

The leading specialist in international transport finance



Regulatory Risk Report as at 30 June 2008

DVB

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Introduction

The DVB Group is referred to in this report either as "DVB" or the "DVB Group", whereas DVB Bank AG is identified under its registered company name.

In 2004, the Basel Committee on Banking Supervision issued the Basel II Framework containing international standards for risk-adjusted capital adequacy. The standard was incorporated into German law (to which DVB is subject) on 1 January 2007 through the adoption of the German Solvability Ordinance (*Solvabilitätsverordnung* – "SolV") of 14 December 2006, which was, in turn, the transposition into German law of the European minimum capital standards prescribed in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC), and the corresponding equivalent requirements of the new Basel Capital Accord ("Basel II"). SolV has replaced the capital ratio according to the German Banking Act (*Grundsatz I*), and provides concrete instructions to assure the adequacy of institutions' own funds in compliance with section 10 of the German Banking Act (*Kreditwesengesetz* – "KWG").

DVB has received supervisory approval for the use of the Advanced Internal Ratings Based Approach, effective 1 January 2008, for the determination of credit risk-related charges against regulatory capital.

The issuance of this report marks DVB Bank AG's first-time compliance, in its capacity of parent company of the DVB Group, with the reporting requirements of sections 319 to 337 of the SolV in conjunction with section 26 of the KWG. As a member of the DZ BANK Group, DVB is, in fact, exempt from the reporting requirements of section 319 (2) of the SolV. Nevertheless, the Board of Managing Directors of DVB Bank AG has decided to voluntarily comply with said disclosure requirements. DVB is a specialist bank focused on global transport finance, offering integrated financial and advisory services in the shipping, aviation and land transport segments through its network of 13 office locations around the world. Recognising the requirements associated with its focused market presence and its status having adopted the "Advanced Approach", DVB provides enhanced transparency at all times (rather than just during financial crises), maintaining an active and open financial communications policy.

All details and figures cited in this report are as at, or for the six months ended 30 June 2008. As permitted by section 320 (1) of the SolV, this report incorporates information provided in the DVB Group Annual Report 2007, to the extent that such information is in compliance with the reporting requirements of the SolV.

DVB's strategic focus on international transport finance markets and the resulting specific nature of DVB's business divisions and products mean that certain disclosure requirements are not applicable. In particular, this refers to some (if not all) disclosures required by sections 326 (derivatives), 329 (1) (special loans), 334 (securitisation) and 335 (retail business) of the SolV, thus reducing the qualitative and quantitative scope of this report.

1. Scope

in accordance with section 323 SolvV

Pursuant section 10a (3) sentence 4 of the KWG, DVB Bank AG is deemed to be the parent company of the DVB Group.

Consolidation for regulatory purposes pursuant to section 10 (1) of the KWG differs from the methods and basis of consolidation for accounting purposes as required by International Financial Reporting Standards (IFRS), and supplemented by the statutory requirements of section 315 a (1) of the German Commercial Code (*Handelsgesetzbuch* – “HGB”). There are, furthermore, certain differences in accounting methods required by the SolvV in addition to other special SolvV requirements.

DVB's risk management is comprehensive in nature in that it includes all DVB Group entities. The information contained in this Risk Report relates to all companies in the DVB group of institutions as defined for regulatory purposes.

A comparison of the regulatory treatment of the more important DVB Group companies and the basis of consolidation pursuant to the commercial code is shown in the following **Consolidation Matrix**. The companies have been classified by the nature of their operations under headings that correspond to those defined in section 1 of the KWG.

	Regulatory treatment				IFRS method of consolidation	
	Consolidation		Deduction treatment	Risk-weighted investment	full	pro-rata
	full	pro-rata				
Banks (credit institutions)						
DVB Bank AG, Frankfurt/Main, Germany	•					•
DVB Bank N.V., Rotterdam, Netherlands	•					•
DVB Bank America N.V., Curaçao, Netherlands Antilles	•					•
DVB Group Merchant Bank (Asia) Ltd., Singapore	•					•
ITF International Transport Finance Suisse AG, Zurich, Switzerland	•					•
Financial enterprises						
DVB LogPay GmbH, Eschborn, Germany	•					•
International Transport Finance Ltd., London, UK	•					•
DVB Holding GmbH, Frankfurt/Main, Germany	•					•
Financial services institutions						
DVB Holding (US) Inc., New York City, N.Y., USA	•					•

Six credit institutions, six financial services institutions, and 20 financial enterprises have been fully consolidated for regulatory purposes pursuant to section 10a of the KWG. No companies, on the other hand, are included by way of proportionate consolidation.

All important DVB Group companies are consolidated for regulatory as well as for accounting purposes.

The Bank will merge DVB Bank N.V., Rotterdam, Netherlands, into DVB Bank AG, Frankfurt/Main, simultaneously changing its legal form to change to DVB Bank SE retroactive to 1 January 2008 00:00 hours. The merger will be submitted for registration to the Commercial Register at the Frankfurt/Main local court in August 2008; the legally-effective registration is expected to occur in October 2008.

DVB is not subject to any **restrictions** imposed by third parties, private or public law companies, supranational organisations or governments **on the transferability of equity or loan capital** within the meaning of section 323 (1), number 3 of the SolvV.

DVB Group's subsidiaries that have been excluded from the basis of consolidation for regulatory purposes pursuant to section 10a of the KWG all meet capital adequacy requirements.

