FOCUSED. DIVERSIFIED. COMPETENT. TRUSTWORTHY.

GROUP ANNUAL REPORT
2016

DVB

DVB in Key figures at a glance

€ mn	2016	2015	%
Earnings data			
Net interest income	209.0	183.7	13.8
Allowance for credit losses	–381.4	–141.5	–
Net interest income after allowance for credit losses	–172.4	42.2	–
Net fee and commission income	119.2	103.3	15.4
Results from investments in companies accounted for using the equity method	9.6	3.9	–
Net other operating income/expenses	99.6	14.7	–
Total income	56.0	164.1	–69.9
General administrative expenses	–177.5	–180.9	–1.9
Net result from financial instruments in accordance with IAS 39	–2.7	70.8	–
Consolidated net income/loss before bank levy, BVR[1] Deposit Guarantee Scheme and taxes	–124.2	54.0	–
Consolidated net income/loss before taxes	–135.3	46.1	–
Consolidated net income/loss	–138.7	45.6	–
Key financial indicators			
Return on equity (before taxes, %)	–10.8	0.8	–
Cost/income ratio (%)	44.3	55.3	–10.0 pp
Economic Value Added (€ million)	–249.0	–86.8	–
Key items from the statement of financial position			
Business volume	29,187.0	28,207.6	3.5
Customer lending volume	25,876.4	25,272.5	2.4
Total assets	27,713.3	26,610.5	4.1
Loans and advances to customers	23,686.7	22,975.5	3.1
Deposits from customers	7,839.6	7,510.8	4.4
Securitised liabilities	12,722.3	13,141.9	–3.2
Subordinated liabilities	951.2	742.7	28.1
Equity	1,275.7	1,429.5	–10.8
Total capital in accordance with the Capital Requirements Regulation			
Common equity tier 1	1,012.0	1,147.3	–11.8
Tier 2 capital	584.0	432.0	35.2
Modified available capital	1,596.0	1,579.3	1.1
Capital ratios – Basel III (%)			
Common equity tier 1 ratio	13.2	16.3	–3.1 pp
Total capital ratio	20.7	22.4	–1.7 pp
Staff by business division			
Transport Finance/Investment Management	324	314	3.2
Service areas	242	235	3.0
LogPay Financial Services	58	60	–3.3
Total active staff	624	609	2.5

Rating

€ mn	2016	2015	2014
Standard & Poor's			
Long-term counterparty credit rating	A+	A+	A+
Short-term credit rating	A-1	A-1	A-1
Outlook	negative	stable	stable
Fitch Ratings[2]			
Long-term issuer default rating	AA-	AA-	A+
Short-term issuer default rating	F1+	F1+	F1+

1 National Association of German Cooperative Banks
2 Within the scope of the German Cooperative Financial Services Network's rating

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FOCUSED

DVB consistently pursues its strategic focus on the transportation industry.

DIVERSIFIED

DVB's high level of diversification is a key pillar of the Bank.

COMPETENT

DVB's core strength is our specialised teams.

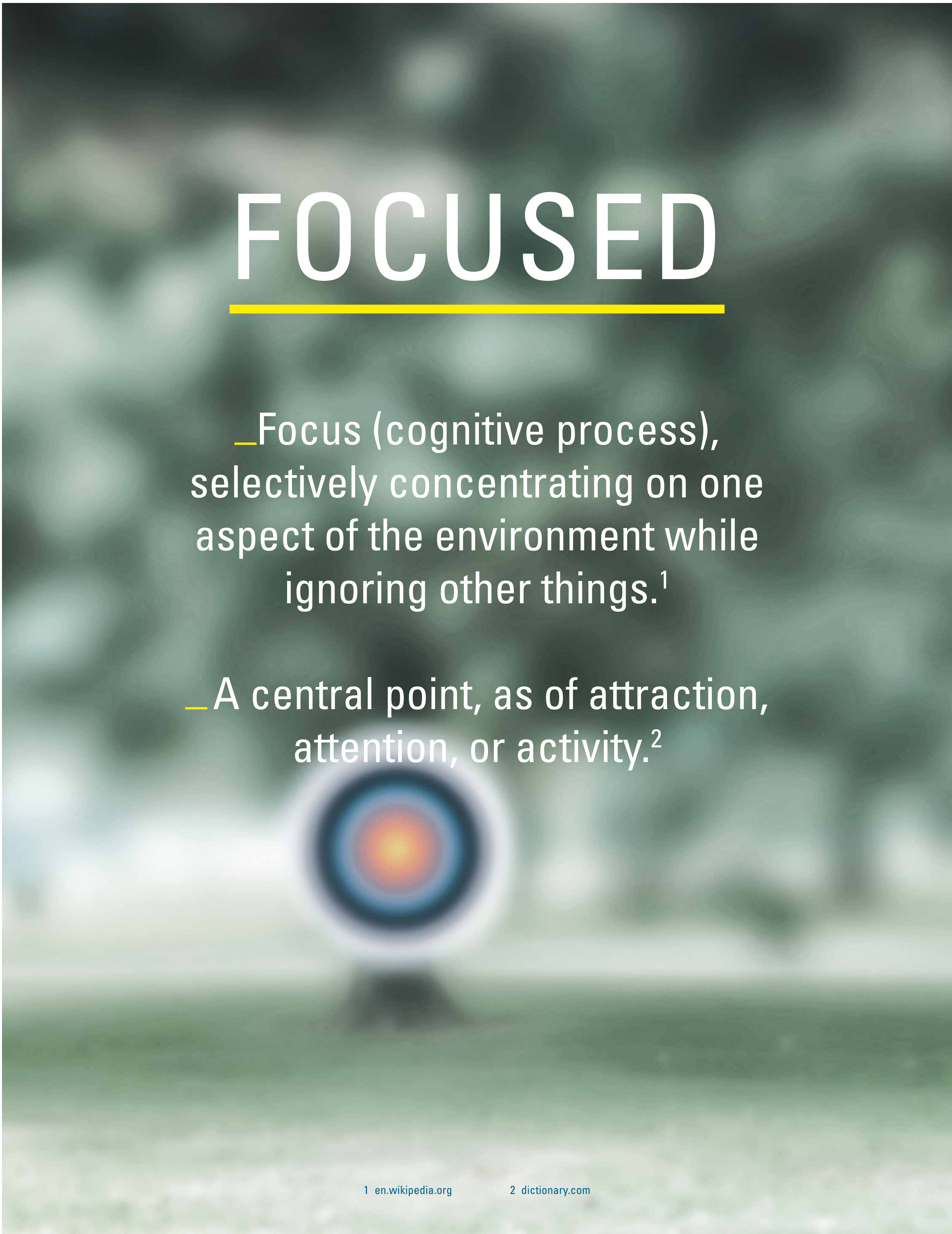
TRUSTWORTHY

DVB's goal is to maintain trusting relationships on numerous levels.

THE SPECIALIST
IN INTERNATIONAL
TRANSPORT FINANCE

↓

FOCUSED.
DIVERSIFIED.
COMPETENT.
TRUSTWORTHY.



FOCUSED

_Focus (cognitive process), selectively concentrating on one aspect of the environment while ignoring other things.[1]

_A central point, as of attraction, attention, or activity.[2]

1 en.wikipedia.org   2 dictionary.com


We are focused –
this is our competitive edge.

We are focused – this is our competitive edge.

"DVB consistently pursues its strategic focus on the transportation industry", says Bart Veldhuizen, Member of the Board of Managing Directors, responsible for Shipping Finance and Offshore Finance.

Bart, how does the Bank set itself apart from its competitors?
VELDHUIZEN: "DVB enjoys a rather unique position, thanks to its strategic focus solely on international transport. Through specific industry expertise and clearly aligned business divisions in the shipping, aviation, offshore and land transport segments, combined with focused and solid management, we differentiate ourselves from our competition as a highly focused and specialised bank.

We are strongly committed to fulfil and, hopefully exceed our clients' expectations through tailor-made and innovative solutions. We achieve this by continuously and diligently analysing all aspects of the international transportation industry. In contrast to many of our competitors in the transport market, the unique services we offer enable us to keep moving forward through all cycles. The new business we have generated with our transport finance clients throughout 2016, despite the prolonged challenges that face the shipping industry, is a testament to DVB's strength, resilience and expertise in both its traditional lending and advisory business."

How does the focused business model contribute to the Bank's success?
VELDHUIZEN: "Our business model focuses on efficiency to drive contribution margins. These will further increase with time as we are striving to reduce allowances for credit losses related to legacy exposures in the Shipping and Offshore Finance portfolio. In addition, we are boosting the Bank's profitability through "Liberty", a successfully-implemented internal initiative designed to contain costs.

We will adhere to DVB's clear and exclusive focus on the international transport sector. This unique quality differentiates us from our competition, and is highly appreciated by our clients and other stakeholders."

Bart, how will DVB ensure that its focus will not turn into a hinderance?
VELDHUIZEN: "Although DVB is a focused transport finance bank, we are not devoted to a single mode of transportation. Goods will always need to be moved and people will always need to travel. Today, we are challenged to ensure our banking processes and products remain at the cutting edge of technological innovation, in a rapidly changing technological environment. We are also extending into complementary areas of business where we can create value for our clients, for example our Aviation Asset Management and Corporate Finance divisions are complementary to our core businesses and are good net contributors.

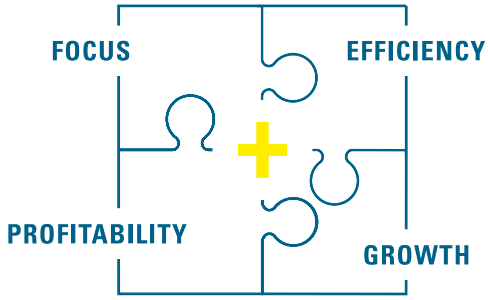
We are building upon our strengths – we are close to the markets, close to our clients, and close to the assets!"

MAINTAINING CONTINUITY

MARKET CYCLES

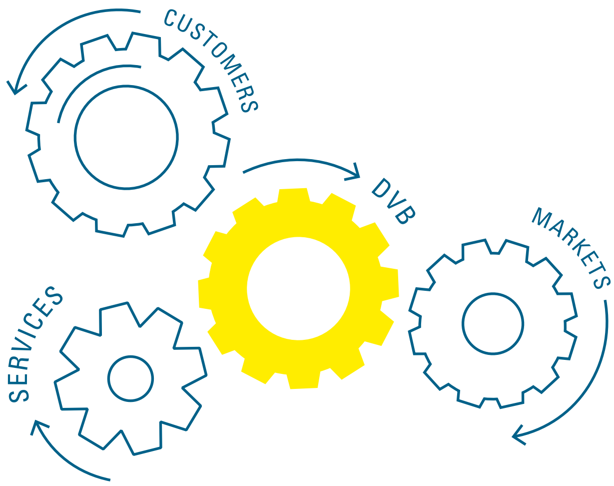
We offer our clients professional expertise on transport markets and transport assets – throughout all market cycles.

GENERATING VALUE



PRODUCTS & SERVICES

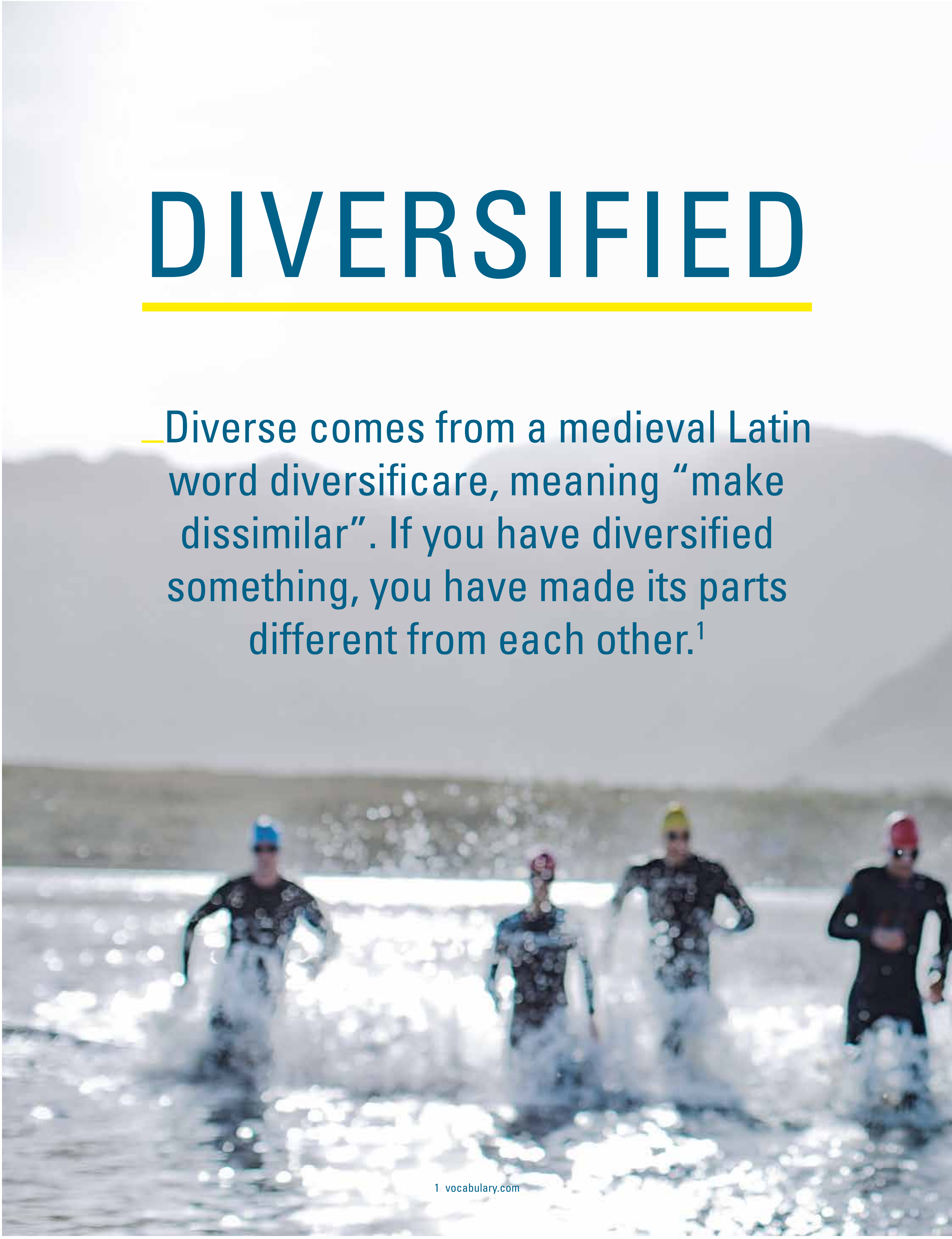
We support our clients around the world with tailor-made financing solutions and services.



FOCUSED

BUSINESS MODEL

Entrepreneurial vision and strength guide our every thought and action.



DIVERSIFIED

Diverse comes from a medieval Latin word diversificare, meaning "make dissimilar". If you have diversified something, you have made its parts different from each other.[1]

1 vocabulary.com

We are diversified –
this is a strong differentiator.

We are diversified – this is a strong differentiator.

"DVB's high level of diversification is a key pillar of the Bank", says Christian Hagemeyer, Member of the Board of Managing Directors, responsible for credit and risk management and the Bank's research.

Christian, why is diversification so important to the Bank, and how is this reflected in the business model?

HAGEMEYER: "Diversification is a key pillar of our business model in combination with our strategic focus, and it has grown in importance and viability. Our business model is diversified across five aspects: global clients; a broad market presence across the international transport markets; a well spread credit portfolio; diversified funding; and the diversity of our employees. This high degree of diversification is a key risk-mitigating factor – and hence, a key element of our risk policy."

What does risk mitigation through diversification mean for DVB's specific situation?

HAGEMEYER: "To keep the composition of our credit portfolio as granular and economically efficient as possible, we use multiple diversification criteria and categories for managing the portfolio. Thus, we maximise the value of our credit portfolio. Specifically, we diversify by:

- Asset types (such as ships, aircraft, offshore vessels and platforms, as well as rail rolling stock),
- users,
- manufacturers,
- employment
- and vintage, and in terms of:
- sectors or sub-sectors of the asset to be financed,
- borrowers and clients,
- types of financing, and
- geographic transport market exposure.

This extensive diversification strengthens our risk profile, providing us with an edge over many competitors. Our resilience in the prolonged market downturn of the shipping industry has clearly been demonstrated through our performance in comparison with our peers. Despite the persistent crisis, we continue to be able to originate valuable and profitable new business with selected clients, particularly on the grounds of these diversifying criteria."

Christian, let us talk about diversification of staff – why are these important for DVB?

HAGEMEYER: "Our teams are the key asset, the cornerstone of the Bank. We highly appreciate their expertise, their creativity and passion. We shape our internal collaboration through working teams which are multinational and cross-cultural. This, quite naturally, creates a working environment in which people treat each other with respect, and in which they see working with colleagues from different cultural backgrounds as nothing out of the ordinary. Reflecting this, we joined the Diversity Charter back in 2007. By joining this corporate initiative we committed ourselves to ongoing active promotion of our workforce's diversity. Hence, our staff bring a great variety of backgrounds, influences, cultures and capabilities to the table – and not least, varied views on markets, assets, and stakeholders. This has tremendous benefits for collaboration. It's also important for our clients and business partners, many of whom have a multicultural and international profile themselves.

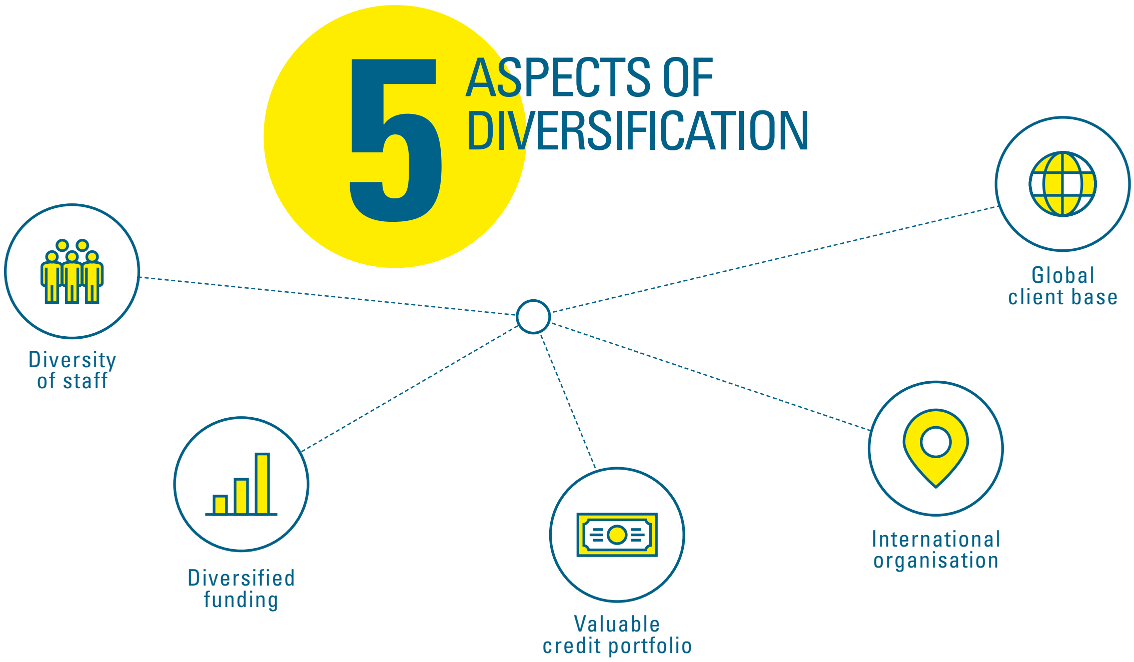
In discussions with colleagues I'm constantly hearing a high degree of identification with our focused and diversified business model, and a strong commitment to our Bank.

This is truly remarkable!"

NEW BUSINESS

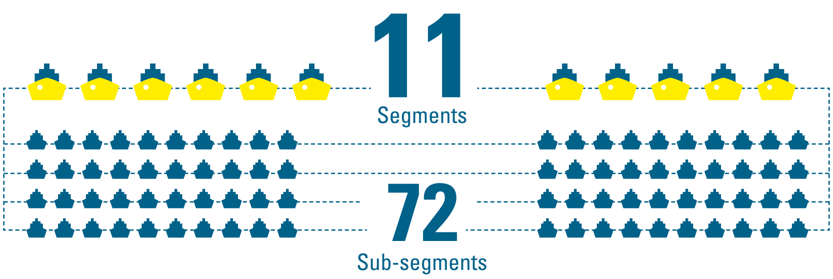
Shipping Finance	Aviation Finance	Offshore Finance	Land Transport Finance
73 Number of deals	65 Number of deals	7 Number of deals	12 Number of deals
€40.0 MN Average deal size	€56.6 MN Average deal size	€40.0 MN Average deal size	€38.3 MN Average deal size

5 ASPECTS OF DIVERSIFICATION



€11.9 BN

Shipping Finance portfolio as at 31 December 2016 – invested in ship financings across 11 segments and a total of 72 sub-segments



COMPETENT

Competent having suitable or sufficient skill, knowledge, experience, etc., for some purpose; properly qualified.[1]

1 dictionary.com


We are competent –
this makes us unique in our industry.

We are competent – this makes us unique in our industry.

"DVB's core strength is our specialised teams", says David Goring-Thomas, Member of the Board of Managing Directors, responsible for Aviation Finance and Land Transport Finance.

David, what are DVB's core areas of competence and expertise?

GORING-THOMAS: "Our core strength, in my view, is our specialised teams, with a mix of bankers and others coming from the industry. This gives us an unparalleled view about the right strategies and transactions to follow. Over the years, the fact that we have had specialists consistently contributing through the decision-making process has been a competitive advantage in that our clients have experienced a great reliability in our decision-making. In turn, our clients have then approached us for our ability to execute transactions, often at premium terms and pricing. We are lucky in DVB to have the specialised Asset & Market Research teams. Our competitors do not have access to that type of capability, which over time enables us to make smarter decisions, be it on strategy, deal-by-deal, or otherwise."

How will we be able to continue to sustainably strengthen the DVB brand as a transport finance specialist?

GORING-THOMAS: "I am certain, that over the past years, we have successfully established the DVB brand. Market participants have gained a clear perception of DVB as a specialist institution and an expert in our space. To sustain that brand, and strengthen it, is an equal challenge, but we will do so by maintaining our critical focus on our markets, intensifying our industry contacts, and by further developing our key competencies, all of which will enable us to be active for our customers in both favourable and more difficult times. It will be during the challenging markets, when we are consistently active in supporting our clients, whilst many of our less specialised competitors have withdrawn from the market, that DVB's 'value' will be most evident."

David, what steps will the Bank take to ensure the present high level of competency is sustained?

GORING-THOMAS: "Our biggest assets is our staff and the expertise they bring, but of almost equal importance is how the skills of each individual are harnessed and effectively utilised. So, people and processes!

For a bank of the size of DVB, with just 624 staff, we must be deeply committed to human resource development and should use all of the tools at our disposal to do. This of course requires training, but it is also about looking first for the internal solution when promotion and other development opportunities arise. Turning to our processes, the other significant investment we must make is in technology: which is required to further optimise the way in which we do things, and the efficiency of what we do. With the right systems and processes, we will be able to maximise the impact of the competencies of our staff.

Our core competency, for which we are most renowned, is that we deliver effective financing solutions to our customers. This is what they are used to – and what they expect – from us. Following 2016's bruising result, we must work to ensure a continuing trust in our stakeholder relationships, which should not be taken for granted, but are necessary for us to deliver the capital and services which our clients expect.

The expertise and competency of our staff is of course needed to bring us through these tougher times, but moreover it is our ability to learn the lessons of the past, as well as to install and follow best-practices, which will define our future success. For this reason, we will continue to foster and enhance the DVB"one bank, one culture, one spirit" concept, with teamwork being a central pillar.

It is all about competence!"

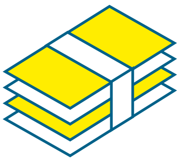
VALUE-ADDED CHAIN – CREDIT PROCESS

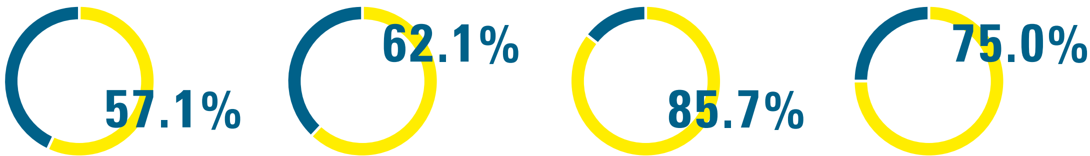
PROVIDE INFORMATION:

Treasury – Controlling – Syndications – Risk Management – Research – Legal

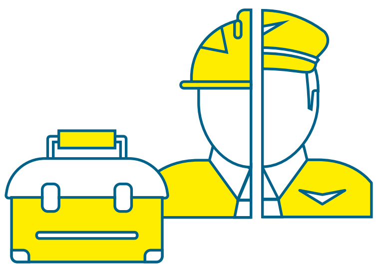
YEARS OF EXPERIENCE

Employees with more than ten years' transport finance experience in 2016:



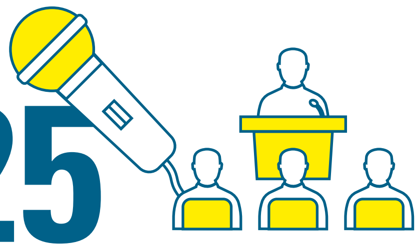


Shipping Finance | Aviation Finance | Offshore Finance | Land Transport Finance



13 YEARS

is the average relevant professional experience over all four Transport Finance divisions



325

expert conferences, discussion panels, roadshows and one-on-one discussions were attended by DVB's staff – assuming an active role.

TRUSTWORTHY

_ worthy of being trusted; honest, reliable, or dependable.[1]

_ able to be relied on to do or provide what is needed or right: deserving of trust.[2]

1 dictionary.com 2 learnersdictionary.com


We are trustworthy –
this facilitates
reliable business relationships.

We are trustworthy – this facilitates reliable business relationships.

"DVB's goal is to maintain trusting relationships on numerous levels", says Ralf Bedranowsky, CEO and Chairman of the Board of Managing Directors.

"**The banking sector is still in a crisis of confidence.**"
Does this statement continue to apply?
BEDRANOWSKY: "The banking sector has been in a crisis of confidence – for several years now. Many clients have had bad experiences with bank advisors, whereby banks have not exerted their influence (or did so wrongly), exploited gaps in regulation, or abused the trust their clients have placed in them. Such a distorted perception of banks – which mainly work for themselves and their owners – has strongly affected the public's view of our industry up until today. At DVB, we have always been committed to put the client focus into the center of our business conduct – resulting in mutually beneficial business propositions followed by swift transaction execution. This is how we meet our clients' expectations."

Ralf, what makes DVB a trusted partner for its stakeholders?
BEDRANOWSKY: "Trust is essential in business, especially so during these difficult times. Without trust, we can have no stable business relationship that is fair and profitable for both sides. In this context, we always need to cater for different relationships having different needs. Our goal is always to maintain and strengthen trusting relationships on numerous levels – between the Bank and our clients, investors, as well as other key stakeholders (industry participants, competitors, service providers, media or employees)."

What, in your opinion, are the specific and key benefits DVB offers clients?
BEDRANOWSKY: "I am convinced that clients and business partners will perceive the following seven key benefits as compelling and stabilising:

- We offer customised financing, structuring and advisory services that benefit from our renowned expertise in transportation assets and markets.
- We offer a high level of execution competence.
- We run a credit portfolio that is diversified in several ways.
- We engage in professional and successful restructuring measures.
- We developed our research know-how which is unique and enjoys a high reputation.
- We enjoy a stable and reliable shareholder structure"

Ralf, will clients and business partners continue to be able to place their trust in DVB as a reliable partner?
BEDRANOWSKY: "Running a cycle-neutral business model makes DVB a reliable partner to our selected clients in financing and advisory services, even in a market environment that continues to be challenging. Despite the length and depth of the present shipping markets downturn, this isn't the first storm the Bank has weathered – and on previous occasions we did not withdraw availability and presence either. This strengthens trust and deepens the intensity of our client relationships for the long term. I am convinced that the strengths of our focus, our diversified business model, and our continuous quest for further development, will see us through these difficult times as well.

2017, we will seek to protect our business model against the persistent market distortions in shipping and offshore markets, in order to satisfy the expectations of all our stakeholders, to the extent possible – as required by our duty as diligent people of business.

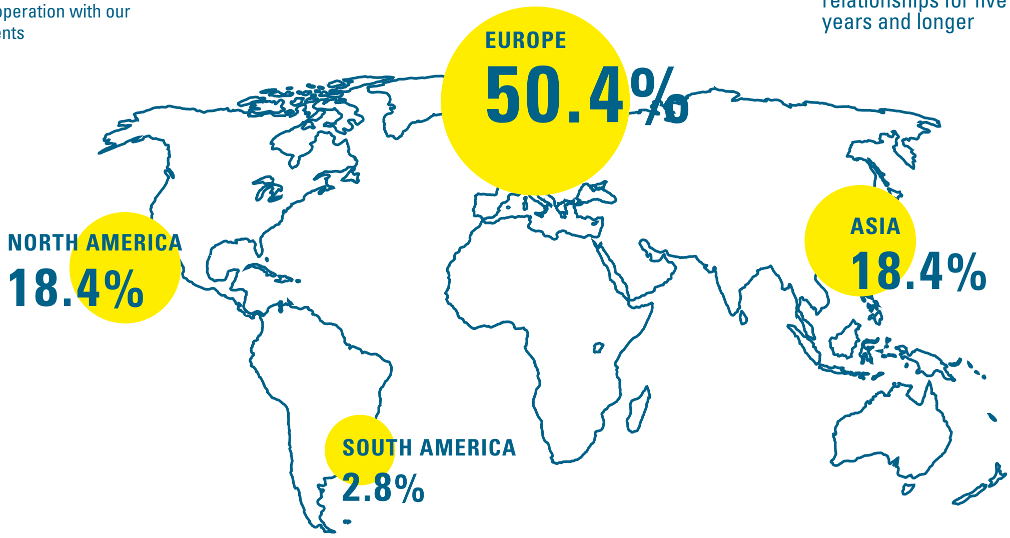
Our success on the field requires well thought-out tactics and a sound defence!"

607 CLIENTS WORLDWIDE

Trusted and long-term cooperation with our clients

54.6%

Length of client relationships for five years and longer



ABOUT US

BOARD OF MANAGING DIRECTORS

From left to right

L.H. (BART) VELDHUIZEN
Member of the Board of Managing Directors

DAVID GORING-THOMAS
Member of the Board of Managing Directors

RALF BEDRANOWSKY
CEO & Chairman of the Board of Managing Directors

CHRISTIAN HAGEMEYER
Member of the Board of Managing Directors

BOARD OF MANAGING DIRECTORS

since 1 January 2017

Ralf Bedranowsky

CEO and Chairman of the Board of Managing Directors and bank director
Born 1958 in Berlin, Germany

CLIENT AREAS IN BUSINESS DIVISIONS
Business Process Support
Group Audit
Group Compliance Office
Group Controlling
Group Corporate Communications
Group Finance
Group Human Resources
Group Legal

CLIENT AREAS IN AFFILIATES
ITF International Transport Finance Suisse AG
LogPay Financial Services GmbH

CHAIRMAN OF THE SUPERVISORY BOARD
DVB Bank America N.V., Willemstad, Curaçao

CHAIRMAN OF THE BOARD OF DIRECTORS
DVB Group Merchant Bank (Asia) Ltd, Singapore
DVB Holding (US) Inc., New York, USA
DVB Transport (US) LLC, New York, USA
ITF International Transport Finance Suisse AG, Zurich, Switzerland

MEMBER OF THE BOARD OF DIRECTORS
DVB Capital Markets LLC, New York, USA

MEMBER OF THE ADVISORY BOARD
Hellmann Worldwide Logistics GmbH & Co KG, Osnabrück, Germany

David Goring-Thomas

Member of the Board of Managing Directors and bank director
Born 1965 in Sunbury-on-Thames, United Kingdom

PRODUCT/SERVICE AREAS
Group Treasury
Transaction and Loan Services

CLIENT AREAS IN BUSINESS DIVISIONS
Aviation Finance
Aviation Financial Consultancy
Aviation Investment Management
Financial Institutions and Syndications
Land Transport Finance

CLIENT AREAS IN AFFILIATES
DVB Transport Finance Ltd

CHAIRMAN OF THE BOARD OF DIRECTORS
DVB Transport Finance Ltd, London, United Kingdom

MEMBER OF THE BOARD OF DIRECTORS
DVB Capital Markets LLC, New York, USA
DVB Holding (US) Inc., New York, USA

Christian Hagemeyer

Member of the Board of Managing Directors and bank director
Born 1960 in Hamburg, Germany

PRODUCT/SERVICE AREAS
Group Risk Management

Aviation Credit
Aviation Research
Credit and Asset Solution Group
Land Transport Credit
Land Transport Research
Shipping and Offshore Credit
Shipping and Offshore Research

L.H. (Bart) Veldhuizen

Member of the Board of Managing Directors and bank director
Born 1967 in Veldhoven, The Netherlands

PRODUCT/SERVICE AREAS
Information Technology

CLIENT AREAS IN BUSINESS DIVISIONS
Shipping Finance
Offshore Finance
Corporate Finance
Shipping & Intermodal Investment Management

CLIENT AREAS IN AFFILIATES
DVB Capital Markets LLC

CHAIRMAN OF THE BOARD OF DIRECTORS
DVB Capital Markets LLC, New York, USA

MEMBER OF THE BOARD OF DIRECTORS
DVB Transport (US) LLC, New York, USA
DVB Holding (US) Inc., New York, USA
DVB Group Merchant Bank (Asia) Ltd, Singapore

MEMBER OF THE SUPERVISORY BOARD
DVB Bank America N.V., Willemstad, Curaçao

NON-EXECUTIVE MEMBER OF THE BOARD AND CHAIRMAN OF THE COMPENSATION COMMITTEE
Eagle Bulk Shipping Inc., New York, USA

LETTER TO OUR SHAREHOLDERS AND BUSINESS PARTNERS

Ladies and Gentlemen,

During 2016 DVB's business performance was characterised by positive developments, but also by major challenges. The Aviation Finance and Land Transport Finance divisions again contributed positively to the Bank's results. However, at the same time, we had to deal with the continued downturn in the shipping markets and the difficult environment that oil price movements created for the offshore markets.

Due to the continued deterioration of conditions on these markets, we had to adjust our forecast business performance for the financial year 2016 in an ad-hoc disclosure published on 14 November 2016, changing our expectations to "a consolidated net loss before IAS 39 for 2016 that is anticipated to be in a low negative triple-digit million euro range". This reduced earnings forecast duly materialised, and consolidated net income before IAS 39, bank levy, BVR Deposit Guarantee Scheme and taxes totalled €–121.5 million (previous year: €–16.8 million). The decline reflects significantly increased allowance for credit losses of €381.4 million (previous year: €141.5 million). This was necessary and largely required for legacy exposures in the Shipping Finance portfolio, and for transactions in the Offshore Finance portfolio.

Since DVB Bank SE, the parent company of the DVB Bank Group, did not generate a net retained profit during 2016, regretfully no dividends will be paid.

How did the macroeconomic conditions and industry-specific drivers impact our business?
The global economy continued to show a mixed picture in 2016, with economic growth turning out very differently around the world. While industrial nations generated higher than expected growth, growth rates in some emerging economies declined more than anticipated, mostly due to individual factors. In November 2016, forecasts following the presidential elections in the United States indicated strong impulses for the US economy, thus heralding a bout of strength for the US dollar in the fourth quarter of 2016 and nearly hitting parity against the euro in mid-December. Emerging economies in Asia and India recorded solid growth.

The following industry-specific drivers had an impact upon the Bank's business activity during 2016:

- Despite widespread ticket discounting, slowly increasing fuel costs and – in some parts – a significant increase in labour costs, IATA expects 2016 profits of US$35.5 billion for the global aviation industry, a new record level. Therefore, our Aviation Finance remains active in a stable environment. The aviation finance market itself, however, was continuously characterised by strong competition and persistently high liquidity. Once again, our Aviation team was able to conclude numerous advisory mandates and attractive financings.

- The international market for land transport finance faced increasing competition and high liquidity. This, however, did not reduce our Land Transport Finance team's business opportunities, as it entered into various valuable transactions.

- The slight rebound in oil prices during the course of the year was not sufficient to re-establish confidence in the offshore exploration business. In Offshore Finance, we focused on our existing client relationships and adopted a cautious stance regarding new business.

- The shipping downturn extended into its eighth year, with all segments affected to varying degrees. Persistent high tonnage overcapacity and declining charter rates – which form the basis for vessel valuations, and hence, for collateral values – remained a significant contributor to the overall situation. Sluggish trade activities and geopolitical developments in the Eastern Mediterranean added to the difficulties during the third quarter. In certain markets, both charter rates and asset values declined significantly during the third and fourth quarter of the year. All these market distortions heavily burdened shipping clients' liquidity cushions, affecting lenders to a more pronounced extent than before. These developments were the main reasons for the higher allowance for credit losses DVB recognised in the financial year under review.

In 2016, we adopted a selective approach in terms of client coverage, managing to generate an appropriate volume of new business, albeit on a reduced level. At the same time, we continued to focus, in great detail, on managing exposures subject to higher risks.

How did DVB's business performance develop during 2016, in detail?
The positive aspects of DVB's business performance during 2016 can be outlined as follows:

On a positive note, our Transport Finance divisions generated a healthy level of new business, contributing to a sound operative performance in our core business. We concluded a total of 157 new transactions during the period ending 31 December 2016, with an aggregate volume of €6.5 billion (previous year: 190 transactions with a volume of €7.2 billion).

Net interest income rose by 13.8%, to €209.0 million, due to new business originated. Net fee and commission income, which primarily includes fees and commissions from new Transport Finance business, as well as asset management and advisory fees, also developed favourably, rising by 15.4% to €119.2 million.

In addition, at €177.5 million, general administrative expenses were reduced by just under one per cent, despite the continued high demands posed by regulatory-driven projects. Net other operating income/expenses amounted to €99.6 million and included, as a special effect, a €150.0 million contribution to income by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.

The challenges of DVB's business development in 2016 can be summarised as follows:

Allowance for credit losses rose to €381.4 million (previous year: €141.5 million) and was largely required for legacy exposures in the Shipping Finance portfolio, and for financings in the Offshore Finance portfolio. This increase led to a decline in income (before IAS 39), which amounted to €56.0 million (previous year: €164.1 million), and in consolidated net income (before taxes), which reduced to €–134.8 million (previous year: €46.1 million).

What are DVB's goals for 2017?
Our specific objectives for 2017, and the years to come, are as follows:

- We plan to sustain the positive business development in Aviation Finance as well as in Land Transport Finance and strengthen the earnings power of these businesses.

- We will undertake every effort to avoid having to record a loss as in 2016. We intend to reduce the higher risk costs in Shipping Finance and Offshore Finance during 2017 and 2018. This is based on assumptions that the persistent tonnage overcapacity in some shipping segments will not rise beyond existing levels, and that charter rates and asset values will not decline further. Hence, we will continue to focus strongly on managing risks in these businesses.

- We strive to preserve our sound core operational earnings before risk costs and before IAS 39. This means that, in addition to our lending business, we will focus on value-added services for clients in our Transport Finance business – such as capital markets products and advisory services.

- We will keep supporting our shipping clients in a market environment characterised by less liquidity supply as many international shipping financiers are continuing to withdraw from the shipping markets.

- We will continue to successfully address regulatory-driven projects. This will also contribute to our ability to distinguish ourselves from our competitors, as well as raising the entry barriers for new participants in our fields of business.

Thanks to our asset and market research expertise, our risk management, our restructuring know-how and our asset management skills, we will cope with the distortions on the shipping and offshore markets in 2017 and beyond, in a targeted and commercially reasonable manner, thus creating the foundation for suitable new business.

We continue to face the challenges and opportunities in the Transport Finance markets with cautious optimism. We thank you for the trust you have placed in us, and hope you continue to support us in our endeavours.

Yours sincerely,

Frankfurt/Main, March 2017
DVB Bank SE

Ralf Bedranowsky
CEO and Chairman of the Board of Managing Directors

David Goring-Thomas
Member of the Board of Managing Directors

Christian Hagemeyer
Member of the Board of Managing Directors

L. H. (Bart) Veldhuizen
Member of the Board of Managing Directors

HIGHLIGHTS 2016

2016 has been an extremely eventful year and one of the most challenging in the Bank's history. Nonetheless, the year also presented itself with a number of highlights demonstrating the strength of DVB's business model, brand profile and stakeholder relationships.

JANUARY

DVB website as industry winner

DIE WELT awarded www.dvbbank.com with its 'client-oriented website – gold rating' from over 250 different websites of listed companies. Key criteria included, amongst others, user-friendliness, the use of multimedia resources and open communication of facts and figures. In the actual analysis, DVB Bank was the banking industry winner.

25 FEBRUARY

Full-year results 2015 presented at Annual Accounts Press and Analyst Conference

On the occasion of the Annual Accounts Press and Analyst Conference 2016, the Bank welcomed representatives from renowned German media and analysts from important banks in DVB's Frankfurt/Main head office. Ralf Bedranowsky, CEO and Chairman of the Board of Managing Directors, presented the consolidated financial statements for 2015 to the audience, reviewed the situation of the transport markets DVB is active in and outlined the Bank's outlook and objectives.

CEO Ralf Bedranowsky presenting the results for the financial year 2015 "which were still satisfactory."

15 MARCH

Successful issue of benchmark bonds

DVB placed yet another senior unsecured benchmark bond. With this five-year, €500 million bond, the Bank underscored its strong position on the capital markets whilst diversifying its international investor base. A second €500 million benchmark issue, a seven-year bond, followed suit in June.

18/19 APRIL

Aviation Finance awarded by Airfinance Journal

At 36th Annual North America Air Finance Conference, DVB's Aviation Finance won the "European Deal of the Year – Deucalion (DVB) asset-backed security" for the Bank's inaugural aircraft-backed securitisation. Additionally, DVB received "Used Aircraft Deal of the Year" for the refinancing of ten used aircraft for Korean Airlines. With its annual awards, the Airfinance Journal recognises excellence in aviation finance across a range of categories.

DVB representatives at award ceremony

17–19 MAY 2016

Presenting aviation expertise at ISTAT Asia

Bertrand Grabowski, Member of the Board of Managing Directors responsible for Aviation Finance, moderated the Japanese Investor Panel. Kieran O'Keefe, Head of Aviation Financial Consultancy, was moderator for "New Sources of Funding – Asia". Marilyn Gan, Aviation Finance, and Stephan Sayre, Head of Aviation Investment Management, participated in other industry panels.

19 MAY

Successful annual client event in Greece

CEO Ralf Bedranowsky, and Bart Veldhuizen, Member of the Board of Managing Directors responsible for Shipping Finance and Offshore Finance, welcomed more than 200 customers, associates and staff of DVB's Representative Office Greece for the annual client event in Piraeus. Henriette Brent-Petersen, Head of Shipping and Offshore Research, presented a review of and outlook for the shipping markets.

22 JUNE

Shipping Finance won Marine Money awards

Marine Money, the renowned transport industry magazine, honoured DVB's Shipping Finance with two awards. The Bank won "Bank Debt – West; Deal of the Year" for a senior secured term loan and revolving credit facility, which provided BW Pacific with a flexible and competitive financing solution, and "Export Credit Agency – West; Deal of the Year".

23 JUNE

Annual General Meeting held in Frankfurt

The shareholders' meeting took place again at Deutsche Nationalbibliothek in Frankfurt/Main. In the general debate, shareholder and shareholder representatives asked in-depth questions about agenda items and specific topics relating to the situation on the transport markets and the bank's business development. With 96.46% of capital represented at the meeting, shareholders approved all proposed resolutions with a majority close to 100% (including a dividend of € 0.30 per no-par value share).

DVB's Board of Managing Directors – from left: Bertrand Grabowski, CEO Ralf Bedranowsky and L.H. (Bart) Veldhuizen

15 SEPTEMBER

200 clients to attend New York's reception

More than 200 clients came to the event representing all divisions in the New York office – Shipping Finance, Aviation Finance, Offshore Finance, Land Transport Finance and Corporate Finance. After saying farewell to Bertrand Grabowski, the gathering welcomed David Goring-Thomas as designated new Board Member for Aviation Finance and Land Transport Finance.

7/8 NOVEMBER

Tokyo client reception brought industry representatives together

185 guests from 65 companies met at DVB's annual reception in Tokyo, bringing together representatives from mostly leasing companies, airlines, shipping companies, ship owners, trading houses, banks, investors, and arrangers in Japan. The event was opened by CEO Ralf Bedranowsky. Bart Veldhuizen spoke about the shipping industry, and Bertrand Grabowski gave a speech regarding the aviation industry.

1 DECEMBER

David Goring-Thomas joined Board of Managing Directors

David Goring-Thomas took over responsibility for the Aviation Finance and Land Transport Finance business on the Board of Managing Directors. He thus succeeded Bertrand Grabowski who had stepped down from his Board position and left the Bank after reaching the age of 60. As a seasoned senior executive, Mr Goring-Thomas' expertise and leadership have been widely recognised inside and outside the Bank. He has been instrumental in successfully growing the Aviation business over the past 15 years in his position as DVB's Global Head of Aviation.

7 DECEMBER

DVB launched first mobile app

Compiled by DVB's Aviation Research team, the application is called DVB AirApp and provides an overview of commercial airliners from a financier's point of view. The app holds valuable information about aircraft types from Boeing, Airbus Bombardier and Embraer which are currently in operation or have been launched as well as new aircraft developments out of Russia, China and Japan. Freighter aircraft are also included. The app is intended to be used for reference purposes only and is available via the Apple App Store, the Google Play Store and Blackberry World.

DVB AirApp
DVB Bank SE

Apple iOS | Android | BlackBerry

SUPERVISORY BOARD

From left to right

IVO MONHEMIUS

MARTIN WOLFERT

ADNAN MOHAMMED

ULRIKE DONATH

FRANK WESTHOFF
Chairman of the Supervisory Board

DR KIRSTEN SIERSLEBEN

WOLFGANG KÖHLER
Deputy Chairman of the Supervisory Board

ANDERS INGEBRIGTSEN

DR PETER JANSEN

SUPERVISORY BOARD

since 1 January 2017

Supervisory Board

Shareholder representatives

FRANK WESTHOFF
Chairman
Member since 30 June 2006

WOLFGANG KÖHLER
Deputy Chairman
Member since 21 September 2009

ULRIKE DONATH
Member since 25 June 2015

ANDERS INGEBRIGTSEN
Member since 12 June 2014

DR PETER JANSEN
Member since 25 June 2015

DR KIRSTEN SIERSLEBEN
Member since 1 March 2016

Employee representatives

ADNAN MOHAMMED
Member since 13 February 2013

IVO MONHEMIUS
Member since 12 June 2014

MARTIN WOLFERT
Member since 7 October 2008

Supervisory Board Committees

Credit and Risk Committee

FRANK WESTHOFF
Chairman

ANDERS INGEBRIGTSEN

DR PETER JANSEN

MARTIN WOLFERT

Audit Committee

WOLFGANG KÖHLER
Chairman

ULRIKE DONATH
Deputy Chairwoman

IVO MONHEMIUS

Nomination Committee

FRANK WESTHOFF
Chairman

WOLFGANG KÖHLER
Deputy Chairman

ADNAN MOHAMMED

Remuneration Control Committee

FRANK WESTHOFF
Chairman

WOLFGANG KÖHLER
Deputy Chairman

ADNAN MOHAMMED

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In the past financial year of 2016 DVB's business performance was characterised by both positive and challenging developments.

As in previous years, the Aviation Finance and Land Transport Finance divisions again contributed positively to the Bank's results. At the same time, DVB had to deal with the continued downturn in the shipping markets and the ongoing difficult environment – due to oil price developments – for the offshore markets. Against this background, the Bank decided that legacy exposures in the Shipping Finance portfolio of DVB Bank Group called for an increase in allowance for credit losses to €381.4 million (previous year: €141.5 million), as communicated via the ad-hoc disclosure on 14 November 2016. It was a commercially appropriate and necessary decision, but pushed consolidated net loss before taxes down to €–135.3 million (previous year: €46.1 million).

The following market developments resulted in a further slowdown of the international shipping markets, in particular during the second half of 2016:

- There is ongoing and high tonnage overcapacity in numerous international shipping segments.
- Due to the influx of this new tonnage, charter rates have continued to decline: Offshore shipping charter rates have been under pressure since 2015 and in the first half of 2016, bulk carriers witnessed the lowest earnings since the shipping crises in the eighties. Container vessel charter rates have also been negatively affected during the third quarter of 2016 due to the structural oversupply.
- Vessel values developed in line with charter rates, which were impacted by the over-capacities.
- These market distortions, which prevailed into the third and fourth quarter of 2016, further burdened the liquidity cushions of shipping clients, with increasing effects upon the banks involved.
- The geopolitical developments in the Eastern Mediterranean imposed an additional burden for specific shipping markets during the third quarter of 2016.

On a more positive note, the Bank generated sustainable and valuable new business, triggering a solid operative performance in its core transport finance business.

Together with the Board of Managing Directors we would like to sincerely thank all of our employees for their efforts and dedication during 2016, especially in light of the difficult environment in the shipping and offshore markets.

The Supervisory Board and its Committees

We fulfilled the obligations imposed on us by law, the Memorandum and Articles of Association, and the Bank's Internal Regulations throughout the financial year 2016. Besides supervising the Company's management by the Board of Managing Directors, on an ongoing basis, and decisions on transactions and issues requiring approval, our focus was on giving detailed advice to the Board of Managing Directors.

The focus of such advice was on:

- the macroeconomic environment,
- the development of the shipping and offshore markets, and
- the consequences of these exogenous factors:
  - on the risk management as pursued by each of the Transport Finance portfolios,
  - on the Bank and its strategic direction, the operative corporate planning derived therefrom, and its implementation.

Further key issues included the Bank's credit risk exposure, its capitalisation, and whether the level of allowance for credit losses was adequate.

The legal and regulatory requirements for banks and securities firms remain high. We were informed comprehensively, on a regular basis, concerning the status of, and progress made with, projects launched to comply with these regulations.

The Supervisory Board carried out a self-evaluation in March 2016. The purpose of this exercise was to systematically observe, analyse, and evaluate our professional conduct, and the results achieved. The evaluation showed that the structure, size, composition and performance of the Supervisory Board, as well as the knowledge, skills and experience of individual Supervisory Board members, fulfil the requirements under the law, the Articles and Memorandum of Association, and corporate governance standards.

As in the previous years, the Bank provided us with adequate human and financial resources and offered training and continuous professional development measures on various topical areas, thus supporting us in fulfilling our duties. Additionally, a workshop for all members of the Supervisory Board was held during the year under review, providing important news on changes to the Bank's regulatory environment.

On 23 June 2016, the Annual General Meeting elected Dr Kirsten Siersleben to the Supervisory Board as a shareholder representative, after her appointment under a local court order dated 23 February 2016 ended upon conclusion of the Annual General Meeting.

Ms Ulrike Donath holds the position of financial expert on the Supervisory Board.

Currently, two members of the Supervisory Board are female, both of them shareholder representatives.

Cooperation with the Board of Managing Directors

Cooperation between the Supervisory Board and the Board of Managing Directors was, once again, characterised by mutual trust, and by open and constructive discussions throughout 2016. We regard this cooperation as being of particular importance in these ongoing difficult times for the shipping and offshore markets.

On 1 December 2016, Mr David Goring-Thomas succeeded Mr Bertrand Grabowski as Member of the Board of Managing Directors of DVB Bank SE. Mr Grabowski, whose responsibilities included, inter alia, the Bank's Aviation Finance and Land Transport Finance business, left DVB on 30 November 2016. With the Aviation platform built under his leadership, DVB entered the top league of advisory and financing services for the international aviation market. The Supervisory Board would like to express its sincere thanks to Mr Grabowski for this achievement. We are confident that Mr Goring-Thomas, who served as DVB's Global Head of Aviation for many years, knows how to sustainably continue this success story.

Since the beginning of the year, Mr Christian Hagemeyer has been strengthening DVB's Board of Managing Directors as the fourth member. He is a dedicated risk specialist. Mr Hagemeyer joined the Board on 1 January 2017, assuming responsibility for DVB's risk management, the credit divisions as well as the Bank's Asset & Market Research.

We wish Mr Goring-Thomas and Mr Hagemeyer much success and all the best in their new roles at the helm of the Bank.

The Board of Managing Directors has informed us regularly, without delay and comprehensively, orally and in writing, about the financial position and economic performance of the Bank and its subsidiaries, on developments on international transport markets, as well as on the Bank's management of risks, liquidity and capital and general business performance.

During Supervisory Board meetings, the Board of Managing Directors comprehensively informed us on the development of strategic parameters of DVB's business model, resulting adjustments to future business policy, as well as on company management and planning (including the planning parameters for the Bank's financial resources, budgeted results, liquidity and human resources), on corporate governance issues as well as on events, results and transactions that were and still are important to the Bank.

The CEO and Chairman of the Board of Managing Directors and the Chairman of the Supervisory Board met on a monthly basis to discuss specific issues related to the Bank, as well as imminent decisions both timely and comprehensively. The Board of Managing Directors informed us instantaneously about important developments between Supervisory Board meetings, thus permitting the Supervisory Board members to exercise their control function at any time. We adopted any resolutions that were necessary between Supervisory Board meetings by way of circulation.

Meetings of the Supervisory Board

The Supervisory Board met during six scheduled plenary meetings in 2016; during these meetings, we regularly discussed the Bank's business development in great detail. The Board of Managing Directors gave a detailed account of the sector-specific and macroeconomic environment on the international transport markets, as well as on the specific risk situation concerning ships, aircraft, offshore support vessels and platforms, as well as rolling stock.

Main issues during the meeting on **2 March 2016** were a review of the accounting and financial reporting processes of DVB Bank SE as part of the single-entity financial reporting pursuant to the German Commercial Code (HGB), business development during the first months of 2016, as well as the effects of the oil price developments on the Bank's business model. Furthermore, the Supervisory Board was informed about new regional requirements.

At the meeting on **24 March 2016**, the Supervisory Board discussed matters specific to the Board of Managing Directors. It also discussed the consolidated financial statements 2015 in accordance with IFRS with the auditors, and approved the consolidated financial statements, as recommended by the Audit Committee. The Head of Group Audit presented her comprehensive annual report. In addition, Mr Grabowski gave a report on the current business development, outlook and risk situation of the aviation industry, as well as on the latest business development of the Land Transport Finance division.

The main issue during the meeting on **23 June 2016** was the result of the evaluation of the Board of Managing Directors and the Supervisory Board.

The Supervisory Board came together on **5 August 2016** for an extraordinary meeting to vote on personnel changes on the Board of Managing Directors.

The main issue during the meeting on **19 September 2016** was the worsening shipping crisis and its consequences for the Bank. Mr L.H. (Bart) Veldhuizen reported on the situation on the shipping and offshore markets. He explained the prevailing business developments, including a forecast and the risk situation in various market segments, based on up-to-date research documents, and also made a presentation to the Supervisory Board concerning mid-term planning; all of his information was discussed in detail. Following Mr Veldhuizen, the Head of Group Audit presented her annual report.

During its meeting on **23 November 2016**, the Supervisory Board comprehensively discussed the Bank's Investment Management activities and Corporate Finance business. Another main issue was the planning for the financial year 2017. The Board of Managing Directors informed the Supervisory Board about developments in the subsidiaries, in particular ITF International Transport Finance Suisse AG and LogPay Financial Services GmbH.

Supervisory Board Committees

Both the Credit and Risk Committee and the Audit Committee discussed, reviewed and monitored in detail DVB's risk situation, risk management, and the respective control mechanisms within the Bank during its meetings. The Supervisory Board was informed about current events and transactions of fundamental importance without undue delay; subsequent decisions were taken after intense consultation and discussion.

During its four meetings, the **Credit and Risk Committee** fulfilled all duties incumbent upon it by law, and the Internal Regulations without undue delay. This included a continuous and careful analysis of all exposures subject to reporting requirements. In addition, the Credit and Risk Committee was involved in approving loan exposures, where such approval was required, by way of circulation. During the meetings, detailed portfolio analyses were used to discuss the structure and performance of the loan portfolio as well as risk issues (business and reputational risks, market price, liquidity, as well as operational risks). Regarding the loan portfolio, the performance of financed transport assets, risk management measures taken, and the specific analysis of individual non-performing sectors and exposures were particularly important.

In addition, the Committee members intensively discussed the Bank's overall risk appetite, as well as DVB's subrisk strategies, and supported the Supervisory Board in monitoring these strategies. Discussions on the credit risk strategy formed a focal point of deliberations. Furthermore, the members of the Supervisory Board exchanged their views on the strategies for managing market, liquidity, business and reputational risks, as well as on the outsourcing strategy pursued by the Board of Managing Directors. After intensive discussions, the Committee decided to amend the existing lending policies.

The Board of Managing Directors kept the members of the Committee continuously informed about non-performing exposures and those subject to particular risks, and also about unusual events in the lending business. It informed the Committee, without delay, about transport assets controlled by DVB.

The **Audit Committee** held six meetings during the year under review. With the external auditors present, it discussed the financial statements and consolidated financial statements of DVB Bank SE for the financial year 2015 as well as the consolidated half-year financial statements as at 30 June 2016. The members of the Committee also discussed the audit reports and the audit findings, whilst monitoring the corresponding measures taken by the Board of Managing Directors. In addition, the Committee intensively discussed the socalled SAD lists (summary of unadjusted audit differences identified by the external auditors) in connection with the different financial statements, and made corresponding recommendations to the Board of Managing Directors. The members of the Audit Committee undertook the necessary independence reviews of external auditors and made a recommendation to the plenary meeting of the Supervisory Board regarding the appointment of the external auditors. The Head of Group Audit and the Heads of the credit divisions, responsible for monitoring credit, market and operational risk, regularly informed the Audit Committee of the structure of the Bank's risk monitoring mechanisms as well as of the results of internal and external audits. The main issue during the last three meetings was the implementation of the new European and national audit reform. Pursuant to the EU's reform, the members of the Audit Committee also covered the requirement to tender an audit when the audit firm is rotated – applicable for the first time for the financial year 2018.

All Declarations of Compliance issued by DVB since 2002 are available for download from our website www.dvbbank.com > Investors > Corporate governance > Declarations of Compliance.

The **Nomination Committee** held two meetings during the period under review. Besides the obligations incumbent upon it by law and the Bank's Internal Regulations, during 2016 the Committee concerned itself intensively with personnel matters regarding the Board of Managing Directors, and made recommendations to the plenary meeting of the Supervisory Board in this context.

The **Remuneration Control Committee** held two meetings during the period under review. The Committee's members discussed the legal and regulatory requirements regarding the remuneration of members of the Board of Managing Directors and other employees in great detail, and monitored their implementation. Both DVB's remuneration strategy and remuneration principles were extensively discussed with the Bank's Remuneration Officer. Furthermore, the Committee was kept informed by the Board of Managing Directors, always in good time, of the conclusion of employment contracts with executive staff, where the annual remuneration was in excess of a set threshold.

The Chairmen of the Committees kept the entire Supervisory Board of DVB Bank SE informed on topics dealt with by the Committees, to the extent that such issues were fundamentally important, or were also discussed in the plenary meetings of the Supervisory Board.

There were no conflicts of interest which would have required disclosure during the year under review.

DVB's Corporate Governance

Implementation of the recommendations of the German Corporate Governance Code was discussed in depth during the Supervisory Board meeting in November 2016. Together with the Board of Managing Directors, the Supervisory Board has issued the 15th Declaration of Compliance in accordance with section 161 of the AktG (referring to the German Corporate Governance Code as amended on 5 May 2015) which was published in the German Federal Gazette and on DVB's website on 2 December 2016.

Cooperation with external auditors for the consolidated financial statements 2016

The consolidated financial statements and the group management report for the financial year 2016 have been examined, following an audit of the accounting records, and certified without qualification, by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, the external auditors appointed by the General Meeting. The Chairman of the Supervisory Board obtained information on the scope of the audit in advance, and discussed focal points with the auditors, in detail. The auditors' reports were distributed to the Supervisory Board in good time before the meeting held on 31 March 2017, during which the consolidated financial statements were discussed. The auditors who certified the consolidated financial statements took part in this meeting. During this meeting, they gave a detailed account of their audit and provided detailed answers to the Supervisory Board's questions regarding focal points of the audit.

The consolidated financial statements and group management report for the financial year 2016 were reviewed and discussed by the Supervisory Board. No objections were raised, and the consolidated financial statements prepared by the Board of Managing Directors were approved.

The Board of Managing Directors has prepared and submitted the mandatory report on business relationships with affiliated companies during the financial year 2016; this report has been examined and certified without qualification by the external auditors, as follows: "Having duly examined and assessed this report in accordance with professional standards, we confirm that the report is free from factual misrepresentations, and that the company did not pay any excessive consideration with regard to the transactions identified in the report." The Supervisory Board reviewed the mandatory report on business relationships with affiliated companies. Following this review and subsequent examination, the Supervisory Board approved the results of the audit of the consolidated financial statements. More specifically, the Supervisory Board had no objections regarding the declaration made by the Board of Managing Directors pursuant to section 312 (3) of the AktG.

Frankfurt/Main, 31 March 2017

For the Supervisory Board

Frank Westhoff

Chairman of the Supervisory Board

The Corporate Governance Report 2016 in accordance with section 3.10 of the German Corporate Governance Code, the Corporate Governance Statement in accordance with section 289a of the HGB, the Declarations of Compliance, explanations concerning the Bank's governance system, as well as the Memorandum and Articles of Association of DVB Bank SE, in their current version, are available on our website: www.dvbbank.com > Investors > Corporate governance.

CORPORATE GOVERNANCE REPORT

In the following declaration pursuant to Section 3.10 of the German Corporate Governance Code (the Code) and section 289a of the German Commercial Code (HGB), the Board of Managing Directors and Supervisory Board of DVB Bank SE report on the Bank's corporate governance.

DVB is a global specialist in international Transport Finance. As a listed company, DVB must observe the recommendations and proposals of the Code. The Board of Managing Directors and the Supervisory Board therefore use the Code as a guideline on how to enhance the transparency of business decisions for shareholders, business partners, employees, and the general public. The two Boards review the Code's recommendations – as amended by the Government Commission of the German Corporate Governance Code, and how DVB is implementing them, on an annual basis.

DVB's corporate governance is shaped by four essential parameters

- responsible and effective corporate governance and control by the Board of Managing Directors and the Supervisory Board, respectively;
- protecting the interests of stakeholder groups such as shareholders, investors, clients, business partners and staff;
- regular financial reporting and independent audits; and
- transparent communications.

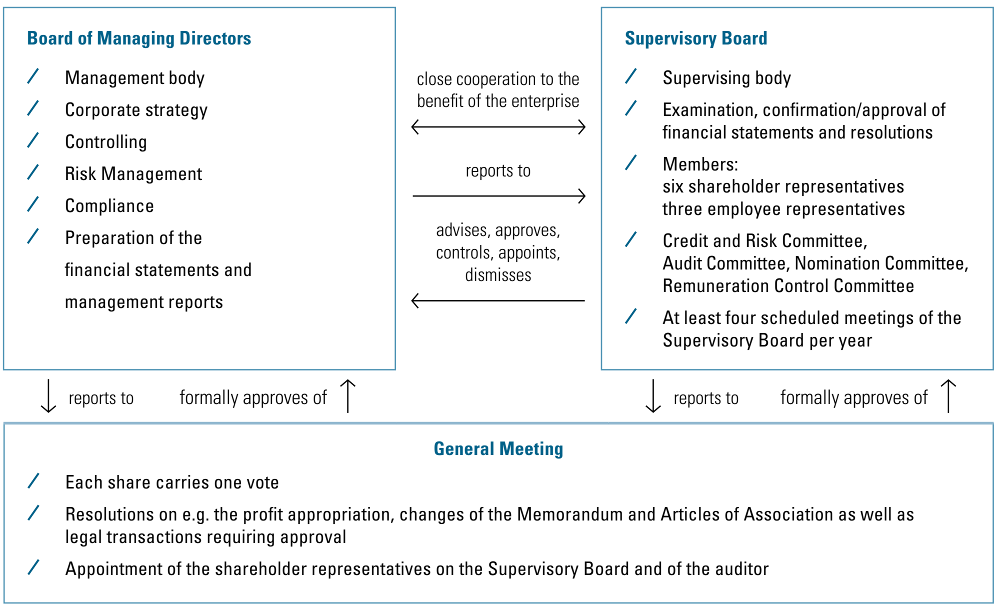
DVB's dual-board structure

DVB Bank SE opted for a dual-board structure comprising two executive bodies, in addition to the General Meeting: one managing the Bank and its business (managing body: the Board of Managing Directors) and one supervising the management (supervisory body: the Supervisory Board). The dual-board structure is organised in the following manner. CHART 01

The Board of Managing Directors – DVB's managing body

Pursuant to Article 7 of the Memorandum and Articles of Association of DVB Bank SE, the Board of Managing Directors consists of a minimum of two members who are

Dual-board structure C 01



appointed by the Supervisory Board for a period of no more than five years. During all of the financial year 2016, the Board of Managing Directors consisted of three members. Mr Bertrand Grabowski retired from the Board of Managing Directors on 30 November 2016, having attained the age of 60. He was succeeded by Mr David Goring-Thomas, who joined to Board of Managing Directors on 1 December 2016. Mr Goring-Thomas' responsibilities include, inter alia, the Bank's Aviation Finance and Land Transport Finance business. Prior to joining the Board of Managing Directors, he was DVB's Global Head of Aviation Finance. On 1 January 2017, Mr Christian Hagemeyer became the fourth member of the Board of Managing Directors and assumed responsibility for the Bank's credit and risk management as well as its asset and market research. Mr Hagemeyer joined DVB from Landesbank Hessen-Thüringen (Helaba).

The Supervisory Board selects those candidates for appointment as member of the Board of Managing Directors who are most suitable in the context of the Bank's business model: specific expertise in the transport finance business is decisive, whereas criteria such as nationality, gender or religion are not relevant for the sustainable promotion of the Bank's business model (section 5.1.2 (1) sentence 2 of the Code).

Reappointments, for no more than five years per term, are permitted. In principle, the term of office of a member of the Board of Managing Directors ends when reaching the age of 65. In exceptional cases, this term of office may be extended twice, by one year each time.

The Board of Managing Directors manages the business in the Company's best interests, and in order to achieve a sustained increase in its value. In doing so, the Board of Managing Directors considers the interests of shareholders, investors, clients, and business partners, as well as those of the Bank's employees. DVB's business model and its strategic position in the relevant global transport markets is determined and refined by the Board of Managing Directors in coordination with the Supervisory Board. In addition, the members of the Board of Managing Directors ensure that the Company is managed in accordance with legal regulations, the Memorandum and Articles of Association, and the Internal Regulations. Moreover, the Board of Managing Directors directs the parent company – DVB Bank SE – and the DVB Bank Group, using efficient management tools. Specifically, these include financial controls, risk management, and compliance.

Regarding the members of the Board of Managing Directors, no conflicts of interest pursuant to section 4.3 of the Code occurred during the financial year 2016.

More information on the composition of the Board of Managing Directors and the distribution of responsibilities amongst its members are available on page 22–23 of this annual report.

The Supervisory Board – DVB's supervisory body

Pursuant to Article 11 (1) of the Memorandum and Articles of Association of DVB Bank SE, the Supervisory Board consists of a total of nine members, comprising six shareholder representatives and three employee representatives. On 31 October 2015, Prof Dr h.c. Stephan Götzl retired from the Supervisory Board. Under a local court order dated 23 February 2016, Dr Kirsten Siersleben was appointed, with effect from 1 March 2016, to fill the vacant position. On 23 June 2016, the Annual General Meeting elected Dr Siersleben to the Supervisory Board as a shareholder representative.

The current members of the Supervisory Board are appointed for the period until the conclusion of the General Meeting that passes a resolution on the formal approval for the fourth financial year following the commencement of their term of office (section 11 (2) of the Memorandum and Articles of Association). This will be the Annual General Meeting to be held in 2018. Reappointments are permissible.

In accordance with section 5.4.3 of the Code, since the Annual General Meeting 2014, Supervisory Board elections have been conducted individually for each member. Within the scope of proposals for election to be submitted to the Annual General Meeting, DVB will disclose each candidate's personal or business relations with DVB, its executive bodies, or a major shareholder in DVB, as well as proposals for election to the function of Chairman of the Supervisory Board.

With regard to the election of Supervisory Board members it shall be ensured in principle that any such candidate will not attain the age of 70 years during their term of office as a member of the Supervisory Board. In special cases, however, this threshold may be exceeded by one year, in which case the term of office of the respective Supervisory Board member will end upon the close of the Annual General Meeting held after that member's 71st birthday. Former members of the Board of Managing Directors may only be elected to the Supervisory Board after a period of two years has elapsed since their retirement from the Board of Managing Directors, unless their election is proposed by a shareholder holding a stake exceeding 25% of the voting rights of DVB Bank SE.

The Supervisory Board continually advises and supervises the Board of Managing Directors in its management of the business. It is involved in every major business decision. Transactions that require Supervisory Board approval, pursuant to Article 18 of the Memorandum and Articles of Association, include the purchase and sale of companies, the conclusion of inter-company agreements and the development of new (or the discontinuation of existing) business segments, to the extent that the relevant measure has material importance for DVB Bank Group. In addition, the Supervisory Board is responsible for the appointment and removal of members of the Board of Managing Directors.

The Supervisory Board conducts its business in accordance with its Internal Regulations. It is directed by the Chairman of the Supervisory Board, who sets the agenda for each meeting, chairs the plenary meetings, and signs the meeting minutes. The Internal Regulations of the Supervisory Board also provide for various methods of casting votes; for each poll, the Chairman of the Supervisory Board selects the most appropriate method from amongst these options.

The Supervisory Board of DVB Bank SE has four committees: the Credit and Risk Committee, the Audit Committee, the Nomination Committee and the Remuneration Control Committee.

- The members of the **Credit and Risk Committee** are elected by the Supervisory Board from amongst its members. The Committee convenes at least four times per year. The Committee's tasks include advising the Supervisory Board on topics such as the Company's overall propensity to accept risk, and on its risk strategy. The Committee also supports the Company with the related monitoring and implementation. Moreover, it monitors terms and conditions in the lending business, and examines whether these are in line with the Company's risk structure. It also deals with all DVB Bank Group exposures which must be submitted to the Supervisory Board for acknowledgement or approval, as well as all major loans and loans subject to higher risks. Where required, the Committee approves any such loans. Moreover, the Board of Managing Directors coordinates the lending policies with the Credit and Risk Committee, and keeps the members of the Committee informed on a regular basis about problem loans, exposures subject to higher risk, and unusual events related to the lending business.
- The **Audit Committee,** which comprises three members, supports the Supervisory Board particularly with regard to monitoring the accounting and financial reporting process, the effectiveness of the risk management system, the internal control system, and internal audit. The Committee monitors the audit of the financial statements, focusing in particular on ensuring the independence of external auditors and on the swift resolution of any deficiencies determined by the external auditors, by way of suitable measures.
- The **Nomination Committee** consists of three Supervisory Board members. The Committee's tasks are defined by law (section 25d of the German Banking Act) and in the Internal Regulations for the Nomination Committee. The Committee is responsible for selecting candidates for appointment to the Board of Managing Directors, including preparing resolutions for the conclusion, extension or termination of contracts with the members of the Board of Managing Directors; the resolutions are passed by the plenary meeting of the Supervisory Board. The Committee has also prepared objectives for the promotion of the under-represented gender on the Supervisory Board, and conceiving a strategy to achieve such objectives. It carries out a review of the structure, size, composition and performance of the Board of Managing Directors and the Supervisory Board at least once a year, examining the skills, professional aptitude and experience of individual members of the Board of Managing Directors and of the Supervisory Board. In this context, the Committee also reviews the principles adhered to by the Board of Managing Directors in identifying and appointing individuals to the Company's upper management level.
- The **Remuneration Control Committee** consists of the Chairman of the Supervisory Board, one shareholder representative and one employee representative to the Supervisory Board. The Committee's tasks include monitoring whether remuneration systems for the Board of Managing Directors and for the Bank's employees are appropriate; the Committee supports the Board of Managing Directors in determining the specifications of such remuneration systems. Moreover, the Committee discusses the incentives provided for in the remuneration system, and reviews whether these incentives take the structure of DVB's risk, capital and liquidity into account. Furthermore, the Remuneration Control Committee prepares Supervisory Board resolutions concerning the remuneration of the Board of Managing Directors, focusing in particular on the impact of planned resolutions on the Company's risks and risk management.

For further information, please refer to the Report of the Supervisory Board (on pages 34–39, which also gives a detailed description of the work of the Supervisory Board and the focal issues discussed during 2016, as well as the processes of communication and coordination between the Board of Managing Directors and the Supervisory Board. The current composition of the Supervisory Board, and of its committees, is shown on page 32–33 of this annual report.

No committee has been established for the preparation of Supervisory Board meetings. Preparations for these meetings – in terms of topics and organisation – take place in direct communication between the Chairman of the Supervisory Board and the Board of Managing Directors. The Bank intends to adhere to this well-established practice in the future.

Communications between the managing body and the supervisory body are generally structured as follows: between scheduled Supervisory Board meetings, the Chairman of the Board of Managing Directors informs the Chairman of the Supervisory Board – regularly, without delay and always up to date – on the Bank's strategy, planning and business development, on risk management and the Bank's risk situation, compliance, as well as on important decisions to be made, and on significant issues. During its meetings, the supervisory body is kept informed, regularly and comprehensively, on developments of strategic parameters pertaining to DVB's business model, resulting adjustments to future business policy, as well as on corporate governance and planning (including financial planning, comprising the planning of DVB's financial position and financial performance, and human resources planning). Moreover, Committee members receive more detailed information concerning their respective areas of responsibility.

Female quota

Pursuant to section 289a (4) HGB in connection with sections 76 (4) and 111 (5) German Public Limited Companies Act (AktG), DVB reports the female quota in its Corporate Governance Statement for the Board of Managing Directors, the two top management levels and the Supervisory Board.

The German Federal Government set a gender quota in March 2015 by passing the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector. In abidance of this law, DVB Bank SE – as a publicly listed company subject to one-third participation as a form of co-determination – laid down the following targets[1], valid until 30 June 2017:

- Supervisory Board – Female quota of 11%
- Board of Managing Directors – Female quota of 0%
- First management level – Female quota of 19 %
- Second management level – Female quota of 33%

1 The targets match the gender quotas DVB Bank SE achieved as at 30 September 2015.

In 2016, the actual female quota on DVB Bank SE's **Supervisory Board** doubled versus the defined target quota, reaching 22%. Under a local court order dated 23 February 2016, Dr Kirsten Siersleben was appointed, with effect from 1 March 2016, to fill a position on the Supervisory Board that had been vacant since 31 October 2015. On 23 June 2016, the Annual General Meeting elected Dr Siersleben to the Supervisory Board as a shareholder representative.

The **Board of Managing Directors** of DVB Bank SE currently consists of four members, none of whom is a woman. This is in line with the target quota. Members of the Board of Managing Directors are appointed without regard to nationality, gender or religion. It is whether a candidate – male or female – has the required knowledge, skills and professional expertise necessary to properly perform their duties and whether he or she complies with the principles laid down in the Company's Memorandum and Articles of Association that decides on their appointment.

At 31 December 2016, the **two top management levels** below the Board of Managing Directors comprised 86 executives, who either reported directly to the Board of Managing Directors or who worked as team leaders. Women held 21 (24.4%; previous year: 26.9%) of these executive positions. While the share of female executives on the first management level rose slightly to 18.2% (previous year: 17.6%), it decreased to 28.3% on the second management level (previous year: 34.1%) against restructuring measures and minor fluctuations in some parts of the Bank. When filling positions, assuming the same level of qualifications, the Bank is committed to give preference to internal applicants and does not regard criteria such as nationality, gender or religion in its decision-making process.

The remuneration chapter of the group management report (pages 106–109) of this annual report) provides a detailed overview and explanations concerning the legal principles of DVB's remuneration system.

Remuneration Report

Pursuant to section 16 of the German Regulation on Remuneration in Financial Institutions, DVB is obliged to disclose information regarding its remuneration policy and practice. DVB's disclosure duties as a bank, as defined in section 1 of the KWG, are based solely on Article 450 of the Regulation 575/2013/EU (Capital Requirements Regulation – CRR), which requires the Bank to disclose certain quantitative and qualitative details for groups of employees whose activity has a material impact on the Bank's risk profile ("risk takers").

Remuneration of the Board of Managing Directors

Total expenses for the remuneration of the Board of Managing Directors, former members of the Board of Managing Directors and their surviving dependants, as well as the Supervisory Board, amounted to €3.8 million in 2016 (previous year: €4.1 million).

The HGB requires companies to disclose personalised remuneration (and remuneration components) of members of the Board of Managing Directors in the financial statements and consolidated financial statements. Pursuant to sections 286 (5) and 314 (2) sentence 2 of the HGB, a company may waive such personalised disclosure of executive remuneration if the General Meeting adopts a resolution to that effect, with a qualified majority vote of no less than three-quarters of the share capital represented during the passing of the relevant resolution. By virtue of a resolution passed by the Annual General Meeting held on 23 June 2016 (agenda item no. 5), with the requisite majority of the share capital represented, DVB Bank SE has opted to waive the personalised disclosure of remuneration paid to members of the Board of Managing Directors for a period of five years.

The Supervisory Board has determined the structure of remuneration for the Board of Managing Directors. In 2016, the total remuneration of the Board of Managing Directors was comprised of a fixed component of 87.3% and a variable bonus of 12.7% (previous year: 77.4% fixed and 22.6% variable component). TABLE 01

Fixed remuneration component

The fixed remuneration component of DVB Bank SE's Board of Managing Directors comprises monetary remuneration components, pension commitments and special benefits. In 2016, it totalled €2,286,004.45 (previous year: €2,405,502.17).

Variable remuneration component

Since the financial year 2016, the variable remuneration component of DVB Bank SE's Board of Managing Directors has only comprised a cash bonus. In the year under review, the Board of Managing Directors received payments of variable remuneration in the amount of €333,153.54 (previous year: €700,537.07, encompassing a pro rata payment from DVB's Long-Term Incentive Plan).

The cash bonus payments paid to members of the Board of Managing Directors are determined on the basis of agreements on operational targets. These objectives, which are agreed upon between the Supervisory Board and the respective member of the Board of Managing Directors, are related to objective criteria for the relevant financial year (referring to financial indicators such as Economic Value Added and consolidated net income before taxes) as well as to the personal performance of each individual member of the Board of Managing Directors.

Remuneration of the Board of Managing Directors – Fixed and variable component T 01

€	2016	2015	%
Monetary remuneration components	1,807,500.00	1,927,500.00	–6.2
Pension commitments including contributions to pension provisions	182,782.71	198,590.61	–8.0
Special benefits	295,721.74	279,411.56	5.8
thereof allowances for company car or monetary equivalent	45,272.01	59,168.02	–23.5
thereof rent subsidies	34,893.84	44,101.88	–20.9
thereof insurance cover and employer contributions to foreign social security schemes	215,555.89	176,141.66	22.4
Fixed remuneration component	**2,286,004.45**	**2,405,502.17**	**–5.0**
Variable remuneration component	**333,153.54**	**700,537.07**	**–52.4**
Total	**2,619,157.99**	**3,106,039.24**	**–15.7**

The amount of the bonus depends on the (measurable) extent to which the targets were achieved. The cash bonus for the financial year 2016 will be awarded in four tranches: 40% during 2017, and three tranches of 20% each, awarded during the following three financial years 2018 to 2020.

Each deferred bonus tranche is subject to a malus process prior to disbursement, whereby the relevant risk situation and profitability at the respective point in time, compliance with internal guidelines (such as compliance guidelines or lending guidelines), as well as the member's personal conduct, are taken into account. For any deferred bonus tranche, this malus process cannot lead to an increase; however, it may reduce the amount and may even lead to the tranche being cancelled altogether.

In addition, for all award tranches, 50% of each tranche is subject to an additional one-year retention period. This means that these parts will not be disbursed immediately. During the retention period, the value of the retained amounts will be replaced by a remuneration instrument linked to the Bank's performance.

The prerequisite for payment of the two variable remuneration components is, in each case, that no notice of termination has been given with regard to the employment relationship with the member of the Board of Managing Directors concerned as at the time of payment. The sole exception would be where a member of the Board of Managing Directors retires from office for reasons of age, or due to non-renewal of a contract.

In the event of measures taken by the German Federal Financial Supervisory Authority or any other competent bank supervisory authority – especially under the so-called Single Supervisory Mechanism of the European Central Bank – no claims can be asserted under contractual stipulations which would contradict the measures taken by supervisors.

Examples for such supervisory measures include the following:

- The supervisory authority restricts the aggregate amount of variable remuneration components (e.g. pursuant to section 45 (2) sentence 1 no. 5a of the KWG) or voids them in their entirety, or issues a corresponding instruction to this effect.
- The supervisory authority restricts or prohibits the disbursement of variable remuneration components (e.g. pursuant to section 45 (2) sentence 1 no. 6 of the KWG).
- The supervisory authority orders that claims on granting variable remuneration components are to be voided, in whole or in part (e.g. pursuant to section 45 (5) sentences 5 et seq. of the KWG).

Quantitative disclosure in accordance with the requirements set by the German Corporate Governance Code

In the following, the remuneration of the Board of Managing Directors of DVB Bank SE is discussed as required by section 4.2.5 of the German Corporate Governance Code, with the disclosure comprising (i) benefits granted for the year under review, including fringe benefits and including the maximum and minimum achievable compensation for variable compensation components; (ii) the allocation of fixed remuneration, short-term variable remuneration and long-term variable remuneration for the year under review, broken down into the relevant reference years; and (iii) the benefit expense in the year under review.

By virtue of a resolution passed by the Annual General Meeting held on 23 June 2016 (agenda item no. 5), DVB Bank SE opted to waive the personalised disclosure of remuneration paid to members of the Board of Managing Directors for a period of five years. The remuneration of members of the Board of Managing Directors is therefore disclosed in an aggregated figure (see pages 46–47).
TABLES 02/03

Benefits granted

T 02

€ mn	2016	2016 min	2016 max	2015
Fixed remuneration	1.81	–	–	1.93
Fringe benefits	0.26	–	–	0.31
Total (A)	**2.07**	**–**	**–**	**2.23**
One-year variable compensation (B)	**0.00**	**–**	**–**	**0.00**
Multi-year variable compensation				
Bonus for 2015 – granted – disbursed[1]	–	–	–	0.10
Bonus for 2015 – granted – deferred[2]	–	–	–	0.10
Bonus for 2014 – 1st deferral – disbursed[1]	–	–	–	0.05
Bonus for 2014 – 1st deferral – deferred[2]	–	–	–	0.05
Bonus for 2013 – 2st deferral – disbursed[1]	–	–	–	0.06
Bonus for 2013 – 2nd deferral – deferred[2]	–	–	–	0.06
Bonus for 2012 – 3rd deferral – disbursed[1]	–	–	–	0.05
Bonus for 2012 – 3rd deferral – deferred[2]	–	–	–	0.05
LTI 2013 – disbursed[1]	–	–	–	0.12
LTI 2013 – deferred[1]	–	–	–	0.12
Bonus for 2016 – granted – disbursed[1]	0.09	0.00	0.09	–
Bonus for 2016 – granted – deferred[2]	0.09	0.00	0.11	–
Bonus for 2015 – 1st deferral – disbursed[1]	0.04	0.00	0.04	–
Bonus for 2015 – 1st deferral – deferred[2]	0.04	0.00	0.05	–
Bonus for 2014 – 2nd deferral – disbursed[1]	0.03	0.00	0.03	–
Bonus for 2014 – 2nd deferral – deferred[2]	0.03	0.00	0.04	–
Bonus for 2013 – 3rd deferral – disbursed[1]	0.03	0.00	0.06	–
Bonus for 2013 – 3rd deferral – deferred[2]	0.03	0.00	0.08	–
Total (C)	**0.38**	**0.00**	**0.50**	**0.78**
Service cost	0.00	–	–	0.00
Total remuneration[5]	**2.45**	**0.00**	**0.50**	**3.01**

1 These amounts are disbursed directly.
2 These amounts (initial value) were converted into phantom shares, and will only be disbursed in the following year.
3 These amounts (final value) were disbursed after the end of the retention period. The payout amount (final value) may deviate from the initial value converted into phantom shares, due to the fact that the payout amount is linked to DVB's share price performance. However, the payout amount is capped at 120% of the initial value.
4 These amounts were not yet available as of the publication date of this report (3 March 2017) and will be disclosed in full in the Disclosure Report, that is to be published in the course of the second quarter 2017.
5 The total remuneration accumulates from the individual sums (A) to (C).

Allocation

T 03

€ mn	2016	2015
Fixed remuneration	1.81	1.93
Fringe benefits	0.26	0.31
Total (A)	**2.07**	**2.23**
One-year variable compensation (B)	**0.00**	**0.00**
Multi-year variable compensation		
Bonus for 2015 – granted – disbursed[1]	–	0.09
Bonus for 2014 – granted – disbursed after retention period[3]	–	
Bonus for 2014 – 1st deferral – disbursed[1]	–	0.05
Bonus for 2013 – 1st deferral – disbursed after retention period[3]	–	0.10
Bonus for 2013 – 2nd deferral – disbursed[1]	–	0.04
Bonus for 2012 – 2nd deferral – disbursed after retention period[3]	–	0.05
Bonus for 2012 – 3rd deferral – disbursed[1]	–	0.04
Bonus for 2011 – 3rd deferral – disbursed after retention period[3]	–	0.06
LTI 2012 – disbursed following retention[3]	–	0.00
LTI 2013 – disbursed[1]		0.00
Bonus for 2016 – granted – disbursed[1]	[4]	–
Bonus for 2015 – granted – disbursed after retention period[3]	[4]	–
Bonus for 2015 – 1st deferral – disbursed[1]	[4]	–
Bonus for 2014 – 1st deferral – disbursed after retention period[3]	[4]	–
Bonus for 2014 – 2nd deferral – disbursed[1]	[4]	–
Bonus for 2013 – 2nd deferral – disbursed after retention period[3]	[4]	–
Bonus for 2013 – 3rd deferral – disbursed[1]	[4]	–
Bonus for 2012 – 3rd deferral – disbursed after retention period[3]	[4]	–
LTI 2013 – disbursed following retention[3]	[4]	–
Total (C)	**0.00**	**0.54**
Service cost	0.00	0.00
Total remuneration[5]	**2.07**	**2.77**

1 These amounts are disbursed directly.
2 These amounts (initial value) were converted into phantom shares, and will only be disbursed in the following year.
3 These amounts (final value) were disbursed after the end of the retention period. The payout amount (final value) may deviate from the initial value converted into phantom shares, due to the fact that the payout amount is linked to DVB's share price performance. However, the payout amount is capped at 120% of the initial value.
4 These amounts were not yet available as of the publication date of this report (3 March 2017) and will be disclosed in full in the Disclosure Report, that is to be published in the course of the second quarter 2017.
5 The total remuneration accumulates from the individual sums (A) to (C).

Remuneration of the Supervisory Board

The annual remuneration of Supervisory Board members is governed in Article 19 (1) and (2) of DVB Bank SE's Memorandum and Articles of Association. Accordingly,

- the Chairman of the Supervisory Board receives €40,000.00;
- members of the Supervisory Board receive €30,000.00;
- the members of Supervisory Board committees receive the following additional amounts:
  - members of the Credit and Risk Committee receive €10,000.00;
  - members of the Audit Committee receive €7,500.00;
  - members of the Nomination Committee receive €3,750.00; and
  - members of the Remuneration Control Committee receive €3,750.00.

The remuneration is paid on 1 July of each year. Where said remuneration is subject to value-added tax, this tax shall be paid in addition to the remuneration (Article 19 (3) of the Memorandum and Articles of Association). Further details, such as the reimbursement of travelling expenses and other cash expenses, daily allowances and similar issues, are governed by Article 19 (4) of the Memorandum and Articles of Association.

Total remuneration expenses paid in 2016 by DVB Bank SE for members of the supervisory bodies amounted to €428,400.00 (previous year: €404,935.00). Taxes amounting to €58,247.50 (previous year: €58,247.50) were transferred directly to the tax authorities for the Supervisory Board members domiciled abroad. The members of the Supervisory Board therefore received remuneration of €370,152.50 (previous year: €346,687.50) for their actions as Supervisory Board and committee members. TABLE 04

Remuneration of the Supervisory Board 2016 — T 04

€		Supervisory Board remuneration	Credit and Risk Committee remuneration	Audit Committee remuneration	Nomination Committee remuneration	Remuneration Control Committee remuneration	Value-added tax 19%	Total
Shareholder representatives								
Frank Westhoff, Chairman		40,000.00	10,000.00	–	3,750.00	3,750.00	10,925.00	68,425.00
Wolfgang Köhler, Deputy Chairman		30,000.00	–	7,500.00	3,750.00	3,750.00	8,550.00	53,550.00
Ulrike Donath		30,000.00	–	7,500.00	–	–	7,125.00	44,625.00
Anders Ingebrigsten, resident in Norway		30,000.00	10,000.00	–	–	–	7,600.00	47,600.00
Dr Peter Jansen		30,000.00	10,000.00	–	–	–	7,600.00	47,600.00
Dr Kirsten Siersleben (from 1 March 2016)		25,000.00	–	–	–	–	4,750.00	29,750.00
Employee representatives								
Adnan Mohammed, resident in the United Kingdom		30,000.00	–	7,500.00	–	–	7,125.00	44,625.00
Ivo Monhemius, resident in the Netherlands		30,000.00	–	–	3,750.00	3,750.00	7,125.00	44,625.00
Martin Wolfert		30,000.00	10,000.00	–	–	–	7,600.00	47,600.00
Total remuneration		**275,000.00**	**40,000.00**	**22,500.00**	**11,250.00**	**11,250.00**	**68,400.00**	**428,400.00**
Tax deduction for Supervisory Board members resident outside Germany (paid directly to the responsible tax office)								
VAT	19%							21,850.00
Taxes for membership of a supervisory board	30%							34,500.00
Solidarity surcharge	5.5%							1,897.50
Total tax deductions								**58,247.50**
Remuneration less tax deductions for Supervisory Board members resident outside Germany								**370,152.50**

Shareholdings of the Board of Managing Directors and the Supervisory Board

As at 31 December 2016, the Board of Managing Directors and the Supervisory Board did not hold, in aggregate, more than 1% of the shares issued by DVB Bank SE.

General Meeting – Protecting shareholders' interests

DVB's shareholders exercise their rights prior to or during the General Meeting, as provided by law or in the Memorandum and Articles of Association. The Annual General Meeting of DVB Bank SE takes place during the first six months after the end of each financial year (Article 21 of the Memorandum and Articles of Association). Shareholders' regular duties include:

- accepting the financial statements confirmed by the Supervisory Board and the consolidated financial statements approved by the Supervisory Board;
- passing resolutions on the appropriation of distributable profit;
- passing resolutions on the formal approval of the members of the Board of Managing Directors and the Supervisory Board;
- passing resolutions on the disclosure of remuneration of Members of the Board of Managing Directors;
- passing resolutions on new elections to the Supervisory Board; and
- passing a resolution on the appointment of the external auditors.

The invitation to the General Meeting of DVB Bank SE, including the agenda, is published in the German Federal Gazette. It is additionally sent to shareholders via their custodian banks. In addition, the convening notice and agenda can easily be accessed via the Bank's website as soon as the General Meeting has been convened. For easy reference, a summary agenda is also provided there.

The website also contains information on shareholder rights pursuant to sections 122 (2), 126 (1), 127, 131 (1) of the German Public Limited Companies Act (AktG). The Bank offers the additional service of allowing shareholders to appoint one of the proxies named by DVB to exercise their voting rights at the General Meeting. Pursuant to section 134 (3) sentence 4 of the AktG, DVB provides a proxy form which can be used for electronic transmission of a proxy by fax or e-mail.

The Company's Memorandum and Articles of Association do not currently provide for the casting of votes by post.

