

## Consolidated balance sheet as at 31 December 2005

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

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

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

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

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

## Consolidated cash flow statement

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

## Consolidated statement of changes in equity

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

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

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

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## Notes

### Abbreviations and references

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

### Basis of accounting

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

### Notes to the accounting policies applied

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

#### ■ (1) Accounting policies

##### (a) IFRS provisions applied

The following standards and interpretations were complied with as published by the European Union in the Official Journal:

IFRS 1	"First-time Adoption of International Financial Reporting Standards"
IFRS 2	"Share-based Payments"
IFRS 3	"Business Combinations"
IFRS 5	"Non-current Assets Held for Sale and Discontinued Operations"
IAS 1	"Presentation of Financial Statements"
IAS 7	"Cash Flow Statement"
IAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10	"Events after the Balance Sheet Date"
IAS 12	"Income Taxes"
IAS 14	"Segment Reporting"
IAS 16	"Property, Plant and Equipment"
IAS 17	"Leases"
IAS 18	"Revenue"
IAS 19	"Employee Benefits"
IAS 21	"The Effects of Changes in Foreign Exchange Rates"
IAS 24	"Related Party Disclosures"
IAS 27	"Consolidated and Separate Financial Statements"
IAS 28	"Investments in Associates"
IAS 30	"Disclosures in the Financial Statements of Banks and Similar Financial Institutions"
IAS 31	"Interests in Joint Ventures"
IAS 32	"Financial Instruments: Disclosure and Presentation"
IAS 33	"Earnings per Share"

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

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

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

#### **(b) First-time adoption of IFRS**

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

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

#### ■ **Accounting for business combinations**

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

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

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

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

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

#### ■ Employee benefits

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

#### ■ Designation of previously recognised financial instruments

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

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

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

#### ■ Share-based payment

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

#### (c) Opening balance sheet

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

#### (d) Presentation of comparative information for financial instruments

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

#### (e) Group of consolidated companies and consolidation methods

##### ■ Group of consolidated companies

The group of consolidated companies of DVB Bank AG comprises all significant subsidiaries which DVB directly or indirectly controls within the meaning of IAS 27. These companies currently include DVB Holding GmbH, Frankfurt/Main; DVB LogPay GmbH, Eschborn; DVB Capital Markets LLC, New York; Hangar Vermietungs- und Verpachtungs GmbH, Frankfurt/Main; International Transport Finance Ltd., London; as well as these companies' subsidiaries; and DVB Bank N.V., Rotterdam, together with its subsidiaries. DVB Bank AG's share in these subsidiaries' capital amounts to 100% each. Subsidiaries are initially consolidated on the date on which control was acquired over the subsidiary

within the meaning of IAS 27; they are de-consolidated on the date on which DVB Group no longer exercises control over the subsidiary. In addition, the following companies were included in the group of consolidated companies in accordance with IFRS because DVB Bank AG may exercise control over such companies within the meaning of SIC-12:

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

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

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

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

€

Share holding %	Carrying amount of investment	Net profit/loss	Equity
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**I. Companies included in the consolidated financial statements (continued)**

DVB Bank N.V., Rotterdam	100.00	320,320,480	52,356,049	
DVB Bank America N.V.	100.00	103,372,400	4,956,614	103,372,400
DVB Container Finance America LLC, Marshall Islands	100.00	85	0	85
Shipping Capital Antilles N.V.,	100.00	2,365,590	17,797,020	2,365,590
Netherlands Shipmortgage Corporation Ltd., Hamilton	100.00	0	0	0
AER Holdings N.V.,	100.00	76,371	-2,099	76,371
DVB Group Merchant Bank (Asia) Ltd., Singapore	100.00	120,017,633	30,899,868	120,017,633
DVB Container Finance Asia, Singapore	100.00	1	27,330	1
Shipping Capital B.V., The Hague	100.00	5,515,706	525,950	5,515,706
Everhard Beleggingen B.V., Rotterdam	100.00	-3,017,123	-576,007	0
Infifion III B.V., The Hague	100.00	652,442	2,589	652,442
Nedship Participation (Norway B.), Rotterdam	100.00	180,747	381,372	180,747
Scheepvaart Maatschappij Peter B.V., Rotterdam	100.00	135,973	-151,388	135,973
Infifon XI B.V., The Hague	100.00	26,001	0	26,001
Nedship Shipping B.V., Rotterdam				
Nedship Scheepvaarthuis B.V., Rotterdam	100.00	-166,447	-52,698	0
Scheepvaart Maatschappij Ewout B.V., Rotterdam	100.00	16,081	0	16,081
Illios Tourist Houses Development Ltd., Piraeus	100.00	0	0	0
Nedship International Inc., Greenwich, CT 06830/USA	100.00	1,091,377	-147,615	1,091,377
Hollandse Scheepbank Hypotheekbank N.V., Rotterdam	100.00	711,042	0	711,042
Nedship Financial Consultants E.P.E., Piraeus, Greece	100.00	48,309	-68,742	48,309

**II. Affiliated companies not included in the consolidated financial statements<sup>4)</sup>**
**II. a.) Subsidiaries not included in the consolidated financial statements**

Crosby Court GmbH & Co. KG, Eschborn	100.00	1		1,215,574
Balcraig S.A	100.00	0	0	0
Zweite GfW Gesellschaft für Waggonleasing mbH & Co.KG, Hamburg	99.50	5,087		<sup>3)</sup>

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

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

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

3) Not disclosed due to lack of materiality (IAS 8.8).

