Consolidated Financial Statements (in accordance with IFRS/IAS)

As a publicly traded company, DVB prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) 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. 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 structure of information disclosed as part of the management report pursuant to section 315 (1) sentences 1 to 4 of the HGB, and in accordance with GAS 15, is outlined below:

- Development of the business divisions
  1. Transport Finance
  2. Corporate Finance
  3. Treasury

- Economic situation
  1. Key elements of and external factors impacting on the business development
  2. Results of operations
  3. Financial position
  4. Financial condition

- Report on material events after the reporting date, in accordance with section 315 (2) no. 1 of the HGB

- Risk report, in accordance with section 315 (2) no. 2a and b of the HGB

- Report on branches and subsidiaries, in accordance with section 289 (2) no. 4 of the HGB

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

- Report on expected developments 2007/2008, pursuant to section 315 (1) sentence 5 of the HGB

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

Development of the business divisions

(as at 30 March 2007)

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. The Bank's Corporate Finance business is analysed in detail, segmented by markets and portfolios. Finally, we discuss essential developments within Treasury.

DVB Group has adopted a business model that is truly unique on a global scale. We offer the following products to our clients in selected markets within the Shipping, Aviation, and Land Transport (Rail/Road) sectors:

- Asset Lending – providing finance for mobile assets in the Shipping, Aviation, and Land Transport divisions;
- Risk Distribution – placing credit risks in the market, through our Syndication Division; and
- Securitisation of receivables.

This is complemented by Corporate Finance advisory and structuring services, underwriting, and equity products provided by the divisions:

- Advisory and M&A;
- Group Investment Management; and
- Capital Markets.

1. Transport Finance Divisions – Asset Lending (Financing of mobile assets)

1.1 Shipping Finance

1.1.1 Shipping – Market review

Whilst last year we stated that 'The resilience of the world economy has been a revelation in 2005', the year 2006 can be called remarkable! From a shipping point of view, 2006 also proved to be another strong year. Global GDP grew by 3.8% and, again, China was a driving force within most shipping sectors.

The extensive Shipping Research 2006 will be available on our website www.dvbbank.com – Research.

With its rapid development, China is now the world's third-largest trading nation. In 2006, China's trade surplus jumped 74% to US$177.5 billion on the back of a 27.2% surge in exports, which reached US$969.08 billion. Imports rose 20% to US$791.61 billion, while foreign currency reserves hit US$1 trillion. In November 2006, China became the second-largest foreign holder of US Treasury Securities, with US$346.5 billion. Out of a total of US$2.2 trillion, Japan is the largest holder, with US$637.4 billion (US Department of the Treasury/Federal Reserve Board January 2007).

The prospects for 2007 are generally firm, with global GDP growth forecasted at 3.5% (IMF). The economies of China, India, Russia and Brazil are still expanding rapidly, and the US economy has proven to be more resilient than many expected, despite high oil prices during 2006 and a decline in the housing market. The US economy grew by 3.4% in 2006 to a GDP of US$13.065 trillion. At the same time, total US public debt has grown to US$8.7 trillion including intra-governmental holdings (US Department of Treasury). If US current account and budget deficits continue to grow at current rates, it could slow economic growth and dampen confidence around the globe.

However, while the world economy is on a solid footing, the demand side remains firm for most shipping sectors. But the expected onslaught of newbuilds will create pressure on freight rates, and may give an incentive for owners to scrap their older units. The rate of fleet expansion takes intro account certain sectors. It started in 2005 with 1,559 deliveries and continued in 2006 with 1,358 deliveries. Another 2,540 deliveries are expected in 2007, plus another 1,964 in 2008 (Lloyd's Register Fairplay). The pressure to adequately man vessels with staff of the right quality and experience, and in the numbers demanded by fleet growth, is already posing a challenge to the maritime industry.

Abbreviations

dwt	*dead weight tons*
FPSO	*Floating Production Storage and Offloading*
GDP	*Gross Domestic Product*
IEA	*International Energy Agency*
IMF	*International Monetary Fund*
mbd	*million barrels per day*
TEU	*twenty foot equivalent unit*
ts	*tons*
T/C	*Time/Charter*
VLCC	*Very Large Crude Carrier*

The dry bulk sector's most interesting development during this past year has been the increase in vessel values. Of the dry bulk sub-sectors, Panamax values have soared from US$29 million to US$48 million, an increase of 66%.

Last year witnessed the highest number of new orders for dry tonnage ever placed, and it is likely that ordering will remain at high levels in 2007. This year, we expect the order-book to reach an all-time high. In 2010 there will be a record number of deliveries, which suggests that owners will be scrapping more dry tonnage leading up to 2011, should the market be weak at this point in time.

At the start of 2006 the Baltic Freight Index was at its lowest level since January 2003 and it appeared that freight rates had peaked in 2004 and 2005. However, in May 2006 the market started to rise rapidly, with strong freight rates prevailing right through to the end of the year.

World grain stocks are currently at their lowest levels since 1981, which indicates that despite growth in production, seaborne trade is not expected to show any distinct increase in 2007. El Niño, which started in September 2006, has affected Australia with drought, and following a poor harvest, more grain exports from Europe and Argentina are probable. Although seaborne supply of grain will likely decrease this year, shipments should grow by 6.5% in 2008 as grain stocks will need to be replenished (Maritime Strategies International). Warm winters in Europe and Asia have moderated the spike in coal demand normally seen in the winter months. The drastic reduction of Chinese coal exports, combined with only slight increases from Russian exporters, means that the demand and supply balance remains tight, particularly in Asia. This year, global seaborne iron ore trade is forecasted to reach 799 million ts, up 9.4% on previous levels (Maritime Strategies International). So far Rio Tinto and CVRD have announced substantial increases in export capacity, which will strengthen the position of Australia and Brazil as the main iron ore exporting countries in the future. We also foresee increased cement exports from China, which will benefit Handysize vessels (Hammer Strategies 2006).

A growing concern for owners of bulk carriers is port congestion. However, a higher level of port congestion has assisted in keeping freight rates high as more tonnage awaits berth results in a reduction of available supply.

Crude oil tankers completed another relatively good year in 2006, with earnings above historical 5-year averages. However the most striking feature in the 2006 tanker market was the extremely high activity level in contracting of newbuilds.

Newbuild values 2006–2007 (US$ mn)

	Market low 2006	January 2007	% change
Capesize	59.0	71.0	20
Panamax	34.0	40.0	18
Handymax	29.0	37.0	28
Handysize	25.0	28.0	12

Source: Clarksons Research Studies

5 year-old second-hand values 2006–2007 (US$ mn)

	Market low 2006	January 2007	% change
Capesize	53.0	82.5	56
Panamax	29.0	48.0	66
Handymax	26.0	41.5	60
Handysize	25.0	28.0	12

Source: Clarksons Research Studies

Average spot daily T/C equivalent 2004–2006 (US$)	5-year average	2004	2005	**2006**	% change 2005–2006
VLCC	55,854	96,055	60,319	63,073	5
Suezmax	46,417	74,975	53,827	53,097	–1
Aframax	36,050	49,592	41,650	39,356	–6

Source: Clarkson Research Services

The price of oil reached a peak of US$77.84 on 13 July 2006, in a year when the oil markets were dominated by fear of supply disruptions, continued strong demand from China, political conflict and local insurgency. As the focus shifted towards growing oil inventories and slowing global demand, the price of oil started to fall during the second half of 2006. The tanker markets followed a similar pattern with unusually high activity in the first three quarters of the year and average earnings stimulating expectations of another record-breaking year.

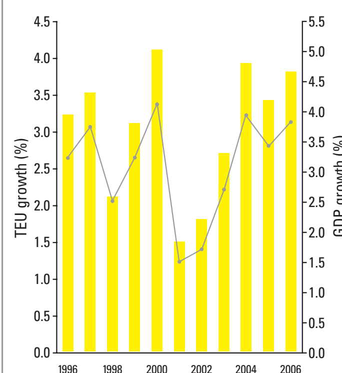
Interestingly, oil demand growth for the year was lower than expected. At the beginning of 2006, IEA predicted that oil demand would grow by 2.2% to a total in excess of 85 mbd. However, their current figures estimate that growth was less than 1%, from 83.6 mbd in 2005 to 84.4 mbd in 2006. For 2007, IEA believes in a recovery in demand growth, at a rate of 1.6% to a total of 85.8 mbd. Continued high demand will maintain the need for seaborne transport of crude oil – but simultaneously the crude tanker fleet will be expanding at an accelerating pace. A total of 358 tankers above 60,000 dwt were ordered in 2006, which is the highest annual number of contracts on record. Part of the drive behind the high number of new orders was the implementation of revised newbuild regulations as of 1 April 2006 which is expected to increase the weight (and therefore the price) of vessels by 3 to 7%. Attractive earnings in the freight markets and high contracting activity also supported strong prices for both newbuilds and second-hand vessels in 2006. On average, prices for tanker newbuilds rose by 10% compared to 2005 figures, while second-hand vessels gained 5% (Clarkson Research Services Ltd). A total of 133 tankers above 60,000 dwt were delivered in 2006, increasing to 164 expected deliveries in 2007. Combined with the large order-book, the large number of new vessels is likely to create a downward pressure on freight rates over the next 2–3 years.

Container shipping volume is expected to register 11.5% growth in 2006, its fourth consecutive year of double digit growth, reflecting strong global GDP growth of around 3.8% (IMF). This strong demand growth has meant that despite the 13% fleet growth of 364 newbuilds, the industry has been able to cope far better than many had anticipated.

The increased availability of vessels was nevertheless reflected in the cost of chartering cellular tonnage, which dipped during the course of the year by around 30%. Buoyed by the surge in demand in the second half of 2006, contracting of container vessels continued apace resulting in 449 vessels ordered (total capacity: 1.7 million TEUs) in 2006. This contracting surge ensured that newbuild prices remained robust, despite falling charter rates.

World GDP is projected to slow to 3.5% in 2007, which can be expected to translate to a cellular tonnage demand growth of 10% (IMF). Supply growth, allowing for scrapping and delivery slippage, will be around 12% (Clarkson Research Services Ltd).The effect of supply exceeding demand is expected to impact the Post Panamax, the older Panamax vessels (particularly those less than 4,000 TEUs) and Handysize container vessels more than the other sub-sectors. Newbuild prices in these sub-sectors can be expected to moderate from the current high levels. As for average charter rates the expectation is that they will end the year 10-15% lower having been through typical market fluctuations. Independent owners, however, will be more exposed this year, with potentially 55% of the fleet coming open in 2007 as opposed to 30% in 2006 (Howe Robinson).

TEU growth vs. world GDP growth



TEU activity growth

World GDP growth

Source: Global TEU growth: Drewry Shipping Consultants (2006 figure estimated)
GDP growth: IMF

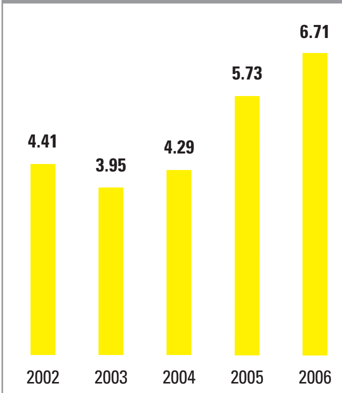
Amongst the other sectors, the offshore sector witnessed some of the strongest demand. The robust offshore activity of the past couple of years continues unabated, resulting in high demand for offshore vessels, production facilities, and rigs. The demand for Jack-Up and Semi-Submersible drilling rigs in 2006 exceeded available supply, resulting in record-level day-rates. The prognosis for drilling rigs in the coming years, with the exception of lower specification Jack-Up rigs, is good – despite the drop in oil prices. The ever-increasing number of FPSO projects in the works in recent years is expected to continue. The outlook for Platform Supply Vessels and Anchor Handlers/Tug/Supply for 2007 is positive, with increased activity in virtually all offshore markets.

1.1.2 Shipping – Portfolio analysis

2006 was another excellent year in terms of performance for the Shipping division, with results that once again exceeded expectations and broke records.

The volume of customer lending (loans and advances to customers, loan commitments, indemnities and guarantees) for 2006 was up 17.1% on 2005 figures, from €5.73 billion to €6.71 billion. 143 new transactions were completed during the year, resulting in a remarkable €3.97 billion of loans being underwritten; a 24.5% increase on 2005 results €3.19 billion.

Lending volume 2002–2006 (€ bn)



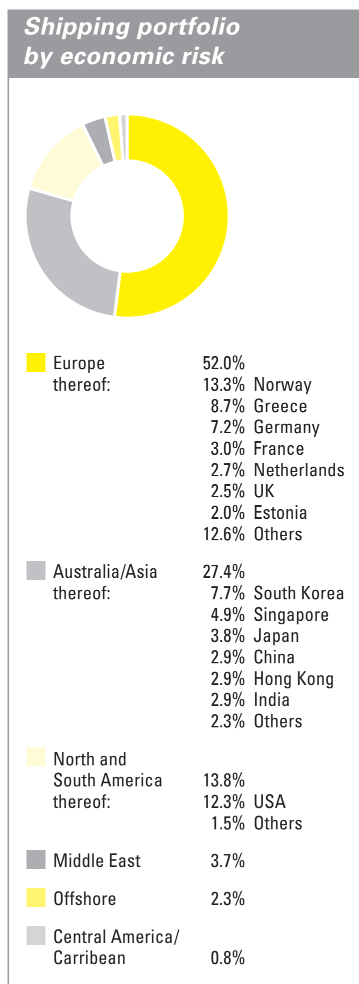
The continued growth in the portfolio came during a year that saw an incredibly high volume of refinancing within the shipping market. Competition intensified substantially once again during 2006, as banks with an insatiable appetite for assets brought low-margin deals to market that were supported by very lenient financing terms. The impact on DVB's Shipping portfolio was evident, with total repayments and pre-payments amounting to 46% of the existing loan portfolio.

We have outlined the "Shipping landmark deal 2006" on pages 12–13. Please refer to the Tombstone on the back cover for a number of other landmark Shipping deals in 2006.

The market characteristics that led to the portfolio developments witnessed in 2006 can best be described as unique. Based on expectations of continued global growth in the medium term, further investment in assets was considered commercially prudent by owners. The newbuild, sale and purchase markets remained buoyant as a result. The market witnessed increasing newbuild orders, bringing record-breaking tonnage onto the market. Second-hand prices also reflected the favourable market, as prices increased with high demand. With loan pricing weakening on the back of increased 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, together with owners being cash-rich, has resulted in relatively high levels of repayments – as well as a significant volume of new business achieved by DVB during 2006.

DVB continued to maintain its disciplined approach during this continued market frenzy by focusing on business that offered appropriate risk returns, and by utilising the benefits that syndication and securitisation can offer in competing for deals. The result of this approach was a slight decrease in average margin for the portfolio, from 139 basis points in 2005 down to 135 basis points in 2006; still being at a satisfactory level.

On the back of the increase in borrower activity experienced in the previous twelve months, the average loan-to-value ratio increased slightly; this time from 57.7% as it was in 2005, to 62.9% in 2006. Asset values in 2006 remained relatively close to market peaks. In this context, the slight increase still provides a high degree of comfort and is still well within acceptable parameters, as we are now moving towards a declining market. This was predicted in 2006, but delayed (except for container ships) due to the growing strength of the economies of Asia – especially China – and the growth of the oil and gas exploration markets.



Shipping portfolio by economic risk

Business within the international shipping markets continued to be conducted primarily in US dollars. This was reflected within DVB's Shipping portfolio during 2006, which was 82.2% US dollar-denominated and typically expressed in US dollar terms. Despite the fall in the value of the US dollar, the results were more than satisfactory with the Shipping portfolio growing by 31.0% in US dollar terms, from US$6.75 billion in 2005 to US$8.84 billion in 2006.

The Shipping division continued to enjoy worldwide recognition as a leading financial specialist. We continued to focus on expanding our underwriting capacity and market position as arranger and book-runner, maintaining a leading role for 65% of our transactions.

We have continued to provide expertise in niche shipping areas. The development of the business units established to cover niche sectors within the shipping market is worthy of mention. The Container Box Unit, established in 2004 had, without question, another outstanding year in 2006. Not only did it exceed budget in terms of interest income, but it also proved highly successful in delivering fee-based income through various corporate finance mandates. The Cruise Finance Unit, established early in 2005, also had another successful year in 2006, bringing in both interest-based income as well as substantial fee

income. This strategic initiative to focus on niche sectors has proven successful, and is a strategy that will continue to be developed. 2006 also saw the establishment of the Floating Production Group, and the New York-based Capital Markets Group: these two new specialist groups have already started to contribute, and will further enhance the return on equity.

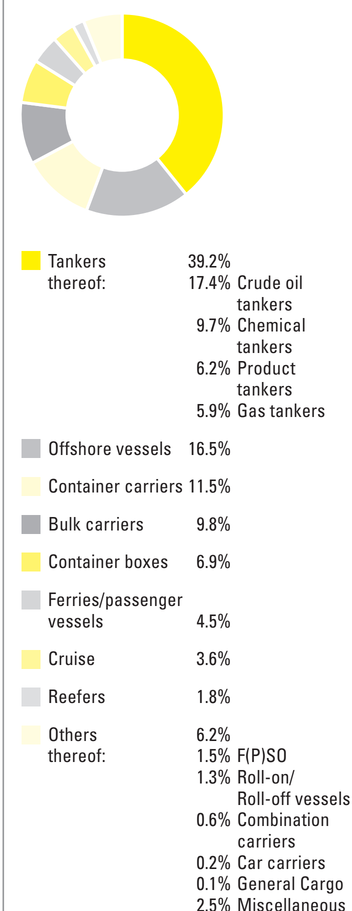
During 2006, DVB's Corporate Finance teams were once again key contributors to the success of the Shipping division, providing expert financial solutions in areas such as equity sourcing, tax-efficient financing structures, and M&A and advisory services. In this vein, these teams continued to complement the traditional lending business and further consolidated our market position as a leading financial provider in the shipping sector.

The Research and Strategic Planning (RASP) Department again contributed, by providing detailed and accurate analysis of the market and the various sectors. In recognition of their research, industry accolades were once again bestowed upon them during 2006, bearing testament to the quality of their output and the significance of their contribution to the Shipping division's development. In 2006, RASP, up against strong competition, for a record third year in a row won the Lloyd's Shipping Economist award for Best Shipping Finance Research. The strategic plan produced twice a year by RASP lays the foundations for guiding portfolio development and investments each year. It is gratifying to see, once again, that their recommendations have proved correct, with sectors such as offshore being a key focus and portfolio contributor during 2006.