More information on the topics discussed during the Annual General Meeting 2016 is available in the chapter "DVB share" on page 74 of this annual report.

Regular financial reporting and independent audits

Financial reports provide shareholders and the general public with regular information about DVB's financial position and performance. DVB publishes two annual reports for each concluded financial year. The annual report of DVB Bank SE comprises the Bank's financial statements in accordance with the HGB, whilst DVB Bank Group's annual report contains its IFRS consolidated financial statements. Both sets of financial statements are prepared by the Board of Managing Directors. They are subjected to a review by the independent external auditors appointed at the Annual General Meeting before being confirmed (single-entity financial statements) by, or receiving final approval (consolidated financial statements) from the Supervisory Board.

The single-entity report of DVB Bank SE is published on the Bank's website, in German. The Group Annual Report is available for download from DVB's website in both English and German.

During the year, DVB also publishes a half-yearly financial report that includes condensed consolidated financial statements and quarterly statements during the first and second half of the year, covering key financial data for the first three months and nine months of the financial year, respectively. All these financial reports are prepared according to IFRS.

The Annual General Meeting on 23 June 2016 appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as auditors for the financial year 2017. Their mandate covers the audit of the single-entity financial statements and the consolidated financial statements prepared by DVB for the financial year 2016, as well as any review of the condensed financial statements and the interim management report (pursuant to sections 37w (5) and 37y no. 2 of the German Securities Trading Act (WpHG)) as at 30 June 2016; and interim consolidated financial statements (pursuant to section 340i (4) of the HGB) prepared prior to the Annual General Meeting held in 2017.

These reports are available on DVB's website www.dvbbank.com, under Investors > Publications > Financial reports.

www.dvbbank.com > Investors > General Meeting

Management tools

The key tools employed to manage the business are financial controlling, the risk management system, and the compliance function.

Financial controlling

The Board of Managing Directors has an extensive set of controls at its disposal: it uses them for value-driven and integrated overall management of the Bank – taking into account both income and risk parameters. From an ex-ante point of view, the key task is to distinguish beneficial options from disadvantageous ones – with a focus on the transparent and consistent design of target systems, alternatives, and forecasts. Ex-post analyses, in contrast, are carried out within the framework of a systematic cycle of planning, management and control. This means identifying concrete measures and management options that are specifically designed to meet the requirements of the respective management areas.

The information gained through analysing risk-adjusted profitability provides transparency regarding the value created throughout the Group, and in the various units managed. The metric used internally to assess the performance of each unit is Economic Value Added (EVA™). The indicator measures the performance generated on the risk capital invested. Risk-adjusted profitability data is a key input factor for allocating capital and resources within the enterprise.

All of DVB's divisions and areas are covered by a uniform value-driven management system. Besides income, risk is another key dimension of all ex-ante and ex-post analyses.

In essence, the Group's focus is on achieving defined income and cost targets, whilst maintaining its risk-bearing capacity and ensuring compliance with regulatory requirements. In addition to the strategic plan and a detailed one-year plan, the standardised toolbox also provides for regular projections of full-year results carried out over the course of the year. The periodic management information system is built on top of an integrated data warehouse, with ad-hoc studies and analyses used as required.

DVB's tools for measuring risk-adjusted profitability are also integrated in the "Integrated risk and capital management system used throughout the DZ BANK Group".

Risk management

DVB's Board of Managing Directors has established an adequate and viable risk management system that fulfils the Bank's own commercial needs and complies with legal requirements. With the methods, models, organisational rules and IT systems implemented, DVB is able to recognise material risks at an early stage, and to respond appropriately by taking suitable measures. The suitability and effectiveness of DVB's risk management system are regularly reviewed by internal and external auditors.

DVB operates a Group-wide risk management system, which complies with all statutory and regulatory requirements. This risk management system comprises adequate provisions and measures with respect to risk strategy, risk-bearing capacity, risk management, and risk monitoring, plus a multi-level framework for the early detection of risks. In addition to the structural and procedural organisation, these measures also apply to the processes for identifying, assessing, managing, monitoring and communicating the risks.

DVB's risk management system distinguishes between operative and strategic risk management. The Bank defines operative risk management as the implementation of the business and risk strategy by the various business divisions, as prescribed by the Board of Managing Directors. In addition to defining risk policy guidelines, strategic risk management also coordinates and supports operative risk management processes by cross-divisional committees.

The risk control function – which is independent from operative risk management – comprises the identification, quantification, limitation and monitoring of risks, and is responsible for risk reporting. The 'DVB Group Risk Report' is submitted to the entire Board of Managing Directors and the Supervisory Board on a quarterly basis, informing about the Group's risk exposure. Furthermore, DVB has installed reporting systems for all relevant types of risk. This ensures that the risks are transparent at all times to the authorised persons with responsibility for those risks.

For more details regarding risk management, please refer to the report on opportunities and risks on pages 190–192 of this annual report.

Compliance

DVB defines compliance as adherence to the law and the Company's Memorandum and Articles of Association, as well as compliance with internal rules and regulations and voluntary obligations. The Compliance Office has been mandated by the Board of Managing Directors to ensure that regulatory compliance is implemented throughout the Group. Thus, the scope of the function includes – but is not limited to – money laundering prevention, prevention of market abuse or market manipulation, data protection, conflicts of interest, anti-corruption, and compliance with the Markets in Financial Instruments Directive. In accordance with section 33 (1) sentence 2 no. 5 of the WpHG, the Head of Compliance submits a Compliance Report to the Board of Managing Directors and the Supervisory Board, at least once a year. This report complies with the requirements pursuant to sections 31 et seq. of the WpHG, the MaComp (Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organisation and Transparency pursuant to sections 31 et seq. of the WpHG), as well as section AT 4.4.2 of the MaRisk (Minimum Requirements for Risk Management in Banks).

Sustainable conduct – both commercially and socially – is a key element of DVB's corporate culture. To ensure a professional, uniform and exemplary standard of conduct throughout the Group, the Board of Managing Directors developed a Code of Conduct at the beginning of 2010 (which was extended in 2012). The values enshrined in this Code of Conduct must be observed vis-à-vis our clients and business partners as well as all fellow employees.

The Code of Conduct outlines DVB's mission statement based on four core values:

- We offer our clients professional expertise on transport markets and transport assets – throughout all market cycles.
- We support our clients around the world with tailor-made financing solutions and services. Our products meet all relevant legal and ethical standards.
- Entrepreneurial vision and strength guide our every thought and action.
- We create a working environment for all DVB staff that promotes creativity, innovation, teamwork and variety.

In this way, the Code of Conduct is also designed to manage ethical and legal challenges arising during day-to-day work, providing guidance in the event of any conflicts.

Compliance staff have been appointed in each of the Bank's locations, directly reporting in this capacity to the Head of Compliance. Where possible, automated monitoring systems have been implemented, which ensure that any potential breaches are automatically alerted to the central function in Frankfurt/Main. The local compliance officers must additionally escalate any potential breach of internal policies/procedures, as well as any potential breach of external rules and regulations.

All staff attend regular trainings on compliance-related topics. DVB has partnered with an external provider to conduct web-based training sessions. Specifically, mandatory webinars were carried out focused on money laundering prevention, operational risk, data protection and security, conflicts of interest, and the Code of Conduct. In addition, the Bank has conducted regional follow-up group trainings on anti-money laundering and anti-corruption measures where it uses a training video covering the topics, provides information concerning special regional requirements, and offers the opportunity to discuss the key learnings.

The Code of Conduct is available on www.dvbbank.com, via the footer in the lower part of the page (in the Compliance section).

SUSTAINABILITY REPORT

To act sustainably is to act responsibly – on environmental, social and governance criteria.

DVB is well aware of its multiple roles in society: we are a global lender and adviser for the international transport industry, a player in the global financial markets, an international employer, a client to service providers, advisers and suppliers as well as a corporate citizen. With international business activities and a long track record of economic success, we make a valuable contribution to society.

For more information on the German Sustainability Code, please visit www.deutscher-nachhaltigkeitskodex.de

Developing a sustainability programme

To safeguard this performance contribution and secure our long-term business development – in every market situation – we want to further align our corporate culture and corporate strategy with ethical, social and environmental values.

That is why the Board of Managing Directors decided to entrust David Goring-Thomas, Member of the Board of Managing Directors whose responsibilities include, inter alia, the Aviation Finance and Land Transport Finance divisions, with the matter. In 2015, an internal project team was mandated, comprising Group Compliance, Group Corporate Communications, Group Human Resources, Group Legal and Transaction Management staff.

Within this project work, we aim at raising further awareness among our colleagues for specific social and environmental questions, and better integrating these issues into our corporate culture and strategy. In pursuit of this goal, we look to the German Sustainability Code and are in the process of developing a customised, holistic sustainability programme that will allow us to strengthen existing activities and identify new ones.

These are our key sustainability metrics:

TABLE 05

Sustainability metrics

T 05

	2016	2015	%
Responsible corporate governance			
Compliance training (participation rate)	100.0%	100.0%	–
Social responsibility			
Staff members in active employment	624	609	2.5
– thereof male	371	361	2.8
– thereof female	253	248	2.0
Average relevant professional experience (years)	13.0	13.1	–0.8
Nationalities within the Group	40	41	–2.4
Part-time employees	10.9%	10.8%	0.1 pp
– thereof male	1.4%	1.6%	–0.2 pp
– thereof female	9.5%	9.2%	0.3 pp
Staff loyalty (length of employment > five years)	60.3%	60.1%	0.2 pp
Fluctuation/rate of voluntary resignations	5.3%	3.7%	1.6 pp
Health attendance rate at German offices	97.2%	96.8%	0.4 pp
Female executives at DVB Bank SE	24.4%	26.9%	–2.5 pp
Participation in employee reviews	100.0%	100.0%	–
Environmental responsibility			
Electricity and heat consumption (kWh)	2,803,897.0	2,836,675.0	–1.2
Electricity and heat consumption (kWh) per employee	4,493.4	4,657.9	–3.5
Paper consumption (kg)	16,186.0	18,319.0	–11.6
Paper consumption (kg) per employee	25.9	30.1	–13.8
Water consumption (m^3)	11,608.0	11,126.0	4.3
Water consumption (m^3) per employee	18.6	18.3	1.8

Responsible corporate governance

To be able to continually and successfully apply our focused business model in cyclical and even slumping markets, it is crucial that we proactively identify all the risks that we are exposed to. We use different tools in Controlling, Risk Management and Compliance to ensure that all legal, regulatory and statutory requirements are being met.

In this context, Group Compliance is responsible for the prevention of money laundering, financing of terrorism and other criminal acts, as well as for implementing the requirements for investment services enterprises, as set out in the German Securities Trading Act and the Minimum Requirements for Risk Management in Banks (MaRisk). Moreover, Group Compliance ensures compliance with legal requirements for data protection.

The Code of Conduct is available in the "Compliance" area of our website www.dvbbank.com, accessible via the footer of the page.

Fostering fair and transparent competition

Fostering fair and transparent competition is a cornerstone of our business philosophy, which is underpinned by clearly defined and strict compliance guidelines:

- Rules to promote fair and transparent competition (Conflict of Interest Policy) – this policy defines the fields of conflicts in our business, the roles of each department and their responsibilities to adequately protect confidential information. At the same time, it defines how to mitigate conflicts, communicate potential conflicts to clients, and document and track these processes internally.
- Rules to fight corruption (Anti-Corruption and Bribery Policy) – this Group-wide policy focuses on business partner hospitality, dealings with advisers, and specifications on awarding licences or contracts. Every member of staff receives training on warning signals and how to deal with them as part of the annual compliance programme. So far, no cases of corruption have been reported within DVB.
- Guidelines related to accepting gifts and benefits (Gifts and Gratuities Policy) – this policy includes clear-cut limits, warning signals, escalation processes and documentation obligations. Amongst others, our employees are prohibited from accepting cash.
- Procedure for reporting any irregularities (Whistleblowing Policy) – our Board of Managing Directors does not accept irregularities, and we have established a whistleblowing process that allows employees to report concerns about possible irregularities, using various channels.

Our Code of Conduct secures and deepens employee awareness, and understanding, of compliant and ethically faultless conduct. In the first quarter of 2017, it was revised to reflect sustainability issues to an even deeper degree. We are proud of our experienced and effective staff, who maintain exemplary standards of conduct towards clients, business partners, investors and colleagues.

Compliance and legal training

Our employees receive regular training on the following issues:

- Code of Conduct;
- Treating colleagues fairly;
- Handling conflicts of interest;
- Prevention of money laundering and fraud;
- Operational Risk Management;
- Data protection and data security.

Some of these trainings are required by law, others by our Code of Conduct. They are one way of raising employee awareness for issues that are important in our day-to-day operations and dealing with clients. They also alert all staff to their legal duties and explain the expectations held by the Board of Managing Directors. This is how we ensure a high level of service for our clients.

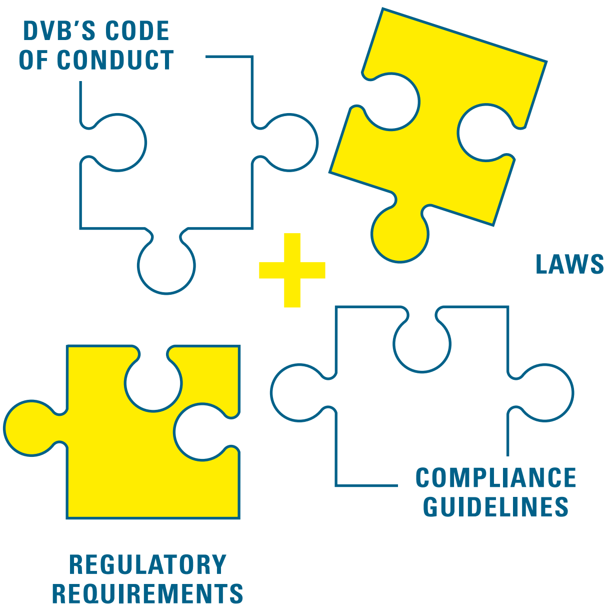
By the end of 2016, the training ratio amongst employees for whom participation was compulsory was 100%.

The Bank also offers voluntary legal and documentation training for its staff. These training sessions are aimed at fostering the Bank's in-house expertise and cover general topics relevant to all Transport Finance divisions as well as subjects specific to shipping, aviation and land transport.

These training measures are developed by

- Group Legal in consultation with experts across the Transport Finance businesses,
- approved law firms, or
- the Loan Market Association, with whom DVB has a membership.

The training materials are available as videos, webinars and presentations via the intranet. New material is added frequently.



Fair conduct

An important aspect of our compliance work is the emphasis on the fair conduct of senior managers in the Bank towards clients, as required by regulators. Specifically, regulators are looking at managers to ensure that any risk of treating clients unfairly has been identified, mitigated, and necessary enhancements implemented. This is driven by experience during the recent financial crisis where the clients of financial institutions may not have been sold adequate products, or may not have received information or disclosures. The expectation is that senior managers have full oversight of all activities of the respective units – not just the business unit that they may be directly responsible for.

For further information on our innovation and product management, please see "Fundamental information about the Group" on page 81–82.

DVB has recognised the importance of ensuring that senior managers accept this responsibility, and are accountable for their actions. In addition to existing policies and procedures – notably, our Code of Conduct – DVB has initiated a specific training programme for senior executives, established customised management training and information packages, and commenced assessing its business to identify any areas of concern. The Bank will be addressing these proactively. During 2016, the programme was implemented worldwide. In addition, we engage in a regular dialogue with other companies to share our experiences. This exchange has proven very valuable for our operational practice.

Political representation

As a "Societas Europaea" registered in Germany, and as a credit institution, DVB is subject to various European and German rules and regulations. In addition, given our international scope of business and global locations, numerous local legislations apply. This legal framework is in constant flux.

DVB does not exert direct political influence. We are, however, an active member of various banking associations, holding committee representation in Germany at the National Association of German Cooperative Banks (BVR) and the Association of German Pfandbrief Banks (vdp), amongst others.

Banking associations regularly invite their members to provide input for legislative processes, and where the legislative process in question affects us, we will respond. Key topics during 2016 included banking law and banking supervision law, new provisions on data protection, and the discussions of the Basel Committee.

As donations to organisations with a political background are specifically excluded from the supportive funding we provide within our corporate citizenship concept, we made no political contributions in 2016.

Trusted and long-term cooperation with our clients

As at 31 December 2016, DVB's global client base comprised 607 clients or client groups (previous year: 608). Most of our clients are domiciled in Europe (50.4%), followed by North America (18.4%) and Asia (18.4%).

Our clients and client groups are distributed across our business divisions as follows:

- Shipping Finance accounts for 49.2% of clients (previous year: 47.8%);
- Aviation Finance accounts for 25.2% of clients (previous year: 24.5%);
- Offshore Finance accounts for 9.7% of clients (previous year: 8.1%);
- Land Transport Finance accounts for 7.1% of clients (previous year: 7.2%);
- ITF Suisse accounts for 4.8% of clients (previous year: 7.1%);
- Investment Management accounts for 2.0% of clients (previous year: 2.0%);
- portfolios no longer in line with the Bank's strategy (which are being phased out, or wound down) account for 2.0% of clients (previous year: 3.3%).

DVB pursues a cycle-neutral business model, providing financing and advice, and has remained a reliable partner to its clients – even in a market environment that continues to be challenging. This strengthens trust and deepens the intensity of our client relationships for the long term.

Accordingly, we support our Transport Finance and Investment Management clients with their financing projects on a long-term basis: as at 31 December 2016, 54.6% of our clients had been using our range of services for more than five years (previous year: 52.6%). Of our client relationships in the Transport Finance and Investment Management business divisions, we have maintained

- 8.1% for less than one year,
- 20.6% for between one to three years,
- 16.7% for between three to five years,
- 33.9% for between five to ten years,
- 14.0% for between ten to 15 years, and
- 6.7% for 15 years and longer.

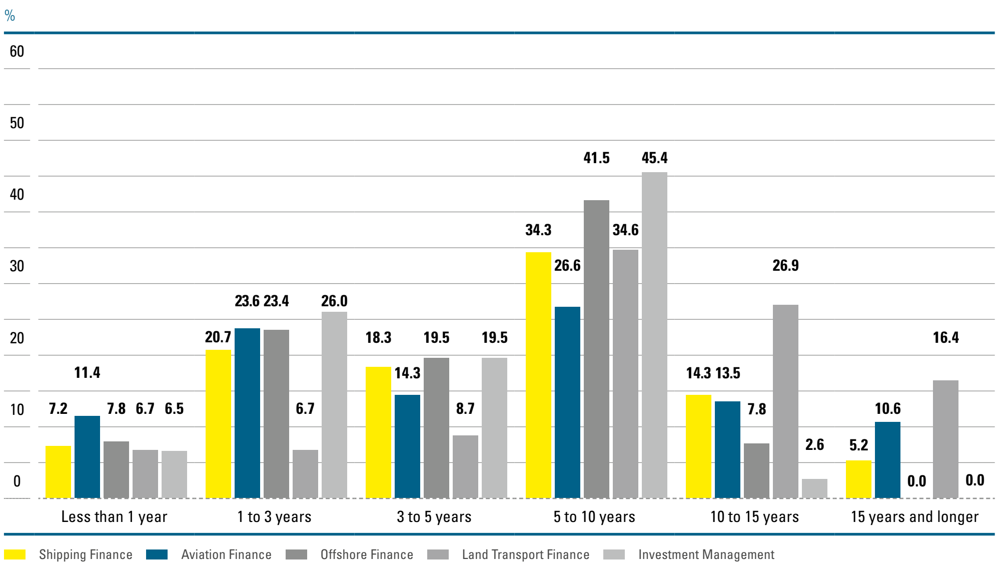
Whilst the average length of client relationship differs between the business divisions, it is worth noting that Investment Management only commenced operations in 2001. Offshore Finance has only existed as an independent division since the beginning of 2013; the division covers the offshore financing activities previously handled by Shipping Finance. CHART 02

Since 2016, we have been awarded the following eleven accolades:

- Best client-oriented website in the German banking sector – Gold (DIE WELT, January 2016)
- Export Credit Agency – West; Deal of the Year 2015 (Marine Money Shipping, June 2016)
- Bank Debt – West; Deal of the Year 2015 (Marine Money Shipping, June 2016)
- Europe Deal of the Year (Airfinance Journal, May 2016)
- Used Aircraft Deal of the Year (Airfinance Journal, May 2016)
- Aircraft Finance Portfolio Acquisition (Global Transport Finance, January 2017)
- Aircraft Securitisation Deal of the Year – US (Global Transport Finance, January 2017)
- Rail Capital Markets Deal of the Year – Americas (Global Transport Finance, January 2017)
- Rail Finance Deal of the Year – Americas (Global Transport Finance, January 2017)
- Rail Finance Innovator of the Year (Global Transport Finance, January 2017)
- Best International Transport Finance Provider – Germany (Transport News, February 2017)

Length of client relationship by business division

C 02



Social responsibility vis-à-vis our staff

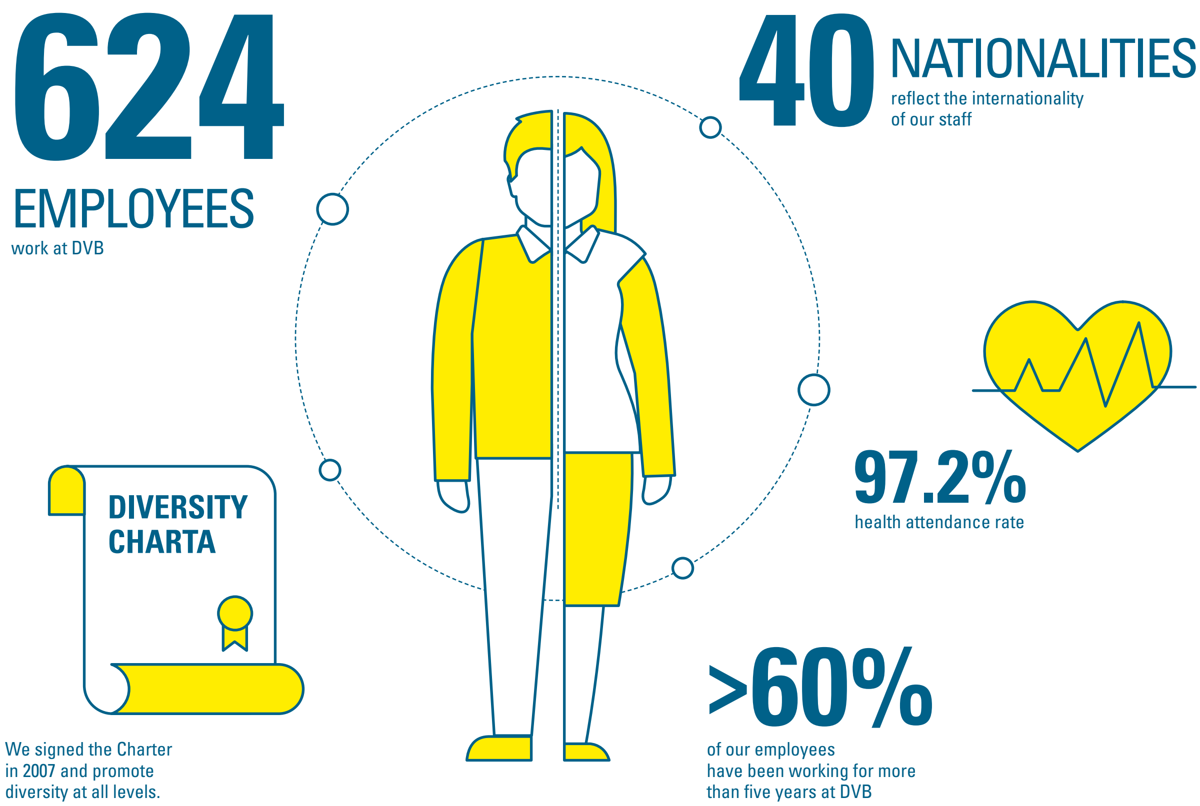
Our staff members are the key pillars of DVB. Our business model is based on their market and asset expertise, their experience and diversity. Given the Bank's international market profile, people at DVB work in cross-cultural, heterogeneous working groups and project teams. It is of particular importance to us to create a positive working environment in which employees are treated with fairness and respect, where they feel motivated, and which offers them opportunities for personal career development. In pursuit of this goal, we promote diversity at all internal levels and sustainable human resources management. In 2007, we signed the German Diversity Charter.

Sustainable promotion of diversity

Personnel structure

After staff levels had risen by 28 employees (+4.8%) during 2015, the year under review saw an increase in the number of active employees by 15 (2.5%) to 624 staff. This figure does not reflect the 20 employees with inactive employment relationships, in particular the non-working phase of semi-retirement, maternity or parental leave. The staffing numbers for the years 2012–2016 shown here also include employees of the LogPay Financial Services GmbH subsidiary. CHART 03

Rising staff numbers over recent years were largely due to a significant increase in workload, and additional staff required in response to greater legal and regulatory requirements. This trend prevailed during 2016, affecting staffing levels in the service areas in particular: at 242 employees, the number was 3.0% higher than in the previous year (previous year: 235 employees). In Transport Finance, the number of staff employed rose by ten, or 3.2%, to 324 colleagues, as the middle office expanded. At the same time, the number of employees at our subsidiary LogPay Financial Services decreased slightly during 2016, from 60 to 58 (–3.3%).

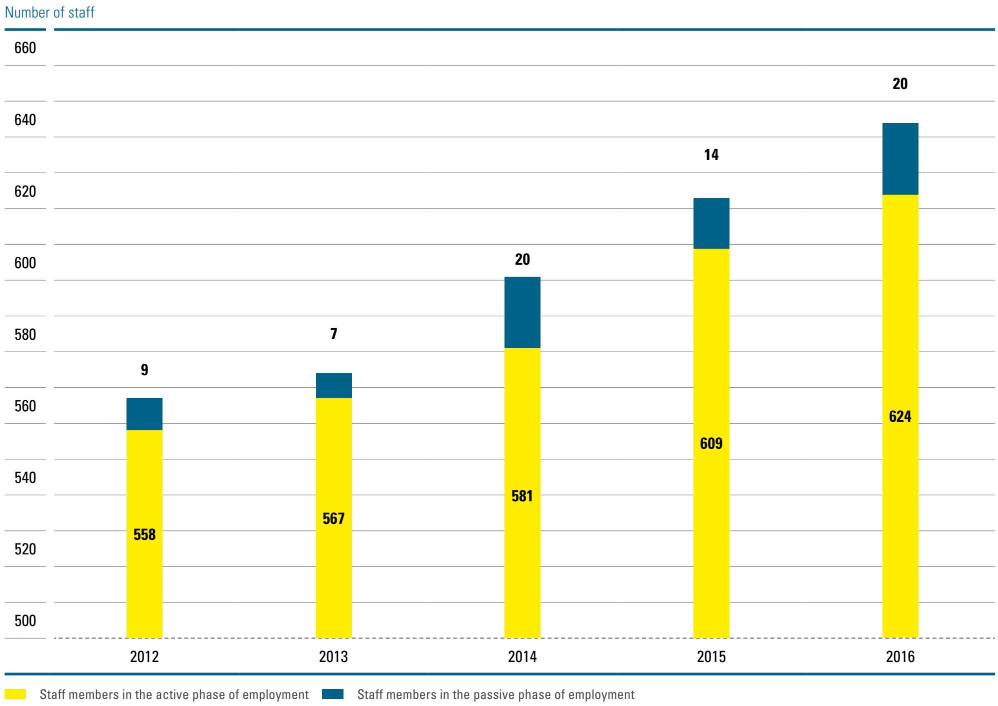


Nationalities and work at international locations

DVB's business model is international in every conceivable way, and therefore diversity management has been a part of day-to-day life at DVB for quite some time. Once again, this is evident in the structure of our team: DVB Bank Group's employees hailed from a total of 40 different countries in the year under review, and there are 30 different nationalities represented within our core Transport Finance business. TABLE 06

Staff levels 2012–2016

C 03



Nationalities 2016

T 06

	Group		Transport Finance/ Investment Management	
	Number	**%**	**Number**	**%**
German	265	42.5	55	17.0
British	78	12.5	54	16.7
Dutch	75	12.0	58	17.9
Singaporean	39	6.2	31	9.6
US-American	30	4.8	23	7.1
Norwegian	21	3.4	20	6.1
Greek	20	3.2	17	5.2
33 additional nationalities within DVB	96	15.4	–	–
23 additional nationalities in Transport Finance/ Investment Management	–	–	66	20.4
Total	**624**	**100.0**	**324**	**100.0**

340 staff members in active employment worked in our various international locations at the end of 2016; in other words, they are active in those international transport markets where the Bank's clients are located (previous year: 329 staff members). At 284, the number of staff in active employment at DVB's German offices in Frankfurt/Main and Hamburg showed an increase of 1.4% over the previous year (280). 80.8% of our staff worked at a European location in 2016, only slightly more than in the previous year (79.3%). In Transport Finance/Investment Management, 69.8% of staff were employed at European locations (previous year: 66.2%). TABLE 07

Demographic management

On average, the population and workforce are ageing. Changes in the age structure have a comparable impact throughout all the industrialised nations in which DVB is represented. The concept of demographic management means to recognise the ageing of the population as a long-term trend, to accept it as a challenge for the Bank, and to find constructive solutions for it.

At the end of 2016, the breakdown of DVB's staff by age and gender was as follows: TABLE 08

Of the total of 624 employees, 371 were men and 253 women as at the end of 2016 (previous year: 609 employees comprising 361 men and 248 women).

- 23.6% of employees were 50 years or older (previous year: 23.8%).
- 35.6% of employees were between 40 and 49 years of age (previous year: 33.9%).
- 30.9% of employees were between 30 and 39 years of age (previous year: 32.3%).
- 9.9% of employees were younger than 30 years (previous year: 10.0%).

Distribution of staff members in active employment by location

T 07

	2016	2015	%
Frankfurt/Main and Hamburg	284	280	1.4
London	112	101	10.9
Amsterdam	76	67	13.4
Rest of Europe	32	35	–8.6
Europe	**504**	**483**	**4.3**
New York	41	39	5.1
Curaçao	17	22	–22.7
North and South America	**58**	**61**	**–4.9**
Singapore	58	60	–3.3
Tokyo	4	5	–20.0
Asia	**62**	**65**	**–4.6**
Total	**624**	**609**	**2.5**

Age structure and gender allocation 2016

T 08

	Male		Female		Total	
	Number	%	Number	%	Number	%
< 30 years	38	10.2	24	9.5	62	9.9
30 ≤ 39 years	113	30.5	80	31.6	193	30.9
40 ≤ 49 years	127	34.2	95	37.5	222	35.6
50 ≤ 59 years	77	20.8	44	17.4	121	19.4
≥ 60 years	16	4.3	10	4.0	26	4.2
Total	**371**	**100.0**	**253**	**100.0**	**624**	**100.0**

Given the heavy workloads and the new challenges that constantly arise, we are confronting the question of how DVB can motivate these experienced employees for the long term, and secure their loyalty to DVB. This is where our in-house training concept comes in: by establishing a variety of learning options, and integrating them into our corporate environment, we secure the readiness and commitment of our employees. For more details, please see “Personnel development” (page 63–64).

Diversity at management levels

The German Federal Government set a gender quota in March 2015 by passing the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector. In abidance of this law, DVB Bank SE – as a publicly listed company subject to one-third participation as a form of co-determination – laid down the following targets[1], valid until 30 June 2017:

- Supervisory Board – female quota of 11%
- Board of Managing Directors – female quota of 0%
- First management level – female quota of 19%
- Second management level – female quota of 33%

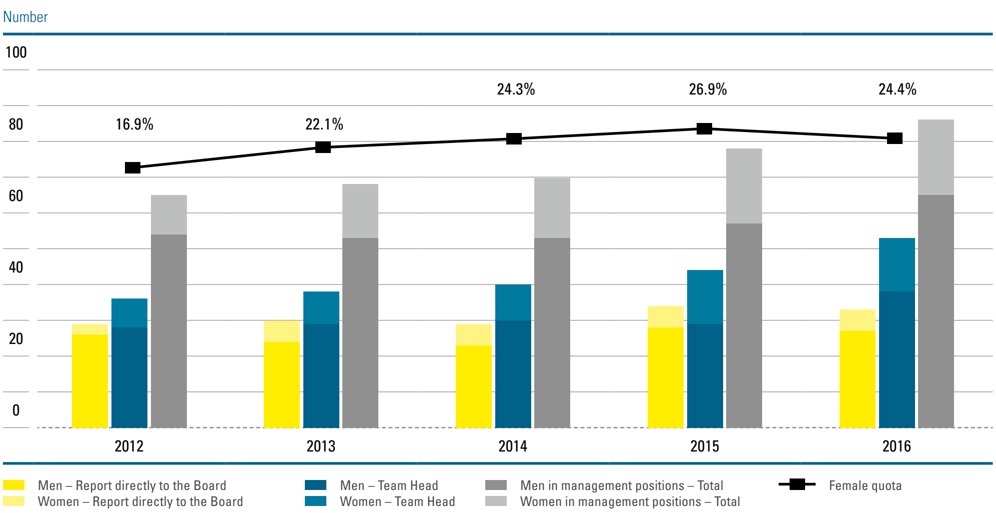
In 2016, the actual female quota on DVB Bank SE’s Supervisory Board doubled versus the defined target quota, reaching 22%. Under a local court order dated 23 February 2016, Dr Kirsten Siersleben was appointed, with effect from 1 March 2016, to fill a position on the Supervisory Board that had been vacant since 31 October 2015. On 23 June 2016, the Annual General Meeting elected Dr Siersleben to the Supervisory Board as a shareholder representative.

The Board of Managing Directors of DVB Bank SE currently consists of four members, none of whom is a woman. This is in line with the target quota. Members of the Board of Managing Directors are appointed without regard to nationality, gender or religion. It is whether a candidate – male or female – has the required knowledge, skills and professional expertise necessary to properly perform their duties and whether he or she complies with the principles laid down in the Company’s Memorandum and Articles of Association that decides on their appointment.

At 31 December 2016, the two top management levels below the Board of Managing Directors comprised 86 executives, who either reported directly to the Board of Managing Directors or who worked as team leaders. Women held 21 (24.4%; previous year: 26.9%) of these executive positions. While the share of female executives on the first management level rose slightly to 18.2% (previous year: 17.6%), it decreased to 28.3% on the second management level (previous year: 34.1%) against restructuring measures and minor fluctuations in some parts of the Bank. When filling positions, assuming the same level of qualifications, the Bank is committed to give preference to internal applicants and does not regard criteria such as nationality, gender or religion in its decision-making process. CHART 04

Development of the female quota 2012–2016

C 04



1 The targets match the gender quotas DVB Bank SE achieved as at 30 September 2015.

Staff loyalty

Staff loayalty is strong at DVB: at 31 December 2016, 376 employees (60.3% of the overall workforce) had been working at DVB for more than five years (previous year: 366 employees or 60.1%).

Staff fluctuation due to voluntary resignations was at 5.3% in 2016 (previous year: 3.7%). TABLE 09

Professional experience of our staff

Experience in transport finance – or in the global transport industry in general – is one of the key indicators that characterises the vast expertise of our employees. In DVB's core business (Shipping Finance, Aviation Finance, Offshore Finance, Land Transport Finance, Corporate Finance and Investment Management) the relevant industry-specific experience of our employees remained at a high average of 13.0 years (previous year: 13.1 years). Of these employees, 39.6% had more than 15, and 22.6% more than 20 years' relevant experience (previous year: 39.2% and 24.4%). TABLE 10

Clients appreciate our employees' deep expertise rooted in this professional experience; likewise, other stakeholders also value these skills. During 2016, DVB staff from Asset & Market Research, Relationship Management, services areas and Treasury attended 325 expert conferences, discussion panels, roadshows, round tables and one-on-one discussions within the international transport industry and the international financial markets. In each case, they assumed an active role – for example, as a speaker or moderating discussion panels.

Staff loyalty 2016 – measured in terms of the length of employment

T 09

	Male		Female		Total	
	Number	%	Number	%	Number	%
< 5 years	143	38.5	105	41.5	248	39.7
5 ≤ 9 years	112	30.2	69	27.3	181	29.0
10 ≤ 19 years	92	24.8	54	21.3	146	23.4
20 ≤ 29 years	17	4.6	22	8.7	39	6.3
≥ 30 years	7	1.9	3	1.2	10	1.6
Total	**371**	**100.0**	**253**	**100.0**	**624**	**100.0**

Relevant professional experience

T 10

	2016		2015	
Business division	Average relevant professional experience (years)	Employees with more than ten years' transport finance experience (%)	Average relevant professional experience (years)	Employees with more than ten years' transport finance experience (%)
Shipping Finance	11.9	57.1	11.8	53.8
Aviation Finance	13.7	62.1	14.2	64.3
Offshore Finance	15.7	85.7	13.4	70.0
Land Transport Finance	14.8	75.0	14.5	75.0
DVB Corporate Finance	13.8	64.3	12.7	58.3
Investment Management	13.9	65.0	15.4	72.2
Credit and Asset Solution Group	11.2	64.3	–	–
Total	**13.0**	**56.6**	**13.1**	**61.2**

Work/life balance

One of the main goals of our human resources policies is to preserve employee job satisfaction and engagement. To achieve this goal, we have created an environment that makes it possible to reconcile professional and personal responsibilities in different life situations. Flexibility is a cornerstone of achieving a work/life balance.

Therefore, DVB encourages flexible working hours and part-time arrangements wherever possible – and viable. The number of part-time workers rose from 66 to 68 by the end of the year under review, accounting for a total of 10.9% of DVB's workforce and comprising 59 female and 9 male employees (previous year: 10.8%, comprising 56 female and 10 male employees). Other options, such as parental leave or semi-retirement, are regulated through in-house agreements. TABLE 11

Sustainable human resources management

Our human resources work focused on two main areas during 2016: Thanks to largely stable staffing levels, one focal area was the integration of employees who joined DVB, as well as those colleagues who moved locations within DVB. Another key aspect of our work was to support managers in promoting staff within their area of responsibility, and to enhance their qualification.

Recruitment

To fill open positions, we first look for experienced specialists, be it for Transport Finance or for one of our service areas. Accordingly, we generally recruit personnel with the help of recruitment consultants. Fortunately, we have increasingly been able to fill positions through referrals from our own employees, or through unsolicited applications. No recruitment measures are necessary for our trainee programme, as there are plenty of qualified candidates who apply directly.

DVB's focus on diversity is also reflected in our recruitment activities: to the extent possible within the scope of staff selection, we strive to promote a heterogeneous personnel structure at all of our office locations, in terms of nationality, age and gender.

Personnel development

DVB's business environment constantly gives rise to new and complex issues that our organisation has to deal with. The goal of human resources development is to equip managers and staff with the skills to deal with these challenges.

Number of part-time and full-time employees T 11

	2016			2015		
	Male	Female	Total	Male	Female	Total
Employees with flexible working hours						
Part-time employees	9	59	68	10	56	66
Full-time employees	362	194	556	351	192	543
Total	**371**	**253**	**624**	**361**	**248**	**609**
Employees on sabbatical leave	–	–	–	–	–	–
Employees in semi-retirement (active)	1	–	1	3	–	3
Employees in semi-retirement (passive)	5	1	6	3	1	4

Annual employee reviews are one of our key instruments we use to assess development. These reviews are mandatory, with an execution rate of 100%. They provide a platform for open dialogue between manager and employee, regarding the employee's skills, expertise and potential for development. For this purpose, Group Human Resources provides managers with a discussion guideline that is deliberately kept lean. The guideline serves as orientation for structuring the discussion, leaving scope for further discussion issues. Development measures planned for the employee are noted in the guideline, and are implemented by manager and employee, with support provided by Human Resources.

The range of development measures is wide – including, for instance, learning from colleagues, learning from feedback, or participation in internal and external training courses. We have been offering in-house trainings on presentation skills, negotiation techniques, work efficiency, MS Office and project management, amongst others, in order to provide staff and managers with targeted tools and techniques, to help them in their day-to-day work. It is also important for us to offer development measures that are made-to-measure and fit the Bank's and the individual employee's needs.

Besides the employee review, the determination of the bonus has been deliberately set up as a separate process. This process applies to all non-tariff employees in Germany and all employees deployed at international locations who hold a title (Assistant Vice President, Vice President, Senior Vice President and Managing Director). Determining bonuses is based on achieving explicit quantitative or qualitative targets that have been mutually agreed between employees and their managers.

Given the complexity of international financing and advisory, we do not train apprentices, but we have been successfully conducting a trainee programme for many years. The roughly 18-month programme covers all the major aspects of our Transport Finance business, including relationship management and loan management.

Executive development

The results of a management survey amongst all Senior Vice Presidents and Managing Directors at that time showed that the ongoing professional development of management staff is a key aspect of our human resources work. For instance, those surveyed expressed their desire for proactive Human Resources development and for development perspectives, including outside traditional careers.

Our aim is not to centralise the work that managers are responsible for in overseeing, training and developing employees, but rather to better equip those managers for their management duties. That is why in 2013 we developed a training package for managers, to enable them to deploy our development tools in a targeted manner.

The course, which covered several days, focused on the following core topics, and on ways and means to implement them in practice:

- giving and receiving feedback;
- discovering talents and promoting them;
- coaching employees;
- working on one's own career development.

Based on positive feedback from participants, and with support from the Board of Managing Directors, we ran this training again in the past years to include more managers. When needed, we will schedule further trainings for managers who are just starting to grow into their new executive role or who have only recently joined the Bank.

We see these training initiatives as key milestones on the way to qualifying our management team, to develop a corporate culture of open feedback, and to establish a joint vision of management.

Leadership

DVB's characteristically dynamic approach is embedded in our concept of leadership. Our executive staff need to respond and make decisions quickly and flexibly. DVB's flat hierarchies help decision-makers to respond quickly, precisely and in a targeted manner, even to complex issues or transactions.

Managers, as well as the members of the Board of Managing Directors, are also always accessible under our open-door policy in order to engender internal transparency and an open exchange. Being exposed to challenges that make sense, remaining receptive to new ideas and continuously challenging opinions – these are at the heart of our management concept.

In an enterprise with a manageable number of employees such as DVB, we believe it is more productive to promote a personal approach, offering a high degree of autonomy rather than a top-down management style. Given this background, employee management, training and development are not administered centrally: instead, they are primarily the responsibility of managers. Group Human Resources also provides support.

In concrete terms, this means that we are supporting our managers with hands-on tools to analyse the need for development, to structure employee review discussions, as well as with training proposals and customised advice.

Health and safety at the workplace

Promoting the health of our employees at the workplace is a top priority. A notable positive aspect is our continuously high health attendance rate, which in 2016 was at 97.2% in our German offices (previous year: 96.8%). This rate also includes members of staff on long-term sick leave, i.e. those who have been absent for health reasons for more than 42 days.

The Committee for Occupational Health and Safety is responsible for the creation, maintenance and development of safe and ergonomic workplaces, as well as the identification of potential risks and the prevention of accidents and work-related health problems. We contribute to a comfortable working environment with modern and high-quality office facilities that foster effective work.

Occupational health consulting is carried out by an external provider in Frankfurt/Main. This company supports the Bank in occupational safety, accident prevention and all other health and safety issues. At a local level, Health and Safety Officers are responsible for risk assessment and management as part of occupational safety, and for enacting measures to prevent work-related health problems.

We offer all employees globally a thorough health check-up, and provide assistance with vaccinations when necessary. To protect our employees in the event of illness, disability or accident, we make an extensive insurance programme available at each of our offices, further supplemented by global policies.

We also assign great importance to a healthy diet of our staff: DVB has handed over the operation of its employee restaurants in Frankfurt/Main and Amsterdam to external service providers. In all locations we provide employees with free coffee, tea, water and fresh fruits.

Collaborating with the works councils

In 2016, we were once again able to swiftly confront new challenges and develop pragmatic solutions. This was only possible thanks to the good cooperation that took place with the SE Works Council, as well as with local Works Councils in Germany and the Netherlands.

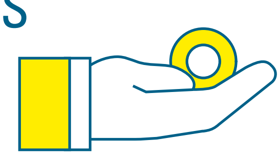
Social responsibility vis-à-vis society (corporate citizenship)

Social responsibility matters to us. Therefore we regularly support charities through donations – be it money, time, or resources. Within the scope of our sustainability programme, we developed a corporate citizenship concept, to assume more social responsibility, to build team spirit and motivation amongst our staff, and to take a more systematic approach with the integration of our social activities into the business divisions, boosting the economic benefit of individual measures.

The corporate citizenship concept, implemented in January of 2016 on a global scale, fits our Bank and reflects our culture: The process matches the flat hierarchy which characterises DVB and allows for greater autonomy of each individual employee. This means that employees are welcome to bring forward suggestions for projects that they feel should be supported. With this open approach, we include all colleagues as our most valuable asset and foster their high community engagement.

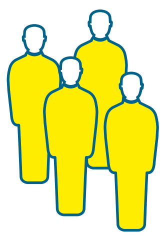
We have an online tool in place for members of staff to submit their ideas. The tool also explains our corporate citizenship guidelines and criteria. The input fields are designed to make it easy for employees to describe their idea, and easy for the evaluation team to assess incoming suggestions promptly. Our Group Compliance is closely involved to ensure compliance with our internal guidelines and self-regulatory codes adopted on a voluntary basis. This means, for example, that we do not support organisations whose main interest are political or religious in nature, and no organisations that discriminate or are perceived as discriminatory. On a quarterly basis, the Board of Managing Directors receives reports on all ideas submitted and initiatives supported.

€51,344
DONATIONS
to charitable organisations in 2016



17
PROJECTS
with a particular focus on society, education and environment were supported by DVB

1/2
OF DONATIONS
went into corporate volunteering projects



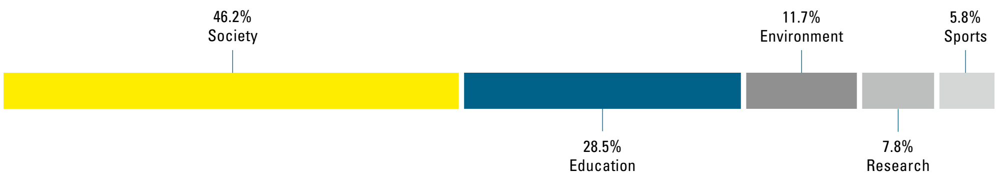
62
CORPORATE VOLUNTEERS
participated in these projects

We donated a total of €51,344.00 during 2016. Of the total amount, 73.3% was provided to initiatives proposed by employees, with the remaining 26.7% allocated to campaigns which clients made us aware of. About half of these donations were directed to corporate volunteering projects, in which 62 employees participated. Overall, we supported 17 charities with a particular focus on society, education and environment. CHART 05

From a geographical point of view, 52.4% of donations were made in support of initiatives proposed by our colleagues in Europe, 25.5% of suggestions came from North and South America, and 22.0% were made in Asian locations.

The number and diversity of suggestions brought forward by our employees during 2016 is proof that our staff have embraced the diversified corporate citizen concept and that our goals have been reached.

Areas of activity C 05



As all office space is rented, the previous year's data is largely based on the annual statement of consumption. As such statements were not yet available for 2016, the data provided for that year (as of 31 December 2016) is based on extrapolations.

Environmental responsibility

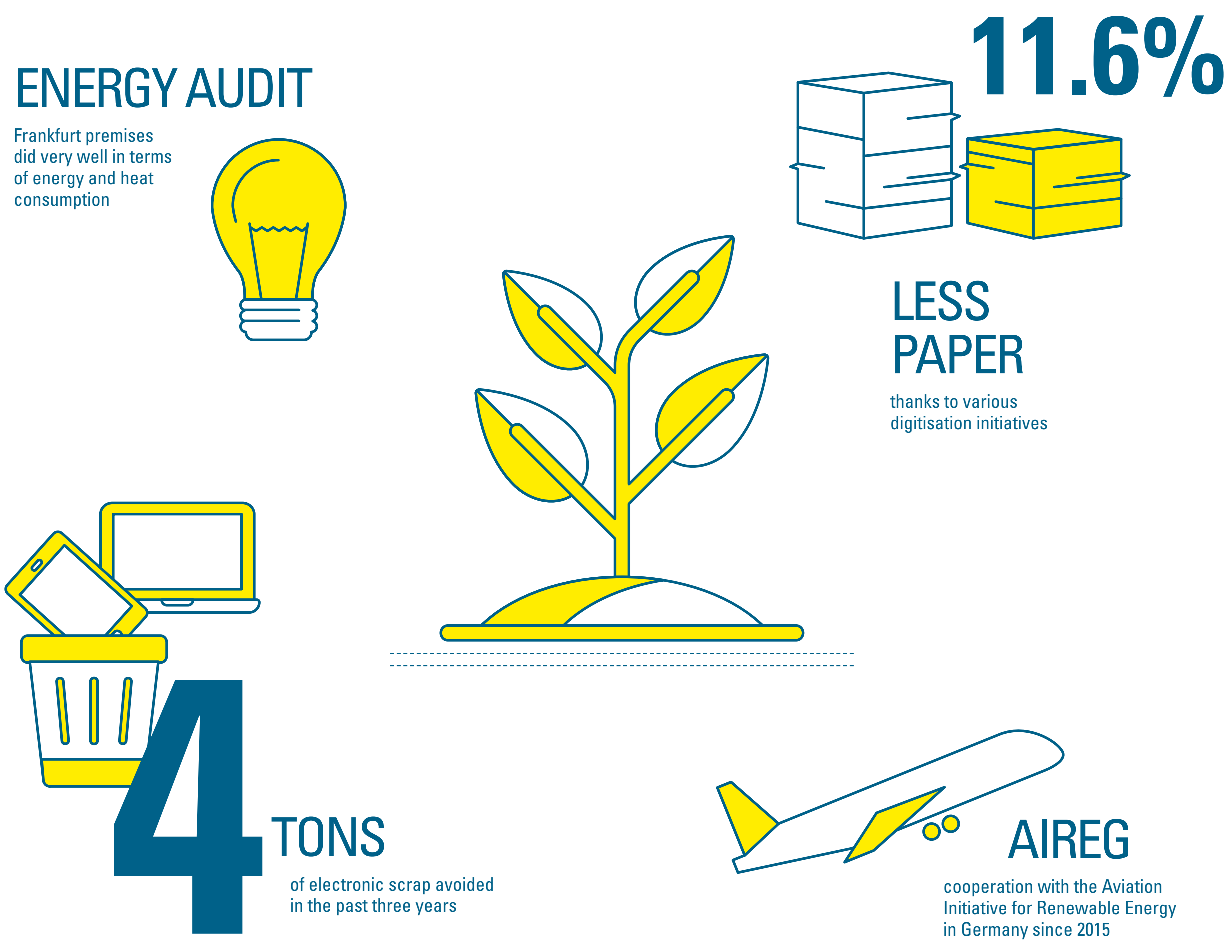
As a financial services provider, i.e. a non-manufacturing business, our ecological footprint is largely shaped by office operations such as facility management, materials usage, information technology and business-related travel. Within the scope of our sustainability project we are currently evaluating what we can do in the future to help protect the global climate even more, and how we can get involved in environmental projects that align with our business strategy. The results, measures and indicators stemming from these evaluations will be taken into account as part of our sustainability programme.

Managing resources

In 2015, DVB started recording electricity, heat, paper and water consumption figures at all of its locations. The data collected will be used to assess the efficiency of initiatives launched to promote the sustainable use of resources.

DVB's electricity and heat consumption declined slightly, from 2,836,675 kWh in the previous year to 2,803,897 kWh during the year under review (down 1.2%) – despite higher staffing levels and the deployment of numerous external advisors for regulatory projects. Accordingly, energy consumption per employee was down 3.5%, to 4,493.4 kWh (previous year: 4,657.9 kWh). So far, 2.5% of the electricity we use comes from renewable sources.
TABLE 12

The above-mentioned figures include the electricity consumption of our data centres. In the interest of business operations running smoothly and securely, DVB has been increasing the number of virtual servers since 2006. Today, up to 90% of our servers are hosted using virtual machines. Most of the remaining hardware is run in two state-of-the-art and energy-efficient data centres in Germany.



This year's energy audit yielded additional insights for us – regarding our energy consumption and the establishment of an efficient management of resources. The audit is conducted every four years, in accordance with the amended German Energy Services Act (EDL-G), and was first undertaken at the end of 2015/beginning of 2016 at our Frankfurt premises. It yielded the total consumption of electricity, heat and fuel, as well as relevant metrics. Both in terms of electricity consumption per employee and heat consumption per employee, DVB did very well in comparison with its German peers. The auditors recognised electricity saving potential that could be realised e.g. by replacing conventional fluorescent tubes with energy-efficient LEDs, and by installing movement-sensitive lighting in technical areas, tea kitchens, showers and restrooms. In addition, DVB could make a further 15% saving of electricity by raising awareness amongst employees, according to the opinion. We will follow up on these suggestions in the coming years, and work on creating an energy-saving culture.

Thanks to newly-established IT systems and structures, we markedly lowered our printer and copier paper consumption during the year under review, by 11.6% to 16,186 kg. In consequence, individual consumption of paper declined from 30.1 kg to 25.9 kg. At our offices in Frankfurt/Main, Hamburg, Amsterdam, Athens and New York, we largely use FSC-certified paper. This results in approximately 50% of the paper we use coming from sustainably managed forests. TABLE 13

A digitalisation initiative launched by our accounting department contributed to this reduction in particular. Since April 2016, both of our German offices (Frankfurt/Main and Hamburg) have been using a software that allows to process invoices 100% digitally. As there is no need for accounting vouchers for incoming invoices anymore, a considerable amount of paper is saved. In addition, we receive more and more invoices in an electronic format. This results in a reduction of 5,000 sheets of paper per year, from 2017 onwards probably double that figure, and also leads to savings in toner for printers, and on archive areas that would need to be air-conditioned – which in turn helps reduce green house gas emissions. For 2017 we have planned a gradual roll-out of this system to other locations.

Electricity and heat consumption

T 12

Kilowatt hours (kWh)	2016	2015	%
Total electricity and heat consumption	2,803,897.0	2,836,675.0	–1.2
thereof from renewable sources	2.5%	2.9%	–0.4 pp
Electricity and heat consumption per employee	4,493.4	4,657.9	–3.5

Paper consumption

T 13

Kilogrammes (kg)	2016	2015	%
Printer and copier paper consumption	13,352.0	14,956.0	–10.7
Other paper consumption	2,834.0	3,363.0	–15.7
Total consumption	**16,186.0**	**18,319.0**	**–11.6**
Consumption per employee	**25.9**	**30.1**	**–13.8**

Production and distribution of DVB publications is mainly paperless, with all financial reports and statements being published only digitally, as PDFs on the Bank's website. Only a small number of annual report copies are printed for the Annual General Meeting of DVB Bank SE – and this has been the case since 2012.

In 2016, DVB's water consumption was up by 4.3%, amounting to 11,608.0 m³ (previous year: 11,126.0 m³). Thus, water consumption per employee was slightly above the previous year's level, at 18.6 m³ (previous year: 18.3 m³). The increase was largely attributable to the higher number of staff and external advisors at our Frankfurt office. TABLE 14

Reusing IT equipment

We are partners of AfB gemeinnützige GmbH, the first non-profit IT systems house specialising in collecting/compiling, wiping and remarketing used equipment. Through this cooperation, we managed to avoid creating more than four tonnes of electronic scrap in the past three years, and saved considerable amounts of energy, gas and solid material by giving devices to AfB, who then wiped (data destruction certificate) and recycled them. This helped us to demonstrably reduce our ecological footprint.

By partnering with AfB, we assume responsibility – both environmentally and socially, since half of AfB's workforce have a disability. The number and quality of IT equipment pieces we hand over to AfB created another job for a disabled employee.

Environmentally friendly mobility

Mobility is an important component of our international business activities. DVB's Travel Policy stipulates that employees should ideally opt for public transit for business trips, and to get to work every day. We assist in getting job tickets whenever possible and practicable.

In addition, DVB has decided to centralise travel management. Going forward, we will cooperate with a globally active partner that has been distinguished for its corporate social responsibility programme multiple times. Apart from cost savings and additional services, this partner will systematically gather environmental data related to travel – as an important basis for evaluating out ecological footprint. To further raise awareness amongst our staff, the green house gas of every journey will be included on the travel voucher. This initiative will be rolled out on a location-by-location basis, starting in 2017.

In order to limit plane trips to those that are truly necessary, DVB believes in using phone and video conferences whenever possible and practical for meetings. These can be convened in dedicated video conference rooms at almost all office locations, using state-of-the-art technology. Furthermore, every employee is able to use the softphone integrated into their computer for video conferencing at their own desk.

Water consumption

T 14

Cubic metres (m³)	2016	2015	%
Total water consumption	11,608.0	11,126.0	4.3
Water consumption per employee	18.6	18.3	1.8

Towards a broader use of renewable energy in aviation – cooperating with aireg

The global aviation industry is facing the ecological challenge of reducing its carbon footprint. At the same time that air traffic volumes are growing and technology is advancing rapidly, regional emission standards are tightening and regulatory measures with a global reach are on their way. This is why the international aviation industry has pledged to halve their carbon emissions by 2050 compared to 2005. Turning to alternative aviation fuels is seen as a feasible way of tackling this challenge.

In support of the efforts made by the aviation industry in Germany to reduce the impact of their operations on the environment, in October 2015 we were the first financial institution to join aireg (Aviation Initiative for Renewable Energy in Germany e.V.). aireg has been working on the development and market introduction of alternative aviation fuels in Germany since 2011, and aims to increase their share of German air traffic to 10% by 2025.

As both an aircraft financier and an investor, DVB has a strong interest in value retention – especially of aircraft engines, for which it is important to ensure that the use of biofuel has no negative impact on the maintenance cycle and useful life of an engine. It is against this background that DVB wants to add its financing expertise to aireg's research-oriented approach. We see this cooperation as pointing the way forward on our business transformation, and are looking for similarly trailblazing projects in the shipping industry.

DVB SHARE

Equity markets and DVB share

Equities markets started the year with a significant slide: the first six weeks saw a massive sell-off, which was at times reminiscent of the market turbulence seen in the autumn of 2008. Sentiment on the equity markets was primarily burdened by economic problems affecting China as well as some emerging markets. Moreover, falling oil prices were seen as a sign of a faltering world economy.

German blue-chip index DAX finished 2016 strongly

However, this confused state of affairs had a negative impact upon the index, which fell by approximately 2,000 points until mid-February, to a level around 8,750 points. Despite this poor start, the DAX managed to recover during the course of the year, driven by an improving economic outlook and expansive monetary policy within the euro area. The DAX suffered a temporary setback in the summer, following the unexpected 'Brexit' vote in the United Kingdom. Uncertainty regarding the future course of US monetary policy – as well as the eventual outcome of the US presidential election – then dampened optimism on equity markets leading up to November. Market sentiment only changed in the aftermath of the US elections; spurred by an improved economic outlook in the US and the extension of the ECB's bond-buying programme, the DAX took off towards year-end. Markets took particular notice of US President Donald Trump's announced plans to ease the regulation of the financial industry, as well as his stated intention to launch a stimulus programme for the US economy. Conversely, market sentiment remained unclouded by Donald Trump's protectionist tendencies. The German blue-chip index posted a strong rise of 1,000 points in December alone, closing the year at 11,481 points – up 6.9% year-on-year (previous year: 10,743 points).

The shares of DVB Bank SE (WKN: 804550, ISIN: DE0008045501) are listed on the Frankfurt Stock Exchange in the General Standard. In accordance with the Memorandum and Articles of Association, DVB's share capital amounts to €118,791,945.12 and is divided into 46,467,370 notional no-par value shares.

The Dow Jones Industrial Average index rose markedly during 2016, closing the year at 19,762 points, up 13.4% (previous year: 17,425 points). Japan's Nikkei-225 index meanwhile closed the year at 19,114 points, up 0.4% year-on-year (previous year: 19,034 points). Chinese equity markets ended 2016 in negative territory, after a distinctly volatile year. The most important indices, the SH COMP (Shanghai Stock Exchange Composite Index) and CSI 300 (China Securities Index) were down 12.3% and 11.2% year-on-year, respectively.

A number of European exchanges closed 2016 with year-on-year gains:

- The CAC 40 (the French benchmark index, NYSE Euronext Paris) rose 4.8% to 4,862 points.
- The FTSE MIB Index (Financial Times Stock Exchange, Milano Italia Borsa) fell by 10.1% and closed at 19,234 points.
- In contrast, the FTSE 100 (Financial Times Stock Exchange Index, London Stock Exchange) was up 14.4%, to 7,142 points.

DVB's share price was once again stable

Despite the volatility seen on equity markets throughout the year, DVB's share price proved to be resilient – given the described market conditions – and gratifyingly stable, reflecting above all the narrow market in which the shares trade, due to the low free float.

The DVB share price was only exposed to moderate fluctuations during the course of 2016, reaching its high for the year of €25.25 on 23 December 2016. The lowest price of €21.85 was recorded on 11 November 2016. The year-end share price was €23.50, equivalent to the Bank's market capitalisation of €1.09 billion.

Shareholders were paid a dividend of €0.30 per notional no-par value share from DVB Bank SE's net retained profit for 2015. Due to the fact that no net retained profit is reported, no dividend will be paid. For this reason, no proposal for the appropriation of profits will be submitted to the Annual General Meeting on 22 June 2017.
TABLE 15/CHART 06

Shareholder structure remained unchanged

The shareholder structure was largely unchanged in the financial year 2016. DZ BANK AG remains DVB's majority shareholder. Its stake was unchanged during 2016, remaining constant at 95.47% on 31 December. The remaining 4.53% of shares are held in free float.

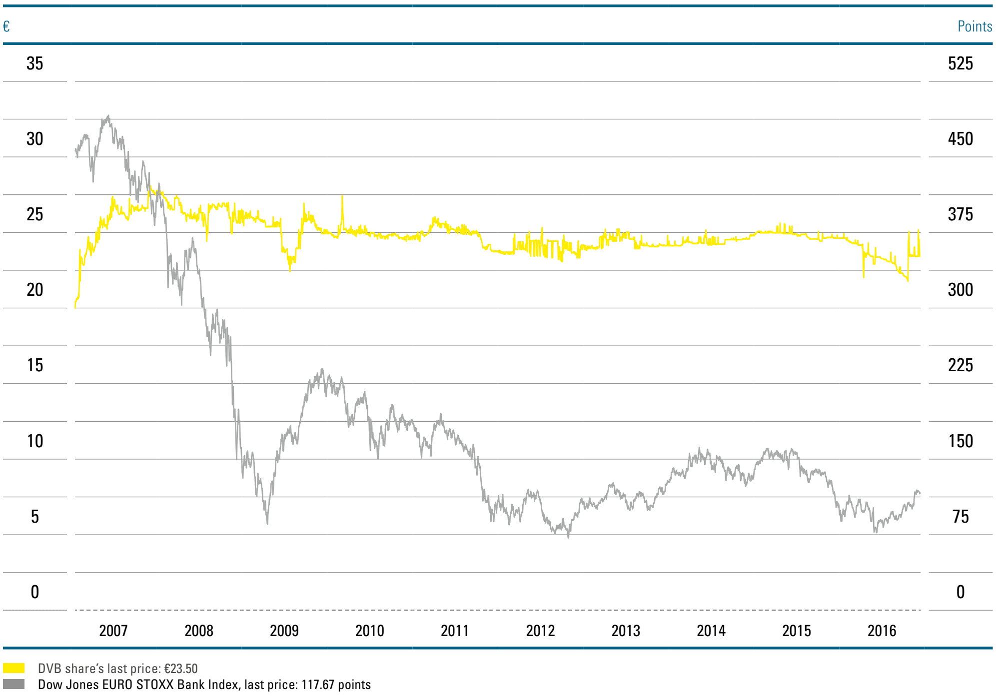
DVB share – key indicators

T 15

€	2016	2015	2014	2013	2012
Financial year high	25.25	25.69	25.24	25.30	25.40
Financial year low	21.85	24.50	24.25	24.00	23.15
Year-end price	23.50	24.75	24.65	24.60	24.26
Number of shares outstanding at year-end	46,467,370	46,467,370	46,467,370	46,467,370	46,467,370
Market capitalisation at year-end	1,091,983,195	1,150,067,408	1,145,420,671	1,143,097,302	1,127,298,396
Dividends	0.00	0.30	0.60	0.60	0.60
Dividend yield	0.00%	1.21%	2.43%	2.44%	2.47%
Payout ratio	0.0%	30.5%	35.3%	33.0%	22.0%
Basic earnings per share	–3.06	1.00	1.73	2.41	2.75

Share performance 2007–2016

C 06



In-depth information is available on our website: www.dvbbank.com > Investors > General meeting.

These ad-hoc disclosures are available for download on DVB's website www.dvbbank.com under > Investors > Publications > Ad-hoc disclosures.

All Declarations of Compliance issued by DVB since 2002 are available for download from its website www.dvbbank.com > Investors > Corporate governance > Declaration of Compliance.

Shareholders and the General Meeting

On 23 June 2016, DVB Bank SE held its 29th Annual General Meeting since 1988 at the company's registered office in Frankfurt/Main. On 13 May 2016, the agenda was published on time in the German Federal Gazette and on our website, and distributed in a media bundle throughout Europe as required.

Item 1 on the agenda was the acceptance of the financial statements confirmed by the Supervisory Board and the approved consolidated financial statements. Agenda items 2 to 6 contained the following resolutions proposed by the Board of Managing Directors and/or the Supervisory Board:

- the appropriation of net retained profit for the 2015 financial year;
- the formal approval of the members of the Board of Managing Directors for the 2015 financial year;
- the formal approval of the members of the Supervisory Board for the 2015 financial year;
- Disclosure of remuneration of members of the Board of Managing Directors
- the appointment of external auditors for the 2016 financial year;
- the new elections to the Supervisory Board.

In the general debate, shareholders and shareholder representatives asked numerous in-depth questions about agenda items and specific topics relating to the situation on the transport markets and the Bank's business development.

Given the high stake held by DZ BANK in the Bank's share capital, voting results and attendance have been stable for many years now. In the final vote, 96.46% of the shares entitled to vote were represented. Shareholders and shareholder representatives approved the individual resolution proposals with a clear majority of 99.99% (agenda item no.5: 99.94%).

Transparent financial communications

Our Investor Relations team strives to provide comprehensive information on business developments and investor relations activities.

Therefore, the Bank regularly publishes information relevant to shareholders and the general public, in addition to its annual reports. In 2016, it published four ad-hoc disclosures:

- on 25 February 2016, regarding the Bank's reviewed but not approved consolidated financial statements 2015;
- on 5 August 2016, concerning impending changes in DVB Bank SE's Board of Managing Directors;
- on 21 September 2016, regarding the adjustment of its consolidated net income/loss forecast for 2016; and
- on 14 November 2016, regarding a further adjustment of its consolidated net income/loss forecast for 2016, and on the intention of DZ BANK AG to strengthen DVB's capitalisation, as well as to conduct a squeeze-out.

As a listed public company, DVB Bank SE is obliged to issue an annual Declaration of Compliance, in which the Board of Managing Directors and the Supervisory Board provide details on their compliance with the recommendations of the German Corporate Governance Code, and give reasons for any deviations. DVB published its 15th Declaration of Compliance on 2 December 2016. The declaration covers the years 2016 and 2017, and is available on the Bank's website.

DVB actively uses the internet for all relevant publications to ensure that information is provided to shareholders and the public in a timely, concurrent and comprehensive manner. The Bank's website is the point of contact frequently used by interested financial markets participants. It is continuously adapted to the growing needs of DVB's stakeholders.

DVB compiles the scheduled dates of material recurring events and publications in the financial calendar, which is published on the Bank's website in good time, and is permanently made available there. This allows all those interested to be informed without undue delay.

Since 2008, DVB has also provided a dedicated information service: the Bank's "Performance" newsletter, which is designed to actively relay target group-specific information about DVB's performance and its business divisions.

The Bank uses the social media communications channels Twitter (short messages), YouTube (video clips), Slideshare (presentations and reports) and Prezi (animated company presentation) as a very targeted means to bring DVB's communications products close to its stakeholders, and to encourage interaction between the Bank and the interested public.

Within the scope of both regular and ad-hoc events – including the Annual General Meeting, the Annual Accounts Press and Analyst Conference, as well as follow-up rating discussions, road shows and one-on-one meetings – DVB maintains a continuous, direct and intensive dialogue with shareholders, rating and bank analysts, and with financial journalists.

DVB's ratings

In October 2016, rating agency Standard & Poor's changed its rating criterion "outlook" from "stable" to "negative", thus accounting for the further deteriorating conditions on international shipping markets. DVB is thus currently rated "A+/A-1/negative". The ratings assigned by FitchRatings to the German Cooperative Financial Services Network were unchanged, at "AA-/F1+".

All relevant dates and events for the financial year 2017 are published on www.dvbbank.com > Investors > Financial calendar.

DVB's website www.dvbbank.com > Media > Social media provides a transparent overview of the Bank's social media activities.

GROUP MANAGEMENT REPORT

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Components of the unique business model

DVB is the specialist in international transport finance – our mission statement captures both the Banks real accomplishments and its vision of the future.

Our unique business model consists of five components:

- It has a clearly defined focus.
- It features a unique specialisation.
- It is highly diversified.
- It is geared towards a cycle-neutral approach.
- It is international in scope.

Clearly defined focus

DVB maintains a very clear strategic focus on the international transport market – with the submarkets of shipping, aviation, offshore production, and land transport.

The Bank's business model is built to reflect the segmentation of the transport market, comprising the four divisions of Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance.

Unique specialisation

As a highly specialised niche provider, DVB offers its approximately 600 clients and client groups from the international transport sector a broad range of customised solutions. DVB is continuously enhancing its core skills.

The Bank's financial services can largely be allocated to seven value-adding areas. DVB's Asset & Market Research prepares in-depth analyses of transport assets and markets. Leveraging this business intelligence in its four Transport Finance divisions – Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance – the Bank supports clients in the key product areas of Structured Asset Lending, Asset Management, Client Account, Risk Distribution & Loan Participations, Corporate Finance Solutions and Private Equity Sourcing & Investments.
CHART 07

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

Unless indicated otherwise, all amounts are stated in millions of euros (€ mn or € million). Figures are rounded pursuant to standard business principles. This may result in slight differences when aggregating figures and calculating percentages. The sums presented generally are rounded figures of exact amounts.

Unique specialisation

C 07

GROUP MANAGEMENT REPORT
CONSOLIDATED FINANCIAL STATEMENTS
AUDIT OPINION
FURTHER INFORMATION

Structured Asset Lending

Drawing on its Structured Asset Lending core service, the Bank's four Transport Finance divisions Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance offer financing solutions relating to transport assets. In addition to traditional asset-backed finance, we offer our clients tailor-made structured solutions for complex financing projects, often covering multiple jurisdictions.

Asset Management

In 2016, DVB once again demonstrated that, in addition to being a financing and advisory specialist, it provides clients with services that focus closely on their specific assets. This holds especially true for the aviation industry. Thus, the Bank offers far more than the traditional range of banking services: its asset-focused services – "close to the metal" – are available not only to operators and investors, but also to competitors. Based in London, DVB's Aviation Asset Management provides aviation clients with a broad spectrum of services ranging from lease management, lease advisory, technical management and analysis, to remarketing.

Client Account

DVB offers its borrowing clients the opportunity to open current accounts, which are required in conjunction with loan accounts. The service comprises a broad and flexible range of account types, such as income accounts, retained earnings accounts, or accounts for maintenance reserves. Term deposits complement the programme. The Bank has established a dedicated service centre for its clients to manage their current and term deposit accounts. Alongside loan accounts management, DVB thus offers its customers a comprehensive, "one-stop" service and a central point of contact. The product is supplemented by a special online banking portal which is accessible via the internet, 24 hours a day, every day. DVB's clients may use this portal to inquire account balances and movements, download account statements, or send messages to our Frankfurt-based service team. All current accounts are opened under German law, and are thus covered by the legally required and voluntary Deposit Guarantee Scheme of the National Association of German Cooperative Banks.

Risk Distribution & Loan Participations

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

Corporate Finance Solutions

The DVB Corporate Finance team offers advisory and financing solutions to Transport Finance clients, and supports them in raising capital via public offerings and private placements of equity, debt securities and structured asset finance products. Specifically, it offers solutions in the following areas:

- **Corporate Advisory**
  The approach of our advisory services is based on an ongoing strategic dialogue with international transport sector clients and includes balance sheet optimisation, strategic alternatives assessment, restructurings, liquidation management, and deal negotiation support.

- **Mergers & Acquisitions (M&A)**
  We engage in traditional sell-side and buy-side advisory mandates with a focus on traditional mergers, divestitures, spin-offs, joint ventures, management buy-outs/leveraged buy-outs, and privatisations and issue fairness opinions. In both strong and weak market phases there is demand for M&A-related services.

- **Equity & Debt Capital Markets**
  The capital markets have emerged as an important alternative for companies seeking to raise capital. Our products include primary and follow-on equity offerings, traditional private equity plus equity-linked products, mezzanine capital, preferred shares, convertible bonds, and high-yield bonds via public issues as well as private placements in accordance with the applicable rules under Rule 144A of the US Securities Act. The team has strengthened its capabilities and focus on sourcing private capital on behalf of clients with the formation of the Private Placement Group (PPG), which serves numerous institutional investors active in transportation.

- **Structured Asset Finance**
  Structured Asset Finance involves the repackaging of assets and associated cash flows into marketable securities, typically through bankruptcy-protected structures. Products include asset-backed securities, charter monetisation, project bonds, and receivables securitisation (including aircraft finance securitisation).

Private Equity Sourcing & Investments

Thanks to the extensive analytic output provided by DVB's Asset & Market Research unit, and the resultant superior expertise regarding transport markets, the Bank is an ideal partner for clients requiring equity capital and investors seeking suitable investment projects in the relevant sectors. Our Investment Management division comprises two teams: Shipping & Intermodal Investment Management (SIIM) and Aviation Investment Management (AIM). SIIM comprises NFC Shipping Funds, Intermodal Equipment Funds (investing in container boxes and other transport equipment), and the Stephenson Capital Fund (investing in rail rolling stock). AIM manages the Deucalion Aviation Funds, which comprise a portfolio of several closed-end funds investing in aircraft and aircraft engines.

Asset & Market Research

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

High degree of diversification

DVB's business model is well-diversified in more than one way:

1. DVB has an international presence.
2. The Bank's clients are based all over the world; most of them operate internationally and do business with the Bank over a medium- to long-term horizon.
3. DVB has been promoting broad diversity in the composition of its workforce and management for many years.
4. The Bank maintains granular and matched-maturity funding.
5. DVB manages a credit portfolio that is diversified over various criteria and categories, and this intensive diversification is a strong enhancement for the Bank's risk profile.

   Our key diversification criteria are:

   - assets – means of transport such as ships, aircraft, offshore support vessels and platforms, as well as rail rolling stock,
   - sectors and sub-sectors of the asset to be financed,
   - borrowers and clients,
   - types of financing,
   - asset users,
   - asset manufacturers,
   - asset employment,
   - asset vintage, and
   - geographic exposure.

Cycle-neutral orientation

As an advisor and finance provider to the international transport sector, DVB itself has become part of this industry. Hence, the Bank is active in a sector that is set to remain on a long-term growth path. However, the transport markets are characterised by a high degree of cyclicality, with recurring market sequences and intervals that typically follow a certain pattern. As a market insider, DVB knows this market "rhythm" in detail, and has designed its business model with a cycle-neutral approach. This provided DVB with a variety of business opportunities throughout 2016, despite a market environment that continued to be challenging in some maritime shipping segments and in the market for offshore support vessels and platforms.

International scope

With offices in eleven locations – Frankfurt/Main, Amsterdam, Athens, Hamburg, London, Oslo and Zurich (Europe), New York and Curaçao (Americas), as well as in Singapore and Tokyo (Asia) – DVB's business divisions (Shipping Finance, Aviation Finance, Offshore Finance, Land Transport Finance, Financial Institutions and Syndications, Corporate Finance and Investment Management) have a worldwide presence in the transport markets and their various segments. This global presence in key transport locations enables the Bank to take into account the international dimension as well as the local specifics of the markets in which its clients operate.

The following overview illustrates the legal structure of the DVB Bank Group, including the parent company DVB Bank SE, with its registered office in Frankfurt/Main, the Group's material, fully consolidated subsidiaries (shown in yellow shading), and its branches and representative offices (shown in blue shading). CHART 08

The following change to DVB Bank Group's legal structure took place with effect from 1 January 2017:

- the former DVB Bank SE Representative Office Greece became DVB Bank SE Athens Branch; and
- the former DVB Transport (US) LLC became DVB Bank SE Representative Office New York.

DVB Service (US) LLC, New York City, USA, has suspended its business activities for the time being.

DVB's legal structure

C 08

Subsidiaries of DVB (each 100%)	Branches and representative offices of DVB
DVB Holding (US) Inc. (New York, USA) ⁄ DVB Capital Markets LLC (New York, USA)	**DVB Bank SE Amsterdam Branch (The Netherlands)**
DVB Bank America N.V. (Willemstad, Curaçao)	**DVB Bank SE Athens Branch (Greece)**
DVB Group Merchant Bank (Asia) Ltd (Singapore)	**DVB Bank SE London Branch (United Kingdom)**
DVB Transport Finance Ltd (London, United Kingdom ⁄ DVB Transport Finance Ltd, Tokyo Branch (Japan)	**DVB Bank SE Nordic Branch (Oslo, Norway)**
DVB Holding GmbH (Frankfurt/Main, Germany)	**DVB Bank SE Singapore Branch (Singapore)**
ITF International Transport Finance Suisse AG (Zurich, Switzerland)	**DVB Bank SE Representative Office New York (USA)**
LogPay Financial Services GmbH (Eschborn, Germany) ⁄ LogPay Transport Services GmbH (Eschborn, Germany)	**DVB Bank SE Hamburg Office (Germany)**

Competitive strengths setting DVB apart

There are a number of competitive strengths arising from the strategic fundamentals of DVB's business model. These strengths set the Bank apart from other market participants:

- **Business model** – clearly focused, distinctively specialised, highly diversified, cycle-neutral and international in scope
- **Business policy** – conservative and sustainable
- **Organisation** – transparent structures, swift information flow and prompt decision-making
- **Human resources** – highly qualified and experienced
- **Products & services** – customised and beyond the typical scope of banking
- **Asset & Market Research** – sophisticated, renowned and award-winning
- **Credit portfolio** – diversified by multiple criteria and categories
- **Risk management** – consistent and forward-thinking
- **Refinancing** – granular and maturity-matched
- **Own funds** – sound capital base

These ten competitive strengths have developed into success factors for DVB, which is thus able to weather the challenges posed by cyclical transport markets, to the benefit of a demanding clientele.

Strategic goals and implementation

Despite the continued challenging market environment in some maritime shipping segments and in the market for offshore support vessels and platforms during 2016, DVB maintained its focus on selected transport markets, and its organisational structure. The Bank strives to sustainably stabilise this competitive position, and realise further efficiency enhancements of the products and services it offers.

Strategic goals for 2017

DVB will pursue the following objectives during 2017:

- We plan to sustain the positive business development in Aviation Finance as well as in Land Transport Finance and strengthen the earnings power of these businesses.
- We will undertake every effort to avoid having to record a loss as in 2016. We intend to reduce the higher risk costs in Shipping Finance and Offshore Finance during 2017 and 2018. This is based on assumptions that the persistent tonnage overcapacity in some shipping segments will not rise beyond existing levels, and that charter rates and asset values will not decline further. Hence, we will continue to focus strongly on managing risks in these businesses.
- We strive to preserve our sound core operational earnings before risk costs and before IAS 39. This means that, in addition to our lending business, we will focus on value-added services for clients in our Transport Finance business – such as capital markets products and advisory services.
- We will keep supporting our shipping clients in a market environment characterised by less liquidity supply as many international shipping financiers are continuing to withdraw from the shipping markets.
- We will continue to successfully address regulatory-driven projects. This will also contribute to our ability to distinguish ourselves from our competitors, as well as raising the entry barriers for new participants in our fields of business.

Implementation in 2017

New Product Circle – Innovation and developing products for the future

We are continually looking at new ways to better serve our clients, through new products, services and leveraging technology advancements to enhance our clients' experience when dealing with us.

During the course of 2016, DVB has created a series innovation groups to harness the intellectual creativity and experience found in all of our business divisions and employee demographics to identify new opportunities and prepare DVB for the future.

Under the umbrella of our "Innovation and Digitisation" initiative, one group is actively exploring the opportunities presented by 'smart contracts' and 'smart portfolios' based on blockchain technology to streamline our internal processes and interactions with our clients. This has the potential to enable DVB to play an industry leading role in leveraging new technologies.

Some of the ideas from these groups may evolve into new products or services for our clients. In that context as a regulated global bank, it is imperative that DVB has a structured process for evaluating new products and handling their introduction. A new product can thus be defined as a new business activity that cannot be properly handled within the existing organisational structure, processes and systems in the Bank, and/or an activity that alters the (structural) risk profile of the business and location.

We are constantly enhancing our dynamic approach to evaluating new products so that they can be tested in commercial reasonable timeframes and subsequently introduced into the Bank.

Ultimately, the New Product Circle enables us to quickly react to industry, market and technological developments and provides the foundation for fulfilling our commitment to provide innovative and customised solutions to our clients.

The "Liberty" project – Enhancing cost efficiency

Liberty embodies the Bank's response to addressing cost developments over recent years. Liberty embodies a bottom-up approach based on the foundation that every employee in DVB has a vested interest, motivation and responsibility for making the right choices when it comes to cost and achieving the best value for DVB. Liberty represents the freedom to choose, for everyone at DVB to take the right decisions for a sustainable future.

The primary objective of Liberty is to contain all non-staff expenses at 2015 levels until 2020. The secondary, and perhaps the most important, objective of the initiative is to drive a cultural change in mind-set across the Bank. The Board of Managing Directors would like everyone in DVB to adopt a mind-set focused on managing and containing costs and achieving the best value for the Bank.

During the course of 2016, a multitude of cost-containment and savings opportunities were identified and realised by DVB's employees. In addition, four global initiatives were initiated to focus on realising larger scale cost efficiency opportunities across the Bank:

- Transparent cost management programme
- A global solution for business travel and event planning
- Centralised procurement and contracting
- Harmonised phone and communication services

The transparent cost management programme has already been completed by the end of 2016, while the other three are in the advanced stages of implementation. Thanks to these global initiatives and smaller 'quick win' savings from our employees, demonstrating the general cultural shift in cost awareness and management, non-staff expenses were reduced year-on-year in the single-digit million euro range.

Strengthening DVB's brand profile

DVB will take further steps to enhance its unique brand profile:

- We are consistent and systematic in our exchange of views and opinions with clients.
- We maintain our close contacts with the global transport industry, such as manufacturers – in all areas and on all levels, as we are part of the global transport industry.
- We showcase our profile at relevant meetings, conferences and client events pertaining to the international transport industry, where we share market assessments and discuss market developments.
- We publish editorial articles, in a targeted manner, in global transport industry magazines and yearbooks and give video interviews at conferences.
- We present the Bank's success story to investors – in round-table discussions, one-on-one meetings and via roadshows. In this way the Bank will build the foundation for capital market transactions in euros and – henceforth increasingly – in US dollars.
- We win renowned prizes recognising our sustained presence on, and our commitment to, the transport markets.
- We present in-depth information on our website, tailored to the needs of our various stakeholder groups, and ensure transparency in a reader-friendly, well-structured manner. This focus on clients and stakeholders is also recognised by the market. In early 2016, a survey that looked at 254 websites of exchange-listed companies awarded DVB's site the top score in the Banks segment – ahead of large institutions such as Deutsche Bank.

Commercial planning and management system

This section describes DVB's commercial planning and management system, as well as its risk-adjusted performance measurement system.

The Board of Managing Directors manages the Bank by focusing on the globally active business divisions Shipping Finance, Aviation Finance, Offshore Finance, Land Transport Finance, Investment Management as well as on other service functions. Logically, management hierarchy and the structure of the entire internal reporting system are geared towards this divisional business model. In view of growing international regulatory requirements, the Bank has also deployed this divisional management model on a regional basis, for its sales offices.

Strategy and planning process

DVB carries out a revolving annual strategy and planning process, which includes a revision of the following components:

- Strategic planning is geared towards a five-year horizon. It consists of an analysis of the economic environment, of market and competitive trends, the Bank's strengths and weaknesses, and of a medium-term financial and capital planning derived from these input factors.
- Against the background of this multi-year planning, a more detailed operative one-year plan is worked out, which is one of the contributing factors to the Bank's individual target-setting system (management by objectives).
- The monthly internal reporting compares one-year projections to actual results, analysing any deviations.
- In addition, full-year projections are implemented during the second half of each year; these may be used for fine-tuning and as a basis for the planning of future periods.

The Bank's business strategy forms the fundamental basis for its risk strategies (in particular, the credit risk strategy), which refer to the business strategy in numerous respects.

DVB's strategy process is fully integrated into the strategic planning process of the DZ BANK Group, and coordinated with that process in terms of timing. The annual strategy and planning process commences in late spring; it concludes in November of each year, with the submission of all strategies and planning documents to the Supervisory Board.

During the months of April and May, the Bank compiles current information concerning the economic environment, competitors' behaviour, price and market trends, as well as the Bank's strengths, weaknesses and market share – also comprising its own targets and planned measures.

A review of the medium-term five-year financial and capital planning is carried out in parallel, on the basis of the information described, using a comprehensive and integrated planning model which provides a full set of projections based on numerous input parameters. This process incorporates the deliberations and requirements of the Board of Managing Directors, as well as the expectations and assumptions of the top management level below the Board of Managing Directors.

In addition, a macroeconomic model is applied, which helps to estimate the impact of any changes in economic conditions on the Bank's key planning parameters and success factors. This macroeconomic model is also used to estimate the effect of such changes in the Bank's environment upon its risk positions. Moreover, DVB needs to assess the impact of macroeconomic scenarios (as defined by regulatory authorities, for example), and to apply such scenarios to the specific characteristics of its business.

Key determining factors for DVB's growth and success are the volume of originated new business, the interest margins generated on new business, the amount of commissions generated on new transactions, and the changes in the risk profile. These parameters are in the focus of any planning deliberations.

Operative planning for the subsequent year takes place in the autumn, based on a projection and incorporating the strategic planning. A "counter-current" method is employed for the purposes of operative planning.

Targets set by the Board of Managing Directors can be derived from the medium-term planning (which has been revised by the time operative planning takes place) and used by the business units for their individual projections. These are consolidated and assessed; a second round of planning may be required to revise such individual plans. This process is supported by a web-based planning tool. If required, medium-term planning will be readjusted using the results of the operative planning process.

Key performance indicators

DVB's objective is to achieve a sustained increase in the Company's value. To this end, we consistently develop and fine-tune our management and control systems. Having implemented our EVA™ concept back in 2008, we have a toolbox at our disposal that permits a comprehensive, value-driven management of the Group and of all divisions. This system supports the creation of enterprise value and ensures Group-wide transparency on all levels.

The Bank employs key financial indicators to assess and manage its business: return on equity (ROE) before taxes, cost/income ratio (CIR) and risk-adjusted Economic Value Added (EVA™). ROE, the traditional profitability indicator, shows net income before taxes in relation to share capital. The CIR is used to assess efficiency. It compares general administrative expenses to the income generated before allowance for credit losses. EVA™ represents residual profit; it expresses net profit (as an absolute amount) after deduction of costs for risk capital employed.

In order to harmonise the calculation methodology and enhance transparency thereof, the Bank has included expenses for the bank levy and the BVR Deposit Guarantee Scheme, as well as the operative component of the IAS 39 result (the result from investment securities) in its calculation methodology for all three management indicators since the first quarter of 2016. Expenses for the bank levy and the BVR Deposit Guarantee Scheme must be recognised at the beginning of each financial year, for the full year, and are then no longer amortised over the course of the year. However, in DVB's view, amortising these charges over the periods within a financial year is commercially reasonable for calculating key financial indicators, since this allows for a more realistic reflection of business performance.

On this basis, the financial indicators are calculated as follows:

For the **ROE (before taxes)**, consolidated net income/loss before IAS 39 and taxes (but including the result from investment securities) is divided by the pro rata temporis total of weighted capital (issued share capital, capital reserve, retained earnings excluding the fund for general banking risks, non-controlling interests and deferred taxes, as well as before appropriation of consolidated net income/loss).

To calculate the **CIR**, the aggregate of general administrative expenses and pro rata temporis expenses for the bank levy and the BVR Deposit Guarantee Scheme is divided by the total of net interest income (before allowance for credit losses), net fee and commission income, result from investments in companies accounted for using the equity method, net other operating income/expenses and result from investment securities.

For **EVA™**, pro rata temporis risk capital costs are deducted from consolidated net income/loss before IAS 39 and taxes (but including the result from investment securities).

Except for ROE, the indicators described apply uniformly to all company divisions, and are calculated on the same basis.

Furthermore, DVB complies with regulatory capital ratios and, where applicable, capital limits within DZ BANK Group.

At present, DVB does not employ non-financial indicators for managing the Company.

Regular reporting/management reporting

Company management is evident in the regular reporting system. DVB has a monthly reporting system in place, which applies uniform structures to the Group and its divisions. The technical platform employed for this purpose permits separate reports to be generated at every level and for each unit. The reports are published on a monthly basis and used by senior management to focus on the Group, its strategic business divisions and – in some cases – on individual departments and teams. The reports generally have the same structure; they incorporate a uniform profit contribution analysis scheme and the same key financial indicators. As a rule, the reports include year-on-year and target/actual comparisons. The top management reporting package (the Management Report) also contains comments, analyses and assessments of current developments, deviations from projections, and the degree of target achievement. The report is addressed to the Board of Managing Directors, but is made available – simultaneously and in full – to the entire management team. In addition, regular reports are prepared which cover individual business divisions in greater detail; ad-hoc analyses are carried out frequently in order to analyse specific issues. Based on this internal reporting system, the Board of Managing Directors gives a report on the Group's current economic development to the Supervisory Board during each meeting.

Precalculations

DVB has defined minimum requirements for the profitability of new business; these are based on the same principles as those applied to measuring performance (minimum EVA™). The Bank uses a special tool to calculate profitability prior to entering into an exposure; the results of this precalculation are a key basis for decisions and must be presented for each lending decision.

Technical infrastructure

DVB employs uniform, Group-wide SAP systems for accounting, valuation, consolidation and financial reporting, as well as for data inventory and reporting. Smaller online analytical processing databases are used for the planning process and its presentation.

REPORT ON THE ECONOMIC POSITION

Macroeconomic environment

Global economic growth continued to paint a mixed picture in 2016. There has been a stronger-than-expected pickup in growth in advanced economies, mostly due to a reduced drag from inventories and some recovery in manufacturing output. In contrast, it is matched by an unexpected slowdown in some emerging market economies, mostly reflecting individual factors.

However, the result of the election in the United States brought forecasts of massive economic stimulus for the US economy, and the US dollar climbed in the fourth quarter 2016, almost reaching parity with the Euro in mid-December. Financial market sentiment towards emerging market economies improved somewhat, amid some firming in commodity prices and less concern about prospects in China. Emerging economies in Asia and India have produced some robust growth figures.

The following material, industry-specific drivers had a notable impact upon the Bank during 2016:

- Despite significantly reduced ticket prices, slowly increasing fuel costs and – in some parts – a high increase of labour costs, IATA is expecting a new record year (US$35.5 billion) for the aviation industry. North American airlines accounted for as much as 57% of profits.
- The slight rebound of oil prices during the course of the year was not enough to re-establish confidence in the offshore exploration business.
- The shipping downturn extended into its eight year, with all segments affected to varying degrees. Persistent high tonnage overcapacity and continuously declining charter rates – which form the basis for vessel valuations, and hence, for collateral values – remained a significant contributor to the overall situation. Sluggish trade patterns and geopolitical developments in the Eastern Mediterranean added to the difficulties during the third quarter. All these market distortions burdened shipping clients' liquidity cushions, affecting lenders to a more pronounced extent than before.

Development of oil prices

Global oil prices are a key operating cost factor for companies in the transport sector. Oil price trends significantly strengthen or weaken the profitability of transport enterprises such as shipping companies or airlines.

Oil prices have rebounded in spite of rising uncertainty following the Brexit vote and the new administration in the US. After hitting a ten-year low in January 2016, oil prices have doubled to almost US$57 in December, partly due to involuntary production outages that temporarily brought some balance to the oil market but especially reflecting an agreement among OPEC members and several major producers to limit supply.

