

First financial statements in accordance with IFRS

As a publicly traded company, DVB must – for the first time – prepare consolidated financial statements in accordance with IFRS for the business year 2005, pursuant to EU Regulation dated 19 July 2002 and the German Accounting Reform Act dated 10 December 2004.

The currently applicable IFRS provisions do not include a separate standard dealing with management reporting which would correspond to the EU regulations or the German Commercial Code (HGB). Pursuant to section 315a (1) of the HGB, DVB Bank AG, as a German parent company, is required to complement its IFRS consolidated financial statements with a Group management report in accordance with section 315 of the HGB.

The HGB regulations, in turn, were modernised by the above-mentioned German Accounting Reform Act in order to improve the information quality and the comparability of management reports for the benefit of investors. On 26 February 2005, the German Federal Ministry of Justice published GAS 15, Management Reporting, which extends the reform of the HGB with specific regulations against the backdrop of international developments, and includes further recommendations. The management report, prepared in compliance with GAS 15, should be utilised as an instrument of value-focused and future-oriented reporting. The aim is to provide investors with relevant information for their decisions, and which facilitates an assessment of the company.

In this annual report for the business year 2005, we apply GAS 15 on a Group level for the first time. Our discussion is composed of the following elements:

Abbreviations and references	
AktG	German Stock Corporation Act (Aktiengesetz)
BilReG	German Accounting Reform Act (Bilanzrechtsreformgesetz)
GAS	German Accounting Standard (Deutscher Rechnungslegungs Standard – DRS)
GAS 15	Management Reporting (DRS 15 – Lageberichterstattung)
HGB	German Commercial Code (Handelsgesetzbuch)
IFRS	International Financial Reporting Standards

- Strategy, markets, competitive strengths
- Management report (in the narrower sense) pursuant to section 315 (1) sentences 1 to 4 of the HGB and in accordance with GAS 15
 - Development of the business divisions Transport Finance, Corporate Finance and Treasury
 - Economic situation
 - Key elements of, and external factors impacting on, the business development, plus preliminary remarks
 - Results of operations
 - Financial position
 - Net assets
- Report on events after the balance sheet date, in accordance with section 315 (2) no. 1 of the HGB
- Risk report, in accordance with section 315 (2) no. 2 a and b of the HGB
- Report on branches and subsidiaries, in accordance with section 289 (2) no. 4 of the HGB
- Report of the Board of Managing Directors on relations with affiliated companies, in accordance with section 312 of the German Stock Corporation Act
- Report on expected developments 2006/2007, pursuant to section 315 (1) sentence 5 of the HGB

Since DVB does not undertake any research and development activities, the Bank does not prepare a corresponding report in accordance with section 315 (3) of the HGB.

Strategy, markets, competitive strengths

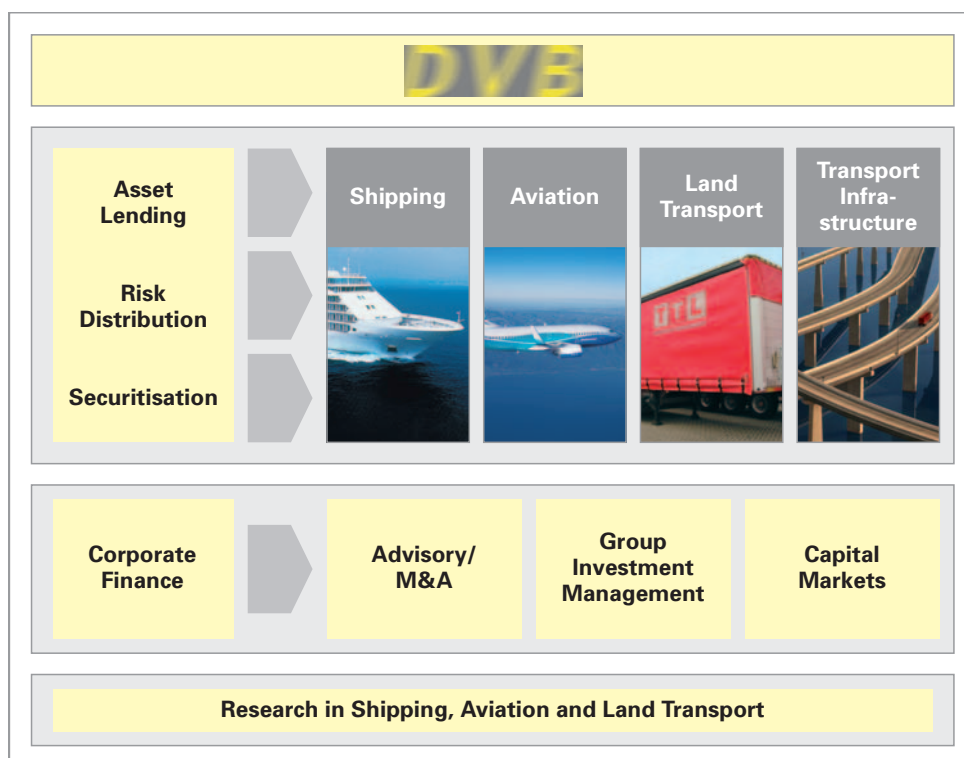
Strategy: clear emphasis on selected transport segments and products

With its products and services, DVB pursues a unique strategy of focusing solely on selected segments of the international transport market. Our mission statement has become reality: “We are the leading specialist in international transport finance”.

We segment the global transport market into shipping, aviation and land transport (road and rail), as well as the creation and operation of transport infrastructure facilities. Each of these markets is broken down into further sectors.

With eleven locations worldwide, we have established a strategic presence in the key traffic junctions. At the same time, this global presence allows us to adapt to our clients’ regional market environments.

We offer our clients a range of value-added products and services, giving advice, structuring transactions and providing finance. They can call upon our asset lending, risk distribution and securitisation services; all of which are supported by our in-house research, which is dedicated to continuous and consistent analysis of transport markets and facilities. As a specialist for international transport markets, we also offer Corporate Finance advisory and structuring services in Advisory and M&A, Group Investment Management and Capital Markets.



■ **Asset lending in the international transport market**

The Transport Finance divisions Shipping, Aviation and Land Transport specialise in the provision of finance to facilitate the purchase of assets (asset lending). As well as offering our clients traditional collateralised lending, we also provide comprehensive, tailor-made solutions to meet their financing needs in a competitive international market environment. Our Transport Infrastructure division finances airports, ports and port facilities, as well as road and rail infrastructure. We also arrange structured cash flow financings for major infrastructural facilities, together with the associated equipment, as well as providing support for off-balance sheet financings.

■ **Risk distribution – taking syndications one step further**

We usually employ our own capital when financing the assets of our Transport Finance clients. Notwithstanding this commitment, we syndicate portions of this lending volume – which can be substantial – to other financial institutions on the international banking market. Our Syndications unit is concerned with the placement of credit risks with third parties, and therefore assumes the important role of raising liquidity and transferring risk, for DVB as well as for our clients.

■ **Securitisation**

To date, participants in the global transport market have tapped the capital markets as a financing source only to a very limited extent. Given the industry's constantly growing financing needs, the securitisation of receivables offers a very promising route to access the capital markets. This is why we have established a dedicated Securitisation team, to explore these liquid and cost-efficient funding sources for our clients.

■ **Corporate Finance services**

We participate in the value-added chain related to the financing of assets on the global transport market, in a financing as well as in an advisory capacity. In this context, we offer advisory and structuring services from our Advisory and M&A, Group Investment Management and Capital Markets teams.

The vast range of our Corporate Finance services is geared to meeting the financing requirements of our clients, with tailored products comprising structured and (in part) tax-optimised financing solutions. The product spectrum also consists of an advisory service for company acquisitions, strategic decisions regarding capitalisation and financing, as well as loan restructuring and acquisition finance.

DVB's competitive strengths

The key factor to DVB's success is appropriate valuation of the assets to be financed – in terms of their asset value as well as the long-term achievable revenue. Collateralisation of the lending exposure, incorporating the assets to be financed and the cash flows they generate, is central to this valuation.

An in-depth and extensive understanding of the market, and technical know-how regarding the assets and their main components, are a prerequisite to accurate valuation. It is this combination which allows us to adequately assess and value the collateral, and hence, to ensure our risk exposure is covered appropriately.

Our key competitive strengths distinguish us from other market participants:

- our **unique strategy of focusing** on providing financing solutions in selected sub-sectors of the international transport market;
- proprietary **in-house asset research** in Shipping, Aviation and Land Transport;
- broad **risk diversification** within each sub-sector;
- staff specialising** in financings and advisory services in the selected markets; and
- efficient decision-making structures**, leveraging our decentralised position in the international transport markets.

Consistent focus on profitability

We will continue to pursue our strategy of focusing on selected transport markets. Our aim is to further improve the efficiency of our services.

Within the scope of our strict focus on results, we plan to implement the following individual measures in order to further enhance our profitability:

- continuously extend and expand our specialist Transport Finance business units in attractive niche markets;
- extend our Corporate Finance franchise; and
- consistently exploit existing business opportunities.

■ **Extension and expansion of specialist business units in Transport Finance niche markets**

We established the specialist business unit for container financing back at the **end of 2003**, in line with our asset financing strategy. The steady increase in global trading not only drives the growing demand for container shipping capacity that we have been witnessing for some time now: the demand for container boxes is rising as well. In order to service this segment optimally, we have established our own Container Business Unit, which is operating very successfully indeed.

We have also become involved in cruise financing, as another niche market in Shipping Finance. The cruise shipping segment took some time to recover from the events of 11 September 2001. However, since 2004, this segment has seen strong growth and a return to previous profitability levels. Having identified substantial growth potential here, we established the Cruise Finance Unit at the **end of 2004**. Its business activities in 2005 included a transaction whereby we arranged a US\$380 million refinancing facility for four luxury cruise ships.

With the same value-added considerations in mind, we also created the Aero Engine Finance Unit **in 2004**. This business unit within Aviation Finance aims to exploit the opportunities presented by the financing of aircraft engines, and to build up the necessary expertise in this area. The complexity of the assets should afford us the opportunity to establish ourselves in a market segment that has been serviced to date by only a small number of competitors with comparable market know-how.

During **2005**, we continued to observe and actively exploit business opportunities in niche international transport markets. For example, we established two specialist units within the Shipping Finance division – covering Yacht Finance and FPSO (Floating Production, Storage and Offloading facilities).

■ Expanding our Corporate Finance activities

While our Transport Finance divisions mainly generate interest income, Corporate Finance generates predominately fee and commission income, especially from structured financings and advisory services. We plan to further expand this business activity, just as we plan to extend the scope of our advisory products. Besides offering our clients greater access to alternative financing sources in the future, we will provide a range of related services, such as underwriting. This will broaden and deepen relationships with our clients, and at the same time improve the basis for our asset lending. Our Securitisation, DVB Capital Markets LLC and Forward Freight Agreement business units, which we established in 2005/2006, will develop and offer an extended range of services to our clients.

■ Leveraging existing business opportunities

We intend to further increase our financing volumes, in line with market growth in the respective market segments. It goes without saying that we will adhere to the regulatory capital requirements at all times. We are determined to expand our business as much as possible using existing staff and resources, in order to enhance the efficiency of internal processes. This leverage effect should also allow us to further increase our profitability.

Development of the business divisions

(as at 18 April 2006)

In this business development section, we illustrate both the general conditions surrounding our activities in the international transport markets as well as the development of our Transport Finance portfolios: Shipping, Aviation, Land Transport, and Transport Infrastructure. Similarly, for the Corporate Finance division, its Advisory and M&A, and Group Investment Management segments are examined in terms of factors affecting markets and portfolios. Finally, we discuss essential developments within Treasury.

Shipping – market review

The extensive Shipping Research 2005 will be available on our website www.dvbbank.com – Research.

The resilience of the world economy has been a revelation in 2005. Higher oil prices, a host of natural disasters, terrorist attacks, and political twists have had a limited impact on the continued strong world GDP growth, resulting in another good year for maritime transportation.

Mother Nature's surprises – in the form of heavy flooding, the aftermath of the Tsunami, mud slides, earthquakes, 26 'named' storms including Katrina and Rita (compared to the yearly average of ten – US Weather Service) and even locust swarms in Africa – is what the world economy had to overcome in 2005. Bird flu continues to claim human lives, and its potential global spread could be a threat to the world economy; an event of low probability but with a high impact (World Bank Study).

On the political front there was no let-up, with wars in more than a dozen countries apart from Afghanistan and Iraq. To add to which, Iran with its new leadership has been making the news in not the most favourable of ways.

Despite this, global monetary conditions have been accommodative: core inflation has been low (despite the high oil price), long-term interest rates remained low, and GDP growth across the world – for the most part – has been robust. The buoyancy of the current world economy augurs well for 2006 and bodes well for continued demand of shipping services during the year. The projected excess fleet capacity, through new-buildings entering the fleet, is however expected to result in softening of freight rates in a number of shipping sectors.

Abbreviations

<i>bbl</i>	<i>barrel</i>
<i>bp</i>	<i>basis point</i>
<i>cst</i>	<i>centistokes (measure of the viscosity of the fluid; in our context, the bunker fuel)</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>LPG</i>	<i>Liquefied Petroleum Gas</i>
<i>mt</i>	<i>metric tonne (unit of weight equivalent to 1,000 kilograms)</i>
<i>RASP</i>	<i>Research & Strategic Planning</i>
<i>TEU</i>	<i>twenty foot equivalent unit</i>
<i>VLCC</i>	<i>Very Large Crude Carrier</i>

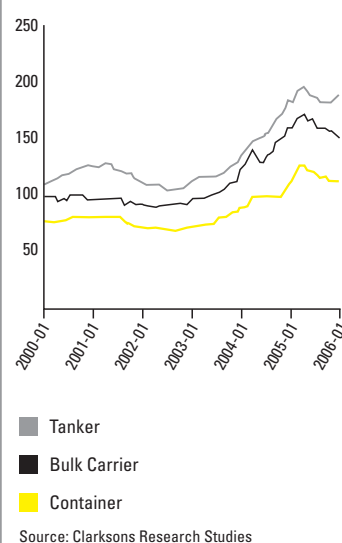
The much-publicised Chinese government measures, instituted to slow down their economy, has surprised many by not having had the desired effect. Global growth and world trade, led by the Chinese economy (expected GDP growth of 9.9% in 2005) and the US economy, continued its run of consecutive good years. Led by export growth, the European economy has begun to advance. This is a momentum that should continue through 2006; particularly if the euro remains at current exchange levels. Similarly, exports coupled with increasingly robust domestic demand, are driving growth in several Asian economies. The trade outlook for 2006 – without wild cards – is anticipated to be at least as good as 2005, with a possibility of being even stronger. Escalating inflation, precipitated primarily through higher oil prices, remains the most significant threat to global economic growth. In addition, all does not bode well for the Chinese economy. Along with its rapid and sustained growth, it is facing a number of infrastructure problems. A World Bank study states that China has 16 of the planet's 20 most air-polluted cities, and estimates that pollution costs China's GDP anywhere between 8-12% (Petroleum Economist). China still has bad debt to clear in its banking sector, estimated by USB AG at almost US\$850 billion over the past 15 years. Furthermore, China has also seen the closure of 2,157 coal mines out of a total of 5,001 which the country had planned to shut down (Petroleum Economist). In 2004, according to the Chinese government, 24 provinces suffered power shortages. Besides, there has been widespread civil unrest, with uprisings throughout the country. Not encouraging signs, although ones that may be expected given the country's rapid growth.

However the overall global economic resiliency displayed in 2005 suggests that it will take a combination of geopolitical and/or economic shocks to derail the current growth trend.

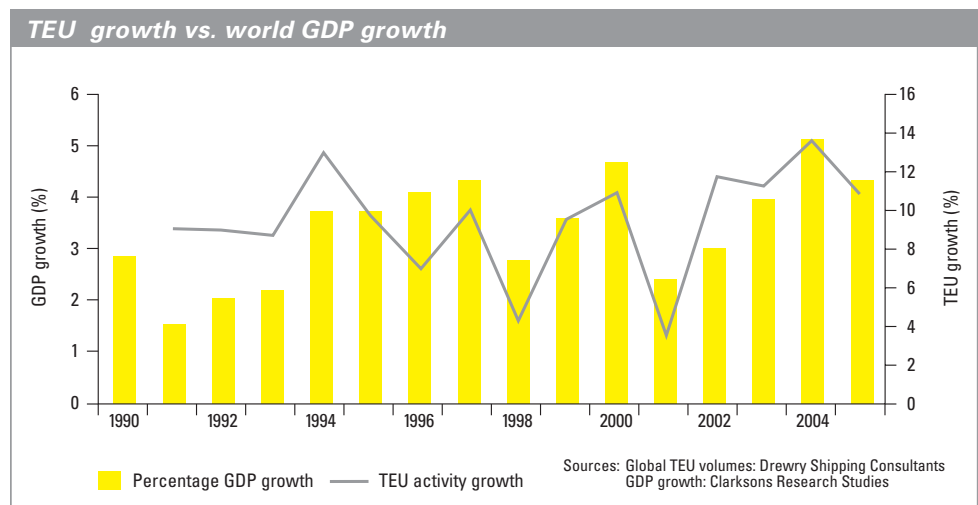
Global steel prices came down by 15% from their peak of US\$ 653 per tonne in December 2004, to US\$554 per tonne 2005 (MEPS (International) Ltd. and International Iron and Steel Institute). The downward trend is expected to continue as fears of excess capacity are growing, fuelled by increased crude steel production in China. From having been a major importer of steel for years, China only imported 300,000 mt more than the 25.1 million mt it exported during the first 11 months of 2005 (MEPS (International) Ltd. and International Iron and Steel Institute). It is difficult to predict how this will affect shipbuilding prices, as competition for newbuilding slots has been strong and orderbooks are full for the next two to three years. A reasonable expectation would be that the large orderbook will put pressure on earnings across most shipping sectors, and keep owners from ordering new vessels. At the same time, falling prices for steel should create room for negotiations on newbuilding prices which started to increase in 2003, and rose steadily until they peaked in May 2005. Since then prices have been on a downward trend. The only sign of an increase at the start of 2006 is for tankers, with a 2.1% increase on December 2005 prices.

All figures for the fleet profile and orderbook are from Lloyds Register – Fairplay with the exception of those for Crude, LPG and Products which are from Clarksons; and those for Chemicals, which are from Clarksons and Drewrys.

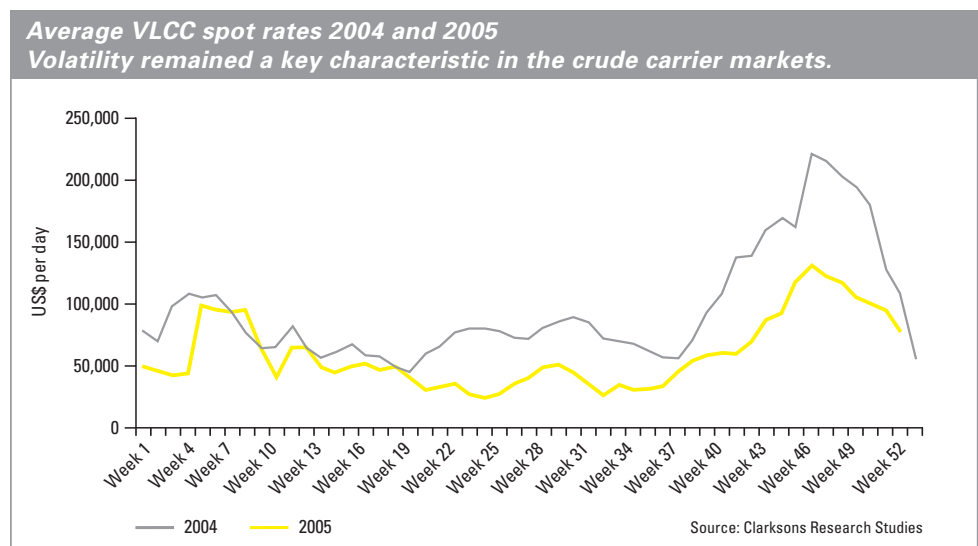
Newbuilding price index for tankers, bulk carriers and container ships



Container carrier time charter rates across sub-sectors averaged more in 2005 than they did in 2004. The year however was a dichotomous one: all industry tracking parameters, having increased steadily during the first half of the year, dramatically declined during the second half.



