

# Management Report of DVB Group

(as at 18 March 2008)

## 1. 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 (*Bilanzrechtsreformgesetz – BilReG*) 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 (*Handelsgesetzbuch – HGB*).

Pursuant to section 315a (1) of the HGB, DVB Bank AG, as a German parent company, is required to complement its IFRS consolidated financial statements with a Group Management Report in accordance with section 315 of the HGB.

The structure of information disclosed as part of the management report pursuant to section 315 (1) sentences 1 to 5 of the HGB, as well as in accordance with GAS 5–10 and GAS 15, is outlined below:

- DVB's strategic positioning
- Business and operating environment – Transport Finance
  - Shipping
  - Aviation
  - Land Transport
  - Syndications
  - Investment Management
  - ITF Suisse subsidiary
- Business and operating environment – Treasury
- Economic situation
  - Key elements, external factors and preliminary remarks on business performance during the 2007 business year
  - Results of operations
  - Financial position
  - Net assets
- 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 of the German Public Limited Companies Act (*AktG*)
- Report on expected developments 2008/2009, in accordance with section 315 (1) sentence 5 of the HGB

Since the DVB 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.

## 2. DVB's strategic positioning

**With its products and services, DVB Group is uniquely focused on select segments of the international transport markets.**

### 2.1 Mission Statement

We segment the global transport market into shipping, aviation and land transport. DVB is a highly specialised niche player serving these transport segments.

Over the years, we have continuously enhanced our core skills. Essentially, we offer five kinds of value-adding products and services to approximately 500 clients in Shipping, Aviation and Land Transport. Leveraging DVB's in-depth proprietary asset and market research, analysing transport means and operators as well as transport markets, we offer our clients a range of value-added products comprising structured asset financing, equity sourcing and investments, risk distribution, advisory services as well as loan participations.

Shipping	Aviation	Land Transport	
			Structured Asset Financing
			Equity Sourcing and Investments
			Risk Distribution
			Advisory Services
			Loan Participations
<b>Asset &amp; Market Research</b>			

Our business model is well-defined and unique, and for this reason our Mission Statement captures both our real accomplishments and our vision of the future.

**We are the leading specialist in international transport finance.**

## 2.2 Core products and services

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### **Structured Asset Financing**

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Drawing on our core service Structured Asset Financing, our three Transport Finance divisions offer financing solutions relating to transport assets. In addition to traditional asset finance, we offer our clients tailor-made structured and tax-optimised solutions for complex financing projects, often covering multiple jurisdictions.

### **Equity Sourcing und Investments**

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Thanks to the extensive analytic output provided by our Asset & Market Research unit, and the resultant expertise regarding transport markets, we are an ideal partner for clients requiring equity capital and investors seeking suitable investment projects in the relevant sectors. This purpose in mind, our Investment Management Division has launched funds in the areas of Shipping (NFC Shipping Funds), Aviation (Deucalion Aviation Funds), Cruise Finance (Cruise/Ferry Fund), Intermodal Equipment (Container Investment Fund), and Rail Rolling Stock (Stephenson Capital). The funds put us in a position to offer our clients equity products to finance their investment projects.

### **Risk Distribution**

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

### **Advisory Services**

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DVB's involvement in the value creation chain affecting the various transport sectors in the global transport market is not restricted to providing finance, but includes advisory services as well. In fact, we offer a range of advisory services for Shipping, Aviation and Land Transport clients, covering consultancy related to corporate acquisitions and divestments, strategic decision-making on finance and capital structure, refinancing, and the funding of acquisitions.

### **Loan Participations**

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In 2007, we established our wholly-owned subsidiary, ITF International Transport Finance Suisse AG: the Zurich-based entity is actively participating in international senior asset-based lending.

### **Asset & Market Research**

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Our Asset & Market Research unit provides the basis for the activities of our business divisions, leveraging the unit's long-standing research know-how to provide financing products and advisory services, as well as optimising the raising of equity finance.

## 2. DVB's strategic positioning

### 2.3 Enhancing of asset expertise and segment-specific services

Here is a detailed overview of DVB's business divisions, business areas and the full range of products and services offered by DVB:

Business divisions	Shipping	Aviation	Land Transport	Investment Management	ITF Suisse
<b>Business areas</b>	<b>Ten sector groups</b> <ul style="list-style-type: none"> <li>- Container Box</li> <li>- Cruise &amp; Ferry</li> <li>- Crude Oil and LNG Tanker</li> <li>- Chemical &amp; LPG Tanker</li> <li>- Container Vessel</li> <li>- Dry Bulk</li> <li>- Floating Production</li> <li>- Offshore Drilling</li> <li>- Offshore Support</li> <li>- Product Tanker</li> </ul>	<ul style="list-style-type: none"> <li>- Passenger Aircraft</li> <li>- Freighter Aircraft</li> <li>- Aircraft Engines</li> </ul>	<ul style="list-style-type: none"> <li>- Rail Rolling Stock</li> <li>- Mobile Road &amp; Logistics Equipment</li> </ul>	<b>Fund Management in:</b> <ul style="list-style-type: none"> <li>- Shipping</li> <li>- Aviation</li> <li>- Cruise</li> <li>- Intermodal Equipment</li> <li>- Rail Rolling Stock</li> </ul>	<b>Via the inter-bank Market</b>
<b>Products and services</b>	<ul style="list-style-type: none"> <li>- Structured Asset Financing</li> <li>- Risk Distribution</li> <li>- Advisory Services</li> <li>- Equity Underwriting</li> </ul>	<ul style="list-style-type: none"> <li>- Structured Asset Financing</li> <li>- Risk Distribution</li> <li>- Advisory Services</li> <li>- Aviation Asset Management</li> <li>- TES Aviation Group</li> </ul>	<ul style="list-style-type: none"> <li>- Structured Asset Financing</li> <li>- Risk Distribution</li> <li>- Advisory Services</li> </ul>	<ul style="list-style-type: none"> <li>- Equity Sourcing and Investments</li> </ul>	<ul style="list-style-type: none"> <li>- Loan Participations (Senior Asset-based Lending)</li> </ul>

#### Asset & Market Research

#### DVB – the asset specialist

In 2007, DVB demonstrated that in addition to being a financing and advisory specialist, we provide our clients with services that focus closely on the specific assets of a given transport segment. Thus, we offer far more than the traditional range of banking services. Our asset-focused services are available to operators and investors, but also to our competitors.

Based in London, Aviation Asset Management provides our Aviation clients with a broad spectrum of services ranging from lease management, advisory, technical management and analysis to remarketing.

Further highly client-specific services covering

- aircraft engines (TES Aviation Group, Cardiff) and
- intermodal transport assets such as container boxes (Equipment Trading Platform of our Container Business Unit)

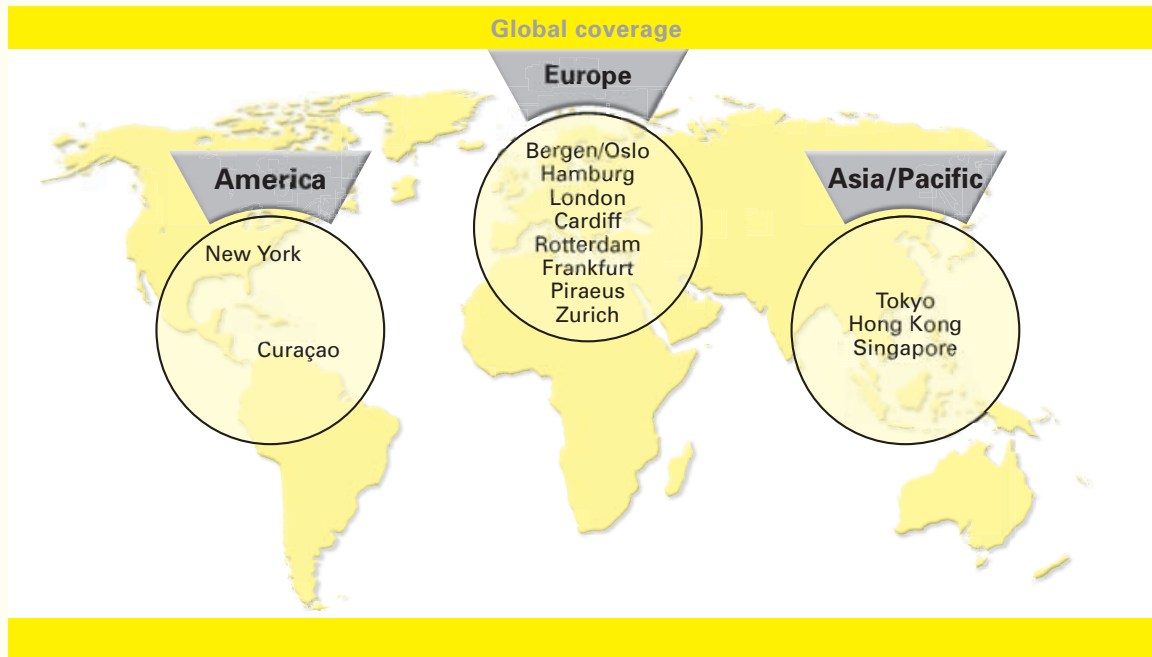
help us gain even more intimate expertise with the nature of the various assets: literally, the 'metal' that we are dealing with. We offer our clients a unique profile of expertise, experience and competence in execution.

#### US capital markets products for Shipping clients

Complementing the range of services is equity underwriting. Based in New York, our subsidiary DVB Capital Markets LLC holds a broker-dealer license, providing our Shipping clients with financial advice and supporting their efforts to raise capital in the US capital markets via underwritings, offerings and private placements of equity, debt and equity-linked securities.

## 2.4 Global presence and organisational structure

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



On the 1st of January 2008, DVB's Shipping Division introduced a new organisational structure, focusing on the key shipping sectors. Our sector-specific organisational structure is unique in the global shipping industry. We felt encouraged to adopt the structure by the success of three teams of specialists set up in recent years:

- Container Box Unit (2003);
- Cruise Finance Unit (2005); and
- FPSO Unit (Floating Production Storage and Offloading – 2006).

We came to recognise that the individual requirements of our clients can be served even better by taking a sector-specific approach. The new organisational structure facilitates the effort to further expand DVB's expertise in select segments. Moreover, it will enable the Group to gain a truly global insight and assessment on each given sector. In this way, we build more competence to the benefit of our clients.

### Shipping – Three existing and seven new sectors

- |   |                                    |
|---|------------------------------------|
| ■ <b>Container Box Group</b>              | ■ <b>Dry Bulk Group</b>            |
| ■ <b>Cruise &amp; Ferry Group</b>         | ■ <b>Floating Production Group</b> |
| ■ <b>Crude Oil &amp; LNG Tanker Group</b> | ■ <b>Offshore Drilling Group</b>   |
| ■ <b>Chemical &amp; LPG Tanker Group</b>  | ■ <b>Offshore Support Group</b>    |
| ■ <b>Container Vessel Group</b>           | ■ <b>Product Tanker Group</b>      |



## 2. DVB's strategic positioning

### 2.5 DVB's competitive strengths

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Our clients' needs are closely tied to specific assets. Our particular strength derives from our ability to understand a client's business model, and the assets employed, significantly better than the competition.

The client survey conducted in 2006 produced evidence that our key strengths lie in our know-how, our experience and our capacity to offer flexible solutions. We are considered among the "most knowledgeable, most experienced, most responsive and most flexible institutions" in the market. Our focus on assets puts us in a position to accompany our clients with sophisticated financing solutions at any stage of a sector's business cycle. Complete dedication to the international transport industry makes us a reliable and long-term partner.

Our key competitive strengths distinguish us from other market participants:

- a **unique focus** on financing requirements in select sub-sectors of the international transport market;
  - **proprietary asset research** in Shipping, Aviation and Land Transport;
  - broad **risk diversification** within a given sub-sector;
  - **professionals with specialised expertise** in financing issues and advisory competence geared to select sub-sectors; and
  - **highly efficient decision-making structures** and our decentralised positioning in the international transport markets.
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### 2.6 Consistent industry focus

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We will consistently adhere to our strategic focus on selected transport market segments. Our aim is to continuously improve the efficiency of our products and services. We will take further steps to enhance a unique profile characterised by sophisticated asset know-how and special asset services.

### 3. Business and operating environment – Transport Finance

In this section entitled “Business and operating environment – Transport Finance”, we illustrate the key drivers of our business activities in the international transport markets as well as the development of our Transport Finance portfolios, and our fund management activities within the scope of Investment Management. Furthermore, we present the business model of ITF Suisse, our Swiss subsidiary established in 2007.

#### 3.1 Transport Finance – Shipping

##### 3.1.1 Shipping – Market review

<b>Abbreviations</b>	
<b>Shipping – Market review</b>	
<i>BHP</i>	<i>Brake Horsepower</i>
<i>DP</i>	<i>Dynamic Positioning</i>
<i>dwt</i>	<i>Dead weight tons</i>
<i>GDP</i>	<i>Gross domestic product</i>
<i>GW</i>	<i>Gigawatt</i>
<i>OPEC</i>	<i>Organization of the Petroleum Exporting Countries</i>
<i>OSV</i>	<i>Offshore Supply Vessel</i>
<i>ROV</i>	<i>Remotely Operated Vehicle</i>
<i>TEU</i>	<i>Twenty Foot Equivalent Unit</i>
<i>VLCC</i>	<i>Very Large Crude Carrier</i>

From a financial perspective, 2007 will be remembered as a dichotomous year. The first half was characterised by growing optimism all around, followed by a second half, teeming with distrust between financial institutions and uncertainty that persists regarding future economic growth. The conundrum that confronts us moving forward is: how obstinate can uncertainty be? However, shipping markets overall enjoyed another good year, buoyed by demand growth that continued to defy the pessimists.

The financial crisis that led to this transformation in mid-2007 had its genesis in sub-prime lending, in the US. Losses synonymous with this event are likely to exceed the US\$150 billion declared thus far and will continue through 2008 as financial institutions report year-end results, with some predicting US\$400 bn+. The fallout however, has had its repercussions, worldwide. These developments have highlighted how complex and illiquid structured securities can be, and the extent to which the world financial system is integrated. The resulting lack of confidence between financial institutions, together with falling housing prices, has manifested itself in slower US economic activity.

Outside the US, there are signs of an economic slowdown in Europe and Japan. The ever-increasing price of oil which consumers seemed to have taken in their stride initially now appears to have reached a threshold. With Chinese and Indian demand for oil increasing, overall energy demand is likely to keep growing by 3.5% annually. In light of which, the probability of oil prices retreating significantly appears unlikely. Despite the discouraging current economic landscape and challenges in the financial markets, there are elements which one can draw comfort from. The proliferation of sovereign wealth funds augurs well for market liquidity. The growing middle classes in China and India are generating a level of domestic demand that should compensate somewhat for slowing US demand. The encouraging elements in the Q4 2007 US GDP figures, are the lower inventory levels which can be expected to increase in 2008 and that consumer spending, a major US GDP contributor, actually grew in the 4Q 2007! In light of which, the administration’s initiative to put more money in the hands of Americans, via lower interest rates, incentives and tax breaks is promising and will boost the slowing US economy. If the gains in security achieved in Iraq in recent months are built upon, it should buoy overall economic prospects. Furthermore, the weaker US-dollar has seen US exports increase; a trend that should continue through 2008.

Uncertainty in markets creates added unease; even more than a market downturn. Opinions as to future world economic direction have been varied, as have the remedies put forth. Nevertheless, the extent to which Central Banks across the world have acted in unison to address market uncertainty is very encouraging. It is reflective of the global economy we are growing into and, the larger contribution and sense of joint responsibility being demonstrated by the various players. Despite this, uncertainty shows every likelihood of persisting and remaining fairly obstinate. Nevertheless, while the risks are elevated and remain towards the downside, there are adequate elements and evidence in place to suggest that economic activity in 2008 could be ahead of expectations.

The area of maritime shipping that has garnered increased attention from all market participants of late has been the shipyards. The demand for tonnage, and the willingness of shipowners to contract vessels for delivery dates well into the future, is a sign of the changing times the industry is in. It was only at the turn of the century that the world shipping Orderbook exceeded 100 million dwt for the first time. A measure of how strong and sustained the shipping market has been across sectors is evident in last year's Orderbook, which surpassed the 500-million-dwt mark. Contracting in 2007 registered a stupendous 51% increase in dwt terms over 2006. This sustained demand for additional tonnage is virtually unprecedented. The rapid increase in the number of shipyards has brought with it some apprehension from industry participants. In particular, with respect to the ability of newly established yards to maintain the requisite standards of quality, as well as the various bottlenecks that shipyards face while meeting delivery schedules. The rapidly expanding world fleet furthermore heightens the daunting challenge of adequately manning the maritime fleet of tomorrow with personnel of calibre.

### 3.1.1.1 Crude oil tankers

Crude oil tankers enjoyed a relatively good start to the year in 2007. Through most of the first half of 2007, Suezmaxes and Aframaxs saw earnings equal to or even slightly higher, than the previous year and a late winter rally brought average earnings for VLCCs to respectable levels as well. However the overall average y-on-y time charter equivalent was down across all sub sectors.

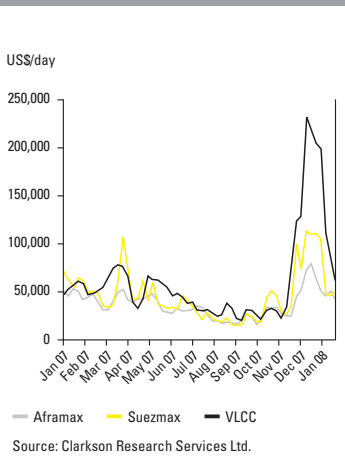
**Average world scale rate in time charter equivalent 2004–2007 (US\$)**

	5-year-average (2003–2007)	2003	2004	2005	2006	2007	Change 2006–2007 %
VLCC	65,809	52,453	96,055	60,319	63,073	57,147	–9%
Suezmax	53,462	41,648	73,912	53,827	53,097	44,825	–16%
Aframax	40,198	34,213	49,775	41,835	39,356	35,810	–9%

Source: Clarkson Research Services Ltd.

Concerned by falling oil prices, OPEC cut production in February 2007 by 0.5 mbd, in addition to the 1.2 mbd production cut instituted in November 2006. The oil price, which had bottomed out at US\$50 per barrel (WTI spot price) in January 2007, followed an upward trend throughout the rest of the year until it had nearly doubled, to US\$99.16 on 22 November. The combined effect of reduced OPEC production volumes and an oil price in backwardation led to slower demand for crude oil tankers, and freight rates were pushed down to their lowest levels in four years. Many owners of older single-hull tonnage were tempted by better prospects in other markets and an increasing number of tankers were reported sold for conversion to other types of vessels. This was particularly true for VLCCs, with growing imports of iron ore from Australia and Brazil to China creating lucrative opportunities for conversions to VLOCs (Very Large Ore Carriers). However smaller tankers were also converted, to double hulls, or to Dry Bulk, Heavy Lift or Floating Storage and/or Production units (FSOs and FPSOs).

**Average crude tanker spot earnings 2007**



Source: Clarkson Research Services Ltd.

The removal of conversion candidates from the tanker market gained momentum at the same time, as many tankers were slow steaming due to high bunker costs, thus reducing the availability of tonnage for spot cargoes. Saudi Arabia's larger than normal discounts for December liftings for its US and Asian customers created vessel demand, rapidly. Tanker markets reacted, with freight rates for VLCCs jumping from US\$22,000/day in the first week of November to more than US\$230,000/day by the second week of December. Although not to the same extent, Suezmax and Aframax markets were also lifted by the sharp recovery in VLCC rates.

In the crude oil sector, conversion projects will continue to dampen the effect of record high numbers of newbuild deliveries in 2008, especially in the largest sectors. As many as 75 VLCCs 'could' be taken out of the market as a result of conversions in 2007 and 2008 combined, while a total of 76 newbuilds will be delivered over the same period. Assuming that all conversion candidates are actually removed from the oil trade and the world economy escapes a severe slowdown, we could witness a shortage of tonnage and increased volatility in VLCC markets. Suezmax and Aframax markets will also benefit from improved trading conditions for VLCCs, although the numbers of conversions are fewer in these sectors.

### 3.1.1.2 Dry Bulk sector

The Dry Bulk sector is in what has been termed as a “super cycle”. The Baltic Dry Index (BDI), which is the composite global dry bulk shipping index, rocketed from 4,421 points in January 2007 to a peak of 11,039 points in November 2007, before ending the year at 9,143 points, an increase of 107%, in a 12-month period. The biggest driver has been the y-o-y near double-digit GDP growth in emerging countries, led by China.

High freight rates encouraged contracting in the Dry Bulk sector, reaching ‘worrying levels’; some 1,655 vessels – equating to 144 million dwt out of the total Orderbook of 2,527 vessels with a total of 210 million dwt – were contracted in 2007 alone.

The outlook for Dry Bulk cargoes is undoubtedly bullish; despite the sharp decline seen in the BDI within the first month of 2008. The Chinese appetite for raw materials has generated significant increase in demand, and also resulted in new and emerging trade lanes (Brazil – China, Africa – China, Brazil – India, Indonesia – India/Japan/Korea), effectively increasing the tonne mile demand, defined as the distance travelled by one tonne of commodity to reach its destination. The increase in tonne mile demand has the effect of increasing fleet utilisation. Furthermore, port congestion as a result of a strain on other logistical bottlenecks, such as road rail and terminals, has further reduced vessel utilisation.

Demand for iron ore, which is the most widely transported commodity on board dry bulk vessels, is expected to increase 35%, from 728 million dwt in 2006, to 982 million dwt by 2010.

Coal, which is used in both the steel and power industries, is the next-most traded commodity on dry bulk carriers. India is expected to a deficit of about 90 million tons of coal by 2010. China, as we know, is adding 1GW of coal fired power plants every week. Increase in the US to Europe coal trade is being watched very closely, which in 2007 greatly benefited the Panamax trades.

Grain, the other major commodity transported by sea, is also growing in demand. Increasing demand from growing populations across the world, mainly Asia, coupled with droughts in Australia (one of the largest exporters of food grain) has benefited tonne mile demand.

The current dry bulk fleet stands at 6,755 vessels (375 million dwt), with 2,527 vessels on order, (210 million dwt) representing 56% in dwt terms. As mentioned earlier, 68% of these in dwt terms were contracted in 2007. The dry bulk market is still very high compared to historical earning and there has been no change observed in basic fundamental demand drivers. In 2008, the dry bulk fleet is expected to grow by about 411 vessels (27 million dwt) while we are still awaiting reports of some 97 vessels (5 million dwt) which were due for delivery in 2007. Taking into account all the above factors, these vessels are expected to be absorbed into the fleet.

### **3.1.1.3 Container shipping**

Container shipping was carried on the shoulders of the Far East to Europe trade in 2007. In doing so, it more than made up, for the sluggishness of the Transpacific and Transatlantic trades, which was challenged by the diminishing consumer sentiment in the US. The healthy increase in westbound freight rates on the buoyant Far East-Europe services resulted in container shipping lines having a moderately good year.

In 2007, there were 494 container vessels contracted for a combined capacity of 3,081,707 TEUs. The rapidly growing arterial trades have led to container vessels becoming increasingly larger. A significant development during the course of 2007 was the surge in contracting of vessels of capacity 10,000+ TEUs. In all, 128 vessels of such capacity were contracted: an incredible number when one considers that the current fleet of similar vessels totals a mere nine vessels!

Newbuild prices rose from already high levels during 2007, and given the level of activity at established yards, prices are unlikely to dip significantly anytime soon. Charter rates – although low in comparison to newbuild prices – are above historical levels and can be expected to hold their own in 2008.

However, container shipping is not without its challenges. Bunker fuel prices increased by 74% in 2007, to US\$420.25 from US\$242 at Rotterdam (Source: OW bunker UK) and such continued price escalation remains the main source of concern. Port congestion in Europe could be an issue this year, should the Far East to Europe trade continue its growth rate of 20% in recent years. With freight rates and charter rates in dollars, the stronger euro will further impact Lines calling at European ports. Additionally, with Liner conferences coming to an end in Europe as of October 2008, the structure of freight rates is expected to alter. The impact of which is likely to be felt largely by the smaller Lines.

Expectations are that a combination of robust demand on the westbound leg of the Far East-Europe trade lane, slower vessel steaming, heavier boxes, port congestion, along with some slippage in deliveries, will keep the supply/demand in container shipping fairly balanced during 2008.

### **3.1.1.4 Cruise sector**

Cruise operators have enjoyed a good year, achieving high utilisation levels and healthy net yields. Cruise Line International Association, whose membership includes most of the major cruise Lines, estimates that their members Lines carried 12.6 million passengers in 2007, representing an increase of 4.6% over 2006.

As the cruise market grows there is a distinct move, towards larger vessels with five Lines set to commence operating their biggest cruise newbuilds in 2008. Along with the Contemporary and Premium segments of the market, where most of the large cruise ships operate, there has been a growing demand for luxury cruising. This segment of the market contracted newbuilds for the first time in 2007 after many years. In all, this year will see ten newbuilds join the fleet. For the first time, many of the newbuilds are earmarked for the European market; which marks a shift from newbuilds being traditionally deployed in the Caribbean region for the American market. The centre of gravity of cruise shipping has distinctly moved eastwards, through the growing number of European-sourced passengers.

While the outlook for the cruise industry is good, challenges by way of increasing operating costs are threatening to constrain profitability. Rising bunker costs for example, have impacted earnings considerably. The issue is being addressed, with Lines instituting supplementary fuel charges during the fourth quarter. The ability of Lines to continue to pass on these additional costs to their passengers be it due operating requirements, environmental regulations, or higher port dues, will be significant in the financial success the industry achieves.

### 3.1.1.5 Offshore sector

The Offshore Sector is robust with activity, buoyed by growing oil demand, record prices and depleting oil reserves. The quest for oil and gas has forced all sectors of the offshore industry to face new challenges, whether they be in the area of drilling, production or maintaining ongoing services. Deeper waters, harsher environments, and extensive sub-sea activity has raised requirements for the offshore supply service providers. Sourcing skilled workers for all offshore sectors has as a result become extremely challenging. The OSV fleet is responding with newbuilds of larger BHP, dwt, cargo and deck space, multi-functional options such as Moon-pool, DP, ROVs – and of course a better cruising range and the ability to operate in harsh environments.

In the area of drilling we see an increase in drilling depth extending to 12,000 ft with many untested issues of back pressure and blow out at these depths.

In the area of offshore production, dealing with harsher environments will be the key; such as incorporating DP sophistication, which currently is on a limited number of FPSO units.

### 3.1.1.6 Container box market

The container box market had a strong year in 2007. Global container transport volume increased substantially, and vessel capacity grew 13.6% from 9.5 million TEU (end of 2006) to 10.8 million TEU (end of 2007). This market growth, together with an increasing fleet of aging containers that require replacement, resulted in strong demand for new container boxes. With new container vessel capacity on order representing about 60% of the active fleet in service today, the market outlook remains strong, since new container vessels will require at least two TEU of containers for every TEU slot capacity added.

After significant price fluctuations in previous years, container prices were relatively stable during 2007 at around US\$1,950 for a standard 20' box, about US\$100 up from 2006. The long-term downward trend in container prices that prevailed until 2002/2003 seems to have reversed due to continuing strong demand, consolidation amongst manufacturers and last – but certainly not least – significant increases in raw material costs, especially steel and wooden floorboards.

Despite good demand for new containers, and high fleet utilisation, leasing companies continued to suffer under lease-rate pressure. The initial cash investment return dropped to just over 11%, compared to 19% ten years ago and 29% twenty years ago. Given this rate pressure, container lessors have had to rely more and more on the residual value of older containers. With ample demand for used containers, 12-15 year old 20' standard containers still fetched well over 50% of the current new container prices.

In the quest for ultimate low funding costs, traditional leasing companies are selling major parts of their fleets to financial investors that have lower return requirements. The leasing companies subsequently receive management fees, and are entitled to share in the residual value of the equipment.

### 3.1.2 Shipping – Strategy

2007 has seen sustained growth in the shipping market, despite global economic slow-down. Will this scenario persist?

