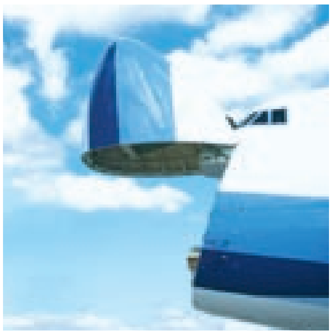
DVB

Annual Report 2009



Contents

Key figures at a glance

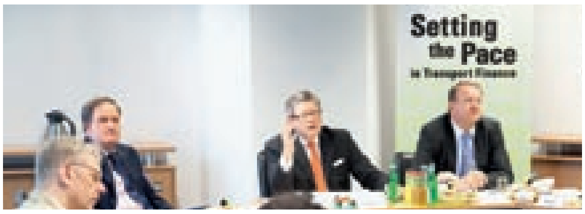
€ mn	2009	2008	%
Earnings data in accordance with IFRS			
Income	243.1	256.7	– 5.3
Net interest income after allowance for credit losses	122.1	176.7	– 30.9
Net interest income	194.3	193.2	0.6
Allowance for credit losses	– 72.2	– 16.5	–
Net fee and commission income	97.8	105.5	– 7.3
Net income from financial instruments in accordance with IAS 39	17.9	– 54.1	–
Results from investments in companies accounted for using the equity method	– 2.0	0.0	–
Net other operating income/expenses	7.3	28.6	– 74.5
General administrative expenses	156.5	156.5	–
Consolidated net income before tax	86.6	100.2	– 13.6
Key financial indicators (%)			
Return on equity (before tax)	9.4	13.1	– 3.7 pp
Cost/income ratio	49.6	57.4	– 7.8 pp
Key items from the statement of financial position in accordance with IFRS			
Business volume	19,101.7	21,026.2	– 9.2
Total assets	17,268.6	17,376.8	– 0.6
Loans and advances to customers	14,670.4	14,321.7	2.4
Deposits from customers	4,412.7	5,011.4	– 11.9
Securitised liabilities	3,477.1	2,722.6	27.7
Subordinated liabilities	606.0	672.2	– 9.8
Equity	1,058.5	998.9	6.0
Own funds in accordance with the German Banking Act (KWG)			
Total	1,258.7	1,330.5	– 5.4
Tier 1 capital	993.6	1,011.8	– 1.8
Tier 2 and tier 3 capital	265.1	318.7	– 16.8
Capital ratios according to the German Banking Act (%)			
Basel II			
Tier 1 ratio	14.2	13.9	0.3 pp
Total capital ratio	18.0	18.2	– 0.2 pp

Ratings	2009	2008	2007
Moody's Investors Service			
Long-term debt and deposit ratings	A1	A1	A1
Short-term rating	P-1	P-1	P-1
Bank financial strength rating	D+	C	C
Outlook	negative	stable	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	stable	stable

20 January
Annual client event at the Asian Civilisations Museum in Singapore with approximately 150 guests from the transport industry

February
DVB's Investment Management teams covering the shipping, intermodal and rail transport sectors were merged to form a new unit called "Shipping and Intermodal Investment Management"

12 March
Press and analysts' conference to present the preliminary and unaudited Group results for the 2008 business year. The 2008 Annual Report was published in April.



16 April
The eighth DVB Bank Breakfast Meeting was held in Hamburg: the theme was "Adapting to change – From boom to gloom in container shipping". 45 Shipping Finance clients listened to speeches delivered by Dagfinn Lunde, the Managing Director responsible for the Bank's Shipping Finance business, and Søren Andersen, responsible for Fleet Management at Mærsk Line, A.P. Møller – Mærsk A/S.

5 June
Our subsidiary TES Aviation – which specialises in the maintenance and management of aircraft engines – inaugurated its new corporate headquarters in Bridgend, Wales. Combined with a logistics centre, the 12,000 sq. m., state-of-the-art development houses all technical operations and the warehouse.

10 June
Annual General Meeting in Frankfurt/Main, passing resolutions on the re-election of the six shareholder representatives to the Supervisory Board, and on a dividend of €0.60 per no-par value share.

14 June
At the Aerospace Journalist of the Year Awards, Bertrand Grabowski bestows the "DVB Bank Award for the Best Strategy or Financial Submission" upon Geoffrey Thomas of Air Transport World magazine.

8 July
Wolfgang F. Driese, DVB's CEO and Chairman of the Board of Managing Directors welcomed twenty members of the Frankfurt/Main Luftfahrt-Presse-Club (Aviation Press Club) to join him in a lively discussion.

9 – 11 September
DVB internal Global Management Conference in Hamburg, focusing on "Lessons learned from the crisis"

11 – 13 October
Bertrand Grabowski, the Managing Director responsible for Aviation Finance, took part in a panel discussion at the 16th European ISTAT Conference in Dubrovnik, on the topic: "How will new aircraft deliveries scheduled for 2009 and 2010 be financed?"

10 November
DVB hosted its annual client reception in Tokyo. 200 guests from the shipping, aviation and land transport sectors gathered for the event, which included a special aviation forum on "Managing aviation investments through the cycles": This seminar, which was headed up by DVB's experts, Jon Skirrow (Aviation Asset Management), Bert van Leeuwen (Aviation Industry Research) and Ashley Cooper (TES Aviation Group) was well attended by our Japanese clients.

27 November
DVB received four awards from Jane's Transport Finance, the renowned British trade publication – including "Shipping Deal of the Year – North America".

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 wide range of financing services.

Photographer

Bert van Leeuwen,

Head of Aviation Research,

Rotterdam

Today we are one of the leading global providers of financial services to the aviation industry. Our clients include passenger and cargo airlines as well as lessors. Our Aviation Finance division looks back on an impressive track record of complex structured transactions financing about 840 aircraft and 60 engines representing an aggregate exposure in excess of €5 billion. Our Aviation team has built a unique Aviation platform, with a range of products and services covering the entire life cycle of aircraft and engines – from financing new airplanes right through to dismantling aircraft and replacement engines. Moreover, we offer professional investors the opportunity to gain equity exposure to Deucalion Aviation Funds initiated and managed by DVB. Consequently, our strategy is geared to offering clients the most efficient services where "money and metal meet" – irrespective of industry and economic cycles.

Expertise and Passion

We provide asset finance on the basis of sound research and a deep understanding of aviation markets and specific types of aircraft. This expertise is built on professional and industry-specific know-how: our experts leverage many years of experience gained in the banking business as well as in the aviation industry – with airlines, manufacturers, asset managers and aircraft/engine lessors.

The passion our staff hold for the aviation industry is another key success factor: it allows us to offer intelligent, tailor-made solutions to our clients on the major aviation markets around the globe. In doing so, our Aviation team is firmly committed to the cycle-neutral approach pursued by our business strategy, actively supporting clients through all market cycles.

Photographer
Wouter Radstake,
Head of Land Transport Research,
Rotterdam

Our Land Transport Finance division finances client investments in rail rolling stock and road vehicles, with an aggregate exposure of €1.4 billion. The portfolio contains assets financed of over 100,000 freight cars, more than 1,200 locomotives and about 300 regional train sets. Despite the continued uncertainty burdening the market environment, our Land Transport Finance team consistently pursues its strategic path of controlled, high-quality growth.

The primary focus in this business is on financing rolling stock for rail transport, with standard freight cars, freight and passenger train engines and trainsets accounting for the lion's share of our Land Transport Finance portfolio. We will also continue to arrange asset finance for over-the-road equipment concentrating on large-sized rental companies with a clearly-defined strategy and a balanced fleet.

Dedication and Competence

Our expertise is particularly obvious in the fact that we maintain a dedicated land transport market research. This allows us to conduct a sound assessment of our clients' investment projects, of expected developments on transport markets and regarding specific vehicle types, together with an optimum analysis of suitable financing structures.

Direct and regular communication with clients and other business partners is crucially important when making sure that we are in a position to provide optimum loan structures, even during times of crisis. Our Land Transport Finance team showed great dedication in their successful pursuit of this tried-and-tested, shared strategy approach during 2009.

Photographer

Egor Ryabchenko,

Shipping Credit,

Rotterdam

With a total exposure exceeding €9 billion and a financing portfolio covering 1,321 vessels, our Shipping Finance division ranks amongst the most prominent financial services providers to the global maritime shipping industry. Besides structuring and financing complex shipping investment projects, the Shipping Finance team offers advisory as well as Shipping Asset Management services. In this context, our Investment Management division offers professional investors the opportunity to co-invest in SIIM (Shipping and Intermodal Investment Management) Funds initiated and managed by DVB.

The difficult – sometimes "icy" – year 2009 was characterised by great uncertainty and concerns of further market distortions, with some sectors in the shipping market particularly hard-hit by the double burden of the financial markets crisis and falling demand. Our team remained successful however, originating attractive new business in spite of the challenging market conditions. Our organisational structure, which facilitates client collaboration especially in challenging times, turned out to be a crucial success factor.

Knowledge and Commitment

DVB's Shipping Finance team responded to the challenges of changing global shipping markets as early as in 2008, when it reorganised its market coverage – replacing a geographical approach with a sector-based client services organisation. Since then, ten highly-specialised sector teams have been servicing our clients in the shipping and offshore markets. Our long-standing success in the shipping markets is built on several pillars: the close collaboration of our sector teams in a streamlined management structure with short reporting lines; outstanding research that enhances our understanding of markets, vessel types and clients; and our committed, experienced staff members. Moreover, we implemented numerous measures to further expand our risk management system during 2009. This in turn enables us to provide even more sustainable support to our clients.

Our Shipping Finance team faces up to the challenges posed by difficult shipping markets. This is how we stick with the markets – and our heart will continue to beat for the shipping industry.

Dear shareholders and business partners,

The crisis in the financial markets – and the global economic crisis that broke out as a result – has kept all of us under its spell for almost three years now. Governments and central banks around the world saved the financial system from collapsing by injecting liquidity and capital on a previously inconceivable scale. At the same time, massive economic stimulus programmes were launched to slow down the economies´ free fall and created a floor. Mission accomplished – the worst has been avoided: a return to very moderate growth rates for OECD economies and a recovery of business activities in Asia are signs of hope.

For us at DVB, 2009 was characterised by numerous new and repeating experiences.

We managed to largely control the impact of money market distortions, where LIBOR quotes were no longer in line with actual market rates. You will recall that in 2008 these distortions cost the Bank about €28.0 million: thanks to measures taken by our Treasury and to the cooperation of our clients – for which we are very grateful indeed – we succeeded in remedying this problem in the course of last year.

In the wake of massive, concerted interest rate cuts by central banks following the collapse of Lehman Brothers, some clients switched to the much cheaper one-month interest rollover cycle. Banks usually base their funding on a three-month roll-over period. As a result of this mismatch, the Bank started incurring additional costs from January 2009 onwards and had we failed to take immediate action, this would have wiped out more than one year's profits. Fortunately – and with considerable effort – we managed to convince many of our clients to return to a three-month roll-over period, and we believe that this simply would not have been possible without the close and trusting business relationships we have with our clients. We are also very grateful for the understanding we received in this respect.

Nonetheless, results for 2009 were still burdened by an aggregate €20.8 million, of which €17.3 million alone was incurred in the first quarter. In the fourth quarter, this charge was down to a mere €0.2 million. Yet another new experience. More than that, in fact: it is convincing evidence of the mutual trust and understanding that form the basis for the relationship between DVB and its clients: a solid foundation for the future.

What was not a new experience, however, were the cyclical nature of the transport markets, and the pro-cyclical behaviour of numerous banks providing finance to this industry. The collapse in global trade – an immediate consequence of the crisis affecting global financial markets and the world economy – was unprecedented in both scope and speed. The crisis was exacerbated by

Dagfinn Lunde
Member of the Board of Managing Directors

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

Bertrand Grabowski
Member of the Board of Managing Directors

the disarray of entire banking groups during the first months of 2009; this affected the cargo flow and the shipping sector in particular. And even though we are now noting some signs of stabilisation, in our view the industry is still miles away from a lasting recovery. What we have observed and experienced to date was the impact of a collapse in demand. The full impact of excess supply – due to new orders for ships and aircraft – will only become visible in some transport market segments during 2010 and 2011. Thus, no reason to relax.

We promised you, as our shareholders, that we would challenge ourselves in order to be able to present you with a good result. With a consolidated net income before taxes at €86.6 million (down 13.6%), we hope that we were able to fulfil your expectations, against the background of such a year in crisis. Furthermore, we will propose to the Annual General Meeting to pay an unchanged dividend of €0.60 per share. This is another sign of our confidence.

Whilst we were able to keep costs unchanged during 2009, at €156.5 million, net interest income of €194.3 million was in fact slightly higher year-on-year, reflecting higher margins. In contrast, less new business (€3.0 billion, compared to €7.4 billion in 2008) meant that the €97.8 million we generated in net fee and commission income during 2009 could not quite match the record level generated in 2008 (€105.5 million).

Allowance for credit losses showed a strong – albeit expected – increase, with a net €72.2 million addition. Specific allowances for credit losses and impairment charges were primarily attributable to loans and equity investments in the Shipping sector. We also recognised a portfolio allowance in accordance with IFRS rules for the first time.

Against the background of this market environment, the performance indicators we employ in managing the Bank's business developed in a satisfactory manner: the return on equity was 9.4% (2008: 13.1%), whilst the cost-efficiency indicator (cost/income ratio) improved to 49.6% (2008: 57.4%).

We would like to take this opportunity to express our sincere thanks to all our staff for their strong commitment and successful contribution. It is our people that make the difference.

Looking ahead, the fog has cleared somewhat – yet there is nothing that is really clear, stable or reliable.

At DVB, we are taking the following assumptions for 2010:

The financial markets are deemed to be under control, but remain quite sensitive to bad news, with Dubai and Greece just being the latest two examples. The global economy – and hence, global trade – has returned to growth, with Asia performing particularly strongly. In the US and Europe, setbacks cannot be excluded as economic stimulus programmes are coming to an end. The combination of high public debt, excess liquidity and interest rates at record lows hardly leaves any scope for further stimulating measures; we are, therefore, only cautiously optimistic. Since demand for transport capacity is expected to increase only moderately, a further recovery in lease and charter rates is rather unlikely. In the absence of any material rise in inflation rates forecasted for the next twelve months, transport asset values are also unlikely to recover in most sectors. Taking all this together means that transport markets will continue to be volatile throughout 2010.

There is a lot of talk about a credit crunch affecting the transport sector. In fact, record numbers of newly-built vessels, aircraft and land transport assets were financed last year, with export credit agencies, the capital markets and manufacturers filling the gaps left by the partial disappearance of bank loans. These alternative providers will need to show a similar commitment this year. This is far from certain, and finding sufficient banking partners to cover the refinancing needs of maturing loans and for financing assets is an issue that is often overlooked. It is in such cases that a "credit crunch" will prevail. Accordingly, borrowing costs will remain high in this environment, with the exception of a few top-rated corporate credits, and loan-to-value ratios will remain conservative – reflecting the uncertainty regarding transport asset values. New business will thus be characterised by a more balanced distribution of risks.

Looking ahead in the current year (and beyond, into 2011), what will DVB's assumptions actually mean?

We envisage controlled growth; with interest margins at comparable levels, stable commission income, unchanged costs, and no relief in terms of allowance for credit losses. Given that the significant non-recurring effects – such as the impact of money market distortions – will no longer apply, we think that the 2010 result will be better than the one for 2009. Our target range for the return on equity in the next two years is between 12% and 15% – a level that we believe to be sustainable.

DVB has a clearly-defined business model that is built upon expertise and experience in every area, from research to relationships and the credit side, all the way through to the back office teams. Active risk management remains our focus: this means thinking ahead, preparing stress scenarios to be able to take pre-emptive action, and to start working with clients to develop sustainable solutions at an early stage.

What is of increasing concern to us is the burden of new laws, rules and regulations that have been imposed upon banks in order to prevent future crises – in ever shorter intervals, and with no sign of a let-up. We already considered our industry to be subject to the strictest of regulations to date. The effects upon the business are almost impossible to assess. Rules can be no surrogate for a sustainable business model, and controls cannot replace honest, experienced and far-sighted business people. What we see are too many rules, which are often too undifferentiated.

A well-run bank – and there are quite a few of them – is running into many obstacles every day in its efforts to do business for its clients with confidence. Uncertainty and mistrust abound – from politicians right through to assistant auditors: as understandable as this may be, it is not a forward-looking approach.

Our clients have understood the value DVB offers them. They appreciate DVB as a reliable partner ensuring a fair and trustful relationship also in times of crisis. Our shareholders rely upon the Bank's sustainable development, and the predictability of its performance.

This is the benchmark which we want to continue being measured against.

We look forward to your continued support for, and trust in, DVB.

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, April 2010

Responsibilities of the Board of Managing Directors and offices held

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, UK
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, UK
TES Holdings Ltd, Cardiff, UK

Member of the Board of Directors
DVB Transport (US) LLC, New York, USA
DVB Invest (Suisse) AG, Zurich, Switzerland
(until 30 September 2009)

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
DVB Invest (Suisse) AG, Zurich, Switzerland
(until 30 September 2009)

Dear shareholders,

DVB's success is built on two strong pillars: specialisation and globalisation. DVB's business model is clearly focused on the Bank's role as a Transport Finance specialist serving clients on the international transport markets. The viability of this strategy was affirmed during 2009, in the midst of the crisis affecting financial markets worldwide and the global economy.

DVB faced up to the global crisis with confidence and entrepreneurial vision. Together with the Supervisory Board, the Board of Managing Directors and the Bank's management team closely monitored developments on the transport markets which have come under pressure. Challenges arising in the advisory and asset finance business, as well as those related to the Bank's funding, were scrutinised in this context. DVB adopted targeted measures which quickly led to positive results, thus mitigating the impact of the crisis on DVB significantly during the course of the year.

Being ready and able to find innovative solutions to complex issues, time and again, is a distinct feature of DVB. It is this active and dedicated management of change that gives the Supervisory Board confidence of the Bank's ability to even expand its competitive position in the international markets.

On behalf of the Supervisory Board, I would like to express our sincere thanks and appreciation to the Board of Managing Directors and all members of staff, for the entrepreneurial spirit shown in the face of challenging market conditions during 2009, and for the high level of commitment, creativity and initiative.

I would now like to turn to my 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.

Cooperation with the Board of Managing Directors

Regular consultations on important issues and key forthcoming 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 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. 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 cooperation with the Board of Managing Directors were always characterised by open and constructive discussions.

Meetings of the Supervisory Board

Five plenary meetings of the Supervisory Board took place during 2009. Ordinary meetings were held on 10 March 2009, 24 April 2009, 21 September 2009 and 5 November 2009. In addition, the plenary meeting held its inaugural meeting on 10 June 2009, following the General Meeting of DVB Bank SE.

In the course of these regular meetings, the Supervisory Board carefully and diligently considered the economic development of the Bank and its Group entities. The responsible department heads and the Board of Managing Directors 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. Each of the 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 2009 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 2008 business year. The external auditors, who took part in the meeting, responded to questions in detail. Various aspects of the financial markets crisis and their impact on the DVB Group were thoroughly reviewed. The Board of Managing

Directors, for example, discussed the effects of money market distortions on income, as well as measures introduced to mitigate these effects.

At the meeting on 24 April 2009, the IFRS consolidated financial statements were discussed with the auditors and approved by the plenary meeting of the Supervisory Board. Proposals for the agenda of the 2009 Annual General Meeting were approved, and the Head of Internal Audit presented the relevant annual Audit Report. Moreover, Messrs Bertrand Grabowski and Dagfinn Lunde, Managing Directors responsible for Aviation Finance and Shipping Finance, gave a detailed account on the current business development and risk situation in their respective area of responsibility.

At its inaugural meeting on 10 June 2009, the Supervisory Board elected the Chairman and his deputy and appointed the members of the Supervisory Board committees. For details, please refer to the last paragraph of this report, which summarises any changes in personnel on the Supervisory Board during the period under review.

During the Supervisory Board meeting on 21 September 2009, the Shipping Finance Division once more gave a detailed presentation of the current market situation, business development and risk situation within DVB Group's shipping finance business, against the backdrop of the continuing crisis in the shipping markets. Mr Dagfinn Lunde, the Managing Director in charge, explained the Shipping Finance portfolio situation for this purpose and, together with a business development forecast for the Shipping Finance division for 2009 and 2010, presented an up-to-date analysis of the commercial shipping markets. At this meeting, the Supervisory Board informed itself about the new statutory requirements regarding the remuneration of the Board of Managing Directors, as well as the development of the Swiss subsidiary DVB Invest (Suisse) AG, discussing the subsidiary's future business activities. Finally, the Head of Group Compliance presented the 2009 Compliance Report to the plenary meeting. Dagfinn Lunde's appointment to the Board of Managing Directors was renewed for another three years until 2013.

The last meeting during the year under review took place on 5 November 2009. 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 2010 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 Aviation Finance division. He also provided detailed information on the portfolio situation and delivered a forecast of the division's business development in 2010. Following an extensive report prepared by an external expert, the Supervisory Board continued discussions from the September meeting on the remuneration of members of the Board of Managing Directors, and dealt with future compensation components and criteria as well as the implementation of corresponding compensation plans.

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

Supervisory Board Committees

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 four meetings, 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, changes to existing lending policies and the introduction of lending and investment fund policies for new business activities were discussed and approved. One focal aspect of consultation during several meetings was the strategic discussion of DVB's possible role as a lender within the scope of its investment fund business. 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 in 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 plenary meeting of 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. Furthermore, the Committee was kept informed by the Board of Managing Directors as requested, and always in good time, of the conclusion of employment contracts with executive staff, where the annual remuneration was in excess of a set threshold. Dr Thomas Duhnkrack, at the time of the meeting Chairman of the Executive Committee, kept the Supervisory Board informed on issues 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 also discussed in depth during the Supervisory Board meeting in November. Together with the Board of Managing Directors, the Supervisory Board members have issued the eighth 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 18 June 2009) which was published in the electronic German Federal Gazette and on DVB's website on 11 December 2009.

All Declarations of Compliance issued by DVB since 2002 are available for download from our website: http://www.dvbbank.com/en/investor_relations/corporate_governance/dec_of_compliance/index.html

The Supervisory Board's efficiency review was postponed to the Supervisory Board meeting in spring 2010, in order to provide the Supervisory Board – which was joined by five new members in June 2009 – with ample time to evaluate efficiency on the basis of a company-specific questionnaire.

The Supervisory Board has determined that, according to its own assessment, a sufficient number of independent members served as Supervisory Board members. Dr Peter Klaus has assumed the role of an expert in finance within the Supervisory Board.

Cooperation with external auditors for the financial statements 2009

The consolidated financial statements and the group management report for the 2009 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 14 April 2010, 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 of the consolidated financial statements and group management report as at 31 December 2009 by the plenary meeting of the Supervisory Board gave no cause for objections. The Supervisory Board approved the consolidated financial statements as at 31 December 2009 prepared by the Board of Managing Directors.

The Board of Managing Directors has prepared and submitted the mandatory report on business relationships with affiliated companies during the business year 2009; this report has been examined and certified without qualification by the external auditors, as follows: "Having duly examined and assessed this report in accordance with professional standards, we confirm that the report is free from factual misrepresentations, and that the company did not pay any excessive consideration with regard to the transactions identified in the report." Following its review and examination of the report on business relationships with affiliated enterprises, 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 AktG.

Changes to personnel

The term of office of all members of the Supervisory Board ended at the close of the Annual General Meeting held on 10 June 2009.

The following persons were appointed as members of the Supervisory Board for a term of office ending at 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.

- Messrs Dr Thomas Duhnkrack, Flemming Robert Jacobs and Frank Westhoff were re-elected as members representing the shareholders, and Messrs Dr h. c. Stephan Götzl, Dr Peter Klaus and Dr Klaus Nittinger were newly elected to the Supervisory Board by the Annual General Meeting.

- Elections of the employee representatives to the Supervisory Board for the above term of office were held already on 2 April 2009. The employees entitled to vote re-elected Messrs Dorinus Legters and Martin Wolfert as employee representatives to the Supervisory Board, and Mr Kieran O'Keefe was newly elected.

The term of office of the shareholder representatives to the Supervisory Board, Messrs Robert Jan van der Burg, Hemjö Klein, and Prof Dr Manfred Schölch, as well as that of the employee representative Mr Frode Bjørklund ended on the close of the Annual General Meeting on 10 June 2009.

Immediately following the Annual General Meeting on 10 June 2009, the inaugural meeting of the new Supervisory Board was held and Dr Thomas Duhnkrack was elected Chairman of the Supervisory Board, with Mr Frank Westhoff as his deputy. The following persons were appointed to the Supervisory Board Committees:

- Mr Frank Westhoff (Chairman), Dr Thomas Duhnkrack (deputy), Dr Peter Klaus (member) and Mr Martin Wolfert (deputy member) were elected to the Credit Committee.

- In accordance with the Memorandum and Articles of Association, the Executive Committee is comprised of the Chairman of the Supervisory Board, Dr Thomas Duhnkrack, and his deputy, Mr Frank Westhoff, as well as one employee representative. Mr Dorinus Legters was elected employee representative to the Executive Committee.

With the approval of the Supervisory Board, Dr Thomas Duhnkrack resigned from his office as Chairman of the Supervisory Board on 20 June 2009. His resignation has resulted in personnel changes to the Supervisory Board and the relevant Committees:

- On 6 July 2009, Mr Frank Westhoff was elected Chairman of the Supervisory Board by way of circulation.

- Also by way of circulation, Dr Peter Klaus was elected new deputy Chairman of the Supervisory Board on 17 August 2009.

- The vacancy on the Supervisory Board was filled by court order appointment with Mr Wolfgang Köhler with effect from 21 September 2009, with a term of office until the close of the Annual General Meeting on 9 June 2010.

Consequently, at the effective date of this report, the Supervisory Board was comprised of the shareholder representatives Messrs Frank Westhoff (Chairman), Dr Peter Klaus (deputy Chairman), Dr h. c. Stephan Götzl, Flemming Robert Jacobs, Wolfgang Köhler and Dr Klaus Nittinger, as well as the employee representatives Messrs Dorinus Legters, Kieran O'Keefe and Martin Wolfert. The Credit Committee is comprised of Messrs Frank Westhoff (Chairman), Dr Peter Klaus (deputy Chairman), Martin Wolfert (member) and Flemming R. Jacobs (deputy member). Members of the Executive Committee are Messrs Frank Westhoff (Chairman), Dr Peter Klaus (deputy Chairman) and Dorinus Legters (employee representative).

I would like to take this opportunity – also on behalf of my colleagues on the Supervisory Board – to thank all Supervisory Board members who resigned from their office for their long-standing commitment to the benefit of DVB. We would especially like to thank Dr Thomas Duhnkrack for his service as Chairman of the Supervisory Board, and for his cooperation with the Board of Managing Directors that was always characterised by an open and trusting atmosphere.

We are convinced that this target-oriented collaboration between the Board of Managing Directors and the Supervisory Board will be successfully continued by the Supervisory Board in its new constellation.

Frankfurt/Main, 14 April 2010
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

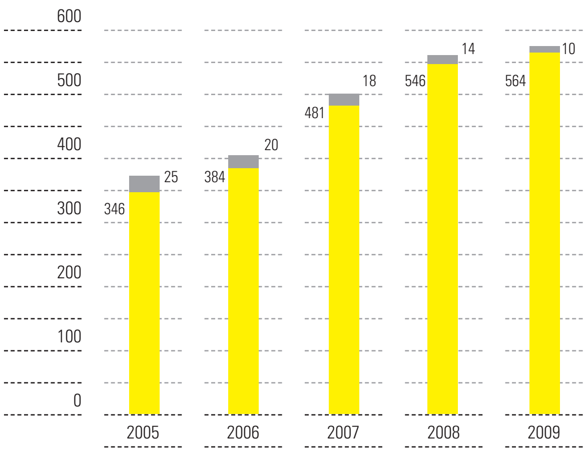
Credit Committee	Frank Westhoff Chairman
	Dr Peter Klaus Deputy Chairman
	Martin Wolfert
	Flemming R. Jacobs Deputy Member
Executive Committee	Frank Westhoff Chairman
	Dr Peter Klaus Deputy Chairman
	Dorinus Legters

DVB's key objective in 2009 was to lessen the impact of the global economic crisis upon the Bank. Our Human Resources activities made a contribution to dampening the effects of the crisis. Examining the new challenges posed to our remuneration systems was another focal point.

Staffing levels virtually unchanged

The number of active employees increased slightly by 18 (+3.3%) to 564 staff members. This figure does not reflect the 10 employees with inactive employment relationships, such as the non-working phase of semi-retirement, maternity or parental leave.

Staff levels 2005 – 2009

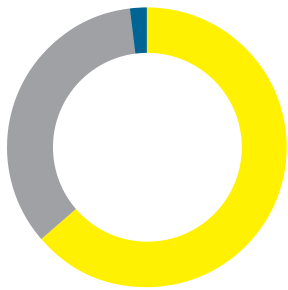


Staff members in the active phase of employment
Staff members in the passive phase of employment

The slight increase in the number of employees is largely due to our Cardiff-based subsidiary TES Holdings Ltd, which hired 15 new staff members as part of an expansion of its business model. In our Transport Finance and Investment Management core business divisions, the recession on the global transport markets led us to scale back the growth in personnel which we had pursued in line with our strategy over recent years. Staffing levels thus remained virtually unchanged.

With 194 employees, staffing levels in the central Group functions and service units rose by 6.5% over the previous year (2008: 182 employees). Back office employees thus continue to account for roughly one-third of active staff – the personnel structure therefore remained balanced during 2009.

Distribution of 564 staff members in the active phase of employment by business division



Transport Finance/Investment Management 360 (63.8%)

Group functions/service units 194 (34.4%)

Treasury 10 (1.8%)

2009 Human Resources activities: dependable and transparent, even during the global economic crisis

Contrary to many internationally active banks, DVB did not let go any employees in the 2009 crisis year. The absence of any redundancies reflected the following factors:

- We have a clearly defined business model built upon expertise and experience in every area, from research to relationships and credit all the way through to the back-office teams. Our staff members are our key assets. We believe that our expertise can contend with any competitive situation.
- DVB's staffing levels are quite lean by tradition. The only positions to be created and filled are those that are strategically necessary, meaning that swift, across-the-board cuts in personnel was simply not in question during 2009 for quantitative reasons. In principle, we believe that an indiscriminate reduction in staffing levels – focused simply on numerical targets – is a measure that should only be resorted to if cost pressure cannot be offset by any other means. Managing a problem this way often coincides with an unmanageable loss in motivation and quality. We believe that this risk is disproportionate and untenable, particularly during a crisis.
- Our client-facing employees bore multiple burdens in 2009: we were in a position to originate new business with attractive risk/return profiles whilst relationship managers were also working extensively on analysing and restructuring problematic exposures; reporting in turn became more work-intensive.

- Moreover, we also had to ensure that new legal and regulatory requirements were duly accounted for in 2009 (such as the German Accounting Law Reform Act, Bilanzrechtsmodernisierungsgesetz). This created heavier workloads, especially for the service units.

An essential factor for stability during the financial markets crisis: the expertise and flexibility of our employees

Our staff are characterised by a high degree of expertise and specialisation in Transport Finance. We leverage this to structure complex, innovative and tailor-made transactions. 2009 also proved that our relationship managers' market penetration further enabled them to achieve individual and innovative solutions in restructuring problematic exposures. In DVB, such exposures are generally in the hands of the relationship managers who have direct contact to clients and their market segment. This is the only way to assure flexible and innovative restructuring solutions.

A restructuring unit was formed within Shipping Credit, in response to the negative effects of the global economic crisis on maritime shipping sub-markets. This unit is dedicated solely to working closely with relationship managers on problematic exposures. We were able to staff the Restructuring Unit Shipping, as it is called, with in-house, highly knowledgeable employees.

In Aviation Finance, the Aviation Asset Management team has been successfully managing problematic aircraft exposures since 2006. In 2009, we established the similarly focused Shipping Asset Management team as an additional response to the global economic crisis. There were twelve employees in these two units as at the end of 2009.

Another central topic in 2009: remuneration systems

The international community (G20) introduced a number of different initiatives directed at bank remuneration systems: these have been enacted by national supervisory authorities. In a series of meetings, the Board of Managing Directors extensively discussed whether DVB's internal remuneration systems satisfied the requirements of the German supervisory authority, BaFin. The Board of Managing Directors is convinced that this is the case, as these systems not only reflect DVB's sustainable strategic orientation, but also present employees with proper incentives. In addition to general structural data, the Board of Managing Directors also addressed which individuals at DVB were to be classified as "risk takers" as defined by BaFin. Only the members of the Board of Managing Directors were identified as risk takers (for more details, please refer to page 100 of the group management report).

The remuneration system for the Board of Managing Directors was then presented to the Supervisory Board.

In 2009, we made an amendment – in agreement with the Works Council – to change flexible bonus compensation by integrating a so-called "opening clause". This makes it possible to make adjustments to agreed targets during the course of a year, when unforeseen developments jeopardise their achievement or render them obsolete. Such target adjustments were necessary for some employees in 2009 due to the previously unencountered scale of the money market distortions affected by the financial markets crisis. We would like to express our gratitude to the Works Council for both its readiness to quickly respond to the need to make bonuses more flexible, as well as the trust that this reflected.

Trust and cooperation with the Works Council of DVB Bank SE

Following the change in legal form from a German public limited company (Aktiengesellschaft – AG) to a European public limited-liability company (Societas Europaea – SE) in June 2008, also in 2009 we can look back on the success of the collaboration that took place: a 13-member body now represents German, British, Dutch, Norwegian and Greek employee interests to the Board of Managing Directors.

Meeting on a monthly basis, the SE Works Council and Group Human Resources pro-actively discussed foreseeable developments during 2009. The Works Council also met with the Board of Managing Directors twice to discuss the Bank's economic situation, budgets, remuneration systems, value-added strategies and other Group-wide topics. Because this closely-knit cooperation has proved so fruitful, it has been planned again for 2010.

In November 2009, we held our first virtual employee meeting, which featured employee questions that directly expanded upon discussions between the SE Works Council and the Board of Managing Directors. Feedback from employees at our international locations clearly indicated that this internet conference, the first of its kind, was a complete success. Therefore, we will be holding these internet conferences twice a year, starting in 2010. We are convinced that this is another valuable instrument in directly and effectively conveying DVB's culture of open information and communication to employees at each location.

In the following declaration pursuant to Section 3.10 of the German Corporate Governance Code (the "Code") and section 289 a (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, and 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, employees, business partners, and the general public. Accordingly, 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 shareholders' interests;
- regular financial reporting and independent audits; and
- transparent communications.

Management system involving a dual corporate governance structure

DVB assumed the legal form of a European public limited-liability company (SE) in 2008. A distinguishing feature of an SE, compared to a German public limited-liability company (AG), is the more flexible corporate governance: for instance, whilst a German public limited company is obliged to adopt a dual-board corporate governance structure, a Societas Europaea has an option to implement a single-board structure.

When changing its legal form, DVB Bank SE opted to maintain a 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: 1

1 Dual Management System

Board of Managing Directors		Supervisory Board
- Management body		- Supervising body
- Corporate strategy	← close cooperation to the benefit of the enterprise →	- Examination, confirmation/ approval of financial statements
- Controlling (planning of the budget)		
- Risk Management	reports to →	- Members: six shareholders, representatives three employee representatives
- Preparation of the financial statements and management reports	← advises, controls, appoints, dismisses	- Credit Committee, Executive Committee
- Minimum of two members		- Four scheduled meetings/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 – 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. Re-appointments for no more than five year per term are permitted.

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 employees, as well as those of shareholders, clients, and business partners. The strategic position of both DVB and its different business divisions is determined and implemented by the Board of Managing Directors under coordination 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 2009 business year.

More information on the Board of Managing Directors' structure and distribution of responsibilities can be found on page 11 of this annual report.

The Supervisory Board – DVB's supervisory body

Pursuant to Article 11 (1) of the Memorandum and Articles of Association of DVB Bank SE, the Supervisory Board consists of total of nine members, comprising six shareholder representatives and three employee representatives. The current members of the Supervisory Board are appointed for the period until the conclusion of the General Meeting that passes a resolution on the formal approval for the fourth financial year following the commencement of their term of office; this will be the Annual General Meeting to be held in 2014. However, the term of office of one court-appointed Supervisory Board member will end at the end of the Annual General Meeting on 9 June 2010.

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 Internal Regulations. It is directed by the Chairman of the Supervisory Board, who also chairs the plenary meetings.

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 decisions to be made, and on important issues. The supervisory body is kept informed, regularly and comprehensively, on developments 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 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 three members of the Credit Committee are elected by the plenary meeting; they meet at least four times per year. 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. As a further key aspect of its work, the Committee discusses the structure of the loan portfolio (and related planning) – particularly with regard to credit, liquidity, country and market risks. Moreover, the Board of Managing Directors coordinates 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.

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 to 17 of this annual report), which outlines the current composition of the Supervisory Board and its committees. The report also gives a detailed description of the work of the Supervisory Board and the focal issues discussed during 2009, as well as the processes of communication and coordination between the Board of Managing Directors and the Supervisory Board.

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 Supervisory Board, together with details regarding their remuneration, are set out in the Remuneration Report on page 100 to 102, which is a part of the group management report.

Please visit our website http://www.dvbbank.com/en/investor_relations/corporate_governance/index.html for general information on the Code and the way DVB Bank SE has implemented it. You will also find all Declarations of Compliance issued since 2002, as well as the full text of the Corporate Governance Report pursuant to section 3.10 of the Code, and the Corporate Governance Statement pursuant to section 289 a of the HGB (which includes the detailed report on the compensation systems for the Management Board and 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 at the General Meeting. The ordinary Annual General Meeting of DVB Bank SE takes place during the first six months 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 (Bilanzgewinn), on the formal approval of the members of the Board of Managing Directors and the Supervisory Board, on the new election of shareholder representatives to 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 and sent to shareholders via the banks that manage their securities accounts. In addition, the convening notice and agenda can easily be accessed through our website. 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.

Please refer to the chapter "The DVB share" on page 28 of this annual report for further information on the legal framework governing the General Meeting, and on the agenda topics for the Annual General Meeting 2009.

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 2009 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. We plan to publish both language versions of the Group Annual Report 2009 as an easy-to-read electronic report on the Bank's website.

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). These three financial reports are also prepared according to IFRS.

Since the "DVB shares" employee participation scheme ended on 31 December 2007, no other stock option programmes or similar securities-based incentive programmes exist at DVB.

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 2008 on 12 March 2009.

- A total of 18 Directors' Dealings notifications were issued on behalf of Messrs Wolfgang F. Driese (CEO and Chairman of the Board of Managing Directors) and Dagfinn Lunde (Member of the Board of Managing Directors); these notifications covered notional no-par value shares of DVB Bank SE worth €5,000.

On our website http://www.dvbbank.com/en/investor_relations/publications/directors_dealings/index.html we publish a link to DVB's page on News Aktuell, a third-party media portal, where details regarding these directors' dealings are published.

- As a listed public limited-liability company, DVB is obliged to issue a Declaration of Compliance in accordance with section 161 of the German Public Limited Companies Act (Aktiengesetz – AktG), 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 eighth Declaration of Compliance on 11 December 2009; the declaration covers the years 2009 and 2010, and is available on the Bank's website.

All Declarations of Compliance issued by DVB since 2002 are available for download from our website: http://www.dvbbank.com/en/investor_relations/corporate_governance/dec_of_compliance/index.html

- 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 (Wertpapierprospektgesetz – 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 to quickly find the latest information about DVB. We relaunched the site in 2009, making its target group-oriented contents even more appealing, whilst simplifying searches for users by offering a layout that is both clearly arranged and intuitive. The site includes a Factbook that was implemented as an easy reference for DVB's key financial indicators, its mission statement and business model, business and portfolio developments, as well as the Bank's risks and opportunities. Moreover, the new "Frequently Asked Questions" section provides concise answers to frequently-discussed banking issues.

- Since 2008, we have been providing an additional 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.

- We maintain a continuous, direct and intensive dialogue with shareholders, rating and bank analysts, and with financial journalists within the scope of regular events such as the Annual General Meeting, the Annual Accounts Press and Analyst Conference, and in follow-up rating discussions.

- 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. The financial calendar permits all those interested to be informed without undue delay.

Management tools

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

Financial controlling

The Board of Managing Directors has an extensive set of controls at its disposal: it uses them for value-driven and integrated management. In this context, "integrated" overall management of the Bank means taking into account both income and risk parameters. From an ex-ante point of view, the key task is to distinguish beneficial decision-making scenarios 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 the Bank'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.

Further details regarding the Bank's risk management system are provided in the report on opportunities and risks on pages 107 to 125. This also contains the report on the internal control and risk management system covering financial reporting, in accordance with the German Act on the Modernisation of the Accounting and Reporting Laws (Bilanzrechtsmodernisierungsgesetz).

Compliance

Sustainable conduct – both commercially and socially – is a key element of DVB's corporate culture. 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. To ensure a highly professional, uniform and exemplary standard of conduct throughout the Company, the Board of Managing Directors developed a Code of Conduct at the beginning of 2010. The values enshrined in the Code must be observed vis-à-vis DVB, our clients, and 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, creativity, dedication, teamwork and diversity.

The Code of Conduct – which will be published in the Compliance section of the Investor Relations website – is also designed to manage ethical and legal challenges arising during day-to-day work, providing guidance in the event of any conflicts.

The Compliance function within the DVB Group has a centralised structure. The Compliance Office – based in Frankfurt/Main – 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/market manipulation and corruption, data protection, conflicts of interest, and compliance with the Markets in Financial Instruments Directive. 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 function in Frankfurt/Main. The Local Compliance Officers must additionally report any potential breach of internal policies and procedures as well as external rules and regulations. All staff attend regular trainings on compliance-related topics. 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 of the Compliance Report on an annual basis.

The severe global recession and sharp distortions on the financial markets provoked a somewhat unconventional approach amongst international central banks to achieve market stability during 2009. Banks around the globe were struggling with soaring refinancing costs.

European Central Bank (ECB) responds with an expansive monetary policy

The ECB enhanced its expansive fiscal policies in 2009 by incrementally lowering the benchmark interest rate for the euro zone to 1.0% by May 2009, marking a historical low in benchmark interest rates for the EU's common currency. The ECB also expanded its fiscal tools, to include further measures to ease the money market distortions' negative impact on liquidity in the banking sector. This included extending longer-term funds in order to afford European banks a greater degree of planning security. For the first time, the ECB entered the market as a securities buyer, purchasing euro-denominated asset-backed securities amounting to €60 billion. The primary objective of every special measure under the umbrella of European monetary policy was to make it easier for banks to gain access to liquidity and, by extension, support lending in the euro zone. Special measures aimed at supplying liquidity did not miss their mark in the euro zone; they prevented the massive liquidity squeeze (which occurred as a result of money market distortions) from escalating into a widespread liquidity crisis amongst banks. Over the course of the year, the conditions on the money markets eased considerably, with an extensive increase in liquidity in conjunction with these measures. Both money market and lending rates declined noticeably. All the same, concerns lingered through to the end of the year as to whether the signs of normalisation would prove to be lasting and robust. As the financial markets slowly began to stabilise over the course of the year and economies in the euro zone were on the path to recovery, the ECB undertook the first steps in scaling the special measures back at the end of 2009. The decidedly moderate development of inflation in the euro zone made it possible for the ECB to leave the benchmark interest rate at its historical low of 1.0% through the end of the year.

US Federal Reserve (FED) adheres to unconventional monetary policy

The FED continued to pursue its highly expansive and unconventional monetary policy in 2009, augmenting its interest rate policy with a series of unorthodox measures. The FED purchased long-term government bonds whilst simultaneously boosting the existing programmes to shore up the credit and banking market in order to pump additional money into the economy. The FED was responding to the ailing state of the world's largest economy, which had worsened since January, and the unmistakably sharp distortions plaguing the banking system and the financial markets at the beginning of the year. The primary objective of these measures was to stimulate domestic lending in the USA and funding via the bond market. The FED pursued what was in effect a zero percent interest rate throughout the entire year, with the target range for FED Funds between 0 to 0.25%.

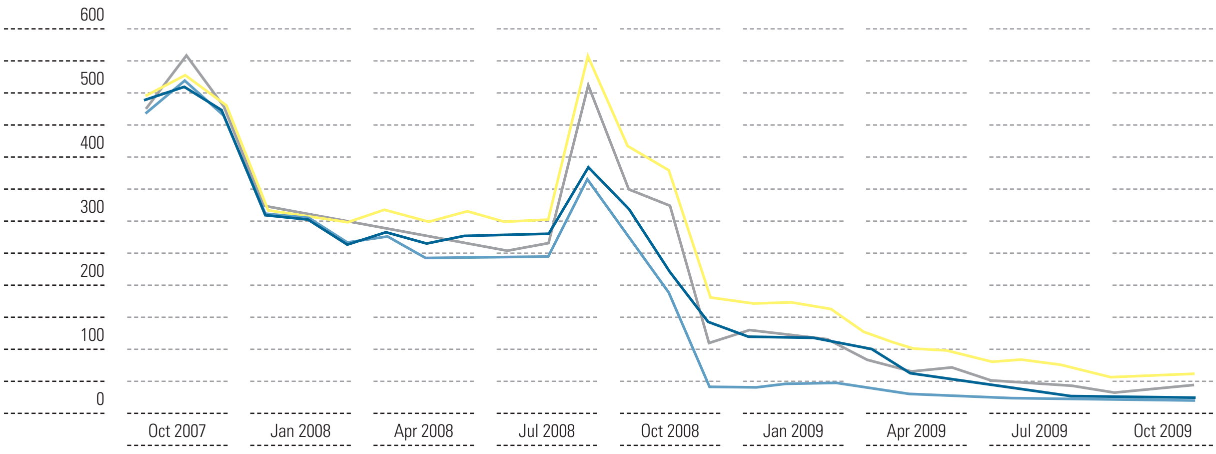
Euro appreciates as confidence rises on the financial markets

The euro rebounded from its losses against the US dollar during 2009. As the year began, the euro was under significant devaluation pressure and sank in the aftermath of mounting distortions on the financial market, from nearly US$1.60 in summer 2008 to approximately US$1.25 in the first quarter of 2009. The high degree of global uncertainty led market participants to increasingly shift currency reserves into US dollars, which was considered the most liquid and secure currency. The US dollar was thus able to benefit from growing global risk aversion due to its position as the premier international currency. This trend that emerged – in conjunction with the turbulence on the financial markets – shaped activity on the foreign exchange markets for the rest of the year as well. The euro was also adversely affected by the pessimistic growth prospects for the euro zone. Only in March 2009 was the euro able to gain some traction against the US dollar as global economic optimism set in and some risk appetite returned to the financial markets. Lingering uncertainty began working in favour of the euro from March onwards. Shifts from the dollar and the yen, to benefit from the higher euro interest rates, strengthened the EU's common currency. As a result, the euro made gains through to the end of November and at times exceeded US$1.50. Toward the end of the year, speculation regarding an anticipated exit from expansive monetary policies on both sides of the Atlantic led to some volatility on the foreign exchange markets. The euro closed 2009 with a euro-dollar exchange rate of US$1.44, which amounted to a five-US-cent year-on-year gain.

Development of funding costs on international markets

The combination of recession and money market distortions also impacted on the funding activities of internationally active banks. Back in August 2007, banks' actual funding costs were still largely in line with LIBOR – by October 2008, the interbank rate for the common three-month maturity had risen to a spread of up to 215 basis points over the reference rate. This divergence between LIBOR and actual funding costs was even more pronounced for one-month funds, where it reached up to 350 basis points. Actual funding rates kept diverging from LIBOR throughout 2009, with the mark-up peaking at 60 basis points and an average spread of 39 basis points for three-month funds. For one-month funding, the spreads were up to 100 basis points maximum, with an average spread of 38 basis points.

Development of funding costs (LIBOR basis points)



Source: Bloomberg

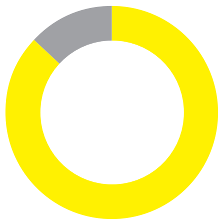
DVB's financial market activities during 2009

DVB continued to consistently implement its business model, which focuses on financing, structuring, and advisory services in the international Transport Finance business, throughout 2009. In particular, the Bank continued to refrain from so-called "credit surrogates business". DVB was therefore protected against any direct negative impact from the financial markets crisis. Nonetheless, it was burdened in 2009 – for the second consecutive year – by the negative implications of the financial markets and global economic crisis, with the increase in banks' funding costs also affecting DVB's results:

- Additional crisis-driven funding expenditure of €28.0 million was already incurred in 2008. We took counter-measures immediately, which proved very successful.
- These measures enabled us to continuously and almost entirely scale back the burdens created by money market distortions in the course of 2009, to €20.8 million (Q1: €17.3 million; Q2: €2.3 million; Q3: €1.0 million; Q4: €0.2 million).
- We expect the non-recurring burden from money market distortions to no longer impact results for 2010.

DVB's funding volume (interest-bearing liabilities) totalled €14.0 billion in 2009. Of this amount, €5.4 billion was denominated in euro (–32.5%), whilst €8.5 billion was denominated in US dollars (+49.1%). At €0.1 billion, other currencies only had minor importance in 2009. In 2009 DVB once again benefited from its membership in the liquid German Cooperative Financial Services Network, and again increased its medium-term and long-term refinancing.

Refinancing instruments 2009 (volume: €14.0 bn)



Long-term refinancing vehicles 87.1%

thereof:

58.6% Promissory notes/long-term deposits

24.3% Issues under the MTN programme

4.2% Own funds in accordance with the German Banking Act (KWG)

Short-term deposits banks/customers 12.9%

DVB's ratings

At the outset of 2009, DVB Bank SE was rated A/A-1/stable (Standard & Poor's) and A1/P-1/C/stable (Moody's). The assessments changed as follows during the course of the year:

Date	Rating criterion	Standard & Poor's	Moody's
30 January	Outlook	from "stable" to "negative"	
23 June	Bank Financial Strength Rating		from C to C–
28 September	Bank Financial Strength Rating		from C– to D+
	Outlook		from "stable" to "negative"

In 2009, stock markets were able to make a partial recovery from losses incurred during the global financial markets crisis in the aftermath of the collapse of Lehman Brothers in September 2008. Developments on the stock markets did not show any consistent or clear trends; yet the year closed on an optimistic note.

Momentuous times for the equities markets in 2009

The nosedive in major equities markets that began in 2008 continued into early 2009. The global recession and bleak economic outlook exacerbated market losses. Negative annual results in the finance sector raised concerns about the global financial system's ability to withstand stress. Given this situation, investor risk appetite dropped sharply as the year began, pushing the German blue-chip index, the DAX, to a four-and-a-half-year low of 3,589 points on 9 March.

Only when promising quarterly results were released by major US financial institutions did a turnaround on the equities markets begin to take hold in March 2009. Accompanied by expansive monetary and fiscal policies worldwide, this buoyed expectations for economic recovery over the months that followed. Lower than expected corporate results and economic indicators led however to price corrections over the summer and autumn, raising doubts amongst investors about the sustainability of the recovery in the financial sector and the real economy. This prompted many investors to take profits, causing both the DAX and the Dow Jones to forfeit much of their gains. Yet this was not enough to derail the upward trend on both blue-chip indices: by the end of the year, at least a modicum of confidence had returned with respect to the economic outlook.

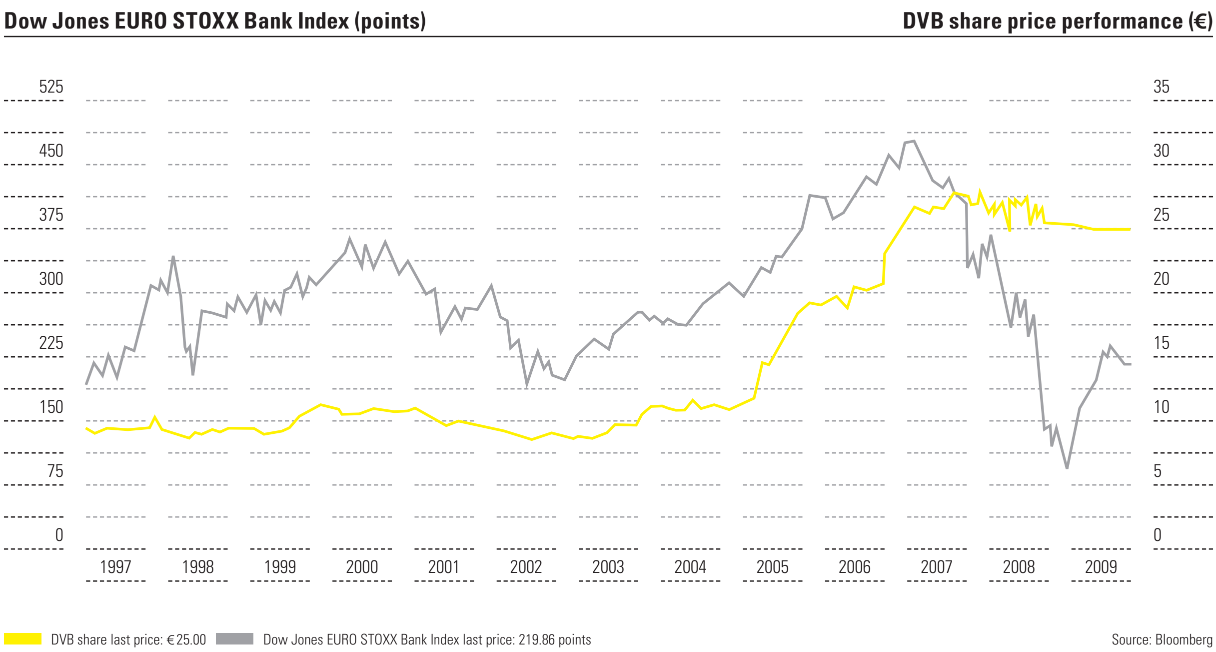
The DAX was able to once again look back on a good year for the market; in a year-end rally on 28 and 29 December, the market closed in on the psychological benchmark of 6,000 points, in thin trading. This meant that post-Lehman Brothers losses had largely been recovered. Up by 23.9%, the DAX closed out the year at 5,957 points (31 Dec 2008: 4,810 points). The scope of the rebound is even clearer looking at the market's 2009 low point that was reached in March. By year-end the DAX was up 62.5% from that level. ❶

DVB share remains stable in a challenging market environment

In 2009, the DVB share was unable to continue the positive upward trend of years past as a result of the challenging market conditions already depicted. The share price did, however, prove to be quite stable compared to the share prices of other market participants.