On the whole, tanker markets finished a very good year in 2005 although most sub-sectors saw a decline from the exceptionally strong markets in 2004. Crude oil tankers saw global oil demand growth slow to 1.3% compared to a high 3.8% in 2004, while volatility remained a key characteristic in the spot markets. Hurricanes Katrina and Rita created improved trading opportunities for product tankers and LPG carriers, while chemical carrier rates eased off from record highs in 2004.



The end of the super-cycle in the dry bulk market witnessed in 2004 and beginning of 2005 has definitely arrived, with new deliveries outpacing growth in global dry bulk exports. China's increasing demand for iron ore and coal has set the pace, and vessel orders are now lined up as far as 2010. Growth in Chinese coal imports in 2005 increased by 25.9% to 25.2 million tonnes compared to an increase of 41.9% in 2004 (Australian Mineral Economics). Equally interesting is China's hunger for iron ore, with imports increasing 24.4% to 275 million tonnes in 2005 (Australian Mineral Economics). Seaborne shipments of iron ore are expected to rise 7% in 2006 to 706 million tonnes. China represented 46% of global demand for iron ore in 2005, consuming 695.8 million tonnes, with domestic demand for steel at an all-time high (Australian Bureau of Agricultural and Resource Economics). Chinese steel consumption increased 24.6%, from 280 million tonnes in 2004 to 349 million tonnes in 2005, and there are expectations of further growth in demand given the continuous development of factories, machinery and other types of heavy equipment (Australian Mineral Economics). With steel following a similar pattern to that of the increasing demand for ore, Handymax as well as Handysize could potentially reap some benefit from increased global steel exports. The increasing competition for dry cargo consignments, following the growth of the fleet, has seen newbuilding prices begin to soften, whereas time charter rates are on the downward slide. How far this development will continue will for the most part depend on continued growth and development of Chinese industry.

While freight rates in most sectors ended the year higher than in 2004, shipowners had to come to terms with much higher operating costs, primarily stemming from a 78% increase in bunker prices (380 cst) to US\$290/tonne by year-end, basis Singapore (Clarksons Research Studies).

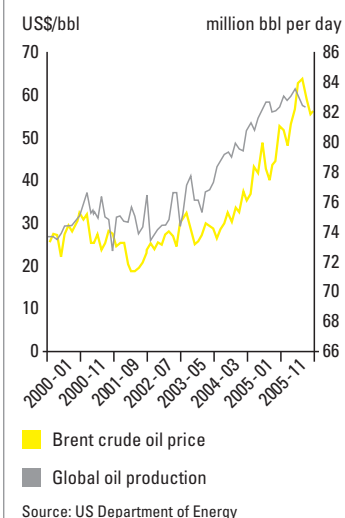
Shipping – portfolio analysis

2005 was another stellar year in terms of performance for the Shipping division, with results that again exceeded expectations and broke records.

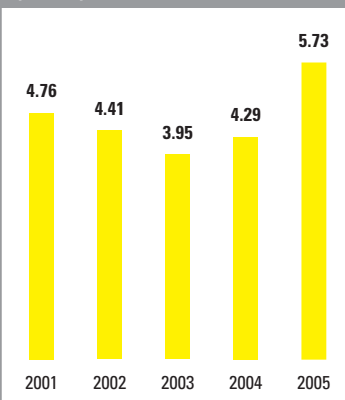
The volume of customer lending (loans and advances to customers, loan commitments, indemnities and guarantees) for 2005 was up 33.6% on 2004 figures, from €4.29 billion to €5.73 billion. 142 new transactions were completed during the year, resulting in a remarkable €3.19 billion of loans being underwritten; a 32.9% increase on 2004 results (€2.40 billion).

The continued growth in the portfolio came during a year that saw an incredibly high volume of refinancing within the shipping market. Competition intensified substantially during 2005, as banks with an insatiable appetite for assets brought low margin deals to market that were supported by very lenient financing terms. The impact on DVB's Shipping portfolio was evident, with total repayments and pre-payments equating to 49% of the existing loan portfolio. Pre-payments alone amounted to a staggering 26% of the existing portfolio.

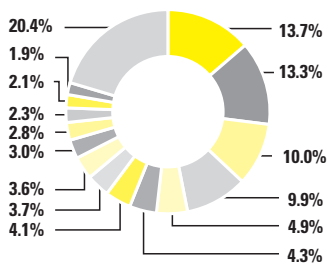
Crude oil price vs. global oil production



Lending volume 2001-2005 (€ bn)



Shipping portfolio by economic risk



- USA
- Norway
- South Korea
- Greece
- Germany
- United Kingdom
- Hong Kong
- Japan
- Netherlands
- India
- Switzerland
- France
- Singapore
- Spain
- Others

The market characteristics that led to the portfolio developments witnessed in 2005 can best be described as unique. The fall in freight rates predicted twelve months ago did occur, albeit to levels that remained well above historic averages. This fall was not matched by an equivalent drop in asset values, however. Ship owners remained optimistic that the drop in rates was short-lived and that, based on expectations of continued global growth in the medium term, further investment in assets was commercially prudent. The new-building and sale and purchase markets remained buoyant as a result. With loan pricing weakening on the back of increasing competition developing within the ship finance market, owners were quick to take advantage of favourable terms to either refinance or support their investments in additional tonnage. This resulted in the high level of pre-payments experienced, and the significant volume of new business achieved by DVB during 2005.

DVB maintained a disciplined approach during this market frenzy, offsetting the reduction in portfolio size by focusing on business that offered appropriate risk returns and by utilising the benefits that syndication can offer in competing for deals. The result of this approach was a modest drop in average margin for the portfolio, from 144 basis points in 2004 down to 139 basis points in 2005.

One welcome drop was in relation to the average loan-to-value ratio. On the back of the decrease experienced in the previous twelve months, the average loan-to-value ratio dropped again, this time from 63.1% as it was in 2004, to 57.7% in 2005. This is particularly significant, considering that asset values in 2005 remained at or close to market peaks. In this context it provides a high degree of comfort as we move towards a declining market.

Business within the international shipping markets continues to be conducted primarily in US dollars. This is reflected within DVB's Shipping portfolio, which is 80.4% US dollar-denominated and typically expressed in US dollar terms. The strengthening of the US dollar during 2005 contributed in part to the outstanding euro-based results achieved by the Shipping division – the portfolio increased by 33.6%, from €4.29 billion to €5.73 billion. Even when viewed in US dollar terms, the results are more than satisfactory with the Shipping portfolio growing by 15.6%, from US\$5.84 billion in 2004 to US\$6.75 billion in 2005.

The Shipping division continues to enjoy worldwide recognition as a leading financial specialist. In 2005, the division concluded 142 new transactions compared with 113 in 2004 and 91 in 2003. DVB maintained a leading role for 73% of the 142 transactions. During the course of our activities, we have continued to focus on expanding our underwriting capacity and market position as arrangers and book-runners.

We have outlined the "Shipping landmark deal 2005" on pages 12-13. Please refer to the tombstones on the back cover for a number of other landmark Shipping deals in 2005.

The development of the business units established to cover niche sectors within the shipping market is worthy of mention. The Container Box Unit had, without question, an outstanding year in 2005. Not only did it exceed budget in terms of interest income, but it also proved highly successful in delivering fee-based income through corporate finance mandates. February 2005 also saw the launch of the Cruise Finance Unit. This unit also had a successful year, bringing in both interest-based income as well as substantial fee income through its activities to date. This strategic initiative – to focus on niche sectors which fit outside the mainstream of shipping – has proven successful, and is a strategy that will continue to be developed. Further units will be brought on board throughout 2006, and others investigated as appropriate.

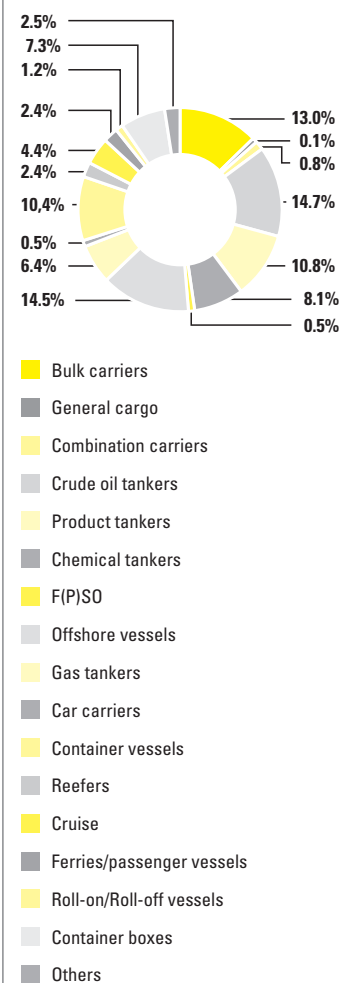
DVB's Corporate Finance teams have been key contributors to the success of the Shipping division during 2005, providing expert financial solutions in areas such as equity sourcing, tax-efficient financing structures, and M&A and advisory services. In this vein, these teams continue to complement the traditional lending business and further consolidate our market position as a leading financial specialist in the shipping sector.

It would be remiss to discuss the portfolio development in 2005 without commenting on the significance that our Research and Strategic Planning (RASP) department has in relation to this. The industry accolades once again bestowed upon them in 2005 bear testament to the quality of output they deliver and the significance of their contribution to the Shipping division's development. The strategic plan produced annually by RASP lays the foundations for guiding portfolio development each year. It is gratifying to see that, once again, their recommendations have proved correct with sectors such as offshore being a key focus and portfolio contributor during 2005.

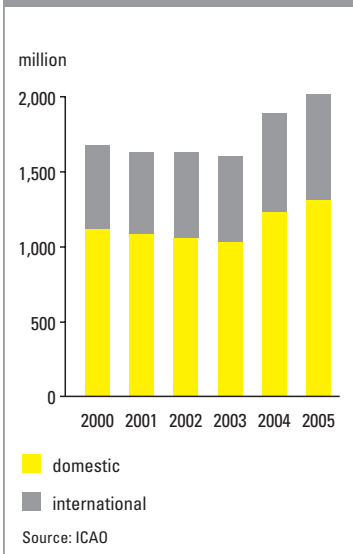
Our global presence continues to mirror the international scope of the shipping industry, and is substantiated by the geographic diversity of our portfolio. Exposure to all major economic markets remains well-diversified, with the largest economic exposures still relating to the USA (13.7%), Norway (13.3%), South Korea (10.0%) and Greece (9.9%).

In keeping with our motto of diversification, we continue to spread our risk across the various shipping sectors and remain vigilant to opportunities that lie outside of the mainstream sectors. In line with the recommendations proposed in the 2005 strategic plan, we have reduced our exposure in a number of the major sectors, with exposure to container vessels (most notably) reduced from 15.5% in 2004 to 10.4% in 2005. Also in keeping with the strategic plan and the diverse initiatives of DVB, we have increased our exposure in the offshore sector from 9.7% in 2004 to 14.5%, and increased our profile in the cruise sector from 1.6% in 2004 to 4.4% in 2005. Product tankers also saw some increase in their profile, up from 8.8% of the portfolio in 2004 to 10.8% in 2005. The change in the profile of the portfolio corresponds to attractive business opportunities identified in recovering markets, contrasted by the increased risk involved in financing the peaking "main-stream" sectors.

Shipping portfolio by vessel type



Global scheduled traffic (2000-2005) passengers carried (domestic and international)



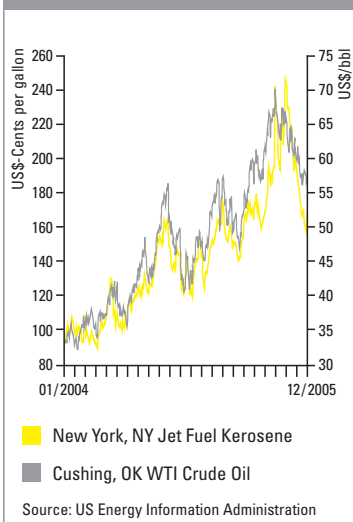
Aviation – market review

The aviation weather in 2005 was relatively calm, compared to the stormy start of the decade.

Worldwide trends 2005

Global airlines enjoyed generally solid passenger traffic growth, figures albeit not at the double-digit levels of 2004. Air cargo growth was disappointingly low during 2005 as a result of economic slowdown and higher airfreight costs, causing some modal shift. Airlines in most regions showed relatively good results but – as in 2004 – in the US, carriers continued to struggle. Overall, the airlines were still unable to generate attractive returns for investors, despite significant improvements in operational efficiency. The entire industry continued to suffer under high fuel prices, but a number of the financially stronger airlines were still protected under their fuel hedging umbrellas; others meanwhile imposed fuel surcharges. Traffic growth, combined with a shift to fuel-efficient equipment and the disappearance of the surplus in modern aircraft sparked a record order-boom. Both Airbus and Boeing booked record order levels, with Airbus taking the lead in the single-aisle sales and Boeing dominating the larger twin-aisle segment. The two smaller jet manufacturers, Brazil’s Embraer and Canada’s Bombardier suffered under the problems in the North American regional jet market. The 50-seater regional jet segment came under pressure, as major fleets were threatened to be rejected by their operators. Production of 50-seaters has been halted, and both manufacturers are – at present – having to rely on their 70 to 100-seater sales in the commercial jet segment.

Jet fuel spot prices – US petroleum spot prices for kerosene-type jet fuel (US\$-cents per gallon) and crude oil (US\$/bbl)



The **used-equipment market** improved further during 2005, as airlines all over the world started looking for additional capacity to deal with growing volumes. This resulted in a shortage of modern wide-bodies, causing upward pressure on lease-rates and, to a lesser degree, on used equipment prices. Aircraft leasing companies clearly benefited from this which made them attractive for new equity investors. An upturn in the demand for aircraft and limited supply, combined with a very liquid funding market, now creates the risk of a commercial jet “bubble”. In particular, some ageing aircraft designs that enjoyed popularity as interim lift will soon be at risk as new-technology planes start rolling off the production line.

In 2005, we continued our long-standing tradition of building and maintaining a well-structured, diversified portfolio, supported by modern, in-demand commercial jet aircraft and engines. Our position in the aviation market was further enhanced by expanding our Advisory unit, as well as our structured finance and asset management capabilities.

Our business is largely influenced by three distinct but related **business cycles**:

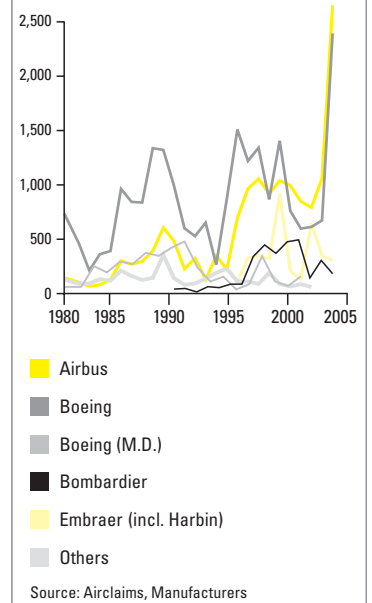
- The commercial aviation business cycle = demand and supply of commercial jets.
- The aviation finance cycle = availability of funds for aircraft purchasing.
- The life cycle(s) of aircraft designs = remarketability of individual types.

The outlook for the commercial aviation business cycle remains positive as traffic is set to continue its growth, and airlines take delivery of an increasing number of new aircraft, thereby stimulating demand for aircraft finance products.

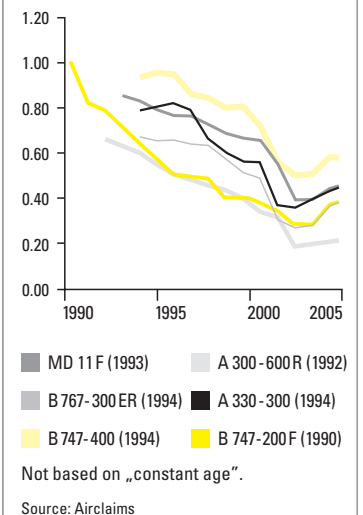
Potential risks for the industry include a further increase in oil prices combined with expiring fuel hedges, while avian influenza is a wild card factor.

The influx of liquidity from non-specialist banks (re-)entering the aviation finance market, combined with the availability of government-supported export credit facilities may put some pressure on margins. As a specialist bank, DVB is aware of the cyclical nature of the commercial aviation market. Consequently, our strategy is aimed at building on our proven position as a stable and cycle-neutral provider of financial products to the global airline industry.

Western built jets (net orders)



Twin aisle aircraft – lease rental rate development (US\$ mn)



Abbreviations

<i>IATA</i>	<i>International Air Transport Association</i>
<i>ICAO</i>	<i>International Civil Aviation Organisation</i>
<i>LCC</i>	<i>low cost carrier</i>
<i>MAS</i>	<i>Malaysian Airlines</i>
<i>RPK</i>	<i>revenue passenger kilometre</i>

■ Air transport developments

ICAO's preliminary figures for 2005 show a 5.5% RPK increase compared to a 14% increase during 2004. Average passenger load factor reached almost 75%, up from 73% in 2004. The preliminary IATA estimate for the 2005 financial result is an industry loss of US\$6 billion, bringing the post-2001 total to about US\$42 billion. US carriers were responsible for US\$10 billion in losses, whilst European and Asian carriers booked profits of US\$1.3 billion and US\$1.5 billion respectively. For 2006 IATA projects a loss of US\$4 billion. The 2005 result was mainly blamed on high fuel prices, but the impact may be more severe in 2006/2007 as fuel hedges expire. The industry continues to improve in efficiency, but airlines are being squeezed between higher fuel costs and yield pressure.

The low cost carrier (LCC) concept is now firmly established in virtually all regions. In the US, LCC's continue to expand even though the frontrunners seem to have difficulty maintaining profitability. Most of the US majors have been reorganising under Chapter 11 bankruptcy protection, in an attempt to match the LCC cost structures. Despite this, future profitability is still far from guaranteed. In Europe the number of LCC's continues to increase, and competition is set to intensify. In Asia and the Middle East the first wave of LCC's is now firmly established but the established airlines, with the possible exception of MAS, do not seem to be too much affected. Within Asia, India's newly established airlines placed some of the most spectacular jet orders, despite reported infrastructure bottlenecks.

As an asset-backed lender, DVB relies predominantly on the value and remarkability of the aviation assets that are being financed. Although airline profitability is essential for the long-term demand for commercial aircraft, it is not the main determinant for the state of the aircraft finance market.

*The Aviation Research
Newsletter is published
on a bi-monthly basis
on our website
www.dvbbank.com
– Research.*

■ New aircraft market

Airline losses did not affect new aircraft sales, and indeed with 2,370 orders, the year set a new record. While Airbus outsold Boeing in the single aisle segment with 918 to 574 orders, the roles were reversed in the wide-body segment; Boeing dominating with 455 vs. 193. Meaningful new “regional jet” orders were only booked for 70+ -seaters as the 50-seater segment stagnated. Bombardier’s 110-130-seater project was aborted early in 2006.

The order volume for individual aircraft types is mainly determined by the product life cycle. The continuing success of the Airbus A320 family and the Boeing 737 NG, plus the fact that both manufacturers have their hands full developing new wide-bodies, may extend these types’ life cycles. It is now widely believed that the launch of the A320 and B737 successors will occur by 2012 but maybe earlier if fuel prices increase even further. The Boeing 767 “refused” to join the 757 and the 717 in aviation history books and picked up a few surprise orders.

In 2005 the new Boeing 787 was able to fully benefit from the combination of improving market circumstances plus the full impact of its new design features. For the competing Airbus A350 order intake is unlikely to have peaked in 2005, and it should fare better in 2006, despite strong competition from the B787. The A330 was able to maintain its strong position but will experience increasing competition from the B787 and its own stable-mate, the A350.

