | (37) | 5,190.4 | 7,214.6 | –28.1 |
| Deposits from customers | (38) | 4,460.3 | 4,408.8 | 1.2 |
| Securitised liabilities | (39) | 9,830.1 | 5,319.9 | 84.8 |
| Negative fair values of derivative hedging instruments | (40) | 296.3 | 197.6 | 49.9 |
| Trading liabilities | (41) | 373.4 | 227.1 | 64.4 |
| Provisions | (42) | 59.7 | 58.6 | 1.9 |
| Income tax liabilities | (43) | 73.7 | 107.4 | –31.4 |
| Other liabilities | (44) | 136.5 | 94.0 | 45.2 |
| Subordinated liabilities | (45) | 400.6 | 545.5 | –26.6 |
| Equity | (46) | 1,210.0 | 1,143.3 | 5.8 |
| Issued share capital | (46.1) | 117.9 | 118.0 | –0.1 |
| Capital reserve | (46.2) | 331.7 | 332.5 | –0.2 |
| Retained earnings | (46.4) | 740.8 | 661.3 | 12.0 |
| thereof: fund for general banking risks | | 82.4 | 82.4 | 0.0 |
| Revaluation reserve | (46.5) | 0.1 | 1.9 | –94.7 |
| Hedging reserve – cash flow hedges | (46.6) | –11.1 | 2.7 | – |
| Currency translation reserve | (46.7) | –1.7 | –2.2 | –22.7 |
| Distributable profit | | 27.9 | 27.9 | 0.0 |
| Non-controlling interests | (46.8) | 4.4 | 1.2 | – |
| **Total** | | **22,031.0** | **19,316.8** | **14.1** |

| € mn | Issued share capital | Capital reserve | Retained earnings | Revaluation reserve | Hedging reserve – cash flow hedges | Currency translation reserve | Distributable profit/ accumulated loss | Equity before non-controlling interests | Non-controlling interests | Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Equity as at 31 Dec 2009** | **118.1** | **333.2** | **583.8** | **–0.1** | **–3.0** | **–2.7** | **27.9** | **1,057.2** | **1.3** | **1,058.5** |
| Consolidated net income attributable to shareholders of DVB Bank SE | – | – | – | – | – | – | 105.2 | 105.2 | –1.2 | 104.0 |
| Transfer to retained earnings | – | – | 77.3 | – | – | – | –77.3 | – | – | – |
| Other comprehensive income | – | – | 0.2[1] | 2.0 | 5.7 | 0.5 | – | 8.4 | – | 8.4 |
| Dividend payment | – | – | – | – | – | – | –27.9 | –27.9 | – | –27.9 |
| Changes in treasury shares | –0.1 | –0.7 | – | – | – | – | – | –0.8 | – | –0.8 |
| Changes in consolidated group and other changes | – | – | – | – | – | – | – | – | 1.1 | 1.1 |
| **Equity as at 31 Dec 2010** | **118.0** | **332.5** | **661.3** | **1.9** | **2.7** | **–2.2** | **27.9** | **1,142.1** | **1.2** | **1,143.3** |
| Consolidated net income attributable to shareholders of DVB Bank SE | – | – | – | – | – | – | 107.1 | 107.1 | 3.3 | 110.4 |
| Transfer to retained earnings | – | – | 79.2 | – | – | – | –79.2 | – | – | – |
| Other comprehensive income | – | – | 0.3[1] | –1.8 | –13.8 | 0.5 | – | –14.8 | – | –14.8 |
| Dividend payment | – | – | – | – | – | – | –27.9 | –27.9 | – | –27.9 |
| Changes in treasury shares | –0.1 | –0.8 | – | – | – | – | – | –0.9 | – | –0.9 |
| Changes in consolidated group and other changes | – | – | – | – | – | – | – | – | –0.1 | –0.1 |
| **Equity as at 31 Dec 2011** | **117.9** | **331.7** | **740.8** | **0.1** | **–11.1** | **–1.7** | **27.9** | **1,205.6** | **4.4** | **1,210.0** |

1) This relates to actuarial gains and losses recognised in other comprehensive income in accordance with IAS 19.

Cash and cash equivalents correspond to the item "Cash and balances with the central bank" included in the statement of financial position. The changes of cash and cash equivalents are presented in the cash flow statement. Cash and balances with the central bank do not include financial investments with a remaining maturity of more than three months as at the date of acquisition.

The changes in the balance of cash and cash equivalents are presented in the cash flow statement, separately for operating, investing and financing activities. Cash flows from operating activities include cash flows resulting from revenue-generating and other activities of the Group that cannot be allocated to investing or financing activities. Cash inflows and outflows in connection with the acquisition and the disposal of non-current assets are attributed to investing activities. Cash flows from financing activities include cash flows from transactions with equity holders as well as from other borrowings to finance the Bank's business operations.

| € mn | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| **Consolidated net income before taxes** | **147.7** | **131.1** |
| **Non-cash items included in the profit for the period and reconciliation to cash flow from operating activities** | | |
| Depreciation, impairment and write-ups of loans and advances, property and equipment, and investment securities | 140.9 | 116.1 |
| Increase/decrease in provisions | –30.9 | 23.4 |
| Other non-cash expenses/income | | |
| thereof: hedge accounting | 8.7 | 30.4 |
| thereof: other changes from the fair value measurement of financial instruments | 264.2 | 363.6 |
| Gains/losses on disposal of investment securities, and property and equipment | 1.1 | –12.5 |
| Other adjustments | –323.4 | –262.5 |
| **Subtotal** | **208.3** | **389.6** |
| **Changes in assets and liabilities from operating activities** | | |
| Loans and advances to banks | –82.9 | –6.3 |
| Loans and advances to customers | –2,293.7 | –1,775.8 |
| Leased assets | 329.8 | –331.8 |
| Other assets from operating activities | 66.3 | –329.3 |
| Deposits from other banks | –2,020.1 | 141.3 |
| Deposits from customers | –27.1 | –51.9 |
| Securitised liabilities | 4,510.2 | 1,842.8 |
| Other liabilities from operating activities | 47.0 | –33.3 |
| Interest and dividends received | 895.9 | 805.4 |
| Interest paid | –572.5 | –548.7 |
| Income taxes paid | –46.5 | –30.0 |
| **Cash flow from operating activities** | **1,014.7** | **72.0** |
| Cash proceeds from the disposal of investment securities | – | 29.7 |
| Cash proceeds from the disposal of property and equipment | – | – |
| Cash payments for additions to property and equipment | –450.2 | –217.8 |
| Cash payments for additions to investment securities | –444.2 | – |
| Cash payments to acquire consolidated companies | – | –4.2 |
| Net change resulting from other investing activities | 1.8 | –2.6 |
| **Cash flow from investing activities** | **–892.6** | **–194.9** |
| Cash proceeds from additions to equity (capital increases, sale of treasury shares, etc.) | –0.7 | –0.7 |
| Cash payments to owners and non-controlling shareholders (dividends) | –27.9 | –27.9 |
| Net change resulting from other financing activities | –126.9 | 13.4 |
| **Cash flow from financing activities** | **–155.5** | **–15.2** |
| Net change in cash and cash equivalents (total of the three cash flows items) | –33.4 | –138.1 |
| **Cash funds from the beginning of the period** | **114.3** | **252.4** |
| **Cash and cash equivalents at end of period** | **80.9** | **114.3** |

| € mn | Group | | Shipping Finance | | Aviation Finance | | Land Transport Finance | | Investment Management | | Treasury | | Other segments | | Reconciliation/consolidation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Income** | **337.1** | **307.3** | **121.6** | **147.5** | **102.9** | **110.6** | **18.7** | **16.7** | **5.6** | **15.5** | **58.2** | **53.5** | **28.5** | **24.0** | **1.9** | **–60.4** |
| Net interest income after allowance for credit losses | 199.1 | 141.0 | 56.2 | 82.6 | 68.3 | 72.1 | 12.6 | 13.1 | 27.5 | 2.6 | 29.5 | 11.4 | 0.2 | 0.5 | 5.0 | –41.4 |
| thereof: net interest income | 258.3 | 193.0 | 91.4 | 107.8 | 74.0 | 71.2 | 12.6 | 13.8 | 35.5 | 17.4 | 28.9 | 13.1 | 9.6 | 9.7 | 6.4 | –40.1 |
| thereof: allowance for credit losses | –59.2 | –52.0 | –35.2 | –25.2 | –5.7 | 0.9 | 0.0 | –0.7 | –8.0 | –14.8 | 0.6 | –1.7 | –9.4 | –9.2 | –1.4 | –1.3 |
| Net fee and commission income | 116.2 | 124.4 | 61.4 | 69.5 | 34.5 | 38.5 | 6.1 | 3.6 | –3.6 | 2.5 | 0.3 | –0.2 | 17.0 | 10.7 | 0.6 | –0.2 |
| Net result from financial instruments in accordance with IAS 39 | 4.4 | 30.2 | 3.9 | –0.9 | 0.1 | –0.1 | 0.0 | 0.0 | –26.9 | –7.7 | 28.4 | 42.3 | 0.0 | 0.1 | –1.2 | –3.5 |
| Results from investments accounted for using the equity method | 0.1 | 5.8 | – | – | – | – | – | – | –0.2 | 5.8 | – | – | – | – | 0.3 | 0.1 |
| Net other operating income/expenses | 17.3 | 5.9 | 0.1 | –3.7 | 0.0 | 0.1 | 0.0 | 0.0 | 8.8 | 12.3 | 0.0 | 0.0 | 11.3 | 12.7 | –2.8 | –15.4 |
| **General administrative expenses** | **–189.4** | **–176.2** | **–40.4** | **–35.0** | **–17.4** | **–13.8** | **–3.2** | **–2.7** | **–19.0** | **–19.4** | **–1.9** | **–2.1** | **–73.6** | **–64.3** | **–34.0** | **–38.9** |
| Staff expenses | –109.0 | –101.5[1] | –32.4 | –28.7 | –13.8 | –10.9 | –2.7 | –2.3 | –9.7 | –8.9 | –1.3 | –1.3 | –38.2 | –34.3 | –10.9 | –15.0 |
| Non-staff expenses | –75.6 | –69.0[1] | –7.9 | –6.2 | –3.6 | –2.9 | –0.5 | –0.4 | –9.3 | –9.7 | –0.6 | –0.8 | –31.3 | –26.0 | –22.6 | –22.9 |
| Depreciation, amortisation, impairment and write-ups | –4.8 | –5.7 | –0.1 | –0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –0.7 | 0.0 | 0.0 | –4.2 | –4.0 | –0.5 | –1.0 |
| **Consolidated net income before taxes** | **147.7** | **131.1** | **81.2** | **112.5** | **85.5** | **96.8** | **15.5** | **14.0** | **–13.4** | **–3.9** | **56.3** | **51.4** | **–45.2** | **–40.3** | **–32.1** | **–99.3** |
| **Cost/income ratio[2] (%)** | **47.8** | **49.0** | **25.8** | **20.3** | **16.0** | **12.6** | **16.9** | **15.7** | **140.0** | **64.0** | – | – | – | – | – | – |
| **Return on equity[3] (%)** | **14.0** | **13.9** | **24.2** | **29.3** | **40.7** | **49.1** | **43.5** | **45.1** | **–6.4** | **–1.0** | – | – | – | – | – | – |
| **Risk-weighted assets in accordance with Basel I (average)** | **18,975.5** | **17,020.7** | **9,795.8** | **8,732.5** | **5,610.9** | **5,075.5** | **1,409.7** | **1,325.7** | **667.3** | **598.6** | **341.0** | **88.7** | **986.4** | **977.3** | **164.4** | **222.4** |

1) Rounding difference of €0.1 million compared to the Annual Report 2010 2) Excluding allowance for credit losses 3) Before taxes

# Contents of the Notes

## Basis of accounting

For the business year 2011, the consolidated financial statements of DVB Bank SE 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 (Handelsgesetzbuch – 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). The standards relevant to the consolidated financial statements are those published by the International Accounting Standards Board (IASB) and adopted by the European Union until 31 December 2011.

The business year corresponds to the calendar year. One Group company is included in the consolidated financial statements based on financial statements for that company's business year which runs from 1 November to 31 October. Since the associated effects from this deviation are immaterial, we elect not to prepare interim financial statements. Unless otherwise indicated, all amounts are stated in millions of euros (€ mn or € million). Figures are rounded pursuant to standard business principles. This may result in slight differences when aggregating figures and calculating percentages.

These consolidated financial statements were signed by the Board of Managing Directors on 7 March 2012 and released to be submitted to the Supervisory Board.

## Notes to 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 General accounting policies

#### 1.1 Accounting standards applied for the first time in the reporting period

The consolidated financial statements of DVB take into account for the first time the following revised versions and amendments to accounting standards, the following new interpretation as well as the following improvements to IFRSs:

- IAS 24 – Related Party Disclosures (IAS 24 (2009))
- Amendment to IAS 32 – Classification of Rights Issues
- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRS (2010)
- Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

IAS 24 includes more specific guidance regarding the identification and disclosure of related party transactions, particularly in cases of significant influence or joint control. Subject to certain conditions, public-sector entities are excluded from the general scope of related parties; they are subject to separate disclosure obligations.

In accordance with previous practice, subscription rights denominated in foreign currencies were reported partially as derivative liabilities. The amendment to IAS 32 clarifies that subscription rights that are offered to all owners at a fixed subscription price and in the same ratio shall be accounted for as equity instruments, regardless of the issue currency.

IFRIC 14 now provides for the option of recognising an asset for prepayments of a minimum funding requirement.

IFRIC 19 governs the full or partial extinguishment of financial liabilities of a debtor by means of issuing equity instruments to the creditor.

The "Improvements to IFRSs (2010)" mainly relate to the revised version of IFRS 7.36(b) and the deletion of IFRS 7.36(d). In addition to narrative disclosures related to collateral held, the revised version of IFRS 7.36(b) now also requires quantitative disclosures. At the same time, the disclosure requirement related to loans and advances with renegotiated terms no longer applies due to the deletion of IFRS 7.36(d).

The application of the amended accounting standards and of the new interpretations does not have any material consequences for DVB's consolidated financial statements.

To the extent that estimates are necessary for recognition and measurement, these are made in accordance with the relevant standards. The basis for these estimates is continuously reviewed and adjusted, if necessary, taking into account historical experience as well as changed expectations with regard to future developments.

### 1.2 Endorsed amendments to IFRS not yet applied

We elected not to apply early, as permitted, the following revised and amended standards, as well as new or revised interpretations and improvements, which have been endorsed by the EU:

- Amendment to IFRS 7 – Transfers of Financial Assets

In the context of the "Amendments to IFRS 7 – Transfers of Financial Assets", IFRS 7.42A to 42H, which replace IFRS 7.13, lead to enhanced disclosures with regard to the derecognition of financial assets. The disclosures on transferred financial assets that are not fully derecognised are expanded by an overview of the fair value of assets and the associated liabilities as well as by additional qualitative disclosures related to the transactions. In addition, the "Amendments to IFRS 7" now require qualitative and quantitative disclosures on financial assets that have been derecognised in their entirety but in which the entity continues to have some involvement. The "Amendments to IFRS 7" do not have any impact on DVB's financial position and performance.

The aforementioned amendment to IFRS will be applied by DVB as from the business year 2012, pursuant to the relevant transitional provisions.

The revised and amended standard does not have a significant impact on DVB's consolidated financial statements.

### 1.3 Amendments to IFRS not yet endorsed

The following new and revised accounting standards, amendments to accounting standards and interpretations as issued by the IASB, have not yet been endorsed by the EU:

- IFRS 9 – Financial Instruments
- Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosures of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 – Separate Financial Statements
- IAS 28 – Investments in Associates and Joint Ventures
- Amendments to IAS 19 – Employee Benefits
- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets

With the issue and publication of "IFRS 9 – Financial Instruments" on 28 October 2010, which includes additions related to the accounting for financial liabilities, the IASB completed the first phase of its project to entirely replace "IAS 39 Financial Instruments: Recognition and Measurement". In its current version, IFRS 9 includes rules for the recognition of any matters within the scope of IAS 39. The measurement principles have yet to be completed. Within the context of implementing IFRS 9, financial assets are reclassified, which necessitates an assessment to be carried out for the individual financial assets. In accordance with IFRS 9, deviating from IAS 39, any changes in the fair value of financial liabilities accounted for under the fair value option resulting from changes in own credit generally have to be recognised in other comprehensive income. DVB is currently investigating the impact of IFRS 9 on future consolidated financial statements.

The transitional provisions of IFRS 9 were changed by "Amendments to IFRS 9" and "IFRS 7 – Mandatory Effective Date and Transition Disclosures". In accordance with the amendment, the first-time application is shifted from business years beginning on or after 1 January 2013 to business years beginning on or after 1 January 2015. Earlier application is permitted. Generally, the standard has to be applied retrospectively. In addition, the requirement to present adjusted previous year's figures has been eliminated. The date of the first-time application of IFRS 9 by DVB had not been determined as at the time of publication of the 2011 consolidated financial statements.

In May 2011, the IASB issued "IFRS 10 – Consolidated Financial Statements", "IFRS 11 – Joint Arrangements" and "IFRS 12 – Disclosures of Interests in Other Entities", which mainly affect the area of Group financial reporting. IFRS 10 will replace the current rules included in IAS 27 and SIC-12 related to the preparation of consolidated financial statements and provides a uniform definition of the concept of control that can be applied to all companies, including special purpose entities. In future, IAS 27 will only include guidance on separate financial statements prepared under IFRS. IFRS 11 relates to so-called joint arrangements and replaces IAS 31. The corresponding disclosures on subsidiaries, joint ventures, associates and unconsolidated structured entities are summarised in IFRS 12. The three standards are required to be applied retrospectively for fiscal years beginning on or after 1 January 2013. We are currently analysing the effects on the consolidated financial statements of DVB.

"IFRS 13 – Fair Value Measurement" governs the determination of the fair value for all IFRS on a uniform basis. Pursuant to IFRS 13, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, comprehensive quantitative and qualitative disclosure requirements related to the determination of the fair value were introduced. IFRS 13 is required to be applied prospectively for business years beginning on or after 1 January 2013.

"Amendments to IAS 19 – Employee Benefits" result in numerous changes in the accounting for obligations from defined benefit pension plans. The amendments, above all, eliminate the options for recognising actuarial gains and losses and prescribe that these remeasurement amounts be recognised immediately in other comprehensive income. In addition to the service cost, net interest income/expense on the net defined benefit liability (asset) has to be recognised in the income statement as well. Moreover, the extent of required disclosures will be expanded significantly. The amendments are effective retrospectively for business years beginning on or after 1 January 2013.

The "Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities" introduce more specific provisions regarding offsetting financial instruments. The existing fundamental requirements related to offsetting financial instruments, however, remain unchanged. Above all, the definition of the legal right is clarified. The amendments are effective retrospectively for business years beginning on or after 1 January 2014.

At the same time, the disclosure requirements related to the impact of offsetting financial instruments arising from "Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities" were adjusted.

The application of the other standards and amendments set out above does not have any material consequences for DVB's consolidated financial statements. The application of the listed standards is subject to EU endorsement.

