

The Bank

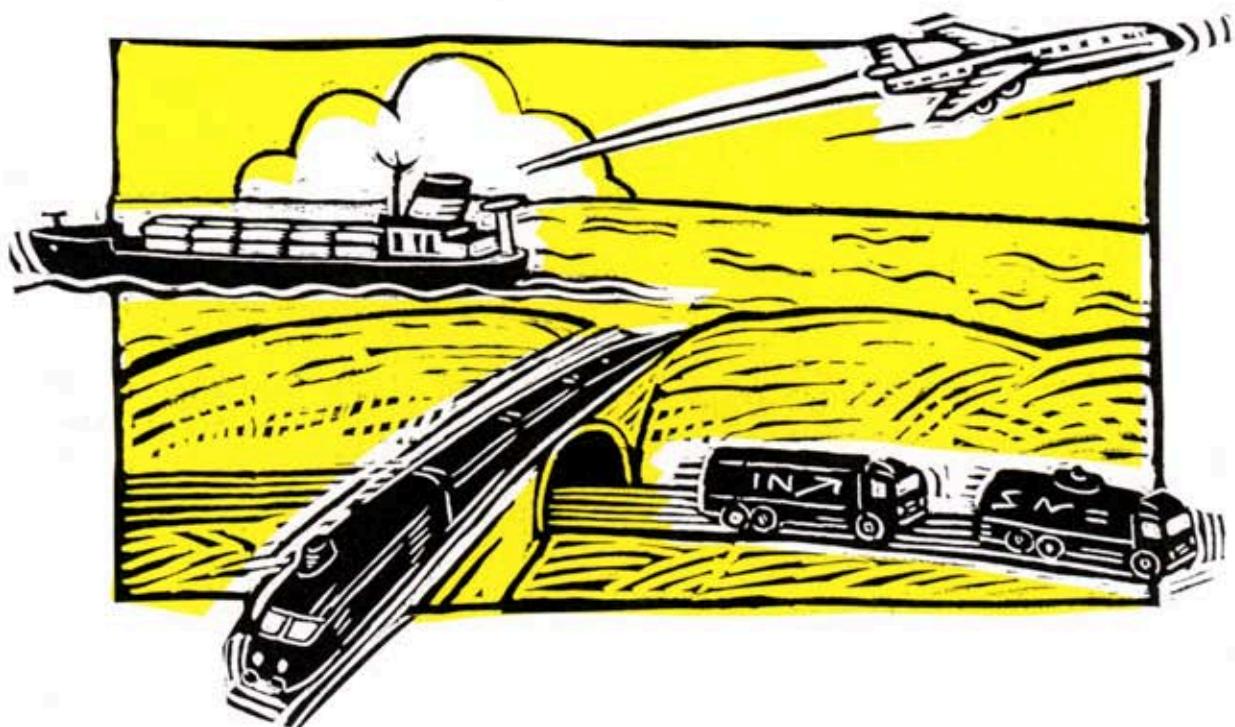
ANNUAL REPORT 1998

Setting

the

Pace

Deutsche
VerkehrsBank



We
move
markets

Globalisation, liberalisation and privatisation also determined our thoughts and actions in 1998, our anniversary year. As partner to the transport industry, Deutsche VerkehrsBank pressed ahead with financing mobility and strengthened its domestic market position. We expanded our international role by buying an aviation and shipping loan portfolio. Our new strategic orientation has prepared us well for the challenges presented by the future. The international transport industry can count on us.

KEY FINANCIAL DATA

Deutsche VerkehrsBank Group

in DM m	1998	1997	1996	1995	1994
Business volume	14,819	12,056	10,526	10,814	9,097
Balance sheet total	12,840	10,426	9,170	9,277	8,191
Deposits	12,056	9,818	8,586	8,780	7,766
Due from customers	4,760	2,947	2,926	2,707	2,699
Own funds	557	370	369	320	317
BIS capital ratio	8.8 %	9.3 %	11.0 %	9.4 %	10.0 %
Net income for the year	10	0	7	9	0
Return on equity (before tax)	3.8 %	-4.6 %	4.3 %	2.7 %	-2.6 %
Cost-income ratio (adjusted for special effects)	85.02 %	85.73 %	86.52 %	86.89 %	84.00 %
Dividend in DM per DM 50 share	5.-	16.50*	4.-	4.-	0

* special distribution



A look back at a particular year

CHRONICLE OF THE YEAR'S EVENTS

FIRST INTERNATIONAL TRANSPORT CONGRESS

20 March: In conjunction with the International Bankers Forum and Wirtschaftsinitiative Rhein-Main, the Bank gives its support to a forum dealing with issues of European transport policy.



SUCCESS AT THE "VERKEHR & LOGISTIK" TRADE FAIR

From 5 to 9 May, Deutsche VerkehrsBank presents Güterverkehrszentrum Dresden and cashless payment systems in public local passenger transport at the Leipzig trade fair for transport operators in Germany.

ACQUISITION OF THE LTCB PORTFOLIO

12 June: Deutsche VerkehrsBank acquires the "International Aviation and Shipping Finance" division from Long-Term Credit Bank of Japan Ltd. with a total loan portfolio of DM 2.8 billion.



DEUTSCHE VERKEHRSBANK URNS 75

On 18 and 19 June, the bank celebrates its 75th anniversary in Frankfurt am Main with its customers and employees at the Bockenheimer Depot, a former tram depot.

NEW MEMBER OF THE BOARD OF MANAGING DIRECTORS

Klaus W. Heinemann becomes a new member of the Board of Managing Directors on 1 August.

FIRST "VERKEHRSINSEL" DISCUSSION GROUP AT MUNICH AIRPORT

1 September: The bank introduces a series of events at which key transport industry issues are to be regularly discussed in future.

"TRAVELMARKT" OPENED

15 September: Our CashExpress subsidiary sets new standards in comprehensive service with the opening of the "TravelMarkt" office.

EXTRAORDINARY GENERAL MEETING

On 23 September, Deutsche VerkehrsBank is authorised by the first extraordinary general meeting to raise the share capital by DM 25.2 million and issue participating rights totalling DM 75 million.

STRATEGY SEMINAR FOR SPARDA-BANKS

29 September: "Venture into new markets – seize the business opportunities" is the theme of this year's strategy seminar which is held each year for the management of the Sparda-Banks and representatives of the cooperative financial system.



CONCENTRATION ON KEY AREAS OF COMPETENCE

7 December: Deutsche VerkehrsBank's securities settlement and administration is transferred to bws bank.

NEW DISTRIBUTION STRUCTURE

The bank implements its new decentralised distribution structure by the end of the year. Grouping distribution activities improves concentration on core areas of business.

DEUTSCHE VERKEHRSBANK GROUP GOES INTERNATIONAL

At 31 December, the bank has nine domestic branches, a representative office in Basle and a branch office in London. Its subsidiary International Transport Finance Ltd. located in London has a representative office in New York and a branch in Tokyo.

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Deutsche Verkehrs-
Bank is developing
more and more
into the advisory
bank for the inter-
national transport
industry and
opening up
additional customer
and earnings
potential.

*From right to left:
Wolfgang F. Driese,
Anne-Rose Heibel-Dietrich,
Klaus W. Heinemann.*

Letter to shareholders

Dear Shareholders,

1998 was a particular year in the bank's history:

- 75th anniversary of Deutsche VerkehrsBank
- Internationalisation of our business and our market presence
- Greater competence in structured financing through the acquisition of a team of experts
- Opening up of additional customer and earnings potential

The change at Deutsche Verkehrs-Bank can be felt in all areas. The acquisition made major demands on our employees – including the acquisition of around 200 complex financing structures, the opening of offices in London, New York and Tokyo and the integration of international colleagues. In addition, the domestic branches were



On 12 June, 1998, we signed the contract for the acquisition of the aviation and shipping finance business from Long-Term Credit Bank of Japan Ltd., successfully completing our international bidding, appraisal and negotiations. With the acquisition of the team of specialists and the entire loan portfolio of DM 2.8 billion, the bank has taken a significant step towards becoming the advisory bank to the international transport sector. We have now reached the targeted market position in the aviation finance business.

concentrated and our IT systems converted to the euro. We would like to thank our employees for their extraordinary efforts.

We can be satisfied with the 1998 result overall. We are able to propose an increase in our earlier standard dividend of DM 4 to now DM 5 per share to the annual general meeting. This is a first step.

LETTER TO SHAREHOLDERS

The considerable adjustment of our credit risks in 1997 has paid off. Net new specific bad debt charges were kept within the target of DM 16 million in the year under review. We continue to focus our attention on risk management.

The planned earnings increases within the Group were achieved to a large extent. Net interest income rose by 9.7 % to DM 72.2 million. A strong rise in sales of ReiseBank's products, an increase in securities and payments transactions with the Sparda-Banks as well as the growth of electronic banking products in the corporate customer business led to a pleasing rise in net commission income of 12.8 % to DM 116.4 million. The financial result was again increased to DM 25.6 million, 3.6 % higher than in the previous year. Administrative expenses rose to a lesser extent than in the previous year in 1998 to DM 178.5 million (+ 8.2 %). This figure reflects in particular the advisory costs for the acquisition of the loan portfolio and the costs for converting to the euro and the Year 2000. Personnel expenses were up by a moderate 2.3 % due mainly to the expansion of the team of experts.

After an only balanced result in 1997, Deutsche VerkehrsBank closed the 1998 financial year with net income for the year of DM 9.7 million at the Group.

The banks will be permanently influenced by the changes going on in the markets. The cycles are getting shorter and the fluctuations stronger. The competition among the institutions has only just begun. The battle for independence or reorientation after mergers can lead to irrational market behaviour. In the light of this, we continue to push ahead with the reorganisation of Deutsche VerkehrsBank consistently and swiftly. We want to secure VerkehrsBank's future by increasingly anticipating what lies ahead. Our aim is to already deal with tomorrow's demand today. Above everything else, our strategy is to clearly differentiate our range of products and services from the competition as well as concentrate exclusively on core areas of competence and reduce the vertical range of production. For our product divisions, we aim to gain qualitative market leadership. Conversion to the euro and the Year 2000 entails dependencies and limits for each of our service divisions. We have to seek cooperation within the cooperative financial system.

VerkehrsBank again intends to take a lot on in the current 1999 financial year. Our shareholders expressed their confidence to the bank with the increase in our capital in March this year. We want to increase profits with the aim of being able to provide a reason for your confidence with a further increase in the dividend for 1999.

LETTER TO SHAREHOLDERS

Our activities are focused on the following areas:

- Expanding structured financing to become Europe's leading advisory bank in the areas of aircraft, ships, rolling stock and transport infrastructure. This includes the integration of our new employees and expanding capacities to become a powerful unit. We measure ourselves in terms of the advisory mandates awarded and our positioning in the governing bodies of banking syndicates.
- Concentrating the domestic corporate customer business on the transport market. This means above all expanding competence in advisory services. Only by gearing ourselves exclusively to the transport sector and focusing on special services at the same time will be able to achieve a significant market position here.
- Our position as central bank to the Sparda-Banks will be expanded further in qualitative terms through even greater customer proximity, expanding advisory services and increasing efficiency in the area of settlements.
- We have reached market leadership in respect of dealings in foreign notes and coins. We will energetically expand our market position in order to be able to successfully counter the influence of the euro in 2002.
- Our subsidiaries ReiseBank and CashExpress recorded an outstanding result in 1998. In order to open up the markets outside the euro zone, investments in products and technology are required. The strategic preparations for 2002 are being continued consistently.
- In the area of IT, the experience drawn from the conversion to the euro and the Year 2000 has to be evaluated critically and the necessary consequences taken which will lead to IT conversion costs.

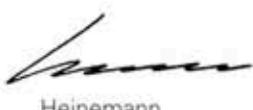
Deutsche VerkehrsBank continued to move forward in 1998. We will continue to work hard for a successful future, a challenge which we – our employees and the management – are happy to take on. It is important to us that you, our shareholders, continue to accompany us along this path.



Driese



Heibel-Dietrich



Heinemann

The internationalisation of our business could have a positive influence on the development of the Deutsche VerkehrsBank share price.

The Deutsche VerkehrsBank share

Stockmarket environment

As a mirror image of the German stockmarket, the Deutsche Aktienindex (DAX) showed how close euphoria and pessimism are to each other on the stockmarket. There was a major up-swing in share prices on the stockmarket into the second half of 1998. Driven by low interest rates, positive expectations for the economy and earnings as well as ample liquidity, the DAX went from one record to the next. After starting at 4,300 points in January, the

10 October of 3,896 points. After a phase of recovery, it reached a level of 5,003 points at year-end.

Share price development

The Deutsche VerkehrsBank share started 1998 at a price of DM 170.50 and was then traded in a range between DM 151 at its low and a high of DM 195. It closed the year at a price of DM 169. Comparing the trend in the share price with past years, it is currently at the lower end of the trading range. The expansion of structured financing (aviation, shipping and rolling stock financing) will lastingly improve Deutsche VerkehrsBank's result and should capture investors' imagination.



share barometer broke through the 5,000 points mark for the first time in March and then went on to take the 6,000 mark in July. The situation changed in August. The international financial crisis and the fears of a major global economic slow-down led to drastic share price losses. At the end of August, the DAX fell below the 5,000 points mark again. Although the first signs of stabilization were then seen, the marked weakness of the US dollar strengthened the downward trend again significantly at the beginning of October. The DAX reached its low on

Dividend

The Board of Managing Directors and the Supervisory Board will propose the payment of a DM 5 dividend per DM 50 share plus a tax credit of DM 2.14 per share at the 1999 annual general meeting. This corresponds to a dividend yield of 4.2 % on the basis of the 1998 year-end closing price of DM 169.

THE DEUTSCHE VERKEHRSBANK SHARE

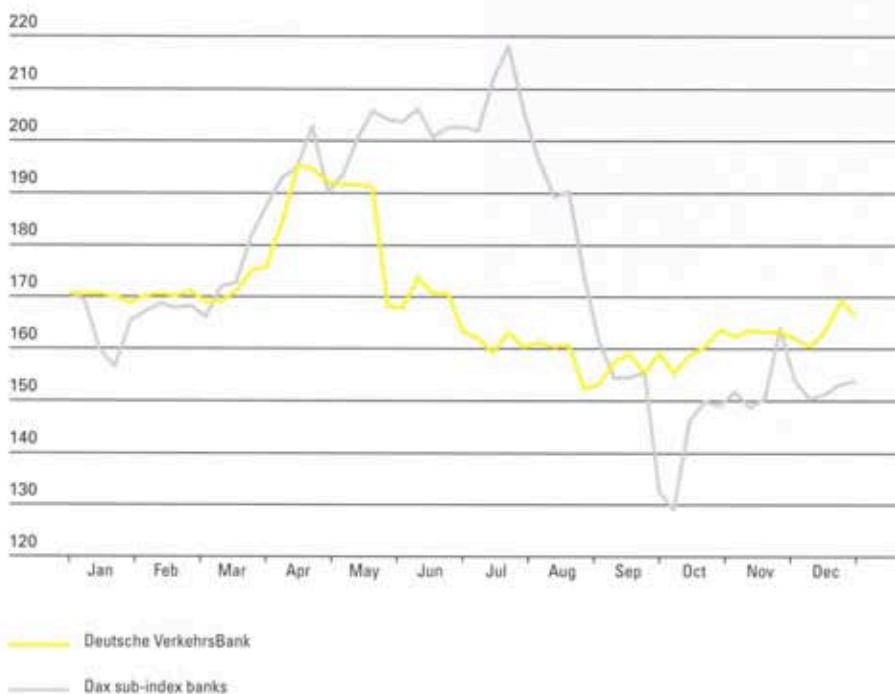
Capital base broadened

Deutsche VerkehrsBank AG

strengthened its capital base in 1998. The shareholders resolved at the annual general meeting on 20 May, 1998 to issue participating rights of up to DM 100 million nominal. Full use was made of this authorisation with effect from 31 July, 1998. The participating rights issue expires on 31 December, 2007.

