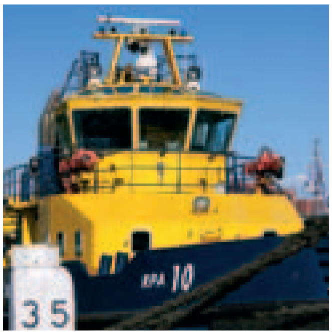
DVB

Annual Report

2010



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Key figures at a glance

€ mn	1 Jan 2010– 31 Dec 2010	1 Jan 2009– 31 Dec 2009	%
Earnings data in accordance with IFRS			
Income	307.3	243.1	26.4
Net interest income after allowance for credit losses	141.0	122.1	15.5
Net interest income	193.0	194.3	–0.7
Allowance for credit losses	–52.0	–72.2	–28.0
Net fee and commission income	124.4	97.8	27.2
Net income from financial instruments in accordance with IAS 39	30.2	17.9	68.7
Results from investments in companies accounted for using the equity method	5.8	–2.0	–
Net other operating income/expenses	5.9	7.3	–19.2
General administrative expenses	–176.2	–156.5	12.6
Consolidated net income before taxes	131.1	86.6	51.4
Key financial indicators (%)			
Return on equity (before taxes)	13.9	9.4	4.5 pp
Cost/income ratio	49.0	49.6	–0.6 pp

€ mn	31 Dec 2010	31 Dec 2009	%
Key items from the statement of financial position in accordance with IFRS			
Business volume	21,168.5	19,101.7	10.8
Total assets	19,316.8	17,268.6	11.9
Loans and advances to customers	16,445.0	14,670.4	12.1
Deposits from customers	4,408.8	4,412.7	–0.1
Securitised liabilities	5,319.9	3,477.1	53.0
Subordinated liabilities	545.5	606.0	–10.0
Equity	1,143.3	1,058.5	8.0
Own funds in accordance with the German Banking Act			
Total	1,309.0	1,258.7	4.0
Tier 1 capital	1,105.1	993.6	11.2
Tier 2 and tier 3 capital	203.9	265.1	–23.1
Capital ratios in accordance with the German Banking Act (%)			
Basel II			
Tier 1 ratio	18.9	14.2	4.7 pp
Total capital ratio	22.4	18.0	4.4 pp

Ratings	2010	2009	2008
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+	C
Outlook	negative	negative	stable
Standard & Poor's			
Long-term Issuer Credit Rating	A	A	A
Short-term Issuer Credit Rating	A-1	A-1	A-1
Outlook	negative	negative	stable

1 January
DVB united its global syndication activities in the newly-established Financial Institutions team. The team supports the Transport Finance and Investment Management divisions in private debt and equity placements for their clients.

19 January
Around 130 guests from Asian transport sectors attended DVB's annual client event at the Swisshotel The Stamford in Singapore.

11 March
At the Annual Accounts Press and Analysts' Conference, CEO Wolfgang F. Driese presented the preliminary and still unaudited Group results for 2009. The 2009 Annual Report was published in April.

26 April
At the third Seatrade Asia Awards in Singapore, DVB received the "Seatrade Asia Ship Finance Award 2010", in recognition of the Bank's activities in the Asian shipping industry.

27 April
58 clients from the shipping industry attended the "9th DVB Bank Breakfast Meeting" in Hamburg. A highlight of the event was the speech by Mr Young Min Kim, President and CEO of Hanjin Shipping Co. Ltd, entitled: "Is the liner industry on the road to recovery?"

9 June
DVB's Ordinary Annual General Meeting was held in Frankfurt/Main. The AGM passed resolutions on Authorised Capital 2010, on Conditional Capital 2010 (providing for the conditional issues of convertible bonds and bonds cum warrants), and on the dividend of €0.60 per no-par value share. The AGM also elected a new shareholder representative to the Supervisory Board.

18 July
At the Aerospace Journalist Awards 2010 in London, Geoffrey Thomas, a journalist with the Air Transport World magazine, receives the "DVB Bank Award for the Best Strategy or Financial Submission".

10–12 October
At the 17th European ISTAT Conference, Bertrand Grabowski, Managing Director responsible for Aviation Finance, joined four other panelists in a discussion on aircraft finance. Bert van Leeuwen, Head of DVB's Aviation Research team, participated in a panel discussion on aircraft engine leasing.

13 October
CEO Wolfgang F. Driese and Messrs Dagfinn Lunde and Bertrand Grabowski, the Managing Directors responsible for Shipping Finance and for Aviation and Land Transport Finance, respectively, welcomed around 200 invited guests from the shipping, aviation, and land transport sectors to DVB's annual client reception at the Mandarin Oriental Hotel in New York.

20 November
DVB once again received four awards from Jane's Transport Finance, the renowned British transport industry magazine, including "European Rail Deal of the Year" which honoured our Land Transport Finance team.

25 November
DVB successfully issued its debut €250.0 million ship covered bond, designed to diversify the Bank's funding sources and to expand its investor base. The Bank prepared the Pfandbrief issue during early November, ascertaining investor demand via a three-day in-depth road show held in Frankfurt/Main, Munich, Hamburg and Dusseldorf.

The leading specialist in international transport finance

At DVB, we make deals work. This means striving to seek and develop the 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.

Photographer

Roger Sijben,

Group Operations,

Rotterdam

Shipping Finance – specific sector expertise

The strengthening of global economic activity during 2010 brought a measure of stability to the international transport markets. The uptick in demand, along with a plethora of capacity adjustments, has seen vessel charter rates in maritime shipping hold their own. Our Shipping Finance team remained under steam and full ahead, providing consistent support and optimal lending solutions for our clients throughout the year. Our sector approach translates well into a broad and thorough coverage of the distinct shipping sectors. It enables us to collect and amass crucial in-depth knowledge of the assets, clients, value-chains, cargo flows and networks. This expertise is what makes our Shipping Finance team unique. It allows us to understand developments in particular shipping sectors and in the general market quicker than the competition. This specific know-how enables us to operate proactively, solidifying our reputation as a trusted partner in the shipping industry. In 2010, we won accolades for our proven expertise and excellent market position from heavyweight industry journals: five awards from Marine Money, two awards from Jane's Transport Finance and one accolade from Seatrade Asia.

Photographer
Bert van Leeuwen,
Head of Aviation Research,
Rotterdam

Aviation Finance – integrated platform solutions

2010 will be remembered by the aviation industry as the year it enjoyed a swift recovery with aircraft values and lease rates stabilising and in some cases improving. Our Aviation Finance team and our clients have benefited from our unique and integrated platform, with a range of products and services covering the entire lifecycle of aircraft and engines – from financing new airplanes right through to dismantling them, plus individual solutions for their engines. Consequently, our strategy is geared to offering our clients the most efficient services "where money and metal meet" – irrespective of industry and economic cycles. We provide asset financing on the basis of sound research and a deep understanding of aviation markets and specific types of aircraft. Our experts have gained their wings through many years of experience in the banking business as well as in the aviation industry – with airlines, manufacturers, asset managers and lessors. In 2010, our Aviation Finance team won two outstanding awards – from Airfinance Journal and from Jane's Transport Finance.

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

Land Transport Finance – consistent client franchise

During 2010, Land Transport Finance continued to focus primarily on its two main regions, Europe and North America, both showing clear signs of recovery. Our Land Transport Finance team was continuously on the tracks. Unlike a number of our competitors, we do not indulge in erratic strategy changes and consistently adhere to our cycle-neutral business model. Throughout the year Land Transport Finance successfully pursued new business and supported our clients with creative services. Our clients appreciate our passion for the land transport markets. Through our reliable service, we have strengthened our position as one of the prime providers of asset financing – both in primary and secondary debt markets. Even more so than in prior years, DVB is now considered by the market as a reference bank in the land transport segments. This appreciation and our persistent dialogue with clients about optimal financing structures, led to a prestigious award this year for our dynamic Land Transport Finance team from Jane's Transport Finance.

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

Ladies and Gentlemen,

We have made it – we left the depths of the crisis behind, yet we are still facing some of the consequences of this major disruption. 2010 was a year of two conflicting themes.

On the one hand, 2010 saw a strong recovery in world trade, accompanied by economic growth – albeit with significant regional differences, whereby Asia's exposed position and momentum were strengthened further. Equity markets around the world developed favourably, also fuelled by a glut of liquidity that benefited individual markets to differing extents.

The values of transport assets – ships, aircraft, rail rolling stocks – recovered, reflecting higher charter and leasing rates, amongst other factors. Orders for new assets were placed again in some transport segments, with a return of speculative buying being seen in a few cases.

Everything appears to be back to normal.

On the other hand, there is massive speculation against the integrity of the euro zone: the markets are targeting countries one by one, whilst the media are fuelling the problem and European politicians appear to be unclear in their communications, lacking leadership. There is too much talk in public, instead of taking courageous action. Some investors are losing an essential factor: trust.

It is precisely this trust regarding the stability of financial institutions that is still missing on the money and capital markets. In the aftermath of the Lehman Brothers collapse, banks' funding costs are still at very high levels, with interbank funding still being subject only partially functional. Assuming that additional measures resolved by governments and regulators will be implemented as planned, the situation will be further exacerbated for wholesale banks, i.e. those institutions without access to material retail liquidity.

A shortage of certain commodities and consequent price rises form a threat to continued recovery, and also pose a threat of new bubbles. There is excessive liquidity on the market, on a global scale. We have quite some way to go until we reach a "new normal" – which still needs to be defined, following the major financial markets and economic crisis.

Yet DVB reports record results, exceeding the previous record levels seen in 2007. How does that fit?

Bertrand Grabowski, Member of the Board of Managing Directors

Dagfinn Lunde, Member of the Board of Managing Directors

Let us look at the numbers first.

At €131.1 million, consolidated net income before taxes was up 51.4% over the previous year, exceeding the previous record for 2007 by 10.4%. Return on equity (ROE) before taxes – which we use as a management indicator – stood at 13.9% and thus well within the target corridor of 12–15% which we have defined in relation to the present interest rate levels. Net interest income before allowance for credit losses showed a decrease of just 0.7%; this was due to a certain extent to the somewhat sluggish growth in new business originated during 2009 and the first months of 2010. The key factor, however, was a strong decline in income generated by our Investment Management division; in addition, asset values needed to be written down.

Interest margins generated on new business continue to reflect a balanced risk/reward ratio. Looking at the prevailing volatility of transport markets going forward, and the high funding costs that continue to affect all finance providers, we consider these margins to be appropriate and necessary. At €52.0 million, allowance for credit losses was lower than in the previous year.

Net fee and commission income developed very favourably indeed, driven by higher new business (up by €4.9 billion or +63.3%) and significant additional income generated on advisory as well as asset management services. At €124.4 million, net fee and commission income was up 27.2% year-on-year. Total income was up by 26.4% for 2010.

The 12.6% increase in general and administrative expense, which we had not budgeted for, requires some explanation. Two factors contributing to this increase were provisions – recognised for the first time after several years – for the DVB Long-Term Incentive Plan for staff, and the higher share of variable remuneration. As both cost components were triggered by soaring income, we consider them to be justified. Constantly growing regulatory requirements, together with new accounting standards, have necessitated higher staffing levels in service units. This increase is unfortunately unavoidable. The requirements and related costs for operating a bank keep rising – whether this will in fact make the financial services sector safer is something that only the future will show. As we already pointed out last year, rules and regulations cannot compensate for the lack of a sustainable business model. Commerce thrives and develops on entrepreneurial activity – not on controls. The increase in other general administrative expense is mainly due to higher contributions to our deposit insurance scheme (reflecting our higher business volume), and to higher advisory fees and other expenses incurred in connection with disposing of high-risk exposures.

Let us return to the question as to why DVB has outperformed many of its directly comparable competitors:

- a very clearly-defined business model as a niche provider operating on a broad-based, global platform;
- a conservative business policy, oriented upon providing value to clients and a balanced risk profile;
- a consistent risk management approach that anticipates risks;
- a strongly focused service offer, including complementary products that are unusual for the sector, such as asset management services;
- a flat hierarchy, supported by a manageable company size – which in turn facilitates transparency as well as fast information flows and swift decisions; and
- the expertise of our award-winning asset and market research experts, which is integrated into all decision-making processes, together with the best experts for Shipping Finance, Aviation Finance, and Land Transport Finance.

It is the aggregate of all these factors that makes a difference, and makes DVB unique.

Yet praising ourselves would be dangerous, and might lead to negligence. We must fight to defend our special position with each individual transaction or advisory mandate, and make the winning of our clients' approval in competition the benchmark for all our actions.

We will propose to the Annual General Meeting to pay an unchanged dividend of €0.60 per share. We believe that further boosting our own funds should still take precedence over a higher distribution. The year 2010 and all our achievements will be history – at the latest – once the dividend has been distributed, and we will once again have to prove ourselves to our clients.

We would like to express our thanks to all DVB employees, across all functions and levels, for their great commitment, enthusiasm for their work, and their creativity.

Let us now take a look at 2011.

The summary is rather simple, in fact: volatility will prevail – in the economy, on financial markets, in demand for transport services, and especially in the supply of additional transport capacity. The high volumes of newbuild capacity will be pushed on the markets during 2011 and 2012. As we said in the previous year: there is no reason to relax. At the very least, the risk of setbacks is higher than the chances of particularly positive news. This outlook is characterised by the scenario on the European and North American markets, the non-emerging markets. These regions account for three-quarters of our business. This geographical structure must and will change over time.

We are looking ahead to another challenging year. Our goals remain unchanged: we want to offer the best solutions to our clients and provide an adequate return on equity to our shareholders. Whether this will lead to another record year for DVB remains to be seen; we believe that – first and foremost – our performance must be sustainable.

We will work hard to achieve this.

Yours sincerely,

Wolfgang F. Driese
CEO and 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

Frankfurt/Main, March 2011
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., Curaçao, Netherlands Antilles

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

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 Cardiff, United Kingdom

Member of the Board of Directors
DVB Transport (US) LLC, New York, USA

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

Client areas in business divisions:
Shipping Finance
Advisory New York

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., Curaçao, Netherlands Antilles
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,

DVB was successful during 2010, and proved to be very robust and resilient to crisis. In fact, the Bank even succeeded in expanding its competitive position on an international scale, and to post record results – in spite of prevailing financial markets volatility and some remaining turbulence on transport markets. In the subsiding crisis, DVB has continued its successful track record and thus resumed its pre-crisis performance.

This remarkable development is based on the Bank's focus on its core global Transport Finance business, which is truly unique worldwide. Thanks to its clearly-defined, viable and sustainable business model, DVB has detailed knowledge of the cyclical transport markets and the financed assets. Furthermore, the Bank has an excellent risk management system, which prevents risks from being assumed solely through a focus on short-term growth, and ensures that DVB takes risks on its books in a targeted and controlled manner, and at an adequate price.

For many years, the Bank has consistently shaped its business activities to match its clients' needs, offering advisory services and financing products providing clients in the real economy with true added value. Adding value for clients means enhancing DVB's profitability.

With this in mind, we would like to thank the Board of Managing Directors and all members of DVB's staff for the entrepreneurial vision they have demonstrated throughout 2010, for their immense commitment and persistence, and for their creativity and initiative. The Supervisory Board is confident that DVB's success story can continue in 2011.

We would now like to turn to our detailed report on the activities of the Supervisory Board during the business year under review. The Supervisory Board, jointly with the Credit Committee and the Executive Committee, has fulfilled the obligations imposed on it by the applicable statutes, Memorandum and Articles of Association, and the Bank's Internal Regulations throughout the past business year. We have taken decisions on transactions requiring approval, 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.

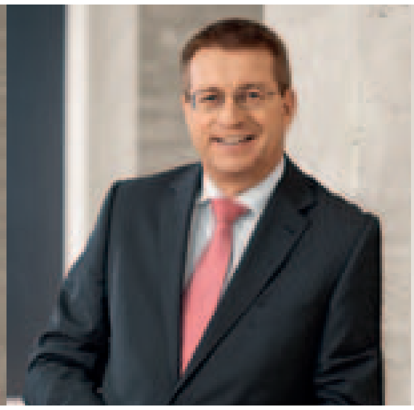
Report of the Supervisory Board

Frank Westhoff
Chairman of the Supervisory Board

Dr Peter Klaus
Deputy Chairman of the Supervisory Board

Dr h.c. Stephan Götzl

Flemming Robert Jacobs



Wolfgang Köhler

Dr Klaus Nittinger

Dorinus Legters

Kieran O'Keefe

Martin Wolfert

Co-operation with the Board of Managing Directors

Regular discussions regarding important issues and impending decisions took place between the Chairman of the Supervisory Board and the Chairman of the Board of Managing Directors. The Chairman of the Board of Managing Directors, Mr Wolfgang Driese, always informed the Chairman of the Supervisory Board about the Bank's current business and risk situation, and on specific issues, in good time. At the Supervisory Board meetings, the Board of Managing Directors regularly and comprehensively informed the Supervisory Board 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 financial and human resources planning, and budgeted results). The risk situation and risk management were scrutinised by the Credit Committee in particular, who then reported to the plenary meeting of the Supervisory Board. 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. Where no meeting was planned in the near future, the Chairman of the Board of Managing Directors informed the Supervisory Board of important events in writing. Where time was of the essence, Supervisory Board resolutions were adopted by way of circulation. The Supervisory Board's activities and co-operation with the Board of Managing Directors were always characterised by open and constructive discussions.

Meetings of the Supervisory Board

The Supervisory Board met during four scheduled plenary meetings in 2010; on 10 March 2010, 14 April 2010, 27 September 2010, and 18 November 2010. In the course of these meetings, the Supervisory Board carefully and diligently considered the economic development of the Bank and its Group entities. The Board of Managing Directors and the department heads informed the Supervisory Board on the situation on international transport markets, as well as on the specific risk situation in the shipping and aviation sectors particularly. As in the previous years, each of the Supervisory Board meetings focused on the impact of the global financial and economic crisis on DVB Group's core business segments.

Main issues during the meeting on 10 March 2010 were the previous year's business development as well as the consideration and confirmation of the single-entity financial statements of DVB Bank SE for the 2009 business year. The external auditors, who took part in the meeting, responded to questions in detail. Various risk strategies and their implementation within the DVB Group were thoroughly reviewed.

At the meeting on 14 April 2010, the IFRS consolidated financial statements were discussed with the auditors and approved by the Supervisory Board. Proposals for the agenda of the 2010 Annual General Meeting were approved, and the head of Internal Audit presented the annual Audit Report. The meeting also focused on the compensation of the members of the Board of Managing Directors. The Supervisory Board discussed the remuneration system for the Board of Managing Directors, which it had previously adopted by way of circulation. The Supervisory Board determined bonus payments for the Managing Directors for the year 2009, as well as the joint and individual targets for the 2010 bonus, based on the recommendations put forward by the Executive Committee. Also, the Supervisory Board adopted the terms of the DVB Long-Term Incentive Plan (LTI) 2009 for the Board of Managing Directors. Furthermore, the Supervisory Board carried out the examination of efficiency as required by the German Corporate Governance Code.

At the meeting on 27 September 2010, Messrs Bertrand Grabowski and Dagfinn Lunde, the two members of the Board of Managing Directors responsible for Aviation Finance and Shipping Finance gave a detailed account to the Supervisory Board on the current business development and risk situation in the aviation and shipping segments. The members of the Board of Managing Directors supplemented their presentation by a detailed review of the portfolio situation in the Aviation Finance and Shipping Finance divisions, offering updated analyses of the commercial aviation and shipping markets as well as their business development forecasts for these two Transport Finance divisions during the years 2010 and 2011. Furthermore, the head of Group Compliance presented the 2010 Compliance Report to the Supervisory Board. During the same meeting, the Supervisory Board resolved that the Credit Committee be composed of four members, and to no longer appoint a deputy member. Mr Flemming Jacobs was elected as the fourth member of the Credit Committee. Finally, the Supervisory Board approved the adjustments to the 2009 and 2010 LTI programmes, based on the medium-term planning for the years 2011 to 2015.

The last meeting during the year under review took place on 18 November 2010. In addition to the Board of Managing Directors' report on the current development of the DVB Group, this meeting's focus was on the Bank's strategic development and its specific objectives and planned measures. On this occasion, the Supervisory Board discussed the operative planning for 2011, the medium-term planning 2011–2015, as well as DVB's strategic orientation in detail, passing the relevant resolutions. The Supervisory Board also concerned itself with the Bank's operational implementation of the recommendations of the German Corporate Governance Code. Mr Bertrand Grabowski, the Managing Director in charge, presented a comprehensive report of the current business development and risk situation within the Land Transport Finance division. He also provided detailed information on the portfolio situation and delivered a forecast of the division's business development in 2011. The Supervisory

Board once again dealt with personnel issues during this meeting. The Remuneration Committee – established in accordance with section 6 of the German Remuneration Systems Ordinance (Instituts-Vergütungsverordnung) – reported on its activities for the first time. A detailed report was provided to the Supervisory Board regarding the staffing levels of DVB Group's management levels, as well as on impending adjustments to the remuneration of the Board of Managing Directors.

There were no members of the Supervisory Board who attended less than half of meetings. 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 the DVB Group that were subject to reporting requirements by virtue of law or under the Internal Regulations, in detail and without delay. 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 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. Furthermore, various strategies employed in certain shipping sectors, and changes to existing lending policies were discussed and approved. Discussions on the credit risk strategy formed a focal point of deliberations. Furthermore, the members of the Credit Committee were informed about the results of a credit business audit carried out by auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. 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. Mr Frank Westhoff, Chairman of the Credit Committee, regularly informed the Supervisory Board about the details of the Credit Committee's work.

The Executive Committee met once during the reporting period. In the course of this meeting, the Executive Committee carefully and diligently considered personnel matters concerning the Board of Managing Directors and the tasks assigned to it by the Supervisory Board. In particular, the Executive Committee submitted the required proposals on the remuneration of the members of the Board of Managing Directors to the Supervisory Board. Furthermore, the Committee was kept informed by the Board of Managing Directors as requested, and always in good time, of the conclusion of employment contracts with executive staff, where the annual remuneration was in excess of a set threshold. Mr Frank Westhoff, the Chairman of the Executive Committee, kept the Supervisory Board informed on topics dealt with by the Committee, 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, the Supervisory Board members have issued the ninth 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 10 December 2010.

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

The Supervisory Board has determined that, according to its 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.

Co-operation with external auditors for the financial statements 2010

The consolidated financial statements and the group management report for the 2010 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 28 March 2011, 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 questions from the members of the Supervisory Board 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 2010 gave no cause for objections. The Supervisory Board approved the consolidated financial statements as at 31 December 2010 prepared by the Board of Managing Directors.

The Board of Managing Directors has prepared and submitted the mandatory report on relations with affiliated companies during the business year 2010; 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 (AktG).

Personnel change within the Supervisory Board

Mr Wolfgang Köhler was elected as a member of the Supervisory Board with a term of office ending at the conclusion of the Annual General Meeting 2014; he had previously been appointed to the Supervisory Board by the court on 21 September 2009.

Frankfurt/Main, 28 March 2011
DVB Bank SE

For the Supervisory Board

Frank Westhoff
Chairman

Supervisory Board

Shareholder representatives	Frank Westhoff Chairman
	Dr Peter Klaus Deputy Chairman
	Dr h. c. Stephan Götzl
	Flemming Robert Jacobs
	Wolfgang Köhler
	Dr Klaus Nittinger
Employee representatives	Dorinus Legters
	Kieran O'Keefe
	Martin Wolfert

Supervisory Board Committees

Credit Committee	Frank Westhoff Chairman
	Dr Peter Klaus Deputy Chairman
	Flemming Robert Jacobs
	Martin Wolfert
Executive Committee	Frank Westhoff Chairman
	Dr Peter Klaus Deputy Chairman
	Dorinus Legters

To summarise the 2010 business year, momentum picked up for DVB, and the Bank completed another record year. Our main objective throughout every market cycle 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 even greater 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. We are proud of the experienced and effective team, which maintains exemplary standards of conduct towards clients and investors.

To successfully implement our focused business model in cyclical and sometimes unstable markets, it is essential to proactively identify all the risks we are exposed to. We call upon Risk Management, Compliance, Controlling and Internal Audit to ensure that all legal, regulatory and statutory requirements are being met. The scope of the Compliance function includes money laundering prevention, prevention of market abuse/market manipulation, data protection, 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 familiar with – and remains aware of – clearly defined responsibilities.

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. We are also considering 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.

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

We support fair and transparent competition. Consequently, we use documented, publicly accessible and verifiable information in order to evaluate our clients. Our Compliance department validates this information on an ongoing basis, in order to ensure that it is both up-to-date and transparent. DVB will also soon be adopting an anti-corruption policy that will complement existing guidelines for gifts and benefits. Our employees thus recognise how crucial it is to maintain comparable competitive conditions amongst the financial institutions active in transport finance.

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 (Frankfurt/Main, Hamburg, London, Cardiff, Rotterdam, Bergen/Oslo, Piraeus, Zurich, Singapore, Tokyo, New York and Curaçao).
- Our client base is truly international.
- Our employees belong to a wide variety of cultural groups, and come from many different nations.

Client structure and client loyalty

At the end of 2010, DVB's global client base comprised 617 clients or client groups (previous year: 558). These are mainly divided between Shipping Finance with 51.0%, Aviation Finance with 24.6%, Land Transport Finance with 9.6%, ITF Suisse with 5.1%, and Investment Management with 3.7%.

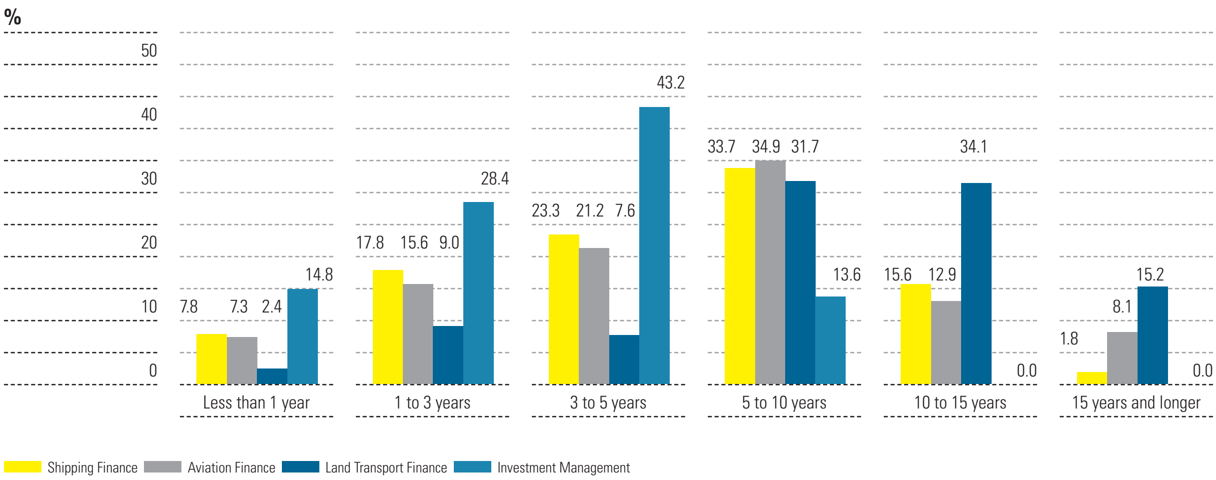
DVB pursues a cycle-neutral business model: this is why the Bank has remained a reliable partner to its clients, continuing to provide financing and advice even in a market environment that continues to be challenging. This strengthens the trust, and deepens the intensity of our client relationships 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 2010, 54.2% of our clients had been using our range of services for more than five years. Of all client relationships in the Transport Finance and Investment Management divisions,

- 7.3% had been in existence for less than one year,
- 16.7% between one and three years,
- 21.8% between three and five years,
- 32.7% between five and ten years,
- 16.6% between ten and 15 years, and
- 4.9% for more than 15 years.

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

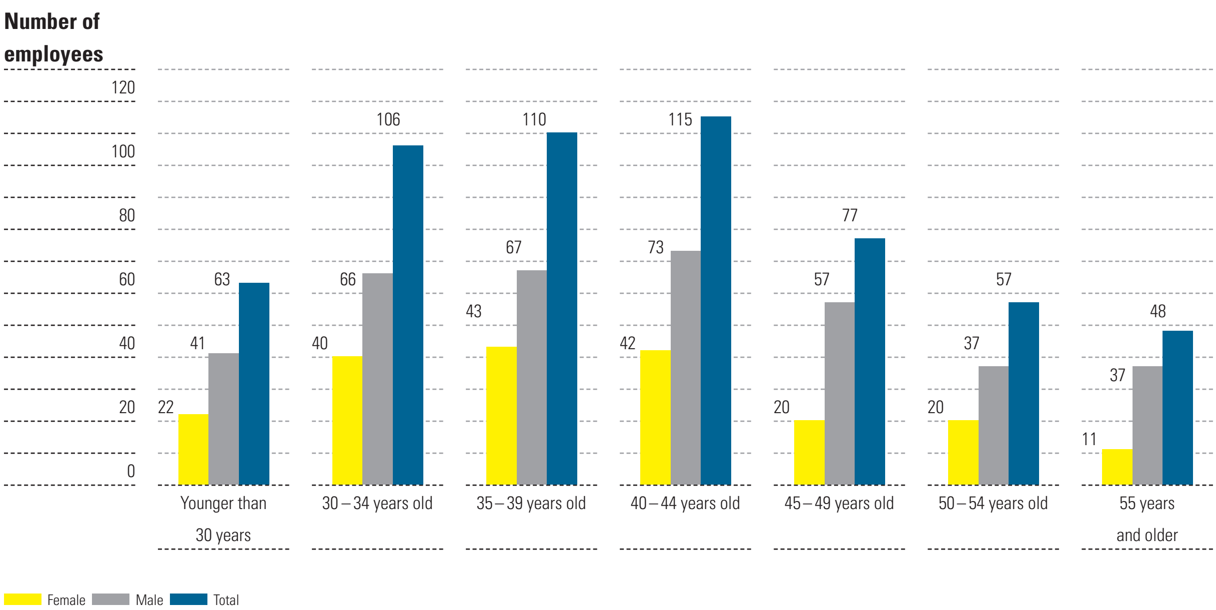
Diversity management has been a part of day-to-day life at DVB for quite some time. To cite a few statistical details, DVB's employees hail from a total of 38 different countries, and there are 32 different nationalities represented within our core Transport Finance business. ❶

Of the total of 576 employees at the end of 2010, 378 were men and 198 women. The breakdown by age and gender is as follows: ❷

❶ Nationalities of active employees

	Employees at DVB		Employees in Transport Finance	
	Number	**%**	**Number**	**%**
German	171	29.7	47	12.9
British	150	26.0	112	30.7
Dutch	70	12.2	53	14.5
Norwegian	31	5.4	29	7.9
US-American	27	4.7	22	6.0
Singaporean	27	4.7	19	5.2
Greek	18	3.1	17	4.7
31 other nationalities (DVB), 25 other nationalities (Transport Finance)	82	14.2	66	18.1
Total	**576**	**100.0**	**365**	**100.0**

❷ Age structure and gender allocation



Human Resources work – focusing on sustainability

The core responsibility of our Human Resources department in 2010 was to provide lasting support to DVB's development as the financial and global economic crisis gradually lifted. After the crisis years of 2008 and 2009, we were able to return our focus to forward-looking Human Resources activities last year. Examining the impact of the new regulatory requirements upon our remuneration systems was another central task.

Leadership and management principles

DVB consciously employs and maintains flat hierarchies to open up short decision-making channels. This allows complex issues and transactions to be decided upon in a swift, precise and goal-oriented manner. Fast, clear and definitive decision and execution count amongst DVB's 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 can also provide support as needed.

Recruitment and development

To fill open positions, we primarily look for experienced specialists, whether it be in Transport Finance or in our central Group functions and service units. 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 plenty of duly qualified candidates who apply directly.

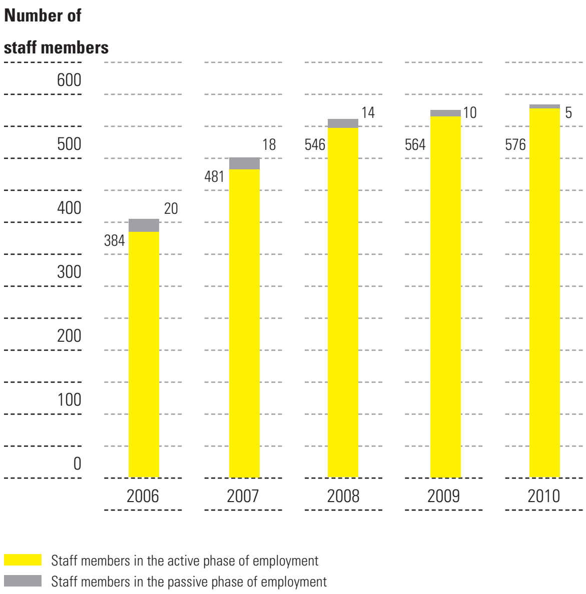
We have deliberately created two separate processes for employee review and bonus determination. Determining the bonus is based on achieving explicit quantitative or qualitative targets that are mutually agreed upon by employees and their managers. Once a year, an employee and his/her manager are required to sit down together and discuss how the employee is progressing, examining potential, and areas for further development, etc. without any monetary influences. Group Human Resources provides managers with helpful materials to assist them in conducting structured and efficient employee reviews. In 2010 we expanded the scope of these materials, incorporating additional issues in order to gain stronger data about areas for development and training of employees. We will be able to use this information to set up a structured training programme in 2011.

We have been conducting our trainee programme successfully for many years. The programme, which lasts for approximately 18 months, covers all material aspects of our Transport Finance business, including relationship management as well as credit management. As Human Resources planning was hampered by the financial crisis in 2008/2009, we were only able to hire a very limited number of trainees. Starting in 2011, the programme will once again comprise ten trainees.

Development of the personnel structure in 2010

The number of active employees increased slightly by 12 (+2.1%) to 576 staff members in 2010. This figure does not reflect the five employees with inactive employment relationships, such as the non-working phase of semi-retirement, maternity or parental leave. The slight increase in the number of employees is largely due to our Cardiff, Wales-based subsidiary TES Holdings Ltd, which hired 11 new staff members for a new office it opened in Singapore.

Staff levels 2006 – 2010



After years of targeted personnel growth, there were hardly any changes within our core business segments Transport Finance and Investment Management during 2010. With 365 employees, there were only 1.4% more than the previous year (2009: 360 employees). This confirms that the personnel measures over the last several years have achieved the appropriate personnel structure. With 201 employees, staffing levels in the central Group functions and service units rose by 3.6% over the previous year (2009: 194 employees). This increase was not caused by changes in our business model, but rather by the dramatic increase in administrative duties resulting from the inexorable rise in regulatory requirements stipulated by lawmakers and banking supervisory authorities over the past several years.

Demographic management

In the demographic management, it is important to identify long-term trends and confront challenges to resolve them constructively. One long-term trend that we need to cope with is demographic development. All of the industrialised countries in which DVB is represented are undergoing similar changes: the population and the workforce are ageing. This demographic development at DVB's international locations was one of the items on the agenda at our Global Management Conference in 2010. At present, 105 of the 576 employees are more than 50 years old (18.2% of the workforce) and 127 staff members have been with DVB for more than ten years (22.0% of the workforce). Given the heavy workload and the new challenges that constantly arise, we are confronting the question of how DVB can motivate these experienced employees for the long term.

As DVB only offers limited programme-supported advancement opportunities due to its size, it makes sense to identify individual approaches. Accordingly, we will be consulting employees working as Senior Vice Presidents or Managing Directors in 2011. We will ask about retention and motivation factors, and investigate which criteria from the employees' perspective can contribute to a satisfactory work-life balance at DVB. The study's findings will be discussed at the 2011 Global Management Conference. A decision will then be made as to what concrete measures – specifically, measures that can be suitably integrated into DVB's structures and culture – will be adopted.

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 co-ordination with their managers, and take account of the times that they absolutely need to be present.

On 31 December 2010, 43 (7.5%) of our 576 employees were employed on a part-time basis, 37 of them women and six men. This shows that we have a very positive attitude towards part-time employment solutions, promoting them whenever we can and whenever it makes sense to do so. In addition to this traditional way of scaling back working hours, we are also receptive to setting up schedules on an individual basis making it possible to better balance professional and personal demands, not only with respect to 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. Accordingly, the Board of Managing Directors created a new Working From Home Policy that will be implemented in 2011 to provide our employees with a clear framework.

For detailed statistical information about our employees, please refer to the "Non-financial performance indicators" chapter of the management report on pages 121–122 of this report.

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, managers are responsible for risk assessment and management as part of occupational safety, and for enacting measures to prevent work-related health problems.

We offer most employees at all of our offices a thorough health check-up, and provide assistance with vaccinations when necessary. DVB is also well-prepared for global health threats. The existing crisis plan was carefully revised in response to the H1N1 pandemic. 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 employee 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 for getting 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 uses 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 international community (G20 countries) has introduced a number of different initiatives since 2009, directed at bank remuneration systems, that were enacted at a national level in 2010. With the German Ordinance Regarding the Regulatory Requirements for Remuneration Systems of Institutions (referred to in this section as the "Ordinance"), 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 (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 whose total assets amounted to a minimum of €10 billion, without 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. The Board of Managing Directors discussed this matter in multiple meetings and, after extensive analysis, reached the final conclusion in 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 an appropriate upper limit for the ratio of fixed to variable remuneration.

In consultation with the Works Council, we made an amendment to 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 are introducing a so-called 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 2010 we were once again able to swiftly confront new challenges and develop pragmatic solutions. This was only possible thanks to the good co-operation that took place with the SE Works Council, as well as with local works councils in Germany and the Netherlands. A decisive factor in facilitating the enactment of the Ordinance was the constructive and goal-oriented dialogue with the works councils.

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 annual Global Management Conference 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 first-ever virtual general employee meeting, in which employees could add their questions directly to the discussion between the SE Works Council and the Board of Managing Directors, was held in 2009. The event has proved sufficiently successful and established itself as an important part of our culture of communication.

- Local office parties are also organised at different locations as team-building measures.

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 recommendations and proposals of the Code. The Board of Managing Directors and the Supervisory Board therefore use the Code as a guideline on how to enhance the transparency of business decisions for shareholders, business partners, employees, and the general public. The two executive bodies regularly review the Code's recommendations – as amended 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 management system

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

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 Management 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 Managing Director 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 management system

Board of Managing Directors

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

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

reports to →

← advises, 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 ↑ reports to ↓ formally approves ↑

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.

No conflicts of interest pursuant to section 4.3 of the Code occurred during the 2010 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 a 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 Annual General Meeting to be held in 2014.

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 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 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. By 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 once a year, 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 2010, as well as the processes of communication and coordination 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 118–120, 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 the 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).

General Meeting – protecting shareholders' interests

All of DVB's shareholders are involved in the Company's major decisions and are able to exercise their rights, as provided in the Memorandum and Articles of Association, prior to or during the General Meeting. 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 distributable profit, on the formal approval of the members of the Board of Managing Directors and the Supervisory Board, and on the appointment of 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 Annual General Meeting 2010 is available in the chapter "The DVB share" on page 34 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 net assets, financial position, and results of operations. 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 German Commercial Code (German GAAP – 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. Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, have been appointed as auditors for the 2010 business year.

The single-entity report of DVB Bank SE is only published on the Bank's website in German. The Group Annual Report is printed in both English and German, and is available for download from our website in both versions. For the first time, we will publish our 2010 Group Annual Report – in both languages – as an easy-to-read HTML report.

This online report is expected to be available on our website www.dvbbank.com > Investor Relations > Publications > Financial Reports > DVB Group's Annual Report 2010 from the end of April 2011.

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 and third quarter, respectively). All these financial reports are prepared according to IFRS.

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 2009 on 11 March 2010.

- Furthermore, 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 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 ninth Declaration of Compliance on 10 December 2010; the declaration covers the years 2010 and 2011, 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 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, 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 is 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 a detailed one-year plan and a rolling five-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 integrated 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 ability to carry and sustain risks, 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 124–143 of this annual report.

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 includes – but is not limited to – money laundering prevention, prevention of market abuse or market manipulation and corruption, data protection, conflicts of interest, and compliance with the Markets in Financial Instruments Directive.

The Compliance function within the DVB Group is centralised in the Compliance Office located in Frankfurt/Main. The Head of Compliance reports directly to the Chairman of the Board of Managing Directors, and appraises the Board of the Compliance situation on a regular basis. Additionally, the Supervisory Board receives an update on an annual basis. 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. All staff attend regular trainings on compliance-related topics.

Sustainable conduct – both commercially and socially – is a key element of DVB's corporate culture. To ensure a highly professional, uniform and exemplary standard of conduct throughout the Group, 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.

This Code of Conduct serves as a role model comprising 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, 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 contains DVB's Code of Conduct.

From the financial crisis to the sovereign debt crisis, this constitutes a straightforward summary of the situation on financial markets during 2010. The debt crisis of the euro states Greece, Ireland, Portugal and Spain resulted in various rescue measures being taken by political entities and the central bankers: a €110 billion rescue package for Greece (March 2010), a €750 billion bailout by the European Monetary Union (EMU) and the International Monetary Fund (IMF) for the countries mentioned (May 2010), buy-back programmes for government bonds in Europe and the US, discussions about doubling the bailout package to €1.5 trillion etc. It remains to be seen whether these measures can restore market confidence in the long term.

European Central Bank – interrupted exit from "policy of cheap money"

As announced at the end of 2009, at the beginning of 2010 the European Central Bank (ECB) embarked on the gradual correction of the expansive monetary policy it had pursued during the previous year, by phasing out the twelve-month and six-month fixed-rate repos and returning to an allocation in line with bids submitted for longer-term refinancing transactions. As the sovereign debt crisis came to a head in May 2010, European central bankers were forced to suspend this exit from the "policy of cheap money" and to counteract new tensions on money markets by implementing special monetary policy measures. The ECB returned to full allocation for long-term (three-month) repos on the one hand, and, on the other, purchased Greek and other government bonds on the secondary market for the first time, in order to maintain an operational bond market. These purchases reached €73.5 billion by year-end; however the figure remained well below the amounts the US Federal Reserve Bank and the Bank of England spent in supporting their respective domestic bond markets.

The ECB also agreed during the year to abide by the relaxed minimum rating standards beyond the turn of the year 2010/2011. The plan is to facilitate refinancing operations by commercial banks in the euro zone indirectly, by lowering the minimum rating threshold for the collateral to be pledged from A– to BBB–. This move thus considerably extended the scope of eligible collateral. Owing to the increased volatility on financial markets and in order to hedge against the higher credit default risk brought about through its purchase of government bonds, the Governing Council of the ECB agreed on 29 December 2010 to almost double its subscribed share capital from €5.8 billion to €10.8 billion.

As expected, the key interest rate in the euro zone remained at its record low of 1.0% throughout the whole of 2010.

US Federal Reserve eased monetary policy further in 2010

In the course of improving the situation on the financial markets, the US Federal Reserve (Fed) hiked its discount rate by 25 basis points to 0.75% in February 2010, which was generally seen as a precursor to a rise in the key interest rate later in the year. However, it changed tack in the second half of the year, against the background of sluggish economic recovery and the difficult labour market situation in the US. Instead of returning to its expansive fiscal policy, the Fed agreed an additional US$600 billion bond purchase programme in November 2010 that is scheduled to run until mid-2011. Additionally, the Fed plans to reinvest up to US$300 billion it retrieves from maturing mortgage-backed bonds in US Treasuries. Finally, the de facto zero per cent interest rate policy remained unchanged throughout 2010.

The debt crisis of the four euro countries impacted severely on the euro in 2010

The common European currency was particularly hard hit by the turbulence caused by certain troubled euro zone economies during the first six months of the year, resulting in a significant depreciation of the euro against the US dollar. There were fears that the sovereign debt crisis would exacerbate the situation in the European financial sector – still weakened by the crisis in the financial markets – thus severely impairing the functioning and stability of the euro financial system. At the beginning of June, the euro had fallen to US$1.19, its lowest level in four years.

Following agreement on a bailout for the financially troubled euro zone countries, the situation regarding the refinancing transactions of the over-indebted states eased and the euro recovered considerably as the year progressed. The strong momentum of the German economy and the emerging difficulties of the US economy supported this trend. By the beginning of November, the euro had gained 23 US cents off its lows, to reach a level of US$1.42. However, the euro's external value weakened significantly against the US dollar in November, in conjunction with the difficult Irish state budget and troubles in the Irish banking sector. The euro only recovered after Ireland accepted a bailout package provided by the EMU and the IMF at the end of November 2010.

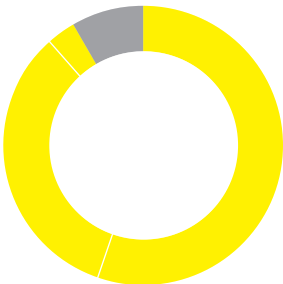
By year-end the euro was hovering above US$1.30 and closed the year at US$1.34. Year-on-year, the euro had therefore fallen by ten US cents against the dollar (2009: US$1.44).

DVB's financial markets activities during 2010

Throughout 2010, DVB continued to consistently implement its business model, which focuses on financing, structuring, and advisory services in the international transport finance business. The Bank fundamentally refrained from so-called credit surrogate business, and was therefore protected against any direct negative impact from the financial markets crisis. By taking timely action during the 2009 business year, and in the first quarter of 2010, we succeeded in eliminating almost entirely the money market distortions that emerged as a negative side-effect of the financial markets and economic crisis. In 2010 the Bank succeeded in reducing interest expenses for these distortions to €0.2 million (2009: €20.8 million).

We also significantly increased 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 2010. DVB also benefited from its integration into the German Cooperative Financial Services Network, which has sufficient liquidity available. DVB's funding volume (interest-bearing liabilities) totalled €15.9 billion in 2010, 91.8% of which has a long-term maturity – an increase of 4.7% over the previous year.

Refinancing instruments 2010



Long-term refinancing vehicles 91.8%

thereof:

55.3% Promissory notes/long-term deposits

33.3% Issues under the MTN programme

3.2% Own funds in accordance with the KWG

Short-term deposits banks/customers 8.2%

Given that our lending business in Shipping Finance and Aviation Finance is predominately US-dollar-based, it is very important for us to create a natural hedge between assets and liabilities with regard to currency exposure. We achieved this in 2010 too, as only €4.6 billion (–14.8%) of our funding volume was denominated in euro, compared with €11.3 billion (+32.9%) in US dollar. Other currencies were only of minor importance during 2010.

We also succeeded in further expanding our investor base and to this end, successfully launched our first ship covered bond in the fourth quarter of 2010 with an issue size of €250.0 million. The orderbook was closed on 25 November 2010 and was broadly diversified with 56 individual orders. 90% of the issue volume was placed in Germany, and the remainder in Austria and Luxembourg. The investors were exclusively banks. The coupon for a three-year term was 2.25% and the issue price was fixed at 99.702%. A broadly-diversified cover assets pool sized at around US$1.0 billion, which represents a snapshot of DVB's entire shipping finance portfolio, was created to hedge the ship covered bond. The value date was set on 2 December 2010, and the bond will mature on 2 December 2013.

DVB's ship covered bond is subject to the strict security standards of the German Pfandbrief Act (Pfandbriefgesetz), and was assigned an Aa3 rating from the rating agency Moody's Investors Service. Because of the excellent quality of the cover assets pool, this rating is one notch above DVB's Debt and Deposit Rating (A1). According to Moody's rating standards for ship covered bonds, this represents the highest possible rating upgrade.

DVB's ratings

Since 2009, DVB BANK SE has been rated A/A-1/negative (Standard & Poor's) and A1/P-1/D+/negative (Moody's). These ratings remained unchanged in 2010.

Equity markets worldwide continued their gains during year two following the collapse of Lehman Brothers – albeit without staging a major rally, as investor concerns about the sovereign debt crisis in Greece, Ireland, Portugal and Spain spreading to the entire financial sector weighed on share prices.

German blue-chip index clearly outperforms its European peers

During 2010, the German blue-chip index (DAX) index initially lacked momentum, as investors remained sceptical as to whether the recovery in the US would be sustained, and whether the battered financial markets would in fact recover. During the fourth quarter, the DAX posted solid gains, rising from just above 6,000 index points to reach highs above 7,000. This dynamic development was driven by the surprisingly strong growth rates posted by the German economy, and by the Fed's second round of quantitative easing, which supported constituents of both the Dow Jones Industrial Average (DJIA) and the DAX. The mood on equity markets further improved towards the end of the year, thanks to an additional economic stimulus package – including tax cuts – in the US, which raised hopes of economic recovery.

Amongst DAX constituents, the share prices of those companies benefiting from the renewed momentum of German exports performed particularly strongly. Even the escalating debt crisis was not able to restrain the uptrend in the DAX: thanks to the strength of the German economy, the German equity market decoupled from ongoing issues surrounding sovereign debt. German equities thus strongly outperformed the other major financial markets: the DAX closed the year at 6,914 index points, up 16.1% year-on-year (end of 2009: 5,957 index points, up 24% from the end of 2008). The high of 2010 was posted on 21 December, at a level of 7,088 index points. With this development, the DAX ranked amongst the strongest-performing indices worldwide. The DJIA, in contrast, only recorded an 11.0% increase and also other European equity markets underperformed the DAX: for instance, the EURO STOXX 50 was down by 5.2% year-on-year.

DVB share remains stable, in a difficult market environment

Given the outlined financial market conditions, the DVB share price remained resilient throughout 2010, and was quite stable compared to the performance of other market participants. Over the course of 2010, traded volumes in DVB shares were subdued, with moderate volatility. The yearly high of €27.50 was reached on 13 January 2010, and the lowest price of €24.50 was recorded on 30 September as well as on 23 and 24 November 2010. The year-end share price was €25.00, unchanged year-on-year; DVB's market capitalisation thus amounted to €1.2 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.

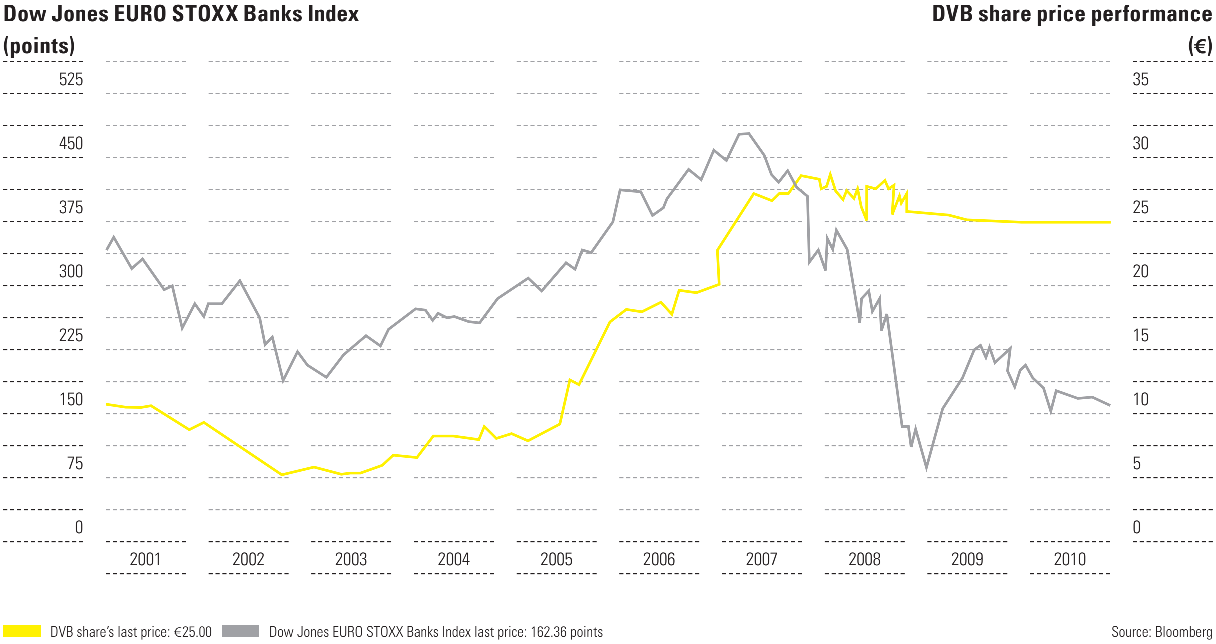
Shareholders were paid a dividend of €0.60 per notional no-par value share from DVB Bank SE's net retained profit for 2009. The Board of Managing Directors and the Supervisory Board will propose to the Annual General Meeting on 9 June 2011 that the dividend payment remains unchanged at €0.60 per notional no-par value share for the 2010 business year. ❶

❶ **DVB share data (€)**

	2010	2009	2008	2007	2006
Business year high	27.50	28.00	28.60	288.00	220.00
Business year low	24.50	21.00	20.00	203.25	162.00
Year-end price	25.00	25.00	26.10	282.00	206.25
Number of shares outstanding at year-end	46,467,370	46,467,370	46,467,370	3,982,737	3,932,677
Market capitalisation at year-end	1,161,684,250	1,161,684,250	1,212,798,357	1,123,131,834	811,114,631
Dividends	0.60	0.60	0.60	5.00	3.00
Dividend yield	2.40%	2.40%	2.30%	1.77%	1.45%
Basic earnings per share	2.28	1.61	2.44	27.67	23.01

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

Share price performance in 2010



Shareholder structure remains unchanged

The shareholder structure was largely unchanged in the 2010 business year. DZ BANK AG remains DVB's majority shareholder, with a steady 95.45% stake in DVB's share capital at year-end. The remaining shares (4.55% of the share capital) are in free float.

Shareholders and the General Meeting

DVB Bank SE held its 23rd Annual General Meeting since 1988; the meeting took place in Frankfurt/Main, Germany, where the Company has its registered office. In the general debate, about 96.5% of the voting capital was in attendance and there were some shareholders and shareholder representatives who made contributions or asked questions. The discussions focused on the Bank's business divisions, its market and competitive environment, the risk management system, and refinancing activities.

