ANNUAL REPORT

DVB

Content

Key figures

DVB Group

€ mn	2004	2003	2002	2001	2000
Results: Five year record					
Ordinary income	148.4	140.8 [1]	195.0	193.1	164.3
Net interest income	102.2	96.2	97.3	89.2	66.0
Net commission income	47.1	35.4	93.0	98.4	90.1
Net profit on financial operations	-0.9	3.7	4.7	5.5	8.2
Administrative expenses (incl. depreciation)	93.3	95.5 [1]	162.5	157.6	131.5
Operating profit excl. loan loss provisions	60.7	52.7 [1]	35.8	36.5	32.5
Net loan loss provisions	12.0	20,9	19.9	17.2	–1.1
Profit from ordinary activities	51.8	44.8	47.0	36.1	35.7
Net income after taxes	32.5	71.6	32.6	4.5	19.1
Balance sheet data					
Volume of business	11,246	11,255	11,748	13,242	11,410
Total assets	9,250	9,065	9,296	10,972	9,472
Loans and advances to customers	6,957	6,547	6,685	6,858	6,244
Liabilities to customers	2,782	2,108	2,096	2,710	2,496
Certificated liabilities	2,753	2,178	1,489	1,953	1,521
Own funds	820.2	804.0	786.5	771.4	749.3
Core capital (TIER I)	509.9	489.4	439.2	408.0	429.2
Supplementary capital (TIER II)	310.3	314.6	347.3	360.3	320.1
TIER III funds	–	–	–	3.1	–
Key indicators and ratios (%)					
Core capital ratio (German Banking Act)	6.7%	6.8%	5.8%	5.0%	5.7%
Total capital ratio (German Banking Act)	10.7%	11.1%	10.4%	9.5%	10.2%
Return on equity (RoE) before taxes [2]	15.7%	16.2%	15.9%	6.8%	15.1%
Cost/income ratio (CIR) [2]	57.8%	71.1%	79.1%	77.7%	77.9%
DVB Share data (€)					
Dividend	2.00	2.00	1.50	1.50	3.60
Dividend yield (%)	1.93%	2.29%	1.88%	1.67%	3.75%
Earnings per share (according to DVFA)	12.19	6.24	2.44	1.12	3.22
Rating					
Moody's Investors Service					
Long-term/short-term rating/ Outlook	A3/P-2/ stable	A3/P-2/ stable	A3/P-2/ stable	A3/P-2/ stable	A3/P-2/ stable
Financial strength/outlook	C-/stable	C-/stable	C-/negative	C-/negative	D/stable
Standard & Poor's					
Long-term/short-term rating	BBB+/A-2	BBB+/A-2	BBB+/A-2	BBB+/A-2	A-/A-2
Outlook	stable	negative	negative	negative	stable

[1] excl. income and expenditure attributable to ReiseBank AG/CashExpress GmbH

[2] excl. depreciation of goodwill

Key corporate events

The DVB Bank Group is referred to as "DVB" below, while DVB Bank AG is identified under its registered company name.

The transformation of DVB from a German commercial bank into a global specialist in international Transport Finance was completed with the sale of RB/CE [1] at the end of 2003. This marked the successful conclusion of the first development phase of the Bank. The 2004 business year was characterised by the second development phase: the consistent realisation of DVB's earnings potential.

In the wake of the RB/CE sale, 2004 was the first year in which DVB's revenues were generated almost exclusively from the Bank's core international Transport Finance business. DVB's **"realisation phase"** ushered in strong 2004 earnings which served to underline the success of the Bank's unique strategic focus. Ordinary income increased by 9.7% to €148.4 million (2003: €135.3 million excl. RB/CE) while operating profit, excluding loan loss provisions, accelerated 28.6% to €60.7 million (2003: €47.2 million excl. RB/CE). During 2004 the Transport Finance market segments – Shipping, Aviation, Land Transport and Transport Infrastructure – provided corporate lending, distribution and corporate finance products to our global customer base. We also capitalised on the significant competitive advantages that we enjoy over the international banks that constitute our competition: we are clearly focused, we have highly competent teams of specialists and our lean organisational structure allows for efficient decision-making processes.

In order to further enhance our profitability in the future, we embarked on our revolutionary project **"Design Phase III – Leap in Profitability".**

The first step in the strategy was the identification of client potential and segmentation while, at the same time, exploring the opportunities to expand, improve and adapt our product base in line with our clients' requirements. It became apparent that substantial income potential was effectively lying dormant within our current client and product base. In order to unlock this potential and increase our "hit ratio", new tools were introduced. These tools would act as an aid for relationship managers in their assessment of clients' financial needs and the income potential associated with each client, thus indicating the optimum relationship required in respect of each client. On the products side, we are currently reviewing how to expand our offering in areas such as equity sourcing and other capital market transactions, together with advisory services and Treasury products. The extension and expansion of our product range within our core business is designed to provide the additional source of income required to achieve our financial goals.

Certain elements of the Design Phase III are already being implemented, while others will follow soon. The creation of a **"Great company"** on a global scale involves an ongoing and constantly evolving process. We will continue to maintain a permanent dialogue with our clients in order to identify their ever-changing needs. We are in an excellent position to service these needs with customised products.

1) ReiseBank AG/CashExpress GmbH, subsidiaries of DVB Bank AG until 31 December 2003.

2004

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DVB Highlights

Nedship Bank N.V., Rotterdam, changes its name to DVB Bank N.V.
1 March – Nedship Bank N.V., Rotterdam, a wholly-owned subsidiary of DVB Bank AG, changed its name to DVB Bank N.V.

DVB launches Aero Engine Finance Unit
26 November – The launch of DVB's Aero Engine Finance Unit underlined the Bank's commitment to aircraft engine financing, a thriving and distinctly attractive aspect of international Aviation finance. Given the significance of engine type to the value of aircraft (and their marketability upon resale), we are intent on becoming a premier player in this segment.

Client events hosted by DVB
- 22 to 24 March – DVB was one of the sponsors of the CMA (Connecticut Maritime Association) Shipping 2004 Conference in the US.
- 14 to 17 September – Following the success of the 2002 and 2003 events, we hosted the Third DVB Executive Symposium for selected Transport Finance business associates, featuring distinguished keynote speakers.
- 28 to 29 November – Our representative office in Piraeus celebrated its 25th Anniversary, attended by a virtual "Who's Who" of Greek ship owners – some of whom we have worked with for a quarter of a century.

Shipping Finance Awards
- Lloyd's Shipping Economist – "Best Shipping Finance Research in 2004" and "Most Innovative Ship Finance Deal"
- Marine Money – "Best Shipping Deal in 2004"
- Jane's Transport Finance – "Shipping Equity Deal of the Year"
- Maritime Asia – "Best Ship Financier 2004"

Articles and publications
- Articles written by our specialists that appeared in international trade magazines included: "Air cargo still climbing – Positive outlook for the Asia-Pacific region"; "Competitors on the horizon – the LCC craze hits Asia"; and "Eastern Europe – Growth market for low cost airlines".
- Key findings associated with our Shipping Research publications including "The bulk carrier market outlook"; "The cruise industry and its outlook 2004–2007"; and "Freight rate fest for dry bulk folk" were published by several prestigious shipping magazines.

Selection of lectures given by DVB executives
- **Wolfgang F. Driese,** Chairman of the Board of Managing Directors, took part in a discussion panel on "Aircraft Finance: Putting deals together, taking deals apart" at the ISTAT (International Society of Transport Aircraft Trading) Annual Meeting, Florida, 27 to 30 March.
- **Dagfinn Lunde,** Member of the Board of Managing Directors, delivered speeches on Shipping Finance:
  30 to 31 March – The Inaugural Lloyd's Shipping Economist Norwegian Ship Finance Conference 2004, Oslo.
  16 to 17 November – Lloyd's Shipping Economist Ship Finance Conference 2004, London; together with **Peter Illingworth,** General Manager, London Branch.
- **Prof Dr Borislav Bjelicic,** Senior Vice President Corporate Communications, delivered speeches on Aviation Finance:
  28 to 29 January – 2nd Annual CARGO AIRCRAFT Conference, Brussels
  22 to 23 April – 3rd European Transport Congress, Opatija, Croatia
- **Gerrit Dekker,** Head of Structured Asset Finance, participated in a discussion panel on Shipping at the 9th Annual Big Ticket Leasing Convention, London, 8 to 10 March.
- **Connie Laudenschlager,** Senior Vice President and Chief Representative – The Americas, joined the Chairman of the Board of Managing Directors at the ISTAT Annual Meeting, Florida; she also gave a lecture at the Commercial Aviation Report Conference, San Francisco, 19 to 20 May.
- **Bert van Leeuwen,** Senior Vice President Aviation Industry Research, gave speeches on Aviation Finance:
  2 to 3 June – 2nd Annual Aircraft Operating Leasing Conference, Dublin
  7 to 8 June – The China Air Cargo Summit 2004, Shanghai; together with **Frank Wulf,** Executive Director.
- **Martin Metz,** Senior Vice President Land Transport, spoke at the 6th EUROFORUM Annual Conference on Local Public Transport 2004, Berlin, 23 to 24 March.
- **Sander Scheepens,** Head of Investment Management Asia and Advisor to the NFC Shipping Funds, gave a lecture at the "Shipping China 2004 – exploring maritime business in China" Conference, 26 to 27 February.

DVB – Unique and focused

DVB is the global leader in Transport Finance. We strive to optimise value for the benefit of our clients, our employees and our shareholders.

We are the leading specialist in international transport finance

For us, this means the provision of innovative and tailor-made products for our discerning clients in the Shipping, Aviation, Land Transport and Transport Infrastructure market segments. We focus on the creation of long-term business relationships in order to provide value-added advice and financing solutions to our clients: applying our expertise to optimise their success.

We invest in our personnel to ensure that they continue to operate at the cutting edge of international Transport Finance: the most knowledgeable and productive experts in their respective markets. We support them in their professional careers, reward their successes and promote their active involvement in DVB's strategic issues. Our teams are proud to work for DVB.

Our focused and well managed businesses achieve an above-average return for shareholders. The conscious management of risks is a core element of managing our business and also represents a basis for the sustained creation of value for the Bank.

We strive to protect the integrity and reputation of DVB, our employees and our clients, as well as the transport segments we focus on, in everything that we do. All of our actions are guided by transparency and fairness.

Letter to our shareholders and business partners

Dear Ladies and Gentlemen,

Quod erat demonstrandum. The question was: could a bank such as DVB, which had chosen to focus solely on a single sector with a narrowly defined client base, successfully compete, by way of a bespoke approach to service, in the global transport marketplace? DVB's progress demonstrates the answer to that question.

In the event, 2004 heralded the first business year for the "new DVB". It also heralded the Bank's highest ever operating results.

Operating profit, excluding loan loss provisions, reached a record €60.7 million, which represents an increase of 28.6% compared with the figures for the previous year. We particularly welcome the 33.1% increase in net commission income to a level that almost reaches our target of 50% of net interest income. In presenting the Bank's results for 2004, all amounts attributable to ReiseBank Group (which was divested on 31 December 2003) have been eliminated from comparative figures.

We are also delighted with the return on our investments in new services and business areas. With income of €20.9 million (+60.8%) our Corporate Finance business, which only commenced operations a few years ago, has already exceeded our medium-term projections. The year 2004 was also the first business year for our new Container Business Unit (CBU) which has made an outstanding start and contributed €5.5 million in income. This serves to underline the soundness of our recent investments.

We will propose an increase in the dividend to €2.00 per share at the Annual General Meeting. We would like to take this opportunity to express our gratitude to all those who contributed to DVB's success throughout 2004: our employees, our clients and our shareholders.

As previously predicted, 2004 was the year that saw us start to realise the inherent potential of DVB's unique business model. We look back with pleasure – and more than a modicum of relief – on what we have achieved.

Had it not been for the tsunami disaster on 26 December 2004, the year would have passed with relatively few new crises or conflicts. A year that witnessed overall growth – albeit with regional divergence – accompanied by some enormous surges in demand for transport capacity, with the booming Chinese economy acting as a decisive (but not the sole) driver. Once again, such developments served to demonstrate that we are active participants in an industry that enjoys dynamic growth rates worldwide.

Dagfinn Lunde *Wolfgang F. Driese* *Rolf Michael Betz*

Consequently, there was a global increase in the demand for financing. More to the point, such growth occurred in parallel with an improvement in terms. Lending growth within our target segments ranged between 13.1% and 15.4% (adjusted to take account of exchange rate fluctuations). This is clear evidence of the excellent position we command in our target markets, leveraging our competitive edge vis-à-vis other banks.

We differentiate ourselves through our knowledge and experience, our detailed asset research and our global network: we are a business that is strongly focused on risk/reward relationships. Short reporting lines and the entrepreneurial spirit instilled in all our staff are equally important. We want to continue to improve, year after year.

We used our proprietary internal rating model in respect of our Aviation portfolio for the first time, setting aside specific loan loss provisions in line with the default risks, determined by the model, pertaining to individual exposures. The other industry portfolios will follow suit during 2005. While this helps to strengthen our reserves, it is also becoming evident that our chosen collateralisation structures will provide significant capital adequacy relief once the Basel II framework comes into force.

At 15.7%, we clearly improved our return on equity, an outcome that is two years ahead of our rolling medium-term projections. The benefits of progress made through productivity are obvious. Although our cost/income ratio of 57.8% compares favourably with our competitors, we will do whatever it takes to reach our target ratio of below 50% before the scheduled date of 2008.

The year 2005 holds manifold tasks for us. We will tackle such matters vigorously and will deal with them successfully, as in previous years. Our focus is on the following areas:

- We envisage continued growth in ordinary income, while maintaining our cost disciplines. Given the results achieved in 2004, net interest income is expected to show stronger growth rates than net commission income.

- Following the successful launch of our Container Business Unit in 2004, we are intent on achieving a similar market position in respect of our new Aero Engine Finance Unit. Where necessary, we will undertake additional investment in both areas.

- Our Design Phase III project team is expected to submit detailed and specific proposals for extensions to our product range and our market coverage in mid-2005. These proposals should result in further medium-term earnings momentum.

- Our Head Office units will continue to face major demands, given further refinement of the concepts involved in management of the Bank's capacity to carry and sustain risk, the development of portfolio management tools, the implementation of the data warehouse and the conversion of our accounts to IAS/IFRS.

These measures, and other projects that we will embark on, have a single purpose. We want to be the best in the market – for the benefit of our clients and to the satisfaction of our staff and shareholders.

We have a passion for success.

Wolfgang F. Driese	Rolf Michael Betz	Dagfinn Lunde
Chairman of the Board of Managing Directors	Member of the Board of Managing Directors	Member of the Board of Managing Directors

Corporate Governance

The purpose of the German Corporate Governance Code (GCGC), which has been in force since 30 August 2002, is to enhance transparency in respect of company management and monitoring for the benefit of domestic and international investors. The German Government Commission amended the Code on 21 May 2003, within the scope of the European Commission's Financial Services Action Plan.

The German Corporate Governance Code (incl. a translation into English), as amended on 21 May 2003 and in the version that is relevant for the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act, has been published on http://www.corporate-governance-code.de, and in the official part of the electronic Federal Gazette (Bundesanzeiger), on http://www.ebundesanzeiger.de.

Our actions under the German Corporate Governance Code

The concept of transparency serves to foster our co-operation with international partners in the transport and financial markets. That is why, as a global Transport Finance specialist, we have largely implemented the recommendations made by the Government Commission. Only where a specific situation at DVB requires otherwise have we decided not to comply with these recommendations.

Declaration of Compliance for 2004 and 2005

The law obliges any company that does not intend to adhere to the recommendations of the Code to expressly disclose its intentions each year and to give specific reasons in a "Declaration of Compliance". However, such a Declaration does not require detailed explanations of the implementation of the Code's recommendations.

The following information on Corporate Governance issues is available on our website www.dvbbank.com:
- *"Investor Relations – Corporate Governance"*
- *"Press Room"*

We did not comply with four of the Code's recommendations during 2004, and will continue not to do so in 2005:
- 4.2.4 GCGC: we will not disclose the remuneration of individual members of the Board of Managing Directors for reasons of confidentiality. However, we will disclose comprehensive details on the remuneration paid to the entire Board of Managing Directors in the Notes to the Financial Statements (page 132 et seq.), incl. a breakdown into fixed and variable components, in accordance with 4.2.3 GCGC.
- 5.2 GCGC: for efficiency reasons, we continue to dispense with a special committee to prepare meetings of the Supervisory Board.
- 5.3.2 GCGC: we continue to regard the establishment of an Audit Committee as unnecessary, given that audits of the financial statements are presented to the plenary session of the Supervisory Board and that the financial statements are approved during a Supervisory Board meeting in the presence of the auditors.
- 5.4.5 GCGC: given the comparable workload, we make no distinction in terms of remuneration between chairpersons and "ordinary" members of Supervisory Board committees.

In 2004, we did not comply with the Code's recommendations in respect of one additional issue:
- 7.1.1 GCGC: the changeover to international accounting rules is planned for the year 2005.

The DVB Share

Despite the upsurge in the euro towards the end of 2004, Germany's DAX blue-chip index registered a further rise on the year, albeit in the wake of a distinctly volatile equity market.

The DAX, reflecting bullish sentiment in the equity market, advanced to 4,152 on 23 January 2004, its highest level since July 2002. Second thoughts regarding equity valuations and economic prospects subsequently brought a reversal although, by the end of March, the DAX appeared to have stabilised, hovering just above the 3,700 mark. In the event, the index, having plumbed a 2004 "low" of 3,647 in mid-August, breached the 4,000 mark in early October and achieved further momentum towards the end of the year to bow out of 2004 at 4,256: a year-on-year increase of 7.3% (end-2003: 3,965). Major influencing factors during the course of the year included the weakness of the US dollar versus the euro, the consequent interest rate policies of the US Federal Reserve and the European Central Bank and the take-off in crude oil prices.

DVB Share performance

DVB's share price benefited from stronger trading volumes for much of the year. DVB shares, which stood at a 2004 "low" of €87.50 on 2 January 2004, reached a year's "high" of €111.00 on 27 September 2004. The price ended the year at €103.75: a year-on-year increase of 18.6%.

DVB Share data

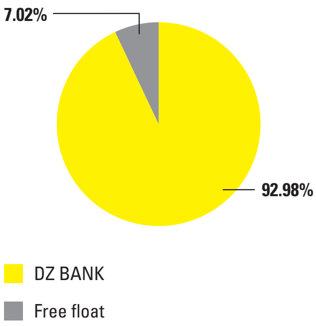
€	2004	2003	2002	2001	2000
Dividend	2.00	2.00	1.50	1.50	3.60
Dividend yield	1.93%	2.29%	1.88%	1.67%	3.75%
Business year high	111.00	87.80	90.30	104.00	104.25
Business year low	87.50	73.00	72.00	84.00	87.59
Year-end price	103.75	87.50	80.00	90.00	102.00
Earnings per share (according to DVFA)	12.19	6.24	2.44	1.12	3.22
Number of shares at year-end	3,034,462[1)]	3,020,147	3,005,791	3,003,224	3,000,000
Market capitalisation at year-end	313,617,471	264,262,862	240,463,280	270,290,160	306,000,000

1)) includes shares resulting from DVB's employee share ownership programme "DVB shares", which were registered in February 2005

Shareholder structure

There were no material changes to DVB's shareholder structure in 2004. DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main, the principal shareholder, held 92.98% of the Bank's €77,277,140.65 subscribed share capital which is divided into 3,022,819 notional no-par value shares ("unit shares"). The remaining 7.02% is held in free float.

Shareholder structure



Resolutions of the 2004 Annual General Meeting

The Annual General Meeting of DVB Bank AG was held on 9 June 2004 at the "Hermann-Josef-Abs Saal" in Frankfurt/Main. According to the initial count, holders of 92.49% of the Bank's share capital were represented; this was subsequently amended to 92.50% (2003: 92.53%). All resolutions were passed by clear majorities of either 99.96% or 99.99%.

Material resolutions included

- the approval by shareholders of the activities of the Board of Managing Directors and the Supervisory Board for the business year 2003.
- the authorisation to acquire treasury shares, in accordance with section 71 (1) no. 7 of the German Stock Corporation Act, was extended until 30 November 2005.

The Annual General Meeting elected Dr Thomas Duhnkrack, Prof Dr Manfred Schölch, Wolfgang Kirsch, Dr Peter Klaus, Hemjö Klein and Hermann Möller as Members of the Supervisory Board representing shareholders.

Dividend proposal 2005

A dividend of €1.50, plus a €0.50 bonus per unit share, was distributed during 2004 in respect of the 2003 business year. We will propose the payment of an increased dividend of €2.00 (+€0.50) per unit share in respect of the 2004 business year at the Annual General Meeting in 2005.

2005 Financial Calendar

15 March 2005
"Financials 2004"
Press Conference and
Analysts' Meeting
in Frankfurt/Main

End of April/mid-May 2005
Publication of quarterly report

May/June 2005
Publication of the Annual Report
2004 (in German and English)

10 June 2005
Annual General Meeting

13 June 2005
Dividend payment

1 July 2005
Distribution on
profit-participation certificates

End of July/mid-August 2004
Publication of interim report
for the six months to 30 June 2005
(in German and English)

End of October/mid-November 2005
Publication of quarterly report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Transport Finance – Shipping

Annus Mirabilis – a wonderful year

We wrote in last year's Annual Report that "2003 will be remembered as a remarkable year for the shipping industry". From an owner's perspective, 2004 turned out to be even better. To say that 2004 was just another good year for the shipping industry would vastly understate the market highs reached during the year. Previous market highs have been of a much shorter duration than those experienced over the past months and rarely have we seen such a synchronised boom across all the key shipping sectors.

Abbreviations Shipping:

bp	*base points*
bpd	*barrels per day*
cbm	*cubic metres*
GDP	*Gross Domestic Product*
dwt	*dead weight tonnes*
IEA	*International Energy Agency*
IMO	*International Maritime Organisation*
IRR	*Internal Rate of Return*
LNG	*Liquified Natural Gas*
LPG	*Liquified Petroleum Gas*
MGC	*Medium Gas Carrier*
mmbtu	*million British thermal units*
OPEC	*Organisation of the Petroleum Exporting Countries*
S&P	*Sale and Purchase*
TCE	*time charter equivalent*
TEU	*twenty feet equivalent unit*
USAC	*US Atlantic Coast*
VLCC	*Very Large Crude Carrier*
VLGC	*Very Large Gas Carrier*

Market review

The main driving force behind these extraordinary conditions was the strong growth rate reflected by the 9.5% GDP figure achieved by the Chinese economy in 2004. However, China was not the only positive influence. The US economy continued to remain strong through 2004 and Japan ended with 3.2% annual growth for the year; a welcome improvement over the 2.7% growth registered in 2003. In fact it was a good year for the major Asian economies in general, particularly with respect to shipping. Only Europe, with its slow growth rates, was the laggard in the global economy.

The well publicised VLCC market serves as a good sector to illustrate both the volatility and the surge in rates during 2004. Strong demand and high oil prices resulted in OPEC increasing production to near capacity levels. As a result, spot earnings for VLCCs topped US$274,000 per day for a Red Sea voyage towards the middle of November 2004. To put this in perspective, VLCC spot rates for a similar voyage stood at around US$10,000 per day in mid 2002 and registered a high of just US$95,000 per day towards the end of December 2002.

The dry bulk market also enjoyed a spectacular year, albeit one in which a great deal of volatility was experienced. Capesize spot rates started 2004 at an amazing US$90,000 per day and dipped during the middle of the year before returning towards the US$90,000 per day mark as the year drew to a close. The market success experienced by this sector can be attributed primarily to high Chinese iron-ore imports and strong Asian demand for steam coal.

The container sector has also been in fine health, largely due to the exports of Chinese finished products. Growth rates in container traffic went into overdrive during 2003 and it was not long before the supply of tonnage tightened. Inevitably, charter rates increased. This continued during the course of 2004 with the increases proving far greater than most had anticipated. This can be illustrated by the time charter rates for Sub-Panamaxes (2,000–2,999 TEU) which steadily increased from around US$12,750 per day in early 2003 to US$36,000 per day by the end of 2004.

Not surprisingly, these positive markets led to sustained high order levels and an increase in asset values. Newbuilding prices increased notably as yard capacity rapidly filled-up during the year. High steel prices and the weak US dollar also contributed to the price rise. Tankers saw some of the sharpest increases in newbuilding prices, up by around 35% year-on-year and that too after the 18% increase experienced in 2003.

The increase in steel prices during 2004 resulted in a decline in ordering activity towards the tail-end of the year with 2004 recording 93.1 million dwt compared with the 105 million dwt registered in 2003. Interestingly, in number terms, 646 vessels were ordered in 2004 compared with 542 vessels in 2003. Of further interest is the fact that 2004 saw the delivery of 57.4 million dwt compared to 53.1 million dwt in 2003 due to the time lag between ordering and delivery. The uncertainty surrounding the future pricing of steel plate, however, has left shipyards reluctant to continue filling orderbooks, other than at a price premium.

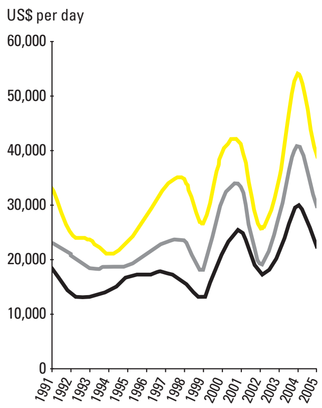
At a time when freight rates are "outside the envelope" and annual shipbuilding contracts are at an all-time high, one tends to lose sight of the fact that cyclicality will lead to an eventual downturn. A continuation of strong markets, notwithstanding the high supply side, would require a similar continuation of strong growth from the US, China and other major Asian economies, along with an improved euro zone economy. It is common knowledge that nothing remains constant in shipping for too long; however, the forces in play and the current dynamics seem to suggest that this time around the downturn will be more gradual, barring any unpredictable events, and is unlikely to revisit the levels seen in the 1990s.

DVB's Shipping portfolio is diverse in terms of the wide range of vessels that we finance. The following review will focus on the key sectors, namely crude tankers, product tankers, chemical tankers, container carriers, dry bulk and gas carriers which, together, cover the majority of the 1,000 plus vessels financed by DVB.

Crude tankers (15% of the Shipping portfolio)

The IEA's revised estimate of global demand in 2004 was 82.4 million bpd, a 3.3% increase over 2003's figures and the highest annual growth rate since 1978. Some of this growth can be attributed to the increase in US strategic reserves from 500 million to 700 million barrels and the general build up of reserves by countries looking to address concerns over potential supply disruptions.

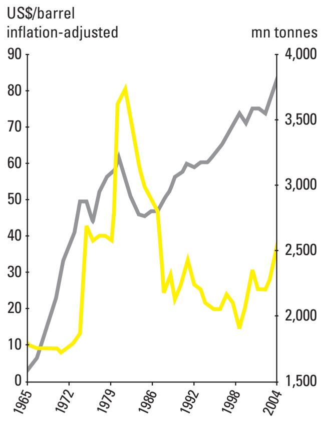
Crude tanker time charter rates – historical and forecast



VLCC
Suezmax
Aframax

Source: MSI (3Q 2004)

Crude oil production and crude prices



Crude prices (US$/barrel)
Total crude production (mn tonnes)

Source: MSI

China, an important driver of demand, recently overtook Japan as Asia's largest consumer of crude. Since January 2002, China's crude oil imports have increased from 1 million bpd to 2.5 million bpd with year-on-year growth from 2003 estimated at 0.8 million bpd.

As mentioned earlier, the increase in demand was a key factor behind the extraordinarily strong market conditions with rates and earnings achieved by owners reaching levels that could hardly have been dreamed of. Even a late December dip in rates failed to take the shine off the market for owners. The upswing in the tanker market and the general scarcity of newbuilding berths has propelled VLCC prices through the US$100 million mark. The strong freight market in 2004 also provided a boost to second-hand prices. This was particularly the case in respect of modern tonnage with prices for five year old double-hulled vessels approaching and at times surpassing those of newbuildings.

With OPEC being a swing producer, a cut in production affects cargo volumes – particularly from the Persian Gulf – which in turn affects freight rates. As 2004 came to an end, OPEC advised that it was considering production cuts. This led to a collapse in the tanker freight market despite the fact that any such cut backs, had they materialised, would have taken 4–6 weeks to come into effect. Following its meeting on 2 February 2005, OPEC announced that no cut backs were to be introduced at this time. This, in turn, resulted in an increase in freight rates despite the fact that such an announcement had no real implications for the physical market.

The sizeable delivery schedule indicates an expansion of the fleet over the next two years. This, coupled with the limited number of vessels to be scrapped as part of the IMO driven phase out, suggests that freight rates could ease from the current high position at some point during 2005. There are a number of "wild card" events that need to be considered when assessing the crude market. Some offer the possibility of creating new trade routes, while others simply add to market volatility. For example, increased Caspian oil production has added to the delays experienced by tankers transiting the Bosporus. These delays create spikes that ultimately boost the freight markets. Other events that should be considered relate to the political climate in Venezuela, potential strikes in Nigeria, "just in time" inventory purchasing by oil majors, pipeline development, pipeline sabotage and the emergence of "new" markets such as Libya, Murmansk and the Sakhalin Islands.

While the tanker markets are becoming increasingly difficult to predict, expectations are that they will remain relatively strong in 2005, although rates may cool off to more sustainable levels compared to those witnessed during 2004.

Product tankers (8% of the Shipping portfolio)

The demand for seaborne product imports was strong in 2004, due in part to increased demand from China and the US. Chinese gasoil imports increased steadily, despite the self-sufficiency programme that Beijing embarked on a few years ago in a bid to minimise light product imports. Stockpiling of gasoil, which is used to power backup generators, increased as a result of the power shortages China experienced in 2003.

In the US, refineries continued to operate at near capacity levels. Despite the number of US domestic refineries having declined from 300 in 1980 to 149 by the end of 2003, production capacity has increased with many existing refineries expanding their capacities in the wake of the closure of smaller ones. Since the mid 1990's, US refinery capacity has increased from 15.0 million bpd to 16.9 million bpd as at September 2004. No new large refineries have been built in the US since 1975 nor are there any on the planning horizon that we are aware of.

By the middle of 2004, at the height of the US summer driving season, gasoline exports to North America were well above those for the same period of 2003. The US continued to import gasoline from Western Europe, due in part to favourable arbitrage trading caused by the increased use of diesel in Europe. A larger percentage of product cargoes is being imported into the US, a change which is contributing to market volatility as "just in time" supply, lack of adequate storage, weather, seasonality and cyclicality are factored into the prospective equation.

The spot market was more volatile than usual, particularly on the Caribbean to USAC (US Atlantic Coast) route with rates falling to lows of around US$17,500 per day in April before peaking at around US$35,000 per day towards the end of the year. Interestingly, whereas spot rates were up and down during the year, average one year time charter rates steadily improved, confirming the positive sentiment in this market. One year time charter rates steadily increased from around US$15,000 per day for a 47,000 dwt modern tanker in January to US$27,000 per day by December 2004.

There has been a steady increase in the orderbook for product tankers during the last two years with 93 of the 133 Panamax tankers on order identified as coated product tankers. One reason for the surge in the Panamax product fleet is the age profile of this sub sector. With 30% of vessels now more than 20 years of age, a replenishment of the fleet is to be expected. The large delivery schedule, however, may see rates soften during 2005 and 2006 from their relatively high position, particularly with only 29 vessels destined for regulatory IMO phase out.

Chemical tankers (9% of the Shipping portfolio)

Towards the end of 2003 and into early 2004 chemical carrier spot rates were the highest seen for many years. Although volatile, freight rates increased on the back of increased Chinese imports and a strong product tanker market. Trade in commodity chemicals from the Middle East to Asia and in particular China has rapidly increased in recent years. With additional capacity planned by the Middle East, this trend is expected to continue.

The freight market softened during the second quarter of 2004 but business remained relatively steady with continued strong volumes nominated under contracts of affreightment. During the third quarter the market improved, fuelled by higher demand. The market witnessed significant increases in the volume of spot cargoes originating from the US Gulf which saw some of the largest increases. Increased cargo requirements during the final months of the year resulted in a further boost to the market.

It is anticipated that freight rates will continue to maintain their relatively high levels into early 2005. While the large orderbook for product tankers with IMO III classification signals increased competition for chemical tankers, the impact on the more specialised chemical parcel trades will be minimal.

Re-categorisation by IMO of some cargoes, vegoil for example, proved favourable for chemical tankers, although not to the extent that was expected. In October 2004, the IMO reached a compromise over the transport of vegoil allowing IMO III product tankers to continue to carry vegoil beyond 2007, as long as they are equipped with equivalent anti-pollution specifications found on IMO II product tankers. This means that either a double bottom or a double sided tanker is required, together with a certificate of fitness which qualifies the types of cargo a vessel is allowed to load.

Global container trade

Source: Drewry Shipping Consultants/Clarksons

Container carriers (16% of the Shipping portfolio)

Will 2004 go down as the best ever year in the history of containerisation? Increased trade out of Asia and China in particular, has been the driving force behind the significant growth rates. The growth in box handling in the major Chinese ports has been nothing short of staggering with 2004 estimates for Shanghai coming in at 14.5 million teu, which is a 30% increase over 2003. Expectations are that the main Chinese container ports in 2004 will have averaged 27% annual growth in container throughput. The scarcity of slots on the long-haul voyages from Asia to the US and Europe resulted in time charter rates across this and other sectors breaking previous record highs. In addition to higher rates, owners have successfully negotiated longer period charters. Although freight rates have not always increased at the same rate as charter rates, most container lines enjoyed a banner year. Some of this had to do with the major lines operating vessels that had been time chartered two to three years ago at significantly lower rates.

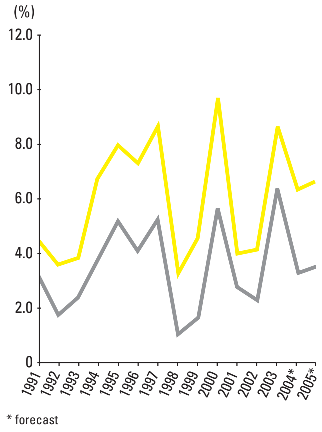
The overall orderbook for the container carrier fleet is massive, representing 48% of the present fleet. Not surprisingly, Panamax and Post-Panamax sizes dominate the orderbook. However, deliveries are spread over the next three to four years and short-term trade growth rates are expected to at least match the growth in the fleet. This suggests that 2005 will be another good year for the container market.

While the outlook for 2005 is upbeat, there are many similarities with the last market peak in August 2000. At that point oil prices stood at a 10-year-high but the impact was down played; similarly the orderbook was described as massive but this did not dampen industry sentiment which anticipated another two good years.

While there is reason to temper our optimism, a few important structural differences need to be recognised. First, on the demand side: the economic expansion of 1999/2000 which fuelled consumer demand was driven by the exponential growth in the telecom and dot com sectors. The current boom has to do with the industrialisation of China and India and their consequent import demand for raw materials and feedstock; a significant portion of which is derived from long haul routes. Second, on the supply side: in the recent past an over-supply of tonnage has not, of itself, led to a dip in the cellular market. Downturns in trade have occurred when such an over-supply of tonnage has been accompanied by some sort of economic shock. Current fundamentals suggest that such an eventuality is unlikely in the near term. One can therefore expect the strong market to continue through 2005.

Longer-term there is the concern that the enormous orderbook will eventually lead to an over-supply of tonnage and softer market conditions, particularly if container trade growth does not continue to outpace supply. In particular, excess capacity is projected on Post-Panamax and Super Post-Panamax class vessels during 2006. Of the vessels that will be replaced by the new up-sized ones, only those that can transit the Panama and are not too large for the current ports to handle will be able to cascade to the North South trade lanes. Hence, Post and Super Post-Panamax class vessels are particularly susceptible to any economic shocks that may arise. Another element that could slow or derail the continued strong trade growth in this sector is worldwide infrastructure capacity constraints. Unrelenting and unshakable as the current container trade surge has been, slumps have historically been part of the industrialisation process of countries. Indicators suggest that the time period most vulnerable for the trade is the latter half of 2006.

World industrial production (%) versus world seaborne dry trades



Seaborne dry trade includes the following commodities: iron ore, coking coal, steam coal, grain, alumina, rock phos, container, steel products, fertilizer, salt, sulphur and other minor bulks.

Source: Clarkson's Time Series February 2004, Oxford Economic Forecasting

Bulk carriers (13% of the Shipping portfolio)

The dry bulk freight market continued from where it left off in 2003, maintaining its very high levels during 2004. Strong demand was augmented by a booming steel industry and high Asian steam coal demand. The grain markets developed at a slower rate than iron ore and steam coal but remain the third largest driver of the bulk carrier industry.

Strong growth in global coal demand, particularly in Asia, and supply disruptions in major exporting nations pushed the prices for thermal (steam) and metallurgical (coking) coal significantly upward in 2004. For developing countries' energy requirements, coal is one of the most abundant, available and affordable forms of fossil fuel.

China's consumption of coal is projected to increase by 6% to 2.1 billion tonnes in 2005 with demand continuing to outpace the projected supply of 1.86 billion tonnes. The closing of small mines in China for safety and economic reasons has further reduced the total capacity by 200 million tonnes. China exported 5.8 million tonnes of coking coal in 2004 in order to meet its contractual obligations. Consequently, it was forced to import 6.4 million tonnes and became a net importer for the first time. Steel production rose by 6% in 2004 with a further 3% increase expected in 2005. Since the majority of the growth is to come from blast furnaces, the demand for metallurgical coal (coke) remains positive with world seaborne trade expected to increase by 3% year-on-year to 214.6 million tonnes. This follows a 5% increase in 2004 to 208.3 million tonnes. There has been significant investment in new coke making capacity in Japan, Germany, The Russian Federation and Brazil, spawned by the uncertainty of supply of coking coal from China.

Steam coal is projected to grow in 2005 at a little less than 2% year-on-year to 544 million tonnes. Asian countries such as Taiwan and Malaysia are expecting to increase their steam coal imports to around 52 million tonnes and 10 million tonnes respectively.

