

DVB Transport Finance Limited
Annual Reports and Financial Statements
For the year ended 31 December 2016

Registered Number 3588431

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DVB Transport Finance Limited

Financial Statements For the year ended 31 December 2016

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DVB Transport Finance Limited

Corporate information

(Registered Number 3588431)

Directors

Mr David Goring-Thomas
Mr Bertrand Philippe Grabowski (resigned with effect from 1st December 2016)
Mr Guido Schmitz
Mr Oliver Bernards

Chairman

Mr David Goring-Thomas

Registered Office

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

Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Legal Advisors

Freshfields Bruckhaus Deringer
65 Fleet Street
London
EC4Y 1HS

Company Secretary

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

DVB Transport Finance Limited

Strategic report

(Registered Number 3588431)

The directors present the strategic report in accordance with the provisions of sections 414C of Companies Act 2006 for the year ended 31 December 2016.

Business review and principal activities

The Company is a wholly-owned subsidiary of DVB Bank SE (“the Group”, “DVB Group”), an immediate parent company (see note 29). 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 companies 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\$792k (2015: profit of US\$1,947k). The lower profit figure compared to 2015 was largely a reflection of a rather exceptional US\$975k advisory fee being earned in such prior year. The directors do not recommend the payment of a dividend (2015: US\$ Nil). The results for the year are set out in the Profit and loss account on page 12.

Review of developments, strategy and future prospects

The lending activity in Japan, a key market for the Company through its Tokyo office, has become increasingly competitive in the current environment, as Japanese banks and, more generally, other banks / financial institutions in the Asian region have become more active with our aviation and shipping client base. Notwithstanding such competition, primarily due to our marketing efforts and our good relationship with Japanese Operating Lease (JOL) equity arrangers, the Company was successful in closing ten new loan facilities into JOL financing structures with an aggregate loan volume of US\$252 million, exceeding the 2015 comparable volume of US\$212 million. Out of the ten lending transactions, nine transactions were for aviation customers and one transaction was for a container box customer. The loan portfolio booked in the Tokyo office consequently increased to a year-end figure of US\$857 million (2015: US\$747 million), and, notably, the aviation proportion accounted for 69% of such portfolio, up from 61% in 2015.

Alongside its traditional lending activity, the Company continued to focus on developing other DVB Group platform business opportunities in its aviation, shipping and land transport sectors. As a notable success, the Tokyo office was involved, in conjunction with DVB Group’s Aviation Financial Consultancy team, in marketing advisory services to Japanese clients.

The Company was also actively engaged in identifying Japanese co-financiers for DVB’s loan transactions in other regions. Indeed, in cooperation with the Group’s Financial Institutions & Syndications team, the Tokyo office successfully sourced several Japanese lenders for aviation and shipping loan transactions in Asia and Europe, and we can expect more of such activity in 2017, based on an increasing demand from Japanese lenders for non-Japanese aviation and shipping transactions.

DVB Transport Finance Limited

Strategic report (continued)

(Registered Number 3588431)

Review of developments, strategy and future prospects (continued)

Generally, and with its eye on the future, the Company continues to believe that its competitive edge and value proposition will be in those financing transactions which require a more specialist view on the value of the underlying financed equipment over time, and in its delivery of a broader range of integrated financial, advisory and asset management services.

Foreign currency

The exchange rate between US\$ and GBP as at 31 December 2016 was 1.2312 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.

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, 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, "EAD"). 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

Strategic 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.

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).

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%.

DVB Transport Finance Limited

Strategic report (continued)

(Registered Number 3588431)

Market risk (continued)

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 2016.

The Company enters into derivative contracts with its parent DVB Bank SE. These derivatives are interest rate swaps used for economic hedging purposes to cover 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 Group 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.

Political risk

On 23rd June 2016, the UK voted to leave the European Union. On 29th March 2017, the UK notified the European Council of its intention to withdraw from the European Union in accordance with Article 50(2) of the Treaty on European Union. The impact of this decision is currently unknown as the UK government is yet to agree the terms and conditions upon which the UK will leave the European Union. Until such time as formal terms are agreed, there is a high degree of uncertainty and consequently market volatility is expected. The impact of this volatility and uncertainty on the Company is yet to be determined. The directors are monitoring the situation, but no strategic decision about the future of the Company's business has yet been taken. To date, there have been no matters that warrant adjustment to the financial results as at 31 December 2016 and for the year then ended.