On 23 September, the bank was authorised within the scope of an extraordinary general meeting to raise the share capital through the issue of new shares by DM 25.2 million nominal as well as issue further participating rights totalling DM 75 million nominal. Partial use was made of this authorisation: new shares totalling DM 12.5 million nominal were issued in the first quarter of 1999 creating the basis for new business both in the area of structured financing and in the transport segments of the domestic corporate customer business.

**Development of Deutsche VerkehrsBank share price in 1998
in DM**

**Conversion to individual share certificates**

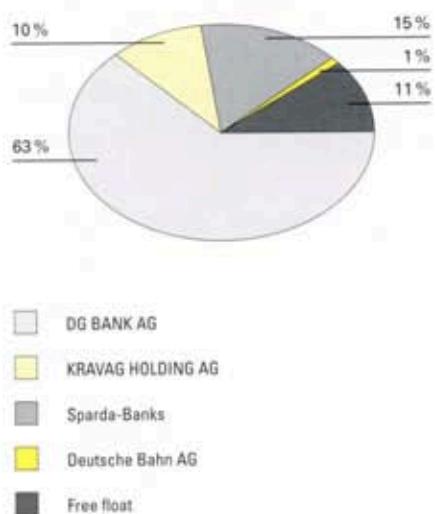
After being given authorisation by the annual general meeting, we will convert our shares to no-par individual share certificates in 1999.

THE DEUTSCHE VERKEHRSBANK SHARE

Investor relations/Communication calendar

27 May, 1999	Financial press conference
24 June, 1999	Annual general meeting, 10.00 a.m., CongressCenter Messe Frankfurt am Main
25 June, 1999	Dividend notice
August 1999	Publication of interim report

Shareholder structure
as at 31 December, 1998

**Share statistics (in DM)**

	1998	1997
DVFA earnings per share	8.34	- 9.60
Dividend per DM 50 share	5 -	16.50*
taking into account the corporation tax credit	7.14	23.57*
Dividend yield including tax credit	4.2 %	13.9 %*
High for the financial year	195.-	192.-
Low for the financial year	151.-	164.-
Year-end price	169.-	170.-
Number of shares at year-end	1,996,356	1,996,356
Market capitalisation at year-end	337,384,164.-	339,380,520.-

* special distribution

The optimum
servicing of our
transport customers
requires precise
knowledge of the
market.

Report of the Board of Managing Directors for the Deutsche VerkehrsBank Group

The development of the transport market is of particular significance for Deutsche VerkehrsBank. Consistent observation of the market is a precondition for the timely identification of new trends. Only in this way can the specialist bank for the transport industry offer its customers tailor-made concepts.

1. Development of the transport market

The development of global traffic was affected by the economic crises in south-east Asia and Russia in 1998 – air and sea transport was also hit by the Asian crisis. The crisis hardly spread to the national economies of Europe and North America as their growth was driven essentially by good domestic business activity as well as growth in foreign trade between the industrial states.

the passenger and freight transport business put several airlines in Asia into a difficult situation. The decline in the number of Japanese flight passengers – a result of the economic crisis in Japan, which led to a drop in demand for travel overseas and within Asia – made itself felt. While passenger traffic out of Asia declined, demand for travel to this region increased.

Still high growth rates in the air transport business are bringing investments in airports in their train. Malpensa (Italy) and Gardermoen (Norway) airports were opened in 1998. In Hong Kong, Chep Lap Kok airport was put into operation. Furthermore, the deci-



Overall, international air transport was able to continue to grow. The growth forecasts for air transport within Asia as well as for air transport from and to Asia have had to be revised downwards though. The monetary erosion in the crisis countries as well as shortfalls and shifts in demand in

sion was taken to build the new major airport Berlin-Brandenburg International.

REPORT OF THE BOARD OF MANAGING
DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK
GROUP

The container shipping business was affected in the Asian shipping area in the same way as air freight traffic by shifts in traffic flows in terms of revenue and direction. Overall, the development of business was characterised by continuing pressure on shipping rates.

Owing to the strong demand for road transport, price levels firmed contributing to a reduction in the number of in-



The passing of a new ship complement ordinance as well as the new taxation regulations for ocean shipping introduced by the "Seeschifffahrtsanpassungsgesetz" was of significance last year for German shipping companies.

The new "Güterkraftverkehrsge setz" (Road Transport Act) came into force in Germany on 1 July, 1998 abolishing the quota system in the road transport business. With the introduction of cabotage freedom, the last stage in liberalising road transport in the European Union was reached. Although cabotage transport accounts for only a small share of overall road transport in Germany, the Federal Republic is the most heavily frequented transport country for this type of transport.

solvencies in the transport and haulage segment compared to the previous year.

The regionalisation of local passenger rail transport introduced in 1996 also brought a number of improvements in the transport offer in 1998. The federal states are increasingly signing transport handling agreements with private carriers.

There were slight declines in Deutsche Bahn's national freight traffic, but major growth in international traffic in terms of the amount and volume of traffic. In the European environment, the central area of discussion was the opening up of railway networks for new carriers and the further development of line price systems associated with it.

Corporate customers: Clear differentiation of the range of products and services and exclusive concentration on key areas of competence.

REPORT OF THE BOARD OF MANAGING DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK GROUP

Combined transport stagnated despite the passing of a guideline in March 1998 to promote the construction or expansion of handling facilities in Germany.

In public local passenger transport with buses and trains, there was a constant trend in the passenger figures. The main reason for this was the still

2. Corporate customers

We made good progress along the path set out on in 1997 in our corporate customer business.

We pushed ahead with expanding our transport competence in our branch

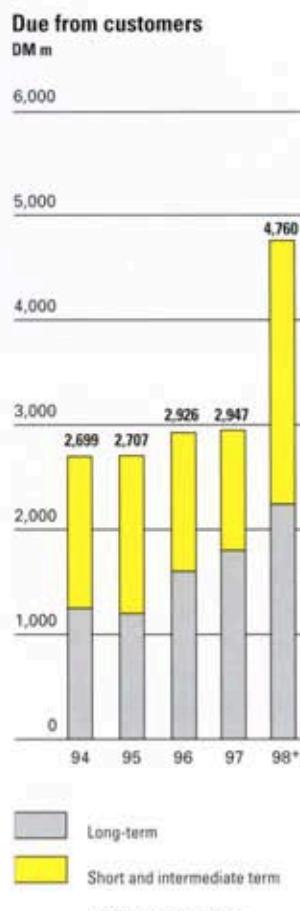


difficult situation on the labour market. Revenue from ticket sales rose slightly due to fare increases.

Inland waterway transport can look back on a pleasing year. The amount and volume of traffic increased with international traffic having developed better than national traffic here as well. The reduction of unproductive existing tonnage through several rounds of scrapping and the positive outlook for the years ahead again justify the hopes of the inland waterway transport fleet being modernised.

operations. Emphasis was placed here on road haulage, local passenger rail transport and public local passenger transport. The reorganisation of our customer portfolio from non-transport business to transport business was speeded up considerably. New acquisitions were made exclusively in the target customer segment and in our core areas of competence. Within the scope of complete customer servicing, we integrate our cooperation partners in the cooperative financial system.

REPORT OF THE BOARD OF MANAGING
DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK
GROUP



Focusing our acquisitions on transport customers made it necessary to review our distribution structure to date. In order to be able to do greater justice to the market requirements, we geared our domestic branch operations to locations in which our target transport customers are mainly represented. This resulted in the streamlining of our branch operations which are being supported by mobile operations. Responsibilities for distribution and lending have been concentrated on four regions.

Focusing on the intermediate and long-term investment financing of transport carriers and logistics projects as well as infrastructure measures in the transport sector was implemented successfully in the market. This is also reflected in the development of due from customers.

The volume of cash and guaranteed credits granted to customers increased by 47.4 % compared to the previous year to DM 5.6 billion. Of this amount, DM 3.1 billion fell upon the domestic branch business and DM 2.5 billion on the area of structured financing. At DM 4.8 billion (+61.5 %), cash credits accounted for the lion's share here.

Owing to the discontinuation of the rediscount facility at the Deutsche Bundesbank, contingent liabilities from rediscounted bills of exchange fell by 37 % to DM 41.6 million. Liabilities from guarantees and warrantees rose by 12.7 % to DM 835 million.

At the same time, the volume of customer deposits was increased by 35.8 % compared to the previous year to DM 3.7 billion, mainly at the short end at the end of the year.

Structured financing

With the acquisition of the "International Aviation and Shipping Finance" business, we acquired a loan portfolio totalling DM 2.8 billion. The assets transferred were examined meticulously with external support in economic and legal terms. Around 70 % of the commitments in terms of volume were taken over by the end of the year representing 160 individual transactions or borrowers. As these are divided into several tranches in part, 219 individual loans were transferred in total. We also carry out the function of lead manager and security trustee for numerous customers.

**R E P O R T O F T H E B O A R D O F M A N A G I N G
D I R E C T O R S F O R T H E D E U T S C H E V E R K E H R S B A N K
G R O U P**

**New aviation and shipping finance
business**

In addition to the portfolio acquired, we were able to make new loan com-



mitments and disbursements, respectively, in the aviation and shipping finance business totalling DM 318.8 million. Total commitments at year-end including the loans transferred up to this date amounted to DM 2.5 billion. This volume has opened up business relations with leading international customers: airlines, operating lessors and aircraft manufacturers as well as important companies in the shipping segment.

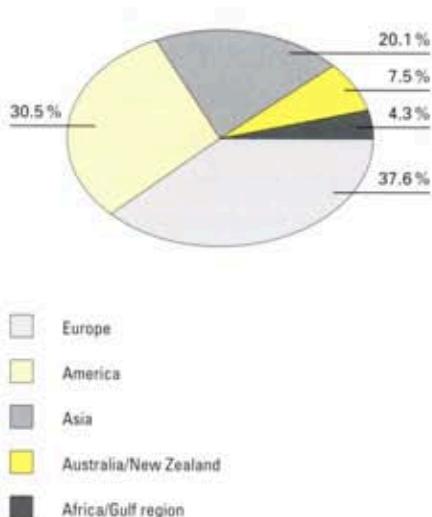
The volume of shipping finance amounted to DM 500 million at year-end together with the portfolio acquired.

Aviation and shipping finance is secured as a rule through the entry of a first-rank registered lien which is supplemented in individual cases with manufacturer guarantees or guarantees from export insurers.

Acquisition is carried out from three locations: in Germany, several account officers are active in the areas of aviation and shipping finance, with the emphasis on Germany, Asia, Australia and New Zealand.

Acquisition for VerkehrsBank's entire aviation and shipping finance business is coordinated by our London branch office. The branch is also responsible for aviation finance with regional emphasis on Europe and Africa as well as for shipping finance in the market areas of Europe and Asia.

**Aviation and shipping finance loan portfolio
by economic country risk
and effective lending volume**



First advisory
mandate in the area
of transport,
logistics and traffic.

REPORT OF THE BOARD OF MANAGING
DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK
GROUP

Our subsidiary International Transport Finance Ltd. is responsible for business in North and South America.

International railway financing is currently being set up.

Infrastructure financing

Growing aircraft passenger volumes, expansion in the airfreight business and necessary investments in modern aircraft are affecting not only aircraft financing, but also the infrastructure associated with it. Considerable investments are also necessary here in order to be able to expand airport capacities.

Deutsche VerkehrsBank participated as lead manager in the financing of the capital expenditure for expanding and extending Düsseldorf International Airport. Within the scope of the investment programme "Airport 2000", the third-largest German airport will build a new terminal, expand further capacities as well as extend the main runway. The city of Düsseldorf and the private operator Airport Partner each hold half of the shares.

We were able to lay the foundations for the advisory business in the areas of transport, logistics and traffic. The terms of reference were related to the search for an investor for the location project of one federal state. The state government was looking for a financial adviser to implement this business idea, which was not just completely new for this location. Its tasks were to identify qualified investors, give advice on the arrangement of the tender, invite ideas and manage the negotiations with potential investors. Through its convincing advisory concept, Deutsche VerkehrsBank was able to win the mandate. In the first phase of the advisory mandate, which was successfully completed in November of the 1998 financial year, attention was focused on drawing up an information memorandum for the announcement of the project, carrying out profitability analysis and sounding out the national and international market for potential investors.

The adjustment of our credit risks in 1997 has paid off: Provisioning requirements have been reduced considerably.

R E P O R T O F T H E B O A R D O F M A N A G I N G D I R E C T O R S F O R T H E D E U T S C H E V E R K E H R S B A N K G R O U P

International advisory business expanded

The integration of the business of the London-based advisory company Persson & Partners into VerkehrsBank with effect from 1 September, 1998 underlines the positioning of our bank as advisor to the transport industry. This company, which specialises in providing airlines with advice on financing, was integrated into a newly-created advisory department of the bank. At the end of 1998, the specialists were advising among others FINNAIR on financing an investment programme for twelve Airbus A 320 aircraft. The bidding procedure for the associated credit line was organised and accompanied by our advisers.

Credit risk management and risk result

With the insolvency records being broken again and again, credit risk management was of particular importance. Measures to minimise risk made themselves felt in the improvement in the risk quality of our domestic portfolio. We countered greater industry risks by consistently reducing them. Despite the dynamic development of our lending business, provisioning requirements for credit risks were reduced considerably to DM 16 million net after DM 78 million net the previous year.

We increased the number of employees working in credit risk management in order to firstly further improve portfolio management and secondly support the international orientation of structured financing.

In order to systematically increase our industry know-how, a new information system was introduced at year-end. The concise analysis and forecasts provided by the industry information system as well as the industry rating are used for marketing control and risk management.

Cash-less payment systems in the public local passenger transport business

We expanded our market position in the business area of "System solutions for cash-less payment in passenger transport" in 1998. We were able to position ourselves in further locations with our machines for the cash-less payment of season tickets for public local passenger transport and now have 42 machines successfully in use in the Rhein-Main, Hamburg and Munich integrated transport systems. Investments in machine technology amounted to around DM 0.5 million last year.

REPORT OF THE BOARD OF MANAGING
DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK
GROUP

A further 20 locations were added in the Munich area at the beginning of 1999. A project was started with the Rhein-Ruhr integrated transport system in January. Ten season ticket machines will be installed in the first half of this year.

The service quality of the machines was extended by the cash card and pay card functions. The integration of loading modules and electronic commerce applications is envisaged for future machine projects.

Freight deferment procedure

In the business area of "Financing and collection of transport costs in the freight transport business", we successfully optimised existing systems and processes and worked out ideas for product development. By using new software developed in 1998, we are responding to our customers' needs flexibly and with an orientation to service.



System solutions for cash-less ticket purchases at mobile terminals in the vehicle were also realised. We are also involved in developing cash-less solutions for fee parking.