4) Not included due to lack of materiality (IAS 8.8).

5) No significant influence due to IAS 28.6.

#### ■ Consolidation methods

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

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

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

#### (f) Currency translation

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

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

#### (g) Financial instruments in accordance with IAS 39

##### ■ Categories of financial instruments

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

##### Financial assets at fair value through profit or loss

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

##### **Financial assets held for trading**

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

### **Financial assets designated as at fair value through profit or loss**

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

#### **Held-to-maturity investments**

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

#### **Loans and receivables**

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

#### **Available-for-sale financial assets**

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

#### **Financial liabilities at fair value through profit or loss**

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

### **Financial liabilities held for trading**

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

### **Financial liabilities designated as at fair value through profit or loss**

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

#### **Other liabilities**

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

#### **Recognition and de-recognition of financial instruments**

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

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

#### **Impairment, and reversals of impairment losses of financial instruments**

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

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

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

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

#### **(h) Embedded derivatives**

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

#### **(i) Hedge accounting**

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

#### ■ Fair value hedge

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

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

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

#### ■ Cash flow hedge

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

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

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

#### ■ Effectiveness test

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

#### (j) Accounting estimates

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

#### ■ (2) Cash and balances with the central bank

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

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

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

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

#### ■ (4) Financial assets and liabilities held for trading

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

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

#### ■ (5) Investment securities

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

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

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

## ■ (6) Intangible assets

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

## ■ (7) Property and equipment

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

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

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

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

### **(a) Leasing**

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

#### **■ DVB Group as lessor**

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

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

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

#### **■ DVB Group as lessee**

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

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

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

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

#### ■ (8) Current and deferred taxes

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

#### ■ (9) Deposits from customers and other banks

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

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

#### ■ (10) Securitised liabilities

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

#### ■ (11) Provisions

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

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

#### ■ (12) Subordinated liabilities

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

#### ■ (13) Equity

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

#### ■ (14) Trust activities

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

#### ■ (15) Employee participation schemes

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

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

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

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

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

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

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

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

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

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

## Notes to the consolidated income statement

### ■ (17) Net interest income

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

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

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

■ (18) Impairment of losses on loans and advances

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

€ mn	2005	2004 <sup>1)</sup>	%
Additions	32.2	49.6	-35.1
Reversals	17.1	28.1	-39.1
Direct write-offs	0.7	5.0	-86.0
Recoveries on loans and advances previously written off	0.9	1.0	-10.0
<b>Total</b>	<b>14.9</b>	<b>25.5</b>	<b>-41.6</b>

■ (19) Net fee and commission income

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

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

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

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

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

##### (a) Net trading income

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

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

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

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

### (b) Hedge result (hedge accounting)

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

€ mn	2005	2004 <sup>1)</sup>	%
Result from re-measurement			–
Result from derivatives (income)	23.6	2.3	–
Result from hedged items (expense)	36.7	7.8	–
Total	13.1	5.5	–
Realised result (expense)	9.9	0.0	–
<b>Total expense</b>	<b>23.0</b>	<b>5.5</b>	–

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

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

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

### (c) Net income from investment securities

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

€ mn	2005	2004 <sup>1)</sup>	%
Result from investment securities measured at amortised cost	0.4	–0.1	–
Result from investment securities available for sale	–0.4	5.4	–
Result from equity investments	8.7	1.4	–
Result from other investment securities	0.0	4.1	–
<b>Total</b>	<b>8.7</b>	<b>10.8</b>	<b>–19.4</b>

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

### ■ (21) General administrative expenses

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

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

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

€ mn	2005
Auditing fees	1.1
Other testation and valuation services	0.2
Tax advisory services	0.0
Other services	0.1
<b>Total</b>	<b>1.4</b>

#### ■ (22) Net other operating income

Net other operating income was as follows:

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

**■ (23) Income taxes**

Income taxes were as follows in the year under review:

€ mn	2005
Current taxes on income	
for the current year	-10.0
for prior years	0.0
Deferred income taxes	
for the current year	8.4
for prior years	0.0
<b>Total</b>	<b>-1.6</b>
Deferred income taxes	
from temporary differences	8.4
from tax loss carryforwards	0.0
<b>Total</b>	<b>8.4</b>

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

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

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

#### ■ (24) Earnings per share

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

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

#### ■ (25) Cost/income ratio

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

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

## ■ (26) Segment reporting

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

### (a) Two-tiered segment report

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

- **Transport Finance** includes DVB's activities in the segments of Shipping, Aviation, Land Transport and Transport Infrastructure as well as Corporate Finance & Capital Market Products.
- **Treasury** includes DVB Bank AG's Treasury and DVB's funding and hedging activities.
- **D-Marketing** comprises the residual business that DVB intends to dispose of. This includes non-transport business, business with transportation clients that do not meet volume and earnings requirements over the long term, as well as lending exposures requiring settlement.
- The heading **Service Centres** aggregates costs of service and control units as well as costs for cross-divisional strategic projects.
- Earnings contributions that do not fall under the individual business divisions' areas of responsibility are presented under **Overheads** (Other/Reconciliation/Consolidation). This also includes adjustments that are necessary in order to reconcile the management figures from internal reporting (which are shown in the segment reporting of the operating business units) with the corresponding data from external accounting. This segment also includes income from balance sheet items not allocated to specific business lines.

