



Regulatory  
Risk Report  
as at 31 December

2009



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The DVB Group is referred to in this report either as “DVB” or the “DVB Group”, whereas the European public limited-liability company (Societas Europaea) is referred to by its registered name “DVB Bank SE”.

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 Solvency Regulation (Solvabilitätsverordnung – SolvV) 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). SolvV 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.

With this report, DVB Bank SE, in its capacity as parent company of the DVB Group, complies with the reporting requirements of sections 319 to 337 of the SolvV in conjunction with section 26 a 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 SolvV. Nevertheless, the Board of Managing Directors of DVB Bank SE 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 its Shipping Finance, Aviation Finance, and Land Transport Finance 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 twelve months ended, 31 December 2009. As permitted by section 320 (1) of the SolvV, this report incorporates references to information provided in the DVB Group Annual Report 2009, to the extent that such information is in compliance with the reporting requirements of the SolvV.

DVB’s strategic focus on global transport markets, and the resulting specific nature of its 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 (high volume business) of the SolvV, thus reducing the qualitative and quantitative scope of this report.

Rounding differences may occur in the tables included in this report, as a result of rounding pursuant to standard business principles.

The economic conditions of the business year 2009 and the repercussions of the financial markets crisis on DVB are detailed in the Group Annual Report on pages 87 to 105, which is why we refer you to these sections to the full extent.

## Scope in accordance with section 323 of the SolvV

Pursuant to section 10 a (3) sentence 4 of the KWG, DVB Bank SE is deemed to be the parent company of the DVB Bank 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 meaning 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 German 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. ①

As in the previous year, five credit institutions, three financial services providers, and 22 financial enterprises have been fully consolidated for regulatory purposes pursuant to section 10 a of the KWG. No companies, on the other hand, are included by way of proportional consolidation. One company is not included pursuant to section 31 of the KWG. All essential DVB Group companies are consolidated for regulatory as well as for accounting purposes. DVB did not make use of the exemption provided by section 2 a of the KWG pursuant to which, if certain conditions are met, the supervision of individual institutions domiciled in Germany within a group of institutions may be performed by the group supervisor. DVB is not subject to any restrictions imposed by third parties, private or public law companies, supranational organisations or governments as to the transferability of equity or loan capital within the meaning of section 323 (1), number 3 of the SolvV. DVB Group subsidiaries that have been excluded from the basis of consolidation for regulatory purposes pursuant to section 10 a of the KWG all meet capital adequacy requirements. Therefore, disclosure pursuant to section 323 (2) of the SolvV is not necessary.

### ① Consolidation matrix

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

## Structure of own funds in accordance with section 324 of the SolvV

The structure of DVB's regulatory capital at 31 December 2009, calculated in compliance with section 10 of the KWG and prior to appropriation of profits, is shown below: ①

Please refer to page 94 of the Annual Report for details regarding the structure of DVB's regulatory capital after appropriation of profits.

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

Due to the remaining term in accordance with section 10 (4) of the KWG, tier 1 capital no longer includes five silent partnership contributions totalling €77.5 million, all of which bear interest at 8.77% and mature 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 (2 a) no. 2 of the KWG primarily relate to intangible assets.

DVB's tier 2 capital consists of subordinated liabilities of €326.9 million, which includes €57.5 million in subordinated 6.00% bearer bonds listed on the Frankfurt Stock Exchange under ISIN DE0002437522.



The prospectus for this issue is available (in German only) at [http://www.dvbbank.com/en/investor\\_relations/capital\\_market\\_activities/index.html](http://www.dvbbank.com/en/investor_relations/capital_market_activities/index.html)

The ten-year issue will mature, and is repayable, on 17 August 2011. As a result of its remaining term, the issue is only included in tier 2 capital at a weighting of 40%.

Other subordinated tier 2 capital consists of 15 subordinated promissory notes with maturities ranging between five and fifteen years, denominated in either euros or US dollars.

There is a further €45.0 million deduction to tier 2 capital pursuant to section 10 a (6) sentences 9 and 10 of the KWG.

DVB had utilised eligible tier 3 capital in the amount of €13 million as at the reporting date.

Items deducted from tier 1 and tier 2 capital pursuant to sections 10 (6 and 6 a) of the KWG consist of shortfalls of allowances and expected losses under the IRB approach for exposures to equity investments pursuant to section 10 a (6 a) nos. 1 and 2 of the KWG. Upon approval of net income for the year and the specific and general valuation allowances included in such net income, the shortfall will be reduced by approximately €55 million.

