
# ANNUAL REPORT

DVB

# DVB – Unique and focused

DVB is the global leader in Transport Finance. We constantly strive to optimise value for the benefit of our clients, our employees and our shareholders.

**We are the leading financial specialist in international transport finance**

For us, this means the provision of innovative and tailor-made products for our discerning clients in the Shipping, Aviation, Land Transport and Transport Infrastructure sectors. We focus on the creation of long-term business relationships in order to provide value-added advice and financing solutions to our clients: applying our expertise to optimise their success.

We invest in our staff to ensure that they continue to operate at the cutting edge of international Transport Finance: the most knowledgeable and productive experts in their respective markets. We support them in their professional careers, reward their successes and promote their active involvement in DVB's strategic issues. Our teams are proud to work for DVB.

Our focused and well managed businesses achieve an above average return for shareholders. The conscious management of risks is a core element of managing our business and also represents a basis for the sustained creation of value for the Company.

We strive to protect the integrity and reputation of DVB, our clients and the transport segments we focus on in everything that we do. All of our actions are guided by transparency and fairness.

# Key figures

## DVB Group

| € mn | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Results: Five year record** | | | | | |
| Ordinary income | 187.5 | 195.0 | 193.1 | 164.3 | 127.5 |
| Net interest income | 95.3 | 97.3 | 89.2 | 66.0 | 47.4 |
| Net commission income | 88.3 | 93.0 | 98.4 | 90.1 | 69.1 |
| Net profit on financial operations | 3.9 | 4.7 | 5.5 | 8.2 | 11.0 |
| Administrative expenses (incl. depreciation) | 142.9 | 162.5 | 157.6 | 131.5 | 101.2 |
| Operating profit excl. loan loss provisions | 51.6 | 35.8 | 36.5 | 32.5 | 29.6 |
| Net loan loss provisions | 20.9 | 19.9 | 17.2 | –1.1 | 7.0 |
| Profit from ordinary activities | 44.9 | 47.0 | 36.1 | 35.7 | 22.8 |
| Net income after taxes | 71.6 | 32.6 | 4.5 | 19.1 | 15.5 |
| **Balance sheet data** | | | | | |
| Business volume | 11,255 | 11,748 | 13,242 | 11,410 | 8,041 |
| Total assets | 9,065 | 9,296 | 10,972 | 9,472 | 6,875 |
| Loans and advances to customers | 6,547 | 6,685 | 6,858 | 6,244 | 3,370 |
| Liabilities to customers | 2,108 | 2,096 | 2,710 | 2,496 | 1,750 |
| Certificated liabilities | 2,178 | 1,489 | 1,953 | 1,521 | 688 |
| **Own funds** | 804.0 | 786.5 | 771.4 | 749.3 | 341.8 |
| Core capital (TIER I) | 489.4 | 439.2 | 408.0 | 429.2 | 177.1 |
| Supplementary capital (TIER II) | 314.6 | 347.3 | 360.3 | 320.1 | 164.7 |
| TIER III funds | – | – | 3.1 | – | – |
| **Key indicators and ratios (%)** | | | | | |
| Core capital ratio (German Banking Act) | 6.8% | 5.8% | 5.0% | 5.7% | 4.5% |
| Total capital ratio (German Banking Act) | 11.1% | 10.4% | 9.5% | 10.2% | 8.6% |
| Return on equity (RoE) before taxes [1] | 16.2% | 15.9% | 6.8% | 15.1% | 13.4% |
| Cost/income ratio (CIR) [1] | 71.1% | 79.1% | 77.7% | 77.9% | 77.9% |
| **DVB Share data (€)** | | | | | |
| Dividend (excl. tax credit) [2] | 2.00 | 1.50 | 1.50 | 3.60 | 3.60 |
| Dividend (incl. tax credit) | – | – | – | 3.82 | 5.14 |
| Year-end price | 87.50 | 80.00 | 90.00 | 102.00 | 94.50 |
| **Rating** | | | | | |
| **Moody's Investors Service** | | | | | |
| Long-term/short-term rating/<br>Outlook<br>Financial strength/outlook | A3/P-2/<br>stable<br>C-/stable | A3/P-2/<br>stable<br>C-/negative | A3/P-2/<br>stable<br>C-/negative | A3/P-2/<br>stable<br>D/stable | A3/P-2 |
| **Standard & Poor's**<br>Long-term/short-term rating<br>Outlook | <br>BBB+/A-2<br>negative | <br>BBB+/A-2<br>negative | <br>BBB+/A-2<br>negative | <br>A-/A-2<br>stable | <br>A-/A-2<br>stable |

[1] *excl. depreciation of goodwill*
[2] *2003 incl. €0.50 bonus per unit share*

## Key corporate events

*The DVB Bank Group is referred to below as "DVB", while DVB Bank AG is identified under its registered company name.*

**The year 2003 was of paramount importance to DVB in view of the fact that the sale of ReiseBank AG and CashExpress GmbH to DZ BANK AG on 31 December 2003 concluded the process of implementing DVB's strategic focus on international Transport Finance.**

This unique business focus, in conjunction with the specialist expertise of our staff and a streamlined organisational structure, reinforced our competitive advantage over large international banks during 2003. The Transport Finance market segments – Shipping, Aviation, Land Transport and Transport Infrastructure – provide structured finance, distribution and corporate finance products to our global client base.

Despite an economic environment that flirted with recession and remains challenging, we committed €1.51 billion and €0.61 billion to high-volume, long-term and collateralised new business in Shipping and Aviation respectively. Our anti-cyclical business policy, in line with defined strategy, once again proved the key to qualitative growth in the Transport Finance portfolios.

**Key drivers of our business development in 2003 were the:**

- continued expansion of our Transport Finance advisory business;
- establishment of our Aviation Research team;
- launch of our Container Business Unit; and
- conclusion of our CHANGE cost-reduction project, which helped us to achieve substantial expenditure reductions.

**The financial statements for 2003 were largely influenced by the following factors:**

- As much as 93% of our Aviation portfolio and 77% of our Shipping portfolio is denominated in US-dollars. However, **the strength of the euro versus the US-dollar** during 2003 meant that growth in the portfolio's US-dollar denominated business was not reflected accordingly in the euro. For example, in Shipping, an 8.0% increase in US-dollar terms (to US$4.99 billion) translated into a 10.4% decrease to €3.95 billion. A similar effect was visible in Aviation, where the portfolio grew by 14.5% in US-dollar terms (to US$2.60 billion) but shrunk by 6.8% to €2.05 billion when translated into the euro.
- In line with our strategy, we continued **to strengthen our capital base** during 2003: own funds, as defined by the German Banking Act, rose by 2.2% to €804.0 million. Core capital (Tier I) posted a notable increase, rising 11.4% to €489.4 million. The impact of the sale of ReiseBank AG/CashExpress GmbH was particularly positive: at Group level, €74.0 million of the €87.5 million of profits realised upon the disposal was attributed to the fund for general banking risks, in accordance with section 340 g of the German Commercial Code. The remaining €13.5 million was allocated to reserves, plus deferred taxes of €36.0 million and part of the profit from current operations (€17.2 million). As a result of these measures, together with the exchange rate related reduction in risk-weighted assets in euro terms, our **core capital ratio** rose from 5.8% to 6.8%.
- **Operating profit excluding loan loss provisions** rose 44.1% from €35.8 million to €51.6 million, driven by a 12.1% fall in administrative expenses that compensated for the slight decrease in ordinary income.
- Two factors had a material impact on **profit from ordinary activities,** which fell 4.5% to €44.9 million: loan loss provisions increased by 5.0% to €20.9 million, while net other income and expenses fell 54.7% to €14.1 million. In 2002, the latter figure was influenced by a one-off effect that resulted from the disposal of a shareholding in Union Asset Management Holding AG.
- **Net income** of €71.6 million (2002: €32.6 million) was influenced by the net balance of taxes and deferred taxes of €30.8 million.
- **Return on equity** increased to 16.2%, not least as a result of these special factors.

# 2003

ANNUAL REPORT

# DVB Highlights

**Changes within the Board of Managing Directors**
1 April – Appointment of Rolf Michael Betz to the Board of Managing Directors of DVB Bank AG. Mr Betz is responsible for the Land Transport and Transport Infrastructure divisions and for DVB's Corporate Finance business.

**DVB launches Container Business Unit**
12 November – The bank launched a Container Business Unit to capitalise on growth opportunities, with the objective of expanding its activities and extending its market expertise into this sector. The new unit offers a wide range of financial services including the arrangement and underwriting of lending products, cross-border tax leases and advice on financial restructuring and M&A transactions.

**Expanding research**
1 April – Research coverage on behalf of the Aviation division consolidated into our Aviation Industry Research (AIR) unit, based in Rotterdam and London.

**Transport Finance publications by DVB**
- The AIR unit launched "Air News Summary", a bi-monthly newsletter that can be downloaded from our website.
- July/August – Major findings of our Shipping Research publications "The Bulk Carrier Market Outlook" and "LNG (Liquified Natural Gas) Tanker Market Report" published by renowned shipping magazines.
- Various articles written by DVB's Transport Finance specialists published by international trade magazines. These included prospects for the airfreight market in 2003, a study on "Germany's two-lane strategy for roads" and a commentary on shipping market developments.
- All such publications by our experts are available on the DVB website www.dvbbank.com in the Press Room and the Research section.

**Client events hosted by DVB**
- 17 to 19 March – DVB was one of the principal sponsors of the CMA (Connecticut Maritime Association) Shipping 2003 Conference in the US
- 1 April – 10th Anniversary of the "Client Dinner" for our Shipping Finance clients, hosted in Bergen
- 27 to 30 August – Following the success of the debut in 2002, we hosted the Second DVB Executive Symposium for selected Transport Finance business partners, featuring high-calibre keynote speeches
- 1 to 2 September – We held a Liquidity Workshop for representatives of "Sparda" banks

**Selection of lectures given by DVB executives**
- 6 February – **Wolfgang F. Driese,** Chairman of the Board of Managing Directors, gave a speech on the "Future of Aviation Finance" at the 10th Aviation Symposium in Frankfurt/Main, organised by the German Scientific Society for Transport (DVWG).
- **Dagfinn Lunde,** Member of the Board of Managing Directors, delivered several speeches during the year on various aspects of Shipping Finance. Events at which Mr Lunde spoke included:
  11 to 12 February – The Tanker Conference (London)
  21 to 24 September – Maritime Cyprus (Cyprus)
  29 October – Mare Forum Shipfinance (Amsterdam)
  1 November – International Maritime Forum (Shanghai)
  11 to 12 November – together with **Peter Illingworth,** Head of Shipping London Branch – Ship Finance Conference (London), jointly organised by Lloyds Shipping Economist
- **Prof Dr Borislav Bjelicic,** Senior Vice President Corporate Communications, delivered various speeches during 2003 on Aviation and Shipping Finance:
  18 September – 10th US Valuation Symposium (Washington D.C.)
  8 October – Asia-Pacific Ship Finance Conference (Hong Kong), organised by Lloyd's Shipping Economist
  14 November – 6th Annual European Aviation Summit (Berlin)
- 10 June – **Connie Laudenschlager,** Senior Vice President and Chief Representative-The Americas, spoke at the 9th Global Air Cargo Conference in Atlanta, USA, on "Financing the Cargo Market".
- 11 November – **Martin Metz,** Senior Vice President Land Transport, took part in a podium discussion at rail # tec in Dortmund, entitled "The liberalisation of transport markets calls for new financing models".
- 1 October – **Bote de Vries,** Head of Investment Management, gave a lecture on the opportunities of leveraging private equity and capital markets products in Shipping Finance, at the IIR Shipping Finance and Developments Conference in London.