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

In the following poll, the General Meeting adopted all proposals on the agenda with a clear 99.99% majority vote. Given that DZ BANK has a 95.45% stake in DVB's share capital, this stability has been the norm for many years now. Specifically, proposals approved by our shareholders included to keep the dividend unchanged, at €0.60 per no-par value share. From the Bank's perspective, resolutions adopted for a new Authorised Capital 2010, and a new Conditional Capital 2010 to facilitate the issue of convertible bonds and bonds cum warrants, were particularly important. The General Meeting also elected Mr Wolfgang Köhler, Member of the Board of Managing Directors of DZ BANK AG, as a shareholder representative to the Supervisory Board. Amongst the amendments enacted by the German Act Implementing the Shareholder Rights Directive (ARUG), we implemented deadlines applicable for the General Meeting in the Memorandum and Articles of Association. Prior to the General Meeting, we also offered options for transmitting voting proxies electronically via e-mail.

Financial calendar 2011

10 March

Annual Accounts Press and Analysts' Conference
and publication of the single-entity Annual Report 2010
on our website

28 March

Publication of the
German Group Annual Report 2010 on our website

29 March

Publication of the
English Group Management Report and
Consolidated Financial Statements 2010 on our website

6 April

Publication of the
English Group Annual Report 2010 on our website

4 May

Publication of the
Interim Management Statement
during the first half of 2011
(for the first three months ending 31 March 2011)

9 June

Annual General Meeting
Frankfurt/Main

10 June

Dividend payment
(ISIN: DE0008045501)

12 August

Publication of the
Half-Yearly Financial Report 2011

14 November

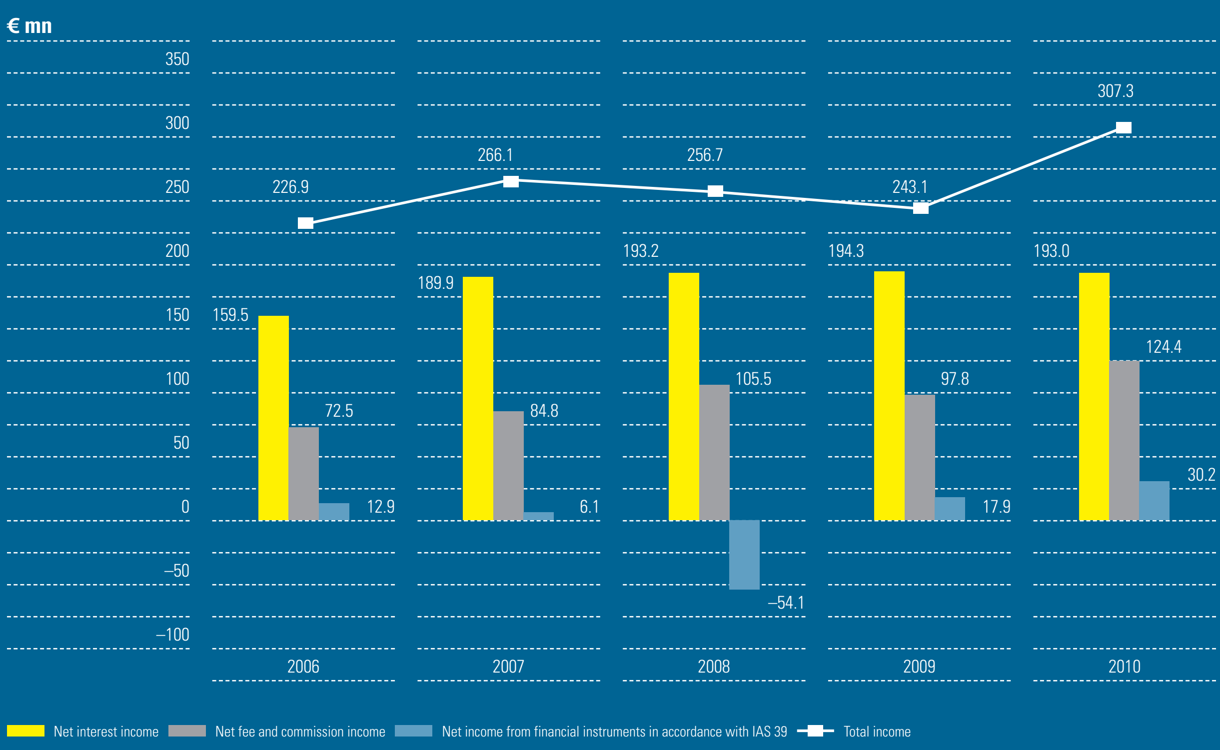
Publication of the
Interim Management Statement
during the second half of 2011
(for the first nine months ending 30 September 2011)

9 December

Publication of the
Declaration of Compliance for 2011/2012

Group management report

Earnings development 2006 – 2010



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 annual report, the DVB Group is referred to either as "DVB" or the "DVB Group", whereas the parent 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 617 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 relatively high cyclicality of individual market segments, the transport sector overall benefits from a long-term growth trend. Understanding this recurring cycle of sequential transport market phases, DVB has developed a cycle-neutral business model that offers a wide variety of business opportunities.

Core products and services

DVB has continuously enhanced its core skills and areas of expertise 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.

Structured Asset Financing

Drawing on our Structured Asset Finance core service, our three Transport Finance divisions offer financing solutions relating to mobile 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.

Private Equity Sourcing and Investments

Thanks to the extensive analytic output provided by our Asset & Market Research, and the resultant expertise regarding transport markets, we are an ideal partner for clients requiring equity capital and investors seeking suitable investment projects in the relevant 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 2010, 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. Shipping Asset Management, also based in London, was established to provide restructuring and remarketing services for vessels.

Advisory Services

DVB's involvement in 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. We offer a range of these advisory services in Shipping Finance, Aviation Finance and Land Transport Finance, covering consultancy related to corporate acquisitions and divestments, strategic decision-making on finance and capital structure, refinancing, and the funding of acquisitions. These advisory services are available to existing clients as well as to other interested parties.

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.

Loan Participations

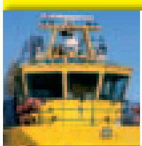
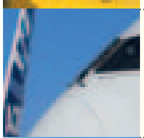
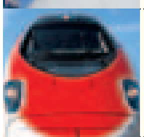
Our wholly-owned, Zurich-based subsidiary ITF International Transport Finance Suisse AG (ITF Suisse) was established in 2007 and is actively participating in the international interbank market for senior asset-based lending, in the Group's strategic target segments of Shipping Finance, Aviation Finance,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

Asset & Market Research

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

Here is a detailed overview of DVB's business divisions, business areas and the full range of products and services offered by the Bank: ❶

❶ **Clearly defined business model**

	**Shipping Finance**		
	Business areas		Container Business • Cruise & Ferry • Crude Oil & LNG Tanker • Chemical, LPG and Product Tanker • Dry Bulk • Floating Production • Offshore Drilling • Offshore Support
	Products and services		Structured Asset Financing • Risk Distribution • Advisory Services • Shipping Asset Management • 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 • Total Engine Support
	**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

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.

Global presence and legal structure

With offices in 13 pivotal locations – Frankfurt/Main, Hamburg, London, Cardiff, Rotterdam, Bergen/Oslo, Piraeus, Zurich, Singapore, Tokyo, New York and Curaçao – 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 grey shading). ❶

Competitive environment during 2010, and DVB's competitive strengths

The peak of the financial markets and economic crisis appears to be behind us – from our point of view, the crisis is around two-thirds over. The competitive environment which surrounded DVB during the period under review can be summarised as follows: 2010 brought some relief to the transport markets, albeit with some very diverse regional developments. Many of our internationally active competitors in transport finance kept their distance from the markets during the period under review: in fact, competition was predominantly regional during 2010. Against the background of continued tensions in terms of refinancing and capitalisation, in conjunction with higher refinancing risks, competitors continued to adopt a clearly more restrictive lending policy; some stopped lending altogether. In particular, this applied to banks and investors who exposed themselves to

❶ Legal structure of DVB Bank SE

Subsidiaries of DVB (each 100%)	Branches and representative offices of DVB
DVB Bank America N.V., Curaçao, Netherlands Antilles	DVB Bank SE, Rotterdam Branch, The Netherlands
DVB Group Merchant Bank (Asia) Ltd, Singapore	DVB Bank SE, London Branch, United Kingdom
DVB Holding (US) Inc., New York, USA ▪ DVB Capital Markets LLC, New York, USA ▪ DVB Transport (US) LLC, New York, USA ▪ DVB Service (US) LLC, New York, USA	DVB Bank SE, Nordic Branch, Bergen/Oslo, Norway
DVB Transport Finance Ltd, London, United Kingdom ▪ DVB Transport Finance Ltd, Tokyo Branch, Tokyo, Japan	DVB Bank SE, Shipping Department, Hamburg, Germany
ITF International Transport Finance Suisse AG, Zurich, Switzerland	DVB Bank SE, Representative Office Greece, Piraeus, Greece
DVB Holding GmbH, Frankfurt/Main, Germany ▪ **92.1%** TES Holdings Ltd, Cardiff, United Kingdom	
DVB LogPay GmbH, Eschborn, Germany ▪ **75.1%** EuroToll Service GmbH, Eschborn, Germany	

the transport finance business with a purely opportunistic strategy in a positive market environment. Facing a market environment that continued to be predominantly challenging, DVB adhered to its unique focus on selected transport markets, maintaining its organisational structure – with the objective to further strengthen its competitive position. Our aim is to continuously improve the efficiency of our products and services. In this context, we will take further steps to enhance our unique profile – one that is characterised by sophisticated asset know-how and specialised asset services. Our key competitive strengths, which set us apart from other market participants and help us face challenges, are summarised below:

- As an internationally active specialist bank and niche provider, we have a presence on all major transport markets, offering our clients tailor-made advisory and financial services.

- Notwithstanding our decentralised market presence, DVB benefits from its flat hierarchical structure and high degree of flexibility, as well as its efficient decision-making processes.

- The business models our clients deploy in the transport sector are always closely tied to specific assets. Our particular strength derives from our ability to understand a client's business model, and the transport assets employed, in depth – thanks to our first-class proprietary Asset & Market Research in Shipping Finance, Aviation Finance and Land Transport Finance. Our staff are qualified, with extensive knowledge and long-standing experience in financing and providing advisory services in the selected submarkets.

- To diversify our risk exposure, we pursued a balanced structure in our three Transport Finance portfolios, at an early stage. Exposures are diversified by multiple criteria and diverse categories, including asset type, vintage, manufacturer, region and borrower. Leveraging our broadly diversified and well collateralised portfolios, we are generally in a position to seize profitable opportunities, even during downturn phases.

- We actively manage risk using stress scenarios which allow for preventative action, to be taken jointly with clients, and which are designed to offer sustainable solutions for any issues which may arise.

- Moreover, we decided at an early stage to develop and implement our Internal Rating Model that meets the Advanced Approach requirements as defined by Basel II. This provides DVB with an advantage over various competitors, as the approach enables the Bank to manage its financing volumes on a selective and risk-aware basis.

- As seen in previous market cycles, DVB may have to acquire transport assets itself in some cases (such as shipping vessels or aircraft). To cater for this eventuality, our Asset Management teams in Shipping Finance and Aviation Finance are well prepared for the resulting restructuring and remarketing tasks.

Global economic activity strengthened during 2010. This trend is expected to continue through 2011, although risks ranging from European sovereign debt refinancing to a spike in commodity prices and the possibility of excessive monetary and fiscal measures exist.

The transition from the recession of 2009 has been one of gradual growth, but without much job creation which is needed going forward. Whilst the initial impetus was on the back of hefty government stimulus packages and massive liquidity injections, it was further spurred by a spike in restocking activity. Broad private demand, an essential element of any recovery, was conspicuous by its absence. Consumer confidence did however grow gradually. Fiscal stimulus programs in most developed nations drew to a close. Low interest rates continued to be the norm in the West. The US dollar strengthened, before weakening as the year progressed. Unemployment in the US and Europe (except for Germany) stayed high throughout the year. Inflation in the developed world was a non-issue, despite the liquidity in the marketplace. The developing world continued to grow rapidly. China and India took appropriate measures to rein in monetary growth and keep rising inflation in check. As the year advanced, the looming threat of a double dip diminished. In summation, the year 2010 – whilst being steady – was far from being a "perfect 10". Yet this was not unexpected. Those of you who read our economic outlook in last year's annual report will recognise that this is almost exactly what we anticipated a year ago.

Global economic activity is poised to build on the gains of 2010. In the US, rising Treasury bond yields, despite quantitative easing of the Federal Reserve, are an indication of growing economic health. Corporate profits are at their highest levels of the past decade. Cash holdings of corporates are high and rising. Given that companies in the US as well as in Europe are awash with cash, the foundation is in place for stronger mergers and acquisitions (M&A) activity. In 2011, cross-border M&As could well be the order of the day. Manufacturing activity in the US is growing steadily. Interestingly however, commercial and industrial bank loans in the US are on the increase. The fact that US firms will be able to deduct certain investments from their taxable income from 2011 onwards should boost this trend, something that has been a major obstacle towards a healthy recovery. The Federal Reserve's second round of quantitative easing – along with the fiscal stimulus by way of doing away with the planned tax increases for the next two years – is a significant boost to the US economy. The result is that gross domestic product (GDP) growth in the US could now be in excess of the prior consensus of 2.5%.

Austerity measures in Europe will impact growth rates seen in the first half of the year, although expectations are for growing economic activity as the year progresses. The European manufacturing sector has been growing steadily in recent months, reflecting increased economic activity. While Europe's challenges lie primarily with sovereign debt refinancing in Portugal, Spain, Ireland and Greece, the key concern is Spain: Europe's fourth largest economy. The Chinese having committed to further purchases of Spanish debt (amongst other developments) suggests that the euro zone, although hard-pressed, will tide over these challenges.

China is poised to take over from Japan as the second largest economy in the world. The Chinese economy can be counted upon to continue in a similar fashion; albeit at a slightly slower rate. Brazil is battling the challenges of a stronger currency, which (along with other policy measures) is likely to slow growth to some extent. The Indian economy continues to perform well, and is expected to continue growing at present levels during 2011.

Growing economic output brings inflationary pressures with it. The developing world is grappling with high inflation, and this is expected to be the case through the year. Additionally, leading international food price indicators are at record high levels. In the West, despite corporate hiring which is expected to increase, the overall unemployment level (although trending lower) is unlikely to change significantly. This is expected to render only moderate inflationary concerns in 2011.

US consumer spending growth is likely to be limited by price increases for energy, raw materials and commodity prices, together with relatively high levels of unemployment. Similarly, widespread austerity measures will curb European growth. However, at present it seems as though the Chinese economy is likely to enjoy a further year of notable growth. Whilst 2010 finished on a satisfactory note for DVB, we anticipate that 2011 will continue to provide challenging conditions for transport markets. It will be a test of our endurance.

The strengthening of global economic activity during 2010 brought a measure of stability to the international transport markets. The uptick in demand, along with vessel scrapping and postponement/cancellation of newbuildings has seen vessel charter rates hold their own and increase in some subsectors during the year. This relative stability, alongside the measures taken by DVB, caused the average loan-to-value ratio (LTV) of the Shipping Finance portfolio to drop by 11.6 percentage points from 78.7% to 67.1%.

Shipping Finance – Market review

The spike in demand – resulting from a combination of government stimulus incentives and restocking activity – buoyed shipping markets in the first half of 2010. Although newbuildings entered the fleet in significant numbers, the growing demand saw time charter rates and freight rates increase and hold their own for most of the year. Given the stringent cost control measures adopted during the downturn, many shipowners saw profitability return – making this a steady year for the industry overall.

For dry bulk, 2010 will be marked as the year when an unprecedented 70.4 million dead weight tonnes (dwt; 804 bulkers) were delivered in a single year. However, the deliveries slated for 2011 equate to an astounding 127.8 million dwt (1,462 bulkers) followed by another 78.3 million dwt (878 vessels) in 2012. The deliveries in 2010 faced the same hurdles as in 2009, including slippage, cancellations and postponement, which are set to continue going forward. Nonetheless, more bulkers are scheduled to enter the market in 2011 than 2010. The dry bulk fleet stands at 512 million dwt/8,259 vessels with an average age of 14 years. Only 74 million dwt or 2,036 vessels equating to 14% of the existing fleet are over 25 years of age, most of which are concentrated in the Handysize subsector. Scrapping activity has been very slow in 2010, with only 5.7 million dwt (115 vessels) sent for recycling. Newbuilding contracting of 75.0 million dwt (973 bulkers) was added to the orderbook in 2010, while – as expected – only 29.5 million dwt (341 bulkers) were reported cancelled over the same period. The notable increase in 2009 and 2010 of the Very Large Bulk Carrier and Ultra Large Bulk Carrier orderbook will have a direct impact on the large Capesize vessels, with effects filtering down to other subsectors. The dry bulk orderbook at the end of the year equated to 254 million dwt (2,950 vessels) which represents 46% of the fleet.

While supply of dry bulk vessels increased by 18.0% from 442 million dwt to 521.6 million dwt, demand for dry bulk commodities over the same period is estimated to have increased by 11.1% year-on-year to 3.2 billion tonnes total dry bulk cargo volume in 2010 (in 2009: 2.8 billion tonnes; in 2008: 2.9 billion tonnes). The unstoppable Chinese demand for iron ore and other bulk commodities, which supported the recovery in dry bulk freight rates from near-zero in 2009, continued in 2010. As China continues to be one of the main drivers for dry bulk shipping, change in importing patterns by China has caused sharp movements in freight rates, thereby increasing volatility. Iron ore demand from most regions, other than China, also recovered to prerecession levels. Coal demand from China and India is forecast to significantly increase seaborne coal trade in 2011 and 2012.

Although the recovery in the global dry bulk trade has been sharp, it was (and still is) being aided by unprecedented levels of monetary and fiscal stimulus, especially from the US and China. The global recovery in world GDP and industrial production has been fragile and uneven, with inconsistencies in growth between developed and developing economies. While seaborne demand for dry bulk commodities from the developing countries is expected to continue to increase, demand from most developed economies will be slow.

Port congestion, the major swing factor in the dry bulk supply demand equation, continually held back tonnage from the market during 2010 and once again contributed in supporting freight rates while the fleet significantly increased. ❶

Container trade volume had dropped by 8.9% in 2009. However, the demand in 2010 stood at 12% and is expected to come in at 8% in 2011 on the basis of the latest IMF forecast of world GDP growth of 4.2% in 2011. In 2010 there was a strong recovery of freight rates in the long-haul trade. Much of the growth came on the back of government stimulus packages and inventory restocking programmes in Western countries. However, we do not expect such demand levels to last long, unless vigorous private demand picks up. In the US, the high unemployment rate and low housing prices impacted consumer confidence. Europe will experience a slowdown due to the sovereign debt crisis and the implementation of austerity measures. The liquidity injection from the quantitative easing in the US will help the container trade only in the short term (at the most). While freight rates in the short-haul trades such as intra-Asia did not see a strong recovery in 2010, we are firm believers that Asia is the current and future engine of growth. As at the start of 2011, the container vessel fleet stands at 4,963 vessels, aggregating to 14.1 million Twenty-foot Equivalent Units (TEU) with an average age of 9.9 years. Overcapacity is still the biggest threat to the container vessel sector. There were 112 vessels of 586,000 TEUs contracted in 2010. The current orderbook stands at 642 vessels of 3.9 million TEUs, representing 27.6% of fleet capacity, and is concentrated in the Super Post Panamax and Post Panamax sub-sectors, which together account for 84.1% of the orderbook. With scrapping activities slowing down, the monthly average in 2010 was 14,900 TEUs; 51.5% lower than the monthly average in 2009 and with few cancellations being confirmed (less than 10% of pre-crisis orderbook), fleet growth is estimated to be 8–9% in 2011–2012. Although fleet capacity expanded by 9.9% in 2010, the active capacity has actually expanded by 17.5% due

❶ Baltic Exchange Dry Index (determined on a monthly basis)

Source: Clarkson Research Services Ltd

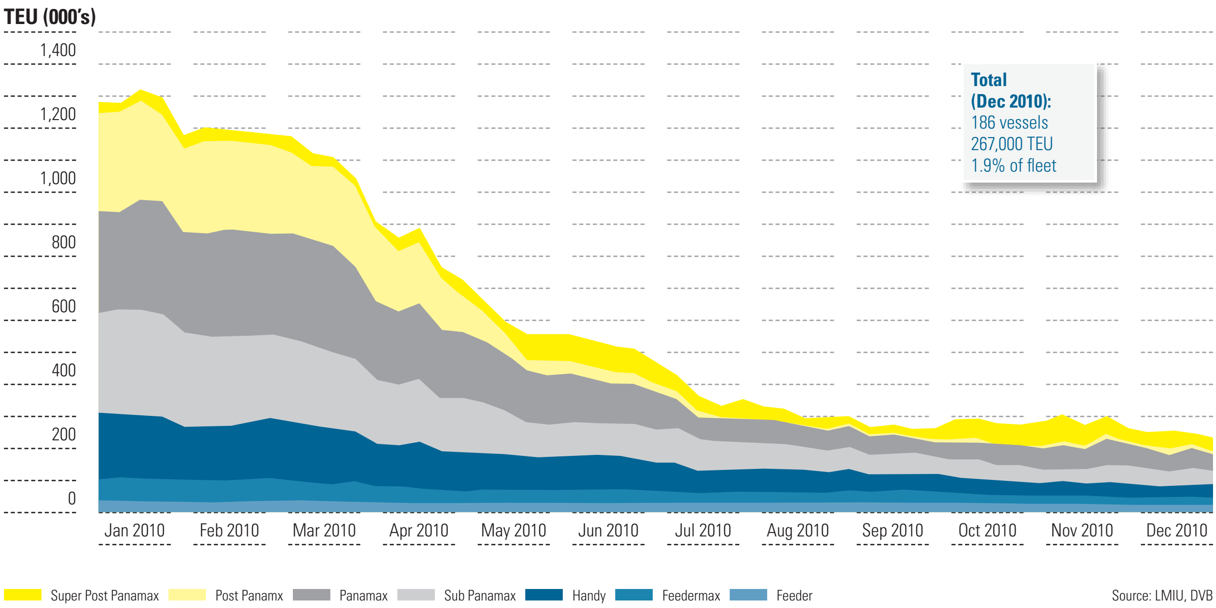
to reactivation of idle tonnage. A slowdown in trade could result in an increase in the inactive fleet and reverse the gains seen in time charter rates over the last year. ❶

Despite the positive signs during the end of 2009, our 2010 forecast for the crude oil tanker market was rather bearish – and, unfortunately, right on target once more. The increase in oil consumption came along as predicted: crude oil demand increased to approximately 86 million bbls/day in 2010, based on estimations of the Organisation of Petroleum Exporting Countries. Much like 2009, it was oil consumption in the emerging economies that made this increase possible, while consumption growth in advanced economies was anaemic at best.

The demand for almost all types of crude oil tankers was closely correlated, especially during the first half of 2010. Unfortunately, the positive effects of this increase in oil demand did not always reflect on freight rates, which remained weak for most of the year. This can be attributed to a number of factors; however, as we had underlined in 2009, the main reason was the excessive fleet growth witnessed over the past two years. For yet another year, new tanker deliveries continued unabated, while scrapping never picked up enough to balance the market even remotely. To add insult to injury, the majority of tankers employed for storage purposes during 2009 had returned to active trading by mid-2010. The constant increase in oil prices put an end to the contango effect that had helped maintain relatively high utilisation rates, and hopes for a repeat performance by the end of the third quarter 2010 never materialised. Therefore, the market was once more flooded with an excess of tonnage that kept the lid on freight rates for the second half of 2010. ❷

Demand estimates for Liquefied Natural Gas (LNG) tankers point to a significant improvement from 2010 onwards. By 2014, natural gas demand could run as high as 3,400 bcm, from 2,953 bcm in 2009. As the demand for natural gas increases in the future, seaborne demand for LNG is expected to increase as consuming countries in Asia and Europe become more reliant on imports. This optimism is further fed by a number of liquefaction plants that will come onstream between 2010 and 2014. Increase in export capacity will absorb a significant portion of the LNG fleet, which is currently underutilised. Most newbuildings recently delivered have preceded the startup of the projects, especially in the LNG liquefaction chain. Perceived demand for LNG is expected to be higher than liquefaction capacity, which is acting as a bottleneck in the flow of LNG. This bottleneck started easing in 2010 and we expect the momentum to be carried forward in 2011 as more and more liquefaction projects come onstream. Threats to a sustained recovery include further delays in planned liquefaction projects in the Middle East and Africa. 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, this optimism in demand growth is balanced by the expected increase in the size of the fleet. The current LNG fleet comprises 360 vessels with a total capacity of 51.1 million cbm. The LNG orderbook currently stands at 36 vessels (4.6 million cbm) representing 9% of the carrying capacity of the existing fleet. While the fleet is expected to grow rapidly during the next 12–18 months, liquefaction plants coming onstream already started absorbing some of the excess fleet capacity during the

❶ Container vessel idle capacity in 2010



Source: LMIU, DVB

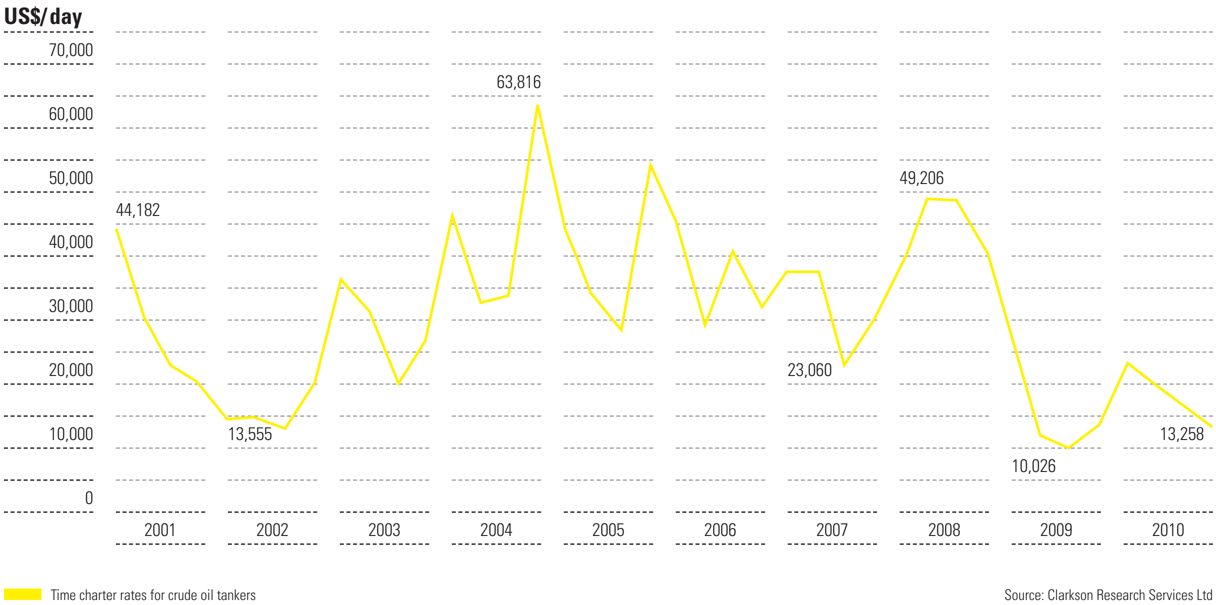
second half of 2010. Hence, on average the growth in demand for vessels has outperformed the growth in fleet capacity in 2010, leading to an improvement in fleet utilisation. However, fleet utilisation still remains at low levels (68%), and a recovery in freight rates and asset prices will lag the recovery in fleet utilisation. We therefore expect the asset price cycle for LNG tankers to bottom out only by mid-2011.

By the end of 2010, oil prices had climbed above US$93 per bbl, a two-year high and very close to pre-crisis levels. Consistent with the increase in world oil demand and in oil prices, growth in the floating production market rebounded in 2010 from 2009 levels.

For the offshore market, 2010 was a transition period. After some challenging years dominated by the financial meltdown, the world economy showed signs of recovery in 2010 and world oil demand growth resumed its upward trajectory. In the meantime, the oil market tightened more than anticipated due to a solid recovery in demand. As a result of this tightening, Nymex crude oil prices have improved significantly from the trough levels of 2009 and are hovering at around US$100/bbl at the reporting date. The high oil price boosted exploration and production capital expenditure (E&P Capex) by 10% in 2010, leading to reactivation of deferred projects. Following the improvement in E&P Capex, the offshore drilling rig and offshore supply vessel markets showed signs of bottoming out during the second half of 2010 as utilisation rates and day rates picked up, but recovery is not yet assured. The recent drilling moratorium imposed by the US administration following the Deepwater Horizon accident in the Gulf of Mexico undermined the growth momentum in the deepwater drilling market: the moratorium has recently ended, but stringent regulation is being put into place which is expected to keep US Gulf Coast deepwater drilling activity low levels in the short term, and increase costs of future offshore developments. However, outside the US Gulf of Mexico we have not seen dramatic changes, apart from proposals to improve safety and technology.

Cruise lines performance during 2010 improved over 2009, growing notably stronger during the second half of the year. The major cruise lines reported healthy increases in their net yield. This was achieved largely due to the longer booking window (passengers are booking their cruises further in advance), lower discounting by lines and extensive cost control measures. While bunker prices increased during 2010, they were largely in line with budgeted figures. Although the scrapping of cruise vessels was minimal, the redeployment of several vessels from international to domestic routes occurred as new Safety of Life at Sea regulations took effect on 1 October 2010. The struggling Spanish economy depressed the previously buoyant domestic cruise market. As a result, some of the vessels catering to this market had to be laid up, along with a few other vessels as well. Contracting in 2010 was limited to the major players, and restrained in comparison with previous years.

2 Historical time charter rates for crude oil tankers (weighted average)



Source: Clarkson Research Services Ltd

Shipping Finance – Strategy

The second half of 2008 and the whole of 2009 were characterised firstly by the fear of a financial meltdown, and secondly, mammoth rescue packages for beleaguered banks. The volatility of the past years continued in 2010, and is expected to become the new norm. Massive liquidity injections by the central banks and numerous bailout packages have stabilised the bank market somewhat. However, with the crisis now affecting sovereigns like Greece, Ireland, Portugal and Spain, there is a new threat to the balance sheets of European banks in particular: bank lending appetite may be negatively affected if Europe fails to properly arrest the sovereign debt crisis currently underway.

In spite of these ongoing massive financial and economic challenges and the large supply overhang in some shipping sectors, the shipping banks adopted a more positive attitude towards the shipping market in 2010. Transaction volumes increased, and whilst some large shipping lenders decided to exit the market by scaling down their books, other established shipping banks started to lend again. Throughout the period, our Shipping Finance never stopped lending and supporting its clients. Our confidence to step forward whilst the competition paused and/or retreated is grounded in our shipping expertise and long-term experience in the shipping markets. The sectorised approach of Shipping Finance translates into a broad and in-depth coverage of the unique 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 the Bank 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.

DVB's Shipping Finance materially increased its lending volumes in 2010, and the aim is to continue on this path during 2011. 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 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.
- 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 ten to eight on 1 January 2011. For further information on the current eight global sectors, please see the report on material events after the reporting date, page 123.

❶ Shipping Finance – Ten global sectors

1	**Container Box Group**	6	**Dry Bulk Group** (Barge, dry cargo, combination carrier bulk)
2	**Cruise & Ferry Group** (Ferries, yachts, ocean/river cruise)	7	**Floating Production Group** (FPSO, FSO, FPU)
3	**Crude Oil & LNG Tanker Group** (LNG asphalt/bitumen crude)	8	**Offshore Drilling Group** (Jack up, drill ship, semi sub)
4	**Chemical & LPG Tanker Group** (LPG, specialist tankers, chemical)	9	**Offshore Support Group** (AHTS, PSV, subsea and diving vessels, heavy lift vessels, others)
5	**Container Vessel Group** (Car carriers, RoRo's reefers, container vessels)	10	**Product Tanker Group** (Product)

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 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 blow-outs. 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 2008), 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. Another characteristic is that our portfolio is well diversified across sectors and geographic regions. Furthermore, we know the assets and analyse each financed vessel thoroughly to ascertain its adequacy. Moreover the vessels are tracked from the shipyard to the scrapyard, in order to ascertain that quality, tradability (and hence values) are within adequate parameters.

During 2010 our risk management platform played 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 issue 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.

These measures have served to further engrain 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 in 2010, and the maintenance of a healthy and sound loan portfolio.

Focus 2011

Shipping Finance is performing well. Its approach and coverage model is now established and bearing fruit. In order to take the performance to the next level and assure continued sustainable success, the focus in 2011 will be on:

- Capitalising on the expert knowledge of assets, markets, market participants and the networks within the distinct shipping sectors, in order to drive the revenue line further;

- Streamlining and rationalising procedures, systems and templates to serve the client base quicker, thereby enhancing DVB's competitive position and doing more business with less resources;

- Elevating the dialogue with clients, and getting more out of each client interaction;

- A "no-loss" mentality to be further engrained in the organisation – risk management is the responsibility of all.

Shipping Finance – Products

During 2010, 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
- Shipping Asset Management
- 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 Tokyo, Bergen/Oslo, Rotterdam, New York, Singapore, Hamburg and Curaçao.

Shipping Asset Management

The Shipping Asset Management (SAM) team was constituted in order to capitalise on the widely-held notion that since investors and banks generally possess only rudimentary knowledge of shipping, they would require the services of a third party to assist them in managing their loans and maximising recovery and results. These services entail taking control over the assets backing the loans, managing these assets and liaising with commercial/technical managers, marketing and selling the respective vessels, as well as giving general advice to investors and banks throughout the recovery process. During 2009/2010 the SAM team was also engaged selectively for some of Shipping Finance's own cases.

Advisory Services

DVB's Advisory Services cover the full range of corporate finance and M&A activities. In particular, Advisory Services provides clients with balance sheet optimisation solutions, restructurings, debt and equity raisings and M&A advice. Our Shipping Finance advisory 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 Oslo and London professionals cover activities in other regions of the world. The Advisory Services professionals in Oslo and London are embedded within the sector teams Offshore Support Group and Cruise and Ferry 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 functions well, and allows closer co-operation and a more co-ordinated approach to clients.

Public Debt and Equity

The continued low interest-rate environment, together with the return of some risk appetite coupled with relatively attractive terms (long-term bullet loans combined with attractive covenant structures), continue to attract 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 are also looking for ways to tap the public equity markets. Those clients are able to diversify their funding needs away from bank debt and lock in attractive fixed-rate coupons, lengthen the maturity structure of their debt funding, and raise fresh equity.

The Capital Markets 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 the 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 shipbuilding contracts, Contracts of Afreightment and other employment contracts when so instructed by the Credit Committee.

The team covers 20 main sectors and 66 subsectors within the shipping and offshore markets, providing analysis via newsletters and research papers on the sectors and subsectors. Additionally, SR produces, semi-annually, 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 at each credit decision.

SR is composed of eight 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 the SR.

Shipping Finance – Portfolio analysis

2010 was a record year for Shipping Finance. Despite a difficult market environment, the business model performed well and was able to not only increase revenues but it 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 growing revenue line and strongly increased loan production year-on-year, whilst maintaining a prudent risk posture.

Structured Asset Financing – Loan portfolio

New customer lending in 2010 (loans and advances inclusive of guarantees and indemnities) totalled €2.3 billion over 84 new facilities, compared to a new business volume of €1.3 billion over 61 facilities in 2009. This strong loan volume development in 2010 led to a 12.8% growth of the Shipping Finance loan book to €10.3 billion, up from €9.1 billion at the end of 2009. Note that the loan portfolio growth in US dollar terms was 4.6%, from US$13.1 billion to US$13.7 billion. The strong loan production numbers were countered by high pre- and repayments of 30.2%. The net interest income of Shipping Finance grew strongly by 33.3% in 2010 from €80.9 million to €107.8 million on the back of strong loan origination, loan book growth and a steady increase in the average portfolio margin. The latter resulted from higher margin business of new production combined with high pre- and repayments of lower margin loan stock leaving the portfolio. Net fee and commission income increased strongly by 48.5%, from €46.8 million to €69.5 million in 2010, driven along by the strong loan origination numbers. Resulting from higher interest and fee income, total income grew 75.0% from €84.3 million to €147.5 million in 2010, while consolidated net income before taxes more than doubled from €48.9 million to €112.5 million.

Segment results Shipping Finance[1)]

€ mn	2010	2009	%
Net interest income	107.8	80.9	33.3
Allowance for credit losses	–25.2	–45.0	–44.0
Net interest income after allowance for credit losses	82.6	35.9	–
Net fee and commission income	69.5	46.8	48.5
Income	**147.5**	**84.3**	**75.0**
General administrative expenses	**–35.0**	**–35.4**	**–1.1**
Consolidated net income before taxes	**112.5**	**48.9**	**–**

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.

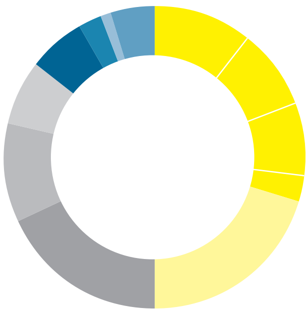
The loan market in 2010 improved in comparison with a challenging 2009, as more banks resumed lending to the shipping sector. This new lending volume was principally due to some traditional shipping lenders resuming lending on a selective basis. Moreover, some large traditional shipping lenders (UK and German) have decided to stop lending to the shipping sector and are now busy winding down their loan books. Noteworthy is the emergence of a two-tier market, in which the larger, more established, and creditworthy shipowners enjoy much easier access to capital (and lower margins), whereas the medium- to smaller-sized shipowners still face a hard time accessing debt capital. The syndications market is weak, and expected to remain so in 2011, with the bulk of financing transactions being concluded on a bilateral or club basis.

The cautious approach by the larger traditional shipping lenders is still presenting attractive lending opportunities for Shipping Finance, since our business model allows better insight and coverage of the market with dedicated and focused expertise being brought to bear on each segment of the market. This, combined with DVB's ability to continue committing capital selectively to the most attractive opportunities in each sector, adds to an effective and profitable proposition and allows Shipping Finance to choose the deals offering the best risk-reward profile.

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 a key pillar of Shipping Finance's risk management philosophy. Additionally, based on Shipping Research's input, the portfolio is managed away from perceived higher risk areas. This is why, for instance, the container vessel exposure has been decreasing for the last two years whilst the exposure to container boxes was given clear priority over the vessels. The exposure managed by our Container Box Group increased 20.1% year-on-year, whilst the portfolio of our Container Vessel Group rose only marginally (2.0%). The Dry Bulk Group has the largest portfolio and it grew 28.3% year-on-year to €1.9 billion. This represents 18.3% of the overall loan book (compared to 16.1% in 2009). The largest growth in exposure was achieved by the Floating Production Group which grew its portfolio by 113.8% to €236.2 million, from a low base. The exposure of the three groups operating in the offshore sectors (Offshore Support Group, Offshore Drilling Group and Floating Production Group) increased by 20.0% to a combined exposure of €2.2 billion, representing 21.4% of the total overall portfolio. The Chemical & LPG Tanker Group, and the Crude Oil & LNG Tanker Group, both displayed marginal growth in overall exposure.

The portfolio is also well diversified in terms of asset types financed: the tanker segment decreased by 1.2 percentage points from 31.0% to 29.8% year-on-year. This is principally attributable to the relative decrease in the product and chemical tankers exposure during 2010. ❶

❶ Shipping Finance portfolio by vessel type



Tankers 29.8%
thereof:
10.8% Crude oil tankers
8.5% Product tankers
7.7% Chemical tankers
2.8% Gas tankers

Offshore 20.2%

Bulk carriers 18.1%

Container carriers 10.7%

Container boxes 6.8%

Cruise ships 6.3%

Ferries/ Passenger vessels 2.3%

F(P)SO 1.1%

Others 4.7%
thereof:
1.2% Car carriers
1.2% Reefers
1.0% General cargo
0.2% Roll-on/Roll-off vessels
0.1% Combination carriers
1.0% Miscellaneous

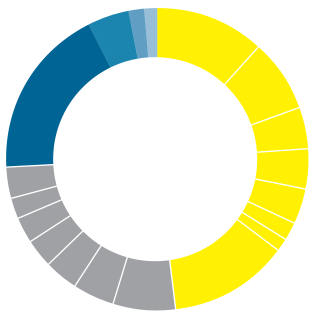
Geographically, the portfolio is also well diversified, being mainly oriented towards Europe (48.2%). Of this European exposure, the exposure to German clients decreased further to 4.2% (–0.6 percentage points). Client exposure towards Australia/Asia decreased by 5.0 percentage points, to 26.2%, whereas exposure in North and South America has gone up 2.6 percentage points to 18.3% and in the Middle East up 0.9 percentage points to 4.3%. 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 2010 a total of 168 transactions (31.9% of total transactions) had a VMC breach. Thereof 93 transactions (55.4%) were repaired, 17 transactions (10.1%) were partly repaired, 46 transactions (27.4%) were waived and 12 transactions (7.1%) still have an outstanding VMC breach. The total funds required to repair the outstanding VMC breaches equals €33.5 million.

From a risk perspective the portfolio was performing well: the LTV, one key metric of loan performance, improved: 87.1% of the overall loan exposure had an LTV ratio equal to or lower than 60% at the end of 2010, compared to 80.4% at the end of 2009.

During 2010 the granularity of the Shipping Finance portfolio was good, with the average lending exposure per client standing at €32.1 million (a marginal increase from €31.2 million in 2009). The largest individual client exposure stood at €190.0 million compared to €211.7 million in 2009. The number of clients where exposure exceeded €50 million totalled 64 at year-end 2010.

❶ Shipping Finance portfolio by economic risk



Europe 48.2%
thereof:
11.7% Norway
7.9% Greece
4.4% United Kingdom
4.2% Germany
3.9% Cyprus
1.9% Switzerland
1.4% The Netherlands
12.8% Others

Australia/Asia 26.2%
thereof:
6.7% South Korea
4.3% Singapore
3.8% China
2.9% India
2.8% Hong Kong
2.3% Japan
3.4% Others

North and South America 18.3%
thereof:
13.5% USA
4.8% Others

Middle East 4.3%

Offshore 1.7%

Central America/ Carribbean 1.3%

Shipping Finance Deal of the Year 2010

Shipping Finance Deal of the Year 2010

In March 2007, DVB's Floating Production Group (FPG) together with the Norwegian export credit agency GIEK and Eksportfinans, extended a three-year US$320 million facility to Nexus Floating Production Ltd for the part financing of the construction of a newbuild floating production, storage and offloading unit (FPSO) "Nexus 1". Nexus 1 was built to high specifications and capable of operating in the most highly regulated areas and the harshest environments. The project was fully funded to delivery, and its aim was to secure employment by the time of scheduled delivery in July 2009. Due to the global financial crisis and lack of oil and gas projects coming on stream, Nexus 1 was unable to secure employment upon completion in the third quarter of 2009. This made it difficult for Nexus to secure the required working capital for operations following the delivery of the FPSO, leading the company to put Nexus 1 for sale. EBX Group of Brazil emerged with the winning bid and the acquisition was completed in November 2009. The EBX Group is Brazil's third largest non-financial conglomerate, with a focus on natural resources and infrastructure. It is the second largest owner of offshore oil reserves in the country.

EBX Group was seeking long-term financing for OSX 1 (former Nexus 1). Although it has no lack of relationship banks, EBX Group mandated DVB's FPG as the sole lead arranger, given its industry expertise and prior experience and knowledge of OSX 1. FPG needed to put in place an 8.5-year US$420 million secured term loan for OSX 1 Leasing B.V., backed by a "hell and high water" bareboat charter of the unit to the EBX subsidiary OGX. FPG and GIEK renewed their previous commitments for the OSX facility and targeted a further US$100 million in debt raising from international financial institutions with experience in off-shore project financings, thereby taking the client's desire to expand banking internationally into consideration. With the assistance of DVB's Financial Institutions team, commitments of US$170 million were subsequently secured from four banks, thereby allowing FPG to reduce its initial committed amount from US$155 million to US$85 million.

The process has been exciting and particularly lucrative for FPG. DVB elected the OSX transaction deal of the year as it illustrates qualities that are highly regarded and encouraged in DVB, namely in-depth expertise of assets and the sectors they operate in – and (last but not least) top-notch financial and debt structuring skills.

Shipping Finance accolades 2010

DVB's successful contribution to shipping finance was also appreciated among experts: in 2010 our Shipping Finance business division won eight awards for selected transactions and profound research from renowned transport magazines:

- Seatrade Asia:
  "Seatrade Asia Ship Finance Award 2010"

- Jane's Transport Finance:
  "Shipping Debt Deal of the Year – South America" and
  "Shipping Leasing Deal of the Year"

- Marine Money:
  "Editor's Choice of the Year – West",
  "Editor's Choice of the Year – Shipping Research",
  "Leasing Deal of the Year – East",
  "Project Finance Deal of the Year" and
  "Export Credit Deal of the Year – West"

Risk management and Restructuring Unit Shipping

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, the increased volatility of the macroenvironment 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 review 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.

- The Restructuring Unit Shipping (RUS) is fully involved and dedicated in the stress testing of the portfolio and providing support/advising the sector teams on all stressed/distressed loans. RUS 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.

RUS's small 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 2010, 13.6% of the loan portfolio was on the Closely Monitored List, with 6.8% of the portfolio on the Watch List (subject to close monitoring and a formal monthly review). Moreover, 1.1% of the portfolio is being discussed by the early-warning risk management forum. All of this monitoring materially decreases the likelihood of unpleasant surprises.

Shipping Finance remains in control of its loan book, and the portfolio is adequately provisioned for. Total allowance for credit losses in Shipping Finance was €103.8 million in 2010, compared to €87.1 million at the end of 2009. This level of provisioning provides a necessary cushion.

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 advantage.

Shipping Finance – Outlook 2011/2012 for the key shipping segments

Demand for shipping is poised to benefit from the increase in economic activity. The orderbook in the majority of sectors is large and will limit growth in charter and freight rates. This, along with the increase in operating and fuel costs, will impact the profitability of shipowners in 2011. The outlook for 2012 looks considerably brighter.

The 2011 forecast for the crude oil tanker market is more than ever rooted in market fundamentals. Economic growth in emerging economies is expected to lead to an increased demand for crude oil and thus crude oil carriers. However, even though crude oil demand is expected to keep growing, it will not be enough to offset the steep expected increase in the trading fleet which will keep utilisation rates under pressure. Moreover, should the rally in oil prices continue in 2011, the crude oil tanker market will suffer on three further levels. On a global economic level, high oil prices will hurt the economic recovery of both emerging and advanced economies. On a macroeconomic level, excessive oil prices will, by default, restrain the demand for crude oil and thus crude oil tankers. On a market level, high oil prices will remove the possibility of a new contango, and with it the opportunity to employ tankers on floating storage service. As a consequence of these various factors, we expect freight rates, earnings and asset values to reach a nadir in 2011 before increasing moderately post-2012.

The increase in demand for energy, combined with the lack of a commercially viable substitute for petroleum, is expected to further boost the price of oil in the years to come. These are both positive triggers for exploration and production activities in deepwater regions, and global E&P Capex is estimated to further increase by approximately 11% (year-on-year) from 2010 to 2014. With onshore reserves gradually being depleted, the importance of offshore discoveries is even more evident. Furthermore, tightening global spare production capacity is expected to allow for offshore production to play an even more important role in the coming years.

Floating production activity, therefore, is going to become even more significant. The two major drivers of floating production activity, oil prices and E&P activities in deepwater regions, paint a promising picture for the future of the sector. As discussed above, market fundamentals point to a robust demand for oil in the years to come, while the gradual depletion of onshore reserves increases the importance of offshore production. Currently, there are 196 projects in the planning pipeline that could employ FPSOs. As FPSOs can be deployed in any water depth, and are also capable of operating in a diverse range of operating environments, they can be utilised in 119 of these projects. For 2011, demand for floating production units (FPUs) is therefore expected to remain robust. Another important factor is that some offshore oil fields are reaching the end of their economic life, and at least half of the FPSOs operating on them are expected to be redeployed in other areas. Nonetheless, delays and cost overruns create concerns over the supply of enough units, and we are therefore optimistic about future earnings. Although FPSOs are expected to show more growth than the floating production semi-submersibles, tension leg platforms and single point articulated riser buoys, taking into consideration the cost of each unit, and the fact that the orderbook is largely project-specific, we are fairly optimistic on the entire sector.

Demand estimates for LNG tankers point to significant improvement in their prospects. Based on an improving world economy and taking into account the forward curve of gas prices, we estimate natural gas demand to increase by around 2.2% in 2011 to 3,173 bcm. By 2014, demand could be running as high as 3,455 bcm. As the demand for natural gas grows, the seaborne demand for LNG is also expected to increase, as consuming countries in Asia and Europe become more reliant on imports. This optimism is further fed by a number of liquefaction plants that will come onstream between 2010 and 2014. In 2011, we could also see the bottom in the asset price cycle, resulting in an uptrend in LNG values through at least until 2014. While 9% of the current fleet is on order, scrapping of older vessels could provide the much needed boost for the sector. Despite an expected improvement in asset values by the end of 2011, newbuilding prices are unlikely to reach 2008 levels soon, due to reducing yard forward cover post-2011–2012. Based on the current orderbook, the growth in demand for vessels is expected to outperform the growth in fleet capacity in the next four years. Moreover, the recovery in fleet utilisation will be from the current low level of 68%, and is expected to increase to 73% in 2011.

The product tanker market is expected to remain oversupplied in 2011 despite a narrowing of the demand/supply gap through possible scrapping of older vessels. The current orderbook still stands at a massive 425 vessels of 19.7 million dwt (18% of the fleet). Deliveries were expected to peak in 2010. However, many projects were carried over into 2011 due to delays and slippage, thereby now making 2011 the peak year for product tanker deliveries with 255 vessels of 12.5 million dwt; and there will be slippage, postponements and cancellations in 2011 as well. Therefore, it is not until 2012, which also coincides with an expansion in Middle East refining capacity, that we see some readjustment of market balances and utilisation rates increasing. In terms of freight rates and asset values, we expect the product tanker markets to bottom out by late 2011/early 2012 and start picking up as the demand situation improves and utilisation rates increase.

Crude steel production in China, one of the main underlying drivers for the dry bulk market, will continue to increase, but at a slower rate than in the last decade. The Chinese reliance on imported iron ore will continue to grow. The projected increase in Chinese steel production and consequently iron ore and metallurgical coal demand will depend on domestic iron ore and coal production, imports as well as commodity prices. Coal trade in this decade is forecast to have the same positive impact on dry bulk shipping as iron ore did in the last decade. However, a great deal now needs to be re-evaluated after the floods in Australia, as this will affect export quantities. Overall, seaborne dry bulk cargo demand is forecast to grow to about 3.4 billion tonnes in 2011; an increase of 7.6% over the 3.2 billion tonnes figure for 2010.

It is not only the magnitude of the orderbook which is of concern, but the fact that most of orderbook was contracted at the peak of the market. In 2007, some 117 million dwt – equating to 1,375 newbuild bulkers – were placed. This would mean that without some sort of renegotiation or restructuring, owners will find it challenging to meet the daily break even required to operate their vessels. Demand has kept up with supply reasonably well thus far. However, with a large portion of the orderbook yet to be delivered in 2011 and 2012, supply will outpace demand for the next couple of years. As more and more vessels enter the fleet, it will exert downward pressure on freight rates and asset values for 2011 and 2012.

Looking ahead, we maintain our view of a moderate growth in E&P Capex for 2011, followed by a larger increase in 2012. We expect E&P Capex to increase by 11% in 2011. Additionally, we project growth in expenditure in most regions and concentrated within the deepwater segments in Brazil, Western Africa and South-East Asia. The focus of E&P companies on large deepwater reserves along with higher efficiency and greater safety has increased the demand for large high-spec drilling rigs and offshore support vessels (OSV). This is expected to continue during 2011. While the demand side of the equation is likely to improve – driven by an increased E&P Capex – developments in fleet supply will limit recovery in utilisation and day rates below the 2008 peak levels. Stacking activity has been buoyant since 2010 and we hope that this momentum will be maintained into 2011, if the sector is to make a sustainable recovery. Overall in 2011 we expect a marginal recovery in the offshore market, but at varying pace. Modern ultra-deepwater drilling rigs and OSVs are anticipated to perform better than the more conventional deepwater and mid-water units and thus recover sooner.

As anticipated in 2008, there was a marked improvement in market drivers of the cruise industry in the second half of 2010. All indications are that the current trend of gradual increase in demand will continue through 2011. Cruise line profitability is expected to further improve. The anticipated higher oil prices in 2011 could reduce profits unless cruise lines enforce their fuel supplement charge – which most lines have the option to do, if oil prices are higher than US$70/bbl. After a year of limited orders for newbuildings, we can expect to see a return to normal contracting activity. While the outlook for 2011 is cautiously optimistic, industry dynamics favour cruise lines in 2012.

With container vessel newbuilding ordering activity picking up significantly during the second half of 2010, it will take several years before the demand-supply equilibrium can be restored in the container vessel industry. During the crisis, overcapacity caused a drastic drop in freight rates, time charter rates and asset values, which led to massive losses for both independent owners and liner operators. Although scrapping, lay-up, cancellation, delivery delays and slow steaming helped to ease the current burden of overcapacity, we are unlikely to see a swift recovery in the immediate future. The rapid increase in second-hand prices and time charter rates is expected to stabilise during the second half of 2011. As contracting activities of all shipping sectors significantly lag behind newbuilding deliveries, overcapacity in shipbuilding is expected to exert downward pressure on newbuilding prices. This in turn will restrict the recovery of second-hand values. The newbuildings scheduled for delivery in 2011 will also hurt the upside potential of time charter rates. That being said, we are positive on the prospects of smaller capacity vessels, due to their predominance in intra-Asia trades.

Shipping Finance – Portfolio outlook 2011/2012

As mentioned before, the lending appetite of banks hit a low point in 2009 following the financial crisis. 2010 witnessed a bounce-back, with the return of more lending capacity to the shipping markets and with especially the top-tier clients (the larger and more creditworthy shipping clients) having easier access to bank financing (also lower margins). The second- and third-tier medium- and small-sized shipping companies are continuing to experience restricted access to capital. Moreover, many lending banks have specific requirements to secure ancillary business as part of the overall package. The combined consequence of these factors is an increasing gap between the established blue chip companies and the new starters with weaker financials and volume. This polarisation may prove to be a catalyst for more consolidation: those larger companies with access to funding could end up swallowing the smaller companies with anaemic capitalisation and strained liquidity.

The syndicated loan market continues to be depressed, and is expected to remain difficult in 2011. Bilateral and club deals are expected to become a standard in the short to medium term.