Our global presence continued to mirror the international scope of the shipping industry, substantiated by the geographic diversity of our portfolio. Exposure to all major economic markets remained well-diversified, with the largest economic exposures still relating to Norway (13.3%), USA (12.3%), Greece (8.7%) and South Korea (7.7%).

In keeping with our motto of diversification, we continued to spread our risk across the various shipping sectors and remained constantly vigilant to opportunities outside the mainstream sectors. In line with the recommendations proposed in the 2006 strategic plan, and also in keeping with the strategic plan and the diverse initiatives of DVB, we increased our exposure in the offshore sector from 14.5% in 2005 to 16.5% in 2006, and oversaw a further increase in the container box sector of 6.9% in 2006. The change in the profile of the portfolio corresponded to attractive business opportunities identified in growing markets.

Shipping portfolio by vessel type



1.2 Aviation Finance

1.2.1 Aviation – Market review

2006 generally brought clear skies to the aviation industry, with very few clouds and even some hot spells developing in selected market segments. Although the financial results still vary from region to region (and indeed from airline to airline), it seems finally the industry as a whole will turn in a nearly breakeven result for 2006, with the prospect of real profitability now closer than ever before in the post-9/11 era.

Abbreviations	
IATA	*International Air Transport Association*
ICAO	*International Civil Aviation Organisation*
LCC	*low-cost carrier*
RPK	*revenue passenger kilometre*

The aircraft market had already started its recovery in 2005, when new order volume exploded. 2006 saw a continuation of this, and aircraft manufacturers were even able to improve on the 2005 order volume. With virtually all viable aircraft now out of storage and in revenue service, airlines were experiencing equipment shortages: consequently, both aircraft lease rates and used aircraft values soared.

Air transport developments

The stable growth that the global airlines enjoyed during 2005 continued in 2006. Preliminary ICAO figures indicate a growth in global scheduled revenue passenger kilometers of about 5% during 2006, compared to 8% for 2005 and 14% during 2004. This 5% comes very close to the growth levels that most long-term market forecasts agree on as being the sustainable average for the coming decades.

The region that showed the highest growth during 2006 was the Middle East, with an estimated increase in RPK's of 12%. Other areas with strong growth were Asia/Pacific and Africa.

According to preliminary data, the global scheduled air cargo market showed a somewhat disappointing 3% growth during 2006, about the same low level as the year before.

With changes in global air transport capacity still slightly below passenger traffic growth, passenger load-factors increased even further from the 75% achieved in 2005 to about 76% in 2006. Notably, US-based legacy airlines tightly controlled their domestic capacity in an attempt to improve domestic fleet utilisation, under pressure from the low-cost competition. Some legacy carriers changed focus from domestic to long-haul international operations, and this was reflected in their fleet plans. Airline consolidation remains on the agenda, but no major transactions materialised during 2006.

The global increase in load-factors was one of the contributing factors to the improved industry results in 2006. Results that improved despite the generally high fuel prices, and even with a fuel price spike in the third quarter of the year. Most of the turnaround, however, could be ascribed to the much stronger revenue environment in combination with significant non-fuel cost savings, including more efficient ticket distribution, aircraft maintenance and – in general – higher labor productivity. During 2006, projections for the industry's financial result had to be adjusted a few times, with – by the end of 2006 – IATA expecting a loss of "only" US$500 million, bringing the total industry loss for the period 2001–2006 to about US$41 billion.

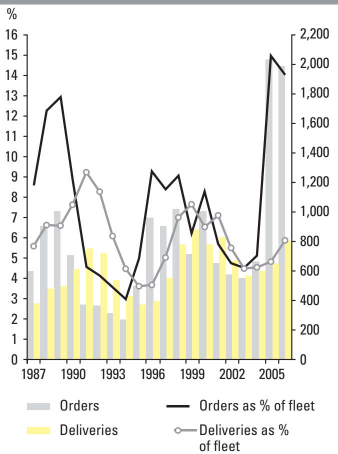
IATA expects that during 2007 the industry will finally realise a clear positive financial result, the first time since 2000. With a result of US$1.5 billion, the European airlines are expected to show the biggest profit, followed by Asian carriers with US$1.2 billion and the US-based airlines with US$200 million. A US$100 million profit by carriers in Latin America and the Middle East, as well as a loss of US$500 million in Africa, will bring the global projected profit to US$2.5 billion. Despite this positive result, it should be noted that the return on invested capital in the airline sector generally remains below its cost of capital. In addition, IATA projections for 2007 indicate that operating profitability may be stagnant, since there are early signs of a slowdown in the revenue environment.

With respect to airline business models, it is clear that the low-cost carrier phenomenon is now well-established in all regions of the world. So far, most of the LCC's have been focused on short-haul point-to-point services but 2006 saw the emergence of a number of variations on this business model. On the Atlantic a number of low-cost premium service carriers started operations as did long-haul low-cost operations in the Far East, based on the concept of linking several regional low-cost carrier networks via an independent long haul network, offering passengers the benefits of connectivity that were so far only offered by network carriers. Consolidation may be on the program once more during 2007. In the US, 2006 ended with strong pressure to merge some of the Majors, whereas in Europe, the weaker flag-carriers may only have a future under the umbrella of a larger and stronger grouping. Australia saw a financial consortium make a bid to take over Qantas as another illustration of investor appetite for the aviation business.

New aircraft market

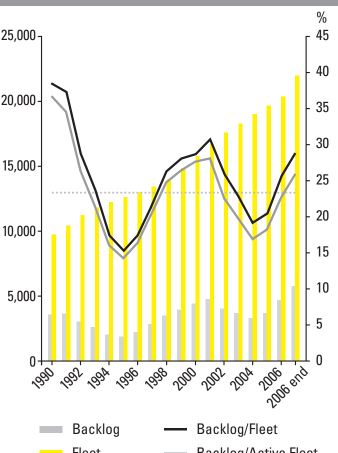
Although the restrictive capacity expansion and resulting high load-factors contributed to the recovery in airlines' financials, during 2005 and 2006 many airlines could not resist the temptation to order significant new capacity from the aircraft manufacturers. Whereas initially it looked like the huge order intake during 2005 would mark the peak of the order cycle, it turned out that the order boom continued in 2006, with the 2,494 order-total for western-built jets in 2006 even slightly exceeding the 2005 level of 2,249 (Ascend CASE database).

Mainline jets: orders and deliveries



Source: Ascend CASE

Commercial jets: backlog/fleet (mid-year)



Source: Ascend CASE

The number of orders for mainline jets placed during 2005 and 2006 is relatively high compared to earlier years, even if expressed as a percentage of the existing fleet, as illustrated in the adjoining graph. This suggests an overheating market: indeed, the 2006 year-end order backlog expressed as a percentage of the total fleet is 26.2%, up from 17.5% in 2004 and clearly above the average level of 23.5% for the entire period 1990–2006. The backlog percentage, however, is still well below the period high of 36.7% in 1990. In addition, a significant part of the order backlog is for new aircraft designs that are not yet in full production, such as the A380, A350, B787 and B747-8. Production capacity of two most popular "in production" aircraft families, the A320 family and the B737NG, is reportedly almost fully booked for a number of years, as airlines have placed forward orders in order to at least secure aircraft toward the end of the decade. With the new types entering into their production phase, and Airbus and Boeing potentially increasing the output of A320's and B737's to meet demand, production totals are likely to move up significantly in the coming years, similar to events following the late 1980s order boom.

In the commercial jet market, after several years of Airbus dominance, Boeing sold the most aircraft in 2006. Their net order intake was 1,044 vs. 1,002 in 2005 (Boeing). Airbus booked 790 orders vs. 1,055 the year before (Airbus).

The big sellers for both manufacturers were the single-aisle families. Boeing sold 729 B737 Next Generation, Airbus sold 653 of the A320 family. In the widebody segment of the market, Boeing was again clearly more successful, with 315 orders vs. Airbus' 137. Whereas Boeing booked significant additional (net) orders for the B777 (+76 orders) and the new B747-8 (+60 orders) as well as the new B787 (+157 orders), Airbus only booked a significant volume for the A330 (+103 orders). The A340 family scored a disappointing 12 net orders, and the A380 only 7. The industrial re-launch of the A350XWB in December 2006 limited Airbus' opportunity to additional orders for this crucial new aircraft to only 15. In a similar fashion to Boeing's experience a few years ago, before the launch of the B787, Airbus had a difficult year in 2006. Apart from the A380 production problems, the company encountered problems in defining the design of the A350. Whereas it seems the A320 and B737NG were equally matched, this was less the case in the widebody market segment. Boeing's older B767 (+10 orders in 2006) design is still in production, but was generally not seen as competitive with the newer A330. The B767's successor, the B787 "Dreamliner" had to incorporate several revolutionary new features as it faced the challenge to beat the already very efficient A330. However, even before its first flight, Boeing has apparently been able to convince the market of the benefits of the B787, as demonstrated by the over 400 order-strong backlog. As the B787 incorporates the latest technologies, it seems very difficult for Airbus to beat the economics and consequently the new Airbus A350XWB now seems more aimed at the larger B777. In the cargo market the B777F as well as the B747-8F booked several orders, while the A380 Freighter lost its customer base. Early in 2007, Airbus launched the A330-200 Freighter, which seems well positioned to recoup market share in the cargo market.

In the regional jet segment of the market, the two major manufacturers, Brazil's Embraer and Canada's Bombardier had to compensate for the lost volume in the 50-seat market by emphasizing the merits of their larger jets, the E170-195 family and the CRJ700-1000. With orders for 65 of the larger CRJs and 179 E-Jets, both manufacturers were able to improve significantly over last year's order volume. With plans for new, larger regional jet designs in China, Russia and Japan, as well as Bombardier's continued ambition to launch their new 110-seater C-Series, this market segment may become somewhat crowded in the near future.

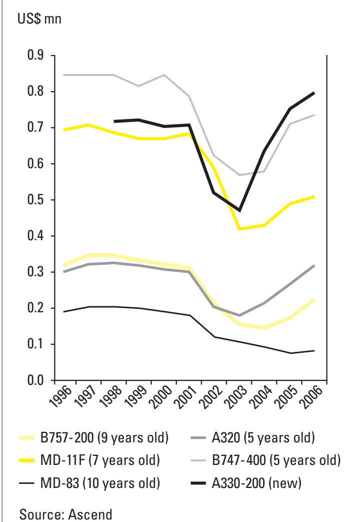
Used aircraft market

All of the above has important consequences for aircraft remarketability in general and for aircraft prices and values in particular, which in turn is very relevant for asset-based financiers like DVB.

Because of their huge popularity with many established and low-cost start-up airlines, the A320 family and the B737NG are currently sought-after aircraft – and with delivery slots reportedly booked till about 2010, investors are paying premium prices for young aircraft. It is generally expected, however, that the successor generation will enter into service by the middle of the next decade, which – based on historical experience – may imply that late production aircraft will experience an accelerated depreciation. In the widebody segment, the demand for "interim lift", to bridge the gap between the older generation and the coming new technology planes (B787 and A350) has driven up prices for young used aircraft, such as B767s and A330/340s. The significant increase in A330 orders can partly be explained by the need for interim lift as well. With limited availability of B787 delivery slots in the coming years and A350 deliveries only starting in 2013, there is a six-year gap to bridge, for which the A330 is the obvious interim solution. Also in the case of the A330, it is important to take into account that late production aircraft will experience accelerated depreciation. Reportedly, this is being compensated by attractive pricing for new A330 orders.

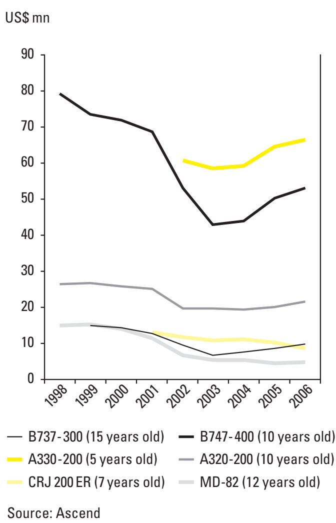
As shown in the graph, aircraft lease-rates continued their recovery in 2006 for most commercial jet types. Even weak aircraft types like the MD83 enjoyed a marginal improvement. As a result of strong demand, some aircraft, like the A330-200, showed a spectacular improvement. As a result of the delays in A380 deliveries and strong demand from the cargo market to convert used passenger aircraft to freighter, B747-400s also did very well last year.

Constant age lease rate development (1996 – 2006)



Source: Ascend

Constant age aircraft value developments (1998 – 2006)



The increasing lease rates clearly attracted a lot of interest from aircraft lessors, hedge funds and other equity investors. This inflow of liquidity contributed to the upward pressure on aircraft values as illustrated in the graph. During 2006, a number of early investors took advantage of the current market recovery by selling their fleets to new investors, realizing significant profits.

In summary, the current aircraft market has recovered from the problematic years 2001–2004. With a current aircraft shortage and significant equity amounts flowing into the market, the risk of further overheating is not imaginary.

1.2.2 Aviation – Portfolio analysis

DVB seeks to provide its customers with a seamless "one-stop-shop" experience to develop financing solutions for core aviation assets at any point of the economic cycle in the aviation industry.

Completing the platform

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 possesses the expertise to provide value-added financial solutions. Such relationships are maintained by remaining in close and constant touch with our clients: to further this, our global team of specialists is located in the three key economic regions for aviation.

We have outlined the "Aviation Landmark Deal 2006" on pages 18–19. Please refer to the tombstones on the back cover for a number of other landmark Aviation deals in 2006.

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

In 2006 we set ourselves the objective of strengthening our asset management platform. On 1 January 2007, London-based Aviation Asset Management (AAM) became a team of four, following the recruitment of three senior professionals from BAE SYSTEMS (Aircraft Trading and Management Services). As well as continuing to service asset management requirements derived from DVB's own activities as a lender and investor, the team will provide 'third-party' aircraft remarketing, lease management, technical and general consultancy services to airlines, lessors, investors and financial institutions active in the sector.

The AAM activity completes DVB Aviation's business platform, whereby our clients can readily draw upon the following expertise in order to fulfil their differing requirements:

- Lending, comprising recourse and limited recourse asset-based finance;
- Structuring/arranging, including tax and non-tax-based leases;
- Research (via Aviation Industry Research, based in London and Rotterdam), focusing on the equipment market;
- Financial Consultancy (via Aviation Financial Consultancy, based in London), including fund raising/financing strategy, optimal capital structure, sale & leaseback and aircraft valuation/analysis;
- Investment & Investment Management (via Group Investment Management, based in London and New York), managing the Deucalion Aviation Funds (aircraft, aero engines, airline equity, asset backed bonds, etc.); and
- Asset Management (via Aviation Asset Management, based in London), as summarised afore.

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.

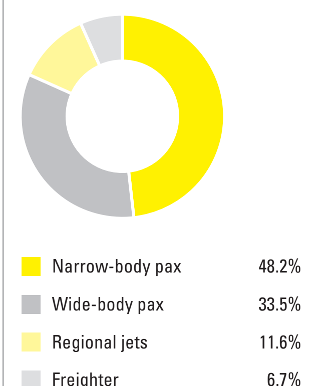
Another record year

During 2006 we realised 71 new transactions with aviation clients, representing a record volume of €1,267 million (2005: €1,148 million). New business was concluded with established customers such as (leasing company) Pegasus Aviation, Air Europa and Jet Airways. In addition, we attracted 13 new clients including Air Canada, Mexicana, Ryanair and Avion Aircraft Trading (Iceland). The average margin on new, final-take loan commitments during 2006 was 1.91% per annum. This level was lower than the 2005 level of 2.16% per annum, driven by increased competition in a market which became flush with banking liquidity.

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 2006 by the fact that we acted as arranger and/or agent bank in respect of over 90% of our newly acquired business.

New financings in 2006 were well-diversified by client and obligor (including by geographical region), as well as by aircraft classes and aircraft type collateral.

Aviation portfolio by aircraft classes



Narrow-body pax	48.2%
Wide-body pax	33.5%
Regional jets	11.6%
Freighter	6.7%

Aviation portfolio by aircraft type collateral	
A300	*0.7%*
A310	*0.7%*
A318	*0.7%*
A319	*5.7%*
A320	*16.1%*
A321	*3.8%*
A330	*6.6%*
A340	*8.6%*
B717	*0.3%*
B737	*19.2%*
B747-200F	*1.6%*
B747-400	*1.7%*
Freighter/Combo	
B747-400	*9.8%*
B757	*1.9%*
B767	*5.2%*
B777	*2.5%*
CRJ100	*0.3%*
CRJ200	*2.3%*
CRJ700	*3.3%*
Embraer	*5.8%*
McDonnell Douglas	
MD11F	*2.6%*
MD80-87	*0.6%*

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

- DVB arranged and underwrote a limited-recourse term debt facility to assist US investor/lessor Republic Financial Corporation in its acquisition of six Airbus A340-200 aircraft on medium term operating lease to South African Airways.
- We co-arranged and co-underwrote a pre-delivery payment (PDP) financing for Pakistan International Airlines to acquire three new Boeing B777-300ER aircraft.
- We structured and arranged the equity for the Japanese Operating Lease (JOL) financing of four new Boeing B737-800 aircraft for Ryanair.
- We provided a "bridge" loan facility to Icelandic customer Avion Aircraft Trading to facilitate its purchase of two Airbus A300-600R passenger aircraft, for the purpose of freighter conversion followed by subsequent lease or sale.
- We co-arranged and co-underwrote (with two other financial institutions) a mortgage debt facility for Air Canada to part-finance their purchase of 22 new Embraer 190 aircraft.
- We acted as agent and debt underwriter in relation to sale-and-leasebacks for Jet Airways (India) relating to seven Boeing B737-400/700/800 aircraft.

Our Aero Engine Finance activity, first established in late 2004, continued its focus on providing financial services to the global aero engine market. 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. As well as establishing DVB as a reliable financing partner for our aero engine clients, during 2006 the team achieved a landmark of being retained to advise a South American airline in the engine selection process relating to its new aircraft order.

In general, competition in the sector intensified during 2006, driven by improved market conditions and sentiment. Nevertheless, DVB's market penetration – the reward of our consistent approach to business, plus our track record of delivery – meant that we could once again more than offset this development. This was demonstrated by the record level of activity seen with our aviation client base.