2007 saw another year of strong results from shipping companies. However, the industry continued to exhibit warning signs of slowing down. These signs became particularly evident towards the end of the year. During 2007 we saw the trend continuing from the previous year – of shipowners keen to capitalise on new yard capacity by ordering new tonnage despite higher premiums being demanded. This has created new tonnage, deliveries, which in 2007 enabled global market needs to be met. We saw consumer demand continuing to increase, powered by wealth creation in emerging markets like China and India and combined with easier access to goods. Historically we have never seen such long spikes as those witnessed in the 2006 and 2007 shipping markets. Response to this strong demand has been met by a renewing of world fleets, with orders being placed for vessel deliveries between 2009 and 2010 when the impact of the additional tonnage will really be felt by the shipping market. DVB is taking a cautious approach, although we see a continued demand for shipping.

The main forward strategy for DVB's Shipping Division has been to reorganise its structure during 2007 to deal with the changing market, and to meet the specific needs of present and potential customers. Over the past few years the Shipping Division witnessed each of the vessel type sectors growing and maturing into their own markets. We recognised specialist knowledge in each of these markets as being extremely valuable to our customers, providing them with a global view of the markets that they are operating in. In the course of the year the Shipping Division moved away from the traditional regional model in operation throughout the DVB global network, to embrace a pure sector-specific approach.

One of the additional factors in moving further to a sector-specific approach was based on the success (and testing of the model) of the existing groups. As of 1 January 2008, therefore, there are seven new sector groups in addition to the three existing successful sector groups. DVB is the first Shipping financier of its kind to implement such a complete sector approach. The new sector groups are global, with group members from each of the teams being located within DVB's existing global office network. These global teams will work very closely with the major shipowners and operators in these markets, together with our research department, in assisting us to steer our portfolio and increase profitability. Overall, the new sector-specific approach marks a change in core focus for the Shipping Division from previous years, placing stronger emphasis on our specialised competence, deploying specialist knowledge in the sector groups, and seeking to enhance our portfolio's risk profile.

#### *The ten sector groups are:*

- Container Box Group (established in 2003);
- Cruise & Ferry Group (established in 2005);
- Floating Production Group (established in 2006);
- Crude Oil & LNG Tanker Group;
- Chemical & LPG Tanker Group;
- Container Vessel Group;
- Dry Bulk Group;
- Offshore Drilling Group;
- Offshore Support Group; and
- Product Tanker Group.

*The Shipping Division globally offers the following products under its umbrella: Structured Asset Financing, Advisory Services and Equity Underwriting. Our Shipping clients are also able to capitalise on the Risk Distribution products offered by our independent Syndications unit.*

### 3.1.3 Shipping – Products

#### 3.1.3.1 Structured Asset Financing

Structured Asset Financing remains the core of DVB's business. It comprises two components – asset-backed lending, and all structuring activities.

DVB is one of the market leaders in asset-based lending in the Shipping industry, with a loan portfolio of €8,383.7 million at the end of 2007 (€6,712.4 million in 2006, a rise of 24.9%). The relationship managers work actively in the markets, arranging and structuring financing for top shipping companies providing – amongst other products – senior, junior and mezzanine loans, and other types of structured loans.

Under the umbrella of the Shipping Division, the Structured Asset Finance unit (SAF) has a mission to provide DVB's shipping clients with a representative and competitive product range in structured finance products that is marketed on a joint basis with the relationship managers. SAF develops, markets, arranges and executes transactions that offer clients either a tax-based benefit or an off balance sheet treatment of their assets (or a combination of the two). Besides some of the well-known structures, SAF has developed several unique and sometimes proprietary structures.

The transactions are commonly structured as leases on ships or other assets, and achieve significant reduction in financing cost. In exchange, they reduce the flexibility for shipowners to trade their assets.

The UK lease has been the most popular lease product for shipowners for at least a decade. Due to significant changes in UK legislation we feel that the risk-reward ratio is not balanced anymore, and as a result DVB does not promote new UK leases with shipowners.

In 2007, SAF launched two new products. The first one is a Put Option on ships that mitigates the asset risk. This product has been mainly developed for financial investors in shipping that are interested in exchanging a portion of their expected return for a degree of downside protection. Secondly, a US lease product has been developed for top-tier shipping companies.

### 3.1.3.2 Advisory Services

The Shipping Division offers Advisory Services to its international clients, via the Advisory and M&A unit.

The transport sector, particularly shipping, has over the last several years become increasingly visible and attractive to the global financial community. In addition to continued and increasing M&A activity in both the public and private markets, several new financial players have entered the market to provide financing for transport companies. These include private equity houses, special purpose acquisition vehicles and hedge funds.

In 2007, demand for transport continued to grow rapidly along with the world economy. Recognition of, and growing confidence in these trends increased the deal volume in the sector. 2007 saw an increasing number of M&A transactions of which more than 70 (compared with 25 in 2006) were in the shipping industry. Of these, 21 involved private equity and other investment funds. In 2007 (as in 2006), transportation companies increasingly considered horizontal and vertical integration through M&A to be preferable to acquiring second-hand vessels or waiting for newbuilds. Investment through initial public offerings, private equity houses and specialised investors (KGs, KSs etc) amounted to over US\$15 billion (compared to US\$10 billion in 2006).

Our Advisory and M&A team comprises highly experienced individuals, based in London and New York, specialised in transport, and drawn from global investment banks. The unit provides strategic and general corporate advice to clients, balance sheet optimising and restructuring advice, equity and debt-raising advice and, last but certainly not least, mergers & acquisition advice. The team may be seen as a bridge between the transport world and the global financial community and, like DVB Group as a whole, focuses exclusively on the transport sector. Collectively, it possesses a broad and deep knowledge of (and contacts within) the sector. It prides itself on providing the quality of advice and services normally associated with a boutique bank, while being able to draw upon the entire resources of DVB for the client's benefit.

### 3.1.3.3 Equity Underwriting

Our Capital Markets unit was established to provide capital raising services to transportation companies, including access to the US and selected global capital markets. The team was launched in April 2006 when DVB Capital Markets LLC was granted its application as a licensed broker-dealer by the FINRA (formerly known as the National Association of Securities Dealers).

We believe that development of a capital markets capability enhances DVB's transport finance franchise by deepening the range of products we offer our client base. Specifically, the Capital Markets team allows our relationship managers to offer clients access to US and selected global capital markets, including private placements and public offerings of equity and debt securities. Capital markets professionals work closely with DVB's relationship managers to originate and structure capital markets transactions.

### 3.1.4 Shipping – Portfolio analysis

2007 was once again an excellent year in terms of performance for DVB's Shipping Division, with our results providing yet another record-breaking year.

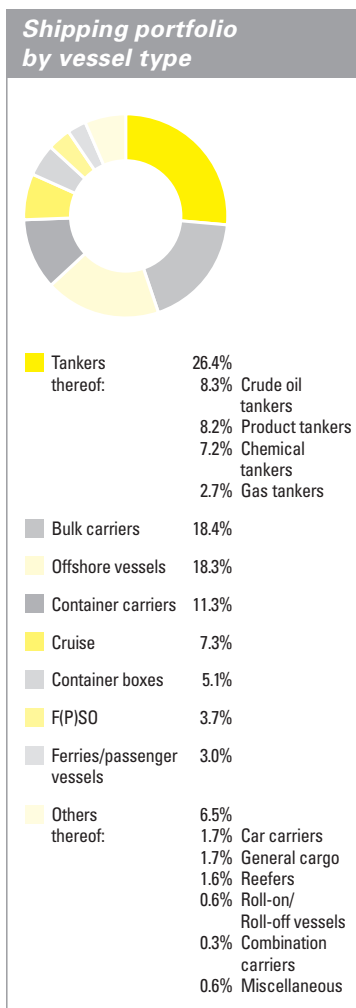
#### 3.1.4.1 Development in Structured Asset Financing

The volume of customer lending (loans and advances to customers, loan commitments, indemnities and guarantees) for 2007 improved 24.9% over 2006, rising from €6.71 billion to €8.38 billion. During 2007 there were 174 new transactions, compared to 143 new transactions for 2006. These new transactions resulted in €5.08 billion of loans being underwritten; a 27.9% increase from 2006 and a 59.1% increase from 2005.

There has been a steady growth in the portfolio since 2003, reflecting DVB's appetite for new transactions. The lending volume figures and new transactions were particularly remarkable given that 2007 was another year of high refinancing, despite many banks being impacted by the global credit crunch. The total pre- and repayments were 58% of the existing loan portfolio compared to 46% in 2006. We forecast fewer pre- and repayments for 2008. We saw total margins for new business show signs of slight increase compared to last year, as some of the top banks also slowed down their volumes for new business, especially in the final quarter of 2007. The impact of this was less intensive competition, and better financing terms for DVB's Shipping Division.

The portfolio is well diversified in terms of vessel types financed. This diversification is in line with the Shipping Divisions strategy:

- The Cruise & Ferry Group raised its share of the portfolio from 8.1% in 2006 to 10.3% of the portfolio in 2007. Thus, the exposure of the Cruise unit established in 2005 doubled from 3.6% in 2006 to 7.3% in 2007.
- The Shipping Division's offshore sectors (established in 2005) including offshore support vessels, FPSOs and drilling rigs, increased its share of the portfolio from 18.0% of the portfolio in 2006 to 22.0% in 2007. This was in line with the Shipping Division's expansion into these asset types, and reflects the current strong market trends for such assets.
- In the tanker sector (including crude oil, product, chemical and gas tankers) we saw a reduction in our portfolio size from a total of 39.2% in 2006 to a total of 26.4%.



- In relation to crude oil tankers, DVB continued to take a cautious approach, especially in relation to its exposure to single-hull crude tankers. Our Shipping Division monitored this exposure throughout the year. We saw the exposure decrease from €104.4 million to €40.5 million in 2007 with a complete run-down of the single-hull crude oil tankers to less than scrap value of the vessels before 2010, which is the phase-out date for such tankers. The loan-to-value ratios for all existing loans on single-hull vessels in the portfolio are well below 60% of today's values.
- The container vessel exposure remained relatively stable, maintaining a healthy 11.3% share of the portfolio.
- The largest increase in the portfolio in terms of vessel size was seen in the bulk carriers, which doubled. The portfolio in relation to dry bulk carriers was €613.3 million at the end of 2006 and ended 2007 at €1,425.3 million (9.8% and 18.4% respectively). This was again in line with the Shipping Division's strategy to further diversify the existing portfolio, and to expand the exposure on bulk carriers.

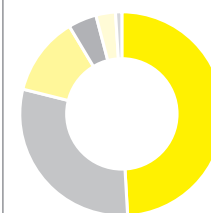
The loan-to-value ratios for the rest of the portfolio also remain healthy, with 84.2% of the portfolio being under 60% loan-to-value.

The average lending exposure per client has increased slightly from 2006 because of the increases that we have seen in asset values across the board. The increase per average lending exposure per loan for 2007 was €30.7 million compared to €27.0 million in 2006. We have also seen increases in the number of clients where our Shipping Division has committed to exposures exceeding €50 million. The number of such exposures in 2007 was 41 compared to 2006 where the figure was 35.

DVB has maintained its diligent manner, with the Risk Department reviewing all loans and paying attention to close monitoring of those loans – taking any remedial action if required, in particular to 'watch list' loans. DVB recorded zero losses during 2007 in terms of loans. As well as monitoring the portfolio, our Research has again contributed by providing detailed and accurate analysis of the market and the various new sector groups. These two elements remain core to the Shipping Division, in ensuring that the portfolio is well diversified with little risk exposure.

Portfolio exposure by economic risk country also remained well diversified. Our Shipping Division has seen increases in portfolio for countries such as Greece (9.8% of the portfolio). The larger changes have occurred in Asia where our Shipping portfolio by economic risk per country has grown – with South Korea now being 10.2% of the portfolio and China growing to 5.0% of the portfolio. This is mainly due to pre-delivery finance. We have seen decreases, most notably in Norway which now only represents 9.2% of our portfolio.

#### Shipping portfolio by economic risk country



Europe	49.9%		
thereof:		9.8%	Greece
		9.2%	Norway
		7.7%	Germany
		3.1%	France
		3.0%	Cyprus
		2.7%	Netherlands
		2.4%	UK
		12.0%	Others
Australia/Asia	29.8%		
thereof:		10.2%	South Korea
		5.0%	China
		4.8%	Singapore
		2.9%	Japan
		2.4%	Hong Kong
		2.2%	India
		2.3%	Others
North and South America	12.5%		
thereof:		9.5%	USA
		3.0%	Others
Offshore	4.5%		
Middle East	3.1%		
Central America/Caribbean	0.2%		

The Shipping Division attributes this record-breaking year to once again monitoring the risks, understanding the assets and the markets. The changes seen in 2007 reflect attractive business opportunities that DVB's Shipping Division has been involved in. With the new Sector Groups coming into existence from 1 January 2008 we see the portfolio maintaining its diversification and continuing its success.

In 2007, our Structured Asset Finance team completed transactions for over US\$1 billion worth of assets. Transactions included a flexible fleet financing for a European owner, based on Tonnage Tax; two transactions for a global shipping group based on debt and equity funding via Tonnage Tax; as well a successful restructuring of two UK leases for a UK-based owner. Several other transactions to restructure UK leases are in progress.

The transactions are commonly structured as leases on ships or other assets and achieve significant reduction in financing cost. In exchange, they reduce the flexibility for ship owners to trade their assets. The abundance of liquidity in the first three quarters of 2007 and the high profit margins in the shipping market reduced the appetite for these products. From the last quarter in 2007 we have seen a rapid tightening of available credit, increased pricing of debt and equity and declining profit margins due to lower freight rates and increased costs. As a result, the market for structured asset finance solutions seems to be changing: owners are showing increased appetite for cost-efficient financing.

#### **3.1.4.2 Development in Advisory Services**

In 2007, Advisory and M&A was mandated on twelve assignments. Advisory and M&A generates income for DVB by charging fees for advice provided and financing raised, and therefore does not place the Bank's capital at risk. The transactions it completes are generally high profile, raising market awareness of DVB's clients and of DVB itself.

#### **3.1.4.3 Development in Equity Underwriting**

In 2007, the Capital Markets Group significantly increased its presence in the market, participating as a co-managing underwriter on five public offerings representing US\$890 million of capital. Continued growth is planned for 2008/2009 as the Group is increasing marketing activities and selectively adding experienced capital markets professionals to its staff.

## 3.2 Transport Finance – Aviation

### 3.2.1 Aviation – Market review

During 2007, the aviation industry was finally able to warm itself under sunny skies in almost all geographical areas and segments of the market. Despite continuing high temperatures even in Q4 2007, towards the end of the year the weather forecast for the industry turned more gloomy with potential storm clouds gathering in the form of the credit crisis, higher fuel prices and the prospect of an economic recession in the US.

Global airlines finally enjoyed modest profitability during 2007, albeit the results varied from region to region. Commercial jet manufacturers and engine suppliers booked a record volume of new orders and saw their backlog increase to unprecedented levels. Despite earlier worries about overheating, even the aircraft leasing and trading market was able to maintain lease rates and used equipment transaction prices at relatively high levels. With almost all modern commercial jets redeployed, many airlines had difficulties securing short-term additional capacity, either for their core fleets or as interim lift. One of the few slightly disappointing market segments was the air cargo market, where growth was rather sluggish and certainly below projected trend levels.

#### Abbreviations Aviation – Market review

IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation

#### 3.2.1.1 Air transport developments

According to preliminary ICAO figures, growth of passenger traffic - expressed in terms of passenger kilometres – accelerated slightly during 2007. Whereas in 2006 growth declined to 5.9% from the 8% achieved a year earlier, growth in 2007 is estimated to end close to 6.6%, slightly above the long-term trend projections. International traffic increased by 7.3% but the individual regions showed growth percentages ranging from 5.5% in North America to 19% in the Middle East. Domestic traffic figures were well below international levels, with the important North American market only increasing by 2.9% and Europe remaining stagnant. Asia/Pacific markets demonstrated their strength once more, with 14% growth.

As in 2006, 2007 saw global capacity also lagging traffic growth: passenger load factors once more increased to an estimated 76.5%, up from the historically already very high 75.8% the year before.

In terms of traffic volume growth expressed in freight ton kilometres, international air freight had enjoyed a number of good years since 2001, with 2004 the peak of that cycle at an annual growth level of 11%. After more modest figures in 2005 and 2006, the freight market clearly disappointed many in 2007 with a preliminary growth figure of only 3.5%. Although no single cause for this sluggishness can be identified, several factors have been mentioned, ranging from a slowdown of the economy via the impact of higher air fares caused by high fuel prices, to the increased competitiveness of container ships providing higher frequency services, a more favourable environmental image and competitive freight rates.

Global airlines reported modest profitability in 2007, thanks to a strong yield environment and high load factors. After the ocean of red ink in the period 2001–2006, with estimated total net losses of around US\$42 billion, the latest IATA projection sees global airlines booking an estimated net profit of US\$5.6 billion in 2007. The big difference with 2006 was the turnaround in the results of the North American carriers, going from a US\$2.7 billion net loss to a net profit of the same amount. If confirmed, this would turn North America into the most profitable IATA region in absolute terms. Europe is expected to generate a profit of US\$2.1 billion and Asia/Pacific US\$0.7 billion. The Middle East will contribute US\$0.2 billion with Africa and Latin America booking a net loss of US\$0.1 billion each. Unfortunately, IATA expects that 2007 has marked the peak of the cycle and forecasts lower results for 2008 because of the negative impact of the credit crisis, higher fuel prices and a likely US recession.

With respect to intra-industry developments, 2007 didn't bring any of the significant consolidation that was expected. Toward the end of the year however indications got stronger that during 2008 some of the long-expected mergers could materialise. In Europe KLM/Air France are likely to take over ailing Alitalia. This may inspire the other major European flag carriers like British Airways and Lufthansa to take initiatives that would close the gap. In the US, merger rumours continued to circulate around Delta, United and Northwest. With increasing pressure on airline results, industry consolidation may very well accelerate.

### **3.2.1.2 New aircraft market**

Contrary to what was expected at the end of 2006, 2007 proved to be another record year for commercial aircraft orders. According to the independent Ascend CASE database, a total of 3,375 western-built jets were ordered during the year, an increase of about 40% compared to the 2,397 reported the year before. (CASE data may deviate slightly from figures reported by the manufacturers, due to different accounting of type-changes, cancellations and "undisclosed" orders.)

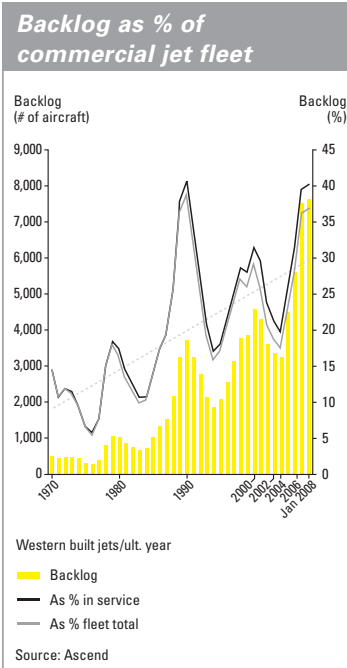
Based on net order figures reported by the manufacturers, Boeing took the largest slice of the order-pie with 1,423 gross orders, –/–10 changes and consequently 1,413 net orders. The Boeing 737 Next Generation family once more was the Seattle-based manufacturer's best selling product, with 846 net orders, followed by the new Boeing 787 "Dreamliner" that netted 369 orders, despite program delays that postponed the first flight from late 2007 to mid-2008. The B767 booked some orders as it enjoys a second lease of life. The B777 continued to enjoy market popularity, but the focus has clearly shifted from the smaller -200ER to the stretched -300ER as well as the Freighter version. A battle seems to be developing between the Boeing 777-300ER and the new A350XWB-1000. With the A350 promising significant improvements in operating costs, it remains to be seen if Boeing can maintain the 777 as its platform, or if the market will force a major modernisation or even a completely new design. The B747-8 did not achieve a breakthrough in the passenger market and has to rely on demand from the cargo market, a market where the top segment is now clearly dominated by Boeing with the B747-8F and the B777LRF.

Based on gross order intake, Airbus beat Boeing with 1,458 new orders, but –/–117 net changes resulted in a net order intake of “only” 1,341. The A320 family once more was the Toulouse based manufacturer’s best seller. The “family” scored 913 sales. With 196 net orders, the A330 (now including a freighter version) continued its success story, despite the threat of being overshadowed by new technology aircraft. The long-haul, four-engined A340 range lost 32 orders, while Airbus’ change from the old design A350 to the new A350XWB resulted in 72 cancellations for the old design but with 290 orders for the “XWB” still achieved a gain of 218. The flagship A380 finally entered airline service, after having lost its last freighter client but having gained some important passenger customers, including British Airways.

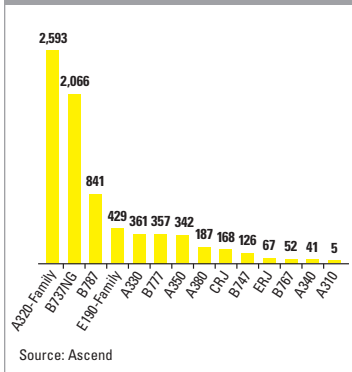
In the regional jet segment of the market Brazilian manufacturer Embraer enjoyed a good order intake for its E170/190 family. CASE reported a gross order intake of 180 planes, while the manufacturer’s own figures indicate 145 net orders. The Embraer 190 remains by far the most popular version with over 50% of the E-Jet’s orders. Sales of the smaller ERJ-family remained stagnant in 2007, although production in the Chinese “Harbin” plant continues and the Corporate Jet versions are still booking orders. Canada’s Bombardier booked a gross order intake of 164 commercial jets according to CASE. The 50-seater CRJ200 sales were stagnant and while the Challenger corporate jet sales continue, the type is effectively “out of production” for the commercial market. Bombardier’s top-seller was the CRJ900 that booked 91 orders. A stretched version of the CRJ900, called the CRJ1000 booked 39 orders but partly as a result of airlines switching their CRJ900 orders to the CRJ1000. Bombardier’s decision on launching the 110/130-seat CSeries was postponed to 2008, with planned entry into service in 2013. The CSeries may be powered by Pratt & Whitney’s new technology “Geared Turbo Fan™”, which promises significant fuel savings.

Whereas several initiatives in Russia, China and Japan were taken to compete in the market for commercial jets, only limited sales successes could be reported outside of the “captive” markets. During 2007 only Sukhoi booked a western customer for its “SuperJet”, Italian airline ItAli.

The 2007 order-explosion resulted in an unprecedented backlog. With 7,532 western-built jets on order per end of 2007 and an active fleet (excluding stored planes) of 19,048, the backlog has increased to 40% of the active fleet size, which is close to the all-time record of 1990 when the backlog percentage reached 41% – amongst other reasons, as a result of huge orders from a few mega-lessors.



### Commercial jet backlog (January 2008)



Analysing the composition of the backlog reveals that almost 4,600 aircraft, or over 60% of the backlog, is for the Airbus A320 and Boeing 737 families only, with the basic A320 and B737-800 by far the most popular versions, followed at a distance by the smaller A319 and B737-700. With such a backlog, stretching many years into the future there is a lot of pressure on Airbus and Boeing to increase production. It has to be kept in mind however that in case of a downturn in the general economy, followed by reduced growth of air travel, there is a real risk that a part of the current order book may be deferred or even cancelled.

In line with society as a whole, the importance of environmental issues significantly increased during 2007 for the aviation business. With strong air transport growth in countries like India and China, the absolute environmental impact of aviation (noise, NOx, CO2) is set to increase if no measures are taken. Clearly, alternative fuels and/or new clean and more fuel efficient aircraft need to be developed to prevent outside forces from limiting growth in aviation.

### 3.2.1.3 Used equipment market

With the used equipment market still going strong in the short-term, the focus shifted more to medium- and long-term issues. Against this background, the discussion about development of a successor to the A320 and B737NG becomes very relevant for the value and liquidity of existing fleets. Experience shows that individual aircraft, produced and delivered towards the end of the production life of a specific type, generally suffer under an accelerated loss in value. The timing of the entry into service of the A320 and B737 successors consequently is of utmost importance. During 2007 it became increasingly clear that this introduction will most likely slip from the originally indicated 2012–2015 timeframe to as late as 2017–2019, despite significant pressure for major airlines that are looking for more fuel efficient and environmental friendly aircraft. For the medium-term values of the current aircraft generation, the delay of the successor types can be seen as good news. Even in case of order cancellations, there remains a significant fleet of older technology aircraft, such as the MD80 series, that urgently needs to be replaced.

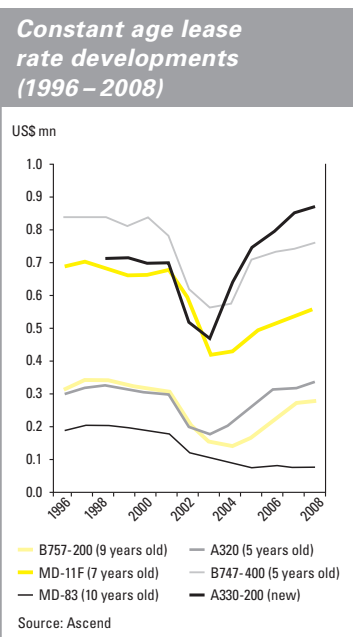
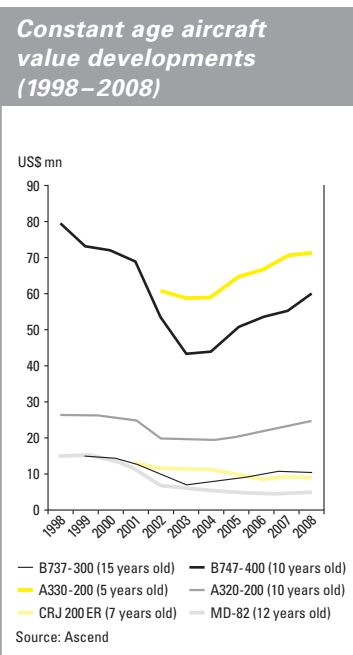
In the widebody segment of the commercial jet market, the delay of (initially) the A380 and now the B787 ensured significant demand for almost any modern widebody. In addition, old technology, and less fuel-efficient types of widebodies can hardly be operated profitably anymore as a result of high fuel prices. Consequently, the equipment shortage in the widebody market is at least as severe as in the narrowbody segment. The difference is that in this segment, the new generation has been launched in the form of the B787 and A350XWB as well as the B747-8 and the A380. In this segment, so-called “interim lift” aircraft have regained popularity; aircraft of the current generation, that will be used to bridge the capacity gap till the new generation comes available. A combination of an economic downturn with the start of the deliveries of new generation aircraft may put widebody values under pressure, but for the time being an oversupply situation seems unlikely.

Availability of freighter aircraft is still limited, despite the disappointing cargo market demand. Conversion of older passenger aircraft remains difficult, as “feedstock” aircraft continue to operate in the passenger market, which can afford higher lease rates and purchase prices. It is expected that the supply of B747-400 passenger aircraft for cargo conversion will increase as a number of airlines have announced plans to phase-out the type. After freezing the A380 Freighter program, the largest Airbus cargo competitor is now the medium capacity A330-200F that competes in the market segment below the large Boeing freighters. In the narrowbody market – where capacity is almost exclusively coming from converted Boeing passenger aircraft such as the B737 and B757 – conversion activity remained relatively limited. In the future, aging Airbus A320’s may become good conversion candidates.

As indicated, the used equipment market prospered during 2007 and any further strengthening seems unlikely, although this is more based on the prospects for the economy in general rather than the specific aviation equipment market. In the graphs, the development of aircraft values as well as market lease rates is presented. Both graphs reflect the value and lease-rate development of several aircraft of a (theoretical) constant age, to eliminate the negative value effect of aging. In the value graph, most aircraft types are shown to enjoy stable or higher values and lease rates. The exceptions are the Boeing 737-300 as well as the CRJ200ER. The pressure on the B737-300 may be the result of a distinct overheating of the market for B737 “Classics” during the past few years. Higher fuel prices, increasing supply and only modest demand from the cargo market – for the time being – may have stopped the hype for this aircraft. The 50-seater CRJ200ER has been under pressure for some time already following the default of various operators in North America. The type no longer fits the “scope clauses” in US airline labour contracts, and it suffers under the high fuel prices that are increasingly causing airlines to switch to more efficient turboprops.

**3.2.1.4 Conclusion**

In summary: to the surprise of many, aviation has continued to prosper during 2007. In early 2008 however, more clouds are on the horizon in the form of an economic recession, higher fuel prices and - longer term - significantly more stringent environmental regulations. With continuing strong demand for modern aircraft, there is no reason to expect a major collapse of the market. Some cooling off however cannot be excluded, and except for those industry players that have taken overly aggressive positions, this may actually not be a bad development.