## 1.4 Group of consolidated companies and consolidation methods

### 1.4.1 Group of consolidated companies

The group of consolidated companies of DVB Bank SE comprises all subsidiaries which the Company directly or indirectly controls within the meaning of IAS 27. This currently includes DVB Holding GmbH, Frankfurt/Main, DVB LogPay GmbH, Eschborn, DVB Holding (US) Inc., New York, DVB Transport Finance Ltd, London, DVB Group Merchant Bank (Asia) Ltd, Singapore, DVB Bank America N.V., Curaçao, ITF International Transport Finance Suisse AG, Zurich, as well as these companies' own subsidiaries. DVB Bank SE's share in these subsidiaries' capital amounts to 100% each. In addition, DVB Holding GmbH holds a majority stake amounting to 92.1% in TES Holdings Limited, Bridgend.

Subsidiaries are initially consolidated on the date on which the Group acquires control over the subsidiary within the meaning of IAS 27; they are deconsolidated on the date on which the Group no longer controls the subsidiary.

In the year under review, 20 subsidiaries were included in the group of consolidated companies for the first time, while 16 subsidiaries were deconsolidated. Furthermore, DVB is a joint venture partner in six of these companies. These joint ventures are accounted for in the consolidated financial statements using the equity method. These changes in the group of consolidated companies did not result in material transactions or material gains or losses.

Pursuant to section 264 (3) of the HGB, DVB LogPay GmbH, Eschborn, which is included in the consolidated financial statements, as well as Euro Toll Service GmbH, Eschborn, elect not to publish annual financial statements as at 31 December 2011 in accordance with section 325 of the HGB.

### 1.4.2 Consolidation methods

Consolidation is based on IFRS 3 in connection with IAS 27 by offsetting the Company'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 the Group'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 offset.

In accordance with IAS 31 and IAS 28, interests in joint ventures and investments in associates are generally included in the consolidated financial statements at the relevant share in equity (using the equity method).

The financial statements of companies accounted for using the equity method were prepared as at the reporting date of DVB, with four exceptions.

## 1.5 Currency translation

The functional currency of the companies of the DVB Group is largely the euro, with the exception of TES Holdings Limited, Bridgend, where the functional currency is pound sterling. At the DVB Group, the functional currency is the currency in which profit or loss from operating activities is usually retained, and performance is monitored and managed with respect to currency risks.

The assets and liabilities of a company included in the consolidated financial statements with a functional currency other than the euro are translated to euro using the closing rate on the balance sheet date, while such company's equity is translated at the historical exchange rate. The translation of expenses and income is based on average exchange rates. Differences resulting from the translation from the functional currency into the reporting currency (euro) are recognised in the currency translation reserve.

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. Non-monetary assets and liabilities measured at amortised cost are translated at the transaction rate.

## 1.6 Financial instruments in accordance with IAS 39

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 and, if appropriate, their intended use.

The following categories are used in the consolidated financial statements:

### 1.6.1 Financial assets at fair value through profit or loss

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

#### 1.6.1.1 Financial assets held for trading

All non-derivative 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 the net trading result.

#### 1.6.1.2 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 would 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 "Result from the application of the fair value option". Financial assets designated as at fair value through profit or loss are reported in the item of the statement of financial position to which they would have been allocated if the fair value option had not been applied.

The change in the fair value of assets designated as at fair value through profit or loss attributable to changes in credit risk is determined in accordance with the method described in IFRS 7.9(c)(i). For this purpose, changes on the basis of the full fair value are compared with the changes in value in the case of constant credit spreads. The difference corresponds to the change in the fair value attributable to the change in credit risk.

During the year under review (and in the previous year) the Bank did not enter into any derivatives to hedge credit risks resulting from financial assets designated as at fair value through profit or loss. The maximum credit risk exposure corresponds to the carrying amount.

### 1.6.2 Held-to-maturity investments

The category "Held-to-maturity investments" is currently not used by DVB.

### 1.6.3 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 on the secondary market. 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 as interest income.

### 1.6.4 Financial assets available for sale

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. To the extent that a negative revaluation reserve exists as at the balance sheet date, it has to be examined within the scope of an impairment test whether impairment has occurred. In this case, the accumulated negative revaluation reserve is derecognised and transferred to the income statement.

### 1.6.5 Financial liabilities at fair value through profit or loss

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

#### 1.6.5.1 Financial liabilities held for trading

All non-derivative liabilities entered into primarily for the purpose of discharging them through short-term repurchase are irrevocably allocated to this category upon initial recognition. As at the balance sheet date, DVB did not have any non-derivative financial liabilities held for trading. 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 the net trading result.

#### 1.6.5.2 Financial liabilities designated as at fair value through profit or loss

All financial liabilities whose measurement would otherwise result in accounting mismatches, and that are measured at fair value or which include an embedded derivative that would 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 the result from the application of the fair value option. Financial liabilities designated as at fair value through profit or loss are reported in the item of the statement of financial position to which they would have been allocated, had the fair value option not been applied.

The change in the fair value of liabilities designated as at fair value through profit or loss attributable to changes with respect to DVB's credit risk is determined in accordance with the method described in IFRS 7.9(c)(i). For this purpose, changes on the basis of the full fair value are compared with the changes in value in the case of constant credit spreads. The difference corresponds to the change in the fair value attributable to the change in credit risk.

### 1.6.6 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. Other liabilities are measured at amortised cost using the effective interest method. Accordingly, premiums and discounts are amortised over the term of the assets and recognised as interest expense.

Other liabilities also comprise financial guarantee contracts. They are measured upon initial recognition at fair value which generally corresponds to the present value of the guarantee commission received. Liabilities from financial guarantee contracts are subsequently measured at the greater of a provision recorded in accordance with IAS 37 and the fair value at the date of initial recognition, less any subsequently recognised amortisation in accordance with IAS 18. Financial guarantee contracts are presented on a net basis, with the recognised liability netted against the receivable from the guarantee commissions.

### 1.6.7 Classes of financial instruments

In order to comply with the disclosure requirements of IFRS 7, which clarifies the significance of financial instruments for an entity's financial position and performance, DVB classifies financial instruments as follows:

#### 1.6.7.1 Classes of financial assets

– Financial assets measured at fair value

The class of financial assets measured at fair value includes financial assets of the following IAS 39 categories:

- Financial instruments at fair value through profit or loss with the subcategories "Financial assets held for trading" and "Financial assets designated as at fair value through profit or loss"

- Financial assets available for sale

Financial assets of the category "Financial assets available for sale" whose fair value cannot be reliably determined are not included in that class. Therefore, they are measured at cost and are allocated to the class of "Financial assets measured at amortised cost".

Apart from the financial assets of the categories mentioned, this class also comprises the positive fair values of derivative hedging instruments values, which are accounted for as assets and also measured at fair value.

– Financial assets measured at amortised cost

The class of "Assets measured at amortised cost" includes financial assets of the category "Loans and receivables" as well as available-for-sale financial assets whose fair value cannot be reliably determined.

– Other financial assets

The class of "Other financial assets" exclusively consists of receivables from finance leases where DVB is the lessor.

#### 1.6.7.2 Classes of financial liabilities

– Financial liabilities measured at fair value

The class of "Financial liabilities measured at fair value" includes financial liabilities of the following IAS 39 category: "Financial instruments at fair value through profit or loss" with the subcategories "Financial liabilities held for trading" and "Financial instruments designated as at fair value through profit or loss".

Apart from the financial liabilities of the category mentioned, this class also comprises the negative fair values of derivative hedging instruments values, which are accounted for as liabilities.

– Financial liabilities measured at amortised cost

The class of "Financial liabilities measured at amortised cost" comprises the other financial liabilities within the scope of IAS 39.

– Other financial liabilities

The class of "Other financial liabilities" consists of liabilities from finance leases where DVB is the lessee, liabilities from irrevocable loan commitments and liabilities from financial guarantee contracts.

### 1.6.8 Recognition and derecognition of financial instruments

Derivative financial instruments are recognised on the trade date. Non-derivative financial instruments are recognised on the settlement date. Changes in the fair value occurring between the trade date and the settlement date are recognised in accordance with the classification of the financial instruments.

All financial instruments are measured at fair value upon initial recognition. Differences between transaction prices and fair values (day 1 profit) are recognised through profit or loss upon first-time recognition, to the extent that the valuation techniques used to determine the fair value are primarily based on observable inputs. If the fair value is derived from transaction prices and also is used as a measurement reference in subsequent periods, the fair value changes are only recognised in profit or loss when these changes are attributable to changes of observable market data. Upon initial recognition, any unrecognised differences that can be attributed to changes of unobservable market data are amortised and recognised as income over the term of the relevant financial instruments.

Financial assets and financial liabilities are derecognised 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.

### 1.6.9 Impairment, and reversals of impairment losses of financial instruments

If there were objective indications for an impairment of financial assets on the balance sheet date, an impairment test would be performed in accordance with the provisions set out in IAS 39. Among others, the following factors are used as objective indications for an impairment of debt instruments: delinquency in interest or principal payments, payment defaults, breaches of material contractual terms in connection with the provision of collateral, certain restructuring measures by customers, impending insolvency, a deterioration of the credit rating within a reporting period by more than two grades or below a defined level, as well as other factors. Objective indications for an impairment of equity instruments are, among others, a sustainable decrease of the financial performance or losses incurred on a prolonged basis, as well as the diminution of equity that can be considered a significant or permanent impairment of the fair value.

In order to determine the actual amount of the impairment of financial instruments of the category "Loans and receivables" and of receivables from finance leases, the carrying amount as at the balance sheet date is compared with the present value of expected future cash flows. 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 expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial asset or financial liability.

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.

Uncollectable loans and advances for which no specific valuation allowances were recognised are written off directly. Recoveries on loans and advances previously written off are recognised through profit or loss. If a default is certain for an impaired financial asset, any allowance recognised for this asset is derecognised against the relevant financial asset and reported as utilisation.

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 case of impairment, the negative revaluation reserve for the financial instrument concerned must be fully derecognised from equity, and recognised in profit or loss. Impairment losses of equity instruments measured at cost are deducted directly from the carrying amount of the financial assets concerned and recognised in the income statement.

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. Reversals of impairment losses for equity instruments recognised in profit or loss are not permitted.

## 1.7 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, 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; when a separate instrument with the same terms would meet the definition of a derivative; and when 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.

## 1.8 Hedge accounting

Within the framework of DVB's risk management strategy, the Company enters into various derivatives for the purpose of hedging against interest rate and foreign currency risks. IAS 39 contains specific regulations to report these economic hedging relationships in financial statements. The aim of these provisions is to eliminate accounting mismatches between the hedged items and the derivative hedging instruments 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.

### 1.8.1 Fair value hedges

The purpose of fair value hedges is to offset changes in the value of the hedged item by 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 itself, as well as the opposite changes in the fair value of the hedging instrument, are recognised in the income statement. 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 deviate from 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 the income statement 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. To the extent that the hedging relationship is terminated by means of selling the hedged item, the cumulative results from remeasurement attributable to the hedged risk are recognised in profit or loss.

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

### 1.8.2 Cash flow hedges

The changes of uncertain future cash flows from hedged items are to be hedged through opposite changes in cash flows from hedging instruments (cash flow hedge accounting).

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 the net trading result. 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 affect profit or loss.

Changes in the fair value of hedging instruments used in cash flow hedges are recognised directly in equity, to the extent such changes relate to the effective portion of the hedging relationship, or in the hedge result, to the extent that such changes relate to the ineffective portion of the hedge.

At DVB, cash flow hedge relationships are designated to hedge foreign currency risk from interest and fee and commission payments as well as from committed staff and administrative expenses, each denominated in foreign currencies. Each of the hedged cash flows is expected to occur in the following business year. Hedging instruments exclusively are forward currency contracts.

### 1.8.3 Effectiveness test

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. The test of retrospective effectiveness is performed using the so-called 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.

## 1.9 Accounting estimates

The presentation of the financial position and performance in the consolidated financial statements depends on recognition and measurement methods, as well as assumptions and estimates which are used as the basis for the preparation of consolidated financial statements. If recognition and measurement under IAS/IFRS requires the use of assumptions and estimates, these were made in accordance with the relevant standards.

The following critical assumptions and estimates, as well as uncertainties inherent in the accounting policies, are essential to understand the underlying financial reporting risks and the effects that these estimates, assumptions and uncertainties may have on the consolidated financial statements. They are based on historical experience, together with other factors such as projections – as well as expectations and forecasts of future events considered likely in view of the current circumstances.

### 1.9.1 Fair value of financial assets and financial liabilities

The determination of fair values of financial assets and financial liabilities is subject to estimation uncertainties if no prices on active markets are available for the relevant financial instruments. Estimation uncertainties occur above all when the fair values are determined using valuation techniques which are based on significant unobservable measurement parameters. The assumptions and valuation techniques underlying the determination of fair values in the case of missing market values are set out in Note 48.

### 1.9.2 Property and equipment, and intangible assets

The recognition of items of property and equipment, intangible assets, and goodwill is subject to the use of estimates for determining the fair value at the acquisition date, especially in the case of assets acquired in a business combination. In addition, the expected useful life of these assets has to be estimated. The determination of the fair values of assets and liabilities is based on management judgements, which were made using all existing information in accordance with the standards.

Determining impairments of property and equipment items, and of intangible assets, also requires estimates to be made which relate, among other things, to reason, timing, and amount of the impairment. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgements concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, relevant useful lives and residual values.

Impairment is based on a number of factors. We typically consider changes in current competitive conditions, expectations of growth, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs and other changes in circumstances that indicate the existence of an impairment. The relevant recoverable amount and the fair value are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions.

### 1.9.3 Valuation allowances on loans and advances and provisions for losses on loans and advances (allowance for credit losses)

Uncertainties related to the evaluation of risks in the lending business result, in terms of amount and reason, from assumptions and estimates made by decision-makers. Assumptions and estimates made relate, among other things, to the current and future macroeconomic development as well as the financial performance of individual borrowers. Assumptions and estimates also relate to the historical and current development of the proceeds from the realisation of collateral, assumed realisation periods, as well as final credit default losses, taking into account the structure and quality of the Bank's loan portfolios.

### 1.9.4 Income tax assets and income tax liabilities

The determination of deferred income tax assets and liabilities are based on estimates of future taxable profit of the taxable entities. These estimates above all impact the assessment of the realisability of deferred tax assets. In addition, judgements have to be made with regard to income tax-related facts in the context of calculating current income tax assets and liabilities as at the date of preparing the financial statements under commercial law.

### 1.9.5 Provisions and contingent liabilities

Provisions are recognised if the Group has a present obligation from a past event which is likely to result in an outflow of economic resources that can be reliably estimated. This present obligation is a liability of uncertain timing and amount. Provisions are determined on the basis of best estimates. Non-current provisions are subject to discounting.

Recognition and measurement of provisions and the amount of contingent liabilities related to pending litigation involve, to a considerable extent, judgements made by the Group. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. We record provisions for liabilities when a loss contingency is considered to exist, and when a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated amount of the provision. Significant estimates are also involved in the determination of provisions related to taxes and legal risks.

The measurement of pension provisions is based on the projected unit credit method for defined benefit plans, as stated in IAS 19. The measurement of the benefit obligation is based on various estimates and assumptions, in particular assumptions with regard to the long-term salary and pension trend as well as the average life expectancy. The assumptions related to salary and pension trends rely on the development observed in the past, and take into account labour market trends. The bases for the estimate of the average life expectancy are recognised biometric calculation parameters (mortality tables by Prof Dr Klaus Heubeck).

The interest rate used to discount the future payment obligations is the market rate for risk-free, long-term deposits with a similar term. The expected long-term performance of the current plan assets is determined depending on the fund structure, taking historical experience into account.

### 1.9.6 Non-current assets held for sale

These assets are measured at the lower of carrying amount and fair value less costs to sell and are classified as “Non-current assets held for sale“. They are no longer subject to amortisation. In general, impairment losses are recognised only when the fair value less costs to sell is below the carrying amount. In case of a subsequent increase in the fair value less costs to sell, the impairment loss previously recognised has to be reversed. The reversal of impairment losses is restricted to the impairment losses previously recognised for the assets concerned.

## 2 Cash and balances with the central bank

This item includes cash on hand and the balances held at the central bank. Measurement is based on nominal values.

## 3 Loans and advances to banks and customers; allowance for credit losses

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 reported in the result from the application of the fair value option. 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 allowance for credit losses related to loans and advances to banks and to customers is deducted from the relevant assets’ carrying amount and reported as a separate line item in the statement of financial position. Additions to and reversals of allowances for credit losses related to loans and advances to banks and to customers are recorded in the income statement under the item “Allowance for credit losses“.

DVB’s risk provisioning measures also comprise changes in provisions for loan commitments, other provisions for the lending business and liabilities from financial guarantee contracts. Additions to and reversals of these items are also recognised in the income statement in the item “Allowance for credit losses“.

## 4 Trading assets and trading liabilities

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

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, the fair value is determined using 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 an option feature 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 other shareholdings not accounted for using the equity method.

Investment securities are measured in accordance with the relevant measurement category. Investment securities of the category "Financial assets available for sale" are measured at fair value. The fair value of financial instruments which are listed on an active market is determined on the basis of quoted market prices. If such a quoted market price is not available, the instruments are measured using 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 equity instruments cannot be determined, they are measured at cost.

Investment securities of the category "Loans and receivables" – especially small quantities of bearer bonds not listed in an active market – are measured at amortised cost.

Impairment losses on financial assets are calculated based on the provisions of IAS 39 applicable to the relevant financial assets category or based on the accounting standards relevant for the financial assets concerned and are directly deducted from the carrying amount of the related financial assets.

## 6 Investments in companies accounted for using the equity method

Investments in associates and interests in joint ventures are recognised in the consolidated statement of financial position at cost when the significant influence arises, or upon formation. In subsequent years, the carrying amount is adjusted by taking into account the pro-rata changes in equity of the company concerned. The pro-rata share in net profit of the company concerned is recognised in the income statement in the result from investments in companies accounted for using the equity method.

If there are indications of an impairment of the interests held in a company accounted for using the equity method, an impairment test is performed and, if necessary, the carrying amount of the interests is written down. Impairment losses are reversed if the underlying reasons for an impairment loss cease to exist, up to the amount of the original carrying amount. Impairment losses and reversals of impairment losses are recognised in the income statement item "Result from investments in companies accounted for using the equity method".

## 7 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.

## 8 Property and equipment

Property and equipment includes land and buildings, assets held under operating leases (including but not limited to ships, aircraft, aircraft engines and maritime container boxes), leasehold improvements as well as operating and office equipment. Items of property and equipment are initially recognised at cost. The cost includes the purchase price as well as transaction costs in the form of fees/commissions paid and capitalised borrowing costs in accordance with IAS 23. Subsequent measurement for items of property and equipment is based on their cost less any accumulated depreciation and any accumulated impairment losses, 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 | 40–50 years | straight-line depreciation |
| Operating and office equipment | 3–15 years | straight-line depreciation |
| Leased assets | 0.5–24 years | straight-line depreciation |
| Leasehold improvements | 2–10 years | straight-line depreciation |

## 8.1 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.

### 8.1.1 The Group as lessor

If beneficial ownership of the leased asset remains with DVB, the lease is classified as an operating lease. The 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 amortisation 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.

### 8.1.2 The Group as lessee

The main areas where DVB is the lessee within the context of operating leases is the use of office buildings and cars. The lease payments under 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.

In addition, the Group is the lessee within the context of finance leases in individual cases. These are conducted within the framework of sale-and-leaseback transactions in order to use the leased asset for subleases. Net income from subleases is recognised as interest income, while expenses arising from subleases are reported as interest expenses.