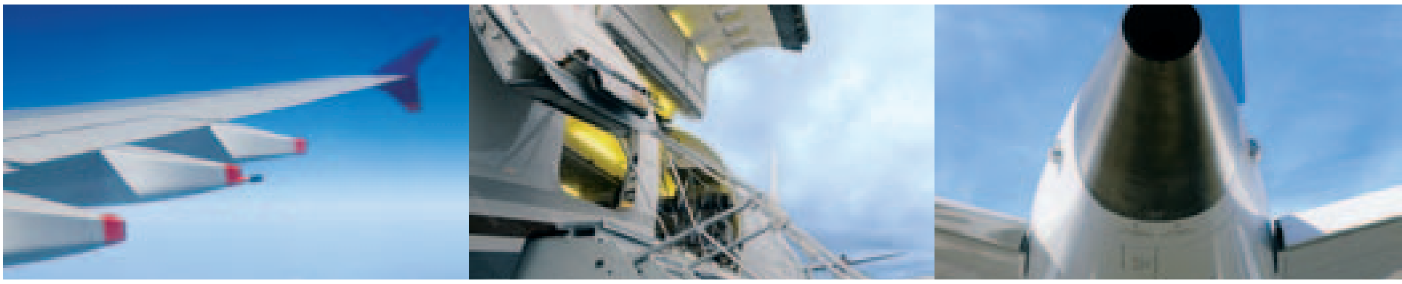
In the wake of the financial and banking crisis, the export credit agencies (ECA) played a vital role as they stepped up their respective activities to help fund newbuild programs for export, and support trade finance facilities. In addition to the ECAs, Chinese banks have also stepped up the direct lending volumes to the shipping sector. These Chinese bank bilateral loans are generally geared in support of the domestic shipping companies and yards, albeit with some exceptions.

Our Shipping Finance, with its extensive coverage and expert sector knowledge, has the right combination to thrive in this market environment and to secure business with the most attractive risk-reward profile.

We did not see spectacular defaults in 2010; however, the supply overhang is large and the supply-demand balance fragile, so we still have to be cautious. Our Shipping Finance business model has been strengthened and tested through the crisis and we are confident in its ability to evolve and adapt quickly to external shocks. Risk Management and Shipping Research is geared up, prepared and fully engrained in the life cycle of all loans – and our vigilance is sharpened through robust and frequent stress testing. Restructuring expertise has been improved, and RUS is continuously supporting the client coverage teams and disseminating best practices. Our focus is clear – stay in control, and avoid losses.

Moreover, Shipping Finance is committed to maintaining business acquisition discipline when booking new loans, in order to ensure sustainable profitability. Shipping Finance's expert knowledge is increasingly being applied towards the generation of more non-risk weighted income, in order to create additional sources of income.

We expect 2011 to be a year of continued volatility and opportunity, yet we believe Shipping Finance to be well positioned for the year ahead.



2010 will be remembered by the aviation industry as the year it enjoyed a swift recovery from one of the worst global economic and financial crises in history. Throughout the year, aircraft values and lease rates stabilised and in some cases improved. 2010 may also be remembered as the year when a potentially significant technical innovation in the commercial jet market was announced. DVB's deep aviation and finance expertise allowed us to anticipate these developments well in advance, and the Aviation Finance division was able to continue to deliver excellent results.

Aviation Finance – Market review

Looking back on 2010, it can be concluded that for the commercial aviation industry as a whole the recovery from the 2008/2009 global economic crisis was actually much stronger than anticipated. During the second half of the year, many market segments returned to business volumes that equalled or even exceeded pre-crisis levels. According to the International Air Transport Association's (IATA) international traffic statistics, airlines gained about 8.2% in revenue passenger kilometres (RPK). Towards the end of 2010, traffic volume exceeded the pre-crisis level of early 2008 by 4.0%. Not all regions benefited equally, though. Passenger traffic expressed in RPKs increased by 17.8% for carriers in the Middle East, followed by 9.0% growth in Asia-Pacific, 7.4% in North America and only 5.1% in Europe. The smaller regions (in RPK terms) performed well, with Africa growing 12.9% and Latin America 8.2%. The disciplined capacity growth – in terms of available seat kilometres – of only 4.4% benefited the airlines as it resulted in an improved average passenger load factor of 78.4%. Asset utilisation (average daily hours flown per aircraft) improved, which was a significant boost to profitability in this capital intensive industry. In addition, the tightened demand-supply conditions resulted in a strong yield environment. The mix of discount/economy and the more profitable premium/business travel improved as well.

The favourable market circumstances resulted in a sharp increase in operating cash flows for the airlines as well as their profitability. IATA's projections for commercial airline 2010 net results (post tax) improved during the year from a projected US$5.6 billion net loss (December 2009 projection) to a US$15.1 billion net profit (projection dated December 2010). Thanks to strong growth in the region, Asia-Pacific is expected to be the most profitable region with projected net profit of US$7.7 billion. With a projected US$5.1 billion, North America is second, partly thanks to capacity cutting as early as 2008. Latin America has a projected net profit of US$1.2 billion. Europe continues to be one of the more problematic regions, with only US$0.4 billion projected net profit. The sovereign debt crises did not help to stimulate demand for air travel, and neither did the April eruption of a volcano in south-eastern Iceland that caused a huge cloud of ash resulting in the temporary closure of some major airports, as much as 1,700 kilometres away. One element that did not cause too much problems during 2010 was the cost of fuel. Crude oil (West Texas Intermediate) averaged around US$80 per barrel for the full year, albeit with an increase to around US$90 towards the end of the year.

On the cargo side of the business, freight volume measured in freight tonne kilometres (FTK) quickly recovered from the depths of the depression in September 2009. In May 2010, freight volumes reached a new peak, mainly driven by recovering economic conditions and inventory restocking activity. In recent months, some stagnation has been observed. Over 2010 as a whole, global FTK volume increased by no less than 20.6%, and the year ended at a traffic level 1% above the early 2008 pre-crisis level. The accelerating freighter capacity expansion brings some worries. With available freight tonne kilometres increasing 8.9% in 2010, it is clear that most of the temporarily stored capacity has returned to service. Despite all of this, cargo load factors climbed to an average of 53.8%. ❶

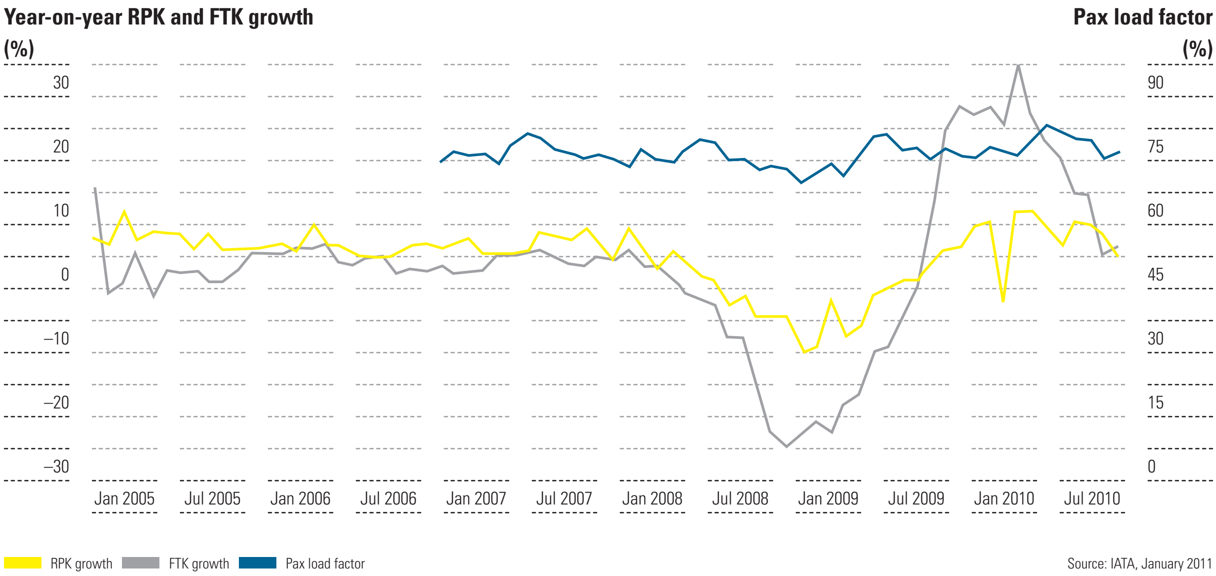
Overall, the real underlying magnitude of the recovery is overstated somewhat by the fact that most of the growth during the first half of 2010 was a result of a technical recovery caused by the collapse of air transport during the first half of 2009. According to IATA, both passenger and freight traffic are now expanding at annualised rates of 5–6%, in line with generally accepted, sustainable long-term growth trends.

With the recovery of the air transport markets, the commercial jet market enjoyed a much better year compared to 2009 as well. The net order total (corrected for cancellations) for the Airbus- and Boeing-produced mainline narrowbody and widebody jets more than doubled from 413 in 2009 to 1,104 in 2010. While many orders were placed for fleet expansion, the prospect of future fuel cost increases as a result of the economic recovery was an important driver for airlines to order replacement capacity for their ageing fleets.

After an end-of-year sales charge, Airbus once more outsold its American rival Boeing. Following a 271 versus 142 score in favour of Airbus during 2009, in 2010 the European manufacturer achieved a narrow 574 to 530 victory. In terms of deliveries, Airbus also had the upper hand with 510 deliveries, versus 462 for Boeing. One of the main causes for the depressed Boeing figures is without doubt the continuing delay to the 787 Dreamliner program. While the first 787 was revealed in July 2007, technical, logistical and supply line problems delayed the first flight of the revolutionary new aircraft until December 2009. Additional problems during flight testing meant that as it stands in early 2011, first deliveries cannot be expected before the autumn of 2011, a delay of well over three years. These delays not only have implications for Boeing. Airlines all over the world that had planned to take delivery of new 787s during 2008–2010 had to find solutions to the capacity gap left by the 787, as will be explained in the used equipment section of this chapter.

The honour of the best-selling aircraft family in terms of net orders went to Boeing in 2010. The net order intake for the 737 "Next Generation" family was 486 aircraft. The main focus was on the 737-800, with the shorter -700s position weakening somewhat. The low capacity -600 did not gain any orders, while the double-stretch -900ER remained a distant third, albeit with improving sales prospects. The Airbus A320 family booked 416 net orders. The "standard" A320 took the lion's share, followed by the stretched A321. Like its 737-700 counterpart, the shorter A319 seems to increasingly fall out of favour, actually experiencing net cancellations of 47 aircraft during 2010. Similar to the 737-600, the low capacity A318 did not find additional

❶ Air traffic volume



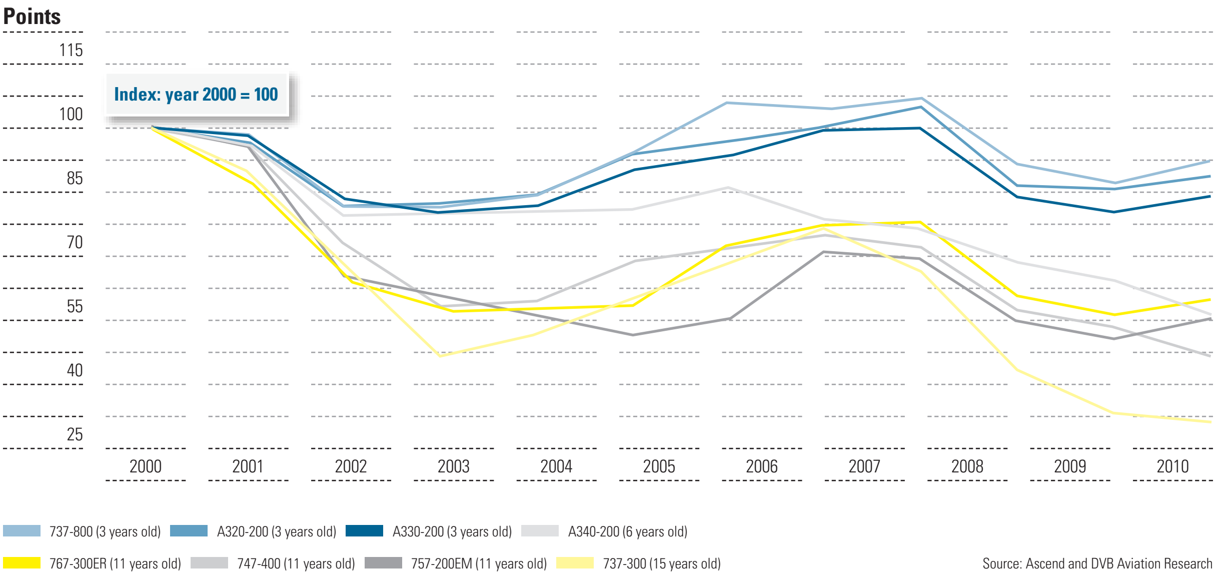
Source: IATA, January 2011

customers. With a recovering economy and growing passenger numbers, it seems the better seat-mile economics of the larger aircraft are becoming more compelling to the world's airlines, at the expense of the smaller members of the airliner families. The importance of the narrowbody market is illustrated by the backlog figures as of end-2010. Out of a total backlog for commercial jets (Airbus and Boeing) of 6,995 aircraft, the A320 family (2,418) plus the B737NG (2,186) account for just under 66%.

Over the past decade or so, the commercial jet market has enjoyed a fairly stable supply equilibrium in the narrowbody segment. The Boeing 737NG and the Airbus A320 family were equally matched and neither could claim overall superiority. Under such duopolistic circumstances, neither manufacturer had a strong reason to upset this equilibrium. The result was a stable and relatively predictable market, in terms of aircraft value stability and aircraft liquidity. As predicted by DVB last year, this situation seems to have come to an end. Under pressure from a smaller Canadian competitor, the Bombardier C Series, as well as initiatives for competing narrowbody designs from new manufacturers in China (COMAC C919) and Russia (Irkut MS21), Airbus and Boeing had to reconsider their position. The enabler for the upcoming generation change in this market segment was the launch of two significantly more fuel efficient engines, the revolutionary Pratt & Whitney PW1000G Geared Turbofan (GTF) and the more evolutionary improved successor to the popular CFM56 engine, the CFMI LEAP-X. On 1 December, Airbus announced the launch of a new version of the A320, dubbed the A320 new engine option (neo), offered with the PW1000G as well as the LEAP-X. The A320neo is to enter service in 2016 and is claimed to offer a fuel burn advantage up to 15% over today's A320 production standard. Airbus reportedly sees a direct demand in 2011 for circa 800 aircraft and a market potential of 4,000 A320neo family aircraft over the next 15 years. What the impact is of the launch of the A320neo on narrowbody price levels remains to be seen. ❶

In the widebody market segment, the generation change already became clear several years ago when Boeing announced the ultra fuel-efficient 787 Dreamliner as successor to the aging 757 and 767 as well as the lower end of the 777 family. Airbus initially did not find an adequate response but eventually announced the A350XWB as successor to the A330 and A340. While most first-tier airlines were eager to introduce these fuel efficient and environmental friendly new technology airplanes, neither of the two types were available in 2010. While this was less of a problem during the crisis-years 2008/2009, the market recovery of 2009/2010 triggered an acute demand for new capacity, especially in the Middle East and Asia. This situation is reflected in the 2010 order and backlog figures. Boeing still has a backlog of 847 for the Boeing 787 but lost net four orders in 2010. The aging 767 still added three orders for a backlog total of 50 aircraft. Boeing did better with its 777 widebody, booking 46 orders. Initial plans for a modernisation of the 777 seem to have been delayed. The high capacity 777-300ER seems well positioned to succeed the large fleet of aging 747 "Jumbos". The new generation 747, itself dubbed the 747-8, lost one net order. Entry into service of this type also was delayed due to technical problems. The majority of 747-8 orders are for the freighter version, resulting in a need for interim capacity in this segment as well.

❶ Aircraft value development (mid-year data)



Source: Ascend and DVB Aviation Research

Airbus took 47 orders for its A330, a remarkable success with the successor A350 on the horizon. The A350 itself booked 78 additional orders. The less popular A340 soldiered on, with only one order. Another remarkable success was the 32-strong additional order for Airbus' flagship, the A380. With a backlog of 193 aircraft, and a majority destined for Middle East carriers, this type is becoming more widely accepted, albeit for financing purposes still a challenge, due to potentially high transition cost and still limited market liquidity.

With respect to production and deliveries, Airbus delivered a total of 510 jets over the course of the year while Boeing announced that commercial aircraft deliveries in 2010 amounted to 462 aircraft. With both the 787 and 747-8 programmes being delayed last year, Boeing's overall deliveries in 2010 fell by 19 aircraft compared with 2009. Deliveries for the Next Generation 737 family improved by four aircraft to 376, but output for 777s declined by 14 aircraft to 74. The 767 production line delivered twelve aircraft in 2010, one fewer than in the previous year.

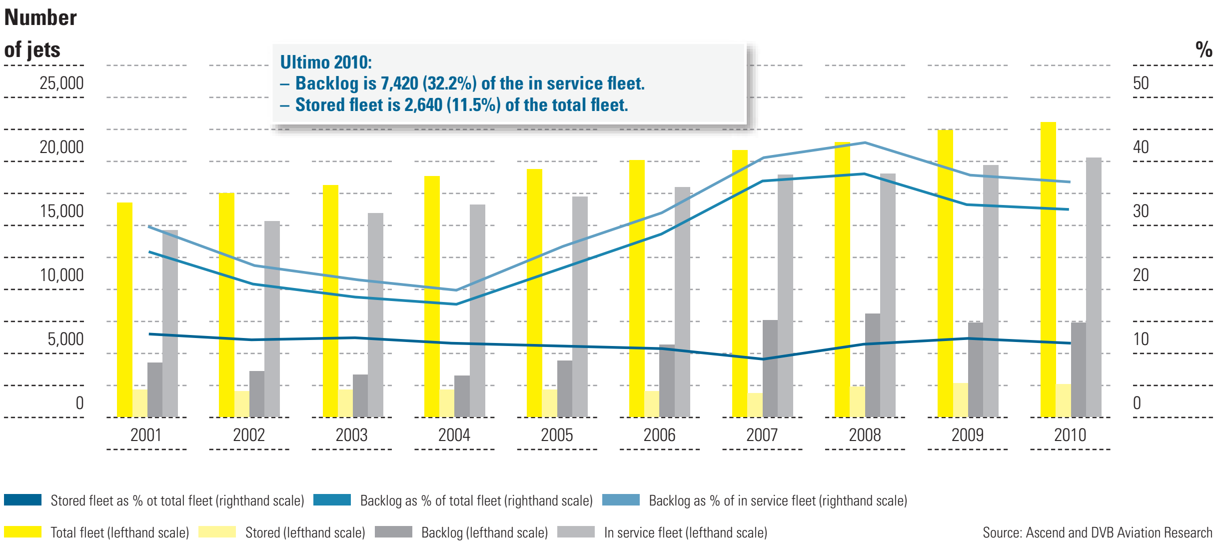
The increased supply is one of the major concerns in the commercial jet market. Encouraged by its sizeable backlog, Airbus raised the A320-family production rate from 34 aircraft per month to 36 during the course of 2010. The rate is due to climb to 38 by August 2011 before hitting a fresh peak of 40 in early 2012. Boeing announced that it too is weighing a further increase of the 737 production from 38 per month to 42 or even higher in a later stage. The increased production volumes may put some pressure on the market supply-demand balance. While it is most likely that the new aircraft will be placed in the market, and financing of these new planes – either via export credit facilities, commercial bank loans or operating leases – should not be a problem, this glut of new planes may start to put further pressure on the used equipment market. With no meaningful export finance support for used equipment transactions, and a more limited appetite from commercial banks for used equipment financing, some early signs can be picked up that economic lives of commercial jets may become shorter: consequently, depreciation policies may need to be revised. The fact that more and more countries impose import restrictions on older aircraft may impact the popularity of older aircraft as well. The export credit regime itself was changed during 2010 as a new Aircraft Sector Understanding (ASU) was negotiated. This new agreement is of the utmost importance for the commercial aviation and airfinance business. Export credit facilities enabled many airlines to finance their new deliveries during the crisis year 2009. At the end of 2010, the full text of this new ASU had not yet been published: the impact of the changed agreement therefore could not be fully analysed.

The Airbus-Boeing duopoly in the large aircraft market remained unchanged in 2010. However, competition from new contenders in the market manifested itself stronger than in 2009. Chinese manufacturer COMAC showed progress in the development of its C919 jet, aimed at the segment now dominated by the Airbus A320 and the Boeing 737. Reportedly, the new Chinese product, scheduled for maiden flight in 2014 and entry into service in 2016, booked 45 orders. Russian rival Irkut reportedly booked 45 new orders for its new MS-21 model, scheduled for entry into service in 2016 as well. In the market segment below the narrowbody market, competition amongst the manufacturers of large regional jets heated up. An estimated total of around 230 orders were placed for Canada's Bombardier CRJ and CSeries, Brazil's Embraer E-Jets, the Russian/Italian Superjet as well as the Chinese AVIC ARJ. Mitsubishi did not announce any orders for its MRJ regional jet in 2010, but made up for this early in 2011 with a significant order from US operator TransStates.

The increased market demand has helped the industry to reduce aircraft storage levels. At the end of 2010, approximately 8.7% of the global fleet was in storage which is a significant improvement compared to the 2009 level of 12.3%. Boeing 737 Classics and MD80s remained on the top of the list of aircraft in storage. It is unlikely that a high percentage of these aircraft, particularly very old ones, will ever fly again. In the widebody sector, the storage level of older Boeing 747s reached almost 20% of its total fleet. The bankruptcy of JAL has contributed to the increase of its storage figure. Although the improved circumstances in the air cargo market stimulated the passenger-to-freighter conversion activity, the freighter conversion market has not completely digested the stored capacity built up during the crisis. A number of 747s will be scrapped as the value of the parts, in particular the engines, exceeds the value of the aircraft itself. Via its subsidiary TES Aviation Group, DVB is a major player in the highly specialised market for engine part-out. ❶

The trading activities in the used equipment market picked up momentum throughout 2010 partly thanks to some recovery in the financing market. However, there was still only a limited number of banks opening their books to the used equipment market. 2010 saw a number of new aircraft lessors emerge, often managed by experienced leasing professionals. Under pressure from the equity investors, these new lessors tried to rapidly expand their fleets, most often via sale-and-lease-back transactions. These activities were mainly focussed on A320 and Boeing 737NG aircraft, acquired from airlines that had placed large orders in recent years. Competition amongst the lessors often resulted in relatively high price levels for the fleet additions. While transaction price levels for popular new equipment (on lease) soared, price levels remained depressed for older and less popular types. The same can be said for lease-rates, although those negotiated under the sale-and-leaseback transactions mentioned above were not always commensurate with the high purchase price levels.

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



Source: Ascend and DVB Aviation Research

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 with 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 €5.6 billion, financing 779 aircraft and 74 spare engines. We view the continuing development of our asset-oriented 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, Singapore, New York, Frankfurt/Main and Tokyo.

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 2011, 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 skillsets to which others aspire. Aviation Finance is already operating at a level where 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

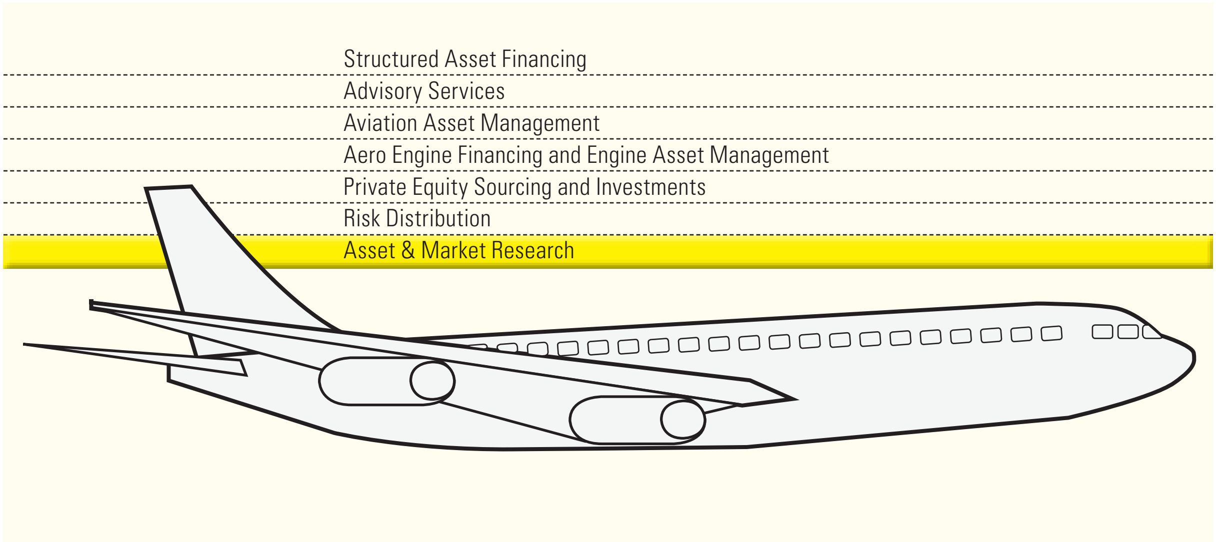
The Structured Asset Financing activity of the Aviation Finance division is at the heart of its client offering. With a loan portfolio of €5.6 billion and a new business final take of €1.8 billion in 2010, DVB is a market leader in commercial and asset-based financing for aircraft and related equipment. 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 for our business.

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 will routinely take residual risk on the sales proceeds of aircraft at loan/lease 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 advisor to its aviation clients via the dedicated Aviation Financial Consultancy (AFC). This London-based team of three includes professionals with extensive banking, leasing and airline backgrounds. Providing its clients with an unbiased view and opinion, they add value to a client's project or, more generally, to the client's balance sheet. AFC benefits from being part of the wider Aviation platform, as it can call upon resources from the other teams to fit the requirements of a particular advisory assignment. AFC specialises in providing advice to airlines, lessors and investors, and its range of advisory services includes 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.

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



Aviation Asset Management

The Aviation Asset Management (AAM) team, comprising ten 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 active in the sector. It is backed in this activity by extensive market knowledge and established industry relationships.

Services are provided either as a fully packaged solution or on a standalone basis to best suit the needs of its customers. The AAM team has extensive experience in the tough commercial aircraft environment, having previously worked for Original Equipment Manufacturer (OEM) airframe and engine lessors, through which it gained valuable collective experience in dealing directly with airline operators. The team is currently providing sought-after advice to a range of clients, with over 60 aircraft currently under lease management and remarketing contracts for third parties, making it one of the key players in today's industry for asset management services. In addition to the proven asset management experience gained from working with a range of clients around the world, and the understanding it has of clients' needs, AAM can access the wider skills and services that form our Aviation platform, including the globally-recognised industry research team. Clients can be assured that DVB's focus on transport finance means a long-term commitment to providing the full range of services for the aviation industry.

As an integral part of the Aviation platform, AAM also adds value to the Bank's broader customer requirements. It will often play an active role in the evaluation of asset exposures being contemplated by the financing teams, and on other occasions may form part of a transaction team 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 €1.5 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 €1.5 billion portfolio of aero engines across all mid- to large-thrust engine types, and the annual management of an engine maintenance expenditure in excess of €187.1 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 actively 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) team, established in 2003, performs high quality, independent research to support the strategy and activities of Aviation Finance. AR is a team of four researchers comprising London and Rotterdam-based units, and has a direct reporting line to DVB's Chief Executive Officer. AR's main focus is on the aviation equipment market and on aircraft technology, to the extent that these influence aircraft values and liquidity. AR provides Aviation Finance with asset valuations and value projections. Responsibilities range from preparing asset evaluation reports for internal purposes, to assisting the commercial units – such as AFC and AAM – with information and analyses about aircraft, aero engines and the aerospace market in general. In addition, AR prepares market reports – mainly concerning the aviation equipment market – and frequently presents its findings during aviation conferences and in trade press articles. 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.

The London-based Airline Research & Analysis (ARA), currently comprising one researcher reporting to the Head of Industry, provides Aviation Finance with a range of unbiased air-transport market and airline industry information and analysis. Established in 2007, ARA's focus is on the commercial airline market, broken down by geographic region, industry sector and subsector. ARA will regularly give external presentations and interviews covering its reports and investigations, as well as, more generally, to promote DVB and Aviation Finance as a leading industry specialist. As a member of various deal teams, ARA provides active consultancy, comparative analysis and due diligence protocols.

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 recent downturn, and thereby proved – once again – a reliable partner to its clients in difficult times. For this valuable contribution to aircraft finance DVB was awarded by renowned transport magazines: "Regional Debt Deal of the Year" (Airfinance Journal) and "Aviation Research House of the Year" (Jane's Transport Finance).

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. The Aviation Finance relationship managers in London are responsible for relationship management and business origination with aviation clients in Europe, the Middle East and Africa, while the New York office plays a key role in marketing and transaction negotiations in North and South America. DVB Group Merchant Bank (Asia) Ltd, based in Singapore, is responsible for relationships and business with clients in Asia, Australia and Oceania, working in co-operation with the Tokyo office of our London-based subsidiary DVB Transport Finance Ltd, which facilitates activities in the important Japanese aviation market. The client activities of this relationship management network are supported by the Aviation Financial Consultancy (London-based) and Aviation Asset Management (London-, New York-, Singapore-based) 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 relevant equipment.

Aviation Finance Deal of the Year 2010

Market leadership and Aviation Finance Deal of the Year 2010

In times of industry and financial turbulence, a few players set the path for others to follow. In 2010, DVB was again a leader, in an air finance market still relatively starved of banking liquidity. The financing of new equipment was not an area of significant stress, given the availability of export credit agency (ECA; guarantee) support, and, where necessary, the manufacturers being prepared to step in to fund certain deliveries for their customers. For non-ECA supported transactions, the so-called best credits among the airline and leasing companies were able to secure funding, indeed more readily and on more attractive terms than in 2009, but, for the rest, it remained hard work to secure their aircraft financing/refinancing needs, in particular for used equipment, or to raise financing for the funding of pre-delivery payments (PDP). Since DVB's Aviation Finance does not target low-risk, low-margin ECA-supported business, each euro of the €1.8 billion we loaned during 2010 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 during the year, as airlines and lessors have experienced some of their traditional relationship lenders reducing their level of activity, or in some cases having exited the aviation finance business. As the year came to a close, we had completed a satisfying mix of new and used aircraft financings for a geographically and credit diverse group of airlines and owners.

Some of the transaction highlights of 2010 are included in the sections below. We have, however, selected a commercial financing for ICBC Financial Leasing as the most important Aviation Finance deal concluded in the year: DVB, through its Singapore-based subsidiary DVB Group Merchant Bank (Asia) Ltd, arranged and underwrote financing in the amount of US$161.9 million for ICBC Financial Leasing to refinance an aviation portfolio that includes eight used narrowbody aircraft (vintage 2001–2008) on lease to four different airlines in September 2010. ICBC Financial Leasing is a 100% subsidiary of ICBC Bank (ICBC), and an aspiring aircraft lessor in China. This deal was the first third-party term loan for ICBC Financial Leasing, who had up until that point funded all aircraft acquisitions through internal funds. The deal involved a five-year term loan to ICBC Financial Leasing under a structure which needed to be adjusted to the complex regulatory framework in China. This was DVB's first deal with a Chinese-bank-sponsored leasing company and will undoubtedly pave the way for greater co-operation between DVB and ICBC, as well as more Chinese lessor financings, in the future.

Structured Asset Financing – Loan portfolio

During 2010 Aviation Finance realised 45 new transactions with aviation clients, representing a new final-take volume of €1.8 billion. The net interest income of Aviation Finance rose by 22.3%, from €58.2 million in 2009 to €71.2 million in 2010. Its 2010 net fee and commission income improved to €38.5 million (previous year: €35.1 million – up 9.7%). Consequently, Aviation Finance increased its total income by 29.5% to €110.6 million during the year under review (previous year: €85.4 million), whereas the consolidated net income amounted to €96.8 million (previous year: €71.4 million).

Segment results Aviation Finance[1)]

€ mn	2010	2009	%
Net interest income	71.2	58.2	22.3
Allowance for credit losses	–0.9	–0.7	28.6
Net interest income after allowance for credit losses	72.1	49.7	45.1
Net fee and commission income	38.5	35.1	9.7
Income	**110.6**	**85.4**	**29.5**
General administrative expenses	**–13.8**	**–14.0**	**–1.4**
Consolidated net income before taxes	**96.8**	**71.4**	**35.6**

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, Guggenheim Aviation Partners, Korean Air, Thomas Cook and Wizz Air. In addition, DVB attracted eleven new clients including Air Lease Corporation, CIT, Gulf Air, Monarch and Jackson Square. The average margin on new final-take loan commitments during 2010 was 338 basis points per annum. This level represented a reduction from the 2009 "financial crisis" level of 375 basis points, but, with banks' liquidity costs having fallen and with some competitors again more active, it was nevertheless an excellent result. DVB acted as arranger and/or agent bank (i.e. leading role) in respect of all except two transactions of its newly acquired business. New financings in 2010 were well diversified by client and obligor, as well as by aircraft type.

Some of the 2010 transaction highlights were:

- Arranger/Underwriter of a US$24 million senior amortising loan to finance Air Lease Corporation's (ALC) first aircraft delivery in May 2010, leveraging a sale-leaseback with Air Berlin of a new A320-200 on a seven-year operating lease. ALC is a new aircraft leasing company launched by Steven F. Udvar-Házy, co-founder and CEO of ILFC for 37 years. In 2010 ALC raised approximately US$1.3 billion of equity capital through a 144A private placement. The facility represented ALC's first secured financing and was committed/provided by DVB before ALC completed its 144A equity placement.

- Arranger/Underwriter of a US$215 million senior secured limited recourse debt facility for Avolon Aerospace (Avolon), used to finance the acquisition of a pre-identified portfolio of six A320-200 aircraft on lease to various lessees (Air Arabia, Frontier, Alitalia and Spring Airlines), and a further two aircraft from Avolon's pipeline. Aircraft leasing company Avolon launched in May 2010 following a successful initial capital raise of US$1.4 billion supported by three leading and renowed private equity firms: Cinven, CVC Capital Partners and Oak Hill Capital Partners. The facility represented Avolon's first fund raising in the international debt markets, and demonstrates DVB's ability to deliver timely and tailored solutions to leasing company clients who are seeking initial support as a springboard to further significant growth.

- Arranger/Underwriter of a variety of "non-recourse" financings to support DVB's lessor clients. These included for AWAS, one new A330-200 on lease to Hawaiian; for Jetscape Aviation Group, two E190s on lease to Gulf Air; and for Waha Leasing, one B777-200ER on lease to MAS.

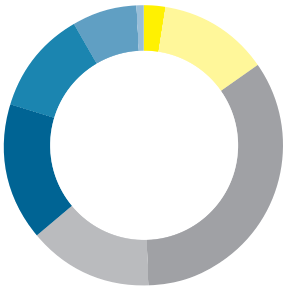
- Consistent with DVB's market leadership in the used equipment market, arranged a variety of bilateral term loan refinancings involving ten- to twelve-year-old aircraft, including for Korean Air (1999-vintage A330-300) and for Thomas Cook (two 2000-vintage A330-300s).

- Arranger and Co-Underwriter of a PDP refinancing for National Aviation Company of India Limited in respect of seven B787-800 aircraft delivering in 2011. Other PDP financings/refinancings were concluded for Wizz Air (two A320-200s) and Hainan (two B787-800s).

At the end of 2010 the Aviation Finance portfolio stood at €5.6 billion (2009: €5.2 billion). In US dollar terms – the Aviation Finance portfolio was 97.0% US dollar-denominated – the portfolio volume went slightly up to US$7.5 billion (2009: US$7.4 billion). The fact that the US dollar portfolio has remained nearly unchanged despite a new final-take volume of circa US$2.4 billion, results from the relatively high repayment/prepayment ratio observed in 2010. The collateralised portfolio represented 99.7% of the total volume. The collateral was predominantly

Airbus (51.3%), Boeing (39.5%) and Embraer (7.3%). 49.6% of the commercial jet aircraft portfolio were three years old or less. ❶

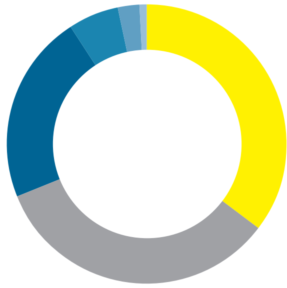
❶ Aviation Finance portfolio by vintage



- To be built 2.7%
- Up to 1 year old 12.6%
- 1 to 3 years old 34.3%
- 4 to 6 years old 14.4%
- 7 to 10 years old 15.9%
- 11 to 15 years old 11.8%
- 16 to 20 years old 7.6%
- 21 to 25 years old 0.7%

The portfolio is well diversified by client. A total of 154 aviation clients equates to an average lending exposure of €36.0 million per client. The largest individual client exposure for Aviation Finance currently stands at €181.4 million, and there are 37 clients where its committed exposure is in excess of €50 million. The portfolio breakdown by aircraft class saw the share of financed widebody aircraft decrease to 34.4% (2009: 37.1%), the share of freighter aircraft decrease to 7.2% (2009: 8.5%) and the regional jet share also decrease to 9.2% (2009: 10.4%). Narrowbody aircraft remains the dominant class, increasing to 49.2% (2009: 44.0%). This is as we like and expect, since, in general, narrowbody aircraft represent the most "liquid" aircraft from a security perspective (i.e. ease of remarketing to other operators). Risk is also geographically well diversified, being presently oriented towards Europe, Middle East and Africa (41.5%), as well as North and South America (36.1%). Client exposure in Asia, Australia and Oceania has increased to 22.4% (from 20.4% in 2009), a trend which we expect to continue. ❷

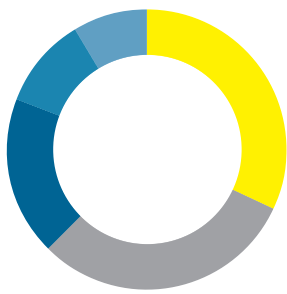
❷ Aviation Finance portfolio by economic risk



- Europe 35.5%
- North America 33.8%
- Asia 21.9%
- Middle East/Afica 6.0%
- South America 2.3%
- Australia/Oceania 0.5%

The Aero Engine Financing business (as mentioned, run by the Structured Asset Financing teams alongside the aircraft financing activities) remains an important focus, although the engine finance portfolio in itself, standing at €107.3 million, is modest in the context of the overall Structured Asset Financing activity. A notable spare engine portfolio senior debt financing, covering seven engines held on operating lease to several different airlines, was concluded for a joint venture company, part of the Deucalion Aviation Funds. In general, Aviation Finance expects both the volume and range of its aero engine financing activity to grow over the next years, as it benefits from its close co-operation with our subsidiary TES. ❸

❸ Portfolio of aero engine financings



- General Electric Engines 32.1%
- CFM/CFM International 30.6%
- International Aero Engines 18.4%
- Rolls Royce/Allison 10.3%
- Pratt & Whitney 8.6%

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 over many years built a strong risk culture which starts with our client-facing relationship managers and continues through each stage (including Aviation Credit, Aviation Research and DVB's 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 a "Deal Committee", which meets to discuss at an early stage the possible new transactions with a view to spotting risk and structural deficiencies, and in any event to build 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, as the case may be, later be presented to DVB's Credit Committee. As a tribute to its efficiency, the failure rate at the Deal Committee is significant, a tribute to our culture of 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 List, Closely Monitored, or Watch List reporting. The ongoing management of risk is aided by a rigid Call Report discipline adopted a few years ago, 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. As the case may require, the team will be supplemented with the involvement of AAM and/or TES as aircraft/engine asset managers.

During 2010, we had a small number of transactions requiring restructuring or remedial action. By way of example, Mesa Airlines (US regional airline) was, and remains, under Chapter eleven (US bankruptcy reorganisation), which required an active management of the outcome for DVB's loan exposures. AAM was appointed as (aircraft) technical manager and remarketing agent by the respective lending syndicates. Then, under the leadership of Aviation Special Projects, working with AAM, we arranged first the repossession and later the sale of a total of eleven CRJ200 aircraft which were mortgaged in favour of the respective lenders, including DVB. This work-out enabled DVB to recover significant allowance for credit losses which had been booked in earlier years in anticipation of the difficulties we would face on this Mesa file. In a couple of other cases during 2010, we have been able to conclude loan amendments and restructurings which have successfully mitigated losses which we 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 further "defensive" new financings, where we can at the same time 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 are necessary to safeguard its position as a secured lender.

Aviation Services

In 2010, the success of Aviation Finance contained strong contributions from the aviation pure "services" activities. The AAM, AFC and the Tokyo-based Structured Asset Financing have continued to enhance the reputation of DVB's aviation business as the "leading aviation 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 a European operating lessor to source equity from superannuation funds for an aircraft acquisition.
- AFC was appointed as Financial Adviser by Sri Lankan Airlines with respect to aircraft "lease or buy" alternatives.
- AFC acted as Financial Adviser to Icelandair with respect to the company's restructuring.
- AAM closed 32 aircraft transactions in 2010, including the sale of 11 CRJs and the lease of five A320s.
- AAM acted as technical conversion manager on behalf of a European financial investor in connection with the freighter conversion of two passenger B747-400 aircraft.

AAM finished 2010 with a managed portfolio of 62 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, lead 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 dividend in recent years, and 2010 was not different. Across the Aviation platform, over the last twelve months we have concluded transactions and partnerships with such prestigious names as ANA, Marubeni Corporation, Mitsubishi Corporation and Sojitz Corporation.

The commitment by DVB to develop its service capability and dedicated resources is expected to yield further reward 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 2010 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. Additionally, TES selectively entered the CFM56-3 (B737) marketplace securing a portfolio of "True Engines". The "True Engine" is a defined term of the Original Equipment Manufacturer (OEM) and represents the highest possible standard of equipment. During the period, TES was also able to secure further core products RB211-535E4 (B757) and PW4000 (B767) engines to enter its lease/part-out programmes, and secured major supply agreements with a number of key MROs (Maintenance Repair and Overhaul agencies). TES remains the largest independent (of any MRO or OEM) aero engine risk management organisation, managing 535 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 expand its global footprint with the opening of a state of the art management, logistics and distribution centre in Singapore in order to provide more 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 have with our customers go far and beyond that of a non-specialised banking organisation.

Aviation Finance – Outlook 2011/2012 for key aviation segments

With air transport volumes back to pre-crisis levels, the industry seems well positioned for a period of relative prosperity. According to International Civil Aviation Organisation and IATA forecasts, system-wide global traffic expressed in tonne kilometres performed (TKP) is to increase by 5.3% in 2011, compared to 11.6% in the recovery year 2010. The 2011 figure represents a combination of continuing strong growth in the passenger markets with initial signs of stagnation in the cargo market. It is expected that during 2011 capacity in available tonne kilometres (ATK) will increase to 6.1%, a level that may slightly exceed the increase in demand.

The ambitious growth of the Middle Eastern carriers is set to continue in 2011/2012. For 2011 the Middle Eastern carriers are expected to add 11.4% ATK, slightly exceeding the projected increase in demand of 10.5%. Asia-Pacific takes second position with 6.9% TKP growth, followed by Latin America (6.3%) and Africa (5.5%). The mature markets in North America and Europe lag, with anticipated growth of 3.7% and 3.5% respectively.

Whilst IATA still expects the global airlines to generate a profit, the net result is anticipated to decrease from the US$15.1 billion level in 2010 to US$9.1 billion in 2011. Main concerns for 2011/2012 include the anticipated capacity growth, potentially resulting in reduced load factors and reduced pricing power. In addition, a continuing increase in the fuel price level could easily turn the net results for the airlines into a loss, as seen several times in the past.

The outlook for the equipment market in 2011/2012 is positive for modern new equipment. While first deliveries of the new B787 should finally take place, the delivery volume is unlikely to cause any oversupply in the widebody market. Consequently, demand for widebodies, including older designs, is expected to be strong. Both Airbus and Boeing have announced that they are considering increases in annual production of their best-selling widebodies. While this will accelerate the burn-off of their backlogs, all these aircraft should have no problems being placed in the market. Longer term, when deliveries of B787 and A350 gain momentum, an oversupply of current generation aircraft – that have served as interim lift – could materialise.

In the narrowbody market, the A320 and B737NG reportedly are sold out until 2014. The huge backlog for these types will assure new aircraft can be placed almost effortlessly. The impact of the "generation change" implemented by the launch of the A320neo will not be felt during 2011/2012. While the launch of just another version of an aircraft may not seem too important, DVB believes that this step has the potential of triggering a number of other developments in the market. It is unlikely that Boeing will not respond to this action of its archrival Airbus, and either a re-engined B737 may be announced or – more likely – a more radically redesigned product will be offered. Interestingly enough, Airbus has already indicated it may launch its own – more radical – new narrowbody design by 2017/2018 for entry into service around 2025. Should this relatively quick succession of new aircraft designs become reality, the impact on economic life of existing aircraft – as well as aircraft value dynamics – may be significant, albeit only in a few years from now. DVB research indicates that historically aircraft values have been most impacted by a combination of the availability of new superior technology successor aircraft, coinciding with a downturn in demand for air transport. DVB's policy already today takes this scenario into account.

Despite the market recovery we do not anticipate a strong rebound of values for older "classic" aircraft. The surplus of aircraft from this generation is significant, airline demand is limited, and financing will remain a bottleneck. More trades may take place but at continuing depressed value levels. Some younger aircraft may be converted into freighters to replace the significant fleet of outdated cargo planes that will not return from the desert storage areas. Used equipment from more recent aircraft generations may show a stronger value and liquidity performance. The emerging leasing companies looking for rapid portfolio expansion will ensure robust equipment prices for the most popular types in sale-and-leaseback transactions. A number of lessors are already intending to pursue initial public offerings (IPOs) in 2011/2012. Apart from the anticipated first mover advantage, the potential longer term destabilisation of the narrowbody market may be an incentive for a rapid execution of these IPOs.

On the finance side, it seems the government-supported export credit agencies will continue to play a significant role in providing debt funding to airlines and leasing companies, although alternative sources of funding – such as capital markets funding or commercial bank debt – will clearly be available in many cases. The new ASU agreement will most likely not impact the role of export credit in 2011/2012 as many transactions will enjoy "grandfather" or even "great-grandfather" rights, entitling the airlines to the benefits of the old regime. While this form of financing clearly limits the market for commercial asset-based financiers such as DVB, we expect that in the period 2011/2012 there will still be ample opportunities. With more banks returning to the airfinance market, mainstream transaction with first-tier airlines will see reduced margins. DVB's business model, however, allows us to avoid the most crowded part of the market, so while we anticipate increasing competition, margin pressure should remain limited.

Aviation Finance – Portfolio outlook 2011/2012

Coming out of the financial crisis, we expected the more favourable (for lenders) "risk versus reward" balance would lure some banks back to aircraft finance, and this is indeed what we observed in 2010. This led to a slightly more competitive margin environment, which is seen in the results of Aviation Finance: average margin on 2010 new final-take loan commitments of 338 basis points per annum, versus 375 basis points in 2009. That said, the Bank today remains among just two handfuls of very active players in global air finance, and in some segments of our Structured Asset Financing activity, competition is limited indeed.

Looking ahead, the tendency of new bank entrants, or of those returning to the market after a period of inactivity, will be a "flight to quality", and as such further competitive pressure on pricing and other terms will be limited to certain clients and assets, most of them away from DVB's core franchise.

At this early point in 2011, DVB is experiencing a healthy level of demand for its risk capital and services. The need for careful selection as to how Aviation Finance will deploy its resources will be a continuing theme in the year ahead. Making the right decisions, particularly on which transactions to deploy risk-weighted assets, will be the key to another profitable period. Aviation Finance has assembled a team of great experience and with a multi-disciplined background: in short, a team which is more than capable of ensuring that good decisions will be made.

We have long maintained that a market of uncertainty is a market of opportunity for a specialised institution like us, and the excellent results that we have achieved in 2009 and repeated in 2010 are proof of this. In view of our highly asset-focused business 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 2011 and beyond, but will use its deep knowledge of the underlying assets to avoid hidden risks in transactions. The 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, and based on its broad market coverage, strength of client relationships and track record of delivering, DVB can be confident in its ability to maintain the momentum which has seen its Aviation Finance portfolio nearly double in size (euro terms) over the last five years.

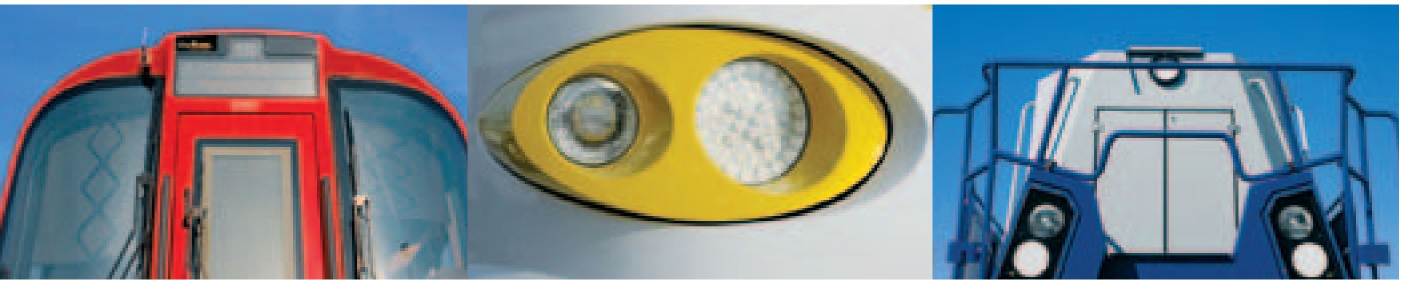
In its Structured Asset Financing activity in 2011, Aviation Finance is confident to achieve new, final-take commercial loan business at a volume similar to recent years. We expect to maintain the average margin of such business at or close to the level achieved in 2010, without any compromise to the quality of risk reward. At the same time, we are confident of a growing level of demand for our aviation services, most notably advisory and asset management. Our good reputation in these activities is evenly distributed over all segments of our core market: airlines, lessors and investors.

For most companies involved in overland transportation of goods in Europe and North America, 2010 was a year of being able to breathe again after a suffocating previous year: volumes started to recover. Some companies took advantage of competitor weakness to expand their operations. Our Land Transport Finance division successfully pursued new business, and supported our clients throughout the year, thus remaining true to our cycle-neutral strategy.

Land Transport Finance – Market review

Across the board, the freight sector was able to recuperate part of its pre-crisis performance, and the passenger business remained stable. Since it was notably the transportation of heavy goods such as iron ore and steel that regained strength, rail won market share over road during 2010, in terms of tonne-kilometre (tonne-km) performance. For locomotives and freight cars, the amount of orders placed in 2010 was still very low. Leasing companies hardly ordered any new equipment, since they want first to increase utilisation and lease rates of their portfolio back to pre-crisis levels. Since mid-2010, utilisation rates of North American and European land transport equipment have indeed been on the rise again; overall, however, lease rates have not yet risen significantly. Leasing companies keep contract durations as short as possible, with the expectation that longer lease terms with higher rates can be achieved shortly thereafter. About 20% of all rail freight equipment is still idle in both regions covered by DVB. Purchase prices for new land transport equipment did not show much downward pressure, partly instigated by higher material prices, and are in fact almost back to pre-recession levels. Manufacturers still prefer to shut down production capacity instead of selling below production costs. Of course, that is a very good sign for the prices in the used equipment market.

As in previous years, rail transportation companies in Denmark, France, Germany and Italy were able to significantly expand their businesses outside home turf. Deutsche Bahn (DB) acquired Europe's second largest private passenger operator, Arriva plc – and due to anti-competition rules, Arriva Deutschland is subsequently planned to be sold to a consortium consisting of the Italian Ferrovie dello Stato and French investment fund Cube Infrastructure. DB also took a majority stake in Italian freight railway company NordCargo. French railways SNCF took a majority shareholding in passenger operator Keolis, the majority shareholding in French intermodal operator Lorry Rail, the remaining shares of freight railway company ITL Eisenbahngesellschaft mbH, and a 51% stake in the in-house shunting railway company of ArcelorMittal Bremen in Germany. Danish passenger company DSB was able to expand its business in Sweden by starting a major franchise, and bought itself into the German market with the acquisition of 50% of the shares of Vias, a passenger railway company operating in and around Frankfurt/Main. In the UK, two rolling stock lessors changed hands. HSBC Holding's train unit Eversholt Rail Ltd was sold, with its 4,000 (mostly passenger) vehicles, to a consortium consisting of Morgan Stanley Infrastructure, 3i Group's Infrastructure, and Star Capital. US-based British American Railway Services bought Hanson Traction and its seven main line diesel locomotives. It is a small purchase, but another clear sign of overseas interest in Europe. Seven small start-up European rail freight companies had to cease business due to unprofitability. New Belgium-based lessor Ox-traction experienced the lack of need for new diesel locomotives, and was liquidated. Another Belgian locomotive lessor, Rails & Traction SPRL, was put into liquidation, but its activities were able to continue as Rail & Traction International S.A.



According to the International Union of Railways (UIC), the amount of freight tonne-km performed by its members in the European Union and Switzerland during the first three quarters increased by 12.7% year-on-year. However, the number of freight train-km only increased by 4.2%, which means heavier trains were operated. In Europe's largest rail freight market, Germany, rail freight performance for the year as a whole rose 11.9% to 107.2 billion tonne-km (preliminary figure) according to the German Federal Statistical Office (Destatis), but this is still 7.3% short of the 2008 peak level. Pro-Rail Alliance reported that rail freight was able to win market share in the modal split in Germany, from 16.5% in 2009 to 17.2% for 2010.

