Hybrid Raising GmbH

Norderfriedrichskoog, Federal Republic of Germany

Offering Circular/Listing Prospectus for € 200,000,000 Perpetual Fixed Rate Notes with the payment of interest and principal conditional upon receipt of profit participations and repayment under a Silent Participation in the commercial enterprise of

IKB Deutsche Industriebank

Düsseldorf and Berlin

– ISIN DE000A0AMCG 6 –
of Hybrid Raising GmbH

Hybrid Raising GmbH, a company incorporated in accordance with German law with its registered office in Norderfriedrichskoog (the "**Issuer**") will use the proceeds from the issue of the Notes to acquire a participation in the commercial enterprise of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf and Berlin, Federal Republic of Germany, as a typical silent partner by making a capital contribution in a nominal value of € 200,000,000.

Application is made for admission of the Notes for trading on the official market *(amtlicher Markt)* of the Frankfurt Stock Exchange and the Official Segment of Euronext Amsterdam N. V.

The Notes are represented at all times by a global certificate in bearer form without interest coupons. The global certificate is deposited with Clearstream Banking AG, Frankfurt am Main. The Notes may be transferred in the form of co-ownership shares in accordance with the applicable rules of Clearstream Banking AG.

Issue Price: 100 %

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act"). Accordingly, the Notes may not be offered or sold in the United States or to US Persons except in accordance with Regulation S under the Securities Act, or pursuant to an exemption from registration requirements of the Securities Act.

BNP PARIBAS **Deutsche Bank**

Contents

General Information

Responsibility for Content of Prospectus

Hybrid Raising GmbH (the "**Issuer**"), Deutsche Bank Aktiengesellschaft, Frankfurt/Main, ("**Deutsche Bank**") and BNP PARIBAS are responsible under German law in accordance with Section 13 of the German Securities Sales Prospectus Act *(Wertpapier-Verkaufsprospektgesetz)* in conjunction with Sections 44 et seq. of the German Stock Exchange Act *(Börsengesetz)* and hereby confirm that, to the best of their knowledge, the information contained in this offering circular/listing prospectus ("**Prospectus**") dated 20 February 2004 is correct and no material information has been omitted.

The Issuer has not permitted any person to make any disclosure or representation that is not contained in this Prospectus, or in other documents agreed upon in connection with the issue of the Notes or in other disclosure made by the Issuer or in publicly available information, and that does not correspond to the content of this Prospectus, any such documents, disclosure or information. Where any such disclosure or representation is made, the Issuer does not accept any responsibility for its correctness or completeness.

The delivery of the Prospectus or the offer, sale or delivery of the Notes does not mean, under any circumstances, that the information contained in the Prospectus will continue to be correct after the publication date of the Prospectus or that the financial condition of the Issuer or IKB Deutsche Industriebank Aktiengesellschaft has not deteriorated since such date.

Subject Matter of Prospectus

The subject matter of the Prospectus is the issue of an aggregate of € 200,000,000 Notes, divided into 2,000,000 Perpetual Fixed Rate Notes of 2004 of € 100 each, evidencing claims to interest payment and redemption subject to certain conditions (the "**Notes**").

Inspection of Documents

The documents mentioned in this Prospectus, that refer to the Issuer or IKB Deutsche Industriebank Aktiengesellschaft, may be inspected during normal office hours at the offices of the Issuer, Koogstraat 4, 25870 Norderfriedrichskoog, Germany, as well as the offices of Deutsche Bank Aktiengesellschaft, Große Gallusstraße 10–14, 60272 Frankfurt/Main, Germany.

Description of IKB Deutsche Industriebank Aktiengesellschaft and IKB Group

Any references in this Prospectus to the "Issuer" are references to Hybrid Raising GmbH. Any references to "IKB AG" or "the Bank" are references to IKB Deutsche Industriebank Aktiengesellschaft. Any references to the "IKB Group" are references to IKB Deutsche Industriebank Aktiengesellschaft and its consolidated subsidiaries unless the context requires otherwise. For a discussion of the company, see "General Information on IKB Deutsche Industriebank Aktiengesellschaft".

Disclosure Regarding Forward-looking Statements

The statements included herein regarding future financial performance and results, and other statements that are not historical facts, are forward-looking statements. The words "believe", "expect", "predict", "estimate" and similar expressions are also intended to identify forward-looking statements. Such statements are made on the basis of assumptions which, although reasonable at this time, may prove to be erroneous. The risks and uncertainties which the Issuer and IKB AG face with respect to their future development and the factors that might influence the correctness of such forward-looking statements are, as a general rule, taken into consideration throughout this Prospectus. Such factors include, *inter alia,* the factors discussed in "Risk Factors", "Recent Developments and Outlook of IKB Deutsche Industriebank Aktiengesellschaft" and "Financial Information on IKB

Deutsche Industriebank Aktiengesellschaft". Actual results could differ significantly from those contemplated in the forward-looking statements contained herein if one or more of any such risks and uncertainties materialise, or if the facts, upon which these forward-looking statements have been based, prove to be incorrect.

Currency Presentations

In this Prospectus, references to "euro", "EUR" and "€" are references to the common currency of the member states of the European Economic and Monetary Union, which as of 1 January 1999 replaced the respective national currencies of the relevant countries. IKB AG publishes its financial statements in euro.

Definitions

Capitalised terms used and not defined herein shall have the meaning given to them in the Terms and Conditions of the Issue, the Silent Partnership Agreement and the Fiduciary Agreement reproduced under "Structure of the Issue" in this Prospectus.

Summary of the Offer

This summary of the transaction will, in its entirety, be qualified and supplemented by reference to the detailed information as set out elsewhere in this Prospectus, in particular in the following Terms and Conditions of the Issue and the Silent Partnership Agreement. In case of any deviations between this Summary and the detailed information as set out elsewhere in this Prospectus, the latter shall prevail.

Issuer: Hybrid Raising GmbH with its registered office in Norderfriedrichskoog, Germany.

The Issuer is a limited liability company *(GmbH)*, incorporated under German law, which is neither affiliated nor consolidated with IKB AG.

The Issuer participates in the commercial enterprise of IKB AG as a typical silent partner in accordance with the Silent Partnership Agreement (see "Structure of the Issue" – "Silent Partnership Agreement").

The Issuer must not create any liabilities other than the Notes issued to refinance the Silent Contribution (see "Structure of the Issue" – "Silent Partnership Agreement"), except for liabilities which are inevitable to maintain its business operation. See "General Information on the Issuer".

IKB AG: IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf and Berlin, Germany. See "General Information on IKB Deutsche Industriebank Aktiengesellschaft".

Arranger: Deutsche Bank AG London.

Joint Lead Managers: Deutsche Bank AG London and BNP PARIBAS.

Principal Paying Agent: Deutsche Bank Aktiengesellschaft, Große Gallusstraße 10–14, 60272 Frankfurt am Main, Germany.

Dutch Paying Agent: Deutsche Bank AG Amsterdam.

Notes: € 200,000,000 fixed rate Notes without fixed maturity and with a conditional obligation to pay interest and principal depending on receipt of Profit Participations and repayment under a Silent Participation (see "Structure of the Issue" – "Silent Partnership Agreement") in the commercial enterprise *(Handelsgewerbe)* of IKB AG in the nominal amount of € 100 per Note.

Use of Proceeds: The Issuer will use the proceeds from the issue of the Notes to make the capital contribution under the Silent Participation.

Silent Partnership: The Issuer participates in the commercial enterprise *(Handelsgewerbe)* of IKB AG as a typical silent partner by making a capital contribution in the nominal amount € 200,000,000 in accordance with the Silent Partnership Agreement, dated 30 January/2 February 2004. The contribution is to serve as regulatory capital (Tier 1 capital *(Kernkapital)*) within the meaning of the German Banking Act *(KWG)* and the capital adequacy recommendations established by the Basle Committee on Banking Supervision. The nominal amount of the Silent Contribution (see "Structure of the Issue" – "Silent Partnership Agreement") is equal to the aggregate nominal amount of the Notes.

The Silent Partnership is established for an indefinite period of time. It is subject to German law.

Ranking of the Silent Partner's Claims: Claims of the Issuer against IKB AG under the Silent Partnership Agreement are subordinated to claims of all existing and future creditors of IKB AG (including the claims under profit-participation rights *(Genussrechte)* or subordinated debt within the meaning of Section 10(5), (5a) and (7) KWG). They rank at least equal to claims under existing and future silent participations and rank senior to claims under shares of IKB AG.

Participation of the Issuer in the Profits of IKB AG: For each Profit Period, the Issuer is entitled to a Profit Participation at a rate equal to 6.95812% of the Nominal Contribution Amount payable in respect of a Payment Period starting on a Distribution Date and ending on the next Distribution Date, calculated on the basis of the actual number of days in this Period divided by 365 or 366, as the case may be. "Payment Period" shall mean the period commencing on (and including) the date of payment of the Silent Contribution and ending on (but excluding) the first Distribution Date or commencing on (and including) a Distribution Date and ending on (but excluding) the next following Distribution Date. The First Distribution Date is July 15, 2004.

No Profit Participation is payable if and to the extent that such payment would cause or increase a balance sheet loss within the meaning of Section 158(1) No. 5 German Stock Corporation Act *(AktG)*. Further, pursuant to the general provision of Section 301 sentence 1 AktG no profit participation is payable if and to the extent the amount payable pursuant to the Silent Partnership Agreement and other partial profit transfer agreements *(Teilgewinnabführungsverträge)* exceeds the annual net income *(Jahresüberschuss)* of IKB AG adjusted for losses carried forward from the previous financial year, transfers to the statutory reserve *(gesetzliche Rücklage)* and transfers from other revenue reserves *(andere Gewinnrücklagen)* accrued during the term of the Silent Partnership Agreement. Furthermore, payment of a Profit Participation requires prior full replenishment of the Silent Contribution in the event that its Book Value has been decreased below the Nominal Contribution Amount as a result of any loss participation.

If IKB AG pays a dividend (as described in Section 2(5) of the Silent Partnership Agreement) for the relevant Fiscal Year or makes payments in respect of Other Tier 1 Capital Instruments (see "Structure of the Issue" – "Silent Partnership Agreement"), IKB AG is under the obligation to, despite there being a Balance Sheet Loss, withdraw amounts from revenue reserves within the meaning of Section 301 sentence 2 AktG in order to avoid any reduction of the Book Value or to replenish any reduced Book Value of the Silent Contribution, as the case may be, if and to the extent that such reserves are existing. The obligation to replenish or to avoid any reduction of the Book Value and to pay Profit Participations by withdrawing amounts from revenue reserves pursuant to Section 301 sentence 2 AktG only exists if and to the extent the solvency ratio *(Solvabilitätskoeffizient)* of IKB AG remains at least 9% on a solo as well as on a consolidated basis. When paying Profit Participations, the limitations contained in Section 301 sentence 1 AktG, as described above, must be observed. Capital reserves cannot be used for for payments under the Silent Participation. In the event that claims under Other Tier 1 Capital Instruments ranking *pari passu* in relation to the Silent Contribution are only satisfied in part, the Profit Participation, within Section 301 sentence 2 AktG, must be paid on a pro rata basis. In the event that any claims under Other Tier 1 Capital Instruments which are subordinated to the Silent Contribution are satisfied only in part, the Profit Participation, within Section 301 sentence 2 AktG, is to be paid in full. IKB AG will not pay any Profit Participation in respect of a Profit Period if and to the extent such payment has been prohibited by the German Financial Supervisory Agency *(Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin)*. If, due to the fact that the annual accounts have not yet been approved, IKB AG pays the Profit Participation only after the Due Date, interest shall be payable on the Profit Participation at a rate of 5% above the then applicable base rate. With respect to the conditionality of the obligation to pay Profit Participation, see "Risk Factors – Profit Participation and Payments in respect of the Notes".

The Issuer may request that the Profit Participation be increased if and to the extent that, as a result of any tax-related changes, the Silent Partner incurs higher refinancing costs or any additional liability.

There is no obligation to subsequently pay any Profit Participations that were not paid.

Participation of the Issuer in any Losses of IKB AG: In the event of a Balance Sheet Loss, the Book Value of the Silent Contribution will be reduced on a pro rata basis with the total book value of other loss-participating components of IKB AG's regulatory capital. Future balance sheet profits shall be used to replenish the Silent Contribution up to the Nominal Contribution Amount.

Termination of the Silent Partnership: Termination by the Issuer is excluded.

IKB AG may terminate the Silent Partnership by giving two years' prior notice with effect as of the end of a Fiscal Year, or, in the event of certain tax or regulatory changes, with effect at the end of a calendar month, but in no event earlier than with effect as of 31 March 2014 (see "Risk Factors" – "No fixed Termination Date" and "Structure of the Issue" – "Overview" – "Silent Partnership Agreement"). Termination requires the prior consent of the German Financial Supervisory Agency (BaFin).

Should the Silent Contribution no longer qualify as liable capital (Tier 1 capital *(Kernkapital)*) within the meaning of the KWG, IKB AG may terminate the Silent Partnership at any time by giving 30 day's notice with effect as of the end of a calendar month.

If the Book Value of the Silent Contribution falls below the Nominal Contribution Amount, the Silent Partnership will be deemed not terminated until the Silent Contribution has been fully replenished up to the Nominal Contribution Amount.

In the event the Silent Partnership is terminated during a Fiscal Year, interest shall be payable on the Silent Contribution at the then applicable rate of the Profit Participation from the Termination Date until the end of the Fiscal Year in which the termination becomes effective.

Except for the obligation to pay interest in the event of termination of the Silent Partnership during a Fiscal Year, no interest shall be payable on the Repayment Amount which is due upon termination of the Silent Partnership for the period commencing on the Termination Date and ending on the Repayment Date.

Receivables Purchase Agreement: Upon distribution of the Profit Participation to the Issuer or the replenishment of the Silent Contribution following a Reduction of its Book Value, IKB AG is required to deduct withholding tax on investment income *(Kapitalertragsteuer)* from the distributed amounts and/or from the amount of replenishment pursuant to Section 43(1) No. 3 German Income Tax Act *(EStG)*, unless the tax authorities have granted a tax exemption for such payments to the Issuer. The withholding will be credited as a prepayment against the corporate income tax liability of the Issuer. To the extent that any such prepayment exceeds the definitive amounts of corporate income tax payable by the Issuer, the Issuer may claim a refund from the tax authorities.

Pursuant to a Receivables Purchase Agreement between the Issuer and IKB AG, dated 30 January/2 February 2004, the Issuer sells and assigns to IKB AG its Tax Refund Claims against the tax authorities. As consideration, the Issuer will have payment claims against IKB AG, which claims become due for payment in the amount of the respective Withholding at the time of the distribution of the Annual Profit Participation.

The Profit Participation, after deduction of investment income tax, plus the Purchase Price paid for the Tax Refund Claims equals the gross amount of the Profit Participation.

Fiduciary Agreement: Pursuant to a Fiduciary Agreement, dated 18 February 2004, entered into between the Issuer, IKB AG and the Fiduciary for the benefit of the Investors, the Issuer has assigned to the Fiduciary all present and future Profit Participation Claims, Delayed Payment Interest Claims, Payment Claims and Termination Claims against IKB AG as security for the claims of the Investors.

Fiduciary: Deutsche Bank Luxembourg S. A., Boulevard Konrad Adenauer, L-1115 Luxembourg.

Status of the Notes: The Notes represent unsecured (except for the security under the Fiduciary Agreement) and unsubordinated liabilities of the Issuer ranking *pari passu* among themselves and with all other unsecured and unsubordinated liabilities of the Issuer, except for liabilities which rank senior as a matter of law.

Other Tier 1 Capital Instruments: IKB AG reserves the right to enter into agreements on Other Tier 1 Capital Instruments (see "Structure of the Issue" – "Silent Partnership Agreement") on identical or different terms. Claims of any future silent partners (or of holders of security provided for Tier 1 Capital Instruments of subsidiaries of IKB AG) must not rank senior to the claims of the Issuer under the Silent Partnership. IKB AG has on 9/10 December 2002 entered into a silent partnership in the nominal amount of € 200,000,000 with Capital Raising GmbH, Norderfriedrichskoog, which ranks *pari passu* with the Silent Partnership.

Repayment of the Notes: The Notes have no fixed maturity.

The Issuer may terminate the Notes for early redemption for the first time with effect from 15 July 2014 or at any time for tax reasons, provided that the financing of the repayment of the Notes plus any interest accrued is ensured by the issue of similar debt securities or otherwise.

In the event of a breach by the Issuer of obligations under the Terms and Conditions of the Issue, the Investors are entitled to early termination of the Notes subject to the Terms and Conditions of the Issue.

In all other circumstances, the Notes will be redeemed upon repayment of the Silent Contribution in the amount of the Silent Contribution repaid by IKB AG.

Payment of Interest: Annually in arrears, at a rate equal to 6.625 % p. a. of the Nominal Contribution Amount if and to the extent that the Fiduciary has effectively received the necessary amounts for the account of the Issuer. The interest rate corresponds to the Profit Participation of the Issuer under the Silent Partnership less a margin of 0.00125 % p. a. of the Nominal Contribution Amount, which margin will be retained by the Issuer as its own profit, and less an amount of 0.33187 % p. a. of the Nominal Contribution Amount. Such last mentioned amount is an amount (rounded upwards for the fifth decimal point) for trade tax *(Gewerbesteuer)* and corporate tax and solidarity surcharge charged thereon and to be paid by the Issuer regarding payments of interest. The margin shall only be payable if and to the extent that the Annual Profit Participation together with the Purchase Price paid for the Tax Refund Claims exceeds the amount of interest payable to the Investors. IKB AG has undertaken in a separate agreement, dated 30 January/2 February 2004, to reimburse the Issuer for current expenses relating to and required in respect of the holding and the administration of the Silent Contribution as well as the issue of the Notes.

Interest Payment Days:	15 July of the Fiscal Year following the relevant Fiscal Year of IKB AG; if such day is not a Business Day, interest shall be paid immediately on the Business Day following 15 July; no additional interest shall be payable in case of such postponement. The first Interest Payment Date is 15 July 2004. In the event that the annual accounts of the relevant Fiscal Year of IKB AG have not yet been approved on the relevant Due Date, payment will be postponed until the first Business Day following the day on which the annual accounts of IKB AG have been approved. The Issuer will pay any amounts of Delayed Payment Interest received by the Fiduciary from IKB AG as additional interest on the Notes.
Profit Period:	The First Profit Period (see "Structure of the Issue" – "Silent Partnership Agreement") is the period commencing on (and including) the date on which payment of the Silent Contribution is made and ending on (and including) 31 March 2004. Each following Profit Period corresponds with the Fiscal Year of IKB AG commencing on (and including) 1 April and ending on (and including) 31 March of each year, unless the Profit Period shall end early due to effective termination of the Silent Partnership.
Payment Period:	The First Payment Period (see "Structure of the Issue" – "Silent Partnership Agreement") is the period commencing on (and including) the date of payment of the Silent Contribution and ending on (and excluding) the first Distribution Date. Each following Payment Period is the period commencing on (and including) a Distribution Date and ending on (and excluding) the next following Distribution Date. The relevant Profit Participation will be calculated in respect of each Payment Period on the basis of the effective number of days in that Payment Period divided by 365 or 366.
Gross Interest Clause:	Under certain circumstances (see "Structure of the Issue" – "Terms and Conditions of the Issue"), the Issuer is obliged to pay Additional Amounts to the Investors to the extent payments on the Notes become subject to any withholding tax (except for interest income tax *(Zinsabschlag)* or any comparable tax) or deductions by the Issuer due to future changes in legislation. In such case, or if the tax liability of the Issuer increases due to a change in trade income taxation or the introduction of an other income or property tax, IKB AG shall increase the Profit Participation accordingly.
Applicable Law:	The laws of the Federal Republic of Germany.
Envisaged Listings of the Notes:	Frankfurt am Main (Official Market) and Euronext Amsterdam N.V. (Official Segment).
Clearing Codes	ISIN DE000A0AMCG 6 Common Code 018554208 WKN A0AMCG

Use of Issue Proceeds

The Issuer will use the proceeds from the issue of the Notes to participate in the commercial enterprise of IKB AG as a typical silent partner by making a Silent Contribution of € 200,000,000 in accordance with the Silent Partnership Agreement included in this Prospectus. IKB AG intends to use the Silent Contribution for general corporate purposes. The Silent Contribution will serve IKB AG as Tier I regulatory capital at the level of IKB AG as well as at group-level. IKB AG will pay certain commissions to the Managers and reimburse the Managers for certain expenses in connection with the Offering. Accordingly, the net proceeds to IKB AG net of commission to the Managers can be deemed to be € 196,000,000.

Risk Factors

Potential Investors should thoroughly read the following risk factors prior to any investment in the Notes. The discussion of risk factors set out below does not comprise all potential risks. Interested Investors should consider all information in this Prospectus and should contact their professional advisers for further advice.

Liability

The Notes represent obligations of the Issuer only and will not, in any case, be deemed to constitute claims or obligations of the Managers, the Fiduciary, IKB AG or affiliated companies of the Issuer or other individuals or legal entities. None of these persons or entities assumes any liability in respect of the Notes. If the Issuer fails to comply with its payment obligations thereunder, the Investors will not receive any payments from the Issuer or any of the individuals or legal entities mentioned above.

Conditional Payment Obligation under the Notes

The obligation of the Issuer to comply with its payment obligations under the Notes depends on the receipt in full of the respective amounts payable by IKB AG under the Silent Partnership Agreement and the Receivables Purchase Agreement. If the Issuer does not receive any payments under the Silent Participation or, as the case may be, lower amounts than expected, the Investors will not receive any payment under the Notes, or, as the case may be, lower amounts than expected.

No Direct Claims of Investors against IKB AG

The Investors have no direct rights or claims for any Profit Participation or any other claims under the Silent Partnership Agreement and the other agreements against IKB AG. This applies also if the Notes are not repaid at full nominal value on the Repayment Date due to a reduced Book Value of the Silent Contribution.

No Profit Participation and Payments in respect of the Notes

The Issuer will make interest payments on the Notes from the Annual Profit Participation (see "Structure of the Issue" – "Terms and Conditions of the Issue") and the Amount of the Purchase Price effectively received by the Fiduciary for the account of the Issuer.

In the event the amounts paid by IKB AG are not sufficient, the amount of interest payments will be reduced accordingly.

No interest will be payable if and for so long as the Silent Contribution following any Reduction of its Book Value due to a loss participation of the Silent Partner has not been fully replenished up to the Nominal Contribution Amount.

In addition, no interest will be payable if and to the extent payment of the Profit Participation for the relevant Profit Period would result in, or increase, any balance sheet loss within the meaning of Section 158(1) No. 5 AktG of IKB AG.

Section 301 AktG limits the maximum amount of profit participations payable by IKB AG for each Profit Period pursuant to the Silent Partnership Agreement and other partial profit transfer agreements *(Teilgewinnabführungsverträge)* to the amount of the annual net income *(Jahresüberschuss)* of IKB AG adjusted for losses carried forward from the previous financial year, transfers to the statutory reserve *(gesetzliche Rücklage)* and transfers from other revenue reserves *(andere Gewinnrücklagen)* accrued during the term of the Silent Partnership Agreement.

Where payment of the Profit Participation would result in, or increase, any Balance Sheet Loss, but dividends are paid to the shareholders of IKB AG or if in such case any other payments on Other Tier 1 Capital Instruments are made, IKB AG will be obliged (if and to the extent that IKB AG's solvency ratio remains at least 9% on a solo as well as on a consolidated basis) to avoid any Reduction or to fully replenish any reduced Book Value, as the case may be, in compliance with Section 301 sentence 2 AktG, by withdrawing amounts from existing revenue reserves and, by payment of a Profit Participation, to provide for a payment of interest on the Notes by the Issuer.

In accordance with Section 301 AktG, only such revenue reserves may be withdrawn which have been contributed to other revenue reserves (equivalent to retained earnings) within the meaning of Section 158(1) No. 4 AktG during the term of the Silent Partnership. If such revenue reserves do not exist, no Profit Participation will be paid on the Silent Partnership. Capital reserves cannot be used for the purpose of paying Profit Participation on the Silent Partnership.

IKB AG will not make any payment of the Profit Participation in respect of a Profit Period if and to the extent that the German Financial Supervisory Agency has prohibited IKB AG to do so.

Neither the Issuer nor the Investors may require IKB AG to make distributions from revenue reserves unless dividends are paid or payments are made in respect of Other Tier 1 Capital Instruments. However, in the event IKB AG should not make withdrawals from revenue reserves, IKB AG has undertaken not to make any payments on any Other Tier 1 Capital Instruments unless it is under the obligation to do so.

Missed interest payments will not be made subsequently.

Insufficient Funds in case of Payments of Capital Income Tax

The Issuer is of the opinion that, pursuant to currently applicable law, it will not be obliged to withhold any capital income tax from payments made on the Notes. However, it cannot be excluded that the tax authorities may decide otherwise. In any case, the Issuer will only pay Additional Amounts to the holders of the Notes as compensation for any withholding effected by the Issuer if and to the extent that any such withholding is required by law in the future due to a change in legislation (i.e. particularly any changes in applicable laws or regulations).No payment will be made if the tax authorities are of the opinion that the Issuer is obliged to withhold capital income tax from payments made on the Notes while the present applicable legal situation remains unchanged.

Adverse Effect on the Issuer's Solvency in case of Violation of the Articles of Association by its Managing Directors (Geschäftsführer) – Unlimited Power of Attorney of the Managing Directors (Geschäftsführer) of the Issuer

The purpose of the business of the Issuer as specified in its Articles of Associaton is limited to the participation in the commercial enterprise of a bank as silent partner, the issue of notes and the engagement in any ancillary business relating hereto. Under German law, however, the power of the managing directors of the Issuer to enter into transactions which are outside the scope of the statutory purpose remains unrestricted. As a consequence, should the managing directors, in violation of their duties and in breach of the Articles of Association, disregard the above restrictions and limitations, any obligations of the Issuer assumed as a result thereof would in normal circumstances be legally effective. If and to the extent such obligations are not borne by IKB AG under the Agreement on the Reimbursement of Expenses between IKB AG and the Issuer, such obligations could adversely affect the ability of the Issuer to make payments on the Notes in accordance with the Terms and Conditions of the Issue.

No Payments under the Notes due to the Ranking of the Notes and the Silent Participation

The Notes represent unsecured (except for the security under the Fiduciary Agreement) and unsubordinated liabilities of the Issuer ranking *pari passu* among themselves and with all other unsecured and unsubordinated liabilities of the Issuer, except for liabilities which rank senior as a matter of law.

However, the claims of the Issuer against IKB AG under the Silent Partnership Agreement represent unsecured liabilities of IKB AG and are *subordinated* to claims of all existing and future creditors of IKB AG (including claims under cumulative profit participation rights *(Genussrechte)* and, where applicable, Tier 2 Capital Instruments as well as all other subordinated liabilities pursuant to Section 10(5), (5a) and (7) KWG), rank *pari passu* with all claims under existing and future silent partnerships and with all Other Tier 1 Capital Instruments which, in accordance with their terms and conditions, rank *pari passu* with profit participation rights in the form of silent partnerships, and rank *senior* to all claims under shares of IKB AG. IKB AG has on 9/10 December 2002 entered into a silent partnership with Capital Raising GmbH, Norderfriedrichskoog, which ranks *pari passu* with the Silent Partnership. The replenishment of the Silent Contribution following a Reduction takes priority over the replenishment of the share capital, payment of dividends or allocation to reserves (except for statutory reserves). The obligation to replenish the Silent Contribution ranks *pari passu* with Other Tier 1 Capital Instruments and is *subordinated* to similar obligations under cumulative profit participation rights *(Genussrechte)* unless the terms and conditions of such rights provide for *pari passu* ranking.

Issuer's Single Asset

The subordinated claims under the Silent Partnership Agreement represent substantially all assets of the Issuer. Accordingly, if the Issuer does not receive payments on such subordinated claims, the Issuer will not be able to make any payments on the Notes.

No Fixed Redemption Date

There is no fixed date for the redemption of the Notes.

The Notes may be terminated early (i. e. prior to repayment of the Silent Contribution) in whole, but not in part, and redeemed, at par value plus any interest accrued on the Notes, for the first time with effect of 15 July 2014, and any time for certain tax reasons with effect at the end of each month, by giving no less than 30 and no more than 60 days' notice. The Investors are entitled only to such amounts of interest accrued until the day on which the Notes are effectively terminated. The Issuer may terminate the Notes early only if the financing of the redemption of the Notes plus any accrued interest is secured by the issue of similar debt securities or in any other way.

In all other cases, redemption of the Notes depends on the repayment of the Silent Contribution. The Silent Contribution is to be repaid, in particular, in the event of a termination of the Silent Partnership Agreement by IKB AG. Any such termination may be declared by IKB AG no earlier than with effect at 31 March 2014. Whether IKB AG will exercise its right of termination with effect at 31 March 2014 or with effect at a later date will depend on a number of bank internal and external factors which will be taken into account by IKB AG in its decision on the exercise of its right of termination. Such factors include, for example, the regulatory capital and the refinancing options of IKB AG, the treatment of the Silent Contribution under bank regulatory aspects, the required prior consent of the German Financial Supervisory Authority as well as the general interest environment and capital markets conditions at the time of the relevant termination.

In any case, repayment of the Silent Contribution is excluded until the Book Value of the Silent Contribution, if reduced by reason of a previous loss participation, has been fully replenished up to the Nominal Contribution Amount.

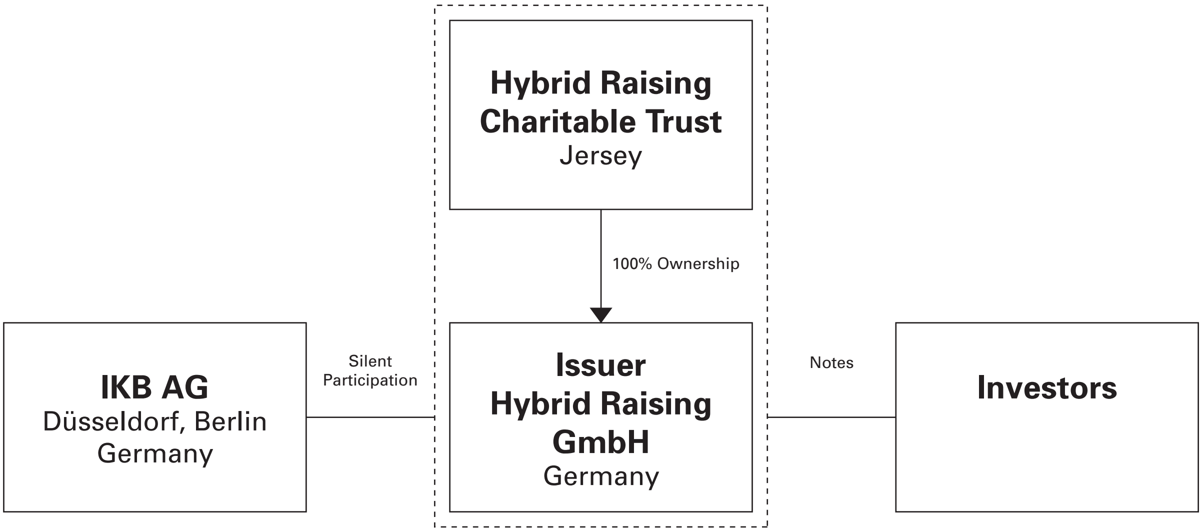
No Secondary Market

There is no established secondary market for the Notes and it is not possible to predict whether a secondary market for the Notes will develop or continue. The ability of Investors to sell the Notes as well as the expected price will depend, among other factors, primarily on the development of any such secondary market. Neither the Lead Managers nor IKB AG will be obliged to establish such secondary market for the Notes.

Structure of the Issue

Overview

This overview will, in its entirety, be qualified and supplemented by reference to the detailed information as set out elsewhere in this Prospectus, in particular in the following Terms and Conditions of the Issue and the Silent Partnership Agreement. In the event of any inconsistencies between this overview and the detailed information as set out elsewhere in this Prospectus, the latter shall prevail.



Sole shareholder of the Issuer is Deutsche International Corporate Services Limited, with its registered office in Jersey, acting as trustee of the Hybrid Raising Charitable Trust, an independent non-profit trust domiciled in Jersey.

Silent Partnership Agreement

The Issuer will use the proceeds from the issue of the Notes for the purpose of participating in the commercial enterprise of IKB AG as typical silent partner by means of a capital contribution in the nominal amount of € 200,000,000. The Silent Contribution will be used by IKB AG as regulatory capital within the meaning of the German Banking Act (KWG). Under the Silent Partnership Agreement, dated 30 January/2 February 2004 and registered with the Commercial Registers of the Local Court Charlottenburg and of the Local Court Düsseldorf on 11 February 2004, the Issuer is entitled to an Annual Profit Participation in a rate equal to 6.95812% p.a. of the Nominal Contribution Amount in respect of the relevant Payment Period.

Payments of the Profit Participation are not made if and to the extent that any such payment would result in a balance sheet loss within the meaning of Section 158(1) No. 5 AktG of IKB AG (see "Risk Factors – Profit Participation and Payment in respect of the Notes" regarding the non-obligation of IKB AG to pay Profit Participations). Missed Profit Participations will not be paid subsequently. In case of a Balance Sheet Loss, the Silent Contribution of the Silent Partner will be reduced on a pro rata basis together with other components of the regulatory capital of IKB AG participating in the losses. Replenishment of the Silent Contribution will be made out of future balance sheet profits.

Termination by the Silent Partner is excluded. IKB AG may terminate the Silent Partnership Agreement by giving two years' prior notice, but in no event earlier than with effect at 31 March 2014. Termination requires the prior consent of BaFin.

Receivables Purchase Agreement

Upon distribution of the Profit Participation to the Issuer or the replenishment of the Silent Contribution following a Reduction of its Book Value, IKB AG has to withhold amounts on account of investment income tax *(Kapitalertragsteuer)* payable on the distributed amounts and/or on the amount of replenishment pursuant to Section 43(1) No. 3 German Income Tax Act *(EStG)*, unless the tax authorities have granted a tax exemption for payments to the Issuer. The Withholding is treated as a prepayment towards the corporate income tax liability of the Issuer. To the extent that any such prepayment exceeds the definitive amounts of corporate income tax payable by the Issuer, the Issuer will have a refund claim against the tax authorities.

Pursuant to the Receivables Purchase Agreement, dated 30 January/2 February 2004, the Issuer sells and assigns to IKB AG its Tax Refund Claims against the tax authorities. As consideration, the Issuer will have payment claims against IKB AG, which claims become due for payment in the amount of the respective Withholding at the time of the distribution of the Annual Profit Participation. The Profit Participation following the withholding of investment income tax, plus the Purchase Price paid for the Tax Refund Claims, equals the gross amount of the Profit Participation.

Notes

On each Due Date, the Issuer will make interest payments on the Notes to the Investors from the Annual Profit Participation (see "Structure of the Issue" – "Terms and Conditions of the Issue") and the Amount of the Purchase Price received by the Fiduciary for the account of the Issuer, at a rate of 6.625% p.a. of the Nominal Contribution Amount, provided that the interest payment is not reduced due to a lower amount of Profit Participation. The interest rate corresponds to the Profit Participation of the Issuer reduced by a margin of 0.00125% p.a. of the Nominal Contribution Amount retained by the Issuer as its own profit, and less an amount of 0.33187% p.a. of the Nominal Contribution Amount. Such last mentioned amount is an amount (rounded upwards for the fifth decimal point) for trade tax *(Gewerbesteuer)* and corporate tax and solidarity surcharge charged thereon and to be paid by the Issuer regarding payments of interest. The Issuer realises such profit only and to the extent that the Annual Profit Participation together with the Amount of the Purchase Price exceeds the amount of interest payable to the Investors. The Issuer shall not be under the obligation to subsequently make any missed interest payments.

No date has been fixed for redemption of the Notes. Redemption of the Notes will be effected upon repayment of the Silent Participation if and to the extent the Silent Contribution is repaid by IKB AG (see "Structure of the Issue" – "Silent Partnership Agreement"). Any redemption of the Notes is excluded for so long as the Silent Contribution is reduced by a previous loss participation and has not been fully replenished.

Fiduciary Agreement

In accordance with the Fiduciary Agreement between the Issuer, IKB AG and the Fiduciary for the benefit of the Investors, dated 18 February 2004, the Issuer has assigned to the Fiduciary any and all present and future claims for Profit Participation, Delayed Payment Interest as well as Payment and Termination Claims against IKB AG as security for the claims of the Investors under the Notes. If, on the relevant Due Date, payments to be made on the Assigned Claims (see "Structure of the Issue" – "Fiduciary Agreement") are not made, the Fiduciary will assert the claims promptly against IKB AG. The Fiduciary is entitled to take judicial and extra-judicial action in the interest of the Investors.

Agreement on the Reimbursement of Expenses

In a separate agreement IKB AG has undertaken to reimburse to the Issuer the current expenses related to and necessary in respect of the holding and the administration of the Silent Participation as well as the issue of the Notes.

Terms and Conditions of the Issue

The German text of the Terms and Conditions of the Issue is legally binding. The English translation is for convenience only.

Emissionsbedingungen

§ 1
Stückelung, Verbriefung, Clearing

(1) *Stückelung.* Die Emission der Hybrid Raising GmbH (die „**Emittentin**") im Gesamtnennbetrag von € 200.000.000 (in Worten: Euro zweihundert Millionen) (der „**Nennbetrag**") ist eingeteilt in 2.000.000 untereinander gleichrangige Teilschuldverschreibungen mit einem Nennbetrag von jeweils € 100 (die „**Teilschuldverschreibungen**").

(2) *Verbriefung.* Die Teilschuldverschreibungen werden durch eine auf den Inhaber lautende Globalurkunde (die „**Globalurkunde**") ohne Zinsscheine verbrieft. Effektive Urkunden über einzelne Teilschuldverschreibungen und Zinsscheine werden nicht ausgegeben. Eine Kopie der Globalurkunde ist für die Inhaber der Teilschuldverschreibungen (jeweils ein „**Investor**") bei den Geschäftsstellen der Zahlstelle (§ 12) kostenlos erhältlich.

(3) *Clearing System.* Die Globalurkunde wird bis zur vollständigen Erfüllung sämtlicher Verpflichtungen der Emittentin aus den Teilschuldverschreibungen von der Clearstream Banking AG, Frankfurt am Main (das „**Clearing System**"), verwahrt. Die Teilschuldverschreibungen sind durch entsprechende Depotbuchungen gemäß den jeweiligen Bestimmungen des Clearing Systems und, außerhalb der Bundesrepublik Deutschland, Clearstream Banking S. A., Luxemburg, und Euroclear Bank S. A./N. V., Brüssel, übertragbar.

§ 2
Stille Beteiligung, Treuhand, Forderungskauf

(1) *Beteiligungsvertrag.* Den Erlös aus der Ausgabe der Teilschuldverschreibungen wird die Emittentin ausschließlich zu dem Zweck verwenden, nach Maßgabe des Vertrags über die Errichtung einer Stillen Gesellschaft vom 30. Januar/2. Februar 2004 (der „**Beteiligungsvertrag**") zwischen der Emittentin und der IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf und Berlin, (die „**Bank**"), eine stille Beteiligung (die „**Stille Beteiligung**") in Höhe von € 200.000.000 (Euro zweihundert Millionen) (der „**Einlagenennbetrag**") an der Bank zu begründen, die bei dieser als haftendes Eigenkapital dienen soll. Nach Maßgabe des Beteiligungsvertrags steht der Emittentin während der Dauer des Beteiligungsvertrags als Gegenleistung für ihre Einlage eine Gewinnbeteiligung in jedem Gewinnzeitraum (die „**Gewinnbeteiligung**") zu. Die Gewinnbeteiligungen werden jeweils jährlich nach Maßgabe des Beteiligungsvertrags ermittelt und ausgeschüttet (nach Abzug des Einbehalts gemäß § 2(3) jeweils eine „**Jährliche Gewinnbeteiligung**"). Die Ausschüttung der Jährlichen Gewinnbeteiligung erfolgt am jeweiligen Fälligkeitstag gemäß § 3(1) des Beteiligungsvertrags (jeweils der „**Fälligkeitstag**"). Erfolgt die Ausschüttung nach dem jeweiligen Fälligkeitstag wegen verspäteter Feststellung des für die Ermittlung der jeweiligen Jährlichen Gewinnbeteiligung maßgeblichen Jahresabschlusses, wird die Jährliche Gewinnbeteiligung nach Maßgabe des Beteiligungsvertrags verzinst (die „**Verspätungszinsen**")[1]. Die Bestimmungen des Beteiligungsvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als An-

[1]) Vgl. in diesem Prospekt „Beschreibung der Emissionsstruktur" – „Vertrag über eine Stille Beteiligung".

Terms and Conditions of Issue

Section 1
Denomination, Form, Clearing

(1) *Denomination.* The issue by Hybrid Raising GmbH (the "**Issuer**") in the aggregate nominal amount of € 200,000,000 (in words: Euro two hundred million) (the "**Nominal Amount**") is divided into 2,000,000 notes, ranking *pari passu* among themselves, in the nominal amount of € 100 each (the "**Notes**").

(2) *Form.* The Notes will be represented by a global bearer certificate (the "**Global Certificate**") without interest coupons. Definitive certificates representing individual Notes and interest coupons will not be issued. A copy of the Global Certificate will be available to the holders of the Notes (each an "**Investor**") at the offices of the Paying Agent (Section 12) without charge.

(3) *Clearing System.* The Global Certificate will be held in custody by Clearstream Banking AG, Frankfurt am Main, (the "**Clearing System**"), until all obligations of the Issuer under the Notes have been fully satisfied. The Notes will be transferable by book entry in accordance with the applicable rules of the Clearing System and, outside the Federal Republic of Germany, the rules of Clearstream Banking S. A., Luxembourg, and Euroclear Bank S. A./N. V., Brussels.

Section 2
Silent Participation, Fiduciary Agreement, Purchase of Receivables

(1) *Silent Participation.* The proceeds from the issue of the Notes will be used by the Issuer solely for the purpose of making a capital contribution (the "**Silent Contribution**") in the amount of € 200,000,000 (Euro two hundred million) (the "**Nominal Contribution Amount**") to IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf and Berlin, (the "**Bank**") in accordance with the Agreement on the Establishment of a Silent Partnership dated 30 January/2 February 2004, (the "**Silent Partnership Agreement**"), entered into between the Issuer and the Bank. The Silent Contribution is to serve the Bank as regulatory capital. Pursuant to the Silent Partnership Agreement and as consideration for its contribution, the Issuer is entitled to a profit participation in each Profit Period (the "**Profit Participation**") for the term of the Silent Partnership Agreement. The Profit Participations accruing in each Profit Period will be calculated and distributed on an annual basis in accordance with the Silent Partnership Agreement (after deduction of the withholding as per Section 2(3) below, each an "**Annual Profit Participation**"). The Annual Profit Participation shall be distributed on the relevant due date pursuant to Section 3(1) of the Silent Partnership Agreement (each such date a "**Due Date**"). In the event the distribution is made after the relevant Due Date due to a delayed approval of the annual accounts relevant to the calculation of the respective Annual Profit Participation the distribution shall bear interest in accordance with the terms of the Silent Partnership Agreement (the "**Delayed Payment Interest**")([1]). The terms of the

([1]) See in this Prospectus "Structure of the Issue" – "Silent Partnership Agreement".

lage beigefügt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Beteiligungsvertrags in seiner jeweils gültigen Fassung liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstelle (§ 12) aus. Soweit nicht anders bestimmt, haben Begriffe in diesen Emissionsbedingungen dieselbe Bedeutung wie im Beteiligungsvertrag.

(2) *Rechtsverhältnis.* Durch den Beteiligungsvertrag werden keine Rechte der Investoren gegenüber der Bank begründet. Die Bank übernimmt gegenüber den Investoren keine Haftung für die Weiterleitung von gegenüber der Emittentin geschuldeten Zahlungen.