## 8.2 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, or below cost less any accumulated depreciation and any accumulated impairment losses, as the case may be, as at the balance sheet date, a write-down for impairment is made.

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, except if goodwill is concerned.

# 9 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 statement of financial position and the tax base, to the extent that such differences will reverse in future. Deferred income tax assets on tax loss carryforwards are recognised when the timing and the amount of their recoverability in the future can be reliably determined.

# 10 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 reported in the result from the application of the fair value option.

## 11 Securitised liabilities

The item "Securitised liabilities" includes in particular commercial papers, bearer bonds and covered bonds (Pfandbriefe) issued by DVB Bank SE. Items of this category are generally measured at amortised cost, which is determined using the effective interest method.

## 12 Provisions

This item includes defined benefit pension obligations, provisions for early retirement, partial retirement and jubilee payments, as well as other provisions.

DVB Bank SE offers its employees defined benefit obligations for post-employment benefits. The amount of the retirement benefit obligations is based on the remuneration and the length of service of the relevant employee in the Group. A portion of the pension obligations is covered through reinsurance policies.

The pension obligations 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. They 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 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 directly in equity when they occur.

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

## 13 Subordinated liabilities

The item "Subordinated liabilities" includes subordinated loans from banks, subordinated bearer bonds and profit-participation rights issued by DVB Bank SE, as well as silent partnership contributions. The liabilities are measured at amortised cost using the effective interest method.

## 14 Equity

Equity represents the residual interest in the assets of a company after deducting all of its liabilities. At the DVB Group, it comprises issued share capital, capital reserve and retained earnings as well as specific reserves resulting from the application of IAS 39 in order to temporarily recognise certain gains or losses from remeasurement. 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 SE 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.

## Notes to the consolidated income statement

### 15 Net interest income

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

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Interest income | | | |
| from lending and money market transactions | 634.6 | 607.0 | 4.5 |
| from bonds and other fixed-income securities | 12.8 | 2.4 | – |
| from finance leases | 34.1 | 36.4 | –6.3 |
| Current income from operating leases | 212.6 | 159.2 | 33.5 |
| from equity investments and other investment securities | 1.8 | 0.4 | – |
| **Interest income** | **895.9** | **805.4** | **11.2** |
| Interest expenses | | | |
| for deposits | –334.0 | –401.5 | –16.8 |
| for securitised liabilities | –154.1 | –87.4 | 76.3 |
| for subordinated liabilities | –18.4 | –22.5 | –18.2 |
| from operating leases | –131.1 | –101.0 | 29.8 |
| **Interest expenses** | **–637.6** | **–612.4** | **4.1** |
| **Net interest income** | **258.3** | **193.0** | **33.8** |

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 dollar resulted in income of €10.6 million (2010: expense of €20.1 million), which is reported in the item "Interest income from lending and money market transactions". This compares with a correspondingly higher interest expense from US dollar loans.

In the business year under review, interest income from financial instruments not measured at fair value through profit or loss amounted to €576.9 million (2010: €525.5 million), and interest expense amounted to €470.9 million (2010: €410.4 million). Net interest income included interest income in the amount of €31.4 million (2010: €30.4 million) attributable to impaired loans and advances.

### 16 Allowance for credit losses

The allowance for credit losses changed as follows:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Additions | –104.6 | –97.3 | 7.5 |
| Reversals | 41.2 | 54.9 | –25.0 |
| Direct write-offs | –0.6 | –10.9 | –94.5 |
| Recoveries on loans and advances previously written off | 4.8 | 1.3 | – |
| **Total** | **–59.2** | **–52.0** | **13.8** |

The distribution of the allowance for credit losses by business division is outlined in the discussion of financial position and performance (see pages 114–115).

### 17 Net fee and commission income

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

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Fee and commission income | | | |
| from payment transactions | 1.1 | 0.0 | – |
| from guarantees and indemnities | 3.2 | 3.8 | –15.8 |
| from the lending business | 100.1 | 108.3 | –7.6 |
| Other fee and commission income | 18.4 | 21.2 | –13.2 |
| **Fee and commission income** | **122.8** | **133.3** | **–7.9** |
| Fee and commission expenses | | | |
| from the securities business | 0.0 | 0.0 | 0.0 |
| from payment transactions | –0.6 | –0.5 | 20.0 |
| from guarantees and indemnities | –0.2 | –0.1 | – |
| from the lending business | –1.0 | –2.8 | –64.3 |
| Other fee and commission expenses | –4.8 | –5.5 | –12.7 |
| **Fee and commission expenses** | **–6.6** | **–8.9** | **–25.8** |
| **Net fee and commission income** | **116.2** | **124.4** | **–6.6** |

To the extent that interest for irrevocable loan commitments was received, such interest was 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.

Fee and commission income from financial instruments not measured at fair value through profit or loss amounted to €100.1 million (2010: €108.3 million); fee and commission expenses amounted to €1.0 million (2010: €2.8 million).

## 18 Net result from financial instruments in accordance with IAS 39

The net result from financial instruments in accordance with IAS 39 is divided into the net trading result, the hedge result, the result from the application of the fair value option, the result from derivatives entered into without intention to trade, and the net result from investment securities.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Net trading result | –0.6 | 0.3 | – |
| Hedge result | 10.7 | 3.5 | – |
| Result from the application of the fair value option | –0.4 | –0.8 | –50.0 |
| Result from derivatives entered into without intention to trade | –3.9 | 16.5 | – |
| Net result from investment securities | –1.4 | 10.7 | – |
| **Total** | **4.4** | **30.2** | **–85.4** |

### 18.1 Net trading result

The net trading result can be broken down as follows in the year under review:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Net trading result | | | |
| from derivatives | –1.2 | –0.8 | 50.0 |
| from foreign currency transactions | –4.1 | –2.2 | 86.4 |
| from interest and dividend payments | 4.9 | 3.9 | 25.6 |
| Other | –0.2 | –0.6 | –66.7 |
| **Total** | **–0.6** | **0.3** | **–** |

A result from remeasurement reported in net trading income amounting to €–1.4 million (2010: €–1.4 million) was determined on the basis of measurement models.

### 18.2 Hedge result (hedge accounting)

The hedge result can be broken down as follows in the year under review:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Result from derivative hedging instruments | 80.7 | 3.5 | – |
| Result from hedged items | –70.0 | 3.8 | – |
| **Result from remeasurement** | **10.7** | **7.3** | **46.6** |
| Ineffectiveness of cash flow hedges | 0.0 | –3.8 | – |
| **Total** | **10.7** | **3.5** | **–** |

The entire result from remeasurement of hedging relationships, amounting to €10.7 million (2010: €3.5 million), was determined on the basis of measurement models.

### 18.3 Result from the application of the fair value option

The result from the application of the fair value option includes changes in the fair value of those non-derivative financial instruments that have to be accounted for and measured at fair value through profit or loss due to the exercise of the underlying option. To the extent that these non-derivative financial instruments are not part of an economic hedging relationship with derivative financial instruments, the gains or losses from remeasurement of the derivative financial instruments are also included in this item.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances to customers designated as at fair value through profit or loss | 0.0 | 0.0 | 0.0 |
| Deposits from customers and other banks designated as at fair value through profit or loss | 0.1 | 0.5 | –80.0 |
| Economic derivative hedging instruments | –0.5 | –1.3 | –61.5 |
| **Total** | **–0.4** | **–0.8** | **–50.0** |

The entire remeasurement result from the application of the fair value option, amounting to €–0.4 million (2010: €–0.8 million), was determined on the basis of measurement models.

The accumulated changes in the fair value of financial assets and financial liabilities as a result of credit quality issues amounted to €0.0 million (2010: €0.0 million) and €0.0 million (2010: €0.0 million), respectively. This resulted in net result from changes in the fair value as a result of credit quality issues in the amount of €0.0 million for financial assets (2010: €0.0 million) and €0.0 million for financial liabilities (2010: €0.1 million).

### 18.4 Result from derivatives entered into without intention to trade

The result from derivatives entered into without intention to trade includes results from remeasurement of economic hedging derivatives which are not part of an effective hedging relationship with regard to transactions in the banking book in accordance with IAS 39.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Interest rate derivatives | –3.9 | 16.5 | – |
| **Total** | **–3.9** | **16.5** | **–** |

The entire result from remeasurement of derivatives entered into without intention to trade, amounting to €–3.9 million (2010: €16.5 million), was determined on the basis of measurement models.

### 18.5 Net result from investment securities

Net result from investment securities can be broken down as follows in the year under review:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Result from investment securities measured at amortised cost | – | 4.5 | – |
| Result from investment securities available for sale | –1.4 | 6.2 | – |
| **Total** | **–1.4** | **10.7** | **–** |

The net result from investment securities does not include any income from the application of measurement models (2010: income of €4.6 million). The result from investment securities available for sale includes valuation allowances in the amount of €5.2 million (2010: €2.7 million).

## 19 Results from investments in companies accounted for using the equity method

The result from investments in companies accounted for using the equity method can be broken down as follows in the year under review:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Result from joint ventures accounted for using the equity method | –5.8 | 5.3 | – |
| Results from associates accounted for using the equity method | 5.9 | 0.5 | – |
| **Total** | **0.1** | **5.8** | **–98.3** |

## 20 General administrative expenses

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

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Wages and salaries | –96.0 | –90.3 | 6.3 |
| Social security contributions | –6.7 | –5.9 | 13.6 |
| Expenses for pensions and other employee benefits | –6.3 | –5.3 | 18.9 |
| **Staff expenses** | **–109.0** | **–101.5** | **7.4** |
| Expenses for temporary staff | –1.5 | –1.2 | 25.0 |
| Contributions and fees | –8.2 | –7.3 | 12.3 |
| Legal and auditing fees | –13.3 | –13.4 | –0.7 |
| Other advisory services (incl. IT advisory) | –12.4 | –11.9 | 4.2 |
| IT costs | –4.3 | –3.8 | 13.2 |
| Occupancy expenses | –9.5 | –10.8 | –12.0 |
| Procurement of information | –1.4 | –1.4 | 0.0 |
| Public relations | –1.2 | –0.9 | 33.3 |
| Ancillary labour costs | –16.8 | –11.9 | 41.2 |
| Other non-staff expenses | –7.0 | –6.4 | 9.4 |
| **Non-staff expenses** | **–75.6** | **–69.0** | **9.6** |
| Property and equipment, and investment property | –2.6 | –3.0 | –13.3 |
| Intangible assets | –2.2 | –2.7 | –18.5 |
| **Total depreciation, amortisation, impairment and write-ups** | **–4.8** | **–5.7** | **–15.8** |
| **Total general administrative expenses** | **–189.4** | **–176.2** | **7.5** |

In the year under review, minimum lease payments under operating leases in the amount of €–7.4 million (2010: €–5.8 million) were recognised as expenses. There were no contingent rents and sublease payments.

Legal and auditing fees included fees for auditors in the amount of €1.4 million (2010: €1.6 million). These fees were comprised of the following individual items:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Auditing fees | 1.0 | 1.2 | –16.7 |
| Other advisory services | 0.2 | 0.2 | 0.0 |
| Tax advisory services | – | – | – |
| Other services | 0.2 | 0.2 | 0.0 |
| **Total fees** | **1.4** | **1.6** | **–12.5** |

## 21 Net other operating income/expenses

Net other operating income/expenses were as follows:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Income | | | |
| from the disposal of property and equipment | 0.4 | 5.6 | –92.9 |
| from rents | 0.4 | 0.5 | –20.0 |
| from deconsolidation | 4.0 | – | – |
| from the reversal of provisions | 1.3 | 1.3 | 0.0 |
| from the recovery of taxes not related to income | 0.1 | 1.6 | –93.8 |
| from revenues of TES Holdings Ltd | 9.8 | 11.1 | –11.7 |
| from miscellaneous other income | 10.4 | 16.7 | –37.7 |
| **Other operating income** | **26.4** | **36.8** | **–28.3** |
| Losses from the disposal of property and equipment | – | 0.0 | – |
| Expenses from deconsolidation | –4.2 | – | – |
| Additions to provisions | 0.0 | –11.3 | – |
| Expenses for taxes not related to income | 0.0 | –2.1 | – |
| Miscellaneous other expenses | –4.9 | –17.5 | –72.0 |
| **Other operating expenses** | **–9.1** | **–30.9** | **–70.6** |
| **Net other operating income/expenses** | **17.3** | **5.9** | **–** |

## 22 Income taxes

Income taxes were as follows in the year under review:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Current taxes on income | –46.5 | –30.0 | 55.0 |
| Deferred income taxes | | | |
| from temporary differences | 10.4 | 6.8 | 52.9 |
| from tax loss carryforwards | –1.2 | –3.9 | 69.2 |
| **Income taxes** | **–37.3** | **–27.1** | **37.6** |

The expenses from current taxes on income include €2.6 million of prior-period expenses (2010: prior-period income of €8.6 million).

Components of other comprehensive income included the following tax effects: ❶

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

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Consolidated net income before taxes | 147.7 | 131.1 | 12.7 |
| Tax rate in the Group (%) | 31.9 | 31.9 | 0.0 |
| **Expected taxes on income** | **–47.1** | **–41.8** | **12.7** |
| Tax rate differences with regard to earnings components that are subject to taxation in other countries | 12.5 | 17.6 | –29.0 |
| Additional taxes due to non-deductible expenses | –2.7 | –2.9 | –6.9 |
| **Tax effects** | **9.8** | **14.7** | **–33.3** |
| Current taxes | –46.5 | –30.0 | 55.0 |
| Deferred taxes | 9.2 | 2.9 | – |
| **Reported income taxes** | **–37.3** | **–27.1** | **37.6** |

The expected tax rate for the Group was composed of the corporate income tax rate of 15.0%, which is currently applicable in Germany, plus a solidarity surcharge of 5.5%, as well as an average trade tax multiplier (Gewerbesteuerhebesatz) of 460% applicable for Frankfurt/Main. The expected Group tax rate, based on these rates, was 31.9%.

Deferred tax income of €10.4 million is attributable to the recognition or reversal of temporary differences (2010: €6.8 million).

❶ **Tax effects (€ mn)**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Amount before taxes | Income taxes | Amount after taxes | Amount before taxes | Income taxes | Amount after taxes |
| Income and expenses not recognised in the income statement | | | | | | |
| from the revaluation of AfS financial instruments | –2.0 | 0.2 | –1.8 | 1.8 | 0.2 | 2.0 |
| from cash flow hedges | –20.1 | 6.3 | –13.8 | 6.0 | –0.3 | 5.7 |
| from currency translation | 0.5 | – | 0.5 | 0.5 | – | 0.5 |
| from actuarial gains and losses | 0.4 | –0.1 | 0.3 | 0.2 | – | 0.2 |
| **Other comprehensive income** | **–21.2** | **6.4** | **–14.8** | **8.5** | **–0.1** | **8.4** |

## 23 Segment reporting

### 23.1 General information on segment reporting

The segment report illustrates how the individual business divisions contribute to DVB Group's earnings. The segment report is based on the internal management reporting system, and accordingly complies with the requirements of "IFRS 8 – Operating Segments". IFRS 8 requires that segment information be presented on the basis of internal management reporting as regularly used by the chief operating decision maker to make a decision on the allocation of resources to the segments and to assess performance. The function of chief operating decision maker is performed by the Board of Managing Directors of DVB.

### 23.2 Segmentation, reconciliation and consolidation

DVB focuses on its core segments Shipping Finance, Aviation Finance, Land Transport Finance and Investment Management. The active Group Treasury segment is additionally reported. The other segments which are not individually reportable segments as well as the internal Service Centre segment are summarised under "Other segments". Amounts from consolidation adjustments as well as reconciliation items for Group reporting purposes are reported under "Reconciliation/Consolidation".

The segments Shipping Finance, Aviation Finance and Land Transport Finance include the business with traditionally collateralised loans and customised structured financings (Structured Asset Financing) as well as advisory services (Advisory Services). Each segment has its own research, risk management and settlement functions. The Investment Management segment comprises all fund management activities as well as transactions where the Group holds a stake in the equity capital of companies. The Group Treasury segment shows income and expenses from liquidity, interest and capital structure management.

The other, smaller activities of the Group, such as the subsidiary ITF Suisse as well as the D-Marketing portfolio and the Transport Infrastructure portfolio (both no longer in line with our strategy), are summarised in the column "Other segments". In addition, this segment includes those investments that are not allocated to the operating segments. Moreover, this segment includes the central support and management functions as well as significant overheads which the Bank does not allocate to the operating entities, since it assumes that these overheads cannot be directly influenced by the respective management and therefore no direct control factor can be identified.

The "Reconciliation/Consolidation" segment comprises expenses and income that are necessary in order to reconcile financial indicators used for internal management accounting, which are shown in the segment report of the operating business units, to the corresponding data for external financial reporting, as well as the amounts from consolidation adjustments.

### 23.3 Methodology of presentation and measurement principles

Income and expenses are generally reported at market prices, and allocated to the responsible business division. Interest income and expenses are allocated to the relevant segments using market interest rates. Costs are only allocated to the operating business divisions of DVB for which they are directly responsible. General costs of operations, overheads or, for example, IT costs are not allocated to the operating business divisions. Fixed exchange rates are used for currency translation in the operating segments. These are determined in the context of annual planning. DVB's internal management reporting does not take taxes on income into account.

Income or costs from trading activities and exchange rate hedging (hedge accounting) are not allocated to the segments as central functions are responsible for such transactions. Only in exceptional cases do business divisions cause such transactions to be performed (Investment Management).

Intersegment, intragroup transactions are only undertaken to an insignificant degree and are entered into on an arm's length basis.

The interest result of the segments is determined on a net basis, primarily on the basis of market interest rates (i.e. offsetting interest income and interest expenses).

Segment assets exclusively comprise the relevant segment's loan portfolios, represented by the risk-weighted assets in accordance with solvency principle (Grundsatz I) of the German Banking Act (Basel I).

### 23.4 Performance measurement

The success of DVB and of each segment is determined on the basis of consolidated net income before taxes as well as the indicators return on equity and cost/income ratio. The return on equity represents the ratio of consolidated net income before taxes attributable to shareholders of DVB to investor capital on average for the year attributable to shareholders of DVB (issued share capital, capital reserve, retained earnings excluding fund for general banking risks and excluding additions to retained earnings and adjusted for non-controlling interests). The allocation of the average capital to the segments is made in proportion to the segments' economic risks, represented by the average utilisation of economic risk capital. The cost/income ratio is defined as the ratio of administrative expenses and net revenues, excluding the allowance for credit losses.

## 23.5 Reconciliation/consolidation

The "Reconciliation/consolidation" column includes consolidation and reconciliation items to reconcile from the segment result as reported under internal management reporting to the consolidated financial statements. These include, among others:

- Income and expenses that cannot or should not be attributable to any other segment, such as costs for deposit protection schemes or transactions affecting more than one period. They are referred to as "overheads".
- Items resulting from different approaches used in internal and external financial reporting
- Differences arising due to the application of fixed exchange rates on the operating segments
- Other consolidation effects ❶

## 23.6 Disclosures on company level

DVB manages its business activities exclusively by business division. Each business division operates on a global scale. Therefore, the Bank does not follow regional management approaches and does not present segment results by region due to the minor relevance and the disproportionately high effort to collect data.