Loan portfolio development

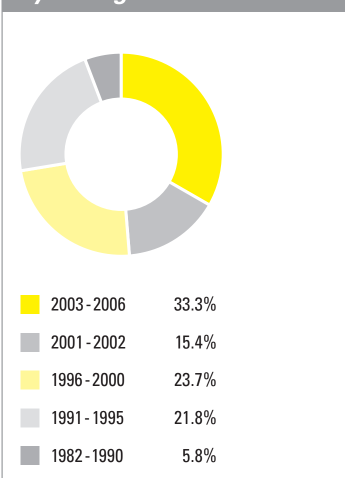
At the end of 2006 the Aviation portfolio stood at €3.12 billion (2005: €2.99 billion). In US dollar terms – the Aviation portfolio was predominantly 97.3% US dollar-denominated – the portfolio grew by 16.4%, an increase from US$3.53 billion to US$4.11 billion. The collateralised portfolio represented 99.9% of the total volume. The collateral was predominantly Boeing (45.4%) and Airbus (43.0%) commercial jet aircraft, of which 33.3% were 2003–2006 vintage and (in total) 72.4% were under ten years old.

The portfolio is well-diversified by client: a total of 113 aviation clients equates to an average lending exposure of approx. €27.6 million per client. The division's largest individual client exposure currently stands at €138.0 million, and there are only 16 clients where our committed exposure is in excess of €50 million.

Risk is also geographically well-diversified, however, presently orientated towards North/South America (37%) and Europe/Middle East/Africa (38%), with client exposure in Asia/Australia/Oceania (15%, down from 17% in 2005) having fallen for the time being, in view of the very competitive environment we have faced in this region.

During the year under review a small number of loans have been restructured and reorganised, in some cases involving the leasing of mortgaged aircraft to other airline operators. Such achievements are largely attributable to the expertise of Asset Management, as well as to our 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.

Aviation portfolio by vintage



2003 - 2006	33.3%
2001 - 2002	15.4%
1996 - 2000	23.7%
1991 - 1995	21.8%
1982 - 1990	5.8%

1.3 Land Transport Finance

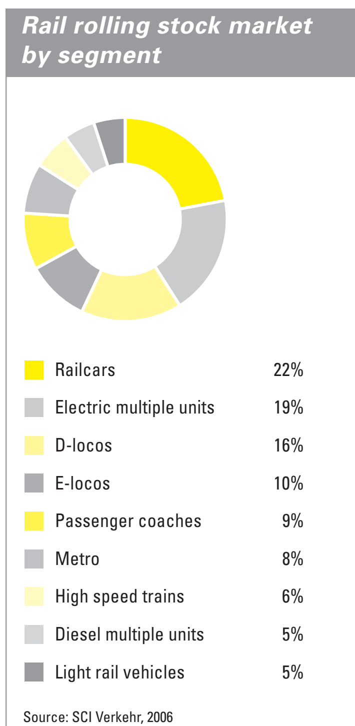
1.3.1 Land Transport – Market review

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

Signs are such that European rail freight volumes continued to grow after a short standstill in 2005, although rail's market share sticks at 17%. The German Statistische Bundesamt reports a strong 10.8% growth in ton-kilometres for rail freight in Germany in 2006, the largest rail freight market in Europe. As 37% of the German freight tonnage concerns international transport, fairly good growth rates in the surrounding countries can be expected as well. Rail Cargo Information Netherlands reported a tonnage growth of 11% during 2006. Polish 'Railway Market' meanwhile states a 7.3% growth in ton-kilometres in Poland (the second-largest rail freight market) in the first three quarters of 2006 compared to the same period in the year before. The Swiss rail freight market leader was able to close off 2006 with a 7.5% increase of ton-kilometres.

Rail rolling stock market by segment



Source: SCI Verkehr, 2006

The downside of these growth rates is the declining available capacity on the foremost North-South oriented European rail routes. The European Commission wants to coordinate investments in rail infrastructure, but it is still up to the individual EU member states to agree on (contributing to) major investments. However, a new dedicated double-track electrified rail freight line with a state-of-the art train safety system (ETCS) – a first in Europe – is about to open, from Rotterdam to the German border near Emmerich. Moreover, the North-South existing rail route between Emmerich and Genoa will be equipped with ETCS by 2015, which gives the opportunity to run more trains and to operate these with one locomotive across four countries. Five other major European routes will be completed in parallel.

Rail freight traffic in the US again achieved a volume record, for the ninth straight year. The railroads' freight volume totaled 1.74 trillion ton-miles (+2.5% over 2005) according to the Association of American Railroads. US shortlines gained 4.1% of growth and the Class I railroads' volume went up 1.2%. The Class I railroads were able to lift prices to keep pace with investments and operating costs, and their profits rose sharply in 2006. Railroads are now earning more than the cost of capital replacement. Major investments in rail infrastructure are being made to relieve the tight capacity of the rail network. However, at the end of 2006 some signs of softness in the amount of transported volumes surfaced.

Trends in rail passenger transport

Rail passenger transport in the EU25 rose by 2.2% to 357 billion passenger-kilometres in 2005 according to Eurostat. France (76 billion passenger-kilometres; +3% between 2004 and 2005), Germany (75 billion; +3%), Italy (46 billion, +1%) and the United Kingdom (44 billion; +3%) accounted for almost 70% of this volume. Preliminary figures from the German Federal Statistical Office show an increase of 4.4% in train and 1.3% for tram passenger-kilometres in 2006. The British Association of Train Operating Companies reports a 6.7% increase of passenger journeys on the National Rail network. 220 companies are active with 360,000 staff members and 64,000 passenger units over 185,000 km of railway lines, transporting 6.8 billion passengers in the annually € 21.7 billion suburban and regional rail passenger market, according to the European Rail Research Advisory Group of the UITP. Suburban and regional railways in the US again experienced again a growth year in 2006.

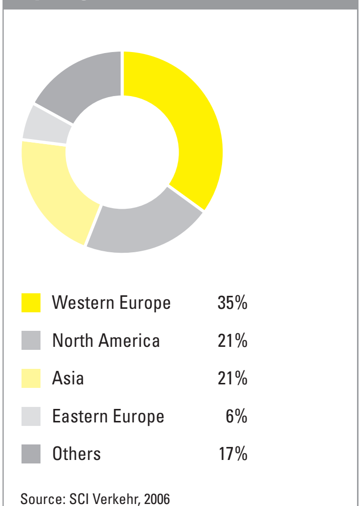
The market for rail vehicles

According to SCI Verkehr the global rail market amounts to € 97.2 billion, of which € 41.7 billion are new investments. Rolling stock represents circa 61% of the total rail market, of which € 29.5 billion can be attributed to new investments. DVB focuses on the two traditionally largest rail markets, being Europe (41%) and North America (21%). However, the Asian rail market also hit a 21% share.

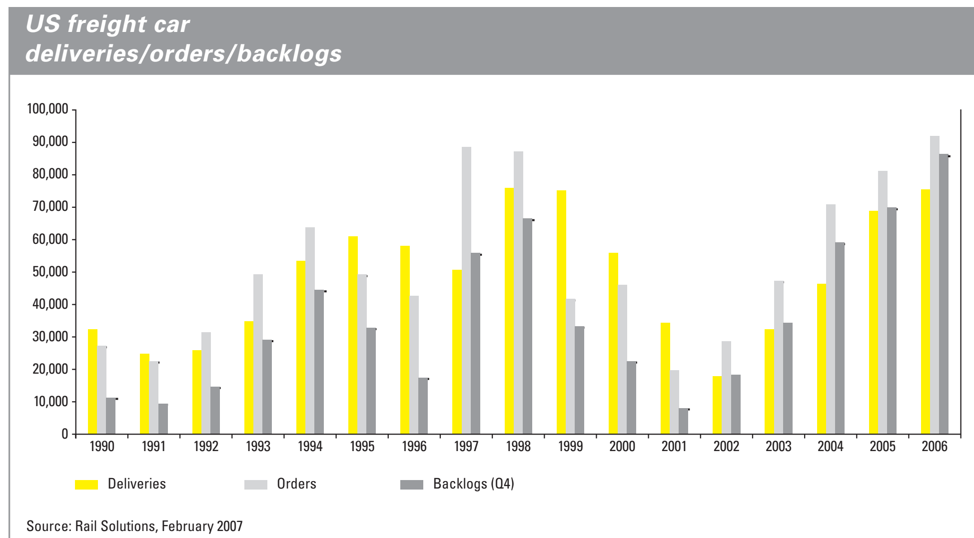
In Europe, standardisation of rolling stock kicks in for the supply of locomotives and train sets, whereas freight cars are still custom-made, and in relative small numbers. The strong demand for electric multi-system locomotives is visible in the current order book of the rail industry: 37% of the 664 electric locomotive backlog concerns locomotives which are able to drive under at least three electric currents and 78% can even run under two current systems. Reduction of train transit times and more reliable train services can therefore be expected. Bombardier and Siemens are the preferred suppliers.

The capacity constraints in the US have led to decreasing average train speeds. Combined with the increase in freight volume, this raised orders (and prices) of freight cars: 70,291 freight cars were ordered in 2004, 80,703 in 2005 and 91,466 in 2006, whereas 50,000 would be the normal average level. The backlog of freight cars was a 16-straight year record of 85,826 cars. Also the delivery level of new locomotives (1,200 units for the North American market) was 100 units above the 2005 level.

World rail market by region



Source: SCI Verkehr, 2006



In 2006, the Association of American Railroads issued rules for "Increased Life Status" of railcars, which will allow qualifying railcars to be acceptable in interchange service for a period of up to 65 years (previously 50 years). The new rule may increase the expected economic useful life of a relatively small number of groups of aging railcars, typically those that are not subject to much risk of technological or economic obsolescence. On the other hand, several initiatives from the US rail industry and chemical forwarders to make tank cars stronger were initiated in 2006. This would reduce the economic life of a considerable amount of existing tank cars; especially chlorine purpose tank cars, which will all be replaced by 2017.

Secondary rail rolling stock market

The European secondary rolling stock market was not significant in the past, due to the lack on the supply side, but it has started to roll. Fear of competition prevented the western European incumbent railroads to sell even aged and superfluous rolling stock to each other. However, the sale of old rolling stock continued to countries outside Europe, such as locomotives to Australia and Argentina. On the other hand, 2006 saw the first significant sales of aging rolling stock for commercial train services within Europe itself. For example, German train sets went to Poland and British locomotives were sold to Romanian buyers. The best evidence for the start of a serious secondary market is the emergence of leasing companies. Leasing companies were able to profit from the protective behavior of the incumbents, to offer new and state-of-the art rolling stock to the new open-access railway companies. The result is that 25% of the new locomotives to be delivered in 2007 will go to lessors, and that new entrants have access to the most reliable locomotives. Although

many locomotives came off lease in 2006, all of them were rented out again. 2% of the locomotives and 18% of the freight cars in Europe are owned by lessors. In the merger and acquisition department, lessor Mitsui bought Siemens Dispolok to become the second-largest locomotive lessor in Europe; and lessor Transwaggon bought the Nordwaggon fleet of freight cars to become the sixth-largest freight car lessor in Europe.

Road traffic/logistics

The public bus transport market remains a highly regulated operating environment, with tendering regimes in some countries (Germany, the Netherlands and Sweden). The private sector plays primarily a role in inter-urban and long distance markets with sub-contracting taking place in urban areas. International multi-modal operators are still on the acquisition path. Proposals for regulated competition in the EU are being drafted by the European Commission. There is a healthy second-hand bus market in Europe, but different national type approvals prohibit easy re-employment.

According to Transport Intelligence the global contract logistics market grew by 10.3% in 2005 to €117 billion. All regions contributed to the double-digit growth, which exceeded many expectations in the industry. The fastest growing market was China, which soared by 31%. However, even more established markets such as the United States also experienced exceptional rates of development, driven by the strong economy and distribution of imported consumer goods. Europe, which has been affected by economic slowdown in the past few years, had the weakest expansion but still managed to grow in the high single digits. Markets such as Germany benefited from major outsourcing deals as the trend started to take root.

The European truck markets totalled 285,000 heavy units in 2005. In that year around 200,000 new trailers (thereof 56.6% semi-trailers) were sold in Europe. Truck manufacturers offer Euro 4 (the current European Union emission norm) and even Euro 5 (the future norm as from 1 October 2009) compliant trucks to their customers. Euro 5 trucks are favoured by the German clients as these will reduce the road tolls to be paid in Germany. Trailer manufacturers offer trailers to form 60-ton, 25.25 m vehicles, but besides permitted deployment in Sweden, this class stays with test programs in the Netherlands, soon in Denmark, and in one German Federal state. The trend towards outsourcing to third-party logistic companies, the introduction of road tolls, and the continual increase in diesel prices, all cause the contract hire sector to grow its truck and trailer lease and rental business – which has reached a market share of 20%. Not only the many small road companies resort to leasing, but there is a trend for large transport companies to lease road assets as well. The leasing of commercial vehicles (buses, trucks and trailers) has grown to a €5.8 billion business sector. Truck and trailer manufacturers (Mercedes and Schmitz Cargobull) are already acting as a road asset lessor, or are stepping into the business. The secondary markets for European trucks and trailers are highly developed, using e-commerce to find new owners almost every time, from Europe to Africa, Russia and Asia.

1.3.2 Land Transport – Portfolio analysis

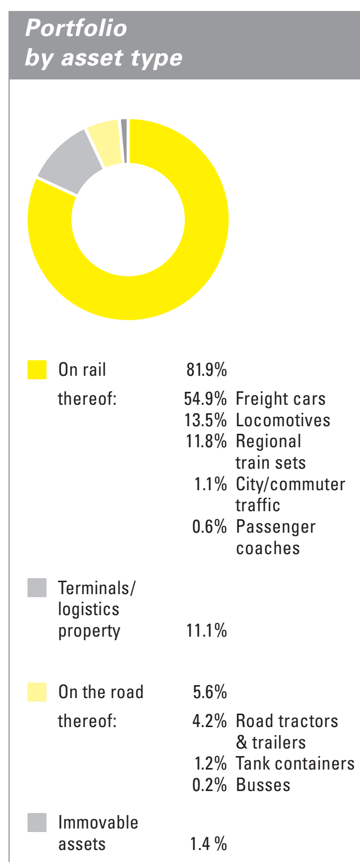
2006 was another successful financial year for the Land Transport division, with a significant increase in income compared to the previous year. Once again this confirmed our strategy of positioning ourselves as a specialist catering for selected segments of the international Land Transport markets.

We have outlined the "Land Transport Landmark Deal 2006" on pages 96–97. Please refer to the tombstones on the back cover for other landmark Land Transport deals in 2006.

As in 2005, we were once again awarded a renowned international prize during the year under review: Jane's Transport Finance awarded DVB with the "European Rail Deal of the Year, 2006" for an asset-based acquisition financing package for a fleet of more than 2,000 modern, high-cubic covered freight cars.

Further growth of client exposures in our loan portfolio

In spite of extensive liquidity available in the rail finance segment following the market entry of several banks, the Land Transport division client lending portfolio once again developed favourably. Customer lending increased by 2.4% in 2006, from €958.8 million to €982.2 million. Brisk new business activity exceeded redemptions, both scheduled as well as early repayments, the latter having been influenced by the business cycle. In line with the Bank's strategy, new commitments were only entered into on the basis of marketable assets with commensurate values, as indicated by our in-depth analysis. We concluded 14 new exposures with an aggregate volume of €396.9 million, up 72.4% on the previous year. €98.0 million of this volume was syndicated, and DVB took a leading role in 55% of all new transactions.



Rail business now accounts for 81.9% of the portfolio (2005: 74.3%); this segment is characterised by long cycles, which are also less pronounced compared to other sectors. Reflecting strong new business, the share of freight car financings in customer lending rose to 54.9% (2005: 38.2%). Although new business was also concluded in the next two largest segments – locomotives and passenger train sets – their relative portfolio share did not increase. The portfolio share of mobile road transport/logistics assets remained almost unchanged, at 5.6% (2005: 6.2%), reflecting the origination of new, attractive transactions. We expressly welcome the dominant share of freight cars as credit collateral in the portfolio: thanks to their extensive alternative usage options combined with the capability to go easily across borders, and given that they are not self-propelled, freight cars are sought-after assets for financing and collateral, both in Europe and in North America.

Our business activities remained focused on the markets in North America and Europe. Whilst our European financing business posted above-average growth, we maintained the share of our North American exposure in our overall business volume. We also gained exposure to Asian markets, through an acquisition finance transaction in the rail segment – a further key step to enhancing the regional diversification of the Land Transport portfolio. We continued to target our business activities on countries offering a stable legal and political environment, and a satisfactory regulatory framework in the sector.

The Bank also assumed several leading mandates to provide acquisition finance for moveable rail assets. This included the role as sub-underwriter for the financing of the acquisition of Europe's largest lessor of tanker wagons. We also supported the sale of a locomotive rental company to a strategic partner. Further landmark deals included loans extended for investments in tank wagons, locomotives in Scandinavia, and a large standby facility for standard freight cars extended to one of Europe's largest wagon lessors. In North America, we succeeded in closing a US leveraged lease structure to finance 33 new locomotives featuring state-of-the art environmental technology to a Class 1 railway operator.

In the road and logistics segment, we benefited from our focus on mobile assets. In particular, this was reflected in the growth of trailer financings in Europe – where we succeeded in extending a loan to one of the leading lessors, with scope for additional business. Further loans were extended for tank containers and buses.

Key portfolio risk parameters remained mainly stable in their trend: exposures with a loan-to-value ratio not exceeding 85% accounted for 81% of the portfolio, whilst the uncollateralized portion continued to fall – in line with previous years – to just 4.1%.

Product developments

The main focus of our business remained in senior collateralised loans for land transport vehicles. In several instances, we were also able to offer subordinated loans, mezzanine capital, residual value guarantees in connection with the acquisition of loan exposures, and equity financings. The provision of advice on financing strategies has also become increasingly important. Once again, we received active support from DVB Bank's Corporate Finance units, particularly in M&A advisory.

Strengthening our team

We strengthened our team in 2006 by hiring a dedicated research expert for our Rotterdam office. Focusing exclusively on the rail market, road and logistics sector, our research covers relevant trends in these sectors including demand for and valuation of vehicles we finance, together with all other market parameters influencing our business. The results of collating, analysing and assessing data are used as independent input in our decision-making process. Thanks to the valuable contributions provided by our research team, we were in a position to acquire attractive risk positions in our business throughout the year. Our research capabilities also included preparing a study analysing the sector and competitive environment for a target client, enabling that client to formulate an expansion strategy.

We also hired a highly qualified structuring expert with many years of market experience to join our London office, in order to better assist our clients with regard to structuring, advising on, and arranging complex transactions also covering tax-driven deals. This has provided strong added momentum to the generation of new business.

1.4 Transport Finance Syndications – Risk Distribution (Placement of credit risks)

1.4.1 Syndications – Market review

The syndicated loans market experienced a strong year during 2006. Stable economic conditions and strong profitability in the banking sector continued to ensure high liquidity levels in the market.