DVB Transport Finance Limited

Strategic report (continued)

(Registered Number 3588431)

Risk summary and outlook

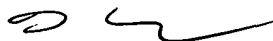
DVB Group has organised its risk management and risk control functions in a manner that the Company complies with legal and regulatory requirements. The system is appropriately designed to efficiently monitor and manage all risks that the Group is exposed to. The methods to capture and manage risks were the subject of continuous development during 2016. 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:

- Size of portfolio
- Management of business risks
- Full support of the ultimate holding company

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. DVB Bank SE has confirmed that it will continue to provide financial support for at least the next 12 months. Furthermore, the operational 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 and for at least 12 months. Accordingly, the Directors continue to apply the going concern basis in preparing the annual report and financial statements.

On behalf of the Board



Mr David Goring-Thomas
Director

5th May 2017

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 2016, which were approved by them on 5th May 2017.

Directors and their interests

The directors during the year and the present membership of the Board 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.

Dividends

The directors do not recommend the payment of a dividend (2015: US\$ Nil) for the year.

Future developments

Please refer to "Review of developments, strategy and future prospects" on page 2.

Financial instruments

Please refer to Note 23 to 25 in the financial statements.

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.

Going concern

Please refer to "Risk Summary and outlook" on page 6.

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.

DVB Transport Finance Limited
Directors' report (continued)

(Registered Number 3588431)

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 485 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 David Goring-Thomas
Director
5th May 2017

DVB Transport Finance Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, 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) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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

We have audited the financial statements of DVB Transport Finance Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 29. 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), including FRS 101 "Reduced Disclosure Framework".

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 auditor

As explained more fully in the Directors' Responsibilities Statement set up on page 9, 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 annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; 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, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.

A handwritten signature in black ink, reading "Ernst & Young LLP".

Maximiliano Bark (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
5th May 2017

DVB Transport Finance Limited

Profit and loss account for the year ended 31 December 2016

		2016	2015
	Notes	US\$ 000	US\$ 000
Interest receivable	3	30,040	28,640
Interest payable	3	(25,334)	(22,616)
Net Interest Income		4,706	6,024
Fees and commissions receivable	4	936	1,868
Fees and commissions payable	4	(12)	(14)
Net Fees and Commissions		924	1,854
Dealing profits	5	213	955
Other operating income	6	582	7,415
Administrative expenses	7	(2,255)	(1,778)
(a) Staff costs		(1,309)	(845)
(i) Wages and salaries		(1,201)	(798)
(ii) Social security costs		(105)	(23)
(iii) Other pension costs		(3)	(24)
(b) Other administrative expenses		(946)	(933)
Depreciation and amortisation	7	(31)	(26)
Other operating charges	6	(3,526)	(3,645)
Provisions	12	(1,996)	(8,029)
(a) Provisions for bad and doubtful debts		(1,996)	(8,029)
Adjustments to provisions	12	2,669	482
(a) Adjustments to provisions for bad and doubtful debts		2,669	482
Profit on ordinary activities before tax		1,286	3,252
Tax expenses	9	(494)	(1,305)
Profit for the financial year		792	1,947

All amounts relate to continuing operations.

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 accounting policies and notes on pages 16 to 40 form an integral part of these financial statements.

DVB Transport Finance Limited

Balance sheet as at 31 December 2016

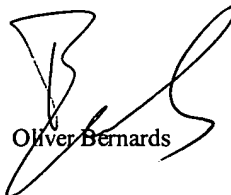
		2016	2015
	Notes	US\$ 000	US\$ 000
Loans and advances to banks	10	75,467	72,768
(a) Repayable on demand		5,152	3,356
(b) Other loans and advances		70,315	69,412
Loans and advances to customers	11	873,718	788,010
(a) after one year		848,661	756,119
(b) within one year		32,460	40,036
(c) Allowance of credit losses	12	(7,403)	(8,145)
Participating interests	13	-	35
Tangible fixed assets	14	46	70
Other assets	15	25	178
Prepayments and accrued income		3	25
Current Tax Assets		1	1
Deferred Tax Assets	16	96	170
Total assets		949,356	861,257
Deposits by banks	17	(873,360)	(785,028)
(a) With agreed maturity dates or periods of notice		(873,360)	(785,028)
Customer accounts	18	(182)	(180)
(a) With agreed maturity dates or periods of notice		(182)	(180)
Accruals and deferred income		(176)	(216)
Provisions for liabilities	19	(348)	(464)
Current tax liabilities		(1)	(836)
Other liabilities		(559)	(581)
(a) Other liabilities	20	(559)	(487)
(b) Derivatives	21	0	(94)
Total liabilities		(874,626)	(787,305)
Called up share capital	22	(1,234)	(1,234)
Share premium account	22	(24,096)	(24,096)
Capital contribution	22	(54,576)	(54,576)
Reserves	22	5,968	7,901
(a) Retained earnings		5,968	7,901
Profit and loss account	22	(792)	(1,947)
Total equity		(74,730)	(73,952)
Total equity and liabilities		(949,356)	(861,257)

The accounting policies and notes on pages 16 to 40 form an integral part of these financial statements.