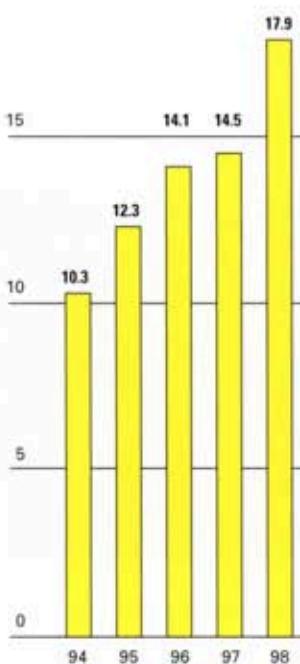
Considerable emphasis will be placed in future in this area of business on complete fare management, electronic ticketing in connection with check-in/check-out systems on the basis of chip-card technology. We will be actively involved in corresponding projects and further expand our competence.

The transfer of our know-how to further road haulage operators, rail freight transport in Europe outside Germany as well as to chargeable air and road transport is being intensified. DM 7.4 billion was invoiced in the freight deferment procedure in the year under review.

**REPORT OF THE BOARD OF MANAGING
DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK
GROUP**

**Securities business
with the Sparda-Banks**
Holdings in DM billion

20



3. Central bank

We act as central bank to the Sparda-Banks in the cooperative financial system with the greatest customer orientation and flexibility. The Sparda-Banks, which are present throughout Germany, again operated successfully increasing their aggregate balance sheet total by 15 % to around DM 60 billion. The number of members rose by 6 % to 1.7 million. In accordance with the strong demand for service, the central bank business further expanded its servicing potential. Securities transactions with a market value of around DM 20.8 billion were processed for the Sparda-Banks and their customers. The securities deposit balances rose by 23.8 % to reach DM 17.9 billion in total.

Medial distribution channels open up market potential

The opening up of medial distribution channels is of major significance for the Sparda-Banks in particular in the customer securities business. We have taken account of this by coordinating the Internet broking project and offering specialist advice which is devoted exclusively to the needs of the Sparda-Banks. Internet broking enables the Sparda-Banks to offer securities orders via the Internet, the first cooperative banks to do so.

We have consistently given the Sparda-Bank investment advisers the opportunity to support the surge in customer demand for attractive investments through special offers. We have implemented a tailor-made modular concept here integrating the respective adviser environment with a view to the special requirements of the Sparda-Banks.

The information offer for the Sparda-Banks was directed towards the target groups and steadily expanded. This included various events as well as sales and specialist information which prepared the banks early on for example for conversion to the euro.

Instruments for the strategic management of own deposits

Market volatilities and growing statutory requirements have increased the need for the strategic management of own deposits.

**Further qualitative
expansion of our
position as central
bank to the
Sparda-Banks.**

R E P O R T O F T H E B O A R D O F M A N A G I N G D I R E C T O R S F O R T H E D E U T S C H E V E R K E H R S B A N K G R O U P

We have hence worked out more sophisticated switching strategies and extended our consulting offer. The advisory services and service offer provided for the Sparda-Banks have been supplemented by the risk status of credit institutions according to the 6th amendment to the German Banking Act.

The trusting cooperation in the management of own deposits with all Sparda-Banks resulted in an increase in the volume of the own security deposit

and the corresponding clearing offer. The foreign payment transactions business was also expanded.

"Venture into new markets – seize the business opportunities" is the theme of this year's strategy seminar for the management of the Sparda-Banks. This applies to all services which we offer as central bank.



business of 25 % to DM 15 billion. We also accompanied the Sparda special funds, whose assets rose by 50 % to around DM 3 billion in the year under review. Within the scope of our liquidity equalisation function, we were able to show Sparda-Bank deposits of DM 4.4 billion at year-end.

Cooperation with the Sparda-Banks was stepped up in domestic payment transactions enabling them to secure qualitative and quantitative advantages by using us as the main clearing agency in the cooperative financial system

4. Trading

Market observers focused their attention more on the so-called convergence criteria over the course of the year under review. The interest rate for short-term open market transactions stands out in particular here. While it had been assumed at mid-year that this key rate would be at 4 % at year-end, an interest rate level of 3.5 % was expected in the autumn.

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The markets were surprised all the more by the concerted action of the European central banks on 3 December, 1998 which cut the most important key interest rate to 3 %. This measure calmed the money markets down and led to new highs on the capital markets.

The stability of the money market was not reflected in the level of yields on the German bondmarket. Market participants had to cope with major volatility. This led to successful own-account trading overall, but to this sub-segment falling short of the good result recorded the previous year. We concentrated on trading with DM interest

Owing to the strong internationalisation of the bank in the year under review, money market and foreign exchange trading was in particular demand and was able to further expand and intensify its good international contacts.

Successful trading in foreign notes and coins, precious metals and numismatics

Trading in foreign notes and coins was able to follow on from the favourable result recorded the previous year



rate products such as public-sector bonds, Pfandbriefe and borrower's note loans. In trading with interest rate derivatives, we recorded pleasing growth in positions and income.

regardless of the major volatility on the currency markets and the firm D-mark. The volume of buying and selling in D-mark was up by around 5 % on the previous year. This was made possible by customer acquisitions as well as more intensive business relations with long-standing customers. With the help of a number of accompanying measures, Deutsche VerkehrsBank supported

**Growth strategy in
the foreign notes
and coins business
is continued.**

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its customers in preparing for the introduction of the euro. Trading in foreign notes and coins will also expand its position this year through agency for banks which see no profitability in this business segment in future as a result of the introduction of the euro. The aim of our bank is to do justice to our position as market leader in future as well in an environment which is becoming more difficult.

In precious metals trading, buying and selling volume rose by 12 %. The precious metal-processing industry did not reach the very strong demand seen from time to time in earlier years. Nevertheless, the previous year's result was improved upon.

The introduction of the euro had no influence on the demand for gold.

Through targeted marketing and the resulting increase in the customer offer in respect of semi-numismatic minting, sales in the numismatics segment were increased.

Overall, at DM 25.6 million throughout the Group, Deutsche Verkehrs-Bank's trading result exceeded the previous year's high level by 3.6 %.

5. Treasury

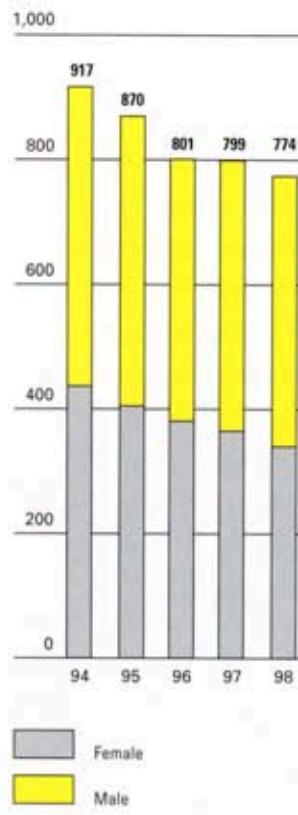
With the expansion of the bank's business activities, greater requirements were made of refinancing and balance sheet management. In order to correspond to this development, market risk management was removed from the accounting division with effect from 1 January, 1999 and put directly under the responsibility of the Chairman of the Board of Managing Directors in the Treasury division.

DM 1.5 billion was raised in the market with bonds, borrower's note loans, participating rights and long-term capital raising in 1998. The capital raised was adjusted to the balance sheet structure via derivatives in order to refinance the mainly large-volume assets, mostly denominated in foreign currency and with long capital terms, without liquidity risks and optimising costs.

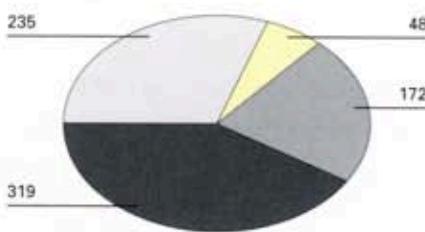
The management of the entire bank's market risks is carried out with the help of limit systems. The risk-bearing derivatives are added to the aggregate balance sheet and the market risks calculated daily from this overall volume. The criteria for internal simulations extend beyond the statutory requirements.

**REPORT OF THE BOARD OF MANAGING
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**Development
of the workforce**



Workforce by division
Persons



- Corporate banking
- Central bank and trading
- Central units and service/staff divisions
- Subsidiaries

6. Personnel

1998 was characterised by considerable structural changes. Our employees tackled the challenging tasks with strong commitment and major dedication for which we would like to express our thanks. The Board of Managing Directors would like to thank the general works council, the executives' representative body as well as all works councils for their trusting cooperation. We would also like at this point to thank the works councils in particular for the understanding which they have shown in respect of the flexible deployment of employees for work involved with conversion to the euro.

Through the internationalisation of the transport business, we have taken over eleven employees in London and three in New York. The first "international conference" was held at the end of September with the aim of the colleagues in Frankfurt am Main, London and New York getting to know each other and agreeing upon the initial strategic course, but also coordinating practical operations.

The first successful conference will be followed by further conferences in order to push ahead with the integration process and hence create an

important basis for the international success of the bank.

We started to make preliminary considerations in respect of the "outsourcing to bws bank" project in March 1998 accompanied by an intensive information policy and active servicing. By mid-February 1999, a total of 15 employees with their areas of responsibility had switched to bws bank in Frankfurt am Main.

Based on the restructuring of our sales operations, we have introduced the function of "mobile corporate account officer" for various regions. Since summer 1998, these colleagues have been servicing their customers with technical support and networks. In organisational terms, they are allocated in each case to a domestic regional area.

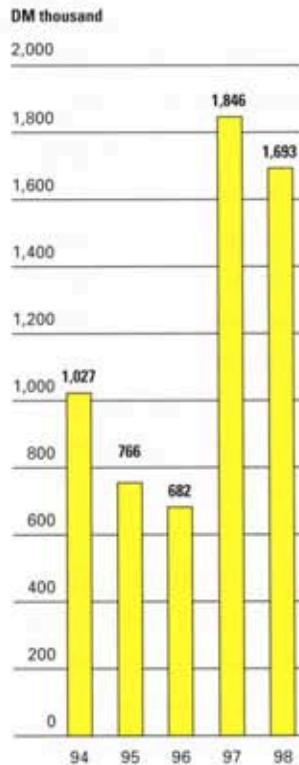
Personnel expenses rose slightly by 2.3 % to DM 91.1 million.

New management instrument

We plan to consistently gear the performance-related components of our remuneration system to the achievement of objectives for managerial employees in 1999 to begin with. For

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Expenditure on career advancement



this purpose, a system has been introduced which provides the basis for the measurability of variable remuneration with better quality agreements on targets. The aim of the discussions on the agreement of targets is to promote a constructive dialogue between management and employees. With performance-related earnings, we are aiming for remuneration which motivates, promotes performance and at the same time participates in the company result.

and commercial colleges and at the banking college.

We pushed ahead with the further development of transport know-how with the help of seven project groups overall and put it into practice with acquisition concepts. In order to further



It will be possible to remunerate performance to a greater extent than to date.

Training activities – an essential part

In order to do justice to the challenges presented by the competition, we also placed major value on the professional and personal qualification of our employees in the year under review.

Our personnel was promoted with targeted individual measures. Alongside traditional qualifications, employees took part in advanced courses at the Bankakademie, at administrative

promote transport know-how in the bank, our training activities will also be focused on this topic in 1999.

We broke new ground in particular in promoting our employees with potential. In two forums entitled "The future with VerkehrsBank", these employees developed strategically relevant projects on which they worked intensively and the results of which were presented ripe for decision to the Board of Managing Directors.

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Overall, 419 employees took part in internal and external training events. In order to meet the foreign language requirements of internationalisation, we have been carrying out flexible and needs-oriented language training since June 1998. We organised technical changes such as the introduction of Windows NT according to the "Train the trainer principle" for the first time. This involved one to two employees in each region and department being trained to then pass on their knowledge.

Seven colleagues were able to complete their bank training in the year under review. Three started to study and are still taken care of in our study group and four were taken on as permanent employees.

Employee pension scheme

The aim of Deutsche VerkehrsBank's staff pension fund is to supplement the national pension and together with it guarantee a retirement income which secures the standard of living last reached during working life. At the end of 1998, 469 persons were receiving pension fund benefits in the form of old-age, disability or survivor's pensions.

The bank honours the memory of its late employees.

7. Communication

The internationalisation of Deutsche VerkehrsBank has made it necessary not only to publish all new publications in English, but also to transform its entire corporate identity to foreign business. The customer contacts of our new colleagues are to be developed further under the VerkehrsBank name. Correspondingly, our press work has also been geared to the new requirements with the result that the most important foreign media reported on the acquisition of the aviation and shipping finance portfolio and Deutsche VerkehrsBank's strategy.

The objective remains for 1999 establishing our bank as advisory bank to the transport industry. Alongside a greater editorial presence in the specialist media, the bank has initiated a new event concept. Firstly, the "International Transport Conference" in Frankfurt am Main, which deals with global transport issues with high-ranking industrial, political and academic representatives.

Experience with conversion to the euro and the Year 2000 will lead to IT conversion costs.

REPORT OF THE BOARD OF MANAGING DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK GROUP

Secondly, the "VerkehrInsel", a single-topic discussion group at changing symbolic locations which enables intense communication with specialists. Finally, regional branch events which serve to maintain contact with our customers on the spot. With this concept, VerkehrsBank has made it clear that it is concentrating on clearly defined key areas of competence on the basis of its specialist knowledge and experience and that it understands the issues relevant to the transport market.

Following the proven principle of open communication and journalistic topics, the employee newsletter "VerkehrsBank News" has been published in a new format in two languages. This medium gives an independent overview about every two months of the developments in the bank. Internal communication is being expanded further: Various discussion forums with the Board of Managing Directors should contribute to analysing problems and looking together for solutions.

8. Information systems

The conversion of our IT systems to the euro was a central issue for data processing in 1998. Around 50 IT systems were converted and numerous interfaces adjusted so that our trading and payment transactions systems could offer euro functionality ready for 1 January, 1999. This affected for example the modules of our

clearing system which has been successively converted. Euro payments were exchanged with the Regional Bundesbank Office and the regional cooperative banks of the cooperative financial system early on at an agreed conversion factor and processed on a test basis. The euro release was installed at our corporate customers using electronic banking software. We also reprogrammed our application for invoicing freight volumes and for limit monitoring. In order to provide our standard software for decentralised volume recording in electronic payment systems as well as for inputting customer diskettes with euro functionality, the ABK-Pay programme was introduced.

Central importance: Euro and Year 2000 functionality

Emphasis was also placed on the "Jahrtausendwechsel" project to take us into the new millennium. All hardware and software systems were included and emergency plans drawn up. The individual plans were examined in the first quarter of 1999 in a specially-created test environment. All integration tests will follow on from this in the second quarter of the current financial year so that conversion work is finished by mid-year. Parallel to this, the manufacturers of technical aggregates were

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asked among others to examine and certify the compatibility of their products in respect of the Year 2000. We also wrote to or interviewed our customers concerning the Year 2000.

Further development of IT systems

The further expansion of the XETRA trading system enabled VerkehrsBank to participate to a greater extent in electronic trading on the German stock exchange. At the current stage of development, 2,000 shares, 360 bonds and 28 share warrants can be electronically traded.

The aims of data processing are to identify potential synergies and use them in the market or within the cooperative financial system, strengthen the bank's own areas of competence and improve the quality of the service. With the introduction of Windows NT in 1998 as the basic operating system for PC workstations, the operating systems at DG BANK and at VerkehrsBank have been brought into line. At the same time, Lotus Notes, used throughout the cooperative financial system, was installed and the basis for E-mail and Intranet applications created.

Together with several partners in the cooperative financial system, VerkehrsBank got involved in the G-Net project last year. The aim is to introduce a voice/data network throughout the cooperative financial system and minimise the costs for data communication and lay the foundations for future developments (video conferences, teleworkstations etc.). The long-term goal is the networking of the entire cooperative financial system.

