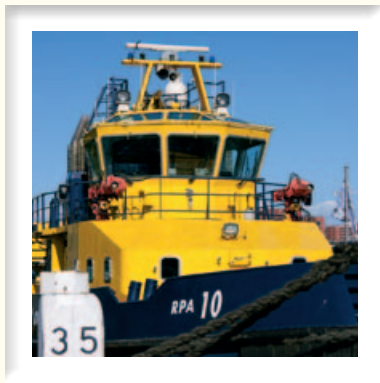


Regulatory
Risk Report
as at 31 December


2010



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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 (IRBA), 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 26a 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 divisions, 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, 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 2010. As permitted by section 320 (1) of the SolvV, this report incorporates references to information provided in the DVB Group Annual Report 2010, 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 areas 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 2010 and the repercussions of the global economic crisis on DVB are detailed in the chapter “Financial position and performance” of our Group Annual Report on pages 104–117, which is why we refer you to these sections to the full extent.

Pursuant to section 10a (3) sentence 4 of the KWG, DVB Bank SE 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 315a (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 group of institutions as defined for regulatory purposes. All material companies of DVB are fully consolidated under both regulatory law and commercial law. 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 25 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 proportional consolidation. One company is not included pursuant to section 31 of the KWG. All essential DVB companies are consolidated for regulatory as well as for accounting purposes. DVB did not make use of the exemption provided by section 2a 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), no. 3 of the SolvV. DVB 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. Therefore, disclosure pursuant to section 323 (2) of the SolvV is not necessary.

① Classifications in 2010

	Banks (credit institutions)	Financial enterprises	Financial services providers
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	•		
DVB Logpay GmbH, Eschborn, Germany		•	
DVB Transport Finance Ltd, London, United Kingdom		•	
DVB Holding GmbH, Frankfurt/Main, Germany		•	
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 2010, calculated in compliance with section 10 of the KWG and prior to appropriation of profits, is shown below: ①

Please refer to page 112 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 10a (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 matured 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 subordinated liabilities of €281.7 million, which include €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 www.dvbbank.com > Investor Relations > Funding > Funding programs.

The ten-year issue will mature, and be repaid, 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 €54.0 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 sections 10 (6) and (6a) of the KWG consist of shortfalls of allowances and expected losses under the IRBA for exposures to equity investments pursuant to section 10a (6a) nos. 1 and 2 of the KWG. Upon approval of net income for the year and the individual and portfolio impairments included in such net income, the shortfall will be reduced by €6 million approximately.

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

	2010	2009	%
Issued and fully paid ordinary shares (less treasury shares)	113	114	-0.9
Capital reserve plus other reserves eligible for inclusion	287	294	-2.4
Special items for general banking risks pursuant to section 340g of the HGB	568	504	12.7
Other components of tier 1 capital	54	54	0.0
Items deducted from tier 1 capital (section 10 (2a) sentence 2 of the KWG)	-5	-8	-37.5
Items deducted from tier 1 capital (section 10 (6 and 6a) of the KWG)	-29	-59	-50.8
Total tier 1 capital (section 10 (2a) of the KWG)	988	899	9.9
Total tier 2 capital (section 10 (2b) of the KWG) before deductions and eligible tier 3 capital (section 10 (2c) of the KWG)	229	283	-19.1
Items deducted from tier 2 capital (section 10 (6 and 6a) of the KWG)	-29	-59	-50.8
Eligible tier 3 capital pursuant to section 10 (2c) of the KWG	0	13	-
Tier 2 capital (section 10 (2b) of the KWG)			
plus eligible tier 3 capital (section 10 (2c) of the KWG)	200	237	-15.6
Net adjusted available capital (section 10 (1d) of the KWG)			
plus eligible tier 3 capital (section 10 (2c) of the KWG)	1,188	1,136	4.6

Capital adequacy in accordance with section 325 (1) of the SolvV

Detailed information regarding the method used to manage economic capital is provided in the section "Capacity to carry and sustain risk/risk capital" on pages 126 to 127 of the report on opportunities and risks in DVB's Group Annual Report 2010. As at 31 December 2010, DVB's regulatory capital amounted to a total of €1,188 million (2009: €1,136 million). DVB's aggregate risk cover used for economic capital management, as disclosed in the same section "Capacity to carry and sustain risk/risk capital" of the report on opportunities and risks, amounted to €1,697 million (2009: €1,821 million).