# Contents

# Letter to our shareholders and business partners

Dear Ladies and Gentlemen,

We have completed the fundamental realignment of DVB Bank AG. The Bank now enjoys a clear strategic focus and a unique market position. The sale of ReiseBank Group marked the conclusion of the **first phase** of our strategy of closing the "old" bank and building the new DVB. We look back on a long period of fundamental change.

In parallel with the most important initiatives taken during the financial year 2003 we specifically:

- concluded our cost-reduction project CHANGE;
- launched our Container Business Unit; and
- established our Aviation Research unit.

We have also embarked on the **second phase:**

- reaping the rewards of DVB's business model through the realisation of the profit potential.

Operating profit excluding loan loss provisions climbed 44.1%, to €51.6 million for the 2003 business year. At first glance, this was attributable to a €19.6 million (12.1%) decline in administrative expenses, thanks to the success of our CHANGE project. Unfortunately, this has also involved 167 redundancies at our Frankfurt/Main head office during the past two years.

In the event, 2003 proved a successful year in business terms, despite the fact that ordinary income declined by 3.8%. Income in our core Transport Finance business grew by 24.7% to €119.6 million. Given that the share of US-dollar denominated income in our core Transport Finance business segments ranges between 77% and 93%, the decline of the currency against the euro must be taken into account.

ReiseBank/CashExpress was the only segment that failed to match expectations. Weakness in tourism – particularly due to the war in Iraq and the breakout of SARS – had a distinctly negative impact on the foreign notes and coins business. Net income of the ReiseBank Group fell from €5.9 million in 2002 to €4.3 million for the year under review; prior to the introduction of euro notes and coins, ReiseBank contributed €17.5 million in profits for the business year 2001. The Bank sold ReiseBank and CashExpress in 2003 for a combined price of €98 million. The final discontinuation of non-Transport Finance activities resulted in a decline in profits by €6.4 million.

In summary, 2003 proved a successful year in terms of operating profit. Net loan loss provisions of €20.9 million exceeded last year's figure by €1 million. It should be noted that we recognised a major general loan loss provision for the first time, setting aside €15 million.

*Rolf Michael Betz*
*Member of the Board of Managing Directors*

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

*Dagfinn Lunde*
*Member of the Board of Managing Directors*

Net income in respect of the 2002 business year was significantly affected by the sale of our interest in Union Asset Management Holding AG and the appropriation of the sale proceeds. Two specific issues influenced the results for 2003:

In accordance with German Accounting Standard No. 10, we are obliged to recognise deferred taxes; for the year under review, we carried out such tax deferral on the amounts set aside for the fund for general banking risks. Given the transformation of our financial statements to comply with IAS/IFRS, which will become mandatory with effect from 2005, we will experience fundamental changes in the way these statements are presented, as well as in our interpretation of continuity in financial data.

The disposal of the ReiseBank Group and the resultant strengthening of disclosed reserves had a major impact on DVB's financial profile. A total of €74.0 million of the €87.5 million gain realised upon disposal was appropriated to the fund for general banking risks pursuant to section 340g of the German Commercial Code. The remaining €13.5 million, plus €17.2 million of retained profits, was used to strengthen unallocated reserves.

At the Annual General Meeting we will propose the payment of a dividend of €1.50 per share plus a bonus of €0.50 per share.

We would like to take this opportunity to express our gratitude to all those who contributed to DVB's success: our employees, our clients and our shareholders.

We have clearly defined our goals and tasks for the year 2004:

■ Anti-cyclical growth

Having achieved 11.1% currency adjusted growth in our core Transport Finance business in the year under review, our intention is to continue to pursue our anti-cyclical business policy. In doing so, we will focus on our medium-term objective of growing our Aviation

Finance business to match the importance of Shipping Finance. The current competitive environment will help us achieve this goal.

■ Expansion of Corporate Finance

Our aim is to increase the proportion of commission income over the ensuing years through the provision of advisory and structuring services. In this context, we will focus on the development of proprietary products in our Structured Asset Finance unit, the substantial expansion of our investment management activities and the launch of capital market services.

■ i-CHANGE project

Major aspects of the i-CHANGE project include optimising our business structure and processes throughout our international locations and a benchmarking of our sales activities.

■ Basel II

Our preparations for implementing the requirements of the Basel II Accord are progressing according to schedule. Several advancements are scheduled for 2004:

- We will implement our Internal Rating Model across all Transport Finance segments following the successful pilot scheme in Aviation Finance.
- We will continue to develop and enhance our risk management models.
- In this context, particular emphasis is placed on managing our business on a RORAC basis (return on risk-adjusted equity).

DVB will take another major step during 2004 towards achieving its medium-term financial targets of exceeding a 15% return on equity and lowering the cost/income ratio to below 50%. According to our business plan, we will achieve these targets in 2006 and 2007 respectively, assuming a relatively stable economic and political environment.

At the same time, we have initiated the thought process to prepare the **third phase** of DVB's development – with a suitable working title: "Leap in Profitability".

We will draw upon the talents of our business leaders to develop innovative concepts and ideas designed to create added value for our clients. We will also continue to improve the return on equity and satisfy our employees' appetite for new challenges.

We are developing a passion for change.

| | | |
|---|---|---|
| Wolfgang F. Driese | Dagfinn Lunde | Rolf Michael Betz<br>(Member of the Board of Managing Directors since 1 April 2003) |

# Corporate Governance

**In the course of 2003, the European Commission announced – at short notice – an action plan designed to modernise company law and enhance corporate governance practices across the EU. Against this background the Government Commission, appointed by the German Federal Ministry of Justice in September 2001, resolved at its plenary meeting on 21 May 2003 to amend the German Corporate Governance Code. The amendments predominantly relate to the transparency of remuneration paid to members of the Board of Managing Directors.**

The purpose of the Code is to enhance transparency in respect of the German system of corporate management and monitoring for the benefit of domestic and international investors. This "Code of Best Practice" comprises internationally recognised standards of conduct and obligations of disclosure. As a self-regulatory "soft law", it complements the so-called "comply-or-explain" provision rule in the Transparency and Disclosure Act (Transparenz- und Publizitätsgesetz). Since coming into effect in 2002, the law has obliged any company that does not intend to adhere to the Code's recommendations to expressly disclose its intentions each year and give specific reasons in a "Declaration of Compliance". The Declaration of Compliance does not, however, require detailed explanations regarding implementation of the Code's recommendations.

*The German Corporate Governance Code (including an English translation), as amended on 21 May 2003 and in the version relevant to the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act, has been published on http://www.corporate-governance-code.de, and in the official part of the electronic Federal Gazette (Bundesanzeiger), on http://www.ebundesanzeiger.de.*

## Implementation of recommendations in the Corporate Governance Code

As a global Transport Finance specialist, transparency is paramount for DVB and serves as an important catalyst in our co-operation with international business partners in the transport and financial markets alike. That is why we have largely implemented the recommendations made by the Government Commission. Only where a specific situation at DVB requires otherwise have we decided not to comply with these recommendations.

## Declarations of Compliance for 2002 and 2003

The Declarations of Compliance issued to date reflect the high degree of acceptance of the Code's recommendations by DVB and contain comments regarding only a few specific issues. We did not comply with four individual recommendations during 2002 and 2003:

- 5.2 CGC: for efficiency reasons, we continue to dispense with a special committee to prepare meetings of the Supervisory Board.
- 5.3 CGC: we continue to regard the establishment of an Audit Committee as unnecessary, given that audits are presented to the plenary session of the Supervisory Board and that the financial statements are approved during a Supervisory Board meeting in the presence of the auditors.
- 5.4.5 CGC: given the comparable workload, we make no distinction between chairpersons and "ordinary" members of Supervisory Board committees.
- 7.1.1 CGC: the change-over to international accounting rules is planned for the year 2005.

***Abbreviations Corporate Governance:***

| | |
|---|---|
| *CGC* | *Corporate Governance Code* |
| *D&O* | *Directors & Officers Liability Insurance* |
| *EU* | *European Union* |
| *Notes* | *Notes to the Financial Statements* |

For 2004, we will not comply with the recommendations of the Code regarding one additional issue:

- 4.2.4 CGC: we will not disclose the remuneration of individual members of the Board of Managing Directors, for reasons of confidentiality. However, we will disclose comprehensive details of the remuneration paid to the entire Board of Managing Directors, including a breakdown into fixed and variable components, in accordance with 4.2.3 CGC.

*Amendments to the German Corporate Governance Code as of 7 November 2002 required changes to the internal regulations of the Board of Managing Directors, the Supervisory Board, the Executive Committee of the Supervisory Board and to the Articles of Association. These changes were implemented during 2003.*

## Corporate Governance Code, as adopted on 7 November 2002, and measures implemented in 2003

The Annual General Meeting held on 12 June 2003 amended the following Articles of the Memorandum and Articles of Association of DVB Bank AG:

- Articles 6 and 18 (3) – DVB may now obtain D&O liability insurance policies for the benefit of the Board of Managing Directors and the Supervisory Board, subject to a reasonable deductible.
- Article 9 – Members of the Board of Managing Directors shall not accept more than a total of five Supervisory Board mandates in non-Group listed companies.
- Article 10 – no more than two former Members of DVB's Board of Managing Directors may be Members of the Supervisory Board.
- Article 11 – certain restrictions were imposed regarding directorships and other offices held by Members of the Supervisory Board.

## Amendments to the Corporate Governance Code on 21 May 2003, implemented in 2004

We largely implemented the amendments to the Code as of 21 May 2003, by implementing the following measures in 2004:

- 3.8 CGC – a suitable deductible was agreed for Members of the Board of Managing Directors and the Supervisory Board.
- 4.2.2 and 4.2.3 CGC – the structure of the compensation system for the Board of Managing Directors is regularly discussed and reviewed; its main components are disclosed in the Notes in our Annual Report 2003 and on our website.
- 4.2.3 CGC – the Chairman of the Supervisory Board will inform the Annual General Meeting regarding the main components of the compensation system, and any changes thereto.
- 5.4.5 CGC – the remuneration of Members of the Supervisory Board will be disclosed separately, and on an individual basis, in the Notes.
- 5.5.3 CGC – newly-appointed Members of the Supervisory Board must submit a declaration of consent regarding the disclosure of any conflicts of interest, which must also be disclosed by the Supervisory Board to the Annual General Meeting.
- 6.6 CGC – where the shareholdings of individual Members of the Board of Managing Directors (incl. shareholdings as a result of options or other derivative instruments) exceed 1% of DVB's issued share capital, this will be disclosed individually in the Notes; the Members of the Supervisory Board have been contacted regarding declarations of consent to the same effect.

***Information relevant to the subject of "Corporate Governance" is available on our website www.dvbbank.com:***

- *Section "Investor Relations-Corporate Governance"*
- *Section "Press Room"*

# The DVB Share

**Following three consecutive years of decline, the German blue-chip DAX equity index staged an eventual recovery during 2003 and ended the year with strong gains. The market, however, failed to reach the historic highs achieved in 1999.**

- The culmination of the crisis in Iraq, in conjunction with rising oil prices, depressed global equity markets at the beginning of 2003. The DAX reached its low for the year of 2,188.00 points – which also marked the lowest point since the beginning of 1996 – on 12 March 2003, just before the onset of military action in Iraq.

- Uncertainty regarding economic and inflationary developments was exacerbated by the simultaneous outbreak of SARS in Southeast Asia, predominantly in China, and individual cases in Canada.