In the market segment of large wide-bodies 2005 brought some significant sales successes for the Boeing 777 family as it won a number of important sales campaigns from the Airbus A340. Airbus clearly dominates the top segment with its A380-800. On April 27 aviation history was made when the first A380 took off from Blagnac International Airport. Boeing showed no intention of leaving the top segment to Airbus, and launched a stretched version of its 747 flagship. This new “-8” version only booked orders in freighter configuration.

Despite a significantly improved aircraft market, the manufacturers continued to offer heavily discounted prices. One specific potential profit source came under fire, the so-called escalation clause. This clause allows a manufacturer to adjust the price-level for inflation in the period between the contract signing and the delivery. Contrary to the used equipment market, where prices of most current-generation aircraft continued to enjoy cyclical increases, it seems unlikely that new aircraft prices will be subject to a significant upward trend.

■ Used aircraft market

The abundant liquidity in the aviation finance market allowed any surplus aircraft to be easily absorbed by the strengthening of demand outside the US. A range of equity investors made the headlines this year by buying aviation assets, ranging from single aircraft for scrap to entire multi-billion dollar leasing companies. Some established lessors as well as some brave newcomers even (re)turned to speculative ordering. Used equipment was absorbed easily, against increasing lease rates and purchase prices as illustrated by the Boeing 737-'Classic' market, where large operators reduced their fleets by almost 100 units during 2005. Nevertheless lease rates and values continued to rise during the year.

Modern wide-body aircraft are hard to come by these days, ironically partly caused by their own upcoming replacement. Buying these new has become less attractive, due to the availability of significantly more advanced Boeing 787s or Airbus A350s within 2–5 years from now. However, to bridge this gap, interim lift from the secondary market is required. This in turn increases demand, which stimulates lease rates and short-term values.

Despite slow growth in global cargo volumes, strong demand from the cargo conversion market continued for the Boeing 747-400 and especially the Boeing MD-11. Conversion volume for some other types was limited by the increased demand for the "donor" aircraft in passenger service, making these planes too expensive for conversion. With the weakening of the US scope clauses and the surge in fuel prices, demand for the 50-seat and smaller regional jets dried up. Because of the overall lack of operators anywhere in the world able to absorb larger regional jet fleets, the 50-seaters came under pressure – albeit the magnitude of the drop in market rates and values is still hard to determine.

Aviation – portfolio analysis

DVB's specialisation and industry focus are central to our expectations of continued success, and the means by which we differentiate ourselves from the competition. Furthermore they serve to foster both an in-depth industry and asset know-how, accompanied by reliable decision-making.

On such a foundation, our Aviation team has developed a strong network of relationships with clients and prospects who perceive DVB as a bank that understands their business, and possessing the expertise to provide value-added financial solutions. Such relationships are maintained by remaining in constant touch with our clients: to further this, our global team of 26 specialists are located in the three key economic regions for aviation.

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

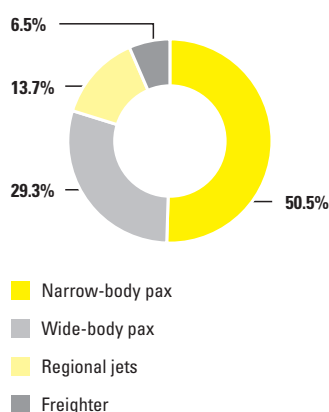
Management of DVB's aviation activity pursues a "one-stop shop" business model, whereby our clients can readily draw upon our expertise – from asset lending, structuring and investment, to advisory, financial consultancy and aviation research – in order to fulfill their differing requirements. Here, the prerequisites for our success are integration and cooperation amongst a team of professionals with a multi-disciplined background. As well as staff experienced in banking and structured finance, our Aviation division employs specialists with very specific aviation industry expertise sourced from manufacturers, airlines, aircraft lessors and asset managers.

■ Record level of new commitments

During 2005 we realised 58 new transactions with aviation clients, representing a record final take volume of €1,148 million (2004: €835 million). New business was concluded with established customers such as Pegasus Aviation (a leasing company), and Asiana Airlines, Air Tran and Frontier Airlines: in addition, we attracted 13 new clients including Air Nostrum (Spain), Qatar Airways, Jazeera Airways (Kuwait) and FlyNiki (Austria). The average margin on new, final take loan commitments during 2005 was 2.16% per annum.

We have outlined the "Aviation landmark deal 2005" on pages 22–23. Please refer to the tombstones on the back cover for a number of other landmark Aviation deals in 2005.

Aviation portfolio by aircraft classes



Aviation portfolio by aircraft type collateral

A319	7.6%
A320	13.2%
A321	4.5%
A330	5.5%
A340	6.1%
B717	0.9%
B737	20.0%
B747-200F	1.4%
B747-400	2.3%
Freighter/Combo	
B747-400	8.6%
B757	2.5%
B767	5.6%
B777	2.2%
CRJ100	0.5%
CRJ200	3.9%
CRJ700	4.4%
Embraer	4.9%
MD-11F	4.0%
MD80-87	1.4%
A300	0.1%
A310	0.1%
A318	0.5%

DVB is well recognised as a leading arranger, underwriter and provider of “asset-based” risk capital in aviation finance. This recognition was well illustrated in 2005 by the fact that – excluding DVB’s purchases of aviation debt in the secondary market – we acted as arranger and/or agent bank in respect of 90% of our newly acquired business.

New financings in 2005 were well diversified by client and obligor (including by geographical region), as well as by aircraft classes and aircraft type collateral.

A sample of the transactions closed during the year are described below:

- DVB arranged and underwrote a “limited-recourse” part bridge-finance, and part term-debt facility, to assist a US operating lessor in its acquisition of six Boeing B737-700 aircraft on a long-term lease to a European low cost airline.
- We structured, arranged and co-underwrote a pre-delivery payment and term debt financing for a Middle East “start-up” airline to acquire four new Airbus A320-200 aircraft, together with a CFM56-5B4/P spare engine.
- We assisted a European operating lessor client by providing a loan which first allowed our client to purchase two medium-vintage Airbus A320-200 aircraft which were on a short-term (a few months) lease to a South American airline. At maturity of this lease, the aircraft were successfully remarketed and placed on a longer-term lease to a small European airline, and our flexible facility was in turn re-arranged so that our debt profile and term could then match that of the new lease.
- We arranged and co-underwrote the senior debt leverage of a structured operating lease financing of one new Airbus A330-300 aircraft for an Asian “flag-carrier” client. The transaction also involved sourcing a junior debt component and, to complete this complex transaction, an equity loan, which was provided by one of DVB’s close lessor/investor relationships.

In late 2004 we established our Aero Engine Finance unit to focus on providing financial services to the global aero engine market. Since our core aircraft finance activities already required a high degree of engine expertise, the integration of this unit within our Aviation division has been seamless. The team has been instrumental in the origination and execution of a number of financing opportunities which would previously have been out of reach for us. To evidence the progress we have made to establish ourselves as a reliable financial partner for our aero engine clients, in December 2005 we arranged and fully underwrote the debt component of a US\$50m+ acquisition of a portfolio of 13 commercial jet engines in support of a joint venture engine lessor.

The expected increase in aviation finance competition materialised in 2005, driven by improved market conditions and sentiment. Nevertheless, DVB's market penetration – the reward of our consistent and cycle-resistant approach to business, plus our track record of delivery – meant that we could more than offset this development. This was demonstrated by the record level of activity seen with our aviation client base.

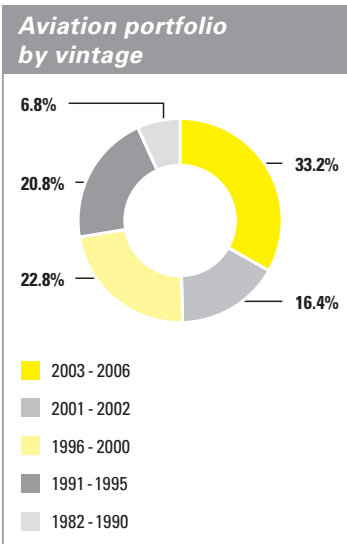
■ Loan portfolio development

In 2005 the Aviation portfolio increased by 36%, from €2.20 billion to €2.99 billion. In US dollar terms – the Aviation portfolio was predominantly (95.9%) US dollar-denominated – the growth rate was 17.7%, an increase from US\$3.00 billion to US\$3.53 billion. The collateralised portfolio represented 99% of total lending volume. The collateral was predominantly Boeing/McDonnell Douglas (48.8%) and Airbus (37.5%) commercial jet aircraft, of which 33.2% were 2003-2005 vintage and (in total) 72.4% were within ten years of age.

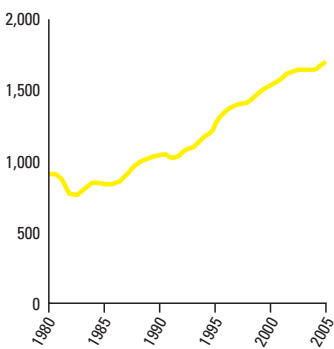
The portfolio is well diversified by client: a total of 113 aviation clients equates to an average lending exposure of approx. €26.4 million per client. The division's largest individual client exposure currently stands at €94.0 million, and there are only 20 clients where our committed exposure is in excess of €50 million.

Risk is also geographically well diversified; however, it is presently orientated towards North/South America (45%) and Europe/Middle East/Africa (33%), with client exposure in Asia/Australia/Oceania (17%, down from 25% in 2004) having fallen for the time being, in view of the very competitive environment we have faced in this region.

During the year under review certain loans have been restructured and reorganised, in some cases involving the leasing of mortgaged aircraft assets to other airline operators. Such achievements are largely attributable to the considerable expertise of our Aviation Asset Management team, as well as to our newly established (in 2005) Aviation Special Projects team, which devotes attention to the close monitoring and remedial actions required in relation to (in particular) "watch-list" loans. We will continue to take whatever steps are necessary to safeguard DVB's position as secured lender, whereby we benefit from a first-priority mortgage over relevant aircraft to secure our loan commitment.



**Rail freight in the US
in billion ton-miles**



Sources: Land Transport Research/BTS/FTR

Land Transport – market review

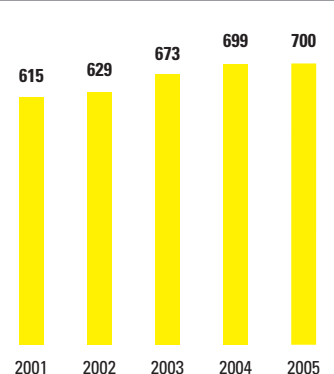
The global land transport market is multifarious and differentiated by a number of segments. We look at the key regions for our business, Europe and North America, to discuss the rail transport and road traffic/logistics market segments.

■ Trends in rail freight transport

Rail freight carriers in Western Europe slightly increased their share of total freight volume (approx. 3,350 billion tkm), to an estimated 13–14%. Following a medium-term downswing, the share of rail in Eastern European freight volume is expected meanwhile to fall below 40%.

Falling prices and competitive pressure continue to impose the need for strategic action on state-owned railways in Europe. In Italy, Trenitalia increased its stake in TX Logistik, the privately owned German rail operator. Concerning overall strategy, Germany's Deutsche Bahn (DB) relied on acquisitions in the global logistics business. However, DB did not succeed in its attempt at acquiring a stake in Germany's Hamburger Hochbahn AG, and it also came away empty-handed in its effort to acquire VTG AG, the rail logistics company. In the course of 2005, private-sector railway operators managed to gain a share of German rail cargo of approx. 15% (the equivalent of some 14 billion tkm). Sweden's Green Cargo meanwhile entered into an international freight transport cooperation with DB. The announcement by the Slovak government to sell ZSSK Cargo, the Slovak rail freight business, attracted a great deal of attention from international operators; however, the sale has been postponed. In France, for the first time, SNCF faced a number of privately-owned foreign rail freight operators using the French rail network.

**Rail freight Europe
(excl. Russia)
in billion ton-km**



Sources: Land Transport Research/UIC/
Private Rail Operators Network

Trending gradually upwards, the share of rail cargo in the US has been estimated at approx. 30% of a total of 5,678 billion ton-miles in 2005. Inter-modal and container transport have remained unequivocally buoyant in the main railway markets. Owing to a substantial increase in traffic, US Class 1 railways operated once again at capacity limit. Network congestion eased toward the end of 2005, whilst large railway operators were in a position to increase prices in certain service areas. For 2005 as a whole, the number of wagon loads transported by rail in North America increased by 0.5% compared to 2004; Class 2 and Shortline operators saw wagon loads increase by as much as 6%, indicating the growing importance of smaller railways. There were no significant take-overs in the North American market. However, Kansas City Southern assumed full control of Mexican TFM by acquiring the remaining stake it did not already hold.

■ Trends in rail passenger transport

Deregulation in Europe has contributed to increased demand for regional passenger rail transport. For the first six months of 2005, the 15 countries forming the core of the EU witnessed an increase in passenger kilometres of 1.6% compared to the same period in the previous year. In contrast, due to rising mobility in individual car transport, the new EU member states registered a decline of 7.5%. Privately-owned railway operators with an international presence were able to increase their share in the (Western) European passenger market. The United Kingdom saw a continuing period of reorganisations of (and invitations to tender for) franchises awarded in the 1990s, possibly entailing a strengthening trend of industry consolidation favouring a small number of large operators. In the wake of surging investments, municipal transportation systems in the US enjoyed double-digit growth rates in passenger load.

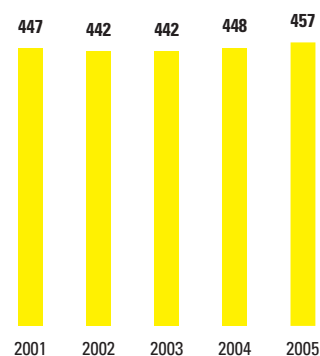
■ The market for rail vehicles

According to our estimates, international railway markets posted an average growth rate of approx. 4% p.a. in 2005, unchanged from 2004.

The market for rail vehicles (investments in rolling stock) tends to represent an average share of the global railway market in the order of approx. 40%. Traditionally, freight wagons and locomotives make up the strongest segments. Europe appears to have remained the most important market for rolling stock, followed by Asia, a region of vibrant development, and North America. In the absence of investments by formerly state-owned railways, we gauge Europe's growth rate for investments in rolling stock at around 2%. On the whole, the market for freight wagons remained stable; by contrast, the rental segment for locomotives and passenger train sets gathered momentum in 2005, as new rental companies entered the market with significant investment. While contributing to the standardisation of equipment, new entrants gave rise to speculation about lower leasing rates for passenger train sets and locomotives. The growing importance of Eastern European railway markets led to intensified efforts to modernise rail fleets. A survey conducted by CER anticipates that approx. €10 billion will be required for this purpose between now and 2012.

Thanks to healthy economic conditions in North America, demand for rolling stock was up by 5-6%, whilst high demand for transport capacity gave an additional boost to wagon leasing rates. American wagon manufacturers therefore were well positioned, producing 68,657 wagons, a 46% increase compared to 46,871 wagons in 2004. By year-end, order books were full, recording more than 69,000 freight wagons. At the same time, consolidation amongst wagon rental companies continued to a certain extent. After a record year in 2004, demand for locomotives remained strong in 2005. Alongside diesel-electric standard locomotives, a hybrid-powered locomotive designed for short-range assignments and shunting was introduced to the market. In spring 2005, the sale of General Motors Corporation locomotives unit, to a syndicate consisting of Greenbriar Equity Group LLC and Berkshire Partners LLC, was concluded.

Rail passenger Europe (excl. Russia) in billion passenger train-km



Sources: Land Transport Research/CER/UIC

Abbreviations and references

<i>CER</i>	<i>Community of European Railway and Infrastructure Companies</i>
<i>DB</i>	<i>Deutsche Bahn AG (German railways)</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>OECD</i>	<i>Organisation for Economic Cooperation and Development</i>
<i>SNCF</i>	<i>Société Nationale des Chemins de Fer (French railway operator)</i>
<i>TFM</i>	<i>Transportacion Ferroviaria Mexicana (Mexican railway operator)</i>
<i>tkm</i>	<i>tonne-kilometres (tonnes multiplied by distance in kilometres)</i>
<i>ton-miles</i>	<i>ton-miles (tons multiplied by distance in miles)</i>
<i>ZSSK</i>	<i>Slovak Railways</i>

■ Road traffic/logistics

The bus transport market remains highly competitive. International independent operators were able to gain market share, partly via acquisitions (e.g. the takeover of Germany's Sippel Group by the UK's Arriva plc). There are clear signs that brand loyalty in the bus market, together with purchaser allegiance towards domestic manufacturers (both legacies from the 1990's) are now giving way to a receptiveness towards international competition in the supply of bus equipment.

With growth rates surpassing GDP growth, the logistics market remains unfailingly buoyant – according to our estimates, markets in Europe, the US and Asia grew by 9%. In Western Europe, revenues increased by 5.4% p.a. on average in recent years, approaching a total of approx. €730 billion. Revenue growth in Central and Eastern Europe was at around 9% p.a. For 2005, logistics revenues in these countries are estimated at approx. €3.55 billion.

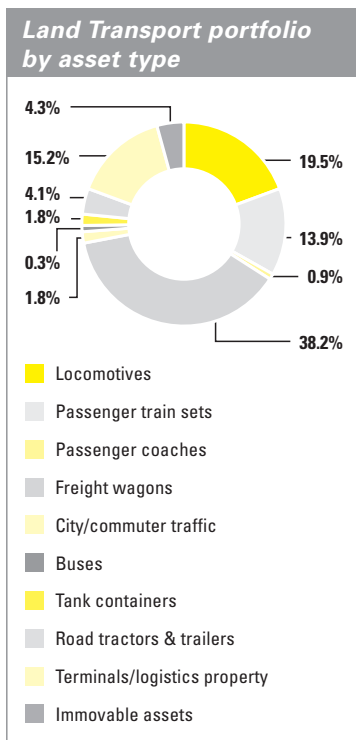
Land Transport – portfolio analysis

In 2005, the Land Transport division maintained the momentum seen over recent years. Due to the dynamic developments taking place in our core markets in Europe and North America, the portfolio grew both in terms of volume and income. DVB's flexibility, and its ability to actively take advantage of room for manoeuvre, were recognised by clients as outstanding strengths.

Total customer lending rose by €67.8 million (+7.6%) to €0.96 billion. This increase was achieved despite a number of both scheduled and unscheduled loan repayments. At 74, the number of clients was almost unchanged. There were further overall improvements in the collateralisation of our customer lending portfolio: by the end of 2005, 94.9% of all loans were secured by collateral (2004: 90.9%) – accordingly, the share of unsecured business declined to around 5.1%. The average loan-to-value-ratio declined by one percentage point, to 82.4%. This was in line with our target. Two factors contributed to this development: the value of collateral covering our exposure improved, whilst at the same time lower disbursements were agreed for new business. It should be noted that new business in its entirety is secured by valuable collateral.

In 2005, we have made further progress in enhancing the **regional diversification** of our Land Transport portfolio. We decided to increase our efforts to target the North American land transport market, which is more mature and transparent than other markets. The New York-based Land Transport Finance team was successful in implementing this decision, expanding the portfolio share attributable to the North American market to more than 25%. One offshore financing aside, our portfolio still comprises only country risks relating to OECD member states from North America and Europe.

In 2005, we concluded 14 structured loan facilities representing an underwritten volume of €230.2 million. 14.9% of the originated **new business volume** was syndicated to the international banking market. We took a leading role in 81% of new business. Ten basis points up at 149bp, we consider the average margin for new business very satisfactory.



Essentially, our Land Transport Finance portfolio consists of the following assets:

In view of the lively development in the market for asset-based financing arrangements, we have focussed more strongly on financing **mobile equipment**: freight wagons (38.2%), locomotives (19.5%), and road tractors and trailers (4.1%).

At 72.5% (2004: 69.7%), the share of **rail projects** (locomotives, passenger train sets, passenger and freight wagons) in the portfolio has slightly increased. With 38.2%, financing freight wagons in Europe and the US represents by far the single largest segment. We continue to take a positive view of this development: a well-diversified fleet of freight wagons provides our loan portfolio with sound collateral.

