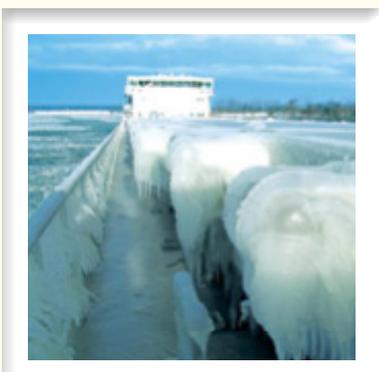
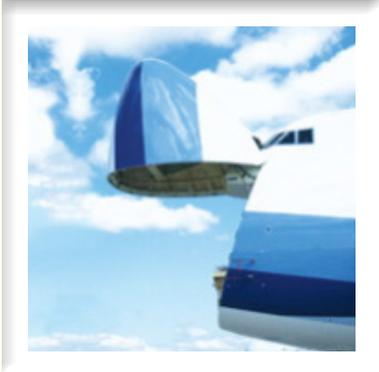


Performance



Ship covered bonds – and ... action!

Boris Siegers, Head of Group Treasury, was interviewed by Elisabeth Winter, Manager Investor Relations

DVB launched its debut ship covered bond on Tuesday, 25 November 2010: the €250 million issue has opened a new chapter in the success story of a traditional German funding instrument. Incidentally, DVB's ship covered bond was only the second public placement of such securities. In the interview that follows, Boris Siegers, Head of our Group Treasury, outlines the background to the Bank's latest securities issue, and talks about DVB's overall funding.

? | **Mr Siegers, what were DVB's objectives when launching a ship covered bond?**

In a nutshell, we wanted to further diversify the range of funding tools we use, and to broaden our investor base.

? | **What were the factors that determined the timing of the issue? Why did you choose a public issue, as opposed to a private placement?**

Although I would not say that the financial markets crisis is over, the situation has improved. Markets have calmed down somewhat: we observe a process of coming to terms with the situation, and of financial markets adapting to it – which has also calmed the waters.

By launching our ship covered bond in the form of a public offering, we wanted to raise DVB's profile as a securities issuer, following up on the broadly diversified funding strategy we had pursued before the crisis. In contrast to a public issue, a private placement lends itself especially to situations where the potential investors are known ahead of the launch. In this case, however, we took the deliberate decision not to rely on existing contacts and relationships, but to make a fresh start which was a successful one.

? | **What are the benefits of a ship covered bond for investors?**

First of all, ship covered bonds – "Schiffspfandbriefe" in German – are governed by the strict rules of the German Pfandbrief Act (Pfandbriefgesetz). Pfandbrief issuers are supervised by the German Federal Financial Supervisory Authority (BaFin) throughout all of their business activities. In addition, those activities which are relevant to the Pfandbrief issuance are monitored by independent trustees. Moreover, issuers must establish and maintain an independent risk management system and they are required to publish quarterly reports covering the development of the cover pool on their website.

Ship covered bonds must be backed by a portfolio of eligible shipping loans and liquid assets – these form the cover pool.

Specifically, cover assets must comply with the following requirements:

- Only loans with straight-line or declining redemption are eligible for inclusion in the cover pool.
- The term of each loan must end after the 20th year of the life of each vessel serving as collateral.
- Loans with a maximum loan-to-mortgage lending value ratio of 60% are eligible for inclusion in cover.
- Each shipping loan must be collateralised by a first-ranked ship mortgage that is registered in a recognised public register.
- Vessels serving as collateral must be insured, in line with the Pfandbrief issuer's internal guidelines, throughout the term of the loan.
- In the event of the issuer's insolvency, creditors of ship covered bonds will gain access to the assets included in cover.

A strict regime of legal requirements – all of which DVB's debut ship covered bond has fulfilled. The ship covered bond thus provides our investors with a high degree of security – the key advantage of this type of investment.

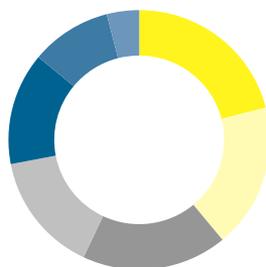


Moody's Investors Service assigned an excellent rating to the cover pool – and hence, to our Pfandbrief issue backed by these assets.

Indeed, our first ship covered bond was rated "Aa3" by Moody's Investors Service. This rating, which covers both the cover pool and the issue itself, is one notch above DVB's debt and deposit rating (A1). According to Moody's rating standards for ship covered bonds, this represents the maximum uplift possible. In fact, the rating itself was a success! This reflects the quality of the cover pool, which in turn reflects the structure of DVB's resilient Shipping Finance portfolio. The strict requirements of the German Pfandbrief Act has provided further support.

DVB's cover pool comprises outstanding assets of approximately US\$1 billion; at the approval record date, 56 ship financings were included in cover. These exposures are extremely well-diversified in various ways (by vessel type, vintage, flag, employment type and currency).

Cover pool – Distribution by vessel type



Product tankers	21%
Bulk carriers	18%
Crude oil tankers	18%
Container carriers	15%
Offshore support vessels	14%
Chemical tankers	10%
Gas tankers	4%

? | How did the issue process work?