For information on products and services, please refer to the information provided regarding the business segments in the group management report.

| ❶ € mn | Reconciliation/consolidation 2011 | Reconciliation/consolidation 2010 | Reconciliation 2011 | Reconciliation 2010 | Consolidation 2011 | Consolidation 2010 |
|---|---|---|---|---|---|---|
| **Income** | **1.9** | **–60.4** | **21.3** | **–21.4** | **–19.5** | **–39.0** |
| Net interest income after allowance for credit losses | 5.0 | –41.4 | 21.2 | –13.2 | –16.2 | –28.2 |
| thereof: net interest income | 6.4 | –40.1 | 21.2 | –13.2 | –14.8 | –26.9 |
| thereof: allowance for credit losses | –1.4 | –1.3 | 0.0 | – | –1.4 | –1.3 |
| Net fee and commission income | 0.6 | –0.2 | –2.0 | –2.1 | 2.6 | 1.9 |
| Net result from financial instruments in accordance with IAS 39 | –1.2 | –3.5 | –1.2 | –3.5 | 0.0 | – |
| Results from investments in companies accounted for using the equity method | 0.3 | 0.1 | 0.0 | 0.0 | 0.3 | 0.1 |
| Net other operating income/expenses | –2.8 | –15.4 | 3.3 | –2.6 | –6.1 | –12.8 |
| **General administrative expenses** | **–34.0** | **–38.9** | **–30.0** | **–27.5** | **–4.0** | **–11.4** |
| Staff expenses | –10.9 | –15.0 | –12.7 | –11.5 | 1.8 | –3.5 |
| Non-staff expenses | –22.6 | –22.9 | –17.1 | –15.8 | –5.4 | –7.1 |
| Depreciation, amortisation, impairment and write-ups | –0.5 | –1.0 | –0.1 | –0.2 | –0.4 | –0.8 |
| **Consolidated net income before taxes** | **–32.1** | **–99.3** | **–8.6** | **–48.9** | **–23.5** | **–50.4** |
| **Cost/income ratio**1) | – | – | – | – | – | – |
| **Return on equity**2) | – | – | – | – | – | – |
| **Risk-weighted assets in accordance with Basel I (average)** | **164.4** | **222.4** | **164.4** | **222.4** | – | – |

1) Excluding allowance for credit losses 2) Before taxes

## Notes to the statement of financial position

### 24 Cash and balances with the central bank

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Cash on hand | 18.4 | 4.4 | – |
| Balances with the central bank | 62.5 | 109.9 | –43.1 |
| **Total** | **80.9** | **114.3** | **–29.2** |

This item includes a minimum reserve requirement in the amount of €8.4 million (2010: €12.0 million).

### 25 Loans and advances to banks

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances | 455.3 | 361.1 | 26.1 |
| thereof: payable on demand | 453.9 | 361.1 | 25.7 |
| thereof: with a limited term | 1.4 | 0.0 | – |
| Money market transactions | 36.4 | 48.6 | –25.1 |
| thereof: payable on demand | – | – | – |
| thereof: with a limited term | 36.4 | 48.6 | –25.1 |
| Other loans and advances to banks | 0.1 | 0.6 | –83.3 |
| **Total** | **491.8** | **410.3** | **19.9** |
| German banks | 83.8 | 114.6 | –26.9 |
| Foreign banks | 408.0 | 295.7 | 38.0 |
| **Total** | **491.8** | **410.3** | **19.9** |

### 26 Loans and advances to customers

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances | 18,708.4 | 16,432.7 | 13.8 |
| thereof: payable on demand | 206.0 | 164.1 | 25.5 |
| thereof: with a limited term | 18,502.4 | 16,268.6 | 13.7 |
| Other loans and advances to customers | 30.6 | 12.3 | – |
| **Total** | **18,739.0** | **16,445.0** | **13.9** |
| German customers | 1,036.5 | 1,060.5 | –2.3 |
| Foreign customers | 17,702.5 | 15,384.5 | 15.1 |
| **Total** | **18,739.0** | **16,445.0** | **13.9** |

Loans and advances also include items with a carrying amount of €3.4 million (2010: €6.5 million) which are measured at fair value through profit or loss under the fair value option.

As at 31 December 2011, the Company had finance leases for ships, maritime container boxes, airplanes and aircraft engines with a total lease term of between five and 14 years. These leases are reported under loans and advances with a limited term, in an amount of €445.1 million (2010: €566.5 million).

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Total lease payments | 495.9 | 588.0 | –15.7 |
| Guaranteed residual value | 71.1 | 102.3 | 30.5 |
| **Gross investment value** | **567.0** | **690.3** | **–17.9** |
| thereof: within one year | 110.4 | 87.5 | 26.2 |
| thereof: within one to five years | 285.5 | 349.5 | –18.3 |
| thereof: after more than five years | 171.1 | 253.3 | –32.5 |

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| **Total gross investment** | **567.0** | **690.3** | **–17.9** |
| Less unearned finance income | 121.9 | 123.8 | –1.6 |
| **Total net investment** | **445.1** | **566.5** | **–21.4** |
| thereof: within one year | 86.7 | 71.8 | 20.8 |
| thereof: within one to five years | 224.1 | 286.8 | –21.9 |
| thereof: after more than five years | 134.3 | 207.9 | –35.4 |

## 27 Allowance for credit losses

The allowance for credit losses (i.e. not including provisions) is based on rules applied consistently throughout the Group, and covers all risks known as at the reporting date. For losses incurred, but not yet identified, a portfolio-based allowance for credit losses (portfolio impairment) is recognised on the basis of historical experience. ❶

The specific allowance for credit losses of €111.8 million (2010: €150.2 million) exclusively related to loans and advances to customers.

The details on the development of the allowance for credit losses by business division and region is described in the report on opportunities and risks (see pages 144–146).

## 28 Positive fair values of derivative hedging instruments

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Interest rate products | 473.7 | 357.1 | 32.7 |
| Currency-related products | 1.3 | 5.8 | –77.6 |
| **Total** | **475.0** | **362.9** | **30.9** |

## 29 Trading assets

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Derivative financial instruments with positive fair values | 147.6 | 165.9 | –11.0 |
| thereof: interest rate products | 133.2 | 102.7 | 29.7 |
| thereof: currency-related products | 14.4 | 63.2 | –77.2 |
| Non-derivative financial instruments | 140.2 | 27.2 | – |
| thereof: syndicated loans | 140.2 | 27.2 | – |
| **Total** | **287.8** | **193.1** | **49.0** |

## 30 Investment securities

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Bonds and other fixed-income securities | 458.7 | 85.1 | – |
| thereof: bonds and notes | 458.7 | 85.1 | – |
| Equities and other non-fixed-income securities | 12.1 | 16.1 | –24.8 |
| Equity investments | 13.9 | 9.7 | 44.3 |
| **Total** | **484.7** | **110.9** | – |

Equity investments, equities and other non-fixed-income securities also include equity instruments measured at cost with a total carrying amount of €13.9 million (2010: €9.7 million) and €8.7 million (2010: €8.8 million), respectively. It was not possible to identify market prices for these instruments on an active market, nor could fair values reliably be estimated for them.

Gains from the disposal of equity instruments measured at cost were recognised in profit or loss in the amount of €0.1 million (2010: €0.0 million).

❶

| | Specific allowance for credit losses | | Portfolio-based allowance for credit losses | | Total | |
|---|---|---|---|---|---|---|
| € mn | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Balance as at 1 Jan | 150.2 | 127.7 | 32.3 | 30.8 | 182.5 | 158.5 |
| Additions | 96.9 | 86.0 | 7.5 | 10.9 | 104.4 | 96.9 |
| Utilisation | –101.0 | –29.1 | – | – | –101.0 | –29.1 |
| Reversals | –38.0 | –44.3 | –3.2 | –9.6 | –41.2 | –53.9 |
| Changes resulting from exchange rate fluctuations | 3.7 | 9.9 | 0.0 | 0.2 | 3.7 | 10.1 |
| **Balance as at 31 Dec** | **111.8** | **150.2** | **36.6** | **32.3** | **148.4** | **182.5** |

## 31 Investments in companies accounted for using the equity method

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Investments in associates | 13.0 | 6.4 | – |
| Interests in joint ventures | 90.7 | 30.9 | – |
| **Total** | **103.7** | **37.3** | **–** |

Investments in associates, as well as interests in joint ventures, primarily relate to equity investments held by the Investment Management division.

The financial data of associates accounted for using the equity method are as follows, regardless of the respective interest held by DVB:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Assets | 251.7 | 116.1 | – |
| Liabilities | 182.8 | 65.3 | – |
| Income | 35.3 | 10.3 | – |
| Profit or loss for the period | 2.8 | 1.9 | 47.4 |

The financial data of joint ventures accounted for using the equity method are as follows, based on the respective interest held by DVB:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Assets | 372.7 | 88.0 | – |
| Liabilities | 314.9 | 55.6 | – |
| Income | 27.4 | 10.6 | – |
| Expenses | 25.2 | –5.3 | – |

## 32 Intangible assets

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Goodwill | 102.9 | 107.0 | –3.8 |
| Other intangible assets | 5.0 | 4.7 | 6.4 |
| **Total** | **107.9** | **111.7** | **–3.4** |

## 33 Property and equipment

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Land and buildings | 12.5 | 12.7 | –1.6 |
| Operating and office equipment | 6.0 | 4.1 | 46.3 |
| Assets held under operating leases | 778.5 | 1,168.5 | –33.4 |
| Other property and equipment | 447.6 | 85.7 | – |
| **Total** | **1,244.6** | **1,271.0** | **–2.1** |

As at 31 December 2011, Group companies were lessors for ships, aircraft, aircraft engines and railcars provided under operating leases. The lease term was one to ten years for ships, four to ten years for aircraft, six months to seven years for aircraft engines, and one to six years for railcars.

During the year under review, borrowing costs for qualifying assets in operating leases in accordance with IAS 23 were capitalised in the amount of €0.4 million (2010: €6.3 million). This corresponds to an average capitalisation rate of 1.2%. In addition, payments of agency commissions and legal fees in the amount of €1.8 million (2010: €3.2 million) were included in the cost.

The sum of future minimum lease payments as at 31 December 2011 was as follows:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Future minimum lease payments | | | |
| due within one year | 149.8 | 170.9 | –12.3 |
| due within one to five years | 385.3 | 498.7 | –22.7 |
| due after more than five years | 240.3 | 215.2 | 11.7 |
| **Total** | **775.4** | **884.8** | **–12.4** |

## 34 Statement of changes in non-current assets

Depreciation, amortisation, and impairment 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. An impairment loss has to be recognised when the recoverable amount of a cash-generating unit to which goodwill has been allocated is less than its carrying amount.

In the business year under review, goodwill was allocated to the following cash-generating units, which correspond to the respective operating segments:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Shipping Finance | 74.7 | 74.7 | 0.0 |
| Aviation Finance | 8.0 | 8.0 | 0.0 |
| Investment Management | 20.2 | 24.3 | –16.9 |
| **Total** | **102.9** | **107.0** | **–3.8** |

The impairment tests performed as at the balance sheet date on the basis of the value in use did not result in any write-downs for impairment to be recognised. The value in use is determined on the basis of a medium-term, five-year projection for all material income and expense components. A constant earnings situation is assumed for periods of five years. The discount rates used are determined on the basis of the Capital Asset Pricing Model, which includes a risk-free interest rate, a market risk premium as well as a factor for the systematic risk (beta factor). The values for the risk-free interest rate, the market risk premium and the beta factor are determined using external information sources. Business-specific beta factors are based on a corresponding group of peer companies. Fluctuations of the above-mentioned components may affect the calculation of the discount rates. The discount rates used in the business year 2011 for the cash-generating units range between 13.5% and 16.0%.

Intangible assets included internally-generated assets with a carrying amount of €1.9 million (2010: €1.4 million).

Other non-current assets comprised transport assets held for short-term rental (€228.5 million), maritime container boxes (€117.9 million) and assets under construction (€117.9 million).

**Statement of changes in non-current assets (€ mn)**

| | Land and buildings | Operating and office equipment | Leased assets | Other property and equipment | Intangible assets (excluding goodwill) | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| **Cost 1 Jan** | **16.3** | **17.3** | **1,343.9** | **86.3** | **15.4** | **107.0** | **1,586.2** |
| Additions at cost | 0.1 | 2.4 | 403.9 | 204.0 | 1.3 | – | 611.7 |
| Disposals at cost | – | –3.2 | –666.8 | –98.2 | –0.1 | –4.1 | –772.4 |
| Reclassifications | – | 1.9 | –73.8 | 275.3 | 1.3 | – | 204.7 |
| Changes in the group of consolidated companies | – | – | –91.2 | –25.6 | – | – | –116.8 |
| Exchange rate changes | 0.2 | 0.0 | 2.3 | 39.2 | – | – | 41.7 |
| **Cost as at 31 Dec 2011** | **16.6** | **18.4** | **918.3** | **481.0** | **17.9** | **102.9** | **1,555.1** |
| Write-ups | – | – | 1.2 | – | – | – | 1.2 |
| Depreciation and amortisation | –0.5 | –2.1 | –52.5 | –24.8 | –2.2 | – | –82.0 |
| Impairment | – | – | –12.5 | –12.2 | – | – | –24.7 |
| Depreciation, amortisation and impairment (previous years) | –3.6 | –13.2 | –175.4 | –0.6 | –10.6 | – | –203.4 |
| Depreciation, amortisation and impairment (disposals) | – | 2.8 | 78.1 | 6.0 | –0.1 | – | 86.8 |
| Changes in the group of consolidated companies | – | – | 28.5 | 0.3 | – | – | 28.8 |
| Exchange rate changes | 0.0 | 0.1 | –7.2 | –2.1 | 0.0 | – | –9.3 |
| Cumulative depreciation, amortisation, impairment and write-ups | –4.1 | –12.4 | –139.8 | –33.4 | –12.9 | – | –202.6 |
| **Net book value as at 31 Dec 2011** | **12.5** | **6.0** | **778.5** | **447.6** | **5.0** | **102.9** | **1,352.5** |
| Net book value as at 31 Dec 2010 | 12.7 | 4.1 | 1,168.5 | 85.7 | 4.7 | 107.0 | 1,382.8 |

## 35 Income tax assets

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Current income tax assets | | | |
| Germany | 0.4 | 0.9 | –55.6 |
| Foreign countries | 2.8 | 4.2 | –33.3 |
| Deferred income tax assets | | | |
| Temporary differences | 74.3 | 100.0 | –25.7 |
| Loss carryforward | – | 1.2 | – |
| **Total** | **77.5** | **106.3** | **–27.1** |

No deferred tax assets were capitalised for tax loss carryforwards in the amount of €10.2 million (2010: €0.0 million), as requirements set out in IAS 12.34 et seq. were not fulfilled. Deferred tax assets of €1.2 million on loss carryforwards in the amount of €4.6 million from the prior year was reversed through profit or loss.

Deferred income tax assets were recognised for the following items of the statement of financial position:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Trading assets | 0.7 | 8.0 | –91.3 |
| Provisions | 5.1 | 5.0 | 2.0 |
| Deposits from customers and other banks | 54.5 | 78.0 | –30.1 |
| Other items | 7.7 | 5.4 | 42.6 |
| Loans and advances to banks and customers, including allowance for credit losses | 6.3 | 3.6 | 75.0 |
| **Total** | **74.3** | **100.0** | **–25.7** |

We recognised deferred tax assets in the amount of €6.0 million (2010: €0.9 million) directly in equity.

## 36 Other assets

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Receivables from taxes not related to income | 3.0 | 1.6 | 87.5 |
| Advance payments and prepaid expenses | 1.7 | 1.3 | 30.8 |
| Container portfolio | – | 223.1 | – |
| Miscellaneous other assets | 81.8 | 110.5 | –26.0 |
| **Total** | **86.5** | **336.5** | **–74.3** |

## 37 Deposits from other banks

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances | 4,998.1 | 5,988.9 | –16.5 |
| thereof: payable on demand | 394.3 | 0.6 | – |
| thereof: with a limited term | 4,603.8 | 5,988.3 | –23.1 |
| Money market transactions | 192.3 | 1,225.7 | –84.3 |
| thereof: payable on demand | – | 311.3 | – |
| thereof: with a limited term | 192.3 | 914.4 | –79.0 |
| Other deposits from other banks | – | – | – |
| **Total** | **5,190.4** | **7,214.6** | **–28.1** |
| German banks | 4,761.5 | 6,796.5 | –29.9 |
| Foreign banks | 428.9 | 418.1 | 2.6 |
| **Total** | **5,190.4** | **7,214.6** | **–28.1** |

Deposits from other banks also included such loans and advances with a total carrying amount of €5.3 million (2010: €26.4 million), which are measured at fair value through profit or loss under the fair value option. The difference between the carrying amount and the repayment amount was €0.3 million (2010: €0.6 million) as at the balance sheet date.

## 38 Deposits from customers

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances | 4,344.2 | 4,272.6 | 1.7 |
| thereof: payable on demand | 158.4 | 192.9 | –17.9 |
| thereof: with a limited term | 4,185.8 | 4,079.7 | 2.6 |
| Money market transactions | 79.9 | 107.8 | –25.9 |
| thereof: with a limited term | 79.9 | 107.8 | –25.9 |
| Other deposits from customers | 36.2 | 28.4 | 27.5 |
| **Total** | **4,460.3** | **4,408.8** | **1.2** |
| German customers | 4,161.7 | 3,886.3 | 7.1 |
| Foreign customers | 298.6 | 522.5 | –42.9 |
| **Total** | **4,460.3** | **4,408.8** | **1.2** |

## 39 Securitised liabilities

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Ship covered bonds | 546.9 | 249.3 | – |
| Bearer bonds | 9,283.2 | 5,070.6 | 83.1 |
| **Total** | **9,830.1** | **5,319.9** | **84.8** |

## 40 Negative fair values of derivative hedging instruments

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Interest rate products | 278.0 | 191.9 | 44.9 |
| Currency-related products | 18.3 | 5.7 | – |
| **Total** | **296.3** | **197.6** | **49.9** |

## 41 Trading liabilities

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Derivative financial instruments with negative fair values | | | |
| thereof: interest rate products | 209.0 | 150.2 | 39.1 |
| thereof: currency-related products | 164.4 | 76.9 | – |
| **Total** | **373.4** | **227.1** | **64.4** |

## 42 Provisions

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Provisions for pension obligations | 14.5 | 14.9 | –2.7 |
| Provisions for early and partial retirement | 0.6 | 0.8 | –25.0 |
| Other provisions | 44.6 | 42.9 | 4.0 |
| **Total** | **59.7** | **58.6** | **1.9** |

The pension obligations changed during the year under review as follows:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Present value of the pension obligations as at 1 Jan (defined benefit obligation) | 32.0 | 29.1 | 10.0 |
| Plan assets | –17.1 | –14.1 | 21.3 |
| **Carrying amount of pension provisions as at 1 Jan** | **14.9** | **15.0** | **–0.7** |
| Change in the year under review | | | |
| Service cost | 0.6 | 0.6 | 0.0 |
| Interest cost | 1.6 | 1.6 | 0.0 |
| Expected return on plan assets | –0.7 | –0.8 | –12.5 |
| Actuarial gains and losses | –0.4 | –0.2 | – |
| Benefits paid | –1.5 | –1.3 | 15.4 |
| **Carrying amount of pension provisions as at 31 Dec** | **14.5** | **14.9** | **–2.7** |
| Present value of the pension obligations as at 31 Dec (defined benefit obligation) | 32.7 | 32.0 | 2.2 |
| Plan assets | –18.2 | –17.1 | 6.4 |
| **Carrying amount of pension provisions as at 31 Dec** | **14.5** | **14.9** | **–2.7** |

The interest expense of €1.6 million (2010: €1.6 million) was recorded under staff expenses. The actual return on plan assets amounted to €1.1 million (2010: €0.8 million).