**(b) DVB Group**

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

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

2) excl. impairment of losses on loans and advances

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

**(c) Transport Finance**

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

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

2) excl. impairment of losses on loans and advances

**(d) Basis of segment reporting**

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

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

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

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

**Notes to the consolidated balance sheet**

## ■ (27) Cash and balances with the central bank

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

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

■ (28) Loans and advances to banks

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

■ (29) Loans and advances to customers

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

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

#### (a) Receivables from finance leases

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

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

### ■ (30) Allowance for losses on loans and advances

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

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

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

### ■ (31) Positive fair values of hedging derivatives

€ mn	2005	2004 <sup>1)</sup>	%
Hedging instruments with positive fair values			
Interest rate products	307.1	87.8	-
Currency-related products	10.8	137.1	-92.1
Other products	0.0	0.0	-
<b>Total</b>	<b>317.9</b>	<b>224.9</b>	<b>41.4</b>

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

### ■ (32) Financial assets held for trading

€ mn	2005	2004 <sup>1)</sup>	%
Derivative financial instruments with positive fair values			
Interest rate products	81.5	32.9	–
Currency-related products	2.2	4.2	–47.6
Other products	0.0	0.0	–
<b>Total</b>	<b>83.7</b>	<b>37.1</b>	–

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

### ■ (33) Investment securities

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

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

**(a) Fair values of negotiable securities**

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

**(34) Intangible assets**

€ mn	2005	2004	%
Goodwill	74.7	74.7	–
Other intangible assets	5.4	5.7	–5.3
<b>Total</b>	<b>80.1</b>	<b>80.4</b>	<b>–0.4</b>

**(35) Property and equipment**

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

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

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

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

#### ■ (36) Statement of changes in non-current assets

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

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

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

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

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

#### ■ (37) Income tax assets

€ mn	2005	2004	%
Current income tax assets			
Germany	1.0	4.2	-76.2
Foreign countries	1.3	0.0	-
Deferred income tax assets			
Temporary differences	81.1	1.6	-
Loss carryforwards	0.0	0.0	-
<b>Total</b>	<b>83.4</b>	<b>5.8</b>	-

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

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

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

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

■ (38) Other assets

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

■ (39) Deposits from other banks

€ mn	2005	2004 <sup>1)</sup>	%
Loans and advances payable on demand	966.8	1,602.7	–39.7
with a limited term	8.6	80.5	–89.3
Money market transactions payable on demand	958.2	1,522.2	–37.1
with a limited term	1,965.2	1,095.0	79.5
Other deposits from other banks	204.1	198.0	3.1
<b>Total</b>	<b>2,932.2</b>	<b>2,698.0</b>	<b>8.7</b>
German banks	1,761.1	897.0	96.3
Foreign banks	0.2	0.3	–33.3
<b>Total</b>	<b>2,932.2</b>	<b>2,698.0</b>	<b>8.7</b>

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

#### ■ (40) Deposits from customers

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

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

#### ■ (41) Securitised liabilities

€ mn	2005	2004 <sup>1)</sup>	%
Commercial paper	70.3	25.0	–
Bearer bonds	2,790.4	2,725.6	2.4
<b>Total</b>	<b>2,860.7</b>	<b>2,750.6</b>	<b>4.0</b>

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

■ (42) Negative fair values of hedging derivatives

€ mn	2005	2004 <sup>1)</sup>	%
Hedging instruments with negative fair values			
Interest rate products	40.4	8.3	–
Currency-related products	70.3	0.9	–
<b>Total</b>	<b>110.7</b>	<b>9.2</b>	–

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

■ (43) Financial liabilities held for trading

€ mn	2005	2004 <sup>1)</sup>	%
Derivative financial instruments with negative fair values			
Interest rate products	58.3	18.9	–
Currency-related products	5.2	0.1	–
<b>Total</b>	<b>63.5</b>	<b>19.0</b>	–

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

■ (44) Provisions

€ mn	2005	2004	%
Provisions for pensions and similar obligations	15.9	16.2	–1.9
Other provisions	32.9	27.8	18.3
<b>Total</b>	<b>48.8</b>	<b>44.0</b>	<b>10.9</b>

The pension commitments agreed upon with DVB employees generally depend upon the period of service and salary. They can be distinguished with regard to the base amount, which is granted for a number of years of service, and the top-up amount which applies when the period of service exceeds 25 years.