Turning to private railway companies, the major mergers and acquisitions development (besides the sale of Arriva) was the acquisition of UK-based GB Railfreight Ltd by EuroTunnel – who had already bought the French subsidiaries of Veolia Cargo at the end of 2009 (which are now residing under the name Europorte). With this acquisition, EuroTunnel has also become a strong European rail freight railway company, with the emphasis on attracting business through its infrastructure, the Channel Tunnel. In Germany, community-owned Eisenbahnen und Verkehrsbetriebe Elbe-Weser GmbH purchased the majority of shares of Mittelweserbahn, one of the largest private German railway companies. Eastern Europe's largest private railway company, S.C. Grup Feroviar Român S.A. of Romania held its position by acquiring rail freight company Rompetrol, and by increasing its stake to a majority in Bulgarian Railway Company AD. To challenge the position of incumbents, intermodal operator Hupac SA took a 25% stake in Swiss private rail freight company Crossrail AG, and was selected by SBB Cargo AG to take a 25% stake in SBB Cargo International. In France, two shortline railway companies (TPCF and CFR) and the first public-private port shunting operators commenced operations. Intermodal freight forwarder Intercontainer-Interfrigo SA (ICF), jointly-owned by most of the European national railway companies, was put into insolvency. Parts of ICF were sold to individual railway companies and rail operators, and the business was able to continue without significant disruption.

The peak to trough fall in road freight performance in the EU was – according to the International Transport Forum – around 16%. In the second quarter of 2010, the amount of tonne-km was still around 15% below the pre-crisis peak. That is partly due to less trucking capacity in the market, since thousands of heavy-goods vehicle (HGV) drivers (along with their companies) went bankrupt, especially in Eastern Europe. The German Ministry of Transport, Building and Urban Development (BMVBS) reported a road freight performance increase of 5.5% in Germany to 437.5 billion tonne-km. This is still 7.4% below the peak level of 472.7 billion tonne-km in 2008.

According to the European Automobile Manufacturers' Association, the commercial road freight vehicles segment in Europe started to show signs of recovery only in the second quarter. New commercial freight vehicle registrations over 3.5 tonnes reached 257,419 units or 5.8% more than in 2009. Demand for heavy trucks (over 16 tonnes) grew by 7.8%. In Europe's biggest HGV market, Germany, 21.4% more new units were registered. The trailer market in Western Europe grew by 11% in 2010, but given that the market fell by 52% in 2008 and 2009, this does not represent a spectacular recovery in demand, according to consulting group CLEAR. However, early figures indicate that 2010 production may have increased by 47% over 2009, as destocking turned into restocking and exports recovered on top of the extra domestic demand. In 2009, the trailer fleet size fell for the first time ever – and is expected by CLEAR to have done so again in 2010. However, Europe's largest trailer manufacturer, Schmitz Cargobull, reported a recovery of trailer production in the third quarter of 2010, along with slightly rising prices. The secondary market for used trailers (and their prices) recovered strongly. ❶

The Association of American Railroads reported a combined North American rail volume on 13 reporting US, Canadian and Mexican railroads of 19,322,414 carloads, up 9.4% from 2009; and 14,076,432 trailers and containers (not included in the carloads figure), up 14.7%. In the US alone, total performance increased by 8.5% to 1,644.8 billion tonne-miles. Total carloads for the year were 14.8 million, up 7.2% over the 13.8 million in 2009. Total intermodal volume in 2010 was 11.3 million trailers and containers, up 14.2%. Unfortunately, 2010's increases followed what were probably the biggest annual percentage declines in history in 2009, when carloads were down more than 16% and intermodal traffic was down more than 14% from 2008's levels. In other words, US railroads have recovered some lost ground, but not nearly all of it. US carloads were still down 13.9% in 2010 compared with record year 2006. As of 31 December 2010, 316,271 freight cars (or 20.8% of the total fleet) were in storage in North America – 132,284 fewer than a year before. The Class I railroads can still generate significant operating leverage despite returning volumes, a proof of pricing power and high flexibility to be able to cut costs. Six out of seven Class I railroads together reported a net income of US$8.8 billion in 2010, up 34.3% over 2009. For Union Pacific it was the most profitable year in the railroad's nearly 150-year history. On a year-on-year basis, service levels were mixed as the number of cars on line improved with a decrease of 1.3% (less cars on line is better, while more efficient), while velocity (–4.4%) and terminal dwell time (+2.4%) indicators deteriorated. The possibility of any legislation occurring that would return any form of economic regulation to the railroads died (for now) with the election of a Republican House. ❷

❶ Registrations of new commercial vehicles including busses and coaches in Europe (>3.5 tonnes)

Source: ACEA, January 2011

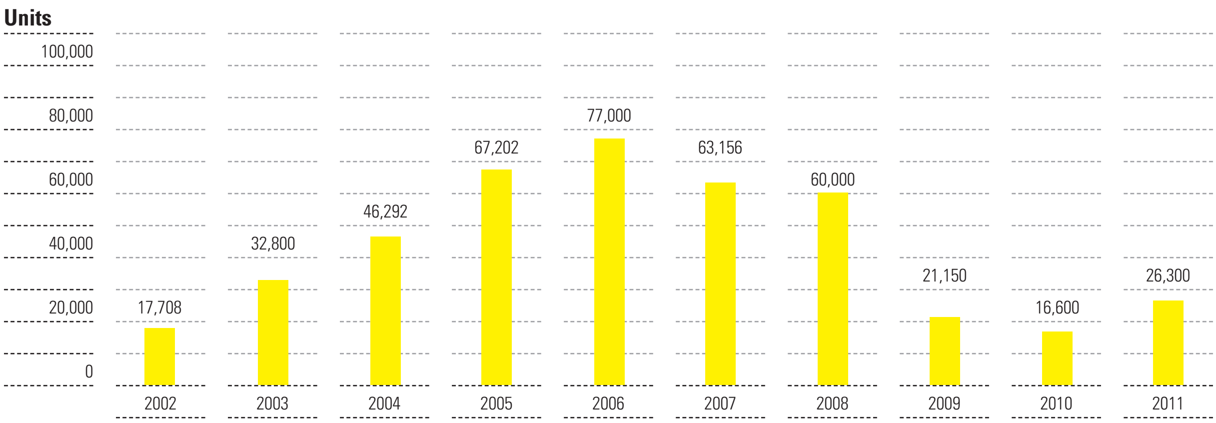
In February 2010, Berkshire Hathaway Inc. took full control of BNSF Railway, North America's second-largest railroad, for US$44 billion, including US$10 billion of outstanding debt. Ten US-based shortlines and one Canadian shortline (the latter in financial trouble) were sold to new owners, with railroad holding company Patriot Rail Corp. buying five of them. Lessor GATX Corporation was able to expand its freight car capacity by nearly 8,000 wagons after fleet purchases and obtaining minority ownership and management contract of a former Babcock & Brown fleet. Another remarkable sale was the purchase of maintenance-of-way equipment lessor FCM Rail Ltd by Progress Rail Leasing Corporation. Small locomotive manufacturer Progress Rail Services, owned by Caterpillar Inc. since 2006, announced its intention to acquire Electro-Motive Diesel Inc. (EMD), the second largest locomotive manufacturer in North America. This would open up a whole new sales channel for Caterpillar engines into medium-to-high horsepower diesel locomotives, and will enable EMD to better compete with worldwide locomotive sales leader General Electric.

The American Trucking Associations' advance seasonally adjusted For-Hire Truck Tonnage Index shows an increase of truck tonnage of 5.7%. As a comparison, in 2009, the index declined by 8.7%. In November 2010, truckload supply was – according to FTR Associates (FTR) – down 24% from peak levels in the US, while demand was only down 18%, although the North American truck utilisation level was relatively high, at around 94.5%. At the end of the year, expectations concerning rising equipment prices in 2011 pulled forward some demand, but favourable carrier pricing and the need to replace an ageing fleet have also prompted buyers to purchase trucks. Full year net orders for Class 8 trucks were 181,300, up 49%, the first year-on-year increase since 2004 according to ACT Research Co. (ACT). Full year production was 154,290 units, up 30% year-over-year, the first increase since 2006, but still well below normal replacement demand.

ACT also reported that unit retail channel sales for Class 3–8 trucks were up by 31%, followed by an 18% gain for the wholesale channel and 6% for auctions. These are significant increases, given rising prices for used trucks. Comparatively speaking, 2010 was a good year for the commercial trailer industry as factory shipments rebounded by 52% and net orders rose by 105%. However, 2010 was still the second-worst year for new-built trailers since 1983, clearly showing how bad 2009 was.

According to the UIC, the amount of passenger-kilometres performed by their members slightly decreased – by 0.1% – in the European Union and Switzerland year-on-year during the first three quarters. Destatis gave the following preliminary performance figures for Germany for the whole year: regional and commuter trains +0.4% and long-distance trains +3.5% passenger-kilometres. As already mentioned, Pro-Rail Alliance stated that rail again gained market share over road in 2010. Between 2002 and 2008 the passenger performance by rail increased 17%, while the performance by road decreased by 1%. The European railway passenger market is still heavily influenced by politics. On one hand, the market opens further through liberalised international rail passenger services, the partial liberalisation of long-distance services, and the tendering of regional passenger train services. On the other hand, the European Commission announced breaches of the First Railway Package by certain member states, which would hamper competition; and in quite a few countries, the subsidies for infrastructure are completely insufficient to maintain the tracks in a proper state. In Europe, two small private passenger railway companies pulled out of the market. The startup of German open access long-distance operator Locomore was postponed into 2011, and Keolis (now majority-owned by French state railways SNCF) pulled back its plans to enter the German long-distance passenger market. However, in Italy privately-owned Arenaways commenced operations, RegioJet made demonstration runs in the

2 US freight car deliveries



2010 figure is estimated and 2011 figure is forecasted.

Source: Rail Theory Forecasts, January 2011

Czech Republic and the national rail passenger market was fully liberalised in Sweden. A third privately-owned regional passenger railway company – Städtebahn – entered the franchise market in Germany, starting operations already in December; another company (Bürgerbahn) announced its interest to bid for a franchise starting in 2011.

The American Public Transportation Association reported 1.5% more light rail (streetcars, trolleys) passengers and 0.9% more subway passengers, but 1.5% less commuter rail passengers in the first three quarters of 2010. Amtrak reported an increase of 5.7% long-distance (or 1.6 million) rail passengers in the fiscal year 2009/2010 (ending 30 September 2010), after a decline of 5.4% the fiscal year before. In order to address funding shortfalls, most US public transit systems had to reduce services and/or raise their fares.

From the corner of the rail manufacturing industry it can be reported that the electric train set market is doing well. Firm orders for this type of equipment in Europe totalled over €6.5 billion during 2010, and framework contracts promise a further €4.6 billion for the future. Compared with this, the new diesel train set market has been pretty small, with just over €400 million in orders. Alstom and Siemens developed new locomotive platforms to compete with the very successful TRAXX platform of Bombardier. In Europe, 629 locomotives (–17% over 2009), 913 train sets (+3%), 529 coaches (+49%) but only 3,900 freight cars (–67%) were manufactured. The largest freight car manufacturer in Europe, International Railway Systems (IRS), filed for insolvency at three of its plants in Romania in November, and the production capacity of freight cars for the European market stalled considerably, since IRS had a market share of 37% just before the downturn. Minor Italian train set manufacturer Firema also became insolvent. In North America it is noteworthy that a crashworthy double-deck coach design entered the market. And finally, Amtrak ordered 70 three-system electric locomotives and 130 coaches to replace older units. In North America, 496 new locomotives (–13% year-on-year), 863 (+54%) train set cars, 447 coaches (+164%) and 16,600 freight cars (–26%) were put into service.

Land Transport Finance – Strategy

The overall condition of the Land Transport platform comprising our Land Transport Finance, Research and Credit activities is sound. The flexibility of the platform remains key to our success: a flat hierarchy with "deal ownership" throughout the platform, the ability to react swiftly, as the existence of short and direct reporting lines and our expertise and reliability – all of these aspects result from our business model and have proved to be successful for our clients and the Bank.

The leading position that Land Transport Finance worked for in our markets can only be retained through maintaining fundamental principles. In-depth know-how is one of these requirements, which means an intimate knowledge of markets, assets, clients, trends, current and future values, all of which are key to our success. In addition, we rely upon our prudent risk approach, which supports us a great deal in terms of credit assessment and exposure management. Through this, we have strengthened our position as one of the prime providers of debt asset finance and related services in our sector. Even more so than in prior years, we were considered by the market as a reference bank for decisions in the land transport segments. This, and not least our persistent dialogue with clients about optimal financing structures, led to Land Transport Finance winning a prestigious award for an operating lease transaction.

During 2010, Land Transport Finance continued to focus primarily on its two main regions, Europe and North America, both showing clear signs of recovery. Our team successfully pursued new business, and supported our clients throughout the year. In doing so, our focus on asset finance transactions paid out well again – both in primary and secondary debt markets. Our front offices in Frankfurt/Main and New York were strategically and tactically – i. e. for every credit and risk decision taken – always very well supported by Land Transport Research, which also contributed valuable market due diligence directly to clients where in demand. Both Land Transport Finance teams employ specialists. All members of the platform are individuals with passion for our markets; our clients appreciate this attitude, which translates into a competitive advantage in the market. Other factors providing significant support to the Bank's activities in our sector include a cost-conscious discipline, prudent risk-return balancing, and a keen spirit and imagination when it comes to serving customers.

Our efforts in our core regions were accompanied by a thought process directed at expanding our core area of operation, our product mix, and our client coverage. In particular during the second half of the year, more ideas evolved which led to reviewing the rail market in Australia, and – in terms of products – to an analysis of a potential expansion of the range of services offered to clients. The underlying principle for any decision was to follow good clients in their existing business and serve core customers in the new areas. We shall adhere to the main asset finance principles and, unlike a number of our competitors, we do not indulge in erratic strategy changes by now offering asset finance solutions relying on public finance paradigms. In light of the current sovereign debt crisis this seems to be an awkward development. Further reasons for DVB's not participating in all transactions discussed included:

- a decline in margins offered (caused by volume-hungry competitors on a few deals, an effect observed chiefly in domestic markets of such banks) which – as a result – no longer justified our participation from a risk-reward perspective;

- a deferral of asset investments or postponement of transport tenders;

- political interference influencing individual clients' decisions, including takeovers forcing the acquired company to stop certain independent strategic investment decisions; and

- changes enacted upon deal structures, which then were no longer in line with our asset finance focus.

Yet 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 produced good results over the past years. The continuity of our market approach has paid off. We are proud to define a mission statement for the platform:

"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 core regions. Based on

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

we offer added value by

- advising 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 supporting our business, which is best for a mutually beneficial co-operation with our clients. A well-reasoned expansion into a fully developed, stable and mature region – such as Australia – is considered to be a prudent option.

Land Transport Finance – Products

During 2010, Land Transport Finance offered a variety of products to our clients of which undoubtedly Structured Asset Financing – in the form of debt asset finance – was definitely the most important. Besides putting up the balance sheet for loans, our two teams were advising a number of key clients on structuring and optimisation aspects for their investments in assets and – in specific cases – on regional expansion or strategic acquisition aspects. In addition, and where required, Land Transport Research offered detailed market assessments within the Bank, and to clients where in demand.

Structured Asset Financing

Given the size and specifics of the land transport finance markets in Europe and North America, it was no surprise that our clients saw the highest value added in demanding structured asset financing. Our market activities spanned freight and passenger markets in both rail and road asset sectors. In this area we offer all asset-based lending, be it of a shorter nature (bridging facilities) or structured as mid- to long-term debt. DVB's Land Transport Finance platform was actively seeking out 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 structure for the individual need, we were able to show flexibility in choosing specific deal elements, co-operating with those partners contributing beneficially to economics or structure, and combining further aspects, available products and solutions to make transactions happen. As an example, this included bidding for a deal that combined a long-term asset-based loan with a viable cross-border lease transaction. Also, although we do not offer loans covered by export credit agencies (ECA), unlike a number of our competitors, we were supporting and contributing to a bid including an ECA structure by focusing on the mismatch portion of the debt transaction, which represented the dedicated asset finance element of the transaction.

Advisory and other services

In times of economic downturn, and (notably) in an environment of changed financing terms post-Lehman, advisory services were in high demand, in particular for debt raising, restructurings, balance sheet optimisation, sale-and-leaseback considerations and merger & acquisition ideas. Land Transport Finance – inter alia in co-operation with DVB experts in London – was involved in various discussions with our core clients, feeding creative ideas on most of the aspects mentioned above. In this context, several 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 and well received. As a result, there were mostly decisions to opt for non-recourse transactions, while economic, fiscal, strategic or political reasons have led to postponements in the case of other deals; most of the ideas for future transactions are being carried forward within our pipeline.

A close co-operation and communication exists between Land Transport Finance and DVB Capital Markets. This has led over the years to debt and equity issuance transactions in the US market for rail clients that wanted to diversify their funding needs. Though the Bank was not able to book a capital markets deal in 2010, due to the change in financial markets sentiment, we have now lined up one approved transaction for a long-time core client; the goal is to realise the deal during the first half of 2011, subject to prevailing market conditions.

Asset & Market Research

Land Transport Research provides consistently high quality and independent research as one core element of our asset finance strategy. Land Transport Research reports directly to the Chief Executive Officer and Chairman of the Board of Managing Directors. The main focus of Land Transport Research is the assessment of all rail and road asset markets and technology, plus the analysis of underlying trends and regulatory requirements – to the extent that those have an influence on values and liquidity of the equipment underlying our transactions and our portfolio. Research provides valuations, projections and market opinions, as well as analyses of market segments and fundamental risk assessments for internal purposes. Together with DVB's Group Risk Management, Land Transport Research gives input to the Bank's risk strategy with asset values and risk data from the rail and road asset markets. Externally, market reports from Land Transport Research are frequently provided to clients to aid their decisions on strategic options, as part of DVB's market research advisory services. Also, the Head of Research is frequently invited to speak at relevant industry conferences and to contribute trade press articles. Land Transport Research is a crucial contributor to the Bank's asset finance activities and decision-making process. Its presence makes us unique in our market approach and position.

Land Transport Finance – Portfolio analysis

The Land Transport Finance team closed several new transactions. However, as a direct consequence of the economic crisis in our main regions, the propensity to invest was still significantly lower than two years ago, albeit much better than in 2009. The lack of investment was particularly felt in the North American railcar market, where the number of orders fell to one of the lowest points in history. Furthermore, hardly any fleet operator was willing to sell, to avoid having to write losses. On this basis, we were not only pursuing business in primary markets, but also in secondary debt markets. In terms of structural hierarchy, Land Transport Finance offered senior loans, junior and subordinated debt positions. Transactions also included direct loans to clients, full and non-recourse transactions with special purpose vehicles, and special solutions incorporating leasing elements – be it finance lease considerations or lending into operating lease deals. On a regular basis, where the opportunity arose and the underlying asset values provided justification, DVB was taking asset risk, also in the form of true residual value risk tranches. This is an element where we worked especially closely and diligently with Land Transport Research on the assessment of sector segment developments for the specific assets, supply-demand balance, current futures' values for such assets, market movements and external trends, and also expected regulatory and technical changes influencing the potential remarketing possibilities and future lease rental levels.

Structured Asset Financing – Loan portfolio

As in previous years, Land Transport Finance was present and active in its markets throughout the entire business year. Likewise, more and more clients were coming directly to us with the intention of tapping our expertise to achieve their specific asset funding needs. This was taken by us as a signal that our specialisation and focus was recognised and appreciated by the market. Once again, this placed us in a special position towards our clients, as quite a number of our competitors were treading water in their client relationships. On the back of the advancement of the economic environment and the fact that fleet owners need to be constantly improving their asset base (including replacement investments), Land Transport Finance was able to close eleven transactions with a total volume of €261.0 million (2009: eight transactions with a total volume of €113.3 million). This resulted in improved earnings over the previous year and the business division almost returned to the positive pre-crisis income trend. Although the average new business margin was at 218 basis points distinctly lower than during the previous year (2009: 363 basis points), the higher volume of attractive new business led to an increase in net interest income by 3.0%, to €13.8 million (previous year: €13.4 million). Net fee and commission income improved by 38.5% over 2009, from €2.6 million to €3.6 million. Consolidated net income before taxes produced a result of €14.0 million, a 7.7% increase on the 2009 result of €13.0 million.

Segment results Land Transport Finance[1)]

€ mn	2010	2009	%
Net interest income	13.8	13.4	3.0
Allowance for credit losses	–0.7	–0.4	75.0
Net interest income after allowance for credit losses	13.1	13.0	0.8
Net fee and commission income	3.6	2.6	38.5
Income	**16.7**	**15.6**	**7.1**
General administrative expenses	**–2.7**	**–2.6**	**3.8**
Consolidated net income before taxes	**14.0**	**13.0**	**7.7**

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.

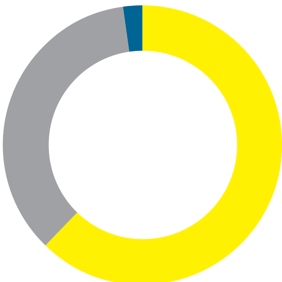
Key deals and highlights of Land Transport Finance during 2010 included the following:

- Agent and Underwriter in a long-term €45.0 million senior secured non-recourse financing to a special purpose vehicle for the purchase of tank and hopper cars, managed by a market leader among the European railcar fleet lessor companies.
- Lead Arranger and Joint Lender in a €75.7 million senior secured loan facility with a club of banks for 17 Stadler RS1 Regio Shuttle trainsets for a leading regional passenger rail operator in Germany. The structure developed between DVB and the client comprised various tranches with attractive funding mechanisms, and allowed the operator to win a passenger franchise bid against the large incumbent railway company.
- Lead Arranger, Underwriter, Global Security Agent and Administrative Agent to a €45 million senior secured warehousing facility for Europe's second-largest intermodal railcar lessor. The facility will be used for freight car fleet investments, allowing the client to procure both new and used standard railcars.

- Taking advantage of a slow US railcar financing market and appropriate secondary market offerings, DVB was able to further build up its Land Transport Finance portfolio through highly attractive debt trades. Based on this aspiration, we purchased a two-tranched note of a secured railcar term loan facility for a diversified fleet of used freight cars for one of the leading US tankcar fleet lessors, as well as a note for used tank and covered hopper cars for a manufacturer/lessor client in the US. Both deals made significant contribution to Land Transport Finance's performance, enhanced our portfolio yield, and gave evidence of the strength of our market coverage.

New transactions closed showed a nice diversification, both regionally and with regard to asset type. All were done in the rail sector. In volume terms, about 70% of the deals were executed for new or used freight cars (the main commodity of the rail sector); these additional exposures topped up what was already by far the largest share within the Land Transport Finance portfolio. About 23% of new deals were financing regional passenger trainsets, mirroring the increased importance of this segment in European rail, and also signalling the unbroken upswing in the dynamics of passenger rail franchise tendering. This trend is likely to continue for a number of years, and has meanwhile pushed up the asset class within our portfolio by a few percentage points. Only 7% of new transactions were for locomotives, however, the fact that these were being financed is a positive development by itself as the locomotive market had turned very quiet during the economic downturn. About 81% of the new deals were booked into our European rail portfolio, circa 19% into the North American portfolio.

❶ Land Transport Finance portfolio by client exposure per region



Europe	**62.3%**
North America	**35.5%**
South America	**2.2%**

At the same time, there were hardly any regional shifts in the overall portfolio. Loans to clients domiciled in North America accounted for 35.5% (up 1.0 percentage points year-on-year), whilst 62.3% of the lending was to European clients (down 0.8 percentage points year-on-year). The portfolio share of South American clients was nearly unchanged, at 2.2% (down 0.2 percentage points year-on-year). ❶

All of this led to a very positive development of the Land Transport Finance portfolio. Total lending volume by year-end grew by 15.4% from €1.3 million in 2009 to €1.5 million in 2010. This is a net increase by €126.9 million, which we regard as a significant achievement so shortly after the turn of the economic crisis. In respect of the overall portfolio, 86.3% of the transactions (previous year: 84.2%) included rail assets. The largest part of the rail portfolio remained the diversified freight car asset class (2010: 58.8%; 2009: 57.0%) which is an excellent risk pool due to its granularity. Assets are spread manifold over different railcar types, variable regions and continents, a variety of borrowers and obligor groups, and age profile of the railcars. While being a low-technology vehicle 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 the railcar asset class extremely attractive under repositioning, repossessing, remarketing and redeployment perspectives. As a consequence of the new booked prominent deals, the share of regional passenger train sets increased to a new exposure share of 12.7% (previous year: 10.4%) while locomotives were at a 13.2% (previous year: 15.0%). Due to the fact that no additional road asset deals closed during the year – the market is still saturated by existing fleets, and no larger used fleet transactions refinanced – the share of the road asset segment shrank to 10.7% (previous year: 12.0%). ❷

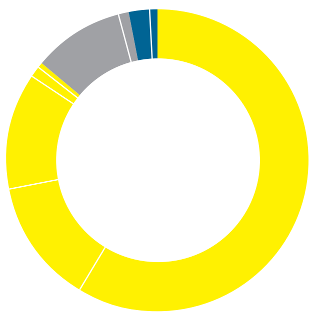
As we were able to book larger volume transactions during 2010, the average lending exposure per client moved up to €24.9 million (2009: €21.4 million). Within the portfolio, we added six new borrowers, thereby contributing to increased diversification. Only two clients had an individual exposure higher than €100 million (but lower than €150 million), while ten clients had committed exposures in excess of €50 million. This raises no concerns in terms of cluster risk.

Structured Asset Financing – Risk management

Being aware of risks is a key 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 exposure regarding the risk factors it may be exposed to. Decisions on new exposures always require an independent opinion from Land Transport Research. All potential new transactions are discussed in weekly Deal Committee meetings, attended by the responsible member of the Board of Managing Directors, all Land Transport Finance staff 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. Once new deals were booked, the portfolio was constantly reviewed and categorised by risk class. In stages of increased risk relevance, the entire portfolio was run through the early warning system (with finance projects tagged green, yellow, and red), with higher risk deals added to the Closely Monitored List, and ultimately – where and when required for critical transactions – placed onto the Watch List.

The risk levels within its portfolio – equalling the intrinsic stability of our overall markets – are comparatively low. Due to our tight and pre-emptive internal risk control management, there was no need to add any new clients to our higher risk categories. One small restructured deal was progressing well and improving with much higher releasing levels 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 sector showed clear signs of economic improvement, with no real softening of asset values in evidence. Although in the rolling stock leasing market the renewal lease rates were still below the level of the lease term running out, the bottom of the lease rental rate curve has been left behind, and utilisation rates have moved up. On the road asset side, and also due to the lower exposure, the risk element is not critical and market values were improving during the year under review.

❷ Land Transport Finance portfolio by asset type



On rail 86.3%
thereof:
58.8% Freight cars
13.2% Locomotives
12.7% Regional passenger train sets
1.0% Passenger coaches
0.6% City/commuter traffic

On road 10.7%
thereof:
9.7% Road tractors and trailers
1.0% Tank containers

No longer in line with the Bank's strategy 3.0%
thereof:
2.4% Terminals/logistics property
0.6% Immovable assets

Land Transport Finance Deal of the Year 2010

Land Transport Finance Deal of the Year 2010

Hessische Landesbahn GmbH, a core client of Land Transport Finance for many years, and one of the leading independent regional passenger rail operators in Germany, sought an efficient operating lease financing solution for newly-ordered Diesel multiple units (DMUs) at the beginning of 2010. During an intensive structuring process in close co-operation with the client, the optimal financing solution was defined. In March 2010, after a mere three months, the transaction was successfully closed. The competitive financing structure for the 23 DMUs enabled Hessische Landesbahn to win the franchise tender for "Lahntal/ Vogelsberg" against strong competition. The franchise comprises three lines with about 2.4 million train kilometres per year linking several cities and municipalities to the north of Frankfurt/ Main, Germany. The lines feed thousands of passengers into Rhein-Main Verkehrsverbund (RMV), the third largest regional transport network organisation in Germany. Land Transport Finance provided key support to the deal as Joint Lender into the transaction, taking the true residual value risk bullet loan tranche which is non-recourse to the operator, and by serving as Security Agent for the deal. The structured operating lease financing comprises a PDP-financing plus a term loan amortising down to a balloon. Total project volume was about €65 million. The debt portion was shared with two partner banks who took the entire amortising tranche. The leasing vehicle, which acts as buyer under the procurement contract as well as owner and lessor of the equipment, was set up by a leading German finance lease house in the transport industry. The finance lease house is also administering the lease assets throughout the entire operating lease term. The 23 modern Alstom Lint 41 regional passenger DMUs financed are proven and standard rail technology from a high quality manufacturer. Lint 41 are the best selling two-car DMU trainset in Germany and the third best selling DMU type in Europe over the past 13 years. The Lint 41 is operated by 17 railway companies in Germany and in other European countries. The transaction is important because it

- gave evidence of how well we serve our clients in difficult times of economic downturn;
- demonstrated Land Transport Finance's capability to properly assess and take residual value risk;
- allowed Hessische Landesbahn to win an attractive franchise, using modern trains;
- added another lucrative operating lease transaction to our asset finance portfolio, taking advantage of a highly attractive refinancing structure.

We are proud to have been awarded Jane's Transport Finance "European Rail Finance Deal of the Year 2010" for this prestigious transaction in November 2010, thereby contributing another asset finance accolade to our track record.

Land Transport Finance – Outlook 2011/2012 for the key land transport segments

Transport is at the heart of the global economy, and it relies on ever more complex and far-reaching infrastructure to deliver goods and move people. Yet the ability of individual countries to finance the all-important transport system is being squeezed from two sides. Public money, the traditional source of most infrastructure spending, is becoming increasingly scarce. The major Western economies, including France, Germany, the United Kingdom and the US, are all experiencing severe pressures to limit or reduce investment. In many countries, even maintenance spending is under threat. The results of lack of investment were clearly shown in the harsh winter conditions in Western Europe. The American Association of State Highway and Transportation Officials (AASHTO) states that funding for highways, railroads, ports, waterways and airports has slipped well below what is needed to maintain, much less improve, the movement of goods in the US. AASHTO has also predicted that US freight demand will double, from 15 billion tonnes in 2010 to 30 billion tonnes by 2050. Freight carried by trucks is thereby expected to increase by 41%, and by rail 38%. In Europe, the BMVBS expects freight traffic growth of 70% and passenger traffic growth of 20% by 2025.

A study from SCI Verkehr shows that the world rail equipment market was worth €130.7 billion in 2010, 53% of which comes from aftersales, and is set to grow by 22% to €160 billion by 2015. For rolling stock alone (€74 billion in 2010), the compound annual growth rate is 4.5%. The Association of the European Rail Industry, in collaboration with The Boston Consulting Group, gives an expected compound annual growth rate of 2.4% for the world rail market.

In the rail freight sector several projections have been made which almost all point towards healthy growth. In Germany, the BMVBS and Deutsche Bahn (for itself) expect a 4% rail freight performance growth in 2011. That achievement would be a good step towards the ambitious goal set by the German government to increase the market share of rail freight from 17.2% in 2010 to 25% in 2015. Intermodal transport represents between 25% and 40% of the tonne-km of major freight railway undertakings in Europe: it is growing faster than all other rail freight segments, and even faster than long-distance road transport.

The UIC expects European intermodal transport volume (measured in Twenty-foot Equivalent Units, TEU) to rise by 9.4% in 2011, thereby surpassing by 1.1% the peak level of 18.4 million TEU achieved in 2008. Thereafter, growth of 8% per annum is projected. In North America, APL Logistics expects 5–8% growth for international intermodal transports and as much as 8–10% for the domestic intermodal business in 2011. This means that intermodal demand would reach pre-recession levels already by the end of 2011. Land Transport Research expects the number of freight cars in North America on line to increase, while velocity and dwell time will deteriorate. That means more locomotives and freight cars are needed to do the task. However, the employment situation and the housing market are vulnerable.

On the road freight side, the European Commission expects volumes to be slightly above GDP for the next decade and Transport Intelligence does not expect road and logistics performance to return to 2008's levels before 2012. FTR predicts a 3.5% to 5% growth in US road freight over the next several years, which is significantly higher than the usual rate of around 2%. However, it will still take a lot of growth (after a downturn of the scale recently experienced) to return to the peak freight levels of 2006. A new development which could be positive for the road sector, but bad for the rail business, is the planned allowance of longer and/or heavier trucks. In Germany, the BMVBS announced it wants to allow longer trucks for testing purposes from 2011 to 2015; and in the US the New England states plan to permanently allow 50-tonne trucks.

American appraiser RailSolutions envisages the average purchase price of freight cars in the US increasing by 6% during 2011. Such an increase is quite likely to be found in Europe as well, since the largest freight car manufacturer is insolvent and does not expect to resume production before 2012. However, downward pricing pressure may come from the production of freight cars by the Polish-Chinese joint venture CNR Cargo Wagon and the new Indian owner of France's Arbel Fauvet Rail S.A. So far, freight cars for the European market have exclusively been produced in Europe. As far as road transportation unit prices are concerned, ACT Research expects some increase in the supply of used trucks as new Class 8 truck sales rebound, but the supply of late-model and low mileage units is expected to stay tight. That will allow used prices to continue to rise.

In Europe, the rail passenger market as a whole should remain stable. In Germany, the BMVBS expects a growth of 2% in rail passenger performance for 2011, and Deutsche Bahn expects the market share of passenger rail to rise 2.5 percentage points by 2030. The market will, however, gain dynamics with the opening of the long-distance market in Denmark and the start of private long-distance train services in Austria, Czech Republic, Slovak Republic and Germany in 2011 and 2012. In order to stimulate competition, the European Commission is in the process of making a recast of the First Railway Package. Besides a stricter division of rail infrastructure managers and railway companies, the most important issue will be the obligation for member states to make multi-annual contractual agreements with the infrastructure managers for the maintenance of existing (and the construction of new) railway lines. The European Commission is also considering making proposals for opening up the national rail passenger markets. While China broke the French-held world speed record for an unmodified production train at 486.1 kilometre per hour on 3 December 2010, the first dedicated high-speed line in the US might be finished between Tampa and Orlando in Florida in about five years. Also, California is due to start construction of part of a high-speed line between San Francisco and Los Angeles with an envisaged date of completion in 2030. Budget shortfalls are to be expected with quite a number of transport agencies in the US, meaning a possible reduction of trains operated and/or higher ticket prices; however, the AASHTO said that 29 states and the District of Columbia received grants for high speed and intercity passenger rail projects.

Except for European train sets and coaches, the order books of the manufacturers do not match their capacity at all. For delivery in 2011, fixed orders were placed in Europe for 371 locomotives (–41% over 2010), 2,100 freight cars (–45%), 890 train sets (–3%) and 542 coaches (+2%). LTR expects another 3,300 still to be ordered for delivery in 2011, which would mean 40% more freight cars being produced than in 2010. In North America, improvement is only expected to be shown for freight cars, although their production is expected to still be 36% below the average level of 43,600 during the past ten years. Foreseen deliveries of fixed orders (except for freight cars which is a projection) for the North American market are 306 locomotives (–38%), 25,250 freight cars (+52%), 220 train set coaches (–75%) and 120 coaches (–73%). Rail Theory Forecasts projects US freight car production at 28,000 units in 2011. Economic Planning Associates predicts 22,500 units to be produced in 2011, 32,800 in 2012, and rising to 59,000 units in 2015.

The proposed hours of service changes for truck drivers in the US could result in a productivity drop of as much as 6%. FTR estimates another 150,000 trucks on the road overnight are needed to move the same amount of freight. As a result, more drop and hook freight workings can be expected, leading to an increase in demand for trailers as trucking companies try to keep their tractors as productive as possible despite reduced driver hours and drivers available. FTR predicts 201,000 Class 8 trucks to be produced in 2011 and 258,000 units in 2012. The production of commercial trailers will probably post annual growth rates in excess of 50 percent in both 2010 and 2011 over an extremely weak 2009. Europe's largest trailer manufacturer – Schmitz Cargobull – expects to double its 2010 trailer production in 2011.

Land Transport Finance – Portfolio outlook 2011/2012

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. Structured Asset Financing will continue to be our core business. The pipeline for new lending deals is strong with volume expectations for the near future being slightly higher than in 2010, based on indications of an already stronger deal flow. There are further Advisory opportunities and possibly Capital Markets deals in sight. We expect the European asset finance demand to come more from large passenger rail orders for trainsets, while the focus in North America is likely to be on refinancing existing railcar fleets or larger freight car portfolios.

We will continue with our policy of maintaining tight risk analysis; portfolio management remains a top task for our business. Though some of the operating lessors may now get into the trough of their lease revenues (time lag to economic downturn), we are expecting lower risk levels to arise in our debt portfolio than during the last years. We have the discipline, the people and the processes in place to avoid hidden risks in our business, and also to manage the few potential cases that may come to the surface as a consequence of a high cyclicality in our markets. The composition of Land Transport Finance's portfolio – regions, clients, market segments – is expected during 2011/2012 to remain fairly similar to where it currently stands. Beyond that, we would seek to test markets outside Europe and North America.

The stability of the land transport finance markets, and the now more favourable environment, are expected to lure more banks into our markets, after quite a few competitors had left during the crisis. However, we believe competition and pressure on margins would largely remain limited to the domestic markets of these returning financiers, and be more limited to top names (a "flight to quality"). Still, we recognise that all sorts of subsidised instruments – including sourcing of cheap refinancing and possibly the introduction of one or the other ECA covered structures – may play a somewhat bigger role in the financing market than in the past.

Currently, demand is up on debt capital and service resources from the Land Transport platform. We are optimistic, since we are perfectly positioned, enjoying excellent recognition, a good track record, strong client relationships, and retaining clear focus on our core business. On the back of an upward movement in the underlying sector cycle, we believe we can preserve our leading position in the market.

Important deals 2010[1)]

AerCap Junior Debt Portfolio of 10 x A320-200, A319-100 and B737-700 Bilateral Lender	**Erfurter Bahn GmbH** Senior Secured Loan for 17 x Regio Shuttles RS1 €35 mn Lead Agent
Air Lease Corporation Operating Lease Financing 1 x B777-300ER on lease to Air France Arranger	**Euromar LLC** Post-Delivery Financing of 3 x 2,506 TEU and 2 x 1,740 TEU vessels US$72 mn Bilateral Lender
Aries Offshore, Norway Advising on its sale to Restis Group Mandated Sale Arranger	**Genco Shipping & Trading Limited** Senior-secured, amortising term loan facility for the financing of 13 x Supramax bulk carriers US$51 mn Mandated Lead Arranger
Avolon Operating Lease Portfolio Financing 8 x B737NG and A320 aircraft Arranger	**Guggenheim Aviation Partners** Operating Lease Financing 2 x B737-700 on lease to JetLite Arranger
AWAS Operating Lease Financing 1 x A330-200 on lease to Hawaiian Co-Arranger with KfW & BNP	**Gulf Air** Finance Lease 2 x A330-200 Arranger
Canada Steamship Lines Bilateral Senior Debt Facility Financing of a fleet of 7 x dry bulk vessels US$75 mn Agent	**HLB** Operating Lease Financing for 23 Alstom DMU's €65 mn Joint Debt Provider, Risk Taker & Security Agent
CIT Operating Lease Financing 1 x A330-200 on lease to Hawaiian Arranger	**ICBC Finance Leasing Portfolio** Portfolio Financing 4 x A319 2 x B737-800 2 x B737-700 Arranger
DOF Norway/NORSKAN Brazil Term Loan for the financing of 2 x PSVs and 1 x AHTS US$81 mn Arranger & Agent	**Icelandair** Financial Advisor with respect to the company's restructuring
DVB Aviation Asset Management 32 commercial aircraft sold/leased, 62 aircraft under management in 2010	**Independent Petroleum Group Company (IPG)** Hunting license for 2-3 product tankers US$56 mn Arranger (bilateral)
DVB Capital Markets LLC acted as financial advisor to Ardmore Shipping Limited regarding the formation and initial capitalization of the company US$72.3 mn	**Investec/IGAF** Senior Debt 2 x A320-200 1 x B737-800 Arranger

1) Unaudited information (not included in audit opinion)

Important deals 2010[1]

Jackson Square Warehouse and Portfolio Financing A319, A320, A321-200, B737-700 and 800 Arranger & Agent	**Schiffahrtsgesellschaft** **MS Deutschland GmbH & Co. KG** and **Peter Deilmann Reederei GmbH & Co. KG** Joint strategic advisor for the sale of the company
Korean Air Finance Lease 1 x A330-300 Arranger	**Scorpio Tankers Inc.** Financing of 1 x LR2 product tanker and capital markets transaction US$28.6 mn Arranger & Co-Manager
Lantern Maritime Company Sale from and bareboat charter back to Berlian Laju Tankers of a new 26,000 dwt chemical tanker US$32 mn Arranger & Lender (bilateral)	**SeaCube Container Leasing Ltd** US$95 mn offering of common shares Co-Manager
Navig 8 Joint investment between DVB's SIIM and Navig8 to purchase the Miss Claudia, a 2006-built 40,157 dwt product tanker	**Songa Offshore SE** Term Loan Facility US$79 mn on MLA level Together with 8 other banks plus Eksportfinans
Navios Maritime Acquisition Corporation Acquisition Finance US$217.1 mn Arranger & Agent	**Sri Lankan Airlines** Financial Advisor with respect to aircraft lease or buy alternatives
Navios Maritime Acquisition Corporation First Priority Mortgage Notes due 2017 US$400 mn Co-Manager	**Technomar – Poseidon LLC** Post-Delivery Financing of 1 x Post-Panamax, 4 x Sub-Panamax and 4 x Handy container vessels US$72 mn Bilateral Lender
Oak Hill Capital Partners Operating Lease Financing 2 x B777-200LRF on lease to Southern Air Arranger	**Thomas Cook** Term Loan Refinancing 2 x A330-300 Arranger
OSX Brasil S.A. Syndicated Term Loan Financing of FPSO US$85 mn Arranger & Agent	**Touax/Rail Limited 2** Senior Secured Warehousing Facility for freight railcars €30.0 mn Arranger, Agent & Global Security Agent
Pacific Drilling Ltd Pre- and Post-Delivery Project Financing US$121 mn on MLA level Together with 8 other banks plus GIEK and Kexim	**VTG/Ferdinandstor Rail GmbH** Senior Secured Loan Facility for tank and hopper cars €45.0 mn Bilateral loan
Palmali Group Senior and Junior Ship Finance US$96 mn Arranger & Agent	**United Arab Shipping Company** US$125 mn Japanese Operating Lease Arranger & Debt Provider

1) Unaudited information (not included in audit opinion)

DVB's skills and expertise as an arranger and syndicate member means that customers have the comfort of certainty with regard to funding their projects. As banks deleveraged balance sheets in 2009 and the general economy improved, liquidity slowly returned to the financial markets on a selective basis. In this easing market environment, DVB's Financial Institutions team raised bank debt for a number of transactions during 2010.

Financial Institutions – Market review

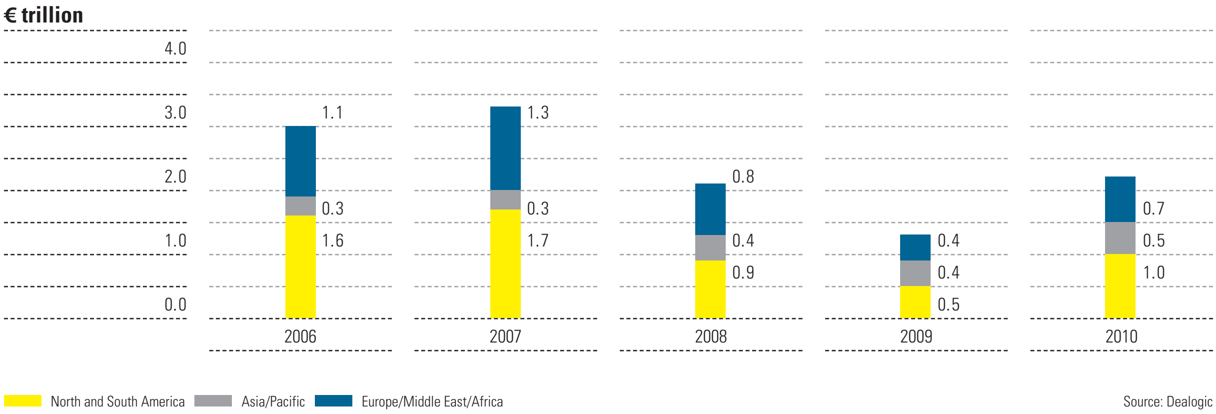
Global syndicated loan volumes increased by 69.2% to €2.2 trillion in 2010 compared to €1.3 trillion in 2009. By region, the syndicated loan volume in North and South America increased most – doubling to €1.0 trillion in 2010 when compared to 2009. In Asia/Pacific, volumes rose by 25.0% to reach €0.5 trillion by year-end 2010 (previous year: €0.4 trillion). Europe/Middle East/Africa reached €0.7 trillion, an increase of 75.0% (2009: €0.4 trillion). ❶

These figures show that in 2010 lending picked up, and – for the first time – exceeded the levels reached during the crisis years 2008 and 2009. Having deleveraged their balance sheets in 2009, and anticipating better economic conditions, many banks opened their doors again for increased lending – 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 in 2010. Lending also increased in the leveraged loan market, but at lower levels, indicating that there was still a trend towards better quality credits during 2010, particularly as the European debt crisis manifested itself. 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 started to reopen for the top-tier corporate borrowers, whilst other borrowers could only tap the club deal or bilateral loan market. The bond market continued to provide an alternative to the bank debt markets. Total bond issuance reached €2.0 trillion, an increase of 2.0% over 2009.

The transport finance volume including shipping, aviation and rail asset finance rose by 95.7% to €36.8 billion in 2010, compared to €18.8 billion in 2009. The ship finance market experienced difficulties in 2010, although for different reasons than in 2009 when the international credit crunch was in full force. In 2010, macroeconomic issues coupled with the European debt crisis affected banks, thus limiting the realm of activity for shipping finance teams. Yet at the same time, banks were also able to reorganise and begin internal restructuring, leaving shipping finance teams with the opportunity to formalise the strategy for their shipping portfolios, and thus for their clients. Despite this good piece of news, several other banks had to deal with merged portfolios and hence have been undergoing the process of reclassifying client relationships. One major bank even had to exit the business.

Overall, liquidity in the ship finance market remained relatively tight in 2010 when compared to the boom years of 2005 to 2007. A distinct "flight to quality" and a two-tier finance market emerged, with most banks targeting the same clients. Conservative lending structures and high pricing (compared to historic norms) prevailed as shipping companies adapted to this new lending environment. Dealogic data reveals that in 2010 approximately €20.0 billion of the increasing loan volume went into new projects, of which €13.0 billion was allocated as refinancing.

❶ **Global syndicated loan volume per year**



Source: Dealogic

Unreported bilateral lending to top-tier credits (or in club deals) was the preferred financing option for most ship finance banks in 2010, due to the uncertainty of other banks' willingness to participate in underwritten transactions. Government lending and guarantees via export finance houses bolstered the ship finance market, most notably in offshore and cruise transactions. In addition, regional disparities became evident in lending. On the one hand, Korean and Middle Eastern banks were facing costs of fund issues at the beginning of the year: the same was true for Greek banks since the second quarter. On the other hand, Far Eastern banks were active in their domestic markets: Chinese banks lent large amounts to domestic owners. In addition, sporadic underwriting of deals took place in 2010, particularly in the offshore sector.

2010 was an active year for the aviation finance market, but there was still an issue with commercial debt liquidity. Without new banks coming into the market, those commercial debt deals that were closed were completed by a small number of the active aviation banks. The financing of those closed deals came from multiple financing sources, including ECAs and export-import banks as well as the bond and commercial debt markets. A number of new leasing companies were established, and they actively deployed their equity to build aviation portfolios. The corporate market was in effect two-tiered. One part of the market focused on top-tier credits and financed new aircraft for airlines such as Qatar Airways, Qantas and Singapore Airlines. Here pricing was competitively low, liquidity seemed abundant and banks were attracted to the stronger perceived names. The other part of the market concentrated on older aircraft, and only a handful of banks were able to act in this space. Regionally, the markets in Asia were very competitive and pricing was suppressed given the abundance of local liquidity and appetite for deals from the local banks. In general, the markets in the other regions did not experience such pressures on pricing as in Asia. Liquidity in Europe/Middle East/Africa and in North American regions was not as strong. As a result, the competition amongst banks was not as evident outside of Asia. Towards the end of 2010 we started to see some pressure on margins, generated by those aviation banks that were active in these regions.

In the rail industry, liquidity improved a little as well, certainly when compared to 2009 as a number of banks reduced their lending to the rail sector which they regarded as non-core. But in 2010 an increased number of banks started looking more actively at the rail sector again. Due to a rising number of deal opportunities in the market, banks became keener on committing to rail deals than in the previous year and momentum picked up. This development is expected to continue into 2011.

Financial Institutions – Strategy

On 1 January 2010, the Syndications business was integrated into the newly formed Financial Institutions team, in order to synergise liquidity sourcing for new transactions. During 2010, the team has 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 has been 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 2010 the Financial Institutions team has also commenced 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 business 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: especially in a dynamic environment where those institutions have been changing their strategies for lending and investment;

- Based on these relationships, developing and maintaining a good understanding of each financial institution's requirements and risk appetite is important;

- 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; and

- Adapting to changing market conditions.

Financial Institutions – Products

The Financial Institutions team uses two key products: 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 also moved more towards the book-building exercises. This trend generally continued throughout 2010.

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 Investment Management and Advisory business.

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 business.

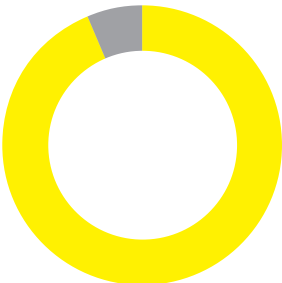
Financial Institutions – Portfolio analysis

The trend of increased lending started mid-2009, after the worst of the credit crisis had passed, and continued during 2010 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. During the first half of 2010, DVB concluded the syndication of a high-profile offshore market transaction on behalf of a Brazilian energy-related owner. Financial Institutions assisted in bringing together an international group of banks to close this multi-million US dollar transaction, and thus provided a stable group of lenders which supported the company in financing its future growth needs. In addition, the Financial Institutions team closed four other transactions, each of them on a club and book-building basis as well.

On the aviation side, DVB's Financial Institutions team was able to successfully sell down one of its transactions to another bank in order to diversify the lending group for the client and once again help to position the client for future growth. Moreover, the team played an active role in introducing new banking and financial institution relationships to DVB's Investment Management business, thereby facilitating continued future growth in that area.

In 2010, the Financial Institutions team syndicated no deals for the rail sector as capital expenditure in that market was restricted throughout the year.

Syndicated volumes by business division



Shipping Finance 93.7%

Aviation Finance 6.3%

Financial Institutions – Market and portfolio outlook 2011/2012

In 2010, the corporate market was characterised by higher lending volumes resulting in lower pricing for quality credits and by defensive lending – particularly in domestic markets. There has also been a loosening of credit terms and structures. DVB expects these trends to continue during 2011. However, the two main preconditions for this are firstly that sovereign debt concerns do not cause any major disruptions to the financial markets, and secondly that banks do not face persistently high cost of funds and liquidity issues.

In line with the general market, DVB expects the sources of transport finance to open further during 2011 as banks and financial institutions continue to increase their lending capacity. Selective lending will persist, with the majority of financial institutions continuously focusing on credit quality and deal terms. A limited underwriting market is starting to emerge for the kind of deals DVB considers attractive. However, the most prevalent deals will be book-building, club and bilateral transactions, with deal sizes slowly increasing so that banks remain visible partners for borrowers.

The shipping market saw funding gap issues in 2010 between the heavy orderbook and limited debt financing available, as well as between the original contract prices for vessels and the conservative debt financing terms offered by active lenders. These conflicts have not yet been fully resolved, and most likely will continue to influence the shipping market in 2011. Cancellations and negotiated contract prices have alleviated some of the strain but this has been offset by banks' tightening credit conditions and general preference to reduce exposure to the shipping industry (with some exceptions). We believe the "flight to quality" demonstrated by banks in 2010 will continue in 2011. The majority of ship finance banks will focus on lending to core customers with perceived strong financial and business profiles. Smaller shipping companies, and especially those smaller companies whose vessels trade predominantly on the spot market, will again find it challenging to attract more finance.

The selective financing strategy of banks may impact the infrastructure of the shipping industry as such. Mergers between smaller players may become more necessary to attract potential lenders (critical mass will be the key) and many shipowners will seek industry-based charters to find lenders. Regional disparities in pricing and banking appetite will again be an issue, and especially Chinese and Far East ship owners will find it easier to raise finance as liquidity is more abundant in these regions. Overall, the syndication market will still not return to 2006 and 2007 levels, although we expect underwritings to take place sporadically, particularly for industrial projects with good off-taker risk. Macroeconomic issues and the performance of the shipping industry will affect lending levels in 2011.

For the aviation market in 2011, there are no substantial signs indicating that more new banks will enter the aviation commercial debt market than in 2010. However, there seem to be some pockets of liquidity – albeit more expensive – coming from alternative investors and funds able to provide funding in the form of equity, mezzanine facilities and debt on a selective basis. In addition, airlines will continue to use multiple sources of funding where appropriate – and the leasing companies will do so from a risk diversification point of view. However, some banks which were previously active in the aviation sector, but which have been on hold during the last 12 to 18 months, have indicated a reopening of their aviation lending business. The potential for a dynamic year exists in the fields of funding new deliveries, supporting the ambitious growth plans of new leasing companies, or refinancing a number of existing transactions. At the same time, those deals will still be spread amongst a small number of active lenders. The number of lenders able to finance older assets will also remain small, and a significant gap will occur in this market because most active lenders will continue to focus on financing the new equipment needs of top-tier companies. As seen in 2010, it is likely that there will be reduced liquidity costs and further softening of pricing and terms, due to increased competition between the few lenders in the market who book deals and between the leasing companies themselves. DVB expects an active year in 2011, with a similar level of competition from the commercial debt/bank markets than in 2010 – but with liquidity still being actively sourced and obtained from other types of financing such as the ECAs, export-import banks or the capital markets. In Asia, we expect the trend of the last few years to continue, i. e. liquidity and competition further impacting the pricing for the better credits. We expect to see further pressures on pricing in Europe/Middle East/Africa and the North American region and activity in these regions for those banks with liquidity should remain high – especially with regard to financings for the new aviation leasing companies, who will continue to enlarge their aircraft portfolios. The transition and rebalance in the Middle East looks set to continue, whereby we should see the region opening up a little compared to 2009 and 2010. However, the focus of the Middle Eastern banks will remain primarily regional rather than international.

With the bank debt market opening up again, DVB expects better liquidity and increased deal opportunities for rail transactions. A few more banks will join international transactions, and some will focus only on domestic operators and transactions. Another factor is that certain financial institutions have shown interest in increasing their activities in the rail sector as a means of diversifying lending books presently dominated by aviation and/or shipping finance.