(3) *Forderungskaufvertrag.* Bei der Ausschüttung der Gewinnbeteiligung an die Emittentin oder einer Auffüllung der Stillen Beteiligung nach Herabsetzung ihres Buchwerts behält die Bank gemäß § 43(1) Nr. 3 EStG Kapitalertragsteuer zuzüglich Solidaritätszuschlag auf die ausgeschütteten Beträge bzw. den Betrag der Wiederauffüllung ein, falls die Finanzverwaltung für Zahlungen an die Emittentin keine Befreiung erteilt hat. Dieser Einbehalt (der „**Einbehalt**") wird als Vorauszahlung auf die von der Emittentin geschuldete Körperschaftsteuer angerechnet. In der Höhe, in der diese Vorauszahlung die tatsächliche Körperschaftsteuerschuld der Emittentin übersteigt, steht der Emittentin jeweils ein Rückerstattungsanspruch gegen die Finanzbehörden zu (der „**Steuererstattungsanspruch**"). Die Emittentin und die Bank haben am 30. Januar/2. Februar 2004 einen Vertrag über den Erwerb der Steuererstattungsansprüche der Emittentin durch die Bank abgeschlossen (der „**Forderungskaufvertrag**")[2]) durch den die Emittentin ihre Steuererstattungsansprüche gegen die Finanzbehörden an die Bank verkauft und abtritt. Als Gegenleistung stehen der Emittentin Zahlungsansprüche gegen die Bank zu, die jeweils zum Zeitpunkt der Ausschüttung der Jährlichen Gewinnbeteiligung und in Höhe des jeweiligen Einbehalts zur Zahlung fällig werden (jeweils ein „**Kaufpreisbetrag**"). Bei einem Einbehalt, der aufgrund einer Auffüllung der Stillen Beteiligung nach Herabsetzung ihres Buchwerts erfolgt, ist der Kaufpreisbetrag für die Auffüllung der Stillen Beteiligung zu verwenden, indem er nicht ausgezahlt, sondern der Stillen Beteiligung gutgeschrieben wird. Die Bestimmungen des Forderungskaufvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Forderungskaufvertrags liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstelle (§ 12) aus.

(4) *Treuhandvertrag.* Die Emittentin, die Bank und Deutsche Bank Luxembourg S.A., Luxemburg, (die „**Treuhänderin**") haben am 18. February 2004 einen Treuhandvertrag abgeschlossen (der „**Treuhandvertrag**")[3]). Nach dem Treuhandvertrag hat die Emittentin alle ihre derzeitigen und künftigen Ansprüche auf die Jährlichen Gewinnbeteiligungen und eventuelle Verspätungszinsen sowie die ihr bei Beendigung der Stillen Beteiligung zustehenden Ansprüche auf Rückzahlung des Einlagenennbetrags und auf Zahlung der eventuell angefallenen Gewinnbeteiligung bzw. Zinsen unter dem Beteiligungsvertrag und ihre Ansprüche auf Zahlung der Kaufpreisbeträge unter dem Forderungskaufvertrag zur Sicherung der Zahlungen von Kapital und Zinsen unter diesen Emissionsbedingungen abgetreten. Die Treuhänderin wird die abgetretenen Ansprüche nach Maßgabe des Treuhandvertrags treuhänderisch für die

[2]) Vgl. in diesem Prospekt „Beschreibung der Emissionsstruktur" – „Wesentliche Bestimmungen des Forderungskaufvertrags". Von einem Abdruck des gesamten Vertrages wurde abgesehen.

[3]) Vgl. in diesem Prospekt „Beschreibung der Emissionsstruktur" – „Treuhandvertrag".

Silent Partnership Agreement are attached hereto and to the Global Certificate and shall be an integral part hereof and thereof. A copy of the Silent Partnership Agreement, as amended from time to time, is available for inspection at the offices of the Paying Agent (Section 12). Unless stated otherwise, terms used in these Terms and Conditions of Issue shall have the same meaning as in the Silent Partnership Agreement.

(2) *Legal Relationship.* The Silent Partnership Agreement does not give rise to any rights of the Investors vis-à-vis the Bank. The Bank does not assume any liability vis-à-vis the Investors with respect to the forwarding of payments owed to the Issuer.

(3) *Receivables Purchase Agreement.* Upon distribution of the Profit Participation to the Issuer or the replenishment of the Silent Contribution following reduction of its Book Value, the Bank is obliged to withhold investment income tax plus solidarity surcharge on the distributed amounts and/or on the amount of replenishment, pursuant to Section 43 (1) No. 3 of the German Income Tax Act (EStG), unless the tax authorities have granted a tax exemption for payments to the Issuer. This Withholding (the "**Withholding**") will be credited as a prepayment against the corporate income tax liability of the Issuer. To the extent any such prepayment exceeds the actual amount of corporate income tax liability of the Issuer, the Issuer will have a refund claim vis-à-vis the tax authorities (the "**Tax Refund Claim**"). On 30 January/2 February 2004, the Issuer and the Bank entered into an agreement on the purchase by the Bank of the Tax Refund Claims of the Issuer (the "**Receivables Purchase Agreement**") ([2]), under which the Issuer sells and assigns its Tax Refund Claims against the tax authorities to the Bank. As consideration therefor, the Issuer will have payment claims against the Bank, which claims become due at the time of distribution of the Annual Profit Participation and are payable in the amount of the respective Withholding (each an "**Amount of the Purchase Price**"). In the event of a Withholding due to replenishment of the Silent Contribution after reduction of its Book Value, the Amount of the Purchase Price shall not be paid to the Issuer but credited to the Silent Contribution and thus used towards its replenishment. The terms of the Receivables Purchase Agreement are attached hereto and to the Global Certificate and shall be deemed to constitute one document. A copy of the Receivables Purchase Agreement is available for inspection at the offices of the Paying Agent (Section 12).

(4) *Fiduciary Agreement.* On 18 February 2004, the Issuer, the Bank, and Deutsche Bank Luxembourg S.A., Luxembourg, (the "**Fiduciary**") have entered into a fiduciary agreement (the "**Fiduciary Agreement**") ([3]). Pursuant to the Fiduciary Agreement, the Issuer has assigned all of its present and future claims for Annual Profit Participations and Delayed Payment Interest, if any, as well as its claims for repayment of the Nominal Contribution Amount upon termination of the Silent Partnership Agreement, including any claims for Profit Participation payable and/or interest which may be accrued under the Silent Partnership Agreement, as well as its claims for payment of the Amounts of the Purchase Price under the Receivables Purchase Agreement, in order to secure payment of capital and interest hereunder. The Fiduciary will hold the assigned claims in trust in accordance with the Fiduciary Agreement for the

([2]) See in this Prospectus "Structure of the Issue" – "Material Provisions of the Receivables Purchase Agreement". The Agreement has not been included in its entity.

([3]) See in this Prospectus "Structure of the Issue" – "Fiduciary Agreement".

Investoren halten. Die Bestimmungen des Treuhandvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Treuhandvertrags liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstelle (§ 12) aus.

(5) *Aufwendungsersatzvereinbarung.* Nach Maßgabe einer zwischen der Emittentin und der Bank am 30. Januar/2. Februar 2004 abgeschlossenen Aufwendungsersatzvereinbarung hat die Bank sich gegenüber der Emittentin verpflichtet, der Emittentin eine jährliche Aufwandsentschädigung für bestimmte laufende und zur Aufrechterhaltung ihres Geschäftsbetriebs notwendige Aufwendungen zu zahlen.

§ 3
Status, Bindung

(1) *Status.* Die Teilschuldverschreibungen begründen nicht besicherte (mit Ausnahme der Sicherung durch den Treuhandvertrag) und nicht nachrangige Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen nicht besicherten und nicht nachrangigen Verbindlichkeiten der Emittentin gleichrangig sind, mit Ausnahme von Verbindlichkeiten, die nach geltenden Rechtsvorschriften vorrangig sind.

(2) *Bindung.* Die Teilschuldverschreibungen verbriefen die Verpflichtung der Emittentin, den Erlös aus der Ausgabe der Teilschuldverschreibungen zur Begründung der Stillen Beteiligung zu verwenden und die Jährlichen Gewinnbeteiligungen oder die Rückzahlung des Einlagenennbetrags sowie darauf eventuell aufgelaufener Zinsen, welche der Emittentin nach Maßgabe des Beteiligungsvertrags zustehen, sowie die Kaufpreisbeträge, welche der Emittentin nach Maßgabe des Forderungskaufvertrags zustehen, nach Abzug der von ihr zu tragenden Steuern zu verwenden, um ihre Zahlungsverpflichtungen gegenüber den Investoren nach Maßgabe dieser Emissionsbedingungen zu erfüllen. Die Emittentin ist unter keinen Umständen verpflichtet, Zahlungen an die Investoren zu leisten, wenn nicht die Treuhänderin die entsprechenden, der Emittentin nach Maßgabe des Beteiligungsvertrags oder des Forderungskaufvertrags zustehenden Beträge zuvor tatsächlich erhalten hat.

(3) *Vertragsänderungen.* Die Emittentin darf Änderungen des Beteiligungsvertrags und des Forderungskaufvertrags nur zustimmen, wenn dadurch die Rechte der Investoren nicht beeinträchtigt werden und die Treuhänderin der Änderung vorher schriftlich zugestimmt hat.

§ 4
Zinsen

(1) *Fälligkeit.* An jedem Fälligkeitstag wird die Emittentin aus der Jährlichen Gewinnbeteiligung und dem Kaufpreisbetrag, die die Treuhänderin für Rechnung der Emittentin jeweils tatsächlich erhalten hat, Zinsen auf die Teilschuldverschreibungen an die Investoren zahlen. Reichen die von der Bank gezahlten Beträge nicht aus, um nach Abzug der von der Emittentin zahlbaren Steuern Zinsen in Höhe von 6,625 % p. a. des Einlagenennbetrags zu zahlen, vermindert sich die Zinszahlung entsprechend. Die Emittentin ist nicht verpflichtet, entfallene Zinszahlungen nachzuholen. Erfolgt die Zahlung der an die Investoren zahlbaren Beträge nach dem jeweiligen Fälligkeitstag, weil am Fälligkeitstag der Jahresabschluss der Bank für das für die Ermittlung der Jährlichen Gewinnbeteiligung maßgebliche Geschäftsjahr noch nicht festgestellt war, wird die Emittentin an die Investoren den Betrag aus den Verspätungszinsen, den die Treuhänderin tatsächlich erhalten hat, als Zinsen auf die Teilschuldverschreibungen zahlen. Auf die einzelnen Teilschuldverschreibungen entfällt ein jeweils verhältnismäßiger Anteil aller vorstehend genannten zahlbaren Beträge (auf den nächsten vollen Cent abgerundet).

benefit of the Investors. The terms of the Fiduciary Agreement are attached hereto and to the Global Certificate and shall be an integral part hereof and thereof. A copy of the Fiduciary Agreement will be available for inspection at the offices of the Paying Agent (Section 12).

(5) *Agreement on the Reimbursement of Expenses.* Pursuant to an Agreement on the Reimbursement of Expenses entered into between the Issuer and the Bank on 30 January/2 February 2004, the Bank has assumed the obligation vis-à-vis the Issuer to pay to the Issuer an annual reimbursement in coverage of certain recurring expenses required for the continuance of its business operations.

Section 3
Status, Commitment

(1) *Status.* The Notes represent unsecured (except for the security under the Fiduciary Agreement) and unsubordinated liabilities of the Issuer which rank *pari passu* among themselves and with all other unsecured and unsubordinated liabilities of the Issuer, except for liabilities which rank senior by operation of mandatory provisions of applicable law.

(2) *Commitment.* The Notes represent the undertaking of the Issuer to use the proceeds from the issue for the purpose of making the Silent Contribution, and to use the Annual Profit Participations or the amounts from the repayment of the Nominal Contribution Amount, including any interest accrued thereon to which the Issuer may be entitled under the Silent Partnership Agreement, as well as the Amounts of the Purchase Price payable to the Issuer under the Receivables Purchase Agreement, after deduction of any applicable tax payable by the Issuer, to satisfy its payment obligations towards the Investors under these Terms and Conditions of the Issue. In no event shall the Issuer be under any obligation to make payments to the Investors unless and until the Fiduciary has effectively received the relevant amounts due to the Issuer under the Silent Partnership Agreement or the Receivables Purchase Agreement.

(3) *Amendments.* The Issuer may not consent to amendments to the Silent Partnership Agreement and the Receivables Purchase Agreement, unless such amendments will not adversely affect the rights of the Investors and have been approved in writing by the Fiduciary.

Section 4
Interest

(1) *Payment.* The Issuer shall pay on each Due Date interest on the Notes to the Investors from the Annual Profit Participations and the Amount of the Purchase Price effectively received by the Fiduciary for the account of the Issuer from time to time. In the event that, after deduction of the tax payable by the Issuer, the amounts paid by the Bank are not sufficient to pay interest equal to a rate of 6.625 % p. a. of the Nominal Contribution Amount, the interest payment shall be reduced accordingly. The Issuer shall not be under the obligation to subsequently make up for interest which has not been paid. If payment of the amounts due to the Investors is made after the respective Due Date due to the fact that, on the Due Date, the annual accounts of the Bank for the fiscal year relevant to the calculation of the Annual Profit Participation were not yet approved, the Issuer shall pay to the Investors interest on the Notes in the amount of Delayed Payment Interest effectively received by the Fiduciary. A pro rata share of the above amounts payable (rounded down to the next full cent) shall be allocated to each Note.

(2) *Anpassung des Gewinnbeteiligungssatzes.* Die Emittentin wird form- und fristgerecht von jeder Möglichkeit Gebrauch machen, den für die Berechnung der Gewinnbeteiligung unter dem Beteiligungsvertrag herangezogenen Gewinnbeteiligungssatz (der „**Gewinnbeteiligungssatz**") nach Maßgabe des Beteiligungsvertrags zu ihren Gunsten anpassen zu lassen. Der Gewinnbeteiligungssatz kann nach Maßgabe des Beteiligungsvertrags erhöht werden, falls die Emittentin zusätzliche Beträge (wie in § 8 definiert) zu zahlen hat.

(3) *Bekanntmachung der Anpassung des Gewinnbeteiligungssatzes.* Die Emittentin wird Anpassungen des Gewinnbeteiligungssatzes unverzüglich gegenüber den Investoren gemäß § 11 bekannt machen.

(2) *Adjustment of the Profit Participation Rate.* The Issuer shall make use of each opportunity, in due time and form, to have the Profit Participation Rate used for the calculation of the Profit Participation under the Silent Partnership Agreement (the "**Profit Participation Rate**") adjusted for its benefit, as provided in the Silent Partnership Agreement. Pursuant to the Silent Partnership Agreement, the Profit Participation Rate may be increased in the event the Issuer has to pay Additional Amounts (as defined in Section 8).

(3) *Publication of the Adjustment of the Profit Participation Rate.* The Issuer shall give notice to Investors of any adjustments of the Profit Participation Rate by publication in accordance with Section 11.

§ 5
Rückzahlung

(1) *Rückzahlung.* Am Rückzahlungstag der Stillen Beteiligung (wie im Beteiligungsvertrag definiert) wird die Emittentin die Rückzahlung der Stillen Beteiligung sowie die darauf eventuell angefallene Gewinnbeteiligung bzw. eventuell aufgelaufene Zinsen auf die Stille Beteiligung, die ihr nach Maßgabe des Beteiligungsvertrags zustehen und die die Treuhänderin für Rechnung der Emittentin jeweils tatsächlich erhalten hat, zur Rückzahlung der Teilschuldverschreibungen bzw. zur Zahlung aufgelaufener Zinsen auf die Teilschuldverschreibungen an die Investoren verwenden. Durch die Zahlung eines Betrags in Höhe der Rückzahlung der Stillen Beteiligung sowie der darauf eventuell angefallenen Gewinnbeteiligung bzw. der eventuell aufgelaufenen Zinsen auf die Stille Beteiligung an die Investoren gelten das Kapital der Teilschuldverschreibungen als vollständig zurückgezahlt und alle Ansprüche der Investoren als erloschen. Erfolgt die Rückzahlung der Stillen Beteiligung sowie die Zahlung der darauf eventuell angefallenen Gewinnbeteiligung bzw. eventuell aufgelaufener Zinsen auf die Stille Beteiligung an die Emittentin nach dem Rückzahlungstag, weil am Rückzahlungstag der Jahresabschluss der Bank für das zur Ermittlung der Höhe der Rückzahlung maßgebliche Geschäftsjahr noch nicht festgestellt war, werden die vorstehend genannten Beträge nach Maßgabe des Beteiligungsvertrags verzinst. Die Emittentin wird an die Investoren den Betrag aus dieser Verzinsung, den die Treuhänderin tatsächlich erhalten hat, zahlen. Auf die einzelnen Teilschuldverschreibungen entfällt ein jeweils verhältnismäßiger Anteil aller vorstehend genannten zahlbaren Beträge (auf den nächsten vollen Cent abgerundet).

(2) *Bekanntmachung.* Die Emittentin wird die Beendigung der Stillen Beteiligung und den Rückzahlungstag gegenüber den Investoren durch Mitteilung gemäß § 11 mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen bekannt machen.

Section 5
Repayment

(1) *Repayment.* On the Repayment Date of the Silent Contribution (as defined in the Silent Partnership Agreement), the Issuer will use the repayment of the Silent Contribution, as well as any Profit Participation and/or any interest accrued on the Silent Contribution to which the Issuer may be entitled pursuant to the Silent Partnership Agreement and which have been effectively received by the Fiduciary for the account of the Issuer, for the repayment of the Notes and/or the payment of interest accrued on the Notes to the Investors. Upon payment to the Investors of an amount equal to the amount of repayment of the Silent Contribution as well as any Profit Participation and/or any interest accrued on the Silent Contribution, the principal of the Notes shall be deemed to be fully repaid and all claims of the Investors shall be deemed to have ceased. If the repayment of the Silent Contribution as well as the payment of any Profit Participation and/or any interest accrued on the Silent Contribution is made to the Issuer later than on the Repayment Date due to the fact that, on the Repayment Date, the annual accounts of the Bank for the fiscal year relevant to the calculation of the amount to be repaid had not yet been approved, the above amounts payable shall bear interest in accordance with the provisions of the Silent Partnership Agreement. The Issuer shall pay to the Investors the amount of interest effectively received by the Fiduciary. A pro rata share of the above amounts payable (rounded down to the next full cent) shall be allocated to each Note.

(2) *Publication.* The Issuer shall give not less than 30 nor more than 60 days' notice to Investors of the termination of the Silent Partnership Agreement and the Repayment Date by publication in accordance with Section 11.

§ 6
Zahlungen

(1) *Zahlungen auf Kapital und Zinsen.* Zahlungen auf Kapital und Zinsen auf die Teilschuldverschreibungen erfolgen am jeweiligen Fälligkeitstag auf Anweisung der Treuhänderin und der Emittentin durch die Bank, für Rechnungen der Emittentin, an die Zahlstelle (§ 12) zur Weiterleitung an das Clearing System oder dessen Order in Euro zur Gutschrift auf den Konten der jeweiligen Kontoinhaber bei dem Clearing System.

(2) *Erfüllung.* Die Emittentin wird durch Leistung der Zahlung an das Clearing System oder dessen Order in Höhe der geleisteten Zahlungen von ihren Zahlungsverpflichtungen aus den Teilschuldverschreibungen befreit.

Section 6
Payments

(1) *Payments of Principal and Interest.* Payments of principal and interest on the Notes shall be made by the Bank, on account of the Issuer, on the relevant Due Date upon instruction by the Fiduciary and the Issuer to the Paying Agent (Section 12) for subsequent transfer to the Clearing System or to its order in Euro for credit to the accounts of the respective account holders at the Clearing System.

(2) *Fulfilment.* Upon effective payment to the Clearing System or to its order, the Issuer shall be released from its payment obligations under the Notes in the amount of the respective payment.

(3) *Bezugnahmen auf Kapital und Zinsen.* Bezugnahmen in diesen Emissionsbedingungen auf das Kapital der Teilschuldverschreibungen bezeichnen die folgenden Beträge: den Einlagenennbetrag bzw. den gegebenenfalls geringeren Buchwert sowie darauf nach Maßgabe des Beteiligungsvertrags eventuell aufgelaufene Zinsen. Bezugnahmen in diesen Emissionsbedingungen auf Zinsen auf die Teilschuldverschreibungen bezeichnen die folgenden Beträge: die der Emittentin nach Maßgabe des Beteiligungsvertrags zustehenden Beträge aus den Jährlichen Gewinnbeteiligungen in der den Investoren nach § 4(1) zustehenden Höhe und den eventuell entstandenen Verspätungszinsen sowie die der Emittentin nach Maßgabe des Forderungskaufvertrags zustehenden Kaufpreisbeträge.

(4) *Hinterlegung von Kapital und Zinsen.* Die Emittentin ist berechtigt, beim Amtsgericht Frankfurt am Main Zins oder Kapitalbeträge zu hinterlegen, auf die von einem Investor nicht innerhalb von zwölf Monaten nach dem vorgesehenen Fälligkeitstag Anspruch erhoben worden ist. Soweit die Emittentin auf das Recht zur Rücknahme der hinterlegten Beträge verzichtet hat, erlöschen die jeweiligen Ansprüche der Investoren gegen die Emittentin.

(3) *References to Capital and Interest.* All references in these Terms and Conditions of the Issue to the principal of the Notes shall be deemed references to the following amounts: the lower of the Nominal Contribution Amount and the Book Value as well as any interest accrued thereon in accordance with the Silent Partnership Agreement. All references made herein to interest payments on the Notes shall refer to the following amounts: the amounts from the Annual Profit Participations in the amount payable to the Investors pursuant to Section 4(1) and the amounts of Delayed Payment Interest, if any, due to the Issuer under the Silent Partnership Agreement and the Amounts of the Purchase Price due to the Issuer pursuant to the Receivables Purchase Agreement.

(4) *Deposit of Principal and Interest.* The Issuer may deposit with the Local Court *(Amtsgericht)* Frankfurt am Main amounts of principal or interest not claimed by the Investors within twelve months from the determined Due Date. If and to the extent the Issuer has waived its right to reclaim the deposited amounts, the respective claims of the Investors against the Issuer shall expire.

§ 7
Vorzeitige Kündigung und Rückzahlung

(1) *Vorzeitige Kündigung und Rückzahlung.* Die Teilschuldverschreibungen können insgesamt, jedoch nicht teilweise, gegenüber den Investoren durch Mitteilung gemäß § 11 mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum 15. Juli eines jeden Jahres, erstmalig zum 15. Juli 2014, vorzeitig gekündigt und zuzüglich aufgelaufener Zinsen auf die Teilschuldverschreibungen zurückgezahlt werden.

(2) *Vorzeitige Kündigung und Rückzahlung aus Steuergründen.* Die Teilschuldverschreibungen können ferner insgesamt, jedoch nicht teilweise, gegenüber den Investoren durch Mitteilung gemäß § 11 mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum Monatsende vorzeitig gekündigt und zuzüglich aufgelaufener Zinsen auf die Teilschuldverschreibungen zurückgezahlt werden, falls die Emittentin als Folge einer Änderung oder Ergänzung der Steuer- oder Abgabengesetze und -vorschriften der Bundesrepublik Deutschland oder deren politischen Untergliederungen oder Steuerbehörden oder als Folge einer Änderung oder Ergänzung der Anwendung oder der offiziellen Auslegung dieser Gesetze und Vorschriften (vorausgesetzt diese Änderung oder Ergänzung wird am oder nach dem Tag, an dem diese Teilschuldverschreibungen begeben werden, wirksam) am nächstfolgenden Fälligkeitstag zur Zahlung von zusätzlichen Beträgen (wie in § 8 definiert) verpflichtet sein wird und diese Verpflichtung nicht durch das Ergreifen vernünftiger, der Emittentin zur Verfügung stehender Maßnahmen vermieden werden kann.

(3) *Zulässigkeit der vorzeitigen Kündigung.* Die vorzeitige Kündigung gemäß § 7(1) oder (2) durch die Emittentin ist nur zulässig, sofern die Finanzierung der Rückzahlung der Teilschuldverschreibungen zuzüglich der aufgelaufenen Zinsen auf die Teilschuldverschreibungen durch Ausgabe vergleichbarer Schuldverschreibungen oder auf andere Weise gesichert ist.

(4) *Kündigungserklärung.* Im Falle des § 7(2) darf eine solche Kündigung (i) nicht früher als 90 Tage vor dem frühestmöglichen Termin erfolgen, an dem die Emittentin verpflichtet wäre, zusätzliche Beträge im Sinne des § 8 zu zahlen, falls eine Zahlung auf die Teilschuldverschreibungen dann fällig sein würde, oder (ii) nicht mehr erfolgen, wenn zu dem Zeitpunkt, zu dem die Kündigung erfolgt, die Ver-

Section 7
Early Termination and Repayment

(1) *Early Termination and Repayment.* The Issuer may terminate the Notes, in whole but not in part, with effect from 15 July of each year (however, no earlier than with effect from 15 July 2014) and redeem the Notes plus any interest accrued, by giving not less than 30 nor more than 60 days' notice to the Investors pursuant to Section 11.

(2) *Early Termination and Repayment for Tax Reasons.* In addition, the Issuer may terminate the Notes, in whole but not in part, with effect from the end of each month and redeem the Notes plus any interest accrued, by giving not less than 30 nor more than 60 days' notice to the Investors pursuant to Section 11, in the event that, on the next Due Date, the Issuer will be liable to payment of Additional Amounts (as defined in Section 8) due to a change in or an amendment to tax law or other taxrelated laws and regulations of the Federal Republic of Germany or its political subdivisions or tax authorities, or as a result of a change in or an amendment to the application or official interpretation of such laws and regulations (provided such change or amendment becomes effective on or after the issue day of the Notes), provided that such liability cannot be avoided by the Issuer by taking reasonable measures available to it.

(3) Permissibility of Early Termination. The Issuer may terminate the Notes pursuant to Section 7(1) or (2) only if it has ensured the financing of the repayment of the Notes plus any interest accrued by the issue of similar debt securities or in any other way.

(4) *Termination Notice.* In case of Section 7(2), such termination (i) may not be effected earlier than 90 days prior to the earliest possible termination date on which the Issuer would be liable to the payment of Additional Amounts within the meaning of Section 8 if a payment on the Notes were then due, and (ii) may no longer be effected if, at the time of termination, the obligation to pay Additional

pflichtung zur Zahlung von zusätzlichen Beträgen nicht mehr wirksam ist. Die Kündigung ist unwiderruflich und muss eine zusammenfassende Erklärung enthalten, welche die das Rückzahlungsrecht der Emittentin begründenden Umstände darlegt. Die vorzeitige Kündigung wird unwirksam, wenn am bekannt gemachten Rückzahlungstag die Teilschuldverschreibungen zuzüglich der aufgelaufenen Zinsen auf die Teilschuldverschreibungen nicht vollständig zurückgezahlt werden.

(5) *Zinszahlung.* Für den Anspruch auf Zinsen auf die Teilschuldverschreibungen gilt § 4 mit der Maßgabe, dass den Investoren Zinsen nur bis zu dem Zeitpunkt zustehen, zu dem die Teilschuldverschreibungen wirksam gekündigt werden.

§ 8
Steuern

Sämtliche auf die Teilschuldverschreibungen zu zahlenden Beträge sind ohne Einbehalt oder Abzug von oder aufgrund von gegenwärtigen oder zukünftigen Steuern oder sonstigen Abgaben gleich welcher Art zu leisten, die von oder in der Bundesrepublik Deutschland oder für deren Rechnung oder von oder für Rechnung einer politischen Untergliederung oder Steuerbehörde der oder in der Bundesrepublik Deutschland auferlegt oder erhoben werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. Wird ein solcher Einbehalt oder Abzug nach einer Rechtsänderung zukünftig gesetzlich vorgeschrieben, wird die Emittentin diejenigen zusätzlichen Beträge (die „**zusätzlichen Beträge**") zahlen, die erforderlich sind, damit die den Investoren zufließenden Nettobeträge nach einem solchen Einbehalt oder Abzug jeweils den Beträgen von Kapital und Zinsen auf die Teilschuldverschreibungen entsprechen, die ohne einen solchen Einbehalt oder Abzug von den Investoren empfangen worden wären; die Verpflichtung zur Zahlung solcher zusätzlichen Beträge besteht jedoch nicht für solche Steuern und Abgaben, die:

(a) auf andere Weise als durch einen von der Emittentin durchzuführenden Einbehalt oder Abzug auf Zahlungen, die die Emittentin an die Investoren zu leisten hat, also insbesondere im Falle des Zinsabschlags, zu entrichten sind; oder

(b) wegen einer gegenwärtigen oder früheren persönlichen oder geschäftlichen Beziehung des Investors zur Bundesrepublik Deutschland zu zahlen sind, und nicht allein deshalb, weil Zahlungen auf die Teilschuldverschreibungen aus Quellen in der Bundesrepublik Deutschland stammen (oder für Zwecke der Besteuerung so behandelt werden) oder dort besichert sind; oder

(c) aufgrund (i) einer Richtlinie oder Verordnung der Europäischen Union betreffend die Besteuerung von Zinserträgen oder (ii) einer zwischenstaatlichen Vereinbarung über deren Besteuerung, an der die Bundesrepublik Deutschland oder die Europäische Union beteiligt ist, oder (iii) einer gesetzlichen Vorschrift, die diese Richtlinie, Verordnung oder Vereinbarung umsetzt oder befolgt, einzubehalten oder abzuziehen sind; oder

(d) wegen einer Rechtsänderung zu zahlen sind, welche später als 30 Tage nach Fälligkeit der betreffenden Zahlung wirksam wird und die Zahlstelle die notwendigen Geldmittel erhalten hat.

§ 9
Kündigung

(1) *Kündigungsgründe.* Jeder Investor ist berechtigt, seine Teilschuldverschreibungen zu kündigen und deren Rück-

Amounts is no longer effective. Notice of termination is irrevocable and must include a summary statement describing the circumstances justifying the right of the Issuer to redeem the Notes. Any early termination becomes void if, on the announced Repayment Date, the Notes, plus any interest accrued, are not repaid in full.

(5) *Interest Payment.* Section 4 shall apply to any claims for payment of interest on the Notes provided that interest shall accrue to the Investors only for the period until the Notes are effectively terminated.

Section 8
Taxation

Any payments to be made in respect of the Notes shall be made without withholding or deducting on account of any present or future taxes or other duties of whatever nature, levied or imposed by or in or for the account of the Federal Republic of Germany, or by or for the account of any political subdivision or tax authority of or in the Federal Republic of Germany, unless such withholding or deduction is required by law. If such withholding or deduction is required in the future upon a change in legislation, the Issuer will pay such additional amounts (the "**Additional Amounts**") as are necessary in order that the net amounts received by the Investors after such deduction or withholding shall equal the respective amounts which they would have received as payment of principal and interest on the Notes if no such withholding or deduction had been required, except that no Additional Amounts will be payable on account of any taxes or duties which:

(a) are payable otherwise than by the Issuer's withholding or deducting of such amounts from payments to be made by the Issuer to the Investors, in particular in case of interest income tax (Zinsabschlag); or

(b) are payable by reason of the Investor having, or having had, a personal or business relationship with the Federal Republic of Germany, and not only due to the fact that the payments on the Notes originate from sources within the Federal Republic of Germany (or are treated as such for tax purposes) or are secured in the Federal Republic of Germany; or

(c) are withheld or deducted pursuant to (i) a Directive or Regulation of the European Union relating to the taxation of interest income, or (ii) an international agreement on the taxation of such income to which the Federal Republic of Germany or the European Union is a party, or (iii) a legal provision implementing or complying with such Directive, Regulation or agreement; or

(d) are payable by reason of a change in legislation that becomes effective more than 30 days after the relevant payment becomes due and the necessary funds have been received by the Paying Agent.

Section 9
Termination

(1) *Events of Default.* Each Investor may terminate his/her Note and request repayment thereof at its nominal

zahlung zum Nennbetrag zuzüglich aufgelaufener Zinsen auf seine Teilschuldverschreibungen zu verlangen, falls:

(a) Kapital oder Zinsen, die nach §§ 4 und 5 an die Investoren weiterzuleiten sind, nicht innerhalb von 30 Tagen nach dem betreffenden Fälligkeitstag gemäß § 6(1) weitergeleitet wurden; oder

(b) die Emittentin die ordnungsgemäße Erfüllung irgendeiner anderen Verpflichtung aus den Teilschuldverschreibungen unterlässt und diese Unterlassung länger als 60 Tage fortdauert, nachdem die Emittentin hierüber eine Benachrichtigung von einem Investor erhalten hat; oder

(c) die Emittentin aufgelöst oder liquidiert wird, unabhängig davon, ob dies aufgrund eines Beschlusses ihrer Gesellschafter oder auf sonstige Weise erfolgt, es sei denn, die Auflösung oder Liquidation erfolgt im Zusammenhang mit einer Verschmelzung oder einer anderen Form des Zusammenschlusses, die zum Ergebnis hat, dass alle Vermögenswerte und Verbindlichkeiten auf die verbleibende Gesellschaft im Wege der Universalsukzession übergehen; oder

(d) die Emittentin ihre Zahlungen einstellt und dies länger als 60 Tage fortdauert oder ihre Zahlungsunfähigkeit bekannt gibt; oder

(e) ein Insolvenzverfahren gegen die Emittentin eröffnet wird, sofern dieses Verfahren nicht binnen 60 Tagen nach der Eröffnung endgültig oder vorläufig eingestellt wird, oder die Emittentin einen Antrag auf Eröffnung eines solchen Verfahrens stellt oder eine Umstrukturierung ihrer Verbindlichkeiten anbietet oder durchführt.

Das Recht zur Kündigung der Teilschuldverschreibungen erlischt, falls der Kündigungsgrund vor Ausübung des Rechts geheilt wurde.

(2) *Benachrichtigung.* Eine Benachrichtigung, einschließlich einer Kündigung der Teilschuldverschreibungen gemäß § 9(1), ist schriftlich in deutscher Sprache gegenüber der Emittentin zu erklären und persönlich oder per Einschreiben zu übermitteln. Der Benachrichtigung ist ein Nachweis beizufügen, aus dem sich ergibt, dass der betreffende Investor zum Zeitpunkt der Abgabe der Benachrichtigung Inhaber der Teilschuldverschreibungen ist. Der Nachweis kann durch eine Bescheinigung der Depotbank (§ 13(5)) oder auf andere geeignete Weise erbracht werden.

(3) *Wirksamkeit.* In den Fällen des § 9(1)(b) wird eine Benachrichtigung, durch welche die Teilschuldverschreibungen gekündigt werden, erst wirksam, wenn bei der Emittentin Kündigungserklärungen von Investoren eingegangen sind, die insgesamt ein Zehntel des Gesamtnennbetrags der zu diesem Zeitpunkt ausstehenden Teilschuldverschreibungen darstellen, sofern nicht bei deren Eingang zugleich einer der in § 9(1)(a), (c), (d) oder (e) bezeichneten Fälle, der jeden Investor zur Kündigung seiner Teilschuldverschreibungen berechtigt, vorliegt und fortdauert.

(4) *Zinszahlung.* Für den Anspruch auf Zinsen auf die Teilschuldverschreibungen gilt § 4 mit der Maßgabe, dass den Investoren die Zinsen nur bis zu dem Zeitpunkt zustehen, zu dem die Teilschuldverschreibungen wirksam gekündigt werden.

§ 10
Ersetzung

(1) *Ersetzung.* Die Emittentin ist jederzeit berechtigt, sofern sie sich nicht mit einer Zahlung von Kapital oder Zinsen auf die Teilschuldverschreibung in Verzug befindet,

amount plus any accrued interest on his/her Note in the event that:

(a) the amounts of principal and interest to be paid to the Investors pursuant to Sections 4 and 5 are not paid in accordance with Section 6(1) within 30 days following the relevant Due Date; or

(b) the Issuer fails to duly comply with any other of its obligations under the Notes and such failure continues for a period of more than 60 days following receipt of a respective notice by an Investor; or

(c) the Issuer is liquidated or dissolved, whether upon a shareholders' resolution or otherwise, unless the dissolution or liquidation is effected in connection with a merger or any other form of combination as a result of which all assets and liabilities are transferred to the surviving company by universal succession; or

(d) the Issuer generally ceases to make payments for a period of more than 60 days, or announces insolvency; or

(e) insolvency proceedings are initiated against the Issuer and are not temporarily or permanently dismissed within 60 days from initiation, or the Issuer files an insolvency petition or offers or implements a restructuring in respect of its liabilities.

The right to terminate the Notes ceases if the cause for the termination is remedied prior to exercise of the right.

(2) *Notification.* Any notice, including a notice of termination of the Notes pursuant to Section 9(1), shall be made in writing in the German language to the Issuer and shall be delivered personally or via registered mail. The notice must include evidence of the ownership by the Investor of his/her Note at the time of delivery. The required evidence may be in the form of a confirmation issued by the Custodian (Section 13(5)) or in any other appropriate form.

(3) *Effectiveness.* Upon the occurrence of an event specified in Section 9(1)(b), a notice terminating the Notes shall become effective only upon receipt of notices of termination of an aggregate number of Investors representing one tenth of the aggregate nominal amount of the Notes then outstanding, provided that, at the time of receipt of such notices, none of the events specified in Section 9(1)(a), (c), (d) or (e), which entitles each Investor to terminate his/her Notes, has occurred and is continuing.

(4) *Interest Payments.* With respect to the entitlement to interest payments on the Notes, Section 4 shall apply provided that the Investors shall only be entitled to interest until the date on which the Notes are validly terminated.

Section 10
Substitution

(1) *Substitution.* The Issuer may, at any time and without the consent of the Investors, substitute another company for the Issuer as principal debtor and creditor (the "**Suc-**

ohne Zustimmung der Investoren eine andere Gesellschaft an ihrer Stelle als Hauptschuldnerin und Hauptgläubigerin (die „**Nachfolgerin**") für alle Verpflichtungen und Rechte aus und im Zusammenhang mit den Teilschuldverschreibungen, dem Beteiligungsvertrag, dem Forderungskaufvertrag und dem Treuhandvertrag sowie sonstigen, mit diesen Verträgen zusammenhängenden Verträgen einzusetzen, vorausgesetzt, dass:

(a) die Nachfolgerin alle Rechte und Verpflichtungen der Emittentin in Bezug auf die Teilschuldverschreibungen übernimmt;

(b) die Emittentin und die Nachfolgerin alle erforderlichen Genehmigungen erlangt haben und berechtigt sind, die zur Erfüllung der Zahlungsverpflichtungen aus den Teilschuldverschreibungen zahlbaren Beträge in Euro zu zahlen, ohne verpflichtet zu sein, jeweils in dem Land, in dem die Nachfolgerin oder die Emittentin ihren Sitz oder Steuersitz haben, erhobene Steuern oder andere Abgaben jeder Art abzuziehen oder einzubehalten;

(c) die Nachfolgerin sich verpflichtet hat, die Investoren hinsichtlich solcher Steuern, Abgaben oder behördlichen Lasten freizustellen, die den Investoren bezüglich der Ersetzung auferlegt werden;

(d) die Treuhänderin der Ersetzung vorher schriftlich zugestimmt hat;

(e) die Ersetzung nicht zu einer erhöhten Belastung der Nachfolgerin mit Kapitalertrag- oder sonstiger Abzugssteuer, etwaiger Vermögensteuer oder der Gewerbeertrag- oder sonstiger Ertragsteuer führt.

(2) *Bekanntmachung.* Jede Ersetzung ist unverzüglich gegenüber den Investoren gemäß § 11 bekannt zu machen

(3) *Änderung von Bezugnahmen.* Im Fall einer Ersetzung gilt jede Bezugnahme in diesen Bedingungen auf die Emittentin ab dem Zeitpunkt der Ersetzung als Bezugnahme auf die Nachfolgerin und jede Bezugnahme auf das Land, in dem die Emittentin ihren Sitz oder Steuersitz hat, gilt ab diesem Zeitpunkt als Bezugnahme auf das Land, in dem die Nachfolgerin ihren Sitz oder Steuersitz hat. Im Fall einer Ersetzung gilt eine alternative Bezugnahme in § 8 und in § 7(2) auf die Bundesrepublik Deutschland als aufgenommen (zusätzlich zu der Bezugnahme nach Maßgabe des vorstehenden Satzes auf das Land, in dem die Nachfolgerin ihren Sitz oder Steuersitz hat).

cessor") in respect of all obligations and rights under and in connection with the Notes, the Silent Partnership Agreement, the Receivables Purchase Agreement and the Fiduciary Agreement as well as any other agreements related thereto, provided the Issuer is not in default of payment of principal and interest on the Notes, and further provided that:

(a) the Successor assumes all rights and obligations of the Issuer under the Notes;

(b) the Issuer and the Successor have obtained all necessary permits and are authorised to comply with the payment obligations under the Notes by paying the amounts due in Euro without being obliged to withhold or deduct applicable tax or other duties of any kind in the respective country in which the Successor or the Issuer is domiciled or resident for tax purposes;

(c) the Successor has agreed to indemnify the Investors against such taxes, duties or other governmental charges as may be imposed on the Investors in connection with the substitution;

(d) the Fiduciary has given its prior written consent to the substitution;

(e) the Substitution does not result in an increase in investment income tax or any other withholding tax, property tax, if applicable, trade income or any other income tax payable by the Successor.

(2) *Announcement.* Notice of substitution shall be given to Investors promptly in accordance with Section 11 hereof.

(3) *Change in Reference.* Upon substitution, all references in these Terms and Conditions of the Issue to the Issuer shall be deemed references to the Successor, and any references to the country of domicile or tax residence of the Issuer shall be deemed references to the country of domicile or tax residence of the Successor, in each case with effect from the substitution date. Upon substitution, an alternative reference to the Federal Republic of Germany shall be deemed to be included in Sections 8 and 7(2) (in addition to the reference to the country of domicile or tax residence of the Successor pursuant to the foregoing sentence).

§ 11
Mitteilungen

(1) *Veröffentlichungen.* Alle die Teilschuldverschreibung betreffenden Mitteilungen werden in einem überregional erscheinenden Pflichtblatt der Frankfurter Wertpapierbörse, voraussichtlich der *Börsen-Zeitung,* veröffentlicht. Jede derartige Mitteilung gilt mit dem Tag der Veröffentlichung (oder bei mehreren Veröffentlichungen mit dem Tag der ersten solchen Veröffentlichung) als wirksam erfolgt.

(2) *Mitteilungen an das Clearing System.* Die Emittentin ist berechtigt, eine Zeitungsveröffentlichung nach § 11(1) durch eine Mitteilung an das Clearing System zur Weiterleitung an die Investoren zu ersetzen, vorausgesetzt, dass in Fällen, in denen die Teilschuldverschreibungen an einer Börse notiert sind, die Regeln dieser Börse diese Form der Mitteilung zulassen. Jede derartige Mitteilung gilt am siebten Tag nach dem Tag der Mitteilung an das Clearing System als den Investoren mitgeteilt.

(3) *Bekanntmachungen.* Die Emittentin wird einen vom Einlagenennbetrag abweichenden Buchwert und dessen

Section 11
Notices

(1) *Notices.* All notices relating to the Notes shall be published in a newspaper with national distribution designated by the Frankfurt Stock Exchange, expected to be the *Börsen-Zeitung.* Any such notice shall be deemed to be duly effected on the day of publication (or, in case of more than one publication, on the day of the first publication).

(2) *Notices to the Clearing System.* The Issuer may, in lieu of a publication pursuant to Section 11(1), send a notice to the Clearing System to be forwarded to the Investors, provided that in cases where the Notes are listed on a stock exchange this procedure of notification is permitted by the regulations of such stock exchange. Any such notice shall be deemed to be duly made to the Investors on the seventh day following the day of notice to the Clearing System.

(3) *Announcements.* The Issuer shall publish without delay, in accordance with this Section 11, any deviations

jeweilige Veränderung jeweils unverzüglich gemäß diesem § 11 bekannt machen, sobald sie davon Kenntnis erlangt. Die Emittentin wird alle ihr unter dem Beteiligungsvertrag zustehenden Rechte zur Erlangung einer solchen Kenntnis form- und fristgerecht ausüben. Die Emittentin wird Finanzinformationen der Bank, die sie im Zusammenhang mit der Stillen Beteiligung erhält, unverzüglich an die Zahlstelle (§ 12) weiterleiten, in deren Geschäftsstellen diese Finanzunterlagen zur Einsichtnahme ausgelegt werden.

of the Book Value from the Nominal Contribution Amount as well as any changes of the Book Value, as soon as the Issuer has received notice of such deviation and/or changes. The Issuer shall exercise all rights to which it is entitled under the Silent Partnership Agreement in order to obtain such information in due time and form. The Issuer shall promptly deliver to the Paying Agent (Section 12) any financial information relating to the Silent Contribution provided to it by the Bank; such financial documents to be made available for inspection at the offices of the Paying Agent.

§ 12
Zahlstellen

(1) *Zahlstellen.* Die Deutsche Bank Aktiengesellschaft, Frankfurt am Main, ist die anfängliche Hauptzahlstelle (die „**Hauptzahlstelle**") und die Deutsche Bank Aktiengesellschaft – Zweigniederlassung Amsterdam – ist die anfängliche niederländische Zahlstelle (die „**Niederländische Zahlstelle**"; die Hauptzahlstelle und die Niederländische Zahlstelle zusammen die „**Zahlstellen**"und einzeln eine „**Zahlstelle**").