- Equity prices staged a recovery after the onset of the war in Iraq and in the wake of falling oil prices, before renewed pressure, brought about by concerns regarding deflationary trends, occurred in May 2003.

- To revitalise the lagging economy and as a precaution against deflation in the major industrial economies, the European Central Bank and the US Federal Reserve lowered their key interest rates by 50 and 25 basis points respectively in June 2003. Interest rates thus reached historic lows.

- On the back of these cuts, equity markets staged a swift recovery until September 2003, with the DAX reaching a level of 3,668.67 points. In view of the accelerating rise in the euro, however, the DAX relinquished some of these gains, closing the third quarter at around 3,300 index points.

- Boosted by favourable economic data, the index subsequently gained 20% during the fourth quarter.

- The DAX hit its year's high of 3,965.16 index points on 30 December 2003 – up 37.08% from the previous year's closing level of 2,892.63.

***2004 Financial Calendar***

*11 March 2004*
*"Financials 2003"*
*Press Conference and Analysts' Meeting, Frankfurt/Main*

*End of April/mid-May 2004*
*Publication of quarterly report*

*May/June 2004*
*Publication of the Annual Report 2003 (in German and English)*

*9 June 2004*
*Annual General Meeting*

*11 June 2004*
*Dividend payment*

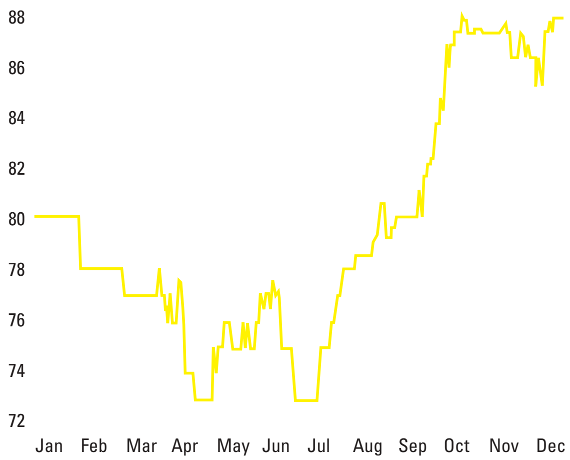
*11 June/1 July 2004*
*Distribution on profit-participation certificates*

*End of July/mid-August 2004*
*Publication of the interim report for the first half of 2004 (in German and English)*

*End of October/mid-November 2004*
*Publication of quarterly report*

*For 2003 we have discontinued the practice of benchmarking the DVB Share price development against the CDAX Banks index, given the low weighting (0.072%) of the DVB Share compared to the other 22 index components.*

DVB Share price in 2003 (€)




Source: Bloomberg L.P.

## DVB Share performance

In view of the continuation of the low free float in DVB shares, the share price adhered to a tight range during 2003. The DVB Share recorded its high of €87.80 on 20 October 2003 and its low of €73.00 on 6 May 2003. The year-end price was €87.50, which is equivalent increase to a year-on-year performance of 9.4%.

## DVB Share data

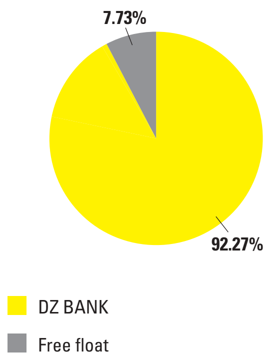
| € | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Earnings per share (according to DVFA) | 6.24 | 2.44 | 1.12 | 3.22 | 6.75 |
| Dividend | 2.00[1] | 1.50 | 1.50 | 3.60 | 3.60 |
| incl. corporation tax credit | – | – | – | 3.82 | 5.14 |
| Dividend yield[3] | 2.29%[2] | 1.88% | 1.67% | 3.75% | 5.40% |
| Business year high | 87.80 | 90.30 | 104.00 | 104.25 | 95.00 |
| Business year low | 73.00 | 72.00 | 84.00 | 87.59 | 73.67 |
| Year-end price | 87.50 | 80.00 | 90.00 | 102.00 | 94.50 |
| Number of shares at year-end | 3,020,147 | 3,005,791 | 3,003,224 | 3,000,000 | 2,246,000 |
| Market capitalisation at year-end | 264,262,862 | 240,463,280 | 270,290,160 | 306,000,000 | 212,247,000 |

*[1] incl. €0.50 bonus per unit share*
*[2] 2.29% incl. bonus; 1.71% excl. bonus*
*[3] excl. tax credit (from 2001)*

## Change in shareholder structure

DZ BANK AG acquired both the 0.75% interest of Deutsche Bahn Holding AG and the 13.28% interest held by "Sparda" banks in DVB BANK AG during the course of 2003. DZ BANK AG now holds 92.27% of the subscribed share capital of DVB Bank AG.

Shareholder structure (%)




## Dividend

At the 2004 Annual General Meeting we will propose the payment of an unchanged dividend of €1.50 per unit share plus a bonus of €0.50 per unit share. Based on the year-end share price of €87.50, this is equivalent to a dividend yield of 1.71% excluding the bonus, and 2.29% including the bonus.

## Resolutions of the Annual General Meeting and the Extraordinary General Meeting in 2003

The Annual General Meeting of DVB Bank AG was held on 12 June 2003 at the "Hermann-Josef-Abs Saal", in Frankfurt/Main. Shareholders approved the activities of the Board of Managing Directors and the Supervisory Board for the business year 2002. The Annual General Meeting extended the authorisation to purchase treasury shares until 30 November 2004, approved the conclusion of a profit transfer agreement by DVB with its wholly-owned subsidiary, DVB LogPay GmbH, and passed a resolution on amendments to the Memorandum and Articles of Association required to comply with the Corporate Governance Code. All resolutions were passed by clear majorities of 99.99% or 100%, with a 92.53% representation of the Bank's share capital (2002: 92.99%).

The Extraordinary General Meeting of DVB Bank AG was held on 17 December 2003 at the "Hermann-Josef-Abs Saal", in Frankfurt/Main. Shareholders passed the following resolutions:

- to sell the wholly-owned subsidiary DVB Holding GmbH (comprising ReiseBank AG and CashExpress GmbH) to DZ BANK AG;
- to reduce the number of Members of the Supervisory Board of DVB Bank AG from twelve to nine (comprising six shareholder representatives and three employee representatives) and to amend the Articles of Association accordingly;
- to appoint Mr Wolfgang Kirsch to the Supervisory Board of DVB Bank AG following the retirement of Mr Uwe E. Flach from office.

All resolutions were passed by clear majorities of 99.97% or 99.98%, with a 92.57% representation of the Bank's share capital.

# Report on the Activities of the DVB Group

**We concluded the CHANGE project (initiated in 2001) during the year under review, having successfully adapted the organisational structures and process flows of DVB's German operations to the requirements of our core international Transport Finance business. We were able to fully realise all the quantitative and qualitative objectives that we had associated with the project.**

## Profitability increased

We managed to decrease overall administrative expenditure by as much as 12.1% in 2003. A major contributing factor were job cuts, made within the scope of the CHANGE project, which affected a total of 167 employees working at the Bank's Frankfurt/Main head office. These measures provided either immediate or medium-term relief in terms of staffing levels.

## International project launch

The new i-CHANGE project was launched in 2003 to optimise our international activities; it also includes the transformation of our accounting system to comply with IAS/IFRS.

The following interim milestones were achieved during 2003:
- full migration of Nedship's IT systems to the SAP environment employed by DVB;
- further reductions in administrative expenditure;
- centralisation of Group functions through the transfer of resources from Rotterdam to Frankfurt/Main; and
- creation of a stringent corporate identity by applying a uniform system of corporate names throughout DVB.

Measures to be completed include:
- transforming the current accounting system to comply with IAS/IFRS;
- introducing a benchmarking system for the Transport Finance divisions;
- optimising the loan approval process; and
- reviewing the organisational structure of our loan administration processes.

Implementation of the measures defined in the project will commence in 2004 and will be completed by mid-2005.

## Our 2003 Report on Activities contains information on the following topics:

- Client areas (Transport Finance, Distribution and DVB Capital – Corporate Finance business divisions);
- D-Marketing (reduction of loan exposures that are no longer in line with our strategy);
- Treasury;
- DVB employees; and
- Participating interests (DVB Holding, DVB LogPay and DVB Processing).

# Transport Finance – Shipping

**There is no doubt that 2003 will be remembered as a remarkable year for the shipping industry. Back in the third quarter of 2002, the markets were depressed and the turn-around seen in 2003 far exceeded all expectations. China's incredible economic growth rates provided the driving force that sent the container and, in particular, the dry bulk markets into the record books.**

## Market review

China's economic growth has risen steadily for the past 15 years. However, it is only recently that it has taken prominence in the shipping industry, despite the SARS related wobble during the year. China's hunger for steel resulted in iron ore imports increasing monthly from 10 million tonnes in 2001 to 19 million tonnes by mid 2003. This dramatic growth caught the dry bulk shipping markets by surprise and rates went through the roof.

The Capesize market amply illustrates the upsurge in rates. From average spot market rates of US$10,000/pd in September 2002, Capesize rates climbed to US$34,000/pd by August 2003, before exploding to around US$80,000/pd by the end of the year. On selected fixtures, Capesize rates even breached the US$100,000/pd mark.

The container sector has also been in fine form, mainly due to the exports of Chinese finished products. On the head-haul trades out of Asia to Europe and North America, average revenue per teu climbed by 30–45% in 2003. The increase in charter rates for larger container tonnage was even greater.

It remains to be seen how the US will deal with its US$100 billion trade deficit with China and with elections due in November 2004, it will be interesting to see if this becomes a focus of attention with reference to the job market. Perhaps of more concern is the fall in value of the US-dollar, which could impact cargo flows on the higher value head-haul trades into the US, as well as damaging carriers' revenue/cost balances. In addition, China is under pressure not to link its currency to the US-dollar, which has supported its exports.

The tanker markets also experienced a good year with boom periods at the beginning and end of 2003. The impact of the military conflict in Iraq and the uncertainty leading up to it, undoubtedly affected the price and demand for crude oil which, in turn, positively affected the tanker markets. Rates took-off again towards the end of the year, as Iraqi exports increased and OPEC failed to adhere to its production quotas. However, the market was taken by surprise by the scale of the increase with VLCC's earning US$90,000/pd in the spot market during December 2003.

***Abbreviations Shipping:***

| | |
|---|---|
| *dwt* | *dead weight tonnes* |
| *ldt* | *light displacement tonnes/lightweight* |
| *LNG* | *Liquified Natural Gas* |
| *LPG* | *Liquified Petrol Gas* |
| *pd* | *per day* |
| *S&P* | *sale and purchase* |
| *teu* | *twenty feet equivalent unit* |
| *VLCC* | *very large crude carrier* |

Not surprisingly, positive markets such as these led to increases in both orders and asset values. Tankers saw some of the largest increases in asset values with double-hulls leading the way. Container carriers and bulkers also saw notable increases in asset values, although by the end of the year the market was so buoyant that it became increasingly difficult to put a value on Capesizes and Panamaxes. Even demolition rates increased almost two-fold with scrap prices in India of around US$255/ldt at year end. Current prices in March 2004 have breached the US$400 per ldt paid by Chinese breakers.

On top of all this, LIBOR rates fell to record lows of less than 1.2% during periods of 2003. So, markets were booming, owners were generating strong earnings, assets were appreciating and, at the same time, the cost of capital fell to all-time lows. Does it get any better than this for ship owners? Possibly not, but we should spare a thought for those forced to charter-in tonnage during this boom period to fulfil contracts arranged before the market went into overdrive.