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 vessels, aircraft, 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 investment in a diverse range of forms. Likewise, the 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 remains thus unchanged: we are able and willing to assume risks – provided that they are adequately priced.

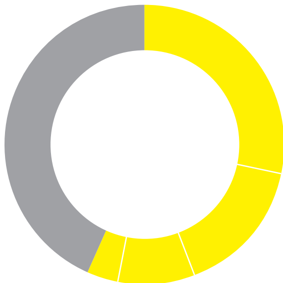
DVB's asset and market expertise gained through extensive research and the resultant business intelligence gives us a competitive edge. We are thus an ideal partner for clients requiring equity capital and investors seeking suitable investment projects in the relevant transport sectors. Accordingly, 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 €722.8 million as at 31 December 2010, with SIIM accounting for €410.6 million (56.8%) and AIM for €312.2 million (43.2%).

Breakdown of the investment volume by fund



SIIM 56.8%

thereof:

28.5% NFC Shipping Funds

15.9% Container Funds

8.9% Cruise/Ferry Funds

3.5% Stephenson Capital

AIM 43.2%

Shipping & Intermodal Investment Management

Since 2009 Shipping & Intermodal Investment Management 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 shipping, intermodal, rail and cruise 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 of three 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. The rail investment management activity has been active since 2007 with the establishment of Stephenson Capital Funds. It invests in operating lessor companies, which manage the assets on behalf of the fund.

SIIM – Market review

Although we have seen a certain rebound in shipping during 2010, varying in degree across the various subsectors of the shipping industry, we are still in a low phase of the market cycle, characterised by historically and intrinsically low asset values, alongside depressed trading revenues in the marketplace. This is combined with a persistingly difficult banking market, where access to third-party leverage remains a hurdle, although we have seen signs of a gradual loosening of the extremely tight debt market which has prevailed since the end of 2008. Nevertheless, despite weak market conditions, owners have continued to order new tonnage due to attractive prices. This will dampen and delay market recovery in the affected sectors.

In the cruise sector, since the onset of the recession many lines have implemented cost saving measures; however, this was masked by the rising fuel costs. The major cruise operators are reporting positive statistics for 2010 and beyond, citing improved revenue yields for the first time since 2008 and strong booking volumes for the second half of the year. Many are reporting that the booking window continues to expand, and for some has reached 2008 levels.

However, for the luxury and expedition operators especially, pricing pressure and discounting is expected to continue. The ever-increasing security requirements for air travel, and increased road congestion in Europe, have also helped the roll-on/roll-off passenger (ro-pax) market. With demand expected to increase and with modest supply growth, the ro-pax market is projected to begin to grow in 2011.

Container trade recovered strongly in 2010, resulting in rapid demand growth of containers. This demand growth, in combination with constraints on the supply side caused by the manufacturers' virtual cessation of production in 2009 and their inability to increase container production to levels sufficient to meet demand, led to a shortage of containers. Prices of new-built containers increased from US$1,900 ex-works for a 20 foot standard dry container in December 2009 to a peak of US$2,800 ex-works in December 2010. Manufacturers produced an estimated 2.4 million TEU of containers in 2010, compared to three million TEU on average in pre-crisis years. The total container fleet did not materially increase in 2010, as most of the production was used for replacement of ageing units. Due to the strong demand for containers, container leasing companies reported record fleet utilisation, and – for the first time in many years – the cash-on-cash earned by container leasing companies (the cash earnings of a leased container expressed as a percentage of the acquisition cost) increased.

The rail markets in Europe and North America are slowly recovering from 2009. Overall, leasing companies and rail operators are still very cautious about new orders, and this is highlighted by the largest railcar manufacturer in Europe going into bankruptcy protection. In Europe, smaller operators and leasing companies continue to face tough competition from State railways offering their excess capacity of locomotives and railcars at below cost rates. Combined with the facts that newbuilding prices have only dropped modestly, and that there have been no real distressed portfolio sales, the market in 2010 did not present attractive investment opportunities.

SIIM – Strategy

The SIIM management activities combine to offer an excellent and proven track record, an experienced management team and a wealth of market knowledge. This is further leveraged by DVB's in-house market and asset research capabilities, and deep knowledge of the respective assets.

All the SIIM funds provide equity, equity bridge loans, preferred equity, mezzanine loan and 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 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 considering opportunities for asset appreciation. Furthermore, since 2010 we have started setting up investment portfolios with joint venture partners taking commercial and operational risks.

Generally, the primary focus for the intermodal funds is the ownership of intermodal assets through direct equity investments. Equipment types invested in include dry vans, reefer and tank containers, special and regional equipment, ranging in age from "factory new" to the "end of economic life" age. Over the past years, containers have demonstrated that they are a reliable and resilient asset type, able to withstand the crisis better than other asset types.

The cruise fund is fully invested. Currently, the focus is on managing the existing investments, together with seeking and arranging the appropriate exits for such investments.

The rail fund focuses on the freight markets both in Europe and the US, looking typically to co-invest in alignment with an experienced asset manager responsible for the delivery and inspection processes, placement of the equipment with suitable lessees, and either overseeing or undertaking the ongoing maintenance requirements. Working closely with Land Transport Research, the fund's management seeks to identify assets within the freight wagon and locomotive segments: both enjoy wide demand from lessees, low risk of obsolescence, and are expected to combine high performance reliability with acceptable maintenance costs.

SIIM – Products and portfolio analysis

During 2010, SIIM has managed its shipping portfolio through challenging market circumstances by way of several successful divestments, (re-)employment of vessels, and stringent control of performance under its portfolio of transactions. At the end of the year the shipping portfolio totalled €206.0 million, which was mainly invested in offshore vessels (29.8%), chemical and product tankers (20.8%) and bulkers (19.2%).

❶ SIIM – Shipping portfolio by asset type

Offshore vessels 29.8%
Tankers 20.8%
Bulkers 19.2%
Container ships 13.2%
Tweendeckers 3.7%
Other investments 13.3%

Also on the intermodal side, in 2010 the focus was to closely monitor and manage its existing investments and to invest in opportunity-driven and counter-cyclical investments. An example was provided by the sale of the securitised container notes which were bought at attractive discounts, the setting up of a new container boxes finance lease fund, and the acquisition of a 48,900 TEU operation container box fleet.

As at year-end, €114.8 million was invested in intermodal funds, €11.4 million (9.9%) by external investors. Intermodal funds mainly 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 a 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 newbuilt ferry under long-term bareboat charter to a European operator servicing a long-term government contract. As of 31 December 2010, the fund had €64.5 million invested.

The rail fund committed to three investments prior to being integrated into SIIM. One investment has been prepaid by the operator. The second investment was a joint venture – with a locomotive manufacturer and manager – that was intended to acquire diesel locomotives and lease them into the European market. However, due to the weak market, it was decided to terminate this joint venture. The rail fund has expanded its joint venture with a European railcar leasing company during 2010: the joint venture currently owns several hundred railcars.

SIIM – Market and portfolio outlook 2011/2012

For 2011, SIIM will continue to maintain the strong focus and discipline necessary to closely monitor and manage the existing portfolio, as the team has already done since the 2008 crisis struck. SIIM will also focus on continuing the fund raising activities already started in 2010. The set-up of dedicated platforms to specific sectors is a cornerstone of these activities, which is why they are entered into via joint ventures with leading shipping players who can bring operational management expertise and a further insight in the market. The niche sectors selected for the creation of such joint ventures are the product tankers, the feeder container vessels, the small Liquefied Petroleum Gas carriers, container boxes, and traditional sale-and-leaseback transactions.

For 2011, the picture for shipping is nuanced from sector to sector. Generally, recovery is expected first in the smaller vessels within each sector and there is "abundant" equity in the market looking to be invested. We are seeing a gradual convergence between owners' and investors' perception of the respective capital price. Strong owners, and operators able to trade their fleets profitably, are seeking to partner with external equity in order to seize opportunities to grow/modernise their fleets at currently attractive prices.

On the intermodal side, SIIM also expects a shortage of containers in the market for 2011 and we see opportunities in container sale-and-leaseback with liner companies for finance leases and for operating leases. In the case of operating sale-and-leaseback transactions, SIIM would seek co-operation with container leasing companies in order to manage the releasing and disposal of containers.

For 2011, we expect our investment in the European railcar joint venture to grow further in the second half of the year, when new orders are placed. We anticipate that the European market is becoming more attractive for railcar owners due to the combination of a gradually improving market, very low new railcar production levels, and an ageing fleet that (increasingly) needs replacement.

Aviation Investment Management

Established in 2001, DVB's Aviation Investment Management acts primarily 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 DVB and private investors together invest in aviation equity investments. 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 review

In contrast to the volatility and challenging conditions in 2009, 2010 proved a considerably more optimistic year. Passenger and freight traffic grew strongly in the first half of the year, softening somewhat in the second half, but still demonstrating a reconnection with historic trend lines. Airline operating cash flows reflected this renewed optimism; airlines in Asia-Pacific, the Middle East and the Americas recorded particularly sharp rises, with Europe lagging but still showing positive gains. Industry-wide it is indisputable that we have seen a strong upswing from the lows of 2009, but 2010 ended with some notes of caution. Whilst passenger and cargo load factors remain strong, yields have remained stable, aircraft utilisation rates have much improved, and new capacity has so far been tracking passenger growth, there is some concern that we are beginning to see some peaking in the various data typically used to analyse industry performance. The boost from the inventory cycle and inventory "re-stocking" has ended: business confidence, positive for much of 2010, has softened – and while consumer confidence in Asia-Pacific in particular remains strong, it remains relatively weak in North America and Europe. Fiscal tightening in the US is capping further growth. As the year progressed, the financial markets showed much greater enthusiasm for the sector and this has been reflected in the capital and bank markets where availability of liquidity – and the terms and conditions of such liquidity – have improved markedly for the borrower.

In the aircraft operating leasing market, the year has been marked by a huge increase in demand from newly established aircraft leasing companies, supported in large part by funding from institutional private equity, some of which is new to the sector, but collectively reflecting a desire to participate in this next aviation upswing. This has so far manifested itself in greater competition for the lease financing of newer aircraft: good news for the borrower (i.e the airlines), but creating some upward pressure on aircraft prices and downward pressure on lease rates, lowering the risk-reward ratio, and (in the opinion of AIM) presenting new investment scenarios that cannot be justified given the return criteria of the Deucalion funds. Certainly, the new level of competition provided significant challenges for allocation of Deucalion funds during the first half of 2010.

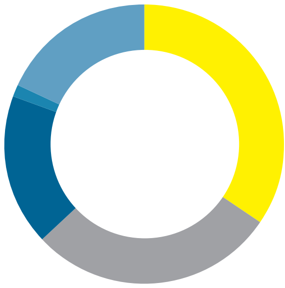
AIM – Strategy

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. The funds are generally opportunity-driven, not volume-driven, with a focus on a short- to medium-term trading strategy to optimise 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. The funds also invest in aero engines, airline equities, passenger-to-cargo conversions, secured aircraft bonds and mezzanine loan investments. Compared to 2009, fund activity, particularly in the second half of 2010 was very robust. During the year the funds acquired or entered into binding Letters of Intent (LOI) to acquire 22 commercial jet aircraft and three commercial aero engines for a total transaction value of about US$1.3 billion. The aircraft types acquired were B747-400, B777F, A330-300, A330-200, A321 and A320, all manufactured between 1995 and 2010. The funds also sold or entered into binding LOIs to sell 15 commercial jet aircraft and one commercial aero engine, 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 converting to full freighters for placement on long-term lease contracts, and six B747 passenger aircraft acquired for disassembly. In this latter transaction, the funds entered into a contract to sell all (six) airframes and consigned the 24 attached CF6-80 engines to TES, DVB's majority-owned engine management company, for the purposes of disassembly, repair and sale of serviceable engine parts.

1 AIM portfolio by aircraft type



- Passenger narrowbody 34.5%
- Freighter widebody 28.7%
- Passenger widebody 17.4%
- Engines on lease 1.4%
- Other 18.0%

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 2010 at 2.53 Malaysian ringgit (€0.62).

In 2010, thanks in large part to DVB's specialist positioning in aviation and its own strong fund management track record, AIM was successful in raising significant new equity funds from sophisticated institutional investors located in Europe, North America and Asia. These new investors are seeking returns commensurate with the returns achieved by the funds since 2001, premised on the opportunistic acquisition and trading of assets through the aircraft's economic cycle. During the year, AIM also advised a fund in the creation of a new joint venture company with Marubeni Corporation. This new company, MDAC, incorporated in Singapore, has been established for the purposes of acquiring commercial jet aircraft subject to leases with airlines worldwide. The joint venture company completed the acquisition of three commercial jet aircraft in December 2010, and has committed to the acquisition of an additional four aircraft in the first quarter of 2011.

As at year-end 2010, the equity funded across all Deucalion funds totalled €312.2 million. The return on equity on all realised investments in 2010 has remained excellent, and all new asset investments in 2010 have been structured in the expectation of achieving returns significantly above the target of 15%. At year-end 2010, 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 Boeing aircraft (46.0%), Airbus aircraft (35.9%) and other investments (18.1%). The greatest share of the funds' aircraft portfolio is made up of passenger narrowbodies (34.5%), freighter widebodies (28.7%) and passenger widebodies (17.4%). 1

AIM – Market and portfolio outlook 2011/2012

In the second half of 2010 there was a markedly higher volume of attractive investment opportunities meeting the funds' criteria, and this is expected to continue well into 2011. The Deucalion funds are well positioned to take advantage of the investment opportunities emerging through this current upswing and in the expectation of a further improvement in asset prices and lease conditions, as the world economy strengthens and recovers from the severity of the 2008/2009 financial crisis. 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 expertise and research capability 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. The Deucalion funds will benefit from the renewed interest of banks providing senior debt leverage to the funds, albeit with the proviso that while the depth of liquidity has improved, the number of banks with an interest in this market is still relatively small. AIM expects to see a strong increase in Deucalion's volume of funds under management during 2011/2012, principally through increased ownership of aircraft and aero engines, but also through opportunistic investment right across the aviation sector. Asset price inflation, so much a feature in the period 2004 through 2008, disappeared in 2009 and while we have seen some upward pressure in 2010 for newer assets, investors in aviation assets are today presented with a more compelling balance between risk and reward than has been seen for some years. Although investors' appetite (and therefore competition for the funds) will further increase in 2011, 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 sub-participations in syndicated transport finance deals. The subsidiary once again posted a profit for the business year ending 31 December 2010.

ITF Suisse – Market analysis

Established in May 2007, the Zurich-based wholly-owned subsidiary of DVB Bank SE commenced business operations in August 2007. 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, anticipating a normalisation of refinancing costs in relation to the credit margins paid. As it turned out, no signs of recovery emerged during 2009: it was not until during 2010 that signs of stability began to return to the markets. Deliveries of new-built ships started to rise again; at the same time, the shipping markets were characterised by refinancings of existing exposures, and by sales of individual vessels or partial/entire fleets. Established market players with strong credit quality seized this opportunity to acquire capacity from companies suffering from the crisis, at low price levels. In this market environment, freight rates – as well as vessel values – were at least able to stabilise at the previous year's level, or slightly recover.

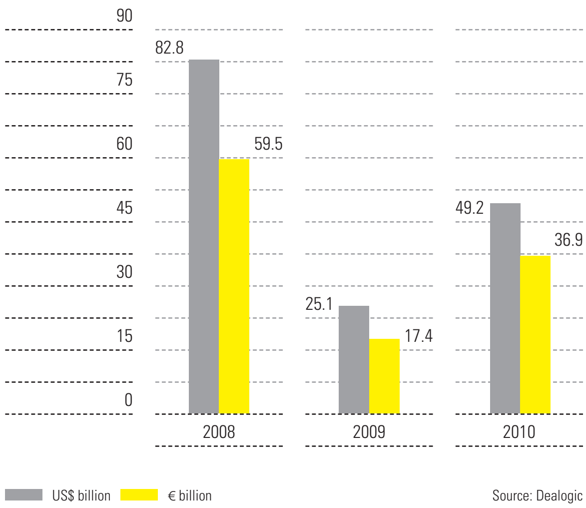
Borrowers with strong credit quality were however less prepared to accept interest margins on new business that reflected the higher refinancing costs borne by financial institutions. Accordingly, lending margins declined slightly during the course of 2010.

The aggregate volume of transport finance exposures offered for syndication fell by 70.4% between 2007 and the end of 2009, to €17.4 billion. During 2010, the market stabilised at €36.9 billion. This development was also reflected in the volume of new business acquired by ITF Suisse: the subsidiary transacted more business than the year before, whilst always adhering to its conservative lending policies. ❶

ITF Suisse – Strategy

ITF Suisse's strategy is to facilitate international transport finance transactions by participating 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

❶ **Syndicated transport finance volumes**



Source: Dealogic

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.

This is made possible by having an experienced team, and being integrated 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 sub-participations in transport finance deals (in the maritime shipping, aviation and land transport segments) syndicated in the international interbank market. Hence, the company's clients consist 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.

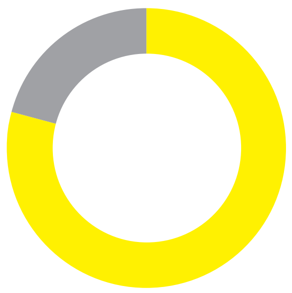
ITF Suisse – Portfolio analysis

Thanks to the very conservative loan-to-value ratios of the transactions entered into by ITF Suisse, the portfolio exposure is covered by the value of the financed assets to a very large extent. The company monitors developments on an ongoing basis, and also subjected new business originated during 2010 to critical risk analyses. The risk profile of these transactions met ITF Suisse's demanding internal lending policies, and the interest terms agreed upon covered the higher funding costs.

Over the course of the 2010 financial year, ITF Suisse was presented with 26 financing opportunities having a total volume of €0.57 billion. After being evaluated, eight of these transactions (with an aggregate volume of €187.9 million) were realised by the end of the year. An additional €24.2 million exposure was approved by ITF Suisse's executive bodies in 2010, but it was not possible to sign and disburse the transaction before the year-end. Even though the build-up of the portfolio still fell short of original projections, earnings developed favourably, thanks to continuously high margins.

The aggregate volume of disbursed financings amounted to €622.7 million as at 31 December 2010. In addition, ITF Suisse made irrevocable loan commitments amounting to €67.3 million and had outstanding guarantee obligations of €14.6 million. The business volume comprises 79.4% (€559.3 million) of exposures collateralised by ship mortgages, and 20.6% (€145.3 million) of financings collateralised by aircraft. ❶

❶ Aggregate financing volume by transport sector



Shipping finance 79.4%

Aviation finance 20.6%

The entire portfolio is collateralised by first-ranking liens on the financed assets. LTV ratios developed as follows in 2010:

Changes in LTV ratios

%	2010	2009	pp
LTV ≤ 60%	78.2	74.6	3.6
LTV > 60 ≤ 80%	12.9	16.4	–3.5
LTV > 80 ≤ 100%	5.7	6.7	–1.0
LTV > 100%	3.2	2.3	0.9
Total	**100.0**	**100.0**	–

All aircraft financings in ITF Suisse's portfolio have been performing in accordance with contractual agreements since their approval. The average loan-to-value ratio for this portion of the portfolio stood at 78.6% at the year-end 2010.

Three exposures to the maritime shipping sector, having an aggregate volume of €86.0 million, were included on the Watch List as at 31 December 2010. Viable restructuring concepts were conceived for each of these transactions, in co-operation with the banks which lead-managed the respective deals. The exposures were restructured through a so-called "pay-as-you-earn" approach, where the repayment schedule is brought in line with forecasted charter rates. Any repayment deficits expected to occur until a full market recovery will be compensated by special redemption payments during the overall loan term. For all exposures, full loan repayment is ensured within the vessels' usual economic lifetime.

ITF Suisse – Market and portfolio outlook 2011/2012

The ITF Suisse subsidiary has established itself in the market as a syndication partner for banks, for the financing of transport assets. Having stabilised at a low level during 2010, the syndication market is expected to continue its recovery in 2011. Once again, numerous deliveries of maritime vessels and aircraft are scheduled for the forecast period, leading ITF Suisse to foresee increasing business demand in these segments. The subsidiary will continue to subject any business opportunities to a strict risk analysis. The company is looking to grow its portfolio during 2011, whereby shipping finance will continue to dominate, with more than half of expected new business. New aviation finance business is also expected to grow. In contrast, only occasional business opportunities are anticipated in the land transport finance market, due to the fact that the margins achievable in this segment usually do not cover the higher refinancing costs. Whilst margins are expected to continue their slight decline during 2011 and 2012, particularly for stronger credits, they will remain significantly above the levels seen during 2007/2008.

Following the challenging environment of previous years, the interbank market is expected to trend sideways during 2011, with some sectors of the international shipping market gradually returning to normal. ITF Suisse believes that a sustained recovery in the relevant markets will only occur in the years 2012 and 2013, at which point a marked increase in its own new business volume is expected. ITF Suisse will thus be in a position to stabilise its achievements during the years ahead, through moderate growth combined with the safeguarding of its existing portfolio. Continuous, timely risk monitoring is essential for this purpose, with regular contact and exchange with syndication lead managers being indispensable in this context.

DVB achieved record consolidated net income before taxes of €131.1 million in 2010. This figure not only exceeded last year's result by 51.4%, but was also 10.4% higher than the previous record, posted in the 2007 business year and thus before the global economic crisis.

This result is remarkable in that it was achieved during a phase when, from our point of view, the global economic crisis was only two-thirds over. Also, the recovery in the transport markets was slow to materialise, and varied greatly from region to region. DVB's strategic focus on international transport finance proved its mettle throughout 2010 – in a business environment that continued to be challenging.

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

- Consolidated net income before taxes for 2010 climbed by 51.4% over the previous year, to €131.1 million (2009: €86.6 million). DVB's income rose by 26.4% in 2010, from €243.1 million to €307.3 million.

- At €21.2 billion, the volume of business was up 11.0% year-on-year (2009: €19.1 billion). It comprises total assets of €19.3 billion (2009: €17.3 billion) and irrevocable loan commitments of €1.9 billion (2009: 1.8 billion).

- DVB succeeded in increasing the volume of structured and large-volume new business in Shipping Finance, Aviation Finance and Land Transport Finance, even though the Bank continued to originate new exposures on a selective basis: 140 new transactions representing a volume of €4.5 billion (2009: 113 new deals with a volume of €2.8 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 327 basis points on new Transport Finance business (2009: 354 basis points).

- Considering the total volume of DVB's new business, including Investment Management and ITF Suisse, 166 new transactions representing a volume of €4.9 billion were concluded (2009: 131 new deals with a volume of €3.0 billion), achieving an average margin of 316 basis points (2009: 343 basis points).

- Attractive new business drove up net interest income after allowance for credit losses by 15.5%, to €141.0 million (2009: €122.1 million). Interest income was up by 12.0%, to €805.4 million. The net figure was also positively influenced by the fact that, contrary to 2009, the prevailing money market distortions no longer resulted in higher interest expense during 2010. In fact, the figure was reduced to €0.2 million (2009: €20.8 million).

- Allowance for credit losses amounted to €52.0 million during the period under review (2009: €72.2 million). Individual impairments remained at the previous year's level (2010: €86.0 million; 2009: €86.8 million), whilst there was no recurrence of portfolio impairments to the extent seen in 2009 (2010: €1.3 million; 2009: €23.4 million).

- Consolidated net fee and commission income, which primarily includes fees and commissions from lending business, and – to an increasing extent – asset management and advisory fees, rose to €124.4 million, up 27.2% year-on-year (2009: €97.8 million). Attractive new Transport Finance business was also the main contributor here.

- Net income from financial instruments in accordance with IAS 39 also increased considerably from €17.9 million to €30.2 million (up 68.7%), reflecting the volatility in the interest rate and currency markets during 2010. The figure included a non-recurring effect, as extraordinary expenses were incurred in 2008 and 2009 as a result of write-downs on a €50.0 million bond issued by an Icelandic bank that DVB had originally held as a liquidity reserve for payments at the ECB. The carrying amount of the bond was written down to €6.9 million by the end of 2009. In 2010 a write-up of €6.1 million was recognised on this bond, which increased its carrying amount to €13.0 million or 26.0% of the original value.

- Due to the challenging market conditions, the earnings contribution of the Investment Management business division showed a marked 58.0% decline during the period under review, from €36.9 million to €15.5 million. The business division's net interest income dropped from €66.1 million to €17.4 million. The share of Investment Management in consolidated net interest income therefore declined to only 9.0% (previous year: 34.0%). Net fee and commission income generated by the business division decreased to €2.5 million, down 54.5% (previous year: €5.5 million).

- The key strategic indicators that the DVB Group uses to manage its business reflected the successful business performance: return on equity before taxes was 13.9% (previous year: 9.4%), and the cost/income ratio stood at 49.0% (previous year: 49.6%).

Key elements of business performance in 2010

The following key elements characterised DVB's business during the financial year:

- Taking a long-term view, global transport remains a growth market, albeit one that is exposed to global economic cycles. The downtrend on many transport markets persisted during 2010, reflecting the impact of the financial markets crisis.

- During 2010, DVB maintained its policy of exclusively extending loans that are collateralised by the financed transport assets, such as ships, aircraft, rolling stock and road vehicles. DVB's in-house research capabilities were once again crucially important for assessing and valuing such assets.

- Despite these difficulties, DVB's share price performance during 2010 was once again resilient, and relatively stable compared to its peers. Over the course of 2010, the volatility of DVB shares was moderate on subdued trading. The highest price for the year of €27.50 was touched on 13 January 2010. The lowest price of €24.50 was recorded on 30 September, and on 23 and 24 November 2010. The year-end share price was €25.00, as it was in the previous year. Accordingly, the Bank's market capitalisation amounted to €1.2 billion.

- DVB BANK SE has rated A/A-1/negative (Standard & Poor's) and A1/P-1/D+ negative (Moody's Investors Service) since 2009. These ratings remained unchanged in 2010.

Business framework in 2010

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 "Macroeconomic overview" (page 41) and in the market analyses of Shipping Finance (page 42–45), Aviation Finance (page 58–62), Land Transport Finance (page 74–78), Financial Institutions (page 90), Investment Management (page 97–98 and 100) and ITF Suisse (page 102). Reference is made in full to these observations. At this point, we will therefore limit ourselves to a summary analysis of developments on the transport markets, particularly in the three key maritime shipping segments, of crude oil prices, and of the euro's performance vis-à-vis the US dollar.

Regional differences in transport markets

The global economic crisis brought about a sharp downturn in business activities that persisted until mid-2009. At that time, the economy then began to turn around, although recovery was not evenly spread. Whilst some regions such as Asia returned to real growth, other regions saw more modest economic expansion, or still stagnated.

This picture was reflected by a differentiated development on transport markets. Numerous companies posted higher profits. IATA, the association of international airlines, raised profit forecasts three times in 2010, most recently in December. There were even container ship owners that announced profits for 2010, despite the fact that some had still been severely weakened by the crisis during 2009. The reason for this was the renewed growth in demand for shipping capacity, and the fact that many transport companies successfully negotiated lower-priced leasing and charter terms during the crisis.

Developments in the key shipping markets

In terms of transport volumes and services, container, bulk and crude oil shipping are particularly important for world trade. Supply of capacities in these shipping segments continued to expand in 2010, even though there were a number of newbuild order cancellations and postponements.

- The performance of the Baltic Exchange Dry Index – the freight rate index for the transportation of dry bulk goods – mirrored this critical trend: having closed 2009 at 3,061 points, during 2010 it only topped the 4,000 point level once, for a brief period of time. The index reached its low of 1,752 points in mid-July. On 24 December 2010 it was at 2,094 points.

- Economic growth in developing countries resulted in an increase in demand for crude oil, which occurred in combination with a strong expansion of capacity. This increase was the result, on the one hand, of new tonnage being delivered and, on the other, of tankers returning since mid-2010 that had been used as floating crude oil storage tanks in 2009. The result – excess supply – was the cause of continuing weakness in freight and charter rates during the course of the year.

- The effect of the crisis on container vessels was also visible in lower charter rates. The container carrier time charter index (maintained by Clarksons since 1993) was in decline from September 2008 onwards, and was at its low of 32 points between November 2009 and January 2010. The index then turned upwards, and reached a level of 57 points by the end of 2010.

Given the importance of these three market segments for world transportation volumes, the fact that container, bulk and crude oil carriers represented an aggregate 39.6% of DVB's broadly-diversified portfolio made the exposure balanced and manageable. Vessel values in these three segments have since largely recovered from their lows, even though they are still well below pre-crisis levels.

Rising fuel costs

Fuel costs, which are a major cost factor for transport companies, initially remained more or less within their year-end 2009 levels – and started rising again from mid-2010. Spot Brent crude oil was trading at US$77.91 per barrel at the end of 2009. During most of 2010, prices ranged between US$75 and US$85 per barrel. The low of US$67.61 per barrel was touched in May 2010, but prices then increased again, breaching the US$90 mark, and rising to US$93.23 by year-end.

Effects of the US dollar/euro exchange rate on the consolidated financial statements

Due to DVB's operations in international transport finance, the development of the euro/US dollar exchange rate always has a particular impact on its consolidated financial statements. Exchange rate development in 2010 was inconsistent.

The common European currency was particularly hard hit by the turbulence caused by certain troubled euro zone economies during the first six months of the year, resulting in a significant depreciation of the euro against the US dollar. There were fears that the sovereign debt crisis would exacerbate the situation in the European financial sector – still weakened by the crisis in the financial markets – thus severely impairing the functioning and stability of the euro financial system. At the beginning of June, the euro had fallen to US$1.19, its lowest level in four years. Following agreement on a bailout for the financially troubled euro zone countries, concerns abated somewhat, and the euro recovered as the year progressed. The strong momentum of the German economy and the emerging difficulties of the US economy supported this trend. By the beginning of November, the euro had gained 23 US cents off its lows, to reach a level of US$1.42. However, the escalating Irish financial crisis – with dramatic news of the country's government deficit, and the troubles facing the Irish banking sector – caused a fresh drop in November. The euro only recovered after Ireland accepted a bailout package provided by the EU and the IMF at the end of November 2010. By year-end the euro was hovering above US$1.30 and closed the year at US$1.34. Year-on-year, the euro had therefore fallen by roughly ten US cents against the dollar (2009: US$1.44).

Due to the currency fluctuations described above, nominal customer lending volume showed greater increases on a euro basis (+11.0% to €19.2 billion) than in dollar terms (+2.8% to US$25.6 billion). 86.6% of the overall volume of customer lending was denominated in US dollar, representing 87.9% of the lending volume in Shipping Finance and 97.0% 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 39.2% 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 changes in the exchange rate. 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 for a plan year: accordingly, these revenues remain largely unaffected by fluctuations in the exchange rate during the course of the year.

Financial performance

Income

DVB's income rose by 26.4% in 2010, from €243.1 million to €307.3 million. ❶

Net interest income after allowance for credit losses

Net interest income after allowance for credit losses rose by 15.5%, from €122.1 million to €141.0 million.

Net interest income however declined slightly, from €194.3 million to €193.0 million (down 0.7%). This figure included higher net interest income generated in the three Transport Finance segments, which increased by 26.4%, from €152.5 million to €192.8 million. Net interest income in Shipping Finance was up by 33.3% to €107.8 million, whilst in Aviation Finance it rose by 22.3%, to €71.2 million. The increase in Land Transport Finance was 3.0%, up to €13.8 million. Net interest income generated by Investment Management on the other hand, was down significantly, from €66.1 million to €17.4 million. The share of Investment Management in consolidated net interest income therefore amounted to 9.0% (2009: 34.0%).

Interest income, which rose by 12.0%, from €719.4 million to €805.4 million, was generated largely as follows:

- €607.0 million (+9.5%): interest income mainly resulting from the Structured Asset Financing product in Transport Finance;
- €36.4 million (–6.9%): interest income from finance leases;
- €159.2 million (+36.1%): current income from operating leases, derived largely from the funds managed by Investment Management (which must be consolidated);
- €0.4 million (–80.0%): current income from equity investments and joint ventures.

❶ **Financial performance (€ mn)**

	2010	2009	%
Income	**307.3**	**243.1**	**26.4**
Net interest income after allowance for credit losses	**141.0**	**122.1**	**15.5**
Net interest income	193.0	194.3	–0.7
Interest and similar income	805.4	719.4	12.0
thereof: interest income	645.8	600.4	7.6
thereof: current income	159.6	119.0	34.1
Interest expenses	–612.4	–525.1	16.6
Allowance for credit losses	–52.0	–72.2	–28.0
Net fee and commission income	**124.4**	**97.8**	**27.2**
Fee and commission income	133.3	103.3	29.0
Fee and commission expenses	–8.9	–5.5	61.8
Net income from financial instruments in accordance with IAS 39	**30.2**	**17.9**	**68.7**
Net trading income	0.3	15.9	–98.1
Hedge result	3.5	3.5	0.0
Result from the application of the fair value option	–0.8	–1.0	–20.0
Result from derivatives entered into without intention to trade	16.5	7.9	–
Net income from investment securities	10.7	–8.4	–
Results from investments in companies accounted for using the equity method	**5.8**	**–2.0**	**–**
Net other operating income/expenses	**5.9**	**7.3**	**–19.2**

Interest margins on new business originated by DVB developed as follows:

Basis points	2010	2009	2008	2007	2006
Shipping Finance	331	333	180	137	135
Aviation Finance	338	375	214	159	191
Land Transport Finance	218	363	179	114	137
ITF Suisse	292	244	115	90	–

Interest expenses of €612.4 million (+16.6%) are composed of €488.9 million (2009: €445.7 million) in refinancing costs for the Transport Finance lending business, €101.0 million (2009: €52.7 million) for operating-lease expenditure, and €22.5 million (2009: €26.7 million) for expenses for silent partnership contributions and subordinated capital.

Allowance for credit losses significantly decreased from €72.2 million to €52.0 million.

€ mn	2010	2009	%
Additions	–97.3	–116.5	–16.5
Reversals	54.9	58.3	–5.8
Direct write-offs	–10.9	–15.8	–31.0
Recoveries on loans and advances previously written off	1.3	1.8	–27.8
Total allowance for credit losses	**–52.0**	**–72.2**	**–28.0**

Allowance for credit losses comprised individual impairments, portfolio impairments and provisions. Individual impairments remained at the previous year's level (2010: €86.0 million; 2009: €86.8 million), whilst there was no recurrence of portfolio impairments to the extent seen in 2009 (2010: €1.3 million; 2009: €23.4 million). The following table shows the development, broken down by business division: ❶

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

	Addition	Reversal	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 individual impairments	**–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 impairments	**–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 for 2010	**–97.3**	**54.9**	**–10.9**	**1.3**	**–52.0**
Total for 2009	**–116.5**	**58.3**	**–15.8**	**1.8**	**–72.2**

Total allowance for credit losses (comprising individual impairments, portfolio impairments, and provisions) rose by 14.7%, from €159.5 million to €182.9 million, comprising mainly the following items:

€103.8 million	for the Shipping Finance portfolio;
€41.1 million	for the Aviation Finance portfolio;
€23.5 million	for business that is no longer in line with DVB's strategy (D-Marketing (to be phased out) and Transport Infrastructure);
€9.8 million	for the Investment Management portfolio;
€1.6 million	for the Land Transport Finance portfolio;
€1.1 million	for the ITF Suisse portfolio.

For details on the development of allowance for credit losses please see the report on opportunities and risks (page 136–138). It portrays the changes by business division and region.

Thanks to the high level of collateralisation of the Transport Finance activities, provided by the financed assets in the Structured Asset Financing business, and the coverage of the Transport Infrastructure exposure through concessions, no country risk provisions were required in accordance with IAS 39. Additionally, at only 0.3% in terms of net risk exposure, the share of commitments that involve a high degree of country risk relative to the overall volume of customer lending 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 – to an increasing extent – asset management and advisory fees, rose to €124.4 million, up 27.2% year-on-year (2009: €97.8 million). Attractive new Transport Finance business was also the main contributor here.

The contribution from the three Transport Finance segments rose by 32.1%, to €111.6 million (2009: €84.5 million), entirely owing to the selective new business generated in Transport Finance. Net fee and commission income performed well in Shipping Finance, rising by 48.5%, to €69.5 million. It increased by 9.7% in Aviation Finance, to €38.5 million, and in Land Transport Finance by 38.5%, to €3.6 million.

Fee and commission income totalled €133.3 million (+29.0%), of which 81.2% (or €108.3 million) was generated in the lending business. The figure was offset by fee and commission expenses of €8.9 million (+61.8%) – including, in particular, expenses incurred in the lending business (€2.8 million), and for guarantees and indemnities (€0.1 million).

Net income from financial instruments in accordance with IAS 39

Net income from financial instruments in accordance with IAS 39 climbed substantially, from €17.9 million to €30.2 million. Strong volatility in the interest rate and foreign exchange markets throughout 2010 was reflected in the following items:

- Net trading income amounted to €0.3 million (2009: €15.9 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) was unchanged at €3.5 million.
- The result from the application of the fair value option amounted to €–0.8 million (2009: €–1.0 million), and included the previous year's designated hedged items and associated derivatives.
- The result from derivatives entered into without intention to trade rose from €7.9 million to €16.5 million.
- Net income from investment securities improved from €–8.4 million to €10.7 million. Extraordinary expenses were incurred in 2008 and 2009 as a result of write-downs on a €50.0 million bond issued by an Icelandic bank that DVB had originally held as a liquidity reserve for payments at the ECB. The carrying amount of the bond was written down to €6.9 million by the end of 2009. In 2010 a write-up of €6.1 million was recognised on this bond, which increased its carrying amount to €13.0 million or 26.0% of the original value.

Results from investments in companies accounted for using the equity method

Results from investments in companies accounted for using the equity method rose from €–2.0 million to €5.8 million.

Net other operating income/expenses

Net other operating income/expenses fell by 19.2% from €7.3 million to €5.9 million. This figure included other operating income of €36.9 million, especially from the disposal of property and equipment (€5.6 million), and income in the amount of €11.1 million generated by our subsidiary TES Holdings Ltd. Miscellaneous other operating expenses amounted to €31.0 million.

Consolidated net income before taxes

Consolidated net income before taxes rose by 51.4%, from €86.6 million to €131.1 million. General administrative expenses, which are deducted from income, increased by 12.6% to €176.2 million.

€ mn	2010	2009	%
Income	**307.3**	**243.1**	**26.4**
General administrative expenses	**–176.2**	**–156.5**	**12.6**
Staff expenses	–101.5	–89.4	13.5
Non-staff expenses	–69.0	–62.7	10.0
Depreciation, amortisation, impairment and write-ups	–5.7	–4.4	29.5
Consolidated net income before taxes	**131.1**	**86.6**	**51.4**

Staff expenses

Staff expenses rose by 13.5%, from €89.4 million to €101.5 million, due to two factors:

The number of active employees increased by 12 (+2.1%) to 576 staff members in 2010. Staff levels in our core Transport Finance and Investment Management business divisions remained largely unchanged in 2010 with 365 employees, which represents an increase of 1.4% (2009: 360 employees). With 201 employees, staffing levels in the central Group functions and service units rose by 3.6% over the previous year (2009: 194 employees). This increase was not caused by changes in our business model, but rather by the dramatic increase in administrative duties resulting from the inexorable rise in regulatory requirements stipulated by lawmakers and banking supervisory authorities over the past years.

Reflecting the very good business performance, provisions were recognised for payments to staff, both for traditional bonuses and for payments under DVB's Long-Term Incentive Plan – the latter for the first time since 2008.

Non-staff expenses

At €69.0 million, non-staff expenses were up 10.0% on the previous year (2009: €62.7 million). The key factors behind this increase were:

- advisory expenses of €25.3 million (2009: €22.4 million), which break down into:
  - €13.4 million for legal and auditing fees (including €1.7 million for the audit of the financial statements and other advisory services), as well as
  - €11.9 million for other advisory services (including IT consultancy services);
- ancillary labour costs of €11.9 million (2009: €11.5 million);
- occupancy expenses of €10.8 million (2009: €10.6 million); and
- contributions and fees of €7.3 million (2009: €4.4 million), including contributions to the deposit insurance scheme.

Depreciation, amortisation, impairment and write-ups

Depreciation, amortisation, impairment and write-ups grew by 29.5%, from €4.4 million to €5.7 million. Of this, €2.7 million (previous year: €2.0 million) was attributable to intangible assets (software).

Development of consolidated net income

Consolidated net income climbed by 36.7%, from €76.1 million to €104.0 million.

€ mn	2010	2009	%
Consolidated net income before taxes	**131.1**	**86.6**	**51.4**
Income taxes	–27.1	–10.5	–
Consolidated net income	**104.0**	**76.1**	**36.7**
thereof: consolidated net income attributable to non-controlling interests	1.2	–1.5	–
thereof: consolidated net income attributable to shareholders of DVB	105.2	74.6	41.0

Consolidated net income before taxes (€131.1 million) was subject to an income tax burden of €–27.1 million, including current taxes in the amount of €–30.0 million and income related to deferred taxes of €2.9 million.

Consolidated net income thus amounted to €104.0 million. Consolidated net income attributable to non-controlling interests rose to €1.2 million (2009: €–1.5 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 41.0%, from €74.6 million to €105.2 million.

Distributable profit and appropriation of profits

Distributable profit remained stable at €27.9 million. €77.3 million (+65.5%) was transferred from current operations to retained earnings.

€ mn	2010	2009	%
Consolidated net income	**104.0**	**76.1**	**36.7**
Profit carried forward	0.0	0.0	0.0
Consolidated net income attributable to non-controlling interests	1.2	–1.5	–
Transfer to retained earnings	–77.3	–46.7	65.5
Distributable profit	**27.9**	**27.9**	**0.0**

We will propose to DVB Bank SE's Annual General Meeting, which will be held on 9 June 2011, to pay a dividend of €0.60 per notional no-par value share for the 2010 business year, to be paid from DVB Bank SE's net retained profit. This represents a dividend yield of 2.40% based on the year-end share price of €25.00.

Financial position

DVB's total assets increased by 11.6%, to €19.3 billion (2009: €17.3 billion).

Liabilities on the balance sheet

Deposits from other banks were up 1.4% to €7.2 billion. Deposits from customers were unchanged at €4.4 billion. Securitised liabilities were up by 51.4% as at the reporting date, from €3.5 billion to €5.3 billion, whilst subordinated liabilities declined by 16.7%, to €0.5 billion (previous year: €0.6 billion).

Development of own funds

Own funds as defined by the KWG totalled €1,309.0 million, an increase of 4.0% over the previous year (2009: €1,258.7 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 11.2% in 2010, to €1,105.1 million (2009: €993.6 million). Reserves increased by a total of 12.3%, from €862.6 million to €968.4 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 23.1%, to €203.9 million (previous year: €265.1 million). The eligible subordinated liabilities declined by €66.7 million, to €229.9 million, owing to maturing liabilities, or due to liabilities having reached the final two years during which they are no longer eligible for inclusion. DVB consistently complied with the capital ratio in accordance with sections 10 and 10a of the KWG (Principle I).

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

	2010	**2009**	**%**
Issued and fully paid ordinary shares	113.1	113.7	–0.5
Capital reserve plus other reserves eligible for inclusion	291.2	294.3	–1.1
Special items for general banking risks (section 340g of the HGB)	677.2	568.3	19.2
Other components of tier 1 capital	53.2	54.3	–2.0
Items deducted from tier 1 capital (section 10 (2a) sentence 2 of the KWG)	–3.6	–5.5	–34.5
Items deducted from tier 1 capital (sections 10 (6 and 6a) of the KWG)	–26.0	–31.5	–17.5
Total tier 1 capital (section 10 (2a) of the KWG)	**1,105.1**	**993.6**	**11.2**
Total tier 2 capital (section 10 (2b) of the KWG) before deductions and eligible tier 3 capital (section 10 (2c) of the KWG)	229.9	296.6	–22.5
Items deducted from tier 2 capital (sections 10 (6 and 6a) of the KWG)	–26.0	–31.5	–17.5
Tier 2 capital (section 10 (2b) of the KWG) and eligible tier 3 capital (section 10 (2c) of the KWG)	**203.9**	**265.1**	**–23.1**
Net adjusted available capital (section 10 (1d) of the KWG) plus eligible tier 3 capital (section 10 (2c) of the KWG)[1)]	**1,309.0**	**1,258.7**	**4.0**

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 team 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, for managing liquidity, 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. We successfully expanded our investor base further in 2010: to this end, we launched our debut €250.0 million ship covered bond during the fourth quarter of 2010. 90% of the issue volume was placed in Germany, and the remainder in Austria and Luxembourg. The investors in question are exclusively banks.

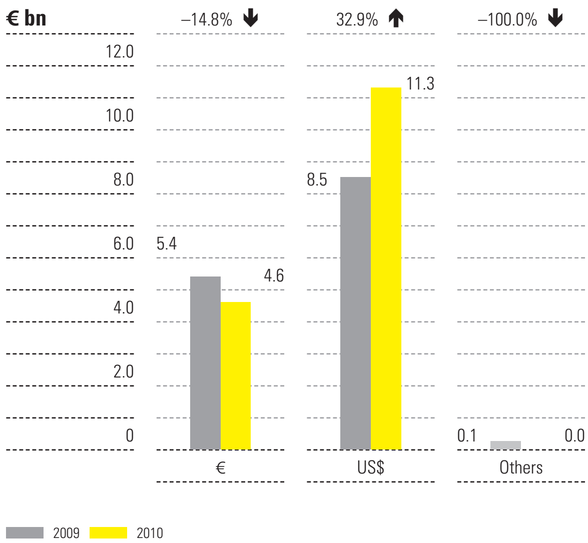
Impact of the crisis affecting international financial markets and the global economy on DVB's refinancing activities

Throughout 2010 DVB continued to consistently implement its business model, which focuses on financing, structuring, and advisory services in the international transport finance business. 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 financial markets crisis. By taking timely action during the 2009 business year and in the first quarter of 2010, we succeeded in eliminating almost entirely the so-called money market distortions that emerged as a negative side effect of the financial markets and economic crisis. In 2010 the Bank succeeded in reducing interest expenses for these distortions to €0.2 million (2009: €20.8 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 US dollar share of the overall funding volume was increased significantly once again. Aggregate funding volume in 2010 amounted to €15.9 billion (interest-bearing liabilities), of which only €4.6 billion (–14.8%) was denominated in euro, compared with €11.3 billion (+32.9%) in US dollar. Other currencies only had minor importance in 2010. ❶

❶ **Refinancing volume by currency**



Refinancing volume – maturity breakdown

Despite the ongoing increase in liquidity costs, we once again focused increasingly on long-term, albeit more expensive, refinancing vehicles during 2010. 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 91.8% long-term funds (2009: 87.1%). The liquidity profile with long-term maturities is shown in detail below:

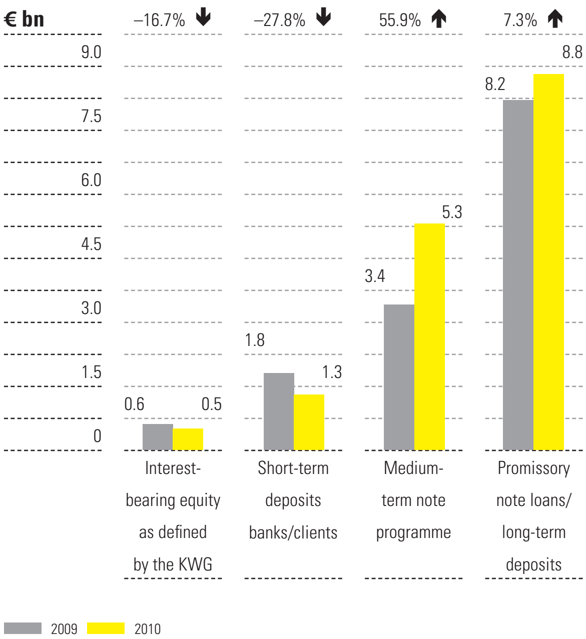
- 55.3% promissory note loans/long-term deposits (2009: 58.6%);
- 33.3% issues under our medium-term note programme (2009: 24.3%);
- 3.2% interest-bearing equity as defined by the KWG (2009: 4.2%).

Short-term funding was scaled back considerably to 8.2% (2009: 12.9%) and included short-term deposits from banks and clients. The importance of money market products such as Commercial Paper has diminished entirely.

Refinancing volume – structure of refinancing vehicles

The structural comparison of the individual refinancing vehicles portrays the following scenario: the long-term bond issues under the medium-term note programme rose by 55.9%, to €5.3 billion (2009: €3.4 billion). Long-term promissory note loans also rose, up 7.3% to €8.8 billion (2009: €8.2 billion). Short-term bank/client deposits declined on the other hand, by 27.8% to €1.3 billion. ❶

❶ Structure of refinancing vehicles



Risk-weighted assets and capital ratios according to the KWG

Basel II capital ratios

%	2010	2009	Change
Tier 1 ratio	18.9	14.2	4.7 pp
Total capital ratio	22.4	18.0	4.4 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 18.9% (+4.7 percentage points) and the total capital ratio was 22.4% (+4.4 percentage points), each calculated including the appropriation of profits.

Return on equity and cost/income ratio

During 2010 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 4.5 percentage points, from 9.4% to 13.9% in 2010. The ROE was calculated as follows: consolidated net income before taxes (excluding consolidated net income attributable to non-controlling interests) of €132.3 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 €949.8 million.

The CIR calculated in accordance with IFRS was reduced from 49.6% to 49.0%. It was calculated as follows: the general administrative expenses figure of €176.2 million was divided by €359.3 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.

Net assets

Business volume

At €21.2 billion, the volume of business in 2010 was 11.0% higher than the previous year (2009: €19.1 billion). Besides total assets of €19.3 billion, the figure also includes irrevocable loan commitments of €1.9 billion.

Lending volume over time

Lending volume of €19.7 billion was up 9.4% on the previous year.

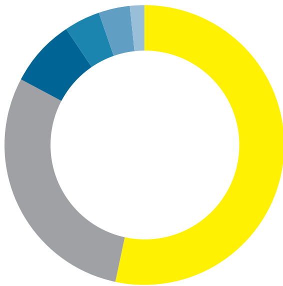
€ bn	2010	2009	%
Loans and advances to banks	0.4	0.4	0.0
Loans and advances to customers	16.4	14.7	11.6
Securities (including equity investments)	0.1	0.1	0.0
Guarantees and indemnities	0.3	0.4	–25.0
Irrevocable loan commitments	1.9	1.8	5.6
Derivatives	0.6	0.6	0.0
Lending volume	**19.7**	**18.0**	**9.4**

At €0.4 billion, loans and advances to banks remained stable at last year's level. Loans and advances to customers rose by 11.6% to €16.4 billion (previous year: €14.7 billion). The volume of investment securities (including equity investments) held remained unchanged, at €0.1 billion. Guarantees and indemnities amounted to €0.3 billion (previous year: €0.4 billion). Irrevocable loan commitments increased by 5.6%, from €1.8 billion to €1.9 billion. 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 remained unchanged over the previous year at €0.6 billion.

Nominal volume of customer lending by business division

DVB's nominal volume of customer lending (comprising loans and advances to customers, guarantees and indemnities, irrevocable loan commitments and derivatives) includes Structured Asset Finance activities in Transport Finance, the fund management activities in Investment Management, the activities on the interbank market of our subsidiary ITF Suisse, as well as the Transport Infrastructure and D-Marketing portfolios, both no longer in line with DVB's strategy. In 2010 more buoyant new business in Shipping Finance, Aviation Finance, Land Transport Finance, Investment Management, and ITF Suisse, drove up customer lending by 11.0% to €19.2 billion (2009: €17.3 billion). This was distributed across the business divisions as follows: ❶

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



Shipping Finance 53.6% (+1.0 pp)

Aviation Finance 29.2% (–0.9 pp)

Land Transport Finance 7.8% (–0.2 pp)

Investment Management 4.2% (+0.7 pp)

ITF Suisse 3.6% (+0.1 pp)

Business no longer in line with DVB's strategy 1.6% (–0.7 pp)

Portfolio analysis

Volume trends

In order to detail the effects of the exchange rate on the portfolios, DVB has analysed the development of lending volume by segment over a five-year period, both in terms of euro and US dollar.

The Shipping Finance portfolio grew by 4.6% in US dollar terms, to US$13.7 billion (previous year: US$13.1 billion). Due to currency effects, the increase was greater in euro terms, namely 13.2% to €10.3 billion (previous year: €9.1 billion). Similarly, the Aviation Finance portfolio grew by 1.4% in US dollar terms, to US$7.5 billion (previous year: US$7.4 billion). The increase in euro terms was 7.7% to €5.6 billion (previous year: €5.2 billion). ❶

Earnings contributions

Earnings were analysed by comparing the development of the Transport Finance portfolios in the years 2009 and 2010, breaking down the portfolio into total and new exposures, and then differentiating data further by key ratios and indicators.

New business

DVB succeeded in increasing the volume of structured and large-volume new business in Transport Finance: 140 new transactions representing a volume of €4.5 billion were concluded during 2010 (previous year: 113 new deals with a volume of €2.8 billion). The volume of new business in Shipping Finance rose to €2.4 billion (+84.6%), in Aviation Finance to €1.9 billion (+46.2%), and in Land Transport Finance from €0.1 billion to €0.3 billion.

❶ Volume trends 2006 – 2010

€ bn	2010	%	2009	%	2008	%	2007	%	2006	%
Shipping Finance	10.3	53.6	9.1	52.6	10.5	56.8	8.4	58.7	6.7	55.8
Aviation Finance	5.6	29.2	5.2	30.1	4.9	26.5	3.6	25.2	3.1	25.8
Land Transport Finance	1.5	7.8	1.4	8.0	1.5	8.1	1.1	7.7	1.0	8.3
Investment Management	0.8	4.2	0.6	3.5	0.6	3.2	0.5	3.5	0.4	3.3
ITF Suisse	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	1.6	0.4	2.3	0.5	2.7	0.6	4.2	0.8	6.7
Total	**19.2**	**100.0**	**17.3**	**100.0**	**18.5**	**100.0**	**14.3**	**100.0**	**12.0**	**100.0**

US$ bn	2010	%	2009	%	2008	%	2007	%	2006	%
Shipping Finance	13.7	53.5	13.1	52.6	14.6	56.4	12.3	58.3	8.8	55.7
Aviation Finance	7.5	29.3	7.4	29.7	6.9	26.6	5.3	25.1	4.1	25.9
Land Transport Finance	2.0	7.8	2.0	8.1	2.1	8.1	1.7	8.1	1.3	8.2
Investment Management	1.0	3.9	0.9	3.6	0.9	3.5	0.8	3.8	0.5	3.2
ITF Suisse	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	0.5	2.0	0.7	2.8	0.7	2.7	0.8	3.8	1.1	7.0
Total	**25.6**	**100.0**	**24.9**	**100.0**	**25.9**	**100.0**	**21.1**	**100.0**	**15.8**	**100.0**

	2010	2009	2008	2007	2006
€/US$ reference rate published by the ECB (31 Dec)	**1.3362**	**1.4406**	**1.3917**	**1.4721**	**1.3170**

DVB played a leading role in 78.4% of the new deals in the three Transport Finance segments. At 327 basis points, the average interest margin for the new Transport Finance business was lower than in the previous year (354 basis points).