### 3.2.2 Aviation – Strategy

For many years DVB's Aviation Division has been recognised as a leading arranger, underwriter and provider of 'asset-based' risk capital in aviation finance. More recently, however, the division's strategy has been to build on its historic strengths and to provide its customers with a seamless "one-stop-shop" to develop financing solutions for core aviation assets at any point of the aviation industry's economic cycle.

With the strengthening in early 2007 of its Aviation Asset Management team, followed later in the year by the Bank's majority-acquisition of a leading engine asset management company, TES Aviation Group, our Aviation platform 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 active, and therefore profitable, in a market downturn as in an upturn.

Our Aviation clients can nowadays readily draw upon the following range of expertise in order to fulfil their differing requirements:

- **Structured Asset Financing**, comprising recourse and non-recourse lending and arranging, and structured finance activities (including tax and non-tax-based leases);
- **Advisory Services**, including – in relation to fund raising/financing strategy – optimal capital structure and sale-and-leaseback transactions;
- **Aviation Asset Management**, providing third-party aircraft remarketing, lease management and technical and general consultancy services;
- **Aero-Engine Financing and (Engine) Asset Management**, including via TES Aviation Group as summarised earlier; and
- **Equity Sourcing and Investments**, via the Investment Management team, managing the Deucalion Aviation Funds (aircraft, aero engines, airline equity, asset-backed bonds, etc.)
- **Risk Distribution** by DVB's Syndications team
- **Asset & Market Research** as the basis of our "one-stop-shop"-concept with a core focus on the equipment market.

Whilst integration of the various new/newer activities has been achieved with relative ease, a key initiative for 2008 is to ensure that there is a clear communication and understanding with our clients and other business partners of our strategy and product/service offering. The fact that Aviation Division, and indeed DVB at large, offers far more than the traditional range of banking services, and that we offer niche services, many of which are “close(r) to-the-asset”, is perhaps the biggest differentiator between DVB and its competitors. Our strategic goal in Aviation Finance must therefore be to ensure that this differentiator is fully recognised and valued by its clients and prospects.

The Aviation team at large has a strong network of relationships with clients and industry partners, who perceive DVB as a bank that understands their business and possesses the expertise to provide value-added financial solutions. 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 gathered from a prior background with airlines, manufacturers, aircraft/engine lessors and with asset managers.

We have seen competition in the sector intensify during most of 2007, driven by liquidity from new entrants and improved market sentiment. Nevertheless, the Aviation Division’s market penetration – the reward of our consistent approach to business, a track-record of delivery and of the additional services on offer – meant that we have been able to more than offset this development. This was demonstrated by another record level of activity seen with our aviation client base.

### 3.2.3 Aviation – Products

Aviation Finance offers the following value-added products and services:

#### 3.2.3.1 Structured Asset Financing

<b>Abbreviations Aviation – Products</b>	
<i>GRM</i>	<i>Group Risk Management</i>
<i>OEM</i>	<i>Original Equipment Manufacturer</i>

The Structured Asset Financing activity of DVB Aviation remains at the heart of its client offering. With a loan portfolio of over US\$4.5 billion, and a typical new business final-take of over US\$1.5 billion per annum, DVB is a market leader in commercial and asset-based financing for aircraft and related equipment. The Aviation teams actively seek out new risk exposures, both in isolation and in conjunction with the arranging and structured financing activity. Some of our competitors are more than keen to pursue such 'structured' activities (including tax and non-tax based leases), but they are unwilling to apply their balance sheets in support of these initiatives. The Japanese Operating Lease (JOL) market is a good example of this: DVB is a recognised JOL (equity) arranger; however through its subsidiary ITFL (International Transport Finance Ltd) in Japan, it is also able to offer to provide the debt leverage which runs in parallel.

Our relationship managers in Aviation Finance are located with the objective of covering all three key economic regions for aviation, in London, New York, Singapore and Tokyo. The core lending business comprises both recourse and non-recourse finance. In this latter category, DVB will routinely take residual risk to the sales proceeds of aircraft at lease maturity, an activity which requires the formulation of an own-expert opinion of residual values. Here, the specialist research activities of Aviation Industry Research (AIR) are a crucial differentiator.

#### 3.2.3.2 Advisory Services

DVB acts as an advisor to our Aviation clients via a dedicated unit – Aviation Financial Consultancy (AFC). The team includes professionals with extensive banking, lending and airline backgrounds. As an independent unit, the team of specialists will give its clients an unbiased view and opinion, adding value to a client's project or (more generally) to its balance sheet. It benefits from being part of our wider Aviation platform, as it may call upon resources from the other teams (Research, Aviation Asset Management, etc.) to fit the requirements of a particular advisory project.

AFC specialises in providing advice to airlines, lessors and investors, and its range of advisory services includes financing advice (Commercial, Export Credit, Predelivery Payment), lease-versus-buy analysis, aircraft procurement advice, advice in relation to (and execution of) sale-and-leaseback transactions, as well as business plan and development strategy reviews.

AFC also works closely with the Structured Asset Financing professionals of our Aviation Division and the Advisory and M&A team to respond to global strategic concerns of airlines and other aircraft owners, thus providing both the "talk" and the "walk".

### 3.2.3.3 Aviation Asset Management

Formed in January 2007, the Aviation Asset Management (AAM) team provides the full range of Aircraft Management Services:

- third-party aircraft remarketing,
- lease management, and technical and general consultancy services

to airlines, lessors, investors, bondholders and financial institutions active in the sector, backed by its extensive market knowledge and established industry relationships.

Services are provided either as a fully packaged solution or on a stand-alone basis to best suit the needs of its customers. It is a team with over 75 years combined experience in the tough commercial aircraft environment having previously worked for OEM airframe and engines lessors through which it gained valuable experience in dealing directly with airline operators. The team is currently providing sought-after advice to a range of clients, with 18 aircraft currently under management on behalf of third parties as well as actively marketing a further 16 aircraft.

In addition to the proven asset management experience that has come from working with a range of clients around the world and the understanding it has of the needs of its investor/financier and airline clients, AAM can access the wider skills and services that are part of our Aviation Finance Division, including a world recognised industry research team. Clients can be assured that our focus on transport finance means a long-term commitment to providing the full range of services to the aviation industry.

As an integral part of the Aviation platform, AAM also adds value to the bank's broader customer requirements, and will often play an active role in the evaluation of the asset exposures being contemplated by the financing teams. On other occasions, it will form part of a transaction team to perform an advisory assignment.

#### **3.2.3.4 Aero-Engine Financing and (Engine) Asset Management**

TES Aviation Group (TES), an independent majority-owned subsidiary of DVB, acquired in July 2007, is the newest member of the DVB Aviation family and range of services. Cardiff (Wales)-based TES is a leading engine asset management company with an owned and managed engine portfolio valued in excess of US\$1 billion.

The TES asset business is an active purchaser of aircraft and engines to service its growing engine part-out, parts sales and engine leasing businesses. TES Engineering Services provides a full suite of engineering, risk management solutions and consultancy services to owners and operators of aircraft engines. Such services include Fleet and Lessor management programs, Shop Visit management and a full range of technical and financial consultancy services.

TES also offers unique software solutions – EFPAC. This software enables optimum technical and financial management of aircraft engines.

#### **3.2.3.5 Asset & Market Research**

Established in 2003, research in our Aviation Division is done by the Aviation Industry Research (AIR) team which is an independent London and Rotterdam-based unit with direct reporting lines to DVB's CEO.

AIR's main focus is on the aviation equipment market and on aircraft technology, to the extent that these influence aircraft values and liquidity. AIR provides the Aviation Division with asset valuations and value projections. Responsibilities range from preparing asset evaluation reports for internal purposes to assisting the commercial units such as AFC and AAM with information and analyses about aircraft, aero engines and the aerospace market in general.

In addition AIR prepares market reports, mainly concerning the aviation equipment market, and frequently presents its findings during aviation conferences and in trade press articles. Together with GRM and Credit Aviation, AIR is responsible for developing DVB's asset-related strategy as well as its internal policies with respect to asset-related lending criteria.

### 3.2.4 Aviation – Portfolio analysis

Aviation Division's scope of products and services is now positioned to offer a 'cradle to grave' solution for aircraft and related equipment.

#### 3.2.4.1 Leveraging the platform

Aviation maintains a strong network of relationships with clients and prospects by remaining in close and constant touch with its clients. Such client coverage is ensured via our network of offices, and relationship managers, in London, New York, Singapore and Tokyo.

Our Aviation marketing team in 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 our activities in the important Japanese aviation market.

In early 2007 we strengthened our asset management platform, as the 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). Later in the year, we purchased a majority shareholding in TES Aviation Group, a leading engine asset management company based in Cardiff, UK.

With these additions, Aviation Finance's scope of products and services is positioned to offer a 'cradle to grave' solution for aircraft and related equipment:

- ranging from providing Pre-delivery Finance for aircraft still to be delivered – at one end of the life spectrum, and
- to a tear-down solution for complete aircraft and spare engines – at the other end.

Within this spectrum we provide a range of finance, advisory and asset management services following the life-cycle of relevant equipment.

<b>Aviation portfolio by aircraft type collateral</b>		
	<b>2007</b>	<b>2006</b>
<b>Airbus</b>	<b>46.2%</b>	<b>42.9%</b>
<i>thereof:</i>		
A300	0.9%	0.7%
A310	0.4%	0.7%
A318	0.4%	0.7%
A319	6.0%	5.7%
A320	20.3%	16.1%
A321	4.6%	3.8%
A330	8.0%	6.6%
A340	5.7%	8.6%
<b>Boeing</b>	<b>40.5%</b>	<b>42.2%</b>
<i>thereof:</i>		
B717	0.0%	0.3%
B737	15.7%	19.2%
B747-200F	0.6%	1.6%
B747-300	0.1%	0.0%
B747-400 Freighter/Combo	2.0%	1.7%
B747-400	6.3%	9.8%
B757	3.1%	1.9%
B767	3.9%	5.2%
B777	7.5%	2.5%
B787	1.2%	0.0%
<b>Bombardier Canadair Regional Jet</b>	<b>4.6%</b>	<b>5.9%</b>
<i>thereof:</i>		
CRJ100	0.0%	0.3%
CRJ200	2.9%	2.3%
CRJ700	1.6%	3.3%
<b>Embraer</b>	<b>5.7%</b>	<b>5.8%</b>
<b>McDonnell Douglas</b>	<b>2.4%</b>	<b>3.2%</b>
<i>thereof:</i>		
MD11F	1.3%	2.6%
MD80-87	1.1%	0.6%
<b>Fokker</b>		
Fokker 100	0.6%	–

### 3.2.4.2 Success against a backdrop of intense competition

Competition in the sector intensified sharply during 2007, with an influx of new entrants' liquidity in the aviation banking and leasing markets. In the core lending business we observed a general deterioration in terms and conditions, obliging us to stay on the sidelines and let our competitors pursue transactions which would have been our 'bread-and-butter' some months earlier. Ultimately, however, the strength of our Aviation origination platform paid dividends as we achieved our objectives for the year. This success was only possible given a combination of

- our market reputation and coverage,
- the range of aircraft assets which we can consider (i.e. not just what is 'in fashion'), made possible by the research skills of AIR, and
- significant earnings contribution from the non-lending businesses, notably for 2007 from London-based AAM and from our structured financing activities in Tokyo.

### 3.2.4.3 Structured Asset Financing – Loan portfolio

During 2007 we realised 54 new transactions with aviation clients, representing a new record volume of €1,448 million (2006: €1,267 million).

New business was concluded with established customers such as Icelandair, (leasing company) AWAS, Air Europa, Jazeera Airways and Hainan Airlines (PRC). In addition, we attracted 15 new clients including Oasis Hong Kong, (Asian lessor) Dragon Aviation, Air One and Cebu Pacific. The average margin on new, final-take loan commitments during 2007 was 157bp per annum. This level was lower than the 2006 level of 191bp per annum, driven by increased competition, but nevertheless a satisfying result. We acted as arranger and/or agent bank (leading role) in respect of over 67% of our newly acquired business. New financings in 2007 were well diversified by client and obligor (including by geographical region), as well as by aircraft classes and aircraft type collateral.

Some of the transactions closed during the year are described below:

- DVB co-arranged and agented a mortgage debt facility for COPA (Panama) to part-finance their purchase of ten new Embraer 190 aircraft.
- We co-arranged and co-underwrote a pre-delivery payment (PDP) financing for Ethiopian Airlines to acquire five new Boeing B787-8 aircraft.
- We structured and arranged the equity for the Japanese Operating Lease (JOL) financing of six new Boeing B737-800 aircraft for Ryanair.
- We provided a "revolving bridge" facility to Yangtze River Express to facilitate its purchase of two Boeing 747-400 passenger aircraft, for the purpose of freighter conversion and thereafter immediate operation.

- We co-arranged and co-underwrote (with one other financial institution) a senior debt facility for Dubai Aerospace Enterprise (DAE) to part-finance their purchase of a portfolio of 21 used aircraft on operating lease.
- Aviation Asset Management was appointed the lease manager and exclusive remarketing agent for three Boeing 747-400 Freighter aircraft owned by Freighter Leasing, a joint-venture leasing company between Cargolux and three financial institutions.
- We arranged and agented a facility for US-based lessor, Q Aviation, to re-finance/re-leverage an owned portfolio of 27 used aircraft on operating lease.

At the end of 2007 the Aviation portfolio stood at €3.62 billion (2006: €3.12 billion). In US-dollar terms – the Aviation portfolio was 97.7% US-dollar-denominated – the portfolio grew by 29.4%, an increase from US\$4.11 billion to US\$5.32 billion.

The collateralised portfolio represented 99.9% of the total volume. The collateral was predominantly Boeing (42.8%) and Airbus (46.2%) commercial jet aircraft, of which 47.7% were under five years old.

The portfolio is well diversified by client. A total of 128 aviation clients equates to an average lending exposure of approx. €28.2 million per client. The Aviation Division's largest individual client exposure currently stands at €135.9 million, and there are only 21 clients where our committed exposure is in excess of €50 million.

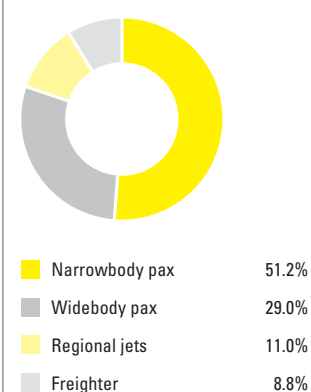
The portfolio is also well diversified by client group, with only slight changes in composition compared to the previous year. The share of cargo aircraft financed increased slightly to 8.8%; the share of narrowbody aircraft also increased, at the expense of widebody types, to 51.2%.

Risk is also geographically well diversified, however, being presently oriented towards North/South America (35.5%) and Europe/Middle East/Africa (37.7%), with client exposure in Asia/Australia/Oceania (15.1%) having fallen for the time being, in view of the very competitive environment we have faced in this region.

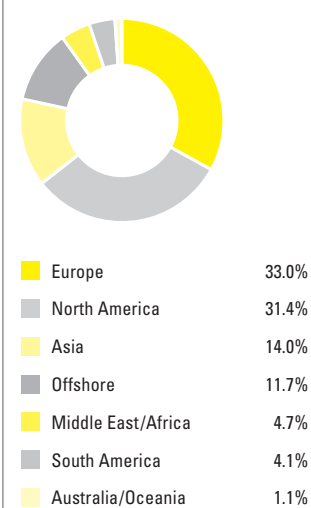
#### 3.2.4.4 Structured Asset Financing – Problem loans

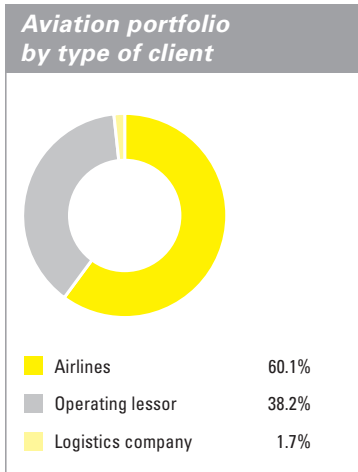
During the year under review a small number of problem loans have been restructured, reorganised, and/or a successful exit has been achieved, in some cases involving the leasing (to another airline operator), or an outright sale, of a mortgaged aircraft. Such achievements are largely attributable to the expertise of Aviation 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 our position as secured lender, whereby we benefit from a first-priority mortgage over relevant aircraft to secure our loan commitment.

**Aviation portfolio  
by aircraft classes**



**Aviation portfolio by  
client exposure per region**



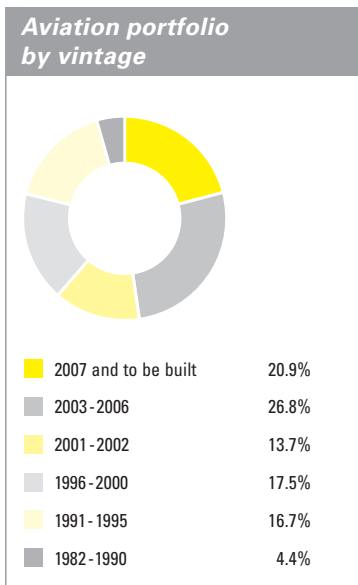


### 3.2.4.5 Advisory Services

Our Aviation Financial Consultancy group also grew, and continued to provide support to the Bank's clients. In 2007, the group was engaged in diverse mandates, from the review of business plans and investment proposals, to advice on procurement contracts for new aircraft and on raising aircraft financing, contributing to the fee-based income of the group. The team has ended the year with three professionals supporting the Bank's one-stop-shop concept via the provision of independent advisory services.

### 3.2.4.6 Aero-Engine Financing and (Engine) Asset Management

Our Aero Engine Financing activity, first established in late 2004, has continued to focus on providing financial services to the global aero engine market. This fully integrated unit, comprising one professional who is fully supported, has been instrumental in the origination and execution of a number of financing opportunities which would previously have been out of our reach. The activity contributes significantly to the bottom line, with a portfolio value of spare engines financed having increased during 2007 to US\$150 million. During the year notable spare engine finance transactions were concluded with TAM (IAE V2500) and Lion Air (CFM56).



In line with DVB Aviation's strategy as a whole, we have sought to develop the engine activity across the range of products and services which we can offer. Via the Equity Sourcing and Investment of our Investment Management (specifically the Deucalion Aviation Funds), DVB now has an investment interest in some 18 spare engines on lease at various airlines. In 2007 our Aviation Financial Consultancy team was retained to advise a South American airline in the engine selection process relating to its new aircraft order. We can expect both the volume and range of our engine finance activity to grow over the next years, as we experience the fruits of being closely aligned via our majority ownership with TES Aviation Group. Whilst we see TES' expertise in engine asset management and engine part-out as complementary to the present activities of the Bank, a Steering Committee, comprising DVB and TES team members, is tasked during 2008 with identifying and pursuing all type of synergies to maximise the combined business.

### 3.3 Transport Finance – Land Transport

#### 3.3.1 Land Transport – Market review

For the railway industry, 2007 can be written into history as a prosperous year. This applies not only for DVB's North American and European business, but for Asia as well. The Asian rail and rolling stock market size now compares with North America due to the emerging markets in China, India and Russia.

In general, infrastructure investments, rail volumes and revenues are clearly profiting from global trade growth and the consciousness that rail is a key factor to help reduce road congestion and emissions. In fact, rail is the only mode of transport which is capable of not increasing its emission levels as its transport performance grows. The European Commission is aware of this, and assigned 74.2% (€5.9 billion) of the fifth Trans-European Network budget 2007–2013 especially for international rail infrastructure projects. Road projects were last in line, with only 2.7% of the budget. In Europe, open access freight and franchise passenger operators are expanding, needing new rolling stock. The incumbents do not make surplus rolling stock available to competitors. In the meantime the European state-owned railway companies started the consolidation game, and the private rail sector railway companies have followed this example at their own level.

##### 3.3.1.1 Trends in rail freight transport

Although rail's market share is stable at 17% of land transport performance in Europe, the signs are that European rail freight volumes continue to grow. The International Union of Railways (UIC) says member rail freight traffic in ton-kilometres increased by 2.8% in Europe in the first three quarters of 2007. The German Statistische Bundesamt recorded a 6.5% ton-kilometre increase in Germany in 2007. The Dutch Ministry of Transport estimates the growth to be 7% in ton-kilometres in 2007. The Polish market is estimated to have seen 2.5% performance growth. The railways benefit from record container handling figures (on average 14%) achieved by ports. Container transport by train even grew by 12% in Germany.

Due to the full EU rail freight market liberalisation which came into effect on 1 January 2007, private open access and incumbent state-owned railway companies took the chance to spread their wings in Europe. But what really shuffles the cards in Europe is the consolidation process that clearly got under way in January 2007. The most important acquisitions were conducted by Germany's Deutsche Bahn: it bought EWS, the largest rail freight company in Great Britain, including its subsidiary and open access operator ECR in France. DB also acquired the majority of Spanish Transfesa, which owns a substantial fleet of gauge-convertible freight cars suitable for the Iberian Peninsula and Western Europe. So far, Deutsche Bahn's Railion subsidiary emerges out of the current M&A process as the largest rail freight company on the European market: it is active in several European countries and it forms strategic alliances with the incumbent railway companies virtually as far as China. In 2007 and in January 2008 several trial trains were successfully run between Asia and Europe by a number of operators. Deutsche Bahn itself

#### Abbreviations Land Transport – Market review

IPO      Initial Public Offering

is planning for an IPO of (initially) 25% of the shares, but this has been delayed by the questions in which form, and with or without (latest status) the German rail infrastructure. The Austrian state-owned rail company RCA bought (together with Austrian/Hungarian GySEV) the Hungarian state-owned rail freight company MAV Cargo which will form another major European rail freight company. Others on the list of soon-to-be privatised companies are Czech CD Cargo, Romanian CFR Marfa, Polish PKP Cargo and Slovenian SZ. On another note, the Estonian Government bought back the majority shares in the partly-privatised freight railway company which also owns the rail infrastructure, from an American consortium. This privatisation model conflicted with the division between rail infrastructure and exploitation as laid out in European guideline 91/440. On the private side, the largest private railroad in Europe, Polish CTL Logistics, was sold for 75% to British private equity firm Bridgepoint. In other developments, Polish PCC Rail bought its PTKiGK Rybnik compatriot, and Australian investment company Babcock & Brown merged its CrossRail company with Belgium's DL Cargo after having sold CrossRail's forwarding and road business to a Dutch forwarder.

In the field of rail freight investments, the opening of the Betuweroute (Rotterdam – German border) and the Lötschbergtunnel in Switzerland are important milestones for the international freight corridor between Rotterdam and Italy.

Overseas, we see a mixed performance in ton-kilometres. Whereas in Canada (+2%) and in Mexico (+8%) – the latter counted over the first nine months – rail freight growth in ton-kilometres was achieved, the US actually recorded a 1.0% decrease as market softness at the end of 2006 continued right through to the end of 2007 mainly due to lower demand in the housing and automotive sectors. Canada's railway companies continued to profit from more container handlings at the Canadian ports, but the US railway companies had to face lower import ocean volumes from April 2007 onwards. A shift of container handlings occurred from the West to the East coast, thereby making some land bridge trains superfluous. US and Canadian shortlines handled 4.4% less car loadings in 2007. The US railroads were however able to offset traffic losses with pricing power. Higher fuel prices in the fourth quarter of 2007 led to a cost advantage over road. The value of merchandise trade between the United States and Canada in October jumped 14.1% year-over-year to \$47.7 billion. US trade with Mexico rose 6% to \$26.6 billion. About 90% of US trade by value with Canada and Mexico moves via land transportation.

In North America the latest round of consolidation – which started in the 1980s – comes almost to an end as seven large railway companies remain in the market, together with about 500 shortlines and regional railway companies (of which quite a lot are owned by a few rail conglomerates). One of these shortline conglomerates, RailAmerica, was bought by private equity firm Fortress Investment Group, who later in 2007 bought the large regional FEC as well. Besides that, each of the two Canadian Class I railway companies announced the acquisition of a large regional railway company in the US. Private equity investors have increased their interest in the Class I railway companies and TCI, although a minority shareholder has urged CSX to slow investment and achieve a better operating ratio.

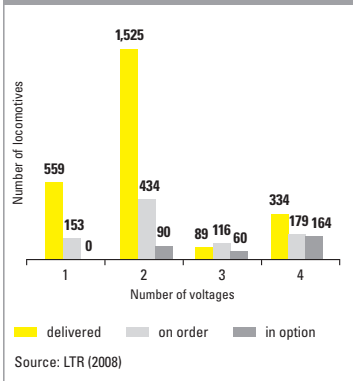
In the field of innovations the most important technical achievement of 2007 was the test phase introduction of revenue-hauling freight trains in the US equipped with electronically-controlled pneumatic brakes instead of the conventional air-brake system. One signal is used to cause all brakes in the train to apply simultaneously, leading to a 60% shorter brake distance. If widely implemented – along with shorter distances between signals – this could enhance the capacity of the network considerably.

### 3.3.1.2 Trends in rail passenger transport

UIC reports a 2.0% performance growth in rail passenger-kilometres over the first three quarters of 2007. The German Statistische Bundesamt has calculated a 1.1% year-over-year growth to 98.1 billion passenger-kilometres for regional rail, trams, metros and buses in Germany in 2007. German regional rail passenger volume grew by 4.4% and thereby showed itself to be a more promising market than bus transport, which grew only 0.7%. We see the European rail passenger market further shaking the deck before full liberalisation of international passenger train business comes into effect in 2010. In 2007 Deutsche Bahn bought British Laing Rail, a major passenger operator around London. Danish incumbent DSB and the large British private operator First Group won the international Denmark/Sweden franchise which will start operations in 2009. 52% of Keolis' shares were sold to AXA Private Equity and Caisse des Depots et Consignations. Babcock & Brown bought 49% of German BeNEX. Veolia bought 50% of Swedish operator Merresor. There are plans to (partly) privatise Polish PKP Intercity, Germany's Deutsche Bahn (as already mentioned) and Montenegrin ZCG in the near future. DB Autozug started to run night trains in the Netherlands. To achieve a level playing field for the open access companies, the European Commission announced the drafting of a new guideline to make clear under which conditions state support is still allowed. Less state support will mean stronger demand for leased vehicles.

In the US, the increase of public transit ridership can be attributed to 15 major new and expanded light rail projects all over the country. Commuter-rail ridership increased 5.5% in the first half of 2007 compared with the same 2006 period, according to the American Public Transportation Association. Meanwhile, light-rail ridership rose 4.1%.

**Number of voltages for new electric European locomotives since 2000**



### 3.3.1.3 The market for rail vehicles

The European Parliament gave its approval for a simplification of the homologation procedures or 'cross-acceptance' for rolling stock. This measure is estimated to save the industry €400 million per year and will assist in increasing the rail market share for both passengers and freight. Only important country-specific safety requirements will still be tested by national bodies. The European Council of Ministers still has to approve the proposal. We believe that cross-acceptance could stimulate the development of ten initiatives for new locomotive manufacturers that started in Europe during 2007. Also, the leasing companies will profit from cross-acceptance as they increasingly order multi-voltage electric locomotives that can operate across several borders.

The new-build European rail freightcars market has ups and downs. After a long period of decline in demand, in the second half of 2006 demand increased and reached the highest levels in more than ten years. The main challenge of the manufacturers is to increase capacity in order to satisfy all demand. We estimate a manufacturing capacity of 12,000 new builds per year (2007: 11,000). For the next five years we believe the wagon market will continue to be strong, especially for intermodal, coil, coal, car carrier and general freight wagons. Leasing companies are now also ordering wagons speculatively without having contracts for the wagons. We expect that in the current demand atmosphere several manufacturers could consider reentering the market. The rail industry will see the establishment of long-term strategic partnerships between clients and wagon manufacturers, even across continents.

Angel Trains, the largest leasing company for passenger trains and freight locomotives on the European continent, was put up for sale by its owner (Royal Bank of Scotland) in 2007. For the "Intercity Express Program" in Great Britain Angel Trains itself made a bid, together with Babcock & Brown and manufacturers Bombardier and Siemens for the 850 to 1,500 passenger cars tendered out by the British Department for Transport (DfT) as one of the investment plans for ordering 4,500 train set cars between 2008 and 2017. This 'Intercity Express Program' is termed the UK's most significant investment in rolling stock for over 30 years. A rail contract of this magnitude, within such tight timescales, has never been placed with a single party before.