The pension commitments agreed upon with employees of DVB Bank AG additionally include a commitment for benefits to surviving dependants (widow(er)s and orphans) as well as for benefits in the case of invalidity.

The pension obligations changed during the year under review as follows:

€ mn	2005	2004
Present value of the pension obligations as at 1 Jan (DBO)	30.2	27.9
Plan assets	-10.7	-10.2
Unrecognised actuarial gains/losses	-3.3	0.0
Unrecognised past service cost	0.0	-1.2
<b>Carrying amount of pension provisions as at 1 Jan</b>	<b>16.2</b>	<b>16.5</b>
Change in the year under review		
Service cost	2.1	1.7
Interest expense	1.4	1.4
Effects of plan adjustments	-0.7	0.0
Return on plan assets	-0.5	-0.4
Actuarial gains and losses recognised in profit or loss	0.1	0.0
Benefits paid	-2.7	-3.0
<b>Carrying amount of pension provisions as at 31 Dec</b>	<b>15.9</b>	<b>16.2</b>
Present value of the pension obligations as at 31 Dec (DBO)	34.2	30.2
Plan assets	-11.3	-10.7
Unrecognised actuarial gains/losses	-7.0	-3.3
<b>Carrying amount of pension provisions as at 31 Dec</b>	<b>15.9</b>	<b>16.2</b>

The interest cost of €1.4 million is recorded under staff expenses.

The calculation of the present value of the pension obligations is based on the following actuarial assumptions:

%	2005	2004
Interest rate	3.75	5.25
Expected salary increase	2.50	2.50
Pension increase	1.30	1.50

For the first time, in the business year 2005 DVB used the new mortality tables called "Richttafeln 2005 G", by Prof. Klaus Heubeck, for the measurement of the pension provisions related to the employees of DVB Bank AG.

Other provisions in DVB are as follows:

€ mn	2005	2004	%
Asset retirement obligations	1.0	0.9	11.1
Lending business	1.7	2.9	-41.3
Miscellaneous other provisions	30.2	24.0	25.8
<b>Total</b>	<b>32.9</b>	<b>27.8</b>	<b>18.3</b>

The provisions changed during the year under review as follows:

€ mn	Balance as at 1 Jan	Utilisation	Reversal	Additions	Reclassifications	Changes in consolidated group	Balance as at 31 Dec
Asset retirement obligations	0.9	0.0	0.0	0.1	0.0	0.0	1.0
Lending business	2.9	1.4	0.0	0.2	0.0	0.0	1.7
Miscellaneous other provisions	24.0	13.4	0.3	21.0	-1.1	0.1	30.2

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

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

#### ■ (45) Income tax liabilities

€ mn	2005	2004	%
Current income tax liabilities	17.2	13.4	–
Deferred income tax liabilities	81.7	2.5	–
<b>Total</b>	<b>98.9</b>	<b>15.9</b>	–

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

€ mn	2005	2004	%
Financial assets held for trading and hedging instruments	77.0	0.0	–
Investment securities	1.5	0.0	–
Property and equipment	2.4	1.6	50.0
Securitised liabilities	0.0	0.0	–
Provisions	0.5	0.0	–
Other balance sheet items	0.3	0.9	–77.8
<b>Total</b>	<b>81.7</b>	<b>2.5</b>	–

■ (46) Other liabilities

€ mn	2005	2004	%
Other tax liabilities	3.4	0.0	–
Miscellaneous other liabilities	10.5	20.2	–48.0
<b>Total</b>	<b>13.9</b>	<b>20.2</b>	<b>–31.2</b>

The other tax liabilities mainly result from unpaid value-added tax of foreign branches and foreign subsidiaries.

■ (47) Subordinated liabilities

€ mn	2005	2004 <sup>1)</sup>	%
Subordinated promissory note loans	429.9	418.4	2.7
Subordinated bearer bonds	64.8	64.9	–0.2
<b>Total</b>	<b>494.7</b>	<b>483.3</b>	<b>2.4</b>

Subordinated liabilities also include such subordinated promissory note loans with a total carrying amount of €10.8 million which are measured at fair value through profit or loss under the fair value option. In the HGB consolidated financial statements as at 31 December 2004, these transactions were reported with a carrying amount of €10.0 million. The fair value of these items as at the same date amounted to €11.2 million.

## ■ (48) Equity

Equity can be broken down as follows:

€ mn	2005	2004	%
Issued share capital	99.6	77.3	28.8
Capital reserve	199.5	109.3	82.5
Retained earnings	299.7	256.2	17.0
Revaluation reserve	26.6	0.0	–
Hedging reserve – cash flow hedges	–1.4	0.0	–
Currency translation reserve	–8.0	–0.6	–
Distributable profit	9.5	6.6	43.9
<b>Total equity before minority interest</b>	<b>625.5</b>	<b>448.8</b>	<b>39.4</b>
Minority interest	4.1	1.6	–
<b>Equity</b>	<b>629.6</b>	<b>450.4</b>	<b>39.8</b>

### a) Issued share capital

As at the balance sheet date, the subscribed capital of DVB Bank AG consists of 3,896,912 no-par value bearer shares. During the year under review, the issued share capital of DVB Bank AG of €77,893,068.42 was increased against cash contributions by €21,729,904.95 through the issue of 850,000 new no-par value bearer shares. The subscription price of the new shares was fixed at €124. Trading in the new shares commenced in November 2005.