Considering the total volume of DVB's new business, including Investment Management and the business activities of ITF Suisse, 166 new transactions representing a volume of €4.9 billion were concluded (2009: 131 new deals with a volume of €3.0 billion), achieving an average margin of 316 basis points (2009: 343 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 improved by 6.5 percentage points in the total portfolio, to 70.7% (2009: 77.2%). Performance in this important indicator, which provides information on the loan-to-value ratio, was not uniform in the Transport Finance portfolios: Shipping Finance posted a decline of 11.6 percentage points to 67.1%, whilst the level in Aviation Finance also fell from 74.6% to 74.3%. By contrast, the LTV ratio in Land Transport Finance rose from 74.5% to 77.7%. The performance of the cost/income ratio also diverged across business divisions: whilst this indicator declined by a favourable 7.0 percentage points to 20.3% in Shipping Finance, by 2.3 percentage points to 12.6% in Aviation Finance, and by 0.5 percentage points to 15.7% in Land Transport Finance, it increased by 27.5 percentage points in Investment Management, to 64.0%. The ROE posted a favourable increase in the three Transport Finance segments: by 14.1 percentage points in Shipping Finance, to 29.3%; by 18.7 percentage points in Aviation Finance, to 49.1%; and by 24.1 percentage points in Land Transport Finance, to 45.1%. Yet in Investment Management the ROE fell by 17.4 percentage points, to –1.0%. 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		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	%
Total portfolio													
Customer lending	10,280.0	9,115.9	5,556.9	5,147.3	1,494.5	1,367.6	758.1	587.2	704.6	553.1	18,794.1	16,771.1	12.1
Loans and advances to customers	8,845.2	7,596.7	5,155.6	4,601.0	1,338.5	1,297.2	673.5	497.1	622.8	498.2	16,635.6	14,490.2	14.8
Loan commitments, guarantees and indemnities	1,434.8	1,519.2	401.3	546.3	156.0	70.4	84.6	90.1	81.8	54.9	2,158.5	2,280.9	–5.4
Number of customers (primary obligor groups)	320	292	154	127	60	64	23	27	32	25	589	535	10.1
Leading role (%)	74.3	76.1	82.3	80.3	62.7	64.4	88.8	76.1	3.0	3.8	75.9	74.1	1.8 pp
Average loan-to-value ratio (%)	67.1	78.7	74.3	74.6	77.7	74.5	n.a.	n.a.	79.4	82.9	70.7	77.2	–6.5 pp
CIR (%)[1]	20.3	27.3	12.6	14.9	15.7	16.2	64.0	36.5	21.8	32.9	49.0	49.6	–0.6 pp
ROE (%)[2]	29.3	15.2	49.1	30.4	45.1	21.0	–1.0	16.4	15.3	13.8	13.9	9.4	4.5 pp
New business													
Number of new transactions	84	61	45	44	11	8	18	14	8	4	166	131	26.7
Underwritten	2,354.0	1,321.7	1,860.1	1,315.2	261.0	113.3	211.7	104.5	187.9	98.8	4,874.7	2,953.5	65.0
Syndicated or yet to be syndicated	7.5	11.8	58.0	–	–	–	–	–	–	–	65.5	11.8	–
Final take	2,346.5	1,309.9	1,802.1	1,315.2	261.0	113.3	211.7	104.5	187.9	98.8	4,809.2	2,941.7	63.5
Leading role (%)	72.9	93.2	86.4	91.9	71.1	89.8	73.3	89.3	–	21.4	75.2	89.9	–15.2 pp
Average margin (bp)	331	333	338	375	218	363	178	148	292	244	316	343	–27

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" coming into effect on 13 October 2010 (referred to in this section as the "Ordinance"), 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, without 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; the 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 units. 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), the Board of Managing Directors has determined that the Bank's only risk takers are the three Managing Directors themselves. This decision is based on the following risk analysis under the self-assessment:

From its 13 office locations, the Bank offers its clients in the shipping, aviation and land transport sectors customised products and advisory services. The structures of these financing solutions are often sophisticated and complex, with structures spanning multiple jurisdictions, and they are generally collateralised by the transport asset 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 Head of Industry 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, provided the extension of credit meets the criteria laid out in the lending policies. These lending standards 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 standards. If a certain exposure limit is exceeded, approval must also be obtained from the Supervisory Board's Credit Committee.

Beyond its lending business, DVB is not engaged in any high-risk trading activities.

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, through the means of communication available (such as brochures).

Furthermore, the Board of Managing Directors has determined an appropriate upper limit for the ratio of fixed to variable remuneration, which will apply to payments made during 2011 for the first time. DVB will ensure that guaranteed bonuses will only be agreed upon for one year, and only within the scope of new hirings. Furthermore 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 first analysis of remuneration systems to the Supervisory Board in November 2010. 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 €3.3 million:

€000's	2010	2009	%
Board of Managing Directors	2,671.1	2,621.4	1.9
Supervisory bodies	269.9	263.2	2.5
Former members of the Board of Managing Directors and their surviving dependants	362.6	394.2	–8.0
Total	**3,303.6**	**3,278.8**	**0.8**

Remuneration of the Board of Managing Directors

The Supervisory Board has determined the remuneration structure of the Board of Managing Directors. Accordingly, in 2010 the overall remuneration of the Board of Managing Directors was composed of a fixed component of 61.2% and a variable component of 38.8%.

Pursuant to the German Act on the Disclosure of Executive Board Remuneration, listed companies are required to disclose the remuneration of each individual member of the Board of Managing Directors, identifiable by name, in annual and consolidated financial statements for business years beginning after 31 December 2005. By virtue of a resolution passed by the Annual General Meeting held on 30 June 2006 (agenda item no. 9), 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 (this applies to the financial statements and consolidated financial statements for the financial years 2006–2011, pursuant to section 285 no. 9a, sentences 5–8, and section 314 (1) no. 6a sentences 5–8 of the German Commercial Code – HGB).

The fixed remuneration component of DVB Bank SE's Board of Managing Directors amounted to €1,633,630.37 during 2010 (2009: €1,416,413.75). It comprises monetary remuneration components, pension commitments and special benefits. ❶

The members of the Board of Managing Directors received bonus payments totalling €1,037,500.00 in 2010, for the financial years 2008 and 2009 (2009: €1,205,000.00 for the financial years 2007 and 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 EVA 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.

❶ Remuneration of the Board of Managing Directors – fixed remuneration component (€)

	2010	2009	%
Monetary compensation elements	960,000.00	960,000.00	0.0
Pension commitments including contributions to pension provisions	483.818,18	291,265.89	66.1
Special benefits	189,812.19	165,147.86	14.9
thereof: allowances for company car or monetary equivalent	56,042.23	54,440.28	2.9
thereof: rent subsidies	29,186.51	27,780.86	5.1
thereof: insurance cover and employer contributions to foreign social security schemes	104,583.45	82,926.72	26.1
Total	**1,633,630.37**	**1,416,413.75**	**15.3**

The bonus for the financial year 2010 will be awarded in four tranches: 50% during 2011, and three tranches of 16.66% each, awarded during the following financial years 2012 to 2014. 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.

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 an annual remuneration of €20,000.00, the Chairman of the Supervisory Board receives €30,000.00, and the members of the Credit Committee receive an additional annual remuneration of €10,000.00 each. The remuneration is paid on the 1st of 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 2010 by DVB Bank SE for members of the supervisory bodies amounted to €269,900.00. Taxes amounting to €35,455.00 were transferred directly to the tax authorities on behalf of Supervisory Board members domiciled abroad. Therefore, the members of the Supervisory Board received remuneration of €234,445.00 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 2010, 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 2010 (€)

		Remuneration of Supervisory Board activities	Remuneration of Credit Committee activities	Value Added Tax (VAT) 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
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	–	0.00	20,000.00
Dr Klaus Nittinger		20,000.00	–	3,800.00	23,800.00
Employee representatives					
Dorinus Legters, domiciled in The Netherlands		20,000.00	–	3,800.00	23,800.00
Kieran O'Keefe, domiciled in Ireland		20,000.00	–	3,800.00	23,800.00
Martin Wolfert		20,000.00	10,000.00	5,700.00	35,700.00
Total remuneration		**190,000.00**	**40,000.00**	**39,900.00**	**269,900.00**
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					**234,445.00**

Employees

At the end of 2009, the number of active DVB staff members was 564; by the end of 2010, the number had risen to 576, up 2.1%. 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 active employees in Transport Finance/Investment Management increased by 5, to 365 persons (up 1.4%). Reflecting the rise in regulatory requirements stipulated by lawmakers and banking supervisory authorities over the past several years, the number of staff employed in the central Group functions and service units kept growing – to 211, up 3.4% (2009: 204).

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 2010, and there are 32 different nationalities represented within our core Transport Finance business. On the other hand, 400 staff members (2009: 391) were employed in our various international locations in 2010; in other words, they are active in those international transport markets where the Bank's clients are located. At 176 (2009: 173), the number of active employees at DVB's German locations in Frankfurt/Main and Hamburg (Shipping Finance, including the Container Business Group) was virtually unchanged from the previous year. ❷

❶ Distribution of staff by business division

	2010		2009	
	Number	%	Number	%
Transport Finance/Investment Management	365	63.4	360	63.8
Service units	201	34.9	194	34.4
Treasury	10	1.7	10	1.8
Total	**576**	**100.0**	**564**	**100.0**

❷ Number of active employees by DVB location

	DVB Group			Transport Finance		
	2010	2009	%	2010	2009	%
Europe	**457**	**448**	**2.0**	**261**	**258**	**1.2**
Frankfurt/Main	169	164	3.0	32	29	10.3
Cardiff	109	98	11.2	83	73	13.7
London	75	80	–6.3	57	65	–12.3
Rotterdam	54	54	–	44	44	–
Bergen/Oslo	22	22	–	20	20	–
Piraeus	12	11	9.1	11	10	10.0
Zurich	9	10	–10.0	7	8	–12.5
Hamburg	7	9	–22.2	7	9	–22.2
Asia	**61**	**58**	**5.2**	**53**	**51**	**3.9**
Singapore	57	54	5.6	49	47	4.3
Tokyo	4	4	–	4	4	–
North and South America	**58**	**58**	**–**	**51**	**51**	**–**
New York	32	33	–3.0	29	30	–3.3
Curaçao	26	25	4.0	22	21	4.8
Total	**576**	**564**	**2.1**	**365**	**360**	**1.4**

The age structure of DVB staff was as follows during the year under review:

- 10.9% were less than 30 years old;
- 37.5% were aged between 30 and 40 years;
- 33.4% were aged between 40 and 50 years; and
- 18.2% 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 11.8 years' relevant, sector-specific experience in 2010. Of these employees, 17.7% had more than 15 years, and 15.8% more than 20 years' relevant professional experience.

Staff fluctuation due to voluntary resignations was 4.7% in 2010 (2009: 4.5%).

Further non-financial performance indicators are described under "Employees and sustainability" (page 18–24).

Award-winning transactions

We received awards once again in 2010 from the trade journals Jane's Transport Finance, Airfinance Journal, Marine Money and Seatrade Asia for a number of transactions.

Awards received by DVB in 2010

➔ **Seatrade Asia Ship Finance Award 2010**
Seatrade Asia – April 2010

➔ **Regional Jet Deal of the Year**
Airfinance Journal – April 2010

➔ **Shipping Debt Deal of the Year – South America**
Jane's Transport Finance – November 2010

➔ **Shipping Leasing Deal of the Year**
Jane's Transport Finance – November 2010

➔ **European Rail Deal of the Year**
Jane's Transport Finance – November 2010

➔ **Aviation Research House of the Year**
Jane's Transport Finance – November 2010

➔ **Editor's Choice of the Year – West**
Marine Money – February 2011

➔ **Editor's Choice of the Year – Shipping Research**
Marine Money – February 2011

➔ **Leasing Deal of the Year – East**
Marine Money – February 2011

➔ **Project Finance Deal of the Year**
Marine Money – February 2011

➔ **Export Credit Deal of the Year – West**
Marine Money – February 2011

Since 1 January 2008, the Shipping Finance division has been structured in ten distinct global sector groups. Four of these sector groups were merged into two, effective 1 January 2011: firstly, the "Chemical & LPG Tanker Group" and the "Product Tanker Group" were merged to form the "Chemical, LPG and Product Tanker Group". Secondly, the "Container Vessel Group" and the "Container Box Group" were merged to form the new "Container Business Group". DVB's Shipping Finance division henceforth comprises the following sectors: ❶

Moody's Investors Service lowered the subordinated debt ratings of 23 German banks, with effect from 17 February 2011. The downgrade affected a total of 251 subordinated debt securities. Accordingly, the subordinated debt rating of DVB Bank SE was lowered by one notch, from A2 to A3 and is thus one notch below the so-called baseline credit assessment. The outlook of this rating criterion has remained negative. Specifically, this affects a €57.5 million subordinated bond issued by DVB, which is due for repayment on 17 August 2011.

On 25 January 2011, a company which had chartered several vessels financed by DVB filed for protection from creditors under insolvency law. Given the collateralisation of the exposures involved, there are no indications of any imminent default risks; hence, no impairment charges needed to be recognised.

A liquidity shortage affecting a client of DVB's subsidiary ITF Suisse became discernible at the beginning of March 2011. Apparently, the problems were caused by irregularities on the client's part. The situation is currently being analysed. Given the collateralisation of the exposures involved, there are no indications of any imminent default risks; hence, no impairment charges needed to be recognised.

The Board of Managing Directors and Supervisory Board will propose to DVB Bank SE's Ordinary Annual General Meeting, which will be held on 9 June 2011, 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 2010 business year. Statements made in the report on expected developments have been confirmed by the development of business during the first months of the 2011 business year.

❶ Global Shipping Finance sectors

1	**Container Business Group** (container vessels, container boxes, car carriers, reefers)	5	**Dry Bulk Group** (barges, dry cargo, combination and bulk carriers)
2	**Cruise & Ferry Group** (ferries, yachts, ocean/river cruise, RoRo's)	6	**Floating Production Group** (FPSO, FSO, FPU)
3	**Crude Oil & LNG Tanker Group** (crude oil and Liquefied Natural Gas tankers)	7	**Offshore Drilling Group** (jack-ups, drill ships, semi-subs)
4	**Chemical, LPG and Product Tanker Group** (chemical, specialist, Liquefied Petroleum Gas, product and asphalt/bitumen tankers)	8	**Offshore Support Group** (AHTS, PSV, subsea, diving and heavy lift vessels, others)

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 as an international transport asset lender.

Principles of risk management

DVB defines risks as unfavourable future developments which may have a detrimental effect on the Bank's net assets, profitability or liquidity. In this context, we differentiate between credit risk, operational risk, market price risk, strategic 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.

The report on opportunities and risks presented below provides a breakdown of DVB's Transport Finance sub-portfolios by collateralisation structure and LTV range (under "Structural analysis of the credit portfolio", on pages 128 to 131). 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 regulatory rules.

Against this background, DVB'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 internally and by 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 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

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	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	

Group Risk Management principles

for the early detection of risks. In addition to the structural 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. The GRM Risk Report is the main tool used for the quarterly reporting of Group risks to the entire Board of Managing Directors and the Supervisory Board. Furthermore, reporting systems have been installed 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 the provisions of IFRS 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 operating divisions. For this reason, binding procedures have been established for the recording and controlling of data. To make sure 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.

Implementation of the third amendment to the Minimum Requirements for Risk Management in the Bank's operations

In July 2010, the German Federal Financial Supervisory Authority (BaFin) published a first consultation draft of another amendment to the Minimum Requirements for Risk Management in Banks (MaRisk). The purpose of this third MaRisk amendment is to implement several risk management issues which have been pursued at a European level since the previous amendment in August 2009. Changes and additions relate primarily to the risk-bearing capacity concept and the strategy process (involving the planning, implementation, assessment and adjustment of strategies). Furthermore, the amendment sets out additional requirements regarding stress tests, the handling of risk concentrations, and the management of liquidity risks. BaFin published its final version on 15 December 2010. The deadline for full implementation is 31 December 2011; new requirements for dealing with liquidity risks must be met immediately.

DVB analysed the new framework at an early stage, based on the draft versions, and incorporated expected required changes in its planning. Work on implementing individual aspects already commenced at the end of 2010.

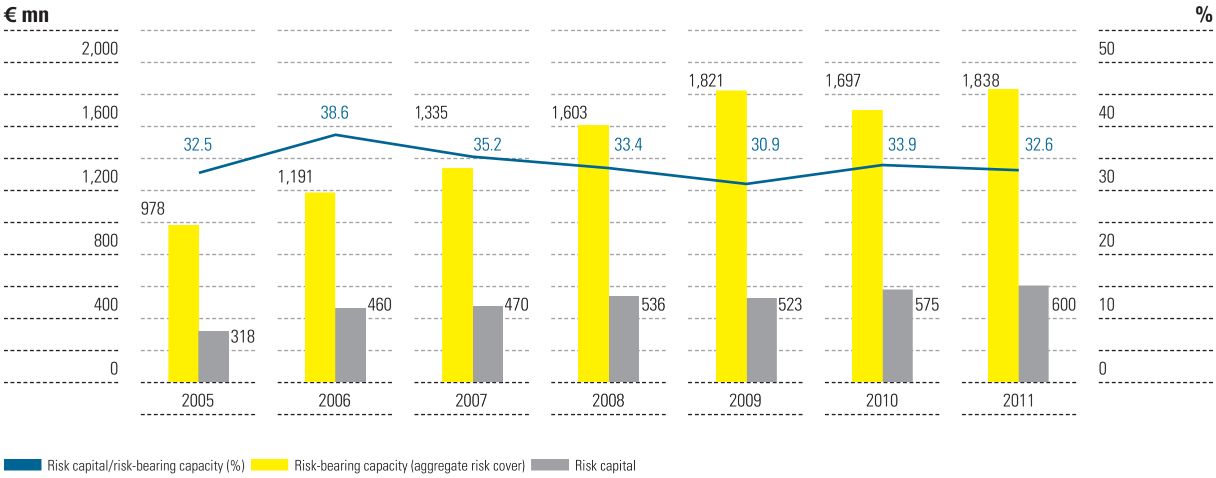
Capacity to carry and sustain risk/risk capital

DVB's economic risk-bearing potential is determined on a quarterly basis within the scope of the analysis of the Bank's capability to carry and sustain risk, and on the basis of the consolidated financial statements according to IFRS. In addition to components eligible for inclusion as regulatory capital, the aggregate risk cover includes DVB's undisclosed reserves that can be realised at short notice, and the net income generated during the business year. Hence, the capital elements used to determine aggregate risk cover go beyond those recognised for regulatory purposes.

DVB's risk-bearing potential has developed as follows during the last seven years: ❶

The increase in aggregate risk cover for 2011 is mainly due to reinvested income, and a slight increase in subordinated liabilities. At the end of each financial year, the Board of Managing Directors approves the risk capital budget for the next financial year. Risk capital is defined as the economic capital that the Bank is willing to invest in order to cover unexpected losses across all types of risks. This means that, with a 99.95% probability, aggregate unexpected losses within a given year will not exceed risk capital.

❶ **Development of risk-bearing potential**



The risk capital for 2011 was set at a level of €600 million (2010: €575 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 the course of 2010, whereby the overall risk limit remained unchanged. When determining the level of risk capital, we consider correlation effects deduced from empirical market data, taking into account correlations among the various types of risk, and regarding counterparty risks amongst the main credit portfolios. 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 primary stress scenario we used involved applying haircuts to collateral values, the highest default rates observed for each rating grade since 2001, plus a significant change in the euro/US dollar exchange rate. In a secondary stress scenario, we additionally assumed a one notch rating downgrade of all parties involved, as well as rising euro and US dollar interest rates. DVB's aggregate risk cover fully covered expected and unexpected losses under both stress scenarios.

We further developed the stress tests used, which to date were based on blanket assumptions, during the second half of the year. Complying with regulatory requirements, these stress tests now also encompass a historical event (the financial markets crisis) as well as a purely hypothetical scenario that simulates a serious crisis affecting the global transport sector (falling asset values, deteriorating borrower credit quality, unfavourable development of the euro/US dollar exchange rate, etc.). These scenarios have also shown DVB's aggregate risk cover to clearly exceed the stressed (expected and unexpected) losses: ❷

We use internal models to measure credit risks and market price risks. Loss exposure associated with operational risk is measured using the Basic Indicator Approach under Basel II. A best-practice method is used to determine loss exposure from strategic and equity investment risks. Although liquidity risk is also monitored and checked continuously, it is not managed through risk capital, but by means of other management tools, such as plans for liquidity flows, cash flow forecasts, and stress scenarios.

❶ Risk capital (€ mn)

	2011	2010		
	Risk capital limit	Risk capital limit	Amount utilised at year-end	Average utilisation
Credit risk	504	508	432	460
Market price risk	60	35	9	16
Operational risk	60	49	46	46
Strategic risk	50	46	46	46
Equity investment risk	3	2	1	1
Correlation effects	–77	–65	–57	–58
Total	**600**	**575**	**478**	**511**

❷ Aggregate risk cover (€ mn)

	Historical stress scenario	Hypothetical stress scenario
Expected loss (less existing allowance for credit losses)	151	337
Unexpected loss	599	892
Total	**750**	**1,229**
Aggregate risk cover 2010	**1,697**	**1,697**

Types of risk

Credit risk

With respect to individual transactions and clients, 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 is 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 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). The use of the Advanced Approach means that all types of collateral (such as aircraft and ship mortgages, 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.

During the course of 2010, we expanded our Advanced Approach coverage to include additional sub-portfolios. This means that from 2011 onwards, DVB applies the Advanced Internal Ratings Based Approach to all credit risk exposures, with the exception of two smaller-sized portfolios (which account for approximately 1% of total assets).

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 2010, 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; unexpected and expected loss are included in the integrated risk limiting system via the concept for managing the Bank's capability to carry and sustain risk; 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 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. DVB's internal research teams provide valuable support in this process.

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 strongly 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 classification of instruments exposed to credit risk is in line with the mandatory structure for external reporting on the risk exposure from financial instruments. 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 and undrawn commitments, and to market values of banking book investment securities as well as derivatives. The maximum credit risk amount also includes all irrevocable loan commitments and financial guarantees. The following tables provide an overview of credit risk concentration and maximum credit risk exposure, broken down by DVB's business divisions and by geographical region. The "Other" item reflects the aggregate of Treasury and those portfolios no longer in line with the Bank's strategy. ❶ ❷

Nominal gross lending volume (82.8% of which is denominated in US dollars), was up by 8.8%. Adjusted for the effect of the stronger US dollar exchange rate against the euro, the increase was 1.8%. ❸

❶ Credit risk concentration and maximum credit risk exposure by business division (€ mn)

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Shipping Finance	10,098.3	9,003.3	103.3	32.7	78.3	80.0
Aviation Finance	5,555.6	5,146.6	–	–	1.3	0.7
Land Transport Finance	1,491.4	1,363.5	–	–	3.1	4.1
Investment Management	754.7	584.3	–	–	3.4	2.9
ITF Suisse	704.6	553.1	–	–	–	–
Other	652.7	991.1	100.0	66.6	422.0	526.3
Total	**19,257.3**	**17,641.9**	**203.3**	**99.3**	**508.1**	**613.8**

❷ Credit risk concentration and maximum credit risk exposure by geographical region (€ mn)

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Europe	8,940.0	8,215.1	108.8	66.6	444.0	547.1
North America	4,462.7	4,094.5	28.5	32.7	27.2	34.8
Asia	3,850.0	3,897.0	66.0	0.0	15.5	15.2
Middle East/Africa	842.9	562.4	–	–	1.4	6.5
South America	648.9	436.0	–	–	12.3	–
Offshore	400.1	340.6	–	–	7.7	10.2
Australia/New Zealand	112.7	96.4	–	–	–	0.1
Total	**19,257.3**	**17,641.9**	**203.3**	**99.3**	**508.1**	**613.8**

❸ Gross lending volume by residual term (€ mn)

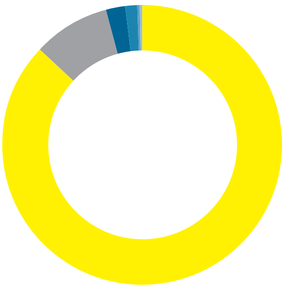
	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
≤ 1 year	2,397.8	2,564.7	50.0	32.5	29.6	48.9
> 1 year ≤ 5 years	7,350.0	5,684.3	124.8	34.1	175.9	262.3
> 5 years	9,509.5	9,393.0	28.5	32.7	302.6	302.6
Total	**19,257.3**	**17,641.9**	**203.3**	**99.3**	**508.1**	**613.8**

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

Our Shipping Finance portfolio, which is largely denominated in US dollars (87.9%), increased by 13.2% to €10.3 billion. The euro weakened during 2010, falling by 7.2% against the US dollar during the course of a volatile year. Adjusting for exchange rate movements, the portfolio growth rate was 5.2%.

The chart below provides a breakdown of exposures secured by mortgages, by LTV range (where loan amounts have been allocated to LTV classes proportionally), as well as exposures covered by other forms of collateral, and unsecured exposures:

Shipping Finance portfolio – LTV classes



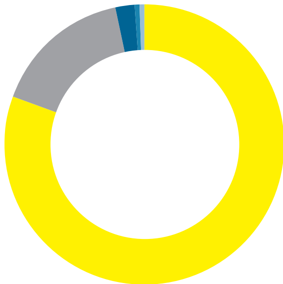
- **87.1% (+6.7 pp) in LTV ≤ 60%**
- **8.8% (–2.8 pp) in LTV > 60 ≤ 80%**
- **2.4% (–1.8 pp) in LTV > 80 ≤ 100%**
- **1.4% (–2.1 pp) in LTV > 100%**
- **0.2% (–0.1 pp) Other collateral**
- **0.1% (+0.1 pp) Uncollateralised**

99.7% of the portfolio (€10,255.7 million) is secured by mortgages on ships; only €17.6 million is secured by other forms of collateral, and exposures of €6.7 million are uncollateralised.

Our Aviation Finance portfolio stood at €5.6 billion at the end of 2010, up 7.7% on the previous year. This portfolio is also predominantly denominated in US dollars (97.0%); on a currency-adjusted basis, the portfolio size was virtually unchanged.

The Aviation Finance portfolio also reflects the strict enforcement of our lending policies characterised by conservative collateralisation structures, as shown in the following graph:

Aviation Finance portfolio – LTV classes

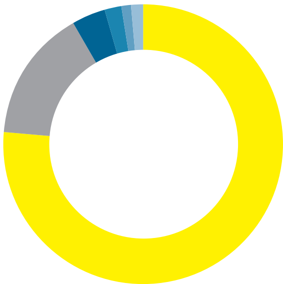


- **80.8% (+0.2 pp) in LTV ≤ 60%**
- **15.9% (+0.9 pp) in LTV > 60 ≤ 80%**
- **2.3% (–0.7 pp) in LTV > 80 ≤ 100%**
- **0.7% (–0.4 pp) in LTV > 100%**
- **0.0% (–0.2 pp) Other collateral**
- **0.3% (+0.2 pp) Uncollateralised**

99.7% of the lending volume (€5,540.3 million) is secured by mortgages on aircraft. Lending volume of €4,489.2 billion has an LTV ratio not exceeding 60%. Only €0.6 million is secured by other forms of collateral, and exposures of €16.1 million are uncollateralised.

Our Land Transport Finance portfolio, 39.2% of which is denominated in US dollars, and 58.5% in euro, grew by 7.1% year-on-year, to €1.5 billion. Adjusting for exchange rate fluctuations, the portfolio size increased by 5.9%. The LTV breakdown of our Land Transport Finance portfolio developed as follows:

Land Transport Finance portfolio – LTV classes

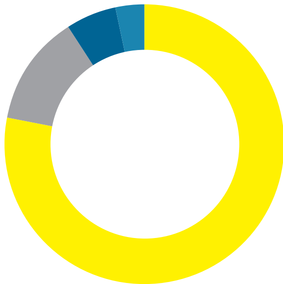


- **76.6% (+0.1 pp) in LTV ≤ 60%**
- **15.3% (–0.7 pp) in LTV > 60 ≤ 80%**
- **3.9% (–0.1 pp) in LTV > 80 ≤ 100%**
- **1.7% (+1.4 pp) in LTV > 100%**
- **1.3% (–0.3 pp) Other collateral**
- **1.2% (–0.4 pp) Uncollateralised**

97.5% of the lending volume (€1,458.4 million) is secured by mortgages, with €1,145.5 million having an LTV ratio not exceeding 60%. Only €18.7 million of the portfolio is secured by other forms of collateral, and exposures of €17.4 million are 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 €704.6 million in 2010 (up €151.5 million year-on-year).

ITF Suisse portfolio – LTV classes

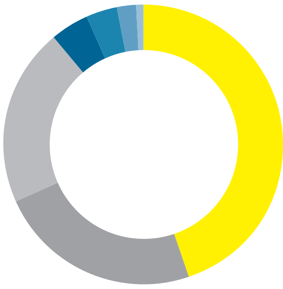


- **78.2% (+3.6 pp) in LTV ≤ 60%**
- **12.9% (–3.5 pp) in LTV > 60 ≤ 80%**
- **5.7% (–1.0 pp) in LTV > 80 ≤ 100%**
- **3.2% (+0.9 pp) in LTV > 100%**
- **0.0% (+0.0 pp) Other collateral**
- **0.0% (+0.0 pp) Uncollateralised**

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.).

Country risks in the portfolio – Lending volume



- **Europe 45.0% (–0.1 pp)**
- **North America 23.4% (–0.3 pp)**
- **Asia 20.7% (–2.0 pp)**
- **Middle East/Africa 4.4% (+1.1 pp)**
- **South America 3.5% (+1.0 pp)**
- **Offshore 2.4% (+0.4 pp)**
- **Australia/New Zealand 0.6% (+0.0 pp)**

The breakdown of country risks in DVB's portfolio was largely unchanged compared to 2009. DVB's Transport Finance exposure continues to be concentrated 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 assets. Net country risk exposure was virtually unchanged from the previous year. Furthermore, net country risk for emerging markets amounted to just 0.3% of the overall Transport Finance portfolio.

Continued reduction of loan exposures that are no longer in line with the Bank's strategy

In accordance with the strategic decision taken by the Board of Managing Directors, the Transport Infrastructure portfolio – which is no longer in line with the Bank's strategy – was reduced by 15.5% during the financial year under review, to €339.4 million. Collateral for all of our infrastructure finance projects includes an assignment of operating concessions. With €5.9 million allocated to the allowance for credit losses during 2010, total impairment losses for this portfolio amounted to €10.8 million at year-end. Lending exposures bundled in the so-called D-Marketing, which is also no longer in line with DVB's strategy, were reduced by a further 28.8%, from €40.5 million to €28.6 million at the end of 2010. Total impairment losses for this portfolio amounted to €8.5 million at the end of 2010. 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 sub-performing 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 sub-portfolios. 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 €177.8 million at the end of 2010 (2009: €199.1 million). This equates to an NPL ratio of 0.9% (2009: 1.1%) in relation to total lending volume. The volume of NPLs is offset by collateral with a market value of €111.1 million (2009: €167.4 million), and covered by adequate value adjustments.

The collateralisation details disclosed below are based on market values, with a 40% haircut having been applied.

The following tables indicate the non-impaired, non-overdue lending volume as a portion of the overall portfolio, broken down by division and geographical region. ❶ ❷

Lending volume that is neither impaired nor past due continues to account for the lion's share of the portfolio, at 94.1% (2009: 94.9%).

❶ Non-impaired, non-overdue lending volume by business division (€ mn)

	Total portfolio		Non-impaired, non-overdue portfolio	
	2010	2009	2010	2009
Shipping Finance	10,279.9	9,115.9	9,416.5	8,489.7
Aviation Finance	5,556.9	5,147.3	5,406.8	4,891.8
Land Transport Finance	1,494.5	1,367.6	1,483.6	1,367.6
Investment Management	758.1	587.2	671.9	560.2
ITF Suisse	704.6	553.1	704.6	553.1
Other	1,174.7	1,584.0	1,112.0	1,556.6
Total	**19,968.7**	**18,355.1**	**18,795.4**	**17,419.0**

❷ Non-impaired, non-overdue lending volume by geographical region (€ mn)

	Total portfolio		Non-impaired, non-overdue portfolio	
	2010	2009	2010	2009
Europe	9,492.8	8,828.7	8,771.9	8,308.5
North America	4,518.4	4,162.0	4,382.7	3,979.3
Asia	3,931.5	3,912.1	3,753.7	3,720.0
Middle East/Africa	844.3	568.9	820.2	530.5
South America	661.2	436.0	568.1	433.5
Offshore	407.8	350.8	407.8	350.8
Australia/New Zealand	112.7	96.5	91.0	96.5
Total	**19,968.7**	**18,355.1**	**18,795.4**	**17,419.0**

The following table indicates overdue exposures for which no individual impairment has been recognised, together with the value of related collateral, by division. ❶

The following table indicates overdue exposures for which no individual impairment has been recognised, together with the value of related collateral, by geographical region: ❷

The volume of renegotiated exposures as defined in IFRS 7 (defined as assets that would otherwise be past due or impaired, but whose terms of payment have been renegotiated) amounted to €435.3 million (2009: €493.6 million) for the business year under review. 96.6% thereof relates to Shipping Finance exposure at DVB Group level (2009: 96.7%).

❶ Overdue exposures for which no individual impairment has been recognised, together with the value of related collateral, by business divisions (€ mn)

	30 days or less past due		> 30 days ≤ 60 days past due		> 60 days ≤ 90 days past due		More than 90 days past due		Fair value of collateral (60% of market value)	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Shipping Finance	194.9	60.7	91.1	–	–	45.3	37.8	140.4	254.2	179.8
Aviation Finance	–	117.6	–	–	–	–	–	–	–	97.7
Land Transport Finance	–	–	–	–	–	–	–	–	–	–
Investment Management	–	–	–	–	–	–	–	–	–	–
ITF Suisse	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	0.2	–	0.2
Total	**194.9**	**178.4**	**91.1**	**–**	**–**	**45.3**	**37.8**	**140.6**	**254.2**	**277.6**

❷ Overdue exposures for which no individual impairment has been recognised, together with the value of related collateral, by geographical region (€ mn)

	30 days or less past due		> 30 days ≤ 60 days past due		> 60 days ≤ 90 days past due		More than 90 days past due		Fair value of collateral (60% of market value)	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Europe	125.4	156.4	30.2	–	–	–	7.4	25.2	131.8	136.5
Asia	19.6	9.0	52.4	–	–	26.1	30.4	19.4	73.9	35.1
Middle East/Africa	13.5	–	8.5	–	–	19.2	–	–	21.8	19.2
South America	24.2	–	–	–	–	–	–	–	17.0	–
North America	12.2	13.0	–	–	–	–	–	96.0	9.7	86.9
Australia/New Zealand	–	–	–	–	–	–	–	–	–	–
Offshore	–	–	–	–	–	–	–	–	–	–
Total portfolio	**194.9**	**178.4**	**91.1**	**–**	**–**	**45.3**	**37.8**	**140.6**	**254.2**	**277.6**

The following table indicates the lending volume for which individual impairments have been recognised, together with related collateral, by division. ❶

The following table indicates the lending volume for which individual impairments have been recognised, together with related collateral, by geographical region. ❷

Taking into account the fair value of collateral (60% of market value), 72.3% (2009: 73.6%) of the impaired portfolio (based on the amount after impairment) is duly collateralised.

DVB did not hold any property and equipment acquired through restructuring measures as at the reporting date (previous year: €6.7 million).

❶ Lending volume for which individual impairments have been recognised, together with related collateral, by business division (€ mn)

	Amount before impairment		Individual impairment		Amount after impairment		Fair value of collateral (60% of market value)	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Shipping Finance	539.6	379.8	–88.3	–71.6	451.3	308.2	364.4	235.9
Aviation Finance	150.1	137.8	–31.4	–39.1	118.7	98.8	93.4	81.0
Land Transport Finance	10.9	–	–1.2	–	9.7	–	6.2	–
Investment Management	86.2	26.9	–9.8	–1.7	76.4	25.2	–	–
ITF Suisse	–	–	–	–	–	–	–	–
Other	62.7	27.2	–19.5	–15.2	43.2	12.0	41.5	10.0
Total	**849.5**	**571.8**	**–150.2**	**–127.7**	**699.3**	**444.1**	**505.5**	**326.9**

❷ Lending volume for which individual impairments have been recognised, together with related collateral, by geographical region (€ mn)

	Amount before impairment		Individual impairment		Amount after impairment		Fair value of collateral (60% of market value)	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Europe	557.9	338.6	–92.3	–77.6	465.6	261.0	336.5	226.6
North America	123.4	73.8	–26.7	–23.7	96.7	50.1	66.5	17.5
Asia	75.5	137.7	–18.3	–21.1	57.2	116.5	39.2	70.7
South America	68.9	2.4	–10.1	–2.4	58.8	–	41.6	2.4
Australia/New Zealand	21.7	–	–2.6	–	19.1	–	21.7	–
Offshore	–	–		–		–	–	–
Middle East/Africa	2.1	19.2	–0.2	–2.8	1.9	16.5	0.0	9.7
Total	**849.5**	**571.8**	**–150.2**	**–127.7**	**699.3**	**444.1**	**505.5**	**326.9**

The following four tables illustrate the development of the allowance for credit losses for the years 2009 and 2010, by division and geographical region. For this purpose, the allowance for credit losses – which is determined in accordance with IFRS – is broken down into individual impairments, portfolio impairments, 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.

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

	1 Jan 2010	Addition	Utilisation	Reversal	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 individual impairments	**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 impairments	**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	–	0.0		
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**		

Allowance for credit losses by business division – 2009 (€ mn)

	1 Jan 2009	Addition	Utilisation	Reversal	Changes resulting from exchange rate fluctuations, and other adjustments	**Net amount as at 31 Dec 2009**	Direct write-offs	Recoveries on loans and advances previously written off
Shipping Finance	38.5	62.1	–	–30.7	1.7	71.6	0.2	0.0
Aviation Finance	45.2	20.9	–3.7	–18.6	–4.8	39.1	0.2	0.7
Land Transport Finance	0.0	–	–	–	–	–	–	–
Investment Management	–	1.6	–	–	0.1	1.7	15.0	–
ITF Suisse	–	–	–	–	–	–	–	–
Other	16.5	2.2	–0.0	–3.4	0.0	15.2	0.3	1.1
Total individual impairments	**100.3**	**86.8**	**–3.7**	**–52.7**	**–3.0**	**127.7**	**15.8**	**1.8**
Shipping Finance	0.4	14.8	–	–0.4	0.1	14.9		
Aviation Finance	4.3	10.8	–	–4.3	–	10.8		
Land Transport Finance	0.5	0.9	–	–0.5	–	0.9		
ITF Suisse	–	0.8	–	–	–	0.8		
Other	2.2	1.6	–	–0.4	–	3.5		
Total portfolio impairments	**7.4**	**28.9**	**–**	**–5.5**	**0.1**	**30.8**		
Total impairments and allowances	**107.7**	**115.7**	**–3.7**	**–58.2**	**–2.9**	**158.5**		
Shipping Finance	0.1	0.5	–	–	0.0	0.6		
Aviation Finance	–	0.2	–0.0	–	–0.0	0.2		
Other	0.2	–	–0.0	–0.0	–	0.2		
Total provisions	**0.3**	**0.7**	**–0.0**	**–0.0**	**0.0**	**1.0**		
Total allowance for credit losses	**108.0**	**116.4**	**–3.7**	**–58.3**	**–2.9**	**159.5**		

The following two tables illustrate the development of the allowance for credit losses, by geographical region. No geographical breakdown is provided for portfolio impairments and provisions since the amounts involved were not material for the overall Group during 2009 and 2010.

Allowance for credit losses by geographical region – 2010 (€ mn)

	1 Jan 2010	Addition	Utilisation	Reversal	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	–	–	0.0	2.6	–	–
Middle East/Africa	2.8	2.3	–	–5.2	0.3	0.2	–	–
Offshore	–	–	–	–	–	–	–	–
Total individual impairments	**127.7**	**86.0**	**–29.0**	**–44.3**	**9.8**	**150.2**	**10.9**	**1.3**
Total portfolio impairments	**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**		

Allowance for credit losses by geographical region – 2009 (€ mn)

	1 Jan 2009	Addition	Utilisation	Reversal	Changes resulting from exchange rate fluctuations, and other adjustments	**Net amount as at 31 Dec 2009**	Direct write-offs	Recoveries on loans and advances previously written off
Europe	57.8	55.9	–3.7	–31.0	0.5	79.4	8.9	1.8
North America	31.7	9.2	–	–14.9	–4.1	22.0	0.2	–
Asia	–	20.8	–	–	0.3	21.1	6.6	–
Middle East/Africa	5.7	0.9	–	–4.2	0.3	2.8	–	–
South America	5.1	–	–	–2.6	–0.1	2.4	–	–
Australia/New Zealand	–	–	–	–	–	–	–	–
Offshore	–	–	–	–	–	–	–	–
Total individual impairments	**100.3**	**86.8**	**–3.7**	**–52.7**	**–3.0**	**127.7**	**15.8**	**1.8**
Total portfolio impairments	**7.4**	**28.9**	**–**	**–5.5**	**0.1**	**30.8**		
Total impairments and allowances	**107.7**	**115.7**	**–3.7**	**–58.2**	**–2.9**	**158.5**		
Total provisions	0.3	0.7	–0.0	–0.0	0.0	1.0		
Total allowance for credit losses	**108.0**	**116.4**	**–3.7**	**–58.3**	**–2.9**	**159.5**		

Operational risk

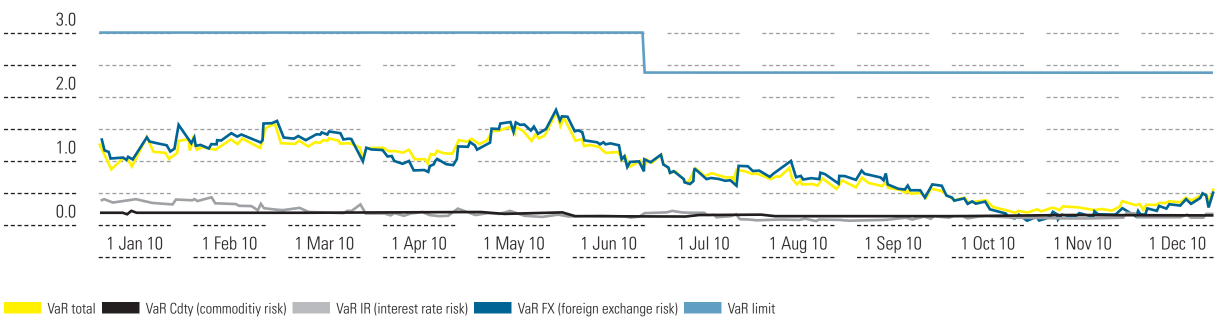
In accordance with the German Solvency Ordinance, DVB defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes or systems, from human error, or from external events. Monitoring and managing operational risks largely comprises the development of a 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 set out by Basel II as appropriate. Organisational measures taken include the establishment of a central OpRisk Committee, as well as the creation of an OpRisk Manager for each of DVB's worldwide locations. The tools we have implemented to manage 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 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. The Board of Managing Directors sets the maximum threshold for operational risk. Quarterly reports containing the results are submitted to the Board of Managing Directors and the OpRisk Committee; where appropriate, this is supported by ad-hoc reporting. DVB recorded a total of nine (2009: six) loss cases with aggregate damages of €321,700 (2009: €14,000) during the year under review.

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 value at risk (VaR) method for calculating the market price risk exposure in our banking and trading books. Using this VaR method, the maximum loss that may arise due to market price risks during a holding period of one day is quantified at a confidence level of 99% on the basis of a historical simulation. The functionality of the VaR method is assured by means of a back-testing procedure. During 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 actually-occurred market price changes, and are compared with the values determined by the VaR method. ❶ ❷

❶ **Daily value at risk (€ mn)**



❷ **Value at risk in the banking business (€ 000's)**

	Currency risk	Interest rate risk	Equity risk	Offsetting effect[1]	Total
31 Dec 2009	**1,342.2**	**408.0**	**188.3**	**–658.2**	**1,280.3**
Average	890.1	186.8	180.1	–370.6	886.4
Minimum	83.3	80.3	158.8	–119.3	203.1
Maximum	1,812.3	439.2	219.5	–700.4	1,770.6
31 Dec 2010	**568.2**	**168.9**	**167.5**	**–369.3**	**535.3**

1) Compensating effects offsetting currency, interest rate and equity risks

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 insignificant. During the first half of 2010, value at risk developments were influenced by changes predominantly driven by fluctuations in the unhedged present value currency exposure to the US dollar. Interest rate risks decreased further, due to a further decline in interest rate volatility (compared to 2009), as well as to lower euro and US dollar interest rates during the first half of 2010. Currency risk exposure strongly declined during the second half of 2010, reflecting the continuous reduction in the unhedged present value currency exposure.

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 through 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 risk capital and taken into account when determining usage of aggregate risk capital. In addition, we subject our positions to a monthly stress test, based on an entire interest rate cycle. The calculations applied to such stress tests are discussed regularly in the ALCO. This is designed to ensure a timely reaction to developments. We also used the results of monthly stress testing as a parameter when determining market price risk limits for 2011.

Strategic risk

DVB's business policy is managed by way of strategic decisions taken within the scope of closed-door strategy meetings by the Board of Managing Directors, and, where appropriate, by the Supervisory Board. For the 2010 financial year, strategic risks were measured using a moving average of operating income volatility, using a 99.95% confidence interval.

During the second half of the year, within the scope of harmonisation at DZ BANK Group level, DVB revised the definition of strategic business risk, and the manner in which the risk is determined: from 2011 onwards, risk capital will be allocated to cover business risk defined as unexpected losses incurred from results fluctuations, which may occur with a given business strategy, as a result of changes in external circumstances. In contrast, no capital will be allocated for strategic risks that will only materialise as a result of (hypothetical) future decisions, the extent of which can be actively influenced through management decisions.

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 state-of-the-art asset/liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German

Banking Act, ensures that timely and appropriate corrective measures can be taken. 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. This application's functionality fulfils both the requirements under the MaRisk and the Bank's internal needs for managing 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.

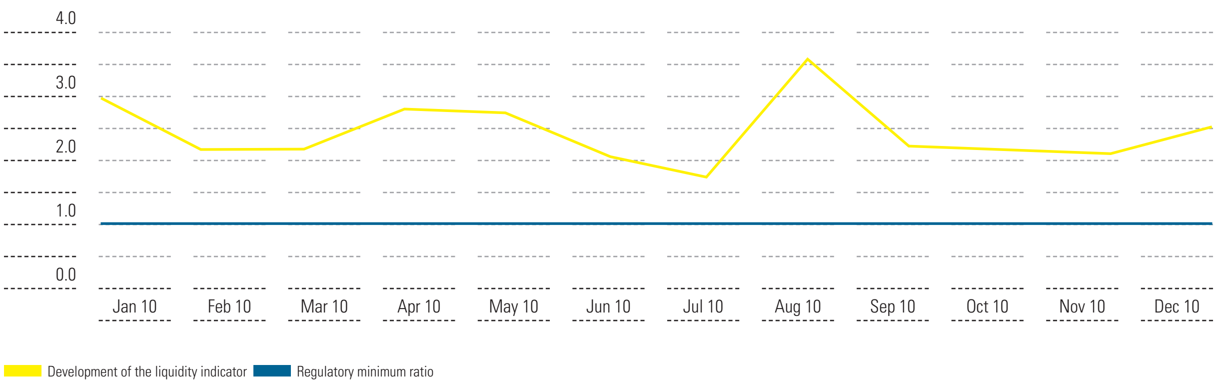
The underlying assumptions for the scenarios used are reviewed, and adjusted if appropriate, at regular intervals. In the event of an anticipated liquidity shortage, Risk Controlling triggers a defined escalation procedure, in coordination with Group Treasury. Should the measures taken by Group Treasury 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. In 2009, capital markets had been suffering from the Lehman Brothers insolvency; during the year under review, international funding was made difficult by the European sovereign debt crisis. Against this background, DVB's integration into the German Cooperative Financial Services Network once again proved to be of great importance, as the liquid German cooperative banking sector permitted us to cover our funding requirements with our partners, at prevailing market terms, at all times. In this way, we maintained a sufficient funding basis throughout the crisis.

DVB consistently adhered to regulatory liquidity principles throughout 2010. Its liquidity indicator – the ratio of available cash and cash equivalents to payment obligations due – averaged 2.43 (2009: 2.00) during the year, and was once again clearly above the minimum regulatory level of 1.00. ❶

Equity investment risk

Equity investment risk is negligible for DVB, since material subsidiaries and their business activities are fully integrated in the risk management process. We determine risk capital allocated to other shareholdings (the amounts of which are negligible) using a 99.95% confidence interval.

❶ **Liquidity principle**



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 and borrower. Leveraging our broadly diversified and well collateralised portfolios, we are generally in a position to exploit profitable business 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 adopted by DVB 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 prevailing 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, it has become possible to offset higher refinancing risks with higher interest margins: furthermore, the Bank is now able to negotiate financing and collateralisation structures that are even more conservative than the high standards already applied in its 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 of exploring potential sources of income which are not linked to credit, and which are virtually risk-neutral.

- DVB decided at an early stage to develop and implement the Internal Rating Model that meets the Advanced Approach requirements as defined by Basel II. This provides DVB with 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 key strengths, weaknesses, opportunities, and threats are summarised as follows: ❶

❶ **SWOT analysis**

Strengths

- Unique business model with a clear focus
- Highly qualified, experienced staff
- Extensive market and asset expertise
- Flat hierarchies, high degree of flexibility, lean decision-making
- Customised products and services
- Cycle-neutral business approach, ensuring the Bank remains a reliable partner even during times of crisis
- 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
- Backed by the liquidity of the German Cooperative Financial Services Network

Weaknesses

- Relatively high sector exposure
- Global presence requires high staff resources
- High staff costs due to high levels of employee qualification in terms of academic expertise and experience
- No material client deposits
- Dependence on the money and capital markets (and in particular on the German Cooperative Financial Services Network)
- Exposure to the euro/US dollar exchange rate, with an impact on growth and results

Opportunities

- Growth potential thanks to diminishing competition
- Realisation of margins in line with risks taken
- Expansion of anti-cyclical Investment Management activities
- Building new client relationships
- Funding available through the German Cooperative Financial Services Network
- Expanding the advisory and other services offered to clients, banks, and investors
- Boosting our reputation as a reliable partner to the international transport industry

Threats

- Distortions on the money and capital markets, in the broadest sense
- Decline in the value of transport assets, affecting various transport market segments
- Continuation of the global financial markets crisis and debt crisis, a drawn-out global recession, deflationary trends, sovereign debt crisis and sovereign defaults
- Unanticipated rise of the US dollar against the euro
- Further government support for DVB's direct competitors
- Spikes in crude oil prices

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 opportunities available.

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2010, with regard to the utilisation of risk capital. The overall risk capital limit was adhered to at all times during the business year under review. Regulatory requirements were fulfilled at all times. 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 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 crisis on its liquidity situation in an adequate manner.

DVB's business model has weathered the current crisis, since it is designed precisely to withstand cyclical downturn phases. 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 2011/2012 forecast period will continue to prove stable and resilient.

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 sector, whereas many competitors are still adopting a reticent stance – at least on an international level. Given the prevailing difficulties in certain segments of the maritime shipping markets, the Shipping Finance portfolio in particular may be subject to further burdens in 2011 and 2012. We believe that it may be some time before supply and demand reaches equilibrium again on the international transport markets. Thanks to its proprietary research, its risk management capabilities, and expertise in executing transactions, DVB expects to be affected by distortions, particularly on the shipping markets, to a lesser extent than many others in 2011/2012.

During the 2009 business year, DVB's income was burdened in particular by money market distortions, which led to considerable increases in refinancing costs. As forecasted in the 2009 Annual Report, such cost burdens no longer impacted DVB's earnings during 2010. We believe that the distortions known at present are unlikely to affect results for 2011 and 2012.

Outlook on the financial position

DVB's integration in the German Cooperative Financial Services Network will remain an important factor during 2011 and 2012: the liquid German Cooperative Financial Services Network will allow us to cover our funding requirements with these partners at prevailing market terms. We therefore expect to maintain a sufficient funding basis, while further relying upon long-term funding instruments, throughout the forecast period. Given that our lending exposures in Shipping Finance and Aviation Finance are predominantly 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. At the same time, we aim to further broaden our investor base.

§

The report on expected developments contains forward-looking statements regarding the future development of the DVB Group in the years 2011 and 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 2010, directly followed by a detailed forecast of market and portfolio developments in the years 2011 and 2012. The following parts of the texts therefore constitute an integral part of the report on expected developments:

– Shipping Finance outlook (pages 55–57)
– Aviation Finance outlook (pages 72–73)
– Land Transport Finance outlook (pages 85–87)
– Financial Institutions outlook (pages 94–95)
– Investment Management outlook (pages 99 and 101)
– Forward-looking statements of our subsidiary ITF Suisse (pages 103)

Obviously, any assessments and forecasts 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.

Trend outlook and summary

DVB envisages controlled growth, with selected new 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 2011 and 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.