In Europe, second-hand locomotive sales reached more than 400 units in 2007 versus about 300 in 2006, a record. These sales concern mostly less powerful engines for transshipment to other countries, even overseas. Whether there will also be a strong market for relatively new passenger trains in Europe outside the UK and Sweden has yet to be proven, as several rail passenger franchises will be tendered out for the second time in the second-largest franchise market, Germany, as from 2007. Much of it will depend on the willingness of especially the German transport authorities to loosen their usual requirement (or preference) for use of new rolling stock which was typical for their first tender round.

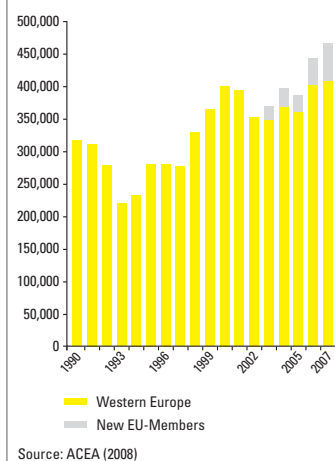
In North America, locomotive production stayed stable at around 1,000 locomotives, almost entirely for freight operations. Locomotive lessors experienced a less strong, but still quite healthy, level of demand. The US freightcar market experienced a cooldown in 2007 due to rail freight market softness and higher purchase prices. After increasing production from 18,000 cars in 2002 to almost 75,000 cars in 2006, freightcar manufacturers reduced their output to about 62,800 wagons in 2007. They had a backlog of 75,860 wagons in the end of 2007 as opposed to 85,826 a year earlier. Economic Planning Associates Inc. (EPA) states that the current backlog of hi-cube covered hoppers, tank cars and coal cars is relatively solid and demand for those types is not as economically sensitive as most capital equipment. EPA also notes a strong pickup in grain movements, which could spur more orders for medium-sized hoppers. But, the box car, mill gondolas, flat car, intermodal car and small-cube covered hopper segments have low backlogs and EPA doesn't anticipate any meaningful increase in production levels for these cars in the next two years. Around 95% of all new freightcars are ordered by lessors and shippers, whereas new locomotives are the exclusive domain of railroads.

### 3.3.1.4 Road and logistics

2007 was also a good year for the road and logistics sector. The global contract logistics market grew by just under 10% in 2006. The market was driven by growth in the Asia-Pacific region, which overtook North America for the first time to become the world's second-largest contract logistics market. Europe, the most mature market, experienced solid if unspectacular growth. The geographic centre of Europe has shifted eastwards with the accession of the Central and Eastern European economies to the European Union. Benelux and Germany remain the favourite areas for Western European distribution centres. In Europe there is as yet very little sign of a consumer-driven slowdown, whereas the latest annual results from big US trucking companies reflect a tough domestic economy, although one not entirely without growth. Rather than falling demand, it is the cost of fuel and lower rates caused by over-capacity which is hitting the sector's profits. The American Trucking Associations' advanced seasonally adjusted For-Hire Truck Tonnage Index declined 1.4% in 2007, following a 1.7% drop in 2006.

European demand for commercial vehicles rose for the fourth year in a row. In 2007, the demand for new commercial vehicles in Europe was 6.8% higher overall than last year. According to the European Automobile Manufacturers' Association, the European market ended the year with 7.1% more vans (up to 2.2 million), 5.1% more trucks above 3.5 t (up to 428,500) and 4.4% more buses and coaches (up to 38,500) were registered. The Bundesverband Deutscher Leasing-Unternehmen representing the German leasing industry registered 10% growth for the leasing business of commercial vehicles in Germany. In Europe the politics are against the definitive introduction of very long truck combinations.

**New trucks and buses  
(commercial vehicles > 3,5 t)  
registrations in Europe**



**Abbreviations**  
**Land Transport – Strategy**

<i>Nafta</i>	<i>North American Free Trade Agreement</i>
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### 3.3.2 Land Transport – Strategy

Our objective is to retain our role as a leading asset finance house in the rail sector, and in road transport/logistics. What is the rationale for DVB's exposure to these sectors?

Our strategic focus on the rail sector is based on the fact that rail is a stable market involving long-life rolling stock, and characterised by long-term expectations and strategies. There is vital interest in rail transport, thanks to the immense volumes moved in regional and international freight transport. The performance of this sector continues to improve: provided the topographical parameters are right, rail freight can have competitive advantages compared to both shipping and air cargo on long-haul routes. High-speed passenger rail links even manage to win business from air travel.

Our focus on the road and logistics market is based on the recognition of this sector as a transport segment that has enjoyed dynamic growth (in terms of transport services) over several decades, and will continue to contribute significantly towards the economy as a whole in the foreseeable future.

We see significant growth potential for DVB's business in rail transport and road transport/logistics, as both sectors employ valuable vehicles and mobile equipment representing fungible assets, which are in demand and enjoy high appreciation accordingly. Our main focus is on financing locomotives, train sets, freightcars and other rail vehicles, plus road vehicles and tank containers. The long economic life of these assets allows for long-term investment planning, as a basis for stable returns. Moreover, economic policy measures – such as market deregulation – have provided for business momentum and higher potential returns, thus improving the framework for asset-based financing in our core business sectors.

Given the benign political, regulatory and legal environment in the land transport markets in both Europe and North America, we will continue to focus on these regions in the future. The combination of mature vehicle markets in the Nafta states and growing markets in Europe provides an excellent platform for our business: in this context, we will maintain our focus on asset finance. Moreover, our European business provides a solid euro-denominated revenue alongside the other international transactions, which are predominantly US-dollar-based.

The extensive analysis we conduct on land transport markets, together with DVB's prime expertise regarding asset finance and residual values, are core elements of our strategy of being able to recognise trends throughout all cyclical phases, based on which we can support our clients in making adequate decisions. With its range of products and services, Land Transport Finance is in a perfect position to do so.

### 3.3.3 Land Transport – Products

The Land Transport Division offered its clients a broad range of products in 2007, including Structured Asset Financing, Advisory Services, and Asset & Market Research. In addition, our clients benefited from the risk distribution services provided by our Syndications team.

#### 3.3.3.1 Structured Asset Financing

In addition to traditional asset finance, this product category also comprises complex, customised transaction structures.

We successfully offered asset finance for a broad range of projects in 2007: transactions included several direct loan facilities with full, partial, or no recourse to the obligor, extended to North American and European waggon lessors in particular. The profile of each financing was optimised to suit the specific requirements of the financed vehicles.

In addition, DVB actively participated in club deal loans for larger projects. These transactions – where we assumed the function of Administrative Agent on several occasions – require close coordination amongst the various lenders. In selected cases we engaged in syndicated loans as a participant: this route was chosen where we saw strategic value for client acquisition, or where it provided an appropriate add-on to the portfolio.

Operating lease structures were implemented for train sets and locomotives, both involving senior loans and separate residual value risk positions, which DVB took onto its portfolio. Such transactions required a detailed analysis and extensive client advice. Thanks to DVB's ability to keep its loan books open even after the financial market crisis broke, the Land Transport Division succeeded in maintaining a continuous business relationship with our clients.

Structured Asset Financing provided extensive analytical and structuring support for current transactions during the year under review. Moreover, our London-based Land Transport team undertook extensive activities to prepare a tax-driven lease on behalf of one of our clients. It was only due to a change in tax regulations that the transaction did not materialise on time. Our team continues to analyse alternative structures designed to facilitate cooperation with clients and partner institutions for future projects.

#### Abbreviations Land Transport – Products

M&A      Mergers and Acquisitions

### **3.3.3.2 Equity Sourcing and Investments**

Stephenson Capital, the newly-established rail fund initiated by Investment Management, participated in tenders for a number of transactions, successfully closing the first deal before the end of the year.

### **3.3.3.3 Risk Distribution**

The Land Transport Division was actively involved in the syndicated loan market in 2007: for instance, DVB acted as sub-underwriter for the large-sized refinancing of an acquisition finance package closed only a few months earlier.

There was also strong market demand for syndicated transactions, as various projects were no longer feasible as originally planned, given the emerging deterioration in the interbank market. Strong interest from numerous partner banks to participate in syndicated Land Transport exposures has carried over into the new year.

Within the scope of our secondary market activities, we acquired a US exposure backed by top-quality freightcars, which was up for sale only due to the obligor having been affected by a rating downgrade.

### **3.3.3.4 Advisory Services**

Land Transport provided advisory services on several levels. This included a longer-term M&A mandate awarded by one of our target clients: we were commissioned to advise on an acquisition for strategic expansion. Our success in winning the mandate was attributable to our detailed market knowledge (acquired through intensive research), client proximity, and the close cooperation of the Land Transport teams in Frankfurt and New York. Excellent support by the London-based M&A Advisory team was also crucially important. Thanks to this outstanding cooperation, we were able to support our client through to the final round of negotiations. Further targets were identified during the process, and will be analysed and approached in 2008.

### **3.3.3.5 Asset & Market Research**

Asset & Market Research was an important success factor supporting our financing and advisory services. The assessment of Land Transport Research is sought, and taken as a basis for deciding upon each material transaction. In addition, one of our target clients commissioned Land Transport Research for a partial analysis of a strategic rail market segment; this provided essential support for winning an M&A mandate. External third parties have submitted further requests for advisory services to be provided by Land Transport Research, and with those we intend to successfully broaden our business.

### 3.3.4 Land Transport – Portfolio analysis

The Land Transport Division benefited from a benign economic environment in its relevant market segments during 2007. Our focus regions of North America and Europe allowed us to conclude a range of attractive transactions: once again, our regional approach has proven to be right.

We have continuously grown the Land Transport portfolio since 2003. Our assessment was correct: our relevant markets performed well, facilitating the smooth portfolio growth we have been aiming for. In the stable markets we cover, extensive cyclical waves were just as improbable as the chances of acquiring large portfolios from other finance houses.

Continued growth in our pure asset financing portfolio, to €1.14 billion (up 16.3% from 2006) was accompanied by clear improvements in profitability, and in portfolio diversification by financed assets and clients.

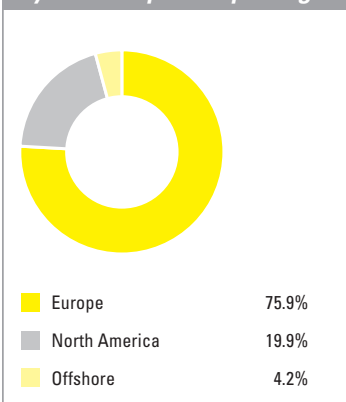
In euro terms, the regional share of North American business showed a remarkable 22.9% increase, and stood at 19.9% of the overall portfolio (2006: 18.8%). European client business was up by 23.8% on the previous year, accounting for a 75.9% (2006: 71.3%) share of the portfolio. The decline in our Asian lending portfolio was due to a change in allocation, with related economic risk exposure reclassified to the European region.

The share of rail business in the overall Land Transport portfolio was almost unchanged, at 80.4% (2006: 81.9%). The slight reduction was attributable in particular to growth in financing business for mobile road and logistics assets (which grew from a 5.6% share in 2006 to 10.4% of total volume in 2007), in line with our targets.

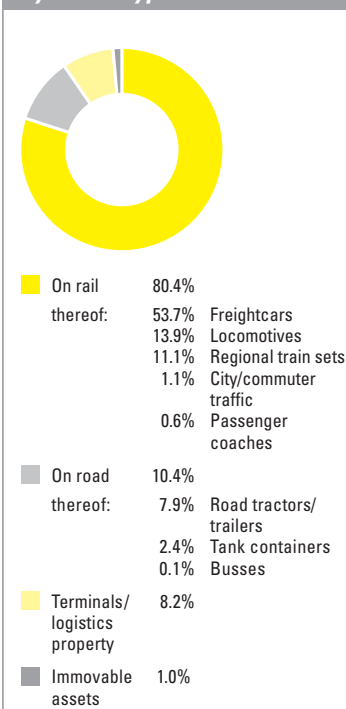
Freightcars accounted for the largest share of financed assets in the rail portfolio, down only slightly at 53.7% (2006: 54.9%). The relative overweight of the freightcar portfolio is intended; it is justified by the high degree of diversification within this asset class (due the split between various types of freightcar), combined with the almost universal reusability of these assets and the relatively minor technical restrictions to regional remarketing. The next largest portfolio shares comprised loans collateralised by locomotives and regional train sets; at 13.9% and 11.1%, respectively, both segments were virtually unchanged compared to the previous year.

We succeeded in concluding several transactions involving road vehicles and moveable logistics assets, with new clients. Besides supporting our planned expansion into this prospering market segment, these deals also contributed to a significant improvement in the diversification of top-quality vehicles in our collateral portfolio.

**Land Transport portfolio  
by client exposure per region**



**Land Transport portfolio  
by asset types**



Residual exposures for individual high-quality logistics properties – which are being discontinued – fell from 11.1% to 8.2%, and thus no longer represent a material portion of the portfolio.

The average lending exposure per client grew from €13.9 million to €15.9 million, whilst the number of larger exposures exceeding €50 million also increased. Our very close client contact, together with a strong position in structuring transactions and our readiness to take larger loan tranches on our books in selected cases – the latter being an attractive strategy in terms of cost/income, without changing the overall risk profile – all contributed to this positive development.

The success of our Land Transport Division was recognised by Jane's Transport Finance, an industry magazine specialising in international transport finance, in the autumn of 2007: the Division was not only honoured with the "US Rail Deal of the Year 2007", but was also awarded as the "Rail Finance House of the Year". This award was testament to a series of high-profile rail transactions we had entered into in 2007, but also recognised our significant performance improvements over the last few years, together with our growing importance in international rail finance.

The Division assumed a leading role in 65% of transactions concluded during the year under review. High-profile transactions included the position as co-underwriter for the refinancing of a major acquisition finance package for a European waggon lessor; a series of freightcar financings in Europe and North America (with full, partial, or no recourse on the main obligor); and the financing of regional train sets and locomotives in Europe, combined with the assumption of residual risk.

Beyond extending senior and junior loans within the scope of DVB's asset finance business, a specialised investment fund for the rail market was launched in cooperation with Investment Management: the new investment vehicle will gain exposure to mezzanine and other equity-related products, and to transactions involving direct asset risk in rolling stock deals.

## 3.4 Transport Finance – Syndications

### 3.4.1 Syndications – Market review

Global syndicated volume increased by 20% to US\$4.79 trillion in 2007 compared to US\$4.00 trillion in 2006.

The global syndication market was experiencing a strong year during the first three quarters of 2007. However, from September onwards the wider implications of the liquidity crisis froze the wheels of the syndication market.

The liquidity squeeze has been caused by an increase in loan defaults in the US sub-prime residential mortgage sector. Exposure to this sector is not limited to US domestic and regional banks, but has been transferred to many banks based in other parts of the world through securitisation packages and CDO mechanisms. During the second half of 2007 an increasing number of banks had to announce exposure to the US sub-prime sector, and declare provisions or losses. The level of exposure to the sub-prime sector is not very transparent, and difficult to analyse in view of the fact that much of this exposure was through CDOs that were rated investment grade. This has caused a reduction of the levels of confidence and trust amongst banks, and between banks and their funding or liquidity sources. As a result, funding costs have increased.

The sudden increase in funding costs for banks has resulted in an increase of pricing requirements amongst banks. In addition, the uncertainty about future access to funding liquidity for banks has reduced appetite in the bank sector for new transactions.

The combination of higher funding costs and increased concern about access to liquidity has resulted in financial institutions becoming increasingly selective about which transactions to join or not. This has led to the failure of a number of large syndications, with the consequence that underwriters had to hold substantially larger amounts than their target final take levels. During July and August of 2007 this was predominantly the case for the Leveraged Market, where liquidity practically dried up. But in September and October 2007 this trend was felt in all other finance sectors, including transport finance.

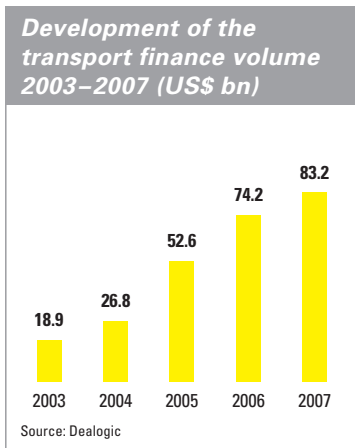
As a result the number of new underwritings reduced; however, it did not dry up completely. In order to protect themselves against market risk and the continuing tightening of pricing requirements, market flex language became again a commonly accepted part of an underwritten offer.

Global syndicated lending volume reached US\$4.79 trillion in 2007 compared to US\$4.00 trillion in 2006. However, fourth quarter volume fell by 14% to US\$945.5 billion compared to US\$1.10 trillion in the fourth quarter of 2006. Year-on-year growth rose in 2007 to 20% up from 15% in 2006.

#### Abbreviations Syndications – Market review

CDO	Collateralised Debt Obligation
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North American and European syndicated deals accounted for 84% of the global volumes. European volume rose by 24% in 2007 to US\$1.7 trillion, despite a drop of 29% in the fourth quarter of 2007 compared to the same period in 2006. North American borrowing reached US\$2.35 trillion in 2007, an increase of 16% on the previous year. The deal count dropped by 8%, while syndicated lending dropped by 5% during the fourth quarter.



Transport Finance (Aviation and Shipping) volume rose by 12% to US\$83.2 billion via 337 reported transactions in 2007, compared to volumes of US\$74.2 billion via 307 reported transactions in 2006.

The shipping market experienced a prosperous year in general, with further increases being observed in freight rates and vessel prices. Shipping syndicated volumes followed the trend during the first half of 2007. Nevertheless, several banks within the shipping industry reduced their lending activities in the second half of the year, as the credit market uncertainty resulted in banks being less keen to lend and participate in transactions.

Following a very strong and competitive year during 2006, the aviation finance market had relatively slow momentum during the first half of 2007 with most of the activity picking up at the beginning of the second half. Banks were still selective, preferring better assets and strong credits outside North America and Europe. India and other Asian regions are becoming more competitive and challenging in terms of increasing numbers of airlines headquartered and operating in these areas.

In the rail industry, the majority of new transactions was originated in North America and Europe, with increasing market share taken by Europe.

In terms of pricing, during the last four months we have experienced increased margins in transport sectors, in line with the tightening banking conditions and the increases in most banks' funding costs. Moreover, a general trend towards more conservative structures with shorter tenors and more strict covenants has been observed.

### 3.4.2 Syndications – Strategy

Our Syndications team supports our core business activities in Shipping, Aviation and Land Transport Finance and their customers' needs by ensuring sufficient third-party bank debt liquidity is identified to adequately transfer risk from DVB's lending book.

This risk transfer enables DVB to diversify the credit risk it keeps on its lending book and subsequently avoid concentration risk. In addition, the ability to syndicate part of its commitments, results in capacity being freed up for certain customers for future transactions.

The ability to underwrite and syndicate means that customers have the comfort of certainty of funds for their projects. Therefore, a good track record in successful syndications increases the likelihood that DVB will be mandated by customers for larger financing projects.

As lead arranger and underwriter, a good execution of our tasks is critical to its success. Participant institutions may be less familiar with the customer or project involved, so strong reliance is put on the skills, experience, capability and information provided by the Syndications team. A careful and clear presentation of a particular project by our team in the form of an information memorandum is essential and reduces the difficulties that may arise in the syndication process.

The key drivers of Syndications' success that are used to formulate its strategy are the following:

- Maintaining and expanding existing banking relationships.
- Based on these banking relationships, developing a good understanding of each institution's requirements, as a correct choice of the participant banks with respect to the proposed project is important.
- Developing and maintaining a good level of industry knowledge within DVB.
- Close cooperation with DVB's global transport finance network, research and advisory teams.
- Effective management and monitoring of the syndication procedure.
- Personalised, tailor-made approach towards the participant partners.
- Competitive pricing structures based on up-to-date information, access to global networks and ad hoc analysis.

### 3.4.3 Syndications – Products

The key product of the Syndications team is Risk Distribution. This is the ability to syndicate debt to other lenders. This can be done on an underwritten basis or on a book building basis.

- A syndication on an underwritten basis means that the customer has certainty of funds, and that the liquidity risk (the risk whether or not sufficient bank debt liquidity can be identified for a certain transaction) is taken over by DVB.
- A syndication on a book building basis means that DVB does not take over the liquidity risk from the customer.

There is no difference in the actual execution of the syndication exercise, whether this is done on an underwritten or book building basis. In both scenarios the Syndications team uses the same information memorandum template and invitation letters, and in both scenarios the expertise of various DVB divisions (including but not limited to credit and research functions) are being utilised to maximise the liquidity raised in the market.

The Syndications team focuses on Primary Bank Debt:

- The vast majority of the transactions being syndicated by Syndications are new (“Primary”) transactions rather than transactions closed in an earlier stage (often referred to as “Secondary”). Syndications is not an active participant in the secondary debt trading market.
- Syndications’ partners in an exercise are normally banks. Institutional investors are normally approached by way of a securitisation exercise, whilst banks and financial institutions are approached in a syndication exercise.
- Syndications is specialised in syndicating senior debt. Occasionally a junior tranche is being syndicated. Equity and high-yield mezzanine are being looked at by DVB’s Investment Management, which might offer a participation in equity or mezzanine to the market rather than the Syndications team.

### 3.4.4 Syndications – Portfolio analysis

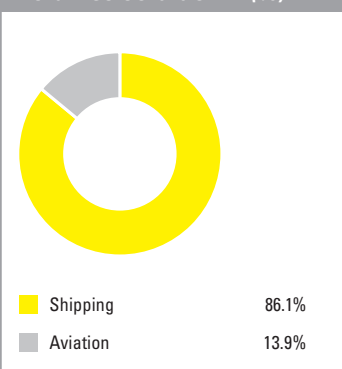
In 2007 the Syndications team raised a total volume of US\$1.37 billion for 28 transactions from our Shipping and Aviation Finance sectors. The above figures represent a 34.6% decrease when compared to the US\$2.1 billion for 36 transactions during 2006. This decrease can be attributed mainly to two factors: the tightening financing conditions that prevailed during the last four months of 2007 as a result of the global liquidity squeeze, and the increased competition in mandates for financing projects during the first half of 2007.

Shipping transactions account for 86.1% of the total volume, with US\$1.18 billion raised via 25 transactions in 2007. Aviation accounts for 13.9% of our portfolio, totalling US\$190 million from three transactions.

We must point out here that a number of shipping and aviation transactions were launched during the fourth quarter of 2007, when the syndication market slowed down due to the liquidity crisis, and are being syndicated in the first months of 2008.

There were no syndicated transactions originated by the Land Transport Division during 2007.

*Syndications deals by  
Transport Finance division –  
Volumes sold down (%)*



## **3.5 Transport Finance – Investment Management**

### **3.5.1 NFC Shipping Funds (NFC)**

NFC Shipping Funds evolve from a cooperation between DVB and Northern Navigation Inc., a holding company representing a group of private investors specialised in shipping equity investments. Our senior investment managers, based in Curaçao, New York, London, Oslo and Singapore, act as advisors to each of the funds, sourcing and managing shipping investments and assets.

#### **3.5.1.1 Market review**

The amount of equity available to the shipping industry in general was huge in 2007. Strong shipping markets and high realised returns 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. The NFC focus towards niche markets in the shipping industry proved viable. These niches require in-depth knowledge of the shipping markets, but are outside the focus of most competitors.

#### **3.5.1.2 Strategy**

NFC is combining excellent market knowledge of the shipping markets with financial structuring skills and global market coverage. The focus is on a diversified portfolio of shipping investments, creating a stable cash flow for investors with upside potential depending on the shipping market developments.

#### **3.5.1.3 Products**

The NFC Shipping Funds provided equity, preferred equity and mezzanine loans to the shipping and offshore sectors. The focus is on preferred asset-based investments. Due to the strong competition in the main shipping sectors, NFC targeted the niche markets in 2007.

#### **3.5.1.4 Portfolio analysis**

Since 2001 the amount of equity raised in the eight NFC Shipping funds is close to US\$500 million, with investors from the USA, China, Japan, Norway and Germany.

As at year-end 2007, NFC acts as an adviser to eight NFC Shipping funds and managed total assets of US\$1.4 billion. Of the US\$270 million equity available as at year-end 2007, US\$250 million has been invested, with the balance available for new investments. DVB's drawn exposure totalled US\$107.1 million.

In 2007 we managed to fully invest the largest shipping fund NFC VI with an equity base of US\$150 million. NFC concluded 47 transactions, of which 27 were exits and 20 were new investments. The new investments involved 54 vessels with a combined value of US\$840 million. The exits involved 58 vessels with a combined value close to US\$940 million. The average returns since 2001 have been consistently above the 15% benchmark of the fund and are close to 30% per year. The portfolio of investments is healthy, and well 'in the money'.

### 3.5.2 Deucalion Aviation Funds

The Deucalion Aviation Funds consist of a series of actively managed funds which act as the investment vehicles through which DVB and 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.

#### 3.5.2.1 Market review

With the continuing worldwide improvement in airline credit quality and increasing passenger and freight demand, investor appetite for aviation assets showed no signs of abating in 2007, with significant competition seen for investment projects from private equity funds, public and private specialist investment funds and asset lessors. Asset price inflation, a phenomenon through 2005 and 2006, accelerated further in 2007, particularly across the most popular asset types and this continued to exert some downward pressure on project investment yields and projected IRRs. Despite the increased market competition the Deucalion funds had a very busy and successful year, without compromising on target returns or credit quality.

#### 3.5.2.2 Strategy

The funds benefit from the extensive aviation expertise and asset research capability within DVB, and play an important role in supporting DVB's airline clients through the provision of equity solutions in their aircraft acquisition and divestment strategies. The funds have a primary focus on ownership of aircraft assets through direct equity investments, chiefly through operating lease and sale-leaseback transactions. The funds also invest in aero engines, airline equities, passenger-to-cargo conversions, secured aircraft bonds and mezzanine loan investments. The funds are generally opportunity driven and not volume driven.

### 3.5.2.3 Products

During 2007 the Deucalion funds concluded investment in or entered into binding commitments to acquire a total of 22 commercial jet aircraft, acquired an additional five turbofan aircraft engines and took a minority equity investment in a privately-held European low-cost airline operator.

Of the 22 aircraft, eight are new Boeing 777 Freighter aircraft being acquired from Boeing in 2009 and 2010 with an order value (at list prices) of US\$2 billion. These eight aircraft will be placed on long-term lease with AeroLogic, a new joint venture airline formed by Lufthansa Cargo and DHL Express. Of the other 14 aircraft with a total transaction value of over US\$600 million, six are B747-400 passenger aircraft that are being acquired from Air France in 2009 and 2010 and which Deucalion will then convert to full freighters under a contract with IAI's Bedek Aviation Group. Deucalion has significant investment experience in large capacity freighter aircraft generally, and also in the conversion of passenger aircraft to freighter, through a joint venture company established in 2003 by Deucalion and a major European bank for the purpose of converting Airbus A300-600R passenger aircraft to freighters.

Deucalion's investment in two mezzanine loan investments was prepaid in 2007, and the funds sold four aircraft during the year; an A340-300 (1993), an A330-300 (2004), an A320-200 (2003) and a B747-400 (1993). The mezzanine loan investments were made in 2003, and the aircraft investments were originally acquired between 2005 and 2006.

### 3.5.2.4 Portfolio analysis

As at year-end 2007, the equity invested across all Deucalion funds totalled US\$353 million with DVB's drawn exposure totalling US\$174.6 million. The return on equity on all realised investments in 2007 has been excellent, and well above the target of 15%.

The combined Deucalion funds portfolio was well diversified at year-end 2007, by lease maturity, aircraft/asset type, geography and counterparty, with no single counterparty exceeding 5% of total equity invested.

#### Abbreviations Deucalion

<i>IRR</i>	<i>Internal Rate of Return</i>
<i>IPO</i>	<i>Initial Public Offering</i>
<i>MYR</i>	<i>Malaysian Ringgit (Malaysian currency)</i>

Investment performance continues to benefit from the equity investment made in 2003 in Malaysian low-cost airline operator AirAsia. During 2007 AirAsia recorded its 23rd consecutive profitable quarter and was awarded "Airline of the Year 2007" by the Centre for Asia Pacific Aviation and "The Best Low Cost Airline in Asia 2007" by Skytrax. The company made year-on-year improvements in revenue, income and available seat capacity (with an increase in seat capacity of over 20%). The airline continues to report strong underlying demand and a relatively stable yield, despite the impact of significantly higher fuel prices year on year. The weighted average share price when the shares were launched in the November 2004 IPO was MYR 1.23; they closed 2007 at MYR 1.63.

