

**DVB Transport Finance Limited**  
**Directors' Report and Financial Statements**  
**For the year ended 31 December 2012**

**Registered Number 3588431**



DVB Transport Finance Limited  
Directors' Report and  
Financial Statements  
For the year ended 31 December 2012

Contents

Officers and professional advisors	1
Directors' report	2-6
Statement of Directors' Responsibilities	7
Independent Auditors' Report to the members of DVB Transport Finance Limited	8-9
Profit and loss account	10
Balance sheet	11
Notes to the financial statements	12-27

# **DVB Transport Finance Limited**

## **Officers and professional advisors**

**(Registered Number 3588431)**

### **Directors**

Mr David Goring-Thomas  
Mr Wolfgang F Driese  
Mr Bertrand Philippe Grabowski  
Mr Guido Schmitz

### **Chairman**

Mr Bertrand Philippe Grabowski

### **Registered Office**

Park House  
16-18 Finsbury Circus  
6th Floor  
London  
EC2M 7EB

### **Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

### **Legal Advisors**

Freshfields Bruckhaus Deringer  
65 Fleet Street  
London  
EC4Y 1HS

### **Company Secretary**

Ms Fiona Gauthier  
Flat 41  
Evan Cook Close  
London  
SE15 2HL

# **DVB Transport Finance Limited**

## **Directors' report**

(Registered Number 3588431)

The directors present their report and the audited financial statements of DVB Transport Finance Limited (the Company) for the year ended 31 December 2012, which were approved by them on 24 June 2013

### **Business review and principal activities**

The Company is a wholly-owned subsidiary of DVB Bank SE, an immediate parent company (see Note 20) The principal activities of the Company are the granting or purchasing of loans and leasing to clients active in the transportation sector, such as airlines, shipping and rail companies, equipment manufacturers, integrators and leasing companies

These financial statements have been prepared in US Dollars, as this is the currency of the primary economic environment in which the Company operates and generates cash flows

The activities of the Company resulted in a profit after tax of US\$9,622,698 (2011 loss of US\$2,568,000) The directors do not recommend the payment of a dividend (2011 US\$ Nil) The results for the year are set out in the Profit and loss account on page 10

### **Review of developments, strategy and future prospects**

In general, during 2011 and 2012, the Company has seen new lending business, considered attractive from a risk and reward perspective, which has allowed a significant growth in its portfolio, and, in turn, profitability A reduction in competitive pressure from other banks having a lending operation in Japan, and an increase in JOL interest and activity from some of DVB Group's core clients and business partners, has lead to a new booked loan volume of, as mentioned below, well over US\$200m in each of the last two financial years We expect that, for 2013, a similar business dynamic will exist, which should enable the company to maintain this momentum, and thus sustain the observed improvement in profitability

Following the growth we achieved in 2012, to facilitate further growth an increase in authorised share capital was made on 18 December 2012 Authorised share capital of the company was increased by 309,885 ordinary shares of GBP 1 equivalent to US\$ 500,000 Additionally, US\$ 20,000,000 capital contribution was received from DVB Bank SE

The Company has been involved in the arrangement, lending and other ad-hoc services in connection with Japanese Operating Lease ("JOL") aircraft financing, and has been maintaining a network of relationships in the Japanese market with a view to introducing - and facilitating - new aviation business for the wider DVB Aviation platform

In 2012 we concluded our first direct transaction with Turkish Airlines (THY), and our first joint-deal with Yamasa who acted as lessor in the THY JOL structure, as well as transactions and partnerships with such prestigious names as British Airways, KLM, and Ryanair, as lessees and primary obligors, in such transactions Furthermore, the Tokyo team played a key role in the introduction of the two new shareholding partners for Total Engine Support (TES) the Development Bank of Japan, Inc and Mitsubishi Corporation, with whom we are excited to be developing long-standing relationships During 2012, we issued new loans amounting to US\$ 266,853,332 (2011 US\$ 215,852,161) The Company decided, further to the repayment of two of the three Allico Aviation Boeing 747-400s to decrease provisions to US\$0.67m against its one remaining Allico Aviation loan

### **Foreign currency**

The exchange rate between US\$ and GBP as at 31 December 2012 was 1.6167 US\$/£ The share capital has been translated to US\$ at the rate prevailing on the share capital subscription date as noted in the Accounting Policies

## **DVB Transport Finance Limited**

### **Directors' report (continued)**

**(Registered Number 3588431)**

#### **Directors and their interests**

The present membership of the Board, all of whom served for the whole year, is set out on page 1. None of the directors had any interest in the shares of the Company during the year. The directors are exempt from disclosing their interests in the shares or debentures of the immediate parent company, DVB Bank SE, and of the ultimate parent company, DZ Bank AG, as they are incorporated outside the UK.