In 2006, the syndicated loans market in general grew substantially, to an estimated volume of approx. US$4 billion from US$3.153 billion in 2005 (Dealogic). This was particularly as a result of a strong year in the debt syndication market for European borrowers, assisted by the weak dollar. Although the market in all other major geographies increased, the African, Indian and Middle East regions particularly stood out.

The shipping market has had another prosperous year, despite some concerns that the peak of the cycle may have been reached with regards to freight rates. Strong bank liquidity for this sector continues, which further tightened lending margins and structures compared to 2005. Throughout 2006 we saw new entrants to this sector, predominantly from European and Asian banks attracted by the strong financial results of the operators in the shipping finance sector.

The aviation market remained very active during 2006 and supply of liquidity for deals remained strong amongst the banks, with competition continuing to grow from banks returning to the market and from other liquidity sources such as private equity firms and hedge funds. Banks were still, however, selective, preferring the better assets and stronger aviation credits outside North America – with the Asian and Indian regions especially continuing to become more competitive. Pricing in general continued to sharpen in conjunction with the increased liquidity and competition in the market.

In the rail industry, almost half of 2006's deals came from investments in new assets (rolling stock, rail infrastructure, train workshops and railway stations). The rolling stock market represented approximately 61% of the total rail market, and the majority of overall rail activity was in Europe and North America.

1.4.2 Syndications – Portfolio analysis

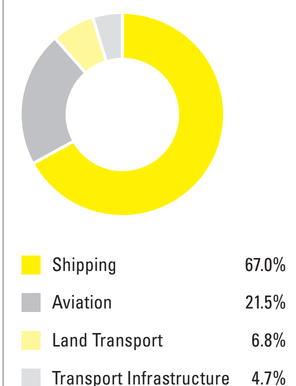
The Syndications team is focused on the syndication of primary debt transactions, including the development of new markets and structures to expand distribution channels for DVB and its clients.

In 2006, the Syndications team raised a total volume of US$2.1 billion (2005: US$1.65 billion) from approximately 40 transactions for our Transport Finance divisions: Shipping (incl. container boxes), Aviation, Land Transport and Transport Infrastructure, covering all geographic locations. It was an increase of over 27.3% from 2005.

Shipping transactions made up the majority of volume raised in 2006, with a total of US$1.4 billion (2005: US$741.8 million) syndicated. Aviation totalled US$490.5 million (2005: US$347.5 million), while Land Transport came to US$153.7 million (2005: US$44.2 million) and Transport Infrastructure notched up US$108 million (2005: US$12.5 million).

During 2007 we will continue to seek new liquidity from the market, and broaden our syndication capabilities in respect of bank debt.

Syndication deals by Transport Finance division – volumes sold down



Shipping	67.0%
Aviation	21.5%
Land Transport	6.8%
Transport Infrastructure	4.7%

1.5 Securitisation of receivables

The global securitisation market expanded significantly during 2006. A tightening of yields across all debt markets has attracted more investors to the ABS (asset-backed securities) sector and made this avenue of funding increasingly attractive to issuers.

The level of new issuance in the global securitised term note issue market exceeded US$1.4 trillion. In addition, the private Asset-Backed Commercial Paper (ABCP) market had year-end outstandings in excess of US$1 trillion. Consumer/retail assets continue to underlay the vast majority of the market, although the commercial/corporate assets component continues to gain ground. The moveable transportation assets component of the securitisation market remains small in absolute terms, as well as relative to the sector's weighting in overall global corporate funding requirement met by financial institutions. It is of note that two of the fastest-growing segments within the securitisation market have been backed by Commercial Property or Infrastructure assets – commercial assets which share many of the underlying characteristics of transportation assets.

The transport-related component of the public securitisation market included transactions backed by Aircraft, Container Box, Ship and Rail assets. Aircraft Lease securitisations in 2006 totalled US$1.45 billion – as opposed to US$4.5 billion in 2005, a year characterised by several large private equity acquisitions which required financing. An engine portfolio financing of US$330 million and a synthetic loan portfolio securitisation of US$600 million related to aircraft also materialised. Container Box public transactions raised US$1.85 billion, relatively stable to the US$1.20 billion raised in 2005; neither figure includes private transactions placed in ABCP conduits, which are also active in container finance. One public transaction backed by leases of rail cars was issued for US$355 million; however, this is a segment which taps the ABCP conduit market on a regular basis. In the shipping arena only one transaction materialised: backed by a portfolio of new build container vessels, it represented the first corporate funding transaction, raising US$254 million from a senior tranche of a more extensive funding programme. Previous shipping transactions had been synthetic loan securitisations undertaken by banks.

The Securitisation team was completed during 2006, and has been working together with the various sector teams within DVB to explore new opportunities for clients. Particular interest has been paid to potential opportunities arising from the CBU business.

2. Corporate Finance

2.1 Advisory and M&A

2.1.1 Market review

Our clients are increasingly exposed towards consolidation. The "drivers" of global trade, notably 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.

2006 was characterized by a large number of M&A transactions, 25 of which were in the shipping industry alone. Private equity houses and hedge funds, clearly considering the long-term demand drivers to be positive, are making important inroads – backed by increasing interest in transportation companies, industry growth and vast amounts of available capital. To capitalize on growth prospects, many transportation companies consider second-hand and gradual asset acquisitions as inferior to acquiring companies through vertical and/or horizontal integration.

2.1.2 Portfolio analysis

Our very experienced Advisory and M&A team is drawn from those areas of international investment banking with a focus on the transportation industry. The team is structured so as to support our business focus and to expand our fee income business.

Please refer to the Tombstone on the back cover for selected landmark Advisory and M&A deals in 2006.

In 2006 the London-based unit set up offices in Singapore and New York, enabling us to be on the ground in markets where higher growth is expected. All our transaction are cross-border driven. Advisory does not utilise DVB's capital; it sources income from mandated retainers and transaction-led success fees. The unit was awarded 18 new mandates in 2006, while four transactions were successfully closed during the year.

Our strategy is to provide our clients with strategic solutions to their growth prospects and/or disposal of businesses, and all services related to such – 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).

2.2 DVB Capital Markets LLC – Financial Advisory with Broker Dealer License

DVB Capital Markets LLC (DVB Capital Markets) was established to provide capital raising and financial advisory services to transportation companies. In April 2006, DVB Capital Markets was successful in its application as a licensed broker-dealer by the NASD (formerly known as the National Association of Securities Dealers).

In addition to providing access to the US capital markets via equity and debt public offerings, the range of services offered includes private placements and other corporate finance and investment banking services.

We believe that development of a capital markets capability through this new unit enhances the Bank's transport finance franchise, by deepening the range of products we offer our client base. Specifically, the unit allows our relationship bankers to offer clients access to US and international capital markets, including private placements and public offerings of equity and debt.

DVB Capital Markets closed its first transaction during 2006, participating as an underwriter on the initial public offering of Ultrapetrol (Bahamas) Limited, a shipping client of the Bank. Capital markets professionals work closely with DVB's relationship managers to originate and structure capital markets transactions.

An expansion of activities is planned for 2007/2008, as the unit continues to selectively add experienced capital markets professionals to its staff.

2.3 Group Investment Management

2.3.1 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 specialized in shipping equity investments.

The NFC Shipping Funds (NFC) provides equity, preferred equity and mezzanine loans to the shipping and offshore sectors. The focus is on preferred asset-based investments. Since 2001 the amount of equity raised in the 8 NFC funds is close to US$500 million. In 2006 the total asset purchases since 2001 passed the US$2 billion benchmark.

The amount of equity available to the shipping industry in general is huge. Strong shipping markets and high returns realized have attracted many new investors to the shipping industry. As a consequence the number of acceptable investment opportunities is under pressure, due both to active competition from other investors as well as high asset values in today's markets. NFC has reacted to the challenging market environment by being even more creative in (financial) structuring of investment opportunities, and by making use of the available equity for the shipping sectors from various sources (mainly Norwegian KS and German KGs) for exit opportunities out of the existing portfolio.

In 2006, NFC concluded 31 transactions, of which 10 were exits and 21 were new investments. The new investments involved over 59 vessels with a combined value of US$917 million. The exits involved 16 vessels with a combined value close to US$300 million. The realized returns are well above the 15% RoE benchmark of NFC.

In 2006 a new shipping fund was established (NFC VI) with an available equity of US$150 million, enabling this fund to buy assets up to US$600 million. The 5 investors in NFC VI are based in the USA, Japan, Hong Kong and Germany.

Per year-end 2006, NFC acts as an adviser to seven NFC Shipping funds and managed total assets of US$1.5 billion. Of the equity available as at year-end 2006 of US$320 million US$230 million have been invested, with the balance available for new investments. The average IRR over all funds since the start has been 28.5%. The portfolio of investments is healthy, and well 'in the money'.

Abbreviations

IRR	*Internal Rate of Return*
NFC	*NFC Shipping Funds*
RoE	*Return on Equity*

2.3.2 Deucalion Aviation Funds – Market review and portfolio analysis

The Deucalion Aviation Funds consist of nine funds which act as the investment vehicles through which DVB and a group of private investors together invest in aviation equity investments. Our senior investment managers, based in London and New York, act as advisors to each of the funds, sourcing and managing aviation investments and assets.

The funds have a primary focus on ownership of aircraft assets through direct equity investments, chiefly through operating lease and sale-leaseback transactions. The funds also invest in aero engines, airline equities, passenger-to-cargo conversions, secured aircraft bonds and mezzanine loan investments. As at year-end 2006, Deucalion managed total assets of US$338 million.

The funds play an important role in supporting DVB's airline clients through the provision of equity solutions in their aircraft acquisition and divestment strategies.

During 2006 the Deucalion funds concluded investments in eleven aircraft, with a total transaction value of over US$320 million. In the same period three investments were sold at a profit; two Boeing 747-400 passenger aircraft, originally acquired by Deucalion in 2004, were sold to an Asian airline; and one Airbus A300-600RF (M) aircraft, purchased as a passenger aircraft and then converted to freighter, was sold to an Asian operator. This latter aircraft was owned and managed by a joint venture company, established between Deucalion and a major European bank for the purpose of converting passenger aircraft to freighters. To date five aircraft have gone through this joint venture company.

During 2006 Deucalion also sold all of its remaining holdings in EETC, ETC and ABS for a very good trading profit. A generally more benign risk environment, with significantly reduced volatility, has removed most of the arbitrage opportunities from this class of investments for the time being.

The return on equity on all realised investments in 2006 has been excellent, in some cases exceeding 50%.

Investment performance continues to benefit from the equity investment made in 2003 in Malaysian low-cost airline operator Air Asia. During 2006 the company made year-on-year improvements in revenue, income and available seat capacity (with the increasing aircraft fleet size). The airline continued to compete effectively in its Malaysian home market, whilst expanding externally to take advantage of the strong demand for low-fare air travel in Asia. The weighted average share price when the shares were launched in the November 2004 IPO was MYR 1.23: they closed 2006 at MYR 1.51.

The asset-based approach of the Deucalion funds and its opportunistic approach to investing, combined with the strength and depth of the DVB Aviation platform, provides a unique opportunity to DVB and external third party investors to maximise equity investment opportunities in the sector.

Abbreviations

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

3. Treasury

2006 saw strong issuing activity within the scope of our own issuance programmes, with funding costs benefiting from the ratings upgrade. Two aspects were particularly noteworthy when looking at the successful business performance:

- the ratings upgrade by both Moody's Investor Services and Standard & Poor's; and
- the growth in our refinancing volumes, particularly through our Commercial Paper issues.

3.1 Ratings upgraded

The rating agencies Standard & Poor's and Moody's Investor Services both upgraded DVB's rating by one notch during 2006, bringing the Bank's key long-term rating – which has a major impact on capital market refinancing in particular – to the medium single-A range. Moody's initiated the upgrade in January 2006, when it raised DVB's long-term rating from A3 to A2, with an unchanged stable outlook. Standard & Poor's followed suit in December 2006, upgrading our long-term rating from A- to A, with a stable outlook. Besides recognising DVB's integration into the German cooperative banking sector, led by DZ BANK AG, the improvement in the Bank's ratings also reflected DVB's strong business performance, as well as its strengthened capital base following the share capital increase back in 2005.

3.2 Strong demand for DVB Commercial Paper

DVB's refinancing volumes increased significantly during 2006, thanks to stronger issuing activity in US dollars within the scope of our Commercial Paper programme – which reflected investor appetite for shorter-term instruments in general, and for DVB's issues in particular. Despite higher volumes, we managed to keep the costs of new issuance low, particularly thanks to the ratings upgrade discussed above. Total money-market issuance under our Euro Commercial Paper programme amounted to €806 million (2005: €543.5 million) and US$2.25 billion (2005: US$0.25 billion). 12-month term deposits stood at €35 million (2005: €500 million) and US$251.5 million (2005: US$250.5 million), respectively. Medium to long-term capital market issuance reflected higher demand for promissory note loans and long-term deposits: we raised a total of €678 million (2005: €536.5 million) plus US$14.3 million and JPY1,630 million through these traditional funding vehicles. In addition, we placed two Medium-Term Notes under our Debt Issuance Programme during 2006. Specifically, we issued a €100 million 5-year variable-rate European Medium Term Note (EMTN) (2005: €40 million) and a US$110 million 3-year EMTN, also on a variable-rate basis (2005: US$400 million). Both issues were well received by the market. We plan to continue issuance under the Debt Issuance Programme during 2007, with the focus once again on medium-term maturities, and in US dollars.

Economic situation

2006 was the third year during which DVB's income was generated exclusively from its core international Transport Finance and Corporate Finance businesses. Our strong earnings – which climbed 43.4% to €222.4 million – confirmed the success of our unequivocal strategic focus. Net interest income after loan losses was up 39.6%, to €130.9 million, and net fee and commission income rose 19.2%, to €68.2 million. The result from operating activities before tax (from continued operations) was up a significant 90.9%, to €97.0 million.

1. Key elements, external factors and preliminary remarks

1.1 The following key elements characterised DVB's business in 2006:

- strong growth in new international Transport Finance business, with 238 new transactions and an aggregate volume of €5.86 billion;
- a leading role in 68% of transactions in the overall portfolio, and in 67% of new transactions;
- the continued establishment and expansion of attractive market niches in the Transport Finance asset lending business (in particular, in Cruise Finance and for FPSO units);
- successful business performance in our Group Investment Management business;
- the launch of the Aviation Asset Management unit in London;
- the establishment of a Land Transport Finance research unit;
- the decision by the Board of Managing Directors to discontinue the Transport Infrastructure Finance business; and
- a first-time client survey conducted to prepare a benchmarking review on client satisfaction.

1.2 External factors

Due to its operations in international Transport Finance and Corporate Finance, the development of the euro/US dollar exchange rate particularly influences DVB's consolidated financial statements. In 2006, the effect of a strong euro against a weak US dollar had a significant impact:

- The increase in the nominal volume of customer lending was considerably lower in euro terms (+11.9%) than on a US dollar basis (+24.8%). 74.3% of the overall volume of customer lending was denominated in US dollar, representing 82.2% of the lending business in Shipping and 97.3% 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, less than one-third of the lending volume in the Transport Finance division 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 euro. 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.

1.3 Preliminary remarks

The Board of Managing Directors published a resolution in December 2006, in which it decided to withdraw from the Transport Infrastructure business, in order to focus exclusively on financing mobile assets. Established in 1998, the Transport Infrastructure division has contributed positively to the Bank's results, accounting for 4.9% of DVB Group's consolidated revenues in 2005. DVB's corporate policies are guided by our commitment to be the leading finance specialist in the international Transport Finance business. Our Shipping, Aviation and Land Transport divisions have been able to achieve this position of pre-eminence. Transport Infrastructure Finance has also fared well during the past years, not least because of the dedication of a highly qualified team, and contributed regularly to the very advantageous results delivered by the Bank as a whole. This notwithstanding, the Board of Managing Directors concluded that especially in view of the growing scale of infrastructure projects, it appears unlikely that the strategic objectives of the Transport Infrastructure division will be met.

IFRS 5 requires separate disclosure of the "result from discontinued operations" in the income statement. We have complied with this requirement, and the income statement figures for 2005 were adjusted accordingly.

2. Results of operations

2.1 Income

DVB's income developed very favourably in 2006, increasing by 43.4%, from €155.1 million to €222.4 million. As in the consolidated financial statements for 2005, the following factors were incorporated:

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

Abbreviations

AfS	*Available for Sale*
bp	*Basis points*
CIR	*Cost/income ratio*
DVB	*DVB Bank Group*
FPSO	*Floating production, storage, and offloading units*
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*
pp	*Percentage points*
RoE	*Return on equity*

€ mn	2006	2005	Changes € mn	Changes %
Income	**222.4**	**155.1**	**67.3**	**43.4**
Net interest income after loan losses	**130.9**	**93.8**	**37.1**	**39.6**
Interest and similar income	680.4	548.5	131.9	24.0
Interest income	669.2	535.6	133.6	24.9
Current income	11.2	12.9	–1.7	–13.2
Interest expenses	525.7	439.8	85.9	19.5
Impairment losses on loans and advances	23.8	14.9	8.9	59.7
Net fee and commission income	**68.2**	**57.2**	**11.0**	**19.2**
Fee and commission income	74.4	63.1	11.3	17.9
Fee and commission expenses	6.2	5.9	0.3	5.1
Net income from financial instruments in accordance with IAS 39	**13.5**	**–2.1**	**–**	**–**
Net trading income	–1.3	23.2	–24.5	–
Hedge result	–1.7	–23.0	21.3	–92.6
Result from the application of the fair value option	1.7	–6.6	8.3	–
Result from derivatives entered into without intention to trade	9.1	2.9	6.2	–
Net income from investment securities	5.7	1.4	4.3	–
Result from investments accounted for at equity	**4.0**	**7.3**	**–3.3**	**–45.2**
Net other operating income/expenses	**5.8**	**–1.1**	**6.9**	**–**

2.1.1 Net interest income after loan losses

Net interest income after loan losses rose by 39.6%, from €93.8 million to €130.9 million.

2.1.1.1 Net interest income

Consolidated net interest income increased by 42.3%, from €108.7 million to €154.7 million.

This figure included a sharp increase in net interest income generated in Transport Finance segments, which climbed by 28.2%, from €87.7 million to €112.4 million. In Shipping, net interest income was up by 17.2%, to €54.5 million. In Aviation, it rose by a notable 47.7%, from €33.1 million to €48.9 million, and improved in Land Transport by 11.1% to €9.0 million. Corporate Finance & Capital Market Products managed to increase net interest income by 81.5%, from €17.3 million to €31.4 million. Hence, the share of Corporate Finance business in net interest income already amounts to 20.3%.