### 3.5.3 Intermodal Equipment Fund

The Intermodal Fund was set up by DVB at the end of 2006. The fund consists of three funds which act as the investment vehicles through which DVB and private investors jointly invest in Intermodal equipment end of 2007.

#### 3.5.3.1 Market review

2007 was a challenging year for the container box leasing companies, as rental returns kept falling despite the enduring strength of the market, high utilisation rates and the recovered and less volatile new equipment prices. Container leasing companies experienced the competition of ocean carriers, actively participating in the acquisition of new equipment.

In Europe we expect further growth in demand for Intermodal equipment due to the different transportation modes (by land, water and/or rail) for which this equipment can be used. Intermodal equipment will take pressure off congested roads. The challenge for making an investment decision lies in choosing the correct Intermodal equipment, taking into account the many different types and specs being used in Europe.

#### 3.5.3.2 Strategy

The Intermodal funds are the ideal partners for clients requiring equity capital and investors seeking for suitable investments projects in the Intermodal area.

These funds distinguish themselves from other investment vehicles:

- Firstly, due to the in-depth knowledge of the Intermodal market through the Asset & Market Research unit.
- Secondly, due to the extensive understanding of the underlying value of the Intermodal equipment through DVB's Equipment Trading Platform that is active on the Intermodal after-market.

The Intermodal funds have a primary focus on ownership of Intermodal assets through direct equity investments. Equipment types invested in include dry vans, reefer containers, tank containers, gensets, dry specials (pallet-wides, flatracks, open tops etc.), chassis, US domestic containers, swap bodies, European regional containers, trailers, ranging in age from "factory new" to the "end of economic life" age.

#### 3.5.3.3 Products

DVB's Intermodal Equipment Fund is the global lead arranger and purchaser of portfolios of maritime containers, managed by one of the top five leasing companies (involvement in change of container ownership of over 1.4 million TEU).

Further core products are co-investing with leasing companies in new Intermodal equipment, sale-and-leaseback transactions are employed, where client can redeliver equipment on pre-agreed locations, i.e. the funds will take the residual risk, leasing company equity investments and mezzanine loan investments.

#### **3.5.3.4 Portfolio analysis**

As at year-end 2007, the equity invested across the three Intermodal funds totalled US\$106 million with DVB's drawn exposure totalling US\$24.4 million.

In 2007 we concluded eight transactions for a total value of US\$135 million.

The main transaction was a deal closed on 23 July 2007. CIF 3, an investment fund advised by DVB, acquired Capital Lease Limited, Hong Kong, the world's 8th largest container leasing company, and simultaneously sold the management rights to Capital Lease's 0,5 million-strong TEU container fleet to Textainer, a leading manager of container portfolios. This acquisition fits with DVB's strategy to build on its position as a leading funding partner for the container leasing market and to increase its asset financing business in the Intermodal area. Winning the competitive bidding process to acquire Capital Lease proves that DVB has built up a competitive advantage in acquiring container portfolios for the funds advised by it.

Other transactions include mezzanine debt positions in container portfolios and leases. Container asset classes are standard dry and refrigerated containers. The fund holds equity positions in portfolios consisting of various asset classes like European chassis and swap bodies, standard maritime dry containers and US domestic containers and chassis. In addition, the fund holds an equity position in the trading and disposal of older containers advised by DVB's own in-house Equipment Trading Platform.

#### **3.5.4 Cruise/Ferry Funds**

In November 2007, DVB announced the set up of a new, €100 million investment fund, Cruise/Ferry Master Fund I N.V., covering the passenger shipping sector in partnership with KG-house Buss Capital. As at year-end 2007, the equity invested across the master fund with DVB's drawn exposure totalled US\$26.8 million.

Aimed at combining the asset knowledge of our Shipping Division, the passenger transportation business model expertise of our Aviation Division, and strategically covering the ground between the NFC and Deucalion investment vehicles, the master fund incorporates an innovative structure which for the first time allows German retail investors to invest in a DVB-managed fund via a specially-formed KG vehicle, Buss Kreuzfahrtfonds I, on a 'blind pool' concept basis.

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

The master fund features a recommendation panel with members from within DVB and Buss Capital, as well as a two-person board of independent directors. Due to its retail component, it was necessary to apply for BaFin approval, which was received in a record time of four weeks, underscoring both the fund's transparency and attractiveness to the German retail market.

To date, the fund has made two mezzanine investments and is in the final stages of completing an additional two such investments. Together, these four transactions represent approximately 40% of the fund's equity capital. In addition, the fund has signed two exclusivity agreements; one for a sale-and-leaseback transaction for a new-building cruise vessel and another for an equity investment in a fast-growing luxury expedition cruise company.

With a further healthy pipeline of opportunities and a faster than anticipated investment process, the setup of a second, €200 million master fund is currently being contemplated.

### 3.5.5 Stephenson Capital Fund

Our Investment Management Division has launched Stephenson Capital, a rail investment fund with an initial size of €30 million. On 21 December 2007, the fund closed its first investment in a larger-sized European rail project.

The new fund mainly provides capital to finance rolling stock in Europe and the US. Retaining advisory services from DVB Bank, the fund is also managed by us.

The new fund represents a further milestone in developing DVB's successful investment management activities. Considering DVB's extensive know-how in matters relating to transport markets, and in view of the success of each of the investment funds already established by the Bank, DVB is an ideal partner for discerning investors seeking appropriate target assets to gain exposure to the international transport markets.

At the same time, we can leverage the new investment fund to provide equity alternatives to our Land Transport clients looking to finance rail projects. Complementing the Bank's range of products and services – lending, arranging complex financing packages, and advising on investments in rolling stock – the fund provides a good basis for enhancing the business relationships with our clients.

#### Abbreviations Cruise/Ferry Funds

<i>BaFin</i>	<i>Bundesanstalt für Finanzdienst- leistungsaufsicht</i>
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### **3.6 Transport Finance – ITF International Transport Finance Suisse AG**

ITF International Transport Finance Suisse AG (ITF Suisse) was established in May 2007, as a wholly-owned subsidiary of DVB Bank AG. Based in Zurich, ITF Suisse started operations with a staff of eight on 2 August 2007.

#### **3.6.1 Market review**

Almost immediately after ITF Suisse commenced business activities, the banking sector was hit by the sub-prime crisis and the demise of the North American property market. The resulting confidence crisis brought the interbank capital market to a virtual standstill. The resulting increase in funding costs has slowed down the build-up of the portfolio.

Nevertheless, given existing obligations to take delivery of ships, aircraft, and land transport assets orders, there is still demand for adequate financing. The challenge is to pass on higher funding costs to borrowers, through higher spreads.

Overall, we expect a revival of the syndication market, which is currently inactive in some segments – until then, only selected individual transactions will be feasible. To this extent, the portfolio building process will be slowed down, but we do not anticipate financings to disappear altogether, nor do we envisage a change in the business concept.

#### **3.6.2 Strategy**

ITF Suisse's strategy is to facilitate transport finance transactions by participating in international interbank syndications. Covering the sectors of shipping, aviation and land transport, ITF Suisse leverages DVB Group's research expertise in these transport finance segments.

ITF Suisse is committed to conducting a professional business, with swift and reliable decisions – in particular, through the combination of a restrictive lending policy and fast approval processes. Since the terms and conditions of exposures considered by ITF Suisse are already fully negotiated, it has no need for time-consuming structuring processes which also facilitates fast decision-making. This is made possible by an experienced team and firm integration within the DVB Group.

### 3.6.3 Products

ITF Suisse exclusively engages in sub-participations in transport finance deals syndicated in the international interbank market. The transactions must fulfil defined risk criteria, with senior collateralisation by the financed asset required in principle.

### 3.6.4 Portfolio analysis

During the course of its abridged business year 2007, ITF Suisse established contacts with 23 banks who act as lead managers for syndicated loans covering the transport finance market.

Despite the fact that the start-up period coincided with the global liquidity crisis, ITF Suisse approved its first transaction on 12 September, with the signing on 26 October 2007. Overall, international lead managers presented 56 financings with an aggregate volume of US\$2.52 billion during the five months of 2007 that the company was active, of which nine deals (US\$377 million) were approved and six (US\$209 million) signed by the year-end. A total volume of US\$102 million had been disbursed by 31 December 2007.

All transactions underwritten in the abridged financial year were in shipping finance; the first aviation finance deal is expected to be signed in the first quarter of 2008.

In line with the restrictive lending policy pursued by ITF Suisse, the entire portfolio volume is backed by senior liens on assets. Close to 97% of exposures have a loan-to-value ratio of below 60%, with only 3% of the portfolio ranging between 60% and 85%.

## 4. Business and operating environment – Treasury

**Group Treasury, based in Frankfurt/Main, is responsible for securing the refinancing of the DVB Group. The unit also manages DVB's trading activities at a centralised level, and hedges the market risk exposure of direct and indirect subsidiaries, thus indemnifying these entities against market risks.**

DVB conducts *trading activities* in risk management products for its own position and on behalf of its clients. It does so in order to hedge against market risk exposure from client business, for managing liquidity, and to hedge profit contributions – which are predominantly generated in currencies other than the euro – against exchange rate fluctuations.

The overall objective of DVB's *risk management* activities is to minimise DVB's exposure to interest rate and currency risks, to the extent that is commercially feasible.

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

### 4.1 Impact on DVB of the crisis affecting international financial markets

Treasury activities in 2007 were dominated by the crisis affecting international financial markets, triggered by the so-called sub-prime crisis.

DVB was not directly affected by the negative implications of the financial markets crisis. Having consistently implemented its business model – comprising financing, structuring, and advisory services in the international Transport Finance business – throughout 2007, DVB did not have exposure to assets related to the US sub-prime sector. DVB's strict adherence to its strategy therefore shielded the Bank against any direct negative impact from the crisis.

Nevertheless, the massive loss of confidence in the interbank market triggered by the financial markets crisis, combined with investor reservations vis-à-vis bank debt, impacted on our funding structure and refinancing costs. For a short period, the crisis in the financial markets has had the effect of curtailing liquidity rather severely, thus bringing about a significant cost increase.

## 4.2 Funding volume and refinancing vehicles

DVB's aggregate *funding volume* in 2007 amounted to €11.38 billion, of which €8.70 billion was denominated in euro and €2.60 billion in US-dollar. At €0.08 billion, other currencies only had minor importance.

As seen in the adjacent chart, the total volume was diversified across a range of *refinancing vehicles*; specifically, this included promissory note loans and long-term deposits, short-term deposits from banks and clients, drawings under our MTN programme, own funds (as defined in the German Banking Act), and amounts drawn under the Commercial Paper programme. Promissory note loans and short-term deposits together accounted for an aggregate 69% share of the total volume.

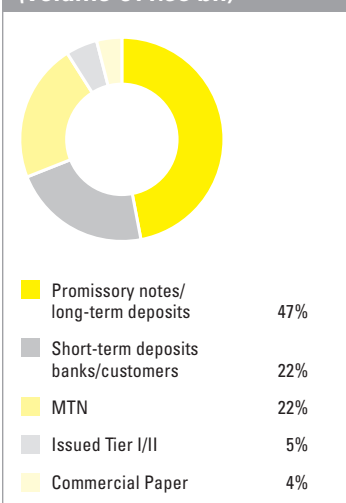
## 4.3 Structural comparison of refinancing vehicles

As a result of the financial markets crisis, liquidity in short-term products such as commercial paper decreased considerably as from the end of August 2007; demand has slowly started to recover so far in 2008. Also, demand by international investors for our fixed-income securities denominated in US dollars – issued under the MTN programme – was lower than we had anticipated. We managed to successfully cope with this indirect impact of the financial markets crisis by increasingly focusing our funding activities towards German-speaking countries, where DVB benefits from its integration into the German cooperative banking sector, which has sufficient liquidity available.

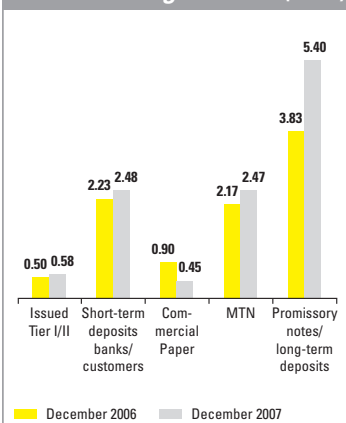
A structural analysis of funding activities in 2006 and 2007 showed a 41% increase in DVB's German market sales of promissory note loans (€5.40 billion in 2007 vs. €3.38 billion in 2006). Short-term deposits from banks and clients were up 11%, to €2.48 billion, whilst drawings under our Commercial Paper programme fell strongly, with the 47% decline reflecting market developments.

The adjacent chart illustrates the breakdown of funding volumes across the various refinancing vehicles in the years 2006 and 2007.

**Sources of funding  
(volume €11.38 bn)**



**Structural comparison  
of refinancing vehicles (€ bn)**



## 5. Economic situation

in accordance with section 315 (1) sentences 1 to 4 of the HGB (as at 18 March 2008)

Abbreviations Economic situation	
AktG	German Public Limited Companies Act (Aktiengesetz)
bp	Basis points
CIR	Cost/income ratio
HGB	German Commercial Code (Handelsgesetzbuch)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KWG	German Banking Act (Kreditwesengesetz)
LtV ratio	Loan-to-value ratio
pp	Percentage points
RoE	Return on equity

2007 was the fourth year during which DVB's income was generated exclusively from its international Transport Finance business. Our strong earnings – which climbed 17.3% to €266.1 million – confirmed the success of our unequivocal strategic focus. Net interest income after loan losses was up 28.8%, to €169.6 million, and net fee and commission income rose 17.0%, to €84.8 million. The result from ordinary activities before tax was up a significant 16.9%, to €118.7 million. Business volume increased by 26.7%, to €16.6 million (2006: €13.1 million).

DVB exclusively extends loans which are secured by the financed transport assets, such as ships, aircraft, locomotives, or wagons. DVB's in-house research capabilities are crucially important for assessing and valuing such assets. In spite of rising competitive pressures, DVB adhered to its tried-and-tested strategy of pricing exposures in line with the risks involved. Thanks to the conservative collateralisation structures pursued, DVB was once again free from problem exposures in 2007. Taking a long-term view, global transport remains a growth market, albeit one that is subject to global economic cycles. DVB's lending policies are cyclus-neutral in principle, supported by a sophisticated risk management system. The Bank uses an internal rating model, based on the Advanced Approach under Basel II and customised to meet the requirements of the international Transport Finance business, to manage the risk exposure of its credit portfolio.

### 5.1 Key elements, external factors and preliminary remarks on business performance during the 2007 business year

#### 5.1.1 The following key elements characterised DVB's business in 2007:

- Strong growth in new international Transport Finance business, with 256 new transactions and an aggregate volume of €7.09 billion.
- A leading position in 69.4% of transactions in the overall portfolio, and in 67.0% of new transactions.
- Expansion of the Aviation platform, including the acquisition of a majority stake in TES Aviation;
- Expansion of Investment Management activities:
  - CIF 3, an investment fund advised by DVB, acquired Capital Lease Limited, Hong Kong, the world's 8th largest container leasing company, and simultaneously on-sold the management rights to Capital Lease's 0.5 million TEU container fleet to Textainer Group, San Francisco, USA.
  - Buss Capital and DVB jointly launched a Cruise Shipping fund.
  - Stephenson Capital was launched as the first rail investment fund.

- Preparations for launching an innovative organisational structure in Shipping Finance, effective 1 January 2008.
- Land Transport awarded "Rail Finance House of the Year".

## 5.1.2 External factors

### 5.1.2.1 Impact on DVB of the crisis affecting international financial markets

DVB focuses on financing, structuring, and advisory services in the international Transport Finance business. Having consistently implemented this business model throughout 2007, DVB was not involved in business transactions which caused the US sub-prime crisis. DVB's strict adherence to its strategic focus therefore shielded the Bank against any direct negative impact from the crisis.

Looking at the short-term, the crisis in the financial markets has had the effect of curtailing liquidity rather severely, thus bringing about an increase in cost. Liquidity in short-term funding vehicles, such as commercial paper, decreased considerably as from the end of August 2007; demand has slowly started to recover so far in 2008. Therefore, DVB increasingly re-focused its funding activities towards German-speaking countries, where the Bank benefits from its integration into the German cooperative banking sector, which has sufficient liquidity available.

DVB includes the higher refinancing costs in pricing new business, without exception. The Bank continues to rely on a sound funding base within the framework of the DZ BANK Group.

#### 5.1.2.2 Euro/US-dollar exchange rate development

Due to its operations in international Transport Finance, the development of the euro/US-dollar exchange rate always has a particular impact on DVB's consolidated financial statements.

In 2007, the effect of a strong euro against a weak US-dollar had a significant impact:

- 78.9% of the overall volume of customer lending was denominated in US-dollar, representing 80.1% of the lending business in Shipping and 97.7% in Aviation. The increase in the nominal volume of customer lending was considerably lower in euro terms (+20.1%) than on a US-dollar basis (+34.2%).
- 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 Land Transport Finance is denominated in US-dollar, 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.

### 5.1.3 Preliminary remarks

In December 2006, the Board of Managing Directors of DVB Bank AG decided to discontinue the financing business in the Transport Infrastructure Finance segment and to sell the loan portfolio with a volume of approximately €0.67 billion. Accordingly, the sale planned at that time was correctly reported in the consolidated financial statements for the business year 2006 as a discontinued operation.

In April 2007, the Board of Managing Directors of DVB Bank AG decided to discontinue negotiations with regard to the disposal of its Transport Infrastructure business with interested financial institutions. The credit exposures involved will be held and managed until maturity, since the associated profit contribution will exceed the potential disposal proceeds.

Accordingly, a reclassification of the Transport Infrastructure portfolio was already stated in the Half-Yearly Financial Report 2007, and in the Interim Management Statement for the second half of 2007.

As previously, loans and advances extended are reported in the consolidated balance sheet 2007 as loans and advances to customers, and debt securities as investment securities. The results generated in the Transport Infrastructure Finance business will no longer be reported separately in the income statement, in the result from discontinued operations, but included in net interest income, and in net fee and commission income. The comparative information for the 2006 business year, as presented in the financial statements, was adjusted accordingly.

## 5.2 Results of operations

### 5.2.1 Income

DVB's income developed very favourably in 2007, increasing by 17.3%, from €226.9 million to €266.1 million. As in the consolidated financial statements for 2006, 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, was also included in the calculation of net interest income.

€ mn	2007	2006	Changes	
			€ mn	%
<b>Income</b>	<b>266.1</b>	<b>226.9</b>	<b>39.2</b>	<b>17.3</b>
<b>Net interest income after loan losses</b>	<b>169.6</b>	<b>131.7</b>	<b>37.9</b>	<b>28.8</b>
Interest and similar income	797.4	699.3	98.1	14.0
Interest income	779.9	688.1	91.8	13.3
Current income	17.5	11.2	6.3	56.3
Interest expenses	607.5	539.8	67.7	12.5
Impairment losses on loans and advances	20.3	27.8	-7.5	-27.0
<b>Net fee and commission income</b>	<b>84.8</b>	<b>72.5</b>	<b>12.3</b>	<b>17.0</b>
Fee and commission income	92.7	78.7	14.0	17.8
Fee and commission expenses	7.9	6.2	1.7	27.4
<b>Net income from financial instruments in accordance with IAS 39</b>	<b>6.1</b>	<b>12.9</b>	<b>-6.8</b>	<b>-52.7</b>
Net trading income	-6.2	-1.3	-4.9	-
Hedge result	-3.8	-1.7	-2.1	-
Result from the application of the fair value option	0.4	1.7	-1.3	-76.5
Result from derivatives entered into without intention to trade	-1.4	8.5	-9.9	-
Net income from investment securities	17.1	5.7	11.4	-
<b>Result from investments in companies accounted for using the equity method</b>	<b>3.7</b>	<b>4.0</b>	<b>-0.3</b>	<b>-7.5</b>
<b>Net other operating income/expenses</b>	<b>1.9</b>	<b>5.8</b>	<b>-3.9</b>	<b>-67.2</b>

### 5.2.1.1 Net interest income after loan losses

Net interest income after loan losses rose by 28.8%, from €131.7 million to €169.6 million.

#### Net interest income

Consolidated net interest income increased by 19.1%, from €159.5 million to €189.9 million.

This figure included a sharp increase in net interest income generated in Transport Finance segments, which climbed by 11.5%, from €143.8 million to €160.3 million. In Shipping, net interest income was up by 30.3%, to €71.0 million. In Aviation, it declined slightly, by 1.4%, to €48.2 million, whilst in Land Transport, it improved by 7.8%, to €9.7 million. Net interest income generated by the Investment Management Division remained unchanged, at €31.4 million – thus accounting for 16.5% of total consolidated net interest income.

*Interest income* rose by 14.0%, from €699.3 million to €797.4 million. Major contributions to the total figures are broken down as follows:

- €701.5 million (+16.4%) from Transport Finance credit business;
- €67.8 million (+18.1%) from operating lease income, derived largely from the NFC and Deucalion funds, which must be consolidated; and
- €17.5 million (+94.4%) from current income, generated by 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 Infrastructure
<b>2007</b>	<b>137bp</b>	<b>159bp</b>	<b>114bp</b>	–
2006	135bp	191bp	137bp	122bp
2005	139bp	216bp	149bp	243bp

*Interest expenses* of €607.5 million (+12.5%) are composed of €542.7 million in refinancing costs for the Transport Finance lending business, €26.4 million in operating-lease expenditure, and €38.4 million in expenses for silent partnership contributions and subordinated capital.

## Impairment losses on loans and advances

*Impairment losses on loans and advances* fell by 27.0%, from €27.8 million to €20.3 million.

€ mn	2007	2006	Changes	
			€ mn	%
<b>Impairment losses on loans and advances</b>	<b>20.3</b>	<b>27.8</b>	<b>-7.5</b>	<b>-27.0</b>
Additions	40.0	39.7	0.3	0.8
Reversals	-20.6	-12.6	-8.0	63.5
Direct write-offs	1.0	1.0	0.0	0.0
Recoveries on loans and advances previously written off	-0.1	-0.3	0.2	-66.7

*Additions* totalled €40.0 million. The main items were:

- €16.0 million for the Aviation portfolio;
- €9.8 million for the Shipping portfolio;
- €5.9 million for the D-Marketing portfolio, which the Bank continues to reduce;
- €3.5 million for the Land Transport portfolio; and
- €3.2 million for the Transport Infrastructure portfolio, with residual exposures held to maturity.

This figure was offset by €20.6 million in *amounts released*. The main items were:

- €14.3 million for the Aviation portfolio;
- €2.7 million for D-Marketing; and
- €1.5 million for the Shipping portfolio.

*Total allowance for losses on loans and advances* declined by 13.4%, from €130.7 million to €113.2 million, comprising mainly:

- €51.9 million for the Aviation portfolio;
- €28.5 million for the D-Marketing portfolio, which the Bank continues to reduce;
- €19.8 million for the Shipping portfolio;
- €8.7 million for the Transport Infrastructure portfolio, with residual exposures held to maturity; and
- €3.7 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 0.4% 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.

#### 5.2.1.2 Net fee and commission income

Consolidated net fee and commission income also posted a notable increase of 17.0%, from €72.5 million to €84.8 million.

The contribution from Transport Finance segments rose by 27.5%, from €61.9 million to €78.9 million.

The growth in Shipping Finance was particularly striking, increasing by 46.3%, from €41.5 million to €60.7 million. Net fee and commission income in Aviation Finance also developed positively, gaining 8.8% to €21.1 million, whilst in Land Transport Finance, it was off 12.0%, from €2.5 million to €2.2 million.

**Fee and commission income** in total amounted to €92.7 million (+17.8%). The figure was offset by **fee and commission expenses** of €7.9 million (+27.4%) – including, in particular, expenses incurred in the credit business, and for guarantees and indemnities.

#### 5.2.1.3 Net income from financial instruments in accordance with IAS 39

Net income from financial instruments in accordance with IAS 39 changed from €12.9 million to €6.1 million.

**Net trading income** amounted to €–6.2 million (2006: €–1.3 million), including standalone derivatives in the trading portfolio. On the other hand, the **hedge result (hedge accounting)** was €–3.8 million (2006: €–1.7 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 €0.4 million (2006: €1.7 million) and included the previous year's designated hedged items and associated derivatives. The **result from derivatives entered into without intention to trade** fell from €8.5 million to €–1.4 million. **Net income from investment securities** increased from €5.7 million to €17.1 million and results largely from the disposal of investment securities held "available for sale".

#### 5.2.1.4 Result from investments in companies accounted for using the equity method

Results from investments accounting for using the equity method declined by 7.5%, from €4.0 million to €3.7 million.

### 5.2.1.5 Net other operating income/expenses

Net other operating income/expenses was down considerably, from €5.8 million to €1.9 million. Net other operating income in 2006 included 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. This special effect no longer applied in 2007.

### 5.2.2 Development of the result from ordinary activities before tax

The result from ordinary activities before tax was up by 16.9%, from €101.5 million to €118.7 million.

€ mn	2007	2006	Changes	
			€ mn	%
<b>Income</b>	<b>266.1</b>	<b>226.9</b>	<b>39.2</b>	<b>17.3</b>
<b>General administrative expenses</b>	<b>147.4</b>	<b>125.4</b>	<b>22.0</b>	<b>17.5</b>
Staff expenses	88.0	71.4	16.6	23.2
Non-staff expenses	54.4	47.6	6.8	14.3
Depreciation, amortisation, impairment and write-ups	5.0	6.4	-1.4	-21.9
<b>Result from ordinary activities before tax</b>	<b>118.7</b>	<b>101.5</b>	<b>17.2</b>	<b>16.9</b>

*General administrative expenses*, which are deducted from income, increased by 17.5% to €147.4 million.

#### 5.2.2.1 Staff expenses

Staff expenses rose by 23.2%, from €71.4 million to €88.0 million. This increase was down to two factors: firstly, it reflected the setting-up of specialist teams worldwide in Transport Finance and Investment Management. Secondly, it also reflected the provisions that were set aside in the 2007 business year for higher bonuses which will be paid to DVB staff in April and May 2008, reflecting the positive results achieved in the business year under review.

### 5.2.2.2 Non-staff expenses

At €54.4 million, non-staff expenses were up 14.3% on the previous year (2006: €47.6 million). The key factors behind this increase were:

- advisory expenses of €16.3 million, which were broken down as follows:
  - €7.2 million for legal and audit expenses,
  - €9.1 million for other advisory services (incl. IT consultancy expenses);
- occupancy expenses of €10.6 million;
- ancillary labour costs of €10.5 million; and
- contributions and fees of €4.6 million.

### 5.2.2.3 Depreciation, amortisation, impairment and write-ups

Depreciation, amortisation, impairment and write-ups grew by 21.9%, from €6.4 million to €5.0 million. Of this, €1.8 million was attributable to intangible assets (software).

### 5.2.3 Development of consolidated net profit

Consolidated net profit climbed by 21.3%, from €90.0 million to €109.2 million.

The result from operating activities was subject to an actual tax burden of €18.9 million, which was offset by €7.9 million in income related to deferred taxes.

Thus, a total of €11.0 million in income tax expense was reported. Therefore, the result from ordinary activities after tax amounted to €107.7 million.

€ mn	2007	2006	Changes	
			€ mn	%
<b>Result from ordinary activities before tax</b>	<b>118.7</b>	<b>101.5</b>	<b>17.2</b>	<b>16.9</b>
Income tax expense	-11.0	-13.0	2.0	-15.4
Minority interest	1.5	1.5	0.0	0.0
<b>Consolidated net profit</b>	<b>109.2</b>	<b>90.0</b>	<b>19.2</b>	<b>21.3</b>

Consolidated net profit additionally included minority interest income of €1.5 million (2006: €1.5 million), which was recognised with respect to third-party funding contributions to the fully-consolidated NFC and Deucalion Funds.

## 5.2.4 Distributable profit and appropriation of profits

Distributable profit rose from €12.5 million to €20.6 million (+64.8%).