Over the course of 2009, traded volumes in DVB shares were subdued, with moderate volatility. The yearly high of €28.00 was reached on 5 August 2009, with the low of €21.00 reached on 9 June 2009, the day preceding the Annual General Meeting.

❶ **Share price performance in 2009**



Source: Bloomberg

The moderate share price decline from €26.10 to €25.00 at year-end, a 4.2% loss, proved encouraging. By extension, the Bank's market capitalisation also underwent a slight 4.1% decrease from €1.21 billion to €1.16 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 2008. The Supervisory Board and the Board of Managing Directors will propose at the Annual General Meeting on 9 June 2010 that the dividend payment remains unchanged at €0.60 per share for the 2009 business year. ❶

Go to our website for a history of the DVB share since 1923 with key figures – http://www.dvbbank.com/en/investor_relations/dvb_share/history/index.html

Shareholder structure remains unchanged

The shareholder structure was largely unchanged in the 2009 business year. DZ BANK AG continues to be the major shareholder of DVB with a 95.45% stake as at 31 December 2009 (a 0.01% year-on-year increase). The remaining 4.55% of shares are held in free float.

Shareholders and the General Meeting

When compared with the wide array of issues confronted at the 2008 Annual General Meeting – the merger and change in legal form to become a Societas Europaea, the 2008 creation of authorised capital and share split – the agenda for the ordinary Annual General Meeting held on 10 June 2009 was essentially limited to the annual duty roster: the acceptance of the SE annual financial statements confirmed by the Supervisory Board and the approved consolidated financial statements, resolutions on the appropriation of distributable profit and the formal approval of both the Board of Managing Directors and the Supervisory Board, as well as the appointment of the external auditors for the 2010 business year.

In the general debate, about 97.0% of the voting capital was in attendance and there were some shareholders and shareholder representatives who made contributions or asked questions. The focus centred upon the overall management of the Group, the individual portfolios, market development and balance sheet-related issues. DVB's shareholders voted six shareholder representatives onto the Supervisory Board with a tenure ending at the 2014 ordinary Annual General Meeting, and they passed resolutions regarding the authorisation for the acquisition of treasury shares and compensation of the Supervisory Board of DVB Bank SE. Voting on agenda items went smoothly, achieving voting majorities between 99.98% and 99.99% for each item. Given that DZ BANK currently has a 95.44% stake in DVB's share capital, this stability has been the norm for many years now.

❶ **The DVB share – Key indicators (€)**	**2009**	**2008**	**2007**	**2006**	**2005**
Business year high	28.00	28.60	288.00	220.00	191.00
Business year low	21.00	20.00	203.25	162.00	98.00
Year-end price	25.00	26.10	282.00	206.25	182.00
Number of shares at year-end	46,467,370	46,467,370	3,982,737	3,932,677	3,896,912
Market capitalisation at year-end	1,161,684,250	1,212,798,357	1,123,131,834	811,114,631	709,237,984
Dividends	0.60	0.60	5.00	3.00	2.25
Dividend yield	2.40%	2.30%	1.77%	1.45%	1.24%
Basic earnings per share	1.61	2.44	27.67	23.01	17.45

Starting in 2008, figures reflect the 10-for-1 share split carried out on 18 August 2008. The "Number of shares at year-end" item for 2006 and 2007 includes shares resulting from the "DVB shares" employee participation scheme, which were registered in February of 2007 and 2008 pursuant to section 201 of the AktG.

Financial calendar 2010

11 March
Annual Accounts Press and
Analysts' Conference, Frankfurt/Main

19 March
Publication of the single-entity financial statements 2009 on our webpage (available in German only)

26 April
Publication of the English-language consolidated financial statements 2009 on our webpage

14 May
Publication of the Interim Management Statement during the first half of 2010

9 June
Annual General Meeting
Frankfurt/Main

10 June
Dividend payment (ISIN DE0008045501)

1 July
Repayment and interest payment on profit-participation certificate (ISIN DE0008045543)

13 August
Publication of the
Half-Yearly Financial Report 2010

12 November
Publication of the Interim Management Statement during the second half of 2010

10 December
Publication of the
Declaration of Compliance for 2010/2011

Business and operating environment

Baltic Exchange Dry Index in points

Source: Clarkson Research Services Ltd

Strategic positioning

DVB's business model is clearly defined and unique. Its mission statement captures both the Bank's real accomplishments and its vision of the future: "We are the leading specialist in international transport finance."

In this annual report, the DVB Group is referred to as "DVB" or "DVB Group", whilst the Group parent entity DVB Bank SE is identified under its registered company name.

DVB divides the international transport market into shipping, aviation and land transport. DVB enjoys a unique position, thanks to its strategic focus on these transport segments. As a highly specialised niche provider, we offer our clients a broad range of customised products and services.

Core products and services

Over the years, DVB has continuously enhanced its core skills. Today, DVB offers a wide array of financial services, spanning six value-adding areas, to approximately 560 clients in Shipping Finance, Aviation Finance and Land Transport Finance. Our Asset & Market Research prepares in-depth analyses of transport assets and markets. Leveraging this business intelligence, we support our clients in the key product areas of Structured Asset Financing, Equity Sourcing and Investments, Asset Management, Advisory Services, Risk Distribution and Loan Participations – across the Shipping Finance, Aviation Finance and Land Transport Finance divisions. ❶

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.

Equity Sourcing and Investments

Thanks to the extensive analytic output provided by our Asset & Market Research team, and the resulting transport market expertise, we are an ideal partner for clients requiring equity capital and investors seeking suitable investment projects in the relevant transport sectors. With this purpose in mind, our Investment Management division has launched the Deucalion Aviation Funds (for aircraft investments) and Shipping & Intermodal Investment Management (SIIM). SIIM comprises NFC Shipping Funds, the Cruise/Ferry Investment Fund, Intermodal Equipment Funds (investing in container boxes and other transport equipment), and Stephenson Capital (rolling stock for rail transport). Managing these funds allows us to offer our clients equity products to finance their investment projects.

❶

Asset Management

In 2009, 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 team provides our aviation clients with a broad spectrum of services ranging from lease management, advisory services, 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 active 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 advisory services for 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, refinancing, and the funding of acquisitions.

Risk Distribution

We usually employ our own capital when financing the assets of our Transport Finance clients. Notwithstanding this commitment, we syndicate portions of this lending volume – which can be substantial – to other financial institutions on the international banking market. Both for DVB and its clients, this placement of credit risks is important to ensure sufficient liquidity and adequate risk transfer.

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 international senior asset-based lending.

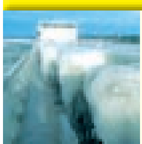
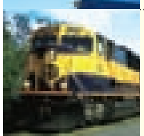
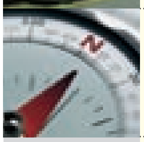
Asset & Market Research

Our Asset & Market Research provides the basis for the activities of our business divisions, leveraging the team's long-standing research experience and resultant know-how to provide financing products and advisory services, as well as optimising the process of raising 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 Our customer-specific services for aircraft engines, provided by Cardiff-based TES Aviation Group, brings us even closer "to the metal".

❶

DVB's business model

	**Shipping Finance**	
	Business areas	Container Box • Cruise & Ferry • Crude Oil and LNG Tanker • Chemical & LPG Tanker • Container Vessel • Dry Bulk • Floating Production • Offshore Drilling • Offshore Support • Product Tanker
	Products and services	Structured Asset Financing • Risk Distribution • Advisory Services • Shipping Asset Management • 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	Shipping & Intermodal Investment Management • Deucalion Aviation Funds
	Products and services	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

Complementing the range of industry-specific services is the product Equity and Debt: our New York-based subsidiary DVB Capital Markets LLC is a licensed broker dealer that 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 organisational structure

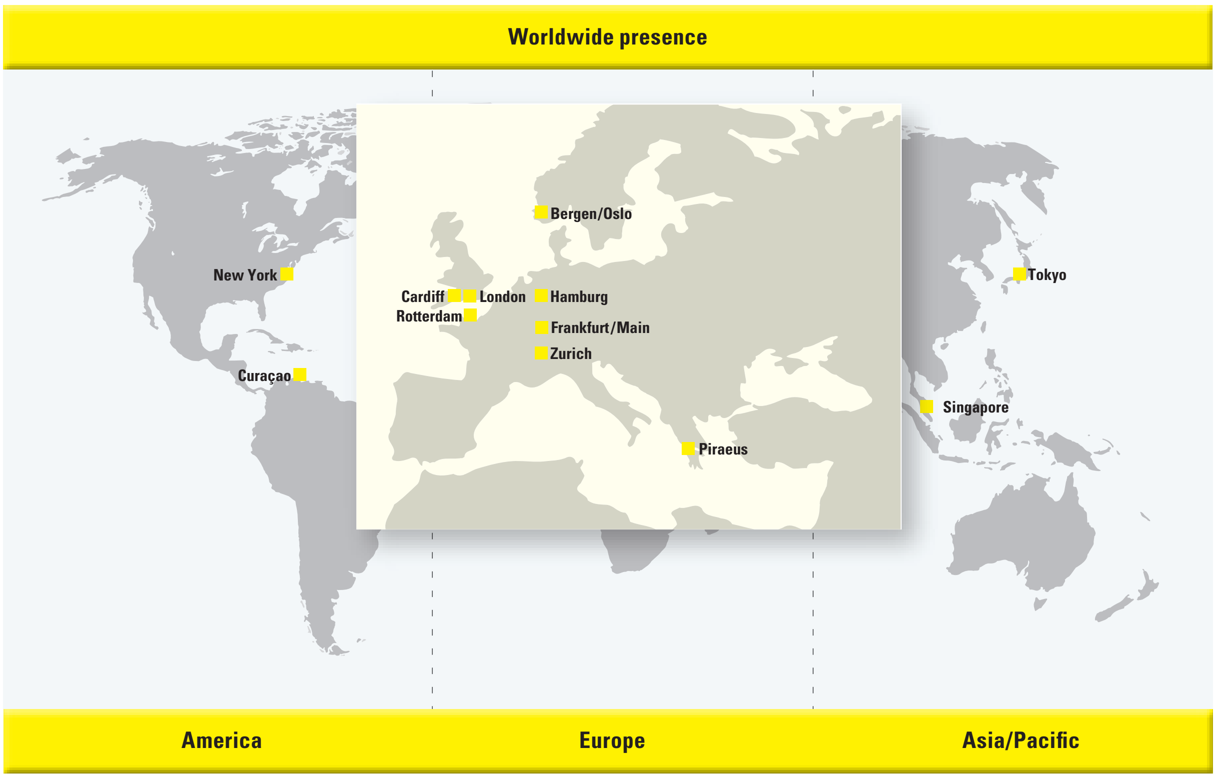
With offices in 13 pivotal locations, our business divisions Shipping Finance, Aviation Finance, Land Transport Finance, Investment Management and ITF Suisse have a worldwide presence in the transport markets and their various segments. This global presence enables us to take into account the international dimension as well as the local specifics of the markets in which our clients operate. ❶

Current challenges and DVB's competitive strengths

The crisis affecting global financial markets and the world economy also left its mark on the international transport markets. Recession is clearly evident, especially in certain shipping sectors (container carriers, bulk carriers). The competitive environment surrounding DVB can be summarised as follows:

- The number of banks active in global transport finance remains low.
- By extension, the syndication market has yet to bounce back and underwriting commitments have been scarce.
- Numerous banks re-defined their business focus in 2009 in response to political and regional aspects and/or the intensity of the respective client relationship. The significance of regionally active banks increased, particularly in China and the Gulf region.
- Capital markets and export credits are serving as a substitute for the decrease in financing volumes amongst banks to some extent.
- Obtaining bank loans is hardly a problem for strong corporate credits. In this respect, it is already evident that loan terms are easing.
- Bank loans remain problematic for weaker credits, where conservative structures with terms reflecting the risk exposure remain in place.
- Secondary markets are experiencing larger liquidity bottlenecks.

❶



Our key competitive strengths, which distinguish us from other market participants and help us face these challenges, are summarised below:

- DVB has a clearly-defined cycle-neutral business model with a unique focus on financings in select sub-sectors of the international transport market.

- As an internationally active specialist bank, DVB has a presence in every major transport market and offers its clients tailor-made advisory and financial services.

- The needs of DVB's clients in the transport sector are closely tied to specific assets. DVB's particular strength derives from its ability to understand a client's business model, and the assets employed, significantly better than the competition.

- DVB has access to first-class proprietary asset and market research in Shipping Finance, Aviation Finance and Land Transport Finance. DVB's staff is characterised by its profound knowledge and long-standing experience in financing and providing advisory services in selected sub-markets.

- DVB's credit portfolios in Shipping Finance, Aviation Finance and Land Transport Finance are diversified by multiple risk criteria.

- Notwithstanding its decentralised presence on the international transport markets, DVB benefits from its flat hierarchical structure and high degree of flexibility, as well as its efficient decision-making processes and short reporting lines.

Despite the extremely challenging market environment and certain negative factors, DVB will continue to maintain its unique focus and business profile, and will expand its competitive position over the medium term. This view is based on the following facts:

- DVB has access to retail liquidity through the German Cooperative Financial Services Network; the Bank is one of a few players remaining in global transport finance.

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

- Many of our competitors in transport finance are maintaining their distance from the markets. Our aim in 2010, however, is to steadily grow with select new business opportunities and interest rate margins that appropriately price the risks involved.

- We have also prepared ourselves for the higher level of allowance for credit losses, which will prevail.

- As seen in previous market cycles, DVB may have to acquire assets in some cases (such as vessels or aircraft). Our asset management teams in Shipping Finance and Aviation Finance are well prepared for the resulting restructuring and remarketing tasks.

DVB will adhere to its consistent industry focus

We will consistently adhere to our strategic focus on selected transport markets as the global economic and financial markets crisis runs its course. Our aim is to continuously improve the efficiency of our products and services. We will take further steps to enhance a unique profile characterised by sophisticated asset know-how and special asset services.

Although many observers detect signs of a slow improvement in general economic activity, a marked and sustained recovery is still only a distant prospect. The rebound seen to date has largely been due to extensive government stimulus programmes and massive injections of liquidity.

It is believed that the general economic conditions have started improving, however, a strong recovery is far from being just around the corner. So far much of the improvement can be attributed to hefty government stimulus packages and the massive liquidity injected into the market-place. Nevertheless, a rebound based on government support alone will not last and a sustainable recovery can only happen if broad private demand picks up. However, consumer spending is likely to remain weak as unemployment in the US and Europe is expected to stay high through much of 2010. Inflationary pressures due to excessive liquidity, although not currently a serious concern, is a distinct threat in the future. China has already made precautionary moves by increasing the reserve requirement for banks to curb lending volume that could lead to overheating their economy. As inflation concerns mount, we could see other countries reining in their monetary measures. It is, however, beyond doubt that the fallout from premature discontinuation of the biggest government stimulus in history could be immense and the eventuality of a double-dip recession is a looming threat. Even if the Central Banks adroitly handle the transition, the growth trajectory of the global recovery can be expected to be low in the coming years.

The early part of 2009 saw a continuation of the sharp drop in global economic activity and world trade that started in late 2008. This was evidenced by the growth of the gross domestic product (GDP) in the world's "factory", China, with GDP growth falling to single digit levels (6.8%) in the last quarter of 2008 for the first time since 2003. Governments worldwide responded with fiscal stimulus packages and monetary policy measures that included the lowering of interest rates and quantitative easing, setting the world economy in a phase of reconstruction. The advanced economies performance, although clearly better off for it, has been sluggish. The Euro-zone economy, which shrank by nearly 4% in 2009 is projected to grow only marginally in 2010. The US economy registered impressive growth in the second half of 2009. Although pent-up demand exists, credit aggregates including credit card debt continue to decline, which together with the evaporated equity in commercial and private real estate reflects constrained demand for goods and services. Expectations therefore are that the US will grow slowly as households continue to de-leverage. In sharp contrast, India's economy expanded 7.9% in the second quarter of their 2009/2010 fiscal year; a growth rate that is expected to be sustained for the year. Apart from India, the Chinese economy expanded 8.7% in 2009 and is expected to grow even faster at 9.5% in 2010.

Although unemployment levels in the developed world remain high, in all probability they are at a turning point. The economic output as a result is unlikely to repeat the lows seen in 2009. Commodities prices will remain flat as fundamentals are weak. Consumer confidence is likely to grow gradually. Fiscal stimulus in the developed nations can be expected to decrease as governments deal with their growing debt and indeed in some countries fiscal pressure may increase significantly. Quantitative easing and other monetary mechanisms will be curtailed as demand grows and inflation concerns arise. Low interest rates should prevail until at least third quarter of 2010. Although the US dollar may strengthen in the short term with the prevailing weakness in certain European countries, in the longer term we expect it to resume its gradual decline due to the large US current account deficit.

Recovery and economy are words frequently used to describe where we are in a macroeconomic sense. Recovery, however, suggests restoration of the former state. In the context of the world economy this is a misnomer as it is not on a path to achieving prior levels but has been propped up by measures to limit the toll on the population. Low growth remains a possibility because of the threat of higher energy prices, elevated unemployment levels leading to lower consumer sentiment along with the possibility of further repercussions of the financial crisis. In light of this, the International Monetary Fund's (IMF) October 2009 projection of 3.1% global economic growth in 2010 may actually be somewhat optimistic.

The global economic slowdown, triggered by the financial markets crisis, prolonged the difficult situation on international transport markets in 2009. Shipping markets were particularly hard hit, given their traditionally cyclical nature: as a result, our Shipping Finance portfolio was burdened. Even though multiple measures taken by DVB within the scope of its active risk management took effect, increased allowance for credit losses was required.

Shipping Finance – Market review

As anticipated, the first half of 2009 saw the world economic crisis broaden, with increasing unemployment and falling consumer demand. As government stimulus packages and monetary measures to increase liquidity took hold, manufacturing activity increased steadily; albeit from low levels at the beginning of the year. Shipping markets had to contend with decreased demand, along with a significant number of new buildings entering the fleet in most shipping sectors. As a result, we saw a number of new buildings deliveries delayed, and a significant number of vessels taken out of service – being either laid up or scrapped. Despite these measures, shipowners have had a challenging year to stay afloat.

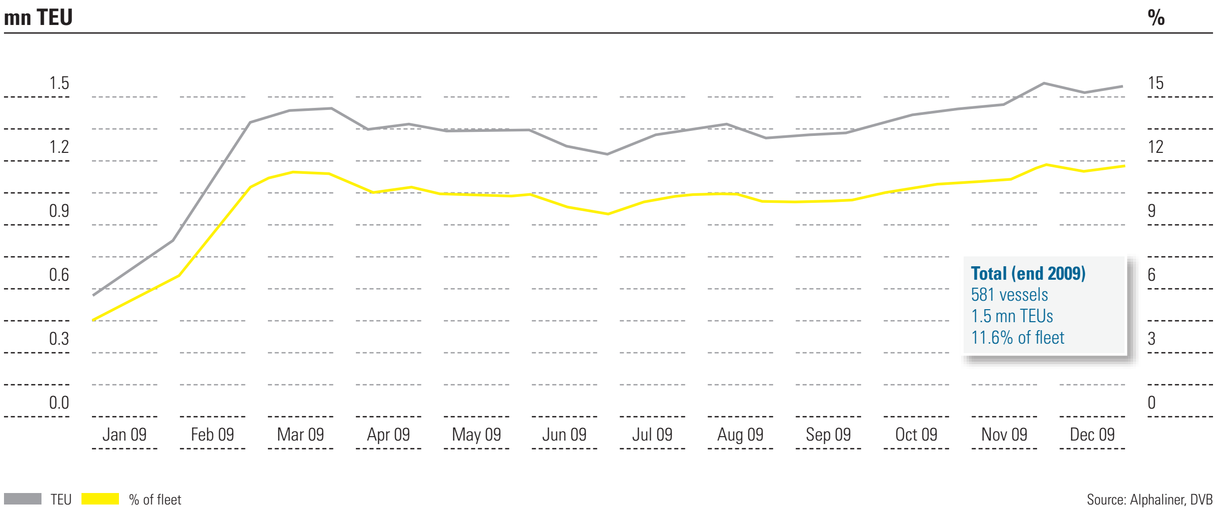
China, having dominated the dry bulk markets for well over a decade, continues to be the saviour of the dry bulk shipping market. In 2009, while most of the stimulus packages in the Organisation for Economic Co-operation and Development (OECD) countries were concentrating in repairing financial systems, in China financial resources were diverted towards stimulating the domestic economy and stockpiling raw materials at competitive prices. Credit estimated to be in excess of one trillion dollars was made available during the first half of 2009 by the Chinese government by way of "soft loans", thus placing the country at a clear competitive advantage. At the height of the financial crisis following the demise of Lehman Brothers, demand collapsed. To everyone's surprise and good fortune, falling demand from OECD countries was counterbalanced by China's record level of bulk commodity imports during 2009, most notably iron ore and coal. This timely strategic shift by the Chinese came as a piece of good fortune for the sector, since this provided employment for many idle bulk carriers. Record imports to China also supported Capesize freight rates, rocketing from near-zero level at the beginning of the year to peak at around US$100,000/day in the summer months. The increased demand for dry bulk commodities increased the concentration of vessels in certain geographic areas, bringing port congestion back into the equation with some 200 vessels tied up, waiting to load and discharge cargoes. Despite revived imports by OECD countries in the third quarter of 2009 and rising port congestion, the increasing momentum of freight rates cooled off in August 2009 before increasing again till November 2009. Consequently, the Baltic Exchange Dry Index (BDI) ended the year at 3,005 points, 289.2% higher than the low point of 772 points at the beginning of the year. The high for the year was 4,661 points on 19 November 2009. The pressure on freight rates was maintained not only because of a steady flow of new buildings and a lower than expected rate of demolition but also setbacks in the world economy as a result of the recession. Although we see a recovery in demand for dry bulk commodities in 2010, the sheer scale of the orderbook remains daunting. Even after factoring scrapping, slippage and cancellations, this sector needs to further reduce the rate of increase in fleet supply over the next couple of years.

The container shipping industry has been struggling to survive the unprecedented market downturn during 2009 as headhaul volume on the primary East-West trade lanes slumped by more than 15%. With North-South and regional trades faring slightly better, global containerised trade volume in 2009 is estimated to have dropped by about 10% from one year ago. Although it is comforting that the fall in demand may finally have come to a halt at the end of 2009, the marginal increase in trade volume for some markets must be taken cautiously, as the growth is coming off a low base of one year ago when the container trade collapsed. It is popular belief that general economic conditions have started improving, but the trajectory of the recovery is expected to be rather flat over the next few years. Looking back, the explosive boom in container trade following China's entry into the World Trade Organization effectively ended the previous market downturn in 2002. However, we do not foresee the appearance of any similar stimulus significant enough to pull the entire container shipping industry quickly out of the current dilemma. At the beginning of 2010, the container vessel orderbook stands at 830 vessels (4.7 million TEUs). It represents 36.4% – in

TEU terms – of the fleet of 4,814 vessels (12.9 million TEUs). Although the orderbook has shrunk by 21.7% from 6.0 million TEUs one year ago, any additional capacity will lead to an extra burden upon an already distressed market. As at the end of 2009, over 580 vessels (1.5 million TEUs) were idle, representing 11.6% of the fleet capacity. Time charter rates, which reached their lowest point around the end of the first quarter of 2009, remained at that level for the rest of the year, more than 30% below the previous market bottom in December 2001. As continued overcapacity is expected to prevail during 2010, time charter rates and asset values are unlikely to achieve sustainable recovery anytime soon. Therefore, the worst is far from over for the already cash-strapped owners, and casualties are expected to increase in 2010. ❶

Our bearish forecasts for the crude oil tanker market came to fruition during the course of 2009. Crude oil demand dropped to 84.9 million bbls/day in 2009 and crude oil prices fell, causing the Organization of Petroleum Exporting Countries (OPEC) to reduce quotas. Demand for all types of crude oil tankers therefore declined, and by May 2009 the market was truly at its low. Around the third quarter of 2009, emerging economies began to show signs of stabilisation but OECD economies, the main drivers of crude oil consumption, lagged significantly. Moreover, new tanker deliveries continued at expected rates, and scrapping was almost non-existent for the first six months of the year. By end of the third quarter of 2009 some stabilisation in Western economies helped to support charter rates, albeit at lower levels. The oil price contango may have delayed the fall during 2009, but this could fizzle out soon and cause more vessels that are on storage duty to rejoin the trading fleet. The International Energy Agency is optimistic in its outlook for oil demand in 2010, but satisfying that demand will be a tough challenge. For the time being, it seems that OPEC has realised that they stand to lose more in the long term by pushing up production rates, but higher production from non-OPEC countries clearly remains a challenge. We therefore expect a small increase in seaborne oil demand for 2010, with most of the growth coming from the Middle East and West Africa to Far East trade. The available fleet supply is a greater concern. Despite massive fleet increases in 2009, the industry was complacent in terms of fleet deletions and this has made a recovery harder. If scrapping does not pick up in earnest during 2010, then 2011 could be a disastrous year for crude oil tankers. The recent increases in freight rates seen during the fourth quarter of 2009 are a temporary phenomenon due to the harsh winter. We therefore expect some further downward

❶ Container vessel idle capacity



Source: Alphaliner, DVB

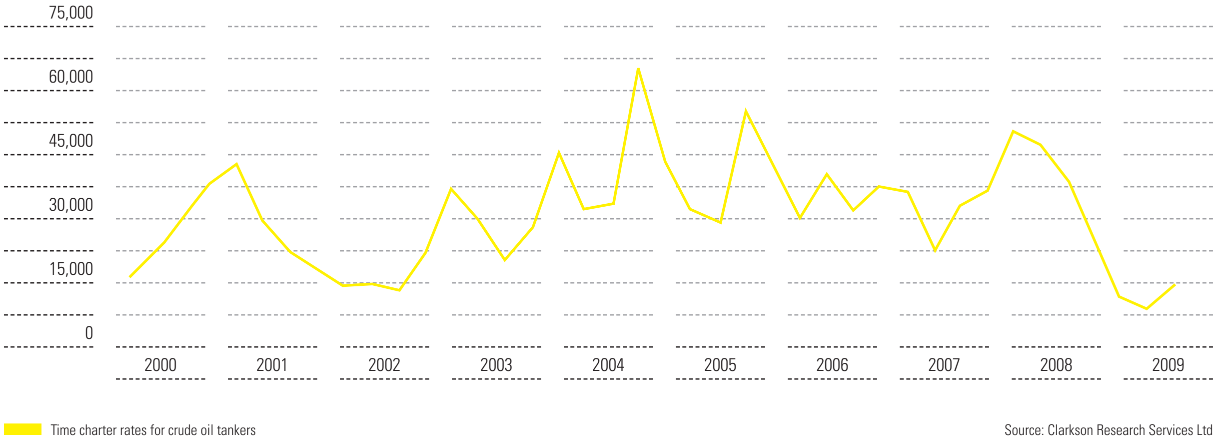
pressure on rates and asset values for crude oil tankers during 2010, with all eyes remaining on scrapping activity and long-term demand fundamentals if the crude oil tanker market is to make a recovery. ❶

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, the 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 that is currently under-utilised. However, this optimism in demand growth is balanced by the expected increase in the size of the fleet. The current LNG fleet comprises 340 vessels with a total capacity of 47.7 million cbm. A total of 52 tankers of 7.3 million cbm are on order, for delivery before 2012. Nevertheless, on average the growth in demand for vessels is expected to out-perform the growth in fleet capacity for the next four years. This will bring about the much-needed improvement in fleet utilisation rates, which are currently at very low levels. We expect the trickledown effect of improving fleet utilisation on freight rates post-2010. A recovery in asset prices will, however, lag the recovery in freight rates due to factors affecting the shipbuilding industry – such as the declining yard forward cover and lower raw material prices – and also due to the current low levels of fleet utilisation. We therefore expect the asset price cycle for LNG tankers to bottom out only by mid-2011.

The effect of falling oil prices was also felt on contracting activity in the floating production market during 2009. Oil prices may have recovered to around US$75/bbl but the financial viability of some development prospects remains uncertain. Operators on the fringes of the industry continue to remain under pressure. Consequently, it has also become more difficult for oil companies to acquire funding for these large investments. Project cost escalations witnessed in the past were tempered by the crisis during 2009, but with signs of the world economy stabilising and high levels of inflation expected due to excess liquidity, we may soon see the return of sharp increases in project costs. Deepwater drilling activity, another important factor affecting the demand for floating production systems, continues to remain strong. Moreover, the turmoil that we are witnessing in the world economy does not change the view that future oil production will increasingly come from deepwater and ultra-deepwater fields. Going forward, we expect oil prices to increase especially late in 2010 and this will aid in increasing contracting activity in 2010. Therefore we remain cautiously optimistic for the floating production sector in 2010, with the possibility of returning to the robust levels of activity that have been the theme in this market for the last six years.

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

US$/day



Source: Clarkson Research Services Ltd

For the offshore market, 2009 was a transition period as oil companies reassessed their plans for exploration and development projects, based on a new reality defined by the credit crisis, lower oil and gas prices, and E&P Capex (Exploration and Production Capital Expenditure) cuts. E&P Capex was curtailed in 2009 leading to deferred projects at a time that vessel and rig supply had grown significantly and therefore creating a supply-demand mismatch. Fleet utilisation and dayrates collapsed across all vessels, rig types and regions of operation, increasing the number of vessels and rigs in lay-up. However, during the second half of 2009 some positive developments emerged in most of the offshore sub-sectors as crude oil prices recovered from March 2009 lows and the world economy started showing signs of recovery. In 2010, provided that oil prices remain in the US$70-US$80/bbl range and with E&P Capex increasing modestly from 2009 levels, we expect the offshore E&P activity to experience a stabilisation period. Near-term, we expect flattening in E&P Capex growth before an acceleration in 2011; however, this increase will be met by fleet growth. The expected improvement in E&P Capex, coupled with easing financial markets, could help to support utilisation and dayrates.

While the results achieved by cruise lines this year have been dismal, there have been recent reports of robust booking levels by some companies, particularly those in the luxury segment of the market. One positive development for niche operators is that amended International Convention for the Safety of Life at Sea regulations could result in small older vessels exiting the internationally-deployed fleet. In the contemporary segment of the market, spurred by the low fares, cruise passengers have been booking further in advance, leading to the booking window being lengthened. The ability of larger players to discount fares, to the extent necessary to maintain occupancy levels, has put considerable strain on the smaller players. As may be expected under the circumstances, there has been a significant drop in per diems, the measure of profitability, achieved by cruise lines across the board.

Shipping Finance – Strategy

2009 started as 2008 ended, with much anxiety in the market and fears that another Lehman-like collapse would further dislocate an already fragile financial market. The shipping sector was not immune to the twin attack of slumping demand and financial markets crisis. In spite of these challenges, which left some major shipping financiers crippled, the financial performance of the Shipping Finance division and the overall health of the shipping portfolio is sound. Moreover, Shipping Finance was actively pursuing new business throughout 2009 and will continue to support its client franchise – a feat that few other competitors can match. Backing clients through the economic cycle has proven an empty phrase for many organisations in the finance community. Shipping Finance, however, is a reliable partner for shipping clients throughout the economic cycle.

2009 was a volatile year, with the macro-environment characterised by falling asset values and earnings, especially in dry bulk and container vessels, dislocations in the interbank lending markets and the restricted flow of bank debt to the shipping sector. The key to Shipping Finance's success is grounded in its organisational set-up and in-depth knowledge of the shipping sectors. These factors make our Shipping Finance division unique, and provide the Bank with a distinct competitive advantage versus our peers. As a matter of fact, it is especially in these volatile and difficult markets that these advantages stand out.

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 have been 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 are thus now covered by ten distinct sector groups working in close 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.
- Front-line teams are more in tune with the industry and have intimate knowledge of their clients' specific needs.
- Research also covers the various sectors individually. It is our market coverage and research which results in clients enjoying the benefit of increased expertise, whilst at the same time sector market intelligence is fed back into the research department.

❶ Shipping Finance – Ten global sectors and sub-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 and specialist chemical tankers)	**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 Board Member. 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 its 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" in four out of the last five years by Lloyds Shipping Economist) 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 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 yard to the scrapyard, in order to ascertain that quality, tradeability, and hence values, are within adequate parameters.

During 2009 we further strengthened our risk management platform in order to cope with the difficult markets and to remain ahead of the curve. The additional risk measures implemented included:

- Institution of a restructuring unit to support and assist in corporate and loan restructurings;
- Increased client and loan reporting requirements;
- Development of new stress testing procedures in order to flag potential problems as early as possible and create an Early Warning List. This allows early action on potential issues.

The above measures, the already engrained risk management process and the complete involvement of research and risk management throughout the life cycle of a loan (cradle-to-grave concept), combined with the intimate knowledge of clients and markets, enhanced by sectorisation, have all contributed to our solid performance in 2009.

Focus 2010

Shipping Finance is well prepared for the present economic situation, and its business model is bearing fruit in challenging and volatile times. However, in order to assure continued and sustainable success increased attention will be dedicated to:

- Improved speed and efficiency with regard to present systems and processes, to better serve clients and to enhance our competitive position.
- Increasing the exchange of knowledge across the sector teams, since not all sectors are at the same stage in the credit cycle.

Shipping Finance – Products

During 2009, Shipping Finance continued to offer a full suite of products tailored to meet the specific needs of its client base in this challenging and volatile environment. We provide the following range of products and services:

- Structured Asset Financing,
- Debt and Equity – Capital Markets,
- Advisory Services,
- Shipping Asset Management,
- Equity and mezzanine financing through Shipping & Intermodal Investment Management

Structured Asset Financing

Structured Asset Financing comprises all lending activities of Shipping Finance. As principal activity, key product and main revenue driver, the lending business encompasses mainly senior secured and second lien structures. Our ten sector teams market the lending product on a global scale through offices in Tokyo, Bergen/Oslo, Rotterdam, New York, Singapore, Hamburg and Curaçao.

However, we also provide more structured lending – such as leasing and tax structures – in co-operation with our dedicated Structured Asset Finance team (SAF). It is SAF's goal to offer our Shipping Finance franchise a tailor-made product range in structured finance products. These solutions are centered upon tax-based benefit and/or off-balance-sheet treatment of clients' assets. In the current environment this product is hard to sell. During 2009, SAF mostly focused on restructuring previous UK Tax lease structures – and once the market recovers, the team is in place to serve the client base.

Debt and Equity

With bank debt funding becoming more difficult to access – both in terms of availability and terms (lower advance, higher margins and more expanded covenant structures), secured bank debt has become rare – which makes it increasingly difficult to capitalise on opportunities and fund growth acquisitions. This development, combined with a low interest rate environment and attractive terms (long-term bullet loans combined with attractive covenant structure), has turned the high-yield and public debt market into an attractive option for owners. Clients are able to diversify their funding needs away from bank debt and lock in attractive fixed-rate coupons, whilst lengthening the maturity structure of their debt funding. 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.

Advisory Services

DVB's corporate finance and mergers & acquisitions (M&A) activities were originally solely "marketed" in co-operation with and through the sector coverage teams. Advisory provides clients with balance sheet optimisation solutions, restructurings, debt and equity raisings, and M&A advice. The Advisory team is composed of seasoned corporate finance professionals recruited from the bulge bracket investment banks. During 2009 the Board of Managing Directors decided to downsize the London Advisory team and transfer certain advisory activities to some of the sector coverage teams (Offshore Support Group, and Cruise & Ferry Group). This with the intention of achieving the same sectorisation benefits (currently accruing to the sector coverage teams) within the advisory function. Moreover, closer co-operation and a more concerted effort towards clients have been achieved.

Shipping Asset Management

The Shipping Asset Management (SAM) team was constituted in order to capitalise on the widely-held expectation that, investors and banks possessing only rudimentary knowledge of shipping (and acquired in the good times, at that), 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 the SAM team was engaged, selectively, for Shipping Finance's own cases. In 2010 the focus will, however, shift to servicing investors and other banks, with the expectation that the need for such expertise and service will expand.

Shipping Finance – Portfolio analysis

Structured Asset Financing – Loan portfolio

2009 marked yet another year of sound financial performance for Shipping Finance in spite of the volatility in the shipping markets and financial turmoil. This division of the Bank is one of the few organisations in the shipping arena that remained open for business throughout the period, albeit on a more rationed and cautious basis.

Customer lending in 2009 (loans and advances inclusive of guarantees and indemnities) totalled €1.3 billion over 61 new facilities, compared to a total loan volume of €4.0 billion over 122 facilities in 2008. This loan volume development, combined with the repayments and commitment cancelations during the year, resulted in a shrinking of the Shipping Finance loan book by 13.3% – to €9.1 billion from €10.5 billion at end of 2008. In spite of the more subdued loan volumes in 2009, Shipping Finance was even able to improve its net interest income by 26.6%, from €63.8 million in 2008 to €80.9 million in 2009, mostly on account of higher margins realised on new business. Its 2009 net fee and commission income, however, decreased to €46.8 million (down 31.3%) while achieving a total income of €84.3 million (2008: €107.8 million).

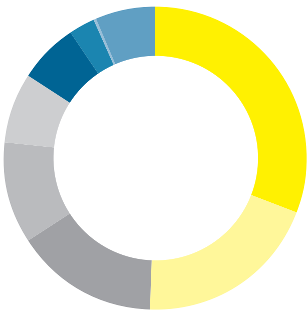
The loan market in 2009 was challenging for shipowners as traditional large shipping banks retrenched from the market – with a few halting lending altogether to the inherently capital-intensive shipping industry. The syndications market was virtually non-existent, with the bulk of financing transactions concluded on a bilateral or club basis. This lack of financing flow, combined with the overhang of record newbuilding orderbooks for some sectors, translated into a more cautious lending approach by the traditional shipping banks.

The general retrenchment (competition fleeing the market) of other shipping financiers has presented Shipping Finance with attractive opportunities to book profitable business with an attractive risk/reward equation on a selective basis. The difference between the margins being realised on new transactions and the current average margin on the existing loan portfolio is steep – since the loan book's turnover is high, the profitability of the loan book increases markedly. This, combined with DVB's ability to continue committing capital selectively to the sector, adds to an effective and profitable proposition.

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 is a key pillar of Shipping Finance's risk management. Additionally based on the research input of Research and Strategic Planning (RASP), a team closely co-operating with Shipping Finance, the portfolio has been moved away from perceived higher risk areas. This is why, for instance, we have clearly reduced our exposure towards the dry-bulk sector. The overall portfolio decreased by about 13%, whilst exposure towards the dry-bulk sector decreased by 26.8% from €2,004.8 million to €1,468.3 million. The share of bulk carriers fell by 3.4 percentage points from 18.6% in 2008 to 15.2% in 2009.

The portfolio is also well diversified in terms of asset types financed: the tanker segment increased by 4.1 percentage points from 26.9% to 31.0% year-on-year. This is mainly due to the rising share of crude oil and chemical tankers in the portfolio (both increasing by 1.7% to 10.5% and 10.3%, respectively). ❶

❶ **Shipping Finance portfolio by vessel type**



Tankers 31.0%
thereof:
10.5% Cruide oil tankers
9.5% Product tankers
8.4% Chemical tankers
2.6% Gas tankers

Offshore 19.7%

Bulk carriers 15.2%

Container carriers 10.9%

Cruise ships 7.4%

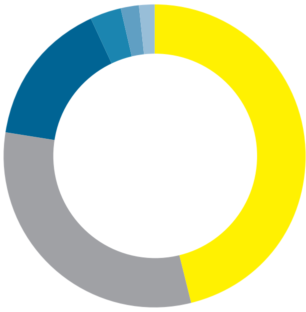
Container boxes 6.5%

Ferries/ Passenger vessels 2.7%

F(P)SO 0.3%

Others 6.3%
thereof:
1.8% General cargo
1.7% Car carriers
1.2% Reefers
0.5% Roll-on/Roll-off vessels
0.1% Combinations carriers
1.0% Miscellaneous

❶ Shipping Finance portfolio by client exposure per region



Europe 46.4%
thereof:
10.5% Norway
7.4% Greece
4.8% Germany
4.1% Cyprus
3.2% Switzerland
3.0% United Kingdom
1.1% The Netherlands
12.3% Others

Australia/Asia 31.3%
thereof:
9.1% South Korea
5.5% China
3.9% India
3.8% Singapore
3.5% Hong Kong
2.3% Japan
3.2% Others

North and South America 15.7%
thereof:
13.6% USA
2.1% Others

Middle East 3.4%

Offshore 2.0%

Central America/ Carribbean 1.4%

Geographically the portfolio is also well diversified, being mainly oriented towards Europe (46.3%). Client exposure towards Australia/Asia has decreased by 6.9 percentage points, to 31.2%, whereas exposure in North and South America has gone up 1.8 percentage points to 15.7% and in the Middle East to 3.4% (+0.8 percentage points). ❶

Another key pillar of DVB's risk management approach is to quickly take action in response to any covenant breaches (VMC and otherwise). We monitor values diligently to establish VMC breaches and action follows quickly from our Group Risk Management. To illustrate this point, during 2009 a total of 118 transactions (22.8% of total transactions) had a VMC breach. Thereof 48 transactions (40.7%) were repaired, 17 transactions (14.4%) were partly repaired, 32 transactions (27.1%) were waived and 21 transactions (17.8%) still have outstanding VMC breaches. The total funds needed to repair the outstanding VMC breaches equals €50.2 million whilst the total funds collected in connection with VMC repair already undertaken amounts to €400.7 million.

From a risk perspective the portfolio is also performing well: the Loan-to-Value ratio (LtV), one key metric of loan performance, remains adequate in spite of some credit migration. 80.4% of the overall loan exposure has a LtV ratio equal to or lower than 60% at the end of 2009 (at the end of 2008, 87.4% of the portfolio had LtV ratios of 60% and below).

Emerging Markets (as defined by Standard & Poor's) exposure was reduced by 7.0% to €1,616.4 million of which 30.1% (€486.2 million) is exposure to China.

During 2009, the granularity of the Shipping Finance portfolio was further improved as average lending exposure per client decreased to €31.2 million compared to €36.7 million in 2008. The largest individual client exposure stood at €211.7 million. Moreover, the number of clients where exposure exceeded €50 million decreased to 43 in 2009, compared to 57 in 2008.

Shipping Finance Deal of the Year 2009

Shipping Finance Deal of the Year 2009

The most noteworthy Shipping Finance deal concluded in 2009 was the Minnow Marine Projects Limited (MMPL) transaction. The long-standing relationship of Shipping Finance and its Offshore Support Group with the offshore support owner and operator MMPL started through a relatively small loan to finance the construction of two offshore support vessels (OSVs). This well-managed relationship was subsequently used as a platform to secure an equity raising mandate for assisting future growth of the company and supporting its CAPEX program (ten OSVs under construction with Fuijan Mawei in China). The advisory mandate was executed in mid-2008, but by the time investor marketing commenced the financial crisis was in full swing. Needless to say the financial crisis engendered a deep risk aversion, making equity raisings extremely difficult.

After several attempts during the second quarter of 2009 (with one potential deal collapsing at the eleventh hour) and after adjusting the structure, Abraaj Capital, a Dubai-based private equity firm, expressed interest in MMPL. Through its offshore support portfolio company, GMMOS, Abraaj found MMPL to be an attractive and complementary investment opportunity. GMMOS is a diversified group with interests in shipbuilding, steel fabrication, crane services, and OSV operations. The group is owned 51% by Abraaj Capital and 49% by Waha Capital (formerly Oasis Leasing). Abraaj, which had already identified that the OSV business was by far the most profitable leg of GMMOS, was very keen on acquiring MMPL since it offered GMMOS a larger and more modern fleet, access to the Far Eastern markets where MMPL was expanding, and a platform to further grow the OSV business.

Our Shipping Finance, through its dedicated Offshore Support Group was able, in parallel with the M&A negotiations, to structure and negotiate an acquisition finance package to support GMMOS in the acquisition of MMPL. In total, Shipping Finance will book both substantial non-risk weighted M&A fees and material debt arrangement fees – making for a highly remunerative transaction. But equally important is that Shipping Finance was able to better serve its clients through bundling various products (benefitting the buyer, the seller and last – but not least – DVB) leading to an increased return on effort as well as return on equity.

MMPL was selected as Deal of the Year since it deployed qualities in the best possible way that are highly regarded in DVB's Shipping Finance, namely: knowledge, commitment, creativity and professionalism; bundling of different services (advisory services and lending); and specialised knowledge in terms of assets and markets (sector and financial investor market).

Risk management and Restructuring Unit Shipping

As previously mentioned, risk management is completely woven into the life cycle of all loans, and risk management does not limit itself simply to pre-closing due diligence: 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 macro-environment coupled with increased clock-speed in the shipping eco-system has led our Group Risk Management (GRM), supported by RASP, to implement measures that effectively and proactively spot possible problems before they have actually manifested themselves. To achieve this goal, GRM has implemented a number of measures and instituted some new protocols in order to flag possible problems earlier – and to allocate adequate resources to assess, quantify, qualify, articulate and implement appropriate responses. These include:

- A higher frequency of client contact:
  More formal and improved feedback from each client contact point; mandatory involvement of Credit Officers and the development of a minimum requirement questionnaire

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

- Expansion of the existing Shipping Finance stress testing procedure (to include stressing of the Probability of Default in addition to values) and increased its frequency to quarterly – with results feeding into an Early Warning List;

- Increased event-driven rating updates and continuous review of the portfolio to refresh ratings and values where required;

- Stronger involvement of RASP in the credit process – not only on market research but also on all technical aspects of the respective assets (through Techcom);

- Creation of a Restructuring Unit Shipping (RUS), dedicated to flagging and advising on stressed/distressed loans;

- Increased co-operation with Shipping Asset Management.

The additional restructuring unit was created during the first half of 2009 as a dedicated unit within Shipping Finance, with the aim of creating a centre of competence to

- deal with corporate and loan restructurings;

- develop, implement and carry out the stress testing processes and flag potential problems early;

- resolve or remedy VMC and other covenant breaches;

- assist the sector groups on restructuring cases.

The creation of the RUS team was further prompted by the increased complexity of certain credit cases, and the need to have more dedicated resources to address these issues. 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. As a consequence of the increased vigilance, meticulous scrutiny and robust stress testing of the loan portfolio, 24.9% of the overall portfolio was formally reviewed at least on a monthly basis. At the end of 2009, 17.6% of the loan portfolio was on the Closely Monitored List, with 7.3% of the portfolio on the Watchlist and thus subject to close attendance and a formal monthly review. Moreover, 4.2% of the portfolio is subject to respective Early Warning risk management forum discussions. The likelihood of unpleasant surprises has materially decreased as these risk forums are continuously active whilst issues are quickly identified and efficiently dealt with.

With loan loss provisions taking centre stage, Shipping Finance remains in control of its loan book. However, the total allowance for credit losses of Shipping Finance was at €87.1 million in 2009, compared to €39.1 million at the end of 2008. This provisioning level is considered adequate to cushion the portfolio status in 2009.

The close co-operation and co-ordination between this solid and proactive risk management and the sector coverage groups, further supported by market and asset research, is the chief reason for the sustainable financial performance of our Shipping Finance through the cycle. This bundling of expertise provides us with a lasting competitive edge. In this volatile business environment, in which profitability and long-term viability are closely correlated with effective risk management, DVB's risk management infrastructure – combined with its unique sector coverage model and supported by RASP's market research and technical expertise – yields a unique positioning in the market, and focuses on future success and growth. Going forward, the current dedication and adherence to our core lending approach will remain; however, more emphasis and protocols are already being articulated (for example the New Deal Committee) in order to facilitate better resource allocation and efficiency, in addition to an improved pipeline and active portfolio management.

Shipping Finance – Outlook 2010/2011 for the key shipping segments

Demand across most shipping sectors is expected to increase over the coming years. However, in general, hire rates and freight rates are not expected to alter significantly due to the orderbook overhang that exists virtually across the board. Scrapping and newbuilding contract cancellation activity therefore will play a significant role in determining the shipping market outlook for 2010 and 2011.

Looking forward, 2010 seems to be the year of reckoning for the crude oil tanker market. Three themes will dominate the markets – the oil price contango, the global oil demand story and the scrapping of vessels. Oil prices, which govern the contango, are highly dependent on economic growth rates. These, in turn, impact forward prices of crude oil and it is quite possible that the oil price contango could fizzle out, resulting in vessels coming off storage and joining the already inflated available fleet. With OPEC countries largely holding to their quotas, and with production increases from Brazil (for example) being insufficient to offset long-term production declines from other non-OPEC countries such as Russia, Mexico, UK and USA, the oil available for trade and seaborne carriage is limited. The picture is therefore not as optimistic as the International Energy Agency figures may suggest, at least until the third quarter of 2010. As a result, fleet utilisation rates will be under pressure for the first two quarters of 2010 and we consequently expect some further downward pressure on rates and asset values. The market is expected to bottom during 2011, and we expect a steady strengthening of market drivers thereafter.

Oil prices and deepwater drilling are major drivers of floating production activity. Long-term fundamentals for the sector remain intact. Turmoil in the world economy does not change the fact that future oil production will increasingly come from difficult and less accessible offshore fields in deepwaters and ultra-deepwaters, where the Floating Production Storage and Offloading (FPSO) concept has a distinct advantage over other development solutions such as Tension Leg Platforms (TLP), Single Point Articulated Risers (SPAR) and Floating Production Semi-Submersibles (FPSS). In the short term, the market outlook remains flat to cautiously optimistic. Oil prices may have recovered to around US$75/bbl, but the financial viability of some development prospects remains uncertain. Currently there are about 160 projects in the planning pipeline that could employ a floating production unit. Therefore, while we remain cautiously optimistic for the Floating Production sector in 2010, we could soon see the return to robust activity that has been the theme in this market for the last six years.

Demand estimates for LNG tankers point to significant improvement from 2010 onwards. Based on International Monetary Fund projections for the world economy and taking into account the forward curve of gas prices, we estimate natural gas demand to increase by around 4.8% in 2010 to 3,094 bcm. By 2014, demand could be running as high as 3,400 bcm. As the demand for natural gas increases, 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. 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.

The product tanker market remains in fragile condition. The excessive overhang of diesel and heating oil inventories translates into eroded profits from processing crude, thereby forcing refineries to reduce throughputs in order to stimulate prices and increase their crack spreads. While oil demand growth does not bode well for the product tanker outlook, the supply of vessels is constantly increasing. The orderbook stands at 445 vessels (22% of the fleet), with deliveries projected to peak during 2010 (284 vessels/13.2 million dwt). Placing demand and supply into perspective, we are pessimistic for 2010. We expect time charter rates to bottom out early 2011, and gradually recover thereafter. The recovery in time charter rates is expected to be prolonged, with freight rates expected to recover after 2012. Vessel values are expected to lag the recovery in time charter rates, with the second-hand markets anticipated to bottom out during 2011 and gradually recover thereafter.

Record imports by China supported the dry bulk trade during 2009 and increased the concentration of vessels in certain geographic areas, bringing port congestion back into the equation. The Baltic Exchange Dry Index represents the cost paid by an importer to transport raw materials; it finished 2009 at 3,005 points, 289.2% higher than the low of 772 points at the beginning of the year. Although we see recovery in demand for dry bulk commodities in 2010, the sheer scale of the orderbook remains a concern. Even after factoring in scrapping, slippage and cancellations, the "rate of increase in fleet supply" over the next couple of years will put downward pressure on asset values and charter rates – even though year-on-year demand is expected to increase.

E&P companies' focus on large proven reserves in deep waters increased the demand for large high spec offshore support vessels, and this situation will persist during 2010. The fleet of small anchor handling tug supply (AHTS) vessels and platform supply vessels (PSV) is large and aged: the level of scrapping will determine how prolonged the current trough will be. Competition for employment of this equipment will increase in 2010, leading to lower utilisation rates. Day rates will soften marginally and asset values will decline further, but at a slower rate. The cancellation of newbuilding contracts and scrapping activity are expected to increase significantly in 2010 and 2011. Overall, the outlook for PSV and AHTS vessels in 2010 is cautious with the offshore supply vessel market expected to bottom out before activity picks up.