### b) Capital reserve

The capital reserve includes the premium from the issuance of shares, incl. subscription rights, exceeding the nominal value or the imputed value.

### c) Treasury shares

The treasury shares held by DVB Bank AG as at the balance sheet date are deducted from equity using the so-called "par value method". For this purpose, the treasury shares are divided into the components "Subscribed capital" and "Capital reserve". Gains or losses arising from transactions with treasury shares are offset against retained earnings. The amount of treasury shares held as at the balance sheet date was insignificant.

#### **d) Retained earnings**

Retained earnings include the legal reserve, other retained earnings, as well as the fund for general banking risks.

The legal reserve amounts to €1.3 million as at 31 December 2005, and is subject to restrictions with regard to distribution to shareholders.

Other retained earnings comprise the undistributed profits of DVB Group, including the cumulative amounts resulting from consolidation measures recognised in profit or loss as well as the effects from the first-time adoption, i.e. the transition to, IFRS as at 1 January 2004 and the first-time adoption of IAS 39 as at 1 January 2005.

In addition, retained earnings also include the fund for general banking risks, totalling €82.4 million.

### **Notes to financial instruments**

#### **■ (49) Derivative financial instruments**

Derivative financial instruments are used by DVB primarily to hedge interest rate and foreign currency risks. For this purpose, DVB enters into interest rate swaps, forward rate agreements, cross-currency swaps and foreign currency swaps with banks and customers. The related hedged items are loans and advances to banks and customers, deposits from customers and other banks, securitised liabilities and subordinated liabilities. In addition, individual forward currency contracts are entered into in order to hedge foreign currency risks from expected interest payments denominated in US dollars.

The major part of derivative financial instruments is reported in the balance sheet in the items "Positive fair values from hedging derivatives" and "Negative fair values from hedging derivatives". Derivative financial instruments held by DVB which are not reported as a hedging instrument within the scope of an effective hedging relationship are included in the item "Financial assets held for trading" or "Financial liabilities held for trading".

The fair value of derivative financial instruments is mainly determined using generally accepted measurement methods, e.g. the discounted cash flow (DCF) method or option pricing models.

## ■ (50) Maturity groupings and fair value of derivative financial instruments

€ mn	Remaining term to maturity			Total 31 Dec 2005	Total 31 Dec 2004	positive 31 Dec 2005	Fair values negative 31 Dec 2005	positive 31 Dec 2004	Fair values negative 31 Dec 2004
	up to 1 year	1 to 5 years	more than 5 years						
Interest rate products									
Interest rate swaps	82.8	174.3	77.1	334.2	297.0	385.3	-88.3	401.0	-120.8
Forward rate agreements	-0.1	-0.4	0.4	-0.1	-0.7	0.2	-0.3	0.0	0.0
Interest rate options	-6.0	0.0	0.0	-6.0	-7.0	1.6	-7.6	4.1	-9.9
<b>Total interest rate products</b>	<b>76.7</b>	<b>173.9</b>	<b>77.5</b>	<b>328.1</b>	<b>289.3</b>	<b>387.1</b>	<b>-96.2</b>	<b>405.1</b>	<b>-130.7</b>
Currency-related products									
Forward currency contracts	6,538.3	0.0	0.0	6,538.3	5,049.5	11.8	-73.2	154.7	-1.8
Cross-currency swaps	-2.2	-4.3	-0.1	-6.6	5.0	1.4	-2.6	5.0	-0.1
<b>Total currency-related products</b>	<b>6,536.1</b>	<b>-4.3</b>	<b>-0.1</b>	<b>6,531.7</b>	<b>5,054.5</b>	<b>13.2</b>	<b>-75.8</b>	<b>159.7</b>	<b>-1.9</b>
<b>Total</b>	<b>6,612.8</b>	<b>169.6</b>	<b>77.4</b>	<b>6,859.8</b>	<b>5,343.8</b>	<b>400.3</b>	<b>-171.9</b>	<b>564.8</b>	<b>-132.6</b>

## ■ (51) Market risks

The material market risks to which DVB is exposed are interest rate and counterparty risks.

The management of market risks in the banking book and the trading book is the responsibility of Treasury. The market risks are determined for both the trading book and the banking book on the basis of the same VaR procedure. Using this VaR method, the maximum loss that may arise due to market risks during a holding period of one day is quantified at a confidence level of 99% on the basis of a historical simulation. The functionality of the VaR method is assured by means of a back testing procedure. During the back testing procedure, the gains and losses of the items included in the trading book and the banking book are calculated on a daily basis, using the actually-occurred market price changes, and are compared with the values determined with the VaR method.