## 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 "Capacity to carry and sustain risk/risk capital" on pages 109 and 110 of the report on

### ① Structure of regulatory capital prior to appropriation of profits (€ mn)

	Own funds 2009	Own funds 2008	%
Issued and fully paid ordinary shares (less treasury shares)	114	114	0.0
Capital reserve plus other reserves eligible for inclusion	294	297	- 1.0
Special item for general banking risks pursuant to section 340 g of the HGB	504	423	19.1
Other components of tier 1 capital	54	140	- 61.4
Items deducted from tier 1 capital pursuant to section 10 (2 a) sentence 2 of the KWG	- 8	- 7	14.3
Items deducted from tier 1 capital pursuant to section 10 (6 and 6 a) of the KWG	- 59	- 37	59.5
<b>Total tier 1 capital pursuant to section 10 (2 a) of the KWG</b>	<b>899</b>	<b>930</b>	<b>- 3.3</b>
Total tier 2 capital pursuant to section 10 (2 b) of the KWG before deductions and eligible tier 3 capital pursuant to section 10 (2 c) of the KWG	283	350	- 19.1
Items deducted from tier 2 capital pursuant to section 10 (6 and 6 a) of the KWG	- 59	- 37	59.5
Eligible tier 3 capital pursuant to section 10 (2 c) of the KWG	13	0	-
<b>Total tier 2 capital pursuant to section 10 (2 b) of the KWG plus eligible tier 3 capital pursuant to section 10 (2 c) of the KWG</b>	<b>237</b>	<b>313</b>	<b>- 24.3</b>
<b>Net adjusted available capital pursuant to section 10 (1 d) of the KWG plus eligible tier 3 capital pursuant to section 10 (2 c) of the KWG</b>	<b>1,136</b>	<b>1,243</b>	<b>- 8.6</b>

## Amount and structure of own funds

opportunities and risks in DVB's Group Annual Report 2009. As at 31 December 2009, DVB's regulatory capital amounted to a total of €1,136 million (2008: €1,243 million). DVB's aggregate risk cover used for economic capital management, as disclosed in the report on opportunities and risks on pages 109 and 110 of the 2009 consolidated financial statements, amounted to €1,821 million (2008: €1,603 million).

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

#### Capital requirements for credit risks

Since 1 January 2008, DVB has applied the Internal Ratings Based Approach (IRB Approach or IRBA) to determine capital requirements of its business with ships, aircraft, as well as rail and road vehicles. 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 were not envisaged by the advanced IRBA during the year under review.

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-weighted 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 31 December 2009. ①

Additional minimum capital requirement pursuant to section 339 (3) of the SolvV which requires institutions to set aside 95% of the minimum capital required under the former capital ratio according to the German Banking Act (Grundsatz I), amounted to €488.9 million.

#### ① Capital requirements by asset classes (€ mn)

	Capital requirements 2009	Capital requirements 2008	%
<b>IRB Approach</b>	<b>360</b>	<b>327</b>	<b>10.1</b>
Corporates	306	322	- 5.0
Other non-credit related assets	54	5	-
<b>Credit Risk Standard Approach</b>	<b>131</b>	<b>180</b>	<b>- 27.2</b>
Sovereign governments	0	0	-
Regional governments and local authorities	-	0	-
Other public-sector entities	0	0	-
Multilateral development banks	-	-	-
International organisations	-	0	-
Institutions	10	9	11.1
Asset-backed securities issued by credit institutions	-	-	-
Corporates	120	171	- 29.8
Retail business	-	-	-
Claims secured by property	-	-	-
Investment fund units	-	-	-
Other exposures	-	-	-
Past due exposures	0	0	-
<b>Equity investments</b>	<b>4</b>	<b>7</b>	<b>- 42.9</b>
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	0	-	-
of which: others	0	0	-
Equity exposures exempted from the IRBA	4	7	- 42.9
<b>Total credit risk capital requirement</b>	<b>495</b>	<b>515</b>	<b>- 3.9</b>

## Amount and structure of own funds

## 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: ①

## Capital requirements for operational risks

The basic indicator approach is being used within DVB to calculate regulatory capital requirements for operational risk. The capital requirement on 31 December 2009 was €44.6 million (2008: €37.7 million).

## Overall and tier 1 capital ratios

The total capital and tier 1 capital ratios (after appropriation of profits) are shown below for the DVB Group as well as the parent bank, DVB Bank SE: ②

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.