Interest income rose by 24.0%, from €548.5 million to €680.4 million. This was generated mainly by our lending business in Transport Finance, which contributed €611.8 million (+24.0%). In addition, operating lease income of €57.4 million was derived largely from the NFC and Deucalion Funds, which must be consolidated. Current income of €11.2 million includes distributions from investments, and from joint ventures.

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

	Shipping	Aviation	Land Transport	Transport Infra-structure
2006	135bp	191bp	137bp	122bp
2005	139bp	216bp	149bp	243bp

Interest expenses of €525.7 million (+19.5%) are composed of €491.8 million in refinancing costs for the Transport Finance lending business, €27.1 million in operating-lease expenditure, and €6.8 million in expenses for silent partnership contributions.

2.1.1.2 Impairment losses on loans and advances

Impairment losses on loans and advances were up by 59.7%, from €14.9 million to €23.8 million.

€ mn	2006	2005	Changes € mn	Changes %
Impairment losses on loans and advances	**23.8**	**14.9**	**8.9**	**59.7**
Additions	35.7	32.2	3.5	10.9
Reversals	–12.6	–17.1	4.5	–26.3
Direct write-offs	1.0	0.7	0.3	42.9
Recoveries on loans and advances previously written off	–0.3	–0.9	0.6	–66.7

Additions totalled €35.7 million. Main items:

- €23.5 million for the Aviation portfolio;
- €7.9 million for the Shipping portfolio; and
- €3.8 million for D-Marketing.

This figure was offset by €12.6 million in amounts released. Main items:

- €8.3 million for the Aviation portfolio;
- €2.2 million for D-Marketing; and
- €1.9 million in general write-downs for D-Marketing.

Total allowance for losses on loans and advances rose by 2.7%, from €120.9 million to €124.2 million, comprising mainly:

- €49.6 million for D-Marketing;
- €59.9 million for the Aviation portfolio;
- €12.1 million for the Shipping portfolio; and
- €2.0 million for the Land Transport portfolio.

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 exposure through concessions, no country risk provisions are required in accordance with IAS 39. Additionally, at 0.5%, in terms of net risk exposure, the share of commitments that involve a high degree of country risk relative to the overall volume of customer lending is very low.

2.1.2 Net fee and commission income

Consolidated net fee and commission income posted a notable increase of 19.2%, from €57.2 million to €68.2 million.

The contribution from Transport Finance segments rose by 23.4%, from €47.4 million to €58.5 million. The growth in Aviation was particularly striking, increasing by 42.6% to €19.4 million. Moreover, net fee and commission income in other divisions of Transport Finance registered notable increases: Shipping gained 12.3% to notch €36.6 million, and Land Transport 108.3%, from €1.2 million to €2.5 million. In addition, Corporate Finance & Capital Market Products managed to increase net fee and commission income by 91.0%, from €7.8 million to €14.9 million. Corporate Finance & Capital Market Products thus already accounted for 21.8% of consolidated net fee and commission income.

Fee and commission income in total amounted to €74.4 million (+17.9%). The figure was offset by fee and commission expenses of €6.2 million (+5.1%) – including, in particular, expenses incurred for guarantees and indemnities.

2.1.3 Net income from financial instruments in accordance with IAS 39

Net income from financial instruments in accordance with IAS 39 changed from €–2.1 million to €13.5 million.

Net trading income amounted to €–1.3 million (2005: €23.2 million), including standalone derivatives in the trading portfolio. On the other hand, the hedge result (hedge accounting) was €–1.7 million (2005: €–23.0 million); this figure includes derivatives with effective hedge relationships. The result from the application of the fair value option in accordance with IAS 39 amounted to €1.7 million (2005: €–6.6 million) and included the prior year's designated hedged items and associated derivatives. The result from derivatives entered into without intention to trade rose from €2.9 million to €9.1 million. Net income from investment securities, which comprises the disposal of investment securities (LoR, AfS), increased from €1.4 million to €5.7 million.

2.1.4 Results from investments accounted for at equity

Results from investments accounted for at equity declined by 45.2%, from €7.3 million to €4.0 million.

2.1.5 Net other operating income/expenses

Net other operating income/expenses showed a strong turnaround, from €–1.1 million to €5.8 million. Included in net other operating income is the reversal of provisions set aside in the face of proceedings pending since 2000, concerning an administrative fine imposed by the European Commission on DVB Bank AG. In September 2006, the European Court of Justice delivered a legally binding judgement confirming the protest filed by DVB Bank AG against the administrative fine, so that pertinent provisions had to be fully released.

2.2 Development of the result from ordinary activities before tax (from continued operations)

The result from ordinary activities before tax (from continued operations) was up by a significant 90.9%, from €50.8 million to €97.0 million.

€ mn	**2006**	2005	Changes € mn	Changes %
Income	**222.4**	**155.1**	**67.3**	**43.4**
General administrative expenses	**125.4**	**104.3**	**21.1**	**20.2**
Staff expenses	71.4	55.3	16.1	29.1
Non-staff expenses	47.6	44.9	2.7	6.0
Depreciation, amortisation, impairment and write-ups	6.4	4.1	2.3	56.1
Result from ordinary activities before tax (from continued operations)	**97.0**	**50.8**	**46.2**	**90.9**

General administrative expenses, which are deducted from income, increased by 20.2% to €125.4 million.

2.2.1 Staff expenses

Staff expenses rose by 29.1%, from €55.3 million to €71.4 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 2006 business year for higher bonuses which – owing to significantly improved results – will be paid to DVB staff in 2007.

2.2.2 Non-staff expenses

At €47.6 million, non-staff expenses were up 6.0% on the previous year (2005: €44.9 million). The key factors behind this increase were:

- advisory expenses of €15.1 million, which were broken down as follows:
  - €5.7 million for legal and audit expenses,
  - €9.4 million for other advisory services (incl. IT consultancy expenses);
- occupancy expenses of €8.5 million;
- ancillary labour costs of €9.1 million; and
- contributions and fees of €5.7 million.

2.2.3 Depreciation, amortisation, impairment and write-ups

Depreciation, amortisation, impairment and write-ups grew by 56.1%, from €4.1 million to €6.4 million. Of this, €3.0 million is attributable to intangible assets (software).

2.3 Development of net profit

Net profit climbed 65.7%, from €54.3 million to €90.0 million.

The result from ordinary activities was subject to an actual tax burden of €11.9 million and a deferred tax expense of €0.3 million. Thus, a total of €12.2 million in income tax expense was reported.

Therefore, the result from ordinary activities after tax (from continued operations) amounted to €84.8 million.

€ mn	**2006**	2005	Changes	
			€ mn	%
Result from ordinary activities before tax (from continued operations)	**97.0**	**50.8**	**46.2**	**90.9**
Income tax expense	12.2	1.6	10.6	662.5
Result from ordinary activities after tax (from continued operations)	**84.8**	**49.2**	**35.6**	**72.4**
Result from discontinued operations	**3.7**	**7.7**	**–4.0**	**–51.9**
Minority interest	1.5	–2.6	4.1	–
Net profit	**90.0**	**54.3**	**35.7**	**65.7**

As explained under “1.3 Preliminary remarks”, page 51, in December 2006 the Board of Managing Directors of DVB Bank AG decided to discontinue the activities of the Transport Infrastructure Finance division. In accordance with IFRS 5, results generated by the Transport Infrastructure Finance division are disclosed as a separate item in the income statement, under “Result from discontinued operations”, representing €3.7 million (2005: €7.7 million).

The net amount reported is broken down as follows:

€ mn	2006	2005	Changes € mn	Changes %
Interest income	18.7	11.7	7.0	59.8
Interest expense	13.9	7.1	6.8	95.8
Net interest income	**4.8**	**4.6**	**0.2**	**4.3**
Impairment losses on loans and advances	4.0	0	4.0	0
Net interest income after loan losses	**0.8**	**4.6**	**–3.8**	**–82.6**
Fee and commission income	4.3	3.3	1.0	30.3
Fee and commission expenses	–	–	–	–
Net fee and commission income	**4.3**	**3.3**	**1.0**	**30.3**
Net income from financial instruments	–0.6	–0.2	–0.4	3.0
Income tax expense	0.8	0.0	0.8	0
Result from discontinued operations	**3.7**	**7.7**	**–4.0**	**–51.9**

Net profit was further affected by minority interest income of €1.5 million (2005: €-2.6 million), which was recognised with respect to third-party funding contributions to the fully-consolidated NFC and Deucalion Funds.

2.5 Distributable profit and appropriation of profits

Distributable profit rose from €9.5 million to €12.5 million (+31.6%).

€ mn	2006	2005	Changes € mn	Changes %
Net profit	**90.0**	**54.3**	**35.7**	**65.7**
Profit carried forward from previous periods	0.7	0.7	0.0	0.0
Transfer to retained earnings	78.2	45.5	32.7	71.9
Distributable profit	**12.5**	**9.5**	**3.0**	**31.6**

Profit attributable to treasury shares carried forward from previous periods remained unchanged at €0.7 million. Additionally, €78.2 million (+71.9%) was transferred from current operations to retained earnings.

We will propose to DVB Bank AG's Annual General Meeting, which will be held on 11 June 2007, to pay an increased dividend of € 3.00 per notional no-par value share for the 2006 business year. This represents a dividend yield of 1.45% based on the year-end share price of €206.25.

3. Financial position

3.1 Liabilities on 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 2.6% to €10.15 billion (2005: €9.89 billion). Deposits from other banks declined by 12.9%, from €2.93 billion to €2.55 billion. Deposits from customers increased by 12.0%, from €3.60 billion to €4.03 billion. Securitised liabilities were up by 5.9%, from €2.86 billion to €3.03 billion. Subordinated liabilities increased by 10.2%, from €0.49 billion to €0.54 billion.

3.2 Own funds as defined by the German Banking Act

Own funds as defined by the German Banking Act (KWG) increased by 2.5% to €1,033.2 million (2005: €1,008.3 million).

€ mn	**2006**	2005	2004	2003	2002
Issued share capital	100.5	99.6	77.6	77.2	76.8
Reserves	481.0	419.4	296.6	270.1	203.4
Silent partnership contributions	77.5	77.5	77.5	77.5	77.5
Reserves eligible for inclusion and adjustments in accordance with the KWG	69.0	67.0	58.2	64.6	81.5
Core capital (Tier I)	**728.0**	**663.5**	**509.9**	**489.4**	**439.2**
Subordinated liabilities	261.3	242.2	200.0	201.0	199.0
Profit-participation certificates	75.0	126.1	126.1	126.1	164.5
Reserves eligible for inclusion and adjustments in accordance with the KWG	–31.1	–23.5	–15.8	–12.5	–16.2
Supplementary capital (Tier II)	**305.2**	**344.8**	**310.3**	**314.6**	**347.3**
Tier III funds	**–**	**–**	**–**	**–**	**–**
Own funds as defined by the KWG [1]	**1,033.2**	**1,008.3**	**820.2**	**804.0**	**786.5**

1) Taking into consideration reserves and transfers to reserves from net profit.

3.2.1 Core capital (Tier I)

Core capital increased by 9.7% to €728.0 million (2005: €663.5 million).

In accordance with the German Banking Act, issued share capital increased from €99.6 million to €100.5 million, due to new notional no-part value shares derived from conditional capital (Article 4b of the Memorandum and Articles of Association of DVB Bank) and issued in January 2007 within the scope of our "DVB shares" employee share ownership scheme.

Strengthening DVB Bank AG's liable capital is key to its objective of realising further profitable growth potential in international Transport Finance. Thus, reserves increased 14.7%, from €419.4 million to €481.0 million.

3.2.2 Supplementary capital (Tier II)

Supplementary capital decreased by 11.5%, from €344.8 million to €305.2 million.

Subordinated liabilities increased overall by 7.9%, from €242.2 million to €261.3 million. According to the KWG, two years prior to maturity, the inclusion ratio of subordinated promissory note loans is reduced to 40% of nominal value. In 2006, subordinated promissory note loans in the amount of €53.5 million were subject to this effect. As a compensating measure, we issued a US$75 million subordinated promissory note loan.

Compared to their treatment according to the KWG, subordinated liabilities are recognised in the balance sheet at considerably higher values (2006: €537.1 million; 2005: €494.7 million). The difference is due to disparate criteria for inclusion according to the KWG, as mentioned before, and interest accruals whose recognition is not required according to the KWG, while they are recognised under IFRS and, thus, must be reported in the balance sheet. Further differences result from divergent approaches to the classification of instruments as equity under IFRS or the German Banking Act.

The profit-participation certificates eligible for inclusion according to the KWG declined by 40.5%, from €126.1 million to €75.0 million, as eligibility of certificate issues for inclusion under the German Banking Act terminates two years before final maturity. In 2006, our profit-participation certificate issued under German Securities ID 804 556 was affected by this rule.

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

3.3 Risk-weighted assets and capital ratios according to the German Banking Act

%	**2006**	2005	2004	2003	2002
Core capital quote	6.8	6.8	6.7	6.8	5.8
Total capital ratio	9.7	10.2	10.7	11.1	10.4

Since 74.3% of international Transport Finance exposure is denominated in US dollars, exchange rate developments also impacted on risk-weighted assets, and hence on the capital ratios. Risk-weighted assets rose as a result of the prospering new business. 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 9.7%, while the core capital ratio remained unchanged at 6.8%.

3.4 Return on equity and cost/income ratio

The management of DVB Group during 2006 focused on the key financial indicators of return on equity (RoE) and the cost/income ratio (CIR).

%	IFRS		HGB	
	2006	2005	**2006**	2005
Return on equity (before tax)	19.9	15.9	20.9	17.1
Cost/Income ratio	49.9	58.7	45.1	53.6

The RoE calculated in accordance with IFRS performed well in 2006, rising from 15.9% to 19.9%. Equally, the CIR calculated in accordance with IFRS developed favourably, declining from 58.7% to 49.9%.

When applying German GAAP (HGB), both ratios performed in line with projections, with RoE up 3.8 percentage points to 20.9% in 2006. The CIR fell by another 8.5 percentage points, to 45.1%.

We calculated the return on equity (RoE) before taxes in accordance with IFRS as follows: the result from ordinary activities before tax (including the result from discontinued operations and minority interest) of €102.2 million was divided by the total of the weighted capital (issued share capital, capital reserves and retained earnings, excluding the fund for general banking risks and minority interest) of €513.6 million. This equated to a ratio of 19.9%.

We calculated the cost/income ratio (CIR) in accordance with IFRS as follows: the general administrative expenses figure (excluding amortisation of goodwill) of €125.4 million was divided by the total of net interest income (before loan losses), net fee and commission income, net income from financial instruments in accordance with IAS 39, results from investments accounted at equity, net other operating income/ expenses, result from discontinued operations, and minority interest. This corresponded to a ratio of 49.9%.

4. Net assets

4.1 Business volume and total assets

At €13.1 billion, business volume in 2006 was up 6.5% on the previous year (2005: €12.3 billion). Besides total assets of €11.1 billion, the figure also includes irrevocable loan commitments of €2.0 billion.

4.2 Lending volume over time

At €12.2 billion, DVB's lending volume was unchanged compared with the previous year.

€ bn	**2006**	2005	Changes	
			€ bn	%
Loans and advances to banks	0.6	0.9	–0.3	–33.3
Loans and advances to customers	8.8	8.7	0.1	1.1
Securities (incl. equity investments)	0.2	0.4	–0.2	–50.0
Guarantees and indemnities	0.3	0.3	0.0	0.0
Irrevocable loan commitments	2.0	1.5	0.5	33.3
Derivatives	0.3	0.4	–0.1	–25.0
Lending volume	**12.2**	**12.2**	**0.0**	**0.0**

At €0.6 billion, loans and advances to banks were below last year's level (2005: €0.9 billion). Loans and advances to customers rose slightly by 1.1% to €8.8 billion. The volume of securities (incl. equity investments) held was halved, from €0.4 billion to €0.2 billion. At €0.3 billion, guarantees and indemnities remained unchanged vis-à-vis last year's level, while irrevocable loans increased by 33.3%, from €1.5 billion to €2.0 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 fell by 25.0% to €0.3 billion.

4.3 Nominal volume of customer lending by business division

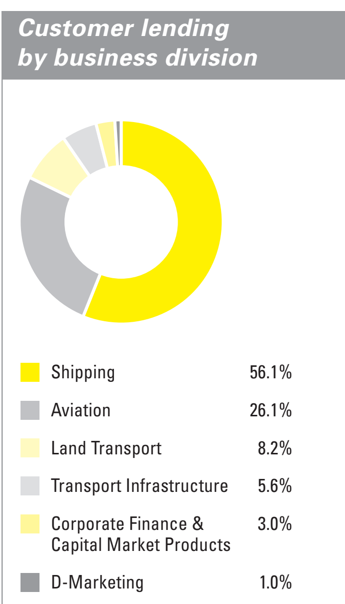
DVB's nominal customer lending (the aggregate of loans and advances to customers, guarantees and indemnities, and irrevocable loan commitments) comprises the asset lending business of our Transport Finance and loan exposures no longer in line with our strategy, which are managed by D-Marketing.

Prospering new business in the Shipping (24.4%), Aviation (10.3%) and Land Transport (72.4%) segments drove up customer lending by 11.0%, from €10.78 billion to €11.97 billion.

The breakdown of customer lending is as follows:

At 56.1%, Shipping accounted for the lion's share (2005: 53.2%), followed by Aviation's 26.1% (2005: 27.7%). 8.2% was attributable to Land Transport (2005: 8.9%), and 5.6% to Transport Infrastructure (2005: 5.9%). In 2005, we identified high growth potential in the Corporate Finance & Capital Market Products segment, which accounted already for a share of 3.0% in 2006 (2005: 2.5%). At 1.0%, the D-Marketing share continued to fall (2005: 1.8%).

Customer lending by business division



4.4 Portfolio analysis

4.4.1 Portfolio analysis – Key factors

The following factors defined portfolio developments during 2006:

- Euro/US dollar exchange rate development: the US dollar was considerably weaker in 2006. Customer lending climbed by 11.0% in euro terms, which was less than on a US dollar basis (+24.1%), whereby 74.3% of all customer lending was denominated in US dollar (Shipping: 82.2%; Aviation: 97.3%).
- Leading role: in 2006, DVB maintained its role in international Transport Finance and was again involved in a considerable number of transactions where the Bank took a leading role (67% – unchanged compared to 2005).
- Corporate Finance & Capital Market Products: We have aligned the fast-growing Corporate Finance business, together with Group Investment Management (including NFC Shipping Funds and Deucalion Aviation Funds), Capital Markets, Advisory and M&A.