2. Amount and structure of own funds

2.1. Structure of own funds

in accordance with section 324 of SolvV

The structure of DVB's regulatory capital at 30 June 2008, calculated in compliance with section 10 of the KWG, is shown below:

€ mn	Own funds
Issued and fully paid ordinary shares	102
Capital reserve plus other reserves eligible for inclusion	169
Special item for general banking risks pursuant to section 340g of the HGB	421
Other components of Tier I capital	132
Items deducted from Tier 1 capital pursuant to section 10 (2a) sentence 2 of the KWG	-4
Items deducted from Tier 1 capital pursuant to section 10 (6 and 6a) of the KWG	-32
Total Tier 1 capital pursuant to section 10 (2a) of the KWG	788
Total Tier 2 capital pursuant to section 10 (2b) of the KWG before deductions and eligible Tier 3 capital pursuant to section 10 (2c) of the KWG	384
Items deducted from Tier 2 capital pursuant to section 10 (6 and 6a) of the KWG	-33
Net Tier 2 capital pursuant to section 10 (2b) of the KWG plus eligible Tier 3 capital pursuant to section 10 (2c) of the KWG	351
Net adjusted available capital pursuant to section 10 (1d) of the KWG plus eligible Tier 3 capital pursuant to section 10 (2c) of the KWG	1,139

DVB's own funds have been aggregated in accordance with section 10a (6) of the KWG.

In accordance with section 10 (4) of the KWG, **Tier 1 capital** includes five silent participations totalling €77.5 million, accruing interest at 8.77% and maturing on 31 December 2010. The silent partnership contributions will be repaid on 30 June 2011, including profit distributions for the 2010 business year, and the pro-rata distribution for the 2011 business year.

The **deductions pursuant to section 10 (2a) no. 2 of the KWG** primarily relate to intangible assets.

DVB's **Tier 2 capital** consists of profit-participation certificates of € 75.0 million, all of which meet the conditions for inclusion stipulated in section 10 (5) of the KWG. The profit-participation certificates are listed on the Frankfurt Stock Exchange under ISIN DE0008045568. (The Prospectus is available – in German only – at http://www.dvbbank.com/de/investor_relations/kapitalmarktaktivitaeten/main_page/index.html). The profit-participation certificates will cease to be eligible for inclusion on 30 June 2008. The end of the term will be on 31 December 2009, and the profit-participation certificate issue will be repaid on 1 July 2010.

Additional Tier 2 capital is in the form of subordinated debt of €342.8 million, which includes €57.5 million in subordinated 6.00% bearer bonds listed on the Frankfurt Stock Exchange under ISIN DE000243752. (The Prospectus is available – in German only – at http://www.dvbbank.com/de/investor_relations/kapitalmarktaktivitaeten/main_page/index.html). The ten-year issue will mature, and be repaid, on 17 August 2011.

Other subordinated Tier 2 capital consists of 36 subordinated promissory notes with maturities ranging between five and fifteen years and are denominated in either euros or US dollars.

There is a further €36.0 million deduction to Tier 2 capital pursuant to section 10a (6) sentences 9 and 10 of the KWG.

DVB had **no Tier 3 capital** at the reporting date.

Items deducted from Tier 1 and Tier 2 capital pursuant to section 10 (6 and 6a) of the KWG consist of shortfalls in value adjustments, and expected losses under the IRB Approach for exposures to equity investments pursuant to section 10a (6a) nos. 1 and 2 of the KWG.

2.2. Capital adequacy

in accordance with section 325 (1) of the SolvV

Detailed information regarding the method used to manage economic capital is provided in Section “7.3 Capacity to carry and sustain risk/risk capital” on pages 105 and 106 of the English language version of DVB's 2007 Group Annual Report. Information contained in the 2007 Annual Report continues to be relevant due to the fact that figures at 30 June 2008 are substantially in line with year-end 2007 figures.

2.3. Capital requirements

in accordance with sections 325 (2), 330 and 331 of the SolvV

2.3.1. Capital requirements for credit risks

DVB has applied the advanced Internal Ratings Based Approach (advanced IRB Approach or IRBA) to determine capital requirements for the bulk of its business that is concentrated in the financing of ships, aircraft as well as rail and road vehicles since 1 January 2008. The Group's internal rating systems have been approved in that respect by the German Federal Financial Supervisory Authority (BaFin). All such exposures are

classified as 'Corporate' assets. Other asset classes are not envisaged by the advanced IRB Approach.

DVB currently has no exposures to securitisations. The transitional arrangements under section 338 (4) of the SolvV have exempted application of the IRBA to equity exposures that arose prior to 31 December 2007. The simple risk weight method is used for all other exposures to equity investments.

An analysis is provided below of ***capital requirements for each asset class under the advanced IRBA and the Credit Risk Standard Approach (CRSA) in addition to equity exposures*** at 30 June 2008.

€ mn	Capital requirement
IRB Approach	310
Corporates	307
Other non-credit related assets	3
Credit Risk Standard Approach	143
Central governments	0
Regional governments and local authorities	0
Other public-sector entities	0
Multilateral development banks	-
International organisations	-
Institutions	13
Asset-backed securities issued by credit institutions	-
Corporates	128
High-volume business	-
Claims secured by property	-
Investment fund units	-
Other exposures	-
Past due exposures	2
Equity investments	7
Equity exposures risk-weighted by the IRBA simple risk method	0
which are not listed on an exchange but are components of a diversified portfolio of equity investments	0
of which: listed	-
of which: others	0
Equity exposures exempted from the IRBA	7
Total credit risk capital requirement	460

There is no additional minimum capital requirement pursuant to section 339 (3) of the SolvV which requires institutions to set aside 95.0% of the minimum capital required under the former capital ratio according to the German Banking Act (*Grundsatz I*).