## ① Capital requirements for market price risks (€ mn)

	Capital requirements 2009	Capital requirements 2008	%
Interest rate risks	6	12	- 50.0
Equity risks	-	-	-
Currency risks	12	13	- 7.7
Commodity risks	-	-	-
Other risks	-	-	-
<b>Total</b>	<b>18</b>	<b>25</b>	<b>- 28.0</b>

## ② Overall and tier 1 capital ratios in %

	2009		2008	
	Total capital ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio
<b>DVB Group</b>	<b>18.0</b>	<b>14.2</b>	<b>18.2</b>	<b>13.9</b>
DVB Bank SE	20.5	15.8	23.7	17.4

## Objectives and principles of credit risk management in accordance with section 322 of the SolvV

The objectives and principles on which credit risk management is based are described in section "Credit risk" of the report on opportunities and risks on pages 111 to 121 of the Group Annual Report 2009.

## 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 report on opportunities and risks of the Group Annual Report 2009. They are explained and disclosed in the sections "Structural analysis of the credit portfolio" on pages 111 to 115 as well as "Early warning system, problem loans, allowance for credit losses" on pages 116 to 121.

Quantitative requirements pursuant to section 327 (2) nos. 1 to 4 can be found in the following tables:

- Credit risk concentration and maximum credit risk exposure by business divisions,
- Credit risk concentration and maximum credit risk exposure by geographical region,
- Gross lending value by residual term.

Quantitative requirements pursuant to section 327 (2) nos. 5 to 6 can be found in the following tables:

- Non-impaired, non-overdue lending volume by business divisions;
- Non-impaired, non-overdue lending volume by geographical region;
- Past due, non-impaired lending volume and value of related collateral by business division;
- Past due, non-impaired lending volume and value of related collateral by geographical region;
- Impaired lending volume and related collateral by business divisions;
- Impaired lending volume and related collateral by geographical region;

- Development of allowance for credit losses by business divisions;
- Development of allowance for credit losses by geographical region.

## IRBA asset class ratings in accordance with section 335 (1) of the SolvV

### Rating methods used and transitional arrangements

In February 2007, the German Federal Financial Supervisory Authority (BaFin) approved the use of the advanced IRBA for DVB's aviation and shipping portfolio ratings and granted authorisation from 1 January 2008. The internal rating system for rail and road transport vehicles has also been reviewed by BaFin and Deutsche Bundesbank, and the usage of the IRBA effective on 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 ship finance, aircraft finance, as well as rail and road vehicle finance. All of these assets have been classified as "Corporate". DVB applied for approval to implement or expand rating systems for the remaining, smaller loan portfolios in the autumn of 2009. This will involve the following rating systems:

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

The acceptance audit is scheduled for spring 2010, until which time the standardised approach will be used.

The advanced IRBA is currently used for 90% of risk assets and over 80% of IRBA exposures.

Different methods of measuring risks are primarily employed under permanent partial use arrangements for the Transport Infrastructure portfolio, which is no longer in line with the Bank's strategy, and the D-Marketing portfolio, which is being phased out. DVB is no longer accepting new business for these segments. The DVB LogPay subsidiary, and sovereign government and local authority credit risk are also included here.

### 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 five modules for loss given default (LGD).

In the meantime, two further LGD modules for aircraft engines and container boxes have been implemented and are currently subject to the “use test”.

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. Considering the given market conditions for the financed objects, the liquidation LGD will be calculated through the IRM.

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 haircuts that are determined at least once a year, as part of the annual validation. In addition, empirical loan loss data is reviewed at least 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% credit conversion factor. All drawn and undrawn lines are, consequently, fully included in exposures. The undrawn lines, however, must be irrevocable, legally binding lending commitments, irrespective of the actual date of draw-down. Transaction-specific credit conversion factors are only applied, for example, to loans financing the construction of new vessels, for which drawdowns may 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 users 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.

## 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. Furthermore, they are used to plan specific allowances for credit losses.

## 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.

GRM’s internal reporting includes reports submitted to DVB Bank SE’s Board of Managing Directors on the findings of its reviews. GRM submits regular reports on rating results to the Bank’s Board of Managing Directors and Supervisory Board, within the scope of risk reporting.

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

## Allocation to rating categories

All obligors or consortia of obligors are allocated to either ship finance, aircraft finance, or rail and road vehicle finance, depending on the specific nature of the transaction or the financed asset. Each of these business divisions has its own rating system – except with respect to leasing companies, which are subject to a separate, cross-divisional rating system. DVB’s operating systems prevent transactions with counterparties for which no rating has been determined.