- The spot price for the key European Brent (London) grade closed the year at US$56.14 per barrel on 31 December 2016 – a 51.8% increase from the end of the previous year (US$36.98 per barrel). On a yearly average however, prices for this key grade were down 18.8% year-on-year.
- The spot price for the US-traded West Texas Intermediate grade also rose significantly during the year, by 43.0% to close at US$53.77 on 31 December 2016 (previous year: US$37.61 per barrel). On a yearly average, prices for this key grade were down 14.7% year-on-year.

Developments on the international transport markets

We analyse developments on DVB's core markets, in detail, in the market analyses provided by Shipping Finance (pages 112–113), Aviation Finance (pages 124–126), Offshore Finance (pages 140–141), Land Transport Finance (pages 152–153), as well as in the chapters on Financial Institutions and Syndications (pages 166–167), DVB Corporate Finance (pages 170–173) and Investment Management (pages 179–180 and 183). Reference is made to these explanations.

Developments on the financial markets

DVB conducts its funding activities on the international financial markets through a multitude of instruments. In this context, the Bank focuses on Germany, the other German-speaking countries, and Northern Europe, and is looking to further raise its international profile. That is why developments on the international financial markets are very important for DVB's liabilities.

Key developments on the financial markets during 2016 can be summarised as follows:

2016 was a difficult year for the **financial markets**. At the beginning of the year, concerns about a lasting slump in the world economy dampened market confidence. In the second quarter, the debate about a potential Brexit of the United Kingdom caused considerable unease about the future of the European Union, which then culminated in confusion and uncertainty after Britons voted in favour of leaving the European Union in summer. Another factor turned out to be an endurance test for investors: the presidential election campaign in the US. But, with Donald Trump's surprising election victory, a paradigm shift occurred: his announcements of wanting to launch an investment programme and implement tax cuts for corporations improved economic expectations for the US. However, the financial markets were not only burdened by political turbulence, but also by the tension created by opposing monetary policies on either side of the Atlantic. On the one hand, the European Central Bank eased monetary policy further in March and December; on the other hand, the US Federal Reserve continued its gradual normalisation of US monetary policy in December by raising interest rates for the first time since year-end 2015.

The **European Central Bank (ECB)** further loosened its expansive monetary policy in 2016 on the back of low inflationary pressure in the euro area. In March 2016, the central bank decided, among other things, upon another main refinancing facility rate reduction (–5 basis points), leading to a new historical low of 0.0%. The ECB also cut the interest rate for deposit facilities – by 10 basis points. Thus, it also reached an all-time low of –0.40%. The marginal lending facility rate declined by 5 basis points, reaching 0.25%. In addition to reducing key interest rates for the euro zone, the ECB Governing Council also decided to expand its securities-buying programme by raising the monthly bond-purchasing volume by €20 billion to €80 billion. In December, the ECB Governing Council then extended the term of the bond-buying programme until year-end 2017. Simultaneously, however, it announced that the monthly purchasing volume from March 2017 onwards would again be lowered, to €60 billion. With the extension, the preliminary total volume of the programme increases to an estimated €2,280 billion. In order to be able to continue buying enough bonds, the ECB Governing Council loosened the rules for the securities-buying programme in March and in December.

In 2016, the **US Federal Reserve (Fed)** kept financial markets waiting for the first rate hike of the year. The Fed bankers had constantly held out the prospect of a rate change for the US, but due to the equivocal economic situation, a tightening move was postponed constantly. It was only during the year's final monetary policy meeting of the Fed's Open Market Committee that an interest rate hike of 25 basis points – to a range between 0.5% and 0.75% – was decided upon. According to Janet Yellen, Chair of the Fed, the interest rate increase was mainly due to the significantly higher inflationary and economic outlook in the United States – which, in turn, was driven especially by the economic policy announcements of US president Donald Trump – who had made it clear that following his election victory he was planning to spend billions of dollars on infrastructure projects, as well as implement tangible corporate tax cuts.

The shares of DVB Bank SE (WKN: 804550, ISIN: DE0008045501) are listed in on the Frankfurt Stock Exchange in the General Standard. In accordance with the Memorandum and Articles of Association, DVB's share capital amounts to €118,791,945.12 and is divided into 46,467,370 notional no-par value shares.

Developments on the equity markets, and the DVB share price

Equities markets started the year with a significant slide: the first six weeks saw a massive sell-off. Sentiment on the equity markets was primarily burdened by economic problems affecting China as well as some emerging markets. Moreover, falling oil prices were seen as a sign of a faltering world economy. However, this confused state of affairs had a negative impact upon the **German blue-chip index DAX**, which fell by approximately 2,000 points until mid-February, to a level of around 8,750 points. Despite this poor start, the DAX managed to recover during the course of the year, driven by an improving economic outlook and expansive monetary policy within the euro area. The index suffered a temporary setback in the summer, following the unexpected 'Brexit' vote in the United Kingdom. Uncertainty regarding the future course of US monetary policy – as well as the eventual outcome of the US presidential election – then dampened optimism on equity markets leading up to November. Market sentiment only changed in the aftermath of the US elections: spurred by an improved economic outlook in the US and the extension of the ECB's bond-buying programme, the DAX took off towards year-end. The DAX posted a strong rise of 1,000 points in December alone, closing the year at 11,481 points – up 6.9% year-on-year (previous year: 10,743 points).

The **Dow Jones 30 Industrial Average index** rose markedly during 2016, closing the year at 19,762 points, up 13.4% (previous year: 17,425 points). **Japan's Nikkei-225 Stock Average** meanwhile closed the year at 19,114 points, up 0.4% year-on-year (previous year: 19,034 points). **Chinese equity markets** ended 2016 in negative territory, after a distinctly volatile year. The most important indices, the SH COMP (Shanghai Stock Exchange Composite Index) and CSI 300 (China Securities Index) were down 12.3% and 11.2% year-on-year, respectively.

The **DVB share price** remained stable against the background of the market conditions outlined, once again proving resilient and encouragingly stable, reflecting above all the narrow market in which the shares trade, due to the low free float. The DVB share price was only exposed to moderate fluctuations during the course of 2016, reaching its high for the year of €25.25 on 23 December 2016. The lowest price of €21.85 was recorded on 11 November 2016. The year-end share price was €23.50.

Euro/US dollar exchange rate developments

The **euro/US dollar exchange rate** showed a mixed picture during the year under review; it was influenced by monetary policy expectations on both sides of the Atlantic. The euro appreciated notably until May, reaching its high for the year of just under US$1.16 per euro on 3 May 2016. Fears of Brexit and a further loosening of ECB's monetary policy were unable to sustainably weaken the euro during the first months of the year. The euro's strong performance reflected the reticence of the US Federal Reserve, which held back with another interest rate hike until summer, given the uncertain economic situation. The prospect of further divergence in monetary policy between Europe and the US, as well as the surprise result of the Brexit referendum in the United Kingdom, pushed the euro below US$1.10 during the summer months. Even though the currency managed to stage an interim recovery, it turned lower again in the aftermath of the US elections. By December it became clear that monetary policy in the euro area and in the US would diverge even further: on the one hand, the ECB extended its bond-buying programme, and on the other hand, the Fed raised its key interest rate again. The euro/US dollar exchange rate fell to US$1.05 by the end of the year, 4 US cents lower than the year before.

DVB's ratings

In October 2016, **rating agency Standard & Poor's** changed its rating criterion "outlook" from "stable" to "negative", thus accounting for the further deteriorating conditions on international shipping markets. DVB is thus currently rated "A+/A-1/negative". The ratings assigned by **FitchRatings** to the German Cooperative Financial Services Network were unchanged, at "AA-/F1+".

Figures in the Group Management Report, and in the consolidated financial statements (including notes) are rounded pursuant to standard business principles. This may result in slight differences when aggregating figures and calculating percentages.

Financial position and performance

During the financial year 2016, DVB's business performance was characterised by positive developments, but also by major challenges. The Aviation Finance and Land Transport Finance divisions again contributed positively to the Bank's results, as in previous years. The persistent downturn in numerous segments of the shipping industry and an ongoing challenging environment for the offshore markets – caused by low oil prices – negatively impacted upon the Bank's financial performance.

Financial assessment of business performance in 2016

In an ad-hoc disclosure published on 14 November 2016, DVB adjusted its forecast for business performance during 2016, changing its expectations to "a consolidated net loss before IAS 39 for 2016 that is anticipated to be in a low negative triple-digit million euro range".

This reduced earnings forecast duly materialised, and the consolidated net income/loss before IAS 39, bank levy, BVR Deposit Guarantee Scheme and taxes, totalled €–121.5 million (previous year: €–16.8 million). The decline reflects significantly increased allowance for credit losses of €381.4 million (previous year: €141.5 million). This was commercially necessary and largely required for legacy exposures in the Shipping Finance portfolio, and for financings in the Offshore Finance portfolio. This increase led to a decline in total income (before IAS 39), which amounted to €56.0 million (previous year: €164.1 million), and in consolidated net income/loss (before taxes), which sank to €–135.3 million (previous year: €46.1 million).

The positive aspects of DVB's business performance can be outlined as follows:

- On a positive note, the Bank generated a healthy level of new business in its Transport Finance divisions, contributing to a sound operational performance in our core business. As at 31 December 2016, the Bank's **new business** in Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance comprised 157 transactions with an aggregate volume of €6.5 billion – compared to 190 transactions with an aggregate volume of €7.2 billion during the previous year.
- **Net interest income** rose by 13.8%, from €183.7 million to €209.0 million, due to new business originated. Interest income increased by 1.5% to €1,025.0 million (previous year: €1,009.4 million), while interest expenses fell by 1.2% to €816.0 million (previous year: €825.7 million).
- **Net fee and commission income**, which primarily includes fees and commissions from new Transport Finance business as well as asset management and Corporate Finance advisory fees, developed favourably, rising by 15.4%, from €103.3 million to €119.2 million. Fee and commission income thereby rose by 12.6% to €126.6 million (previous year: €112.4 million), whilst fee and commission expenses declined by 18.7% to €7.4 million (previous year: €9.1 million).
- **General administrative expenses** were reduced to €177.5 million (previous year: €180.9 million), despite the continued high demands posed by regulatory-driven projects.
- **Net other operating income/expenses** amounted to €99.6 million (previous year: €14.7 million), including a €150.0 million contribution to income by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, to the parent company DVB Bank SE as a special effect.

Results were burdened by two factors in particular: by an increased **allowance for credit losses**, and by a decline in the net **result from financial instruments in accordance with IAS 39** (which is generally volatile).

Due to the persistent downturn in numerous segments of the shipping industry and an ongoing challenging environment for the offshore markets – caused by low oil prices – **allowance for credit losses** largely required for legacy exposures in the Shipping Finance portfolio, and for financings in the Offshore Finance portfolio, rose by €239.9 million to €381.4 million (previous year: €141.5 million). This increase was triggered, in particular, by the following market developments in the shipping industry – which has struggled for the past eight years, and continued to do so in 2016:

- **High tonnage overcapacity**, being the main contributor to the continued decline in many segments of the shipping industry;
- As further tonnage capacities entered the market, this pushed **charter rates** down even further. In the offshore segments, charter rates have been under pressure since 2015. In the first half of 2016, earnings in the dry bulk shipping markets hit their lowest mark since the shipping crises of the 1980s. Likewise, in container shipping, charter rates slumped during the third quarter of 2016 due to structural overcapacities.
- **Vessel values** developed in accordance with the decline in charter rates.
- These market distortions persisted throughout the third and fourth quarters of 2016, further burdening the **shipping clients' liquidity cushions**. This in turn affected lenders to a higher extent than before.
- Also geopolitical developments brought about **lower trading activities in the Eastern Mediterranean**, imposing an additional burden for some shipping markets during the third quarter of 2016.

Net result from financial instruments in accordance with IAS 39 – which is generally volatile – amounted to €–2.7 million (previous year: €70.8 million). In the previous year, the result from investment securities had included substantial non-recurring income generated by the Bank's Aviation Investment Management, due to the disposal of a stake in Wizz Air Holdings Plc.

The key financial indicators which DVB Bank Group uses to manage its business reflected the regressive business performance:

The return on equity[1] (before taxes) stood at –10.8% (previous year: 0.8%), the cost/income ratio[1] at 44.3% (previous year: 55.3%) and risk-adjusted Economic Value Added totalled €–249.0 million (previous year: €–86.8 million).

At €29.2 billion, the business volume in 2016 was up 3.5% on the previous year (previous year: €28.2 billion) – due to currency translation effects. Besides total assets of €27.7 billion (previous year: €26.6 billion), the business volume includes contingent liabilities from irrevocable loan commitments of €1.5 billion (previous year: €1.6 billion).

1 The previous year's figures diverge from those originally stated, due to the fact that the calculation method was already changed for the three-month results of 2016. Figures for 2015 were adjusted accordingly.

Financial performance

DVB's total income after IAS 39 declined by 77.3% in 2016, from €234.9 million to €53.3 million. TABLE 16

Financial performance T 16

€ mn	2016	2015	%
Interest income	952.5	850.8	12.0
Current income	72.5	158.6	–54.3
Interest and similar income	**1,025.0**	**1,009.4**	**1.5**
Interest expenses	–816.0	–825.7	–1.2
Net interest income	**209.0**	**183.7**	**13.8**
Allowance for credit losses	–381.4	–141.5	–
Net interest income after allowance for credit losses	**–172.4**	**42.2**	**–**
Fee and commission income	126.6	112.4	12.6
Fee and commission expenses	–7.4	–9.1	–18.7
Net fee and commission income	**119.2**	**103.3**	**15.4**
Results from investments in companies accounted for using the equity method	**9.6**	**3.9**	**–**
Net other operating income/expenses	**99.6**	**14.7**	**–**
Net result from financial instruments in accordance with IAS 39	**–2.7**	**70.8**	**–**
Total income (after IAS 39)	**53.3**	**234.9**	**–77.3**

Net interest income after allowance for credit losses

Net interest income rose by 13.8%, from €183.7 million to €209.0 million, due to new business originated. Interest income increased by 1.5% to €1,025.0 million (previous year: €1,009.4 million), while interest expenses fell by 1.2% to €816.0 million (previous year: €825.7 million).

Average gross interest margins on new business were mostly slightly higher, and developed as follows: TABLE 17

Development of average interest margin on new Transport Finance business, as at 31 December T 17

Basis points	2016	2015	2014	2013	2012[1]
Shipping Finance	271	250	269	316	345
Aviation Finance	223	218	250	284	380
Offshore Finance	259	247	271	330	359
Land Transport Finance	217	232	238	250	281
ITF Suisse[2]	n/a	237	228	292	308

1 The figures for 2012 diverge from those stated in the Annual Report 2012, due to the separation of DVB's Offshore financing activities from the Shipping Finance division, to establish a stand-alone Offshore Finance division, effective 1 January 2013.
2 In November 2015, the Board of Managing Directors of DVB Bank SE decided to cease marketing activities in this field, with immediate effect. Accordingly, no new business was originated during the year under review.

Allowance for credit losses increased to €381.4 million (previous year: €141.5 million), largely required for legacy exposures in the Shipping Finance portfolio and for financings in the Offshore Finance portfolio. Additions to allowance for credit losses totalled €523.7 million, €344.7 million of which in Shipping Finance. Conversely, allowance for credit losses of €139.1 million was reversed (of which €114.8 million in Shipping Finance).

As a consequence of this higher allowance for credit losses, net interest income after allowance for credit losses was down from €42.2 million to €–172.4 million.

Allowance for credit losses

Net allowance for credit losses increased from €–141.5 million to €–381.4 million. TABLE 18

Allowance for credit losses T 18

€ mn	2016	2015	%
Additions	–523.7	–198.3	–
Reversals	139.1	66.1	–
Direct write-offs	–0.5	–10.4	–95.2
Recoveries on loans and advances previously written off	3.7	1.1	–
Total	**–381.4**	**–141.5**	**–**

Allowance for credit losses comprised specific as well as portfolio-based allowance for credit losses, and provisions. Specific allowance for credit losses, which is recognised in income, was up year-on-year, to €370.1 million (previous year: €141.2 million). Portfolio-based allowance for credit losses was recognised in an amount of €13.3 million, and €2.0 million in provisions was released (previous year: portfolio-based allowance for credit losses of €2.4 million released, and €2.7 million in provisions recognised).

The following tables show the development, broken down by business division, for 2016 and 2015: TABLES 19/20

Allowance for credit losses by business division 2016 T 19

€ mn	Additions	Reversals	Direct write-offs	Recoveries on loans and advances previously written off	Total
Shipping Finance	–325.0	96.4	–0.1	2.9	–225.8
Aviation Finance	–23.7	4.4	–	0.5	–18.8
Offshore Finance	–57.3	0.1	0.0	–	–57.2
Land Transport Finance	–1.4	–	–	–	–1.4
Investment Management	–22.7	1.9	–	–	–20.8
ITF Suisse	–56.6	10.7	0.0	–	–45.9
Business no longer in line with DVB's strategy	–1.0	0.9	–	0.2	0.1
Other	–	0.0	–0.4	0.1	–0.3
Total specific allowance for credit losses	**–487.7**	**114.4**	**–0.5**	**3.7**	**–370.1**
Shipping Finance	–19.6	15.5	–	–	–4.1
Aviation Finance	–3.3	2.9	–	–	–0.4
Offshore Finance	–12.4	1.3	–	–	–11.1
Land Transport Finance	–0.1	0.5	–	–	0.4
Investment Management	–	–	–	–	–
ITF Suisse	–0.1	1.5	–	–	1.3
Business no longer in line with DVB's strategy	–	0.6	–	–	0.6
Other	0.0	–	–	–	0.0
Total portfolio-based allowance for credit losses	**–35.5**	**22.3**	**0.0**	**0.0**	**–13.3**
Aviation Finance	–	2.3	–	–	2.3
Offshore Finance	–0.4	–	–	–	–0.4
Business no longer in line with DVB's strategy	–	0.1	–	–	0.1
Total provisions	**–0.4**	**2.4**	**–**	**–**	**2.0**
Total	**–523.7**	**139.1**	**–0.5**	**3.7**	**–381.4**

Allowance for credit losses by business division 2015

T 20

€ mn	Additions	Reversals	Direct write-offs	Recoveries on loans and advances previously written off	Total
Shipping Finance	–110.3	29.9	–7.4	0.5	–87.3
Aviation Finance	–10.0	3.3	–	–	–6.7
Offshore Finance	–21.1	–	–	–	–21.1
Land Transport Finance	–0.6	0.1	–	–	–0.5
Investment Management	–12.9	8.3	–	–	–4.6
ITF Suisse	–19.2	0.8	–	–	–18.4
Business no longer in line with DVB's strategy	–0.2	–	–2.8	0.5	–2.5
Other	–	0.0	–0.2	0.1	–0.1
Total specific allowance for credit losses	**–174.3**	**42.4**	**–10.4**	**1.1**	**–141.2**
Shipping Finance	–14.6	13.5	–	–	–1.1
Aviation Finance	–2.6	6.1	–	–	3.5
Offshore Finance	–1.9	1.5	–	–	–0.4
Land Transport Finance	–0.6	0.6	–	–	0.0
Investment Management	–	–	–	–	–
ITF Suisse	–1.0	1.9	–	–	0.9
Business no longer in line with DVB's strategy	–0.6	–	–	–	–0.6
Other	–	0.1	–	–	0.1
Total portfolio-based allowance for credit losses	**–21.3**	**23.7**	**–**	**–**	**2.4**
Aviation Finance	–2.7	–	–	–	–2.7
Total provisions	**–2.7**	**–**	**–**	**–**	**–2.7**
Total	**–198.3**	**66.1**	**–10.4**	**1.1**	**–141.5**

The following developments were recorded for the individual portfolios in 2016:

- Shipping Finance:
  €229.9 million in new allowance for credit losses, comprising
  €344.7 million in new specific and portfolio-based allowance for credit losses, as well as direct write-offs, and
  €114.8 million in amounts released (comprising specific and portfolio-based allowance for credit losses), or recovered on loans and advances previously written off.

- Aviation Finance
  €16.9 million in new allowance for credit losses, comprising
  €27.0 million in new specific and portfolio-based allowance for credit losses, and
  €10.1 million in amounts released (comprising specific and portfolio-based allowance for credit losses, as well as provisions), or recovered on loans and advances previously written off.

- Offshore Finance
  €68.7 million in new allowance for credit losses, comprising
  €70.1 million in new specific and portfolio-based allowance for credit losses, provisions, as well as direct write-offs, and
  €1.4 million in amounts released (comprising specific and portfolio-based allowance for credit losses).

- Land Transport Finance
  €1.0 million in new allowance for credit losses, comprising
  €1.5 million in new specific and portfolio-based allowance for credit losses, and
  €0.5 million in portfolio-based allowance for credit losses released.

- Investment Management
  €20.8 million in new allowance for credit losses, comprising
  €22.7 million in new specific allowance for credit losses, and
  €1.9 million in specific allowance for credit losses released.

- ITF Suisse subsidiary
  €44.6 million in new allowance for credit losses, comprising
  €56.8 million in new specific and portfolio-based allowance for credit losses, as well as direct write-offs, and
  €12.2 million in amounts released (comprising specific and portfolio-based allowance for credit losses).

Total allowance for credit losses (composed of specific and portfolio-based allowance for credit losses, and provisions) increased from €291.8 million to €633.1 million as at 31 December 2016, comprising mainly the following items: TABLE 21

Total allowance for credit losses T 21

€ mn	2016
Shipping Finance-Portfolio	377.9
Offshore Finance-Portfolio	75.7
ITF Suisse-Portfolio	70.7
Aviation Finance-Portfolio	66.7
Investment Management-Portfolio	33.1
business that is no longer in line with DVB's strategy	6.3
Land Transport Finance-Portfolio	2.7

As in the previous year, no country risk provisions were required. The Structured Asset Lending credit exposures of DVB's Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance business divisions are almost exclusively collateralised by the transport assets we finance; thus, at only 1.2% (previous year: 0.8%) in terms of net risk exposure, the share of commitments that involve a high degree of country risk was once again very low.

For details on the development of allowance for credit losses, please see the report on opportunities and risks (pages 208–210). It portrays the changes by business division and region, among other things.

Net fee and commission income

Net fee and commission income, which primarily includes fees and commissions from lending business as well as asset management and Corporate Finance advisory fees, amounted to €119.2 million (previous year: €103.3 million – up 15.4%).

Fee and commission income thereby rose by 12.6% to €126.6 million (previous year: €112.4 million), whilst fee and commission expenses declined by 18.7% to €7.4 million (previous year: €9.1 million).

Results from investments in companies accounted for using the equity method

Results from investments in companies accounted for using the equity method increased from €3.9 million to €9.6 million.

Net other operating income/expenses

Net other operating income and expenses rose from €14.7 million to €99.6 million. Other operating income increased from €52.7 million to €198.8 million, and included a €150.0 million contribution to income by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main. Other operating expenses amounted to €99.2 million (previous year: €38.0 million), mainly attributable to write-downs of goodwill in Offshore Finance and Investment Management.

General administrative expenses

General administrative expenses declined by 1.9%, to €177.5 million (previous year: €180.9 million).

Staff expenses

Staff expenses decreased by 0.7%, from €104.2 million to €103.5 million. Wages and salaries were 0.6% lower, at €89.6 million (previous year: €90.1 million).

Staffing levels developed as follows:

The number of employees rose by 15 (+2.5%), to 624 persons at the 2016 year-end. With 324 employees, staff levels in our core Transport Finance and Investment Management businesses showed an increase of ten during 2016 over the previous year's level (previous year: 314 employees). With 242 employees, staffing levels in the service areas rose by seven staff members (+3.0%), predominantly due to the additional workload imposed by regulatory requirements. The number of employees at DVB's LogPay Financial Services GmbH subsidiary decreased by 3.3% to 58 staff members (previous year: 60 employees).

Non-staff expenses

At €68.5 million, non-staff expenses were 4.6% below the previous year's level (previous year: €71.8 million), mainly comprising the following items:

- advisory expenses of €25.5 million (previous year: €27.2 million) of which:
  - €10.7 million (previous year: €12.3 million) for legal and audit expenses (including €2.3 million – unchanged from the previous year – for the audit of the financial statements and other audit and advisory services); as well as
  - €14.8 million (previous year: €14.9 million) for other advisory services (including IT consultancy expenses);
- ancillary labour costs of €16.1 million (previous year: €19.1 million);
- occupancy expenses of €9.6 million (previous year: €9.8 million);
- expenses for temporary staff of €2.5 million (previous year: €2.4 million); and
- contributions and fees of €1.9 million (previous year: €1.6 million).

Depreciation, amortisation, impairment and write-ups

Net depreciation, amortisation, impairment and write-ups increased by 12.2%, from €4.9 million to €5.5 million.

Consolidated net income/loss before taxes

Consolidated net income/loss before taxes fell from €46.1 million to € –135.3 million. TABLE 22

Consolidated net income/loss before taxes T 22

€ mn	2016	2015	%
Consolidated net income/loss before IAS 39, bank levy, BVR Deposit Guarantee Scheme and taxes	**–121.5**	**–16.8**	**–**
Trading result	4.9	10.5	–53.3
Hedge result	–6.5	9.4	–
Result from derivatives entered into without intention to trade	10.9	15.6	–30.1
Result from investment securities	–12.0	35.3	–
Net result from financial instruments in accordance with IAS 39	**–2.7**	**70.8**	**–**
Consolidated net income/loss before bank levy, BVR Deposit Guarantee Scheme and taxes	**–124.2**	**54.0**	**–**
Expenses for the bank levy and the BVR Deposit Guarantee Scheme	–11.1	–7.9	40.5
Consolidated net income/loss before taxes	**–135.3**	**46.1**	**–**

Net result from financial instruments in accordance with IAS 39 (comprising the trading result, the hedge result, the result from derivatives entered into without intention to trade, and the result from investment securities) –

which is generally volatile – amounted to €–2.7 million (previous year: €70.8 million). In the previous year, the result from investment securities had included substantial non-recurring income generated by the Bank's Aviation Investment Management, due to the partial disposal of a stake in Wizz Air Holdings Plc.

Persistently strong volatility on the interest rate and foreign exchange markets throughout 2016 was reflected in the following items:

- The trading result was down 53.3%, from €10.5 million to €4.9 million), including standalone derivatives in the trading portfolio.
- Conversely, the hedge result comprises underlying transactions and derivatives with effective hedge relationships: the figure stood at €–6.5 million (previous year: €9.4 million).
- The result from derivatives entered into without intention to trade declined by 30.1%, from €15.6 million to €10.9 million.
- The result from investment securities amounted to €–12.0 million (previous year: €35.3 million).

Consolidated net income/loss before bank levy, BVR Deposit Guarantee Scheme and taxes totalled €–124.2 million (previous year: €54.0 million). Bank levy charges of €6.4 million for the financial year 2016 (previous year: €3.3 million) as well as €4.7 million in expenses for the Deposit Guarantee Scheme of the National Association of German Cooperative Banks (BVR; previous year: €4.6 million) needed to be deducted from this figure.

Development of consolidated net income

Consolidated net income/loss after taxes amounted to €–138.7 million. TABLE 23

Consolidated net income/loss

T 23

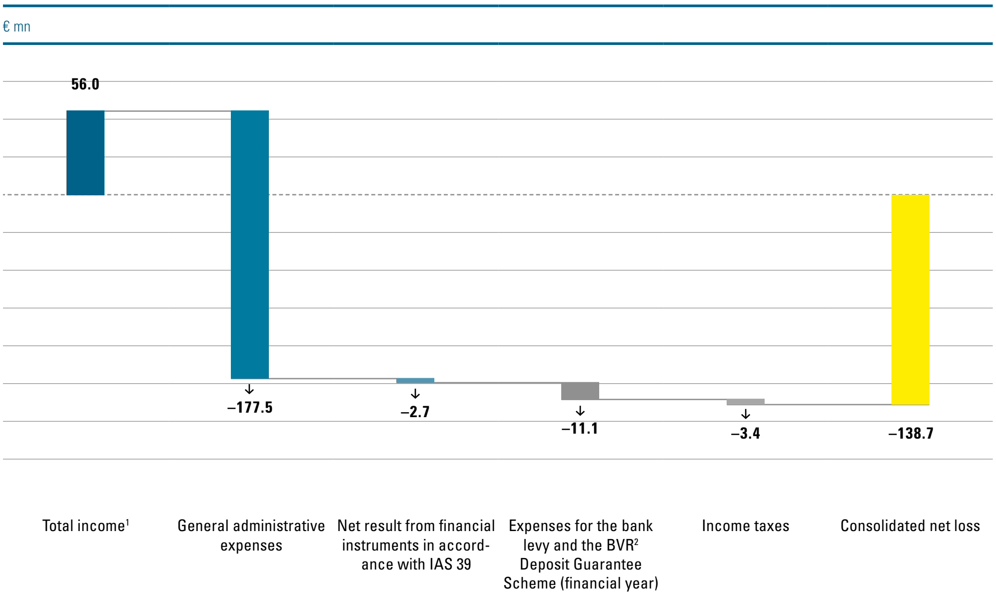
€ mn	2016	2015	%
Consolidated net income/loss before taxes	**–135.3**	**46.1**	**–**
Income taxes	–3.4	–0.5	–
Consolidated net income/loss (after taxes)	**–138.7**	**45.6**	**–**
thereof: consolidated net income/loss attributable to non-controlling interests	0.6	–	–
thereof: consolidated net income/loss attributable to shareholders of DVB Bank SE	–139.3	45.6	–

Consolidated net income/loss before taxes (€–135.3 million) was subject to income taxes of €3.4 million, including current taxes in the amount of €7.2 million (previous year: €5.3 million) and deferred income taxes of €3.8 million (previous year: €4.8 million).

Consolidated net income/loss thus declined to €–138.7 million (previous year: €45.6 million). Consolidated net income/loss attributable to non-controlling interests increased to €0.6 million (previous year: €0.0 million). This reflects the share of results economically attributable to non-controlling shareholders in consolidated entities. Consolidated net income/loss attributable to shareholders of DVB Bank SE therefore amounted to €–139.3 million. CHART 09

Development of consolidated net loss 2016

C 09



1 Composing net interest income after allowance for credit losses, net fee and commission income, result from investments in companies accounted for using the equity method and net other operating income/expences:
2 National Association of German Cooperative Banks

Distributable profit and appropriation of profits

Distributable profit was € nil (previous year: €13.9 million). €139.3 million was withdrawn from retained earnings (previous year: transfer of €31.7 million to retained earnings). TABLE 24

Distributable profit

T 24

€ mn	2016	2015	%
Consolidated net income/loss	**–138.7**	**45.6**	–
Profit carried forward	–	–	–
Consolidated net income/loss attributable to non-controlling interests	0.6	–	–
Transfer to/withdrawals from retained earnings	139.3	–31.7	–
Distributable profit	**0.0**	**13.9**	–

Shareholders were paid a dividend of €0.30 per notional no-par value share from DVB Bank SE's net retained profit for 2015.

Since DVB Bank SE, the parent company of the DVB Bank Group, did not generate a net retained profit during 2016, no dividends will be paid. For this reason, no proposal for the appropriation of profits will be submitted to the Annual General Meeting on 22 June 2017.

Financial position

DVB's total assets rose by a total of 4.1%, to €27.7 billion (previous year: €26.6 billion).

Liabilities on the statement of financial position

Deposits from other banks rose by 32.0%, from €2.5 billion to €3.3 billion. Deposits from customers increased by 4.0%, from €7.5 billion to €7.8 billion. Securitised liabilities declined by 3.1%, from €13.1 billion to €12.7 billion as at the reporting date, whilst subordinated liabilities increased by 42.9%, to €1.0 billion (previous year: €0.7 billion).

Total liabilities were denominated in the following currencies: TABLE 25

Breakdown of liabilities by currency

T 25

€ bn	2016	2015	%
Swiss franc	0.1	0.2	–50.0
Euro	16.5	14.1	17.0
Japanese yen	–	–	–
Norwegian krone	0.1	0.1	–
US dollar	8.0	9.5	–15.8
Total	**24.7**	**23.9**	**3.3**

Development of own funds

Own funds as defined by the Capital Requirements Regulation (CRR) totalled €1,596.0 million (previous year: €1,579.3 million). (Previous year: €1.579,3 million).

TABLE 26

Own funds as defined by the CRR

T 26

€ mn	31 Dec 2016	31 Dec 2015	%
Paid-up capital instruments[1]	118.7	118.7	–
Capital reserve plus other reserves eligible for inclusion[1]	1,122.1	1,231.0	–8.8
Deduction from common equity tier 1 capital	–388.8	–385.2	0.9
Transitional provisions regarding common equity tier 1 capital	160.0	182.8	–12.5
Common equity tier 1 capital	**1,012.0**	**1,147.3**	**–11.8**
Transitional provisions regarding additional tier 1 capital	–112.6	–130.7	–13.8
Transfer of shortfall to common equity tier 1 capital	112.6	130.7	–13.8
Additional tier 1 capital	**0.0**	**0.0**	–
Subordinated liabilities	619.3	481.5	28.6
Transitional provisions regarding tier 2 capital	–35.3	–49.5	–28.7
Tier 2 capital	**584.0**	**432.0**	**35.2**
Modified available equity[2]	**1,596.0**	**1,579.3**	**1.1**

1 Excluding treasury shares
2 Taking into consideration reserves and transfers to reserves from net income

Common equity tier 1 capital totalled €1,012.0 million (previous year: 1,147.3 million). Reserves amounted to €1,122.1 million (previous year: €1,231.0 million). Subordinated liabilities totalled €619.3 million (previous year: €481.5 million); tier 2 capital amounted to €584.0 million (previous year: €432.0 million).

The Bank had adequate own funds – as defined by the CRR – available throughout 2016. Moreover, it complied with regulatory capital requirements pursuant to Article 72 in conjunction with Article 25 of Regulation 575/2013/EU (CRR) at all times during the year under review. TABLE 27

Capital ratios – Basel III T 27

%	31 Dec 2016	31 Dec 2015	pp
Common equity tier 1 ratio	13.2	16.3	–3.1
Additional tier 1 ratio	13.2	16.3	–3.1
Total capital ratio	20.7	22.4	–1.7

DVB discloses capital ratios determined in accordance with the Basel III framework (Advanced Approach), and after appropriation of profits: on this basis, the common equity tier 1 ratio amounted to 13.2% (previous year: 16.3%), whilst the total capital ratio was 20.7% (previous year: 22.4%).

DVB's capitalisation remained above the minimum requirements stipulated by the CRR at all times during the year under review. Its capital ratios were always significantly higher than the requirements set out in Article 92 (1) of the CRR, as well as Article 465 (1) of the CRR in conjunction with section 23 of the German Solvency Regulation.

Key management indicators

The Bank employs key financial indicators to assess and manage its business: return on equity (ROE) before taxes, cost/income ratio (CIR) and risk-adjusted Economic Value Added (EVA™).

In order to harmonise the calculation methodology and enhance transparency thereof, the Bank has included expenses for the bank levy and the BVR Deposit Guarantee Scheme, as well as the operative component of the IAS 39 result (the result from investment securities) in its calculation methodology for all three management indicators since the first quarter of 2016. Expenses for the bank levy and the BVR Deposit Guarantee Scheme must be recognised at the beginning of each financial year, for the full year, and are then no longer amortised over the course of the year. However, in DVB's view, amortising these charges over the periods within a financial year is commercially sensible for calculating key financial indicators, since this allows for a more realistic reflection of business performance.

On this basis, the financial indicators are calculated as follows:

ROE (before taxes) of –10.8% (previous year: 0.8%) was calculated as follows: consolidated net income/loss before IAS 39 and taxes (but including the result from investment securities) of €–144.6 million was divided by the pro rata temporis total of the weighted capital (issued share capital, capital reserve and retained earnings, excluding the fund for general banking risks, non-controlling interests and deferred taxes, and before appropriation of consolidated net income/loss) of €1,333.4 million.

The CIR of 44.3% (previous year: 55.3%) was calculated in the following manner: the aggregate of general administrative expenses and pro rata temporis expenses for the bank levy and the BVR Deposit Guarantee Scheme (€188.6 million) was divided by the total of net interest income before allowance for credit losses, net fee and commission income, results from investments in companies accounted for using the equity method, net other operating income/expenses, and the result from investment securities (€425.4 million).

Risk-adjusted EVA™ stood at €–249.0 million (previous year: €–86.8 million); it was calculated by deducting pro rata temporis risk capital costs of €104.4 million from consolidated net income/loss before IAS 39 and before taxes, but including the result from investment securities, of €144.6 million. TABLE 28

Management indicators T 28

	2016	2015	2014	2013	2012
ROE (before taxes)[1]	–10.8%	0.8%	9.2%	8.9%	14.4%
CIR[1]	44.3%	55.3%	51.5%	47.8%	44.4%
EVA™	€–249.0 million	€–86.8 million	€27.3 million	€22.8 million	€67.9 million

1 The figures for the years 2012 to 2015 diverge from those originally stated, due to the fact that the calculation method was already changed for the three-month results of 2016. Comparative figures were adjusted accordingly.

Refinancing

The Frankfurt-based Group Treasury is responsible for securing refinancing throughout the Group. The unit also manages DVB's trading activities at a centralised level, and hedges the market risk exposure of direct and indirect subsidiaries, thus indemnifying these entities against market risks. DVB conducts trading activities in risk management products for its own positions and on behalf of its clients. It does so in order to hedge against market risk exposure from the customer lending business, and to hedge profit contributions – which are predominantly generated in currencies other than the euro – against exchange rate fluctuations. With a diversified range of funding products, Group Treasury targets a broad spectrum of domestic and international investors. The product range represents an attractive offer to existing and new investors.

Funding activities: DVB extended its euro benchmark curve, broadening the investor base

DVB has emphasised granular and matched-maturity funding for many years – a goal the Bank consistently adhered to in 2016 as well.

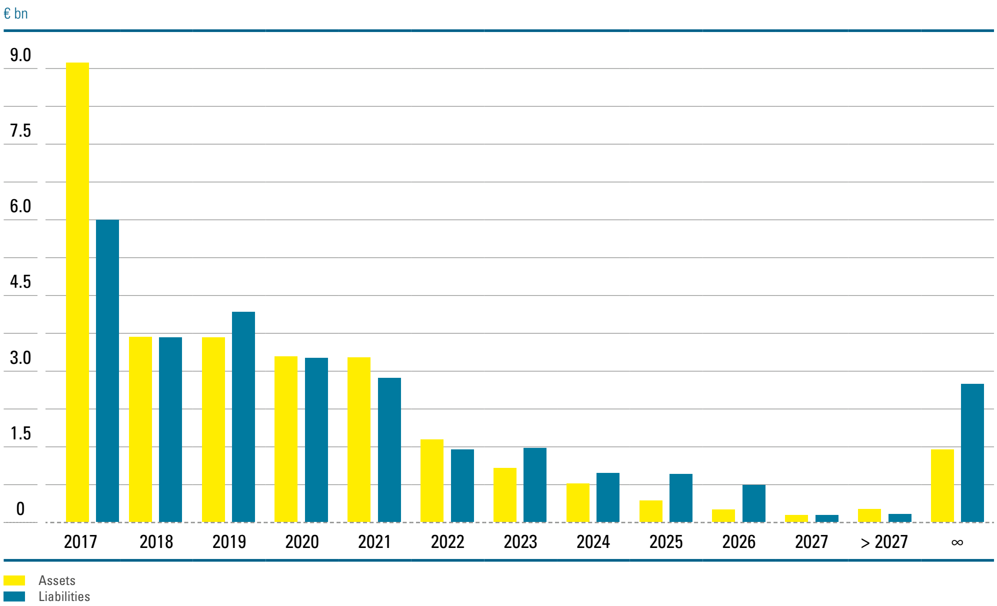
DVB continued to broaden its investor base throughout 2016, through the placement of promissory note loans and bearer bonds outside the Volksbanken Raiffeisenbanken cooperative financial network. In detail, funding consisted of the following amounts and instruments:

- issue of senior unsecured bearer bonds totalling €2.3 billion under the Debt Issuance Programme. This included two euro benchmark issues of €0.5 billion each;
- placement of promissory note loans in an aggregate amount of €1.4 billion.

Refinancing volume – maturity breakdown

As in the previous years, we adhered to our principle of granular and matched-maturity funding in 2016. CHART 10

Liquidity profile C 10



At year-end, the funding base included 91.8% long-term funds (previous year: 94.6%). The structure of the funding mix is analysed as follows (in terms of nominal volumes):

- 49.4% unsecured bearer debt securities (previous year: 53.3%)
- 35.8% promissory note loans/long-term deposits (previous year: 35.1%)
- 3.5% subordinated liabilities (previous year: 2.9%)
- 3.1% ship covered bonds (previous year: 3.3%)

Short-term funding only accounts for 8.2% (previous year: 5.4%) and mainly comprises short-term deposits from clients as well as cash collateral received for interest rate and foreign exchange derivatives entered into for hedging purposes. In addition, DVB holds short-term bank deposits which are used for fine-tuning purposes.

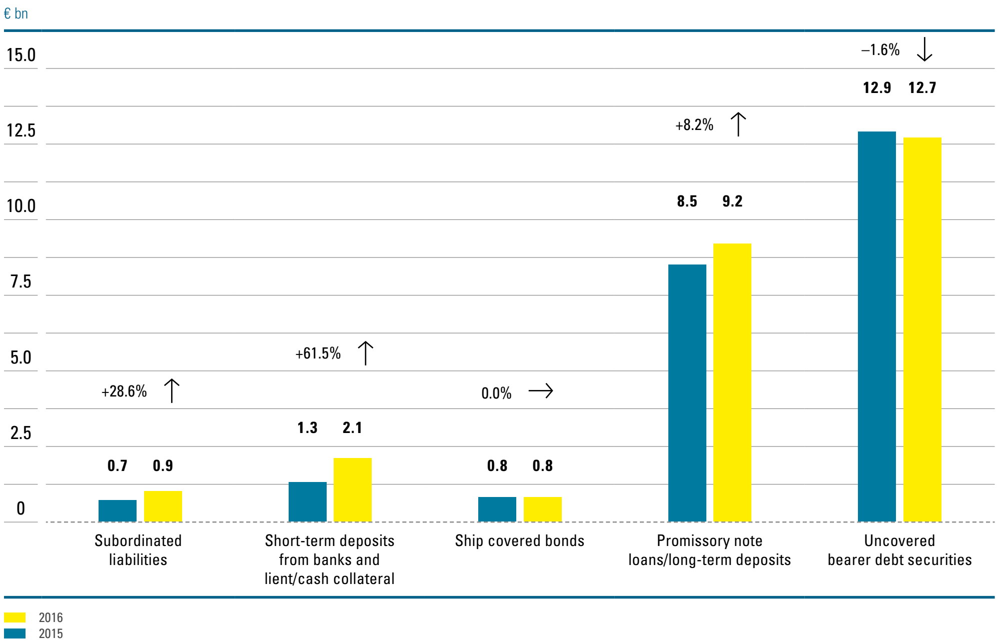
Refinancing volume – structure of refinancing vehicles

Nominal interest-bearing liabilities increased by 6.2% overall, to €25.7 billion (previous year: €24.2 billion).

The structural comparison of the individual refinancing vehicles portrays the following scenario:

Unsecured bearer debt securities (senior long-term issues under the medium-term note programme) were down slightly, by 1.6%, to €12.7 billion (previous year: €12.9 billion), whilst the aggregate of senior long-term promissory note loans and term deposits increased by 8.2%, to €9.2 billion (previous year: €8.5 billion). The volume of outstanding ship covered bonds was €0.8 billion, unchanged from the previous year's figure. Outstanding subordinated liabilities increased by 28.6%, to €0.9 billion (previous year: €0.7 billion). Aggregate short-term liabilities, comprising cash collateral as well as deposits from customers and banks, increased by 61.5%, to €2.1 billion (previous year: €1.3 billion). CHART 11

Structure of refinancing vehicles C 11



Net assets

Business volume

At €29.2 billion, the business volume in 2016 was up 3.5% on the previous year (previous year: €28.2 billion) – due to currency translation effects. Besides total assets of €27.7 billion (previous year: €26.6 billion), the business volume includes contingent liabilities from irrevocable loan commitments of €1.5 billion (previous year: €1.6 billion)

Lending volume over time

Lending volume of €28.8 billion was up 4.0% on the previous year. TABLE 29

Lending volume T 29

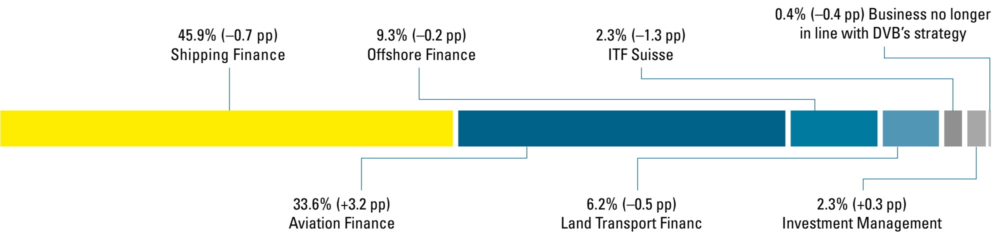
€ bn	2016	2015	%
Loans and advances to banks	1.6	1.1	45.5
Loans and advances to customers	23.7	23.0	3.0
Securities (including equity investments	0.6	0.6	–
Financial guarantee contracts from guarantees	0.3	0.3	–
Contingent liabilities from irrevocable loan commitments	1.5	1.6	–6.3
Derivatives	1.1	1.1	–
Lending volume	**28.8**	**27.7**	**4.0**

Loans and advances to banks rose by 45.5%, from €1.1 billion to €1.6 billion. Loans and advances to customers increased by 3.0%, to €23.7 billion (previous year: €23.0 billion). The securities portfolio (including equity investments) totalled €0.6 billion (previous year: €0.6 billion). Financial guarantee contracts from guarantees were unchanged year-on-year, at €0.3 billion. Contingent liabilities from irrevocable loan commitments declined by 6.3%, to €1.5 billion (previous year: €1.6 billion). As in previous years, DVB employed derivative instruments for hedging purposes, offering them (to a limited extent) to its clients as well. The volume of these derivatives stood at €1.1 billion, unchanged year-on-year.

Nominal volume of customer lending by business division

DVB's nominal volume of customer lending (comprising loans and advances to customers, guarantees and indemnities, irrevocable loan commitments and derivatives) includes structured asset lending in Transport Finance, the fund management activities in Investment Management, existing interbank exposures of our subsidiary ITF Suisse, and the exposures no longer in line with DVB's strategy held by Transport Infrastructure and D-Marketing. Customer lending rose by 2.4%, to €25.9 billion (previous year: €25.3 billion). This was distributed across the business divisions as follows: CHART 12

Customer lending by business division C 12



Portfolio analysis

Volume trends
In order to detail the effects of the exchange rate on the portfolios, we have analysed the development of costumer lending volume by segment over a five-year period, both in euro and US dollar terms.

While the Shipping Finance portfolio declined by 1.6% in US dollar terms, to US$12.6 billion (previous year: US$12.8 billion), it grew by 0.8% in euro terms, to €11.9 billion (previous year: €11.8 billion). The Aviation Finance portfolio increased by 9.6% in US dollar terms, to US$9.1 billion (previous year: US$8.3 billion). In euro terms, it rose by 13.0%, from €7.7 billion to €8.7 billion.
TABLE 30

Lending volume over time 2012–2016

T 30

	2016		2015		2014		2013		2012	
€ bn		%		%		%		%		%
Shipping Finance[1]	11.9	45.9	11.8	46.6	10.1	43.3	9.2	44.3	9.5	42.8
Aviation Finance	8.7	33.6	7.7	30.4	7.1	30.5	6.4	30.8	6.9	31.1
Offshore Finance	2.4	9.3	2.4	9.5	2.3	9.9	2.0	9.6	2.4	10.8
Land Transport Finance	1.6	6.2	1.7	6.7	2.0	8.6	1.6	7.7	1.7	7.7
Investment Management	0.6	2.3	0.5	2.0	0.6	2.6	0.5	2.4	0.6	2.7
ITF Suisse	0.6	2.3	1.0	4.0	1.0	4.3	0.8	3.8	0.9	4.0
Business no longer in line with DVB's strategy	0.1	0.4	0.2	0.8	0.2	0.8	0.3	1.4	0.2	0.9
Total	**25.9**	**100.0**	**25.3**	**100.0**	**23.3**	**100.0**	**20.8**	**100.0**	**22.2**	**100.0**

	2016		2015		2014		2013		2012	
US$ bn		%		%		%		%		%
Shipping Finance	12.6	46.2	12.8	46.5	12.3	43.5	12.7	44.4	12.4	42.5
Aviation Finance	9.1	33.3	8.3	30.2	8.6	30.4	8.9	31.1	9.1	31.2
Offshore Finance	2.5	9.2	2.7	9.8	2.8	9.9	2.8	9.8	3.3	11.3
Land Transport Finance	1.7	6.2	1.8	6.5	2.4	8.5	2.2	7.7	2.2	7.5
Investment Management	0.6	2.2	0.6	2.2	0.7	2.5	0.6	2.1	0.8	2.7
ITF Suisse	0.6	2.2	1.1	4.0	1.2	4.2	1.1	3.8	1.1	3.8
Business no longer in line with DVB's strategy	0.2	0.7	0.2	0.7	0.3	1.0	0.3	1.0	0.3	1.0
Total	**27.3**	**100.0**	**27.5**	**100.0**	**28.3**	**100.0**	**28.6**	**100.0**	**29.2**	**100.0**

1 The figures for 2012 diverge from those stated in the Annual Report 2012, due to the separation of DVB's Offshore financing activities from the Shipping Finance division, to establish a stand-alone Offshore Finance division, effective 1 January 2013.

Earnings analysis

Earnings were analysed by comparing the development of the Transport Finance portfolios in the years 2015 and 2016, breaking down the portfolio into total and new exposures, and then differentiating data further by key ratios and indicators.

New business[3]

DVB concluded 157 new Transport Finance transactions, representing an (underwritten) new business volume of €6.5 billion (previous year: 190 new transactions with a volume of €7.2 billion). New business volumes in the Transport Finance divisions developed as follows:

- new business in Shipping Finance decreased from €3.5 billion to €2.4 billion;
- new business in Aviation Finance rose from €2.6 billion to €3.4 billion;
- new business in Offshore Finance declined from €0.6 billion to €0.2 billion; and
- new business in Land Transport Finance of €0.5 billion was unchanged year-on-year.

DVB played a leading role in 85.0% of new deals in the four Transport Finance divisions, up from 82.0% the year before. At 241 basis points, the gross average interest margin for the new Transport Finance business increased compared with the previous year (previous year: 236 basis points).

Looking at DVB's aggregate new business volume, including Investment Management, 224 new transactions were concluded, with a total volume of €7.0 billion (previous year: 228 new deals with a volume of €7.5 billion), generating an average margin of 242 basis points (previous year: 233 basis points). The previous year's figures still include new business originated by DVB's ITF Suisse subsidiary, whose marketing activities were ceased at the end of 2015, and which has not originated any new business since then.

Total portfolio

The **LTV ratio** (loan-to-value ratio) expresses the relation between loans granted and the market value of the financed transport assets. It represents the ratio of the loan amount to the market value of the financed asset, and is quoted as a percentage. The lower the LTV ratio percentage, the lower the Bank's potential risk exposure in the event of the borrower's default (in which case the lender would need to realise collateral). The LTV ratio for the overall portfolio stood at 77.8% (previous year: 70.2%). LTV developments in the different Transport Finance portfolios showed some divergence: whilst the LTV ratio rose by 10.2 percentage points in Shipping Finance, to 80.2%, by 0.2 percentage points in Aviation Finance, to 71.3%, and by 12.3 percentage points in Offshore Finance, to 75.3%, it decreased by 1.7 percentage points in Land Transport Finance, to 70.6%.

The development of the cost/income ratio **(CIR)** in the four Transport Finance divisions also showed a mixed picture. It declined by 8.1 percentage points in Shipping Finance, to 17.5%, and by 1.4 percentage points in Land Transport Finance, to 11.1%. In contrast, the CIR in Offshore Finance increased by 0.8 percentage points, to 11.3%, whilst it was unchanged from the previous year in Aviation Finance, at 16.7% The CIR in Investment Management dropped to –414.1% (previous year: 30.0%).

Likewise, the development of return on equity **(ROE)** differed. It dropped significantly in Shipping Finance, to –35.8% (previous year: 6.2%), and in Offshore Finance, to –23.7% (previous year: 32.5%). In contrast, ROE in Aviation Finance was up by 3.0 percentage points, to 61.7%, and by 25.5 percentage points in Land Transport Finance, to 98.0%. ROE in Investment Management declined to –12.0% (previous year: 10.2%).

It should be noted that the ROE and CIR indicators are determined excluding overheads; hence, the figures for the individual business divisions are not comparable to the ratios for the entire Bank. TABLE 31

3 In order to better reflect the extensive marketing activities, the presentation of new business was changed from "final take" to "underwritten" during the course of the year. As a result, the previous year's figures diverge from those originally stated in the Annual Report 2015.

Earnings contributions

T 31

	Shipping Finance		Aviation Finance		Offshore Finance		Land Transport Finance		Investment Management		ITF Suisse		Total		
€ mn	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	%
Total portfolio															
Customer lending volume	11,948.4	11,789.5	8,663.2	7,644.5	2,357.6	2,443.4	1,646.2	1,680.8	573.7	544.1	594.5	997.3	25,783.6	25,099.6	2.7
Loans and advances to customers	11,404.5	11,047.2	8,203.9	7,211.6	2,056.2	2,108.4	1,365.7	1,361.4	573.7	544.1	561.5	949.1	24,165.5	23,221.8	4.1
Loan commitments, guarantees and indemnities	543.9	742.3	459.3	432.9	301.4	335.0	280.5	319.4	–	–	33.0	48.2	1,618.1	1,877.8	–13.8
Number of customers (primary obligor groups)	299.0	291.0	153.0	149.0	59.0	49.0	43.0	44.0	12.0	12.0	29.0	43.0	595.0	588.0	1.2
Leading role (%)	87.4	88.7	87.9	84.3	73.3	77.6	68.2	64.4	96.0	83.8	6.6	1.8	83.4	81.1	2.3 pp
Average loan-to-value ratio (%)	80.2	70.0	71.3	71.1	75.3	63.0	70.6	72.3	n.a.	n.a.	154.2	79.3	77.8	70.2	7.6 pp
CIR (%)[1]	17.5	25.6	16.7	16.7	11.3	10.5	11.1	12.5	–414.1	30.0	–	–	44.3	55.3	–11.0 pp
ROE (%)[1]	–35.8	6.2	61.7	58.7	–23.7	32.5	98.0	72.5	–12.0	10.2	–	–	–10.8	0.8	–11.6 pp
New business															
Number of new transactions	73.0	99.0	65.0	62.0	7.0	15.0	12.0	14.0	67.0	28.0	–	10.0	224.0	228.0	–1.8
Underwritten[2]	2,438.0	3,467.3	3,442.1	2,615.8	183.1	575.3	480.3	533.3	479.4	111.8	–	175.0	7,022.9	7,478.5	–6.1
Leading role (%)	85.8	86.8	95.2	82.2	87.1	78.2	59.6	53.6	29.0	83.0	–	–	84.8	80.1	4.7 pp
Average margin (bp)	271	250	223	218	259	247	217	232	133	133	–	237	242	233	9

1 The previous year's figures diverge from those originally stated, due to the fact that the calculation method was already changed for the three-month results of 2016. Figures for 2015 were adjusted accordingly.
2 In order to better reflect the extensive sales activities, the presentation of new business was changed from "final take" to "underwritten" during the course of the year. As a result, the previous year's figures diverge from those originally stated in the Annual Report 2015.

Remuneration

Regulatory requirements for remuneration systems

With the revised German Regulation on Remuneration of Financial Institutions (referred to in this section as the "Regulation") which came into effect on 16 December 2013, the German Federal Ministry of Finance has detailed the requirements for remuneration systems implemented by financial institutions, in the context of the German Banking Act. The Regulation applies to all employees of DVB, at all locations.

In particular, the Board of Managing Directors is responsible for compliance with the requirements pursuant to the Regulation by subordinated enterprises, to which neither section 64b of the German Act on the Supervision of Insurance Companies is applicable, in conjunction with the Regulation on Remuneration in Insurance Companies, nor section 37 of the German Capital Investment Act in conjunction with Annex II to Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations 1060/2009/EC and 1095/2010/EU (O.J. EC No. L 174; 1 July 2011, p. 1).

DVB Bank SE and its affiliated companies together constitute the companies of the DVB Bank Group. Intermediary companies without any operational activities of their own serve merely to optimise the Group's organisational or economic structure.

The Company's remuneration systems are based on a remuneration strategy that sets out uniform guidelines for Group-wide remuneration management. Subordinated enterprises' compliance with the requirements of the Regulation is ascertained through uniform, Group-wide regulations governing the remuneration strategy, remuneration systems, and annual targets.

Frameworks and principles

The remuneration of employees is a key staff management tool for DVB. The objectives of DVB Bank Group's remuneration structure are:

- to motivate each member of staff to sustainably implement the targets derived from company strategy (and, therefore, the individual targets pertaining to divisions, departments and teams), and thus to make a personal contribution towards achieving the Company's strategic objectives;
- to reward staff performance without giving incentives for taking on undesired risk;
- to attract, motivate and retain talented employees for the Bank.

To achieve these objectives, DVB offers a fixed salary, plus – if applicable – a variable remuneration component, which is in a reasonable proportion to the fixed remuneration, and must not exceed it (for specific employee groups, the variable remuneration must not exceed twice the fixed remuneration).

During the course of regular management discussions with employees, managers discuss individual performance (covering all aspects of skills and performance). They assess any need for development derived from this analysis, and agree upon suitable support measures such as professional or personal training.

Depending on national customs, DVB grants non-cash ancillary payments in addition to the salary.

General requirements of the Regulation

The following legal requirements apply, and have been incorporated in DVB Bank Group's remuneration systems:

- Senior management is responsible for the appropriate structure of employees' remuneration systems.
- The supervisory body is responsible for the appropriate structure of senior management's remuneration systems.
- The structure of the remuneration systems – and the remuneration strategy – must be aligned with the company's strategic objectives.
- Remuneration must be appropriate.
  - There must be no incentive to enter into excessive risks.
  - There must be no significant dependence on variable remuneration.
  - Variable remuneration must provide an effective behavioural incentive.
  - Negative contributions to success must impact on the amount of remuneration.
  - Severance payments must not remain unchanged in the event of negative individual contributions to success, or misconduct.
  - The remuneration of control units and organisational units under control must not be materially measured using the same parameters if there is any risk of a conflict of interest.
- A guaranteed variable remuneration is only permissible upon commencement of employment, and for a maximum of one year. A corresponding guarantee is restricted in the event that regulatory requirements governing capital and liquidity cannot be met.
- In principle, variable remuneration is capped at 100% (or 200%) of the respective fixed remuneration.
- Determining the total amount of the variable remuneration must
  - take into account the institution's risk-bearing capacity, multi-year capital planning and financial performance;
  - ensure the institution's ability to maintain or restore adequate capitalisation and liquidity; and
  - guarantee that the institution's ability to maintain or restore the combined capital buffer requirements in accordance with section 10i of the German Banking Act is not compromised
- The risk orientation of the remuneration must not be restricted or neutralised by way of hedging or other counter-measures. Appropriate compliance structures are mandatory.
- The control units' staff receives an appropriate remuneration, whereby the emphasis lies on fixed remuneration.
- Remuneration of members of the Board of Managing Directors must be in line with performance and duties, and may not exceed a normal level unless there are special reasons. The assessment basis for variable remuneration components must extend over several years.
- Sufficient information must be made available about the remuneration systems.
- The institution shall set out principles governing the remuneration systems in its organisational guidelines.
- Certain disclosure requirements must be observed.
- The Supervisory Board must be informed at least once a year about the remuneration systems and has a right to obtain information from senior management.
- A Remuneration Control Committee must be established.

Specific requirements of the Regulation

Since DVB is a significant institution, as defined by the Regulation, the following principles also apply:

- For the purposes of determining variable remuneration,
  - targets set for risk takers must incorporate the overall performance of the institution, the organisational unit and the individual;
  - individual performance for risk takers must also be measured on the basis of non-financial parameters;
  - remuneration parameters have to be used to determine the overall performance; these take into account the objective of long-term success, in particular the risks incurred, their duration, and capital and liquidity costs;
  - at least 40% of the variable remuneration for risk-takers must be spread over a minimum three-year period whereat remuneration must not be vested faster than on a pro rata temporis basis;
  - at least 60% of the variable remuneration for members of the Board of Managing Directors and risk takers among first-level management must be deferred;
  - at least 50% of the cash bonus and at least 50% of the deferral must depend on the institution's sustainable performance, and feature a withholding period;
  - negative contributions to results must reduce the amount of the variable remuneration.

- Extended disclosure obligations must be observed.

- Special provisions apply for discretionary pension benefits.

Organisation and responsibilities

DVB's Remuneration Strategy is reviewed (and adjusted if necessary) at least once a year. Especially in the case of any change to the business or risk strategy, the remuneration strategy and the structure of the remuneration systems must be reviewed and adjusted if necessary.

As a first step, the consistency of the remuneration strategy with the Bank's business strategy is ascertained in coordination with Controlling. The remuneration strategy is then adopted by DVB's Board of Managing Directors, in its capacity as the Group's management body; finally, it is submitted to the Supervisory Board's Remuneration Control Committee for information, and discussed if necessary.

DVB's remuneration systems

DVB applies a consistent remuneration system.

The remuneration of tariff employees in Germany is governed by the collective wage agreements for private and public-sector banks. As a rule, the remuneration of employees covered by collective wage agreements comprises 13 fixed monthly salaries (including special payments in accordance with section 10 of the collective wage agreements for private banks) and a variable share. Outside Germany, employees in similar functions and positions receive a discretionary bonus, which is based on the same rules.

Non-tariff employees in Germany and comparable staff outside Germany receive a fixed, contractually agreed annual salary. In addition, a variable remuneration is granted on the basis of defined criteria. The variable remuneration is paid in April of each year for the previous year.

This structure and the corresponding bonus regulations apply to all entities within the DVB Bank Group. The objective of the remuneration systems is to adequately honour employee performance and to provide effective incentives. They are structured so as to fulfil the applicable regulatory requirements.

The Remuneration Control Committee of the Supervisory Board, in cooperation with the Remuneration Officer, reviews whether DVB's remuneration systems are appropriate, on an annual basis.

The variable remuneration component for members of the Board of Managing Directors is determined by the Supervisory Board; it is partly disbursed immediately and partly deferred, with retention and deferral periods applicable as well. DVB's remuneration system thus ensures that legal requirements regarding sustainability are fulfilled, and that negative performance contributions are taken into account.

Remuneration system for risk takers

The definition of the term "risk takers" was updated on the basis of amendments to the Regulation as at 16 December 2013, and the technical standards defined by the European Banking Authority.

Within the identified business divisions, all divisional heads are defined as risk takers. Further employees have been identified as risk takers below the (functional) level of divisional heads, in particular the heads of regional business units with a significant business volume.

The disbursement of bonus payments has been modified in accordance with the Regulation: only 20% of the bonus achieved will be paid out directly in the following year. The remaining 80% of the bonus will be deferred over a period of up to four years, taking into account the deferral and retention periods. All amounts deferred are linked to the long-term performance of DVB and, where applicable, the relevant business unit. Negative performance contributions are also taken into account when determining the bonus as well as the pro-rata deferral – which may lead to the variable remuneration being reduced or refused.

In the event of any material changes to the organisational structure (such as the creation or merger of divisions), DVB will review whether the number and definition of risk takers need to be changed.

Remuneration Officer

Pursuant to section 23 of the Regulation, DVB appointed a Remuneration Officer. The Officer's duties and procedures are documented in the organisational guidelines.

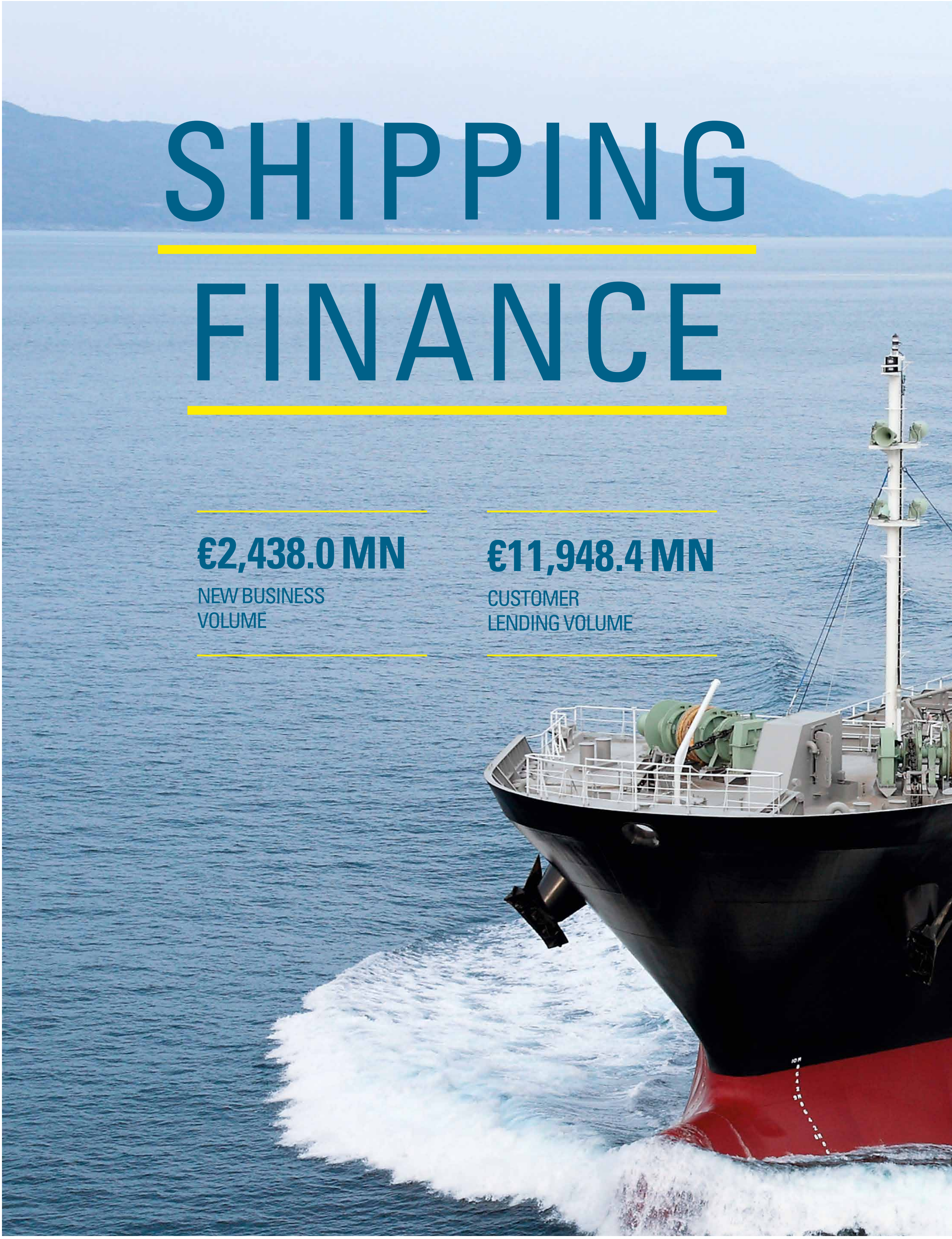
Remuneration Control Committee

Pursuant to section 15 of the Regulation, DVB established a Remuneration Control Committee. The Committee's duties and procedures are documented in its internal regulations.

Disclosure

Pursuant to section 16 of the Regulation, DVB is obliged to disclose information regarding its remuneration policy and practice. DVB's disclosure duties, as a Bank subject to Regulation 575/2013/EU (Capital Requirements Regulation – "CRR"), as defined in section 1 of the KWG, are based solely on Article 450 of the CRR which requires that the Bank discloses certain quantitative and qualitative details for groups of employees whose activity has a material impact on the Bank's risk profile ("risk takers").

We will comply with this disclosure duty in a separate report, which will be made available on our website www.dvbbank.com > Investors > Corporate governance during the second quarter of 2017.



SHIPPING FINANCE

€2,438.0 MN
NEW BUSINESS VOLUME

€11,948.4 MN
CUSTOMER LENDING VOLUME


NO SMOKING
SAFETY FIRST
DANGEROUS CARGO
MTM SINGAPORE

DEVELOPMENT OF THE BUSINESS DIVISIONS

Business areas
- Tankers
- Dry bulk carriers
- Container ships
- Car carriers
- Container boxes

Products
- Structured Asset Lending
- Risk Distribution & Loan Participations
- Corporate Finance Solutions
- Private Equity Sourcing & Investments
- Asset & Market Research

Clients
- Smaller to larger public and private companies (shipowners, shipping companies and charterers)

Core regions
- Europe
- North and South America
- Asia

Shipping Finance

2016 was yet another year of demanding conditions for some shipping sectors, especially for dry bulk and container shipping. At €2.4 billion, our new business origination was still on a substantial, yet lower level. It reflected the approach taken to selectively support clients, strengthening the market recognition and valuation of our platform, at the same time continuing to enhance our risk management and monitoring practices. While performance in 2016 was heavily impacted by the increased allowance for credit losses, the financial results appropriately demonstrated the sustainability of our business model.

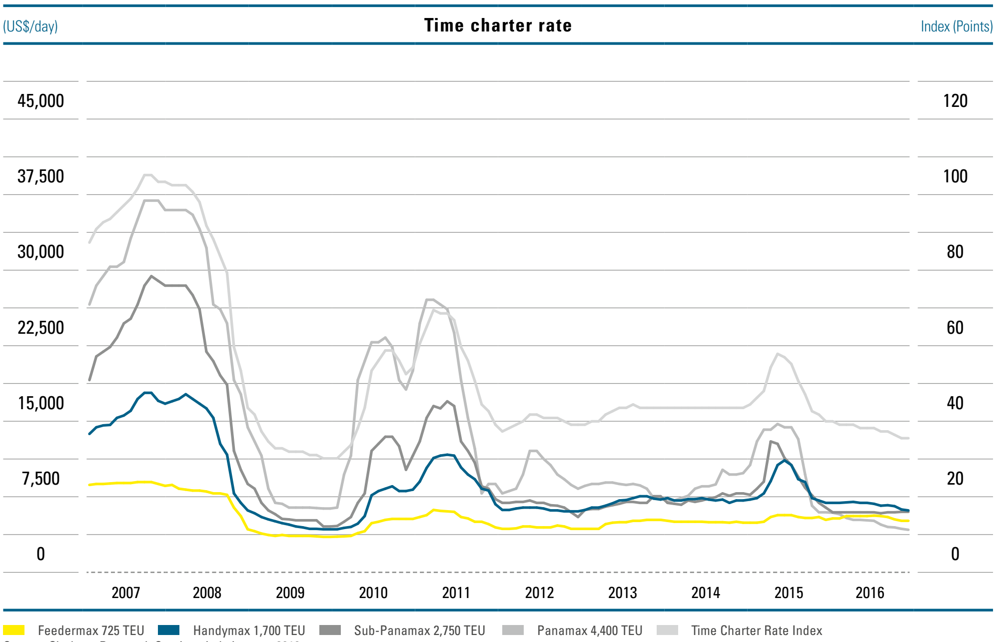
Shipping Finance – Market review

Excess capacity remained a major issue for shipping markets in 2016, with the exception of a few sectors that benefited from higher demand triggered by the low oil price environment. The container and dry bulk shipping markets both continued to suffer from overcapacity, keeping vessel earnings and values under pressure. The positive short-term factors contributing to good earnings have faded away in the crude tanker market, leading to a decrease in both earnings and asset values. These sectors are the three most important for the maritime industry, in terms of transport volumes and services.

Container ships

The container market remained under pressure during 2016 as a result of weak demand growth and continuing excess capacity. During the year, global sea container transport volumes increased by ca. 2.6% (previous year: ca. 1.4%). Mainly due to high scrapping activity in the fourth quarter, the fleet expanded by only 1.5%. However, the order book stood at 432 vessels of 3.3 million TEU, representing 16.1% of fleet capacity. It is concentrated in the Very Large Container Ship and Sub-Panamax subsectors. The Clarksons Time Charter Rate Index for container carriers, which has been calculated since 1993, averaged 41 index points in 2016, which is a decline of 22.6% compared to the average index level in 2015 (see chart). CHART 13

Container subsector charter rates 2007–2016 C 13



Source: Clarkson Research Services Ltd, January 2016

Crude oil tankers

Despite the decline in world gross domestic product growth, global oil demand grew at a stable pace in 2016 – nearly 2% year-on-year, according to the International Energy Agency. Broadly speaking, this was due to increased demand from emerging markets, while demand in Europe and the Americas remained low. In 2016 crude oil trade improved by 3%, which is slightly below the growth recorded in the previous year (4.7%). The main driver for the increase remains the high demand from the Far East.

The crude oil tanker fleet grew by 5.5% year-on-year in deadweight terms, due to a number of newbuildings entering the market. Yet demand growth for tankers remained slow, limiting ordering activity in 2016 which shrank 85% (in deadweight terms) for newbuild contracts compared to the previous year. At the same time, scrapping activity was also extremely low, at only 1.4 million dwt. With the tanker supply growth reaching a new high in 2016, fleet utilisation declined across all tanker segments, leading to a decrease in earnings and asset values.

Dry bulk carriers

In 2016, global seaborne dry cargo volumes increased by 1.6% (previous year: approximately 0.2%). In an effort to enhance economic growth, the Chinese government introduced a stimulus package which also boosted demand for dry bulk transportation. At the same time, high scrapping activity and a reduction in new deliveries kept fleet growth at 2.1%. The Baltic Exchange Dry Index, the freight rate index for the transportation of dry bulk goods, hit a historical low of 290 in February 2016. Although improving towards the end of the year, the average index level in 2016 was 6.3% lower than the average level for 2015.

Shipping Finance – Strategy

DVB's shipping client base consists of both public and private companies, varying from large multinational enterprises to smaller single-asset special purpose vehicles, shipowners, shipping companies and charterers – with established track records within the shipping sphere. To these clients, our Shipping Finance division offers specialised financing solutions based on our in-depth knowledge of the assets, shipping sub-sectors and industry drivers.

Our mission statement is: "To create sustainable risk-adjusted income through providing bespoke financial solutions to our diversified client base, leveraging our unique global position in the shipping industry." Following from that, Shipping Finance pursued its strategic objectives during 2016 by:

- enhancing the quality of its client base and portfolio through an ongoing critical approach to client selection and risk management, and
- developing financing solutions based on a broader product tool kit by utilising its well-established asset-secured lending platform together with a sound understanding of corporate credit risk.

This approach has enabled Shipping Finance to continue to offer its clients a seamless one-stop shop and maintain sustainable revenue diversification, despite the challenging market conditions overall.

Further details on shipping market developments in 2016 can be found on DVB's website www.dvbbank.com > Business & Expertise > Shipping Finance > Markets.

Accordingly, our Shipping Finance clients can today readily draw upon the following range of products to meet their differing requirements:

- Structured Asset Lending, comprising traditional asset-/project-based financing – mostly post-delivery financings with full recourse to a substantial obligor;
- Risk Distribution & Loan Participations, syndicating portions of the lending volume to other financial institutions on the international banking market;
- Corporate Finance Solutions, supporting our clients in identifying new and diverse sources of funds in the capital markets and accessing those funds on favourable terms, providing M&A and restructuring advice as well as arranging debt and equity financings;
- Private Equity Sourcing & Investments, fund management via the Shipping and Intermodal Investment Management team, managing, inter alia, investment in shipping companies and assets; and
- Asset & Market Research, producing high-quality independent research with a core focus on the shipping market to effectively support our strategy and financing activities.

During 2015, the Shipping Finance division moved from a sectorised business model to a regional one. 2016 confirmed that the new organisational set-up executes the strategic objectives which we aimed to accomplish with this change: a simpler and leaner platform, promoting teamwork and best practice at all organisational levels as well as facilitating a more efficient decision-making process. The positive feedback received by clients and stakeholders confirmed the success of this initiative. This regional approach is fostered by three pillars of expertise – our experienced relationship management, our distinguished Shipping and Offshore Research, and our proficient risk management.

Our Shipping platform benefits from its team of professionals with multi-disciplined backgrounds, ranging from seasoned banking and structured finance careers to specific shipping industry expertise gathered from a variety of experiences in shipping companies, lessors, ship management companies, sale and purchase/chartering brokers, manufacturers and export credit agencies. Our asset-based focus and market knowledge, coupled with our commitment to long-term relationships, bring us closer to our clients and solidify our reputation as a trusted partner within shipping finance.

The Shipping and Offshore Research team (SOR) enhances our platform with in-depth industry, market and asset knowledge. The team provides valuable, up-to-date market intelligence, and produces high-quality, independent research – all of which enable DVB to anticipate market changes and adjust the business segment and portfolio strategy in a flexible and timely fashion. On the basis of SOR's analyses, our relationship managers form an even more profound understanding of specific assets, industry drivers and value chains as well as our clients' strategic financing needs. SOR maintains a sector-oriented approach to research in order to ensure that our key asset expertise and region-oriented client coverage remain at a high level. This is integral to all activities pursued by Shipping Finance, since it assists us in targeting the right transactions throughout the shipping cycles.

DVB's risk management – which is at the core of Shipping Finance's client selection strategy and extension of loans – complements the regional business model. The risk management department constantly monitors and proactively manages risk whilst continuously strengthening its early warning and risk management policies and procedures for the Bank's portfolio of shipping loans. Additionally, DVB also has significant expertise with restructuring and work-out situations, which has been centralised in the Credit and Asset Solution Group (CASG) as of 1 January 2016. CASG retains the primary responsibility for cases on the Watch List and Loan Loss Provision List. The group's objective is to reduce problematic exposures as efficiently, and with as minimal realised losses, as possible. For further information on CASG, please refer to the report on opportunities and risks (page 211).

Our commitment to the market also attracts expert appreciation: in June 2016, Shipping Finance was awarded "Bank Debt – West; Deal of the Year 2015" and "Export Credit Agency – West; Deal of the Year 2015" by Marine Money.

Shipping Finance – Portfolio analysis

DVB is known as a leading arranger, underwriter and provider of asset-based capital in shipping finance. Despite 2016 being characterised by market-wide subdued lending activity due to the challenging market conditions, Shipping Finance achieved a noteworthy loan production – given reduced opportunities to originate new business, however, on a lower level. The division closed transactions with existing clients and established new lending relationships with highly regarded counterparties.

Total loan portfolio

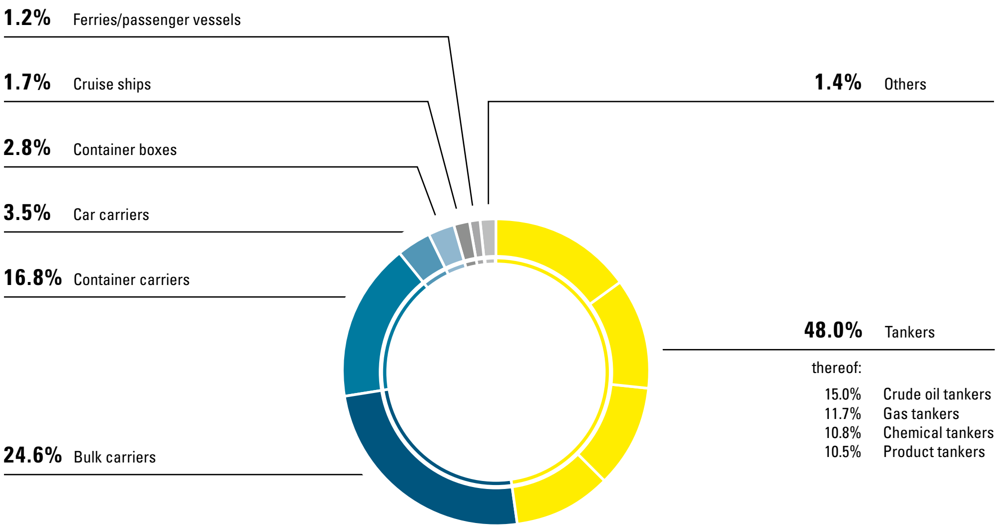
In 2016, the Shipping Finance customer lending volume marginally increased to €11.9 billion (previous year: €11.8 billion) despite a high amortisation ratio of 31.4%. The granularity of the Shipping Finance portfolio was good, with the average lending exposure per client standing at €40.0 million, very close to the previous year's average exposure (€40.5 million). The number of clients where exposure exceeded €50 million totalled 83 in 2016 (previous year: 81 clients). Further, the average loan-to-value ratio increased in the year under review, to 80.2% up from 70.0% in the previous year, which is largely a result of drastic falls in vessel values across all sectors.

Diversification in the portfolio is a key pillar of Shipping Finance's risk management philosophy, and the portfolio has thus remained well diversified across the shipping spectrum in terms of sector/subsector, asset type, geographic exposure, client concentration and types of financing. Additionally, based on the input of Shipping and Offshore Research, the portfolio continues to be strategically managed according to perceived risk areas, including current and anticipated future market trends.

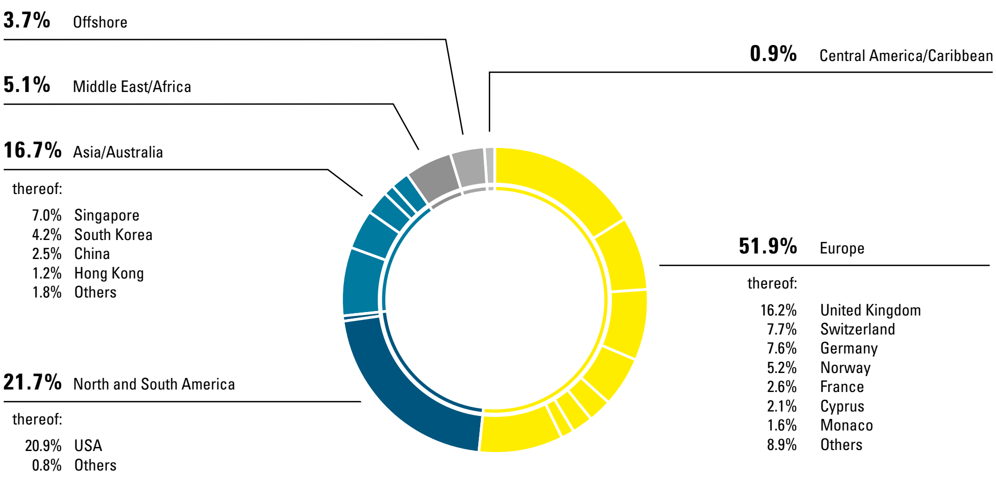
The variety of financed vessel types demonstrates the high degree of diversification. The tanker exposure, which is the largest macro-class exposure in our shipping portfolio, grew to 48.0% in 2016 (previous year: 45.9%) – still benefiting from the relatively buoyant demand drivers further supported by the low oil price environment. More specifically, Shipping Finance increased its exposure to crude oil tankers by 1.2 percentage points, thus accounting for 15.0% in our total portfolio. The gas tanker portfolio grew by 0.7 percentage points to 11.7%, and the chemical tanker portfolio by 0.6 percentage points to 10.8%. The product tanker portfolio declined by 0.4 percentage points to a 10.5% share. Exposure towards bulk carriers remained largely unchanged, falling 0.1 percentage point to 24.6%, and exposure towards container vessels declined to 16.8% (previous year: 17.7%). Car carrier exposure fell by 0.2 percentage points to 3.5% (previous year: 3.7%). An interesting development in 2016 was the increase in exposure towards container boxes, from 2.4% to 2.8%, reversing a trend seen in previous years. The cruise ship exposure continued its portfolio decline in 2016, to 1.7% (previous year: 2.2%), and exposure towards ferries fell to 1.2% (previous year: 1.9%) – both reflecting the choice of the Bank not to pursue new opportunities within these industry areas. CHART 14

Geographically, the portfolio is also well diversified, being mainly oriented towards Europe (51.9% in 2016, compared to 49.8% in 2015). Of this European exposure, the largest exposures were with British clients at 16.2% (previous year: 16.1%), and Swiss clients (7.7%, an increase of 2.2 percentage points). German exposures decreased by 0.3 percentage points, to 7.6% (previous year: 7.9%). Client exposure towards North and South America rose further, by 0.7 percentage points to 21.7%, and is mainly allocated to the USA (20.9%). The Asia/Australia exposure declined 1.3 percentage points to 16.7% and the Middle East region by 0.6 percentage points to 5.1%. CHART 15

Shipping Finance portfolio by vessel type C 14



Shipping Finance portfolio by country risk C 15



New business

Loan portfolio development

During 2016, Shipping Finance realised 73 new transactions with shipping clients, representing a volume of €2.4 billion at an average new business margin of 271 basis points (previous year: 99 new transactions, volume of €3.5 billion[1] , average margin of 250 basis points). New financings in 2016 were well diversified by client, obligor, and vessel type. In terms of new business volume, 67.9% of our lending was for the financing of tankers (previous year: 50.3%), of which 20.8% was for crude oil tankers, 19.9% for liquid petroleum gas (LPG) and liquid natural gas (LNG) vessels, 15.7% for chemical carriers, and 11.5% for product tankers. The weighting of new lending activity towards tankers mainly stems from increased demand for transportation of oil and gas-related products due to the low oil price throughout 2016.

Despite the dry bulk market witnessing a significant drop in asset valuation at the beginning of the year, we closed 15.6% (previous year: 18.6%) of new business in this sector, following our counter-cyclical approach and aiming to strengthen and protect the clients' balance sheet with conservatively structured transactions.

The container carrier market became increasingly challenging in 2016 with the expectation of more testing conditions to come, at least in certain sub-sectors. New transactions, 7.1% of new business compared to 22.2% in the previous year, represented choices of prudent structures on the back of modern assets, cash flow visibility and excellent credit standing.

The share of new container box transactions increased to 6.4%, compared to 1.8% the previous year, reflecting the counter-cyclical move to take advantage of the low point in the cycle and the depressed steel price. New transactions for car carriers decreased by 2.3 percentage points, to 1.9%, in line with deteriorating market fundamentals in this subsector.

We concluded these new deals with both established and first-time clients. Some significant 2016 transaction highlights were amongst others:

- **Dole Food Company, Inc. –** Financing of three 770 Fourty-foot Equivalent Unit vessels for the world's largest fruit-growing/trading company, who uses the vessels for their own trade from Latin America to the US West Coast. The facility consists of a commercial tranche and a K-Sure-covered tranche where DZ BANK is participating. The deal represents the first K-Sure covered transaction for a non-traditional shipping company.

- **Lavinia –** Bilateral facility for the financing of two new-building Newcastlemax bulk carriers of 208,000 dwt each, marking the successful re-establishment of a direct lending relationship with the Lavinia Group (backed by the Laskaridis family). The ships are highly efficient in terms of fuel consumption, and are regarded as the biggest competitor of (and successor to) the Capesize design (180,000 dwt). They are also on up to ten-year charters to Oldendorff Carriers. Given the current lowest historic valuation environment, this loan represents counter-cyclical lending.

- **Trafigura/Minsheng –** Senior loan facility for which DVB, together with another lender, has provided 50% of the loan to finance eight asphalt/bitumen tankers. The transaction was a result of Trafigura entering into a sale-and-lease-back of eight state-of-the-art bitumen tankers with Minsheng Financial Leasing Co. Ltd. It was made possible thanks to our direct client relationship with one of the leading Chinese leasing houses, and a prominent international commodity player.

1 In order to better reflect the extensive sales activities, the presentation of new business was changed from "final take" to "underwritten" during the course of the year. As a result, the previous year's figures diverge from those originally stated in the Annual Report 2015.

GROUP MANAGEMENT REPORT CONSOLIDATED FINANCIAL STATEMENTS AUDIT OPINION FURTHER INFORMATION

Deal of the year 2016

In 2016, DVB closed a deal with IVS Bulk Pte Ltd (IVS Bulk), a subsidiary of Grindrod Shipping Pte Ltd. Grindrod Shipping's parent company, Grindrod Ltd, is a major South African player. Established in 1910, the company is listed on the Johannesburg Stock Exchange with current market capitalisation of about US$780 million. It is a diversified group of companies with more than 7,500 employees active in shipping, freight services, and financial services. On the back of our marketing efforts since 2008, we have established an active and engaging relationship with Grindrod Shipping since our first ship finance deal for a fleet of tanker and dry bulk vessels in 2011.

IVS Bulk was initially established by Grindrod Shipping in 2013 to take advantage of the low cycle in the dry bulk market, ordering twelve high-quality eco dry bulk newbuildings from top-tier Japanese yards at an attractive price. Grindrod views IVS Bulk as a more counter-cyclical approach on the dry bulk side, based on its overall access to captive cargo/contracts of affreightment and not necessarily as a plan to gain size or market share. Commercial and technical management are run in-house. DVB closed its first deal with IVS Bulk in 2014 for six of the twelve newbuildings. With the lowest dry bulk markets for the last 30 years, the follow-on deal with existing club banks for the remaining six newbuildings did not materialise at that time.

Given the relationship established with Grindrod over the years and commitment shown by DVB to support Grindrod's shipping ventures, we were asked to assist the company in structuring a deal for their remaining Supramax and Handysize vessels. Together with the client, we arranged a conservatively structured finance package as back-stop finance for the state-of-the-art newbuildings. The deal was syndicated in close cooperation with our Financial Institutions and Syndications team. Despite challenging markets, and amidst banks retracting from shipping finance projects, we were able to successfully syndicate the remaining commitment to a European and Japanese lender.

Grindrod Shipping was very appreciative of our continuous support, providing structured services at times when other lenders were withdrawing from dry bulk deals – even for their so-called relationship customers.

Earnings analysis

In 2016, the financial results achieved by Shipping Finance were heavily impacted by the ongoing challenging market conditions in some shipping sectors.

On a positive note, our new business origination resulted in higher net interest income of €95.4 million (previous year: €87.4 million) at risk-adequate and increased interest margins. Net fee and commission income rose slightly by 1.4%, to €35.4 million (previous year: €34.9 million), and general administrative expenses were reduced by 36.0% to €20.6 million (previous year: 32.2 million).

The market conditions, however, burdened our legacy portfolio in 2016 resulting in increased impairments. Allowance for credit losses amounted to €223.9 million (previous year: €76.6 million). Accordingly, total allowance for credit losses in Shipping Finance stood at €377.9 million, compared to €165.5 million at the end of 2015. Overall, income and net segment income before taxes declined to €–106.3 million and €–128.0 million respectively. TABLE 32

Extract from the segment report for Shipping Finance

T 32

€ mn	2016	2015	%
Net interest income	95.4	87.4	9.2
Allowance for credit losses	–223.9	–76.6	–
Net interest income after allowance for credit losses	–128.5	10.8	–
Net fee and commission income	35.4	34.9	1.4
Income (excluding the IAS 39 result)	**–106.3**	**49.1**	**–**
General administrative expenses[1]	**–20.6**	**–32.2**	**–36.0**
Net segment income before taxes	**–128.0**	**11.5**	**–**

1 Only those costs are allocated to DVB's operating business divisions for which they are directly responsible. General costs of operations, overheads, or, for example IT costs, are not allocated to the operating business divisions.

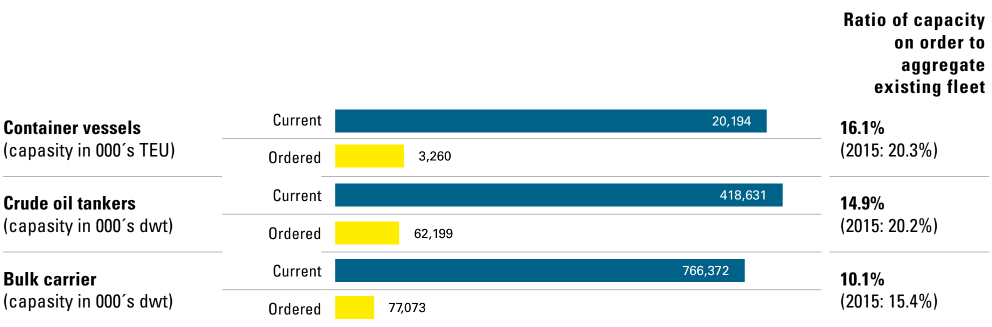
Risk management

Shipping Finance has built a strong risk culture embedded in all phases of our activities. It starts with our client-facing relationship managers and continues through each stage (including Shipping and Offshore Credit, Shipping and Offshore Research and Credit Committee assessments) until a new commitment is granted. It continues thereafter throughout the term of the relevant exposure through constant vigilance, thorough loan management and continuous monitoring of the overall portfolio health.