(2) *Änderung der Bestellung oder Abberufung.* Die Emittentin behält sich das Recht vor, jederzeit die Bestellung einer Zahlstelle zu ändern oder zu beenden und zusätzliche oder andere Zahlstellen zu bestellen, wobei die Emittentin jederzeit (i) eine Hauptzahlstelle unterhalten wird, (ii) eine Zahlstelle (welche die Hauptzahlstelle sein kann) mit Niederlassung in der Bundesrepublik Deutschland unterhalten wird, und (iii) für die Dauer der Börsennotierung der Teilschuldverschreibungen an der Euronext Amsterdam N. V. und/oder jeder anderen Börse, eine Zahlstelle (welche die Hauptzahlstelle sein kann) mit Niederlassung in den Niederlanden und/oder an solchen anderen Orten unterhalten wird, welche die Regeln dieser anderen Börse verlangen. Eine Änderung, Abberufung oder Bestellung oder ein sonstiger Wechsel wird nur wirksam (außer im Fall der Insolvenz einer Zahlstelle, in dem eine solche Änderung sofort wirksam wird), sofern den Investoren dies gemäß § 11 vorab unter Einhaltung einer Frist von mindestens 30 und nicht mehr als 45 Tagen angezeigt wurde.

(3) *Beauftragte der Emittentin.* Die Zahlstellen handeln ausschließlich als Beauftragte der Emittentin und übernehmen keinerlei Verpflichtungen gegenüber den Investoren und es wird kein Auftrags- oder Treuhandverhältnis zwischen ihnen und den Investoren begründet.

Section 12
Paying Agents

(1) *Paying Agents.* Deutsche Bank Aktiengesellschaft, Frankfurt am Main, shall be the principal paying agent (the "**Principal Paying Agent**") and Deutsche Bank Aktiengesellschaft – Amsterdam Branch – shall be the Dutch paying agent (the "**Dutch Paying Agent**"; the Principal Paying Agent and the Dutch Paying Agent together the "**Paying Agents**" or each a "**Paying Agent**").

(2) *Change or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that the Issuer will at all times maintain (i) a Principal Paying Agent, (ii) a Paying Agent (which may be the Principal Paying Agent) with a specified office in the Federal Republic of Germany; (iii) so long as the Notes are listed on Euronext Amsterdam N. V. and/or any other stock exchange, a Paying Agent (which may be the Principal Paying Agent) with a specified office in The Netherlands and/or in such other place as may be required by the rules of such other stock exchange. Any modification, termination or other change shall only become effective (except in the event of insolvency of a Paying Agent where such change shall have immediate effect) upon not less than 30 nor more than 45 days' prior notice thereof to the Investors in accordance with Section 11.

(3) *Agents of the Issuer.* The Paying Agents shall act exclusively as agents of the Issuer and shall not have any obligations to the Investors. There will be no agency or fiduciary relationship between the Paying Agents and the Investors.

§ 13
Verschiedenes

(1) *Vorlegungsfrist.* Die in § 801 Absatz 1 Satz 1 BGB bestimmte Vorlegungsfrist wird auf zehn Jahre verkürzt.

(2)*Anwendbares Recht.* Form und Inhalt der Teilschuldverschreibungen sowie die Rechte und Pflichten der Investoren und der Emittentin bestimmen sich in jeder Hinsicht nach deutschem Recht.

(3) *Gerichtsstand.* Ausschließlicher Gerichtsstand für alle Rechtsstreitigkeiten aus den in diesen Emissionsbedingungen geregelten Angelegenheiten ist, soweit gesetzlich zulässig, Frankfurt am Main.

(4) *Erfüllungsort.* Erfüllungsort ist Frankfurt am Main.

(5) *Gerichtliche Geltendmachung.* Jeder Investor kann in Rechtsstreitigkeiten gegen die Emittentin oder in Rechtsstreitigkeiten, an denen ein Investor oder die Emittentin beteiligt ist, im eigenen Namen seine Rechte aus den von

Section 13
Miscellaneous

(1) *Presentation Period.* The presentation period provided for in § 801 paragraph 1 sentence 1 BGB (German Civil Code) is reduced to ten years.

(2) *Applicable Law.* Form and content of the Notes as well as the rights and duties of the Investors and the Issuer shall in all respects be governed by German law.

(3) *Place of Jurisdiction.* Exclusive place of jurisdiction for all disputes arising in connection with these Terms and Conditions of the Issue shall be, to the extent permitted by law, Frankfurt am Main, Federal Republic of Germany.

(4) *Place of Performance.* Place of performance shall be Frankfurt am Main, Federal Republic of Germany.

(5) *Legal enforcement.* Each Investor may, in any legal dispute with the Issuer or in any legal dispute to which an Investor or the Issuer is a party, in his/her own name assert and enforce his/her rights under the Notes held by

ihm gehaltenen Teilschuldverschreibungen geltend machen und durchsetzen auf der Grundlage (a) einer Bescheinigung seiner Depotbank (wie nachstehend definiert), die (i) den vollen Namen und die volle Anschrift des Investors enthält, (ii) den Gesamtnennbetrag der Teilschuldverschreibungen, die am Ausstellungstag dieser Bescheinigung dem bei dieser Depotbank unterhaltenen Depot des Investors gutgeschrieben sind, angibt, und (iii) bestätigt, dass die Depotbank dem Clearing System und der Zahlstelle (§ 12) eine schriftliche Mitteilung gemacht hat, welche die Angaben gemäß (i) und (ii) enthält und Bestätigungsvermerke des Clearing Systems und des betreffenden Kontoinhabers trägt, und (b) einer Kopie der Globalurkunde, deren Übereinstimmung mit dem Original der Globalurkunde von einem Vertretungsberechtigten des Clearing Systems bestätigt wird. Im Sinne der vorstehenden Bestimmungen bedeutet „**Depotbank**"eine Bank oder ein anderes Finanzinstitut mit einer Genehmigung für das Wertpapier-Depotgeschäft, bei dem der Investor ein Wertpapierdepot unterhält, auf dem Teilschuldverschreibungen verbucht sind; dieser Begriff schließt das Clearing System, Clearstream Banking S. A., Luxemburg, und Euroclear Bank S. A./N. V., Brüssel, ein.

(6) *Teilunwirksamkeit.* Sollte eine der Bestimmungen dieser Emissionsbedingungen ganz oder teilweise unwirksam oder undurchführbar sein oder werden, so bleibt die Wirksamkeit oder Durchführbarkeit der übrigen Bestimmungen hiervon unberührt. In diesem Fall soll anstelle der unwirksamen Bestimmung, soweit rechtlich möglich, eine dem Sinn und wirtschaftlichen Zweck dieser Emissionsbedingungen zum Zeitpunkt der Begebung der Teilschuldverschreibungen entsprechende Bestimmung treten. Sollten diese Emissionsbedingungen eine Lücke enthalten, ist eine ergänzende Auslegung, die dem Sinn und Zweck dieser Emissionsbedingungen entspricht, unter angemessener Berücksichtigung der berechtigten Interessen der beteiligten Parteien vorzunehmen.

(7) *Sprache.* Allein der deutsche Wortlaut dieser Emissionsbedingungen ist rechtsverbindlich. Übersetzungen in die englische Sprache dienen lediglich der Information.

such Investor on the basis of (a) a confirmation of his/her Custodian (as defined below) which (i) includes the full name and address of the Investor, (ii) states the aggregate nominal amount of the Notes held in the Investor's securities account with such Custodian as per the date of the confirmation, and (iii) confirms that the Custodian has given written notice to the Clearing System and the Paying Agent (Section 12) including the information pursuant to (i) and (ii) above and bearing written confirmation notes of the Clearing System and the respective account holder, and on the basis of (b) a copy of the Global Certificate, the conformity of which with the original Global Certificate is confirmed by an authorised representative of the Clearing System. For the purpose of the aforementioned provisions, the term "**Custodian**" shall refer to a bank or any other financial institution licensed to engage in the business of securities custody, with which the Investor keeps a securities account in which Notes are held; the term shall include the Clearing System, Clearstream Banking S. A., Luxembourg, and Euroclear Bank S. A./N. V., Brussels.

(6) *Severability.* Should any of the provisions hereof be or become ineffective or impracticable in whole or in part, this shall not affect effectiveness or practicability of the remaining provisions. In this case, the ineffective provision shall be replaced by a provision which comes as close as legally permissible to the intent and economic purpose of these Terms and Conditions of the Issue at the time of issue of the Notes. In the event these Terms and Conditions of the Issue lack any provision, they shall be interpreted in accordance with their intent and purpose, taking reasonably into account the legitimate interests of the parties involved.

(7) *Language.* Only the German version of these Terms and Conditions of the Issue shall be legally binding. Any translation into the English language, including this translation, is for convenience only.

Silent Partnership Agreement

The German text of the Silent Partnership Agreement is legally binding. The English translation is for convenience only. The German language version of the following agreement will be attached to, and shall be deemed to constitute one document together with, the Terms and Conditions of the Issue and the Global Certificate, respectively.

Silent Partnership Agreement (the "**Silent Partnership**") (Partial Profit Transfer Agreement *(Teilgewinnabführungsvertrag)* within the meaning of Section 292(1) No. 2 German Stock Corporation Act *(AktG)*) entered into between **Hybrid Raising GmbH,** Norderfriedrichskoog (the "**Silent Partner**") and **IKB Deutsche Industriebank Aktiengesellschaft,** Düsseldorf und Berlin (the "**Bank**").

Präambel:

Die Parteien dieses Vertrages beabsichtigen den Abschluss eines Stillen Gesellschaftsvertrages, mit dem sich der Stille Gesellschafter am Handelsgewerbe der Bank durch Leistung einer Stillen Einlage beteiligt. Die Stille Einlage soll bei der Bank auf Dauer als haftendes Eigenkapital (Kernkapital) im Sinne des deutschen Kreditwesengesetzes (KWG) und der Eigenmittelempfehlungen des Baseler Ausschusses für Bankenaufsicht dienen. Der Stille Gesellschafter wird die Stille Einlage durch die Emission von Teilschuldverschreibungen (die „**Teilschuldverschreibungen**"), die beim Anlegerpublikum breit platziert werden sollen, refinanzieren.

Die Parteien haben sich sowohl über die Höhe der Stillen Einlage als auch über die von dem Stillen Gesellschafter zu beanspruchende Gewinnbeteiligung innerhalb nachfolgend definierter Ober- bzw. Untergrenzen verständigt. Die endgültigen Beträge sind jedoch von den Kapitalmarktverhältnissen im Zeitpunkt der Platzierung der Teilschuldverschreibungen abhängig und werden von den Parteien gemeinsam vor Leistung der Stillen Einlage festgelegt bzw. genehmigt.

Dies vorausgeschickt, schließen die Parteien nachfolgenden

Vertrag über eine Stille Beteiligung.

§ 1
Vertragsgegenstand

1. Der Stille Gesellschafter ist berechtigt, sich am Handelsgewerbe der Bank als typischer stiller Gesellschafter mit einer Vermögenseinlage (die „**Stille Einlage**") in Höhe von mindestens € 100.000.000,– (Euro einhundert Millionen) und höchstens € 200.000.000,– (Euro zweihundert Millionen) zu beteiligen. Die Stille Beteiligung beginnt mit Leistung der Stillen Einlage (das „**Anfangsdatum**"). Der „**Einlagenennbetrag**" bezeichnet die Stille Einlage in der tatsächlich geleisteten Höhe, die den vorstehend in Satz 1 genannten Mindestbetrag nicht unterschreiten darf. Die Feststellung des Einlagenennbetrags durch die Vertragsparteien bedarf der schriftlichen Bestätigung[1]) der Vertragsparteien. Die schriftliche Bestätigung ist diesem Beteiligungsvertrag als Anlage beizufügen und wird der Anmeldung dieses Beteiligungsvertrags als Teilgewinnabführungsvertrag zur Eintragung in das Handelsregister der Bank beigefügt.

2. Die Stille Einlage wird in bar erbracht. Die Stille Einlage geht in das Vermögen der Bank über. Sie soll bei der Bank auf Dauer als haftendes Eigenkapital (Kernkapital) im

1) Siehe in diesem Prospekt „Beschreibungen der Emissionsstruktur" – „Bestätigungserklärung der IKB DeutscheIndustriebank Aktiengesellschaft und der Hybrid Raising GmbH".

Recitals:

It is the intention of the parties hereto to conclude an agreement on a silent partnership under which the Silent Partner participates in the commercial enterprise *(Handelsgewerbe)* of the Bank by making a capital contribution *(Stille Einlage)*. The capital contribution is to serve the Bank permanently as regulatory capital (Tier 1 Capital – *(Kernkapital)*) within the meaning of the German Banking Act ("**KWG**") and the capital adequacy recommendations established by the Basle Committee for Banking Supervision. The Silent Partner will refinance the capital contribution by issuing notes (the "**Notes**") which will be broadly placed with investors.

The parties have agreed both on the amount of the capital contribution and the profit participation payable to the Silent Partner within the upper and lower limits hereinafter defined. The definite amounts, however, depend on the condition of the capital markets at the time the Notes are placed and will be determined and/or approved jointly by the parties prior to making the capital contribution.

Now therefor, the parties enter into the following

Agreement on a Silent Partnership.

Section 1
Subject of the Agreement

1. The Silent Partner shall be entitled to participate in the commercial enterprise *(Handelsgewerbe)* of the Bank as a typical silent partner with an asset contribution (the "**Silent Contribution**") in the amount of not less than € 100,000,000 (one hundred million Euro) and not more than € 200,000,000 (two hundred million Euro). The Silent Partnership commences as from the date payment of the Silent Contribution is made (the "**Start Date**"). "**Nominal Contribution Amount**" means the Silent Contribution in the amount actually paid which shall not be less than the minimum amount mentioned in sentence 1. The determination of the Nominal Contribution Amount by the parties shall require the written confirmation ([1]) of the parties hereto. Such written confirmation is to be annexed to this Silent Partnership Agreement and will be attached to the application for the entry of this Silent Partnership Agreement as Partial Profit Transfer Agreement into the Commercial Register for the Bank.

2. The Silent Contribution will be made in cash. The Silent Contribution becomes the property of the Bank. It is to serve the Bank permanently as regulatory capital (Tier 1

(1) See in this Prospectus "Structure of the Issue" – "Confirmation by IKB Deutsche Industriebank Aktiengesellschaft and Hybrid Raising GmbH".

Sinne des KWG und der Eigenmittelempfehlungen des Baseler Ausschusses für Bankenaufsicht dienen.

3. Die Bank wird dem Stillen Gesellschafter fernmündlich mit anschließender schriftlicher Bestätigung die Eintragung dieses Beteiligungsvertrags als Teilgewinnabführungsvertrag in das Handelsregister der Bank mitteilen. Sie wird die vorstehende Mitteilung unverzüglich nach Erhalt der Eintragungsnachricht des Handelsregisters vornehmen.

§ 2
Gewinnbeteiligung

1. Als Gegenleistung für die Stille Einlage stehen dem Stillen Gesellschafter vom Anfangsdatum bis zu dem Tag (einschließlich), an dem die Beteiligung des Stillen Gesellschafters am Handelsgewerbe der Bank endet bzw. nach § 6(5) Satz 2 als beendet gilt (der „**Beendigungstag**"), Gewinnbeteiligungen zu, die nach Maßgabe des § 2(2) bzw. des § 2(3) berechnet werden. „**Gewinnzeitraum**"bezeichnet den Zeitraum, für den eine Gewinnbeteiligung ermittelt wird. Der erste Gewinnzeitraum beginnt am Anfangsdatum und dauert bis zum 31. März 2004 (jeweils einschließlich) (der „**Erste Gewinnzeitraum**"). Danach dauert ein Gewinnzeitraum jeweils vom 1. April bis zum 31. März eines Jahres (jeweils einschließlich) (dieser Zeitraum wird als das „**Geschäftsjahr**"bezeichnet), sofern er nicht infolge wirksamer Beendigung dieses Beteiligungsvertrags vorher endet.

2. Vorbehaltlich § 3 ist für einen Gewinnzeitraum eine Vergütung in Höhe eines fixen annualisierten Prozentsatzes des Einlagenennbetrags zu zahlen (die „**Gewinnbeteiligung**"). Der Zinssatz wird durch die mit der Emission der Teilschuldverschreibungen beauftragte Bank nach den im Zeitpunkt der Emission aktuellen Kapitalmarktverhältnissen festgestellt und darf 6,625 % p. a. nicht unterschreiten und 8,125 % p. a.[2]) nicht überschreiten. Die Feststellung des Zinssatzes bedarf der schriftlichen Genehmigung der Vertragsparteien. Die schriftliche Genehmigung[3]) ist diesem Beteiligungsvertrag als Anlage beizufügen und wird der Anmeldung dieses Beteiligungsvertrags als Teilgewinnabführungsvertrag zur Eintragung in das Handelsregister der Bank beigefügt.

Die Gewinnbeteiligung für ein Geschäftsjahr wird jeweils für einen Zahlungszeitraum (der „**Zahlungszeitraum**") berechnet, der dem Zeitraum vom Anfangsdatum (einschließlich) bis zum ersten Ausschüttungstag (ausschließlich) (der „**Erste Zahlungszeitraum**") bzw. einem Ausschüttungstag (einschließlich) bis zum nächstfolgenden Ausschüttungstag (ausschließlich) (jeweils ein „**Nachfolgender Zahlungszeitraum**") entspricht. Die Berechnung der jeweils zahlbaren Gewinnbeteiligung erfolgt, auch im Falle der Nachfolgenden Zahlungszeiträume, auf Grundlage der tatsächlichen Anzahl der Tage in diesem Zahlungszeitraum, dividiert durch 365 bzw. 366.

3. Sollte während des Bestehens dieses Beteiligungsvertrags eine Änderung der Gewerbeertragsteuer oder eine Einführung einer sonstigen Ertrag- oder Vermögensteuer beim Stillen Gesellschafter zur Erhöhung seiner Steuerschuld führen, oder hat der Stille Gesellschafter aufgrund einer Kapitalertrag- oder sonstigen Abzugsteuer in Bezug auf Zinszahlungen für die von ihm zur Refinanzierung der

[2]) Siehe hierzu „Zusammenfassung des Angebots" – „Beteiligung der Emittentin am Gewinn der IKB AG".

[3]) Siehe in diesem Prospekt „Beschreibungen der Emissionsstruktur" – „Bestätigungserklärung der IKB DeutscheIndustriebank Aktiengesellschaft und der Capital-Raising GmbH".

Capital *(Kernkapital)*) within the meaning of the KWG and the capital adequacy recommendations established by the Basle Committee for Banking Supervision.

3. The Bank will notify the Silent Partner by telephone – followed by a written confirmation – of the entry of this Silent Partnership Agreement as Partial Profit Transfer Agreement into the Commercial Register for the Bank. The Bank will make such notification immediately after receipt of the entry notice given by the Commercial Register.

Section 2
Profit Participation

1. In consideration for the Silent Contribution, the Silent Partner shall be entitled to profit participations calculated in compliance with Section 2(2) or Section 2(3) hereof from the Start Date up to (and including) the date the participation of the Silent Partner in the commercial enterprise of the Bank terminates or is deemed to be terminated pursuant to Section 6(5) sentence 2 hereof (the "**Termination Date**"). "**Profit Period**" means the period for which a profit participation is determined. The first Profit Period commences on (and includes) the Start Date and lasts until (and includes) 31 March 2004 (the "**First Profit Period**"). Thereafter, a Profit Period starts (and includes) 1 April and ends (and includes) 31 March of each year (this period is referred to as the "**Fiscal Year**"), unless terminated before that date by way of effective termination of this Silent Partnership Agreement.

2. Subject to Section 3, a consideration shall be payable for a Profit Period in the amount of a fixed annualised percentage of the Nominal Contribution Amount (the "**Profit Participation**"). The interest rate shall be determined by the bank underwriting the Notes in line with the conditions on the capital markets prevailing at the time of issue and shall not be less than 6.625 % p. a. and not more than 8.125 % p. a. ([2]). Determination of the interest rate requires the written consent ([3]) of the parties hereto. Such written consent is to be annexed to this Silent Partnership Agreement and will be attached to the application for the entry of this Silent Partnership Agreement as Partial Profit Transfer Agreement into the Commercial Register for the Bank.

The Profit Participation for a Fiscal Year will be calculated in each case for a payment period (the "**Payment Period**") corresponding to the period from (and including) the Start Date up to (and excluding) the first Distribution Date (the "**First Payment Period**") or, as the case may be, the period from (and including) a Distribution Date up to (and excluding) the next Distribution Date (each a "**Subsequent Payment Period**"). Calculation of the Profit Participation payable from time to time shall be made on the basis of the actual number of days in that Payment Period divided by 365 or 366, as the case may be; this calculation method shall also apply to any Subsequent Payment Periods.

3. In the event that, during the term hereof, changes in trade income tax or the introduction of any other income or property tax leads to a higher tax liability of the Silent Partner, or if the Silent Partner, on account of investment income tax or any other withholding tax in respect of interest payments on the Notes issued by it for the purpose of refinancing the Silent Contribution, has to pay addi-

([2]) See "Summary of the Offer" – "Participation of the Issuer in the Profits of IKB AG".

([3]) See in this Prospectus "Structure of the Issue" – Confirmation by IKB Deutsche Industriebank Aktiengesellschaft and Hybrid Raising GmbH".

Stillen Einlage begebenen Teilschuldverschreibungen zusätzliche Beträge an die Inhaber der Teilschuldverschreibungen zu leisten, wird die prozentuale Gewinnbeteiligung gemäß § 2(2) auf Verlangen des Stillen Gesellschafters (soweit zulässig rückwirkend, andernfalls für künftige Gewinnzeiträume) soweit erhöht, dass durch die Erhöhung die zusätzliche Belastung des Stillen Gesellschafters (einschließlich etwaiger Zwischenfinanzierungskosten) vollständig ausgeglichen wird. Das Anpassungsverlangen muss vom Stillen Gesellschafter bei Steueränderungen innerhalb von 30 Tagen ab deren Wirksamwerden mit eingeschriebenem Brief gegenüber der Bank geltend gemacht werden. Ein entsprechendes Recht auf Anpassung der prozentualen Gewinnbeteiligung steht der Bank bei einer Verminderung der Belastung des Stillen Gesellschafters aufgrund einer Änderung der in Satz 1 dieses § 2(3) genannten Steuern zu.

4. Eine Gewinnbeteiligung für einen Gewinnzeitraum entfällt, solange die Stille Einlage nach einer Herabsetzung des Buchwerts der Stillen Einlage gemäß § 5(1) (die „**Herabsetzung**") noch nicht wieder vollständig gemäß § 5(3) aufgefüllt wurde.

5. [4])Die Gewinnbeteiligung für einen Gewinnzeitraum entfällt ferner ganz oder teilweise, soweit durch sie in Bezug auf einen Gewinnzeitraum ein Bilanzverlust bei der Bank entsteht oder sich erhöht. „**Bilanzverlust**"bezeichnet einen etwaigen Bilanzverlust der Bank im Sinne des § 158(1) Nr. 5 AktG. Außer in dem im nachfolgenden Satz geregelten Fall ist die Bank nicht verpflichtet, einen Bilanzverlust durch die Auflösung von Gewinnrücklagen oder anderen Rücklagen zu vermeiden. Wird in dem in Satz 1 genannten Fall an die Aktionäre der Bank eine Dividende ausgeschüttet oder werden bezogen auf einen Gewinnzeitraum Zahlungen auf (a) andere Kernkapitalinstrumente der Bank, (b) nachrangige Garantien, Patronatserklärungen oder ähnliche von der Bank gestellte Sicherheiten (Gewährleistungen) für Kernkapitalinstrumente von Tochtergesellschaften oder (c) Kernkapitalinstrumente von Tochtergesellschaften, deren Bedienbarkeit maßgeblich von der Ertrags- oder Vermögenssituation der Bank bestimmt wird, erbracht (zusammen „**Andere Kernkapitalinstrumente**"), so muss die Bank nach Maßgabe von § 301 Satz 2 AktG aus vorhandenen Gewinnrücklagen die erforderlichen Beträge entnehmen, um im maßgeblichen Gewinnzeitraum eine etwaige Herabsetzung zu vermeiden oder einen etwaigen herabgesetzten Buchwert der Stillen Einlage vollständig wieder aufzufüllen. Für die Regelung des vorstehend genannten Buchstaben (c) ist diejenige Zahlung maßgeblich, die an die Ertrags- oder Vermögenssituation der Bank in dem jeweiligen Gewinnzeitraum, für den die Gewinnbeteiligung ermittelt wird, anknüpft. Nachdem ein etwaiger herabgesetzter Buchwert wieder vollständig aufgefüllt ist, ist hieran anschließend die Gewinnbeteiligung für den betreffenden Gewinnzeitraum zu zahlen. Eine Verpflichtung zur Wiederauffüllung bzw. Vermeidung der Herabsetzung und Zahlung von Gewinnbeteiligungen durch Auflösung von Gewinnrücklagen nach § 301 Satz 2 AktG besteht nur, wenn und soweit ein Solvabilitätskoeffizient der Bank auf Instituts- und Gruppenebene von mindestens 9% erhalten bleibt. Werden gleichrangige Andere Kernkapitalinstrumente nur teilweise bedient, so ist die Gewinnbeteiligung im Rahmen des § 301 Satz 2 AktG zum gleichen Teil zu zahlen. Werden nachrangige Andere Kernkapitalinstrumente nur teilweise bedient, so ist die Gewinnbeteiligung im Rahmen des § 301 Satz 2 AktG voll zu zahlen. Kauft die Bank Aktien

[4]) Siehe zum Wegfall der Verpflichtung zur Zahlung von Gewinnbeteiligungen auch „Risikofaktoren" – „Gewinnbeteiligung und Zahlungen auf die Teilschuldverschreibungen".

tional amounts to the holders of the Notes, the percentage of the Profit Participation pursuant to Section 2(2) hereof will, at the request of the Silent Partner, be increased (with retroactive effect, if and to the extent that this is permissible, and otherwise for future Profit Periods) to the extent that, as a result of such increase, any additional liability of the Silent Partner (including any interim financing costs) is fully covered. In the event of any such taxation-related changes, the Silent Partner shall, within a period of 30 days from the date of effectiveness of such changes, request the Bank by registered mail to adjust its Profit Participation. Similarly, the Bank shall be entitled to have the Profit Participation adjusted if the burden of the Silent Partner is reduced due to any changes in the taxes specified in sentence 1 of this Section 2(3).

4. No Profit Participation shall be payable for a Profit Period until the Silent Contribution has been replenished in full pursuant to Section 5(3) subsequent to a reduction of the Book Value of the Silent Contribution in accordance with Section 5(1) (the "**Reduction**").

5. ([4])In addition, a Profit Participation shall not be payable, in whole or in part, for a Profit Period if and to the extent that, in respect of a Profit Period, such payment would cause or increase a balance sheet loss *(Bilanzverlust)* with the Bank. "**Balance Sheet Loss**" means any balance sheet loss of the Bank within the meaning of Section 158(1) No. 5 German Stock Corporation Act ("**AktG**"). Save for the exception provided for in the following sentence, the Bank shall not be obliged to avoid a Balance Sheet Loss by dissolving revenue reserves or any other reserves. If, in the case stipulated in the first sentence of this clause 2(5), dividends are paid to the shareholders of the Bank, or if payments relating to a Profit Period are made in respect of (a) other Tier 1 Capital instruments of the Bank, (b) subordinated guarantees, support undertakings or similar security instruments (warranties) provided by the Bank for Tier 1 Capital instruments of subsidiaries, or (c) Tier 1 Capital instruments of subsidiaries, the serviceability of which depends to a material extent on the income or asset position of the Bank (hereinafter collectively referred to as "**Other Tier 1 Capital Instruments**"), the Bank shall be under the obligation, in compliance with Section 301 sentence 2 AktG, to withdraw the required amounts from existing revenue reserves in order to avoid any Reduction in the relevant Profit Period or to fully replenish any reduced Book Value of the Silent Contribution, as the case may be. For the purposes of the above lit. c), the relevant payment shall be the payment linked to the income or asset position of the Bank in the respective Profit Period for which the Profit Participation is calculated. Following full replenishment of any reduced Book Value, the Profit Participation for the relevant Profit Period is payable subsequent thereto. The obligation to replenish or to avoid any Reduction and to pay Profit Participations by dissolving revenue reserves pursuant to Section 301 sentence 2 AktG only exists if and to the extent the solvency ratio of the Bank on a consolidated and individual basis remains at least 9%. Where any Other Tier 1 Capital Instruments ranking *pari passu* are serviced only in part, the Profit Participation, within Section 301 sentence 2 AktG, is to be paid on a pro rata basis. In the event that any subordinated Other Tier 1 Capital Instruments are serviced only in part, the Profit Participation, within Section 301 sentence 2 AktG, is to be paid in full. If the Bank buys

([4]) See "Risk Factors" – "Profit Participation and Payments in respect of the Notes" regarding the non-obligation of IKB AG to pay Profit Participations.

(ausgenommen Aktienrückkäufe im Rahmen einer zulässigen Kurspflege oder eines zulässigen Eigenhandels) oder Andere Kernkapitalinstrumente vor deren ursprünglich vorgesehener Fälligkeit zurück oder zahlt sie diese vor Fälligkeit zurück, so gilt dies als Ausschüttung einer Dividende bzw. volle Zahlung auf andere Kernkapitalinstrumente im betreffenden Gewinnzeitraum.

Ungeachtet der vorstehenden Regelung wird die Bank in Bezug auf einen Gewinnzeitraum keine Gewinnbeteiligung zahlen, wenn und soweit ihr die Zahlung durch die Bundesanstalt für Finanzdienstleistungsaufsicht (die „**BaFin**") untersagt wurde.

Für den Fall, dass die Gewinnbeteiligung auf die Stille Gesellschaft auch nach Maßgabe der vorstehenden Bestimmung nicht gezahlt werden kann, verpflichtet sich die Bank, keine Zahlungen auf Andere Kernkapitalinstrumente zu erbringen, sofern die Bank nicht zu solchen Zahlungen verpflichtet ist.

6. Die Bank ist nicht verpflichtet, entfallene Gewinnbeteiligungen nachzuzahlen.

back stock (with the exception of stock buybacks effected for the purposes of permissible price-support measures or permissible own-account trading) or redeems Other Tier 1 Capital Instruments prior to their originally stipulated due dates, or in the event that the Bank redeems them prior to maturity, this shall be deemed a distribution of dividends and/or a full payment on Other Tier 1 Capital Instruments in the relevant Profit Period.

Regardless of the above provisions, the Bank will not make payment of the Profit Participation in respect of a Profit Period if and to the extent that the *Bundesanstalt für Finanzdienstleistungsaufsicht* ("**BaFin**") has prohibited the Bank to do so.

In the event that the Profit Participation payable in respect of the Silent Partnership cannot be paid in accordance with the above provision, the Bank undertakes not to make any payments on any Other Tier 1 Capital Instruments unless the Bank is legally required to make such payments.

6. The Bank is not obliged to subsequently pay any Profit Participations that were not paid.

§ 3
Zahlung der Gewinnbeteiligung

1. Gewinnbeteiligungen werden am 15. Juli des Geschäftsjahres, welches auf das dem Gewinnzeitraum entsprechende Geschäftsjahr der Bank folgt (der „**Ausschüttungstag**"), zur Auszahlung fällig. Handelt es sich bei diesem Tag nicht um einen Geschäftstag (wie nachfolgend definiert), werden Gewinnbeteiligungen am ersten auf den 15. Juli folgenden Geschäftstag fällig (der jeweils nach diesem Satz und Satz 1 dieses § 3(1) einschlägige Tag der „**Fälligkeitstag**"), wobei für diese Verschiebung keine zusätzlichen Zinsen zu zahlen sind. Sollte am jeweiligen Fälligkeitstag der Jahresabschluss der Bank für das dem Gewinnzeitraum entsprechende Geschäftsjahr noch nicht festgestellt sein, verschiebt sich die Auszahlung der Gewinnbeteiligung auf den ersten Geschäftstag nach dem Tag der Feststellung des Jahresabschlusses der Bank für das dem Gewinnzeitraum entsprechende Geschäftsjahr. „**Geschäftstag**"bezeichnet jeden Tag, an dem das Trans-European Automated Real-Time Groß Settlement Express Transfer-Zahlungssystem („**TARGET**") geöffnet ist und Geschäftsbanken und Devisenmärkte in Frankfurt im Allgemeinen Geschäftsverkehr Zahlungen abwickeln.

2. Erfolgt die Zahlung der Gewinnbeteiligung nach dem Fälligkeitstag, weil am Fälligkeitstag der Jahresabschluss der Bank für das dem Gewinnzeitraum entsprechende Geschäftsjahr noch nicht festgestellt war, ist die Gewinnbeteiligung vom Fälligkeitstag (einschließlich) bis zum Tag der tatsächlichen Auszahlung (ausschließlich) mit 5% p.a. über dem jeweils gültigen Basiszinssatz im Sinne des § 288 BGB zu verzinsen.

Section 3
Payment of Profit Participation

1. Profit Participations shall become due for payment on 15 July of the Fiscal Year following the Fiscal Year of the Bank which corresponds to the Profit Period (the "**Distribution Date**"). If this day is not a Business Day (as hereinafter defined), Profit Participations shall be due and payable on the first Business Day following 15 July (the relevant date as per this sentence and sentence 1 of this Section 3(1) are each referred to as "**Due Date**") with no additional interest being payable in respect of such postponement. If, at the relevant Due Date, the annual accounts of the Bank for the Fiscal Year corresponding to the Profit Period have not yet been approved, payment of the Profit Participation shall be postponed to the first Business Day following the day on which the annual accounts of the Bank for the Fiscal Year corresponding to the Profit Period are approved. "**Business Day**" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System ("**TARGET**") is operating, and payments are settled by commercial banks and foreign currency markets in Frankfurt in the ordinary course of business.

2. If payment of the Profit Participation is made after the Due Date on account of the fact that the annual accounts of the Bank for the Fiscal Year corresponding to the Profit Period had not yet been approved on the Due Date, interest shall be payable at a rate of 5% p.a. above the then applicable base rate within the meaning of Section 288 of the German Civil Code ("**BGB**") on the Profit Participation from (and including) the Due Date up to (but excluding) the actual payment date.

§ 4
Rangstellung der Stillen Einlage

Forderungen gegenüber der Bank aufgrund dieses Beteiligungsvertrages:

(a) sind nachrangig gegenüber Forderungen aller bestehenden und künftigen Gläubiger der Bank (einschließlich Forderungen aus Genussrechten und ggf. anderen Kapitalinstrumenten des Ergänzungskapitals sowie sonstige nachrangige Verbindlichkeiten gemäß § 10(5), (5a) und (7) KWG);

(b) sind (prozentual zum fälligen Betrag) mindestens gleichrangig mit allen Forderungen aus bestehenden

Section 4
Ranking of the Silent Contribution

Claims against the Bank hereunder shall:

(a) be subordinated to claims of any existing and future creditors of the Bank (including claims under profit participation rights *(Genussrechte)* and, where applicable, any Tier 2 Capital Instruments *(Ergänzungskapital)* as well as any other subordinated debt pursuant to Section 10(5), (5a) and (7) KWG);

(b) rank at least *pari passu* (pro rata to the amount payable) with all claims under any existing and future und künftigen stillen Gesellschaften sowie mit Anderen Kernkapitalinstrumenten, die nach Maßgabe ihrer Bedingungen gleichrangig mit Gewinnbeteiligungen in Form von stillen Gesellschaften sind;

(c) sind vorrangig vor allen Forderungen aus Aktien der Bank.

silent partnerships as well as with Other Tier 1 Capital Instruments which, in accordance with their terms, rank *pari passu* with profit participations in the form of silent partnerships;

(c) rank senior to all claims under shares of the Bank.

§ 5
Verlustbeteiligung, stille Reserven

1. An einem Bilanzverlust nimmt der Stille Gesellschafter im Verhältnis des Buchwerts der Stillen Einlage zum Gesamtbuchwert des haftenden Eigenkapitals der Bank, das am Verlust teilnimmt, (das „**Haftkapital**") teil. „**Buchwert**"bezeichnet dabei den Buchwert der Stillen Einlage nach Maßgabe der Bilanz der Bank für das jeweilige Geschäftsjahr. Wenn sich bei Aufstellung der Bilanz der Bank die Entstehung eines Bilanzverlust abzeichnet, so wird dieser Bilanzverlusts anteilig nach Maßgabe dieses § 5 vom Buchwert abgezogen.

Somit nehmen alle stillen Gesellschafter, alle Inhaber von Genussrechten und alle Aktionäre der Bank am Bilanzverlust mit dem gleichen Prozentsatz des Buchwertes ihrer Einlagen bzw. ihrer Rückzahlungsansprüche oder des sonstigen ausgewiesenen Eigenkapitals teil.

2. Die Gesamtverlustbeteiligung des Stillen Gesellschafters ist auf seine Vermögenseinlage beschränkt.

3. Nach einer etwaigen Herabsetzung wird die Stille Einlage in den der Herabsetzung nachfolgenden Geschäftsjahren der Bank bis zur vollständigen Höhe des Einlagenennbetrags wieder aufgefüllt, wenn und soweit hierdurch kein Bilanzverlust entsteht oder erhöht würde. § 2(5) bleibt unberührt.

Die Auffüllung der Stillen Einlage nach einer Herabsetzung geht der Auffüllung des Grundkapitals, der Zahlung von Dividenden und Einstellungen in Rücklagen (außer gesetzlich zu bildender Rücklagen) vor. Im Verhältnis zu Anderen Kernkapitalinstrumenten erfolgt die Auffüllung gleichrangig und im gleichen Verhältnis wie die Verlustbeteiligung. Im Verhältnis zu Genussrechten (§ 10(5) KWG) ist die Auffüllung nachrangig, soweit die Genussrechtsbedingungen nicht einen Gleichrang vorsehen.

4. Auf die vor oder während der Laufzeit der Stillen Gesellschaft gebildeten stillen Reserven hat der Stille Gesellschafter kein Anrecht.

5. Die Bank ist nicht verpflichtet, stille Reserven aufzudecken, um eine Gewinnbeteiligung gemäß § 2 auszahlen zu können oder eine Verlustbeteiligung zu vermeiden.

Section 5
Loss Participation, Hidden Reserves

1. The Silent Partner shall participate in a Balance Sheet Loss in the proportion which the Book Value of the Silent Contribution bears in relation to the aggregate Book Value of all loss-participating components of the Bank's regulatory capital (the "**Regulatory Capital**"). "**Book Value**" means the Book Value of the Silent Contribution in accordance with the balance-sheet of the Bank for the relevant Fiscal Year. When, in the course of preparing the balance-sheet of the Bank, it becomes apparent that there will be a Balance Sheet Loss, such loss will be deducted from the Book Value on a pro rata basis in accordance with this Section 5.

Accordingly, all silent partners, all holders of profit participation rights *(Genussrechte)* as well as all shareholders of the Bank participate in any Balance Sheet Loss with the same percentage of the book value of their contributions, repayment claims or any other stated equity capital, respectively.

2. The Silent Partner's aggregate loss participation shall be limited to his asset contribution.

3. Subsequent to a Reduction, if any, the Silent Contribution shall be replenished during the Fiscal Years of the Bank following any such Reduction until the Nominal Contribution Amount has been replenished in full if and to the extent that such replenishment would not cause or increase any Balance Sheet Loss. The above shall be without prejudice to Section 2(5).

Any replenishment of the Silent Contribution subsequent to a Reduction shall take priority over the replenishment of the share capital, the payment of dividends as well as any allocations to reserves (with the exception, however, of statutory reserves). In relation to Other Tier 1 Capital Instruments, any such replenishment shall be effected on a *pari passu* basis and in the same proportion as the loss participation. In relation to profit participation rights *(Genussrechte)* (Section 10(5) KWG), any such replenishment shall be effected on a subordinated basis unless the terms and conditions of the profit participation rights provide for a *pari passu* ranking.

4. The Silent Partner shall not be entitled to a share in the hidden reserves created prior to or during the term of the Silent Partnership.

5. The Bank shall not be obliged to disclose any hidden reserves in order to pay a Profit Participation in accordance with Section 2 hereof or to avoid a loss participation.

§ 6
Dauer der stillen Gesellschaft, Kündigung

1. Dieser Beteiligungsvertrag wird auf unbestimmte Zeit abgeschlossen.

2. Die Kündigung dieses Beteiligungsvertrags durch den Stillen Gesellschafter ist ausgeschlossen. Für den Fall der Unwirksamkeit des Kündigungsausschlusses wird vereinbart, dass die Kündigung nur mit vorheriger Zustimmung der BaFin erfolgen kann. Für den Fall der Unwirksamkeit des vorstehenden Zustimmungsvorbehaltes wird vereinbart, dass die Kündigung des Stillen Gesellschafters mit einer Frist von zwei Jahren, erstmals jedoch zum Ende des Geschäftsjahres 2033/2034 erfolgen kann.

Section 6
Duration of the Silent Partnership, Termination

1. This Silent Partnership Agreement shall be concluded for an indefinite period of time.

2. The Silent Partner shall be precluded from terminating this Silent Partnership Agreement. In the event such preclusion is invalid, the parties agree that this Agreement may only be terminated with the prior consent of the BaFin. Should the above consent requirement be invalid, the parties agree that the Silent Partner may terminate this Agreement by giving two years' prior notice, no earlier, however, than with effect from the end of the Fiscal Year 2033/2034.

3. Die Bank kann diesen Beteiligungsvertrag gegenüber dem Stillen Gesellschafter mit einer Frist von zwei Jahren zum Ende eines jeden Geschäftsjahres kündigen, wobei eine Kündigung keinesfalls vor dem 31. März 2014 wirksam wird und zu ihrer Wirksamkeit der vorherigen Zustimmung durch die BaFin bedarf. Wenn eine Veränderung gemäß § 11 eintritt, kann die Bank diesen Beteiligungsvertrag unbeschadet des ersten Satzes dieses § 6(3) jederzeit mit einer Frist von zwei Jahren zum Monatsende gegenüber dem Stillen Gesellschafter kündigen mit der Maßgabe, dass eine Kündigung keinesfalls vor dem 31. März 2014 wirksam wird und zu ihrer Wirksamkeit der vorherigen Zustimmung durch die BaFin bedarf. Falls die Stille Einlage nicht mehr als haftendes Eigenkapital (Kernkapital) im Sinne des KWG anerkannt wird, kann die Bank diesen Beteiligungsvertrag jederzeit mit einer Frist von 30 Tagen zum Monatsende kündigen.

3. The Bank may terminate this Silent Partnership Agreement by giving two years' notice to the Silent Partner with effect from the end of each Fiscal Year provided that any such termination shall not become effective prior to 31 March 2014, and shall require the prior consent of the BaFin. In the event that any changes referred to in Section 11 hereof shall occur, the Bank may terminate this Silent Partnership Agreement at any time, notwithstanding the first sentence of this Section 6(3), by giving two years' prior notice to the Silent Partner with effect from the end of any month provided that any such termination shall not under any circumstances become effective before 31 March 2014, and shall require the prior consent of the BaFin. In case the Silent Contribution no longer qualifies as regulatory capital (Tier 1 Capital) as defined in the KWG, the Bank may terminate this Silent Partnership Agreement at any time by giving 30 days' notice with effect from the end of any month.

4. Endet dieser Beteiligungsvertrag im Laufe eines Geschäftsjahres, ist die Stille Einlage vom Beendigungstag (ausschließlich) bis zum Ende des Geschäftsjahres (einschließlich), in dem die Beendigung erfolgt, in Höhe der nach Maßgabe des § 2(2) für das laufende Geschäftsjahr bereits festgesetzten und ggf. gemäß § 2(3) erhöhten Gewinnbeteiligung zu verzinsen.

4. In the event that this Silent Partnership Agreement shall terminate during a Fiscal Year, interest shall be payable on the Silent Contribution from (but excluding) the Termination Date up to (and including) the end of the Fiscal Year during which the Silent Partnership Agreement terminates, in an amount equal to the Profit Participation, as determined for the current Fiscal Year in accordance with Section 2(2) and, where applicable, as increased pursuant to Section 2(3).

5. Die Kündigung dieses Beteiligungsvertrags bedarf der Schriftform. Der Stille Gesellschafter behält bis zum Wirksamwerden einer Kündigung seine vollen Rechte unter diesem Beteiligungsvertrag. Unterschreitet der Buchwert den Einlagenennbetrag, gilt der Beteiligungsvertrag im Falle einer Kündigung erst dann als beendet, wenn die Stille Einlage nach § 5(3) bis zur vollständigen Höhe des Einlagenennbetrags wieder aufgefüllt ist.