4.4.2 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, both in terms of euro and US dollar.

The Shipping portfolio grew by 31.0% in US dollar terms, from US$6.75 billion to US$8.84 billion. Due to currency effects, the increase was smaller in euro terms, growing by 17.1%, from €5.73 billion to €6.71 billion.

The same scenario applied to the Aviation portfolio, which grew by 16.4% in US dollar terms, from US$3.53 billion to US$4.11 billion. The increase in euro terms was significantly smaller, up by 4.3% from €2.99 billion to €3.12 billion.

Volume trends (€ bn)	**2006**	**%**	2005	%	2004	%	2003	%	2002	%
Shipping	6.71	56.1	5.73	53.2	4.29	52.6	3.95	52.2	4.41	55.3
Aviation	3.12	26.1	2.99	27.7	2.20	27.0	2.02	26.7	2.15	27.0
Land Transport	0.98	8.2	0.96	8.9	0.90	11.0	0.80	10.6	0.69	8.7
Transport Infrastructure	0.67	5.6	0.64	5.9	0.52	6.4	0.47	6.2	0.27	3.4
Corporate Finance & Capital Market Products	0.36	3.0	0.27	2.5	–	–	–	–	–	–
D-Marketing	0.13	1.0	0.19	1.8	0.25	3.0	0.33	4.3	0.45	5.6
Total	**11.97**	**100.0**	**10.78**	**100.0**	**8.16**	**100.0**	**7.57**	**100.0**	**7.97**	**100.0**

Volume trends (US$ bn)	**2006**	**%**	2005	%	2004	%	2003	%	2002	%
Shipping	8.84	56.1	6.75	53.1	5.84	52.6	4.98	51.9	4.62	55.1
Aviation	4.11	26.1	3.53	27.8	3.00	27.0	2.60	27.1	2.30	27.4
Land Transport	1.29	8.2	1.13	8.9	1.22	11.0	1.00	10.4	0.72	8.6
Transport Infrastructure	0.88	5.6	0.76	6.0	0.71	6.4	0.59	6.2	0.28	3.3
Corporate Finance & Capital Market Products	0.47	3.0	0.32	2.5	–	–	–	–	–	–
D-Marketing	0.18	1.0	0.22	1.7	0.34	3.0	0.42	4.4	0.47	5.6
Total	**15.77**	**100.0**	**12.71**	**100.0**	**11.11**	**100.0**	**9.59**	**100.0**	**8.39**	**100.0**

	2006	2005	2004	2003	2002
€/US$ reference rate published by the ECB (31 Dec)	1.3170	1.1797	1.3621	1.2630	1.0487

4.4.3 Portfolio analysis by earnings contribution

We have analysed earnings by comparing the development of the Transport Finance portfolios in the years 2006 and 2005. 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. Increasingly, the Bank is taking a leading role, while interest margins and LtV ratios continue to develop favourably.

4.4.3.1 New business

Despite an environment that was challenging, DVB generated a significant amount of long-term, collateralised new business: Shipping contributed €3.97 billion (+24.4%), and Aviation €1.27 billion (+10.3%). In particular, new Land Transport business posted a significant increase of 73.9% to €0.40 billion (2005: €0.23 billion).

DVB continued to play a leading role frequently - the share of transactions led by the Bank in the overall portfolio remained unchanged at 68%. The leading role share of new commitments was 67%.

The average interest margin of 148bp for new business was lower than in the previous year (162bp). Interest margins contracted significantly in Transport Infrastructure (by 121bp to 122bp), Aviation (by 25bp to 191bp), and Land Transport by 12bp. The interest margin in Shipping Finance declined slightly by –4bp.

4.4.3.2 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 did not continue: the LtV ratio of the total portfolio increased by 3.3 percentage points to 68.9%. However, the ratio in Aviation continued to fall, by 2.9 percentage points to 76.1%. It should be noted that these comparative indicators are determined excluding overheads; hence, they are not comparable to the ratio for the entire Bank.

The CIR in Transport Finance rose slightly overall to 25.0% (2005: 23.7%). While Shipping, Aviation and Land Transport succeeded in further reducing the CIR slightly, Corporate Finance & Capital Market Products reported an increase of 6.3 percentage points to 44.5%. 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 earnings potential we have identified in high-growth market niches.

Overall, the RoE in Transport Finance fell slightly by 1.1 percentage points to 31.1% (2005: 32.2%). Although net profit in Transport Finance increased overall by 38.0%, from €109.3 million to €150.8 million, this increase was outweighed by the development of weighted capital, which climbed by 18.9%, from €8.27 billion to €9.84 billion.

Portfolio analysis by earnings contribution (€ mn)	Shipping		Aviation		Land Transport		Transport Infrastructure		Corporate Finance & Capital Market Products		Total		
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	Change %
Overall portfolio:													
Customer lending	6,712.4	5,725.0	3,123.9	2,988.1	982.2	958.8	669.0	640.3	357.8	274.1	11,845.3	10,586.3	11.9
Loans and advances to customers	5,046.3	4,811.9	2,846.5	2,754.1	873.7	837.3	444.0	320.1	198.9	176.5	9,409.4	8,899.9	5.7
Loan commitments, guarantees and indemnities	1,666.1	913.1	277.4	234.0	108.5	121.5	225.0	320.2	158.9	97.6	2,435.9	1,686.4	44.4
Number of customers (primary obligor groups)	249	235	113	113	69	74	26	24	45	31	502	477	5
Leading role (%)	70	70	69	70	64	67	18	44	75	45	68	67	229
Average LtV ratio (%)	62.9	57.7	76.1	79.0	81.0	82.4	52.5	45.0	n.a.	n.a.	68.9	65.6	+3.3[3)]
CIR (%)[1)]	21.3	22.2	13.6	14.1	24.4	29.6	–	16.6	44.5	38.2	25.0	24.0	+1.0[3)]
RoE (%)[2)]	26.1	36.3	28.9	20.2	20.9	19.5	14.4	39.7	191.9	208.8	31.1	32.2	–1.1[3)]
Portfolio New commitments													
Number of new transactions	143	142	71	58	14	14	10	8		–	238	222	7.2
Underwritten	3,969.4	3,189.9	1,266.7	1,148.0	396.9	230.2	226.4	185.8		–	5,859.4	4,753.9	23.3
Syndicated to third parties	629.3	297.7	144.7	7.8	98.0	34.3	0.0	0.0		–	872.0	339.8	156.6
Final take	3,340.1	2,892.2	1,122.0	1,140.2	298.9	195.9	226.4	185.8		–	4,987.4	4,414.1	13.0
Book building	273.6	186.9	238.0	268.5	0.0		0.0			–	511.6	455.4	12.3
Leading role (%)	65	73	83	88	55	81	9	65		–	67	76	–8[3)]
Average margin (bp)	135bp	139bp	191bp	216bp	137bp	149bp	122bp	243bp		–	148bp	162bp	–14[3)]

1) Computed in accordance with IRFS – without allocating overhead expenses and before impairment losses on loans and advances.
2) Computed in accordance with IRFS – without allocating overhead expenses and after impairment losses on loans and advances, and before taxes.
3) Change in percentage points.

5. Other disclosures

- Disclosure pursuant to section 289 (2) No. 5 of the HGB:
  Please refer to the information provided in the Notes, on pages 168/169 of this Annual Report, regarding the fundamental principles of the compensation system for the Board of Managing Directors.

- Disclosure pursuant to section 289 (4) No. 1 of the HGB:
  The subscribed capital exclusively comprises ordinary bearer shares; specifically, 3,896,912 notional no-par value shares (Stückaktien). Please refer to sections 54 et. seq. of the AktG regarding the rights and duties attaching to such shares.

- Disclosure pursuant to section 289 (4) No. 6 of the HGB:
  Please refer to sections 84 and 85 of the AktG and Article 6 (1) sentence 4 of the Bank's Memorandum and Articles of Association regarding the appointment and removal of Members of the Board of Managing Directors. Pursuant to sections 133 and 179 of the AktG, amendments to the Memorandum and Articles of Association of DVB Bank AG are resolved by the General Meeting.

- Disclosure pursuant to section 289 (4) No. 7 of the HGB:
  Pursuant to Article 4a of the Memorandum and Articles of Association ("Authorised Capital 2006"), the Board of Managing Directors is authorised to increase the share capital by up to €30 million. Furthermore, in accordance with section 71 (1) No. 7 of the AktG, DVB Bank AG is authorised to purchase and sell its own shares (treasury shares) for the purpose of securities trading. This authorisation will expire on 30 November 2007.

Report on material events after the reporting date

in accordance with section 315 (2) no. 1 of the HGB
(as at 30 March 2007)

1. Transport Infrastructure portfolio

The Board of Managing Directors published a resolution in December 2006, in which it decided to withdraw from the Transport Infrastructure business, in order to focus exclusively on financing mobile assets.

The relevant loan portfolio amounts to approx. €0.67 billion. Established in 1998, the Transport Infrastructure division has always contributed positively to the Bank's results, accounting for approx. 5.8% of DVB Group's consolidated revenues in 2006. The related loan portfolio is broadly-diversified around the globe, comprising 28 projects, with a focus on maritime ports, airports, and toll roads. The division employs seven staff.

Information memoranda were dispatched to interested parties before the end of 2006. The deadline for submitting a non-binding offer ended in January 2007. Four potential buyers were selected from a total of ten purchase offers received. The selected parties were given the opportunity to conduct a due diligence process during February and March 2007; at the time of preparing the consolidated financial statements of DVB Bank AG, this process was still ongoing. In the event that any resulting binding offers should not be in line with DVB Bank AG's economic interests, the Bank may decide to retain the related credit exposures until maturity.

2. IRBA approved by the German Federal Financial Supervisory Authority

In its notification dated 16 February 2007, BaFin approved DVB's application to apply the Bank's internal rating systems for Shipping and Aviation for the purposes of the internal ratings-based approach (IRBA) under Basel II, pursuant to section 10 (1) sentence 2 of the German Banking Act in conjunction with section 58 (1) sentence 1 of the Solvability Ordinance, and with effect from 1 January 2008.

3. Other events

There were no other issues of material importance to the assessment of the income and financial situation of DVB Bank AG and the DVB Group after the end of the 2006 business year. Statements made in the "Report on expected developments" have been confirmed by the development of business in the first months of the 2007 business year.

Risk Report

in accordance with section 315 (2) number 2 a and b of the HGB
(as at 30 March 2007)

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 75 to 77). The portfolio values analysed 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 (cf. Net assets – Portfolio analysis).

1. Principles of risk management

Assuming risks in a professional manner – achieving returns that are commensurate with the risks taken – is an integral part of DVB Bank AG's management strategy as an international asset lender. Our risk management process encompasses all companies of the DVB Group through our divisional approach to business.

The concept of 'risks' is generally defined as unfavourable future developments that can negatively affect the Bank's income, financial situation and liquidity. In this context, we differentiate between credit risk, market risk, operational risk, liquidity risk and strategic risk.

The risk policy guidelines and structures for the professional management of these risks are laid down in our risk management framework, which is available to all of our employees via the Bank's intranet. It forms the basis for uniform administration and communication of all key risk types throughout the Group.

The areas of responsibility within the framework of the risk management process are clearly regulated. Overall responsibility for the Bank's risk management lies with the entire Board of Managing Directors. Based on the Bank's ability to carry and sustain risks, the Board of Managing Directors decides on the risk strategy, including the applicable methodology and procedures used for measuring, managing and monitoring risk.

2. Organisation of the risk management process

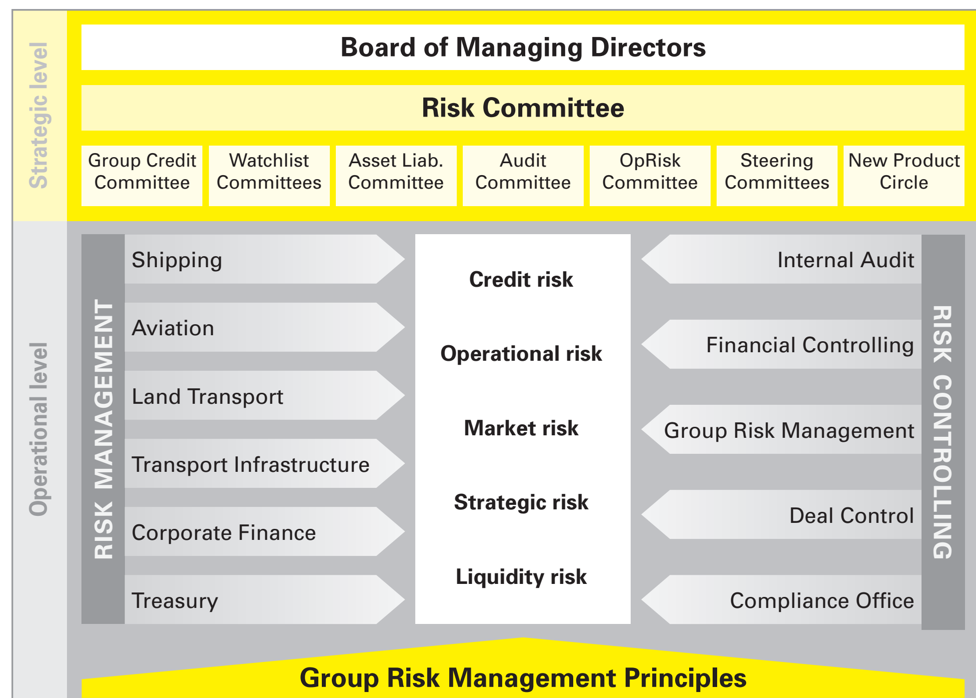
At the end of 2005, BaFin published a circular outlining the new Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – "MaRisk"). MaRisk replaces the previous Minimum Requirements for the Conduct of Trading Activities of Credit Institutions (Mindestanforderungen an das Betreiben von Handelsgeschäften der Kreditinstitute – "MaH"), the Minimum Requirements for the Credit Business of Credit Institutions (Mindestanforderungen an das Kreditgeschäft der Kreditinstitute – "MaK") and the Minimum Requirements for the Internal Audit Function of Credit Institutions (Mindestanforderungen an die Ausgestaltung der Internen Revision – "MaIR"), and was enhanced by additional elements of the Basel II Accord (e.g. the framework governing interest rate risk in the banking book, liquidity risk). Risk management, in accordance with the circular published by BaFin, comprises the determination of appropriate strategies and the establishment of suitable internal control procedures. In addition to the structural and procedural organisation, these also apply to the processes for identifying, assessing, managing, monitoring and communicating the risks.

DVB had implemented most of the requirements of the structural and procedural organisation and of the risk management processes, even before MaRisk became effective. In so far as minor adjustments were necessary to the structural organisation or to the process flows, these were carried out by the Bank.

Abbreviations

ALCO	*Asset Liability Committee*
BaFin	*German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienst-leistungsaufsicht)*
DZ BANK	*DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt/Main*
GRM	*Group Risk Management*
IRM	*Internal rating model*
LtV	*Loan-to-value ratio*
OASIS	*Object Finance Administration and Security Information System*
OpRisk	*Operational risk*
pp	*percentage points*
VaR	*Value at risk*
VaR Cdty	*Commodity value at risk*
VaR FX	*Exchange rate risk (FX value at risk)*
VaR IR	*Interest rate risk*

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



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

The risk control function – which is independent from risk management – comprises the identification, quantification, limitation and monitoring of risks, plus risk reporting. The GRM Risk Report is the main tool used for the quarterly reporting of Group risks to the entire Board of Managing Directors and the Supervisory Board. Furthermore, reporting systems have been installed for all relevant types of risk. This ensures that the risks are transparent at all times to the authorised persons with responsibility for those risks.

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, Group Accounting and Taxes, and Group Treasury, acts as a forum for the discussion of all the main strategic and methodical issues with regard to the Bank's overall risk exposure. Its duties also include the derivation of the economic capital within the scope of the Bank's capacity to carry and sustain risks, as well as the allocation of risk capital to the business units.

Within the Group Credit Committee, which comprises 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 exposures 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, consisting of 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, Group Human Resources, 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 representatives of departments involved in a project, manage and monitor project progress; they are responsible for the successful and scheduled implementation of a project, and to ensure it remains within budget.

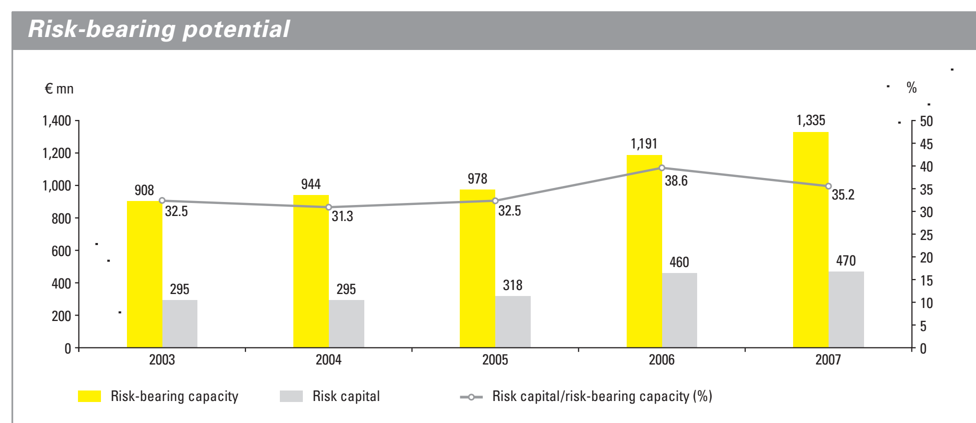
The New Product Circle (comprising the heads of service units) analyses and discusses the framework within which DVB may offer new products to its clients, or explore new markets or market segments.

3. Capacity to carry and sustain risk/risk capital

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

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

Risk-bearing potential



The increase in aggregate risk cover for 2006 was mainly due to a capital increase, and the retention of profit in the financial statements 2005. The rise in 2007 is largely attributable to the profit retained from the 2006 financial statements and the rise in planned net income.

At the end of each business year, the Board of Managing Directors approves the risk capital budget for the next business year. Risk capital has to cover all risks, and is defined as the economic capital or total loss limit that we are willing to invest over one year. Risk capital must be sufficiently high to cover aggregate unexpected ('worst-case') losses, given a 99.9% probability.