2.3.2. Capital requirements for market price risks

The standardised approach is used throughout DVB to calculate regulatory requirements for relevant market price risks. The following table shows **capital requirements for market price risks** as determined by the standardised approach:

€ mn	Capital requirement
Interest rate risks	3
Equity risks	-
Currency risks	10
Commodities risks	0
Other risks	-
Total	13

2.3.3. Capital requirements for operational risks

The basic indicator approach is used in DVB to calculate regulatory capital requirements for operational risk. The capital requirement at 30 June 2008 was €37.7 million.

2.3.4. Overall and Tier 1 capital ratios

The **total capital and Tier 1 capital ratios** are shown below for the DVB Group as well as the parent bank, DVB Bank AG:

%	Total capital ratio	Tier 1 capital ratio
DVB Group	17.8	12.3
DVB Bank AG, Frankfurt/Main, Germany	24.3	16.2

DVB Bank N.V., Rotterdam, Netherlands, DVB Bank America N.V., Curaçao, Netherlands Antilles, and DVB Group Merchant Bank (Asia) Ltd., Singapore determine regulatory Tier 1 and total capital ratios in accordance with the specific requirements of their countries of incorporation. DVB has been consistently in compliance with the relevant Tier 1 and total capital ratios.

3. Credit risk

3.1. Objectives and principles of credit risk management

in accordance with section 322 of the SolvV

The objectives and principles on which risk management is based are described in section “7.4.1 Credit risk” of the risk report on pages 107 to 117 of the Group Annual Report 2007. The information given continues to be valid.

3.2. Gross lending volumes and allowance for credit losses by instrument exposed to credit risk

in accordance with section 327 of the SolvV

The figures on gross lending volumes and allowance for credit losses required to be disclosed by section 327 of the SolvV have been determined in accordance with internal guidelines and are consistent with the figures disclosed in the Group Annual Report 2007. DVB intends to report all figures required to be disclosed by section 327 of the SolvV in the Group Annual Report.

3.2.1. Gross lending volumes

In line with DVB's internal management processes, lending volumes are broken down by nature of transaction 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 (gross lending volume). Gross lending volumes correspond to the carrying amount of loans and undrawn commitments, and to market values of banking book investment securities as well as 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. Gross lending volumes are reported by business division and geographical segment.

DVB is of the opinion that the use conventional industrial sector classifications is of little relevance to the specialised nature of its business. Consistent with internal risk reports, figures are, instead, classified by business division. Detailed figures by individual business division have been provided in the Group Annual Report 2007. **Gross lending volumes by business division and risk-bearing instrument** are shown in the following table.

€ mn	Loans, commitments and other non-derivative off-balance sheet assets	Securities	Derivative financial instruments
Shipping	8,459.8	0.0	21.0
Aviation	3,686.5	1.1	0.0
Land Transport	1,191.9	0.0	4.2
Investment Management	521.5	0.0	1.5
Other	1,739.1	109.1	229.1
Total	15,598.8	110.2	255.8

'Other' includes the Treasury Division, ITF Suisse and the D-Marketing and Transport Infrastructure portfolios, which are no longer consistent with the Bank's strategy (cf. section 7.4.1.5 of the 2007 Group Annual Report, p. 112 for details).

DVB's *gross lending volumes* are shown below both *by risk-bearing instrument and location* of the ultimate economic borrower.

€ mn	Loans, commitments and other non-derivative off-balance sheet assets	Securities	Derivative financial instruments
Asia	3,627.6	0.0	4.0
Australia/New Zealand	52.6	0.0	0.4
Europe	7,041.1	110.2	206.2
Middle East/Africa	454.5	0.0	1.7
Central and South America/Caribbean	570.9	0.0	3.1
North America	3,088.6	0.0	39.0
Offshore	763.5	0.0	1.4
Total	15,598.8	110.2	255.8

Gross lending volumes by scheduled residual term to maturity and credit risk-bearing instrument are shown below:

€ mn	Loans, commitments and other non-derivative off-balance sheet assets	Securities	Derivative financial instruments
up to 1 year	2,565.7	0.0	23.2
from 1 year to 5 years	3,911.7	100.2	194.3
more than 5 years and without final maturity	9,121.4	0.0	38.3
Total	15,598.8	100.2	255.8

The following table shows **non-impaired, performing exposures by business division** in comparison with the overall portfolio:

€ mn	Total portfolio	Non-impaired, non-overdue portfolio
Shipping	8,480.8	8,404.4
Aviation	3,687.7	3,593.7
Land Transport	1,196.1	1,190.3
Investment Management	522.9	522.9
Other	2,077.3	2,045.0
Total	15,964.8	15,756.3

The following table shows **non-impaired, performing exposures by geographical region**:

€ mn	Total portfolio	Non-impaired, non-overdue portfolio
Asia	3,631.6	3,631.6
Australia/New Zealand	53.0	53.0
Europe	7,357.5	7,226.0
Middle East/Africa	456.2	456.2
Central and South America/Caribbean	574.0	569.5
North America	3,127.6	3,055.1
Offshore	764.9	764.9
Total	15,964.8	15,756.3

In addition, problem and past due exposures are shown below by business division and geographical region.