The funded status of the pension obligations was as follows: ❶

The following experience adjustments were made in the business year under review:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Experience adjustments of pension obligations | –0.4 | 0.8 | – |
| Experience adjustments of plan assets | – | – | – |

The calculation of the present value of the pension obligations is based on the following actuarial assumptions:

| % | 2011 | 2010 |
|---|---|---|
| Discount rate | 5.0 | 5.0 |
| Expected salary increase | 2.5 | 2.5 |
| Pension increase | 2.0 | 2.0 |
| Expected return on plan assets | 5.0 | 5.0 |

In the business year 2011, the Company used the mortality tables called "Richttafeln 2005 G", by Prof Dr Klaus Heubeck, the mortality tables published by the Norwegian Financial Service Association (FNH), as well as the Dutch mortality tables (Dutch table – AG Prognosetafel 2010–2060) for the measurement of the pension provisions related to the employees of DVB Bank SE.

Plan assets attributable to active members as at the reporting date can be broken down as follows:

| Form of investment (%) | 2011 | 2010 |
|---|---|---|
| Equities | 0.4 | 1.0 |
| Fixed-income financial instruments | 6.8 | 5.6 |
| Properties | 1.5 | 1.7 |
| Cash balances | – | – |
| Other pension plan sponsors | 91.3 | 91.7 |
| **Total** | **100.0** | **100.0** |

We expect additions to plan assets for the business year 2012 in the amount of €0.4 million (2011: €0.4 million).

Other provisions in the Group were as follows:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Asset retirement obligations | 1.0 | 1.0 | 0.0 |
| Lending business | 0.5 | 0.4 | 25.0 |
| Bonuses | 35.0 | 31.4 | 11.5 |
| Litigation | 0.0 | 0.1 | – |
| Miscellaneous other provisions | 8.1 | 10.0 | –19.0 |
| **Total** | **44.6** | **42.9** | **4.0** |

The provisions for bonuses mainly refer to bonus payments to employees of DVB, and are likely to result in an outflow of resources in the following business year.

| ❶ € mn | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Present value of pension obligations | 32.7 | 32.0 | 29.1 | 29.1 | 32.6 |
| Plan assets | –18.2 | –17.1 | –14.1 | –14.7 | –13.9 |
| **Total** | **14.5** | **14.9** | **15.0** | **14.4** | **18.7** |

The provisions changed during the year under review as follows: ❶

In the previous year, provisions changed as follows: ❷

The details on the development of the provisions for the lending business by business division is described in the report on opportunities and risks (pages 144–146).

## 43 Income tax liabilities

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Current income tax liabilities | 35.4 | 26.4 | 34.1 |
| Deferred income tax liabilities | 38.3 | 81.0 | –52.7 |
| **Total** | **73.7** | **107.4** | **–31.4** |

Deferred income tax liabilities were recognised for the following items of the statement of financial position:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances to banks and customers, incl. allowance for credit losses | 14.0 | 28.2 | –50.4 |
| Trading assets and hedging instruments | 12.5 | 33.1 | –62.2 |
| Investment securities | 1.7 | 8.3 | –79.5 |
| Property and equipment | 2.8 | 4.3 | –34.9 |
| Deposits from customers and other banks | – | – | – |
| Provisions | 3.0 | 3.0 | 0.0 |
| Other items | 4.3 | 4.1 | 4.9 |
| **Total** | **38.3** | **81.0** | **–52.7** |

Deferred tax liabilities were recognised in the amount of €27 thousand (2010: €1,362 thousand) directly in equity.

**❶ Provisions 2011 (€ mn)**

| | Balance as at 1 Jan 2011 | Additions | Reversals | Utilisation | Reclassification | Exchange rate changes | Balance as at 31 Dec 2011 |
|---|---|---|---|---|---|---|---|
| Asset retirement obligations | 1.0 | – | – | – | – | – | 1.0 |
| Lending business | 0.4 | 0.2 | – | – | – | –0.1 | 0.5 |
| Bonuses | 31.4 | 41.4 | –5.0 | –32.7 | – | –0.1 | 35.0 |
| Litigation | 0.1 | 0.0 | – | –0.1 | – | – | 0.0 |
| Miscellaneous other provisions | 10.0 | 7.6 | –1.3 | –5.9 | –2.3 | 0.0 | 8.1 |
| **Total** | **42.9** | **49.2** | **–6.3** | **–38.7** | **–2.3** | **–0.2** | **44.6** |

**❷ Provisions 2010 (€ mn)**

| | Balance as at 1 Jan 2010 | Additions | Reversals | Utilisation | Exchange rate changes | Balance as at 31 Dec 2010 |
|---|---|---|---|---|---|---|
| Asset retirement obligations | 1.0 | – | – | – | – | 1.0 |
| Lending business | 1.0 | 0.1 | –0.7 | 0.0 | 0.0 | 0.4 |
| Bonuses | 26.7 | 33.4 | – | –30.0 | 1.3 | 31.4 |
| Litigation | 0.1 | 0.0 | – | 0.0 | – | 0.1 |
| Miscellaneous other provisions | 7.3 | 11.3 | –1.3 | –7.5 | 0.2 | 10.0 |
| **Total** | **36.1** | **44.8** | **–2.0** | **–37.5** | **1.5** | **42.9** |

## 44 Other liabilities

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Other tax liabilities | 0.3 | 1.0 | –70.0 |
| Miscellaneous other liabilities | 136.2 | 93.0 | 46.5 |
| **Total** | **136.5** | **94.0** | **45.2** |

## 45 Subordinated liabilities

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Subordinated promissory note loans | 400.6 | 484.0 | –17.2 |
| Subordinated bearer bonds | – | 61.5 | – |
| **Total** | **400.6** | **545.5** | **–26.6** |

Other subordinated liabilities include non-controlling interests in subsidiaries controlled by DVB which have to be reported as liabilities due to written put options in accordance with IAS 32.

## 46 Equity

Equity can be broken down as follows:

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Issued share capital | 117.9 | 118.0 | –0.1 |
| Capital reserve | 331.7 | 332.5 | –0.2 |
| Retained earnings | 740.8 | 661.3 | 12.0 |
| Revaluation reserve | 0.1 | 1.9 | –94.7 |
| Hedging reserve – cash flow hedges | –11.1 | 2.7 | – |
| Currency translation reserve | –1.7 | –2.2 | –22.7 |
| Distributable profit | 27.9 | 27.9 | 0.0 |
| **Equity before non-controlling interests** | **1,205.6** | **1,142.1** | **5.6** |
| Non-controlling interests | 4.4 | 1.2 | – |
| **Equity** | **1,210.0** | **1,143.3** | **5.8** |

### 46.1 Issued share capital

As at the balance sheet date, the fully paid share capital of DVB Bank SE amounted to €118,791,945.12, pursuant to Article 4 (1) of the Articles of Association, and consisted of 46,467,370 no-par value shares. These no-par value shares exclusively consisted of ordinary bearer shares. Please refer to sections 54 et. seq. of the AktG regarding the rights and duties attached to such shares. DZ BANK held a share of 95.45% in the share capital of DVB Bank SE. The remaining shares (4.55%) were in free float.

Pursuant to Article 4 (2) of the Memorandum and Articles of Association ("Authorised Capital 2010"), the Board of Managing Directors is authorised to increase the share capital by up to €50 million; this authority will expire on 8 June 2015. Based on an assumed imputed value per no-par value share of €2.55645940598, the maximum number of new no-par value shares issued from "Authorised Capital 2010" would be 19,558,300.

Furthermore, pursuant to Article 4 (3) of the Memorandum and Articles of Association ("Conditional Capital 2010"), the share capital is subject to a conditional capital increase until 8 June 2015 not exceeding €25 million through the issuance of 9,779,149 new no-par value bearer shares to be issued from convertible bonds and bonds cum warrants. The Board of Managing Directors is authorised to determine the details of the conditional capital increase.

## 46.2 Capital reserve

The capital reserve includes the premium from the issuance of shares, including subscription rights, exceeding the nominal value or the imputed value.

## 46.3 Treasury shares

As at 31 December 2011, DVB Bank SE held a total of 351,459 treasury shares at a carrying amount of €8,990,855.14, which are deducted from equity using the par value method. For this purpose, the treasury shares are divided into the components "Issued share capital" and "Capital reserve". Gains or losses arising from transactions with treasury shares are offset against retained earnings.

## 46.4 Retained earnings

Retained earnings include the legal reserve, other retained earnings, as well as the fund for general banking risks.

The legal reserve amounted to €1.3 million (2010: €1.3 million) and was subject to restrictions with regard to distribution to shareholders.

Other retained earnings comprise the undistributed profits of the Group, including the cumulative amounts resulting from consolidation adjustments recognised in profit or loss. Of the other retained earnings, an amount of €8.4 million (2010: €3.1 million) was not distributable pursuant to section 268 (8) sentence 2 of the HGB.

In addition, retained earnings also include the fund for general banking risks totalling €82.4 million (2010: €82.4 million).

## 46.5 Revaluation reserve

The revaluation reserve includes the changes in the fair value of financial assets available for sale, taking into account deferred taxes.

## 46.6 Hedging reserve – cash flow hedges

The item "Hedging reserve – cash flow hedges" includes measurement gains or losses from hedging instruments attributable to the effective portion of the hedging relationship, taking into account deferred taxes. The cash flows hedged through the hedging relationship will mainly be received by the Company in the following business year.

## 46.7 Currency translation reserve

Currency translation differences resulting from the translation of financial statements of Group companies denominated in a foreign currency into euro (the Group currency) are recognised in the currency translation reserve.

## 46.8 Non-controlling interests

Non-controlling interests include the interest in equity of subsidiaries not attributable to DVB.

## Notes to financial instruments

### 47 Classes and categories of financial instruments

The carrying amounts and fair values of financial assets and financial liabilities were allocated to the classes and categories (or subcategories) of financial instruments as indicated in the tables below:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| € mn | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets measured at fair value** | **1,209.1** | **1,209.1** | **635.4** | **635.4** |
| Financial assets held for trading | 287.8 | 287.8 | 193.1 | 193.1 |
| thereof: trading assets | 287.8 | 287.8 | 193.1 | 193.1 |
| Financial assets designated as at fair value through profit or loss | 3.4 | 3.4 | 6.5 | 6.5 |
| thereof: loans and advances to banks | – | – | – | – |
| thereof: loans and advances to customers | 3.4 | 3.4 | 6.5 | 6.5 |
| thereof: investment securities | – | – | – | – |
| Derivative hedging instruments | 475.0 | 475.0 | 362.9 | 362.9 |
| thereof: positive fair values of derivative hedging instruments | 475.0 | 475.0 | 362.9 | 362.9 |
| Financial assets available for sale | 442.9 | 442.9 | 72.9 | 72.9 |
| thereof: investment securities | 442.9 | 442.9 | 72.9 | 72.9 |
| **Financial assets measured at amortised cost** | **18,738.2** | **19,531.1** | **16,247.7** | **16,547.2** |
| Loans and receivables | 18,715.7 | 19,088.8 | 16,229.2 | 16,528.7 |
| thereof: cash and balances with the central bank | 62.5 | 62.5 | 109.9 | 109.9 |
| thereof: loans and advances to banks | 491.8 | 491.8 | 410.3 | 410.3 |
| thereof: loans and advances to customers | 18,142.1 | 18,510.0 | 15,689.5 | 15,980.5 |
| thereof: investment securities | 19.2 | 24.5 | 19.5 | 28.0 |
| thereof: other assets | – | – | – | – |
| Financial assets available for sale | 22.6 | 22.6 | 18.5 | 18.5 |
| thereof: investment securities | 22.6 | 22.6 | 18.5 | 18.5 |
| **Other financial assets** | **445.1** | **442.3** | **566.5** | **572.1** |
| Finance leases | 445.1 | 442.3 | 566.5 | 572.1 |
| thereof: loans and advances to customers | 445.1 | 442.3 | 566.5 | 572.1 |

| € mn | 2011 Carrying amount | 2011 Fair value | 2010 Carrying amount | 2010 Fair value |
|---|---|---|---|---|
| **Financial liabilities measured at fair value** | **675.0** | **675.0** | **451.1** | **451.1** |
| Financial liabilities held for trading | 373.4 | 373.4 | 227.1 | 227.1 |
| thereof: trading liabilities | 373.4 | 373.4 | 227.1 | 227.1 |
| thereof: other liabilities | – | – | – | – |
| Fair value option | 5.3 | 5.3 | 26.4 | 26.4 |
| thereof: deposits from other banks | 5.3 | 5.3 | 26.4 | 26.4 |
| thereof: deposits from customers | – | – | – | – |
| thereof: securitised liabilities | – | – | – | – |
| thereof: subordinated liabilities | – | – | – | – |
| Derivative hedging instruments | 296.3 | 296.3 | 197.6 | 197.6 |
| thereof: negative fair values of derivative hedging instruments | 296.3 | 296.3 | 197.6 | 197.6 |
| **Financial liabilities measured at amortised cost** | **20,000.9** | **19,331.7** | **17,449.9** | **17,211.2** |
| Deposits from other banks | 5,185.1 | 4,990.1 | 7,188.2 | 7,076.7 |
| Deposits from customers | 4,448.9 | 4,136.4 | 4,396.3 | 4,255.9 |
| Securitised liabilities | 9,830.1 | 9,684.8 | 5,319.9 | 5,344.3 |
| Other liabilities | 136.2 | 136.2 | – | – |
| Subordinated liabilities | 400.6 | 384.2 | 545.5 | 534.3 |
| **Other financial liabilities** | **11.4** | **11.7** | **12.5** | **13.6** |
| Finance leases | 11.4 | 11.7 | 12.5 | 13.6 |
| thereof: deposits from customers | 11.4 | 11.7 | 12.5 | 13.6 |

Financial collateral of €480.3 million was pledged at the year-end.

## 48 Determination of fair values of financial instruments

The fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments which are listed on an active market is determined on the basis of market prices. The fair value of shares in funds is determined using the redemption price as published by the investment company. The fair values of these financial instruments are allocated to Level 1.

The fair value of financial instruments which are not listed on an active market is determined on the basis of accepted valuation models used uniformly throughout all classes and allocated to Level 2. Non-derivative financial instruments as well as derivative financial instruments with no option components are measured using the DCF method. The basis of deriving the discount rate is the use of currency-specific swap curves as well as term-dependent interest rates based upon LIBOR- and EURIBOR-based indices. Derivative financial instruments with option characteristics are measured using accepted option pricing models (Black-Scholes model or Garmann-Kohlhagen model). The measurement models use parameters that largely can be observed on the market.

During the year under review, the determination of the fair values of financial instruments included in Level 2 did not result in any changes.

To the extent that the measurement models use inputs that are largely not observable on the market, the resulting fair values are allocated to Level 3.

In the year under review, there were no reclassifications between the individual levels.

The fair values of the financial instruments were determined in accordance with the following methods, to the extent that these instruments were included in measurement as at the balance sheet date: ❶

## 49 Unrecognised differences upon initial recognition

In the year under review, gains in the amount of €9.5 million from the purchase of financial assets not recorded upon initial recognition as well as the resulting amortisation amounts of €0.2 million were recognised. Taking currency translation effects of €0.6 million into account, the end balance was €9.9 million.

**❶ Determination of fair values of financial instruments (€ mn)**

| | | Level 1 | | Level 2 | | Level 3 |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Financial assets measured at fair value** | **437.5** | **59.9** | **771.6** | **575.5** | **–** | **–** |
| Loans and advances to banks | – | – | – | – | – | – |
| Loans and advances to customers | – | – | 3.4 | 6.5 | – | – |
| Trading assets | – | – | 287.8 | 193.1 | – | – |
| Positive fair values of derivative hedging instruments | – | – | 475.0 | 362.9 | – | – |
| Investment securities | 437.5 | 59.9 | 5.4 | 13.0 | – | – |
| **Financial liabilities measured at fair value** | **–** | **–** | **675.0** | **451.1** | **–** | **–** |
| Deposits from other banks | – | – | 5.3 | 26.4 | – | – |
| Deposits from customers | – | – | – | – | – | – |
| Trading liabilities | – | – | 373.4 | 227.1 | – | – |
| Negative fair values of derivative hedging instruments | – | – | 296.3 | 197.6 | – | – |
| Subordinated liabilities | – | – | – | – | – | – |

## 50 Earnings contributions of financial instruments by measurement categories

**1 Jan 2011 – 31 Dec 2011 (€ mn)**

| | Recognition in the income statement | | | | Recognition in equity | Total |
|---|---|---|---|---|---|---|
| | Interest result | Allowance for credit losses | Net fee and commission income | Net result from financial instruments in accordance with IAS 39 | Measurement result | |
| Financial assets and liabilities designated as at fair value through profit or loss | 0.3 | – | – | 0.1 | – | 0.4 |
| Financial assets and liabilities held for trading | 17.8 | – | – | –5.0 | – | 12.8 |
| Loans and receivables | 566.9 | –59.0 | 113.2 | –70.0 | – | 551.1 |
| Financial assets available for sale | 10.0 | – | – | –1.4 | –3.7 | 12.3 |
| Other liabilities | –470.9 | – | 3.0 | – | – | –467.9 |
| Positive and negative fair values of derivative hedging instruments | 16.8 | – | – | 80.7 | –9.5 | 88.0 |
| **Total** | **140.9** | **–59.0** | **116.2** | **4.4** | **–5.8** | **196.7** |

**1 Jan 2010 – 31 Dec 2010 (€ mn)**

| | Recognition in the income statement | | | | Recognition in equity | Total |
|---|---|---|---|---|---|---|
| | Interest result | Allowance for credit losses | Net fee and commission income | Net result from financial instruments in accordance with IAS 39 | Measurement result | |
| Financial assets and liabilities designated as at fair value through profit or loss | –1.6 | – | – | 0.5 | – | –1.1 |
| Financial assets and liabilities held for trading | –52.1 | – | – | 15.5 | – | –36.6 |
| Loans and receivables | 523.1 | –52.0 | 120.7 | 8.3 | – | 600.1 |
| Financial assets available for sale | 2.4 | – | – | 6.2 | 2.7 | 11.3 |
| Other liabilities | –410.4 | – | 3.7 | – | – | –406.7 |
| Positive and negative fair values of derivative hedging instruments | 36.6 | – | – | –0.3 | –17.9 | 18.4 |
| **Total** | **98.0** | **–52.0** | **124.4** | **30.2** | **–15.2** | **185.4** |

## 51 Allowance for credit losses by classes

The allowance for credit losses (i.e. not including provisions) was distributed across the classes of financial assets as follows: ❶

## 52 Risks arising from the use of financial instruments

The disclosures as to the nature and extent of risks arising from the use of financial instruments are included in the report on opportunities and risks (pages 148–149) in accordance with the provisions of IFRS 7. This does not apply to the contractual maturity analysis, which is shown below.