At the heart of our consideration for each new exposure is the New Deal Committee, which meets to discuss each possible new transaction at an early stage, with a view to spotting risk and structural deficiencies – finally arriving at a consensus, be it positive or negative. The committee comprises the member of the Board of Managing Directors responsible for Shipping Finance and Offshore Finance, the Head of Shipping and Offshore Credit, and the Head of Shipping and Offshore Research. The research department is fully involved in the credit process, providing market research, commentary and research on all the technical aspects of the respective assets, in order to flag any possible negative effects on the tradability and value of the assets under consideration for financing. Only those transactions authorised by the New Deal Committee will move to the next stage, for presentation to the Shipping and Offshore Credit Committee. Over predefined thresholds, certain deals will require further approval from the Board of Managing Directors and (in limited cases) from the Supervisory Board's Credit and Risk Committee.

Once a transaction has been booked, it is monitored for any required action on an ongoing basis by the respective relationship manager and credit officer, and through the review and stress test process. Frequent client calls take place, with the involvement of credit officers as a pre-requisite, in order to further underscore the risk dialogue with our clients. We undertake the stress testing procedure (stressing probability of default and valuations) on a quarterly basis, with the results feeding into discussions with clients. In addition, there are continuous event-driven rating updates and reviews of the portfolio to refresh ratings and values. The restructuring and work-out specialists of the Credit and Asset Solution Group are fully involved in the stress testing of the portfolio. If appropriate, an exposure is taken on to the Early Warning List, the Closely Monitored List, or Watch List reporting. In addition to the rigid call report

Ship orders – ratio of order backlog to existing fleet capacity C 16



Source: DVB Shipping and Offshore Research, Dezember 2016

discipline in place, the ongoing management of risk is further aided by a full portfolio review by Shipping Finance's senior management, in order to proactively identify concrete actions to be taken. Credit and Asset Solution Group also provides dedicated support on all stressed/distressed loans, and manages all exposures on the Watch List and Loan Loss Provision List in close cooperation with Shipping and Offshore Credit and the front-office units.

All of these procedures are geared towards flagging possible problems early, and allocating adequate resources to assess, quantify, qualify and formulate an appropriate and swift response.

In 2016 we took prompt action in response to covenant breaches (value maintenance clauses and otherwise). The vessel values were monitored diligently, in order to quickly establish impending breaches of value maintenance clauses (VMCs). During 2016 a total of 138 transactions had a VMC breach. Of those, 31 transactions were fully repaired, 31 transactions were only partly repaired, and 46 VMC breaches were waived. Thus, 30 transactions still had an outstanding value maintenance clause breach at the end of 2016. The average loan-to-value ratio of the total Shipping Finance portfolio – one key metric of loan performance – stood at 80.2% while 81.9% of the lending volume had a loan-to-value ratio below 60%. Shipping Finance will continue to take whatever steps are necessary to safeguard its position as a secured lender in all cases.

Shipping Finance – Outlook 2017

Market outlook 2017

In 2017, excess supply is expected to persist for the three major maritime shipping segments (container, crude oil and dry bulk), since the increase in capacity is set to once again outpace demand growth.

Container shipping is being challenged by slowing container trade, continued excess capacity and the deployment of even larger container vessels. This will keep fleet utilisation low and put downward pressure on both asset values and freight rates. Demand growth in 2017 is projected to be positive; however, it will be much lower than the double-digit growth rates the industry has seen in the past. The demand prospects are negatively affected by a weak global economic outlook and an increasing shift towards regional manufacturing.

At the end of 2016, the ratio of capacity on order to aggregate existing fleet capacity, measured in Twenty-foot Equivalent Units (TEU), was 16.1% (see CHART 16). However, this capacity is scheduled for delivery during a relatively short period of time: i.e. 239 vessels (1.7 million TEU) in 2017 and 132 vessels (1.1 million TEU) in 2018. The order book is dominated by larger vessels, with 79% stemming from Very Large Container Ships. Furthermore, 66% of the aggregate TEU capacity is younger than ten years, which limits the potential for scrapping. Low bunker prices reduce the disadvantage of older non-fuel-efficient vessels, and incentivise companies to increase vessel speed. This would release additional capacity to the market, thus further widening the gap between demand and supply. CHART 16

As expected, the crude oil tanker market was no longer in a privileged position in 2016 and corrected towards market fundamentals. Since the positive short-term effects have vanished, crude oil tankers are likely to see a deteriorating supply and demand balance. The weaker than expected economic recovery suggests an average yearly world oil demand growth of 1.2% (year-on-year) until 2021. The total growth in 2017 is predicted to be around another 1.4%, to 97.6 million barrels per day. This increase will be generated entirely from non-OECD countries. Despite OPEC and non-OPEC producers' decision to lower output, oil supply growth in 2017 is primarily expected to come from the Middle East and the US.

Vessel demand in 2017 is forecast to continue growing at a lower level for all segments. Meanwhile, on the vessel supply side, although the ordering activity was limited in the past few years, newbuild contracts picked up in 2015 and a large portion (62%) of the order book will be delivered in 2017. Thus, in the coming year, the Very Large Crude Carrier fleet is expected to increase by 7% and the Suezmax and Aframax fleets by 14% and 7% respectively. The influx of deliveries in the next twelve months is likely to put downward pressure on the crude tanker market. Hence, fleet utilisation for crude tankers is expected to decline, and this will lead to a decrease in earnings. Furthermore, even with slippage of some scheduled deliveries, the extremely low scrapping rate – coupled with new deliveries – continues to be a setback, with the increase in capacity exceeding the growth in demand. Hence, by the same token, this will put downward pressure on crude tanker asset values in 2017.

The demand for dry bulk commodities is projected to be moderate in the coming years. The traditional demand drivers are changing as the Chinese economy is rebalancing and shifting towards a more consumption-driven growth. Demand growth from emerging markets is expected to support the dry bulk trade, however at a lower level. The pace of newbuilding orders for dry bulk vessels has slowed down sharply from last year: by the end of 2016, the order book reduced by 33.2%, standing at 77.0 million dwt. Thus, the order-book-to-fleet ratio was 10.1% (see CHART 16). Fleet growth is expected to stagnate in the coming years as a result of continued scrapping activity, a declining order book and low contracting activity. Temporary factors will contribute to seasonality and volatility, leading to spikes in freight rates; however, the weak market fundamentals will continue to keep utilisation factors low. The newly ratified ballast water management convention could potentially lead to increased scrapping of older vessels, which would ensure a faster return to better-balanced market fundamentals.

Portfolio outlook 2017

2016 was a year in which Shipping Finance continued to deliver a solid level of new business in spite of challenging market conditions. Nevertheless, the significant level of allowance for credit losses for Shipping Finance transactions affected DVB's overall performance for this year.

Trends already anticipated for 2016 did in fact materialise, such as the very modest activity in the capital market space as well as banks' "flight to quality" and a strong focus on corporate-based lending. These may continue to characterise 2017, hence maintaining the demand for senior lending at reasonable levels and at the same time putting pressure on traditional commercial banks in supporting their clients.

DVB continues to experience a healthy level of demand for its risk capital and services both from a wide pool of consolidated client relationships as well as from new clients, and Shipping Finance will continue to utilise its expertise to steer the deployment of resources. It is this expertise that will guide our decisions on where to employ our risk-weighted assets going forward. We will continue to pursue our strategy of enhancing our client base, and being a partner of choice for clients when developing financial solutions to meet their needs. Furthermore, we endeavour to maintain a well-diversified Shipping Finance portfolio, adjusting for adverse market conditions where deemed necessary, but at the same time supporting our clients throughout the shipping cycles. In line with the entrepreneurial spirit of DVB, we also aim to be counter-cyclical, and target conservatively structured transactions for negatively impacted sectors where we see improved market fundamentals going forward.

We are confident of a sustained level of demand for the services provided by our Shipping platform, acting as a strategic partner for our clients, for the mutual benefit of the Bank and its stakeholders. In its Structured Asset Lending activity for 2017, Shipping Finance targets further modest growth, whilst maintaining the quality of loan assets and without compromising the risk-reward profile. As a result, we will still continue to consider more project-related transactions, conservatively structured and with cash flow visibility. These deals will be pursued on a selective basis, to maintain our lending franchise. The average loan margin for such business will remain at a relatively high level.

AVIATION FINANCE

€3,442.1MN
NEW BUSINESS
VOLUME

€8,663.2 MN
CUSTOMER
LENDING VOLUME

Business areas
- Passenger aircraft
- Freighter aircraft
- Aircraft engines

Products
- Structured Asset Lending
- Aviation Asset Management
- Advisory Services
- Risk Distribution & Loan Participations
- Corporate Finance Solutions
- Private Equity Sourcing & Investments
- Asset & Market Research

Clients
- Airlines
- Operating lessors
- Logistic companies

Core regions
- Europe
- North and South America
- Asia
- Middle East/Africa

Aviation Finance

2016 saw a continuation of the high level of market liquidity and therefore intense competition. Nevertheless, despite this prolonged challenge, Aviation Finance delivered a sound financial result, underpinned by the disciplined origination of €3.4 billion of new structured lending business. Valuable contributions from our aircraft asset management and advisory businesses again supported the division's healthy performance.

Aviation Finance – Market review

Traffic growth and airline profitability

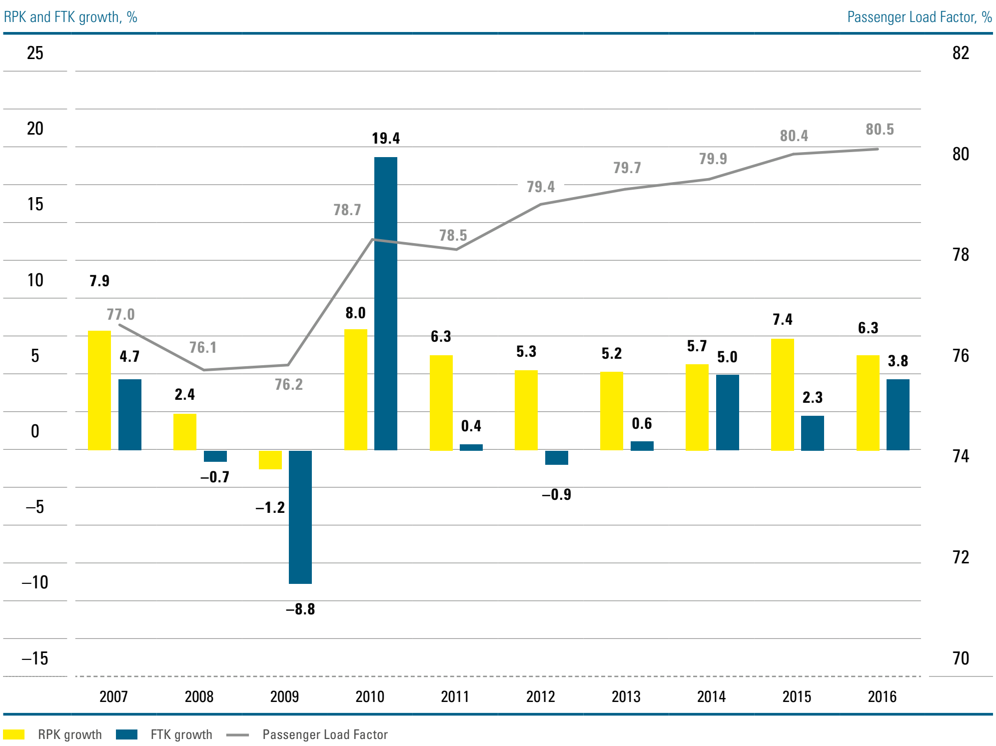
Despite political unrest, terrorism, increasing populist rhetoric and an increasing threat of protectionism, global airlines in 2016 once more enjoyed a solid 6.3% demand growth for air travel (in revenue passenger kilometres; RPK) according to the International Air Transport Association (IATA). This number is slightly down from the 2015 peak level (+7.4%) but above the longer-term trend of 5.5%. With a 6.2% increase in capacity (in available seat kilometres; ASK), the global airlines saw their passenger load factor further improve from an already high 80.4% in 2015 to 80.5% last year. Furthermore, North American and European carriers enjoyed load factors around 83%. CHART 17

Similar to previous years, the Middle East airlines recorded the highest RPK growth (11.2%). Second was Asia/Pacific with 9.2%, followed by Africa with 6.5%. Europe grew 4.6%, Latin America 3.6% and finally the mature North American market with 3.2%. The domestic air transport market in India recorded a remarkable 23.3%, thus twice as much as the Chinese domestic market (11.7%). The domestic Brazilian market suffered a 5.5% loss in traffic. Despite widespread ticket discounting, slowly increasing fuel costs and sometimes extremely high labour cost increases, IATA still projects a record US$35.5 billion net industry profit for the year. 57% of this profit is expected to come from North American carriers.

While on an aggregate level the world's airlines enjoyed a profitable 2016, individual airlines presented mixed results. In Europe, Air Méditerranée ceased operations due to financial problems. In Asia, TransAsia Airways also suspended all operations as a result of intense competition

Worldwide traffic growth

C 17



and two plane crashes. In North America, Republic Airways Holding filed for Chapter 11, blaming a lack of pilots. Tourism came under pressure in countries like France and Turkey due to terrorist attacks. Political unrest in Turkey put further pressure on the local airlines but this did not result in bankruptcies. On a more positive note, in the US Virgin America merged with Alaska Airlines, and after the US lifted the ban on aircraft sales to Iran in 2015, flag carrier Iran Air placed a significant order volume for both Airbus and Boeing aircraft in 2016.

One of the biggest surprises in 2016 was the increasingly strong recovery of the air freight market. While the overall increase in freight tonne kilometres during full year 2016 only came out at 3.8%, monthly growth during the year increased from almost zero at the start of the year to just under 10% in December. Initially, incidental factors such as smartphone shipments or a disruption in the maritime container market were seen as the cause for the mid-year recovery. Despite increasing protectionism and pressure on international trade growth, the recovery of air freight may be more sustainable.

Aircraft orders and technology

After an already slow 2015 in terms of commercial jet sales, 2016 did not bring the aircraft manufacturers any improvement in new order volumes. However, Airbus and Boeing still enjoyed record backlogs as a result of the order boom in 2013/2014. Last year the order intake was limited to ca. 2,100 (including ca. 230 type swaps) – a 40% drop compared to the record year 2014. Demand for new jets in 2016 did not benefit from the stimulating effect of aircraft launches, and the so-called book-to-bill-ratio dropped to just under 100%. At the end of 2016, the backlog for western-built commercial jets stood at ca. 13,700, virtually unchanged from a year earlier.

While it looks like this may be a sign that the commercial jet market is in a downturn, we do not believe this to be the case. The current order backlog still equals almost 57% of the current in-service fleet, or almost nine years of production (at 2016 production levels). New deliveries achieved a fresh record level during 2016, especially in the fourth quarter. Despite problems with third-party suppliers, the aircraft manufacturers delivered 1,579 new jets. Depending on demand, the manufacturers fine-tune production rates of individual types.

Once more, the Airbus A320 was the most popular aircraft family last year, with a gross order intake of 601 for the new A320neo family and 189 for the current A320ceo family. After cancellations, the net order intake was 561 neos and 46 ceos. Airbus noted a clear shift towards the higher capacity A321 version of their single-aisle range. The Boeing 737 family followed with 550 orders of which 534 were for the new MAX and only 16 orders for the current B737NG. Boeing still lacks a direct competitor to the A321. Together the A320 and B737 families represented 77% of all new jet orders placed in 2016.

In the smaller single-aisle segment, Canadian manufacturer Bombardier had a relatively successful year for its new CSeries, reporting a total of 129 gross orders for the type. Mitsubishi's MRJ programme suffered further delays resulting in only ten additional orders. Embraer reportedly sold 50 E-Jets of which only five from the new E2 series.

In the medium twin-aisle segment, the Airbus A330 family clocked up 106 gross orders (83 net). The new A330-900 booked 42 net sales, but the old technology -200 and -300 still added 14 and 27 net orders, respectively. The all new, long-range Airbus A350 booked a gross total of 51 orders, but cancellations for mainly the shortbody -800 version (-8) reduced the net total to 41. In the same twin-aisle segment, Boeing sold 80 more of their 787's, but 22 cancellation reduced the net total to 58. Larger aircraft were not in fashion in 2016. Boeing booked 23 gross orders for the current generation 777 (net 17) but none for the new 777X. Freighter sales kept the 747-8 programme going, but net total sales only reached 17. Airbus booked two new orders for the A380, but lost two as well.

Used equipment market

As a result of the long lead times for new aircraft and stimulated by still-low fuel prices, the used equipment market continued to prosper during 2016. The number of transactions involving aircraft with leases attached significantly exceeded the number of transactions involving "naked assets" (aircraft without lease). The majority of transactions took place between financially driven parties, such as investors and lessors, without the aircraft involved changing operator. Investor appetite for used aircraft, especially from Asia, triggered many transactions – ranging from individual aircraft and small portfolios to entire leasing companies. Aircraft lessors control just under 40% of the global commercial jet fleet. The major source of lessor fleet growth is now sale-and-lease-back transactions, rather than speculative direct orders. Consolidation continues amongst the top 10 of the league, and more can be expected.

Further details on aviation market developments in 2016 can be found on DVB's website www.dvbbank.com > Business & Expertise > Aviation Finance > Markets.

At the same time, new lessors are entering the market, frequently driven by Asian investors, the latter often looking for US dollar-denominated assets as protection against foreign exchange risks to their local currencies. For aircraft financiers the market remained highly competitive, with pressure on margins and a push (not supported by DVB) towards more liberal finance terms, especially in the form of higher advance rates.

Except for some low-capacity versions, most current single-aisle aircraft values continue to show a moderately strong performance. The new generation has not yet gained enough momentum to put pressure on used equipment values. The still relatively low fuel price is a contributing factor to this as well. In the twin-aisle segment of the market, the circumstances are less favorable.

It seems that various factors are undermining the market for current-generation twin-aisles: potentially these include (i) the lower liquidity of twin-aisles, (ii) the more advanced market penetration of new technology aircraft, such as the B787 and A350, in this segment (iii) the higher transition costs and (iv) the (in historical perspective) currently high percentage of leased twin-aisles. The rise of new airline business models, mainly based on the use of efficient single-aisles, may put further pressure on this segment. Compared to five years ago, the storage percentage (stored fleet/in-service fleet) for single-aisle aircraft has dropped from 11% to 7%; for twin-aisles, however, the percentage increased slightly from 10% to 11%.

Overall, 2016 was a fairly good year for commercial aviation but most likely the past months may have marked the peak in many aspects of this relatively mild aviation business cycle.

Aviation Finance – Strategy

DVB features a unique Aviation Finance platform, meticulously constructed with a view to being a constant provider of aviation capital and services during different economic cycles. This strategy is a true reflection of our Aviation Finance mission statement: "As a hybrid institution, we provide our customers with the most efficient blend of capital and services at any period in time and at any point along the industry cycle."

DVB is one of the largest providers worldwide of recourse and non-recourse commercial debt to passenger and cargo airlines, and to aircraft lessors, with a total loan exposure standing at €8.7 billion, financing 959 aircraft and 18 spare engines. We view the continuing development of our asset-based lending activity as a way of further, and profitably, expanding our business in the sector. Specifically, we consider our willingness to finance used equipment, and to assume residual value risk on the sales proceeds of aircraft, as a competitive advantage. As such, DVB will continue to adopt a proactive approach to maintaining and growing its portfolio, in line with well-established lending guidelines and principles.

In order to build on this core business, Aviation Finance maintains a strong network of relationships with clients and industry partners who perceive DVB as a bank that understands their business and assets, whilst possessing the expertise to provide value-added financial solutions. Our scope of products and services is positioned to offer a "cradle-to-grave" approach to aircraft and related equipment, ranging from – at one end of the life spectrum – providing pre-delivery finance for aircraft still to be delivered, to a tear-down solution for aircraft and spare engines, at the other end. Within this spectrum DVB provides a range of finance, advisory, research and asset management services, following the lifecycle of aero equipment.

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

- Structured Asset Lending, comprising recourse and non-recourse lending and all related activities, including structuring, arranging, underwriting and loan agency;
- Aviation Asset Management, providing third-party aircraft remarketing, lease management as well as technical and general consultancy services to aircraft owners and investors (including the growing market of asset-backed securities investors);
- Advisory Services, including arranging debt and equity financings, sale-and-lease-back transactions and providing M&A and restructuring advice;
- Corporate Finance Solutions, supporting our clients in identifying new and diverse sources of funds in the capital markets and accessing those funds on favourable terms;
- Private Equity Sourcing & Investments, fund management via the Aviation Investment Management team, managing the Deucalion Aviation Funds (aircraft, aero engines, airline equity, asset-backed bonds, etc.); and
- Asset & Market Research, producing high-quality independent research, with a core focus on the equipment market, to effectively support our strategy and financing activities.

In September 2016, Aviation Finance further broadened the scope of its activities with the launch of its first aviation "Debt Fund" transaction. As part of this strategic initiative, DVB will be responsible for sourcing aircraft finance lending transactions for one or more investors (pension funds/insurance companies) looking to deploy funds in the sector. DVB will co-lend in all transactions, thus ensuring a proper alignment of interest, and will provide loan monitoring services to the fund. In conjunction with our well-developed origination capability, the development of a significant Debt Fund business will provide a platform to increase the underwriting capacity of Aviation Finance. DVB intends to grow the scale of this activity, potentially into other sectors, besides aviation, in the future.

A prerequisite for DVB's success is cooperation amongst a team of professionals with a multi-disciplined background. As well as staff experienced in banking and structured finance, Aviation Finance employs individuals with very specific aviation industry expertise, gathered from prior backgrounds with airlines, manufacturers, aircraft/engine lessors and asset managers. The commercial activities are supported by our "Information and Strategic Marketing (Aviation)" team, which is dedicated to harvesting the valuable knowledge present, but often hidden, in the organisation and making it available so as to enhance the Aviation platform's ability to generate new business.

One of the most important differentiators between DVB and its competitors is the fact that Aviation Finance offers far more than the traditional range of banking services. We provide the best choice of structures and services at the crossroads of money and metal, supported by a strong research team. Our aim is to ensure that these distinctive features are fully recognised and valued by our clients and prospects. In the past few years, DVB's activities have been externally recognised with several industry awards. In May 2016, for example, the renowned Airfinance Journal awarded DVB "Used Aircraft Deal of the Year" and "Europe Deal of the Year". In February 2017, Global Transport Finance magazine recognised our 2016 financing activities with the "Aircraft Finance Portfolio Acquisition" and "Aircraft Securitisation Deal of the Year – US" awards.

Into 2017, and indeed beyond, Aviation Finance will further optimise its resources and continue to monitor its risk positions relentlessly, remaining disciplined and prudent in its lending activity in spite of very competitive market conditions. It has available capital for new business, supplemented by its first Debt Fund, as well as a platform and staff skillsets to which others aspire.

Aviation Finance has consistently demonstrated the achievement of its goal of a cycle-neutral business model: one which will enable DVB to be equally active (and therefore profitable) in a market downturn as in an upturn. More challenging markets, which see less-specialised banks exit the sector, provide greater opportunities across the division. It is in times of greater volatility or uncertainty that Aviation Finance expects to record its most significant portfolio growth.

What the division now continues to strive for is to increase efficiency across the board, for the mutual benefit of the Bank and its clients, and to promote further creativity to ensure we stay ahead of, and adapt to, the competition. The development of our first Debt Fund initiative, and near-term plans to do more in this area, is evidence of Aviation Finance adapting its origination/arranging capability to the changing competitive landscape and growing liquidity in the sector. We are embracing increasing investor interests and working with, rather than against, that competition.

Aviation Finance – Portfolio analysis

DVB is a market leader in commercial and asset-based financing for aircraft and related equipment. Aviation Finance does not provide export credit loans, and, as such, we consider that each dollar we loan is "in-demand" commercial finance. The Bank has remained consistently active through industry cycles, thereby proving to be a reliable partner for its clients in both good and difficult times.

Track record drives success

The air finance market in 2016 remained flooded with bank and capital market liquidity in most segments. Competition was strongest for tier 1 airline and lessor transactions, which remain largely corporate credit based whilst DVB is more asset focused. The financing of new equipment remained comparably easy, given the healthy appetite for such assets from all providers. The stellar credits among the airline and leasing companies had plentiful options to secure their funding requirements, be it for new or used equipment. Further borrowers/issuers were able to take advantage of the capital markets, both public and private. For others though, it was harder work to secure their aircraft (re-)financing needs, in particular for used equipment, or to raise financing for pre-delivery payments.

DVB's Aviation Finance division was active across the board, and our specialist research capability allows us to closely analyse a broad range of transactions and assets. Nonetheless, the focus of our origination activity was, as always, to identify those situations where our lending was deemed relatively scarce, and hence more valuable to our clients, and/or where we could bring a specific structure or solution to enhance our offering, finding value where other banks might not. 2016 saw a period where activity from US and European export credit agencies (ECA) in the sector was suspended for different reasons and we were able to take advantage and structure alternative solutions, cementing our reputation as a quick and reliable "go-to" partner. Demand for our services was steady, but we experienced a particularly busy period towards the end of 2016, when we closed new loan business of over €0.9 billion for November and December alone, to cap another strong year. There is no doubt that the foundation of our continued success is a track record built over many years of activity, which encourages clients to come to DVB to secure their requirements, especially when an assured and efficient delivery of funds is of paramount importance.

Total loan portfolio

At the end of 2016, the Aviation Finance loan portfolio stood at €8.7 billion, representing a 13.0% increase from the level of €7.7 billion at the end of 2015. The portfolio was, however, 98.1% US dollar-denominated and in US dollar terms the growth was less pronounced, with the portfolio size increasing by 9.6% during the year, from US$8.3 billion at the end of 2015 to US$9.1 billion at the end of 2016. Again, significant loan prepayments during the year partly offset the high level of new business achieved. In line with DVB's business model, the portfolio is 99.9% collateralised.

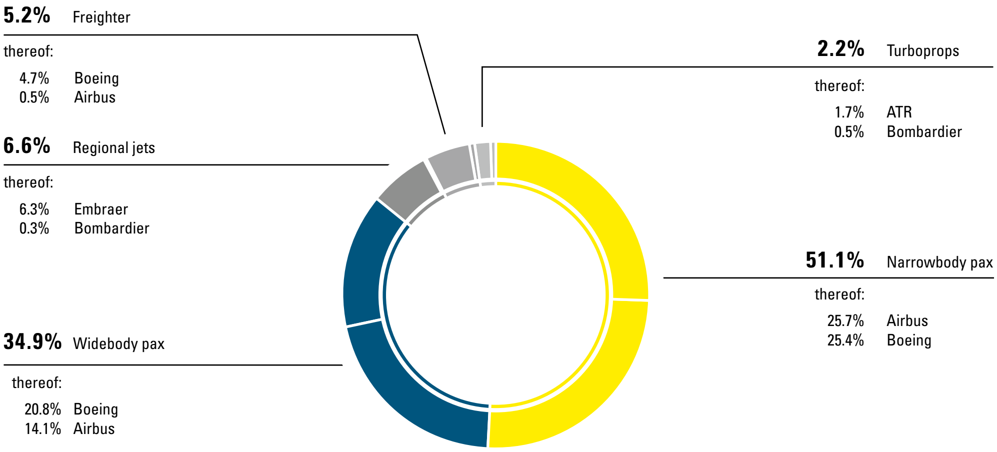
Focusing on the manufacturers, our portfolio showed a slight bias towards the financing of Boeing-manufactured equipment, at 50.9% (previous year: 51.7%) of the portfolio, with Airbus aircraft standing at 40.3% (previous year: 41.7%), while other (mainly Embraer and ATR-manufactured) equipment amounted to 8.8% (previous year: 6.6%).

Narrowbody aircraft remained the dominant aircraft class, at 51.1% of the portfolio, down from the 2015 level of 53.9%, with the proportion of widebody aircraft increasing slightly to 34.9% (previous year: 33.8%). The balance of new business in 2016 was comparatively in favour of narrowbody aircraft transactions (at 42.4%, versus widebody at 40.4%). In general we do expect (and indeed target) narrowbody aircraft to remain the majority class: our strategy is to favour aircraft in this class since they represent the most liquid aircraft type from a security perspective (i.e. ease of remarketing to other operators). The portfolio breakdown saw the proportions of financed freighter aircraft reduce to 5.2%, while the share of regional jets and turboprops increased to 6.6% and 2.2%, respectively, (previous year: 5.7% freighters, 5.5% regional jets and 1.1% turboprops). CHART 18 (SEE PAGE 130)

Risk is also geographically well diversified, with a healthy balance between Europe, at 34.9% of the portfolio, and the Americas, at 27.2% (previous year: 35.7% and 32.6%, respectively). Client exposure in Asia and Australia/Oceania remained stable at 22.7% in 2016 (previous year: 23.7%), whilst the share of Middle East and Africa showed a notable increase from 5.8% in 2015 to 11.2% in 2016 – a reflection of our growing reputation in this region.
CHART 19 (SEE PAGE 130)

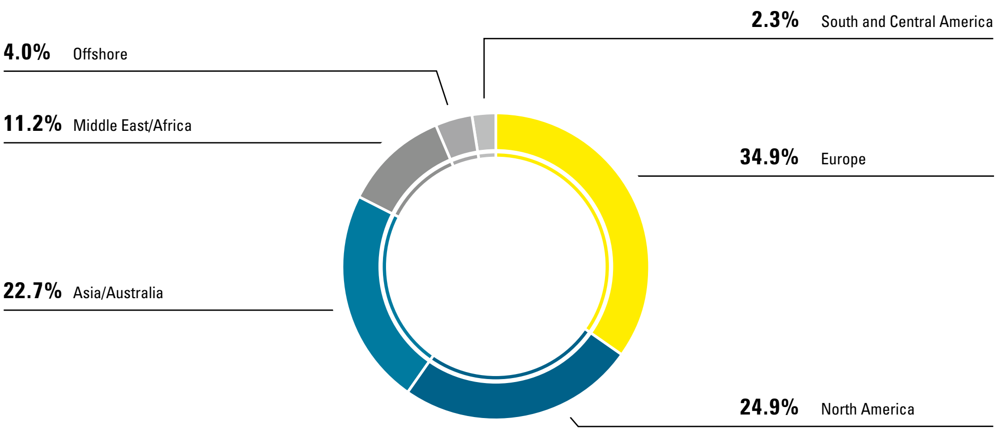
Aviation Finance portfolio by aircraft type

C 18



Aviation Finance portfolio by country risk

C 19



In terms of the vintage of aircraft financed, 41.4% of the portfolio is three years old or less and 63.8% of the portfolio is less than six years old (previous year: 42.7% and 62.2%, respectively). Whilst Aviation Finance is experienced in financing aircraft across the full age spectrum, and indeed this is often a competitive edge, younger aircraft (as well as narrowbody aircraft) are more readily sold or leased in case of need (i.e. a client default). So this age profile of the portfolio represents a very solid base.

The Aviation Finance portfolio is also well diversified by client, with 50.1% operating lessors, 47.6% being airlines, and 2.3% logistics companies. A total of 153 aviation clients equates to an average lending exposure of €56.6 million per client. There are 66 clients to whom our committed exposure is in excess of €50 million, but just 26 to whom our exposure is above €100 million.

New business

Loan portfolio development
During 2016, Aviation Finance realised 65 new lending transactions with aviation clients, comprising a strong new final-take volume of €3.4 billion – a significant increase over 2015's volume of €2.6 billion – with a good mix of new and used aircraft financings, for a creditworthy and geographically diversified group of clients.

New business was concluded with established clients such as AerCap, Asiana, Avolon, DAE and Jet2.com. In addition, DVB attracted a number of new client exposures, including Aergen, Royal Jordanian, Titan Airways and Virgin Atlantic. DVB acted as arranger and/or agent bank (i.e. leading role) in the vast majority of its newly acquired business transactions. New financings in 2016 were well diversified by client and obligor, as well as by aircraft type. 46.2% of new business was for the financing of Boeing equipment (new and used aircraft), with Airbus equipment standing at 40.9%. We typically expect such an even split between Airbus and Boeing aircraft.

Some of the 2016 transaction highlights were:

- **Vietnam Airlines –** Arranger of a bridge loan followed by a long-term take-out financing in respect of one new B787-9 aircraft, marking our first bilateral transaction with the Vietnamese flag carrier. Our execution efficiency and flexibility in customising a solution allowed the financing of the aircraft at a time when US Ex-Im financing was closed to the market.
- **Altavair (formerly Guggenheim Aviation Partners) –** Arranger of a limited recourse operating lease financing for two new A330-300 aircraft on lease to Delta. Our strong reputation for quick execution, a novel financing structure and competitive pricing were clear differentiators in winning this transaction backed by an investment grade airline lease, with a strategic client of DVB.
- **Nordic Aviation Capital –** Arranger of a full recourse Japanese Operating Lease with Call Option (JOLCO) financing in respect of three new ATR72-600 aircraft on lease to Garuda Indonesia. This important transaction was the first lessor-driven ATR deal in the JOLCO market and built upon DVB's pre-existing solid relationship with the leading regional aircraft lessor.

Deal of the year 2016

In April 2016, Aviation Investment Management (AIM), in its capacity as consultant to the Deucalion Aviation Funds, signed a sale agreement with one of DVB's long-standing partners, AerCap, for the purchase of a portfolio of 37 aircraft.

The well-diversified portfolio of mid-life assets formed the basis for a new joint venture – called KDAC – between Deucalion Limited and one of its investment firm partners. The subject deal, with its substantial size, offered the opportunity to build a platform with the flexibility to grow and explore multiple exit opportunities.

The portfolio's size, equity requirement, and average age of ten years represented challenges for some competing bidders. By utilising the resources and expertise of the wider Aviation platform, including DVB's Aviation Asset Management, Aviation Credit and Aviation Research teams, AIM was able to identify value in the portfolio where others had been unable to do so. Furthermore, the execution capabilities of AIM were an added attraction for the seller which was looking to meet a tight closing timetable.

Our Aviation Asset Management team was appointed servicer of the portfolio and our structured lending team joined the senior debt facility as a co-underwriter with BNP Paribas (lead arranger) and Citibank (co-underwriter).

The transaction reinforced our position as a market leader when it comes to managing experienced third-party equity in large mid-life aircraft deals.

Aviation services

The success of Aviation Finance in 2016 contained strong contributions from our "aviation services" activities, i.e. those which do not require use of the balance sheet. The Aviation Asset Management (AAM) and Advisory teams have continued to enhance the reputation of DVB's aviation business as the "leading aviation merchant bank". These teams were engaged in a wide range of mandates, each leading to healthy "non-risk" fee earnings. Some of the highlights were:

- During 2016, AAM increased its aircraft under lease management by over 40% to 137 and continued to act as servicer for asset-backed securitisations and financial investors.
- The team also successfully remarketed a total of 31 aircraft which were sold or leased on behalf of the aircraft owners.
- In 2016, Aviation Advisory was appointed as the exclusive financial advisor to Gulf Air (the national carrier of Bahrain) to assist the airline with the financing of its order for 20 new aircraft over the next five years.
- During 2016, Aviation Advisory successfully executed its mandate to raise secured debt financing for Royal Jordanian, the national carrier of Jordan. We are mandated by the airline to finance a further B787-8 delivering in 2018.
- The Aviation Advisory team executed a mandate to raise junior debt financing for Avation, our operating lessor customer based in Singapore.

DVB's commitment to develop its service capability and resources is expected to yield further rewards in the coming period, as a key component of our cycle-neutral business approach.

Earnings analysis

In 2016, Aviation Finance posted a sound financial result, albeit at a lower level than the previous year. We experienced an above-average level of loan prepayments, and while this was in part offset by the positive impact of new business generation being ahead of budget, the ongoing strong competition in the market continued to place downward pressure on our net interest margin level. These factors contributed to a 6.5% year-on-year reduction in net interest income, which stood at €78.8 million (previous year: €84.3 million).

The financial year also saw allowance for credit losses increasing to €–16.0 million (from €–4.9 million in 2015). Also taking into consideration the €/US$ exchange rate development, total allowance for credit losses held in Aviation Finance stood at €66.6 million in 2016, compared to €51.2 million at the end of 2015. We believe that this level of allowance provides a necessary and adequate cushion against possible losses which may arise from the loan portfolio.

Net fee and commission income showed an increase to €51.5 million in 2016 (previous year: €36.9 million), largely a reflection of the level of new business generation, plus notable contributions from both Aviation Advisory and Aviation Asset Management.

Overall, these developments resulted in income reducing 2.0% to €114.8 million, and net segment income before taxes declining 4.2% to €92.8 million. TABLE 33

Extract from the segment report for Aviation Finance

T 33

€ mn	2016	2015	%
Net interest income	78.8	84.3	–6.5
Allowance for credit losses	–16.0	–4.9	–
Net interest income after allowance for credit losses	62.8	79.5	–21.0
Provisionsüberschuss	51.5	36.9	39.6
Income (excluding the IAS 39 result)	**114.8**	**117.1**	**–2.0**
General administrative expenses[1]	**–21.9**	**–20.4**	**7.4**
Net segment income before taxes	**92.8**	**96.9**	**–4.2**

1 Only those costs are allocated to DVB's operating business divisions for which they are directly responsible. General costs of operations, overheads or, for example, IT costs, are not allocated to the operating business divisions.

Risk management

A lot of hard work to build a profitable loan portfolio can be undone as a result of loan losses in the business. With this factor in mind, Aviation Finance has built a strong risk culture over many years, which starts with our client-facing relationship managers and continues through each stage (including Aviation Credit, Aviation Research and the Credit Committee) until a new commitment is granted, and continues thereafter throughout the term of the relevant exposure.

At the heart of our consideration for each new exposure is the Deal Committee, which meets to discuss – at an early stage – possible new transactions, with a view to spotting risk and structural deficiencies, finally arriving at a consensus, be it positive or negative. The committee comprises all teams of Aviation Finance, and includes the Member of the Board of Managing Directors responsible for Aviation Finance, the Head of Industry, the Heads of Aviation Credit, Aviation Research and Aviation Asset Management, and each Regional Head of Aviation Finance. The failure (or decline) rate at the Deal Committee is significant, a tribute to our culture of risk selectivity and consensus-building. Only those transactions authorised by the Deal Committee will move to the next stage, and subsequently be presented to the Divisional and/or Group Credit Committee for approval. Transactions exceeding a certain exposure threshold also need to be presented to the Supervisory Board's Credit and Risk Committee for approval.

Once a transaction has been booked, it is monitored for any required action on an ongoing basis by the respective relationship manager and credit officer, and through the review and stress test processes. If appropriate, an exposure is taken on to Early Warning List, Closely Monitored List, Watch List, or Loan Loss Provision List reporting. The ongoing management of risk is aided by a rigid call report discipline and through a regular full portfolio review by Aviation Finance senior management, to proactively identify concrete actions to be taken.

The Aviation platform has been built in such a manner as to be optimally prepared for a downturn and to deal with any stress scenarios in the loan portfolio, including restructurings and aircraft repossessions. The management quality of such "stressed" transactions is clearly enhanced by our dedicated Credit and Asset Solution Group, which takes responsibility, working alongside Aviation Credit, for relevant work-out cases. The team is also supported as required by Aviation Asset Management. During 2016, we had a small number of transactions requiring restructuring or remedial action; however, under the leadership of the Credit and Asset Solution Group, we have been able to conclude loan amendments and restructurings, successfully mitigating losses otherwise anticipated for future years.

In general, we believe that our proactive approach to risk management gives us excellent visibility over potential trouble spots within the loan portfolio. We remain alert to opportunities to conclude "defensive" new financings, where we can simultaneously improve our risk position on existing exposure to a client, through cross-collateralisation for example. In all cases, Aviation Finance will continue to take whatever steps necessary to safeguard its position as a secured lender.

Aviation Finance – Outlook 2017

Market outlook 2017

During 2016 some significant political changes took place that may influence the market for air transport in a dramatic way during the coming years. Global trade statistics from the Dutch Central Plan Bureau already suggested a certain trend of de-globalisation during 2016, and certainly trade growth is much lower than during the period of 2002–2008 and even during 2012–2015 (2008–2012 figures were highly unstable due to the global financial crisis). However, for the time being, it seems air travel is still unaffected, and IATA projects passenger traffic (RPK) growth of 5.1% in 2017 and a 3.5% increase of air freight (FTK) for the industry. Airline revenues are expected to rise 5.0% in 2017 as a result of stabilising passenger and cargo yield.

Based on a projected increase in the average crude oil price to US$55 per barrel (Brent), the global airline industry is expected to generate a (post-tax) net profit of US$29.8 billion, a drop of about 16% compared to 2016. Much will depend on the actual price of oil. Part of the windfall profit the airlines enjoyed as a result of the unexpected drop in fuel costs has been absorbed by discounting ticket prices (passenger yields dropped ca. 8% in 2016) as well as by increasing labour costs, especially in the US. In an uncertain political climate, it cannot be excluded that fuel costs could spike again, as we have seen several times in the past. Such a scenario will almost certainly result in significantly lower airliner profitability, if not in overall losses.

Under the base case IATA scenario, Africa (US$–0.8 billion), Latin America (US$0.2 billion) and the Middle East (US$0.3 billion) are projected to deliver marginal net post-tax results. Europe (US$5.6 billion) and Asia/Pacific (US$6.3 billion) will show modestly positive results, and the main profit generator once more will be the highly consolidated North American market (US$18.1 billion). Calculations based on profit per passenger lead to similar conclusions about the profit potential per region. Overall we believe the commercial airline industry is past its cyclical peak in terms of profitability. We anticipate a modest downturn, but with many political (non-industry) factors that could either undermine the confidence of the traveling public (terrorism, wars, travel bans), increase airline costs (fuel), or impact GDP growth in a negative way (protectionism, tariff walls).

At the end of 2016, the ratio of capacity on order to aggregate existing fleet capacity was 56.8% (13,668 aircraft – (CHART 20 SEE PAGE 136). In the market for new commercial jets the two most important new aircraft types in terms of backlog, the A320 neo and B737MAX, will start to reach the market in larger numbers during the coming years. The B737NG deliveries however will still outnumber the B737MAX deliveries (ca. 68:479), but the A320ceo and the A320neo will be closer to 219:326. This delivery volume will probably not be enough to hurt NG and ceo values, unless oil prices were to spike or market demands plummet, creating significant overcapacity. The widebody market segment will see B787 deliveries take the lead (145), but a building share of A350 deliveries as well (81). On the way out are the A330-200/-300 and the Boeing 777-200LR/300ER but 2017 will see delivery volumes of about 70 to 75 for each family. Embraer will lead the regional jet segment with just over 100 deliveries, mainly E175's. Bombardier's CRJ deliveries are expected to outnumber CSeries deliveries 47 to 36. Add to this ca. twelve B767s, ten B747s and sixteen A380 and the expected deliveries will total just under 1,700.

CHART 20 (SEE PAGE 136)

Aircraft orders – ratio of order backlog to existing fleet capacity C 20

			Ratio of capacity on order to aggregate existing fleet
Aircraft (western-built jets)	In storage	2,388	56.8 %
	On order	13,668	
	In service	24,055	

Source: Ascend, January 2017

New aircraft designs that could be added to the product line-ups will be limited. A B737MAX-10 launch is increasingly likely, but other programmes, including stretched B777Xs or A350s are unlikely. Overall, it is expected that order volumes will not exceed the 2016 level, resulting in a book-to-bill ratio well below one. A major "unknown" is the US trade policy. Will Iran still be able to take delivery of their recently ordered commercial jets? Will there be a trade war resulting in boycotts of any of the aircraft manufacturers? It is too early to tell.

With still abundant funds available for investment in commercial jets, we anticipate a fairly robust used equipment market for standard and stretched current single-aisle types. An increasing wave of "off lease" twin-aisles may not bode too well for that market segment, with increasing pressure on A330s and 777s that do not have leases attached.

Overall, at the end of 2016 there are signs that – in many ways – we have passed the peak in the cycle. 2017 may see a softening but no significant market deterioration, unless any of the potential major risks signalled above materialise.

Portfolio outlook 2017

DVB is one of the few consistently active players in global air finance, unlike some of our competitors, who come and go throughout the industry cycles. We are in a period of the cycle where there is no shortage of liquidity chasing investment in, or financing of, aircraft assets, since providers of capital have been lured to the sector by the expectation of a superior "risk-versus-reward" balance versus competing applications for their liquidity. This means greater competition for a long-term player like DVB. Nevertheless, the tendency of many of our competitors remains towards a "flight-to-quality", and as such, pressure on pricing and other terms will be limited to certain client/equipment combinations only, some of them away from DVB's core franchise. The result is that in some segments of our Structured Asset Lending activity, competition remains limited.

For 2017, we do not expect there to be any shortage of liquidity to finance the new aircraft delivery requirements, though the continued suspension of US and European export credit agency activity during 2016 will drive more borrowers to consider what is on offer in the commercial banking market. More specifically, liquidity should remain abundant for the US airlines and the public lessors, in view of the sustained interest from the US capital markets, and for many of the Asian, European and Middle Eastern "flag" and "mega" carriers, based on their continued deep access to the commercial banking market. We do, however, expect there to be continuing funding challenges in the used/second-hand equipment market, which presents a clear opportunity for DVB, given that the used market is a core activity and strength of Aviation Finance.

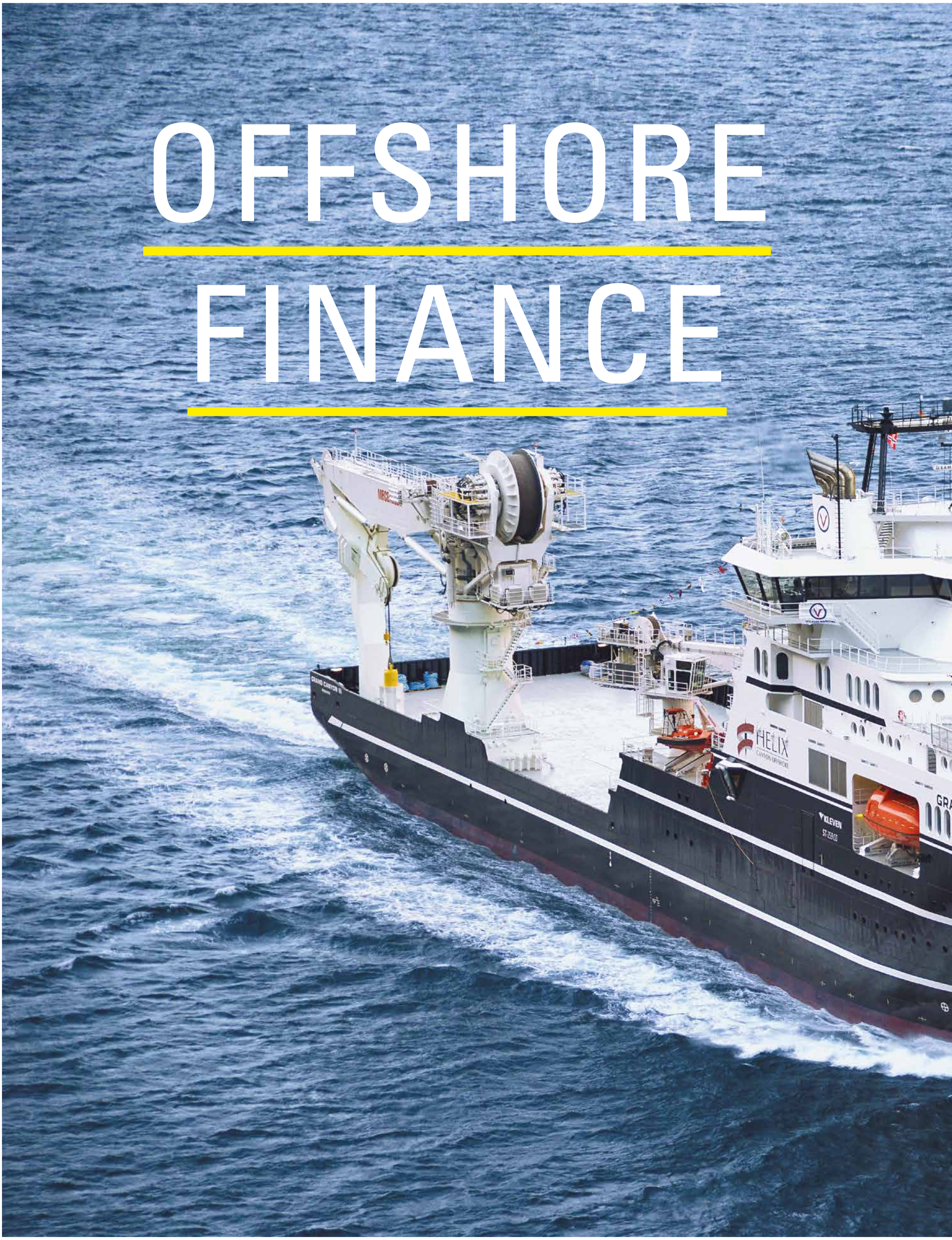
Our traditional franchise of financing the lessor community is standing firm despite the massive supply – secured or unsecured – coming to the biggest names from the capital markets and competitor banks. Why? First, the market share of lessors continues to grow, and thus the opportunities. Second, multiple new lessors have arrived or are still arriving on the market with limited access to funding – here, knowledgeable asset-based lenders can play a key role. Third, we have noticed a very clear – and welcome – signal from many of our existing lessor customers that they are keen to provide us with a steady stream of opportunities in order to keep the relationship with DVB, as a major player in the industry.

DVB continues to experience a healthy level of demand for its risk capital and services. The need to carefully select how Aviation Finance will deploy its resources will persist in the year ahead. Making the right decisions, particularly on where and how to deploy risk-weighted assets, will be the key to achieving another profitable period. Aviation Finance has assembled a team that boasts a wealth of experience and multi-disciplined backgrounds; in short, a team which is more than capable of ensuring that good decisions will be made and delivering on a promise of performance.

The Bank will be open for new business throughout 2017 and beyond, but will use its deep knowledge of the underlying assets to avoid hidden risks often seen in transactions. Our cycle-neutral approach, allied to a discipline that balances commercial pressure with the requirement to maintain a quality portfolio, will be the key ingredients ensuring that Aviation Finance enjoys continued success.

As mentioned, current demand for the Bank's capital and services is good: indeed we have entered 2017 with a healthy pipeline. In its Structured Asset Lending activity for 2017, Aviation Finance targets further modest portfolio growth, whilst – more crucially – maintaining the quality of loan assets, and without compromising the risk-reward profile. 2016 saw further erosion in our net margin levels as a result of the strong competitive environment, and while we expect this pressure to continue in 2017, we will maintain our disciplined approach to originating new business. Finally, we are confident of an increasing level of demand for our aviation services, most notably advisory and asset management. Our strong reputation in these activities is evenly distributed across all client categories: airlines, lessors and investors alike.

OFFSHORE FINANCE




€183.1 MN
NEW BUSINESS VOLUME
€2,357.6 MN
CUSTOMER LENDING VOLUME

Business areas
- Offshore support vessels
- Subsea and construction vessels
- Drilling units
- Floating Production Storage and Offloading units

Products
- Structured Asset Lending
- Risk Distribution & Loan Participations
- Corporate Finance Solutions
- Private Equity Sourcing & Investments
- Asset & Market Research

Clients
- Owners and operators of offshore vessels as well as experienced financial investors within the offshore sphere

Core regions
- Europe
- North and South America
- Asia/Pacific
- Offshore

Offshore Finance

The offshore markets deteriorated further in 2016, as the negative impact of the significant reduction in oil companies' exploration and production (E&P) spending and the sharp fall in oil prices escalated. The immediate and medium-term consequences of lower demand have strongly affected the Bank's clients, across all major offshore subsectors. In this environment, Offshore Finance continued its very cautious approach to lending. The business division thus originated €183.1 million in new business but an elevated level of allowance for credit losses burdened its financial results.

Offshore Finance – Market review

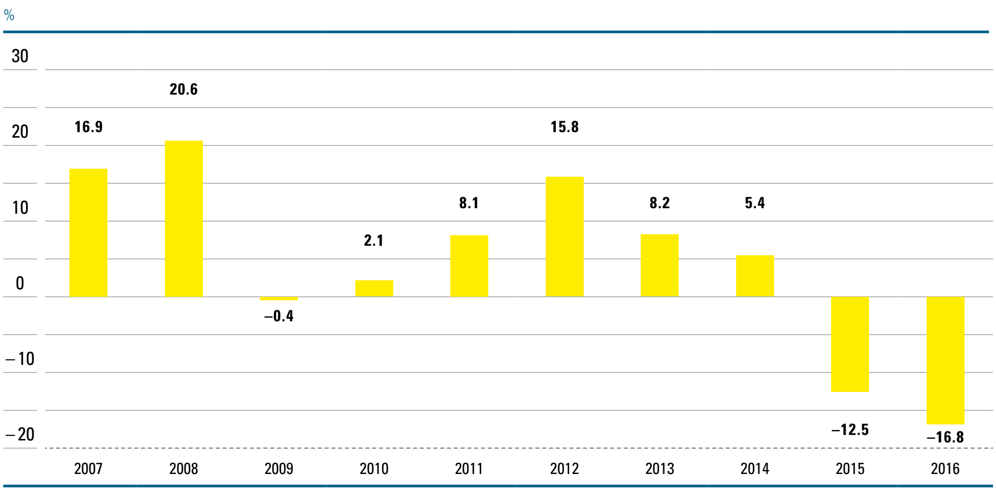
With a continued high level of inventory overhang, the oil price (Brent crude) remained under pressure during 2016. Although the oil price reversed its slide from early 2016, it was not enough to provide comfort for the offshore industry, and as a consequence, oil and gas companies continued to reduce their spending budgets. As expected, offshore E&P spending – the key demand driver for offshore assets – was strongly affected, with an estimated decline of 16.8% in 2016. CHART 21

Oil and gas companies continued to reduce their drilling requirements, sometimes leading to cancellation of contracts. In fact, more than 50 floaters (semi-submersibles and drillships) have experienced an early termination on their existing contract since early 2015. Rig demand is estimated to have declined by 20% to 25% in 2016. In order to mitigate the deterioration in rig demand, rig owners continued to take supply adjustment measures, such as attrition of aging units or delay in rig deliveries. However, supply adjustments from owners proved insufficient to mitigate the significant drop in drilling demand during 2016, contributing to an average decline of 12% and 15% in fleet utilisation for jack-ups and floaters, respectively. As a consequence, term rates declined by 20% to 30% for modern units compared to 2015.

Rig demand is the key demand driver for offshore support vessels (OSVs). Correspondingly, demand for OSVs followed a similar declining trend, although to a lesser extent as they are also involved in more resilient activities than exploration, such as production support. OSV demand is estimated to have shrunk by 10% to 15% in 2016. In terms of supply, adjustments for OSVs primarily stem from vessel stacking, as shipowners prefer this option over scrapping. With limited attrition activity and continued deliveries of newbuilds, the OSV fleet – especially large platform supply vessels (PSV) – grew further during 2016. Consequently, fleet utilisation decreased by 15% to 20% and term rates declined on average by 30% to 35% for both PSVs and anchor handling tug and supply vessels during 2016.

Offshore E&P spending year-on-year growth

C 21



Source: Rystad Energy, January 2017

With no sign of significant improvement in supply and demand fundamentals during 2016, the operating performance of shipowners and rig owners continued to deteriorate. Although companies have been taking cost-cutting measures to preserve cash, this has not been sufficient to allow companies to cover the high level of debt service. As expected, numerous companies entered restructurings during 2016, with the most leveraged Norwegian companies as the front-runners.

Offshore Finance – Strategy

DVB's Offshore Finance division is well positioned to provide tailor-made financings to companies that primarily own and operate offshore support vessels (platform supply vessels, and anchor-handling tug and supply vessels), subsea and construction vessels, drilling units (jack-ups, semi-submersibles, drillships), and floating production storage and offloading (FPSO) units. These clients are public and private companies varying from large multinational enterprises to smaller single-asset special purpose vehicles, as well as experienced financial investors within the offshore sphere. The offshore industry is highly fragmented, specialised and capital-intensive, and – in some sectors, with high entrance barriers. We have thus been targeting clients with a proven level of technical and operational expertise, and a strong track record in the market.

Our mission statement is: "To create sustainable risk-adjusted income through providing bespoke financial solutions to our diversified client base, leveraging our unique global position in the offshore industry." Accordingly, the Offshore Finance division is run on a few basic principles which continue to shape the way the business is steered. These principles are:

- in-depth knowledge of the offshore industry and its assets, together with an ability to respond to a changing market environment;
- proximity to clients;
- retention and development of highly qualified staff; and
- proficient risk management.

Firstly, our commitment to long-term client relationships translates into a broad and profound coverage, enabling us to amass in-depth knowledge – of the assets we finance, of our clients, and about value-chains and networks in the distinct offshore sectors. Our front-line staff and decision-makers continue to be supported by the Bank's Shipping and Offshore Research department, which provides up-to-date and high-quality market intelligence. This expertise brings us closer to our clients, solidifying our reputation as a trusted partner in the offshore industry.

Secondly, we also offer our clients geographical proximity. Like the shipping industry, the offshore industry hubs are geographically condensed. With offices in New York, Oslo and Singapore, DVB's relationship managers are able to service our offshore client base in each offshore hub – where they have earned a strong market reputation for tailoring financial solutions to meet our clients' specific business requirements.

Thirdly, great effort has been put into attracting, retaining and developing the best offshore finance professionals. Our relationship managers and researchers are technically skilled, possessing experience that is both broad and deep. There is also strong support from execution and transaction managers, who provide an individual focus on managing client transactions through internal processes and approvals. In addition, our highly specialised credit department, with its in-depth knowledge of the offshore and shipping industries, adds value to DVB's long-standing brand and track record in offshore financing activities.

Fourthly, Offshore Finance has a strong risk culture, which continues through each stage of a loan. Our risk management department constantly monitors and proactively manages risk whilst continuously strengthening its early warning and risk management policies and procedures for the Bank's portfolio of offshore loans. The department is dynamically positioned, with credit officers covering all offshore asset classes. DVB also has significant expertise with restructuring and work-out situations, centralised in the Credit and Asset Solution Group as of 1 January 2016. The team retains the primary responsibility for cases on the Watch List and Loan Loss Provision List. The group's objective is to reduce problematic exposures as efficiently, and with as minimal realised losses, as possible. For further information on CASG, please refer to the report on opportunities and risks (See page 211) .

During 2016 the Offshore Finance division has pursued strategic objectives of:

- Focusing on existing clients due to the continued deterioration of the offshore market – the division proactively assesses the increased risks in the industry and finds sustainable solutions to companies' economic challenges, while at the same time enhancing the quality of its client base and portfolio through an ongoing critical approach to client selection and risk management.

i

Further details on offshore market developments in 2016 can be found on DVB's website www.dvbbank.com > Business & Expertise > Offshore Finance > Markets.

- Developing attractive financing solutions that draw upon a broader product toolkit by utilising the core of asset-based lending, together with an understanding of corporate credit. This enables the team to offer clients a seamless one-stop shop and further improve sustainable revenue diversification much needed in the current market environment.

Thus, our Offshore Finance clients can today readily draw upon the following range of expertise in order to fulfill their differing requirements::

- Structured Asset Lending, comprising traditional asset-/project-based financing – mostly post-delivery finance with full recourse to a substantial obligor which enjoys adequate employment of its fleet;

- Risk Distribution & Loan Participations, syndicating portions of the lending volume to other financial institutions on the international banking market;

- Corporate Finance Solutions, supporting our clients in identifying new and diverse sources of funds in the capital markets and accessing those funds on favourable terms, providing M&A and restructuring advice, as well as arranging debt and equity financings;

- Private Equity Sourcing & Investments, fund management via the Shipping and Intermodal Investment Management team, managing, inter alia, investment in offshore companies and assets; and

- Asset & Market Research, producing high-quality independent research with a core focus on the offshore market, to effectively support our strategy and financing activities.

Offshore Finance – Portfolio analysis

While the offshore markets continued to deteriorate in 2016, the immediate and medium-term consequences of lower demand have caused an unprecedented downturn with significant negative economic impact on the Bank's clients, across all major offshore subsectors. Thanks to our industry-specific expertise, our Offshore Finance division was able to continue its very cautious approach to lending by focusing on existing clients and the need to restructure their balance sheets, to engage in refinancing of maturing debt, and to selectively execute high credit new financings. In 2016, our financial performance reflected the current market condition and the impact of increased allowance for credit losses.

Total loan portfolio

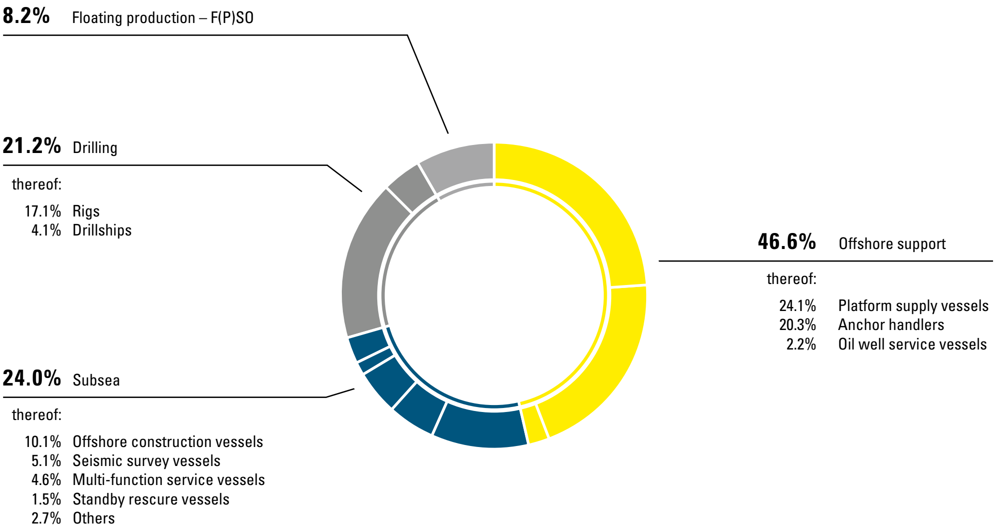
Offshore Finance serves 60 offshore customers, in all the global offshore hubs. In 2016, the portfolio comprised 275 assets with a total exposure of €2.4 billion (previous year: 231 assets with a volume of €2.4 billion) – a stable level despite heavy re- and prepayments on the portfolio amounting to 41.4%. The average lending exposure per client stood at €39.3 million which marks a 21.2% decline from €49.9 million in 2015. The number of clients whose exposure exceeded €50 million was 18 at year-end 2016 (21 clients at year-end 2015).

Since granularity in the portfolio is the key pillar of our risk management philosophy, the Offshore Finance customer lending volume is not only diversified from an exposure amount perspective but also highly diversified across the offshore asset spectrum itself. Looking at the financed vessel types, for instance, offshore support vessels are the largest asset class with 46.6% (previous year: 49.8%). Within this category, platform supply vessel exposure accounts for the largest share at 24.1%, the same as last year. Offshore Finance further reduced its exposure to anchor handlers, from 23.3% in 2015 to 20.3% in 2016, partly on the back of reduced drilling demand and a more strategically selective approach to this sector. Exposure towards subsea vessels increased slightly, from 22.4% in 2015 to 24.0% in 2016, mainly accounting for offshore construction vessels (10.1% in 2016 against 8.6% in 2015). The share of drilling assets slightly increased to 21.2%, a growth of 1.0 percentage points compared to 2015. Finally, 8.2% of the Offshore Finance portfolio is represented by floating production assets (previous year: 7.6%). CHART 22

Geographically, the portfolio also shows a high level of diversification, while clearly reflecting the regional hubs of the global offshore industry and the new drilling and field activities that have taken place in these regions. Exposure to Europe slightly increased from 49.9% in 2015 to 51.3% in 2016, with Norway having the largest share at 35.5% (previous year: 37.5%) The exposure to North and South America decreased by 3.3 percentage points, to 15.6%. This is largely due to the decline of the Brazilian exposure by 3.7 percentage points to 8.2%, a sign of the diminishing offshore activity in the country. The share of Asia/Pacific exposure increased by 1.1 percentage points to 15.5%, mainly driven by the growth in the Indian share which rose from 7.5% in 2015 to 10.7% in 2016. CHART 23

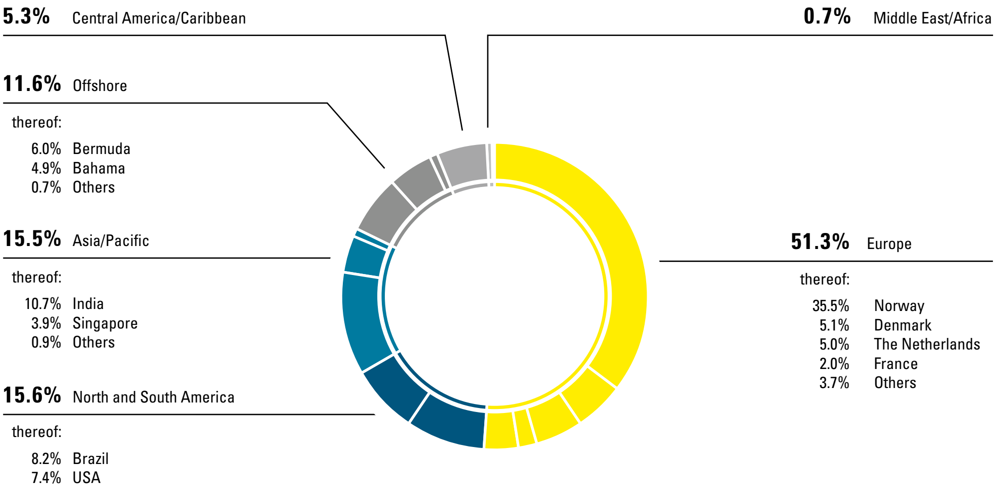
Offshore Finance portfolio by asset type

C 22



Offshore Finance portfolio by country risk

C 23



New business

Loan portfolio development

In 2016, and in the face of a second challenging year across the industry, Offshore Finance closed seven new loan finance and guarantee transactions with a volume of €183.1 million and an average new business margin of 259 basis points (previous year: 15 transactions, volume of €575.3 million, new business margin of 247 basis points). The new loan production numbers were countered by high pre- and repayments.

In terms of diversification, our new transactions supported established clients and were spread across subsea and drilling equipment as well as offshore support vessels, with subsea vessels accounting for 53.3% (+32.0 percentage points) of the new business volume, followed by drilling assets with 40.8% (+20.6 percentage points) and anchor handlers with 5.9% (–35.5 percentage points). An important objective is to achieve a more diversified mix of transactions, all pertaining to a high level of equipment complexity, employment cover and corporate recourse.

In 2016 Offshore Finance focused on supporting its existing clients, entering mostly into (bilateral) transactions aimed at strengthening and protecting the client's balance sheet. Some of our credit-approved transaction highlights included:

- **Gulf Agency Company** – Fleet refinancing of the existing debt for 14 OSVs belonging to International World Shipping Agencies S.A. (part of Gulf Agency Company Group) as well as leveraging up to part-finance the acquisition of two anchor handling and towing vessels. Gulf Agency Company is the largest independent shipping agent in the world, with more than 300 offices in over 50 countries representing in excess of 5,000 principals and handling around 70,000 vessels annually. The bilateral facility has a tenor of three years with a full payout structure.

- **Volstad Maritime** – Financing of "Grand Canyon III", a state of the art ST259 offshore construction vessel newbuilding with seven years employment to Helix Energy Solutions (USA). Volstad Maritime is a quality owner and operator of inspection, repair and maintenance, construction and seismic exploration vessels. The company runs a long-term employment business concept, and maintains a sizeable backlog. DVB acted as co-arranger in this club/export credit facility.

Deal of the year 2016

Wholly-owned by the Great Eastern Shipping Company, the Greatship Group started operations in 2006 with an initial purchase of two Norwegian-built mid-size platform supply vessels. Since then the company has grown rapidly and currently owns a fleet of four jack-up drilling rigs and more than 20 offshore support vessels, representing a combined investment of more than US$1 billion.

Greatship entered the contract drilling business in 2009 after it took delivery of two Keppel FELS jack-up drilling rigs (Mod V-B design) which were contracted prior to delivery by Oil and Natural Gas Corp (ONGC) in India. Two newbuildings from Lamprell (LeTourneau Super 116E design) were added to the fleet in 2013 and 2015, all on contract to ONGC. With four of the ten units on charter, Greatship today dominates the ONGC fleet of high-specification jack-ups. The Mod V-B and Super 116E are the most established designs for modern, non-harsh environment jack-ups. These four drilling rigs have been enhanced to meet the operating challenges of the Indian continental shelf, and also to drill high-pressure/ high-temperature wells.

Having continually banked the offshore business of the Great Eastern Shipping Group for over 15 years, DVB was invited into the senior secured facility for the refinancing of Greatship's four modern high-spec jack-up rigs flagged in Singapore. The client approached us due to our long-standing relationship, and our ability to assess the viability of the project despite the challenges in the offshore sector. The tenor of the loan is six years. The modern assets with long-term ONGC contracts (which have no clauses allowing for termination by the charterer for convenience), and Greatship's financial strength attracted heavy competition. In this transaction we partnered with four more financial institutions, each taking equal stakes.

Earnings analysis

In 2016, Offshore Finance was confronted once again with a demanding market situation which shaped its financial results. Two key factors strongly impacted our business model: firstly, the low oil price further entailing significant pressure on the offshore industry; secondly, high loan prepayments.

Against this background, net interest income was down 15.7%, to €20.4 million (previous year: €24.2 million) due to low new business origination in line with the Bank's cautious approach to the offshore markets and an elevated level of re- and prepayments. Net interest income after allowance for credit losses decreased to €–44.6 million as a result of higher allowance for credit losses recognised in the amount of €65.0 million in response to worsening market conditions (previous year: €17.5 million). Total allowance for credit losses in Offshore Finance stood at €75.8 million (previous year: €17.7 million). Net fee and commission income reduced to €7.6 million (previous year: €11.5 million). Overall, income and net segment income before taxes both declined to €–37.5 million and €–40.4 million, respectively. TABLE 34

Extract from the segment report for Offshore Finance

T 34

€ mn	2016	2015	%
Net interest income	20.4	24.2	–15.7
Allowance for credit losses	–65.0	–17.5	–
Net interest income after allowance for credit losses	–44.6	6.7	–
Net fee and commission income	7.6	11.5	–33.9
Income (excluding the IAS 39 result)	**–37.5**	**18.3**	–
General administrative expenses[1]	**–3.1**	**–3.8**	**–18.4**
Net segment income before taxes	**–40.4**	**14.7**	–

1 Only those costs are allocated to DVB's operating business divisions for which they are directly responsible. General costs of operations, overheads, or, for example IT costs, are not allocated to the operating business divisions.

Risk management

Offshore Finance has built a strong risk culture, which starts with our client-facing relationship managers and continues through each stage (including Shipping and Offshore Credit, Shipping and Offshore Research and Credit Committee assessments) until a new commitment is granted, and continues thereafter throughout the term of the relevant exposure through constant vigilance, thorough loan management and continuous monitoring of the portfolio's overall health.

At the heart of our consideration for each new exposure is the New Deal Committee, which meets to discuss each possible new transaction at an early stage, with a view to spotting risk and structural deficiencies – finally arriving at a consensus, be it positive or negative. The committee comprises the member of the Board of Managing Directors responsible for Shipping Finance and Offshore Finance, the Head of Shipping and Offshore Credit, and the Head of Shipping and Offshore Research. The research department is fully involved in the credit process, providing market research, commentary and research on all the technical aspects of the respective assets, in order to flag any possible negative effects on the tradability and value of the assets under consideration for financing. Only those transactions authorised by the New Deal Committee will move to the next stage, for presentation to the Shipping and Offshore Credit Committee. Over certain thresholds, certain deals will require further approval from the Board of Managing Directors and (in a few cases) from the Supervisory Board's Credit and Risk Committee.

Once a transaction has been booked, it is monitored for any required action on an ongoing basis by the respective relationship manager and credit officer, and through the review and stress test process. Frequent client calls take place, with the obligatory involvement of credit officers, in order to further underscore the risk dialogue with our clients. We undertake the stress testing procedure (stressing probability of default and valuations) on a quarterly basis, with the results feeding into discussion with clients. In addition, there are continuous event-driven rating updates and reviews of the portfolio to refresh ratings and values. The restructuring and work-out specialists of our Credit and Asset Solution Group are fully involved in the stress testing of the portfolio. If appropriate, an exposure is taken on to the Early Warning List, the Closely Monitored List, or Watch List reporting. In addition to the rigid call report discipline in place, the ongoing management of risk is further aided by a full portfolio review from the Offshore Finance senior management, to proactively identify concrete actions to be taken. The Credit and Asset Solution Group provides dedicated support on all stressed/distressed loans, and manages all exposures on the Watch List and Loan Loss Provision List in close cooperation with Shipping and Offshore Credit and the front-office units.

The above-mentioned protocols are geared towards the early flagging of possible problems, and allocating adequate resources to assess, quantify, qualify and formulate an appropriate and swift response.

In 2016, we took swift action in response to covenant breaches (value maintenance clauses and otherwise). The asset values were monitored diligently to quickly establish impending breaches of value maintenance clauses (VMCs). To further illustrate the point: during 2016, a total of 43 transactions had a VMC breach. Of those, six transactions were fully repaired while 18 VMC breaches were waived; thus, 19 transactions still had an outstanding breach at the end of 2016. The average loan-to-value ratio of the total Offshore Finance portfolio – one key metric of loan performance – stood at 75.3% while 81.6% of the lending volume had a loan-to-value ratio below 60%. Offshore Finance will continue to take whatever steps are necessary to safeguard its position as a secured lender in all cases.

Offshore Finance – Outlook 2017

Market outlook 2017

Continued oil price uncertainty is leading to further cuts in E&P spending as oil and gas majors not only implement cost-cutting programmes, but also delay investments. It is expected that offshore E&P spending will decrease by another 8% in 2017, with capital expenditures being more affected than operational expenditures.

Demand for most offshore asset types is expected to decline further. Demand in regions with comparatively higher oil price breakevens – such as the North Sea, West Africa or Brazil – continues to be more affected than lower-cost production regions such as the Middle East.

On the supply side, the number of units on order remains large for most asset types. Rig owners and shipowners are expected to continue to take measures to reduce supply growth as much as possible, by delaying deliveries and scrapping older units.

In the short term, the initiatives for supply adjustment measures will not be sufficient to make up for the lost demand. Hence, fleet utilisation is still expected to decline. As a consequence, the number of stacked units is likely to continue to grow as shipowners and rig owners strive to preserve cash.

As the market continues to remain difficult, cash reserves amongst rig owners and shipowners are becoming depleted. Hence, we expect restructurings, distressed sales and bankruptcies to continue to be major topics during 2017.

Portfolio outlook 2017

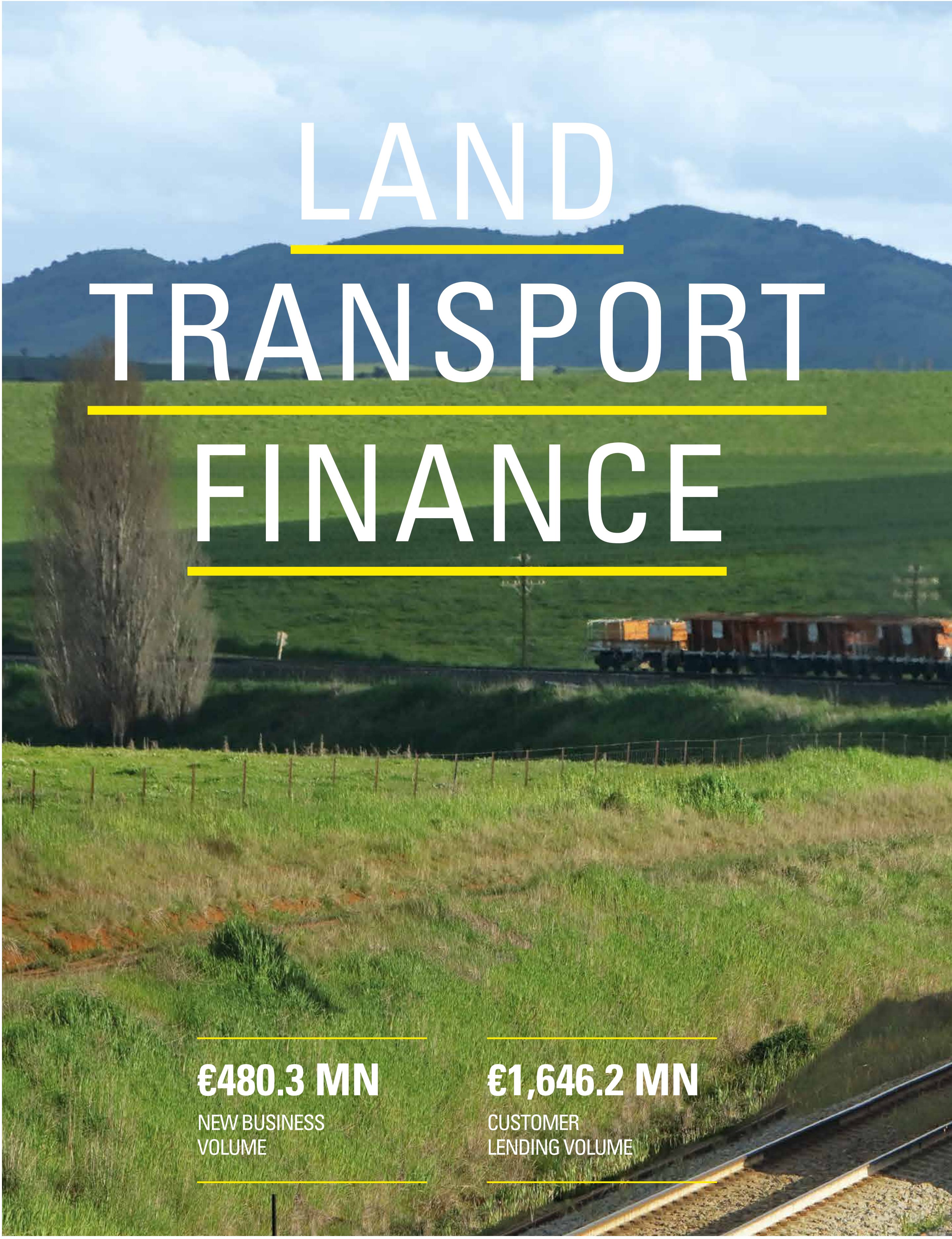
An important driver for the offshore industry is the oil companies' E&P spending, which in 2014 was already falling in terms of gross numbers. This reduction in spending accelerated throughout 2015, reflecting the sharp oil price reduction that began in the second half of 2014 and continued on into 2016. This development has been unprecedented, and has changed the fundamentals in the global offshore industry. The market is currently characterised by a significant oversupply of oil; too much offshore equipment supporting the industry has been (and will still be) delivere d – all to a world market suffering from low economic growth, and hence creating low demand for oil.

In this market environment, many traditional shipping and offshore banks have chosen to exit or reduce their exposure to offshore. Subsequently, banks' offshore portfolios will continue to shrink as there is, for obvious reasons, limited demand for finance for new projects. The result is a smaller banking market where Chinese banks and leasing companies are trying to fill the gap by providing very competitive terms for good credits.

Against this background, Offshore Finance's agenda for 2017 will be:

- To maintain its franchise among the leading bank providers of debt financing and advisory services, as well as market, industry and product intelligence;
- To retain a market presence in those regions of the world where the major owners are based, since proximity to the clients is very important;
- To enjoy a high level of reputation and visibility in global offshore hubs and forums, and to be recognised as a financial solutions-oriented lender with the highest level of business integrity;
- To focus short- to medium-term upon the existing loan portfolio and assist clients in recapitalising balance sheets where needed; to work closely with the sponsors to restructure debt financings in cooperation with co-lenders, bondholders and shareholders;
- To adequately maintain or allow a slight reduction of the existing loan portfolio by financing modern and diversified assets, all based on a conservative but acceptable loan-to-value ratio and repayment mainly through fixed cash flow/employment; and.
- To fully secure loans, both by the assets mentioned and assignments of charter hire etc.

The Offshore Finance portfolio is expected to reduce modestly during the coming year, in which the Bank will apply a cautious approach when assessing the relevant market segments and new finance transactions.



LAND TRANSPORT FINANCE

€480.3 MN
NEW BUSINESS VOLUME

€1,646.2 MN
CUSTOMER LENDING VOLUME


4836
4836

Business areas
- Rail-based: freight cars, locomotives, passenger train sets
- Rail-related: container chassis

Products
- Structured Asset Lending
- Risk Distribution & Loan Participations
- Corporate Finance Solutions
- Private Equity Sourcing & Investments
- Asset & Market Research

Clients
- Equipment lessors
- Railway companies
- Operator and industrial clients with own rail equipment fleets

Core regions
- Europe
- North America
- Australia

Land Transport Finance

Our Land Transport Finance division was again very active across its three target markets during 2016. However, there was no escaping what was in parts a challenging economic environment, divergent developments on the commodities markets, and increasing regulation. The land transport markets still appreciate our sustained specialisation and focus. Thus, our Land Transport Finance team was able to generate a new business volume of €480.3 million and achieve very good financial results.

Land Transport Finance – Market review

The most recent – preliminary – rail freight market statistics indicate a moderate decline for Europe and Australia as well as a significant decline for North America. This was the result of several factors: low fuel prices, stagnating road tolls, the increasing move away from coal-fired power plants and the cooling of the Chinese economy. For the rail freight sector, equipment orders were adjusted accordingly during 2016. Across the board, leasing companies focused on improving their utilisation rates. In Australia and Europe, lease rates stayed relatively flat, but they declined significantly in North America. Intermodal transport by rail increased modestly in Australia, stayed flat in Europe, and declined moderately in North America. A bright star was European rail passenger transport, which grew significantly, not least thanks to new train deliveries.

Rail freight – Europe

Although full-year statistics are still lacking, country results from Germany, the United Kingdom and Poland (42.5% of the total performance in Europe) do suggest that 2016 brought a moderate decline of rail freight measured in tonne-kilometres (tonne-km) after modest growth of 1.2% in 2015. In total, rail freight business was still about 6.1% below its 2007 peak. Again, some large acquisition transactions showed the attractiveness of the European rolling stock leasing business, also to foreign investors. Goods transport by train from China into Europe increased again. DB Cargo – with its international partners – moved more than 40,000 containers this way. The 11,000-kilometre trip usually takes twelve to 16 days, which is twice the speed of shipborne goods. The amount of new locomotives delivered reached 72.3% of the replacement need. For standard-gauge freight cars, the figure was only 57.2%.

Rail freight – North America

2016 was characterised by a decline in carloads resulting from three factors: firstly, despite rising diesel fuel prices, natural gas prices went down, thereby decreasing the demand for coal. This led to 19.5% less coal transports, mainly due to reduced demand from coal-fired power plants following more stringent environmental regulations. Secondly, transportation of petroleum and petroleum products also fell 18.9%, since new pipeline connections were installed to transport crude oil. Thirdly, destocking of goods contributed negatively as well. The only two significant upward factors were an increase in grain transport (3.9%) and of motor vehicles and parts (2.1%), though these developments alone were not able to counter the downward trend.

The number of carloads in North America decreased significantly by 7.2% year-on-year according to the Association of American Railroads. For Canada and the US this level was still 21.3% down from the 2006 record and even 1.4% below the 2009 recession trough. (Disregarding the dwindling coal volumes, the number of carloads was down only 9.8% from the 2006 record, but 23.2% above the 2009 trough level.)

Despite an uptick in the amount of domestic and maritime containers in use in the transport market, intermodal transport by rail came down 1.5% on the previous year. Nevertheless, this segment still achieved 13.3% more shipments compared to the pre-recession record of 2006. In the US, the number of containers and trailers transported by intermodal rail for the first time overtook the number of other car types transported by rail.

Since less was transported in 2016, the average train speed during the year went up and terminal dwell times went down, which led to a situation in which less freight cars were needed. Accordingly, locomotive manufacturers built 23.7% fewer new locomotives than needed for replacement. There was also a very limited amount of rebuilt lower-horsepower locomotives. Based upon a decreasing backlog of about 77,000 units, FTR Transportation Intelligence projected in December 2016 that about 59,100 freight cars and intermodal platforms had been delivered in North America during the year. CHART 24

Rail freight – Australia

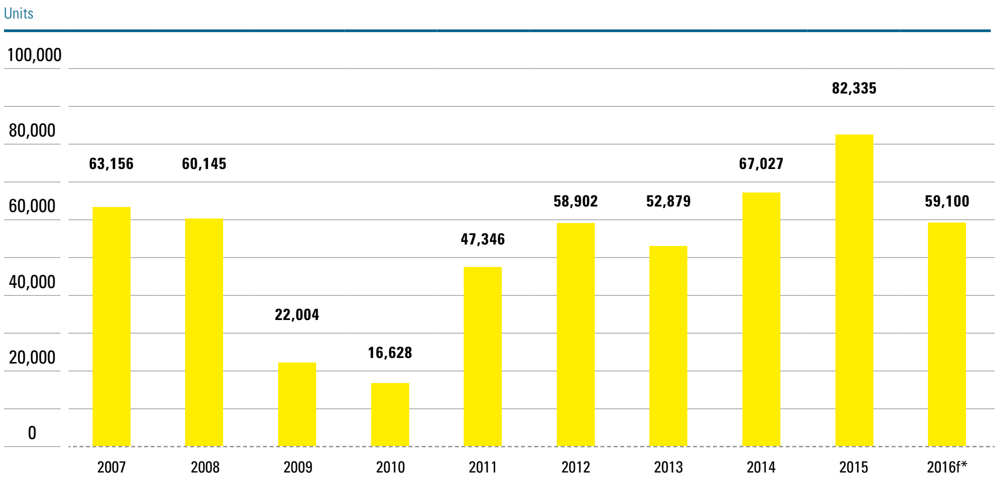
In December 2016, the Bureau of Resource & Energy Economics in Australia reported that between 1 July 2015 and 30 June 2016 Australia's iron ore production had increased by 7.9% and coal production had decreased by 1.2%. For their reporting year 2015/2016 (ending on 30 June 2016), Australia's two largest nationwide operating rail freight companies – Asciano and Aurizon – reported an average year-on-year decline of 2.8% in moved tonnage, despite a 2.5% increase of the number of containers moved. Aurizon's preliminary figures for the second half of 2016 showed that 0.8% less tonnes-km were performed year-on-year (mostly due to the reduction in coal transport), although intermodal volumes were up by 10.0% TEU, or by 3.1% tonne-km. Major iron ore miner Rio Tinto shipped 3% more iron ore in 2016.

Passenger rail – Europe

Preliminary statistics from Germany, the United Kingdom and Poland (accounting for 42.3% of the total performance in Europe) show that passenger transport by rail measured in passenger-kilometres could register a total growth of 3.5% year-on-year in the first nine (D and UK) and twelve (PL) months of 2016, respectively. This was achieved against headwinds from low fuel prices and the further development of low-cost airlines, long-distance bus services, car sharing and digitalisation of other transport modes. The European Commission liberalised the purely national commercial rail passenger markets in its Fourth Railway Package as from December 2020, while competitive tendering will become the general rule for new subsidised public service contracts from December 2023, albeit with many exceptions.

Further details on land transport market developments in 2016 can be found on DVB's website www.dvbbank.com > Business & Expertise > Land Transport Finance > Markets.

US freight car deliveries C 24



*2016 figure preliminary
Source: Rail Theory Forecasts/Economic Planning Associates/FTR Intel, December 2016

Land Transport Finance – Strategy

Our international Land Transport Finance platform forms a sound base for our leading market position. Our business model encompasses research, advisory and financing activities on the international transport markets – specifically in the three developed core regions of Europe, North America and Australia. Once again, during 2016 we were one of the few financiers that consistently supported market participants – reliably, and across regions. This business approach has proven very positive for our clients and for the Bank.

From a strategic perspective, our Transport Finance business is focused on our strengths, relying on material asset finance principles as matter of course. The following aspects are derived from our business model and represent key success factors, both individually and in combination with each other: TABLE 35

T 35

Internal factors	Market factors
The flat hierarchy within DVB, which allows for short and direct decision-making processes;	The flexibility and ability to quickly act on the markets we cover;
the conservative risk approach, which benefits us considerably for credit assessment and in managing our exposures;	the detailed and profound knowledge of markets, financed assets, clients, trends, and current and expected transport asset performance;
the consistent and reliable responsibility taken by the Land Transport Finance team for transaction execution;	the commitment and creativity in structuring transactions for clients;
our cost discipline and careful consideration of the risk-return ratio.	the close integration with DVB Corporate Finance and the Stephenson Capital Fund, to optimise the range of products and services we offer to our clients.

Thanks to the factors outlined above and to the consistent dialogue and close cooperation with our clients, we once again successfully originated new business throughout 2016. We aim to further expand our market presence in our three mature target regions over the next few years. In a rail sector that is increasingly global, we are in a position to offer synergy effects to our clients. At the same time, the diverging momentum in the three regions further helps to diversify our portfolio.

Our relationship managers in Frankfurt/Main and New York work with our clients to originate tailor-made financing solutions. We maintain this regional team structure. Clients and financing partners continue to appreciate our specialist focus on asset finance and related services. They value the commitment and know-how of all our team members, which translates into a real competitive advantage for us. Our Land Transport Research supports us, with strategic and operational intelligence, in every loan approval and risk decision we take. In the context of key projects, our Research also provides market analysis directly to clients.

Collaboration with the Bank's other service teams is increasingly important, especially with DVB Corporate Finance and Financial Institutions and Syndications. We successfully acquired and executed Corporate Finance mandates – in the M&A business and for capital markets transactions – in Europe and North America during the year under review. Moreover, we took on board various new business ideas as well as some very promising projects that we will seek to develop new business in the years ahead.

Overall, our Land Transport Finance clients can readily draw upon the following range of specialised products and services, in order to fulfil their differing requirements:

- Structured Asset Lending, providing asset-based lending, secured by rolling stock, by means of various financing structures, be it of a shorter nature (such as bridging facilities) or complex, structured mid- to long-term asset financing solutions;
- Risk Distribution & Loan Participations, syndicating portions of the lending volume to other financial institutions on the international banking market;
- Corporate Finance Solutions, supporting our clients in identifying new and diverse sources of funds in the capital markets and accessing those funds on favourable terms, providing M&A and restructuring advice as well as arranging debt and equity financings;
- Private Equity Sourcing & Investments, fund management via the Shipping and Intermodal Investment Management team, managing the Stephenson Capital Funds (investments in rolling stock);
- Asset & Market Research, analysing land transport markets and technologies of rail-based and rail-related transport assets to effectively support our strategy and financing activities.

Since 2016, DVB has also structured meta financings as part of its current operations. This means arranging and underwriting complex financings for rolling stock, and ultimately syndicating parts of these financings within the German cooperative financial network, providing cooperative banks with access to a specialised, yet relatively safe market – with the benefit of (and essentially depending upon) our sector expertise and experience. With this initiative, we deepen our cooperation with the Volksbanken Raiffeisenbanken cooperative financial network.

We still firmly believe that the clearly advanced maturity of the markets we cover is a positive aspect. We recognise the growing cyclicality of the market segments: thanks to our Research, we are able to better identify new business opportunities. Our clearly defined set-up in the asset finance world, and our cycle-neutral strategy, have both yielded good results over the past years. The continuity of our market approach and our proven competence keep paying off. Despite various challenges, we see good opportunities in the markets we cover: we will master future developments with flexibility and broad-based know-how. We strive to continue to command a prominent position in the Land Transport Finance markets, to the benefit of our clients, the diversification of our portfolio – and ultimately, for the Bank's profitability.