In the course of a tender relating to the sale of a major European wagon rental company, we submitted a stapled-finance offer on behalf of the seller. We provided finance to a number of European passenger rail operators for investments in standard passenger train sets – a market that continues to develop dynamically. Strong demand for locomotives, especially in North America, led to new business; notable transactions in this segment included a large-sized deal with a US Class 1 freight rail operator. We also provided finance to our core clients in the rental market for wagons and locomotives.

Road traffic/logistics formed another important focus of our financing activities. Collaborating with a partner bank, we assumed a leading role in financing the successful acquisition of a large European trailer portfolio. Requiring transatlantic coordination, and documentation covering a range of different jurisdictions, this complex transaction received the "Road Finance Innovator 2005" award from Jane's Transport Finance. This "Landmark Deal 2005" concluded by Land Transport Finance is described at greater length on pages 100-101. In the US, we succeeded in entering the attractive market for inter-modal equipment, financing container chassis for an American rental company.

We have outlined the "Land Transport landmark deal 2005" on pages 100-101. Please refer to the tombstones on the back cover for a number of other landmark Land Transport deals in 2005.

The extensive **product range** offered by Land Transport Finance comprises structuring and arranging senior debt, as well as providing subordinated loans and equity participations, and also includes advisory services for mergers and acquisitions. We were awarded a mandate to identify a partner in the European transportation market for one of our clients, an assignment lead-managed by our Corporate Finance division.

Transport Infrastructure – market review

The market for international project finance saw volumes rise by a substantial 20% to approx. US\$140 billion. In 2005, investments in transport infrastructure recorded a rising share of total global finance volume, growing from 19.1% to 20.5%, making it the second-biggest investment sector in project finance, behind energy with a market share of 31.7%.

The main geographic focus for transport infrastructure financing lay squarely in Europe and the Middle East (together representing 63% of total volume). These were followed by the Asia-Pacific region (25%) and the Americas (with a mere 12%). In 2005, (partial) privatisation continued – of state-owned airports or toll roads, for instance – as tight budgets encouraged outsourcing to private operator syndicates on a global scale.

Taking into consideration new regulations expected to be introduced in the wake of Basel II, we believe that project finance – being instrumental in limiting demand-side risks for private investors – will contribute to improved project ratings and thus to lower capital backing requirements. Already in 2005, expectations of this kind caused a moderate decline of credit spreads in the project finance market.

■ Airports

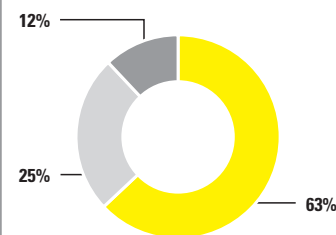
International airports face pressure to invest so as to be prepared for continuing substantial increases in air traffic. Short of cash, most public-sector airport operators are not in a position to undertake the requisite investments. Hence, the number of airport privatisations soared in 2005 – a trend likely to continue in the coming years. Mostly, (partial) privatisations were brought about by way of trade sale, with only a small proportion being financed through an IPO. Instances of partial sales of airports in 2005 can be found in Milan (Italy), Bratislava and Kosice (both Slovak Republic), Mumbai and Delhi (both India), Varna and Burgas (both Bulgaria) and Budapest (Hungary). Only in Mexico did an IPO occur, involving GAP (Grupo Aeroportuario del Pacifico).

■ Maritime ports and container terminals

Globalisation swells the flow of commodities. This entailed high rates of growth (of approx. 9%) in international container traffic in 2005. Ports of worldwide rather than regional significance, such as Hamburg, Rotterdam, Pusan and Los Angeles, play an outstanding role in this development, and the trend toward hub-and-spoke systems continues. It is likely that port capacity relating to container handling will expand or be newly created, especially in Europe, Russia and Asia, with China and India taking the lead in the Asian region.

Source: Thomson Financial –
Global Project Finance Review
4th Quarter 2005

The geography of global infrastructure financing



■ Europe/Middle East
■ Asian/Pacific region
■ North- and South America

Source: Thomson Financial – Global Project
Finance Review 4th Quarter 2005

*Trade sale – selling to a
private syndicate of bidders*

*Hub-and-spoke systems
map the flow of commodities.
The world's largest ports
for container handling serve
as so-called hubs. They are
linked to other hubs by large
container ships. In a spoke-
like pattern, smaller container
ships take the wares from
the hubs to regional ports
(spokes).*

The abbreviation "A" stems from the German name of the German Motorway Toll Act (Autobahnmautgesetz). The Act, which came into force in April 2002, provides the government with the means to provide indirect subsidies for transport infrastructure projects, raised through tolls charged for the use of Federal motorways by certain types of vehicle (HGVs). Toll income will be invested in improvements to roads and public transport. Private-sector third parties are included, in that they are eligible to operate elements of the toll collection system, obtaining service fees from the government.

DVB benefited from the dynamic development of the Baltic region, structuring and arranging notable transactions in the port sector: Multi Link Terminals in Finland and Russia in 2004, followed by the Gdansk container terminal in Poland in 2005. We were able to take advantage of the booming market by financing LNG projects requiring special port infrastructure both on the export and the import side. We also participated in a number of other interesting LNG-related project finance deals.

■ Rail infrastructure

Rail infrastructure projects actually realised are still rare in Europe. However, there is continuing demand in the financing market for projects aided by national governments or the EU. As a result, long loan terms still predominate, and credit margins are low owing to public aid. In the PPP sector, a number of projects are underway designed to improve rail connections for airports. Cross-border, high-speed rail infrastructure projects are characterised by substantial investments and a high degree of organisational complexity, entailing long-range planning horizons and delays in the implementation stage. In view of these complex market conditions, we did not finance any new rail infrastructure projects in 2005.

■ Toll roads

Subsequent to the successful implementation of the HGV toll collection system in Germany, in March 2005 tenders were invited for the first of twelve planned, privately financed road projects using schemes where income from the general HGV toll is earmarked to fund motorway expansion projects (so-called "A model" schemes). The starting project is the Augsburg-Munich section of the A8 motorway in Southern Germany. We acted as financial advisor to one of the five bidder syndicates led by the Spanish toll road operator OHL Concesiones, which is well-established internationally. Similarly, a call for tenders for the second "A-model" project (the Eisenach-Görlitz section of the A4 motorway in East Germany) was issued in August 2005.

In April 2005, acting as arranger, our team of experts was able to implement funding of the Hungarian M6 motorway: the concession for this PPP project has a 22-year term, and covers modernisation and extension of a 59 km motorway section running from Budapest along the Danube in southerly direction. The section is part of the strategically important "5C" corridor of the EU's Trans European Network (TEN) road-building programme. Contingent upon the motorway's stage of completion and quality in operation, the private operator will receive "availability payments" from the Hungarian government.

Abbreviations	
ECA	Export Credit Agencies
HGV	heavy goods vehicle
IPO	Initial public offering
LNG	Liquefied natural gas
PPP	Public-private partnership
RoRo	Roll-on/roll-off
TEU	twenty foot equivalent unit (standard unit for containers)

Transport Infrastructure – portfolio analysis

The business focus of the Transport Infrastructure Finance division is on the structured financing of big-ticket transport infrastructure projects funded by the private sector, as well as on project-specific financing advice (Financial Advisory).

The portfolio encompasses projects involving airports, ports, and container terminals, as well as rail infrastructure and toll roads. Projects relating to LNG terminals are considered part of the maritime ports category.

In 2005, we continued to expand the portfolio by 22.4%, from €523 million to €640 million. We have been able to optimise the structure of our portfolio in terms of quality, dispensing with transactions in the toll road segment, which we considered to have been refinanced at unattractive levels. We thus reduced the large share of toll road projects in the portfolio from 50% to 27%. At the same time, we entered into attractively-priced transactions in the ports, container terminals and airports segments.

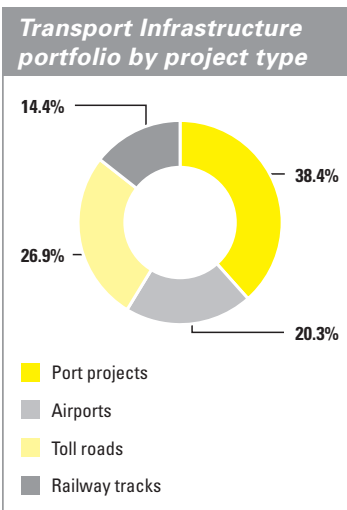
The transactions detailed below appear especially noteworthy from our point of view:

■ Container terminal project at Gdansk, Poland

Having worked on the project for an entire year as advisor and structuring agent, in October 2005 (by then, as sole Mandated Lead Arranger), we were to witness the implementation of an infrastructure project at Gdansk's North port, valued at around €180 million: the Gdansk Deepwater Container Terminal project.

Total investment of €180 million consisted in equal parts of a loan and equity. Equity was provided by GIF II (a fund managed by Macquarie Bank Ltd.) and DCT Gdansk Ltd., the company that obtained a 30+30 year lease from the Gdansk port authority.

The project's scope comprises design, construction and operation of a new deep-water container terminal to meet Poland's need for additional port and container handling capacity. The objective is to create a major logistic node with high-capacity links to the Polish motorway and rail networks. Being the first completely new, privately financed port project in Europe, it required extensive investment in infrastructure and suprastructure. This is Poland's largest international infrastructure investment to date.



The first stage of completion will result in an independently operating container terminal with a quay length of approx. 600 metres, 17 metres water depth, a handling capacity of 500,000 TEU p.a., and the ability to deal with today's largest container ships. In addition to the TEU capacity, additional RoRo capacity can be provided. Commissioning is scheduled for 2007. The project has been designed to allow for further terminal extensions, bringing total capacity to 1 million TEU in phase II.

■ **Project Sabine Pass LNG, USA**

Subsequent to our first LNG terminal transaction on the export side in 2004, we took part in a large LNG financing project for an import terminal in the US in 2005. The project is dedicated to constructing the largest American LNG terminal, which is located in Cameron Parish, Louisiana, alongside a deep-water canal, with two landing stages to receive LNG super-tankers with a maximum capacity of 250,000 cubic metres and maximum length of about 350 metres. Based on 20-year terminal user agreements (TUAs) entered into with ChevronTexaco and Total, LNG supplied by these two large oil and gas companies will be stored in large tanks on the site, and eventually vaporised to its natural gaseous state for delivery into the local gas pipeline network. The financing represents a total of over US\$1 billion, with 20% of that amount raised through equity participations of the two sponsors and 80% representing bank loans.

■ **Airport projects Ankara and Dalaman, Turkey**

To provide finance for two attractive airport transactions in Turkey, we assumed the role of lead arranger and co-arranger, respectively.

The first arrangement served to finance the construction of a new international airport terminal in Dalaman on Turkey's Riviera coast, requiring a total investment of US\$120 million, with US\$40 million raised in equity and US\$80 million representing debt. Dalaman is one of the prime destinations for Turkish tourism, serving more than a million passengers per year.

Please refer to the tombstones on the back cover for a number of other landmark Transport Infrastructure deals in 2005.

The second deal helped a new licensee to acquire the international airport Esenboga in the capital city of Ankara, to build extensions to the existing infrastructure and to modernise the airport. Again, the central task to be financed was the construction of a new terminal for domestic and international air traffic. About half of the approx. €240 million raised represented bank loans. The remainder was funded by equity (approx. €60 million) and an ECA facility (€55 million).

Syndications – market review

The syndicated loans market experienced a strong year during 2005. Stable economic conditions and strong profitability in the banking sector continued to ensure high liquidity levels in the market.

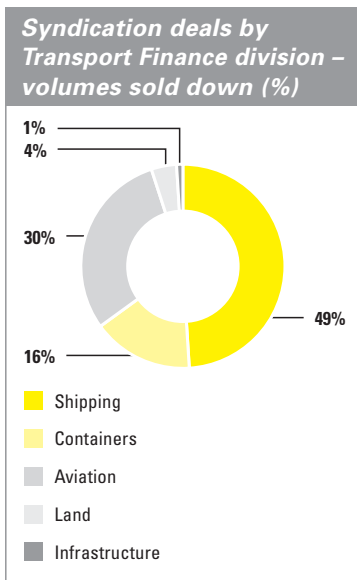
The syndicated loans market in general grew substantially during 2005 to an estimated volume of approx. US\$3,153 billion from US\$2,264 billion in 2004 (Dealogic). This was particularly as a result of a strong year in the debt syndication market for European borrowers, although the market in all other major geographies also increased.

The **shipping market** remained buoyant, with high charter and vessel prices. This resulted in low pricing and more relaxed covenants for cash-rich borrowers, as the ship finance market continued to compete aggressively for new business and re-financings. Despite the reduced pricing and excess liquidity, the majority of banks in this sector continued to enjoy a successful year. Similarly, the **aviation market** experienced continued growth in passenger and freight volumes. This produced further growth in financing requirements for the industry's operators, which in turn led to banks returning to the debt syndication market. Banks were however still selective, preferring the better assets and stronger aviation credits outside North America. Pricing for these credits continued to fall as their performance improved and as banks gained confidence and returned to the market.

The **project finance syndication market** was dominated by the privatisation and improvement of existing infrastructure such as airports, ports and roads, particularly in Europe. Banks active in the rail sector experienced a busy year in 2005, and also faced strong competition from operating lessors.

Syndications – portfolio analysis

The Syndications team is focused on the syndication of primary debt transactions, including the development of new markets and structures to expand distribution channels for DVB and its clients.



In 2005, the Syndications team raised US\$958.3 million from the market to successfully close 18 transactions launched, with a total volume of US\$1.65 billion, for our Transport Finance divisions: Shipping (incl. container boxes), Aviation, Land Transport and Transport Infrastructure. An additional US\$188.5 million was raised in 2005 for deals that closed in 2004, but for which the syndication was launched in early 2005; the majority of these were financing transactions for container boxes. This resulted in a total syndicated volume for 2005 of US\$1.15 billion.

Shipping transactions made up the majority of volume raised in 2005 with a total of US\$741.8 million syndicated, including container boxes which amounted to US\$184.5 million. Aviation totalled US\$347.5 million, while Land Transport came to US\$44.2 million and Transport Infrastructure aggregated US\$12.5 million.

During 2006 we will continue to seek new liquidity from the market, and broaden our syndication capabilities in respect of bank debt.

Advisory and M&A – market review and portfolio analysis

Our clients will to an increasing extent be exposed to the trend towards consolidation – or will even take the initiative in this direction. The “drivers” of global trade, transportation and competitive positioning, have already proved to be a catalyst for M&A (mergers and acquisitions) activity throughout the transportation industry, a trend which we believe will continue.

2005 was characterised by unparalleled growth in shipping Initial Public Offerings in the US, fuelled by the “China factor”: large demand for transportation needs to ship imports and exports, with a corresponding – and unprecedented – spike in charter rates and ship values. Market players took this opportunity to float shares, using the proceeds to repay bank debt and acquire more shipping assets. Assisted by low interest rates and ample financing capacity, companies took advantage of interesting M&A opportunities. This was, in particular, visible in the container lines, container box lessors, chemical tanker and cruise industries.

Our Advisory and M&A team consists of members with extensive experience from international investment banking with focus on the transportation industry, designed to support our business focus and to expand our fee income business.

Advisory does not utilise DVB’s capital; it sources income from mandated retainers and transaction-led success fees. The unit was awarded eleven new mandates in 2005, while four transactions were successfully closed during the year.

Our strategy is to capitalise on a large client base, backed by DVB’s balance sheet and underwriting capacity, and to provide these clients with a broader base of investment banking advisory products:

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

Please refer to the tombstones on the back cover for a number of other landmark Advisory and M&A deals in 2005.

Please refer to the tombstones on the back cover for a number of other landmark Group Investment Management deals in 2005.

Group Investment Management

■ NFC Shipping Funds – market review and portfolio analysis

NFC is a joint venture between DVB and Northern Navigation Inc., a holding company representing a group of private investors specialised in shipping equity investments.

The NFC Shipping Funds focus on (preferred) asset-based equity investments in the shipping and off-shore sectors. NFC acts as adviser to, and manager of, five NFC Shipping funds and managed total assets of US\$294.1 million (€249.3 million respectively) as at year-end 2005.

The NFC Shipping Funds are capitalised by investors from the USA, Germany, Norway and Kuwait. Of the capital available, approx. US\$140 million has been invested. Since 2001 NFC has closed 44 investments, sourced globally via its team of investment managers based in the USA, Norway, United Kingdom, Singapore and the Netherlands.

In 2005 NFC concluded 16 new investments, involving 40 vessels and one off-shore equipment. The asset value totalled US\$660 million. In the same period, five investments involving 14 vessels were sold for a total value of US\$215 million. Since 2001, the return on equity on all realised investments has been excellent, in some cases as high as 241%.

The asset-based approach of NFC, in combination with an in-depth knowledge of the shipping business and market coverage via the DVB network, provides a unique opportunity to invest in the shipping industry with partners that have a proven track record.

■ Deucalion Aviation Funds – market review and portfolio analysis

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

Through these fund management activities, DVB has been able to expand its traditional product range of senior and junior financing to clients. In this context, DVB can arrange each risk layer, including the equity aspect, for the financing of aviation projects. As at year-end 2005 Deucalion managed total assets of US\$292.9 million (€248.3 million).

During 2005 the Deucalion funds invested in eight aircraft and thirteen spare engines with a total transaction value of over US\$200 million. The investment in spare engines is a new venture for the funds, and complements DVB's strategic move in 2004 into this sector on the aviation lending side.

The funds also participated in the profitable sale of two aircraft in 2005. These aircraft, which were purchased as passenger aircraft and then converted to freighters, were owned and managed by a joint venture between Deucalion and a major European bank.

Investment performance continues to benefit from the equity investment made in 2003 in Malaysian low-cost airline operator Air Asia. During 2005 the company made year-on-year improvements in revenue, income and available seat capacity (with the increasing aircraft fleet size). The airline also began to roll out in Thailand and Indonesia, whilst continuing to compete effectively in its Malaysian home market. The expansion is taking advantage of the strong demand for low-fare air travel in Asia, since deregulation of those markets in recent years. The weighted average share price when the shares were launched in the November 2004 IPO was MYR 1.23: they closed 2005 at MYR 1.59.

An existing investment, made in 2004 by the Deucalion Funds in four Boeing 747-400 passenger aircraft, was complemented by the execution of a contract with a major conversion facility to turn all four aircraft into freighters in 2009. The B747-400 freighter market is widely anticipated to be very strong in forthcoming years: securing these conversion slots is therefore key to accessing this lucrative investor market.

The Deucalion Funds continued to enjoy success in the secondary paper market, with ABS notes being added to the portfolio for the first time. The difficulties experienced by the US aviation industry ensured some volatility within the EETC and ETC markets, which the funds were able to exploit for trading profit during 2005.

The Malaysian ringgit is the official currency of the Federation of Malaysia. The conventional market quotation is the number of Malaysian ringgits per US dollar. The value is currently pegged to a basket of currencies.

Source: Bloomberg L.P.

Abbreviations

ABS	Asset-backed securities
EETC	Enhanced Equipment Trust Certificates
ETC	Equipment Trust Certificates
IPO	Initial Public Offering
MYR	Malaysian ringgit (Malaysian currency)

Treasury

2005 was an eventful and successful year for Treasury. Business development was characterised largely by three factors:

- Standard & Poor's raised our long-term rating in July 2005.
- We conducted our first public placement of a US dollar bond issue in Singapore, in September 2005.
- We successfully conducted a capital increase in October/November 2005.

Additionally, we extended the range of products offered by Treasury, to include an industry first: the forward freight agreement, developed by our Transport Derivatives desk.

■ DVB's ratings

For details on a further rating upgrade in January 2006, please refer to "The DVB Share" on page 17 and the report on events after the balance sheet date on page 75.

On 29 July 2005, the rating agency Standard & Poor's upgraded our long-term rating from BBB+ to A-. Given that the long-term rating from Moody's Investor Services remained unchanged at A3 since 2000, this resolved the so-called split rating, with different grades by two rating agencies. Both major rating agencies have therefore reinstated our long-term rating, which is particularly important for our medium- and long-term refinancing activities, to the single-A category.