9. ReiseBank AG

ReiseBank recorded pleasing growth in income in the 1998 financial year. Its profit for the year of DM 15.9 million was transferred to Deutsche VerkehrsBank AG on account of the controlling and profit transfer agreement. ReiseBank's balance sheet total amounted to DM 88.7 million.

Earnings growth in the core business

The core foreign notes and coins and traveller's cheques business recorded a pleasing result for the year with commission income up significantly by just under 8 % to DM 44.1 million.

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Cash dispenser operations on the road to success

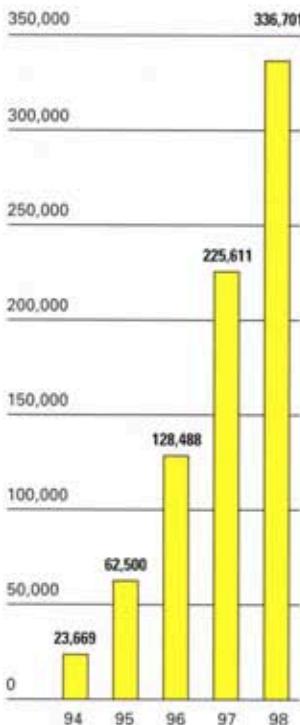
Turnover of over DM 1 billion was recorded with 127 cash dispensers in over 4 million transactions. There was a significant rise in commission income compared to the previous year.

New products

The existing cooperation agreement with the ADAC automobile association



Transactions with Western Union
Number



The replacement of dispensers with a new generation of machines started in 1997 was continued, leading to a marked improvement in service quality. Customers have also been able to load cash cards at selected machines since October 1998.

Western Union – a successful product

The growth trend in the area of the global cash service in cooperation with Western Union continues. The number of transactions increased by 50 % to over 336,000 and turnover advanced by 36 % to DM 344 million. The customer service will be speeded up and improved considerably in 1999 through a marked increase in the number of terminals in the offices.

over the sale of vignettes was extended. Additional products such as traveller's accident and transport insurance were integrated into ReiseBank's range of products. Alongside the expansion of the product range, marketing measures such as ICE and stadium advertising as well as the sponsoring partnership with the German light athletics association led to a greater level of awareness of ReiseBank.

Mobile branches

A second mobile branch at Nuremberg airport was added to the CashMobil branch at Munich airport already in use. Further CashMobil offices are to follow at other airports. Furthermore, the concept of a mobile external branch

ReiseBank:
**Further strategic
 preparations**
for the Year 2000.

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is being worked on at present in order to be able to react flexibly to customer flows at major events and trade fairs.

The effects of the euro

The start of the third stage of economic and monetary union on 1 January, 1999 and the fixing of the conversion rates between the currencies of the participating states has had considerable effects on ReiseBank's business. A decline in earnings has to be reckoned with by the introduction of euro notes on 1 January, 2002 at the latest. ReiseBank's answer is to expand its offer in the non-banking segment. This relates above all to the introduction of products and services from the leisure and tourism sector.

The mail order business, in other words taking over settlement of the foreign notes and coins business for bank customers, was extended to a number of additional banks last year and is being consistently expanded.

Through a new cooperation agreement with Deutsche Bahn, ReiseBank will be able to use further attractive station locations. After receiving the Swiss banking license, the Basle office was established as the first foreign branch. It is being examined whether further offices will be opened in Switzerland, the Czech Republic, Poland and Hungary.

Slight increase in costs

Administrative expenses including depreciation and value adjustments on tangible and intangible assets rose by 8.3 % to DM 31 million and personnel expenses by 6.7 % to DM 30 million; other operating expenses fell by 58.2 % to DM 1.6 million.

ReiseBank employed 295 people at year-end at the head office in Frankfurt am Main and throughout Germany in 55 offices as well at a foreign branch in Switzerland.

10. CashExpress GmbH

CashExpress Gesellschaft für Finanz- und Reisedienstleistungen mbH opened a further office in Frankfurt am Main. A new form of cooperation with business partners is being tested with the so-called "TravelMarkt". Alongside the cash express counters with a range of products geared towards travel finance services, a travel agency and concert ticket sales desk have been integrated into the office.

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Cash Express employed 21 people overall at its five offices and head office in Frankfurt am Main at year-end.

Alongside the customer business, the company takes over service functions such as marketing and acquisition for ReiseBank.

Despite the strategically favourable location of three offices on the border crossing-points to Austria and the Czech Republic, there was a decline in earnings in the vignette business on account of the tougher competitive situation. Income from the foreign notes and coins business was increased by 8 % to DM 0.5 million. Overall, a positive result for the year could still not be shown for 1998.

**11. International Transport Finance
Ltd.**

In order to service our American and Japanese business, we set up the International Transport Finance subsidiary located in London. It has a representative office in New York and a branch in Tokyo. The employees at the New York representative office concentrate primarily on expanding customer contacts in the aviation finance business in North and South America. Emphasis will also be placed on the American railway financing business from the New York office in future. The arrangement of our loans to Japanese leasing

companies, which have leased aircraft to notable airlines within the scope of so-called Japanese leveraged leases, is carried out by the Tokyo office.

12. Investments

Güterverkehrszentrum

Entwicklungsgesellschaft

Dresden GmbH

Güterverkehrszentrum Entwicklungsgesellschaft Dresden GmbH developed according to plan in the latest financial year. Around 145,000 m² of land was acquired in Dresden-Friedrichstadt from Deutsche Bahn in April 1998 which is shown as commercial property for the transport industry.

The clearance of this land was got under way as well as the opportunity for developing it created in May. At the same time, marketing activities were started accompanied by customer events, project presentations, advertisements and appearances at trade fairs. The first piece of land measuring 20,000 m² was already sold in October to a medium-sized haulage company. The negotiations with a number of further potential investors are well advanced. At least 80 % of the ground marketed is to be sold by year-end 1999.

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In order to give all transport carriers the opportunity of participating in Güterverkehrszentrum Dresden, Deutsche VerkehrsBank sold 25 % of the shares to each of Deutsche Bahn and Straßenverkehrsgenossenschaft Sachsen und Thüringen eG at book value in November. A further 25 % of the shares was offered to Sächsische Binnenhäfen Oberelbe GmbH.

**DVL Deutsche Verkehrs-Leasing
GmbH**

DVL Deutsche Verkehrs-Leasing GmbH centres on fund financing and shareholding schemes. DG IMMOBILIEN MANAGEMENT GmbH and VR-LEASING GmbH as further companies have concentrated their activities on the area of acquisition and conception of investments in particular in the area of movable equipment and leasing funds. This means that interested customers can be offered individual financing alternatives. Publicly-offered funds, which are placed via DG ANLAGE GmbH mainly in the cooperative financial system, represent at the same time an attractive form of investment for the customers of the cooperative financial system.

Following the strategic repositioning of our bank in the cooperative financial system, DVL Deutsche Leasing GmbH has concentrated its activities

on the transport segment, in particular local passenger transport and rail-bound freight traffic as well as aviation and shipping companies.

13. Earnings, asset and financial situation

Deutsche VerkehrsBank's first consolidated financial statements were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch). International accounting rules are not yet applied. Nevertheless, we have made the Group financial statements according to the German Commercial Code more transparent and of greater informative value by providing essential information. A Cash Flow Statement has been published in the notes to the accounts for the first time. In order that the readers of our annual report can find related information without having to look too far, we have linked the components of the annual financial statements to corresponding numbers in the text. We have also included a separate chapter on our shares before the Report of the Board of Managing Directors.

**After recording only
a balanced result in
1997, Deutsche
VerkehrsBank closed
the 1998 financial
year with net
income of
DM 9.7 million.**

R E P O R T O F T H E B O A R D O F M A N A G I N G D I R E C T O R S F O R T H E D E U T S C H E V E R K E H R S B A N K G R O U P

The balance sheet total grew throughout the Group by 23.2 % to DM 12.8 billion – due above all to the expansion of business activities.

Business volume rose by 22.9 % to DM 14.8 billion as a result in particular of our greater lending volume.

Earnings power still to be improved

We will measure the progress of our business activities essentially with the cost-income and return on equity ratios in future.

The cost-income ratio is defined as the ratio between administrative expenses including depreciation on tangible assets and the sum of net interest and commission income, the balance of other operating income and expense as well as net income from financial transactions. It shows what costs were necessary to achieve the income generated. Our cost-income ratio amounted to 85.02 % in 1998 – an unsatisfactory result. The bank is aiming to improve this ratio considerably. Our return on equity, which came to 3.8 % in 1998, is also to be raised.

Net interest income climbed by 9.7 % to DM 72.2 million. Income from the corporate customer business was well maintained as a result of greater volumes and the expansion of capital expenditure financing. There was a par-

ticularly pleasing trend in net commission income which was up by 12.8 % to DM 116.4 million. The main reasons for this were a further increase in securities turnover, growth in dealings with foreign notes and coins and in ReiseBank's financial services as well as newly-developed electronic banking products for public local passenger transport. At DM 25.6 million, the financial result exceeded the previous year's high level by 3.6 %. Overall, our net income advanced to DM 9.7 million after a balanced result the previous year.

Rise in costs due essentially to investments

Operating expenditure for the banking business including depreciation and value adjustments on tangible and intangible assets grew at a faster pace in 1998 compared to the previous year by 15.1 % to DM 87.4 million. This was due above all to the installation of state-of-the-art information and settlement systems. The technical preparations for the introduction of the euro and the new millennium as well as the acquisition of the aviation and shipping finance portfolio were further reasons for this rise.

Personnel expenses rose by only 2.3 % to DM 91.1 million despite the hiring of financial and transport experts.

We are aiming
for a further rise in
earnings in 1999
which should again
enable a dividend
increase.

REPORT OF THE BOARD OF MANAGING DIRECTORS FOR THE DEUTSCHE VERKEHRSBANK GROUP

14. Outlook

We are reckoning with only a slight rise in domestic and foreign trade and the associated transport services in 1999 on account of several depressive factors. Gross domestic product will grow by an estimated 1.5 %. The first signs of a slow economic recovery are coming from Asia. Developments in South America and Russia, which have repercussions on the global economy, are likely to remain problematic this year as well. In Germany, there has been a shift in emphasis in the transport segment on account of the change of government. The increase in the mineral oil tax as part of the overall concept of an ecology-oriented tax reform will put greater pressure on private car owners and road haulage. Should the planned reduction in ancillary wage costs not compensate for the additional burdens for transport companies, their international competitive position will deteriorate. The consequence would be a further increase in the number of insolvencies. Another question will be to what extent the German ideas for introducing kerosene tax will be taken up by European politics.

Regardless of the political or ecological course set, we will step up our efforts in the area of structured financing in order to become a leading address in Europe for aviation, shipping, rolling stock and infrastructure financing.

The expansion of our transport competence in our branches affected in particular the areas of road haulage, public local passenger transport and local passenger rail transport in 1998. We will also consistently push ahead with the process of developing know-how and tap further attractive market segments such as haulage and inland waterway transport in 1999 as well. The reorganisation of the portfolio will be continued: New business will only be acquired in the transport market.

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We will continue to attach major importance to our aim of setting and maintaining quality standards in more and more complex business processes in 1999. As central bank to the Sparda-Banks, we will push ahead with further opening up medial distribution channels and passing on focused securities competence: We want to be a competent partner for the Sparda-Banks in all questions concerning bank management.

The foreign notes and coins business successfully acquired trading activities of other banks in 1998. This growth strategy is being continued.

Parallel to the "Year 2000 compatibility" project, our IT system landscape has to be harmonised from the point of view of the cooperative financial system and electronic communication expanded. Access to modern information media will support the internationalisation of the bank and its customer

image as well as improve internal communication processes between all locations.

Finally, we have to find strategic answers to the Year 2000 requirements for ReiseBank, which has set itself ambitious targets for 1999. Things are already auguring well.

With these many individual measures, we will continue with the positive development seen last year and reach a result for the 1999 financial year which should again enable the payment of a higher dividend.

Management report for the Group and the parent bank

Deutsche VerkehrsBank's first Group financial statements, which include International Transport Finance Ltd., ReiseBank AG and CashExpress GmbH, reflect a particular year for the bank. Through the acquisition of the "International Aviation and Shipping Finance" division from Long-Term Credit Bank of Japan Ltd., Deutsche VerkehrsBank acquired a total loan portfolio of DM 2.8 billion making it one of Europe's leading aviation finance banks.

In the domestic branch business, the bank likewise consistently pursued its goal of positioning itself as advisory bank to the transport industry. The expansion of its competence in the transport sector was promoted by the process of building up know-how as well as the grouping of sales and credit responsibility in four regions and consolidating the branch business in nine know-how centres.

In order to ensure the stability and quality of Deutsche VerkehrsBank as a specialist bank long term, its own technical capabilities are being concentrated on customer-based services. As a result, Deutsche VerkehrsBank transferred its securities settlement and management activities on 7 December, 1998 to Bank für Wertpapierservice und -systeme Aktiengesellschaft

(bws bank). bws bank, whose roots lie in the cooperative financial system and Deutsche Börse AG, can realise synergies through the grouping together of volumes, resources and technical know-how.

There was again a strong rise in **business volume** of the Deutsche VerkehrsBank Group in 1998 of 22.9 % to DM 14.8 billion. The lending business was the driving force here. Short-term due from customers, which includes receivables from freight deferment, rose to DM 2.5 billion at the end of the year. Long-term due from customers grew as well, also as a result of the acquisition of the aviation and shipping loan portfolio, to DM 2.5 billion. Correspondingly, the **volume of cash and guarantee credits in the customer business** rose by 47.4 % compared to the previous year to DM 5.6 billion. Total **lending volume** grew by 23.5 % to DM 14.6 billion.

The expansion of business activities led to a rise in the **Group balance sheet total** of 23.2 % to DM 12.8 billion.

**MANAGEMENT REPORT
FOR THE GROUP AND THE PARENT BANK**

Owing to the discontinuation of the rediscount facility at the Deutsche Bundesbank, **contingent liabilities from rediscounted bills of exchange** fell by 37 % to DM 41.6 million. **Liabilities from guarantees and war-rantees** rose by 12.7 % to DM 835 million.

In the **freight deferment schemes** managed by Deutsche VerkehrsBank, freight and similar payments totalling DM 7.4 billion were handled. This corresponds to a reduction of 5.1 % compared to the previous year's figure of DM 7.8 billion which can be put down to less tonnage in the rail transport business.

Customer deposits were up by 35.8 % on year-end 1997 to DM 3.7 billion due to the increase in short-term deposits on the reporting date. **Inter-bank items** also rose: due to banks was up by 4.9 % to DM 7 billion, while the total due from banks rose by 10.2 % to DM 6 billion.

The volume of Deutsche Verkehrs-Bank's **securities holdings** rose by 11.8 % to DM 1.7 billion.

Overall turnover in securities advanced to DM 110.5 billion (+44.6 %)

due above all to the expansion of own-account trading activities.

As in previous years, Deutsche VerkehrsBank also offered its customers **derivative interest rate instruments** in 1998 as well as using them for hedging its own interest rate positions. The nominal value of such contracts including forward exchange deals amounted to DM 16.4 billion (-8.8 %) throughout the Group at the end of the year. The **credit equivalent** after risk weighting was shown as DM 571 million as at December 31, 1998.

Net interest income was up by 9.7 % to DM 72.2 million on account of the greater volume of business. We were also able to post a pleasing rise in **net commission income** of 12.8 % to DM 116.4 million. Alongside a further increase in securities turnover as well as growth of the foreign notes and coins business and the expansion of ReiseBank's product range, newly-developed electronic banking products also contributed to this good result.