## Outlook 2004

Where does this leave us in 2004? It is hard to imagine that 2004 will be as good as 2003 but, with optimism in the world economy picking up, it is reasonable to assume that 2004 will be another good year. Let us hope that at least some owners will not spend all their transitory income on permanent commitments.

China will again be an important factor regarding the main shipping markets in 2004. The container markets are becoming increasingly reliant on a strong Chinese economy to soak-up the large delivery schedule. Likewise, Chinese imports will also have a major influence on the bulk carrier markets. However, the delivery schedule of bulkers in 2004 suggests that it will not have too much of an impact on the markets during the year.

The tanker markets are a little more difficult to predict as they continue to be strongly influenced by political events. While it is plausible that the high delivery schedule will put pressure on rates at some point during the year, despite single-hull legislation, the crude tanker markets can be expected to remain volatile but relatively healthy.

DVB's Shipping portfolio is diverse in terms of the wide range of vessels that we finance. The following review will focus on the key sectors which together cover the majority of the vessels financed by DVB: crude tankers, product/chemical tankers, container carriers, dry bulk carriers, gas carriers and cruise ships.

## Crude tankers (18% of the Shipping portfolio)

As mentioned, 2003 turned out to be a good year for the crude tanker markets, albeit one of high volatility in the spot market. There were a number of events that led to this volatility, the obvious one being the conflict in Iraq. But the strikes in Venezuela and Nigeria also impacted the market prompting the US, for example, to source crude from more long-haul locations. Closure of Japanese nuclear power stations created more demand for oil. Weather conditions also threw a spanner in the works, the delays in the Bosporus being but one example.

The Bosporus is getting busier with increased Russian/Caspian oil production generating more trade from the Black Sea, some of which will be transported by pipeline. A rise in Russian production is also finding its way to other Russian ports such as those in the Baltic, Murmansk and the Sakhalin Islands (East Coast), which are creating new trades for the shipping markets and greater interest in ice-strengthened vessels. New trades such as these may create more market volatility because, instead of returning directly to their original loading port, tankers may become involved in triangular voyages, shedding as much as possible the long ballast back to the point of origin.

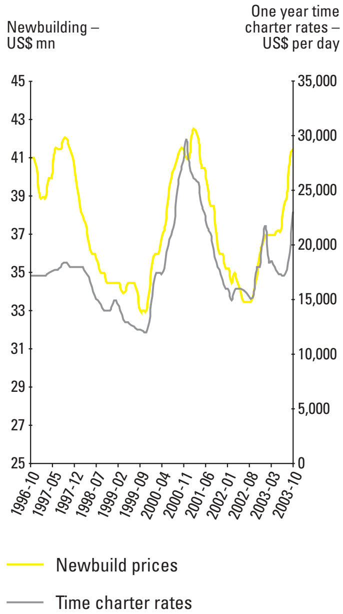
The rise in Russian production, in particular, has resulted in OPEC losing market share to non-OPEC producers. However, OPEC remains in the driving seat and will continue to adjust production levels to keep the price of oil high or try and regain value following the loss on US-dollar exchange rates. The crude tanker markets remain healthy despite the high oil price which can only be expected to further encourage non-OPEC production.

Future oil trade growth will be strongly influenced by the actions of Japan, its effect on the Asian region and the sustained volume of imports by China and India. Chinese imports of crude are expected to rise steadily, which will positively influence the crude tanker markets.

On the supply side, the crude tanker order book represents a sizeable 24% of the present fleet in dwt terms (greater than 60,000 dwt). The delivery schedule indicates that the overall fleet will expand in 2004. However, the delivery schedule will at least be partly countered by tonnage taken out of the market as a result of single-hull legislation.

Aframax tankers

One year time charter rates & newbuild prices




*The freight market in early 2003 was strong, due in part to the Iraqi war. However, the market fell during the middle of the year. The fourth quarter saw rates take-off owing to OPEC overproducing in relation to their quotas and increased Chinese imports.*

*Note:*
*Newbuild prices refer to 110,500 dwt vessels. Time charter rates refer to 95,000 dwt single-hull tankers.*

Source: Clarksons

## Chemical and product tankers (8% and 9% of the Shipping portfolio)

Overall, the chemical market could be described as being "lacklustre" in 2003, certainly in comparison with the other tanker sectors. However, the year started off reasonably well, due in part to high chemical prices and increased trade prior to the Iraq conflict. The strong product tanker market in early 2003 also had a positive effect on the chemical markets, particularly in terms of rates for chemicals that are shipped in large volumes such as methanol.

Once the Iraq war "settled down", chemical rates quickly fell back to the low levels witnessed in 2002. The product tanker market also followed a similar downward trend during this period. In the final quarter of 2003, the chemical and product market picked-up from the lull experienced during the middle of the year with rates improving across the board.

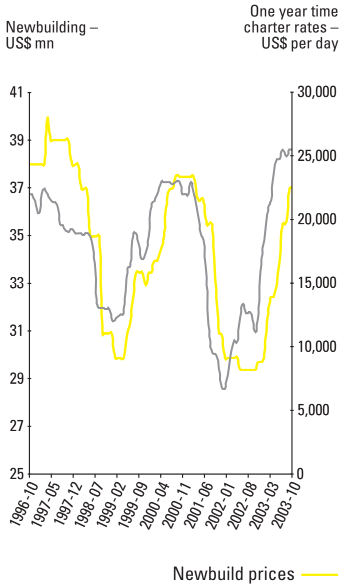
Early in 2003 an unexpected problem surfaced when some of the leading chemical operators were investigated by the US and EU Anti-Trust Authorities in response to allegations of collusion in rate setting. The outcome of these investigations has yet to fully unravel but is expected to reverberate across the chemical sector.

Looking forward, the product tanker market is notoriously difficult to forecast. This is partly due to the effects of arbitrage trades and changes in trading patterns on the demand side, together with the fact that some chemical tankers move into product trades when market conditions are favourable and vice versa on the supply side.

Despite single-hull legislation, it is possible that the high delivery schedule of product tankers will eventually lead to a softening of rates during 2004. What would appear even more likely is that increasingly erratic demand (e.g. US gas market bubbles) and the necessary market adjustments as a result of single-hull legislation will create more volatility in the product tanker market. Meanwhile, there are still no firm signs that the chemical market has shaken off its hang-over and the market may remain sluggish during 2004.

Sub-Panamax container carriers

One year time charter rates & newbuild prices




*After the lows reached in 2002, rates and prices steadily increased during 2003.*

*Note:*

*Newbuild prices refer to 2,500 teu vessels. Time charter rates refer to 2,750 gearless vessels.*

Source: Clarksons

## Container carriers (12% of the Shipping portfolio)

The container sector has seen spectacular trade growth over the last 20 years, driven by increased globalisation of trade and the unitisation of general cargo. However, the market effectively went into overdrive during 2003 with container traffic estimated to have grown by around 12%. As mentioned, increased trade out of Asia, and China in particular, was the driving force behind the significant growth rates. In fact, the growth in box handling in the major Chinese ports was nothing short of staggering. Shanghai has become something of a boom town courtesy of the shipping industry.

The growth in container traffic translated into increased rates, with freight conference agreements and individual carriers implementing significant rate restoration programmes. The market growth also resulted in major increases on the chartering front which, for the larger vessels, increased by over 50% during the year. For example, rates for a 2,750 teu vessel increased from around US$12,000/pd at end 2002 to over US$25,000/pd in six short months.

The ordering of container ships has been high, which is hardly surprising given the market conditions. However, the level of ordering, in particular for the large sizes, has been remarkable. For example, the Post-Panamax orderbook had increased from 74 vessels at the end of 2002 to a little over 200 by the end of 2003.

With no scrapping in sight for Post-Panamaxes, capacity can be expected to increase substantially in this sub-sector. The saving grace, however, is that deliveries are spread over the next three years and container trade growth is expected to remain strong. The general consensus among leading analysts is that world container trade will rise by between 8% and 10% over 2004-2005.

Short-term trade growth rates are expected to at least match the growth in the fleet, which suggests that 2004 will be another good year for the container market. Longer-term there is the possiblity as to whether the enormous orderbook will lead to an oversupply of tonnage and depressed markets, although the timing of this is far from certain.

## Bulk carriers (11% of the Shipping portfolio)

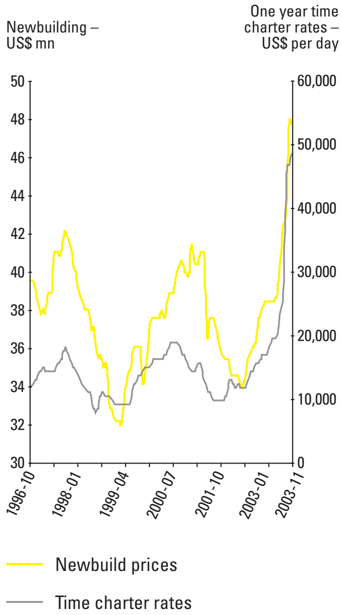
The dry bulk freight market took-off during the course of 2003, primarily due to the phenomenal growth of crude steel production (predicted by DVB in our Bulk Report). This was most noticeable through the incredible rise in Chinese iron ore imports coupled with a high demand for steam coal.

As mentioned earlier, the sheer scale of this growth took the market by surprise and prices and freight rates exploded to record levels. Looking forward, it is expected that one-year time-charter rates in 2004 (on average) will be even better than those witnessed in 2003 for the bulk markets.

The crucial question is: will the Chinese hunger for imported raw materials last? China's "five-year strategic plan" is to secure a long-term stable supply of iron ore. China currently faces increasingly difficult mining conditions, given that the domestic mines were largely established in the 1950's and 1960's. 60% of these mines are small with high cost operations. Output, in general, is declining, although some replacement mines are being developed. Another major issue is the quality of the ore. Blending domestic ore with foreign

Capesize bulkers

One year time charter rates & newbuild prices




*The dry bulk freight market took-off during the course of 2003, primarily due to Chinese iron ore imports coupled with a high demand for steamed coal. Prices and rates ended the year at record levels.*

*Note:*
*Newbuild prices refer to 170,000 dwt vessels. One year time charter rates refer to 150,000 dwt vessels.*

Source: Clarksons

high grade ores serves to enhance metal quality for the production of higher grade steels. In addition, improving blast furnace productivity is a key economic factor in the cost equation of running a steel mill, so much so that it can outweigh purchasing raw materials with a cheaper price tag.

Against this background we may conclude that the dry bulk freight markets are set to continue firm in 2004. Furthermore, newbuilding yard berths are almost full until 2007 and only a limited number of bulk carrier vessels will reach the market in 2004.

## Gas carriers (4% of the Shipping portfolio)

**LPG carriers (Liquified Petroleum Gas)**

The LPG market is highly fragmented with many different sub-sectors and a diverse range of trading patterns. In general, however, 2003 will not go down as a good year for the LPG markets.

As with other markets, China increased its LPG consumption in 2003 and, if its growth rates continue, China will overtake Japan as the World's second largest LPG consumer behind the US. Regarding LPG production, Nigeria is expected to increase its LPG exports over the next few years and Libya is likely to return to the gas market following the lifting of UN sanctions in September 2003.

**LNG carriers (Liquified Natural Gas)**

Meanwhile, LNG remains a hot topic as it is one of the fastest growing energy sectors. Provisional figures for total LNG movements in 2003 equated to 165 billion cubic metres, compared with 150 billion cubic metres in 2002. This rapid increase in the LNG trade has left ship owners looking for a share of this "high risk-high reward" sector.