#### **Directors' indemnity and director's and officers' liability insurance**

The Company maintains a Directors' and Officers' Liability Insurance policy. The Board may also indemnify a director from the assets of the Company against any costs or liability incurred as a result of their office, to the extent permitted by law. Neither the insurance policy nor any indemnities that may be provided by the Company provide cover for fraudulent or dishonest actions by the directors. However, costs may be advanced to directors for their defence in investigations or legal actions.

#### **Key Performance Indicators**

The activities of DVB Transport Finance Limited are closely integrated with those of its immediate parent company, DVB Bank SE. Together with the actual and continued parent company support, the directors do not undertake a separate analysis of the Company's Key Performance Indicators for the purpose of monitoring the business. The directors consider that these financial statements provide sufficient disclosures to enable a proper understanding of the Company's activities, results and financial position. There have been no delinquencies or material credit events post year end on the portfolio of loans held as at the balance sheet date.

#### **Financial risk management**

As a wholly-owned subsidiary of DVB Bank SE ("the Group", "DVB Group"), DVB Transport Finance Limited's operations in their entirety are managed within DVB Group's risk management framework, arranged via adequate Service Level Agreements.

Assuming risks in a targeted and controlled manner is an integral part of DVB Group's overall management strategy. The returns available must always be commensurate with the risks taken. Based on the Group's ability to carry and sustain risks, a risk policy is in place, which provides the guidelines for assuming, monitoring and managing risks. These guidelines, together with the Group-wide risk monitoring and risk management system, are laid down in the Group's Risk Management Framework. The system complies with applicable legal provisions, and also satisfies internal requirements which go beyond those provisions.

#### **Counterparty (Credit) risk**

The directors define counterparty risk, which comprises credit, issuer and country risks, as potential losses arising from an unexpected default or deterioration in counterparty credit quality. Given the focus and structure of the business, counterparty risk represents the largest individual risk category.

The dominant position of counterparty risk in DVB Group's business has led to the development of an internal statistical and mathematical rating model for its global Transport Finance business. The model complies with the "Advanced Approach" requirements under Basel II. In addition to the probability of default associated with a given client, DVB Group determines the expected loss given default ("LGD") for a loan and the anticipated extent of the claim at the time of default (exposure at default, "AD"). The advanced approach includes the various kinds of collateral (such as mortgages on aircraft or ships, or indemnities), whereby the Company can establish the anticipated realisation proceeds from the Group's own historical data.

The rating model is based on a multi-level professional system that was developed from a statistical database of externally-rated companies for which all relevant balance sheet data is available. Assigning the internal to external rating classes enables DVB Group to use external default probabilities.

## **DVB Transport Finance Limited**

### **Directors' report (continued)**

**(Registered Number 3588431)**

#### **Counterparty (Credit) risk (continued)**

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 collateralised 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 Group also utilises the expertise of its own market specialists in assessing specific collateral.

The results of internal ratings modelling provide vital information for lending decisions, in addition to expected loss and unexpected loss, the model also determines standard risk costs which are, in turn, incorporated for setting the minimum required margin.

The Group's proprietary database application Object Finance Administration and Security Information System (OASIS) is a state-of-the-art tool for analysing and managing the Group's loan portfolio. In addition to compiling all quantitative and qualitative data covering every Transport Finance exposure, OASIS also captures the legal and economic risk structure details, thus providing all the data required to manage the portfolio. Moreover, the database represents a core source of information for the Internal Rating Module (IRM). Data entry is subject to the principle of segregation of duties throughout the system. Because it is integrated into the loan approval and administration processes, OASIS also helps to minimise operational risks.

The Group uses a diversified set of tools for the early recognition, monitoring and management of sub-performing or non-performing loans. The procedures ensure that sub-performing loans are identified at an early stage, and that such exposure is included in a watch list for intensified handling. During regular meetings of the Watch List Committee, decisions are taken regarding risk mitigation strategies and measures, as well as concerning any value adjustments required.

#### **Operational risk**

In line with the requirements set out by the Basel II Accord, operational risks at DVB Group are defined as the risk of losses resulting from inadequate or failed internal processes, human or technical failure or external events.

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 the Group's moderately complex yet highly transparent processes, the Basic Indicator Approach is considered as appropriate.

The Group implemented the organisational infrastructure and framework to measure and manage operational risk, as required under the Basic Indicator Approach. Organisational measures taken include the establishment of a central OpRisk Committee, as well as the creation of an OpRisk Manager for all of DVB Group's worldwide locations. The tools that the Group has implemented to manage and monitor operational risk include self-assessments, loss data collection and regular OpRisk reporting. The events that affected Sendai and Tokyo area in 2011 proved that the backup of all DVB Tokyo data worked as planned. In addition lessons learned from these events were used to further improve the process.