It is expected that seaborne trade in coking and steam coal will show an increase of 60 million tonnes by 2007. Steam coal from South Africa is projected to increase by 20 million tonnes over the same period, while exports from Venezuela and Colombia are expected to rise by nearly 30 million tonnes to 87.7 million tonnes by 2008. Cargoes from South Africa to the East will contribute to deadweight demand with some contribution from Venezuela, while most of the Colombian cargoes will head to the US.

Provisional seaborne iron ore trade totalled 591 million tonnes in 2004, an increase of 61 million tonnes over 2003's figures, and is expected to increase by a further 46 million tonnes in 2005 to 637 million tonnes. In our opinion freight rates on Capesize will remain high in 2005 given the magnitude of the projected increase in China's import volumes.

In 2004 global steel production rose by an estimated 6% to exceed 1 billion tonnes. Again the strongest growth was registered by China with crude steel production increasing by 21% to 266 million tonnes compared with 2003's figure of 220 million tonnes.

The dry bulk carrier freight market boom started in the second half of 2002. In mid 2002 average Capesize spot earnings for modern tonnage were as low as US$10,000 per day. The market steadily improved from these lows and by August 2003 earnings were around US$34,000 per day, accelerating towards US$80,000 per day by the end of the year. The market proved extremely volatile in 2004 with rates, which started the year at around US$90,000 per day, experiencing a mid-year fall to US$45,000 per day before rallying towards the US$90,000 per day mark as the year drew to a close.

Freight markets are projected to remain firm in general, at least during the first half of 2005, reflecting expectations that steel demand will outstrip production. China will be closely watched during 2005 with the markets being driven by high expectations of a repeat of the demand experienced in 2004.

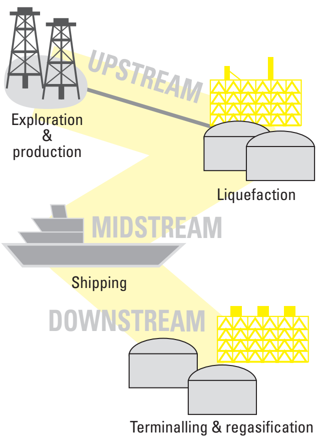
The dry bulk carrier newbuilding orderbook has increased in recent months and currently equates to around 19% of the present fleet. However, increases in ordering across other sectors means that the delivery schedule is stretched out over the next three years in accordance with shipyard availability.

Gas carriers (5.6% of the Shipping portfolio)

LPG carriers (Liquified Petroleum Gas – 0.8% of the Shipping portfolio)

The LPG market is highly fragmented with many different sub-sectors and a diverse range of trading patterns. However, in general it can be said that during the first half of 2004 the LPG markets for the coastal vessels were uninspiring, while the second half of the year delivered significantly improved rates. For the other sectors the entire year was positive. By the middle or the year VLGC rates were also strong with TCE returns breaking the US$1 million a month mark. Improved VLGC rates were achieved on the back of rapidly growing Middle Eastern exports. The resulting strong market conditions encouraged a number of new orders for VLGCs and MGCs to be placed towards the end of 2004.

LNG chain



The market for small gas carriers is now entering a period of sustained improved rates, due partly to improved supply of the commodity. The European market increasingly favours semi-refrigerated vessels for LPG and "petchems". Restrictions experienced in certain terminals appear to have halted the trend towards "larger" semi-refrigerated vessels (7,500 cbm) with the focus returning to smaller vessels (3,500 cbm). In contrast, the Asian markets continue to be dominated by the use of pressurised vessels.

LNG carriers (Liquified Natural Gas – 4.8% of the Shipping portfolio)

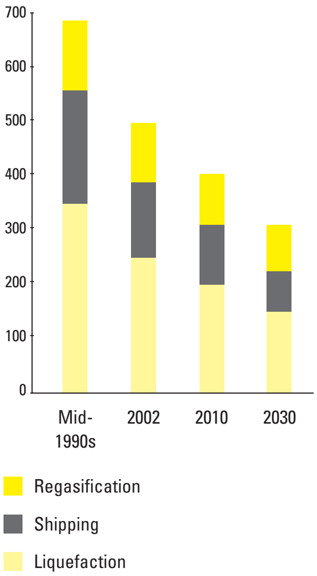
LNG remains a specialist niche sector within international shipping, controlled by a tightly knit community of producers, consumers and shippers. However, deregulation has allowed new players to enter the market and projections are that independent shipowners will account for a 38% share by 2006 compared with 14% in 1999.

Several firsts were achieved in LNG carrier specifications: Pronav and OSG placed an order for eight of the largest LNG vessels ever built, each with a capacity of some 215,000 cbm. These vessels will be powered by slow speed diesel engines, another first for this type of carrier. The "low" pricing of an LNG vessel during early 2004 proved relatively short lived and the year closed out with a US$30 million price increase, placing the value of a 140,000 cbm vessel at US$182 million.

Unit costs of LNG projects

Assumption distances of 4,000 nautical seamiles

US$ per tonne of capacity



Source: IEA

Significant changes, largely reflecting greater flexibility in the wake of liberalisation, are currently underway in the LNG market. These include:

- A tightening of LNG contract terms by the oil majors in relation to pricing, volume and the duration of contracts. This has been accompanied by an increase in short term shipping contracts.
- The decline in long term contracts and the mounting availability of supplies have effectively given rise to a spot market. This development poses risks for owners and financial institutions. Mounting importance is now being placed on contract evaluation in order for such institutions to assess precisely where the financing risk lies, i.e. with the owners or the oil companies that represent the traditional counter parties. Meanwhile, a significant number of vessels are being ordered on speculation. The scale of this activity represents a first for this sector.
- Buyers (downstream players) such as Tokyo Gas and Tokyo Electric Power are investing in upstream assets (e.g. Australia's Darwin liquefaction plant) while sellers (upstream players) such as BP, BG and Shell have leased terminal capacity and are extending their downstream interests.
- The oil majors, intent on gaining considerably greater control over re-gasification capacity and shipping, appear to have convinced the US, UK and EU regulatory authorities that investment in re-gasification terminals can only be undertaken if they are permitted to control such capacity for the next 25 years, effectively barring third party access. This approach is projected to maintain an IRR of 20% on the oil companies' new investments.

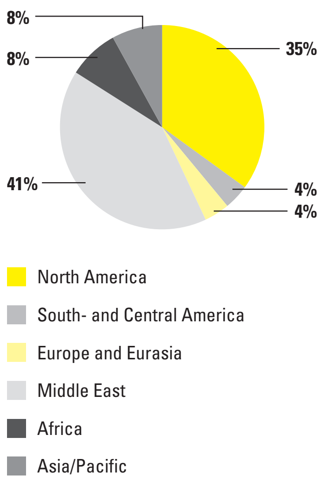
The short-term LNG market, non-existent a few years ago, hit a record high of 8.7% in 2003, equating to 14.7 billion cbm, and is projected to account for 10–13% of total LNG trade in 2005. Total worldwide traded volume is 169 billion cbm. Historically, few LNG facilities were built unless sales contracts were signed in respect of the entire capacity. Recently, however, some projects, such as Sakhalin 2, have proceeded with only part of the capacity being committed.

On the shipping side, 24 LNG vessels amounting to 2.3 million cbm were added to the fleet in 2004, bringing the total to 178 vessels or 20.8 million cbm. The orderbook at the end of the year stood at 102 vessels or some 15.3 million cbm. Of these vessels, 36 are uncommitted, eight of which are owned by energy majors, six by importers and 22 by shipowners. In order to meet the projected demand generated by the additional production capacity, between 67 and 88 vessels need to be ordered within 2005–2006. Analysis of shipyard berth availability indicates that only six slots for 2008 delivery are available at the six major yards involved in LNG vessel construction. Three new yards, Imbari (Japan), Hudong (China) and Samho (Korea) have entered the LNG vessel construction industry. Excessive tonnage availability came about at the end of 2004 due to delays in the construction of various LNG plants. The resulting discrepancy between supply and demand is expected to balance out towards the end of 2005.

High crude prices have had a severe impact on the LNG market in Asia. Buyers in Japan and Korea, whose LNG costs are linked to crude, have experienced a dramatic increase in costs. At the same time, newcomers to the LNG market, such as China and India, are negotiating deals based on fixed LNG prices of less than US$3/mmbtu. This compares with end-2004 Henry Hub prices of US$7/mmbtu. Japan and Korea, locked into long-term contracts, are paying approximately 40% more than India or China.

World proven reserves of natural gas (as at end of 2003)

Basis: 176 trillion cbm



Source: Cedigaz

A general perspective looking forward

Barring a major international shock, the world economy is well placed to continue to grow strongly in 2005 and 2006. This augurs well for the steady growth of world trade. The future direction of US fiscal policy is subject to much conjecture. Expectations are that some dialogue will be initiated between the US government and Europe, Japan and China with a view to steadying the US dollar. This is not without precedent, having last occurred during the Reagan administration. Such an event would certainly work against any doomsday scenarios. Japan, China and Britain, with massive respective holdings of US securities, are eager to see a stable dollar. In the period from 2000 to July 2004, Japan has increased its holdings of US Treasury securities by 219% to US$696 billion, China by 278% to US$167 billion and Britain by 260% to US$130 billion.

The Chinese, with their conservative approach, can be expected to take measured steps to slow their economy and avoid a potential "bust" scenario. Given the prevailing world economic situation, it is hard to envisage the Chinese, in the near term, either revaluing the Renminbi or linking it to a basket of currencies. A proactive US policy towards addressing the value of the dollar would be widely welcomed. If US fiscal policy is left unchecked, we could be approaching a crossroad where a relatively minor move by one of the principal central banks could conceivably prompt a stampede out of US dollar holdings. However unlikely, this represents a major potential crisis.

Another grim scenario relates to the possibility of a run on China's banks. With negative real interest rates, much of the population is moving its savings away from the ailing state run banks. This is a matter of serious concern, bearing in mind the fact that these banks rely heavily on such savings. The development of a parallel economy in China is attracting significant investor interest, courtesy of the high interest rates on offer. While this does not augur well for China's banking system, the Chinese think tank is doubtless focused on the task of alleviating such developments.

Meanwhile, irrespective of the tremendous growth in China's appetite for all forms of raw commodities, the country has to deal with bad loans which, according to government estimates, amount to US$290 billion. This indicates that 30% of China's loans are non-performing compared to some 7% for Japan. During 1998-2003 China spent some US$200 billion recapitalising banks and writing off bad loans.

The financial markets' subdued response to the mounting deficits in the US can be attributed to expectations that the US Administration will get its fiscal house in order. Barring a major crisis, the cumulative effects of the US deficits, rising interest rates, higher oil prices and slow EU growth are unlikely to derail the US economy in the near term. The range of outcomes based on the various variables already discussed point towards a soft landing wherein trade growth moderates while remaining strong in the medium term.

Portfolio analysis

2004 has been another record year for the Shipping division. As at 31 December 2004 customer lending representing loans and advances to customers, guarantees and indemnities and loan commitments stood at €4.15 billion. Due to the fact that our shipping business, reflecting the international shipping market place, is 78.5% US dollar-denominated it should be noted that in US dollar terms customer lending amounted to US$5.65 billion, which translates into year-on-year growth of 17%. For the first time in our history, annual gross production crossed the €2 billion mark and reached €2.34 billion (US$2.74 billion). This, according to our estimates, ranks DVB as a "Top Ten" shipping financier with an approximate 6% share of the international shipping finance market.

*Please refer to the tombstones on the back cover for **landmark Shipping deals in 2004.***

Distinctly firm market conditions across the main shipping sectors coupled with strong demand for capital and improved profitability greeted new entrants into shipping finance, thus increasing competition and adding pressure on margin levels. The total amount outstanding to the shipping industry increased substantially as shipowners continued their quest for capital to finance the newbuilding order spree and an exceptionally active S&P market. DVB remains committed to its philosophy of thinking globally while acting locally. That is to say, the fact that we operate out of 10 offices, strategically located in the world's major shipping hubs, has not only enabled us to strengthen our customer relationships; it has also served to establish the expertise and cultural understanding specific to each market.

Notwithstanding its geographical spread, DVB has remained a flexible and efficient organisation with short reporting lines. This has enabled us to quickly and effectively adapt our strategic focus to the ever changing market conditions, hence our ability to identify opportunities – recovering "niche" markets, for example – while adopting an ultra cautions approach when dealing with booming markets (currently all main-stream shipping sectors). Our counter-cyclical strategy combined with our commitment to the shipping industry through peaks and troughs means that, on the one hand, we have been able to reap the reward of "low cycle" investment, while on the other, we have carefully expanded our portfolio during recent market highs with risk-adjusted structures and appropriate mitigations.

The Shipping division enjoys worldwide recognition as a leading financial specialist and our determination to deepen our market position as a lead arranger has yielded a constant stream of mandates. During 2004 DVB has acted in the market as book runner for €720 million worth of shipping deals and arranged an additional €630 million worth of club deals, which represent an aggregate arranged volume of €1.35 billion. The reminder (about €1 billion) represented bilateral deals and participations.

- *Lloyd's Shipping Economist awarded DVB the accolade of "Best Shipping Finance Research in 2004" and winner of the "Most Innovative Ship Finance Deal".*
- *Marine Money awarded DVB the honour of "Best Shipping Deal in 2004".*
- *Jane's Transport Finance named DVB as winner of the "Shipping Equity Deal" of the year.*
- *The ultimate accolade of "Best Ship Financier 2004" was awarded to DVB by Maritime Asia.*

Our market position has been complemented by our Corporate Finance divisions: Advisory and M&A, Investment Management through the NFC Shipping Funds and Structured Asset Finance, which proactively contributed to our success with financial solutions in such areas as equity sourcing, tax efficient structures, expert advice and M&A initiatives. However, being a step ahead of the market requires appropriate market knowledge. This invaluable comparative advantage is provided and has been extended by our Research and Strategic Planning department, which once again proved sine qua non. As in the past, yet more so in 2004, DVB's market position was acknowledged through various prestigious awards.

Portfolio developments

The shipping industry, across its main sectors, witnessed a spectacular 2004, during which we succeeded in translating these robust markets into another year of growth, expansion and sound profitability. In 2004 we concluded 110 new transactions compared with 89 and 71 deals in 2003 and 2002 respectively. New lending, defined as annual underwriting, amounted to €2.34 billion (2003: €1.39 billion) out of which €520 million was syndicated to other banks. In this respect, one must consider the two-fold effect of the slide in the value of the US dollar against the euro on our production:

- Year-on-year underwriting in euro terms rose by 68.3%, while on a US dollar basis the increase was even more impressive: 70.2% to US$2.74 billion compared with US$1.61 billion in 2003.
- On the other hand, the fact that DVB's equity base is euro-denominated served to free up capacity for expansionary US dollar business.

The total Shipping portfolio, however, registered 17.0% growth at US$5.65 billion compared with US$4.83 billion in 2003. This is explained by the fact that 37% of the portfolio was repaid in 2004, out of which 20% was prepaid. Such prepayments by shipowners largely reflected high earnings and cash accumulations post the mid-2003 recovery in the shipping market. Consequently, much of the new lending business merely contributed to high portfolio turnover.

On the back of firm market conditions we have expanded our portfolio, enhanced our customer selection process and maintained our profitability. Notwithstanding increased competition in the market, average gross margin in relation to new underwriting business has remained stable at 144bp compared with 148bp in 2003.

In 2004 our clients numbered 225 worldwide with an average lending exposure of €18.4 million, up from €17.7 million in 2003. In addition to targeting larger clients, we have also focused on expanding our underwriting capacity and market position as arrangers and book-runners. During 2004 we syndicated 22.2% of new underwritten business and acted as agent in respect of 20% of portfolio transactions.

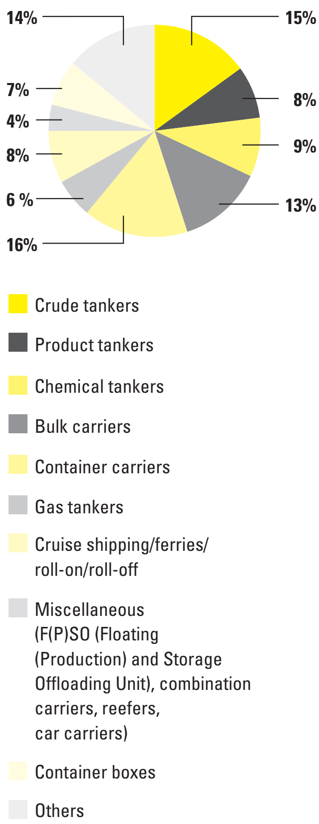
Apart from the development of ancillary financial services, our principal business remains asset backed lending. Unsecured loans decreased from 6.3% in 2003 to 5.5% in 2004, resulting in a 94.5% secured portfolio. Furthermore, 77.1% of our portfolio has a loan-to-value ratio of less than 60%, while only 1.7% has a loan-to-value ratio of 80% or higher. The remaining aspect of the portfolio consists of unsecured loans selectively granted on the basis of exceptionally sound shipping credits. It should be noted, however, that we are in the process of winding-down any unsecured exposure.

Hand in hand with our consistent counter-cyclical approach we have managed to steer clear of choppy water and have navigated our former "problem ships" to safe shores. In 2004 our Shipping division recovered €6.1 million in loan loss provisions and circa €3 million as dividends in respect of repossessed vessels. The appreciation in second hand market values during 2004 has cleared the way for the disposal of the remaining vessels repossessed in 2001 and 2002. Consequently, we currently enjoy an exceedingly clean portfolio. As at 31 December 2004 only two clients were in arrears, involving minor amounts.

Our global presence mirrors the international scope of the shipping industry, as reflected by our exposure to all major economic markets. The largest economic exposures relate to Norway (14%), the USA (12%) and Greece (9%) followed by the United Kingdom and other OECD countries. Our exposure to emerging markets increased from 9% in 2003 to 11.4% in line with trade growth and positive economic prospects, particularly with regard to India, South Korea and Emerging Europe. Economic risk is classified, inter alia, on the basis of the source of cash flows, the international trade applicable to the asset and any recourse.

Diversification has been and will continue to be our motto. Not only have we diversified our geographical network, economic risk and customer selection, we have also spread our risk across the shipping sectors. Overall, we have established a presence, second to none, in 17 shipping sectors and 61 sub-sectors, with more than 1,000 ships on our portfolio. The largest sectors of our portfolio are: container vessels (16%), crude tankers (15%), bulk carriers (13%), offshore vessels (10%), chemical tankers (9%), product tankers (8%) and gas tankers (6%). The growth in portfolio share of chemical and gas carriers corresponds to attractive business opportunities on the back of recovering markets (as opposed to the peaking "main-stream" sectors).

Shipping portfolio by vessel types



Outlook 2005

Once again the year that lies ahead calls for distinct caution, as shipping sectors display signs of reaching a peak. Nonetheless, a prospering shipping fraternity will continue to attract new entrants into shipping finance, many of which are not only willing to provide finance at lower margins but are also willing to provide such finance against much higher ship valuations. Traditional shipping finance establishments will seek to maintain their market shares and customer relationships, particularly with regard to "blue chip" shipping companies. These developments, in our view, will continue to have an adverse effect on the risk-reward profile of shipping projects. For our part, we will continue to pursue attractive business opportunities in "paths less trodden". That is to say, we will further enhance our portfolio diversification and strengthen our associations with sectors that we do not perceive as overvalued. Ideally, we will target those segments that have embarked on or look set to experience an upturn. In DVB we invest in our convictions and, indeed, we have set up a Cruise Business Unit designed to emulate the successful business model of the Container Business Unit. Likewise, we intend to set-up strategic teams that will focus specifically on specialised areas of interest. That said, our marketing set-up will remain geographically based.

We will continue to provide our traditional support to the bulk, tanker and container shipping companies with which we enjoy long standing relationships while, at the same time, adopting an appropriate approach to the risks (currently increasing) in such sectors. Overall, we are not targeting significant growth in our portfolio but rather a further enhancement of the portfolio's risk profile and client base.

We are confident in our ability to climb further up the league of major deal arrangers and equally confident that our distribution department will fully capitalise on the introduction of innovative loan structures, creative syndication strategies and trading activities. In this respect, the new entrants have played to our advantage. A large number of inexperienced banks, in an attempt to secure market share, have supported the syndication market and displayed willingness to participate in deals arranged by the more experienced shipping banks. Our proactive approach towards a client's financial requirements will enable us to successfully compete on quality solutions without abiding to pricing pressure.

To summarise, we are confident that the Shipping division will continue to build on its success and is well set to achieve ongoing growth and profitability.

Container Business Unit

The Container Business Unit (CBU), formed in November 2003, is designed to capitalise on the ongoing growth opportunities in the global container market which is serviced by a relatively limited number of focused players. The majority of the banks that play an active role in the transport and logistics sector tend to focus on aviation and/or shipping. DVB, through the formation of CBU, is one of the few global players that provide container financing to the liner and leasing companies.

World container trade is expected to continue to achieve double-digit growth during 2005 although subsequent years may well witness a slow-down to more sustainable growth levels. The world container (box) fleet, which doubled in size between 1984 and 1994 to 8.8 million TEU, proceeded to more than double between 1994 and 2004 to an estimated 19.7 million TEU. The prices of new containers rose sharply during 2004. By way of illustration, the price of a standard 20 feet dry cargo container increased from around US$1,550 in the first quarter of 2004 to more than US$2,000 at the end of the year. Meanwhile, container production volume rose by almost 15% to an estimated 2.75 million TEU. With a projected increase in the world cellular containership fleet of 14-16% per annum in 2005 and 2006, liner companies will need to further increase their container fleets in order to fill these vessels. Consequently, investment in new containers is mounting and is expected to significantly exceed US$5 billion per annum during the coming years.

The year 2004 proved distinctly successful for CBU and the original three-man team involved in the formation of the unit expanded to a team of five. Major deals were arranged and underwritten with two "Top Ten" leasing companies, including the arrangement of a Japanese Operating Lease, and in concert with Shipping we closed several deals with Asian and European liner companies.

Following the successful closure of a variety of transactions in 2004, CBU is rapidly establishing itself as one of the principal arrangers in the container industry. Our focus for 2005 will be to further expand our market presence and become the prime arranger in the container industry.

Transport Finance – Aviation

Abbreviations Aviation:

AAPA	*Association of Asia-Pacific Airlines*
AEA	*Association of European Airlines*
ASEAN	*Association of Southeast Asian Nations*
ASK/M	*available seat-kilometre/mile*
ATA	*Air Transport Association*
FTK/M	*freight tonne-kilometre/mile*
IATA	*International Air Transport Association*
ICAO	*International Civil Aviation Organisation*
MOU	*Memorandum of Understanding*
RPK/M	*revenue passenger-kilometre/mile*
RTK/M	*revenue tonne-kilometre/mile*

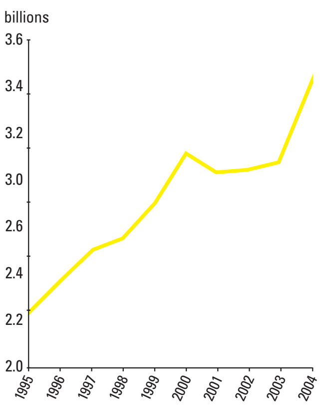
The "Perfect Storm" that hit the global aviation industry in 2003 gave way to improved conditions in 2004, although pockets of turbulence persisted. Whereas 2003 was characterised by a significant difference between the airline operating environment that prevailed during the first half of the year compared to that for the second half, 2004 was characterised by strong regional differences in airline performance.

Although airline results in Europe and Asia generally showed encouraging developments, many North American airlines, particularly the US majors, remained under pressure. The global airline industry was negatively impacted by the sharp rise in the cost of jet fuel, which reached a peak in October.

Despite this mixed market environment, DVB's long-standing tradition of building and maintaining a well structured diversified portfolio, supported by modern liquid commercial jet aircraft, allowed us to continue to expand. In addition to a significant number of transactions in respect of new or nearly new aircraft, 2004 provided us with many opportunities to finance high quality used equipment, some of which is assigned for conversion to freighter aircraft. Having taken advantage of the low aircraft prices that continued to prevail in early 2004, we would expect to benefit from the projected increase in demand for (converted) freighter aircraft. Our Aviation division further expanded its capabilities through the creation of an Aero Engine Finance Unit, a development that enables us to broaden our product range in respect of current customers while also attracting new customer groups.

The outlook for a continuation of air traffic growth is positive. The fuel price started 2005 at a reduced level compared to the peak of October 2004. March brought yet another substantial price increase, signalling the likelihood that airlines will be faced with further volatility during the remainder of the year. The majority of airlines – leaving aside the US – are back on track, and equipment values are clearly recovering. Against this background, we are confident that in 2005 the aviation industry will position itself for renewed prosperity during the rest of the decade.

ICAO – Passenger kilometres performed



Source: ICAO

Market review

Growth finally returned to the air transport industry during 2004.

Wordwide trends

Although this was to be expected after an abysmal 2003, when air traffic volumes suffered from the impact of the Iraq war, global terrorism and SARS, the scale of growth was such that traffic, as reported by ICAO, actually exceeded the pre-crisis record achieved in the year 2000.

With a preliminary growth figure of 14% for total (domestic and international combined) scheduled RPKs, 2004 warrants the description of an "exceptional" year in terms of volume growth. ICAO's projection of growth for 2005 is 5.4%, followed by 5.2% in 2006, figures that may even prove to be slightly on the conservative side. In relation to scheduled freight traffic, ICAO reported a preliminary 13% increase in total tonne-kilometres performed during 2004.

IATA estimates an increase in scheduled international RPKs of 15.3% which, with a capacity increase of just 12.1% in ASKs, resulted in an extremely high load factor of 74.2%. IATA projects both passenger and cargo traffic to grow by an annual average of 6% in the coming years (2005-2008).

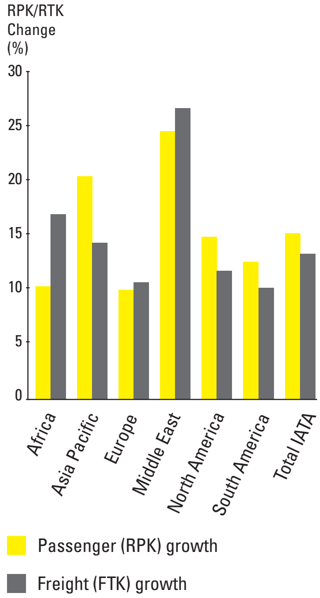
Predictably, above-average growth figures were recorded in the Middle East and Asia in 2004, while the lowest growth figures were recorded in Europe. Despite this, the world's airlines collectively registered another negative financial result, having already lost more than US$30 billion during the period 2001-2003. The preliminary estimate for 2004 is an aggregate loss for IATA's member airlines of US$4.8 billion, the majority of which will relate to US carriers. The AEA expects its members to achieve a US$900 million surplus, while Asian airlines are also expected to report a positive result.

The principal causes of the overall disappointing financial results have been well publicised: the significant increase in jet fuel prices combined with the continuing pressure on airline yields. In the accompanying graph, the historic development of airline yield (revenue per RPM) has been plotted vs. the unit cost (cost per ASM). It is clear that yield as a percentage of unit cost has been deteriorating for decades.

Airlines, apart from increasing load factors, have had to rely on cost savings and more efficient operations in the post 2001 environment. With labour being the most "controllable" cost factor in airline operations, particularly in the US, this was where a large proportion of the gains had to come from. Unfortunately, such gains were partially offset by the rise in fuel costs.

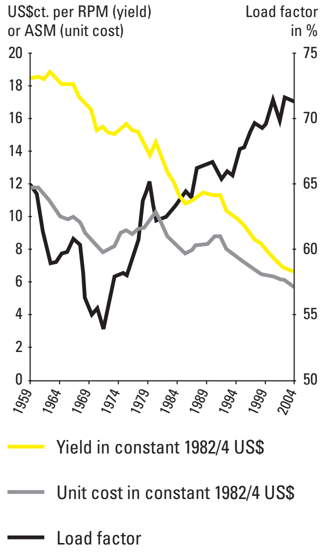
Liberalisation of the global airline industry continued with the US, among others, actively seeking open skies agreements with the European Union and new accords with Canada, Hong Kong, India and Mexico. The European Commission's director of air transport let it be known last November that he expected an EU-US open skies deal to be achieved "some time in 2005". In late 2004, Singapore, Thailand and Brunei announced an "open skies" agreement, four years ahead of the anticipated ASEAN-wide agreement scheduled for 2008.

IATA – International traffic growth 2003–2004



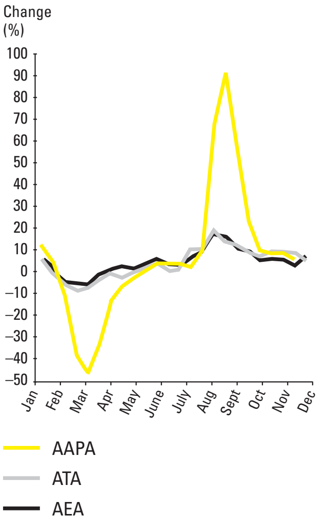
Source: IATA

World airline yield, unit cost and load factor



Source : Airline Monitor

Traffic development (in RPK) as reported per regional airline association AAPA, ATA, AEA



Source: DVB Aviation Industry Research, based on data of AAPA, ATA, AEA

Regional developments

The accompanying graph illustrates the traffic development (in RPK) as reported by the respective regional airline associations: AAPA (Asia), AEA (Europe) and ATA (United States).

Europe

European aviation enjoyed an encouraging start to 2004 with positive traffic growth recorded in all regions and markets. In general terms, load factors during the early months of the year remained very high although the majority of monthly traffic figures, particularly those reported for the spring, were affected by distortions in the comparable figures for 2003. These distortions reflected various factors including the fading but still adverse impact of the Iraq war and the market's reaction to the SARS virus.

The summer months continued to display favourable traffic figures, with those for July and August representing the transition point at which the North Atlantic market began to exceed its pre-9/11 levels. Low-cost carriers continued to exert maximum pressure on their full-service counterparts, forcing the latter to continue to drive down costs. Hopes, however, of the European industry achieving a respectable profit in 2004 quickly faded as jet fuel prices proceeded to climb out of control. As autumn set in, growth statistics proved slightly depressed compared to the figures for the previous months. This was largely attributable to the continued weakness in domestic markets and falling figures in terms of cross-border European travel.

Europe's low-cost carriers (generally not AEA members) continued to increase their market share but could no longer avoid head-to-head competition. In Europe, a new influx of start-ups plus high capacity growth on the back of mammoth aircraft orders, led to increased competition and declining yields. Established low-cost airlines Ryanair and easyJet moved into each other's markets but also had to compete with Eastern European newcomers such as SkyEurope, Wizz Air and (the now defunct) Air Polonia. Ryanair went so far as to forecast a "blood-bath" in the light of an expected 10–20% yield decline during the 2004/05 winter season. Air Polonia, V-bird and Volare all numbered among Europe's 2004 casualty list in the low-cost market.

The European charter market found 2004 a welcome improvement over 2003 but the industry remains deeply troubled with bankruptcies overtaking Air Europe, Air Holland, Dutchbird, Sobelair and Odette Airways. As travel bookings continue to shift from all-inclusive packages to self-compiled Internet arrangements, most charter airlines have turned their short-haul operations into hybrids, half way between scheduled low-cost operations and charter services, while increasing their packaging focus on long-haul and niche market operations. However, the inability of certain charter airlines to achieve financial stability lies in the debt burden legacies of the earlier consolidation wave.

North America

January 2004 saw the performance figures of American carriers start to move into positive territory. Finally, passenger traffic (RPMs) surpassed the figures for 2000, the last "normal" year for the industry. With March 2004 marking the one-year anniversary of the outbreak of war in Iraq, and that of SARS in the Asia Pacific region, performance figures displayed some remarkable improvements. By mid-year, traffic results were starting to emulate those of 2001. In fact, June 2004 showed a huge 12.8% increase in passenger traffic compared with the same period in 2003, just 1.0% below the corresponding figures for the year 2000. This reflected an enormous upsurge in passenger traffic across all regions. For the full year, the ATA reported a 10% traffic increase which, in the light of a mere 7% increase in capacity, resulted in a high load factor of 76.3%.

However, low yields (together with high fuel costs) continued to pose problems for North American airlines as the clash of "Low Cost" vs. "Network" business models continued. US Airways filed again for Chapter 11 due to worsened market conditions and union unwillingness to negotiate additional concessions. ATA Airlines and Aloha Airlines also filed for protection, while United Airlines and Hawaiian remained in Chapter 11. After 18-months of restructuring, Air Canada exited bankruptcy protection in September. US regional operator, Atlantic Coast Airlines, was re-launched as low-cost airline Independence Air in June, following the failure of feeder contract renegotiations with United Airlines. However, by November, a Chapter 11 warning overshadowed Independence Air and, towards the year end, pressure was mounting for the airline to return to its regional roots.

Such an environment offered further opportunities for the low cost airlines. Southwest moved into US Airways' north-eastern Philadelphia hub, while JetBlue increased the pressure at New York's LaGuardia airport.

Despite the fact that the large US regional airlines remained profitable, prospects have deteriorated for this segment as the major airlines that they feed attempt to secure lower fee contracts, occasionally using Chapter 11 "opportunities" to do so. Other developments in the regional airline sector included the continued shift towards larger 70+ seat aircraft that offer better operating economics in markets that were previously served by 50-seaters due to scope-clause restrictions.

Scope-clauses restrict the number of aircraft, based on a certain seating capacity, that regional airlines are permitted to operate on behalf of major airlines.

Asia/Pacific

January 2004 saw the Asia Pacific airlines commence the year with positive growth but in March 2004, the first anniversary of both the outbreak of war in Iraq and the onset of the SARS backlash on the region's airlines, growth rates increased by double-digit percentages. The SARS crisis reached its peak in May 2003 when the number of travelling passengers halved. Hence, the rate of growth in May 2004, apart from registering a near 10% improvement over 2002's levels, showed the sharpest increase of the year, with figures of 140% recorded for intra-Asia Pacific routes and 214% for Northeast Asia sub-regional traffic. By August, the year-on-year increase in travel within the Asia-Pacific region had returned to regular growth mode. Nonetheless, strong travel demand made certain that absolute load factors remained high for all the region's carriers.

Asia's aviation industry entered the New Year 2005 with yet another challenge to overcome, namely the fall out from the devastating tsunamis that struck the region surrounding the Indian Ocean rim on 26 December 2004. Some tourists were inevitably discouraged from travelling to and around the region in the short term but the overall effect on traffic was limited. However, freight traffic might actually benefit from the relief and support campaigns.

Expectations are that the Asia-Pacific region will experience a more moderate rate of traffic growth in 2005, although certain key markets such as India and China may well enjoy a continuation of double-digit growth. The spread of liberalisation across the region will encourage the ongoing emergence of new start-ups and low-cost competition, initially boosting short-haul traffic. This will provide cause for concern among the major carriers and the prospect of predatory price wars cannot be ruled out in the context of survival strategies. Singapore played host to the introduction of no less than three low-cost carriers when Singapore Airlines affiliate Tiger Airways, Qantas affiliate Jetstar Asia and independent Valuair all commenced operations in 2004. Asian low-cost pioneer, AirAsia, expanded internationally when 49%-owned Thai AirAsia started operations in February 2004. AirAsia also acquired a 49% stake in grounded Indonesian carrier AWAIR. In India, Kingfisher, the local beer combine, announced the launch of its own low-cost airline, scheduled for April 2005, and is committed to the lease and acquisition of 14 A320s. In late December, Air Deccan, Kingfisher's Indian competitor, signed an MOU for up to 30 A320s.

New aircraft developments

The number of orders for new Western-built commercial jet aircraft showed a further increase. Figures from Airclaims indicate a rise in orders from 796 in 2003 to 939 in 2004 and cancellations down from 113 in 2003 to 45 last year. Deliveries rose slightly from 936 in 2003 to 957 in 2004.

Canada's Bombardier and Brazil's Embraer remain the two major competitors in the regional jet segment of the market. In view of the likely demise of scope-clauses in US airlines' domestic labour contracts, 50-seater aircraft, such as the Bombardier CRJ200 and the Embraer ERJ-145, may well become less popular. In addition, significant fleets operated by and on behalf of "endangered" US carriers could potentially disturb market equilibrium.

Bombardier announced its 110- to 130-seater "C Series", designed to close the gap between the traditional regional jet segment and mainline jets. The C Series is scheduled to appear in 2010, in a market segment currently served by aircraft types ranging from the Embraer 190/195 to the Boeing 737-600 and the Airbus A318/319. To succeed, the C Series will need to offer significant improvements, including new technology engines, in relation to its rivals. In the important 150-seat segment, the A320 family continued to compete fiercely against the Boeing 737 Next Generation. Both families booked orders during 2004 but the A320 family clearly outsold Boeing's 737 NG with 279 vs. 147 orders. It remains to be seen if and when either Boeing or Airbus will announce the development of a successor. Reportedly, Boeing is studying a new design based on 787-technology with an entry into service target date of around 2013.

Boeing continued the development of the Boeing 7E7 Dreamliner and, in early 2005, renamed it the 787. Production will begin in 2006. First flight is expected in 2007, with certification, delivery and entry into service scheduled for 2008. The 787 missed its declared sales target of 200 aircraft by the end of 2004. All the same, it generated considerable interest from the airlines and announced customers include ANA, JAL, Blue Panorama, First Choice, Primaris, Continental, Vietnam Airlines, Ethiopian and several Chinese carriers, representing a current total of 193 aircraft.

The "unexpected" announcement of the Airbus A350 may have been a contributing factor to the decision by several airlines to delay their respective orders for new generation wide-bodies. Although Airbus had been focusing on the ultra-high capacity A380 for several years, August brought news of a possible 787 rival with the announcement of preliminary details regarding the two proposed versions of the A350. These two versions, called the A350-800 and -900, would be extended-range derivatives of the current A330-200 and -300 twin jets, powered by non-bleedless versions of the engines under development for the 787.