Net income from financial transactions was 3.6 % higher at DM 25.6 million in turbulent markets. Overall, Group **net income** for the year advanced to DM 9.7 million after a balanced result the previous year. This result

MANAGEMENT REPORT
FOR THE GROUP AND THE PARENT BANK

will enable us to submit a proposal to the annual general meeting of Deutsche VerkehrsBank AG for the payment of a dividend of DM 5 per DM 50 nominal share.

At DM 178.5 million at the Group, **administrative expenses** were up by 8.2 % on the previous year. While **personnel expenses** only rose by 2.3 % to DM 91.1 million despite the hiring of further financial and transport experts, we recorded a 15.1 % rise to DM 87.4 million in **other administrative expenses** for the banking business including depreciation and value adjustments on tangible and intangible assets. Advisory costs for the acquisition of the aviation and shipping loan portfolio as well as investments in the installation of state-of-the-art information and settlement systems and costs for the introduction of the euro and conversion to the Year 2000 made themselves felt here.

At the end of 1998, the Deutsche VerkehrsBank Group employed 774 people, 25 fewer than in 1997.

The bank maintained nine domestic branches for its corporate customer business at the end of the year under review as well as a representative office in Basle and a branch in London. It also has a representative office in New York and a branch in Tokyo via its London-based subsidiary International Transport Finance Ltd.

Deutsche VerkehrsBank has made use of the option provided for by the German Banking Act of forming **sub-ordinated equity** by issuing profit-sharing certificates amounting to DM 175 million and subordinated liabilities of DM 85 million nominal. Given corresponding business growth and favourable capital market conditions, the bank will raise further funds of this type.

**MANAGEMENT REPORT
FOR THE GROUP AND THE PARENT BANK**

Development and composition of core capital

in DM m	1998	1997	1996	1995	1994
Share capital and reserves					
(subscribed capital)	99.8	99.8	89.8	75.0	75.0
Capital reserves					
	92.5	92.5	69.2	35.0	35.0
Revenue reserves					
legal reserves	3.5	3.5	2.5	2.5	2.5
other revenue reserves	100	100	133	133	130
Core capital pursuant to Section 10 para. 2a German Banking Act					
	295.8	295.8	294.5	245.5	242.5

The extraordinary general meeting on 23 September, 1998 authorised the bank to raise the share capital through the issue of new shares by DM 25.2 million. Partial use was made of this authorisation by raising the share capital by DM 12.5 million in the first quarter of 1999. There were no further events of major significance up to the end of the financial year.

The Board of Managing Directors expects a result in the **current financial year** which equals the positive trend last year and which should enable an increase in the dividend. This is subject to an increase in revenue from the corporate banking business, the expansion of the structured financing business as well as growing earnings contributions from other business areas and the subsidiaries. Our target is

the sustained improvement of our cost-income ratio as well as our return on equity rather than pure volume growth. We are confident that we can reach these targets in order to arrive at a lastingly better overall result.

Risk management for the early identification of risks is becoming more and more important in the light of the growing complexity of the markets in the banking business. We see this as a central task. The staff divisions responsible for risk management report directly to the Chairman of the Board of Managing Directors.

MANAGEMENT REPORT
FOR THE GROUP AND THE PARENT BANK

When managing risks, we differentiate between credit, market and operating risks with the emphasis placed on **credit risks**. The staff division credit risk management is responsible for risk management and control. This responsibility comprises in particular the implementation of lending principles and credit policy guidelines, intensive customer servicing of problem loans as well as the realisation of collateral and the processing of terminated and insolvent loans, respectively. Through the reduction of problem loans, the risk structure of our loans improved in the year under review and we were able to significantly reduce provisioning requirements for credit risks from DM 78 million net to DM 16 million net.

The staff division Treasury and trading control is responsible for the management of **market risks**. The market risks of the whole bank are managed with the help of a limit system the criteria of which are stricter than the provisions of the German Banking Act. We are hardly affected by turmoil on the financial markets, such as the sharp falls on the stock and bond-markets in the latest financial year, as we keep our risk positions to a minimum within the scope of our risk management activities.

Deutsche VerkehrsBank's **operating risks** will relate in 1999 to the conversion to the Year 2000 in particular. Our bank started to make preparations for this early on given the importance of timely conversion measures. A project was set up, for which the Chairman of the Board of Managing Directors is responsible, in which each specialist department as well as all major related companies are involved and which is accompanied by the internal auditing department. Alongside inventory-taking of all hardware and software systems, which was completed in July last year, software and hardware manufacturers as well as lessors of properties used, foreign correspondent banks, issuers and customers were contacted in respect of a guarantee in connection with the Year 2000. By mid-1999, individual system and integration tests will be carried out in a separate test environment in order that conversion to the Year 2000 is completed on schedule by 30 June, 1999.

MANAGEMENT REPORT
FOR THE GROUP AND THE PARENT BANK

In the **operating business**, the foreign notes and coins business will be directly affected by the introduction of the euro. The elimination of eleven high-turnover currencies will lead to the sustained loss of profits. We therefore expanded our strong market position here early on with the acquisition of the foreign notes and coins and precious metals trading business from DG BANK and can offer other banks our foreign notes and coins services from this position. In the private customer business, our ReiseBank subsidiary is pursuing the strategy of expanding its key areas of competence in the foreign notes and coins business and diversifying its product range through new distribution channels (mail order, the Internet) and new locations in Europe.

Deutsche VerkehrsBank is associated with DG BANK Deutsche Genossenschaftsbank and its group companies in accordance with Sections 15 and 18 of the German Stock Corporation Act (AktG).

Deutsche VerkehrsBank was incorporated and consolidated into the DG BANK Deutsche Genossenschaftsbank

Group financial statements as at December 31, 1998.

A separate report on relationships with affiliated companies has been submitted to the Supervisory Board by the Board of Managing Directors in accordance with Section 312 AktG, stating:

"In the light of the circumstances known to the Board of Managing Directors at the time at which legal transactions subject to the reporting requirements took place, our company received appropriate compensation in each case. We neither took nor omitted actions subject to the reporting requirements in the 1998 financial year".

GROUP BALANCE SHEET
AS AT 31 DECEMBER, 1998

ASSETS (DM '000)

	Notes	1997
Cash on hand and at banks	(1)	
a) cash on hand		124,352
b) balances with central banks		149,547
of which: with Deutsche Bundesbank		129,195
c) balances with post office banks		508
		<u>274,407</u>
		<u>375,860</u>
Debt instruments of public-sector entities	(2)	
and bills of exchange eligible for refinancing		
at central banks		
a) treasury bills, discountable treasury notes and similar debt		—
instruments of public-sector entities		—
of which: eligible for refinancing at Deutsche Bundesbank		—
b) bills of exchange		6,234
of which: eligible for refinancing at Deutsche Bundesbank		<u>6,234</u>
Due from banks	(3)	
a) payable on demand		3,618,317
b) other claims		<u>2,369,310</u>
		<u>5,987,627</u>
		<u>5,431,251</u>
Due from customers	(4)	
of which: secured by mortgages		—
loans to public authorities		702,520
Bonds and other fixed-interest securities	(5)	
a) money market instruments:		—
aa) of public-sector issuers		—
ab) of other issuers		—
b) Bonds and notes		—
ba) of public-sector issuers		45,419
of which: eligible as collateral at Deutsche Bundesbank		107
bb) of other issuers		<u>1,204,750</u>
of which: eligible as collateral at Deutsche Bundesbank		1,250,169
c) own bonds		<u>1,250,169</u>
nominal amount		<u>1,103,165</u>
Shares and other variable-yield securities	(6)	443,092
Investments	(7)	411,422
a) Investments		22,724
of which: in banks		32,724
b) of which: in cooperative banks		56
of which: in credit cooperatives		<u>22,780</u>
		<u>32,777</u>
Shares in related companies	(8)	1,969
Tangible assets	(9)	29,461
Other assets	(10)	48,673
Accrued and deferred items	(11)	<u>22,537</u>
Total assets		<u>12,840,250</u>
		<u>10,425,632</u>

LIABILITIES (DM '000)

1997

Notes

Due to banks	(1)		
a) payable on demand		2,995,957	3,338,046
b) with agreed term or period of notice		4,003,218	3,334,202
			6,999,175
			6,672,248
Due to customers	(2)		
a) savings deposits		—	—
aa) with agreed period of notice of three months		—	—
ab) with agreed period of notice of more than three months		—	—
b) other liabilities			
ba) payable on demand		2,037,404	1,707,203
bb) with agreed term or period of notice		1,618,063	985,047
			3,655,467
			2,692,250
Liabilities in certificate form	(3)		
a) bonds issued		1,401,855	453,209
b) other liabilities in certificate form		103,950	103,500
			1,505,805
of which: money market instruments		—	
own acceptances and promissory notes in circulation	103,950		
Other liabilities	(4)		
Accrued and deferred items	(5)		
Provisions	(6)		
a) reserves for pensions and similar liabilities		13,650	12,642
b) for taxes		4,896	1,220
c) other provisions		54,914	53,571
			73,460
			67,433
Special item with the character of a provision	(7)		
Subordinated liabilities	(8)		
Profit-sharing certificates outstanding	(9)		
of which: due within two years			
Share capital and reserves	(10)		
a) subscribed capital		99,818	99,818
b) capital reserves		92,515	92,515
c) revenue reserves			
ca) legal reserve	3,500		3,500
cb) other revenue reserves	100,000		100,000
			103,500
d) distributable profit		9,789	33,000
			305,622
			328,833
Total Liabilities and Shareholders' Equity			12,840,250
			10,425,632
Contingent liabilities			
a) contingent liabilities from rediscounted bills of exchange		41,622	66,013
b) liabilities from guarantees and warranties (indemnity agreements)		835,041	741,698
c) liabilities from the provision of collateral on behalf of third parties		—	—
			876,663
			807,711
Other liabilities			
a) arising from the sale of assets subject to repurchase agreements		—	—
b) placement and underwriting commitments		—	—
c) irrevocable loan commitments		314,289	51,202
			314,289
			51,202

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 1998**

EXPENSES (DM '000)

1997

Notes

Interest expense		325,344	277,173
Commission expense		6,244	3,330
Administrative expenses			
a) personnel expenses:			
aa) wages and salaries	73,943		71,053
ab) compulsory social security contributions, expenses for pensions and other employee benefits	17,187		18,046
of which: for pensions	4,697	91,130	
b) other administrative expenses		76,480	65,630
			167,610
			154,729
Depreciation and value adjustments on tangible and intangible assets		10,894	10,268
Other operating expenses	(1)	9,386	7,062
Depreciation and value adjustments on loans and certain securities, provisions for possible loan losses		15,820	70,207
Depreciation and value adjustments on participations, shares in related companies and securities treated as fixed assets		2,144	—
Allocation to the special item with the character of a provision		1,025	—
Income taxes		3,338	526
Other taxes, unless reported under other operating expenses		1,467	3,352
Net income for the year		9,729	454
Total expenses		553,001	527,101
 Net income for the year		9,729	454
Profit carried forward from the previous year		60	—
		9,789	454
Withdrawals from undistributed profits			
a) legal reserve		—	—
b) other revenue reserve		—	33,000
		—	33,454
Allocation to revenue reserves			
a) legal reserve		—	—
b) other revenue reserve		—	454
 Distributable profit		9,789	33,000

INCOME (DM '000)

1997

	Notes		
Interest income from	(1)		
a) lending and money market business		315,993	271,993
b) fixed-interest securities and registered loans		<u>55,287</u>	<u>55,827</u>
		371,280	327,820
Current income from	(2)		
a) shares and other variable-interest securities		25,433	14,430
b) participating interests and investments in cooperative banks		<u>810</u>	<u>726</u>
		26,243	15,156
Commission income	(3)		122,673 106,522
Net income from financial transactions	(4)		25,626 24,655
Income from write-ups on participating interests, shares in related companies and securities treated as fixed assets		—	12,066
Other operating income	(5)		7,179 40,882
Total income		553,001	527,101

PARENT BANK BALANCE SHEET
AS AT 31 DECEMBER, 1998

ASSETS (DM '000)

	Notes	1997
Cash on hand and at banks	(1)	
a) cash on hand		50,631
b) balances with central banks		148,676
of which: with Deutsche Bundesbank		148,676
c) balances with post office banks		—
		<u>274</u>
		<u>199,307</u>
		<u>300,476</u>
Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	(2)	
a) treasury bills, discountable treasury notes and similar debt instruments of public-sector entities		—
of which: eligible for refinancing at Deutsche Bundesbank		—
b) bills of exchange		—
		<u>6,234</u>
of which: eligible for refinancing at Deutsche Bundesbank		<u>6,234</u>
Due from banks	(3)	
a) payable on demand		3,670,074
b) other claims		<u>2,369,310</u>
		<u>6,039,384</u>
		<u>5,499,089</u>
Due from customers	(4)	
of which: secured by mortgages		—
loans to public authorities		702,520
Bonds and other fixed-interest securities	(5)	
a) money market instruments		—
aa) of public-sector issuers		—
ab) of other issuers		—
b) Bonds and notes		—
ba) of public-sector issuers		45,419
of which: eligible as collateral at Deutsche Bundesbank		107
bb) of other issuers		<u>1,204,750</u>
of which: eligible as collateral at Deutsche Bundesbank		686,669
c) own bonds		<u>1,250,169</u>
nominal amount		<u>1,250,169</u>
		<u>1,103,165</u>
Shares and other variable-yield securities	(6)	<u>443,092</u>
Investments	(7)	<u>411,422</u>
a) Investments		22,724
of which: in banks		6,007
b) of which: in cooperative banks		<u>56</u>
of which: in credit cooperatives		<u>22,780</u>
Shares in related companies	(8)	<u>12,097</u>
of which: in banks		10,000
in financial services companies		100
Tangible assets	(9)	<u>18,803</u>
Other assets	(10)	<u>43,071</u>
Accrued and deferred items	(11)	<u>11,135</u>
Total assets		<u>12,277,384</u>
		<u>10,415,118</u>

LIABILITIES (DM '000)

1997

	Notes		
Due to banks	(1)		
a) payable on demand		2,995,694	3,338,046
b) with agreed term or period of notice		3,454,089	3,334,203
		6,449,783	6,672,249
Due to customers	(2)		
a) savings deposits		—	—
aa) with agreed period of notice of three months		—	—
ab) with agreed period of notice of more than three months		—	—
b) other liabilities		—	—
ba) payable on demand		2,037,404	1,707,203
bb) with agreed term or period of notice		1,618,063	985,046
		3,655,467	2,692,249
Liabilities in certificate form	(3)		
a) bonds issued		1,401,855	453,209
b) other liabilities in certificate form		103,950	103,500
		1,505,805	556,709
of which: money market instruments	—	—	—
own acceptances and promissory notes in circulation	103,950		
Other liabilities	(4)		
Accrued and deferred items	(5)		
Provisions	(6)		
a) reserves for pensions and similar liabilities		13,588	12,630
b) for taxes		4,792	1,220
c) other provisions		44,015	44,126
		62,395	57,976
Special item with the character of a provision	(7)		
Subordinated liabilities	(8)		
Profit-sharing certificates outstanding	(9)		
of which: due within two years	—	—	—
Share capital and reserves	(10)		
a) subscribed capital		99,818	99,818
b) capital reserves		92,515	92,515
c) revenue reserves		2,500	2,500
ca) legal reserve		—	—
cb) other revenue reserves	100,000		100,000
		102,500	
d) distributable profit		9,982	33,000
		304,815	327,833
Total Liabilities and Shareholders' Equity		12,277,384	10,415,118
Contingent liabilities			
a) contingent liabilities from rediscounted bills of exchange		41,621	66,013
b) liabilities from guarantees and warranties (indemnity agreements)		1,378,960	741,698
c) liabilities from the provision of collateral on behalf of third parties		—	—
		1,420,581	807,711
Other liabilities			
a) arising from the sale of assets subject to repurchase agreements		—	—
b) placement and underwriting commitments		—	—
c) irrevocable loan commitments		282,502	51,202
		282,502	51,202