The financial statements on pages 12 to 40 were approved by the Board of directors on 5th May 2017 and signed on its behalf by:



Mr David Goring-Thomas



Oliver Bernards

DVB Transport Finance Limited

Statement of changes in equity as at 31 December 2016

US\$ 000	Called up	Share	Capital	Retained	Profit and loss	Total
	share capital	premium	Contribution	earnings	account	equity
At 1 January 2015	1,234	24,096	30,000	(6,238)	(1,663)	47,429
Capital contribution			24,576			24,576
Transfer 2014 loss to retained earnings				(1,663)	1,663	-
Profit for the year					1,947	1,947
At 31 December 2015	1,234	24,096	54,576	(7,901)	1,947	73,952

US\$000	Called up	Share	Capital	Retained	Profit and loss	Total
	share capital	premium	contribution	earnings	account	equity
At 1 January 2016	1,234	24,096	54,576	(7,901)	1,947	73,952
Transfer 2015 profit to retained earnings				1,947	(1,947)	-
FX valuation				(14)		(14)
Profit for the year					792	792
At 31 December 2016	1,234	24,096	54,576	(5,968)	792	74,730

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016

1 Accounting Policies

Basis of preparation

DVB Transport Finance Limited (the “Company” or “DTFL”) is a UK limited company. These financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. 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 Company’s financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (US\$000) except when otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016.

The Company has taken advantage of the following disclosure exemptions under FRS101:

- (a) the requirement in paragraph 6 and 21 of *IFRS 1 First Time Adoption of International Financial Reporting Standards*
- (b) the requirements in paragraph 38 of IAS 1 *Presentation of Finance Statements* to present comparative information in respect of:
 - (i) Paragraph 79(a)(iv) of IAS 1; and
 - (ii) Paragraph 73(e) of IAS 16 *Property Plant and Equipment*.
- (c) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 of IAS 1 *Presentation of Financial Statements*;
- (d) The requirements of IAS 7 *Statement of Cash Flows*;
- (e) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- (f) The requirements of paragraph 17 of IAS 24 *Related Party Disclosures*.

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 are consolidated within the ultimate Parent company’s financial statements, DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main as mentioned in note 29.

Accounting Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

DVB Transport Finance Limited

Notes to the financial statements for the year 31 December 2016 (continued)

1 Accounting Policies (continued)

Accounting Estimates (continued)

The following estimates have had the most significant effect on amounts recognised in the financial statements:

- **Allowance for credit losses and loan loss provisions**

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 Company loan portfolios.

- **Income tax assets and income tax liabilities**

The determination of deferred income tax assets and liabilities is 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.

Income recognition

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

Interest receivable

Interest is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instruments to its net carrying amount.

Interest payable

Interest payable is expensed using the effective interest method.

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 2016 (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) Non-monetary assets are translated into US dollars at the rates ruling on the date of acquisition.
- 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 monthly average rates.
- iv) The share capital is translated from Sterling to US dollars using the historical rate as at the date of initial subscription.
- v) The exchange rate between US\$ and GBP as at 31 December 2016 was 1.2312 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 made prospectively. 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)
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Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale, financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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 plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial assets include (but are not limited to) balances held with banks, loans and advances to customers.

DVB Transport Finance Limited

Notes to the financial statements for the year 31 December 2016 (continued)

1 Accounting Policies (continued)

The subsequent measurement of financial assets are as follows:

Loans and advances to customers

Loans and advances to customers are shown on a net basis (with allowance for credit losses) and are carried 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.

Balances held with banks

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

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Financial liabilities include (but are not limited to) deposits by banks, customer accounts and other liabilities.

Financial liabilities are carried at amortised cost using the effective interest rate method.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet, if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

DVB Transport Finance Limited

Notes to the financial statements for the year 31 December 2016 (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 economic hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with the Company's risk management policy. According to IAS 39 derivatives have to be categorised as "held for trading", which means that these contracts are initially and subsequently measured at fair value through P&L. Changes in the fair value occurring between two balance sheet dates are recognised in the profit and loss account.