Claims are classified as "**in default**" or "**past due**" in the event of any failure to pay interest, principal, or other amounts due, unless the exposure has already been classified as non-performing.

Claims are classified as "**non-performing**" or "**impaired**" when allowance for credit losses has been recognised.

The next table shows **past due exposures for which no individual impairment has been recognised, together with the fair value of related collateral, by division**.

€ mn	Past due, non-impaired lending volume				Fair value of collateral for past due, non-impaired exposures
	Up to 30 days past due	30 to 60 days past due	60 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	0.2	0.0
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
Total	0.0	0.0	0.0	0.2	0.0

The next table shows *past due exposures for which no individual impairment has been recognised, together with the fair value of related collateral, by geographical region:*

€ mn	Past due, non-impaired lending volume				Fair value of collateral for past due, non-impaired exposures
	Up to 30 days past due	30 to 60 days past due	60 to 90 days past due	More than 90 days past due	
Asia	0.0	0.0	0.0	0.0	0.0
Australia/New Zealand	0.0	0.0	0.0	0.0	0.0
Europe	0.0	0.0	0.0	0.2	0.0
Middle East/Africa	0.0	0.0	0.0	0.0	0.0
Central and South America/Caribbean	0.0	0.0	0.0	0.0	0.0
North America	0.0	0.0	0.0	0.0	0.0
Offshore	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.2	0.0

3.2.2. Allowance for credit losses

The following tables show *individually impaired exposures by division, together with related collateral:*

€ mn	Amount before impairment	Amount of individually assessed impairment	Amount after impairment	Fair value of collateral for impaired exposures
Shipping	76.3	9.6	66.7	63.0
Aviation	93.7	38.4	55.3	37.9
Land Transport	5.8	3.2	2.6	0.0
Investment Management	0.0	0.0	0.0	0.0
Other	32.4	19.9	12.5	7.3
Total	208.2	71.1	137.1	108.2

This table, on the other hand, shows ***individually impaired exposures and related collateral by geographical region***:

€ mn	Amount before impairment	Amount of individually assessed impairment	Amount after impairment	Fair value of collateral for impaired exposures
Asia	0.0	0.0	0.0	0.0
Australia/New Zealand	0.0	0.0	0.0	0.0
Europe	131.3	38.0	93.3	81.3
Middle East/Africa	0.0	0.0	0.0	0.0
Central and South America/Caribbean	4.5	4.5	0.0	0.0
North America	72.4	28.6	43.8	26.9
Offshore	0.0	0.0	0.0	0.0
Total	208.2	71.1	137.1	108.2

The following tables show the ***development of DVB's allowance for credit losses***. The first table separately shows individually assessed impairments by ***business division*** and total collectively assessed allowance for credit risk.

€ mn	1 Jan 2008	Additions	Charge-offs	Reversals	Ex-change rate and other differences	Net amount at 30 Jun 2008
Shipping	19.8	0.0	4.2	6.4	0.4	9.6
Aviation	48.2	3.2	1.6	8.4	-3.1	38.4
Land Transport	3.5	0.0	0.0	0.3	0.0	3.2
Investment Management	0.0	0.0	0.0	0.0	0.0	0.0
Other	33.7	0.0	12.6	0.9	-0.3	19.9
Total individually assessed impairments and allowances	105.2	3.2	18.4	16.0	-3.0	71.1
Total portfolio allowance for credit risks	8.0	0.0	0.0	0.0	0.0	8.0
of which: Aviation	3.7	0.0	0.0	0.0	0.0	3.7
of which: Land Transport	0.2	0.0	0.0	0.0	0.0	0.2
of which: Other	4.1	0.0	0.0	0.0	0.0	4.1
Total impairments and allowances	113.2	3.2	18.4	16.0	-3.0	79.1

'Other' predominantly consists of allowance for the non-strategic D-Marketing and Transport Infrastructure portfolios (cf. section 7.4.1.4 of the Group Annual Report 2007 for details).

The following table shows the development of *allowance for credit losses by geographical region*:

€ mn	1 Jan 2008	Additions	Charge-offs	Reversals	Ex-change rate and other differences	Net amount at 30 Jun 2008
Asia	0.0	0.0	0.0	0.0	0.0	0.0
Australia/New Zealand	0.0	0.0	0.0	0.0	0.0	0.0
Europe	68.4	0.2	18.4	11.7	-0.6	38.0
Middle East/Africa	0.0	0.0	0.0	0.0	0.0	0.0
Central and South America/Caribbean	4.8	0.0	0.0	0.0	-0.3	4.5
North America	32.0	3.0	0.0	4.3	-2.1	28.6
Offshore	0.0	0.0	0.0	0.0	0.0	0.0
Total individually assessed impairments and allowances	105.2	3.2	18.4	16.0	3.0	71.1
Total portfolio allowance for credit risks	8.0	0.0	0.0	0.0	0.0	8.0
Total impairments and allowances	113.2	3.2	18.4	16.0	-3.0	79.1

A summary *of loans written off and recoveries by business division* is shown in the following table:

€ mn	Write-offs	Recoveries on loans and advances previously written off
Shipping	0.0	-
Aviation	0.5	-
Land Transport	-	-
Investment Management	-	-
Other	0.0	0.2
Total	0.6	0.2

The next two tables show DVB *provisions for losses on loans and advances by business division and geographical region*:

€ mn	1 Jan 2008	Additions	Charge-offs	Reversals	Ex-change rate and other differences	Net amount at 30 Jun 2008
Shipping	0.2	0.0	0.0	0.1	0.0	0.1
Aviation	0.0	1.2	0.8	0.0	0.0	0.4
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	0.2	0.0	0.0	0.1	0.0	0.1
Total allowance for credit losses	0.4	1.2	0.8	0.2	0.0	0.6

€ mn	1 Jan 2008	Additions	Charge-offs	Reversals	Ex-change rate and other differences	Net amount at 30 Jun 2008
Asia	0.0	0.0	0.0	0.0	0.0	0.0
Australia/New Zealand	0.0	0.0	0.0	0.0	0.0	0.0
Europe	0.4	1.2	0.8	0.2	0.0	0.6
Middle East/Africa	0.0	0.0	0.0	0.0	0.0	0.0
Central and South America/Caribbean	0.0	0.0	0.0	0.0	0.0	0.0
North America	0.0	0.0	0.0	0.0	0.0	0.0
Offshore	0.0	0.0	0.0	0.0	0.0	0.0
Total allowance for credit losses	0.4	1.2	0.8	0.2	0.0	0.6

3.3. IRBA asset class ratings

in accordance with section 335 (1) of the SolvV

3.3.1. Rating methods used and transitional arrangements

In February 2007, the German Federal Financial Supervisory Authority (BaFin) approved the use of advanced IRBA (advanced Internal Ratings Based Approach) for DVB's Aviation and Shipping portfolio ratings from 1 January 2008.

The internal rating system for rail and road transport vehicles has also been reviewed by BaFin and the Bundesbank, and the use of the advanced IRBA effective 1 January 2008 has also been approved.

DVB and its subsidiaries have, consequently, used the advanced IRB Approach since 1 January 2008 to determine risk-weighted exposures for the financing of ships, aircraft as well as rail and road vehicles. All of these assets have been classified as 'Corporate'.

The gradual implementation for the remaining, smaller loan portfolios is scheduled for completion by the end of 2010 until which the standardised approach will be used. DVB is planning to apply for approval to implement or expand the following rating systems in 2009:

- Sovereigns rating system (only for PD)
- Bank rating system
- Aircraft engines

The advanced IRB Approach is currently used for approximately 90.0% of risk assets and over 80.0% of IRBA exposures.

Different methods of measuring risks are primarily employed under permanent partial use arrangements for the non-strategic business areas D-Marketing and Transport Infrastructure. DVB is no longer accepting new business for these segments, and the portfolios are being phased out. The DVB LogPay subsidiary and central government and local authority credit risk are also included.

3.3.2. Internal rating system structure

DVB's internal rating model (IRM) is used to determine risk-weighted exposure for the Corporate asset class. The IRM consists of four modules for the calculation of an exposure's probability of default (PD), one module for exposure at default (EAD) estimates and six modules for loss given default (LGD).

A multiple-step statistical method based on the "shadow rating approach" is used to determine the rating class of individual counterparties to a transaction. Following an initial approximate classification of the counterparty, a division-specific rating is determined that is subject to change due to qualitative factors (soft factors) and country-specific transfer risk. It is possible to override a final rating by adding a substantiated commentary. All upgrades in ratings must be approved by a body with the relevant authority.

Loss given default (LGD) is determined at DVB by weighting three scenarios: liquidation, restructuring or recovery.

LGD values for restructurings and recoveries are determined with reference to empirical loan loss data. All elements of costs and income are considered when determining LGD. Finally, relevant market conditions for the financed asset are factored in by the internal rating model when liquidation LGD is calculated.

The methods used to determine an asset's horizon value vary from division to division. They include the discounted cash flow value method (DCFV), the future market value method (FMV), projected depreciation and straight-line depreciation.

The asset values calculated by these methods are then reduced by amounts that are determined each year as part of the annual review.

In addition, empirical loan loss data is reviewed annually and is, consequently, an important element in assuring the reliability of the model's LGD estimates.

DVB's conservative approach to estimating EAD is demonstrated by the application of a 100.0% credit conversion factor. All drawn and undrawn lines are, consequently, included in exposures. The undrawn lines, however, must be irrevocable, legally binding lending commitments irrespective of the actual date of drawdown. Different credit conversion factors are only applied to construction loans for which drawdowns may, for example, only be made on a percentage of completion basis.

The manner in which a financed project's stakeholders (guarantors, borrowers, lessees/charterers) are treated depends on the nature of the specific project's structure. In these situations, it is normally possible for owners to select either direct loans, guarantee facilities or other types of finance depending on the preferences of lessees or charterers. The structures and ratings described above involving those stakeholders determine the loan's transaction rating.

3.3.3. Additional uses of internal estimates

In addition to determining regulatory capital adequacy, IRM is also used as an integral instrument for management of the entire bank. For example, the ratings it generates are used for the purposes of lending authorities; unexpected losses are factored into integrated risk limits in order to facilitate the Bank's capability to carry and sustain risk. Standard risk costs, which are also calculated by the model, are an integral component of the formula used to calculate minimum margins for individual exposures both before and after committing the Bank.

3.3.4. Rating system controls

Credit risk exposure for the entire DVB Group is monitored independently by Group Risk Management (GRM). GRM's internal rating responsibilities are:

- conception, implementation and documentation of rating modules;
- ongoing monitoring and consistent application of the rating models;
- review of ratings, and control for (and rectification of) defects in data quality;
- validation and adjustment of rating modules (at least once a year) particularly with respect to the monitoring of the results of its selectivity controls and stability of the rating system.