## ■ (52) Interest rate risks

At DVB, interest rate risks may occur in connection with fixed-rate loans and advances to banks and customers, securities, deposits from other banks and customers, securitised liabilities and subordinated liabilities. In addition, the Bank may be exposed to interest rate risks from transactions involving variable interest rates, to the extent that the relevant term for the interest rate arrangement exceeds the term which is managed by DVB. At DVB, interest rate risks are primarily managed on an individual contract basis.

#### ■ (53) Counterparty risks

We define counterparty risk, which comprises credit, issuer, counterparty and country risks, as potential losses arising from an unexpected default or deterioration in our counterparties' credit quality. With respect to individual transactions, counterparty risk is managed and limited by setting a corresponding limit on the basis of cautious lending principles and sector-specific lending policies.

The gross lending volume in the year under review totalled €12.3 billion (prior year: €10.4 billion) and includes the following transactions:

€ bn	2005	2004	%
Loans and advances to banks	0.9	1.0	-10.0
Loans and advances to customers	8.8	7.0	25.7
Securities (incl. equity investments)	0.4	0.7	-50.0
Guarantees and indemnities	0.3	0.2	50.0
Irrevocable loan commitments	1.5	1.1	36.4
Derivatives	0.4	0.3	33.3
<b>Total</b>	<b>12.3</b>	<b>10.4</b>	<b>18.3</b>

#### ■ (54) Currency risks

Currency risks mainly result from interest payments denominated in foreign currencies. DVB enters into forward currency contracts in order to hedge currency risks. These contracts take into account both the amount and the date of the interest payments to be expected in the following business year. This hedging relationship is accounted for in the financial statements by designating cash flow hedges.

■ (55) Fair values of non-derivative financial instruments

€ mn	Fair value		Carrying amount	
	31 Dec 2005		31 Dec 2005	
<b>Assets</b>				
Cash and balances with the central bank	48.9		48.9	
Financial assets held for trading (non-derivative)	0.0		0.0	
Loans and advances to banks	878.0		877.0	
Loans and advances to customers	9,104.1		8,775.5	
Investment securities (excl. shares in unconsolidated, affiliated companies)	238.9		236.2	
<b>Equity and liabilities</b>				
Financial liabilities held for trading (non-derivative)	0.0		0.0	
Deposits from other banks	2,946.2		2,932.2	
Deposits from customers	3,638.6		3,602.5	
Securitised liabilities	2,878.2		2,860.7	
Subordinated liabilities	528.3		494.7	

The fair value of derivative financial instruments is presented in conjunction with the maturity groupings of derivative financial instruments.

■ (56) Maturity groupings of non-derivative financial instruments

€ mn	Payable on demand	Remaining term to maturity up to 3 months	Remaining term to maturity from 3 months to 1 year	Remaining term to maturity from 1 year to 5 years	Remaining term to maturity more than 5 years	Total
Loans and advances to banks	92.7	614.4	132.4	52.2	0.0	891.7
Loans and advances to customers	96.8	1,427.1	1,552.0	4,657.2	2,912.2	10,645.3
Investment securities	0.0	4.9	25.5	113.5	61.6	205.5
<b>Total</b>	<b>189.5</b>	<b>2,046.4</b>	<b>1,709.9</b>	<b>4,822.9</b>	<b>2,973.8</b>	<b>11,742.5</b>
Deposits from other banks	9.0	976.4	1,138.1	808.6	217.1	3,149.2
Deposits from customers	214.7	240.8	244.2	1,302.9	2,281.6	4,284.2
Securitised liabilities	0.0	500.7	340.3	1,965.2	0.0	2,806.2
Subordinated liabilities	0.0	10.6	28.0	311.1	244.0	593.7
<b>Total</b>	<b>223.7</b>	<b>1,728.5</b>	<b>1,750.6</b>	<b>4,387.8</b>	<b>2,742.7</b>	<b>10,833.3</b>

The amounts reported for the individual time bands reflect the undiscounted future cash flows (interest and capital payments).

**Other disclosures**

■ (57) Subordinated assets

During the year under review, DVB did not hold subordinated assets to any considerable extent.

■ (58) Off-balance sheet commitments

€ mn	2005	2004	%
Contingent liabilities from guarantees	258.6	224.4	15.2
Irrevocable loan commitments	1,496.3	1,093.1	36.9
<b>Total</b>	<b>1,754.9</b>	<b>1,317.5</b>	<b>33.2</b>

## ■ (59) Average number of employees

The average number of employees changed during the year under review as follows:

Employees	2005		2004	
	DVB Bank AG	DVB Group	DVB Bank AG	DVB Group
Female	88	129	89	131
Male	163	235	162	228
<b>Total</b>	<b>251</b>	<b>364</b>	<b>251</b>	<b>359</b>

## ■ (60) Related party disclosures

### (a) Remuneration and shareholdings of Board members

The emoluments paid to Board members during 2005 amounted to:

€ '000	2005	2004
Board of Managing Directors	1,926	1,466
Supervisory bodies	67	79
Former members of the Board of Managing Directors and their surviving dependants	351	341
<b>Total</b>	<b>2,344</b>	<b>1,886</b>

### (b) Remuneration of the Board of Managing Directors

The structure of emoluments of the Board of Managing Directors of DVB Bank AG is based on the Internal Regulations for the Executive Committee of the Supervisory Board which have in turn been adopted by the Supervisory Board. Accordingly, the overall remuneration of the Board of Managing Directors is composed of a fixed component of 64.8% and a variable component of 35.2%. The variable component consists of a traditional bonus, in addition to stock options.