#### **Market risk**

The Group defines market risk as the potential loss incurred through price fluctuations in the equities, foreign exchange and interest rate markets (including associated derivatives).

## **DVB Transport Finance Limited**

### **Directors' report (continued)**

**(Registered Number 3588431)**

#### **Market risk (continued)**

The Group Treasury Department is responsible for managing market risks in both the banking and the trading books. The Group ALCO (Asset-Liability Committee) meets monthly, to review the market risk exposure for the entire Group and to reach fundamental agreements on risk orientation. Group ALCO uses a consistent Value at Risk (VaR) method for calculating the market risk in the banking and trading books. Using historical simulation techniques, this approach quantifies the maximum loss that can be incurred through market price fluctuations over a one-day holding period, with a confidence level of 99%.

Department Group Controlling-Market-Risk-Control (GC-MC), which is responsible for monitoring market risks, has direct access to the trading and settlement systems, allowing it to observe whether limits are maintained. Any significant utilisation or infringements of limits in the banking and trading book immediately triggers a response, and the prompt return to compliance with these limits is closely monitored. The market risks incurred are therefore subject to constant measurement and limit monitoring through Deal & Hedge Control, which reports to the Group Board of Managing Directors on a daily basis.

The risk positions are managed on the basis of limits approved by the Group Board of Managing Directors. In addition, all positions are subject to a monthly stress test, based on an entire interest rate cycle. The calculations applied to such stress tests are discussed regularly in the Group ALCO. This is designed to ensure a timely reaction to developments. The results of monthly stress testing were used as a parameter when determining market risk limits for 2012.

The Company enters into derivative contracts with its parent DVB Bank SE. The derivative instruments utilised by the Company are interest rate swaps used for hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with the Company's risk management policy.

#### **Liquidity risk**

This risk relates to the possibility that the Group may not be in a position to meet current and future payment obligations within the specified time or to the specified extent.

The liquidity risks are analysed and managed centrally on the basis of Group Treasury guidelines laid down by the Board of Managing Directors. Group Treasury, which reports to both the Group ALCO and the Group Board of Managing Directors, assumes responsibility for this process. Decisions on major refinancing projects are made by the Group 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 state-of-the-art asset-liability management software. The position limit system ensures that timely and appropriate corrective measures can be taken. Ample access to short-term money market liquidity and extensive liquidity provisions ensure that the bank has access to adequate liquidity reserves. Various medium- and long-term refinancing measures are used to further strengthen the bank's structural liquidity position.

The Company mitigates its Liquidity risk by also matching the maturity profile of the loans provided to customers to the terms of the funding received from its parent company.

#### **Risk summary and outlook**

DVB Group has organised its risk management and risk control functions in a manner that complies with legal and regulatory requirements. The system is appropriately designed to efficiently monitor and manage all risks that the Group is exposed to. The methods to capture and manage risks were the subject of continuous development during 2012. The focus was once again on counterparty risk, which represents the Group's predominant type of risk. The Group continues to develop and refine its risk monitoring and risk management systems, to ensure compliance with the Basel II framework, as well as with the requirements of modern bank management.

The directors have assessed the Company's present position and consider the points below to be good indicators of the Company's ability to continue as a going concern

- Growth in business activity
- Full support of the ultimate holding company

## **DVB Transport Finance Limited**

### **Directors' report (continued)**

(Registered Number 3588431)

#### **Risk summary and outlook (continued)**

As stated above, the Company is a wholly-owned subsidiary of DVB Bank SE and is a core element of the DVB Aviation platform due to its unique geographical reach and local network of potential aviation partners. The full support of DVB Bank SE is established in Service Level Agreements. Given the size of the Company's portfolio and its related potential counterparty risk, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to apply the going concern basis in preparing the annual report and financial statements.

#### **Post balance sheet events**

One of the loan counterparties depended on a municipal guarantee to secure funding. This guarantee was cancelled in March 2013. As a result the company has now defaulted on the loan repayments due to the company. Management have therefore begun to proceed with recovering the loan balance in line with the contractual agreement. The expected loss and therefore provision required to be made post year end as a result of this credit event is approximately US\$4.7m against an outstanding balance of US\$9.1m.

#### **Disclosure of information to the auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

#### **Re-appointment of auditors**

Ernst & Young LLP have expressed their willingness to continue in office until the next Annual General Meeting. In accordance with section 489 of the Companies Act 2006 a resolution for the re-appointment of Ernst & Young LLP as auditors of the company will be proposed at the forthcoming Annual General Meeting.