As anticipated two years ago, all indications are that there will be an improvement in the market drivers for the cruise industry in the second half of 2010. Until then, in general across cruise vessel segments, we see the booking window decrease and cruise lines under less pressure to discount fares. Growth in passenger numbers outside of North America can be expected to increase beyond the 7% annual growth rate of the past decade. In 2011, we can expect to see per diems achieved by cruise lines rise as more favourable economic times emerge. The hiatus in cruise vessel contracting is likely to end as cruise lines take advantage of the strengthening dollar to place orders for newbuildings at the European shipyards.

As over-capacity of container vessels is expected to continue in 2010, time charter rates and asset values are unlikely to recover any time soon. Therefore, the worst is far from over for the already cash-strapped owners in 2010. Operators on the other hand, are in a better position for capacity management by restructuring deployment and redelivering chartered-in tonnage. Container shipping demand is expected to register a modest increase of about 5% in 2010, based on the IMF forecast of 1.3% growth in the advanced economies. However, with the orderbook equating to 36% of the current fleet, over-supply is a distinct burden to the industry in the coming two years. While we believe the demand-supply equilibrium will not occur in 2010 and 2011, with falling inactive capacity, time charter rates are expected to increase considerably in 2011 from the current rock bottom levels; which in turn will cause asset values to bottom out by the end of the same year. DVB envisages a medium-term recovery in container shipping, anticipating an improvement within three to five years.

Shipping Finance – Portfolio outlook 2010/2011

During 2009 the shipping sectors experienced a shortage of loan capital as the large traditional shipping lenders retrenched from the market on account of the financial markets crisis. All industries and sectors were hit by this withdrawal of bank lending, and the shipping industry was no exception. The financial markets crisis had particular effects on the shipping industry, namely:

- Shipping is inherently capital-intensive (especially with the large newbuilding orderbooks in place);
- The aid packages to the beleaguered banks, orchestrated with taxpayer money, came with strings attached – economic nationalism and calls to only support national companies whilst the shipping industry is inherently international in scope; and
- The shipping industry is essentially dependent on international trade, which in turn depends on trade finance being available. Due to the financial crisis, the availability of trade finance was restricted and affected the demand for shipping.

In this funding void, Export Credit Agencies (ECA) played a vital role as they stepped up their respective activities to help funding newbuild programs for export, and support trade finance facilities.

In 2010, capital is expected to remain scarce – only the top-tier names (investment grade) have improved access to capital, with the second- and third-tier companies experiencing continued limited access to bank borrowings. This market, in which capital is at a premium, provides us with a clear opportunity to do profitable business with an attractive risk-reward ratio. Moreover, with competitors in full retreat, Shipping Finance will continue moving forward, both in supporting existing clients and expanding the client base.

2009 saw some defaults and collapses; however, the forecasted rash of spectacular defaults with ensuing asset fire-sales did not materialise. There is a general uncertainty in the market whether defaults and loan blow-outs will increase dramatically in 2010. However, should this scenario manifest itself we are prepared to meet this challenge and take advantage of the opportunities that such a market presents. Risk management has been improved, and the portfolio management remains our core focus. By RASP being more engrained into the risk management process, we have sharpened our vigilance on the portfolio. RUS is in place and running whilst we recycle lessons learned from the sector teams that already experienced a severe downturn (for instance the Dry Bulk Group) and adopt best practices.

In conjunction with the measures taken to strengthen the loan management function, Shipping Finance is committed to maintaining discipline when booking new loans – in order to ensure long-term and sustainable profitability. Moreover, our renewed efforts focus on increasing non-risk weighted income and leveraging off the existing knowledge base to create additional sources of income. A good example is the SAM platform: this is poised to take advantage of any downturn, by providing a valuable service to financial players lacking the infrastructure and expertise to manage distressed shipping loans and monitor recoveries.

With 2010 expected to be a year of continued volatility, we believe Shipping Finance to be well positioned: it has the necessary skills and organisation to take advantage of emerging opportunities.

Against the background of the global economic crisis, 2009 was – to say the least – a difficult year for the international aviation industry. Our non-cyclical "one-stop shop" business model in Aviation Finance proved its value even in a falling market, with a marked increase in income.

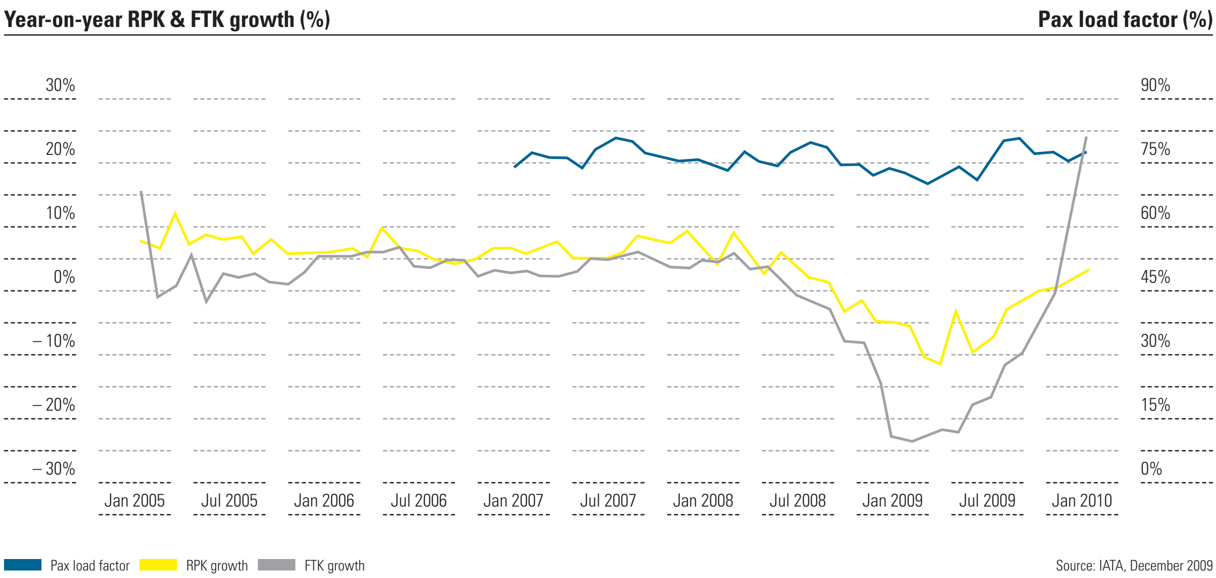
Aviation Finance – Market review

As predicted in our 2008 annual report, the commercial aviation industry was hit severely by the harsh economic climate that dominated global economic news headlines for most of 2009. Unsurprisingly, both air traffic volumes and airline financial results significantly underperformed the industry forecasts from late 2008.

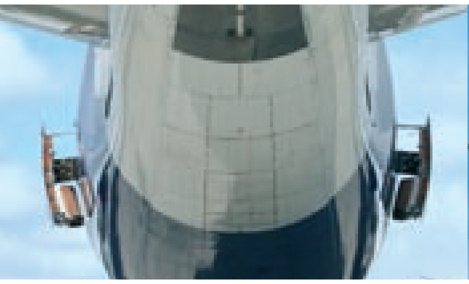
Although the strength of the economic recovery is still not entirely certain in early 2010, and we may still be in "the eye of the storm", a consensus seems to be building that 2009 indeed was a bad year, but not as bad as most industry observers had feared a year ago. With the demand side significantly down in terms of volume and yield, a combination of capacity reduction and lower fuel prices afforded the industry some degree of protection. The industry had a few "lucky escapes": the H1N1 virus did not cause global panic amongst travelers, and airline-related acts of terrorism largely failed.

According to the International Air Transport Association's (IATA) preliminary international traffic statistics, its member airlines lost 3.5% in revenue passenger kilometers (RPK) during 2009. ❶ With capacity, expressed in available seat kilometers (ASK), down 3.0%, the passenger load factor came in at 75.6%, about the same level as the 75.9% achieved in 2008. Air freight traffic volumes were hit much harder during 2009 with a drop of 10.1% in freight tonne kilometers (FTK) and only 8.4% less available freight tonne kilometers (AFTK) produced. The freight load factor for 2009 came in at only 49.1%. It should be noted that both the 2008 and 2009 figures – however bad they are – are still masking the real depth of the crisis. Effectively the most problematic period was the second half of 2008 and the first half of 2009. Despite this, on a combined basis passenger and freight volumes declined 6.1% in 2009, the largest decline in the postwar period.

❶ Air traffic volume



Source: IATA, December 2009



Average airline yields started to improve toward the end of 2009. Premium and economy fares were up between 8% and 9% compared to the low point in 2009. At the end of 2009, economy fares were still 10% below early 2008 levels, with premium fares 20% below. One of the main cost components for the industry is jet fuel. Whilst on average much lower compared to 2008, the price level did go up significantly during 2009. In January 2010, jet fuel spot price levels had increased over 40% compared to January 2009. Thanks to fuel prices still being lower when compared to 2008, airlines could "limit" their losses somewhat and IATA estimates the industry as a whole will have generated a net loss of US$11.0 billion in 2009. Compared to earlier expectations, the limited number of major airline defaults during 2009 was a positive surprise.

Middle Eastern airlines saw their aggressive expansion strategy (ASK +13.6%) rewarded by a strong increase of 11.2% in RPK. Latin America was the only other region that achieved a positive traffic growth (+0.3%). Africa lost 6.8% RPK, while North America and Asia/Pacific both lost 5.6%. Europe did not do much better, with a loss of 5.0%. Figures for late 2009 seem to indicate that the Middle East, Asia/Pacific and Latin America are enjoying a strong recovery while North America and especially Europe are still in negative territory. On the freight side, the Middle East was the only region with positive volume growth in 2009 (+3.9%). Africa, Europe and North America all reported double-digit negative figures. However, late 2009 figures indicate a strong recovery for all regions except Europe.

With the air transport markets suffering a record traffic decline, the aircraft equipment market obviously could not continue to ride the wave of optimism of the last few years. According to Ascend's database, a total of 753 western-built jets were ordered in 2009, compared to 1,878 in 2008 and 3,334 in 2007 (gross orders). Deliveries were up from 1,150 in 2008 to 1,208 last year. With deliveries and cancellations exceeding the new order volume, the backlog at the end of 2009 was 7,405 aircraft, about 33% of the global fleet in service. At the end of 2008 the backlog was 8,130 western-built jets.

Airbus booked the most new orders during 2009 with a gross intake of 310, which produced a net order figure of 271 after correction for cancellations. Boeing booked 263 gross orders, but cancellations – mainly due to the delay in the technical development of the Boeing 787 "Dreamliner" – resulted in a net figure of only 142, despite the fact that the aircraft finally made its first flight in December 2009. Brazilian manufacturer Embraer booked a gross number of 23 orders but due to cancellations ended 2009 with net –39 orders. Bombardier's regional jet sales figure for their fiscal year turned out to be 72 net orders. The Airbus A320 family (+279 gross orders) together with the Boeing 737 "Next Generation" (+197) remained the best sellers during 2009. The current generation widebody Airbus A330 (+32) and the Boeing 777 (+30), as well as the not yet available new technology Boeing 787 (+24) and Airbus A350 (+27), each sold well – but in more modest numbers. Very limited sales for the Airbus A340 (+1) as well as the Boeing 767 (+7) seem to indicate the approaching end of their life cycles. The large Airbus A380 (+4) and Boeing 747-8 (+5) widebodies suffered under the difficult market circumstances. In the large regional jet market Embraer only sold 19 E-Jets, while Bombardier added 50 net orders for its new CSeries plus 22 for the CRJs. New freighter aircraft sales were limited to only four A330-200 freighters.

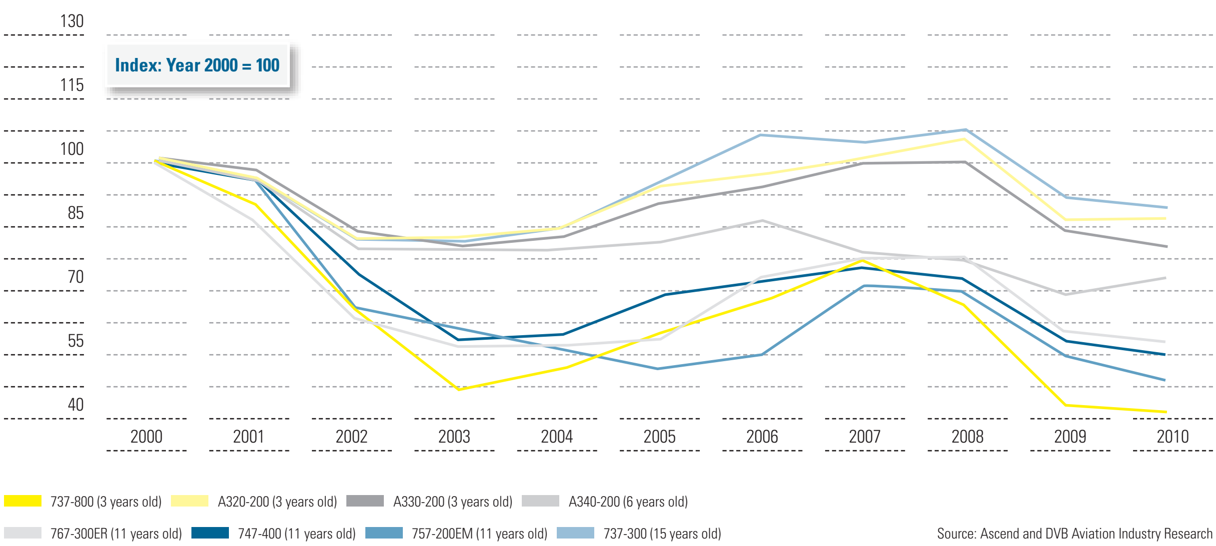
During 2009 it became clear that a fully new successor to the Airbus A320 and Boeing 737 will most likely not be available until well after the year 2020. The availability of more fuel-efficient engines around 2016, however, may result in developing re-engined versions of the current airframes. Environmental considerations, pressure from airlines for more efficient aircraft as well as competitive pressure from the CSeries – plus emerging programmes from Russia and China – seem to increase the probability that Airbus as well as Boeing will launch re-engined versions of their best-sellers for entry into service around 2016. As expected, the many changes to manufacturers' orderbooks – in form of deferrals or cancellations – did not result in many "white tails" (aircraft produced without a buyer). Thanks to the significant existing backlog the manufacturers were able to re-allocate slots to buyers that were willing and able to take delivery. Based on market feedback it seems some of the order changes were stimulated by attractive purchase prices for "spot-market" transactions.

While in early 2008 a scenario could not be excluded under which airlines and aircraft leasing companies would not be able to attract adequate financing for their new purchases, this so-called funding gap turned out to be very limited, at least for new deliveries. While there was a shortfall in the funds coming from the commercial open bank market, additional government support in the form of significantly increased Export Credit Facilities filled the gap for new deliveries. With the exposure of Export Credit Agencies to the commercial jet market having reached very high levels, it remains to be seen if this solution will still be available in coming years.

The used equipment market also suffered for various reasons in 2009. First of all, as airlines reduced capacity, mainly older aircraft – such as the Boeing 737 Classics, MD80s etc. – were put in storage and/or offered for sale. Supply therefore increased, while demand weakened. The second element was the virtual drying up in demand for conversion of older passenger aircraft to freighters, as a result of the airfreight crisis. Third, even in a situation where there was a willing buyer and a willing seller, the lack of financing often prevented transactions from taking place. This is where the funding gap manifested itself in the market. Finally, a number of significant fleets from leasing companies came up for sale: this created a lot of uncertainty, as for the majority of these aircraft no buyers could be found. ❶

About 12.3% of the global fleet of western-built commercial jets was in storage at the end of 2009. However, only 24% of the stored aircraft merit the label of "modern". More than 30% of the stored planes are unlikely to ever fly again. In terms of market segments, the 50-seater regional jet market suffered a lot as many US regional airlines reduced their fleets and very few aircraft found a purchaser. The market outlook for 50-seaters still seems very grim. In the large regional jets segment – between 70 and 110 seats – demand remained fairly strong; with limited availability of used equipment, prospects are fairly good. In the 110 to 130-seat segment, the new Bombardier CSeries may get competition from a stretched Embraer E-Jet. Except for a limited number of outdated aircraft this segment has seen little activity. In the sizeable 150-seat segment the Airbus A320 and the Boeing 737 continue to dominate. The older Boeing 737 "Classics"

❶ Aircraft value development in points (mid-year data, except 2010)



Source: Ascend and DVB Aviation Industry Research and earlier A320s lost significant value, with many ending up in the world's storage areas. ❶

In the widebody segment, existing aircraft continued to benefit from production delays of the new technology planes – in particular the Boeing 787. Older aircraft were not phased out as they were still needed as interim lift. Apart from older B767s and A300s it was the Boeing 747-400 that suffered most in 2009. A number of Boeing 747 Freighters were parked and the increasing number of passenger aircraft that were phased out was not absorbed by the cargo market to the degree expected. Generally speaking, market circumstances for freighter aircraft were extremely weak: many older freighters were parked in the desert storage areas, with limited prospects of making a return to revenue services.

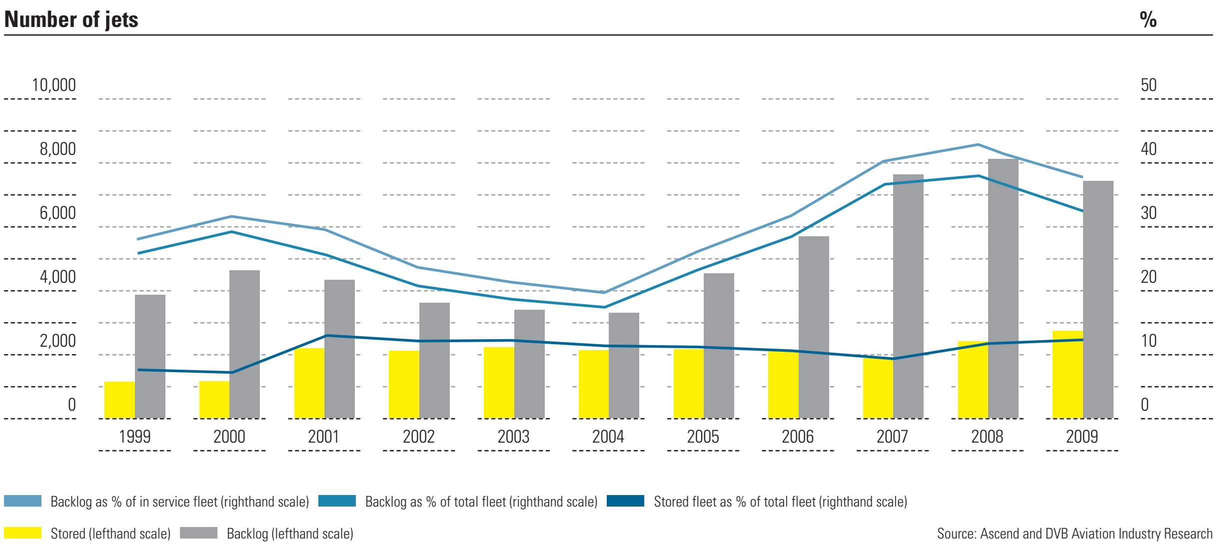
In the aircraft finance and leasing market, significant changes took place. As a result of problems in their mother companies, the aircraft leasing portfolios of several larger lessors are reportedly up for sale. Furthermore, several new initiatives for start-up leasing companies came to fruition during 2009, both in the West and in Asia, more specifically in China. While it seems there is sufficient equity available for these new initiatives, for the time being debt funding remains the bottleneck. For DVB's aircraft finance activities, the market circumstances were very favourable for new transactions during the second half of 2009 as only very few banks remained active. This resulted in an improvement of transactions terms. As values of the more modern aircraft types proved to be fairly resilient, especially compared to other asset classes, the performance of the aircraft portfolio was surprisingly strong given the challenging market conditions.

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, and with innovation, 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 over €5.0 billion, financing 838 aircraft and 60 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.

❶ **Backlog and storage as percentage of commercial jet fleet (western-built jets, year-end data)**



Source: Ascend and DVB Aviation Industry Research

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:

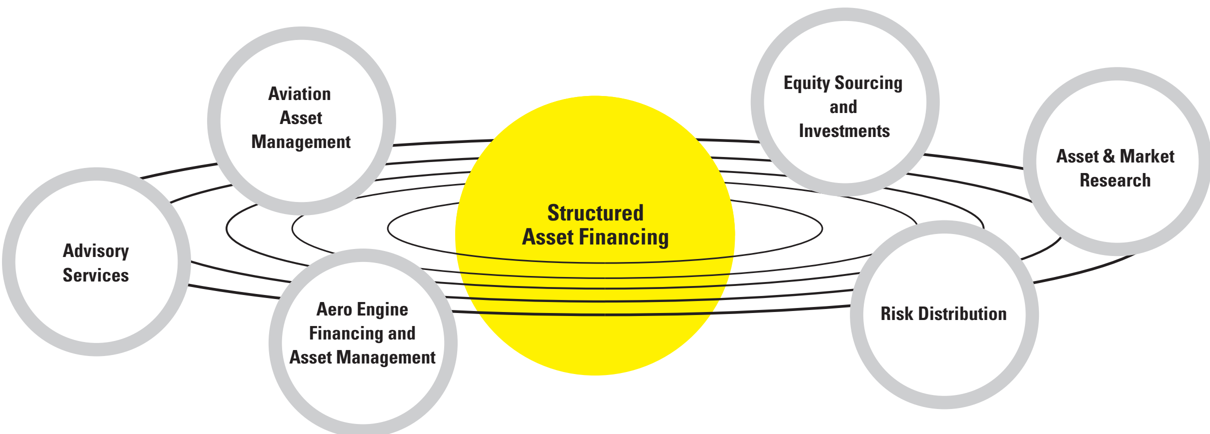
- Structured Asset Financing, comprising recourse and non-recourse lending and arranging, plus structured finance activities (including tax and non-tax-based leases);
- Advisory Services, including – in relation to fund raising/financing strategy – optimal capital structure and sale-and-leaseback transactions;
- Aviation Asset Management, providing third-party aircraft remarketing, lease management and technical and general consultancy services;
- Aero Engine Financing and 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;
- 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 2010, 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. ❶ Aviation Finance is already operating at a level where it can be confident of achieving its goal of a cycle-resistant 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 to stay ahead of its competitors.

❶ Aviation Finance – "One-stop shop" business model



Aviation Finance – Products

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

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 €5.2 billion and a new business final-take of €1.3 billion in 2009, 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 Industry Research are a necessary and crucial differentiator.

Advisory Services

DVB acts as an advisor to its aviation clients via a dedicated unit – 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.

Aviation Asset Management

The Aviation Asset Management (AAM) team, comprising nine 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 over 100 years combined 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 the newest member of DVB's Aviation Finance family and 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 US$1 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. Selective refurbishment of components and piece-parts by a worldwide vendor network, and re-sale of these quality overhauled parts, allows TES to both make a good return on the original asset acquisition price, whilst at the same time significantly reducing engine maintenance costs by the fitment of overhauled parts as opposed to new parts. TES has an unrivalled technical expertise gained from both the management of a US$1 billion portfolio of aero engines across all mid- to large-thrust engine types, and the annual management of an engine maintenance spend in excess of US$200 million. By combining TES's lease engine services, together with their overhauled piece-part supply services and technical expertise, the company is able to provide a full range of risk management solutions, engineering, and consultancy services to owners and operators of aircraft engines. Aviation Finance also 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 Industry Research (AIR) team, established in 2003, performs high quality, independent research to support the strategy and activities of Aviation Finance. AIR is a team of four researchers comprising London and Rotterdam-based units, and has a direct reporting line to DVB's Chief Executive Officer. AIR's main focus is on the aviation equipment market and on aircraft technology, to the extent that these influence aircraft values and liquidity. AIR 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, AIR 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, AIR is responsible for developing DVB's asset-related strategy as well as its internal policies with respect to asset-related lending criteria.

Aviation Finance – Portfolio analysis

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

A platform approach

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 marketing team in London is responsible for relationship management and business origination with aviation clients in Europe/the Middle East/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/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, 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 at one end of the life spectrum from 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 2009

Market leadership and Aviation Finance Deal of the Year 2009

In times of industry and financial turbulence, a few players set the path for others to follow. In 2009, DVB was once again a leader, in an air finance market starved of banking liquidity. The financing of new equipment "got done", with the ECAs increasing their volume of (guarantee) support by more than 50%, and, where necessary, the manufacturers stepping in modestly to fund certain deliveries for their customers. For non-ECA supported transactions, the best airline and leasing company credits were able to secure funding, albeit at less attractive terms than historically, but, for the rest, it was hard work to secure their financing and refinancing needs for both new and used equipment, or to raise funds for the financing of pre-delivery payments. In some cases, airlines and lessors have been unable to procure such financing, and have simply been left to make do, or not to trade, etc. Since DVB's Aviation Finance does not target low-risk, low-margin ECA-supported business, each dollar of the €1.3 billion we loaned during 2009 was scarce, or "in demand" money. In view of the demand on our resources, it was necessary to prioritise our structured asset financing activity, and – naturally – support our core clients' requirements wherever possible. Nevertheless, we also added new clients to our portfolio during the year, as airlines and lessors have experienced the reduction of (in some cases, the exit from) aviation business amongst some of their own traditional relationship lenders. As the year came to a close, we had completed a very 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 2009 are included in the sections below. We have, however, selected a commercial financing for Thai Airways 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$150 million for Thai Airways (THAI) to part-finance the deliveries of two new A330-300 aircraft. Back in the spring of last year, THAI was facing difficulties to raise commercial finance for its new deliveries, given the unprecedented squeeze on banking liquidity for both THAI corporate borrowers and for aircraft financing in general, exacerbated by the political tensions in Thailand at such time. THAI had also just announced its year-end results, which showed a substantial loss sustained from the closure of airports in Bangkok as well as losses resulting from fuel hedging contracts.

DVB remained ready to support its strategic client, and concluded the financing of THAI's first two 2009 A330 deliveries in April and May, each on a take-and-hold basis. The transaction was innovatively structured as a two-tranche senior/junior loan, with the junior denominated in Japanese Yen (JPY) in order to provide a natural hedge for the airline against its JPY-denominated revenues. As the year progressed, THAI was able to secure ECA support to guarantee a bank financing of its subsequent six 2009/2010 A330 deliveries. At DVB, we are proud to have been able to support a prestigious client like THAI at the time of its greatest need, when other banks were absent.

Structured Asset Financing – Loan portfolio

During 2009 Aviation Finance realised 44 new transactions with aviation clients, representing a new final-take volume of €1.3 billion. The net interest income of Aviation Finance rose by 29.0%, from €45.1 million in 2008 to €58.2 million in 2009. Its 2009 net fee and commission income improved to €35.1 million (up 17.4%). During the year under review Aviation Finance was the only business division able to achieve an increase of its total income, by 17.5% to €85.4 million.

New business was concluded with established customers such as AerCap (leasing company), Asiana Airlines, China Airlines (Taiwan), Continental Airlines and Thomas Cook. In addition, DVB attracted ten new clients including National Aviation Company of India (NACIL), Wizz Air and Augsburg Airways, as well as leasing companies ILFC and Lease Corporation International (LCI). The average margin on new final-take loan commitments during 2009 was 375 basis points per annum. This level significantly exceeded the 2008 level of 214 basis points per annum: even taking the financial crisis and recessionary environment into consideration, it was an exceptional result. DVB acted as arranger and/or agent bank (i.e. leading role) in respect of all transactions, except one, of its newly acquired business. New financings in 2009 were well diversified by client and obligor, as well as by aircraft type.

Some of the 2009 transaction highlights were:

- Arranger/underwriter of US$86 million pre-delivery payment (PDP) financing for AerCap in respect of three A330-300 aircraft delivering in 2010. Other PDP financings were concluded for Wizz Air (3 x A320-200's), leasing company AWAS (2 x A330-200's) and NACIL (7 x B787-800's).

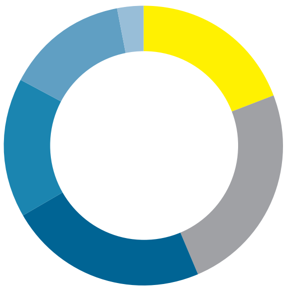
- Arranger/underwriter of a bilateral senior debt facility for Continental Airlines to part-finance three new B737-900ER's as well as the refinancing for two B737-800's. The success of this financing was recognised, since it was awarded "Aircraft Debt Deal of the Year – North America" by Jane's Transport Finance. Whilst this facility was certainly not the largest in North America in 2009, for Continental the timing was crucial to gain early momentum, as the airline faced a requirement to secure funding for its 13 new B737-900ER's delivering in the calendar year.

- Arranger/underwriter of US$135 million "umbrella" senior financing for Fort Lauderdale-based leasing company, Jetscape Aviation Group, to cover the delivery of six E190LR's and their respective long-term leases to Aeromexico (2 x), Azul (2 x) and TACA (2 x). This transaction was also recognised with an award: "Aircraft Debt Deal of the Year – South America", by Jane's Transport Finance.

- Arranger/underwriter of a variety of "non-recourse" financings to support DVB's lessor clients. These included for LCI, one new A330-300 on lease to Singapore Airlines; for ILFC, one A330-200 on lease to KLM; and for Dragon Aviation Leasing, one new A320-200 on lease to Aigle Azur.

At the end of 2009 the Aviation Finance portfolio stood at €5.2 billion (2008: €4.9 billion). In US dollar terms – the Aviation Finance portfolio was 96.8% US dollar-denominated – the portfolio grew by 7.2%, an increase from US$6.9 billion to US$7.4 billion. The collateralised portfolio represented 99.7% of the total volume. The collateral was predominantly Airbus (48.5%), Boeing (41.1%), Embraer (7.8%), Bombardier (2.3%) and Fokker (0.3%). 43.8% of the commercial jet aircraft portfolio were four years old or less. ❶

❶ Aviation Finance portfolio by vintage

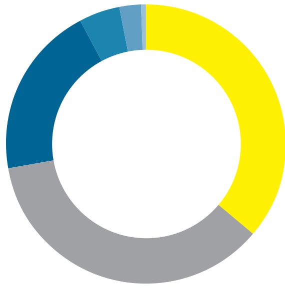


- 2009 and to be built 19.2%
- 2006–2008 24.6%
- 2001–2005 23.0%
- 1996–2000 16.1%
- 1991–1995 14.2%
- 1982–1990 2.9%

The portfolio is well diversified by client. A total of 127 aviation clients equates to an average lending exposure of €40.5 million per client. The largest individual client exposure for Aviation Finance currently stands at €162.6 million, and there are 43 clients where its committed exposure is in excess of €50 million. The portfolio breakdown by aircraft class saw the share of financed widebody aircraft increase to 37.1% (from 33.9%), while the share of freighter aircraft increased to 8.5% (from 5.1%). Narrowbody aircraft, however, remains the dominant class, at 44.0%. Risk is also geographically well diversified, being presently oriented towards Europe/Middle East/Africa (41.1%) and North/South America (38.5%). Client exposure in Asia/Australia/Oceania has increased to 20.4% (from 17.2% in 2008), a trend which we expect to continue. ❷

The Aero Engine Financing business, a fully integrated unit managed by one professional, remains an important focus, although the engine finance portfolio in itself, standing at €105.6 million,

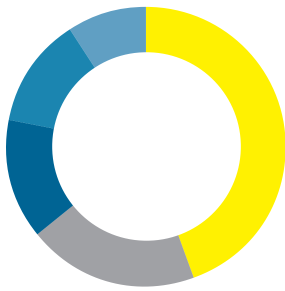
❷ Aviation Finance portfolio by economic risk



- Europe 36.3%
- North America 36.1%
- Asia 19.9%
- Middle East/Africa 4.8%
- South America 2.4%
- Australia/Oceania 0.5%

is modest in the context of the overall Structured Asset Financing activity. ❸ A notable spare engine financing transaction was concluded with China Airlines in an amount of US$37 million, covering eight engines. 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 DVB subsidiary, TES Aviation Group.

❸ Portfolio of aero engine financings



- CFM/CFM International 44.5%
- International Aero Engines 19.9%
- Rolls Royce/Allison 13.8%
- Pratt & Whitney 12.7%
- General Electric Engines 9.1%

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, AIR and the DVB 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 Aviation Finance Board Member, the heads of Aviation Credit, AIR and AAM, the Head of Industry, and each Regional Aviation Finance Head. 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 process. If appropriate, an exposure will be taken on to the Early Warning List, Closely Monitored, or Watchlist 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 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 Special Projects unit, 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 2009, we had a small number of transactions requiring restructuring or remedial action. By way of example, Frontier Airlines was under Chapter 11 (US bankruptcy reorganisation) for most of the year, requiring an active management of the outcome for DVB's exposure. In October, Frontier successfully exited Chapter 11, after being acquired by Republic Airways, with no adverse impact on DVB's loans. At the turn of this current year (2010), as had been widely anticipated, Mesa Airlines, to whom DVB has certain loan exposures, has recently filed for Chapter 11: this will require our close attention.

In a few cases during 2009 we have successfully concluded a "defensive" new financing: one where we could at the same time improve our risk position on existing exposure to a single client – through cross-collateralisation, for example. We anticipate that with banking liquidity remaining tight in 2010, and DVB being among the most active players for new business, we will see further opportunities of this nature.

In all cases, Aviation Finance will continue to take whatever steps are necessary to safeguard its position as a secured lender.

Aviation Services

In 2009, the success of Aviation Finance contained strong contributions from the pure aviation "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 merchant bank". These teams were engaged in a wide range of mandates, each leading to healthy "non-risk" fee earnings. Some of the highlights were:

- DVB, via the work of the Tokyo Structured Asset Financing team, acted as Equity Arranger for the Japanese Operating Lease financing of five new B737-800s delivered to Ryanair.

- AFC was mandated to act as Financial Adviser to Wizz Air in relation to the presentation of the company to the European ECAs regarding the financing of five A320-200s to be delivered in 2010/2011.

- AFC acted as Financial Adviser to a European airline in relation to its capital structure, including equity requirements as well as debt and equity obligations. This is a mandate which is continuing in 2010.

- AAM acted as Technical Manager on behalf of Cargolux in connection with the sale of two B747-400F's to UPS.

- AAM remarketed five new E190/195's on behalf of (lessor) M1 Commercial Jets to Azul, and Republic Airways.

- AAM was awarded a remarketing contract for six widebodies, comprising three B777s and three A340s, by Egyptair. This mandate, secured against tough competition from other leading aircraft remarketing organisations, provides clear evidence for the growing reputation of DVB's AAM business.

During the year, the AAM team has added a professional in each of our Singapore and New York offices as it looked to ensure a more comprehensive market coverage. Such an initiative seemed to pay dividends, as AAM managed to sell or lease eleven aircraft in 2009 on behalf of various third parties, in what was an exceptionally challenging market for placing equipment. Since the team's inception in 2007, a total of 50 aircraft have now been successfully remarketed.

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 Aviation Group

In 2009 TES was able to secure further 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 430 engines across all major mid- to large-thrust product types, with an expanding client base of airlines, aircraft lessors and asset financiers. The year saw TES relocate to new corporate headquarters, a 130,000 square foot state-of-the-art logistics and operations centre in Bridgend, south Wales, setting the foundations for business growth over the coming years. For 2010, TES plans the expansion of its Singapore operations base, having identified a need to provide more comprehensive local coverage and solutions in the important Asia-Pacific market.

Aviation Finance – Outlook 2010/2011 for key aviation segments

While many indicators point in the direction of a slow recovery for global aviation markets, the industry is still subject to much uncertainty. While certain regions in the world seem to be benefiting from a robust recovery, others are still struggling. As a result, traffic recovery in regions like Asia/Pacific and the Middle East is likely to set in earlier – and much stronger – compared to Europe where the recovery is (at best) in its infancy. The other major element of uncertainty is the cost of jet fuel. Whilst during 2009 jet fuel was relatively cheap, the price trend was clearly upwards. Should crude oil prices and crack spreads increase further in 2010/2011 as a result of an economic recovery, this may limit the financial recovery prospects for the global airlines. Selectivity in terms of business partners, whether airlines, lessors or investors, will be essential once more – and while the most likely global scenario seems to be one of a gradual recovery, there may be more pressure on weaker carriers in Europe, including some "flag carriers", and in North America.

Fortunately, in the aircraft equipment market the manufacturers have shown some discipline by not expanding production capacity as originally announced. In the regional jet market new technology aircraft are on the horizon that may pose a threat for the value and liquidity of the current-generation equipment. However, we do not believe this will manifest itself in the 2010/2011 time frame. In the all-important 150-seat market much will depend on the decision of original equipment manufacturers to launch re-engined versions of the Airbus A320 family and/or the Boeing 737 Next Generation. While values of younger used aircraft will remain unaffected, we do expect some pressure on values for late-built samples of the two types, albeit not much earlier than 2012–2014. In the widebody segment, the current generation will start to come under pressure from the new-generation aircraft such as the Boeing 787 and Airbus A350. For the period 2010/2011 however, the impact will still be limited. 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, and due to the funding gap for used aircraft, financing will remain a bottleneck. Some younger aircraft may be converted into freighters to replace the significant number 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. We expect strong demand for sale-and-leaseback transactions as airlines try to reduce exposure to the current generation of aircraft. A number of emerging leasing companies will look for rapid portfolio expansion – thereby ensuring robust equipment prices at least for a while – for the most popular types.

On the finance side it seems the government-supported Export Credit Agencies will once more have to play a significant role in providing debt funding to airlines and leasing companies. While this form of financing clearly limits the market for commercial asset-based financiers such as DVB, we expect that in the period 2010/2011 there will still be ample opportunities. Should the market recover as expected, it is inevitable that some banks will return to the air finance market. So, while the short-term outlook for DVB's aviation business is still very strong, we are not excluding increasing competition towards the end of 2010.

In conclusion, whilst a slow and uneven recovery seems the most likely scenario, the industry is still surrounded by many uncertainties. Commercial aviation is – and will remain – a cyclical business, sensitive to shock factors that are often completely unpredictable.

Aviation Finance – Portfolio outlook 2010/2011

At this early point in 2010, DVB is already experiencing a high level of demand for its resources: risk capital and services. The financial crisis has removed a significant number of DVB's banking competitors from the market. As a result, the Bank today is among a handful of players still active in global air finance. Indeed, in some segments of the Structured Asset Financing activity, the Bank is virtually on its own. We can expect that during the course of the year ahead the favourable risk/reward environment will lure some banks back to aircraft finance, and margins may therefore reduce from the current levels. That said, we believe that the tendency of such new entrants will be a "flight-to-quality", and as such the competitive pressure on pricing and other terms will be limited to certain clients and assets, most of them away from DVB's core franchise.

The need for careful selection as to how Aviation Finance deploys 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.

The Bank always maintains that a market of uncertainty is a market of opportunity for a specialised institution like DVB, and the excellent results that we have achieved in 2009 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 2010 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 strong. Going forward, we are likely to face renewed competition. This is something to relish rather than fear: based on its 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 grow in euro terms by 173.3% (in US dollars, by 211.4%) over the last five years.

In its structured asset financing activity in 2010, 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 2009, 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.

The global economic crisis also impacted significantly on the land freight transport markets during 2009, especially in Europe and North America – the markets which DVB actively covers. Having adopted a careful and selective stance on new business, at attractive interest margins, our Land Transport team posted its highest net interest income to date, and a satisfactory net result.

Land Transport Finance – Market review

It seems the low point of the downtrend was reached mid-2009, after which small performance gains were recorded. Normally, the rail freight performance is a mirror of GDP. This, however, was quite different in 2009 because the impacts of the recession were more severe due to the ongoing credit crunch. Less urgent investments were postponed, options for vehicles simply expired without takers, the order books of the rail freight equipment manufacturers ran dry, one third of the freight cars and 20% of the locomotives stood idle, and lay-offs of staff throughout the rail industry were considerable. Lease rates of freight rolling stock went down, some as far as –40% (for road container chassis even –50%), but purchase prices did not go down significantly as manufacturers are generally unwilling to lose money on production, having learned valuable lessons from earlier periods of economic downturn. Leasing companies suffer from rapidly declining utilisation rates, and they focus now on managing the existing fleet better in terms of maintenance and tighter sales conditions. In both Europe and the US, rail lost market share to road transport. On the other hand, the passenger land transport markets only recorded a minor bump in the trend of passenger-kilometre growth and the amount of manufactured train sets was the highest this century with about the same amount of deliveries planned for 2010.

In Europe, rail freight traffic performance (number of ton-kilometres) declined by 26.7% in the first three quarters of 2009 from the same period during 2008, according to the worldwide international organisation of the railway sector (UIC). In Germany, the largest rail freight market in Europe, rail freight performance was "only" 17.3% lower in 2009. The traditionally large market segment of bulk goods like iron ore, coal, and steel was the worst affected. Due to the aggressive take-over behaviour of large state-owned railway companies such as Deutsche Bahn, Société Nationale des Chemins de fer français (SNCF) and Rail Cargo Austria, the market share in ton-kilometers of rail freight companies owned by the private sector went down from 14% in 2007 to 7% in 2009. Only a handful of private players with significant revenue remain, but they are rarely active outside their European main market territory. Competition in the rail freight market is now almost limited to state-owned incumbents, who are trying to source business in each other's territories with discounts of 20–30% below cost price – despite them losing more than €100 million each in 2009 – thereby eliminating possibilities for private players to step in, let alone maintain and/or expand their business.

Developments were similar for rail freight performance in the US, where the total carload traffic reached its lowest levels since at least 1998 according to the Association of American Railroads. All 19 carload categories were down in 2009, ranging from –4.1% to –50.1%. Compared with 2008, the performance dropped by 15.1% in ton-miles, 16.1% in carloads and 14.1% in originated intermodal units. Shortline railroad companies had an even tougher year: their carloads dropped 25% with volume falling by double digits for all but one commodity. However, only one shortline out of more than 500 had to file for bankruptcy and four others were restructured. Several very large leasing companies experienced financial trouble because their parent companies were badly affected by the crisis. Their announced sales of portfolios of freight cars did not materialise in the end as their parent companies were able to restructure themselves in another way, and they did not want to sell portfolios with a significant discount. It must be said that there is a lot of interest in the market to take over freight car fleets.



Whereas transport prices dropped in Europe due to fierce competition, the US Class I railroads were still able to raise prices and trim down costs almost as fast as their revenues decreased. ❶

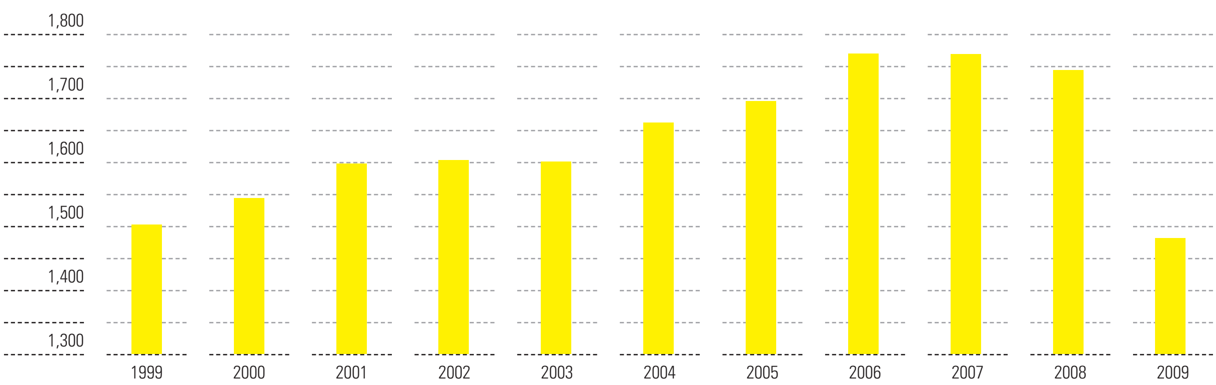
Road cargo haulage was of course also affected by the crisis in 2009. In Europe, road and logistics volumes dropped about 20 – 25% according to the German National Association of Road Traffic, Logistics & Waste. Operators reported declines in volume of 20-30%, while the International Road Union claims there was an average 30% drop in activity. Again, Germany did comparatively well, dropping only 10.2% in ton-kilometres in road transport. An exact figure cannot be given as statistics are very fragmented and are also very slow in being processed. Most visible is the impact on registration and production figures of new vehicles for the commercial vehicle industry. European registrations for new heavy goods vehicles (with a maximum weight above 16 tons) were 47.9% lower than in the previous year according to the European Automobile Manufacturer's Association (ACEA). Even the order intake was down by 85%.

According to consulting group CLEAR, European trailer production reached 292,000 units in 2007 and was forecasted to fall to 107,000 in 2009: a drop of 63.4%. One main reason for the decreasing production was the enormous backlog of unsold new trailers which had to be cleared before production could come back into line with demand. With the market for trailers having been strong for several years, many transport firms have lots of new equipment, which they can easily forgo renewing for a year or two.

Emission norms for commercial road vehicles become stricter almost every three years, leading to steeper initial write-offs and unsaleable second-hand trucks of Euro 3 Class or older. Leasing companies make use of old-for-new contracted options with the road vehicle industry. We expect such options to steadily disappear from contracts. New purchase prices of road assets are stable or even increasing as emission norms become tighter, just like the rail industry.

Across the Atlantic the sharp downfall of transport volumes in 2008 continued with falling performance levels up until November 2009. The American Trucking Associations' seasonally adjusted (SA) Truck Tonnage Index declined by 8.1%. Since much of the road equipment was idle until the fourth quarter of 2009, heaviest truck class sales decreased 50% year-on-year for the period January–September 2009. In the latest release of its "State of the Industry: Classes 5-8 Vehicles", ACT Research indicated that the final four months of 2009 were the strongest of a very soft year for Class 8 truck net orders. This can be explained by the new emission norms for trucks in 2010, which will drive up purchase prices. For the full year, Class 8 net orders were 33% below (and production 42% below) 2008 levels.

❶ **US Class I railroads freight volume (bn ton-miles)**



Source: BTS/ARR (January 2010)

UIC reported volumes in passenger rail transport to be slightly down, with 1.9% less passenger-kilometres in the first three quarters of 2009. As an example, passenger-kilometres during 2009 in German long-distance rail transport were down by 0.7%, and stable for local and regional train transport. Denmark, Ireland, Latvia and Romania were exceptions to the statistics, reporting double-digit decreases. The Benelux countries and Switzerland were the only ones reporting growth in rail passenger performance.

Liberalisation of the passenger train markets progresses only slowly, for a variety of reasons. Firstly many national governments still want to retain a grip on those markets through their own companies; secondly, the existence of non-compliance with the first EU Railway Package in many countries (meaning possible infringements with non-discriminatory access, infrastructure charges, essential facilities and electric energy); thirdly, the lack of attractive financing; and finally, price dumping by incumbents. Another growth-inhibiting problem arises from the admission of new rolling stock, which can take as long as two years per train type and which can happen to almost every new or slightly modified rolling stock. Admission requirements have even been known to change during the admission procedure itself.

In the US, the American Public Transportation Association published declining ridership figures for the first three quarters of 2009 year-over-year: light rail (streetcars, trolleys) dropped slightly by 0.7%, subways declined by 3.0% and commuter rail ridership decreased by 5.1%. This downturn in public transportation ridership is a reflection of the economic times: high unemployment, significant decreases in gasoline prices, and less state and local revenue available for public transportation operations. Nine out of ten (about 89%) public transit systems responded with reduced service and/or higher fares to address funding shortfalls. Nearly 60% of riders take public transportation to commute to and from work, so it was to be expected that public transit ridership would be lower when unemployment is high. According to the U.S. Bureau of Labor Statistics, unemployment accelerated to 10.0% in December 2009, from 7.4% one year earlier and from 5.0% two years earlier. However, national operator Amtrak got twice as much financial support during 2009 as it had received in any year so far, and the current US government is strongly supportive of commuter rail, making US$8 billion available for research into high-speed rail development. President Obama signed an appropriations bill into law, providing an additional US$2.5 billion for high-speed and intercity passenger rail development and US$10.7 billion for mass transit. Amtrak set a ridership record of 7.2 million passengers in the fourth quarter of 2009, up 1.4% from the previous record in 2008, but ridership fell to 27.2 million passengers in fiscal year 2009 (ending 30 September), a decline of 5.4% from 2008.

Production of rolling stock broke all records in recent memory, in the case of locomotives and (total) passenger equipment built for the European and North American market in 2009, but the economic downturn already caught up with the production of freight cars. In Europe, 775 locomotives (+14% over 2008), 1,050 train sets (+18%), 550 coaches (–20%) and 11,700 (–13%) freight cars were manufactured. In North America, 1,000 locomotives (+4%), 550 (–26%) train set cars, 400 coaches (+138%) and 22,500 freight cars (–63%) were produced for the home market.

Land Transport Finance – Strategy

Numerous banks decided to realign their business during 2009, or were forced to re-adapt their strategy. In contrast, the Land Transport Finance division maintained its business focus without any changes. Nonetheless, the weakness of the transport market set the tone for business performance. At the beginning of the year, our Land Transport Finance had no competition in significant parts of its business. This situation changed early during the second quarter when a small number of banks returned to the land transport markets using their pricing to regain market share. We continue to believe that the land transport markets will remain stable and sustainable over the medium and long term. Nevertheless, the rate at which some institutions reduced their risk margins was surprising, given that the economic environment continues to be defined by uncertainty.

As in the past, Land Transport Finance continues to focus on long-term co-operation with its clients: this includes providing short- and medium-term finance (such as warehousing facilities) as well as long-term financing for investments in long-life vehicles. We consider direct, intensive and ongoing communication with our clients and business partners to be crucially important for optimising loan structures which can be implemented in the best possible way – also in times of crisis. This committed strategic approach has proven its worth over many years – even in the challenging environment that prevailed during 2009, and we will continue to maintain this course.

To date, DVB is still the only financing house that has established a dedicated research unit covering the land transport markets. This distinguishes our approach – not just from an internal perspective, but also in terms of our ability to support clients with sound insight regarding their investments, projections on expected developments of the transport market and the assets, as well as a financing structure designed to match their specific needs. Thanks to this service-driven approach, we have remained a reliable partner for our clients throughout 2009.

Our strategy with respect to the regions and asset classes we cover also remains unchanged. Being the most developed regional markets, North America and Europe facilitate a sound asset-based financing policy. We further optimised our team in Frankfurt and New York by transferring personnel to the US. This will allow us to better respond to the dynamics in both regions. The primary focus in our business is on analysing and financing rolling stock for rail transport, with standard freight cars, freight and passenger train locomotives and train sets accounting for the largest share of our portfolio. We will maintain this focus going forward. However, this does not preclude us from considering financing passenger cars and less common types of rolling stock, since we have the requisite skills and experience in these segments, too. We will also continue to arrange asset finance for over-the-road equipment, concentrating on large-sized rental companies with a clearly-defined strategy and a balanced fleet.

Land Transport Finance is well equipped to deal with the challenges ahead. We are confident that we are in a position to manage the risks involved. Our processes are geared towards controlled growth, our teams are in an excellent position for doing business, and the outlook for business in 2010 is positive. The market is looking for reliable partners with the ability to execute transactions. We were once again able to prove this reliability in 2009; our pipeline is well stocked for the first quarter of 2010, with promising leads for new business. We want to grow together with our clients and business partners, by assuming credit exposures onto our books with risks at appropriate terms that we can assess and manage. Furthermore, we will be flexible enough to respond to expected changes in the market environment, and to meet our clients' requirements for finance and advice.

Land Transport Finance – Products

We offered our Land Transport Finance clients financing and advisory services throughout 2009. In this light of the financial markets and economic crisis, finance for rolling stock, as expected, saw highest demand. In addition, DVB offered advisory services that were received by our clients: specifically, this included advising clients on planned mergers and acquisitions, outlining options for structured asset finance, as well as providing market analyses to help clients in deciding upon their strategic market position, and in procuring vehicles. Equity finance was provided by our Investment Management division.

Structured Asset Financing

In the Structured Asset Financing business, our clients' requirements focused primarily on cash advances for immediate investments in transport assets. Financing costs increased markedly across the board as the crisis on the financial markets progressed. As a result, credit demand shifted from medium-/long-term maturities to short-/medium-term tenors, with a focus on reducing liquidity costs as much as possible. These were clearly lower in the shorter maturity ranges.

The gloomy market environment impacted on new lending business in Land Transport Finance, which was significantly lower than in previous years. The majority of the companies engaged in the rail freight markets refrained from placing major new orders for freight locomotives and freight cars. In most cases, clients chose not to exercise their options under existing purchase agreements; fixed orders were postponed or cancelled where possible. The situation was somewhat different in regional passenger rail transport. Orders placed through new passenger transport franchises increased capacity utilisation at the major systems suppliers and train set manufacturers. Originating new business was somewhat more difficult for Land Transport Finance during the second half of the year, as competitors used clearly lower margins to gain market access. Even though we only lost new business to a minor extent, this erosion of margins took us by surprise – particularly as it did not occur gradually, but abruptly and in parallel with the re-entry of several banks into the rail transport finance business. We will continue to carefully monitor this trend.