**❶ Allowance for credit losses (€ mn)**

| | Financial assets measured at amortised cost | | Other financial assets | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| Balance as at 1 Jan | 172.3 | 154.9 | 10.2 | 3.6 | 182.5 | 158.5 |
| Additions | 89.0 | 90.1 | 15.4 | 6.8 | 104.4 | 96.9 |
| Utilisation | –87.7 | –29.1 | –13.3 | – | –101.0 | –29.1 |
| Reversals | –39.2 | –53.6 | –2.0 | –0.3 | –41.2 | –53.9 |
| Changes resulting from exchange rate fluctuations | 2.2 | 10.0 | 1.5 | 0.1 | 3.7 | 10.1 |
| **Balance as at 31 Dec** | **136.6** | **172.3** | **11.8** | **10.2** | **148.4** | **182.5** |

## 53 Maturity groupings of derivative financial instruments

**Maturity groupings and fair values (€ mn)**

| | Terms to maturity | | | | |
|---|---|---|---|---|---|
| | **up to one year** | **one to five years** | **more than five years** | **Total 31 Dec 2011** | **Total 31 Dec 2010** |
| Interest-rate derivatives with positive fair values | | | | | |
| thereof: interest rate swaps | 128.6 | 412.0 | 93.5 | 634.1 | 483.4 |
| thereof: interest rate options | – | – | – | – | 0.3 |
| Interest-rate derivatives with negative fair values | | | | | |
| thereof: interest rate swaps | –135.0 | –317.8 | –27.4 | –480.2 | –325.1 |
| thereof: interest rate options | – | – | – | – | – |
| **Total interest rate derivatives** | **–6.4** | **94.2** | **66.1** | **153.9** | **158.6** |
| Currency-related derivatives with positive fair values | | | | | |
| thereof: forward currency contracts | 1.6 | – | – | 1.6 | 29.9 |
| thereof: cross-currency swaps | 7.0 | 5.9 | – | 12.9 | 40.5 |
| Currency-related derivatives with negative fair values | | | | | |
| thereof: forward currency contracts | –127.5 | – | – | –127.5 | –70.9 |
| thereof: cross-currency swaps | –9.2 | –62.0 | –4.4 | –75.6 | –11.1 |
| **Total currency-related derivatives** | **–128.1** | **–56.1** | **–4.4** | **–188.6** | **–11.5** |
| **Total** | **–134.5** | **38.1** | **61.7** | **–34.7** | **147.1** |

The amounts reported for the individual time bands reflect the contractual undiscounted and future cash flows.

## 54 Maturity groupings of non-derivative financial instruments

**31 Dec 2011 (€ mn)**

| | Payable on demand | Terms to maturity | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | up to three months | from three months to one year | from one year to five years | more than five years | indefinite term | |
| Loans and advances to banks | 453.9 | 42.2 | 0.9 | 0.5 | – | – | 497.5 |
| Loans and advances to customers | 229.6 | 1,360.5 | 880.4 | 1,685.2 | 11,814.4 | 5,152.0 | 21,122.1 |
| Investment securities | 5.4 | 5.6 | 14.8 | 457.4 | – | 25.9 | 509.1 |
| **Total assets** | **688.9** | **1,408.3** | **896.1** | **2,143.1** | **11,814.4** | **5,177.9** | **22,128.7** |
| Deposits from other banks | 394.4 | 627.2 | 802.1 | 3,034.3 | 864.5 | – | 5,722.5 |
| Deposits from customers | 158.4 | 322.2 | 270.4 | 1,822.4 | 2,755.5 | – | 5,328.9 |
| Securitised liabilities | – | 290.1 | 1,571.5 | 6,823.9 | 2,008.1 | – | 10,693.6 |
| Subordinated liabilities | – | 8.2 | 121.4 | 249.5 | 35.9 | 2.0 | 417.0 |
| Other liabilities | 136.2 | – | – | – | – | – | 136.2 |
| **Total liabilities** | **689.0** | **1,247.7** | **2,765.4** | **11,930.1** | **5,664.0** | **2.0** | **22,298.2** |
| **Financial guarantee contracts** | **1.2** | **20.0** | **2.5** | **63.3** | **120.7** | **19.4** | **227.1** |
| **Loan commitments** | **5.0** | **1.5** | **105.0** | **580.4** | **1,196.9** | **–** | **1,888.8** |

**31 Dec 2010 (€ mn)**

| | Payable on demand | Terms to maturity | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | up to three months | from three months to one year | from one year to five years | more than five years | indefinite term | |
| Loans and advances to banks | 361.1 | 49.2 | – | – | – | – | 410.3 |
| Loans and advances to customers | 164.1 | 1,363.7 | 2,234.8 | 10,049.4 | 4,881.8 | – | 18,693.8 |
| Investment securities | 13.0 | 3.1 | 5.2 | 76.8 | – | 26.6 | 124.7 |
| **Total assets** | **538.2** | **1,415.9** | **2,240.0** | **10,126.2** | **4,881.8** | **26.6** | **19,228.7** |
| Deposits from other banks | 311.9 | 839.4 | 2,020.3 | 3,320.7 | 1,030.7 | – | 7,523.0 |
| Deposits from customers | 192.9 | 239.7 | 465.0 | 1,851.8 | 2,360.0 | – | 5,109.4 |
| Securitised liabilities | – | 127.8 | 90.9 | 5,472.5 | – | – | 5,691.2 |
| Subordinated liabilities | – | 1.7 | 167.5 | 296.6 | 105.2 | 2.0 | 573.0 |
| **Total liabilities** | **504.8** | **1,208.6** | **2,743.7** | **10,941.6** | **3,495.9** | **2.0** | **18,896.6** |
| **Financial guarantee contracts** | **1.2** | **20.3** | **33.6** | **90.7** | **130.9** | **29.3** | **306.0** |
| **Loan commitments** | **26.2** | **24.3** | **199.3** | **396.1** | **1,205.8** | **–** | **1,851.7** |

The amounts reported for the individual time bands reflect the contractual, undiscounted and future cash flows (interest and capital payments).

## Other disclosures

### 55 Equity capital management

The target figure for DVB's equity capital management is the capital as determined pursuant to the provisions of the German Banking Act (KWG). The objective of equity capital management is to exploit potentially profitable growth in international transport finance by means of strengthening liable capital, and to fulfil at any time the regulatory requirements with respect to the amount of equity.

DVB's regulatory capital is determined pursuant to the provisions of the German Banking Act. In accordance with sections 10 and 10a of the KWG, the Group is obliged to ensure an appropriate amount of equity capital in order to fulfil its obligations to customers. In addition, financial institutions are required, on the basis of the solvency principle (Grundsatz I), to quantify their counterparty credit risks as well as their market risks and to ensure that these risk exposures are backed by equity capital.

The calculation of equity capital is based on the separate financial statements of the Group companies in accordance with local accounting principles. The Bank's regulatory capital comprises liable capital, which consists of tier I and tier II capital, plus tier III capital. Compared to equity as reported in the statement of financial position, which is determined in accordance with the provisions of IFRS, regulatory equity capital also includes silent partnership contributions, subordinated liabilities and profit-participation certificates.

In addition, certain components of equity as reported in the statement of financial position (revaluation reserve from the measurement of securities of the category "available for sale", hedging reserves for cash flow hedges and cumulative actuarial gains and losses) are not included in the calculation of regulatory capital.

The regulatory capital requirements under Basel II were fulfilled at all times in the year under review. To ensure compliance with the Basel I floor rule pursuant to section 339 (5a) of the SolvV (which was once again extended), DVB has raised an additional US$80 million in subordinated funds (as defined in section 10 (5a) of the KWG) in for January 2012, until the profit to be retained from the results for 2011 has been confirmed and recognised.

The analysis of the components of regulatory capital pursuant to section 10 (1–6a) of the KWG is presented as at the balance sheet date in the following table: ❶

### 56 Subordinated assets

During the year under review, the Company did not hold subordinated assets to any considerable extent.

❶ **Components of regulatory capital (€ mn)**

| | 2011 | 2010 | % |
|---|---|---|---|
| Issued and fully paid ordinary shares | 112.4 | 113.1 | –0.6 |
| Capital reserve plus other reserves eligible for inclusion | 272.7 | 291.2 | –6.4 |
| Special items for general banking risks pursuant to section 340g of the HGB | 766.3 | 677.2 | 13.2 |
| Other components of tier 1 capital | 54.8 | 53.2 | 3.0 |
| Items deducted from tier 1 capital pursuant to section 10 (2a) sentence 2 of the KWG | –3.9 | –3.6 | 8.3 |
| Items deducted from tier 1 capital pursuant to section 10 (6 and 6a) of the KWG | –23.5 | –26.0 | –9.6 |
| **Total tier 1 capital** | **1,178.8** | **1,105.1** | **6.7** |
| Total tier 2 capital before deductions and eligible tier 3 capital | 149.1 | 229.9 | –35.1 |
| Items deducted from tier 2 capital | –23.5 | –26.0 | –9.6 |
| **Total tier 2 and eligible tier 3 capital** | **125.6** | **203.9** | **–38.4** |
| **Net adjusted available capital plus eligible tier 3 capital[1)]** | **1,304.4** | **1,309.0** | **–0.4** |

1) Taking into account transfer to reserves from consolidated net profit

## 57 Disclosures on the ship covered bonds pursuant to section 28 of the Pfandbrief Act (PfandBG)

**Disclosures pursuant to section 28 (1) nos. 1, 3 and 4 of the PfandBG**

| | 31 Dec 2011 | | | 31 Dec 2010 | | |
|---|---|---|---|---|---|---|
| **€ mn** | **Nominal amount** | **Present value** | **Risk-adjusted present value[1)]** | **Nominal amount** | **Present value** | **Risk-adjusted present value[1)]** |
| **Liabilities to be covered** | **546.8** | **559.1** | **540.4** | **250.0** | **253.2** | **260.5** |
| thereof: covered bonds in circulation | 546.8 | 559.1 | 540.4 | 250.0 | 253.2 | 260.5 |
| thereof: derivatives (section 26 (1) no. 5 of the PfandBG) | – | – | – | – | – | – |
| **Cover assets** | **1,112.7** | **1,212.6** | **1,029.2** | **788.0** | **859.7** | **731.8** |
| thereof: cover loans | 1,097.7 | 1,196.8 | 1,013.0 | 778.0 | 849.6 | 721.2 |
| thereof: additional cover assets (section 26 (1) nos. 3 and 4 of the PfandBG) | 15.0 | 15.8 | 16.3 | 10.0 | 10.1 | 10.6 |
| thereof: derivatives (section 26 (1) no. 5 of the PfandBG) | – | – | – | – | – | – |
| **Excess cover/cover shortfall** | **565.8** | **653.5** | **488.9** | **538.0** | **606.5** | **471.3** |

1) Risk-adjusted present values were determined using the so-called dynamic method.

**Maturity structure of the covered bonds in issue (section 28 (1) no. 2 of the PfandBG)**

| **Nominal amounts (€ mn)** | **31 Dec 2011** | **31 Dec 2010** | **%** |
|---|---|---|---|
| Up to one year | – | – | – |
| One to two years | 250.0 | – | – |
| Two to three years | 296.8 | 250.0 | 18.7 |
| Three to four years | – | – | – |
| Four to five years | – | – | – |
| Five to ten years | – | – | – |
| More than ten years | – | – | – |
| **Total** | **546.8** | **250.0** | **–** |

**Fixed-interest periods of the cover assets (section 28 (1) no. 2 of the PfandBG)**

| **Nominal amounts (€ mn)** | **31 Dec 2011** | **31 Dec 2010** | **%** |
|---|---|---|---|
| Up to one year | 41.0 | 0.4 | – |
| One to two years | 13.3 | 43.2 | –69.2 |
| Two to three years | 120.7 | 21.7 | – |
| Three to four years | 302.4 | 122.0 | – |
| Four to five years | 255.7 | 197.4 | 29.5 |
| Five to ten years | 332.3 | 313.5 | 6.0 |
| More than ten years | 47.4 | 89.8 | –47.2 |
| **Total** | **1,112.7** | **788.0** | **41.2** |

**Size categories of the cover assets (section 28 (4) no. 1a of the PfandBG)**

| **Nominal amounts (€ mn)** | **31 Dec 2011** | **31 Dec 2010** | **%** |
|---|---|---|---|
| Up to €500 thousand | – | 0.2 | – |
| More than €500 thousand and up to €5 million | 46.6 | 22.1 | – |
| More than €5 million | 1,066.1 | 765.7 | 39.2 |
| **Total** | **1,112.7** | **788.0** | **41.2** |

**Country in which the pledged sea-going vessels are registered (section 28 (4) no. 1b of the PfandBG)**

| Nominal amounts (€ mn) | 31 Dec 2011 | 31 Dec 2010 | % |
|---|---|---|---|
| Belgium | 8.0 | – | – |
| Germany | 81.0 | 72.3 | 12.0 |
| Greece | 18.1 | 20.0 | –9.5 |
| United Kingdom | 71.2 | 30.4 | – |
| Hong Kong | 14.1 | 14.5 | –2.8 |
| Italy | 9.2 | 11.8 | –22.0 |
| Croatia | 10.5 | 10.9 | –3.7 |
| Liberia | 211.0 | 199.2 | 5.9 |
| Malta | 193.9 | 80.0 | – |
| Marshall Islands | 339.6 | 235.8 | 44.0 |
| Norway | 94.0 | 84.5 | 11.2 |
| Cyprus | 47.0 | 18.6 | – |
| **Total** | **1,097.7** | **778.0** | **41.1** |

There were no inland waterway vessels or ships under construction pledged at the reporting dates.

**Foreclosures and takeovers by the Bank (section 28 (4) no. 2a and 2b of the PfandBG)**

| Number | 31 Dec 2011 | 31 Dec 2010 | % |
|---|---|---|---|
| Foreclosures | – | – | – |
| Taken over by the Bank | – | – | – |

No takeovers had been carried out by the Bank, and no foreclosures were pending or had been carried out as of the relevant reporting dates.

**Arrears on the interest payable by borrowers (section 28 (4) no. 2c of the PfandBG)**

| € mn | 31 Dec 2011 | 31 Dec 2010 | % |
|---|---|---|---|
| Due and unpaid interest | – | – | – |

There were no arrears on interest payable at either reporting date.

## 58 List of shareholdings

| Pursuant to section 313 (2) of the HGB as at 31 December 2011 (€) | Shareholding (%) | Net income/loss for the year | Equity capital |
|---|---|---|---|
| DVB Bank SE, Frankfurt/Main | 0.0 | – | – |
| | | | |
| **I. Subsidiaries** | | | |
| DVB Bank America N.V.[1], Willemstad, Curaçao | 100 | 11,103,128 | 144,581,649 |
| American Flirtation N.V., Willemstad, Curaçao | 100 | – | – |
| DVB Container Finance America LLC, Majuro, Marshall Islands | 100 | 66,718 | –939,876 |
| DVB Investment Management N.V., Willemstad, Curaçao | 100 | –193,793 | –2,674,121 |
| Shipping Capital Antilles N.V., Willemstad, Curaçao | 100 | 1,350,066 | 18,709,470 |
| AER Holding N.V., Willemstad, Curaçao | 100 | 218 | 17,389 |
| Netherlands Shipmortgage Corporation Ltd, Hamilton, Bermuda | 100 | 0 | 0 |
| TEU Management Company N.V., Willemstad, Curaçao | 100 | 12,858 | 4,490 |
| DVB Group Merchant Bank (Asia) Ltd[1], Singapore | 100 | 45,714,713 | 318,191,139 |
| DVB Aviation Finance Asia Pte Ltd, Singapore | 100 | –1,375,673 | –5,199,332 |
| DVB Container Finance Asia Pte Ltd, Singapore | 100 | 115,109 | –2,629,166 |
| Ibon Leasing Ltd, George Town, Cayman Islands | 100 | 310,490 | 1 |
| Lexi Ltd, George Town, Cayman Islands | 100 | 302,925 | 1 |
| Longspur Ltd, George Town, Cayman Islands | 100 | 23,640 | 72 |
| Tubbataha Aviation Ltd, George Town, Cayman Islands | 100 | 286,143 | 2 |
| DVB Holding GmbH[2] [5], Frankfurt/Main, Germany | 100 | 0 | 13,000,000 |
| DVB Objektgesellschaft Geschäftsführungs GmbH, Frankfurt/Main, Germany | 100 | – | [3] |
| TES Holdings Ltd, Bridgend, Wales, United Kingdom | 92.1 | 103,615 | 21,840,893 |
| TES (E4) Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| TES (535 E4) Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| TES Aviation Services Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| TES Aviation Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| Coresande Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| Setaria Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| TES Parts Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| TES (RB 211–535) Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| TES (757) Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| TES Asia Pacific Pte Ltd, Singapore | 100 | – | [6] |
| Total Engine Support Ltd, Bridgend, Wales, United Kingdom | 100 | – | [6] |
| DVB Holding (US) Inc., New York, USA | 100 | 426,495 | 2,136,656 |
| DVB Capital Markets LLC, New York, USA | 100 | –308,464 | 1,509,918 |
| DVB Service (US) LLC, New York, USA | 100 | –186,837 | 143,709 |
| DVB Transport (US) LLC, New York, USA | 100 | 208,313 | 2,931,843 |
| DVB Invest (Suisse) AG, Zurich, Switzerland | 100 | – | [3] |
| DVB Logpay GmbH[2] [5], Eschborn, Germany | 100 | 0 | 3,000,000 |
| Euro Toll Fuel S.L., Barcelona, Spain | 100 | – | [3] |
| Euro Toll Service GmbH, Eschborn, Germany | 75 | – | [3] |
| DVB Transport Finance Ltd, London, United Kingdom | 100 | 3,558,599 | 7,787,008 |
| Hollandse Scheepshypotheekbank N.V., Rotterdam, Netherlands | 100 | 0 | 711,043 |
| ITF International Transport Finance Suisse AG, Zurich, Switzerland | 100 | 3,945,552 | 31,682,010 |
| Nedship Financial Consultants E.P.E, Piraeus, Greece | 99.33 | – | [3] |
| Nedship Shipping B.V., Rotterdam, Netherlands | 100 | 142,327 | 3,026,949 |
| Nedship Scheepvaarthuis B.V., Rotterdam, Netherlands | 100 | –52,698 | –482,636 |
| Shipping Capital B.V., Rotterdam, Netherlands | 100 | 410,303 | 6,736,548 |
| Infifion XI B.V., Rotterdam, Netherlands | 100 | 2,539 | 26,136 |
| Nedship Participation (Norway) B.V., Rotterdam, Netherlands | 100 | 480,973 | 2,042,854 |