#### **On behalf of the Board**

Mr Bertrand Philippe Grabowski  
Director

24 June 2013



## **DVB Transport Finance Limited**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DVB TRANSPORT FINANCE LIMITED**

**(Registered Number 3588431)**

We have audited the financial statements of DVB Transport Finance Limited for the year ended 31 December 2012 which comprise the Profit and loss Account, the Balance sheet, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Kenneth Eglinton (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
8 July 2013

**DVB Transport Finance Limited****(Registered Number 3588431)****Profit and loss account for the year ended 31 December 2012**

		2012 US\$'000	2011 US\$'000
	Notes		
Interest receivable and similar income	3	24,509	10,830
Interest payable and similar charges	3	(11,247)	(6,166)
<b>Net interest income</b>		<b>13,262</b>	<b>4,664</b>
Fees and commissions receivable		1,387	343
Fees and commissions payable		(31)	(31)
Other operating income	4	87	130
<b>Operating income</b>		<b>14,705</b>	<b>5,106</b>
Operating, administrative and other expenses	5	(6,029)	(5,065)
Provisions		5,625	(2,573)
Depreciation		(23)	(20)
<b>Profit/(Loss) on ordinary activities before taxation</b>		<b>14,278</b>	<b>(2,552)</b>
Taxation charge	7	(4,655)	(16)
<b>Profit/(Loss) on ordinary activities after taxation</b>		<b>9,623</b>	<b>(2,568)</b>

There are no recognised gains and losses other than those stated above and no separate statement of total recognised gains and losses has been presented

The results for the years ended 31 December 2012 and 31 December 2011 are derived from continuing operations

The accounting policies and notes on pages 12 to 27 form an integral part of these financial statements

**DVB Transport Finance Limited**

(Registered Number 3588431)

**Balance sheet as at 31 December 2012**

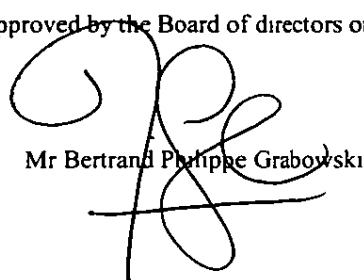
	Note	2012 US\$'000	2012 US\$'000	2011 US\$'000	2011 US\$'000
<b>Fixed assets</b>					
Tangible assets	8		71		51
Investments	9		52		52
<b>Current assets</b>					
Trade debtors due					
after one year	10	604,589		409,201	
within one year	10	12,355		17,024	
Cash at bank and in hand	22	37,972		9,644	
Accrued income and other assets		3,547		3,660	
		658,463		439,529	
<b>Creditors: amounts falling due within one year</b>	11	(20,768)		(29,547)	
<b>Net current assets</b>			637,695		409,982
<b>Total assets less current liabilities</b>			637,818		410,085
<b>Creditors: amounts falling due after more than one year</b>	11		(599,858)		(402,247)
<b>Net assets</b>			37,960		7,838
<b>Capital and reserves</b>					
Called up share capital	13		1,234		735
Share premium	14		24,097		24,097
Capital contribution	15		20,000		-
Profit and loss account	16		(7,371)		(16,994)
<b>Equity shareholders' funds</b>	17		37,960		7,838

The results for the years ended 31 December 2012 and 31 December 2011 are derived from continuing operations

The financial statements and notes on pages 12 to 27 were approved by the Board of directors on 24 June 2013 and signed on its behalf by



Mr David Goring-Thomas



Mr Bertrand Philippe Grabowski

# **DVB Transport Finance Limited**

## **Notes to the financial statements for the year ended 31 December 2012**

### **1 Accounting policies**

#### **Basis of preparation**

These financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and Generally Accepted Accounting Practice in the UK. Certain captions such as turnover and cost of sales, as prescribed in the Companies Act 2006, do not have meaningful equivalents for the business of the Company and are not specified in the financial statements. Accordingly, the precise format requirements of the Companies Act 2006 have been varied as, in the opinion of the directors, this is necessary in order to show a more appropriate view of the Company's position. The principal accounting policies are set out below.

#### **Group accounts**

The Company has taken advantage of the exemption contained in s401 of the Companies Act 2006 from preparing Group financial statements. The results of the Company along with its subsidiaries are consolidated within the ultimate Parent company's financial statements, DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main as mentioned in note 20.

#### **Income recognition**

The Company's income consists mainly of interest receivable, fees, premiums and discounts as well as commissions receivable. The accounting policies regarding the recognition of these types of income are set out below.

#### **Interest receivable**

Interest earned on credit agreements to customers is calculated on a day-to-day basis at rates which are subject to revision depending upon the market rate.

#### **Interest payable**

Interest payable is expensed as incurred.