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.

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.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences (when and if they arise) are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Segmental and geographical analysis

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

The percentage of interest receivable (excluding VAT) attributable to different geographies is as follows:

	2016	2015
Asia	96%	97%
USA and Others	1%	0%
Europe	1%	2%
Australia	2%	1%
Total	100%	100%

3 Net interest income

Net interest income for the year is broken down as follows:

US\$ 000	2016	2015
Interest income		
from customers	29,548	28,500
from bank deposits with Group entities	492	140
Interest income	30,040	28,640
Interest expenses		
to parent undertaking	(23,017)	(20,460)
Others	(2,317)	(2,156)
Interest expenses	(25,334)	(22,616)
Net interest income	4,706	6,024

During the year, interest income from financial instruments not measured at fair value through profit or loss amounted to US\$30.0m (2015: US\$28.6m), and interest expense amounted to US\$25.2m (2015: US\$22.3m). Net interest income includes interest income in the amount of US\$104k (2015: US\$219k) attributable to impaired loans and advances.

DVB Transport Finance Limited
Notes to the financial statements for the year ended 31 December 2016
(continued)

4 Net fee and commission income

Net fee and commission income for the year is broken down as follows:

US\$ 000	2016	2015
Fee and commission income		
from the lending business		
Agency Fees	16	10
Arrangement Fees	583	487
Advisory fee	-	975
Upfront Fee	279	343
Other fee and commission income	58	53
Fee and commission income	936	1,868
Fee and commission expenses		
from payment transactions	(12)	(14)
Fee and commission expenses	(12)	(14)
Net fee and commission income	924	1,854

5 Dealing profits

The dealing profits and losses include the following:

US\$ 000	2016	2015
Unrealised profits from interest-rate derivatives	143	272
Realised profits from interest-rate derivatives	93	31
Net income/(expense) from foreign exchange	(23)	652
Dealing profits	213	955

DVB Transport Finance Limited
Notes to the financial statements for the year ended 31 December 2016
(continued)

6 Net other operating income/charges

Net other operating income/charges were as follows:

US\$ 000	2016	2015
Income		
from other operating income from group companies	-	7,348
from miscellaneous other income	582	67
Other operating income	582	7,415
Expenses		
Expense for Intra Group Services	(3,009)	(3,593)
from miscellaneous other expenses	(517)	(52)
Other operating charges	(3,526)	(3,645)
Net other operating income/(charges)	(2,944)	3,770

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

7 Administrative expenses

Administrative expenses for the year are as follows:

US\$ 000	2016	2015
Wages and salaries	(1,201)	(798)
Social security contributions	(105)	(23)
Expenses for pensions and other employee benefits	(3)	(24)
Staff costs	(1,309)	(845)
Other operating costs	(28)	(30)
Employee benefit costs	(1)	(82)
Business travel	(96)	(61)
Memberships & associations	(4)	(35)
Office supplies	(34)	(31)
Legal and auditing fees	(252)	(263)
Other advisory services	(169)	(106)
IT costs	(54)	(48)
Occupancy costs	(306)	(275)
Procurement of information	(2)	(2)
Non-staff expenses	(946)	(933)
Total depreciation, amortisation, impairment and write-offs	(31)	(26)
Total administrative expenses	(2,286)	(1,804)

Included in expenses for pensions and other employee benefits are US\$3k (2015: US\$24k) in respect of the defined contribution scheme.

During the year, minimum lease payments under operating leases in the amount of US\$299k (2015: US\$268k) were recognised as expenses. There were no contingent rents and sublease payments. Legal and auditing fees included fees for auditors in the amount of US\$228k (2015: US\$233k). Legal and auditing fees were comprised of the following individual items:

US\$ 000	2016	2015
Auditing fees	(228)	(233)
Other attestation services	(24)	(30)
Total fees	(252)	(263)

The average monthly number of employees during the year was 4 (2015: 4).

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

8 Director remunerations

None of the directors received any emoluments during the year for their services to the company nor received any benefits from the company (2015: 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 in the year of US\$1,972,254 (2015: US\$2,683,635), 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.

9 Taxation

US\$ 000 Income taxes were as follows	2016	2015
UK corporation tax		
Current year	(253)	(613)
Adjustments in respect of prior years	(1)	-
	(254)	(613)
Double tax relief	253	613
Foreign Tax		
Current year	(321)	(1,288)
Adjustments in respect of prior years	(164)	(9)
	(485)	(1,297)
Total current tax	(486)	(1,297)
Deferred tax (see note 15)	(8)	(8)
Total income taxes	(494)	(1,305)

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated taxable profit for the year.