€ mn	2007	2006	Changes	
			€ mn	%
<b>Consolidated net profit</b>	<b>109.2</b>	<b>90.0</b>	<b>19.2</b>	<b>21.3</b>
Profit carried forward from previous periods	0.7	0.7	0.0	0.0
Transfer to retained earnings	89.3	78.2	11.1	14.2
<b>Distributable profit</b>	<b>20.6</b>	<b>12.5</b>	<b>8.1</b>	<b>64.8</b>

*Profit carried forward from previous periods* remained unchanged, at €0.7 million. Additionally, €89.3 million (+14.2%) was transferred from current operations to *retained earnings*.

We will propose to DVB Bank AG's 2007 Annual General Meeting, which will be held on 11 June 2008, to pay an increased *dividend* of €5.00 (+€2.00) per notional no-par value share for the 2007 business year. This represents a dividend yield of 1.77% based on the year-end price of €282.00.

## 5.3 Financial position

### 5.3.1 Liabilities on the balance sheet

DVB's liabilities recognised on the balance sheet increased as a result of the expansion of the Structured Asset Financing activities in the Transport Finance divisions, by 18.0% to €11.98 billion (2006: €10.15 billion). *Liabilities to banks* rose by 59.2%, from €2.55 billion to €4.06 billion. *Liabilities to customers* increased by 8.2%, from €4.03 billion to €4.36 billion. *Securitised liabilities* were down slightly by 3.3%, from €3.03 billion to €2.93 billion. *Subordinated liabilities* increased by 16.6%, from €0.54 billion to €0.63 billion.

### 5.3.2 Own funds as defined by the German Banking Act

Own funds as defined by the German Banking Act (KWG) increased by 15.5% to €1.19 billion (2006: €1.03 billion).

€ mn	2007	2006	2005	2004	2003
Issued share capital	101.8	100.5	99.6	77.6	77.2
Reserves	584.3	481.0	419.4	296.6	270.1
Silent partnership contributions	77.5	77.5	77.5	77.5	77.5
Reserves eligible for inclusion and adjustments in accordance with the KWG	50.9	69.0	67.0	58.2	64.6
<b>Core capital (Tier I)</b>	<b>814.5</b>	<b>728.0</b>	<b>663.5</b>	<b>509.9</b>	<b>489.4</b>
Subordinated liabilities	336.1	261.3	242.2	200.0	201.0
Profit-participation certificates	75.0	75.0	126.1	126.1	126.1
Reserves eligible for inclusion and adjustments in accordance with the KWG	-32.5	-31.1	-23.5	-15.8	-12.5
<b>Supplementary capital (Tier II)</b>	<b>378.6</b>	<b>305.2</b>	<b>344.8</b>	<b>310.3</b>	<b>314.6</b>
<b>Tier III funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Own funds as defined by the KWG <sup>1)</sup></b>	<b>1,193.1</b>	<b>1,033.2</b>	<b>1,008.3</b>	<b>820.2</b>	<b>804.0</b>

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

#### 5.3.2.1 Funds raised via the 'DVB shares' employee share ownership programme (2001–2007)

Exercising two authorisations approved by the Annual General Meeting held on 21 June 2000 (as detailed below), DVB's capital was increased via the 'DVB shares' employee share ownership programme in the business years 2001 through 2007:

- based on Authorised Capital II (in accordance with Article 4b of the previous wording of the Memorandum and Articles of Association), authorising the issue of up to 90,000 employee shares in the amount of approx. €2.3 million; and
- on Conditional Capital (in accordance with Article 4c of the previous wording of the Memorandum and Articles of Association), authorising the issue of up to 180,000 employee shares in the amount of approx. €4.6 million.

DVB Bank AG raised own funds in the aggregate amount of €14,731,892.56 from the 'DVB shares' programme in the years 2001 through 2007.

- From 2001 to 2007, the nominal share capital in accordance with the Memorandum and Articles of Association was increased by a total amount of €3,393,367.52, equivalent to 136,594 shares issued or options exercised, respectively.
- The remaining €11,338,525.04 in funds raised was posted to capital reserves of the respective single-entity balance sheets of DVB Bank AG.

Detailed information is provided in the following table.

	Shares 90,000			Options 180,000		
	Notional non-par value shares issued	Capital increase from Authorised Capital II	registered in the Commerical Register on	Options exercised (no. of shares)	Capital increase from Conditional Capital	registered in the Commerical Register on
2000 tranche	3,857					
2001 tranche	3,224	251,472.00	29 Jun 2001			
2002 tranche	2,567	176,609.60	17 Jul 2002			
2003 tranche	3,144	193,670.40	6 Aug 2003			
2004 tranche	2,672	211,622.40	30 Aug 2004			
1st tranche (2003)				11,212	526,627.64	28 Oct 2003
2nd tranche (2004)				11,643	782,293.17	17 Feb 2005
3rd tranche (2005)				12,450	1,151,251.50	12 Oct 2005
4th tranche (2006)				35,765	4,852,952.85	27 Feb 2007
5th tranche (2007)				50,060	6,585,393.00	13 Feb 2008
<b>Total</b>	<b>15,464</b>	<b>833,374.40</b>		<b>121,130</b>	<b>13,898,518.16</b>	

Employees exercised a total of 50,060 options in the course of the fifth and last round of exercises in the year 2007, resulting in an aggregate of €6,585,393.00 in own funds raised under conditional capital. In the financial statements of DVB Bank AG, the amount issued was allocated to the issued share capital in the amount of €1,279,763.58 and to the capital reserve in the amount of €5,305,629.42. The capital increase from the exercise of options was registered with the Commercial Register at the Frankfurt/Main District Court (*Amtsgericht Frankfurt am Main*) on 13 February 2008; registration was legally effected after the end of the 2007 business year in accordance with section 201 (1) of the German Public Limited Companies Act (*Aktengesetz – "AktG"*).

The issued share capital of DVB Bank AG currently amounts to €101,817,054.66, divided into 3,982,737 notional no-par value common bearer shares ('unit shares'), with a proportionate share in the share capital of €25.56459406 per share.

### 5.3.2.2 Core capital (Tier I)

Core capital (Tier I) increased by 11.9% in 2007, to €814.5 million (2006: €728.0 million).

In accordance with the German Banking Act, *issued share capital* increased from €100.5 million to €101.8 million, due to new notional no-par value shares derived from conditional capital (Article 4b of the Memorandum and Articles of Association), which accrued in 2007 and were issued in January 2008, within the scope of the 'DVB shares' employee share ownership scheme. (Please refer to section 5.3.2.1 for details.)

Strengthening DVB Bank AG's liable capital is key to its continued objective of realising further profitable growth potential in international Transport Finance. Thus, *reserves* increased 21.5%, from €481.0 million to €584.3 million.

### 5.3.2.3 Supplementary capital (Tier II)

Supplementary capital (Tier II) increased by 24.0%, from €305.2 million to €378.6 million.

*Subordinated liabilities* climbed overall by 28.6%, from €261.3 million to €336.1 million.

At €75.0 million, *profit-participation certificates* eligible for inclusion according to the German Banking Act were unchanged over the previous year.

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

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

%	2007	2006	2005	2004	2003
<b>Core capital ratio</b>	6.4	6.8	6.8	6.7	6.8
<b>Total capital ratio</b>	9.4	9.7	10.2	10.7	11.1

Since 78.9% of international Transport Finance exposure is denominated in US-dollar, 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 9.4%, and the core capital ratio was reduced to 6.4%.

### 5.3.4 Return on equity and cost/income ratio

The management of DVB Group during 2007 focused on the key financial indicators of return on equity (RoE) and the cost/income ratio (CIR).

%	IFRS		HGB	
	2007	2006	2007	2006
<b>Return on equity</b> (before tax)	20.4	19.9	25.6	20.9
<b>Cost/income-Ratio</b>	51.2	49.9	45.0	45.1

The RoE calculated in accordance with *IFRS* performed well in 2007, rising from 19.9% to 20.4%. The CIR in accordance with IFRS rose 49.9% to 51.2%.

When applying *German GAAP (HGB)*, both ratios performed in line with projections, with RoE up 4.7 percentage points, to 25.6%, in 2007. The CIR fell by another 0.1 percentage points, to 45.0%.

*We calculated the RoE before taxes in accordance with IFRS as follows: the result from ordinary activities before tax (including minority interest) of €120.2 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, all items as at 1 January 2007) of €588.7 million. This equated to a ratio of 20.4%.*

## 5.4 Net assets

### 5.4.1 Business volume and total assets

At €16.6 billion, the volume of business in 2007 was up 26.7% on the previous year (2006: €13.1 billion). Besides total assets of €13.2 billion, the figure also includes irrevocable loan commitments of €3.4 billion.

### 5.4.2 Lending volume over time

Lending volume of €15.7 billion was up 24.4% on the previous year.

€ bn	2007	2006	Changes	
			€ bn	%
Loans and advances to banks	1.5	0.6	0.9	–
Loans and advances to customers	10.0	9.2	0.8	8.6
Securities (incl. equity investments)	0.1	0.2	–0.1	–50.0
Guarantees and indemnities	0.6	0.3	0.3	100.0
Irrevocable loan commitments	3.4	2.0	1.4	70.0
Derivatives	0.1	0.3	–0.2	–66.7
<b>Lending volume</b>	<b>15.7</b>	<b>12.6</b>	<b>3.1</b>	<b>24.4</b>

*We calculated the CIR in accordance with IFRS as follows: the general administrative expenses figure of €147.4 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 accounting for using the equity method, net other operating income/expenses, and minority interest (€287.9 million). This corresponded to a ratio of 51.2%.*

At €1.5 billion, *loans and advances to banks* increased significantly compared to the previous year (2006: €0.6 billion).

*Loans and advances to customers* rose by 8.6% to €10.0 billion.

The volume of *investment securities (including equity investments)* held was halved, from €0.2 billion to €0.1 billion.

*Guarantees and indemnities* doubled to €0.6 billion, whilst *irrevocable loan commitments* increased by 70.0%, from €2.0 billion to €3.4 billion. The rise in both figures was also attributable to the high-volume new business.

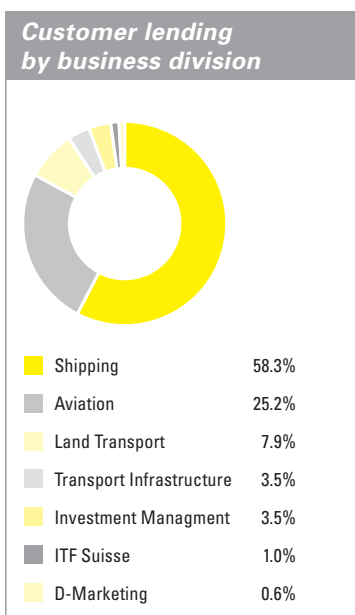
As in previous years, we employed derivative instruments for hedging purposes, offering them (to a very limited extent) to our clients as well. The volume of *derivatives* fell by 66.7% to €0.1 billion.

### 5.4.3 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 Structured Asset Financing exposures of the Transport Finance division and loan exposures no longer in line with our strategy, which are managed and further reduced by D-Marketing.

Prospering new business in the Shipping (+27.9%), Aviation (+14.3%) and Land Transport (+7.5%) segments drove up customer lending by 20.1%, from €11.97 billion to €14.37 billion.

The breakdown of customer lending is as follows:



At 58.3%, Shipping accounted for the lion's share (2006: 56.1%), followed by Aviation's 25.2% (2006: 26.1%). 7.9% was attributable to Land Transport (2006: 8.2%), and 3.5% to Transport Infrastructure (2006: 5.6%). We saw continued high growth potential in the Investment Management segment, which accounted already for a share of 3.5% in 2007 (2006: 3.0%). DVB's subsidiary ITF Suisse already accounted for a portfolio share of 1.0% in 2007, its first year of operations. The D-Marketing share continued to fall in line with the strategy, amounting to a mere 0.6% (2006: 1.0%).

### 5.4.4 Portfolio analysis

#### 5.4.4.1 Portfolio analysis – Key factors

The following factors defined portfolio development during 2007:

- Euro/US-dollar exchange rate development: The US-dollar continued to weaken considerably in 2007. Customer lending climbed by 20.1% in euro terms, which was less than on a US-dollar basis (+34.2%), whereby 78.9% of all customer lending was denominated in US-dollar (Shipping: 80.1%; Aviation: 97.7%).

■ **Leading role:**

In 2007, 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 (in 2007 and 2006: 67.0%).

■ **Investment Management:**

This segment accounts for the high-growth investment fund business, including NFC Shipping Funds, Deucalion Aviation Funds, Intermodal Equipment Funds, Cruise/Ferry Funds, and Stephenson Capital.

#### 5.4.4.2 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 39.6% in US-dollar terms, from US\$8.84 billion to US\$12.34 billion. Due to currency effects, the increase was smaller in euro terms, growing by 24.9%, from €6.71 billion to €8.38 billion.

The same scenario applied to the Aviation portfolio, which grew by 29.4% in US-dollar terms, from US\$4.11 billion to US\$5.32 billion. The increase in euro terms was significantly smaller, up by 16.0% from €3.12 billion to €3.62 billion.

<b>Volume trends</b> <b>(€ bn)</b>	<b>2007</b>		2006		2005		2004		2003	
		%		%		%		%		%
Shipping	8.38	58.3	6.71	56.1	5.73	53.2	4.29	52.6	3.95	52.2
Aviation	3.62	25.2	3.12	26.1	2.99	27.7	2.20	27.0	2.02	26.7
Land Transport	1.14	7.9	0.98	8.2	0.96	8.9	0.90	11.0	0.80	10.6
Transport Infrastructure	0.50	3.5	0.67	5.6	0.64	5.9	0.52	6.4	0.47	6.2
Investment Management	0.51	3.5	0.36	3.0	0.27	2.5	–	–	–	–
ITF Suisse	0.14	1.0	–	–	–	–	–	–	–	–
D-Marketing	0.08	0.6	0.13	1.0	0.19	1.8	0.25	3.0	0.33	4.3
<b>Total</b>	<b>14.37</b>	<b>100.0</b>	<b>11.97</b>	<b>100.0</b>	<b>10.78</b>	<b>100.0</b>	<b>8.16</b>	<b>100.0</b>	<b>7.57</b>	<b>100.0</b>

Volume trends (US\$ bn)	2007		2006		2005		2004		2003	
		%		%		%		%		%
Shipping	12.34	58.3	8.84	56.1	6.75	53.1	5.84	52.6	4.98	51.9
Aviation	5.32	25.2	4.11	26.1	3.53	27.8	3.00	27.0	2.60	27.1
Land Transport	1.68	7.9	1.29	8.2	1.13	8.9	1.22	11.0	1.00	10.4
Transport Infrastructure	0.74	3.5	0.88	5.6	0.76	6.0	0.71	6.4	0.59	6.2
Investment Management	0.75	3.5	0.47	3.0	0.32	2.5	–	–	–	–
ITF Suisse	0.21	1.0	–	–	–	–	–	–	–	–
D-Marketing	0.12	0.6	0.18	1.0	0.22	1.7	0.34	3.0	0.42	4.4
<b>Total</b>	<b>21.16</b>	<b>100.0</b>	<b>15.77</b>	<b>100.0</b>	<b>12.71</b>	<b>100.0</b>	<b>11.11</b>	<b>100.0</b>	<b>9.59</b>	<b>100.0</b>
€/US\$ reference rate published by ECB (31 Dec)	1.4721		1.3170		1.1797		1.3621		1.2630	

#### 5.4.4.3 Portfolio analysis by earnings contribution

We have analysed earnings by comparing the development of the Transport Finance portfolios in the years 2007 and 2006. 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.

#### New business

Despite an environment that was challenging, DVB generated a significant amount of long-term, collateralised **new business**: Shipping contributed €5.08 billion (+27.9%), and Aviation €1.45 billion (+14.3%). New Land Transport business also posted an increase, up 7.5% to €0.43 billion (2006: €0.40 billion).

DVB continued to play a **leading role** frequently – the share of transactions led by the Bank in the overall portfolio remained unchanged at 69.4%. The leading role share of new commitments was 67.0%.

The *average interest margin* of 136 bp for new business was lower than in the previous year (148 bp). Interest margins contracted in Aviation (down 32 bp to 159 bp) and Land Transport (down 23 bp to 114 bp), whilst the interest margins in Shipping Finance rose slightly, by 2 bp to 137 bp.

### 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. After a deterioration in 2006, the ratio improved again in the business year under review, with a 2.4 percentage point LtV decline, to 66.5%, for the overall portfolio; average LtV in the Shipping Finance portfolio was 2.8 percentage points lower, at 60.1%.

The *CIR* in Transport Finance decreased from 25.3% to 22.7%. Whilst Aviation posted slight increases and Land Transport remained unchanged at its previous year's level, Shipping (down 3.6 percentage points to 23.4%) and Investment Management (-15.5 pp, to 29.3%) succeeded in reducing CIR.

The *RoE* in Transport Finance increased by 5.9 percentage points, to 35.2% (2006: 29.3%).

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 *result from operating activities before tax* for the Transport Finance business overall increased from €133.0 million to €186.7 million (40.4%).

**Portfolio analysis by earnings contribution (€ mn)**

	Shipping		Aviation		Land Transport		Transport Infrastructure		Investment Management		ITF Suisse		Total		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	Changes %
<b>Overall portfolio</b>															
Customer lending	8,383.7	6,712.4	3,615.1	3,123.9	1,142.4	982.2	502.1	669.0	510.1	357.8	142.0	–	14,295.4	11,845.3	20.7
Loans and advances to customers	5,663.2	5,046.3	3,050.3	2,846.5	955.7	873.7	405.2	444.0	228.2	198.9	56.1	–	10,358.7	9,409.4	10.1
Loan commitments, guarantees and indemnities	2,720.5	1,666.1	564.8	277.4	186.7	108.5	96.9	225.0	281.9	158.9	85.9	–	3,936.7	2,435.9	61.6
Number of customers (primary obligor groups)	273	249	128	113	72	69	24	26	–	–	6	–	503	457	10
Leading role (%)	68	70	68	69	71	64	22	18	100	75	0	–	69.4	68.0	1.4pp
Average LtV ratio (%)	60.1	62.9	76.4	76.1	81.5	81.0	n.a.	52.5	n.a.	n.a.	52.3	–	66.5	68.9	–2.4pp
CIR (%) <sup>1)</sup>	23.4	27.0	16.9	13.5	24.6	24.6	–	–	29.3	44.8	–	–	22.7	25.3	–2.6pp
RoE (%) <sup>2)</sup>	29.4	25.4	36.9	28.9	13.1	20.8	–	–	209.9	125.0	–	–	35.2	29.3	5.9pp
<b>Portfolio New commitments</b>															
Number of new transactions	174	143	54	71	22	14	–	10	–	–	6	–	256	238	7.6
Underwritten	5,076.0	3,969.4	1,448.3	1,266.7	426.2	396.9	–	226.4	–	–	142	–	7,092.5	5,859.4	21.0
Syndicated to third parties	587.5	629.3	10.9	144.7	0.0	98.0	–	0.0	–	–	0	–	598	872.0	–31.4
Final take	4,488.5	3,340.1	1,437.4	1,122.0	426.2	298.9	–	226.4	–	–	142	–	6,494.1	4,987.4	30.2
Book building	399.1	273.6	226.6	238.0	0.0	0.0	–	0.0	–	–	0	–	626	511.6	22.3
Leading role (%)	67	65	67	83	65	55	–	9	–	–	0	–	67.0	67.0	0
Average margin (bp)	137	135	159	191	114	137	–	122	–	–	90	–	136	148	–12pp

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.

## 5.5 Other disclosures

- Disclosure pursuant to section 315 (2) No. 4 of the HGB:  
The fundamental principles of the compensation of the Board of Managing Directors and Supervisory Board are as follows:

### Remuneration of the Board of Managing Directors

The structure of emoluments of the Board of Managing Directors of DVB Bank AG is based on the Internal Regulations for the Executive Committee of the Supervisory Board, which in turn have been adopted by the Supervisory Board. Accordingly, the overall remuneration of the Board of Managing Directors is composed of a fixed component of 51.2% and a variable component of 48.8%. The variable component consists of a traditional bonus, as well as stock options as an additional variable component.

The *fixed component* of the remuneration of DVB Bank AG's Board of Managing Directors totalled €1,041,498.05 in 2007 (2006: €1,098,129.27).

*Bonus payments* to members of the Board of Managing Directors are calculated on the basis of target agreements (to be laid down for any business year) between the Executive Committee and the Board member concerned. The amount of the bonus depends on the extent to which the targets were achieved. One half of the targets refers to the achievement of objective criteria, such as the return on equity and cost/income ratio for the relevant business year, and the other half refers to individual performance of each member of the Board of Managing Directors. The bonus for the current financial year is then paid out in two tranches of 50% each, in each of the two following business years. A prerequisite for the payout is, however, that no notice of termination has been given with regard to the employment relationship as at the time of payment. Bonuses of €990,750.00 were distributed to the Board of Managing Directors in 2007 (2006: €1,015,750.00).

As an additional variable remuneration component providing a long-term incentive, members of the Board of Managing Directors received, between 2000 and 2004, an annual allocation of free options for the purchase of DVB shares within the framework of the "DVB shares" employee participation scheme. In this context, the Supervisory Board allocated a number of *free options* for the purchase of DVB shares at its discretion. The participation programme was limited in time, and ended in 2004. The options could only be exercised after a waiting period of three years (i.e. for the last time in 2007), and only on the condition that DVB's return on equity in the reference year has reached or exceeded a minimum threshold.

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

In the 2007 business year, members of the Board of Managing Directors exercised a total of 2,150 options for the purchase of DVB Bank AG shares. Members of the Board of Managing Directors did not own any options to purchase shares of DVB Bank AG as at 31 December 2007.

### **Remuneration of the Supervisory Board**

The members of the Supervisory Board receive annual remuneration (incl. taxes) of €107,220.00, pursuant to section 18 (2) sentences 3 and 4 of the Articles of Association. The members of the Credit Committee receive additional remuneration (incl. taxes) of €38,735.00, pursuant to section 18 (1) sentence 5 of the Articles of Association, resulting in a total remuneration of €145,955.00.

Please also refer to the information provided in the Notes, on pages 219 to 222 of this Annual Report.

- Disclosure pursuant to section 315 (4) No. 1 of the HGB:  
The subscribed capital exclusively comprises common bearer shares; specifically, 3,932,677 notional no-par value shares as at 31 December 2007. Please refer to sections 54 et. seq. of the AktG regarding the rights and duties attaching to such shares.
- Disclosure pursuant to section 315 (4) No. 3 of the HGB:  
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, directly holds a 93.30% stake in DVB Bank AG's issued share capital.
- Disclosure pursuant to section 315 (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 315 (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 and by virtue of a resolution passed by the Annual General Meeting on 11 June 2007, 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 2008.

## 6. Report on material events after the reporting date

in accordance with section 315 (2) No. 1 of the HGB  
(as at 18 March 2008)

A capital increase from conditional capital, in accordance with Article 4b of the Memorandum and Articles of Association, was registered with the Commercial Register at the Frankfurt/Main District Court (*Amtsgericht Frankfurt am Main*) on 13 February 2008. Please refer to the presentation of the economic situation ("Financial position – Funds raised via the 'DVB shares' employee share ownership programme") on pages 90–92.

Effective 21 February 2008, DVB transferred responsibility for lending exposures which had been assigned to the 'D-Marketing' segment to the Land Transport credit department. The portfolio, comprising exposures which are no longer in line with DVB's strategy, or no longer matched the Bank's size and return requirements, was reduced from an original level of €780 million to a residual level of €50 million.

The Board of Managing Directors and Supervisory Board will propose to DVB Bank AG's Annual General Meeting, which will be held on 11 June 2008, to pay an increased dividend of €5.00 per notional no-par value share for the 2007 business year (2006: €3.00 per share).

The Bank plans to merge DVB Bank N.V., Rotterdam, Netherlands, into DVB Bank AG, Frankfurt/Main, to form DVB Bank SE.

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 2007 business year. Statements made in the "Report on expected developments" have been confirmed by the development of business in the first months of the 2008 business year.

## 7. Risk report

in accordance with section 315 (2) no. 2a and b of the HGB  
(as at 18 March 2008)

### Abbreviations Risk Report

ALCO	Asset Liability Committee
BaFin	German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)
DZ BANK	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main
GRM	Group Risk Management
IRM	Internal rating model
KWG	German Banking Act (Kreditwesengesetz)
LtV ratio	Loan-to-value ratio
MaRisk	Minimum Requirements for Risk Management in Banks
OASIS	Object Finance Administration and Security Information System
OpRisk	Operational risk
VaR	Value at risk
VaR Cdy	Commodity risk
VaR FX	Foreign exchange risk
VaR IR	Interest rate risk

In addition to applicable provisions of the German Commercial Code, the risk report contains the qualitative and quantitative risk disclosures as required under IFRS 7, including impairment losses on loans and advances. Contractual maturities are analysed in the Notes to the Consolidated Financial Statements.

### 7.1 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 Group’s management strategy as an international asset lender. The objective is to achieve a return on economic capital invested that is commensurate with the risk exposure. The risk management process encompasses all companies of the DVB Group. In this context of risk management, we differentiate between credit risk, operational risk, market price risk, strategic risk, as well as liquidity and equity investment risk.

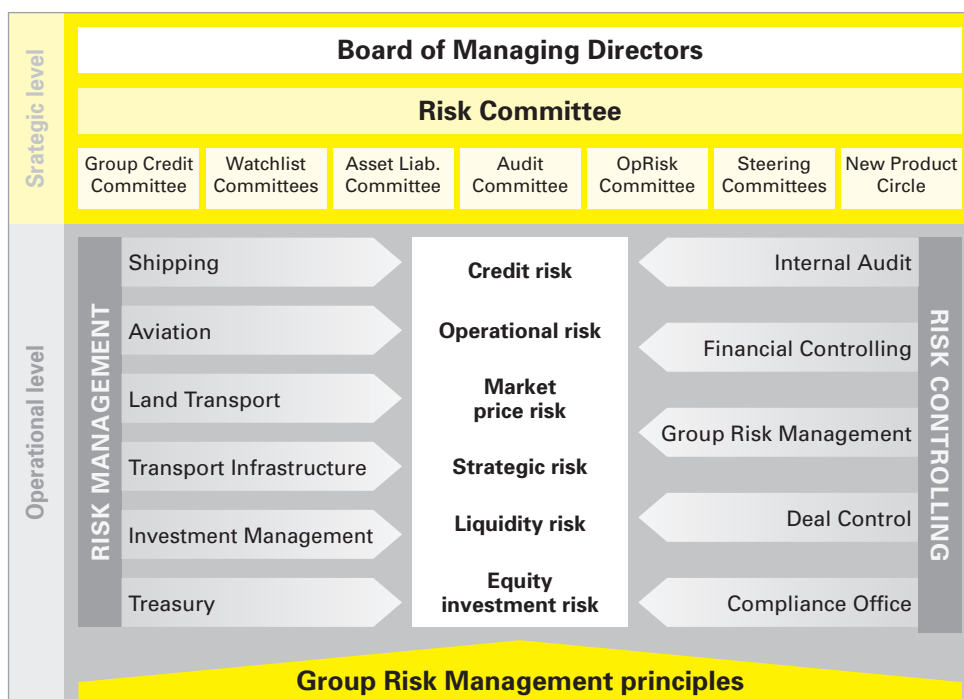
The risk policy guidelines and structures for the professional management of these risks are laid down in our risk management framework, which forms the basis for uniform administration and communication of all material types of risk throughout the Group.

The areas of responsibility within the framework of the risk management process are clearly regulated. Responsibility for the proper implementation, organisation, and effectiveness of the Group-wide risk management system lies with the entire Board of Managing Directors of DVB Bank AG, as the parent company of the DVB Group. Based on the Group’s ability to carry and sustain risks, the Board of Managing Directors decides on the risk strategy, including the applicable methodology and procedures used for measuring, managing and monitoring risk.

### 7.2 Organisation of the risk management process

The DVB Group operates a Group-wide risk management system, which complies with all statutory (section 25a (1) of the KWG; section 91 (2) of the AktG) and regulatory requirements (MaRisk). This risk management system comprises adequate provisions and measures with respect to risk strategy, risk-bearing capacity, risk management, and risk monitoring, plus a framework for the early detection of risks. In addition to the structural and procedural organisation, these also apply to the processes for identifying, assessing, managing, monitoring and communicating the risks.

The chart below illustrates the functional separation of DVB's risk management (in the narrower sense) and risk control processes.