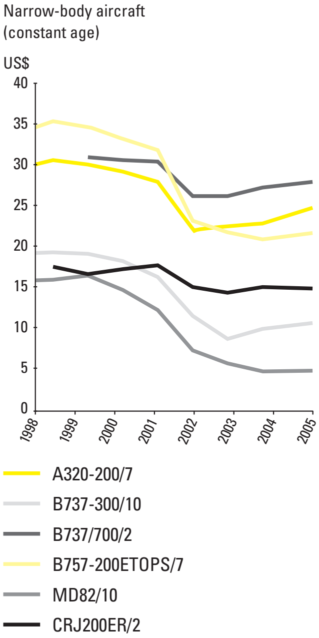
In contrast to conventional jet engines, which use bleed air for the supply of energy to certain aircraft systems (such as air-conditioning), the air passing through bleedless engines is used entirely for engine functions.

In the top segment of the market, Airbus started assembling the first A380 in Toulouse. The order book for the A380 continued to grow in 2004 and orders from UPS and China Southern in early 2005 took the total number of aircraft on order to 154. Boeing came under some pressure to decide whether it will commit to the B747 Advanced, a stretched derivative of the B747-400. An important development in the cargo market was the launch of the Boeing 747-400 Special Freighter passenger to cargo conversion. The only major programme to officially cease production in 2004 was the Boeing 757 but, early in 2005, Boeing announced that production of the 717 would also cease. It would appear that the future of the 767 depends solely on the prospect of major military orders with a decision expected in mid-2005.

Used equipment

The key indicators show 2004 to be the turning point in the used equipment market, with storage and availability down substantially and lease rates and values starting to stabilise and, in some cases, improve.

Historic values – single aisle



Source: DVB Aviation Industry Research, based on Airclaims data

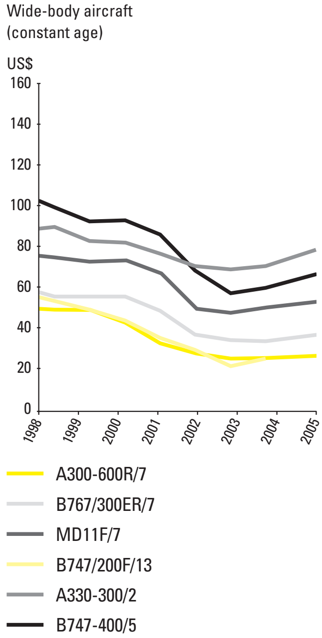
After reaching a peak of 12.4% towards the end of 2003, the percentage of western-built jets in storage amounted to around 11% at the end of 2004. Out of the 2,100 western-built jets in storage, however, 1,450 aircraft represent outdated technology which leaves little more than 650 jets, utilising modern technology, that are likely to return to normal operations. Based on Airclaims data, two graphs have been produced indicating that, for the majority of aircraft types, the downward trend in used-aircraft values was reversed during 2004 and early 2005.

The first graph shows the value curve for narrow-body aircraft of a specific, constant age (effectively a different aircraft each year from consecutive production years). The benefit of this methodology – although not perfect – is that it excludes the value loss due to the ageing of an aircraft and is therefore a more accurate reflection of pure market dynamics.

The Airbus A320, Boeing 737-700 and even the "Classic" Boeing 737-300 fared particularly well. The Boeing 757-200 and the Bombardier CRJ200ER regional jet were relatively flat in their value performance. Whereas we are optimistic with regard to the future values of the B757, the large CRJ-fleets operated by a number of weaker US majors remain the subject of significant uncertainty. The MD82 continued its descent and would appear left with limited upside potential.

The second graph depicts the historic values for wide-body aircraft. Virtually all types within the wide-body category show an increase. The modern A330-300, which is highly popular in the Far East, performed very well. The B747-400 also showed a positive performance, partly due to the increasing popularity of cargo conversions (-400SF) for this type. Values may well be set for further improvement. The surplus of B767-300ERs has almost disappeared and values have started to edge higher. The popularity of MD11's continued to grow, reflecting their cargo conversion potential and the fact that major operators such as UPS, FedEx and Lufthansa Cargo appear to be snapping up all remaining passenger planes. Values of the A300-600R remained relatively flat, although this type possesses real potential for cargo conversion.

Historic values – twin aisles



Source: DVB Aviation Industry Research, based on Airclaims data

Aircraft lessors continued to labour under the burden of the considerable amount of leases closed at low market rates during recent years, together with a large number of lease restructurings. Although the climate is now improving, there were no speculative orders from lessors and new business was limited to sale-and-lease-backs. This may have reflected the substantial discounts that some of the airlines succeeded in negotiating with the manufacturers. Very few lessors could even hope to match these price levels. In addition, so-called "escalation clauses" in aircraft purchase contracts were a cause for concern for those lessors that placed their orders several years ago. Consolidation within the leasing industry failed to materialise during 2004, although both Boullioun and debis AirFinance were reportedly put up for sale by their respective owners, with bidders including both new investors and existing leasing companies. Some newcomers made an appearance, intent on benefiting from the industry's recovery.

Outlook 2005

The recovery in air-traffic volume is expected to continue during 2005 although growth figures will be significantly lower compared to 2004's double digit increase that resulted from a combination of "real" growth and the effect of the low base level of 2003. In general, volume growth of 5-6% is projected for 2005. Despite this respectable figure, the level of profitability for the global airlines will remain highly dependent on the development of fuel prices and the degree to which the US majors, in particular, are able to resolve their problems. In the US, Delta Airlines announced fare reductions and simplifications, resulting in downward pressure on yields. Although it is too early to draw any conclusions, these signals would not appear to bode particularly well for the chances of an industry profit in 2005.

We expect a further strengthening of the equipment market. Although many low-cost airlines have placed significant orders during the last 2-3 years, fleet-replacement programmes in respect of several legacy carriers remain undecided. It will be interesting to see how competition between the Boeing 787 and the Airbus A350 develops, particularly in view of the fact that the latter can no longer be described as just an upgraded A330. With the 787 and the A350 now increasingly in the limelight, conceivably the A330 and particularly the A340-300 and B767 are at risk of accelerated obsolescence. The likelihood is that the used-equipment market will continue to strengthen although, especially with regard to the 50-seater market and the older generation 150-seaters, the fleets of the endangered US majors could potentially disrupt the emerging equilibrium.

All in all, the outlook for the industry in general is one of further improvement with fuel prices and "Chapter 11 issues" in the US the major factors that will determine the financial results of the world's airlines in 2005.

Portfolio analysis

Differentiation is key

*Please refer to our tombstones on the back cover for **landmark Aviation deals in 2004.***

DVB's aviation activities, integral to our expectation of continued success, is founded on a number of important characteristics through which we endeavour to differentiate ourselves from our competitors. These include our:

- consistent, anticyclical approach to business and reliability in terms of decision-making;
- Specialisation and focus which serves to foster in depth industry and asset know-how and experience;
- Track-record in transaction origination and delivery; and our
- Role as a commercial risk taker combined with our corporate finance expertise.

Through these fundamentals we have developed a strong network of relationships with clients and prospective clients who perceive DVB as a bank that understands their businesses and possesses the know-how to provide value-added financial solutions. Such relationships are maintained by remaining in constant touch with our clients and, to further this, our Aviation team's finance specialists are located in the three key economic regions related to aviation.

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

Proven leadership and commitment in the aviation market

During 2004 we realised 52 new transactions with aviation clients, representing an underwriting volume of €835.0 million. New business was concluded with established customers such as Asiana Airlines, Continental, Northwest and QANTAS and, in addition, we attracted ten new aviation clients including Air Sahara (India), Air Tran (US), Thomas Cook/Condor (Germany) and leasing company Pegasus Aviation (US). The weighted-average margin on new (final take) loan commitments during 2004 was approx. 2.1% per annum.

DVB is recognised as a leading arranger, underwriter and provider of risk capital in aviation finance. This position of leadership was well illustrated in 2004 by the fact that – excluding DVB's various purchases of aviation secondary debt – we acted as arranger and/or agent bank in respect of 100% of newly acquired business.

Financing arrangements involved the utilisation of a wide variety of structures, including both operating leases and tax-enhanced leases. Some of the transactions closed during the year are described below:

- DVB arranged and underwrote the financing of three Airbus A320-200 aircraft that were being acquired by a European operating lessor. In conjunction with the Tokyo branch of DVB's subsidiary, International Transport Finance Ltd., the Bank sourced equity for two of the three aircraft which were financed via Japanese Operating Leases, with a traditional debt structure utilised for the third aircraft. We have successfully syndicated part of the financing.
- We structured and arranged a lease financing for a Middle East Investment Fund which has acquired two Airbus A319-100 aircraft and one Boeing B737-800 aircraft under operating lease to two Chinese airlines.
- DVB arranged and underwrote a debt umbrella facility to part-finance an Asian airline's acquisition of six Boeing B737-300 Classic aircraft. Some of the aircraft have been assigned for continued passenger operation and others for conversion to freighters. The facility, structured as a lease financing, is available to assist the airline in respect of both the acquisition and conversion expenditure.
- DVB arranged and underwrote a "limited-recourse" debt facility to assist a US operating lessor in its acquisition, via sale-and-lease-back, of two Boeing B737-800 aircraft on long-term lease to a major US airline. Our Aviation team concluded a number of similar non-recourse asset-based financing arrangements during 2004 when DVB emerged as one of a distinctly limited number of banks that continued to actively support the US airlines and lessors amid the challenging market conditions that prevailed. This consistent level of activity owes much to the close relationships that DVB maintains with experienced asset managers/investors, complemented by the Bank's specialised focus.

In the light of the difficult market conditions described earlier, less experienced, less specialised financial institutions once again proved relatively inactive in aviation financing. This presented DVB with the opportunity to further enhance its market penetration, demonstrated by the addition of a significant number of new clients and the diversity of financial structures delivered to such clients, a factor which will help to offset the envisaged increase in competition now being witnessed.

Loan portfolio development

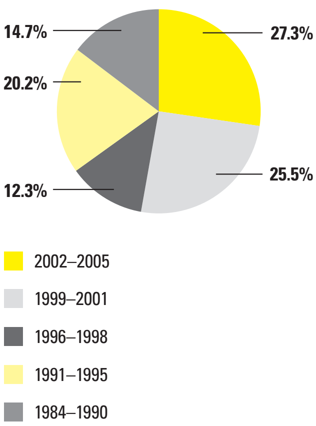
The Aviation portfolio increased by 7.3% to €2.20 billion as at the end of 2004: such growth being achieved despite the further weakening of the US dollar against the euro.

In US dollar terms – the Aviation portfolio is predominantly (93.2%) US dollar denominated – the growth rate was 15.4%, an increase from US$2.60 billion to US$3.00 billion. The portfolio is geographically well diversified (by economic risk) as between North/South America (39.0%), Europe/Middle East/Africa (35.9%), and Asia/Australia/Oceania (25.1%).

The collateralised portfolio represents 98.3% of total loan assets. The collateral is predominantly Boeing (59.0%) and Airbus (30.6%) commercial jet aircraft, of which 27.3% are 2002-2005 vintage and 25.5% are 1999-2001 vintage.

The portfolio is also well diversified by client: a total of 96 aviation clients equates to an average lending exposure of €23 million per client. The division's largest individual client exposure currently stands at €83.2 million, and there are only 11 clients where our committed exposure is in excess of €50 million.

Aviation portfolio by vintage



Some of our clients have struggled to survive the industry downturn, which dates from 2000, and, where necessary, we have continued to devote attention and internal resource to the close monitoring and remedial actions required in relation to the existing portfolio, particularly in respect of watch-list loans.

During the year under review certain loans have been restructured and reorganised, in some cases involving the leasing of mortgaged aircraft assets to other airline operators, achievements that reflect the considerable involvement and expertise of our Aviation Asset Management team. We will continue to take whatever steps are necessary to safeguard DVB's position as secured lender, whereby we benefit from a first-priority mortgage over relevant aircraft to secure our loan commitment.

Outlook 2005

We will continue to adopt a pro-active approach to growing our loan asset portfolio in line with our well-established lending guidelines. In view of DVB's constant presence in the global aviation finance market-place and the recognition of this consistent strategy by our clients and financing partners, we continue to generate a strong pipeline of potential new business. This encourages us in our anticipation of further significant growth in 2005.

The improvement in the aviation climate has been accompanied by the gradual return of various non-specialist banks to the market. While this will inevitably lead to margin pressure in certain areas of aviation finance, other more specialised segments, in which DVB is active, can be expected to continue to attract relatively limited competition. In general, opportunities for profitable growth are expected to materialise through the booking of new (primary) loan business and through certain acquisitions in the secondary debt market where above average yields are usually generated.

During the past two years, DVB's corporate finance activities in the aviation sector have gathered momentum and we are increasingly perceived by clients as a partner, particularly in relation to the provision of innovative financial structures and initiatives. This reflects the positive outcome of DVB's original investment in the establishment of transportation advisory, structured (asset) finance and investment management teams under a corporate finance umbrella. We can look forward to these activities making an increasing contribution to our overall profitability.

During the last quarter of 2004, our Aviation division announced the establishment of an Aero Engine Finance Unit specifically designed to provide financial services to the global aero engine market. DVB has long been involved in a limited amount of engine finance, while our aircraft finance activities require a high degree of engine expertise in view of the fact that engine choice significantly influences the value and remarketability of individual aircraft. This development thus represents a natural extension of our existing aviation activities and we are confident that our in-house expertise will enable us to capture a satisfactory share of the spare engine finance and lease markets which, according to our estimates, command a value of approximately US$1.75 billion per annum.

We are distinctly optimistic about our prospects for 2005.

Transport Finance – Land Transport

The Land Transport division can look back on a highly successful year during which new business, portfolio expansion and earnings all exceeded expectations. The successful expansion of our North American customer base served to further complement our existing loan portfolio. We attribute this positive result to our policy of specialisation, our consistent focus on our customers and our adherence to our core markets.

Market review

The year 2004 was characterised by economic recovery in the international land transport markets and mounting investor interest in the sectors that we specialise in. The increase in wagonload numbers and rolling stock deliveries signalled the advent of the anticipated long-term upward trend in US business activity. A stable market environment in Europe encouraged ongoing investment in local and regional passenger rail transport and in both national and international freight traffic. The market for rail vehicles posted an increase of around 4% worldwide, with purchases of rolling stock in Western and Eastern Europe proving the principal driver. Western Europe remains the strongest region, accounting for more than 37% of the €22 billion global market for rolling stock, followed by Asia and North America. Increased M&A activity in the bus and logistics markets point to ongoing consolidation within these segments.

HGV toll collection system in Germany

The toll collection system in respect of heavy goods vehicles on German motorways was introduced on 1 January 2005, having been postponed since mid-2003. The toll is either paid manually at collection terminals, or through the internet or through the automatic toll levying system. No technical problems have arisen post the eventual introduction of the charge.

Sales of local public transport operators in Germany gather momentum

Germany's local public transport sector involves numerous small enterprises and it is interesting to note that an increasing number of municipal and private transport operations are being put up for sale. This development, which has attracted companies that specialise in international transport, is particularly evident in towns in East Germany. We expect this trend to continue.

Consolidation of European railways

Railways accounted for 12.6% of Western Europe's freight traffic volume in 2004. The decline in market share, evident for several years, appears to have bottomed out and rail transport's share of the freight market is expected to remain at around current levels over the next decade. Heightened competition has prompted European rail transport companies to consolidate. Among others, Germany's Karsdorfer Eisenbahn and Holland's Shortlines B.V. ceased operations in 2004 with respective transport commitments taken over by other railway operators.

Abbreviations Land Transport:

CIS	*Commonwealth of Independant States*
DB	*Deutsche Bahn AG (German federal railways)*
HGV	*heavy goods vehicle*
M&A	*mergers & aquisitions*
SBB	*SBB AG (Swiss federal railways)*
TPG	*TPG N.V. (Dutch postal and logistics group)*

Acquisition finance in Europe
In Europe, private rail and private bus companies, the latter being highly fragmented, attracted considerable take-over activity in 2004. Interest emanated not only from strategic buyers but also from private investor groups.

The British company Arriva plc, for example, acquired Prignitzer Eisenbahn-Gruppe in April 2004 and followed this up with the purchase of Regentalbahn AG in October 2004. Italian and German bus companies were also acquired by Arriva. The rail activities of Ruhrkohle AG passed to DB on 1 January 2005 in the wake of a sales tender in 2004. VTG AG – TUI AG's remaining rail logistics offshoot – has been on the market since mid-2004. The sale is expected to come about during the first half of 2005.

State-owned railways re-gaining influence
Several of Europe's state-owned railway operators are taking advantage of the increasingly important North-South routes over the Alps and have carved out strategic market positions in relation to cross-border rail freight traffic. The investments in, and acquisitions of, private railway companies signal a revival of the influence exercised by state-owned railways on the market. Italy's Trenitalia has raised its holding in Germany's TX Logistics to 40% and has entered into a co-operation agreement with the Slovenian state railway. Meanwhile, DB has engaged in close co-operation with Switzerland-based BLS Cargo. In January 2004 DB acquired around 30% of the Italian Rail Traction Company and subsequently secured a favourable position in North-Western Italy through the acquisition of a 95% interest in Strade Ferrate del Mediterraneo. With a view to safeguarding its share of transalpine rail freight traffic, SBB established two subsidiaries: SBB Cargo Deutschland and SBB Cargo Italia.

Logistics market under merger and cost pressure
The wave of take-over activity that has engulfed the worldwide logistics market in recent years continued apace. Key drivers include the determination of buyers to bridge regional gaps, the determination of sellers to focus on their core business and mounting cost pressures across the sector.

Examples include:

- ***United Parcel Service***
  acquisition of Menlo Worldwide Forwarding (formerly Emery Worldwide), USA
- ***TPG***
  purchase of Wilson Logistics Group, Sweden
- ***Kühne+Nagel***
  acquisition of several international operators
- ***Dubai Ports International***
  acquisition of CSX World Terminals, USA

Positive development of US railway markets
The number of wagonloads transported by rail in North America showed another significant increase (estimated average +3.5%) during 2004. Inter-modal transport expanded 8% and replaced coal traffic as the largest revenue segment for the first time in more than a century. A combination of various factors including an increase in overall freight transport to the West Coast, the lack of qualified rail personnel and a shortage of necessary heavy haul locomotives at peak times led to congestion on certain key Class 1 railway links and served to reduce wagon circulation. The situation eased towards the end of the year.

Revival for North American rolling stock

The positive economic environment in the US led to increased demand for rolling stock and locomotives accompanied by an increase in rental rates. It is estimated that more than 44,500 freight wagons were delivered during the year under review (2003: approx. 32,100) with around 60,000 on the order books. The introduction of new provisions in respect of exhaust emissions as from 1 January 2005 generated noticeably high demand for new freight locomotives as 2004 drew to a close. A cyclical high in global steel prices failed to dampen this positive development.

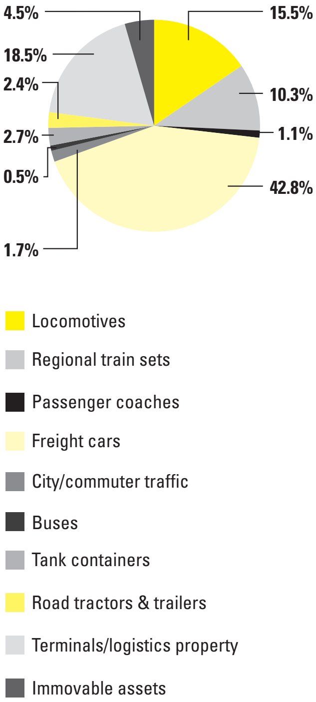
Portfolio analysis

*Please refer to the tombstones on the back cover for **landmark Land Transport deals in 2004.***

Land Transport experienced a sustained improvement in its ratios during 2004. The volume of new business amounted to more than €250 million as the portfolio grew by 11.4% to €0.89 billion. A total of 20 new transactions were entered into.

Greater commitment in North America led to further regional diversification. We reduced the relative share of German and European business – which has historically dominated our portfolio – in favour of higher-margin transactions that carried a balanced mix of different risks.

Land Transport portfolio – asset types



The financing of freight wagons accounted for the largest share of the portfolio: up 7.8 percentage points to 42.8% compared with a 35% share in 2003. In view of this substantial share of marketable and standardised assets we feel very well positioned. Enhanced market transparency and strong demand for standard freight and tank wagon types financed by DVB has served to strengthen our position in a segment that will remain firmly at the core of our financing activities in the medium-term.

Other important portfolio components include loans to premier customers in respect of select logistics properties in good locations (portfolio share 18.5%), loans for modern diesel and electric locomotives (15.5%) and loans for new passenger train sets (10.3%). Our portfolio is therefore well diversified and balanced.

The majority of transactions concluded in 2004 related to used and new freight wagons in Continental Europe and the US. We acquired four new customers in this segment. In one instance, we assumed certain residual value risks that could be reliably quantified. We concluded another operating lease transaction for electric locomotives with a premier rental company in Europe. Financing activities also encompassed a fleet of tank containers and a logistics property located on a key European traffic corridor. We supported a major customer through several follow-on transactions in the US. At the same time, we strengthened our position as a reliable provider of asset finance, inter alia acting as agent in two transactions.

Outlook 2005

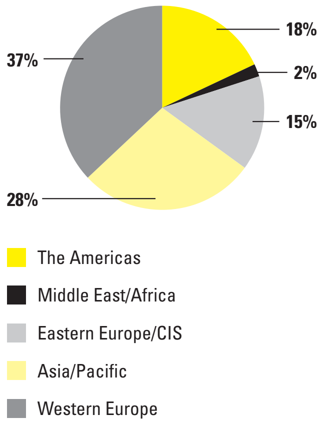
North America and Europe will continue to represent our core markets. Growth in the North American market for rolling stock is estimated at around 6% p.a. over the next two years. This will afford us the opportunity to strengthen our New York team in order to fully satisfy our customers' requirements. The market for rolling stock in Western and Eastern Europe is expected to register satisfactory growth of around 3% to 4% which offering good opportunities to expand our activities. We therefore estimate that the market for rolling stock in Western Europe will exceed 37% of global demand by 2008, with the US accounting for around 18%. The Asian region – expected to expand to around 28% – will clearly become increasingly significant.

We expect freight wagon deliveries to total approx. 17,000 in Europe and 56,900 in North America in 2005. Given the large number of US orders in 2003 and the withdrawal of a major tender in Europe, the locomotive market may well weaken.

With regard to the bus and logistics sectors, we will continue to focus on financing mobile assets together with premier projects in relation to immobile assets and property. Our activities in the bus sector are likely to be limited to a relatively small number of large transactions. Meanwhile, we expect the trend towards further consolidation in the logistics market to continue.

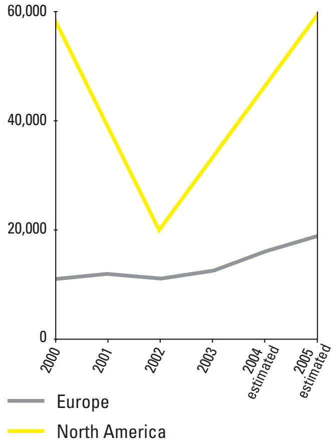
We will apply our expertise and clear focus to position ourselves appropriately for the benefit of customers in order to fully exploit the market momentum. Various ongoing mandates and business opportunities are indicative of Land Transport's strong position in the marketplace. We will endeavour to capitalise on this position in 2005, not least through the expansion of our leading roles and the pursuit of further regional diversification. We continue to anticipate a high level of asset financing activities in our core markets.

Regional market shares for rolling stock in 2008 (estimate)



Source: DVB Research/SCI Verkehr 2003

Freight wagon deliveries



Source: DVB Research/SCI Verkehr 2004

Transport Finance – Transport Infrastructure

Our Transport Infrastructure division encompasses the structured financing of transport infrastructure projects with private capital together with project-specific funding advice (Financial Advisory). In 2004 we focused for the first time on oil and gas pipelines and on handling facilities associated with LNG terminals. One of the highlights was the successful implementation by our team of specialists of a complex structuring and arranging mandate to finance a container terminal project in the Baltic region (Finland/Russia).

Market review

The market for international project financing saw another significant upswing in 2004. This also applied to syndicated deals for infrastructure/PPP: from the very start of the year these projects attracted mounting interest reflecting budgetary squeezes among public authorities. The credit margins for these projects gradually declined due to the tendency of project operators to assume only a limited share of the risk exposure associated with such projects, thus allowing for improved project finance ratings. Additionally, the lower capital backing requirements (according to Basel II) impacted on project financing.

Airports

In Germany, the privately-funded development of Berlin-Schönefeld Airport came to a halt. As announced, the process will continue from 2006, albeit only with public funds. This development was primarily attributable to the demands of the syndicate of private developers for assurances on traffic figures and their ability to levy appropriate charges. Elsewhere in Europe, Brussels Airport featured in the headlines courtesy of its 70% partial privatisation and the withdrawal of DHL as a key customer. In the summer of 2004, the Indian transport ministry once again postponed the privatisation of the New Delhi and Mumbai airports – a project that has been the subject of repeated announcements. Publication of the pre-qualification details regarding the anticipated eight syndicates having tendered offers was scheduled for March 2005 at the earliest. International interest, not least from Germany, has been strong. Worldwide air traffic increased significantly during 2004, so much so that expansion, at the likes of Frankfurt Airport, could no longer be deferred. The recently expanded Munich, Dusseldorf and Hamburg airports all reported increased traffic.

Maritime ports and terminals

Significant growth in international container traffic persisted throughout 2004. The world's 100 largest ports account for around 83% of overall container handling and the trend is rising. The greatest expansion was in Northeast Asia (market share of approx. 35%), followed by Europe and the Americas (around 19% each). Roughly 300 new container terminal projects are envisaged for the period 2004 to 2007 alone. Approximately 35% of these projects relate to new terminals, while some 65% involve extensions/renovations in respect of existing terminals. Independent studies predict growth of around 100 million TEUs in capacity (+28%) through to 2007, with the booming Chinese market alone accounting for 20% to 25% of this.

Abbreviations Transport Infrastructure:

CAGR	*compounded average growth rate*
DHL	*service provider for all express, courier and logistics services*
GAGR	*gross average growth rate*
LNG	*Liquefied natural gas*
PPP	*Public-private partnership*
TEU	*twenty feet equivalent unit*

During 2004, DVB enjoyed particular success in financing container terminals in the Baltic region. Our experts organised the financing of two projects, one in Poland and the other in Finland/Russia. We actively leverage the network and expertise of our Shipping division (based in London and Rotterdam) to generate new port business and to analyse opportunities in this sector.

Rail infrastructure

Financing opportunities in respect of rail infrastructure projects were rare last year. A few PPP projects involving state governments materialised but these were characterised by low margins and extremely long loan terms (some exceeding 30 years). As a result of this unfavourable environment, no projects were financed in this segment last year.

Toll roads

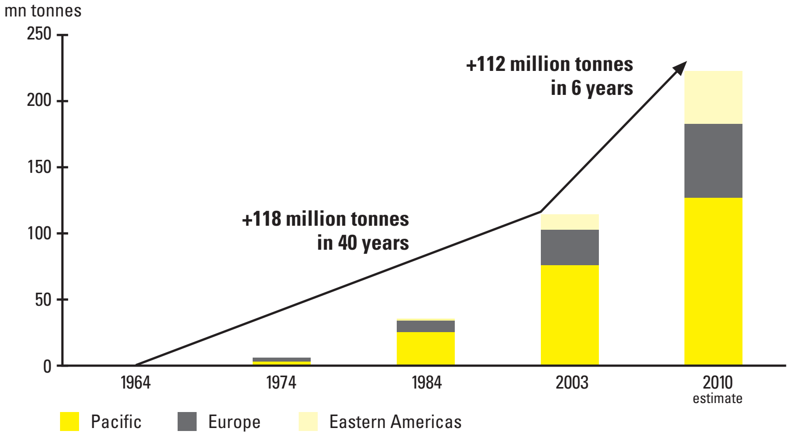
Following the introduction of the HGV toll collection system in Germany in August 2004, we anticipated tenders for the expansion of motorways under the so-called A-model (future income from the HGV toll collection system being earmarked to fund various motorway expansion projects) to take place in rapid succession. This, however, did not come about. In September 2004, a tender for the first motorway to be funded by the private sector was published in Austria and attracted considerable international interest. The Austrian financing model is largely based on a system that is already in operation on the M5 and M6 motorways in Hungary, both of which were restructured or refinanced in 2004. In this case, the Hungarian government pays a lump sum to each of the licensees. This sum is increased or reduced in line with performance-oriented criteria, such as access to and condition of the roads. On the other hand, a real toll collection system has been imposed on new motorway sections in Spain. Meanwhile, in Portugal, a change of government has seen plans for the conversion of the shadow toll system to a real toll levying system put on ice.

"Shadow toll" schemes refer to transfer payments made by the public-sector authorities to the toll road operators. The payments are calculated according to the extent to which the roads are utilised (HGV and/or car users). Using traffic census data, the shadow toll can be based on an individual charge model designed to adjust prices according to different user categories. Unlike a "real toll", which is paid directly by the road user, a shadow toll is not subject to competition in terms of demand because the toll is paid by the government. The toll road operator thus enjoys a more stable basis from which to calculate his income.

Pipelines and LNG terminals

The worldwide recovery of the oil and gas business, particularly in relation to the sharp increase in the number of liquefied natural gas projects, indicates that this segment is set to become of paramount importance to the entire project finance market in the years ahead. Production levels are expected to double by the year 2010 to around 230 million tonnes. This means that the growth achieved over the next six years will correspond to the growth witnessed over the last 40 years.

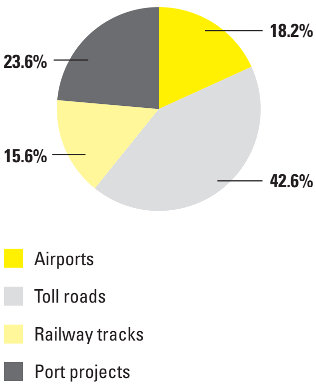
World LNG demand 1964 to 2010 (estimate)



2003–2010:
CAGR by region: Pacific +8%/Europe +10%/Eastern Americas +22%
GAGR for total energy demand: +2.1%

Source: Infrastructure Journal 2004

Transport Infrastructure portfolio by sectors



Portfolio analysis

Our portfolio comprises projects in the industry sectors as shown in the chart. Our team of specialists successfully concluded a further six transactions in 2004. The following four deals are particularly noteworthy:

Multi Link Terminals, Dublin/Ireland

In December, we effected disbursement of a €71 million investment project for Multi-Link Terminals Ltd., (MLT), in the capacity of mandated lead arranger. MLT's two shareholders, Container Finance Ltd. Oy and Forth Ports Plc., will provide the capital (€26 million). A long-term investment loan (€41 million) and a production facility loan (€4 million) will make up the balance. MLT is a maritime port operator, based in Ireland, which manages container terminals in Helsinki and Kotka (Finland), as well as Litke Bay on the island of Kotlin close to St. Petersburg (Russia).

The annual handling capacity of the Helsinki container terminal is currently 230,000 TEUs, while the annual handling capacity of the Litke Bay terminal is 75,000 TEUs. Kotka only started operating recently. MLT needs to expand its terminal capacities at both Kotka and Litke Bay in order to satisfy future market demand for container traffic in the Baltic region. Capacity at Kotka is expected to rise to 50,000 TEUs per annum, while Litke Bay's capacity is set to initially double to 150,000 TEUs, subsequently rising to 230,000 TEUs.

A long-term undertaking by Containerships Ltd. Oy to utilise MLT's handling capacity through its own shipping lines constitutes a part of the financing concept. Additionally, MLT has already acquired new business for Kotka and is involved in negotiations with potential new customers for St. Petersburg.

Belfast City Airport, Belfast/Great Britain

The Bombardier Group sold Belfast City Airport to the Spanish Ferrovial Group (specifically to the latter's airport division) within the scope of a tender. The acquisition finance involved also provides for an expansion and modernisation plan designed to dramatically update the airport in terms of size, service and technology. A dynamic, growth-oriented facility is envisaged with particular emphasis on the business travel market. The finance project is based on a 125-year airport lease, granted to Bombardier in 1989, which has been acquired by our client, Aeropuerto de Belfast. Together with two other banks we supported this club deal, with an approximate value of GBP37 million, as arranger. Jane's Transport acknowledged the transaction as "Airport Finance Deal of the Year".

*Please refer to the tombstones on the back cover for **landmark Transport Infrastructure deals in 2004.***

Stolthaven Houston & Stolthaven New Orleans, USA

Our reputation as the specialist bank for global transport finance also stood us in good stead in respect of this finance project. Due to our long-term relationship with Stolt Nielsen Group through our Shipping division, we received a direct approach with regard to participating in a US$150 million finance project for two port terminals, incl. connected tankage facilities, in Houston and New Orleans.

The Stolt Nielsen Group is a leading global specialist in the seaborne transport of liquefied products and special chemicals with a fleet that extends to well over 100 ships. The Group also operates its own port terminals, a factor that is integral to ensuring a seamless transition between seaborne traffic and the end-customer.

Advisory services

At the end of September 2004, DVB won the mandate to become financial advisor in respect of a container terminal project at Gdansk (Poland) North port. Within the scope of this project, we are arranging and structuring external capital in excess of €200 million for DCT Gdansk Ltd., a British group of private investors with extensive experience in relation to container terminals. We will continue to hold the consultancy mandate in 2005.

Outlook 2005

Our expertise in the financing of maritime port container terminals will prove a crucial factor in terms of determining our success in 2005. Accordingly, we are about to assume a leading role in another finance project in this sector. We are also closely following the ongoing development in Germany of the concession models that should at last be established with the awards of tenders for the first A-models, as mentioned earlier. After the successful start of the HGV toll collection system, we are aiming to win financial advisor or debt arranger mandates from bidding consortiums for German motorway projects. We want to secure a significant involvement (at least) in these financings. Given the falling credit margins, particularly in the airport sector, we will be highly selective regarding return in this segment. The same principle will be applied to rail infrastructure projects. In contrast, our new segment – the pipeline and LNG business – is clearly set to accelerate.

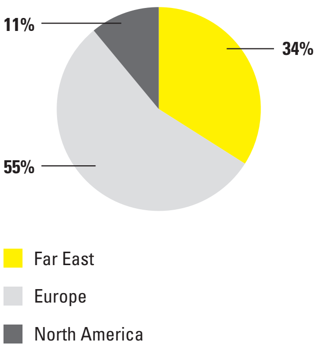
Distribution

The syndicated loans market experienced a strong year globally during 2004. All three key geographic areas, EMEA (Europe, Middle East and Africa), the Americas and Asia, witnessed significant growth with total transactions equivalent to US$2.2 billion representing a 59% increase over the volumes recorded in 2003. Borrowers returned to the market, encouraged by the attractive pricing available and relatively benign global economic conditions. In addition to strong growth in general financing, refinancings played an important role, while even acquisition finance achieved its strongest showing since 2000.

It was the excess of liquidity, taking into account all the issues that affected the syndicated loans market, that had the biggest impact on market dynamics in 2004. An insufficient supply of new money deals and creditable performances by most banking groups served to ensure that adequate liquidity was available throughout the year.

This excess liquidity has led to downward pressure on pricing and a slackening of terms and structures, to the benefit of customers and to the detriment of the banks.

Distribution deals by region – volumes sold down



Shipping industry transactions in the syndicated loan market during 2004 mirrored the events of the wider syndications market. Pricing came under heavy pressure as banks competed aggressively for new mandates. One of the key indicators that the shipping industry is approaching, or has reached, the peak of its cycle lies in the number of banks to enter, or re-enter, the market: more than 25 at the last count. However, despite the reduced pricing and excess liquidity, the majority of banks in this sector enjoyed a successful year, driven by the overall buoyancy of the shipping industry.

The recovery in the aviation industry continues, with increased passenger and freight volumes having a knock-on effect in terms of the sector's growth in the syndicated loans market. Transactions tended to fall into the categories of small club deals, involving one to four aircraft, or large corporate facilities in respect of the major carriers. In general terms, pricing has stabilised for the industry. Increases were encountered by those companies that experienced downgrades, while there were decreases for investment grade companies which benefited from the fact that some banks concentrate solely on such higher rated credits.

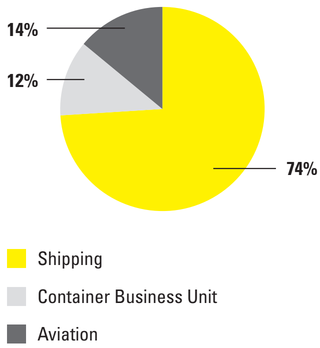
Our Distribution team is focused on three key areas:
- Syndication of primary debt transactions.
- Private placement of structured credit products.
- Development of new markets, products and structures to facilitate alternative distribution channels for DVB and its clients.

In 2004, our team syndicated 19 transactions with a total value of US$1.6 billion for the Shipping, Aviation, Land Transport and Transport Infrastructure teams. This required us to raise US$909 million from the market in order to successfully close these deals, which represents a 66% increase in activity compared with 2003 when US$547 million was raised. The average deal value in 2004 equalled US$86 million.

During 2005 we will continue to seek new liquidity from the market and broaden our syndication capabilities in respect of bank debt, in addition to looking towards the private placement market. We will also investigate and implement alternative methods of placement for risk weighted assets and widen our placement capabilities for asset backed securities.

Finally, we will continue to work closely with all of the industry teams in order to maximise debt product opportunities for DVB.

Distribution Deals by divisions – volumes sold down



Corporate Finance

*Please refer to the tombstones on the back cover for **landmark Corporate Finance deals in 2004.***

Corporate Finance, which operates out of Rotterdam and London, is responsible for three key areas: Structured Asset Finance, Advisory and M&A and Investment Management. Consultants, who work in close co-operation with DVB's Transport Finance divisions, specialise in the provision of intricate financing structures and bespoke solutions for the Bank's clients.

Structured Asset Finance

Our Structured Asset Finance team arranges lease and other financial transactions that provide clients with attractive funding levels and operating lease treatment of the assets involved. The transactions often involve tax-based structuring techniques, third party equity investments and multiple jurisdictions. Our specialised knowledge of the specific operational and regulatory requirements of the respective jurisdictions enables us to design tailor-made solutions for our clients.

During 2004, transactions were completed in all four target areas: UK Leasing, Dutch Leasing, Japanese Leasing and Operating Leasing. Mandates were awarded by shipping companies, airline corporations and aircraft leasing companies.