The industry is well aware of our dedication, as evidenced, amongst other things, by the fact that Global Transport Finance has repeatedly honoured our Land Transport Finance team. We received the "Rail Capital Markets Deal of the Year – Americas" and "Rail Finance Deal of the Year – Americas" awards from this renowned international trade publication. In February 2017, the team was further awarded "Best International Transport Finance Provider – Germany" by Transport News, a well-respected industry magazine.

i

Land Transport Finance – Mission Statement

We highly value our client relationships. The goal is to increase our client franchise as the leading rail asset financing partner in our core regions. Based on our

- unique understanding of the market,
- focus,
- a continuous capacity to execute transactions, and
- flexibility,

we offer added value by

- advising on intelligent asset finance solutions; and
- taking appropriate risk positions that capitalise on the cyclical nature of the underlying sectors.

Land Transport Finance – Portfolio analysis

Total loan portfolio

Total customer lending amounted to €1.6 billion at the end of 2016 (previous year: €1.7 billion). 53.5% of the lending exposure was to European clients (down 2.6 percentage points), whilst loans to clients domiciled in North America accounted for 43.8% (up 4.5 percentage points year-on-year). Accounting for 2.7% of the total portfolio, exposure to Australia was marginally lower than in the previous year (down 0.4 percentage points). Lending to Central American clients was reduced to zero (previous year: 1.5%). CHART 25

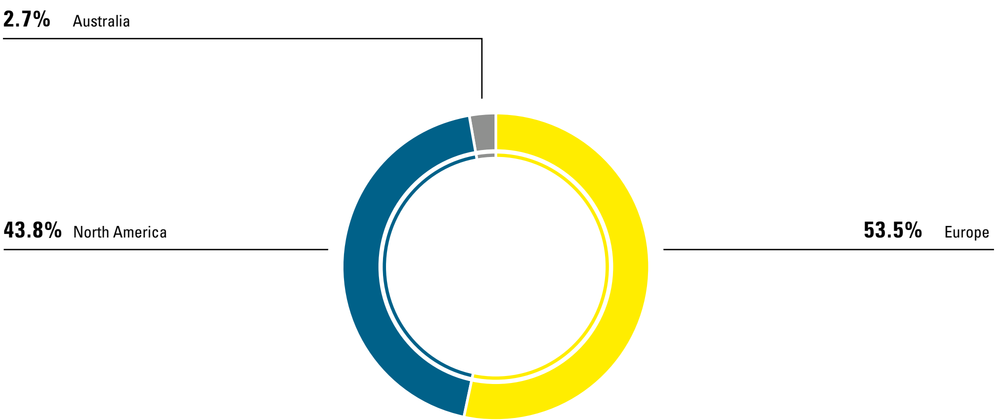
As in the previous year, there were signs of a plateau forming in the rail transport segment as a whole. However, developments on the North American market required a more differentiated approach, with value increases in some asset sectors failing to fully offset value losses in others. On average, renewal lease rates for rolling stock leasing in North America were slightly lower than the terms for maturing transactions. In Australia and Europe they were stable on average. Fleet utilisation was also stable and only fell slightly in North America. There was increased lessor demand for still-available chassis portfolios in North America, with at the same time rising demand from lessees.

The overall portfolio as at year-end 2016 reflected these market developments, with 91.5% of transactions related to rail assets (previous year: 92.3%). 62.7% was attributable to the freight car asset class (previous year: 58.6%). Not only is this high percentage unproblematic – it is in fact desired. Thanks to their granularity, freight cars are an asset class with an excellent risk profile and one that is diversified in many ways (especially by borrower, lessee, rail car type, vintage and region). Moreover, while being a rather "low-tech" vehicle – having no self-propulsion or signalling equipment – the freight car as equipment and collateral has the extra benefit of high operational and technical efficiency. This makes the asset class attractive, even in the event of potential collateral recovery if fleets are repossessed or remarketed/redeployed.

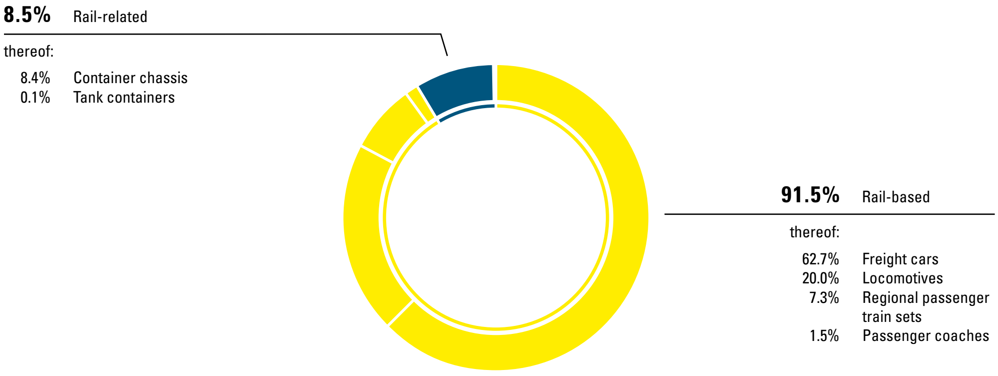
The portfolio share of locomotives ticked down slightly to 20.0% (previous year: 21.2%) whilst the share of regional trainsets declined to 7.3% (previous year: 11.3%). As the market for container chassis is still saturated given the size of existing fleets, the share of rail-related vehicles was up only slightly, to 8.5% (previous year: 7.7%). CHART 26

Given a mixture of some smaller-sized and various big-ticket transactions, the average lending exposure per client was almost unchanged at €38.3 million (previous year: €38.2 million) in 2016. The number of clients with an exposure exceeding €50 million remained steady vis-à-vis 2015 at ten. We do not perceive any indications for elevated cluster risk.

Land Transport Finance portfolio by country risk C 25



Land Transport Finance portfolio by asset type C 26



New business

Loan portfolio development

During 2016, our Land Transport Finance business again developed very favourably, in spite of a challenging environment. Land Transport Finance was thus able to close twelve new transactions with a total volume of €480.3 million and a gross average interest margin of 217 basis points in Europe, North America, and Australia (previous year: 14 transactions, volume of €533.3 million, gross average interest margin of 232 basis points). Our new business volume was thus again above the ten-year average. Essentially, it was based on three economic factors:

- especially, the need to refinance existing loans for rolling stock;
- mildly increased propensity to invest in the North American and European rail markets (especially in niche segments); and
- replacement investments of fleet owners in their rolling stock.

In spite of good new business originated, Land Transport Finance was unable to maintain the size of its portfolio: it declined due to the repayment of several large partial exposures – both in line with contractual obligations, and early prepayments. During 2016, new rolling stock investments were still below the levels seen prior to the economic crisis – in Europe, the US and Australia. Some larger-sized fleet disposals by lessors – or even company sales – were observed during the course of the year – in some cases in order to realise higher values, to implement strategic changes, or to facilitate succession arrangements. Against this background, we continued to concentrate on financings in the primary markets. We did not close any secondary market transactions in 2016.

As in the previous year, the lending transactions we closed successfully were all secured by first-ranked collateral. Specifically, we arranged and participated in bilateral loans and larger-sized credit facilities on the basis of club deals. We also entered into (non-recourse) transactions with special purpose entities and successfully structured solutions for operating leases. Within the scope of non-recourse transactions, we also took implied asset risk in the financed rolling stock. Together with Financial Institutions and Syndications, we syndicated tranches of various transactions into the banking market, while keeping a significant share of the business on our books.

We worked closely with Land Transport Research regarding all transactions, jointly assessing the projected performance of the relevant transport assets, the specific features of the asset type, the current supply and demand situation, future market movements and external trends. These analyses also incorporated regulatory aspects and expected technical changes, since they also determine the potential for re-marketing on the secondary market, as well as future lease rates.

DVB's Corporate Finance team successfully concluded an exclusive M&A sell-side advisor mandate in the European land transport market, and was involved in a capital markets transaction in North America in 2016. Stephenson Capital Limited, a DVB-managed rail fund, participated in another North American transaction as equity provider; and a European equity investment was successfully divested in 2016.

New business we originated during 2016 predominantly consisted of rail asset transactions, with one transaction for rail-related vehicles. Financings of new or used freight cars and of new locomotives constituted the backbone of rail asset finance. At 67.0%, this segment continued to account for the largest share of new Land Transport Finance business, in line with the Bank's strategy, followed by transactions involving locomotives (21.5%). We also refinanced a larger-sized portfolio of rail-related vehicles (container chassis) in the US. This transaction enabled us to increase the share of this market segment, contributing positively to a further diversification of the Land Transport Finance portfolio.

Some key Land Transport Finance transactions entered into in 2016 were:

- Lead Arranger, Administrative Agent and Collateral Trustee for a syndicated US$150 million amortising loan granted to a leading US railcar lessor. The loan was used to finance a diversified pool of 1,799 relatively new freight cars in the US. Two international banks participated in this syndicated financing.

- Lead Arranger, Hedging Bank, Facility and Security Agent for a €228 million amortising loan with a revolving element, granted to a large lessor of state-of-the-art electric locomotives in Europe. Six international banks in total participated in this club deal. At the same time, the refinancing enabled the lessor to cover the expansion financing for another 30 Siemens locomotives.

- Sole Provider of a liquidity facility for an existing rail car ABS transaction in the US, to secure creditor cash flows. This innovative liquidity facility was granted instead of a traditional cash-based liquidity deposite, making this transaction a first for a rail car ABS.

Deal of the year 2016

European Locomotive Leasing (ELL), Vienna, Austria, is a young but already leading lessor in the European locomotive full-service leasing market. Set up in 2014, supported by equity partner Kohlberg Kravis Roberts & Co. (KKR), and then furnished with a well-structured asset-based debt package for the start-up phase, the company swiftly captured a prominent position by leasing out the most modern Siemens Vectron electric locomotives, offering the best market prospects in the European rail sector.

Having easily grown over two years into the next phase of its development, ELL and KKR approached DVB and other lenders early 2016 with the request for an extended refinancing facility that would

- optimise the existing facility;
- provide debt for future investments in 30 additional state-of-the-art electric locomotives; and
- support an even further growth potential for the fleet through an accordion feature.

Each of these aspects were all very relevant, as ELL had not only outperformed its own business plan until that date, but also because the significant demand for new electric locomotives could not be satisfied by existing operating lessors.

In June 2016, the new significantly increased, eight-year term loan and revolving facility for ELL was signed. The security package comprised typical asset-based elements such as – inter alia – first priority interests in the rolling stock, plus assignments of accounts and lease contracts. We acted as Hedging Bank as well as Facility and Security Agent for an international club of altogether six banks, and took the largest debt share.

This transaction improved ELL's financing structure and pushed its range of operational possibilities, to the mutual benefit of the sponsor and debt providers. DVB was pivotal for the closing of this important deal and was again fully recognised as leading lender and reference bank in this landmark transaction.

We are pleased to have been able to offer such a transaction to ELL at the right time to allow them to efficiently continue on their growth path.

Earnings analysis

Our Land Transport Finance division continued to generate very good annual results in 2016. In a still challenging environment, the business division was able to increase total income by 8.1% year-on-year, to €29.4 million (previous year: €27.2 million).

Due to increasing competition and high liquidity on the financial markets, the average interest margin for new business fell. Net interest income declined 8.5%, to €20.4 million. Thus, net interest income after allowance for credit losses was also reduced, by 10.6%, to €19.5 million (previous year: €21.8 million). The fact that allowance for credit losses for Land Transport Finance amounted to a mere €0.9 million was positive and noteworthy. Given the relatively low market cyclicality of rail assets, transactions in Land Transport Finance are generally less prone to risks than financings in other transport sectors. Total allowance for credit losses in Land Transport Finance as at 31 December 2016 therefore only amounted to €2.6 million (previous year: €2.1 million).

Net fee and commission income was nearly doubled, amounting to €9.7 million (previous year: €5.2 million), thanks to successful loan, M&A advisory and capital markets transactions.

The segment result before taxes amounted to €26.0 million, a 9.7% increase on the previous year's result of €23.7 million. TABLE 36

Extract from the segment report for Land Transport Finance

T 36

€ mn	2016	2015	%
Net interest income	20.4	22.3	–8.5
Allowance for credit losses	–0.9	–0.4	–
Net interest income after allowance for credit losses	19.5	21.8	–10.6
Net fee and commission income	9.7	5.2	86.5
Income (excluding the IAS 39 result)	**29.4**	**27.2**	**8.1**
General administrative expenses[1]	**–3.4**	**–3.5**	**–2.9**
Net segment income before taxes	**26.0**	**23.7**	**9.7**

1 Only those costs are allocated to DVB's operating business divisions for which they are directly responsible. General costs of operations, overheads or, for example, IT costs, are not allocated to the operating business divisions.

Risk management

99.7% of the Land Transport Finance portfolio is collateralised by assets (previous year: 99.6%). Other collateral (0.1% of the total volume) held steady on the previous year, whilst the share of unsecured business (0.2%) inched down (previous year: 0.3%). There was little change in the risk situation in our target markets of Europe, Australia and North America during 2016.

Being acutely aware of risks is a material element of our work when entering into a transaction, as well as when monitoring existing exposures. Our credit approval process, which may comprise up to three levels, includes an extensive analysis of each new exposure regarding the risk factors it may be exposed to. In weekly Deal Committee meetings the responsible member of the Board of Managing Directors, the Land Transport Finance, Land Transport Credit and Land Transport Research teams first discuss all potential new transactions. Transactions that are given the "green light" in these meetings are then finalised in negotiations with the client, and – if approved – submitted to the entire Board of Managing Directors for approval. Where required by the Land Transport Finance lending policy, new transactions also need to be approved by the Supervisory Board's Credit Committee. Decisions on new exposures always require an independent opinion from Land Transport Research.

Furthermore, once a new transaction has been booked, the portfolio is constantly reviewed and categorised by risk class. During phases of increased risk relevance, the portfolio is run through the early warning system (with finance projects tagged green, amber, or red), with higher risk deals added to the Closely Monitored List or the Early Warning List, and ultimately – where and when required for critical transactions – placed onto the Watch List or Loan Loss Provision List.

The risk levels within our portfolio are comparatively low due to the higher intrinsic stability of the land transport markets compared to other sectors. This was evident in 2016, too:

- Thanks to tight and pre-emptive internal risk control management, the slight market changes, and due to our moderate appetite for risk, we only needed to assign a small number of clients to higher risk groups. The risk structure of the portfolio has improved slightly, with a lower number of deals on the Closely Monitored List or the Watch List.
- Only a small addition to allowance for credit losses was required for the Land Transport Finance portfolio at the 2016 year end.
- In December of 2016, we increased the allowance for credit losses we had built for a smaller transaction, following the initiation of insolvency proceedings for a remote parent entity of the borrower. The borrower has continued to perform on its contractually-agreed debt service obligations. In preparation for potential significant changes, however, we decided to use the solid annual results for Land Transport Finance to increase our risk buffer.

Land Transport Finance – Outlook 2017

Market outlook 2017

With the political uncertainty surrounding the new Trump Administration in the US, a looming Brexit, an uncertain rate of installation of new energy sources and the recent unexpected changes in prices of various energy sources and commodities, it is difficult to predict rail developments one year in advance. The development of rail freight volumes seems neither to correlate strongly with gross domestic product growth nor trade growth any more, but more to the industrial production which is closely linked to rail transport. Nevertheless, the International Monetary Fund forecasts gross domestic product growth of 1.6% in the euro area, 3.1% in emerging and developing Europe, 1.9% in Canada, 1.7% in Mexico, and 2.3% in the US. The Reserve Bank of Australia gives a range of 2.5% to 3.5% for Australia, whereas world trade growth is expected to be between 1.8% and 3.1% according to the World Trade Organisation. At least a stabilisation of oil prices following the agreement among OPEC members and several other major producers to limit supply will be favourable for the competitiveness of the relatively fuel-efficient rail market. However, the permanent legalisation of longer trucks on German roads as from 31 December 2016, and the first driverless trucks will start to have some impact on the rail freight volumes.

Both the Russian State Railways and the Chinese State Railways announced they wanted to bid for franchises, or take over railway companies in Europe. More container trains from China to Europe can be expected, even to London and Madrid, which would be the longest rail routes in the world. That would be a welcome development, since the International Union of Combined Road-Rail Transport Companies has given a slightly negative business outlook for intermodal transport in Europe up to 30 September 2017. The discussion between the German government and the European Commission concerning from which date freight cars all need to be more quieter-running in Germany (and the rest of the European Union) makes investment decision planning for leasing companies quite difficult.

Since the Trump Administration has not publicised too many details of their policies, but has, however, hinted at introducing border taxes, putting trade agreements at risk, not implementing stricter environmental regulations, reducing red tape and at the same time giving tax cuts for US-based companies, it is very difficult to gauge any expectation of the outcome of these measures for the rail market. Manufacturing in Mexico, Canada, or outside the US in general could come under pressure, meaning on the one hand, less transport of components and finished goods across the US borders, but on the other hand, an increase of domestic transport of components and raw materials. Apart from the political element, there is some optimism related to the transport volumes of grain due to a good 2016 harvest. This also applies to the volumes of petrochemicals and plastics – centred in the Gulf of Mexico region, due to recent large investments in chemical plants which profit from relatively low energy costs in the US. If natural gas prices remain at relatively high levels and normal winter weather materialises in the beginning of 2017, easy year-on-year comparables should finally allow for an increase in coal volumes. Low utilisation levels of rail freight rolling stock will mean few new orders for equipment.

By far the majority of rail freight transported in Australia is coal and iron ore. The Australian Bureau of Resource & Energy Economics forecasts iron ore production to increase by 3.7% and coal production by 0.9% in the business year ending on 30 June 2017. Some planned short-haul intermodal projects and positive gross domestic product development will likely contribute to growth in intermodal transport down under.

Portfolio outlook 2017

Structured Asset Lending remains our core business. We have started the new year with a satisfactory transaction pipeline in all our core markets, and anticipate a positive business development. At the same time, we envisage some challenges ahead. First, the propensity to invest in new rolling stock in most land transport market segments still falls short of pre-crisis levels. Second, given the much cheaper liquidity available on the financial markets, market participants are still ready to refinance existing exposures. Third, the rail market sees more and more investors (in particular institutional investors) entering with limited knowledge about rail financing.

We expect the following trends to determine land transport finance markets during 2017:

- Demand for asset-based finance in Europe will remain intact for freight cars and locomotives in particular. Long-term financings for passenger train sets are expected to be increasingly covered by new financing models involving the public sector or via specific windows in the capital markets.
- In North America, demand for larger new freight car purchases is likely to decrease on average. Refinancing of existing fleets or individual niche transactions will dominate the market.
- In Australia, we once again anticipate weak demand for new bulk freight cars; there will be investment opportunities for modern locomotives and new specialised freight cars, for example.
- We also see good opportunities for advisory mandates, and increasingly for capital market transactions.

We are generally optimistic with regard to the development of our high-quality portfolio, with the rail asset sector set to remain the division's strongest pillar in 2017. Strategically important transactions are again expected to materialise in this segment in the years to come. At the same time, we are more willing and flexible than ever to pursue rail-related opportunities where they arise.

In spite of a weak commodity market, some political uncertainty and persistent economic weakness in certain markets, we do not anticipate any significant increase in our portfolio's risk level. Our business is supported in principle by the inherent long-term stability of the land transport sector. Portfolio management remains a top priority in our business. We will adhere to our policy of maintaining tight risk analysis, to prevent such risks in our business that have materialised as a consequence of increased cyclicality in the land transport markets, and due to macroeconomic changes. For 2017, we expect the composition of our portfolio – by regions, clients, and market segments – to develop consistently, therefore remaining largely unchanged at current diversification levels. Given the relatively moderate economic outlook for Europe, North America and Australia, we are optimistic that we will be able to expand the international portfolio shares. We have committed ourselves to preserving the high level of earnings power our portfolio has demonstrated in these past years.

Lending and other services provided within the scope of our Land Transport Finance platform will remain in demand during the forecast period. Time and again, our long-term client relationships have proven to be very sustainable in our business. We enjoy an excellent market reputation – whereby we are often seen as a reference bank – and continue to retain a clear focus on our core business. These factors remain particularly important, especially during challenging times. Therefore, we are convinced that we will be able to preserve our leading position in the market during 2017.

IMPORTANT DEALS 2016[1]

Allegiant
Full Recourse Financing
5 x A320-200
Bilateral

ELL European Locomotive Leasing
Senior Secured Term Loan & Capex Facility
Portfolio of Siemens Vectron E-Locomotives
€93 million
Hedging Bank, Facility and Security Agent &
Club Lender

Apollo Aviation Group
2 x Aircraft ABS Offerings
US$1.15 billion
Joint Bookrunner & Joint Arranger

Goldenport
Refinancing for
5 x Supramax dry bulk vessels
US$27 million
Bilateral

Ardmore Shipping Corporation
Follow-on Equity Offering – NYSE US
US$77 million
Co-Manager

Greatship (India) Limited
Financing for
4 x modern high-specification jack-up drilling rigs
US$268 million
Mandated Lead Arranger

Asiana Airlines
Finance Lease
Portfolio of 9 used aircraft
Agent & Arranger

Grindrod/IVS
Senior Secured Term Loan Facility
2 x newbuild Handysize and
3 x newbuild Supramax dry bulk vessels
US$21 million
Sole Arranger & Bookbuilder

Avolon
Limited Recourse Financing
Portfolio of 7 aircraft
Debt Arranger & Underwriter

Guggenheim (now Altavair)
Limited Recourse Financing
2 x A330-300 on lease to Delta
Agent & Arranger

Awilco Eco Tankers
Financing for 4 x Eco design
Very Large Crude Carriers
US$230 million (club deal with ABN,
Nordea and Credit Agricole)
Mandated Lead Arranger

Gulf Agency Company
Fleet refinancing for
14 x offshore support vessels
Leveraging up to part-finance the acquisition of
2 x anchor handling tug vessels
US$20 million
Bilateral

CMA CMG
Japanese Operating Lease
with Call Option
Fleet of reefer container boxes
Mandated Lead Arranger &
JOLCO Arranger

Gulf Air
Financial Advisory Mandate
Arrange financing for 20 aircraft
delivering 2018–2020
Sole Advisor

DVB Aviation Asset Management
139 aircraft under lease
management in 2016

DVB Aviation Asset Management

Lavinia/Laskaridis
Amortising Term Loan
2 x newbuild Newcastlemax dry bulk vessels
US$50 million
Bilateral

DVB Aviation Investment Management
Investment Consultant to equity funds owning
132 commercial aircraft on lease
2 airline equity investments
More than US$1 billion of equity
currently managed

DVB Aviation Investment Management

LOT Polish Airlines
Aircraft Sourcing, Lease Negotiation
and Analysis
B737 family and A320 family aircraft
Sole Advisor

1 Unaudited information (not included in the audit opinion)

Minsheng Financial Leasing/Trafigura
Senior Loan Facility
8 x bitumen tankers
US$149 million
Arranger

MSC Mediterranean Shipping Company
Financing for
Fleet of container vessels
US$80 million
Mandated Lead Arranger

MTMM
Refinancing for
6 x chemical tankers
US$37.2 million
Arranger & Agent

NACCO, a CIT Company
Senior Secured Term Loan
Portfolio of freight railcars
Co-Arranger

Napier Park
First ever Liquidity Facility for
Railcar ABS Notes
2,905 railcars
Arranger & Sole Provider (DVB)
Structuring Agent (DVBCF)

Nordic Aviation Capital
Japanese Operating Lease with
Call Option
3 x ATR72-600 on lease to Garuda
Debt Arranger & Underwriter

Pacific Gas
PDP Financing
1 x newbuild Very Large Gas Carrier
US$13.3 million
Sole Arranger & Underwriter

Scorpio Tankers
364-Day Refinancing Facility
4 x product tankers
US$90 million
Sole Arranger, Underwriter & Lender

Singapore Airlines
Sale of 5 x A320 aircraft
on behalf of the airline's subsidiary
Tiger Airways
Remarketing Agent

Sloman Neptun
Financing for
2 x newbuild Capesize bulk carriers
US$48 million
Mandated Lead Arranger

SMBC Rail Services
Term Loan
Various railcars
US$50 million
Lead Arranger, Administrative & Syndication Agent

SPDB Financial Leasing
Operating Lease Financing
2 x B737-800 on lease to Shandong Airlines
Agent & Arranger

Touax Rail
Three Term Loans
Diversified fleets of European freight cars
€97.6 million
Arranger, Facility and Security Agent &
Lender in two club deals and one direct loan

Trafigura
Sale-and-Lease-Back Financing
3 x newbuild MR product tankers
(2015 and 2016)
Co-investment with MSEA Capital

Tsakos Energy Navigation (TEN)
Refinancing of
2 x Suezmax tankers
1 x Very Large Crude Carrier
US$30 million
Co-Arranger

Vietnam Airlines
Finance Lease Financing
1 x B787-9
Arranger

Virgin Atlantic
JOLCO Financing
B787-9
Debt Arranger & Underwriter

Volstad Maritime
Financing for “Grand Canyon III”,
a state-of-the-art ST259 offshore
construction vessel newbuilding
US$70 million
Co-Arranger

Business area
/ Interbank market

Product
/ Risk Distribution & Loan Participations

Partners
/ Bank and non-bank financial institutions able to participate in loan transactions

Core regions
/ Global coverage

Financial Institutions and Syndications

DVB's knowledge and expertise as an arranger and syndicator means that clients can rely on DVB to place their financing requirements. The Financial Institutions and Syndications team is responsible for all financial institution relationships and sell-down efforts. During 2016, it continued to successfully raise bank debt for transactions across DVB's Transport Finance divisions.

Financial Institutions and Syndications – Market review

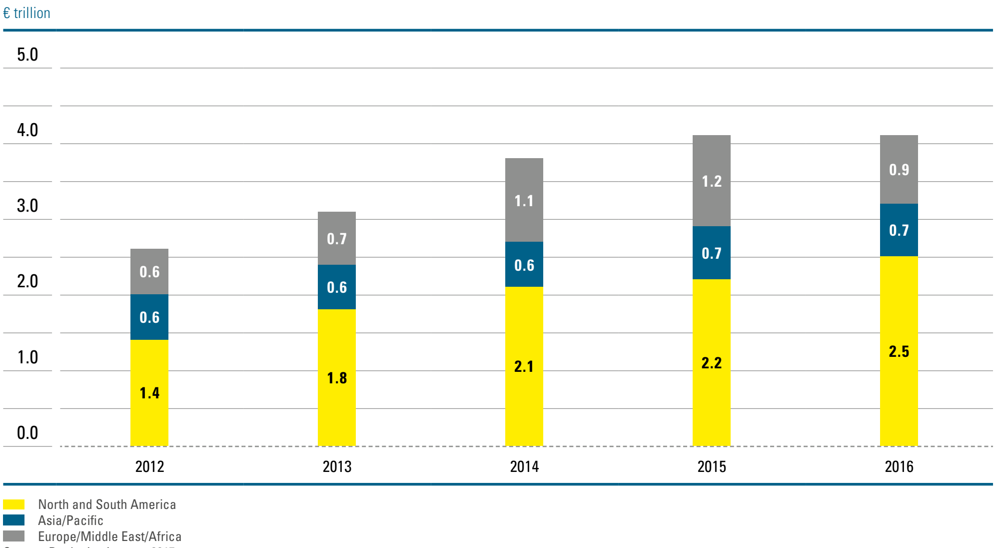
Global syndicated loan volume remained stable at €4.1 trillion in 2016 compared to the previous year. By region, syndicated loan volume in the North and South America region increased 13.6% to €2.5 trillion (previous year: €2.2 trillion). In Europe/Middle East/Africa, volume declined 25.0% to €0.9 trillion (previous year: €1.2 trillion). In the Asia/Pacific region, loan volume remained at the same level as the previous year (€0.7 trillion). CHART 27

In 2016, the banking industry faced a number of challenges, which included impending Basel IV regulatory pressure, weak exchange rates versus the US dollar, the US Federal Reserve's interest rate hikes and increasing US-dollar borrowing costs, together with political uncertainty related to Brexit and the US election outcome. Industry-specific pressures have affected bank appetite for transportation assets, further translating to an increase in loan market pricing for shipping, as well as tightening of static spreads for some names in aviation.

Shipping and offshore markets remained challenged. The dry bulk and offshore markets saw little new debt liquidity this year. The container shipping market also faced increasing headwinds and consolidation among liner companies to reduce costs in an increasingly competitive environment. Following the collapse of Hanjin, appetite from lenders to finance containership and container boxes has been relatively muted, and limited to existing clients. In China, local banks remained highly competitive for domestic clients, further building up their shipping books, while less so for offshore deals. Active banks in shipping kept a sharp focus on credit quality. Where asset risk was taken, strong mitigates were preferred such as recourse and assets operating in pools with multiple lessees and employment. With the challenging shipping and offshore markets in some sectors, some banks have decided to exit ship financing or have scaled down their lending. Although scrap rates have accelerated in some sectors, and newbuild supply has reduced slightly with the closure of a number of yards, no upward turn in the cycle has been seen yet.

Global syndicated loan volume per year

C 27



Source: Dealogic, January 2017

With respect to aviation and rail, banks remained optimistic overall, although concerns of a heated aviation market resonated. Liquidity came from both commercial bank debt and capital markets (in particular issues of asset-backed securities, and enhanced equipment trust certificates). Growing interest for secured aviation debt was also observed from the institutional market given the prevailing low interest-rate environment and hunt for yield. Financial institutions continued to provide higher advance levels at competitive pricing for top-tier names, especially for full-recourse transactions (including portfolio financings). Pools of lenders able to consider lower-rated counterparties, non-recourse debt and balloons remained limited.

For rail specifically, appetite from the bank debt market (outside of competitive sovereign-backed projects) was mainly directed towards newer equipment, portfolio/warehouse deals, larger leasing companies and/or publicly-owned borrowers. Appetite in the market for these transactions originated from North America and Europe, whilst growing interest was observed from the Asia/Pacific region.

Financial Institutions and Syndications – Strategy

Our skills and expertise as an arranger and syndicator mean that our clients can rely on DVB to place their financing requirements. We support DVB's four Transport Finance divisions in raising non-public mezzanine and market debt globally.

The key drivers of Financial Institutions and Syndications' successful strategy are to:

- Centralise coverage, and coordinate existing and new relationships with global financial institutions;
- Develop and maintain a good understanding of each financial institution's risk appetite and requirements;
- Ensure close cooperation with DVB's global transport finance network, research and advisory teams;
- Provide competitive pricing structures based on up-to-date information; access to global networks and ad-hoc analysis;
- Empower effective management of the syndication process, and provide a personalised bespoke approach towards the banking partners;
- Understand the wider economic conditions, and how they affect transportation financing; and
- Take global responsibility for ECA (primarily maritime) arranging and coordination.
- Act as a central point of contact for all secondary deal/portfolio opportunities covering all transport markets. With an established global network of partner banks, we are a gateway for financial institutions looking to engage in financing transportation assets or utilise other product team services within DVB.

Financial Institutions and Syndications – Portfolio analysis

During 2016, the Financial Institutions and Syndications team brought together experienced international banking partners and established new financial institution relationships. Overall, a volume of €700.8 million was sold in 2016, a 11.5% increase from €628.8 million in 2015. With 47.9% in 2016, Aviation Finance transactions made up close to half of total sell-down volume (previous year: 51.5%). The Shipping Finance activity decreased to 31.5% (previous year: 44.1%). This decline in percentage of total sell-down reflected the challenging shipping market environment set in early 2016. Rail transactions made a comeback, and accounted for the remaining 20.6% (previous year: 0.0%). The team continued to remain active, working on 19 transactions (previous year: 17 deals).

Across all sector deals in 2016, the majority of deals were club/book-build style transactions with existing partners and also – increasingly – new partner banks. In Aviation Finance, the Financial Institutions and Syndication team additionally completed a combination of direct airline transactions as well as operating lessor transactions throughout 2016. CHART 28

Total sell-down volume by business division C 28

Financial Institutions and Syndications – Market and portfolio outlook 2017

The banking industry is at the crossroads, with both threats as well as opportunities on the horizon. The advent of Basel IV regulation coupled with US dollar/euro exchange rates and a requirement to refocus on capital efficiency and non-risk-weighted-asset income (instead of loan production) appear to be the key near-term issues for banks. Macroeconomic uncertainty caused by the above factors is increasing long-term costs of liquidity: this has partially contributed to shorter loan tenors being preferred across all industries.

With the in some sectors challenging shipping and offshore markets, it is expected that banks will continue to exit or scale down lending activity in 2017 and new appetite for shipping and offshore transactions is likely to remain muted. Capacity will either be reserved for existing and core clients, or focus upon credit quality and vessel employment.

Within the world of aviation, senior secured debt remains popular, with some financial institutions continuing to expand their remits to include limited-recourse portfolios, non-recourse balloons, operating leases, warehouse facilities and junior loans – all whilst attempting to minimise balance sheet usage (utilising institutional funds and debt securitisation vehicles). Young narrowbodies continue to be regarded as the most appealing aviation asset, due to their liquid element.

In rail, activity is expected to still be focused around the North American and European regions. Liquidity will remain available for portfolio deals benefiting from good diversification in terms of railcars, and younger equipment. Appetite for small leasing companies with strong financial track records as well as larger leasing companies and/or publicly-owned borrowers will likely be present.

For 2017, the Financial Institutions and Syndications team expects the number of deals closed for Aviation Finance and Land Transport Finance to be similar to 2016. This however may not be enough to offset the expected slowdown in shipping and offshore transactions. Despite the challenges facing the transportation industry, we aim to continue

- to leverage our asset and arranging expertise, in order to strengthen existing and newly formed bank partnerships; and
- to work with our industry partners in the sourcing of liquidity for our clients and, wherever applicable, the distribution of loans.

Business area
- Investment banking

Produkte
- Corporate Finance Solutions (Corporate Advisory, Mergers & Acquisitions, Equity & Debt Capital Markets, Structured Asset Finance)

Clients
- International corporations across all transportation sectors as well as institutional investors

Core regions
- Global coverage

DVB Corporate Finance

DVB Corporate Finance (DVBCF) is an established investment banking franchise within DVB, providing advisory and financial services to corporate clients on a global basis. As an independent financial advisor, the DVBCF team offers a complete range of financial products and services in Corporate Advisory, Mergers & Acquisitions, Equity & Debt Capital Markets, and Structured Asset Finance.

Our services are based on long-term relationships with clients, in-depth industry expertise across all transportation sectors, and strong professional skills: the objective is to provide customised integrated financial solutions to our clients. The team comprises of seasoned professionals, with comprehensive experience gained from a wide variety of backgrounds (at bulge bracket investment banks and boutique banks). Team members are located in New York, London, and Oslo, whereby proximity to key industry players provides a significant advantage. Our clients are international corporations across all transportation sectors as well as institutional investors, including private equity firms and hedge funds. The team has strengthened its capabilities and focus on sourcing private capital on behalf of clients with the formation of the Private Placement Group.

DVB Corporate Finance – Market analysis

Mergers & acquisitions (M&A)

Global M&A activity remained on pace in 2016, despite global political uncertainty and continued market volatility stemming from Brexit, the US presidential election, the US Federal Reserve's (Fed) decision to raise interest rates, and slowing economic growth in China. Fundamental factors driving M&A (including companies' need to supplement limited organic growth, the opportunity to improve margins by realising synergies, and the availability of low-cost capital to finance acquisitions) contributed to steady activity.

After three consecutive year-on-year increases, 2016 global M&A volume reached €3.8 trillion in 2016, down 19.1% year-on-year compared to €4.7 trillion in 2015. While volume fell somewhat significantly, total revenue was down only 2.0%, indicating a growth in deal size. The year witnessed 14 big-ticket transactions, worth more than €18.8 billion. Cross-border M&A was down 3.0% globally year-on-year, but China's outbound volume posted a record high of €211.8 billion, as did US inbound M&A of €456.8 billion.

Global transportation and logistics M&A activity remained stable in 2016, reflecting a continued drive towards globalisation, outsourcing of the logistics function by companies, and global growth in e-commerce.

Corporate bond market

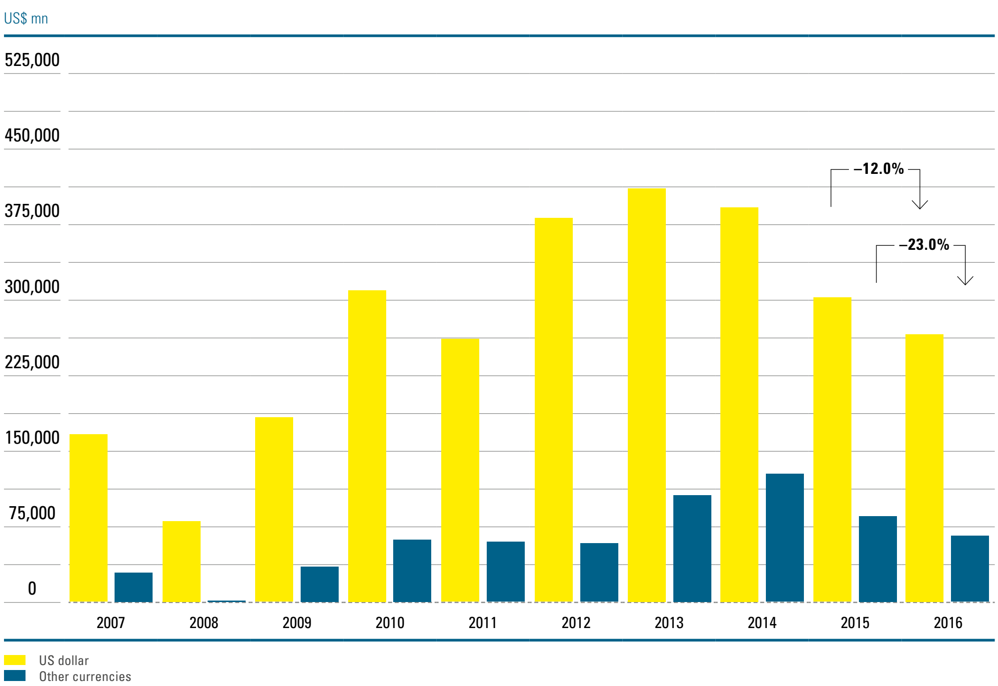
Depressed commodity markets and investor risk aversion carried over from 2015 resulted in a slow start to 2016. From January to April, issuance of high yield bonds globally lagged the prior year by 50%. However investor confidence returned, as reflected in a gradual credit spread tightening in the secondary markets, beginning in February. After tightening by over 270 basis points, the broad US dollar high yield market index finished the year with yield and spread at 6.50% and 475 basis points, respectively, which represents the tightest spreads in over two years. New issuance activity accelerated from September, surpassing the similar period in 2015 by over 40%. Still, US dollar new issue volume finished the year down by 12% while non-US dollar primary volume declined 23% from 2015 and down by nearly 50% from the 2014 all-time record. The energy sector saw a remarkable return of investor appetite, with new issuance driven by debt refinancing, M&A and growth projects accelerating in the later part of the year. September to December energy sector volumes accounted for over half of the total activity for the year.

Issuance activity in the transportation sector was relatively subdued in 2016 as investors continued to favour higher quality, well-known names with stable cash flow characteristics, and issues with better secondary market liquidity.

Land transport and aviation supplied a steady deal flow from a variety of issuers such as global airlines, railroads and equipment lessors, as well as port operators, which were predominantly structured to tap into the investment-grade category. US and European private placements saw a continuing trickle of high credit quality borrowers substituting bank borrowings with customised long-term debt placed with alternative investors.
CHART 29

High yield bond issuance

C 29



Source: Offering Memorandums, DVB Corporate Finance, January 2017

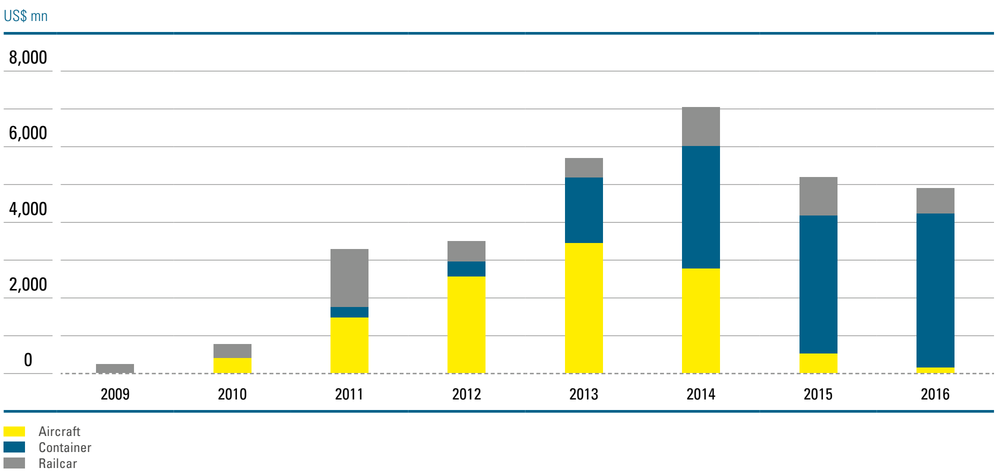
Securitisation market

Securitisation is a form of non-recourse financing that involves the repackaging of assets and associated cash flows into marketable securities commonly referred to as asset-backed securities, or ABS. Bankruptcy-remote structures and the sole reliance on the underlying assets for principal repayment are key features of ABS. Driven by strong underlying performance and improving industry fundamentals, demand for ABS backed by aircraft, containers and railcars on operating lease have seen steady improvement since 2009 from the lows generally experienced for securitisation products during the recession years of 2007 through 2009. For investors, operating asset deals offer diversity from traditional consumer asset- and mortgage-related ABS, which were at the epicentre of the financial crisis. For asset owners, the ABS market can provide an efficient and low-cost funding alternative to other credit products, whilst expanding liquidity and enhancing asset-liability and portfolio risk management strategies. Despite volatility in the overall rates market, issuance of transport-related ABS remained healthy in 2016, at €4.7 billion, which is down marginally from the year earlier. The aircraft sector was particularly robust, reaching a post-crisis record of €3.9 billion in issuance volume, as seven deals came to market, the most since 2000. Railcar-backed issuance was on a par with 2015, though down volume-wise due to smaller deal size, whilst the container sector suffered as lessors continued to slow portfolio growth in the face of weak global trade and commodity prices. Taking its cue from the overall rates market, spreads drifted wider through the first half of 2016, but reversed course in the second half to close only slightly elevated for the year.

Successful transactions were introduced by both first-time and repeat issuers in all transport sectors, including aircraft deals by Apollo Aviation Group LLC, Castlelake L.P., and first-time issuer Aergen Aviation Finance Limited. One notable transaction was an innovative railcar offering from Napier Park Global Capital (US) LP, which featured a DVB-arranged liquidity facility that supports timely payment of interest on the issue, a first-ever in the railcar ABS space. DVB Capital Markets was the most active investment bank in the transport-related ABS sector, featuring as bookrunner or co-manager on half the deals that came to market, and aggregating €2.5 billion in issuance volume. CHART 30

ABS issuance by asset type

C 30



Source: Bloomberg, ABS-Alert und Offering Memoranden, January 2017

Equity capital markets

The S&P 500 index ended 2016 up 9.5%, reflecting a significant increase from 2015's near-flat growth. This growth did not come without volatility and uncertainty throughout the year, stemming from the worst two-week start in market history, a plunge and subsequent rally in oil prices, Brexit, a soft IPO market, the market surge after Donald Trump's electoral victory, and the Fed's decision to raise US interest rates at the end of the year.

Primary equity capital market (ECM) activity totalled €617.7 billion during the full year 2016, down 25% compared to a year ago and the slowest annual period for global ECM issuances since 2012. By number of issues, 4,669 ECM offerings were brought to market during 2016, a 5% decline compared to 2015 and the slowest annual period for new offerings since 2013 when 4,469 deals priced. Continuing the populist trend emboldened by Brexit, Donald Trump's surprise win in the US presidential election in November 2016 roiled markets. This turmoil quickly shifted into a sustained rally – with major indices adding 6% to 12% through year-end as investors bid up stocks in anticipation of deregulation, lower taxes, inflation and infrastructure spending. The Fed decided to raise interest rates by 25 basis points in December, citing higher home prices, a low unemployment rate and improving confidence in the economy – and it projected three additional rate hikes in 2017.

Access to the equity markets for shipping and offshore companies continued to be challenging in 2016. Similar to 2015, there were no regular IPOs of shipping companies. The container shipping sector was hit particularly hard, culminating in the Hanjin bankruptcy and sparking concerns for many shipping segments. Equity proceeds in the sector grew 30% to raise €5.2 billion – 39 ECM deals consisted of 19 follow-on offerings, two IPOs of special-purpose acquisition companies, one spin-off, and 17 private placements. The total 22 common stock offerings raised only €1.5 billion, or €68.9 million per offering on average.

DVB Corporate Finance – Strategy

DVBCF offers integrated financial solutions to international corporations across all transportation sectors as well as institutional investors, utilising its core products and services including advisory and M&A, securitisation/ABS, public and private debt capital markets. As a bank-wide resource, the team also renders its services in order to increase non-capital binding revenue, enhance cross-selling of DVB's products and services, and contribute to sustainable top and bottom-line growth of the DVB franchise. By leveraging DVB's specialised industry focus and deep knowledge of transportation assets and asset-based lending, the team coordinates closely with relationship managers to

- identify attractive and profitable corporate finance opportunities;
- develop trusted strategic dialogues at the C-level; and
- facilitate cross-selling of corporate finance products.

This enables DVBCF to provide consistent, high-quality strategic advice and deliver flawless transaction execution.

The team strengthened its capabilities and focus on sourcing private capital on behalf of DVBCF's clients with the formation of the Private Placement Group (PPG) in January 2016. PPG was formed in response to weak public capital markets and the increasing dependency on alternative financing, particularly in shipping where companies have turned to smaller and targeted private placements in response to investors' reluctance to invest in public markets. The team focuses on establishing and strengthening relationships with long-term institutional investors and developing a niche expertise in arranging transportation private placements. PPG has developed and maintains a wide and comprehensive coverage of global institutional investors. It supports DVBCF's live deals and cooperates with other groups within the Bank.

DVBCF extended its non-exclusive cooperation with Norwegian investment bank Arctic Securities in 2016 and continues to work on transactions on a selective basis. Such cooperation is typically focused on shipping and offshore, sale-and-lease-back transactions and Nordic capital markets. The team also opportunistically collaborates with third-party investment banks/brokerage houses on certain deals to enhance DVBCF's in-house capabilities and complement each firm's strengths.

Looking ahead, DVBCF will continue to focus on its strategy of proactively developing and pitching creative ideas to deliver integrated financial solutions to its clients, working across all segments of DVB's core transportation expertise and product groups. The 2017 transaction pipeline is well-stocked and diversified in terms of both region and sector, and the team fully intends to build on its momentum from 2016.

DVB Corporate Finance – Portfolioanalyse

In 2016, DVBCF was mandated on a number of high-profile transactions in the land transport, aviation and shipping sectors in both advisory and M&A, and capital markets, representing the culmination of ongoing cooperation with relationship managers and the development of strategic dialogue with the Bank's key clients. The team completed a €33.5 million sell-side M&A mandate for a European railcar company on a sole advisory basis, and worked as exclusive financial advisor for the 49% sale of a state-owned South American tanker company. In addition, the team was mandated on a sell-side M&A advisory mandate for a European dry bulk company. In the US, DVBCF, acting through its broker dealer DVB Capital Markets, continued to solidify its presence in the ABS market by advising and co-leading several deals in the aviation and railcar sector, and participated in equity and debt securities issuances in the shipping sector as a co-manager.

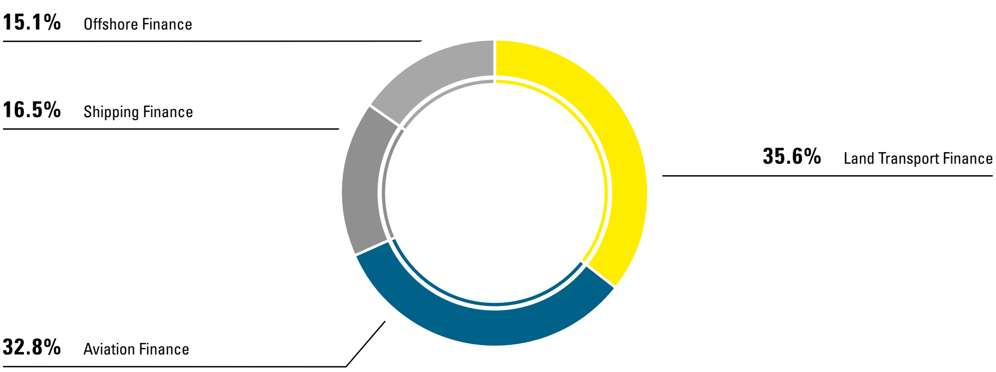
Total revenue

Historically, DVBCF has generated approximately half of its revenue from Capital Markets and half from Advisory and M&A services, although this combination fluctuates every year depending on market conditions and deal flow. In 2016, 41.0% of revenue was generated from Capital Markets while 59.0% came from Advisory and M&A. In 2015, 72.4% of revenue originated from Capital Markets and 27.6% from Advisory and M&A.

In recent years, DVBCF's revenue distribution has become increasingly diversified across DVB's sectors and industries. In 2016, the allocation included 35.6% from Land Transport Finance, 32.8% from Aviation Finance, 16.5% from Shipping Finance and 15.1 % from Offshore Finance. This compares to 2015 as follows: 45.4% of revenues being allocated to Shipping Finance, 40.0% to Aviation Finance and 10.7% to Offshore Finance. Land Transport Finance has contributed significantly to the Group's productivity in certain years and less in others (35.5% in 2016, 3.9% in 2015), but has typically been a steady source of high-quality deal flow, based on their valuable client relationships. CHART 31

DVBCF also frequently works with other DVB teams, including Shipping and Intermodal Investment Management, Aviation Investment Management, and Aviation Financial Consultancy, to brainstorm and in some cases collaborate on direct mandates or other commercial initiatives. In each case, the best interests of DVB and its clients are the objective: internal cooperation is well coordinated and much appreciated by clients, who benefit from an integrated financial solution.

Global revenue breakdown by business division C 31



Deal of the year 2016

DVBCF was the exclusive financial adviser on the sale of 100% of the share capital in ERR Rail Rent Vermietungs GmbH (ERR Vienna) and 33.3% of the share capital in ERR European Rail Rent GmbH (ERR Duisburg) to Aves One AG.

The ERR Rail Rent Group (ERR Group) is a leading European freight car lessor, owning and managing a modern, high-quality and diversified fleet of about 4,000 freight cars. ERR Group was founded in 2006 by shareholders and management with significant experience in the European freight car leasing industry. Today, the Group leases freight cars to customers located primarily in German-speaking countries, including private- and state-owned rail freight companies, industrial companies, and logistics service providers. Aves One, the acquirer, is a Hamburg-based publicly listed owner of logistics equipment.

ERR Group and the transaction benefited from our corporate finance specialists' extensive experience in M&A and the considerable asset and rail market expertise available through Land Transport Research. DVBCF provided timely advice throughout the entire sale process, including, amongst others, positioning ERR Group for the sale process, identifying the potential investor universe, valuation, process structuring and management, as well as negotiation and transaction execution support.

DVBCF's sell-side M&A advisory mandate was one in a series of value-added services that DVB has provided to the ERR Group throughout the long-standing client relationship developed across DVB's Land Transport platform. Land Transport Finance has been a key lender to ERR Vienna since 2008 and was instrumental in its 2015 refinancing; the Stephenson Capital rail fund successfully sold its minority participation in ERR Vienna alongside this transaction; and Land Transport Research has provided asset- and market-related analysis and assessment over the years.

DVB Corporate Finance – Market and portfolio outlook 2017

Despite global political turmoil, the equity markets swung to a positive note at the end of 2016 and into the new year, reflecting a slow-moving Fed and surprising election sweep in the US by the Republicans, raising hopes for regulatory policy easing and fiscal stimulus. While interest rates are expected to gradually rise in 2017, other central banks around the world continue easing and investors are cautiously optimistic, with many expecting modest US and global economic growth in 2017. Turbulence factors such as increased stock market volatility, rising inflation and new political uncertainties amid a rise of populism around the world may dampen such growth prospects. Growth in China continues to slow, coupled with a weaker currency and volatile share prices, as economists now predict the economy to grow 6.5% in 2017, down from 6.9% in 2015 and 6.7% in 2016. In the US, the promise of a decrease in regulatory and tax burdens on businesses suggest the economy will grow faster and become the driving force of other Western economies, although uncertainty remains.

We expect the shipping sector will remain burdened by weak charter rates and oversupply, particularly in dry bulk and container shipping, while offshore companies will continue to focus on weathering the downturn and restructuring their assets. Airlines and aircraft lessors continue to perform well, though a slowdown in China and weakening of the global economy will somewhat dampen growth.

M&A activity and associated financing activities will continue selectively, and even accelerate in maritime, as larger players with diversified assets and contracted employment will sustain a downturn better – to the extent they have preserved access to liquidity. Opportunistic institutional investors will continue to focus on distressed situations and work with management teams on differentiating investment stories. Initial public offerings in the transportation sphere will be challenging in the near term, as depressed asset values drive down public valuations of the sector and lack of liquidity in shipping stocks continues to deter investors from the sector.

In the debt capital markets, we expect a continuing market recovery and return of confidence to benefit middle-market borrowers in 2017, including (broadly) the transportation sector. The outlook for continuing, though uneven and sluggish, economic recovery and gradual increase in interest rates is driving the return of demand in the institutional term loans and a potential gradual increase in yields in the fixed income markets. In addition to tapping liquid debt market products such as corporate bonds, transportation borrowers will continue to explore bilateral direct funding with alternative investors both in investment grade and sub-investment grade categories. Private placements are expected to increase as a competitive long-term financing source and way to diversify the capital structure. Energy-related borrowers will enjoy enhanced market access, especially in the context of industry consolidation and strategic M&A activity.

We expect to see the continuation of healthy issuance in aircraft ABS and steady volume in the railcar sector, including the introduction of new issuers to the market. The container ABS space, however, is likely to remain modest and not pick up until the headwinds affecting the sector start to abate. The resulting expectation is for an overall flat year, at 2016 levels, although influential factors such as the pace of global economic recovery, Fed rate decisions, and an ever-changing regulatory environment will continue to dominate the rates market and provide uncertainty.

Looking to 2017, the DVBCF team, with its strong, diversified pipeline, will continue to work closely with relationship managers across all business divisions to identify capital structure challenges and balance sheet optimisation opportunities. Our product specialists, focusing on corporate bonds, traditional private placements, and structured finance products, will complement the financing requirements of clients and support M&A activity, diversification of capital sources and distressed/balance sheet repair activities. The ongoing focus will be to continually develop a successful structured asset finance business, maintain an ongoing PPG dialogue with institutional investors to support advisory and capital markets projects, and identify M&A opportunities across DVB's extensive client network, building on the 2016 track record and credentials. As a Bank-wide resource, DVBCF will continue to work closely with all groups within DVB, but also look to continue its standalone, organic growth and development.

Business area
Fund management:
- Aviation Investment Management (AIM)
- Shipping and Intermodal Investment Management (SIIM)

Product
- Private Equity Sourcing & Investments

Co-investors
- AIM: institutional investors (pension funds, hedge funds and private equity firms)
- SIIM: ship/rail car/intermodal owners, leasing companies, and financial institutions

Core regions
- Global coverage

Investment Management

DVB's Investment Management division is active as an investment consultant and asset manager for closed-end funds in the international transport sector. The funds set up by DVB are geared towards professional investors.

The closed-end fund market is a further option for financing assets. Transport companies frequently operate (but no longer own) the transport assets to be financed, such as aircraft, maritime vessels, offshore-related ships, container boxes, and rail rolling stock. Operators are more willing to contemplate alternative financing structures: closed-end funds in particular are increasingly being considered as an alternative to traditional sale-and-lease-back finance, thanks to the increased availability of investment capital for such funds. Moreover, funds can also provide transport companies with direct equity investments in a diverse range of forms. Likewise, participation in a closed-end fund has evolved into an alternative for professional investors who wish to benefit from long-term cash flows and returns whilst diversifying their risks.

At the outset of the Investment Management division in 2001, DVB predominantly committed own equity when providing equity finance. During the second stage, DVB acquired the first partners for investment funds. At present, DVB is in the third stage, where the main task will be to assume a management function on behalf of third parties – but where DVB aligns its interest with third parties, via a material equity risk participation. Above all, DVB sees strong demand from institutional investors for joint investment management projects, such as joint ventures. This means that in the future DVB will be able to provide its clients with equity finance at an even higher level – for example, in the form of sale-and-lease-back transactions. DVB's motto thus remains unchanged: we are able and willing to assume risks – provided that they are adequately priced.

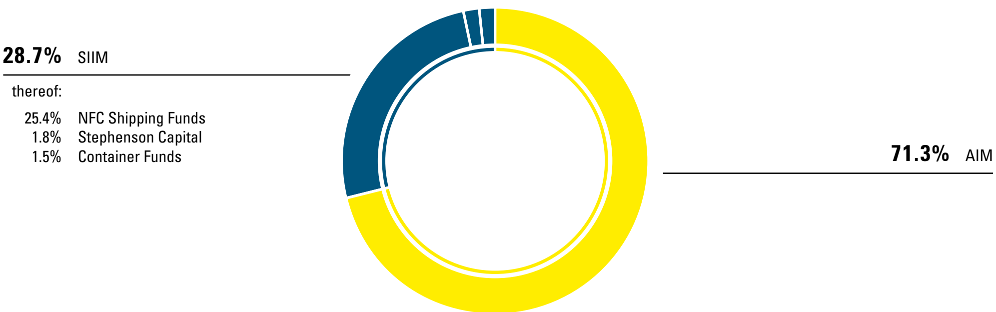
DVB's market and asset expertise – gained through extensive research and the resultant business intelligence – gives us a competitive edge. We are thus an ideal partner for clients requiring equity capital, and investors seeking suitable investment projects in the relevant transport sectors. Accordingly, DVB's Investment Management division comprises two teams of experts:

- The Aviation Investment Management (AIM) team manages the aircraft and aviation investments of the Deucalion Aviation Funds.

- The Shipping and Intermodal Investment Management (SIIM) team unites the Bank's Investment Management activities in the shipping, offshore, intermodal transport and rail transport sectors.

At year-end 2016, the aggregate investment volume of funds set up by DVB amounted to €1.2 billion (previous year: €1.1 billion), with AIM accounting for €863.6 million or 71.3% and SIIM for €348.1 million or 28.7% (previous year: AIM – €733.6 million or 68.9%; SIIM – €330.7 million or 31.1%). CHART 32

Breakdown of the investment volume by fund — C 32



Aviation Investment Management

Established in 2001, DVB's Aviation Investment Management team acts as the investment consultant and fund manager to the Deucalion Aviation Funds (Deucalion), which consist of a series of actively managed closed-end funds. These funds are the investment vehicles through which institutional investors and DVB invest together in aviation-related assets. At the end of 2016, Deucalion had more than €3.1 billion in assets under management, across a wide range of aviation investments, including aircraft and engines on operating leases, airframe and engine piece part material, and airline equity investments. AIM's senior investment managers (based in London, New York and Singapore) are responsible for sourcing and managing aviation investments. Each of the funds has an independent board of directors. DVB is not represented on any of these boards, and does not control any of the funds.

AIM – Market review

In 2016, the demand for aircraft remained strong despite some signs of weakness in the market due to rising fuel prices, rising production rates, low inflation, political uncertainty and adverse exchange rates. The airline industry overall made record profits, notably those airlines in the US. Europe remained stimulated by low-cost carriers who continued to outperform and increase market share at the expense of the more traditional network and flag carriers, many of whom are still challenged by archaic cost structures. Asia/Pacific carriers felt the pressure of continued and rapidly increasing capacity growth, due to steady passenger demand and strengthening of international freight market. Passenger demand has remained strong in 2016, with IATA passenger traffic growth of 6.3%; relative to which, capacity has risen by 6.2%. Passenger aircraft load factors remain high at 80.5% – slightly above the 2015 level. Improving upon this already high load factor will remain a challenge, with any increase most likely from replacing existing aircraft with larger variants.

The aircraft manufacturing market continued to perform well, albeit not at the record-breaking pace seen in the recent past. Boeing and Airbus still maintained record order books as a result of continuing airline network expansion and replacement demand. These orders were reinforced in an environment of extremely low interest rates, and continued access to very deep pools of capital. This is well illustrated by the historically low utilisation of export credit financing by airlines. Delivery rates of new narrowbody aircraft have also been increasing and with capacity growth already exceeding traffic, albeit by a small amount, some operators may see a need to curtail expansion plans. Throughout 2016 airlines have benefited from lower fuel prices, allowing them to retain older aircraft in service for longer than anticipated. Used aircraft are ever and increasingly popular but there also continues to be demand for newer aircraft from new and expanding carriers.

Aircraft lessors had another year of consistently good operating results. Demand for aircraft was matched by the continued inflow of capital into the leasing sector. Leasing companies were able to raise low-cost liquidity through capital markets as investors are attracted to the geographical and asset diversification offered by leasing portfolios.

The aircraft leasing market, in which Deucalion is most active, proved robust during 2016. The new aircraft leasing space remained highly competitive, largely the result of easy access to low-cost financing and leasing, presenting a challenging segment of the market in which to deploy capital on acceptable returns. During the year, Deucalion has once again been most active in the mid-life aircraft space, which remains attractive for platforms with expertise in the class. Whilst the used market requires a higher overall level of diligence and asset management expertise, it provides higher potential for return if aircraft are acquired at the right price, and residual value risks are both carefully evaluated and fully priced in.

Opportunities in the aircraft disassembly and piece part material market were still to be found, yet this continued to be a complicated sector requiring very high-quality partnerships for optimum risk management. The first wave of early-build next-generation aircraft are now being retired, causing an influx of piece part material for certain airframe and engine types and an oversupply in a number of asset classes. The market continued to be dominated by several large maintenance, repair and operations companies.

AIM – Strategy

AIM has positioned itself as a value investor across the aviation sector, with an emphasis on the acquisition of physical aircraft and engine assets. Leveraging DVB's in-house market and asset research capabilities and deep knowledge of the aviation assets, AIM has consistently been able to achieve attractive returns in the market. The funds are generally opportunity-driven, with a focus on the investment's liquidity and management of residual values, seeking to optimise returns throughout an asset's economic life.

AIM – Portfolio analysis

The primary focus of the funds is the acquisition of aircraft and engine assets through direct equity investments. The core target areas of Deucalion's investment strategy are aircraft on long-term operating lease, and aircraft on last operating leases which will be sold for part out at lease expiry. The funds also have current investments in aircraft engines, airline equity and cargo aircraft – as well as from time to time investing in secured aircraft bonds and mezzanine loan investments on an opportunistic basis.

Deucalion remained very active in the market during 2016, acquiring or entering into binding letters of agreement for 62 commercial jet aircraft, for a total transaction equity value of approximately €381.6 million (previous year: 34 aircraft acquired or entered into binding letters of agreement for €288.0 million). Of these 62 aircraft, 56 are on long-term operating leases and six are part of the last-lease strategy (previous year: 21 on long-term operating leases; 13 part of the last-lease strategy). During the year, Deucalion also sold seven leased aircraft, eight engines, and four airframes (previous year: 23 leased aircraft, five engines, and one airframe).

The aircraft acquired or entered into binding letters of agreement on long-term operating leases consisted of ten A319-100, twelve A320-200, one A321-200, one A321-100, five A330-200, four A330-300, six B737-700, thirteen B737-800, two B777-200ER and two B787-8 aircraft. These aircraft, on lease with 44 different airlines, form part of Deucalion's strategy to acquire attractive current technology aircraft with robust lease economics where AIM believes there could be upside in residual values or trading scenarios with leases attached. 36 of these aircraft have been acquired with one US private equity investor, as a seed portfolio, with the investor looking to strategically increase their exposure to the industry. 14 of the aircraft have been acquired into an existing portfolio with a US alternative investor, and a further four aircraft have been acquired by a new investor that provides access to the Korean equity market.

The aircraft acquired on last operating leases are six A320-200. AIM continues to see opportunity in the end-of-life space through maximising the maintenance value of the aircraft, mitigating asset risk through strategic partnerships and extracting value through negotiation of contracted return conditions.

In February 2015, DVB closed its first aircraft asset-backed securitisation. AIM, in its capacity as investment consultant to Deucalion Limited, completed the sale of 20 aircraft valued at approximately US$814 million to a special purpose company which issued US$667 million of Regulation S/Rule 144A DTC eligible notes with concurrent placement of more than 90% of the equity to a new investment partner for DVB. The ABS continued to perform well in 2016.

One of the Deucalion funds remains a shareholder in Malaysian low-cost airline operator AirAsia, an equity investment made in 2003 prior to the initial public offering in 2004. The majority of the fund's shareholding in AirAsia was sold in 2006 and the now-modest holding closed 2016 at 2.29 Malaysian ringgit (€0.48). In 2007, a Deucalion fund made a profit-participating loan to the Hungarian low-cost carrier Wizz Air. Wizz made an initial public offering in 2015 at £11.50 (€15.60) at which the majority of the Deucalion holding was sold – with a modest amount retained. The shares closed 2016 at £18.01 (€21.03).

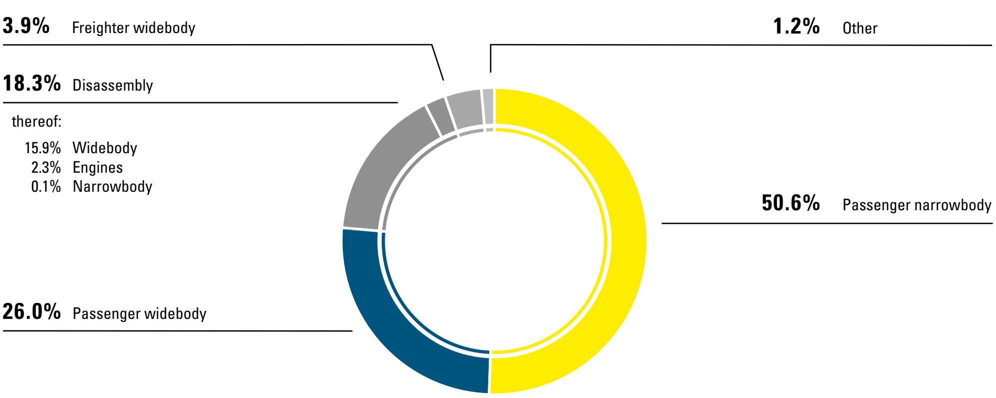
The year 2016 further exemplified Deucalion's opportunistic investment approach, which seeks to maximise return by way of active trading, extracting utility through careful management of the aircraft's maintenance value and understanding of the disassembly piece part market.

As at year-end 2016, the overall equity invested across all Deucalion funds totaled €863.6 million, and was provided by seven institutional investors located in Europe, North America and Asia (previous year: €733.6 million by seven institutional investors). The asset portfolio continues to perform as expected; however, a couple of investments have required increased management time, especially the tail end of some disassembly deals. The return on equity on all realised investments in 2016 continued to develop positively.

At year-end 2016, the portfolio remained well diversified by lease maturity, aircraft/asset type, geography and counterparty. In the year under review, the aggregate portfolio across all funds consisted of 49.3% Airbus aircraft (previous year: 43.5%), 47.2% Boeing aircraft (previous year: 53.3%), and 3.5% other investments (previous year: 3.2%). The greatest share of the funds' aircraft portfolio was made up of 50.6% passenger narrowbodies (previous year: 51.8%), 26.0% passenger widebodies (previous year: 10.9%) as well as 18.3%aircraft and engines in disassembly (previous year: 26.1%). CHART 33

Portfolio by asset type

C 33



Risk management is a key focus for Deucalion, and AIM is proactive in mitigating known risks in current investments. DVB's expertise in aviation finance ensures direct access to specialists that provide macro- and micro-views, analyses and tools to comprehensively monitor aircraft technical issues, aircraft values and trends, as well as airline and counterparty credit risk. Each investment is subject to at least monthly compliance checks, quarterly valuations, detailed investor reporting, semi-annual impairment tests, annual independent auditing and regular meetings with lessees or the ultimate risk counterparties. In addition, all funds have an independent board of directors – with each board led by a director possessing significant aircraft and aviation industry experience. Where relevant, an asset may be taken to an Early Warning, Closely Monitored or Watch List, depending upon the nature of the risk, actual or perceived, which implies more regular monitoring and typically involves the implementation of key action plans. As at year-end 2016, seven investments were on the Watch List – and there were none on either of the Early Warning or Closely Monitored Lists.

AIM – Market and portfolio outlook 2017

For 2017, AIM expects the aviation market to remain stable as operators will likely benefit from a less volatile fuel price environment, relatively low interest rates, reasonable access to liquidity and a high level of new aircraft deliveries. However, there will be challenges in certain regions where yields will be stressed by increased capacity and currency concerns. While there is speculation within the market that the industry is at a peak in the cycle, there is no signal of a downturn in the leasing sector as the still very significant flow of capital into the market should help buoy asset prices.

The funds are well positioned to take advantage of current market conditions and will continue to leverage the extensive aviation asset expertise, asset management and research capability and airline relationships within DVB. They will promote the investment philosophy of opportunistically investing in and managing aviation assets, with disciplined and rigorous attention not only to the risks today, but structuring investments with an eye to the future.

AIM expects to see an increase in Deucalion's volume of funds under management during 2017, principally through increased ownership of aircraft on operating lease and will remain focused on an active trading strategy during the year. Although investor appetite – and therefore competition – for the funds will not likely lessen in 2017, DVB's knowledge of the industry, the strength of its Aviation platform, and its asset-based approach provide the funds with a truly unique asset-focused platform to take advantage of the current market conditions with a well-informed and researched view of the future. Whilst aviation remains a volatile and cyclical industry, AIM will remain focused and disciplined, sourcing the best risk/reward opportunities by making full use of its unique combination of money and metal expertise – and also by taking the opportunity to sell existing portfolio assets at a profit.

Shipping and Intermodal Investment Management

Since 2009, Shipping and Intermodal Investment Management has comprised all of DVB's shipping, intermodal, and rail funds. In total, SIIM has more than €5.5 billion in assets under management, across a wide range. The shipping investment management activity started as equity-related investments with a joint venture partner in 1999, and was previously known as NFC Shipping Funds. The intermodal investment management was set up by DVB at the end of 2006, and consists now of one fund, which acts as the investment vehicle through which DVB and private investors jointly invest in intermodal equipment. The rail investment management activity has been active since 2007 with the establishment of the Stephenson Capital Fund. It is set up as a joint venture with a leasing company and invests in railcars, which are managed by our joint venture partner.

SIIM – Market review

Excess capacity remained a major challenge for shipping markets in 2016, with the exception of a few sectors that benefited from higher demand triggered by the low oil price environment. The dry bulk and container shipping markets both continued to suffer from overcapacity, keeping vessel earnings and values under pressure. In the crude tanker market, the positive short-term factors contributing to good earnings faded away, leading to a decrease in both earnings and asset values.

The offshore support vessel segment has suffered heavily as a result of the drop in oil prices, which has resulted in a significant decline in exploration and production activities. Vessel values – as well as earnings – have been significantly under stress.

Container box prices were under pressure due to a weak global trade environment and dropping steel prices. The container leasing market continued to be under pressure. Many players looked at ways to diversify their asset base; however, it has been difficult to sustain the current earnings level from various (small) niche markets.

SIIM – Strategy

The SIIM management activities combine to offer a sophisticated business approach, an experienced management team and a wealth of market knowledge. This is further leveraged by DVB's in-house market and asset research capabilities, and deep knowledge of the respective assets. Investments span the entire spectrum of blue-water vessels, as well as floating equipment employed in the offshore oil and gas exploration, standard maritime container boxes, offshore containers and railcars. The product inventory of all SIIM funds includes (among others) equity, equity bridge loans and preferred equity, together with sale-and-lease-/manage-back structures to the shipping, offshore, and intermodal sectors. The actual product offering is at any given time proactively attuned to SIIM's view of the prevailing and expected future market conditions for any individual asset class/ market segment.

On the shipping side, the focus continues to be on the development and holding of a diversified portfolio of shipping and offshore investments, and dynamically targeting selected market segments/asset classes, based on the view of current and projected future market prospects. Whilst continuing to manage the existing portfolio (including our various joint venture platforms), we are gradually shifting towards a more balanced risk/reward portfolio profile, so as to be able to generate recurring and stable results for our investors. We maintain our selective investment approach, and we opportunistically look at appropriate partial or full exits.

On the intermodal side, we want to use the existing container investments and our track record in this segment to further grow our container portfolio. For container boxes, notwithstanding the difficult market conditions, the industry still offers interesting opportunities which we are well positioned to seek and evaluate though our consolidated experience. More specialised markets seem to have held up quite well.

Apart from the investment in an offshore support joint venture, SIIM's overall investment portfolio is fully funded and diversified, with most of its ventures operating in stable or recovering sub-segments. A further mitigating element is SIIM's policy to invest in companies with young fleets, able to trade through potential downcycles. Renewed focus on rail markets is expected to support overall profitability of SIIM's investment portfolio, asset diversification and enhanced risk profile.

SIIM – Portfolioanalyse

As at year-end 2016, the equity invested and committed across all SIIM managed funds totalled €348.1 million (previous year: €330.7 million). The shipping portfolio had 24 investments totalling €307.4 million (previous year: 22 investments totalling €303.6 million). It contained 128 vessels (previous year: 130), with a significant majority in co-ownership with other investors. CHART 34

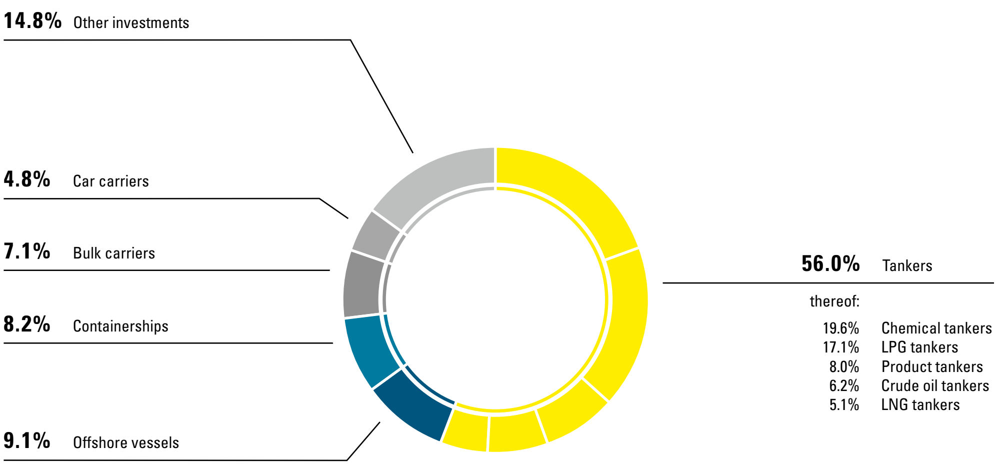
On the intermodal side, we continued investing in finance leases at attractive terms. As at year-end 2016, the intermodal fund had several investments amounting to €18.6 million (previous year: €5.2 million). The fund invests in standard maritime containers, employed in both operational and finance lease portfolios as well as offshore containers. Please note that the figure indicated here largely underestimates the extent of our intermodal portfolio, the reason being that most of the equity exposure has been repaid over time. The intermodal portfolio is valued at approximately €81.1 million.

The rail fund consists of a joint venture, and currently owns several hundred railcars. The investment volume of the rail fund remained in line with previous years, at a level of €22.1 million.

SIIM's risk management in the portfolio is devoted to continuously monitoring the health and performance of our investments for which we proactively seek to mitigate known risks. It profits from the invaluable knowledge, detailed industry insight, and technical expertise that we derive from our Shipping and Offshore Research as well as from our commercial activity, holding frequent and proactive meetings with our partners and clients. Each investment is routinely subject to quarterly checks and valuations, such as the monitoring of value maintenance clauses and other debt covenants, the request for updated valuations from a preselected list of reputable brokers, detailed investor reporting, and quarterly budget forecasts. On a quarterly or semi-annual basis, we run asset impairment tests and discounted cash flow analyses. On an annual basis, our funds and special purpose companies are independently audited. Where necessary, a number of those procedures are escalated further, with thorough monthly checks for investments classified as Early Warning, Closely Monitored or Watch List cases.

Shipping portfolio by asset type

C 34



SIIM – Market and portfolio outlook 2017

After a downward correction across some sectors during recent years, the shipping market is expected to remain weak without significant improvements in 2017. The outlook for certain niche sectors, most of which with high barriers to entry – such as specialised container boxes and chemicals, in which SIIM is represented – continues to be stable. Oversupply remains the current key issue in many sectors, significantly impacting ship values and charter rates, especially in the dry bulk, container and offshore sectors which are close to historic lows. The offshore support vessel segment is suffering heavily as a result of the drop in oil prices, which in turn has resulted in a decline in all E&P activities. Vessel values as well as earnings are significantly under stress, with signs of market recovery not expected earlier than 2018. Structural and fundamental changes on the demand side are changing dynamics of the container liner industry. This is expected to put pressure on mainstream container (related) business for the next couple of years.

From an equity investment perspective, there are opportunities to enter or expand activities in certain shipping segments at attractive asset prices. Due to relatively high newbuild ordering activity over the past years, earnings in certain segments will continue to be affected by supply side pressure. Our focus continues to be on carefully selected segments, in which a combination of factors such as low order books or high entry barriers help underpin good performance, together with the established track records of our chosen partners. We note that other financial investors are reassessing their view on the shipping markets, with private equity firms possibly looking for early exit options. This may create attractive opportunities for players with a longer-term investment horizon. The majority of SIIM's portfolio companies are relatively well positioned in sectors with sound market fundamentals, outweighing its exposure in sectors currently under pressure.

Senior debt finance is becoming a scarcity, and ship financiers will continue to off-load highly leveraged exposures. SIIM is expected to benefit from a widening funding gap, allowing for investments in quasi equity structures with an attractive risk/return profile. Capital markets are expected to maintain their subdued status, hence SIIM will focus on smaller asset play investments, which are easy to exit once markets start to improve again.

For our intermodal investments, we anticipate that the low returns will bottom out and show some signs of recovery, although 2017 will remain a challenging year. We expect our portfolios to still show good operational and cash flow performance, supported by a diversified group of lessees. A renewed focus on rail markets is expected to support overall profitability of the SIIM investment portfolio, asset diversification and enhancement of the risk profile.

A key focus continues to be the vigilant monitoring and consistent management of the existing portfolio. In the meantime however, SIIM will continue to further strengthen and diversify its portfolio, aiming to include investments with attractive risk-weighted target yields and to attract third-party investors. At any time, our approach will be continuously and dynamically adjusted, based on the respective value/earnings cycles of each individual segment.

REPORT ON EXPECTED DEVELOPMENTS, OPPORTUNITIES AND RISKS

Report on expected developments

Economic activity – especially in emerging and growth markets – is likely to pick up speed in 2017, compared with the previous year. However, there is a wide dispersion of possible outcomes around the forecasts by the International Monetary Fund (IMF), given uncertainty surrounding the policy stance of the incoming US administration and its global ramifications.

The assumptions underpinning the forecast should become more concrete in the next few months, as more clarity emerges on US policies and their implications for the global economy. With these caveats, aggregate growth estimates and projections for 2017 remain unchanged.

Economic environment

Global growth as forecasted by the IMF is projected to rise to a rate of 3.4% in 2017 – slightly above the previous year's level (projection for 2016: 3.1%). The forecast reflects a more positive outlook and an expected better growth performance for this year – caused by improvements in some large emerging markets and low income economies that in 2016 were exceptionally stressed. Additionally, more of the lift will come from better prospects in the United States, China, Europe and Japan.

The forecast is based on the assumption of a changing policy mix under a new administration in the United States and its global spill-overs. Experts now project some near-term fiscal stimulus and a less gradual normalisation of monetary policy. This projection is consistent with the steepening US yield curve, the rise in equity prices, and the sizable appreciation of the US dollar since the election in November last year. The IMF forecast also incorporates a firming of oil prices following the agreement among OPEC members and several other major producers to limit supply.

DVB agrees with this expert opinion and expects further economic growth to remain uncertain on the back of the following risk factors:

- further political development with regard to the benefits of cross-border economic integration – increased restrictions on global trade and migration would hurt productivity and incomes;
- permanently lower growth and inflation in advanced economies, with negative implications for debt dynamics due to an extended shortfall in private demand and inadequate progress on reforms;
- further development of the Chinese economy;
- increased geopolitical tensions and terrorism and their impact on the global economy;
- further development of commodity prices, in particular oil prices.

The **US** economy has lost momentum over the past few quarters, and the expectation of a pickup in the second quarter of 2016 has not been realised. However, growth is projected to continue at a moderate pace, supported by a firm labour market, expanding payrolls and an improving housing market. These forces are expected to offset the drag on net exports coming from the strengthening of the US dollar and slower growth by trading partners, the additional decline in energy and business investments and financial turbulences earlier in the year. US fiscal policy is projected to become more expansionary, with stronger future demand implying more inflationary pressure and a less gradual normalisation of US monetary policy. As mentioned above, this forecast is particularly uncertain in light of potential changes in the policy stance of the United States under the new administration.

Growth in **China** is projected to slow down, projections are bit higher than before, reflecting the expectations of continued policy support. The medium-term forecast assumes that the economy will continue to rebalance from investment to consumption and from industry to services, on the back of reforms to strengthen the social safety net and deregulation of the service sector. However, nonfinancial debt is expected to continue rising at an unsustainable pace, which – together with a growing misallocation of resources – casts a shadow over the medium-term outlook.

The support to activity from policy stimulus in the US and/or in China could turn out to be larger than what experts have been incorporated into current forecasts so far, which also would result in a stronger pickup of activity in their trading partners unless the positive spillovers are tempered by protectionist trade policies.

The modest **euro zone** recovery is projected to proceed at a slightly lower pace. There has been a stronger-than-expected pickup in growth in some advanced economies, due to a reduced drag from inventories and some recovery in manufacturing output. However, lower oil prices, a modest fiscal expansion, and supportive financial conditions will support growth, while weaker investor confidence in Europe on account of uncertainty following the Brexit vote and the new administration in the US will weigh on activity. Growth potential remains weak, due to legacy burdens from the financial crisis (high private and public debt, low level of investment, and eroding skills due to high long-term unemployment), aging effects, and the limited increase in overall productivity.

Oil prices have rebounded in spite of rising uncertainty following the Brexit vote and the new administration in the US. After hitting a ten-year low in January 2016, oil prices have dou bled to almost US$57 in December, partly due to involuntary production outages that temporarily brought some balance to the oil market but especially reflecting an agreement among OPEC members and several major producers to limit supply. Given robust oil demand, the continued erosion of high-cost producers and the continuing agreement regarding the supply limit, markets expect a firming of oil prices.

Financial outlook for DVB

One of the key competitive advantages emanating from DVB's business model is the Bank's cycle-neutral lending policy, which is based on the value and re-marketability of the financed transport assets. Especially in the economic environment outlined above, we will continue placing great emphasis in 2017 on offering our clients the focused range of financing solutions, advisory and other services – in a risk-aware manner. This provides us with the opportunity of diligently managing our market shares, and to further strengthen DVB's brand amongst clients and business partners.

Financial performance

DVB aims to exploit the macroeconomic environment in 2017 as an opportunity to continue offering its range of financing solutions, advisory and other services tailored to transport assets, and will therefore continue to support its transport clients with new business during the forecast period.

Given the consisting distortions in some maritime shipping markets, the Shipping Finance legacy portfolio in particular may also be subject to burdens during 2017. Even in the ninth year of shipping crisis, DVB believes that persistent tonnage overcapacity will continue to prevail in certain segments of the international shipping markets, and that this structural oversupply will keep both charter rates and vessel values under pressure. It is still unclear as to when the excess capacity persistent in some market segments will subside, so that supply and demand on the transport markets approach a state of equilibrium.

The offshore sector remains under pressure, due to the low oil price. DVB expects this pressure to prevail during 2017, which might lead to further charges on the portfolio.

Our Asset & Market Research expertise, our risk management, our restructuring know how – united in the Credit and Asset Solution Group – and our asset management skills are the foundations based on which we will be able to cope with the distortions in the shipping and offshore markets in 2017 – swiftly, in a targeted and commercially reasonable manner.

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The report on expected developments contains forward-looking statements, including statements concerning the future development of the DVB Bank Group for the year 2017. In designing the Group Management Report, we have strived to provide a comprehensive yet clearly-structured and easy to read overview. Hence, for each division we have first outlined business developments during 2016, directly followed by a detailed forecast of market and portfolio developments for the year 2017.

The following parts of the texts therefore constitute an integral part of the Report on expected developments:

- Shipping Finance outlook (pages 120–121);
- Aviation Finance outlook (pages 135–137);
- Offshore Finance outlook (page 147–148);
- Land Transport Finance outlook (page 162–163);
- Financial Institutions and Syndications outlook (page 169;
- DVB Corporate Finance outlook (pages 176–177);
- Investment Management outlook (pages 182 and 185).

As usual, any assessments and forecasts contained herein will always be subject to the risk of erroneous perception or judgement errors, and may thus turn out to be incorrect. By their very nature, any deliberations regarding developments or events in the future are based on conjecture rather than precise predictions. Actual future developments may therefore diverge from expectations, not least as a result of fluctuations in capital market prices, exchange rates or interest rates, or similar causes of uncertainty; or due to fundamental changes in the economic environment. Although we believe the forward-looking statements to be realistic, DVB cannot accept any responsibility that they will actually materialise, for the reasons outlined above. We do not intend to update any of the forward-looking statements made in this report.

Financial position

As forecast in the Group Management Report 2015, DVB succeeded during 2016 in further broadening its investor base and to mainly raise funding outside the Volksbanken Raiffeisenbanken cooperative financial network.

We expect to maintain a sufficient liquidity base throughout the forecast period 2017. DVB's integration in the German Cooperative Financial Services Network will remain an important factor during 2017: the support of the liquid German Cooperative Financial Services Network would allow us to cover our funding requirements, at prevailing market terms, at all times. Nonetheless, it will remain the Bank's strategic objective during 2017 to further continuously broaden its investor base, maintaining granularity – for instance, by placing promissory note loans and issuing bonds outside the German Cooperative Financial Services Network.

Summary assessment of the outlookfor 2016, and trend forecast for 2017

The industry-specific risk and uncertainty factors mentioned above are the premises for the following statements regarding the three financial indicators the Bank employs to manage and assess its business activities at Group level: the return on equity (before taxes), the cost/income ratio and the risk-adjusted Economic Value Added.

Analysis of the forecast provided for 2016

At the year-end 2016, the CIR of 44.3% was below the target range of 48% to 52% forecasted in the Group Management Report 2015. Whilst the aggregate of general administrative expenses and expenses for the bank levy and the BVR Deposit Guarantee Scheme decreased by 0.1%, to €188.6 million, the income ratio (comprising net interest income before allowance for credit losses, net fee and commission income, result from investment securities, result from investments in companies accounted for using the equity method, and net other operating income/expenses) increased from €340.9 million to €425.4 million at the end of 2016. In this respect, a €150.0 million contribution to income by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, had a particularly positive effect.

At –10.8%, the actual ROE (before taxes) in 2016 was outside the forecast target corridor of between 8% and 12%. This was due to the fact that consolidated net income before IAS 39 and taxes (but including the result from investment securities) declined to €–144.6 million (previous year: €10.6 million) whilst the aggregate weighted capital rose to €1,333.4 million (previous year: €1,307.6 million).

At €–249.0 million, actual EVA™ for 2016 was clearly outside the target corridor of a "negative, low double-digit million euro amount". This was largely due to the significant deterioration in consolidated net income before IAS 39 and taxes (but including the result from investment securities) to €–144.6 million (previous year: €10.6 million), from which pro rata temporis risk capital costs of €104.4 million (previous year: €97.4 million) needed to be deducted.

Even without the adjustment to the calculation methodology (as described in "Fundamental information about the Group" on page 99), both ROE (before taxes) of –9.3% (previous year: 4.1%) and the CIR of 40.8% (previous year: 48.1%) would have been outside the range forecast for 2016 in the Group Management Report 2015.

Summary trend forecast for 2017

DVB aims to exploit the macroeconomic environment in 2017 as an opportunity to continue offering its range of financing solutions, advisory and other services tailored to transport assets. DVB will therefore continue to support its transport clients with new business during the forecast period.

Given the prevailing distortions on numerous maritime shipping markets, legacy exposures in the Shipping Finance portfolio in particular may also be subject to burdens during 2017. Even after nine years of shipping crisis, DVB believes that high tonnage overcapacity may continue to prevail in certain segments of the international shipping markets and that this structural oversupply will keep both charter rates and vessel values under pressure. It is still unclear as to when the excess capacity persistent in some market segments will subside, so that supply and demand on the transport markets approach a state of equilibrium.

The offshore sector remains under pressure, due to the low oil price. DVB expects this pressure to prevail during 2017, which might lead to further charges on the portfolio.

Thanks to our Asset & Market Research expertise, our risk management, our restructuring know how – united in the Credit and Asset Solution Group – and our asset management skills, we believe that we will be able to cope with the distortions on the shipping and offshore markets in 2017 – swiftly, in a targeted and commercially reasonable manner.

DVB will undertake every effort to avoid having to record a loss as in 2016. We intend to reduce higher risk costs in Shipping Finance and Offshore Finance during 2017 and 2018. This is based on assumptions that the persistent tonnage overcapacity in some shipping segments will not rise beyond existing levels, and that charter rates and asset values will not decline further.

These industry-specific risk factors and uncertainties are the premisses for the following statements on three key financial indicators – return on equity (before taxes), cost/income ratio, and risk-adjusted Economic Value Added – the Bank uses to assess and manage its business activities at Group level.

Accordingly, the following table compares the forecast to actual development of the three key financial indicators for the years 2015 and 2016, and outlines forecast ranges for 2017. TABLE 37

Against the background of imponderables set out above, DVB expects return on equity (before taxes) between +3.0% and –3.0%, and a cost/income ratio between 55% and 60%, for the forecast period of 2017. Since Economic Value Added reflects both income and the risk situation, this part of the forecast is also subject to uncertainty. Looking at the persistently difficult situation in the shipping and offshore markets, we anticipate a negative, low triple-digit million euro amount in 2017.

In summary, DVB believes that transport and financial market developments are subject to a plethora of unpredictable factors that are beyond the control of market participants. Therefore, DVB is not in a position to make further quantitative forecasts or project other financial data beyond this trend indication.

DVB's key financial indicators

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	2017	2016	
	Forecast for 2017, at the end of 2016	Actual result 2016	Forecast for 2016, at the end of 2015
ROE (before taxes)	+3.0% to –3.0%	–10.8%	4% to 8%
CIR	55% to 60%	44.3%	48% to 52%
EVA™	Negative, low triple-digit million euro amount	€–249.0 million	Negative, low double-digit million euro amount

Report on opportunities and risks

Exploiting business opportunities whilst assuming risks in a targeted and controlled manner, to generate returns which are adequate in view of the risks taken – these are key elements of DVB's business policy.

The report on opportunities and risks presented below provides a breakdown of DVB's Transport Finance sub-portfolios by collateralisation structure and loan-to-value (LTV) range under "Structural analysis of the credit portfolio", on pages 200 to 202. Due to the fact that all material subsidiaries of the DVB Bank Group are integrated into DVB's divisional risk management system, which incorporates the lending activities of affiliated enterprises, the portfolio values analysed reflect nominal values of the DVB Bank Group portfolio, in accordance with regulatory rules.

Principles of risk management

DVB defines risks as unfavourable future developments which may have a detrimental effect on the Bank's financial position, financial performance, or liquidity. In this context, the Bank differentiates between credit risk, operational risk, business risk and reputational risk, market price risk, as well as liquidity and equity investment risk. DVB's business model requires the ability to identify, measure, assess, manage, monitor and communicate risks. As a guiding principle for all of its business activities, the Bank assumes risk only to the extent required to achieve the objectives of its business policy.

To implement these principles, the Board of Managing Directors has defined risk strategies – observing the business strategy – for the material risks the Bank is exposed to. Each of these sub-risk strategies comprises the key business activities exposed to risk, the risk management objectives (including guidelines for assuming and avoiding risks), and the measures designed to achieve these objectives.

Moreover, DVB's Board of Managing Directors – as the responsible body – has established an adequate and viable risk management system that fulfils the Bank's own commercial needs and complies with legal requirements. With the methods, models, organisational rules and IT systems implemented, DVB is able to recognise material risks at an early stage, and to respond appropriately by taking suitable measures. The suitability and effectiveness of DVB's risk management system are regularly reviewed by internal and external auditors.