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

Capital requirements for credit risks

DVB has applied the advanced IRBA to determine capital requirements for its business with ships, aircraft, as well as rail and road transport 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. DVB applied for approval to implement or expand rating systems for the remaining, smaller loan portfolios related to aircraft engines, container boxes and Group Treasury in the autumn of 2009. Approval was granted as of 1 October 2010. The associated exposures are allocated to the asset classes Corporates, Institutions or Sovereign Governments.

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 2010. ¹

Additional capital requirements pursuant to section 339 (5a and 5b) of the SolvV which requires institutions to set aside 80% of the minimum capital required under the former capital ratio according to the German Banking Act (Grundsatz I), amounted to €706 million.

¹ Capital requirements by asset classes (€ mn)

	2010	2009	%
IRBA	349	360	-3.1
Corporates	266	306	-13.1
Institutions	20	-	-
Sovereign Governments	0	-	-
Other non-credit related assets	63	54	16.7
CRSA	54	131	-58.8
Sovereign governments	-	0	-
Regional governments and local authorities	-	-	-
Other public-sector entities	0	0	0.0
Multilateral development banks	-	-	-
International organisations	-	-	-
Institutions	2	10	-80.0
Asset-backed securities issued by credit institutions	-	-	-
Corporates	48	120	-60.0
Retail business	-	-	-
Claims secured by property	-	-	-
Investment fund units	-	-	-
Other exposures	-	-	-
Past due exposures	4	0	-
Equity investments	3	4	25.0
Equity exposures risk-weighted by the IRBA simple risk method			
which are not listed on an exchange but are components of a diversified portfolio of equity investments	1	-	-
of which: listed	-	0	-
of which: others	-	0	-
Equity exposures exempted from the IRBA	2	4	-50.0
Total credit risk capital requirement	406	495	-18.0

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:

Capital requirements for market price risks (€ mn)

	2010	2009	%
Interest rate risks	3	6	-50.0
Equity risks	-	-	-
Currency risks	10	12	-16.7
Commodity risks	-	-	-
Other risks	-	-	-
Total	13	18	-27.8

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 2010 was €45.9 million (2009: €44.6 million).

Total 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 for the parent bank, DVB Bank SE:

Total and tier 1 capital ratios (%)

	2010		2009	
	Total	Tier 1	Total	Tier 1
DVB Group	22.4	18.9	18.0	14.2
DVB Bank SE	26.9	22.1	20.5	15.8

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 requirements regarding tier 1 and total capital ratios.

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 the section "Credit risk" of the report on opportunities and risks on pages 128 to 138 of the Group Annual Report 2010.

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 in the Group Annual Report 2010. They are explained and disclosed in the sections "Structural analysis of the credit portfolio" on pages 128 to 131 as well as "Early warning system, problem loans, allowance for credit losses" on pages 132 to 138.

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

- Credit risk concentration and maximum credit risk exposure by business division
- Credit risk concentration and maximum credit risk exposure by geographical region
- Gross lending volume by residual term

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

- Non-impaired, non-overdue lending volume by business divisions
- Non-impaired, non-overdue lending volume by geographical region
- Overdue exposures for which no individual impairment has been recognised, together with the value of related collateral, by business division
- Overdue exposures for which no individual impairment has been recognised, together with the value of related collateral, by geographical region
- Lending volume for which individual impairments have been recognised, together with related collateral, by business division
- Lending volume for which individual impairments have been recognised, together with related collateral, by geographical region
- Allowance for credit losses by business division
- 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 use of IRBA effective 1 January 2008 has also been approved. DVB and its subsidiaries have consequently used the advanced IRBA since 1 January 2008 to determine risk-weighted exposures for ship finance, aircraft finance, as well as rail and road transport vehicle finance. DVB applied for approval to implement or expand rating systems for the remaining, smaller loan portfolios related to aircraft engines, container boxes and Group Treasury in the autumn of 2009. Approval was granted as of 1 October 2010. This will involve the following rating systems:

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

The asset financing transactions (ships, aircraft, aircraft engines, etc.) are allocated only to the asset class Corporates. The treasury portfolio transactions are allocated to the asset classes Corporates, Institutions and Sovereign Governments, depending on the counterparty's industry key.