We closed senior secured freight wagon financings with five clients, with a focus on two- to seven-year tenors – a very short maturity range compared with the assets' expected useful life. We also financed a fleet of used freight cars for a client in Eastern Europe, and closed loan agreements with two Central European rental companies for newly-built flat cars and a fleet of automobile carrier wagons. In the US, we successfully executed two large-sized deals for top-quality railcar lessor companies, assuming a leading position in both transactions. Both deals involved the financing of well-diversified freight car fleets; one was structured as a bilateral bank loan and the other one as a club deal. In partnership with another institution, we executed an operating lease for a leading European passenger rail operator, which was used to finance a fleet of double-deck passenger cars with the corresponding traction equipment. Within the scope of this transaction, DVB also assumed the major part of residual value risk exposure to these standard assets.

In the road transport segment, our Land Transport Finance successfully participated in a club deal to provide a senior secured short-term revolving facility to finance container chassis for the US market leader in this segment. In spite of significant efforts, no transactions were closed in the European road transport segment. Without doubt, this also reflected the particularly difficult situation on the relevant transport markets.

Advisory Services

Thanks to our in-depth market expertise and our proximity to key market participants, Land Transport Finance was awarded several advisory mandates for acquisitions. Specifically, we advised two prospective investors in the rail freight traffic sector regarding their M&A options; one transaction was still pending at year-end, due to the prevailing market environment. Notable client demand for structuring advice only emerged during the second half of 2009, after the pressure from the crisis affecting financial markets and the economy had subsided somewhat.

Asset & Market Research

Once again, the market studies prepared by our Land Transport Research received great interest. It advised two clients regarding their strategic options in rail freight traffic. Together with external advisors and other involved parties, Land Transport Research made a significant contribution to the progress of a financing project for passenger train sets. Moreover, we used market and asset analyses prepared by Land Transport Research in every new transaction approved. Our research, which involves analysing fundamental risks as well as specific issues that are material to asset-based financings, provides us with a key strategic advantage, enabling us to better balance and fine-tune our loan portfolio and risk exposure. This will be just as important in the future. Our Head of Land Transport Research took part – as a speaker – in several European rail market conferences, and contributed articles to relevant trade publications. This significantly sharpened our market profile with clients and business partners alike.

Land Transport Finance – Portfolio

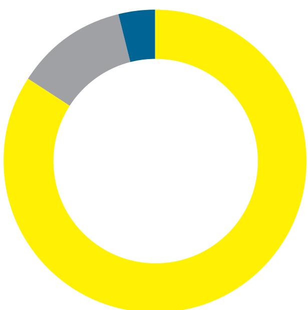
Portfolio analysis

In 2009 the Land Transport Finance portfolio was characterised by two opposing developments:

On the one hand, the propensity of rail and road transport operators to invest declined significantly in the midst of the global financial markets and economic crisis. As a result, we only closed eight new transactions (compared to 19 deals in 2008), with an aggregate volume of €113.3 million. Additionally, some clients exploited the clear improvement in the capital markets during 2009 to make early repayments during the year. For one client, a repayment was required within the framework of a restructuring process. In the logistics segment, we also actively initiated repayments which helped improve the risk structure of our portfolio.

On the other hand, Land Transport Finance posted its best net interest income to date (€13.4 million, up 38.1%), in very difficult market conditions. The decline in new business volumes was more than offset by the interest margin on newly generated exposures: it increased by a remarkable 184 basis points to 363 basis points, primarily covering DVB's significantly higher refinancing costs. In contrast, net fee and commission income declined by 39.5% to €2.6 million (2008: €4.3 million). Land Transport Finance was able to generate a total income of €15.6 million (down 12.4%) in 2009. Aggregate secured customer lending decreased by €143.1 million, to €1,325.5 million. The decline affected the rail transport segment as well as the road sector, including all sub-segments and client regions. The structure of the loan portfolio thus remained virtually unchanged: ❶

❶ Land Transport Finance portfolio by financed asset type



On rail 84.2%
thereof:
- 57.0% Freight cars
- 15.0% Locomotives
- 10.4% Regional passenger train sets
- 1.1% Passenger coaches
- 0.7% City/commuter traffic

On road 12.0%
thereof:
- 10.8% Road tractors and trailers
- 1.2% Tank containers

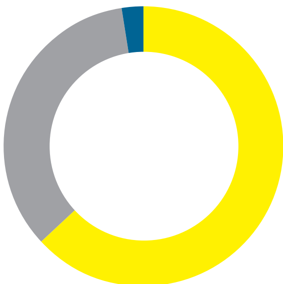
No longer conform with the Bank's strategy 3.8%
thereof:
- 2.9% Terminals/logistics property
- 0.9% Immovable assets

Rail transport finance accounted for 84.2% of the portfolio, unchanged from the previous year, whilst road transport vehicles accounted for 12.0%, only slightly above the previous year's figure of 11.6%. There were no material shifts within the portfolio share collateralised by rail assets. Well-diversified freight car financings accounted for an unchanged 57.0%, followed by locomotives, which were down slightly to 15.0%. The portfolio share of regional passenger train sets was almost unchanged, at 10.4%. Despite an increase of 0.7 percentage points, passenger coaches only accounted for a portfolio share of 1.1%. However, this remains a very attractive sub-segment where we would be happy to generate additional business.

In the road transport segment, the portfolio share of financed road vehicles increased slightly, to 10.8% (up 0.5%), whilst tank containers remained virtually unchanged at 1.2% (2008: 1.3%).

Logistics sites and immovable assets have been outside our strategic focus for some time. With a decreased share of merely 3.8% in the overall portfolio, these assets no longer play any material role.

❶ Land Transport Finance portfolio by region



- **Europe 63.1%**
- **North America 34.5%**
- **South America 2.4%**

There were hardly any regional shifts in the Land Transport Finance portfolio. 2008 was shaped considerably by new business in North America; in 2009 the regional distribution shifted marginally towards European business. Loans to clients domiciled in North America accounted for 34.5% (down 1.6 percentage points year-on-year), whilst 63.1% of the lending was to European clients (up 1.6 percentage points year-on-year). The portfolio share of Latin American clients was unchanged, at 2.4%. ❶

Some portfolio risk parameters developed positively.

- For instance, the number of clients with a total exposure exceeding €50 million declined slightly.
- The largest single exposure amounted to €84.4 million.
- We acquired one new client during the year under review.
- The share of unsecured lending declined to just €20.9 million (2008: €29.5 million).
- The share of exposures with a loan-to-value ratio below 60% increased by 1.5 percentage points year-on-year. The shares attributable to higher LtV classes declined accordingly.

Land Transport Finance Deal of the Year 2009

Land Transport Finance Deal of the Year 2009

Our "ARI Second" transaction was awarded "US Rail Deal of the Year 2009" by Jane's Transport Finance in November 2009. The deal was a large-sized facility for a mixed freight car portfolio belonging to American Railcar Industries, Inc. (ARI), a leading American freight car lessor company. We were extremely pleased to win this award again. The transaction involved a senior credit facility in the total amount of US$85 million (at the time of closing the loan agreement), which DVB executed as co-arranger and co-underwriter, jointly with a French partner bank.

- The two-tranche deal comprises a warehouse facility to finance the acquisition of new and used freight cars, and a partially amortising four-year loan, financing wagons previously owned by the lessor company ARI Second LLC.
- The facility bears interest at different rates, depending on whether or not wagons are on lease or not.
- In the event of further investments made by the client, the transaction documentation facilitates an increase of the facility amount, and further syndication.
- The documentation provides for LtV tests at regular intervals to ensure or ascertain adequate collateralisation.
- DVB also acted as administrative agent for this project.

We succeeded in closing the facility during the first half of 2009, in a difficult market environment – thanks to both banks' in-depth understanding of the North American freight car market.

Risk analysis and measures implemented

The crisis affecting financial markets and the economy had a profound impact on individual market segments and the overall business performance of DVB's Land Transport Finance division. Nonetheless, we consider the land transport markets – and the rail market in particular – to remain stable and resilient over the long term.

Land Transport Finance will continue to adhere to its tried-and-tested risk monitoring and risk management measures. Specifically, these include the following:

- Close client relationships, which we maintain through active dialogue – even during difficult market phases.
- Continuous use of internal research studies and analytical results.
- Regular stress testing of the portfolio, using scenarios based on market data and values backed by statistical data.

- Potential transactions are discussed in detail, and at a very early stage, within the scope of so-called "Deal Committees", with the objective of analysing benefits and disadvantages as well as risks and opportunities of such transaction and to propose a credit approval if appropriate. The committee consists of key executives, including the member of the Board of Managing Directors responsible for Land Transport Finance, the Head of the Land Transport Finance division, the Head of Land Transport Credit, and the Head of Land Transport Finance for the North American region.

- We have implemented an early warning system for our entire customer lending portfolio, whereby transactions are included in the Early Warning List, the Closely Monitored List or the Watchlist if necessary.

For some time now, we have been conducting a forward-looking risk analysis of both the rail and road vehicle markets (including sub-segments) and the demand for transport assets. This approach paid off during 2009, as we were able to keep individual measures and restructurings to a minimum within the existing portfolio. We only needed to initiate a restructuring process for one client. In various segments of the rail market, excess availability of rolling stock resulted in a slightly lower market valuation of assets serving as collateral; this reflects lower expected leasing rates and cash flows.

Nevertheless, the Land Transport Finance portfolio proved its stability and resilience. This was all the more rewarding, as many land transport market segments were faced with a market downturn the severity of which came as a surprise to most participants. DVB had already anticipated the stronger cyclicality of market movements in North America – compared to Europe – in its original assessment of credit cases. In contrast, the pronounced downturn in the European rail freight market was a new feature for all market participants. What the economic crisis has shown, however, is that the European rail sector has adopted normalised market behaviour, following decades of strong political influence. What used to be regarded as a static market has stepped out of the shadows – a positive development indeed.

Land Transport Finance – Outlook 2010/2011 for the key land transport segments

During this period of crisis, we must not forget that land transport markets will still grow in the future: ongoing globalisation, increasing urbanisation, more specialisation, technological developments and emerging markets all assure that this will be the case. Rail assets are quite safe investments over a longer period of time, since they last 30 years or more. Bad years will be followed by good years of profit. German consultancy company SCI Verkehr stated in November 2009 that the world rail equipment market is worth €126.5 billion on average per annum between 2008 and 2010, with an annual growth of 4% until 2014.

But the outlook for land freight transport remains very uncertain until signs of a recovery in demand emerge for consumer goods. Both rail freight traffic and road haulage could face declining transport volumes during 2010. If the International Monetary Fund projections of modest 0.5% GDP growth in the European Union and 1.5% in the US during 2010 materialise, land transport volumes normally should automatically pick up again. On one side, most of the economic stimulation packages for land transport will pay out in 2010, stocks have to be replenished and consumer and producer indices are becoming more positive every month; but on the other hand, declining investment volumes of companies, sober consumer spending, high unemployment levels and continuing write-offs due to the credit crisis are formidable counterweights. What is quite certain is that the record 2007 land transport performance levels will not be reached again before 2013/2014. Two European rail freight companies made performance estimates for 2010: the largest one, Germany's Europe-wide operating DB Schenker Rail, expects a 5% higher performance in 2010, whilst Slovakian ZSSK Cargo is reckoning on a 10% performance improvement.

Conditions in the North American freight car market are not getting worse, but they are not widely improving, either, according to a survey of about 20 railcar lessors conducted by Longbow Research in early January 2010. Year-over-year demand and lease rates essentially are flat, the survey shows. Leasing inquiry levels have increased, but that has yet to translate into assignments. The average utilisation rate in December 2009 was flat at 82% versus 83% in November and 86% in September. There is little interest in new freight cars, and Longbow does not expect demand to begin increasing until late 2010. It is to be expected that utilisation rates will come down even more as freight equipment users prefer to use their own parked equipment over continuing lease contracts. So far, freight cars on pre-crisis lease contracts have been employed as fully as possible by railway companies, thereby saving maintenance costs on owned equipment. On the other hand, in uncertain times, railway companies and shippers could be more interested in leasing solutions before they buy new equipment.

The European Commission expects road cargo haulage volumes to be slightly above GDP for the next decade. However, it is doubtful whether such growth can be handled by the road industry in the US. The US long-haul, heavy-duty truck transportation industry is experiencing a national shortage of 20,000 truck drivers, according to the American Trucking Associations. This shortage will increase to 111,000 by 2014 if current demographic trends keep their course, and if the overall labour force continues to grow at a slower pace.

On 1 January 2010 the liberalisation of international rail passenger services became fact in Europe. The first international passenger train service already runs on basis of open access between Munich and northern Italy. Deutsche Bahn, SNCF and Trenitalia announced their plans to make use of the liberalisation to compete with each other, and it is to be expected that private railway companies will follow their steps since there is much to be improved in cross-border services. On a national scale, discussions to open the subsidised regional passenger train markets to competition are ongoing in many countries. To facilitate easier provision of rolling stock to private railway companies, in Germany there are several approaches in use such as public vehicle pools, further use guarantees and franchise package models – whereby the railway company initially chooses and orders the equipment and the public transport authority buys the equipment after delivery and rents it back to the operator. In the meantime, the Transport Secretary in the UK proposed lengthening the next round of rail franchise contracts to a minimum of ten years from a current average of seven years, with an option to extend the deal for a further twelve years.

The orderbooks of rail freight rolling stock manufacturers tell a clear tale as to what will happen to the production of rolling stock, with 80% fewer orders for locomotives and freight cars placed in both Europe and North America in 2009. Based on those orderbooks, Land Transport Research expects 2010 delivery levels for locomotives and freight cars to deteriorate even further. In Europe, 20% fewer locomotives are planned to leave the factory: in North America, where the backlog is much smaller, 51% fewer. Concerning freight cars, 77% fewer of them are scheduled for delivery in Europe and 39% in North America. It is striking to see how many new locomotive types dedicated for freight duties have just been developed and offered to the European rail market – and there are hardly any takers. Innovation will come, but at a slower pace – as anticipated. Manufacturers who produce passenger trains as well should be able to ride out the storm with an overall stable order intake and full production lines for that type of equipment. Europe's and North America's largest passenger railway companies have announced that they will place major orders for rolling stock in mid-2010. In the case of Deutsche Bahn, the amount will be around €6 billion, the biggest order for rail equipment in Germany ever placed. However, freight car manufacturers are going to slim down capacity or quit – and the fear is that in Europe much freight car build capacity will be lost for the time when the economy picks up again, as skilled workforces find jobs in other sectors.

Asian rolling stock manufacturers might step into this gap – in fact, they have already started to serve the European rail passenger market. A side effect of the economic crisis is that some component suppliers may go bankrupt, resulting in delayed deliveries.

Several requirement changes in the rail equipment industry will cause purchase prices to rise significantly (up to 25%) in the very near future: the installation of better Positive Train Control systems, better crashworthiness, stricter emission norms, and the European issue of longer and tougher admission processes for new and modified rolling stock. Some other trends (such as the ability to run more – and longer – trains on the same infrastructure, usage of train sets instead of locomotive-hauled coaches, Asian manufacturers starting to serve the market, electrification, increasing fuel prices and more fuel efficient trains) could make life more bearable for railway companies, but probably cannot fully compensate for higher production costs of rolling stock. As long as the European Commission continues not to adopt regulations to honestly charge road and rail infrastructure users for external costs like downtime due to traffic jams, accidents and pollution for rail and road traffic, rail will once again lose market share to road after a brief ascendancy over road in 2008. An eventual allowance by the European Union to employ road trains (longer trucks) would make matters worse for rail, but a decision in this respect is not expected before 2011.

On the road side of the business, ACEA expects the new-build truck and bus markets to be flat until at least the end of 2010. Schmitz Cargobull, Europe's largest trailer builder, has announced that it will increase prices in the second quarter of 2010 because of rising material and oil costs, and an increase in demand. In the US, ML Machinery predicts a truck production rebound from 110,000 in 2009, to 130,000 in 2010 and 250,000 in 2011. Net orders for heavy-duty commercial vehicle markets in the US closed 2009 slightly stronger than expected, but will likely slow dramatically in the first quarter of 2010 before recovering in the second half of the year, according to ACT Research Co. (ACT). ACT predicts heavy-duty (Class 8) vehicle production to grow 22% year-on-year in the first quarter, largely due to stronger orders during the fourth quarter of 2009 in advance of new 2010 emission mandate engines. With manufacturing slots for pre-mandate engines virtually filled, orders are likely to slow for the newer and more expensive engines. Medium-duty vehicle (Classes 5-7) production, which is largely tied to the health of the housing market, is expected to see a more steady and gradual increase in production through 2010 and 2011.

Land Transport Finance – Portfolio outlook 2010/2011

Looking ahead to 2010 and 2011, uncertainty regarding economic developments – as well as the future business environment for banks – means that transport market participants will act carefully. The propensity of rail industry and road transport enterprises to invest will only recover once economic parameters materially improve, or if investments are induced by regulatory pressure. The economic environment is showing early signs of improvement. For instance, freight car lessor companies have been noting increasing enquiries for business. Even so, there is quite a difference between a non-binding enquiry and a concrete order for freight cars – which would first lead via the releasing of freight cars currently parked. We continue to consider wagon loads as an adequate early indicator for economic development. Thus, some positive signs have emerged in the North American market in particular, as the decline in wagon loads has bottomed out and increasing numbers are being recorded for some specific freight car categories.

Against this backdrop, we anticipate a slight improvement in the scope for investments in the freight segment in 2010, albeit still at a low level. That said, we see opportunities, especially in secondary market transactions, where sub-fleets or entire portfolios are sold for operational or strategic reasons. This applies to Europe, and in particular to North America. Moreover, a large number of tenders for regional passenger rail transport services is expected in the European rail market in the coming years. This should already have a visible effect during 2010, indicating an increase in transaction volumes in the near future. In this context, we wholeheartedly welcome the new level of communication which has emerged between regional transport authorities, passenger railway operators, banks and consultants. This will certainly facilitate the definition of optimal transaction sizes and terms of passenger franchises, as well as setting the future framework for procuring passenger train sets.

Our Land Transport Finance has built a good pipeline of transactions for the first quarter of 2010. We had a positive start to the new year, and we are very well positioned for the future – particularly since many financing partners consider DVB as a reference bank for the sectors we cover. Furthermore, we will further intensify the communication with our clients, with a view to gaining an overview of key transactions. This will help us selecting suitable deals in terms of risk and return. Lending within the scope of our Structured Asset Financing product will remain our core activity during 2010. We will also retain the option of assuming adequate exposure to residual value risk from transactions involving rolling stock, as a further key product. In addition, we will provide our clients with advisory services supporting them in optimising financing structures, in making strategic or tactical market decisions, or in buying or selling rolling stock.

We intend to maintain the current portfolio composition. Financing high-quality, standardised road vehicles and tank containers is an attractive segment. Not least due to the strong volatility in orders for (and utilisation rates of) these vehicles, we want to expand the relevant portfolio share to a maximum of 20%. The share of passenger train sets in the overall rail business is expected to grow over the next years, driven by increased tenders for regional passenger franchises in Europe. However, this will not lead to any major changes in the composition of our portfolio: freight cars represent the most balanced part of the portfolio, which also benefits from the highest degree of risk diversification. Hence, these assets will continue to account for more than half of our portfolio in the future.

DVB's skills and expertise as an arranger and syndicate member means that customers have the comfort of certainty of funds for their projects. Market liquidity deteriorated dramatically following the collapse of Lehman Brothers in September 2008, and was further exacerbated by the simultaneous weakening of transport markets. Liquidity only returned in mid-2009. The Syndications team participated in a number of transactions, including some large-sized ones.

Syndications – Market review

Global syndicated loan volumes fell by 38.1% to €1.3 trillion in 2009 compared to €2.1 trillion in 2008: this was the lowest annual volume since 2002. By region, Asia/Pacific remained stable with €0.4 trillion at year end 2009, (2008: €0.4 trillion). Europe/Middle East/Africa saw the largest drop, reaching just €0.4 trillion – the first time since 2004 where the syndicated volume in that region did not reach €0.8 trillion. In North and South America, syndicated loan volumes dropped by 44.4% to €0.5 trillion in 2009 when compared to 2008, the lowest annual volume recorded since 1993. During the fourth quarter of 2009 the syndicated loan volumes reached just €344.8 billion, a 34.3% increase on third quarter 2009, and approximately the same as the first quarter 2009. However, this is a 4.5% increase year-on-year compared to the fourth quarter of 2008. ❶

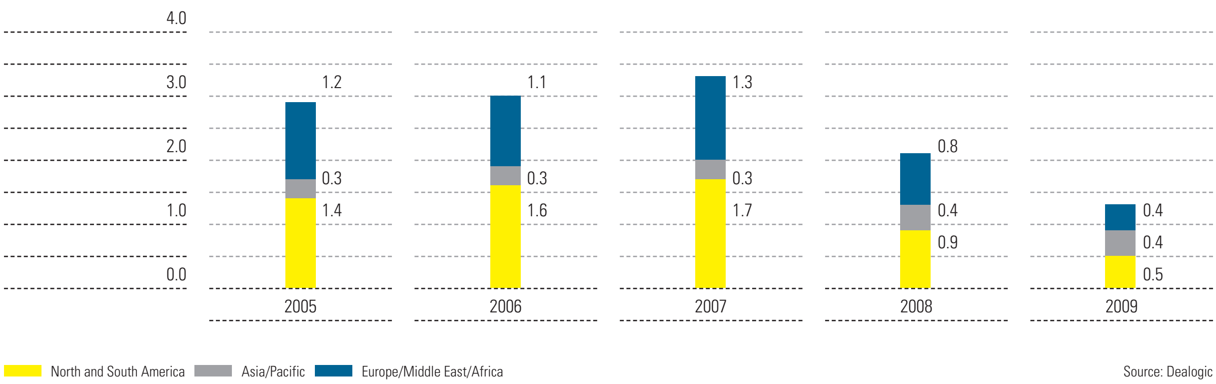
Following the liquidity squeeze experienced over the last few years, the credit crisis continued to result in low volumes during the first quarter of 2009. Gradually, however, lending started to pick up during 2009 as funding costs for the bank market came down. Furthermore, from the second quarter of 2009 onwards banks identified the top-tier corporate market as a good target market, given the favourable risk/reward profile of transactions for top-tier borrowers that were paying higher pricing over their lending transactions whilst still representing good quality credit risk.

As a result of the above trend, a flight to quality developed half-way through 2009. Banks were able to increase their lending activities but only for top-tier corporate borrowers. Bank debt liquidity for specialised markets, non-recourse transactions, or borrowers outside the top tier, remained limited – whilst bank debt liquidity returned and actually increased for top-tier corporates. This led to a split market, with – on the one hand – an increased liquidity base and subsequent downward pressure on pricing for top-tier corporate borrowers, and on the other hand a continuing tight market for all other sectors. The syndication market therefore started to re-open for the top-tier corporate borrowers, whilst the lending market for other borrowers remained a club deal market or (at best) a bilateral loan market.

The bond market proved to be a decent alternative to the bank debt markets, with bond markets outpacing loan markets in 2009 for the first time since records began: more than €1.4 trillion of global corporate bonds were issued. Transport finance (aviation, shipping and rail asset finance) volume decreased by 70.8% to €17.4 billion in 2009, compared to €59.5 billion in 2008.

The shipping market experienced a very challenging year. During the second half of 2008, the credit crisis had spread globally, reaching most shipping sectors and causing the resulting decrease in both freight rates and vessel prices. This continued during 2009 and a substantial number of shipping loans required restructuring. This had a direct and negative impact on bank debt liquidity available for shipping transactions as banks tightened the capital made available for the shipping industry and instead focused on monitoring their existing shipping exposure. Many banks reserved capital only for so-called defensive lending, which is aimed at lending only if required to protect existing exposure. As a result, bank debt for new investments became a scarce commodity. Syndicated loan volumes in shipping finance for 2009 therefore declined significantly, and the majority of shipping transactions were done against ECA cover rather than on a standalone commercial basis. Towards the end of 2009 we saw a number of banks slowly returning to the market, driven by

❶ Global syndicated loan volume per year (€ trillion)



Source: Dealogic

the "flight to quality", and a number of new transactions for top-tier shipping companies were closed successfully – with a variety of banks committing to a new shipping transaction for the first time in nine to twelve months. It has to be emphasised that in these large club transactions the borrower played a very active part in bringing these banks together, and that the vast majority of the shipping market (those not considered top-tier) still struggled to access any bank debt liquidity at all.

Following the events surrounding Lehman Brothers in September 2008, we saw the aviation bank debt market tightening and this trend continued in 2009. A number of banks decided to terminate their aviation finance activities whilst others preferred to lend against ECA cover rather than taking commercial aviation risk. During 2009 only a small number of banks were still active in providing commercial debt financing for airlines or lessors. A "flight to quality" also appeared here, with banks preferring better assets, stronger credits, more conservative terms and increased margins, as a result of the lack of available liquidity and increased funding costs for banks.

In the rail industry, a number of banks greatly reduced their new lending to this sector as the industry was seen by a number of banks as non-core to their activities. Given that available bank debt for rail deals was reduced, a small number of large club transactions (greater than €69 million per transaction) was still however able to be concluded by those banks remaining in the market.

In terms of pricing, during the first half of 2009 banks experienced continually increased margins in all transport sectors, in line with the tightening banking conditions and the increases in banks' funding costs. Moreover, a general trend towards more conservative structures with shorter tenors, lower leverage, and more strict covenants has been observed. From mid-2009 onwards we saw pricing coming down for top-tier borrowers: however, structures remained conservative.

Syndications – Strategy

During 2009, DVB's Syndications team supported the 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 our 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 of funds for 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 bookrunner, competent execution of DVB's tasks is critical 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 Syndications 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. The key drivers that Syndications has used to formulate its successful strategy are the following:

- Maintaining and expanding banking relationships: especially in a dynamic environment where a large number of commercial banks decided to reduce their lending activities, one of our achievements in 2009 was to optimise our relationship with Export Credit Agencies and commercial banks;
- Based on these banking relationships, developing and maintaining a good understanding of each institution's requirements and risk appetite is important. Since the risk appetite of many banks has been subject to ongoing changes and corrections since the start of the credit crunch, it is necessary to choose the participant banks for a proposed project carefully;
- Close co-operation with DVB's global transport finance network, research and advisory teams;
- Effective management and monitoring of the syndication process; personalised, tailor-made approach towards the participant partners;
- Competitive pricing structures based on up-to-date information, access to global networks and ad-hoc analysis;
- An understanding of the wider economic conditions and how they affect transportation financing, and
- Adapting to changing market conditions.

Syndications – Products

The key product of the Syndications team is Risk Distribution, which is the ability to syndicate debt to other lenders. This can be done 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 (the 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 Syndications 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 major 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 towards book-building exercises during the course of 2008 – which continued into and throughout 2009.

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

As of 1 January 2010, the Syndications business has been integrated into the newly formed "Financial Institutions" division, in order to synergise liquidity sourcing for new transactions.

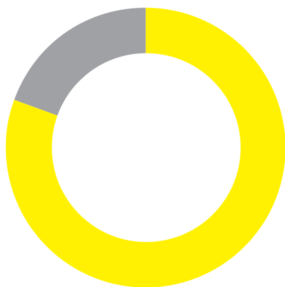
Syndications – Portfolio analysis

Following the Lehman Brothers collapse in September 2008 and the concurrent weakening of the transportation markets, the third-party bank debt liquidity available for our transactions dried up in the fourth quarter of that year. This situation persisted well into 2009. Nevertheless from mid-2009 onwards liquidity started to return slowly, and the Syndications team was able to utilise this for some of DVB's transactions. In the second half of the year, the Syndications team was successful in bringing one of the export-import banks in the Far East into two of the Shipping Finance transactions – in both cases, for European borrowers ordering newbuilding tonnage in the Far East. The combined deal value of these two transactions amounted to US$204.0 million, of which the majority was committed and funded by the relevant export-import bank.

In addition DVB was mandated as one of three advisors in a high-profile refinancing of a LNG carrier on behalf of a consortium of top-tier shipowners backed by a charter to a large Far East-based LNG operator. The Syndications team assisted in bringing in a variety of banks from several different countries so that the US$481.6 million transaction could close with a total of eleven lenders. This transaction, which closed in the third quarter of 2009, is considered a landmark deal since it was the first large ship finance transaction successfully finalised with an international bank group since mid-2008. On the aviation side, DVB's Syndications team was able to successfully sell down one of its transactions to another bank despite the fact that a large number of banks had exited the aviation finance industry during the year. In addition the Syndications team played an active role in a number of high-profile financial advisory mandates where DVB approached the market to obtain commercial bank debt and/or ECA liquidity on behalf of operating lessors. The Syndications team was able to attract commitments totalling €100.0 million for these projects. ❶

No syndicated deals for the rail sector were concluded during 2009 as a number of banks retrenched their strategy in that sector due to the scarcity of capital. However, a few larger (greater than €69 million) club transactions were completed during the year.

❶ **Syndication volumes by business division 2009**



Shipping Finance 80.7%

Aviation Finance 19.3%

Syndications – Market and portfolio outlook 2010/2011

For 2010 DVB expects the sources of transport finance to open further than in 2009 as a few banks and financial institutions return to the market after reviewing their portfolios and strategy. Nonetheless, those financial institutions able to conduct new business will be very selective. There will be an increasing willingness to consider international transactions, particularly as a defensive client strategy, and a focus on credit quality. Banks will remain reluctant participants when it comes to syndicated deals, especially large syndications: the focus will therefore be on book-building transactions, club deals and bilateral transactions, whereby institutions do not have to assume underwriting risks and are a more visible partner to the borrowers. Nevertheless, DVB does not expect the syndications market to be completely closed – just that the number of active banks will be limited. There will be a continued flight to quality, and deal terms will really need to stand out. DVB anticipates most financings coming to market will be for new asset acquisitions.

In 2009 the corporate market has been dominated by a flight to quality, defensive lending and domestic focus in a number of cases. DVB expects this trend to continue during 2010. Preconditions are that the number of banks and financial institutions active in the market increases only slightly, and that several financial institutions continue to face cost of funds and liquidity issues due to the persistently difficult financial markets. However, we will see some banks begin to lend to top-tier international companies (cross-border lending), which they were not able to easily do in 2009. This will increase competition and lower pricing for those top-tier companies.

There are two key challenges in the shipping markets for shipowners and shipyards. Firstly, they have to master the funding gap between original contract prices for vessels and the conservative debt financing terms offered by those financial institutions currently lending. Secondly, the large number of vessels scheduled for delivery in 2010 and 2011 will compete for the limited conservative debt financing that is still available. As a result, the market has already seen a number of order cancellations during 2009 for this reason. Three elements will help to improve the funding gap situation:

- ECA debt is still available, albeit to a limited extent, as an alternative to bank debt.

- Many shipowners/borrowers will continue to agree on adjusting their finance terms, in order to mitigate the banks' concerns.

- Some relief will be provided by the capital markets for those clients able to tap this arena, and by other financial institutions looking at this market as a value opportunity.

In the aviation market, there are some signs that more banks will be present in 2010 to provide commercial debt than in 2009. The competition in the bank market certainly has potential to be wider than last year, where only a handful of aviation banks were providing commercial debt. It is likely that there will be some softening of pricing and terms, with some pressure on margins as a result of increased competition and reduced liquidity costs. Several other types of financial institutions seem to be interested in looking further at the aviation sector – yet on a very selective basis. 2010 has already seen a number of new start-up leasing companies with ambitious growth plans that require new equity and debt. DVB expects an active 2010, with the potential for more competition from the commercial debt/bank markets – but with liquidity still being actively sourced and obtained from other types of financing such as ECAs, export-import banks or the capital markets.

DVB expects liquidity for rail transactions to increase, as the bank debt market slowly opens up again: a few more banks will join international transactions and some will focus only on domestic operators. 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 advisor 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 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.

Our 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:

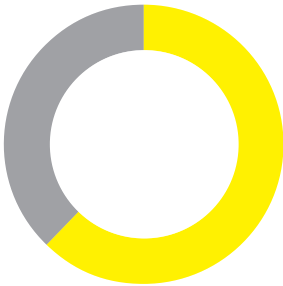
- Established at the beginning of 2009, Shipping & Intermodal Investment Management (SIIM) unites the Bank's Investment Management activities in the shipping, intermodal transport and rail transport sectors.
- The Deucalion team manages the aircraft investments of the Deucalion Aviation Funds.

In addition to managing existing portfolios, both teams actively exploit new business opportunities arising as a result of the changed market environment, continuing the swift development and implementation of targeted and tailor-made solutions.

The aggregate investment volume of funds initiated by DVB amounted to €580.4 million as at 31 December 2009, with SIIM accounting for €362.4 million (62.4%) and Deucalion Aviation Funds for €218.0 million (37.6%). ❶

Net interest income also rose in the Investment Management division, to €66.1 million (up 28.8%). Allowance for credit losses of €–16.3 million was recognised during the year under review, mainly affecting SIIM exposures. Net fee and commission income grew by 31.0%, to €5.5 million (2008: €4.2 million). Total income amounted to €36.9 million (2008: €62.1 million).

❶ Breakdown of the investment volume by fund



SIIM 62.4%

thereof:

30.5%	NFC Shipping Funds
14.8%	Container Funds
8.8%	Cruise/Ferry Funds
8.3%	Stephenson Capital

Deucalion Aviation Funds 37.6%

Shipping & Intermodal Investment Management

Following the aggregation process already begun in 2008 when DVB unified its shipping and intermodal funds under a single group, 2009 saw the inclusion of the cruise and rail funds under the Shipping & Intermodal Investment Management (SIIM) umbrella. In total, SIIM now has more than €2 billion in assets under management, across a wide range of shipping, intermodal, rail and cruise assets. The shipping investment management activity has been active 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 KG-house BUSS Capital, 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

2009 turned out to be a challenging year across all sectors, and even if towards the end of the year there were signs of timid optimism about the recovery, fallout from the financial markets crisis triggered by Lehman Brothers' collapse in September 2008 continued to impact the market. The overall shipping market in 2009 showed a sharp downturn in terms of earnings, charter rates and asset values. For the first time in many years, global seaborne trade showed a decline.

Despite the negative outlook at the beginning of the year, the dry bulk market recovered to mid-cycle levels during 2009, mainly thanks to record imports by China, which absorbed a significant portion of new capacity added to the fleet. However, the large newbuilding orderbook will continue to be a constraint in relation to sustained recovery of the sector. With respect to the newbuilding overhang, the outlook for the smaller-size dry bulk segment (up to handymax) is significantly better than for the larger-size segment and for capesize vessels in particular.

For the container shipping segment there were very few mitigating factors. The steep decline in demand, as reflected by falling container port throughputs globally, had a dramatic impact on vessel utilisation rates, liner earnings and asset values. By the end of the year approximately 11% of the world's container vessel fleet was laid up. Earnings and asset values followed the trend, and stood at an all-time low by year-end 2009. Short- to medium-term recovery in the container segment is unlikely because of (again) the newbuilding overhang and the low probability of demand returning to its historic growth trend in the coming years.

In terms of market development, the tanker and offshore markets were more or less in between the two scenarios described above: overall, a significant weakening of the market was seen, especially for the product tanker sector, which saw earnings falling to near opex levels for medium-range tankers. The offshore support segment remained relatively stable, partly on the back of healthy demand in the Middle East, in particular for the smaller size units (<10,000 bhp).

The cruise industry was no exception to suffering the knock-on effects of the slowing global economy and the credit crunch. Occupancy levels suffered notably, and most operators responded by cutting prices correspondingly in order to fill their ships, seeking to make up some of the revenue shortfall through on-board sales. The bigger the operator, the bigger the discounting: bottom lines showed serious erosion of profitability. Equally important was the almost instant narrowing of the booking window of most operators, seriously impacting their cash and working capital levels. The influx of newbuilding orders dried up, delays were sought for vessels under construction, and options were either cancelled or not exercised. Towards the latter part of the year, certain positive signs made their appearance – occupancy levels were on the rise, the booking window slowly widened, and an air of cautious optimism about a general recovery began spreading. The expedition/high-end segments of the market, where the Cruise/Ferry Master Fund has focused most of its investments to date, was – relatively speaking – least affected by erosion of yields and occupancy levels.

In the container leasing market, overcapacity at the liner companies led primarily to reducing utilisation rates and per diem rates. Prices of new-built containers were at US$2,600 ex-works for a 20' standard dry container in 2008, while in 2009 there was virtually no container production – with the exception of a limited number of containers built for trading purposes only at a cost of US$1,900 ex-works. However, after the major container manufacturers shut down virtually all of their production plants, the intermodal market stabilised in the second half of 2009. By way of a comparison, in 2007 4.3 million TEU containers were produced, versus a tiny 75,000 TEU in the year 2009.

The rail markets in Europe and North America experienced substantial reductions in goods transported. As a result, most leasing companies and rail operators stopped ordering new equipment and utilisation rates dropped for locomotives and railcars. In Europe, smaller operators and leasing companies had a tough year as the State railways offered their overcapacity of locomotives and railcars at below cost rates and returned equipment on expired leases. Combined with the facts that new-build prices have only dropped modestly, and that there have been no real distressed portfolio sales, the market in 2009 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.

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 two years containers demonstrated that they are a reliable and resilient asset type, able to withstand the crisis better than other asset types.

The cruise fund primarily focuses on ownership of cruise vessels and ferries through direct equity investments, chiefly through operating lease and sale-and-leaseback transactions. It also plans to invest a substantial portion of its capital in mezzanine loan investments in the cruise and ferry sectors and, on a selected basis, cruise or ferry company equities.

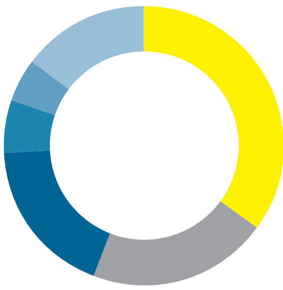
The rail fund focuses on the freight markets both in Europe and the US, looking typically to co-invest in alignment with an experienced asset manager who is responsible for the delivery and inspection processes, placement of the equipment with suitable lessees, and either overseeing or undertaking the ongoing maintenance requirements. Working closely with the Land Transport Research team, the fund's management seeks to identify assets within both the freight wagon and locomotive segments that 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 2009, SIIM has managed its shipping portfolio through difficult market circumstances by way of several successful divestments, (re-)employment of vessels and stringent control of performance under its portfolio of (bareboat) transactions. At the end of the year the shipping portfolio totaled €177.0 million, which was mainly invested in offshore vessels (35.1%), bulkers (20.8%) and tankers (18.3%). ❶

Also on the intermodal side, in 2009 the focus was to closely monitor and manage its existing investments and to invest in opportunity-driven and counter-cyclical investments. Opportunity-driven investments were made in securitised container notes that were offered at attractive discounts by troubled investment vehicles. Furthermore, SIIM focused on intermodal advisory business, resulting in sale and restructuring mandates that generated substantial fee income. At the end of 2009 SIIM started to focus on sale-and-leaseback structures for second-hand containers. As at year-end, €86.1 million was invested in intermodal funds, €10.6 million (12.3%) by external investors. The main share is invested in containers (90.2%), followed by trailers (5.3%) and securitised container notes (4.5%).

❶ SIIM – Shipping portfolio by asset type



Offshore vessels 35.1%

Bulkers 20.8%

Tankers 18.3%

Container ships 5.9%

Tweendeckers 5.1%

Other investments 14.8%

On the cruise front, following a divestiture in 2009, the fund currently has investments in one junior transaction with substantial ownership potential, one junior debt transaction, a minority stake in a private equity transaction, and ownership of a newbuild ferry for long-term bareboat charter to an EU operator servicing a long-term government contract. This vessel is scheduled for delivery during the first half of 2010. As of 31 December 2009, the fund had €33.1 million invested with €17.9 million already committed to specific investments. €15.5 million are available for further investments.

The rail fund committed to three investments prior to being integrated into SIIM. Since then (early 2009), no additional commitments have been made: one investment is concentrating on tank wagons, another on locomotives and the third being primarily a manager of intermodal freight wagons. Similarly, the mode of investment itself has taken various forms, including mezzanine debt and share capital.

As at year-end 2009, SIIM can boast a ten-year track record, a total equity investment amount of more than €344 million, and a gross asset value (including leverage) of more than €2 billion.

SIIM – Market and portfolio outlook 2010/2011

In 2010, the focus will be on the continued close monitoring and management of SIIM's existing portfolio in a similar way to 2009. SIIM will follow a similar approach of mitigating market and counterparty risks through proactive portfolio management. With respect to new business, SIIM will focus during 2010 on a limited number of dedicated and specialised joint ventures and funds.

On the one hand, new investments will be originated on the basis of sector focus and co-operation with industry partners that will bring in operational management capabilities. Through these ventures, SIIM will be positioning itself for the expected market upturn in several sectors. The transactions originated on this basis will enable SIIM to take full advantage of future recovery of asset values and capital gains. On the other hand, SIIM will focus on structured transactions, in co-operation with financial partners that would bring in their own investor base, thus creating critical mass to build a new and sizeable portfolio of bareboat-based transactions, generating a fixed annual yield in combination with certain elements of profit sharing.

On the intermodal side, SIIM expects a shortage of containers in the market for 2010 and we see opportunities primarily 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 re-leasing and disposal of containers. Furthermore, based on SIIM's track record as a creative provider of value-added transactions, there will be further opportunities in the advisory business. In addition to returns becoming more interesting in 2010, we expect to be involved in a number of interesting intermodal asset purchases.

On the cruise side, the focus during 2010 will be on developing attractive investment opportunities within the passenger shipping space, characterised by quality long-term cash flow, thus securing the foundation required to ensure stable running returns to the investors and affording a basis from which to exploit opportunities for trading portfolio investments more actively.

Finally, 2010 will be interesting in terms of more distressed opportunities with rail in Europe and the US.

Besides this, SIIM will continue to look into several other opportunities on an ad-hoc basis, such as high-yielding bridge finance, discounted debt and public securities, in case such opportunities represent a very attractive risk/reward profile or a significant discount to their intrinsic value. SIIM aims at further enhancing its presence as a creative and knowledgeable investor within the global shipping and rail sectors, with its key selling points being structuring capabilities, industry knowledge and the DVB origination network.

Deucalion Aviation Funds

Established in 2001, the Deucalion Aviation Funds consist of a series of actively managed closed-end funds which act as the investment vehicles through which DVB and private investors together invest in aviation equity investments. Deucalion's senior investment managers, based in London and New York, act as the exclusive advisors to each of the funds, sourcing and managing aviation investments and assets. Each of the Deucalion funds has an independent Board of Directors. DVB is not represented on any of these boards and does not control any of the Deucalion funds. The funds have built a strong track record.

Deucalion – Market review

As anticipated, 2009 proved to be a challenging year in the aviation industry cycle. From the second half of 2008 – and well into the first half of 2009 – passenger and freight volumes and values declined to the largest extent ever experienced in the industry's history. The price of jet fuel, one of the main cost components for the industry, went up significantly throughout 2009, albeit not reaching the historical peaks of 2008. Compared to earlier predictions, the limited number of major airline defaults during 2009 was a positive surprise. However, with the air transport market suffering record traffic declines in all regions and airlines posting heavy losses with few exceptions, the aircraft equipment market was significantly and negatively impacted as a result of reduced demand. Not unsurprisingly, passenger airlines reacted to this by implementing significant capacity reductions with older technology aircraft in particular being withdrawn from service in large numbers; freight carriers put many aircraft into storage and demand for conversion of passenger aircraft to freighter aircraft slowed to a trickle. In many cases the stress in the financial markets served to exacerbate the problems with a lack of available financing creating significant obstacles – not only to the financing of new aircraft, but also to the refinancing of older aircraft and in situations where airlines sought to raise financing on unencumbered aircraft assets. In the operating leasing market, the fact that a number of significant aircraft fleets from leasing companies were in effect put up "for sale" by their parent companies (typically for reasons unrelated to the performance of the leasing companies themselves) caused some uncertainty around aircraft values, even though – in the event – 2009 saw very little secondary trading activity as a consequence of this. Throughout 2009 there has been growing interest from investors, both new to the sector as well as those with prior experience, looking to take advantage of the opportunities presented by this stress: a number of new aviation funds and leasing companies have begun to emerge. Certainly these ventures will create more competition for the Deucalion funds in 2010.

Deucalion – Strategy

The Deucalion funds benefit from the extensive aviation expertise and asset research capability within DVB, whose exclusive focus and expertise in transport finance gives it a unique perspective and competitive advantage. The funds play an important role in supporting DVB's airline clients through the provision of equity solutions in their aircraft acquisition and divestment strategies. The funds have a primary focus on ownership of aircraft assets through direct equity investments, chiefly through 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. The funds are generally opportunity-driven, and not volume-driven.

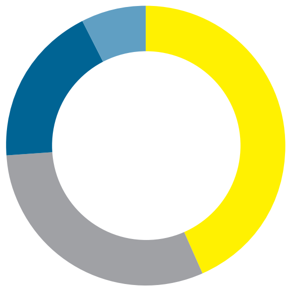
Deucalion – Products and portfolio analysis

In the very volatile market that prevailed in 2009, and contrary to DVB's strong structured lending activity, the Deucalion funds investment activity was significantly lower than in prior years, mostly as a result of seeing few compelling new investment opportunities with an appropriate risk/reward balance.

Of significance, the Deucalion funds made further investments in aero engines by forming a joint venture company with Mitsubishi Corporation (UK), a subsidiary of the global trade and investment company, and with Engine Lease Finance Corporation (ELF), the world's largest independent aero engine lessor. This new company, Deucalion MC Engine Leasing Limited, incorporated in Ireland, was established for the purpose of investing in commercial aircraft engines subject to leases with airlines worldwide. The joint venture company completed its first portfolio acquisition, consisting of seven commercial aero engines (IAE V2500, CFM56-5/-7 and CF6-80 engine types) on operating leases with carriers in Europe, the Middle East, Asia and the Americas. During the year the Deucalion funds sold investments in four B777F aircraft that the funds committed to acquiring in 2007. In 2009, Deucalion remained a shareholder in Malaysian low-cost airline operator AirAsia, an equity investment made in 2003 prior to their initial public offering in 2004. The majority of Deucalion'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; they closed 2009 at 1.38 Malaysian Ringgit.

As at year-end 2009, the equity committed across all Deucalion funds totalled €218.0 million. The return on equity on all realised investments in 2009 has remained excellent, and significantly above the target of 15%. At year-end 2009 all of the operating assets within the Deucalion funds were employed on long-term leases and the portfolio remains well diversified by lease maturity, aircraft/asset type, geography and counterparty. The Deucalion portfolio consists of Boeing and Airbus aircraft (74.1%) and engine leases, forward purchase contracts and airline equity investments (25.9%). ❶ The greatest share of the Deucalion aircraft portfolio is made up of passenger narrow-bodies (50.5%) and freighter widebodies (42.9%), with only 6.6% being invested in passenger widebodies.

❶ Deucalion portfolio by asset type



Boeing 43.4%

Airbus 30.7%

Forward purchase contracts and airline equity investments 18.6%

Engine leases 7.3%

Deucalion – Market and portfolio outlook 2010/2011

The Deucalion funds are well positioned to take advantage of the investment opportunities emerging in the aviation sector as a consequence of realignment in asset prices caused by a deteriorating economic environment. The funds have sufficient access to capital due to continued investor interest in the sector, and will see further growth through the establishment of new funds being set up with experienced strategic partners and investors in geographies where DVB sees particular growth opportunities. These new funds, agreed during the course of 2009, will have the same 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 a 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 expect to benefit from the gradual improvement in the markets for senior debt leverage, with early signs of major banks recommitting to aviation finance.

Given the relatively attractive investment entry point presented by the current low point in the economic cycle, DVB expects to see a strong increase in the volume of funds under management through the Deucalion funds during 2010/2011, 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, has to all intents and purposes evaporated. We have seen a significant fall in aircraft values, and investors in aviation assets are consequently presented a more compelling balance between risk and reward than has been seen for some years.

Although investors' appetite (and therefore competition for the Deucalion funds) will likely be increasing in 2010, DVB's knowledge of the industry, the strength of its Aviation platform, and its asset-based approach provide the Deucalion 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 advisor to the Deucalion funds, DVB 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 assets at a profit.

ITF Suisse works with banks on an international scale by underwriting sub-participations in transport finance exposures syndicated via the interbank market. In its second business year, this subsidiary maintained its profitable position once again, posting a positive result for the period ending 31 December 2009.

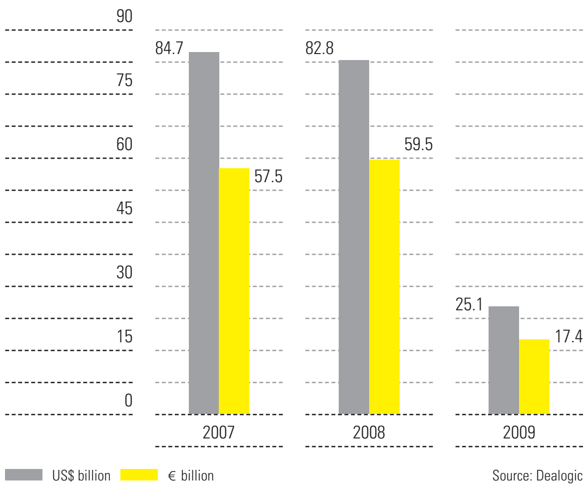
ITF Suisse – Market analysis

Established in May 2007, the Zurich-based wholly-owned subsidiary of DVB Bank SE commenced business operations in August 2007. In the following year, the banking sector was hit by the subprime crisis, which, at the latest, evolved into a crisis of confidence following the Lehman Brothers collapse on 15 September 2008. Due to a lack of trust amongst banks, the international interbank markets virtually dried up altogether. This development blocked financial markets and drove up funding costs considerably.

In 2008, financial market participants initially assumed that the market environment would quickly recover, anticipating a normalisation of refinancing costs in relation to the credit margins paid. However, this recovery did not materialise in 2008 and in 2009. International borrowers took much longer than expected to agree to interest margins on new business that reflected the higher refinancing costs borne by financial institutions.

The aggregate volume of transport finance exposures offered for syndication fell by 70.4% from 2007 to the end of 2009, to €17.4 billion. ❶ This collapse was caused by a variety of factors, including the global economic crisis and the resulting decline in demand for air and maritime freight services, falling passenger numbers and load factors in passenger air transport, and – especially – rising funding costs. Against this background, ITF Suisse could only originate new business on a selective basis, considerably slowing down the planned build-up of the loan participation portfolio.

❶ Syndicated loan volumes of transport finance exposures



ITF Suisse – Strategy

ITF Suisse's strategy is to facilitate transport finance transactions by underwriting sub-participations in international interbank syndications. Covering the sectors of Shipping Finance, Aviation Finance and Land Transport Finance, ITF Suisse leverages DVB's research expertise in these transport finance segments. ITF Suisse is committed to conducting a professional business, with swift and reliable decisions – in particular, through the combination of a restrictive 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 and facilitates fast decision-making. This is also made possible by having an experienced team, and being firmly integrated within DVB. 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 proven to be sustainable, and so will be pursued.

ITF Suisse – Products

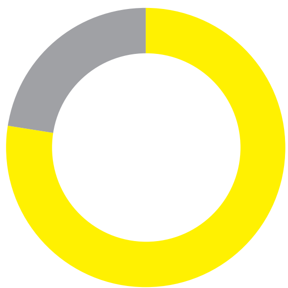
ITF Suisse exclusively engages in sub-participations in transport finance deals (in the shipping, aviation and land transport segments) syndicated in the international interbank market. Hence, the company's clients are solely banks looking for syndication partners. This approach is intended to explore a market segment where DVB has not been active previously. The transactions must fulfil defined risk criteria, generally with senior collateralisation by the financed asset.

ITF Suisse – Portfolio analysis

During 2009, the shipping markets were characterised by a rising number of deferrals and cancellations of orders for newbuilds. Nonetheless, numerous new deliveries, together with a significant decline in the demand for vessel capacity, led to an overhang of supply, which exerted sustained pressure on both freight rates and vessel values. This, in turn, negatively impacted the valuation of the existing portfolio. However, thanks to the very conservative loan-to-value ratios of the transactions entered into by ITF Suisse, the portfolio is still largely covered by the value of the financed assets. New business originated during 2009 was subjected 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 2009, ITF Suisse was presented with a mere 24 financing opportunities with a total volume of €0.49 billion. After being evaluated, only three of these transactions (with an aggregate volume of €60.8 million) were realised. DVB's corporate bodies and committees approved three additional transactions with an aggregate volume of €51.0 million, which, however, did not materialise in the end. Notwithstanding the continued delay in building the portfolio, ITF Suisse succeeded in stabilising its profitability, thanks firstly to a slight reduction in funding costs and secondly to higher margins negotiated ex-post on existing transactions to compensate for higher risks. As at 31 December 2009, the aggregate volume of disbursements totalled €509.8 million; irrevocable loan commitments amounted to an additional €43.3 million. 77.6% of the overall business volume comprises exposures collateralised by ship mortgages (€429.1 million) while 22.4% comprises exposures collateralised by aircraft (€54.6 million). ❶

The entire portfolio is collateralised by first-ranking liens on the financed assets. 93.7% of exposures had a LtV ratio below 85% (about 74.6% are below 60%), with only 2.3% of the portfolio above 100%.

❶ **Aggregate financing volume 2009 by transport sector**



Shipping finance 77.6%

Aviation finance 22.4%

ITF Suisse – Market and portfolio outlook 2010/2011

ITF Suisse has established itself in the market as a syndication partner for banks for the financing of transport assets. Having virtually ground to a halt during 2009, the syndication market is expected to show initial signs of a recovery in 2010. We anticipate syndicated loans to be offered once again to clients with a strong credit rating.