Key facts about the issue

Volume:	€250 million
Period:	3 years
Spread:	50 basis points over mid-swaps
Coupon:	2.25%
Issue price:	99.702%
Payment date:	2 December 2010
Maturity:	2 December 2013
Issue rating (Moody's):	Aa3
Orderbook:	56 individual orders
Investor types:	Solely banks
Nationality of investors:	90% German 5% Austrian 5% Luxembourgian
Lead Managers:	DZ BANK, Deutsche Bank

We prepared our Pfandbrief issue during early November, with a three-day in-depth roadshow held in Frankfurt/Main, Munich, Hamburg and Düsseldorf. During the course of these meetings, Wolfgang Driese and myself presented DVB and our ship covered bond to sales staff/analysts of banks and insurance companies as well as asset managers. Despite continuing financial market volatility, our roadshow met with strong interest, and a positive market response. Against this background, we retained Deutsche Bank and DZ BANK as lead managers for the transaction.

An initial market sounding was conducted on 23 November, when the lead managers presented the “deal opportunity” to potential investors.

The orderbook was opened on Wednesday 24th – and closed during late Thursday morning (25 November), after the planned issue volume had been reached.

In this context, I would like to emphasise the excellent, professional cooperation with our two lead managers: they have contributed to a successful placement, in a market environment that continues to be challenging.

? | Mr Siegers, with a size of approximately US\$1 billion, the cover pool is comfortably sized – providing scope for further issues...

The important thing now is that our Pfandbrief has been successfully placed in the market.

Following our roadshow, we observed extensive interest and positive overall feedback. Of course, successfully marketing a niche product such as a ship covered bond was not an easy task – and this isn't going to change going forward. But now that we have sharpened DVB's profile on the financial markets, we are generally optimistic about our ability to place further ship covered bond issues – obviously, at attractive terms, and with investors who appreciate DVB's unique position in the international Transport Finance business.

? | Looking at an overall funding volume of approximately €15.0 billion and total issue volume of around €4 billion in 2010, €250 million sounds a bit like a drop in the ocean, doesn't it?

Of course you could say that. For us, it was a successful debut with this type of funding instrument. Having received 56 individual orders, in a rather granular orderbook, we regard this as a complete success. Certainly, these were no large-sized tickets. But that is not a problem for us at all, since we were able to strongly support our core objective of sharpening DVB's profile on the capital market.

? | Our Aviation Finance portfolio includes exclusively asset-based aircraft financings – another asset class that could provide the basis for a Pfandbrief issue...

Yes, indeed. But before we can make any binding statement regarding the likelihood of a successful aircraft covered bond issue, there are a few fundamental issues we need to clarify. In principle, this project is on our agenda for the next year.



*Boris Siegers
Head of Group Treasury*

? | **Mr Siegers, I would like to finish by taking a look at DVB's funding mix. Apparently, you prefer long-term liabilities...**

That is correct. Long-term funds (with a maturity of more than one year) account for 91% of our overall funding volume. What's more, during 2010, we succeeded in raising 71% of our funding in US dollars, with the share of euro funding down to 29%.

Why is that important? The majority of our Shipping Finance and Aviation Finance assets are denominated in US dollars. We have focused on reflecting this in our refinancing for years: in this way, we can establish a natural hedge relationship between the assets and liabilities side of our balance sheet – which, in turn, makes us less dependent upon the foreign exchange swaps market. This allows us to very significantly reduce the negative impact of money market distortions.

! | **Mr Siegers, thank you very much for this interview.**



For further detailed information on DVB's debut ship covered bond issue, please refer to www.dvbbank.com > Investor Relations > Funding > Covered bond information.

DVB in the press

by Prof Dr Borislav Bjelic, Head of Group Corporate Communications



At the "Aerospace Journalist of the Year Awards" DVB granted the "DVB Bank Award for the Best Strategy or Financial Submission" to Geoffrey Thomas.

Coinciding with this year's Farnborough air show, more than 100 aviation journalists from around the world gathered in London for the 15th Aerospace Journalist of the Year Awards Dinner & Presentation ceremony. This event honours journalistic work in 15 different categories. The "DVB Bank Award for the Best Strategy or Financial Submission" was presented for the third time. As in the previous year, the recipient was Australian aviation journalist Geoffrey Thomas for his article

entitled "Reinventing Comfort", which was published in the periodical Air Transport World. DVB used the event to actively network with various representatives of industry publications: those who were not yet familiar with DVB were able to gain a first impression through a short video that was shown at the awards ceremony.



You can watch the video at www.dvbbank.com > Press > Media Center > Videos.

Additional information on the "Aerospace Journalist of the Year Awards" is available at www.ajoya.com.

Participants at the air show were increasingly optimistic about the future outlook for the global economy – as evidenced by numerous new aircraft orders placed by airlines and leasing companies alike. Yet the situation whereby numerous banks maintain a reluctant stance vis-à-vis aviation finance – whilst export credit agencies continue to be very active throughout this year – has not changed. This shift in financing sources already influenced the composition of aircraft financings last year, witnessed by Polis Polycarpou of DVB's Aviation Research in an interview with the Financial Times on 13 July 2010: "The export credit agencies saved the industry."