The risk capital for 2007 was set at a level of €470 million (2006: €460 million), taking into account correlation effects. Risk capital is distributed across individual types of risk as follows:

€ mn	**2007 Risk capital limit**	2006 Risk capital limit	Amount utilised at year-end	Average utilisation
Credit risk	430	415	337	319
Market risk	21	21	11	10
Operational risk	32	28	27	27
Strategic risk	30	37	19	18
Correlation effects	–43	–41	–33	–33
Total	**470**	**460**	**361**	**341**

We use internal models to measure credit and market risks. A basic indicator approach in accordance with Basel II is used to estimate potential loss exposure associated with operational risk, whilst as of 2007 the strategic loss exposure is determined using an enhanced 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 credit 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, such as plans for liquidity flows and cash flow forecasts.

4. Risk types

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

4.1 Credit risk

With respect to individual transactions and clients, credit risk is managed and limited by setting a corresponding limit on the basis of cautious lending principles and sector-specific lending policies. These specify in particular that each transaction must be collateralised by valuable assets (aircraft, ships etc.). At a portfolio level, we allocate the volume of risk capital approved by the Board of Managing Directors to the various business divisions.

We define credit risk, which comprises default, 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, credit risk represents the largest individual risk category.

Determining and managing country risks is crucial in view of the international emphasis of our asset lending business. Hence we plan and limit country risks within the scope of the overall management of the Bank, and in accordance with the annual country limit planning system of DZ BANK.

4.1.1 Internal rating model

Given the dominant position of credit risk in DVB's business, we have developed an internal statistical and mathematical rating model (IRM) for our Transport Finance portfolios. The model complies with the 'Advanced Approach' requirements under Basel II. In addition to the probability of default associated with a given client, we determine the loss given default ("LGD") for 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, developed from a database of externally-rated companies for which all relevant balance sheet data was available. Assigning the internal rating to the external rating classes enables us to use external default probabilities.

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

At the end of 2005, we submitted an application to BaFin for approval to implement the IRB (internal rating-based) Advanced Approach. Following this, Deutsche Bundesbank, which was instructed to deal with the Bank's application, carried out a qualifying examination of our Aviation and Shipping rating systems in May 2006. The examiners determined that these rating systems fulfil almost all the existing requirements for calculating the capital requirements for credit risk in accordance with the Solvability Ordinance (Solvabilitätsverordnung). The determinations made within the scope of the review with regard to the fundamental conceptual establishment of the rating systems did not impact on any tangible portfolio shares. The review of the functions yielded no defects that would fundamentally compromise the suitability of the rating systems.

The IRM for our Land Transport portfolio was implemented in February 2007. It is expected to be subject to a review by BaFin in the autumn of 2007. We assume that we will be granted approval to implement the IRB Advanced Approach for this portfolio too. As of January 2008, we envisage being able to calculate the capital adequacy requirements for more than 85% of the entire IRBA loan portfolio using the Advanced Approach. The gradual implementation for the remaining, smaller loan portfolios is scheduled for 2009.

Our intention within the scope of implementing the Basel II framework has always been to use the IRM for calculating the regulatory capital requirements as well as implementing the results for the overall management of the Bank. For example, the results of the ratings will be taken into consideration in regulating responsibilities; unexpected and expected loss are included in the integrated risk limiting system via the concept for managing the Bank's capability to carry and sustain risk; and the standard risk costs, which are also calculated with the tool, are an integral part of the estimate with respect to individual transactions, for calculating the minimum margin.

Over the medium term, we plan to expand our IRM into an integrated portfolio-based concept, which will include a procedure for measuring concentration risks and will take diversification effects into account.

4.1.2 Portfolio management and control

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

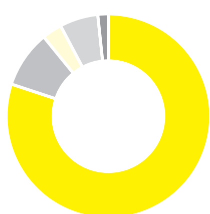
The proprietary database application, OASIS, is a state-of-the-art management information system used for the analysis and management of our loan portfolios. In addition to compiling all quantitative and qualitative data covering every Transport Finance exposure, OASIS also captures the legal and economic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

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

Our Shipping portfolio once again developed very favourably during the business year under review. The portfolio, which is largely denominated in US dollars (82.2%), grew by 17.2% to €6.7 billion. The US dollar weakened considerably during the course of the year, losing 11.6% against the euro. Adjusting for exchange rate movements, the growth rate was therefore 28.7%.

93% of the portfolio is secured by mortgages on ships. 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. Loans with a maximum LtV ratio of 60% account for a share of €5.5 billion.

Shipping portfolio – LtV classes



- 81.6% (–1.5pp) in LtV < 60%
- 9.2% (+2.0pp) in LtV > 60 < 85%
- 2.3% (+1.8pp) in LtV > 85%
- 6.2% (–1.3pp) other collateral
- 0.7% (–1.0pp) uncollateralised

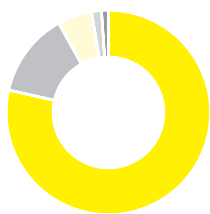
The table below illustrates the collateralisation structure of our Shipping portfolio:

Collateralisation (€ mn)	31 Dec 2006		31 Dec 2005	
Secured by mortgages	6,247.7	93.1%	5,202.3	90.8%
Other collateral	417.9	6.2%	427.8	7.5%
Uncollateralised	46.8	0.7%	94.9	1.7%
Lending volume	**6,712.4**	**100.0%**	**5,725.0**	**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 €3.1 billion at the end of 2006, up 4.5% on the previous year. As this portfolio is also predominantly in US dollars (97.3%), the currency-adjusted growth rate was lower, at 16.5%.

Aviation portfolio – LtV classes



- 80.2% (+0.9pp) in LtV < 60%
- 13.6% (–2.0pp) in LtV > 60 < 85%
- 5.5% (+0.9pp) in LtV > 85%
- 0.6% (+0.2pp) other collateral
- 0.1% uncollateralised

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

Collateralisation (€ mn)	31 Dec 2006		31 Dec 2005	
Secured by mortgages	3,102.3	99.3%	2,973.1	99.5%
Other collateral	17.8	0.6%	12.7	0.4%
Uncollateralised	3.8	0.1%	2.3	0.1%
Lending volume	**3,123.9**	**100.0%**	**2,988.1**	**100.0%**

With 99.3% of the lending volume secured by aircraft mortgages, the Aviation portfolio also reflects the strict enforcement of our conservative lending policy. Lending volume of €2.5 billion has a LtV ratio not exceeding 60%.

The Land Transport portfolio also showed structural improvement, growing by 2.4% over the previous year, to €982 million. Adjusting for exchange rate movements, the growth rate was 5.4%.

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

Collateralisation (€ mn)	31 Dec 2006		31 Dec 2005	
Secured by mortgages	894.7	91.1%	837.5	87.3%
Other collateral	47.3	4.8%	72.8	7.6%
Uncollateralised	40.2	4.1%	48.5	5.1%
Lending volume	**982.2**	**100.0%**	**958.8**	**100.0%**

We also actively pursued the reduction of uncollateralised business in our Land Transport portfolio. Not only did unsecured exposures decline by one percentage point compared with the previous year – also, new business acquired in 2006 helped to boost the share of business secured by mortgages, by 3.8 percentage points. A total lending volume of €670 million (2006: €638 million) had a LtV ratio not exceeding 60%.

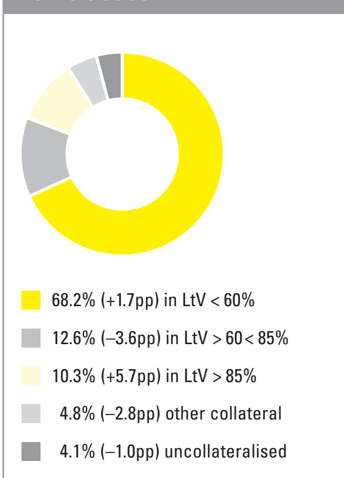
The Transport Infrastructure portfolio grew by 4.5% during the business year under review, to €669 million. Adjusting for exchange rate movements, the growth rate was 8.5%.

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

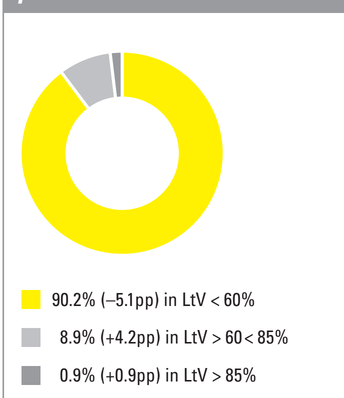
Collateralisation (€ mn)	31 Dec 2006		31 Dec 2005	
Secured by concessions	669.0	100.0%	640.3	100.0%
Other collateral	0.0	0.0%	0.0	0.0%
Uncollateralised	0.0	0.0%	0.0	0.0%
Lending volume	**669.0**	**100.0%**	**640.3**	**100.0%**

The collateralisation structure was 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.

Land Transport portfolio – LtV classes



Transport Infrastructure portfolio – LtV classes

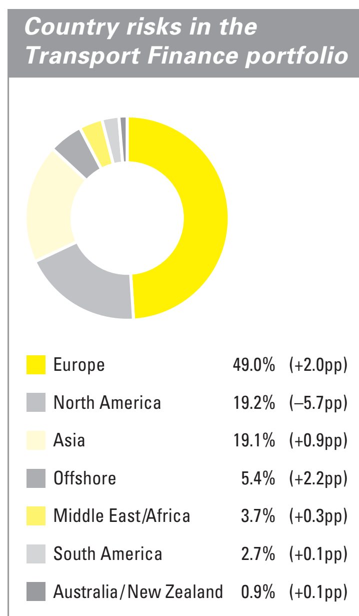


Country risk is defined as the risk that DVB suffers loan impairments or other monetary losses in a particular country, as a result of social/political and/or macroeconomic developments or events. This comprises risk traditionally associated with the concept of country risk (conversion and transfer risk,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

4.1.3 Country risks in Transport Finance

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

The breakdown of country risks in our portfolio was largely unchanged compared to 2005. Our Transport Finance exposure continues to be concentrated in Europe, North America and Asia. The percentage decline in our North American business is attributable to the weakness of the US dollar, as well as to the fact that redemptions of the loan portfolio outweighed new Aviation business. Country risks are managed and limits are 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 0.5% of the overall Transport Finance portfolio.

4.1.4 Early warning system, problem loans, impairment losses

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

Non-performing loans (NPL), in other words receivables on which interest and principal payments are at least 90 days in arrears, amounted to a nominal volume of €140.1 million for the Group as at the end of 2006. This equates to an NPL ratio of 1.1% in relation to total lending volume. The volume of NPLs is offset by collateral with a market value of €104 million, and covered by adequate value adjustments.

We set aside net impairment losses of €31.4 million on loans and advances within our Transport Finance portfolios in the year under review, so that the total allowance for impairment losses as at the end of 2006 stood at €124.2 million.

4.1.5 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 30%, from a nominal volume of €192 million to €134 million (nominal) at year-end 2006. Allowance for impairment losses for this portfolio was increased by €2.7 million in 2006 (additions amounted to €5.2 million and €2.5 million was released). Charge-offs on loan loss provisioning amounted to €9.5 million, so that the aggregate allowance for impairment losses on loans and advances for this portfolio stood at €53.2 million at year-end. We continue to expect the total allowance for impairment losses for this part of our portfolio to be adequate.

4.2 Operational risk

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

Monitoring and managing operational risks largely comprises the development of a methodology for identifying, quantifying and managing risk, and maintaining an adequate risk reporting system. In view of DVB's moderately complex – yet highly transparent – processes, we consider the so-called Basic Indicator Approach set out by Basel II as appropriate. 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.

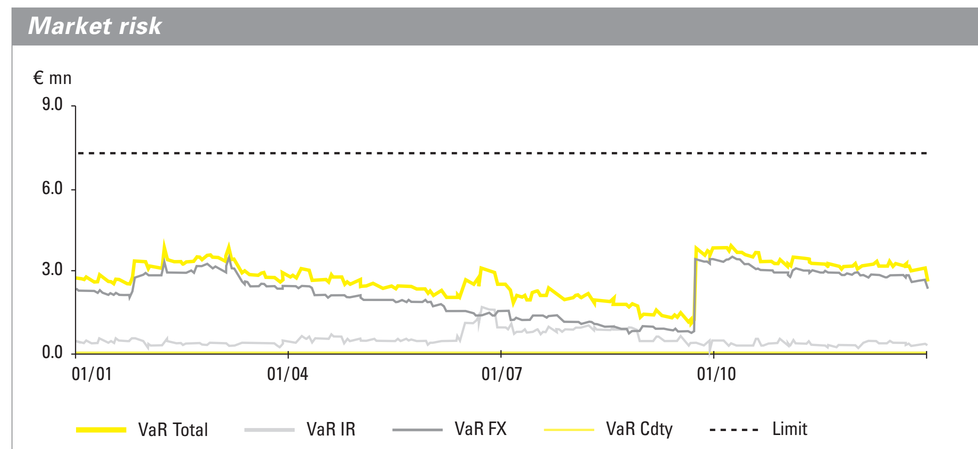
DVB already implemented the organisational infrastructure and framework to measure and manage operational risk, as required under the Basic Indicator Approach, back in 2003. Organisational measures taken include the establishment of a central OpRisk Committee, as well as the creation of an OpRisk Manager 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. We also apply risk indicators that conform to the requirements of the standard approach within the scope of DZ BANK Group procedures. Quarterly reports are submitted to the Board of Managing Directors and the OpRisk Committee; where appropriate, this is supported by ad-hoc reporting. We recorded a total of 14 (2005: 16) loss cases with aggregate net loss of €344,000 (2005: €895,000) during the year under review.

4.3 Market risk

We define market risk as the potential loss that could be incurred on our positions through price fluctuations in the equity, foreign exchange and interest rate markets (including associated derivatives).

Group Treasury is responsible for managing market risks in both the banking and the trading books. The ALCO meets monthly, to review the market risk exposure for the entire bank and to reach fundamental agreement on risk orientation. We use a consistent 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 actually-occurred market price changes, and are compared with the values determined by the VaR method.

The chart below illustrates utilisation of market risk limits during 2006:



Deal 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 Deal Control, which reports to the Board of Managing Directors on a daily basis.

The rise in the VaR figure in July 2006 occurred as a result of a strategic position entered into on the basis of a resolution carried by the ALCO. This position was closed out in August 2006. The significant rise in September 2006 reflects the hedging of anticipated US dollar surpluses: within the framework of the budget processing for the 2007 business year, all projected US dollar income for 2007 was already sold on a forward basis during 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 extreme situations 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 2007.

4.4 Strategic risk

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

DVB's business policy is managed by way of 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 2006 business year, strategic risk was measured on the basis of the volatility of operating income.

We refined our measuring methods, having carried out an analysis of the data in 2006. As of 2007, we will calculate the risk on the basis of a moving average using a confidence interval of 99.9%, which we will offset with a risk capital limit that has been adjusted accordingly.

4.5 Liquidity risk

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

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

Anticipated cash flows are calculated, aggregated and offset by transactions on the money and capital markets, on the basis of continuously updated plans for liquidity flows and cash flow forecasts. These are prepared using SAP data and latest asset-liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German Banking Act, ensures that timely and appropriate corrective measures can be taken. Ample access to short-term money market liquidity and extensive liquidity provisions ensure that the Bank has access to adequate liquidity reserves. Various medium- and long-term refinancing measures were used to further strengthen the Bank's structural liquidity position. The liquidity ratio in accordance with the German Banking Act was consistently adhered to during 2006.

We embarked on a project in 2006, which involves the development of the systems, procedures and processes for measuring liquidity risk. The software, which we anticipate should be available for use from mid-2007, will fulfil all the requirements related to a modern, scenario-based set of tools used for measuring and imposing limits on liquidity risk.

5. Summary and outlook

DVB has organised its risk management functions in a manner that complies with legal and regulatory requirements. Its risk management system is appropriately designed to efficiently monitor and manage all risks that the Bank is exposed to, allowing it to consciously take on and control risks. We will continue to refine the risk management process during 2007, in relation to the methodology, the tools and process used, to ensure compliance with the Basel II framework as well as with the requirements of modern bank management, focused on risk and returns.

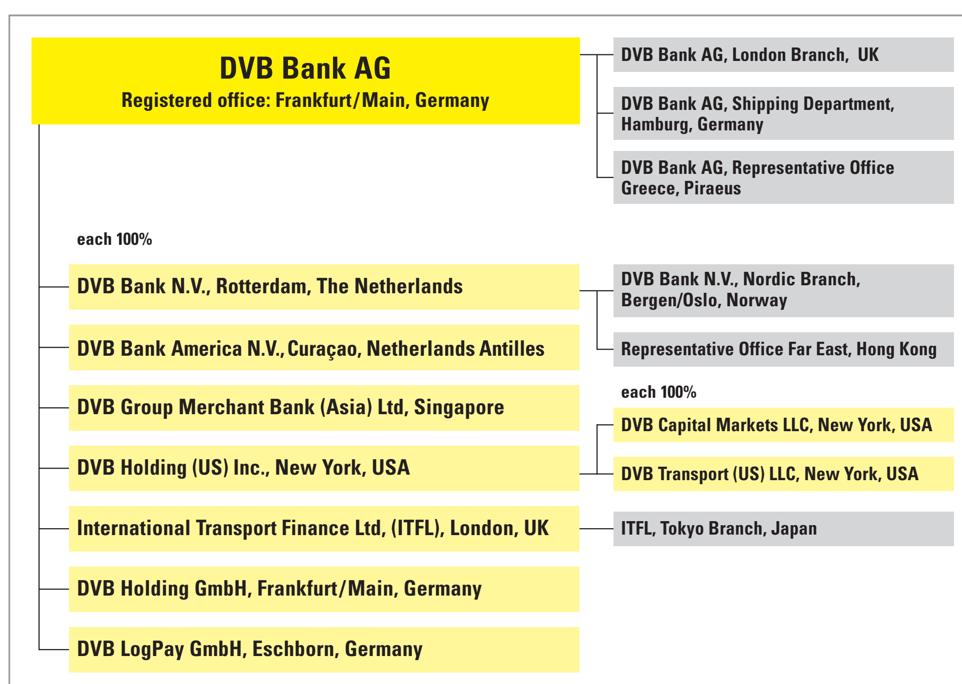
One of the key issues for the year 2007 will be the regulatory approval of our internal rating model for the Land Transport portfolio using the Advanced Approach. We will also focus on the preparations for the supervisory review process (second pillar of the Basel II framework) as well as on the disclosure requirements (pillar 3).

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2006, with regard to the utilisation of risk capital. 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 2007 business year.

Report on branches and subsidiaries

in accordance with section 289 (2) no. 4 of the HGB
(as at 30 March 2007)

The chart illustrates the legal structure of DVB Group; the registered office of the parent company DVB Bank AG; material, fully-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 30 March 2007)

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

In accordance with section 312, sub-section 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 was 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 2007/2008

in accordance with section 315 (1) sentence 5 of the HGB
(as at 30 March 2007)

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

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.