#### ■ Fixed remuneration

The fixed component of the remuneration of DVB Bank AG's Board of Managing Directors totalled €1,247,032.72 in 2005 (2004: €912,745.87).

#### ■ Variable remuneration – bonus

Bonus payments to members of the Board of Managing Directors are calculated on the basis of target agreements (to be laid down for any business year) between the Executive Committee and the Board member concerned. The amount of the bonus depends on the extent to which the targets were achieved. Two-thirds of the targets refer to the achievement of objective criteria, such as the RoE and CIR stipulated for the relevant business year. In addition, individual performance is evaluated and weighted with one third. The bonus for the current business year is then paid out in two tranches of 50% each, in each of the two following business years. A prerequisite for the payout is, however, that no notice of termination has been given with regard to the employment relationship as at the time of payment. Bonuses of €678,800.00 were distributed to the Board of Managing Directors in 2005 (2004: €552,800.00).

#### ■ Variable remuneration – stock options

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

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

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

Members of the Board of Managing Directors own a total of 3,950 options to purchase shares of DVB Bank AG. In the 2005 business year, members of the Board of Managing Directors exercised a total of 550 options.

#### **(c) Remuneration of the Supervisory Board**

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

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

Remuneration of the members of the Supervisory Board in 2005 is broken down as follows (€):

€	For Supervisory Board activities					For Credit Committee activities				
	Remuneration Supervisory Board	VAT	Taxes for membership in a supervisory board	Solidarity sur- charge	Remuner- ation Super- visory Board  Total	Remuner- ation Credit Committee	VAT	Taxes for membership in a supervisory board	Solidarity sur- charge	Remuner- ation Credit Committee  Total
		16%	30% 2)	5,50% 2)			16%	30% 2)	5,50% 2)	
<b>Shareholder and employee representatives, domiciled in Germany:</b>										
<b>Shareholder representatives:</b>										
Dr. Thomas Duhnkrack, Chairman	10,225.84	1,636.13			11,861.97	2,556.46	409.03			2,965.49
Prof. Dr. Manfred Schölch, Deputy Chairman	7,671.60	1,227.46			8,899.06					
Wolfgang Kirsch	5,112.92	818.07			5,930.99	2,556.46	409.03			2,965.49
Hemjō Klein	5,112.92	818.07			5,930.99					
<b>Employee representatives:</b>										
Lutz Baumgartl	5,112.92				5,112.92					
Axel Clemens	5,112.92				5,112.92	2,556.46				2,556.46
Sabine Meyer	5,112.92				5,112.92					
<b>Member of the Supervisory Board until 10 June 2005:</b>										
Dr Peter Klaus	2,273.60	363.78			2,637.38	1,136.20	181.79			1,317.99
Hermann Möller	2,273.60	363.78			2,637.38					
<b>Shareholder representatives, domiciled outside Germany: <sup>1)2)</sup></b>										
Flemming Robert Jacobs, domiciled in Hurstwood, Surrey, UK Member of the Supervisory Board from 10 June 2005	2,856.21	456.99	<sup>1)</sup> 856.86	47.13	1,952.22					
Robert Jan van der Burg, domiciled in Dublin, Ireland Member of the Supervisory Board from 10 June 2005 Member of the Credit Committee from 15 July 2005	2,856.21	456.99	<sup>1)</sup> 856.86	47.13	1,952.22	1,178.81	188.61	<sup>1)</sup> 353.64	19.45	805.72
<b>Supervisory Board and Credit Committee:</b>										
	6,141.26	1,713.73		94.25	<b>57,140.96</b>	1,188.47	353.64		19.45	<b>10,611.16</b>
<b>Total – Supervisory Board and Credit Committee:</b>										
										<b>67,752.11</b>

For Supervisory Board members domiciled outside Germany, the following applies:

1) Value added tax is declared by DVB Bank AG and paid directly to the responsible tax office.

2) Taxes for membership of supervisory boards, and solidarity surcharges, are declared by DVB Bank AG and paid directly to the responsible tax office. Both taxes are deducted from Supervisory Board members' remuneration.

The taxes paid by DVB to the tax office amounts to: <sup>1) 2)</sup> 3,283.67

Of this total, €57,140.96 (2004: €67,350.04 incl. VAT) is attributable to the annual remuneration of members of the Supervisory Board in accordance with article 18 (1) sentences 3 and 4 of the Articles. Accordingly all Supervisory Board members receive a base amount of €5,112.92 (pro rata temporis, if necessary). Pursuant to the Articles, the Chairman receives twice the base amount, and the Deputy Chairman one and a half times the base amount. In contrast to the shareholder representatives, the employee representatives will not be refunded 16% VAT, as their remuneration is not subject to value-added tax (article 18 (2) sentences 1 and 2 of the Articles).