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

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

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 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**, comprising the members of the Board of Managing Directors responsible for risk management and asset/liability management, plus the heads of Group Treasury, Group Risk Management, Group Accounting and Taxes, and Group 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.

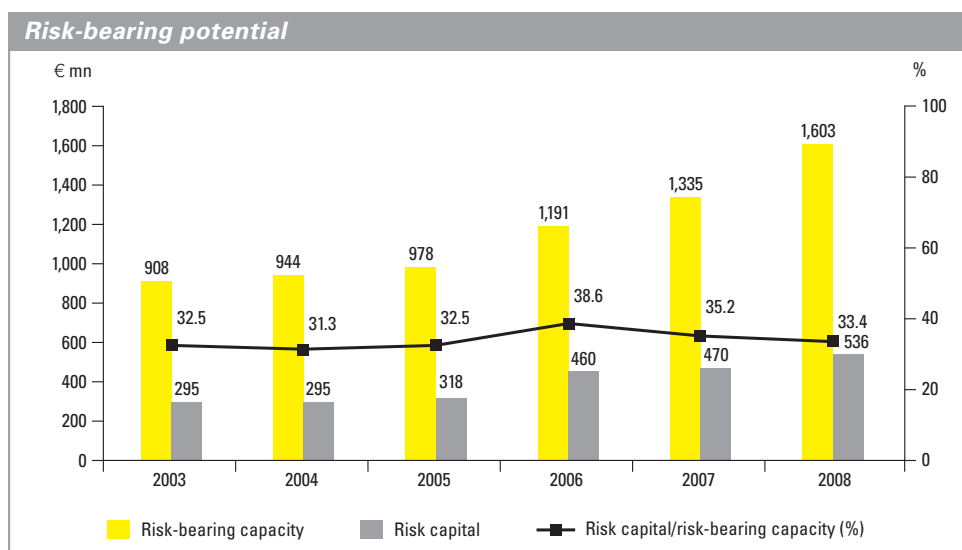
**Steering Committees**, comprising members of the Board of Managing Directors, plus representatives of departments involved in a project, manage and monitor project progress; they are responsible for the successful and scheduled implementation of a project, within budget.

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.

### 7.3 Capacity to carry and sustain risk/risk capital

DVB Group'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 six years:



The increase in aggregate risk cover for 2007 and 2008 was mainly due to the retention of profit in the relevant previous year, together with an increase in budgeted net profit.

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 (which will rise to 99.95% for 2008).

The risk capital for 2008 was set at a level of €536 million (2007: €470 million), taking into account correlation effects. Risk capital is distributed across individual types of risk as follows:

€ mn	<b>2008 Risk capital limit</b>	Risk capital limit	2007 Amount utilised year-end	Average utilisation
Credit risk	430	430	330	348
Market price risk	90	21	10	9
Operational risk	40	32	30	30
Strategic risk	40	30	25	25
Correlation risk	-64	-43	-37	-37
<b>Total</b>	<b>536</b>	<b>470</b>	<b>358</b>	<b>375</b>

The significant increase in the risk capital limit allocated for market price risk does not reflect any planned expansion in the underlying business activities, but is solely attributable to a change in methodologies used within the DZ BANK Group (including an increase in the confidence interval).

When determining the level of risk capital, we consider correlation effects deduced from empirical market data, taking into account correlations among the various types of risk, and regarding credit risks amongst the main credit portfolios. We also considered additional stress tests in determining risk capital levels, to safeguard the continued existence of the DVB Group even in an extremely unfavourable market environment.

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

Although liquidity risk is also monitored and checked continuously, it is not managed through risk capital, but by means of other management tools, such as plans for liquidity flows, cash flow forecasts, and stress scenarios.

## 7.4 Types of risk

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

### 7.4.1 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.

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 Group.

#### 7.4.1.1 Internal rating model (IRM)

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 ("PD") associated with a given client, we determine the expected loss given default ("LGD") for the unsecured portion of a loan and the anticipated extent of the claim at the time of default (exposure at default, "EAD"). The 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.

BaFin approved our application for approval to implement the IRBA (Internal Ratings Based Advanced Approach) for our rating systems covering the Aviation and Shipping portfolios in February 2008 (following an audit by Deutsche Bundesbank, which was instructed to deal with the Bank's application). Approval to implement was thus given effective 1 January 2008.

*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.*

Also in February 2007, we rolled out the IRM for our Land Transport portfolio into production, following an audit by BaFin/Deutsche Bundesbank in the autumn of 2007. We assume that we will be granted approval to implement the IRBA for this portfolio too, and thus assume being able to calculate the capital adequacy requirements for more than 80% of DVB Group's aggregate risk-weighted assets using the Advanced Approach as from January 2008. The gradual implementation for the remaining, smaller loan portfolios is scheduled for completion by the end of 2009.

To ensure model adequacy, we conduct an annual review to validate the risk parameters PD and LGD both quantitatively and qualitatively. We also carry out separate concentration risk analyses with respect to primary obligor groups and asset classes: the purpose of this exercise is to ensure that the level of credit portfolio diversification assumed within the framework of Basel II is still valid, given DVB Group's Transport Finance focus.

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 Group. For example, the results of the ratings will be taken into consideration in regulating responsibilities; unexpected and expected loss are included in the integrated risk limiting system via the concept for managing the Bank's capability to carry and sustain risk; and the standard risk costs, which are also calculated using the model, are an integral part of the estimate with respect to individual transactions, for calculating the minimum margin.

Over the medium term, we plan to expand our IRM into an integrated portfolio-based concept, which will also take diversification effects into account.

#### **7.4.1.2 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 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.

### 7.4.1.3 Structural analysis of the credit portfolio

In line with DVB's internal management processes, lending volumes are broken down by business types exposed to credit risk: traditional lending, securities business, derivatives, and money market business. The classification of instruments exposed to credit risk is in line with the structure of external reporting on the risk exposure from financial instruments. The quantitative details disclosed below for the overall credit portfolio are based on DVB's maximum credit risk exposure – the gross lending volume, which is based on nominal amounts for loans and pending commitments, and on market values for investment securities and derivatives. The maximum credit risk amount includes all credit facilities committed vis-à-vis third parties in the form of irrevocable loan commitments and financial guarantees. The following table provides an overview of credit risk concentration and maximum credit risk exposure, broken down by DVB's core business areas:

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Shipping	8,361.5	6,709.7	0.0	0.0	22.2	2.7
Aviation	3,611.8	3,119.0	3.3	4.9	0.0	0.0
Land Transport	1,136.2	973.8	0.0	0.0	6.2	8.4
Investment Management	509.9	357.7	0.0	0.0	0.2	0.1
Other	2,701.3	1,449.4	109.9	115.1	219.0	251.4
<b>Total</b>	<b>16,320.7</b>	<b>12,609.7</b>	<b>113.3</b>	<b>120.0</b>	<b>247.6</b>	<b>262.6</b>

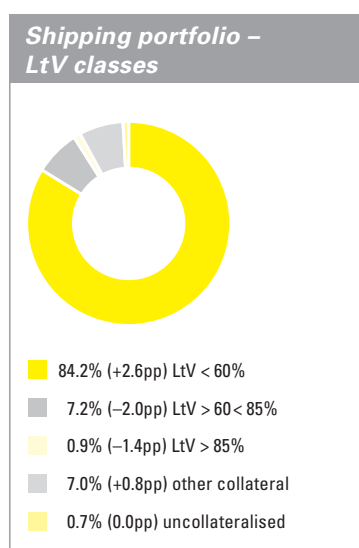
The 'Other' item reflects the aggregate of Treasury and ITF Suisse, plus the D-Marketing and Transport Infrastructure portfolios, which are no longer in line with the Bank's strategy (cf. section 7.4.1.5 for details).

Taking the maximum credit risk exposure as a basis, the following section provides an overview of the structure of our Transport Finance 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-dollar (80.1%), grew by 24.9% to €8.4 billion. The US-dollar weakened considerably during the course of the year, losing 11.8% against the euro. Adjusting for exchange rate movements, the growth rate was therefore 37.2%.

92.3% of the portfolio is secured by mortgages on ships. Loans with a maximum LtV ratio of 60% account for a share of €7.1 billion.

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

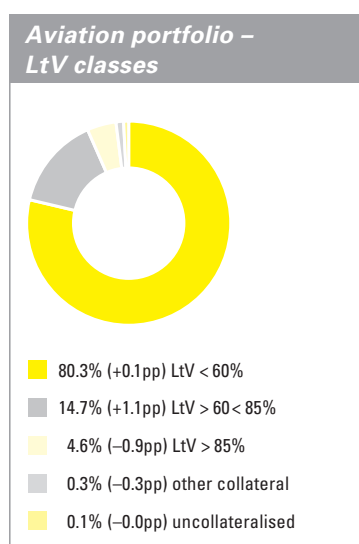


Collateralisation (€ mn)	31 Dec 2007		31 Dec 2006	
	Value	Percentage	Value	Percentage
Secured by mortgages	7,737.7	92.3%	6,247.7	93.1%
Other collateral	583.2	7.0%	417.9	6.2%
Uncollateralised	62.8	0.7%	46.8	0.7%
<b>Lending volume</b>	<b>8,383.7</b>	<b>100.0%</b>	<b>6,712.4</b>	<b>100.0%</b>

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 continued improvement over previous years. Our *Aviation portfolio* stood at €3.6 billion at the end of 2007, up 15.7% on the previous year. As this portfolio is also predominantly in US-dollar (97.7%), the currency-adjusted growth rate was higher, at 29.1%.

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



Collateralisation (€ mn)	31 Dec 2007		31 Dec 2006	
	Value	Percentage	Value	Percentage
Secured by mortgages	3,602.5	99.6%	3,102.3	99.3%
Other collateral	10.6	0.3%	17.8	0.6%
Uncollateralised	2.0	0.1%	3.8	0.1%
<b>Lending volume</b>	<b>3,615.1</b>	<b>100.0%</b>	<b>3,123.9</b>	<b>100.0%</b>

With 99.6% of the lending volume secured by mortgages, the Aviation portfolio also reflects the strict enforcement of our conservative lending policy. Lending volume of €2.9 billion has an LtV ratio not exceeding 60% (loan amounts have been allocated to LtV classes proportionately).

The *Land Transport portfolio* grew by 16.3% over the previous year, to €1,142.4 million. Adjusting for exchange rate movements, the growth rate was 19.7%.

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

Collateralisation (€ mn)	31 Dec 2007		31 Dec 2006	
	Value	Percentage	Value	Percentage
Secured by mortgages	1,061.3	92.9%	894.7	91.1%
Other collateral	18.7	1.6%	47.3	4.8%
Uncollateralised	62.4	5.5%	40.2	4.1%
<b>Lending volume</b>	<b>1,142.4</b>	<b>100.0%</b>	<b>982.2</b>	<b>100.0%</b>

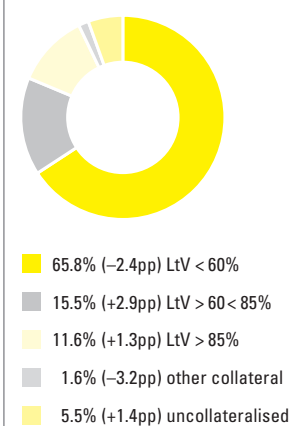
New business acquired in 2007 helped to boost the share of business secured by mortgages, by 1.8%. A total lending volume of €752 million (2007: €670 million) had an LtV ratio not exceeding 60% (loan amounts have been allocated to LtV classes proportionately).

DVB integrated *Loan Participations* as a new product into its existing business model in mid-2007, establishing *ITF Suisse*, based in Zurich, for this purpose. ITF Suisse's business is geared towards participating in non-complex transactions fulfilling strict lending policy requirements. DVB has thus extended the scope of its business to include non-complex transport finance exposures.

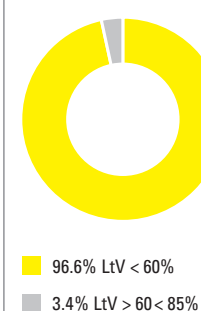
The restrictive business approach chosen is also clearly reflected in the collateralisation structure and LtV distribution of ITF Suisse's portfolio:

Collateralisation (€ mn)	31 Dec 2007	
	Value	Percentage
Secured by mortgages	142.0	100.0%
Other collateral	0	0.0%
Uncollateralised	0	0.0%
<b>Lending volume</b>	<b>142.0</b>	<b>100.0%</b>

#### Land Transport portfolio – LtV classes



#### ITF Suisse portfolio – LtV classes



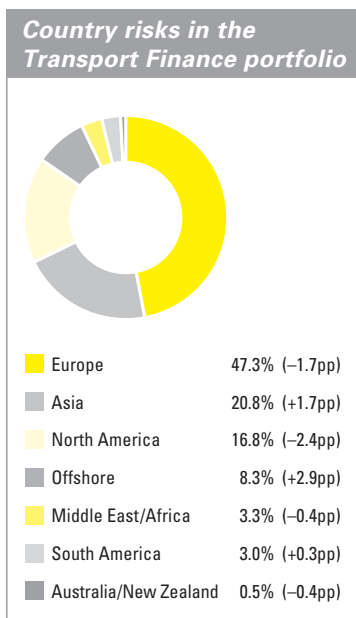
*Country risk is defined as the risk that DVB suffers loan losses or other monetary losses in a particular country, as a result of social/political and/or macro-economic developments or events. This comprises risk traditionally associated with the concept of country risk (conversion and transfer risk,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

#### 7.4.1.4 Country risk exposure within customer lending

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 cash flows in fully-convertible currencies, political risk insurance cover, etc.).

The breakdown of country risks in our portfolio was largely unchanged compared to 2006. 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 0.4% of the overall Transport Finance portfolio.



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

In accordance with the strategic decision taken by the Board of Managing Directors, the *Transport Infrastructure portfolio* – which is no longer in line with the Bank's strategy – was reduced by 24.9% during the financial year under review, to €502 million.

Collateral for all of our infrastructure finance projects includes an assignment of operating concessions. Allowance for impairment losses for this portfolio was increased by €2.2 million in 2007 (additions amounted to €3.2 million and €1.0 million was released), to €8.4 million at year-end.

Lending exposures bundled in the so-called *D-Marketing* unit, which also no longer meet DVB's requirements, were once again reduced by a significant margin, down 40% from €134 million to €80 million at the end of 2007. Allowance for impairment losses for this portfolio was increased by €3.2 million in 2007 (additions amounted to €5.9 million and €2.7 million was released). Charge-offs on loan loss provisioning amounted to €24.0 million, so that the aggregate allowance for impairment losses on loans and advances for this portfolio stood at €24.7 million at year-end. We continue to expect the total allowance for impairment losses for this part of our portfolio to be adequate.

#### 7.4.1.6 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 loan loss provisions required.

Non-performing loans (NPL) amounted to an aggregate nominal value of €65.1 million (2006: €140.1 million). This equates to an NPL ratio of 0.4% (2006: 1.1%) in relation to total lending volume. The volume of NPLs is offset by collateral with a market value of €33.3 million (2006: €104 million), and covered by adequate value adjustments.

The following table indicates the *non-impaired, non-overdue lending volume* as a portion of the overall portfolio:

€ mn	Total portfolio		Non-impaired, non-overdue portfolio	
	2007	2006	2007	2006
Shipping	8,383.7	6,712.4	8,261.0	6,632.7
Aviation	3,615.1	3,123.9	3,471.4	2,933.1
Land Transport	1,142.4	982.2	1,102.1	977.9
Investment Management	510.1	357.8	510.1	357.8
Other	3,030.2	1,816.0	2,957.1	1,737.8
<b>Total</b>	<b>16,681.5</b>	<b>12,992.3</b>	<b>16,301.7</b>	<b>12,639.3</b>

The portfolio is dominated by lending volume with impeccable credit quality, at a level that was virtually unchanged from the previous year (2007: 97.7%; 2006: 97.3%).

The two following tables indicate *overdue exposures for which no individual impairment has been recognised*, together with the *fair value of related collateral*:

2007 (€ mn)	Overdue, non-impairment lending volume				Fair Value of collateral for overdue, non-impairment lending volume
	Up to 30 days past due	> 30 days, up to 60 days past due	> 60 days, up to 90 days past due	More than 90 days past due	
Shipping	0.0	0.0	0.0	0.0	0.0
Aviation	21.5	0.0	0.0	0.2	15.7
Land Transport	34.0	0.0	0.0	0.0	12.7
Investment Management	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>55.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>28.4</b>

2006 (€ mn)	Overdue, non-impairment lending volume				Fair Value of collateral for overdue, non-impairment lending volume
	Up to 30 days past due	> 30 days, up to 60 days past due	> 60 days, up to 90 days past due	More than 90 days past due	
Shipping	0.0	0.0	0.0	0.0	0.0
Aviation	0.0	0.0	0.0	12.2	5.2
Land Transport	0.0	0.0	0.0	0.0	0.0
Investment Management	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>12.2</b>	<b>5.2</b>

Any interest and principal payments which were overdue by up to 30 days on 31 December 2007 were subsequently made.

There were no *renegotiated exposures* as defined in IFRS 7 (defined as assets that would otherwise be past due or impaired, but whose terms have been renegotiated) during the year under review (2006: nil).

The following tables indicate the *lending volume for which individual impairments have been recognised, together with related collateral*:

2007 (€ mn)	Amount before impairment	Individual impairments	Amount after impairment	Fair Value of collateral for impairment lending volume
Shipping	122.7	19.8	102.9	101.3
Aviation	122.0	48.2	73.8	53.5
Land Transport	6.2	3.5	2.8	0.0
Investment Management	0.0	0.0	0.0	0.0
Other	73.2	33.7	39.5	37.3
<b>Total</b>	<b>324.1</b>	<b>105.2</b>	<b>218.9</b>	<b>192.1</b>

2006 (€ mn)	Amount before impairment	Individual impairments	Amount after impairment	Fair Value of collateral for impairment lending volume
Shipping	79.7	12.1	67.7	58.2
Aviation	181.6	57.1	124.5	79.6
Land Transport	4.3	2.0	2.3	1.2
Investment Management	0.0	0.0	0.0	0.0
Other	78.2	52.5	25.7	24.7
<b>Total</b>	<b>343.8</b>	<b>123.7</b>	<b>220.1</b>	<b>163.7</b>

87.8% (2006: 74.4%) of the impaired portfolio is duly collateralised.

*Collateral acquired* within the scope of restructuring is of minor importance; during the year under review, this was reduced by €4.45 million to €2.25 million.

The following tables illustrate the development of *impairment losses on loans and advances*:

<b>Allowance for losses on loans and advances (€ mn)</b>	31 Dec 2006	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments	<b>31 Dec 2007</b>
Shipping	12.1	9.8	0.0	1.5	-0.6	19.8
Aviation	57.1	16.7	5.9	14.3	-5.4	48.2
Land Transport	2.0	3.5	1.6	0.5	0.1	3.5
Investment Management	0.0	0.0	0.0	0.0	0.0	0.0
Other	52.5	9.7	24.3	4.0	-0.2	33.7
<b>Total individual impairments</b>	<b>123.7</b>	<b>39.7</b>	<b>31.8</b>	<b>20.3</b>	<b>-6.1</b>	<b>105.2</b>
Portfolio impairments	7.0	1.2	0.0	0.2	0.0	8.0
of which: Aviation	2.8	0.9	0.0	0.0	0.0	3.7
Land Transport	0.0	0.3	0.0	0.1	0.0	0.2
Other	4.2	0.0	0.0	0.1	0.0	4.1
<b>Total impairments</b>	<b>130.7</b>	<b>40.9</b>	<b>31.8</b>	<b>20.5</b>	<b>-6.1</b>	<b>113.2</b>

<b>Allowance for losses on loans and advances (€ mn)</b>	31 Dec 2005	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments	<b>31 Dec 2006</b>
Shipping	4.7	7.9	0.0	0.0	-0.5	12.1
Aviation	51.9	20.6	2.3	8.3	-4.8	57.1
Land Transport	3.3	0.0	1.2	0.0	-0.1	2.0
Investment Management	0.0	0.0	0.0	0.0	0.0	0.0
Other	55.1	9.2	10.4	1.4	-0.1	52.5
<b>Total individual impairments</b>	<b>115.0</b>	<b>37.7</b>	<b>13.9</b>	<b>9.7</b>	<b>-5.5</b>	<b>123.7</b>
Portfolio impairments	5.9	3.0	0.0	1.9	0.0	7.0
of which: Aviation	0.0	2.8	0.0	0.0	0.0	2.8
Land Transport	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.9	0.2	0.0	1.9	0.0	4.2
<b>Total impairments</b>	<b>120.9</b>	<b>40.7</b>	<b>13.9</b>	<b>11.6</b>	<b>-5.5</b>	<b>130.7</b>

The 'Other' item predominantly reflects aggregate impairment losses on loans and advances in the D-Marketing and Transport Infrastructure portfolios, which are no longer in line with the Bank's strategy (cf. section 7.4.1.5 for details).

The following tables show the *provisions for losses on loans and advances*, which did not have any material effect upon DVB during the past two years:

€ mn	31 Dec 2006	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments	31 Dec 2007
Shipping	0.1	0.1	0.0	0.0	0.0	0.2
Aviation	0.0	0.0	0.0	0.0	0.0	0.0
Land Transport	0.0	0.0	0.0	0.0	0.0	0.0
Investment Management	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.7	0.1	0.0	0.6	0.0	0.2
<b>Total</b>	<b>0.8</b>	<b>0.2</b>	<b>0.0</b>	<b>0.6</b>	<b>0.0</b>	<b>0.4</b>

€ mn	31 Dec 2005	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments	31 Dec 2006
Shipping	0.3	0.0	0.0	0.1	0.0	0.2
Aviation	0.0	0.0	0.0	0.0	0.0	0.0
Land Transport	0.0	0.0	0.0	0.0	0.0	0.0
Investment Management	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.4	0.0	0.0	0.8	0.0	0.6
<b>Total</b>	<b>1.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.9</b>	<b>0.0</b>	<b>0.8</b>

## 7.4.2 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 51 (2006: 14) loss cases with aggregate damages of €50,000 (2006: €344,000) during the year under review. DVB focuses on preventing risks arising from contractual documentation in particular. Given the international scope of DVB's business, the drafting of credit documentation frequently involves complex legal issues. To minimise the legal risks involved, such documentation is generally drafted (or verified) by experienced, internationally recognised law firms.

## 7.4.3 Market price risk

*We define market price 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 price 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.

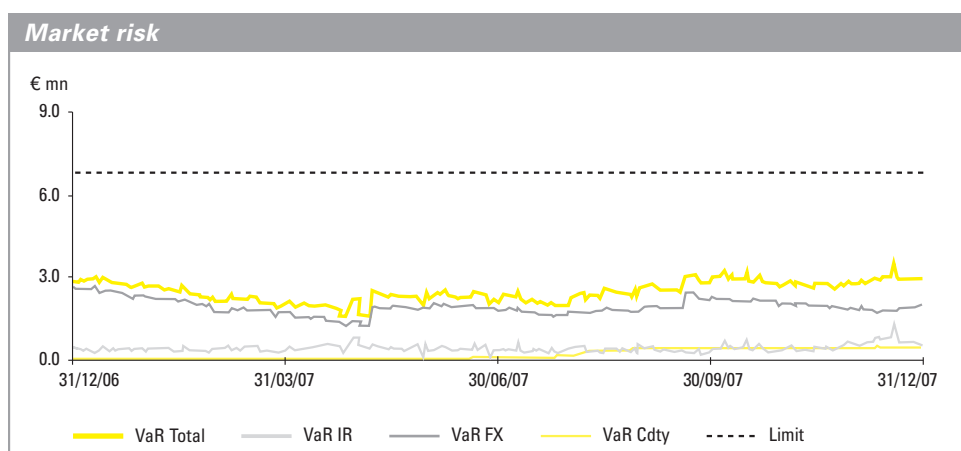
The following tables illustrate the VaR exposures in the banking and trading books:

<b>Banking book</b> (€ mn)	VaR		Average		Maximum		Minimum	
	<b>31 Dec 2007</b>	31 Dec 2006	<b>2007</b>	2006	<b>2007</b>	2006	<b>2007</b>	2006
Foreign exchange risk	2.0	2.3	2.0	2.2	2.7	3.4	1.4	0.9
Interest rate risk	0.5	0.3	0.3	0.4	1.2	0.7	0.1	0.2
Other price risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>2.5</b>	<b>2.6</b>	<b>2.4</b>	<b>2.6</b>	<b>3.9</b>	<b>4.1</b>	<b>1.5</b>	<b>1.1</b>

<b>Trading book</b> (€ mn)	VaR		Average		Maximum		Minimum	
	<b>31 Dec 2007</b>	31 Dec 2006	<b>2007</b>	2006	<b>2007</b>	2006	<b>2007</b>	2006
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Interest rate risk	0.0	0.0	0.0	0.1	0.0	0.9	0.0	0.0
Other price risk	0.3	0.0	0.1	0.0	0.4	0.0	0.0	0.0
<b>Total</b>	<b>0.3</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.4</b>	<b>1.2</b>	<b>0.0</b>	<b>0.0</b>

VaR exposure remained clearly within the allocated limits, both in the 2007 business year and in the previous year.

The chart below illustrates utilisation of market price risk limits during 2007:



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

The rise in FX value-at-risk in May and September 2007 reflects the hedging of anticipated US-dollar surpluses for the first four and the last four months of 2008, respectively. The increase in equity and commodity value-at-risk during the second half of the year was due exclusively to the introduction of calculating market risk exposure on treasury shares held. In December 2007, higher interest rate volatility induced a temporary increase in interest rate VaR.

The risk positions are managed on the basis of limits approved by the Board of Managing Directors, which are derived from the risk capital authorised by the Board of Managing Directors. Besides daily VaR (based on a one-day holding period and a 99% confidence interval), we also determine VaR based on a one-year holding period and a confidence interval of 99.9% (effective 2008: 99.95%); the results are compared to risk capital and taken into account when determining usage of aggregate risk capital. In addition, we subject our positions to a monthly stress test, based on an entire interest rate cycle. The calculations applied to such 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 2008.

#### 7.4.4 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 2007 business year, strategic risks were measured using a moving average of operating income volatility, using a 99.9% confidence interval. The confidence interval will be raised to 99.95% in 2008, with a corresponding limit adjustment.

#### 7.4.5 Liquidity risk

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.

*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.*

Anticipated cash flows are calculated, aggregated and offset by transactions on the money and capital markets, on the basis of continuously updated plans for liquidity flows and cash flow forecasts. These are prepared using SAP data and state-of-the-art asset-liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German Banking Act, ensures that timely and appropriate corrective measures can be taken.

To counter any potential liquidity bottlenecks as a result of the crisis affecting financial markets (triggered by the US sub-prime crisis), the ALCO decided to cover full liquidity requirements for the remainder of 2007 already in August 2007.

Moreover, a US\$-denominated bond was issued in December 2007 to cover the full funding requirements for the first quarter of 2008, again at an early stage.

Thanks to these farsighted funding measures, the Group's liquidity was always ensured throughout the crisis. The Liquidity Principle according to the German Banking Act was consistently adhered to during 2007.

A project for the development of the systems, procedures and processes for measuring liquidity risk, which was launched in 2006, was completed at the end of 2007. Accordingly, the measurement of liquidity risks was incorporated into the normal Trading Control workflows on schedule, with effect from 2 January 2008.

Using state-of-the-art software tools, the new system fully complies with today's requirements for measuring liquidity risk, fulfilling both the MaRisk and internal benchmarks regarding the analysis and management of liquidity risk and related reporting.

In addition to multiple base cases, the analyses include various stress scenarios and a worst-case scenario. All cash flows from the Bank's existing business are taken into account, plus simulated cash flows from pending loan commitments and the Bank's budgeted new business.

Since the beginning of 2008, the results of these daily analyses have been aggregated in a report, which has been included in the daily reporting package to the entire Board of Managing Directors.

From a liquidity perspective, the base cases simulated during the first two months of 2008 did not indicate any need for action. If necessary, any gaps detected through stress tests can be filled by setting restrictions on planned new business.

The underlying assumptions for the scenarios used are reviewed, and adjusted if appropriate, in regular intervals.

#### **7.4.6 Equity investment risk**

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

## 7.5 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 regulatory framework as well as with the commercial requirements of modern bank management, focused on risk and returns.