Explanatory disclosures under takeover law

Disclosures pursuant to section 315 (4) no. 6 of the HGB

Please refer to sections 84 and 85 of the German Public Limited Companies Act (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, until 8 June 2015. Furthermore, the Company's registered share capital is subject to a conditional capital increase, pursuant to Article 4 (3) of the Memorandum and Articles of Association, not exceeding €25 million for the issuance of convertible bonds and bonds cum warrants ("Conditional Capital 2010"). The Board of Managing Directors is authorised to determine further details of the conditional capital increase.

Furthermore, in accordance with section 71 (1) no. 7 of the AktG, by virtue of a resolution passed by the Ordinary 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 disclosures 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 221. The provisions of sections 315 (2) no. 3 and (4) nos. 2, 4, 5, 8 and 9 of the HGB were not applicable to DVB Bank SE in 2010.

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

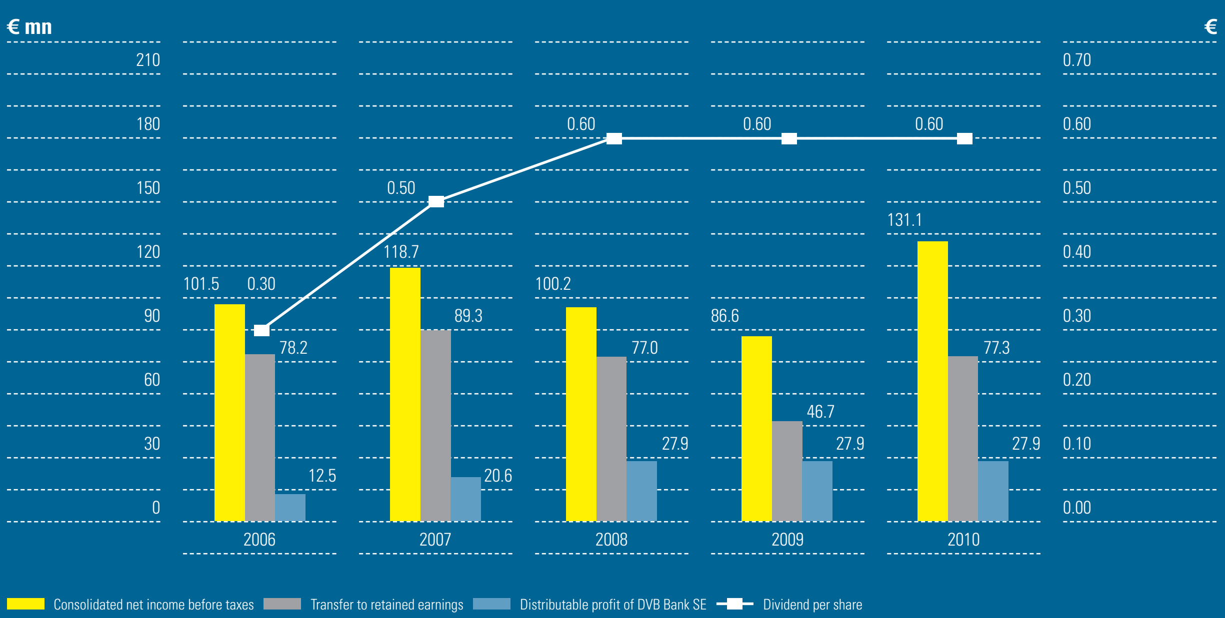
Pursuant to sections 15 and 18 of the AktG, DVB Bank SE is affiliated to DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, and its Group companies. As at 31 December 2010, DVB Bank SE has been included in the consolidated financial statements of DZ BANK Deutsche Zentral-Genossenschaftsbank, 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 all transactions, 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 2006 – 2010



Income statement

€ mn	Note	1 Jan 2010 – 31 Dec 2010	1 Jan 2009 – 31 Dec 2009	%
Net interest income after allowance for credit losses		**141.0**	**122.1**	**15.5**
Net interest income	(16)	193.0	194.3	–0.7
Interest income		805.4	719.4	12.0
Interest expenses		–612.4	–525.1	16.6
Allowance for credit losses	(17)	–52.0	–72.2	–28.0
Net fee and commission income	(18)	**124.4**	**97.8**	**27.2**
Fee and commission income		133.3	103.3	29.0
Fee and commission expenses		–8.9	–5.5	61.8
Net income from financial instruments in accordance with IAS 39	(19)	**30.2**	**17.9**	**68.7**
Net trading income	(19.1)	0.3	15.9	–98.1
Hedge result	(19.2)	3.5	3.5	0.0
Result from the application of the fair value option	(19.3)	–0.8	–1.0	–20.0
Result from derivatives entered into without intention to trade	(19.4)	16.5	7.9	–
Net income from investment securities	(19.5)	10.7	–8.4	–
Results from investments in companies accounted for using the equity method	(20)	**5.8**	**–2.0**	**–**
General administrative expenses	(21)	**–176.2**	**–156.5**	**12.6**
Net other operating income/expenses	(22)	**5.9**	**7.3**	**–19.2**
Consolidated net income before taxes		**131.1**	**86.6**	**51.4**
Income taxes	(23)	–27.1	–10.5	–
Consolidated net income		**104.0**	**76.1**	**36.7**
thereof: consolidated net income attributable to non-controlling interests		1.2	–1.5	–
thereof: consolidated net income attributable to shareholders of DVB Bank SE		105.2	74.6	41.0

Appropriation of profits

€ mn	1 Jan 2010 – 31 Dec 2010	1 Jan 2009 – 31 Dec 2009	%
Consolidated net income (after taxes)	104.0	76.1	36.7
Consolidated net income attributable to non-controlling interests	1.2	–1.5	–
Transfer to retained earnings	–77.3	–46.7	65.5
Distributable profit	**27.9**	**27.9**	**0.0**

Statement of comprehensive income

€ mn	Note	1 Jan 2010 – 31 Dec 2010	1 Jan 2009 – 31 Dec 2009	%
Consolidated net income		**104.0**	**76.1**	**36.7**
Other comprehensive income:		8.4	15.2	–44.7
Revaluation of AfS financial instruments		1.8	5.5	–67.3
thereof: changes in fair value		2.7	–2.4	–
thereof: reclassifications to the income statement		–0.9	7.9	–
Cash flow hedges		6.0	16.2	–63.0
thereof: changes in fair value		–17.9	0.4	–
thereof: reclassifications to the income statement		23.9	15.8	51.3
Currency translation		0.5	–1.2	–
thereof: changes from currency translation		0.5	–1.2	–
thereof: reclassification to the income statement		–	–	–
Actuarial gains and losses	(43)	0.2	–0.8	–
Deferred taxes on other comprehensive income	(23)	–0.1	–4.5	97.8
Total comprehensive income		**112.4**	**91.3**	**23.1**
thereof: total comprehensive income attributable to non-controlling interests		–1.2	1.5	–
thereof: total comprehensive income attributable to shareholders of DVB Bank SE		113.6	89.8	26.5

Earnings per share

	2010	2009	%
Consolidated net income attributable to shareholders of DVB Bank SE (€ mn)	105.2	74.6	41.0
Average number of ordinary shares issued	46,170,534	46,226,894	–0.1
Basic earnings per share (€)	**2.28**	**1.61**	**41.6**
Diluted earnings per share (€)	**2.28**	**1.61**	**41.6**

Statement of financial position

Assets (€ mn)	Note	31 Dec 2010	31 Dec 2009	%
Cash and balances with the central bank	(25)	114.3	252.4	–54.7
Loans and advances to banks	(26)	410.3	401.2	2.3
Loans and advances to customers	(27)	16,445.0	14,670.4	12.1
Allowance for credit losses	(28)	–182.5	–158.5	15.1
Positive fair values of derivative hedging instruments	(29)	362.9	356.6	1.8
Trading assets	(30)	193.1	282.4	–31.6
Investment securities	(31)	110.9	134.6	–17.6
Investments in companies accounted for using the equity method	(32)	37.3	18.7	99.5
Intangible assets	(33)	111.7	111.8	–0.1
Property and equipment	(34)	1,271.0	839.7	51.4
Income tax assets	(36)	106.3	87.3	21.8
Other assets	(37)	336.5	272.0	23.7
Total		**19,316.8**	**17,268.6**	**11.9**

Equity and liabilities (€ mn)	Note	31 Dec 2010	31 Dec 2009	%
Deposits from other banks	(38)	7,214.6	7,076.8	1.9
Deposits from customers	(39)	4,408.8	4,412.7	–0.1
Securitised liabilities	(40)	5,319.9	3,477.1	53.0
Negative fair values of derivative hedging instruments	(41)	197.6	162.3	21.7
Trading liabilities	(42)	227.1	206.7	9.9
Provisions	(43)	58.6	52.1	12.5
Income tax liabilities	(44)	107.4	90.6	18.5
Other liabilities	(45)	94.0	125.8	–25.3
Subordinated liabilities	(46)	545.5	606.0	–10.0
Equity	(47)	1,143.3	1,058.5	8.0
Issued share capital	(47.1)	118.0	118.1	–0.1
Capital reserve	(47.2)	332.5	333.2	–0.2
Retained earnings	(47.4)	661.3	583.8	13.3
thereof: fund for general banking risks		82.4	82.4	0.0
Revaluation reserve	(47.5)	1.9	–0.1	–
Hedging reserve – cash flow hedges	(47.6)	2.7	–3.0	–
Currency translation reserve	(47.7)	–2.2	–2.7	–18.5
Distributable profit		27.9	27.9	0.0
Non-controlling interests	(47.8)	1.2	1.3	–7.7
Total		**19,316.8**	**17,268.6**	**11.9**

€ mn	Subscribed 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 2008	**118.3**	**335.2**	**537.7**	**–5.0**	**–15.1**	**–1.5**	**27.9**	**997.5**	**1.4**	**998.9**
Consolidated net income attributable to shareholders of DVB Bank SE	–	–	–	–	–	–	74.6	74.6	1.5	76.1
Transfer to retained earnings	–	–	46.7	–	–	–	–46.7	–	–	–
Other comprehensive income	–	–	–0.6[1]	4.9	12.1	–1.2	–	15.2	–	15.2
Dividend payment	–	–	–	–	–	–	–27.9	–27.9	–	–27.9
Changes in treasury shares	–0.2	–2.0	–	–	–	–	–	–2.2	–	–2.2
Changes in consolidated group and other changes	–	–	–	–	–	–	–	–	–1.6	–1.6
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**

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 of 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 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 2010	31 Dec 2009
Consolidated net income before taxes	**131.1**	**86.6**
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	116.1	102.8
Increase/decrease in provisions	23.4	4.4
Other non-cash expenses/income		
thereof: hedge accounting	30.4	–82.7
thereof: other changes from the fair value measurement of financial instruments	363.6	380.2
Gains/losses on disposal of investment securities, and property and equipment	–12.5	–2.5
Other adjustments	–262.5	–291.3
Subtotal	**389.6**	**197.5**
Changes in assets and liabilities from operating activities		
Loans and advances to banks	–6.3	–79.9
Loans and advances to customers	–1,775.8	–319.7
Leased assets	–331.8	81.7
Other assets from operating activities	–329.3	–245.2
Deposits from other banks	141.3	–348.4
Deposits from customers	–51.9	–683.1
Securitised liabilities	1,842.8	754.5
Other liabilities from operating activities	–33.3	33.3
Interest and dividends received	805.4	719.3
Interest paid	–548.7	–426.0
Income taxes paid	–30.0	–12.0
Cash flow from operating activities	**72.0**	**–328.0**
Cash proceeds from the disposal of investment securities	29.7	10.6
Cash proceeds from the disposal of property and equipment	–	29.3
Cash payments for additions to property and equipment	–217.8	–
Cash proceeds from the disposal of consolidated companies	–	–
Cash payments to acquire consolidated companies	–4.2	–
Net change resulting from other investing activities	–2.6	–9.2
Cash flow from investing activities	**–194.9**	**30.7**
Cash proceeds from additions to equity (capital increases, sale of treasury shares, etc.)	–0.7	–2.3
Cash payments to owners and non-controlling shareholders (dividends)	–27.9	–27.9
Net change resulting from other financing activities	13.4	–63.0
Cash flow from financing activities	**–15.2**	**–93.2**
Net change in cash and cash equivalents (total of the three cash flow items)	–138.1	–390.5
Cash and cash equivalents at beginning of period	**252.4**	**642.9**
Cash and cash equivalents at end of period	**114.3**	**252.4**

	Group		Shipping Finance		Aviation Finance		Land Transport Finance		Investment Management		Treasury		Other segments		Reconciliation/consolidation	
€ mn	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net interest income after allowance for credit losses	141.0	122.1	82.6	35.9	72.1	49.7	13.1	13.0	2.6	49.8	11.4	–24.6	0.5	10.4	–41.4	–12.0
thereof: net interest income	193.0	194.3	107.8	80.9	71.2	58.2	13.8	13.4	17.4	66.1	13.1	–24.6	9.7	10.4	–40.1	–10.1
thereof: allowance for credit losses	–52.0	–72.2	–25.2	–45.0	0.9	–8.5	–0.7	–0.4	–14.8	–16.3	–1.7	–	–9.2	0.0	–1.3	–1.9
Net fee and commission income	124.4	97.8	69.5	46.8	38.5	35.1	3.6	2.6	2.5	5.5	–0.2	–0.3	10.7	8.7	–0.2	–0.6
Net income from financial instruments in accordance with IAS 39	30.2	17.9	–0.9	1.5	–0.1	0.1	0.0	0.0	–7.7	–8.4	42.3	22.5	0.1	0.0	–3.5	2.0
Results from investments accounted for using the equity method	5.8	–2.0	–	–	–	–	–	–	5.8	–1.8	–	0.4	–	–	0.1	–0.6
Net other operating income/expenses	5.9	7.3	–3.7	0.1	0.1	0.5	0.0	0.0	12.3	–8.2	0.0	0.0	12.7	12.1	–15.4	2.8
Income	**307.3**	**243.1**	**147.5**	**84.3**	**110.6**	**85.4**	**16.7**	**15.6**	**15.5**	**36.9**	**53.5**	**–2.0**	**24.0**	**31.2**	**–60.4**	**–8.4**
General administrative expenses	**–176.2**	**–156.5**	**–35.0**	**–35.4**	**–13.8**	**–14.0**	**–2.7**	**–2.6**	**–19.4**	**–19.4**	**–2.1**	**–2.0**	**–64.3**	**–63.6**	**–38.9**	**–19.5**
Staff expenses	–101.6	–89.4	–28.7	–27.8	–10.9	–11.0	–2.3	–2.2	–8.9	–10.6	–1.3	–1.3	–34.3	–32.7	–15.0	–3.8
Non-staff expenses	–68.9	–62.7	–6.2	–7.5	–2.9	–3.0	–0.4	–0.4	–9.7	–8.8	–0.8	–0.7	–26.0	–26.7	–22.9	–15.7
Depreciation, amortisation, impairment and write-ups	–5.7	–4.4	–0.1	–0.1	0.0	0.0	0.0	0.0	–0.7	–	0.0	–	–4.0	–4.2	–1.0	–0.1
Consolidated net income before taxes	**131.1**	**86.6**	**112.5**	**48.9**	**96.8**	**71.4**	**14.0**	**13.0**	**–3.9**	**17.5**	**51.4**	**–4.0**	**–40.3**	**–32.4**	**–99.3**	**–27.9**
Cost/income ratio[1] (%)	**49.0**	**49.6**	**20.3**	**27.3**	**12.6**	**14.9**	**15.7**	**16.2**	**64.0**	**36.5**	–	–	–	–	–	–
Return on equity[2] (%)	**13.9**	**9.4**	**29.3**	**15.2**	**49.1**	**30.4**	**45.1**	**21.0**	**–1.0**	**16.4**	–	–	–	–	–	–
Risk-weighted assets in accordance with Basel I (average)	**17,020.7**	**16,321.2**	**8,732.5**	**8,431.1**	**5,075.5**	**4,742.6**	**1,325.7**	**1,352.8**	**598.6**	**497.1**	**88.7**	**95.8**	**977.3**	**912.8**	**222.4**	**289.0**

1) Excluding allowance for credit losses 2) Before taxes

Contents of the Notes

Basis of accounting

For the business year 2010, 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 (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 2010.

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. As 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 in accordance with standard commercial rounding rules. This may result in slight differences when aggregating figures and calculating percentages.

The consolidated financial statements will be authorised for publication by the Board of Managing Directors upon approval by the Supervisory Board on 28 March 2011.

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 Group ("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:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1 (2008))
- IFRS 3 – Business Combinations (IFRS 3 (2008))
- IAS 27 – Consolidated and Separate Financial Statements (IAS 27 (2008))
- Amendments to IFRS 1 – Additional Exemptions for First-time Adopters
- Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions
- Amendment to IAS 39 – Eligible Hedged Items
- IFRIC 17 – Distributions of Non-cash Assets from Customers to Owners
- Improvements to IFRSs (2008): Addition of paragraphs 8A and 36A to IFRS 5
- Improvements to IFRSs (2009)

In contrast to the previous version of IFRS 3, the new IFRS 3 (2008) provides for an option with regard to the measurement of non-controlling interests in the context of business combinations. For each business combination the acquirer has to measure any non-controlling interests either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This election may be made for every single business combination. The fair value measurement potentially results in the recognition of goodwill attributable to non-controlling interests. Other effects on goodwill are caused by the changes in the rules for the accounting for acquisition-related costs and contingent consideration. In accordance with IFRS 3 (2008), acquisition-related costs have to be recorded as an expense in the reporting period in which the related services are rendered. Under the new IFRS 3 (2008), any contingent consideration has to be recognised initially at fair value. If the amount of contingent consideration changes subsequently, the change is recognised either in profit or loss, in other comprehensive income or directly in equity, depending on the classification. In accordance with IAS 27 (2008), any differences resulting from the sale of interests without loss of control as well as purchases of non-controlling interests in consolidated subsidiaries are regarded as equity transactions and recognised directly in equity. Gains or losses arising on disposal without loss of control recognised in profit or loss, as well as goodwill from step acquisitions (also referred to as business combinations achieved in stages) related to consolidated subsidiaries, can no longer occur through the application of IAS 27 (2008).

IFRS 3 (2008) and IAS 27 (2008) have been applied prospectively in the DVB Group since 1 January 2010 and did not have any significant impact in the year under review.

The Improvements to IFRSs (2009) result in changed disclosure requirements in IFRS 8 – Operating Segments with regard to the segment assets of the reportable segments. According to the Improvements to IFRSs (2009), segment assets may only be disclosed when such information is regularly provided to the chief operating decision-maker of a company. The same applies to the disclosure of segment liabilities. In the DVB Group, disclosures related to segment assets are regularly provided to the chief operating decision maker. Therefore, the described change does not result in any effects on the presentation of operating segments.

The application of the other amendments to IFRSs does not have any material consequences for DVB's consolidated financial statements.

1.2 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:

- IAS 24 – Related Party Disclosures (IAS 24 (2009))
- Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Amendment to IAS 32 – IFRS Classification of Rights Issues
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement

The aforementioned amendments to IFRS are applied by DVB as from business year 2011, pursuant to the relevant transitional provisions.

The application of the revised or amended accounting standards and of the new or amended interpretations does not have any material consequences for DVB's consolidated financial statements.

1.3 Amendments to IFRS not yet endorsed

The following new and revised accounting standards, amendments to accounting standards, as well as new and amended interpretations as issued by the International Accounting Standards Board (IASB), have not yet been endorsed by the EU:

- IFRS 9 – Financial Instruments
- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendments to IFRS 7 – Transfers of Financial Assets
- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
- Improvements to IFRSs (2010)

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. The implementation of IFRS 9 requires a reclassification of financial assets, which necessitates an assessment to be carried out for the individual financial assets. In contrast to IAS 39, IFRS 9 states that fair value changes of financial liabilities measured at fair value through profit or loss resulting from changes in own credit have to be recognised generally in other comprehensive income. DVB is currently investigating the impact of IFRS 9 on future consolidated financial statements. Pursuant to the transitional provisions of IFRS 9, the standard is required to be applied for business years beginning on or after 1 January 2013. Earlier application is permitted. Generally, the standard has to be applied retrospectively. The date of the first-time application of IFRS 9 by DVB had not been determined as at the time of publication of the 2010 consolidated financial statements.

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 with 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 Amendments to IFRS 7 are required to be applied for business years beginning on or after 1 July 2011. DVB will apply the Amendments to IFRS 7 starting in the business year 2012, subject to endorsement by the EU.

Improvements to IFRSs (2010) related to IFRS 7 – Financial Instruments: Disclosures result in changes in the disclosures on the nature and the extent of risks arising from financial instruments. These have to be disclosed in the report on opportunities and risks of the group management report in accordance with IFRS 7.B6. Due to the revised version of IFRS 7.36(b), quantitative disclosures are required related to the collateral for the entire loan portfolio. The previous version of IFRS 7.36(b) only requires narrative disclosures related to collateral held. In turn, the disclosure requirement with respect to the fair values of collateral in connection with the subportfolios of the past-due and non-impaired lending volume and the lending volume subject to specific valuation allowances no longer applies. The disclosure requirement related to loans and advances with renegotiated terms also no longer applied due to the deletion of IFRS 7.36(d). The other changes to IFRS 7 based on the Improvements to IFRSs (2010) do not lead to any changes in the financial reports of DVB.

The Improvements to IFRSs (2010) relating to IAS 34 – Interim Financial Reporting affect DVB's interim consolidated financial statements, which are prepared for the first six months of each business year pursuant to the provisions of section 37w of the German Securities Trading Act (WpHG). If significant, the following matters have to be disclosed in the interim consolidated financial statements of DVB as from the business year 2011, provided that the EU endorses the changes in due time:

- changes in the business or economic circumstances that affect the fair value of financial assets and financial liabilities, whether these assets or liabilities are recognised at fair value or amortised cost;
- transfers between levels of the fair value hierarchy used in measuring the fair values of financial instruments; and
- changes in the classification of financial assets as a result of a change in the purpose or intended use of those assets.

In accordance with the improvements to IAS 34, changes in contingent liabilities or contingent assets need only be disclosed if they are significant. In accordance with the previous version of IAS 34, such changes were required to be disclosed.

DVB will apply the Improvements to IFRSs (2010) starting in the business year 2011, subject to endorsement by the EU.

The application of the other amendments and improvements does not have any material consequences for DVB's consolidated financial statements.

1.4 Changes to the HGB applied for the first time for the business year 2010

The German Accounting Law Modernisation Act has brought about changes to the provisions set out in section 315a of the HGB applicable to publicly-traded companies, which have to be complied with in the context of preparing consolidated financial statements in accordance with IFRS as adopted by the EU.

As a result of the elimination of section 313 (4) of the HGB, the disclosures required pursuant to section 313 (2) of the HGB may be made for the last time in the list of shareholdings (instead of separate disclosures in the Notes) for consolidated financial statements for business years beginning before 1 January 2010. In the consolidated financial statements of DVB, the disclosures required pursuant to section 313 (2) of the HGB are, for the first time, no longer provided separately, but are included in the Notes.

1.5 Group of consolidated companies and consolidation methods

1.5.1 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, Cardiff.

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.

The two subsidiaries DUNAVAGON s.r.o. (Slovak Republic) and DV01 Szarazfoldi Jarmukolcsonzo rt (Republic of Hungary) were included in the consolidated financial statements for the first time, with effect from 1 December 2010, following their acquisition by the fully-consolidated subsidiary SRF 1 Ltd (Republic of Malta) against a consideration of €4.2 million. Initial consolidation included assets at a fair value of €28.3 million, liabilities at a fair value of €24.8 million, and equity of €3.5 million.

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 2010 in accordance with section 325 of the HGB.

1.5.2 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).

With two exceptions, the financial statements of companies included using the equity method were prepared as at the reporting date of DVB.

1.6 Currency translation

The functional currency of the companies of the DVB Group is largely the euro, with the exception of TES Holdings Limited, Cardiff, 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.

1.7 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:

1.7.1 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".

1.7.1.1 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 net trading income.

1.7.1.2 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 adjustment 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.

1.7.2 Held-to-maturity investments

The category "Held-to-maturity investments" is currently not used by DVB.

1.7.3 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.

1.7.4 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.

1.7.5 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".

1.7.5.1 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 net trading income.

1.7.5.2 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 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 liabilities 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 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.

1.7.6 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.

1.7.7 Classes of financial instruments

Diverging from the previous year, DVB now allocates financial instruments to the following classes, to comply with the disclosure requirements of IFRS 7 in relation to the significance of financial instruments for an entity's financial position and performance:

1.7.7.1 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"; as well as

- 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. Such financial assets 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 determined reliably.

– Other financial assets

The class of other financial assets exclusively consists of receivables from finance leases where DVB is the lessor.

1.7.7.2 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 categories: Financial instruments at fair value through profit or loss, with the subcategories "Financial assets held for trading"; and "Financial instruments designated as at fair value through profit or loss".

Apart from the financial liabilities of the categories 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.

1.7.8 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 determined using valuation models (day 1 profit) are recognised through profit or loss upon first-time recognition, to the extent that such valuation models are primarily based on observable inputs. No such differences were recognised in the year under review.

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.

1.7.9 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 was 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 covenants attached to 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.

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.

1.8 Embedded derivatives

In accordance with IAS 39, derivative financial instruments embedded in non-derivative financial instruments (embedded derivatives) have to be separated from the host contract and accounted for and measured separately (i) when their economic characteristics and risks are not closely related with the economic characteristics and risks of the host contract; (ii) when a separate instrument with the same terms would meet the definition of a derivative; and (iii) 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.

1.9 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.

1.9.1 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 profit or loss. Hedged items of the category "Loans and receivables" are measured at amortised cost in line with the general measurement principles of this category. The amortised cost is adjusted subsequently by the fair value change attributable to the hedged risk. Hedged items of the category "Available-for-sale financial instruments" are measured at fair value. Only the fair value changes that 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 are primarily interest rate swaps. Interest expenses and interest income from hedged items, as well as from the hedging instruments, are recognised in net interest income.

1.9.2 Cash flow hedges

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

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

Changes in the fair value of hedging instruments used in cash flow hedges are recognised directly in equity, to the extent that 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 denominated in foreign currencies. Each of the hedged cash flows is expected to occur in the following business year. Hedging instruments are primarily forward currency contracts.

1.9.3 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.

1.10 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 required 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 elected accounting policies, are essential to understanding 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.

1.10.1 Property and equipment, and intangible assets

The accounting for items of property and equipment, as well as for intangible assets, involves 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) requires 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 the discounted cash flow method which incorporates reasonable market participant assumptions.

1.10.2 Allowance for credit losses (risk provisioning)

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.

1.10.3 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 and can be reliably estimated. This present obligation is a liability of uncertain timing and amount. The amount of provisions is determined on the basis of the best estimate. 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, respectively. We record provisions for liabilities when a loss contingency is considered to exist, when a loss is considered probable and when it 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 defined 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.

1.10.4 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". Such assets are no longer subject to amortisation. In general, impairments 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 through profit and loss in net trading income.

If a quoted market price was available for derivative financial instruments listed in an active market, such market price was used as the basis for the determination of the fair value. For derivative financial instruments not quoted in an active market, the fair value is determined by means of generally accepted measurement methods. Financial instruments without option characteristics were exclusively measured in accordance with the so-called discounted cash flow (DCF) method. Under the DCF method, the expected future cash flows are discounted using the market interest rate applicable at the measurement date. Derivative financial instruments with 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 measurement methods such as the DCF 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 results 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 "Results 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 (especially ships, aircraft, aircraft engines and shipping containers), 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	between 40 to 50 years	straight-line depreciation
Operating and office equipment	between 3 to 15 years	straight-line depreciation
Leased assets	between 0.5 to 24 years	straight-line depreciation
Leasehold improvements	between 2 to 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 to 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 in individual cases 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 accounts, 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 mortgage 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 the 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 items 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 subscribed capital, capital reserve, 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.

15 Employee participation schemes

Since the 2005 business year, DVB has had a Long-Term Incentive Plan (LTI) for its employees, which replaced the employee participation scheme "DVB shares" that expired in 2004.

Under the LTI programme, a bonus will be paid to employees who were employed by the Company as at the grant date, provided the Bank achieves its performance goal in the target year. This performance goal is measured on the basis of a pre-defined economic value added figure, and the consolidated net income before tax. A disbursement will only be made when both indicators have been achieved in the business year prior to the planned payment.

Notes to the consolidated income statement

16 Net interest income

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

€ mn	2010	2009	%
Interest income			
from lending and money market transactions	607.0	554.2	9.5
from bonds and other fixed-income securities	2.4	7.1	–66.2
from finance leases	36.4	39.1	–6.9
Current income			
from operating leases	159.2	117.0	36.1
from equity investments and other investment securities	0.4	2.0	–80.0
Interest income	**805.4**	**719.4**	**12.0**
Interest expenses			
for deposits	–401.5	–368.9	8.8
for securitised liabilities	–87.4	–76.8	13.8
for subordinated liabilities	–22.5	–26.7	–15.7
from operating leases	–101.0	–52.7	91.7
Interest expenses	**–612.4**	**–525.1**	**16.6**
Net interest income	**193.0**	**194.3**	**–0.7**

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 expenses of €20.1 million (2009: income of €13.7 million), which is reported in the item "Interest income from lending and money market transactions". This compares with a correspondingly higher interest income 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 €525.5 million (previous year: €522.5 million), and interest expense amounted to €410.4 million (previous year: €453.0 million). Net interest income included interest income in the amount of €30.4 million (previous year: €14.7 million) attributable to impaired loans and advances.

Interest income from lending and money market transactions included interest income in the amount of €18.2 million in connection with the restructuring of one exposure. In this context we refer to the section "Financial guarantee contracts, contingent liabilities and other commitments" (Note 59, page 198).

17 Allowance for credit losses

The allowance for credit losses changed as follows:

€ mn	2010	2009	%
Additions	–97.3	–116.5	–16.5
Reversals	54.9	58.3	–5.8
Direct write-offs	–10.9	–15.8	–31.0
Recoveries on loans and advances previously written off	1.3	1.8	–27.8
Total	**–52.0**	**–72.2**	**–28.0**

The distribution of the allowance for credit losses by business division is outlined in the discussion of financial position and performance (see pages 108–109).

18 Net fee and commission income

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

€ mn	2010	2009	%
Fee and commission income			
from guarantees and indemnities	3.8	3.6	5.6
from the lending business	108.3	83.6	29.5
Other fee and commission income	21.2	16.1	31.7
Fee and commission income	**133.3**	**103.3**	**29.0**
Fee and commission expenses			
from the securities business	0.0	0.0	0.0
from payment transactions	–0.5	–0.3	66.7
from guarantees and indemnities	–0.1	–0.5	–80.0
from the lending business	–2.8	–2.5	12.0
Other fee and commission expenses	–5.5	–2.2	–
Fee and commission expenses	**–8.9**	**–5.5**	**61.8**
Net fee and commission income	**124.4**	**97.8**	**27.2**

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

Fee and commission income from financial instruments not measured at fair value through profit or loss amounted to €108.3 million (previous year: €83.6 million); fee and commission expenses amounted to €2.8 million (previous year: €2.5 million).

19 Net income from financial instruments in accordance with IAS 39

Net income from financial instruments in accordance with IAS 39 is divided into net trading income, the hedge result, the result from the application of the fair value option, the result from derivatives entered into without intention to trade, and net income from investment securities.

€ mn	2010	2009	%
Net trading income	0.3	15.9	–98.1
Hedge result	3.5	3.5	0.0
Result from the application of the fair value option	–0.8	–1.0	–20.0
Result from derivatives entered into without intention to trade	16.5	7.9	–
Net income from investment securities	10.7	–8.4	–
Total	**30.2**	**17.9**	**68.7**

19.1 Net trading income

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

€ mn	2010	2009	%
Net trading income			
from derivatives	–0.8	2.0	–
from foreign currency transactions	–2.2	20.6	–
from interest and dividend payments	3.9	–8.0	–
Other	–0.6	1.3	–
Total	**0.3**	**15.9**	**–98.1**

A result from remeasurement reported in net trading income amounting to €–1.4 million (2009: €20.3 million) was determined on the basis of measurement models.

19.2 Hedge result (hedge accounting)

The hedge result can be broken down as follows in the year under review:

€ mn	2010	2009	%
Result from derivatives	3.5	150.5	–97.7
Result from hedged items	3.8	–144.9	–
Result from remeasurement	**7.3**	**5.6**	**30.4**
Ineffectiveness of cash flow hedges	–3.8	–2.1	81.0
Total	**3.5**	**3.5**	**0.0**

The entire result from remeasurement of hedging relationships, amounting to €3.5 million (2009: €3.5 million), was determined on the basis of measurement models.

19.3 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	2010	2009	%
Loans and advances to customers designated as at fair value through profit or loss	0.0	–0.1	–
Deposits from customers and other banks designated as at fair value through profit or loss	0.5	1.7	–70.6
Economic derivative hedging instruments	–1.3	–2.6	–50.0
Total	**–0.8**	**–1.0**	**–20.0**

The entire remeasurement result from the application of the fair value option, amounting to €–0.8 million (2009: €–1.0 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 (previous year: €0.0 million) and €0.0 million (previous year: €0.0 million), respectively. This resulted in income from changes in the fair value as a result of credit quality issues in the amount of €0.0 million for financial assets (previous year: €0.0 million) and €0.1 million for financial liabilities (previous year: expenses of €0.5 million).

19.4 Result from derivatives entered into without intention to trade

The result from derivatives entered into without intention to trade includes results from the 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	2010	2009	%
Interest-rate derivatives	16.5	7.9	–
Total	**16.5**	**7.9**	**–**

The entire result from remeasurement of derivatives entered into without intention to trade, amounting to €16.5 million (2009: €7.9 million), was determined on the basis of measurement models.

19.5 Net income from investment securities

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

€ mn	2010	2009	%
Result from investment securities measured at amortised cost	4.5	1.2	–
Result from investment securities available for sale	6.2	–9.4	–
Result from the disposal of investment securities accounted for using the equity method	–	–0.2	–
Total	**10.7**	**–8.4**	**–**

Net income from investment securities includes income from the application of measurement models in the amount of €4.6 million (2009: expenses of €8.3 million). The income results, among other things, from a reversal of a write-down of an Icelandic bank bond, down to its expected recoverable amount.

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

The results from investments in companies accounted for at equity can be broken down as follows in the year under review:

€ mn	2010	2009	%
Results from joint ventures accounted for using the equity method	5.3	–2.1	–
Results from associates accounted for using the equity method	0.5	0.1	–
Total	**5.8**	**–2.0**	**–**

21 General administrative expenses

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

€ mn	2010	2009	%
Wages and salaries	–90.3	–76.4	18.2
Social security contributions	–5.9	–7.4	–20.3
Expenses for pensions and other employee benefits	–5.3	–5.6	–5.4
Staff expenses	**–101.5**	**–89.4**	**13.5**
Expenses for temporary staff	–1.2	–1.4	–14.3
Contributions and fees	–7.3	–4.4	65.9
Legal and auditing fees	–13.4	–12.9	3.9
Other advisory services (including IT advisory)	–11.9	–9.5	25.3
IT costs	–3.8	–3.7	2.7
Occupancy expenses	–10.8	–10.6	1.9
Procurement of information	–1.4	–1.4	0.0
Public relations	–0.9	–0.5	80.0
Ancillary labour costs	–11.9	–11.5	3.5
Other non-staff expenses	–6.4	–6.8	–5.9
Non-staff expenses	**–69.0**	**–62.7**	**10.0**
Property and equipment, and investment property	–3.0	–2.4	25.0
Intangible assets	–2.7	–2.0	35.0
Total depreciation, amortisation, impairment and write-ups	**–5.7**	**–4.4**	**29.5**
Total general administrative expenses	**–176.2**	**–156.5**	**12.6**

In the year under review, minimum lease payments under operating leases in the amount of €–5.8 million (2009: €–5.5 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 €1.6 million (2009: €1.3 million). These fees are comprised of the following individual items:

€ mn	2010	2009	%
Auditing fees	1.2	1.1	9.1
Other audit activities	0.2	0.2	0.0
Tax advisory services	–	–	–
Other services	0.2	0.0	–
Total fees	**1.6**	**1.3**	**23.1**

22 Net other operating income/expenses

Net other operating income/expenses were as follows:

€ mn	2010	2009	%
Income			
from the disposal of property and equipment	5.6	2.7	–
from rents	0.5	0.5	0.0
from deconsolidation	–	9.2	–
from the reversal of provisions	1.3	1.6	–18.8
from the recovery of taxes not related to income	1.6	0.1	–
from revenues of TES Holdings Ltd	11.1	7.1	56.3
from miscellaneous other income	16.7	10.2	63.7
Other operating income	**36.8**	**31.4**	**17.2**
Losses from the disposal of property and equipment	0.0	0.0	0.0
Expenses from deconsolidation	–	–7.3	–
Additions to provisions	–11.3	–3.9	–
Expenses for taxes not related to income	–2.1	–0.1	–
Miscellaneous other expenses	–17.5	–12.8	36.7
Other operating expenses	**–30.9**	**–24.1**	**28.2**
Net other operating income/expenses	**5.9**	**7.3**	**–19.2**

23 Income taxes

Income taxes were as follows in the year under review:

€ mn	2010	2009	%
Current taxes on income for the current year	–30.0	–12.1	–
Deferred income taxes			
from temporary differences	6.8	–3.5	–
from tax loss carryforwards	–3.9	5.1	–
Income taxes	**–27.1**	**–10.5**	**–**

Components of other comprehensive income include the following tax effects: ❶

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

€ mn	2010	2009	%
Result from ordinary activities before taxes (consolidated net income before taxes)	131.1	86.6	51.4
Tax rate for the Group (%)	31.9	31.9	0.0
Expected taxes on income	**–41.8**	**–27.6**	**51.4**
Tax rate differences with regard to earnings components that are subject to taxation in other countries	17.6	20.7	–15.0
Additional taxes due to non-deductible expenses	–2.9	–3.6	–19.4
Tax effects	**14.7**	**17.1**	**–14.0**
Current taxes	–30.0	–12.1	–
Deferred taxes	2.9	1.6	81.3
Reported income taxes	**–27.1**	**–10.5**	**–**

The expected tax rate for the Group is 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 rate of 460% applicable for Frankfurt/Main, Germany. The expected Group tax rate, based on these rates, is 31.9%.

Deferred tax income of €6.8 million is attributable to the recognition or reversal of temporary differences (2009: deferred tax expenses of €3.5 million).

❶ Tax effects (€ mn)

	2010			2009		
	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	1.8	0.2	2.0	5.5	–0.6	4.9
from cash flow hedges	6.0	–0.3	5.7	16.2	–4.1	12.1
from currency translation	0.5	–	0.5	–1.2	–	–1.2
from actuarial gains and losses	0.2	–	0.2	–0.8	0.2	–0.6
Other comprehensive income	**8.5**	**–0.1**	**8.4**	**19.7**	**–4.5**	**15.2**

24 Segment reporting

24.1 General information on segment reporting

The segment report illustrates how the individual business divisions contribute to the 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 shall 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.

24.2 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 traditional business with 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, i.e. the subsidiary ITF Suisse as well as the D-Marketing portfolio (which is no longer in line with our strategy and is being phased out), and the discontinued Transport Infrastructure portfolio, are included 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 cannot be directly influenced by the respective management and therefore no direct control factor can be identified. In the previous year, the other segments were reported together with "Reconciliation/consolidation". The comparative figures were adjusted according to the new structure.

The "Reconciliation/consolidation" segment comprises expenses and income that cannot be allocated to the active segments or 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 amounts from consolidation adjustments.

24.3 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. In addition, DVB's internal management reporting does not take into account taxes on income.

Income or costs from trading activities and exchange rate hedging (hedge accounting) are not allocated to the segments, since central functions are responsible for such transactions. Only in exceptional cases do business divisions cause such transactions to be performed (Investment Management).

Inter-segment, intra-group 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 the Solvency Principle I of the German Banking Act (KWG; Basel I).

24.4 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 return on equity and cost/income ratio indicators. The return on equity represents the ratio of consolidated net income before taxes attributable to DVB's shareholders to the year's average investor capital attributable to DVB's shareholders (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 average capital is allocated to the segments in proportion to the economic risks pertaining to each segment, 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.

24.5 Reconciliation/consolidation

The "Reconciliation/consolidation" column includes consolidation and reconciliation items to reconcile from segment results as reported under internal management reporting to the consolidated financial statements. ❶ 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. These 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; and
- Other consolidation effects.

24.6 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		Reconciliation		Consolidation	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Net interest income after allowance for credit losses	–41.4	–12.0	–13.2	3.4	–28.2	–15.4
thereof: net interest income	–40.1	–10.1	–13.2	3.4	–26.9	–13.5
thereof: allowance for credit losses	–1.3	–1.9	–	–	–1.3	–1.9
Net fee and commission income	–0.2	–0.6	–2.1	–3.3	1.9	2.7
Net income from financial instruments in accordance with IAS 39	–3.5	2.0	–3.5	1.6	–	0.4
Results from investments in companies accounted for using the equity method	0.1	–0.6	0.0	–	0.1	–0.6
Net other operating income/expenses	–15.4	2.8	–2.6	2.6	–12.8	0.2
Income	**–60.4**	**–8.4**	**–21.4**	**4.3**	**–39.0**	**–12.7**
General administrative expenses	**–38.9**	**–19.5**	**–27.5**	**–18.5**	**–11.4**	**–1.0**
Staff expenses	–15.0	–3.8	–11.5	–5.6	–3.5	1.8
Non-staff expenses	–22.9	–15.7	–15.8	–12.8	–7.1	–2.9
Depreciation, amortisation, impairment and write-ups	–1.0	–0.1	–0.2	–0.1	–0.8	0.0
Consolidated net income before taxes	**–99.3**	**–27.9**	**–48.9**	**–14.2**	**–50.4**	**–13.7**
Cost/income ratio[1)]	–	–	–	–	–	–
Return on equity[2)]	–	–	–	–	–	–
Risk-weighted assets in accordance with Basel I (average)	**222.4**	**289.0**	**222.4**	**289.0**	–	–

1) Excluding allowance for credit losses 2) Before taxes

Notes to the statement of financial position

25 Cash and balances with the central bank

€ mn	2010	2009	%
Cash on hand	4.4	2.5	76.0
Balances with the central bank	109.9	249.9	–56.0
Total	**114.3**	**252.4**	**–54.7**

This item includes a minimum reserve requirement in the amount of €12.0 million (2009: €19.8 million).

26 Loans and advances to banks

€ mn	2010	2009	%
Loans and advances	361.1	131.8	–
thereof: payable on demand	361.1	120.5	–
thereof: with a limited term	0.0	11.3	–
Money market transactions	48.6	269.3	–82.0
thereof: payable on demand	–	103.5	–
thereof: with a limited term	48.6	165.8	–70.7
Other loans and advances to banks	0.6	0.1	–
Total	**410.3**	**401.2**	**2.3**
German banks	114.6	214.6	–46.6
Foreign banks	295.7	186.6	58.5
Total	**410.3**	**401.2**	**2.3**

27 Loans and advances to customers

€ mn	2010	2009	%
Loans and advances	16,432.7	14,658.0	12.1
thereof: payable on demand	164.1	90.3	81.7
thereof: with a limited term	16,268.6	14,567.7	11.7
Other loans and advances to customers	12.3	12.4	–0.8
Total	**16,445.0**	**14,670.4**	**12.1**
German customers	1,060.5	1,097.3	–3.4
Foreign customers	15,384.5	13,573.1	13.3
Total	**16,445.0**	**14,670.4**	**12.1**

Loans and advances also include items with a carrying amount of €6.5 million (2009: €8.9 million) which are measured at fair value through profit or loss under the fair value option.

As at 31 December 2010, the Company had finance leases for ships, shipping containers, airplanes and aircraft engines with a total lease term between five and fourteen years. These leases are reported under loans and advances with a limited term, in an amount of €566.5 million (2009: €619.2 million).

€ mn	2010	2009	%
Total lease payments	588.0	746.0	–21.2
Guaranteed residual value	102.3	48.3	–
Gross investment value	690.3	794.3	–13.1
thereof: within one year	87.5	92.8	–5.7
thereof: within one to five years	349.5	403.5	–13.4
thereof: after more than five years	253.3	298.0	–15.0
Total gross investment	**690.3**	**794.3**	**–13.1**
Less unearned finance income	123.8	175.1	–29.3
Total net investment	**566.5**	**619.2**	**–8.5**
thereof: within one year	71.8	72.4	–0.8
thereof: within one to five years	286.8	314.5	–8.8
thereof: after more than five years	207.9	232.3	–10.5

28 Allowance for credit losses

The allowance for credit losses 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 valuation allowance (portfolio impairment) is recognised on the basis of historical experience. ❶

The specific allowance for credit losses of €150.2 million (2009: €127.7 million) exclusively relates to loans and advances to customers.

The distribution of the allowance for credit losses by business division and region is described in the report on opportunities and risks (see pages 136–138).

29 Positive fair values of derivative hedging instruments

€ mn	2010	2009	%
Interest rate products	357.1	346.5	3.1
Currency-related products	5.8	10.1	–42.8
Total	**362.9**	**356.6**	**1.8**

30 Trading assets

€ mn	2010	2009	%
Derivative financial instruments with positive fair values	165.9	250.0	–33.6
thereof: interest rate products	102.7	114.7	–10.5
thereof: currency-related products	63.2	135.3	–53.3
Non-derivative financial instruments	27.2	32.4	–16.0
thereof: syndicated loans	27.2	32.4	–16.0
Total	**193.1**	**282.4**	**–31.6**

31 Investment securities

€ mn	2010	2009	%
Bonds and other fixed-income securities	85.1	91.2	–6.7
thereof: bonds and notes	85.1	91.2	–6.7
Equities and other non-fixed-income securities	16.1	14.6	10.3
Equity investments	9.7	28.8	–66.3
Total	**110.9**	**134.6**	**–17.6**

Equity investments and equities and other non-fixed-income securities also include equity instruments measured at cost in an amount of €9.7 million (2009: €28.8 million) and €8.8 million (2009: €8.8 million), respectively. It was not possible to identify market prices for these instruments on an active market, nor could fair values be reliably estimated for them.

Gains from the disposal of equity instruments measured at cost were recognised in profit or loss in the amount of €0.0 million (2009: €0.0 million).

❶

	Specific valuation allowances		Portfolio impairment		Total	
€ mn	2010	2009	2010	2009	2010	2009
Balance as at 1 Jan	127.7	100.3	30.8	7.4	158.5	107.7
Additions	86.0	86.8	10.9	28.9	96.9	115.7
Utilisation	–29.1	–3.7	–	–	–29.1	–3.7
Reversals	–44.3	–52.7	–9.6	–5.5	–53.9	–58.2
Changes resulting from exchange rate fluctuations	9.9	–3.0	0.2	–	10.1	–3.0
Balance as at 31 Dec	**150.2**	**127.7**	**32.3**	**30.8**	**182.5**	**158.5**

32 Investments in companies accounted for using the equity method

€ mn	2010	2009	%
Investments in associates	6.4	10.3	–37.9
Interests in joint ventures	30.9	8.4	–
Total	**37.3**	**18.7**	**99.5**

Investments in associates, as well as interests in joint ventures, primarily relate to equity investments held by the Investment Management business division.

The financial data of associates accounted for using the equity method are as follows, irrespective of the respective interest held by DVB:

€ mn	2010	2009	%
Assets	116.1	52.7	–
Liabilities	65.3	5.1	–
Income	10.3	0.8	–
Profit or loss for the period	1.9	–3.9	–

The financial data of joint ventures accounted for using the equity method are as follows, based on the respective interest held by DVB:

€ mn	2010	2009	%
Assets	88.0	70.9	24.1
Liabilities	55.6	63.8	–12.9
Income	10.6	13.3	–20.3
Expenses	–5.3	–17.9	–70.4

33 Intangible assets

€ mn	2010	2009	%
Goodwill	107.0	106.4	0.6
Other intangible assets	4.7	5.4	–13.0
Total	**111.7**	**111.8**	**–0.1**

34 Property and equipment

€ mn	2010	2009	%
Land and buildings	12.7	13.7	–7.3
Operating and office equipment	4.1	4.8	–14.6
Assets held under operating leases	1,168.5	820.0	42.5
Other property and equipment	85.7	1.2	–
Total	**1,271.0**	**839.7**	**51.4**

As at 31 December 2010, Group companies were lessors for ships, aircraft, aircraft engines and containers provided under operating leases. The lease term was six to ten years for ships, three to twenty-one years for aircraft, six months to seven years for aircraft engines, and eleven years for shipping containers.

During the year under review, borrowing costs for qualifying assets in operating leases in accordance with IAS 23 were capitalised in the amount of €6.3 million (2009: €13.0 million). This corresponds to an average capitalisation rate of 1.2%. In addition, payments of agency commissions and legal fees in the amount of €3.2 million (2009: €2.9 million) were included in the cost.

The sum of future minimum lease payments as at 31 December 2010 is as follows:

€ mn	2010	2009	%
Future minimum lease payments			
due within one year	170.9	77.1	–
due within one to five years	498.7	221.0	–
due after more than five years	215.2	83.4	–
Total	**884.8**	**381.5**	**–**

35 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.

Goodwill has been allocated to the following cash-generating units, which correspond to the respective operating segments:

€ mn	2010	2009	%
Shipping Finance	74.7	74.7	0.0
Aviation Finance	8.0	8.0	0.0
Investment Management	24.3	23.7	2.5
Total	**107.0**	**106.4**	**0.6**

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, 5-year projection for all material income and expense components. A constant earnings situation was assumed for periods of five years. The discount rates used were 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 2010 for the cash-generating units range between 15.0% and 16.3%.

Intangible assets include internally-generated assets with a carrying amount of €1.4 million (2009: €2.2 million). ❶

❶ **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 2010	**16.8**	**16.5**	**926.5**	**1.7**	**16.9**	**106.4**	**1,084.8**
Additions at cost	0.2	1.7	849.5	85.3	0.1	0.7	937.5
Disposals at cost	–	–0.9	–481.0	–0.1	–0.2	–	–482.2
Reclassifications	–0.1	–	–	–0.5	0.6	–	0.0
Changes in the group of consolidated companies	–	–	30.7	–	–1.6	–	29.1
Exchange rate changes	–0.6	–	18.2	–0.1	–0.4	–0.1	17.0
Cost 31 Dec 2010	**16.3**	**17.3**	**1,343.9**	**86.3**	**15.4**	**107.0**	**1,586.2**
Write-ups	–	–	–	–	–	–	–
Depreciation and amortisation	–0.5	–2.3	–55.6	–0.2	–2.7	–	–61.3
Impairment	–	–	–8.1	–	–	–	–8.1
Depreciation, amortisation and impairment (previous year)	–3.1	–11.7	–106.4	–0.4	–10.4	–1.0	–133.0
Depreciation, amortisation and impairment (disposals)	–	0.8	–	–	0.9	1.0	2.7
Changes in the group of consolidated companies	–	–	1.2	–	1.5	–	2.8
Exchange rate changes	–	–	–6.5	–	–	–	–6.5
Cumulative depreciation, amortisation, impairment and write-ups	–3.6	–13.2	–175.4	–0.6	–10.6	–	–203.4
Carrying amount as at 31 Dec 2010	**12.7**	**4.1**	**1,168.5**	**85.7**	**4.7**	**107.0**	**1,382.8**
Carrying amount as at 31 Dec 2009	13.7	4.8	820.0	1.2	5.4	106.4	951.5

36 Income tax assets

€ mn	2010	2009	%
Current income tax assets			
Germany	0.9	0.5	80.0
Foreign countries	4.2	9.2	–54.3
Deferred income tax assets			
Temporary differences	100.0	72.5	37.9
Loss carryforward	1.2	5.1	–76.5
Total	**106.3**	**87.3**	**21.8**

In the business year 2010, deferred taxes on tax loss carryforwards in the amount of €4.6 million (2009: €19.3 million) were recognised, as the Bank expects to generate taxable profits against which to utilise these assets. Deferred tax assets amounting to €0.0 million were capitalised for tax loss carryforwards (2009: €0.0 million).

Deferred income tax assets were recognised for the following items of the statement of financial position:

€ mn	2010	2009	%
Trading assets	8.0	5.3	50.9
Provisions	5.0	4.7	6.4
Deposits from customers and other banks	78.0	52.1	49.7
Other items	5.4	4.5	20.0
Loans and advances to banks and customers, incl. allowance for credit losses	3.6	5.9	–39.0
Total	**100.0**	**72.5**	**37.9**

We recognised deferred tax assets in the amount of €0.9 million (2009: €0.8 million) directly in equity.

37 Other assets

€ mn	2010	2009	%
Receivables from taxes not related to income	1.6	2.1	–23.8
Advance payments and prepaid expenses	1.3	0.9	44.4
Container portfolio	223.1	170.3	31.0
Miscellaneous other assets	110.5	98.7	12.0
Total	**336.5**	**272.0**	**23.7**

38 Deposits from other banks

€ mn	2010	2009	%
Loans and advances	5,988.9	5,387.1	11.2
thereof: payable on demand	0.6	4.5	–86.7
thereof: with a limited term	5,988.3	5,382.6	11.3
Money market transactions	1,225.7	1,689.0	–27.4
thereof: payable on demand	311.3	324.2	–4.0
thereof: with a limited term	914.4	1,364.8	–33.0
Other deposits from other banks	0.0	0.6	–
Total	**7,214.6**	**7,076.8**	**1.9**
German banks	6,796.5	6,499.0	4.6
Foreign banks	418.1	577.8	–27.6
Total	**7,214.6**	**7,076.8**	**1.9**

Deposits from other banks also included such loans and advances with a total carrying amount of €26.4 million (2009: €46.4 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 €0.6 million (2009: €1.4 million) as at the balance sheet date.

39 Deposits from customers

€ mn	2010	2009	%
Loans and advances	4,272.6	4,188.6	2.0
thereof: payable on demand	192.9	274.9	–29.8
thereof: with a limited term	4,079.7	3,913.7	4.2
Money market transactions	107.8	202.9	–46.9
thereof: with a limited term	107.8	202.9	–46.9
Other deposits from customers	28.4	21.2	34.0
Total	**4,408.8**	**4,412.7**	**–0.1**
German customers	3,886.3	3,964.8	–2.0
Foreign customers	522.5	447.9	16.7
Total	**4,408.8**	**4,412.7**	**–0.1**

Deposits from customers do not include loans and advances which are measured at fair value through profit or loss under the fair value option due to repayments during the business year 2010 (2009: €54.0 million).