The Washington LNG summit, held at year end 2003, concluded that US$100 billion would need to be invested globally during the next decade to meet the growing world-wide demand for LNG. The fact that the EIA (Energy Information Agency) had to revise its import projection made in 2002 of 2.1 trillion cubic feet by 2005 to 4.8 trillion cubic feet, illustrates the inroads LNG is making into the energy sector. This revision shows the speed at which changes are taking place in the LNG industry. It is said that by 2025 the US could be importing as much as today's total world trade which amounts to some 5.8 trillion cubic feet.

In the shipowning sector, the share and interest of independent ship owners such as Exmar, AP Moller, Golar and Bergesen (Wordwide) and Angelicoussis, is growing. In addition, Teekay, OMI and Globtik have also shown interest by bidding for the recent ExxonMobil tender for 28 vessels.

The current LNG fleet consists of 149 vessels, totalling 17.24 million cubic metres. The current order book consists of 53 vessels totalling some 7.36 million cubic metres. There were 16 LNG carriers delivered in 2003 and a further 20 and 21 are scheduled for delivery in 2004 and 2005 respectively.

The largest vessel on order at year-end was a 153,500 cubic metre vessel and we expect to see carriers between 200,000–250,000 cubic metres being built by the end of the decade. It is predicted that the spot market will increase from 8% of the total LNG market in 2002 to 20% by 2010. As a result, many owners are building vessels with the flexibility to be utilised for different projects, rather than be employed on one fixed project, as has been the tradition in LNG shipping.

It has become more difficult to predict the LNG market as more variables enter the equation. These variables include: the rapid growth in LNG trade, more complex fundamentals such as short-term contracts, arbitrage (cargo swaps), the actions of independent ship owners, new technological advancements and the availability of LNG.

## Cruise ships (3% of the Shipping portfolio)

The cruise industry has gone through a tremendous evolution during the past two decades. The number of annual cruise passengers has grown from 1.5 million in 1980 to 11 million in 2003, while more than 90 million passengers have cruised since 1980.

The industry has witnessed a remarkable consolidation of cruise ship companies in recent years, reflected by the fact that the big trio of Royal Carribean, Carnival Corp. & plc and Star Cruises currently control 73% of the industry’s capacity.

A wealth of largely untapped markets offer cruise lines numerous opportunities to source new passengers for their rapidly expanding fleets. The orderbook totals 28 ships encompassing 66,165 lower berths which represent 24% of total fleet capacity as at November 2003. The orderbook, with an estimated value of US$9.4 billion, could be described as high but, taking into account the cruise industry’s strong projected growth rates of 5.1% per annum over the next five years, the sector is expected to absorb the new deliveries.

All these factors place the cruise industry ahead of other segments within both the leisure and shipping industries.

## Portfolio analysis

*Shipping portfolio 2003*

*Lending volume:*
*€3,948 mn*

*Loans drawn incl. guarantees and indemnities:*
*€3,425 mn*

*Average lending exposure:*
*€18.2 mn*

*New business volume in 2003:*
*€1,509 mn*

*Number of new transactions:*
*91*

*Number of clients (borrower groups)*
*217*

*Positions as agent (overall portfolio):*
*23%*

*Positions as agent (new business in 2003):*
*30%*

The shipping division continues to form the largest part of DVB's portfolio and as at 31 December 2003 customer lending amounted to €3.95 billion, representing the aggregate of loans and advances to customers, guarantees and indemnities, irrevocable loan commitments and securities held as a result of customer business. The prima facie reduction compared to last year largely reflects the accelerated depreciation of the US-dollar against the euro. Shipping, however, is a US-dollar denominated industry with the vast majority of transactions taking place in US-dollars, under which basis our overall customer lending has in fact grown by 8.0%.

We are committed to retaining a close relationship with our customers. Operating via a global network of offices, strategically located in the world's major shipping hubs (Rotterdam, London, New York, Singapore, Hong Kong, Tokyo, Bergen, Hamburg, Piraeus and Curaçao), we have not only maintained close communication and extensive co-operation with our clients, but have also established specific expertise in each respective market. This has served to position us at the forefront of opportunities to develop new relationships and expand market share. Furthermore, our Corporate Finance division, DVB Capital, continues to complement the regional offices with tailor made solutions and expert advice.

Following the distinctly firm market conditions in the main shipping sectors over the last year, yard slots for new delivery orders were soon filled, thus creating a spillover effect that boosted second-hand market activity. High demand for capital, with ship owners looking to cover S&P and newbuilding requirements, coupled with improved earnings, increased asset values and the low interest environment is expected to attract certain financial institutions that recently withdrew from shipping finance back into the market. We therefore expect a short-term entrance of new competition (e.g. Chinese banks) followed by an increase in the total amount outstanding for shipping projects.

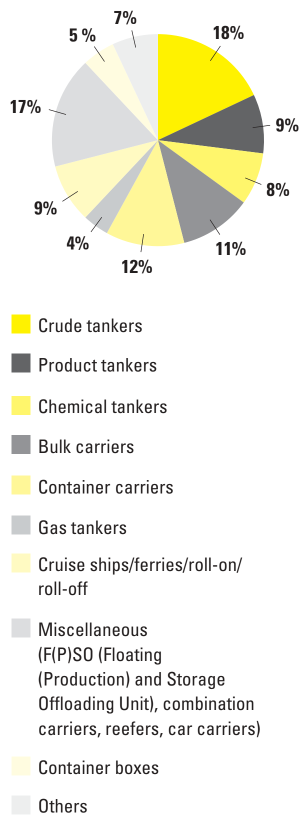
Nonetheless, we remain confident of our ability to maintain our position in the market as a top ten global shipping bank. Our commitment to the sector, together with our knowledge and expertise, are well recognised and valued by our customers. The provision of unique financial solutions to the shipping fraternity has proved an equally important factor in the development of our international profile. We are determined to become ever more active as a lead arranger of deals and to offer tax efficient financial products and advisory services to our clients, with the ultimate goal of becoming one of the top five financial arrangers in the shipping sphere. Indeed, our sterling reputation is evident in the award of several prizes by Lloyd's Shipping Economist, which named DVB as the bank with "Best Overall Knowledge of the Tanker Sector" (2001), while in 2002 we received the ultimate accolade of providing the "Most Professional Overall Finance Service to Shipping". Furthermore, in February 2004, together with Citigroup, HSH Nordbank and Royal Bank of Scotland, we were among the final four nominees for the award of Lloyds List "Shipping Financier of the Year".

Our Research and Strategic Planning team (RASP) has once again provided our commercial offices and customers with valuable and up-to-date information on shipping markets. In an industry where information is vital in order to understand and anticipate cycles and trends, the in-house professionalism and experience of our RASP team has proved invaluable both to our account managers and Asset Management team and equally to our customers.

## The Shipping portfolio

The shipping industry in 2003, across its main sectors, has witnessed an overwhelming recovery in market conditions. Indeed, we managed to translate the increased activities in shipping sectors into another year of growth and expansion, during which we have concluded 91 new deals, up from 71 in 2002. New lending amounting to €1.51 billion was realised, out of which €301 million was syndicated to other banks. The reduction in lending volume (relative to 2002) reflects the depreciation of the US-dollar against the euro while, in fact, nominal (i.e. US-dollar denominated) new lending business increased by 22.2% year-on-year from US$1.44 billion to US$1.76 billion. Corresponding to high S&P volumes, 30.7% of the average loan portfolio was repaid (or prepaid) during 2003. In this respect, preference was given to the increase in DVB's final take and hence the relatively lower rate of syndication. We acted as agent for 30% of our new business in 2003. Capitalising on the surge in demand for the financing of shipping transactions, we have not only expanded our portfolio but also enhanced our client selection and widened our margins. Accordingly, the gross margin in relation to underwritten new business has averaged 1.49% compared with 1.31% in 2002. Our focus on larger clients of attractive credit quality is in line with our goal of establishing a leading role in loan arrangements, including large volumes, which are often syndicated to other banks. By the end of 2003, syndicated loans totalling €1.43 billion were under our management yielding a gross shipping portfolio of €5.38 billion (US$6.41 billion).

Shipping portfolio by vessel types (%)



Overall, the current shipping portfolio, consisting of a strong client-base of 217 clients worldwide with an average lending exposure of €18.2 million (US$21.5 million), is highly diversified across the shipping industry. Our enhanced client-base in terms of credit quality has provided for a €1.35 million release of loan loss provisions. Due to our selective approval of new deals in the up cycle of 2003 and notwithstanding our counter-cyclical lending strategy, we are confident that our customers will safely navigate the prospering markets we foresee in 2004.

Apart from the development of ancillary financial services, our main business continues to be mortgage lending: 93.7% of our portfolio is secured, 78% of the portfolio has a loan-to-value ratio of less than 60%, while only 2% has a loan-to-value ratio of 85% or higher. The remaining part of our portfolio consists of unsecured loans on the merits of high credit-worthiness with compensating attributes to the facilities that limit our risk exposure. The development of collateral security is closely monitored and ship values are continuously reviewed by external appraisers to assure compliance with loan covenants.

Our global presence captures the international scope of the shipping industry, as reflected by an exposure to all major economic markets such as Norway, USA, Greece, the United Kingdom and other OECD countries, while 9.5% of the portfolio is exposed to emerging markets on a selective basis.

Loans are, inter alia, classified according to economic risks, the source of cash flows, the international trade of the asset and any recourse. The five largest sectors of our portfolio are: crude oil tankers (18%), container vessels (12%), bulk carriers (11%), product tankers (9%) and chemical tankers (8%). Overall we have established a presence, second to none, in 17 main shipping sectors and 61 sub-sectors, with more than 1,000 ships on our portfolio.

*Please refer to our tombstones on the back cover for **landmark Shipping deals in 2003**.*

## Container Business Unit

The Container Business Unit (CBU), designed to capitalise on the ongoing growth opportunities within the global container market which is serviced by a relatively limited number of focused players, was formed in November 2003. The original three-man team behind this Transport Finance unit will be expanded during 2004.

World Container trade is expected to grow at 6–7% per year for the next decade. The World Container fleet increased from 3.9 million teu in 1982 to 15.8 million teu in 2002. Investment in new containers is expected to amount to between US$2 billion and US$4 billion during the coming years. Most banks active in the transport and logistics sector focus on aviation and shipping. Until now there has been only one global player providing container financing to the liner and leasing companies.

The CBU represents a natural extension of DVB's activities because we:

- possess an in-depth knowledge of the shipping industry;
- are a committed long-term player within the transportation industry;
- understand and manage the long-term value of low tech (maritime) assets.

CBU's goal is to be recognised as the prime arranger/market leader in the container industry within two years. This target will be achieved by providing a full range of financial services to the liner and leasing companies. These services consist of the arranging and underwriting of lending products (incl. senior secured debt), together with the arrangement of cross border tax leases, German and Japanese funds and advice on financial re-structuring.