### Credit Risk Standard Approach asset classes in accordance with section 328 (1) of the SolvV

DVB uses the simple risk-weighted method in conjunction with the Credit Risk Standard Approach (CRSA) to offset collateral against exposures. The CRSA entails calculating capital requirements exclusively with reference to external risk ratings for claims on sovereign 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.

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

#### 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-weighted method is used, after credit risk mitigation. The table consequently gives the level of exposure to credit risk by risk category, as determined by the standardised approach and the IRB approach in conjunction with regulatory risk weights: ①

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-weighted method.

#### ① Exposure amounts with respect to credit risk (€ mn)

	2009			2008		
	Total exposure under the CRSA		Total exposures under the IRBA, using the simple risk-weighted method for equity exposures	Total exposures under the CRSA		Total exposures under the IRBA, using the simple risk-weighted method for equity exposures
	before credit risk mitigation	after credit risk mitigation		before credit risk mitigation	after credit risk mitigation	
0%	488.4	842.6	–	767.6	1,244.9	–
10%	–	–	–	–	–	–
20%	886.8	644.8	–	1,008.0	592.6	–
35%	–	–	–	–	–	–
50%	–	–	–	–	–	–
75%	–	–	–	–	–	–
100%	1,655.6	1,543.5	–	2,218.2	2,156.3	–
150%	8.6	8.6	–	42.2	42.2	–
190%	–	–	0.2	–	–	0.1
200%	–	–	–	–	–	–
290%	–	–	–	–	–	–
350%	–	–	–	–	–	–
370%	–	–	0.3	–	–	0.7
1,250%	–	–	–	–	–	–
<b>Total</b>	<b>3,039.5</b>	<b>3,039.5</b>	<b>0.5</b>	<b>4,036.0</b>	<b>4,036.0</b>	<b>0.8</b>

## IRBA exposures by asset type and risk category

The advanced IRBA is currently only used for claims on corporates by the ship finance, aircraft finance, and rail and road vehicle finance business segments. The following table shows total 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. ①

Claims on corporates do not include either claims on SMEs or special finance exposures. 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 collateralised by assets of substantial value. The use of the advanced IRBA 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 chapter "Loan collateral under the advanced IRBA"). The low LGD ratios underline the good collateralisation structure of the DVB portfolio.

## Actual credit loss experienced 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 IRBA are shown below:

### Actual credit losses (€ mn)

	Losses 2009	Losses 2008
Corporates	3.5	6.7

The actual amount of losses is equivalent to the aggregate of charge-offs against specific allowances for credit losses and loans written off plus direct write-offs, less recoveries of claims previously written off.

### ① Total exposures arising from undrawn loan commitments (€ mn)

	2009					2008				
	Total Exposure	of which: undrawn loan commitments	Average exposure to undrawn loan commitments (%)	Average LGD (%)	Average risk weight (%)	Total Exposure	of which: undrawn loan commitments	Average exposure to undrawn loan commitments (%)	Average LGD (%)	Average risk weight (%)
<b>Investment Grade</b>										
Corporates	2,208.7	216.9	100.0	12.0	15.5	3,503.3	666.8	100.0	9.1	7.3
<b>Non-Investment Grade</b>										
Corporates	13,153.2	1,217.6	100.0	6.4	26.5	13,621.2	2,822.3	100.0	6.7	27.7
<b>Default</b>										
Corporates	410.1	0.6	100.0	15.0	–	99.6	0.8	100.0	7.8	–
<b>Total</b>	<b>15,772.1</b>	<b>1,435.1</b>	<b>100.0</b>	<b>7.4</b>	<b>24.3</b>	<b>17,224.1</b>	<b>3,489.9</b>	<b>100.0</b>	<b>7.2</b>	<b>23.4</b>

### Estimated losses and actual credit loss experienced in the advanced IRBA portfolio in accordance with section 335 (2) no. 6 of the SolvV

In contrast to the full amount of actual losses reported under "Actual credit loss experienced in the advanced IRBA portfolio", the comparison required by section 335 (2) no. 6 of the SolvV is based only on those actual losses attributable to the portion of the portfolio that was not in default on 1 January 2009. The figure so calculated is compared with losses expected from non-defaulted exposures at the beginning of the reporting period. As the actual losses reported under "Actual credit loss experienced in the advanced IRBA portfolio" in the amount of €3.5 million are attributable to defaults prior to 2008, they are included neither in these statistics nor in the cumulative assessment described in the following.