Internal reports are provided by GRM to, among others, the DVB Bank AG Board of Managing Directors on the findings of its reviews of the rating system. As part of the risk reporting, GRM informs the Board of Managing Directors and the Supervisory Board about rating results such as rating class allocation and developments on a regular basis.

The LGD model is fine-tuned and validated by GRM with subsequent reports to the banking supervisory authorities. The suitability of the IRM is assured once a year by the quantitative and qualitative validation of the PD and LGD risk.

3.3.5. Allocation to rating categories

All obligors or consortia of obligors are initially allocated to the business segment financing ships, aircraft or rail and road vehicles depending on the specific nature of the transaction or the financed asset. Each of these business divisions has its own rating system. DVB's operating systems prevent transactions with counterparties for which no rating has been determined.

3.4. Credit Risk Standard Approach asset classes

in accordance with section 328 (1) of the SolvV

DVB uses the simple risk weight method in conjunction with the Credit Risk Standard Approach to offset collateral against exposures.

The CRSA entails calculating capital requirements exclusively with reference to external risk ratings for claims on central governments and, transitionally, for claims on institutions. Pursuant to sections 43 and 47 of the SolvV, both asset classes are currently required to be used for OECD export credit agencies.

The use of external credit ratings is made in accordance with regulatory requirements. DVB does not apply credit ratings of bond issues to rate exposures.

3.5. Exposures

in accordance with sections 328 (2), 329, 335 (2), nos. 1 and 2 of the SolvV

3.5.1. Exposures with predetermined risk weights

The following table shows total exposure under the CRSA by risk weight, both before and after mitigating credit risk as well as equity exposures, for which the simple risk weight method is used, after credit risk mitigation, by risk weight.

The table, consequently, gives the level of exposure to **credit risk, by risk category**, as determined by the standardised and IRB approaches in conjunction with regulatory risk weights:

€ mn	Total exposure under the CRSA before credit risk mitigation		Total exposures after credit risk mitigation	
			under the CRSA	under the IRBA, using the simple risk weight method for equity exposures
0%	384.2		467.7	-
10%	-		-	-
20%	868.0		829.8	-
35%	-		-	-
50%	-		-	-
75%	-		-	-
100%	1,710.0		1,664.8	-
150%	12.6		12.6	-
190%	-		-	0.2
200%	-		-	-
290%	-		-	-
350%	-		-	-
370%	-		-	0.6
1,250%	-		-	-
Total	2,974.9		2,974.9	0.8

Since DVB currently has no exposures to securitisations, no deductions have been made from capital in that regard. DVB also has no exposures to listed equities under the simple risk weight method.

3.5.2. IRBA exposures by asset type and risk category

The advanced IRB Approach is currently only used for claims on corporates by the business divisions financing ships, aircraft or rail and road vehicles. The following table shows **exposures arising from undrawn loan commitments** classified into various categories **as well as average LGD and average risk weight (RW) for investment grade, non-investment grade and default exposures.**

€ mn	Exposure			Avg. LGD (%)	Avg. risk weight (%)
	Total	thereof: undrawn loan commitments	Avg. credit conversion factor (%)		
Investment Grade					
Corporates	2,802.4	547.1	100.0	12.0	9.71
Non-Investment Grade					
Corporates	10,331.8	2,017.0	100.0	8.4	34.5
Default					
Corporates	88.9	-	100.0	8.8	0.0
Total	13,223.1	2,564.1			

Claims on corporates do not include either claims on SMEs or specialised lending. All loans purchased by DVB are treated as conventional claims on borrowers. There is consequently no exposure to dilution risk for purchased receivables.

DVB's exposures are generally all collateralised by assets of substantial value. The use of the advanced IRB Approach means that all types of collateral (such as aircraft and ship mortgages, indemnities) are eligible to reduce exposures. The assessment of the future collateral value of financed assets is of fundamental importance to DVB's lending business in that it permits the identification of potential problem loans when LGD is determined (see 3.6.2). The above table, therefore, illustrates the good collateralisation quality of DVB's portfolio, both for investment grade as well as non-investment grade exposures.

3.5.3. Actual credit loss experience in the advanced IRBA portfolio

in accordance with section 335 (2) nos. 4, 5 and 6 of the SolvV

Actual credit losses on 'corporate' asset class exposures rated under the advanced IRB approach are shown below:

€ mn	Losses January – June 2008
Corporates	6.2

The actual amount of losses is equivalent to the aggregate of charge-offs against individual impairments and loans written off, less recoveries of claims previously written off.

Actual credit loss experience pursuant to section 335 (2) no. 6 of the HGB, compared to IRB estimates, are only reported once a year since a six-month period is too short to form a basis for analysis.

3.6. Credit risk mitigation under the CRSA and the IRBA

in accordance with section 336 of the SolvV

3.6.1. Loan collateral under the CRSA

DVB uses the simple risk weight method in conjunction with the CRSA to offset collateral against exposures.

All financial collateral deducted by DVB is cash collateral, which is valued daily thus ensuring sufficient monitoring. The only guarantees accepted are bank indemnities issued by Zone A banks and government guarantees. All such indemnities and guarantees are rated annually by the relevant divisional credit unit in accordance with regulatory requirements.