PARENT BANK PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 1998

EXPENSES (DM '000)

1997

Notes

Interest expense		321,347	277,173
Commission expense		6,174	3,312
Administrative expenses			
a) personnel expenses			
aa) wages and salaries	47,750		46,974
ab) compulsory social security contributions,			
expenses for pensions and other employee benefits	11,567		12,363
of which; for pensions	3,901	59,317	
b) other administrative expenses		53,502	44,817
			112,819
			104,154
Depreciation and value adjustments on tangible and intangible assets		7,295	6,994
Other operating expenses	(1)	7,738	3,112
Depreciation and value adjustments on loans and certain securities, provisions for possible loan losses		15,820	70,207
Depreciation and value adjustments on participations, shares in related companies and securities treated as fixed assets		2,144	—
Expenses from assumption of loss		684	252
Allocation to the special item with the character of a provision		1,025	—
Income taxes		3,234	526
Other taxes, unless reported under other operating expenses		1,458	3,249
Net income for the year		9,922	—
Total expenses		489,660	468,979
Net income for the year		9,922	—
Profit carried forward from the previous year		60	—
		9,982	—
Withdrawals from undistributed profits			33,000
Allocations to revenue reserves			—
a) legal reserve		—	—
b) other revenue reserve		—	—
Distributable profit		9,982	33,000

INCOME (DM '000)

1997

	Notes		
Interest income from	(1)		
a) lending and money market business		314,177	274,278
b) fixed-interest securities and registered loans		55,287	55,827
		369,464	330,105
Current income from	(2)		
a) shares and other variable-interest securities		25,433	14,429
b) participating interests and investments in cooperative banks		810	727
		26,243	15,156
Income from profit pooling, profit transfer or partial profit transfer agreements			
Commission income	(3)		
Net income from financial transactions	(4)		
Income from write-ups on participating interests, shares in related companies and securities treated as fixed assets			
Other operating income	(5)		
Total income		489,660	468,979

Notes to the accounts (Group and parent bank) as at 31 December, 1998

Preliminary remarks

The financial statements for the Deutsche VerkehrsBank Group and for the parent bank for the year ending 31 December, 1998 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch) and the German Stock Corporation Act (Aktiengesetz) as well as the Order on the Accounting of Credit Institutions (Verordnung über die Rechnungslegung der Kreditinstitute).

The bank has prepared consolidated financial statements for the first time of its own accord. The notes to the accounts for the Group and the parent bank have been consolidated; the notes apply to both sets of financial statements unless stated otherwise.

The method of itemisation for the balance sheet has been supplemented with the breakdown stipulated for the regional cooperative banks.

Explanatory details on the balance sheet and profit and loss account have been given generally in the notes to the accounts.

Use has been made of the offsetting options provided for in the German Commercial Code and the Order on the Accounting of Credit Institutions.

Consolidated Group

The consolidated Group pursuant to Section 294 of the German Commercial Code includes ReiseBank AG, Frankfurt am Main, CashExpress GmbH, Frankfurt am Main and International Transport Finance Ltd. (ITFL), London. Deutsche VerkehrsBank AG holds 100% of the capital in each case.

Two companies were not included in the consolidated accounts on account of their minor importance pursuant to Section 296 para. 2 of the German Commercial Code. The inclusion of an associated enterprise and the proportionate consolidation of a company was waived pursuant to Sections 311 and 310 of the German Commercial Code on account of their minor significance.

Principles of consolidation

The financial statements of the companies included in the consolidated financial statements are uniformly prepared to the same Group-wide cut-off date.

Investments are consolidated according to the German book value method, the acquired equity share being set off against the purchase cost. There are no asset or liabilities-side balancing items.

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

Presentation and valuation

The uniform accounting and valuation guidelines of Deutsche VerkehrsBank AG were used for all the companies included in the Group financial statements.

A fixed valuation was formed for the **inventories of printed forms**.

Due from banks and customers

(asset items 3 and 4) is shown at its nominal value. Adequate risk provisions were made for problem claims. Premiums paid and discounts received are shown under accrued and deferred items and are collected and released equally during the capital commitment period.

Liabilities (liability items 1 and 2) are shown at their repayment value.

Fixed-interest **investments and marketable securities** (asset item 5) and **special funds** (asset item 6) were valued at the lower of cost or market at purchase cost or lower market value. **Participating interests** (asset item 7) are shown at purchase cost or lower attributable value.

Pension reserves (liability item 6) were calculated at their partial value according to actuarial principles in accordance with Section 6 a of the Income Tax Act (Einkommensteuergesetz) applying an interest rate of 6% p.a. The calculation is still based on the standard tables drawn up by Dr. Klaus Heubeck in 1983. The application of the new 1998 standard tables would result in an increase in provisions of DM 1.1 million of which 25% would be allocated to the net amount for the financial year pursuant to Statement 3/98 the Central Expert Committee of the German Institute of Public Accountants. The remaining provisions were calculated to take account of all identifiable risks.

Tangible assets (asset item 9) are shown at manufacturing or purchase cost less depreciation proportionate to the period. Acquisitions of movable assets are depreciated using the declining balance method. Depreciation was taken for the full year on acquisitions in the first half of the year and for a half-year on acquisitions in the second half of the year. Minor-value assets are written off in full in the year of acquisition.

Allocations to the reserves for the anniversary celebrations were made to the extent permissible for tax purposes.

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

The **special item with the character of a provision** (liability item 7) was endowed under the terms of Section 6 b of the Income Tax Act.

Assets and liabilities denominated in **foreign currency** as well as unsettled spot transactions were translated at the spot rate while unsettled futures transactions were translated at the forward rate. While there was no special cover for these items, income was compensated by translation losses in the same currency.

Participating interests and tangible assets denominated in foreign currency were translated into D-marks using historical rates. The results of foreign subsidiaries and own foreign branches were translated using the average monthly rates.

Financial derivatives were valued in accordance with Statements 2/87 and 2/95 of the Banking Expert Committee of the German Institute of Public Accountants and Section 340 h of the German Commercial Code. Valuation units were formed within these products for selected traditional financial instruments as well. The principle of loss-free valuation was applied for covered positions. Adequate provisions were made for open positions with cover risks.

Foreign notes and coins were valued at the bank bid rate.

Notes to the balance sheet

The item **other claims on banks** (asset item 3) breaks down into the following originally agreed terms or periods of notice:

	Parent bank DM m	Group DM m
Less than 3 months	1,055	1,055
3 months or more but less than 1 year	296	296
1 year or more but less than 5 years	666	666
5 years or more	352	352

Total due from banks not in certificate form at the parent bank includes due from related companies of DM

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

2,979 million, of which DM 2,658 million from DG BANK Deutsche Genossenschaftsbank, Frankfurt am Main, DM 200 million from DG BANK Luxembourg, DM 67 million from ReiseBank AG, Frankfurt am Main, as well as DM 729 million from the affiliated Sparda-Banks.

Due from companies linked by a participating interest not in certificate form amounted to DM 1.3 million.

Subordinated claims came to DM 10 million.

Due from customers (asset item 4) breaks down into the following residual terms or periods of notice:

	Parent bank DM m	Group DM m
Payable on demand	302	223
Less than 3 months	671	674
3 months or more but less than 1 year	448	448
1 year or more but less than 5 years	942	1,249
5 years or more	1,875	2,164

Due from related companies not in certificate form amounted to DM 127 million of the total amount at the parent bank and DM 125 million at the Group.

The item **bonds and other fixed-interest securities** at the parent bank (asset item 5) includes securities eligible for stock exchange listing to the value of DM 1,250 million of which DM 1,039 million are listed securities.

These securities are valued at the lower of cost or market.

DM 127 million of total bonds and other securities will fall due in 1999.

Of the total amount, bonds and notes of related companies account for DM 307 million.

The item **shares and other variable securities** at the parent bank (asset item 6) amounting to DM 443 million includes securities eligible for stock market trading to the value of DM 11 million. The rights of ownership from four special funds included under fixed assets with a volume of DM 432 million including proportionate interest of DM 2 million are also shown here.

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

Shareholdings

Deutsche VerkehrsBank's shareholdings as defined by Section 285 no. 11 and Section 313 para. 2 of the German Commercial Code included the following companies at the balance sheet date:

	Stake %	Equity capital DM	Result for the year DM
ReiseBank AG, Frankfurt am Main¹⁾	100	11,000,000.–	0
CashExpress Gesellschaft für Finanz- und Reisedienstleistungen mbH, Frankfurt am Main¹⁾	100	100,000.–	0
International Transport Finance Limited, London	100	28,908.–	– 192,305.40
Zweite GfW Gesellschaft für Waggonleasing mbH & Co. KG, Berlin	99,5	10,000.–	– 27,191.91
GVZ-Entwicklungsgesellschaft mbH, Dresden	50	50,000.–	0
DVL Deutsche Verkehrs-Leasing GmbH, Eschborn	39	5,000,000.–	751,715.84
LDZ Weil am Rhein, Finanzberatung GBR, Weil am Rhein	33,3	1,500.–	0

1) There is a profit transfer agreement with Deutsche VerkehrsBank.

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

**Tangible assets and financial assets
Statement of asset additions and
disposals for the parent bank**

	Purchase costs	Additions	Disposals	Transfers	Depreciation cumulated	Depreciation in 1998	Residual book value as at 31.12.1998
	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000
Securities treated as fixed assets	464,033	50,247	45,282	0	10,984	6,431	458,014
Participating interests and investments in cooperative banks	34,383	9	10,306	25	1,331	0	22,780
Shares in related companies	12,119	28	25	-25	0	0	12,097
Land and buildings	21,884	0	10,172	0	6,334	299	5,378
Equipment	46,407	6,096	13,274	0	25,804	6,996	13,425
Tangible assets	68,291	6,096	23,446	0	32,138	7,295	18,803
	578,826	56,380	79,059	0	44,453	13,726	511,694

Statement of asset additions and disposals for the Group

	Purchase costs	Additions	Disposals	Transfers	Depreciation cumulated	Depreciation in 1998	Residual book value as at 31.12.1998
	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000
Securities treated as fixed assets	464,033	50,247	45,282	0	10,984	6,431	458,014
Participating interests and investments in cooperative banks	34,383	9	10,306	25	1,331	0	22,780
Shares in related companies	2,018	0	25	-25	0	0	1,968
Land and buildings	21,884	0	10,172	0	6,334	299	5,378
Equipment	61,823	12,144	14,012	0	35,873	10,595	24,082
Tangible assets	83,707	12,144	24,184	0	42,207	10,894	29,460
	584,141	62,400	79,797	0	54,522	13,325	512,222

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

DM 16,968,000 of the **participating interests** (asset item 7) are eligible for stock exchange listing but are unlisted. DM 10,000,000 of the **shares in related companies** (asset item 8) at the parent bank are eligible for stock exchange listing but are unlisted. All commercial buildings (DM 4,684,000) are used for own operations. Partial areas are rented to third parties.

The item land and buildings amounting to DM 5,378,000 also includes three residential buildings amounting to DM 694,000 which are used primarily to accommodate employees.

Other assets at the Group (asset item 10) amounting to DM 48,673,000 include inter alia precious metal bars, gold and silver commemorative coins amounting to DM 20,139,000, tax refund claims of DM 6,791,000, option premiums of DM 12,974,000, vignettes for motorway tolls of DM 3,731,000 and other holdings.

Accrued and deferred items at the Group (asset item 11) of DM 22,537,000 include inter alia capitalised discounts pursuant to Section 268 para. 6 of the German Commercial Code amounting to DM 1,205,000, premiums of DM 8,407,000 (parent bank: DM 5,800,000) pursuant to Section 340 e para. 2, interest from forward rate agreements of DM 988,000 and the deferral of charges for the rediscounting of bills amounting to DM 446,000.

Due to banks breaks down into the following originally agreed terms or periods of notice (liability item 1):

	Parent bank DM m	Group DM m
Less than 3 months	1,799	2,165
3 months or more but less than 1 year	258	441
1 year or more but less than 5 years	803	803
More than 5 years	594	594

DM 795 million fell upon due to related companies not in certificate form at the parent bank. This amount included due to DG BANK Deutsche Genossenschaftsbank, Frankfurt am Main, of DM 424 million and to DG BANK Luxembourg of DM 40 million. DM 0.1 million fell upon due to companies linked by a participating interest (Österreichische Verkehrskreditbank AG, Vienna).

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

The total amount at the parent bank includes due to the affiliated Sparda-Banks of DM 4,448 million.

Borrowings within the scope of open market transactions came to DM 165 million as at 31 December, 1998. In addition, there was a Lombard loan of DM 2 million.

Other due to customers breaks down into the following originally agreed terms or notice periods (liability item 2):

	Parent bank DM m	Group DM m
Less than 3 months	704	704
3 months or more but less than 1 year	361	361
1 year or more but less than 5 years	62	62
5 years or more	491	491

Liabilities arising from the freight deferment procedure amounted to DM 128 million (31 December, 1997: DM 86 million).

Of the total amount, due to related companies not in certificate form amounted to DM 8.3 million and due to companies linked by a participating interest to DM 10.8 million.

Liabilities in certificate form

(liability item 3) have the following maturity structure:

	Parent bank DM m	Group DM m
Less than 3 months (other liabilities in certificate form)	104	104
1 year or more (bonds issued)	1,402	1,402

Bonds issued are in the form of bearer securities. The total amount includes DM 200.7 million nominal due to related companies (DG BANK).

Other liabilities at the Group (liability item 4) of DM 25,682,000 include inter alia interest on participation certificate capital of DM 7.7 million and premiums received for caps and floors of DM 14.6 million

Accrued and deferred items

at the Group (liability item 5) of DM 12,957,000 include inter alia discounts on purchased or directly granted loans of DM 9,742,000.

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

Subordinated liabilities at the parent bank (liability item 8) of DM 85 million nominal include the following issues:

Amount in DM m	Currency	Interest rate in %	Maturity
10	DEM	5.01	2008
5	DEM	5.06	2008
10	DEM	5.12	2008
10	DEM	5.14	2008
5	DEM	5.15	2008
5	DEM	5.18	2008
10	DEM	5.23	2008
30	DEM	5.24	2008

The subordinated borrowings do not involve any early redemption liability on the part of Deutsche VerkehrsBank AG. The rights arising from these liabilities including entitlement to interest are secondary to the non-subordinated claims of all the issuer's other creditors in the event of bankruptcy, liquidation or composition.

All subordinated liabilities comply with the requirements of Section 10 para. 5 a of the German Banking Act. There is no agreement to convert these funds to capital or another form of debt.

In the year under review, the liabilities shown under this heading resulted in expense amounting to DM 1,057,000.