■ Bond issue successfully placed on international markets

The US\$400 million MTN issued in September 2005 by our subsidiary DVB Group Merchant Bank (Asia) Ltd. was very well received in Asia, being oversubscribed almost two-fold. With this issue, we expanded the investor base for our debt issuance programme: with a full 45% of the issue allocated to investors located in Asia, we successfully targeted this key market, which is significant to our business. The US dollar-denominated placement highlights our objective of increasingly refinancing our Transport Finance asset lending business on a matched-currency basis, gradually reducing the mismatch between US dollar lending and funding in euros.

■ Successful capital increase, and new supplementary capital (Tier II)

Please refer to the requirements, implementation and effects of the capital increase in "The DVB Share", on page 14, and in the management report – economic situation, on pages 66-68.

The increase of DVB's issued share capital was entered in the Commercial Register on 19 October 2005. This capital increase improved our capital base appreciably, whilst at the same time providing us with the potential for further successful growth in international Transport Finance.

The capital increase was very well received by the market. As a result, and including associated reserve appropriation from the premium, the core capital (Tier I) rose by 30.1%, from €509.9 million to €663.5 million at year-end 2005.

Similarly, we increased the supplementary capital (Tier II) in 2005, from €310.3 million to €344.8 million. We achieved this primarily through issuing a US\$65 million subordinated promissory note loan. The volume of profit-participation certificates remained unchanged at €126.1 million.

■ Refinancing activities in 2005

The volume of DVB Group's refinancing **portfolio** as at the reporting date (deposits from other banks and customers, securitised liabilities and subordinated liabilities) rose by 13.8%, from €8.7 billion to €9.9 billion as at 31 December 2005.

It was the interest by market participants demonstrated in shorter-dated instruments that defined our **issuing activity** in 2005, for the purpose of refinancing our lending business. Our 12-month term deposits rose considerably over the previous year: to €500 million (2004: no 12-month euro term deposits) and US\$250.5 million (2004: US\$300 million). On the other hand, the volume issued within the scope of our Commercial Paper programme decreased to €543.5 million (2004: €529 million) and US\$249 million (2004: US\$522.5 million). The overall volume of our **money market activities**, which is the total of the two products referred to, rose slightly compared with 2004. On the **capital market** on the other hand, we raised €536.5 million (2004: €960.1 million) in long-term deposits and promissory note loans, as well as issuing €40 million and US\$400 million respectively in medium-term notes, within the scope of our debt issuance programme (2004: €1,020 million – no US dollar issues). On an overall basis therefore, our capital market activities were down considerably on the previous year, to a total of €576.5 million and US\$400 million. We reduced the refinancing costs for new transactions significantly, not least due to our improved long-term rating, in the second half of the year.

■ Forward freight agreement – extending the range of trading products

High growth rates in international trade have led to increased demand for transport capacity in recent years. Freight rates that depend in numerous ways on exogenous factors account for a large portion of transport costs. On the one hand, oil price developments and sustained strong economic growth in Asia point towards a continued rise in freight rates; whilst on the other hand, the expansion of freight capacity advocates an easing of price pressures.

The question of how these freight rates develop in the future is vitally important to our Shipping Finance customers, in particular the international shipping companies. The forward freight agreement (FFA) is a derivative product that allows these future freight rates to be hedged. Freight rates on specific routes at specific dates can be bought and sold, without the necessity for physical delivery. Trading in FFAs has been started in 2006.

In June 2005, we established a London-based Transport Derivatives desk within Treasury, enabling us to offer FFAs to our customers. We have already made considerable progress in putting together the product team; besides regulatory requirements, preparations focus on risk assessment and the operational implementation of the new product type.

Economic situation

2005 was the second year during which DVB's income was generated almost exclusively from its core international Transport Finance and Corporate Finance. Our strong earnings – which climbed 24.6% to €162.8 million – confirmed the success of our strategic focus. Net interest income after loan losses was up 40.6%, to €98.4 million, and net fee and commission income rose 34.1%, to €60.5 million. The result from operating activities was up a significant 39.3%, to €58.5 million.

Key elements of, and external factors impacting on, the business development, plus preliminary remarks

■ Key elements dominating our business in 2005

- the high-volume new business in Transport Finance;
- the continued establishment and expansion of attractive market niches in the Transport Finance asset lending business; and
- the successful expansion of our Corporate Finance advisory business.

■ External factors

Due to its operations in international Transport Finance and Corporate Finance, the development of the euro/US dollar exchange rate has a particular impact on DVB's consolidated financial statements. In 2005, the effect of a strong US dollar against a weaker euro had a significant impact:

- The increase in the nominal volume of customer lending was considerably higher in euro terms (+32.1%) than on a US dollar basis (+14.4%). 76.3% of the overall volume of customer lending was denominated in US dollars, representing 80.4% of the lending business in Shipping and 95.9% in Aviation.
- The US dollar/euro exchange rate also had a considerable bearing on the net interest and net fee and commission income generated in the two largest Transport Finance segments. However, only around one-third of the lending volume in the Transport Finance divisions Land Transport and Transport Infrastructure is denominated in US dollars, so that the income generated in these segments was less susceptible to changes in the exchange rate.
- Earnings that were mostly US dollar-denominated were offset by costs that were mainly incurred in euros. DVB used derivatives to hedge the net income derived from the difference between US dollar-denominated income and euro-denominated costs, so that these revenues remained largely unaffected by fluctuations in the exchange rate during the course of the year.

■ Preliminary remarks

As from the business year 2005, DVB has applied IFRS/IAS in the preparation of its consolidated financial statements. This means that the figures for DVB's results of operations, financial position and net assets for the business years 2004 and 2005 are presented in

Abbreviations and references

AfS	Available for sale
bp	basis points
CIR	Cost/income ratio
Commercial Register	Handelsregister (HR)
DZ BANK	DZ BANK AG Deutsche Zentral- Genossenschaftsbank Frankfurt am Main
ECB	European Central Bank
HGB	German Commercial Code (Handelsgesetzbuch)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KWG	German Banking Act (Kreditwesengesetz)
LoR	Loans and receivables
LTV	Loan-to-value ratio
RoE	Return on equity

accordance with IFRS/IAS. In accordance with the exemption option stipulated in IFRS 1.36A, DVB does not apply IAS 39, "Financial Instruments: Recognition and Measurement", for the 2004 comparative figures.

Results of operations

DVB's **income** developed favourably in 2005, increasing by 24.6%, from €130.7 million to €162.8 million. When calculating the net interest income in accordance with IFRS, three additional factors were taken into consideration when compared with the German Commercial Code (HGB):

- impairment losses on loans and advances were already included in the net figure;
- interest expenses for silent partnerships were also taken into account; and
- income generated from operating leases and the corresponding expenditure was also included in the calculation of net interest income.

€ mn	2005	2004	Change	
			€ mn	%
Income	162.8	130.7	32.1	24.6
Net interest income after loan losses	98.4	70.0	28.4	40.6
Interest and similar income	560.2	426.1	134.1	31.5
Interest income	547.3	423.8	123.5	29.1
Current income	12.9	2.3	10.6	460.9
Interest expenses	446.9	330.6	116.3	35.2
Impairment losses on loans and advances	14.9	25.5	-10.6	-41.6
Net fee and commission income	60.5	45.1	15.4	34.1
Fee and commission income	66.4	52.7	13.7	26.0
Fee and commission expenses	5.9	7.6	-1.7	-22.4
Net trading income	19.3	1.3	18.0	1,384.6
Hedge result (hedge accounting)	-23.0	-5.5	-17.5	318.2
Net income from investment securities	8.7	10.8	-2.1	-19.4
Net other operating income/expenses	-1.1	9.0	-10.1	-112.2

Net interest income after loan losses rose by 40.6%, from €70.0 million to €98.4 million.

Net interest income (before loan losses) increased by 18.6% on a Group level, from €95.5 million to €113.3 million. This figure included a sharp increase in net interest income generated in Transport Finance, which climbed 25% from €87.7 million to €109.6 million. In Shipping, net interest income was up 8.4%, to €46.5 million. It rose by 24.9% to €33.1 million in Aviation, by 42.1% to €8.1 million in Land Transport, and by 27.8% to €4.6 million in Transport Infrastructure. Corporate Finance & Capital Market Products managed to almost double net interest income, to just under €17.3 million (+98.9%).

Interest income rose by 29.1% to €547.3 million. This was generated mainly by our lending business in Transport Finance, which contributed €493.3 million. In addition, operating lease income of €42.1 million was derived largely from the NFC and Deucalion Funds, which must be consolidated. Current income of €12.9 million includes distributions from investments, and from joint ventures.

Interest expenses of €446.9 million (+35.2%) are composed of €420.6 million in refinancing costs for the Transport Finance lending business, €19.5 million in operating-lease expenditure, and €6.8 million in expenses for silent partnership contributions.

Impairment losses on loans and advances fell by 41.6%, from €25.5 million to €14.9 million.

€ mn	2005	2004	Change	
			€ mn	%
Impairment losses on loans and advances	14.9	25.5	-10.6	-41.6
Additions	32.2	49.6	-17.4	-35.1
Reversals	-17.1	-28.1	11.0	-39.1
Direct write-offs	0.7	5.0	-4.3	-86.0
Recoveries on loans and advances previously written off	-0.9	-1.0	0.1	-10.0

Additions totalled €32.2 million:

- €26.8 million for the Aviation portfolio,
- €5.2 million for D-Marketing, and
- €0.2 million for the Shipping portfolio.

This figure was offset by €17.1 million in amounts released:

- €8.7 million in the Aviation portfolio,
- €6.3 million in D-Marketing, and
- €2.1 million in general loan loss provisions for D-Marketing.

Total allowance for losses on loans and advances rose by 7.2%, from €112.8 million to €120.9 million: D-Marketing accounted for €58.5 million, the Aviation portfolio for €51.9 million, the Shipping portfolio for €4.7 million, and Land Transport and Transport Infrastructure for €2.5 million.

Thanks to the high level of collateralisation of our Transport Finance activities, provided by the financed assets in the asset lending business (Shipping, Aviation and Land Transport), and the full coverage of the Transport Infrastructure portfolio exposure through concessions, no country risk provisions are required; this is also true pursuant to IAS 39. Additionally, at 0.3%, the share of commitments that involve a high degree of country risk relative to the overall volume of customer lending is very low.

Net fee and commission income also posted a notable increase of 34.1%, from €45.1 million to €60.5 million on a Group level. The Transport Finance contribution rose by 12.9%, from €51.9 million to €58.6 million. The growth in Shipping was particularly striking, increasing by 26.8% to €32.6 million. Aviation improved slightly, by 4.6% to €13.6 million, while Transport Infrastructure also increased significantly, by 26.9% to €3.3 million. Net fee and commission income generated by Land Transport however, was unchanged from last year, at €1.2 million.

Fee and commission income amounted to €66.4 million, of which 82.4% or €54.7 million was generated by Transport Finance. This figure was offset by fee and commission expenses of €5.9 million (-22.4%) – including, in particular, expenses incurred for guarantees and indemnities.

DVB made use of the fair value option in accordance with IAS 39 (EU version of November 2005), in order to offset measurement inconsistencies (referred to as 'accounting mismatches') in the items **net trading income** and **hedge result (hedge accounting)**. Net trading income thus amounted to €19.3 million; this included standalone derivatives in the trading portfolio, plus derivatives subject to ineffective hedging relationships, as well as designated hedged items. On the other hand, the result from hedge accounting was €-23 million; this figure includes derivatives with effective hedge relationships.

Net income from investment securities, which comprises the disposal of investment securities (LoR, AfS) and companies accounted for at equity, fell from €10.8 million to €8.7 million.

Net other operating income/expenses was down considerably, from €9.0 million to €-1.1 million. This was mainly due to the absence of any reversals of provisions, and a result of a decline in income from the disposal of property and equipment etc. as well as in rental income.

■ **Development of the result from operating activities before tax**

The **result from operating activities before tax** developed positively, increasing from €42 million to €58.5 million (+39.3%).

€ mn	2005	2004	Change	
			€ mn	%
Income	162.8	130.7	32.1	24.6
General administrative expenses	104.3	88.7	15.6	17.6
Staff expenses	55.3	46.0	9.3	20.2
Operating expenses	44.9	37.9	7.0	18.5
Depreciation, amortisation, impairment and write-ups	4.1	4.8	-0.7	-14.6
Result from operating activities before tax	58.5	42.0	16.5	39.3

General administrative expenses, which are deducted from income, increased by 17.6% to €104.3 million.

Staff expenses rose by 20.2%, from €46 million to €55.3 million. This increase was down to two factors: firstly, it reflected the setting-up of specialist teams worldwide in Transport Finance and Corporate Finance. Secondly, it also reflected the provisions that were set aside in the 2005 business year for higher bonuses which will be paid to DVB staff in 2006, reflecting the positive results achieved in the business year under review.

At €44.9 million, operating expenses were up 18.5% on the previous year (2004: €37.9 million). The key factors behind this increase were:

- advisory expenses of €13.9 million, which were broken down as follows:
 - €5.8 million for legal and audit expenses;
 - €8.1 million for other advisory services (incl. IT consultancy expenses);
- occupancy expenses of €7.9 million;
- ancillary staff expenses of €8.2 million; and
- contributions and charges of €6.6 million.

Depreciation, amortisation, impairments and write-ups of €4.1 million were down slightly on the previous year (2004: €4.8 million).

■ Development of net profit

Net profit climbed 60.7%, from €33.8 million to €54.3 million.

€ mn	2005	2004	Change	
			€ mn	%
Result from operating activities	58.5	42.0	16.5	39.3
Income tax expense	1.6	7.6	-6.0	-78.9
Minority interest	2.6	0.6	2.0	333.3
Net profit	54.3	33.8	20.5	60.7

The result from operating activities was subject to an actual tax burden of €10.0 million, which was offset by €8.4 million in income related to deferred taxes. Thus, a total of €1.6 million in income tax expense was reported.

Minority interest income, which was recognised with respect to third-party funding contributions to the fully-consolidated NFC and Deucalion Funds, accounted for €2.6 million (2004: €0.6 million).

■ Distributable profit, and appropriation of profits

Distributable profit rose from €6.6 million to €9.5 million (+43.9%).

€ mn	2005	2004	Change	
			€ mn	%
Net profit	54.3	33.8	20.5	60.7
Profit carried forward from the previous year	0.7	0.5	0.2	40.0
Transfer to retained earnings	45.5	27.7	17.8	64.3
Distributable profit	9.5	6.6	2.9	43.9

Profit attributable to treasury shares carried forward from previous periods increased by €0.2 million to €0.7 million. Additionally, €45.5 million (+64.3%) was transferred from current operations to retained earnings.

We will propose to DVB Bank AG's Annual General Meeting, which will be held on 30 June 2006, to pay an increased **dividend** of €2.25 per unit share for the 2005 business year. This represents a dividend yield of 1.24%, based on the year-end share price of €182.00.

Financial position

■ Liabilities in the balance sheet

DVB's liabilities recognised on the balance sheet increased as a result of the expansion of the asset lending business in Transport Finance, by 12.5% to €9.9 billion (2004: €8.8 billion). Deposits from other banks rose by 7.4%, from €2.7 billion to €2.9 billion. Deposits from customers increased by 28.6%, from €2.8 billion to €3.6 billion. Securitised liabilities were up slightly by 3.6%, from €2.8 billion to €2.9 billion. Subordinated liabilities were unchanged from the previous year, at €0.5 billion.

■ Own funds as defined by the German Banking Act

Own funds as defined by the German Banking Act (KWG) increased by 22.9% to €1,008.3 million (2004: €820.2 million).

€ mn	2005	2004	2003	2002	2001
Issued share capital	99.6	77.6	77.2	76.8	76.8
Reserves	419.4	296.6	270.1	203.4	175.3
Silent partnership contributions	77.5	77.5	77.5	77.5	77.5
Reserves eligible for inclusion and adjustments in accordance with the KWG	67.0	58.2	64.6	81.5	78.4
Core capital (Tier I)	663.5	509.9	489.4	439.2	408.0
Subordinated liabilities	242.2	200.0	201.0	199.0	207.0
Profit-participation certificates	126.1	126.1	126.1	164.5	164.5
Reserves eligible for inclusion and adjustments in accordance with the KWG	-23.5	-15.8	-12.5	-16.2	-11.2
Supplementary capital (Tier II)	344.8	310.3	314.6	347.3	360.3
Tier III funds	-	-	-	-	3.1
Own funds as defined by the KWG ¹⁾	1,008.3	820.2	804.0	786.5	771.4

1) taking into consideration reserves and transfers to reserves from net profit

Strengthening DVB's liable capital is key to its objective of realising further profitable growth potential in international Transport Finance. Hence, the following measures were adopted in 2005 to strengthen our capital base:

- increasing the issued share capital by €21.7 million via the issue of 850,000 new notional no-par value bearer shares (unit shares) against cash contribution;
- strengthening the capital reserve, through allocating the €83.7 million premium from the capital increase;
- transferring €45.5 million from current operations to retained earnings; and
- increasing the subordinated liabilities, by issuing a US\$65 million subordinated promissory note loan.

In addition, the issued share capital was already increased in September 2005, by €0.3 million to €77.9 million, through shares issued within the scope of "DVB Shares", the employee participation scheme.

The details of the aforementioned measures are described below:

■ **Strengthening the core capital (Tier I) through the share capital increase in 2005**

On 6/7 September 2005, the Board of Managing Directors and the Supervisory Board of DVB Bank AG adopted the resolution in principle, to increase the capital of DVB Bank AG by approx. €100 million, utilising the Authorised Capital 2002/I, as stipulated in the Memorandum and Articles of Association.

On 12/14 October 2005, the Board of Managing Directors and the Supervisory Board then resolved to increase DVB Bank AG's €77.9 million share capital by €21.7 million, to €99.6 million, against contribution in cash, via the issuance of 850,000 new notional no-par value bearer shares (unit shares) at a subscription ratio of seven old to two new shares. A range of between €115.00 and €130.00 was initially agreed for the subscription price. The capital increase was registered with the Commercial Register on 19 October 2005.

The new shares were underwritten by DZ BANK, subject to the obligation to offer them to shareholders of DVB Bank AG – at the agreed subscription ratio for indirect subscription – between 1 November 2005 and 14 November 2005. On 27 October 2005, the Board of Managing Directors of DVB Bank AG resolved to fix the subscription price at €124.00. The subscription rights were traded on schedule during the set time period.

The new shares were admitted to Official Trading on the Frankfurt Stock Exchange on 11 November 2005, and were listed on 15 November 2005. DZ BANK did not take any action for the purpose of stabilisation during the stabilisation period.

In summary, the issued share capital (as defined in article 4 of the Memorandum and Articles of Association) was increased by €21.7 million to €99.6 million. The new shares carry full dividend rights from 1 January 2005.

■ **Strengthening the core capital (Tier I) by increasing the reserves**

A total of €122.8 million was allocated to reserves, which therefore increased by 41.4% to €419.4 million. The focus was on strengthening the capital reserve via the €83.7 million share capital increase premium.

Both measures had the effect of increasing the **core capital (Tier I)** by a total of 30.1% to €663.5 million (2004: €509.9 million).

■ **Strengthening the supplementary capital (Tier II)**

Subordinated liabilities climbed overall by 21.1%, from €200.0 million to €242.2 million. The issue of a subordinated promissory note loan in the amount of US\$65 million was offset by liabilities repaid during the course of the year.

At €126.1 million, profit-participation certificates eligible for inclusion according to the KWG were unchanged over the previous year.

The **supplementary capital (Tier II)** thus increased by 11.1%, from €310.3 million to €344.8 million.

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

■ **Risk-weighted assets and capital ratios, as defined by the German Banking Act**

%	2005	2004	2003	2002	2001
Core capital quote	6.8	6.7	6.8	5.8	5.0
Total capital ratio	10.2	10.7	11.1	10.4	9.5

Since 76.3% of international Transport Finance exposure is US dollar-denominated, the performance of the US dollar and its exchange rate to the euro also impacted on risk-weighted assets and hence on the capital ratios. Risk-weighted assets rose, not only as a result of the prospering new business but also due to currency effects arising from the strength of the US dollar. Core capital, and hence euro-denominated own funds, also increased. The capital ratios were recalculated upon confirmation of the financial statements. Part of the effect generated by the inflow of capital funds was offset by portfolio growth and exchange rate developments.