5. Any termination of this Silent Partnership Agreement shall be made in writing. The Silent Partner shall retain its rights hereunder without any limitation until the termination becomes effective. If and for so long as the Book Value is less than the Nominal Contribution Amount, this Silent Partnership Agreement shall not be deemed to be terminated until the Capital is replenished pursuant to Section 5(3) hereof up to the full Nominal Contribution Amount.

6. Am Rückzahlungstag zahlt die Bank an den Stillen Gesellschafter den Rückzahlungsbetrag sowie die eventuell entstandene Gewinnbeteiligung bzw. Zinsen gemäß § 6(4). „**Rückzahlungstag**"bezeichnet dabei den Fälligkeitstag in dem Geschäftsjahr, welches auf das Geschäftsjahr der Bank folgt, in das der Beendigungstag fällt bzw. – im Fall der Wiederauffüllung der Stillen Einlage bis zum vollen Einlagenennbetrag – den Fälligkeitstag in dem Geschäftsjahr, welches auf das Geschäftsjahr der Bank folgt, zu dessen Ende sich ein Bilanzgewinn ergibt, der zur Wiederauffüllung der Stillen Einlage führt. „**Rückzahlungsbetrag**"bezeichnet den Buchwert der Stillen Einlage zum Ende des Geschäftsjahrs, in dem die Stille Beteiligung endet. § 6(5) Satz 2 bleibt unberührt. Vorbehaltlich der Regelung in § 6(4) wird die Stille Einlage bzw. der Rückzahlungsbetrag für den Zeitraum vom Beendigungstag bis zum Rückzahlungstag nicht verzinst. Erfolgt die Zahlung des Rückzahlungsbetrags sowie der eventuell entstandenen Gewinnbeteiligung bzw. gemäß § 6(4) eventuell aufgelaufener Zinsen nach dem Rückzahlungstag, weil am Rückzahlungstag der Jahresabschluss der Bank für das (zur Ermittlung des Rückzahlungsbetrags maßgebliche) Geschäftsjahr noch nicht festgestellt war, sind der Rückzahlungsbetrag sowie die eventuell entstandene Gewinnbeteiligung bzw. eventuell gemäß § 6(4) aufgelaufene Zinsen vom Rückzahlungstag (einschließlich) bis zum Tag der tatsächlichen Zahlung (ausschließlich) mit 5% p.a. über dem jeweils gültigen Basiszinssatz im Sinne des § 288 BGB zu verzinsen.

6. On the repayment date, the Bank shall pay to the Silent Partner the Repayment Amount, the Profit Participation which may have accrued and/or any interest in accordance with Section 6(4). "**Repayment Date**" means the Due Date in the Fiscal Year following the Fiscal Year of the Bank in which the Termination Date has occurred, or – in the event the Silent Contribution needs to be replenished up to the full Nominal Contribution Amount – the Due Date in the Fiscal Year following the Fiscal Year of the Bank as of the end of which a balance sheet profit is reported which results in the complete replenishment of the Silent Contribution. "**Repayment Amount**" means the Book Value of the Silent Contribution as of the end of the Fiscal Year in which the Silent Partnership terminates. The above shall be without prejudice to Section 6(5) sentence 2. Subject to the provisions contained in Section 6(4), no interest will be payable on the Silent Contribution and/or the Repayment Amount for the period commencing on the Termination Date and ending on the Repayment Date. Where payment of the Repayment Amount, the Profit Participation which may have accrued and/or any interest accrued pursuant to Section 6(4) is made after the Repayment Date because, on the Repayment Date, the annual accounts of the Bank for the Fiscal Year (relevant for determining the Repayment Amount) had not yet been approved, interest shall be payable from (and including) the Repayment Date up to (but excluding) the actual payment date on the Repayment Amount, the Profit Participation which may have accrued and/or any interest accrued pursuant to Section 6(4) at a rate of 5% p.a. above the then applicable base rate within the meaning of Section 288 BGB.

7. Von Maßnahmen nach dem Umwandlungsgesetz, (Teil-) Vermögensübertragungen, Änderungen der Rechtsform

7. Any corporate action taken in compliance with the German Transformation Act *(Umwandlungsgesetz)*, any (par-

oder des Grundkapitals der Bank bleibt die Stille Gesellschaft unberührt.

8. Im Falle der Insolvenz oder Liquidation der Bank wird der Rückzahlungsbetrag der Stillen Einlage erst nach Befriedigung aller Gläubiger der Bank einschließlich der Inhaber von Genussrechten sowie der Gläubiger von längerfristigen nachrangigen Verbindlichkeiten und kurzfristigen nachrangigen Verbindlichkeiten, jedoch vor der Rückzahlung von Grundkapital zu Gunsten der Aktionäre ausgezahlt.

tial) asset transfers, changes in the legal form or the share capital of the Bank shall not affect the Silent Partnership.

8. In the event of an insolvency or liquidation of the Bank, the Repayment Amount of the Silent Contribution will not be paid until all creditors of the Bank, including the holders of profit participation rights *(Genussrechte)* as well as the holders of long-term and short-term subordinated debt have been fully satisfied; however, payment of the Repayment Amount will be made prior to repayment of share capital for the benefit of the shareholders.

§ 7
Gesellschafterrechte

1. Der Stille Gesellschafter ist berechtigt, (i) eine Abschrift des Jahresabschlusses der Bank (Bilanz mit Gewinn- bzw. Verlustrechnung sowie Anmerkungen) einschließlich Lagebericht sowie Konzernabschluss und Konzernlagebericht zu verlangen und (ii) den Prüfungsbericht durch einen Wirtschaftsprüfer oder vereidigten Buchprüfer überprüfen zu lassen.

2. Zusammen mit dem Jahresabschluss erhält der Stille Gesellschafter eine Aufstellung über seine Gewinn- und Verlustbeteiligung. Auf Anfrage des Stillen Gesellschafters hat die Bank hierzu weitere Auskünfte zu erteilen.

3. Weitere Gesellschafterrechte stehen dem Stillen Gesellschafter nicht zu.

Section 7
Partnership Rights

1. The Silent Partner shall be entitled (i) to request a copy of the annual accounts of the Bank (balance-sheet, profit and loss account and notes) including the directors' report, as well as the consolidated accounts and the consolidated directors' report, and (ii) to have the auditors' report reviewed by an auditor or a chartered accountant.

2. The Silent Partner shall, together with the annual accounts, receive a statement of his profit/loss participation position. Upon request by the Silent Partner, the Bank shall furnish further information in this respect.

3. The Silent Partner shall have no further partnership rights.

§ 8
Hinweis gemäß § 10(4) Satz 1 Ziffer 6 KWG

Nach Abschluss dieses Vertrages können (i) weder die Verlustbeteiligung zum Nachteil der Bank verändert, (ii) noch die Nachrangigkeit eingeschränkt noch (iii) die Laufzeit oder Kündigungsfrist verkürzt werden.

Eine vorzeitige Rückzahlung ist der Bank ohne Rücksicht auf entgegenstehende Vereinbarungen zurückzugewähren, sofern nicht das Kapital durch die Einzahlung anderen, zumindest gleichwertigen haftenden Eigenkapitals ersetzt worden ist oder die BaFin der vorzeitigen Rückzahlung zustimmt.

Section 8
Notice in accordance with Section 10(4) sentence 1 No. 6 KWG

Subsequent to conclusion hereof, (i) the loss participation may not be amended to the detriment of the Bank, (ii) the subordination may not be restricted, and (iii) the term or the notice period may not be shortened.

Any early repayment must be repaid to the Bank regardless of any agreements to the contrary unless the capital has been replaced by other regulatory capital of least equal quality, or the BaFin agrees to such early repayment.

§ 9
Begebung weiteren Haftkapitals

Die Bank behält sich das Recht vor, Verträge über Andere Kernkapitalinstrumente zu gleichen oder anderen Bedingungen, insbesondere mit einer anderen Gewinnbeteiligung, oder Verträge über Genussrechte oder andere Verbindlichkeiten einzugehen, die Eigenmittel im Sinne des KWG und/oder der Eigenmittelempfehlungen des Baseler Ausschusses für Bankenaufsicht sind oder nachrangige bzw. mit dieser Stillen Gesellschaft gleichrangige Garantien, Patronatserklärungen oder andere Gewährleistungen (Sicherheiten) für entsprechende Instrumente von Tochtergesellschaften der Bank einzugehen. Forderungen künftiger stiller Gesellschafter (bzw. der Inhaber von Sicherheiten für Kernkapitalinstrumente bei Tochtergesellschaften) dürfen den Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag nicht im Rang vorgehen.

Section 9
Issue of Additional Regulatory Capital

The Bank reserves the right to conclude agreements on Other Tier 1 Capital Instruments on identical or different terms, in particular with a different profit participation, or to enter into agreements on profit participation rights *(Genussrechte)* or other liabilities qualifying as regulatory own funds within the meaning of the KWG and/or of the capital adequacy recommendations published by the Basle Committee for Banking Supervision, or to issue guarantees, support undertakings or any other warranties (security instruments) subordinated to or ranking *pari passu* with this Silent Partnership for corresponding instruments of subsidiaries of the Bank. Claims of any future silent partners (or of holders of security provided for Tier 1 Capital Instruments of subsidiaries) may not rank prior to the claims of the Silent Partner hereunder.

§ 10
Übertragungsrechte des Stillen Gesellschafters

1. Jede Abtretung oder anderweitige Verfügung (z. B. durch Verpfändung) über Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag bedarf der vorherigen schriftlichen Zustimmung der Bank. Die Abtretung oder anderweitige Verfügung darf nicht zu einer erhöhten Belastung des Stillen Gesellschafters mit Kapitalertrag – oder sonstiger Abzugsteuer, etwaiger Vermögensteuer, Gewerbeertrag- oder sonstiger Ertragsteuer führen.

Section 10
Silent Partner's Transfer Rights

1. Any claims of the Silent Partner hereunder may only be assigned or otherwise disposed of (e. g. by way of a pledge) with the prior written consent of the Bank. Any such assignment or other disposal may not result on any increased liability of the Silent Partner on account of investment income tax or other withholding tax or any property, trade income or any other income tax.

2. Im Falle einer Änderung des Geschäftsjahres der Bank werden die Parteien diesen Vertrag anpassen, soweit dies erforderlich ist, um der Änderung des Geschäftsjahres Rechnung zu tragen. Dabei ist der Ausschüttungstag jeweils so anzupassen, dass als Zeitpunkt für den Ausschüttungstag der 15. Tag des 4. Monats nach Ende des betreffenden Geschäftsjahres bzw. Rumpfgeschäftsjahres festzulegen ist.

2. In case of any changes made to the Fiscal Year of the Bank, the parties shall amend this Agreement if and to the extent required to reflect the changes made to the Fiscal Year. In any such case, the Distribution Date shall be adjusted to be the 15th day of the fourth month following the end of the relevant Fiscal Year or, where applicable, short Fiscal Year.

§ 11
Änderungen steuerlicher oder aufsichtsrechtlicher Vorgaben

Im Falle wesentlicher Änderungen in der steuerlichen oder aufsichtsrechtlichen Behandlung der Einlagen und ihrer Gewinn- und Verlustbeteiligung oder im Falle einer Erhöhung der Gewinnbeteiligung gem. § 2(3) werden die Parteien dieses Beteiligungsvertrages in einvernehmliche Verhandlungen zum Zweck einer Anpassung dieses Beteiligungsvertrages an die veränderte Rechtslage eintreten, sofern die Bank diesen Beteiligungsvertrag nicht wirksam gem. § 6(3) Satz 2 kündigt.

Section 11
Changes of Tax or Regulatory Requirements

In the case of material changes in relation to the tax or regulatory treatment of the contributions and their profit and loss participation, or in the event of any increase in the Profit Participation in accordance with Section 2(3) of this Silent Partnership Agreement, the parties hereto shall enter into *bona fide* negotiations with a view to amending this Agreement to reflect the changes in the legal situation, unless this Silent Partnership Agreement is effectively terminated by the Bank pursuant to Section 6(3) sentence 2.

§ 12
Besteuerung

Alle aufgrund dieses Vertrages fälligen Zahlungen werden ohne Einbehalt oder Abzug aufgrund derzeitiger oder künftiger Steuern oder Abgaben gleich welcher Art geleistet, die durch Einbehalt oder Abzug durch die oder im Auftrag der Bundesrepublik Deutschland, ihrer politischen Untergliederungen oder der zur Erhebung von Steuern befugten Behörden auferlegt oder erhoben werden, es sei denn, Einbehalt oder Abzug sind gesetzlich vorgeschrieben.

Section 12
Taxation

All amounts due and payable hereunder shall be made without any withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction by or on behalf of the Federal Republic of Germany or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law.

§ 13
Geltendes Recht, Erfüllungsort und Gerichtsstand

Das Gesellschaftsverhältnis und alle sich aus diesem Beteiligungsvertrag ergebenden Rechte und Pflichten unterliegen ausschließlich dem Recht der Bundesrepublik Deutschland. Erfüllungsort und Gerichtsstand ist Frankfurt am Main.

Section 13
Applicable Law, Place of Performance and Jurisdiction

The Silent Partnership as well as all rights and obligations arising from this Silent Partnership Agreement shall exclusively be governed by German law. Place of performance and jurisdiction shall be Frankfurt am Main, Federal Republic of Germany.

§ 14
Salvatorische Klausel

Sollte eine Vertragsbestimmung ganz oder teilweise unwirksam oder unvollständig sein oder werden, so wird hierdurch die Wirksamkeit der übrigen Bestimmungen nicht berührt. Anstelle der unwirksamen oder unvollständigen Bestimmung tritt eine Regelung, die dem wirtschaftlichen Zweck der unwirksamen Bestimmung in rechtlich zulässiger Weise am nächsten kommt bzw. die Bestimmung in Übereinstimmung mit dem mutmaßlichen Parteiwillen so gut wie möglich ergänzt.

Section 14
Severability

In the event that any provision hereof is or becomes ineffective or incomplete in whole or in part, the effectiveness of the remaining provisions shall not be affected thereby. Any such ineffective or incomplete provision shall be replaced by a provision which, to the extent permitted by law, comes as close as possible to the economic purpose of the ineffective provision or best supplements the provision in accordance with the presumed intentions of the parties hereto.

Confirmation by IKB Deutsche Industriebank Aktiengesellschaft and Hybrid Raising GmbH

The German text of the Confirmation by IKB Deutsche Industriebank Aktiengesellschaft and Hybrid Raising GmbH is legally binding. The English translation is for convenience only.

The undersigned IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf and Berlin, Federal Republic of Germany, and Hybrid Raising GmbH, Norderfriedrichskoog, Federal Republic of Germany, refer to the Silent Partnership Agreement entered into between the aforementioned companies on 30 January/2 February 2004, under which Hybrid Raising GmbH participates in the commercial enterprise of IKB Deutsche Industriebank Aktiengesellschaft as a typical silent partner (the "**Silent Partnership Agreement**"). Hybrid Raising GmbH refinances the Silent Contribution to be made by issuing Notes which have meanwhile been placed with the investors.

In accordance with the Recitals as well as Sections 1(1) and 2(2) of the Silent Partnership Agreement, the Parties agreed both on the amount of the Silent Contribution (the "**Nominal Contribution Amount**") and the Profit Participation to be claimed by the Silent Partner within the fixed upper and lower limits; the amounts which are definitely determined, however, are to be confirmed by the Parties in conformity with capital market conditions prevailing at the time the Notes are placed prior to making the Silent Contribution.

In accordance with the capital market conditions prevailing at the time the Notes are placed, the Nominal Contribution Amount has now been determined to total € 200,000,000 (in words: Euro two hundred million), and the interest rate relevant to the amount of the Profit Participation has been fixed at 6.95812 % p. a.

Pursuant to Sections 1(1) and 2(2) of the Silent Partnership Agreement, we hereby confirm the Nominal Contribution Amount and the interest rate as determined and fixed above.

This confirmation is to be attached to the application for the entry of the Silent Partnership Agreement as Partial Profit Transfer Agreement *(Teilgewinnabführungsvertrag)* into the Commercial Register for IKB Deutsche Industriebank Aktiengesellschaft.

Fiduciary Agreement

The German text of the Fiduciary Agreement is legally binding. The English translation is for convenience only. The German language version of the following contract will be attached to, and shall be an integral part of, the Terms and Conditions of the Issue and the Global Certificate, respectively.

Fiduciary Agreement entered into between **Hybrid Raising GmbH,** Norderfriedrichskoog (the "**Silent Partner**"), **Deutsche Bank Luxembourg S.A.** (the "**Fiduciary**") and **IKB Deutsche Industriebank Aktiengesellschaft,** Düsseldorf und Berlin (the "**Bank**")

Recitals

1. On 30 January/2 February 2004, the Silent Partner and the Bank have entered into an Agreement on the establishment of a Silent Partnership (the "**Silent Partnership Agreement**" which is attached to this Fiduciary Agreement as *Annex 1)* under which the Silent Partner makes a capital contribution (the "**Silent Contribution**") to the Bank. The contribution is to serve the Bank as regulatory capital. Pursuant to the Silent Partnership Agreement and as consideration for its contribution, the Silent Partner shall be entitled to a profit participation in each Profit Period (the "**Profit Participation**") for the term of the Silent Partnership Agreement. The Profit Participations accruing in each Profit Period shall be calculated annually and distributed on the relevant Due Date in accordance with the Silent Partnership Agreement (after deduction of the withholding as per No. 2 below, each an "**Annual Profit Participation**"). In the event the distribution of the Annual Profit Participation is effected after the relevant Due Date due to delayed approval of the annual accounts relevant for the calculation of the respective Annual Profit Participation, the Silent Partner shall, in accordance with the Silent Partnership Agreement, have a claim against the Bank for interest on the Annual Profit Participation (the "**Delayed Payment Interest Claim**"). Upon termination of the Silent Partnership Agreement, the Silent Partner shall, pursuant to the terms of the Silent Partnership Agreement, have a claim against the Bank for repayment of his contribution, for payment of any Profit Participation and/or interest which may have accrued in accordance with Section 6(4) of the Silent Partnership Agreement (the "**Termination Claims**").

2. Upon distribution of the Profit Participation to the Silent Partner or the replenishment of the Silent Contribution following a reduction of its Book Value, the Bank is obliged to withhold investment income tax plus solidarity surcharge on the distributed amounts and/or on the amount of replenishment pursuant to Section 43(1) No. 3 German Income Tax Act *(EStG)*. This withholding (the "**Withholding**") is credited as prepayment against the corporate income tax liability of the Silent Partner. To the extent any such prepayment exceeds the actual income tax liability of the Silent Partner, the Silent Partner may claim refund from the tax authorities (each a "**Tax Refund Claim**"). On 30 January/2 February 2004, the Silent Partner and the Bank have entered into an agreement on the purchase of the Tax Refund Claims of the Silent Partner by the Bank (the "**Receivables Purchase Agreement**" which is attached to this Fiduciary Agreement as *Annex 2)* pursuant to which the Silent Partner sells and assigns to the Bank its Tax Refund Claims against the tax authorities. In consideration thereof, the Silent Partner is entitled to payments from the Bank, which payments become due at the time of the distribution of the Annual Profit Participation and equal the amount of the respective Withholding (the "**Payment Claims**").

3. To finance his contribution, the Silent Partner issues Notes (the "**Notes**"). Pursuant to the Terms and Conditions of the Issue (the "**Terms and Conditions of the Issue**" which are attached hereto as *Annex 3),* the holders of the Notes (the "**Investors**") shall be entitled to interest on the Notes (the "**Interest Claims**"). Upon repayment of the Silent Contribution and/or termination of the Notes, the Investors may claim, pursuant to the Terms and Conditions of the Issue, repayment of the Notes and payment of any interest which may have accrued on the Notes as well as, in case of repayment of the Silent Contribution, payment of any interest which may have accrued pursuant to Section 6(4) of the Silent Partnership Agreement (the "**Repayment Claims**").

4. To secure payments in respect of the Interest Claims and the Repayment Claims payable to Investors under the Notes, the Silent Partner shall assign to the Fiduciary all present and future claims for the Annual Profit Participations (the "**Profit Participation Claims**") to the extent as described in the following, Delayed Payment Interest Claims, Payment Claims and Termination Claims which the Silent Partner has against the Bank in accordance with the terms hereof. Such claims shall be held in trust by the Fiduciary for the benefit of the Investors. On the relevant Due Date, the amounts paid in respect of the respective claims will be paid to the Investors pursuant to the Terms and Conditions of the Issue.

The Parties now agree as follows:

Section 1
Definitions

Unless otherwise stipulated, the terms used in this Fiduciary Agreement shall have the same meaning as used in the Silent Partnership Agreement, the Receivables Purchase Agreement or in the Terms and Conditions of the Issue.

Section 2
Assignment

1. The Silent Partner hereby assigns to the Fiduciary all (present and future, conditional and unconditional) Profit Participation Claims, Delayed Payment Interest Claims, Payment Claims and Termination Claims which the Silent Partner has against the Bank. If and to the extent that the Annual Profit Participation together with the respective Payment Claim and any Delayed Payment Interest Claim exceeds the Interest Claim of the Investors for the relevant Payment Period, the assignment of the respective Profit Participation Claim is reduced by the excess amount.
2. Upon entering into this Fiduciary Agreement, any existing Profit Participation Claims (to the extent as set forth in Section 2(1) sentence 2 above) and any existing Payment Claims shall pass to the Fiduciary. Any and all future Profit Participation Claims, Delayed Payment Interest Claims, Payment Claims and Termination Claims shall pass to the Fiduciary upon their accrual (and, with respect to the Profit Participation Claims, to the extent as set forth in Section 2(1) sentence 2).

Section 3
Security

The assignment of claims as provided in Section 2 above shall serve to secure the Interest Claims and Repayment Claims of the Investors under the Notes.

Section 4
Legal Status of the Fiduciary

1. The Fiduciary shall hold the claims assigned to it in accordance with Section 2 (the "**Assigned Claims**") in trust for the benefit of the Investors to secure payments to be made to Investors in respect of the Interest Claims and Repayment Claims under the Notes.
2. Subject to the provisions hereof, the Fiduciary shall not dispose of the Assigned Claims without the prior written consent of the Silent Partner and the Bank.
3. The Fiduciary shall provide assistance to the effect that the payments to be made in respect of the Assigned Claims on the relevant Due Date are properly effected to the Investors in accordance with the Terms and Conditions of the Issue. In particular, the Fiduciary shall, in due time and form, give all notices as well as take all steps necessary to properly effect the payments to be made in respect of the Assigned Claims through the Paying Agent to the Investors pursuant to Section 6(1) of the Terms and Conditions of the Issue. In case the payments due in respect of the respective Assigned Claims are not made on the relevant Due Date, the Fiduciary shall immediately assert any such Claims against the Bank.
4. The Fiduciary shall be entitled to take judicial and extra-judicial action relating to the Assigned Claims which serve the security purpose described in Section 3 hereof.
5. The Fiduciary does not assume any obligations towards the Investors other than expressly stipulated in this Fiduciary Agreement.
6. The Fiduciary shall be liable to perform its obligations hereunder with the due care of a prudent businessman.

Section 5
Legal Status of the Silent Partner

1. Subsequent to the execution of this agreement, the Silent Partner shall not dispose of the Assigned Claims. In particular, the Silent Partner shall not encumber the Assigned Claims with any third-party rights and shall not take any action which might adversely affect or jeopardise the Assigned Claims.
2. The Silent Partner shall immediately notify the Fiduciary in writing in the event that the rights of the Fiduciary with respect to the Assigned Claims are adversely affected or jeopardised by any third-party acts. In addition, the Silent Partner shall make available to the Fiduciary any and all information and documentation required by the Fiduciary to protect its rights. The Silent Partner shall notify any such third parties in writing about the rights of the Fiduciary with respect to the Assigned Claims.
3. The Silent Partner shall permit the Fiduciary to inspect at any time all documents relating to the Assigned Claims and available to the Silent Partner.
4. The Silent Partner retains the right to claim an increase of its Profit Participation in accordance with Section 2(3) of the Silent Partnership Agreement.
5. The Silent Partner shall provide assistance to secure that payments to be made to Investors in respect of the Assigned Claims on the relevant Due Date are duly effected in conformity with the Terms and Conditions of the Issue. In particular, the Silent Partner shall, in due time and form, give all notices and take all steps necessary to duly effect the payments to be made to Investors in respect of the Assigned Claims through the Paying Agent pursuant to Section 6(1) of the Terms and Conditions of the Issue.

Section 6
Warranties of the Silent Partner

The Silent Partner warrants and guarantees towards the Fiduciary by way of an independent guarantee *(selbständiges Garantieversprechen)* that

(a) the Silent Partner is the absolute owner of the Assigned Claims and that the Silent Partner may freely dispose of the Assigned Claims unless otherwise stipulated herein;

(b) the Assigned Claims have not already been assigned or pledged to a third party, and that no third-party rights or claims exist in respect of the Assigned Claims.

Section 7
Pleas and Defences

The Silent Partner and the Bank hereby expressly waive the defenses of voidability and set-off as well as any other pleas and defences which the Silent Partner or the Bank might have in connection with the Assigned Claims.

Section 8
Costs

The Silent Partner undertakes to indemnify the Fiduciary against any and all costs and expenses incurred by the Fiduciary in connection with enforcing and exercising any rights hereunder on condition that the Fiduciary provides evidence thereof to the Silent Partner by submitting a receipt.

Section 9
Legal Succession

Neither party shall be entitled to assign its rights hereunder without the prior written consent of the other parties. Any disposals made in respect of the Notes shall not affect this Fiduciary Agreement.

Section 10
Severability

In the event that any provision of this Fiduciary Agreement is or becomes void or ineffective in whole or in part, the other provisions hereof shall remain unaffected thereby. Any such void or ineffective provision shall be replaced by a valid provision coming as close as possible to the economic purpose of the void or ineffective provision. The same shall apply in case this Fiduciary Agreement lacks certain provisions which would have been included herein by the parties, however, if they had been aware of any such lacking provisions at the time they entered into this Fiduciary Agreement.

Section 11
Miscellaneous

1. This Fiduciary Agreement shall be governed by German law.
2. The District Court *(Landgericht)* Frankfurt am Main shall have jurisdiction in respect of all lawsuits or court proceedings arising from or in connection with this Fiduciary Agreement.
3. Any amendment to this Fiduciary Agreement must be made in writing.
4. Only the German version of this Fiduciary Agreement shall be legally binding. Any translation into the English language is for convenience only.

Annexes

Annex 1: Silent Partnership Agreement ([1])

Annex 2: Receivables Purchase Agreement ([2])

Annex 3: Terms and Conditions of the Issue ([3])

(1) See in this Prospectus "Structure of the Issue" – "Silent Partnership Agreement".
(2) See in this Prospectus "Structure of the Issue" – "Material Provisions of the Receivables Purchase Agreement". The Agreement has not been included in its entirety in this Prospectus.
(3) See in this Prospectus "Structure of the Issue" – "Terms and Conditons of the Issue".

Material Provisions of the Receivables Purchase Agreement

The Receivables Purchase Agreement will be attached to, and shall be an integral part of the Terms and Conditions of the Issue and the Global Certificate, respectively. A copy of the Receivables Purchase Agreement is available for inspection at the offices of the Paying Agents.

Upon distribution of the Profit Participation to the Issuer or the replenishment of the Silent Contribution following a Reduction of its Book Value, IKB AG is obliged to withhold amounts on account of investment income tax *(Kapitalertragsteuer)* payable on the distributed amounts and/or on the amount of replenishment pursuant to Section 43(1) No. 3 German Income Tax Act *(EStG)*, unless the tax authorities have granted a tax exemption for payments to the Issuer.

The Withholding will be credited as a prepayment against the corporate income tax liability of the Issuer. To the extent that any such prepayment exceeds the definitive amounts of corporate income tax payable by the Issuer, the Issuer will have a refund claim against the tax authorities.

On 30 January/2 February 2004, the Issuer and IKB AG have entered into an agreement on the purchase by IKB AG of Tax Refund Claims of the Issuer pursuant to which the Issuer sells and assigns to IKB AG its Tax Refund Claims against the tax authorities.

As consideration therefor, the Issuer will have payment claims against IKB AG, which claims become due for payment in the amount of the respective Withholding at the time of the distribution of the Annual Profit Participation. Where a Withholding is effected at the time the Silent Contribution is replenished following Reduction of its Book Value, the Amount of the Purchase Price is to be used for the purpose of replenishing of the Silent Contribution and will directly be credited to the Silent Contribution.

If the tax authorities shall deduct corporate income tax payable by the Issuer from the amount of tax to be refunded, the Issuer must repay the relevant amount to IKB AG.

Material Provisions of the Agreement on the Reimbursement of Expenses

The business operations of the Silent Partner will be restricted to the holding and administration of the Silent Participation as well as to such activities as may be required in the context of the issue of the Notes.

Pursuant to the Agreement on the Reimbursement of Expenses entered into on 30 January/2 February 2004, between the Issuer and IKB AG, IKB AG has undertaken with the Issuer to make an annual payment (payable in twelve equal monthly instalments) to the Issuer in reimbursement of certain current expenses required for the continuation of its business operations. Payments of the Silent Partner on the Notes are not deemed expenses to be reimbursed under this agreement.

In the event of any unexpected additional costs, the Issuer may demand adjustment of the monthly instalments. The Silent Partner has agreed to conduct its business operations in an economically responsible and efficient way.

General Information on the Issuer

Incorporation, Registered Office, Duration and Object

Hybrid Raising GmbH was established on 31 March 2003 under the name "Kronen dreihundertneunundsiebzig GmbH" with its registered office at Düsseldorf and registered with the Commercial Register in Düsseldorf, Germany, under No. HRB 47974, on 19 May 2003. It is established for an indefinite period of time.

By resolution of its shareholders' meeting on 9 July 2003, the Issuer has changed its name to "Hybrid Raising GmbH". After a change in shareholders and registered office, the name change and the new registered office have been registered with the Commercial Register of the Local Court in Frankfurt am Main on 25 August 2003 under HRB No. 57408. By shareholders' resolution on 29 August 2003 the Issuer has transferred its temporary registered office from Frankfurt am Main to Norderfriedrichskoog, Germany. The transfer of the registered office to Norderfriedrichskoog has been registered with the Commercial Register of the Local Court in Husum, Germany, under No. 8 HRB 1982 on October 21, 2003.

The business object of the Issuer is, pursuant to its Articles of Association, to participate as silent partner in the business of a credit institution within the meaning of Section 1 KWG and, for this purpose, to raise funds by the issue of notes. The Issuer is further entitled to engage in any ancillary businesses which promote the business object of the company.

Share Capital

The share capital of the Issuer amounts to € 25,000.

Shareholder

Sole shareholder of the Issuer is Deutsche International Corporate Services Limited, with its registered office in Jersey acting as trustee of the Hybrid Raising Charitable Trust, an independent nonprofit trust domiciled in Jersey. The shareholder has acquired all shares of the Issuer pursuant to an agreement dated 29 August 2003.

Principal Activities

The principal activities of the Issuer correspond with the business object stipulated in the Issuer's Articles of Association. The Issuer has no employees.

Management

The Issuer acts through its managing directors *(Geschäftsführer)*. The managing directors always act jointly. The current managing directors are:

Name	Age	Function
Margret Dircks	49	Geschäftsführerin (managing director)
Dr. Hans-Joachim Winter	58	Geschäftsführer (managing director)

The managing directors can be contacted at the address of the Issuer, Koogstraat 4, 25870 Norderfriedrichskoog, Germany.

Fiscal Year

The fiscal year of the company corresponds to the calendar year.

Auditors

The auditors of the Issuer are NORD-TAX Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft, Rathausplatz 15, 24937 Flensburg.

Litigation

The Issuer is not involved in any litigation or arbitration proceedings which may have any material adverse effect on the financial position of the Issuer's business since16 May 2003. Furthermore, the Issuer is not aware that any such litigation or arbitration proceedings are imminent or threatened.

Material Changes

The financial position of the Issuer has not materially changed since 16 May 2003.

Opening Balance Sheet as per 16 May 2003

Assets	16 May 2003	**Liabilities**	16 May 2003
	EUR		EUR
B. Current Assets		**A. Capital**	
I. Credit at banking institutions	25,000.00	I. Subscribed capital	25,000.00
	25,000.00		25,000.00

Recent development and Outlook of the Issuer

The Issuer intends to issue the Notes and to make the Silent Contribution to IKB AG, in each case under the circumstances and conditions stated in this Prospectus. The intended business activities of the Issuer are limited to forwarding dividends that are paid on the Silent Contribution and making other payments under the Notes.

General Information on IKB Deutsche Industriebank Aktiengesellschaft

Corporate History, Registered Office, Duration and Object

IKB AG (together with its consolidated subsidiaries, the "**IKB Group**") is a German bank organized as a stock corporation *(Aktiengesellschaft)*. Its activities date back to September 30, 1924 when IKB AG was first incorporated in Berlin as "Bank für deutsche Industrieobligationen" to manage the reparation payments owed by German companies pursuant to the Treaty of Versailles. In 1931, IKB AG moved on to provide trade and long-term fixed rate investment financing, initially to the agricultural sector and later to medium sized companies. Although a private bank, IKB AG is a leading arranger of public programme loans funded by government promotion agencies. On March 29, 1949 IKB AG was incorporated in Düsseldorf and is registered today in Düsseldorf and Berlin for an indefinite period of time as a stock corporation under the laws of Germany. IKB AG is registered in the Commercial Registers of the Local Court of Düsseldorf under No. HRB 1130 and of the Local Court of Berlin-Charlottenburg under No. HRB 8860.

IKB AG's financial year runs from April 1 of each calendar year to March 31 of the following calendar year. IKB AG has its registered offices in Düsseldorf, at Wilhelm-Bötzkes-Strasse 1, D-40474 Düsseldorf, and in Berlin, at Markgrafenstrasse 46/47, D-10117 Berlin.

According to its Articles of Association, the object of IKB AG is the engagement in the promotion of industry and commerce, in particular by the provision of medium- and long-term debt finance or equity and/or equity surrogates and leasing financing as well as consultancy services in connection therewith. IKB AG primarily targets companies (usually owned by single persons or families) with an annual turnover of between € 10 million and € 500 million, i.e. the so-called German *Mittelstand.*

Capital Structure

The issued and fully paid share capital of IKB AG presently amounts to € 225,280,000 and is divided into 88 million bearer shares of no par value *(Stückaktien)*, each of which confers one vote. Pursuant to IKB AG's Articles of Association, the Board of Directors *(Vorstand)*, with the approval of the Supervisory Board *(Aufsichtsrat)*, is authorized to increase the share capital by up to € 76,800,000 until August 30, 2007 *(genehmigtes Kapital)*. In addition, the shareholders of IKB AG voted at their Annual General Meeting on September 3, 1999 to conditionally increase the capital of IKB AG, by an amount of up to € 22,528,000 by the issue of up to 8,800,000 bearer shares. The conditional capital increase will be executed only to the extent that the holders of bonds or bonds with warrants attached issued until September 3, 2004 exercise their conversion or option rights or holders of bonds issued until September 3, 2004 fulfil their obligation to convert such bonds. Further, the shareholders of IKB AG voted at their Annual General Meeting on August 30, 2002 to conditionally increase the capital of IKB AG by an amount of up to € 22,528,000 by the issue of up to 8,800,000 bearer shares. The conditional capital increase will be executed only to the extent that the holders of profit participation rights with conversion or option rights issued until August 30, 2007 exercise their conversion or option rights or holders of convertible profit participation rights issued until 30 August 2007 fulfil their obligation to convert such profit participation rights. These shareholder resolutions took effect upon entry in the Commercial Register.

In addition, as of December 31, 2003, IKB AG had outstanding € 563 million fully paid non-voting profit participation certificates *(Genussscheine)*. Profit participation certificates are issued in bearer form and participate in profits and losses of IKB AG.

As at December 31, 2003 the IKB Group's Tier I hybrid capital amounted to € 620 million; IKB AG's Tier I hybrid capital amounted to € 200 million as at December 31, 2003. After the acquisition of a 37.77% stake in IKB AG, KfW Beteiligungsholding GmbH, a wholly-owned subsidiary of Kreditanstalt für Wiederaufbau (KfW), the public-owned German promotional bank, is the largest single shareholder (as at December 31, 2003). Another major shareholder currently is the German Trust for Industry Research *(Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft)* (11.46%). The remaining shares are held by institutional and private shareholders. Currently, the German Federal Government holds 80% of the shares in KfW. Since at the last two annual general meetings of IKB AG KfW was present with calculated voting rights of more than 50% and the German Federal Government has material influence on the composition of KfW's administration board *(Verwaltungsrat)* IKB is deemed dependent on the Federal German Government according to German company law.

The shares of IKB AG have been admitted for trading and official quotation on the stock exchanges of Berlin/Bremen, Düsseldorf, Frankfurt am Main, Hamburg and Munich and are traded through the XETRA TradingSystem and on the unofficial regulated markets *(Freiverkehr)* on the stock exchanges of Hanover and Stuttgart.

Branches, Subsidiaries and Majority Shareholdings

IKB Group's business is conducted primarily in Germany but includes activities abroad. Apart from its operations in Düsseldorf and Berlin, IKB AG maintains branches in Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and in Luxembourg. IKB AG maintains further branches in London and Paris and a representative office in Bangkok. IKB AG has a banking subsidiary in Luxembourg (IKB International S.A.) and finance subsidiaries in New York, Delaware, Paris and Amsterdam (IKB Capital Corporation, IKB Funding LCC I, IKB Financière France S.A. and IKB FINANCE B.V.).

Through its consolidated subsidiary IKB Private Equity GmbH, Düsseldorf, IKB AG provides private equity and mezzanine instruments to medium- and small-sized companies, to the latter generally in co-operation with KfW. Further consolidated companies in this area of business are: IKB Mezzanine GmbH & Co. KG and IKB Mezzanine Verwaltungs GmbH, all of which are situated in Düsseldorf.

The consolidated subsidiaries of IKB AG further include IKB Immobilien Leasing GmbH, Düsseldorf, a property leasing company, IKB Leasing GmbH, Hamburg, IKB Leasing Berlin GmbH, Erkner, and IKB Autoleasing GmbH, Hamburg, which all concentrate on equipment and machinery leasing, IKB Grundstücks GmbH, Düsseldorf, IKB Grundstücks GmbH & Co. Objekt Uerdinger Strasse KG, Düsseldorf, IKB Grundstücks GmbH & Co. Objekt Wilhelm-Bötzkes-Strasse KG, Düsseldorf, IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf, IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf, IKB Facility Management GmbH, Düsseldorf and AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf.

In accordance with German law and generally accepted accounting principles, IKB AG does not consolidate all its subsidiaries.

Selected Subsidiaries

IKB Private Equity GmbH, 100% owned by IKB AG with its registered offices at Wilhelm-Bötzkes-Strasse 1, D-40474 Düsseldorf, is active in providing mezzanine, equity capital and shareholder loans mainly to established companies and also to innovative technology-oriented companies.

IKB Leasing GmbH, with its registered office at Heidenkampsweg 79, D-20097 Hamburg, IKB Leasing Berlin GmbH, with its registered office at Friedrichstrasse 1-3, 15537 Erkner, and IKB Autoleasing GmbH with its registered office at Heidenkampweg 79, D-20097 Hamburg, all 100% owned by IKB AG, focus on equipment leasing operations; their leasing portfolios are dominated by printing machines, machine tools, injection molding machines, processing centers and industrial lorries and cars.

IKB Immobilien Leasing GmbH, with its registered office at Uerdinger Strasse 90, D-40474 Düsseldorf, 100% owned by IKB AG, is active in real estate leasing. Operations focus primarily on production facilities, office buildings and commercial property. Real estate and large-scale plant leasing funds are arranged by IKB Structured Assets GmbH.

IKB Capital Corporation, with its registered office at 555 Madison Avenue, New York, NY 10022, USA, 100% owned by IKB AG, is active in the New York market for leveraged financing and participates in largescale transactions either as co-underwriter or participant.

Supervision

In common with all other enterprises engaged in one or more of the financial activities defined in the German Banking Act *(Kreditwesengesetz, KWG)* as "banking business", IKB AG is subject to the licensing requirements and other provisions of the KWG. Notably, IKB AG is subject to supervision by the German Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)*.

Capital Adequacy

German capital adequacy rules provide for capital adequacy requirements dealing with counterparty risk and market risk. In relation to the former, each bank must maintain a ratio (its "solvency ratio") of regulatory banking capital to risk-adjusted assets of at least 8% on a daily basis. The risk-adjusted assets of a bank (the sum of which is the denominator of the solvency ratio) is computed as follows: Assets are assigned to one of five basic categories of relative credit risk (0%, 10%, 20%, 50% and 100%) depending on the debtor or the type of collateral, if any, securing the respective assets. The balance sheet value of each asset item is multiplied by the percentage weight applicable to its risk category to arrive at the riskadjusted value. Off-balance sheet items, such as financial guarantees, letters of credit, swaps and other financial derivatives, are subject to a two-tier adjustment. First their value (in the case of guarantees and letters of credit, their amount, and in each case of swaps and other derivatives, their value computed on a market or time basis) is adjusted according to their risk classification (20%, 50% and 100%) depending on the type of instrument. Then the off-balance sheet items are assigned, like balance sheet assets, to the credit risk categories depending on the type of the counterparty or the debtor or the type of collateral, if any, securing the respective assets and multiplied by the applicable percentage weight.

The market risk positions of a bank are comprised of (i) its foreign exchange position; (ii) its commodities position; (iii) its trading book positions, including some positions involving counterparty risk, as well as interest rate and equity market risk; and (iv) its options transactions position. The market risk positions are net positions, risk-adjusted in accordance with detailed rules. As of the close of each business day, the sum of the net risk-adjusted market risk positions of a bank must not exceed the sum of (i) the difference between its regulatory capital and 8% of its aggregate amount of risk-adjusted risk assets and (ii) its Tier 3 capital. ("Tier 3 capital" consists of (i) net profits, i.e., the proportionate profit of a bank which would result from closing all trading book positions at the end of given day, less (a) all foreseeable expenses and distributions and (b) all losses arising from the banking book which are likely to arise upon a liquidation of the bank and (ii) short-term subordinated debt meeting certain requirements.)

Executive Bodies

Supervisory Board and Board of Directors

Like all German stock corporations, IKB AG has a two-tier board system. The Board of Directors *(Vorstand)* is responsible for the management of IKB AG and the representation of IKB AG vis-à-vis third parties, while the Supervisory Board *(Aufsichtsrat)* appoints and removes the members of the Board of Directors and supervises the activities of the Board of Directors. The Supervisory Board may not make management decisions, but under the Articles of Association *(Satzung)* of IKB AG, the Board of Directors must obtain the approval of the Supervisory Board for certain actions.

In accordance with the German Works Constitution Act of 1952 *(Betriebsverfassungsgesetz 1952)*, two thirds of IKB AG's Supervisory Board consist of representatives elected by the shareholders and one third consists of representatives elected by the employees. Members are elected for three-year terms, and reelection is possible. The members of the Supervisory Board elect the chairman and the deputy chairman of the Supervisory Board.

The current composition of the Supervisory Board and the Board of Directors of IKB AG is as follows:

Supervisory Board

Dr. h. c. Ulrich Hartmann
Düsseldorf
Chairman of the Supervisory Board of E.ON AG
Chairman of the Board

Hans W. Reich
Frankfurt am Main
Speaker of the Board of Directors
of Kreditanstalt für Wiederaufbau
Deputy Chairman of the Board

Prof. Dr.–Ing. E. h. Hans-Olaf Henkel
Berlin
President of WGL Wissenschaftsgemeinschaft
Gottfried Wilhelm Leibniz e.V.
Deputy Chairman of the Board

Dr. Jürgen Behrend
Lippstadt
Managing Partner of Hella KG Hueck & Co.

Jörg Bickenbach
Düsseldorf
State Secretary of the Ministry of Economy,
and Labour of Northrhine-Westphalia

Hermann Franzen
Düsseldorf
General Partner of
Porzellanhaus Franzen KG

Herbert Hansmeyer
Munich
Former Member of the Board Directors of
Allianz Aktiengesellschaft

Dr. Jürgen Heraeus
Hanau
Chairman of the Supervisory Board of
Heraeus Holding GmbH

Jörg Asmussen (since January 1, 2003)
Berlin
Head of Division at the
Federal Ministry of Finance

Roland Oetker
Düsseldorf
Managing Partner of ROI
Verwaltungsgesellschaft mbH

Dr. Ing. E. h. Eberhard Reuther
Hamburg
Chairman of the Supervisory Board of
Körber Aktiengesellschaft

Randolf Rodenstock
Munich
Managing Partner of Optische Werke
G. Rodenstock KG

Dr. Michael Rogowski
Berlin
President of the Federal Association of
German Industry e. V.