| Pursuant to section 313 (2) of the HGB as at 31 December 2011 (€) | Shareholding (%) | Net income/loss for the year | Equity capital |
|---|---|---|---|
| **In addition, the following companies were also included in the group of consolidated companies of DVB Bank SE because DVB Bank SE may exercise control over such companies within the meaning of SIC-12:** | | | |
| Adger Ocean II, Oslo, Norway | 100 | – | – |
| Adger Ocean III, Oslo, Norway | 100 | – | – |
| Adger Ocean KS (I), Oslo, Norway | 100 | – | – |
| Aquila Aircraft Leasing Ltd, Dublin, Ireland | 100 | – | – |
| Autobahn 2003 Holdings LLC, Wilmington, USA | 100 | – | – |
| Braveheart Shipping Holdco LLC, Majuro, Marshall Islands | 100 | – | – |
| Braveheart Shipping Opco LLC, Majuro, Marshall Islands | 100 | – | – |
| Container Investment Fund I, Majuro, Marshall Islands | 100 | –678,100 | –453,468 |
| Mediterra LLC, Majuro, Marshall Islands | 84 | – | – |
| Container Investment Fund II, Majuro, Marshall Islands | >50 | – | –4,819,691 |
| TEU Asset Company N.V., Willemstad, Curaçao | 100 | –2,773,418 | 3,154,207 |
| Container Investment Fund III, Majuro, Marshall Islands | 100 | –2,061,817 | 4,961,832 |
| Capital Lease Ltd, Hong Kong, China | 100 | 17,353 | 102,040,816 |
| Green Eagle Investments N.V., Willemstad, Curaçao | >50 | –4,918,425 | 1,612,034 |
| Terra Marris I LLC, Majuro, Marshall Islands | 100 | – | [6] |
| Dalian Deepwater Developer Ltd, St. Helier, Jersey | 100 | – | [6] |
| Deucalion Capital I (UK) Ltd, London, United Kingdom | 100 | 792,562 | 855,522 |
| Deucalion Engine Leasing (France) Ltd, Paris, France | 90 | – | [6] |
| Deucalion Engine Leasing (Ireland) Ltd, Dublin, Ireland | 90 | – | [6] |
| Deucalion Capital II (UK) Ltd, London, United Kingdom | 100 | 1,726,532 | 3,057,745 |
| Shark Aircraft Leasing (Ireland) Ltd, Dublin, Ireland | 100 | – | [6] |
| Tigers Aircraft Leasing (UK) Ltd, London, United Kingdom | 100 | – | [6] |
| Deucalion Capital I Ltd, George Town, Cayman Islands | 84 | –2,077,807 | 164 |
| Deucalion Capital II Ltd, George Town, Cayman Islands | 100 | –1,574,901 | –2,391,949 |
| Bluebell Aircraft Leasing Ltd, Floriana, Malta | 100 | – | [6] |
| Buzzard Aircraft Leasing Ltd, Dublin, Ireland | 100 | – | [6] |
| Deucalion Capital II (Malta) Ltd, Valetta, Malta | 60 | – | [6] |
| Falcon Aircraft Leasing Ltd, Dublin, Ireland | 100 | – | [6] |
| Wasps Aircraft Leasing Ltd, George Town, Cayman Islands | 100 | – | [6] |
| Deucalion Capital III Ltd, George Town, Cayman Islands | 100 | 1,278,196 | 3,393,307 |
| AP62 Ltd (747-400), George Town, Cayman Islands | 100 | – | [6] |
| AP64 Ltd (747-400), George Town, Cayman Islands | 100 | – | [6] |
| Finch Aircraft Leasing Ltd, Dublin, Ireland | 100 | – | [6] |
| Sinaloa Aircraft Leasing Ltd, Floriana, Malta | 100 | – | [6] |
| Deucalion Capital IV Ltd, George Town, Cayman Islands | 100 | 2,289,633 | 3,509,945 |
| Cornelius Aircraft Leasing Ltd, George Town, Cayman Islands | 100 | – | [6] |
| Deucalion Capital V Ltd, Majuro, Marshall Islands | 100 | 2,293,559 | 3,624,032 |
| Deucalion Capital VI Ltd, George Town, Cayman Islands | 100 | 1,160,785 | 2,496,691 |
| Bonham Aircraft Leasing Ltd, George Town, Cayman Islands | 100 | – | [6] |
| Eagle Aircraft Leasing Ltd, George Town, Cayman Islands | 100 | – | [6] |
| Hawk Aircraft Leasing Ltd, Dublin, Ireland | 100 | – | [6] |
| Hibiscus Aircraft Leasing Ltd, Floriana, Malta | 100 | – | [6] |
| Puffin Aircraft Leasing Ltd, Dublin, Ireland | 100 | – | [6] |
| Deucalion Capital VII Ltd, George Town, Cayman Islands | 100 | 16,503,215 | 14,933,415 |
| Bulls Aircraft Leasing (Malta) Ltd, Floriana, Malta | 100 | – | [6] |
| Chiefs Aircraft Holding (Malta) Ltd, Floriana, Malta | 100 | – | [6] |
| Highlanders Aircraft Leasing (IRL) Ltd, Dublin, Ireland | 100 | – | [6] |
| Nomac Aircraft Leasing (Ireland) Ltd, Dublin, Ireland | 100 | – | [6] |
| Stormers Aircraft Leasing (Malta) Ltd, Floriana, Malta | 100 | – | [6] |
| Wasps Aircraft Leasing (Ireland) Ltd, Dublin, Ireland | 100 | – | [6] |

| Pursuant to section 313 (2) of the HGB as at 31 December 2011 (€) | Shareholding (%) | Net income/loss for the year | Equity capital |
|---|---|---|---|
| Deucalion Capital VIII Ltd, George Town, Cayman Islands | 100 | 5,244,429 | 7,803,662 |
| Lantana Aircraft Leasing Ltd, Floriana, Malta | 100 | – | 6) |
| Deucalion Capital IX Ltd, George Town, Cayman Islands | 100 | 597,366 | 1,742,049 |
| Deucalion Capital XI Ltd, George Town, Cayman Islands | 100 | –13,551,581 | –18,345,317 |
| Deucalion Ltd, George Town, Cayman Islands | 100 | 2,716,935 | 3,560,253 |
| Maple Leaf Shipping Holdco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Adirondack Shipping LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Bathgate Trading Opco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Maple Leaf Cement Holdco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Maple Leaf Trading Opco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Philip Trading Opco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Rushmore Shipping LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Shamrock Trading Opco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Stani Trading Opco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| TBS I Trading Opco LLC, Majuro, Marshall Islands | 100 | – | 6) |
| NFC Shipping Fund II LLC, Majuro, Marshall Islands | 80 | –25,667 | 128,098 |
| Gandari Shipping Pte Ltd, Singapore | 100 | – | 6) |
| NFC Shipping Fund V LLC, Majuro, Marshall Islands | 75 | 14,682 | –1,419,791 |
| Mount Faber LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Lyderhorn LLC, Majuro, Marshall Islands | 100 | – | 6) |
| NFC Shipping Fund VI LLC, Majuro, Marshall Islands | 100 | –4,475,952 | –27,915,709 |
| Kerkis I LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Kerkis II LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Kerkis III LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Kerkis IV LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Abu Offshore Pte Ltd, Singapore | 100 | – | 6) |
| Mount Benom Ltd, Labuan, Malaysia | 100 | – | 6) |
| Mount Bubu LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Erskine Shipping Pte Ltd, Singapore | 100 | – | 6) |
| Mount Mulu LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Pleasant Shipping Pte Ltd, Singapore | 100 | – | 6) |
| Mount Tahan LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Taigetos I LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Taigetos II LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Teide LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Ullswater Offshore LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Wadi Woraya I LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Wadi Woraya III LLC, Majuro, Marshall Islands | 100 | – | 6) |
| NFC Shipping Fund VII LLC, Majuro, Marshall Islands | 100 | –3,396,480 | –1,235,541 |
| Mount Kaba Shipping LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Shimla Offshore Pte Ltd, Singapore | 100 | – | 6) |
| Mount Trisul Offshore Pte Ltd, Singapore | 100 | – | 6) |
| NFC Shipping Fund B LLC, Majuro, Marshall Islands | 100 | 1,491,162 | –8,109,597 |
| Bukit Merah Shipping Pte Ltd, Singapore | 100 | – | 6) |
| Mount Bintang LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Kinabalu LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Lawu LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Mount Rinjani Shipping Pte Ltd, Singapore | 100 | – | 6) |
| Mount Santubong Ltd, Majuro, Marshall Islands | 100 | – | 6) |
| NFC Labuan Shipleasing I Ltd, Labuan, Malaysia | 100 | – | 6) |
| Riga Maritim LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Taigetos III LLC, Majuro, Marshall Islands | 100 | – | 6) |

| Pursuant to section 313 (2) of the HGB as at 31 December 2011 (€) | Shareholding (%) | Net income/loss for the year | Equity capital |
|---|---|---|---|
| NFC Shipping Fund C LLC, Majuro, Marshall Islands | 100 | –250,996 | 1,609,651 |
| Taigetos Funding LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Wadi Funding LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Ocean Container II, Oslo, Norway | 100 | – | – |
| SIIM Fund I (Shipping and Intermodal Investment Management Fund) LLC, Majuro, Marshall Islands | 100 | –4,434,383 | –3,680,336 |
| Al Rubban NFC Shipping Fund IV LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Blue Moon Shipping Ltd, St. John's, Antigua/Barbuda | 100 | – | 6) |
| Bukit Timah Chartering Pte Ltd, Singapore | 100 | – | 6) |
| Bukit Timah Shipping LLC, Majuro, Marshall Islands | 100 | – | 6) |
| Bukit Timah Shipping Pte Ltd, Singapore | 100 | – | 6) |
| Epirus Enterprises Inc., Majuro, Marshall Islands | 100 | – | 6) |
| Green Mountain Shipping Ltd, Willemstad, Curaçao | 100 | – | 6) |
| Yellow Moon Shipping Ltd, St. John's, Antigua/Barbuda | 100 | – | 6) |
| Stephenson Capital Ltd, George Town, Cayman Islands | 100 | 223,104 | 1,595,577 |
| DUNAVAGON s.r.o., Dunajska Streda, Slovakia | 100 | – | 6) |
| DV01 Szarazfoldi Jarmukolcsonzo rt, Aporka, Hungary | 100 | – | 6) |
| SRF I Ltd, Floriana, Malta | 100 | – | 6) |
| SRF II Ltd, Floriana, Malta | 100 | – | 6) |
| SRF III Ltd, Floriana, Malta | 100 | – | 6) |
| SRF Railcar Leasing Ltd, Nenagh, Ireland | 100 | – | 6) |
| **II. Joint ventures accounted for using the equity method** | | | |
| AerCap Partners I Ltd, Shannon, Ireland | 50 | 286,634 | 1,253,555 |
| AerCap Partners II Ltd, Shannon, Ireland | 50 | –702,739 | –627,900 |
| Bella Aircraft Leasing 1 Ltd, Shannon, Ireland | 50 | – | – |
| Capital Equipment Management Holding GmbH, Hamburg, Germany | 50 | – | 3) |
| Cinclus Aviation Investments Ltd, Floriana, Malta | 50 | – | – |
| D8 Product Tankers Ltd, Singapore | 50 | 80,440 | 80,341 |
| Deucalion MC Engine Leasing Ltd, Dublin, Ireland | 50 | 229,259 | 10,285,885 |
| First BD Feederships Shipping Ltd, St. John's, Antigua/Barbuda | 50 | – | – |
| Fourth BD Feederships Shipping Ltd, St. John's, Antigua/Barbuda | 50 | – | – |
| Herakleitos 3050 LLC, Majuro, Marshall Islands | 50 | – | – |
| Intermodal Investment Fund II LLC, Majuro, Marshall Islands | 50 | 275,022 | 6,389,730 |
| Intermodal Investment Fund III LLC, Majuro, Marshall Islands | 50 | – | – |
| Intermodal Investment Fund IV LLC, Majuro, Marshall Islands | 50 | 342,082 | 4,855,880 |
| MD Aviation Capital Pte Ltd, Singapore | 50 | 307,161 | 63,657,622 |
| Second BD Feederships Shipping Ltd, St. John's, Antigua/Barbuda | 50 | – | – |
| TAG ASSET Management LLC, Majuro, Marshall Islands | 50 | –2,645,919 | 6,726,046 |
| Third BD Feederships Shipping Ltd, St. John's, Antigua/Barbuda | 50 | – | – |
| **III. Associates accounted for using the equity method** | | | |
| Aer Lucht Ltd, Dublin, Ireland | 47 | – | – |
| Bovey Offshore Ltd, Singapore | 30 | 698,637 | 2,563,627 |
| Intermodal Investment Fund V LLC, Majuro, Marshall Islands | 22 | – | – |
| Mount Faber KS, Oslo, Norway | 49 | 399,943 | 1,193,481 |
| MSN 223 Leasing Ltd, George Town, Cayman Islands | 35 | – | – |
| NFC AHTS Ltd, Limassol, Cyprus | 20 | –4,730 | 2,971,503 |
| Ox-traction N.V., Roosendaal, Netherlands | 46 | – | – |
| Pantheon LPG Carriers LLC, Majuro, Marshall Islands | 40 | – | – |
| Rapid Aircraft Leasing Ltd, George Town, Cayman Islands | 25 | –137,103 | 335,318 |
| Ullswater Subsea DIS, Oslo, Norway | 40 | 882,577 | 5,635,308 |
| West Supply III K/S, Haugesund, Norway | 20 | –45,669 | 3,709,508 |

| Pursuant to section 313 (2) of the HGB as at 31 December 2011 (€) | Shareholding (%) | Net income/loss for the year | Equity capital |
|---|---|---|---|
| **IV. Associates not accounted for using the equity method** | | | |
| Aviateur Capital Ltd, Dublin, Ireland | 20 | – | 3) |
| DVL Deutsche Verkehrs-Leasing GmbH, Eschborn, Germany | 39 | – | 3) |
| Leuvesteyn V.O.F, Rotterdam, Netherlands | 33 | – | – |
| West Supply III A/S, Haugesund, Norway | 22 | – | – |

1) Net profit distributed to DVB Bank SE within the same period.
2) There is a profit and loss transfer agreement with DVB Bank SE.
3) Not disclosed due to lack of materiality (IAS 8.8).
4) No significant influence in accordance with IAS 28.
5) The company applied the exemption provisions of section 264 (3) of the HGB.
6) Net profit/loss is included in the higher-level subgroup.

## 59 Financial guarantee contracts, contingent liabilities and other commitments

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Financial guarantee contracts from guarantees | 227.1 | 306.0 | –25.8 |
| Contingent liabilities from irrevocable loan commitments | 1,888.8 | 1,851.7 | 2.0 |
| Other commitments | 21.6 | 16.5 | 30.9 |
| thereof: within one year | 5.0 | 4.6 | 8.7 |
| thereof: within one to five years | 14.0 | 11.2 | 25.0 |
| thereof: after more than five years | 2.6 | 0.7 | – |
| **Total** | **2,137.5** | **2,174.2** | **–1.7** |

Financial guarantee contracts are disclosed at their nominal value. Other commitments include future minimum lease payments from non-cancellable operating leases.

In July 2010, DVB provided a US$175 million pre-delivery payment loan for the construction of "Dalian Deepwater", a sixth-generation drillship, to Dalian Deepwater Developer Ltd, St. Helier, Jersey, Channel Islands, a newly-established special purpose vehicle. The aforementioned company was included in DVB's consolidated financial statements for 2010 in accordance with SIC-12. In July 2010, Dalian Deepwater Developer Ltd entered into a purchase agreement with a group of shipyards for delivery of a turnkey drillship. The group will build this sixth-generation drillship in its shipyard in Dalian, China. The vessel is scheduled for delivery in the fourth quarter of 2012/first quarter of 2013.

In accordance with contractual provisions, Dalian Deepwater Developer Ltd made a pre-delivery payment in July 2010, which is collateralised by a repayment guarantee issued by Bank of China, which can be drawn upon in the event of failure to deliver the drillship. The remainder of the contractual sum is due upon delivery. No financing has been provided for this remainder, and there is no recourse to DVB for payment of the remainder. The SPV plans to sell the drillship prior to delivery. Moreover, Dalian Deepwater Developer Ltd also entered into an advisory agreement with an international technical project manager in July 2010. The advisor's duty is to monitor construction of "Dalian Deepwater", and to provide support for marketing the drillship to international oil firms. At the time of preparing its financial statements, DVB does not anticipate any losses from this transaction, nor are there any indications that Dalian Deepwater Developer Ltd will be unable to fulfil its contractual obligations.

## 60 Average number of employees

The average number of employees changed during the year under review as follows:

| Employees | 2011 | 2010 |
|---|---|---|
| Women | 233 | 220 |
| Men | 418 | 400 |
| **Total** | **651** | **620** |

The average number of employees includes employees on parental leave and temporary personnel, but does not include trainees and employees in the passive phase of partial retirement (Altersteilzeit).

## 61 Related party disclosures

### 61.1 Remuneration and shareholdings of Board members

The remuneration paid to Board members during 2011 was as follows:

| € 000's | 2011 | 2010 | % |
|---|---|---|---|
| Board of Managing Directors | 2,853.5 | 2,671.1 | 6.8 |
| thereof: fixed component | 1,508.5 | 1,633.6 | –7.7 |
| thereof: variable component | 1,345.0 | 1,037.5 | 29.6 |
| Former members of the Board of Managing Directors and their surviving dependants | 370.5 | 362.6 | 2.2 |
| Supervisory bodies | 273.7 | 269.9 | 1.4 |
| **Total** | **3,497.7** | **3,303.6** | **5.9** |

With regard to the variable remuneration components:

In 2011, the Board of Managing Directors received payments of variable remuneration in the amount of €1,345.0 thousand. This figure included bonus payments for the business years 2009/2010 and an award from the DVB Long-Term Incentive Plan (LTI) 2008.

The bonus payments paid to members of the Board of Managing Directors are determined on the basis of agreements on operational targets. These objectives, which are agreed upon between the Supervisory Board and the respective member of the Board of Managing Directors, are related to objective criteria for the relevant financial year (referring to financial indicators such as Economic Value Added and consolidated net income before taxes) as well as to the personal performance of each individual member of the Board of Managing Directors. The amount of the bonus depends on the (measurable) extent to which the targets were achieved. The prerequisite for payment is, in each case, that no notice of termination has been given with regard to the employment relationship with the member of the Board of Managing Directors concerned as at the time of payment. The sole exception would be where a member of the Board of Managing Directors retires from office for reasons of age, or due to non-renewal of a contract.

The bonus is allocated in four tranches for the business year 2011: accordingly, 50% is paid out in 2012 and 16.66% in each of the three following business years (2013 to 2015). The payment of these three future tranches requires that the allowance for credit losses is below a certain threshold in the year before payout. In addition, for all award tranches, 50% of each tranche is subject to an additional one-year holding period, i.e. it is not paid out directly. During this holding period, the value of the retained tranche is replaced by a share-based payment instrument linked to the share price development of the Bank. In this context, the amount of the retained tranche initially is converted into notional DVB shares (so-called phantom shares). The tranche to be paid out is calculated at the end of the following year by multiplying the number of the allocated notional shares by the closing price of the DVB share quoted at the Frankfurt Stock Exchange at the last trading day of the relevant calendar year, plus the dividend paid during the year. Accordingly, the calculation of the award value does not result in the issue of "real" shares, but only notional ownership interests for calculation purposes.

As at 31 December 2011, the members of the Board of Managing Directors and the Supervisory Board did not hold, in aggregate, more than 1% of shares issued by DVB Bank SE.

A detailed overview of the remuneration for members of the Board of Managing Directors and the Supervisory Board is included in the Remuneration Report, which is part of our group management report (pages 125–128) and the Corporate Governance Report 2011 published on our website (www.dvbbank.com > Investor Relations > Corporate Governance > Reports).

### 61.2 Share-based payments

In the year under review, an amount of €0.7 million was recorded as a provision in the current staff expenses in relation to share-based payments.

### 61.3 Pension liabilities to former members of the Board of Managing Directors

The defined benefit obligation (DBO) for pension liabilities to former members of the Board of Managing Directors and their surviving dependants amounts to €3.5 million (2010: €3.6 million).