The report on expected developments consists of our assessment of potential trends in Transport Finance, Corporate Finance, and Treasury during 2007 and 2008, together with a projection of the financial condition and results of operations of DVB Group.

1. Assessment of potential trends in Transport Finance

1.1 Shipping Finance

1.1.1 Shipping – Markets

Market developments in each shipping sector are driven by a host of facts 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. We have updated and made changes to last year's prognosis, given the latest data that we have analysed at an in-depth level with a lot of primary research involved.

Positive evaluation

1. Dry Bulk Sector
2. Small product carriers (Handysize15–30,000 dwt)
3. Chemical carriers
4. LPG (non VLGC size see Neutral)
5. Offshore: Anchor Handling Tugs Supply (AHTS)
6. Offshore: Platform Supply Vessels (PSV) also known as OSV (Offshore Supply Vessels)
7. Offshore: Floating Production Storage & Offloading
8. Offshore: Semi Submersible Rigs
9. Offshore: Drillships
10. Offshore: Jack-up Rigs (modern)
11. RoPax
12. RoRo
13. Container – Feedermax
14. Container – Sub Panamax
15. Container – Panamax (Modern)

Oil companies continue to engage in E&P (exploration & production) despite volatility in crude prices, since their drive to improve reserves going forward remains a key issue: thus the offshore sectors remain well placed going forward. In addition, with limited available slots for newbuilds, and in the light of sustained demand dynamics in the other sub-sectors listed above, their prognosis is overall favourable.

Neutral evaluation
Rated thus on the basis that these sectors will not perform as well as in 2005-2006 but will remain above the lows experienced in 1999-2000.

1. Product carriers (Aframax LR2 80-120,000 dwt, Panamax LR1 50-80,000 dwt and Handymax 30-50,0000 dwt)
2. LPG (VLGC)
3. Reefers
4. LNG
5. PCTC (Pure Car & Truck carriers)
6. Container – Feeder
7. Container – Super Post Panamax
8. Cruise

LNG rates and margins have become unattractive. For PCTC we still need to see the dust settle from the shakeout taking place in the US car industry and the effects of some green initiatives impacting this sector.

Cautious evaluation
1. The crude tanker sector
2. Container – Handysize
3. Container – Panamax (<4K TEUs)
4. Container – Post Panamax
5. Offshore Jack-Up Rigs (that are not modern)

With limited deployment possibilities for container vessels of these sizes, together with the enormous looming order-book, we feel that this combination will most likely 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.

1.1.2 Shipping – Portfolio

2006 has seen a continued growth in the shipping market, with China delaying any notions of decline in various sectors.

Activity during 2006 remained comfortably above historic averages, and shipping companies are once again expected to deliver strong results. The industry saw a slight slowdown, but this was far less than expected due to the influence of Asia and in particular the growth of China's economy. 2006 also saw major banks continuing to offer very lenient financing structures on shipping assets valued at or near the top end of the market. Major banks continued to lower their margins, as the hunger for shipping assets continued.

The current market trends are expected to slow down, however, this is expected towards the end of 2007. The massive influx of new buildings during this period, particularly in the container and tanker sectors, will see freight rates continue to fall, with vessel values closely following suit. We will also see continued growth in the offshore sector, with exploration moving to deeper waters and a need for support vessels suited to such exploration. We also expect margins to be driven down further, at least during the first half of 2007, with a real turn in the cycle not expected until towards the third quarter of 2007. DVB will, however, continue to focus on the sectors that it has been successful in – as well provide industry expertise and additional opportunities through its corporate finance activities, thereby keeping ahead of its competitors.

Despite the view that the market will slow down towards the end of 2007, we remain upbeat about the opportunities ahead. The options offered through Syndications and Securitisation in particular have enabled us to compete for business at more precise levels than we have seen in the past. This has allowed us to maintain strong relationships with shipping companies throughout the different sectors. We have enjoyed further success in our specialized business units. The Cruise Finance Unit, since its launch in 2005, has continued to deliver positive results together with the Container Box Unit. The Floating Production Group, in its first year, has also started to deliver positive results.

Overall, our focus has not changed since the previous year, but we are placing more emphasis on our core specialised competence and seeking to enhance our portfolio's risk profile and client base. Together with this we are continuously exploring new client bases and products. We are confident that the Shipping Division will continue to build on its success to date – it is well positioned in the market to achieve continued, sustained growth and profitability.

1.2 Aviation Finance

1.2.1 Aviation – Markets

Further improvements in 2006 and a positive outlook for 2007 and 2008. Is this as good as it gets?

Excluding the ever-present "event risks" in commercial aviation, the market improvements in 2005 and 2006 were fairly predictable. As airlines were able to absorb the impact of the fuel spike even better than expected, industry profitability in 2007 and 2008 seems a very realistic prospect. However, for an asset-based financier like DVB, the main question is how the aircraft equipment markets will fare in coming years. Currently there are no concrete indicators that point to a downturn: optimism may be justifiably prevalent. However, history has shown that after a few years of significant order volume (and aircraft production boosted to match) a downturn can be just around the corner.

Strong demand from airlines for additional capacity, together with the influx of liquidity from non-specialist banks and equity investors - combined with bullish aircraft value projections - create an environment that is likely to become overheated. Under such circumstances there is always a risk that small incidents may cause aircraft investors to liquidate their positions, which in itself can be the cause of a drop in market values, especially for older aircraft.

As an industry specialist, DVB is very much aware of the cyclical nature of the commercial jet market. Over the past few years the Bank's internal organisation has been strengthened even further, to be able to cope with – and even benefit from – all phases of the business cycle. Recently – and during 2007 and 2008 as well – the emphasis has been (and will be) on selecting the right transactions, namely, those that will be the least vulnerable during the next downturn. This implies avoiding aircraft types that temporarily benefit from inflated values due to the "boom" period. In addition – and maybe more importantly – DVB has developed new, high added-value products, such as Asset Management, Tax Lease structuring, and Advisory services that are not subject to the margin pressure and risk characteristics typical of an overheating market. Although it is difficult to reliably predict if and when the aviation market will cool off, DVB nevertheless possesses an organisation fully prepared to support its clients as the going gets tougher.

1.2.2 Aviation – Portfolio

DVB's specialisation and industry focus are central to our expectations for continued success, and the means by which we differentiate ourselves from the competition.

DVB has become one of the largest providers of recourse and limited-recourse debt to passenger and cargo airlines, and to aircraft operating lessors worldwide, with a total exposure of approximately US$4.0 billion financing over 700 aircraft. We will continue to adopt a proactive approach to (first) maintaining, then growing our risk-weighted asset base, in line with our well-established lending guidelines and disciplines. As we face an increasingly competitive market for new business, which we expect to intensify in 2007, it is important that we continue to use our deep asset know-how and experience to avoid 'hidden' (asset) risks in transactions, and in general to ensure that we balance commercial pressure with the requirement to maintain a quality portfolio.

In view of our global coverage of the market, our activity through all industry cycles, and our diversified yet focused product offering, we are able to generate a healthy pipeline of potential new transactions. With such pipeline covering opportunities which will materialise in 2007 and 2008, we can be confident in our ability to maintain momentum in our business, which has seen our Aviation portfolio – in US dollar terms – almost double over the last five years.

The activity of our competitors will, certainly for 2007, lead to some further erosion of our average margin, and indeed make the origination of quality 'risk/reward' assets more challenging. On the other hand, we expect to partly counteract this trend through a growing level of activity in the provision of Financial Consultancy, Asset Management and Structuring/Arranging services.

In general, and in summary, opportunities for profitable growth will come from:

- booking of new ('primary') loan business, where we usually act as arranger, underwriter and agent;
- activity in the 'secondary' debt market, where above-average yields can typically be earned; and
- fee-generating services, e.g. lease arrangement, financial consultancy and asset management.

Our DVB Aviation platform, following the most recent strengthening of our Research and Asset Management teams, is now operating at a level where we can be confident of achieving our goal of a cycle-resistant business model: one which will enable us to be equally profitable in a market downturn as in an upturn. A key initiative for this year is to ensure the best possible integration of our new/newer activities, together with a clear communication to our clients (and other business partners) of our strategy and offering.

1.3 Land Transport Finance

1.3.1 Land Transport – Markets

We continue to envisage further transport services growth during 2007 and 2008 in the global land transport sectors we cover. Europe chimes in with full rail freight liberalisation, and US railroads invest heavily in capacity enhancement.

We expect the full liberalisation of the rail freight market in the European Union to lead to a significant increase in the market volume of private rail freight companies, with incumbents' market share (currently about 92% in the EU) diminishing. In its "Trends to 2030" report from 2003, the European Commission predicted a compound annual growth rate (CAGR) of 0.9% between 2005 and 2030 in ton-kilometres for European rail freight. DVB expects the US rail freight market to be overheated until the foreseen major infrastructure investments to enhance the traffic capacity are implemented in a few years time. Continuing growth is expected by every railroad during 2007.

On the passenger side, tenders for regional rail passenger services are expected by DVB in other than the forerunner countries, which would attract more new entrants, especially once the envisaged liberalisation of the international EU passenger rail market starts in 2010. The European Commission predicts a CAGR in passenger-kilometres of 1.3% between 2005 and 2030 for European rail passenger transport. Suburban and regional rail system ridership is expected by DVB to continue to grow in the US and Europe, due to road congestion and high fuel prices.

An annual growth of 0.7% in worldwide new rail rolling stock investments is forecasted by SCI Verkehr. We expect stronger demand in Europe and North America for relatively small and environmentally friendly locomotives. New train sets are the proper means to facilitate the growth in suburban and regional passenger train services in both world regions. In Europe, stronger demand for electric multi-system cross-border locomotives is expected. DVB also expects more transactions on the secondary market within Europe: not, however, directly between a railway company and its competitors, but more to railway companies in other markets or countries. European leasing companies are likely to expand their business for clients in both the freight and passenger markets with standardised, cross-border assets.

The US rail freight market could experience a cooldown in 2007 as Rail Theory Forecasts expects 65,000 freight car deliveries, about 10,000 below the 2006 level. Besides that, rail infrastructure investments will decrease freight car turnaround times.

EU emission and biofuel requirements will spark interest in biofuel and hybrid buses. New tendering provisions for low average ages of bus fleets might force depreciation in the short-term.

The outlook for the European and US truck and trailer markets is positive. Transport Intelligence forecasts that the global contract logistics market will grow at a CAGR of almost 14% between 2005 and 2009. The European Commission expects a CAGR of 2.7% between 2005 and 2030 in the European Union. DVB envisages the European leasing market for trucks and trailers to increase as demand grows and new-build prices recover.

1.3.2 Land Transport – Portfolio

By utilising our platform, with its extended structuring capacity and well-established market research, we will continue to offer our clients attractive financing solutions and advisory services in the future.

Positive signals are emanating from the markets in which we operate. Growing traffic figures are expected to generate a further rise in the transport of goods and passengers. Our core business comprises the provision of funds for investments in mobile, versatile and high-quality standard vehicles. This asset finance business should provide a solid base, where we will continue to abide by our neutral-cycle approach. Economic stability in the countries in which we operate, market liberalisation, manufacturers' full order books and the necessity identified by market participants to modernise outdated fleets will all continue to support this solid platform.

We believe that our rail financing solutions and increased issuance of loans for mobile projects in road transport and logistics will develop in line with the key economic indicators and traffic forecasts.

Against the background of growing liquidity in the banking market, we will continue to focus on maintaining quality when growing our portfolios. We will strengthen our customer business in a distinctive approach, and differentiate ourselves from new competitors through our market research and the expertise we command in structured products. In doing so, we will be efficiently guided by our target parameters regarding the risk/reward ratio. Our operations remain focused on Europe and North America: however, by entering into suitable partnerships we can succeed in extending the regional base. This approach appears to be reasonable, in light of the increasing internationalisation witnessed in the land transport markets.

We intend to broaden our product range, over and above the traditional senior secured lending business; an objective which we will achieve through selecting suitable projects. Our experience in the acquisition of residual value risks, with which we support our clients, will prove advantageous in rapidly developing markets. We will also foster our client relationships by offering subordinated loans, quasi-equity funds or direct equity.

A potential slowdown in individual regional transport markets beyond 2008 will need to be factored in, thus leading to no surprises. We are confident of the good position we command in the land transport sector. By focussing on core markets and projects, combined with our flexibility and market knowledge, we are extremely well-positioned to achieve our goal of further expansion.

1.4 Transport Finance Syndications – Markets and portfolio

The Basel II Accord will be implemented on 1 January 2008 and the secured asset finance market is expecting liquidity to increase as these deals will be treated favourably under the newly-revised standards – depending on the approach the various banks will adopt.

With regard to shipping finance, we expect to see a continuation of strong liquidity, driven by a combination of Basel II and strong financial results from the operators, but a stabilisation of pricing levels after a number of years of downward pressure.

The number of aviation deals in the market is expected to remain significant, and there maybe some further tightening of pricing and deal parameters going forward due to the continuing high level of liquidity available in the market. However, this will apply mainly for the top tier credits.

The rail market is likely to open up further, and an increase in the level of private deals vis-à-vis quasi-sovereign deals is expected.

1.5 Securitisation – Markets and portfolio

The Securitisation team has been set up by DVB to exploit the relatively untapped pool of debt finance for the transport sector.

DVB's strategy is to merge its sector expertise and risk 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 insolvency remote structuring – will create opportunities to provide both bespoke client financing and risk transfer for DVB from the capital markets.

The Securitisation team was completed during 2006, and has been working together with the various sector teams within DVB to explore new opportunities for clients. Concurrently, the Securitisation team (in conjunction with internal risk and control functions) has established processes and procedures to enable the assembly of loan portfolios for securitisation by the Shipping division. This 'conduit process', for pooling specifically originated loans for sale to capital market vehicles, will enable DVB to offer broader financing sources to its Shipping clients. The first of these transactions is expected to materialise in 2007 with further issues from 2008.

2. Assessment of potential market trends in Corporate Finance

2.1 Advisory and M&A

We believe that company mergers and acquisitions, demergers, spin-offs and delistings will feature prominently in the next two years.

There is currently a decoupling between rates and company share values in certain industry sectors, allowing market players to arbitrage values. Certain sectors are experiencing a much weaker financial outlook: consequently, we will see takeover attempts on exposed listed companies. Ample bank and acquisition financing is available, and private equity firms will be bidders for many transportation and infrastructure companies that are put up for sale – usually at high valuations - by governments pursuing privatisation schemes.

2.2 Group Investment Management

2.2.1 NFC Shipping Funds

The NFC Shipping Funds have sufficient capital available and investor interest to expand the business substantially over the next years. The last three very favourable years for the shipping industry have, however, attracted new and not always experienced investors to the shipping industry. As a consequence there are still investment transactions concluded at terms which NFC qualifies as unattractive.

We estimate the increased competition for investment projects as currently the biggest limitation for NFC. This situation existed, however, also in 2005 (when we were able to conclude 16 new transactions), as well as in 2006 when 21 new investments were concluded.

The performance of the existing investments in the NFC Shipping Funds is excellent, with an average internal rate of return since 2001 of 28.5%, and it will be a challenge to keep up this level in 2007 and 2008. 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.

2.2.2 Deucalion Aviation Funds

The Deucalion funds are well positioned to take advantage of the continued and widespread investment opportunities in the aviation sector. The funds have sufficient access to capital, continued strong investor interest and good access to senior debt leverage.

We expect to increase the volume of funds under management through the Deucalion funds during 2007 and into 2008, principally through increased ownership of aircraft, but also through opportunistic investment across the aviation sector in aero engines, airline equities, freighter conversion opportunities, secured aircraft bonds and mezzanine loans.

The worldwide improvement in airline credit quality has attracted a large number of new investors to the industry: this has inflated asset prices and negatively impacted investment terms. We do not expect the credit environment to change in the near term, and therefore anticipate at least as much (and possibly more) competition for investment projects in 2007 and 2008. Whilst our knowledge of the industry, the strength of the DVB Aviation platform, and our asset-based approach provide the Deucalion funds with a unique asset management platform, and whilst we continue to see well-balanced risk/reward investment opportunities, aviation remains a volatile, cyclical industry. We will remain focused and disciplined in identifying not only new investment opportunities, but also to the opportunity of selling existing assets at a profit.

3. Assessment of potential trends in the Treasury business

We will use a variety of money and capital markets instruments to cover DVB Group's funding needs during 2007 and 2008. This strategy is designed to maintain the maximum possible independence of individual products or investor groups.

Our particular focus will be on issues denominated in US dollars, given the currency's dominant role in our credit portfolio. This will be facilitated by actively using our two international issuing programmes, the Euro Commercial Paper Programme and the Debt Issuance Programme. Our issuance in US dollar will thus be intensified.

In view of the predominantly German investor structure for promissory note loans – the type of instrument representing one of DVB's traditional sources of funding – placements in these issues is expected to remain dominated by the euro.

We envisage issuing approx. US$1.5 billion through our Euro Commercial Paper Programme during 2007. Through our Debt Issuance Programme, we plan to issue another US$1.5 billion in medium- to long-term securities, plus €750 million in promissory note loans.

Refinancing volumes targeted for 2008 within the scope of our issuance programmes and promissory note loans are largely dependent on new business planning. This will be finalised in the fourth quarter of 2007; at this point in time we are therefore unable to make a statement on the anticipated refinancing volume for 2008.

4. Financial outlook for the DVB Group – 2007 and 2008

- We will continue to focus on stabilising and improving our ratings from Standard & Poor's and Moody's Investor Services. The ratings upgrades by S&P (during the business years 2005 and 2006) and Moody's (at the beginning of 2006) have shown that DVB is on the right track. Maintaining the level of profitability achieved, together with preserving the Bank'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 moderately in 2007 and 2008. Net interest income is expected to continue growing in particular. We also see further slight growth potential regarding net fee and commission income, even though the growth rates in 2007 and 2008 are not expected to reach the levels seen in the business year 2006.

- Thanks to our consistent cost discipline, increases in general administrative expenses will remain below income growth. As in 2006, 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 2007 and 2008.

- DVB's profitability has improved more strongly than anticipated in the budget – the profit from ordinary activities (before taxes) 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 the KWG:

  RoE is expected to stabilise around the 20% level achieved, based on the strengthened capital base. Continuing the development seen during recent years, we envisage keeping CIR below a level of approx. 45% during 2007 and 2008. Furthermore, we intend to stabilise the core capital ratio (tier 1 ratio), at a level of 7%.