Participation capital at the parent bank (liability item 9) of DM 175 million nominal includes the following issues:

Amount in DM m	Currency	Interest rate in %	Maturity
75	DEM	6.75	2004
100	DEM	6.27	2007

The participation certificate capital authorised by the ordinary general meetings in 1993 and 1998 has been issued in accordance with the provisions of Section 10 para. 5 of the German Banking Act. This capital participates to the full extent in potential losses. Interest payments are only made subject to the availability of unappropriated profit. Participation certificate holders' entitlements to repayment of their capital are subordinate to the rights of other creditors.

Servicing the interest on the participation capital stock involved expense of DM 7.7 million in 1998, which is shown under "Other liabilities".

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

Shareholders' equity at the Group

(liability item 10) amounted to DM 305,622,000 at the end of 1998.

The **share capital** (subscribed capital) of the bank of DM 99,818,000 nominal is divided into 1,996,356 bearer shares of DM 50 each. DG BANK Deutsche Genossenschaftsbank, Frankfurt am Main, holds 63 % of the share capital, the Sparda-Banks 15 %, KRAVAG-HOLDING AG 10 % and Deutsche Bahn AG 1 %. The remaining shares are widely spread.

The extraordinary general meeting on 23 September, 1998 authorised the Board of Managing Directors to increase the share capital through the issue of new shares against cash payments once or more than once by up to a total nominal amount of DM 25,182,200 on or before 22 September, 2003. The shareholders are basically to be granted a right of subscription. The Board of Managing Directors did not make use of the authorised capital in the year under review. The extraordinary general meeting also authorised the Board of Managing Directors to issue participating rights totalling DM 75,000,000 on or before 22 September, 2003 once or more than once. The shareholders are basically to be granted a right of subscription. No use of this authorisation was made in the year under review.

The reserves as defined by Section 10 para. 2b sentence 1 no. 6 in conjunction with Section 10 para. 4a sentence 1 no. 4 of the German Banking Act which are treated as equity capital as defined by the bank supervisory authorities amount to DM 6,512,000.

The Group's **contingent liabilities** include endorsement liabilities from rediscounted bills of exchange amounting to DM 42 million as well as from guarantees and warrantees of DM 835 million.

Other liabilities amounting to DM 314 million consist essentially of irrevocable loan undertakings for aircraft financing.

Contingent liabilities not visible from the balance sheet

There is an additional funding requirement of up to three times the shareholding, which amounted to DM 856,000 as at 31 December, 1998, for the stake held in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main.

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

Other information

Deutsche VerkehrsBank is a member of the protection scheme provided by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken.

Deutsche VerkehrsBank is also affiliated with Pension-Sicherungs-Verein a.G. The premiums paid to this organisation are raised according to the allocation method.

The bank runs a pension fund in the legal form of a mutual insurance association and is obliged to pay premiums for insured employees.

The Group balance sheet includes assets denominated in foreign currency amounting to DM 2,841,138,000 as well as liabilities amounting to DM 867,245,000. The balance sheet of the parent bank includes assets denominated in foreign currency amounting to DM 2,296,029,000 as well as liabilities amounting to DM 389,787,000.

The exchange risk is hedged to a large extent through spot currency purchases amounting to DM 146,549,000 and forward currency purchases of DM 143,470,000 as well as spot currency sales of DM 23,714,000 and forward currency sales of DM 2,166,421,000, cross-currency interest swaps of DM 75,405,000 and through

options purchases amounting to DM 5,856,000 and options sales of DM 5,856,000. The holdings of foreign notes and coins of DM 50,613,000 remain unsecured within tolerable ranges owing to permanent cash management.

Notes to the profit and loss account

Group net interest income

(income item 1) of DM 371,280,000 in total includes income from bank investments of DM 125,807,000, from fixed-interest securities of DM 55,287,000 as well as from the customer lending business of DM 190,186,000. The London branch of Deutsche Verkehrs-Bank generated income from transactions with internationally-operating customers of DM 17,353,000 and the subsidiary ITFL Ltd. interest of DM 4,613,000.

Current income (income item 2)

was generated exclusively by domestic branches.

Group commission income

(income item 3) of DM 122,673,000 includes inter alia income from the management and brokerage services in the custody and securities business as

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

well as from publicly-offered and special funds. Commission income at ReiseBank of DM 79,899,000 includes essentially income from the foreign notes and coins business, income from cash dispensers, global cash transfer in cooperation with Western Union and the sale of vignettes, credit charges on credit cards as well as other commission. The income was generated almost exclusively by domestic branches.

Group net income from financial transactions (income item 4) of DM 25,626,000 includes inter alia the result of transactions with foreign notes and coins, precious metals and numismatics (DM 13,228,000), trading account securities (DM 5,662,000) and foreign exchange (DM 6,220,000). The income was generated exclusively by domestic branches.

Other Group operating income (income item 5) of DM 7,179,000 includes essentially profits from the write-back of provisions (DM 1,102,000), tax refund claims (DM 1,900,000), rents (DM 1,639,000) as well as profits from the disposal of fixed assets (DM 541,000). The income originates almost exclusively from domestic branches.

Other Group operating expenses (expense item 1) of DM 9,386,000 include inter alia additions to provisions for advisory fees and the costs of litigation (DM 195,000), loss from the disposal of fixed assets (DM 533,000) and staff expenses (DM 835,000) as

well as additions to provisions for redundancy payments (DM 2,420,000) and key money on account of rental contracts (DM 1,582,000). The expenses affect Germany.

General explanations

The bank carries out **futures transactions** in order to hedge its own currency and interest positions and in trading with its customers.

A substantial part of **forward exchange transactions and options** are entered into to hedge foreign currency loans and deposits, respectively, and for the hedging of holdings of foreign notes and coins. In addition, forward and spot exchange deals and options concluded on behalf of customers are closed out through banking partners. The nominal value of such transactions amounted to DM 2,491,866,000 as at 31 December, 1998, of which DM 1,744,854,000 for directly hedging on-balance sheet transactions.

Transactions with **other derivative instruments** are entered into for trading purposes and for hedging within the scope of asset-liability

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

management as well as for hedging relating to individual transactions. The nominal value of these transactions amounted to DM 13,798 million at the Group as at 31 December, 1998, of which financial swaps DM 9,436 million, forward rate agreements DM 1,090 million and interest options DM 3,233 million.

Of the overall volume of interest transactions of DM 13,798 million, DM 8,367 million was entered into for trading purposes.

Futures and options transactions with other price risks are carried out to a lesser extent on a purely secured basis.

One subsidiary concluded an interest rate hedging transaction of DM 40 million with Deutsche VerkehrsBank.

Employees

Deutsche VerkehrsBank AG employed an average of 443 people in 1998 (1997: 446), of which 168 female and 275 male employees. The average number of employees was calculated excluding trainees, those on leave for educational purposes and doing military or community service, but including temporary staff. At the Group, there were 784 employees on average, of which 339 female and 445 male.

The organs of Deutsche VerkehrsBank AG

Supervisory Board

Dr. Berthold Eichwald, Chairman
Dr. Peter Scharpf, Deputy Chairman
Lutz Baumgartl, since 20 May, 1998
Axel Clemens, since 20 May, 1998
Uwe E. Flach
Dr. Johann Rudolf Flesch,
up to 20 May, 1998
Dr. Eckart John von Freyend
Cornelia Jung
Joachim Krüger
Theo Markert, since 20 May, 1998
Wera Marx, up to 20 May, 1998
Hermann Möller
Dr. Manfred Mücke, since 20 May, 1998
Diethelm Sack
Rudolf Schmitz, up to 20 May, 1998
Theo Wasserhess, up to 20 May, 1998

Board of Managing Directors

Wolfgang F. Driese, Chairman
Anne-Rose Heibel-Dietrich
Klaus W. Heinemann,
since 1 August, 1998
Michael Wiedenroth,
up to 31 October, 1998

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

The remuneration granted for activities in the 1998 financial year amounted to DM 165,200.00 for members of the Supervisory Board and DM 1,678,959.75 for members of the Board of Managing Directors.

Liabilities from guarantees furnished to members of the Board of Managing Directors amounted to DM 21,000.

Retired members of the Board of Managing Directors or their surviving dependants received pension payments from the bank amounting to DM 304,558.66.

Deutsche VerkehrsBank made use of the option provided for in Section 286 para. 4 of the German Commercial Code of partially omitting the disclosures demanded in Section 285 no. 9 b of the German Commercial Code.

Pension reserves for former members of the Board of Managing Directors or their surviving dependants totalled DM 5,447,549.

Cash Flow Statement

The Deutsche VerkehrsBank Group has published a Cash Flow Statement on a voluntary basis for the first time in

the Annual Report 1998. The indirect method is applied which is based on the concept of the extended statement of funds and can be directly deduced from Group accounting.

Deutsche VerkehrsBank defines cash and cash equivalents very narrowly as the sum of cash in hand and at banks and debt instruments of public-sector entities and bills of exchange eligible for refinancing at national central banks.

The Cash Flow Statement shows the change in cash and cash equivalents by breaking down payment flows according to operating activities, investing activities and financing activities.

The allocation to operating activities is defined very widely and is geared towards influential factors on the operating result of ordinary banking activities. The definition of net cash flow used by investing activities is

NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998

essentially limited to proceeds within the scope of disposals and payments from the acquisition of property, equipment and investments, respectively.

External financing via outside capital providers is regarded as ordinary, and hence operating, activity in the case of banks. In the statement, presentation of net cash provided by financing activities is therefore confined to the relationship to our providers of equity.

The change in our cash and cash equivalents within the financial year resulted from three areas of activity plus the shifts in exchange rates. Receivables and payables denominated in foreign currency were translated at the spot mid-rate on the balance sheet date as all foreign currency transactions are subject to separate cover.

Net cash provided by financing activities of DM 153 million could be used to cover investing activities of DM 26 million and operating activities of DM 131 million.

Cash and cash equivalents were reduced by DM 108 million.

Group financial statements

Deutsche VerkehrsBank as parent company is at the same time a subsidiary of DG BANK Deutsche Genossenschaftsbank, Frankfurt am Main.

DG BANK Deutsche Genossenschaftsbank, Frankfurt am Main, prepared Group financial statements and a Group management report as at 31 December, 1998, which are filed with the Municipal Court in Frankfurt am Main, including Deutsche VerkehrsBank thus releasing it from the obligation to prepare a financial statement.

Berlin and Frankfurt am Main,
17 March, 1999

Deutsche Verkehrs-Bank AG

The Board of Managing Directors

Driese

Heibel-Dietrich

Heinemann

**NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998**

**Cash Flow Statement of the Deutsche
VerkehrsBank Group (DM '000)**

	31.12.1998			31.12.1997		
	Adjustments		DM '000	Adjustments		DM '000
	DM '000	DM '000		DM '000	DM '000	
Net income		9,789				33,000
Non-cash positions in net income and adjustments to reconcile net income with net cash provided by operating activities						
Provision for risk in the lending business		16,992				62,978
Write-downs, depreciation and adjustment on property and equipment and investments		10,894				10,766
Change in provisions		8,690				11,232
Change in other non-cash provisions	77,190	0			7,375	
Profit from the sale of investments, property and equipment		0				
Other adjustments (net)	72,178				78,031	
Sub-total	149,368	46,365	– 103,003	85,406	117,976	32,570
	Use of funds	Source of funds	Balance	Use of funds	Source of funds	Balance
	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000
Brought forward	149,368	46,365	– 103,003	85,406	117,976	32,570
Change in assets and liabilities from operating activities after correction for non-cash components						
Due from banks	556,376				1,193,010	
Due from non-bank customers	1,754,625				81,574	
Securities held for dealing purposes in the liquidity reserve	147,004					214,133
Other assets from operating activities		8,981			49,710	
Due to banks		326,927				1,033,583
Due to non-bank customers		963,217				163,781
Liabilities in certificate form		949,096				59,644
Other liabilities from operating activities		6,505				11,000
Interest and dividend receipts		397,522				354,639
Interest payments	325,344				275,778	
Net cash provided by operating activities	2,932,717	2,698,613	– 234,104	1,685,478	1,954,756	269,278
Proceeds from the sale of investments, property and equipment		17,183				13,426
Payments for the acquisition of investments	43,823				268,014	
Effects of the change in the group of companies included in the consolidation		0				
Other investing activities		0				
Net cash provided by investing activities	43,823	17,183	– 26,640	268,014	13,426	– 254,588
Proceeds from capital increases		0				33,385
Dividends paid	33,000				7,181	
Other financing activities		186,057			33,000	
Net cash provided by financing activities	33,000	186,057	153,057	40,181	33,385	– 6,796
Cash and cash equivalents at end of previous period		382,094				374,200
Net cash provided by operating activities		– 234,104				269,278
Net cash provided by investing activities		– 26,640				– 254,588
Net cash provided by financing activities		153,057				– 6,796
Effects of exchange rate changes on cash and cash equivalents		0				
Cash and cash equivalents at end of period		274,407				382,094

NOTES TO THE ACCOUNTS (GROUP AND
PARENT BANK) AS AT 31 DECEMBER, 1998

Auditor's Report

The accounting, the annual financial statements for the parent bank and for the Group (in the German language original), which we have audited in accordance with professional standards, comply with German law. The financial statements for the parent bank and for the Group comply with generally accepted accounting standards and give a true and fair view of the actual net worth, financial position and profit or loss of Deutsche Verkehrs-Bank Aktiengesellschaft and of the Group. The management report for Deutsche Verkehrs-Bank Aktiengesellschaft and for the Group is consistent with the annual financial statements for the parent bank and for the Group.

Frankfurt am Main, 18 March, 1999

C&L DEUTSCHE REVISION
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rausch
Wirtschaftsprüfer

Heßel
Wirtschaftsprüfer

Report of the Supervisory Board

Dear Shareholders,

The Supervisory Board was informed within the scope of its functions under German law or the Articles of Association by the Board of Managing Directors about the bank's business plans and business policy for 1998 in detail in four ordinary and three extraordinary meetings. The Supervisory Board also discussed the business transactions subject to its approval with the Board of Managing Directors.

Dr. Berthold Eichwald



The topics about which the members of the Supervisory Board were informed by the Board of Managing Directors in the ordinary meetings included reports concerning the bank's current liquidity, asset and income situation as well as the plans regarding its business development. Furthermore, the Supervisory Board was

informed regularly about the progress with converting software to the euro and the Year 2000 as well as the spinning-off of the securities settlement business. The development of the domestic branch structure was also the subject of detailed discussion. In the extraordinary meetings in May and July 1998, the Supervisory Board was asked for its approval for the acquisition of the aviation and shipping finance portfolio as well as for taking on the team of customer service officers from Long-Term Credit Bank of Japan Ltd. The members of the Supervisory Board were informed in detail about the scope of this project and the effects on the bank's business as regards its strategic positioning and the setting-up of offices abroad in London, New York and Tokyo and gave their approval hereto.

The Loan Committee of the Supervisory Board was informed in detail at its two meetings about the changes in the lending portfolio and about the commitments involving a particular risk as well as organisational measures such as the setting-up of the workout

REPORT OF THE SUPERVISORY BOARD

group. The Loan Committee also discussed with the Board of Managing Directors larger commitments which are subject to mandatory approval under German law and the Articles of Association and gave its approval. Critical decisions over loan commitments were regularly coordinated between the Loan Committee and the Board of Managing Directors. The Auditor's report was also the topic of discussions between the Supervisory Board and the Board of Managing Directors. The Presiding Committee of the Supervisory Board dealt with the Board of Managing Director's personnel matters.

The Chairman of the Supervisory Board was provided with up-to-date information by the Board of Managing Directors on issues concerning the bank's business policy outside the Supervisory Board meetings and its Committees.