#### **Fees and commissions receivable**

Commitment fees are recognised as deferred liabilities until disbursement of the loans and subsequently amortised over the term of the underlying loan using the effective interest rate method. Other fees received on loans granted are taken to the profit and loss account in the year they are earned.

#### **Fees and commission payable**

Other fees, including bank charges, are charged to the profit and loss account in the year in which they are incurred.

# **DVB Transport Finance Limited**

## **Notes to the financial statements for the year 31 December 2012**

### **(continued)**

#### **1 Accounting policies (continued)**

##### **Foreign currency translation**

Exchange gains and losses on the Company's assets and liabilities denominated in currencies other than the functional currency, US dollars, are recorded in the profit and loss account

- i) Fixed assets are translated into US dollars at the rates ruling on the date of acquisition, as adjusted for any profits or losses from related financial instruments
- ii) Monetary assets and liabilities denominated in currencies other than the functional currency, US dollars, are translated into US dollars at the foreign exchange rate ruling at the date of the transaction. These are retranslated to the year-end rate each year with any differences taken to the profit and loss account
- iii) Revenue and expenses denominated in currencies other than the functional currency, US dollars, are recorded in US dollars at the rates ruling at the dates of the transactions
- iv) The share capital is translated from Sterling to US dollars using the historical rate as at the date of subscription
- v) The exchange rate between US\$ and GBP as at 31 December 2012 was 1.6167 US\$/£

##### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and any permanent diminution in value. Maintenance and repair costs are charged to the profit and loss account as incurred.

Depreciation is calculated so as to write off the cost of the fixed assets on a straight-line basis over their estimated useful lives. A change in estimated useful life, resulting in an adjustment to depreciation charges, is accounted for in accordance with FRS15 'Tangible fixed assets'. For any acquisition or disposal during the year, the depreciation charge will be calculated on a daily basis. The following depreciation rates are used:

Fixtures and fittings	10-25%	(4 to 10 years)
-----------------------	--------	-----------------

##### **Financial instruments**

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. Financial instruments include (but are not limited to) balances held with banks, trade receivables, trade payables, investments and derivative instruments.

The Company determines the classification of its financial assets and liabilities at initial recognition. When financial assets are recognised initially, they are measured at fair value.

# **DVB Transport Finance Limited**

## **Notes to the financial statements for the year 31 December 2012 (continued)**

### **1 Accounting policies (continued)**

#### **Balances held with banks**

Balances held with banks are comprised of deposit accounts and bank loans. Amounts held with banks are carried at cost.

#### **Trade debtors**

Trade and other receivables are shown net of provisions for bad and doubtful debts and are carried at anticipated settlement amount. Where the time value of money is material, trade and other receivables are shown at amortised cost using the effective interest method. Accordingly discounts or premium arising on the acquisition of loans are netted off against the acquired loan book and amortised in the profit and loss account over the life of the loans using the effective interest method. Commitment fees are amortised in the same way as premiums and discounts. Amortised premiums, discounts and commitment fees are recognised by the Company as interest income.

Provision for non-recoverable debts will be made if, in the opinion of the directors, they are necessary in the light of general or inherent risk present in any portfolio. Specific provision will be made if, as a result of a detailed appraisal of the debtor portfolio, it is considered that recovery is doubtful for a specific debtor.

#### **Creditors**

Creditors are carried at payment or settlement amounts. Where the time value of money is material, trade payables are shown at amortised cost.

#### **Investments**

Fixed asset investments are comprised of investments in limited partnerships, investments in bonds and investments in associates.

- **Investments in limited partnerships**

Investments in limited partnerships, where the Company is the limited partner, are treated as fixed asset investments and recorded at cost, less any amount which, in the opinion of the directors, may be required for impairment where relevant.

- **Investments in associates**

Investments in associates are treated as fixed asset investments and recorded at cost, less any amount which, in the opinion of the directors, may be required for impairment where relevant.



## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **1 Accounting policies (continued)**

##### **Derivative instruments**

The Company does not enter into speculative derivative contracts. Derivative instruments utilised by the Company are interest rate swaps. Such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with the Company's risk management policy. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest income/expense over the period of the contracts on an accruals basis.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, and are based upon the market price of comparable instruments at that date. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

In accordance with FRS 5, financial assets and liabilities are only offset where balances do not constitute separate assets and liabilities, where determinable amounts are owed to and from the Company, where the Company has the ability to insist on net settlement, and where the Company's debit balance matures no later than the credit balance.

##### **Pension costs**

The Company operates a defined contribution scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

##### **Operating Leases**

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

##### **Deferred taxation**

Deferred tax assets and liabilities are recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. Deferred tax assets are only recognised when their recoverability from future profits can be assessed with sufficient certainty.