DVB is uniquely positioned to evaluate and price transportation asset risks, place them in the market or assume such risks itself. Meanwhile, a trend has developed whereby transportation clients choose to define their core business in terms of the provision of a service rather than the ownership of transportation assets. This enables us to structure lease transactions that offer our investment clients an interesting diversification option in respect of their portfolios together with attractive risk/reward combinations. At the same time our transportation clients benefit from flexibility in their fleets and attractive cost levels. We welcome the universal trend towards greater scrutiny of tax enhanced transactions that lack economic substance.

In ship finance, the UK lease remains the product of choice for the majority of large shipping corporations and DVB remains active in this field. The UK government has indicated significant changes in the laws governing UK leasing. In order to continue to provide valuable services to DVB's clients, we are developing new UK lease and finance products that are expected to survive these legislative changes.

Abbreviations Corporate Finance:

IPO	*Initial Public Offering*
IRR	*Internal Rate of Return*
M&A	*mergers & aquisitions*

Apart from carrying out beneficial transactions for our investment and transportation clients, we will focus on the further development of products during 2005 while, at the same time, strengthening our relationships with investors in order to maintain a high quality of ongoing services. We strongly believe that success can best be achieved through focussing on a limited number of products where the risk-return ratio is attractive and by continuing to close transactions within the agreed time frame and at the indicated parameters.

Advisory and M&A

Clients of DVB will, to an increasing extent, be exposed to the trends towards consolidation and/or will choose to take the initiative. The "drivers" of global trade, transportation and competitive positioning, have already proved the catalyst for considerable M&A activity throughout the transport industry, a trend that we believe will continue.

In addition to their investment banking know-how, our corporate finance specialists possess a wealth of experience in relation to the transportation industry. The activities carried out by Advisory support DVB's business focus and expand the Bank's fee income.

Advisory does not utilise the Bank's capital and sources its income from mandate retainers and transaction led success fees.

Our strategy is to capitalise on DVB's large client base, backed by the Bank's balance sheet and underwriting capacity, through the provision of a broader offering of investment banking advisory products:

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

Although 2003 represented Advisory's first full year of operation, mandates awarded have increased from six in 2002 to 15 in 2004, accompanied by profitable success fees.

Current projects and pipeline opportunities, reflecting activity in the transportation markets, will serve to enhance DVB's revenue potential and, against this background, we take an optimistic view of prospects for 2005.

Investment Management

Investment Management, which is responsible for DVB's fund management activities, is headquartered at our Rotterdam office. Our team currently acts as an advisor to the Deucalion Aviation Fund and NFC (Navigation Finance Corporation) Shipping Funds, both of which focus on investments in high yielding loans/bonds, mezzanine financings and equity participations in aviation and shipping projects. The total amount under management rose by 75% to US$350 million (2003: US$200 million), of which US$120 million (2003: US$90 million) relates to the Deucalion Aviation Fund, representing a one-third increase in fund volume, and US$230 million (2003: US$110 million) to NFC Shipping Funds, where fund volume more than doubled. Through these fund management activities, DVB has been able to expand its traditional product range of senior and junior financing to clients. In this context, DVB can arrange each risk layer, including the equity aspect, for the financing of transportation projects.

Deucalion Aviation Fund

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

During 2004 the Deucalion funds invested in ten aircraft with a total transaction value of US$275 million. Of these aircraft, three have since been disposed of at prices which have generated returns significantly above the funds' target IRR levels of 17%.

In addition, one of the Deucalion funds has benefited from a successful IPO relating to an earlier equity investment in Air Asia, a low cost carrier in Malaysia, which has led to a substantial increase in the value of that investment.

NFC Shipping Funds

NFC is a joint venture between DVB and Northern Navigation Inc., a holding company representing a group of private investors who specialise in the shipping markets. The senior investment managers advising the NFC Shipping Funds are based in Greenwich/Connecticut, London, Oslo, Singapore and Rotterdam. NFC focuses on (preferred) equity investments in the shipping and off-shore sectors and, during the last three years, has executed more than 30 investments.

Once again NFC experienced an excellent year. During 2004, NFC Shipping Funds invested in nine projects that spanned various segments of the shipping industry and included 27 vessels with an asset value of US$439 million. Seven investments, involving eleven vessels with a market value of US$210 million, were disposed of. The returns from realisations were well above benchmark levels.

The preferred tenure for both aviation and shipping projects is between three and seven years. Typically, a project should generate a 15% to 20% return on an equity investment, 10% to 15% in respect of a mezzanine loan and 400 bps above LIBOR for relatively high yielding loans/bonds.

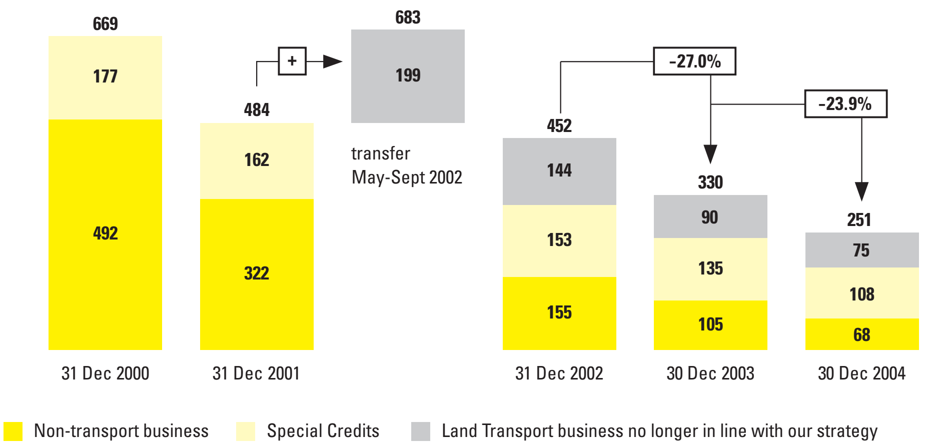
NFC remains optimistic for 2005 despite the current high values in the shipping markets.

D-Marketing

Customers and loans that fall outside DVB's core business operations are aggregated in our D-Marketing unit, a practice that dates back to October 2000. In addition to non-transport business, the D-Marketing unit also processes Land Transport business that does not correspond to the Bank's current volume and return requirements, as well as exposures under restructuring and winding-up procedures.

We successfully reduced the D-Marketing portfolio by almost a quarter (23.9%) in 2004, down from €330 million to €251.2 million. The largest aspect of this was achieved in respect of restructuring exposures.

Development of the D-Marketing portfolio (€ mn)



Continued successful reduction

Between October 2000 and December 2004 we succeeded in reducing the non-transport portfolio (incl. loans subject to restructuring and winding-up procedures dealt with by the Special Credits unit) from €788 million to €176.6 million, a decrease of 77.6%. In addition, we reduced the volume of Land Transport commitments transferred to D-Marketing in 2002 (due to the fact that they were no longer in line with our strategy) by 62.5%, from €199 million to €74.6 million. As planned, we also reduced D-Marketing portfolio's overall risk exposure, with net risk (receivables less collateral pledged and loan loss provisions) showing a disproportionate fall of 37.2%, from €92.4 million to €58 million. At the end of 2004, loan loss provisions were unchanged, amounting to around 26% of the D-Marketing portfolio. Net loan loss provisioning requirements (specific loan loss provisions and general provisions) amounted to €6.2 million, two-thirds of which was accounted for by the non-transport business.

Market environment and patterns of customer behaviour

A difficult commercial environment persisted throughout 2004. Activity in terms of loan transfers to other financial institutions remained low, effectively unchanged compared with 2003. Customers proved distinctly reluctant to utilise 2004's highly favourable interest rates to reschedule long-term loans or repay them ahead of time. In our view, this hesitant behaviour reflects the willingness of companies to use available credit lines to fund their liquidity and/or investment requirements.

During 2004 we consistently investigated the feasibility of the sale of entire portfolios, or parts thereof, to distressed loan specialists. However, the achievable results would not have been economically viable for DVB. The Board of Managing Directors and the Supervisory Board therefore agreed that our own specialists should continue to pursue their established winding-up procedures.

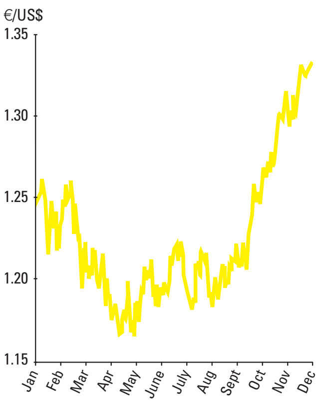
Outlook 2005

As in the past, our specialists will continue to ensure the skilful settlement of insolvencies and the smooth handling of non-performing exposures, alongside the ongoing reduction of the portfolio. However, the pace of the decline in D-Marketing's non-problem exposures will decrease due to the fact that the residual portfolio relates almost entirely to long-term agreements – most of which are duly collateralised.

Treasury

DVB Bank AG once again accelerated its issuing activities for the Group in 2004. In addition to our Debt Issuance and Commercial Paper programmes, we also increased the issuance of promissory notes. This diversified refinancing structure serves to enhance our independence in terms of issuance products and markets and ensures a solid, long-term supply of liquidity. The credit spreads for bank issuers narrowed further on the capital market, which allowed us to considerably reduce our liquidity costs.

Euro/US$ exchange rate development



Source: Bloomberg L.P.

Business development in 2004

The long and successful partnership with "Sparda" banks – which had been terminated in November 2003 – came to a close at the end of 2004. As the new central institution of the banking group, DZ BANK AG will provide and balance liquidity for these co-operative banks, a service that we had provided since 1992. The effect of the transfer of the liquidity provision and balancing function reduced the level of deposits taken from "Sparda" banks by 81.2% to €394 million (2003: €2.1 billion) at year-end.

High volatility continued to prevail on the foreign exchange markets during 2004. The euro rose sharply against the US dollar in the last quarter of 2004 to reach an exchange rate of US$1.3637 in December, its highest level since the introduction of the common currency. We had already hedged the projected US dollar-denominated profit margin in 2003, thus ensuring that the stronger euro did not impact negatively on 2004's net income.

June 2004 heralded the first of the US Federal Reserve's five hikes in the Fed Funds rate, although only short- and medium-term rates showed an actual increase over the levels seen at the beginning of the year. In Europe, the ECB's key refinancing rate remained at 2% during 2004, unchanged since June 2003. Medium- and long-term euro zone interest rates fell by up to 0.5% compared with the levels that prevailed at the beginning of 2004.

Abbreviations and references Treasury:

German Banking Act	*Kreditwesengesetz (KWG)*
ECB	*European Central Bank*
FED	*Federal Reserve System*
MTN	*Medium Term Notes*

Own funds – supplementary capital

Supplementary (tier II) capital declined marginally, from €314.6 million to €310.3 million. We did not issue any profit-participation certificates or subordinated liabilities during 2004.

Profit-participation certificates – which form part of supplementary capital – were unchanged at €126.1 million. The profit-participation certificate issue (German Securities ID 804 555) that matured on 31 December 2004 did not impact on 2004's profit-participation certificates because only certificate issues with a minimum outstanding term of two years are eligible for inclusion.

A subordinated euro-denominated bearer bond and subordinated promissory notes issued in euros and US dollars, represent some other components of supplementary capital. The higher euro/US dollar exchange rate lowered the euro equivalent of the subordinated US dollar-denominated promissory note to such an extent that the value of subordinated liabilities fell overall. However, since this US dollar promissory note matures in May 2005, only 40% qualifies for inclusion. In accordance with the German Banking Act, this type of allowance basically affects subordinated liabilities with residual lifetimes of less than two years. Subordinated liabilities therefore amounted to €200 million in 2004 (2003: €201 million).

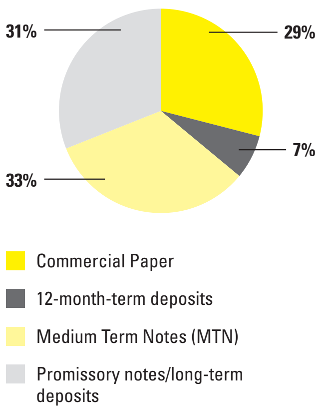
Demand for DVB issues

Our issuing activities in promissory notes rose sharply in 2004, while the volume of the other products issued almost matched last year's level.

We placed €529 million and US$522.5 million in short-term liabilities on the money market within the parameters of our Commercial Paper programme in 2004. US$300 million in 12-month-term deposits also contributed to our refinancing activities.

We observed a revival in medium- and long-term traditional refinancing instruments and we issued €960.1 million (2003: €390.5 million) in long-term deposits and promissory notes. This balanced the MTNs issued under the Debt Issuance programme. At €1,020 million, the volume of bonds issued was slightly lower than in the previous year (€1,236.1 million). This drove up the volume of medium- and long-term liabilities issued to €1,980.1 million (2003: €1,626.6 million).

Breakdown of new issues by product group



Outlook 2005

Our refinancing activities in 2005 will once again depend largely on the level of new Transport Finance business. Nonetheless, the volume of long-term bonds is expected to be lower than in 2004 and our projected issuing volume is around €1 billion. Given that our assets are largely denominated in US dollars, the future trend of the euro/US dollar exchange rate will impact on our funding activities.

In our annual update, we have increased the volume of the Debt Issuance programme from €3 billion to €5 billion. This increase will offer greater scope for new MTN issues during 2005. Within the scope of updating the programme we also established the potential for extending our bond issuing activities beyond Frankfurt on an international level through two subsidiaries of DVB Bank N.V. (formerly Nedship Bank N.V.): DVB Bank America N.V., based in Curaçao, and DVB Group Merchant Bank (Asia) Ltd., based in Singapore. This expansion into the American and Asian markets will enable us to structure the specification of our MTNs in a more flexible manner and represents an extension of DVB's increasingly international refinancing operations.

Employees

Due to the fact that the restructuring process initiated through the CHANGE project in 2002 was largely completed in 2003, relatively few adjustments to personnel were required during 2004.

This enabled us to focus our Human Resources activities on the development project "Phase III – Leap in Profitability" which represents an integral aspect of DVB's corporate strategy. We are committed to familiarising employees with the strategic thinking that lies behind such projects and fully involving them in the implementation process.

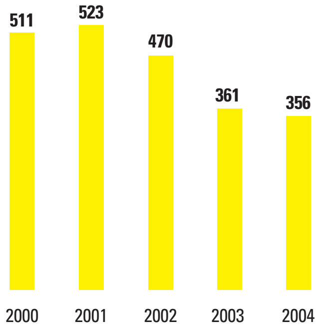
Balanced personnel structure

There was little change to our personnel structure in 2004. The number of employees at DVB totalled 356 at the end of 2004 (2003: 361).

A breakdown of staff numbers within the business divisions included, for the first time, a figure of 334 active employees. As at the end of 2004, 22 employees had either entered the passive phase of partial retirement or had taken maternity or parental leave. A repetition of the recent trend saw the employee count within our central Group functions and service units register a further decline to 120 (2003: 134), a figure that now accounts for a little more than one-third of our staff. In contrast, the number of qualified Transport Finance specialists rose by nine, to 191 worldwide.

In essence, adjustments to our personnel structure during 2004 largely related to the requirements of our core Transport Finance business.

DVB Group staff levels (2000–2004)



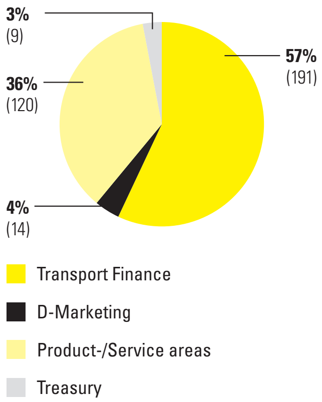
from 2000 incl. DVB Bank N.V. (formerly Nedship Bank N.V.) excl. ReiseBank/CashExpress

Personnel development

Performance and talent management

One of the focal points of our development project "Phase III – Leap in Profitability" is the importance of highly qualified employees to DVB's long-term success. Working with the management of the central Group functions/service units, the Transport Finance divisions and the Board of Managing Directors, we identified specific areas of expertise that are vital to DVB's global Transport Finance operations. Our Human Resources department will use this competence model in the years ahead as a basis for integrated performance and talent management. Accordingly, we revised our performance appraisal system during 2004 with a retrospective perspective giving way to an approach firmly focused on factors relevant to future success. The forward-looking assessment of abilities and potential will allow us to support employee development in a manner that simultaneously strengthens DVB's competitive edge. This is in line with our policy of not adopting a selective approach to talent management.

DVB's active[1] staff by business divisions



[1] excl. employees on parental leave and those who entered into the "passive" phase of partial retirement/expiration of contract

Rotation programme

The rotation programme introduced in 2003, which enables employees to work in other market or product areas, has established itself as an integral aspect of our training syllabus. This programme has recently been extended from Marketing to other divisions.

Training

Training expenditure in 2004 amounted to €611,000 compared with €846,000 in 2003. However, taking into account costs involved in the aforementioned rotation programme and certain other specific training measures, the overall expenditure on personnel development has, in general terms, increased. This trend can be expected to continue. Although training measures will continue to represent a key building block in terms of personnel development, specific and individually tailored opportunities such as rotation, workshops and strategic projects will become increasingly important.

Trainees

DVB continued to invest in well qualified and highly motivated trainees within the framework of the Bank's international trainee programme. During 2004 we broadened the range of the programme, which had previously focused on specific issues related to the Transport Finance divisions, and established an additional programme for our lending units. In our view, the fact that we have taken on all trainees to date, following completion of their respective programmes, and successfully integrated them into the Bank's operations, is most positive.

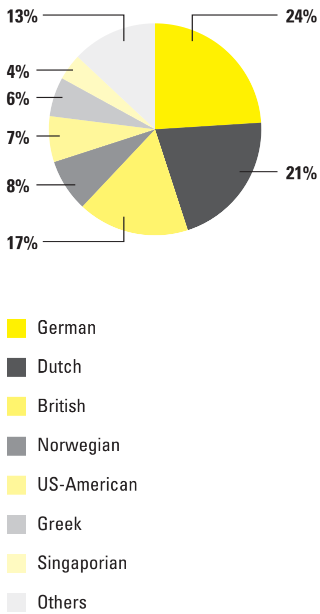
"DVB shares"

In order to enable our employees to participate in the Bank's success, we continued to offer "DVB shares", the stock option programme that was originally introduced in 2000. In addition to permitting the purchase of DVB shares at a discount, the offer also involved – for the last time -- the granting of free options. The average ownership rate within all employee groups totalled 22% in 2004; the figure in respect of management was a distinctly positive 61%.

Retirement benefits

Following the transfer of DVB Bank AG's previous retirement fund to a pension fund scheme organised for the German banking sector in 2003, we also converted the pension regulations in respect of DVB Bank N.V. in Rotterdam into a defined contribution plan during 2004. This means that, for the time being, only employees of the Bergen branch remain in a defined-benefit pension scheme, as well as those in Rotterdam who did not convert to the new model. These measures serve to limit the burden imposed on DVB by payments or provisions in respect of company pensions, while also making them easier to calculate.

Transport Finance – employee nationalities



Participating interests – DVB Processing GmbH

DVB Processing GmbH, a joint venture between Deutsche Postbank AG (which holds a 51% interest) and DVB Bank AG (with a 49% interest) experienced further consolidation during 2004. DVB Processing was founded in October 2000 following DVB's decision to hive-off its ec-cash network.

DVB Processing has been approved as a network operator by the German Central Credit Committee ("Zentraler Kreditausschuss", an institution of German banks). The Company processes cashless payment flows, generated by ec cards or credit cards in everyday transactions, via modern EFTPOS (electronic funds transfer point of sale) systems. The network operator is responsible for debiting the card holder and crediting the trader on schedule.

The economic slowdown impacted on retail payment terminals during 2004. However, the total number of connected terminals showed a modest increase from 85,000 to 88,000, while the number of transactions processed expanded from 54 million to 56 million. The ongoing consolidation process embarked on in 2003 has served to improve earnings considerably. Nonetheless, a distribution of profits is not expected for the time being.

DVB Processing succeeded in maintaining its market position in 2004 and further consolidation will impact positively on earnings in 2005.

Participating interests – DVB LogPay GmbH

DVB LogPay GmbH was established on 31 December 2001 as a wholly-owned subsidiary of DVB Bank AG. The company specialises in the collection and settlement of receivables. Acting in close collaboration with DVB, it provides specialised services related to the management of receivables in the following sectors: "freight and logistics, toll collection" and "passenger transport".

On 31 December 2004, DVB LogPay GmbH commenced operation of the so-called direct debit procedure for Toll Collect GmbH (the operator of the German HGV motorway toll system) and for the Federal Office for Transportation of Goods (Bundesamt für Güterverkehr) in respect of the use of federal roads subject to toll charges. DVB LogPay thereby assumes responsibility for the risk of non-payment of toll receivables to the Federal Republic of Germany, distributes the amounts collected to the trustee accounts held by the state and conducts the entire transaction management. On 30 December 2004, DVB LogPay entered into a long-term agreement with Toll Collect GmbH and AGES International GmbH & Co KG. For the purposes of fulfilling its obligations under the agreement, DVB LogPay established a "toll settlement" group, adjusting credit processes and systems in line with the new requirements. During 2004, DVB LogPay was accordingly remunerated for its work in systematically establishing the LogPay process.

DVB LogPay receivables management:

- *generally provides full guarantees for receivables;*
- *provides liquidity on specific deadlines; and*
- *carries out the entire settlement operation related to the collection of receivables.*

As at 31 December 2004, the LogPay process included approx. 18,000 companies which, in terms of market share, equates to 25% of all companies registered with Toll Collect. The remaining 75% are distributed among 12 authorised filling station and service card issuers, with which DVB LogPay competes. Only registered companies are entitled to participate in the automatic recording process via satellite, and are eligible to receive a monthly toll payment on the basis of a subsequently submitted invoice.

Due to the increase in the number of registered companies and "on-board units" (electronic devices automatically recording toll charges) in HGVs, DVB LogPay estimates that the volume of tolls collected using its process will reach €400 million in 2005. The continuous expansion of freight traffic and the prospective rise in toll charges translate into additional growth potential.

Stable development in "freight and logistics" and a modest rise in "passenger transport", generated a 12.1% increase in net income before taxes, from €1.74 million to €1.95 million. In a drive to further enhance business development in 2005, DVB Bank AG increased DVB LogPay's equity capital from €250,000 to €2 million.

Management Report (DVB Group and DVB Bank AG)

pursuant to sections 315 (1) and 298 (1) of the German Commercial Code (previous version) (as at 28 February 2005)

The consolidated financial statements for the year 2004 are determined by the lending and advisory businesses of DVB Bank AG and DVB Bank N.V. (formerly known as Nedship Bank N.V.). The following section illustrates the progress of the DVB Group (DVB) during the year 2004. Specific references to DVB Bank AG will only be made where required under specific circumstances.

DVB's transformation from a German commercial bank into a global specialist in international Transport Finance was completed at the end of 2003 with the sale of RB/CE. This successfully concluded the first development phase of the Bank.

The 2004 business year was characterised by the second development phase – the consistent realisation of DVB's earnings potential. Hence, 2004 was the first year in which our earnings were generated almost exclusively from our core international Transport Finance business. Even in the first year of this "realisation phase", our strong earnings served to confirm the success of our unique strategic focus. Ordinary income increased by 9.7% to €148.4 million (2003: €135.3 million excl. RB/CE) while operating profit, excl. loan loss provisions, rose by a significant 28.6% to €60.7 million (2003: €47.2 million excl. RB/CE).

In order to further enhance future profitability we embarked on our revolutionary project "Design Phase III – Leap in Profitability". As part of this project, we identify the growth potential of our customers and plan an appropriate expansion of the range of products offered in specific segments in order to create added value for our clients while, at the same time, increasing revenue potential.

Abbreviations and references Management Report:

CBU	*Container Business Unit*
Commercial Register	*Handelsregister (HR)*
GAS	*German Accounting Standard (Deutscher Rechnungslegungs Standard)*
German Banking Act	*Kreditwesengesetz (KWG)*
German Commercial Code	*Handelsgesetzbuch (HGB)*
IRM	*Internal Rating Model*
P&L	*Profit and Loss Account*
RB/CE	*ReiseBank AG/ CashExpress GmbH DVB Bank AG subsidiaries until 31 December 2003*

The Transport Finance market segments – Shipping, Aviation, Land Transport and Transport Infrastructure – provided corporate lending, distribution and corporate finance products to our global customer base in 2004. We were also able to capitalise on significant competitive advantages over the international banks that constituted our competition in 2004: we are clearly focused, we possess highly competent teams of specialists and our trim organisational structure allows for efficient decision-making processes.

The following key elements dominated our business in 2004:
- the acquisition of new high-volume Transport Finance business;
- the successful expansion of our Corporate Finance advisory business;
- the extension of our Corporate Lending product range – specifically:
  the highly successful debut of our Container Business Unit in its first full business year; and the launch of the Aero Engine Finance Unit in November 2004, underlining our commitment to aircraft engine financing, a thriving Aviation segment.

Effects of the euro/US dollar exchange rate on DVB's financial situation
The course of the euro/US dollar exchange rate has a particular impact on DVB's financial situation – and hence its financial statements – given the following two major influencing factors:

- On the one hand, 73.2% of our 2004 earnings at Group level were denominated in US dollars.
- On the other hand, our financial statements are prepared in euro and market participants (such as shareholders, rating agencies and analysts) base their expectations regarding yield and dividends accordingly.

Two items in our 2004 financial statements clearly reflect the effect of a strong euro against a weak US dollar:

- **Customer lending:** our high-volume US dollar-denominated new business grew by 15.8% to US$11.11 billion (2003: US$9.59 billion). In euro terms, this growth was only 7.4%, at €8.16 billion (2003: €7.60 billion), which is only half the growth rate in US dollar terms.
- In the **P&L,** US dollar-denominated earnings are offset by costs that are mainly euro-based. However, we use derivatives to hedge projected net interest and net commission income denominated in US dollars, largely isolating these revenues from any collapse in the dollar within a given business year. Net interest income rose by 6.2% to €102.2 million (2003: €96.2 million excl. RB/CE). Net commission income performed extremely well, climbing 33.1% from €35.4 million (excl. RB/CE) to €47.1 million.

Business development

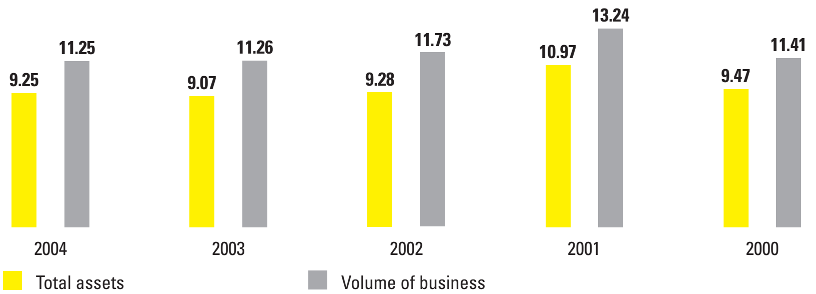
Balance sheet data for 2004 is easily compared with that for the 2003 business year, due to the fact that the figures in the 2003 Financial Statements had already been adjusted for RB/CE. All the volume figures, such as volume of business, total assets and the individual analyses in relation to lending volume and the portfolios, reflect the link between the weak US dollar and the stronger euro during 2004.

Assets

Volume of business and total assets

High-volume new business in Transport Finance meant that the growth in the portfolio's US dollar business was not reflected accordingly in the euro translation during 2004. This was due to the aforementioned weakness of the euro/US dollar exchange rate. At €11.25 billion, the euro-denominated volume of business (incl. total assets, guarantees, indemnities, irrevocable loan commitments and derivatives) matched that of the previous year (2003: €11.26 billion), while euro-denominated total assets showed an increase of only 2.0%, from €9.07 billion to €9.25 billion.

Volume of business and total assets (€ bn)



Lending volume

Lending volume over time

The following table displays total **lending volume** over a **five-year period:**

€ bn	2004	2003	2002	2001	2000
Placements with, and loans and advances to, other banks	1.14	1.36	1.18	2.56	1.84
Loans and advances to customers	6.96	6.55	6.69	6.86	6.24
Securities (incl. participating interests)	0.70	0.56	0.82	1.13	0.90
Guarantees and indemnities	0.22	0.37	0.55	0.54	0.56
Irrevocable loan commitments	1.09	0.89	0.98	1.14	0.99
Credit equivalent amount (derivatives)	0.68	0.93	0.92	0.59	0.39
Lending volume	**10.79**	**10.66**	**11.14**	**12.82**	**10.92**

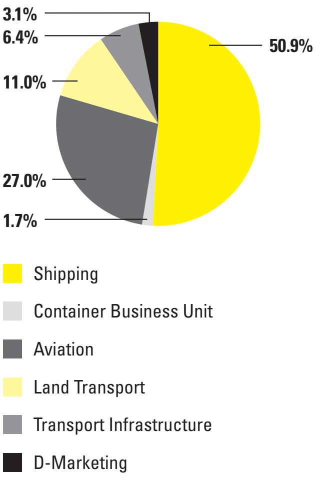
DVB's lending volume declined slightly between 2000 and 2004, by 1.2% from €10.92 billion to €10.79 billion. The 11.5% increase in the volume of loans and advances to customers during the same period reflects our strong market position and is in line with our focus on international Transport Finance.

Lending volume compared with the previous year rose slightly, by 1.2% from €10.66 billion to €10.79 billion. This is broken down as follows:

	2004 € bn	2003 € bn	Change %
Placements with, and loans and advances to, other banks	1.14	1.36	–16.2
Loans and advances to customers	6.96	6.55	6.3
Securities (incl. participating interests)	0.70	0.56	25.0
Guarantees and indemnities	0.22	0.37	–40.5
Irrevocable loan commitments	1.09	0.89	22.5
Credit equivalent amount (derivatives)	0.68	0.93	–26.9
Lending volume	**10.79**	**10.66**	**1.2**

Placements with, and loans and advances to, other banks fell by 16.2% from €1.36 billion to €1.14 billion. The high-volume new business drove up **loans and advances to customers** by 6.3%, from €6.55 billion to €6.96 billion. **Securities** held (incl. participating interests) rose 25%, from €0.56 billion to €0.70 billion. **Guarantees and indemnities** fell by 40.5%, from €0.37 billion to €0.22 billion. Despite the unfavourable exchange rate effects, **irrevocable loan commitments** increased by 22.5%, from €0.89 billion to €1.09 billion. This was due in particular to the new high-volume business in Shipping and Aviation. We continued to employ **derivative instruments** for hedging purposes and, to a very limited extent, also offered these facilities to our clients. At €17.67 billion, the nominal volume involved in these transactions at year-end was 24.3% higher than 2003's level (€14.22 billion). At €0.68 billion, the **risk-weighted credit equivalent amount** was slightly lower than the previous year's figure of €0.93 billion.

Customer lending by business division



Customer lending by business division

DVB's **customer lending** (the aggregate of loans and advances to customers, guarantees and indemnities and irrevocable loan commitments) comprises Transport Finance corporate clients, plus D-Marketing exposures that are no longer in line with our strategy.

We expanded our new business further, particularly in the Shipping and Aviation market segments. This resulted in a 7.4% increase in total lending volume, rising from €7.6 billion in 2003 to €8.16 billion.

The volume of customer lending is divided into the following portfolios: At 50.9%, Shipping accounted for the lion's share of the overall portfolio, followed by Aviation with 27.0%, Land Transport with 11.0% and Transport Infrastructure with 6.4%. D-Marketing now accounts for only 3.1% of the portfolio.

Strategically, our aim is to structure the portfolio whereby Shipping and Aviation each account for 40% and Land Transport/Transport Infrastructure (combined) accounts for 20%.

Portfolio analysis

The following factors defined the **development of the portfolio** in 2004:

- **Euro/US dollar exchange rate:** due to strong new business expansion, volume growth in the Transport Finance portfolios was twice as high in US dollar terms (+15.8%) as the euro calculation (+7.4%).
- **Container Business Unit:** the exclusively US dollar-based CBU portfolio accounted for 1.7% of the total portfolio in its first full business year.
- Further reduction in the **D-Marketing portfolio:** once again, we reduced this portfolio (which comprises exposures no longer in line with our strategy) by a significant 23.9%, from €330 million to €251 million. The largest volume reduction was achieved through restructuring exposures.

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

Development of lending volume by business division in euro and US dollar from 2000-2004

€	2004 bn	2004 %	2003 bn	2003 %	2002 bn	2002 %	2001 bn	2001 %	2000 bn	2000 %
Shipping	4.15	50.9	3.83	50.4	4.41	55.0	4.76	55.3	3.81	49.7
CBU	0.14	1.7	0.12	1.6	–	–	–	–	–	–
Aviation	2.20	27.0	2.05	27.0	2.20	27.4	2.08	24.2	1.90	24.8
Land Transport[1]	0.90	11.0	0.80	10.5	0.69	8.6	–	–	–	–
Rail	–	–	–	–	–	–	0.58	6.7	0.57	7.4
Road & Logistics	–	–	–	–	–	–	0.52	6.0	0.65	8.5
Transport Infrastructure	0.52	6.4	0.47	6.2	0.27	3.4	0.19	2.2	0.07	0.9
D-Marketing	0.25	3.1	0.33	4.3	0.45	5.6	0.48	5.6	0.67	8.7
Total	**8.16**	**100.0**	**7.60**	**100.0**	**8.02**	**100.0**	**8.61**	**100.0**	**7.67**	**100.0**

US$	2004 bn	2004 %	2003 bn	2003 %	2002 bn	2002 %	2001 bn	2001 %	2000 bn	2000 %
Shipping	5.65	50.9	4.83	50.4	4.62	55.1	4.23	52.8	3.54	49.6
CBU	0.19	1.7	0.15	1.6	–	–	–	–	–	–
Aviation	3.00	27.0	2.60	27.1	2.30	27.4	1.82	22.7	1.77	24.8
Land Transport[1]	1.22	11.0	1.00	10.4	0.72	8.6	–	–	–	–
Rail	–	–	–	–	–	–	0.66	8.2	0.53	7.4
Road & Logistics	–	–	–	–	–	–	0.59	7.4	0.60	8.4
Transport Infrastructure	0.71	6.4	0.59	6.2	0.28	3.3	0.16	2.0	0.07	1.0
D-Marketing	0.34	3.1	0.42	4.4	0.47	5.6	0.55	6.9	0.62	8.7
Total	**11.11**	**100.0**	**9.59**	**100.0**	**8.39**	**100.0**	**8.01**	**100.0**	**7.13**	**100.0**

	2004	2003	2002	2001	2000
Euro/US$ reference rate published by the ECB (31 Dec)	**1.3621**	**1.2630**	**1.0487**	**0.8813**	**0.9305**

1) Since 2002, we have incorporated Rail and Road & Logistics in the newly formed Land Transport division.

DVB's international lending and advisory businesses are sensitive to the **euro/US dollar exchange rate:** 93.2% of the Aviation portfolio, 78.5% of the Shipping portfolio and the entire CBU portfolio are denominated in US dollars. The strength of the euro against the US dollar in 2004 meant that strong growth in the portfolio's US dollar business was not reflected accordingly in the euro translation.

- The Shipping portfolios, incl. CBU, when measured in US dollars, grew by a total of 17.3% from US$4.98 billion to US$5.84 billion. Due to currency effects, when measured in euro, the portfolios increased by only 8.6% from €3.95 billion to €4.29 billion.
- The same applies to the Aviation portfolio, which expanded by 15.4% from US$2.60 billion to US$3.00 billion but by a considerably lower 7.3% on a euro basis from €2.05 billion to €2.20 billion.
- One-third of both the Land Transport and Transport Infrastructure portfolios are denominated in US dollars. Two-thirds are in euro (Land Transport) or euro and sterling (Transport Infrastructure). Hence, the effect of the exchange rate did not feed through to the same extent. Due to the structure of the D-Marketing portfolio, which is denominated almost exclusively in euro, the exchange rate effects are not relevant.

The performance of the Transport Finance portfolios compared with 2003 is illustrated in the table below. This shows a breakdown of the overall portfolio and new commitments for the year under review, further differentiated by the use of key indicators.

The average loan-to-value ratio of the individual Transport Finance segments in the **overall portfolio** characterises the relation between loans granted and the market value of the financed asset. While Shipping, Land Transport and Transport Infrastructure remained at 2003's levels, the LTV ratio in Aviation fell by 2.0 percentage points. All Transport Finance segments were characterised by falling CIR and rising RoE, with the exception of Transport Infrastructure.

Despite an economic environment that is still challenging, DVB committed €2.4 billion (+59.4%) and €0.84 billion (+37.3%) to high-volume, long-term and collateralised **new commitments** in Shipping (incl. CBU) and Aviation respectively. Our anti-cyclical business policy (particularly in Aviation during 2004), was once again the key to qualitative growth in the Transport Finance portfolios. Furthermore, we succeeded in increasing the average interest margins for new business in almost all Transport Finance segments: +30bp in Aviation and Land Transport and +43bp in the CBU. Shipping and Transport Infrastructure margins were unchanged from the previous year.