In accordance with section 335 (2) no. 6 of the SolvV, losses need to be assessed over a sufficiently long time period. In order to ensure the necessary transparency, DVB therefore decided to accumulate the actual losses of the previous years with further losses incurred in subsequent periods.

#### Expected and actual losses (€ mn)

	Expected losses 2009	Actual losses 2009	Expected losses 2008	Actual losses 2008
Corporates	88.2	0.0	138.1	6.9
<b>Total</b>	<b>88.2</b>	<b>0.0</b>	<b>138.1</b>	<b>6.9</b>

DVB's business policy was a contributing factor to the low level of actual losses during the year under review, compared to expected losses: in the event of a client becoming insolvent, DVB's risk management procedures generally do not provide for the immediate realisation of collateral – which would often have to be disposed of under unfavourable conditions. In contrast, DVB leverages its expertise to appropriately re-market the assets concerned (such as aircraft, ships, etc.) in the given market environment, thus avoiding the severe losses which might be incurred with a "fire sale".

### Credit risk mitigation under the CRSA and the IRBA in accordance with section 336 of the SolvV

#### Credit collateral under the CRSA

DVB uses the simple risk-weighted method in conjunction with the Credit Risk Standard Approach 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: ①

#### ① Total collateralised exposures under the Credit Risk Standard Approach (€ mn)

	2009		2008	
	Financial collateral	Guarantees	Financial collateral	Guarantees
Sovereign governments	–	–	–	–
Regional governments and local authorities	–	–	–	–
Other public-sector entities	–	–	–	–
Multilateral development banks	–	–	–	–
International organisations	–	–	–	–
Institutions	324.2	10.4	417.1	10.5
Asset-backed securities issued by credit institutions	–	–	–	–
Corporates	19.2	92.9	49.4	12.4
Retail business	–	–	–	–
Equity investments	–	–	–	–
Other exposures	–	–	–	–
Past due exposures	–	–	–	–
<b>Total</b>	<b>343.4</b>	<b>103.3</b>	<b>466.5</b>	<b>22.9</b>

## Loan collateral under the advanced IRBA

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

Eligible financial collateral for exposures under the advanced IRBA consist exclusively of deductible cash deposits at DVB credit institutions or other investment grade banks, as well as guarantees issued by banks or Export Credit Agencies (ECA). Guarantees for such exposures consist exclusively of indemnities. Guarantors' ratings are reviewed at least once a year. Guarantors consist primarily of banks and governments most of which are investment grade.

Physical and other collateral represent primarily the assets financed. All eligible collateral satisfy SolvV requirements that include legal enforceability. All transactions, including relevant collateral, are allocated to one of the three (in future, five) asset classes: aircraft, ships, and rail and road vehicles as well as – in future – aircraft engines and container boxes.

All types of collateral are used for IRBA exposures of DVB exclusively to determine loss given default (LGD).

A special, conservative approach is taken to the valuation of collateral for these three (or five) areas. The first step is to continuously 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 shipyard.

The types of collateral accepted in the Transport Finance business give rise to risk concentrations. DVB has identified these concentrations and regularly monitors them through appropriate statistical techniques.

The aggregate amount of collateralised exposures under the advanced IRBA and equity exposures under the simple risk-weighted method are shown below. ①

Amounts reported as other/physical collateral include both financial collateral and guarantees.

### ① Total collateralised exposures under the advanced IRBA (€ mn)

	2009			2008		
	Financial collateral	Other/physical collateral	Guarantees	Financial collateral	Other/physical collateral	Guarantees
Corporates	–	14,599.7	–	–	15,986.2	–
Equity exposures under the simple risk weight method	–	–	–	–	–	–
Other non-loan related credit assets	–	–	–	–	–	–
<b>Total</b>	<b>–</b>	<b>14,599.7</b>	<b>–</b>	<b>–</b>	<b>15,986.2</b>	<b>–</b>

## 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 process for calculating and agreeing market values with counterparties which is carried out in the risk control units, i.e. independent from the market segments. It also includes collateral management.

## 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, which must be observed.

Available trading limits are reduced immediately upon entering into a contract. Limit utilisation is determined by the potential replacement cost which may be incurred in the event of counterparty default. The replacement cost of an exposed position is the current positive market value of the financial instrument, plus add-on. Current market values and add-ons for all financial products are 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: ①

The market values that had risen significantly in the previous year fell again during the year under review as a result of the slight increase in US dollar interest rates and the decline of the volatilities of the US dollar exchange rate (versus the euro).