Total collateralised exposures under the **Credit Risk Standard Approach** are shown below by asset class:

€ mn	Financial collateral	Guarantees
Central governments	-	-
Regional governments and local authorities	-	-
Other public-sector entities	-	-
Multilateral development banks	-	-
International organisations	-	-
Institutions	38.3	-
Asset-backed securities issued by credit institutions	-	-
Corporates	44.8	0.4
High-volume business	-	-
Equity investments	-	-
Other exposures	-	-
Past due exposures	-	-
Total	83.1	0.4

3.6.2. Loan collateral under the advanced IRB Approach

DVB includes all eligible collateral when determining default loss rates for exposures rated under the advanced IRB Approach. A distinction is made in this connection between financial collateral, guarantees, physical and other collateral.

Eligible **financial collateral** for exposures under the advanced IRB Approach consist exclusively of deductible cash deposits at DVB credit institutions or other investment grade banks. **Guarantees** consist exclusively of indemnities. Guarantors' ratings are reviewed at least once a year. Guarantors consist entirely of banks and governments most of which are investment grade.

Physical and other collateral, which predominantly consists of the assets being financed, are deductible from loss given default. All eligible collateral satisfy SolvV requirements that include legal enforceability. All transactions, including relevant collateral, are allocated to one of the three asset classes: aircraft, ships, rail and road vehicles.

A special, conservative approach is taken to the valuation of collateral for these three areas. The first step is to obtain external valuations of the collateral. Simulations and statistical techniques are then used to suitably determine future asset values less

deductions for risk. Collateral for assets under construction is recognised with reference to stage of completion in accordance with regulatory requirements. There are normally, in such cases, separate and regulatory approved guaranteed percentage of completion milestones that mitigate loan losses in the event of a default by the producer or ship yard.

Risk concentrations arise as a result of the particular nature of collateral in transport financing. DVB has identified these concentrations and regularly monitors them through appropriate statistical techniques.

The **aggregate amount of collateralised exposures under the advanced IRB Approach** and equity exposures under the simple risk weight method are shown below.

€ mn	Financial collateral	Other / physical collateral	Guarantees
Corporates	-	12,015.0	-
Equity exposures under the simple risk weight method	-	-	-
Total	-	12,015.0	-

3.6.3. Trading book collateral

DVB concludes collateral agreements with the most important counterparties to reduce credit risk. These agreements provide for the marking-to-market and netting of all relevant financial instruments once a week. The resultant net positions are then collateralised in cash. The counterparty's limit is then reduced by the resultant positive market values until the next cash settlement, and the related cash collateral is treated as financial collateral, which has been recognised by the supervisory authorities.

There is an autonomous system for calculating and agreeing market values with counterparties that is independent of market segment risk control units with the back office being responsible for the administration of collateral.

3.7. Trading book counterparty risks

in accordance with section 326 of the SolvV

DVB trades in derivative financial instruments for the purpose of managing and hedging interest rate, foreign exchange and liquidity risks. The derivative financial instruments traded are primarily currency swaps, foreign exchange forwards, currency options and cross-currency swaps to hedge foreign exchange risk in addition to interest rate swaps, swaptions, caps, floors and forward rate agreements for hedging interest rate risk. Trading in derivatives is regulated by internal trading limits.

Available trading limits are reduced immediately on entering into a contract and the outstandings under a limit is the maximum position that must be covered in the event of counterparty default. The replacement cost of an exposed position is the current positive market value of the financial instrument plus the regulatory add-on. Current market value of all financial products is individually determined by models in accordance with normal market practice.

The following table shows the *derivative counterparty risk exposures before and after netting and deduction of collateral*:

€ mn	Positive market value before netting and collateral	Eligible for netting	Deductible collateral	Positive market value after netting and collateral
Interest rate contracts	110.1	-		
Foreign exchange contracts	157.8	-		
Equity/index contracts	-	-		
Credit derivatives	-	-		
Commodities contracts	0.0	-		
Other contracts	-	-		
Total	267.9	-	38.3	229.6

Exposure to counterparty risk in connection with marked-to-market positions in derivatives is € 448.4 million.

4. Equity investment risk

in accordance with section 332 of the SolvV

DVB only has a very few equity exposures in the banking book, which are primarily strategic in nature.

The transitional provisions of section 338 (4) of the SolvV entailing the use of the advanced IRB Approach have been applied to equity exposures that were on the books at 31 December 2007, which are the greatest part of DVB's exposure to equity investments.

DVB uses the simple risk weight method pursuant to section 98 of the SolvV for new and increased equity exposures.

DVB currently holds no investments in listed equities. Furthermore, due to the fact that the carrying amount approximates the value at which equities are required to be accounted for by the German Commercial Code, no other value is calculated meaning that fair value corresponds to the carrying amount of equity investments.

The **carrying amount of banking book equity exposures** is shown in the following table by type of equity investment.

€ mn	Carrying amount/ fair value
Investments in credit institutions	18.4
of which: unlisted but components of a diversified portfolio of equity investments	-
of which: others	-
of which: exempted by section 338 (4) of the SolvV	18.4
Investments in financial enterprises	7.3
of which: unlisted but components of a diversified portfolio of equity investments	-
of which: others	-
of which: exempted by section 338 (4) of the SolvV	7.3
Investments in corporates	60.5
of which: unlisted but components of a diversified portfolio of equity investments	0.2
of which: others	-
of which: exempted by section 338 (4) of the SolvV	60.3
Investments in investment funds	0.6
of which: unlisted but components of a diversified portfolio of equity investments	-
of which: others	0.6
of which: exempted by section 338 (4) of the SolvV	-
Total	86.8

Equity investments in credit institutions is primarily the excess of the consideration paid for the predecessor entity to today's DVB Bank N.V., Rotterdam, Netherlands in 2000, over net assets acquired.