DVB Transport Finance Limited
Notes to the financial statements for the year ended 31 December 2016
(continued)

9 Taxation (continued)

The charge for the year can be reconciled to the profit in the income statement as follows:

	2016	2015
	US\$	US\$
	000	000
Profit on ordinary activities before tax	1,285	3,252
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	(257)	(659)
Permanent differences	(14)	14
Double tax relief	253	613
Foreign taxes suffered	(321)	(1,288)
Current tax prior year adjustment	(165)	(9)
Movements on unrecognised deferred tax asset	10	24
Tax expense for the year	(494)	(1,305)

10 Loans and advances to banks

US\$ 000	2016	2015
Loans and advances		
thereof: payable on demand	5,152	3,356
Money market transactions	70,315	69,412
thereof: payable on demand	-	-
thereof: with a limited term	70,315	69,412
Total loans and advances to banks	75,467	72,768
UK banks	322	727
Japanese Banks	188	208
Other foreign banks	74,957	71,833
Total loans and advances to banks	75,467	72,768

Included within the loans and advances to banks is US\$74.7m (2015: US\$71.6m) which is held with DVB Bank SE, who is the immediate parent company.

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

11 Loans and advances to customers

US\$ 000	2016	2015
Loans and advances		
thereof: within one year	32,460	40,036
thereof: after one year	848,661	756,119
Allowance for credit losses	(7,403)	(8,145)
Total loans and advances to customers	873,718	788,010
UK customers	1,659	1,811
Japanese Customers	852,478	748,199
Other foreign customers	19,581	38,000
Total loans and advances to customers	873,718	788,010

Loans and advances to customers domiciled in these countries are not materially exposed to country-specific risks, especially due to the fact that the relevant claims are collateralised by the financed transport assets.

12 Allowance for credit losses

The allowance for credit losses is based on rules applied consistently throughout the Company, and covers all credit 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 US\$7.0m (2015: US\$7.9m) exclusively relates to loans and advances to customers.

Allowance for credit losses (US\$ 000)

	Specific allowance for credit losses		Portfolio-based allowance for credit losses		Total	
	2016	2015	2016	2015	2016	2015
Allowance for credit losses as at 1 January	7,887	404	258	229	8,145	633
Additions	1,730	7,922	266	107	1,996	8,029
Reversals	(2,561)	(404)	(108)	(78)	(2,669)	(482)
Unwinding	(69)	(35)	-	-	(69)	(35)
Allowance for credit losses	6,987	7,887	416	258	7,403	8,145

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

13 Participating interests

US\$ 000	2016	2015
Investments in associates	-	35
Total participating interests	-	35

Investments in associates primarily relate to equity investments held by the Investment Management division. In Aran Airfinance Ltd., Blasket Airfinance Ltd., Gola Airfinance Ltd., Rathlin Airfinance Ltd whose principal place of business is in Japan. The nature of the association is leasing of aircrafts. The investments were unwound due to the exercise by the lessee of the aircrafts' purchase option. Simultaneously the four companies were sold to a Japanese investor during 2016 who was also a co-investor in the original deals. US\$126k profit was gained on the sale of the shares and recorded in Other Operating Income. Our investments in associates became zero.

14 Tangible fixed assets

US\$ 000	Fixtures & Fittings
Cost	
At 1 January 2016	400
Additions	7
At 31 December 2016	407
Accumulated depreciation	
At 1 January 2016	(330)
Charge for the year	(31)
At 31 December 2016	(361)
Net book value	
At 31 December 2016	46
At 31 December 2015	70

DVB Transport Finance Limited
Notes to the financial statements for the year ended 31 December 2016
(continued)

15 Other assets

US\$ 000	2016	2015
Security deposit	25	178
Total other assets	25	178

16 Deferred Tax Assets

Movement in deferred tax during the year

	1 January 2016 US\$ 000	Recognised in income statement US\$ 000	Recognised in retained earnings US\$ 000	31 December 2016 US\$ 000
Spreading of FRS 101 transitional adjustment	63	(8)	-	55
Other temporary differences	107	(66)	-	41
Total deferred tax assets	170	(74)	-	96

	1 January 2015 US\$ 000	Recognised in income statement US\$ 000	Recognised in retained earnings US\$ 000	31 December 2015 US \$ 000
Spreading of FRS 101 transitional adjustment	71	(8)	-	63
Other temporary differences	21	-	86	107
Total deferred tax assets	92	(8)	86	170

The main rate of UK corporation tax was reduced from 21% to 20% effective from 1 April 2015. The main rate will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020, as enacted in the Finance Act 2016 on 15 September 2016.