##### **Cash flow statement**

For the reported financial year, the Company's parent Company is DVB Bank SE. The Company has taken advantage, under FRS 1, of the exemption for 90% or more owned subsidiaries to not present a cash flow statement. The cash flows of the Company are included in the financial statements of the ultimate parent company, which are publicly available (see note 20).

# **DVB Transport Finance Limited**

## **Notes to the financial statements for the year ended 31 December 2012**

### **(continued)**

#### **1 Accounting policies (continued)**

##### **FRS 29 'Financial Instruments Disclosures'**

The Company has taken advantage of the exemption under FRS 29 for 90% or more owned subsidiaries not to adopt the standard. The disclosures for the Company required by the standard are included in the financial statements of the ultimate parent company, which are publicly available (see note 20)

#### **2 Segmental and geographical analysis**

The directors regard the Company as having one activity that of providing transportation finance to customers

As required by the Companies Act 2006, the percentage of interest receivable (net of VAT) attributable to different geographical segments is stated as follows

	<b>2012</b>	<b>2011</b>
Asia	<b>88%</b>	<b>69%</b>
USA	<b>1%</b>	<b>7%</b>
Europe	<b>4%</b>	<b>4%</b>
Australia	<b>6%</b>	<b>18%</b>
Other	<b>1%</b>	<b>2%</b>
Total	<b>100%</b>	<b>100%</b>

#### **3 Interest receivable and payable**

		<b>2012</b>	<b>2011</b>
		<b>US\$'000</b>	<b>US\$'000</b>
Interest receivable	-from bank deposits with Group entities	<b>100</b>	<b>71</b>
	-from trade debtors	<b>24,409</b>	<b>10,759</b>
		<b>24,509</b>	<b>10,830</b>
Interest payable	-to parent undertaking	<b>(10,472)</b>	<b>(5,965)</b>
	-to other	<b>(775)</b>	<b>(201)</b>
		<b>(11,247)</b>	<b>(6,166)</b>

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **4 Other operating income**

Other operating income includes the following

	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Net income from foreign exchange movements	-	129
Other operating income	87	1
	-	-
<b>Total of Other operating income</b>	<b>87</b>	<b>130</b>

#### **5 Operating, administrative and other expenses**

Operating, administrative and other expenses include the following

	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Expense for Intra Group Services	(2,911)	(2,137)
Operating leases for land and buildings	394	392
Net expense from foreign exchange movements	(366)	-
Specific Loan Loss Reserve	5,733	(2,509)
General Portfolio Reserves	(108)	(64)
<b>Total Provisions</b>	<b>5,625</b>	<b>(2,573)</b>
Staff costs	(1,431)	(1,501)
Wages and Salaries		
Social Security Costs	(64)	(61)
Pension Costs	(42)	(41)
<b>Total Staff Costs:</b>	<b>1,538</b>	<b>1,603</b>

The average monthly number of employees including executive directors during the year was 4 (2011 4)

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **Note 5 (continued)**

##### **Auditors' remuneration:**

	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
For audit of the financial statements of the Company	<b>(181)</b>	<b>(165)</b>
<b>Total:</b>	<b>(181)</b>	<b>(165)</b>

#### **6 Directors' emoluments**

None of the directors received any emoluments during the year for their services to the company nor received any benefits from the company (2011 US\$ Nil). The directors are employed and remunerated by other companies in the DVB Bank SE Group in respect of their services to the Group as a whole. The directors received total remuneration for the year of \$2,716,238 (2011 \$3,195,728), all of which was paid by DVB Bank SE Group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the DVB Bank SE Group and fellow subsidiary companies.

#### **7 Taxation**

	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Current Tax</b>		
Current tax charge on profit for the year	<b>4,655</b>	<b>16</b>
Total current tax charge	<b>4,655</b>	<b>16</b>
<b>Deferred Tax</b>		
Deferred tax charge (Note 12)	<b>-</b>	<b>-</b>
Taxation charge for the year	<b>4,655</b>	<b>16</b>

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **Note 7 (continued)**

The differences between the tax assessed for the period and the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%) are explained below

	2012	2011
	US\$'000	US\$'000
Profit/(Loss) on ordinary activities before tax	14,278	(2,552)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	3,498	(676)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	23	24
Timing differences	(43)	(62)
Unutilised losses for the year carried forward	-	715
Brought forward losses utilised	(1,675)	-
Adjustment for difference in UK/Japan tax rate	2,852	16
Current corporation tax charge for the year	4,655	16

**DVB Transport Finance Limited**  
**Notes to the financial statements for the year ended 31 December 2012**  
**(continued)**

**8 Tangible fixed assets**

	<b>US\$'000</b>
	<b>Fixtures &amp; Fittings</b>
<b>Cost</b>	
At 1 January 2012	307
Additions	43
At 31 December 2012	350
<b>Accumulated depreciation</b>	
At 1 January 2012	256
Charge for the year (see note 5)	23
At 31 December 2012	279
<b>Net book value</b>	
At 31 December 2012	71
At 31 December 2011	51

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **9 Investments**

During the year, DVB Transport Finance Limited had investments in two UK limited partnerships, The Gwendolen Limited Partnership, and The Ocean Clementine Limited Partnership. The partnerships were liquidated in 2012.