Notwithstanding the fundamental suitability of the risk management system, circumstances are conceivable where risks are not identified in good time, or an adequate, comprehensive response is not possible. The methods and models used to measure risks are appropriate for managing DVB's business. Despite due care taken in developing models, and regular reviews, however, there may be scenarios where actual losses (or liquidity needs) exceed the values forecasted by risk models and stress scenarios.

Organisation of the risk management process

Structural organisation

DVB operates a Group-wide risk management system, which complies with all statutory and regulatory requirements. This risk management system comprises adequate provisions and measures with respect to risk strategy, risk-bearing capacity, risk management, and risk monitoring, plus a multi-level framework for the early detection of risks. In addition to the structural and procedural organisation, these measures also apply to the processes for identifying, assessing, managing, monitoring and communicating the risks. The chart below illustrates the functional separation of DVB's risk management (in the narrower sense) and risk control processes: CHART 36

A distinction is made between 'operative' and 'strategic' risk management. DVB defines operative risk management as the implementation of the risk strategy by the various business divisions, as prescribed by the Board of Managing Directors. In addition to defining risk policy guidelines, strategic risk management also coordinates and supports operative risk management processes by cross-divisional committees.

The risk control function – which is independent from risk management in the narrower sense (i.e. operative risk management) – comprises the identification, quantification, limitation and monitoring of risks, plus risk reporting.

The detailed quarterly "DVB Group Risk Report", which is submitted to the entire Board of Managing Directors, executive staff and the Supervisory Board and its committees, provides a detailed view of the Bank's risk situation. Furthermore, the Bank has implemented reporting systems for all relevant types of risk. This ensures that the risks are transparent at all times to the authorised persons with responsibility for those risks.

Accounting/financial reporting

DVB's accounting department ensures that the Bank's accounting and financial reporting comply with applicable rules, particularly with IFRS. For this reason, the Bank has established a risk management system that manages, monitors and controls the accounting function. This internal control system is designed to counter operational risks by ensuring that employees' actions, the technologies deployed, and the design of workflows are geared towards compliance with applicable legal rules. Based on legal rules for consolidated financial reporting, and taking into account the regulations set out in the Group Accounting Manual, DVB has implemented Group-wide processes that provide for efficient risk management and effective control of Group accounting and financial reporting. These processes access common data processing and database systems. Within the scope of its audit function, internal audit is actively involved in these processes.

Risk management and risk control

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Strategic level

Board of Managing Directors
Risk & Governance Committee
Group Credit Committee • Watch List Committees • New Deal Committees • Asset Liability Committee
Audit Committee • OpRisk & RepRisk Committee • Steering Committees • New Product Circle • IT Risk Committee

↓

Operational level

Risk management		Types of risk		Risk controlling
Shipping Finance	→	Credit risk	←	Internal Audit
Aviation Finance		Operational risk		Financial Controlling
Offshore Finance		Business and reputational risk		Group Risk Management
Land Transport Finance		Market price risk		Market Risk Control
Investment Mangement		Liquidity risk		Group Compliance Office
ITF Suisse		Equity investment risk		
Treasury				
Service Units				

↑

Risk management principles

Accounting and financial reporting comprises qualitative and quantitative details regarding DVB Bank Group entities and sub-groups: these details are not only required for preparing statutory reports, but also provide the basis for the internal management of DVB's operating divisions. For this reason, binding procedures have been established for the recording and controlling of data. To make sure that the financial reporting systems are commercially viable, the data are processed in an automated manner, using adequate IT systems. DVB has implemented extensive control mechanisms to ensure the quality of processing, and thus to reduce operational risks. For instance, input and output data used within accounting systems are subject to numerous manual and automatic checks. Moreover, accounting and consolidation entries are duly recorded and checked. The availability of human and technical resources required for accounting and financial reporting processes is ensured through adequate business continuity concepts, which are continuously refined and regularly verified using appropriate tests. A Group Accounting Manual, continuously updated, documents the uniform application of accounting policies in writing. External audit firms examine the contents of this manual, and the related compliance of DVB staff involved in accounting and financial reporting processes, within the scope of statutory audits.

The Bank uses external appraisers to assist in determining the amount of pension provisions. Moreover, appraisers are engaged to determine the collateral values of vessels, aircraft, offshore supply vessels and platforms, rail-related assets and rolling stock. The Bank's operational guidelines contain a list of eligible appraisers. Introduced processes are continuously reviewed regarding their appropriateness, and with respect to the impact of new products or facts, or regulatory changes. To safeguard the high level of quality of DVB's accounting systems, the Bank properly trains those staff members entrusted with financial reporting duties, in line with their individual needs, regarding the legal framework and the IT systems used. When implementing legal changes, external consultants and auditors are involved at an early stage, to enhance the quality and efficiency of financial reporting.

Risk inventory and suitability check

At the end of each financial year, DVB regularly carries out a risk inventory. The purpose of this exercise is to identify all types of risk that are relevant to the Bank, and to assess their materiality. Where required, DVB also performs a risk inventory during the course of a financial year: the objective being to be able to recognise any material changes to the Bank's risk profile where necessary. The Bank analyses the materiality of all types of risk which may occur in principle, given DVB's business activities, and evaluates those types of risk classified as material, to determine to what extent risk concentrations exist.

The Bank also conducts a suitability check at the DVB Bank Group level, examining the suitability of all risk measurement methods for all risk types classified as material. Where required, appropriate measures are taken to adapt the management toolbox.

Risk inventories and suitability checks are harmonised in terms of content and timing. The results of the regular risk inventory and suitability check provide the basis for managing risks during the subsequent financial year. If the results of an event-driven risk inventory indicate that risk management systems need to be adjusted immediately, such changes are implemented during the current financial year.

Capacity to carry and sustain risk/ risk capital

To determine DVB's economic capital adequacy, the Bank analyses its risk-bearing capacity by comparing aggregate risk cover (less a capital buffer) to the risk capital requirement. Taking aggregate risk cover as a basis, and being aware of the capital buffer, the Board of Managing Directors sets maximum loss thresholds for the next financial year, at the end of the preceding year. These thresholds constitute limits for risk capital requirements. The aggregate risk cover comprises the Bank's equity and quasi-equity items; it is fully reviewed and updated each month. For this reason, aggregate risk cover is subject to fluctuations throughout the year.

The purpose of the capital buffer is to account for imprecision in measuring risks, and to cover those risks that are not measured within the framework of risk capital requirements, and which are thus not managed via risk limits (maximum loss thresholds). For instance, this applies to risks from pension obligations, which arise from interest rate and longevity risks from direct pension commitments to active or former members of staff. DVB uses expert opinions, scenario analyses or models to quantify the various components of the capital buffer. As at 31 December 2016, the capital buffer amounted to €132 million (previous year: €131 million).

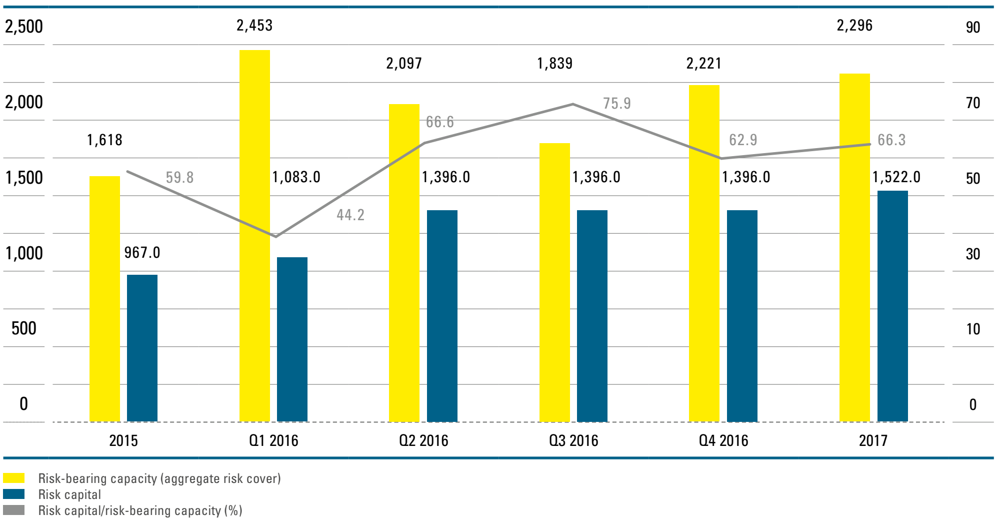
The development of DVB's aggregate risk cover and risk capital over recent years is shown below: CHART 36

The €603 million year-on-year increase in aggregate risk cover was largely due to new issuance of subordinated liabilities, as well as the first-time inclusion of hidden reserves (less hidden encumbrances), as a result of the macroeconomic twelve-month stress scenario simulated in March 2016.

The Board of Managing Directors set the maximum risk threshold (risk capital) for 2017 at €1,522 million (previous year: €1,061 million), taking into account correlation effects. Risk capital is distributed across individual types of risk as follows: TABLE 38

Development of risk-bearing potential

C 36



Risk capital

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€ mn	2017 Risk capital limit	2016 Risk capital limit	2016 Amount utilised at year-end	2016 Average utilisation
Credit risk	1,168.0	1,119.0	661.3	712.7
Market price risk	129.0	120.0	92.9	92.0
Operational risk	134.0	60.0	55.2	55.7
Business risk	70.0	63.0	56.3	53.2
Equity investment risk	170.0	170.0	144.5	118.6
Correlation effects	–149.0	–136.0	–111.3	–103.5
Total	**1,522.0**	**1,396.0**	**898.9**	**928.7**

The overall risk capital limit was increased from €1,061 million (the planned limit for 2016) to €1,396 million during the first half of 2016. This was largely due to an increase in the credit risk limit, which was raised by €341 million, from €778 million to €1,119 million, on account of expected higher risk capital utilisation, due to a slump in collateral values in the Shipping Finance and Offshore Finance portfolios. In addition, the business risk limit was raised by €3 million, to €63 million, whilst the limit for operational risk was reduced by €5 million. There were no other adjustments during the course of the year. When determining the level of risk capital, the Bank considers correlation effects deduced among the various types of risk from empirical market data.

Monitoring the Bank's risk-bearing capacity, DVB also considered additional stress tests, to safeguard the Bank's continued existence even in an extremely unfavourable market environment.

Stress tests are generally calculated against the background of a scenario horizon between one and two years, taking into account both economic scenarios as well as historical situations particularly relevant to DVB's business model and portfolios. In addition, the Bank conducts an annual inverse stress test to analyse which extreme changes in market conditions might threaten DVB's risk-bearing capacity in the short term.

The economic stress-testing concept covers all of DVB's material loss risks. In principle, stress tests are based on methods and procedures used to determine the Bank's risk-bearing capacity.

The economic stress test scenarios translate potential crises affecting macroeconomic parameters and market prices into changes to the aggregate risk cover and risk capital requirements. This facilitates a comprehensive and consistent analysis of the chain of effects caused by external economic developments on the Bank's risk-bearing capacity.

DVB has implemented a threshold concept as an early warning mechanism for the economic stress test: threshold values are being monitored, as part of ongoing reporting, for scenarios covering multiple types of risk as well as for stress tests covering specific types of risk. These early-warning signals trigger various risk management processes, in order to be able to respond to potential threats indicated at an early stage.

The stress tests are updated quarterly – especially concerning the material risk driver of euro/US dollar exchange rate fluctuations – and are adopted by the Risk & Governance Committee, or by DVB Bank SE's entire Board of Managing Directors. The Bank's aggregate risk cover fully covered expected and unexpected losses under almost all stress scenarios throughout 2016. The macroeconomic twelve-month stress scenario was the only exception, with minor shortfalls in coverage on some reference dates during the second half of the year. An analysis of potential action showed that such shortfalls could have been offset at short notice if required.
TABLE 39

Aggregate risk cover

T 39

€ mn	Historical stress scenario	Macroeconomic stress scenario (12 months)	Macroeconomic stress scenario (24 months)
Aggregate risk cover 2016	**2,221.0**	**2,221.0**	**2,221.0**
Change in aggregate risk cover (ARC) under the respective stress scenario	–269.0	–416.3	233.1
Stressed aggregate risk cover 2016	**1,952.0**	**1,804.7**	**2,454.1**
Unexpected loss (CVaR)	1,342.0	1,503.0	1,443.4
Unexpected loss/stressed ARC (%)	**68.8%**	**83.3%**	**58.8%**

The Bank uses internal models to measure credit risks and market price risks. Loss exposure associated with operational risk is measured using the Basic Indicator Approach under the CRR. DVB uses a value-at-risk (VaR) approach to measure business risk; an earnings-at-risk (EaR) approach is used to measure equity investment risk. Although liquidity risk is also monitored and checked continuously, it is not managed through risk capital, but by means of plans for liquidity flows, cash flow forecasts and stress scenarios.

Types of risk

Credit risk

With respect to individual transactions and clients, credit risk is managed and limited by setting corresponding limits, on the basis of cautious lending principles and sector-specific lending policies. These specify in particular that each transaction must be collateralised by valuable assets (ships, aircraft, etc.). Determining and managing country risks is relevant given the international emphasis of our transport asset lending business. Hence, DVB plans and limits country risks within the scope of the overall management of the Bank, and in accordance with the annual country limit planning system of DZ BANK Group.

Internal rating model and credit portfolio model

Given the dominant position of credit risk in its business, DVB has developed an internal statistical and mathematical rating model (IRM) for its Transport Finance portfolios. The model complies with the "Advanced Approach" requirements under the CRR. In addition to the probability of default ("PD") associated with a given client, the Bank determines the expected loss given default ("LGD") for the unsecured portion of a loan and the anticipated extent of the claim at the time of default (exposure at default, "EAD"). The use of the Advanced Approach means that all types of collateral (such as ship and aircraft mortgages, indemnities) are eligible to reduce exposures. For this purpose, DVB is in a position to provide evidence for expected realisation proceeds on the basis of proprietary time series.

The counterparty rating is based on a multi-level statistical system, developed from a pool of externally-rated companies for which all relevant financial reporting data is available. Assigning the internal rating to the external rating classes enables us to use external default probabilities. The assessment of the future collateral value of financed assets is fundamental to determining the potentially impaired proportion of a specific lending exposure (the LGD) in the Bank's asset-based lending business. The method used for this purpose determines the future collateral value of an asset on the basis of simulation calculations. In addition to external valuations (expert opinions) and market data, DVB also leverages the expertise of its in-house market specialists in assessing specific collateral.

To ensure model adequacy of the IRM, the Bank conducts an annual review to validate the risk parameters PD and LGD both quantitatively and qualitatively. Due to the prevailing high volatility that was evident on international transport markets, DVB decided to maintain the more frequent update of the asset valuation model's market data (introduced in 2009) during 2016, and will continue to do so until international transport markets have stabilised.

In addition to determining regulatory capital adequacy, the Bank also uses IRM results in its integrated global bank management. For example, the results of the ratings are taken into consideration in determining lending authorities, and the standard risk costs – which are also calculated using the model – are an integral part of the estimate with respect to individual transactions, for calculating the minimum margin.

At the beginning of 2013, DVB introduced a credit portfolio model (CPM) tailored to the Transport Finance business. Specifically, this model incorporates the asset-based collateralisation of financing structures as well as potential risk concentration or diversification. To accommodate potential risk concentrations and risk diversifications between the banks, the treasury CPM was replaced by the portfolio model provided by DZ BANK at year-end 2015. This model is mainly geared to compute the potential risk exposure inherent in derivatives, money-market and foreign exchange transactions entered into with other banks, and of sovereign securities. Both models compute a value-at-risk figure for the respective portfolio, incorporating default risk as well as migration risk, on the basis of a 99.9% confidence interval and a one-year holding period. These credit portfolio models replaced the IRM previously used to determine economic capital. Calculations employ key parameters used for the regulatory model (asset value/LGD, PD, EAD).

The Bank will continue to analyse (validate) its credit portfolio model during 2017, a process that may lead to further adjustments to the modelling approach, and parameter estimates.

Portfolio management and control

DVB has organised its portfolio management and control processes on two levels. Group Risk Management is responsible for developing and implementing portfolio management tools and methodology, and for preparing various analyses of the Group's overall portfolio (reporting pursuant to the requirements of MaRisk). On a divisional level, each Transport Finance division is responsible for analysing and managing their respective portfolios within the framework set by the Board of Managing Directors, and with a view to mitigating risk by way of diversification. In doing so, they rely on the support provided by the Bank's in-house research teams.

The proprietary database application OASIS (Object Finance Administration and Security Information System) is a state-of-the-art management information system used for the analysis and management of DVB's loan portfolios. In addition to compiling all quantitative and qualitative data covering every Transport Finance exposure, OASIS also captures the legal and economic risk structures: it thus provides all the data required to manage the portfolio. Moreover, the database represents the core source of information for the IRM and CPM. Data entry is subject to the principle of dual control throughout the system. Because it is integrated into the loan approval and loan administration processes, OASIS helps significantly to minimise operational risks. The Bank continuously develops the OASIS system, to keep it in line with constantly growing requirements.

Various data sources – such as SAP, OASIS and IRM/CPM – are compiled in a data warehouse, where the data can be analysed quickly, via pre-defined reports or ad-hoc analyses. In January 2013, the Basel Committee on Banking Supervision (BCBS) published principles for effective risk data aggregation and risk reporting (BCBS 239). DVB has launched a project in order to be able to comply with these reporting requirements.

Structural analysis of the credit portfolio

The lending volume is calculated in line with DVB's internal portfolio management criteria. Lending volumes are broken down by nature of instruments exposed to credit risk: traditional credit risk, securities business, as well as derivatives and money market business. The quantitative credit portfolio details disclosed below for the overall credit portfolio show DVB's maximum credit risk exposure. The risk exposure is disclosed on the basis of gross lending volumes, i.e. without taking into account credit-risk mitigation techniques and also excluding allowance for credit losses. The volumes included correspond to the nominal amount of loans, irrevocable loan commitments and financial guarantees, and to market values of banking book securities as well as derivatives.

The following diagram maps gross lending volume – used for Group-internal management purposes – to individual items on the statement of financial position. Any divergence between data used for internal management purposes and figures shown in external financial reporting is largely attributable to differences in the scope of consolidation, different definitions of lending volume, as well as differences in the amounts recognised and/or carried.

TABLES 40/41

Gross lending volumes 2016 T 40

€ mn	31 Dec 2016				
	Lending volume for internal reporting purposes	Consolidation	Recognition/ measurement	Other	IFRS Group
Traditional lending business (loans, commitments and other non-derivative off-balance sheet assets)	28,104.1	111.7	–18.7	1,091.7	29,288.8
Securities	280.7	5.1	–	–	285.8
Derivative financial instruments and money-market trading	915.7	–0.6	–556.7	–	358.4
Total	**29,300.6**	**116.2**	**–575.4**	**1,091.7**	**29,933.0**

Gross lending volumes 2015 T 41

€ mn	31 Dec 2015				
	Lending volume for internal reporting purposes	Consolidation	Recognition/ measurement	Other	IFRS Group
Traditional lending business (loans, commitments and other non-derivative off-balance sheet assets)	27,000.6	72.4	24.9	622.7	27,720.6
Securities	332.3	–	–0.1	4.9	337.1
Derivative financial instruments and money-market trading	965.9	–0.8	–472.9	3.4	495.6
Total	**28,298.7**	**71.6**	**–448.1**	**631.0**	**28,553.3**

The lending volume, as shown in the internal reporting systems and reconciled to consolidated financial statements in accordance with IFRS, is reported in the following items on the statement of financial position: TABLE 42

Gross lending volumes (IFRS Group)

T 42

€ mn	31 Dec 2016	31 Dec 2015	%
Cash and balances with the central bank; loans and advances to banks	3,085.8	2,280.9	35.3
Loans and advances to customers; leases	24,328.7	23,578.0	3.2
thereof: loans and advances to customers carried at cost	23,662.6	22,975.5	3.0
thereof: loans and advances to customers measured at fair value	–	–	–
thereof: other credit equivalent transactions	666.1	602.5	10.6
Non-derivative trading assets	**56.7**	–	–
Financial guarantee contracts, contingent liabilities and other commitments	1,817.6	1,941.0	–6.4
thereof: financial guarantee contracts from guarantees	343.9	343.9	–
thereof: contingent liabilities from irrevocable loan commitments	1,473.7	1,597.1	–7.7
Traditional lending business (loans, commitments and other non-derivative off-balance sheet assets)	**29,288.8**	**27,799.9**	**5.4**
Equities and other non-fixed-income securities; bonds	285.8	337.1	–15.2
thereof: measured at fair value	280.7	332.2	–15.5
thereof: at cost	5.1	4.9	4.1
Securities	**285.8**	**337.1**	**–15.2**
Derivative financial instruments with positive fair values	358.4	416.3	–13.9
thereof: trading assets	56.3	95.0	–40.7
thereof: hedging instruments	302.1	321.3	–6.0
Derivative financial instruments	**358.4**	**416.3**	**–13.9**
Carrying amount (IFRS)	**29,933.0**	**28,553.3**	**4.8**

The following three tables provide an overview of credit risk concentration and maximum credit risk exposure, broken down by DVB's business divisions, geographical regions and residual terms. The 'Other' row aggregates Group Treasury, the business of LogPay Financial Services GmbH, and business that is no longer in line with DVB's strategy. TABLES 43–45

Lending volume, 82.4% of which is denominated in US dollars (previous year: 82.1%), was up by 0.4%. Adjusted for exchange rate effects, it increased slightly, by 0.9%.

Credit risk concentration and maximum credit risk exposure by business division (lending volume)

T 43

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments and money-market trading	
€ mn	2016	2015	2016	2015	2016	2015
Shipping Finance	11,939.4	11,768.1	–	–	9.0	21.4
Aviation Finance	8,655.5	7,633.6	–	–	7.7	10.9
Offshore Finance	2,352.4	2,432.0	–	–	5.2	11.3
Land Transport Finance	1,645.0	1,680.6	–	–	1.2	0.2
Investment Management	573.7	544.1	–	–	–	–
ITF Suisse	594.5	997.2	–	–	–	0.1
Other	2,343.6	1,945.0	280.7	332.3	892.6	921.9
Total	**28,104.1**	**27,000.6**	**280.7**	**332.3**	**915.7**	**965.8**

Credit risk concentration and maximum credit risk exposure by region (lending volume)

T 44

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments and money-market trading	
€ mn	2016	2015	2016	2015	2016	2015
Europe	14,229.6	13,341.9	280.7	332.3	906.9	948.3
North America	6,021.5	5,994.3	–	–	3.4	4.0
Asia	4,400.2	4,450.5	–	–	4.1	9.2
Middle East/Africa	1,627.2	1,197.6	–	–	–	0.5
South America	622.6	1,605.8	–	–	1.3	3.8
Offshore	1,081.1	297.0	–	–	–	–
Australia/ New Zealand	121.9	113.5	–	–	–	–
Total	**28,104.1**	**27,000.6**	**280.7**	**332.3**	**915.7**	**965.8**

Credit risk concentration and maximum credit risk exposure by residual term (lending volume)

T 45

	Loans, commitments and other non-derivative off-balance sheet assets		Securities		Derivative financial instruments and money-market trading	
€ mn	2016	2015	2016	2015	2016	2015
≤ 1 year	6,081.3	4,757.3	75.6	153.8	73.0	129.8
> 1 year ≤ 5 years	12,999.6	12,137.4	205.1	178.5	388.5	375.9
> 5 years	9,023.2	10,105.9	–	–	454.2	460.1
Total	**28,104.1**	**27,000.6**	**280.7**	**332.3**	**915.7**	**965.8**

The following overview breaks down the volume of collateral for the total portfolio by collateral type, and by the type of instrument exposed to credit risk. Collateral for traditional lending, securities business, and for derivatives and money-market business is shown excluding netting agreements. Collateralisation details are based on market values, with a 40% haircut having been applied – except for financial collateral, which was included without deduction. TABLE 46

Collateral values for the entire portfolio, by collateral type[1]

T 46

	Traditional lending business		Securities business		Derivatives and money-market business	
€ mn	2016	2015	2016	2015	2016	2015
Land charges, mortgages, registered liens	20,165.2	20,612.9	–	–	15.8	31.5
Transfers of ownership, assignments, pledges of receivables	420.2	487.0	–	–	1.0	0.2
Financial collateral	–	–	–	–	6.4	125.4
Total	**20,585.4**	**21,099.9**	**–**	**–**	**23.2**	**157.1**

1 The collateral values shown were included up to the amount of the corresponding lending volume, except for financial collateral, which was included without deduction.

The decline in collateral values was largely due to lower market values of the financed assets in the Shipping Finance and Offshore Finance divisions.

The following section provides an overview of the structure of DVB's loan portfolios, together with collateralisation developments.

DVB's Shipping Finance portfolio, which is largely denominated in US dollars (96.5%), grew by 0.8%, to €11.9 billion. The euro weakened in a volatile development, falling 3.2% against the US dollar during the course of the year. Adjusting for exchange rate fluctuations, the Shipping Finance portfolio size decreased by 1.8%.

The chart below provides a breakdown of exposures secured by mortgages, by LTV range (where loan amounts have been allocated to LTV classes proportionally), as well as exposures covered by other forms of collateral, and unsecured exposures: CHART 37

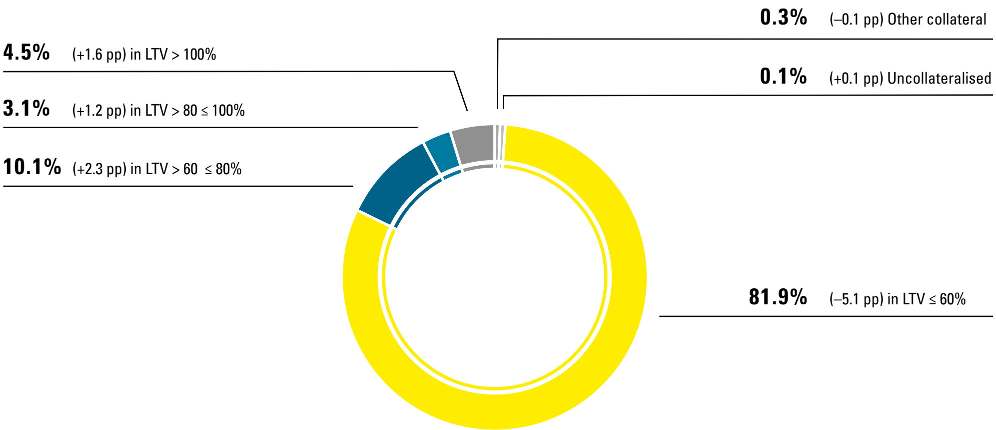
99.6% of the portfolio (€11,898.3 million) is secured by mortgages on ships; only €33.0 million is secured by other forms of collateral. And only €17.0 million are uncollateralised.

At the end of 2016, the overall Aviation Finance portfolio stood at €8.7 billion (previous year: €7.7 billion). This portfolio is also predominantly denominated in US dollars (98.1%). Adjusting for exchange rate fluctuations, the portfolio size increased by 9.8%.

The Aviation Finance portfolio also reflects the strict enforcement of the Bank's lending standards characterised by conservative collateralisation structures, as shown in the following chart: CHART 38

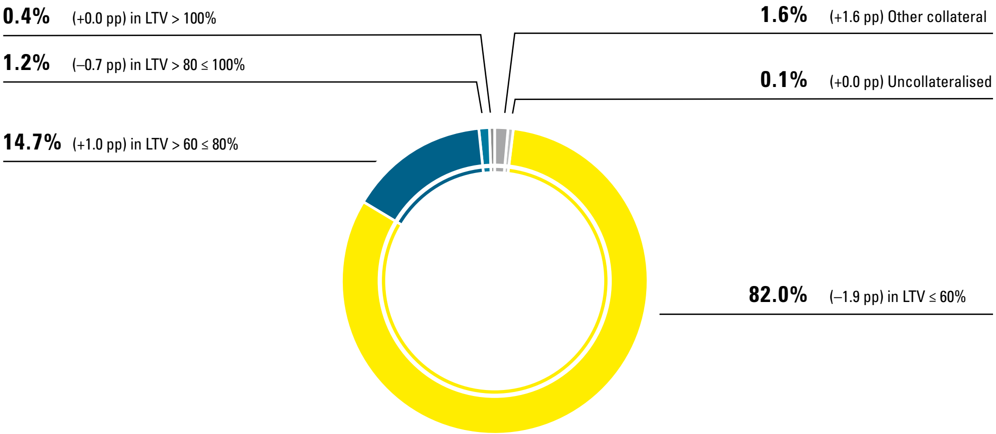
Shipping Finance portfolio – LTV classes

C 37



Aviation Finance portfolio – LTV classes

C 38



98.3% of the lending volume (€8,515.0 million) is secured by mortgages on aircraft. Lending volume of €7,105.2 billion has an LTV ratio not exceeding 60%. Exposures of €142.3 million are covered by other forms of collateral, and only €5.9 million are uncollateralised

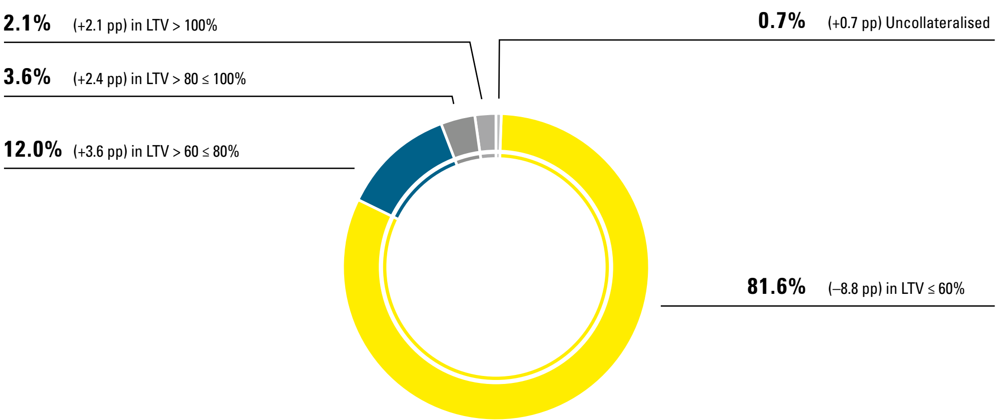
The Bank's Offshore Finance portfolio, which is largely denominated in US dollars (89.6%), stood at €2.4 billion. Adjusting for exchange rate fluctuations, the portfolio size decreased by 6.4%. The chart below provides a breakdown of exposures secured by mortgages, by LTV range (loan amounts have been allocated to LTV classes proportionately): CHART 39

99.4% of the lending volume (€2,340.0 million) is secured by ship mortgages. Lending volume of €1,924.2 billion has an LTV ratio not exceeding 60%. It is worth noting that in some segments of the Offshore Finance portfolio, LTV ratios have a restricted meaning, due to a limited number of observable market transactions.

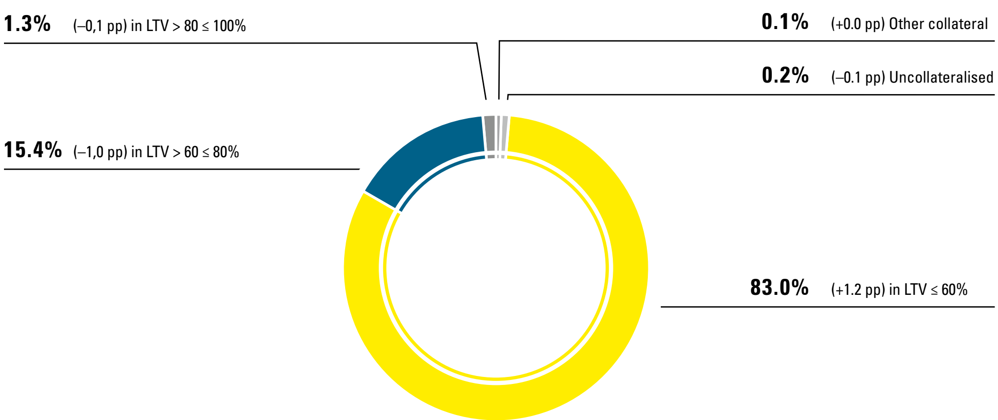
DVB's Land Transport Finance portfolio, 46.0% of which is denominated in euros, and 43.9% in US dollars, shrank by 5.9% year-on-year, to €1.6 billion. Adjusting for exchange rate fluctuations, the portfolio size sank by 2.3%. The LTV breakdown of the Land Transport Finance portfolio developed as follows: CHART 40

99.7% of the lending volume (€1,640.7 million) is secured by mortgages, with €1,365.7 million having an LTV ratio not exceeding 60%. Only €1.6 million of the portfolio is secured by other forms of collateral, and exposures of €4.0 million are uncollateralised.

Offshore Finance portfolio – LTV classes C 39



Land Transport portfolio – LTV classes C 40

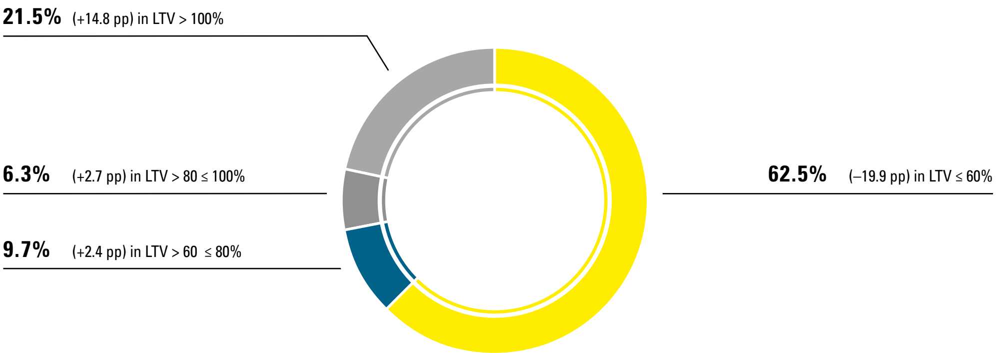


DVB integrated Loan Participations as a new product into its business model in mid-2007, with ITF International Transport Finance Suisse AG, based in Zurich, participating in non-complex transactions fulfilling strict lending policy requirements. In November 2015, the Board of Managing Directors of DVB Bank SE decided to cease marketing activities in this field with immediate effect.

In the financial year 2016, 100.0% of the lending volume (€594.5 million) was secured by mortgages on ships and aircraft. Lending volume of €371.6 million has an LTV ratio not exceeding 60%. Total lending volume of this segment declined by 40% during the year under review, to €0.6 billion. Adjusting for exchange rate fluctuations, the portfolio size was down 42.2%. CHART 41

ITF Suisse portfolio – LTV classes

C 41

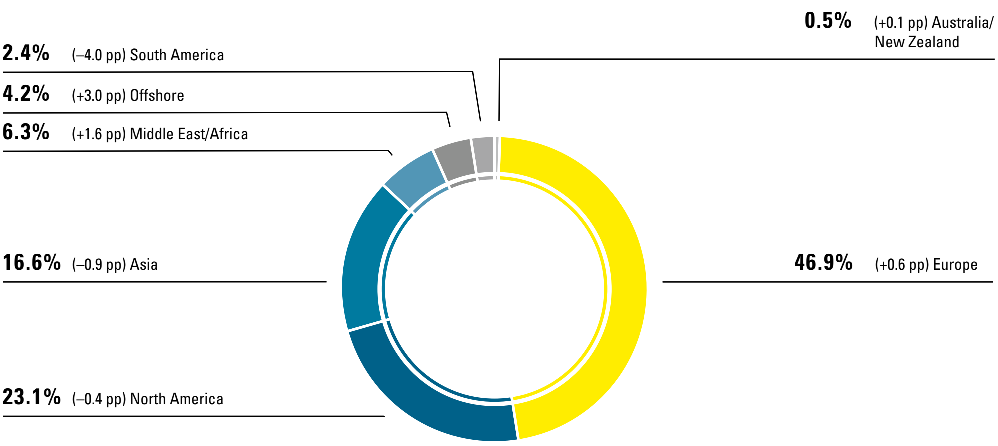


Country risk exposure within customer lending

The Bank mitigates more serious country risk exposure by applying a commensurate transaction structure (for example, by a combination of measures such as collateralisation, use of offshore accounts, maintaining cash flows in fully-convertible currencies, political risk insurance cover, etc.). DVB determines country risks on the basis of primary obligors. CHART 42

Country risk exposure within customer lending volume

C 42



There were no significant changes to the breakdown of country risks in DVB's portfolio compared to the previous year. DVB's Transport Finance exposure continues to be concentrated in Europe, North America and Asia. Country risks are managed, and related limits defined, on the basis of net country risk exposure, with a 60% haircut applied to the market values of eligible financed assets. Net country risk exposure was virtually unchanged from the previous year. The net country risk exposure to countries subject to higher default risks (including Greece, Turkey, Cyprus, Vietnam and Ecuador) was only 1.2% (previous year: 0.8%) of customer lending.

Continued reduction of credit portfolios that are no longer in line with DVB's strategy

The Transport Infrastructure portfolio – which is no longer in line with the Bank's strategy – was reduced by a further 46.2% during 2016, to €87.0 million. Collateral for all of the Bank's infrastructure finance projects included an assignment of operating concessions. Allowance for credit losses for this portfolio (comprising specific as well as portfolio-based allowance for credit losses) decreased by €0.5 million in 2016; at year-end it amounted to €4.4 million (previous year: €4.9 million).

Lending volume bundled in the so-called D-Marketing unit, which is no longer in line with DVB's strategy, was reduced by 48.8% to €5.7 million during 2016. Aggregate allowance for credit losses for this portfolio declined slightly, to €2.0 million (previous year: €2.1 million). DVB continues to expect the total allowance for credit losses for this part of its portfolio to be adequate.

Early warning system, problem loans, allowance for credit losses

DVB uses a diversified set of tools for the early recognition, monitoring and management of sub-performing or non-performing loans. This multi-level early identification procedure ensures that these loans are identified at an early stage, and that such exposure is included in monitoring lists, for intensified handling. During regular meetings of the Watch List Committees, chaired by the Member of the Board of Managing Directors responsible for risk management, decisions are taken regarding risk mitigation strategies and measures, as well as concerning any write-downs required.

The Bank conducts stress tests at an overall portfolio level (based on stress scenarios designed to ascertain a sufficient level of capital, and to verify the Bank's risk-bearing capacity), as well as for the Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance sub-portfolios. Within the scope of these tests, all individual exposures are subjected to dramatic changes of multi-dimensional parameters (such as LTV ratio and rating class) as part of diverse stress scenarios. The purpose of these tests is to assess which exposures might be susceptible to impairment in the event of certain negative developments implied by the stress scenarios. Any such individual exposures are classified as "early warning" cases, and monitored closely.

The Bank has defined the scope of non-performing loans (NPL) in line with the new EBA guidelines. Besides exposures that are more than 90 days overdue, the NPL volume comprises all exposures that are in default or impaired, regardless of whether interest and principal payments are being made for such exposures. The EBA guidelines also provide for a "good conduct" period of at least twelve months for renegotiated NPL volumes: NPL volumes to which none of these three criteria applies nonetheless remain part of the NPL volume during this period.

NPL in the DVB Bank Group amounted to an aggregate nominal value of €2,737.7 million at the end of 2016 (previous year: €1,807.6 million). This equates to an NPL ratio of 9.3% (previous year: 6.4%) in relation to total lending volume.

The following table shows an analysis of NPL volumes by division, further broken down by the following aspects (which overlap to some extent): (1) defaulted exposure; (2) impaired exposure; and (3) forborne exposure:
TABLE 47

Forborne exposure was also determined in line with EBA rules and regulations on "Forbearance and Non-Performing Exposures". This comprises exposures where contractually-agreed terms were restructured in favour of borrowers, as a result of their financial difficulties. Parts of the forborne exposure are also classified as NPLs. Total forborne exposure amounted to €2,616.8 million (previous year: €1,518.4 million). The following table provides an analysis of forborne exposure by division, further broken down by (1) performing and (2) non-performing exposures:
TABLE 48

Moreover, both the NPL volume and the forborne exposure can be broken down according to specific and portfolio-based allowances for credit losses.

NPL volume

T 47

	NPL volume		thereof: defaulted exposure		thereof: impaired exposure		thereof: forborne exposure		Specific allowance for credit losses recognised on NPL volume		Portfolio-based allowance for credit losses recognised on NPL volume	
€ mn	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Shipping Finance	1,513.5	1,169.0	1,272.4	1,046.8	928.2	854.8	1,007.0	772.1	350.2	143.1	12.7	7.6
Aviation Finance	138.9	98.3	95.7	58.3	129.1	56.2	14.7	18.4	60.3	42.8	0.1	0.1
Offshore Finance	641.5	159.5	536.9	159.5	392.2	123.3	262.6	98.8	61.0	20.2	7.5	–
Land Transport Finance	8.0	8.8	8.0	8.8	8.0	8.8	–	–	2.3	1.3	–	–
Investment Management	125.9	128.7	81.4	126.6	87.0	81.4	81.4	126.6	33.2	15.8	–	–
ITF Suisse	261.6	195.1	261.6	182.4	136.5	86.1	170.2	95.7	70.2	25.5	–	–
Other	48.3	48.2	18.7	44.2	18.7	18.6	29.6	29.6	4.2	4.3	0.9	0.6
Total	**2,737.7**	**1,807.6**	**2,274.6**	**1,626.5**	**1,699.8**	**1,229.2**	**1,565.5**	**1,141.1**	**581.4**	**253.0**	**21.2**	**8.3**

Forborne exposure

T 48

	Forborne exposure		thereof: performing exposure		thereof: non-performing exposure		Specific allowance for credit losses recognised on forborne exposure		Portfolio-based allowance for credit losses recognised on forborne exposure	
€ mn	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Shipping Finance	1,609.1	1,072.8	602.1	300.7	1,007.0	772.1	319.7	88.8	7.2	4.7
Aviation Finance	35.9	21.7	21.3	3.3	14.7	18.4	6.1	4.7	0.1	0.2
Offshore Finance	605.2	128.9	342.7	30.2	262.6	98.8	18.5	4.9	8.1	–
Land Transport Finance	25.7	26.6	25.7	26.6	–	–	–	–	0.1	0.1
Investment Management	81.4	126.6	–	–	81.4	126.6	7.0	5.9	–	–
ITF Suisse	229.8	112.2	59.6	16.5	170.2	95.7	52.6	24.7	0.1	0.1
Other	29.6	29.6	–	–	29.6	29.6	–	–	0.9	0.5
Total	**2,616.8**	**1,518.4**	**1,051.4**	**377.3**	**1,565.5**	**1,141.1**	**403.9**	**129.0**	**16.5**	**5.6**

The following tables indicate the non-impaired, non-overdue lending volume as a portion of the overall portfolio, broken down by business division and region.
TABLES 49/50

Non-impaired, non-overdue lending volume by business division

T 49

	Total portfolio		Non-impaired, non-overdue portfolio	
€ mn	2016	2015	2016	2015
Shipping Finance	11,948.4	11,789.5	10,522.3	10,697.4
Aviation Finance	8,663.2	7,644.5	8,393.7	7,588.3
Offshore Finance	2,357.6	2,443.3	1,760.8	2,261.8
Land Transport Finance	1,646.2	1,680.8	1,638.2	1,672.0
Investment Management	573.8	544.1	307.9	415.1
ITF Suisse	594.5	997.3	457.9	884.0
Other	3,516.9	3,199.2	3,498.2	3,180.6
Total	**29,300.6**	**28,298.7**	**26,579.0**	**26,699.2**

Non-impaired, non-overdue lending volume by region

T 50

	Total portfolio		Non-impaired, non-overdue portfolio	
€ mn	2016	2015	2016	2015
Europe	15,417.2	14,622.4	13,767.0	13,425.1
North America	6,024.9	5,998.4	5,633.3	5,862.3
Asia	4,404.3	4,459.7	3,969.0	4,367.0
Middle East/Africa	1,627.2	1,198.1	1,556.9	1,097.2
South America	624.0	1,609.6	600.4	1,547.0
Offshore	1,081.1	297.0	930.5	287.1
Australia/New Zealand	121.9	113.5	121.9	113.5
Total	**29,300.6**	**28,298.7**	**26,579.0**	**26,699.2**

Lending volume that is neither impaired nor past due continues to account for the dominant share of the portfolio, at 90.7% (previous year: 94.4%).

The collateralisation details disclosed below are based on market values, with a 40% haircut having been applied. The following table indicates overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral, by business division. TABLE 51

Overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral – by business division

T 51

	30 days or less past due		Over 30, up to 60 days past due		Over 60, up to 90 days past due		More than 90 days past due		Fair value of collateral (60% of market value)	
€ mn	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Shipping Finance	46.9	144.3	28.6	–	–	–	422.5	93.0	345.0	226.2
Aviation Finance	71.2	–	69.2	–	–	–	–	–	110.3	–
Offshore Finance	28.6	22.1	–	–	–	–	175.9	36.1	166.3	57.1
Land Transport Finance	–	–	–	–	–	–	–	–	–	–
Investment Management	144.0	–	–	–	–	–	34.8	47.6	–	–
ITF Suisse	–	27.2	–	–	–	–	–	–	–	24.3
Other	–	–	–	–	–	–	–	–	–	–
Total	**290.7**	**193.6**	**97.8**	**–**	**–**	**–**	**633.2**	**176.7**	**621.6**	**307.6**

The increase, especially concerning exposures which are more than 90 days past due, was driven by persistently difficult market conditions in certain shipping segments, and in Offshore Finance.

The following table indicates overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral, by region. TABLE 52

Overdue exposures for which no specific allowance for credit losses has been recognised, together with the value of related collateral – by region

T 52

	30 days or less past due		Over 30, up to 60 days past due		Over 60, up to 90 days past due		More than 90 days past due		Fair value of collateral (60% of market value)	
€ mn	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Europe	146.7	60.2	5.0	–	–	–	192.6	57.8	250.6	111.6
Asia	–	44.6	92.8	–	–	–	226.9	36.1	216.1	77.8
Middle East/Africa	–	61.6	–	–	–	–	65.8	35.1	53.5	93.9
South America	–	0.0	–	–	–	–	–	–	–	–
North America	144.0	27.2	–	–	–	–	74.2	47.6	31.1	24.3
Australia/ New Zealand	–	–	–	–	–	–	–	–	–	–
Offshore	–	–	–	–	–	–	73.8	–	70.3	–
Total	**290.7**	**193.6**	**97.8**	**–**	**–**	**–**	**633.2**	**176.6**	**621.6**	**307.6**

The following two tables indicate the lending volume for which specific allowance for credit losses has been recognised, together with related collateral, by business division and region, respectively. TABLES 53/54

Lending volume for which specific allowance for credit losses has been recognised and related collateral – by business division

T 53

	Amount before specific allowance		Specific allowance		Amount after specific allowance		Fair value of collateral (60% of market value)	
€ mn	2016	2015	2016	2015	2016	2015	2016	2015
Shipping Finance	928.3	854.8	–350.2	–143.1	578.1	711.7	288.3	349.0
Aviation Finance	129.1	56.2	–60.3	–42.7	68.8	13.5	64.7	21.6
Offshore Finance	392.2	123.3	–61.0	–20.2	331.2	103.1	227.9	104.7
Land Transport Finance	8.0	8.8	–2.3	–1.3	5.7	7.5	7.7	8.2
Investment Management	87.0	81.4	–33.2	–15.8	53.8	65.6	–	–
ITF Suisse	136.5	86.1	–70.2	–25.5	66.3	60.6	34.8	32.2
Other	18.7	18.6	–4.2	–4.3	14.5	14.3	2.7	2.7
Total	**1,699.8**	**1,229.2**	**–581.4**	**–252.9**	**1,118.4**	**976.3**	**626.1**	**518.5**

Lending volume for which specific allowance for credit losses has been recognised and related collateral – by region

T 54

	Amount before specific allowance		Specific allowance		Amount after specific allowance		Fair value of collateral (60% of market value)	
€ mn	2016	2015	2016	2015	2016	2015	2016	2015
Europe	1,305.9	1,079.4	–493.0	–222.8	812.9	856.6	435.4	419.9
North America	173.4	61.3	–41.9	–13.7	131.5	47.6	75.0	29.9
Asia	115.6	11.9	–24.0	–5.0	91.6	6.9	71.8	8.8
South America	23.6	62.6	–4.9	–4.9	18.7	57.7	6.9	57.8
Australia/New Zealand	–	–	–	–	–	–	–	–
Offshore	76.9	9.9	–15.3	–4.3	61.6	5.6	37.0	2.1
Middle East/Africa	4.5	4.1	–2.3	–2.2	2.2	1.9	–	0.0
Total	**1,699.8**	**1,229.2**	**–581.4**	**–252.9**	**1,118.4**	**976.3**	**626.1**	**518.5**

Taking into account the fair value of collateral (60% of market value), 56.0% (previous year: 53.1%) of the impaired portfolio (based on the amount after specific allowance for credit losses) is duly collateralised.

On the reporting date, DVB held €143.1 million (previous year: €148.2 million) in property and equipment as a result of restructuring measures. The Bank intends to sell or lease these assets, taking into consideration the relevant market situation and leveraging the know-how of DVB's asset management teams. As at 31 December 2016, DVB did not hold any "non-current assets held for sale" obtained from restructuring measures (previous year: €20.9 million). For more details on the balance sheet item "non-current assets held for sale", please see the disclosures in Note 37, page 258 of the notes to the financial statements.

The following four tables illustrate the development of the allowance for credit losses for the financial years 2015 and 2016, by business division and region. For this purpose, allowance for credit losses – which is determined in accordance with IFRS – is broken down into specific allowance for credit losses, portfolio-based allowance for credit losses, and provisions.

In the breakdown by business division, the "Business no longer in line with DVB's strategy" item comprises allowance for credit losses in the portfolio of D-Marketing and the Transport Infrastructure portfolio. The "Other" item contains allowance for credit losses in the LogPay Financial Services portfolio. TABLES 55/56

Allowance for credit losses by business division – 2016

T 55

€ mn	Balance as at 1 Jan 2016	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments[1]	Balance as at 31 Dec 2016	Direct write-offs	Recoveries on loans and advances previously written off
Shipping Finance	143.1	325.0	–19.6	–96.4	–1.9	350.2	0.1	2.9
Aviation Finance	42.7	23.7	–3.5	–4.4	1.8	60.3	–	0.5
Offshore Finance	20.2	57.3	–14.8	–0.1	–1.6	61.0	0.0	–
Land Transport Finance	1.3	1.4	–	–	–0.4	2.3	–	–
Investment Management	15.8	22.7	–4.3	–1.9	0.9	33.2	–	–
ITF Suisse	25.5	56.6	–1.6	–10.7	0.4	70.2	0.0	–
Business no longer in line with DVB's strategy	4.2	1.0	–	–0.9	–0.2	4.1	–	0.2
Other	0.1	–	–	0.0	–	0.1	0.4	0.1
Total specific allowance for credit losses	**252.9**	**487.7**	**–43.9**	**–114.4**	**–1.0**	**581.4**	**0.5**	**3.7**
Shipping Finance	22.5	19.6	–	–15.5	1.1	27.7	–	–
Aviation Finance	5.7	3.3	–	–2.9	0.1	6.2	–	–
Offshore Finance	2.5	12.4	–	–1.3	0.8	14.4	–	–
Land Transport Finance	0.7	0.1	–	–0.5	0.0	0.3	–	–
Investment Management	–	–	–	–	–	–	–	–
ITF Suisse	1.9	0.1	–	–1.5	0.0	0.5	–	–
Business no longer in line with DVB's strategy	2.8	–	–	–0.6	–	2.2	–	–
Other	–	0.0	–	–	–	0.0	–	–
Total portfolio-based allowance for credit losses	**36.1**	**35.5**	**–**	**–22.3**	**2.0**	**51.3**	**–**	**–**
Total impairments and allowances	**289.0**	**523.2**	**–43.9**	**–136.7**	**1.0**	**632.7**	**0.5**	**3.7**
AviationFinance	2.7	–	–	–2.3	–0.3	0.0	–	–
Offshore Finance	–	0.4	–	–	–0.1	0.4	–	–
Business no longer in line with DVB's strategy	0.1	–	–	–0.1	–	0.0	–	–
Total provisions	**2.8**	**0.4**	**–**	**–2.4**	**–0.4**	**0.4**	**–**	**–**
Total allowance for credit losses	**291.8**	**523.7**	**–43.9**	**–139.1**	**0.6**	**633.1**	**0.5**	**3.7**

1 Net interest income includes interest income in the amount of €12.3 million attributable to impaired loans and advances.

Allowance for credit losses by business division – 2015

T 56

€ mn	Balance as at 1 Jan 2015	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments[1]	Balance as at 31 Dec 2015	Direct write-offs	Recoveries on loans and advances previously written off
Shipping Finance	102.2	110.3	–35.2	–29.9	–4.3	143.1	7.4	0.5
Aviation Finance	33.3	10.0	–	–3.3	2.7	42.7	–	–
Offshore Finance	–	21.1	–	–	–0.9	20.2	–	–
Land Transport Finance	1.2	0.6	–	–0.1	–0.4	1.3	–	–
Investment Management	16.6	12.9	–6.0	–8.3	0.6	15.8	–	–
ITF Suisse	16.6	19.2	–9.7	–0.8	0.2	25.5	–	–
Business no longer in line with DVB's strategy	13.8	0.2	–10.4	–	0.6	4.2	2.8	0.5
Other	0.1	–	–	–0.1	–	0.1	0.2	0.1
Total specific allowance for credit losses	**183.8**	**174.3**	**–61.3**	**–42.4**	**–1.5**	**252.9**	**10.4**	**1.1**
Shipping Finance	19.8	14.6	–	–13.5	1.6	22.5	–	–
Aviation Finance	8.4	2.6	–	–6.1	0.8	5.7	–	–
Offshore Finance	1.5	1.9	–	–1.5	0.6	2.5	–	–
Land Transport Finance	0.6	0.6	–	–0.6	0.1	0.7	–	–
Investment Management	–	–	–	–	–	–	–	–
ITF Suisse	2.5	1.0	–	–1.9	0.3	1.9	–	–
Business no longer in line with DVB's strategy	2.2	0.6	–	–	–	2.8	–	–
Other	0.1	–	–	–0.1	–	–	–	–
Total portfolio-based allowance for credit losses	**35.1**	**21.3**	**–**	**–23.7**	**3.4**	**36.1**	**–**	**–**
Total impairments and allowances	**218.9**	**195.6**	**–61.3**	**–66.1**	**1.9**	**289.0**	**10.4**	**1.1**
Aviation Finance	–	2.7	–	–	–	2.7	–	–
Business no longer in line with DVB's strategy	0.1		–	–	–	0.1	–	–
Total provisions	**0.1**	**2.7**	**–**	**–**	**–**	**2.8**	**–**	**–**
Total allowance for credit losses	**219.0**	**198.3**	**–61.3**	**–66.1**	**1.9**	**291.8**	**10.4**	**1.1**

1 Net interest income includes interest income in the amount of €19.7 million attributable to impaired loans and advances.

The following two tables illustrate the development of allowance for credit losses by region. No regional breakdown is provided for portfolio-based allowance for credit losses and provisions since the amounts involved were not material overall during 2015 and 2016. TABLES 57/58

Allowance for credit losses by region – 2016

T 57

€ mn	Balance as at 1 Jan 2016	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments	Balance as at 31 Dec 2016	Direct write-offs	Recoveries on loans and advances previously written off
Europe	222.8	404.9	–33.6	–103.9	2.8	493.0	0.4	3.7
North America	13.7	39.3	–7.9	–4.7	1.5	41.9	0.0	–
Asia	5.0	18.7	–	–0.1	0.4	24.0	–	–
South America	4.9	4.9	–	–	–4.9	4.9	–	–
Australia/New Zealand	–	–	–	–	–	–	–	–
Middle East/Africa	2.2	–	–	–	0.1	2.3	–	–
Offshore	4.3	19.9	–2.4	–5.6	–0.9	15.3	–	–
Total specific allowance for credit losses	**252.9**	**487.7**	**–43.9**	**–114.4**	**–1.0**	**581.4**	**0.5**	**3.7**
Total portfolio-based allowance for credit losses	**36.1**	**35.5**	**–**	**–22.3**	**2.0**	**51.3**	**–**	**–**
Total impairments and allowances	**289.0**	**523.2**	**–43.9**	**–136.7**	**1.0**	**632.7**	**0.5**	**3.7**
Total provisions	**2.8**	**0.4**	**–**	**–2.4**	**–0.4**	**0.4**	**–**	**–**
Total allowance for credit losses	**291.8**	**523.7**	**–43.9**	**–139.1**	**0.6**	**633.1**	**0.5**	**3.7**

Allowance for credit losses by region – 2015

T 58

€ mn	Balance as at 1 Jan 2015	Additions	Utilisation	Reversals	Changes resulting from exchange rate fluctuations, and other adjustments	Balance as at 31 Dec 2015	Direct write-offs	Recoveries on loans and advances previously written off
Europe	143.9	151.3	–42.5	–32.1	2.2	222.8	4.8	1.0
North America	25.3	4.7	–14.9	–1.8	0.4	13.7	2.8	–
Asia	4.2	2.6	–1.6	–0.6	0.4	5.0	2.8	0.1
South America	8.5	9.8	–2.3	–6.4	–4.7	4.9	–	–
Australia/New Zealand	–	–	–	–	–	–	–	–
Middle East/Africa	1.9	–	–	–	0.2	2.2	–	–
Offshore	–	5.9	–	–1.5	–0.1	4.3	–	–
Total specific allowance for credit losses	**183.8**	**174.3**	**–61.3**	**–42.4**	**–1.5**	**252.9**	**10.4**	**1.1**
Total portfolio-based allowance for credit losses	**35.1**	**21.3**	**–**	**–23.7**	**3.4**	**36.1**	**–**	**–**
Total impairments and allowances	**218.9**	**195.7**	**–61.3**	**–66.1**	**1.9**	**289.0**	**10.4**	**1.1**
Total provisions	**0.1**	**2.7**	**–**	**–**	**–**	**2.8**	**–**	**–**
Total allowance for credit losses	**219.0**	**198.3**	**–61.3**	**–66.1**	**1.9**	**291.8**	**10.4**	**1.1**

Credit and Asset Solution Group (CASG)
Against the background of the persistent downtrend in some segments of the international shipping industry and the crisis on global offshore markets caused by the slump in crude oil prices, the Board of Managing Directors resolved to establish the Credit and Asset Solution Group (CASG), with effect from 1 January 2016. The group's objective is to reduce problematic exposures as efficiently, and with as minimal realised losses, as possible. The team brings together the Bank's top restructuring experts, as well as some new external staff members, institutionalising the restructuring skills in DVB's operational structure – to ensure that this expertise is permanently available to protect the Bank's capital.

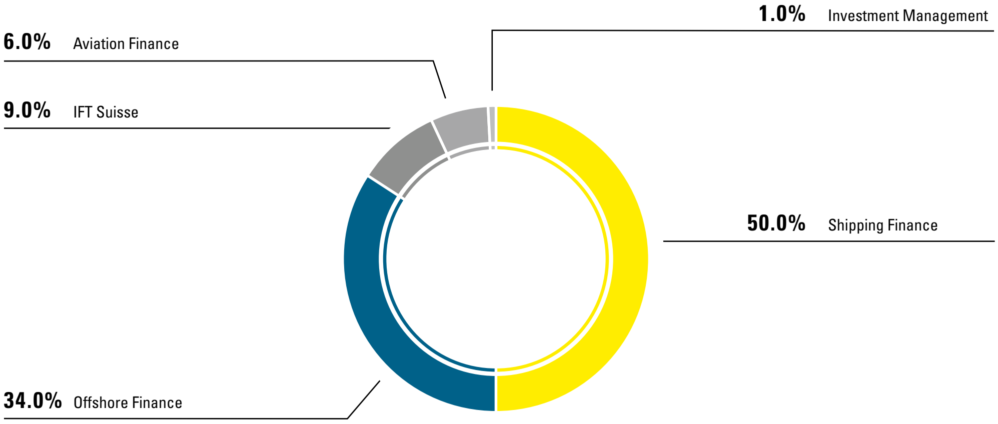
CASG:

- has institutionalised the Bank's restructuring skills for all divisions and industries in one team, across a consolidated set of locations;
- has assumed primary responsibility for Watch List and Loan Loss Provisions List cases, in the Shipping Finance, Aviation Finance, and Offshore Finance divisions;
- works closely with the dedicated credit officers and front-office units from the said Transport Finance divisions;
- is designed as a dynamic scalable platform whose resources can be flexibly adapted to meet the demands of the portfolio; and
- ensures full structural compliance with regulatory requirements through this platform

As at 31 December 2016, CASG managed a restructuring portfolio comprising 74 exposures with an aggregate volume of €2.9 billion. This corresponds to 11.2% of the total customer lending volume of €25.9 billion.

The restructuring portfolio can be broken down as follows: CHART 43

CASG restructuring portfolio per sector C 43



Regulatory audit of operations

Mandated by the ECB, Deutsche Bundesbank carried out an on-site review of DVB Bank SE's risk management at DVB's Frankfurt/Main, Amsterdam, London and Singapore locations in late summer of 2015. The main focal points of the review were the risk management structures and processes associated with Shipping Finance, Offshore Finance and Aviation Finance, as well as the models used by the Bank for measuring risks. The Bank received the final audit report in July 2016. Out of a total of 26 findings, none of which was classified as involving "immediate cause for action", 17 findings had been remedied by the end of the year, with only nine findings still being processed.

Operational risk

Monitoring and managing operational risks largely comprises the development of a methodology for identifying, quantifying and managing risk, and maintaining an adequate risk reporting system. In view of DVB's moderately complex – yet highly transparent – processes, the so-called Basic Indicator Approach is deemed appropriate. A central OpRisk & RepRisk Committee was established for this purpose, as well as the function of a decentralised OpRisk Manager for each of DVB's worldwide locations.

The tools DVB has implemented to manage operational risk are scenario-based self-assessments, carried out at least once a year in respect of each location, on a divisional or departmental level, plus the loss database – where losses incurred due to operational risks are recorded. DVB also compiles risk indicators in accordance with the specifications of DZ BANK Group. Quarterly reports containing the results are submitted to the Board of Managing Directors and the OpRisk & RepRisk Committee; where appropriate, this is supplemented by ad-hoc reporting.

DVB has devised and implemented business continuity plans to minimise such operational risks in particular which may be caused by external disruptions to business processes, and to the Bank's services. These plans are "risk-oriented"; they provide for numerous measures designed to restore key workflows and services within a reasonable amount of time, and with appropriate quality. The viability of business continuity plans is revised periodically.

Going forward, the Group Risk Committee will be dealing with the constantly-changing legal and regulatory requirements for operating a bank. From DVB's perspective, increasing regulatory requirements are a growing source of risk.

Business and reputational risk

DVB's business policy is defined by the entire Board of Managing Directors, within the scope of closed-door strategy meetings. The policy is then discussed and agreed upon with the Supervisory Board, in accordance with the Memorandum and Articles of Association and the respective internal regulations. DVB has allocated risk capital for business risk since 2011, measuring risk exposure using a VaR approach with a 99.9% confidence level, based on the volatility of monthly profits.

As a matter of principle, reputational risk is incorporated into risk capital backing through business risk. Reputational risk is defined as the risk of losses caused by events which damage the confidence of, in particular, clients, shareholders, labour market participants, members of staff, the general public or regulatory authorities – in DVB, or the products and services it offers.

Reputational risk may occur in isolation ('primary' reputational risk), or as a direct or indirect consequence of other types of risk, such as business, liquidity, or operational risk ('secondary' reputational risk).

The risk strategy deals with reputational risk through the following objectives:

- to avoid losses from reputational events, through preventive measures;
- to mitigate reputational risks, through preventive as well as responsive measures;
- to strengthen awareness of reputational risk within the Bank – including by appointing persons responsible for this risk type, and by establishing a framework and reporting structure for reputational risks.

Moreover, liquidity risk management explicitly covers the threat of funding problems as a result of potential reputational damage.

Crisis communication specifically designed to deal with reputational risk has been prepared in order to fend off any major reputational damage which the Bank might incur. Accordingly, DVB pursues a stakeholder-oriented approach, where reputational risk is identified and assessed, in qualitative terms, from a stakeholders' perspective.

Negative reputation holds the risk of uncertainty on the part of current or potential clients, which might prevent expected transactions from being concluded. Moreover, the backing of shareholders or staff, which is required for the execution of such transactions, might no longer be guaranteed. Reputational damage may also lead to funding problems.

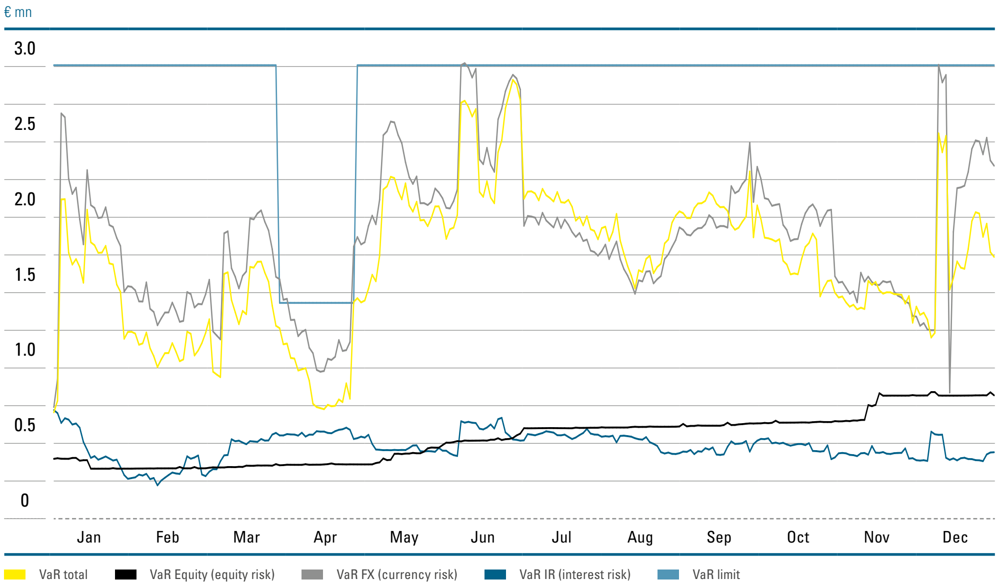
Market price risk

Group Treasury is responsible for managing market price risks in both the banking and the trading books. The Asset and Liability Committee (ALCO) meets on a monthly basis, to review the market risk exposure for the entire Bank and to reach fundamental agreements on risk orientation. Market price risks are determined for both DVB's 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 99.0% on the basis of a historical simulation. The effectiveness of the VaR method is assured by means of a back-testing procedure. During this back-testing procedure, the gains and losses of the positions in the trading book and the banking book are calculated on a daily basis, using real market price changes, and are compared with the values determined by the VaR method. Moreover, the Bank carries out an annual adequacy check for liquidity risks, which includes an in-depth review of the risk model. Furthermore, DVB analyses whether and which risks are material within the scope of an annual risk inventory.

CHART 44/TABLE 59

Daily VaR 2016

C 44



VaR in the banking business

T 59

€ 000's	Currency risk	Interest risk	Equity risk	Offsetting effect[1]	Total
31 Dec 2015	**836.5**	**786.3**	**474.1**	**–1,341.7**	**755.2**
Average	1,896.3	554.1	606.0	–1,320.8	1,735.6
Minimum	806.3	304.3	411.1	–749.5	772.3
Maximum	3,013.2	787.4	902.9	–1,797.5	2,905.9
31 Dec 2016	**2,354.9**	**516.8**	**881.9**	**–1,983.6**	**1,770.0**

1 Offsetting effects between currency, interest rate and equity risks

In principle, DVB neutralises interest rate risks through interest rate swaps, which are used to transform assets and liabilities with fixed interest rates into variable-rate positions. DVB endeavours to maintain a neutral currency position, and hence uses cross-currency swaps or foreign exchange swaps to hedge against foreign exchange risks. Therefore, DVB's market price risk exposure tends to be insignificant. Market risk developments continued to be largely characterised during 2016 by fluctuations in the Bank's present-value US dollar foreign exchange exposure: due to various transaction-driven exposure changes, this led to spikes in the market risk exposure. Group Treasury actively managed the exposure on the basis of ALCO resolutions. Equity risk rose during the course of the year, due to an increase in treasury shares held. The number of outliers was reduced again compared to the previous year, which permitted the upscaling of the market risk indicators carried out in the previous year, to be reversed in January. Only three new outliers occurred during the year; it was therefore not necessary to extend the scale again. The market risk limit was reduced in March; however, an increase in market risk exposure required this to be reversed in April.

Risk Control, which is responsible for monitoring market price risks, has direct access (read rights) to the trading and settlement systems, allowing it to observe whether limits are being observed. The market price risks incurred are therefore subject to constant measurement and limit monitoring through Risk Control, which reports to the Board of Managing Directors on a daily basis. The risk positions are managed on the basis of limits approved by the Board of Managing Directors, which are in turn derived from the risk capital approved by the Board of Managing Directors. Besides daily VaR (based on a one-day holding period and a 99.0% confidence level), the Bank also determines VaR based on a one-year holding period and a confidence level of 99.9%; the results are compared to risk capital and taken into account when determining usage of aggregate risk capital.

In addition, DVB determines market price risks using a monthly stress test, based on an entire interest rate cycle. The Bank regularly discusses the calculations applied to such stress tests in the ALCO. This is designed to ensure a timely reaction to developments. The results of monthly stress testing are also used as a parameter when determining market price risk limits. In addition to two stress scenarios based on a historical simulation using a ten-year observation period and a ten-day holding period, a separate scenario used specifically maps market price developments during the most recent financial markets crisis. Moreover, an additional hypothetical scenario was developed. This is based on an extensive analysis of long-term market parameters, considering both potential changes in market parameters and DVB's specific exposures. The scenario derived in this manner does not incorporate any risk-offsetting effects; it thus represents a worst-case scenario.

Liquidity risk

DVB's liquidity risks are centrally analysed and managed on the basis of Group Treasury guidelines laid down by the Board of Managing Directors. Group Treasury, which reports to both the ALCO and the entire Board of Managing Directors, assumes responsibility for this process. Decisions on major refinancing projects are made by the ALCO. Anticipated cash flows are calculated, aggregated and offset by transactions on the money and capital markets, on the basis of continuously updated plans for liquidity flows and cash flow forecasts. These are prepared using SAP data and state-of-the-art asset/liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German Banking Act, ensures that timely and appropriate corrective measures can be taken. The latest software generation provides us with a state-of-the-art tool that fully complies with all requirements for a modern liquidity risk measurement environment. This application's functionality fulfils both the requirements under the MaRisk and the Bank's internal needs for managing and reporting on liquidity risks.

Risk Control is responsible for monitoring liquidity risk; for this purpose, it carries out analyses independently of Group Treasury. In addition to multiple base cases, the analyses include various stress scenarios including worst-case assumptions with regard to liquidity. All cash flows from DVB's existing business are taken into account, plus simulated cash flows from pending loan commitments and the Bank's budgeted new business. The results of these daily analyses are aggregated in a report, which is included in the daily reporting package to the entire Board of Managing Directors. The stress tests applied include specific stress factors which have a negative effect upon the Bank's liquidity. Specifically, the Bank simulates a short-term increase in liquidity needs resulting from an early drawdown of credit lines, as well as a reduction in cash inflows, due to borrower defaults or lower repayments. In addition, DVB simulates market-induced changes such as interest rate or exchange rate fluctuations. The Bank regularly reviews the underlying assumptions for the scenarios used, adjusting them if appropriate. In the event of an anticipated liquidity shortage, Risk Control triggers a defined escalation procedure, in coordination with Group Treasury. Should the measures taken by Group Treasury within the scope of the initial escalation level prove insufficient, the Risk & Governance Committee is informed in a second escalation level, in order to take appropriate countermeasures.

Against this background, DVB's integration into the German Cooperative Financial Services Network once again proved to be a key factor during 2016, as the highly liquid German cooperative banking sector permitted the Bank to cover funding requirements with these partners, at prevailing market terms, at all times. This enables DVB to maintain a comfortable funding basis in the stress of a crisis.

DVB has reflected this situation in its stress scenarios, which are based on the Bank's integration in the German Cooperative Financial Services Network to a large extent. Stress tests were defined in accordance with new regulatory requirements. Assuming a going concern, these require sufficient liquidity reserves for a one-month "survival period", even under stress conditions. If the forward liquidity exposure indicates a shortage of liquidity reserves, countermeasures to improve liquidity must be taken without delay. The Bank has implemented an escalation procedure for this purpose, which is monitored by Risk Control on a daily basis. In compliance with these requirements, DVB maintains a liquidity reserve comprising €230 million in highly liquid securities.

Besides conducting its own stress tests, DVB is integrated into DZ Bank's liquidity risk measurement process. DVB obtains stress test results determined by DZ BANK on a daily basis; these results are counted towards the liquidity limit set by DZ BANK. Any shortfall below the minimum limit will trigger an escalation process designed to remedy such transgression at short notice.

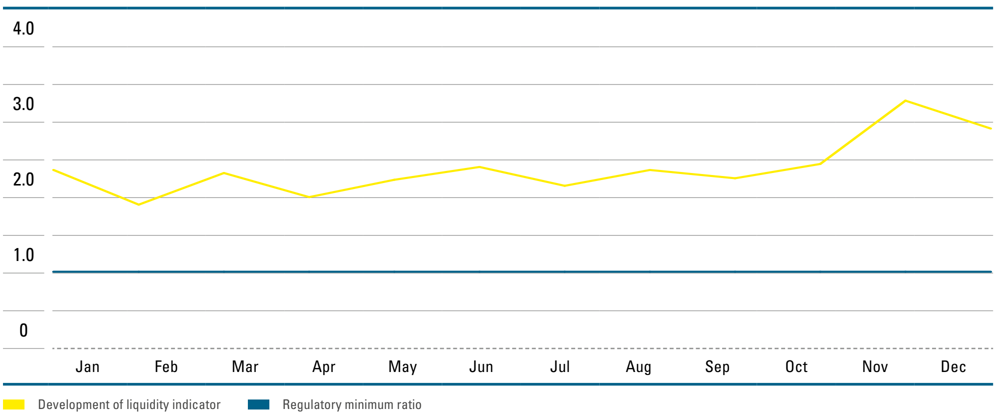
DVB carries out an annual adequacy check for liquidity risks, which includes an in-depth review of the risk model. It also analyses whether and which risks are material within the scope of an annual risk inventory.

DVB consistently adhered to regulatory liquidity principles throughout 2016. Its liquidity indicator – the ratio of available cash and cash equivalents to payment obligations due – averaged 2.37 (previous year: 2.03) during the year, and was once again clearly above the minimum regulatory level of 1.00. CHART 45

Equity investment risk

DVB Bank SE's material subsidiaries, whose business activities are fully integrated in DVB Bank Group's risk management process, are included in the consolidated financial statements. Equity investments that do need not to be consolidated are shown under equity investment risk. Potential losses from such investments are quantified using an earnings-at-risk approach (EaR) with a 99.9% confidence level and a one-year holding period. Fluctuations in the value of assets financed through the investments and such assets' employment are taken as risk drivers in this context. The EaR methodology applied by DVB for this purpose incorporates leverage effects caused by any borrowings in the capital structure of investments, as well as all primary risk drivers and their respective cross-relationships.

Liquidity ordinance 2016 C 45



Opportunities available to DVB

DVB has a clearly focused business model with a unique specialisation: to arrange and provide structured finance, advisory services and investment management services to the Bank's clients who are active in the international transport markets. Notwithstanding the cyclicality of these markets, the transport business overall is benefiting from a long-term growth trend. Given the market environment which remains challenging in certain segments, as a leading specialist in financing and advising the international transport sector, DVB has a variety of opportunities which the Bank is determined to use.

- DVB diversified its Transport Finance portfolios at an early stage – by various criteria, and according to different categories. Exposures are diversified by multiple criteria and diverse categories, including asset type, vintage, manufacturer, region of use, borrower, client, user, sector/sub-sector, and asset employment. Leveraging the Bank's broadly diversified and well collateralised portfolios, DVB is generally in a position to seize profitable opportunities, even during downturn phases.

- Against the background of tight refinancing and a restricted capital base, in conjunction with higher refinancing risks, competitors have adopted a clearly more restrictive lending policy; some have stopped lending altogether. In particular, this applies to banks and investors who exposed themselves to the transport finance business opportunistically, in a positive market environment. In contrast, the strategy adopted by DVB is cycle-neutral: this is why the Bank has remained a reliable partner to its clients, continuing to provide financing and advice even during a difficult environment in certain segments. This intensifies client relationships, bolstering long-term trust, and will also attract new clients. In the prevailing market environment, this sustainable strategy provides DVB with a substantial competitive edge.

- DVB has the opportunity to further expand the advisory and other services it offers, and to increasingly offer them to clients, banks, and investors. This provides the opportunity of exploring potential sources of income which are not linked to credit, and which are virtually risk-neutral.

- DVB decided at an early stage to develop an internal rating model, which complies with the requirements of the Advanced Approach under Basel III, and to implement this model in the Bank's four Transport Finance divisions. This enables the Bank to manage its financing volume on a selective and risk-aware basis. The credit portfolio model implemented enables the Bank to identify and measure concentration and migration risks, and thus to optimise the structure of its portfolios.

Applying the structure of a SWOT analysis, DVB's key strengths, weaknesses, opportunities, and threats are summarised as follows: CHART 46

SWOT Analysis

C 46

Strengths

- Clearly focused business model with a unique specialisation, cycle-neutral business approach, and a global presence in all key transport markets
- Conservative and sustainable business policy
- Transparent structures, with a high degree of flexibility and fast decisions
- Highly qualified, experienced staff
- Customised products and services, high level of client service, as well as close contacts to manufacturers and leasing companies
- Extensive market and asset expertise
- Credit portfolio diversified by multiple criteria and categories
- Advanced risk management and pricing systems
- Granular and matched-maturity funding
- Sound capital base through own funds

Weaknesses

- Higher liquidity costs, compared to most competitors
- Direct relationship between the Bank's business development and GDP growth
- Relatively high sector exposure
- Global presence requires high staff resources
- High staff costs due to high levels of employee qualification in terms of academic expertise and experience
- No material client deposits
- Exposure to the euro/US dollar exchange rate, with an impact on growth and results

Opportunities

- Realisation of margins in line with risks taken
- Expansion of anti-cyclical Investment Management activities
- Building new client relationships
- Numerous initiatives taken to broaden the product portfolio and enhance cross-selling
- Funding available through access to the extensive liquidity offered by the German Cooperative Financial Services Network
- Expanding the advisory and other services offered to clients, banks, and investors
- Boosting DVB's reputation as a reliable partner to the international transport industry

Threats

- High level of early repayments negatively impacting the net interest margin
- Rising number of insolvencies, especially in the shipping and offshore markets
- Significant decline in transport asset values, in various market segments
- Rising threat of recession, on a global scale
- Distortions on the global financial markets
- Indebtedness of certain industrial nations and emerging economies
- Rise of the US dollar against the euro
- Further increasing regulatory requirements
- Development of commodity prices, in particular oil prices

Conclusion

DVB has an adequate and viable system for managing opportunities and risks that fulfils the Bank's own commercial needs and complies with legal and regulatory requirements. Managing opportunities and risks is an integral part of the Group-wide strategic planning process. Risk management is based on the risk strategies adopted by the Board of Managing Directors.

Given its high importance for DVB's continued existence, and the extensive legal and regulatory requirements the Bank needs to comply with, risk management needs to be performed to a very high degree of detail and involving a wide scope of the Bank's organisation. Managing opportunities is based on a qualitative approach, and is closely related to the strategic planning process.

Given the methods, models and organisational rules implemented, DVB is able to recognise material opportunities and risks at an early stage, and to respond appropriately by taking suitable measures. This applies in particular to the early detection of risks that may threaten the Bank's existence.

The results determined using risk models are used to determine DVB's business policy. The powerful risk management instruments applied are continuously fine-tuned and developed further. Considering the limit system geared toward the Bank's risk-bearing capacity, a meaningful early warning system, extensive stress testing and a swift, flexible internal reporting system, senior management is in a position to take targeted counter-measures when needed, at any time.

DVB's business remained within the Bank's economic risk-bearing capacity throughout 2016. The overall risk capital limit was adhered to at all times during the financial year under review. The Bank's ability to meet its payment obligations was never compromised during the period under review.

From today's perspective, DVB believes that:

- it will continue to have access to sufficient liquidity throughout the financial year 2017;
- the Bank will comply with regulatory solvency requirements; and
- the Bank's risk profile will continue to remain in line with its economic risk-bearing capacity.

Hence, there are no indications of any threats to DVB's continued existence.

EXPLANATORY DISCLOSURES UNDER TAKEOVER LAW

Disclosures pursuant to section 315 (4) no. 6 of the German Commercial Code (HGB)

Please refer to sections 84 and 85 of the German Public Limited Companies Act (AktG) and Article 7 (3) of the Bank's Memorandum and Articles of Association regarding the appointment and removal of Members of the Board of Managing Directors. Pursuant to sections 133 and 179 of the AktG, amendments to the Memorandum and Articles of Association of DVB Bank SE are resolved by the General Meeting.

Disclosures pursuant to section 315 (2) and (4) of the HGB

The provisions of sections 315 (2) no.3 and (4) nos. 2, 4, 5, 8 and 9 of the HGB are not applicable to DVB in 2016.

Information regarding the provisions of sections 315 (4) nos. 1, 3 and 7 of the HGB are available in the Notes, on pages 264–265.

REPORT OF THE BOARD OF MANAGING DIRECTORS ON RELATIONS WITH AFFILIATED COMPANIES

DPursuant to sections 15 and 18 of the AktG, DVB Bank SE is affiliated to DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, and its Group companies. As at 31 December 2016, DVB Bank SE has been included in the consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.

In accordance with section 312 (3) of the AktG, the Board of Managing Directors has disclosed to the Supervisory Board the extent of the relationship with affiliated companies, declaring: "Our Company received adequate consideration for all legal transactions and measures as described in the report on relationships with affiliated companies, according to the circumstances known to us at the time such legal transactions were concluded or such measures were taken or omitted, and was not prejudiced by such acts or omissions."

CONSOLIDATED FINANCIAL STATEMENTS

1 These tables are part of the Notes.

Income statement

T 60

€ mn	Note	1 Jan 2016–31 Dec 2016	1 Jan 2015–31 Dec 2015	%
Interest income		1,025.0	1,009.4	1.5
Interest expenses		–816.0	–825.7	–1.2
Net interest income	(15)	209.0	183.7	13.8
Allowance for credit losses	(16)	–381.4	–141.5	–
Net interest income after allowance for credit losses		**–172.4**	**42.2**	**–**
Fee and commission income		126.6	112.4	12.6
Fee and commission expenses		–7.4	–9.1	–18.7
Net fee and commission income	(17)	**119.2**	**103.3**	**15.4**
Results from investments in companies accounted for using the equity method	(18)	**9.6**	**3.9**	**–**
General administrative expenses	(19)	**–177.5**	**–180.9**	**–1.9**
Net other operating income/expenses	(20)	**99.6**	**14.7**	**–**
Consolidated net income/loss before IAS 39, bank levy, BVR[1] Deposit Guarantee Scheme and taxes		**–121.5**	**–16.8**	**–**
Trading result	(21.1)	4.9	10.5	–53.3
Hedge result	(21.2)	–6.5	9.4	–
Result from derivatives entered into without intention to trade	(21.3)	10.9	15.6	–30.1
Result from investment securities	(21.4)	–12.0	35.3	–
Net result from financial instruments in accordance with IAS 39	(21)	**–2.7**	**70.8**	**–**
Consolidated net income/loss before bank levy, BVR[1] Deposit Guarantee Scheme and taxes		**–124.2**	**54.0**	**–**
Expenses for the bank levy and the BVR[1] Deposit Guarantee Scheme		–11.1	–7.9	40.5
Consolidated net income/loss before taxes		**–135.3**	**46.1**	**–**
Income taxes	(22)	–3.4	–0.5	–
Consolidated net income/loss		**–138.7**	**45.6**	**–**
thereof: consolidated net income/loss attributable to non-controlling interests		0.6	0.0	–
thereof: consolidated net income/loss attributable to shareholders of DVB Bank SE		–139.3	45.6	–
Earnings per share				
Average number of shares issued		45,452,782	45,700,448	–0.5
Basic earnings per share (€)		–3.06	1.00	–
Diluted earnings per share (€)		–3.06	1.00	–

1 National Association of German Cooperative Banks

Appropriation of profits

T 61

€ mn	1 Jan 2016–31 Dec 2016	1 Jan 2015–31 Dec 2015	%
Consolidated net income/loss (after taxes)	**–138.7**	**45.6**	**–**
Consolidated net income/loss attributable to non-controlling interests	–0.6	0.0	–
Withdrawal from/transfer to retained earnings	139.3	–31.7	–
Distributable profit	**0.0**	**13.9**	**–**

Statement of comprehensive income

T 62

€ mn	Note	1 Jan 2016– 31 Dec 2016	1 Jan 2015– 31 Dec 2015	%
Consolidated net income/loss		**–138.7**	**45.6**	**–**
Other comprehensive income reclassified subsequently to profit or loss		**4.5**	**5.2**	**–13.5**
Revaluation of AfS financial instruments		**–1.9**	**–0.8**	**–**
thereof: changes in fair value		–2.0	15.7	–
thereof: reclassifications to the income statement		0.1	–16.5	–
Cash flow hedges		**–5.3**	**14.0**	**–**
thereof: changes in fair value		–14.9	59.3	–
thereof: reclassifications to the income statement		9.6	–45.3	–
Net investment hedges		**–1.0**	**–24.1**	**–95.9**
thereof: changes in fair value		–6.5	–30.6	–78.8
thereof: reclassifications to the income statement		5.5	6.5	–15.4
Currency translation		**10.0**	**12.6**	**–20.6**
thereof: changes in fair value		15.5	12.6	23.0
thereof: reclassifications to the income statement		–5.5	–	–
Deferred taxes	(22)	**2.7**	**3.5**	**–22.9**
Other comprehensive income from associates and joint ventures reclassified subsequently to profit or loss		**1.5**	**–0.8**	**–**
Revaluation of AfS financial instruments		**1.8**	**–0.5**	**–**
thereof: changes in fair value		1.8	–0.5	–
thereof: reclassifications to the income statement		–	–	–
Cash flow hedges		**–0.4**	**–0.3**	**33.3**
thereof: changes in fair value		–0.4	–0.3	33.3
thereof: reclassifications to the income statement		–	–	–
Currency translation		**0.1**	**–**	**–**
thereof: changes in fair value		0.1	–	–
thereof: reclassifications to the income statement		–	–	–
Other comprehensive income not reclassified subsequently to profit or loss		**–0.5**	**1.2**	**–**
Revaluation of defined benefit plans		**–0.7**	**1.6**	**–**
Deferred taxes	(22)	**0.2**	**–0.4**	**–**
Total comprehensive income		**–133.2**	**51.2**	**–**
thereof: total comprehensive income attributable to non-controlling interests		0.0	0.0	–
thereof: total comprehensive income attributable to shareholders of DVB Bank SE		–133.2	51.2	–

Statement of financial position

T 63

Assets (€ mn)	Note	31 Dec 2016	31 Dec 2015	%
Cash and balances with the central bank	(24)	1,475.4	1,164.1	26.7
Loans and advances to banks	(25)	1,610.4	1,116.8	44.2
Loans and advances to customers	(26)	23,686.7	22,975.5	3.1
Allowance for credit losses	(27)	–632.7	–289.0	–
Positive fair values of derivative hedging instruments	(28)	302.1	321.3	–6.0
Trading assets	(29)	113.0	95.0	18.9
Investment securities	(30)	288.8	349.8	–17.4
Investments in companies accounted for using the equity method	(31)	285.1	228.3	24.9
Intangible assets[1]	(32)	67.8	104.6	–35.2
Property and equipment[1]	(33)	337.5	369.9	–8.8
Income tax assets	(35)	110.4	96.4	14.5
Other assets	(36)	42.6	56.9	–25.1
Non-current assets held for sale	(37)	26.2	20.9	25.4
Total		**27,713.3**	**26,610.5**	**4.1**

Liabilities and equity (€ mn)	Note	31 Dec 2016	31 Dec 2015	%
Deposits from other banks	(38)	3,273.6	2,457.0	33.2
Deposits from customers	(39)	7,839.6	7,510.8	4.4
Securitised liabilities	(40)	12,722.3	13,141.9	–3.2
Negative fair values of derivative hedging instruments	(41)	133.2	169.4	–21.4
Trading liabilities	(42)	1,306.5	975.5	33.9
Provisions	(43)	59.1	60.9	–3.0
Income tax liabilities	(44)	57.8	53.3	8.4
Other liabilities	(45)	69.1	69.5	–0.6
Non-current liabilities held for sale	(46)	25.2	–	–
Subordinated liabilities	(47)	951.2	742.7	28.1
Equity	(48)	1,275.7	1,429.5	–10.8
Issued share capital	(48.1)	115.6	116.7	–0.9
Capital reserve	(48.3)	312.7	321.3	–2.7
Retained earnings	(48.5)	835.9	975.5	–14.3
thereof: fund for general banking risks		0.0	82.4	–
Revaluation reserve	(48.6)	6.8	6.2	9.7
Reserve from cash flow hedges	(48.7)	–10.7	–6.7	59.7
Reserve from net investment hedges	(48.8)	–25.2	–24.5	2.9
Currency translation reserve	(48.9)	37.1	26.9	37.9
Distributable profit		0.0	13.9	–
Non-controlling interests	(48.10)	3.5	0.2	–
Total		**27,713.3**	**26,610.5**	**4.1**

1 Compared to the 2015 consolidated financial statements, a transfer was made from property and equipment to intangible assets. The previous year's figures were adjusted accordingly.

Statement of changes in equity T 64

€ mn	Issued share capital	Capital reserve	Retained earnings	Revaluation reserve	Reserve from cash flow hedges	Reserve from net investment hedges	Currency translation reserve	Distributable profit/accumulated loss	Equity before non-controlling interests	Non-controlling interests	Equity
Equity as at 1 Jan 2015	**116.6**	**320.6**	**942.2**	**7.2**	**–15.9**	**–8.2**	**14.4**	**27.9**	**1,404.8**	**0.2**	**1,405.0**
Consolidated net income/loss attributable to shareholders of DVB Bank SE	–	–	–	–	–	–	–	45.6	45.6	–	45.6
Transfer to retained earnings	–	–	31.7	–	–	–	–	–31.7	0.0	–	0.0
Other comprehensive income[1,2]	–	–	1.1	–1.0	9.2	–16.3	12.5	–	5.5	–	5.5
Dividend payment	–	–	0.5	–	–	–	–	–27.9	–27.4	–	–27.4
Changes in treasury shares	0.1	0.7	–	–	–	–	–	–	0.8	–	0.8
Changes in consolidated group and other changes	–	–	–	–	–	–	–	–	–	–0.0	–0.0
Equity as at 31 Dec 2015	**116.7**	**321.3**	**975.5**	**6.2**	**–6.7**	**–24.5**	**26.9**	**13.9**	**1,429.3**	**0.2**	**1,429.5**
Consolidated net income/loss attributable to shareholders of DVB Bank SE	–	–	–	–	–	–	–	–138.7	–138.7	–	–138.7
Transfer to retained earnings	–	–	–139.3	–	–	–	–	139.3	–	–	–
Other comprehensive income[1,2]	–	–	–0.6	0.6	–4.0	–0.7	10.2	–	5.5	–	5.5
Dividend payment	–	–	0.3	–	–	–	–	–13.9	–13.6	–	–13.6
Changes in treasury shares	–1.1	–8.6	–	–	–	–	–	–	–9.7	–	–9.7
Changes in consolidated group and other changes	–	–	–	–	–	–	–	–0.6	–0.6	3.3	2.7
Equity as at 31 Dec 2016	**115.6**	**312.7**	**835.9**	**6.8**	**–10.7**	**–25.2**	**37.1**	**0.0**	**1,272.2**	**3.5**	**1,275.7**

1 This relates to actuarial gains and losses recognised in retained earnings directly in accordance with IAS 19.
2 Taking into account deferred taxes

Cash flow statement

Cash and cash equivalents correspond to the item "Cash and balances with the central bank" included in the statement of financial position. The changes in cash and cash equivalents are presented in the cash flow statement. Cash and balances with the central bank do not include financial investments with a remaining maturity of more than three months as at the date of acquisition.