Numerous ship and aircraft deliveries are scheduled for the forecast period, leading ITF Suisse to anticipate business demand in these segments. In addition, secondary market opportunities are expected due to the syndication of certain refinancings. ITF Suisse will subject any business opportunities to a strict risk analysis. The company aims at achieving moderate portfolio growth during 2010.

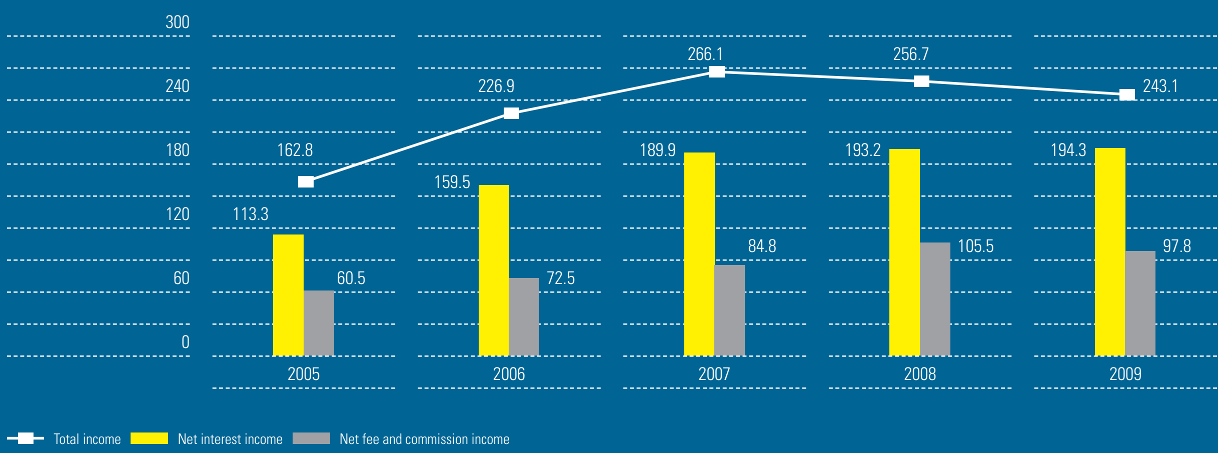
In addition to the planned business expansion, ITF Suisse will also focus on protecting its existing portfolio. Timely risk monitoring is essential for this purpose; regular contact and exchange with syndication lead managers are indispensable in this context. For 2010, ITF Suisse anticipates growing aviation finance business, with shipping finance expected to remain strong (accounting for more than 50% of new business). Opportunities for new land transport finance business will only arise occasionally. Although margins in 2010 and 2011 are likely to remain clearly above 2007/2008 levels, a gradual reduction from the levels seen in 2009 is expected.

2010 will be as difficult and challenging as 2009. ITF Suisse anticipates a sustained market recovery to occur in the years 2011 and 2012, at which point its own business development should gradually return to normal. ITF Suisse will thus be in a position to stabilise its achievements during the years ahead, through moderate growth combined with safeguarding its existing portfolio.

Economic situation

Earnings development 2005 – 2009

€ mn



DVB's strategic focus on international Transport Finance stood in good stead once again in 2009, despite global turbulence on the capital and transport markets.

At €76.1 million, consolidated net income after tax was down 27.7% on the previous year's figure of €105.2 million. At €19.1 billion, the business volume in 2009 was 9.0% lower than the previous year (2008: €21.0 billion).

Nevertheless, net interest income was up 0.6%, to €194.3 million. Given the difficult market environment, DVB originated only structured and large-volume new Transport Finance business on a selective basis during 2009. The new business volume dropped by 59.5% to €3.0 billion. However, DVB succeeded in pricing the clearly higher funding costs prevailing throughout 2009 into interest rate margins for new business. The average new business margin therefore climbed to 343 basis points (up 157 basis points on 2008). The decline in the new business volume could therefore be partially offset by higher margins and DVB once again succeeded in generating an adequate risk/return ratio.

The following three unfavourable factors and non-recurring effects need to be taken into account when assessing the decrease in results:

- money market distortions, resulting in additional interest expenses (€–20.8 million);
- further impairments were recognised on a bond (€–7.4 million);
- increased allowance for credit losses that was required against the background of the global economic crisis (€–72.2 million).

Additional refinancing costs of €20.8 million (2008: €28.0 million) were incurred in 2009 on account of prevailing money market distortions. However, these were virtually neutralised to zero during the course of the year, through a variety of measures.

DVB recognised an additional €–7.4 million write-down on a bond issued by an Icelandic bank, following a €–35.8 million write-down the year before. DVB's motivation to invest in such a bond issue was to maintain a liquidity reserve for payments via the ECB, as opposed to any investment in credit surrogates. This ECB portfolio still amounted to €35.0 million at the end of 2009 (2008: €83.0 million). Net income from investment securities improved significantly, to €–8.4 million (2008: €–34.1 million).

The tense situation on transport markets, particularly in maritime shipping, influenced the three Transport Finance portfolios. DVB's risk management responded with a variety of measures. Nonetheless, allowance for credit losses had to be increased to €–72.2 million (2008: €–16.5 million). Accordingly, net interest income after allowance for credit losses fell significantly to €122.1 million, down 30.9%.

The key strategic indicators that the DVB Group uses to manage its business reflected the extremely challenging environment: the return on equity before taxes was 9.4% (2008: 13.1%), and the cost/income ratio stood at 49.6% (2008: 57.4%).

Key elements of business performance in 2009

The following key elements characterised DVB's business in 2009:

- Taking a long-term view, global transport remains a growth market, albeit one that is exposed to global economic cycles. The downturn on many transport markets also persisted in 2009, reflecting the impact of the financial markets crisis.
- During 2009, DVB maintained its policy of exclusively extending loans that are secured by the financed transport assets, such as ships, aircraft, locomotives, or waggons. DVB's in-house research capabilities were once again crucially important in assessing such assets.
- The Bank adopted a cautious, selective stance in originating new business for structured and large-sized financings in Transport Finance, closing 131 new transactions with an aggregate volume of €3.0 billion (2008: 229 new deals with a volume of €7.4 billion).
- DVB held a leading position in 89.9% of the new transactions. Based on a generally cycle-neutral lending policy, DVB successfully implemented its tried-and-tested strategy of pricing exposures in line with the risks involved.
- DVB's advanced risk management system was further refined in 2009, with a variety of measures taking effect.
- We merged our Investment Management teams covering the shipping, intermodal and rail transport sectors to form a new team called "Shipping and Intermodal Investment Management".

Business framework in 2009

The following factors are relevant for the consolidated financial statements (including notes) and the DVB group management report:

Stabilising factors during the crisis

2009 was fraught with uncertainty in many respects. As the year began, fears of the global economy collapsing into a long and severe recession loomed around the world. However, by the middle of the year, the global economy gained some traction and has since begun to grow again slowly.

Government stimulus and investment programmes, together with monetary support instituted by central banks, helped stave off the crisis affecting financial markets as well as the global economy. The expansive monetary policy pursued by the ECB and the FED in 2009 were amongst the factors that stabilised the financial markets. Central banks on both sides of the Atlantic flooded the markets with liquidity and lowered interest rates to historic lows. However, the low interest rate policy cannot be expected to be maintained on a long-term basis. The timing of any changes in interest rates will be crucially important: a premature departure from the use of non-standard monetary policy instruments might jeopardise continued recovery.

Challenging conditions on the international transport markets

The global economic slowdown, triggered by the financial markets crisis, prolonged the difficult situation on international transport markets in 2009. This was characterised by a severe disequilibrium between the rising supply of transport capacity and the dramatic drop in transport capacity demand.

Adjusting supply capacities to the development of demand was therefore one of the greatest challenges faced by transport companies. In order to reduce capacities, transport providers employed a variety of different measures, including temporarily decommissioning transport assets, slow steaming (reducing the speed in maritime shipping) and disposing of older transport assets. Some deferred deliveries or cancellations of newbuild orders had an additional stabilising effect. During the second half of 2009, falling demand in many transport market segments gradually bottomed out, and demand for transport services slowly began to rise again. Due to pronounced declines in the first half of 2009, the year under review closed with a significant drop in transport volume overall.

As always, the price of fuel represents a key cost factor for transport operators. The spot market price of London Brent crude oil fell to US$34.33 per barrel at the beginning of 2009, well down from its high of US$142.45 in July 2008. In mid-March, the price per barrel of this key crude oil variety began to rise again, reaching US$72.91 by the end of the year.

Developments in shipping markets

The situation on the traditionally cyclic shipping markets proved to be particularly challenging. Freight rates were more or less in a free fall in the weeks following the collapse of Lehman Brothers. The BDI – which tracks freight rates for dry bulk cargoes – reached its high of 11,793 points as at 20 May 2008. When Lehman Brothers collapsed on 15 September 2008, the BDI stood at only 4,747 points; it slumped to 774 points by year-end. After bottoming out, recovery slowly took hold and an annual high of 4,661 points was reached on 19 November 2009. The index was quoted at 3,005 points at year-end.

The steep downturn in transport demand also drove down vessel charter rates, with container shipping being the hardest hit. The Clarksons' time charter rate index, which has been in existence since 1993, showed declines for container vessels from September 2008 to the end of 2009. The index was quoted at 87.27 points in September 2008 and declined steadily to 32.00 points by December 2009. Given that vessel values materially depend upon the relevant freight rates achieved, a slump in rates tends to presage falling values of the vessels pledged to collateralise loans. This decline varied by sector and type of vessel. Vessel values stabilised towards the end of 2009, albeit at a lower level than in the previous years.

Activity on the sales-and-purchase markets improved at the end of 2009, indicating that numerous market participants anticipated a lasting recovery. It should be noted, however, that developments across the numerous maritime shipping sectors and sub-sectors have indeed been rather diverse.

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 the Bank's consolidated financial statements. The euro closed 2009 at US$1.44, five US cents on the prior year's closing rate of US$1.39. Exchange rate trends differed throughout the year.

The euro rebounded from its losses against the US dollar during the course of 2009. As the year began, the euro was under significant devaluation pressure and sank in the aftermath of mounting distortions on the financial market, from nearly US$1.60 in summer 2008 to approximately US$1.25 in the first quarter of 2009. The high degree of global uncertainty led market participants to increasingly shift currency reserves to US dollars. The US dollar was thus able to benefit from growing global risk aversion due to its position as the leading international currency. Only in March 2009 the euro was able to regain some traction against the US dollar when global economic optimism set in and risk appetite returned to the financial markets. Lingering uncertainty began working in favour of the euro from March onwards: shifts from the US dollar and the yen, to benefit from the higher euro interest rates, strengthened the common currency of the EU. As a result, the euro made gains until the end of November and at times exceeded US$1.50. Toward the end of the year, speculation regarding an anticipated departure from expansive monetary policies on both sides of the Atlantic created volatility on the foreign exchange markets.

As the difficult recessionary situation on the international transport markets continued, DVB scaled back loan commitments in new business. Due to the currency fluctuations described above, nominal customer lending volume showed greater declines on a euro basis (–6.5% to €17.3 billion) than in US dollar terms (–3.9% to US$24.9 billion). 85.3% of the overall volume of customer lending was denominated in US dollars, representing 86.8% of the lending business in Shipping Finance and 96.8% in Aviation Finance. The US dollar/euro exchange rate also had a considerable bearing on the net interest and net fee and commission income generated in these two largest Transport Finance segments. In contrast, 38.6% 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: accordingly, these revenues remain largely unaffected by fluctuations in the exchange rate during the course of the year.

DVB's ratings

At the outset of 2009, DVB was rated A/A-1/stable (Standard & Poor's) and A1/P-1/C/stable (Moody's Investors Service). The assessments changed as follows during the course of the year:

Date	Rating criterion	Standard & Poor's	Moody's
30 January	Outlook	from "stable" to "negative"	
23 June	Bank Financial Strength Rating		from C to C–
28 September	Bank Financial Strength Rating		from C– to D+
	Outlook		from "stable" to "negative"

Results of operations

Income

DVB's income declined by 5.3% in 2009, from €256.7 million to €243.1 million. ❶

Net interest income after allowance for credit losses

Net interest income after allowance for credit losses fell by 30.9%, from €176.7 million to €122.1 million.

By contrast, net interest income rose by 0.6%, from €193.2 million to €194.3 million. This figure included higher net interest income generated in the three Transport Finance segments (Shipping Finance, Aviation Finance and Land Transport Finance), which increased by 28.5%, from €118.7 million to €152.5 million. Net interest income in Shipping Finance was up by 26.8% to €80.9 million; in Aviation Finance it rose by 29.0%, to €58.2 million. The increase in Land Transport Finance was even more pronounced, where net interest income was up 36.7%, to €13.4 million. Net interest income generated by the Investment Management division increased from €51.3 million to €66.1 million. The share of the Investment Management business in consolidated net interest income amounted to 34.0% (2008: 26.6%).

Interest income fell by 17.6%, from €872.9 million to €719.4 million. Major contributions to the total figures breaks down as follows:

- €554.2 million (–25.1%): interest income from the Transport Finance credit business,
- €39.1 million (+36.2%): interest income from finance leasing activities,
- €117.0 million (+22.5%): current income from operating leases, derived largely from the funds managed by the Investment Management division and subject to consolidation,
- €2.0 million (2008: €3.9 million): current income, generated by distributions from investments, and from joint ventures.

❶ **Results of operations (€ mn)**

	2009	2008		%
Income	**243.1**	**256.7**	**– 13.6**	**– 5.3**
Net interest income after allowance for credit losses	**122.1**	**176.7**	**– 54.6**	**– 30.9**
Interest and similar income	719.4	872.9	– 153.5	– 17.6
Interest income	600.4	773.5	– 173.1	– 22.4
Current income	119.0	99.4	19.6	19.7
Interest expenses	525.1	679.7	– 154.6	– 22.7
Allowance for credit losses	– 72.2	– 16.5	55.7	–
Net fee and commission income	**97.8**	**105.5**	**– 7.7**	**– 7.3**
Fee and commission income	103.3	109.5	– 6.2	– 5.7
Fee and commission expenses	5.5	4.0	1.5	37.5
Net income from financial instruments in accordance with IAS 39	**17.9**	**– 54.1**	**72.0**	**–**
Net trading income	15.9	0.1	15.8	–
Hedge result	3.5	– 13.7	17.2	–
Result from the application of the fair value option	– 1.0	0.8	– 1.8	–
Result from derivatives entered into without intention to trade	7.9	– 7.2	15.1	–
Net income from investment securities	– 8.4	– 34.1	25.7	– 75.4
Results from investments in companies accounted for using the equity method	**– 2.0**	**0.0**	**– 2.0**	**–**
Net other operating income/expenses	**7.3**	**28.6**	**– 21.3**	**– 74.5**

The trend in interest margins for new Transport Finance business transpires as follows:

Interest margins (basis points)

	2009	2008	2007	2006	2005
Shipping Finance	333	180	137	135	139
Aviation Finance	375	214	159	191	216
Land Transport Finance	363	179	114	137	149
ITF Suisse	244	115	90	–	–

Interest expenses of €525.1 million (–22.7%) comprised €445.7 million (2007: €601.8 million) in refinancing costs for the Transport Finance lending business, €52.7 million (2008: €44.8 million) in operating-lease expenditure, and €26.7 million (2008: €33.1 million) in expenses for silent partnership contributions and subordinated capital.

Allowance for credit losses significantly increased from €16.5 million to €72.2 million. ❶

Additions to allowance for credit losses totalled €116.5 million. The main items were:

- €77.4 million for the Shipping Finance portfolio;
- €31.9 million for the Aviation Finance portfolio;
- €3.0 million for the phased out D-Marketing portfolio; and
- €1.7 million for the Investment Management portfolio.

In contrast, €58.3 million was released. The main items were:

- €31.1 million in the Shipping Finance portfolio;
- €22.9 million in the Aviation Finance portfolio; and
- €3.0 million in the discontinued Transport Infrastructure portfolio.

Direct write-offs of €–15.0 million were recognised in the Investment Management division.

DVB refined its procedures for calculating portfolio impairments for Shipping Finance, Aviation Finance and Land Transport Finance. Instead of historical default rates, the Bank now uses its internal rating model. This involves estimating the amount of the losses incurred, but not yet identified, based on the expected losses for a one-year period. The relevant allowance for credit losses totalled €26.6 million at the end of 2009.

Total allowance for credit losses rose by 47.7%, from €108.0 million to €159.5 million, comprising mainly:

- €87.1 million for the Shipping Finance portfolio;
- €50.1 million for the Aviation Finance portfolio;
- €13.0 million for the D-Marketing portfolio;
- €5.6 million for the Transport Infrastructure portfolio; and
- €1.7 million for the Investment Management portfolio.

Thanks to the high level of collateralisation of the Transport Finance activities, provided by the financed assets in the Structured Asset Financing business (Shipping Finance, Aviation Finance, and Land Transport Finance), and the coverage of the Transport Infrastructure exposure through concessions, no country risk provisions are required in accordance with IAS 39. Additionally, at 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 is very low.

Net fee and commission income

Consolidated net fee and commission income fell by 7.3%, from €105.5 million to €97.8 million. This predominantly comprises commission and fees from lending, arrangement fees and commitment commissions.

The contribution from the three Transport Finance segments (Shipping Finance, Aviation Finance, and Land Transport Finance) fell by 17.4% to €84.5 million (2008: €102.3 million), owing to the cautious, selective new business undertaken in Transport Finance. Net fee and commission income performed well in Aviation Finance, rising by 17.4%, to €35.1 million. It fell by 31.3% in Shipping Finance to €46.8 million, and by 39.5%, to €2.6 million in Land Transport Finance.

❶ **Allowance for credit losses (€ mn)**

	2009	2008		%
Additions to allowance for credit losses	– 116.5	– 45.9	– 70.6	–
Reversals of allowance for credit losses	58.3	29.3	29.0	99.0
Direct write-offs	– 15.8	– 0.8	– 15.0	–
Recoveries on loans and advances previously written off	1.8	0.9	0.9	–
Total allowance for credit losses	**– 72.2**	**– 16.5**	**– 55.7**	**–**

Net fee and commission income totalled €103.3 million (–5.7%), of which 80.9% (or €83.6 million) was generated in the credit business. The figure was offset by fee and commission expenses of €5.5 million (+37.5%) – including, in particular, expenses incurred in the credit business (€2.5 million), and for guarantees and indemnities (€0.5 million).

Net income from financial instruments in accordance with IAS 39

Net income from financial instruments in accordance with IAS 39 climbed substantially from €–54.1 million to €17.9 million. Strong volatility in the interest rate and foreign exchange markets throughout 2009 was reflected in the following items:

- Net trading income amounted to €15.9 million (2008: €0.1 million), including standalone derivatives in the trading portfolio.

- On the other hand, the hedge result (hedge accounting) was €3.5 million (2008: €–13.7 million); this figure includes derivatives and hedged items with effective hedge relationships.

- The result from the application of the fair value option in accordance with IAS 39 amounted to €–1.0 million (2008: €0.8 million) and included the previous year's designated hedged items and associated derivatives.

- The result from derivatives entered into without intention to trade rose from €–7.2 million to €7.9 million.

- The net income from investment securities improved from €–34.1 million to €–8.4 million. The main factor determining this figure was a €–7.4 million write-down on a bond issued by an Icelandic bank, which DVB held as a liquidity reserve for payments.

Result from investments in companies accounted for using the equity method

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

Net other operating income/expenses

Net other operating income/expenses fell considerably, from €28.6 million to €7.3 million. This figure included other operating income of €9.2 million from the deconsolidation of companies held in the Investment Management division, and income in the amount of €7.1 million generated by our subsidiary TES Holdings Ltd. Material other operating expenses included deconsolidation costs of €7.3 million as well as provisions of €3.9 million.

Consolidated net income before taxes

Consolidated net income before taxes was down –13.6%, from €100.2 million to €86.6 million. Against the backdrop of the financial markets and global economic crisis, DVB and its entire staff took a very disciplined approach to costs in 2009. This meant that the administrative expenses, to be deducted from income, remained unchanged on the prior year (€156.5 million). ❶

Staff expenses

Staff expenses fell slightly, by 2.1%, from €91.3 million to €89.4 million.

Non-staff expenses

At €62.7 million, non-staff expenses were up 4.3% on the previous year (2008: €60.1 million). The key factors behind this increase were:

- advisory expenses of €22.4 million, which breaks down into €–12.9 million for legal and audit expenses (including €1.3 million for the audit of the financial statements and other advisory services) and €–9.5 million for other advisory services (including IT consultancy expenses);

- ancillary labour costs of €11.5 million;

- occupancy expenses of €10.6 million; as well as

- contributions and fees of €4.4 million.

❶ **Consolidated net income before taxes (€ mn)**

	2009	2008		%
Income	**243.1**	**256.7**	**– 13.6**	**– 5.3**
General administrative expenses	**156.5**	**156.5**	**0.0**	**0.0**
Staff expenses	89.4	91.3	– 1.9	– 2.1
Non-staff expenses	62.7	60.1	2.6	4.3
Depreciation and amortisation, impairment and write-ups	4.4	5.1	– 0.7	– 13.7
Consolidated net income before taxes	**86.6**	**100.2**	**– 13.6**	**– 13.6**

Depreciation, amortisation, impairment and write-ups

Depreciation, amortisation, impairment and write-ups fell by 13.7%, from €5.1 million to €4.4 million. Of this, €2.0 million (2008: €2.7 million) was attributable to intangible assets (software).

Development of consolidated net income

Consolidated net income declined by 27.7%, from €105.2 million to €76.1 million. ❶

Consolidated net income before taxes (€86.6 million) was subject to an actual tax burden of €–12.1 million, which was offset by income of €1.6 million related to deferred taxes. Accordingly, total income taxes amounted to €10.5 million net. Consolidated net income thus amounted to €76.1 million, including net income of €1.5 million (2008: €0.3 million) attributable to non-controlling interests. This reflects the share of results economically attributable to non-controlling shareholders in consolidated entities. Consolidated net income attributable to shareholders of DVB Bank SE was down 28.9%, from €104.9 million to €74.6 million.

Distributable profit, and appropriation of profits

Distributable profit remained stable at €27.9 million. ❷

No profit carried forward from previous periods was carried in 2009. €46.7 million (–39.9%) was transferred from current operations to retained earnings.

We will propose to DVB Bank SE's Annual General Meeting, which will be held on 9 June 2010, to pay a dividend of €0.60 per notional no-par value share for the 2009 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.

❶ **Consolidated net income (€ mn)**

	2009	2008		%
Consolidated net income before taxes	**86.6**	**100.2**	**– 13.6**	**– 13.6**
Income taxes	– 10.5	5.0	15.5	–
Consolidated net income	**76.1**	**105.2**	**– 29.1**	**– 27.7**
Consolidated net income attributable to non-controlling interests	1.5	0.3	1.2	–
Total comprehensive income attributable to shareholders of DVB Bank SE	74.6	104.9	– 30.3	– 28.9

❷ **Distributable profit (€ mn)**

	2009	2008		%
Consolidated net income	**76.1**	**105.2**	**– 29.1**	**– 27.7**
Profit carried forward	0.0	0.7	– 0.7	–
Consolidated net income attributable to non-controlling interests	– 1.5	– 0.3	– 1.2	–
Transfer to retained earnings	– 46.7	– 77.7	31.0	– 39.9
Distributable profit	**27.9**	**27.9**	**0.0**	**0.0**

Financial position

DVB's total assets fell by a total of 0.6% to €17.3 billion (2008: €17.4 billion).

Liabilities on the balance sheet

Liabilities to banks were unchanged at €7.1 billion. Liabilities to customers fell by 12.0%, to €4.4 billion (2008: €5.0 billion). In particular this item includes promissory note loans from institutional clients (including insurance companies, pension schemes and trade corporations), which were reduced during the course of the year. Securitised liabilities rose by 29.6%, from €2.7 billion to €3.5 billion, whilst subordinated liabilities fell by 14.3%, to €0.6 billion (2008: €0.7 million).

Development of own funds

Own funds as defined by the German Banking Act (KWG) totalled €1,258.7 million, which equates to a decline of 5.4% over the previous year (2008: €1,330.5 million). ❶

Total tier 1 capital pursuant to section 10 (2 a) of the KWG

Tier 1 capital as defined in section 10 (2 a) of the KWG decreased by 1.8% in 2009, to €993.6 million (2008: €1,011.8 million). Reserves increased by a total of 8.5%, from €794.7 million to €862.6 million.

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

Tier 2 capital decreased by 16.8% to €265.1 million (2008: €318.7 million). The eligible subordinated liabilities declined by €52.9 million, owing to the maturing liabilities or having reached the two-year discontinuation phase. We consistently complied with the capital ratio in accordance with sections 10 and 10 a of the KWG (Principle I).

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, Treasury targets a broad spectrum of domestic and international investors. An attractive offer to existing and new investors, this extensive product range helps to further expand DVB's refinancing options.

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

Throughout 2009, DVB continued to consistently implement its business model, which focuses on financing, structuring, and advisory services in the international Transport Finance business. Once again the Bank chose not to expose itself to so-called "credit surrogates" business. DVB was therefore protected against any direct negative impact from the financial markets crisis.

❶ Own funds in accordance with the KWG (€ mn)

	2009	2008		%
Issued and fully paid ordinary shares	113.7	114.0	– 0.3	– 0.3
Capital reserve plus other reserves eligible for inclusion	294.3	290.2	4.1	1.4
Special items for general banking risks pursuant to section 340 g of the HGB	568.3	504.5	63.8	12.6
Other components of tier 1 capital	54.3	139.2	– 84.9	– 61.0
Items deducted from tier 1 capital pursuant to section 10 (2 a) sentence 2 of the KWG	– 5.5	– 5.3	– 0.2	3.8
Items deducted from tier 1 capital pursuant to sections 10 (6) and (6 a) of the KWG	– 31.5	– 30.8	– 0.7	2.3
Total tier 1 capital pursuant to section 10 (2 a) of the KWG	**993.6**	**1,011.8**	**– 18.2**	**– 1.8**
Total tier 2 capital pursuant to section 10 (2 b) of the KWG before deductions, and eligible tier 3 capital pursuant to section 10 (2 c) of the KWG	296.6	349.5	– 52.9	– 15.1
Items deducted from tier 2 capital in accordance with section 10 (6) and (6 a) KWG	– 31.5	– 30.8	– 0.7	2.3
Total tier 2 capital pursuant to section 10 (2 b) of the KWG, plus eligible tier 3 capital in accordance with section 10 (2 c) of the KWG	**265.1**	**318.7**	**– 53.6**	**– 16.8**
Net adjusted available capital pursuant to section 10 (1 d) of the KWG plus eligible tier 3 capital pursuant to section 10 (2 c) of the KWG	**1,258.7**	**1,330.5**	**– 71.8**	**– 5.4**

Nonetheless, it was burdened in 2009 – for the second consecutive year – by the negative implications of the financial markets and economic crisis. This led again to a significant increase in funding costs. Three developments were closely related here:

- The sub-prime crisis that emerged in the USA in 2008 led to a loss of confidence among the participants of the global interbank market, resulting in the financial markets crisis.

- The lock-up of financial markets and the loss of confidence that persisted throughout 2009 and led to a significant, almost complete loss of investor interest in bank issues.

- These factors resulted in money market distortions, making it extremely difficult to manage interest rate risk at the short end of the curve.

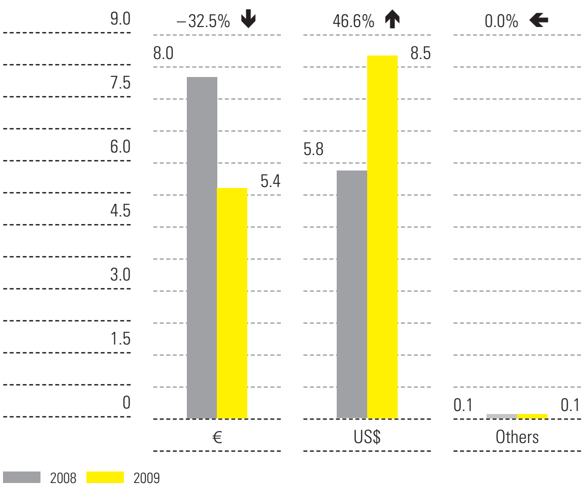
Additional crisis-driven expenditure of €28.0 million was already incurred in 2008. We took counter-measures immediately, which proved very successful. These measures enabled us to continuously and almost entirely scale back the burdens created by market distortions in the course of 2009, to €20.8 million (Q1: €17.3 million; Q2: €2.3 million; Q3: €1.0 million; Q4: €0.2 million).

Funding volume and currency breakdown

Despite the increase in the cost of long-term funding liquidity, we continued to implement the structural adjustments on the liabilities side of DVB's balance sheet, which we embarked upon in 2007. Accordingly, the US dollar share relative to aggregate funding was increased further, thus creating a natural hedge against our assets, which are predominantly denominated in US dollars.

Aggregate funding volume in 2009 amounted to €14.0 billion (interest-bearing liabilities), of which only €5.4 billion (–32.5%) was denominated in euros, compared with €8.5 billion (+49.1%) in US dollars. At €0.1 billion, other currencies only played a minor role in 2009. ❶

❶ **Currency breakdown of the aggregate funding volume 2008/2009 (€ bn)**



Maturity breakdown

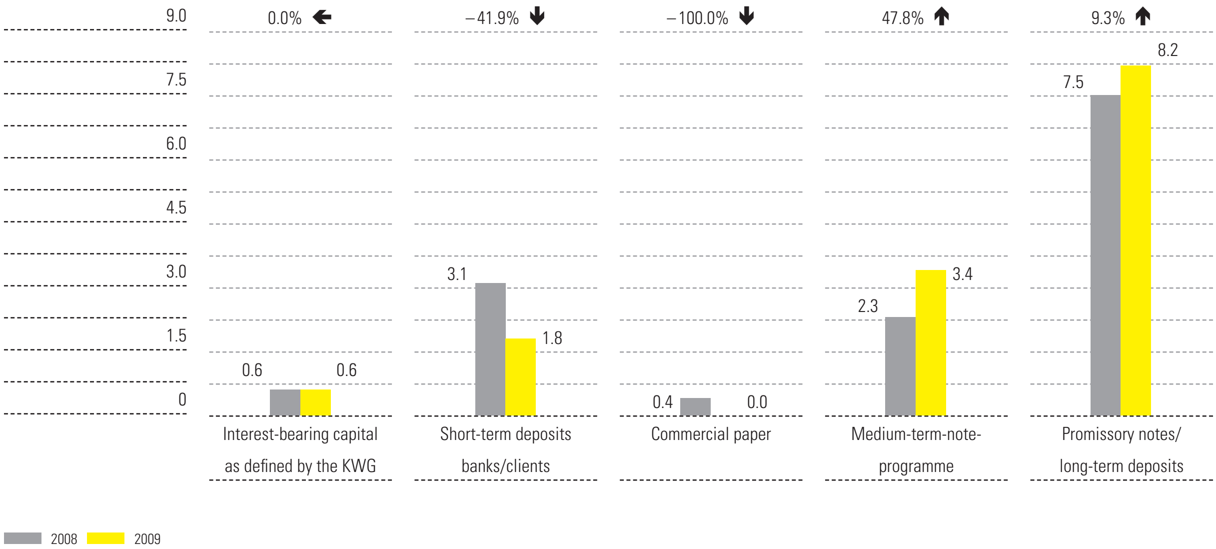
Despite the ongoing increase in liquidity costs, we extended the average term of the liabilities side, and concentrated increasingly in 2009 on long-term (albeit more expensive) refinancing vehicles. We benefited again in 2009 from our integration into the solvent German Cooperative Financial Services Network.

At year-end, the funding base included 87.1% long-term funds (2008: 74.8%). The composition of long-term funding is shown in detail below:

- 58.6% promissory note loans/long-term deposits (2008: 54.0%);
- 24.3% issues under our medium-term note programme (2008: 16.5%);
- 4.2% interest-bearing equity as defined by the KWG (2008: 4.3%).

Short-term funding was scaled back considerably to 12.9% (2008: 25.0%) and includes short-term deposits from banks and clients. The importance of money market products such as commercial paper has diminished entirely.

❶ Structure of refinancing vehicles (€ bn)



Structure of refinancing vehicles 2008/2009

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 41.7% to €3.4 billion (2008: €2.4 billion). Long-term promissory note loans also increased to €8.2 billion (2008: €7.5 billion). Short-term bank/client deposits declined by 41.9% to €1.8 billion and the share of commercial paper issues was reduced to zero. ❶

Risk-weighted assets and capital ratios according to the KWG

Basel II capital ratios (%)

	2009	2008	Change
Tier 1 ratio	14.2	13.9	0.3 pp
Total capital ratio	18.0	18.2	– 0.2 pp

Since 2008, DVB has reported capital ratios determined in accordance with the provisions of the Basel II rules (Advanced Approach). On this basis, the tier 1 ratio was 14.2% (+0.3 percentage points) and the total capital ratio was 18.0% (–0.2 percentage points).

Return on equity (ROE) and cost/income ratio (CIR)

The management of the DVB Group during 2009 focused, amongst other things, on the ROE and CIR.

Management indicators (%)

	2009	2008	Change
Return on equity (before taxes)	9.4	13.1	– 3.7 pp
Return on equity (after taxes)	8.2	13.8	– 5.6 pp
Cost/income ratio	49.6	57.4	– 7.8 pp

The ROE calculated in accordance with IFRS declined from 13.1% to 9.4% in 2009. The ROE was calculated as follows: consolidated net income before taxes (excluding consolidated net income attributable to non-controlling interests) of €85.1 million was divided by the total of the weighted capital (issued share capital, capital reserves and retained earnings, excluding the fund for general banking risks and minority interest) of €907.1 million.

The CIR in accordance with IFRS fell from 57.4% to 49.6%. It is calculated in accordance with IFRS as follows: the general administrative expenses figure of €156.5 million was divided by €315.3 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 and total assets

At €19.1 billion, the volume of business in 2009 was 9.0% lower than the previous year (2008: €21.0 billion). Besides total assets of €17.3 billion, the figure also includes irrevocable loan commitments of €1.8 billion.

Lending volume over time

Lending volume fell by 7.2% on the previous year, to €18.0 billion. ❶

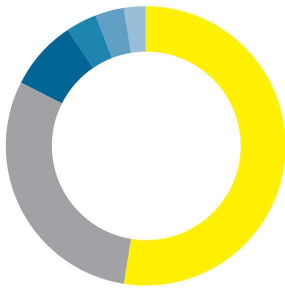
At €0.4 billion, loans and advances to banks were higher than in the previous year (2008: €0.3 billion). Loans and advances to customers rose by 2.8%, to €14.7 billion (2008: €14.3 billion). The volume of investment securities (including equity investments) held remained unchanged at €0.1 billion. Guarantees and indemnities totalled €0.4 billion (2008: €0.8 billion). Irrevocable loan commitments dropped by 51.4%, from €3.7 billion to €1.8 billion. Both variables were influenced by the decline in new business in Transport Finance. As in previous years, DVB employed derivative instruments for hedging purposes, also offering these to its clients to a limited extent. The volume of derivatives increased to €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 the Structured Asset Finance activities in Transport Finance, the fund management activities in Investment Management, the activities on the interbank market of our subsidiaries ITF Suisse, the discontinued Transport Infrastructure portfolio and loan exposures no longer in line with DVB's strategy, which are managed in the D-Marketing portfolio of loans to be phased out. The decline in new business in the market segments Shipping Finance (–67.0%), Aviation Finance (–40.0%), Land Transport Finance (–80.4%), Investment Management (–47.9%) and ITF Suisse (–74.8%) drove down customer lending by 6.5% to €17.3 billion (2008: €18.5 billion).

Customer lending is detailed in the following chart. ❷ The D-Marketing portfolio to be phased out is not included, since it amounts to only €40.5 million (2008: €45.9 million) and accounts for less than 0.1% of customer lending volume.

❷ Customer lending by business division (%)



Shipping Finance 52.6% (– 4.2 pp)

Aviation Finance 30.1% (+ 3.6 pp)

Land Transport Finance 8.0% (– 0.1 pp)

Investment Management 3.5% (+ 0.3 pp)

ITF Suisse 3.5% (+ 0.8 pp)

Discontinued portfolio: Transport Infrastructure 2.3% (+ 0.1 pp)

❶ Lending volume (€ bn)

	2009	2008		%
Loans and advances to banks	0.4	0.3	0.1	33.3
Loans and advances to customers	14.7	14.3	0.4	2.8
Securities (including equity investments)	0.1	0.1	0.0	0.0
Guarantees and indemnities	0.4	0.8	– 0.4	– 50.0
Irrevocable loan commitments	1.8	3.7	– 1.9	– 51.4
Derivatives	0.6	0.2	0.4	–
Lending volume	**18.0**	**19.4**	**– 1.4**	**– 7.2**

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 10.3% in dollar terms, to US$13.1 billion (2008: US$14.6 billion). Due to currency effects, the decrease was greater in euro terms, where it fell namely by 13.3% to €9.1 billion (2008: €10.5 billion). The same scenario applied to the Aviation Finance portfolio, which grew by 7.2% in US dollar terms to US$7.4 billion (2008: US$6.9 billion). The increase in euro terms was lower, up 6.1% to €5.2 billion (2008: €4.9 billion). ❶

Earnings contribution

Earnings were analysed by comparing the development of the Transport Finance portfolios in the years 2008 and 2009, breaking down the portfolio into total and new commitments, and then differentiating data further by key ratios and indicators.

– New business

Against the backdrop of the global economic crisis, DVB entered into long-term and collateralised new business on a selective basis in 2009. The volume of new business fell significantly in Shipping Finance to €1.3 billion (–67.0%), in Aviation Finance to €1.3 billion (–40.0%), and in Land Transport Finance to €0.1 billion (–80.4%). DVB continued to play a leading role frequently in

❶ Volume trends 2005–2009

	2009		2008		2007		2006		2005	
€ bn		%		%		%		%		%
Shipping Finance	9.1	52.6	10.5	56.8	8.4	58.7	6.7	55.8	5.7	52.8
Aviation Finance	5.2	30.1	4.9	26.5	3.6	25.2	3.1	25.8	3.0	27.8
Land Transport Finance	1.4	8.0	1.5	8.1	1.1	7.7	1.0	8.3	1.0	9.3
Investment Management	0.6	3.5	0.6	3.2	0.5	3.5	0.4	3.3	0.3	2.8
ITF Suisse	0.6	3.5	0.5	2.7	0.1	0.7	–	–	–	–
Transport Infrastructure (discontinued portfolio)	0.4	2.3	0.4	2.2	0.5	3.5	0.7	5.8	0.6	5.5
D-Marketing (portfolio to be phased out)	0.0	0.0	0.1	0.5	0.1	0.7	0.1	0.8	0.2	1.8
Total	**17.3**	**100.0**	**18.5**	**100.0**	**14.3**	**100.0**	**12.0**	**100.0**	**10.8**	**100.0**

	2009		2008		2007		2006		2005	
US$ bn		%		%		%		%		%
Shipping Finance	13.1	52.6	14.6	56.4	12.3	58.3	8.8	55.7	6.8	53.5
Aviation Finance	7.4	29.7	6.9	26.6	5.3	25.1	4.1	25.9	3.5	27.5
Land Transport Finance	2.0	8.1	2.1	8.1	1.7	8.1	1.3	8.2	1.1	8.7
Investment Management	0.9	3.6	0.9	3.5	0.8	3.8	0.5	3.2	0.3	2.4
ITF Suisse	0.8	3.2	0.7	2.7	0.2	0.9	–	–	–	–
Transport Infrastructure (discontinued portfolio)	0.6	2.4	0.6	2.3	0.7	3.3	0.9	5.7	0.8	6.3
D-Marketing (phased out portfolio)	0.1	0.4	0.1	0.4	0.1	0.5	0.2	1.3	0.2	1.6
Total	**24.9**	**100.0**	**25.9**	**100.0**	**21.1**	**100.0**	**15.8**	**100.0**	**12.7**	**100.0**

	2009	2008	2007	2006	2005
US$ reference rate published by the ECB (31 Dec)	**1.4406**	**1.3917**	**1.4721**	**1.3170**	**1.1797**

Transport Finance – the share of transactions in the overall portfolio was 74.1%. The leading role share of new commitments was 89.9% in 2009. The average interest margin of 343 basis points for new business was markedly higher than in the previous year (186 basis points). Interest margins widened significantly in all business divisions: up 153 basis points to 333 basis points in Shipping Finance, up 161 basis points to 375 basis points in Aviation Finance, and up 184 basis points to 363 basis points in Land Transport Finance.

– Total portfolio

The average LtV ratio of the individual Transport Finance segments reflects the relation between loans granted and the market value of the financed transport assets. This ratio deteriorated by 9.7 percentage points in the total portfolio, to 77.2%.

The performance of this important indicator, which provides information on the loan-to-value ratio, was not uniform in the Transport Finance portfolios.

- A decline of 0.5 percentage points to 74.5% was only achieved in Land Transport Finance.
- On the other hand, the change in the LtV ratio in Shipping Finance was negative, from 64.4% to 78.7%. Aviation Finance showed a similar development, where the LtV ratio deteriorated from 71.9% to 74.6%.

The performance of the cost income ratio was inconsistent too: while it deteriorated by 3.1 percentage points in Shipping Finance to 27.3% and in Investment Management by 5.6 percentage points to 36.5%, Aviation Finance posted a welcome reduction of 5.9 percentage points to 14.9% and Land Transport Finance recorded a 5.5 percentage point fall to 16.2%.

The ROE fell in the three Transport Finance segments: by 24.9 percentage points in Shipping Finance to 15.2%, by 11.4 percentage points in Aviation Finance to 30.4% and by 10.3 percentage points in Land Transport Finance to 21.0%. The ROE also fell in Investment Management, by 1.4 percentage points to 16.4%.

It should be noted that the ROE and CIR comparative indicators are determined excluding overheads; hence, they are not comparable to the ratio for the entire Bank. ❶

❶ Earnings contribution (€ mn)

	Shipping Finance		Aviation Finance		Land Transport Finance		Investment Management		ITF Suisse		Total		
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**%**
Total portfolio:													
Customer lending	9,115.9	10,484.4	5,147.3	4,902.5	1,367.6	1,513.0	587.2	609.4	553.1	510.9	16,771.1	18,020.2	– 6.9
Loans and advances to customers	7,596.7	7,491.7	4,601.0	4,100.9	1,297.2	1,397.3	497.1	489.3	498.2	372.8	14,490.2	13,852.0	4.6
Loan commitments, guarantees and indemnities	1,519.2	2,992.7	546.3	801.6	70.4	115.7	90.1	120.1	54.9	138.1	2,280.9	4,168.2	– 45.3
Number of customers (primary obligor groups)	292	286	127	130	64	68	27	29	25	22	535	535	0.0
Leading role (%)	76.1	70.3	80.3	75.0	64.4	62.1	76.1	74.9	3.8	0.0	74.1	68.3	5.8 pp
Average loan-to-value ratio (%)	78.7	64.4	74.6	71.9	74.5	75.0	n/a	n/a	82.9	66.7	77.2	67.5	9.7 pp
CIR (%)[1]	27.3	24.2	14.9	20.8	16.2	21.7	36.5	30.9	32.9	51.6	49.6	57.4	– 7.8 pp
ROE (%)[2]	15.2	40.1	30.4	41.8	21.0	31.3	16.4	17.8	13.8	45.4	9.4	13.1	– 3.7 pp
New business:													
Number of new transactions	61	122	44	48	8	19	14	25	4	15	131	229	– 42.8
Underwritten	1,321.7	4,003.5	1,315.2	2,192.6	113.3	577.5	104.5	200.4	98.8	392.6	2,953.5	7,366.6	– 59.9
Syndicated to third parties	11.8	289.0	0.0	146.6	0.0	26.9	0.0	0.0	0.0	0.0	11.8	462.5	– 97.4
Final take	1,309.9	3,714.4	1,315.2	2,046.0	113.3	550.6	104.5	200.4	98.8	392.6	2,941.7	6,904.0	– 57.4
Leading role (%)	93.2	71.2	91.9	79.3	89.8	53.9	89.3	100.0	21.4	0.0	89.9	69.2	20.7 pp
Average margin (bp)	333	180	375	214	363	179	148	176	244	115	343	186	157

1) Computed in accordance with IFRS – without allocating overhead expenses and before allowance for credit losses
2) Computed in accordance with IFRS – without allocating overhead expenses, after allowance for credit losses, and before taxes

Compensation system

Regulatory requirements for remuneration systems

In a circular dated 21 December 2009, the German Federal Financial Supervisory Authority (BaFin) set out precise specifications regarding banks' remuneration systems. Section 4 in particular laid out strict regulations governing remuneration of so-called risk takers. This applies to all members of senior management, and to employees who can enter into high-risk positions. Every institution is required to carry out a self-assessment in order to review and determine which individuals are considered risk takers.

The Board of Managing Directors of DVB conducted this self-assessment in December 2009 and came to the following conclusions: under section 4 of the aforementioned BaFin circular, only the members of the Board of Managing Directors of DVB qualify as risk takers; the definition applies to no other group of individuals within the Bank. This decision is based on the following risk analysis under the self-assessment:

A focused and international business model

DVB's business model is clearly defined and unique. The Bank's focus on large-volume financing for the international transport market is unparalleled. As a highly specialised niche player in the sub-markets of shipping, aviation and land transport, the Bank offers its clients tailor-made products and advisory services from twelve different office locations (Frankfurt/Main, Hamburg, London, Cardiff, Rotterdam, Bergen/Oslo, Piraeus, Zurich, Singapore, Tokyo, New York, and Curaçao).

The structures of these financing solutions are typically sophisticated and complex, with structures spanning multiple jurisdictions, and they are generally collateralised by the transport assets being financed.

Management principles for the international lending business

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. Lending authorities determine the conditions under which credit decisions (relating to new commitments and limit increases)

- can be made by the Shipping Finance, Aviation Finance and Land Transport Finance business divisions (specifically by the Head of Industry together with Head of Credit);

- which lending decisions require approval from the Board of Managing Directors; and

- when approval must be obtained from the Credit Committee of the Supervisory Board.

Depending on the specific risk parameters that have been set (amount of the total exposure, Overall Facility Rating, Standard Risk Costs, etc.), lending decisions below a certain limit can be made by the aforementioned business divisions, provided the extension of credit meets the criteria laid out in the lending policies. The requirements stipulated in the lending policies include those regarding the type of financing, collateralisation with the asset being financed, the term and the loan-to-value ratio, etc.

Lending decisions require approval from the entire Board of Managing Directors if the lending authority of the business divisions listed above is exceeded or if the exposure exceeds the bounds of the lending policy. If a certain exposure limit is exceeded, approval must also be obtained from the Credit Committee. Lending decisions must be made unanimously. If the authorised individuals of any level cannot unanimously agree, the decision must be escalated to the authority level immediately above. If a unanimous decision is still unattainable, the loan application must be rejected.

Beyond its lending business, DVB is engaged in no high-risk trading activities.

Risk takers at DVB

In the Shipping Finance division, the responsible member of the Board of Managing Directors is also the Head of Industry as regards the lending decision-making process described above. No decision can be taken without approval from a member of the Board of Managing Directors.

The Heads of Industry in the Aviation Finance and Land Transport Finance divisions are not members of the Board of Managing Directors. As every credit application is reviewed by the Deal Committee prior to the actual lending decision, the responsible member of the Board of Managing Directors is always involved. Only credit documentation that has already received support from the responsible member of the Board of Managing Directors is submitted to the Heads of Industry for approval. In day-to-day practice, actual lending authority has only rested with the Heads of Industry/Heads of Credit in very few instances over the past several years. This is because the vast majority of DVB's exposures involve higher volumes and thus require approval from the Board of Managing Directors or even the Credit Committee.

It is generally part of DVB's corporate and decision-making culture that the Board of Managing Directors is involved in approving every credit exposure, even when decision-making authority is officially held by the Heads of Industry/Heads of Credit.

Remuneration of the Board of Managing Directors

The structure of the remuneration of the Board of Managing Directors of DVB Bank SE is based on the Internal Regulations for the Executive Committee of the Supervisory Board, which in turn has been adopted by the Supervisory Board. Accordingly, the overall remuneration of the Board of Managing Directors is composed of a fixed component of 54.0% and a variable component of 46.0%. The variable component consists of a traditional bonus element.

The fixed component of the remuneration of DVB Bank SE's Board of Managing Directors totalled €1,416,413.75 in 2009 (2008: €1,330,183.16). It comprises monetary remuneration components, pension commitments and special benefits. ❶

The bonus payments paid to members of the Board of Managing Directors are determined on the basis of agreements on operational targets. These target agreements are entered into between the Executive Committee and the relevant member of the Board of Directors for each business year. The amount of the bonus depends on the extent to which the targets were achieved. One half of the targets refers to the achievement of objective criteria, such as the return on equity, cost/income ratio and consolidated net income before taxes for the relevant business year, and the other half refers to the individual performance of each member of the Board of Managing Directors. The bonus for the current financial year is then paid out in two tranches of 50% each, in each of the two following business years. A prerequisite for the payout is, however, that no notice of termination has been given with regard to the employment relationship as at the time of payment. Bonuses of €1,205,000.00 were distributed to the Board of Managing Directors in 2009 (2008: €1,295,250.00).

Pursuant to the German Act on the Disclosure of Remuneration of Management Board Members (VorstOG), which came into force on 3 August 2005, it is now a requirement that listed companies 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. According to the VorstOG, however, the Annual General Meeting may pass a resolution exempting the reporting entity from disclosing remuneration on a personalised level for a period of five years, provided that such resolution is approved by 75% of the share capital represented at the meeting. DVB Bank SE made use of this option with the resolution adopted at the Annual General Meeting of DVB Bank AG on 30 June 2006, as described in item 9 of the agenda.

Accordingly, disclosure of information in the annual and consolidated financial statements of DVB, as required in section 285 sentence 1 no. 9 a sentences 5 to 9 of the German Commercial Code (HGB) and section 314 (1) no. 6 a sentences 5 to 9 of the HGB, is not required for a period of five years (financial statements 2006 to 2011).

❶ **Remuneration of the Board of Managing Directors – Fixed salary components (€)**

	2009	2008	%
Monetary compensation elements	960,000.00	935,000.00	2.7
Pension commitments including contributions to pension provisions	291,265.89	256,575.48	13.5
Special benefits	165,147.86	138,607.68	19.2
Allowances for company car or monetary equivalent	54,440.28	54,974.93	– 1.0
Rent subsidies	27,780.86	17,110.86	62.4
Insurance cover and employer contributions to foreign social security schemes	82,926.72	66,521.89	24.7
Total	**1,416,413.75**	**1,330,183.16**	**6.5**

❶ **Remuneration of the Supervisory Board (€)**

		Remuneration of Supervisory Board activities	Remuneration of Credit Committee activities	Value Added Tax (VAT) 19%	Total
Shareholder representatives:					
Frank Westhoff, Chairman		24,866.11	10,000.00	6,624.56	41,490.67
Dr Peter Klaus, Deputy Chairman		11,111.11	5,555.56	3,166.67	19,833.34
Dr h.c. Stephan Götzl		11,111.11	–	2,111.11	13,222.22
Flemming Robert Jacobs, domiciled in the UK		20,000.00	2,777.78	4,327.78	27,105.56
Wolfgang Köhler		5,555.56	–	–	5,555.56
Dr Klaus Nittinger		11,111.11	–	2,111.11	13,222.22
Shareholder representatives resigned during the year:					
Dr Thomas Duhnkrack, Chairman		14,166.67	4,722.22	3,588.89	22,477.78
Prof Dr Manfred Schölch, Deputy Chairman		8,888.89	–	1,688.89	10,577.78
Robert Jan van der Burg, domiciled in Ireland		8,888.89	4,444.44	2,533.33	15,866.66
Hemjö Klein		8,888.89	–	1,688.89	10,577.78
Employee representatives:					
Dorinus Legters, domiciled in The Netherlands		20,000.00	–	3,800.00	23,800.00
Kieran O'Keefe, domiciled in Ireland		11,111.11	–	2,111.11	13,222.22
Martin Wolfert		20,000.00	10,000.00	5,700.00	35,700.00
Employee representatives resigned during the year:					
Frode Bjorklund, domiciled in Norway		8,888.89	–	1,688.89	10,577.78
Total remuneration		**184,588.34**	**37,500.00**	**41,141.23**	**263,229.57**
Tax deductions for Supervisory Board members domiciled outside Germany: 1)					
VAT	19%				14,461.11
Taxes for membership in a supervisory board	30%				22,833.33
Solidarity surcharge	5.5%				1,255.83
Total tax deductions:					**38,550.27**
Remuneration excluding tax deductions for Supervisory Board members domiciled outside Germany:					**224,679.30**

1) For Supervisory Board members domiciled outside Germany, DVB Bank SE declares and pays VAT as well as taxes for Supervisory Board members and solidarity surcharge directly to the responsible tax office. Therefore, these taxes are deducted from the Supervisory Board members' remuneration.