The advanced IRBA is currently used for almost 99% of risk assets and over 97% of IRBA exposures.

Permanent partial use arrangements are employed for the business areas Transport Infrastructure and D-Marketing, which are no longer in line with the Bank's strategy. DVB is no longer accepting new business for these segments. The DVB LogPay subsidiary is also included here.

Structure of the Internal Rating Model

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), two modules for the estimation of the expected exposure at default (EAD) as well as seven modules for the expected loss given default (LGD). Moreover, DVB uses two additional modules to determine the probability of default related to a bank or a sovereign government (guarantor for property financings or counterparty within the treasury portfolio).

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.

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.

In the case of a bank or a sovereign government as a counterparty or guarantor, DVB obtains the rating grade allocated to such counterparty from its parent company DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main (in the following: "DZ BANK AG"). This rating grade is subjected to a plausibility check by DVB. The transfer of rating grades has also been reviewed and approved by the BaFin and Deutsche Bundesbank. Both DZ BANK AG modules have had regulatory approval since 2008.

The loss given default (LGD) of an asset finance exposure 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 method (DCF), 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.

ISDA (International Swaps and Derivatives Association) Master Agreements are concluded with counterparties within the treasury portfolio, i.e. the LGD can only be calculated on the basis of the liquidation scenario. The LGD for these transactions is based on empirical loan loss data in line with property financings. All elements of costs and income are considered when determining LGD.

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 measurement basis for money market and currency transactions as well as securities, derivatives and options (EAD) relies on the current positive market value of the financial instrument and the regulatory add-on. The current market value is determined for each transaction, using calculation methods prescribed by regulatory bodies.

Additional uses of internal estimates

In addition to determining regulatory capital adequacy, IRM is also used as an integral instrument for the 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 individual and portfolio impairments.

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 systems

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 PD and LGD models are fine-tuned and validated by GRM, with subsequent reports to the banking supervisory authorities. The suitability of the models is assured at least once a year through the quantitative and qualitative validation of the PD and LGD risk parameters applied within the rating systems. In the case of the PD models for banks and sovereign governments, DZ BANK AG provides the quantitative validation report on an annual basis so that DVB can provide the qualitative part to form a full report, which is also disclosed to the supervisory authorities.

Allocation to rating categories

All obligors or consortia of obligors are allocated to either ship finance, aircraft finance, or rail and road transport 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. An unambiguous allocation to the appropriate rating system is also ensured in the case of banks or sovereign governments. DVB's operating processes prevent transactions with counterparties for which no rating has been determined.

CRSA asset class ratings in accordance with section 328 (1) of the SolvV

DVB uses the simple risk-weighted 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 sovereign governments and on institutions. Pursuant to sections 43 and 47 of the SolvV, for both asset classes OECD (Organisation for Economic Co-operation and Development) export credit agency ratings are currently used.

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 CRSA and the regulatory risk weights applicable under the IRBA: 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)

	2010			2009		
	before credit risk mitigation	CRSA after credit risk mitigation	IRBA, using the simple risk-weighted method for equity exposures	before credit risk mitigation	CRSA after credit risk mitigation	IRBA, using the simple risk-weighted method for equity exposures
0%	110.0	110.3	–	488.4	842.6	–
10%	–	–	–	–	–	–
20%	112.1	112.1	–	886.8	644.8	–
35%	–	–	–	–	–	–
50%	–	–	–	–	–	–
75%	–	–	–	–	–	–
100%	583.6	583.3	–	1,655.6	1,543.5	–
150%	43.0	43.0	–	8.6	8.6	–
190%	–	–	0.6	–	–	0.2
200%	–	–	–	–	–	–
290%	–	–	–	–	–	–
350%	–	–	–	–	–	–
370%	–	–	0.2	–	–	0.3
1,250%	–	–	–	–	–	–
Total	848.7	848.7	0.8	3,039.5	3,039.5	0.5

IRBA exposures by asset type and risk category

The following table shows total exposures arising from undrawn loan commitments classified into various categories and sub-divided in Investment Grade, Non-Investment Grade and Default exposures together with the average LGD and the average risk weight (RW). 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.