DVB Transport Finance Limited
Notes to the financial statements for the year ended 31 December 2016
(continued)

17 Deposits by banks

US\$ 000	2016	2015
Deposits by banks		
thereof: with a limited term	(873,360)	(785,028)
Total deposits by banks	(873,360)	(785,028)
UK banks and branches	(22,035)	(40,169)
Foreign banks	(851,325)	(744,859)
Total deposits by banks	(873,360)	(785,028)

Deposit balances and facilities	Repayment terms	Interest rate	Drawn down balance 2016 US\$ 000	Drawn down balance 2015 US\$ 000
DVB Bank, London Branch	Repayments are due in monthly and quarterly instalments	Between 0.70% and 4.32%	22,015	40,140
DVB Bank, SE	Repayments are due on last day of interest period or latest on termination date	Between -0.32% and 2.13%	850,975	744,530

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

18 Customer Accounts

US\$ 000	2016	2015
Customer Accounts	(182)	(180)
thereof: payable on demand	-	-
thereof: with a limited term	(182)	(180)
Total customer accounts	(182)	(180)

DVB Transport Finance Limited
Notes to the financial statements for the year ended 31 December 2016
(continued)

19 Provisions

US\$ 000	2016	2015
Bonus provisions	(279)	(297)
Other provisions	(69)	(167)
Total provisions	(348)	(464)

US\$ 000	Balance as at 1 January 2016	Additions	Reversal	Utilisation	Reclassification	Exchange rate changes	Balance as at 31 December 2016
Bonus provisions	(297)	(200)	-	214	26	(22)	(279)
Other provisions	(167)	44	-	51	4	(1)	(69)
Total provisions	(464)	(156)	-	265	30	(23)	(348)

US\$ 000	Balance as at 1 January 2015	Additions	Reversal	Utilisation	Reclassification	Exchange rate changes	Balance as at 31 December 2015
Bonus provisions	(340)	(272)	100	187	26	2	(297)
Other provisions	(48)	(136)	-	43	(26)	-	(167)
Total provisions	(388)	(408)	100	230	-	2	(464)

20 Other liabilities

US\$ 000	2016	2015
Other tax liabilities	(528)	(471)
Miscellaneous other liabilities	(31)	(16)
Total other liabilities	(559)	(487)

21 Other liabilities – derivatives

\$ 000	2016	2015
Derivative financial instruments with negative fair values	-	(94)
thereof: interest rate products	-	(94)
Total other liabilities - derivatives	-	(94)

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016

(continued)

22 Equity

Equity is broken down as follows:

US\$ 000	2016	2015
Called up share capital	(1,234)	(1,234)
Share premium	(24,096)	(24,096)
Capital contribution	(54,576)	(54,576)
Retained earnings	5,968	7,901
Distributable profit	(792)	(1,947)
Total equity	(74,730)	(73,952)

22.1 Called up share capital

	2016	2016	2015	2015
	No.	US\$ 000	No.	US\$ 000
Authorised	822,266	1,234	822,266	1,234
Allotted, called-up and fully paid	822,266	1,234	822,266	1,234

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

22.2 Share premium

The share premium includes the initial share contribution received from parent.

22.3 Capital contribution

The capital contribution includes the capital contribution received from parent.

22.4 Retained earnings

Retained earnings comprise the undistributed profits of the Company.

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

23 Classes and categories of financial instruments

The carrying amounts of financial assets and financial liabilities were allocated to the classes and categories (or sub-categories) of financial instruments as indicated in the table below:

US\$ 000	2016 Book value	2016 Fair value	2015 Book value	2015 Fair value
Loans and receivables				
thereof: loans and advances to banks	75,467	75,467	72,768	72,768
thereof: loans and advances to customers	873,718	870,919	788,010	789,136
Finance assets measured at amortised costs	949,185	946,386	860,778	861,904

US\$ 000	2016 Book value	2016 Fair value	2015 Book value	2015 Fair value
Financial liabilities held for trading				
thereof: other liabilities - derivatives	-	-	(94)	(399)
Finance liabilities measured at fair value	-	-	(94)	(399)
Deposits by banks	(873,360)	(873,360)	(785,028)	(785,028)
Customer accounts	(182)	(182)	(180)	(180)
Finance liabilities measured at amortised costs	(873,542)	(873,542)	(785,208)	(785,208)

24 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 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 to determine the discount rate. Derivative financial instruments with option components are measured using accepted option pricing models (Black-Scholes-/Black-76-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.