Portfolio development: overall portfolio/new commitments in 2004

	Shipping		Container Business Unit		Aviation		Land Transport		Transport Infrastructure		total		
€ mn	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	Change %
Overall portfolio													
Volume of customer lending	4,148.3	3,826.6	143.8	121.5	2,203.3	2,054.7	891.0	799.8	522.7	469.7	7,909.1	7,272.3	8.8
Loans and advances to customers	3,508.8	3,201.5	88.7	121.5	2,041.3	1,963.3	760.7	688.0	287.6	219.5	6,687.1	6,193.8	8.0
Loan commitments, indemnities and guarantees	639.5	625.1	55.1	0.0	162.0	91.4	130.3	111.8	235.1	250.2	1,222.0	1,078.5	13.3
Net loan loss provisions	4.0	10.5	0.0	0.0	35.0	0.0	3.0	0.6	2.3	0.0	44.3	11.1	299.1
Number of customers (primary obligor groups)	225	216	3	2	96	90	75	70	24	23	423	401	5.5
Average loan-to-value ratio (%)	65.6	66.5	71.0	n/a	87.2	89.2	83.4	83.6	50.4	54.9	–	–	–
CIR (%)[1]	19.1	22.2	24.3	n/a	13.7	15.7	24.1	25.7	17.1	15.3	18.3	20.6	-2.3 percent-age points
RoE (%)[1]	42.8	35.8	95.3	n/a	19.9	14.5	21.4	20.1	28.1	46.5	33.5	27.5	6.0 percent-age points
Portfolio New commitments in 2004													
New transactions	110	89	3	2	52	31	20	19	6	9	182	150	21.3
Underwritten	2,340.0	1,387.0	64.9	121.5	835.0	608.0	252.0	229.0	116.0	247.0	3,276.5	2,592.5	26.4
Syndicated to third parties	520.0	301.0	0.0	0.0	21.0	5.0	5.0	0.0	0.0	22.0	384.1	328.0	17.1
Final take	1,820.0	1,086.0	64.9	121.5	814.0	603.0	247.0	229.0	116.0	225.0	2,892.4	2,264.5	27.7
of which: loan commit-ments as at 31/12/2004	388.1	272.2	55.1	0.0	105.6	90.4	58.3	61.0	38.7	55.1	645.8	478.7	34.9
Average margin	144bp	148bp	225bp	182bp	206bp	176bp	139bp	109bp	177bp	161bp	–	–	–

1) after netting of direct costs only

Shareholders' equity and liabilities

Liabilities

The slight increase in DVB's liabilities totalled 2.0%, at €8.22 billion (2003: €8.06 billion). **Liabilities to banks** were reduced by 29.1%, from €3.78 billion to €2.68 billion. The termination (on 31 December 2004) of the agreement for the provision and balancing of liquidity with the "Sparda" banks resulted in a considerable reduction in "Sparda" bank deposits. **Liabilities to customers,** particularly in longer maturities, grew by 31.8% from €2.11 billion to €2.78 billion. Significant expansion of long-term deposits and an increase in promissory note issues were responsible for the 26.1% growth in **certificated liabilities,** from €2.18 billion to €2.75 billion.

Refinancing instruments

We concentrated our issuing activities during 2004 on traditional **refinancing instruments,** at the medium and long end of the maturity spectrum. We increased the volume of medium- and long-term liabilities issued by 21.7% to €1,980.1 million (2003: €1,626.6 million), thus clearly strengthening the external capital available for our long-term core business. We raised a total of €960.1 million in long-term deposits and promissory notes, more than double the €390.5 million volume of the previous year. On the other hand, the volume of medium term notes (MTN) issued within the scope of the debt issuance programme was down 17.5% to €1,020 million compared with €1,236.1 million in 2003. This virtually balances the ratio between long-term funds raised and MTN bonds issued within the debt issuance programme. We placed €529 million and US$522.5 million in short-term liabilities on the money market within the scope of our commercial paper programme. Our refinancing activities also benefited from US$300 million raised in 12-month term deposits. Stronger investor appetite for bank credits throughout 2004 further tightened credit spreads.

Own funds as defined by the German Banking Act

We continued to strengthen our capital base in 2004: **own funds as defined by the German Banking Act** increased by 2.0% to €820.2 million (2003: €804.0 million).

€ mn	**2004**	2003	2002	2001	2000
Issued share capital [1]	77.6	77.2	76.8	76.8	76.7
Reserves	296.6	270.1	203.4	175.3	175.1
Silent partnership contributions	77.5	77.5	77.5	77.5	77.5
Reserves eligible for inclusion and adjustments in accordance with the German Banking Act	58.2	64.6	81.5	78.4	99.9
Tier I core capital	**509.9**	**489.4**	**439.2**	**408.0**	**429.2**
Subordinated liabilities	200.0	201.0	199.0	207.0	139.4
Profit-participation certificates	126.1	126.1	164.5	164.5	164.5
Reserves eligible for inclusion and adjustments in accordance with the German Banking Act	–15.8	–12.5	–16.2	–11.2	16.2
Tier II supplementary capital	**310.3**	**314.6**	**347.3**	**360.3**	**320.1**
Tier III funds	**–**	**–**	**–**	**3.1**	**–**
Own funds in accordance with the German Banking Act [2]	**820.2**	**804.0**	**786.5**	**771.4**	**749.3**

1) includes the shares that were registered in the Commercial Register in February 2005 from the employee share ownership scheme "DVB shares"
2) taking into consideration reserves and transfer to reserves from net income

The following factors were influential in strengthening our **Tier I core capital** by 4.2% to €509.9 million (2003: €489.4 million):

New shares issued under our employee share ownership scheme "DVB shares" led to a modest increase in **issued share capital** from €77.2 million to €77.6 million. Due to the fact that these new shares were not registered until February 2005, issued share capital is still disclosed as €77.2 million in the balance sheet as at 31 December 2004.

The sum of €27.8 million from current operations was allocated to the fund for general banking risks of DVB Bank AG, pursuant to section 340g of the German Commercial Code. On a Group level, €26.4 million was transferred to other retained earnings, hence an increase of 9.8% in the **reserves** to €296.6 million. **Reserves eligible for inclusion as Tier I capital** (incl. adjustments in accordance with the German Banking Act) fell by 9.9% to €58.2 million.

Tier II supplementary capital was reduced by 1.4%, from €314.6 million to €310.3 million. In the absence of new issues in 2004, **profit-participation certificates** eligible in accordance with the German Banking Act were unchanged compared with the previous year at €126.1 million.

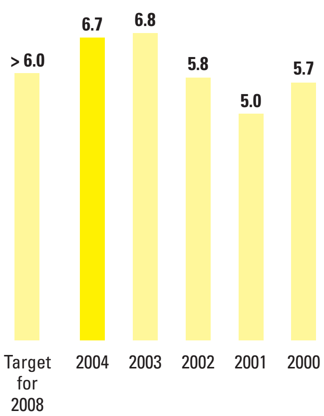
We consistently complied with the capital ratio in accordance with sections 10 and 10a of the German Banking Act (Grundsatz I).

Risk-weighted assets and capital ratios

The core capital ratio according to the German Banking Act is expressed as the ratio of core capital (€509.9 million) to risk-weighted assets (31 December 2004: €7,574.0 million) and is 6.7%.

In view of the fact that 73.2% of international Transport Finance exposure is US dollar-denominated, the performance of the US dollar also impacted on risk-weighted assets and therefore on the capital ratios: the increase in risk-weighted assets, driven by new commitments, was greater on a US dollar basis than on a euro basis due to currency effects. Core capital, and hence euro-denominated own funds, also increased. The capital ratios, recalculated upon confirmation of the financial statements, fell due to the fact that portfolio growth more than compensated for the currency translation effect and the rise in own funds.

Core capital ratio (%)



The **total capital ratio** declined from 11.1% to 10.7% and the **core capital ratio** was marginally lower at 6.7% compared with 6.8%.

Earnings development

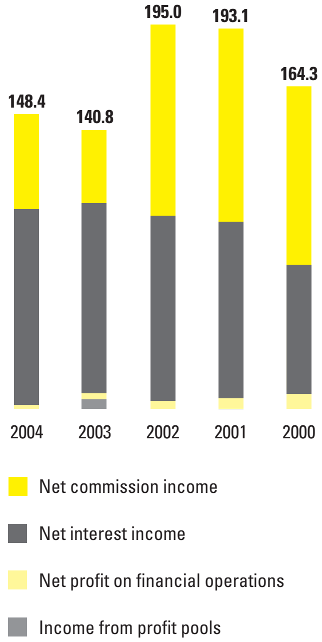
The following preliminary remark should be noted with regard to earnings development: Net income generated by RB/CE was included in the 2003 financial statements for the last time, whereas the results for the year under review are exclusively based on DVB's core Transport Finance business. To facilitate comparison of revenues for both financial years, we excluded income and expenditure associated with RB/CE from the consolidated profit and loss account for 2003, reporting two aggregate figures under "income from profit pools" and "expenditure for assumption of losses" respectively.

Operating profit excluding loan loss provisions

Operating profit excluding loan loss provisions rose by 15.2%, from €52.7 million (incl. RB/CE) to €60.7 million. Eliminating net income of €5.5 million associated with RB/CE from 2003's revenues resulted in a notable 28.6% increase in operating profit, from €47.2 million to €60.7 million.

Ordinary income

(€ mn)



Net interest income rose slightly from €96.2 million to €102.2 million, the result of high-volume corporate lending in Aviation (+13.3%) and positive development in Corporate Finance (+357.9%). **Net commission income** increased by a significant 33.1%, from €35.4 million to €47.1 million. The targeted expansion of the Corporate Finance advisory business (+132.1%) and new business, particularly in Shipping (+43.4%) and Aviation (+18.2%) contributed significantly to this positive performance.

Net profit on financial operations fell again; compared with the previous year's profit of €3.7 million, we reported a slight loss of €0.9 million in 2004.

As mentioned above, **income from profit pools** comprising net income of €5.5 million associated with RB was included in 2003.

Ordinary income thus increased by 5.4% from €140.8 million (incl. RB/CE) to €148.4 million. If RB/CE had been excluded entirely in 2003, ordinary income would have increased by **9.7%,** from **€135.3 million to €148.4 million.**

At €93.3 million, **administrative expenses** (incl. amortisation and depreciation) were slightly lower than the previous year (2003: €95.5 million). After implementing the restructuring measures within the scope of the CHANGE project, we have thus reached the targeted cost base in line with our objectives. **Staff expenses** declined 2.5% from €47.3 million to €46.1 million, while **other administrative expenses** (incl. amortisation and depreciation) were slightly lower at €47.2 million compared with 2003's figure of €48.2 million. An 8.0% reduction in rental and occupancy expenses and a 15.0% drop in IT expenses accounted for the largest proportion. This was offset by a 32.6% increase in costs relating to legal advice from international law firms regarding our Transport Finance business. Such factors are integral to the quality of our advisory and financing businesses, thus safeguarding our international competitive edge.

	2004	2003 incl. DVB Holding alternative perspective 1)	Change	
	€ mn	€ mn	€ mn	%
Ordinary income	**148.4**	**140.8**	**7.6**	**5.4**
Net interest income	102.2	96.2	6.0	6.2
Income from profit pools 1)	0.0	5.5	–5.5	–100.0
Net commission income	47.1	35.4	11.7	33.1
Net profit on financial operations	–0.9	3.7	–4.6	–124.1
Administrative expenses	**93.3**	**95.5**	**–2.2**	**–2.3**
Staff expenses	46.1	47.3	–1.2	–2.5
Other administrative expenses	38.9	39.3	–0.4	–1.0
Amortisation and depreciation	8.3	8.9	–0.6	–6.7
Net other operating income/expenses	5.6	7.4	–1.8	–24.3
Operating profit excl. loan loss provisions	**60.7**	**52.7**	**8.0**	**15.2**
Net loan loss provisions	–12.0	–20.9	8.9	–42.6
Net other income/expenses	3.1	14.1	–11.0	–78.0
Expenditure for assumption of losses 1)	0.0	–1.2		
Profit from ordinary activities	**51.8**	**44.8**	**7.0**	**15.6**
Extraordinary income/expenses	0.0	2.8	–2.8	–100.0
Taxes	–12.5	30.8	–43.3	–140.6
Return payable on silent partnership contributions	–6.8	–6.8	0.0	0.0
Net income	**32.5**	**71.6**	**–39.1**	**–54.6**

1) Net income generated by RB/CE was included in the 2003 financial statements for the last time, whereas the results for the year under review are exclusively based on DVB's core Transport Finance business. To facilitate comparison of revenues for both financial years, we excluded income and expenditure associated with RB/CE from the consolidated profit and loss account for 2003, reporting two aggregate figures under "income from profit pools" and "expenditure for assumption of losses" respectively.

Net other operating income/expenses was reduced further from €7.4 million to €5.6 million, particularly due – as in the previous year – to the release of provisions, maturing leasing agreements and VAT rebates.

Profit from ordinary activities

Profit from ordinary activities rose 15.6% from €44.8 million to €51.8 million. This figure was influenced by a reduction in loan loss provisioning and by a decline in net other income/expenses.

Loan loss provisions	**2004 € mn**	2003 € mn
Additions to loan loss provisions	54.5	27.9
Amounts released	–29.1	–7.0
Net new loan loss provisions	**25.4**	**20.9**
Amounts released for general loan loss provisions	–13.4	–
Net loan loss provisions	**12.0**	**20.9**
Revaluation results of securities held in the liquidity portfolio	–1.2	–0.2
Risk provisions reported in the profit and loss account	**10.8**	**20.7**

Risk provisioning in 2004

We created **net new loan loss provisions** of €25.4 million (2003: €20.9 million), which comprises additions to loan loss provisions and amounts released.

A total of €54.5 million was allocated to provisioning. The main additions were specific loan loss provisions of €35.0 million in the Aviation portfolio. This figure is derived from the IRM that was used in 2004 for the first time in respect of this portfolio and reflects the "expected loss" indicator, as defined for regulatory purposes. Depreciation and additions of just under €13.0 million and €2.3 million were created for the D-Marketing and Transport Infrastructure portfolios respectively.

In contrast, €29.1 million was released. The key items are as follows:
- €17.0 million in general loan loss provisions for Aviation that had been created the previous year and were replaced by the illustrated IRM-based recognition; and
- specific loan loss provisions of €6.1 million in Shipping and €5.0 million in D-Marketing.

In addition, general provisions of €13.4 million that had been made on a Group level in previous years, pursuant to section 340f of the German Commercial Code in preparation for the changeover in accounting to IAS/IFRS, were released.

Net loan loss provisions therefore fell by 42.6%, from €20.9 million to €12.0 million.

Loan loss allowance

Overall, our **loan loss allowance** showed an increase at the end of 2004 to €114.0 million (2003: €107.2 million).

This was accounted for by:
- a total of €69.3 million in respect of the D-Marketing portfolio;
- €35.0 million in respect of specific loan loss provisions in the Aviation portfolio; and
- €4.0 million in respect of specific loan loss provisions in the Shipping portfolio.

Thanks to the specific collateralisation structure in the Transport Finance business, no country risk provisions were required.

Net other income and expenses

Due to the special effect arising from the sale of RB/CE, net other income and expenses amounted to €14.1 million in 2003. In the absence of any such comparable effects in 2004, the figure fell by 78% to €3.1 million.

Net income and appropriation of profit

Profit from ordinary activities was burdened by the balance of income taxes/deferred taxes of €12.5 million and by the unchanged return payable on silent partnership contributions of €6.8 million. **Net income** in 2004 therefore amounted to €32.5 million (2003: €71.6 million).

DVB transferred €26.4 million from this amount to other retained earnings. A proposal will be made at the Annual General Meeting of DVB Bank AG to apply the remaining net income of €6.6 million (incl. €0.6 million carried forward from 2003) to pay a **dividend** of €2.00 per share. This represents a dividend yield of 1.93% based on the year-end share price of €103.75.

Cost/income ratio (CIR)

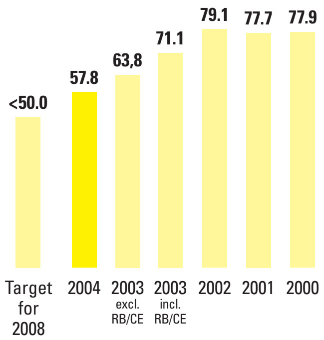
The CIR is a measure of the expenditure required to generate income, thereby reflecting DVB's cost efficiency. Given the marginal decline of 2.3% in administrative expenses and the contrasting increase of 5.4% in ordinary income, the CIR excl. amortisation of goodwill improved to 57.8%, which represents a 6 percentage point decline on the previous year (63.8%, adjusted for RB/CE).

Return on equity (RoE)

The **return on equity (RoE)** reflects the return on the capital invested in DVB. The RoE before taxes and excl. amortisation of goodwill fell from 16.2% to 15.7%.

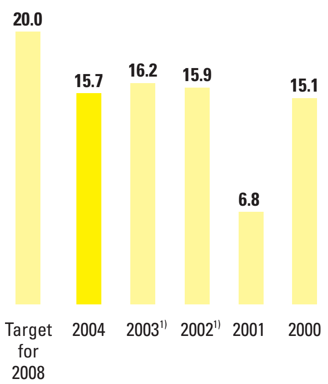
The CIR of 57.8% is calculated as the ratio of administrative expenditure excl. goodwill (€93.4 million minus €4.3 million) to total income (€154.1 million, sum of ordinary income and net other operating income/expenses).

Cost/income ratio (%)



The RoE is calculated as the ratio of net income before taxes and excl. goodwill (€49.2 million) to average equity capital as shown on the balance sheet (issued share capital, capital reserves and retained earnings of €313.6 million).

Return on Equity (%)



[1] *incl. non-recurring effects from the disposal of an interest in Union Asset Management Holding AG (2002) and RB/CE (2003).*

Risk Report

in accordance with sections 315 (2) no. 2 and 289 (2) no. 2 of the German Commercial Code (current version) (as at 28 February 2005)

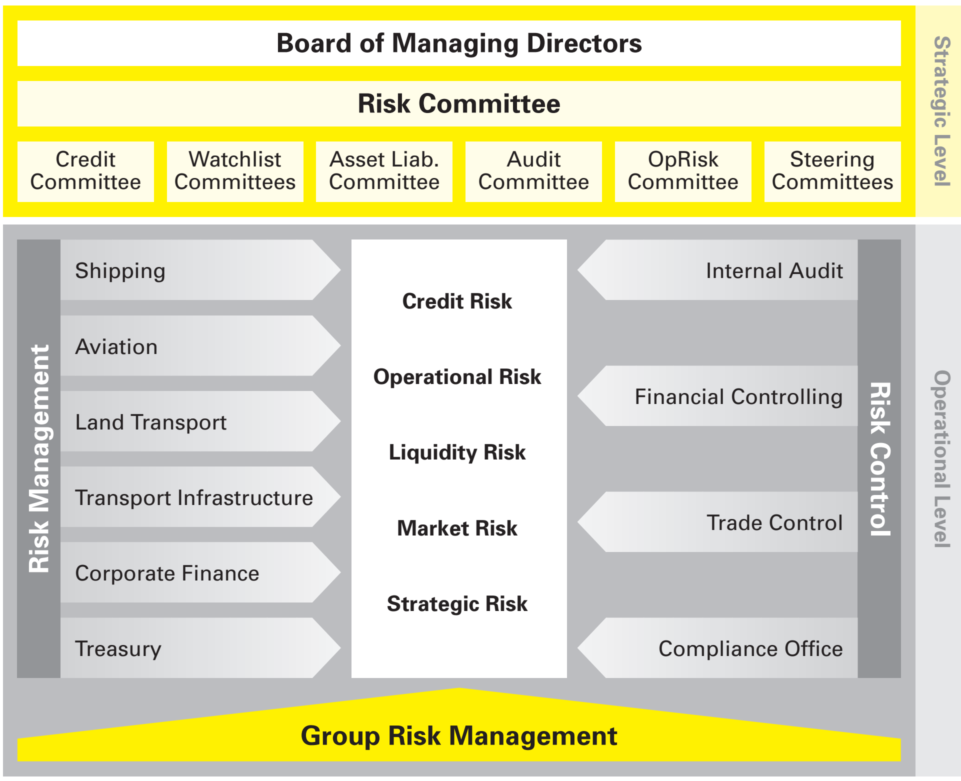
Assuming risks in a targeted and controlled manner is an integral part of DVB's overall management strategy. The returns available must always be commensurate with the risks taken. Based on the Bank's capacity to carry and sustain risks, the Board of Managing Directors defines the risk policy which provides the guidelines for assuming, monitoring and managing risks. These guidelines, together with the Group-wide risk monitoring and risk management system, are laid down in DVB's Risk Management Framework. The system complies with applicable legal provisions and also satisfies internal requirements which go beyond those provisions.

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

Organisation of the risk management and risk control process

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

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



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

Within the **Group Credit Committee,** comprising the entire Board of Managing Directors and the heads of credit and industry units, the entire Board of Managing Directors decides on DVB's individual loan commitments that do not exceed 12.5% of the Bank's liable capital. The additional approval of the Supervisory Board Credit Committee is required for exposures exceeding this threshold. Credit approval decisions are taken jointly by the heads of credit departments and industry sectors, based on DVB's applicable lending policies and within the framework of loan approval authorities for the relevant industry sector, rating level, and amount.

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

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

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

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

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

Abbreviations and references Risk Report:

ALCO	*Asset Liability Committee*
DZ BANK	*DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main*
EAD	*Exposure at default*
German Banking Act	*Kreditwesengesetz (KWG)*
IRM	*Internal Rating Model*
LGD	*Loss given default*
LTV	*Loan-to-value*
MaK	*Minimum Requirements for the Credit Business of Credit Institutions (Mindestanforderungen an das Kreditgeschäft)*
OASIS	*Object Finance Administration and Security Information System*
OpRisk	*Operational risk*
SAP	*Major ERP software platform*
VaR	*Value-at-risk*

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

Capacity to carry and sustain risk/risk capital

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

DVB's aggregate risk cover amounted to €984 million at the end of 2004 (2003: €944 million). The increase was due to the proposed retention of profits and a higher level of undisclosed reserves.

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

The risk capital for 2005 was set at a level of €318 million (2003: €295 million), taking into account correlation effects and subject to the additional proviso that, even in the event of all unexpected losses materialising, DVB must still comply with regulatory minimum capital requirements. The risk capital level is roughly equivalent to one third of the aggregate risk cover; it is distributed across individual types of risk as follows:

	2005		2004	
€ mn	Risk capital limit	Risk capital limit	Utilisation as at 31 Dec 2004	Average utilisation
Counterparty risk	280	255	201	222
Market risk	21	21	6	12
Operational risk	25	25	21	21
Strategic risk	27	12	12	12
Correlation effects	–35	–18	–13	–14
Total	**318**	**295**	**227**	**253**

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

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

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

Types of risk

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

Counterparty risk

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

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

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

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

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

Having successfully rolled out our IRM for the Shipping and Aviation sub-portfolios, its implementation with regard to Land Transport and Transport Infrastructure is scheduled for 2005. The results of our IRM also provide vital information for lending decisions: in addition to expected loss and unexpected loss (both of which will be mandatory under the future regulatory framework), the model also determines standard risk costs which, in turn, are incorporated for setting the minimum required margin.

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

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 analyses of the Group's overall portfolio (in line with the requirements under MaK). On a divisional level, each Transport Finance division is responsible for analysing and managing their respective sub-portfolios within the framework set by the Board of Managing Directors, and with a view to mitigating risk by way of diversification. DVB Research provides valuable support in this process. DVB's proprietary database application OASIS is a state-of-the-art tool for analysing and managing the Bank's loan portfolio. In addition to compiling all quantitative and qualitative data covering every Transport Finance exposure, OASIS also captures the legal and economic risk structure details: it thus provides all the data required to manage the portfolio. Moreover, the database represents a core source of information for the IRM. Data entry is subject to the principle of dual control throughout the system. Because it is integrated into the loan approval and administration processes, OASIS also helps to minimise operational risks.

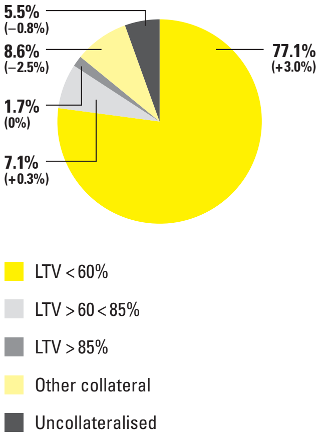
The following section provides an overview of the portfolio developments and the structure and development of the collateralisation in our loan portfolios.

Shipping portfolio (incl. Container Business Unit)

The favourable development of DVB's Shipping portfolio continued apace during the business year under review. The portfolio, which is largely denominated in US dollars (79.2%), grew by 8.6% to €4.3 billion at the end of 2004. Given the weakness of the US dollar and the corresponding strength of the euro throughout 2004, the currency-adjusted growth rate was 15.4%.

The portfolio is dominated by exposures secured by mortgages on ships. The value of vessels used to secure loan volume within a maximum LTV ratio of 60% accounts for a proportional share of €3.3 billion. Thanks to new business collateralised in this way, the relative share of exposures secured by mortgages increased once again, both in absolute amounts and as a percentage.

The table below illustrates the **collateralisation structure** within our Shipping portfolio:



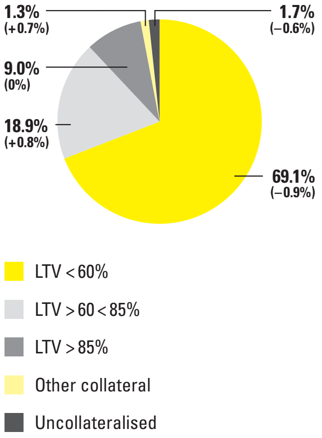
Collateralisation	31 Dec 2004 € mn	31 Dec 2004 %	31 Dec 2003 € mn	31 Dec 2003 %
Secured by mortgages	3,686.2	85.9	3,262.7	82.6
Other collateral	369.3	8.6	437.7	11.1
Uncollateralised	236.6	5.5	247.7	6.3
Lending volume	**4,292.1**	**100.0**	**3,948.1**	**100.0**

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

Aviation portfolio

We succeeded in further expanding our Aviation business during the year under review, in a commercial environment that was equally as difficult as that for the previous year. Our Aviation portfolio stood at €2.2 billion at the end of 2004, up 7.3% compared with the previous year. As this portfolio is also predominantly denominated in US dollars (93.2%), the currency-adjusted growth rate was higher, at 15.2%.

The **collateralisation structure** of our Aviation portfolio is shown in the table below:



Collateralisation	31 Dec 2004 € mn	31 Dec 2004 %	31 Dec 2003 € mn	31 Dec 2003 %
Secured by mortgages	2,137.8	97.0	1,995.8	97.1
Other collateral	27.5	1.3	11.8	0.6
Uncollateralised	38.0	1.7	47.1	2.3
Lending volume	**2,203.3**	**100.0**	**2,054.7**	**100.0**

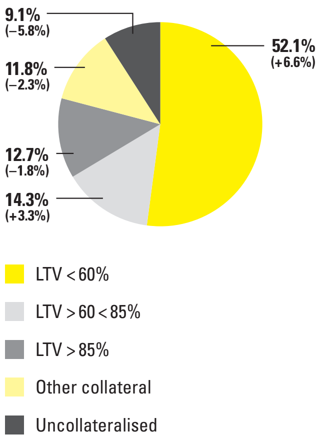
With 97.0% of the lending volume secured by mortgages, the Aviation portfolio also reflects the strict enforcement of our conservative lending policy. Lending volume of €1.5 billion has an LTV ratio not exceeding 60%.

Land Transport portfolio

The Land Transport portfolio also showed structural improvements, growing by 11.4% to €891 million. Adjusting for exchange rate movements, the growth rate was 13.1%.

The **collateralisation structure** of our Land Transport portfolio is shown in the table below:

Collateralisation	31 Dec 2004 € mn	31 Dec 2004 %	31 Dec 2003 € mn	31 Dec 2003 %
Secured by mortgages	704.4	79.1	568.1	71.0
Other collateral	105.5	11.8	112.7	14.1
Uncollateralised	81.1	9.1	119.0	14.9
Lending volume	**891.0**	**100.0**	**799.8**	**100.0**



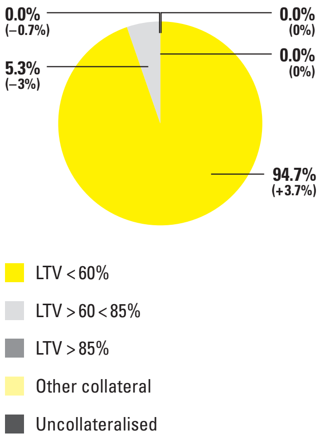
We also actively pursued the reduction of uncollateralised business in our Land Transport portfolio. Not only did unsecured exposures decline by 5.8% during the year under review but new business acquired in 2004 helped to boost the share of business secured by mortgages by 8.1%. A total lending volume of €464 million had an LTV ratio not exceeding 60%.

Transport Infrastructure portfolio

With an 11.3% increase to €522.7 million, the Transport Infrastructure portfolio also developed favourably during 2004. Adjusting for exchange rate movements, the growth rate was 14.1%.

The **collateralisation structure** of our Transport Infrastructure portfolio is shown in the table below:

Collateralisation	31 Dec 2004 € mn	31 Dec 2004 %	31 Dec 2003 € mn	31 Dec 2003 %
Secured by concessions	522.7	100.0	469.7	100
Other collateral	0.0	0.0	0.0	0.0
Uncollateralised	0.0	0.0	0.0	0.0
Lending volume	**522.7**	**100.0**	**469.7**	**100.0**



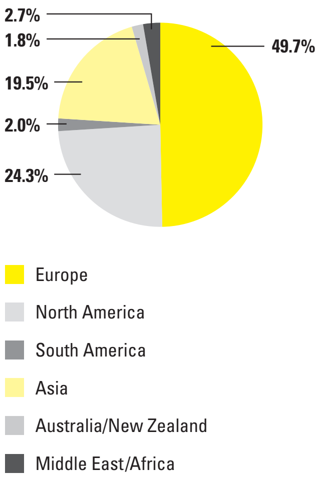
The collateralisation structure was virtually unchanged from the previous year. Collateral for all of our infrastructure finance projects includes an assignment of concessions. The collateral value is equivalent to the present value of future cash flows.

Country risk is defined as the risk that DVB suffers loan losses or other monetary losses in a particular country, as a result of social/political and/or macro-economic developments or events. This comprises risk traditionally associated with the concept of country risk (conversion and transfer risk, payment freeze or moratorium), plus political and economic policy risks. We mitigate more serious country risk exposure by applying a commensurate transaction structure (such as collateralisation, use of offshore accounts, maintaining cash flows in fully-convertible currencies, political risk insurance cover, etc.).

Early warning systems and risk provisioning

We use a diversified set of tools for the early recognition, monitoring and management of problem 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 any loan loss provisions that may be required.

Net loan loss provisions totalling €17.9 million were set aside for the Transport Finance portfolio at the end of 2004. The Aviation portfolio was DVB's first sub-portfolio that was almost entirely valued using the IRM at the end of 2004, capturing 96% of total exposure. This IRM-based valuation was thus used for the first time to determine the level of loan loss provisions for the Aviation portfolio. The expected loss indicated by this analysis was covered by setting aside corresponding loan loss provisions. Our target of avoiding a realisation of losses in our core business remains unchanged, as in previous years. We intend to gradually implement this link between IRM analyses and risk provisioning decisions for all sub-portfolios, ahead of Basel II coming into force.



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

Loan exposures that are no longer in line with our strategy have been managed by the D-Marketing unit. We were able to reduce this lending volume by a further 24%, from €330 million at the end of 2003 to €251 million at the 2004 year-end. Net loan loss provisions totalling €7.9 million were set aside for the D-Marketing portfolio in 2004. At €65.7 million, we expect the total loan loss allowance for this part of our portfolio to adequately account for the higher risk exposure in this segment.

Country risks in Transport Finance

The breakdown of country risks in our portfolio is largely unchanged compared to 2003. Our Transport Finance exposure continues to be concentrated in Europe, North America and Asia. Country risks are managed and limits applied on the basis of net country risk exposure, deducting 60% of the market value of assets eligible for inclusion. Net country risk exposure was again lower compared to the previous year. Furthermore, net country risk for emerging markets amounted to less than 1% of the overall Transport Finance portfolio.

Operational risk

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

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.

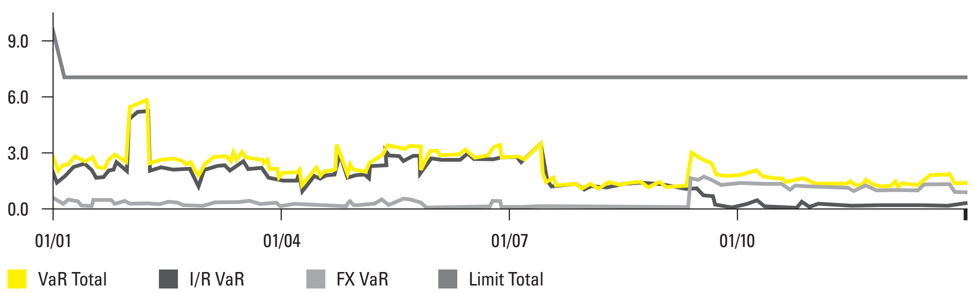
DVB implemented the organisational infrastructure and framework to measure and manage operational risk, as required under the Basic Indicator Approach, in 2003. Organisational measures taken include the establishment of a central OpRisk Committee, as well as the creation of an OpRisk Manager for each of DVB's worldwide locations. The tools we have implemented to manage and contain operational risk comprise self-assessments carried out at least once a year in respect of each location, on a divisional or departmental level, plus the loss database - where losses incurred due to operational risks are recorded. Quarterly reports are submitted to the Board of Managing Directors and the OpRisk Committee; where appropriate, this is supported by ad-hoc reporting. We recorded a total of 9 (2003: 10) loss cases with aggregate damages of €223,000 (2003: €2,673,000) during the year under review.

Market risk

Group Treasury is responsible for managing market risks in both the banking and the trading books. The ALCO meets fortnightly to review the market risk exposure for the entire Bank and to reach fundamental agreements on risk orientation. We use a consistent VaR method for calculating the market risk in our banking and trading books. Using historical simulation techniques, this approach quantifies the maximum loss that can be incurred through market price fluctuations over a one-day holding period, with a confidence level of 99%. The chart below illustrates utilisation of market risk limits during 2004:

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

Market Risk (€ mn)



Dealing Control, which is responsible for monitoring market risks, has direct access to the trading and settlement systems, allowing it to observe whether limits are maintained. Any significant utilisation or infringements of limits in the banking and trading book immediately triggers a response and the prompt return to compliance within these limits is closely monitored. The market risks incurred are therefore subject to constant measurement and limit monitoring through Dealing 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. 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 2005.

Strategic risk

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

DVB's business policy is managed by way of strategic decisions taken within the scope of closed-door strategy meetings by the entire Board of Managing Directors, and, where appropriate, by the Supervisory Board. Strategic risk in 2004 was measured on the basis of historical fluctuations in costs and income, taking current developments into consideration. The framework of general profit and cost management forms the basis for the operative management process.

We further refined the methods used to measure strategic risks. For the 2005 business year, these will be measured on the basis of the volatility of operating results using a 99.82% confidence interval. The limit increase for 2005 reflected the changes to the methodology.

Liquidity risk

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

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

Anticipated cash flows are calculated, aggregated and offset by transactions on the money and capital markets, on the basis of continuously updated plans for liquidity flows and cash flow forecasts. These are prepared using SAP data and state-of-the-art asset-liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German Banking Act, ensures that timely and appropriate corrective measures can be taken. Ample access to short-term money market liquidity and extensive liquidity provisions ensure that the Bank has access to adequate liquidity reserves. Various medium- and long-term refinancing measures were used to further strengthen the Bank's structural liquidity position. The Liquidity Principle according to the German Banking Act was consistently adhered to during 2004.

Summary and outlook

DVB has organised its risk management and risk control functions in a manner that complies with legal and regulatory requirements. The system is appropriately designed to efficiently monitor and manage all risks that DVB is exposed to. The methods used to capture and manage risks were the subject of continuous development during 2004. The focus was once again on counterparty risk – which represents the Bank's predominant type of risk – and on incorporating operational risk management.

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2004. There were no breaches of the risk capital limits allocated to different types of risk within the framework of the concept to manage the Bank's ability to carry and sustain risk.

We will continue to develop and refine our risk monitoring and risk management systems. We are fully compliant with the requirements of Basel II as well as the requirements of modern bank management focused on risks and returns.

Development of DVB's ratings

Standard & Poor's long-term rating for DVB was BBB+ with outlook stable. The agency maintained the A-2 assessment in respect of the Bank's short-term obligations. **Moody's** long- and short-term ratings were unchanged at A3/P-2, with a stable outlook. The outlook for the financial strength rating (C-) remained stable.

Report on material events after 31 December 2004

in accordance with sections 315 (2) no. 1 and 289 (2) no. 1 of the German Commercial Code (as at 28 February 2005)

Changes within the Board of Managing Directors – new appointment

The Supervisory Board of DVB Bank AG appointed Mr Bertrand G. Grabowski as a member of the Board of Managing Directors, with effect from 1 May 2005. The decision was taken in writing, by way of circulation, on 9 February 2005. Mr Grabowski will focus predominantly on Aviation Finance.

Other events

There were no other issues of material importance to the assessment of the income and financial situation of DVB Bank AG and the DVB Group after the end of the 2004 business year. Statements made in the Outlook have been confirmed by the development of business during the first months of the 2005 business year.

Research and development report

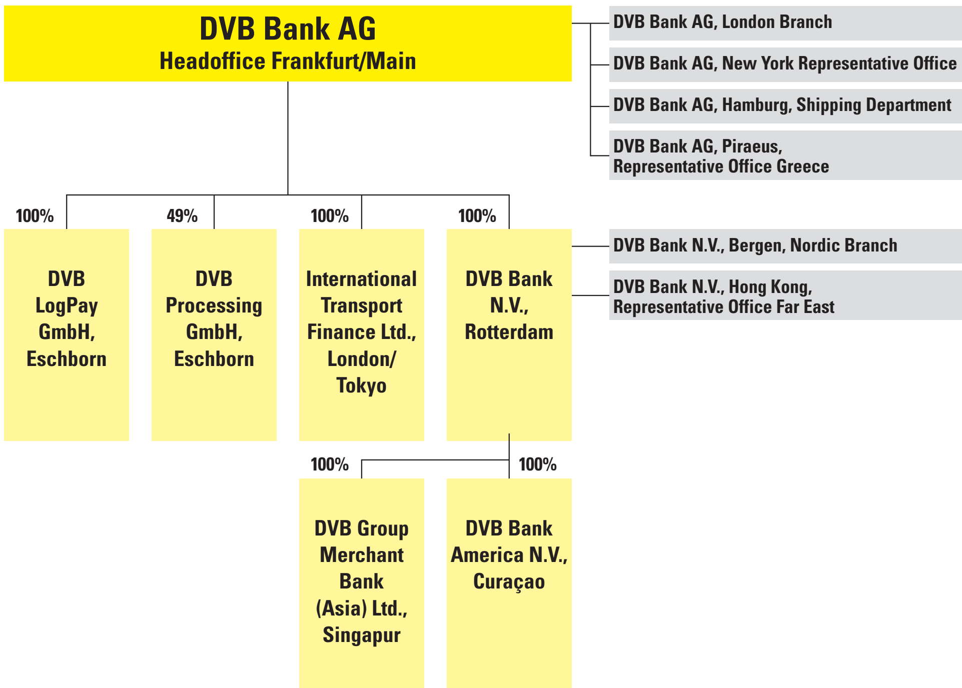
in accordance with sections 315 (2) no. 3 and 289 (2) no. 3 of the German Commercial Code (as at 28 February 2005)

DVB does not carry out any research and development activities.