Prof. Dr. h. c. Reinhold Würth
Künzelsau
Chairman of the Advisory Board of the
Würth Group

Employees' Representatives on the Supervisory Board

Wolfgang Bouche
Düsseldorf
IKB Deutsche Industriebank
Aktiengesellschaft

Roswitha Loeffler
Berlin
IKB Deutsche Industriebank
Aktiengesellschaft

Wilhelm Lohscheidt
Düsseldorf
IKB Deutsche Industriebank
Aktiengesellschaft

Jürgen Metzger
Hamburg
IKB Deutsche Industriebank
Aktiengesellschaft

Rita Röbel
Leipzig
IKB Deutsche Industriebank
Aktiengesellschaft

Dr. Carola Steingräber
Berlin
IKB Deutsche Industriebank
Aktiengesellschaft

Ulrich Wernecke
Düsseldorf
IKB Deutsche Industriebank
Aktiengesellschaft

Board of Directors

	Date Appointed	Current Term Expires
Dr. Markus Guthoff	April 1, 2001	March 31, 2007
Claus Momburg	November 12, 1997	November 11, 2005
Joachim Neupel	July 1, 1989	December 31, 2006
Stefan Ortseifen	November 1, 1994	October 31, 2007
Dr. Alexander v. Tippelskirch, Chairman	April 1, 1984	September 9, 2004

All Members of the Supervisory Board and the Board of Directors can accept service of process at the business address of IKB AG.

Advisory Board

In addition, IKB AG maintains an Advisory Board which is appointed by the Board of Directors with consent of the Supervisory Board to enhance contacts with industry and commerce. The members of the Advisory Board assist IKB AG's management by providing consultancy support.

Corporate Governance

During the financial year 2001/2002 IKB AG focused much attention on the German Corporate Governance Codex developed by a government commission and drafted corporate governance principles for IKB AG. Following approval by the Supervisory Board these principles were implemented by IKB AG and first published on the Internet in November 2002 (http://www.ikb.de/ir/frames/aktie/corporate.html).

Auditors

The auditors of IKB AG for the financial year 2003/2004 are KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Am Bonneshof 35, D-40474 Düsseldorf. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has audited the financial statements of IKB AG and the IKB Group for each of the financial years ended March 31, 2000, 2001, 2002 and 2003 and in each case issued an unqualified audit certificate *(uneingeschränkter Bestätigungsvermerk)*. The interim financial statements for December 31, 2003 are subject to a review.

Selected Financial Information of IKB Deutsche Industriebank Aktiengesellschaft

Audited Financial Information for each of the financial years 1999/2000, 2000/2001, 2001/2002 and 2002/2003

The selected consolidated balance sheet and profit and loss account data for each of the financial years ended March 31, 2000, March 31, 2001, March 31, 2002 and March 31, 2003 are derived from the audited consolidated financial statements of IKB AG. The selected consolidated audited financial data set forth below have been prepared in accordance with the German Commercial Code (HGB) and should be read in conjunction with the audited consolidated financial statements for 2001/2002 and 2002/2003 and the auditors' reports thereon incorporated herein. In accordance with the German Commercial Code, IKB AG's subsidiaries are consolidated, except as otherwise stated herein. For the non-consolidated subsidiaries the dividends received therefrom are reflected in IKB AG's financial statements.

Consolidated Balance Sheet Data

	Financial year ended March 31,			
	2000 (1)	2001 (2)	2002	2003
	(Amounts in € millions, audited)			
Assets				
Liquid funds	12	1	11	27
Claims on banks	1,650	804	1,605	2,140
Claims on customers	22,635	24,276	24,600	24,803
Debentures	2,652	3,814	4,928	5,927
Investment and holding in associated and subsidiary companies	91	44	47	45
Fixed assets	214	212	215	245
Leasing assets	2,114	2,239	2,346	2,466
Other assets	573	1,050	1,122	757
Total assets	29,941	32,440	34,874	36,410
Liabilities and shareholders' equity				
Liabilities to banks	13,181	15,182	15,436	16,223
Liabilities to customers	2,414	2,411	2,250	2,019
Securitised liabilities	10,803	10,825	12,975	13,700
Provisions	266	282	301	337
Subordinated liabilities	582	803	868	632
Participation certificate capital	439	439	624	614
Fund for general bank risks	80	80	80	80
Equity capital (without net income for the year)	1,142	1,243	1,282 (3)	1,775
Other liabilities including profit of the year	1,034	1,175	1,058 (3)	1,030
Total liabilities and shareholders' equity	29,941	32,440	34,874	36,410

(1) since March 31, 2000 Figures including IKB Immobilien Leasing-Group
(2) since March 31, 2001 Figures including IKB Private Equity-Group
(3) rounded up or down

Consolidated Profit and Loss Account Data

	Financial year ended March 31,			
	2000 (1)	2001 (2)	2002	2003
	(Amounts in € millions, audited)			
Interest income from loan operations and money market transactions, fixed interest securities and government-inscribed debt, earnings from leasing operations	2,524.3	3,097.6	3,215.2	3,223.2
Earnings from securities and holdings	36.7	2.7	4.8	1.8
Interest expenditure, expenditure and standard depreciation relating to leasing operations	2,141.3	2,661.6	2,748.7	2,740.0
Net interest income	419.7	438.7	471,3	485.0
Commission income	13.1	18.0	44.8	76.0
Commission expenditure	5.4	5.7	5.3	11.9
Net commission income	7.7	12.3	39.5	64.1
Net income from financial operations	– 2.6	2.5	1.9	0.8
Personnel expenditure	107.2	117.2	133.4	137.8
Other administrative expenditure	59.1	66.0	73.1	82.1
Administrative expenditure	166.3	183.2	206.5	219.9
Balance of other operating income and expenditure	77.8	91.8	29.3	20.2
Provisions for risk	165.5	187.2	175.2	183.4
Result from ordinary activities	170.8	174.9	160.3	166.8
Other income/expenditure	– 10.0	– 1.5	–	–
Taxes	85.3	87.5	77.2	81.0
Net income for the year	75.5	85.9	83.1	85.8

(1) since March 31, 2000 Figures including IKB Immobilien Leasing-Group
(2) since March 31, 2001 Figures including IKB Private Equity-Group

Capitalisation of the IKB Group

	Financial year ended March 31,			
	2000 (1)	2001 (2)	2002	2003
	(Amounts in € millions, audited)			
Subscribed share capital	225	225	225	225
Tier I Hybrids (4)	100	170	170	620
Capital reserves	568	568	568	568
Revenue reserves	249	280	319 (3)	362
Fund for general bank risks	80	80	80	80
Participation certificate capital	439	439	624	614
Subordinated liabilities	582	803	868	632
Total shareholders' funds	2,243	2,565	2,854	3,101
Short-term liabilities				
Liabilities to banks	3,713	4,559	4,999	5,593
Liabilities to non-banks	267	173	226	231
Total short-term liabilities	3,980	4,732	5,225	5,824
Medium-term liabilities				
Liabilities to banks	1,401	1,430	1,301	2,044
Liabilities to non-bank creditors	107	182	111	170
Total medium-term liabilities	1,508	1,612	1,412	2,214
Long-term liabilities				
Liabilities to banks	4,612	4,685	5,138	4,891
Liabilities to non-banks	1,295	1,130	1,147	863
Total long-term liabilities	5,907	5,815	6,285	5,754
More than five years				
Liabilities to banks	3,455	4,508	3,998	3,695
Liabilities to non-bank creditors	746	926	766	755
	4,201	5,434	4,764	4,450
Provisions and other liabilities	12,102	12,282	14,334 (3)	15,067
Total capitalisation	29,941	32,440	34,874	36,410

(1) since March 31, 2000 Figures including IKB Immobilien Leasing-Group
(2) since March 31, 2001, Figures including IKB Private Equity Group
(3) rounded up or down
(4) including silent participations and preferred shares

Except for liabilities to banks in a total amount of € 15,581 million (all maturities), the participation certificate capital in the amount of € 563 million and the subordinated liabilities in the amount of € 1,042 million, in each case as at December 31, 2003, there has been no material change in the capitalisation of IKB Group since March 31, 2003.

Unaudited Financial Information as at 31 December 2003

Unaudited Consolidated Interim Balance Sheet of IKB Deutsche Industriebank as at 31 December 2003

	31.12.2003	31.03.2003	Change	
	€ millions		€ millions	%
Assets				
Claims on banks	947	2,140	– 1,193	– 56
payable on demand	654	1,341	– 687	– 51
other claims	293	799	– 506	– 63
of which: 4 years or longer	125	191	– 66	– 35
Claims on customers	24,445	24,803	– 358	– 1
with agreed maturity or period of notice less than 4 years	3,521	3,180	341	11
4 years or longer	20,924	21,623	– 699	– 3
Debentures and other fixed interest securities	7,922	5,927	1,995	34
Shares and other non-fixed interest securities	66	38	28	74
Investments, shares in subsidiary companies	60	45	15	33
Tangible fixed assets	262	245	17	7
Leasing items	2,706	2,466	240	10
Deferred items	112	136	– 24	– 18
Outstanding capital of minority shareholders	60	49	11	22
Other assets	866	561	305	54
Total assets	37,446	36,410	1,036	3
Liabilities				
Liabilities to banks	15,581	16,223	– 642	– 4
payable on demand	454	1,384	– 930	– 67
with agreed maturity or period of notice	15,127	14,839	288	2
of which: 4 years or longer	8,643	10,239	– 1,596	– 16
Liabilities to customers	2,035	2,019	16	1
payable on demand	76	116	– 40	– 34
with agreed maturity or period of notice	1,959	1,903	56	3
of which: 4 Years or longer	1,847	1,830	17	1
Securitised liabilities	15,122	13,700	1,422	10
Provisions	312	337	– 25	– 7
Special items including reserves	6	6	0	0
Subordinated liabilities	1,042	632	410	65
Participation certificate capital *(Genussrechtskapital)*	563	614	– 51	– 8
Fund for general bank risks	80	80	–	–
Participations of minority shareholders				
Capital	1,815	1,797	18	1
Equity	1,176	1,166	10	1
Hybrid capital	620	620	–	–
Minority interests	19	11	8	73
Deferred items	418	456	– 38	– 8
Other liabilities	472	546	– 74	– 14
Total liabilities	37,446	36,410	1,036	3
Endorsement liabilities	1	1	0	0
Liabilities arising from guarantees, etc	1,945	2,158	– 213	– 10
Business volume.	39,392	38,569	823	2

Unaudited Consolidated Income Statement of IKB Deutsche Industriebank for the Period 1 April to 31 December 2003

	01.04.2003 – 31.12.2003	01.04.2002 – 31.12.2002	Change	
	€ millions		€ millions	%
Interest income from lending and money market operations, fixed interest securities and government-inscribed debt, income from leasing operations and current income from shares, other non-fixed interest securities and investments (1)	2,300.6	2,333.4	– 32.8	– 1.4
Interest expenses, expenditure and scheduled depreciation relating to leasing operations	1,934.9	1,991.6	– 56.7	– 2.8
Net interest income	365.7	341.8	23.9	7.0
Commission income	66.7	42.4	24.3	57.3
Commission expenditure	7.3	4.7	2.6	55.3
Net commission income	59.4	37.7	21.7	57.6
Net result from financial operations	3.0	0.3	2.7	>100.0
Salaries and wages	85.6	80.3	5.3	6.6
Social security contributions and expenditure for retirement benefits	23.2	23.5	– 0.3	– 1.3
Personnel expenditure	108.8	103.8	5.0	4.8
Other administrative expenses (2)	62.8	59.3	3.5	5.9
Administrative expenditure	171.6	163.1	8.5	5.2
Balance of other operating income / expenses	9.9	11.2	– 1.3	– 11.6
Risk provisioning balance	– 129.9	– 100.5	29.4	29.3
Result from ordinary activities / Profit before tax	136.5	127.4	9.1	7.1
Property taxes	3.9	3.6	0.3	8.3
Taxes on income	57.3	57.8	– 0.5	– 0.9
Profit after tax	75.3	66.0	9.3	14.1
Profit (–) and loss (+) attributable to other shareholders	1.9	3.4	– 1.5	– 44.1
Consolidated profit	77.2	69.4	7.8	11.2

(1) includes income from profit pooling agreements, profit transfer agreements and partial profit transfer agreements
(2) includes current depreciation on tangible fixed assets

The Business of IKB Deutsche Industriebank Aktiengesellschaft

Business Units

IKB AG is a specialised bank focusing on long-term corporate financing. IKB AG has organised its business activities in five divisions:

– Corporate Lending
– Structured Finance
– Private Equity
– Real Estate Finance
– Treasury

Corporate Lending

IKB AG's core competence is the medium- and long-term corporate lending to companies of various industry sectors and with an annual turnover of € 10 million up to more than € 500 million (typically independent and individually or family-owned and managed accordingly), i.e. the so called German *Mittelstand.* The *Mittelstand* represents the backbone of the German economy and includes a number of world market leaders with their specialist niche products and with export ratios of up to 80%. According to statistics (last survey 1997/98) of the Federal Ministry of Economics companies with up to 500 employees and/or an annual turnover of up to € 50 million contributed to 45% of investments, 53% of gross value added, 68% of employment and 80% of apprenticeship in Germany. Loans are generally extended at fixed interest rates with maturities of up to ten years. About 90% of IKB AG's domestic lending is secured by collateral, usually mortgages on land and buildings and/or the transfer of equipment for security purposes.

The IKB Group offers advisory and consultancy services to its customers, in particular in the areas of structuring investments and identifying appropriate public promotion programme loans funded by KfW, Bayerische Landesanstalt für Aufbaufinanzierung and European Investment Bank and others through subsidised public loan programmes. IKB AG combines such subsidised public programme loans with its own debt financing products in order to offer tailor-made financing solutions for its customers.

As at March 31, 2003, about 87% (2002: 88%) of the IKB Group's lending was domestic. Lending was split among over 8,128 (2002: 8,146) customers with an average loan size of € 3.2 million (2002: € 3.1 million).

Structured Finance

The structured finance division covers domestic acquisition and project finance as well as all international activities, i.e. international acquisition finance, Hermes-covered export finance, international project finance and participation in syndicated loans at international financial centres (London, Paris, New York).

Private Equity

The private equity division comprises the provision of mezzanine and equity capital to established medium-sized companies by IKB AG's subsidiary IKB Private Equity GmbH. Moreover, IKB Private Equity GmbH finances innovative technology-oriented companies, especially in the sectors of biotechnology, telecommunications and data processing.

Real Estate Finance

The real estate finance division provides long-term financing of commercial property, closed-end real estate funds or structured projects by means of loans; leasing is also available. Moreover, IKB provides consulting services as well as assistance in realizing real estate projects.

Treasury

Own Assets

With a volume of € 5.3 billion, IKB AG has outplaced a significant portion of credit risks of its loan portfolio. The bulk of these synthetically executed securitisations were performed using the KfW PROMISE platform and contain replenishment clauses, meaning that payments that become due can, in accordance with predetermined parameters, be replenished either in whole or in part. By means of these replenishments IKB re-securitised a loan volume of € 1.3 billion during the financial year 2002/2003.

Investments in international loan portfolios

In part, IKB AG uses the freedom for manoeuvre resulting from these outplacements as a means of expanding its domestic loan operations; on the other hand, IKB AG invests in international loan portfolios in order further to improve the diversification of its loan assets as well as its earning structure.

At December 31, 2003, IKB AG's portfolio of balance sheet-relevant investments in international loan portfolios came to € 2.9 billion. These investments are made in diversified portfolios in a range of asset classes. IKB AG invested especially in asset-backed-securities issues and in securitised corporate portfolios in the United States and Western Europe. With respect to regions two-thirds of IKB AG's investments accounted for Northern America and one-third for Western Europe. Over 47.5 % of IKB AG's investments have an AAA rating, while more than 97 % are rated as investment grade.

Within the framework of an investment advice contract, IKB AG provides management advisory services for an investment portfolio of € 5.38 billion. Furthermore, in co-operation with other banks, IKB AG also furnishes investment companies with liquidity and security lines, for which IKB AG receives a commission.

In the financial year 2002/2003 net interest and commission income for IKB Group in the segment securitisations came to € 47.7 million, while the result from ordinary activity was € 36.7 million. As at December 31, 2003, net interest and commission income for the current financial year came to € 57.8 million, while the result from ordinary activity was € 50.9 million.

Lending

Credit Policies and Procedures

IKB AG has established detailed credit policies and lending guidelines applicable to all of IKB AG's financing activities. The entire loan approval process is supported by sophisticated IT-systems. IKB AG uses a scoring system, which incorporates quantitative and qualitative information derived from thorough knowledge of its core customer group, which has proven accurate over a number of years. IKB AG has a sophisticated monitoring system for following the loans from the application process through to repayment, which allows for continuous oversight of individual loans and the identification of potential problem loans by a number of key indicators, extracted from an extensive data-base.

Problem and Non-Performing Loans

Problem and non-performing loans are tracked in a standardized process with automated procedures by a centralised loan recovery department. They are subject to timely provisioning at a conservative and prudent level. Recoveries from collateral have historically been good. A somewhat different procedure is followed for syndicated loans.

Asset and Liability Management of the Loan Book

It is IKB AG's policy to match assets and liabilities to a fairly high degree. The funds borrowed from government promotion agencies are automatically matched with the loans provided to the customers. Loans funded in the capital markets are steered accordingly. The mismatch limits in place are limited. Foreign currency exposure emanating from international loan business are hedged to a large extent.

Funding and Liquidity Management

In accordance with its Articles of Association, IKB AG does not take deposits. IKB AG funds its activities primarily through the issuance of medium- and long-term bearer bonds, the granting of loans evidenced by transferable certificates of indebtedness *(Schuldscheindarlehen)* and borrowings from other banks, in part in combination with interest rate and/or exchange rate hedging via long-term swaps with top-rated German and foreign banks. The core of interbank funding is provided to IKB AG on a loan by loan basis by instrumentalities serving public policy objectives such as KfW, Deutsche Ausgleichsbank, Bayerische Landesanstalt für Aufbaufinanzierung and European Investment Bank under their respective programmes. The funds thus received by IKB AG are at preferential rates and are on-lent to its customers within the framework of such programmes.

Fixed Income

Fixed income management focuses on the stabilisation of interest surplus emanating from the position of the liquidity book as well as the long-term creation of evaluation reserves.

Generally IKB AG invests in top rated bonds, especially in floating rate notes, which with the use of swaps are being transformed into fixed interest rates. In addition, various optional elements are embedded for further improvement of interest rate cash flows.

Proprietary Trading

IKB AG is active in interest rate and stock market trading. Although proprietary trading is not of strategic relevance to IKB AG's earnings, it is run as a profit centre and has produced stable profits over the years. Risk is monitored online daily on a mark to market basis. A value-at-risk approach is also applied.

Rating

The long-term unsecured senior debt of IKB AG has been assigned a rating of AA3 by Moody's and A+ by Fitch IBCA.

Employees

At September 30, 2003, IKB AG's total number of employees in the group was 1,508 (March 31 2003: 1,496). As at March 31, 2003, 563 (2002: 569) of these were assigned to market units and 481 (2002: 429) to headquarter departments. 452 (2002: 431) employees worked for subsidiaries.

Management considers relations with its employees to be good. There has been no material disruption of work as a result of labor unrest during the last two financial years.

Litigation

No legal, arbitration, administrative or other proceedings which could have a significant effect on the business or financial position of the Bank or IKB Group, or had such an effect during the last two financial years, have been pending, nor is IKB AG aware, to the best of its knowledge, of any such proceedings now pending or threatened.

Recent Developments and Outlook of IKB Deutsche Industriebank Aktiengesellschaft

Despite the still difficult economic conditions, IKB Group was able to increase its result from ordinary activities by 7.1 % to € 137 million in the period between 1 April and 31 December 2003.

Moody's upgraded IKB AG's long-term rating to AA3 in September 2003.

IKB AG's objective is the transition from risk taker to risk manager. This is manifested in IKB AG's policy of using collateralised loan obligations to outplace its own credit risks with a view to improve its capital ratios. Furthermore, by defreezing equity IKB AG is able to invest in other asset items like *Mittelstand* financing or loan portfolios with a view to diversify its risk regarding regions and sectors, while simultaneously attempting to increase its earnings.

Taxation

Taxation in the Federal Republic of Germany

This chapter "Taxation in the Federal Republic of Germany" contains a summary of some important German tax provisions that are relevant in connection with the acquisition, the holding and the sale or redemption/repayment of the Notes. It is not intended to be a comprehensive and complete representation of all aspects under tax law that could be relevant to investors. This summary is based on German tax law in force at the time of preparing the Prospectus; however, it may be subject to changes at short notice which may even have a retroactive effect. We strongly recommend that potential investors seek advice from their professional tax consultant with regard to the tax consequences of the acquisition, the holding and the sale or redemption of Notes.

Investors resident within Germany

As a rule, interest payments (including any interest accrued) on the Notes received by Investors domiciled within Germany (investors who are resident or ordinarily resident in Germany, or whose registered office or office of the management is situated in Germany) are subject to income or corporate tax, plus a solidarity surcharge in the amount of 5.5% of the relevant income or corporate tax liabilities. Where Notes are held as assets of a German business, these interest payments are also subject to trade tax *(Gewerbesteuer)*. Where Notes are held in the custody of, or are managed by, a domestic bank or financial services provider (including the German branches of foreign institutions), interest income tax *(Zinsabschlag)* in the amount of 30% (plus a 5.5% solidarity surcharge on the tax amount, i.e. a total of 31.65%) will be withheld. The amount of withholding tax will be set off against the final income or corporate tax debt (and the owed solidarity surcharge) of the Investor.

Profits from the sale or redemption of Notes, including the profits achieved by a second or subsequent purchaser, are subject to personal income or corporate tax plus solidarity surcharge. Where these assets are held as part of a German business, the profits are also subject to trade tax. Where Notes are held in the custody of, or managed by, a domestic bank or financial services provider (including the German branches of foreign institutions) which distributes or credits the proceeds, the paying agent will be required to withhold interest income tax in the amount of 30% (plus a 5.5% solidarity surcharge) on the difference between the sale or redemption amount and the purchase price of the Note if said Note has been acquired or sold by the paying agent and held, since then, in the custody or under the management of the paying agent. In all other cases, the interest income tax in the amount of 30% is applied to the sale or redemption proceeds. The amount of withholding tax will in turn be deducted from the amount of personal income or corporate tax (and the owed solidarity surcharge) of the investor.

Generally, no withholding tax is deducted if the Investor is an individual and provided (1) the Notes are neither held as assets of a German business nor do the earnings therefrom constitute income from letting and leasing; (2) the Notes are held in custody of, or managed by, the paying entity on behalf of the creditor of the investment income; and (3) the Investor has submitted to the paying entity an application for exemption from income tax to the extent the interest income from the Notes, together with other investment income, does not exceed the maximum amount as specified in the application for exemption from income tax. Accordingly, no interest income tax will be withheld where the Investor has submitted to the relevant paying entity a non-assessment certificate issued by the competent tax authority.

Investors domiciled outside Germany

Investors domiciled outside Germany are not subject to German taxation in respect of the interest payments and capital gains and there is no withholding of interest income tax (even if Notes are held in the custody of, or are managed by, a German bank or financial services provider), unless the Notes are held as business assets of a business enterprise which has a German branch, or for which a permanent representative in Germany is appointed, or the interest qualifies as income from letting and leasing of real estate in Germany. In this case, payments of interest and proceeds from the sale and redemption of Notes are subject to interest income tax (and the solidarity surcharge) as specified in the regulations applicable to investors resident within Germany. In the course of a tax assessment, if any, the withheld tax may be deducted from the final amount of personal income or corporate tax debt (and the owed solidarity surcharge) of the investor.

Inheritance and Gift Tax

Transfers of Notes upon death of the Investor or as a gift to the Investor are subject to inheritance or gift tax in Germany – generally with the lowest market value quoted for the Notes on the relevant tax reporting date – if (a) the deceased or donor or beneficiary or donee or any other transferee is either domiciled, or deemed ordinarily resident in Germany, in each case at the time the transfer of the Notes is effected, or is of German nationality and has not stayed outside Germany for more than five years without having a domicile in Germany, or (b) the Notes formed part of German business assets of the deceased or donor for which a permanent establishment had been maintained in Germany or for which a permanent representative in Germany had been appointed.

Proposed Changes to the Tax Regime regarding Interest Income

The German Federal Government intends to change the existing tax regime in respect of interest income derived by individuals tax resident in Germany. It is possible with respect to interest income, that the liability to income tax will henceforth be satisfied by the withholding tax on interest payments; where the individual tax liability falls short of the rate for the withholding tax on interest payments, however, any excess withheld would possibly be refunded based on an assessment to tax. It may currently not be estimated whether, when and in which form these plans will be implemented.

EU Directive on Taxation of Savings Income in the form of Interest Payment

On 3 June 2003 the Council of the European Union (Ecofin) approved a directive regarding the taxation of interest income. By provisions implementing the directive each EU Member State must require paying agents (within the meaning of the directive) established within its territory to provide to the competent authority of this state details of the payment of interest made to any individual resident in another EU Member State as the beneficial owner. The competent authority of the EU Member State of the paying agent (within the meaning of the directive) is then required to communicate this information to the competent authority of the EU Member State of which the beneficial owner of the interest is a resident.

For a transitional period, Austria, Belgium and Luxembourg may opt instead to withhold tax from interest payments within the meaning of the directive at a rate of 15% as from 1 January 2005, of 20% as from 1 January 2008 and of 35% as from 1 January 2011. Should the first application of the provisions of the directive be delayed, then these dates would be delayed accordingly.

The proposed directive shall be implemented by the EU Member States by 1 January 2004. The member states shall apply the respective provisions as from 1 January 2005 provided that (i) Switzerland, Liechtenstein, San Marino, Monaco and Andorra apply from that same date measures equivalent to those contained in the directive, in accordance with agreements entered into by them with the European Community and (ii) also all the relevant dependent or associated territories (the Channel Islands, the Isle of Man and the dependent or associated territories in the Caribbean) apply from that same date automatic exchange of information or, during the transitional period described above, apply a withholding tax in the described manner. The Council shall adopt a new date for the application of the provisions unless it decides at the latest on 1 July 2004 that the conditions will be met in time.

With respect to the aforementioned conditions, it cannot be foreseen at present as per which date the Directive will eventually become applicable.

Investors that are individuals should notice that the Issuer will not effect any additional payment pursuant to Section 8 (c) of the Terms and Conditions of the Issue to compensate for any witholding tax to be retained on the basis of this EU Directive.

Underwriting and Sale

Pursuant to an underwriting agreement dated 18 February 2004, a banking consortium consisting of Deutsche Bank AG London and BNP PARIBAS (together the "**Managers**") have agreed to underwrite and place with investors the Notes of the Issuer in the aggregate nominal amount of € 200,000,000 at a price of 100% of the Nominal Amount. The Managers are neither joint debtors nor joint creditors. Each of the Managers acquires exclusive ownerships in the Notes to be underwritten. IKB AG has agreed to pay to the Managers a management, underwriting and placement fee in the amount of 2% of the aggregate nominal amount of the Notes to be underwritten.

The Issuer agreed to indemnify the Managers against certain liability risks in connection with the underwriting and offer of the Notes. Under certain circumstances, the Managers are entitled to cancel the underwriting agreement prior to the underwriting of the Notes and payment of the issue price.

Sales Restrictions

United States of America

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**"). Accordingly, the Notes may not be offered or sold in the United States or to US Persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from registration requirements of the Securities Act.

United Kingdom

Each of the Managers has represented and agreed that: (a) it has not offered or sold and, prior to the expiry of the period of six months from the issue date of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (b) it has complied and will comply with all applicable provisions of the Financial Services Act and Markets Act 2000 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

General

In jurisdictions where the sale or the distribution of the Notes offered by this Prospectus is subject to legal restrictions, the Notes may only be sold and/or distributed in compliance with such restrictions.

Stabilisation

In the course of the issue of the Notes, Deutsche Bank AG as stabilisation manager shall be entitled to take measures for pegging of stock exchange or market prices of the Notes in order to balance downward price movements at short notice. Such measures may be taken from the announcement of the offer and up to 30 calendar days after receipt of the proceeds from the issue of the Notes by the Issuer or up to 60 calendar days after allocation of the Notes, whichever is earlier. Such measures may result in a higher market price of the Notes than the price that would otherwise prevail which entails the risk that the price is held at artifical levels for too long. There is no obligation to take any stabilisation measures. Stabilisation measures, if any, may be terminated at any time. Stabilisation measures may only be effected in accordance with the rules applicable in any of the relevant countries. In the context of any stabilisation, the stabilisation manager acts on its own account and not on account of the Issuer.

Delivery of the Notes

The Notes are represented for their entire life by a global certificate in bearer form without interest coupons attached (the "**Global Certificate**"). The Global Certificate will be deposited for the entire life of the Notes with Clearstream Banking AG, Frankfurt am Main, Germany, ("**Clearstream Frankfurt**"). The Global Certificate will also be held in custody by Clearstream Frankfurt on behalf of the holders of such Notes which are held through Clearstream Banking S. A., Luxembourg, or Euroclear Bank S. A./ N. V. in their capacity as operator of the Euroclear System. The Global Certificate will be personally signed by the management of the Issuer.

The Notes may be transferred in book-entry form in accordance with the applicable rules of Clearstream Frankfurt. Delivery of the Notes by book-entry against payment is envisaged to take place on 20 February 2004. Definite Notes representing individual Notes or coupons will not be issued. A copy of the Global Certificate may be obtained free of charge at the Paying Agent specified below.

Admission to Official Listing

The Notes shall be admitted to listing on the official market of the Frankfurt Stock Exchange and Euronext Amsterdam N. V. (Official Segment).

Financial Information on
IKB Deutsche Industriebank Aktiengesellschaft

Financial Information on IKB Deutsche Industriebank Aktiengesellschaft

Index on financial information

Annual Accounts of IKB AG

Consolidated Balance Sheet of IKB Deutsche Industriebank

Assets	EUR thousand*		March 31, 2003 EUR thousand	March 31, 2002 EUR thousand
Liquid funds				
a) Cash			94	127
b) Balances with the central banks			26 961	10 445
of which: with the Deutsche Bundesbank	26 852	(10 225)		
c) Balances on postal giro accounts			110	7
			27 165	**10 579**
Claims on banks				
a) payable on demand			1 341 480	311 321
b) other claims			798 150	1 293 626
			2 139 630	**1 604 947**
Claims on customers			**24 803 021**	**24 600 308**
of which: loans to public authorities	2 192 654	(1 799 696)		
Debentures and other fixed interest securities				
a) Bonds and debentures				
aa) from government issuers			–	–
ab) from other issuers			*5 858 361*	*4 782 165*
			5 858 361	4 782 165
of which: eligible as collateral for advances from the Deutsche Bundesbank	4 198 150	(3 710 931)		
b) own bonds			68 494	145 598
face value	65 555	(74 027)		
			5 926 855	**4 927 763**
Shares and other non-fixed interest securities			**37 520**	**37 691**
Investments			**38 157**	**38 878**
of which: in banks	37 086	(37 269)		
of which: in financial services companies	–	(–)		
Shares in subsidiary companies			**6 966**	**8 068**
of which: in banks	–	(–)		
of which: in financial services companies	–	(–)		
Trust assets			**5 688**	**6 018**
of which: loans on a trust basis at third party risk	4 262	(4 574)		
Tangible fixed assets			**245 416**	**214 706**
Leasing items			**2 466 056**	**2 346 384**
Outstanding capital of minority shareholders			**48 867**	**48 465**
Other assets			**528 555**	**891 325**
Deferred items			**135 850**	**138 868**
Total assets			**36 409 746**	**34 874 000**

* in parentheses: Previous year's figures

as at March 31, 2003

Liabilities	EUR thousand*		March 31, 2003 EUR thousand	March 31, 2002 EUR thousand
Liabilities to banks				
a) payable on demand			1 383 609	754 273
b) with agreed maturity or period of notice			14 839 721	14 682 012
			16 223 330	**15 436 285**
Liabilities to customers				
Other liabilities				
a) payable on demand			115 620	61 014
b) with agreed maturity or period of notice			1 903 512	2 189 432
			2 019 132	**2 250 446**
Securitised liabilities				
Bonds and notes			**13 699 786**	**12 975 080**
Trust liabilities			**5 688**	**6 018**
of which: loans on a trust basis at third party risk	4 262	(4 574)		
Other liabilities			**539 307**	**531 493**
Deferred items			**456 165**	**469 180**
Provisions				
a) provisions for pensions and similar obligations			128 642	123 494
b) tax provisions			149 353	131 644
c) other provisions			59 478	45 517
			337 473	**300 655**
Special items including reserves			**5 934**	**7 570**
Subordinated liabilities			**631 756**	**868 413**
Participation certificate (Genussschein) capital			**613 759**	**623 759**
of which: with remaining maturities of less than two years	51 129	(51 129)		
Fund for general bank risks			**80 000**	**80 000**
Participations of minority shareholders			**11 434**	**14 483**
Equity				
a) subscribed capital			225 280	225 280
contingent capital:	22 528	(22 528)		
b) hybrid capital				
ba) silent capital			*370 000*	*170 000*
bb) preferred shares			*250 000*	–
			620 000	170 000
c) capital reserves			567 416	567 416
d) revenue reserves				
da) statutory reserves			*2 399*	*2 399*
db) other revenue reserves			*359 747*	*316 292*
			362 146	318 691
e) consolidated profit			11 140	29 231
			1 785 982	**1 310 618**
Total liabilities			**36 409 746**	**34 874 000**
Contingent liabilities				
a) contingent liabilities arising from rediscounted bills of exchange			1 280	459
b) contingent liabilities arising from guarantees and indemnity agreements			2 158 340	1 747 709
			2 159 620	**1 748 168**
Other obligations				
Irrevocable loan commitments			**6 872 346**	**5 800 047**

* in parentheses: Previous year's figures

Consolidated Income Statement of IKB Deutsche Industriebank

Expenses	EUR thousand*	**2002/2003** EUR thousand	2001/2002 EUR thousand
Interest expenses		**2 331 353**	**2 424 069**
Commission expenses		**11 849**	**5 303**
Net expenses from financial operations		**–**	**–**
General operating expenses			
a) Personnel expenses			
aa) Salaries and wages		*110 698*	*101 088*
ab) Social security contributions and employee benefit and pension expenditure		*27 111*	*32 343*
of which: for pensions	*12 799 (19 509)*		
		137 809	133 431
b) other administrative expenses		65 143	54 889
		202 952	**188 320**
Depreciation and value adjustments on intangible and tangible fixed assets		**19 373**	**20 214**
Depreciation of leasing items		**396 167**	**312 777**
Rental expenditure on leasing items and other service related expenses		**12 499**	**11 869**
Other operating expenses		**33 072**	**38 494**
Write-downs and value adjustments to claims and securities, plus transfer to provisions for possible loan losses		**183 421**	**175 186**
Write-downs and value adjustments on investments, holdings in subsidiary companies and securities treated as fixed assets		**193**	**–**
Expenditure for loss takeovers		**6**	**–**
Allocations to special items including reserves		**361**	**2 651**
Transfer to the fund for general bank risks		**–**	**–**
Taxes on income and earnings		**76 804**	**73 508**
Other taxes not entered under “other operating expenses”		**4 153**	**3 681**
Profits transfered on the basis of a profit pool, a profit transfer agreement or a partial profit transfer agreement		**–**	**–**
Net income for the year		**85 839**	**83 129**
Total expenses		**3 358 042**	**3 339 201**
Net income for the year		**85 839**	**83 129**
Attributable to other partners			
Profit		**–3 070**	**–4 360**
Loss		**10 605**	**9 845**
Loss carried forward from the previous year		**–39 234**	**–17 433**
		54 140	**71 181**
Release of revenue reserves			
of revenues for own shares		**–**	**529**
Allocation to revenue reserves			
to revenues for own shares		**–**	**–**
to other revenue reserves		**–43 000**	**–42 479**
Unappropriated profit		**11 140**	**29 231**

* in parentheses: Previous year’s figure

for the Period April 1, 2002 to March 31, 2003

Income	**2002/2003** EUR thousand	2001/2002 EUR thousand
Interest income from		
a) lending and money market operations	2 478 596	2 541 512
b) fixed interest securities and government-inscribed debt	178 398	211 029
	2 656 994	**2 752 541**
Current income from		
a) shares and other non-fixed interest securities	645	730
b) investments	1 160	4 071
c) holdings in subsidiary companies	–	–
	1 805	**4 801**
Income from profit pooling, profit transfer, and partial profit transfer agreements	**–**	**–**
Commission income	**75 960**	**44 800**
Net income from financial operations	**842**	**1 939**
Earnings from write-ups relating to investments, holdings in subsidiary companies, and securities treated as fixed assets	**–**	**–**
Income from leasing operations	**566 239**	**462 689**
Earnings from the release of special items including reserves	**1 997**	**283**
Other operating income	**54 205**	**72 148**
Total income	**3 358 042**	**3 339 201**

Balance Sheet of IKB Deutsche Industriebank AG

Assets	EUR thousand*		March 31, 2003 EUR thousand	March 31, 2002 EUR thousand
Liquid funds				
a) Cash			85	120
b) Balances with central banks			26 880	10 338
of which: with the Deutsche Bundesbank	26 852	(10 225)		
c) Balances on postal giro accounts			100	6
			27 065	**10 464**
Claims on banks				
a) payable on demand			1 766 572	878 219
b) other claims			6 413 008	5 942 494
			8 179 580	**6 820 713**
Claims on customers			**21 840 364**	**22 200 570**
of which: loans to public authorities	2 192 654	(1 799 696)		
Debentures and other fixed interest securities				
a) Bonds and debentures				
aa) from government issuers			–	–
ab) from other issuers			*5 635 468*	*4 635 500*
			5 635 468	4 635 500
of which: eligible as collateral for advances from the Deutsche Bundesbank	4 038 550	(3 608 056)		
b) own bonds			68 494	145 598
face value	65 555	(140 225)		
			5 703 962	**4 781 098**
Shares and other non-fixed interest securities			**13 000**	**15 411**
Investments			**946**	**923**
of which: in banks	294	(294)		
of which: in financial services companies	–	(–)		
Shares in subsidiary companies			**390 465**	**367 915**
of which: in banks	164 839	(164 839)		
of which: in financial services companies	–	(–)		
Trust assets			**5 688**	**6 018**
of which: loans on a trust basis at third party risk	4 262	(4 574)		
Tangible fixed assets			**58 428**	**52 977**
Treasury shares			**–**	**–**
nominal amount	–	(–)		
Other assets			**416 600**	**756 399**
Deferred items			**131 934**	**131 331**
Total assets			**36 768 032**	**35 143 819**

* in parentheses: Previous year's figures

as at March 31, 2003

Liabilities	EUR thousand*		March 31, 2003 EUR thousand	March 31, 2002 EUR thousand
Liabilities to banks				
a) payable on demand			1 135 746	1 299 105
b) with agreed maturity or period of notice			16 141 274	15 261 825
			17 277 020	**16 560 930**
Liabilities to customers				
Other liabilities				
a) payable on demand			134 996	72 580
b) with agreed maturity or period of notice			1 899 093	2 053 322
			2 034 089	**2 125 902**
Securitised liabilities				
Bonds and notes			**13 653 204**	**12 919 627**
Trust liabilities			**5 688**	**6 018**
of which: loans on a trust basis at third party risk	4 262	(4 574)		
Other liabilities			**380 558**	**399 438**
Deferred items			**123 067**	**131 886**
Provisions				
a) provisions for pensions and similar obligations			113 450	108 833
b) tax provisions			139 883	114 853
c) other provisions			57 846	39 073
			311 179	**262 759**
Subordinated liabilities			**881 781**	**868 413**
Participation certificate (Genussschein) capital			**613 759**	**623 759**
of which: with remaining maturities of less than two years	51 129	(51 129)		
Fund for general bank risks			**80 000**	**80 000**
Equity				
a) subscribed capital			225 280	225 280
contingent capital:	22 528	(22 528)		
b) silent capital			200 000	–
c) capital reserves			567 416	567 416
d) revenue reserves				
da) statutory reserves			*2 399*	*2 399*
db) reserves for treasury shares			–	–
dc) other revenue reserves			*344 832*	*302 232*
			347 231	304 631
e) distributable profit			67 760	67 760
			1 407 687	**1 165 087**
Total liabilities			**36 768 032**	**35 143 819**
Contingent liabilities				
a) contingent liabilities arising from rediscounted bills of exchange			1 280	459
b) contingent liabilities arising from guarantees and indemnity agreements			4 621 489	4 000 936
			4 622 769	**4 001 395**
Other obligations				
Irrevocable loan commitments			**6 548 341**	**4 981 719**

* in parentheses: Previous year's figures

Income Statement of IKB Deutsche Industriebank AG

Expenses	EUR thousand*		2002/2003 EUR thousand	2001/2002 EUR thousand
Interest expenses			**2 316 064**	**2 448 583**
Commission expenses			**9 214**	**2 090**
General operating expenses				
a) Personnel expenses				
aa) Salaries and wages			*80 270*	*73 878*
ab) Social security contributions and employee benefit and pension expenditure			*22 288*	*27 351*
of which: for pensions	*11 939*	*(17 997)*		
			102 558	101 229
b) other administrative expenses			57 523	47 618
			160 081	**148 847**
Depreciation and value adjustments on intangible and tangible fixed assets			**12 425**	**13 865**
Other operating expenses			**12 454**	**10 330**
Write-downs and value adjustments to claims and securities, plus transfers to provisions for possible loan losses			**153 417**	**141 228**
Expenditure for loss takeovers			**142**	**42 922**
Taxes on income and earnings			**72 110**	**63 734**
Other taxes not entered under "other operating expenses"			**484**	**478**
Net income for the year			**110 361**	**96 110**
Total expenses			**2 846 752**	**2 968 187**
Net income for the year			**110 361**	**96 110**
Release of revenue reserves of revenues for own shares			**–**	**529**
Allocation to revenue reserves to other revenues reserves			**–42 601**	**–28 879**
Unappropriated profit			**67 760**	**67 760**

* in parentheses: Previous year's figure

for the Period April 1, 2002 to March 31, 2003

Income	**2002/2003** EUR thousand	2001/2002 EUR thousand
Interest income from		
a) lending and money market operations	2 519 874	2 616 921
b) fixed interest securities and government-inscribed debt	170 918	203 042
	2 690 792	**2 819 963**
Current income from		
a) shares and other non-fixed interest securities	645	730
b) investments	1 871	52 071
c) holdings in subsidiary companies	5 503	5 323
	8 019	**58 124**
Income from profit pooling, profit transfer, and partial profit transfer agreements	**39 325**	**15 416**
Commission income	**91 030**	**55 993**
Net income from financial operations	**837**	**1 940**
Earnings and write-ups relating to investments, holdings in subsidiary companies, and securities treated as fixed assets	**–**	**–**
Other operating income	**16 749**	**16 751**
Total income	**2 846 752**	**2 968 187**

Notes

Notes to the Consolidated and the AG's Financial Statements

The consolidated Group accounts and the financial statements of IKB Deutsche Industriebank AG are prepared in accordance with regulations contained in the German Commercial Code (*HGB*), in conjunction with the accounting regulations for financial institutions *(RechKredV)*, as well as with the relevant provisions of German Stock Corporation Act (*AktG*). Furthermore the financial statements of the IKB Deutsche Industriebank Group are drawn up in accordance with the Seventh Council Directive of June 13, 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts (83/349/EEC) and Council Directive of December 8, 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (86/635/EEC) and the requirements for publication of the European Union. The financial statements comply with the Standards adopted by the German Accounting Standards Board (GASB) and published by the Federal Ministry of Justice in accordance with Article 342, Section 2, of the German Commercial Code (*HGB*).

The Notes to the financial statements of IKB Deutsche Industriebank AG and the Group accounts have been presented together in accordance with Article 298, Section 3, *HGB*.

Consolidated Companies

Apart from the parent company, fifteen domestic and five foreign companies are included in the consolidated financial statements at March 31, 2003. In accordance with Article 285, No. 11 of the German Commercial Code (*HGB*) and Article 313, Section 2, *HGB* we have entered the consolidated companies in the List of Investments under "A.", while in accordance with Articles 325 and 287, *HGB* the list of 425 real estate special purpose entities, as well as 23 corporate participations held by IKB Private Equity GmbH and IKB Venture Capital GmbH respectively will be filed with the Commercial Register in a separate schedule. Partnerships eligible for exemption in accordance with Article 264 b *HGB* are listed in a separated category.