The credit equivalent value for derivative counterparty risk exposures, as determined on the basis of the mark-to-market method, amounted to €828.0 million (2008: €998.3 million). This amount – less the above-mentioned eligible collateral – results in a counterparty risk exposure of €503.8 million (2008: €581.2 million).

### ① Assessment of derivative counterparty risk exposures (€ mn)

	2009				2008			
	Positive market value <sup>1)</sup>	Netting options	Deductible collateral	Positive market value <sup>2)</sup>	Positive market value <sup>1)</sup>	Netting options	Deductible collateral	Positive market value <sup>2)</sup>
Interest rate contracts	470.9				455.2			
Foreign exchange contracts	113.1				348.7			
Equity/index contracts	–				–			
Credit derivatives	–				–			
Commodities contracts	–				–			
Other contracts	–				–			
<b>Total</b>	<b>584.0</b>	<b>–</b>	<b>324.2</b>	<b>259.8</b>	<b>803.9</b>	<b>–</b>	<b>417.1</b>	<b>386.8</b>

1) before netting and collateral

2) after netting and collateral

## Equity investment risk in accordance with section 332 of the SolvV

DVB only has very few equity exposures in the banking book, which are primarily strategic in nature. The transitional provisions of section 338 (4) of the SolvV, exempting from the use of the advanced IRBA, 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. ①

Equity investments in credit institutions primarily relate to the excess of the consideration paid for the former 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 business 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 HGB.

### ① Carrying amount of equity investments in the banking book (€ mn)

	Carrying amount/ fair value 2009	Carrying amount/ fair value 2008	%
<b>Investments in credit institutions</b>	<b>10.2</b>	<b>20.8</b>	<b>- 51.0</b>
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	10.2	20.8	- 51.0
<b>Investments in financial enterprises</b>	<b>1.4</b>	<b>0.5</b>	<b>-</b>
of which: unlisted, but components of a diversified portfolio of equity investments	-	-	-
of which: others	0.1	0.1	0.0
of which: exempted by section 338 (4) of the SolvV	1.3	0.4	-
<b>Investments in corporates</b>	<b>41.7</b>	<b>60.6</b>	<b>- 31.2</b>
of which: unlisted, but components of a diversified portfolio of equity investments	0.2	0.1	100.0
of which: others	-	-	-
of which: exempted by section 338 (4) of the SolvV	41.5	60.5	- 31.4
<b>Investments in investment funds</b>	<b>0.3</b>	<b>0.6</b>	<b>- 50.0</b>
of which: unlisted, but components of a diversified portfolio of equity investments	-	-	-
of which: others	0.3	0.6	- 50.0
of which: exempted by section 338 (4) of the SolvV	-	-	-
<b>Total</b>	<b>53.6</b>	<b>82.5</b>	<b>- 35.0</b>

### Market price risk in accordance with sections 322, 333 of the SolvV

Section "Market price risk" of the report on opportunities and risks contained in the Group Annual Report 2009 (pages 122 and 123) gives details of market price risk management objectives and principles, including a description of the models used. Moreover, the changes in market price risks during the reporting period are reflected within the framework of the daily Value-at-risk (VaR). DVB determines market price risks for both our trading book and our banking book on the basis of the same VaR procedure. 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. This daily VaR of the interest rate risk in the banking book amounts to €0.47 million (2008: €1.04 million) as at the reporting date (31 December 2009).

In addition to VaR, changes in the present value of the banking book are determined monthly with reference to data provided by BaFin on interest rate shock scenarios for various currencies. The following table shows this banking book interest rate risk. ①

#### ① Banking book interest rate risk (€ mn)

	2009		2008	
	+ 130 bp interest rate shock	- 190 bp interest rate shock	+ 130 bp interest rate shock	- 190 bp interest rate shock
€	+ 6.64	- 9.48	- 1.2	+ 1.5
US\$	- 12.59	+ 18.91	+ 1.9	- 3.1
Other				
currencies	- 0.97	+ 1.42	0.0	0.0
<b>Total</b>	<b>- 6.91</b>	<b>+ 10.85</b>	<b>+ 0.7</b>	<b>- 1.6</b>

Present value fluctuations in DVB's banking book during the period under review were below 20% of regulatory capital and were therefore not required to be disclosed.

The decline of the VaR as at 31 December 2009 is mainly attributable to the reduction in interest volatilities during the reporting period. The results of the interest rate shock scenarios reflect the changes made to the portfolio in the last two years, which result from the increased use of US dollar refinancing as a replacement of maturing euro transactions.



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