# Transport Finance – Aviation

***Abbreviations Aviation:***

| | |
|---|---|
| *AAPA* | *Association of Asia-Pacific Airlines* |
| *AEA* | *Association of European Airlines* |
| *AERO* | *Aviation Equipment Rating Overview* |
| *ATA* | *Air Transport Association* |
| *EU* | *European Union* |
| *IATA* | *International Air Transport Association* |
| *ICAO* | *International Civil Aviation Organisation* |
| *M&A* | *Mergers & Acquisitions* |

**The year 2003 proved distinctly eventful for the commercial aviation sector. Early in the year, apprehension ahead of the Iraq war followed by the outbreak of SARS impacted on a travelling public still preoccupied with the aftermath of 11 September 2001. All this, coinciding with a less than favourable global economic climate, served to create "The Perfect Storm" for the airline industry. Against this unpromising background, we succeeded in strengthening our position as a premier provider of financial services to the aviation industry.**

Our long standing strategy of building and maintaining a well-structured diversified portfolio, supported by modern commercial jet aircraft, allowed us once again to follow a counter-cyclical policy and expand the portfolio extensively (in US-dollar terms). At the same time, the Aviation division also increased the range of value-added solutions available to customers. Through the addition of new Aviation Asset Management resources together with an Aviation Industry Research team, our Aviation division further enhanced its capabilities in respect of the provision of advisory services and highly structured finance transactions as well as its ability to handle aviation asset risks. The fourth quarter of 2003 brought clear signs of industry improvement and, barring unforeseen circumstances, we are confident that 2004 will herald a significant upturn in the aviation sector.

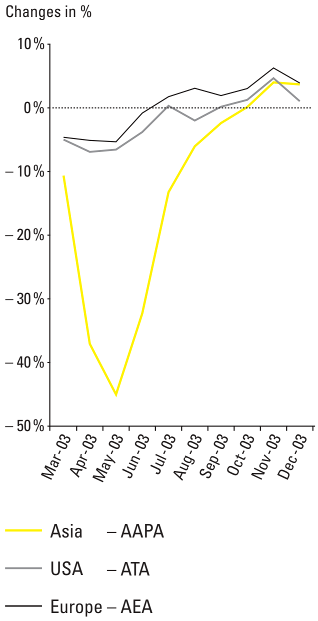
## Market review

### A year with two faces

With hindsight, the year 2002, following upon the traumas of 2001, turned out to be only a short "inter-bellum" as the first half of 2003 harboured further major challenges for commercial aviation. The reaction of potential passengers to the prospect of the Iraq war was, in essence, the "predictable" consequence of the events of 11 September 2001. In contrast, the SARS crisis, which lasted about three months, took the airlines completely by surprise and had an unprecedented impact, particularly on Asian traffic. In May, IATA reported a 20% drop in international scheduled passenger traffic, with Asia-Pacific carriers experiencing a reversal of more than 50%. It was only in the second half that 2003 showed a more friendly face, with global traffic growth resuming in September. The preliminary IATA figures for global air transport during 2003 show a 2.4% decrease in total international passenger traffic and a 4.9% increase in international cargo traffic. Financial estimates in respect of 2003 indicate an operating loss for world airlines of somewhere between US$5 billion and US$10 billion, boosting total losses since 11 September 2001 to US$35 billion.

Preliminary ICAO statistics on global domestic plus international traffic indicate a 1% fall compared with 2002. In the wake of the recovery that commenced during the second half of 2003, the current ICAO industry outlook is more positive with increases of 4% and 5% projected for 2004 and 2005 respectively.

Traffic growth across different regions




Airline Associations Operating Statistics – Revenue Passenger Kilometres (RPK)

## Europe

European airlines' traffic volume showed only modest growth in 2003 with the AEA reporting an improvement of just 1.2%. SARS was responsible for a 6.8% drop in the European airlines' Far East traffic although North Atlantic traffic registered relatively healthy growth of 4.0%. Intra European traffic was up a mere 1.5%. During 2003, the low cost carriers (not represented in the AEA figures) performed significantly better. Ryanair (incl. Buzz) and easyJet (incl. Go Fly), the two most prominent low cost carriers, saw their passenger traffic increase by 48% and 22% respectively during 2003. In 2004, the AEA expects a 7.5% increase. Eliminating the "2003 external effects," the true growth trend is estimated at between 2.7% (intra-Europe, Far East) and 4.8% (North Atlantic).

The low cost phenomenon is now well established in northwest Europe and many other continental European countries also took new low cost initiatives. It is estimated that the average penetration of low cost carriers in intra European traffic is in excess of 17% and there is still more growth potential. Low cost carriers can significantly stimulate traffic and – according to US research – may generate up to 70% more traffic (within a three-year period) in an environment that might otherwise have grown by as little as 5%. Low cost carriers that use remote secondary airports encountered a setback in the shape of French and EU rulings that deemed certain regional airports' subsidies illegal. Apart from the loss in market share, the yield pressure caused by low cost carriers has had a serious impact on the profitability of traditional airlines. In the event, the reaction of the European network carriers to the low cost threat has been mixed. Most entered into ambitious cost-cutting programmes and – despite earlier unsuccessful ventures such as Buzz and Go Fly – some chose to set up their own low cost subsidiaries.

European charter carriers experienced a difficult year, largely due to a depressed holiday market. Despite accelerated vertical integration and consolidation among tour operators, the big three (TUI, MyTravel and Thomas Cook) struggled, particularly during the first half of the year. With most business going to the in-house charter airlines, there was additional pressure on those independent airlines that had failed to develop alternative strategies such as seat-only sales. Some charter airlines initiated their own low cost initiatives and, as a result, the distinction between the two groups has become blurred.

Another round of airline consolidation appears to be in full swing, witness the proposed merger between Wings Alliance member KLM and Skyteam Alliance member Air France (possibly to be joined by Alitalia) and the alliance between Swiss International Air Lines and British Airways, the latter having also obtained clearance from the EU for heightened co-operation with Iberia.

With all the major airline alliances now incorporating members from Europe, Asia and the US, at the least, the outcome of negotiations between the US and the EU over a transatlantic aviation agreement has become critical in view of the fact that this can be expected to signal a relaxation of ownership and control restrictions which will pave the way for M&A activity between EU and US airlines. After two rounds of discussions, the US chief negotiator was optimistic that open skies talks with the EU will succeed in liberalising transatlantic air travel within five years. Another important step towards more efficient use of European airspace was taken in December 2003 when EU governments committed to co-operate on the designation of "functional blocks of airspace" to replace areas defined by national borders.

## North America

US passenger traffic volume was stagnant in 2003 with the ATA reporting a fall of 1.0% in the major airlines' revenue passenger miles (+0.7% including all national and regional carriers) compared with 2002. Air cargo volume (revenue ton miles) showed a marginal decline of some 0.2%. With passenger capacity down, load factors increased to 74%. Unsurprisingly, ATA members recorded a significant drop in SARS-affected Pacific traffic (–10.8%). The major airlines' domestic traffic was largely stagnant, with a plus of just 0.7%, although this rises to 2.8% if national and regional carriers, which benefited from a shift in traffic, are included. The outlook for 2004 is more positive with traffic expected to increase by 7%.

The long term yield trend was clearly negative but improving ticket prices during the second half of the year served to reduce the fall in the 2003 average airline yield to just 0.3%. In the event, the US airlines received government support totalling US$3.1 billion, comprising a suspension of security fees until 30 September 2003 worth US$700 million, and a US$2.4 billion refund of security fees paid since February 2002. Despite this, together with an additional US$10 billion of expense cuts, the US industry is estimated to have lost between US$5 billion and US$6 billion, with approximately half of this attributable to United Airlines.

US Airways emerged from Chapter 11 but, in early December, warned that a revision of its business plan was required to meet the threat posed by US low cost carriers and admitted that it was evaluating "every aspect of the company" in order to reduce expenses. In contrast, United Airlines remained in Chapter 11, for which it filed in December 2002. At the end of March last year, American Airlines reportedly came within hours of seeking bankruptcy court protection as the company awaited union concessions. Airlines that failed to avoid bankruptcy protection in 2003 included Air Canada, Hawaiian and Avianca. Success stories in North America were largely confined to the low cost airlines, which now account for more than 25% of the domestic market. Southwest continued its 30-year profitability record, while JetBlue saw its traffic volume increase by 69%. Delta and United jumped on the low-fare bandwagon and launched "Song" and "Ted" respectively. The outlook for the US aviation industry in 2004 is more positive with a near break-even financial result expected, followed by a return to real profitability in 2005. Despite this, concerns persist in respect of a number of major airlines.

### Asia-Pacific

The year 2003 started on a distinctly positive note with January's international traffic – as reported by AAPA – increasing 13.5% and freight volume rising by as much as 16.6%. By March, the initial impact of SARS saw traffic volume decline by more than 10% compared with the same month in 2002. In May, traffic volume was down by an unprecedented 45.5%. Amazingly, none of the Asian carriers were forced to file for bankruptcy protection, partly as a result of government support but also due to a more robust financial position compared with non-Asian competitors. Fortunately, traffic volumes returned to normal levels during the summer months and October brought positive growth of 1.2%. For the year, preliminary AAPA information indicates that international passenger traffic experienced a fall of just under 10%, while freight traffic rose by some 4%.

The key theme during the second half of 2003 was undoubtedly the implications for Asia-Pacific markets of the emergence of a wave of low cost carriers. The first truly low cost airline in Asia was Malaysia's Air Asia which was transformed from a "traditional" regional airline by Mr Tony Fernandez. Air Asia's low cost concept was emulated by a number of Asian entrepreneurs as well as several established network carriers that decided to create their own low cost subsidiaries.

With a glut of low cost initiatives, the debate has focused on whether regional market conditions are actually favourable for low cost airlines. Some of the arguments used against the low cost model include the high levels of efficiency that already exist among established Asian carriers and the widespread use of efficient wide-body aircraft due to the longer distances (on average) between major population centres which, at the same time, limit the advantage of short turn-around times. In our opinion, pockets of opportunities within the fast growing Asian markets still remain for the low cost model. That said, we would be cautious about the current boom in low cost carriers. As proven time and time again in different industries, very few companies that enter the market during a "hype" actually manage to survive.

## Aircraft equipment market review

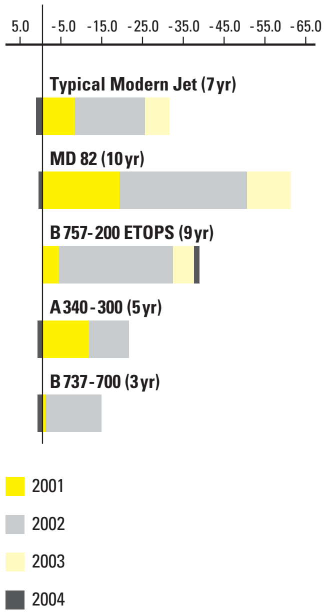
Orders for commercial jets increased in 2003, although deliveries remained depressed, leaving 2002 as the low point in the current business cycle. The number of commercial jets ordered in 2003 totalled 911 (gross orders) compared with 655 in 2002 (2001: 1,073). The most popular types remained the Boeing 737 next generation and the Airbus A320 family although these were joined by the Embraer 170/190 regional jet family.

In the sales battle between manufacturers, Airbus gained the upper hand over Boeing in the above 100-seat market segments (293 vs. 243 orders), whereas Embraer outsold Bombardier in the regional jet market (225 vs. 115 orders). In the latter segment, China's AVIC I Commercial Aircraft (ACAC) entered the market with a modest 35 orders for its 78 seat (2-class) ARJ21 large regional jet, scheduled for delivery in 2007. Boeing decided to end production of the 757 model in 2004 but, having ditched its Sonic Cruiser project in December 2002, announced that it would officially start taking orders for the revolutionary new 7E7 "Dreamliner". The 7E7 incorporates a significant amount of technology that has not been applied to commercial jetliners on such a large scale before, including a composite primary structure (fuselage and wing), a structural health management system and highly efficient "no-bleed" engines. We investigated specific finance concepts that would take into account the financial/economic and risk reducing implications of the technical and operational characteristics of the 7E7. Our belief is that if the 7E7 is launched, it may cause major changes in the medium wide-body market segment where it could significantly impact residual value expectations for the current generation of jetliners.