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

24 Determination of fair values of financial instruments (continued)

The fair value of over-the-counter derivative financial instruments (if any) 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. A semi-analytical approach is applied to determine CVA/DVA, calculating the relevant values using economic loss rates as well as probabilities of default matching the terms of the instruments. The CVA amounts are determined based on the formula per netting set specified in the Accounting Principle issued by the Institute of Public Auditors in Germany RS HFA 47 No. 96. The CVA particularly reflects the expected exposures per netting set. The expected exposures per netting set are used to approximate the expected exposures per instrument and accordingly to allow the determination of the CVA amounts for individual transactions. The DVA amounts are allocated by analogy on the basis of the expected negative exposure.

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 is the credit spread, which is calculated based on the expected probabilities of default published by Standard & Poor's.

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.

The fair values of the financial instruments measured at fair value were allocated to the following levels:

Determination of the fair values of financial instruments measured at fair value (US\$ 000)

	Level 1		Level 2		Level 3	
	2016	2015	2016	2015	2016	2015
Negative fair values of derivative interest rate	-	-	-	(94)	-	-
Liabilities measured at fair value	-	-	-	(94)	-	-

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016

(continued)

24 Determination of fair values of financial instruments (continued)

Determination of fair values of financial instruments measured at amortised cost (US\$ 000)

	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Loans and receivables						-
thereof: loans and advances to banks	-	-	-	-	75,467	72,768
thereof: loans and advances to customers	-	-	-	-	870,919	789,136
Assets measured at amortised cost	-	-	-	-	946,386	861,904
Deposits from other banks	-	-	873,360	785,028	-	-
Deposits from customers	-	-	182	180	-	-
Liabilities measured at amortised cost	-	-	873,542	785,208	-	-

25 Risks arising from the use of financial instruments

The disclosures as to the nature and extent of risks arising from the use of financial instruments are included in the directors and strategic report and are in accordance with the provisions of IFRS 7.

Maturity groupings of financial instruments is presented below, based on contractual undiscounted future cash flows and remaining maturities at the reporting date (comparative information as at 31st December 2015 has been restated accordingly):

:

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

25 Risks arising from the use of financial instruments (continued)

2016 US\$ 000	Payable on demand	Less than one year	More than one but not more than two years	More than two years but not more than five	More than five years	Impairment	Total
Loans and advances to banks	5,152	70,435	-	-	-	-	75,587
Loans and advances to customers	381	176,246	212,927	378,123	238,314	(7,403)	998,588
Total financial instruments assets	5,533	246,681	212,927	378,123	238,314	(7,403)	1,074,175
Deposits from other banks	-	158,743	170,580	337,668	224,193	-	891,184
Deposits from customers	-	182	-	-	-	-	182
Total financial instruments liabilities	-	158,925	170,580	337,668	224,193	-	891,366
2015 US\$ 000	Payable on demand	Less than one year	More than one but not more than two years	More than two years but not more than five	More than five years	Impairment	Total
Loans and advances to banks	3,356	66,329	3,190	-	-	-	72,875
Loans and advances to customers	1,046	197,301	143,593	379,871	183,807	(8,145)	897,473
Total financial instruments assets	4,402	263,630	146,783	379,871	183,807	(8,145)	970,348
Deposits from other banks	-	170,933	133,066	325,013	175,694	-	804,706
Deposits from customers	-	-	180	-	-	-	180
Total financial instruments liabilities	-	170,933	133,246	325,013	175,694	-	804,886

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016

(continued)

25 Risks arising from the use of financial instruments (continued)

Maximum Credit Risk Exposure:

Credit risk concentration and maximum credit risk exposure by business division (lending volume - USD mn)

Loans, commitments and other non-derivative off-balance sheet assets

	2016	2015
Shipping Finance	267.6	292.8
Aviation Finance	600.6	472.8
Investment Management	5.4	21.4
Other	0.1	1.0
Total	873.7	788.0

There were no commitments or other non-derivative off-balance sheet assets during 2015 and 2016.