40 Securitised liabilities

€ mn	2010	2009	%
Ship covered bonds	249.3	–	–
Bearer bonds	5,070.6	3,477.1	45.8
Total	**5,319.9**	**3,477.1**	**53.0**

41 Negative fair values of derivative hedging instruments

€ mn	2010	2009	%
Interest rate products	191.9	162.3	18.2
Currency-related products	5.7	–	–
Total	**197.6**	**162.3**	**21.7**

42 Trading liabilities

€ mn	2010	2009	%
Derivative financial instruments with negative fair values			
thereof: interest rate products	150.2	134.8	11.4
thereof: currency-related products	76.9	71.9	7.0
Total	**227.1**	**206.7**	**9.9**

43 Provisions

€ mn	2010	2009	%
Provisions for pension obligations	14.9	15.0	–0.7
Provisions for early and partial retirement	0.8	1.0	–20.0
Other provisions	42.9	36.1	18.8
Total	**58.6**	**52.1**	**12.5**

The pension obligations changed during the year under review as follows:

€ mn	2010	2009	%
Present value of the pension obligations as at 1 Jan (Defined Benefit Obligation)	29.1	29.1	0.0
Plan assets	–14.1	–14.7	–4.1
Carrying amount of pension provisions as at 1 Jan	**15.0**	**14.4**	**4.2**
Change in the year under review:			
Service cost	0.6	0.7	–14.3
Interest cost	1.6	1.7	–5.9
Expected return on plan assets	–0.8	–0.9	–11.1
Actuarial gains and losses	–0.2	0.8	–
Benefits paid	–1.3	–1.7	–17.6
Carrying amount of pension provisions as at 31 Dec	**14.9**	**15.0**	**–0.7**
Present value of the pension obligations as at 31 Dec (Defined Benefit Obligation)	32.0	29.1	10.0
Plan assets	–17.1	–14.1	21.3
Carrying amount of pension provisions as at 31 Dec	**14.9**	**15.0**	**–0.7**

The interest cost of €1.6 million (2009: €1.7 million) is recorded under personnel expenses. The actual return on plan assets amounts to €0.8 million (2009: €0.9 million).

The funded status of the pension obligations is as follows: ❶

The following experience adjustments were made in the business year under review:

€ mn	2010	2009	%
Experience adjustments of pension obligations	0.8	–1.3	–
Experience adjustments of plan assets	–	–	–

The calculation of the present value of the pension obligations is based on the following actuarial assumptions:

Actuarial assumptions (%)	2010	2009
Discount rate	5.0	5.5
Expected salary increase	2.5	2.5
Pension increase	2.0	2.0
Expected return on plan assets	5.0	5.5

In the business year 2010, 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 Netherlands 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 (%)	2010	2009
Equities	1.0	0.8
Fixed-income financial instruments	5.6	5.5
Properties	1.7	1.6
Cash balances	–	–
Other pension plan sponsors	91.7	92.1
Total	**100.0**	**100.0**

❶ **Funded status of pension obligations (€ mn)**

	2010	2009	2008	2007	2006
Present value of pension obligations	32.0	29.1	29.1	32.6	30.2
Plan assets	–17.1	–14.1	–14.7	–13.9	–13.0
Total	**14.9**	**15.0**	**14.4**	**18.7**	**17.2**

We expect additions to plan assets for the business year 2011 in the amount of €0.4 million (2009: €1.0 million).

Other provisions in the Group are as follows:

€ mn	2010	2009	%
Asset retirement obligations	1.0	1.0	0.0
Lending business	0.4	1.0	–60.0
Bonuses	31.4	26.7	17.6
Litigation	0.1	0.1	0.0
Miscellaneous other provisions	10.0	7.3	37.0
Total	**42.9**	**36.1**	**18.8**

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.

The provisions changed during the year under review as follows: ❶

The distribution of the provisions for the lending business by business division is described in the report on opportunities and risks (pages 136–138).

44 Income tax liabilities

€ mn	2010	2009	%
Current income tax liabilities	26.4	30.4	–13.2
Deferred income tax liabilities	81.0	60.2	34.6
Total	**107.4**	**90.6**	**18.5**

❶ 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**

In the previous year, provisions changed as follows: ❷

❷ Provisions 2009 (€ mn)

	Balance as at 1 Jan 2009	Additions	Reversals	Utilisation	Exchange rate changes	Balance as at 31 Dec 2009
Asset retirement obligations	1.0	–	–	–	–	1.0
Lending business	0.3	0.7	0.0	0.0	0.0	1.0
Bonuses	31.2	26.5	–3.5	–28.5	1.0	26.7
Litigation	0.0	0.1	0.0	0.0	–	0.1
Miscellaneous other provisions	6.3	3.8	–1.6	–1.2	0.0	7.3
Total	**38.8**	**31.1**	**–5.1**	**–29.7**	**1.0**	**36.1**

Deferred income tax liabilities were recognised for the following items of the statement of financial position:

€ mn	2010	2009	%
Loans and advances to banks and customers, incl. allowance for credit losses	28.2	23.6	19.5
Trading assets and hedging instruments	33.1	27.9	18.6
Investment securities	8.3	0.5	–
Property and equipment	4.3	3.1	38.7
Deposits from customers and other banks	–	0.7	–
Provisions	3.0	3.5	–14.3
Other items	4.1	0.9	–
Total	**81.0**	**60.2**	**34.6**

Deferred tax liabilities were recognised in the amount of €1.3 million (2009: €1.2 million) directly in equity.

45 Other liabilities

€ mn	2010	2009	%
Other tax liabilities	1.0	5.5	–81.8
Miscellaneous other liabilities	93.0	120.3	–22.7
Total	**94.0**	**125.8**	**–25.3**

46 Subordinated liabilities

€ mn	2010	2009	%
Subordinated promissory note loans	484.0	542.9	–10.8
Subordinated bearer bonds	61.5	63.1	–2.5
Total	**545.5**	**606.0**	**–10.0**

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.

47 Equity

Equity can be broken down as follows:

€ mn	2010	2009	%
Issued share capital	118.0	118.1	–0.1
Capital reserve	332.5	333.2	–0.2
Retained earnings	661.3	583.8	13.3
Revaluation reserve	1.9	–0.1	–
Hedging reserve – cash flow hedges	2.7	–3.0	–
Currency translation reserve	–2.2	–2.7	–18.5
Distributable profit	27.9	27.9	0.0
Total equity before non-controlling interests	**1,142.1**	**1,057.2**	**8.0**
Non-controlling interests	1.2	1.3	–7.7
Equity	**1,143.3**	**1,058.5**	**8.0**

47.1 Issued share capital

As at the balance sheet date, the subscribed capital of DVB Bank SE amounted to €118,791,945.12 and consisted of 46,467,370 no-par value bearer shares. The Company's share capital exclusively comprises ordinary bearer shares. Please refer to sections 54 et. seq. of the German Public Limited Companies Act (AktG) regarding the rights and duties attached to such shares. DZ BANK holds a share of 95.45% in the share capital of DVB Bank SE. The remaining shares (4.55%) are 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, until 8 June 2015. Furthermore, the Company's registered share capital is subject to a conditional capital increase, pursuant to Article 4 (3) of the Memorandum and Articles of Association, not exceeding €25 million for the issuance of convertible bonds and bonds cum warrants ("Conditional Capital 2010"). The Board of Managing Directors is authorised to determine the details of the conditional capital increase.

47.2 Capital reserve

The capital reserve comprises the premium from the issuance of shares, including subscription rights, exceeding the nominal value or the imputed value.

47.3 Treasury shares

On the reporting date of 31 December 2010 DVB Bank SE held 315,865 treasury shares with a carrying amount of €7,889,961.60; these are deducted from equity using the so-called par value method. For this purpose, the treasury shares are divided into the components "Subscribed capital" and "Capital reserve". Gains or losses arising from transactions with treasury shares are offset against retained earnings.

47.4 Retained earnings

Retained earnings include the legal reserve, other retained earnings, as well as the fund for general banking risks.

The legal reserve amounts to €1.3 million (2009: €1.3 million) and is 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 €3.1 million is 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 (2009: €82.4 million).

47.5 Revaluation reserve

The revaluation reserve includes the changes in the fair value of financial assets available for sale, taking into account deferred taxes.

47.6 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.

47.7 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.

47.8 Non-controlling interests

Non-controlling interests include the interest in equity of subsidiaries not attributable to DVB.

Notes to financial instruments

48 Classes and categories of financial instruments

The carrying amounts and fair values of financial assets and financial liabilities are allocated to the classes and categories (or subcategories) of financial instruments as indicated in the tables below:

	2010		2009	
€ mn	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets measured at fair value	**635.4**	**635.4**	**696.9**	**696.9**
Financial assets held for trading	193.1	193.1	282.4	282.4
thereof: trading assets	193.1	193.1	282.4	282.4
Financial assets designated as at fair value through profit or loss	6.5	6.5	8.9	8.9
thereof: loans and advances to banks	–	–	–	–
thereof: loans and advances to customers	6.5	6.5	8.9	8.9
thereof: investment securities	–	–	–	–
Derivative hedging instruments	362.9	362.9	356.6	356.6
thereof: positive fair values of derivative hedging instruments	362.9	362.9	356.6	356.6
Financial assets available for sale	72.9	72.9	49.0	49.0
thereof: investment securities	72.9	72.9	49.0	49.0
Financial assets measured at amortised cost	**16,247.7**	**16,547.2**	**14,777.7**	**14,828.2**
Loans and receivables	16,229.2	16,528.7	14,740.1	14,790.6
thereof: cash and balances with the central bank	109.9	109.9	249.9	249.9
thereof: loans and advances to banks	410.3	410.3	401.2	400.6
thereof: loans and advances to customers	15,689.5	15,980.5	14,042.3	14,084.1
thereof: investment securities	19.5	28.0	46.7	56.0
thereof: other assets	–	–	–	–
Financial assets available for sale	18.5	18.5	37.6	37.6
thereof: investment securities	18.5	18.5	37.6	37.6
Other financial assets	**566.5**	**572.1**	**619.2**	**623.7**
Finance leases	566.5	572.1	619.2	623.7
Loans and advances to customers	566.5	572.1	619.2	623.7

€ mn	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Financial liabilities measured at fair value	**451.1**	**451.1**	**469.4**	**469.4**
Financial liabilities classified as held for trading	227.1	227.1	206.7	206.7
thereof: trading liabilities	227.1	227.1	206.7	206.7
thereof: other liabilities	–	–	–	–
Fair value option	26.4	26.4	100.4	100.4
thereof: deposits from other banks	26.4	26.4	46.4	46.4
thereof: deposits from customers	–	–	54.0	54.0
thereof: securitised liabilities	–	–	–	–
thereof: subordinated liabilities	–	–	–	–
Derivative hedging instruments	197.6	197.6	162.3	162.3
thereof: negative fair values of derivative hedging instruments	197.6	197.6	162.3	162.3
Financial liabilities measured at amortised cost	**17,449.9**	**17,211.2**	**15,459.3**	**15,145.0**
Deposits from other banks	7,188.2	7,076.7	7,030.4	6,953.7
Deposits from customers	4,396.3	4,255.9	4,345.8	4,090.5
Securitised liabilities	5,319.9	5,344.3	3,477.1	3,504.0
Other liabilities	–	–	–	–
Subordinated liabilities	545.5	534.3	606.0	596.8
Other financial liabilities	**12.5**	**13.6**	**12.9**	**12.9**
Finance leases	12.5	13.6	12.9	12.9
thereof: deposits from customers	12.5	13.6	12.9	12.9

49 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 discount rate derived using 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 can largely be observed on the market.

During the year under review, the determination of the fair values of financial instruments included in Level 2, to the extent based on the DCF method, was adjusted to take into account spreads for liquidity risks, and further improved by considering interpolated spreads for default risks. The effects on financial instruments measured at fair value through profit or loss as at the balance sheet date amount to €–0.1 million. The fair values additionally disclosed for financial instruments measured at amortised cost declined by €–28.9 million, without having effect on the income statement or other comprehensive income.

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.

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

❶ Determination of fair values of financial instruments (€ mn)

	Level 1		Level 2		Level 3	
	2010	2009	2010	2009	2010	2009
Financial assets measured at fair value						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	–	6.5	8.9	–	–
Trading assets	–	–	193.1	282.4	–	–
Positive fair values of derivative hedging instruments	–	–	362.9	356.6	–	–
Investment securities	59.9	41.5	13.0	–	–	7.5
Financial liabilities measured at fair value						
Deposits from other banks	–	–	26.4	46.4	–	–
Deposits from customers	–	–	–	54.0	–	–
Trading liabilities	–	–	227.1	206.7	–	–
Negative fair values of derivative hedging instruments	–	–	197.6	162.3	–	–
Subordinated liabilities	–	–	–	–	–	–

In the business year under review, the balance of financial assets of the investment securities class whose fair values were allocated to Level 3 changed as follows:

€ mn	2010	2009	%
Balance on 1 Jan	**7.5**	**14.2**	**–47.2**
Purchases	–	–	–
Sales	–	–	–
Changes from Level 3 to Level 1 and 2	–7.5	–	–
Changes from Level 1 and 2 to Level 3	–	–	–
Changes from fair value measurement			
thereof: recognised through profit or loss	–	–7.4	–
thereof: recognised in equity	–	0.7	–
Other changes	–	–	–
Balance on 31 Dec	**–**	**7.5**	**–**

In the business year under review, the fair value of a bond with a carrying amount of €7.5 million was reclassified from Level 3 to Level 2, as the measurement inputs used for measurement were observable in the market.

In the year under review, measurement gains related to Level 3 financial instruments in the amount of €0.0 million (2009: measurement losses of €7.4 million) were recognised in the income statement.

50 Earnings contributions of financial instruments by measurement categories

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 income 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**

1 Jan 2009–31 Dec 2009 (€ mn)

	Recognition in the income statement				Recognition in equity	Total
	Interest result	Allowance for credit losses	Net fee and commission income	Net income from financial instruments in accordance with IAS 39	Measurement result	
Financial assets and liabilities designated as at fair value through profit or loss	–3.3	–	–	1.6	–	–1.7
Financial assets and liabilities held for trading	–22.3	–	–	21.2	–	–1.1
Loans and receivables	522.5	–72.2	94.6	–143.7	–	401.2
Financial assets available for sale	2.0	–	–	–9.4	–2.4	–7.4
Other liabilities	–453.0	–	3.1	–	–	–449.9
Positive and negative fair values of derivative hedging instruments	34.3	–	–	148.4	0.4	182.7
Total	**80.2**	**–72.2**	**97.7**	**18.1**	**–2.0**	**123.8**

51 Allowance for credit losses by classes

The allowance for credit losses (excluding any provisions) is 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 139–140) 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	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Balance as at 1 Jan	154.9	107.7	3.6	–	158.5	107.7
Additions	90.1	112.1	6.8	3.6	96.9	115.7
Utilisation	–29.1	–3.7	–	–	–29.1	–3.7
Reversals	–53.6	–58.2	–0.3	–	–53.9	–58.2
Changes resulting from exchange rate fluctuations	10.0	–3.0	0.1	–	10.1	–3.0
Balance as at 31 Dec	**172.3**	**154.9**	**10.2**	**3.6**	**182.5**	**158.5**

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 2010**	**Total 31 Dec 2009**
Interest-rate derivatives with positive fair values					
thereof: interest rate swaps	150.3	267.8	65.3	483.4	469.4
thereof: interest rate options	0.3	–	–	0.3	0.3
Interest-rate derivatives with negative fair values					
thereof: interest rate swaps	–132.6	–184.8	–7.7	–325.1	–278.9
thereof: interest rate options	–	–	–	–	–
Total interest rate derivatives	**18.0**	**83.0**	**57.6**	**158.6**	**190.8**
Currency-related derivatives with positive fair values					
thereof: forward currency contracts	29.0	0.9	–	29.9	22.7
thereof: cross-currency swaps	2.5	38.0	–	40.5	130.1
Currency-related derivatives with negative fair values					
thereof: forward currency contracts	–70.9	0.0	–	–70.9	–71.0
thereof: cross-currency swaps	2.4	–13.4	–	–11.1	–3.0
Total currency-related derivatives	**–37.0**	**25.5**	**0.0**	**–11.5**	**78.8**
Total	**–19.0**	**108.5**	**57.6**	**147.1**	**269.6**

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 2010 (€ mn)

	Payable on demand	Terms to maturity up to three months	from three months to one year	from one year to five years	more than five years	indefinite term	Total
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**

31 Dec 2009 (€ mn)

	Payable on demand	Terms to maturity up to three months	from three months to one year	from one year to five years	more than five years	indefinite term	Total
Loans and advances to banks	224.0	166.8	10.4	–	–	–	401.2
Loans and advances to customers	90.3	2,089.7	2,187.3	7,166.7	5,348.0	–	16,882.0
Investment securities	–	8.6	32.2	61.7	1.1	43.1	146.7
Total assets	**314.3**	**2,265.1**	**2,229.9**	**7,228.4**	**5,349.1**	**43.1**	**17,429.9**
Deposits from other banks	328.7	1,415.9	727.5	4,423.6	842.8	–	7,738.5
Deposits from customers	274.9	529.7	242.3	1,677.3	2,493.6	–	5,217.8
Securitised liabilities	–	16.4	1,157.5	1,989.7	503.6	–	3,667.2
Subordinated liabilities	–	5.7	113.8	382.2	149.1	–	650.8
Total liabilities	**603.6**	**1,967.7**	**2,241.1**	**8,472.8**	**3,989.1**	**–**	**17,274.3**

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 KWG. The objective of equity capital management is to exploit potential 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 KWG. 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 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 national accounting principles. The Bank's regulatory capital comprises liable capital, which consists of tier 1, tier 2 and tier 3 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 were fulfilled at all times in the year under review.

The analysis of the components of regulatory capital is presented in the following table: ❶

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

	2010	2009	%
Issued and fully paid ordinary shares	113.1	113.7	–0.5
Capital reserve plus other reserves eligible for inclusion	291.2	294.3	–1.1
Special item for general banking risks (section 340g of the HGB)	677.2	568.3	19.2
Other components of tier 1 capital	53.2	54.3	–2.0
Items deducted from tier 1 capital (section 10 (2a) sentence 2 of the KWG)	–3.6	–5.5	–34.5
Items deducted from tier 1 capital (section 10 (6 and 6a) of the KWG)	–26.0	–31.5	–17.5
Total tier 1 capital (section 10 (2a) of the KWG)	**1,105.1**	**993.6**	**11.2**
Total tier 2 capital (section 10 (2b) of the KWG) before deductions and eligible tier 3 capital (section 10 (2c) of the KWG)	229.9	296.6	–22.5
Items deducted from tier 2 capital (section 10 (6 and 6a) of the KWG)	–26.0	–31.5	–17.5
Tier 2 capital (section 10 (2b) of the KWG) and eligible tier 3 capital (section 10 (2c) of the KWG)	**203.9**	**265.1**	**–23.1**
Net adjusted available capital (section 10 (1d) of the KWG) plus eligible tier 3 capital (section 10 (2c) of the KWG)[1)]	**1,309.0**	**1,258.7**	**4.0**

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

56 Subordinated assets

During the year under review, the Company did not hold subordinated assets to any considerable extent.

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 2010			31 Dec 2009		
€ mn	Nominal amount	Present value	Risk-adjusted present value[1]	Nominal amount	Present value	Risk-adjusted present value[1]
Liabilities to be covered	**250.0**	**253.2**	**260.5**	**–**	**–**	**–**
thereof: covered bonds in issue	250.0	253.2	260.5	–	–	–
thereof: derivatives (section 26 (1) no. 5 of the PfandBG)	–	–	–	–	–	–
Cover assets	**788.0**	**859.7**	**731.8**	**96.6**	**106.9**	**88.9**
thereof: covering loans	778.0	849.6	721.2	96.6	106.9	88.9
thereof: additional cover assets (section 26 (1) nos. 3 and 4 of the PfandBG)	10.0	10.1	10.6	–	–	–
thereof: derivatives (section 26 (1) no. 5 of the PfandBG)	–	–	–	–	–	–
Excess cover/cover shortfall	**538.0**	**606.5**	**471.3**	**96.6**	**106.9**	**88.9**

1) Risk-adjusted present values were determined using the so-called dynamic method.

The loans serving as cover assets are loans and advances to customers collateralised by ship mortgages.

Maturity structure of the covered bonds in issue (section 28 (1) no. 2 of the PfandBG)

Nominal values (€ mn)	31 Dec 2010	31 Dec 2009
Up to one year	–	–
More than one and up to two years	–	–
More than two and up to three years	250.0	–
More than three and up to four years	–	–
More than four and up to five years	–	–
More than five and up to ten years	–	–
More than ten years	–	–
Total	**250.0**	**–**

Fixed-interest periods of the cover assets (section 28 (1) no. 2 of the PfandBG)

Nominal values (€ mn)	31 Dec 2010	31 Dec 2009
Up to one year	0.4	–
More than one and up to two years	43.2	0.8
More than two and up to three years	21.7	11.9
More than three and up to four years	122.0	0.0
More than four and up to five years	197.4	–
More than five and up to ten years	313.5	60.0
More than ten years	89.8	23.9
Total	**788.0**	**96.6**

Size categories of the cover assets (section 28 (4) no. 1a of the PfandBG)

Nominal values (€ mn)	31 Dec 2010	31 Dec 2009
Up to €500,000	0.2	–
More than €500,000 and up to €5 million	22.1	5.2
More than €5 million	765.7	91.4
Total	**788.0**	**96.6**

Country in which the pledged sea-going vessels are registered (section 28 (4) no. 1b of the PfandBG)

Nominal values (€ mn)	31 Dec 2010	31 Dec 2009
Germany	72.3	22.0
England	30.4	–
Greece	20.0	7.5
Hong Kong	14.5	14.2
Italy	11.8	–
Croatia	10.9	–
Liberia	199.2	0.8
Malta	80.0	39.0
Marshall Islands	235.8	–
Norway	84.5	13.1
Cyprus	18.6	–
Total	**778.0**	**96.6**

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 2010	31 Dec 2009
Foreclosures	–	–
Takeovers by the Bank	–	–

No takeovers had been carried out by the Bank and neither had foreclosures been pending or carried out as of the relevant reporting dates.

Due and unpaid interest payable by borrowers (section 28 (4) no. 2c of the PfandBG)

€ mn	31 Dec 2010	31 Dec 2009
Due and unpaid interest	–	–

There was no due and unpaid interest payable at either reporting date.

58 List of shareholdings

In accordance with section 313 (2) of the HGB (€) as at 31 December 2010	Shareholding %	Net income/loss for the year	Equity capital
DVB Bank SE, Frankfurt/Main, Germany	0.0	–	–
I. Subsidiaries			
Shipping Capital B.V., Rotterdam, Netherlands	100	–41,154	6,498,001
Nedship Participation (Norway) B.V., Rotterdam, Netherlands	100	653,166	1,520,976
Infifion XI B.V., Rotterdam, Netherlands	100	9,063	23,597
Nedship Shipping B.V., Rotterdam, Netherlands	100	–87,761	2,937,217
Nedship Scheepvaarthuis B.V., Rotterdam, Netherlands	100	–52,698	–429,938
Hollandse Scheepshypotheekbank N.V., Rotterdam, Netherlands	100	0	711,043
Nedship Financial Consultants E.P.E., Piraeus, Greece	99.33	–	[3)]
DVB Logpay GmbH[1) 5)], Eschborn, Germany	100	0	3,000,000
Euro Toll Service GmbH, Eschborn	75.1	–	[3)]
Euro Toll Fuel S.L., Barcelona, Spain	100	–	[3)]
DVB Holding GmbH[1) 5)], Frankfurt/Main, Germany	100	0	13,000,000
DVB Objektgesellschaft Geschäftsführungs GmbH, Frankfurt/Main, Germany	100	–	[3)]
TES Holding Ltd, Bridgend, Wales, United Kingdom	92.1	–1,451,057	21,360,868
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)]
Total Engine Support Ltd, Bridgend, Wales, United Kingdom	100	–	[6)]
EFPAC 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)]
Coresande Ltd, Bridgend, Wales, United Kingdom	100	–	[6)]
Setaria Ltd, Bridgend, Wales, United Kingdom	100	–	[6)]
DVB Transport Finance Ltd, London, United Kingdom	100	–3,623,490	7,647,580
ITF International Transport Finance Suisse AG, Zurich, Switzerland	100	2,028,320	23,376,696
DVB Invest (Suisse) AG, Zurich, Switzerland	100	–	[3)]
DVB Bank America N.V.[2)], Curaçao, Netherlands Antilles	100	40,238,789	140,721,921
Shipping Capital Antilles N.V., Curaçao, Netherlands Antilles	100	1,350,066	17,359,404
Netherlands Shipmortgage Corporation Ltd, Hamilton, Bermuda	100	0	0
AER Holding N.V., Curaçao, Netherlands Antilles	100	218	17,171
DVB Container Finance America LLC, Majuro, Marshall Islands	100	54,620	–873,158
DVB Shipping Management N.V., Willemstad, Netherlands Antilles	100	–193,793	–2,480,328
TEU Management Company N.V., Willemstad, Netherlands Antilles	100	12,858	4,490
DVB Group Merchant Bank (Asia) Ltd[2)], Singapore	100	28,516,590	256,768,013
DVB Container Finance Asia Pte Ltd, Singapore	100	300,284	–2,545,398
DVB Aviation Finance Asia Pte Ltd, Singapore	100	–3,567,087	–3,546,559
Ibon Leasing Ltd, George Town, Cayman Islands	100	0	2
Longspur Ltd, George Town, Cayman Islands	100	0	75
Lexi Ltd, George Town, Cayman Islands	100	1	2
Yu Shan Leasing, George Town, Cayman Islands	100	0	2
Tubbataha Aviation Ltd, George Town, Cayman Islands	100	0	2
DVB Holding (US) Inc., New York, USA	100	608,789	2,377,400
DVB Holding (US) LLC, New York, USA	100	808,598	2,912,591
DVB Capital Markets LLC, New York, USA	100	171,360	1,686,605
DVB Service (US) LLC, New York, USA	100	–346,765	138,831

In accordance with section 313 (2) of the HGB (€) as at 31 December 2010	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:			
Container Investment Fund I, Majuro, Marshall Islands	100	–678,100	–453,468
Container Investment Fund II, Majuro, Marshall Islands	>50	–3,636,943	–4,819,691
TEU Asset Company N.V., Willemstad, Netherlands Antilles	100	–2,773,418	3,154,207
Container Investment Fund III, Majuro, Marshall Islands	100	424,483	424,483
Green Eagle Investments N.V., Willemstad, Netherlands Antilles	>50	9,344,717	–3,403,032
Capital Lease Limited, Hong Kong, China	100	17,353	102,040,816
Terra Marris I LLC, Majuro, Marshall Islands	100	0	0
Cruise Finance Investment Fund I LLC, Majuro, Marshall Islands	100	1,161,209	3,581,398
Stephenson Capital Ltd, George Town, Cayman Islands	100	13,685	637,089
SRF I Limited, Floriana, Malta	100	–	[6]
DUNAVAGON s.r.o., Dunajska Streda, Slovakia	100	–	[6]
DV01 Szarazfoldi Jarmukolcsonzo rt, Aporka, Hungary	100	–	[6]
SRF II Limited, Floriana, Malta	100	–	[6]
SRF III Limited, Floriana, Malta	100	–	[6]
SRF Railcar Leasing Limited, Nenagh, Ireland	100	–	[6]
Deucalion Ltd, George Town, Cayman Islands	100	781,508	694
Deucalion Capital I Ltd, George Town, Cayman Islands	84.43	1,926,383	694
Deucalion Capital II Ltd, George Town, Cayman Islands	100	1,802,784	694
Wasps Aircraft Leasing Ltd, George Town, Cayman Islands	100	–	[6]
Bluebell Aircraft Leasing Ltd, Floriana, Malta	100	–	[6]
Deucalion Capital II (Malta) Ltd, Valetta, Malta	60	–	[6]
Buzzard Aircraft Leasing Ltd, Dublin, Ireland	100	–	[6]
Falcon Aircraft Leasing Ltd, Dublin, Ireland	100	–	[6]
Deucalion Capital III Ltd, George Town, Cayman Islands	100	1,032,750	1,961,829
AP62 Ltd (747-400), George Town, Cayman Islands	100	–	[6]
AP64 Ltd (747-400), George Town, Cayman Islands	100	–	[6]
Sinaloa Aircraft Leasing Ltd, Floriana, Malta	100	–	[6]
Finch Aircraft Leasing Ltd, Dublin, Ireland	100	–	[6]
Deucalion Capital IV Ltd, George Town, Cayman Islands	100	319,768	1,131,877
Cornelius Aircraft Leasing Ltd, George Town, Cayman Islands	100	–	[6]
Deucalion Capital V Ltd, Majuro, Marshall Islands	100	1,234,054	694
FCA 1571 Ltd, George Town, Cayman Islands	100	–	[6]
LTU 476 Ltd (Luft), George Town, Cayman Islands	100	–	[6]
LT 476 Leasing Ltd, Dublin, Ireland	100	–	[6]
Deucalion Capital VI Ltd, George Town, Cayman Islands	100	–1,765,069	3,109,720
Hibiscus Aircraft Leasing Ltd, Floriana, Malta	100	–	[6]
Hawk Aircraft Leasing Ltd, Dublin, Ireland	100	–	[6]
Bonham Aircraft Leasing Ltd, George Town, Cayman Islands	100	–	[6]
Puffin Aircraft Leasing Ltd, Dublin, Ireland	100	–	[6]
Eagle Aircraft Leasing Ltd, George Town, Cayman Islands	100	–	[6]
Deucalion Capital VII Ltd, George Town, Cayman Islands	100	3,218,244	–1,400,382
Chiefs Aircraft Holding (Malta) Ltd, Floriana, Malta	100	–	[6]
Bulls Aircraft Leasing (Malta) Ltd, Floriana, Malta	100	–	[6]
Stormers Aircraft Leasing (Malta) Ltd, Floriana, Malta	100	–	[6]
Nomac Aircraft Leasing (Ireland) Ltd, Dublin, Ireland	100	–	[6]
Highlanders Aircraft Leasing (IRL) Ltd, Dublin, Ireland	100	–	[6]
Wasps Aircraft Leasing (Ireland) Ltd, Dublin, Ireland	100	–	[6]
Deucalion Capital VIII Ltd, George Town, Cayman Islands	100	2,185,150	2,036,461
Lantana Aircraft Leasing Ltd, Floriana, Malta	100	–	[6]

In accordance with section 313 (2) of the HGB (€) as at 31 December 2010	Shareholding %	Net income/loss for the year	Equity capital
Deucalion Capital IX Ltd, George Town, Cayman Islands	100	558,636	520,917
Deucalion Capital XI Ltd, George Town, Cayman Islands	100	–6,432,424	–833,478
NFC Shipping Fund II LLC, Majuro, Marshall Islands	80	–983,092	1,165,267
Gandari Shipping Pte Ltd, Singapore	100	–	6)
NFC Shipping Fund VI LLC, Majuro, Marshall Islands	100	19,615,821	–27,209,370
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 Mulu LLC, Majuro, Marshall Islands	100	–	6)
Mount Benom LLC, Majuro, Marshall Islands	100	–	6)
Mount Tahan LLC, Majuro, Marshall Islands	100	–	6)
Adirondack Shipping LLC, Majuro, Marshall Islands	100	–	6)
Rushmore Shipping LLC, Majuro, Marshall Islands	100	–	6)
Teide LLC, Majuro, Marshall Islands	100	–	6)
Monte Rosa IV LLC, Majuro, Marshall Islands	100	–	6)
Monte Rosa V LLC, Majuro, Marshall Islands	100	–	6)
Mount Pleasant Shipping Pte Ltd, Singapore	100	–	6)
Taigetos I LLC, Majuro, Marshall Islands	100	–	6)
Taigetos II LLC, Majuro, Marshall Islands	100	–	6)
Mount Kreokradong Pte Ltd , Singapore	100	–	6)
Ullswater Offshore LLC, Majuro, Marshall Islands	100	–	6)
Mount Bubu LLC, Majuro, Marshall Islands	100	–	6)
Mount Abu Offshore Pte Ltd, Singapore	100	–	6)
Mount Washington LLC, Majuro, Marshall Islands	100	–	6)
Wadi Woraya I LLC, Majuro, Marshall Islands	100	–	6)
Wadi Woraya III LLC, Majuro, Marshall Islands	100	–	6)
Mount Erskine Shipping Pte Ltd, Singapore	100	–	6)
Scheepvaartschappij Ewout B.V., Rotterdam, Netherlands	100	–	6)
NFC Shipping Fund VII LLC, Majuro, Marshall Islands	100	1,379,888	646,389
Mount Kaba Shipping LLC, Majuro, Marshall Islands	100	–	6)
Mount Shimla Offshore Pte Ltd, Singapore	100	–	6)
Mount Gede LLC, Majuro, Marshall Islands	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)
Jebel Hafeet LLC, Majuro, Marshall Islands	100	–	6)
Mount Kinabalu LLC, Majuro, Marshall Islands	100	–	6)
Taigetos III LLC, Majuro, Marshall Islands	100	–	6)
NFC Labuan Shipleasing I Ltd, Labuan, Malaysia	100	–	6)
Mount Lawu LLC, Majuro, Marshall Islands	100	–	6)
Mount Santubong LLC, Majuro, Marshall Islands	100	–	6)
Riga Maritim LLC, Majuro, Marshall Islands	100	–	6)
Mount Rinjani Shipping Pte Ltd, Singapore	100	–	6)
Mount Bintang LLC, Majuro, Marshall Islands	100	–	6)
Mount Santubong Ltd, Majuro, Marshall Islands	100	–	6)
NFC Shipping Fund C LLC, Majuro, Marshall Islands	100	–250,996	1,609,651
Manco Finance VI LLC, Majuro, Marshall Islands	100	536,473	22,233,601
Manco Finance VI 2 LLC, Majuro, Marshall Islands	100	5,485,007	13,423,637
NFC Shipping Fund V LLC, Majuro, Marshall Islands	75	–690,805	–662,190
Mount Lyderhorn LLC, Majuro, Marshall Islands	100	–	6)
Mount Faber LLC, Majuro, Marshall Islands	100	–	6)

In accordance with section 313 (2) of the HGB (€) as at 31 December 2010	Shareholding %	Net income/loss for the year	Equity capital
Deucalion Capital I (UK) Ltd, London, United Kingdom	100	–199,020	–74,959
Deucalion Engine Leasing (Ireland) Ltd, Dublin, Ireland	90	–	6)
Deucalion Capital II (UK) Ltd, London, United Kingdom	100	–798,653	–2,705,165
Tigers Aircraft Leasing (UK) Ltd, London, United Kingdom	100	–	6)
Shark Aircraft Leasing (Ireland) Ltd, Dublin, Ireland	100	–	6)
SIIM Fund I (Shipping and Intermodal Investment Management Fund) LLC, Majuro, Marshall Islands	100	697,824	699,402
Al Rubban NFC Shipping Fund IV LLC, Majuro, Marshall Islands	100	–	6)
Bukit Timah Chartering Pte Ltd, Singapore	100	–	6)
Bukit Timah Shipping Pte Ltd, Singapore	100	–	6)
Bukit Timah Shipping LLC, Majuro, Marshall Islands	100	–	6)
Green Mountain Shipping Ltd, Willemstad, Netherlands Antilles	100	–	6)
Macedonian Enterprises Inc., Majuro, Marshall Islands	100	–	6)
Blue Moon Shipping Ltd, St. John's, Antigua/Barbuda	100	–	6)
Yellow Moon Shipping Ltd, St. John's, Antigua/Barbuda	100	–	6)
Maple Leaf Shipping Holdco LLC, Majuro, Marshall Islands	100	–72	–72
Maple Leaf Trading Opco LLC, Majuro, Marshall Islands	100	–	6)
Dalian Deepwater Developer Ltd, St. Helier, Jersey	100	–	6)
II. Joint ventures accounted for using the equity method			
Capital Equipment Management Holding GmbH, Hamburg, Germany	50	–	3)
Intermodal Investment Fund II LLC, Majuro, Marshall Islands	50	275,022	4,389,081
Intermodal Investment Fund III LLC, Majuro, Marshall Islands	50	–	–
Intermodal Investment Fund IV LLC, Majuro, Marshall Islands	50	–	–
TAG ASSET Management LLC, Majuro, Marshall Islands	50	–2,037,150	3,141,376
Mount Faber KS, Oslo, Norway	50	9,668,852	5,970,323
Deucalion MC Engine Leasing Ltd, Dublin, Ireland	50	–	–
Bella Aircraft Leasing 1 Ltd, Shannon, Ireland	50	–	–
Cinclus Aviation Investment Ltd, Floriana, Malta	50	–	–
D8 Product Tankers Ltd, Singapore	50	–	–
AerCap Partners I Ltd, Shannon, Ireland	50	1,949,881	744,134
MD Aviation Capital Pte Ltd, Singapore	50	–	–
III. Associates accounted for using the equity method			
West Supply III K/S, Haugesund, Norway	20	–757,883	5,122,732
Ullswater Subsea DIS, Oslo, Norway	40	4,950,701	11,165,816
Ox-traction N.V., Roosendaal, Netherlands	46	–	–
Aer Lucht Ltd, Dublin, Ireland	47	–	–
Bovey Offshore, Singapore	30	–	–
NFC AHTS Ltd, Limassol, Cyprus	20	–27,255	17,072,056
Rapid Aircraft Leasing Ltd, George Town, Cayman Islands	25	–	–
MSN 223 Leasing Ltd, George Town, Cayman Islands	35	–	–
IV. Associates not accounted for using the equity method			
DVL Deutsche Verkehrs-Leasing GmbH, Eschborn, Germany	39	–	3)
Leuvesteyn V.O.F, Rotterdam, Netherlands	33.33	–	–
West Supply III A/S, Haugesund, Norway	22.22	–	–
MALC Lease 11 B.V.[4], Amstelveen, Netherlands	25	895,524	10,195,954
Aviateur Capital Ltd, Dublin, Ireland	20	–	3)

1) There is a profit and loss transfer agreement with DVB Bank SE.
2) Net profit distributed to DVB Bank SE within the same period
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	2010	2009	%
Financial guarantee contracts from guarantees	306.0	358.8	–14.7
Contingent liabilities from irrevocable loan commitments	1,851.7	1,833.1	1.0
Other commitments	16.5	19.1	–13.6
thereof: within one year	4.6	4.3	7.0
thereof: within one to five years	11.2	10.8	3.7
thereof: after more than five years	0.7	4.0	–82.5
Total	**2,174.2**	**2,211.0**	**–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. Dalian Deepwater Developer Ltd, St Helier, Jersey, Channel Islands, has been included in DVB's consolidated financial statements 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 December 2012. 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 on DVB for payment of the remainder. The SPV plans to sell the drillship prior to delivery. For this purpose, 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	2010	2009
Women	202	198
Men	377	378
Total	**579**	**576**

The average number of employees includes those 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 2010 amounted to:

€ 000's	2010	2009	%
Board of Managing Directors	2,671.1	2,621.4	1.9
Supervisory bodies	269.9	263.2	2.5
Former members of the Board of Managing Directors and their surviving dependants	362.6	394.2	–8.0
Total	**3,303.6**	**3,278.8**	**0.8**

As at 31 December 2010, 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 118–120) and our Corporate Governance report published on our website (www.dvbbank.com > Investor Relations > Corporate Governance > Reports).

61.2 Pension liabilities to former members of the Board of Managing Directors

The defined benefit obligation for pension liabilities to former members of the Board of Managing Directors and their surviving dependants amounts to €3.6 million (2009: €3.6 million).

61.3 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	2010	2009	%
Loans and advances to banks	44.9	166.6	–73.0
Loans and advances to customers	3.3	3.3	0.0
Trading assets	0.3	2.4	–87.5
Positive fair values of derivative hedging instruments	48.5	45.2	7.3
Total assets	**97.0**	**217.5**	**–55.4**
Deposits from other banks	5,687.7	5,210.3	9.2
Deposits from customers	39.5	39.4	0.3
Securitised liabilities	4,586.0	3,457.1	32.7
Trading liabilities	12.1	20.1	–39.8
Negative fair values of derivative hedging instruments	17.4	13.5	28.9
Subordinated liabilities	294.5	268.7	9.6
Total liabilities	**10,637.2**	**9,009.1**	**18.1**

The following table shows the transactions carried out by DVB Bank SE with subsidiaries, joint ventures and associates.

€ mn	2010	2009	%
Loans and advances to banks	**4,869.0**	**4,447.3**	**9.5**
Subsidiaries	4,869.0	4,447.3	9.5
Loans and advances to customers	**532.5**	**483.7**	**10.1**
Subsidiaries	481.9	437.7	10.1
Joint ventures	10.6	5.7	84.9
Associates	40.1	40.3	–0.6
Trading assets	**28.2**	**27.5**	**2.3**
Subsidiaries	22.1	23.2	–4.4
Joint ventures	2.4	1.5	59.0
Associates	3.6	2.8	26.9
Positive fair values of derivative hedging instruments	**2.7**	**2.7**	**0.2**
Subsidiaries	2.7	2.7	0.2
Total assets	**5,432.3**	**4,961.2**	**9.5**

€ mn	2010	2009	%
Deposits from other banks	**161.4**	**233.8**	**–31.0**
Subsidiaries	161.4	233.8	–31.0
Deposits from customers	**39.9**	**41.8**	**–19.0**
Subsidiaries	39.9	41.8	–19.0
Trading liabilities	**1.9**	**0.9**	**–**
Subsidiaries	1.9	0.9	–
Joint ventures	0.0	0.0	0.0
Negative fair values of derivative hedging instruments	**2.3**	**–**	**–**
Total liabilities	**199.4**	**276.5**	**–27.9**

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 the Declaration of Compliance in accordance with section 161 of the AktG on 10 December 2010 in the electronic German Federal Gazette (elektronischer Bundesanzeiger) and simultaneously made the text permanently available to the public on the Bank's website.

On 19 March 2010, 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 2009.

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 2010, which was submitted to the Local Court of Frankfurt/Main, Germany, and which includes DVB Bank SE.

Responsibility statement

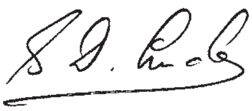
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the DVB Group, and the group management report includes a fair review of the development 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, 3 March 2011
DVB Bank SE

The Board of Managing Directors

Wolfgang F. Driese
CEO & 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

We have audited the consolidated financial statements prepared by DVB Bank SE, Frankfurt/Main, comprising the income statement, the statement of comprehensive income, the statement of financial position, 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 2010 to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the European Union, 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, based on our audit, on the consolidated financial statements and the group management report.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the 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, 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.

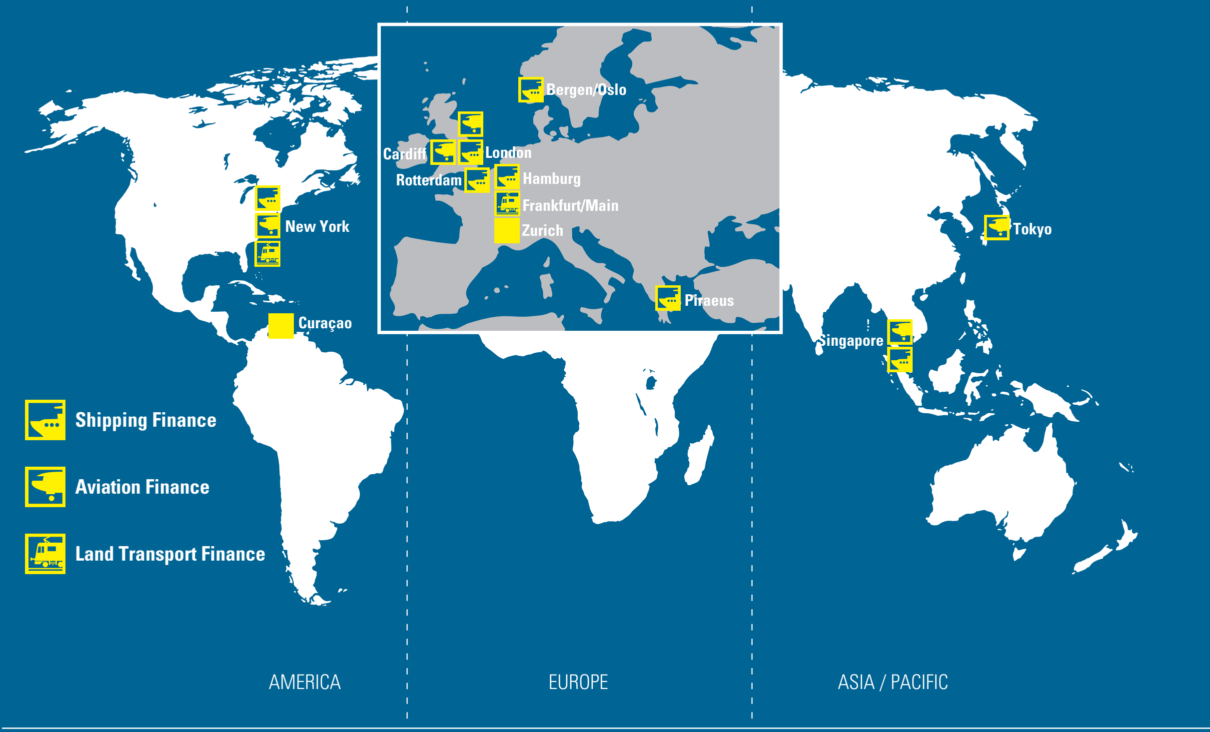
Eschborn/Frankfurt/Main, 14 March 2011
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

signed Sterz
Wirtschaftsprüfer
(German Public Auditor)

signed Fernholz
Wirtschaftsprüferin
(German Public Auditor)

Further information

DVB worldwide



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Key words

N

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S

Glossary

Advanced Internal Ratings Based Approach
Method for determining a borrower's credit risk. Instead of using external ratings (as is done under the Standard Approach), a bank can use its internal rating system to assess risk, provided that this system meets the requirements for internal rating models set out by banking supervisory authorities (see also "Internal Rating Model").

Advisory Services
Product description for 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) who acts on behalf of a third party (the principal). In a syndicated loan, the agent acts on behalf of all the lenders and is responsible for administering the loan, as well as functioning as a conduit for all the payments

ALCO
The Asset Liability Committee (ALCO) meets on a monthly basis, to review the market price risk exposure for the entire Bank and to reach fundamental agreements on risk orientation. Decisions on major refinancing projects are also made by the ALCO.

Arranger
A bank (credit institution) or other financial institution that is responsible for originating and syndicating a transaction. The arranger always has a senior role and frequently also acts as the Agent. It usually underwrites at least a portion of the transaction and often (but not always) participates in the syndication at the most senior level. The bank designated as the arranger is usually a second-level (behind the agent or lead arranger) mandated bank, or a bank committed to the highest level in the syndication.

Asset
Specifically, a transport asset to be financed

Asset & Market Research
Product description for generating in-depth analyses on transport assets and transport markets. DVB's Asset & Market Research provides the basis for the activities of DVB's business divisions.

Baltic Exchange Dry Index (BDI)
The BDI tracks freight rates for dry bulk cargoes, indicating the cost of maritime transport 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 has replaced the capital adequacy rules of its predecessor, Basel I.

Best Practice Method
The comparison of certain processes or structures with other market participants, in order to adopt practices that have already been successfully implemented elsewhere

Book building
Type of syndication where the arranger does not assume any liquidity and placement risks associated with placing the syndicated loan

Business volume
Financial indicator measuring a company's business performance. The business volume of a bank comprises its total assets plus irrevocable loan commitments.

Cash flows
Cash and cash equivalents paid and received during a given accounting period

Club deal
A group of banks (usually three to 20 or 30 institutions) that commit to take on a transaction. There is no intention of selling down the commitment through a subsequent syndication.

Commercial Paper
Listed bearer debt securities, used to cover the issuer's short-term funding requirements

Cost/income ratio (CIR)
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.

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 macroeconomic 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.

Credit risk
Potential losses arising from an unexpected default, or a deterioration in our counterparties' credit quality. Comprising lending, issuer, counterparty and country risks, it represents DVB's most significant individual risk exposure – this reflects the Bank's business profile.

Customer lending volume (nominal)
Indicator comprising the aggregate of loans and advances to customers, guarantees and indemnities, irrevocable loan commitments and derivatives. It is determined through consolidation in line with applicable regulatory provisions.

DZ BANK
DZ BANK Group is part of the German Cooperative Financial Services Network, which comprises approximately 1,200 individual cooperative banks. Within the Cooperative Financial Services Network, DZ BANK acts as the central institution, and as a commercial bank in its own right.

Export credit agency
Organised in a similar way as an insurance company, an export credit agency (ECA) provides cover for specific export transactions – usually on a statutory basis – and extends loans.

Final take
The exposure allocated to a bank, which it retains on its own books. In the event of oversubscription, the final take may be lower than the commitment offered by a given bank.

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.

German 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.

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 financial position and financial performance – 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 the "Mandated Lead Arranger (MLA) and Bookrunner", a bank mandated with originating, syndicating and executing a transaction. The mandate may entail underwriting the transaction.

Lending Policies
DVB's lending standards

Liquidity risk
The risk 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
Proprietary database application for analysing and managing credit portfolios

Operating lease
A lease where the lessor retains substantially all the risks and rewards incidental to ownership of the leased assets

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

Participant
A bank committing to the most junior level of participation in a transaction

Political Risk Insurance
Insurance policy or policies to hedge political risk

Private Equity Sourcing and Investments
Funds initiated and managed by DVB's Investment Management division provide the Bank's clients with equity products to finance their investment projects

Quantitative easing
Expansionary monetary policy whereby the central bank attempts to support the economy by purchasing securities, particularly government bonds. In the wake of the financial markets crisis, this strategy was adopted by the US Federal Reserve in particular.

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 and the Embraer E170.

Return on equity (ROE)
Expressed as the rate of return on capital invested by a shareholder over a given accounting period. It is calculated as the ratio of the consolidated net income before taxes to the weighted amount of capital.

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

Ship covered bond
Covered bond issued in accordance with German law, where the underlying cover assets are long-term loans secured by ship mortgages

Societas Europaea (SE)
Legal form of a European public limited-liability company

Strategic risk
DVB defines strategic risk as the potential decrease in its enterprise value that could arise from the Bank's strategic positioning in a constantly changing environment – comprising markets, clients, competitors, together with political and legal frameworks.

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

Transport Finance
A general term for DVB's three business divisions Shipping Finance, Aviation Finance and Land Transport Finance

Underwriter
Lender that commits before drawdown to take on a portion of the overall facility in order to place a portion of the assumed commitment within the scope of the syndication to one or more third-party bank(s)

Value at risk
Indicator stating the maximum loss that could arise within a given time frame, and at a given probability (the "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. Invoking the VMC, 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, as well as the new Boeing 787 and Airbus A380.

Abbreviations

AAM
Aviation Asset Management

AFC
Aviation Financial Consultancy

AFTK
Available freight tonne kilometer

AktG
Aktiengesetz (German Public Limited Companies Act)

ALCO
Asset Liability Committee

AR
Aviation Research

ASK
Available seat kilometer

BaFin
Bundesanstalt für Finanzdienstleistungsaufsicht
(German Federal Financial Supervisory Authority)

bp
Basis points

CEO
Chief Executive Officer

CIR
Cost/income ratio (cost-efficiency indicator)

DAX
Deutsche Aktienindex (German blue-chip index)

DCF
Discounted Cash Flow

dwt
Dead weight tons

DZ BANK
DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Frankfurt/Main

ECA
Export Credit Agency

ECB
European Central Bank

EMU
European Monetary Union

Euribor
Euro Interbank Offered Rate

EVA
Economic Value Added

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

GAS
German Accounting Standards

GDP
Gross domestic product

GRM
Group Risk Management

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

IFRS
International Financial Reporting Standards

IMF
International Monetary Fund

IRM
Internal Rating Model

ISTAT
International Society of Transport Aircraft Trading

KWG
Kreditwesengesetz (German Banking Act)

LGD
Loss given default

LNG
Liquefied Natural Gas

LPG
Liquefied Petroleum Gas

LTI
DVB Long-Term Incentive Plan

LtV ratio
Loan-to-value ratio

MaRisk
Minimum requirements for risk management

M&A
Mergers & Acquisitions

MTN
Medium-term Note

OASIS
Object Finance Administration and Security Information System

OEM
Original Equipment Manufacturer

OpRisk
Operational risk

PD
Probability of default

pp
Percentage points

ROE
Return on equity

RPK
Revenue passenger kilometer

RUS
Restructuring Unit Shipping

SAM
Shipping Asset Management

SE
Societas Europaea (European public limited-liability company)

SIC
Standing Interpretations Committee

SIIM
Shipping & Intermodal Investment Management

SWOT
Strengths, weaknesses, opportunities and threats

TEU
Twenty foot equivalent unit

UIC
International Union of Railways

WpPG
Wertpapierprospektgesetz (German Securities Prospectus Act)

VaR
Value at risk

VaR Cdty
Commodity risk

VaR FX
Foreign exchange risk

VaR IR
Interest rate risk

VAT
Value added tax

VMC
Value Maintenance Clause

Imprint

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Design concept and realisation
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The Annual Report 2010 is published in English and German as printed copy. It is available as PDF file and HTML report on our webpage www.dvbbank.com.

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Supervisory Board of DVB Bank SE (page 13) and
Employees and sustainability (page 18–19):
René Spalek, Offenbach, Germany

Key events (inner cover page):
DVB Bank SE

Shipping Finance
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DVB Bank SE, Rotterdam, The Netherlands
Shipping Finance Deal of the Year 2010 (page 53):
OSX Brasil S.A., Rio de Janeiro, Brazil

Aviation Finance
Front cover, page 4 and 58–59: Bert van Leeuwen,
DVB Bank SE, Rotterdam, The Netherlands
Aviation Finance Deal of the Year 2010 (page 67):
Hong-Shin Shi, New Taipei City, Taiwan

Land Transport Finance
Front cover, page 6 and 74–75: Wouter Radstake,
DVB Bank SE, Frankfurt/Main, Germany
Land Transport Finance Deal of the Year 2010 (page 84):
Hessische Landesbahn GmbH, Frankfurt/Main, Germany