The used equipment market was still confronted with a significant number of aircraft in storage. As of end 2003, a total of 2,189 commercial jets were reported as being "in storage", representing 12% of the world fleet. This was slightly higher than the January 2003 figure of 2,123 and significantly in excess of the pre-11 September 2001 level of 1,239 (7.6% of the fleet). However, the stored fleet includes the significant number of around 1,400 "old technology" aircraft that are unlikely to return to operations. More likely to return to service is a group of about 500 “previous generation” aircraft. These aircraft generally meet all western operational requirements but can be considered more “speculative” aircraft in financing terms. Some of these aircraft types appear well suited to replace ageing Russian types or for conversion to cargo aircraft. Finally, only about 300 parked aircraft can be considered “current” generation aeroplanes. Depending on the supply/demand dynamics in the coming years, our view is that some 800 of the stored fleet will eventually return to service, leaving approximately 1,400 aeroplanes for permanent retirement.

Aircraft values suffered during the 2001-2003 crisis. As shown in the adjacent graph, we have calculated the average decline since 2000 in the “current market value” of a sample of popular commercial jet types. By using aircraft of a constant age, the effect of “ageing” has been eliminated. Mid-year figures have been used in respect of 2001-2003, while only January data was available for 2004. All changes in value are expressed as a percentage of the year 2000 values. Clearly, 2002 proved the worst year but even in 2003, aircraft lost significant value. The first figures for 2004 indicate that most aircraft types have stabilised and some have registered a slight increase in value.

Value of different types of aircraft – development since 2000 (%)




Source: DVB Aviation Industry Research, based on Airclaims data

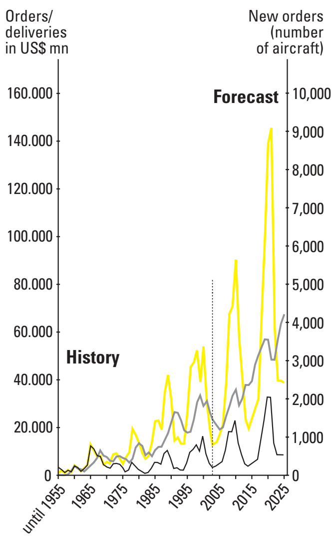
Apart from the temporary equipment surplus, increased scepticism regarding new aircraft prices may also have contributed to the fall in used equipment prices. As a result of the intense competition between the major manufacturers, aircraft list prices have become almost meaningless with discount percentages for major orders reportedly exceeding 30%. Whereas in the maritime industry, “real” equipment prices are widely published, the aviation industry is still confronted with the need to “guesstimate” true equipment costs.

In comparison with previous years, aircraft lessors have not placed major speculative orders for new aircraft. Sale/lease-back type transactions seem to be favoured by most lessors, much of whose marketing efforts have been dedicated to placing aircraft coming off-lease. With a number of medium-sized leasing companies discretely offered for sale of late, the improving equipment market may offer good opportunities for investors with deep pockets and an appetite for aviation risk.

DVB is constantly improving its methodology in order to further enhance its decision making process in respect of aircraft finance. During 2003, the AERO system was developed. This system takes into account a number of relevant characteristics for each aircraft type, including technology(-age), technology-risk, operator base, fleet size, historic value performance, backlog etc. This system enables us to differentiate between stable assets well suited for asset-based finance, more speculative aircraft types and aircraft types deemed less attractive for new transactions.

## Outlook 2004

Commercial jet market – history & forecast




Value of new orders (US$)

Value of deliveries (US$)

Number of new orders

*Delivery forecasts 2003-2022 compared:*

*Boeing 24,276 (5,889 retirements)*

*The Airline Monitor 22,320 (5,369 retirements)*

Source: airline monitor

After three years of depressed conditions in the aircraft market, we are confident that 2004 will herald a continuation of the positive trend that became evident during the second half of 2003. In its 2003 Current Market Outlook covering the period 2003-2022, Boeing projects a demand for 24,276 new commercial airplanes, worth US$1.9 trillion (in 2002 US-dollars). Of these, a projected 18,387 aeroplanes will accommodate market growth, with 5,889 anticipated for fleet replacement. Narrow-bodies in the 90-240 seat range will be the largest market segment (13,645 aircraft), followed by intermediate wide-bodies (5,440) and regional jets (4,300), leaving demand for only 890 very large aircraft (B747-size or larger). This projection is consistent with Boeing's policy of not offering a direct competitor to the Airbus A380. There has been no recent update of Airbus's Global Market Forecast and the figures therefore relate to the period 2001-2020. Airbus's projection is for 15,887 new jets worth US$1.5 trillion (in 2002 catalogue prices) to be delivered in this period, excluding regional jets. Airbus projects 10,201 mainline narrow-bodies, 3,842 intermediate wide-bodies and 1,138 very large aircraft such as the A380. The adjacent graph provides an independent projection of aircraft orders and deliveries, clearly reflecting the cyclical nature of the business. According to this projection, the market is past the low point in the cycle (except for deliveries) but airlines will not commence large scale ordering until after 2005, with deliveries trailing by about two years.

From an aircraft selection point of view, the more stable market segment currently appears to be the 150 seat segment, incorporating aircraft such as the Boeing 737-700 and 737-800 as well as the Airbus A319 and A320. Airbus and Boeing have been concentrating on the development of their wide-body products and, as a result, the balance between the Airbus and Boeing offerings in the 150-seat segment looks relatively stable. Larger narrow bodies such as the Boeing 757, Boeing 737-900 and Airbus A321-200 have not been ordered in large numbers although we still consider the latter an attractive aircraft. The Boeing 757 – now approaching the end of its production life – appears to fall under the more speculative types. In the 100 seat segment, the new Embraer ERJ 170-190 series is rapidly becoming the standard aircraft, clearly overshadowing the Boeing 737-600 and Airbus A318. Smaller regional jets such as the Bombardier CRJ200 and the Embraer ERJ 135/145 have done well during the recent crisis years, although the concentration of some of these aircraft types with a limited number of carriers poses a potential risk. The wide-body market is all but stable. Airbus is now building the A380, which will overshadow Boeing's B747-400 Jumbo Jet, while the new technology incorporated in the Boeing 7E7 may significantly change the market situation in the medium-size wide-body segment.

## Portfolio analysis

### Global activity

The success of our Aviation division is rooted in our ongoing development of the strong network of relationships that we enjoy with existing clients through our international offices located in key aviation centres. Specialised Aviation marketing teams are situated in London, New York and Singapore. Our London branch services aviation clients in Europe, the Middle East and Africa, while our New York representative office plays a vital role in marketing and the negotiation of transactions in North and South America. The dedicated Aviation team in DVB Group Merchant Bank Asia Ltd, based in Singapore, is responsible for business development in Asia, Australia and New Zealand. Through the Tokyo office of our subsidiary International Transport Finance Limited, we continue to facilitate and develop our activities in the important Japanese aviation market. In 2003 we passed a milestone by becoming the first non-Japanese financial institution to be involved in arranging and financing an aircraft operating lease for a major Japanese airline.

### 2003: a year of opportunity

During 2003 we realised 31 new transactions, representing an underwriting volume of €608 million, on behalf of aviation clients. We acted as agent and/or arranger in respect of three-quarters of this newly acquired business. New business was concluded with such long-established clients as Qantas, Korean Air, Alaska Airlines, Air France and Martinair. New aviation clients included Avion Capital (a newly established financing joint venture involving Airbus), JetBlue Airways (US low cost airline), Middle East Airlines (Lebanon) and ALAFCO (a leasing subsidiary of the Kuwait Finance House).

In reaction to the industry's prevailing problems, further impacted in early 2003 by the Iraq war and SARS, certain institutions chose to either cease or scale-back their aviation financing activities. This presented DVB with the opportunity to benefit from a somewhat less competitive environment. In the event, we achieved significant improvements in the general terms and conditions attached to new lending and, more specifically, in margin and fee income. We thus continued to adopt a dynamic approach towards growing the lending portfolio, albeit in line with our long-established industry lending policies.

***Aviation portfolio 2003***

*Lending volume:*
*€2,055 mn*

*Loans drawn incl. guarantees and indemnities:*
*€1,982 mn*

*Average lending exposure:*
*€22.8 mn*

*New business volume in 2003:*
*€608 mn*

*Number of new transactions:*
*31*

*Number of clients (borrower groups)*
*90*

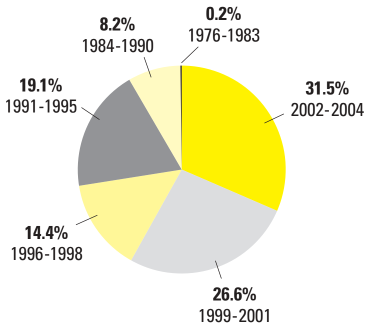
*Positions as agent (overall portfolio):*
*39%*

*Positions as agent (new business in 2003):*
*45%*

In line with DVB's consistent strategy, our constant presence in the global market place resulted in a steady flow of new business throughout 2003. In many instances we were able to deliver unique solutions to our clients involving highly structured financing transactions and/or aviation asset risks. In particular, we have been active in structuring and arranging a number of financing transactions involving an aircraft operating lease on behalf of one of our airline clients. Given the airlines' mounting intentions to build flexibility into their fleets, and the fact that airline balance sheets will need to be strengthened before large scale orders of new aircraft can resume, the operating lease sector of the market should continue to experience considerable growth. In view of our extensive relationships with operating lessors, as well as other investors who are keen to pursue equity investments in aviation assets, we are well placed to participate in such future growth.

Certain airlines have struggled, on occasions unsuccessfully, to survive the industry downturn which worsened during the early part of 2003. Against this background, significant internal resource and attention was devoted to close monitoring and remedial activity in relation to the portfolio and, in particular, the watch-list and non-performing loans. During the year, certain loans were re-structured and reorganised, sometimes involving the leasing of mortgaged aircraft assets to a new airline operator. Such arrangements reflect the considerable involvement of our Aviation Asset Management resource. Meanwhile, we will continue to take any necessary steps to safeguard DVB's position as a secured lender. We remain confident, therefore, that non-performing loan assets will continue to be successfully reorganised.

Aviation portfolio by vintage (%)




## Loan portfolio development

The Aviation portfolio decreased slightly by 6.6% to €2.1 billion as at the end of 2003, reflecting the significant weakening of the US-dollar against the euro. However, in US-dollar terms – the portfolio is predominantly (93%) US-dollar denominated – it has continued its growth, by 14.5% from US$2.27 billion to US$2.60 billion. The number of new transactions totalled 31 (the same as the previous year´s level), while new lending amounted to €608 million, out of which €10 million was syndicated to other banks. The portfolio is geographically well diversified (by economic risk) as between North/South America (36.6%), Europe/Middle East/Africa (37.6%) and Asia, including Australia/New Zealand (25.8%). The collateralised portfolio represents 97.7% of total loan assets. Collateral is predominantly Boeing, including McDonnell Douglas, (51.9%) and Airbus commercial jet aircraft (37.9%), of which 31.5% are 2002-2004 vintage and 26.6% 1999-2001 vintage. The portfolio is also well diversified by client: a total of 90 aviation clients represents an average lending exposure per client of €22.8 million. The division's largest individual client exposure currently stands at €79.0 million and there are only 11 clients where our committed exposure is in excess of €50 million.