Four newly founded companies – IKB Autoleasing GmbH, Hamburg, IKB Funding LLC I, Wilmington, Delaware, USA, as well as the indirect participations in IKB Mezzanine Verwaltungs GmbH, Düsseldorf, and IKB Mezzanine GmbH & Co. KG, Düsseldorf – augmented the number of companies to be consolidated. These companies are fully included in the consolidated financial accounts. The objective of IKB Autoleasing GmbH is to purchase and to lease any sort of vehicle, superstructure as well as facilities and equipment related to the automotive sector. In order to strengthen regulatory capital of IKB Group, IKB Funding LLC I issued noncumulative trust preferred securities, which are disclosed in the balance sheet item "Equity" as hybrid capital.

In the period unter review our subsidiary IKB Private Equity GmbH in cooperation with Kreditanstalt für Wiederaufbau (KfW) founded the mezzanine fund IKB Mezzanine GmbH & Co. KG, Düsseldorf, in which IKB Mezzanine Verwaltungs GmbH participates as general partner (*Komplementärin*). The mezzanine fund with volume of EUR 100 million has a lifespan of ten years. The funds, provided by KfW (40 %) and IKB Equity (60 %) in the form of subordinated loans, are to be invested especially by means of atypical silent participations.

Pursuant to Article 296, Section 2, *HGB*, we have not included other subsidiary companies (List of Investments under "B.") in the consolidated Group accounts due to their minor impact of the Group's assets, liabilities, financial and income position.

Principles of Consolidation

The Group accounts were prepared in strict accordance with IKB Deutsche Industriebank AG accounting and valuation methods contained in the following section. The financial statements of the companies included were – if necessary – adapted to conform with the accounting and valuation regulations of the parent company. Both American subsidiaries, draw up the balance according to the accounting principles of US-GAAP. As far as substantially necessary we adopted the subsidiaries accounts to *HGB* regulations by offsetting and reconciliation.

Capital consolidation was carried out in accordance with the book value method. For Group companies, the cost of investment is set against the Group's share of equity at the date of acquisition or first-time consolidation. Debit differences amounted to EUR 41.5 million, and credit differences to EUR 6.3 million. The balance of these differences, which is EUR 35.2 million, were set off with revenue reserves.

The claims and liabilities as well as expenditure and income between consolidated companies are eliminated on consolidation.

Normally the financial statements of consolidated companies and those of the parent company are drawn up at the same accounting date. Differing from this rule the annual financial statements of the companies listed below are dated December 31, 2002:

- AIVG Allgemeine Verwaltungsgesellschaft mbH
- IKB Capital Corporation
- IKB Facility-Management GmbH
- IKB Financière France S.A.
- IKB Grundstücks GmbH and their special purpose entities
- IKB Immobilien Leasing GmbH
- IKB Private Equity GmbH and their subsidiaries.

In the case of IKB Capital Corporation, we prepared interim accounts at March 31, 2003 in accordance with Article 299, Section 3, *HGB*.

Accounting and Valuation Methods

Claims on banks and customers are shown at their nominal value, less provisions for bad and doubtful debts. Differences between amounts actually paid and nominal values are included in deferred income and credited to the income statement according to plan.

We have provided for potential loan loss risks by building reserves in the form of general provision for bad and doubtful debts. We calculated the general provision for bad and doubtful debts based on our past experience and weighted amounts.

Securities, which are disclosed under the heading "Debentures and other fixed interest securities", as well as "Shares and other non-fixed interest securities", are valued in accordance with the lower of cost principle applying to current assets, i. e. the purchase price or the lower market price. Pursuant to Article 280 of the German Commercial Code (*HGB*), we were obliged to write up the value of securities written down in previous years at the current market value, the maximum amount of which is the historical purchase price.

Securities kept as fixed assets exclusively comprise issues of international industrial companies (corporate bonds and credit linked notes), which we purchased intending to hold them up to the final maturity.

Investments in subsidiary companies and companies in which the bank has a participatory interest are shown at the purchase price currently adjusted.

Fixed assets and leasing items are valued at price of purchase or manufacturing cost, reduced by scheduled depreciation and – as the case may be – (fiscally permissible) special depreciation. When a permanent diminution in value is expected, unscheduled depreciation is applied. Low-value assets are completely written off during the year of purchase.

Liabilities are stated at redemption amount. To the extent that proceeds vary from the redemption amount, the difference is shown on the assets side as a deferred item and charged to income according to plan.

Provisions for pension and similar obligations are computed in accordance with actuarial principles, based on the *Heubeck* actuarial tables and a 6 % rate of interest and using the German *Teilwert* method for pension expectancies and the net present value of current pensions. Provisions for taxes and uncertain liabilities are stated at amounts which are likely to be incurred. In accordance with the tax regulations, we discounted provisions for cash payments with 5.5 %.

Derivative transactions (swaps, futures, options) need not be disclosed in the balance sheet. Depending on the purpose trading in derivatives is entered either under trading operations or hedging transactions, whereby positions in trading operations can have hedging functions. If derivative operations are considered trading operations they are then valued in accordance with the imparity and realisation principle. If they are part of a hedging operation, valuation units are formed. Profits and losses resulting from these transactions are offset. Provisions are formed for remaining valuation losses, while remaining valuation profits are not realised.

Currency Conversion

Balance sheet and non-balance sheet amounts denominated in foreign currency are converted in accordance with Article 340 h, *HGB*. In the case of foreign currency-denominated fixed assets that are not specifically hedged, we have calculated the historic cost of exchange rates.

All other foreign currency-denominated assets, liabilities and other outstanding spot transactions are converted at the reference rate of the European Central Bank (ECB) at balance sheet date. Premiums or discounts on the spot exchange rate resulting from interest hedging operations on balance sheet items are included in net interest income pro rata temporis. Hedged expenses or profits are converted at the contracted forward rate.

In the income statement only expenses from currency conversion according to Article 340 h, Section 2, *HGB* are taken into account.

Notes to the Balance Sheet and Income Statement

Breakdown of Maturities of Selected Balance Sheet Items

	Group		AG	
in EUR million	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
Other claims on banks	**798**	**1 294**	**6 413**	**5 942**
with a remaining maturity				
– up to three months	311	477	4 920	4 873
– more than three months up to one year	290	592	1 156	798
– more than one year up to five years	165	183	282	248
– more than five years	32	42	55	23
Claims on customers	**24 803**	**24 600**	**21 840**	**22 201**
with a remaining maturity				
– up to three months	3 915	3 615	3 709	3 444
– more than three months up to one year	2 981	2 587	2 537	2 304
– more than one year up to five years	11 447	11 330	9 801	9 975
– more than five years	6 460	7 068	5 793	6 478
Liabilities to banks with agreed maturity or period of notice	**14 840**	**14 682**	**16 141**	**15 262**
with a remaining maturity				
– up to three months	4 210	4 245	5 108	5 338
– more than three months up to one year	2 044	1 301	3 064	1 273
– more than one year up to five years	4 891	5 138	4 807	5 072
– more than five years	3 695	3 998	3 162	3 579
Other liabilities to customers with agreed maturity or period of notice	**1 904**	**2 189**	**1 899**	**2 053**
with a remaining maturity				
– up to three months	116	165	130	151
– more than three months up to one year	170	111	169	84
– more than one year up to five years	863	1 147	862	1 078
– more than five years	755	766	738	740

Of the debentures and other fixed interest securities in the Group EUR 853 million (2001/2002: EUR 180 million) and in the AG EUR 847 million (2001/2002: EUR 179 million) will mature next year. Of the issued debentures included in the balance sheet under securitised liabilities, EUR 5,198 million (2001/2002: EUR 2,239 million) will come due next year in the Group and in the AG.

Treasury Shares

At the General Meetings held on September 7, 2001 and August 30, 2002, we obtained authorisation to acquire our own shares for the purpose of securities trading (max. 5 % of share capital).

During the 2002/2003 financial year, we purchased 4,901,713 treasury shares. The average purchasing price was EUR 12.37 per share. The same amount of shares was sold at an average share price of EUR 12.44. The resulting revenues of EUR 328 thousand are included in the net result from financial operations. The highest daily balance of treasury shares amounted to 2.09 % of subscribed capital. Our affiliates did not engage in the sale or purchase of IKB shares. As at the balance sheet date no treasury shares were hold by the bank.

In order to enable our employees to acquire shares under employee purchase schemes during the year under review we purchased 26,869 shares at an average price of EUR 11.90, of which we then sold 19,849 to the employees of the AG at a preferential rate of EUR 5.95. A further 7,020 shares were acquired under the same conditions from employees of the Group.

Fixed Asset Schedule

	Group						
in EUR million	Cost of acquisition	Additions	Disposals	Accumulated depreciation	Depreciation financial year	Net book value March 31, 2003	Net book value March 31, 2002
Tangible fixed assets	366.4	50.3	2.1	169.2	19.4	245.4	214.7
Securities	–	937.8	–	–	–	937.8	–
Investments	40.6	0.1	0.6	1.9	0.2	38.2	38.9
Shares in subsidiary companies	8.1	0.7	1.8	–	–	7.0	8.1
Leasing items	3 135.0	616.8	455.3	830.4	396.2	2 466.1	2 346.4

	AG						
in EUR million	Cost of acquisition	Additions	Disposals	Accumulated depreciation	Depreciation financial year	Net book value March 31, 2003	Net book value March 31, 2002
Tangible fixed assets	140.0	17.9	1.8	97.7	12.4	58.4	53.0
Securities	–	937.8	–	–	–	937.8	–
Investments	2.2	0.0	–	1.3	–	0.9	0.9
Shares in subsidiary companies	427.1	22.5	–	59.1	–	390.5	367.9

On March 31, 2003, the book value of the Group’s land and buildings used by the Group amounted to EUR 203.7 million, and those of the AG to EUR 33.5 million. The principle item in the Group was the headquarters building in Düsseldorf.

On the Group balance sheet, equipment and furniture, amount to EUR 35.8 million, and for that of the AG, to EUR 23.7 million. They are included in “Tangible fixed assets”.

Negotiable Securities

The negotiable securities contained in the balance sheet items listed below are differentiated as follows:

	Group			AG		
in EUR million	Total	Listed	Not Listed	Total	Listed	Not Listed
Debentures and other fixed interest securities	5 926.2	5 839.3	86.9	5 704.0	5 627.1	76.9
Shares and other non-fixed interest securities	1.0	1.0	–	1.0	1.0	–
Investments	36.8	36.8	–	–	–	–
Shares in subsidiary companies	–	–	–	151.8	–	151.8

Marketable debentures and other fixed interest securities as well as shares comprise assets with a volume of EUR 929.6 million, which are allocated to the fixed assets and thus are not valued at lowest value *(Niederstwert)*. These are securities exclusively issued by international industrial companies (corporate bonds and credit linked notes), which we purchased in connection with our loan business intending to hold them up to the final maturity.

Receivables and Payables Relating to Subsidiary and Related Companies

	Group		AG	
in EUR million	Subsidiary companies	Related companies	Subsidiary companies	Related companies
Claims on banks	59.9	30.6	6 177.3	0.0
Claims on customers	110.8	50.7	2 085.6	0.0
Debentures and other fixed interest securities	–	1.5	–	1.5
Liabilities to banks	641.9	6.6	2 296.9	–
Liabilities to customers	15.1	–	87.3	–

Trust Transactions

	Group		AG	
in EUR million	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
Claims on customers	4.3	4.6	4.3	4.6
Investments	1.4	1.4	1.4	1.4
Trust assets	**5.7**	**6.0**	**5.7**	**6.0**
Liabilities to customers	5.7	6.0	5.7	6.0
Trust liabilities	**5.7**	**6.0**	**5.7**	**6.0**

Subordinated Assets

Subordinated assets are included in the following balance sheet items:

in EUR million	Group	AG
Claims on customers	130.0	14.6
Shares and other non-fixed interest securities	0.5	0.5
Shares in subsidiary companies	–	71.6

Foreign Currency Assets and Liabilities

Currency amounts converted into Euro are presented in the following table. The differences between assets and liabilities are covered by currency hedging transactions.

	Group		AG	
in EUR million	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
Assets	5 093	5 326	4 805	5 170
Liabilities	2 321	2 420	2 566	2 425

Other Assets and Other Liabilities

For both the Group and the AG, the largest single item in "Other assets" are amounts due from pro rata interests from interest swaps, cross-currency-swaps and guarantee agreements totalling EUR 346 million in the Group and EUR 336 million in the AG. The remaining amount relates besides participations in companies of EUR 78 million held by IKB Private Equity GmbH and it's subsidiary primarily to trade receivables and claims arising from payment procedures.

In both the Group and AG financial statements, the amounts distributed on the participation rights capital (*Genussscheine*) for 2002/2003 (EUR 47 million) and the pro rata interest for the subordinated liabilities with EUR 11.9 million are entered under "Other liabilities". The pro rata interest from interest rate swap agreements constitute the largest item in the Group (EUR 258 million) and AG (EUR 229 million). As an other significant item trade payables, amounting to EUR 69 million and EUR 1 million respectively, are included.

Accrued and Deferred Income

Prepaid expenses of the Group and AG, amounting to EUR 107 million and EUR 106 million respectively relate to differences pursuant to Article 250, Section 3 of the German Commercial Code (*HGB*) and Article 340 e, Section 2, Sentence 3 of the German Commercial Code (disagios from the nominal value of liabilities reported in the balance sheet).

Deferred income of the Group amounting to EUR 117 million (AG: EUR 111 million) was posted, which show differences pursuant to Article 250, Section 2 of the German Commercial Code and Article 340 e, Section 2, Sentence 2 of the German Commercial Code (disagios from the nominal value of claims reported in the balance sheet).

Special Items including Reserves

The special items including reserves absorbed by the Group from the special purpose entities of IKB Immobilien Leasing GmbH represent with EUR 0.3 million a reserve in accordance with Article 6b of the German Income Tax Act and with EUR 5.6 million investment grants.

Subordinated Liabilities

The subordinated liabilities qualify under the German Banking Act as liable capital. An early repayment is not possible. In case of bankruptcy or liquidation they will be repaid only after non-subordinated creditors have been satisfied.

Individual items which exceed 10 % of the total amount:

Year of issue	Book value EUR million	Issue Currency	Interest rate %	Maturity
1995/96	90.8	NLG	7.75	June 16, 2005
1999/00	125.0	EUR	5.00	Dec. 28, 2007
2000/01	150.0	EUR	6.00	Feb. 27, 2009
2002/03*)	250.0	EUR	4.54	Dec. 31, 2031

*) Issue with floating rate

Subordinated liabilities in the Group amount to EUR 631.8 million and in the AG to EUR 881.8 million. Interest expense on this amount during the financial year came in the Group to EUR 59.6 million (2001/2002: EUR 60.6 million) and in the AG to EUR 63.8 (previous year: EUR 60.6) million.

Participation Rights Capital (Genussscheine)

The issued participation rights capital of EUR 613.8 million meets the requirements set out in Article 10, Section 5 of the German Banking Act at an amount of EUR 560.2 million and serve to strengthen the bank's liable capital. This amount is liable in the event of a loss. Interest payments are made solely on the basis of unappropriated profits for the year. The claims of holders of participation rights to repayment of the capital are subordinate to those of other creditors. Participation rights capital includes in detail:

Year of issue	Book value EUR million	Issue Currency	Interest rate in %	Maturity
1991/92	51.2	DM	9.10	March 31, 2003
1993/94	92.0	DM	7.30	March 31, 2005
1994/95	92.0	DM	6.45	March 31, 2006
1995/96	81.8	DM	8.40	March 31, 2007
1997/98	102.3	DM	7.05	March 31, 2009
1999/00	20.0	EUR	7.23	March 31, 2010
2001/02	100.0	EUR	6.50	March 31, 2012
2001/02	74.5	EUR	6.55	March 31, 2012
	613.8			

Interest payments for the 2002/2003 financial year, amounting to EUR 44.7 million, are contained in interest expenses.

The Management Board is authorised to issue participation rights capital – also combined with conversion or option rights – nonrecuring or repeatedly at a total amount of EUR 300 million and with a maximum maturity of 15 years until August 30, 2007. To the bearers of these participation rights conversion and option rights can be granted with a share in subscribed capital of up to EUR 22.5 million. So far, no use was made of this authorisation.

Development of Capital

Equity

Subscribed share capital amounted to EUR 225,280,000.00 on March 31, 2003 and is divided into 88,000,000 shares.

In order to grant conversion or option rights to the bearers of convertible bonds and warrant-linked bonds with an aggregate nominal value of EUR 300 million issued before September 3, 2004, conditional capital of EUR 22.5 million is authorised. Furthermore, the company is authorised to issue share capital amounting to EUR 76.8 million until August 30, 2007.

Hybrid Capital

At March 31, 2003, hybrid capital in the Group amounts to EUR 620 million (previous year: EUR 170 million) and to EUR 200 million in the AG, respectively. This capital complies with the requirements of Article 10, Section 4 of the German Banking Act and is therefore attributed to our regulatory tier 1 capital.

Hybrid capital instruments comprise issues in the form of silent participations or preferred shares, the latter being issued by a subsidiary exclusively founded for this purpose. Different to supplementary capital these instruments are subject to stricter requirements with respect to maturity. As to silent participations – basically issued as perpetuals – only the issuer is allowed to terminate the contract after 10 years at the earliest; as to the preferred shares for the investor an unlimited maturity is agreed.

Moreover, in the case of insolvency hybrid capital instruments are subordinated to subordinated liabilities and participation rights capital *(Genussscheine)*.

Interest expenses for hybrid capital instruments in the Group amount to EUR 26 million and to EUR 4 million in the AG, respectively.

Changes in the Group's Equity

in EUR million	2003	2002
Balance of the parent company's equity at March 31 of the previous year	1 311	1 294
Subscribed capital of the parent company		
+ hybrid capital	450	–
+ capital reserves	–	–
+ gained Group equity	43	38
+ accumulated other Group result, inasmuch as to be allocated to shareholders of the parent company	–18	–21
= equity of the parent company according to Group balance sheet	1 786	1 311
– treasury shares, not determined for withdrawl	–	–
= equity of the parent company at March 31	1 786	1 311
Balance of minority shareholders' equity at March 31 of the previous year	14	25
– changes in minority shareholders' equity	–3	–11
– therefrom: minority capital	*4*	*–15*
– therefrom: accumulated other Group result, inasmuch as to be allocated to minority shareholders	*–7*	*4*
= equity of the minority shareholders at March 31	11	14
Equity of the Group at March 31	**1 797**	**1 325**

Changes in the AG's Equity

in EUR million	
Equity of the AG at April 1, 2002	1 165.1
Distribution of unappropriated profits for the financial year 2001/2002	– 67.8
Transfer to other revenue reserves from net income of the AG for the financial year 2002/2003	42.6
Addition of hybrid capital	200.0
Unappropriated profit for the financial year 2002/2003	67.8
Equity of the AG at March 31, 2003	**1 407.7**

Key Figures relating to Bank Regulatory Requirements

The risk-weighted assets in EUR million, as well as capital and Principle I ratios in the Group, break down as follows at the balance sheet date:

	Attributable amounts in %				
at March 31, 2003 in EUR million	100	50	20	10	Total
Balance sheet transactions	17 811	1 729	562	348	20 450
Non-balance sheet transactions	2 127	885	43		3 055
Derivative transactions in the investment portfolio		97	502		599
Weighted risk assets, total	**19 938**	**2 711**	**1 107**	**348**	**24 104**
Amount attributable for market risk					425
Total of items obligatory for inclusion					**24 528**
Liable capital *)					2 972
Capital eligible for inclusion *)					2 972
Tier 1 capital ratio (in %)					7.4
Equity ratio (in %)					12.1

*) Following adaption of the annual financial statements

	Attributable amounts in %				
at March 31, 2002 in EUR million	100	50	20	10	Total
Balance sheet transactions	15 447	2 064	503	330	18 344
Non-balance sheet transactions	1 471	640	45		2 156
Derivative transactions in the investment portfolio		42	254		296
Weighted risk assets, total	**16 918**	**2 746**	**802**	**330**	**20 796**
Amount attributable for market risk					350
Total of items obligatory for inclusion					**21 146**
Liable capital					2 556
Capital eligible for inclusion					2 559
Tier 1 capital ratio (in %)					6.4
Equity ratio (in %)					12.1

Contingent Liabilities / Other Obligations

Contingent liabilities in EUR million	Group	AG
Guarantees	1 921	4 384
Liabilities from security for third-parties	239	239
Total	**2 160**	**4 623**

Other obligations in EUR million	Group	AG
Loan commitments up to one year	5 216	5 085
Loan commitments more than one year	1 657	1 463
Total	**6 872**	**6 548**

At the balance sheet date our “Contingent liabilities” also comprise credit derivative contracts in the form of a credit default swap (guarantors) within the item “Guarantees and indemnity agreements” amounting to EUR 1,334 million (2001/2002: EUR 767 million). In this context we have taken over credit risks of certain credit portfolios for well-defined incidences within the credit engagements. More than two third of the single portfolios are rated in the best rating classes Aaa to A by the independent rating agency Moody’s.

The item “Other obligations” comprises 14 loan commitments to special entities at an amount of EUR 4.9 billion, which only take effect in the case of short-term liquidity squeeze.

Notes to the Cash flow Statement

The Cash flow Statement complies with the accounting requirements of the German Accounting Standards Commitee (GAS 2-10) and shows the balance as well as the changes of the Group’s liquid funds. In conformity with its sources, the development of cash flow is divided into three parts: operating activities, investment activities and financing activities. The

Cash flow Statement in EUR million	**2002/2003**	2001/2002
Net income for the year	**86**	**83**
Non-cash items contained in net income for the year and leading into the cash flow from operating activities		
Changes of risk provisioning	260	227
Depreciation of tangible fixed assets, leasing items, and investments	301	333
Profit/loss attributable to other partners	8	5
Changes in other non-cash items (primarily change of provisions)	103	85
Result from the sale of investments and tangible fixed assets	–2	–35
Other adjustments (primarily reallocation of received or paid interest including profits for leasing transactions and paid income tax)	–877	–767
Subtotal	**–121**	**–69**
Changes in assets and liabilities from operating activities after corrections for non-cash components		
Claims		
on banks	–454	–702
on customers	–330	–387
Debentures and other fixed interest securities	–1 008	–1 135
Shares and other non-fixed interest securities	–1	–3
Leasing items	–266	–301
Other assets from operating activities	479	60
Liabilities		
to banks	644	125
to customers	–231	–160
Securitised liabilities	715	2 150
Other liabilities from operating activities	–180	–340
Participations of minority shareholders	–3	–11
Interest and dividends received	3 087	3 101
Interest paid	–2 344	–2 436
Payment of income taxes	–62	–69
Cash flow from operating activities	**–75**	**–177**
Proceeds from the sale of		
Investments	3	8
Tangible fixed assets	4	30
Payments for the purchase of		
Investments	–1	–3
Tangible fixed assets	–50	–19
Effects of the change in the set of companies to be consolidated	–	–11
Cash flow from investment activities	**–44**	**5**
Dividend payments	–68	–68
Changes in liquid funds deriving from other financing activities (balance) (mainly subordinated liabilities / participation rights capital / revenue reserves)	203	250
Cash flow from financing activities	**135**	**182**
Balance of liquid funds at the end of the previous period	**11**	**1**
Cash flow from operating activities	–75	–177
Cash flow from investment activities	–44	5
Cash flow from financing activities	135	182
Balance of liquid funds at the end of the period	**27**	**11**

cash flow from investment activities primarily comprises the revenue from the sale and the payment for the purchase of financial assets and tangible fixed assets. Under financial activities all cash flows from transactions relating to equity and hybrid capital instruments as well as subordinated and participation rights capital are shown. In accordance with international practice all other cash flows are assigned to the operating activities.

Cash flow status corresponds to the balance sheet item “Liquid funds”, and contains balances held with Central Banks and cash.

Further Information

Other Financial Commitments

Outstanding obligations to pay up share capital, and company investments and investments in subsidiary companies amounted on March 31, 2003, to EUR 278 thousand for the Group (of which: IKB Leasing Tschechien GmbH EUR 277 thousand) and to EUR 1.3 thousand for the AG.

The bank has a pro rata additional funding obligation to Liquiditäts-Konsortialbank GmbH of Frankfurt. In addition, we bear a proportional contingent liability for fulfilling the funding obligations of other partners in the Association of German Banks. In addition, pursuant to Article 5, Section 10 of the Statutes for the Deposit Insurance Fund, the bank has committed itself to protect the Association of German Banks from any losses arising due to measures favouring banks in which it owns a majority interest.

At its balance sheet date December 31, 2002, the IKB Immobilien Leasing Group had incurred EUR 294 million in financial obligations arising from contracted leases not yet contained in the balance sheet leasing assets.

Declaration of Backing

In accordance with Article 285, No. 11 *HGB*/Article 313, Section 2, *HGB*, IKB ensures, excluding political risk, that the wholly-owned subsidiary companies appearing on the list of investments of IKB Deutsche Industriebank AG and marked as covered by the declaration of backing will be able to meet their contractual liabilities. On behalf of its subsidiaries IKB Finanz Leasing AG, Budapest, and IKB Leasing Hungaria GmbH, Budapest, IKB Leasing GmbH of Hamburg issued letters of comfort to Commerzbank Rt., Budapest.

Forward Contracts

While the IKB Group engages in forward contracts (swaps, forward rate agreements, and futures), these are carried out almost exclusively for hedging balance sheet-relevant transactions. Trading volume in these instruments is kept within narrow limits. Operational volume is restricted by the use of overall exposure, contractual and product-related limits, and are subject to permanent monitoring by our risk management.

Breakdown of Product Groups and Remaining Maturities as of March 31, 2003

	Group								
	Nominal amount				Credit equivalent				Credit risk
in EUR million	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	**Total**
1. Interest-rate based operations									
Over-the-counter-products (OTCs)									
Forward rate agreements	18	–	–	**18**	0	–	–	**–**	**0**
Interest swaps	3 333	5 221	10 836	**19 390**	27	111	2 189	**2 327**	**2 138**
Interest options	5	242	239	**486**	0	2	18	**20**	**15**
Forward bonds	195	5	263	**463**	2	0	75	**77**	**73**
2. Currency-based operations									
Over-the-counter-products (OTCs)									
Currency futures	2 046	–	–	**2 046**	39	–	–	**39**	**30**
Cross-currency swaps	630	1 222	1 431	**3 283**	13	94	135	**242**	**67**
Currency options	32	–	–	**32**	2	–	–	**2**	**2**
3. Index-based operations									
Over-the-counter-products (OTCs)									
Index swaps	20	–	–	**20**	2	–	–	**2**	**0**
Total	**6 279**	**6 690**	**12 769**	**25 738**	**85**	**207**	**2 417**	**2 709**	**2 325**

	AG								
	Nominal amount				Credit equivalent				Credit risk
in EUR million	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	**Total**
1. Interest-rate based operations									
Over-the-counter-products (OTCs)									
Interest swaps	2 896	5 320	9 799	**18 015**	34	167	2 190	**2 391**	**2 218**
Interest options	5	130	274	**409**	0	1	19	**20**	**15**
Forward Bonds	195	5	5	**205**	2	0	0	**2**	**2**
Forward forward deposits	66	55	–	**121**	0	0	–	**0**	**0**
2. Currency-based operations									
Over-the-counter-products (OTCs)									
Currency futures	2 003	–	–	**2 003**	38	–	–	**38**	**30**
Cross-currency swaps	579	935	1 474	**2 988**	14	79	145	**238**	**75**
Currency options	32	–	–	**32**	2	–	–	**2**	**2**
3. Index-based operations									
Over-the-counter-products (OTCs)									
Index swaps	20	–	–	**20**	2	–	–	**2**	**0**
Total	**5 796**	**6 445**	**11 552**	**23 793**	**92**	**247**	**2 354**	**2 693**	**2 342**

Some 93 % of the Group and 97 % of the AG derivatives operations are with OECD banks with first-class ratings. The remainder consists essentially of contracts with customer companies. The greater part of the bank‘s derivatives business volume related with an amount of EUR 20.4 billion (AG: EUR 18.8 billion) to interest rate transactions, with interest swap transactions forming the dominant product.

In order to illustrate the Group's credit risk, the table shows, in addition to the nominal volumes, the credit-based weightings as credit equivalents and the so-called positive market values (credit risk) of the forward transactions are presented, based on the bank oversight regulations (derived from the figures for Principle I). Defined as the sum of all positive market values, the credit risk amounted to EUR 2.3 billion to the Group and the AG at the balance sheet date, representing 9 % and 10 % of the nominal value. Existing netting agreements, which, in case of insolvency, enable the setting off of existing claims and liabilities to counterparties, are not taken into account.

Segment Report

The segment report is aligned with the divisions of the bank. These divisions operate at the market as independent units. Segment information is presented to show the divisions as independent enterprises responsible for their own earnings and costs, and with their own capital resources. The operational divisions are:

- Corporate Lending
- Real Estate Financing
- Structured Financing
- Private Equity
- Leasing and
- Securitisation.

The results arising from the bank's activities in the fields of investments in international loan portfolios, advisory services for special funds and the securitisation and outplacement of credit risks are shown seperatly for the first time in the segment "Securitisation".

The basis for the segment reports are the internal, controlling-oriented division accounts, which form part of IKB's management system. This procedure corresponds to the information recommendations of the German Accounting Standards Committee e.V. (*DRSC*) for banks.

The figures of the Private Equity Division correspond with the statement of the sub-group IKB Private Equity GmbH according to commercial law.

Segment Report

in EUR million
Net interest income
Net commission income
Net interest and commission income
Administrative expenses
Personnel expenses
Other administrative expenses
Other operating result *)
Risk provisioning balance
Result from ordinary activities
Ø Allocated tier 1 capital
Loan volume at balance sheet date March 31
Cost/income ratio in %
Return on equity in %
Ø Number of staff
Volume of new business

*) incl. net result from financial operations

Income and expenses of the other divisions are assigned in accordance with their respective responsibility. Net interest income from loan business is posted for the units using the market interest method; it also comprises the investment income from economic capital resources. This investment income is allocated to the respective divisions in line with the assigned average tier 1 capital. In doing so a 4.8 %-tier 1 capital ratio based on the risk assets is allocated to the divisions. The negative figure of the average allocated tier 1 capital shown in the segment "Securitisation" results from capital releases caused by CLO transactions including the offsetting against capital requirements for investments in international loan portfolios. Whenever they could be assigned on the basis of causation, personnel and material expenses of the head office were credited to the divisions.

The allocation of loan exposure risk costs to the divisions adheres to the method of standard risk costs using the "Expected loss" technique. The risk costs of the head office derive from the difference between the standard risk costs calculated for the units and the risk provisioning balance from the Group profit and loss accounts.

The result of each segment is shown using the result from ordinary activities for the individual division. Moreover, we measure the results generated by the divisions by means of the return on equity and cost/income ratio figures. The return on equity is based on the ratio of the result from ordinary activities to the average assigned tier 1 capital. We determine the cost/income ratio from the quotient of administrative expenses to earnings.

by Business Division for the Financial Year 2002/2003

Corporate Lending		Real Estate Financing		Structured Financing		Private Equity		Leasing		Securitisation		Head Office		Total	
1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02
225.1	227.9	81.7	70.5	94.0	95.2	4.1	3.9	43.6	42.5	2.4	–8.3	34.1	39.6	485.0	471.3
5.7	4.4	7.9	7.4	14.4	6.0	–0.6	–0.6	–3.7	–4.4	45.3	27.4	–4.9	–0.7	64.1	39.5
230.8	232.3	89.6	77.9	108.4	101.2	3.5	3.3	39.9	38.1	47.7	19.1	29.2	38.9	549.1	510.8
65.2	62.4	24.3	23.4	31.3	27.6	7.4	7.3	25.5	22.8	4.5	2.3	61.7	60.7	219.9	206.5
49.8	*47.9*	*17.9*	*16.9*	*21.1*	*18.6*	*4.8*	*4.0*	*16.2*	*15.4*	*2.2*	*1.3*	*25.8*	*29.3*	*137.8*	*133.4*
15.4	*14.5*	*6.4*	*6.5*	*10.2*	*9.0*	*2.6*	*3.3*	*9.3*	*7.4*	*2.3*	*1.0*	*35.9*	*31.4*	*82.1*	*73.1*
0.0	0.0	0.0	0.0	0.2	0.2	10.9	–14.2	9.7	10.6	0.0	0.0	0.2	34.6	21.0	31.2
62.8	64.5	24.1	22.8	18.4	20.2	6.3	24.7	5.2	2.6	6.5	0.6	60.1	39.8	183.4	175.2
102.8	105.4	41.2	31.7	58.9	53.6	0.7	–42.9	18.9	23.2	36.7	16.2	–92.4	–26.9	166.8	160.3
626	636	241	220	179	182	24	24	47	37	–204	–264	199	237	1 112	1 072
16 022	16 266	5 532	5 355	4 209	4 191	191	204	2 659	2 550	1 937	676	45	56	30 595	29 298
28.2	26.9	27.1	30.0	28.8	27.2	51.4	–	51.4	47.0	9.4	12.0			38.6	38.1
16.4	16.6	17.1	14.4	32.9	29.5	2.9	–	40.2	62.1	–	–			15.0	15.0
311	324	126	121	126	103	46	44	125	116	10	5	689	637	1 433	1 350
2 658	2 274	765	793	1 494	1 399	32	55	710	710	1 402	676	–117	183	6 944	6 090

Segment Report by Geographical Region

Assignment of the segments by geographical region occurs – with adjusted previous year's figures – in accordance with the respective location of our offices or Group companies.

in EUR million	Germany		Other Europe		America		Head Office		Total	
	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02
Net interest income	328.6	325.5	111.8	99.0	10.5	7.2	34.1	39.6	485.0	471.3
Net commission income	60.3	36.3	8.6	4.1	0.1	–0.2	–4.9	–0.7	64.1	39.5
Net interest and commission income	388.9	361.8	120.4	103.1	10.6	7.0	29.2	38.9	549.1	510.8
Administrative expenses	139.1	129.6	15.0	12.1	4.1	4.1	61.7	60.7	219.9	206.5
Other operating result *)	20.3	–3.8	0.3	0.3	0.2	0.1	0.2	34.6	21.0	31.2
Risk provisioning balance	89.0	101.4	32.8	32.2	1.5	1.8	60.1	39.8	183.4	175.2
Result from ordinary activities	**181.1**	**127.0**	**72.9**	**59.1**	**5.2**	**1.2**	**–92.4**	**–26.9**	**166.8**	**160.3**

*) incl. net result from financial operations

With this presentation we simultaneously fulfil the requirement of EU accounting regulations for banks, which calls for a regional breakdown of earnings.

Allocations/Releases of Risk Provisioning at Group Level

in EUR million	Group	
	2002/2003	2001/2002
Allocation to specific provisions for bad and doubt debts/ direct depreciation less payments received on claims written off	269	248
Allocation to general provisions for bad and doubtful debts	4	4
Release of provisions for bad and doubtful debts	25	48
Net risk provision	**248**	**204**
Result from securities in the liquidity reserve	65	29
Risk provisioning balance	**183**	**175**

Risk Provisioning Status at Group Level

in EUR million	Group				
	As at April 1, 2002	Utilisation	Release	Allocation	As at March 31, 2003
Specific provisions for bad and doubtful debts/ provisions for contingent liabilities	836	146	25	245	910
General provisions for bad and doubtful debts	39	–	–	4	43
Total risk provisioning status	**875**	**146**	**25**	**249**	**953**

Administrative Services

We engage in administrative services relating to our loan and deposit operations especially to guarantee business, the earnings from which are contained in commission income.

Remuneration of the Organs of the Bank and its Advisory Board

in EUR thousend	Group	AG
Members of the Board of Managing Directors		
Fixed remuneration	2 150	1 975
Variable remuneration	2 200	2 200
	4 350	4 175
Members of the Supervisory Board		
Fixed remuneration	101	101
Variable remuneration	780	780
Travel expenses/turnover tax	107	107
	988	988
Members of the Advisory Board	625	625
Former Members of the Board of Managing Directors and their surviving dependents	2 135	2 135

An amount of EUR 19.3 million was set aside for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

Loans Extended to Members of the Organs

in EUR thousend	Group/AG
Board of Managing Directors	255
Supervisory Board	119

Average Number of Staff during the Financial Year

(calculated on the basis of fulltime workers)

	Group		AG	
	2002/2003	2001/2002	2002/2003	2001/2002
Male	846	797	597	563
Female	587	553	407	392
	1 433	**1 350**	**1 004**	**955**

Corporate Governance

Declaration concerning the German Corporate Governance Code pursuant to Article 161 of the German Stock Corporation Act (AktG)

On November 7, 2002, the Management Board and the Supervisory Board submitted the first Declaration of Conformity pursuant to Article 161 of the German Stock Corporation Act (*AktG*), which shareholders can access at the IKB website (www.ikb.de) on a permanent basis.

Directors' Dealings pursuant to Article 15a of the German Securities Exchange Act (WpHG)

Hereinafter we give an overview of purchases and sales of IKB shares by members of the Management Board and the Supervisory Board as well as by respective related parties:

Date of the transaction	Name	Function	Purchase/ Sale	Number of stocks	Share price in EUR
December 19, 2002	Hermann Franzen	Member of the Supervisory Board	Purchase	3 500	11.46
January 27, 2003	Hermann Franzen	Member of the Supervisory Board	Purchase	2 950	12.05
January 27, 2003	Hermann Franzen	Member of the Supervisory Board	Purchase	500	12.04
January 27, 2003	Hermann Franzen	Member of the Supervisory Board	Purchase	300	12.03

There have been no shareholdings that shall be reported according to Code Item 6.6, Section 2, Sentences 2 and 3, of the German Corporate Governance Code.

Report Concerning Relations to Considerable Related Parties

The following shareholders hold shares in IKB Deutsche Industriebank AG (IKB) of considerable amount:

- KfW Beteiligungsholding GmbH 34.11 %
- Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft 11.46 %.

The other share capital is – as far as notified – free float.

KfW Beteiligungsholding GmbH is a fully owned subsidiary of Kreditanstalt für Wiederaufbau (KfW). KfW is a public corporation, in which the Federal Republic of Germany (*Bund*) participates with 80 % and the Federal States (*Bundesländer*) with 20 % respectively. Persuant to Article 12, Section 1, Sentence 1, of the Act concerning Kreditanstalt für Wiederaufbau (*Gesetz über die Kreditanstalt für Wiederaufbau*) KfW is subject to supervision of the German Government.
In the last two annual general meetings of IKB KfW was present with calculated voting rights of more than 50 %.

With 80 % of the shares of KfW and a material influence on the composition of KfW's Administration Board (*Verwaltungsrat*) the Federal Republic of Germany (*Bund*) can exert predominant influence on KfW. IKB shares held by KfW are therefore pursuant to Article 16, Section 4, of the German Stock Corporation Act (*AktG*) defined as shares of the Federal Republic of Germany. Thus IKB is deemed dependent on the German Government according to the German Stock Corporation Act (*AktG*). Pursuant to Article 312 of the German Stock Corporation Act (*AktG*) IKB has prepared a Report of Dependency, which is not published.

Organs

In the following schedule of the members of the Supervisory Board and the Management Board are listed:

a) Membership in other legally required Supervisory Boards and

b) Membership in comparable domestic and foreign Supervisory Bodies.

Supervisory Board

Chairman
Dr. h. c. Ulrich Hartmann, Düsseldorf
Chairman of the Supervisory Board
E.ON AG

a) Group mandates pursuant to Article 100 Section 2, Sentence 2 of the German Stock Corporation Act (AktG) are marked with•
E.ON Energie AG• (Chairman)
Ruhrgas AG• (Chairman)
Münchener Rückversicherungs-Gesellschaft (Chairman)
RAG Aktiengesellschaft (Chairman)
Deutsche Lufthansa AG
Hochtief AG

b) Powergen Limited (Chairman/Group mandate)
Henkel KGaA
ARCELOR

Deputy Chairman
Prof. Dr.-Ing. E. h. Hans-Olaf Henkel, Berlin
President
Wissenschaftsgemeinschaft Gottfried Wilhelm Leibniz e.V.

a) Bayer AG
Continental AG
Econia AG (until September 30, 2002)
European Aeronautics and Defense System AG
IBM Deutschland GmbH (until September 23, 2002)
SMS AG

b) ETF Group
Orange S.A.
Ringier AG

Deputy Chairman
Hans W. Reich, Frankfurt (Main)
Chairman of the Board of Managing Directors
Kreditanstalt für Wiederaufbau

a) ALSTOM GmbH
Aareal Bank AG
Deutsche Telekom AG
HUK-COBURG Holding AG
RAG Aktiengesellschaft
Thyssen Krupp Steel AG

b) DePfa Bank plc.
Deutsche Energie-Agentur GmbH
HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G.

Dr. Jürgen Behrend, Lippstadt
Managing Partner
Hella KG Hueck & Co.

a) Leoni AG

Jörg Bickenbach, Düsseldorf
Undersecretary of State, North Rhine-Westphalia
Ministry for Economics and Labour

a) Messe Düsseldorf GmbH

b) WIR-NRW GmbH (Chairman)
Gesellschaft für Wirtschaftsförderung mbH
NRW-Japan K.K.
ZENIT GmbH

Wolfgang Bouché, Düsseldorf
Elected by the staff

Hermann Franzen, Düsseldorf
Personally Liable Partner
Porzellanhaus Franzen KG

a) NOVA Allgemeine Versicherung AG
(Vice-Chairman)

b) BBE-Unternehmensberatung GmbH (Chairman)
IDUNA Vereinigte Lebensversicherung aG
für Handwerk, Handel und Gewerbe

Herbert Hansmeyer, Munich
Former Member of the Board of Managing Directors
Allianz Aktiengesellschaft

a) Dresdner Bank Lateinamerika AG

Dr. Jürgen Heraeus, Hanau
Chairman of the Supervisory Board
Heraeus Holding GmbH

a) Group mandates pursuant to Article 100 *Section* 2*,*
Sentence 2 *of the German Stock Corporation Act (AktG)*
are marked with•

Heraeus Holding GmbH• (Chairman)
Heraeus Tenevo AG• (Chairman)
Messer Griesheim GmbH (Chairman)
Buderus AG
EPCOS AG
Heidelberger Druckmaschinen AG

b) Argor-Heraeus S.A. (Chairman)

Gunnar John, Berlin (until December 31, 2002)
Head of Department VII A
Federal Ministry of Finance

Roswitha Loeffler, Berlin
Elected by the staff

Wilhelm Lohscheidt, Düsseldorf
Elected by the staff

Jürgen Metzger, Hamburg
Elected by the staff

Roland Oetker, Düsseldorf
Managing Partner
ROI Verwaltungsgesellschaft mbH

a) Mulligan BioCapital AG (Chairman)
Degussa AG
Volkswagen AG

b) Gamma Holding N.V.
Scottish Widows Pan European
Smaller Companies OEIC
Dr. August Oetker KG-Gruppe

Dr.-Ing. E.h. Eberhard Reuther, Hamburg
Chairman of the Supervisory Board
Körber Aktiengesellschaft

a) Körber AG (Chairman)
Vereins- und Westbank AG

Randolf Rodenstock, Munich
Managing Partner
Optische Werke G. Rodenstock KG

a) E.ON Energie AG

Rita Röbel, Leipzig
Elected by the staff

Dr. Michael Rogowski, Berlin (from August 30, 2002)
President
Federation of German Industry

a) Voith AG (Chairman)
Deutsche Messe AG

b) European Aeronautic, Defense and Space Company EADS N.V.
Freudenberg & Co. (Vice-Chairman)
HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Klein Pumpen GmbH
Kreditanstalt für Wiederaufbau
Adolf Würth GmbH & Co. KG
Carl Zeiss

Dr. Carola Steingräber, Berlin
Elected by the staff

Dipl.-Ing. Hans Peter Stihl, Waiblingen
(until August 30, 2002)
Chairman of the Supervisory Board
STIHL AG

a) Robert Bosch GmbH

b) Robert Bosch Industrietreuhand KG

Ulrich Wernecke, Düsseldorf
Elected by the staff

Prof. Dr. h. c. Reinhold Würth, Künzelsau
Chairman of the Advisory Council
Würth Gruppe

a) Würth Gruppe (Chairman)
Waldenburger Versicherung AG (Chairman)

b) Robert Bosch Stiftung GmbH
Würth Dänemark A/S
Würth Finance International B. V.
Würth Frankreich S. A.
Würth Italien S. r. l.
Würth Ltd.
Würth Nederland B. V.
Würth Neuseeland Ltd.
Würth Handelsges. m. b. H.
Würth AG
Würth España S. A.
Würth Group of North America Inc.
Würth South Africa Co. (Pty) Ltd.
Würth Canada Ltd.
Würth Otomotiv ve Montaj San. Ürün. Paz. Ltd. Sti.
Reca Danmark A/S

Board of Managing Directors

Dr. Markus Guthoff

a) MetaDesign AG

b) IKB Private Equity GmbH (Chairman)
IKB Venture Capital GmbH (Chairman)
Firmengruppe Poppe & Potthoff (from April 4, 2003)

Claus Momburg

b) IKB Immobilien Leasing GmbH (Vice-Chairman)
IKB International S. A.