Remuneration of the Supervisory Board

Total remuneration expenses paid by DVB Bank SE for members of the Supervisory Board amounted to €263,229.57. Taxes amounting to €38,550.27 were transferred directly to the tax authorities for the Supervisory Board members domiciled abroad. The members of the Supervisory Board therefore received remuneration of €224,679.30 for their actions as Supervisory Board and Credit Committee members. ❶

Non-financial performance indicators

Employees

At the end of 2008, the number of active DVB staff members was 546; by the end of 2009, the number had risen by 3.3% to 564. This figure does not reflect staff with inactive employment relationships, such as the non-working phase of their semi-retirement, on maternity or parental leave. ❶

The number of active employees in Transport Finance/Investment Management increased by 5 to 360 persons (up 1.4%); whilst the number of staff employed in the central Group functions and service units rose to 204 (2008: 191). ❷

DVB employed people from 41 different nations in 2009. The international orientation of our market presence is also reflected in the composition of our workforce. In 2009, 391 active staff were employed in one of the Bank's international locations; in other words, in the international transport markets close to the Bank's clients (2008: 374 staff). In contrast, at 173, the number of active employees in Germany at the Frankfurt/Main and Hamburg offices in 2009 changed very little from the previous year (2008: 172 employees).

Of our Transport Finance staff,

- 51.6% are younger than 40 years,
- 34.5% are aged between 40 to 50 years and
- 13.9% are over 50 years old.

Experience in Transport Finance or in the transport industry in general is one of the key pillars of our employees' expertise. In DVB's core business (Shipping Finance, Aviation Finance, Land Transport Finance, Investment Management and ITF Suisse), our employees have an average of 11.3 years sector-specific experience. Of these employees, 25% have more than 15 years and 8% more than 20 years of relevant experience.

The level of staff fluctuation due to voluntary resignations was 4.5% in 2009 (2008: 5%).

❶ Employees

	2009		2008	
	Number of staff	%	Number of staff	%
Transport Finance/Investment Management	360	63.8	355	65.0
Service units	194	34.4	182	33.3
Treasury	10	1.8	9	1.7
Total	**564**	**100.0**	**546**	**100.0**

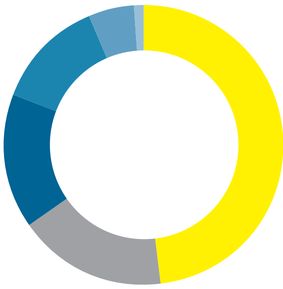
❷ Nationalities of active employees (including TES Aviation Group)

	2009		2009	
		360 employees in Transport Finance		564 employees in the DVB Group
	Number of staff	%	Number of staff	%
British	113	31.4	148	26.2
Dutch	55	15.3	74	13.1
German	44	12.2	163	28.9
Norwegian	30	8.3	32	5.7
US-American	21	5.8	26	4.6
Singaporean	17	4.7	24	4.3
Greek	14	3.9	15	2.7
34 other nationalities	66	18.3	82	14.5

Client structure and awards achieved in 2009

DVB's portfolio worldwide comprised 558 clients/client groups in 2009. These are divided between Shipping Finance with 52.3%, Aviation Finance with 22.8%, Land Transport Finance with 11.5% and Investment Management with 4.8%. From a regional perspective, it is apparent that just under half of our customers are domiciled in Europe. The detailed breakdown is as follows:

Client structure by region



Europe 48.3%

North and South America 17.2%

Asia 15.4%

Offshore 12.8%

Middle East/Africa 5.4%

Australia/Oceania 0.9%

We were commended once again in 2009 by the trade journals Jane's Transport Finance and Marine Money for a number of transactions:

DVB's accolades 2009

➔ **Shipping Deal of the Year – North America**
DVB & Fortis for Sea Containers
Jane's Transport Finance – November 2009

➔ **Award for Contribution to Ship Finance 2008**
DVB
Marine Money – February 2009

➔ **Aircraft Debt Deal of the Year – North America**
DVB for Continental
Jane's Transport Finance – November 2009

➔ **Aircraft Debt Deal of the Year – South America**
DVB for Jetscape
Jane's Transport Finance – November 2009

➔ **Americas Rail Deal of the Year**
DVB & CIC for ARI Second LLC
Jane's Transport Finance – November 2009

Explanatory disclosures pursuant to section 315 (4) of the HGB

- No. 6 of the HGB:
  Please refer to sections 84 and 85 of the German Public Limited Companies Act (AktG) and Article 7 (3) sentence 4 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.

- No. 7 of the HGB:
  Pursuant to Article 4 (2) of the Memorandum and Articles of Association ("Authorised Capital 2006"), the Board of Managing Directors is authorised to increase the share capital by up to €13,025,109.54. Furthermore, under Article 4 (3) of the Memorandum and Articles of Association ("Authorised Capital 2008"), the Board of Managing Directors is authorised to increase the Company's issued share capital by issuing new notional no-par value shares, on one or more occasions until 10 June 2013, by up to a total amount of €35 million against cash contributions.

In accordance with section 71 (1) no. 7 of the AktG and by virtue of a resolution passed by the Annual General Meeting on 10 June 2009, 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 30 November 2010.

Information regarding the provisions of sections 315 (4) nos. 1 and 3 of the HGB are available in the notes on page 162 (in accordance with GAAS 5 dated 18 February 2010 pursuant to GAS 15 items 91 g and k).

The provisions of sections 315 (2) no. 3 and (4) nos. 2, 4, 5, 8 and 9 of the HGB are not applicable to DVB Bank SE in 2009.

Report on material events after the reporting date

Since 1 January 2010, the Financial Institutions team (FI) with a staff of three has been globally responsible for DVB's syndication activities and assists our Transport Finance and Investment Management business divisions in raising non-public market debt or equity for clients. One of its tasks is to find suitable banking partners to join DVB in its financing of transport assets – either on an underwritten or book-building basis. In sourcing liquidity in the form of mezzanine and equity, FI acts as the central global contact and co-ordination point for financial institutions such as banks, hedge funds, private equity funds, sovereign wealth funds, insurance companies, pension funds, and supranational funds. The Financial Institutions team operates out of London, but with respect to the North American market, the FI team works with DVB Capital Markets LLC in New York.

The Board of Managing Directors and Supervisory Board will propose to DVB Bank SE's Annual General Meeting, which will be held on 9 June 2010, 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 results of operations, net assets, and financial position of DVB Bank SE and the DVB Group after the end of the 2009 business year. Statements made in the report on expected developments have been confirmed by the development of business in the first months of the 2010 business year.

Assuming risks in a targeted and controlled manner – achieving returns that are commensurate with the risks taken – form an integral part of DVB Group'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 companies within the DVB Group.

Principles of risk management

"Risks" are generally defined as unfavourable future developments that can negatively affect the Bank's income, financial situation, or liquidity. In this context, we differentiate between credit risks, operational risks, market price risks, strategic risks, as well as liquidity and equity investment risks.

The risk policy guidelines and structures for the professional management of these risks are laid down in our 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 (DVB). 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.

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 111 to 115). 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.

Risk management organisation

Structural organisation

DVB operates a Group-wide risk management system, which complies with all statutory (section 25 a (1) of the KWG; section 91 (2) of the AktG) and regulatory requirements (Minimum Requirements for Risk Management in Banks; "MaRisk"). This risk management system comprises adequate 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. The following chart illustrates the functional separation of DVB's risk management (in the narrower sense) and risk control processes: 1

1 Risk management and risk controlling

Strategic level

Board of Managing Directors

Risk Committee

Group Credit Committee • Watchlist 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

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 encompasses the coordination and support of 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 objective is to ensure orderly external financial reporting, and thus to avoid mismanagement and breaches of commercial law. The risk management system implemented for managing, monitoring and controlling the Bank's accounting and financial reporting systems is designed to counter operational risks; it comprises the internal control system. Within this framework, employees' actions, the technologies deployed, and the design of workflows are geared towards compliance with applicable legal rules. Based on commercial law provisions 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.

The accounting and financial reporting systems used by DVB Group entities and sub-groups are governed by binding procedures for the recording, compilation and control of quantitative and qualitative details that are required for preparing statutory reports for the entities, and which also provide the basis for the internal management of DVB Group's business divisions. To make sure that the financial reporting systems are commercially viable, data processing takes place 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 accuracy of these policies, 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 surveyors 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 surveyors. Newly-introduced processes are continuously reviewed regarding their appropriateness, and adapted 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 being involved at an early stage, to enhance the quality and efficiency of implementation.

Implementation of the second amendment to the MaRisk

The BaFin published its amendments to the MaRisk in mid-August 2009. In particular, the new requirements relate to a stronger involvement of the supervisory body, the remuneration systems, the analysis of cluster effects regarding risk and income, stress testing methodology, more extensive liquidity risk management, and to risk management systems at Group level. Having established a task force to analyse these new requirements in detail, DVB has commenced implementation of measures addressing a few issues that are unresolved in this context. In fact, DVB already largely fulfilled many aspects of the new requirements prior to their effective date – such as Group risk management, stress testing, or the close involvement of the supervisory body.

Financial market and global economic crisis – Measures adopted to mitigate the impact on DVB

DVB has adopted numerous measures to mitigate the impact of the crisis affecting financial markets and the global economy.

- To prevent being exposed to possible additional asset risks, the Bank decided to cut back on new pre-delivery financing exposures in the Shipping Finance business.

- The Bank no longer enters into new equity pre-financing transactions of German limited partnerships ("KG" structures).

- Furthermore, the Bank markedly increased its risk-adjusted minimum margins for pricing new business, in order to use available risk capital – which had been diminished due to declining collateral values and a deterioration of credit quality – as efficiently as possible.

- For the time being, DVB no longer offers new business with a one-month interest roll-over period, given that banks usually refinance their exposures with a three-month re-pricing frequency in accordance with international practice.

- Also, whenever possible, DVB no longer uses LIBOR as a reference rate when negotiating new loan agreements, choosing instead the refinancing rates quoted in the interbank market. DVB also endeavours to further amend the reference parameters for existing exposures, in coordination with its clients.

- Stress tests, which the Bank had already been conducting 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), were extended to cover the Shipping Finance, Aviation Finance and Land Transport Finance sub-portfolios.

- Within the scope of these stress 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.

- Responding to distortions on the money and capital markets, DVB extended the maturities of its liabilities, whilst further reducing the share of short-term funding. The share of US dollar-denominated funding was increased further during 2009, thus creating a natural hedge against the Bank's assets, which are predominantly in US dollars.

- Moreover, the Bank significantly improved its management of the so-called basis risk by substantially adjusting the fixed-rate periods of its liabilities, to more closely match the changed structure of its assets side.

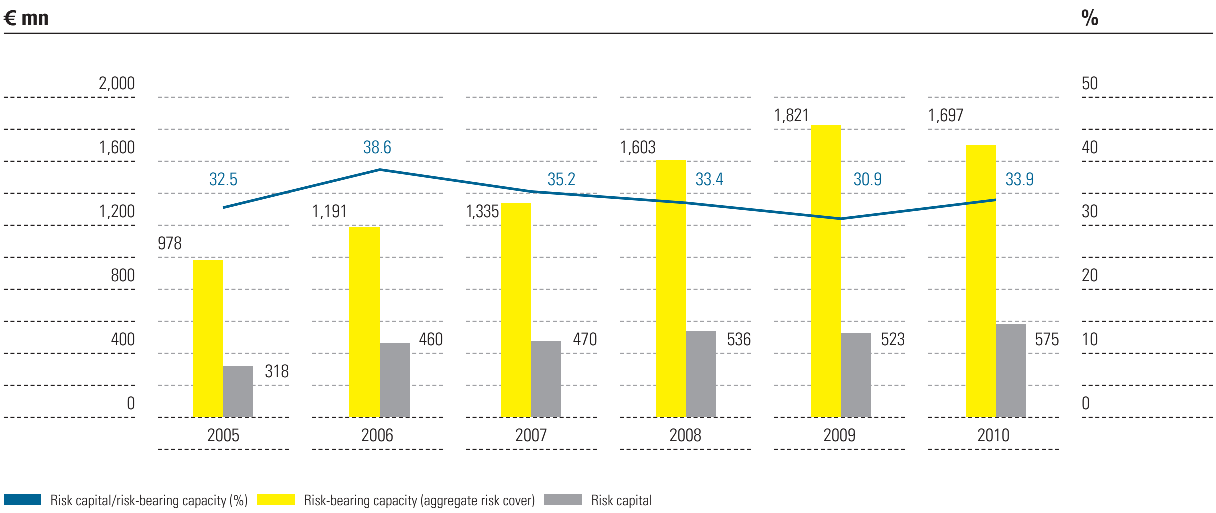
Thanks to these measures, in conjunction with strict cost discipline and various other organisational changes, DVB mastered the challenges of the crisis throughout 2009.

Capacity to carry and sustain risk/risk capital

DVB's economic risk-bearing potential is determined on an annual basis within the scope of the analysis of the Bank's capability to carry and sustain risk. As in the previous year, DVB in 2010 has calculated its aggregate risk cover (reflecting the Bank's risk-bearing capacity) on the basis of its consolidated financial statements in accordance with IFRS. For 2010 the Bank has implemented an intra-year review (and, if necessary, adjustment) of its aggregate risk cover; this is carried out on a quarterly basis, within the scope of preparing the GRM Risk Report. 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 sustainable net income for the given business year. 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 six years: ❶

❶ Risk-bearing potential



❶ Risk capital (€ mn)

	2010	2009		
	Risk capital limit	Risk capital limit	Limit usage at year-end	Average utilisation
Credit risk	479	443	406	363
Market price risk	70	55	23	58
Operational risk	50	45	45	45
Strategic risk	45	42	42	42
Equity investment risk	2	2	1	1
Correlation effects	– 71	– 64	– 57	– 63
Total	**575**	**523**	**460**	**446**

The decline in aggregate risk cover was mainly due to maturing profit-participation certificates, and a decline 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 (or total loss limit) that the Bank is willing to invest to cover all high and unexpected losses across all risk types. This means that, with a 99.95% probability, aggregate unexpected losses within one year will not exceed risk capital.

The risk capital for 2010 was set at a level of €575 million (2009: €523 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 2009, slightly reducing the overall risk limit from €562 million to €523 million.

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 credit 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 use involves 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 assume an increase in the haircuts applicable to certain collateral values, a one-notch rating downgrade of all parties involved, as well as rising euro and US dollar interest rates. DVB's aggregate risk covers fully expected and unexpected losses under both stress scenarios. ❷

We use internal models to measure counterparty and market 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.

❷ Aggregate risk cover (€ mn)

	Stress scenario no. 1 [1]			Stress scenario no. 2 [1]		
Aggregate risk cover	Expected loss	Unexpected loss	Total	Expected loss	Unexpected loss	Total
1,821	206	686	**892**	482	867	**1,349**

1) Expected loss less allowance for credit losses

Types of risk

Credit risk

With respect to individual transactions and clients, credit risk is managed and limited by setting a corresponding limit 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 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 properly 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 (IRM)

Given the dominant position of credit risk in DVB's business, we have developed a statistical and mathematical IRM for our Transport Finance portfolios. The model complies with the Advanced Approach requirements under Basel II. In addition to the probability of default (PD) associated with a given client, we determine the expected loss given default (LGD) for the unsecured portion of a loan and the anticipated extent of the claim at the time of default (exposure at default, EAD). The use of the Advanced Approach means that all types of collateral (such as aircraft and ship mortgages, 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 database of externally-rated companies for which all relevant financial reporting data was 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 in our collateralised lending business. The method used for this purpose determines the future collateral value of an asset on the basis of simulation calculations. In addition to external valuations (expert opinions) and market data, we also utilise the expertise of our market specialists in assessing specific collateral.

We have been calculating capital adequacy requirements for approximately 90% of DVB's aggregate risk-weighted assets using the Advanced Approach since July 2009.

To ensure model adequacy, we conduct an annual review of the IRM to validate the risk parameters PD and LGD both quantitatively and qualitatively. Given the prevailing economic environment during 2009, we decided to update the market data of the asset valuation model more frequently than originally planned. Depending upon developments in international transport markets in 2010, further adjustments of model parameters will be carried out within the scope of validation processes and market data updates.

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). Each Transport Finance division is responsible for analysing and managing their respective portfolios within the framework set by the Board of Managing Directors, and with a view to mitigating risk by way of diversification. DVB Research provides valuable support in this process.

The proprietary database application OASIS 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 also helps to minimise operational risks. The Bank continuously adapts and 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 processes for instruments exposed to credit risk: traditional credit risk, securities business, 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 are based on 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 the D-Marketing and Transport Infrastructure portfolios, which are no longer in line with the Bank's strategy. (For more details, please refer to page 116 of this report). ❶ ❷

The table below provides a breakdown of gross lending value by residual term. ❸

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

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Shipping Finance	9,003.3	10,361.7	32.7	0.0	80.0	122.7
Aviation Finance	5,146.6	4,900.2	0.0	0.8	0.7	1.5
Land Transport Finance	1,363.5	1,506.6	0.0	0.0	4.1	6.4
Investment Management	584.3	600.8	0.0	0.0	2.9	8.6
ITF Suisse	553.1	510.9	0.0	0.0	0.0	0.0
Other	991.1	1,262.2	66.6	74.1	526.3	648.4
Total	**17,641.9**	**19,142.4**	**99.3**	**74.9**	**613.8**	**787.6**

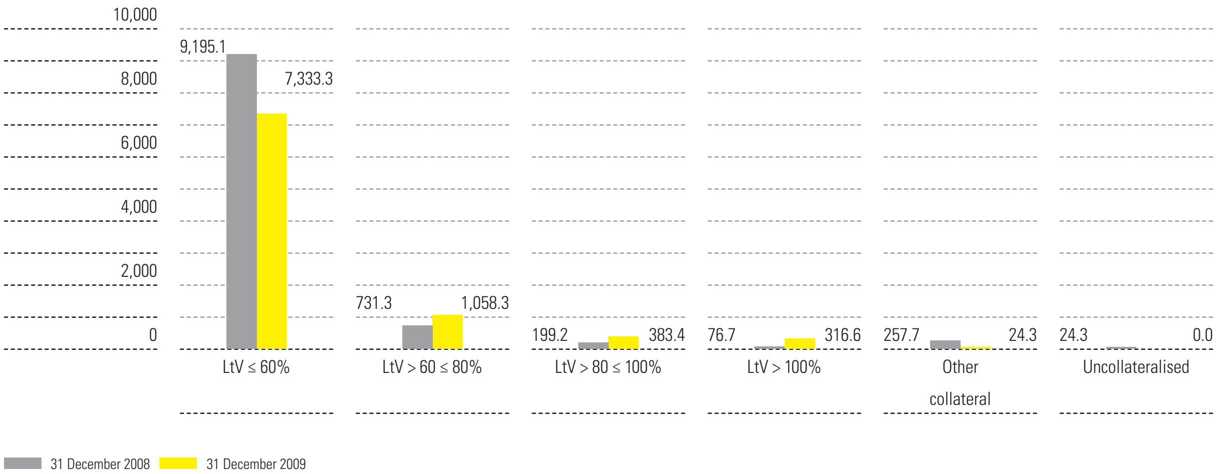
❷ Credit risk concentration and maximum credit risk exposure by geographical region (€ mn)

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Europe	8,215.1	8,507.4	66.6	74.9	547.1	676.2
Asia	3,897.0	4,813.4	0.0	0.0	15.2	35.2
North America	4,094.5	3,936.7	32.7	0.0	34.8	44.6
Offshore	340.6	617.7	0.0	0.0	10.2	8.7
Middle East/Africa	562.4	613.9	0.0	0.0	6.5	3.9
South America	436.0	568.0	0.0	0.0	0.0	18.5
Australia/New Zealand	96.4	85.3	0.0	0.0	0.1	0.5
Total	**17,641.9**	**19,142.4**	**99.3**	**74.9**	**613.8**	**787.6**

❸ Gross lending value by residual term (€ mn)

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
up to 1 year	2,564.7	2,954.3	32.5	0.8	48.9	9.2
> 1 year ≤ 5 years	5,684.3	5,236.5	34.1	64.1	262.3	169.6
> 5 years	9,393.0	10,951.6	32.7	10.0	302.6	608.8
Total	**17,641.9**	**19,142.4**	**99.3**	**74.9**	**613.8**	**787.6**

❶ Shipping Finance portfolio – LtV classes – lending volume (€ mn)



Nominal gross lending volume (80.2% of which is denominated in US dollars), was down 8.2%. Adjusted for the effect of the weaker US dollar exchange rate against the euro, the decline was 5.8%. The following section provides an overview of the structure and development of our loan portfolios, together with collateralisation details.

Our Shipping Finance portfolio, which is largely denominated in US dollars (86.8%), declined by 13.3% to €9.1 billion. The euro showed strength in 2009, appreciating 3.5% against the US dollar during the course of a volatile year. Adjusting for exchange rate fluctuations, the portfolio decreased by 10.6%.

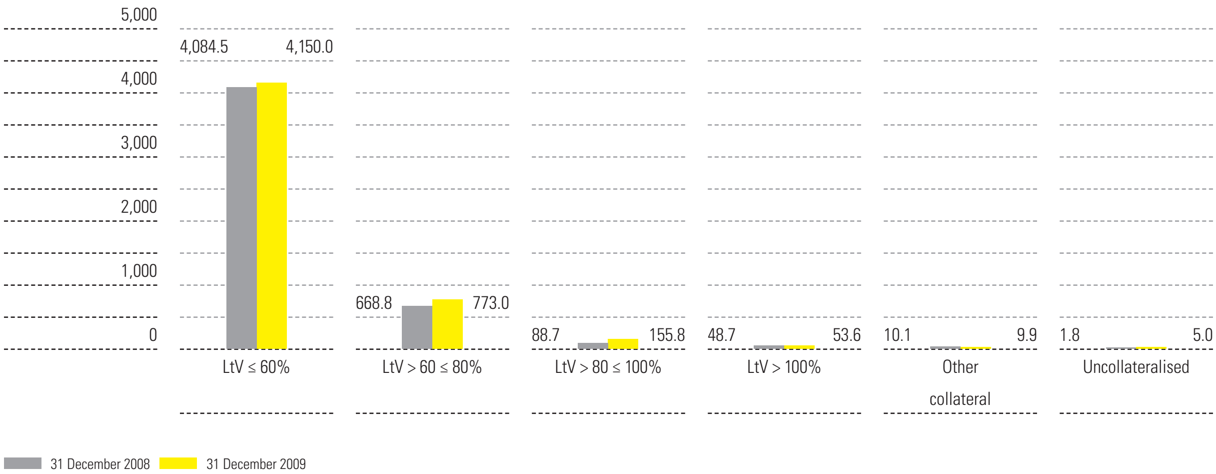
The following chart provides a breakdown of exposures secured by mortgages, by LtV range (where loan amounts have been allocated to LtV classes proportionally), as well as exposures covered by other forms of collateral, and unsecured exposures: ❶

99.7% of the portfolio is secured by mortgages on ships. Loans with a maximum LtV ratio of 60% account for a share of €7.3 billion.

As part of the impact of the crisis affecting financial markets and the world economy, charter rates declined significantly in certain shipping markets such as bulk and container carriers, and vessel values decreased as anticipated. The distribution of the individual LtV classes with regard to the overall lending volume developed as follows: Due to lower valuations of the vessels financed, the share of exposures with an LtV ratio of 60% or lower diminished significantly by 7.3 percentage points, whilst exposures with an LtV ratio over 60% up to 80% rose by 4.6 percentage points. The range over 80% up to 100% increased by 2.3 percentage points, and the share of exposures with an LtV ratio over 100% rose by 2.8 percentage points.

Our Aviation Finance portfolio stood at €5.2 billion at the end of 2009, up 6.1% on the previous year. As this portfolio is also predominantly denominated in US dollars (96.8%), the currency-adjusted growth rate was higher, at 8.7%.

❶ Aviation Finance portfolio – LtV classes – lending volume (€ mn)



The Aviation portfolio also reflects the strict enforcement of our lending policies characterised by conservative collateralisation structures. 99.7% of the lending volume is secured by mortgages on aircraft. As seen in the following chart, lending volume of €4.2 billion has an LtV ratio not exceeding 60%. ❶

The distribution of LtV ranges in terms of overall lending volume developed as follows: the share of exposures with an LtV ratio of 60% or lower fell by 2.7 percentage points, whilst exposures with an LtV ratio over 60% up to 80% rose by 1.4 percentage points. The range over 80% up to 100% increased by 1.2 percentage points. The share of exposures with an LtV ratio above 100% remained unchanged.

Our Land Transport Finance portfolio, 38.6% of which is denominated in US dollars, and 58.5% in euro, declined by 6.6% year-on-year, to €1.4 billion. Adjusting for exchange rate fluctuations, the portfolio decreased by 8.4%.

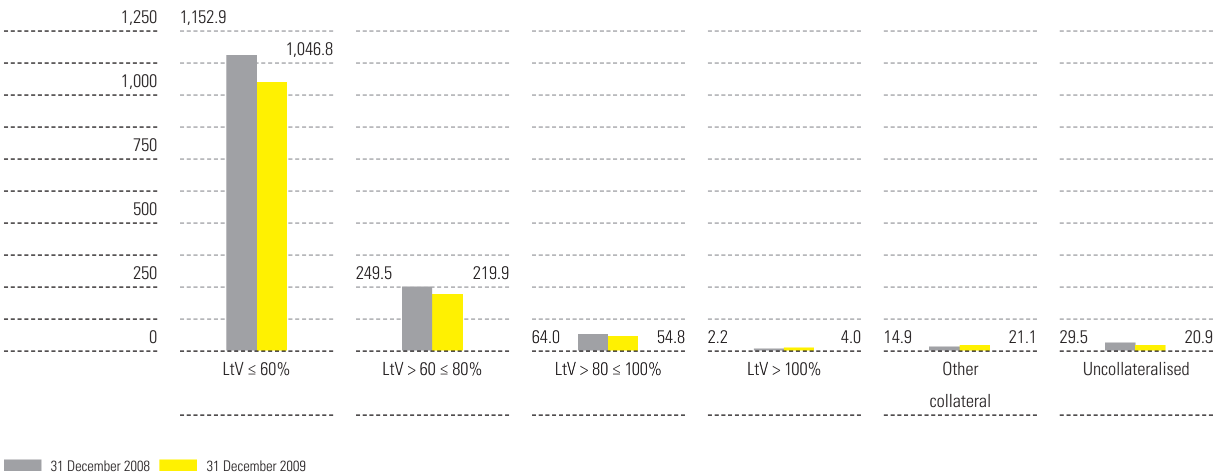
The collateralisation structure of our Land Transport Finance portfolio developed as follows: ❷

97.0% of the lending volume is secured by mortgages (virtually unchanged from 2008: 97.1%), with €1.1 billion (2008: €1.2 billion) having an LtV ratio not exceeding 60%.

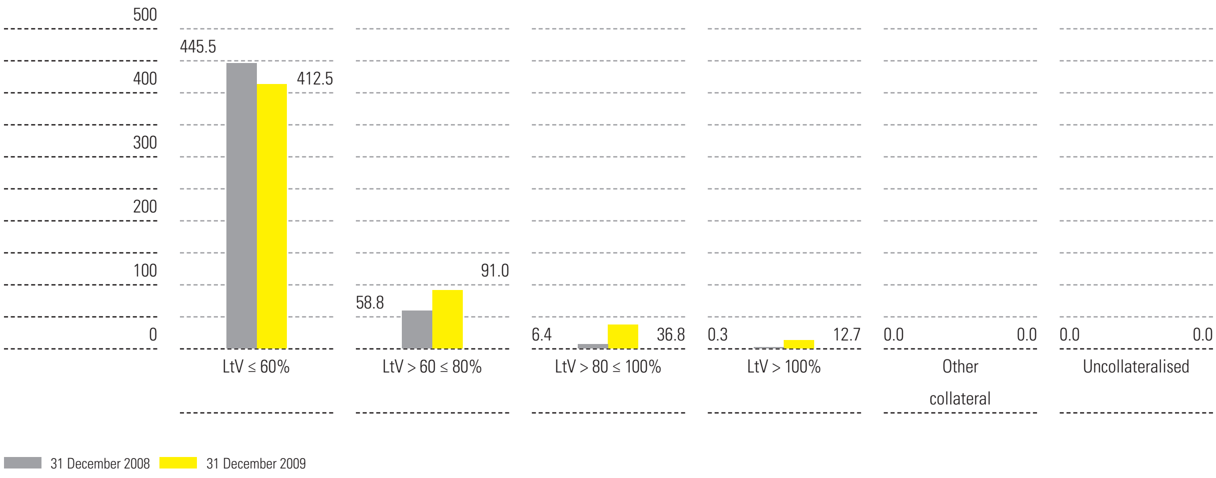
The percentage shares of the various LtV ranges in the overall lending volume remained virtually unchanged.

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 €553.1 million in 2009 (up €42.2 million year-on-year). The fact that this portfolio grew only moderately was due, in particular, to ITF Suisse's strict adherence to restrictive lending policies providing for conservative LtV ratios. Similarly, the conscious

❷ Land Transport Finance portfolio – LtV classes – lending volume (€ mn)



❶ ITF Suisse portfolio – LtV classes – lending volume (€ mn)



reduction in pre-delivery financing volumes – in line with the business strategy adopted – capped potential new business volumes. The restrictive business approach chosen is also clearly reflected in the collateralisation structure and LtV distribution of ITF Suisse's portfolio: ❶

Lower charter rates in certain shipping markets such as bulk and container carriers, and the resulting decline in vessel values led to a reduction in the share of portfolio exposures with an LtV ratio below 60%, and to an increase in the share of higher LtV classes.

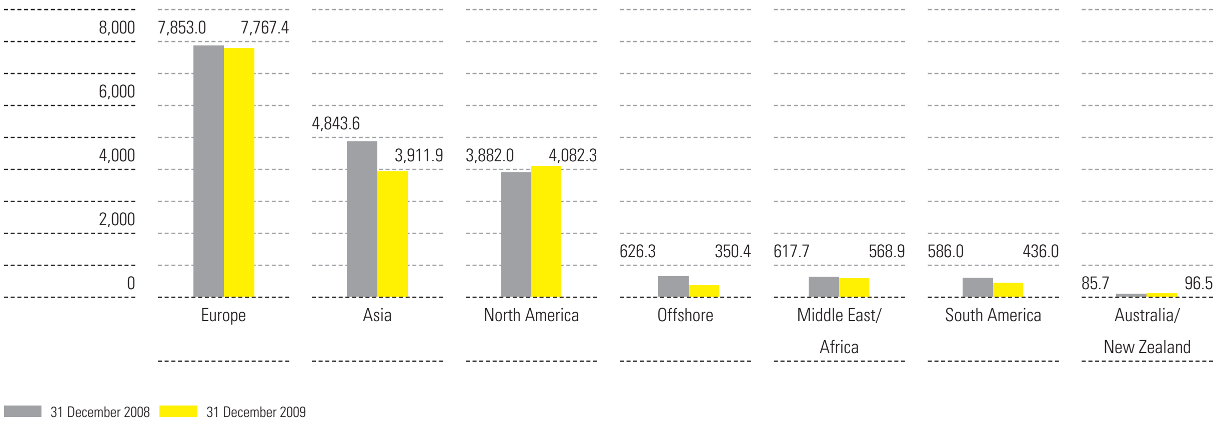
The distribution of LtV ranges in terms of overall lending volume developed as follows: the share of exposures with an LtV ratio of 60% or lower fell by 12.6 percentage points, whilst exposures with an LtV ratio over 60% up to 80% rose by 5.0 percentage points. The range over 80% up to 100% increased by 5.4 percentage points, and the share of exposures with an LtV ratio over 100% rose by 2.2 percentage points.

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 or political risk insurance cover).

The breakdown of country risks in DVB's portfolio was largely unchanged compared to 2008. DVB's Transport Finance exposure continues to be concentrated in Europe, North America and Asia. ❷ 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.

❷ Country risks in the portfolio – lending volume (€ mn)



Continued reduction of credit portfolios that are no longer in line with the 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 6.2% during the financial year under review, to €401.7 million.

Collateral for all of our infrastructure finance projects includes an assignment of operating concessions. Allowance for credit losses for this portfolio was reduced by €2.5 million in reversals in 2009, to €4.9 million by the year-end.

Lending exposures bundled in the so-called D-Marketing unit, which also no longer meet DVB's strategic requirements, were reduced by a further 11.8%, from €45.9 million to €40.5 million at the end of 2009. Total allowance for credit losses on this portfolio amounted to €13.0 million at the end of 2009. 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 watchlist procedures ensure that these loans are identified at an early stage, and that such exposure is included in a watchlist for intensified handling. During regular meetings of the Watchlist Committees, chaired by the member of the Board of Managing Directors responsible for risk management, decisions are taken regarding risk mitigation strategies and measures, as well as concerning any write-downs required. We expanded our early warning system by another level to incorporate stress testing in 2009.

Previously, stress tests to assess the Bank's sufficient capitalisation and risk-bearing capacity had been conducted at overall portfolio level. The relevant stress scenarios were extended in 2009 to include 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 an aggregate nominal value of €199.1 million at the end of 2009 (2008: €7.3 million). This equates to an NPL ratio of 1.1% (2008: 0.04%) in relation to total lending volume. The volume of NPLs is offset by collateral with a market value of €167.4 million (2008: €3.7 million), and covered by adequate value adjustments.

The collateralisation details disclosed below are based on market values, with an applied haircut of 40%.

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

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

	Total portfolio		Non-impaired, non-overdue portfolio	
	2009	**2008**	**2009**	**2008**
Shipping Finance	9,115.9	10,484.4	8,489.7	9,951.8
Aviation Finance	5,147.3	4,902.5	4,891.8	4,589.3
Land Transport Finance	1,367.6	1,513.0	1,367.6	1,513.0
Investment Management	587.2	609.4	560.2	609.4
ITF Suisse	553.1	510.9	553.1	510.9
Other	1,584.0	1,984.7	1,556.6	1,955.5
Total	**18,355.1**	**20,004.9**	**17,419.0**	**19,129.9**

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

	Total portfolio		Non-impaired, non-overdue portfolio	
	2009	**2008**	**2009**	**2008**
Europe	8,828.7	9,258.5	8,308.5	8,686.5
Asia	3,912.1	4,848.6	3,720.0	4,735.8
North America	4,162.0	3,981.3	3,979.3	3,889.5
Offshore	350.8	626.4	350.8	579.5
Middle East/Africa	568.9	617.9	530.5	571.5
South America	436.0	586.5	433.5	581.4
Australia/New Zealand	96.5	85.7	96.5	85.7
Total	**18,355.1**	**20,004.9**	**17,419.0**	**19,129.9**

Lending volume that is neither impaired nor past due continues to account for the lion's share of the portfolio, at 94.9% (2008: 95.6%).

The following table shows overdue exposures for which no individual impairment has been recognised, together with the value of related collateral, by business division: ❸

❸ Past due, non-impaired lending volume and value of related collateral by business division (€ mn)

	Up to 30 days past due		Over 30, up to 60 days past due		Over 60, up to 90 days past due		More than 90 days past due		Fair value of collateral (60% of market value) for overdue, non-impaired lending volume	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Shipping Finance	60.7	154.4	–	64.9	45.3	–	140.4	–	179.8	194.9
Aviation Finance	117.6	132.8	–	41.8	–	17.2	–	–	97.7	171.1
Land Transport Finance	–	–	–	–	–	–	–	–	–	–
Investment Management	–	–	–	–	–	–	–	–	–	–
ITF Suisse	–	–	–	–	–	–	–	–	–	–
Other	–	0.2	–	–	–	–	0.2	–	0.2	0.2
Total	**178.4**	**287.4**	**–**	**106.7**	**45.3**	**17.2**	**140.6**	**–**	**277.6**	**366.2**

❶ Past due, non-impaired lending volume and value of related collateral by geographical region (€ mn)

	Up to 30 days past due		Over 30, up to 60 days past due		Over 60, up to 90 days past due		More than 90 days past due		Fair value of collateral (60% of market value) for overdue, non-impaired lending volume	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Asia	9.0	112.8	–	–	26.1	–	19.4	–	35.1	101.9
Australia/New Zealand	–	–	–	–	–	–	–	–	–	–
Europe	156.4	166.3	–	59.8	–	17.2	25.2	–	136.5	213.1
Middle East/Africa	–	8.3	–	–	19.2	–	–	–	19.2	4.3
South America	–	–	–	–	–	–	–	–	–	–
North America	13.0	–	–	–	–	–	96.0	–	86.9	–
Offshore	–	–	–	46.9	–	–	–	–	–	46.9
Total	**178.4**	**287.4**	**–**	**106.7**	**45.3**	**17.2**	**140.6**	**–**	**277.6**	**366.2**

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

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 restructured) amounted to €493.6 million for the business year under review; this relates to Shipping Finance exposure at the DVB Group level (96.7%).

The following table indicates the lending volume for which individual impairments have been recognised, together with related collateral, by business divisions: ❷

❷ Impaired lending volume and related collateral by business divisions (€ mn)

	Amount before impairment		Amount of individually assessed impairment		Amount after impairment		Fair value of collateral (60% of market value) for impaired exposures	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Shipping Finance	379.8	313.4	71.6	38.5	308.2	274.9	235.9	253.1
Aviation Finance	137.8	121.4	39.1	45.2	98.8	76.2	81.0	50.6
Land Transport Finance	–	–	–	–	–	–	–	–
Investment Management	26.9	–	1.7	–	25.2	–	–	–
ITF Suisse	–	–	–	–	–	–	–	–
Other	27.2	29.0	15.2	16.6	12.0	12.4	10.0	5.6
Total	**571.8**	**463.8**	**127.7**	**100.3**	**444.1**	**363.5**	**326.9**	**309.3**

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

Taking into account the fair value of collateral (60% of market value), 73.6% (2008: 85.1%) of the impaired portfolio (based on the amount after impairment) is duly collateralised.

DVB held property and equipment acquired through restructuring measures with a carrying amount of €6.7 million on the reporting date (31 December 2008: €0.0 million). The Bank intends to sell or lease this collateral, taking into consideration the prevailing market conditions and leveraging the skills of its in-house asset management teams.

❶ Impaired lending volume and related collateral by geographical region (€ mn)

	Amount before impairment		Amount of individually assessed impairment		Amount after impairment		Fair value of collateral (60% of market value) for impaired exposures	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Asia	137.7	–	21.1	–	116.5	–	70.7	–
Australia/New Zealand	–	–	–	–	–	–	–	–
Europe	338.6	328.8	77.6	57.7	261.0	271.1	226.6	255.1
Middle East/Africa	19.2	38.1	2.8	5.8	16.5	32.3	9.7	20.2
South America	2.4	5.1	2.4	5.1	0.0	0.0	2.4	–
North America	73.8	91.8	23.7	31.7	50.1	60.1	17.5	34.0
Offshore	–	–	–	–	–	–	–	–
Total	**571.8**	**463.8**	**127.7**	**100.3**	**444.1**	**363.5**	**326.9**	**309.3**

The following tables illustrate the development of allowance for credit losses for the years 2009 and 2008, by business divisions. ❶ ❷

The "Other" item predominantly reflects aggregate allowance for credit losses in the D-Marketing and Transport Infrastructure portfolios, which are no longer in line with the Bank's strategy (for more details, please refer to page 116 of this report).

❶ Development of allowance for credit losses 2009 by business divisions (€ mn)

	1 Jan 2009	Additions	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	0.0	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	0.0	0.0	0.0	0.0	0.0	–	–
Investment Management	0.0	1.6	0.0	0.0	0.1	1.7	15.0	–
ITF Suisse	0.0	0.0	0.0	0.0	0.0	0.0	–	–
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	0.0	0.4	0.1	14.9		
Aviation Finance	4.3	10.8	0.0	4.3	0.0	10.8		
Land Transport Finance	0.5	0.9	0.0	0.5	0.0	0.9		
ITF Suisse	0.0	0.8	0.0	0.0	0.0	0.8		
Other	2.2	1.6	0.0	0.4	0.0	3.5		
Total portfolio impairments	**7.4**	**28.9**	**0.0**	**5.5**	**0.1**	**30.8**		
Total impairments	**107.7**	**115.7**	**3.7**	**58.3**	**– 2.9**	**158.5**		

❷ Development of allowance for credit losses 2008 by business divisions (€ mn)

	1 Jan 2008	Additions	Utilisation	Reversal	Changes resulting from exchange rate fluctuations and other adjustments	Net amount as at 31 Dec 2008	Direct write-offs	Recoveries on loans and advances previously written off
Shipping Finance	19.8	31.9	4.2	8.0	– 0.9	38.5	0.1	–
Aviation Finance	48.2	10.7	2.1	12.5	0.9	45.2	0.5	0.2
Land Transport Finance	3.5	0.0	0.0	3.5	0.0	0.0	–	–
Investment Management	0.0	0.0	0.0	0.0	0.0	0.0	–	–
ITF Suisse	0.0	0.0	0.0	0.0	0.0	0.0	–	–
Other	33.8	1.2	15.5	3.2	0.3	16.5	0.2	0.7
Total individual impairments	**105.3**	**43.8**	**21.8**	**27.2**	**0.3**	**100.3**	**0.8**	**0.9**
Shipping Finance	0.0	0.4	0.0	0.0	0.0	0.4		
Aviation Finance	3.7	0.6	0.0	0.0	0.0	4.3		
Land Transport Finance	0.2	0.3	0.0	0.0	0.0	0.5		
ITF Suisse	0.0	0.0	0.0	0.0	0.0	0.0		
Other	4.1	0.1	0.0	2.0	0.0	2.2		
Total portfolio impairments	**8.0**	**1.4**	**0.0**	**2.0**	**0.0**	**7.4**		
Total impairments	**113.3**	**45.2**	**21.8**	**29.2**	**0.3**	**107.7**		

The following tables illustrate the development of allowance for credit losses, by geographical region: ❶ ❷

❶ Development of allowance for credit losses 2009 by geographical region (€ mn)

	1 Jan 2009	Additions	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
Asia	0.0	20.8	0.0	0.0	0.3	21.1	6.6	–
Australia/New Zealand	0.0	0.0	0.0	0.0	0.0	0.0	–	–
Europe	57.8	55.9	3.7	31.0	0.5	79.4	8.9	1.8
Middle East/Africa	5.7	0.9	0.0	4.2	0.3	2.8	–	–
South America	5.1	0.0	0.0	2.6	– 0.1	2.4	–	–
North America	31.7	9.2	0.0	14.9	– 4.1	22.0	0.2	–
Offshore	0.0	0.0	0.0	0.0	0.0	0.0	–	–
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	0.0	5.5	0.1	30.8		
Total impairments	**107.7**	**115.7**	**3.7**	**58.3**	**– 2.9**	**158.5**		

❷ Development of allowance for credit losses 2008 by geographical region (€ mn)

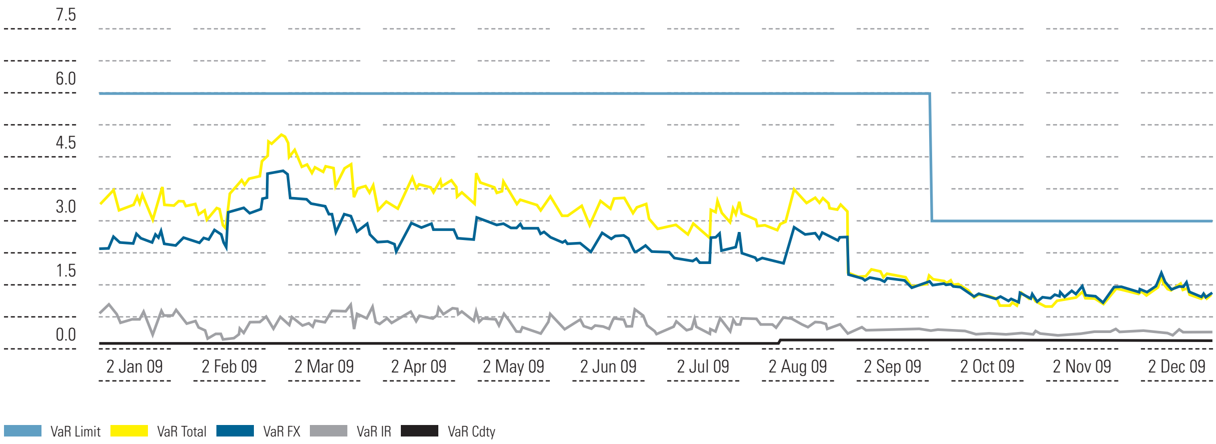
	1 Jan 2008	Additions	Utilisation	Reversal	Changes resulting from exchange rate fluctuations and other adjustments	**Net amount as at 31 Dec 2008**	Direct write-offs	Recoveries on loans and advances previously written off
Asia	0.0	0.0	0.0	0.0	0.0	0.0	–	–
Australia/New Zealand	0.0	0.0	0.0	0.0	0.0	0.0	–	–
Europe	68.4	31.1	21.8	19.3	– 0.6	57.8	0.8	0.9
Middle East/Africa	0.0	5.7	0.0	0.0	0.0	5.7	–	–
South America	4.9	0.0	0.0	0.0	0.3	5.1	–	–
North America	32.0	7.0	0.0	7.9	0.6	31.7	–	–
Offshore	0.0	0.0	0.0	0.0	0.0	0.0	–	–
Total individual impairments	**105.3**	**43.8**	**21.8**	**27.2**	**0.3**	**100.3**	**0.8**	**0.9**
Total portfolio impairments	8.0	1.4	0.0	2.0	0.0	7.4		
Total impairments	**113.3**	**45.2**	**21.8**	**29.2**	**0.3**	**107.7**		

Provisions for losses on loans and advances did not have any material effect upon DVB during the past two years, both by business division and geographical region. The opening balance of provisions for losses on loans and advances was €0.3 million as at 1 January 2009 (1 Jan 2008: €0.4 million). Given additions of €0.7 million during the year (2008: additions of €0.7 million, utilisation of €0.7 million, and reversals of €0.1 million), the end balance as at 31 December 2009 was €1.0 million. All provisions for losses on loans and advances during 2008 and 2009 referred to exposures in Europe. The breakdown by credit portfolio was as follows: of the €0.3 million opening balance, €0.1 million related to Shipping Finance and €0.2 million to other credit portfolios. Additions amounted to €0.5 million in Shipping Finance and €0.2 million in Aviation Finance (2008: €0.7 million each in additions and utilisation for Aviation Finance; reversal of €0.1 million in Shipping Finance).

Operational risk (OpRisk)

Monitoring and managing operational risks largely comprises the development of a methodology for identifying, quantifying and managing risk, and maintaining an adequate risk reporting

❶ **Value at risk – overnight (€ mn)**



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 and will thus not be implementing the Advanced Approach.

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 management tools we have implemented to manage and monitor operational risk are self-assessments carried out at least once a year in respect of each location, on a divisional or departmental level, plus the loss database – where losses incurred due to operational risks are recorded. We also apply risk indicators that conform to the requirements of the standard approach within the scope of DZ BANK Group procedures. Quarterly reports 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 six (2008: eleven) loss cases with aggregate damages of €14,000 (2008: €36,000) during the year under review.

Market price risk

Group Treasury is responsible for managing market price risks in both the banking and the trading books and reports to the Asset Liability Committee (ALCO). The ALCO meets monthly, to review the market risk exposure for the entire Bank, and to reach fundamental agreement on risk orientation. We use a consistent Value at Risk (VaR) method for calculating the market risk in our banking and trading books. Using this VaR method, the maximum loss that may arise due to market price risks during a holding period of one day is quantified at a confidence level of 99% on the basis of a historical simulation. The functionality of the VaR method is assured by means of a back-testing procedure. During 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

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.

The strong value-at-risk increase during the first quarter of 2009 was due to forward foreign exchange contracts entered into in order to hedge the currency risk exposure from expected US dollar-denominated profits during the first months of 2010. The same effect was evident during subsequent months – up to and including August 2009 – as a result of additional hedges concluded for 2010. These spikes were followed in each case by a continuous reduction, reflecting income accruing during the course of the year.

We rolled out a new market risk calculation tool during the second half of the year that was used for reporting purposes from early September 2009 onwards. Thanks to new, improved calculation methodology incorporated in this tool, value at risk could be reduced henceforth. The subsequent, further decline was due primarily to lower volatility levels (compared with the previous year), and a slightly falling net present value of the US dollar exposure.

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

The 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 risk limits for 2010.

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 2009 financial year, strategic risks were measured using a moving average of operating income volatility, using a 99.95% confidence interval.

Liquidity risk

Our liquidity risks are centrally analysed and managed on the basis of the Group Treasury guideline 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.

This latest software generation provides us with a state-of-the-art tool that fully complies with all requirements for a modern liquidity risk measurement environment. The application's functionality fulfils both the requirements under MaRisk and the Bank's internal needs for managing, analysing and reporting on liquidity risks.

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.

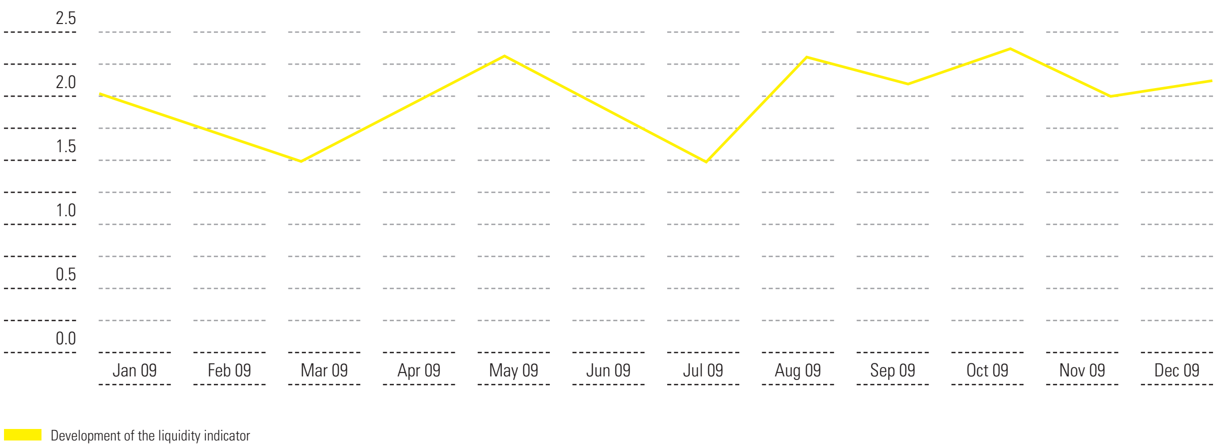
The first half of 2009 saw a particularly sharp downturn on international capital markets: the massive loss of confidence amongst banks after the Lehman bankruptcy in September 2008 made it virtually impossible to refinance internationally. Against this background, DVB's integration into the German Cooperative Financial Services Network again proved to be of great importance during 2009; the liquid German cooperative banking sector enabled us to cover our funding requirements with these partners, at prevailing market terms, at all times. In this way, we maintained a sufficient funding basis throughout the crisis.

The Liquidity Principle according to the German Banking Act was consistently adhered to during 2009. The average liquidity indicator rating during the year stood at 2.00 (2008: 2.03) – once again, double the regulatory minimum ratio of 1.0. ❶

Equity investment risk

Equity investment risks are negligible for DVB, since material subsidiaries are fully integrated in the risk management process.

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 management services – exclusively to our clients who are active in the international transport markets. Notwithstanding its relatively high cyclicality, the transport sector benefits from a long-term growth trend.

Thanks to its profile as a renowned specialist for providing financing and advisory services to the international transport industry, there are manifold opportunities available to DVB, especially in this challenging market environment. We are determined to exploit these opportunities.

- DVB targeted and implemented a balanced diversification of its credit portfolio – by types of transport asset, borrowers, and regions – at an early stage. As a result, we do not see any need for an excessive cut-back of certain portfolio parts, nor are we required to sell at a loss. Leveraging our broadly diversified and adequately collateralised portfolio, we are generally in a position to exploit opportunities for growth.

- Against the backdrop 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 current difficulties. This will further intensify our client relationships, bolstering long-term trust, and will also attract new clients. In the prevailing market environment, this provides DVB with a substantial competitive edge.

- Due to a lack of alternative financing offers 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 our credit portfolios.

- DVB has the opportunity to further expand the advisory and other services offers, and to increasingly offer them to clients, banks, and investors. This is especially true with regard to Aviation Asset Management and Shipping Asset Management. This offers the chance of growing 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 an internal rating model that meets the Advanced Approach requirements as defined by Basel II. Other banks apply simpler and less innovative methods. This provides DVB with a clear advantage over various competitors, as it enables the Bank to grow its financing volume on a selective and risk-aware basis, winning market share without having to increase capital.

Applying the structure of a SWOT analysis, DVB Group's key strengths, weaknesses, opportunities, and threats are summarised as follows:

SWOT analysis

Strengths	Weaknesses
- Unique business model with a clear focus	- Relatively high sector exposure
- Experienced staff	- Global presence requires high staff resources
- Extensive market and asset expertise	- High staff costs due to high levels of employee qualification in terms of academic expertise and experience
- Flat hierarchies, high degree of flexibility, fast decision-making	
- Customised products and services	- No material client deposits
- Non-cyclical business approach, ensuring the Bank remains a reliable partner even during times of crisis	- Dependence on the money and capital markets (and in particular on the German Cooperative Financial Services Network)
- Global presence in all key transport markets	- Exposure to the euro/US dollar exchange rate, with an impact on growth and results
- 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	

Opportunities	Threats
- Growth potential thanks to diminishing competition	- Distortions on the money and capital markets, in the broadest sense
- Realisation of margins in line with risks taken	- Decline in the value of vessels and aircraft, affecting various transport market segments
- Expansion of anti-cyclical Investment Management activities	
- Building new client relationships	- Continuation of the crisis affecting the global financial markets and economy, a drawn-out global recession, deflationary trends, and sovereign defaults
- Funding available through the German Cooperative Financial Services Network	
- Expanding the advisory and other services offered to clients, bank and investors	- Unanticipated rise of the US dollar against the euro
	- Further government support for DVB's direct competitors
- Boosting our reputation as a reliable partner to the international transport industry – especially during times of crisis	

Summary and outlook

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 2009, 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. We are confident that this compliance will also prevail throughout the 2010 financial year, even though the crisis affecting global financial markets and the world economy is likely to increase average utilisation of risk capital.