The exposures of the Corporate asset class 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 the LGD (see chapter "Credit 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 Solv

Actual credit losses on Corporate asset class exposures rated under the advanced IRBA are shown below:

Actual credit losses (€ mn)

	2010	2009	2008
Corporates	26.1	3.5	6.7

The actual amount of losses is equivalent to the aggregate of charge-offs against individual impairment utilisation and direct write-offs, less recoveries on loans and advances previously written off.

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

	2010					2009				
	Exposure total	Exposure of which: undrawn loan commitments	Average exposure to undrawn loan commitments (%)	Average LGD (%)	Average RW (%)	Exposure total	Exposure of which: undrawn loan commitments	Average exposure to undrawn loan commitments (%)	Average LGD (%)	Average RW (%)
Investment Grade	2,814.1	64.5	100.0	34.7	19.6	2,208.7	301.0	100.0	12.0	15.5
of which: Corporates	2,123.8	64.5	100.0	14.8	17.3	2,208.7	301.0	100.0	12.0	15.5
of which: Institutions	639.0	–	–	100.0	28.0	–	–	–	–	–
of which:										
Sovereign Governments	51.3	–	–	45.0	12.2	–	–	–	–	–
Non-Investment Grade	16,301.2	1,946.8	100.0	4.4	18.4	13,153.2	1,599.7	100.0	6.4	26.5
of which: Corporates	16,301.2	1,946.8	100.0	4.4	18.1	13,153.2	1,599.7	100.0	6.4	26.5
of which: Institutions	–	–	–	–	–	–	–	–	–	–
of which:										
Sovereign Governments	–	–	–	–	–	–	–	–	–	–
Default	585.9	35.8	100.0	–	–	410.1	9.9	100.0	15.0	–
of which: Corporates	575.1	35.8	100.0	12.8	–	410.1	9.9	100.0	15.0	–
of which: Institutions	10.8	–	–	100.0	–	–	–	–	–	–
of which:										
Sovereign Governments	–	–	–	–	–	–	–	–	–	–
Total	19,701.2	2,047.1	100.0	9.1	18.0	15,772.0	1,910.6	100.0	7.4	24.3

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 2010. The figure so calculated is compared with losses expected from non-defaulted exposures at the beginning of the reporting period.

Expected and actual losses (€ mn)

	2010		2009		2008	
	Expected	Actual	Expected	Actual	Expected	Actual
Corporates	139.3	0.0	88.2	14.5	138.1	14.6
Total	139.3	0.0	88.2	14.5	138.1	14.6

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 related losses incurred in subsequent periods. The amount of actual losses in 2009 (in the amount of €0.0 million) was increased by €14.5 million from the 2010 reporting period as the customers had already defaulted in 2009. The amount of actual losses in 2008 in the amount of €6.9 million was increased by €7.7 million from the 2010 reporting period as the customers had already defaulted in 2008.

Accordingly, the actual losses reported under “Actual credit loss experienced in the advanced IRBA portfolio” in the amount of €26.1 million in the 2010 reporting period are exclusively attributable to defaults in the business years 2009 (€14.5 million) and 2008 (€7.7 million) as well as to defaults prior to 2008 (€3.9 million).

DVB’s business policy was a contributing factor to the generally low level of actual losses, 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 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 CRSA (€ mn)

	2010		2009	
	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
Asset-backed securities issued by credit institutions	–	–	–	–
Corporates	–	0.3	19.2	92.9
Retail business	–	–	–	–
Equity investments	–	–	–	–
Other exposures	–	–	–	–
Past due exposures	–	–	–	–
Total	–	0.3	343.4	103.3

Credit 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 (ECAs). 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 five asset classes: aircraft, ships, rail and road transport vehicles, aircraft engines and container boxes.

All types of collateral, except financial 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 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" for the Corporate asset class include both financial collateral and guarantees.