Mr. Klaus W. Heinemann was appointed member of the Board of Managing Directors by the Supervisory Board with effect from 1 August, 1998. Upon his request, the Supervisory

Board relieved Mr. Michael Wiedenroth of his duties as member of the Board of Managing Directors with effect from 31 October, 1998.

Through the reelection of the employee representatives in the Supervisory Board, Mrs. Wera Marx, Mr. Rudolf Schmitz and Mr. Theo Wasserhess left the Supervisory Board with effect from the end of the annual general meeting on 20 May, 1998. Mr. Lutz Baumgartl, Mr. Axel Clemens and Mr. Theo Markert were appointed as their successors. Dr. Johann Rudolf Flesch, member of the Board of Managing Directors of DG BANK AG, also resigned from the Supervisory Board of Deutsche VerkehrsBank AG with effect from the end of the annual general meeting; Dr. Manfred Mücke, Chairman of the Board of Managing Directors of KRAVAG-HOLDING AG in Hamburg, was elected to take the place of Dr. Flesch in the Supervisory Board. The Supervisory Board wishes to thank all

REPORT OF THE SUPERVISORY BOARD

departing members for their constructive and trusting cooperation.

Representatives of the bank's auditors attended the balance sheet meetings of the Supervisory Board and its Loan Committee and gave explanations. C&L Deutsche Revision, Frankfurt am Main, elected auditor of the Annual Financial Statements, has audited the accounting, the Annual Financial Statements and the Management Report and issued a corresponding report. The auditor's report was given to all members of the Supervisory Board for inspection. The Supervisory Board agrees with the results of the Auditor's report.

Moreover, the Supervisory Board has examined the Annual Financial Statements as at 31 December, 1998, the Management Report and the proposed appropriation of profits. The Supervisory Board has no objections to them. The Consolidated Financial Statements, the Management Report for the Group and the report of the auditor of the Consolidated Financial Statements were submitted to the Supervisory Board.

The Annual Financial Statements were approved by the Supervisory Board at its meeting on 28 April, 1999 and are thus established. The Supervisory Board agrees with the proposed appropriation of profits, the payment of a dividend of DM 5 per share.

The Supervisory Board would like to thank all of the bank's employees for their commitment in the latest financial year.

Frankfurt am Main, 28 April, 1999

On behalf of the Supervisory Board



Dr. Berthold Eichwald
Chairman

Bodies of Deutsche VerkehrsBank AG

Supervisory Board

Deutsche VerkehrsBank AG

Dr. Berthold Eichwald

Chairman

Bank Director and Member of the
Board of Managing Directors
DG BANK Deutsche Genossenschafts-
bank AG, Frankfurt am Main
Deputy Chairman of the Supervisory
Board
GBWAG Gemeinnützige Bayerische
Wohnungs-AG, Munich
Member of the Supervisory Board
BayWa AG, Munich,
bws bank AG, Frankfurt am Main,
Südfleisch Holding AG, Munich,
CG Nordfleisch AG, Hamburg
Member of the Administrative Board
DG BANK Luxembourg S.A.,
Luxembourg,
GZS mbH, Frankfurt am Main

Dr. Peter Scharpf

Deputy Chairman
Lawyer and accountant,
Chairman of the Board of Managing
Directors
Verband der Sparda-Banken e.V.,
Frankfurt am Main
Member of the Supervisory Board
DEVK Lebensversicherungsverein a.G.,
Cologne,
DEVK Allgemeine Versicherungs AG,
Cologne

Lutz Baumgartl*

since 20 May, 1998
Banker
Deutsche VerkehrsBank AG

Axel Clemens*

since 20 May, 1998
Bank employee
Deutsche VerkehrsBank AG

Uwe E. Flach

Bank Director and Member of the
Board of Managing Directors
DG BANK Deutsche Genossenschafts-
bank AG, Frankfurt am Main
Chairman of the Supervisory Board
DEVIF GmbH, Frankfurt am Main,
DG CAPITAL MANAGEMENT,
Frankfurt am Main,
Deputy Chairman of the Supervisory
Board
Andreae-Noris-Zahn AG,
Frankfurt am Main,
Deutsche Börse AG, Frankfurt am Main,
Union Investment GmbH,
Frankfurt am Main
Member of the Supervisory Board
AGAB AG, Frankfurt am Main,
bws bank AG, Frankfurt am Main

Dr. Johann Rudolf Flesch

up to 20 May, 1998
Bank Director and Member of the
Board of Managing Directors
DG BANK Deutsche Genossenschafts-
bank AG, Frankfurt am Main
Member of the Supervisory Board
R+V Allgemeine Versicherung,
Wiesbaden,
Stuttgarter Bank AG, Stuttgart,
bws bank AG, Frankfurt am Main

Dr. Eckart John von Freyend

Chairman of the Board of Managing
 Directors
 IVG Holding AG, Bonn
 Member of the Supervisory Board
 AVECO Holding AG, Frankfurt am Main,
 Gerling Konzern Lebensversicherungs-
 Aktiengesellschaft, Cologne,
 VNR Verlag Norman Rentrop AG, Bonn,
 BOTAG Bodentreuhand- und
 -verwaltungs-Aktiengesellschaft, Berlin,
 Stodiek Europa Immobilien AG, Bonn

Cornelia Jung*

Banker
 Deutsche VerkehrsBank AG

Joachim Krüger

Director
 Federal Ministry of Finance,
 Bonn
 Chairman of the Supervisory Board
 Verwertungsgesellschaft für
 Eisenbahnmobilien
 GmbH & Co. KG,
 Frankfurt am Main
 Member of the Supervisory Board
 Berlin Brandenburg Flughafen
 Holding GmbH,
 Projektplanungsgesellschaft mbH,
 Schönefeld,
 Flughafen Frankfurt am Main AG
 Member of the Advisory Council
 Erdölbevorratungsverband, Hamburg

Theo Markert*

since 20 May, 1998
 Banker
 Deutsche VerkehrsBank AG

Wera Marx*

up to 20 May, 1998
 Accounting officer
 ReiseBank AG

Hermann Möller

Bank Director and
 Chairman of the Board of Managing
 Directors
 Sparda-Bank Stuttgart eG
 Chairman of the Verbandsrat
 der Sparda-Banken
 Member of the Supervisory Board
 DEVK Allgemeine
 Lebensversicherungs-AG Cologne
 Member of the Advisory Council
 BHW AG, Hameln

Dr. Manfred Mücke

since 20 May, 1998
 Businessman and Chairman
 of the Board of Managing Directors
 KRAVAG-SACH WaG,
 KRAVAG-HOLDING AG,
 KRAVAG-LEBEN AG, Hamburg
 Chairman of the Supervisory Board
 KRAVAG-ALLGEMEINE AG, Hamburg
 Member of the Supervisory Board
 Eisen + Stahl, Hannover
 Member of the Advisory Council HGK,
 Düsseldorf

Diethelm Sack

Board Member Finance and Controlling
 Deutsche Bahn AG, Frankfurt am Main
 Chairman of the Supervisory Board
 Deutsche Verkehrs-Assekuranz-
 Vermittlungs GmbH, Bad Homburg,
 Transport-, Informatik- und Logistik-
 Consulting GmbH, Berlin
 Member of the Supervisory Board
 Deutsche
 Bahn Immobiliengesellschaft mbH,
 Frankfurt am Main,
 Deutsches Reisebüro GmbH,
 Frankfurt am Main,
 Mannesmann Arcor Verwaltungs-AG,
 Eschborn,
 Verwertungsgesellschaft für
 Eisenbahnmobilien GmbH & Co. KG,
 Frankfurt am Main,
 Frankfurter Versicherungs AG,
 Frankfurt am Main,
 DBProjekt Köln-Rhein/Main GmbH,
 Frankfurt am Main,
 DBProjekt Knoten Berlin GmbH, Berlin,
 Gerätebau Odenwald AG, Rimbach
 Member of the Administrative Board
 EUROFIMA, Basle,
 Dresdner Bank, Luxembourg S.A.,
 Luxembourg

Rudolf Schmitz*

up to 20 May, 1998
 Banker
 Deutsche VerkehrsBank AG

Theo Wasserhess*

up to 20 May, 1998
 Pensioner
 Deutsche VerkehrsBank AG

* selected by the employees

Board of Managing Directors**Wolfgang F. Driese**

Chairman of the Board of Managing
 Directors

Member of the Supervisory Board
 ReiseBank AG, Frankfurt am Main,
 CashExpress GmbH,
 Frankfurt am Main,
 DVL Deutsche Verkehrs-Leasing
 GmbH, Eschborn

Anne-Rose Heibel-Dietrich

Chairman of the Supervisory Board
 ReiseBank AG, Frankfurt am Main,
 CashExpress GmbH,
 Frankfurt am Main,
 Member of the Supervisory Board
 Rømø-Sylt Linie GmbH, Flensburg

Klaus W. Heinemann

since 1 August, 1998

Member of the Supervisory Board
 ReiseBank AG, Frankfurt am Main,
 CashExpress GmbH,
 Frankfurt am Main,
 Director of International Transport
 Finance Ltd., London

Michael Wiedenroth

up to 31 October, 1998

Member of the Supervisory Board
 KRAVAG-SACH WaG, Hamburg,
 ReiseBank AG, Frankfurt am Main,
 Güterverkehrszentrum
 Entwicklungsgesellschaft
 Dresden mbH, Dresden

Responsibilities within the Board of Managing Directors

	Wolfgang F. Driese	Anne-Rose Heibel-Dietrich	Klaus W. Heinemann
Customer divisions	Corporate banking	Corporate banking	Corporate banking
	Region South Roland Janz Rainer Nothwang Günther Volkamer	Region North/East Peter Bauersfeld Joachim Winkler Heinz-Jürgen Wolter	Region Central Michael Heinrz Markus Neuland Walter Reinhardt
	Region West Gerhard Kaiser Klaus Torner	Central bank/ Sparda-Banks Thomas Dellwig	Structured financing David Goring-Thomas Peter Illingworth Rainer Irmel
			Infrastructure financing Karsten T. Landgraf
			DVB Corporate Advisory Dr. Borislav Bjelicic
		ReiseBank AG CashExpress GmbH	International Transport Finance Limited Horst Erler Wolf-Dieter Weschke
Product and service divisions	Communication	Compliance, money laundering, data protection	Trade settlement
	Bob Schneider	Heinz Neidhardt	Jürgen Schmidt
	Credit risk management	Trading, money market, foreign exchange, securities	Legal department
	Eberhard Baumgart	Jürgen Haupt	Dr. Ulrich Hottenbacher
	Organisation/ data processing Dr. Wolfgang Preuß	Personnel	
		Jürgen von Zeppelin	
	Accounting/ controlling Werner Schmunk	Auditing	
		Rolf Büttner	
	Treasury	Foreign notes and coins, precious metals, numismatics	
	Andreas Kaup	Guenther Spieker	
	Payment systems Walter Bucher	Marketing	Hermann Siegling

GLOSSARY

BIS capital ratio

Ratio used by international banks to cover their default risks (risk-weighted assets including off-balance-sheet transactions) and market risks by regulatory capital. There is a minimum ratio of 8 % for capital to risk-weighted assets and the market risk positions multiplied by a factor of 12.5.

Capital and reserves according to BIS

Equity and reserves according to the Basle Capital Adequacy Accord of 1998. They consist of core capital (especially share capital and reserves), supplementary capital (primarily participatory capital, subordinated liabilities and revaluation reserves in quoted securities) and Tier III capital (mainly short-term subordinated liabilities).

Cash Flow Statement

Calculation and presentation of the cash flow a company has generated or consumed during a financial year as a result of its business, investing and financing activities, and reconciliation of holdings of cash and cash equivalents at the beginning and end of a financial year.

Cost-income ratio

A ratio for assessing a company's cost efficiency expressing operating expenses in relation to operating income.

Derivatives

Products which are derived from investment instruments traded on the cash markets. Their value derives largely from the price, price fluctuations or price expectations of an underlying instrument (e.g. share, bond, foreign exchange). Derivatives include swaps, options and futures.

Electronic commerce

Keyword of the 1990s for the idea of transferring commercial transactions to the Internet or other unmanned shopping systems. This includes for example on-line shopping, but also processes which are necessary for settling orders and payment transactions.

E-mail

Electronic exchange of news and data.

GLOSSARY

**Equity Capital pursuant to the
German Banking Act (KWG)**

Section 10 of the German Banking Act provides that an individual credit institution must maintain adequate liable equity capital with a view to safeguarding assets. This is made up of core capital (above all subscribed capital and reserves) and supplementary capital (primarily participatory capital, subordinated liabilities, hidden reserves pursuant to Section 340 f of the German Commercial Code and revaluation reserves in securities and real estate).

Freight deferment procedure

Transport-specific product of Deutsche VerkehrsBank which is carried out with various transport partners from the areas of rail, water and road transport. The procedure revolves around the taking over of customers receivables as well as the collection of freight services by our bank.

Internet banking

PC-supported facility for carrying out all banking transactions using a decentralised electronic network with global access, the Internet.

Japanese leveraged leases

Japanese tax-oriented leasing model.

Lending volume

Total claims before deduction of value adjustments (book-entry claims, off-balance-sheet transactions).

Lotus Notes

Communication product with the main functions E-mail, groupware/team functions, knowledge management.

**Net income from
financial transactions**

Profit and loss account item showing the result of own-account trading of the credit institutions across all business segments. It represents the positive balance of income and expense from own-account trading in securities, financial instruments, foreign exchange and precious metals.

Numismatics

Everything which has to do with coins.

**Own security deposit business
(Depot A)**

Advising bank customers in managing and shifting their own security deposits.

GLOSSARY

Return on equity

Ratio used in balance sheet analysis showing net income (before tax) as a percentage of capital employed.

Structured financing

The design of individual financing concepts and solutions for complex, large-volume investment projects.

Syndicated loans

Loans which are issued by a banking syndicate. The formation of syndicates spreads the credit risk among several banks.

Syndicate member

A syndicate consists of several banks. The aim is frequently to grant a customer a joint loan.

Treasury

Special unit responsible for the asset/liability management of the entire bank's interest-bearing business from the point of view of risk and liquidity management. Central areas of responsibility are managing the own security deposit business, the issuing business as well as risk management (market price risks) according to statutory and internal requirements.

Volatility

Fluctuation range or price flexibility, respectively, of a financial instrument. With high volatility, the associated risk, but also the opportunity is higher.

Western Union

Cooperation partner of ReiseBank which has over 30,000 agencies in more than 130 countries at its disposal also outside normal banking hours. For fast money transfer, the sender pays in the sum of money at one of the many ReiseBank offices or via his principal banking connection. The recipient can have access to the money at every Western union agency – mostly within minutes.

Windows NT

Most up-to-date 32 bit version of the Windows operating system. Requirement for the operation of modern applications.

XETRA

Abbreviation for Exchange Electronic Trading. Electronic trading system of Deutsche Börse AG with which shares and bonds can be traded electronically at present.

The Annual Report 1998 appears in the German and English language.

Should you require further information, please contact us at the following address:

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Publisher

We would be pleased to also send you product brochures on cash-less payments in public local passenger transport, the financing of omnibuses, lorry fleets, rail vehicles in local passenger rail transport as well as transport and logistics projects.

Visit our Internet site. Further information concerning Deutsche Verkehrs-Bank can be found at <http://www.verkehrsbank.de>

Deutsche VerkehrsBank
Aktiengesellschaft

Design, layout and realisation:
B&L Ludgate, Frankfurt am Main

Overall production:
Brönners Druckerei Breidenstein GmbH,
Frankfurt am Main

The paper in this report was bleached without the use of chlorine.