DVB's tried-and-tested business model has proven its value during the current crisis, as it has specifically designed to withstand cyclical downturn phases. In particular, our close client relationships and our deep understanding of the transport assets we finance have proven themselves to be key factors. We therefore presume that our business model for the 2010–2011 forecast period will prove to be stable and resilient.

Outlook for results of operations

DVB aims to use the challenging macro-economic 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. In contrast, many competitors have become more reticent, or have withdrawn from the transport finance business entirely. Looking at new business in 2010 and 2011, we continue to anticipate attractive interest margins that reflect increased refinancing costs and will also provide an appropriate risk/return profile.

Given the prevailing difficulties on the maritime shipping markets, the Shipping Finance portfolio in particular may be subject to further burdens in 2010 and 2011. In DVB's view, it may be some time before supply and demand reaches equilibrium again on the transport markets. Thanks to its risk management capabilities, together with its proprietary research and expertise in executing transactions, DVB expects to be affected by market distortions to a lesser extent than other banks.

The global financial markets crisis had considerable effects on DVB's results, due to a significant rise in funding costs. Money market distortions in particular burdened DVB's results of operations. Various measures succeeded in alleviating cost burdens to a large extent by the end of 2009, and these are not expected to have any significant influence on earnings in 2010. At the same time, we plan to exercise continued cost discipline and thus intend to maintain general administrative expenses at the previous year's level.

Outlook on the financial position

DVB's integration in the German Cooperative Financial Services Network will remain a key factor during 2010 and 2011. The liquid German Cooperative Financial Services Network will allow us to cover our funding requirements at prevailing market terms with these partners. We therefore expect to maintain a sufficient funding basis throughout the forecast period.

§

The report on expected developments contains forward-looking statements regarding the future development of the DVB Group in the years 2010 and 2011. 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 2009, directly followed by a detailed forecast of market and portfolio developments in the years 2010 and 2011.

The following parts of the texts therefore constitute an integral part of the report on expected developments:

- Shipping Finance outlooks (pages 47 to 49);
- Aviation Finance outlooks (pages 62 to 63);
- Land Transport Finance outlooks (pages 71 to 73);
- Syndications outlook (page 77);
- Investment Management outlooks (pages 81 and 83); as well as
- the outlook of our subsidiary ITF Suisse (page 85).

As usual, any assessments and forecasts contained herein will always be subject to the risk of erroneous perception or judgement errors, and may thus turn out to be incorrect. By their very nature, any deliberations regarding developments or events in the future are based on conjecture rather than precise predictions. Actual future developments may therefore diverge from expectations, not least as a result of fluctuations of 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 has defined a target return on equity of 12–15% for 2010 and 2011. In summary, we believe that transport and financial markets developments are subject to a plethora of unpredictable factors that are beyond the control of market participants. Therefore, DVB is not at present in a position to make any responsible or concrete forecasts regarding its profitability or other key financial data beyond this trend indication.

Report on branches and subsidiaries

The chart below illustrates the current legal structure of the DVB Group, the registered office of the parent company DVB Bank SE as well as material, fully consolidated subsidiaries (yellow shading) and branches and representative offices (grey shading). ❶

During 2009, DVB Service Company (HK) Limited, Hong Kong, was wound up. The economic activity of DVB Invest (Suisse) AG, Zurich, Switzerland, is currently suspended.

The stake held by DVB Holding GmbH, Frankfurt/Main, in TES Holdings Ltd, Cardiff, UK, was increased from 84.2% to 92.1%, effective 18 November 2009.

❶ **Branches and subsidiaries of DVB Bank SE, registered office in Frankfurt/Main, Germany**

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, Japan	DVB Bank SE, Shipping Dep., 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	

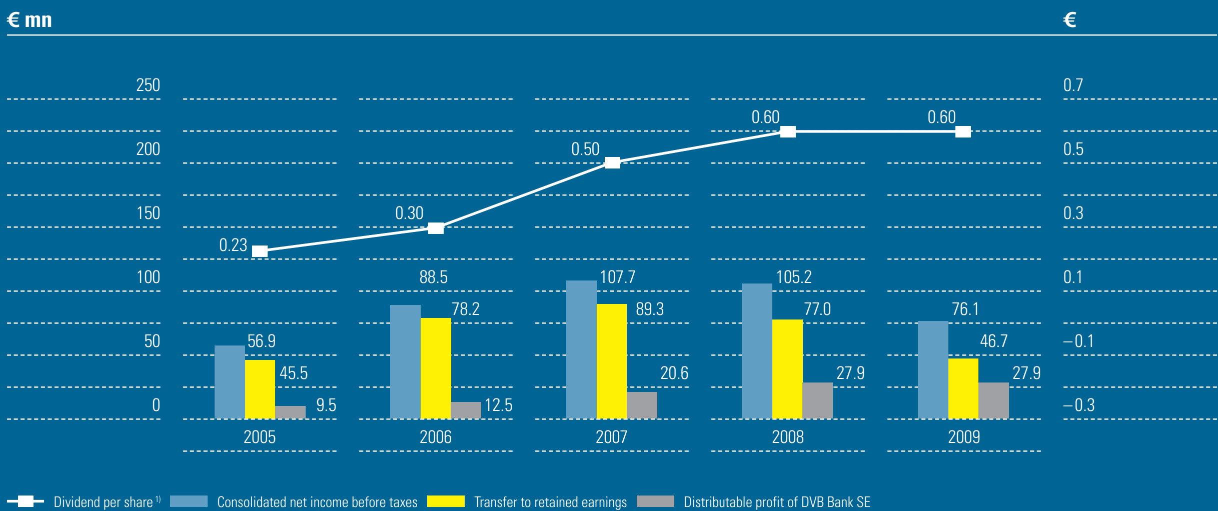
Report of the Board of Managing Directors on relations with affiliated companies

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 2009, DVB Bank SE has been included in the consolidated financial statements of DZ BANK Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main.

In accordance with section 312 (3) of the AktG, the Board of Managing Directors has separately disclosed to the Supervisory Board the extent of the relationship with affiliated companies: "With respect to transactions and actions identified in the report on business relationships with affiliated enterprises, adequate consideration was received by our company in respect of any transaction, and the company did not suffer any disadvantage as a result of actions taken or omitted, in line with circumstances prevailing at the time such transactions were entered into, of which we were aware at the time."

Consolidated financial statements

Appropriation of profits 2005 – 2009



1) The figures for the years 2005 – 2007 were adjusted due to the 10-for-1 share split on 15 August 2008.

Income statement

€ mn	Note	1 Jan 2009 – 31 Dec 2009	1 Jan 2008 – 31 Dec 2008	%
Net interest income	(16)	194.3	193.2	0.6
Interest income		719.4	872.9	– 17.6
Interest expenses		525.1	679.7	– 22.7
Allowance for credit losses	(17)	– 72.2	– 16.5	–
Net interest income after allowance for credit losses		122.1	176.7	– 30.9
Net fee and commission income	(18)	97.8	105.5	– 7.3
Fee and commission income		103.3	109.5	– 5.7
Fee and commission expenses		5.5	4.0	37.5
Net income from financial instruments in accordance with IAS 39	(19)	17.9	– 54.1	–
Net trading income	(19.1)	15.9	0.1	–
Hedge result	(19.2)	3.5	– 13.7	–
Result from the application of the fair value option	(19.3)	– 1.0	0.8	–
Result from derivatives entered into without intention to trade	(19.4)	7.9	– 7.2	–
Net income from investment securities	(19.5)	– 8.4	– 34.1	– 75.4
Result from investments in companies accounted for using the equity method	(20)	– 2.0	0.0	–
General administrative expenses	(21)	156.5	156.5	0.0
Net other operating income/expenses	(22)	7.3	28.6	– 74.5
Consolidated net income before taxes		**86.6**	**100.2**	**– 13.6**
Taxes on income	(23)	– 10.5	5.0	–
Consolidated net income		**76.1**	**105.2**	**– 27.7**
Consolidated net income attributable to non-controlling interests		1.5	0.3	–
Consolidated net income attributable to shareholders of DVB Bank SE		74.6	104.9	– 28.9

Appropriation of profits

€ mn	1 Jan 2009 – 31 Dec 2009	1 Jan 2008 – 31 Dec 2008	%
Consolidated net income (after taxes)	76.1	105.2	– 27.7
Profit carried forward	0.0	0.7	–
Consolidated net income attributable to non-controlling interests	– 1.5	– 0.3	–
Transfer to retained earnings	– 46.7	– 77.7	– 39.9
Distributable profit	**27.9**	**27.9**	**0.0**

Statement of comprehensive income

€ mn	Note	1 Jan 2009 – 31 Dec 2009	1 Jan 2008 – 31 Dec 2008	%
Consolidated net income		**76.1**	**105.2**	**– 27.7**
Other comprehensive income:		15.2	– 37.8	–
Revaluation of AfS financial instruments		5.5	– 11.9	–
Changes in fair value		– 2.4	– 47.7	– 95.0
Reclassifications to the income statement		7.9	35.8	– 77.9
Cash flow hedges		16.2	– 16.7	–
Changes in fair value		0.4	– 18.8	–
Reclassifications to the income statement		15.8	2.1	–
Currency translation		– 1.2	– 4.8	– 75.0
Changes from currency translation		– 1.2	0.0	–
Reclassifications to the income statement		0.0	– 4.8	–
Actuarial gains and losses	(43)	– 0.8	1.9	–
Deferred taxes on other comprehensive income	(23)	– 4.5	– 6.3	– 28.6
Total comprehensive income		**91.3**	**67.4**	**35.5**
Total comprehensive income attributable to non-controlling interests		1.5	0.3	–
Total comprehensive income attributable to shareholders of DVB Bank SE		89.8	67.1	33.8

Earnings per share

	2009	2008	%
Consolidated net income attributable to shareholders of DVB Bank SE (€ mn)	74.6	104.9	– 28.9
Average number of ordinary shares issued	46,226,894	42,938,577	7.7
Basic earnings per share (€)	**1.61**	**2.44**	**– 34.0**
Diluted earnings per share (€)	**1.61**	**2.44**	**– 34.0**

Statement of financial position as at 31 December 2009

Assets (€ mn)	Note	31 Dec 2009	31 Dec 2008	%
Cash and balances with the central bank	(25)	252.4	642.9	– 60.7
Loans and advances to banks	(26)	401.2	321.7	24.7
Loans and advances to customers	(27)	14,670.4	14,321.7	2.4
Allowance for credit losses	(28)	– 158.5	– 107.7	47.2
Positive fair values of derivative hedging instruments	(29)	356.6	267.2	33.5
Financial assets held for trading	(30)	282.4	531.3	– 46.8
Investment securities	(31)	134.6	130.2	3.4
Investments in companies accounted for using the equity method	(32)	18.7	30.3	– 38.3
Intangible assets	(33)	111.8	104.6	6.9
Property and equipment	(34)	839.7	984.9	– 14.7
Income tax assets	(36)	87.3	79.1	10.4
Other assets	(37)	272.0	70.6	–
Total		**17,268.6**	**17,376.8**	**– 0.6**

Equity and liabilities (€ mn)	Note	31 Dec 2009	31 Dec 2008	%
Deposits from other banks	(38)	7,076.8	7,144.9	– 1.0
Deposits from customers	(39)	4,412.7	5,011.4	– 11.9
Securitised liabilities	(40)	3,477.1	2,722.6	27.7
Negative fair values of derivative hedging instruments	(41)	162.3	308.0	– 47.3
Financial liabilities held for trading	(42)	206.7	287.5	– 28.1
Provisions	(43)	52.1	54.8	– 4.9
Income tax liabilities	(44)	90.6	83.0	9.2
Other liabilities	(45)	125.8	93.5	34.5
Subordinated liabilities	(46)	606.0	672.2	– 9.8
Equity	(47)	1,058.5	998.9	6.0
Issued share capital	(47.1)	118.1	118.3	– 0.2
Capital reserve	(47.2)	333.2	335.2	– 0.6
Retained earnings	(47.4)	583.8	537.7	8.6
thereof: fund for general banking risks		82.4	82.4	0.0
Revaluation reserve	(47.5)	– 0.1	– 5.0	– 98.0
Hedging reserve – cash flow hedges	(47.6)	– 3.0	– 15.1	– 80.1
Currency translation reserve	(47.7)	– 2.7	– 1.5	80.0
Distributable profit		27.9	27.9	0.0
Non-controlling interests	(47.8)	1.3	1.4	– 7.1
Total		**17,268.6**	**17,376.8**	**– 0.6**

€ 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 2007	**99.7**	**195.8**	**456.7**	**7.2**	**9.0**	**3.3**	**20.6**	**792.3**	**0.9**	**793.2**
Consolidated net income attributable to shareholders of DVB Bank SE							104.9	104.9	0.3	105.2
Transfer to retained earnings			77.7				– 77.7	0.0		0.0
Other comprehensive income			3.3	– 12.2	– 24.1	– 4.8		– 37.8		– 37.8
Capital increase	17.0	130.5						147.5		147.5
Employee participation scheme	1.3	5.2						6.5		6.5
Dividend payment							– 19.9	– 19.9		– 19.9
Changes in treasury shares	0.3	3.7						4.0		4.0
Changes in consolidated group and other changes								0.0	0.2	0.2
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	0.0		0.0
Other comprehensive income			– 0.6	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								0.0	– 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 cash flow statement

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 investors as well as from other borrowings to finance the Bank's business operations.

€ mn	31 Dec 2009	31 Dec 2008
1. Consolidated net income before taxes	**86.6**	**100.2**
Non-cash items included in the profit for the period and reconciliation to cash flow from operating activities		
2. Depreciation, impairment and write-ups of loans and advances, property and equipment, and investment securities	102.8	80.1
3. Increase/decrease in provisions	4.4	– 29.0
4. Other non-cash expenses/income		
Hedge accounting	– 82.7	2.7
Other changes from the fair value measurement of financial instruments	380.2	– 1,073.1
5. Gains/losses on disposal of investment securities, and property and equipment	– 2.5	– 3.3
6. Other adjustments	– 291.3	– 238.0
7. Subtotal	**197.5**	**– 1,160.4**
Changes in assets and liabilities from operating activities		
8. Loans and advances		
to banks	– 79.9	1,237.2
to customers	– 319.7	– 4,145.8
9. Leased assets	81.7	– 320.6[1]
10. Other assets from operating activities	– 245.2	777.8
11. Deposits		
to banks	– 348.4	2,916.6
to customers	– 683.1	763.3
12. Securitised liabilities	754.5	– 209.2
13. Other liabilities from operating activities	33.3	8.6
14. Interest and dividends received	719.3	872.9
15. Interest paid	– 426.0	– 634.9
16. Income taxes paid	– 12.0	– 8.7
17. Cash flow from operating activities	**– 328.0**	**96.8**[1]
18. Cash proceeds from the disposal of investment securities	10.6	110.3
19. Cash proceeds from the disposal of property and equipment	29.3	0.0
20. Cash payments for additions to property and equipment	0.0	166.9[1]
21. Cash proceeds from the disposal of consolidated companies	0.0	2.6
22. Cash payments to acquire consolidated companies	0.0	– 22.7
23. Net change resulting from other investing activities	– 9.2	– 17.8
24. Cash flow from investing activities	**30.7**	**239.3**[1]
25. Cash proceeds from additions to equity (capital increases, sale of treasury shares, etc.)	– 2.3	158.0
26. Cash payments to owners and non-controlling shareholders (dividends)	– 27.9	– 19.9
27. Net change resulting from other financing activities	– 63.0	– 107.9
28. Cash flow from financing activities	**– 93.2**	**30.2**
29. Net change in cash and cash equivalents (total of items 17, 24 and 28)	– 390.5	366.3
30. Cash and cash equivalents at beginning of period	**642.9**	**276.6**
31. Cash and cash equivalents at end of period	**252.4**	**642.9**

1) Amount adjusted

Basis of accounting

For the business year 2009, 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 315 a (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 2009.

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 this business year deviates less than three months from the business year of DVB Bank SE and the associated effects of this deviation are immaterial, we elect not to prepare interim financial statements. Unless otherwise indicated, all amounts are stated in millions of euros (€ mn or € million). Figures are rounded pursuant to standard business principles. This may result in slight differences when aggregating figures and calculating percentages.

The consolidated financial statements were authorised for publication by the Board of Managing Directors upon approval by the Supervisory Board on 14 April 2010.

Notes to accounting policies applied

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

1. General accounting policies

1.1 Accounting standards applied for the first time in the reporting period

The consolidated financial statements of DVB take into account the following changes and revised versions of standards, the following new and amended interpretations as well as the following components of improvements to IFRS:

- IAS 1 – Presentation of Financial Statements (IAS 1R)
- Amendments to IFRS 1 and IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to IFRS 2 – Vesting Conditions and Cancellations
- Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets – Effective Date and Transition
- Amendments to IFRS 7 – Improving Disclosures about Financial Instruments
- IFRIC 12 – Service Concession Arrangements
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 – Transfers of Assets from Customers
- Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives
- Improvements to IFRS (2008) and
- Improvements to IFRS (2009): Changes in the Annex of IAS 18.

IAS 1R introduces a statement of comprehensive income as a component of the financial statements. In the financial statements of DVB, the profit or loss for the period is shown in a separate income statement, directly preceding the statement of comprehensive income. In addition, the revised standard requires the preparation of a statement of changes in equity as a separate component of the financial statements. The application of IAS 1R does not result in any changes with respect to the recognition and measurement of assets and liabilities as well as the determination of gains, losses, income and expenses. Accordingly, there will be no effect on our financial position, cash flows, and profit and loss. Within the scope of implementing IAS 1R, the presentation of the income statement was slightly modified, which did not have a material impact.

The amendments to IFRS 7 – Improving Disclosures about Financial Instruments result in an extension of the disclosure requirements related to fair value measurement of financial instruments as well as to liquidity risk. These changes mainly comprise

- the disclosure of reasons for changes in valuation techniques,
- the disclosure of the fair value hierarchy for financial instruments measured at fair value,
- the disclosure of major reclassifications between the individual fair value hierarchy levels,
- the preparation of a reconciliation for Level 3 financial instruments from the carrying amount as at the beginning of the reporting period to the carrying amount as at the end of the reporting period,

- the disclosure of measurement gains and losses from the measurement of Level 3 financial instruments in the portfolio as at the end of the reporting period which are recognised in the income statement; and
- the preparation of a maturity analysis, separately for derivative and non-derivative financial liabilities.

In accordance with the transitional provisions of the amendments to IFRS 7, disclosures of comparative figures calculated based on the amended provisions are not made.

The Improvements to IFRS (2008) are taken into account in the consolidated financial statements, except for the additional paragraphs 8A and 36A of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. The application of these paragraphs are dependent upon the application of the revised versions of IFRS 3 – Business Combinations (IFRS 3R) and IAS 27 – Consolidated and Separate Financial Statements (IAS 27R), which will be applied by DVB prospectively from business year 2010.

As a result of a change to IAS 7, cash flows in connection with the manufacture or the purchase of assets which are held to earn rentals and for subsequent sale, as well as cash flows from rentals and the subsequent sale of the assets, are allocated to the cash flow from operating activities. Therefore, proceeds from the sale and payments for the purchase of leased assets from operating leases reported under the items "Property and equipment" and "Investment property" in the statement of financial position have to be reclassified in the cash flow statement from cash flow from investing activities to cash flow from operating activities. As a result of the changes described, the cash flow from operating activities for the period from 1 January 2008 to 31 December 2008 decreased by €320.6 million, with a corresponding increase to the cash flow from investing activities.

The following table shows the changed figures in the cash flow statement for the period from 1 January 2008 to 31 December 2008: ❶

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

1.2 Amendments to IFRS applied early in previous business years

The revised version of IAS 23 – Borrowing Costs (IAS 23R) and the accounting standard IFRS 8 – Operating Segments are required to be applied for the first time for business years beginning on or after 1 January 2009.

IAS 23R has been applied early for DVB's consolidated financial statements since 1 January 2008, in accordance with the transitional provisions. DVB has voluntarily applied IFRS 8 since the business year 2007.

1.3 Amendments to IFRS not yet applied

As permitted, we elected against early application of the following new, revised and amended standards and interpretations which have been endorsed by the EU and which may be applied for business years beginning on or after 1 July 2009, in accordance with the transitional provisions:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1R)
- IFRS 3 – Business Combinations (IFRS 3R)
- IAS 27 – Consolidated and Separate Financial Statements (IAS 27R)
- Amendment to IAS 39 – Eligible Hedged Items
- IFRIC 17 – Distributions of Non-cash Assets from Customers to Owners
- Improvements to IFRSs (2008): paragraphs 8A and 36A added to IFRS 5.

❶ **Changed figures in the cash flow statement (€ mn)**

	2008 after adjustment[1]	Adjustment amount	2008 before adjustment
(...)			
Changes in assets and liabilities from operating activities			
Leased assets	– 320.6	– 320.6	0.0
(...)			
Cash flow from operating activities	**96.8**	**– 320.6**	**417.5**
Cash proceeds from/payments for the disposal of property and equipment	166.9	320.6	– 153.8
(...)			
Cash flow from investing activities	**239.3**	**320.6**	**-81.4**

1) Calculatory deviations are due to rounding differences.

The standards and interpretations listed above will be applied as from business year 2010.

IFRS 3R provides for an election with respect to the measurement of non-controlling interests in the case of business combinations. Under the previous version of IFRS 3, non-controlling interests could be recognised at the pro rata share in identifiable net assets. IFRS 3R additionally provides for an election to measure non-controlling interests at fair value, which election may be made at every single business combination. Measurement at fair value that leads to the recognition of goodwill on non-controlling interests and may, in aggregate, result in higher goodwill for future business combinations. In accordance with IAS 27R, partial sales of interests as well as increases of shareholdings in consolidated subsidiaries are regarded as equity transactions and recognised directly in equity. Gains or losses from partial sales of interests in consolidated subsidiaries as well as goodwill resulting from increases of shareholdings may not arise due to the application of IAS 27R.

The first-time application of the other revised and amended standards and of the new interpretations are not expected to result in material changes compared to previous consolidated financial statements of DVB.

In addition, in these consolidated financial statements we did not apply the amendment to IAS 32 – Classification of Rights Issues as promulgated by the IASB and adopted by the EU. The amendments to IAS 32 will be taken into account from the business year 2011, in accordance with the transitional provisions. We are currently analysing the effects on the consolidated financial statements of DVB, but do not expect any material effects.

1.4 Changes to the HGB applied for the first time for the business year 2009

The German Accounting Modernization Act (BilMoG) results in changes to the provisions set out in section 315 a 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.

The BilMoG changes the disclosures required by section 314 (1) no. 9 of the HGB in relation to the total fees charged by the auditor of the consolidated financial statements for the year under review. The changes do not have any effects on DVB's consolidated financial statements. The new terminology used in the text for the reportable service categories has been adopted for the consolidated financial statements of DVB.

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 de-consolidated on the date on which the Group loses control of the subsidiary.

Effective 30 November 2009, Container Investment Funds III LLC (CIF III), Marshall Islands, which operates in the container leasing business, was included in the consolidated financial statements for the first time as the criteria set out in SIC-12 were fulfilled due to an increase of the funding by €21.0 million. Equity instruments were not acquired. Initial consolidation included assets at a fair value of €179.7 million, liabilities at a fair value of €189.4 million and equity of €–9.7 million. This resulted in goodwill of €7.8 million. Gains in the amount of €6.9 million were recognised in the statement of comprehensive income between the date of initial consolidation and the reporting date. If initial consolidation had occurred at the beginning of the business year, additional interest income and fee and commission income in the amount of €26.1 million would have had to be reported, and consolidated net income would have increased by €1.7 million.

Pursuant to section 264 (3) of the HGB, DVB LogPay GmbH, Eschborn, which is included in the consolidated financial statements, and Euro Toll Service GmbH elect not to publish annual financial statements as at 31 December 2009 in accordance with section 325 HGB.

The full list of shareholdings, as required to be prepared pursuant to section 315 a in conjunction with section 313 (2) and (4) of the HGB, has been published on the website of DVB Bank SE (www.dvbbank.com) and in the Electronic German Federal Gazette (elektronischer Bundesanzeiger).

1.5.2 Consolidation methods

Consolidation is based on IFRS 3 in conjunction with IAS 27 by offsetting the Bank's share in net assets acquired (measured initially at fair value) and the cost of the business combination. Any excess in 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 impairment might have occurred. Under IFRS, goodwill may not be amortised over its expected useful life. 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 respectively, interests in joint ventures and investments in associates are generally included in the consolidated financial statements at the relevant share in equity (using the equity method).

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

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 are 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 sub-categories "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 avoid accounting mismatches resulting from interest rate risks, and to avoid hedge accounting. Changes in the fair value of "Financial assets designated as at fair value through profit or loss" occurring between two balance sheet dates are recognised in "Result from the application of the fair value option". Financial assets designated as at fair value through profit or loss are reported in the item of the statement of financial position to which they would have been allocated if the fair value option had not been applied.

The change in the fair value of assets designated as at fair value through profit or loss attributable to changes in credit risk is determined in accordance with the method described in IFRS 7.9(c)(i). For this purpose, changes on the basis of the full fair value are compared with the changes in value in the case of constant credit spreads. The difference corresponds to the change in the fair value attributable to the change in credit risk.

During the year under review (and in the previous year) the Bank did not enter into any derivatives to hedge credit risks resulting from financial assets designated as at fair value through profit or loss. The maximum credit risk exposure corresponds to the carrying amount.

1.7.2 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 abovementioned 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 de-recognised 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 sub-categories "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

The classes of financial instruments necessary to meet the disclosure requirements of IFRS 7 correspond to the relevant items of the statement of financial position.

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

1.7.9 Impairment, and reversals of impairment losses of financial instruments

If there were objective indications of 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: 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.

In order to determine the actual amount of the impairment of financial instruments of the category "Loans and receivables", the carrying amount as at the balance sheet date is compared with the present value of expected future cash flows. In accordance with IAS 39, the original effective interest rate of the corresponding asset has to be used as the discount rate. The original effective interest rate is the rate that exactly discounts originally estimated future cash payments or receipts over 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 impaired.

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 are objective indications of impairment in the case of a cumulative negative revaluation reserve. Such objective indications may exist when the decline in value exceeds 25% of amortised cost at any one point in time or permanently exceeds 15% within a period of six months. Equity instruments included in this category that are quoted on an active market or measured at fair value on the basis of valuation models are generally deemed impaired when the relevant instrument's fair value falls short of its cost by more than 20% as at the balance sheet date or the fair value is permanently below cost over a period of six months. In case of impairment, the negative revaluation reserve for the financial instrument concerned must be fully de-recognised from equity, and recognised in profit or loss.

If it is established during an impairment test that the reasons for an impairment previously recognised in profit or loss no longer exist, the relevant impairment loss is reversed. 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 are not permitted for equity instruments recognised in profit or loss.

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 when their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; when a separate instrument with the same terms would meet the definition of a derivative; and when the entire instrument is not measured at fair value through profit or loss. If the requirements for the separation of the embedded derivative are not met, the embedded derivative may not be separated from the host contract. At DVB, there are currently no embedded derivatives which are required to be separated.

1.9 Hedge accounting

Within the framework of DVB's risk management strategy, the Bank 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 fair 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 selling the hedged item, the cumulative results from re-measurement 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, fixed-income securities, fixed-rate liabilities from refinancing activities as well as foreign currency risks related to financial assets and liabilities. Hedging instruments used in this context are primarily interest rate swaps. Interest expenses and interest income from the 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 with 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 used in this context 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. Where recognition and measurement under IAS/IFRS requires the use of assumptions and estimates, these were made in accordance with the relevant standards.

The following critical assumptions and estimates, as well as uncertainties inherent in the accounting policies, are essential to 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 as well as of the expected useful life of the assets is based on management judgements, which were made using all available 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 of 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, discontinuation of services, current replacement costs and other changes in circumstances that indicate an impairment. The relevant recoverable amount and the fair value are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions.

1.10.2 Valuation allowances on loans and advances and provisions for losses on loans and advances (allowance for credit losses)

Uncertainties related to the evaluation of risks in the lending business result, in terms of amount and reason, from assumptions and estimates made by decision-makers. Assumptions and estimates made relate, among other things, to the current and future macroeconomic development as well as the financial performance of individual borrowers. Assumptions and estimates also relate to the historical and current development of the proceeds from the realisation of collateral, assumed realisation periods, as well as final credit default losses, taking into account the structure and quality of the Bank's loan portfolios.

1.10.3 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 of the particular situation is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. We record provisions for liabilities when a loss contingency is considered to exist, and when a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated amount of the provision. Significant estimates are also involved in the determination of provisions related to taxes and legal risks.

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

4. Financial assets and liabilities held for trading

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

If a quoted market price was available for derivative financial instruments listed in an active market, such market price was used as the basis for the determination of the fair value. For derivative financial instruments not quoted in an active market, 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 discounted cash flow method. Changes in the fair value of instruments included in this category are generally recognised directly in equity in the revaluation reserve. If the fair value of individual investment securities cannot be determined, they are measured at cost.

Investment securities of the category "Loans and receivables" – especially small quantities of bearer bonds not listed in an active market – are measured at amortised cost.

6. Investments in companies accounted for using the equity method

Investments in associates and interests in joint ventures are recognised in the consolidated statement of financial position at cost when the significant influence arises, or upon formation. In subsequent years, the carrying amount is adjusted by taking into account the pro-rata changes in equity of the company concerned. The pro-rata share in net profit of the company concerned is recognised in the income statement in the result from investments in companies accounted for using the equity method.

If there are indications of an impairment of the interests held in a company accounted for using the equity method, an impairment test is performed and, if necessary, the carrying amount of the interests is written down. Impairment losses are reversed if the underlying reasons for an impairment loss cease to exist, up to the amount of the original carrying amount. Impairment losses and reversals of impairment losses are recognised in the income statement item "Result from investments in companies accounted for using the equity method".

7. Intangible assets

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

8. Property and equipment

Property and equipment includes land and buildings, assets held under operating leases (especially to 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. The subsequent measurement of items of property and equipment is based on their cost less any accumulated depreciation and any accumulated impairment losses, according to the cost model mentioned in IAS 16. The useful lives of items of property and equipment are as follows:

Asset category	Useful life	Depreciation method
Land and buildings	40–50 years	straight-line depreciation
Operating and office equipment	3–15 years	straight-line depreciation
Leased assets	0.5–25 years	straight-line depreciation
Leasehold improvements	10 years	straight-line depreciation

8.1 Leasing

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

8.1.1 The Group as lessor

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

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

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 area, in which DVB is the lessee under an operating lease, 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 also the lessee under finance leases in individual cases. These are conducted within the framework of sale-and-leaseback transactions in order to use the leased asset for sub-leases. Net income from sub-leases is recognised as interest income, while expenses arising from sub-leases 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 exists, the relevant impairment loss is reversed, except in the case of goodwill.

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 the 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 in 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 predominantly measured at amortised cost using the effective interest method. Certain subordinated financial instruments are measured at fair value through profit or loss under the fair value option in order to eliminate accounting mismatches.

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 and retained earnings as well as specific reserves resulting from the application of IAS 39 in order to temporarily recognise certain gains or losses from re-measurement. This mainly includes the revaluation reserve for available-for-sale financial instruments as well as the hedging reserve for cash flow hedges. The individual components of the treasury shares held by DVB Bank 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 business year 2008, DVB has had a Long-Term Incentive Plan (LTI) in place for its employees, which replaced the employee participation scheme "DVB shares" that expired in 2007.

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	2009	2008	%
Interest income from			
lending and money market transactions	554.2	739.9	– 25.1
bonds and other fixed-income securities	7.1	4.9	44.9
finance leases	39.1	28.7	36.2
Current income from			
operating leases	117.0	95.5	22.5
equity investments and other investment securities	2.0	3.9	– 48.7
Interest income	**719.4**	**872.9**	**– 17.6**
Interest expenses for			
deposits	368.9	465.3	– 20.7
securitised liabilities	76.8	136.5	– 43.7
subordinated liabilities	26.7	33.1	– 19.3
operating leases	52.7	44.8	17.6
Interest expenses	**525.1**	**679.7**	**– 22.7**
Net interest income	**194.3**	**193.2**	**0.6**

Starting in the business year 2009, interest income from finance leases is reported as a separate component of net interest income. Income from operating leases is reported under current income. The previous year's figures were adjusted accordingly.

Due to the receipt of hedged interest payments denominated in US dollars, the hedging reserve for cash flow hedges was transferred to the income statement. This resulted in expenses of €13.7 million (2008: income of €2.6 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-denominated loans.

Interest income from financial instruments not measured at fair value through profit or loss amounts to €522.5 million (2008: €772.8 million), and interest expense amounts to €453.0 million (2008: €625.3 million). Net interest income includes interest income in the amount of €14.7 million (2008: €9.4 million) attributable to impaired loans and advances.

17. Allowance for credit losses

The allowance for credit losses changed as follows:

€ mn	2009	2008	%
Additions	– 116.5	– 45.9	–
Reversals	58.3	29.3	99.0
Direct write-offs	– 15.8	– 0.8	–
Recoveries on loans and advances previously written off	1.8	0.9	–
Total	**– 72.2**	**– 16.5**	**–**

The distribution of the allowance for credit losses by business division is described in the report on opportunities and risks which forms part of the group management report (see pages 120 to 121).

18. Net fee and commission income

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

€ mn	2009	2008	%
Fee and commission income from			
guarantees and indemnities	3.6	4.1	– 12.2
the lending business	83.6	95.2	– 12.2
Other fee and commission income	16.1	10.2	57.8
Fee and commission income	**103.3**	**109.5**	**– 5.7**
Commission expenses from			
the securities business	0.0	0.1	–
payment transactions	0.3	0.2	50.0
guarantees and indemnities	0.5	0.9	– 44.4
the lending business	2.5	1.3	92.3
Other fee and commission expenses	2.2	1.5	46.7
Fee and commission expenses	**5.5**	**4.0**	**37.5**
Net fee and commission income	**97.8**	**105.5**	**– 7.3**

Any commitment interest on irrevocable loan commitments, that is received, 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 amounts to €83.6 million (2008: €95.2 million); fee and commission expenses amount to €2.5 million (2008: €1.3 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	2009	2008	%
Net trading income	15.9	0.1	–
Hedge result	3.5	– 13.7	–
Result from the application of the fair value option	– 1.0	0.8	–
Result from derivatives entered into without intention to trade	7.9	– 7.2	–
Net income from investment securities	– 8.4	– 34.1	– 75.4
Net income from financial instruments in accordance with IAS 39	**17,9**	**– 54.1**	**–**

19.1 Net trading income

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

€ mn	2009	2008	%
Net trading income from			
derivatives	2.0	4.8	– 58.3
foreign currency transactions	20.6	– 0.4	–
interest and dividend payments	– 8.0	– 5.1	56.9
Other	1.3	0.8	62.5
Total	**15.9**	**0.1**	**–**

A result from re-measurement reported in net trading income amounting to €20.3 million (2008: €–0.7 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	2009	2008	%
Result from re-measurement			
Result from derivatives	150.5	9.0	–
Result from hedged items	– 144.9	– 23.7	–
Result from re-measurement	**5.6**	**– 14.7**	**–**
Ineffectiveness of cash flow hedges	– 2.1	1.0	–
Total	**3.5**	**– 13.7**	**–**

The entire result from re-measurement of hedging relationships, amounting to €3.5 million (2008: €13.7 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 re-measurement of the derivative financial instruments are also included in this item.

€ mn	2009	2008	%
Items designated as at fair value through profit or loss			
Loans and advances to customers	– 0.1	0.9	–
Deposits from customers and other banks	1.7	– 0.4	–
Economic derivative hedging instruments	– 2.6	0.3	–
Total	**– 1.0**	**0.8**	**–**

The entire re-measurement result from the application of the fair value option, amounting to €–1.0 million (2008: €0.8 million), was determined on the basis of measurement models.

The accumulated changes in the fair value of financial assets and financial liabilities as a result of credit quality issues amount to €0.0 million (2008: €0.0 million) and €0.0 million (2008: €0.5 million), respectively, as at the balance sheet date. This resulted in expenses from changes in the fair value as a result of credit quality issues in the amount of €0.0 million for financial assets (2008: income of €0.3 million) and €0.5 million for financial liabilities (2008: income 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 re-measurement 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	2009	2008	%
Interest-rate derivatives	7.9	– 7.2	–
Total	**7.9**	**– 7.2**	**–**

The entire result from re-measurement of derivatives entered into without intention to trade, amounting to €7.9 million (2008: €–7.2 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	2009	2008	%
Result from			
investment securities measured at amortised cost	1.2	0.5	–
investment securities available for sale	– 9.4	– 35.8	– 73.7
Result from the disposal of investment securities accounted for using the equity method	– 0.2	1.2	–
Net income from investment securities	**– 8.4**	**– 34.1**	**– 75.4**

Net income from investment securities includes expenses from the application of measurement models in the amount of €–8.3 million (2008: €–35.8 million). The expenses result, among other things, from a write-down of an Icelandic bank bond, down to its expected recoverable amount. The bond was held by DVB as liquidity reserve for payment transactions at the ECB. The write-down is shown in the "Other/Reconciliation/Consolidation" segment of the segment report.

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

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

€ mn	2009	2008	%
Result from investments in companies accounted for using the equity method			
Interests in joint ventures	– 2.1	0.0	–
Investments in associates	0.1	0.0	–
Total	**– 2.0**	**0.0**	**–**

21. General administrative expenses

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

€ mn	2009	2008	%
Wages and salaries	76.4	76.8	– 0.5
Social security contributions	7.4	6.7	10.4
Expenses for pensions and other employee benefits	5.6	7.8	– 28.2
Staff expenses	**89.4**	**91.3**	**– 2.1**
Expenses for temporary staff	1.4	2.6	– 46.2
Contributions and fees	4.4	3.2	37.5
Legal and auditing fees	12.9	10.3	25.2
Other advisory services (including IT advisory)	9.5	11.1	– 14.4
IT costs	3.7	1.6	–
Occupancy expenses	10.6	10.1	5.0
Procurement of information	1.4	2.4	– 41.7
Public relations	0.5	0.7	– 28.6
Ancillary labour costs	11.5	12.4	– 7.3
Other non-staff expenses	6.8	5.7	19.3
Non-staff expenses	**62.7**	**60.1**	**4.3**
Property and equipment, and investment property	2.4	2.4	0.0
Intangible assets	2.0	2.7	– 25.9
Total depreciation, amortisation, impairment and write-ups	**4.4**	**5.1**	**– 13.7**
General administrative expenses	**156.5**	**156.5**	**0.0**

In the year under review, minimum lease payments under operating leases in the amount of €5.5 million (2008: €4.6 million) were recognised as expenses. There were no contingent rents and sub-lease payments.

Legal and auditing fees include fees for auditors in the amount of €1.3 million (2008: €0.7 million). These fees are comprised of the following individual items:

€ mn	2009	2008	%
Auditing fees	1.1	0.7	57.1
Other advisory services	0.2	0.0	–
Tax advisory services	0.0	0.0	–
Other services	0.0	0.0	–
Total fees	**1.3**	**0.7**	**85.7**

22. Net other operating income/expenses

Net other operating income/expenses were as follows:

€ mn	2009	2008	%
Income from			
the disposal of property and equipment	2.7	1.6	68.8
rents	0.5	0.5	0.0
de-consolidation	9.2	0.0	–
the reversal of provisions	1.6	1.8	– 11.1
the recovery of taxes not related to income	0.1	3.2	– 96.9
revenues related to TES Holdings Ltd	7.1	7.2	– 1.4
Miscellaneous other income	10.2	21.8	– 53.2
Other operating income	**31.4**	**36.1**	**– 13.0**
Losses from the disposal of property and equipment	0.0	0.1	–
Expenses from de-consolidation	7.3	0.0	–
Additions to provisions	3.9	5.8	– 32.8
Expenses for taxes not related to income	0.1	0.4	– 75.0
Miscellaneous other expenses	12.8	1.2	–
Other operating expenses	**24.1**	**7.5**	**–**
Net other operating income/expenses	**7.3**	**28.6**	**– 74.5**

23. Income taxes

Income taxes are as follows in the year under review:

€ mn	2009	2008	%
Current taxes on income			
for the current year	– 12.1	– 8.7	39.1
Deferred income taxes			
from temporary differences	– 3.5	13.7	–
from tax loss carryforwards	5.1	0.0	–
Income taxes	**– 10.5**	**5.0**	**–**

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	2009	2008	%
Result from ordinary activities before taxes (consolidated net income before taxes)	86.6	100.2	– 13.6
Tax rate for the Group (%)	31.9	31.9	0.0
Expected taxes on income	**– 27.6**	**– 32.0**	**– 13.8**
Tax effects on permanent differences	0.0	5.6	–
Tax rate differences with regard to earnings components that are subject to taxation in other countries	20.7	25.3	– 18.2
Tax decreases/increases due to changes in tax rates	0.0	6.1	–
Additional taxes due to non-deductible expenses	– 3.6	0.0	–
Tax effects	**17.1**	**37.0**	**– 53.8**
Current taxes	– 12.1	– 8.7	39.1
Deferred taxes	1.6	13.7	– 88.3
Reported income taxes	**– 10.5**	**5.0**	**–**

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. The expected Group tax rate, based on these rates, is 31.9%. Deferred tax expenses of €–3.5 million are attributable to the recognition or reversal of temporary differences (2008: €13.7 million).

❶ **Tax effects (€ mn)**

	2009			2008		
	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						
Revaluation of AfS financial instruments	5.5	– 0.6	4.9	– 11.9	– 0.3	– 12.2
Cash flow hedges	16.2	– 4.1	12.1	– 16.7	– 7.4	– 24.1
Currency translation	– 1.2	0.0	– 1.2	– 4.8	0.0	– 4.8
Actuarial gains and losses	– 0.8	0.2	– 0.6	1.9	1.4	3.3
Other comprehensive income	**19.7**	**– 4.5**	**15.2**	**– 31.5**	**– 6.3**	**– 37.8**

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 thus complies with the requirements of IFRS 8. 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.

24.2 Segmentation, reconciliation and consolidation

DVB focuses on its core segments Shipping Finance, Aviation Finance, Land Transport Finance and Investment Management. The other activities, reconciliation items as well as amounts from consolidation adjustments are reported under "Other/ Reconciliation/Consolidation".

The segments Shipping Finance, Aviation Finance and Land Transport Finance include the market- and sector-specific activities of the core Structured Asset Financing business. The traditional business with collateralised loans is supplemented with customised structured financings and advisory services. Each segment has its own risk management and research 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 Treasury segment shows income and expenses from liquidity and capital structure management.

The other, smaller activities of the Group such as ITF Suisse, the D-Marketing portfolio (which is being phased out) and the discontinued Transport Infrastructure Finance portfolio are included in the column "Other/Reconciliation/Consolidation". In addition, this segment includes those investments that are not allocated to the operating entities. 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. The segment also comprises expenses and income that are necessary in order to reconcile financial indicators used for internal management accounting, which are shown in the segment report of the operating business units, to the corresponding data for external financial reporting, as well as 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 taxes on income into account.

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 initiate 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.

Since 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) and, moreover, with internal service relationships only existing to an insignificant degree, consolidation adjustments are necessary only in an insignificant amount. They are reported under Other/ Reconciliation/Consolidation.

As a result of a conceptual change within internal management reporting, investment income of equity capital is no longer attributed to the segments. The previous year's figures were adjusted accordingly.

Segment assets exclusively comprise the relevant segment's loan portfolios, represented by the risk-weighted assets in accordance with Principle I of the German Banking Act (Basel I).

24.4 Performance measurement

The success of the Group and of each segment is determined on the basis of consolidated net income before taxes as well as the indicators return on equity and cost/income ratio. The cost/ income ratio is defined as the ratio of administrative expenses and net revenues, excluding the allowance for credit losses. The return on equity represents the ratio of consolidated net income before taxes attributable to shareholders of DVB to investor capital on average for the year attributable to shareholders of DVB (issued share capital, capital reserve, retained earnings excluding the 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.

24.5 Segment results by region

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 information on geographical segment results due to the minor relevance and the disproportionately high effort to collect data.

Segment results (€ mn)

	Group		Shipping Finance		Aviation Finance		Land Transport Finance		Investment Management		Treasury		Other/ Reconciliation/ Consolidation	
	2009	2008	2009	2008 3)	2009	2008 3)	2009	2008 3)	2009	2008 3)	2009	2008 3)	2009	2008 3)
Net interest income after allowance for credit losses	122.1	176.7	35.9	38.7	49.7	45.6	13.0	13.0	49.8	51.3	– 24.6	– 11.5	– 1.6	39.6
Net interest income	194.3	193.2	80.9	63.8	58.2	45.1	13.4	9.8	66.1	51.3	– 24.6	– 11.5	0.3	34.7
Allowance for credit losses	– 72.2	– 16.5	– 45.0	– 25.1	– 8.5	0.5	– 0.4	3.2	– 16.3	0.0	0.0	0.0	– 1.9	4.9
Net fee and commission income	97.8	105.5	46.8	68.1	35.1	29.9	2.6	4.3	5.5	4.2	– 0.3	– 0.5	8.1	– 0.5
Net income from financial instruments in accordance with IAS 39	17.9	– 54.1	1.5	1.0	0.1	– 2.6	0.0	0.5	– 8.4	– 9.6	22.5	– 38.6	2.0	– 4.9
Results from investments accounted for using the equity method	– 2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	– 1.8	0.0	0.4	0.0	– 0.6	0.0
Net other operating income/expenses	7.3	28.6	0.1	0.0	0.5	– 0.2	0.0	0.0	– 8.2	16.2	0.0	0.0	14.9	12.6
Income	**243.1**	**256.7**	**84.3**	**107.8**	**85.4**	**72.7**	**15.6**	**17.8**	**36.9**	**62.1**	**– 2.0**	**– 50.6**	**22.8**	**46.9**
General administrative expenses	**– 156.5**	**– 156.5**	**– 35.4**	**– 32.2**	**– 14.0**	**– 15.0**	**– 2.6**	**– 3.2**	**– 19.4**	**– 19.2**	**– 2.0**	**– 2.3**	**– 83.1**	**– 84.7**
Staff expenses	– 89.4	– 91.3	– 27.8	– 25.3	– 11.0	– 11.7	– 2.2	– 2.7	– 10.6	– 10.6	– 1.3	– 1.7	– 36.5	– 39.4
Non-staff expenses	– 62.7	– 60.1	– 7.5	– 6.8	– 3.0	– 3.3	– 0.4	– 0.5	– 8.8	– 8.6	– 0.7	– 0.5	– 42.4	– 40.4
Depreciation, amortisation, impairment and write-ups	– 4.4	– 5.1	– 0.1	– 0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	– 4.3	– 5.0
Consolidated net income before taxes	**86.6**	**100.2**	**48.9**	**75.6**	**71.4**	**57.7**	**13.0**	**14.6**	**17.5**	**42.9**	**– 4.0**	**– 52.8**	**– 60.3**	**– 37.9**
Cost/income ratio 1)	**49.6%**	**57.4%**	**27.3%**	**24.2%**	**14.9%**	**20.8%**	**16.2%**	**21.7%**	**36.5%**	**30.9%**	–	–	–	–
Return on equity 2)	**9.4%**	**13.1%**	**15.2%**	**40.1%**	**30.4%**	**41.8%**	**21.0%**	**31.3%**	**16.4%**	**17.8%**	–	–	–	–
Risk-weighted assets in accordance with Basel I (average)	**16,321.2**	**15,016.3**	**8,431.1**	**7,932.9**	**4,742.6**	**4,062.8**	**1,352.8**	**1,142.1**	**497.1**	**494.7**	**95.8**	**95.3**	**1,201.8**	**1,288.6**

1) excluding allowances for credit losses 2) before taxes 3) amounts adjusted

Notes to the statement of financial position

25. Cash and balances with the central bank

€ mn	2009	2008	%
Cash on hand	2.5	1.9	31.6
Balances with the central bank	249.9	641.0	– 61.0
Total	**252.4**	**642.9**	**– 60.7**

This item includes a minimum reserve requirement in the amount of €19.8 million (2008: €41.3 million).

26. Loans and advances to banks

€ mn	2009	2008	%
Loans and advances	131.8	108.6	21.4
thereof: payable on demand	120.5	65.1	85.1
thereof: with a limited term	11.3	43.5	– 74.0
Money market transactions	269.3	213.1	26.4
thereof: payable on demand	103.5	194.0	– 46.6
thereof: with a limited term	165.8	19.1	–
Other loans and advances to banks	0.1	0.0	–
Total	**401.2**	**321.7**	**24.7**
German banks	214.6	57.9	–
Foreign banks	186.6	263.8	– 29.3
Total	**401.2**	**321.7**	**24.7**

27. Loans and advances to customers

€ mn	2009	2008	%
Loans and advances	14,658.0	14,297.5	2.5
thereof: payable on demand	90.3	141.9	– 36.4
thereof: with a limited term	14,567.7	14,155.6	2.9
Money market transactions	0.0	0.0	–
thereof: payable on demand	0.0	0.0	–
thereof: with a limited term	0.0	0.0	–
Other loans and advances to customers	12.4	24.2	– 48.8
Total	**14,670.4**	**14,321.7**	**2.4**
German customers	1,097.3	1,271.4	– 13.7
Foreign customers	13,573.1	13,050.3	4.0
Total	**14,670.4**	**14,321.7**	**2.4**

Loans and advances also include items with a carrying amount of €8.9 million (2008: €12.3 million) which are measured at fair value through profit or loss under the fair value option.

As at 31 December 2009, the Bank had finance leases for ships, shipping containers, airplanes and aircraft engines with a total lease term between five and 14 years. These leases are reported under loans and advances with a limited term, in an amount of €619.2 million (2008: €423.7 million).

€ mn	2009	2008	%
Total lease payments	746.0	557.9	33.7
Guaranteed residual value	48.3	53.1	– 9.0
Gross investment value	794.3	611.0	30.0
thereof: within one year	92.8	109.6	– 15.3
thereof: within one to five years	403.5	224.1	80.1
thereof: after more than five years	298.0	277.3	7.5
Total gross investment	**794.3**	**611.0**	**30.0**
Less unearned finance income	175.1	187.3	– 6.5
Total net investment	**619.2**	**423.7**	**46.1**
thereof: within one year	72.4	109.3	– 33.8
thereof: within one to five years	314.5	125.6	–
thereof: after more than five years	232.3	188.8	23.0

❶ Allowance for credit losses (€ mn)

	Specific valuation allowances		Portfolio impairment		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Balance as at 1 Jan	100.3	105.2	7.4	8.0	107.7	113.2
Additions	86.8	44.6	28.9	1.4	115.7	46.0
Reversals	56.4	49.8	5.5	2.0	61.9	51.8
thereof: utilised	3.7	22.6	–	–	3.7	22.6
thereof: released	52.7	27.2	5.5	2.0	58.2	29.2
Changes resulting from exchange rate fluctuations	– 3.0	0.3	–	–	– 3.0	0.3
Balance as at 31 Dec	**127.7**	**100.3**	**30.8**	**7.4**	**158.5**	**107.7**

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 allowance for credit losses of €158.5 million (2008: €107.7 million) exclusively relates to loans and advances to customers.

The distribution of the allowance for credit losses by business division is described in the report on opportunities and risks which forms part of the group management report.

29. Positive fair values of derivative hedging instruments

€ mn	**2009**	**2008**	**%**
Hedging instruments with positive fair values			
Interest rate products	346.5	267.2	29.7
Currency-related products	10.1	0.0	–
Total	**356.6**	**267.2**	**33.5**

30. Financial assets held for trading

€ mn	**2009**	**2008**	**%**
Derivative financial instruments with positive fair values			
Interest rate products	114.7	187.3	– 38.8
Currency-related products	135.3	344.0	– 60.7
Non-derivative financial instruments			
Syndicated loans	32.4	0.0	–
Total	**282.4**	**531.3**	**– 46.8**

31. Investment securities

€ mn	**2009**	**2008**	**%**
Bonds and other fixed-income securities	91,2	75,4	21,0
thereof: bonds and notes	91,2	75,4	21,0
Equities and other non-fixed-income securities	14,6	6,0	–
Equity investments	28,8	48,8	– 41,0
Total	**134,6**	**130,2**	**3,4**

Equity investments also include equity instruments measured at cost in an amount of €28.8 million (2008: €48.8 million). 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 (2008: €0.5 million).