The total capital ratio therefore fell slightly to 10.2%; the core capital ratio, on the other hand, increased slightly to 6.8%.

■ Return on equity and cost/income ratio

The management of DVB Group during 2005 focused on the key financial indicators of return on equity (RoE) and cost/income ratio (CIR).

	%	IFRS		HGB	
		2005	2004	2005	2004
Return on equity before taxes		15.9	12.7	17.1	15.7
Cost/income ratio		58.7	56.8	53.6	57.8

The RoE calculated in accordance with IFRS performed well in 2005, rising from 12.7% to 15.9%, while the CIR, which was also calculated in accordance with IFRS, deteriorated only slightly, from 56.8% to 58.7%.

When applying HGB rules, both ratios performed in line with strategic targets, with RoE up 1.4 percentage points to 17.1% in 2005. The CIR fell by 4.2 percentage points to 53.6%, thus approaching the target level of 50%.

We calculated the return on equity (RoE) before taxes in accordance with IFRS as follows:

The result from operating activities before tax of €58.5 million was divided by the total of the weighted capital (issued share capital, capital reserves and retained earnings) to the amount of €368.9 million. This equated to a ratio of 15.9%.

We calculated the cost/income ratio (CIR) in accordance with IFRS as follows:

The general administrative expenses figure (excluding amortisation of goodwill) of €104.3 million was divided by the total of net interest income (before loan losses), net fee and commission income, and net income from investment securities), to the amount of €177.8 million. This corresponded to a ratio of 58.7%.

Net assets

■ Business volume and total assets

At €12.6 billion, business volume in 2005 was up 18.9% on the previous year (2004: €10.6 billion). Besides total assets of €10.9 billion, the figure also includes irrevocable loan commitments of €1.5 billion and contingencies of €0.3 billion.

■ Lending volume over time

DVB's lending volume rose by 18.3% compared with the previous year, from €10.4 billion to €12.3 billion.

€ bn	2005	2004	Change	
			€ bn	%
Loans and advances to banks	0.9	1.0	-0.1	-10.0
Loans and advances to customers	8.8	7.0	1.8	25.7
Securities (incl. equity investments)	0.4	0.8	-0.4	-50.0
Guarantees and indemnities	0.3	0.2	0.1	50.0
Irrevocable loan commitments	1.5	1.1	0.4	36.4
Derivatives	0.4	0.3	0.1	33.3
Lending volume	12.3	10.4	1.9	18.3

At €0.9 billion, loans and advances to banks were down slightly on the previous year (2004: €1.0 billion). In line with our strategy, loans and advances to customers climbed by a significant 25.7%, from €7.0 billion to €8.8 billion. This was due to the high-volume new business, especially in Shipping, Aviation and Transport Infrastructure. The volume of securities (incl. equity investments) held was halved, from €0.8 billion to €0.4 billion. Guarantees and indemnities were up from €0.2 billion to €0.3 billion, while irrevocable loan commitments increased by 36.4%, from €1.1 billion to €1.5 billion. The rise in both figures was also attributable to the high-volume new business. As in previous years, we employed derivative instruments for hedging purposes, offering them (to a very limited extent) to our clients as well. The volume of derivatives increased by 33.3% to €0.4 billion.

■ Nominal volume of customer lending by business division

DVB's nominal customer lending (the aggregate of loans and advances to customers, guarantees and indemnities, and irrevocable loan commitments) comprises the asset lending business of our Transport Finance and loan exposures no longer in line with our strategy, which are managed by D-Marketing.

Prospering new business in the Shipping (+32.6%), Aviation (+37.5%) and Transport Infrastructure (+60.2%) segments drove up customer lending by 32.1%, from €8.16 billion to €10.78 billion.

The breakdown of customer lending is as follows: Shipping accounted for the lion's share (53.2%), followed by Aviation (27.7%). 8.9% was attributable to Land Transport, and 5.9% to Transport Infrastructure. We have identified high growth potential in the Corporate Finance & Capital Market Products segment, which accounted already for a share of 2.5% in 2005. We are therefore recording this segment separately for the first time in the year under review. At 1.8%, the D-Marketing share continued to fall.

In the long term, our strategy is for Shipping and Aviation to each account for 40% of the portfolio. The aggregate target figure for Land Transport/Transport Infrastructure is around 20%.

■ Portfolio analysis – key factors

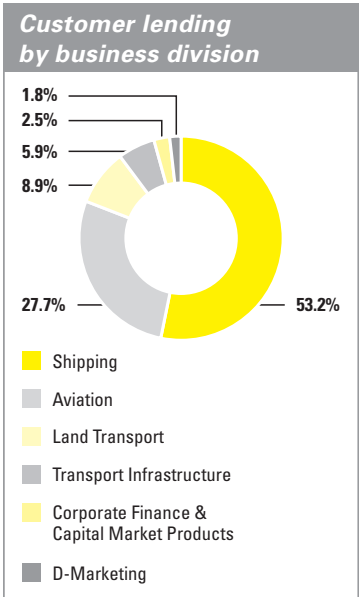
The following factors defined portfolio developments during 2005:

- Euro/US dollar exchange rate development: the US dollar was considerably stronger in 2005. Customer lending climbed by 32.1% in euro terms, which was considerably stronger than on a US dollar basis (+14.4%), whereby 76.3% of overall customer lending was denominated in US dollar (Shipping: 80.4%; Aviation: 95.9%).
- Strengthening DVB's leading role: in 2005, DVB extended its role in international transport finance and was increasingly involved in transactions where the Bank took the leading role (67% – which represents a plus of 6 percentage points).
- Corporate Finance & Capital Market Products: with effect from 2005, we have aligned the fast-growing Corporate Finance business, together with Advisory and M&A, Group Investment Management (including NFC Shipping Funds and Deucalion Aviation Funds) and Capital Markets.

■ Portfolio analysis – volume trends

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

- The Shipping portfolio grew by 15.6% in US dollar terms, from US\$5.84 billion to US\$6.75 billion. Due to currency effects, the increase was greater in euro terms, growing by 33.6%, from €4.29 billion to €5.73 billion. The same scenario applied to the Aviation portfolio, which grew by 17.7% in US dollar terms from US\$3.00 billion to US\$ 3.53 billion. The increase in euro terms was significantly higher, up 35.9% from €2.20 billion to €2.99 billion.
- In contrast, only one-third of the Land Transport portfolio is denominated in US dollars, and two-thirds in euros. This portfolio grew slightly by 6.7%, from €0.90 billion to €0.96 billion. In US dollar terms, it even posted a small decline of 7.4%, from US\$1.22 billion to US\$1.13 billion.



Similarly, roughly one-third of the Transport Infrastructure portfolio is denominated in US dollars and half in euros. The rest is denominated in pound sterling. In euro terms, the portfolio grew strongly by 23.1%, from €0.52 billion to €0.64 billion. US dollar-based growth on the other hand, was minimal at 7.0%, from US\$0.71 billion to US\$0.76 billion.

■ **Development of customer lending by business division
in euro and US dollar from 2001-2005**

€	2005		2004		2003		2002		2001	
	bn	%	bn	%	bn	%	bn	%	bn	%
Shipping	5.73	53.2	4.29	52.6	3.95	52.2	4.41	55.3	4.76	55.3
Aviation	2.99	27.7	2.20	27.0	2.02	26.7	2.15	27.0	2.08	24.2
Land Transport	0.96	8.9	0.90	11.0	0.80	10.6	0.69	8.7	1.10	12.8
Transport Infrastructure	0.64	5.9	0.52	6.4	0.47	6.2	0.27	3.4	0.19	2.2
Corporate Finance & Capital Market Products	0.27	2.5	–	–	–	–	–	–	–	–
D-Marketing	0.19	1.8	0.25	3.1	0.33	4.4	0.45	5.6	0.48	5.6
Total	10.78	100.00	8.16	100.00	7.57	100.00	7.97	100.00	8.61	100.00

US\$	2005		2004		2003		2002		2001	
	bn	%	bn	%	bn	%	bn	%	bn	%
Shipping	6.75	53.1	5.84	52.6	4.98	51.9	4.62	55.1	4.23	52.8
Aviation	3.53	27.8	3.00	27.0	2.60	27.1	2.30	27.4	1.82	22.7
Land Transport	1.13	8.9	1.22	11.0	1.00	10.4	0.72	8.6	1.25	15.6
Transport Infrastructure	0.76	6.0	0.71	6.4	0.59	6.2	0.28	3.3	0.16	2.0
Corporate Finance & Capital Market Products	0.32	2.5	–	–	–	–	–	–	–	–
D-Marketing	0.22	1.7	0.34	3.1	0.42	4.4	0.47	5.6	0.55	6.9
Total	12.71	100.00	11.11	100.00	9.59	100.00	8.39	100.00	8.01	100.00

€/US\$ reference rate published by the ECB (31 Dec)	1.1797	1.3621	1.2630	1.0487	0.8813
---	--------	--------	--------	--------	--------

■ Portfolio analysis by earnings contribution

We have analysed earnings by comparing the development of the Transport Finance portfolios in the years 2005 and 2004. We have broken down the portfolio into total and new commitments, which we have then differentiated further by key ratios and indicators.

The portfolio development clearly underlines the success enjoyed by DVB in the transport finance business: the volume of new business rose strongly, with the Bank increasingly taking a leading role, and interest margins and LTV ratios continuing to develop favourably.

■ New business

Despite a global economic environment that was still challenging, DVB generated a significant amount of long-term, collateralised new business in 2005: Shipping contributed €3.19 billion (+32.6%), Aviation €1.15 billion (+37.5%), and Transport Infrastructure €0.19 billion (+60.2%). In contrast, new Land Transport business posted a slight decline of 8.7% to €0.23 billion (2004: €0.25 billion).

DVB played an increasingly greater leading role in Transport Finance – the share of transactions led by DVB in the overall portfolio rose from 61% to 67%. The leading role share of new commitments was in fact 76% (2004: 74%) – particularly in Land Transport and Transport Infrastructure, which extended their leading role considerably in new business, thus developing in line with Shipping and Aviation.

The average interest margin of 162bp for new business was unchanged from the previous year (163bp). The margins in Transport Infrastructure increased favourably, up 66bp to 243bp, while Aviation and Land Transport improved by 10bp each. The interest margin in Shipping Finance on the other hand, contracted slightly by 5bp.

■ Total portfolio

The average LTV ratio of the individual Transport Finance segments indicates the relation between loans granted and the market value of the financed assets. The positive development of recent years remained intact: the LTV ratio of the total portfolio improved by a favourable 13.3 percentage points. The ratio in Shipping and Aviation fell significantly. It was down slightly in Transport Infrastructure, while Land Transport remained unchanged at last year's level.

The CIR in Transport Finance rose slightly overall to 23.7% (2004: 22.4%). While Land Transport and Transport Infrastructure succeeded in further reducing the CIR slightly, Shipping, Aviation and Corporate Finance & Capital Market Products reported a slight increase. This was attributable to the expansion of our advisory services and our product range, as well as the establishment of the relevant specialist teams. Both measures aim to realise the earnings potential we have identified in high-growth market niches.

Overall, the RoE in Transport Finance fell slightly to 33.0% (2004: 36.4%). Although net profit in Transport Finance increased overall by 21.1%, from €92.3 million to €111.8 million, this increase was outweighed by the development of weighted capital, which climbed 25.2% to €338.9 million. What this means in detail is that Aviation and Transport Infrastructure were able to improve their RoE, while Land Transport was virtually unchanged from the previous year and the RoE in Shipping declined.

■ Portfolio analysis by earnings contribution

	Shipping		Aviation		Land Transport		Transport Infrastructure		Corporate Finance & Capital Market Products		Total		
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	Change %
	€ mn												
Overall portfolio													
Customer lending	5,725.0	4,292.1	2,988.1	2,203.3	958.8	891.0	640.3	522.7	274.1	–	10,586.3	7,909.1	33.8
Loans and advances to customers	4,811.9	3,597.5	2,754.1	2,041.3	837.3	760.7	320.1	287.6	176.5	–	8,899.9	6,687.1	33.1
Loan commitments, guarantees and indemnities	913.1	694.6	234.0	162.0	121.5	130.3	320.2	235.1	97.6	–	1,686.4	1,222.0	38.0
Number of customers (primary obligor groups)	235	228	113	96	74	75	24	24	31	–	477	423	13
Leading role (%)	70	63	70	63	67	67	44	41	45	–	67	61	6 ³⁾
Average LTV ratio (%)	57.7	63.1	79.0	87.2	82.4	83.4	45.0	50.4	n/a	–	65.6	78.9	–13.3 ³⁾
CIR (%) ¹⁾	22.2	21.5	14.1	13.7	29.6	30.1	16.6	21.6	38.2	33.3	23.7	22.4	1.3 ³⁾
RoE (%) ²⁾	36.3	45.3	20.2	19.9	19.5	19.7	34.1	26.0	248.6	379.9	33.0	36.4	–3.4 ³⁾
Portfolio New commitments													
Number of new transactions	142	113	58	52	14	20	8	6	–	–	222	191	16.2
Underwritten	3,189.9	2,404.9	1,148.0	835.0	230.2	252.0	185.8	116.0	–	–	4,753.9	3,607.9	31.8
Syndicated to third parties	297.7	520.0	7.8	21.0	34.3	5.0	0.0	0.0	–	–	339.8	546.0	–37.8
Final take	2,892.2	1,884.9	1,140.2	814.0	195.9	247.0	185.8	116.0	–	–	4,414.1	3,061.9	44.2
of which: loan commitments as at 31 Dec	508.0	443.2	205.6	105.6	69.2	58.3	185.2	38.7	–	–	968.0	645.8	49.9
Book building	186.9		268.5						–	–	455.4	0.0	–
Leading role (%)	73	72	88	89	81	44	65	39	–	–	76	74	2 ³⁾
Average margin (bp)	139bp	144bp	216bp	206bp	149bp	139bp	243bp	177bp	–	–	162bp	163bp	–1 ³⁾

1) Computed in accordance with IFRS – without allocating overhead expenses and before impairment losses on loans and advances

2) Computed in accordance with IFRS – without allocating overhead expenses, after impairment losses on loans and advances, and before taxes

3) Change in percentage points

Report on events after the balance sheet date

in accordance with section 315 (2) no. 1 of the German Commercial Code (HGB)
(as at 18 April 2006)

Moody's Investors Service upgrades DVB's ratings

Moody's announced an upgrade of DVB Bank AG's long-term rating – from A3 to A2 – on 31 January 2006. At the same time, the short-term rating was raised from P-2 to P-1, whilst the financial strength indicator remained unchanged, at C-. For more details, please refer to the section on the DVB Share (on page 17), and to the information presented in this management report (on page 58).

Deucalion Engine Leasing (Ireland) Limited established

DVB Bank AG established Deucalion Engine Leasing (Ireland) Limited in February 2006. The new entity is a joint venture with Engine Lease Finance Corporation (ELF), the largest independent lessor of aircraft engines worldwide. This cooperation represents another milestone in the recent expansion of our engine finance business, extending to financing and investment in this segment.

Group structure reorganised

DVB Group Merchant Bank (Asia) Ltd., Singapore, and DVB Bank America N.V., Curaçao, Netherlands Antilles, were previously managed within DVB Group as subsidiaries of DVB Bank N.V., Rotterdam (see the report on branches and subsidiaries on page 88). On 21 February 2006, the Board of Managing Directors of DVB Bank AG resolved to change this holding structure. Subject to consummation of all required agreements and fulfilment of all regulatory requirements, said companies will become direct subsidiaries of DVB Bank AG, Frankfurt/Main. A purchase price was agreed, on an arm's length basis, on 4 April 2006. The particular purpose of this measure is to enhance the structural clarity and transparency of DVB Group; it also serves to further reduce administrative expenditure.

Other events

DVB's Advisory and M&A team established a global business structure in March 2006. Established in 2002, the Corporate Finance division had been operating exclusively from London. As a first step, a **Singapore-based team of advisors** was established in March 2006.

Rolf Michael Betz, member of the Board of Managing Directors of DVB Bank AG, retired from office at the end of his contractual term on 31 March 2006.

A Land Transport **research team**, based in Rotterdam, started operations on 3 April 2006.

There were no **other issues** of material importance to the assessment of the income and financial situation of DVB Bank AG and DVB Group after the end of the 2005 business year. Statements made in the report on expected developments have been confirmed by the development of business in the first months of the 2006 business year.

Risk report

in accordance with section 315 (2) no. 2 a and b of the German Commercial Code (HGB) (as at 18 April 2006)

The following section illustrates the three key elements of DVB's risk management system:

- organisation of the risk management and risk control process;*
- DVB's capacity to carry and sustain risk/risk capital; and*
- typical types of risk associated with DVB's business.*

The risk report presented below provides a breakdown of DVB's Transport Finance sub-portfolios by collateralisation structure and LTV range (under "Portfolio management and control", on pages 81–83). The portfolio values analysed there reflect nominal values of the DVB Group portfolio. They have thus been derived from the same basis as the portfolio analysis in the management report – economic situation. (Cf. "net assets – portfolio analysis" on pages 71–74).

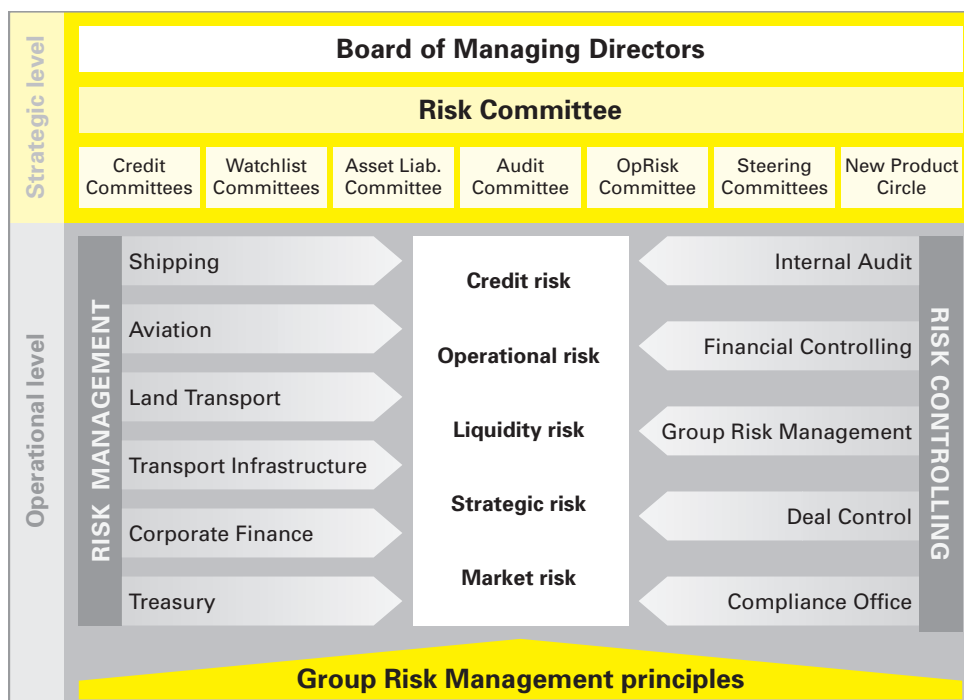
Assuming risks in a targeted and controlled manner – achieving returns that are commensurate with the risks taken – is an integral part of DVB's overall management strategy as an international asset lender.

Based on DVB's ability to carry and sustain risks, the Board of Managing Directors defines the risk policy, which provides the guidelines for assuming, monitoring and managing risks. Our Group-wide system for the early detection, monitoring and management of risks not only complies with the legal framework, but also satisfies our commercial requirements.