Investments in associates represent the cost of four special purpose vehicles acquired during the year ended 31 December 2006 for Japanese Operating Lease (JOL) transactions.

	<b>US\$'000</b>	<b>US\$'000</b>
	<b>Investments in associates</b>	<b>Total</b>
<b>Cost</b>		
At 1 January 2012	52	52
Additions	-	-
Disposals	-	-
Revaluations / amortisation	-	-
<b>As at 31 December 2012</b>	<b>52</b>	<b>52</b>
<b>Net book value</b>		
<b>As at 31 December 2012</b>	<b>52</b>	<b>52</b>
As at 31 December 2011	52	52

**DVB Transport Finance Limited**  
**Notes to the financial statements for the year ended 31 December 2012**  
**(continued)**

**10 Debtors**

	2012	2011
	US\$'000	US\$'000
Trade Debtors	616,944	426,225

Trade debtors represent amounts due from customers, and include US\$604,589,000 (2011 US\$409,201,000) falling due after more than one year and amounts due falling within one year include US\$12,355,000 (2011 US\$17,024,000)

**11 Creditors**

	2012	2011
	US\$'000	US\$'000
<b>Amounts falling due within one year</b>		
Amounts due to clients	642	727
Amounts due to parent undertaking	14,667	27,884
Corporation tax and other taxes	4,739	-
Accruals	720	936
<b>Total</b>	<b>20,768</b>	<b>29,547</b>
<b>Amounts falling due after more than one year</b>		
Amounts due to parent undertaking	599,858	402,247
<b>Total</b>	<b>599,858</b>	<b>402,247</b>
<b>Total</b>	<b>620,626</b>	<b>431,794</b>



## DVB Transport Finance Limited

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 11 Creditors (continued)

	2012 US\$'000	2011 US\$'000
<b>Maturity of financial liabilities</b>		
In one year or less, or on demand	20,768	29,547
In more than one year, but not more than two years	4,795	10,096
In more than two years, but not more than five years	160,899	153,802
In more than five years	434,164	238,349
	<b>620,626</b>	<b>431,794</b>

The change in the maturity profile shown above is as a result of the renegotiation of loan facilities during the year as shown below

Loan balances and facilities	Repayment terms	Interest rate	Drawn down balance 2012 US\$'000	Facility limit 2012 US\$'000	Drawn down balance 2011 US\$'000	Facility limit 2011 US\$'000
DVB Bank, London	Repayments are due in monthly and quarterly instalments	Between 0 31% and 4 44%	32,800	150,000	56,564	150,000
DVB Bank, SE	Repayments are due on last day of interest period or latest on termination date	Between 0 18% and 2 38%	580,759	1,000,000	373,136	750,000

The interest rates on loans are determined with reference to fixed rates or interbank offered rates.

#### 12 Deferred Taxation

Carried forward losses and fixed asset timing differences of \$16.2m (2011 \$22.9m) resulting in a deferred tax asset of \$3.7m (2011 \$5.7m) have not been recognised due to insufficient certainty that the deferred tax asset can be utilised in the foreseeable future.

The UK corporation tax rate reduction to 23% was substantively enacted in March 2012 and is effective from 1 April 2013. Accordingly these rates have been applied in the measurement of the Company's unrecognised deferred tax assets as at 31 December 2012. The rate applied at 31 December 2011 was 25%.

In addition the UK government announced its intention to further reduce the main rate of UK corporation tax to 21% with effect from 1 April 2014 and to 20% from 1 April 2015. The aggregate impact of the proposed reductions from 23% to 20% would reduce the unrecognised deferred tax asset by approximately \$486,000.

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **13 Allotted and issued share capital**

	2012 No.	2012 US\$'000	2011 No	2011 US\$'000
Authorised	822,266	1,234	512,381	735
Allotted, called-up and fully paid	822,266	1,234	512,381	735

As explained in Note 1, the sterling share capital has been translated into US\$ using the historical rates prevailing at the date of subscription

By ordinary resolution, an increase in the authorised share capital of the company from GBP 512,381 divided into 512,381 ordinary shares of GBP 1 each to GBP 822,266 divided into 822,266 ordinary shares of GBP 1 each was made on 18 December 2012 using the prevailing exchange rate of 1.6207 US\$/£. These shares were then issued for GBP 1 each fully paid.