32. Investments in companies accounted for using the equity method

€ mn	2009	2008	%
Investments/interests in			
associates	10.3	24.9	– 58.6
joint ventures	8.4	5.4	55.6
Total	**18.7**	**30.3**	**– 38.3**

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

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

€ mn	2009	2008	%
Assets	52.7	72.0	– 26.8
Liabilities	5.1	44.5	– 88.5
Income	0.8	294.6	– 99.7
Profit or loss for the period	– 3.9	– 7.9	– 50.6

The financial data of joint ventures accounted for using the equity method are as follows, based on the respective interest held by DVB:

€ mn	2009	2008	%
Assets	70.9	46.6	52.1
Liabilities	63.8	45.8	39.3
Income	13.3	10.1	31.7
Expenses	17.9	10.6	68.9

33. Intangible assets

€ mn	2009	2008	%
Goodwill	106.4	98.8	7.7
Other intangible assets	5.4	5.8	– 6.9
Total	**111.8**	**104.6**	**6.9**

34. Property and equipment

€ mn	2009	2008	%
Land and buildings	13.7	13.3	3.0
Operating and office equipment	4.8	4.5	6.7
Assets held under operating leases	820.0	949.3	– 13.6
Other property and equipment	1.2	17.8	– 93.3
Total	**839.7**	**984.9**	**– 14.7**

As at 31 December 2009, Group companies were lessors of ships, aircrafts, aircraft engines and containers provided under operating leases. The lease term was six to ten years for ships, three to 21 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 were capitalised in accordance with IAS 23 in the amount of €13.0 million (2008: €19.7 million). This corresponds to an average capitalisation rate of 2.6%. In addition, payments of agency commissions and legal fees in the amount of €2.9 million (2008: €4.2 million) were included in the cost.

The sum of future minimum lease payments as at 31 December 2009 is as follows:

€ mn	2009	2008	%
Total minimum lease payments			
due within one year	77.1	84.7	– 9.0
due within one to five years	221.0	211.1	4.7
due after more than five years	83.4	125.7	– 33.7
Total	**381.5**	**421.5**	**– 9.5**

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	2009	2008	%
Shipping Finance	74.7	74.7	0.0
Aviation Finance	8.0	8.0	0.0
Investment Management	23.7	16.1	42.2
Total	**106.4**	**98.8**	**7.7**

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. The value in use is determined on the basis of a medium-term, five-year projection for all material income and expense components. A constant earnings situation 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 and a factor for the systematic risk (beta factor). The values for the risk-free interest rate, the market risk premium and the beta factors 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 2009 for the cash-generating units range between 14.5% and 17.0%.

Intangible assets include internally-generated assets with a carrying amount of €2.2 million (2008: €0.5 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 as at 1 Jan	**16.0**	**15.6**	**1,038.4**	**18.1**	**14.8**	**98.8**	**1,201.7**
Additions at cost	0.8	2.0	537.1	1.8	1.1	7.8	550.6
Disposals at cost	0.0	1.3	330.1	0.0	0.0	0.0	331.4
Reclassifications	0.0	0.2	18.6	– 19.8	1.0	0.0	0.0
Changes in the group of consolidated companies	0.0	0.0	– 308.1	0.0	0.0	0.0	– 308.1
Exchange rate changes	0.0	0.0	– 29.4	1.6	0.0	– 0.2	– 28.0
Cost as at 31 Dec	**16.8**	**16.5**	**926.5**	**1.7**	**16.9**	**106.4**	**1,084.8**
Write-ups	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortisation	0.4	1.8	46.5	0.2	2.0	0.0	50.9
Depreciation, amortisation and impairment (previous year)	2.7	11.1	89.1	0.3	8.9	0.0	112.1
Depreciation, amortisation and impairment (disposals)	0.0	1.2	22.2	0.0	0.0	0.0	23.4
Changes in the group of consolidated companies	0.0	0.0	4.2	0.0	0.0	0.0	4.2
Exchange rate changes	0.0	0.0	2.7	0.0	– 0.6	0.0	2.1
Cumulative depreciation, amortisation, impairment and write-ups	– 3.1	– 11.7	– 106.5	– 0.5	– 11.5	0.0	– 133.3
Carrying amount as at 31 Dec 2009	**13.7**	**4.8**	**820.0**	**1.2**	**5.4**	**106.4**	**951.5**
Carrying amount as at 31 Dec 2008	13.3	4.5	949.3	17.8	5.8	98.8	1,089.5

36. Income tax assets

€ mn	2009	2008	%
Current income tax assets			
Germany	0.5	1.9	– 73.7
Foreign countries	9.2	0.4	–
Deferred income tax assets			
Temporary differences	72.5	76.8	– 5.6
Loss carryforward	5.1	0.0	–
Total	**87.3**	**79.1**	**10.4**

In the business year 2009, deferred taxes on tax loss carryforwards in the amount of €19.3 million were recognised as the Bank expects to generate taxable profits against which these assets can be utilised. No deferred tax assets were capitalised for tax loss carryforwards in the amount of €0.0 million (2008: €12.6 million).

Deferred income tax assets were recognised for the following items in the statement of financial position:

€ mn	2009	2008	%
Financial assets held for trading	5.3	40.6	– 86.9
Provisions	4.7	4.5	4.4
Deposits from customers and other banks	52.1	27.0	93.0
Other items	4.5	4.7	– 4.3
Loans and advances to banks and customers, including allowance for credit losses	5.9	0.0	–
Securitised liabilities	0.0	0.0	–
Total	**72.5**	**76.8**	**– 5.6**

The Bank recognised deferred tax assets in the amount of €0.8 million (2008: €3.3 million) directly in equity.

37. Other assets

€ mn	2009	2008	%
Receivables from taxes not related to income	2.1	3.5	– 40.0
Advance payments and prepaid expenses	0.9	3.4	– 73.5
Container portfolio	170.3	3.4	–
Miscellaneous other assets	98.7	60.3	63.7
Total	**272.0**	**70.6**	**–**

38. Deposits from other banks

€ mn	2009	2008	%
Loans and advances	5,387.1	4,628.2	16.4
thereof: payable on demand	4.5	25.6	– 82.3
thereof: with a limited term	5,382.6	4,602.6	16.9
Money market transactions	1,689.0	2,511.1	– 31.7
thereof: payable on demand	324.2	417.0	– 22.3
thereof: with a limited term	1,364.8	2,094.1	– 34.8
Other deposits from other banks	0.6	5.6	– 88.6
Total	**7,076.8**	**7,144.9**	**– 1.0**
German banks	6,499.0	6,304.4	3.1
Foreign banks	577.8	840.5	– 31.3
Total	**7,076.8**	**7,144.9**	**– 1.0**

Deposits from other banks also include such loans and advances with a total carrying amount of €46.4 million (2008: €79.3 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 is €1.4 million (2008: €2.4 million) as at the balance sheet date.

39. Deposits from customers

€ mn	2009	2008	%
Loans and advances	4,188.6	4,411.8	– 5.1
thereof: payable on demand	274.9	253.9	8.3
thereof: with a limited term	3,913.7	4,157.9	– 5.9
Money market transactions	202.9	577.7	– 64.9
thereof: payable on demand	0.0	200.9	–
thereof: with a limited term	202.9	376.8	– 46.2
Other deposits from customers	21.2	21.9	– 3.2
Total	**4,412.7**	**5,011.4**	**– 11.9**
German customers	3,964.8	4,385.2	– 9.6
Foreign customers	447.9	626.2	– 28.5
Total	**4,412.7**	**5,011.4**	**– 11.9**

Deposits from customers also include such loans and advances with a total carrying amount of €54.0 million (2008: €86.3 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 is €0.3 million (2008: €1.9 million) as at the balance sheet date.

40. Securitised liabilities

€ mn	2009	2008	%
Commercial Paper	0.0	359.4	–
Bearer bonds	3,477.1	2,363.2	47.1
Total	**3,477.1**	**2,722.6**	**27.7**

41. Negative fair values of derivative hedging instruments

€ mn	2009	2008	%
Hedging instruments with negative fair values			
Interest rate products	162.3	300.3	– 46.0
Currency-related products	0.0	7.7	–
Total	**162.3**	**308.0**	**– 47.3**

42. Financial liabilities held for trading

€ mn	2009	2008	%
Derivative financial instruments with negative fair values			
Interest rate products	134.8	180.4	– 25.3
Currency-related products	71.9	107.1	– 32.9
Other products	0.0	0.0	–
Total	**206.7**	**287.5**	**– 28.1**

43. Provisions

€ mn	2009	2008	%
Provisions for pension obligations	15.0	14.4	4.2
Provisions for early and partial retirement	1.0	1.6	– 37.5
Other provisions	36.1	38.8	– 7.0
Total	**52.1**	**54.8**	**– 4.9**

The pension obligations changed during the year under review as follows:

€ mn	2009	2008	%
Present value of the pension obligations as at 1 Jan (DBO)	29.1	32.6	– 10.7
Plan assets	– 14.7	– 13.9	5.8
Carrying amount of pension provisions as at 1 Jan	**14.4**	**18.7**	**– 23.0**
Change in the year under review:			
Service cost	0.7	1.0	– 30.0
Interest expense	1.7	1.6	6.3
Expected return on plan assets	– 0.9	– 0.7	28.6
Actuarial gains and losses	0.8	– 4.6	–
Benefits paid	– 1.7	– 1.7	0.0
Reclassifications			
DBO	0.0	1.0	–
Plan assets	0.0	– 0.9	–
Carrying amount of pension provisions as at 31 Dec	**15.0**	**14.4**	**4.2**
Present value of the DBO as at 31 Dec	29.1	29.1	0.0
Plan assets	– 14.1	– 14.7	– 4.1
Carrying amount of pension provisions as at 31 Dec	**15.0**	**14.4**	**4.2**

The interest expense of €1.7 million (2008: €1.8 million) is recorded under staff expenses. The actual return on plan assets amounts to €0.9 million (2008: €0.7 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	2009	2008	%
Experience adjustments of pension obligations	– 1.3	0.0	–
Experience adjustments of plan assets	0.0	0.5	–

The calculation of the present value of the pension obligations is based on the following actuarial assumptions:

Actuarial assumptions (%)	2009	2008
Discount rate	5.5	6.0
Expected salary increase	2.5	2.5
Rate of pension progression	2.0	2.2
Expected return on plan assets	5.5	5.0

In the business year 2009, the Bank used the “Richttafeln 2005 G” mortality tables by Prof Dr Klaus Heubeck 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 (%)	2009	2008
Equities	0.8	25.0
Fixed-income financial instruments	5.5	65.0
Properties	1.6	10.0
Cash balances	0.0	0.0
Other pension plan sponsors	92.1	0.0
Total	**100.0**	**100.0**

❶ Funded status of the pension obligations (€ mn)

	2009	2008	2007	2006	2005
Present value of pension obligations	29.1	29.1	32.6	30.2	29.7
Plan assets	– 14.1	– 14.7	– 13.9	– 13.0	– 11.3
Total	**15.0**	**14.4**	**18.7**	**17.2**	**18.4**

We expect additions to plan assets for the business year 2010 in the amount of €1.0 million.

Other provisions in the Group are as follows:

€ mn	2009	2008	%
Asset retirement obligations	1.0	1.0	0.0
Lending business	1.0	0.3	–
Bonuses	26.7	31.2	– 14.7
Litigation	0.1	0.0	–
Miscellaneous other provisions	7.3	6.3	15.9
Total	**36.1**	**38.8**	**– 7.0**

The provisions for bonuses mainly refer to bonus payments to employees of DVB, and are likely to result in an outflow of resources in the following business year.

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 which forms part of the group management report.

44. Income tax liabilities

€ mn	2009	2008	%
Current income tax liabilities	30.4	26.6	14.3
Deferred income tax liabilities	60.2	56.4	6.7
Total	**90.6**	**83.0**	**9.2**

❶ **Provisions 2009 (€ mn)**

	Balance as at 1 Jan 2009	Allocation	Reversals	Utilisation	Exchange rate changes	Balance as at 31 Dec 2009
Asset retirement obligations	1.0	0.0	0.0	0.0	0.0	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	0.0	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**

In the previous year, provisions changed as follows: ❷

❷ **Provisions 2008 (€ mn)**

	Balance as at 1 Jan 2008	Allocation	Reversals	Utilisation	Exchange rate changes	Balance as at 31 Dec 2008
Asset retirement obligations	1.0	0.0	0.0	0.0	0.0	1.0
Lending business	0.4	0.0	– 0.1	0.0	0.0	0.3
Bonuses	28.9	32.9	0.0	– 28.6	– 2.0	31.2
Miscellaneous other provisions	43.5	5.8	– 1.8	– 41.0	– 0.2	6.3
Total	**73.8**	**38.7**	**– 1.9**	**– 69.6**	**– 2.2**	**38.8**

Deferred income tax liabilities were recognised for the following items in the statement of financial position:

€ mn	2009	2008	%
Loans and advances to banks and customers, including allowance for credit losses	23.6	47.3	– 50.1
Financial assets held for trading and hedging instruments	27.9	0.6	–
Investment securities	0.5	0.3	66.7
Property and equipment	3.1	2.5	24.0
Deposits from customers and other banks	0.7	0.1	–
Provisions	3.5	3.8	– 7.9
Other items	0.9	1.8	– 50.0
Total	**60.2**	**56.4**	**6.7**

Deferred tax liabilities were recognised in the amount of €1.2 million (2008: €–0.8 million), directly in equity.

45. Other liabilities

€ mn	2009	2008	%
Other tax liabilities	5.5	2.2	–
Miscellaneous other liabilities	120.3	91.3	31.8
Total	**125.8**	**93.5**	**34.5**

46. Subordinated liabilities

€ mn	2009	2008	%
Subordinated promissory note loans	542.9	609.1	– 10.9
Subordinated bearer bonds	63.1	63.1	0.0
Total	**606.0**	**672.2**	**– 9.8**

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	2009	2008	%
Issued share capital	118.1	118.3	– 0.2
Capital reserve	333.2	335.2	– 0.6
Retained earnings	583.8	537.7	8.6
Revaluation reserve	– 0.1	– 5.0	– 98.0
Hedging reserve – cash flow hedges	– 3.0	– 15.1	– 80.1
Currency translation reserve	– 2.7	– 1.5	80.0
Distributable profit	27.9	27.9	0.0
Total equity before non-controlling interests	**1,057.2**	**997.5**	**6.0**
Non-controlling interests	1.3	1.4	– 7.1
Equity	**1,058.5**	**998.9**	**6.0**

47.1 Issued share capital

As at the balance sheet date, the subscribed capital of DVB Bank SE amounts to €118,791,945.12 and consists of 46,467,370 no-par value bearer shares. The Bank's share capital exclusively comprises ordinary bearer shares. Please refer to section 54 et. seq. of the 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.

47.2 Capital reserve

The capital reserve includes the premium from the issuance of shares, including subscription rights, exceeding the nominal value or the accounted par value.

47.3 Treasury shares

The treasury shares held by DVB Bank SE as at the balance sheet date are deducted from equity using the so-called "par value method". For this purpose, the treasury shares are divided into the components "Subscribed capital" and "Capital reserve". Gains or losses arising from transactions with treasury shares are offset against retained earnings.

47.4 Retained earnings

Retained earnings include the legal reserve, other retained earnings, and the fund for general banking risks.

The legal reserve amounts to €1.3 million (2008: €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.

In addition, retained earnings also include the fund for general banking risks totalling €82.4 million (2008: €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 Bank 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 interest

Non-controlling interests include the interest in equity of subsidiaries not attributable to DVB.

Notes to financial instruments

48. Carrying amounts of financial instruments by measurement categories

Carrying amounts as at 31 Dec 2009 (€ mn)

	Fair value option	Financial instruments (FI) held for trading		Financial instruments held for hedging purposes		Loans and receivables	Financial assets available for sale	Other liabilities
		Non-derivative FI	Derivative FI	Fair value hedge	Cash flow hedge			
Loans and advances to banks	0.0	0.0	0.0	0.0	0.0	401.2	0.0	0.0
Loans and advances to customers	8.9	0.0	0.0	0.0	0.0	14,503.0	0.0	0.0
Positive fair values of derivative hedging instruments	0.0	0.0	0.0	346.5	10.1	0.0	0.0	0.0
Financial assets held for trading	0.0	32.4	250.0	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0	46.6	57.8	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total financial assets	**8.9**	**32.4**	**250.0**	**346.5**	**10.1**	**14,950.8**	**57.8**	**0.0**
Deposits from other banks	46.4	0.0	0.0	0.0	0.0	0.0	0.0	7,030.4
Deposits from customers	54.0	0.0	0.0	0.0	0.0	0.0	0.0	4,358.7
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,477.1
Negative fair values of derivative hedging instruments	0.0	0.0	0.0	162.3	0.0	0.0	0.0	0.0
Financial liabilities held for trading	0.0	0.0	206.7	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	606.0
Total financial liabilities	**100.4**	**0.0**	**206.7**	**162.3**	**0.0**	**0.0**	**0.0**	**15,472.2**

Carrying amounts as at 31 Dec 2008 (€ mn)

	Fair value option	Financial instruments (FI) held for trading		Financial instruments held for hedging purposes		Loans and receivables	Financial assets available for sale	Other liabilities
		Non-derivative FI	Derivative FI	Fair value hedge	Cash flow hedge			
Loans and advances to banks	0.0	0.0	0.0	0.0	0.0	321.7	0.0	0.0
Loans and advances to customers	12.3	0.0	0.0	0.0	0.0	14,309.4	0.0	0.0
Positive fair values of derivative hedging instruments	0.0	0.0	0.0	267.2	0.0	0.0	0.0	0.0
Financial assets held for trading	0.0	0.0	531.3	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0	24.9	56.4	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total financial assets	**12.3**	**0.0**	**531.3**	**267.2**	**0.0**	**14,656.0**	**56.4**	**0.0**
Deposits from other banks	79.3	0.0	0.0	0.0	0.0	0.0	0.0	7,068.2
Deposits from customers	86.3	0.0	0.0	0.0	0.0	0.0	0.0	4,925.1
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,722.6
Negative fair values of derivative hedging instruments	0.0	0.0	0.0	300.3	7.6	0.0	0.0	0.0
Financial liabilities held for trading	0.0	0.0	287.5	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	672.2
Total financial liabilities	**165.6**	**0.0**	**287.5**	**300.3**	**7.6**	**0.0**	**0.0**	**15,388.1**

49. Earnings contributions of financial instruments by measurement categories

1 Jan 2009 – 31 Dec 2009 (€ mn)

	Recognition in the income statement				Recognition in equity
	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	–
Financial assets and liabilities held for trading	– 22.3	–	–	21.2	–
Loans and receivables	522.5	– 72.2	94.6	– 143.7	–
Financial assets available for sale	2.0	–	–	– 9.4	– 2.4
Other liabilities	– 453.0	–	3.1	–	–
Positive and negative fair values of derivative hedging instruments	34.3	–	–	148.4	0.4
Total	**80.2**	**– 72.2**	**97.7**	**18.1**	**– 2.0**

1 Jan 2008 – 31 Dec 2008 (€ mn)

	Recognition in the income statement				Recognition in equity
	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	– 8.9	–	–	0.5	–
Financial assets and liabilities held for trading	– 8.3	–	–	– 7.2	–
Loans and receivables	180.9	– 16.5	96.8	– 23.7	–
Financial assets available for sale	4.9	–	–	– 34.1	– 11.9
Other liabilities	–	–	8.7	0.4	–
Positive and negative fair values of derivative hedging instruments	– 30.6	–	–	10.0	– 16.7
Total	**138.0**	**– 16.5**	**105.5**	**– 54.1**	**– 28.6**

50. 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 discounted cash flow method. The basis of deriving the discount rate is the use of currency-specific swap curves as well as term-dependent interest rates based upon LIBOR and EURIBOR-based indices. Derivative financial instruments with option characteristics are measured using accepted option pricing models (Black-Scholes model or Garmann-Kohlhagen model). The measurement models use parameters that can largely be observed on the market.

To the extent that the measurement models use inputs that are mostly 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

In the business year under review, the balance of financial assets whose fair values were allocated to Level 3 changed as follows:

€ mn	**2009**
Balance on 1 Jan	**14.2**
Purchases	0.0
Sales	0.0
Changes from fair value measurement	
recognised through profit or loss	– 7.4
recognised in equity	0.7
Other changes	0.0
Balance on 31 Dec	**7.5**

In the business year 2009, measurement losses of €–7.4 million from Level 3 financial instruments in the portfolio as at 31 December 2009 were recognised in the income statement in the result from non-trading assets due to further write-downs.

The valuation of Level 3 financial instruments is based on a conservative realisation rate. Therefore, we cannot provide information on the sensitivity of measurement inputs.

❶ **Determination of fair values of financial instruments (€ mn)**

		Level 1		**Level 2**		**Level 3**
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Loans and advances to banks	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	8.9	12.3	0.0	0.0
Financial assets held for trading	0.0	0.0	282.4	531.3	0.0	0.0
Positive fair values of derivative hedging instruments	0.0	0.0	356.6	267.2	0.0	0.0
Investment securities	50.3	42.2	0.0	0.0	7.5	14.2
Total assets	**50.3**	**42.2**	**647.9**	**810.8**	**7.5**	**14.2**
Deposits from other banks	0.0	0.0	46.4	79.3	0.0	0.0
Deposits from customers	0.0	0.0	54.0	86.3	0.0	0.0
Financial liabilities held for trading	0.0	0.0	206.7	287.5	0.0	0.0
Negative fair values of derivative hedging instruments	0.0	0.0	162.3	308.0	0.0	0.0
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**0.0**	**0.0**	**469.4**	**761.1**	**0.0**	**0.0**
Total assets and liabilities	**50.3**	**42.2**	**1,117.3**	**1,571.9**	**7.5**	**14.2**

51. 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 of the group management report in accordance with the provisions of IFRS 7. This does not apply to the contractual maturity analysis under Item 51.

52. Maturity groupings and fair values of derivative financial instruments

The amounts reported for the individual time bands reflect the contractual, undiscounted and future cash flows. ❶

❶ **Maturity groupings and fair values (€ mn)**

	Terms to maturity					Fair values	
	up to one year	one to five years	more than five years	**Total 31 Dec 2009**	Total 31 Dec 2008	**31 Dec 2009**	31 Dec 2008
Interest rate derivatives with positive fair values							
Interest rate swaps	197.4	225.6	46.4	469.4	478.4	453.9	448.8
Forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate options	0.3	0.0	0.0	0.3	0.2	0.7	1.1
Interest rate derivatives with negative fair values							
Interest rate swaps	– 140.1	– 137.0	– 1.8	– 278.9	– 415.1	– 277.2	– 464.4
Forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate options	0.0	0.0	0.0	0.0	– 14.2	– 15.6	– 14.3
Total interest rate derivatives	**57.6**	**88.6**	**44.6**	**190.8**	**49.3**	**161.8**	**– 28.8**
Currency-related derivatives with positive fair values							
Foreign exchange forwards	22.7	0.0	0.0	22.7	343.9	22.7	343.9
Currency options	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cross-currency swaps	– 1.8	102.3	29.6	130.1	3.5	128.4	4.7
Currency-related derivatives with negative fair values							
Foreign exchange forwards	– 69.3	– 0.8	– 0.9	– 71.0	– 115.4	– 71.0	– 115.4
Currency options	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cross-currency swaps	0.3	– 3.3	0.0	– 3.0	0.2	– 4.3	– 2.1
Total currency-related derivatives	**– 48.1**	**98.2**	**28.7**	**78.8**	**232.2**	**75.8**	**231.1**
Other derivatives with positive fair values	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other derivatives with negative fair values	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total other derivatives	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**9.5**	**186.8**	**73.3**	**269.6**	**281.5**	**237.6**	**202.3**

53. Fair values of non-derivative financial instruments

	Fair value		Carrying amount	
€ mn	**31 Dec 2009**	**31 Dec 2008**	**31 Dec 2009**	**31 Dec 2008**
Cash and balances with the central bank	252.4	642.9	252.4	642.9
Loans and advances to banks	400.6	319.4	401.2	321.7
Loans and advances to customers	14,716.7	14,819.3	14,670.4	14,214.0
Financial assets held for trading (non-derivative)	32.4	0.0	32.4	0.0
Investment securities	144.0	129.6	134.6	130.2
Total assets	**15,546.1**	**15,911.2**	**15,491.0**	**15,308.8**
Deposits from other banks	7,000.1	7,307.5	7,076.8	7,144.9
Deposits from customers	4,157.4	4,919.8	4,412.7	5,011.4
Securitised liabilities	3,504.0	2,732.3	3,477.1	2,722.6
Financial liabilities held for trading (non-derivative)	0.0	0.0	0.0	0.0
Subordinated liabilities	596.8	690.3	606.0	672.2
Total liabilities	**15,258.3**	**15,649.9**	**15,572.6**	**15,551.1**

The fair value of derivative financial instruments is presented in conjunction with the maturity groupings of derivative financial instruments.

54. Maturity groupings of non-derivative financial instruments

As at 31 Dec 2009 (€ mn)	Payable on demand	Terms to maturity: up to three months	from three months to one year	from one to five years	more than five years	indefinite term	Total
Loans and advances to banks	224.0	166.8	10.4	0.0	0.0	0.0	401.2
Loans and advances to customers	90.3	2,089.7	2,187.3	7,166.7	5,348.0	0.0	16,882.0
Investment securities	0.0	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	0.0	7,738.5
Deposits from customers	274.9	529.7	242.3	1,677.3	2,493.6	0.0	5,217.8
Securitised liabilities	0.0	16.4	1,157.5	1,989.7	503.6	0.0	3,667.2
Subordinated liabilities	0.0	5.7	113.8	382.2	149.1	0.0	650.8
Total liabilities	**603.6**	**1,967.7**	**2,241.1**	**8,472.8**	**3,989.1**	**0.0**	**17,274.3**

As at 31 Dec 2008 (€ mn)	Payable on demand	Terms to maturity: up to three months	from three months to one year	from one to five years	more than five years	indefinite term	Total
Loans and advances to banks	259.1	62.0	8.6	0.0	0.0	0.0	329.7
Loans and advances to customers	141.9	1,707.1	1,761.2	7,340.2	5,689.3	0.0	16,639.7
Investment securities	0.0	0.8	2.7	68.9	10.5	54.7	137.6
Total assets	**401.0**	**1,769.9**	**1,772.5**	**7,409.1**	**5,699.8**	**54.7**	**17,107.0**
Deposits from other banks	442.6	1,929.5	1,669.6	3,107.3	407.3	0.0	7,556.3
Deposits from customers	454.9	430.2	454.5	1,526.1	3,231.9	0.0	6,097.6
Securitised liabilities	0.0	584.8	438.5	1,815.5	0.0	0.0	2,838.8
Subordinated liabilities	0.0	24.5	25.2	498.2	117.8	0.0	665.7
Total liabilities	**897.5**	**2,969.0**	**2,587.8**	**6,947.1**	**3,757.0**	**0.0**	**17,158.4**

The amounts reported for the individual time bands reflect the undiscounted future cash flows (interest and capital payments).

Other disclosures

55. Equity capital management

The target figure for DVB's equity capital management is the capital as determined pursuant to the provisions of the German Banking Act (KWG). The objective of equity capital management is to exploit potential for profitable growth in international transport finance by means of strengthening liable capital, and to fulfil at all times 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 10 a 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 (Principle I), to quantify their credit and market risks and to ensure that these risk exposures are backed by equity capital.

The calculation of equity capital is based on the separate financial statements of the Group companies in accordance with local accounting principles. The Bank's regulatory capital comprises liable capital, which consists of tier 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 **Components of regulatory capital (€ mn)**

	2009	2008	%
Issued and fully paid ordinary shares	113.7	114.0	– 0.3
Capital reserve plus other reserves eligible for inclusion	294.3	290.2	1.4
Special item for general banking risks pursuant to section 340 g of the HGB	568.3	504.5	12.6
Other components of tier 1 capital	54.3	139.2	– 61.0
Items deducted from tier 1 capital pursuant to section 10 (2 a) sentence 2 of the KWG	5.5	5.3	3.8
Items deducted from tier 1 capital pursuant to section 10 (6 and 6 a) of the KWG	31.5	30.8	2.3
Total tier 1 capital pursuant to section 10 (2 a) of the KWG	**993.6**	**1,011.8**	**– 1.8**
Total tier 2 capital pursuant to section 10 (2 b) of the KWG before deductions and eligible tier 3 capital pursuant to section 10 (2 c) of the KWG	296.6	349.5	– 15.1
Items deducted from tier 2 capital pursuant to section 10 (6 and 6 a) of the KWG	31.5	30.8	2.3
Net tier 2 capital pursuant to section 10 (2 b) of the KWG plus eligible tier 3 capital pursuant to section 10 (2 c) of the KWG	**265.1**	**318.7**	**– 16.8**
Net adjusted available capital pursuant to section 10 (1 d) of the KWG plus eligible tier 3 capital pursuant to section 10 (2 c) of the KWG[1)]	**1,258.7**	**1,330.5**	**– 5.4**

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

56. Subordinated assets

During the year under review, the Bank did not hold subordinated assets to any considerable extent.

57. Financial guarantee contracts, contingent liabilities and other commitments

€ mn	2009	2008	%
Financial guarantee contracts from guarantees	358.8	745.7	– 51.9
Contingent liabilities from irrevocable loan commitments	1,833.1	3,649.4	– 49.8
Other commitments	19.1	13.7	39.4
thereof: within one year	4.3	4.5	– 4.4
thereof: within one to five years	10.8	9.1	18.7
thereof: after more than five years	4.0	0.1	–
Total	**2,211.0**	**4,408.8**	**– 49.9**

Financial guarantee contracts are disclosed at their nominal value.

Other commitments include future minimum lease payments from non-cancellable operating leases.

During the 2009 business year, a business partner of DVB did not fulfil its contractual delivery obligations; as a consequence, a consolidated subsidiary of DVB was unable to fulfil its own constructive obligations vis-à-vis a third party. At the time of preparing the financial statements, the subsidiary was engaged in negotiations with third parties regarding a restructuring of the agreement concerned. DVB does not envisage any contractual penalty or charges being imposed upon itself, or on the subsidiary, within the scope of negotiations or any legal dispute which might occur. However, should such penalty or costs still be imposed, the Bank expects them to be borne by the supplier who was responsible for the breach of contract. Irrespective of this view, the outcome of the negotiations and the legal dispute cannot be predicted with certainty. It is therefore possible that the Bank may incur expenses not covered by third parties, as a result of any court proceedings which may become necessary.

58. Average number of employees

The average number of employees changed during the year under review as follows:

Employees	2009	2008
Female	198	188
Male	378	340
Total	**576**	**528**

The average number of employees includes those on parental leave, people doing military or alternative community service and temporary personnel, but does not include trainees and employees in the passive phase of partial retirement (Altersteilzeit).

59. Related party disclosures

59.1 Remuneration and shareholdings of board members

The remuneration paid to board members during 2009 amounted to:

€ 000's	**2009**	**2008**	**%**
Board of Managing Directors	2,621.4	2,625.4	– 0.2
Supervisory bodies (including taxes amounting to €38.6 thousand for foreign members of the Supervisory Board; 2008: €30.0 thousand)	263.2	260.0	1.2
Former members of the Board of Managing Directors and their surviving dependants	394.2	425.6	– 7.4
Total	**3,278.8**	**3,311.0**	**– 1.0**

59.1.1 Remuneration of the Board of Managing Directors

Remuneration expenses for the Board of Managing Directors totalled €2.6 million in 2009 (2008: €2.6 million). The fixed component of the remuneration of DVB Bank SE's Board of Managing Directors totalled €1,416,413.75 in 2009 (2008: €1,330,183.16). Bonuses totalled €1,205,000.00 (2008: €1,295,250.00).

For any further disclosures pursuant to section 314 (1) no. 6 a sentences 5 to 9 of the HGB, we refer to the group management report (page 101), in accordance with section 315 (2) no. 4 of the HGB.

59.2 Shareholdings of the Board of Managing Directors and the Supervisory Board

As at 31 December 2009, the Board of Managing Directors and the Supervisory Board did not hold, in aggregate, more than 1% of shares and option rights issued by DVB Bank SE.

59.3 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 amounted to €3.6 million (2008: €3.7 million).

59.4 Related party disclosures

DVB Bank SE, as the parent company, prepares a report on relationships with affiliated companies (dependent company report) in accordance with section 312 of the AktG, which is audited pursuant to section 313 of the AktG. The dependent company report includes a discussion on the relationships of DVB Bank SE with DZ BANK and its affiliated companies. Related party transactions are carried out on an arm's length basis. Therefore, the auditors issued an unqualified audit opinion with respect to the dependent company report.

DVB Bank SE carries out a number of banking transactions with DZ BANK, including short-term borrowings, deposits, as well as foreign currency transactions. The business relationship between DVB Bank SE and DZ BANK AG, including other affiliated companies of the DZ BANK Group, is particularly close with regard to the refinancing business. The range of transactions also includes transactions with derivatives such as interest rate options, interest rate swaps or foreign exchange forwards.

The following table shows the transactions carried out with DZ BANK AG and other affiliated companies in the DZ BANK Group.

€ mn	**2009**	**2008**	**%**
Loans and advances to banks	166.6	24.5	–
Loans and advances to customers	3.3	3.3	0.0
Financial assets held for trading	2.4	12.2	– 80.3
Positive fair values of derivative hedging instruments	45.2	27.7	63.2
Total assets	**217.5**	**67.7**	**–**
Deposits from other banks	5,210.3	4,835.3	7.8
Deposits from customers	39.4	39.0	1.0
Securitised liabilities	0.0	150.0	–
Financial liabilities held for trading	20.1	27.3	– 26.4
Negative fair values of derivative hedging instruments	13.5	20.2	– 33.2
Subordinated liabilities	268.7	278.7	– 3.6
Total liabilities	**5,552.0**	**5,350.5**	**3.8**

60. Declaration of Compliance pursuant to section 161 of the AktG and publication pursuant to section 10 of the WpPG

Section 161 of the AktG requires the boards of managing directors and supervisory boards of listed companies to issue a declaration of compliance with the German Corporate Governance Code on an annual basis. They declare, by means of such a declaration, that the recommendations of the Code have been and are being complied with, and also comment upon exceptions.

DVB Bank SE's Board of Managing Directors and Supervisory Board published their Declaration of Compliance in accordance with section 161 of the AktG on 11 December 2009 in the Electronic German Federal Gazette (elektronischer Bundesanzeiger) and simultaneously made the text permanently available to the public on the Bank's website. The website includes all of DVB's declarations of compliance since 2002.

On 28 April 2009, 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 2008.

61. 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.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, prepared consolidated financial statements and a group management report as at 31 December 2009, which was submitted to the Local Court of Frankfurt am Main and which includes DVB Bank SE.

62. Responsibility statement

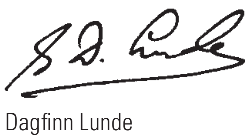
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the DVB Group, and the group management report includes a fair review of the development 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, 19 March 2010
DVB Bank SE

The Board of Managing Directors

Wolfgang F. Driese
Chairman of the Board of Managing Directors

Bertrand Grabowski
Member of the Board of Managing Directors



Dagfinn Lunde
Member of the Board of Managing Directors

Audit opinon

We have audited the consolidated financial statements prepared by DVB Bank SE, Frankfurt/Main, comprising the income statement, the statement of comprehensive income and expense, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2009 to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315 a (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 – IDW). 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 315 a (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 relating to future development.

Eschborn/Frankfurt am Main, 19 March 2010
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

signed Sterz
Wirtschaftsprüfer
(German Public Auditor)

signed Fernholz
Wirtschaftsprüferin
(German Public Auditor)

Key words

Glossary

Advisory Services
Product description denoting a range of advisory services DVB provides to Shipping Finance, Aviation Finance and Land Transport Finance clients, covering consultancy related to corporate acquisitions and divestments, strategic decision-making on finance and capital structure, loan restructuring, and the funding of acquisitions

Agent
A person who acts on behalf of another party (a principal). In a syndicated loan the agent is the bank which acts on behalf of all lenders and is responsible for administering the loan and acting as a conduit for all 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. Moreover, the ALCO decides on major refinancing projects.

Arranger
A bank or other financial institution responsible for originating and syndicating a transaction. The arranger always has a senior role, is often the agent and if required usually underwrites all or part of the transaction as well as participating (although not always) at the most senior level. Generally a title for a second level mandated or underwriting bank or a bank committing to the highest level of participation.

Asset
Specifically, a transport asset to be financed

Asset & Market Research
Product description for in-depth analyses of transport assets and markets – DVB's Asset & Market Research provides the fundamental basis for the business activities of the Bank'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 the 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.

Book building
Type of syndication where the arranging bank does not assume the liquidity and placement risks associated with placing the 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, ranging usually from three up to 20 or 30 in number, which agree to take and hold an asset at the outset of the transaction. There is no intention of reducing the commitment to lend 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 the cost efficiency management of a company; 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 macro-economic developments or events. This comprises risk traditionally associated with the concept of country risk (conversion and transfer risk, payment freeze or moratorium), plus political and economic policy risks.

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.

Equity Sourcing and Investments
Funds initiated and managed by DVB's Investment Management division provide the Bank's clients with equity products to finance investment projects.

Export credit agency
Organised in a similar way as insurance companies, export credit agencies provide cover for specific export transactions – usually on a statutory basis – and extend loans.

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 at least 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 net assets, financial position, and results of operations – to make investment decisions. Moreover, IFRS enhance transparency and improve the comparability of financial statements on an international level.

Japanese Operating Lease (JOL)
Specific form of operating lease conforming with Japanese law

Lead Arranger
Also called "Mandated Lead Arranger and Bookrunner"; a mandated bank responsible for originating, syndicating and executing a transaction. Underwriting may be included in the responsibilities.

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).

London Interbank Offered Rate (LIBOR)
Reference interest rate, used to price transactions amongst banks on the international money and capital markets

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

Mezzanine facility
Quasi-equity items which are classified – from an economic perspective – as a hybrid of equity and liabilities (such as subordinated capital, or profit-participation certificates)

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 Accord, operational risks at DVB are defined as the risk of losses resulting from inadequate or failed internal processes, human or technical failure, or external events.

Participant
A bank committing to the most junior level of participation

Profit-participation certificate
Certificated, listed profit-sharing right; depending upon their terms and conditions, profit-participation certificates may be eligible for inclusion in the Bank's liable capital.

Return on equity (ROE)
Expressed as the rate of return achieved on the capital invested by the shareholder over a given accounting period, the return on equity 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 transportation asset) is sold and immediately leased back for continued use

Societas Europaea (SE)
Legal form of a European public limited-liability company

Strategic risk
Potential decrease in 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 Finance (SAF)
As part of the Shipping Finance division, SAF offers various structured finance solutions to shipping industry clients. The transactions devised, marketed, arranged and executed by SAF – usually leases – help clients to optimise their tax burden, or facilitate the off-balance sheet treatment of assets.

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 business divisions

Subordinated capital
Unsecured subordinated liabilities bearing a fixed rate of interest; in the event of bankruptcy proceedings or liquidation, they may not be redeemed until all unsubordinated creditors have been satisfied.

Underwriting/Underwriter
Lender which commits in advance of drawdown to take on a portion of the overall facility in a syndication with a view to selling down a portion of this commitment to (an) other bank(s)

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.

Abbreviations

AAM
Aviation Asset Management

ACEA
European Automobile Manufacturers' Association

AFC
Aviation Financial Consultancy

AfS
Available for sale

AFTK
Available freight tonne kilometer

AG
Aktiengesellschaft (German public-liability company)

AIR
Aviation Industry Research

AktG
Aktiengesetz (German Public Limited Companies Act)

ALCO
Asset Liability Committee

ASK
Available seat kilometer

BaFin
Bundesanstalt für Finanzdienstleistungsaufsicht
(German Federal Financial Supervisory Authority)

BDI
Baltic Exchange Dry Index

bhp
break horse power

BilMoG
Bilanzrechtsmodernisierungsgesetz
(German Act on the Modernization of the
Accounting and Reporting Laws)

bp
Basis points

CEO
Chief Executive Officer

CIR
Cost/income ratio (cost-efficiency indicator)

COA
Contract of Affreightment

DAX
Deutsche Aktienindex (German blue-chip index)

DBO
Defined benifit obligation

DCF
Dicounted Cash Flow

dwt
Dead weight tons

DZ BANK
DZ BANK AG Deutsche Zentral-Genossenschaftsbank,
Frankfurt/Main

EAD
Exposure at default

ECA
Export Credit Agency

ECB
European Central Bank

EURIBOR
Euro Interbank Offered Rate

E & P
Exploration and production

FED
US Federal Reserve

FI
Financial instrument

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

JOL
Japanese Operating Leases

KWG
Kreditwesengesetz (German Banking Act)

LGD
Loss given default

LIBOR
London Interbank Offered Rate

LNG
Liquefied Natural Gas

LPG
Liquefied Petroleum Gas

LTI
Long-term incentive plan

LtV ratio
Loan-to-value ratio

MaRisk
Minimum requirements for risk management

M&A
Mergers & Acquisitions

MRO
Maintenance Repair and Overhaul agencies

MTN
Medium-term Note

OASIS
Object Finance Administration and Security Information System

OECD
Organisation of Economic Co-operation and Development

OEM
Original Equipment Manufacturer

OPEC
Organisation of the Petroleum Exporting Countries

OpRisk
Operational risk

PD
Probability of default

pp
Percentage points

RASP
Research and Strategic Planning (Shipping research department)

ROE
Return on equity

RPK
Revenue passenger kilometer

RUS
Restructuring Unit Shipping

SAF
Structured Asset Finance

SAM
Shipping Asset Management

SE
Societas Europaea (European public limited-liability company)

SIC
Standing Interpretations Committee

SIIM
Shipping & Intermodal Investment Management

SNCF
Société Nationale des Chemins de fer français

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

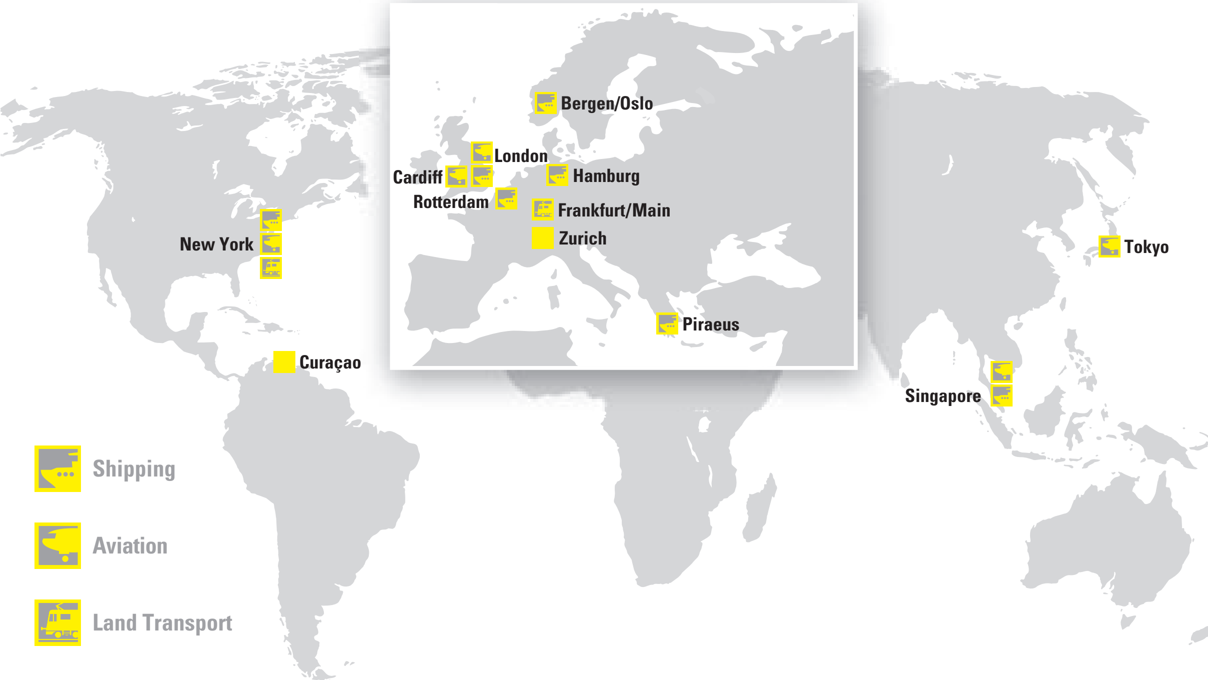
VorstOG
Gesetz über die Offenlegung der Vorstandsvergütungen (German Act on Disclosure of Remuneration of Management Board Members)

Important deals 2009

	AerCap Pre-Delivery Payment (PDP) Financing 3 x A330-300 Arranger & Agent		**China Airlines** Instalment Sale Agreement for 8 engines Arranger & Agent
	Air Europa Finance Lease 2 x new E195 Arranger & Agent		**Clipper Group A/S** 2 x VLCCs Co-Finance with the Export/Import Bank of China US$170 mn (Co-)Arranger
	Alaska Airlines Mortgage Debt Financing 2 x new B737-800 Arranger & Agent		**Continental Airlines** Mortgage Debt Financing 3 x new B737-900ER and 2 x B737-800 Arranger & Agent
	American Airlines Mortgage Debt Refinancing 2 x B777-200LR and 2 x B757-200ER Arranger & Agent	***Deucalion Aviation Funds***	**Deucalion Aviation Funds** Equity investment in 41 commercial aircraft and 23 engines Managed by DVB's Investment Management
	ARI Second Term Loan and Warehouse Financing for freight railcar portfolio US$85 mn Co-Arranger & Agent		**Dragon Aviation Leasing** Operating Lease Financing New A320-200 on lease to Aigle Azur Debt Arranger & Agent
	Asiana Airlines Lease Refinancing B747-400C, B767-300 and 2 x B737-400 Arranger & Agent	***DVB Aviation Asset Management***	**DVB Aviation Asset Management** 11 commercial aircraft sold/leased, 45 aircraft under management, 21 aircraft under remarketing contracts in 2009
	AXBenet Direct Loan for the financing of a fleet of used railcars Arranger & Sole Loan Provider		**Eletson Corporation** Post-Delivery Finance of 2 new building MR product tankers US$60 mn Arranger (bilateral)
	Bernhard Schulte Group Post-Delivery Financing of 2 x 4,600 TEU container vessels US$80 mn Bilateral Lender		**Excel Maritime Carriers Ltd** US$48 mn offering of common stock
	Capital Intermodal Senior Term Loan US$79 mn Arranger (bilateral)		**GATX** Term Loan for freight railcar portfolio US$50 mn Arranger & Agent
	Capital Intermodal SIIM acted as advisor to CLOU on the restructuring of Xines & sale of the management rights of Xines and Capital Intermodal to Textainer		**GC Rieber** Term Loan for financing the 3D seismic survey vessel "Geo Atlantic" US$44 mn Arranger

Glencore/Laliotis (joint-venture) Facility to finance 2 MR tankers US$50 mn Arranger & Lender	**Seacontainers** Senior Term Facility US$130 mn Co-Lead Arranger (together with Fortis)
Guggenheim Aviation Partners Operating Lease Financing 2 x A330-200 delivered new to US Airways Debt Arranger & Agent	**Sri Lankan Airlines** Finance Lease Refinancing of 3 x A330-200 Arranger & Agent
Jetscape Financing of a portfolio of 7 new E170/190 aircraft on Operating Lease Debt Arranger & Agent	**Stealthgas Inc.** Amortizing Term Loan US$33.9 mn Arranger & Lender
KOGAS 4 x LNG Finance Advisory Role	**STX Pan Ocean** Term Loan for the financing of 2 x IMO II chemical tankers M/T "Bum Shin" and M/T "Bum Young" US$36 mn Arranger & Lender
Korean Air Lease Refinancing B747-400F Arranger & Agent	**Thai Airways** Finance Lease 2 x new A330-300 Arranger & Agent
Latvian Shipping Company Sale and Leaseback One 68k dwt Product Tanker (2001) US$32.5 mn Arranger & Lessor	**Thomas Cook** Lease Refinancing B767-300ER and B757-200ER Arranger & Agent
Marine Projects Ltd On its merger with GMMOS Group Mandated Sole Arranger	**Topaz Energy and Maritime** Term Loan for financing the 3,200 dwt platform supply vessel "Caspian Server" US$23.1 mn Arranger
Navios Maritime Holdings First priority first mortgage notes due 2017 US$400 mn Co-Manager	**TPC Korea** Pre- & Post-Delivery Financing for 6 x Handysize bulk carriers US$100 mn Arranger & Agent
Noble Group Ltd Acquisition Facility for a Capesize bulk carrier US$22.5 mn Arranger & Agent	**Vogtlandbahn GmbH** Operating Leasing Financing for Bombardier double deck coaches Sole Lender & RV Risk Taker
Regional Container Line Refinancing of 6 x 1,000 TEU container vessels US$24 mn Bilateral Lender	**W-O Shipping Group B.V.** With respect to the formation of ShipsPark LLC US$146 mn

DVB worldwide



Head office

DVB Bank SE
Platz der Republik 6
60325 Frankfurt/Main, Germany
Phone +49 69 97 50 40, Fax +49 69 97 50 44 44

Europe

Bergen/Oslo
DVB Bank SE
Nordic Branch, Strandgaten 18, 5013 Bergen, Norway
Phone +47 55 309 400, Fax +47 55 309 450

DVB Bank SE
Haakon VII's gate 1, 0161 Oslo, Norway
Phone +47 23 01 22 00, Fax +47 23 01 22 50

Cardiff
TES Aviation Group
Aviation House, Brocastle Avenue, Waterton Industrial Estate
Bridgend, CF31 3XR, Wales, UK
Phone +44 1656 765 200, Fax +44 1656 667 987

Hamburg
DVB Bank SE
Shipping Department, Ballindamm 6, 20095 Hamburg, Germany
Phone +49 40 30 80 04 0, Fax +49 40 30 80 04 12

London
DVB Bank SE
London Branch, 80 Cheapside, London EC2V 6EE, UK
Phone +44 207 618 9600/9700, Fax +44 207 618 9651/9750

Piraeus
DVB Bank SE
Representative Office Greece, The Chandris Building
95, Akti Miaouli, 185 38 Piraeus, Greece
Phone +30 210 4557 400, Fax +30 210 4557 420

Rotterdam
DVB Bank SE
Rotterdam Branch, Parklaan 2, 3016 BB Rotterdam, The Netherlands
Phone +31 10 206 7900, Fax +31 10 436 2957

Zurich
ITF International Transport Finance Suisse AG
Wasserwerkstrasse 12, 8006 Zurich, Switzerland
Phone +41 44 3656 100, Fax +41 44 3656 200

The Amcericas

Curaçao
DVB Bank America N.V.
Zeelandia Office Park, Kaya W.F.G. Mensing 14,
Curaçao, Netherlands Antilles
Phone +599 9 431 8700, Fax +599 9 465 2366

New York
DVB Transport (US) LLC
Representative Office of DVB Bank SE
609 Fifth Avenue, New York, NY 10017-1021, USA
Phone +1 212 588 8864, Fax +1 212 588 8936

DVB Capital Markets LLC
609 Fifth Avenue, New York, NY 10017-1021, USA
Phone +1 212 858 2623, Fax +1 212 588 0424

DVB Service (US) LLC
609 Fifth Avenue, New York, NY 10017-1021, USA
Phone +1 212 858 2646, Fax +1 212 858 2694

Asia

Singapore
DVB Group Merchant Bank (Asia) Ltd
77 Robinson Road # 30-02, Singapore 068896
Phone +65 6511 3433, Fax +65 6511 0700

Tokyo
DVB Transport Finance Ltd
Tokyo Branch, The Imperial Hotel Tower 14th Floor (A-2)
1-1, Uchisaiwaicho 1-chome, Chiyoda-ku, Tokyo 100-0011, Japan
Phone +81 3 3593 7700, Fax +81 3 3593 7860

www.dvbbank.com Email: info@dvbbank.com

Imprint

DVB Bank SE
Platz der Republik 6
60325 Frankfurt/Main, Germany

Investor Relations
Elisabeth Winter
Manager Investor Relations
Phone +49 69 97 50–43 29
Fax +49 69 97 50–48 50

Sabine Schlieben
Phone +49 69 97 50–44 49
Fax +49 69 97 50–49 41

Design concept and realisation
GolinHarris B&L GmbH, Frankfurt/Main, Germany

The Annual Report 2009 is published in English and German as printed copy as well as PDF file and eReport on our webpage www.dvbbank.com.

Order facility
By phone, fax or email and via our webpage www.dvbbank.com in the section Contact/Order Form

Photos
Board of Managing Directors of DVB Bank SE (page 9) and Supervisory Board of DVB Bank SE (page 13):
Stefan Kiefer, Regensburg, Germany

Key events (inner cover page):
DVB Bank SE

Shipping Finance
Front cover, page 6, 36 to 37:
Egor Ryabchenko, DVB Bank SE, Rotterdam, The Netherlands
Shipping Finance Deal of the Year 2009 (page 45):
Minnow Marine Projects, Dubai, United Arab Emirates

Aviation Finance
Front cover and page 2, 50 to 51:
Bert van Leeuwen, DVB Bank SE, Rotterdam, The Netherlands
Aviation Finance Deal of the Year 2009 (page 57):
Nuttapong Wannavijid, Chiangmai, Thailand

Land Transport Finance
Front cover and page 4, 64 to 65:
Wouter Radstake, DVB Bank SE, Rotterdam, The Netherlands
Land Transport Finance Deal of the Year 2009 (page 70):
American Railcar Leasing LLC, St. Charles, USA