Joachim Neupel

b) IKB Immobilien Leasing GmbH (Chairman)
IKB Immobilien Management GmbH (Chairman)
IKB Autoleasing GmbH (Vice-Chairman)
IKB Facility-Management GmbH (Vice-Chairman)
IKB Leasing GmbH (Vice-Chairman)
IKB Leasing Berlin GmbH (Vice-Chairman)
IKB International S. A.
IKB Private Equity GmbH
IKB Venture Capital GmbH

Stefan Ortseifen

a) Dura Tufting GmbH

b) IKB International S. A. (Chairman)
IKB Capital Corporation (Chairman)
DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH (Vice-Chairman)
AKA Ausfuhrkredit-Gesellschaft m.b.H. (from April 2, 2003)
Lohmann GmbH & Co. KG
Rich. Hengstenberg GmbH & Co.

Dr. Alexander v. Tippelskirch

a) Deutsche Gelatine-Fabriken Stoess AG (Chairman)

b) IKB Autoleasing GmbH (Chairman)
IKB Leasing GmbH (Chairman)
IKB Leasing Berlin GmbH (Chairman)
IKB Facility-Management GmbH (Chairman)
IKB Capital Corporation (Vice-Chairman)
IKB International S. A. (Vice-Chairman)
IKB Private Equity GmbH (Vice-Chairman)
IKB Venture Capital GmbH (Vice-Chairman)
Johanniter-Krankenhaus Rheinhausen (Chairman)
Hako Holding GmbH & Co.
Hans Martin Wälzholz-Junius Familienstiftung
Kreditanstalt für Wiederaufbau
nobilia-Werke J. Stickling GmbH & Co.
Wirtschaftsförderung Berlin GmbH

Employees of IKB Deutsche Industriebank AG

Information pursuant to Article 340 a, Section 4, Number 1, *HGB*

Günter Czeczatka (until March 31, 2003)
Schöck AG

Klaus Neumann
CURANUM AG

Klaus Reineke
GKD Gebr. Kufferath AG

Claus-Dieter Wagner
Gauss Interprise AG

List of Investments as required by Article 285 No. 11 HGB / Article 313, Section 2, HGB

	Declaration of backing	Share of capital in %	Equity in EUR thousand	Profit/Loss in EUR thousand
A. Consolidated Subsidiaries				
1. Foreign banks				
IKB International S.A., Luxembourg	x	100	308 935[4]	8 621
2. Other domestic companies				
IKB Autoleasing GmbH, Hamburg	x	100	2 000	– [1]
IKB Facility-Management GmbH, Düsseldorf	x	100	1 828	538
IKB Grundstücks GmbH, Düsseldorf	x	100	37	11
IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf	x	100	1 341	–153 [5]
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	x	100	1 094	–432 [5]
IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf	x	100	7 007	62 [5]
IKB Grundstücks GmbH & Co. Objekt Wilhelm-Bötzkes-Straße KG, Düsseldorf	x	100	48 698	–1 342 [5]
IKB Immobilien Leasing GmbH, Düsseldorf	x	100	5 194	– [1]
IKB Leasing GmbH, Hamburg	x	100	10 481	– [1]
IKB Leasing Berlin GmbH, Erkner	x	100	2 031	– [1]
IKB Mezzanine GmbH & Co. KG, Düsseldorf	x	100	31	–69 [3] [5]
IKB Mezzanine Verwaltungs GmbH, Düsseldorf	x	100	21	0 [3]
IKB Private Equity GmbH, Düsseldorf	x	100	24 035	– [1]
IKB Venture Capital GmbH, Düsseldorf	x	100	1 000	– [1] [3]
AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf	x	100	799	124
3. Other foreign companies				
IKB Capital Corporation, New York		100	32 926[7]	924
IKB Finance B.V., Amsterdam	x	100	7 337	383
IKB Financière France S.A., Paris	x	100	73 948	2 444
IKB Funding LLC I, Wilmington, Delaware	x [6]	100	249 994[4]	–31
B. Other Investments [2]				
1. Domestic				
IKB Projektentwicklung GmbH, Düsseldorf	x	100	520	–2
Linde Leasing GmbH, Wiesbaden		25	5 394	2 951 [3]
MORSUS Immobilien GmbH, Düsseldorf	x	100	3 679	–24
2. Foreign				
IKB Finanz Leasing AG, Budapest	x	100	480	7 [3]
IKB Funding Trust I, Wilmington, Delaware		100	0	0
IKB Leasing Hungaria GmbH, Budapest	x	100	598	34 [3]
IKB Leasing Polska GmbH, Posen	x	100	224	–889 [3]
IKB Leasing Tschechien GmbH, Praha	x	100	822 (277)	–123 [3]

Figure in parentheses shows capital outstanding

[1] Profit and loss transfer agreement exists
[2] Not included in the Group accounts, pursuant Article 296, Section 2, HGB
[3] Indirect holding
[4] Incl. silent capital/preferred shares
[5] Company has shown no Notes to the Financial Statement according to Article 264 b, HGB
[6] Subordinated declaration of backing
[7] Incl. capital increase of US$ 20 million at February 28, 2003

In accordance with Articles 325 and 287, *HGB*, our complete investment portfolio, including the listing by name of the 425 special purpose entities of IKB Immobilien Leasing GmbH and its partnership companies as well as 23 participations of IKB Private Equity GmbH and IKB Venture Capital GmbH, is on file in the commercial registers of the Municipal Courts of Düsseldorf (*HRB* 1130) and Berlin-Charlottenburg (*HRB* 8860); if required, we can provide a copy of the list at no charge.

Collateral Items given for Own Liabilities

The following table shows the liabilities of the Group and of the AG, for which assets totaling EUR 8,355.3 million were pledged as security.

in EUR million	
Liabilities to banks	8 336.9
Liabilities to customers	18.4
Total	**8 355.3**

These collateral items relate largely to loans from the Kreditanstalt für Wiederaufbau, as well as to similar institutions, which require these collateral items for the granting of loans.

Transfer of Collateral for Own Liabilities (Information pursuant to Article 35, Section 5 of *RechKredV*)

EUR 3,872 million in fixed interest securities is deposited with the Deutsche Bundesbank to serve as collateral for the tendering operations of the European Central Bank (collateral pool). At the balance sheet date, recourse had been made to credit facilities totalling EUR 1,162 million.

In connection with credit derivative transactions we have provided the following banks with cash collaterals (call accounts):

- JP Morgan Chase Bank, London EUR 150 million
- Wachovia Bank N.A., Charlotte/California EUR 250 million
- Westdeutsche Landesbank, Düsseldorf EUR 126 million.

For the adherence of payment obligations in connection with transactions in securities, securities are pledged in favour of Clearstream Banking AG, Frankfurt, at a nominal amount of EUR 2 million. In the framework of future transactions at the EUREX Deutschland for margin obligations securities at a nominal amount of EUR 5 million are pledged in favour of ING BHF-Bank AG, Frankfurt. A security with a nominal value of EUR 7 million is deposited with Clearstream Banking, Luxembourg, to serve as collateral for securities trading in Luxembourg.

For a EUR 50 million global loan facility obtained from Bayerische Landesanstalt für Aufbaufinanzierung (LfA), the bank pledged a negotiable instrument with a nominal value of EUR 51.1 million in favour of LfA.

Within the framework of the emission of credit-linked notes with a nominal value of US$ 534 million (before amortisation), we deposited at the balance sheet date securities from Kreditanstalt für Wiederaufbau nominally valued at US$ 148 million with a trustee.

Moreover, securities with a nominal value of US$ 67 million are pledged in favour of Westdeutsche Landesbank, London, serving as collateral in the framework of an issue.

Düsseldorf, May 20, 2003
IKB Deutsche Industriebank AG
The Board of Managing Directors

I. Management Report

1. An Overview of the Financial Year

Major Steps in Business Strategy

Moves of major strategic importance during the 2002/2003 financial year were

- the ongoing development of our partnership with KfW;
- the opening of cooperations with Sal. Oppenheim and UniCredito Italiano; and
- expanded investment in international loan portfolios in a wide variety of asset categories.

Following the first full financial year of our strategic partnership with KfW, the impact thus far has been unreservedly positive, resulting in EUR 800 million in additional loan business for the two organisations with earnings of EUR 10 million.

But even more important is the fact that – in cooperation with KfW – we can continue to pursue with great commitment our role as a leading financier of Germany's medium-sized companies (*Mittelstand*). Particularly in difficult times like these, and especially against the backdrop of Basel II and the highly volatile business behaviour of many of our competitors, this is an important message to our customers.

Likewise, a great deal was achieved during the past financial year with regard to the concrete implementation of our joint objectives. For example, we cooperated in developing a global loan facility that enables us to set margins oriented to the creditworthiness of the individual borrower when extending public industrial development loans rather than at a fixed margin of 1 % as was previously the case. In the meantime, a number of other banks have applied for global loan facilities with KfW, a desirable development from the standpoint of regulatory and competition policy.

In November 2002, furthermore, we set up a EUR 100 million mezzanine fund with KfW. This fund offers silent participations at an amount of EUR 2.5 million and EUR 8 million to our clients. This enables these companies to improve their balance sheet ratios and ratings, and thus to expand their room for manoeuvre with respect to credit finance.

In February of this year we entered into a cooperation agreement with Sal. Oppenheim. Both banks have almost identical target groups and a complementary range of products. Thanks to this agreement, we are now able to offer our customers a complete array of capital market products, support during M&A transactions as well as comprehensive asset management services. For its part, Sal. Oppenheim can now offer its customers long-term corporate and acquisition financing and arrange for *Schuldscheindarlehen* (certificates of indebtedness). As a means of underscoring this agreement to cooperate, Sal. Oppenheim has taken up an initial 3 % of IKB share capital.

In March 2003 we concluded an agreement to cooperate with UniCredito Italiano. Together with its investment unit, UniCredit Banca Mobiliare (UBM), we will be establishing a new subsidiary in Luxembourg offering consulting and financial services for optimising the balance sheet structures of our customers.

During the past financial year we also expanded our investments in international loan portfolios. Earnings from these transactions have since become significant enough to be reported separately; in this annual report, and in conformity with the rules of DRSC (*Deutsches Rechnungslegungs Standards Committee*), these earnings are shown separately for the first time under the rubric of "Securitisation" as part of our segment reporting procedures.

Our goal is to make a consistent, systematic transition from Risk Taker to Risk Manager. This is manifested in our policy of using collateralised loan obligations (CLOs) to outplace our own credit risks, thereby improving our Principle I ratio. Moreover, by defreezing capital in this way we are able to invest in other asset items like *Mittelstand* financing or loan portfolios. This also enables us to diversify our risk with regard to regions and sectors, while simultaneously leading to increased earnings in the form of commission income.

A further important measure taken during the period under review was the increase in tier 1 capital, achieved by issuing EUR 450 million in hybrid capital. As a result, we succeeded in increasing our tier 1 capital ratio to 7.4 % (2001/2002: 6.4 %).

Key Data

The business performance of the IKB Group during the 2002/2003 financial year is reflected in the following key data:

- net interest income increased by 2.9 % to EUR 485 million (in the AG: a decline of 5.1 % to EUR 422 million)
- net commission income rose by EUR 25 million to EUR 64 million (AG: by EUR 28 million to EUR 82 million)
- the interest margin for new loan accommodations in the Group expanded to 1.68 % (previous year: 1.44 %)
- administrative expenses increased by 6.5 % to EUR 220 million (AG: by 6.0 % to EUR 173 million)
- other operating income declined by EUR 9 million to EUR 20 million, while
- risk provisioning balance increased by EUR 8 million to EUR 183 million (AG: by EUR 12 million to EUR 153 million), with a simultaneous rise in net risk provisions by EUR 44 million to EUR 248 million as well as a EUR 36 million-increase in the result of securities in the liquidity reserve to EUR 65 million.

For the Group, this equates to an increase in the result from ordinary activities of 4.1 % to EUR 167 million; for the AG the corresponding figure increased by 14.2 % to EUR 183 million. The cost/income ratio for the Group during the period under review came to 38.6 % (previous year: 38.1 %); at 15.0 %, return on equity before tax remained unchanged from the previous year's level.

The Management Board has proposed to the Supervisory Board the payment of an unchanged dividend to shareholders of EUR 0.77 per share for the 2002/2003 financial year. To reinforce the bank's equity base, EUR 43 million was transferred to reserves from Group net income for the year (AG: EUR 43 million).

Report of Dependency

We have prepared a Report of Dependency for the period under review for the first time. Please see our comments on this in the Notes to the financial statements. The final declaration of the Management Board of the bank in the Report of Dependency states: "In each of the transactions stated in the report on relations with subsidiary companies, IKB received an appropriate consideration. This evaluation is based on the circumstances known to us at the time of the reportable transactions. Measures pursuant to Article 312 of the German Stock Corporation Act (*AktG*) were neither taken nor omitted."

Loan Operations and Asset Items

The volume of new business in the Group during the period under review came to EUR 6.9 billion (2001/2002: EUR 6.1 billion). For the AG, the corresponding figure amounts to EUR 5.8 billion (EUR 5.1 billion). Consisting of claims on customers, loans to banks, leasing items and guarantees, Group loan volume at the balance sheet date (March 31, 2003) was EUR 30.6 billion, representing a 4.4 % increase compared to the previous year's figure.

The most important Group figures are explained below.

Claims on customers, accounting for just under 70 % of the balance sheet total, rose by 1 % to EUR 24.8 billion. This relatively small increase resulted in part from the high volume of scheduled repayments in our domestic loan operations, but also reflects the weak state of the German economy and declining investment activity. While German GDP last year grew by 0.2 % – purely as the result of stronger exports – corporate investment in plant and equipment fell by 9.4 %.

Against a backdrop of economic malaise, it is all the more gratifying that we were able to increase our volume of disbursements – including the granting of

Summarised IKB Group Balance Sheet

	March 31, 2003 in EUR million	March 31, 2002 in EUR million	Change in EUR million	in %
Assets				
Liquid funds	27	11	16	>100
Claims on banks	2 140	1 605	535	33.3
Claims on customers	24 803	24 600	203	0.8
Debentures	5 927	4 928	999	20.3
Shares and other non-fixed interest securities	38	38	0	0
Investments and holdings in subsidiary companies	45	47	–2	–4.3
Tangible fixed assets	245	215	30	14.0
Leasing items	2 466	2 346	120	5.1
Outstanding capital of minority shareholders	49	49	0	0
Other assets	670	1 035	–365	–35.3
Total assets	**36 410**	**34 874**	**1 536**	**4.4**
Liabilities				
Liabilities to banks	16 223	15 436	787	5.1
Liabilities to customers	2 019	2 250	–231	–10.3
Securitised liabilities	13 700	12 975	725	5.6
Provisions	337	301	36	12.0
Subordinated liabilities	632	868	–236	–27.2
Participation certificate capital (Genussrechtskapital)	614	624	–10	–1.6
Fund for general bank risks	80	80	–	–
Participations of minority shareholders	11	14	–3	–21.4
Equity capital (without consolidated profit)	1 775	1 282	493	38.5
Other liabilities	1 019	1 044	–25	–2.4
Total liabilities	**36 410**	**34 874**	**1 536**	**4.4**

certificates of indebtedness (*Schuldscheindarlehen*) – by nearly 17 % during the year under review. We thus succeeded in expanding our share in a more or less stagnant credit market. This was the result of intensive, goal-oriented marketing as well as the high standing enjoyed by IKB in the German banking sector. Because this coincided with a high volume of repayments – as already mentioned – the loan volume of our Corporate Lending Division at the balance sheet date was slightly lower than at March 31, 2002.

A different state of affairs pertained in the Real Estate Financing Division, where a slightly lower volume of new business compared to the previous year – owing to the special repayment structure involved in real estate assets – was offset by an increase in loan volume. An upsurge in new business in the Structured Financing Division also resulted in a moderate rise in loan volume.

However, the clearest increases in new business and loan volume alike occurred in the Securitisation segment, which – as already stated – encompasses our investments in international loan portfolios in different asset categories. While new business in this segment rose to EUR 1.4 billion (EUR 0.7 billion), the loan volume at the balance sheet date increased to EUR 1.9 billion (EUR 0.7 billion). Liabilities arising from guarantees, which should be seen in the context of claims on customers, rose by EUR 0.4 billion to EUR 2.2 billion.

Owing to the balance sheet date, claims on banks rose by 33 % to EUR 2.1 billion. This increase relates exclusively to overnight loans, whereas medium- and long-term claims on banks both declined.

We augmented our portfolio of debentures by 20 % to EUR 5.9 billion, the bulk of which was used as collateral in tendering operations with the Bundesbank. Under the rubric of debentures, we grew our securitised loan business by EUR 0.6 billion to EUR 1 billion by specifically acquiring securities representing a share in a pool of securitised portfolios.

Our portfolio of leasing items also increased, growing by 5 % to EUR 2.5 billion (real estate leasing: EUR 1.8 billion; equipment leasing: EUR 0.7 billion); this rise reflects the ongoing expansion of our activities in this domain.

The Group balance sheet total grew by 4 % or EUR 1.5 billion to EUR 36.4 billion; for the AG, the increase came to 5 %, resulting in a balance sheet total of EUR 36.8 billion.

Funding

We funded our operations by taking up money market funds, by issuing debentures, and by taking up hybrid capital. Owing to the moderate trend in claims on customers, long-term liabilities to banks contracted slightly. Conversely, securitised liabilities rose by EUR 0.7 billion to EUR 13.7 billion.

Equity

Our objective continues to be to strengthen the Group's equity position without dilution of our share capital. Accordingly, we issued two silent participations during the past financial year, thereby increasing our hybrid capital by EUR 450 million to EUR 620 million. Specifically, we placed a EUR 250 million bond with private investors in June of last year, which counts as tier 1 capital in the Group. In addition, via Capital Raising GmbH, we took in a silent participation worth EUR 200 million in November. Moreover, we augmented our revenue reserves by EUR 43 million to EUR 362 million. The bullet maturity having been reached, subordinated liabilities fell by EUR 236

IKB Group Total Liable Funds

	March 31, 2003 in EUR million	March 31, 2002 in EUR million	Change in EUR million	in %
Subscribed share capital	225	225	–	–
Hybrid capital	620	170	450	>100
Capital reserves	568	568	–	–
Revenue reserves	362	319	43	13.5
Fund for general bank risks	80	80	–	–
Tier 1 capital	1 855	1 362	493	36.2
Participation certificate capital (*Genussrechtskapital*)	614	624	–10	–1.6
Subordinated liabilities	632	868	–236	–27.2
Total liable funds	**3 101**	**2 854**	**247**	**8.7**

IKB Group Operating Results

	April 1, 2002 to March 31, 2003 in EUR million	April 1, 2001 to March 31, 2002 in EUR million	Change in EUR million	in %
Interest income from loan operations and money market transactions, fixed interest securities and government-inscribed debt, and earnings from leasing operations	3 223.2	3 215.2	8.0	0.2
Earnings from securities and holdings	1.8	4.8	–3.0	–62.5
Interest expenditure, expenditure and scheduled depreciation relating to leasing operations	2 740.0	2 748.7	–8.7	–0.3
Net interest income	485.0	471.3	13.7	2.9
Commission income	76.0	44.8	31.2	69.6
Commission expenditure	11.9	5.3	6.6	>100
Net commission income	64.1	39.5	24.6	62.3
Net result from financial operations	0.8	1.9	–1.1	–57.9
Personnel expenditure	137.8	133.4	4.4	3.3
Salaries and wages	*110.7*	*101.1*	*9.6*	*9.5*
Social security contributions/expenditure for retirement benefits and pensions	*27.1*	*32.3*	*–5.2*	*–16.1*
Other administrative expenditure	82.1	73.1	9.0	12.3
Administrative expenditure	219.9	206.5	13.4	6.5
Balance of other operating income and expenditure	20.2	29.3	–9.1	–31.1
Risk provisioning balance	–183.4	–175.2	8.2	4.7
Result from ordinary activities	**166.8**	**160.3**	**6.5**	**4.1**

million to EUR 632 million. The measures outlined here led to a EUR 0.5 billion-increase in tier 1 capital to EUR 1.9 billion; following regulatory definition equity grew by a good EUR 0.2 billion to EUR 3.1 billion.

At March 31, 2003, the Group fulfilled Principle I capital ratio with 12.1 % (2000/2001: 12.1 %); the tier 1 capital ratio was 7.4 % (6.4 %). In the AG, the corresponding figures came to 12.0 % (11.9 %) and 6.4 % (6.0 %). These ratios show that we possess sufficient equity to keep the bank growing.

Earnings

Group net interest income grew by 2.9 % to EUR 485 million. This increase was due primarily to expansion in the volume of new loans as well as the improvement of the interest margin.

Also encouraging is the increase in net commission income by EUR 25 million to EUR 64 million. A good third of net commission income during the period under review resulted from revenue generated by the divisions, while roughly two thirds derived from the Securitisation segment.

Administrative expenses rose by 6.5 % to EUR 220 million. Here, the increase in personnel expenditure, which rose by 3.3 % to EUR 138 million, reflects two opposing trends: on the one hand, wages and salaries grew by 9.5 % – due not least to the increase in the average number of staff, which rose by 83 to 1,433; on the other hand, owing to the relatively low allocation to pension provisions compared to the previous year, social contributions and expenditure for retirement benefits and pensions declined by 16.1 %. Other administrative expenses grew by 12.3 % to EUR 82.1 million. Contributing first and foremost to this trend were higher spending on data processing and advertising, as well as increased consulting, expert and legal costs relating to projects for fulfilling regulatory and legal requirements such as Basel II, the Minimum Requirements for the Lending Business of Credit Institutions (*MaK*), or preparations for the transition to International Accounting Standards.

At EUR 20 million, other operating income was EUR 9 million below the figure for the 2001/2002 financial year, when we generated considerable income from the sale of our former headquarters building in Düsseldorf. During the period under review, other operating income came chiefly from exit earnings from investments by our Private Equity Division. In the AG, other operating income rose to EUR 4 million (–EUR 37 million), since no further losses by Private Equity needed to be absorbed following the successful turnaround of the division.

Risk Situation

The risk situation during the period under review remained difficult. Two years in a row of economic stagnation in Germany have taken a conspicuous toll on business, with the number of corporate insolvencies soaring to 37,700, up from 32,400 the year before.

The chief reasons for this unsatisfactory – and in certain sectors, such as retail and construction, even dramatic – development, are the weak state of the world economy and (even more so) growth-restraining economic policies at home. A glance at corporate earnings on the one hand and the jobless figures on the other makes this abundantly clear.

According to initial estimates of the German Federation of Industry, some 40 % of German companies failed to make a profit in 2002. This is due in part to the country's comparatively heavy levels of taxation, of course, but most of all it has to do with the high social welfare contributions. The German government's stated intention was to push the ratio of social welfare contributions to gross wages to below 40 %. But in 2002 this ratio was 42 % with a continuing trend to increase.

On top of this comes the added burden of the Germany's environmental tax. Introduced in 1999 with the aim of reducing the pressure on the country's pension system, it has thus far failed to do so, despite no fewer than four rate hikes. In concrete terms, if we add the impact of the environmental tax to the current social welfare contribution ratio of 42 %, the burden this year rises to over 44 %.

Two things should be clear here: (1) German companies are caught in a cost trap, with their international competitiveness further impeded by the rise in the value of the Euro; (2) at home, a decline in real disposable income in private households has led to a collapse in consumer demand in many sectors. For companies, this has meant a drop in orders, sales and profits. They have cut their investment spending accordingly – by more than 15 % over the last two years – leading in turn to layoffs and greater numbers of unemployed.

The country's government and the social security administration responded by raising the level of contributions again, further undermining the international competitiveness of German companies. These interrelationships represent a veritable vicious circle from which there can be no escape without deep-running reform.

This was the environment in which our customers had to operate during the year under review. The earnings performance of many of our borrowers was correspondingly disappointing. As a result – as already mentioned – we were forced to increase our net provisions for risk by EUR 44 million to EUR 248 million. However, because our liquidity reserve income grew by EUR 36 million to EUR 65 million, the risk provisioning balance expanded by just EUR 8 million to EUR 183 million. For the AG the corresponding figures are EUR 12 million and EUR 153 million.

A close analysis of our provisions for bad and doubtful debts reveals that we remained unscathed by Germany's more spectacular corporate failures, e.g. Kirch, Babcock or Holzmann. We were affected instead by a host of smaller cases – especially in western Germany – in which we had to take charges ranging in size from EUR 1 million to EUR 3 million. In eastern Germany a different pattern is apparent: here we had to make additional provisions for old loans in particular. Though we had already substantially adjusted the value of these loans in recent years, it has since become apparent that there is practically no secondary market for these assets – and therefore no acceptable prices.

A regional breakdown for the period under review shows that 43 % of provisions for bad and doubtful debts relate to companies in eastern Germany, though the region accounts for only 23 % of total loan exposure. This means that we will have to continue to set aside a disproportionate amount of provisions for loans in eastern Germany. The opposite situation pertains in western Germany, which accounts for 40 % of provisions for bad debts but 59 % of total loan exposure. Comprising 14 % of total loan volume, our international operations account for 12 % of provisions for bad debts.

At March 31, 2003, Group's stock of provisions for specific and general bad debts including provisions for contingent liabilities totalled EUR 953 million (previous year: EUR 875 million), and in the AG to EUR 833 million (EUR 788 million).

Result from Ordinary Activities

The result from ordinary activities for the Group came to EUR 167 million, thus exceeding the previous year's total by 4.1 %. The corresponding figures for the AG were EUR 183 million and 14.2 %. The EUR 16 million-difference is explained primarily by leasing-typical costs and earnings patterns in the real estate leasing domain, where full consolidation affected the Group but not the AG.

Proposal for the Allocation of Profits

Group net income for the year for the period under review amounted to EUR 85.8 million (EUR 83.1 million). A loss resulting primarily from the consolidation of special purpose entities of IKB Immobilien Leasing GmbH was carried forward from the 2001/2002 financial year. Following the allocation of EUR 43 million to other revenue reserves, unappropriated profit in the Group came to EUR 11.1 million.

Net income for the year in the AG amounted to EUR 110.4 million (EUR 96.1 million). After the allocation of EUR 42.6 million to other revenue reserves, unappropriated profit came to EUR 67.8 million. We propose to the General Meeting that this profit be disbursed in the form of an unchanged dividend of EUR 0.77 per share.

2. Risk Report

Objectives, Strategies and Organisation of Risk Management

Objectives and Strategies

Bearing the stamp of a risk culture characterised by a conservative approach, risk management at IKB is based on the ability of the bank to bear risk, and the upper limits of risk derived there from and prescribed by the Management Board. Measurement of the ability to bear risk is oriented to the current rating of IKB, A1 and A+ respectively. This means that the extent of risk coverage defined by the Management Board is sufficient to protect the bank even in scenarios of extreme risk. The cornerstone of our risk strategy continues to be the comprehensive and continuous identification, measurement and monitoring of all risks relating to the operations of the bank, and embedding the findings in the risk/profit management of IKB.

Risk Organisation

The clearly defined, highly functional organisation of our risk management system guarantees the functionality and effectiveness of the bank's risk management process. The delimitation of tasks and areas of responsibility is documented in a risk management handbook. Embracing all bank-internal and legal requirements, this regulation lays down guidelines, which, in connection with specific organisational directives, establish the principles of the IKB risk management system.

Drawing on the concepts of the Basel Committee on Bank Supervision regarding the Capital Backing of Banks (Basel II), as well as the Minimum Requirements for the Lending Business of Credit Institutions (*MaK*), published by Germany's Federal Financial Supervision Authority on December 20, 2002, principles on the management of loan risk were formulated which define quality standards of the organisation of risk management, and which, in accordance with the *MaK*, are to be implemented by mid 2004.

Central elements of the *MaK* are above all a more restrictive organisational separation of market units from back-office functions (independent voting and risk monitoring), as well as directives on the structuring of loan processes and reporting arrangements. IKB has always separated the Risk Management Department as back-office unit from the market units with respect to disciplinary power and function. Whereas our customer service officers act as the primary point of contact for customers on all questions of loan operations, the Risk Management Department carries out an objective and independent analysis of each individual loan commitment, as well as assessing its creditworthiness. By dividing risk management from risk controlling, IKB has adopted additional measures necessary for monitoring risks, moving beyond the requirements defined in the *MaK*. In this context a close intermeshing of the expertise embodied in these departments Is guaranteed while at the same time maintaining different points of emphasis with regard to the respective tasks.

Management Board. The entire Management Board is responsible for IKB's risk management inasmuch as it defines risk policy in the form of a clear definition of strategy, the types of business, and the acceptable aggregate risk within the framework of the bank's ability to bear risk. Thus, the bank is already in compliance with many of the requirements contained in the *MaK* with respect to the formulation of a loan risk strategy.

Risk Committees. The setting up of specific committees for combining and monitoring risk-relevant decisions (asset/liability management, investment, credit risk and product committees) supports the risk management activities and decision-making process of the Management Board. These committees are responsible both for fundamental questions of policy and decisions on specific transactions, based on the parameters defined by the Board. They are composed of members of the Board and the operational divisions as well as representatives of the Risk Management and Risk Control Departments.

Risk Management. The Risk Management Department is responsible for the implementation and enforcement of Group-wide risk standards for the loan business in the divisions and departments, as well as for loan portfolio management. Among the basic tasks of the Risk Management Department is the formulation of guidelines on loan analysis and decision as well as, in particular, the entire loan sanctioning process, in which it exercises its own loan approval powers. Risk Management is also responsible for calculating and recommending an appropriate risk provision for identified risks. Thus, the Risk Management Department represents a back-office function as defined by the *MaK*.

In order to control loan risk, Risk Management is supported in the individual divisions by loan offices, which, however, are not defined as back-office unit. Loan decisions – with the exception of minor decisions permitted by the *MaK* – are made exclusively by the back-office units.

Risk Controlling. Under the aegis of the bank's Controlling Department, Risk Controlling is responsible for monitoring the compliance with the risk policy defined by the Management Board, for the internal and external risk reporting, as well as for the neutral monitoring of loan, market and operational risks. As an instance independent of the market units and the Risk Management Department, Risk Controlling ensures that all measured risks remain within the parameters determined by the Management Board. Within the framework of the risk controlling process, the core responsibilities of Controlling include the daily calculation, analysis and reporting of market price risks as well as topical, continuous monitoring of credit risks at portfolio level. A further point of emphasis is the development of methods to calculate market, credit and operational risks.

Apart from creating this risk transparency and controlling the aggregate risk of the bank, Controlling is responsible for the ongoing development and implementation of the risk/profit-based overall controlling of the bank. Within the framework of strategic planning as well as the operational budget process, Controlling supports the Management Board in allocating capital to the divisions.

Internal Auditing. The Group's Internal Auditing unit is an autonomous part of the risk management system, organised in accordance with the principles defined in the "Minimum Requirements for the Internal Auditing Functions of Financial Institutions (*MaIR*) ". It is subordinate to the entire Management Board, to which it directly reports. On the basis of process-oriented inspections, all operational and business flows within the Group are examined, whereby, from the standpoint of risk, the emphasis is placed on the qualitative processes and quantitative methods as well as data processing flows in the bank's lending and trading operations. Moreover, the creditworthiness and economic content of the loan portfolio are reviewed by means of spot-check auditing of representative loans on a regular basis.

Thanks to this systematic division of responsibilities within the framework of operational risk management, adherence to the quality standards imposed by the Supervision Authority with respect both to the *MaK* and *MaH* ("Minimum Requirements for the Trading Activities of Financial Institutions") is assured.

Risk Management Process

Customer Default Risk

In discussing the risk of customer default, we differentiate between credit risk and counterparty risk. A credit risk occurs when the failure of a customer prevents a loan from being fully repaid. Counterparty risk is defined as the potential losses arising form the default or deterioration of credit rating of a counterparty with whom we have engaged in derivative transactions, or the fact that a profit not yet realised cannot be recovered. On account of the special significance of loan operations as a core business of the bank, credit risk is subjected to exceptionally careful scrutiny.

In controlling the risk of customer default, we rely primarily on the following elements:

- risk policy guidelines governing the acquisition of new business,
- single transaction-oriented loan authorisation and monitoring,
- portfolio monitoring based on comprehensive portfolio analysis,
- audits by the Internal Auditing Department.

Risk Policy Directives. The point of departure for the risk management process in the loan business is joint planning by the Management Board and the divisions, supported by the Corporate Development, Risk Management and Controlling Departments. Based on the bank's ability to bear risk and its growth and earnings targets, risk is explicitly included in the planning process. The objectives derived from this include not only the volume of new business, net interest and commission income and administrative expenses, but also the costs of risk and equity. In planning the risk costs, the creditworthiness and collateral structure is agreed so as to be able to exercise a sustained influence on the sourcing of new business and the care of existing customers.

Moreover, also the credit calculation of the respective transaction is taking into account the directly attributable costs, especially the standard risk costs, determine the acquisition of new business.

Loan Approval Process. Of crucial importance in the loan process is the loan analysis carried out by the Risk Management Department, which operates independently of the divisions, thereby fulfilling the requirement to keep the acquisition of new business separate from the loan decision-making process ("market" and "back-office" units).

Within the framework of a graduated system of decision-making authority categorised by rating and volume, individual loan decisions are made based on the volume of existing Group loan exposure (on the basis of the borrower unit as defined in Article 19(2) of the German Banking Act), the rating of the borrower and collateral, either centrally by the loan units in the Risk Management Department, or by the Management Board. Thus, the principle of dual control is invariably maintained. Within the framework of the loan approval process portfolio aspects have become more and more important, in order to support the divisions in optimising the loan portfolios. Likewise, loan and contract processing is driven by the bank's legal personnel, who also operate independently of the market units.

Portfolio Monitoring and Management. In monitoring and managing existing business, having an overview of the bank's entire loan portfolio is of crucial importance. Taking into account the corporate groups to which they belong, all loan risks are regularly collected and monitored, organised into portfolios by country, division, rating class and sector. In combination with current business performance data, this ensures that all the essential control parameters and risk ratios are brought together.

To ensure the early detection of risks, the divisions regularly gather up-to-date information on our customers. This enables timely evaluation by the bank of the creditworthiness of borrowers and hence of the risk structure of our loan portfolio.

The study of individual industries and market alterations is conducted by the Economics Department.

The point of departure for determining portfolio factors, which are oriented to the bank's business policy objectives and risk policy guidelines, is a regular inspection of the portfolios by the Risk Management Department. Here, the risk structure of the loan portfolios and their alteration over time, which are pointed out by Risk Controlling, and the sector risks and business cycle influences on individual industries identified by the Economics Department, are transformed at portfolio level into risk-control measures by the Risk Management Department, if necessarily. Discrepancies from the planned portfolio structure or undesired concentrations are thus subject to early detection, allowing countermeasures to be taken. The Management Board decides on portfolio limit settings based on proposals made by Risk Management.

Subparticipations and Securitisation. Apart from the outplacement of risk through the direct subparticipation of other banks in individual loans, IKB is one of the leading issuers of securitised "claims on *Mittelstand* companies"; in such cases we use among others the KfW PROMISE platform.

IKB uses individual outplacements and securitised transactions not only as a means of defreezing regulatory capital, but also as a form of portfolio management. Because they further enhance the diversification of IKB's loan portfolio, our investments in international portfolios with numerous product variants should also be seen in this context. We have outplaced a total volume of EUR 7.7 billion.

Managing High-Risk Loans. The management of high-risk cases – separated into foreign and domestic categories – is performed by special teams. By calling these units in at an early stage and involving loan officers with special expertise, it is possible to introduce measures capable of preserving a company's status as a going concern or, should these efforts fail, to limit substantially the ensuing degree of economic damage.

Rating Process and Rating Techniques. The central element of the loan process is the evaluation of our customers' creditworthiness. As a specialist bank with a strong focus on long-term customer and credit relationship with medium-sized companies, in selecting our business partners we impose exceptionelly stringent criteria with regard to the creditworthiness and the recoverability of collaterals of our exposure. In doing so we place particularly great emphasis on a sustained, positive earnings performance on the part of our customers. Corresponding credit guidelines concretise this commitment to quality.

In assessing creditworthiness, we make use of IT-supported rating and scoring procedures for a long time, tailored to the customer's segment and the specific form of financing. The customer's various creditworthiness characteristics are correspondingly weighted and subsequently applied to a 10-point scale ranging in steps of 0.5 from 1.0 (the best rating) to 6.0 (default).

In our corporate financing operations we apply our continuously improved *Mittelstand* rating system. With this model, we have adopted approach in which the core financial data of the past and projected economic performance of a customer is combined by means of a mathematical/statistical technique with an evaluation of the individual characteristics of the company and sector based on an expert system. This procedure assures very high quality and excellent selectivity. Particular aspects of project finance and other special forms of financing are subject to a different rating process in which greater significance is attached to cash flow requirements and various scenarios and simulations. The rating system used in the bank's real estate finance operations assesses creditworthiness based on a wide spectrum of specific property and investor information.

Today, these systems already form the core of our internal, risk-based loan risk management system, and will form the basis for the IRB (Internal Rating Based)-approach of the Basel Accord on risk-based capital requirements for credit risks, which will come into force in 2006.

Quantifying Credit Risk. In recent years, credit risk models have gained new importance in the internal controlling of risk. Here, loss distribution of the loan portfolio – the central item of concern – is divided into two categories: "expected loss" and "unexpected loss". While the "expected loss", as a statistical expectancy value (standard risk cost), is covered by the risk premium included in the loan calculation, the "unexpected loss" (credit value at risk) represents the potential risk that, based on a specified confidence interval, could be greater than the "expected loss". This risk is covered within the framework of the bank's ability to bear risk.

In order to quantify this risk, we have developed a risk model based on a Monte Carlo simulation, carefully tailored to the specific requirements of the IKB portfolio. Apart from individual credit information (amount of the loan, collateral, maturity, sector, corporate group affiliation, rating), the model includes a multitude of statistic data, e.g. the probability of default, security proceeds instalments and sector correlations.

During the current financial year, the model of risk-adjusted measurement and categorisation of the portfolio risk with respect to the individual divisions and sector segments will be advanced as we continue to proceed systematically our approach of portfolio-oriented management.

Quality Assurance. As a part of a benchmarking project carried out over the past two years, not only the systems for assessing creditworthiness were scrutinised, but also the approval, monitoring and control processes of our loan operations. The results obtained form the basis for the ongoing refinement of the bank's loan process, taking into account the aforementioned *MaK* standards and Basel II.

Not least with a view to the new Basel capital requirements, a history is maintained of all parameters determining creditworthiness for all rating procedures, thus assuring that they are available for necessary simulation calculations and validations. Validation tests taking into account the existing data have shown that our rating procedures are an accurate means of classifying risks.

Market Price and Liquidity Risks

The group of market price risks plays a further role. Among others, these include interest rate risks, currency risks, and price change risks for shares and other assets. Management of these risks within the framework of the risk management process conforms to the "Minimum Requirements for the Trading Activities of Financial Institutions" (*MaH*).

Liquidity Risk. We define liquidity risk as the risk of present or future payment commitments not being able to be made on time or in full. Treasury conducts regular liquidity analyses and cash-flow forecasts in order to guarantee solvency at all times in the framework of a professional liquidity management. To ensure adequate liquidity we also hold marketable, floating rate notes that can be sold or lent against at any time. This eliminates short-term liquidity risk. Management of liquidity takes place in adherence to external general conditions. Furthermore, it is our policy to avoid maturity-related risks by funding our assets largely at matching maturities.

Limit System. The core element in managing market price risks is a differentiated limit system focused primarily on a market value-oriented system for limiting interest rate, option, share price and foreign exchange rate risks. Based on the ability of the bank to bear risk, the limits are agreed between the Management Board and Treasury. Based in turn on this limit system and taking into account our own rules in conformity with the minimum requirements – which include limiting ourselves to permissible products – Treasury implements its market expectations in its investment and funding strategies.

IKB keeps separate its trading for own account, equity investment, and asset funding portfolios. These portfolios are evaluated daily with respect to market price risk. Their risk content is measured by means of a value-at-risk system oriented to cash value, which forms the basis for limiting market price risk. The limit system is based on a combination of performance and sensitivity limits, with limit amounts oriented to the ability of the bank to bear risk. Our backtesting demonstrates that the actual changes in results in both trading for own account and equity investment are accurately revealed by our value-at-risk estimates.

Asset and Liability Management. Market price risks can also arise from mismatched maturities in loan funding operations and equity investments. In order to quantify and limit these risks, IKB utilises its own asset and liability management system. With the help of this system, daily balances of interest rate fixes are set for asset transactions, including loan commitments and their subsequent funding, as well as equity investments, to include equity. Interest-free positions are included in line with historical experience. On the basis of these interest rate fix calculations, Risk Controlling determines the interest income that can be attained without risk during the current and coming financial year. In addition, an "interest at risk" for normal and worst case scenarios is calculated. These two factors, the interest income attainable for the various financial years and interest at risk, are set against interest income limits, so that the minimum income requirements of the bank are assured, and thus must be viewed as an important subsidiary aspect of risk controlling.

Reporting. In order to monitor market price risks and support the market price risk management process, the Board of Managing Directors and Treasury receive comprehensive daily reports on the earnings and risk situation in the aforementioned portfolios. Once a month, the member of the Board responsible for Controlling reports to the entire Management Board on market developments, results and the risk situation of these positions. Also in this context, the fundamental parameters presented by the Economics Department and an interest rate estimate are presented and jointly analysed by representatives of Treasury and Controlling with respect to their impact.

Country Risk

The basis for evaluating and managing country risk is our country rating system, which involves six risk categories: (country risk class 1: no recognisable country risk; country risk class 6: high country risk). In assessing individual countries, a wide array of economic, social and political factors are all taken into account.

Within the framework of a contemporary reporting system a regular report ist made on the utilisation of the limits, which are fixed by the Management Board based on analysis by the Economics Department and the recommendation of Risk Management. Less than 1 % of the country risks were in risk classes 2 to 5 after deducting risks covered by credit insurance (i.e. *Hermes*).

Operational Risks

Regulations of Basel II. According to the definition of the Basel Committee for Bank Supervision, "operational risk" refers the danger of losses occurring as a result of inappropriateness or failure of internal procedures, persons and systems, or which arise due to external events.

The new Basel Accord will envisage the use of several methods for calculating the capital requirements for operational risks. IKB is already preparing to meet these new requirements.

Management of Operational Risks. The divisions, central departments and subsidiaries are responsible for the management of operational risks, with the emphasis on regular analysis and identification of shortcomings and ways of optimising all business flows and processes. The operational risks are to be minimised or optimised through continuous improvements of the internal control system, taking into account the economic cost-benefit ratio.

In light of this development, IKB has assigned decentralised risk managers for operational risks. Their task is to identify regularly occurring operational risks in their area of responsibility, and to examine them from the following standpoints:

- Possibilities of early recognition
- Measures aimed at minimising the probability of a risk occurring
- Measures aimed at minimising the impact of risk
- Precautions and conduct in emergency situations.

Since the beginning of the 2001/2002 financial year, officers responsible for operational risk have been collecting data relating to cases of damage. The Controlling Department coordinates the entire process by entering all cases of damage into a central incident database, which forms the basis for regular evaluations and reports.

Within the framework of risk analyse carried out thus far, we have determined that the bank faces no immoderate operational risks. For each of the risks identified, measures for avoidance and possibilities of early recognition of undesirable developments and emergency precautions exist. As far as necessary, appropriate insurances are contracted.

Legal Risks. Also subsumed in the category of operational risk is legal risk, i.e. the risk of losses occurring due to the introduction of new legal regulations and of changes and or interpretations to existing laws that are disadvantageous to the bank. Limiting legal risk is the task of the bank's Legal Department, which – when necessary – also draws on external legal advice from leading law firms. All contracts are continuously monitored to determine if amendments are necessary in order to conform to changes in the law or new legal rulings.

IT Risks. In the area of IT risk, the main emphasis is on measures for improving our emergency management preparations. Among other things, these include the establishment of backup systems as well as enhanced network security.