Financial collateral was included for the IRBA asset class Institution, which was approved in 2010, in the amount of €246.3 million from collateral agreements (this item was reported under CRSA in the previous year).

No collateral has been included in the other IRBA asset classes.

¹ Total collateralised exposures (€ mn)

	2010			2009		
	Financial collateral	Other/physical collateral	Guarantees	Financial collateral	Other/physical collateral	Guarantees
Under the advanced IRBA	246.3	17,887.6	–	–	14,599.7	–
of which: Corporates	–	17,887.6	–	–	14,599.7	–
of which: Institutions	246.3	–	–	–	–	–
of which: Sovereign Governments	–	–	–	–	–	–
Equity exposures under the simple risk-weighted method	–	–	–	–	–	–
Other non-credit related credit assets	–	–	–	–	–	–

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. This means that they reduce the trading book exposure with the counterparty concerned. 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 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 assessment of derivative counterparty risk exposures before and after netting and deduction of collateral: ①

The market value for derivative interest rate products increased significantly in the year under review due to lower interest rates. The increase of the general interest rate level by the end of the year led to a partial reduction of market values.

The credit equivalent value for derivative credit risk exposures, as determined on the basis of the mark-to-market method, amounted to €753.9 million (2009: €828.0 million). This amount – less the above-mentioned eligible collateral – results in a counterparty risk exposure of €507.7 million (2009: €503.8 million).

① Assessment of derivative counterparty risk exposures (€ mn)

	2010	2009	%
Positive market value before netting and collateral	506.2	584.0	-13.3
of which: interest rate contracts	476.6	470.9	1.2
of which: foreign exchange contracts	29.5	113.1	-73.9
of which: equity/index contracts	-	-	-
of which: credit derivatives	-	-	-
of which: commodities contracts	-	-	-
of which: other contracts	-	-	-
Netting options	-	-	-
Deductible collateral	246.3	324.2	-24.0
Positive market value after netting and collateral	259.9	259.8	0.0

DVB only has very few equity exposures in the banking book, and these 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 form the greatest part of DVB's exposure to equity investments. DVB uses the simple risk-weighted 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 the HGB.

① Carrying amount/fair value of equity instruments in the banking book (€ mn)

	2010	2009	%
Investments in credit institutions	0.3	10.2	-97.1
of which: unlisted but component of a diversified portfolio of equity investments	–	–	–
of which: others	–	–	–
of which: exempted by section 338 (4) of the SolvV	0.3	10.2	-97.1
Investments in financial enterprises	1.1	1.4	-21.4
of which: unlisted but component 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	1.0	1.3	-23.1
Investments in corporates	22.4	41.7	-46.3
of which: unlisted but component of a diversified portfolio of equity investments	0.6	0.2	–
of which: others	–	–	–
of which: exempted by section 338 (4) of the SolvV	21.8	41.5	-47.5
Investments in investment funds	0.2	0.3	-33.3
of which: unlisted but component of a diversified portfolio of equity investments	–	–	–
of which: others	0.2	0.3	-33.3
of which: exempted by section 338 (4) of the SolvV	–	–	–
Total	24.0	53.6	-55.2

Section "Market price risk" of the report on opportunities and risks contained in the Group Annual Report 2010 (pages 139 and 140) 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 the trading book and the 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 €0.2 million (2009: €0.5 million) as at 31 December 2010.

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 this banking book interest rate risk.

Banking book interest rate risk (€ mn)