Organisation of the risk management and risk control process

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

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



Abbreviations and references

ALCO	Asset Liability Committee
DZ BANK	DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main
HGB	German Commercial Code (Handelsgesetzbuch)
IRM	Internal rating model
KWG	German Banking Act (Kreditwesengesetz)
LGD	loss given default
LTV	Loan-to-value ratio
MaK	Minimum Requirements for the Credit Business (Mindestanforderungen an das Kreditgeschäft)
OASIS	Object Finance Administration and Security Information System
OpRisk	Operational risk
SAP	Major ERP software platform
VaR	Value at risk

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

Within the **Group Credit Committee**, comprising the entire Board of Managing Directors and the heads of Credit and Industry units, the entire Board of Managing Directors decides on DVB's individual loan commitments that do not exceed 12.5% of the Bank's liable capital, provided that the unsecured portion of an exposure does not exceed €30 million. The approval of the Supervisory Board Credit Committee is required additionally for exposures exceeding these thresholds. Credit approval decisions are taken jointly by the heads of credit departments and industry sectors, based on DVB's applicable lending policies and within the framework of loan approval authorities for the relevant industry sector, rating level, and amount.

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

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

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

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

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

The **New Product Circle** (comprising the heads of service units) analyses and discusses the framework within which DVB may offer new products to its clients, or explore new markets or market segments.

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

Capacity to carry and sustain risk/risk capital

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

DVB's aggregate risk cover amounted to €1,172 million at the end of 2005 (2004: €984 million). The increase was mainly due to the capital increase carried out during the year under review, and the planned profit retention.

At the end of each year, the Board of Managing Directors approves the risk capital budget for the next business year. Risk capital has to cover all risks, and is defined as the economic capital or total loss limit that DVB is willing to invest over one year. Risk capital must be sufficiently high to cover aggregate unexpected ("worst-case") losses, given a 99.95% (2004: 99.82%) probability.

The risk capital for 2006 was set at a level of €460 million (2004: €318 million), taking into account correlation effects, and subject to the additional proviso that, even in the event of all unexpected losses materialising, DVB must still comply with regulatory minimum capital requirements. This significant increase was primarily the result of using a markedly higher confidence interval to calculate risk capital than in the previous year, reflecting the higher ratings of DVB Bank AG. Risk capital is distributed across individual types of risk as follows:

€ mn	2006 Risk capital limit	2005 Risk capital limit	2005 Utilisation as at 31 Dec 2005	Average utilisation
Counterparty risk	415	280	190	196
Market risk	21	21	12	11
Operational risk	28	25	22	22
Strategic risk	37	27	26	26
Correlation effects	-41	-35	-29	-29
Total	460	318	221	226

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

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

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

Types of risk

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

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

■ Counterparty risk

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

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

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

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

We successfully rolled out the IRM for the Shipping and Aviation portfolios, which together accounted for as much as 81% (approx.) of the overall loan portfolio at the end of 2005. The gradual implementation for the remaining, smaller loan portfolios is scheduled until 2009: at this point, the IRM will be used for the rating of virtually all of DVB's loan portfolio.

The results of the IRM provide vital information for lending decisions, too: in addition to expected loss and unexpected loss (both of which will be mandatory under the future regulatory framework), the model also determines standard risk costs which are, in turn, incorporated for setting the minimum required margin.

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

■ Portfolio management and control

■ Data framework and tools

DVB has organised its portfolio management and control processes on two levels. Group Risk Management is responsible for developing and implementing portfolio management tools and methodology, and for preparing analyses of DVB Group's overall portfolio (in line with the requirements under MaK). On a divisional level, each Transport Finance division is responsible for analysing and managing their respective portfolios within the framework set by the Board of Managing Directors, and with a view to mitigating risk by way of diversification. DVB Research provides valuable support in this process.

DVB's proprietary database application OASIS is a state-of-the-art tool for analysing and managing the Bank's loan portfolio. In addition to compiling all quantitative and qualitative data covering every Transport Finance exposure, OASIS also captures the legal and economic risk structure details: it thus provides all the data required to manage the portfolio. Moreover, the database represents a core source of information for the IRM. Data entry is subject to the principle of dual control throughout the system. Because it is integrated into the loan approval and administration processes, OASIS also helps to minimise operational risks.

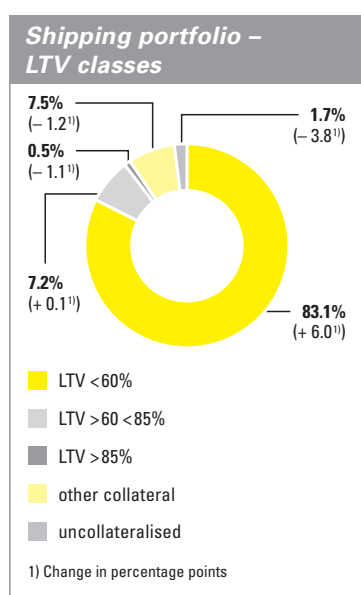
■ Analysis of individual loan portfolios

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

DVB's **Shipping portfolio** (which includes the Container Business Unit) once again developed very favourably during the business year under review. The portfolio, which is largely denominated in US dollars (80.4%), grew by 33.6% to €5.7 billion at the end of 2005. The strength of the US dollar during the course of the year was mirrored by a corresponding weakness of the euro. Adjusting for exchange rate movements, the growth rate was 18.6%.

The portfolio is dominated by exposures secured by mortgages on ships. Loans with a maximum LTV ratio of 60% account for a share of €4.8 billion. Thanks to new business collateralised in this way, the relative share of exposures secured by mortgages increased once again, both in absolute amounts and as a percentage.

The table below illustrates the collateralisation structure of our Shipping portfolio:

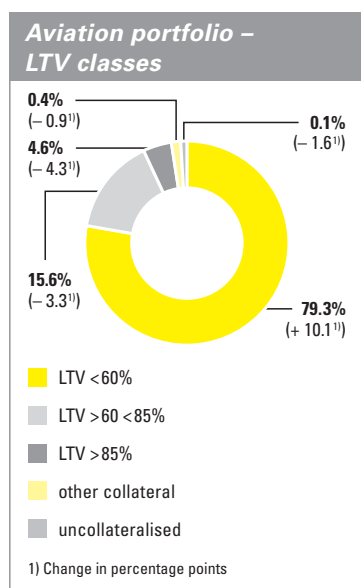


€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by mortgages	5,202.3	90.8%	3,686.2	85.9%
Other collateral	427.8	7.5%	369.3	8.6%
Uncollateralised	94.9	1.7%	236.6	5.5%
Lending volume	5,725.0	100.0%	4,292.1	100.0%

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

We were successful in further expanding our business during the year under review, in a commercial aviation environment that showed some improvement over previous years. Our **Aviation portfolio** stood at €3.0 billion at the end of 2005, up 35.9% on the previous year. As this portfolio is also predominantly in US dollars (95.9%), the currency-adjusted growth rate was lower, at 18.2%.

The table below illustrates the collateralisation structure of our Aviation portfolio:



€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by mortgages	2,973.1	99.5%	2,137.8	97.0%
Other collateral	12.7	0.4%	27.5	1.3%
Uncollateralised	2.3	0.1%	38.0	1.7%
Lending volume	2,988.1	100.0%	2,203.3	100.0%

With 99.5% of the lending volume secured by mortgages, the Aviation portfolio also reflects the strict enforcement of our conservative lending policy. Lending volume of €2.4 billion has an LTV ratio not exceeding 60%.

The significant increase in the proportion of the portfolio with an LTV ratio below 60% also reflects the continued recovery in aircraft values.

The **Land Transport portfolio** also showed structural improvements in the year under review, growing by 6.7% to €959 million. Adjusting for exchange rate movements, the growth rate was 2.2%.

The table below illustrates the collateralisation structure of our Land Transport portfolio:

€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by mortgages	837.5	87.3%	704.4	79.1%
Other collateral	72.8	7.6%	105.5	11.8%
Uncollateralised	48.5	5.1%	81.1	9.1%
Lending volume	958.8	100.0%	799.8	100.0%

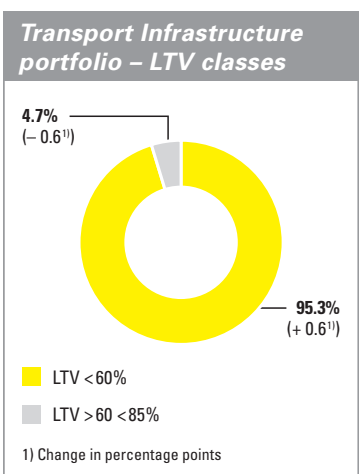
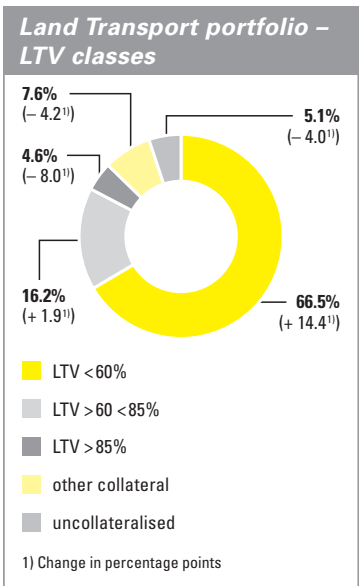
We also actively pursued the reduction of uncollateralised business in our Land Transport portfolio. Not only did unsecured exposures decline by four percentage points during the year under review – new business acquired in 2005 also helped to boost the share of business secured by mortgages, by 8.2 percentage points. A total lending volume of €638 million had an LTV ratio not exceeding 60%.

With a 23.1% increase to €640 million, the **Transport Infrastructure portfolio** also developed favourably during 2005. Adjusting for exchange rate movements, the growth rate was 17.3%.

The table below illustrates the collateralisation structure of our Transport Infrastructure portfolio:

€ mn	Collateralisation			
	31 Dec 2005		31 Dec 2004	
Secured by concessions	640.3	100.0%	522.7	100%
Other collateral	0.0	0.0%	0.0	0.0%
Uncollateralised	0.0	0.0%	0.0	0.0%
Lending volume	640.3	100.0%	522.7	100.0%

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



■ **Early warning systems and risk provisioning**

We use a diversified set of tools for the early recognition, monitoring and management of sub-performing or non-performing loans. Our watchlist procedures ensure that these loans are identified at an early stage, and that such exposure is included in a watchlist for intensified handling. During regular meetings of the Watchlist Committees, chaired by the member of the Board of Managing Directors responsible for risk management, decisions are taken regarding risk mitigation strategies and measures, as well as concerning any loan loss provisions required.

Net impairment losses on loans and advances in DVB's Transport Finance portfolios totalled €14.9 million for the year under review. Allowances for losses on loans and advances amounted to €59.1 million at the end of 2005.

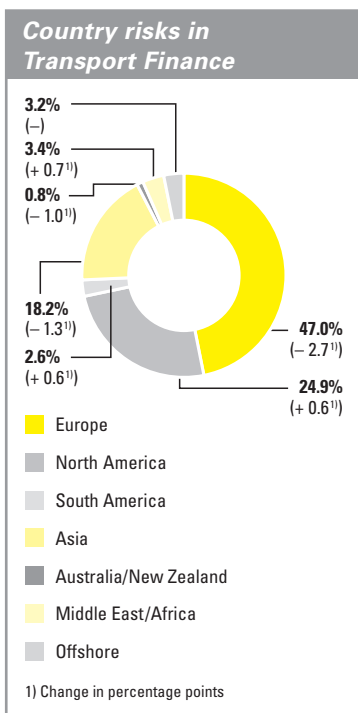
■ **Continued reduction of loan exposures that are no longer in line with our strategy**

Loan exposures that are no longer in line with our strategy are managed by the D-Marketing unit. We were able to reduce this lending volume by a further 24%, from a nominal volume of €251 million at the end of 2004 to €192 million (nominal) at the 2005 year-end. Whilst impairment losses recognised and reversals of provisions virtually offset each other, total allowances for loan losses were down to €55.3 million, due to €10.5 million in charge-offs. We continue to expect the total loan loss allowance for this part of our portfolio to adequately account for the higher risk exposure in this segment.

■ **Country risks in Transport Finance**

We mitigate more serious country risk exposure by applying a commensurate transaction structure (for example, by a combination of collateralisation, use of offshore accounts, maintaining cash flows in fully-convertible currencies, political risk insurance cover, etc.).

The breakdown of country risks in our portfolio is largely unchanged compared to 2004. Our Transport Finance exposure continues to be concentrated in Europe, North America and Asia. Country risks are managed and limits applied on the basis of net country risk exposure, deducting 60% of the market value of assets eligible for inclusion.



Net country risk exposure was again lower compared to the previous year. Furthermore, net country risk for emerging markets amounted to just 0.3% of the overall Transport Finance portfolio.

■ Operational risk

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

DVB already implemented the organisational infrastructure and framework to measure and manage operational risk, as required under the Basic Indicator Approach, back in 2003. Organisational measures taken include the establishment of a central OpRisk Committee, as well as the creation of an OpRisk Manager for each of DVB's worldwide locations. The tools we have implemented to manage and monitor operational risk are self-assessments carried out at least once a year in respect of each location, on a divisional or departmental level, plus the loss database where losses incurred due to operational risks are recorded. Quarterly reports are submitted to the Board of Managing Directors and the OpRisk Committee; where appropriate, this is supported by ad-hoc reporting. We recorded a total of 16 (2004: 9) loss cases with aggregate damages of €895,000 (2004: €223,000) during the year under review.

Country risk is defined as the risk that DVB suffers loan losses or other monetary losses in a particular country, as a result of social/political and/or macro-economic developments or events. This comprises risk traditionally associated with the concept of country risk (conversion and transfer risk, payment freeze or moratorium), plus political and economic policy risks.

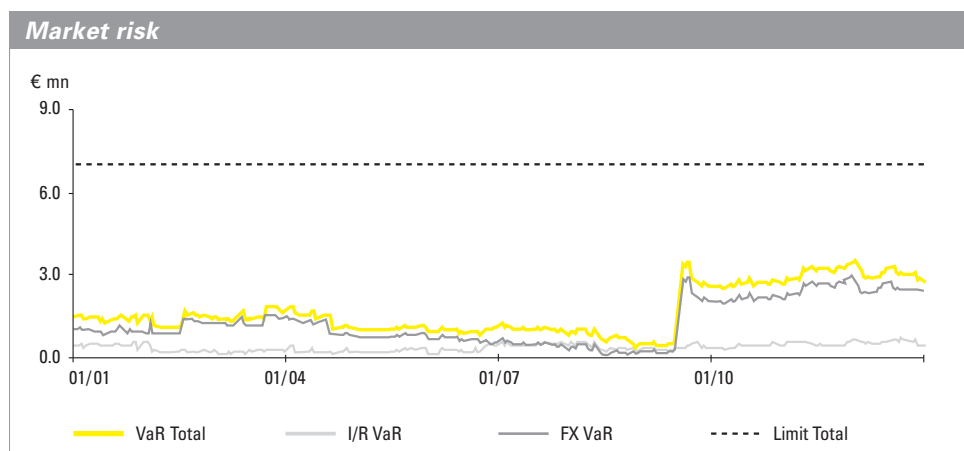
In line with the requirements set out by the Basel II Accord, operational risks at DVB are defined as the risk of losses resulting from inadequate or failed internal processes, human or technical failure or external events.

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

■ Market risk

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

The chart below illustrates utilisation of market risk limits during 2005:



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

The significant increase in September 2005 was a result of foreign exchange hedges: within the framework of the budgeting process for DVB Group, projected US dollar income for 2006 was sold on a forward basis during 2005. As a consequence, only the foreign exchange sale was recognised in 2005; the corresponding income will accrue in 2006.

The risk positions are managed on the basis of limits approved by the Board of Managing Directors. In addition, we subject our positions to a monthly stress test, based on an entire interest rate cycle. The calculations applied to such stress tests are discussed regularly in the ALCO. This is designed to ensure a timely reaction to developments. We also used the results of monthly stress testing as a parameter when determining market risk limits for 2006.

■ Strategic risk

DVB's business policy is managed by way of strategic decisions taken within the scope of closed-door strategy meetings by the entire Board of Managing Directors, and, where appropriate, by the Supervisory Board. For the 2005 business year, these were measured on the basis of the volatility of operating income using a 99.82% confidence interval.

The confidence interval used to calculate risk capital limits was raised to 99.95% at the end of 2005, reflecting the higher ratings of DVB Bank AG. The limit increase for strategic risk reflected the changes to the methodology coming into effect for 2006.

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

■ Liquidity risk

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

Anticipated cash flows are calculated, aggregated and offset by transactions on the money and capital markets, on the basis of continuously updated plans for liquidity flows and cash flow forecasts. These are prepared using SAP data and state-of-the-art asset-liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German Banking Act, ensures that timely and appropriate corrective measures can be taken. Ample access to short-term money market liquidity and extensive liquidity provisions ensure that DVB has access to adequate liquidity reserves. Various medium- and long-term refinancing measures were used to further strengthen the Bank's structural liquidity position. The Liquidity Principle according to the German Banking Act was consistently adhered to during 2005.

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

Summary and outlook

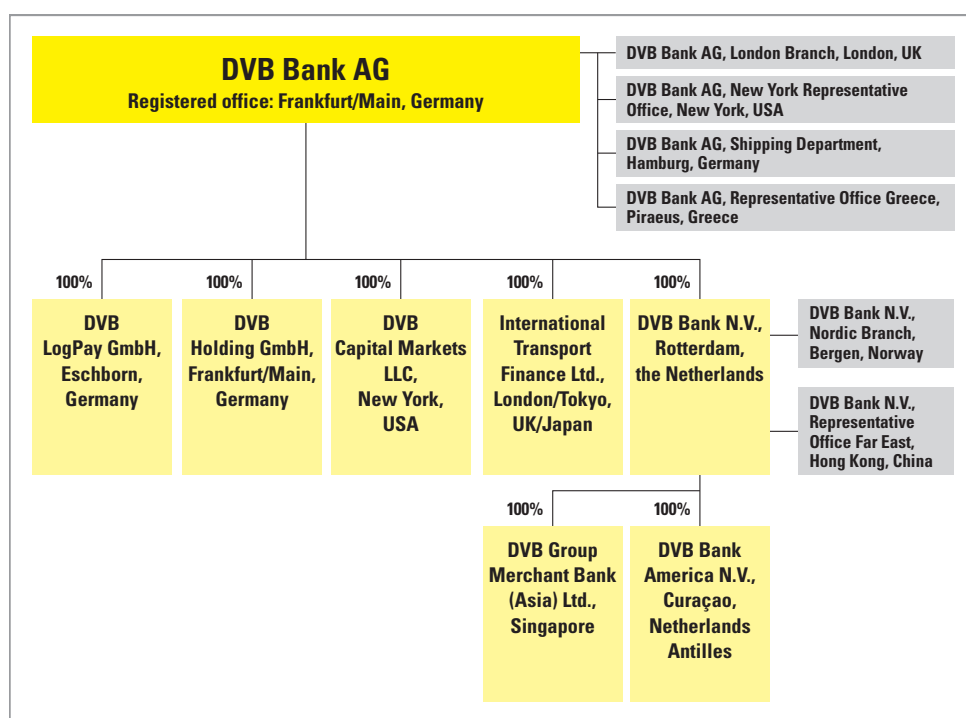
DVB has organised its risk management and risk control functions in a manner that complies with legal and regulatory requirements. The system is appropriately designed to efficiently monitor and manage all risks that DVB is exposed to. The methods to capture and manage risks were the subject of continuous development during 2005. We will continue to refine our risk monitoring and risk management systems, to ensure compliance with the Basel II framework as well as with the requirements of modern Bank management, focused on risks and returns.

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2005. There were no breaches of the risk capital limits allocated to different types of risk within the framework of the concept to manage the Bank's ability to carry and sustain risk. We are confident that this compliance will also prevail throughout the 2006 business year.

Report on branches and subsidiaries

in accordance with section 289 (2) no. 4 of the German Commercial Code (HGB)
(as at 18 April 2006)

The chart illustrates the legal structure of DVB Group as at 31 December 2005, the registered office of the parent company DVB Bank AG, material, full-consolidated subsidiaries (yellow shading), and branches and representative offices (grey shading).



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

in accordance with section 312 of the German Stock Corporation Act (AktG)
(as at 18 April 2006)

Pursuant to sections 15 and 18 of the German Stock Corporation Act (AktG), DVB Bank AG is affiliated to DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main, and its group companies. As at 31 December 2005, DVB Bank AG has been included in the consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main.