The changes in the balance of cash and cash equivalents are presented in the cash flow statement, separately for operating, investing and financing activities. Cash flows from operating activities include cash flows resulting from revenue-generating and other activities of the Group that cannot be allocated to investing or financing activities. Cash inflows and outflows in connection with the acquisition and the disposal of non-current assets are attributed to investing activities. Cash flows from financing activities include cash flows from transactions with equity holders as well as from other borrowings to finance the Bank's business operations. TABLE 65

Cash flow statement

T 65

€ mn	31 Dec 2016	31 Dec 2015
Consolidated net income/loss before taxes	**–135.4**	**46.1**
Non-cash items included in the profit for the period and reconciliation to cash flow from operating activities		
Depreciation, impairment and write-ups of loans and advances, property and equipment, and investment securities	492.1	226.1
Increase/decrease in provisions	2.7	–26.5
Other non-cash income/expenses	–	–
thereof: hedge accounting	84.6	–143.3
thereof: other changes from the fair value measurement of financial instruments	369.4	368.0
Gains/losses on disposal of investment securities, and property and equipment	10.4	–35.3
Other adjustments	–218.6	–187.6
Subtotal	**605.2**	**247.5**
Changes in assets and liabilities from operating activities		
Loans and advances to banks	–489.8	358.6
Loans and advances to customers	–862.9	–2,416.5
Leased assets	–38.4	597.3
Other assets from operating activities	–59.5	9.0
Deposits from other banks	811.6	–543.0
Deposits from customers	311.2	753.7
Securitised liabilities	–412.6	1,837.0
Other liabilities from operating activities	37.6	–83.8
Interest and dividends received	1,025.0	1,009.5
Interest paid	–816.0	–825.7
Income taxes paid	–7.1	–5.2
Cash flow from operating activities	**104.3**	**938.4**
Changes from additions (–) and disposals (+) of property and equipment	27.2	–167.9
Changes from additions (–) and disposals (+) of investment securities	8.1	–5.5
Effects of changes in consolidated group		
thereof: cash proceeds from the disposal of consolidated companies	0.0	0.0
thereof: cash payments to acquire consolidated companies	0.0	0.0
Net change resulting from other investing activities	–2.4	–3.4
Cash flow from investing activities	**32.0**	**–176.8**
Cash proceeds from additions to equity (capital increases, sale of treasury shares, etc.)	–9.6	0.8
Cash payments to owners and non-controlling shareholders (dividends)	–13.6	–27.7
Net change resulting from other financing activities	198.3	253.9
Cash flow from financing activities	**175.1**	**227.0**
Net change in cash and cash equivalents (total of the three cash flow items)	311.4	988.6
Cash and cash equivalents at beginning of period	**1,164.1**	**175.5**
Cash and cash equivalents at end of period	**1,475.5**	**1,164.1**

Segment report

	Group		Shipping Finance		Aviation Finance		Offshore Finance	
€ mn	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	209.0	183.7	95.4	86.7	78.8	84.3	20.4	24.9
Allowance for credit losses	–381.4	–141.5	–223.9	–80.8	–16.0	–4.9	–65.0	–13.3
Net interest income after allowance for credit losses	–172.4	42.2	–128.5	5.9	62.8	79.5	–44.6	11.6
Net fee and commission income	119.2	103.3	35.4	34.9	51.5	36.9	7.6	11.4
Results from investments in companies accounted for using the equity method	9.6	3.9	–	–	–	–	–	–
Net other operating income/expenses	99.6	14.7	–13.2	3.4	0.5	0.8	–0.5	0.1
Total income	**56.0**	**164.1**	**–106.3**	**44.3**	**114.8**	**117.1**	**–37.5**	**23.1**
Staff expenses	–103.5	–104.2	–15.9	–23.9	–16.9	–15.6	–2.1	–2.7
Non-staff expenses	–68.5	–71.8	–4.7	–8.3	–5.0	–4.8	–1.0	–1.0
Depreciation, amortisation, impairment and write-ups	–5.5	–4.9	0.0	0.0	0.0	0.0	0.0	0.0
General administrative expenses	**–177.5**	**–180.9**	**–20.6**	**–32.2**	**–21.9**	**–20.4**	**–3.1**	**–3.8**
Consolidated net income/loss before IAS 39, bank levy, BVR Deposit Guarantee Scheme and taxes	**–121.5**	**–16.8**	**–126.9**	**12.1**	**92.9**	**96.8**	**–40.6**	**19.3**
Net result from financial instruments in accordance with IAS 39	–2.7	70.8	–1.1	–5.3	–0.1	0.1	0.2	0.2
Consolidated net income/loss before bank levy, BVR Deposit Guarantee Scheme and taxes	**–124.2**	**54.0**	**–128.0**	**6.7**	**92.8**	**96.9**	**–40.4**	**19.5**
Cost/income ratio[1,4] (%)	**44.3**	**55.3**	**17.5**	**25.6**	**16.7**	**16.7**	**11.3**	**10.5**
Return on equity[2,4] (%)	**–10.8**	**0.8**	**–35.8**	**6.2**	**61.7**	**58.7**	**–23.7**	**32.5**
Lending volume[3]	**29,300.6**	**28,298.7**	**11,948.4**	**11,789.5**	**8,663.2**	**7,644.5**	**2,357.6**	**2,443.4**

1 Excluding allowance for credit losses
2 Before taxes
3 According to internal management
4 The previous year's figures diverge from those originally stated, due to the fact that the calculation method was already changed for the three-month results of 2016. Figures for 2015 were adjusted accordingly.

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Land Transport Finance		Investment Management		Treasury		Other		Reconciliation/ consolidation	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
20.4	22.3	–7.8	–34.4	–28.3	–37.0	8.2	11.6	21.9	25.3
–0.9	–0.4	–18.2	–4.6	0,0	0,0	–41.7	–17.5	–15.7	–20.1
19.5	21.8	–26.0	–38.9	–28.3	–37.0	–33.5	–5.8	6.2	5.1
9.7	5.2	4.1	2.3	–0.5	–1.0	12.3	12.3	–1.1	1.3
–	–	9.6	6.4	–	–	0.0	–2.5	0.0	0.0
0.2	0.1	3.1	16.2	0.0	0.0	2.0	0.8	107.5	–6.6
29.4	**27.2**	**–9.2**	**–14.0**	**–28.8**	**–38.1**	**–19.2**	**4.7**	**112.7**	**–0.2**
–2.8	–2.7	–7.3	–7.5	–1.0	–1.0	–43.0	–40.3	–14.5	–10.5
–0.6	–0.8	–4.6	–7.9	–0.4	–0.4	–38.8	–36.5	–13.4	–12.1
0.0	0.0	0.1	0.0	0.0	0.0	–5.4	–4.6	–0.2	–0.2
–3.4	**–3.5**	**–11.8**	**–15.5**	**–1.4**	**–1.5**	**–87.2**	**–81.4**	**–28.1**	**–22.8**
26.0	**23.7**	**–21.0**	**–29.5**	**–30.2**	**–39.5**	**–106.4**	**–76.7**	**84.6**	**–23.0**
0.0	0.0	–8.6	66.3	6.9	34.0	0.0	–24.5	0.1	0.1
26.0	**23.7**	**–29.6**	**36.8**	**–23.3**	**–5.5**	**–106.4**	**–101.1**	**84.7**	**–22.9**
11.1	**12.5**	**–414.1**	**30.0**	–	–	–	–	–	–
98.0	**72.5**	**–12.0**	**10.2**	–	–	–	–	–	–
1,646.2	**1,680.8**	**573.7**	**544.1**	**3,423.1**	**3,025.2**	**688.4**	**1,171.2**	–	–

NOTES

NOTES

Basis of accounting

For the financial year 2016, the consolidated financial statements of DVB Bank SE were prepared in accordance with International Financial Reporting Standards (IFRS) and the additional requirements of German commercial law under section 315a (1) of the German Commercial Code (HGB), pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. IFRS encompasses the individual standards called IFRS, as well as the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). The standards relevant to the consolidated financial statements are those published by the International Accounting Standards Board (IASB) and adopted by the European Union until 31 December 2016.

The financial year corresponds to the calendar year. Unless indicated otherwise, all amounts are stated in millions of euros (€mn or €million). Figures are rounded pursuant to standard business principles. This may result in slight differences when aggregating figures and calculating percentages.

These consolidated financial statements were signed by the Board of Managing Directors on 3 March 2017 and released to be submitted to the Supervisory Board.

Notes to accounting policies applied

For the companies included in the IFRS consolidated financial statements, the following accounting policies were applied on a consistent and uniform basis.

1 General accounting policies

1.1 Accounting standards applied for the first time in the reporting period

The consolidated financial statements of DVB take into account for the first time the following revised versions and amendments to accounting standards, the following new interpretation as well as the following improvements to IFRSs:

- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
- Amendments to IFRS 11 – Joint Arrangements: Accounting for Acquisition of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception
- Annual Improvements to the International Financial Reporting Standards, 2010–2012 Cycle
- Annual Improvements to the International Financial Reporting Standards, 2012–2014 Cycle

The purpose of the Amendments to IAS 1 – Disclosure Initiative is to implement the concept of materiality for all components of IFRS financial statements, including the notes. This is designed to prevent irrelevant information being moved to the notes from other parts of the financial statements. Additionally, the Disclosure Initiative clarifies that immaterial information need not be shown separately even though they may be explicitly required under another IFRS.

The amendments to IAS 19 – Employee Benefits govern the accounting for components of direct pension commitments. It is possible to recognise cost components that depend directly on the service period directly through profit or loss in the current period. The amendments are required to be applied for financial years beginning on or after 1 February 2015.

The amendments to IFRS 11 clarify that the rules of IFRS 3 and other standards have to be applied for the accounting for business combinations if the interests in a joint operation constitute a business as defined in IFRS 3. This applies to the extent that the rules are not in conflict with the basic rules of IFRS 11. The amendments also apply to the acquisition of interests in joint operations; such acquisition does not trigger a revaluation of existing interests. The new rules are effective for acquisitions of interests in financial years beginning on or after 1 January 2016.

The amendments to IAS 16 and IAS 38 clarify which methods are appropriate for the depreciation of property, plant and equipment and the amortisation of intangible assets. In general, depreciation and amortisation have to be recognised in a manner that reflects the consumption of the expected future economic benefits generated by an asset. Firstly, a reduction in selling prices may be an indication to recognise a special write-down for the assets necessary for production. Secondly, the determination of an appropriate amortisation method for intangible assets has to take into consideration a predominant limiting factor for use of the asset (e.g. time limits, limits in relation to the number of produced units). The amendments are required to be applied for financial years beginning on or after 1 January 2016.

The other revised and amended standards set out above do not have a significant impact on the consolidated financial statements

1.2 Amendments to IFRS not yet applied

DVB elected not to apply early, as permitted, the following revised and amended standards, and new or revised interpretations and improvements to IFRSs, which have been endorsed by the European Union (EU). This relates to the following new financial reporting standards:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

In July 2014, the IASB issued the final version of IFRS 9 which includes fundamentally revised rules with respect to the accounting for financial instruments which affect classification and measurement, the determination of impairment and the recognition of hedging relationships. The standard was endorsed by the EU as at 25 November 2016, and was published in the Official Journal of the European Union on 29 November 2016. The amendments are effective for financial years beginning on or after 1 January 2018. First-time application is generally made retrospectively.

Within the context of implementing IFRS 9, especially all financial assets will be reclassified, which necessitates both an assessment to be carried out for the business models of the portfolios and for the contractual cash flow characteristics of the individual financial assets. In contrast, the classification of financial liabilities led to immaterial changes only. In accordance with IFRS 9, deviating from IAS 39, any changes in the fair value of financial liabilities accounted for under the fair value option resulting from changes in own credit generally have to be recognised in other comprehensive income.

Moreover, the determination of impairment gains or losses for financial assets was revised significantly through the publication of IFRS 9. Instead of recognising only incurred losses, expected credit losses have to be recognised in the form of impairment losses as well. A distinction is made whether the expected loss refers to the entire lifetime of the financial instrument or reflects expected losses for the next twelve months only. If the credit quality of the recognised asset has deteriorated substantially since initial recognition, the expected losses for the entire lifetime have to be taken into account.

Within the scope of hedge accounting, IFRS 9 more strongly focuses on economic risk management. Firstly, individual risk components may also be hedged for non-financial hedged items. Secondly, quantitative thresholds used as evidence of prospective or retrospective effectiveness have been abolished. Instead, evidence is based on qualitative criteria of the corresponding risk management strategy. Hedging relationships are only discontinued when the objective of risk management also changes. DVB intends to recognise hedging relationships in accordance with IFRS 9 from first-time application as at 1 January 2018, and will thus not exercise the option of continued application of IAS 39.

Due to the significance of IFRS 9 for the recognition of financial instruments in the statements of financial position of banks and the substantial changes to IAS 39, there will be material changes also for DVB. In order to prepare for the transition from IAS 39 to IFRS 9, DVB launched a project in 2015 comprising internal and external accounting and risk management specialists, as well as IT professionals. This project is in line with the schedule.

As a result of the conservative business model and the presentation of hedging relationships being already strongly based on economic substance, the major transitional effects will primarily result from the changed approach to determine impairment gains or losses. In order to assess the transitional effects, DVB regularly performs simulation calculations.

The rules set out in IFRS 15 – Revenue from Contracts with Customers will in future replace the contents of both IAS 18 – Revenue and IAS 11 – Construction Contracts as well as the related interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. The objective is to achieve a convergence to US GAAP rules. In accordance with IFRS 15, revenue has to be recognised when the customer obtains control over the contractual goods and services and can obtain benefits from these goods and services. The transfer of material risks and rewards is no longer the decisive factor. The analysis of the effects on the consolidated financial statements has yet to be completed. The standard is required to be applied for financial years beginning on or after 1 January 2018.

1.3 Amendments to IFRS not yet endorsed

The EU has not yet endorsed the following new and revised accounting standards, amendments to accounting standards and interpretations as issued by the IASB:

- IFRS 16 – Leases
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- Clarifications to IFRS 15: Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 7 – Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 40 – Transfer of Investment Property
- Annual Improvements to IFRSs 2014–2016 Cycle

On 13 January 2016, the IASB issued the final version of IFRS 16. The standard is required to be applied for financial years beginning on or after 1 January 2019. The amendments to IFRS 16 are substantial, in particular for lessees, as most leasing contracts will have to be recognised by lessees as well. The impact of the amendments on DVB's consolidated financial statements is currently being analysed.

The interpretation IFRIC 22 – Foreign Currency Transactions and Advance Consideration clarifies how to determine the exchange rate to be used for converting advance considerations in foreign currency, made in connection with the subsequent recognition of a non-monetary asset or non-monetary liability. The exchange rate prevailing on the payment date of the advance consideration is deemed relevant for subsequent recognition.

The supplementary clarifications to IFRS 15 – Revenue from Contracts with Customers – refer to the identification of performance obligations, principal versus agent considerations, licenses and practical expedients for transition. The amendments to IFRS 15 are required to be applied for reporting periods beginning on or after 1 January 2018.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions have been released to clarify particularly three issues: accounting for share-based payments in which the manner of settlement is contingent on future events, classification of share-based payments with net settlement, and the modification of share-based payment transactions from cash-settled to equity-settled.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture eliminate an inconsistency between IFRS 10 and IAS 28. The endorsement of the rules by the EU has been postponed for an indefinite period until the results of current IASB projects are available.

Amendments to IAS 7 – Statement of Cash Flows: Disclosure Initiative relate to the disclosure of additional information on liabilities in connection with cash flows from financing activities. The amendments are required to be applied for financial years beginning on or after 1 January 2017.

The Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses clarify that there are taxable temporary differences resulting from impairment losses of debt instruments measured at cost. The amendments are required to be applied for financial years beginning on or after 1 January 2017.

The application of the other standards and amendments set out above does not have any material consequences for DVB's consolidated financial statements. The application of the listed standards is subject to EU endorsement.

1.4 Group of consolidated companies and consolidation methods

1.4.1 Consolidated group

The group of consolidated companies of DVB Bank SE comprises all subsidiaries which the Company directly or indirectly controls within the meaning of IAS 10. This essentially includes at the moment DVB Holding GmbH, Frankfurt/Main, DVB Holding (US) Inc., USA, DVB Transport Finance Ltd., London, DVB Group Merchant Bank (Asia) Ltd, Singapore, DVB Bank America N.V., Curaçao, ITF International Transport Finance Suisse AG, Zurich, LogPay Financial Services GmbH, Eschborn, as well as these companies' own subsidiaries. DVB Bank SE's share in these subsidiaries' capital amounts to 100% each.

Subsidiaries are initially consolidated on the date on which the Group acquires control over the subsidiary within the meaning of IFRS 10; they are de-consolidated on the date on which the Group no longer controls the subsidiary. DVB controls a company when it has direct or indirect power over a company and is, thus, exposed to significant variable returns from the company and has the ability to use its power over the investee to affect the amount of such returns. The assessment whether DVB controls a company involves judgements which have to take into account all relevant facts and circumstances. This applies in particular for principal-agent relations which require judgement as to whether DVB or other parties with decision-making rights is either a principal (direct control) or an agent (exercising control as agent for other parties).

In addition to a direct investment in an entity's equity and the associated control via voting rights, control in relation to funds whose management does not consist of DVB employees may also be obtained by the fact that decisions are regularly made on the basis of proposals by DVB's Investment Management division. The objective of such advisory services is to generate variable returns from the funds.

If the DVB Bank Group holds 20–50% of the voting rights in a company, DVB does not have control, but a significant influence is assumed. Significant influence is the possibility to participate in the financial and operating policy decisions of the investee without having control of the investee. Companies where the DVB Bank Group has significant influence are classified as associates.

The assessment whether DVB has the possibility to exercise significant influence over a company takes into account factors other than voting rights, such as representation on the board of directors, participation in policy-making processes as well as material transactions entered into with the investee. Based on such factors, significant influence may exist even if the DVB holds less than 20% of the voting rights.

A joint venture is deemed to exist in case of a 50% shareholding in a company. A joint venture is a joint arrangement whereby the parties have joint control of the arrangement and have rights to the net assets of the arrangement.

Due to lack of materiality, the Bank does not disclose non-controlling interests in the amount of €3.5 million (previous year: €0.2 million)

During the year under review, DVB initially consolidated nine subsidiaries (previous year: 26), while a total of 16 subsidiaries (previous year: 23) were deconsolidated. In addition, four (previous year: four) newly-established companies were included in the group of consolidated companies using the equity method, while no (previous year: four) such company was deconsolidated.

In the financial year 2016, 16 companies (previous year: 23 companies) were excluded from the group of consolidated companies of the DVB Bank Group as a result of the termination of business activities as well as due to liquidation or sale. This resulted in a result from deconsolidation of €3.2 million (previous year: €–4.4 million), of which €1.8 million related to the deconsolidation of Mount Kaba Shipping LLC, Majuro, Marshall Islands. Income and expenses from the sale of the company shares were recorded in net other operating income/expenses.

Pursuant to section 264 (3) of the HGB, LogPay Financial Services GmbH, Eschborn, which is included in the consolidated financial statements, as well as LogPay Transport Services GmbH, Eschborn, elect not to publish annual financial statements as at 31 December 2016 in accordance with section 325 HGB.

1.4.2 Consolidation methods

Consolidation is based on IFRS 3 in connection with IFRS 10 by offsetting the Company's share in net assets acquired (measured initially at fair value) and the cost of the business combination. Any excess of the cost of the business combination over the Group's share in net assets acquired is capitalised as goodwill and tested for impairment annually, or earlier if there are indications that an impairment might have occurred. Goodwill may not be amortised over its expected useful life under IFRS. Any receivables and liabilities, as well as expenses and revenue occurring between Group companies, are eliminated. Intragroup profits are offset.

For administrative reasons, as a deviation from DVB's Group reporting date of 31 December 2016, the financial statements of the subsidiary Deucalion Engine Leasing (Ireland) Ltd prepared as at 30 November 2016 (previous year: prepared as at 30 November 2015) were used for the Group's consolidated financial statements.

In accordance with IAS 28 (2011), interests in joint ventures and investments in associates are generally included in the consolidated financial statements at the relevant share in equity (using the equity method).

The financial statements of companies accounted for using the equity method were prepared as at the reporting date of DVB, with 26 (previous year: 14) exceptions.

1.4.3 Currency translation

The functional currency of the companies included in the DVB Bank Group is mainly the euro. At the DVB Bank Group, the functional currency is the currency in which profit or loss from operating activities is usually retained, and in which performance is monitored and managed with respect to currency risks.

The assets and liabilities of a company included in the consolidated financial statements with a functional currency other than the euro are translated into euro using the closing rate on the balance sheet date, while such company's equity is translated at the historical exchange rate. The translation of expenses and income is based on average exchange rates. Differences resulting from the translation from the functional currency into the reporting currency (euro) are recognised in the currency translation reserve.

The following companies accounted for using the equity method have a functional currency other than the Group currency:

- 38321 & 38329 Aircraft Leasing (Cayman) Ltd, Grand Cayman, Cayman Islands
- 8F Leasing S.A., Contern, Luxembourg
- A330 Parts Ltd, Newark, USA
- Aer Lucht Ltd, Dublin, Ireland
- AerCap Partners I Ltd, Shannon, Ireland
- AerCap Partners II Ltd, Shannon, Ireland
- Artemis Gas 1 Shipping Inc., Athens, Greece
- Celestyal Cruises Ltd, Strovolos, Cyprus
- D8 Product Tankers I LLC, Majuro, Marshall Islands
- D8 Product Tankers Investments LLC, Majuro, Marshall Islands
- Deucalion MC Engine Leasing Ltd, Dublin, Ireland
- Epic Pantheon International Gas Shipping Ltd, Tortola, British Virgin Islands
- Global Offshore Services B.V., Amsterdam, Netherlands
- Gram Car Carriers Holdings Pte Ltd, Singapore
- Herakleitos 3050 LLC, Majuro, Marshall Islands
- Intermodal Investment Fund IV LLC, Majuro, Marshall Islands
- Intermodal Investment Fund VIII LLC, Majuro, Marshall Islands
- KCM Bulkers Ltd, Tortola, British Virgin Islands
- Kotani JV Co. B.V., Amsterdam, Netherlands
- Mandarin Containers Ltd, Tortola, British Virgin Islands
- Modex Holding Ltd, Tortola, British Virgin Islands
- MON A300 Leasing Ltd, George Town, Cayman Islands
- MON Engine Parts Inc., Newark, USA
- Mount Faber KS, Oslo, Norway
- MS Oceana Schifffahrtsgesellschaft mbH & Co. KG, Hamburg, Germany
- MS Octavia Schifffahrtsgesellschaft mbH & Co. KG, Hamburg, Germany
- MSEA Aframax Holdings LLC, Majuro, Marshall Islands
- MSEA Marlin Holdings LLC, Majuro, Marshall Islands
- MSN 1272&1278 Aircraft Leasing (Cayman) Ltd, Grand Cayman, Cayman Islands
- TAP Ltd, Hamilton, Bermuda
- TAG Asset Management LLC, Majuro, Marshall Islands
- TES Holdings Ltd, Bridgend, Wales, United Kingdom

Under IFRS, monetary assets and liabilities denominated in a foreign currency, as well as non-monetary items measured at fair value and denominated in a foreign currency, are translated at the spot exchange rate on the balance sheet date. Forward currency contracts are measured using the current forward rate. Currency translation differences related to monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities measured at amortised cost are translated at the transaction rate.

1.5 Financial instruments in accordance with IAS 39

Financial instruments within the scope of IAS 39 must be allocated upon initial recognition to one of the measurement categories stipulated in IAS 39 according to their specific characteristics and, if appropriate, their intended use.

The following categories are used in the consolidated financial statements:

1.5.1 Financial assets at fair value through profit or loss

This category is divided into the two sub-categories "Financial assets held for trading" and "Financial assets designated as at fair value through profit or loss".

1.5.1.1 Financial assets held for trading

All non-derivative assets acquired primarily for the purpose of short-term resale are allocated to this category upon initial recognition. In addition, all derivative financial instruments with positive fair values that are not part of a designated and effective hedging relationship are also classified as "held for trading". Changes in the fair value occurring between two reporting dates are recognised in the trading result.

1.5.1.2 Financial assets designated as at fair value through profit or loss

In line with the fair value option, as modified by the IASB in 2005, all financial assets whose measurement would otherwise result in accounting mismatches and that are measured at fair value, or which include an embedded derivative which would be required to be separated, may be allocated to this category. In the consolidated financial statements, this category was exclusively used to eliminate accounting mismatches resulting from interest rate risks, which could not be covered by a hedging relationship in accordance with IAS 39. Changes in the fair value of financial assets designated as at fair value through profit or loss occurring between two balance sheet dates are recognised in the "Result from the application of the fair value option". Financial assets designated as at fair value through profit or loss are reported in the item of the statement of financial position to which they would have been allocated if the fair value option had not been applied.

The change in the fair value of assets designated as at fair value through profit or loss attributable to changes in credit risk is determined in accordance with the method described in IFRS 7.9(c)(i). For this purpose, changes on the basis of the full fair value are compared with the changes in value in the case of constant credit spreads. The difference corresponds to the change in the fair value attributable to the change in credit risk. The maximum credit risk exposure corresponds to the carrying amount. During the two previous financial years, DVB did not report any assets designated as at fair value through profit or loss.

1.5.2 Held-to-maturity investments

The category "Held-to-maturity investments" is currently not used by DVB.

1.5.3 Loans and receivables

Generally, all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are allocated to the category "Loans and receivables". DVB classifies loans extended to debtors and receivables acquired on the secondary market as "Loans and receivables". Items of this category are measured at amortised cost using the effective interest method. Accordingly, premiums and discounts are amortised over the term of the assets. Commitment fees received are recognised as deferred income until disbursement of the loans, and subsequently amortised in the same way as premiums and discounts. Amortised premiums, discounts and commitment fees are recognised by DVB as interest income.

1.5.4 Available-for-sale financial assets

All financial assets that cannot be allocated to one of the above-mentioned financial asset categories have to be classified as "Available-for-sale financial assets". They are measured at fair value. Changes in the fair value occurring between two balance sheet dates have to be recognised in a revaluation reserve directly in equity until the relevant assets are realised. If there is that a negative revaluation reserve as at the balance sheet date, an impairment test is carried out to determine whether impairment has occurred. In this case, the accumulated negative revaluation reserve is derecognised and transferred to the income statement.

1.5.5 Financial liabilities at fair value through profit or loss

This category is divided into the two sub-categories "Financial liabilities held for trading" and "Financial liabilities designated as at fair value through profit or loss".

1.5.5.1 Financial liabilities held for trading

All non-derivative liabilities entered into primarily for the purpose of discharging them through short-term repurchase are irrevocably allocated to this category upon initial recognition. As at the balance sheet date, DVB did not have any non-derivative financial liabilities held for trading. In addition, all derivative financial instruments with negative fair values that are not part of a designated and effective hedging relationship are also classified as "held for trading". Changes in the fair value occurring between two balance sheet dates are recognised in the trading result.

1.5.5.2 Financial liabilities designated as at fair value through profit or loss

All financial liabilities whose measurement would otherwise result in accounting mismatches, and that are measured at fair value or which include an embedded derivative which would be required to be separated, may be allocated to this category. In the consolidated financial statements, this category was exclusively used to eliminate accounting mismatches resulting from interest rate risks, which could not be covered by a hedging relationship in accordance with IAS 39. Changes in the fair value of financial liabilities designated as at fair value through profit or loss occurring between two balance sheet dates are recognised in the result from the application of the fair value option. Financial liabilities designated as at fair value through profit or loss are reported in the item of the statement of financial position to which they would have been allocated, if the fair value option had not been applied.

The change in the fair value of liabilities designated as at fair value through profit or loss attributable to changes with respect to DVB's credit risk is determined in accordance with the method described in IFRS 7.10(a)(i). For this purpose, changes on the basis of the full fair value are compared with the changes in value in the case of constant credit spreads. The difference corresponds to the change in the fair value attributable to the change in credit risk.

1.5.6 Other liabilities

All financial liabilities within the scope of IAS 39 that were not allocated to one of the above-mentioned financial liability categories have to be classified as other liabilities. Other liabilities are measured at amortised cost using the effective interest method. Accordingly, premiums and discounts are amortised over the term of the assets and recognised as interest expense.

Other liabilities also comprise financial guarantee contracts. They are measured upon initial recognition at fair value which generally corresponds to the present value of the guarantee commission received. Liabilities from financial guarantee contracts are subsequently measured at the greater of a provision recorded in accordance with IAS 37 or the fair value at the date of initial recognition, less any subsequently recognised amortisation in accordance with IAS 18. Financial guarantee contracts are presented on a net basis, with the recognised liability netted against the receivable from the guarantee commissions.

1.5.7 Classes of financial instruments

In order to comply with the disclosure requirements of IFRS 7, which clarifies the significance of financial instruments for an entity's financial position and performance, DVB classifies financial instruments as follows:

1.5.7.1 Classes of financial assets

- Financial assets measured at fair value

The class of financial assets measured at fair value includes financial assets of the following IAS 39 categories:

- Financial instruments at fair value through profit or loss with the sub-categories "Financial assets held for trading" and "Financial assets designated as at fair value through profit or loss"
- Financial assets available for sale

Financial assets of the category "Financial assets available for sale" whose fair value cannot be reliably determined are not included in this class. Therefore, they are measured at cost and are allocated to the class of "Financial assets measured at amortised cost".

Apart from the financial assets of the categories mentioned, this class also comprises the positive fair values of derivative hedging instruments, which are accounted for as assets and also measured at fair value.

/ Financial assets measured at amortised cost

The class of "Financial assets measured at amortised cost" includes financial assets of the category "Loans and receivables" as well as available-for-sale financial assets whose fair value cannot be determined reliably.

/ Other financial assets

The class of "Other financial assets" exclusively consists of receivables from finance leases where DVB is the lessor.

1.5.7.2 Classes of financial liabilities

/ Financial liabilities measured at fair value

The class of "Financial liabilities measured at fair value" includes financial liabilities of the following IAS 39 category: financial instruments measured at fair value through profit or loss with the sub-categories "Financial liabilities held for trading" and "Financial instruments designated as at fair value through profit or loss".

Apart from the financial liabilities of the category mentioned, this class also comprises the negative fair values of derivative hedging instruments values, which are accounted for as liabilities.

/ Financial liabilities measured at amortised cost

The class of "Financial liabilities measured at amortised cost" comprises the other financial liabilities within the scope of IAS 39.

/ Other financial liabilities

The class of "Other financial liabilities" consists of liabilities from finance leases where DVB is the lessee, liabilities from irrevocable loan commitments and liabilities from financial guarantee contracts.

1.5.8 Recognition and derecognition of financial instruments

Derivative financial instruments are recognised on the trade date. Non-derivative financial instruments are recognised on the settlement date. Changes in the fair value occurring between the trade date and the settlement date are recognised in accordance with the classification of the financial instruments.

All financial instruments are measured at fair value upon initial recognition. Differences between transaction prices and fair values (day 1 profit) are recognised through profit or loss upon first-time recognition, to the extent that the valuation techniques used to determine the fair value are primarily based on observable inputs. If the fair value is derived from transaction prices and also is used as a measurement reference in subsequent periods, the fair value changes are only recognised in profit or loss when these changes are attributable to changes of observable market data. Upon initial recognition, any unrecognised differences that can be attributed to changes of unobservable market data are amortised and recognised as income over the term of the relevant financial instruments.

Financial assets are derecognised when there are no longer any rights to receive payments in future, or when such rights have been transferred to third parties and DVB does not retain any substantial risks and rewards with regard to the financial assets. Financial liabilities are derecognised when there is no further payment obligation, i. e. when the obligation is paid, deleted or has expired.

1.5.9 Impairment, and reversals of impairment losses of financial instruments

If there are objective indications for an impairment of financial assets, an impairment test is performed in accordance with the provisions set out in IAS 39. Among others, the following factors are used as objective indications for an impairment of debt instruments: delinquency in interest or principal payments, payment defaults, breaches of material contractual terms in connection with the provision of collateral, certain restructuring measures by customers, impending insolvency, a deterioration of the credit rating within a reporting period by more than two grades or below a defined level, as well as other factors. Objective indications for an impairment of equity instruments are, among others, a sustainable decrease of the financial performance or losses incurred on a prolonged basis as well as the diminution of equity that entail a significant or prolonged decline of the fair value.

In order to determine the actual amount of the impairment of financial instruments of the category "Loans and receivables" and of receivables from finance leases, the carrying amount as at the balance sheet date is compared with the present value of expected future cash flows. The original effective interest rate of the corresponding asset has to be used as the discount rate. The original effective interest rate is the rate that exactly discounts initially expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial asset or financial liability.

If individual financial instruments are insignificant when considered separately, or if no impairment as at the balance sheet date could be determined on an individual basis, such assets are tested for impairment on a portfolio basis together with other similarly insignificant assets or assets not individually impaired.

Uncollectable loans and advances for which no specific valuation allowances were recognised are written off directly. Recoveries on loans and advances previously written off are recognised through profit or loss. If a default is certain for an impaired financial asset, any allowance recognised for this asset is derecognised against the relevant financial asset and reported as utilisation.

For financial instruments of the category "Available-for-sale financial assets", which are measured at fair value, it has to be examined whether there is objective evidence for impairment in the case of a cumulative negative revaluation reserve. In case of impairment, the negative revaluation reserve for the financial instrument concerned must be fully derecognised from equity, and recognised in profit or loss. Impairment losses of equity instruments measured at cost are deducted directly from the carrying amount of the financial assets concerned and recognised in the income statement.

If it is established during an impairment test that the reasons for an impairment previously recognised in profit or loss no longer exist, the relevant impairment loss is reversed. For assets measured at amortised cost, this reversal is limited to such amortised cost which would have resulted had no impairment occurred. Reversals of impairment losses recognised in profit or loss are not permitted for equity instruments.

1.6 Embedded derivatives

In accordance with IAS 39, derivative financial instruments embedded in non-derivative financial instruments (embedded derivatives) have to be separated from the host contract and accounted for and measured separately, when (i) their economic characteristics and risks are not closely related with the economic characteristics and risks of the host contract; (ii) a separate instrument with the same terms would meet the definition of a derivative; and (iii) the entire instrument is not measured at fair value through profit or loss. If these requirements for the separation of the embedded derivative are not met, the embedded derivative may not be separated from the host contract. At DVB, there are currently no embedded derivatives which are required to be separated.

1.7 Hedge accounting

Within the framework of DVB's risk management strategy, the Company enters into various derivatives for the purpose of hedging against interest rate and foreign currency risks. IAS 39 contains specific regulations to report these economic hedging relationships in financial statements. The aim of these provisions is to eliminate accounting mismatches between the hedged items and the derivative hedging instruments used. In accordance with IAS 39, there are three different types of hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. The designation of these hedging relationships depends on meeting the strict requirements defined in IAS 39.

1.7.1 Fair value hedges

The purpose of fair value hedges is to offset changes in the value of the hedged item by offsetting changes in the fair value of the hedging instrument. This means that the changes in the fair value of the hedged item attributable to the hedged item itself, as well as the offsetting changes in the fair value of the hedging instrument, are recognised in the income statement. Hedged items of the category "Loans and receivables" are measured at amortised cost in line with the general measurement principles of this category. The amortised cost is adjusted subsequently by the fair value change attributable to the hedged risk. Hedged items of the category "Available-for-sale financial instruments" are measured at fair value. Only the fair value changes that deviate from the amount of the hedged change in the market value are recognised directly in equity in the revaluation reserve.

In the case of fully effective hedging relationships, the fair value changes recognised in the income statement offset each other completely during the term of the hedging relationship. The changes in the fair value recognised in the carrying amount of the hedged items have to be amortised through profit or loss by no later than the time the hedging relationship is terminated. If and when the hedging relationship is terminated by means of selling the hedged item, the cumulative results from remeasurement attributable to the hedged risk are recognised in profit or loss at that time.

DVB designates hedging relationships in order to hedge the fair value of fixed-rate loans and advances to customers, loan commitments, fixed-income securities, fixed-rate liabilities from refinancing activities as well as foreign currency risks related to financial assets and liabilities. Hedging instruments primarily are interest rate swaps. Interest expenses and interest income from hedged items, as well as from the hedging instruments, are recognised in net interest income.

1.7.2 Cash flow hedges

The changes in uncertain future cash flows from hedged items are to be hedged by offsetting changes in cash flows from hedging instruments (cash flow hedges).

Within the scope of accounting for cash flow hedges, the hedging instruments are measured at fair value. Changes in the fair value attributable to the effective portion of the hedging relationship have to be recognised directly in equity in the hedging reserve for cash flow hedges. Changes in the fair value attributable to the ineffective portion of the hedging relationship have to be recognised in the trading result. Changes in the fair value or the cash flows of the hedged items have to be recognised in accordance with the general principles of the relevant measurement category. After the termination of a cash flow hedge relationship, the changes in value that have been previously recognised directly in equity will be recognised in profit or loss as and when the previously hedged items affect profit or loss.

Changes in the fair value of hedging instruments used in cash flow hedges are recognised directly in equity, to the extent that such changes relate to the effective portion of the hedging relationship, or in the hedge result, to the extent that such changes relate to the ineffective portion of the hedge.

At DVB, cash flow hedge relationships are designated to hedge foreign currency risk from interest and fee and commission payments as well as from committed staff and non-staff expenses, each denominated in foreign currencies. Each of the hedged cash flows is expected to occur in the following financial year. Hedging instruments are exclusively forward currency contracts.

1.7.3 Net investment hedges

The translation risk from equity investments with a foreign functional currency is hedged through net investment hedges. Gains and losses of the hedging instruments are reported as a separate component of equity until the sale or disposal of the equity investment, to the extent that such gains or losses relate to the effective portion of the hedging relationship. The ineffective portion is recognised in the income statement in the hedge result.

1.7.4 Effectiveness test

Within the scope of the prospective effectiveness test required under IAS 39, a sensitivity analysis is performed on the basis of the basis point value method. The test of retrospective effectiveness is performed using the so-called dollar-offset method. Under this method, the cumulative changes in the fair value of the hedged items attributable to the hedged risk are compared with the changes in the fair value of the hedging instruments. If the changes in the fair values of the hedging instruments and the hedged items compensate each other within the range of 80% to 125%, as defined in IAS 39, the hedging relationship is regarded as effective. Since 1 September 2013, the test of retrospective effectiveness for all newly designated hedging relationships has generally been carried out using a regression analysis.

1.8 Accounting estimates

The presentation of the financial position and performance in the consolidated financial statements depends on recognition and measurement methods, as well as assumptions and estimates which are the basis for the preparation of consolidated financial statements. If recognition and measurement under IAS/IFRS required the use of assumptions and estimates, these were made in accordance with the relevant standards.

The following critical assumptions and estimates, as well as uncertainties inherent in the accounting policies, are essential to understand the underlying financial reporting risks and the effects that these estimates, assumptions and uncertainties may have on the consolidated financial statements. They are based on historical experience, together with other factors such as projections – as well as expectations and forecasts of future events considered likely in view of the current circumstances.

1.8.1 Fair value of financial assets and financial liabilities

The determination of fair values of financial assets and financial liabilities is subject to estimation uncertainties if no prices are available on active markets for the relevant financial instruments. Estimation uncertainties occur above all when the fair values are determined using valuation techniques which are based on significant unobservable measurement parameters. The assumptions and valuation techniques used to determine fair values when market values were not available are set out in Note 50.

1.8.2 Property and equipment, and intangible assets

The recognition of items of property and equipment, intangible assets and goodwill is subject to estimates for determining the fair value as at the acquisition date, especially in the case of assets acquired in a business combination. In addition, the expected useful life of these assets has to be estimated. The determination of the fair values of assets and liabilities is based on management judgements, which were made using all existing information in accordance with the IFRS standards.

In order to determine impairments of property and equipment items, and of intangible assets, estimates are made which relate, among other things, to the cause, timing, and amount of the impairment. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or groups of assets) requires management to make significant judgements concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, relevant useful lives and residual values.

Impairment is based on a number of factors. We typically consider changes in current competitive conditions, expectations of growth, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs and other changes in circumstances that indicate the existence of an impairment. The relevant recoverable amount (determined as the higher of fair value less costs to sell and value in use) is typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions.

1.8.3 Allowance for credit losses and loan loss provisions (risk provisioning)

Uncertainties related to the evaluation of risks in the lending business result, in terms of amount and reason, from assumptions and estimates made by decision-makers. Assumptions and estimates made relate, among other things, to the current and future macroeconomic development as well as the financial performance of individual borrowers. Assumptions and estimates also relate to the historical and current development of the proceeds from the realisation of collateral, assumed realisation periods, as well as final credit default losses, taking into account the structure and quality of the Bank's loan portfolios.

1.8.4 Income tax assets and income tax liabilities

The determination of deferred income tax assets and liabilities are based on estimates of future taxable profit of the taxable entities. These estimates above all impact the assessment of the realisability of deferred tax assets. In addition, judgements have to be made with regard to income tax-related matters in the context of calculating current income tax assets and income tax liabilities as at the date of preparing the financial statements under commercial law.

1.8.5 Provisions and contingent liabilities

Provisions are recognised if the Group has a present obligation from a past event which is likely to result in an outflow of economic resources that can be reliably estimated. This present obligation is a liability of uncertain timing and amount. Provisions are determined on the basis of best estimates. Non-current provisions are subject to discounting.

Recognition and measurement of provisions and the amount of contingent liabilities related to pending litigation involve, to a considerable extent, judgements made by the Group. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible amount of the final settlement. We record provisions for liabilities when a loss contingency is considered to exist, and when a loss is considered probable and can be reliably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated amount of the provision. Significant estimates are also involved in the determination of provisions related to taxes and legal risks.

The measurement of pension provisions is based on the projected unit credit method for defined benefit plans, as defined in IAS 19. The measurement of the benefit obligation is based on various estimates and assumptions, in particular assumptions with regard to the long-term salary and pension trend as well as the average life expectancy. The assumptions related to salary and pension trends rely on the development observed in the past, and take into account labour market trends. The bases for the estimate of the average life expectancy are recognised biometric calculation parameters (mortality tables "2005 G" by Prof Dr Klaus Heubeck, mortality tables of "Finance Norway" as well as "Dutch table –AG Prognosetafel 2014").

The interest rate used to discount the future payment obligations is the market rate for risk-free, long-term investments with a similar term. The expected long-term performance of the current plan assets is determined depending on the fund structure, taking historical experience into account.

1.8.6 Non-current assets held for sale

These assets are measured at the lower of their carrying amount or fair value less costs to sell and are classified as "non-current assets held for sale". They are no longer subject to amortisation. In general, impairment losses are recognised only when the fair value less costs to sell is below the carrying amount. In case of a subsequent increase in the fair value less costs to sell, the impairment loss previously recognised has to be reversed. The reversal of impairment losses is restricted to the impairment losses previously recognised for the assets concerned.

2 Cash and balances with the central bank

This item includes cash on hand and the balances held at the central bank. Measurement is based on nominal values.

3 Loans and advances to banks and customers; allowance for credit losses

Loans and advances to customers and banks mainly include advances and loans extended to customers and banks, as well as receivables from money market transactions. Loans and advances are generally measured at amortised cost. If the corresponding prerequisites are met, individual loans and advances to customers are measured at fair value under the fair value option. In this case, changes in the fair value are reported in the result from the application of the fair value option. During the two previous financial years, DVB did not report any loans and advances to customers designated as at fair value through profit or loss. If the loans and advances were designated as hedged items in effective fair value hedges, the carrying amount includes fair value changes attributable to the hedged risk.

The allowance for credit losses related to loans and advances to banks and to customers is deducted from the relevant assets' carrying amount and reported as a separate line item in the statement of financial position. Additions to and reversals of allowances for credit losses related to loans and advances to banks and to customers are recorded in the income statement under the item "Allowance for credit losses".

DVB's risk provisioning measures also comprise changes in provisions for loan commitments, other provisions for the lending business and liabilities from financial guarantee contracts. Additions to and reversals of these items are also recognised in the income statement in the item "Allowance for credit losses".

4 Trading assets and trading liabilities

Financial assets and liabilities held for trading mainly include interest and currency derivatives with positive and negative fair values which are not used as derivative hedging instruments under hedge accounting. Trading assets and trading liabilities are measured at fair value. Changes in the fair value are recognised in the trading result.

If a quoted market price was available for derivative financial instruments listed in an active market, such market price was used as the basis for the determination of the fair value. For derivative financial instruments not quoted in an active market, the fair value is determined using generally accepted measurement methods. Financial instruments without option characteristics were exclusively measured in accordance with the so-called discounted cash flow (DCF) method. Under the DCF method, the expected future cash flows are discounted using the market interest rate applicable at the measurement date. Derivative financial instruments with an option feature are measured on the basis of the Bachelier model.

5 Investment securities

Investment securities include bonds and other fixed-income securities, equities and other non-fixed-income securities, as well as other shareholdings not accounted for using the equity method.

Investment securities are measured in accordance with the relevant measurement category. Investment securities of the category "Financial assets available for sale" are measured at fair value. The fair value of financial instruments which are listed on an active market is determined on the basis of quoted market prices. If such a quoted market price is not available, the instruments are measured using methods such as the discounted cash flow method. Fair value changes of instruments included in this category are generally recognised directly in equity in the revaluation reserve. If the fair value of individual equity instruments cannot be reliably determined, they are measured at cost.

Investment securities of the category "Loans and receivables" – especially small quantities of bearer bonds not listed in an active market – are measured at amortised cost.

Impairment losses on financial assets are calculated based on the provisions of IAS 39 applicable to the relevant financial assets category or based on the accounting standards relevant for the financial assets concerned and are directly deducted from the carrying amount of the related financial assets.

6 Investments in companies accounted for using the equity method

Investments in associates and interests in joint ventures are recognised in the consolidated statement of financial position at cost when the significant influence arises, or upon formation. In subsequent years, the carrying amount is adjusted by taking into account the pro-rata changes in equity of the company concerned. The pro-rata share in net profit of the investee is recognised in the income statement in the result from investments in companies accounted for using the equity method.

If there are indications of an impairment of the interests held in a company accounted for using the equity method, an impairment test is performed and, if necessary, the carrying amount of the interests is written down. Impairment losses are reversed if the underlying reasons for an impairment loss cease to exist, up to the amount of the original carrying amount. Impairment losses and reversals of impairment losses are recognised in the income statement item "Result from investment securities".

7 Intangible assets

Intangible assets mainly comprise goodwill. In addition, purchased and internally generated intangible assets are capitalised if the recognition criteria set out in IAS 38 are met. In accordance with IFRS 3 in connection with IAS 38, goodwill is not subject to amortisation, but is tested for impairment at least annually pursuant to IAS 36. Other intangible assets are amortised on a straight-line basis over the expected economic life, which ranges from three to eight years. Subsequent measurement for items of property and equipment is based on their cost less any accumulated depreciation and any accumulated impairment losses, according to the amortised cost model mentioned in IAS 38.

8 Property and equipment

Property and equipment includes land and buildings, assets held under operating leases (including but not limited to ships, aircraft, aircraft engines and shipping containers), leasehold improvements as well as operating and office equipment. Items of property and equipment are initially recognised at cost. The cost includes the purchase price as well as transaction costs in the form of fees/commissions paid and capitalised borrowing costs in accordance with IAS 23. Subsequent measurement for items of property and equipment is based on their cost less any accumulated depreciation and any accumulated impairment losses, according to the cost model mentioned in IAS 16. The useful lives of items of property and equipment are as follows: TABLE 67

T 67

Asset category	Useful life	Depreciation method
Land and buildings	50 years	straight-line depreciation
Operating and office equipment	3 to 15 years	straight-line depreciation
Leased assets	0.5 to 25 years	straight-line depreciation
Leasehold improvements	2 to 10 years	straight-line depreciation

8.1 Leasing

In accordance with IAS 17, a lease is classified as an operating lease if it does not transfer to the lessee substantially all the risks and rewards incidental to ownership. In contrast, a lease is classified as a finance lease if it transfers substantially all risks and rewards to the lessee.

8.1.1 The Group as lessor

If beneficial ownership of the leased asset remains with DVB, the lease is classified as an operating lease. The leased assets are carried at cost less any depreciation accumulated over the useful life. If there is a guaranteed residual value for the leased asset at the end of the lease term, the asset is depreciated on a straight-line basis over the term of the lease down to the guaranteed residual value.

Revenue generated from leases is recognised on a straight-line basis over the lease term and reported in net interest income, unless another amortisation procedure is appropriate.

If almost all risks and rewards incidental to ownership of the leased asset are transferred to the lessee (finance lease), DVB recognises a receivable due from the lessee. This receivable is measured at the amount of the net investment in the lease at the time the lease is concluded. Received lease payments are divided into an interest element, which is recognised in profit or loss, and a capital portion. Income is recognised on an accrual basis as interest income.

8.1.2 The Group as lessee

The main area where DVB is the lessee within the context of operating leases is the use of office buildings and cars. The lease payments under operating leases are recognised in general administrative expenses. The expense is determined by analogy with a lease payment on a systematic basis which is representative of the time pattern of the user's benefit.

8.2 Impairment of intangible assets, and property and equipment, and reversals of impairment losses

Intangible assets, and property and equipment, are tested for impairment at least annually. Opinions prepared by external experts are predominantly used as a basis to determine the value of property and equipment. If the recoverable amount determined on this basis has fallen below amortised cost, or below cost less any accumulated depreciation and any accumulated impairment losses, as the case may be, as at the balance sheet date, a write-down for impairment is made.

If it is established during an impairment test that the reasons for an impairment previously recognised in profit or loss no longer exists, the relevant impairment loss is reversed, except if goodwill is concerned.

9 Current and deferred taxes

Current and deferred taxes are accounted for pursuant to the provisions of IAS 12 – Income Taxes. Accordingly, deferred taxes have to be recognised for differences in the carrying amounts of assets and liabilities in the IFRS statement of financial position and the tax base, to the extent that such differences will reverse in future. Deferred income tax assets on tax loss carryforwards are recognised when the timing and the amount of their recoverability in the future can be reliably determined.

10 Deposits from customers and other banks

Deposits from customers mainly comprise customer deposits and promissory note loans held by customers. The item “Deposits from other banks” includes borrowings from other banks, money market placements as well as promissory note loans held by banks.

The deposits are measured at amortised cost on the basis of the original effective interest rate. If there are accounting mismatches, individual deposits from customers and other banks are measured at fair value under the fair value option. In this case, changes in the fair value are reported in the result from the application of the fair value option. During the two previous financial years, DVB did not report any deposits from customers and other banks designated as at fair value through profit or loss.

11 Securitised liabilities

The item “Securitised liabilities” includes in particular bearer bonds and covered bonds (Pfandbriefe) issued by DVB Bank SE. Items of this category are generally measured at amortised cost, which is determined using the effective interest method.

12 Provisions

This item includes defined benefit pension obligations, provisions for early retirement, partial retirement and jubilee payments, as well as other provisions.

In the past, DVB Bank SE offered its employees in Germany, Norway and the Netherlands defined benefit plans for post-employment benefits. At present, such plans are only offered to newly hired employees in the US. The amount of the retirement benefit obligations is based on the remuneration and the length of service of the relevant employee in the Group. A portion of the benefit commitments is covered through reinsurance policies.

The pension commitments can be distinguished with regard to the base amount, which is granted for a number of years of service, and the top-up amount, which applies when the period of service exceeds 25 years. They additionally include a commitment for benefits to surviving dependants (widow(er)s and orphans) as well as for benefits in the case of invalidity.

The defined benefit obligations are measured in accordance with IAS 19, taking into account expected salary and pension increases using the projected unit credit method. Actuarial gains and losses are recognised directly in equity when they occur.

The other provisions are measured in accordance with IAS 37, using the best estimate of the expected future expenses required to settle the obligation.

13 Subordinated liabilities

The item “Subordinated liabilities” includes subordinated loans from banks, subordinated bearer bonds issued by DVB Bank SE, profit-participation rights and silent partnership contributions. The liabilities are measured at amortised cost using the effective interest method.

14 Equity

Equity represents the residual interest in the assets of a company after deducting all of its liabilities. At the Group, it comprises issued share capital, the capital reserve and retained earnings as well as specific reserves resulting from the application of IAS 39 in order to temporarily recognise certain gains or losses from remeasurement. This mainly includes the revaluation reserve for available-for-sale financial instruments as well as the reserve for cash flow hedges. The individual components of the treasury shares held by DVB Bank SE are deducted from equity using the so-called par value method. Gains and losses arising from transactions with treasury shares are recognised directly in equity.

Notes to the income statement

15 Net interest income

Net interest income can be broken down as follows in the year under review: TABLE 68

T 68

€ mn	2016	2015	%
Interest income			
from lending and money market operations	941.1	827.5	13.7
from bonds and other fixed-income securities	7.7	9.6	–19.8
from finance leases	3.6	13.7	–73.7
Current income			
from operating leases	72.6	158.1	–54.1
from equity investments and other investment securities	0.0	0.5	–
Interest income	**1,025.0**	**1,009.4**	**1.5**
Interest expenses			
for deposits	435.2	343.3	26.8
for securitised liabilities	251.6	275.6	–8.7
for subordinated liabilities	29.3	21.8	34.4
for operating leases	99.9	185.0	–46.0
Interest expenses	**816.0**	**825.7**	**–1.2**
Net interest income	**209.0**	**183.7**	**13.8**

Net interest income includes negative interest from financial assets– largely deposits with Deutsche Bundesbank – in the amount of €–6.4 million (previous year: €–1.2 million), and positive interest from financial liabilities in the amount of €0.5 million (previous year: €0.6 million).

The transfer of the hedging reserve for cash flow hedges to the income statement due to the receipt of hedged interest payments denominated in foreign currencies resulted in an expense of €5.1 million (previous year: expenses of €39.1 million), which is reported in the item "Interest income from lending and money market transactions". This compares with a correspondingly higher interest income from US dollar loans.

In the financial year under review, interest income from financial instruments measured at amortised cost amounted to €787.3 million (previous year: €745.9 million), and interest expense amounted to €653.2 million (previous year: €610.1 million). Net interest income includes interest income in the amount of €12.3 million (previous year: €19.7 million) attributable to impaired loans and advances.

16 Allowance for credit losses

The allowance for credit losses changed as follows: TABLE 69

T 69

€ mn	2016	2015	%
Additions	–523.7	–198.3	–
Reversals	139.1	66.1	–
Direct write-offs	–0.5	–10.4	–95.2
Recoveries on loans and advances previously written off	3.7	1.1	–
Total	**–381.4**	**–141.5**	**–**

The distribution of the allowance for credit losses by business division is outlined in the group management report in the discussion of financial position and performance (see pages 93–95).

17 Net fee and commission income

Net fee and commission income can be broken down as follows in the year under review: TABLE 70

T 70

€ mn	2016	2015	%
Fee and commission income			
from payment transactions	1.6	1.5	6.7
from guarantees and indemnities	5.0	4.8	4.2
from the lending business	102.0	105.1	–2.9
Other fee and commission income	18.2	1.0	–
Fee and commission income	**126.8**	**112.4**	**12.8**
Fee and commission expenses			
from the securities business	0.0	0.0	–
from payment transactions	–1.6	–1.7	–5.9
from guarantees and indemnities	0.0	0.0	–
from the lending business	0.0	–1.4	–
Other fee and commission expenses	–6.0	–6.0	0.0
Fee and commission expenses	**–7.6**	**–9.1**	**–16.5**
Net fee and commission income	**119.2**	**103.3**	**15.4**

To the extent that interest for irrevocable loan commitments was received, such interest was recognised as a liability during the term of the loan commitment and released to interest income over the term of the underlying loan, using the effective interest method. Interest on commitments for roll-over loans with interest rates fixed over a short period of time was recognised as income at the date of payment, and shown as fee and commission income from lending business.

Fee and commission income from financial instruments measured at amortised cost through profit or loss amounted to €102.0 million (previous year: €105.1 million); fee and commission expenses amounted to €0.0 million (previous year: €1.4 million).

The transfer of the reserve for cash flow hedges to the income statement due to the receipt of hedged fee and commission payments denominated in foreign currencies resulted in an expense of €2.2 million (previous year: expense of €14.5 million), which is reported in the item "Other fee and commission income".

18 Results from investments in companies accounted for using the equity method

The result from investments in companies accounted for using the equity method can be broken down as follows in the year under review: TABLE 71

T 71

€ mn	2016	2015	%
Results from joint ventures accounted for using the equity method	3.6	4.4	–18.2
Results from associates accounted for using the equity method	6.0	–0.5	–
Total	**9.6**	**3.9**	**–**

19 General administrative expenses

General administrative expenses were as follows in the year under review: TABLE 72

T 72

€ mn	2016	2015	%
Wages and salaries	–89.6	–90.1	–0.6
Social security contributions	–8.8	–8.4	4.8
Expenses for pensions and other employee benefits	–5.1	–5.7	–10.5
Staff expenses	**–103.5**	**–104.2**	**–0.7**
Expenses for temporary staff	–2.5	–2.4	4.2
Contributions and fees	–1.9	–1.6	18.8
Legal and auditing fees	–10.7	–12.3	–13.0
Other advisory services (incl. IT advisory)	–14.8	–14.9	–0.7
IT costs	–5.9	–5.9	0.0
Occupancy costs	–9.6	–9.8	–2.0
Procurement of information	–2.8	–2.1	33.3
Public relations	–0.4	–0.6	–33.3
Ancillary labour costs	–16.1	–19.1	–15.7
Other non-staff expenses	–3.9	–3.2	21.9
Non-staff expenses	**–68.5**	**–71.8**	**–4.6**
Property and equipment, and investment property	–2.4	–2.4	0.0
Intangible assets	–3.1	–2.5	24.0
Total depreciation, amortisation, impairment and write-ups	**–5.5**	**–4.9**	**12.2**
Total general administrative expenses	**–177.5**	**–180.9**	**–1.9**

The line item "expenses for pensions and other employee benefits" includes payments from defined contribution plans in the amount of €–1.4 million (previous year: €–1.8 million).

As a result of the payment of hedged interest payments denominated in foreign currency, the transfer of the hedging reserve for cash flow hedges to the income statement led to an expense of €2.7 million (previous year: income of €7.3 million). Of that amount, €2.1 million (previous year: €5.1 million) related to staff expenses and €0.6 million (previous year: €2.2 million) to other non-staff expenses.

In the year under review, minimum lease payments under operating leases in the amount of €8.2 million (previous year: €8.3 million) were recognised as expenses. There were no contingent rents and sub-lease payments.

Legal and auditing fees included fees for auditors in the amount of €2.6 million (previous year: €2.3 million). These fees were comprised of the following individual items:
TABLE 73

T 73

€ mn	2016	2015	%
Auditing fees	2.2	1.7	29.4
Other attestation services	0.3	0.5	–40.0
Tax advisory services	–	–	–
Other services	0.1	0.1	0.0
Total fees	**2.6**	**2.3**	**13.0**

20 Net other operating income/expenses

Net other operating income/expenses were as follows:
TABLE 74

T 74

€ mn	2016	2015	%
Income			
from the disposal of property and equipment	1.6	0.0	–
from rents	–	–	–
from deconsolidation	4.2	7.2	–41.7
from the reversal of provisions	1.6	6.1	–73.8
from the recovery of taxes not related to income	2.6	0.7	–
in relation to the sale of a loan	–	–	–
from miscellaneous other income	173.9	25.2	–
from invoices reimbursed	14.9	13.5	10.4
Other operating income	**198.8**	**52.7**	**–**
Expenses			
from deconsolidation	–1.1	–2.8	60.7
from additions to provisions	0.0	0.0	–
for taxes not related to income	0.0	–0.1	–
in relation to the sale of a loan	–	–	–
from invoices to be reimbursed	–17.2	–15.2	–13.2
from miscellaneous other expenses	–80.9	–19.9	–
Other operating expenses	**–99.2**	**–38.0**	**–**
Net other operating income/ expenses	**99.6**	**14.7**	**–**

Miscellaneous other income benefited from a €150.0 million contribution to income by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.

Other operating expenses amounted to €99.2 million (previous year: €38.0 million), mainly attributable to write-downs of goodwill in Offshore Finance and Investment Management of €35.8 million.

21 Net result from financial instruments in accordance with IAS 39

The result from financial instruments in accordance with IAS 39 is divided into the trading result, the hedge result, the result from derivatives entered into without intention to trade, and the result from investment securities. TABLE 75

T 75

€ mn	2016	2015	%
Trading result	4.9	10.5	–53.3
Hedge result	–6.5	9.4	–
Result from derivatives entered into without intention to trade	10.9	15.6	–30.1
Result from investment securities	–12.0	35.3	–
Total	**–2.7**	**70.8**	**–**

21.1 Trading result

The trading result can be broken down as follows in the year under review: TABLE 76

T 76

€ mn	2016	2015	%
Trading result			
from derivatives	0.2	–0.5	–
from foreign currency transactions	4.2	10.4	–59.6
from interest and dividend payments	0.5	0.6	–16.7
Other	–	–	–
Total	**4.9**	**10.5**	**–53.0**

21.2 Hedge result (hedge accounting)

The hedge result can be broken down as follows in the year under review: TABLE 77

T 77

€ mn	2016	2015	%
Result from derivative hedging instruments	100.9	–124.2	–
Result from hedged items	–107.8	133.3	–
Result from remeasurement	**–6.9**	**9.1**	**–**
Ineffectiveness of cash flow hedges	0.4	0.3	33.3
Total	**–6.5**	**9.4**	**–**

The total result from remeasurement of hedging relationships, amounting to €–6.5 million (previous year: €9.4 million), was determined on the basis of measurement models.

21.3 Result from derivatives entered into without intention to trade

The result from derivatives entered into without intention to trade includes results from remeasurement of economic hedging derivatives which are not part of an effective hedging relationship with regard to transactions in the banking book in accordance with IAS 39. TABLE 78

T 78

€ mn	2016	2015	%
Interest-rate derivatives	10.9	15.6	–30.1
Total	**10.9**	**15.6**	**–30.1**

The total result from remeasurement of derivatives entered into without intention to trade, amounting to €10.9 million (previous year: €15.6 million), was determined on the basis of measurement models.

21.4 Result from investment securities

The result from investment securities can be broken down as follows in the year under review: TABLE 79

T 79

€ mn	2016	2015	%
Result from investment securities measured at amortised cost	–	47.3	–
Result from investment securities available for sale	–0.1	16.5	–
Result from write-downs on investments accounted for using the equity method	–11.9	–28.5	–58.2
Total	**–12.0**	**35.3**	**–**

The result from investment securities does not include any income or expenses from the application of measurement models (previous year: €0.0 million). The result from investment securities available for sale does not include any impairment losses (previous year: €0.9 million).

22 Income taxes

Income taxes were as follows in the year under review: TABLE 80

T 80

€ mn	2016	2015	%
Current taxes on income	–7.2	–5.3	35.8
Deferred income taxes			
from temporary differences	–20.1	7.1	–
from tax loss carryforwards	23.9	–2.3	–
Income taxes	**–3.4**	**–0.5**	**–**

The expenses from current taxes on income include €1.5 million of prior-period income (previous year: prior-period expenses of €1.1 million).

Components of other comprehensive income included the following tax effects: TABLE 81

Tax effects

T 81

€ mn	2016			2015		
	Amount before taxes	Income taxes	Amount after taxes	Amount before taxes	Income taxes	Amount after taxes
Other comprehensive income						
from the revaluation of AfS financial instruments	–0.1	0.7	0.6	–1.3	0.3	–1.0
from cash flow hedges	–5.7	1.7	–4.0	13.7	–4.5	9.2
from net investment hedges	–1.0	0.3	–0.7	–24.1	7.7	–16.4
from currency translation	10.2	–	10.2	12.6	–	12.6
from actuarial gains and losses	–0.6	0.2	–0.4	1.6	–0.4	1.2
Other comprehensive income	**2.8**	**2.9**	**5.7**	**2.5**	**3.1**	**5.6**

The following reconciliation shows the relationship between the expected tax expense and the actual tax expense: TABLE 82

T 82

€ mn	2016[1]	2015[1]	%
Consolidated net income/loss before income taxes	–135.3	46.1	–
Tax rate in the Group (%)	31.9	31.9	–
Expected taxes on income	**43.2**	**–14.7**	**–**
Tax reductions due to tax-exempt income	66.3	20.8	–
Current tax amounts of the prior period	–1.5	1.1	–
Additional taxes due to non-deductible expenses	–80.3	–26.9	–
Permanent differences	16.7	–	–
Foreign tax rate differences and foreign income	–35.2	20.0	–
Tax decreases/increases due to changes in tax rates	–0.1	–0.9	–88.9
Provisions for deferred tax assets	–12.6	–	–
Other effects	0.1	0.1	–
Tax effects	**–46.6**	**14.2**	**–**
Current taxes	–7.2	–5.3	35.8
Deferred taxes	3.8	4.8	–20.8
Reported income taxes	**–3.4**	**–0.5**	**–**

1 Presentation adjusted to enhance transparency.

The expected tax rate for the Group is composed of the corporate income tax rate of 15.0%, which is currently applicable in Germany, plus a solidarity surcharge of 5.5%, as well as an average trade tax rate of 460% applicable for Frankfurt/Main. The expected Group tax rate, based on these rates, is 31.9%.

Deferred taxes of €–20.1 million are attributable to the recognition or reversal of temporary differences (previous year: €7.1 million).

23 Segment reporting

23.1 General information on segment reporting

The segment report illustrates how the individual business divisions contribute to the Group's earnings. The segment report is based on the internal management reporting system, and accordingly complies with the requirements of IFRS 8 – Operating Segments. IFRS 8 requires that segment information shall be presented on the basis of internal management reporting as regularly used by the "chief operating decision maker" to make a decision on the allocation of resources to the segments and to assess performance. The function of chief operating decision maker is performed by the Board of Managing Directors of DVB.

23.2 Segmentation, reconciliation and consolidation

DVB focuses on its core segments Shipping Finance, Aviation Finance, Offshore Finance, Land Transport Finance and Investment Management. The active Group Treasury segment is additionally reported. The other segments which are not individually reportable segments as well as the internal Service Centre segment are summarised under "Other segments". Amounts from consolidation adjustments as well as reconciliation items for Group reporting purposes are reported under "Reconciliation/Consolidation".

The segments Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance include the business with traditionally collateralised loans and customised structured financings (Structured Asset Lending) as well as advisory services (Advisory Services). Each segment has its own research, risk management and work-out functions. The Investment Management segment comprises all fund management activities as well as transactions in which the Group holds an equity investment in companies. The Group Treasury segment shows income and expenses from liquidity, interest and capital structure management.

The other, smaller-scale activities of the Group, such as the subsidiary ITF Suisse as well as the D-Marketing and the Transport Infrastructure Finance portfolios (which are no longer in line with our strategy), are summarised in the column "Other segments". In addition, this segment includes those investments that are not allocated to a specific operating segment. Moreover, this segment includes the central support and management functions as well as significant overheads which the Bank does not allocate to the operating entities, as we believe that these overheads cannot be directly influenced by the respective management team, and therefore no direct control factor can be identified.

The "Reconciliation/Consolidation" segment comprises income and expenses that are necessary in order to reconcile financial indicators used for internal management accounting, which are shown in the segment report of the operating business units, to the corresponding data for external financial reporting, as well as the amounts from consolidation adjustments.

23.3 Methodology of presentation and measurement principles

Income and expenses are generally reported at market prices, and allocated to the responsible business division. Interest income and expenses are allocated to the relevant segments using market interest rates. Costs are only allocated to the operating business divisions of DVB for which they are directly responsible. General costs of operations, overheads or, for example, IT costs are not allocated to the operating business divisions. Fixed exchange rates are used for currency translation in the operating segments. These are determined in the context of annual planning. DVB's internal management reporting does not take into account taxes on income.

Income or costs from trading activities and exchange rate hedging (hedge accounting) are not allocated to the segments as central functions are responsible for such transactions. Only in exceptional cases do business divisions directly enter into such transactions (Investment Management).

Intersegment, intra-group transactions are only undertaken to an insignificant degree and are entered into on an arm's length basis.

The net interest income of the segments is determined on a net basis, primarily on the basis of market interest rates (i.e. offsetting interest income and interest expenses).

Segment assets exclusively comprise the relevant segment's customer lending volume in line with internal management systems.

23.4 Performance measurement

The success of DVB and of each segment is determined on the basis of consolidated net income/loss before taxes as well as the indicators cost/income ratio and return on equity.

The cost/income ratio is used to assess efficiency. To calculate the CIR, the aggregate of general administrative expenses and pro-rata expenses for the bank levy and the BVR Deposit Guarantee Scheme is divided by the total of net interest income (before allowance for credit losses), net fee and commission income, result from investments in companies accounted for using the equity method, net other operating income/expenses and result from investment securities.

Return on equity is a key profitability indicator and is calculated as follows: consolidated net income/loss before IAS 39 and taxes (but including the result from investment securities) is divided by the pro-rata total of weighted capital (issued share capital, capital reserve, retained earnings excluding funds for general banking risks, non-controlling interests and deferred taxes, as well as before appropriation of consolidated net income/loss).

The method used to calculate the indicators was already changed for the results of the first quarter of 2016. Figures for 2015 were adjusted accordingly. For further details, please refer to page 99 of the group management report.

The indicators described apply uniformly to all company divisions and are calculated on the same basis.

For information on products and services, please refer to the information provided in the section "Fundamental information about the Group" in the group management report on pages 78–79.

23.5 Reconciliation/consolidation

The "Reconciliation/consolidation" column includes consolidation and reconciliation items to reconcile from segment result as reported under internal management reporting to the consolidated financial statements. These include, among others:

- Income and expenses that cannot or should not be attributed to any other segment, such as costs for deposit guarantee schemes or transactions affecting more than one period;
- Items resulting from different approaches used in internal and external financial reporting;
- Differences arising due to the application of fixed exchange rates on the operating segments; and
- Other consolidation effects.

23.6 Disclosures on company level

DVB manages its business activities exclusively by business division. Each business division operates on a global scale. Therefore, the Bank does not follow regional management approaches and does not present segment results by region due to the minor relevance and the disproportionately high effort involved in collecting data. TABLE 83

Consolidation effects

T 83

	Reconciliation/ consolidation		Reconciliation		Consolidation	
€ mn	2016	2015	2016	2015	2016	2015
Net interest income	21.9	25.3	–7.9	11.5	29.8	13.8
Allowance for credit losses	–15.7	–20.1	0.4	0.1	–16.1	–20.3
Net interest income after allowance for credit losses	6.2	5.1	–7.6	11.6	13.8	–6.5
Net fee and commission income	–1.1	1.3	–1.7	–0.1	0.6	1.4
Results from investments in companies accounted for using the equity method	0.0	0.0	–	–	0.0	0.0
Net other operating income/expenses	107.5	–6.6	114.0	–10.8	–6.5	4.2
Total income	**112.7**	**–0.2**	**104.8**	**0.7**	**7.9**	**–0.9**
Staff expenses	–14.5	–10.5	–14.0	–7.9	–0.5	–2.6
Non-staff expenses	–13.4	–12.1	–13.8	–11.2	0.4	–0.8
Depreciation, amortisation, impairment and write-ups	–0.2	–0.2	–0.1	–0.6	–0.1	0.4
General administrative expenses	**–28.1**	**–22.8**	**–27.9**	**–19.7**	**–0.2**	**–3.1**
Consolidated net income/loss before IAS 39, bank levy, BVR Deposit Guarantee Scheme and taxes	**84.6**	**–23.0**	**76.9**	**–19.0**	**7.7**	**–4.0**
Net result from financial instruments in accordance with IAS 39	0.1	0.1	0.1	0.1	0.0	0.0
Consolidated net income/loss before bank levy, BVR Deposit Guarantee Scheme and taxes	**84.7**	**–22.9**	**77.0**	**–18.9**	**7.7**	**–4.0**
Lending volume	–	–	–	–	–	–

Notes to the statement of financial position

24 Cash and balances with the central bank

TABLE 84

T 84

€ mn	2016	2015	%
Cash on hand	0.0	0.0	–
Balances with the central bank	1,475.4	1,164.1	26.7
Total	**1,475.4**	**1,164.1**	**26.7**

This item includes a minimum reserve requirement in the amount of €10.3 million (previous year: €9.5 million).

25 Loans and advances to banks

TABLE 85

T 85

€ mn	2016	2015	%
Loans and advances	1,603.3	1,037.3	54.6
thereof: payable on demand	1,603.3	1,037.3	54.6
Money market transactions	6.8	79.2	–91.4
thereof: with a limited term	6.8	79.2	–91.4
Other loans and advances to banks	0.3	0.3	–
Total	**1,610.4**	**1,116.8**	**44.2**
German banks	912.9	588.8	55.0
Foreign banks	697.5	528.0	32.1
Total	**1,610.4**	**1,116.8**	**44.2**

26 Loans and advances to customers

TABLE 86

T 86

€ mn	2016	2015	%
Loans and advances	23,676.7	22,962.0	3.1
thereof: payable on demand	520.4	344.2	51.2
thereof: with a limited term	23,156.3	22,617.8	2.4
Other loans and advances to customers	10.0	13.5	–25.9
Total	**23,686.7**	**22,975.5**	**3.1**
German customers	794.7	984.5	–19.3
Foreign customers	22,892.0	21,991.0	4.1
Total	**23,686.7**	**22,975.5**	**3.1**

DVB does not hold any claims against any of the euro zone countries Greece, Ireland, Portugal, Spain and Italy.

Loans and advances to clients domiciled in these countries are not exposed to any country-specific risks, especially due to the fact that the relevant claims are collateralised by the financed transport assets.

In April 2012, DVB reclassified loan agreements from the category "Financial assets held for trading" to the category "Loans and receivables" in the amount of €117.0 million. The carrying amount of the reclassified transactions was €66.1 million (previous year: €80.8 million) as at the balance sheet date. If the financial instruments had not been reclassified, the additional measurement gains recorded in the period would have amounted to €7.4 million (previous year: €4.1 million). The result recognised in profit or loss for the reporting period (consisting of interest income and results from remeasurement) totalled €6.1 million in the period under review (previous year: €14.3 million). The fair value as at the reporting date was €66.1 million (previous year: €81.2 million). The effective interest rates of the reclassified financial instruments range from 2.2% to 5.8%. The expected future cash flows amount to €137.2 million as at the date of reclassification. No other reclassifications were made in the previous financial year.

As at 31 December 2016, the Company had finance leases for ships, shipping containers, airplanes and aircraft engines with a total lease term between one and ten years. These leases are reported under loans and advances with a limited term, in an amount of €31.4 million (previous year: €125.4 million). TABLE 87 (SEE PAGE 254)

T 87

€ mn	2016	2015	%
Gross investment value	**64.9**	**146.4**	**–55.7**
thereof: within one year	29.4	24.6	19.5
thereof: within one to five years	35.5	83.7	–57.6
thereof: five years or more	0.0	38.1	–
Less unearned finance income	**33.5**	**21.0**	**59.5**
Net investment value	31.4	125.4	–75.0
Less present value of residual values without guarantee	**0.0**	**10.6**	**–**
Present value of receivables from minimum lease payments	**31.4**	**114.8**	**–72.6**
thereof: within one year	14.2	19.3	–26.4
thereof: within one to five years	17.2	65.6	–73.8
thereof: five years or more	0.0	29.8	–

The significant decline of the net investment value of finance leases compared with the previous year is mainly attributable to the disposal of shares in Mount Kaba Shipping LLC (net investment value in the previous year: €48.2 million). In addition, the net investment value of the finance leases of Calidris Shipping LLC in the amount of €18.8 million (previous year: €32.6 million) as at 31 December 2016 was reported in assets held for sale in accordance with IFRS 5 (previous year: reported as component of loans and advances to customers).

The cumulative allowances for outstanding minimum lease payments with respect to lessors amounted to €0.8 million as at the reporting date (previous year: €4.8 million).

27 Allowance for credit losses

The allowance for credit losses (i.e. not including provisions) is based on rules applied consistently throughout the Group, and covers all risks known as at the reporting date. For losses incurred, but not yet identified, a portfolio-based allowance for credit losses (portfolio impairment) is recognised on the basis of historical experience. The specific allowance for credit losses of €581.4 million (previous year: €253.0 million) exclusively relates to loans and advances to customers.

The changes in the allowance for credit losses by business division and region is described in the report on opportunities and risks (see pages 208–210). TABLE 88

Allowance for credit losses

T 88

	Specific allowance for credit losses		Portfolio-based allowance for credit losses		Total	
€ mn	2016	2015	2016	2015	2016	2015
Allowance for credit losses as at 1 Jan	252.9	183.9	36.1	35.0	289.0	218.9
Additions	487.7	174.2	35.5	21.3	523.2	195.5
Utilisation	–43.9	–61.3	–	–	–43.9	–61.3
Reversals	–114.4	–42.4	–22.3	–23.7	–136.7	–66.1
Interest income from allowance for credit losses	–12.3	–19.7	–	–	–12.3	–19.7
Changes resulting from exchange rate fluctuations	11.3	18.3	2.0	3.4	13.3	21.7
Allowance for credit losses as at 31 Dec	**581.4**	**253.0**	**51.3**	**36.0**	**632.7**	**289.0**

28 Positive fair values of derivative hedging instruments

TABLE 89

T 89

€ mn	2016	2015	%
Interest rate products	297.6	320.3	–7.1
Currency-related products	4.5	1.0	–
Total	**302.1**	**321.3**	**–6.0**

29 Trading assets

TABLE 90

T 90

€ mn	2016	2015	%
Derivative financial instruments with positive fair values	56.3	95.0	–40.7
thereof: interest rate products	27.2	46.8	–41.9
thereof: currency-related products	29.1	48.2	–39.6
Non-derivative financial instruments	56.7	–	–
thereof: syndicated loans	56.7	–	–
Total	**113.0**	**95.0**	**18.9**

30 Investment securities

TABLE 91

T 91

€ mn	2016	2015	%
Bonds and other fixed-income securities	280.7	332.2	–15.5
thereof: bonds and notes	280.7	332.2	–15.5
Equities and other non-fixed-income securities	5.1	4.9	4.1
Equity investments	3.0	12.7	–76.4
Total	**288.8**	**349.8**	**–17.4**

DVB does not hold any investment securities issued by any of the euro area countries Greece, Ireland, Portugal, Spain and Italy.

The items “Equity investments” and “Equities and other non-fixed-income securities” also include equity instruments measured at cost with a total carrying amount of €3.0 million (previous year: €12.7 million) and €4.2 million (previous year: €4.0 million). It was not possible to identify observable market prices for these instruments on an active market, nor could fair values be reliably estimated for them.

No gains or losses from the disposal of equity instruments measured at cost were recognised in profit or loss in the financial year (previous year: gain in the amount of €47.3 million).

31 Investments in companies accounted for using the equity method

TABLE 92

T 92

€ mn	2016	2015	%
Investments in associates	231.3	179.7	28.7
Interests in joint ventures	53.8	48.6	10.7
Total	**285.1**	**228.3**	**24.9**

Investments in associates and joint ventures primarily relate to equity investments held by the Investment Management division.

The aggregated portions in the total comprehensive income of the individually insignificant interests in companies accounted for using the equity method can be broken down as follows: TABLES 93/94

Associates

T 93

€ mn	2016	2015	%
Pro-rata share in net income from continuing operations	–3.1	–0.5	–
Pro-rata share in other comprehensive income	–0.3	–5.2	–94.2
Pro-rata share in total comprehensive income	**–3.4**	**–5.7**	**–40.4**

Joint ventures

T 94

€ mn	2016	2015	%
Pro-rata share in net income from continuing operations	0.8	4.4	–81.8
Pro-rata share in other comprehensive income	1.8	–0.5	–
Pro-rata share in total comprehensive income	**2.6**	**3.9**	**–33.3**

32 Intangible assets

TABLE 95

T 95

€ mn	2016	2015	%
Goodwill	59.2	95.0	–37.7
Other intangible assets[1]	8.6	9.6	–10.4
Total[1]	**67.8**	**104.6**	**–35.2**

1 Compared to the 2015 consolidated financial statements, a transfer of software in development was made from property and equipment to intangible assets. The previous year's figures were adjusted accordingly.

33 Property and equipment

TABLE 96

T 96

€ mn	2016	2015	%
Land and buildings	0.0	0.0	–
Operating and office equipment	6.8	8.3	–18.1
Assets held under operating leases	97.2	120.7	–19.5
Other property and equipment[1]	233.5	240.9	–3.1
Total[1]	**337.5**	**369.9**	**–8.8**

1 Compared to the 2015 consolidated financial statements, a transfer was made from property and equipment to intangible assets. The previous year's figures were adjusted accordingly.

As at 31 December 2016, Group companies were lessors for ships and aircraft provided under operating leases. The lease term was five to nine years for ships, and five years for aircraft.

As at the reporting date, no borrowing costs for qualifying assets in operating leases in accordance with IAS 23 were capitalised (previous year: €0.0 million). This corresponds to an average capitalisation rate of 0.0% (previous year: 0.0%).

The sum of future minimum lease payments was as follows: TABLE 97

T 97

€ mn	2016	2015	%
Future minimum lease payments			
due within one year	14.5	13.0	11.3
due within one to five years	94.6	106.0	–10.8
due after more than five years	0.0	0.0	–
Total	**109.1**	**119.0**	**–8.3**

34 Statement of changes in non-current assets

Depreciation, amortisation, and impairment of land and buildings, operating and office equipment, software and other intangible assets are recognised in the item "Depreciation, amortisation, impairment and write-ups", which is included in general administrative expenses.

Goodwill is not amortised on a systematic basis. An impairment loss has to be recognised when the recoverable amount of a cash generating unit to which goodwill has been allocated is less than its carrying amount.

In the financial year under review, goodwill was allocated to the following cash-generating units, which correspond to the respective operating segments: TABLE 98

T 98

€ mn	2016	2015	%
Shipping Finance	59.2	59.2	–
Offshore Finance	–	15.5	–
Investment Management	–	20.3	–
Total	**59.2**	**95.0**	**–37.7**

The impairment tests performed as at the balance sheet date on the basis of the value in use resulted in impairments to be recognised for Offshore Finance and Investment Management in the amount of €35.8 million.

The value in use is determined on the basis of a medium-term, five-year projection for all material income and expense components. A moderate growth rate of 1% is assumed for periods of more than five years. The discount rates used are determined on the basis of the Capital Asset Pricing Model, which includes a risk-free interest rate, a market risk premium as well as a factor for the systematic risk (beta factor). The values for the risk-free interest rate, the market risk premium and the beta factor are determined using publicly accessible information sources.

The beta factors used for 2016 ranged between 1.33 and 1.75 (previous year: between 1.09 and 2.00). They are calculated based on the average of a list of companies that either employ a similar business model, or are direct competitors. Therefore, the discount rates used in the financial year 2016 for the cash-generating units range between 10.31% and 13.25% (previous year: between 8.59% and 14.5%). The discount rates take the (expected) yield of the best alternative investment – against the measured asset – into account.

Other non-current assets include transport assets held for short-term rental in the amount of €213.6 million (previous year: €214.0 million) and maritime container boxes in the amount of €19.8 million (previous year: €26.9 million). TABLE 99

Statement of changes in non-current assets

T 99

€ mn	Land and buildings	Operating and office equipment	Leased assets	Other property and equipment[1]	Intangible assets (excl. goodwill)[1]	Goodwill	Total
Cost as at 1 Jan 2016	**0.0**	**22.1**	**142.7**	**349.6**	**32.0**	**95.0**	**641.4**
Additions at cost	–	0.9	27.9	66.0	5.1	–	99.9
Disposals at cost	–	–2.6	–50.8	–94.2	–0.0	–	–147.6
Reclassifications[1]	–	–0.2	–0.2	–	–5.9	–	–6.3
Changes in the group of consolidated companies	–	–	–	–	–	–	–
Exchange rate changes	–	0.2	4.3	8.0	–	–	12.5
Cost as at 31 Dec 2016	**0.0**	**20.4**	**123.9**	**329.4**	**31.2**	**95.0**	**599.9**
Write-ups	–	–	–	0.7	–	–	0.7
Depreciation and amortisation	0.0	–2.4	–9.2	–26.5	–3.1	–	–41.2
Impairment	–	–		–26.1	–	–35.8	–61.9
Depreciation, amortisation and impairment (previous years)	0.0	–13.8	–22.1	–108.7	–22.4	–	–166.9
Depreciation, amortisation and impairment (disposals)	–	2.5	5.7	66.4	0.0	–	74.6
Changes in the group of consolidated companies	–	–	–	–	–	–	–
Reclassifications[1]	–	0.2	0.2	–	2.9	–	3.3
Exchange rate changes	–	–0.1	–1.3	–1.7	–	–	–3.1
Cumulative depreciation, amortisation, impairment and write-ups	0.0	–13.6	–26.7	–95.9	–22.6	–35.8	–194.6
Carrying amount as at 31 Dec 2016	**0.0**	**6.8**	**97.2**	**233.5**	**8.6**	**59.2**	**405.3**
Carrying amount as at 31 Dec 2015	0.0	8.3	120.7	244.1	6.4	95.0	474.5

1 Compared to the 2015 consolidated financial statements, a transfer was made from property and equipment to intangible assets. The opening balance was adjusted accordingly.

35 Income tax assets

TABLE 100

T 100

€ mn	2016	2015	%
Current income tax assets			
Germany	1.5	0.9	66.7
Foreign countries	1.6	0.6	–
Deferred income tax assets			
Temporary differences	76.9	90.6	–15.1
Loss carryforward	30.4	4.3	–
Total	**110.4**	**96.4**	**14.5**

Deferred tax assets amounting to €30.4 million (previous year: €4.3 million) were capitalised for tax loss carryforwards in the amount of €95.6 million (previous year: €22.7 million), based on tax forecast calculations.

Deferred income tax assets were recognised for the following items of the statement of financial position: TABLE 101

T 101

€ mn	2016	2015	%
Loans and advances to banks and customers, including allowance for credit losses	33.9	2.3	–
Trading assets	0.0	30.5	–
Deposits from other banks and customers	26.1	51.1	–48.9
Provisions	4.8	4.6	4.3
Other items	12.1	2.1	–
Total	**76.9**	**90.6**	**–15.1**

The Bank recognised deferred tax assets in the amount of €0.6 million (previous year: €14.6 million) directly in equity.

36 Other assets

TABLE 102

T 102

€ mn	2016	2015	%
Receivables from non-deductible taxes	3.0	3.3	–9.1
Advance payments and prepaid expenses	1.8	3.9	–53.8
Miscellaneous other assets	37.8	49.7	–23.9
Total	**42.6**	**56.9**	**–25.1**

37 Non-current assets held for sale

Due to a sale agreement existing as at the reporting date, DVB reports one ship (previous year: two ships) as a non-current asset held for sale. The carrying amount of €18.8 million (previous year: €20.9 million) corresponds to the fair value less costs to sell. The asset is allocated to the Investment Management segment.

The disposal of one subsidiary resulted in assets in the amount of €7.4 million being recognised as assets held for sale. The disposal has already taken place; however, the corresponding assets remain with DVB until legal transfer. The assets are allocated to the Other segment.

38 Deposits from other banks

TABLE 103

T 103

€ mn	2016	2015	%
Loans and advances	2,463.8	2,294.5	7.4
thereof: payable on demand	16.1	66.9	–75.9
thereof: with a limited term	2,447.7	2,227.6	9.9
Money market transactions	809.8	162.5	–
thereof: payable on demand	9.8	127.0	–92.3
thereof: with a limited term	800.0	35.5	–
Total	**3,273.6**	**2,457.0**	**33.2**
German banks	3,191.3	2,278.7	40.0
Foreign banks	82.3	178.3	–53.8
Total	**3,273.6**	**2,457.0**	**33.2**

39 Deposits from customers

TABLE 104

T 104

€ mn	2016	2015	%
Loans and advances	7,790.4	7,445.0	4.6
thereof: payable on demand	719.1	729.8	–1.5
thereof: with a limited term	7,071.3	6,715.2	5.3
Money market transactions	35.3	53.4	–33.9
thereof: payable on demand	–	–	–
thereof: with a limited term	35.3	53.4	–33.9
Other deposits from customers	13.9	12.4	12.1
Total	**7,839.6**	**7,510.8**	**4.4**
German customers	7,094.4	6,801.4	4.3
Foreign customers	745.2	709.4	5.0
Total	**7,839.6**	**7,510.8**	**4.4**

40 Securitised liabilities

TABLE 105

T 105

€ mn	2016	2015	%
Ship covered bonds	722.6	794.9	–9.1
Bearer bonds	11,999.7	12,347.0	–2.8
Total	**12,722.3**	**13,141.9**	**–3.2**

The nominal value of the ship covered bonds issued totals €720.0 million.

41 Negative fair values of derivative hedging instruments

TABLE 106

T 106

€ mn	2016	2015	%
Interest rate products	117.2	158.4	–26.0
Currency-related products	16.0	11.0	45.5
Total	**133.2**	**169.4**	**–21.4**

42 Trading liabilities

TABLE 107

T 107

€ mn	2016	2015	%
Derivative financial instruments with negative fair values	1,306.5	975.5	33.9
thereof: interest rate products	27.9	45.9	–39.2
thereof: currency-related products	1,278.6	929.6	37.5
Total	**1,306.5**	**975.5**	**33.9**

43 Provisions

TABLE 108

T 108

€ mn	2016	2015	%
Provisions for pension obligations	19.7	19.7	–
Provisions for early and partial retirement plans	0.2	0.4	–50.0
Other provisions	39.2	40.9	–4.2
Total	**59.1**	**60.9**	**–3.0**

Provisions for defined benefit obligations mainly consist of pension plans which are – with the exception of US plans – closed to new entries. Additional defined benefit obligations only exist for members of the Board of Managing Directors or executives. Newly-hired employees in Germany, Norway and the Netherlands are exclusively offered defined contribution plans. These plans do not require provisions to be recognised.

The total obligation from defined benefit plans can be classified into the following risk classes: TABLE 109

The final salary plans refer to pension commitments made by the employer for the benefit of the employee. The amount of the pension commitment depends on the final salary prior to the date when benefits fall due. Since lifelong benefit payments have to be assumed in this context, the main risk factors for final salary plans refer to longevity, salary increases, inflation rate and discount rate.

The present value of the defined benefit obligations changed as follows. TABLE 110

T 110

€ mn	2016	2015	%
Present value of defined benefit pension liabilities as at 1 Jan	**52.2**	**55.0**	**–5.1**
Current service cost	–1.0	–0.9	32.0
Interest cost	–1.2	–1.1	–
Contributions by employees	–0.3	–	–
Pension payments made	–2.1	1.8	–
Actuarial gains and losses	2.5	–2.7	–
thereof: from changes in demographic assumptions	0.0	0.0	–
thereof: from changes in financial assumptions	2.5	–2.6	–
thereof: experience adjustments	0.0	–0.1	–
Currency translation differences	–0.1	0.1	–
Present value of defined benefit pension liabilities as at 31 Dec	**54.4**	**52.2**	**4.2**

Risk classes

T 109

	Germany		Foreign countries		Total	
€ mn	2016	2015	2016	2015	2016	2015
Final salary plans	15.6	15.3	31.7	30.4	47.3	45.7
Contribution-based defined benefit plans	–	0.0	4.7	4.1	4.7	4.1
Accessory plans	–	0.0	2.4	2.4	2.4	2.4
Total	**15.6**	**15.3**	**38.8**	**36.9**	**54.4**	**52.2**

The interest expense of €1.2 million (previous year: €1.1 million) was recorded under staff expenses.

The calculation of the present value of the pension obligations is based on the following actuarial assumptions: TABLE 111

T 111

%	2016	2015
Discount rate	1.75	2.25
Expected salary increase	1.80	2.00
Pension increase	2.00	1.75

In the financial year 2016, the Company used the "Richttafeln 2005 G" mortality tables by Prof. Dr Klaus Heubeck, the mortality tables published by Finance Norway, as well as the Netherlands mortality tables (Dutch table – AG Prognosetafel 2016) for the measurement of the pension provisions related to the employees of DVB Bank SE.