Realised gains and losses on equity instruments are reported in accordance with disclosure requirements under the HGB. No such gains and losses were realised during the past financial year.

Due to the fact that there are currently no listed equities in DVB's banking book, there were no unrealised or deferred gains or losses on revaluations under German GAAP.

5. Market price risk

in accordance with sections 322, 333 of the SolvV

Section “7.4.3 Market price risk” of the risk report contained in the Group Annual Report 2007 (pages 118 – 120) gives details of market price risk management objectives and principles, including a description of the models used as well as information regarding the interest rate risk inherent in the trading book.

DVB uses overnight Value at Risk (VaR), at the 99.0% quantile of time series simulations, for the internal management of banking book interest rate risk, which at 30 June 2008 was €1.0 million.

In addition to VaR, changes in the present value of the banking book are determined with reference to data provided by BaFin on interest rate shock scenarios for various currencies. The following table shows **banking book interest rate risk**.

€ mn	+130 bp interest rate shock	-190 bp interest rate shock
Euro	1.8	-2.8
US dollar	1.7	-2.7
Other currencies	0.3	-0.5
Total	3.8	-6.0

Present value fluctuations in DVB's banking book during the period under review were below 20.0% of regulatory capital and were, therefore, not required to be disclosed.

DVB worldwide



-  Shipping
-  Aviation
-  Land Transport

Head office

Frankfurt/Main
DVB Bank AG
Platz der Republik 6
60325 Frankfurt/Main

Phone +49(0) 69 97 50 40
Fax +49(0) 69 97 50 44 44

Europe

Bergen/Oslo
DVB Bank N.V.
Nordic Branch
Strandgaten 18
5013 Bergen, Norway

Phone +47 55 309 400
Fax +47 55 309 450

Nedre Vollgate 8, 6th floor
0158 Oslo, Norway

Phone +47 22 910 330
Fax +47 22 910 331

Cardiff
TES Aviation Group
Suite 5, Innovation Centre
Navigation Park
Abercynon, South Wales CF45 4SN, UK

Phone +44 1443 740 740
Fax +44 1443 740 300

Hamburg
DVB Bank AG
Shipping Division
Ballindamm 6
20095 Hamburg, Germany

Phone +49 (0) 40 30 80 04 0
Fax +49 (0) 40 30 80 04 12

London
DVB Bank AG
London Branch
80 Cheapside
London EC2V 6EE, UK

Phone +44 207 618 9600 / 9700
Fax +44 207 618 9651 / 9750

Piraeus
DVB Bank AG
Representative Office Greece
The Chandris Building
95, Akti Miaouli
185 38 Piraeus, Greece

Phone +30 210 4557 400
Fax +30 210 4557 420

Rotterdam	DVB Bank N.V. Parklaan 2 3016 BB Rotterdam, The Netherlands	Phone +31 10 206 7900 Fax +31 10 436 2957
Zurich	ITF International Transport Finance Suisse AG Wasserwerkstrasse 12 8006 Zurich, Switzerland	Phone +41 44 3656 100 Fax +41 44 3656 200
The Americas		
Curaçao	DVB Bank America N.V. Zeelandia Office Park Kaya W.F.G. Mensing 14 Curaçao, Netherlands Antilles	Phone +599 9 431 8700 Fax +599 9 465 2366
New York	DVB Transport (US) LLC Representative Office of DVB Bank AG 609 Fifth Avenue New York, NY 10017-1021, USA	Phone +1 212 588 8864 Fax +1 212 588 8936
	DVB Capital Markets LLC 609 Fifth Avenue New York, NY 10017-1021, USA	Phone +1 212 858 2623 Fax +1 212 588 0424
	DVB Service (US) LLC 609 Fifth Avenue New York, NY 10017-1021, USA	Phone +1 212 858 2640 Fax +1 212 858 2678
Asia		
Hong Kong	DVB Service Company (HK) Ltd Suite 811, Tsimshatsui Center, East Wing 66 Mody Road, Tsimshatsui, Kowloon Hong Kong, China	Phone +852 2268 6683 Fax +852 2268 6768
Singapore	DVB Group Merchant Bank (Asia) Ltd 77 Robinson Road # 30-02 Singapore 068896	Phone +65 6511 3433 Fax +65 6511 0700
Tokyo	International Transport Finance Ltd Tokyo Branch The Imperial Hotel Tower 14th Floor (A-2) 1-1, Uchisaiwaicho 1-chome Chiyoda-ku Tokyo 100-0011, Japan	Phone +81 3 3593 7700 Fax +81 3 3593 7860

Imprint

**DVB Bank
Aktiengesellschaft
Platz der Republik 6
60325 Frankfurt/Main**

**Elisabeth Winter
Manager Investor Relations
Phone +49 (0) 69 97 50 43 29
Fax +49 (0) 69 97 50 43 33
Elisabeth.Winter@dvbbank.com**

**Responsible for content:
Markus Theisen
Team-Head Group Risk Management/Portfolio Management
Phone +49 (0) 69 97 50 44 54
Fax +49 (0) 69 97 50 49 08
Markus.Theisen@dvbbank.com**

The Regulatory Risk Report of DVB Group as at 30 June 2008
is published in English and German.

Design concept and realisation:
GolinHarris B&L GmbH, Frankfurt/Main, Germany

Typesetting and graphics:
Studio Oberländer, Frankfurt/Main, Germany