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

Report on expected developments 2006/2007

in accordance with section 315 (1) sentence 5 of the German Commercial Code (HGB)
(as at 18 April 2006)

This chapter outlines our assessment of potential market developments for Transport Finance, Corporate Finance and Treasury during 2006 and 2007, plus a projection of DVB's financial situation.

Shipping – markets

Market developments in each shipping sector are driven by a host of factors that impact demand and available supply. Our views as to how these factors will translate for the major shipping markets are indicated below, grouped to indicate a positive, neutral or cautious outlook.

■ Positive

1. Product carriers
2. Chemical carriers
3. LPG (Liquified Petroleum Gas)
4. Offshore: AHTS (Anchor Handling Tugs Supply)
5. Offshore: PSV (Platform Supply Vessels)
also known as OSV (Offshore Supply Vessels)
6. Offshore: Floating Production Storage & Offloading vessels
7. Offshore rigs
8. Cruise
9. ROPAX ferries (Roll on-Roll off/passengers)
10. RORO vessels (Roll on-Roll off)

With oil companies engaged in E&P (exploration & production) with renewed vigour, the offshore sectors are well placed. Limited fleet additions, in the light of sustained demand dynamics in the other sub-sectors listed above, makes their prognosis favourable.

■ Neutral

1. Dry Bulk sector
2. LPG (Liquified Petroleum Gas – VLGC (Very Large Gas Carrier) only)
3. Reefers
4. LNG (Liquified Natural Gas)
5. PCTC (Pure Car & Truck carriers)
6. Container (size up to & including modern Panamax)

Rated neutral on the basis that the sectors will not perform as well as in 2004-2005 but will remain above the lows experienced in 1999-2000. For LNG, rates and margins have become unattractive. For PCTC we need to see the dust settle, with the shakeout taking place in the US.

The report on expected developments contains forward-looking statements, including statements concerning the future development of DVB.

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

Although we believe the forward-looking statements to be realistic, due to the reasons discussed above we cannot accept any responsibility that they will actually materialise. We do not intend to update any of the forward-looking statements made in this report.

■ Caution

1. Super Post-Panamax container vessels
2. Post-Panamax container vessels
3. The crude tanker sector

The limited deployment possibilities for container vessels of these sizes together with the looming enormous orderbook is likely to constrain employment prospects. The crude sector will see supply exceed demand, but will remain volatile due to ongoing geopolitical issues and other wild card events which will cause mini cycles within the year – as they usually have done in the past.

Shipping – portfolio

In line with our prediction from this time last year, 2005 saw most sectors reach their peak and start to decline.

Despite the decline, freight rates remained comfortably above historic averages for the year and shipping companies are expected to have delivered strong results again in 2005. The counter side to this industry success is the level of interest it raises in a finance sector hungry for assets. 2005 saw several major banks driving down margins, and offering very lenient financing structures on shipping assets valued at or near the top end of the market.

These trends are expected to continue throughout 2006 and 2007. The massive influx of newbuildings due during this period, particularly in the container and tanker sectors, will see freight rates continue to fall, with vessel values following suit. We also expect to see margins driven down further, at least during the first half of 2006, with a turnaround in the cycle not expected until later in the year. Maintaining traditional lending relationships during such times is particularly difficult and calls for a greater focus on the additional business opportunities offered by DVB through its corporate finance activities.

Despite this somewhat reluctant view of the market, we remain upbeat about the opportunities in 2006. The options offered through syndications and securitisation enable us to compete for business at more precise levels than we have seen in the past. This in turn allows us to maintain the traditional support shown to the bulk, tanker and container shipping companies with which we enjoy long-standing relationships. Further, the establishment of specialised business units focusing on niche sectors remains a rewarding strategy. The launch of the Cruise Finance Unit at the beginning of 2005 has delivered positive results already, and looks set to build on this during 2006. The Floating Production Financing team, which started its activities in January 2006, provides DVB with a significant competitive advantage in this specialised sector. Finally, the Container Box Unit continues to develop on the strength and success it has achieved to date.

Overall, our focus is little changed from that of 2005. We are not targeting significant growth in our portfolio, but rather seeking to further enhance the portfolio's risk profile and client base. We are confident that the Shipping division will continue to build on its success to date, and that it is well positioned to achieve ongoing growth and profitability.

Abbreviations and references

<i>CIR</i>	<i>Cost/income ratio</i>
<i>HGB</i>	<i>German Commercial Code (Handelsgesetzbuch)</i>
<i>IPO</i>	<i>Initial price offering</i>
<i>KWG</i>	<i>German Banking Act (Kreditwesengesetz)</i>
<i>LNG</i>	<i>Liquified natural gas</i>
<i>RoE</i>	<i>Return on equity</i>

Aviation – markets

After a very good year in 2005, our business outlook for 2006 and 2007 is still positive.

Depending on fuel price developments, it seems the airline industry as a whole will not yet become profitable in 2006 although a breakeven result may not be too far away: 2007 is currently believed to become the first year where a modest profitability can be expected. Apart from the air freight segment, air transport is predominantly a consumers' market – contrary to shipping, which is mainly an industrial market. Air transport consequently is more sensitive to shocks caused by political unrest, diseases and general consumer sentiment. With a record order volume in 2005, the number of aircraft deliveries will increase further. Combining the elements above might lead to a further increase in demand for aircraft finance and lease products. This growing demand will help to absorb the increasing influx of liquidity from non-specialist banks and equity investors, although some margin pressure may be unavoidable in specific market segments. By developing new, high added value products and services DVB is well positioned to avoid most of this margin pressure. In addition, our strategy is aimed at avoiding transactions that rely too much on temporarily inflated aircraft values: indeed, DVB conducts business whilst fully recognising the inherently cyclical character of the industry. The commercial jet market is expected to improve further, to reach a peak in – or around – 2008.

Aviation – portfolio

We will continue to adopt a proactive approach to our growing risk-weighted asset portfolio, in line with our well-established lending guidelines and disciplines.

In view of DVB's constant and global presence in the aviation finance market, and the recognition and understanding of our strategy by our clients and partners, we are able to generate a strong pipeline of potential new transactions, even in a (now) more competitive environment. With such pipeline already covering opportunities which will materialise in 2006 and 2007, we can be confident in our ability to maintain the momentum in our business, which has seen our Aviation portfolio – in US dollar terms – almost double over the last five years.

The return of non-specialist banks to the market might lead to further margin pressure in certain areas of aviation finance. On the other hand, we expect more specialised segments to continue to attract relatively limited competition. In general, opportunities for profitable growth will come from:

- the booking of new (primary) loan business, where we usually act as arranger, underwriter and agent;
- certain debt purchases in the secondary market, where above-average yields are typically earned; and
- our “pure fee”-generating activities, including financial consultancy, structured finance and syndication.

In 2006 and beyond, we further expect to create a “cycle-resistant” business model: one which will enable us to be equally profitable in a market downturn as in an upturn. An important initiative for the current year is to further develop our (aircraft/engine) asset management platform, to act as service provider not only to DVB’s core activities, but also to third parties (financial institutions, investors, etc.) who would typically have a requirement to buy in such specialised expertise.

Land Transport – markets

We continue to envisage further transport services growth during 2006 and 2007 in the global land transport sectors we cover; the sectors themselves are expected to remain stable.

We expect the market deregulation initiated within the **European rail market** to lead to a significant increase in the market share of private freight and passenger transport operators. International long-haul services will gain in importance, especially in cross-border dry bulk transport. This is one of the segments where rail transport is particularly attractive. We envisage more extensive standardisation of rolling stock, combined with increasing demand for project finance. In the **North American rail market**, all Class 1 railway operators expect strong demand for rail transport services to prevail, both in general wagon loads and in intermodal transport. Continuous and ongoing demand for freight wagons has created a positive market environment for wagon leasing companies, who benefit from rising leasing rates. Class 2 and Shortline railway operators in North America will also benefit from rising wagon load volumes and stronger revenues during 2006 and 2007.

In European **passenger transport**, we expect passenger numbers to continue growing on average – particularly in local public rail transport. Strong regional operators, as well as those with international operations, see significant potential for the provision of transport services, and for investments in rolling stock. In the US, the outlook for rising passenger numbers in local and regional urban transport systems is positive.

The **logistics market** is maintaining its momentum on a global scale. Thanks to the increasing impact of outsourcing, the estimate for growth rates in Europe, the US and Asia is unchanged, at around 9% p.a. until 2008. Contract logistics are expected to remain the driving force in the European logistics market. In North America, the economic growth outlook will continue to provide support for the US logistics market, with higher freight rates considered possible. Potential is particularly strong for new mobile equipment investments. From our point of view, providing optimum financial resources for such projects is a key factor for the development of the logistics market. In the bus markets, it is the international operators that see particular growth potential, whereas leading manufacturers expect demand for new buses to be subdued. We continue to expect a low number of major transactions involving buses in the future.

Land Transport – portfolio

We will expand our market and asset research activities in Land Transport Finance during 2006 and 2007. This is based on three key objectives:

- We will be in a position to actively respond to changes in a heterogeneous market environment, adjusting our market presence at an early stage, where necessary.
- The expansion will strengthen our project finance expertise on a long-term basis, enabling us to offer tailor-made products to our clients, in an efficient manner.
- We will project a more distinctive profile of DVB, both in the international banking market and in the land transport segments we cover.

In parallel, we are in the process of consistently expanding our structuring know-how. This will enable us to satisfy the requirements of our clients and business partners even more efficiently. As a specialist leveraging extensive asset know-how, we will present our (target) clients with innovative and convincing structures, and with our ability to assume project-specific risks within the framework of our Credit Policy. Our focus for the next two years will be on mobile equipment, particularly rolling stock for rail transport (modern freight wagons, locomotives, and passenger equipment), on road vehicles, logistics equipment (such as tank containers), and on buses.

Transport Infrastructure – markets and portfolio

Our expertise in advising on, structuring, and arranging finance for ports and container terminals in the Baltic States will remain at the forefront of our business in 2006. Having been mandated for advisory and structuring services, we are already in the process of implementing such a transaction. We see further potential for new infrastructure projects in 2006 and 2007, particularly in the growth regions of Asia, Eastern Europe, and the Americas.

The trend to (partially) privatise airports, ports, as well as rail and road infrastructure, will continue to prevail in the years to come. Given the relief provided to public-sector budgets through the availability of private-sector capital for new and existing infrastructure projects, the positive development of PPP transactions throughout Europe is expected to continue in the future – reflecting the interests of public-sector entities.

The momentum in developing new LNG projects will remain intact, as LNG has evolved as an increasingly competitive alternative to crude oil, diversifying the energy supply of industrialised countries. We also expect privatisations of further regional and international airports in the coming years; in the meantime, partial privatisations of some international airports (e.g. Paris, Athens, Hong Kong, or Prague) might be conducted via IPOs. In the North American market, the focus is expected to be on project financings for toll roads and additional LNG import terminals.

*'F model' schemes:
The abbreviation 'F' stems from the German name of the Private Financing of Major Roads Act (Fernstraßenbaufinanzierungsgesetz). The Act, which came into force in 1994, permits the government to assign planning, construction, maintenance and operation of major roads – together with the related financing – to third parties, against permission to levy tolls for usage of the specific road project.*

In our advisory business, we intend to leverage our extensive expertise in implementing toll concessions for German motorways to win advisory mandates put out to tender. In this context, we are in a position to cover schemes where income from the general HGV toll is earmarked to fund motorway expansion projects (so-called 'A model' schemes), as well as those where toll charges are levied specifically for individual roads ('F model' schemes). We will continue to work on our existing advisory mandate (awarded in 2005) in the port and container terminal sector.

For 'A' model schemes please see page 50.

Syndications – markets and portfolio

The outlook for the syndication market in 2006 remains strong.

Ship owners are expected to enjoy another year of financing at favourable terms, as banks continue to show enthusiasm for the sector despite lower margins. They are therefore likely to once again make use of the improved terms to consolidate and refinance their existing facilities, despite their cash-rich position. There might, however, be a strengthening of terms for the weaker names, since many banks expect the shipping market to decline over the coming twelve months, which will affect the weaker names first. The expected fall in freight rates and values may begin to push pricing up in 2007.

In the aviation industry, airlines – as well as operating lessors – are also likely to benefit from increased appetite in the sector and improved terms, with banks also showing more appetite for asset risk in addition to full recourse lending. Aviation pricing in the US may finally begin to come down in 2006, whilst in Asia and Europe pricing may stabilise despite an escalation of fleet deliveries in 2007. This increase in capacity and pressure on yields is not expected to affect results for most carriers, and therefore pricing in the syndication market, in 2007.

Securitisation – markets and portfolio

The capital markets today represent a largely untapped pool of debt finance for the transport sector. Given the asset-intensive nature of the sector, “Securitisation” is a logical route for accessing the capital markets to meet increasing funding demands.

DVB recognised the opportunities available and has put a Securitisation team in place to give the Bank the capability to access this deep and low-cost funding source.

DVB's strategy is to merge its sector risk expertise and appetite with the deep sources of funding available from a capital market which is shy of those same risks in their raw form. The application of securitisation techniques - such as asset pooling, debt tranching and risk transfer of transport assets - will create opportunities to provide both bespoke client financing and risk transfer for DVB, by tapping the capital markets.

The Securitisation team was completed during the first quarter of 2006. The team is currently working together with the various sector teams within DVB to explore new opportunities for DVB's clients. Simultaneously, in conjunction with internal risk and control areas, proper processes and procedures are being established. The Securitisation team, via the sector teams, will be able to provide clients with loan structuring and advisory services. We will also offer a “conduit process”, for pooling specifically originated loans for sale to the capital markets through a securitisation bond issue. It is anticipated that the first of these transactions will materialise during 2006.

Corporate Finance – Advisory and M&A

Advisory and M&A is optimistic with respect to the outlook for 2006 and 2007 – this is how to summarise DVB’s market assessment.

In many transportation sectors we experienced peak values during 2005. The market is now correcting, due to oversupply in several shipping sectors and somewhat slower demand growth in China. However, company willingness and financial means available for acquisitions will drive an increasing M&A business facilitating cross-border transactions – where Advisory can add value. To match this, and also be present in local high growth markets, Advisory is establishing itself in DVB’s Singapore and New York offices.

Corporate Finance – DVB Capital Markets

DVB is establishing DVB Capital Markets LLC (DVB Capital Markets) to provide capital raising and financial advisory services to transportation companies, including access to the US capital markets via equity and debt public offerings, private placements, and other corporate finance and investment banking services.

We believe that development of a capital markets capability through this new unit will enhance the Bank’s transport finance franchise by providing a broader range of services critical to helping clients meet their strategic objectives. Moreover, the new unit will provide an opportunity for DVB to generate incremental fee income.

To launch the new business unit, DVB Capital Markets has applied to the NASD (formerly known as the National Association of Securities Dealers) for membership as a “broker-dealer”. Approval is anticipated by May 2006. In addition, subsequent to receiving regulatory approval to proceed with the planned US activities, DVB Capital Markets intends to develop similar capability in the other significant capital markets for the transportation sector, notably Singapore and Oslo.

DVB Capital Markets is retaining a limited number of highly qualified investment banking professionals, who will work closely with DVB’s relationship managers to originate and structure capital markets transactions. We expect that the unit will gradually expand, to consist of five full-time investment banking professionals by the end of 2006, and furthermore that the unit will close its initial transactions during 2006.

Corporate Finance – Group Investment Management

■ NFC Shipping Funds

The NFC Shipping Funds have sufficient capital available, and adequate investor interest, to expand the business substantially over the next years. The last two (very favourable) years for the shipping industry have however attracted new (and not always experienced) investors to the shipping industry. As a consequence, some investment transactions have been concluded at terms which NFC qualifies as unattractive. We estimate the increased competition for investment projects as being currently the biggest limitation for NFC. This situation was already, however, present during 2005, when (as previously mentioned) the funds were still able to conclude 16 new transactions.

NFC is exploring opportunities to benefit from the increased competition, by expanding the business strategy to include equity arranging on top of the current equity investing policy. By employing this strategy, NFC's sourcing opportunities and track record are used to take equity underwriting positions, which are subsequently sold down on a case-by-case basis to various shipping investors. This strategy only applies to those investments which are – for various reasons – not suitable for the NFC Shipping Funds themselves.

The performance of the investments in the NFC Shipping Funds is excellent, with an average IRR (since the start) of 32% – and there is no specific reason to assume that this will change in 2006 and 2007. Our knowledge of the industry, the relationship network, track record, and the asset-based approach, are all strong mitigating factors; but the shipping industry remains a volatile business, whereby sudden market developments can rapidly increase or decrease expected returns.

■ Deucalion Aviation Funds

The aviation market outlook for 2006 and 2007 remains positive despite the risks of increasing fuel prices and rising interest rates dampening some of the expected demand. Expected demand growth for aircraft is likely lead to a consequent increase in the demand for leasing of aircraft and spare engines. The Deucalion funds are well positioned to take advantage of this development. We expect to increase the volume of our managed funds in respect of owned aircraft and spare engines. With regard to investments in direct equity positions in airlines and other aviation-related businesses, as well as investments in secondary market secured paper, the funds may invest on an opportunistic basis. Finally, we will continue to monitor the markets closely, so as to identify opportunities to sell existing investments at a profit.

Treasury

Bearing in mind that our asset lending is denominated largely in US dollars, whilst most of our funding is euro-denominated, exchange rate developments will continue to impact appreciably on our refinancing considerations. We plan to further increase the US dollar-denominated share of our bond issues in 2006/2007.

The anticipated new business volume in Transport Finance should generate increased issuing activity during 2006, whereby we will focus increasingly on our **money market and capital market issuing programmes**. €500 million is planned for issuance within the scope of our Commercial Paper programme, and we expect to issue some €1 billion through our debt issuance programme. Most of the issuing volume will be in US dollars. We expect to issue €500 million in **promissory note loans** during 2006. Given that the investor base for these products is predominantly German, this leaves little scope for large-volume US dollar-denominated issuance.

This **refinancing mix** will further strengthen our independence from a specific issuing product or from any one group of investors in the future.

US dollar-denominated **subordinated issues** are planned for 2006 as well. In part, this will offset the lower eligibility of some subordinated promissory note loans, as the related inclusion ratio in accordance with the German Banking Act will be reduced to 40% in 2006. On the other hand, we will raise additional supplementary capital, whose extended eligibility for inclusion was facilitated by the capital increase conducted in 2005.

Refinancing volume targeted for 2007 within the scope of our issuance programmes and promissory note loans is dependent on our new business planning. This will be finalised in the fourth quarter of 2006; at this point in time we are therefore unable to make a statement on the anticipated refinancing volume for 2007.

Financial outlook for DVB – 2006 and 2007

- We will continue to focus on **stabilising and improving our ratings from Standard & Poor's and Moody's Investors Services**. The ratings upgrades by S&P (during the business year 2005) and Moody's (at the beginning of 2006) have shown that DVB is on the right track. Improved profitability, together with DVB's stable risk situation and the sound expansion of capital will continue to play a major role in this context.
- We are forecasting DVB's **income** generated in Transport Finance and Corporate Finance in the selected transport segments to continue growing in 2006 and 2007 – especially net interest income. We also see further growth potential regarding net fee and commission income, even though the growth rates in 2006 and 2007 are not expected to reach the levels seen in the 2005 business year.
- Thanks to our consistent cost discipline, increases in **general administrative expenses** will remain below income growth. As in 2005, we will continue to expand the Transport Finance and Corporate Finance segments, introducing new products and bringing additional staff on board. In addition, we also envisage recognising provisions for higher bonus payments to DVB staff in 2006 and 2007.
- DVB's profitability has improved more strongly than anticipated in the budget – the **result from operating activities** (before tax) is thus expected to continue to develop favourably.
- Our **financial targets** are defined below, on the basis of RoE and CIR (in accordance with the HGB), and the core capital ratio (as defined by KWG):

We plan to achieve further growth in **RoE** on a medium-term horizon; depending on the level of interest rates, our target is 20%. Continuing the development seen in the last years, we envisage keeping **CIR** below 50% during 2006 and 2007. Furthermore, we intend to stabilise the **core capital ratio**, at a level of 7%.