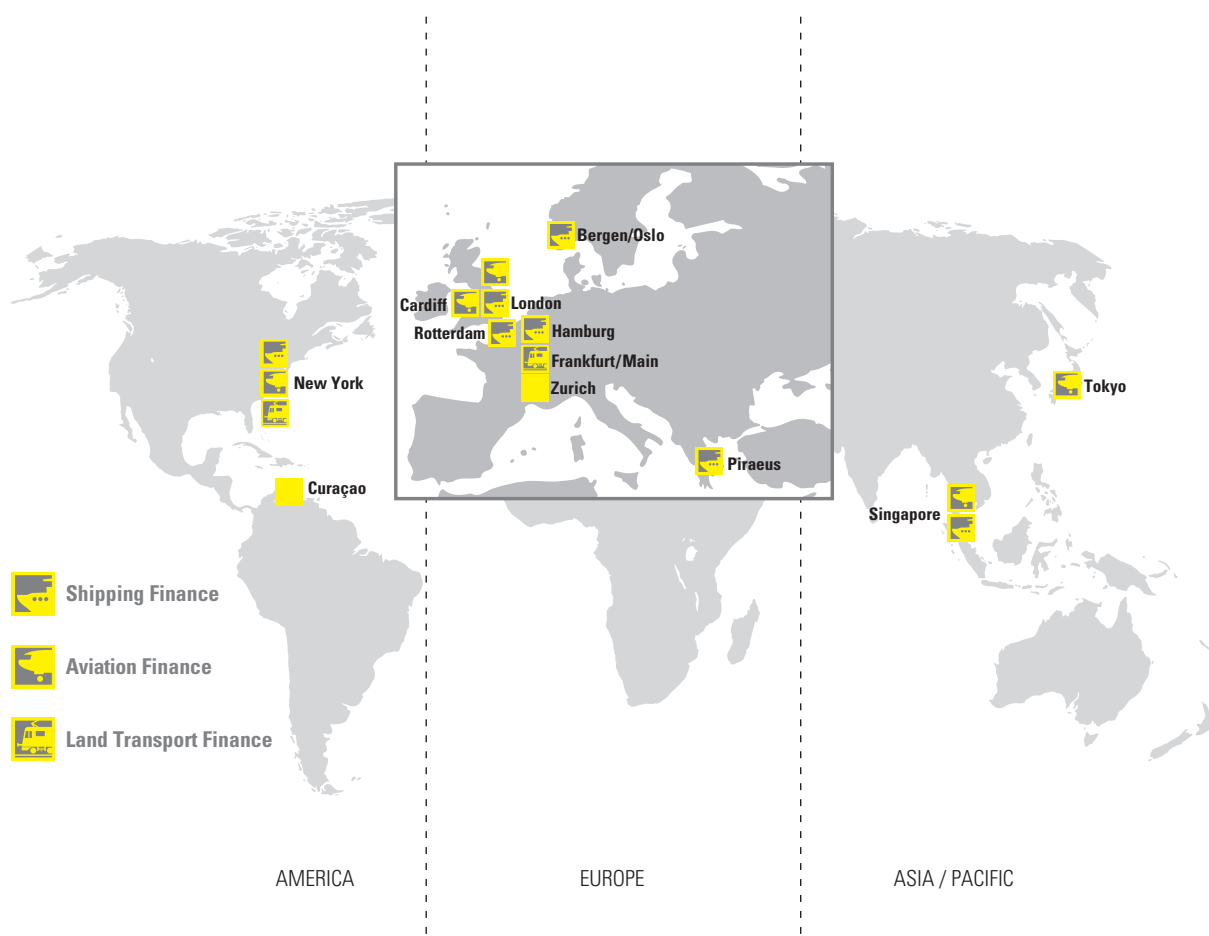
	2010		2009	
	+130 bp interest rate shock	-190 bp interest rate shock	+130 bp interest rate shock	-190 bp interest rate shock
€	-5.85	+8.55	-7.17	+10.48
US\$	+1.15	-1.69	+0.31	-0.46
Other currencies	-0.33	+0.48	-0.11	0.16
Total	-5.03	+7.34	-6.97	+10.18

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 2010 is mainly attributable to the reduction of the unhedged US dollar exposure measured at present value, and the further decline of the volatilities.

The interest rate shock scenarios reflect the continued changes of the portfolio, with maturing euro refinancings being replaced with US dollar refinancings. This results in a risk mitigation within the euro area, as well as in a slight increase of the US dollar interest rate risk due to increased surplus of liabilities in the mid-term range.

The depth of analysis for the market positions was expanded in 2010. Compensating effects from foreign currency positions can now be eliminated. In order to enhance comparability of the data, the results of the interest rate shocks as of 31 December 2009 are re-calculated.



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

The Regulatory Risk Report of DVB Group 2010 is published
in English and German on our website.