In accordance with article 18 (1) sentence 5 of the Articles, the members of the Credit Committee received an additional remuneration of €2,965.49 (incl. 16% VAT) apart from the base amount – with the exception of the employee representative Axel Clemens, to whom the amount of €2,556.46 was paid without VAT for the above-mentioned reasons. Thus, the total expense in respect of the activities of the Credit Committee was €10,611.16 (2004: €11,452.94 incl. VAT)

For the shareholder representatives who retired from the Supervisory Board after the end of the Annual General Meeting on 10 June 2005 (Dr. Peter Klaus and Hermann Möller), Flemming Robert Jacobs, domiciled in Hurstwood, Surrey, UK, and Robert Jan van der Burg, domiciled in Dublin, Ireland, were appointed to the Supervisory Board. The latter has also been a member of the Credit Committee of DVB Bank AG since 15 July 2005.

As a result, two members of the DVB Supervisory Board have their domicile outside Germany. Accordingly, DVB Bank AG is required to declare the taxes accruing on the remuneration for these members and to pay these taxes directly to the responsible tax office. Consequently, value-added taxes (16%) of €1,102.59 and taxes for membership in supervisory boards (30%) in accordance with article 50a (2) of the German Income Tax Act (EStG) amounting to €2,067.37 as well as solidarity surcharge of 5.5% thereon totalling €113.71 were paid to the tax office.

The value-added tax does not lead to a reduction in remuneration, because it will be additionally paid by DVB to the relevant Supervisory Board member in accordance with the Articles. In contrast, taxes for membership in supervisory boards and the solidarity surcharge are directly deducted from the remuneration of both members.

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

In accordance with article 18 (1) sentence 7 of the Articles, the remuneration has to be paid each year on 1 July.

**(d) Shareholdings of the Board of Managing Directors and the Supervisory Board**

As at 31 December 2005, the members of the Board of Managing Directors held 6,346 shares in DVB Bank AG. The members of the Supervisory Board held 70 shares in DVB Bank AG.

**(e) Pension liabilities to former members of the Board of Managing Directors**

€3.18 million (2004: €3.23 million) has been set aside as provisions for pension liabilities to former members of the Board of Managing Directors and their surviving dependants.

**(f) Related companies**

With regard to the presentation of the business relationships between DVB Bank AG and DZ BANK, we refer to the discussion about related companies included in the report of the Board of Managing Directors.

We maintain standard banking relationships on an arm's length basis with companies related to the DZ BANK Group. There were no loans to executive staff during the year under review. In addition, we refer to the details provided for in the subordinate status report of DVB Bank AG.

**■ (61) Financial statements of DVB Bank AG**

DVB Bank AG is a parent company and, at the same time, a subsidiary of DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main, prepared consolidated financial statements and a group management report as at 31 December 2005, which was submitted to the Local Court of Frankfurt/Main and which includes DVB Bank AG.

**■ (62) Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act**

Section 161 of the German Stock Corporation Act (AktG) requires the board of managing directors and supervisory boards of listed companies to issue a declaration of compliance with the German Corporate Governance Code (the Code) on an annual basis. They declare, by means of such a declaration, that the recommendations of the Code have been and are being complied with, and comment upon exceptions.

DVB Bank AG's Board of Managing Directors and Supervisory Board published their fourth Declaration of Compliance in accordance with section 161 of the AktG on 14 December 2005 in the electronic German Federal Gazette and simultaneously made the text permanently available to the public on DVB's website under [www.dvbbank.com](http://www.dvbbank.com) "Investor Relations – Corporate Governance – Declaration of Compliance".

In November 2005, DVB Bank AG's Board of Managing Directors and Supervisory Board issued a further Declaration of Compliance, which was published on 24 November 2005 in the electronic German Federal Gazette and simultaneously on DVB's website under [www.dvbbank.com](http://www.dvbbank.com) "Investor Relations – Corporate Governance – Declaration of Compliance".

### Final comments

1) The comparative figures for the business year 2004 were prepared in accordance with IFRS 1.36A without taking into account the provisions of IAS 39 and IAS 32.

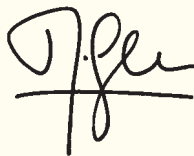
Frankfurt/Main, 19 April 2006

DVB Bank AG

The Board of Managing Directors



Wolfgang F. Driese



Bertrand Grabowski



Dagfinn Lunde

## Auditors' report

We have audited the consolidated financial statements prepared by DVB Bank Aktiengesellschaft, Frankfurt/Main, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January 2005 to 31 December 2005. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB") are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB, and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – "IDW"). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, in accordance with the applicable financial reporting framework, and in the Group management report, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group, and expectations as to possible misstatements, are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system, and the evidence supporting the disclosures in the consolidated financial statements and the Group management report, are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, gives a true and fair view of the Group's position, and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 20 April 2006

**PricewaterhouseCoopers**  
**Aktiengesellschaft**  
**Wirtschaftsprüfungsgesellschaft**

Rönning

German Public Auditor

pp. Gröninger

German Public Auditor