The following table shows the sensitivities of the defined benefit obligations with respect to the main actuarial assumptions made. The sensitivities calculated are based on an isolated assessment of the change of an assumption, with all other assumptions remaining constant. TABLE 112

Changes in the present value of the defined benefit obligation

T 112

€ mn	2016	2015
If		
the discount rate was 100 bps higher	–3.3	–3.3
the discount rate was 100 bps lower	4.1	4.1
the future salary increase was 50 bps higher	0.2	0.2
the future salary increase was 50 bps lower	–0.2	–0.2
the future pension increase was 25 bps higher	1.2	1.2
the future pension increase was 25 bps lower	–1.1	–1.1
future life expectancy increased by one year	1.3	1.3
future life expectancy decreased by one year	–1.3	–1.3

The funded status of the defined benefit plans was as follows: TABLE 113

T 113

€ mn	2016	2015	%
Present value of the unfunded defined benefit obligations	16.3	16.2	0.9
Present value of the funded defined benefit obligations	38.1	36.0	5.9
Present value of defined benefit obligations	**54.4**	**52.2**	**4.2**
Less fair value of plan assets	34.7	32.5	6.8
Defined benefit obligation (net)	**19.7**	**19.7**	**–**
Plan surplus	0.0	0.0	–
Provisions for defined benefit obligations	**19.7**	**19.7**	**–**

Plan assets changed as follows: TABLE 114

T 114

€ mn	2016	2015	%
Fair value of plan assets as at 1 Jan	**32.5**	**33.4**	**–2.7**
Interest income	0.8	0.8	1.2
Return on plan assets (excl. interest income)	1.9	–1.6	–
Contributions to plan assets	0.3	0.4	–25.0
thereof: employer's contributions	0.3	0.4	–25.0
thereof: employee's contributions	0.0	0.0	–
Benefits paid	–2.1	–1.8	15.5
Actuarial gains and losses	0.1	0.0	–
thereof: from changes in financial assumptions	0.0	0.0	–
thereof: experience adjustments	0.0	0.0	–
Currency translation differences	1.2	1.3	–9.4
Fair value of plan assets as at 31 Dec	**34.7**	**32.5**	**6.8**

The return on plan assets amounted to €2.1 million (previous year: €1.8 million). Additions to plan assets for the financial year 2016 in the amount of €0.3 million (previous year: €0.4 million) are expected.

The plan assets attributable to active members as at the reporting date consisted of the following types of investments: TABLE 115

T 115

%	2016	2015
Other pension plan sponsors	100.0	100.0
Fixed-income financial instruments	–	–
Property	–	–
Equities	–	–
Total	**100.0**	**100.0**

Other pension plan sponsors comprise exclusively insurance companies; a risk concentration of individual plan assets can thus be excluded.

The age structure of persons covered by defined-benefit pension obligations is as follows: TABLE 116

T 116

	Below 50 years	Between 50 and 60 years	Over 60 years	Total
Active employees	23	12	4	39
Former employees	57	49	6	112
Pensioners	1	1	83	85
Total	**81**	**62**	**93**	**236**

Other provisions in the Group are as follows: TABLE 117

T 117

€ mn	2016	2015	%
Asset retirement obligations	1.0	1.0	–
Lending business	0.4	2.8	–85.7
Bonuses	21.8	27.6	–21.0
Legal risks	5.2	0.0	–
Miscellaneous other provisions	10.8	9.5	13.7
Total	**39.2**	**40.9**	**–4.2**

The provisions for bonuses mainly refer to bonus payments to DVB employees, and are likely to result in an outflow of resources in the following financial years.

The provisions changed during the year under review as follows: TABLE 118

In the previous year, provisions changed as follows: TABLE 119

The changes in loan loss provisions by business division and region are described in the report on opportunities and risks (see page 208–210).

Provisions 2016

T 118

€ mn	Balance as at 1 Jan 2016	Additions	Reversals	Utilisation	Reclassification	Exchange rate changes	Balance as at 31 Dec 2016
Asset retirement obligations	1.0	–	–	–	–	–	1.0
Lending business	2.8	0.4	–2.4	–	–	–0.4	0.4
Bonuses	27.6	17.7	–5.6	–16.4	–0.6	–0.9	21.8
Legal risks	0.0	5.2	–	–	–	–	5.2
Miscellaneous other provisions	9.5	5.7	–1.8	–2.3	–0.1	–0.2	10.8
Total	**40.9**	**29.1**	**–9.8**	**–18.7**	**-0.7**	**–1.5**	**39.2**

Provisions 2015

T 119

€ mn	Balance as at 1 Jan 2015	Additions	Reversals	Utilisation	Reclassification	Exchange rate changes	Balance as at 31 Dec 2015
Asset retirement obligations	1.0	–	–	–	–	–	1.0
Lending business	0.1	2.7	–	–	–	–	2.8
Bonuses	27.1	24.0	–3.8	–19.5	–1.3	1.1	27.6
Restructuring provisions	0.7	–	–0.5	–0.2	–	0.0	0.0
Legal risks	0.1	0.0	0.0	–0.1	–	–	0.0
Miscellaneous other provisions	13.6	14.2	–2.6	–16.1	–	0.4	9.5
Total	**42.6**	**40.9**	**–6.9**	**–35.9**	**–1.3**	**1.5**	**40.9**

44 Income tax liabilities

TABLE 120

T 120

€ mn	2016	2015	%
Current income tax liabilities	7.8	9.0	–13.3
Deferred income tax liabilities	50.0	44.3	12.9
Total	**57.8**	**53.3**	**8.4**

Deferred income tax liabilities were recognised for the following items of the statement of financial position: TABLE 121

T 121

€ mn	2016	2015	%
Loans and advances to banks and customers, including allowance for credit losses	0.7	23.4	–97.0
Investment securities	0.0	1.8	–
Trading assets	26.3	19.0	38.4
Property and equipment	0.1	0.1	–
Other items	22.9	0.0	–
Total	**50.0**	**44.3**	**12.9**

Deferred tax liabilities were recognised in the amount of €–16.3 million (previous year: €11.5 million) directly in equity.

45 Other liabilities

TABLE 122

T 122

€ mn	2016	2015	%
Other tax liabilities	0.5	1.4	–64.3
Miscellaneous other liabilities	68.6	68.1	0.7
Total	**69.1**	**69.5**	**–0.6**

46 Non-current liabilities held for sale

The disposal of one subsidiary resulted in liabilities in the amount of €25.2 million to be recognised as liabilities held for sale (previous year: no liabilities held for sale). The disposal has already taken place, meaning that the corresponding liabilities remain with DVB until legal transfer. The assets are allocated to the Other segment.

47 Subordinated liabilities

TABLE 123

T 123

€ mn	2016	2015	%
Subordinated promissory note loans	295.7	345.3	–14.4
Subordinated bearer bonds	655.5	397.4	64.9
Total	**951.2**	**742.7**	**28.1**

48 Equity

Equity can be broken down as follows: TABLE 124

T 124

€ mn	2016	2015	%
Issued share capital	115.6	116.7	–0.9
Capital reserve	312.7	321.3	–2.7
Retained earnings	835.9	975.5	–14.3
Revaluation reserve	6.8	6.2	9.7
Reserve from cash flow hedges	–10.7	–6.7	59.7
Reserve from net investment hedges	–25.2	–24.5	2.9
Currency translation reserve	37.1	26.9	37.9
Distributable profit	0.0	13.9	–
Equity before non-controlling interests	**1,272.2**	**1,429.3**	**–11.0**
Non-controlling interests	3.5	0.2	–
Total	**1,275.7**	**1,429.5**	**–10.8**

As reported in the ad-hoc disclosure dated 14 November 2016, the Board of Managing Directors of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, notified the Board of Managing Directors of DVB Bank SE that it intends to conduct a squeeze-out at DVB.

48.1 Issued share capital (disclosures pursuant to section 315 (4) nos. 1 and 3 of the HGB)

As at the balance sheet date, the fully paid share capital of DVB Bank SE amounted to €118,791,945.12, pursuant to section 4 (1) of the Memorandum and Articles of Association, and consisted of 46,467,370 no-par value shares. These shares exclusively consisted of ordinary bearer shares. Please refer to sections 54 et. seq. of the AktG regarding the rights and duties attaching to such shares. DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, directly held a 95.47% stake in DVB Bank SE's issued share capital. The remaining shares (4.53%) were in free float.

48.2 Authorisations (disclosures pursuant to section 315 (4) no. 7 of the HGB)

The following authorisations exist:

- Subject to the approval of the Supervisory Board, the Board of Managing Directors is authorised to increase the Company's issued share capital, on one or more occasions until 11 June 2019, by up to a total amount of €50 million via issuance of new no-par value shares for contributions in cash (Authorised Capital 2014, section 4 (2) of the Memorandum and Articles of Association). In general, the shareholders must be granted subscription rights.
- Subject to the approval of the Supervisory Board, the Board of Managing Directors is authorised to issue, on one or more occasion until 11 June 2019, registered convertible bonds and/or bonds cum warrants (or combinations thereof) up to an amount of €25 million with a limited or an unlimited term, and to grant to the holders or creditors of conversion or option rights with regard to notional no-par value shares of the Company pursuant to the terms and conditions of the convertible bonds and the bonds cum warrants, respectively (Contingent Capital 2014; section 4 (3) of the Memorandum and Articles of Association).
- In accordance with section 71 (1) No. 7 of the AktG, DVB Bank SE is authorised to purchase and sell its own shares (treasury shares) for the purpose of securities trading. This authorisation will expire on 11 June 2019. According to this authorisation, the volume of the shares that can be purchased at the end of one day may not exceed 5% of the Bank's share capital. The price for which treasury shares may be purchased must not be below the closing price for the relevant shares on the Frankfurt Stock Exchange on the trading day prior to the purchase, less 10%. The highest price for treasury shares must not exceed the closing price plus 10%.

48.3 Capital reserve

The capital reserve includes the premium from the issuance of shares, including subscription rights, exceeding the nominal value or the imputed value.

48.4 Treasury shares

As at 31 December 2016, DVB Bank SE held a total of 1,244,051 treasury shares at a carrying amount of €30,077,622.41, which are deducted from equity using the par value method. For this purpose, the treasury shares are divided into the components "Issued share capital" and "Capital reserve". Gains or losses arising from transactions with treasury shares are offset against retained earnings.

48.5 Retained earnings

Retained earnings include the legal reserve, other retained earnings, the fund for general banking risks, and actuarial gains and losses.

The legal reserve amounted to €1.3 million (previous year: €1.3 million) and is subject to restrictions with regard to distribution to shareholders.

Other retained earnings comprise the undistributed profits of the Group, including the cumulative amounts resulting from consolidation adjustments recognised in profit or loss. Of the other retained earnings, an amount of €34.4 million (previous year: €9.6 million) was not distributable pursuant to section 268 (8) sentence 2 of the HGB.

In addition, retained earnings also include the fund for general banking risks totalling €0.0 million (previous year: €82.4 million).

48.6 Revaluation reserve

The revaluation reserve includes the changes in the fair value of financial assets available for sale, taking into account deferred taxes.

48.7 Reserve from cash flow hedges

The hedging reserve for cash flow hedges includes measurement gains or losses from hedging instruments attributable to the effective portion of the hedging relationship, taking into account deferred taxes. The cash flows hedged through the hedging relationship will mainly be received by the Company in the following financial year.

48.8 Reserve from net investment hedges

DVB uses foreign exchange forwards to hedge the currency translation risk from net investments in foreign operations with a different functional currency. The reserve from net investment hedges includes measurement gains or losses from hedging instruments attributable to the effective portion of the hedging relationship, taking into account deferred taxes.

48.9 Currency translation reserve

Currency translation differences resulting from the translation of financial statements of Group companies denominated in a foreign currency into euro (the Group currency) are recognised in the currency translation reserve.

48.10 Non-controlling interests

Non-controlling interests include the interest in equity of subsidiaries not attributable to DVB.

Notes to financial instruments

49 Classes and categories of financial instruments

The carrying amounts and fair values of financial assets and financial liabilities were allocated to the classes and categories (or sub-categories) of financial instruments as indicated in the tables below: TABLES 125/126

T 125

€ mn	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Financial assets held for trading	113.0	113.0	95.0	95.0
thereof: trading assets	113.0	113.0	95.0	95.0
Financial assets designated as at fair value through profit or loss	–	–	–	–
thereof: loans and advances to banks	–	–	–	–
thereof: loans and advances to customers	–	–	–	–
thereof: investment securities	–	–	–	–
Derivative hedging instruments	302.1	302.1	321.3	321.3
thereof: positive fair values of derivative hedging instruments	302.1	302.1	321.3	321.3
Financial assets available for sale	281.6	281.6	332.3	332.3
thereof: investment securities	281.6	281.6	332.3	332.3
Non-current assets held for sale	26.2	26.2	20.9	20.9
Financial assets measured at fair value	**722.9**	**722.9**	**769.5**	**769.5**
Loans and receivables	26,109.2	26,544.9	24,854.3	25,600.3
thereof: cash and balances with the central bank	1,475.4	1,475.4	1,164.1	1,164.1
thereof: loans and advances to banks	1,610.4	1,610.4	1,116.8	1,116.8
thereof: loans and advances to customers	23,023.4	23,459.1	22,573.4	23,319.4
thereof: investment securities	–	–	–	–
Financial assets available for sale	7.2	7.2	17.6	17.6
thereof: investment securities	7.2	7.2	17.6	17.6
Other assets	25.2	25.2	27.0	27.0
Financial assets measured at amortised cost	**26,141.6**	**26,577.3**	**24,898.9**	**25,644.9**
Finance leases	30.6	35.2	113.1	103.9
thereof: loans and advances to customers	30.6	35.2	113.1	103.9
Other financial assets	**30.6**	**35.2**	**113.1**	**103.9**

T 126

€ mn	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Financial liabilities held for trading	1,306.5	1,306.5	975.5	975.5
thereof: trading liabilities	1,306.5	1,306.5	975.5	975.5
thereof: other liabilities	–	–	–	–
Fair value option	–	–	–	–
thereof: deposits from other banks	–	–	–	–
thereof: deposits from customers	–	–	–	–
thereof: securitised liabilities	–	–	–	–
thereof: subordinated liabilities	–	–	–	–
Derivative hedging instruments	133.2	133.2	169.4	169.4
Negative fair values of derivative hedging instruments	133.2	133.2	169.4	169.4
Non-current liabilities held for sale	25.2	25.2	–	–
Financial liabilities measured at fair value	**1,439.7**	**1439.7**	**1,144.9**	**1,144.9**
Deposits from other banks	3,273.6	3,243.0	2,457.0	2,414.1
Deposits from customers	7,839.6	7,738.1	7,510.8	7,358.4
Securitised liabilities	12,722.3	12,700.8	13,141.9	13,213.3
Other liabilities	34.2	34.2	23.9	23.9
Subordinated liabilities	951.2	1,002.5	742.7	772.0
Financial liabilities measured at amortised cost	24,820.9	24,718.7	23,876.3	23,781.7
Finance leases	–	–	–	–
thereof: deposits from customers	–	–	–	–
Other financial liabilities	**–**	**–**	**–**	**–**

As at year-end, financial collateral (before offsetting) was provided in the amount of €1,540.5 million (previous year: €981.7 million), and financial collateral received amounted to €532.1 million (previous year: €581.6 million). Both the collateral pledged as well as the collateral received was agreed upon exclusively as cover for derivative financial instruments entered into.

50 Financial assets and liabilities offset/not offset

TABLE 127

T 127

€ mn	Gross amount of financial instruments not offset		Offsetting		Net amounts of items carried on the statement of financial position		Amounts with unrecognised offsetting agreements: Financial instruments		Amounts with unrecognised offsetting agreements: Amounts of cash collateral received/provided		Net amounts of financial instruments not offset	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Positive fair values of derivative financial instruments	915.1	883.5	–556.8	–476.0	358.3	407.6	–39.0	–278.0	–11.1	–127.0	308.1	2.6
Negative fair values of derivative financial instruments	1,498.9	1,208.1	–59.2	–63.2	1,439.7	1,144.9	–39.0	–278.0	–1,400.5	–807.7	0.2	59.2

51 Determination of fair values of financial instruments

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments which are listed on an active market is determined on the basis of market prices. The fair value of shares in funds is determined using the redemption price as published by the investment company. The fair values of these financial instruments are allocated to Level 1.

The fair value of financial instruments which are not listed on an active market is determined on the basis of accepted valuation models used uniformly throughout all classes. To the extent that the measurement models use inputs that are largely observable on the market, the resulting fair values are allocated to Level 2. To the extent that the measurement models use inputs that are largely not observable on the market, the resulting fair values are allocated to Level 3.

Non-derivative financial instruments as well as derivative financial instruments with no option components, are measured using the discounted cash flow method (DCF). Currency-specific swap curves are used as basis for determining the discount rate. Derivative financial instruments with option components are measured using an accepted option pricing model with a normal distribution of risk factors (Bachelier model) using implied volatilities that can be observed on the market. The measurement models use parameters that largely can be observed on the market. Since November 2012, the fair value of Level 2 financial instruments has been determined using forward curves with consistent tenors. The forward rate curves are structured based on homogeneous tenors.

Moreover, Level 2 derivative financial instruments which form part of existing hedges are discounted on the basis of overnight index swap (OIS) rates. Where the currency of the hedge differs from the transaction currency, the cross-currency basis spread is taken into account additionally for the purpose of determining fair value. The measurement adjustment is applied prospectively and corresponds to an adjustment to the current market standard.

The fair value of over-the-counter (OTC) derivative financial instruments is measured using the net risk exposure, using the exception provided in IFRS 13.48. In the first step, credit risk is not taken into account. In a second step, credit risk exposure from derivative financial instruments is recorded after determining the net risk exposure. Credit valuation adjustments (CVA) and debit valuation adjustments (DVA) are applied to derivative financial instruments, whereby the instruments at hand are largely non-optional.

The exposures required for the CVA/DVA calculation are calculated on the basis of a stochastic hybrid model for interest rates (Hull-White model) and currencies (Black-Scholes component), as well as a deterministic credit model using the Monte-Carlo simulation. The relevant OIS curve is calculated for each currency on the basis of the short rate; all other curves are determined using a deterministic spread over the OIS curves. The correlations required for the simulation of relevant random numbers are derived from the time series of the one-year swap rates and FX factors of all currencies involved.

The required default information is derived, to the extent possible, from credit default swap quotes of a particular liquidity level. If no liquid credit default swap quotes are available for a particular counterparty, information from credit risk models is used.

The results of the Monte-Carlo simulation are the full exposure matrices for each trade and the corresponding collateral values. Depending on whether a master agreement/Credit Support Annex (CSA) is available or not, the collateral value is also simulated in the calculation, and various trades of a defined netting set are offset against each other. Depending on the respective netting agreement, a netting set comprises all deals with applicable transaction types (derivative and/or currency) and an appropriate combination of counterparties. All other trades are deemed uncollateralised exposures, with each individual trade considered as a separate netting set. This determines the final exposures according to the collateral value and netting set, which are then used to calculate the (bilateral) CVA/DVA formulas.

The CVA values per netting set are allocated to the affected items of the statement of financial position in accordance with the relative fair value approach.

In addition, a liquidity spread derived from market parameters is applied for the valuation of non-derivative liabilities.

Allocation of fair values to Level 3 applies when there are significant inputs that are not directly observable on the market. The essential input factor which cannot be directly derived from market parameters currently is the credit spread, which is calculated based on the expected probabilities of default published by Standard & Poor's. Calibration to the relevant carrying amount is performed for Level 3 financial instruments upon initial recognition. The "calibration spread" determined in this way is used consistently within the scope of the determination of the fair value. No sensitivity analysis is provided for Level 3 trading assets carried at fair value, due to reasons of materiality.

During the year under review, there were no reclassifications between the individual levels of financial instruments measured at fair value through profit or loss. For certain classes of financial instruments (cash and balances with the central bank, loans and advances to banks, other assets and other liabilities) the fair value is stated as the carrying amount, as an approximation.

Non-current assets and liabilities held for sale are measured at fair value less costs to sell, and allocated to Level 2.

The fair values of financial instruments measured at fair value were allocated to the following levels: TABLE 128

Determination of the fair values of financial instruments measured at fair value

T 128

€ mn	Level 1		Level 2		Level 3	
	2016	**2015**	**2016**	**2015**	**2015**	**2015**
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–
Trading assets	–	–	56.3	95.0	56.7	–
Positive fair values of derivative hedging instruments	–	–	302.1	321.3	–	–
Investment securities	281.6	332.3	–	–	–	–
Non-current assets held for sale	–	20.9	26.2	–	–	–
Financial assets measured at fair value	**281.6**	**353.2**	**384.6**	**416.3**	**–**	**–**
Deposits from other banks	–	–		–	–	–
Deposits from customers	–	–		–	–	–
Trading liabilities	–	–	1,306.5	975.5	–	–
Negative fair values of derivative hedging instruments	–	–	133.2	169.3	–	–
Subordinated liabilities	–	–	–	–	–	–
Non-current liabilities held for sale	–	–	25.2	–	–	–
Financial liabilities measured at fair value	**–**	**–**	**1,464.9**	**1,144.8**	**56.7**	**–**

The fair values of financial instruments measured at amortised cost were allocated to the following levels:
TABLE 129

Determination of fair values of the financial instruments measured at amortised cost

T 129

€ mn	Level 1		Level 2		Level 3	
	2016	2015	2016	2015	2015	2015
Loans and receivables	–	–	1,475.4	1,164.1	25,069.5	24,436.2
thereof: cash and balances with the central bank	–	–	1,475.4	1,164.1	–	–
thereof: loans and advances to banks	–	–	–	–	1,610.4	1,116.8
thereof: loans and advances to customers	–	–	–	–	23,459.1	23,319.4
thereof: investment securities	–	–	–	–	–	–
Financial assets available for sale	–	–	–	–	7.2	17.6
thereof: investment securities	–	–	–	–	7.2	17.6
Other assets	–	–	–	–	25.2	27.0
Financial assets measured at amortised cost	**–**	**–**	**1,475.4**	**1,164.1**	**25,101.9**	**24,480.8**
Finance leases	–	–	–	–	35.2	103.9
thereof: loans and advances to customers	–	–	–	–	35.2	103.9
Other financial assets	**–**	**–**	**–**	**–**	**35.2**	**103.9**
Deposits from other banks	–	–	3,243.0	2,414.1	–	–
Deposits from customers	–	–	7,738.1	7,358.4	–	–
Securitised liabilities	–	–	12,700.8	13,213.3	–	–
Other liabilities	–	–	–	–	34.2	23.9
Subordinated liabilities	–	–	1,002.5	772.0	–	–
Liabilities measured at amortised cost	**–**	**–**	**24,684.5**	**23,757.8**	**34.2**	**23.9**
Finance leases	–	–	–	–	–	–
thereof: deposits from customers	–	–	–	–	–	–
Other financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**

52 Unrecognised differences upon initial recognition

Unrecognised gains upon initial recognition resulted from the purchase of financial assets in 2011. The related amortisation amounts were €1.5 million (previous year: €1.5 million) in the financial year. Taking currency translation effects of €–0.1 million (previous year: €–0.8 million) into account, the closing balance was €4.3 million (previous year: €5.7 million).

53 Earnings contributions of financial instruments by measurement category

TABLES 130/131

1 Jan 2016–31 Dec 2016

T 130

€ mn	Recognition in the income statement				Recognition in equity	
	Net interest income	Allowance for credit losses	Net fee and commission income	Net result from financial instruments in accordance with IAS 39	Measurement result	Total
Financial assets and liabilities designated as at fair value through profit or loss	–	–	–	–	–	–
Financial assets and liabilities held for trading	–43.8	–	–	15.8	–	–28.0
Loans and receivables	787.3	–381.4	102.0	–107.8	–	400.1
Financial assets available for sale	7.7	–	–	–	–2.0	5.7
Other liabilities	–653.2	–	–	–	–	–653.2
Positive and negative fair values of derivative hedging instruments	134.7	–	–	101.3	–21.4	214.6
Total	**232.7**	**–381.4**	**102.0**	**9.3**	**–23.4**	**–60.8**

1 Jan 2015–31 Dec 2015

T 131

€ mn	Recognition in the income statement				Recognition in equity	
	Net interest income	Allowance for credit losses	Net fee and commission income	Net result from financial instruments in accordance with IAS 39	Measurement result	Total
Financial assets and liabilities designated as at fair value through profit or loss	–	–	–	–	–	–
Financial assets and liabilities held for trading	–47.3	–	–	26.1	–	–21.2
Loans and receivables	745.9	–141.5	103.7	133.3	–	841.4
Financial assets available for sale	9.6	–	–	63.8	15.7	89.1
Other liabilities	–610.1	–	–	–	–	–610.1
Positive and negative fair values of derivative hedging instruments	98.3	–	–	–123.9	28.7	3.1
Total	**196.4**	**–141.5**	**103.7**	**99.3**	**44.4**	**302.3**

54 Allowance for credit losses by class

The allowance for credit losses (i.e. not including provisions) was distributed across the classes of financial assets as follows: TABLE 132

55 Risks arising from the use of financial instruments

Disclosures as to the nature and extent of risks arising from the use of financial instruments are included in the report on opportunities and risks in accordance with the provisions of IFRS 7. This does not apply to the contractual maturity analysis, which is shown below.

Allowance for credit losses T 132

	Financial assets measured at amortised cost		Other financial assets		Total	
€ mn	2016	2015	2016	2015	2016	2015
Allowance for credit losses as at 1 Jan	284.2	210.1	4.8	8.8	289.0	218.9
Additions	522.3	194.1	1.0	1.4	523.3	195.5
Utilisation	–39.6	–56.7	–4.3	–4.6	–43.9	–61.3
Reversals	–136.1	–65.7	–0.6	–0.4	–136.7	–66.1
Interest income from allowance for credit losses	–12.2	–18.3	–0.1	–1.4	–12.3	–19.7
Changes resulting from exchange rate fluctuations	13.3	20.7	0.0	1.0	13.3	21.7
Allowance for credit losses as at 31 Dec	**631.9**	**284.2**	**0.8**	**4.8**	**632.7**	**289.0**

56 Maturity groupings of derivative financial instruments

TABLE 133

Maturity groupings and fair values T 133

	Terms of maturity				
€ mn	Up to 1 year	1 to 5 years	More than 5 years	Total 31 Dec 2016	Total 31 Dec 2015
Interest-rate derivatives with positive fair values					
thereof: interest rate swaps	24.6	129.2	168.6	322.4	365.5
thereof: interest rate options	–	1.5	0.8	2.3	1.6
Interest-rate derivatives with negative fair values					
thereof: interest rate swaps	–6.0	–31.2	–23.6	–60.8	–107.7
thereof: interest rate options	0.0	–17.6	–66.6	–84.2	–96.6
Total interest rate derivatives	**18.6**	**81.9**	**79.2**	**179.7**	**162.8**
Currency-related derivatives with positive fair values					
thereof: forward currency contracts	31.1	–	–	31.1	20.2
thereof: cross-currency swaps	2.3	–	0.2	2.5	29.0
Currency-related derivatives with negative fair values					
thereof: forward currency contracts	–69.5	–	–	–69.5	–25.4
thereof: cross-currency swaps	–127.6	–833.1	–264.5	–1.225.2	–915.2
Total currency-related derivatives	**–163.7**	**–833.1**	**–264.3**	**–1.261.1**	**–891.4**
Total	**–145.1**	**–751.2**	**–185.1**	**–1.081.4**	**–728.6**

57 Maturity groupings of non-derivative financial instruments

The amounts reported for the individual time bands reflect the contractual, undiscounted and future cash flows (interest and capital payments). TABLES 134/135

31 Dec 2016

T 134

€ mn	Payable on demand	Up to 3 months	From 3 months up to 1 year	From 1 year to 5 ears	More than 5 years	Indefinite term	Total
	Terms to maturity						
Loans and advances to banks	1,610.4	–	–	–	–	–	1,610.4
Loans and advances to customers	520.4	2,319.1	3,924.1	15,217.5	4,700.6	–	26,681.7
Trading assets	–	–	–	–	56.7	–	56.7
Investment securities	–	50.4	25.5	200.6	–	8.0	284.5
Other assets	0.0	–	–	–	–	–	0.0
Total assets	**2,130.8**	**2,369.5**	**3,949.6**	**15,418.1**	**4,757.3**	**8.0**	**28,633.3**
Deposits from other banks	26.0	468.3	524.1	1,767.5	611.5	–	3,397.4
Deposits from customers	719.1	205.0	595.4	2,526.7	5,059.5	–	9,105.7
Securitised liabilities	–	602.6	2,560.8	8,569.9	1,560.2	–	13,293.5
Subordinated liabilities	–	173.4	127.1	511.6	448.1	–	1,260.2
Other liabilities	23.9	–	–	–	–	–	23.9
Total liabilities	**769.0**	**1,449.3**	**3,807.4**	**13,375.7**	**7,679.3**	**–**	**27,080.7**
Financial guarantee contracts	**–**	**–**	**24.2**	**240.4**	**79.3**	**–**	**343.9**
Loan commitments	**–**	**96.1**	**269.8**	**442.3**	**665.5**	**–**	**1,473.7**

31 Dec 2015

T 135

€ mn	Payable on demand	Up to 3 months	From 3 months up to 1 year	From 1 year to 5 ears	More than 5 years	Indefinite term	Total
	Terms to maturity						
Loans and advances to banks	1,037.3	79.5	–	–	–	–	1,116.8
Loans and advances to customers	1,087.1	1,362.5	3,677.1	14,451.4	4,986.2	–	25,564.3
Investment securities	–	0.4	154.1	176.5	–	40.6	371.6
Other assets	27.0	–	–	–	–	–	27.0
Total assets	**2,151.4**	**1,442.3**	**3,831.2**	**14,627.9**	**4,986.2**	**40.6**	**27,079.7**
Deposits from other banks	193.9	34.8	263.3	1,217.5	846.4	–	2,555.9
Deposits from customers	715.6	273.1	441.8	2,518.9	4,832.3	–	8,781.7
Securitised liabilities	–	1,064.8	1,989.7	9,675.7	1,126.3	–	13,856.5
Subordinated liabilities	–	84.7	27.6	463.3	230.3	–	805.9
Other liabilities	23.9	–	–	–	–	–	23.9
Total liabilities	**933.4**	**1,457.5**	**2,722.4**	**13,875.4**	**7,035.2**	**–**	**26,023.9**
Financial guarantee contracts	**–**	**4.1**	**37.0**	**228.0**	**74.8**	**–**	**343.9**
Loan commitments	**–**	**18.8**	**57.9**	**371.0**	**1,149.4**	**–**	**1,597.1**

Other disclosures

58 Equity capital management

The target figure for DVB's equity capital management is the capital as determined pursuant to the Capital Requirements Regulation (CRR). The objective of equity capital management is to leverage further profitable growth in international transport finance by strengthening own funds and to fulfil the regulatory requirements with respect to the amount of equity at all times.

DVB's regulatory capital is determined pursuant to the provisions of the CRR. In accordance with Article 92 of the CRR, the Group is obliged to ensure an appropriate amount of own funds in order to fulfil its obligations to customers. In addition, financial institutions are required, on the basis of the solvency principle, to quantify their counterparty credit risks as well as their market risks and to ensure that these risk exposures are backed by own funds.

Own funds are determined based on the regulatory group of consolidated companies under IFRS. Own funds consist of common equity tier 1 capital and additional tier 1 capital as well as tier 2 capital. Compared to equity as reported in the statement of financial position, which is determined in accordance with the provisions of IFRS, the regulatory own funds also include subordinated liabilities. The return on assets is calculated as the ratio of consolidated net income/loss (after taxes) to total assets. It amounted to –0.50% as at 31 December 2016.

The regulatory capital requirements for banks under Regulation (EU) No. 575/2013 (CRR) were fulfilled at all times during the year under review.

The analysis of the components of regulatory own funds pursuant to Article 25 to 91 of the CRR is presented in the following table: TABLE 136

59 Subordinated assets

During the year under review, the Company did not hold subordinated assets to any considerable extent.

Changes in own funds as defined by the CRR T 136

€ mn	31.12.2016	31.12.2015	%
Paid-up capital instruments	118.7	118.7	0.0
Capital reserve plus other reserves eligible for inclusion	1,122.1	1,231.0	–8.8
Deductions from common equity tier 1 capital	–388.8	–385.2	0.9
Transitional provisions regarding common equity tier 1 capital	160.0	182.8	–12.5
Common equity tier 1 capital	**1,012.0**	**1,147.3**	**–11.8**
Transitional provisions regarding additional tier 1 capital	–112.6	–130.7	–13.8
Transfer of shortfall to common equity tier 1 capital	112.6	130.7	–13.8
Additional tier 1 capital	**0.0**	**0.0**	**–**
Subordinated liabilities	619.3	481.5	28.6
Transitional provisions regarding tier 2 capital	–35.3	–49.5	–28.7
Tier 2 capital	**584.0**	**432.0**	**35.2**
Own funds as defined by the CRR [1]	**1,596.0**	**1,579.3**	**1.1**

1 Taking into account transfer to reserves from net profit

60 Disclosures on the ship covered bonds pursuant to section 28 of the Pfandbrief Act (PfandBG)

TABLES 137–145

Disclosures pursuant to section 28 (1) nos, 1, 3, 8 and 9 of the PfandBG

T 137

€ mn	31 Dec 2016			31 Dec 2015		
	Nominal value	Present value	Risk-adjusted present value[1]	Nominal value	Present value	Risk-adjusted present value[1]
Liabilities to be covered	**720.0**	**733.7**	**733.2**	**790.9**	**809.7**	**802.6**
thereof: ship covered bonds in issue	720.0	733.7	733.2	790.9	809.7	802.6
thereof: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Share of fixed-interest covered bonds in total liabilities (%)	20.1	–	–	18.3	–	–
Cover assets	**989.6**	**1,060.4**	**926.9**	**1,211.4**	**1,300.4**	**1,110.8**
thereof: ship financing	944.6	1,015.3	881.7	1,116.4	1,204.7	1,015.1
thereof: additional cover assets (section 26 (1) nos, 3 and 4 of the PfandBG)	45.0	45.1	45.1	95.0	95.7	95.7
thereof: assets exceeding the 10% threshold (section 26 (1) no, 3)	0.0	–	–	0.0	–	–
thereof: assets exceeding the 20% threshold (section 26 (1) no, 4)	0.0	–	–	0.0	–	–
thereof: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Share of fixed-interest cover assets (%)	10.6	–	–	15.7	–	–
Excess cover	**269.6**	**326.7**	**193.7**	**420.4**	**490.7**	**308.2**
Excess cover of liabilities (%)	37.5	44.5	26.4	53.2	60.6	38.4

1 Risk-adjusted present values were determined using the dynamic method.

Maturity structure of covered bonds in issue (section 28 (1) no, 2 of the PfandBG)

T 138

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Up to six months	20.0	70.9	–71.8
More than six and up to twelve months	0.0	0.0	–
More than twelve and up to 18 months	0.0	20.0	–
More than 18 months and up to two years	125.0	0.0	–
More than two and up to three years	75.0	125.0	–40.0
More than three and up to four years	500.0	75.0	–
More than four and up to five years	0.0	500.0	–
More than five and up to ten years	0.0	0.0	–
More than ten years	0.0	0.0	–
Total	**720.0**	**790.9**	**–9.0**

Fixed-interest periods of the cover assets (section 28 (1) no, 2 of the PfandBG)[1]

T 139

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Up to six months	88.4	113.0	–21.8
More than six and up to twelve months	74.1	120.3	–38.4
More than twelve and up to 18 months	74.3	95.1	–21.9
More than 18 months and up to two years	131.8	183.0	–28.0
More than two and up to three years	265.7	225.4	17.9
More than three and up to four years	128.0	261.3	–51.0
More than four and up to five years	155.3	99.2	56.6
More than five and up to ten years	72.1	114.1	–36.8
More than ten years	0.0	0.0	–
Total	**989.6**	**1,211.4**	**–18.3**

1 Pursuant to a recommendation by the Transparancy Iniative of the Association of German Pfandbrief Banks (vdp), variable-rate loans have been assigned to maturity buckets in accordance with their respective fixed-interest periods.

Size categories of the cover assets (section 28 (4) no. 1a of the PfandBG) T 140

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Up to €500 thousand	0.0	0.0	–
More than €500 thousand and up to €5 million	18.6	20.5	–9.3
More than €5 million	926.1	1,095.9	–15.5
Total	**944.6**	**1,116.4**	**–15.4**

Foreign currencies (section 28 (1) no. 10 of the PfandBG)[1] T 141

Risk-adjusted present value (€ mn)	31 Dec 2016	31 Dec 2015	%
Euro	–676.4	–652.9	3.6
US dollar	870.1	961.1	–9.5
Total	**193.7**	**308.2**	**–37.2**

1 Figures related to the euro are stated for the sake of completeness.

Country in which the pledged sea-going vessels are registered (section 28 (4) no. 1b of the PfandBG) T 142

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Bahamas	67.8	21.3	–
Croatia	17.5	18.5	–5.4
Cyprus	11.9	13.3	–10.5
Germany	44.2	48.9	–9.6
Gibraltar	26.4	32.1	–17.8
Greece	158.5	125.8	26.0
Liberia	218.4	170.9	27.8
Malta	269.6	289.2	–6.8
Marshall Islands	101.8	327.1	–68.9
Norway	8.6	24.1	–64.3
The Netherlands	3.9	23.4	–83.3
United Kingdom	16.2	21.8	–26.7
Total	**944.6**	**1,116.4**	**–15.4**

There were no inland waterway vessels or ships (ships under construction) pledged at the record dates.

Additional cover assets by country (section 28 (1) nos. 4, 5 and 6 of the PfandBG)[1] T 143

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015
Germany	45.0	95.0
thereof: assets in accordance with section 26 (1) no. 2	0.0	0.0
thereof: assets in accordance with section 26 (1) no. 3	45.0	95.0
thereof: debt securities collateralised by covered bonds	0.0	0.0
thereof: assets in accordance with section 26 (1) no. 4	0.0	0.0
Total	**45.0**	**95.0**

1 Debt securities compliant with provisions in article 129 of the Capital Requirements Regulation (EU 575/2013).

Payment arrears on receivables (section 28 (4) no. 2 of the PfandBG)

As at both record dates, there were no payment arrears of 90 days or more on cover assets.

Foreclosures and takeovers by the Bank (section 28 (4) nos. 3a and b of the PfandBG) T 144

Number	31 Dec 2016	31 Dec 2015	%
Foreclosures	0	0	–
Takeovers by the Bank	0	0	–

No takeovers have been carried out by the Bank, nor were any foreclosures pending or executed as of the relevant record dates.

Arrears on the interest payable by borrowers (section 28 (4) no. 3c of the PfandBG) T 145

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Due and unpaid interest	0.0	0.0	–

As at both record dates, there were no arrears on the interest payable.

61 Disclosures on the aircraft covered bonds pursuant to section 28 of the Pfandbrief Act (PfandBG)

TABLES 146–154

Disclosures pursuant to section 28 (1) nos, 1, 3, 8 and 9 of the PfandBG

T 146

€ mn	31 Dec 2016 Nominal value	31 Dec 2016 Present value	31 Dec 2016 Risk-adjusted present value[1]	31 Dec 2015 Nominal value	31 Dec 2015 Present value	31 Dec 2015 Risk-adjusted present value[1]
Liabilities to be covered	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
thereof: aircraft covered bonds in issue	0.0	0.0	0.0	0.0	0.0	0.0
thereof: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Share of fixed-interest covered bonds in total liabilities (%)	n/a	–	–	n/a	–	–
Cover assets	**530.8**	**574.3**	**486.0**	**667.6**	**731.8**	**602.4**
thereof: aircraft financing	530.8	574.3	486.0	667.6	731.8	602.4
thereof: additional cover assets (section 26f (1) nos, 3 and 4 of the PfandBG)	0.0	0.0	0.0	0.0	0.0	0.0
thereof: assets exceeding the 10% threshold (section 26f (1) no, 3)	0.0	–	–	0.0	–	–
thereof: assets exceeding the 20% threshold (section 26f (1) no, 4)	0.0	–	–	0.0	–	–
thereof: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Share of fixed-interest cover assets (%)	64.6	–	–	66.3	–	–
Excess cover	**530.8**	**574.3**	**486.0**	**667.6**	**731.8**	**602.4**

1 Risk-adjusted present values were determined using the dynamic method.

Maturity structure of covered bonds in issue (section 28 (1) no. 2 of the PfandBG)

T 147

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Up to six months	0.0	0.0	–
More than six and up to twelve months	0.0	0.0	–
More than twelve and up to 18 months	0.0	0.0	–
More than 18 months and up to two years	0.0	0.0	–
More than two and up to three years	0.0	0.0	–
More than three and up to four years	0.0	0.0	–
More than four and up to five years	0.0	0.0	–
More than five and up to ten years	0.0	0.0	–
More than ten years	0.0	0.0	–
Total	**0.0**	**0.0**	**–**

Fixed-interest periods of the cover assets (section 28 (1) no, 2 of the PfandBG)[1]

T 148

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Up to six months	50.6	52.4	–3.4
More than six and up to twelve months	38.3	64.1	–40.2
More than twelve and up to 18 months	48.1	53.8	–10.6
More than 18 months and up to two years	76.2	41.8	82.3
More than two and up to three years	121.5	129.9	–6.5
More than three and up to four years	66.9	127.6	–47.6
More than four and up to five years	52.2	72.9	–28.4
More than five and up to ten years	77.0	125.1	–38.4
More than ten years	0.0	0.0	–
Total	**530.8**	**667.6**	**–20.5**

1 Pursuant to a recommendation by the Transparancy Iniative of the Association of German Pfandbrief Banks (vdp), variable-rate loans have been assigned to maturity buckets in accordance with their respective fixed-interest periods.

Size categories of the cover assets
(section 28 (4) no. 1a of the PfandBG) T 149

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Up to €500 thousand	0.3	0.0	–
More than €500 thousand and up to €5 million	24.4	9.1	–
More than €5 million	506.1	658.5	–23.1
Total	**530.8**	**667.6**	**–20.5**

Foreign currencies
(section 28 (1) no. 10 of the PfandBG) T 150

Risk-adjusted present value (€ mn)	31 Dec 2016	31 Dec 2015	%
US dollar	486.0	602.4	–19.3
Total	**486.0**	**602.4**	**–19.3**

Country in which the pledged aircraft are registered
(section 28 (4) no. 1c of the PfandBG) T 151

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Denmark	14.9	17.3	–13.9
France	66.1	69.3	–4.6
Norway	36.3	38.9	–6.7
Switzerland	0.0	12.5	–
The Netherlands	26.0	29.5	–11.9
United Kingdom	83.2	98.8	–15.8
United States	304.4	401.3	–24.1
Total	**530.8**	**667.6**	**–20.5**

Additional cover assets by country
(section 28 (1) nos. 4, 5 and 6 of the PfandBG)[1,2] T 152

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015
Germany	0.0	0.0
thereof: assets in accordance with section 26f (1) no. 2	0.0	0.0
thereof: assets in accordance with section 26f (1) no. 3	0.0	0.0
thereof debt securities collaterised by covered bonds	0.0	0.0
thereof: assets in accordance with section 26f (1) no. 4	0.0	0.0
Total	**0.0**	**0.0**

1 Debt securities compliant with provisions in article 129 of the Capital Requirements Regulation (EU 575/2013).
2 No additional cover assets in accordance with section 26f of the PfandBG were registered in the cover assets pool on both record dates.

Payment arrears on receivables (section 28 (4) no. 2 of the PfandBG)

As at both record dates, there were no payment arrears of 90 days or more on cover assets.

Foreclosures and takeovers by the Bank
(section 28 (4) nos. 3a and b of the PfandBG) T 153

Number	31 Dec 2016	31 Dec 2015	%
Foreclosures	0	0	–
Takeovers by the Bank	0	0	–

No takeovers has been carried out by the Bank, and neither had foreclosures been pending or carried out as oft the relevant reporting dates.

Arrears on the interest payable by borrowers
(section 28 (4) no. 3c of the PfandBG) T 154

Nominal values (€ mn)	31 Dec 2016	31 Dec 2015	%
Due and unpaid interest	0.0	0.0	–

As at both record dates, there were no arrears on the interest payable.

62 List of shareholdings

TABLE 155–157

Pursuant to section 313 (2) of the HGB as at 31 December 2016

T 155

€	Shareholding (%)	Net income/loss for the year	Equity capital
DVB Bank SE, Frankfurt/Main		–	–
I. Subsidiaries			
DVB Bank America N.V.[1], Willemstad, Curaçao	100	–73,895,266	251,008,443
AER Holding N.V., Willemstad, Curaçao	100	–	[3]
DVB Container Finance America LLC, Majuro, Marshall Islands	100	–	[3]
DVB Investment Management N.V., Willemstad, Curaçao	100	–	[3]
Netherlands Shipmortgage Corporation Ltd, Hamilton, Bermuda	100	–	[3]
DVB Group Merchant Bank (Asia) Ltd[1], Singapore	100	–28,614,932	316,102,837
DVB Aviation Finance Asia Pte Ltd, Singapore	100	1,565,406	2,759,800
Ibon Leasing Ltd, George Town, Cayman Islands	100	–	[3]
DVB Holding GmbH[1,2], Frankfurt/Main, Germany	100	0	13,000,000
DVB Holding (US) Inc., Greenwich, USA	100	–154,080	1,725,295
DVB Capital Markets LLC, New York, USA	100	–323,752	3,077,277
DVB Service (US) LLC, New York, USA	100	–	[3]
DVB Transport (US) LLC, New York, USA	100	1,772,165	5,541,792
DVB Transport Finance Ltd, London, United Kingdom	100	1,788,371	67,926,885
Hollandse Scheepshypotheekbank N.V., Rotterdam, Netherlands	100	–240	706,750
ITF International Transport Finance Suisse AG, Zurich, Switzerland	100	–67,334,335	–47,519,702
LogPay Financial Services GmbH[1,2], Eschborn, Germany	100	0	3,750,000
LogPay Mobility Services GmbH, Eschborn, Germany	100	–	[3]
LogPay Transport Services GmbH, Eschborn, Germany	100	–	[3]
LogPay Fuel Spain S.L.U., Barcelona, Spain	100	–	[3]
LogPay Fuel Italia S.R.L., Bolzano, Italy	100	–	[3]
Nedship Shipping B.V., Shiphol, Netherlands	100	340,967	1,690,566

1 There is a profit and loss transfer agreement with DVB Bank SE.
2 The company applied the exemption provisions of section 264 (1) of the HGB.
3 Not disclosed due to lack of materiality (IAS 8.8).
4 Net profit/loss is included in the higher-level sub-group.

Pursuant to section 313 (2) of the HGB as at 31 December 2016

T 156

€	Share in variable returns (%)	Net income/loss for the year	Equity capital
In addition, the following structured entities were also included in the group of consolidated companies of DVB Bank SE because DVB Bank SE may exercise control over such companies within the meaning of IFRS 10:			
Agder Ocean II, Oslo, Norway	100	–	3
Agder Ocean III, Oslo, Norway	100	–	3
Agder Ocean Shipping KS (I), Oslo, Norway	100	–	3
Aquila Aircraft Leasing Ltd, Dublin, Ireland	100	–	3
Autobahn 2003 Holdings LLC, Wilmington, USA	100	–	3
Braveheart Shipping Holdco LLC, Majuro, Marshall Islands	100	–	3
Braveheart Shipping Opco LLC, Majuro, Marshall Islands	100	–2,491,615	–4,211,035
Ivanhoe Shipping Opco LLC, Majuro, Marshall Islands	100	–1,559,161	–3,423,989
Waverley Shipping Opco LLC, Majuro, Marshall Islands	100	–2,945,462	–4,863,990
Drem Shipping LLC, Majuro, Marshall Islands	100	–1,305,415	–1,305,415
Leith Shipping LLC, Majuro, Marshall Islands	100	–1,114,441	–1,114,441
Ocean Giant LLC, Majuro, Marshall Islands	100	461,725	461,725
Container Investment Fund I LLC, Majuro, Marshall Islands	100	–	3
Capital Lease Ltd, Hong Kong, China	100	–	4
Green Eagle Investments N.V., Willemstad, Curaçao	>50	–	4
Terra Marris I LLC, Majuro, Marshall Islands	100	–	4
Intermodal Investment Fund IX LLC, Majuro, Marshall Islands	100	–	4
Container Investment Fund II LLC, Majuro, Marshall Islands	100	–	3
Dalian Deepwater Developer Ltd, St. Helier, Jersey	100	–	3
Deucalion Capital I (UK) Ltd, London, United Kingdom	100	–	3
Deucalion Engine Leasing (Ireland) Ltd, Dublin, Ireland	90	–	4
Deucalion Capital II (UK) Ltd, London, United Kingdom	100	–	3
Shark Aircraft Leasing (Ireland) Ltd, Dublin, Ireland	100	–	4
Tigers Aircraft Leasing (UK) Ltd, London, United Kingdom	100	–	4
Deucalion Capital II Ltd, George Town, Cayman Islands	100	–	3
Bluebell Aircraft Leasing Ltd, Floriana, Malta	100	–	4
Buzzard Aircraft Leasing Ltd, Dublin, Ireland	100	–	4
Deucalion Capital II (Malta) Ltd, Valetta, Malta	60	–	3
Falcon Aircraft Leasing Ltd, Dublin, Ireland	100	–	4
Deucalion Capital VI Ltd, George Town, Cayman Islands	100	–	3
Bonham Aircraft Leasing Ltd, George Town, Cayman Islands	100	–	4
Finch Aircraft Leasing Ltd, Dublin, Ireland	100	–	4
Hawk Aircraft Leasing Ltd, Dublin, Ireland	100	–	4
Hibiscus Aircraft Leasing Ltd, Floriana, Malta	100	–	4
Puffin Aircraft Leasing Ltd, Dublin, Ireland	100	–	4
Sinaloa Aircraft Leasing Ltd, Floriana, Malta	100	–	4
Deucalion Capital VII Ltd, George Town, Cayman Islands	100	–	3
Wasps Aircraft Leasing (Ireland) Ltd, Dublin, Ireland	100	–	4
Deucalion Capital VIII Ltd, George Town, Cayman Islands	100	–	3
Lantana Aircraft Leasing Ltd, Floriana, Malta	100	–	4

Pursuant to section 313 (2) of the HGB as at 31 December 2016

T 156

€	Share in variable returns (%)	Net income/loss for the year	Equity capital
Deucalion Capital XI Ltd, George Town, Cayman Islands	100	–	[3]
Eagle Aircraft Leasing Ltd, George Town, Cayman Islands	100	–	[4]
Deucalion Ltd, George Town, Cayman Islands	100	–	[3]
Bulls Aircraft Leasing (Malta) Ltd, Floriana, Malta	100	–	[4]
Chiefs Aircraft Holding (Malta) Ltd, Floriana, Malta	100	–	[4]
DCAL Aircraft Malta Ltd, Floriana, Malta	100	–	[4]
Highlanders Aircraft Leasing (IRL) Ltd, Dublin, Ireland	100	–	[4]
MD Aviation Capital Pte Ltd, Singapore	100	8,452,351	217,119,187
MDAC 1 Pte Ltd, Singapore	100	66,234	19,532,939
MDAC 2 Pte Ltd, Singapore	100	78,212	19,251,926
MDAC 3 Pte Ltd, Singapore	100	6,058,023	24,602,026
MDAC 4 Pte Ltd, Singapore	100	–794,272	11,374,499
MDAC 5 Pte Ltd, Singapore	100	752,828	14,729,999
MDAC 6 Pte Ltd, Singapore	100	2,077,423	59,156,932
MDAC 7 (Ireland) Ltd, Dublin, Ireland	100	41,793	167,907
MDAC 8 Pte Ltd, Singapore	100	–734,721	5,622,431
MDAC 9 Pte Ltd, Singapore	100	237,333	4,475,646
MDAC 11 Pte Ltd, Singapore	100	654,763	20,638,033
MDAC Malta Ltd, Floriana, Malta	100	–	[4]
Nomac Aircraft Leasing (Ireland) Ltd, Dublin, Ireland	100	–	[4]
Stormers Aircraft Leasing (Malta) Ltd, Floriana, Malta	100	–	[4]
Glencoe Shipping Holdco LLC, Majuro, Marshall Islands	100	–	[3]
Glen Campbell Opco LLC, Majuro, Marshall Islands	100	–	[4]
Hudson Services LLC, Majuro, Marshall Islands	100	–1,918,697	292,024
KV MSN 27602 Aircraft Ltd, Dublin, Ireland	100	–	[3]
Maple Leaf Shipping Holdco LLC, Majuro, Marshall Islands	100	–	[3]
Bathgate Trading Opco LLC, Majuro, Marshall Islands	100	322,876	–1,682,706
Berwick Shipping LLC, Majuro, Marshall Islands	100	–4,282,844	–4,282,844
Cruise Ship Investco LLC, Majuro, Marshall Islands	100	–	[4]
Linton Shipping LLC, Majuro, Marshall Islands	100	4,656	4,656
Philip Trading Opco LLC, Majuro, Marshall Islands	100	10,156,894	318,072
Shamrock Trading Opco LLC, Majuro, Marshall Islands	100	–948,594	–3,934,332
Stani Trading Opco LLC, Majuro, Marshall Islands	100	9,119,175	471,046
Twenty Holding Pte Ltd, Singapore	100	–	[4]
Kalsubai Shipping and Offshore Private Ltd, Mumbai, India	100	–	[4]
MS "Mumbai Trader" GmbH & Co. KG, Bremen, Germany	100	–	[3]
MSN1164 Freighter Ltd, Dublin, Ireland	100	–	[3]
N564RP US Owner Trust, Wilmington, USA	100	–	[3]
NFC Shipping Fund II LLC, Majuro, Marshall Islands	80	–	[3]
Gandari Shipping Pte Ltd, Singapore	100	–	[4]

Pursuant to section 313 (2) of the HGB as at 31 December 2016

T 156

€	Share in variable returns (%)	Net income/loss for the year	Equity capital
NFC Shipping Fund C LLC, Majuro, Marshall Islands	100	–	[3]
Bukit Merah Shipping Pte Ltd, Singapore	100	–	[4]
Calidris Shipping LLC, Majuro, Marshall Islands	100	–	[4]
Mount Rinjani Shipping Pte Ltd, Singapore	100	–	[4]
Mount Santubong LLC, Majuro, Marshall Islands	100	–	[4]
NFC Labuan Shipleasing I Ltd, Labuan, Malaysia	100	–	[4]
Taigetos Funding LLC, Majuro, Marshall Islands	100	–	[4]
Taigetos II LLC, Majuro, Marshall Islands	100	–	[4]
Taigetos III LLC, Majuro, Marshall Islands	100	–	[4]
Wadi Funding LLC, Majuro, Marshall Islands	100	–	[4]
Wadi Woraya I LLC, Majuro, Marshall Islands	100	–	[4]
Wadi Woraya III LLC, Majuro, Marshall Islands	100	–	[4]
Ocean Container II, Oslo, Norway	100	–	[3]
SIIM Fund I (Shipping and Intermodal Investment Management Fund I) LLC, Majuro, Marshall Islands	100	–	[3]
Mount Pleasant Shipping Pte Ltd, Singapore	100	–	[4]
S2 Shipping and Offshore Pte Ltd, Singapore	100	–	[4]
Scheepvaarmaatschappij Ewout B.V., Rotterdam, Netherlands	100	–	[4]
SIIM Fund II (Shipping and Intermodal Investment Management Fund II) LLC, Majuro, Marshall Islands	100	–	[3]
SIIM Marlin Holdings LLC, Majuro, Marshall Islands	72	–	[4]
Stephenson Capital Ltd, George Town, Cayman Islands	100	–	[3]
Canadian Iron Ore Railcar Leasing LP, Hamilton, Canada	100	–	[4]
Canadian Iron Ore Railcar Partner Ltd, Toronto, Canada	100	–	[4]
DUNAVAGON s.r.o., Dunajska Streda, Slovakia	100	–	[4]
DV01 Szarazfoldi Jarmukolcsonzo rt, Aporka, Hungary	100	–	[4]
Iron Maple Rail Ltd, Vancouver, Canada	100	–	[4]
SRF I Ltd, Floriana, Malta	100	–	[4]
SRF II Ltd, Floriana, Malta	100	–	[4]
SRF III Ltd, Floriana, Malta	100	–	[4]

1 There is a profit and loss transfer agreement with DVB Bank SE.
2 The company applied the exemption provisions of section 264 (1) of the HGB.
3 Not disclosed due to lack of materiality (IAS 8.8).
4 Net profit/loss is included in the higher-level sub-group.

Pursuant to section 313 (2) of the HGB as at 31 December 2016

T 157

€	Shareholding (%)	Net income/loss for the year	Equity capital
II. Joint ventures accounted for using the equity method			
38321 & 38329 Aircraft Leasing (Cayman) Ltd, George Town, Cayman Islands	50	–	[4]
AerCap Partners I Ltd, Shannon, Ireland	50	–	[4]
AerCap Partners II Ltd, Shannon, Ireland	50	–	[4]
D8 Product Tankers I LLC, Majuro, Marshall Islands	50	–	[4]
D8 Product Tankers Investments LLC, Majuro, Marshall Islands	50	–	[4]
Deucalion MC Engine Leasing Ltd, Dublin, Ireland	50	705,456	8,625,337
Herakleitos 3050 LLC, Majuro, Marshall Islands	50	–	[4]
Intermodal Investment Fund IV LLC, Majuro, Marshall Islands	50	–	[4]
Intermodal Investment Fund VIII LLC, Majuro, Marshall Islands	50	–	[4]
MS Oceana Schifffahrtsgesellschaft mbH & Co. KG, Hamburg, Germany	50	–	[4]
MS Octavia Schifffahrtsgesellschaft mbH & Co. KG, Hamburg, Germany	50	–	[4]
TAG ASSET Management LLC, Majuro, Marshall Islands	50	–	[4]
III. Associates accounted for using the equity method			
8F Leasing S.A., Contern, Luxembourg	22	–	[4]
Aer Lucht Ltd, Dublin, Ireland	48	–	[4]
A330 Parts Ltd, Newark, USA	20	–	[4]
Artemis Gas 1 Shipping Inc., Piraeus, Greece	20	–	[4]
Celestyal Cruises Ltd, Strovolos, Cyprus	49	–	[4]
Epic Gas Ltd, Tortola, British Virgin Islands	15	–	[4]
Global Offshore Services B.V., Amsterdam, Netherlands	32	–	[4]
Gram Car Carriers Holdings Pte Ltd, Singapore	8	–	[4]
KCM Bulkers Ltd, Tortola, British Virgin Islands	49	–	[4]
KOTANI JV CO. B.V., Amsterdam, Netherlands	48	–	[4]
Mandarin Containers Ltd, Tortola, British Virgin Islands	17	–	[4]
Modex Holding Ltd (BVI), Tortola, British Virgin Islands	26	–	[4]
MON A300 Leasing Ltd, George Town, Cayman Islands	20	–	[4]
MON Engine Parts Inc., Newark, USA	20	–32,281	3,718,859
Mount Faber KS, Oslo, Norway	49	–	[4]
MSEA Aframax Holdings LLC, Majuro, Marshall Islands	48	–	[4]
MSEA Marlin Holdings LLC, Majuro, Marshall Islands	32	–	[4]
MSN 1272&1278 Aircraft Leasing (Cayman) Ltd, George Town, Cayman Islands	20	–	[4]
SRF Railcar Leasing Ltd, Cashel, Ireland	49	–	[4]
TAP Ltd, Hamilton, Bermuda	38	–	[4]
TES Holdings Ltd, Bridgend, Wales, United Kingdom	40	–	[4]
Touax Rail Finance 3 Ltd, Clonee, Ireland	26	–	[4]
IV. Other entities accounted for using the equity method			
Aviateur Capital Ltd, Dublin, Ireland	20	–	[4]
Box Topco AS, Oslo, Norway	13	–	[4]
Danae Gas Shipping Inc., Piraeus, Greece	5	–	[4]
DVL Deutsche Verkehrs-Leasing GmbH, Eschborn, Germany	39	–	[4]
ERR Rail Rent Vermietungs GmbH, Vienna, Austria	9	–	[4]

1 There is a profit and loss transfer agreement with DVB Bank SE.
2 The company applied the exemption provisions of section 264 (1) of the HGB.
3 Not disclosed due to lack of materiality (IAS 8.8).
4 Net profit/loss is included in the higher-level sub-group.

63 Disclosures on structured entities

Within the framework of the transactions in the Investment Management division, closed-end funds are established through the financing of means of transport (aircrafts, ships, containers and railcars) which meet the definition of structured entities in accordance with IFRS 12. Based on principal-agent relations between DVB and the funds of funds where DVB has the ability to control activities and to significantly influence variable returns, DVB concluded that these funds of funds are structured entities controlled by the Group and have to be fully consolidated in accordance with IFRS 10 (see also Note 1.4.1 "Group of consolidated companies").

DVB grants subordinated loans to various funds of funds. On the one hand, the funds of funds use these loans to invest in fully consolidated asset leasing companies. These companies use these subordinated loans to finance aircraft, ships, shipping containers or railcars and, in this context, act as lessor within the framework of operating leases and finance leases. On the other hand, the financial resources of the fully consolidated funds of funds are provided in the form of subordinated loans to unconsolidated, structured entities which are not included in the group of consolidated companies due to a lack of control.

In addition, the fully consolidated funds of funds, together with further investors, hold equity interests in other companies that pursue business activities such as the financing of aircraft aircraft components, ships, maritime container boxes and railcars. The other companies act as either lessor or operator of the assets.

As at 31 December 2016, subordinated loans granted to these fully consolidated funds amounted to €572.2 million (previous year: €459.5 million). As at the reporting date, the fully-consolidated leased asset companies held property and equipment of €207.4 million (previous year: €216.3 million). There were no receivables from finance leases as at the reporting date (previous year: €80.8 million).

In addition, DVB Bank Group's following assets and liabilities are attributable to unconsolidated structured entities: TABLE 158

T 158

€ mn	2016	2015	%
Loans and advances to customers	226.2	164.6	37.4
Investments in unconsolidated structured entities	287.2	240.0	19.7
Assets	**513.4**	**404.6**	**26.9**

The maximum loss exposure consists of the recognised assets, the undrawn portions of loan commitments as well as the guarantees issued to unconsolidated companies, without taking into account collateral or hedging measures.

As at 31 December 2016, the DVB Bank Group had a maximum loss exposure to unconsolidated structured entities of €513.4 million (previous year: €404.6 million). The share of unconsolidated structured entities in the DVB Bank Group's total comprehensive income for the financial year 2016 is as follows: TABLE 159

T 159

€ mn	2016	2015	%
Net interest income after allowance for credit losses	–13.3	0.0	–
Results from investments in companies accounted for using the equity method	9.6	6.4	50.0
Result from investment securities	–11.9	–4.0	–
Consolidated net income/loss	**–15.6**	**2.4**	**–**
Reserve from cash flow hedges	–0.4	–0.3	33.3
Currency translation reserve	0.1	–4.8	–
Revaluation of financial instruments available for sale	1.8	–0.5	–
Other comprehensive income reclassified subsequently to profit or loss	**1.5**	**–5.6**	**–**
Total comprehensive income for the Group	**–14.1**	**–3.2**	**–**

As regards fully consolidated structured entities, DVB carries in its consolidated statement of financial position selected ships as well as one aircraft from non-performing loans. As at 31 December 2016, the carrying amount of these assets amounted to €123.3 million (previous year: €169.1 million).

The remuneration report included in the group management report sets out the legal principles of DVB's remuneration system (pages 106–109 of this annual report); the corporate governance report includes detailed breakdown and explanations on the remuneration paid to members of the Board of Managing Directors and the Supervisory Board.

64 Financial guarantee contracts, contingent liabilities and other commitments

TABLE 160

T 160

€ mn	2016	2015	%
Financial guarantee contracts and guarantees	343.9	343.9	–
Contingent liabilities from irrevocable loan commitments	1.473.7	1.597.1	–7.7
Other commitments	20.1	21.4	–6.1
thereof: within one year	7.2	6.7	7.5
thereof: within one to five years	12.8	14.5	–11.7
thereof: after more than five years	0.1	0.2	–50.0
Total	**1.837.7**	**1.962.4**	**–6.4**

Financial guarantee contracts are disclosed at their nominal value. Other commitments include future minimum lease payments from non-cancellable rental agreements and car leases (operating leases).

65 Average number of employees

The average number of employees changed during the year under review as follows: TABLE 161

T 161

Employees	2016	2015	%
Women	258	241	7.1
Men	366	353	3.7
Total	**624**	**594**	**5.1**

The average number of employees includes employees on parental leave and temporary personnel, but does not include trainees and employees in the passive phase of partial retirement (Altersteilzeit).

66 Related party disclosures

66.1 Remuneration and shareholdings of members of the Board of Managing Directors and Supervisory Board

The remuneration paid to current and former members of the Board of Managing Directors and their surviving dependants as well as to Supervisory Board members during the year under review was as follows: TABLE 162

T 162

€ 000's	2016	2015	%
Board of Managing Directors	2,619.2	3,106.0	–15.7
Supervisory Board	428.4	404.9	5.8
Former members of the Board of Managing Directors and their surviving dependants	735.8	573.1	28.4
Total	**3,783.4**	**4,084.0**	**–7.4**

The Supervisory Board has determined the structure of remuneration for the Board of Managing Directors. In the year under review, the total remuneration of the Board of Managing Directors comprised a fixed component of 87.3% and a variable bonus of 12.7% (previous year: 77.4% fixed and 22.6% variable component). TABLE 163

Remuneration of the Board of Managing Directors – fixed and variable components T 163

€	2016	2015	%
Monetary remuneration components	1,807,500.00	1,927,500.00	–6.2
Pension commitments, including contributions to pension provisions	182,782.71	198,590.61	–8.0
Special benefits	295,721.74	279,411.56	5.8
thereof: allowances for company car or monetary equivalent	45,272.01	59,168.02	–23.5
thereof: rent subsidies	34,893.84	44,101.88	–20.9
thereof: insurance cover and employer contributions to foreign social security schemes	215,555.89	176,141.66	22.4
Fixed remuneration component	**2,286,004.45**	**2,405,502.17**	**–5.0**
Variable remuneration component	**333,153.54**	**700,537.07**	**–52.4**
Total	**2,619,157.99**	**3,106,039.24**	**–15.7**

The fixed remuneration component for DVB Bank SE's Board of Managing Directors comprises monetary remuneration components, pension commitments and special benefits. In the year under review it totalled €2,286,004.45 (previous year: €2,405,502.17).

Details with regard to the variable remuneration components for the Board of Managing Directors are provided below:

In the financial year 2016, the Board of Managing Directors received payments of variable remuneration in the amount of €333,153.54 (previous year: €700,537.07). This figure included bonus payments for the financial years 2011/2012/2013/2014/2015.

The cash bonus payments paid to members of the Board of Managing Directors are determined on the basis of agreements on operational targets. These objectives, which are agreed upon between the Supervisory Board and the respective member of the Board of Managing Directors, are related to objective criteria for the relevant financial year (referring to financial indicators such as Economic Value Added and consolidated net income/loss before taxes) as well as to the personal performance of each individual member of the Board of Managing Directors. The amount of the bonus depends on the (measurable) extent to which the targets were achieved. The prerequisite for the bonus is, in each case, that no notice of termination has been given with regard to the employment relationship with the member of the Board of Managing Directors concerned as at the time of payment. The sole exception would be where the member of the Board of Managing Directors retires from office for reasons of age, or due to non-renewal of a contract. However, a prerequisite for any payment of variable remuneration components is that the Bundesanstalt für Finanzdienstleistungsaufsicht (German Financial Supervisory Authority) or another competent bank supervisory authority does not limit or completely rule out the granting of variable remuneration components.

The cash bonus for the financial year 2016 will be awarded in four tranches: 40% during 2017, and three tranches of 20% each, awarded during the following three financial years 2018 to 2020.

Each deferred bonus tranche is subject to a malus process prior to disbursement, whereby the relevant risk situation and profitability at the respective point in time, compliance with internal guidelines (such as compliance guidelines or lending guidelines), as well as the member's personal conduct, are taken into account. For any deferred bonus tranche, this malus process cannot lead to an increase; however, it may reduce the amount and may even lead to the amount being cancelled altogether.

For all four bonus tranches, only 50% of each tranche may be paid out directly in the year of grant. 50% of each tranche is subject to an additional one-year holding period, i.e. it is not paid out directly. During this retention period, the value of the retained amounts is replaced by a share-based payment instrument linked to the share price development of the Bank. The amount of the retained tranche initially is converted into notional DVB shares (so-called phantom shares). The tranche to be paid out is calculated at the end of the following year by multiplying the number of the allocated notional shares with the unweighted average price of the DVB share quoted on the Frankfurt Stock Exchange during the last ten trading days of the relevant calendar year, plus the dividend paid during the year. The average price for the last ten trading days has been used since 2014. The share price on the final trading day of the relevant financial year was used for the calculation of phantom shares for the years 2011 to 2013.

Accordingly, the calculation of the award value does not result in the issue of "real" shares, but only notional ownership interests for calculation purposes.

66.2 Share-based payments for the Board of Managing Directors and risk takers

In the year under review, an amount of €1.7 million (previous year: €1.5 million) was recorded as a provision in the current staff expenses in relation to share-based payments.

In the reporting period, 67,179.12 phantom shares were granted at a payout amount which is based on the price of the DVB share. The grant-date fair value amounted to €1.7 million, with reference to the share price on 30 December 2015 (€24.75) and the average price of the last ten trading days (€24.75). The grant-date fair value as at the current reporting date amounted to €1.6 million, with reference to the share price on 30 December 2016 (€23.50) and the average price of the last ten trading days (€23.84). The phantom shares granted will be fully paid out in 2017.

At the beginning of the reporting period, undisbursed share-based payment amounted to €1.5 million, or 58,921.89 phantom shares. Options in the amount of €1.5 million – or 58,921.89 Phantom Shares – were exercised during the reporting period.

66.3 Pension liabilities to former members of the Board of Managing Directors

The defined benefit obligation (DBO) for pension liabilities to former members of the Board of Managing Directors and their surviving dependants amounts to €6.5 million (previous year: €6.5 million).

66.4 Related party disclosures

DVB Bank SE, as the parent company, prepares a report on relationships with affiliated companies (dependent company report) in accordance with section 312 of the AktG, which is audited pursuant to section 313 of the AktG. The dependent company report includes a discussion of the relationships of DVB Bank SE with DZ BANK and its affiliated companies. Related party transactions are carried out on an arm's length basis. Therefore, the auditors issued an unqualified audit opinion on the dependent company report.

DVB Bank SE carries out a number of banking transactions with DZ BANK, including short-term borrowings, deposits, as well as foreign currency transactions. The business relationship between DVB Bank SE and DZ BANK AG, including other affiliated companies of the DZ BANK Group, is particularly close with regard to the refinancing business. The range of transactions also includes transactions with derivatives such as interest rate options, interest rate swaps or foreign exchange forwards.

The following table shows the transactions carried out with DZ BANK AG and other affiliated companies in the DZ BANK Group. TABLE 164

T 164

€ mn	2016	2015	%
Loans and advances to banks	576.6	391.3	47.4
Loans and advances to customers	0.7	0.8	–12.5
Trading assets	1.4	0.5	–
Positive fair values of derivative hedging instruments	95.5	17.0	–
Other assets	0.4	–	–
Total assets	**699.3**	**409.6**	**70.7**
Deposits from other banks	1,728.4	1,085.2	59.3
Deposits from customers	–	–	–
Securitised liabilities	6,082.9	10,829.8	–43.8
Trading liabilities	525.9	355.5	47.9
Negative fair values of derivative hedging instruments	14.5	16.1	–9.9
Subordinated liabilities	491.3	167.0	–
Other liabilities	4.9	–	–
Total liabilities	**8,847.9**	**12,453.6**	**–29.0**

The following tables show the transactions carried out by DVB Bank SE with its subsidiaries, joint ventures and associates. TABLES 165/166

T 165

€ mn	2016	2015	%
Subsidiaries	4,452.6	5,241.7	–15.1
Loans and advances to banks	**4,452.6**	**5,241.7**	**–15.1**
Subsidiaries	922.3	185.4	–
Joint ventures	171.6	67.5	–
Associates	26.5	17.9	48.0
Loans and advances to customers	**1,120.4**	**270.8**	**–**
Subsidiaries	0.4	1.0	–60.0
Joint ventures	0.0	0.0	–
Associates	–	–	–
Trading assets	**0.4**	**1.0**	**–60.0**
Subsidiaries	–	–	–
Positive fair values of derivative hedging instruments	**–**	**–**	**–**
Total assets	**5,573.4**	**5,513.5**	**1.1**

T 166

€ mn	2016	2015	%
Subsidiaries	129,3	179,5	–28,0
Deposits from other banks	**129,3**	**179,5**	**–28,0**
Subsidiaries	126,9	103,5	22,6
Joint ventures	0,2	–	
Associates	**8,7**	**1,0**	**–**
Deposits from customers	135,8	104,5	30,0
Subsidiaries	–	–	–
Associates	0,0	–	–
Trading liabilities	**0,0**	**–**	**–**
Total liabilities	**265,1**	**284,0**	**–6,7**

67 Declaration of Compliance pursuant to section 161 of the AktG

Section 161 of the AktG requires the boards of managing directors and supervisory boards of listed companies to issue a declaration of compliance with the German Corporate Governance Code on an annual basis. They declare that the recommendations of the Code have been and are being complied with, and comment upon exceptions.

DVB Bank SE's Board of Managing Directors and Supervisory Board published their Declaration of Compliance in accordance with section 161 of the AktG on 2 December 2016 in the German Federal Gazette (Bundesanzeiger) and simultaneously made the text permanently available to the public on the Bank's website.

68 Events of particular importance after 31 December 2016

On 1 January 2017, a change in the legal structure of DVB Bank SE was made: What had been "DVB Bank SE Representative Office Greece" was restructured into "DVB Bank SE Athens Branch", and what had been "DVB Bank Transport (US) LLC" was restructured into "DVB Bank SE Representative Office New York".

On 1 January 2017, Mr Christian Hagemeyer became the fourth member of the Board of Managing Directors of DVB Bank SE and assumed responsibility in particular for the Bank's credit and risk management as well as its Asset & Market Research. Mr Hagemeyer joined DVB from Landesbank Hessen-Thüringen (Helaba).

Due to the fact that no net retained profit is reported, no dividend will be paid. For this reason, no proposal for the appropriation of profits will be submitted to the Annual General Meeting on 22 June 2017.

There were no other issues of material importance for the assessment of the results of operations, net assets, and financial position of DVB Bank SE after the end of the financial year 2016. Statements made in the report on expected developments have been confirmed by the development of business during the first month of the financial year 2017.

69 Financial statements of DVB Bank SE

DVB Bank SE is a parent company and, at the same time, a subsidiary of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, prepared consolidated financial statements and a group management report as at 31 December 2016, which was submitted to the Local Court of Frankfurt/Main and which includes DVB Bank SE.

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The Declarations of Compliance are available on our website under www.dvbbank.com > Investors > Corporate governance > Declarations of Compliance.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the management report of the DVB Bank Group includes a fair presentation of the development and performance of the business and the position of the DVB Bank Group, together with a description of the principal opportunities and risks associated with the expected development of the DVB Bank Group.

Frankfurt/Main, 3 March 2017
The Board of Managing Directors

Ralf Bedranowsky
CEO and Chairman of the Board of Managing Directors

David Goring-Thomas
Member of the Board of Managing Directors

Christian Hagemeyer
Member of the Board of Managing Directors

L. H. (Bart) Veldhuizen
Member of the Board of Managing Directors

AUDIT OPINION (TRANSLATION)

We have audited the consolidated financial statements prepared by DVB Bank SE, Frankfurt/Main, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the European Union, and the additional requirements of German commercial law pursuant to section 315a (1) of the HGB are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations. In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) of the HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Eschborn, Frankfurt/Main, 7 March 2017
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Lösken
Wirtschaftsprüfer
(German Public Auditor)

Stapel
Wirtschaftsprüfer
(German Public Auditor)

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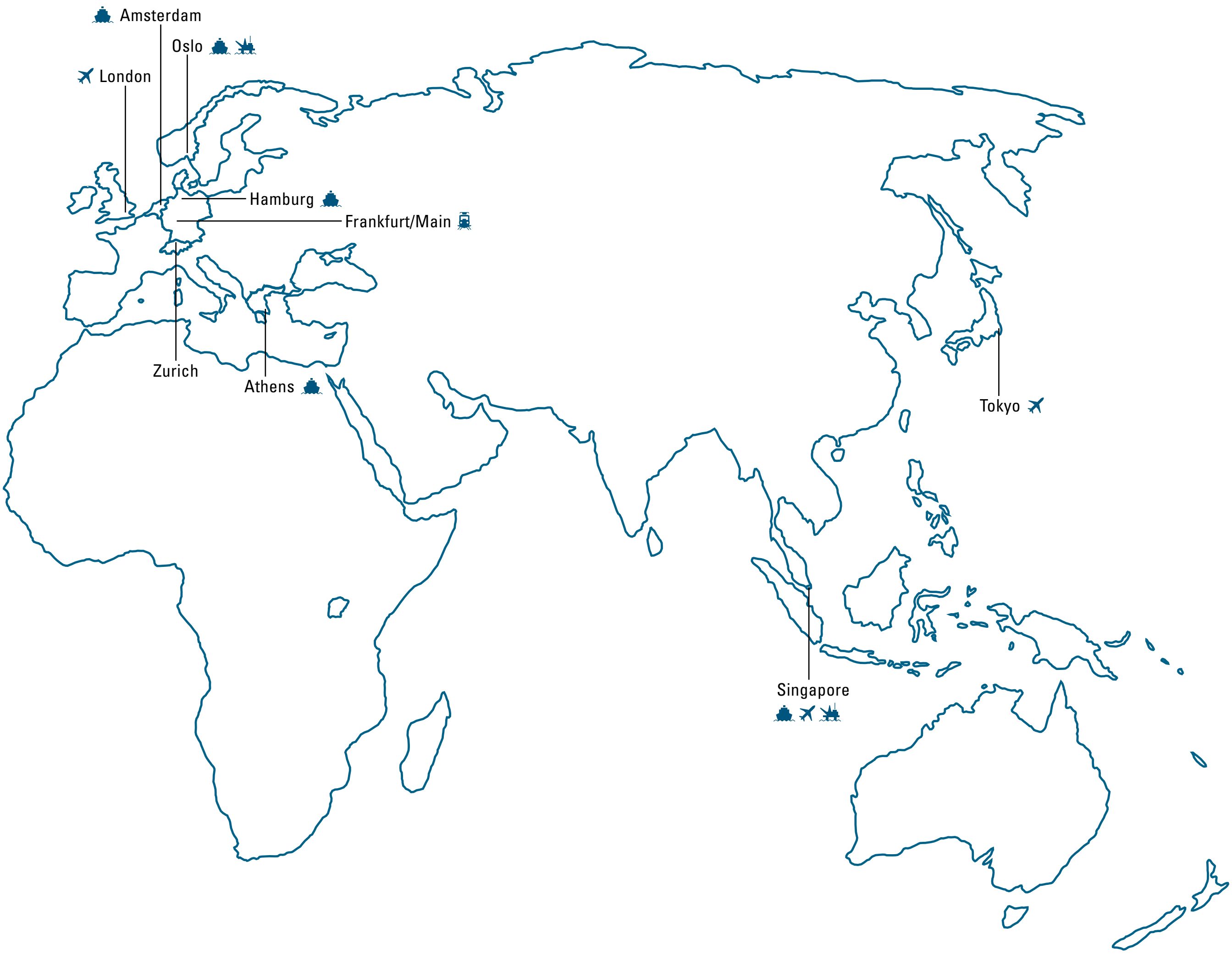

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GLOSSARY

Advanced (Internal Ratings Based) Approach

Method to determine a borrower's counterparty credit risk. Instead of relying on external ratings (as prescribed by the standardised approach), the Advanced Approach permits a bank to determine the risk on the basis of its in-house rating system – provided that this system fulfils the requirements defined by banking regulators for internal rating systems (also refer to "Internal Rating Model").

Agent

A person (either a natural person or a legal entity) acting on behalf of a third party (the principal). In the context of a syndicated loan, the agent acts on behalf of all lenders in the syndicate. The agent is responsible for loan administration and assumes the function of central payment agent.

Anchor Handling Tug and Supply Vessel (AHTS)

Vessel used for offshore operations and primarily aimed at supporting offshore platforms during towage to destination and anchoring operations.

Arranger

Bank or financial institution that is responsible for originating and syndicating a transaction. Arrangers always have a leading role in the syndicate and often also assume the agent function.

Asset

Specifically, a transport asset to be financed.

Asset-backed securities (ABS)

Securitisation is a form of non-recourse structured asset finance and involves the repacking of assets and associated cash flows into marketable securities.

Asset & Market Research

Product description for generating in-depth analyses of transport assets and markets – DVB's Asset & Market Research provides the fundamental basis for the activities of the Bank's business divisions.

Basel III

In 2010, the Basel Committee on Banking Supervision issued the Basel III Framework containing international standards for risk-adjusted capital adequacy of banks and financial services providers. These are basically applicable from 1 January 2014.

Book building

Type of syndication where the arranger does not assume the liquidity and placement risks associated with placing the syndicated loan.

Business and reputational risk

Threat of losses from earnings fluctuations which may occur without any change in business strategy, and which are due to changed external circumstances (such as the general economic business climate, the product environment, client behaviour, and the competitive environment). Reputational risk is defined as the risk of losses caused by events which damage the confidence in DVB, or the products and services it offers.

Business volume

Financial indicator measuring a company's business performance. The business volume of a bank comprises its total assets plus contingent liabilities from irrevocable loan commitments.

Cash flow

Cash and cash equivalents paid and received during a given accounting period.

Club deal

A transaction underwritten by a group of banks (usually a minimum of three and a maximum of 20–30 institutions) without the intention to subsequently reduce their exposure by way of syndication.

Corporate Governance Code

The German Corporate Governance Code (the "Code") provides rules designed to safeguard the efficiency and transparency of corporate governance and control, and to ensure that they are geared towards the long-term growth of enterprise value. The Government commission "German Corporate Governance Code" reviews the Code once a year, against the background of ongoing national and international developments, and amends the wording if necessary.

Counterparty credit risk

Potential losses arising from an unexpected default, or a deterioration in our counterparties' credit quality. Comprising lending, issuer, counterparty default and country risks, it represents DVB's most significant individual risk exposure – this reflects the Bank's business profile.

Country risk

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

Customer lending volume (nominal)

The aggregate of loans and advances to customers, guarantees and indemnities, irrevocable loan commitments, and derivatives. This figure is determined by way of consolidation in line with regulatory rules.

DZ BANK

DZ BANK Group is part of the German Cooperative Financial Services Network which comprises approximately 1,100 individual cooperative banks. Within the Network, DZ BANK acts as the central institution, and as a commercial bank in its own right.

Export credit agency (ECA)

Organised in a similar way to insurance companies, export credit agencies provide cover for specific export transactions – usually on a statutory basis – and extend loans.

Final take

The portion of a transaction allocated to a specific bank, which it retains on its own books. In the event of oversubscription, the final take may be lower than that bank's commitment.

Fracking

Hydraulic fracturing is a well-stimulation technique in which rock is fractured by a hydraulically pressurized liquid made of water, sand, and chemicals. The high-pressure fluid is injected into a wellbore to create cracks in the deep-rock formations through which natural gas, petroleum, and brine will flow more freely.

Freighter/cargo aircraft

Purpose-built or converted passenger planes for the transport of air cargo. Examples include the long-haul Boeing 777-200LRF and the short-haul Boeing 737-300SF.

Incumbent

The largest, dominating railway company in a specific market or geographic area.

Internal Rating Model (IRM)

Statistical model used to estimate the probability of default associated with a given client, the expected loss given default for the unsecured portion of a loan, and the anticipated extent of the claim at the time of default – the exposure at default.

International Financial Reporting Standards (IFRS)/ International Accounting Standards (IAS)

International accounting standards published by the International Accounting Standards Board (IASB). The purpose of IFRS is to provide investors with relevant information about an enterprise – on the net assets, financial position, and results of operations – to make investment decisions. Moreover, IFRS enhance transparency and improve the comparability of financial statements on an international level.

Lead Arranger

Also referred to as "Mandated Lead Arranger and Bookrunner" – a bank with the mandate for originating, syndicating and executing a transaction. The mandate may also include underwriting the transaction.

Lending Policies

DVB's lending standards.

Liquidity risk

The threat that current and future payment obligations may not be met within the specified time, or to the specified extent.

Loan Participations

Denotes the business activities of DVB's subsidiary ITF International Transport Finance Suisse AG, which is actively participating in international senior asset-based lending. In November 2015, the Board of Managing Directors decided to cease ITF Suisse's marketing activities in this field, with immediate effect. The Financial Institutions and Syndications team will henceforth be the contact for collateralised syndicated loans and portfolio transactions in the international bank market.

MaRisk

Abbreviation of Minimum Requirements for Risk Management in Banks – a set of rules and regulations issued by the German Federal Financial Supervisory Authority (BaFin) to define the requirements for the risk management systems of German financial institutions.

Market price risk

The potential loss that the Bank might incur on its positions through price fluctuations in the equity, foreign exchange and interest rate markets (including associated derivatives).

Medium-term notes (MTN)

Listed medium-term debt securities.

Narrowbody/single-aisle aircraft

Short- to medium-haul aircraft with between 130 and 200 seats, used on routes such as Frankfurt–Amsterdam. It is the most popular category in terms of fleet size. Typical examples are the Airbus A320 and the Boeing 737.

OASIS

Object Finance Administration and Security Information System: DVB's proprietary database application for analysing and managing credit portfolios.

Offshore

Usually refers to crude oil production using maritime drilling platforms.

Operating lease

A lease where the lessor retains all the material risks and rewards incidental to ownership of the leased assets.

Operational risk (OpRisk)

In accordance with the German Solvency Regulation, DVB defines operational risk as the risk of losses resulting from inadequate or failed internal processes or systems, from human error, or from external events.

Passenger-km

Measure for the transport performance an operator provides to passengers.

Passenger train-km

The number of kilometres travelled by passenger trains.

Platform Supply Vessel (PSV)

Vessel used for offshore operations and dedicated to the transport of goods and personnel to offshore platforms.

Political risk insurance

Insurance cover to protect against political risks.

Private Equity Sourcing & Investments

Product description for funds initiated and managed by DVB's Investment Management division providing the Bank's clients with equity products to finance their investment projects.

Regional aircraft

Smaller aircraft with between 50 and 110 seats, used on shorter routes with less demand or for off-peak services. Examples include the Bombardier CRJ200 or the Embraer E170.

Risk Distribution

Partial syndication of large-sized loans on the international interbank market, for the purposes of transferring risks and raising liquidity.

Sale-and-lease-back transaction

Special form of leasing, where an asset (for example, a transport asset) is sold and immediately leased back for continued use.

Semi-submersible (semi-sub) vessel

An offshore platform equipped with a drilling rig which is partly submerged in order to gain in stability.

Ship covered bond

Debt security under German law which is backed by long-term lending exposures collateralised by ship mortgages.

Shortline

A small or mid-sized railroad company that operates over a relatively short distance relative to larger, national railroad networks.

Stress test

Banks use stress tests to analyse potential losses which may arise in a crisis environment, in order to take adequate counter-measures in good time.

Structured Asset Lending

Product description, comprising traditional asset finance, as well as tailor-made and structured solutions for complex financing projects in the Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance divisions.

Tapering

The gradual but regular reduction of a central bank's expansive monetary policy measures; at present this can be observed in the US where the Federal Reserve is gradually scaling back its bond-buying programmes.

Tonne-km

The transport of one tonne of goods over a distance of one kilometre.

Transport Finance

Generic term for DVB's Shipping Finance, Aviation Finance, Offshore Finance and Land Transport Finance divisions.

Underwriter

A lender giving a firm commitment – prior to drawdown – to underwrite a portion of the aggregate loan facility, with the intention to place a part of the underwritten portion with one or several third-party banks, by way of syndication.

Value at risk

Measure indicating the maximum potential loss which may arise within a given time period, with a given probability (the confidence interval or confidence level).

Value maintenance clause (VMC)

A standard clause included in loan agreements, which comes into effect if the value of collateral falls below a certain share of the outstanding loan amount, thus exceeding the maximum permitted loan-to-value ratio. In these cases, the Bank can request the borrower to make an early repayment of a part of the loan principal, or to furnish additional collateral.

Widebody/twin-aisle aircraft

Larger aircraft with between 250 and 450 seats, often used on longer flights such as Frankfurt–Hong Kong. Typical examples are the Airbus A330, the Boeing 747, the new Boeing 787 and Airbus A380.

ABBREVIATIONS

A

AAM	Aviation Asset Management
ABS	Asset-backed-securities
AfS financial instruments	Financial instruments available for sale
AIM	Aviation Investment Management
AktG	Aktiengesetz (German Public Limited Companies Act)
ALCO	Asset Liability Committee
AQR	Asset Quality Review

B

bp	Basis points

C

CASG	Credit and Asset Solution Group
CIR	Cost/income ratio
CRR	Capital Requirements Regulation

D

DCGK	Deutscher Corporate Governance Kodex
dwt	Dead weight tonnes

E

EVA™	Economic Value Added
E&P (Capex)	Exploration and production (capital expenditure)
ECB	European Central Bank
EU	European Union

F

Fed	US Federal Reserve
F(P)SO	Floating Production Storage and Offloading

G

GDP	Gross domestic product

H

HGB	Handelsgesetzbuch (German Commercial Code)

I

IATA	International Air Transport Association

K

KWG	Kreditwesengesetz (German Banking Act)

L

LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LTI	Long-Term Incentive Plan
LTV ratio	Loan-to-value ratio

M

M&A	Mergers & Acquisitions

N

NPC	New Product Circle
NPL	Non-Performing Loans

O

OSV	Offshore Support Vessel

P

pp	Percentage points
PDP	Pre-delivery payments

R

ROE	Return on Equity
RPK	Revenue passenger kilometre

S

SE	Societas Europaea (European public limited-liability company)
SIC	Standing Interpretations Committee
SIIM	Shipping & Intermodal Investment Management

V

VaR	Value at risk
VAT	Value added tax
VMC	Value Maintenance Clause

W

WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)

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CONSOLIDATED FINANCIAL STATEMENTS

NOTES

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The Group Annual Report 2016 is published in English and German.
It is available as PDF file on our webpage www.dvbbank.com
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Board of Managing Directors and Supervisory Board of DVB Bank SE
(pages 4, 8, 12, 16, 20–21 and 30–31)
Andreas Fechner, Dusseldorf, Germany and DVB Bank SE,
Frankfurt/Main, Germany

Highlights 2016 (page 28–29):
DVB Bank SE, Frankfurt/Main, Germany

Shipping Finance
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M.T. Maritime Management (USA) LLC, Southport, USA
Shipping Finance Deal of the Year 2016 (page 118):
IVS Bulk Pte Ltd, Singapore

Aviation Finance
Front cover and pages 122–123:
Bert van Leeuwen, DVB Bank SE, Amsterdam, The Netherlands
Aviation Finance Deal of the Year 2016 (page 132):
Bert van Leeuwen, DVB Bank SE, Amsterdam, The Netherlands

Offshore Finance
Front cover and pages 138–139:
Volstad Management AS, Ålesund, Norway
Offshore Finance Deal of the Year 2016 (page 145):
Greatship (India) Limited, Mumbai, India

Land Transport Finance
Front cover and pages 150–151:
Wouter Radstake, DVB Bank SE, Frankfurt/Main, Germany
Land Transport Finance Deal of the Year 2016 (page 159):
ELL Austria GmbH, Vienna, Austria

Corporate Finance
Corporate Finance Deal of the Year 2016 (page 176):
ERR Rail Rent GmbH, Duisburg, Germany

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FINANCIAL CALENDAR

2017

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MARCH

Publication of the single-entity and
Group Annual Reports 2016

11
MAY

Publication of the Quarterly Statement –
Three-month results 2017 (for the first three
months ending 31 March 2017)

22
JUNE

Annual General Meeting at the
Deutsche Nationalbibliothek, Adickesallee 1,
Frankfurt/Main

10
AUGUST

Publication of the
Half-Yearly Financial Report 2017

14
NOVEMBER

Publication of the Quarterly Statement –
Nine-month results 2017 (for the first nine
months ending 30 September 2017)

04
DECEMBER

Publication of the
16th Declaration of Compliance (2017/2018)