Strategic Risks and Reputation Risk

Strategic risks relate to the threat posed to the long-term success of the bank. These can take the form of changes in the underlying legal and social environment, but can also come from changing market and competition conditions, or from our customers or funding sources. Since there is nothing routine about strategic risks, they are hard to collect using an integrated system. They thus come under the special supervision of the Management Board and selected central departments and are regularly analysed. This entails a regular review of the division-level strategies within the framework of a systematic planning process, as well as the resulting strategic initiatives and investments.

Reputation risks relates to direct and indirect losses due to a deterioration in the image of the bank among shareholders, customers, employees, business partners and the public at large. All measures affecting the bank's image are carefully identified by the Corporate Development unit and the Investor Relations and Public Relations Department, and evaluated in close consultation with the Management Board in order to contain the impact of these risks.

Risk Reporting and Risk Communication

To enable us to recognise risks at an early stage, and then to analyse and control them, all relevant information from the trading and lending operations, as well as the accounting, personnel and other departments, is prepared at least once a month and presented and explained to the Management Board and the relevant heads of division.

During the past financial year, too, the reporting instruments necessary for managing credit risk were further expanded; they depict the essential control parameters and risk information. In this context, special significance was also attached to loan portfolio reporting, that gains increasing importance. The earnings and risk figures, including a comparison with planning and target figures, are regularly and promptly reported to the Management Board and the heads of the divisions, enabling divergences to be detected at an early stage and appropriate action to be taken. As a result, the necessary information is made available to the divisions and central departments quickly and comprehensively.

As part of the *MaH* reporting process, Risk Controlling produces a daily report for the Management Board, the Treasury and other relevant units containing an evaluation of the positions, as well as the accumulated and without risk attainable interest result from the funding of assets and the equity investments. This report also features a statement of cash-value risk under normal case and worst case scenarios. In analogous fashion, the risk of change in the bank's net interest income is also reported on in both scenario variants. This report includes the utilisation of market price limits, as well as containing commentary on special developments.

Summary and Outlook

The past financial year once again showed that the methods and measuring systems we use in monitoring and managing risk are an adequate means of depicting risks, and thus form a solid foundation for IKB's professional risk management. We record and quantify our risks in accordance with clearly defined risk categories in order to compare them with the risk magnitudes set by the Management Board within the framework of the Group-wide calculation of our ability to bear risk. The results once again reveal that even unexpected losses in worst case circumstances can be covered with a high degree of security.

By integration of economic risks and the resulting considerations on capital allocation, in the current financial year we will continue to focus on the expansion of our portfolio-oriented risk/earnings management operations. In the process, we will be paying special attention to the development of bank supervision rules in accordance with Basel II as well as the requirements of the Minimum Requirements for Lending Business of Credit Institutions (*MaK*). Above all, this includes the continued development of advanced methods for measuring market price and credit risks, taking into account the ongoing trend of asset securitisation and the steady development of our system for monitoring operational risks.

3. Performance of the Divisions

Our *Corporate Lending Division* succeeded in increasing its volume of disbursements by almost 17 % to EUR 2,7 billion, this despite the baleful economic conditions (stagnant GDP, the plunge of corporate investment). We attribute this positive development to our success in attaining a greater market share, resulting from our clear strategic orientation and intensive consulting work. Last but not least, this trend is also due in no small part to our expanding business in *Schuldscheindarlehen*.

The 2002/2003 financial year proved to be a special year for the Corporate Lending Division in any case, since we succeeded for the first time in increasing the

Segment Report

in EUR million
Net interest income
Net commission income
Net interest and commission income
Administrative expenses
Personnel expenses
Other administrative expenses
Other operating result *)
Risk provisioning balance
Result from ordinary activities
Ø Allocated tier 1 capital
Loan volume at balance sheet date March 31
Cost/income ratio in %
Return on equity in %
Ø Number of staff
Volume of new business

*) incl. net result from financial operations

volume of new business while simultaneously improving credit ratings and the interest margin (from 1.12 % to 1.27 %). However, because the level of repayments was also high, the loan volume at the balance sheet date (March 31, 2003) was slightly down on the previous year's level. Accordingly, the result from ordinary activities decreased slightly to EUR 103 million (EUR 105 million). The cost/income ratio amounted to 28.2 % (26.9 %), while return on equity came to 16.4 % (16.6 %).

The *Real Estate Division's* result from ordinary activities improved significantly compared to the previous year, rising by an impressive 30 % to EUR 41 million. This was due on the one hand to a further increase in our comparatively high commission earnings, and on the other to an expanded interest margin for new loans of 1.24 % (1.13 %). On account of our creditworthiness criteria, which remain as stringent as ever, disbursements were slightly lower than in 2001/2002; even so, owing to the long maturities and low repayments typical of the real estate sector, the volume of loans at the balance sheet date actually rose. Accordingly, we were able to bring the cost/income ratio down to 27.1 % (30.0 %), while return on equity increased to 17.1 % (14.4 %).

Our *Structured Financing Division* once again succeeded in delivering the strong growth achieved in previous years, resulting in a distinctly improved interest margin (2.57 % to 2.17 %) and a doubling of structuring fee income. Accordingly – and despite an appreciable increase in administrative expenses – we were able to increase the result from ordinary activities to EUR 59 million (EUR 54 million). Our branches in Paris and London and our subsidiary in New York, IKB Capital Corporation, contributed to this positive trend.

by Business Division for the Financial Year 2002/2003

Corporate Lending		Real Estate Financing		Structured Financing		Private Equity		Leasing		Securitisation		Head Office		Total	
1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02	1.4.02 – 31.3.03	1.4.01 – 31.3.02
225.1	227.9	81.7	70.5	94.0	95.2	4.1	3.9	43.6	42.5	2.4	–8.3	34.1	39.6	485.0	471.3
5.7	4.4	7.9	7.4	14.4	6.0	–0.6	–0.6	–3.7	–4.4	45.3	27.4	–4.9	–0.7	64.1	39.5
230.8	232.3	89.6	77.9	108.4	101.2	3.5	3.3	39.9	38.1	47.7	19.1	29.2	38.9	549.1	510.8
65.2	62.4	24.3	23.4	31.3	27.6	7.4	7.3	25.5	22.8	4.5	2.3	61.7	60.7	219.9	206.5
49.8	*47.9*	*17.9*	*16.9*	*21.1*	*18.6*	*4.8*	*4.0*	*16.2*	*15.4*	*2.2*	*1.3*	*25.8*	*29.3*	*137.8*	*133.4*
15.4	*14.5*	*6.4*	*6.5*	*10.2*	*9.0*	*2.6*	*3.3*	*9.3*	*7.4*	*2.3*	*1.0*	*35.9*	*31.4*	*82.1*	*73.1*
0.0	0.0	0.0	0.0	0.2	0.2	10.9	–14.2	9.7	10.6	0.0	0.0	0.2	34.6	21.0	31.2
62.8	64.5	24.1	22.8	18.4	20.2	6.3	24.7	5.2	2.6	6.5	0.6	60.1	39.8	183.4	175.2
102.8	105.4	41.2	31.7	58.9	53.6	0.7	–42.9	18.9	23.2	36.7	16.2	–92.4	–26.9	166.8	160.3
626	636	241	220	179	182	24	24	47	37	–204	–264	199	237	1 112	1 072
16 022	16 266	5 532	5 355	4 209	4 191	191	204	2 659	2 550	1 937	676	45	56	30 595	29 298
28.2	26.9	27.1	30.0	28.8	27.2	51.4	–	51.4	47.0	9.4	12.0			38.6	38.1
16.4	16.6	17.1	14.4	32.9	29.5	2.9	–	40.2	62.1	–	–			15.0	15.0
311	324	126	121	126	103	46	44	125	116	10	5	689	637	1 433	1 350
2 658	2 274	765	793	1 494	1 399	32	55	710	710	1 402	676	–117	183	6 944	6 090

Owing to the aforementioned rise in administrative expenses – principally due to the hiring of additional staff and additional rental expenditure at our international locations – the cost/income ratio came to 28.8 % (27.2 %), while return on equity rose to 32.9 % (29.5 %).

As predicted a year ago, our *Private Equity Division* executed a successful turnaround during the period under review. Although the underlying conditions for our activities in this field were anything but positive, thanks to profitable exits we nevertheless succeeded in generating welcome revenue, which appears under other operating income. Moreover – and in line with expectations – we were able to scale back our provisions for risk to a considerable extent. Accordingly, the result from ordinary activities reached EUR 0.7 million.

Despite the adverse economic conditions, the bank's *Leasing Division* – which embraces our activities in the field of equipment and real estate leasing – succeeded in reproducing the previous year's performance, generating EUR 710 million in new business. In order to produce income and improve our Principle I standing, we outplaced leasing items within the framework of an investor model. The net interest income improved accordingly. However, because administrative expenses – and especially material expenses – increased appreciably and other operating income contracted, the result from ordinary activities fell to EUR 19 million (EUR 23 million). The cost/income ratio followed suit, rising to 51.4 % (47.0 %), while the return on equity declined to 40.2 % (62.1 %). In assessing these results, however, it should be noted that leasing-typical income and expenditure patterns have a tendency to push down earnings figures during periods of expansion in particular, while reserves are simultaneously built up.

In the *Securitisation segment* not only the volume of new business, but also the loan volume at balance sheet date appreciably increased. This reflects our strong involvement in this attractive business. As a result, we succeeded in improving our net interest income and especially our net commission income. While the net interest income also contains our costs for the CLOs, the strongly increased net commission income – which rose to EUR 45 million (EUR 27 million) – contains income from our investments in international loan portfolios, as well as commission income from consultancy fees relating to the structuring of a conduit.

Owing to our increasing business in the field of securitisation, we have considerably increased the number of staff in this area, leading to a corresponding rise in the administrative expenses. Moreover, expansion in this area of business prompted us to raise the expected loss. The result from ordinary activities more than doubled to EUR 37 million (EUR 16 million), while the cost/income ratio came to 9.4 % (12.0 %).

4. Outlook

Despite the bleak economic outlook, we expect our result from ordinary activities for the 2003/2004 financial year to rise to roughly EUR 170 to EUR 175 million. This optimistic assessment is justified by

- an increase in the performance of practically every segment;
- a reduction in the rate of growth of administrative expenses to below 4 %, as well as
- a balance of risk provisions only slightly higher than that of the previous year.

With new business in our Corporate Lending Division on the increase, we expect to see growth in net interest income in particular. Because the German economy is unlikely to recover this year, growth can be achieved only by widening our market share. But given the high quality of our consulting, we are confident of being able to attain this goal. Moreover, we now have an excellent array of products for enterprises and entrepreneurs at our disposal – thanks not least to our cooperation partners.

Though many companies are still reluctant to invest, we assume that our Real Estate Financing Division will continue to improve its result from ordinary activities. The reason for this positive performance is the comprehensive range of products and services we offer our customers. Together with IKB Immobilien Leasing GmbH and IKB Immobilien Management GmbH, we can provide investors with a complete array of value-adding that customers expect with respect to planning, development, construction and marketing services of their real estate related projects.

In the field of Structured Finance, we expect the upward trend to continue unabated this financial year as well, and that the result from ordinary activities will rise appreciably. This growth will be fuelled above all by interest income from infrastructure, export and acquisition financing.

We expect to see a modest improvement in the results of the Private Equity Division. That said, it should be noted that the market for participations still shows no sign of recovery. Nor has there been any sustained upward trend in the stock markets as yet.

The results of our leasing units are likely to be on a par with this year's performance.

We also see additional income potential in our investments in international loan portfolios in a variety of asset categories. In a carefully controlled fashion, we plan to expand our activities in this sector, augmenting our income while increasingly assuming the role of risk manager. In this way, we are able to achieve greater regional and sector diversification of our loan portfolio as well as significantly higher earnings. Moreover, our experience thus far indicates that by this means we have succeeded in improving the bank's risk position. Also contributing to this is the fact that the credit quality of our new loans has steadily improved in recent years. Whereas in 2000/2001 the creditworthiness of two thirds of our loans fell into the categories "very good" to "satisfactory", last year the figure increased to more than 70 %, even though economic growth in Germany was practically at a standstill during the past two years. We expect net provisions for risk to be significantly lower than for the 2002/2003 financial year.

Thanks to stringent cost management, we expect administrative expenses to grow at a rate of less than 4 %.

To sum up, we are confident that the IKB Group will continue to develop along successful lines during the current financial year.

Auditors' Report

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has confirmed the German annual accounts of IKB Deutsche Industriebank as follows:

We have audited the annual financial statements, together with the bookkeeping system, of IKB Deutsche Industriebank Aktiengesellschaft as well as the consolidated financial statements and its report on the position of the Company and the Group prepared by the Company for the business year from April 1, 2002 to March 31, 2003. The preparation of these documents in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, as well as on the consolidated financial statements and the report on the position of the Company and the Group based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB (*Handelsgesetzbuch*/German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the German *Institut der Wirtschaftsprüfer* (*IDW*). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual and the consolidated financial statements in accordance with German principles of proper accounting and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and the evidence supporting the disclosures in the books and records, the annual and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and the consolidated financial statements and the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Company and the Group, respectively, in accordance with German principles of proper accounting. On the whole the report on the position of the Company and the Group provides a suitable understanding of the Company's and the Group's position and suitably presents the risks of future development.

Düsseldorf, May 28, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Pukropski
German Public Auditor	German Public Auditor

Consolidated Balance Sheet and Consolidated Income Statement of IKB Deutsche Industriebank AG for the fiscal year 2001/2002

Balance Sheet and Income Statement of IKB Deutsche Industriebank AG for the fiscal year 2001/2002

Consolidated Balance Sheet of IKB Deutsche Industriebank

Assets	EUR thousand*		March 31, 2002 EUR thousand	March 31, 2001 EUR thousand
Liquid funds				
a) Cash			127	42
b) Balances with the central banks			10 445	810
of which: with the Deutsche Bundesbank	10 225	(12)		
c) Balances on postal giro accounts			7	16
			10 579	**868**
Claims on banks				
a) payable on demand			311 321	247 249
b) other claims			1 293 626	556 873
			1 604 947	**804 122**
Claims on customers			**24 600 308**	**24 276 426**
of which: loans to public authorities	1 799 696	(1 891 272)		
Debentures and other fixed interest securities				
a) Bonds and debentures				
aa) from government issuers			–	–
ab) from other issuers			*4 782 165*	*3 737 924*
			4 782 165	3 737 924
of which: eligible as collateral for advances from the Deutsche Bundesbank	3 710 931	(2 738 485)		
b) own bonds			145 598	75 795
face value	140 225	(74 027)		
			4 927 763	**3 813 719**
Shares and other non-fixed interest securities			**37 691**	**36 139**
Investments			**38 878**	**38 907**
of which: in banks	37 269	(37 269)		
of which: in financial services companies	–	(–)		
Shares in subsidiary companies			**8 068**	**4 698**
of which: in banks	–	(–)		
of which: in financial services companies	–	(–)		
Trust assets			**6 018**	**6 800**
of which: loans on a trust basis at third party risk	4 574	(5 308)		
Tangible fixed assets			**214 706**	**211 511**
Leasing items			**2 346 384**	**2 239 422**
Outstanding capital of minority shareholders			**48 465**	**49 184**
Treasury shares			**–**	**529**
nominal amount	–	(86)		
Other assets			**891 325**	**803 979**
Deferred items			**138 868**	**153 301**
Total assets			**34 874 000**	**32 439 605**

* in parentheses: Previous year's figures

as at March 31, 2002

Liabilities	EUR thousand*		March 31, 2002 EUR thousand	March 31, 2001 EUR thousand
Liabilities to banks				
a) payable on demand			754 273	507 708
b) with agreed maturity or period of notice			14 682 012	14 674 054
			15 436 285	**15 181 762**
Liabilities to customers				
Other liabilities				
a) payable on demand			61 014	18 647
b) with agreed maturity or period of notice			2 189 432	2 392 023
			2 250 446	**2 410 670**
Securitised liabilities				
Bonds and notes			**12 975 080**	**10 825 073**
Trust liabilities			**6 018**	**6 800**
of which: loans on a trust basis at third party risk	4 574	(5 308)		
Other liabilities			**531 493**	**567 647**
Deferred items			**469 180**	**514 090**
Provisions				
a) for pensions and similar obligations			123 494	111 012
b) tax provisions			131 644	117 560
c) other provisions			45 517	52 976
			300 655	**281 548**
Special items including reserves			**7 570**	**8 935**
Subordinated liabilities			**868 413**	**803 413**
Participation certificate (Genussschein) capital			**623 759**	**439 259**
of which: with remaining maturities of less than two years	51 129	(–)		
Fund for general banks risks			**80 000**	**80 000**
Participations of minority shareholders			**14 483**	**26 508**
Equity				
a) subscribed capital			225 280	225 280
contingent capital:	22 528	(48 128)		
b) silent capital			170 000	170 000
c) capital reserves			567 416	567 416
d) revenue reserves				
da) statutory reserves			*2 399*	*2 399*
db) reserves for treasury shares			*–*	*529*
dc) other revenue reserves			*316 292*	*277 425*
			318 691	280 353
e) consolidated profit			29 231	50 851
			1 310 618	**1 293 900**
Total liabilities			**34 874 000**	**32 439 605**
Contingent liabilities				
a) contingent liabilities arising from rediscounted bills of exchange			459	396
b) contingent liabilities arising from guarantees and indemnity agreements			1 747 709	988 856
			1 748 168	**989 252**
Other obligations				
Irrevocable loan commitments			**5 800 047**	**2 309 366**

* in parentheses: Previous year's figures

Consolidated Income Statement of IKB Deutsche Industriebank

Expenses	EUR thousand*		2001/2002 EUR thousand	2000/2001 EUR thousand
Interest expenses			**2 424 069**	**2 334 815**
Commission expenses			**5 303**	**5 654**
General operating expenses				
a) Personnel expenses				
aa) Salaries and wages			*101 088*	*89 635*
ab) Social security contributions and employee benefit and pension expenditure			*32 343*	*27 553*
of which: for pensions	*19 509*	*(15 673)*		
			133 431	117 188
b) other administrative expenses			54 889	49 978
			188 320	**167 166**
Depreciation and value adjustments on intangible and tangible fixed assets			**20 214**	**18 242**
Depreciation of leasing items			**312 777**	**312 246**
Rental expenditure on leasing items and other service related expenses			**11 869**	**14 462**
Other operating expenses			**38 494**	**27 787**
Write-downs and value adjustments to claims and securities, plus transfer to provisions for possible loan losses			**175 186**	**187 216**
Write-downs and value adjustments on investments, holdings in subsidiary companies and securities treated as long-term investments			**–**	**87**
Expenditure for loss takeovers			**–**	**–**
Allocations to special items including reserves			**2 651**	**–**
Transfer to the fund for general bank risks			**–**	**–**
Taxes on income and earnings			**73 508**	**83 209**
Other taxes not entered under “other operating expenses”			**3 681**	**4 292**
Profits transfered on the basis of a profit pool, a profit transfer agreement or a partial profit transfer agreement			**–**	**–**
Net income for the year			**83 129**	**85 911**
Total expenses			**3 339 201**	**3 241 087**
Net income for the year			**83 129**	**85 911**
Attributable to other partners				
Profit			**–4 360**	**–2 831**
Loss			**9 845**	**17 637**
Loss carried forward from the previous year			**–17 433**	**–10 161**
			71 181	**90 556**
Release of revenue reserves				
of revenues for own shares			**529**	**–**
of other revenue reserves			**–**	
Allocation to revenue reserves				
to revenues for own shares			**–**	**–315**
to other revenue reserves			**–42 479**	**–39 390**
Unappropriated profit			**29 231**	**50 851**

* in parentheses: Previous year’s figure

for the Period April 1, 2001 to March 31, 2002

Income	2001/2002 EUR thousand	2000/2001 EUR thousand
Interest income from		
a) lending and money market operations	2 541 512	2 487 358
b) fixed interest securities and government-inscribed debt	211 029	178 815
	2 752 541	**2 666 173**
Current income from		
a) shares and other non-fixed interest securities	730	318
b) investments	4 071	1 373
c) holdings in subsidiary companies	–	–
	4 801	**1 691**
Income from profit pooling, profit transfer, and partial profit transfer agreements	**–**	**–**
Income from investments in associated companies	**–**	**987**
Commission income	**44 800**	**17 977**
Net income from finance operations	**1 939**	**2 540**
Earnings from write-ups relating to investments, holdings in subsidiary companies, and securities treated as fixed assets	**–**	**8 507**
Income from leasing operations	**462 689**	**431 360**
Earnings from the release of special items including reserves	**283**	**1 118**
Other operating income	**72 148**	**110 734**
Total income	**3 339 201**	**3 241 087**

Balance Sheet of IKB Deutsche Industriebank AG

Assets	EUR thousand*		March 31, 2002 EUR thousand	March 31, 2001 EUR thousand
Liquid funds				
a) Cash			120	35
b) Balances with central banks			10 338	119
of which: with the Deutsche Bundesbank	10 225	(–)		
c) Balances on postal giro accounts			6	3
			10 464	**157**
Claims on banks				
a) payable on demand			878 219	276 892
b) other claims			5 942 494	4 906 587
			6 820 713	**5 183 479**
Claims on customers			**22 200 570**	**22 238 574**
of which: loans to public authorities	1 799 696	(1 891 272)		
Debentures and other fixed interest securities				
a) Bonds and debentures				
aa) from government issuers			–	–
ab) from other issuers			*4 635 500*	*3 570 639*
			4 635 500	3 570 639
of which: eligible as collateral for advances from the Deutsche Bundesbank	3 608 056	(2 614 081)		
b) own bonds			145 598	75 795
face value	140 225	(74 027)		
			4 781 098	**3 646 434**
Shares and other non-fixed interest securities			**15 411**	**13 477**
Investments			**923**	**1 091**
of which: in banks	294	(294)		
of which: in financial services companies	–	(–)		
Shares in subsidiary companies			**367 915**	**353 786**
of which: in banks	164 839	(164 839)		
of which: in financial services companies	–	(–)		
Trust assets			**6 018**	**6 800**
of which: loans on a trust basis at third party risk	4 574	(5 308)		
Tangible fixed assets			**52 977**	**53 443**
Treasury shares			**–**	**529**
nominal amount	–	(86)		
Other assets			**756 399**	**689 056**
Deferred items			**131 331**	**147 574**
Total assets			**35 143 819**	**32 334 400**

* in parentheses: Previous year's figures

as at March 31, 2002

Liabilities	EUR thousand*		March 31, 2002 EUR thousand	March 31, 2001 EUR thousand
Liabilities to banks				
a) payable on demand			1 299 105	652 355
b) with agreed maturity or period of notice			15 261 825	15 281 457
			16 560 930	**15 933 812**
Liabilities to customers				
Other liabilities				
a) payable on demand			72 580	36 327
b) with agreed maturity or period of notice			2 053 322	2 301 678
			2 125 902	**2 338 005**
Securitised liabilities				
Bonds and notes			**12 919 627**	**10 770 794**
Trust liabilities			**6 018**	**6 800**
of which: loans on a trust basis at third party risk	4 574	(5 308)		
Other liabilities			**399 438**	**435 208**
Deferred items			**131 886**	**153 935**
Provisions				
a) for pensions and similar obligations			108 833	98 147
b) tax provisions			114 853	107 624
c) other provisions			39 073	30 667
			262 759	**236 438**
Subordinated liabilities			**868 413**	**803 413**
Participation certificate (Genussschein) capital			**623 759**	**439 259**
of which: with remaining maturities of less than two years	51 129	(–)		
Fund for general bank risks			**80 000**	**80 000**
Equity				
a) subscribed capital			225 280	225 280
contingent capital:	22 528	(48 128)		
b) capital reserves			567 416	567 416
c) revenue reserves				
ca) statutory reserves			*2 399*	*2 399*
cb) reserves for treasury shares			–	*529*
cc) other revenue reserves			*302 232*	*273 352*
			304 631	276 280
d) distributable profit			67 760	67 760
			1 165 087	**1 136 736**
Total liabilities			**35 143 819**	**32 334 400**
Contingent liabilities				
a) contingent liabilities arising from rediscounted bills of exchange			459	396
b) contingent liabilities arising from guarantees and indemnity agreements			4 000 936	2 901 674
			4 001 395	**2 902 070**
Other obligations				
Irrevocable loan commitments			**4 981 719**	**1 704 910**

* in parentheses: Previous year's figures

Income Statement of IKB Deutsche Industriebank AG

Expenses	EUR thousand*		2001/2002 EUR thousand	2000/2001 EUR thousand
Interest expenses			**2 448 583**	**2 380 995**
Commission expenditure			**2 090**	**3 420**
General operating expenses				
a) Personnel expenditure				
aa) Salaries and wages			*73 878*	*67 349*
ab) Social security contributions and employee benefit and pension expenditure			*27 351*	*22 700*
of which: for pensions	*17 997*	*(13 885)*		
			101 229	90 049
b) other administrative expenses			47 618	42 861
			148 847	**132 910**
Depreciation and value adjustments on intangible and tangible fixed assets			**13 865**	**12 125**
Other operating expenses			**10 330**	**12 438**
Write-downs and value adjustments to claims and securities, plus transfers to provisions for possible loan losses			**141 228**	**164 751**
Write-downs and value adjustments on investments, holdings in subsidiary companies and securities treated as long-term investments			**–**	**87**
Expenditure for loss takeovers			**42 922**	**9 458**
Taxes on income and earnings			**63 734**	**79 691**
Other taxes not entered under “other operating expenses“			**478**	**958**
Net income for the year			**96 110**	**98 065**
Total expenses			**2 968 187**	**2 894 898**
Net income for the year			**96 110**	**98 065**
Release of revenue reserves				
of revenues for own shares			**529**	**–**
Allocation to revenue reserves				
to reserves for own shares			**–**	**315**
to other revenues reserves			**28 879**	**29 990**
Unappropriated profit			**67 760**	**67 760**

* in parentheses: Previous year’s figure

for the Period April 1, 2001 to March 31, 2002

Income	**2001/2002** EUR thousand	2000/2001 EUR thousand
Interest income from		
a) lending and money market operations	2 616 921	2 568 269
b) fixed interest securities and government-inscribed debt	203 042	169 270
	2 819 963	**2 737 539**
Current income from		
a) shares and other non-fixed interest securities	730	318
b) investments	52 071	3 109
c) holdings in subsidiary companies	5 323	5 871
	58 124	**9 298**
Income from profit pooling, profit transfer, and partial profit transfer agreements	**15 416**	**26 458**
Commission income	**55 993**	**29 523**
Net income from finance operations	**1 940**	**2 250**
Earnings and write-ups relating to investments, holdings in subsidiary companies, and securities treated as fixed assets	**–**	**8 507**
Other operating income	**16 751**	**81 323**
Total income	**2 968 187**	**2 894 898**

Auditors' Report

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has confirmed the German annual accounts of IKB Deutsche Industriebank as follows:

We have audited the annual financial statements, together with the bookkeeping system, of IKB Deutsche Industriebank Aktiengesellschaft as well as the consolidated financial statements and its report on the position of the Company and the Group prepared by the Company for the business year from April 1, 2001 to March 31, 2002. The preparation of these documents in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, as well as on the consolidated financial statements and the report on the position of the Company and the Group based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB (*Handelsgesetzbuch*/German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the German *Institut der Wirtschaftsprüfer* (*IDW*). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual and the consolidated financial statements in accordance with German principles of proper accounting and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and the evidence supporting the disclosures in the books and records, the annual and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and the consolidated financial statements and the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Company and the Group, respectively, in accordance with German principles of proper accounting. On the whole the report on the position of the Company and the Group provides a suitable understanding of the Company's and the Group's position and suitably presents the risks of future development.

Düsseldorf, May 28, 2002

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Pukropski
German Public Auditor	German Public Auditor

Dear Shareholders,

Economic development in Germany was less than satisfactory during the period under review (April 1 to December 31, 2003). The combination of weak domestic demand and a significant appreciation of the euro led to stagnating gross domestic product and a 4 % decline in corporate investments.

Despite these adverse conditions, we were able to increase the volume of new lending business throughout the IKB Group, to EUR 6 billion. This represents a rise of 8 % over the same period of the previous year. This positive development is attributable primarily to an increase in the volume of disbursements in Germany, especially in our Corporate Lending Division and our Leasing segment.

Consolidated Income Statement

Consolidated net interest income was up in the first three quarters of the current financial year by 7.0 % over the relevant period of the previous year, to EUR 366 million. This can be ascribed to the aforementioned increase in the volume of business and also to further improvement in interest margins.

Net commission income increased significantly, by just under 60 % to EUR 59 million. A good one-third of this surplus resulted from commissions earned by our Divisions on guarantees and structured transactions, with the other two-thirds coming from our investments in international loan portfolios and investment advice provided to conduits, which invest in structured portfolios.

The net result from financial transactions improved to EUR 3 million (9m 2002/2003: EUR 0.3 million). We engage in foreign exchange transactions almost exclusively in order to hedge against exchange rate risks.

Administrative expenditure was up 5.2 % to EUR 172 million. Personnel expenses rose by 4.8 % to EUR 109 million. This was due to salary increases, and to an increase of 39 in the average number of staff following the recruitment activities of the previous financial year. As at 31 December 2003, the IKB Group employed 1,512 people. The 5.9 % increase in other administrative expenses, to EUR 63 million, was largely accounted for by the project costs for implementing regulatory requirements – such as Basel II or the Minimum Requirements for the Conduct of Lending Activities as prescribed by BAFin, the German regulatory authority, but also the transformation to accounting under IAS/IFRS.

The balance of other operating income and expenses was down slightly, by EUR 1.3 million, to EUR 10 million. In the same period last year, this result was determined mainly by exit earnings realised by our Private Equity Division.

The risk provisioning balance of EUR 130 million is EUR 29 million higher than for the same period last year, mainly due to a significantly lower level of securities trading results – EUR 15 million, after EUR 50 million – being eligible for set-off under German GAAP (HGB). Net risk provisioning on the other hand showed a slight decline, falling EUR 5 million to EUR 145 million. Overall, however, there is no evidence as yet of any fundamental improvement in the general risk environment. For this to be achieved the economic outlook in Germany would need to brighten considerably, and there is no such indication at this point in time.

The result from ordinary activities increased by 7.1 % to EUR 137 million. Profit after taxes of EUR 75 million was up on the same period of the previous year by 14.1 %. Consolidated group profit improved by 11.2 %, to EUR 77 million.

Segment Reporting

The Corporate Lending Division recorded a significant increase in its results from ordinary activities over the same period of the previous year – up to EUR 85 million (9m 2002/2003: EUR 74 million). The increase is attributable to a decrease in administrative expenditure and in standard risk costs, and to an increase in net interest income – not least due to the strong momentum in our new business. As one of the driving factors of this development, we observed a number of our clients taking advantage of low interest rates to restructure parts of their long-term loans. Accordingly, the cost/income ratio in this division improved to 27.4 % (29.0 %), and the return on equity rose to 18.4 % (15.6 %).

The result from ordinary activities of the Real Estate Financing Division advanced to EUR 34 million (EUR 32 million), largely due to increases in both net interest and net commission income. The cost/income ratio in this division fell to 26.5 % (26.8 %), while the return on equity rose to 19.5 % (9m 2002/2003: 18.0 %).

The Structured Financing Division also posted a further increase in its result from ordinary activities, to EUR 49 million (EUR 46 million). Again, this was mainly due to a slight increase in net interest income and lower standard risk costs. The cost/income ratio in this division was slightly higher, at 28.3 % (27.8 %), while the return on equity rose to 37.0 % (33.2 %).

Results from ordinary activities in the Private Equity Division were up slightly to EUR 0.4 million compared with the previous year's 9-month figure of EUR 0.1 million. Net interest income rose substantially, also benefiting from the clearly stronger momentum in new business. The balance of other operating income and expenses declined due to lower exit earnings, while slightly higher risk provisioning was required. The cost/income ratio for the division stood at 69.1 % (77.4 %), with a return on equity of 2.2 % (0.6 %).

The Leasing segment, which comprises our equipment and real estate leasing activities, achieved lower results from ordinary activities, down to EUR 8 million compared to EUR 18 million in the same period of the previous financial year. Last year's results were particularly affected by one-off income arising from placing leasing items with external investors. Because of this, the cost/income ratio for this segment rose to 67.3 % (47.7 %) while the return on equity fell to 20.4 % (52.2 %).

Our Securitisation segment accounts for expenses arising from the placement of credit risks with third parties, and for income from our investments in international loan portfolios, as well as from investment advisory services to conduits. Results from ordinary activities during the period under review increased considerably over the same period last year, from EUR 13 million to EUR 51 million.

Consolidated Balance Sheet

The balance sheet total on December 31, 2003, was EUR 37.4 billion. This represents an increase of EUR 1 billion, or 3 %, over the figure reported at the end of the previous financial year (March 31, 2003). This growth is predominantly attributable to the EUR 2.0 billion expansion (to EUR 7.9 billion) of our portfolio of bonds and other fixed-income securities, especially in securitised loan portfolios and corporate bond issues. A further key reason for expanding our bond portfolio was to broaden the base for securities repurchase transactions with Deutsche Bundesbank.

Claims on banks were down, mainly because of a decline in term deposits around the reporting date. Claims on customers fell by EUR 0.4 billion to EUR 24.4 billion. This decline however, was exceeded significantly by the rise in securitised lending referred to above. Liabilities arising from guarantees, which are also closely related to claims on customers, fell by EUR 0.2 billion to EUR 1.9 billion. Thanks to the continued positive development in our Leasing segment, the portfolio of leasing items increased by EUR 0.2 billion to EUR 2.7 billion.

Group lending volume – comprising claims on customers, securitised lending, leasing items, loans to banks and guarantees – advanced by EUR 0.9 billion compared with the March 31, 2003, to EUR 31.4 billion. Despite the difficult economic environment overall, we were therefore successful in expanding our business activities during the course of 2003.

On the liabilities side of the balance sheet, liabilities to banks declined by EUR 0.6 billion to EUR 15.6 billion; among other factors, this was due to withdrawals of overnight deposits around the reporting date. Liabilities to customers were unchanged at EUR 2 billion. The volume of securitised liabilities however was up by a considerable EUR 1.4 billion to EUR 15.1 billion as at December 31, 2003.

We also increased the subordinated liabilities, by EUR 0.4 billion to a total of EUR 1 billion. As at 31 December 2003, the Group's own funds totalled EUR 3.5 billion (EUR 3.1 billion). The Group's ratio according to Principle I of the German Banking Act was 11.8 %, and its core (Tier 1) capital ratio stood at 6.7 %.

Adverse economic conditions will continue to represent a substantial challenge to us during the 2003/2004 financial year. However, from our business performance to date we are confident of slightly exceeding our projection for results from ordinary activities.

For further detailed information on the bank's business development, please refer to www.ikb.de under the heading "Investor Relations".

Yours sincerely,

IKB Deutsche Industriebank AG
The Board of Management

Düsseldorf and Berlin, February 2004

Assets	31. 12. 2003 EUR mill.	31. 3. 2003 EUR mill.	Change EUR mill.	 %
Claims on banks	947	2 140	–1 193	–56
payable on demand	*654*	*1 341*	*–687*	*–51*
other claims	*293*	*799*	*–506*	*–63*
of which: 4 years or longer	*125*	*191*	*–66*	*–35*
Claims on customers	24 445	24 803	–358	–1
with agreed maturity or period of notice less than 4 years	*3 521*	*3 180*	*341*	*11*
4 years or longer	*20 924*	*21 623*	*–699*	*–3*
Bonds and other fixed-income securities	7 922	5 927	1 995	34
Shares and other non-fixed-income securities	66	38	28	74
Investments, shares in affiliated enterprises	60	45	15	33
Tangible fixed assets	262	245	17	7
Leasing items	2 706	2 466	240	10
Deferred items	112	136	–24	–18
Outstanding capital of minority shareholders	60	49	11	22
Other assets	866	561	305	54
Total assets	**37 446**	**36 410**	**1 036**	**3**

IKB Deutsche Industriebank as at December 31, 2003

Liabilities	31. 12. 2003 EUR mill.	31. 3. 2003 EUR mill.	Change EUR mill.	%
Liabilities to banks	15 581	16 223	–642	–4
payable on demand	*454*	*1 384*	*–930*	*–67*
with agreed maturity or period of notice	*15 127*	*14 839*	*288*	*2*
of which: 4 years or longer	*8 643*	*10 239*	*–1 596*	*–16*
Liabilities to customers	2 035	2 019	16	1
payable on demand	*76*	*116*	*–40*	*–34*
with agreed maturity or period of notice	*1 959*	*1 903*	*56*	*3*
of which: 4 years or longer	*1 847*	*1 830*	*17*	*1*
Securitised liabilities	15 122	13 700	1 422	10
Provisions	312	337	–25	–7
Special items including reserves	6	6	0	0
Subordinated liabilities	1 042	632	410	65
Profit-participation certificates *(Genussrechtskapital)*	563	614	–51	–8
Fund for general bank risks	80	80	–	–
Capital	1 815	1 797	18	1
Equity	*1 176*	*1 166*	*10*	*1*
Hybrid capital	*620*	*620*	*–*	*–*
Minority interest	*19*	*11*	*8*	*73*
Deferred items	418	456	–38	–8
Other liabilities	472	546	–74	–14
Total liabilities	**37 446**	**36 410**	**1 036**	**3**
Endorsement liabilities	1	1	0	0
Liabilities arising from guarantees, etc.	1 945	2 158	–213	–10
Business volume	**39 392**	**38 569**	**823**	**2**

Consolidated Income Statement of IKB Deutsche Industriebank for the Period April 1 to December 31, 2003

	1.4.2003 – 31.12.2003 EUR mill	1.4.2002 – 31.12.2002 EUR mill	Change EUR mill	%
Interest income from lending and money market operations, fixed-income securities and debt register claims, income from leasing operations, current income from shares, other non-fixed-income securities and investments[1)]	2 300.6	2 333.4	–32.8	–1.4
Interest expenses, expenditure and scheduled depreciation relating to leasing operations	1 934.9	1 991.6	–56.7	–2.8
Net interest income	365.7	341.8	23.9	7.0
Commission income	66.7	42.4	24.3	57.3
Commission expenditure	7.3	4.7	2.6	55.3
Net commission income	59.4	37.7	21.7	57.6
Net result from financial operations	3.0	0.3	2.7	>100
Salaries and wages	85.6	80.3	5.3	6.6
Social security contributions and expenditure for retirement benefits	23.2	23.5	–0.3	–1.3
Personnel expenditure	108.8	103.8	5.0	4.8
Other administrative expenses [2)]	62.8	59.3	3.5	5.9
Administrative expenditure	171.6	163.1	8.5	5.2
Balance of other operating income/expenses	9.9	11.2	–1.3	–11.6
Risk provisioning balance	–129.9	–100.5	29.4	29.3
Result from ordinary activities/ Profit before taxes	**136.5**	**127.4**	**9.1**	**7.1**
Property taxes	3.9	3.6	0.3	8.3
Taxes on income	57.3	57.8	–0.5	–0.9
Profit after taxes	**75.3**	**66.0**	**9.3**	**14.1**
Net minority interest income (-) or loss (+)	1.9	3.4	–1.5	–44.1
Consolidated profit	**77.2**	**69.4**	**7.8**	**11.2**

1) includes income from profit pooling agreements, profit transfer agreements and partial profit transfer agreements

2) includes current depreciation on tangible fixed assets

Changes in the Group's Equity in the Period April 1 to December 31, 2003

in EUR million	2003	2002
Equity of the parent company at March 31	1 786	1 311
Subscribed capital of the parent company		
± hybrid capital	–	450
± capital reserves	–	–
± gained Group equity	78	69
± accumulated other Group results, to the extent that these are attributable to shareholders of the parent company	–	–
– dividend payments	–68	–68
= equity of the parent company according to the consolidated balance sheet	1 796	1 762
– treasury shares, not determined for withdrawal	–	–
= Equity of the parent company at December 31	1 796	1 762
Equity of minority shareholders at March 31	11	14
± changes in minority shareholders' equity	8	1
thereof: minority capital	*10*	*4*
thereof: accumulated other Group results, to the extent that these are attributable to minority shareholders	*–2*	*–3*
= Equity of minority shareholders at December 31	19	15
Equity of the Group at December 31	**1 815**	**1 777**

Cash flow Statement for the Period April 1 to December 31, 2003

in EUR million	2003	2002
Cash and cash equivalents at March 31	**27**	**11**
Cash flow from operating activities	–237	–298
Cash flow from investment activities	–47	–16
Cash flow from financing activities	288	354
Cash and cash equivalents at December 31	**31**	**51**

Segment Report by Business Division for the Period April 1 to December 31, 2003

in EUR million	CL		REF		SF		PE		Leasing		Securitisation		Head Office/ Consolidation		Total	
	1.4.03 – 31.12.03	1.4.02 – 31.12.02	1.4.03 – 31.12.03	1.4.02 – 31.12.02	1.4.03 – 31.12.03	1.4.02 – 31.12.02	1.4.03 – 31.12.03	1.4.02 – 31.12.02	1.4.03 – 31.12.03	1.4.02 – 31.12.02	1.4.03 – 31.12.03	1.4.02 – 31.12.02	1.4.03 – 31.12.03	1.4.02 – 31.12.02	1.4.03 – 31.12.03	1.4.02 – 31.12.02
Net interest income	173.4	168.3	63.6	61.6	72.6	71.6	5.5	2.8	25.0	37.4	18.7	–1.1	6.9	1.2	365.7	341.8
Net commission income	4.8	4.1	7.3	6.4	11.9	12.2	–0.2	–0.4	–3.5	–3.0	39.1	19.2	0.0	–0.8	59.4	37.7
Net interest and commission income	178.2	172.4	70.9	68.0	84.5	83.8	5.3	2.4	21.5	34.4	57.8	18.1	6.9	0.4	425.1	379.5
Administrative expenses	48.8	50.0	18.8	18.2	24.0	23.3	4.7	4.8	19.8	19.4	5.1	3.5	50.4	43.9	171.6	163.1
Personnel expenses	*37.4*	*37.8*	*13.5*	*13.4*	*16.3*	*15.5*	*3.3*	*3.7*	*13.3*	*12.8*	*2.4*	*1.6*	*22.6*	*19.0*	*108.8*	*103.8*
Other administrative expenses	*11.4*	*12.2*	*5.3*	*4.8*	*7.7*	*7.8*	*1.4*	*1.1*	*6.5*	*6.6*	*2.7*	*1.9*	*27.8*	*24.9*	*62.8*	*59.3*
Other operating result*	0.0	0.0	0.0	0.0	0.2	0.0	1.5	3.8	7.9	6.3	0.0	0.0	3.3	1.4	12.9	11.5
Risk provisioning balance	44.9	48.8	18.6	18.0	12.1	14.4	1.7	1.3	2.1	2.9	1.8	1.2	48.7	13.9	129.9	100.5
Result from ordinary activities	84.5	73.6	33.5	31.8	48.6	46.1	0.4	0.1	7.5	18.4	50.9	13.4	–88.9	–56.0	136.5	127.4
Ø Allocated tier 1 capital	612	628	229	236	175	185	24	24	49	47	–133	–232	199	224	1 155	1 112
Loan volume at balance sheet date 31.12.	15 976	16 508	5 479	5 694	3 781	4 161	229	216	2 897	2 679	3 154	1 364	–100	–134	31 416	30 488
Cost/income ratio in %	27.4	29.0	26.5	26.8	28.3	27.8	69.1	77.4	67.3	47.7	8.8	19.3			39.2	41.7
Return on equity in %	18.4	15.6	19.5	18.0	37.0	33.2	2.2	0.6	20.4	52.2	–	–			15.8	15.3
Ø Number of staff	297	301	126	127	130	124	42	46	127	125	13	10	729	692	1 464	1 425
Volume of new business	2 452	2 100	530	632	1 209	1 151	47	18	566	421	1 225	1 188	–78	10	5 951	5 520

CL = Corporate Lending; REF = Real Estate Financing; SF = Structured Financing; PE = Private Equity

* incl. net result from financial operations

Index of Defined Terms

On the basis of the above
Offering Circular/Listing Prospectus

the € 200,000,000 Perpetual Fixed Rate Notes
divided into 2,000,000 Perpetual Fixed Rate Notes
with the payment of interest and principal
conditional upon receipt of
profit participations and repayment under
a Silent Participation in the commercial enterprise of

IKB Deutsche Industriebank Aktiengesellschaft

Düsseldorf and Berlin

– ISIN DE000A0AMCG 6 –
of Hybrid Raising GmbH
Norderfriedrichskoog

have been admitted for trading on the official market
of the Frankfurt Stock Exchange.

Frankfurt am Main, February 2004

BNP PARIBAS **Deutsche Bank Aktiengesellschaft**