Report on branches and subsidiaries

in accordance with section 289 (2) no. 4 of the German Commercial Code
(as at 28 February 2005)

The legal structure of DVB did not change during 2004. The chart illustrates the main corporate entities of the Group (shown in yellow), alongside their branches and subsidiaries (shown in grey).



Outlook

in accordance with sections 315 (2) no. 2 and 289 (2) no. 2 of the German Commercial Code (previous version) (as at 28 February 2005)

Economic prospects and outlook for international transport markets in 2005

At the outset of 2005, most economic forecasts project a slowdown in global growth momentum. The World Bank, for instance, estimates global economic growth for 2005 and 2006 at a rate of 3.2% per annum. Although this represents a marked reduction from 2004's level of just under 4.0%, we nevertheless envisage healthy global growth, particularly compared to real growth rates seen in 2003 (2.7%) and 2002 (1.7%). Taking a regional perspective, the Asian economies will continue to enjoy above-average growth, the US will match the growth trend, while momentum in the eurozone is likely to remain below the average. Economic growth secures employment, creates jobs and generates income – thus boosting demand for private and business travel. Stronger growth also means more freight traffic. On top of this, the trend towards a global division of labour – which is ongoing, regardless of overall growth – results in additional growth stimuli for freight traffic volumes.

In the absence of any external disruptions, Asia will remain the main growth region for the **aviation** sector. Even though the global tightening of security measures cannot fully exclude terrorist attacks directed at air travel, we believe that the probability of such attacks has diminished – whereas the risks arising from regional epidemics or pandemics have, in fact, increased. Moreover, we expect structural changes in the aviation industry to continue over the next two years. In the event of a market withdrawal of individual participants, we expect a realignment of market share, where aircraft will continue to be used by competitors. Given that the sector's ability to raise prices will remain distinctly limited over the next few years, soaring jet fuel prices, which directly impact on airlines' profitability, will accelerate this structural change process. In contrast to passenger air transport, air freight is almost exclusively driven by expected global and regional economic growth patterns.

The same applies to **maritime shipping,** where the Asian economies – China in particular – will continue to drive demand. Growing demand for imported commodities, in conjunction with continued growth in Chinese exports, will keep shipping freight and charter rates at a high level. The vast geographical distance between China and its import and export markets ties up significant shipping capacity, and a recovering Japanese economy would have similar effects. The current boom in shipping markets has meanwhile boosted new shipbuilding orders: although these might help to mitigate further increases in transport rates, they could easily become a double-edged sword in the event of a significant slowdown in the Chinese economy. In this case, larger new-built capacity would cause a further slump in prices.

In the European **land transport** sector, road-based goods haulage will grow particularly strongly over the years to come, due to the EU enlargement towards the East and the strength of the East European economies. Some railway operators will have to go the extra mile to avoid losing market share to road-based transport. At the same time, there are attractive opportunities for specialist providers, as well as for railway operators who have developed new ideas and innovative concepts to capitalise on European market deregulation. Overall rail transport volumes in Europe will remain at a level that is large enough to generate stable demand for replacement investments. The situation in North America – where railway operators have controlled a significant share of rail freight volumes for a long time – is fundamentally different. Hence, continued US economic growth will remain the main driver of new orders for rolling stock. The growing trend towards privatisations and public/private partnerships in the **transport infrastructure** sector will become even more pronounced, given the public sector budget deficits faced by many countries.

All told, our outlook for international transport markets for 2005 and 2006 is an extension of the views expressed in our last annual report, looking ahead to 2004. It is pleasing to note that these views, to a very large extent, were confirmed by subsequent market developments.

The outlook for DVB in 2005

- We will **continue to focus on stabilising and improving our ratings** from Standard & Poor's and Moody's. In this context, we will concentrate on **further enhancing profitability** and **continuously increasing liable capital.** In 2004, just as in the preceding years, we exploited all opportunities to strengthen Tier I capital from our own cash flow, both on a single-entity level and on a consolidated basis. Specifically, we retained earnings and transferred additional funds to reserves (particularly to the fund for general banking risks under section 340g of the German Commercial Code. We will continue to pursue this **sound expansion of our liable capital.**
- Following the sale of ReiseBank/CashExpress, 2004 was the first business year during which DVB's results were exclusively generated in the Bank's core Transport Finance business. As projected, the resulting positive impact boosted revenue in 2004. This trend is set to continue into 2005. Specifically, we envisage continued **growth in ordinary income.** While net interest income is expected to continue rising, we will endeavour to stabilise net commission income at the level achieved in 2004, thus conserving the good progress made in the previous business year. Given that trading activities were almost completely discontinued, net profit on financial operations will continue to decline during the coming years. Having concluded its fundamental restructuring and rationalisation projects, DVB has now attained its target cost situation. Assuming our cost discipline remains unaltered, **administrative expenses** will merely grow in line with regional inflation rates. Hence, the **operating profit excluding loan loss provisions** will continue to develop favourably.

- We define our financial targets on the basis of return on equity (RoE), the cost/income ratio (CIR) and the core capital ratio:
  RoE is calculated as the ratio of net income before taxes (excl. amortisation of goodwill) to the average invested equity capital, and reflects the return on capital employed. To a certain extent, further improvements in results for subsequent years will be offset by a higher retention of earnings. Our medium-term target RoE – depending on the level of interest rates – is to approach 20%. **CIR** is the ratio of administrative expenses (incl. the depreciation of fixed assets but excl. amortisation of goodwill) to operating income excluding loan loss provisions. It reflects the cost-efficiency of operations. DVB has set itself a medium-term target of a maximum CIR of 50%. The **core capital ratio** is the ratio of core capital to risk-weighted assets. Our objective is to maintain a ratio clearly in excess of 6% in the medium-term.
- With our Design Phase III project, DVB has entered yet another stage in its process of fundamental change. The objective for 2005 is to **further enhance the intensity, quality and profitability of market coverage.** As part of this process, we will continue to strengthen our Container Business Unit in 2005 and will significantly expand the market position of our new Aero Engine Finance Unit.
- Other focal points for 2005 include the continued implementation of the concept to manage the Bank's capacity to carry and sustain risks, the design of our data warehouse and the conversion of our accounts to comply with IAS/IFRS.

Report of the Board of Managing Directors on relations with affiliated companies in accordance with section 312 of the German Stock Corporation Act

Pursuant to sections 15 and 18 of the German Stock Corporation Act, DVB Bank AG is affiliated to DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, and its Group companies. As at 31 December 2004, DVB Bank AG has been included in the consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main.

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

Balance Sheet of DVB Group as at 31 December 2004

Assets (€ mn)					2004	2003
1	Cash reserve					
a)	Cash on hand			0.006		0.008
b)	Balances with central banks			100.846		215.914
	including: with Deutsche Bundesbank	99.829				214.912
c)	Balances with Postal Giro Offices					0
					100.852	**215.922**
2	Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks					
a)	Treasury bills, non-interest-bearing treasury notes and similar sovereign debt					
	including: eligible for refinancing with Deutsche Bundesbank					
b)	Bills of exchange					
	including: eligible for refinancing with Deutsche Bundesbank					
3	Placements with, and loans and advances to, other banks					
a)	payable on demand			443.785		286.947
b)	Other placements, loans and advances			694.812		1,075.183
					1,138.597	**1,362.130**
4	Loans and advances to customers				**6,957.414**	**6,547.296**
	including: secured by mortgage charges					
	Loans to local authorities	378.885				239.224
5	Bonds and other fixed-income securities					
a)	Money market instruments					
	aa) Public-sector issuers					
	ab) Other issuers					
b)	Bonds and notes					
	ba) Public-sector issuers		0			7.777
	including: Securities eligible as collateral with Deutsche Bundesbank	0				7.777
	bb) Other issuers		591.118	591.118		498.723
	including: Securities eligible as collateral with Deutsche Bundesbank	45.706				180.239
c)	Own debentures			0		0.031
	Nominal amount	0				0.030
					591.118	**506.531**
6	Equities and other non-fixed income securities					
7	Participating interests					
a)	Participating interests			111.944		56.097
	including: Interests in banks	0.296				0.296
b)	Members' capital contributions in co-operative societies			0.039		0.039
	including: Co-operative banks	0.036				0.036
					111.983	**56.136**
8	Interests in affiliated companies				**1.006**	**1.313**
	including: Interests in banks					
	including: Interests in financial services providers					
9	Intangible assets				**73.978**	**79.513**
10	Fixed assets				**83.588**	**38.475**
11	Treasury shares				**0.048**	**0.049**
	Nominal amount	0.014				0.015
12	Other assets				**184.951**	**251.083**
13	Deferred items				**6.955**	**6.761**
Total assets					**9,250.490**	**9,065.209**

Balance Sheet of DVB Group
as at 31 December 2004

Liabilities and capital (€ mn)			2004	2003
1 Liabilities to banks				
a) payable on demand		267.853		1,552.471
b) with agreed term or period of notice		2,415.106		2,228.317
			2,682.960	**3,780.788**
2 Liabilities to customers				
a) Savings deposits				
aa) with agreed period of notice of three months				
ab) with agreed period of notice of more than three months				
b) Other liabilities				
ba) payable on demand	109.915			187.586
bb) with agreed term or period of notice	2,672.286	2,782.201		1,920.678
			2,782.201	**2,108.264**
3 Certificated liabilities				
a) Bonds issued		2,727.977		1,944.364
b) Other certificated liabilities		25.000		234.047
			2,752.977	**2,178.411**
including: Money market instruments	25.000			234.047
Own acceptances and promissory notes outstanding				
4 Other liabilities			**37.472**	**27.936**
5 Deferred items			**5.417**	**6.499**
6 Provisions				
a) Provisions for pensions and similar obligations		8.526		7.213
b) Tax provisions		19.545		16.028
c) Other provisions		32.875		35.860
			60.946	**59.101**
7 Special item with partial reserve character				
8 Subordinated liabilities			**223.524**	**226.040**
9 Profit-participation certificates			**164.476**	**164.476**
including: maturing within two years				
10 Fund for general banking risks			**82.400**	**82.400**
11 Capital and reserves				
a) Subscribed capital				
aa) Issued share capital	77.277			77.209
ab) Silent partnership certificates	77.500			77.500
		154.777		154.709
b) Capital reserve		107.247		107.103
c) Retained earnings				
ca) Legal reserve	1.278			1.278
cb) Reserve for treasury shares	0.048			0.049
cc) Statutory reserves				
cd) Other retained earnings	188.140			161.701
		189.466		163.028
d) Net retained profit		6.628		6.454
			458.118	**431.294**
Total liabilities and capital			**9,250.490**	**9,065.209**
1 Contingent liabilities				
a) Liabilities from guarantees and indemnity agreements		224.403		374.126
			224.403	**374.126**
2 Other commitments				
a) Irrevocable loan commitments		1,093.067		889.712
			1,093.067	**889.712**

Balance Sheet of DVB Bank AG as at 31 December 2004

Assets (€ mn)					2004	2003
1	Cash reserve					
a)	Cash on hand			0.002		
b)	Balances with central banks			99.829		214.912
	including: with Deutsche Bundesbank	99.829				214.912
c)	Balances with Postal Giro Offices					–
					99.831	**214.912**
2	Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks					
a)	Treasury bills, non-interest-bearing treasury notes and similar sovereign debt					
	including: eligible for refinancing with Deutsche Bundesbank					
b)	Bills of exchange					
	including: eligible for refinancing with Deutsche Bundesbank					
3	Placements with, and loans and advances to, other banks					
a)	payable on demand			390.881		285.876
b)	Other placements, loans and advances			3,239.259		3,626.492
					3,630.140	**3,912.368**
4	Loans and advances to customers				**4,234.405**	**3,935.834**
	including: secured by mortgage charges					
	Loans to local authorities	378.885				239.224
5	Bonds and other fixed-income securities					
a)	Money market instruments					
	aa) Public-sector issuers					
	ab) Other issuers					
b)	Bonds and notes					
	ba) Public-sector issuers		0			7.777
	including: Securities eligible as collateral with Deutsche Bundesbank	0				7.777
	bb) Other issuers		580.506	580.506		483.927
	including: Securities eligible as collateral with Deutsche Bundesbank	45.706				180.239
c)	Own debentures			0		0.031
	Nominal amount	0				0.030
					580.506	**491.735**
6	Equities and other non-fixed income securities					
7	Participating interests					
a)	Participating interests			30.453		17.953
	including: Interests in banks	0.296				0.296
b)	Members' capital contributions in co-operative societies			0.039		0.039
	including: Co-operative banks	0.036				0.036
					30.491	**17.992**
8	Interests in affiliated companies				**243.745**	**260.855**
	including: Interests in banks	259.559				259.559
	including: Interests in financial services providers					
9	Intangible assets				**4.161**	**4.416**
10	Fixed assets				**4.065**	**5.130**
11	Treasury shares				**0.048**	**0.049**
	Nominal amount	0.014				0.015
12	Other assets				**143.601**	**209.124**
13	Deferred items				**6.176**	**6.363**
Total assets					**8,977.171**	**9,058.778**

Balance Sheet of DVB Bank AG
as at 31 December 2004

Liabilities and capital (€ mn)			2004	2003
1 Liabilities to banks				
a) payable on demand		266.074		1,552.176
b) with agreed term or period of notice		2,345.585		2,407.097
			2,611.659	**3,959.273**
2 Liabilities to customers				
a) Savings deposits				
aa) with agreed period of notice of three months				
ab) with agreed period of notice of more than three months				
b) Other liabilities				
ba) payable on demand	34.151			134.313
bb) with agreed term or period of notice	2,597.960	2,632.111		1,830.535
			2,632.111	**1,964.848**
3 Certificated liabilities				
a) Bonds issued		2,727.977		1,944.364
b) Other certificated liabilities		25.000		234.047
			2,752.977	**2,178.411**
including: Money market instruments	25.000			
Own acceptances and promissory notes outstanding				
4 Other liabilities			**21.008**	**22.417**
5 Deferred items			**3.900**	**4.884**
6 Provisions				
a) Provisions for pensions and similar obligations		8.526		7.213
b) Tax provisions		8.239		3.975
c) Other provisions		27.598		32.275
			44.363	**43.463**
7 Special item with partial reserve character				
8 Subordinated liabilities			**223.524**	**226.040**
9 Profit-participation certificates			**164.476**	**164.476**
including: maturing within two years	38.347			
10 Fund for general banking risks			**192.183**	**164.384**
11 Capital and reserves				
a) Subscribed capital				
aa) Issued share capital	77.277			77.209
ab) Silent partnership certificates	77.500			77.500
		154.777		154.709
b) Capital reserve		107.247		107.103
c) Retained earnings				
ca) Legal reserve	1.278			1.278
cb) Reserve for treasury shares	0.048			0.049
cc) Statutory reserves				
cd) Other retained earnings	60.990			60.989
		62.316		62.316
d) Net retained profit		6.628		6.454
			330.967	**330.582**
Total liabilities and capital			**8,977.171**	**9,058.778**
1 Contingent liabilities				
a) Liabilities from guarantees and indemnity agreements		657.100		669.074
			657.100	**669.074**
2 Other commitments				
a) Irrevocable loan commitments		1,699.210		1,686.401
			1,699.210	**1,686.401**

Profit and Loss Account of DVB Group for the period from 1 January to 31 December 2004

€ mn				2004	2003 incl. DVB Holding alternative perspective[1)]	2003 incl. DVB Holding
1	Interest income from					
a)	Lending and money market transactions	384.587			350.934	350.995
b)	Fixed-income securities and government debt	22.439			31.128	31.128
2	Interest expenses		306.863		286.267	287.302
				100.163	**95.795**	**94.821**
3	Current income from					
a)	Equities and other non-fixed income securities					0
b)	Participating interests and capital contributions in co-operative banks		2.064		0.506	0.506
c)	Interests in affiliated companies					
				2.064	**0.506**	**0.506**
4	Income from profit pools, profit transfer agreements or partial profit transfer agreements				**5.556**	
5	Commission income		51.652		38.239	91.235
6	Commission expenses		4.510		2.817	2.915
				47.142	**35.422**	**88.320**
7	Net profit on financial operations			**–0.895**	**3.727**	**3.947**
8	Other operating income			**15.777**	**11.909**	**12.951**
9	General administrative expenses					
a)	Staff expenses					
	aa) Wages and salaries	36.768			39.688	56.991
	ab) Compulsory social security contributions and expenses	9.393				
	for pensions and other employee benefits		46.161		7.663	11.439
	including: Retirement benefits		5.652		3.111	3.452
b)	Other administrative expenses		38.891		39.340	61.705
				85.052	**86.691**	**130.135**
10	Depreciation/amortisation of, and write-downs on, intangible and fixed assets			**8.328**	**8.919**	**12.804**
11	Other operating expenses			**10.129**	**4.539**	**5.985**
12	Depreciation/amortisation of, and write-downs on, claims and certain securities, additions to loan loss provisions		10.791		20.642	20.655
				10.791	**20.642**	**20.655**
13	Income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets		2.025		87.931	87.932
				2.025	**87.931**	**87.932**
14	Expenditure for assumption of losses			**0.006**	**1.229**	**0.005**
15	Transfers to the fund for general banking risks				**74.000**	**74.000**
16	**Profit from ordinary activities**			**51.970**	**44.826**	**44.893**
17	Extraordinary income			**0**	**2.993**	**2.993**
18	Extraordinary expenses			**0.020**	**0.199**	**0.199**
19	Income taxes			**5.970**	**5.174**	**5.241**
20	Deferred tax assets			**-6.477**	**36.009**	**36.009**
21	Other taxes not reported under item #19			**0.198**	**0.072**	**0.072**
22	Profits transferred under a profit pool, profit transfer agreement or partial profit transfer agreement			**6.797**	**6.797**	**6.797**
23	**Net income**			**32.508**	**71.586**	**71.586**
24	Profit carried forward			**0.559**	**0.414**	**0.414**
25	Transfer to retained earnings					
a)	Amounts transferred to other retained earnings			**26.439**	**65.546**	**65.546**
26	**Net retained profit**			**6.628**	**6.454**	**6.454**

1) Net income generated by RB/CE (DVB Holding) was included in the 2003 financial statements for the last time, whereas the results for the year under review are exclusively based on DVB's core Transport Finance business. To facilitate comparison of revenues for both financial years, we excluded income and expenditure associated with RB/CE (DVB Holding) from the consolidated profit and loss account for 2003, reporting two aggregate figures under "income from profit pools" and "expenditure for assumption of losses", respectively.

Profit and Loss Account of DVB Bank AG
for the period from 1 January to 31 December 2004

€ mn				2004	2003
1	Interest income from				
a)	Lending and money market transactions	363.326			312.313
b)	Fixed-income securities and government debt	22.018	385.344		30.386
2	Interest expenses	310.910			282.331
				74.434	**60.368**
3	Current income from				
a)	Equities and other non-fixed income securities				0
b)	Participating interests and capital contributions in co-operative banks		0.020		0.030
c)	Interests in affiliated companies		27.738		32.225
				27.758	**32.255**
4	Income from profit pools, profit transfer agreements or partial profit transfer agreements			**1.788**	**7.242**
5	Commission income		24.842		19.555
6	Commission expenses		1.354		1.930
				23.488	**17.625**
7	Net profit on financial operations			**–0.374**	**1.415**
8	Other operating income			**9.659**	**11.394**
9	General administrative expenses				
a)	Staff expenses				
	aa) Wages and salaries	25.452			29.382
	ab) Compulsory social security contributions and expenses for pensions and other employee benefits	6.989	32.441		5.756
	including: Retirement benefits	3.885			2.177
b)	Other administrative expenses		30.628		30.412
				63.069	**65.550**
10	Depreciation/amortisation of, and write-downs on, intangible and fixed assets			**3.075**	**3.444**
11	Other operating expenses			**3.438**	**1.515**
12	Depreciation/amortisation of, and write-downs on, claims and certain securities, additions to loan loss provisions		24.914		22.216
				24.914	**22.216**
13	Income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets		2.025		18.980
				2.025	**18.980**
14	Expenditure for assumption of losses			**0.006**	**1.228**
15	Transfers to the fund for general banking risks			**27.799**	**42.914**
16	**Profit from ordinary activities**			**16.477**	**12.412**
17	Extraordinary income				**2.993**
18	Extraordinary expenses				**0.199**
19	Income taxes			**3.611**	**2.369**
20	Profits transferred under a profit pool, profit transfer agreement or partial profit transfer agreement			**6.797**	**6.797**
21	**Net income**			**6.069**	**6.040**
22	Profit carried forward			**0.559**	**0.414**
23	Transfer to retained earnings				
a)	Amounts transferred to other retained earnings				
24	**Net retained profit**			**6.628**	**6.454**

Notes to the Financial Statements of DVB Group and DVB Bank AG as at 31 December 2004

in accordance with section 313 et seq and 284 et seq of the German Commercial Code (as at 28 February 2005)

Abbreviations and references

Notes:

CIR	*Cost/income ratio*
Commercial Register	*Handelsregister (HR)*
DZ BANK	*DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main*
GAS	*German Accounting Standard (Deutscher Rechnungslegungs-Standard)*
GASB	*German Accounting Standards Board (Deutscher Standardisierungsrat)*
German Accounting Directive for Banks	*Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV)*
German Banking Act	*Kreditwesengesetz (KWG)*
German Commercial Code	*Handelsgesetzbuch (HGB)*
German Stock Corporation Act	*Aktiengesetz (AktG)*
ITFL Ltd.	*International Transport Finance Limited, London*
RB/CE	*ReiseBank AG/ CashExpress GmbH (DVB Holding), subsidaries of DVB Bank AG until 31 December 2003*
RoE	*Return on equity*
VAT	*Value added tax*

Preliminary remarks

The annual financial statements of DVB Bank AG and the consolidated financial statements for the 2004 business year were prepared in accordance with the provisions of the German Commercial Code and the German Accounting Directive for Banks, taking into account the regulations of the German Stock Corporation Act.

The notes to the financial statements of DVB Bank AG and the DVB Group have been combined. Unless indicated otherwise, the explanatory notes apply to both sets of financial statements. As a general rule, explanatory notes to both the balance sheet and the profit and loss account have been included in the notes.

The possibilities of set-off permitted by the provisions of the German Commercial Code and the German Accounting Directive for Banks have been utilised.

Group of consolidated companies

The consolidated group of companies in accordance with section 294 of the German Commercial Code comprises the majority stakes of DVB Bank AG which fall under unified management, i.e. DVB Beteiligungsgesellschaft mbH, Frankfurt/Main, DVB LogPay GmbH, Eschborn, Hangar Vermietungs- und Verpachtungs GmbH, International Transport Finance Ltd., London, as well as these companies' subsidiaries and DVB Bank N.V., Rotterdam, together with its subsidiaries (see overview of affiliates and affiliated companies). All of the aforementioned companies are wholly owned by DVB Bank AG.

Majority stakes that do not fall under unified management have not been included. Likewise, in accordance with section 296 (2) of the German Commercial Code, companies of minor importance have also not been included in the consolidated financial statements.

Consolidation policies

The financial statements of the companies included in the consolidated financial statements have been prepared as per the Group balance sheet date.

Capital was consolidated at book value. Any shareholders' equity acquired on a pro-rata basis is set off at cost at the time of acquisition. Positive goodwill is disclosed under intangible assets and depreciated over its useful life. All claims and liabilities as well as income and expense existing between enterprises included in the consolidated financial statements have been set off. Intragroup profits were eliminated in line with section 304 of the German Commercial Code.

Accounting and valuation principles

The financial statements of all companies included in the consolidated financial statements have been prepared in accordance with the uniform accounting and valuation principles of DVB Bank AG.

Receivables (asset items 3 and 4) are reported at their nominal values. A sufficient risk provision has been set aside for receivables vulnerable to default. Based on the default ratio in the D-Marketing lending business experienced over the past five financial years, we have set aside general loan loss provisions for potential lending risks. Premiums paid and discounts received are carried as prepaid expenses/deferred income and are recognised as income or expense over the capital commitment period on a pro-rata basis.

Fixed-income **securities held as investments or as part of current assets** (asset item 5) are valued at the lower of cost or market at their historical cost or lower market value; securities collateralised using physical collateral are valued at their historical cost. **Participating interests** (asset item 7) are carried at cost or fair value (if lower). Stakeholdings resulting from contributions are carried at their fair value on the date the contribution was made.

Fixed assets (asset item 10) are carried at purchase or production costs reduced by depreciation on a pro-rata basis. Additions to moveable assets are depreciated on a pro-rata basis using the straight-line method. Low value commercial goods are written off in full during the year of acquisition.

A fixed value was set for the **inventories of forms.**

Liabilities (liabilities items 1, 2 and 3) are carried at the amounts to be repaid. Discounts paid are carried as deferred income and are written back over the capital commitment period on a pro-rata basis.

Provisions for pensions (liabilities item 6) are calculated on the basis of an actuarial opinion and valued by way of the cost ("Teilwert") method. The calculations are based on the actuarial tables for 1998, published by Dr Klaus Heubeck, applying an interest rate of 6.0% p.a. The other provisions are measured in such a way as to account for all identifiable risks.

The provisions for anniversary bonuses are allocated at the values permitted by German commercial law.

The translation of receivables, liabilities, securities, participating interests and tangible assets held in **foreign currency** as well as pending cash transactions is carried out at the spot rate in accordance with statement 3/1995 issued by the Banking Committee of the German Institute of Auditors (BFA), while the translation of pending forward contracts is carried out at the relevant forward rate. Any currency translation gains arising from collateralised items are identified in the profit and loss account. To the extent that these positions are not specifically covered, any gains are set off against translation losses in the same currency. Foreign subsidiaries of DVB Bank AG that carry out currency transactions are refinanced using liabilities with matching maturities. Any interests held are therefore identified in the subsidiary's functional currency and valued at current exchange rates. The earnings of the company's foreign branches and subsidiaries are translated at the prevailing exchange rates.

Derivative financial instruments are valued in accordance with the principles set out in the statements 2/93 and 2/95 issued by the Banking Committee of the German Institute of Auditors, applying section 340h of the German Commercial Code accordingly. The splitting of the forward price is performed regardless of whether a foreign exchange transaction relates to balance sheet items or to customer-initiated hedging transactions. Using objective criteria, valuation units have been created among this product group and with selected traditional financial instruments. Hedged items are valued in accordance with the principle of loss-free valuation.

The annual results of any **subsidiaries** in which the Bank holds a majority interest are allocated to DVB Bank AG within the relevant periods by way of a profit-and-loss transfer or corresponding shareholders' resolutions.

In accordance with sections 274 and 306 of the German Commercial Code, **deferred tax items** are recognised only in respect of differences between the profit for commercial law and tax law purposes which will probably be reversed in subsequent financial years (timing concept). In addition to the German Commercial Code, DVB Bank AG also applied GAS 10 Deferred Taxes in Consolidated Financial Statements in the 2004 financial year.

Under GAS 10, the German Commercial Code's income statement-oriented approach is transformed into a balance sheet-oriented approach. Deferred tax assets and liabilities are thus recognised in the amount of the difference between the book value of an asset or liability and its tax value.

Deferred taxes are set aside in respect of any temporary differences between the accounting recognition and the tax treatment of an item, the release of which in subsequent periods is likely to result in a tax burden or tax relief. Deffered taxes are calculated using the tax rate likely to prevail when the timing differences reverse, applying the tax rates specific to the respective enterprise. For Germany, this leads to a tax rate of 40.1%, taking corporation tax, solidarity surcharge and trade tax into account. Deferred taxes are not discounted to their present value. No deferred tax assets were recognised for losses carried forward.

Any effects of the initial application of GAS 10 are recognised directly in capital and reserves insofar as they relate to differences that arose in previous years. Differences that arose in 2004 are taken to the profit and loss account, insofar as the difference affects the result.

At the balance sheet date, DVB Bank AG applied GAS 11 **Related Party Disclosure.** Insofar as transactions with related parties which have been included in the consolidated financial statements under full or partial consolidation or under the equity method are concerned, these are not reported due to the fact that they are eliminated in the course of consolidation.

Furthermore, DVB Bank AG prepares a report on relationships with affiliated enterprises in accordance with section 312 of the German Stock Corporation Act, which is audited in accordance with section 313 of the German Stock Corporation Act. The subordinate status report comprises the relations between DVB Bank AG and DZ BANK as well as its affiliated companies. Relations with affiliated enterprises are carried out under normal market conditions. Thus an unqualified opinion was given with regard to the subordinate status report.

DVB Bank AG carries out numerous banking transactions with DZ BANK, including short-term borrowings, deposits as well as foreign exchange and repo transactions. DVB Bank AG has close relations with DZ BANK and other affiliated enterprises in the DZ BANK Group, particularly in the refinancing business. Transactions involving derivatives such as interest rate options, interest rate swaps or foreign exchange forwards are also entered into.

Out of reported liabilities to banks amounting to €2.7 billion, €0.5 billion (2003: €0.4 billion out of €3.8 billion) relate to affiliated enterprises in the DZ BANK Group. A total of €0.3 billion out of €1.1 billion placements with, and loans and advances to, banks are related to the DZ BANK Group (2003: €0.7 billion out of €1.4 billion)

All banking transactions were entered into under normal market conditions, without exception.

Explanatory notes to individual balance sheet items

Other placements with, and loans and advances to, banks with an agreed maturity or period of notice (asset item 3b) have a residual term of:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group
Less than three months	2,250.8	549.1	2,561.9	849.2
Minimum of three months but less than one year	629.8	81.2	700.5	62.9
Minimum of one year but less than five years	327.8	64.5	332.9	142.6
Five years or longer	30.9	0.0	31.1	20.5
Total	**3,239.3**	**694.8**	**3,626.4**	**1,075.2**

The total amount of placements with, and loans and advances to, banks for both DVB Bank AG and the Group also comprises loans and advances to affiliated enterprises totalling €3,016.1 million within DVB Bank AG (Group: €298.4 million) including €2,717.8 million to DVB Bank N.V. (formerly: Nedship Bank N.V.) and €298.4 million to DZ BANK.

There are no claims against companies in which a participating interest is held. DVB Bank AG holds subordinated claims from affiliated companies totalling €88.1 million (Group: €0.0 million).

Loans and advances to customers (asset item 4) have a residual term or notice period of:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group
Payable on demand	47.3	70.1	50.2	61.6
Less than three months	524.2	716.9	318.3	346.3
Minimum of three months but less than one year	402.7	742.3	479.5	549.0
Minimum of one year but less than five years	1,517.9	2,754.3	1,296.6	2,115.8
Five years or longer	1,742.3	2,673.8	1,791.2	3,474.6
Total	**4,234.4**	**6,957.4**	**3,935.8**	**6,547.3**

Of the DVB Bank AG total, €225.4 million is related to loans and advances to affiliated companies and €0.9 million to companies in which a participating interest is held. At Group level, €21.3 million is related to loans and advances to affiliated companies. Loans and advances include subordinated shareholder loans to subsidiaries totalling €0.9 million on both Group and AG level.

Bonds and other fixed-income securities of DVB Bank AG (asset item 5) include securities negotiable at a stock exchange of €580.5 million, of which €75.6 million are exchange-listed. Securities collateralised using physical collateral totalling US$40.2 million are valued at their historical cost, other securities are valued at the lower of cost or market.

Bonds and other securities amounting to €500.0 million (nominal value) will mature in 2005.

Group companies and other interests held by DVB Bank AG

	Interest of capital %	Book value of investment (€)	Net profit/loss (€)	Capital and reserves (€)
I. Companies included in consolidated financial statements				
DVB Bank AG, Frankfurt/Main		–	–	–
DVB LogPay GmbH, Eschborn [1]	100	2,000,000	1,788,210	2,000,000
DVB Beteiligungsgesellschaft mbH, Frankfurt/Main	100	25,000		[3]
International Transport Finance Limited, London [2]	100	14,183	–3,996,816	–3,982,632
Ocean Clementine Ltd., London	100	1		[3]
Ocean Gwendolen Ltd., London	100	1		[3]
Hangar Vermietungs- u. Verpachtungs GmbH, Frankfurt/Main	100	25,000	2,783	25,000
DVB Bank N.V., Rotterdam	100	240,674,560	27,734,841	
Nedship Shipping B.V.. Rotterdam	100	1,073,390	1,613,165	1,073,390
Shipping Capital B.V.. The Hague	100	6,980,365	676,519	6,980,365
Hollandse Scheepshypotheekbank N.V., Rotterdam	100	711,043	0	711,043
Illios Tourist Houses Development Ltd., Piraeus	100	0	0	0
DVB Group Merchant Bank (Asia) Ltd., Singapore	100	80,940,992	10,481,916	80,940,992
DVB Container Finance Asia P, Singapore	100	1	–144,459	1
Nedship Financial Consultants E.P.E., Piraeus, Greece	100	201,883	–156,173	201,883
Nedship International Inc., Greenwich, CT 06830/USA	100	1,050,079	–121,041	1,050,079
DVB Bank Amerika N.V., Curacao	100	85,904,454	3,520,333	85,904,454
Nedship Participation (Norway B.), Rotterdam	100	515,400	130,854	515,400
Infifon XI B.V., The Hague	100	24,067	0	24,067
Participate Maatschappij Majestic B.V., Groningen	100	174,439	0	174,439
Scheepvaart Maatschappij Peter B.V., Rotterdam	100	45,973	90,000	45,973
Infifion III B.V., The Hague	100	652,442	0	652,442
Everhard Beleggingen B.V., Rotterdam	100	–654,941	–697,401	–654,941
Scheepvaart Maatschappij Ewout B.V., Rotterdam	100	16,557	0	16,557
Nedship Scheepvaarthuis B.V., Rotterdam	100	–113,930	–52,518	–113,930
Shipping Capital Antilles N.V., Willemstad, Curaçao	100	14,301,360	350,952	14,301,360
AER Holdings N.V., Willemstad, Curaçao	100	69,286	–3,452	69,286
Netherlands Shipmortgage Corporation Ltd., Hamilton	100	0	0	0
		192,378,505		
II. a) Affiliated companies not included in the consolidated financial statements				
DVB Capital Partners Limited, London	100	1		[3]
Zweite GfW Gesellschaft für Waggonleasing mbH & Co.KG, Berlin	99.50	5,087		[3]
DVL Deutsche Verkehrs-Leasing GmbH, Eschborn	39.00	1,001,406		[3]

1) There is a profit and loss transfer agreement with DVB Bank AG.

2) Net profit distributed to DVB Bank AG within the relevant period.

3) The option given in section 286 (3) sentence 1 no. 1 German Commercial Code was utilised with regard to the figures for the annual results and equity capital.

	Interest of capital %	Book value of investment (€)	Net profit/loss (€)	Capital and reserves (€)
II. b) Companies not included in the consolidated financial statements				
DVB Processing GmbH, Eschborn	49.00	8,817,656		61,250
Crosby Court GmbH & Co. KG, Eschborn	100.00	102,258	814,273	0
Liquiditäts-Konsortialbank GmbH, Frankfurt/Main	0.23	295,743		3)
Münchener Hypothekenbank eG, Munich	500 shares	35,000		3)
Löcknitzer Vermietungs GmbH & Co. KG, Hanover	50	100,000		3)
ARS Altmann AG, Wolnzach	25.00	12,500,000	8,900,000	12,900,000
West Supply III AS, Haugesund	22.22	61,413	1,296	61,413
West Supply III KS, Haugesund	20.00	517,280	10,919	517,280
Anna Elisabeth B.V., Veere	20.00	17,785	0	17,785
Anna Gabriele B.V., Veere	20.00	17,785	0	17,785
Anna Catharine B.V., Veere	20.00	17,785	0	17,785
Anna Constance B.V., Veere	20.00	17,785	0	17,785
Navigations Finance Corp. N.V., Brit.Virgin Islands	50.00	0	157,224	0
Buccaneer Navigation Ltd., Bahamas	50.00	0	0	0
C.V.M.S. "Inger", Delfzijl	10.00	181,512	9,000	181,512
Carisbrooke Shipping CV 2, Rotterdam	0.69	1	0	1
Carisbrooke Shipping CV 3, Rotterdam	0.69	1	0	1
Leuvestein V.O.F, Rotterdam	33.33	0	0	0
Seamoss CO SA, Panama	50.00	847,955	1,660,164	847,955
OOCL Shipping B.V., Rotterdam	37.50	30,675,061	380,221	30,675,061
Sextant Finance (Holding) Ltd., Brit. Virg. Islands	50.00	0	0	0
MALC Lease Eleven B.V, Amsterdam	25.00	14,429,689	70,672	14,429,689
MALC Lease Twelve B.V, Amsterdam	25.00	16,143,540	71,095	16,143,540
MALC Lease Thirteen B.V., Amsterdam	25.00	14,253,553	27,315	14,253,553
Balcraig S.A, Brit.Virgin Islands	100.00	4,310,161	42,893	4,310,161
		81,491,305		
III. Other material investments [3]				
KRAVAG-HOLDING AG, Hamburg	10.00	8,634,697		

1) There is a profit and loss transfer agreement with DVB Bank AG.

2) Net profit distributed to DVB Bank AG within the relevant period.

3) The option given in section 286 (3) sentence 1 no. 1 German Commercial Code was utilised with regard to the figures for the annual results and equity capital.