## 61.4 Related party disclosures

DVB Bank SE, as the parent company, prepares a report on relationships with affiliated companies (dependent company report) in accordance with section 312 of the AktG, which is audited pursuant to section 313 of the AktG. The dependent company report includes a discussion on the relationships of DVB Bank SE with DZ BANK and its affiliated companies. Related party transactions are carried out on an arm's length basis. Therefore, the auditors issued an unqualified audit opinion with respect to the dependent company report.

DVB Bank SE carries out a number of banking transactions with DZ BANK, including short-term borrowings, deposits, as well as foreign currency transactions. The business relationship between DVB Bank SE and DZ BANK AG, including other affiliated companies of the DZ BANK Group, is particularly close with regard to the refinancing business. The range of transactions also includes transactions with derivatives such as interest rate options, interest rate swaps or foreign exchange forwards.

The following table shows the transactions carried out with DZ BANK AG and other affiliated companies in the DZ BANK Group.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| Loans and advances to banks | 15.9 | 44.9 | –64.6 |
| Loans and advances to customers | 1.0 | 3.3 | –69.7 |
| Trading assets | 4.0 | 0.3 | – |
| Positive fair values of derivative hedging instruments | 69.6 | 48.5 | 43.5 |
| **Total assets** | **90.5** | **97.0** | **–6.7** |
| Deposits from other banks | 3,441.1 | 5,687.7 | –39.5 |
| Deposits from customers | 29.5 | 39.5 | –25.3 |
| Securitised liabilities | 9,436.1 | 4,586.0 | – |
| Trading liabilities | 19.2 | 12.1 | 58.7 |
| Negative fair values of derivative hedging instruments | 12.1 | 17.4 | –30.5 |
| Subordinated liabilities | 295.2 | 294.5 | 0.2 |
| **Total liabilities** | **13,233.2** | **10,637.2** | **24.4** |

The following table shows the transactions carried out by DVB Bank SE with its subsidiaries, joint ventures and associates.

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| **Loans and advances to banks** | **5,193.3** | **4,869.0** | **6.7** |
| Subsidiaries | 5,193.3 | 4,869.0 | 6.7 |
| **Loans and advances to customers** | **787.7** | **532.5** | **47.8** |
| Subsidiaries | 715.9 | 481.9 | 48.6 |
| Joint ventures | 50.4 | 10.6 | – |
| Associates | 21.4 | 40.1 | –46.6 |
| **Trading assets** | **30.4** | **28.2** | **7.8** |
| Subsidiaries | 22.7 | 22.1 | 2.7 |
| Joint ventures | 3.2 | 2.4 | 33.3 |
| Associates | 4.5 | 3.6 | 25.0 |
| **Positive fair values of derivative hedging instruments** | **0.4** | **2.7** | **–85.2** |
| Subsidiaries | 0.4 | 2.7 | –85.2 |
| **Total assets** | **6,011.8** | **5,432.4** | **10.7** |

| € mn | 2011 | 2010 | % |
|---|---|---|---|
| **Deposits from other banks** | **152.9** | **161.4** | **–5.3** |
| Subsidiaries | 152.9 | 161.4 | –5.3 |
| **Deposits from customers** | **45.5** | **39.9** | **14.0** |
| Subsidiaries | 44.6 | 39.9 | 11.8 |
| Joint ventures | 0.9 | – | – |
| **Trading liabilities** | **0.0** | **1.9** | **–** |
| Subsidiaries | 0.0 | 1.9 | – |
| **Negative fair values of derivative hedging instruments** | **–** | **2.3** | **–** |
| **Total liabilities** | **198.4** | **199.4** | **–0.5** |

## 62 Declaration of Compliance pursuant to section 161 of the AktG and publication pursuant to section 10 of the WpPG

Section 161 of the AktG requires the boards of managing directors and supervisory boards of listed companies to issue a declaration of compliance with the German Corporate Governance 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 also comment upon exceptions.

DVB Bank SE's Board of Managing Directors and Supervisory Board published their Declaration of Compliance in accordance with section 161 of the AktG on 9 December 2011 in the electronic German Federal Gazette and simultaneously made the text permanently available to the public on the Bank's website.

On 10 March 2011, DVB Bank SE also published its annual document in accordance with section 10 of the German Securities Prospectus Act (WpPG) on its website. This annual document includes any information that was published or made available to the public by DVB pursuant to the provisions of section 10 of the WpPG in the period between 1 January and 31 December 2010.

All declarations of compliance of DVB are available for download at the following website: www.dvbbank.com > Investor Relations > Corporate Governance > Declarations of Compliance.

The annual document can be found under www.dvbbank.com > Investor Relations > Publications > Annual Document.

## 63 Financial statements of DVB Bank SE

DVB Bank SE is a parent company and, at the same time, a subsidiary of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, Germany.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, Germany, prepared consolidated financial statements and a group management report as at 31 December 2011, which was submitted to the Local Court of Frankfurt am Main and which includes DVB Bank SE.

## Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the DVB Group, and the group management report includes a fair review of the development and performance of the business and the position of the DVB Group, together with a description of the principal opportunities and risks associated with the expected development of the DVB Group.

Frankfurt/Main, 7 March 2012
DVB Bank SE

The Board of Managing Directors

Wolfgang F. Driese
Chairman of the Board of Managing Directors

Bertrand Grabowski
Member of the Board of Managing Directors

Dagfinn Lunde
Member of the Board of Managing Directors

## Audit opinion



We issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by DVB Bank SE, Frankfurt/Main, comprising the income statement, the statement of comprehensive income and expense, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2011 to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the HGB are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Eschborn, Frankfurt/Main, 7 March 2012
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

signed Sterz
Wirtschaftsprüfer
(German Public Auditor)

signed Stapel
Wirtschaftsprüfer
(German Public Auditor)

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## Key words

## Glossary

**Advanced (Internal Ratings Based) Approach**
Method to determine a borrower's counterparty credit risk. Instead of relying on external ratings (as prescribed by the standardised approach), the Advanced Approach permits a bank to determine the risk on the basis of its in-house rating system – provided that this system fulfils the requirements defined by banking regulators for internal rating systems (also refer to "Internal Rating Model").

**Advisory Services**
Product description denoting a range of advisory services DVB provides to Shipping Finance, Aviation Finance and Land Transport Finance clients, covering consultancy related to corporate acquisitions and divestments, strategic decision-making on finance and capital structure, loan restructuring, and the funding of acquisitions

**Agent**
A person (either a natural person or a legal entity) acting on behalf of a third party (the principal). In the context of a syndicated loan, the agent acts on behalf of all lenders in the syndicate. The agent is responsible for loan administration and assumes the function of central payment agent.

**Anchor Handling Tug and Supply Vessel (AHTS)**
Vessel used for offshore operations and primarily aimed at supporting offshore platforms during towage to destination and anchoring operations

**Arranger**
Bank or financial institution that is responsible for originating and syndicating a transaction. Arrangers always have a leading role in the syndicate and often also assume the agent function.

**Asset**
Specifically, a transport asset to be financed

**Asset & Market Research**
Product description for generating in-depth analyses of transport assets and markets – DVB's Asset & Market Research provides the fundamental basis for the activities of the Bank's business divisions.

**Baltic Exchange Dry Index (BDI)**
This price index tracks the costs for the maritime shipping of commodities. The index is used as a leading indicator for global economic developments: a rising BDI index indicates a growing level of global trade activity, whereas a falling BDI index reflects shrinking worldwide commerce.

**Basel II**
In 2004, the Basel Committee on Banking Supervision issued the Basel II Framework containing international standards for risk-adjusted capital adequacy of banks and financial services providers. Basel II replaced the capital adequacy rules of its predecessor, Basel I.

**Book building**
Type of syndication where the arranger does not assume the liquidity and placement risks associated with placing the syndicated loan

**Business risk**
Threat of losses from earnings fluctuations which may occur without any change in business strategy, and which are due to changed external circumstances (such as the general economic business climate, the product environment, client behaviour, and the competitive environment)

**Business volume**
Financial indicator measuring a company's business performance. The business volume of a bank comprises its total assets plus contingent liabilities from irrevocable loan commitments.

**Cash flow**
Cash and cash equivalents paid and received during a given accounting period

**Class I railroad**
The US Surface Transportation Board (STB) currently defines a Class I railroad in the United States as "having annual carrier operating revenues of US$250 million or more".

**Club Deal**
A transaction underwritten by a group of banks (usually a minimum of three and a maximum of 20–30 institutions) without the intention to subsequently reduce their exposure by way of syndication

**Corporate Governance Code**
The German Corporate Governance Code (the "Code") provides rules designed to safeguard the efficiency and transparency of corporate governance and control, and to ensure that they are geared towards the long-term growth of enterprise value. The Government commission "German Corporate Governance Code" reviews the Code once a year, against the background of ongoing national and international developments, and amends the wording if necessary.

**Cost/income ratio**
Financial indicator used for the purposes of a company's cost efficiency management; the cost/income ratio expresses the ratio of operating expenses to operating income.

**Counterparty credit risk**
Potential losses arising from an unexpected default, or a deterioration in our counterparties' credit quality. Comprising lending, issuer, counterparty default and country risks, it represents DVB's most significant individual risk exposure – this reflects the Bank's business profile.

**Country risk**
Country risk is defined as the risk of 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. DVB determines country risks on the basis of primary obligor groups.

**Customer lending volume (nominal)**
The aggregate of loans and advances to customers, guarantees and indemnities, irrevocable loan commitments, and derivatives. This figure is determined by way of consolidation in line with regulatory rules.

**Dead Weight Tonnes (dwt)**
Measure for a ship's carrying capacity, used to specify the maximum permissible displacement (deadweight, usually metric tonnes) when the vessel is loaded to capacity

**Double-dip recession**
A recession where a brief recovery is followed by a renewed downturn

**DZ BANK**
DZ BANK Group is part of the German Cooperative Financial Services Network which comprises approximately 1,100 individual cooperative banks. Within the Network, DZ BANK acts as the central institution, and as a commercial bank in its own right.

**Export credit agency (ECA)**
Organised in a similar way to insurance companies, export credit agencies provide cover for specific export transactions – usually on a statutory basis – and extend loans.

**Final take**
The portion of a transaction allocated to a specific bank, which it retains on its own books. In the event of oversubscription, the final take may be lower than that bank's commitment.

**Freighter/cargo aircraft**
Purpose-built or converted passenger planes for the transport of air cargo. Examples include the long-haul Boeing 777-200LRF and the short-haul Boeing 737-300SF.

**Incumbent**
The largest, dominating railway company in a specific market or geographic area

**Internal Rating Model (IRM)**
Statistical model used to estimate the probability of default associated with a given client, the expected loss given default for the unsecured portion of a loan, and the anticipated extent of the claim at the time of default – the exposure at default

**International Financial Reporting Standards (IFRS)/ International Accounting Standards (IAS)**
International accounting standards published by the International Accounting Standards Board (IASB). The purpose of IFRS is to provide investors with relevant information about an enterprise – on the net assets, financial position, and results of operations – to make investment decisions. Moreover, IFRS enhance transparency and improve the comparability of financial statements on an international level.

**Lead Arranger**
Also referred to as "Mandated Lead Arranger and Bookrunner" – a bank with the mandate for originating, syndicating and executing a transaction. The mandate may also include underwriting the transaction.

**Lending Policies**
DVB's lending standards

**Liquidity risk**
The threat that current and future payment obligations may not be met within the specified time, or to the specified extent

**Loan Participations**
Denotes the business activities of DVB's subsidiary ITF International Transport Finance Suisse AG, which is actively participating in international senior asset-based lending

**Loan-to-value ratio (LTV)**
Ratio of the loan amount to the market value of the financed asset, expressed as a percentage. The lower the LTV ratio, the lower the potential risk exposure for the lender in the event of the borrower's default (in which case the lender would need to realise collateral).

**MaRisk**
Abbreviation of Minimum Requirements for Risk Management in Banks – a set of rules and regulations issued by the German Federal Financial Supervisory Authority (BaFin) to define the requirements for the risk management systems of German financial institutions

**Market price risk**
The potential loss that the Bank might incur on its positions through price fluctuations in the equity, foreign exchange and interest rate markets (including associated derivatives)

**Medium-term notes (MTN)**
Listed medium-term debt securities

**Narrowbody/single-aisle aircraft**
Short- to medium-haul aircraft with between 130 and 200 seats, used on routes such as Frankfurt–Amsterdam. It is the most popular category in terms of fleet size. Typical examples are the Airbus A320 and the Boeing 737.

**OASIS**
Object Finance Administration and Security Information System: DVB's proprietary database application for analysing and managing credit portfolios

**Operating lease**
A lease where the lessor retains all the material risks and rewards incidental to ownership of the leased assets

**Operational risk**
In accordance with the German Solvency Regulation, DVB defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes or systems, from human error, or from external events.

**Participant**
A bank committing to the most junior level of participation in a transaction.

**Passenger-km**
Measure for the transport performance an operator provides to passengers

**Passenger train-km**
The number of kilometres travelled by passenger trains

**Platform Supply Vessel (PSV)**
Vessel used for offshore operations and dedicated to the transport of goods and personnel to offshore platforms

**Political risk insurance**
Insurance cover to protect against political risks

**Private Equity Sourcing and Investments**
Product description for funds initiated and managed by DVB's Investment Management division providing the Bank's clients with equity products to finance their investment projects

**Regional aircraft**
Smaller aircraft with between 50 and 110 seats, used on shorter routes with less demand or for off-peak services. Examples include the Bombardier CRJ200 or the Embraer E170.

**Return on equity (ROE)**
Calculated as the ratio of consolidated net income before taxes to weighted capital, return on equity expresses the return achieved by the owners (shareholders) on their capital invested during a given accounting period

**Risk Distribution**
Partial syndication of large-sized loans on the international interbank market, for the purposes of transferring risks and raising liquidity

**Sale-and-leaseback transaction**
Special form of leasing, where an asset (for example, a transport asset) is sold and immediately leased back for continued use

**Scope clause**
An agreement between a large airline and its pilots, to regulate which aircraft may be used by regional partner airlines

**Semi-submersible drilling rig (semi-sub)**
An offshore platform equipped with a drilling rig which is partly submerged in order to gain in stability

**Ship covered bond**
Debt security under German law which is backed by long-term lending exposures collateralised by ship mortgages

**Shortline**
A small or mid-sized railroad company that operates over a relatively short distance relative to larger, national railroad networks

**Strategic risk**
Risk of future (erroneous) strategic management decisions, which lead to a change in the Group structure or sizeable capital investments, and which are taken in response to, or to counter business risk or other types of risk. The concept of strategic risk also encompasses failure to adapt to a changing business environment.

**Stress test**
Banks use stress tests to analyse potential losses which may arise in a crisis environment, in order to take adequate countermeasures in good time.

**Structured Asset Financing**
Product description, comprising traditional asset finance, as well as tailor-made structured and tax-optimised solutions for complex financing projects in the Shipping Finance, Aviation Finance and Land Transport Finance divisions

**Tonne-km**
The transport of one tonne of goods over a distance of one kilometre.

**Transport Finance**
Generic term for DVB's Shipping Finance, Aviation Finance and Land Transport Finance divisions

**Underwriter**
A lender giving a firm commitment – prior to drawdown – to underwrite a portion of the aggregate loan facility, with the intention to place a part of the underwritten portion with one or several third-party banks, by way of syndication

**Value at risk**
Measure indicating the maximum potential loss which may arise within a given time period, with a given probability (the confidence interval or confidence level)

**Value maintenance clause (VMC)**
A standard clause included in loan agreements, which comes into effect if the value of collateral falls below a certain share of the outstanding loan amount, thus exceeding the maximum permitted loan-to-value ratio. In these cases, the Bank can request the borrower to make an early repayment of a part of the loan principal, or to furnish additional collateral.

**Widebody/twin-aisle aircraft**
Larger aircraft with between 250 and 450 seats, often used on longer flights such as Frankfurt–Hong Kong. Typical examples are the Airbus A330, the Boeing 747, the new Boeing 787 and Airbus A380.

## Abbreviations

**AAM**
Aviation Asset Management

**AFC**
Aviation Financial Consultancy

**AfS financial instruments**
Financial instruments available for sale

**AFTK**
Available freight tonne kilometer

**AIM**
Aviation Investment Management

**AktG**
Aktiengesetz (German Public Limited Companies Act)

**ATA**
American Trucking Associations (ATA)

**ATK**
Available Tonne Kilometres

**bp**
Basis points

**DAX**
Deutscher Aktienindex (German blue-chip index)

**DCF**
Discounted Cash Flow

**dwt**
Dead weight tonnes

**ECA**
Export Credit Agency

**ECB**
European Central Bank

**E&P (Capex)**
Exploration and production (capital expenditure)

**Fed**
US Federal Reserve

**FPSO**
Floating Production Storage and Offloading

**FPU**
Floating Production Unit

**FSO**
Floating Production Solutions

**FTK**
Freight tonne kilometer

**GVW**
Gross Vehicle Weight

**HGB**
Handelsgesetzbuch (German Commercial Code)

**IAS**
International Accounting Standards

**IASB**
International Accounting Standards Board

**IATA**
International Air Transport Association

**IFRIC**
International Financial Reporting Interpretations Committee

**KWG**
Kreditwesengesetz (German Banking Act)

**LNG**
Liquefied Natural Gas

**LPG**
Liquefied Petroleum Gas

**OECD**
Organisation for Economic Co-operation and Development

**OEM**
Original Equipment Manufacturer

**pp**
Percentage points

**RAM**
Restructuring Asset Management

**RPK**
Revenue passenger kilometre

**SE**
Societas Europaea (European public limited-liability company)

**SIC**
Standing Interpretations Committee

**SIIM**
Shipping & Intermodal Investment Management

**TEU**
Twenty foot equivalent unit

**UIC**
International Union of Railways

**VaR**
Value at risk

**VAT**
Value added tax

**VMC**
Value Maintenance Clause

**WpHG**
Wertpapierhandelsgesetz (German Securities Trading Act)

**WpPG**
Wertpapierprospektgesetz (German Securities Prospectus Act)

## Imprint

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The Annual Report 2011 is published in English and German.
It is available as PDF file on our webpage www.dvbbank.com
and as HTML report on www.dvbbank-annualreport.com.

Photos
Board of Managing Directors of DVB Bank SE (page 8–9),
Supervisory Board of DVB Bank SE (page 13) and
Employees and sustainability (page 26–27)
René Spalek, Offenbach, Germany

Key events (inner cover page): DVB Bank SE

Shipping Finance
Front cover and page 2:
Jeppe Wikstrom/Getty Images, München
Pages 46–47:
Roger Sijben, Breda, The Netherlands
Bert van Leeuwen, DVB Bank SE, Rotterdam, The Netherlands
Shipping Finance Deal of the Year 2011 (page 57):
AET Tankers Pte Ltd, Singapur

Aviation Finance
Front cover, page 4 and 62–63:
Bert van Leeuwen, DVB Bank SE, Rotterdam, The Netherlands
Aviation Finance Deal of the Year 2011 (page 71):
Jens O. Breuer, Mönchengladbach, Germany

Land Transport Finance
Front cover, page 6 and 80–81:
Wouter Radstake, DVB Bank SE, Frankfurt/Main, Germany
Land Transport Finance Deal of the Year 2011 (page 91):
Flagship Rail Services LLC, Chicago, Illinois, USA