The situation in the rail transport sector is similar. Speaking with Leasing Life in July 2010, DVB's Martin Metz summarised the market situation as follows: "The market needs billions and billions of euros worth of new investment in the next couple of years, to replace older equipment. At the same time, banks are becoming more cautious in terms of how much they want to invest in this market. Financing has become much more expensive, and margins have approximately doubled for private operators." Metz also analysed the situation in the European rail transport finance market, in an article for the summer issue of Privatbahn Magazin. One of the points he made was that the interbank market was not yet in a position to readily absorb larger financing volumes in particular, given that interbank syndication capacity had not yet been fully restored. At the same time, he explained that for banks rail finance exposures turned out to be assessable risks – particularly during the crisis.

The "shipbuilding machinery & marine technology international trade fair – SMM 2010" – the leading showcase for maritime shipping and thus major industry gathering – took place in Hamburg, from 6 to 10 September 2010. The event is the key meeting place for the international shipping industry. This year's SMM featured the Ship Finance Forum organised

by Financial Times Deutschland (FTD), with numerous experts discussing developments in shipping finance. Whilst FTD's headline "Banks have stopped financing ships" was perhaps a bit overly dramatic, the panel members clearly agreed that the share of individual lenders in international financing volumes had also changed in shipping finance, and will continue to do so. Dagfinn Lunde, our Managing Director responsible for DVB's Shipping Finance, who also took part in the discussion panel, predicted that shares in shipping companies will be amongst those types of financing set to rise in importance. The 2010 annual review published in the November edition of HANSA – International Maritime Journal – also confirmed that commitments by German banks in particular have fallen.



Discussion panel at the Ship Finance Forum, where Member of the Board of Managing Directors Dagfinn Lunde (r.) took part.

DVB's specialist knowledge was also in demand in other respects: over recent weeks and months, shipping media published the views of our Shipping Research on market developments for Offshore Support Vessels (OSVs), Suezmax tankers, product tankers, Panamax container carriers as well as Handymax and Handysize bulk carriers. Especially in the dry bulk sector, our research experts anticipate a growing dependency upon Chinese demand. In a study prepared at the end of November, they also found that deliveries of ultra-large bulk carriers (with a capacity of up to 400,000 dwt – sometimes referred to in the press as "Chinamax" vessels) from 2011 onwards will exert significant pressure on the market for Capesize vessels already in service.



In the Jetrader magazine Bert van Leeuwen, Head of Aviation Research, names important criteria for financing aircraft.

Bert van Leeuwen, head of our Aviation Industry Research, outlined the fundamental principles of asset finance – the "funding fundamentals", as he called them – in two articles for Jetrader magazine, published by the International Society of Transport Aircraft Trading (ISTAT). Essentially, he explained the criteria DVB applies when assessing the quality of an aircraft as a financed asset: "Aircraft/engine combinations are not evaluated in terms of payload/range or other operational characteristics, but purely from the point of view of the financiers' key criteria: value stability

and market liquidity. Determining factors for a high rating obviously include a well-diversified user base, absence of major fleet concentrations with weaker carriers, a significant backlog, young technology age, etc." On this basis, Boeing 737NG and Airbus 320 families are generally regarded as adequate assets to be financed, thanks to the large number of planes in operation. However, in two articles published in the October issue of the Aircraft Finance Guide, Bert van Leeuwen and Simon Finn pointed out significant differences even amongst these aircraft families.

Bert van Leeuwen summarised his view of the A320 range as follows: "The majority of A320 family members are among the most liquid commercial jets in the current market. From an asset-based financier's point of view, the A319, A320, and A321 are among the

most attractive aircraft types. The A318 clearly falls outside of this category. Despite this, a number of 'oddball' members will generally be avoided by financiers, or will only be considered under very conservative terms. In addition, early-built A320 Classics no longer command the confidence of most financiers." According to van Leeuwen, the greatest sources of uncertainty at present are discussions about a re-engineering programme for the A320 family, and the question as to when a successor will be launched. In his article on the eligibility of Boeing 737NG family for asset finance, Simon Finn commented: "Currently, the risks associated with financing the -600, -900, and -900ER require strong mitigation, but such restrictions may ease for the -900ER – depending on future developments. However, the 737-700 and particularly the -800 are very well suited to pure asset-based finance."



The detailed studies are available for download in the press section of our website www.dvbbank.com > Press > Publications.

The July issue of Bankmagazin was dedicated to risk management. In this context, DVB was introduced in the following way: "According to experts, specialist bank DVB has been particularly successful in its risk-adjusted pricing. At present, the Transport Finance specialist is considered to be the only German bank truly in a position to precisely identify attractive and high-margin transactions. In this respect, DVB ranks amongst the leading institutions in Europe." Rolf Büttner, Head of DVB's Group Risk Management, outlined the Bank's core approach to managing risk to readers. Amongst other things he said: "One should exercise more care during boom phases. The key to avoid having to recognise major allowance for credit losses is to ensure your credit portfolio is broadly diversified."

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