Fixed assets and non-trading assets

List of investments – DVB Bank AG

€ mn	Purchase/ production cost 1 Jan 2004	Additions purchase/ production cost (current year)	Disposals purchase/ production cost (current year)	Transfers standard software current year	Exchange rate fluctua- tions	Write-ups (current year)	Depre- ciation (current year)	Deprecia- tion and write- downs (previous years)	Deprecia- tion and write- downs (dis- posals)	Accumu- lated deprecia- tion and write- ups (–)	Residual book value 31 Dec 2004	Residual book value 31 Dec 2003
Securities held as fixed assets	43.972	7.018	12.533	0	–3.480	0.001	0.570	0.001	0.063	0.507	34.470	43.971
Participating interests with and capital contributions in co-operative banks	9.916	12.500	0.001	0	0	0	0	-8.076	0	–8.076[1)]	30.491	17.992
Interests in affiliated companies	260.855	1.775	0	0	–18.885	0	0	0	0	0	243.745	260.855
Land and buildings	1.143	0	0	0	0	0	0.021	0.517	0	0.538	0.605	0.626
Office furniture and equipment	17.916	1.742	1.258	–5.904	0	0	1.305	13.412	5.681	9.036	3.460	4.504
Fixed assets	19.059	1.742	1.258	–5.904	0	0	1.326	13.929	5.681	9.574	4.065	5.130
Intangible assets	6.994	0.176	2.542	5.904	0	0	1.750	2.578	–2.043	6.371	4.161	4.416
Total	**340.796**	**23.211**	**16.334**	**0**	**–22.365**	**0.001**	**3.646**	**8.432**	**3.701**	**8.376**	**316.932**	**332.364**

1) This item comprises write-ups resulting from the contribution of the electronic cash business to DVB Processing GmbH during 2000.

List of investments – DVB Group

€ mn	Purchase/ production cost 1 Jan 2004	Additions purchase/ production cost (current year)	Disposals purchase/ production cost (current year)	Transfers (current year)	Exchange rate fluctuations	Write-ups (current year)	Depreciation (current year)	Depreciation and write-downs (previous years)	Depreciation and write-downs (disposals)	Accumulated depreciation and write-ups (–)	Residual book value 31 Dec 2004	Residual book value 31 Dec 2003
Securities held as fixed assets	58.768	7.171	16.548	0	–3.803	0.001	0.570	0.001	0.063	0.507	45.081	58.767
Participating interests with and capital contributions in co-operative banks	47.978	67.647	4.636	0	–7.263	0	0	–8.158	0.099	–8.257 [1)]	111.983	56.136
Interests in affiliated companies	1.313	0	0.306	0	–0.001	0	0	0	0	0	1.006	1.313
Land and buildings	7.798	6.126	0.280	0	–0.251	0	0.313	2.143	0.437	2.019	11.374	5.655
Office furniture and equipment	22.109	1.873	1.702	–6.057	–0.030	0	1.811	16.248	6.777	11.282	4.911	5.861
Equipment used by the Group	29.907	7.999	1.982	–6.057	–0.281	0	2.124	18.391	7.214	13.301	16.285	11.516
Leased assets	30.802	57.754	3.340	0	–9.195	0	5.949	3.843	1.074	8.718	67.303	26.959
Fixed assets	60.709	65.753	5.322	–6.057	–9.476	0	8.073	22.234	8.288	22.019	83.588	38.475
Goodwill	95.454	0	0	0	–0.893	0	4.324	20.766	0	25.090	69.471	74.688
Software	7.462	0.241	2.670	6.057	–0.010	0	1.880	2.637	–2.056	6.573	4.507	4.825
Intangible assets	102.916	0.241	2.670	6.057	–0.903	0	6.204	23.403	–2.056	31.663	73.978	79.513
Total	**271.684**	**140.812**	**29.482**	**0**	**–21.446**	**0.001**	**14.847**	**37.480**	**6.394**	**45.932**	**315.636**	**234.204**

1) This item comprises write-ups resulting from the contribution of the electronic cash business to DVB Processing GmbH during 2000, and from the sale of a 51% interest to Postbank AG in 2001.

€8.6 million of **participating interests** (Group and DVB Bank AG) (asset item 7) are negotiable at a stock exchange but not listed. €240.7 million of **interests in affiliated companies** (asset item 8) held by DVB Bank AG are negotiable at a stock exchange but not listed.

Both DVB Bank AG's commercially-used building (€605,000) and the commercially-used building of DVB Bank N.V. (€4,743,400) are used by the owners themselves. The premises are partially let to third parties. In the year 2004, a hangar was purchased for €6,025,300.

The aeroplanes, ships or machine parts acquired by ITFL Ltd., London, as part of sale-and-lease-back arrangements and the ships acquired by DVB Bank N.V. are carried under the Group's **leased assets.**

Intangible assets (Group: asset item 9) amounting to €74.0 million mainly consist of the goodwill of DVB Bank N.V. of €69.5 million (amortised over an unchanged useful life of 20 years) as well as software costs amounting to €4.5 million.

The Group's **other assets** (asset item 12) totalling €185.0 million comprise the following individual items:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group
Option premiums	0.8	0.8	2.9	2.1
Taxes	2.9	39.1	2.4	43.4
Currency valuation	139.5	143.5	203.4	203.4
Other assets	0.4	1.6	0.4	2.2
Total	**143.6**	**185.0**	**209.1**	**251.1**

In accordance with GAS 10, taxes recognised in the consolidated financial statements include a total of €33.1 million (2003: €33.1 million) relating to deferred taxation with regard to the fund for general banking risks. Deferred tax liabilities totalling €6.2 million (2003: €5.3 million) relating to participating interests, interests in affiliated companies and fixed assets are reported under tax provisions.

The **deferred items** (asset item 13; Group: €7.0 million, DVB Bank AG: €6.2million) include capitalised discounts in line with section 268 (6) of the German Commercial Code of €5.5 million (DVB Bank AG: €5.5 million) and premiums recognised in line with section 340e (2) of the German Commercial Code of €0.5 million (DVB Bank AG: €0.4 million).

Liabilities to banks with an agreed maturity or period of notice (liabilities item 1b) have a residual term of:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group
Up to three months	938.1	916.4	903.2	697.3
More than three months but less than one year	626.7	680.2	443.8	470.9
More than one year but less than five years	465.3	484.2	699.7	699.7
More than five years	315.5	334.3	360.4	360.4
Total	**2,345.6**	**2,415.1**	**2,407.1**	**2,228.3**

€897.3 million is related to DVB Bank AG's uncertificated liabilities to affiliated companies. This amount includes liabilities to DZ BANK of €412.1 million, to DZ BANK International S.A., Luxembourg, of €74.1 million and to DVB Bank N.V. of €371.0 million.

There are no uncertificated liabilities to companies in which a participating interest is held. The total amount in respect of DVB Bank AG also comprises liabilities to "Sparda" banks totalling €678.4 million.

At the balance sheet date there were no liabilities for open-market transactions collateralised by securities.

Other liabilities to customers with an agreed maturity or period of notice (liabilities item 2bb) have a residual term of:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group
Up to three months	137.4	195.3	72.9	98.5
More than three months but less than one year	107.0	113.0	42.2	65.4
More than one year but less than five years	479.3	489.7	407.3	412.0
More than five years	1,874.3	1,874.3	1,308.1	1,344.8
Total	**2,598.0**	**2,672.3**	**1,830.5**	**1,920.7**

Of the DVB Bank AG total, €0.8 million is related to uncertificated liabilities to affiliated companies (Group: €0.1 million) and €5.0 million to companies in which a participating interest is held.

Certificated liabilities (liabilities item 3) for both the Group and DVB Bank AG, amounting to €2,753.0 million, include €2,728.0 million in bonds issued and €25.0 million of other Commercial Paper issues. Of this total, a nominal amount of €325.6 million will fall due in 2005 and €325.0 million in the next three months.

The bonds issued are bearer securities. The total amount includes liabilities to affiliated companies (DZ BANK) with a nominal value of €1,244.1 million, of which €24.1 million is denominated in foreign currencies.

The Group's **other liabilities** (liabilities item 4) totalling €37.5 million include:

	2004		2003	
€ mn	DVB Bank AG	Group	DVB Bank AG	Group
Currency valuation	0.0	0.0	0.0	0.0
Option premiums	0.8	0.8	3.0	2.2
Interest on profit participation certificates	11.5	11.5	11.5	11.5
Interest on silent partnership contributions	6.8	6.8	6.8	6.8
Employee shares not yet recorded in the Commercial Register	0.8	0.8	0.0	0.0
Other commitments	1.1	17.6	1.1	7.4
Total	**21.0**	**37.5**	**22.4**	**27.9**

This item includes €782,200 for 11,643 employee shares which were not recorded in the Commercial Register as at 31 December 2004.

The Group's **deferred items** (liabilities item 5) totalling €5.4 million also include discounts from purchased or directly extended loans in the amount of €4.1 million.

Provisions (liabilities item 6) were set aside in the total of €60.9 million (Group) and €44.4 million (DVB Bank AG) respectively. The other provisions comprise the following items:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group
Credit risks	2.9	2.9	3.7	3.7
Staff remuneration	10.8	15.5	10.7	10.9
Other commitments	13.9	14.5	17.9	21.3
Total	**27.6**	**32.9**	**32.3**	**35.9**

Other liabilities include **provisions for special measures:**

Since 2000, the European Commission has been conducting investigations involving several European banks due to alleged unlawful agreements regarding the fee structure for transactions in foreign notes and coins. On 14 October 2004 the European Court of Justice delivered a judgement in our favour declaring the European Commission's administrative order imposing a fine on DVB Bank AG void. The European Commission objected to this judgement at the end of 2004; the proceedings are thus being continued.

Hence, the provisions set aside in 2001 to cover any legal costs and the possibility of an unfavourable outcome to the proceedings have not been released. The course of the proceedings reaffirms our view that it is not necessary to increase reserves.

An action challenging the resolution regarding agenda item 1 of the Extraordinary General Meeting dated 17 December 2003 "Approval of the conclusion of a share purchase and transfer agreement regarding the sale of the shareholding in DVB Holding GmbH, Frankfurt/Main, (and thus in the subsidiaries ReiseBank Aktiengesellschaft, Frankfurt/Main, and CashExpress Gesellschaft für Finanz- und Reisedienstleistungen mbH, Frankfurt/Main) between DVB Bank Aktiengesellschaft, Frankfurt/Main, as the seller and DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main, with registered offices in Frankfurt/Main, as the buyer" was filed with the Frankfurt/Main Regional Court (Landgericht Frankfurt am Main) by Carthago Value Invest AG at the beginning of January 2004 but withdrawn during the year 2004.

Subordinated liabilities of DVB Bank AG and the Group (liabilities item 8) totalling €223.5 million include the following issues:

	Amount (€) 2004	Currency 2004	Interest rate (%) 2004	Maturity 2004
Bearer debentures				
	57,500,000.00	€	6.00	17/08/2011
Promissory note loans	32,303,061.45	US$	3.51	31/05/2005
	10,225,837.62	€	5.24	20/10/2008
	9,000,000.00	€	5.12	24/03/2009
	5,112,918.81	€	5.14	16/09/2008
	5,112,918.81	€	5.12	16/09/2008
	5,112,918.81	€	5.23	10/09/2008
	5,112,918.81	€	5.24	20/10/2008
	5,000,000.00	€	6.32	04/11/2008
	5,000,000.00	€	5.69	04/11/2008
	5,000,000.00	€	6.11	08/08/2018
	5,000,000.00	€	6.00	20/08/2018
	5,000,000.00	€	5.66	22/08/2013
	5,000,000.00	€	5.60	12/08/2013
	5,000,000.00	€	5.64	12/08/2013
	5,000,000.00	€	5.69	31/07/2013
	5,000,000.00	€	6.70	02/08/2010
	5,000,000.00	€	6.71	16/08/2012
	5,000,000.00	€	6.68	13/10/2010
	5,000,000.00	€	6.32	15/08/2011
	3,500,000.00	€	5.55	24/06/2011
	2,556,459.41	€	5.06	26/11/2008
	2,556,459.41	€	5.15	10/09/2008
	2,556,459.41	€	5.18	08/09/2008
	2,556,459.41	€	5.01	22/09/2008
	2,556,459.41	€	5.01	22/09/2008
	2,556,459.41	€	5.08	23/03/2009
	2,500,000.00	€	6.67	04/02/2010
	2,500,000.00	€	6.26	17/08/2011
	2,300,813.47	€	5.05	23/03/2009
	2,000,000.00	€	6.53	21/06/2010
	1,000,000.00	€	5.12	24/03/2009
	500,000.00	€	6.53	21/06/2010
	255,645.94	€	5.05	23/03/2009

The total amount includes subordinated funds from affiliated companies (R+V Allgemeine Versicherung AG, Wiesbaden, Germany), with a total nominal value of €3.5 million. With regard to subordinated liabilities, DVB Bank AG is under no obligation to redeem securities prior to maturity. In the event of bankruptcy, liquidation or composition proceedings, any claims from these liabilities, incl. interest claims, will be subordinated to all unsubordinated claims by any of the issuer's creditors. There is no agreement in respect of the conversion of these liabilities to equity capital or any other form of debt. These liabilities of €200 million therefore meet the requirements of supplementary capital as set out in section 10 (5a) of the German Banking Act.

During the business year, expenses amounting to €11.7 million were incurred in relation to the liabilities reported under this item.

DVB Bank AG's **profit-participation certificates** (liabilities item 9) of €164.4 million include the following issues:

	Amount (€ mn) 2004	Amount (€ mn) 2003	Listed	Interest rate (%)	Maturity
	38.3	38.3	DEM	6.750	2005
	51.1	51.1	DEM	6.270	2008
	75.0	75.0	€	7.585	2010
Total	**164.4**	**164.4**			

The profit-participation certificates of €126 million approved by resolutions of the Annual General Meetings in 1993, 1998 and 2000 meet the requirements of section 10 (5) of the German Banking Act for supplementary capital. The total amount of these certificates may be used to cover losses. The profit-participation certificates due in 2005 no longer meet the requirements of section 10 (5) of the German Banking Act. Payments cannot exceed any net retained profit. The redemption rights of the profit-participation certificate holders are subordinated to the entitlements of other creditors. During 2004, expenses in the amount of €11.5 million were related to interest payments on profit-participation certificates and reported under "Other liabilities".

The **fund for general banking risks** (liabilities item 10) for DVB Bank AG includes the previous year's balance of €164.4 million and an appropriation of €27.8 million for the current year. On a Group level, no transfers to the fund were made from earnings for the period under review, however, partial amounts were included in other retained earnings.

At the end of 2004, the Group's **capital and reserves** (excl. net retained profit; liabilities item 11) totalled €451.5 million. The **subscribed capital** comprises the Bank's issued share capital of €77.3 million plus contributions from silent partnerships totalling €77.5 million. The **issued share capital** of €77.3 million comprises 3,022,819 notional no-par value shares ("unit shares"). Out of this total, 2,672 shares were subscribed for by employees in 2004 as part of a stock option plan. The issued amount was allocated to the issued share capital in the amount of €68,300 and to the capital reserve in the amount of €143,300. Moreover, employees subscribed 11,643 shares by way of option exercises in 2004. These, however, were not recorded in the Commercial Register as at 31 December 2004 and have therefore been reported as other liabilities (€297,600 issued share capital and €484,600 capital reserve). As at 31 December 2004, 113,805 options were not exercised; these options may only be exercised if the target RoE as determined by the Annual General Meeting in the year 2000 is reached or exceeded for the respective reference year. DZ BANK holds a 92.98% stake in the issued share capital. The remaining shares are held in free float.

Breakdown of shareholders' equity – DVB Group:

€ mn	31 Dec 2003	Changes							31 Dec 2004
		Issue of shares	Purchase/ repurchase of own shares	Dividends paid	Changes in the scope of consolidated companies	Other changes	Group net profit	Transfer to/from retained earnings	
Parent company									
Subscribed capital									
Ordinary shares	77.2	0.1	0.0	0.0	0.0				77.3
Capital reserve	107.1	0.1	0.0						107.2
Group equity capital generated									
Legal reserve	1.3				0.0				1.3
Reserve for treasury shares	0.1		0.0						0.1
Statutory reserve	0.0								0.0
Other retained earnings	161.7		0.0					26.4	188.1
Net retained profit	6.4			–5.9			6.1		6.6
	169.5	0.0	0.0	–5.9	0.0	0.0	6.1	26.4	196.1
Accumulated other consolidated earnings									
Reconciliation for foreign currency translation	0.0								
Other neutral transactions	0.0								
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Parent company's total equity and reserves	**353.8**	**0.2**	**0.0**	**–5.9**	**0.0**	**0.0**	**6.1**	**26.4**	**380.6**
Minority shareholders									
Minority capital									
Silent partnership contributions	77.5	0.0	0.0						77.5
Accumulated other consolidated earnings									
Reconciliation for foreign currency translation									0.0
Other neutral transactions									0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority shareholders' total equity and reserves	**77.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**77.5**
Group equity and reserves	**431.3**	**0.2**	**0.0**	**–5.9**	**0.0**	**0.0**	**6.1**	**26.4**	**458.1**

Silent partnerships account for capital contributions of €77.5 million. In line with the approval by the Extraordinary General Meeting on 8 March 2000, the Bank has concluded agreements on the establishment of silent partnerships – partial profit transfer agreements within the meaning of sections 292 and 293 of the German Stock Corporation Act – with five shareholders. In accordance with section 10 (4) of the German Banking Act, any capital contributions by silent partners are added to the Bank's core capital and are therefore subject to the following restrictions:

- The total amount of capital contributions is used to cover losses incurred by the Bank. In the event of losses, no profits will be distributed to silent partners in the relevant business year.
- In the case of insolvency proceedings in respect of the Bank's assets or liquidation of the Bank, these capital contributions will be repaid only after all creditors have been satisfied; they rank pari passu with the repayment claims of other silent partners whose capital contributions also count towards the Bank's own funds.
- The capital contribution may not be repaid during the entire term (until 1 July 2011).
- Termination of the silent partnership is excluded for the entire term.
- Any losses which reduce the silent partner's repayment claim during the term of the capital contribution may be compensated for only through the use of profits arising prior to the silent partner's withdrawal.
- The loss-sharing arrangement cannot be subsequently changed to the detriment of the Bank, nor can the subordination be subsequently limited or the term or period of notice shortened.

With regard to **further capital adjustments,** the Board of Managing Directors holds the following authorisations:
- Subject to approval by the Supervisory Board, the company is authorised to increase the issued share capital by up to a total amount of €36.0 million by issuing new shares, for a contribution in cash, until 12 June 2007.
- Special-purpose authorisations for the increase of issued share capital to cover any commitments that may arise from stock option plans.
- Authorisation effective until 7 March 2005 to issue profit-participation certificates on one or several occasions up to a total amount of €25.0 million with subscription rights granted to shareholders as a general rule.

Furthermore, the Bank was authorised by the Annual General Meeting on 9 June 2004 to purchase its own shares for trading purposes pursuant to section 71 (1) no. 7 of the German Stock Corporation Act. This is subject to the proviso that the trading portfolio of shares purchased under this authority may not exceed 5% of the Bank's issued share capital at the close of any one day. The price for which treasury shares may be purchased must not fall below the closing price for the relevant shares on the Frankfurt Stock Exchange on the trading day prior to the purchase, less 10%. The highest price for treasury shares must not exceed the closing price plus 10%.

On the balance sheet date, the Bank held treasury shares in the amount of €56,000. The lowest price we recorded in our trading activities was €87.50 per share, the highest was €111.00 per share. During 2004, we purchased a total of 81,138 unit shares of DVB Bank AG at an average purchase price of €87.76. A total of 81,175 unit shares were sold at an average selling price of €101.91, thus realising price gains of €1,148,100. During the year, the maximum holding of treasury shares on any one day was 79,884 unit shares; this corresponds to 2.64% of our share capital. At the end of 2004, DVB Bank AG's trading portfolio contained 546 shares (asset item 11) at a book value of €47,910. A reserve for treasury stock was formed in the same amount pursuant to section 272 (4) of the German Commercial Code. The reduction of €640 during business year 2004 was added to the other retained earnings. Companies included in the consolidated financial statements do not hold shares in the parent company.

The Group's liable capital is reinforced by capital reserves recognised for regulatory purposes. The capital reserves counting towards the liable capital in accordance with section 10 (2b) sentence 1 no. 6 of the German Banking Act in conjunction with section 10 (4a) sentence 1 of the German Banking Act amount to €1.5 million (DVB Bank AG and Group). Capital reserves within the meaning of section 10 (2a) sentence 1 no. 7 of the German Banking Act totalled €211.3 million.

The Group's **contingencies** include €224.4 million in guarantees and indemnity agreements. DVB Bank AG has pledged €260.6 million as collateral for subsidiaries' liabilities.

Other liabilities totalling €1,093.1 million consist of irrevocable loan commitments in respect of aviation, shipping and railway finance.

Contingent liabilities not recognised on the balance sheet
An obligation to provide extra funds of up to five times the value of the interest held (31 December 2004: €2.3 million) exists with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt/Main. In addition, the Bank holds an interest in Münchener Hypothekenbank eG, Munich, for which the obligation to provide extra funds totalled €0.1 million as at 31 December 2004.

Other information
DVB Bank AG is a member of the deposit insurance scheme of the Federal Association of German Credit Unions and Rural Banking Co-operatives (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken).

Moreover, DVB Bank AG historically supported the pensions of its employees by means of its own retirement fund (Pensionskasse der Deutschen VerkehrsBank VVaG). With effect from 1 January 2003 and with the consent of the relevant bodies, all rights and duties and also the assets of the DVB retirement fund were transferred to BVV Versicherungsverein des Bankgewerbes a.G, domiciled in Berlin, the mutual pension fund scheme organised for the German banking sector. The current pensioners thereby retain the pension entitlements acquired, while the contributors retain the previous funding scheme.

The consolidated balance sheet includes assets denominated in foreign currency to the equivalent of €6,143.1 million (DVB Bank AG: €5,833.9 million) and liabilities to the equivalent of €1,545.1 million (DVB Bank AG: €1,313.8 million).

The market risk is largely hedged by spot purchases of currencies totalling €193.3 million, currency forward purchases totalling €9.5 million, spot sales of currencies in the amount of €44.8 million, currency forward sales in the amount of €4,801.9 million and cross-currency swaps of €95.9 million.

Explanatory notes to individual profit and loss account items

It should be noted that net income generated by RB/CE was included in the 2003 financial statements for the last time, whereas the results for the year under review are exclusively based on DVB's core Transport Finance business. To facilitate the comparison of income and expense items of both business years we have eliminated RB/CE's income and expenses for the purpose of the following notes.

The Group's **interest income** (item 1) totalling €407.0 million includes income from bank balances (€39.0 million), fixed income securities (€22.4 million) and loans to customers (€345.6 million). Interest income generated with international clients amounted to €77.9 million for DVB Bank AG, London Branch, €88.0 million for DVB Bank N.V. and €20.3 million for subsidiary ITFL Ltd.

The Group's **commission income** (item 5) amounting to €51.7 million includes commission for consulting on and the structuring and management of international loans.

The Group's **net profit on financial operations** (item 7) of €–0.9 million includes items such as earnings from trading securities and financial instruments (€–0.7 million) and currencies (€–0.2 million).

Other operating income totalling €15.8 million (Group: item 8) or €9.6 million (DVB Bank AG: item 8), generated almost exclusively in Germany, is broken down as follows:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group excl. DVB Holding	2003 Group incl. DVB Holding
Release of provisions	2.3	3.7	5.2	5.2	5.9
Tax refund claims	2.5	2.5	0.5	0.5	0.5
Rental income	0.4	0.9	0.4	0.4	0.4
Income from the disposal of fixed assets	0.0	1.2	0.3	0.2	0.3
Income from intra-group services	4.2	0.0	4.4	0.0	0.0
Leasing income	0.0	5.3	0.0	3.2	3.2
Other income	0.2	2.2	0.6	2.4	2.7
Total	**9.6**	**15.8**	**11.4**	**11.9**	**13.0**

General administrative expenses (Group: item 9; DVB Bank AG: item 9) comprise staff expenses and other administrative expenses. These are broken down as follows:

Staff expenses

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group excl. DVB Holding	2003 Group incl. DVB Holding
Wages and salaries	25.5	36.8	29.4	39.7	57.0
Social security contributions	3.1	3.7	3.6	4.5	8.0
Expenses for pensions	0.7	0.7	0.7	0.7	0.8
Retirement fund	2.7	4.0	1.0	2.0	1.3
Other expenses for retirement provisions	0.4	0.9	0.4	0.4	1.3
Total	**32.4**	**46.1**	**35.1**	**47.3**	**68.4**

Other administrative expenses

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group excl. DVB Holding	2003 Group incl. DVB Holding
Occupancy expenses	4.3	5.2	4.3	5.7	13.9
Joint Fund for Securing Customer Deposits (Einlagensicherungsfonds)	5.3	5.3	5.5	5.5	5.5
Operating costs	6.3	9.3	7.0	8.8	16.3
External services	14.0	18.2	13.1	18.5	24.4
Other operating expenditure	0.7	0.9	0.5	0.8	1.6
Total	**30.6**	**38.9**	**30.4**	**39.3**	**61.7**

Administrative expenses include fees paid to **external auditors PwC** of €1.4 million for the Group and €0.7 million for DVB Bank AG. These expenses are broken down by service rendered as follows:

€	2004 DVB Bank AG	2004 Group
Audit	400,000.00	681,070.42
Tax advice	255,762.88	676,660.82
Other services	69,600.01	69,600.01
Total	**725,362.89**	**1,427,331.25**

Depreciation/amortisation of intangible and fixed assets, excl. amortisation on leasing (Group: item 10, DVB Bank AG: item 10) is broken down as follows:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group excl. DVB Holding	2003 Group incl. DVB Holding
Office furniture and equipment	1.30	1.81	2.54	3.01	6.34
Land and buildings	0.02	0.31	0.02	0.31	0.31
Intangible assets	1.75	6.20	0.88	5.60	6.16
Total	**3.07**	**8.32**	**3.44**	**8.92**	**12.81**

Goodwill is subject to scheduled amortisation over its useful life.

Other operating expenses (Group: item 11, DVB Bank AG: item 11) totalling €10.13 million (Group) and €3.43 million (DVB Bank AG) which relate to the German domestic market are broken down as follows:

€ mn	2004 DVB Bank AG	2004 Group	2003 DVB Bank AG	2003 Group excl. DVB Holding	2003 Group incl. DVB Holding
Losses from the disposal of assets	0.00	0.00	0.00	0.00	0.00
Expenses for intra-group services	0.28	0.00	0.51	0.00	0.00
Staff expenditure	0.52	0.76	0.77	1.05	1.13
Depreciation of leased assets	0.00	5.95	0.00	2.75	2.75
Value added tax	2.23	2.23	0.00	0.00	0.00
Other expenses	0.40	1.19	0.23	0.73	2.11
Total	**3.43**	**10.13**	**1.51**	**4.53**	**5.99**

As in the previous year, other operating expenses do not include any significant amounts that should be attributed to other business years.

In respect of **income taxes** (Group: item 19; DVB Bank AG: item 19), €3.6 million (Group: €6.0 million) relate to current taxes. €6.5 million of **deferred taxes** (Group: item 20) relate to deferred tax expenses. While the calculated tax charges mounts to €18.0 million, higher tax payments owing to non-deductible expenses are recorded at €1.7 million and tax reductions due to differing taxation rates at €7.3 million.

Segment reporting

Segment reporting illustrates how the individual business divisions contribute to DVB's overall results. It is based on the internal management reporting system which plays a key role as a forecasting, management and control instrument in our divisional structure. Segmentation according to business areas high-lights the Bank's strategic focus on its core competence in Transport Finance. The internal reporting system thereby has only limited regard to the legal structure of the Group and primarily follows the strategic orientation and classification criteria applicable thereto.

Two-tiered segment reporting

The primary reporting structure provides a breakdown into five segments: Transport Finance, business that is no longer in line with our strategy (D-Marketing), Treasury, Service Centres and Overheads.

- **Transport Finance** includes DVB's activities in the areas of Shipping (incl. Container Business Unit), Aviation, Land Transport and Transport Infrastructure, plus Corporate Finance.
- **D-Marketing** comprises the residual business that the Bank intends to dispose of: this includes non-transport business, business with transportation clients that does not meet volume and earnings requirements over the long term, as well as lending exposures requiring settlement.
- **Treasury** includes DVB's central Treasury department and the Group's funding activities.
- The heading **Service Centres** aggregates costs of service and control units as well as costs for cross-divisional strategic projects.
- The contributions to results that do not fall under the individual business divisions' areas are presented under **Overheads** (Other/Reconciliation/Consolidation). This also includes adjustments that are necessary in order to reconcile the management figures from internal accounting, which are shown in the segment reporting of the operational business units, with the corresponding data from external accounting. This segment also includes income from balance sheet items not allocated to specific business lines. Operating expenditure in this segment also includes the amortisation of goodwill from the acquisition of DVB Bank N.V. (former Nedship Bank N.V.) on 31 May 2000.

Group

€ mn	Group		Transport Finance		D-Marketing		Treasury		Service Center		Overheads (Other/Reconciliation/Consolidation)	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net interest income	102.2	96.3	87.7	75.4	3.1	3.4	14.8	15.3	0.0	0.0	–3.4	2.1
Net commission income	47.1	35.4	51.9	37.0	0.2	0.3	–0.5	–0.2	1.0	1.3	–5.5	–3.0
Net profit on financial operations	–0.9	3.7	–0.3	5.8	0.0	0.0	–0.4	1.0	0.0	0.0	–0.2	–3.1
Income from profit pools[1)]	0.0	5.5	–	–	–	–	–	–	–	–	0.0	5.5
Net other operating income/expenses	5.6	7.4	1.4	1.4	0.3	0.1	0.0	0.0	1.2	1.0	2.7	5.0
Total income	**154.1**	**148.3**	**140.7**	**119.6**	**3.6**	**3.8**	**13.9**	**16.0**	**2.3**	**2.3**	**–6.4**	**6.6**
Staff expenses	46.2	47.4	25.2	24.5	1.3	1.3	1.2	1.4	13.9	15.7	4.6	4.5
Operating expenses incl. amortisation/depreciation[2)]	47.2	48.3	6.1	6.3	1.0	0.4	0.8	1.0	20.6	23.5	18.7	17.0
Administrative expenses incl. depreciation/amortisation	**93.4**	**95.6**	**31.3**	**30.8**	**2.3**	**1.7**	**2.0**	**2.4**	**34.6**	**39.2**	**23.3**	**21.5**
Operating profit excl. loan loss provisions	**60.7**	**52.7**	**109.4**	**88.8**	**1.3**	**2.1**	**11.9**	**13.7**	**–32.3**	**–37.0**	**–29.7**	**–14.9**
Net loan loss provisions	12.0	20.9	16.3	15.1	7.8	5.8	0.0	0.0	0.0	0.0	–12.1	0.1
Result after loan loss provisions	**48.7**	**31.8**	**93.1**	**73.7**	**–6.5**	**–3.7**	**11.9**	**13.7**	**–32.3**	**–37.0**	**–17.5**	**–15.0**
Net other income/expenses	3.2	14.1	–0.8	0.1	1.6	0.0	1.2	0.4	0.0	0.0	1.2	13.7
Expenditure for assumption of losses[1)]	0.0	–1.2									0.0	–1.2
Profit from ordinary activities	**51.8**	**44.8**	**92.3**	**73.8**	**–4.9**	**–3.7**	**13.2**	**14.0**	**–32.3**	**–37.0**	**–16.3**	**–2.5**
Net extra-ordinary income/expenses, other taxes	–0.2	2.8	–	–	–	–	–	–	–	–	–0.2	2.8
Taxes/deferred tax assets	12.4	–30.8	–	–	–	–	–	–	–	–	12.4	–30.8
Partial profit transfer agreements	6.8	6.8	–	–	–	–	–	–	–	–	6.8	6.8
Net income	**32.5**	**71.6**	**92.3**	**73.8**	**–4.9**	**–3.7**	**13.2**	**14.0**	**–32.3**	**–37.0**	**–35.8**	**24.3**
Risk-weighted assets (average)	8,059.8	7,483.2	7,241.3	6,344.0	276.0	370.5	321.6	500.9	0.0	0.0	220.9	267.8
Capital (average)	313.6	280.3	253.4	253.3	9.7	12.6	11.3	17.4	0.0	0.0	39.3	–3.1
Cost/income ratio[3)]	**57.8%**	**71.1%**	**22.3%**	**25.8%**	**62.7%**	**44.8%**	**14.3%**	**14.9%**				
Return on equity before taxes[3)]	**15.7%**	**16.2%**	**36.4%**	**29.1%**	**–50.4%**	**–29.2%**	**116.9%**	**80.8%**				

1) Net income generated by RB/CE (DVB Holding) was included in the 2003 financial statements for the last time, whereas the results for the year under review are exclusively based on DVB's core Transport Finance business. To facilitate comparison of revenues for both financial years, we excluded income and expenditure associated with RB/CE (DVB Holding) from the consolidated profit and loss account for 2003, reporting two aggregate figures under "income from profit pools" and "expenditure for assumption of losses" respectively.

2) incl. amortisation of goodwill

3) excl. amortisation of goodwill

The secondary reporting structure provides a breakdown of the core strategic Transport Finance business into market segments: Shipping (incl. Container Business Unit), Aviation, Land Transport and Transport Infrastructure as well as the Bank's Corporate Finance activities.

Transport Finance

€ mn	Transport Finance		Shipping (incl. Container Business Unit)		Aviation		Land Transport/ Transport Infra-structure		Corporate Finance		Overheads Transport Finance (Other/Re-conciliation/ Consoli-dation)	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net interest income	87.7	75.4	43.0	42.5	26.5	23.4	9.3	7.6	8.7	1.9	0.3	0.0
Net commission income	51.9	37.0	22.8	15.9	13.0	11.0	3.8	4.1	12.3	5.3	0.0	0.8
Net profit on financial operations	–0.3	5.8	–0.3	0.0	0.0	0.0	0.0	0.0	0.0	5.8	0.0	0.0
Net other operating income/expenses	1.4	1.4	1.5	1.6	0.0	–0.3	0.1	0.0	0.0	0.0	–0.3	0.0
Total income	**140.7**	**119.6**	**67.1**	**60.1**	**39.5**	**34.1**	**13.2**	**11.7**	**20.9**	**13.0**	**0.0**	**0.8**
Staff expenses	25.2	24.5	10.6	10.8	4.3	4.2	2.8	2.7	6.2	5.4	1.3	1.5
Operating expenses incl. amortisation/depreciation[1]	6.1	6.3	2.5	2.6	1.1	1.2	0.7	0.4	1.6	1.6	0.3	0.4
Administrative expenses incl. depreciation/amortisation	**31.3**	**30.8**	**13.1**	**13.4**	**5.4**	**5.4**	**3.4**	**3.1**	**7.8**	**7.0**	**1.6**	**1.9**
Operating profit excl. loan loss provisions	**109.4**	**88.8**	**54.0**	**46.7**	**34.1**	**28.8**	**9.8**	**8.6**	**13.2**	**5.9**	**–1.6**	**–1.2**
Net loan loss provisions	16.3	15.1	–6.9	–1.6	18.9	16.7	1.5	0.0	0.0	0.0	2.8	0.0
Result after loan loss provisions	**93.1**	**73.7**	**60.9**	**48.3**	**15.2**	**12.1**	**8.3**	**8.6**	**13.2**	**5.9**	**–4.4**	**–1.2**
Net other income/expenses	–0.8	0.1	–0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit from ordinary activities	**92.3**	**73.8**	**60.1**	**48.4**	**15.2**	**12.1**	**8.3**	**8.6**	**13.1**	**5.9**	**–4.4**	**–1.2**
Net extra-ordinary income/expenses	0.0	0.0	–	–	–	–	–	–	–	–	0.0	0.0
Taxes/deferred tax assets	0.0	0.0	–	–	–	–	–	–	–	–	0.0	0.0
Partial profit transfer agreements	0.0	0.0	–	–	–	–	–	–	–	–	0.0	0.0
Net income	**92.3**	**73.8**	**60.1**	**48.4**	**15.2**	**12.1**	**8.3**	**8.6**	**13.1**	**5.9**	**–4.4**	**–1.2**
Risk-weighted assets (average)	7,241.3	6,344.0	3,857.2	3,438.3	2,181.0	2,011.4	1,079.1	879.4	94.0	14.9	30.0	0.0
Capital (average)	253.4	253.3	135.0	135.4	76.3	83.4	37.8	32.8	3.3	1.7	1.1	0.0
Cost/income ratio[2]	**22.3%**	**25.8%**	**19.5%**	**22.2%**	**13.7%**	**15.7%**	**26.1%**	**26.6%**	**37.2%**	**54.2%**		
Return on equity before taxes[2]	**36.4%**	**29.1%**	**44.5%**	**35.8%**	**19.9%**	**14.5%**	**21.8%**	**26.1%**	**399.5%**	**344.7%**		

1) incl. amortisation of goodwill 2) excl. amortisation of goodwill

Basis of segment reporting

All of the strategic client areas in DVB's Transport Finance business are **globally oriented.** In view of the fact that DVB's markets do not display any major geographical peculiarities, a geographical classification was dispensed with.

The segment reporting **reflects the operative business.** For this purpose, both income and expenses are generally shown at market prices and allocated to the business division responsible. The net interest income is calculated on the basis of market rates. In addition, this item also includes the return on the capital allocated to each business division. The imputed allocation of equity is in line with the capital ratio according to the German Banking Act (Grundsatz I) and is based on the calculated average risk-weighted assets and the amounts to be included for market risks (risk asset equivalents). Administrative expenses include the directly allocable components of staff expenses, operating expenses and amortisation and depreciation of fixed and intangible assets. Risk provisions include both new net transfers to loan loss provisions for credit risks as well as payments on receivables that had already been written off and general loan loss provisions. Taxes are not currently allocated to the business divisions.

Our benchmarks in relation to the **profitability** of DVB and the individual segments are profit from ordinary activites and the RoE and CIR indicators.

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

General explanations

The Bank enters into **forward transactions** to hedge its own currency and interest rate exposure and in relation to trading with customers.

Foreign exchange forwards and option contracts are primarily entered into for the purpose of hedging foreign currency loans and deposits. Furthermore, forward exchange deals, spot exchange deals and options contracts entered into on behalf of a customer are closed out using banking partners. At 31 December 2004, the nominal volume of these transactions totalled €5,145.4 million, of which €4,974.9 million were transactions entered into as direct hedges of transactions recognised on the balance sheet.