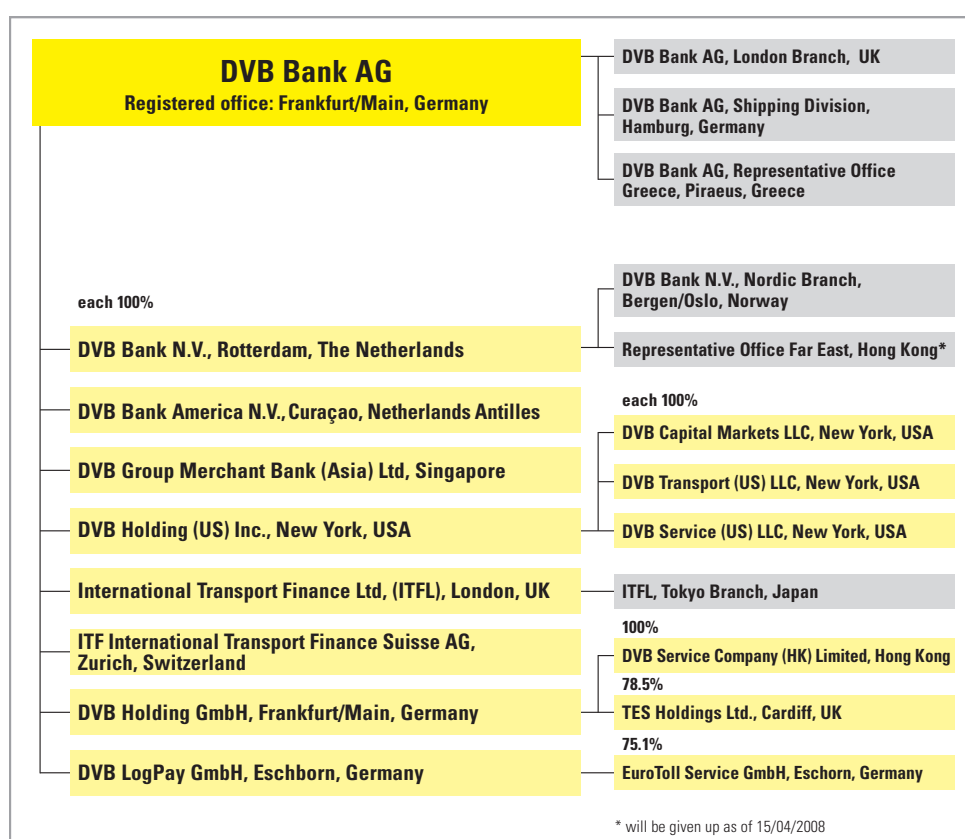
Looking ahead on 2008, we will focus on upgrading the IRM to cover the remaining, smaller credit portfolios, on preparations for the supervisory review process (second pillar of the Basel II framework) as well as on the disclosure requirements (pillar 3). Even though our affiliation to the DZ BANK Group exempts us from the disclosure duties under the German Solvability Ordinance, we will disclose the relevant information on a voluntary basis.

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2007, 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 2008 business year.

## 8. Report on branches and subsidiaries

in accordance with section 289 (2) no. 4 of the HGB  
(as at 18 March 2008)

The diagram illustrates the legal structure of DVB Group; the registered office of the parent company DVB Bank AG; as well as material, fully-consolidated subsidiaries (yellow shading); and branches and representative offices (grey shading).



ITF International Transport Finance Suisse AG, a wholly-owned subsidiary of DVB Bank AG domiciled in Zurich, Switzerland, was established in May 2007. The company commenced operations in August 2007; it enters into sub-participations in syndicated interbank financings.

Furthermore, DVB acquired a majority shareholding in TES Aviation Services Limited, Cardiff, United Kingdom, on 16 July 2007. The company provides a range of commercial and technical services to owners and users of aircraft engines, as well as advisory services to aviation finance providers.

Furthermore 19 special purpose entities were fully consolidated in accordance with IAS 27.4 in conjunction with SIC 12.

## **9. Report of the Board of Managing Directors on relations with affiliated companies**

in accordance with Section 312 of the German Public Limited Companies Act (AktG) (as at 18 March 2008)

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 2007, 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: "With respect to transactions and actions identified in the report on business relationships with affiliated enterprises, adequate consideration was received by our company in respect of any transaction, and the company did not suffer any disadvantage as a result of actions taken or omitted, in line with circumstances prevailing at the time such transactions were entered into, of which we were aware at the time."

## 10. Report on expected developments 2008/2009

in accordance with section 315 (1) sentence 5 of the HGB  
(as at 18 March 2008)

**The report on expected developments consists of our assessment of potential trends in Transport Finance and Treasury during 2008 and 2009, together with a projection of the financial condition and results of operations of DVB Group.**

The overall outlook for international transport markets for 2008 and 2009 is an extension of our views expressed in the annual report for 2006. It is worth noting that these views were confirmed by actual market developments to a very large extent.

### 10.1 Shipping

#### 10.1.1 Shipping – Markets

In maritime shipping, the Asian economies – China in particular, with India growing in importance – will continue to drive demand. Sustained economic growth in North America and Europe strengthened demand for goods imported from Asia over recent years. Container shipping saw immediate benefits from this trend, which also accelerated industrial production in the Asian region – boosting demand for commodities which, in turn, helped the bulk and tanker markets. Container shipping on the routes from Asia would be hit harder than bulk and tanker trades by any decline in import demand from the US and Europe, in the event of economic weakening. That said, one may expect that lower capacity utilisation in the Asian export sector will be (at least partially) compensated by increased production aiming at domestic demand, as large sections of the Asian consumer population have become more prosperous in the past years, strengthening consumption. Assuming that this shift from export growth to domestic consumption will materialise, bolstering industrial production, strong demand for commodities will be sustained. It is worth considering that the performance of shipping markets over recent years has triggered a wave of new orders: in those shipping sectors which will be affected by imminent deliveries of new-built ships on a large scale, a short-term divergence of supply and demand can be expected. As seen in earlier shipping cycles, these sectors would first witness falling freight and charter rates, which in turn would diminish new orders and lower vessel values.

#### 10.1.2 Shipping – Portfolio

2007 saw continued growth in the shipping market but the market also showed signs of slowing down towards the end of the year. Is this a sign of things to come?

DVB's activity during 2007 remained again comfortably above historic averages, and in general shipping companies continued to deliver strong results. In 2006, we were expecting the market to slow down, but this did not happen due to the influences of growth in Asia – in particular the growth of China's economy. However, the impact was felt in 2007, due to the global economy slowing down and the credit crunch crisis in the West. The International Monetary Fund has predicted that world growth in 2008 is going to slow down to 4.1% compared to world growth of 4.9% in 2007 and 5% in 2006. If we look at China's growth, the International Monetary Fund estimates growth at 10% for 2008,

*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 based on conjecture, rather than on precise predictions. Future developments may indeed diverge from expectations, not least as a result of fluctuations in capital market prices, exchange rates, or interest rates; or 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.*

whereas in 2007 growth was at 11.4% and in 2006 11.1%. This global slowdown will inevitably impact the shipping markets. (All figures quoted by the International Monetary Fund are as of February 2008.)

As we predicted in the 2006 Annual Report, market demand did slow towards the end of 2007, since some of the massive influx of vessels that were on order were delivered. This led to rates for vessels coming down somewhat. Historically, when rates have come down, a fall in vessel prices has not been too far behind. The real impact of the new tonnage will be felt during the course of 2008/9 and 2010 when there will be a surplus of vessels across the industry. This is when we will start to see supply outstripping demand, and the market will tighten up even further with ship owners and banks feeling the impact. During 2007, several top ship finance houses stopped their new production on the basis of managing their portfolios and taking a more cautious approach to the market. In 2008, we may see this trend continue somewhat. During 2007, however, DVB continued to focus on the sectors where it has enjoyed success, as well as providing industry expertise and additional opportunities through its investment management activities, thereby keeping ahead of its competitors and showing no signs of slowing down.

Despite the looming global slowdown, DVB remains upbeat about the opportunities ahead. We have continued to enjoy success in our three existing specialist teams – Container Box Group, Cruise & Ferry Group and the Floating Production Group. We believe that our strategy in splitting the remainder of the portfolio into seven sector groups will enable us to successfully navigate the changing market. This strategy will also allow us to continue to maintain a strong relationship with shipping companies throughout these sector groups.

DVB's portfolio continues to remain satisfactorily diverse in terms of asset types and geography, and will continue to be closely monitored. In 2008, the main themes in DVB's structured asset finance proposals to shipping clients will be centred around Tonnage Tax-based solutions, Vessel Put Options and US lease structures. 2008 will continue to pose interesting challenges in the shipping market: DVB, as usual, will be prepared to meet them.

## 10.2 Aviation

### 10.2.1 Aviation – Markets

Commercial aviation enjoyed a good year in 2007 in terms of industry growth, airline financial results, and number of new aircraft ordered. Maybe as a reaction to this, industry players were getting worried about the ability of the industry to maintain such a comfortable position. Although some industry experts believe that industry diversification – both by business model as well as by geographical area – will have a stabilising effect, most observers believe the industry to remain a cyclical one.

For 2008/2009 a reduction in short-term demand for air travel in mature markets, slower growth in others and the increasing impact of high fuel prices represent potential risks. Over the last three years, airlines and lessors have ordered unprecedented volumes of new aircraft, inspired by economic growth, a more liberal trading environment, the development of new “low cost” business models and an abundant supply of funding sources.

It remains to be seen if all of the second and third wave LCC start-ups that placed mega-orders for new aircraft can repeat the results of the established first generation LCC's. Already towards the end of 2007, signs were emerging that some orders had been placed under very optimistic assumptions: deferrals or sub-leases, if allowed, may be unavoidable.

Even under such a scenario, replacement demand for the aging North American fleet should absorb a meaningful number of surplus aircraft from other regions. Although so far the financing of commercial aircraft has not been a major problem, the impact of the credit crisis eventually may result in reduced availability of funding or increased cost due to the need for a more realistically risk/reward balance.

The impact of the introduction of future new technology aircraft is unlikely to “bite” in 2008/9 because of continuing equipment shortage, but with high fuel prices and more stringent environmental legislation, pressure on the value of older aircraft is bound to increase. At lower price levels, cargo conversion of former passenger planes will become a more realistic option.

Some of the major investors in aircraft have started to reallocate residual value risk to other parties, still benefiting from the relatively bullish market environment and the lack of other attractive investment opportunities. Other investors are eliminating their positions by selling portfolios to even more bullish funds. Both trends indicate the market to be close to the peak of the cycle.

#### Abbreviations Aviation – Markets

LCC	Low-cost carrier
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Except for the omnipresent “event risks” in commercial aviation, there are no obvious reasons for a market collapse in 2008, although it seems unlikely that “the best is yet to come”. For 2008, the market is likely to cool off slightly from its current somewhat overheated status, 2009 may prove more difficult, as the impact of the credit crisis spreads through the economy. Older aircraft are more likely to suffer – and if high fuel prices persist, their values will not return to 2007 levels. Modern technology aircraft however – if acquired or financed at realistic levels – should continue to represent strong collateral for asset-based lending, despite some cyclical market movements.

### **10.2.2 Aviation – Portfolio**

In the coming period 2008/2009 we expect to face new uncertainties and fresh challenges, as banks come to terms with the financial crisis, and amidst signs of a recession which will surely affect our transportation markets.

DVB is today one of the largest providers of recourse and non-recourse debt to passenger and cargo airlines, and to aircraft lessors worldwide, with a total exposure that has grown steadily to over US\$5.32 billion, financing over 747 aircraft and 29 engines. We will continue to adopt a proactive approach to maintaining and growing our portfolio in line with well-established lending guidelines and principles.

We always maintain that a market of uncertainty is a market of opportunity for a specialised institution like DVB. With the growth of our Aviation platform, in terms of both people and services, and in view of our highly asset-focused business approach, we believe that we are positioned better than ever to support our aviation client base. We will be open for business during 2008 and beyond, but we will use our deep knowledge of the underlying assets to avoid ‘hidden’ asset risks in transactions. This cycle-neutral approach, allied with a discipline to balance commercial pressure with the requirement to maintain a quality portfolio, will be the key ingredients to ensure that we enjoy continued success.

Our market coverage, and product and service offering, is seeing us generate a healthy pipeline of potential new transactions. With such pipeline covering opportunities which will materialise in 2008, and already for 2009, we can be confident in our ability to maintain momentum in our business, which has seen our Aviation portfolio grow in US-dollars by 104.6% over the last five years.

In our lending activity, following the downward trend we have experienced in 2006 and 2007, we expect to see our average margin for new business firming somewhat, and without any compromise to the quality of 'risk/reward'. We reasonably foresee maintaining the volume of new, final-take, business at or around the US\$1.5 billion level which we have seen in each of the last two years. At the same time, we are confident of a growing level of activity in our advisory, structured finance and asset management services, as these activities mature further within Aviation. In summary, opportunities for profitable growth will come from:

- booking of new ('primary') loan business, where we usually act as arranger, underwriter and/or agent, as well as activity in the 'secondary' debt market, where above-average yields can often be earned; and
- our expanded scope of fee-generating services, as earlier outlined.

A key initiative for the year ahead is to ensure the best possible communication of our expanded scope of activities to our clients and business partners. DVB's reputation for being specialised and industry-focused is clearly understood by now. The fact that our Aviation Division (and indeed DVB at large) also provides a scope of 'asset-based' services outside of that of a typical bank is less well-known, yet it is this fact that – moving below the surface – undoubtedly differentiates us from our friendly competitors.

## 10.3 Land Transport

### 10.3.1 Land Transport – Markets

We continue to envisage further transport services growth during 2008 and 2009 in most of the global land transport sectors we cover. Our expectation for the North American transport market is continued (but not worsening) weak demand, for at least the beginning of 2008.

Swiss socio-economic forecasting company ProgTrans forecasts that freight transport performance will increase by 2.5% per annum in the period from 2006 to 2015, split out in 2.0% for rail and 2.6% for road. On the passenger side, ProgTrans projects 1.0% growth p.a. for inter-urban rail, 0.9% for urban rail and a steady 0.3% for buses and coaches transport performance. Germany based rail consultancy firm SCI Verkehr predicts a further revenue increase from the European rail freight market of 3.1% per annum until 2015. We expect the consolidation process in the European railway company scene to continue, with an outlook into the future comprising a few pan-European players and various shortline companies as in North America.

It can be expected that European freightcar prices continue to increase above inflation levels unless more railway companies increase their relatively insignificant in-house freightcar manufacturing capacity and/or the European manufacturers just outside the European Union expand their capacity. In any case, we expect the price of steel – and therefore the price of new freightcars – to increase above inflation rates, as iron ore mining companies seek to increase prices.

Investment house Bear Stearns expects the North American railroad industry to perform well in 2008 and upgraded railroad stocks to 'overweight'. On the other hand, we expect rail pricing continues to decelerate due to overcapacity of the road sector. Top rail executives of the Class I railroads generally characterised 2007 as a 'good' year, and expect 2008 to be about the same. The expectations of top passenger rail executives in the US are less than sanguine about 2008 as the cost of operating public transit systems continues to increase faster than the rate of inflation. But the public-transit sector is a great success story. We do not expect the factors that drive people to ride the rails in record numbers are going to change.

In 2007 Class I railroads invested a total of US\$8.4 billion in their infrastructure, another record. However, future investments will be under pressure because of four bills being debated in US Congress, which would re-impose rate regulation and introduce competition in the US rail freight market to redress perceived monopoly abuses. North American leasing companies are expected to invest more in new built freightcars as the cyclical freightcar market is predicted to reach a bottom point. Overall, Economic Planning Associates Inc. projects freightcar deliveries will total 56,500 in 2008 and 54,500 in 2009. Rail Theory Forecasts LLC expects even a cut back to 48,000 wagons in 2008.

Rail infrastructure investment wise, dedicated railway lines for either freight or high-speed passenger traffic are on the political roll on both continents. In Italy the first private open access high-speed railway company in the world will start its domestic operations in 2010. More open-access companies could follow this example as the European international rail passenger market will be open for competition in 2010. High-speed trains services gradually eat away the business of short-haul flights. We also expect a modal shift in the freight sector: railway companies will team up to connect Asia with Europe on the 'silk route' within 15 days, thereby targeting on the enormous container shipping volumes that usually take twice the transport time. This service is due to start in the end of 2009 and can have a very significant impact as well against air freight. The Chinese, Russian and Ukrainian railways expect their capacity would be around 3 million containers per year.

### 10.3.2 Land Transport – Portfolio

We anticipate continued portfolio growth, with improved profitability, for the years 2008 and 2009.

Our Land Transport team is well positioned for the challenges and opportunities ahead during the coming years. Together with our investments in boosting our structuring skills, we are determined to leverage our asset finance expertise to adequately respond to expected rising demand for efficient financing solutions and structured products. Our offices in Frankfurt/Main, London, and New York provide us with an adequate local presence in the various market segments we cover.

Our extended Land Transport product range will help us explore a wider scope of business opportunities and sources of income. We look ahead with confidence, thanks to our balanced portfolio of core clients, and our focus on stable and reliable regional markets. We do not anticipate any major market disruption which would directly influence our financing, structuring, or advisory activities. The slowdown in the US economy will impact on the cyclical trend in vehicle values, whilst the ordering cycle for rolling stock in Europe will gradually develop into a market-based mechanism, in contrast to the impact of largely political influence in the past. We are perfectly prepared to deal with these changes, applying our skills which are based not least on the fundamental work undertaken by Land Transport Research in market observation and asset valuation.

The rail finance business will remain the focus of our activities, with freightcars prevailing as the predominant asset class. We also expect significant activity in procurement and financing of locomotives in Europe, following a trend which emerged in the North American market at a much earlier stage. The increasing scope of tenders for regional passenger franchises will also boost purchases of regional train sets. Increasing orders will boost transaction volumes across all rail segments. This trend holds attractive opportunities for our business model, particularly in Europe where existing state-owned railways will need to catch up on an investment backlog, given their reluctance to procure vehicles in the past. Against the background of impending (partial) privatisations of state-owned railways, innovative financing structures beyond the traditional capital market deals are expected to increase. In our view, this will apply to operating lease structures in particular.

The importance of the road vehicles and logistics markets for our business is set to increase over the next two years. In Europe, the prevailing trends towards greater standardisation of vehicles across manufacturers and a higher attractiveness of vehicle rental and leasing will continue to converge with developments in North America – with unchanged, high quality standards. In this context, we see significant potential to join our clients and boost our profile in structuring and financing fleets of trucks, semitrailers and chassis, and in mobile logistics equipment such as tank containers.

## 10.4 Syndications – Markets and portfolio

For 2008 we expect sources of shipping and aviation finance to remain tight, at least through the first three quarters of the year. Banks will remain reluctant participants when it comes to large syndicated deals. We expect to see an increase in bilateral transactions and club deals, whereby institutions do not have to take underwriting risk. Nevertheless, we expect syndicated transactions still to be successful if deal terms stand out.

With regards to Shipping Finance, some concerns have been raised over whether there will be sufficient capacity in the bank market to fund the massive world-new building order book (scheduled for delivery in 2009, 2010 and 2011) against the tightening liquidity from the bank market. We have already seen some cancellations of orders for this reason. However, with ECA debt still available as alternative to bank debt, and based on the expectation that borrowers will agree to adjust their finance terms to mitigate the banks' concerns, we assume that most of the order book will be adequately financed.

In the aviation market we experienced a peak in orders and in pricing during the last months of 2007, a trend that we expect to continue in the first months of 2008. Nevertheless we must also expect a slowdown for the rest of the year and for 2009, in line with the overall liquidity tightening in the financial sector combined with some concerns about the historically high order book at the manufacturers.

We do not expect a substantial reduction of liquidity for rail transactions. A number of banks expressed interest to increase their activities in the rail sector as a means of diversifying their lending books that may so far be dominated by aviation and/or shipping finance. In addition the rail market is likely to open up further, and we expect to see a high level of activity.

Overall we expect to see a cautious approach in the bank market to new underwritings in 2008. We expect most financings to be utilised to finance new acquisitions and we expect to see very little refinancing facilities. We expect market flex to remain a common component of an underwritten offer. We do not expect many financial institutions to stop new lending altogether but we do expect a selective approach, which will reduce the liquidity available to place a syndicated transaction successfully. We expect this trend to continue in 2009.

### Abbreviations Syndications

ECA

Export Credit Agency

## 10.5 Investment Management

### 10.5.1 NFC Shipping Funds

#### Abbreviations Investment Management

<i>GDP</i>	<i>Gross Domestic Product</i>
<i>SOLAS</i>	<i>International Convention of Safety of Life at Sea</i>

The full impact of the credit crisis on the shipping markets is yet unknown. The short-term impact seems to be a reduced availability of credit to the shipping industry, which is both a threat to the NFC business as well as an opportunity. The threat is where the NFC funds on project level raise senior debt of third parties, and the opportunity exists as capital constraints with shipping companies enhance the deal flow for NFC.

The high order book in many shipping sectors will put pressure on rates and values. Traditionally, falling markets have resulted in over-reaction, reducing values of vessels and rates to low levels again. This will result in new buying opportunities for NFC and an enhanced deal flow.

### 10.5.2 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, with continued investor interest and access to senior debt leverage.

We expect to see an increase in the volume of funds under management through the Deucalion funds during 2008 and into 2009, principally through increased ownership of aircraft, but also through opportunistic investment across the aviation sector in aero engines, airline equities and freighter conversion opportunities.

Despite a more volatile and tightening credit market at year-end 2007, we do not expect the competition for investment projects to abate significantly in the near term. Some deterioration in airline profitability might reasonably be expected in 2008, at least in some regions of the world where we are seeing some early signs of weakening GDP growth (there is a close and widely recognised correlation between GDP and airline traffic growth). Asset price inflation, which has been a feature of the last several years across the more popular asset types, may also see some levelling off with a welcome correction (for an investor) to the balance of risk/reward.

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, aviation remains a volatile and cyclical industry. We will remain focused and disciplined in identifying not only new investment opportunities, but also the opportunity of selling existing assets at a profit.

### 10.5.3 Intermodal Equipment Fund

We aim to further enhance our presence as a creative and knowledgeable investor within the global Intermodal sector.

The Intermodal Fund is well positioned to take advantage of the continued and widespread investment opportunities in the Intermodal sector. The fund has sufficient access to capital, continuing strong investor interest, good access to senior debt leverage, and is backed by deep in-house know-how of the market and (especially) by the expertise in the residual risk of the assets. It is not our focus to enter into operational activities.

We expect to increase the volume of funds under management, principally but not only through the acquisition of new and/or existing Intermodal equipment but also through opportunistic investments in large container portfolios, leasing companies and Intermodal equipment trading activity, including the after-market.

### 10.5.4 Cruise/Ferry Funds

Despite a more volatile and tightening credit market, the Cruise/Ferry Master Fund is well positioned to take advantage of the continued and widespread investment opportunities in the cruise and ferry sectors.

In the case of the cruise sector, demand for cruise vacations continues to grow strongly, and combined with a historically reasonable order book and the advent of SOLAS 2010 phase-out of certain older tonnage, the prospects for investing in the sector continue to be promising.

The picture in the ferry sector is similar: a historically small order book, combined with a high percentage of tonnage older than 35 years requiring replacement in the next decade, means that substantial fleet renewal opportunities exist.

Backed by deep in-house knowledge of the market and asset values, the fund continues to enjoy strong investor interest and good access to senior debt leverage. A healthy pipeline of opportunities, solid market prospects and a faster-than-anticipated investment process, has prompted us to contemplate the setup of a second, €200 million master fund, in order to benefit from an ongoing advantageous investment environment in both sectors.

## 10.6 ITF Suisse subsidiary

ITF Suisse envisages expanding its group of regular contacts within the interbank market to around 45 institutions in 2008. Its business model is based on the trusting cooperation with partner banks. A maximum of around 50 partner institutions is considered to be sufficient to realise the projected business development, with the bulk of transactions expected to be entered into with between 10 and 15 counterparties.

Global transport continues to benefit from a sustained boom, with new orders for ships and aircraft at historical highs. This indicates continued demand for financing, and even the current funding difficulties are unlikely to permanently subdue business performance.

It is fair to assume that business in the first half of 2008 is unlikely to match original expectations. On the other hand, an expected revival in the deal flow from mid-year onwards will allow ITF Suisse to catch up at least some of the shortfall. This market recovery is expected to continue into the year 2009.

Given the delay in business origination, planned net interest income is no longer likely to be realised. In contrast, fee and commission income is likely to match the targets, given a certain compensation effect plus the improvement in market terms.

Key objectives pursued in structuring the financing portfolio are a certain size level, with projected portfolio size of between US\$1.5 billion to US\$2 billion by the end of 2008, as well as a good level of diversification. In view of a certain degree of overheating which can be observed in the aviation finance markets (characterised by a combination of low margins and high loan-to-value ratios), portfolio exposure to this asset class is likely to remain underweight; at least, it will remain below budget.

Over a long-term horizon, the target portfolio weightings 50–60% shipping finance and 30–35% aviation finance, with the remaining 5–20% in other asset classes (locomotives, rail wagons, or container boxes). In the current market situation, ITF Suisse will need to ascertain sufficient diversification within each sector – particularly in shipping finance.

To date, lending policies have been adopted for shipping and aviation finance; accordingly, these will be supplemented by a land transport lending policy in the course of this year.

## 10.7 Treasury

We will use a variety of money and capital markets instruments to cover DVB's funding needs over the years 2008 and 2009. This is designed to maintain 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 Commercial Paper Programme and the Debt Issuance Programme. Our issuance in US-dollar will thus be intensified further.

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

We envisage issuing approx. US\$2.7 billion through our Euro Commercial Paper programme during 2008. Through our Debt Issuance Programme, we plan to issue another US\$3.9 billion in medium- to long-term securities, plus €600 million in promissory note loans.

Refinancing volumes targeted for 2009 within the scope of our issuance programmes and promissory note loans are largely dependent on our new business planning. This will be finalised in the fourth quarter of 2008; at this point in time we are therefore unable to make a statement on the anticipated refinancing volume for 2009.

#### Abbreviations

HGB	German Commercial Code (Handelsgesetzbuch)
KWG	German Banking Act (Kreditwesengesetz)

## 10.8 Financial outlook

*Improved profitability*, together with the continued, *strengthening of the equity base* will remain at the heart of our activities in the years 2008 and 2009. In our view, this *continues to stabilise our ratings* from Standard & Poor's and Moody's. The rating upgrade by Moody's in May 2007 (from A2/P to A1/P-1) has shown that DVB is on the right track.

We forecast further *growth in profit from ordinary activities* in 2008 and 2009, even though the growth rates may not quite match the momentum seen in 2007.

In our view, although the crisis affecting global financial markets will increase refinancing costs, the widening of credit spreads is also set to continue, which in turn could prompt some competitors to reduce their exposure to international transport finance. Such a scenario could, in fact, be advantageous for DVB Bank AG's performance in 2008 and 2009.

We anticipate solid growth potential regarding *net fee and commission income* in particular, thanks to the launch of commission-based services such as equity sourcing, and to the investment in the Investment Management Division. In this way, we have built the foundations for improving operating profit excluding risk provisioning, with reduced cyclicity.

*General administrative expenses* are set to rise moderately. As in 2007, we will continue to expand the three Transport Finance divisions, and the Investment Management Division in particular, introducing new products and bringing additional staff on board. Assuming that we will succeed in further enhancing DVB Group performance in the years 2008 and 2009, we also anticipate increased bonus payments to staff.

The US-dollar/euro exchange rate will continue to have a significant impact on DVB's performance.

- DVB will continue to hedge income denominated in US-dollars in advance, on an annual basis following completion of the planning process for the next business year. DVB has successfully applied such hedges to balance exchange rate fluctuations between the two main currencies it operates in.
- DVB will continue to issue subordinated capital in US-dollar as part of its funding activities. As a result, the increased US-dollar-denominated portion of liable equity (Tier II) components acts as a counterweight against currency-related fluctuations in the total capital ratio.

Our **financial targets** are defined on the basis of return on equity (RoE) and cost/income ratio (CIR – both defined in accordance with the HGB), and the core capital ratio, as defined by the KWG: We plan to achieve further growth in RoE on a medium-term horizon; depending on the level of interest rates, our target is 20%. Continuing the development seen in the last two years, we envisage keeping CIR below 50% during 2008 and 2009. Furthermore, we intend to stabilise the core capital ratio, at a level clearly above 6%.