#### **14 Share Premium**

	2012 US\$'000	2011 US\$'000
Balance brought and carried forward	24,097	24,097

#### **15 Capital Contribution Reserve**

	2012 US\$'000	2011 US\$'000
Capital contribution received from parent	20,000	-
Balance carried forward	20,000	-

During the year as part of the increase in Share Capital noted above, the parent company DVB Bank SE also made a capital contribution of \$20,000,000 which has been treated as a non distributable reserve in line with the Deed of Capital Contribution dated 14 December 2012.

#### **16 Profit and loss account**

	2012 US\$'000	2011 US\$'000
Balance as at 1 January	(16,994)	(14,426)
Profit/(Loss) for the year	9,623	(2,568)
Balance as at 31 December	(7,371)	(16,994)

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **17 Reconciliation of movements in shareholders' funds**

	2012	2011
	US\$'000	US\$'000
Profit/(Loss) for the year	9,623	(2,568)
Increase due to Capital Contribution	20,000	-
Shares issued in the year	499	-
	30,122	(2,567)
Opening shareholders' funds	7,838	10,405
Closing shareholders' funds	37,960	7,838

#### **18 Fair value of financial assets and liabilities**

The following table shows the book value and fair value of the Company's financial assets and liabilities

	2012	2012	2011	2011
	Book value	Fair value	Book value	Fair value
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Assets</b>				
Investments	52	52	52	52
Trade debtors	616,915	677,799	430,665	452,375
Cash at bank and in hand	37,972	37,972	9,644	9,644
	654,939	715,823	440,361	462,071
<b>Liabilities</b>				
Short term borrowings and current portion of long term borrowings	14,668	14,716	27,884	28,198
Long term borrowings	599,858	575,434	402,247	372,525
	614,526	590,150	430,131	400,723
<b>Derivative financial instruments</b>				
Interest rate swap		(1,642)	-	(1,796)

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **18 Fair value of financial assets and liabilities (continued)**

Any discount or premium arising on the acquisition of loans are netted off against the acquired loan book and amortised in the profit and loss account over the life of the loans.

The fair value of financial instruments without option characteristics are exclusively measured in accordance with the discounted cash flow (DCF) method. Under the DCF method applied, the expected future cash flows of liabilities are discounted using a risk free market interest rate, market liquidity rate and market credit spread applicable at the measurement date. The expected future cash flows of assets are discounted using a risk free market interest rate, market liquidity rate and model calculated credit spread applicable at the measurement date. Derivative financial instruments with option characteristics are measured on the basis of a Black-Scholes based model calculation.

The interest rate swaps contracts were entered into for the purpose of hedging interest rate risk and the swaps are in place until underlying exposures matures. At the year end the notional amount of interest rate swaps amounted to US\$45,995,350 (2011: US\$62,752,052).

#### **19 Financial commitments**

At 31 December 2012 the company was committed to making the following annual payments under non-cancellable operating leases in the year to 31 December 2012:

	<b>Land and buildings</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Operating leases which expire		
Between two and five years	<b>394</b>	<b>392</b>
<b>Total</b>	<b>394</b>	<b>392</b>

#### **20 Related party transactions**

There were no transactions with directors or officers during the year. The Company has taken advantage of the exemption in FRS 8 which permits transactions between companies, where 100% of the voting rights are controlled within the group, from disclosing any transactions with other entities which are part of the DVB Group. Balances with DVB Group companies are disclosed in the financial statements.

## **DVB Transport Finance Limited**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **21 Ultimate holding company**

The Company is a wholly-owned subsidiary of DVB Bank SE, its immediate parent company incorporated under the laws of Germany and the parent of the smallest group that prepares consolidated financial statements incorporating the results of the company, its ultimate parent company is DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, which is incorporated in Germany and which is the Company's controlling party. The consolidated financial statements of DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, are publicly available at the following address:

DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main  
Am Platz der Republik  
60325 Frankfurt  
Germany

The consolidated financial statements of DVB Bank SE, Frankfurt am Main, are publicly available at the following address:

DVB Bank SE  
Am Platz der Republik  
60325 Frankfurt  
Germany

#### **22 Cash at bank and in hand**

Included within the cash at bank balance is \$ 37,107,575 which is held with DVB Bank SE, who is the parent company.

#### **23 Post balance sheet events**

One of the loan counterparties depended on a municipal guarantee to secure funding. This guarantee was cancelled in March 2013. As a result the company has now defaulted on the loan repayments due to the company. Management have therefore begun to proceed with recovering the loan balance in line with the contractual agreement. The expected loss and therefore provision required to be made post year end as a result of this credit event is approximately US\$4.7m against an outstanding balance of US\$9.1m.