Other derivative financial instruments are used for trading purposes and for hedging purposes in respect of the Bank's asset/liability management and in relation to certain specific transactions. At 31 December 2004, the nominal volume of these transactions at Group level totalled €12,528 million – of which €11,826 million related to interest rate swaps, €584 million were interest rate options and €118 million were forward rate agreements and interest rate futures.

€1,970 million of the total €12,528 million in interest rate instruments were accounted for by trading activities.

Group subsidiary DVB Bank N.V. and a further subsidiary (ITFL) concluded financial swaps of €28.5 million and €103.5 million respectively with DVB Bank AG.

The table shows a breakdown of derivative financial instruments at Group level:

€ mn	31 Dec 2004 Nominal value Assets	31 Dec 2004 Nominal value Liabilities	31 Dec 2004 Market value positive	31 Dec 2004 Market value negative	31 Dec 2003 Nominal value Assets	31 Dec 2003 Nominal value Liabilities	31 Dec 2003 Market value positive	31 Dec 2003 Market value negative
Interest rate risks								
Interest rate swaps	9,537.7	2,288.1	392.6	119.0	6,684.6	2,512.1	267.7	174.7
Interest rate options	434.3	149.8	4.3	6.9	154.0	154.0	3.3	0.8
Interest rate futures	59.0	59.0						
FRAs					8.9	8.9	0.2	0.2
	10,031.0	**2,496.9**	**396.9**	**125.9**	**6,847.5**	**2,675.0**	**271.2**	**175.7**
Foreign exchange risks								
Foreign exchange forwards	202.8	4,846.7	150.5	1.6	10.8	4,445.8	208.1	0.5
Cross currency swaps	49.6	46.3	7.3	4.0	49.9	51.3	3.7	2.4
Foreign exchange options	0.0	0.0	0.0	0.0	67.5	67.5	1.3	1.3
	252.4	**4,893.0**	**157.8**	**5.6**	**128.2**	**4,564.6**	**213.1**	**4.2**

Employees

The **average number** of DVB (DVB Bank AG, DVB Bank N.V., DVB LogPay GmbH) employees in **2004** was:

	2004 DVB Bank AG	**2004** Group	2003 excl. RB/CE DVB Bank AG	2003 excl. RB/CE Group
Female employees	89	131	114	157
Male employees	162	228	190	249
Total	**251**	**359**	**304**	**406**

The average number of employees excludes vocational trainees, employees on parental leave, employees who entered into the "passive" phase of partial retirement, national or civil service but includes temporary employees.

Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act

Section 161 of the German Stock Corporation Act requires 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 therein that the recommendations of the Code have been and are being complied with and comment on exceptions. DVB Bank AG's Board of Managing Directors and Supervisory Board published their Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act, on 17 December 2004 in the electronic German Federal Gazette (elektronischer Bundesanzeiger) and simultaneously made the text permanently available to the public on the Bank's website www.dvbbank.com under "Investor Relations – Corporate Governance – Declaration of Compliance".

Boards of DVB Bank AG

Supervisory Board

Dr Thomas Duhnkrack, Chairman
Prof Dr Manfred Schölch, Deputy Charman since 9 June 2004
Dr Peter Scharpf, Deputy Chairman until 9 June 2004
Lutz Baumgartl
Sabine Blummer, since 9 June 2004
Axel Clemens
Wolfgang Kirsch
Dr Peter Klaus
Hemjö Klein
Hermann Möller
Dr Ing Manfred Mücke, until 9 June 2004
Rosemarie Schur-Heimann, until 9 June 2004
Wolfgang Weber, until 9 June 2004

Board of Managing Directors

Wolfgang F. Driese, Chairman
Rolf Michael Betz
Dagfinn Lunde

The professions and offices held by members of the Supervisory Board and the Board of Managing Directors are stated at the end of these notes.

Remuneration and shareholdings of Board Members

The emoluments paid to Board members throughout 2004 amounted to:

€ mn	2004	2003
Board of Managing Directors	1.466	1.110
Supervisory bodies	0.079	0.085
Former members of the Board of Managing Directors and their surviving dependants	0.341	0.329
Total	1.886	1.524

Remuneration of the Board of Managing Directors

The structure of emoluments of the Board of Managing Directors of DVB Bank AG is based on the Internal Regulations for the Executive Committee of the Supervisory Board which have in turn been adopted by the Supervisory Board. The overall remuneration of the Board of Managing Directors is composed of a fixed component of 62.3% and a variable component of 37.7%. The variable component consists of a classic bonus and stock options as an additional variable component.

Fixed remuneration

The fixed component of DVB Bank AG's Board of Managing Directors totalled €912,745.87 in 2004 (2003: €845,024.96). The individual Members of the Board of Managing Directors generally receive remuneration in equal amounts, with minor differences only.

Variable remuneration – bonus

Bonus payments to Members of the Board of Managing Directors are calculated on the basis of target agreements to be laid down for any business year between the Executive Committee and the Board member concerned. The amount of the bonus depends on the extent to which the targets were achieved. Two thirds of the targets refer to the achievement of objective criteria, such as the RoE and CIR stipulated for the relevant business year. In addition, individual performance is evaluated and weighted with one third. The bonus for the current financial year is then paid out in two tranches amounting to 50% in each of the 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 €552,800.00 were distributed to the Board of Managing Directors in 2004 (2003: €265,000.00).

Variable remuneration – options

As an additional variable remuneration component providing a long-term incentive, Members of the Board of Managing Directors have, since 2000, received an annual allocation of free options for the purchase of DVB shares within the framework of the "DVB shares" employee participation scheme. In this context, the Supervisory Board allocates a number of free options for the purchase of DVB shares in its discretion. The participation programme was limited in time and ended in 2004. These options can only be exercised after a waiting period of three years, and only on the condition that DVB's RoE in the reference year has reached or exceeded a minimum threshold.

Reference year: The business year preceding the year in which the options may be exercised.

The Annual General Meeting in 2000 laid down the following threshold for the respective reference year. The exercise price for each option corresponds to the unweighted average closing price of DVB shares on the Frankfurt Stock Exchange in respect of the first five days following expiry of the waiting period, less a discount which increases in proportion to the extent to which the relevant performance goal has been exceeded. The discount can amount to a maximum of 50%. The exercise price is, however, at least equal to the notional share of issued share capital that one share represents.

As the value of the options depends on the RoE in the respective reference year, it is not at present possible to calculate any intrinsic value.

Members of the Board of Managing Directors own a total of 4,500 options to purchase shares of DVB Bank AG. In the 2004 financial year, Members of the Board of Managing Directors exercised a total of 1,325 options to purchase shares of DVB Bank AG.

Remuneration of the Supervisory Board

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

The **total remuneration of the Supervisory Board** in 2004 amounted to €78,802.98 (incl. 16% VAT).

Of this total, €67,350.04 is attributable to the annual remuneration of Members of the Supervisory Board in accordance with article 18 (1) sentences 3 and 4 of the Memorandum and Articles of Association. After that, all Board Members receive a **base amount** of €5,112.92 (pro rata temporis, if necessary). Pursuant to the Memorandum and Articles of Association, the Chairman receives twice the base amount and the Deputy Chairman one and a half times the base amount. In contrast to the shareholders' representatives, the employees' representatives will not be refunded 16% VAT, as their remuneration is not subject to value-added tax.

In accordance with article 18 (1) sentence 5 of the Memorandum and Articles of Association, the **members of the Credit Committee** received an additional remuneration of €2,965.49 (incl. VAT) apart from the base amount – with the exeption of the employee representative Mr Axel Clemens, to whom the amount of €2,556.46 was paid without VAT for the abovementioned reasons. Thus, the total expense in respect of the activities of the Credit Committee was €11,452.94.

The variable remuneration provided for by article 18 (1) sentence 6 of the Memorandum and Articles of Association was not paid in 2004, as the factual conditions were not met.

Remuneration of the Members of the Supervisory Board is broken down as follows:

Remuneration of the Supervisory Board (€)

Name	Remuneration Supervisory Board	Value added tax 16%	Remuneration Supervisory Board Total	Remuneration Credit Committee	Value added tax 16%	Remuneration Credit Committee Total
Dr Thomas Duhnkrack, Chairman	10,225.84	1,636.13	11,861.97	2,556.46	409.03	2,965.49
Prof Dr Manfred Schölch, Deputy Chairman since 9 June 2004	6,549.80	1,047.97	7,597.77			
Dr Peter Scharpf, Deputy Chairman until 9 June 2004	3,388.29	542.13	3,930.42			
Wolfgang Kirsch	5,112.92	818.07	5,930.99	2,556.46	409.03	2,965.49
Dr Peter Klaus	5,112.92	818.07	5,930.99	2,556.46	409.03	2,965.49
Hemjö Klein	5,112.92	818.07	5,930.99			
Hermann Möller	5,112.92	818.07	5,930.99			
Dr Ing Manfred Mücke, until 9 June 2004	2,259.39	361.50	2,620.89			
Lutz Baumgartl 1)	5,112.92		5,112.92			
Sabine Blummer 1), since 9 June 2004	2,870.42		2,870.42			
Axel Clemens 1)	5,112.92		5,112.92	2,556.46		2,556.46
Rosemarie Schur-Heimann 1), until 9 June 2004	2,259.39		2,259.39			
Wolfgang Weber 1), until 9 June 2004	2,259.39		2,259.39			
Total	60,490.04	6,860.00	**67,350.04**	10,225.84	1,227.10	**11,452.94**
Total of Supervisory Board and Credit Committee						**78,802.98**

1) elected by employees

Shareholdings

The Members of the Board of Managing Directors hold 4,365 shares in DVB Bank AG; the Members of the Supervisory Board hold 54 shares.

Pension liabilities to former Members of the Board of Managing Directors

€3.23 million (2003: €3.12 million) has been set aside as provisions in respect of pension liabilities to former Members of the Board of Managing Directors and their surviving dependants.

Consolidated statement of cash flows

The cash flow statement provides information on the changes in the Bank's cash and cash equivalents, whereby the cash flows are categorised in accordance with their designated purpose. This is compiled through using the indirect method which is based on the extended flow-of-funds statement and can be directly derived from the Group's accounting system.

According to the very narrow definition used by DVB, cash and cash equivalents only include "cash reserve" and "debt instruments of public sector entities and bills of exchange eligible for refinancing at central banks".

The cash flow statement shows the changes in cash and cash equivalents by structuring the cash flows and breaking these down into operating, investing and funding activities.

The allocation to the relevant operating activities is based on a very wide definition and also relates to factors impacting on the operating profit (or loss) from the ordinary banking business. The definition of cash flow from investing activities is largely limited to payments received from the disposal of tangible or financial assets and payments made for the purchase of such assets. In view of the fact that external financing by third parties is an integral part of the ordinary and therefore operating business of banks, DVB has focused the overview of the Bank's cash flow from funding activities on equity providers.

Any changes in cash and cash equivalents over the business year resulted from the three business lines, plus any net effects from exchange rate changes. Any receivables and liabilities from foreign currency transactions were translated at the reporting date using the spot middle rate, all foreign currency transactions being subject to specific cover.

The cash outflow from operating activities, adjusted to take into account the effects of the deconsolidation of RB/CE, amounts to €37 million. Cash outflow from investing activities and financing activities amounts to €63 million and €15 million respectively. Cash and cash equivalents thus declined by €115 million.

Consolidated statement of cash flows – DVB Group 2004

€ mn		31 Dec 2004			31 Dec 2003	
Net income		32.508			71.586	
Non-cash items included in net income and reconciliation to cash flow from operating activities						
Net loan loss provisions	41.500	54.543		6.024	27.916	
Depreciation, write-downs and additions on fixed assets and non-trading assets	0	14.848		1.271	16.053	
Changes in provisions/reserves		25.358		79.454	6.074	
Changes in other non-cash items	9.414			42.630		
Profits from the disposal of fixed assets and non-trading assets	3.307	0		88.198	0.388	
Other adjustments (predominantly interest received less interest paid)	169.885			94.821		
Transfer to section 340g of the German Commercial Code		0			74.000	
Subtotal	**224.106**	**127.257**	**–96.849**	**312.398**	**196.017**	**–116.381**
	Application of funds	**Source of funds**	**Net cash flow**	**Application of funds**	**Source of funds**	**Net cash flow**
Balance carried forward	224.106	127.257	–96.849	312.398	196.017	–116.381
Changes in assets and liabilities from operating activities after adjustment for non-cash items						
Placements with, and loans and advances to, other banks		223.533		245.957	161.554	
Loans and advances to customers	410.118				137.405	
Securities	84.587				226.627	
Other assets from operating activities		2.035		27.564		
Liabilities to banks	1,097.828			1,155.037		
Liabilities to customers		673.937		0.200	12.651	
Certificated liabilities		574.567			689.449	
Other liabilities from operating activities		8.453		9.670	1.456	
Interest and dividends received		407.026			382.123	
Interest paid	306.863			287.302		
Commissions received		51.652			91.235	
Commissions paid	4.510			2.915		
Extraordinary cash inflows		9.933			5.235	
Income taxes		12.447				
Cash flow from operating activities	**2,128.012**	**2,090.840**	**–37.172**	**2,041.043**	**1,903.752**	**–137.291**
Cash received from the disposal of fixed assets and non-trading assets		3.308			103.734	
Cash paid for the acquisition of fixed assets and non-trading assets	65.994			6.291		
Effects of changes in the consolidated group of companies				24.722	21.423	
Changes due to other investing activities						
Cash flow from investing activities	**65.994**	**3.308**	**–62.686**	**31.013**	**125.157**	**94.144**
Cash received from capital increases		0.068			0.367	
Dividends paid	6.040			4.509		
Profit share payable on silent participations	6.797			6.797		
Changes due to other financing activities	2.443	0			23.629	
Cash flow from financing activities	**15.280**	**0.068**	**–15.212**	**11.306**	**23.996**	**12.690**
Cash and cash equivalents at the end of the previous period			215.922			246.379
Cash flow from operating activities			**–37.172**			**–137.291**
Cash flow from investing activities			**–62.686**			**94.144**
Cash flow from financing activities			**–15.212**			**12.690**
Currency translation adjustments						
Cash and cash equivalents at the end of the period			100.852			215.922

Consolidated financial statements

In its capacity as a parent company, DVB Bank AG is also 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 2004 which were deposited with the Frankfurt/Main District Court (Amtsgericht Frankfurt/Main). DVB Bank AG has been included in these statements and reports.

Frankfurt/Main, 28 February 2005

DVB Bank AG
The Board of Managing Directors

Wolfgang F. Driese Rolf Michael Betz Dagfinn Lunde

Offices held on Supervisory Boards and other controlling bodies
(Disclosure pursuant to section 285 no. 10 of the German Commercial Code)

Supervisory Board

Dr Thomas Duhnkrack	Chairman Bank director (Bankdirektor) Member of the Board of Managing Directors DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main Chairman of the Supervisory Board VR-Leasing AG, Eschborn DZ Equity Partner GmbH, Frankfurt/Main Member of the Supervisory Board debis AirFinance BV, Amsterdam
Prof Dr Manfred Schölch	Deputy Chairman since 9 June 2004 Lawyer Deputy Chairman of the Board of Managing Directors Fraport AG, Frankfurt/Main Chairman of the Supervisory Board Flughafen Frankfurt-Hahn GmbH, Frankfurt-Hahn
Dr Peter Scharpf	Deputy Chairman until 9 June 2004 Lawyer and auditor
Lutz Baumgartl[1)]	Bank officer (Bankkaufmann), DVB Bank AG, Frankfurt/Main
Sabine Blummer[1)]	Bank employee, DVB Bank AG, Frankfurt/Main since 9 June 2004
Axel Clemens[1)]	BA (Business Administration), DVB Bank AG, Frankfurt/Main

1) elected by employees

Wolfgang Kirsch

Bank director (Bankdirektor)
BA Business Management (Diplom-Kaufmann)
Member of the Board of Managing Directors
DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Frankfurt/Main
Chairman of the Supervisory Board
DZ BANK Polska, Warsaw
Deputy Chairman of the Supervisory Board
norisbank Aktiengesellschaft, Nuremberg [2)]
DZ Equity Partner GmbH, Frankfurt/Main
Member of the Supervisory Board
BAG Bankaktiengesellschaft, Hamm
Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall [2)]
CG Nordfleisch Aktiengesellschaft, Hamburg
Deutsche Genossenschafts-Hypothekenbank AG,
Hamburg [2)]
Österreicherische Volksbanken Aktiengesellschaft, Wien
DZ BANK Ireland plc., Dublin
EDEKABANK AG, Hamburg
SÜDFLEISCH HOLDING AG, Munich
VR-Immobilien AG, Frankfurt/Main [2)]
VR-LEASING Aktiengesellschaft, Eschborn [2)]

Dr Peter Klaus

Bank director (Bankdirektor)
Member of the Board of Managing Directors
KfW Bankengruppe, Frankfurt/Main
Member of the Supervisory Board
debis AirFinance BV, Amsterdam
Frachtcontor Junge & Co, Hamburg
Georgsmarienhütte Holding GmbH, Georgsmarienhütte
Allgemeine HypothekenBank, Rheinboden AG,
Frankfurt/Main
ThyssenKrupp Technologies AG, Essen
STEAG AG, Essen
Member of the Advisory Board
Germanischer Lloyd, Hamburg

2) Positions within DZ BANK AG Group. Pursuant to section 100 (2) sentence 2 of the German Stock Corporation Act, the five offices on Group Supervisory Boards marked shall not count towards the maximum number of Supervisory Board offices under section 100 (2) sentence 1 no. 1 of the German Stock Corporation Act.

Hemjö Klein	Businessman (Kaufmann) Chairman of the Board of Managing Directors Live Holding AG, Buchschlag Chairman of the Supervisory Board EDAG Engineering + Design AG, Fulda President of the Board of Directors Conventis Holding AG, Basle Executive Council Compass Partners International Limited, London Member of the Board of Directors Convergence CT Inc., Pleasanton, CA, USA
Hermann Möller	Bank director (Bankdirektor) Chairman of the Board of Managing Directors Sparda-Bank Baden-Württemberg eG, Stuttgart Chairman of the Council Verband der Sparda-Banken e.V. (Association of Sparda Banks), Frankfurt/Main Deputy Chairman of the Supervisory Board DEVK Allgemeine Lebensversicherungs AG, Cologne Member of the Advisory Board BHW AG, Hameln
Dr Ing Manfred Mücke	Member of the Supervisory Board until 9 June 2004 Engineer
Rosemarie Schur-Heimann [1)]	Bank employee, ReiseBank AG, Frankfurt/Main Member of the Supervisory Board until 9 June 2004
Wolfgang Weber [1)]	Bank employee, ReiseBank AG, Frankfurt/Main Member of the Supervisory Board until 9 June 2004

1) elected by employees

Committees of the Supervisory Board

Credit Committee

Dr Thomas Duhnkrack	Chairman
Dr Peter Klaus	Deputy Chairman
Wolfgang Kirsch	Member from 9 June 2004
Axel Clemens	Member until 9 June 2004

Executive Committee

Dr Thomas Duhnkrack	Chairman
Prof Dr Manfred Schölch	Deputy Chairman from 9 June 2004
Dr Peter Scharpf	Deputy Chairman until 9 June 2004
Lutz Baumgartl	Employee representative

Board of Managing Directors

Wolfgang F. Driese

Chairman of the Board of Managing Directors
DVB Bank AG, Frankfurt/Main
Chairman of the Supervisory Board
DVB Bank N.V., Rotterdam
DVB Bank America N.V., Curaçao
Member of the Supervisory Board
KRAVAG-SACH VVaG, Hamburg
Chairman of the Board of Directors
International Transport Finance Ltd., London
Member of the Board of Directors
DVB Capital Partners Ltd., London, until 31 December 2004
DVB Group Merchant Bank (Asia) Ltd., Singapore

Rolf Michael Betz

Member of the Board of Managing Directors
DVB Bank AG, Frankfurt/Main
Chairman of the Board of Directors
DVB Capital Partners Ltd., London, until 31 December 2004

Dagfinn Lunde

Member of the Board of Managing Directors
DVB Bank AG, Frankfurt/Main
Chairman and CEO
DVB Bank N.V., Rotterdam
Member of the Supervisory Board
DVB Bank America N.V., Curaçao
Member of the Board of Directors
DVB Group Merchant Bank (Asia) Ltd., Singapore
DVB Capital Partners Ltd., London, until 31 December 2004
Member of the Board
DZ Financial Markets LLC, New York, from 18 June 2004

Auditors' opinion

We have audited the Financial Statements of DVB Bank AG, Frankfurt/Main, together with its Consolidated Financial Statements and its Management Report, covering both the company and the entire Group for the business year beginning 1 January and ending 31 December 2004. We have not audited the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act that is contained in the notes. Pursuant to the German Commercial Code, the company's legal representatives are responsible for the books and records and the preparation of the Financial Statements and the Consolidated Financial Statements as well as the Mangement Report covering both the company and the entire Group. Having conducted an audit which included the accounting records, our responsibility is to express an opinion on the Financial Statements and the Management Report of both the company and the entire Group. We conducted our audit in accordance with section 317 of the German Commercial Code, observing the generally accepted German auditing principles as laid down by the German Institute of Auditors (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance on whether the Financial Statements and the Consolidated Financial Statements, based on generally accepted accounting principles, and the Management Report for both the company and the entire Group are free of material misrepresentations and present a true and fair view of the net worth, financial position and results of the company. In determining specific actions within the scope of our audit, we considered the company's business activities as well as its economic environment and legal structure. Expectations regarding potential sources of error were also taken into account. The conduct of an audit includes examining the effectiveness of the company's internal control systems and, on a sample basis, evidence supporting the information contained within the accounting records and disclosed in the Financial Statements and the Consolidated Financial Statements as well as in the Management Report for both the company and the entire Group. The scope of an audit also includes assessing the accounting principles and consolidation policies used and the significant estimates of the company's legal representatives, as well as evaluating the overall presentation of the Financial Statements, Consolidated Financial Statements and the Management Report for both the company and the entire Group. We are confident that our audit provides a sufficiently sound basis on which to make an assessment. Our audit led to no objections.

In our opinion, both the Financial Statements and the Consolidated Financial Statements present, in compliance with generally accepted accounting principles, a true and fair view of the company's and the Group's net worth, financial position and results. The Management Report gives a true and fair overall view of both the company's and the Group's situation and of any risks inherent in future developments.

Frankfurt/Main, 1 March 2005

PwC Deutsche Revision

Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rönnberg	ppa. Thomas
Wirtschaftsprüfer (German Chartered Accountant)	Wirtschaftsprüfer (German Chartered Accountant)

Report of the Supervisory Board

Dear shareholders,

The Supervisory Board and the committees established from among its members, have fulfilled the obligations imposed on them by the applicable statutes and the Bank's Memorandum and Articles of Association. They have taken decisions on transactions requiring approval, advised the Board of Managing Directors of DVB Bank AG, and have continuously supervised the management of the Group by the Board of Managing Directors during the 2004 business year.

The Board of Managing Directors has regularly and comprehensively informed the Supervisory Board and its committees, without delay, about the Bank's business and strategic development. It has furthermore presented the corporate planning framework incl. financial, investment and human resources planning, and has informed the Supervisory Board about current events and transactions of fundamental importance. Moreover, regular consultations concerning the Bank's business policies, corporate governance and planning, and risk management, took place between the Chairman of the Board of Managing Directors and the Chairman of the Supervisory Board, in addition to the scheduled meetings. The Chairman of the Supervisory Board was kept informed, on a timely basis, regarding the current business development and risk situation, as well as on individual current topics.

Meetings of the Supervisory Board

The Supervisory Board held five plenary sessions in 2004.The constitutive meeting was held on 9 June 2004 following the election of Supervisory Board members representing shareholders by the Annual General Meeting held earlier that day. The election of Dr Thomas Duhnkrack as Chairman and Prof Dr Manfred Schölch as Deputy Chairman of the Supervisory Board was followed by the election of members to the Supervisory Board committees at the same meeting.

During the course of quarterly meetings, the Board of Managing Directors regularly informed the Supervisory Board on the current business development of DVB Bank AG, its Group subsidiaries and core business units, as well as on specific developments within individual divisions. In addition, the Board of Managing Directors and department heads with specific responsibilities regularly provided reports on the state of affairs in the various Transport Finance divisions and informed the Supervisory Board and the Credit Committee about potential risk exposures in these areas.

The main emphasis of the session on 11 March 2004 was on the discussion and approval of the financial statements for 2003. The external auditors, who took part in the meeting, responded to questions in detail. During the meeting on 27 May 2004, the Board of Managing Directors informed the Supervisory Board in detail on the current situation and provided forecasts regarding developments in the Shipping and Land Transport market segments; explanations regarding Transport Infrastructure were provided in the course of the meeting on 29 September 2004. The last meeting in 2004 took place on 24 November. In addition to outlining current developments in the Aviation segment, the Board of Managing Directors informed the Supervisory Board on other current issues, incl. the implementation status regarding the internal rating model to comply with Basel II, and presented the corporate planning framework for 2005.

Compliance with the provisions of the German Corporate Governance Code was discussed during the March and November meetings. Amendments to the internal regulations for the Supervisory Board and its Committees were once again required during the 2004 business year, as a result of various changes to the German Corporate Governance Code as amended on 21 May 2003. The Supervisory Board carried out its first efficiency audit in November 2004, using a questionnaire distributed among its members. Initial suggestions for change, resulting from this audit, have already been implemented. The members of the Supervisory Board issued a Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act, jointly with the Board of Managing Directors, based on the Corporate Governance Code as amended on 21 May 2003.

A summary of DVB Bank AG's Corporate Governance, incl. the wording of the Declaration of Compliance dated 23/24 November 2004 as published in the electronic German Federal Gazette on 17 December 2004, is provided on page 7 of this annual report and also on DVB's website (http://www.dvbbank.com).

Supervisory Board Committees

At its four meetings, the Credit Committee discussed, in detail and in good time, all credit exposures that had to be submitted for approval or notification, as well as larger-sized exposures or those subject to higher risks. Where required, the Committee approved the respective applications. In the course of the meetings, risk management and the Bank's internal rating model were discussed in addition to the structure of the loan portfolio. Credit, market, country, and liquidity risks and also operational risks were discussed in depth. The Board of Managing Directors kept the members of the Supervisory Board regularly informed about non-performing exposures and those subject to particular risks and also about unusual events in the credit sector. During the course of the meeting held in June, Dr Thomas Duhnkrack was elected Chairman and Dr Peter Klaus was elected Deputy Chairman of the Credit Committee.

In the course of one meeting held during the period under review, the Executive Committee dealt with personnel matters pertaining to the Board of Managing Directors in detail and carried out other tasks delegated to the Committee 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 regularly kept the Supervisory Board informed on the activities of the Credit Committee and on topics dealt with by the Executive Committee, to the extent that such issues were also discussed at the plenary meetings of the Supervisory Board.

Dr Thomas Duhnkrack

The reduction in the number of Supervisory Board members from twelve to nine, as resolved by the Extraordinary General Meeting held on 17 December 2003, was implemented by the close of the Annual General Meeting held on 9 June 2004. As the terms of office of all Supervisory Board members ended at the same time, nine Supervisory Board members representing shareholders were therefore newly elected by this General Meeting to remain in office until 2009. Besides Dr Thomas Duhnkrack, Messrs Wolfgang Kirsch, Dr Peter Klaus, Hemjö Klein, Hermann Möller and Prof Dr Manfred Schölch were re-elected for a new term of office. Dr Peter Scharpf and Dr Ing Manfred Mücke had decided not to stand for re-election. Employee representatives among the members of the Supervisory Board are Ms Sabine Blummer and Messrs Lutz Baumgartl and Axel Clemens since 9 June 2004, following an earlier election, prior to the General Meeting. Ms Rosemarie Schur-Heimann and Mr Wolfgang Weber resigned from their office as members of the Supervisory Board.

There were no members of the Supervisory Board who attended less than half of the meetings; nor were there any conflicts of interest during the period under review.

The Financial Statements and the Management Report of DVB Bank AG, together with the Consolidated Financial Statements and the Group Management Report of DVB Group for the business year 2004 have been examined, following an audit, and certified without qualification by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the external auditors appointed by the Annual General Meeting.

The auditors' reports were distributed to all members of the Supervisory Board in good time before the balance sheet meeting held on 10 March 2005. The auditors who certified the Financial Statements and Consolidated Financial Statements were present at this meeting and at the meeting of the Credit Committee on 21 February 2005. During both meetings they gave an account of their audit as a whole and major individual items and provided detailed answers to questions from the members of the Supervisory Board. The subsequent examination, by the plenary meeting of the Supervisory Board, of the Financial

Statements and Consolidated Financial Statements, the Management Report and the Group Management Report as of 31 December 2004, as presented by the Board of Managing Directors, as well as their proposal for the appropriation of distributable profit, gave no cause for objections. The Supervisory Board approves the Financial Statements as at 31 December 2004 prepared by the Board of Managing Directors, which are thus confirmed. The proposal of the Board of Managing Directors for the appropriation of the distributable profit, and for payment of a dividend of €2.00 per share, is also endorsed by the Supervisory Board.

The Board of Managing Directors has prepared and submitted the mandatory report on business relationships with affiliated companies during the business year 2004; 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 approves the results of the audit of the financial statements. In particular, the Supervisory Board has no objections regarding the declaration made by the Board of Managing Directors pursuant to section 312 (3) of the German Stock Corporation Act.

The Supervisory Board would like to thank those members who retired from the Supervisory Board during the period under review. The Supervisory Board would like to express their special thanks to Dr Peter Scharpf and Dr Ing Manfred Mücke for their long-standing, valuable and constructive activities as members of the Supervisory Board, and to Dr Peter Scharpf for serving as Deputy Chairman and carrying out the associated duties.

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

Frankfurt/Main, 10 March 2005

For the Supervisory Board

Dr Thomas Duhnkrack
Chairman

Responsibilities of the Board of Managing Directors

(as at 28 February 2005)

	Wolfgang F. Driese	Dagfinn Lunde	Rolf Michael Betz
Client Areas	**Aviation** **Head of Industry** David Goring-Thomas	**Shipping** **Head of Industry** Dagfinn Lunde	**Land Transport** **Head of Industry** Martin Metz
			Transport Infrastructure **Head of Industry** Karsten T. Landgraf
	Aviation Industry Research Bert van Leuuwen	**Research & Strategic Planning** Riaz Khan	
	Credit Aviation Carsten Gutknecht-Stöhr		
	Credit Shipping Dieter Bulling	**Container Business** Eric Snellen	
	Credit Land and Infrastructure Mario Schubert		
	Distribution Alpa Shah **D-Marketing** Rainer Nothwang		**Corporate Finance** **Advisory/M&A** Geir Sjurseth **Investment Management** Bote de Vries **Structured Asset Finance** Gerrit Dekker
Product/ Service Areas	**Group Corporate Communications** Prof Dr Borislav Bjelicic	**Group Accounting and Taxes** Dr Oliver Bernards	**Group Audit** Andrew Williams
	Group Financial Controlling Martin Kinzel	**Group Human Resources** Andreas Gürtler	**Group Treasury** Michael Braumöller
	Group Risk Management Rolf Büttner	**Central Compliance Office** Günter Spieker	
		Operations & IS Information Systems & Organisation Richard Groeneveld	
Subsidiaries	**International Transport Finance Ltd.** Graham Grover		**DVB LogPay GmbH** Dr Horst Winzer Michael Heinz
			DVB Processing GmbH Walter Bucher

DVB's offices

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Fax +81 (0) 3 3589 5085

www.dvbbank.com **e-mail: info@dvbbank.com**

IT'S ALL ABOUT RELATIONSHIPS

AAE Ahaus Alstätter Eisenbahn AG
Railcar Fleet Financings
Warehouse Facility
EUR 165,000,000
Lender
Junior Credit Facility
EUR 22,250,000
Co-Arranger

AirTran Airways
Term Loan Facility
3 x B737-700
Arranger & Agent

American Railcar Leasing
Asset Securitization and Term Loan Facilities for Senior Secured Railcar Fleet Financings
USD 375,000,000
USD 64,000,000
USD 570,000,000
Note Purchaser/Lender

Asiana Airlines
Finance Lease Facility
2 x B747-400
Joint Arranger/Agent

Atlanska Plovidba D.D.
Secured Term Loan
4 Handymax Bulk Carriers
USD 60,000,000
Agent &
Mandated Lead Arranger

Baltic Container Terminal
Expansion Financing of the Baltic Container Terminal in Gdynia
USD 36,000,000
Co-Arranger

Belfast City Airport
Aeropuerto de Belfast, S.A.
Acquisition,
Modernisation & Maintenance
GBP 37,000,000
Arranger

Bibby Line Limited
Term Loan
USD 45,400,000
Arranger/Agent

Condor Flugdienst
Operating Lease Facility
2 x B767-300ER
Equity provider:
Dubai Islamic Bank
Debt Arranger & Agent

Continental Airlines
Term Loan Facility
Two new B737-800
Operating Lessor:
Pegasus
Debt Arranger & Agent

debis AirFinance
Services by DaimlerChrysler
debis AirFinance B.V.
Japanese Operating Lease and Term Loan facilities
3 x A320-200
Arranger

Deucalion Aviation Funds
Deucalion Aviation Funds
2004
Invested in 10 Aircraft
USD 275,000,000

Frontier Airlines
Term Loan Facility
A318-100
Junior Loan provider:
Avion Capital
Senior Debt Arranger

芙蓉総合リース株式会社
Fuyo General Lease Co., Ltd
Japanese Operating Facility
A320-200
on lease arranged by
Fuyo General Lease Co., Ltd
Debt Arranger & Agent

Girasol Maritime Inc.
Debt Financing of
9 Dry Bulk Carriers
USD 126,400,000
Mandated Arranger/
Bookrunner & Agent

Interpool, Inc.
Revolving Credit Facility for new and used marine containers
USD 150,000,000
Agent & Co-Underwriter

LATVIAN SHIPPING COMPANY
Latvian Shipping Company
Secured Term Loan
3 Handy Product Tankers
USD 75,000,000
Agent & Underwriter

Liberty Shipping Group
Term Loan
USD 57,000,000
Arranger & Agent

MC Shipping
Corporate Finance advised MC Shipping in its response to Burke Capital's proposed takeover

MSC Mediterranean Shipping Company SA
Secured Term Loan Facility
Financing new cargo marine containers
USD 100,000,000
Co-Underwriter

SOME IMPORTANT DEALS 2004

Metrostar Management Corp.
Financing of
3 Panamax
Bulk Carrier Vessels
USD 78,750,000
Agent/Co-Arranger
& Security Trustee
DVB

Millennium Aircraft Leasing Company
Acquisition of 2 x A319-100
on lease to China Eastern
and 1 x B737-800
on lease to Air China
USD 63,400,000
Lease Manager –
Novus Aviation Ltd.
Arranger/Investor
DVB

Mosvold Chemical KS
Pareto
Pareto Private Equity ASA
Financing of
4 Chemical Carriers
on Timecharter
to Marnavi S.P.A.
USD 36,000,000
Arranger & Agent
DVB

Multi-Link Terminals Ltd.
Arranging and Underwriting
of a Senior Secured
Hybrid Financing
EUR 45,000,000
Mandated Lead Arranger
DVB

Nacco S.A.
Term Loan Facility
for a Tankcar Fleet
EUR 13,700,000
Sole Debt Provider
DVB

NFC Shipping Funds
Al Rubban NFC Shipping Fund IV
Sharia'h Investment Fund
for the maritime industry
USD 80,000,000
Investors: KFH, NNI,
DVB Bank America
DVB

Ocean Bulk Carriers
UK Lease
2 x Bulk Carrier Vessels
USD 39,000,000
Co-Arranger/Investor
DVB

Ofer Maritime Ltd.
Senior Secured Term Loan
Financing of one
Container Vessel
USD 50,000,000
Arranger,
Underwriter & Agent
DVB

P&O Nedlloyd
Pre and Post-Delivery
Secured Term Loan
2 Post Panamax
Container Vessels
USD 130,000,000
Agent and Co-Underwriter
DVB

Parmar KS
Pareto
Pareto Private Equity ASA
Sale and Lease Back of
9 Product Tankers on
Bareboat Charter Guaranteed
by Stelmar Shipping Ltd.
USD 109,000,000
Advisor, Debt Arranger & Agent
DVB

Petredec Ltd.
Corporate Finance
acted as advisor to
Petredec Ltd. regarding share
issue and sale of a 30.3%
interest to National Shipping
Company of Saudi Arabia
DVB

Qantas Airways Limited
Structured Operating Lease
for 1 x B767-300 ER
Co-Arranger
DVB

Seaspan Container Lines
Senior and Junior
Term Loan
USD 150,000,000
Arranger & Agent
DVB

Siemens Dispolok GmbH
Operate Lease Financing
for up to 40 Siemens
ES64 U2 electric locos
EUR 103,100,000
Mandated Lead Arranger
DVB

Singapore Airlines
Acquisition of
4 x B747-400
Arranger
DVB

Stolt-Nielsen SA
Reducing Revolver
USD 130,000,000
Co-Arranger
DVB

Van-Clipper Ltd
Joint Venture between
Shinyo-Vanship
Group & Clipper
Corporate Finance acted as
advisor regarding formation
of the Joint Venture
DVB

Vanship Holdings Limited
Debt Financing of
3 Very Large Crude Carriers
USD 136,000,000
Mandated Arranger/
Bookrunner & Agent
DVB

VTG Aktiengesellschaft
Operate Lease Financing
for a Railcar Fleet
EUR 19,500,000
Sole Debt Provider
DVB

Yangtze River Express
Finance Lease of
2 used B737-300
including Passenger
to Freighter Conversions
Arranger & Agent
DVB

This announcement appears as a matter of record only.

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Risks inherent in forward-looking statements

This Annual Report contains forward-looking statements, including statements concerning the future development of DVB. These statements are based on assessments and forecasts which, in turn, are based on assumptions.

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

Although we believe that our forward-looking statements are realistic, for the reasons referred to above we cannot accept any responsibility as to whether such statements will actually materialise. We do not intend to update any of the forward-looking statements made in this report.

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