Credit risk concentration and maximum credit risk exposure by region (lending volume - USD mn)

Loans, commitments and other non-derivative off-balance sheet assets

	2016	2015
Europe	515.5	328.3
North America	66.0	92.1
Asia	94.6	167.1
Middle East/Africa	183.4	183.8
South America	0.3	0.8
Australia/New Zealand	13.9	15.9
Total	873.7	788.0

Credit risk concentration and maximum credit risk exposure by residual term (lending volume - USD mn)

Loans, commitments and other non-derivative off-balance sheet assets

	2016	2015
≤ 1 year	24.2	40.0
> 1 year ≤ 5 years	300.5	281.8
> 5 years	549.0	466.2
Total	873.7	788.0

26 Equity capital management

DTFL Tokyo Branch's equity is subject to the thin-capital requirements under the Japanese tax law.

In addition, DVB Bank SE, as the parent company, performs a yearly impairment test for its participations. Depending on the result in conjunction with thin capital rules, this can lead to a capital increase in order to avoid impairments on the book value of the participations that are booked within the accounts of DVB Bank SE.

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Notes to the financial statements for the year ended 31 December 2016

(continued)

27 Financial commitments

At 31 December 2016 the company was committed to making the following cumulative payments under non-cancellable operating leases in the year to 31 December 2016.

	Land and buildings	
	2016	2015
	US\$ 000	US\$ 000
Operating leases:		
Within one year	275	178
Between one to five years	343	-
Total	618	178

28 Related party disclosures

Related party transactions are carried out at an arm's length basis.

DVB Transport Finance Limited carries out a number of banking transactions with group companies, including short-term borrowings and deposits.

The following tables show the transactions carried out by DVB Transport Finance Ltd with group companies.

US\$ 000	2016	2015
Loans and advances to banks		
Fixed term deposits with immediate parent company	74,662	71,605
Total assets	74,662	71,605

Included within the loans and advances to banks is US\$74.7m (2015: US\$71.6m), which is held with DVB Bank SE, who is the immediate parent company.

US\$ 000	2016	2015
Deposits by banks		
Fixed term deposits	(873,360)	(785,028)
Total liabilities	(873,360)	(785,028)

Included within the deposits by banks is US\$873.4m (2015: US\$785m), which is held with DVB Bank SE, who is the immediate parent company.

DVB Transport Finance Limited

Notes to the financial statements for the year ended 31 December 2016

(continued)

28 Related party disclosures (continued)

US\$ 000	2016	2015
Intercompany expenses		
Intercompany interest expense (Note 3)	(23,017)	(20,460)
Expense for Intra Group Services (Note 6)	(3,009)	(3,593)
Total expense	(26,026)	(24,053)

Included within the total intercompany expenses US\$25.7m (2015 US\$23.9m), was paid to DVB Bank SE, who is the immediate parent company and US\$318k (2015: US\$119k), was paid to fellow subsidiary companies within the group.

US\$ 000	2016	2015
Loans and advances to customers		
Loan with group companies (net of allowances for credit losses)	5,380	21,363
Allowance of credit losses	(6,141)	(7,348)
Other operating income	-	(7,348)
Provisions for bad and doubtful debts	-	7,348
Adjustments to provisions for bad and doubtful debts	(1,207)	-

On 12 November 2015, DTFL entered into a transaction with its immediate parent entity and purchased a loan transaction. Counterparty to this transaction is a related party which is fully consolidated in the DVB group financial statements. For tax purposes the loan is not treated as a related party as the legal ownership of the counterparty is held with a trust. The loan transaction had a nominal value of US\$67m when acquired by DTFL and was purchased for US\$28.7m which represented the carrying value in the statutory financial statements of DVB Bank SE at the time of purchase. DTFL has full control of the asset. DTFL funded the purchase price via a separate funding agreement with its immediate parent entity. The funding agreement includes the reduction of amounts payable whenever an impairment according to IAS 39 is recorded in the DTFL statutory financial statements. During the prior year ended 31 December 2015, the regular impairment testing of DTFL had led to an impairment amount of US\$7.3m which was recognised as a specific loan loss provision. Based on the funding arrangement, the outstanding payable with the immediate parent company was reduced by US\$ 7.3m and recorded as other operating income in 2015. In 2016, there was a reduction in the outstanding loan balance to US\$11.5m, which led to a release of allowances of credit losses of US\$1.2m arising from the updated impairment assessment. Consequently, DTFL recognised US\$1.2m gain in the financial statements which is in accordance with the funding agreement that the upside of the recoverable amount can be retained by DTFL, rather than transferring such benefit back to DVB Bank SE.

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Notes to the financial statements for the year ended 31 December 2016 (continued)

29 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