## Outlook 2004

The establishment of a dedicated Aviation Industry Research team during 2003 not only provides our marketing and credit teams with valuable up-to-the-minute information and data on the air transport market but also serves to demonstrate the importance we attach to servicing the aviation industry.

*Please refer to our tombstones on the back cover for **landmark Aviation deals in 2003.***

Although there are signs of a recovery in the aviation market, the ability to analyse and assess such diverse structural factors as low fare carriers, airline consolidation, airport security measures and the revolutionary B7E7 will play a vital role in satisfying client requirements during the challenging period that lies ahead. We are firmly of the opinion that such conditions will favour specialist financial institutions such as DVB.

Significant growth of the Aviation portfolio will be targeted for 2004. This should be achieved through the booking of new (primary) loan business, complemented by selective purchases of secondary loans that typically offer above-average yields. Further development of our fee-earning corporate finance activities, in association with DVB Capital's Structured Asset Finance, Advisory and M&A and Investment Management units, will run parallel with the growth of our portfolio. We are confident that Aviation clients will represent an increasing proportion of DVB Capital's future "pipeline". We are equally confident that our Aviation division will continue to build on its success during 2004.

# Transport Finance – Land Transport

*Abbreviations Land Transport:*

| | |
|---|---|
| *3PL* | *Third Party Logistics: a generic term for solutions where contract logistics specialists provide a series of services along the value-added chain between shippers and freight forwarders, e.g. by organising transport and storage or bundling cargoes.* |
| *HGV* | *heavy goods vehicles* |
| *SMEs* | *small- to medium-sized enterprises* |

**A clear-cut business structure with a strong focus: the pursuit of this strategy by our Land Transport operations paid off once again in 2003 and reinforced the division's international market presence. As a specialist in land transport markets, our focused approach is appreciated by clients. We offer a broad range of products and advisory services including direct lending, the arrangement of syndicated loans and structured finance solutions (with or without tax optimisation features), the assumption of reasonable residual-value risks in respect of asset financing and advice on M&A transactions.**

## Market review

Economic developments had varying impacts on the regional markets we cover in our business. The dire outlook prevalent at the outset of 2003 improved across the various land transport sectors, mostly towards the year-end. Traditionally, wagon load factors and new freight car orders are leading indicators in terms of economic trends. While these pointed towards a recovery in both Europe and North America, the outlook regarding the road haulage of goods was somewhat more complex.

### Launch of road tolls in Germany postponed

It became clear during the second half of 2003 that the introduction of German motorway tolls for HGVs – originally scheduled for spring 2004 – would have to be postponed. This was predominantly due to technical factors but also to organisational issues. In January 2004, Toll Collect, the consortium licensed to operate the toll system, submitted a revised two-staged launch schedule with the first stage set for roll-out in the autumn of 2004. Lost toll income due to this delay is expected to result in Federal budget cuts in the region of €2 billion, affecting transport-related investments. In contrast, Austria launched its mileage-based and technically simpler HGV toll system at the beginning of 2004 with no problems.

### Fierce competition in local public rail transport and rail freight

The deregulation of rail transport systems across Europe appears to be losing some momentum. Indications of this trend include an increase in the participation of public sector transport operators in tenders, the partial reversal of privatisations of such public sector operators and investments by national railway operators in smaller transport companies. Investment and financing decisions during the second and third quarters of 2003 were influenced by a ruling of the Brandenburg Higher Regional Court (Oberlandesgericht Brandenburg) on 2 September 2003 that upheld the practice of awarding rail-bound local public transport services without tender. At the same time, reductions in State subsidies boosted demand for operating leases for the financing of rolling stock.

Several private sector competitors of Deutsche Bahn AG (DB AG), the German national railways, attempted to re-focus their businesses or use alliances to bolster their market position. Local public sector operators also increased their activities in local rail-bound public transport. At the beginning of 2003, DB AG still accounted for 91.8% of total passenger rail journeys – and the company indicated a strategic objective to maintain a share of more than 70% come 2018. At 3.5 billion tonne kilometres, independent operators' share of the overall rail freight market amounted to just 5%, with DB AG accounting for the remaining 95%.

### Logistics: Deutsche Bahn AG evolves into a global logistics provider – cross-border acquisitions of SMEs

Leading operators are consolidating their position in the global logistics market which continues to benefit from unfettered growth momentum. With the acquisition and integration of Stinnes in 2003, DB AG was the first national railways operator to achieve a top ranking position in the logistics market alongside postal companies. This move propelled DB AG to prominence in the international freight and logistics markets. The increasing trend towards consolidation across Europe was highlighted by continued cross-border acquisitions, particularly affecting SMEs. Third-party logistics (3PL) was the segment with the strongest growth rates worldwide, with major logistics firms fully prepared to sponsor projects. However, off-balance sheet structures and operating leases also gained importance in the provision of finance.

### Portfolio analysis

The successful development of our Land Transport division in 2003 served to confirm the inherent benefits of our focus on selected market segments and clients, as well as the advantages of the organisational structure that we have implemented. The composition of our team of specialists also played an important role in achieving such results.

Our business focus on asset finance and operating leases proved as successful as it was responsive to market needs. This permitted us to strengthen our market presence during 2003 due to our ability to maintain an anti-cyclical stance. Secondary market acquisitions also helped us to expand our Land Transport portfolio in this sector, in line with strategy, and widen our client relationships. On a medium-term horizon, the strategic focus of our portfolio will be on the rail and logistics segments, with the bus market to follow. This is in line with the structural developments in global land transport markets.

Our lending volume rose by 15.9% in 2003, from €0.69 billion to €0.80 billion, including 14 new exposures totalling €229 million (up 92.4% compared to 2002).

***Land Transport portfolio 2003***

*Lending volume:*
*€800 mn*

*Loans drawn incl. guarantees and indemnities:*
*€724 mn*

*Average lending exposure:*
*€11.4 mn*

*New business volume in 2003:*
*€229 mn*

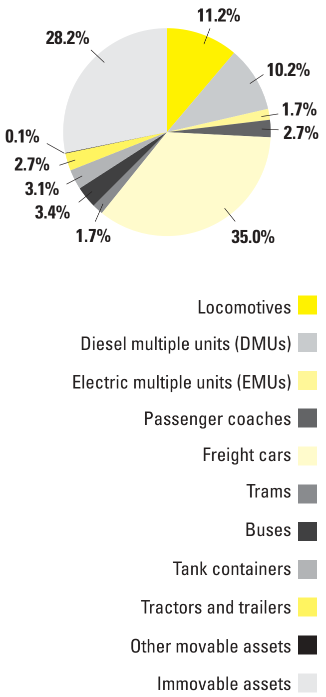
*Number of new transactions:*
*14*

*Number of clients (borrower groups)*
*70*

*Positions as agent (overall portfolio):*
*none*

*Positions as agent (new business in 2003):*
*none*

Land Transport portfolio – asset types (%)




*Please refer to our tombstones on the back cover for* ***landmark Land Transport deals in 2003****.*

## Expanding our portfolio in stable regions

Our financing and structuring activities remained focused on North America and Europe. We were able to raise our profile as asset financiers – particularly in terms of our market expertise and asset valuation skills – via a series of operating lease financings in respect of rail locomotives from leading European manufacturers. We consciously assumed calculated residual-value risks, leveraging our skills to secure business.

In the summer of 2003 we secured a leading lending position, within the scope of a complex leasing structure, to finance a parking logistics project undertaken by a major European airport. Our excellent client relationships found reflection in a series of innovative structures to finance freight cars and locomotives: having successfully quoted in a tender offer, we won the mandate for the first pooled financing taken out by a German public-transport licensee. During the fourth quarter of 2003 we closed the syndication of a loan for state-of-the-art diesel trains, as Sole Agent. In the North American market we provided targeted funds to several core clients, within the scope of structured finance for locomotives and freight cars.

In the logistics market, we concluded a number of projects – both on- and off-balance sheet – for multi-modal terminals and logistics projects in various European countries. Preparations were made for further transactions. Furthermore, a leading German logistics enterprise mandated us to provide structured financing for a fleet of tank containers.

## Outlook 2004

We anticipate further growth in the rail, logistics and bus markets in North America and Europe, due to accelerating deregulation in these sectors. Following the strengthening of our business relationships in target regions such as Japan, Latin America, South Africa and Australia, we will continue to build on this initiative in the year ahead. In the UK, having witnessed a marked fall in investment in the passenger train market during 2003, we expect renewed activity in both the freight and inter-modal UK transport sectors during 2004. Overall, we note particular demand for asset finance expertise. We will, of course, respond to these growing investment requirements across all the transport markets we cover. As a specialist provider, we will leverage our skills, products and know-how by providing heightened levels of client service. Together with a stronger readiness to provide financial resources, we believe that we have everything in place to not only maintain our presence in our target markets but also to meet the challenges that lie ahead.

# Transport Finance – Transport Infrastructure

**Our Transport Infrastructure division provides private-sector finance for relevant infrastructure projects as well as targeted financial advice. One of the key transactions initiated by our team of experts in 2003 involved a comprehensive mandate for DVB to advise on, arrange and finance the privatisation of an airport in the Netherlands Antilles. The execution of this transaction involved close co-operation between our DVB Capital – Corporate Finance advisory experts and our distribution team.**

## Market review

Private-sector project financing often calls for the use of complex tools that we believe will continue to gain in importance and market acceptance. According to exhaustive data samples collected within the scope of two field studies in 2003 (one of which was conducted by Standard & Poor's), the risk exposure inherent in project finance structures collateralised by cash flows is never greater than in uncollateralised corporate lending – on the contrary, it is often lower. This has permitted a reduction in capital backing requirements for project finance, according to the criteria of the Basel II Accord, and fully complements our strategic decision to continue to expand our project finance portfolio in 2003 when several global banks chose to withdraw (some only temporarily) from this market segment. In contrast, DVB's market presence continued to improve during 2003 amid a rising demand for project finance. We leveraged our position as a specialist provider to counter the market cycle and expand our loan portfolio, including the targeted acquisition of shares in certain existing project financings.

### Airports

European airports, on average, experienced a slight improvement in revenues during 2003. This trend reversal was largely driven by low-cost carriers that continued to experience above average growth rates. Airports outside Europe faced the ongoing crisis in Iraq as well as the SARS threat which abated only slowly. Given this challenging environment, there were no IPOs of existing airport operators. Likewise, the number of new term concessions granted for expanding and operating existing facilities, or expansion programmes using private-sector finance, proved exceedingly limited. Potential airport operators are no longer willing to apply for operating concessions at any price. In another interesting development, the preferred bidder status assigned in December 2003 by the Cypriot government to a consortium tendering for two airport concessions was legally contested by a losing consortium. The final award of the project is currently expected to take place in 2004.

***Abbreviations Transport Infrastructure:***

*HGV heavy goods vehicles*

*IPO initial public offering*

*SPE special purpose entity*

## Maritime ports and terminals

Growth rates in the international container trade maintained their momentum in 2003, albeit at a slightly lower annual pace than would have been the case during an economic boom. Although additional global maritime port and container terminal capacity has been in the pipeline for several years – including projects funded by the private sector in Germany, the UK, the Netherlands, the Baltic countries, India, China, the Philippines, Chile and South Africa – only a little new capacity actually came on stream in 2003. This included the long-planned extension of South Korea's largest port, a major new transit port in the Dominican Republic and two new ports for the Panama Canal – one on the Atlantic side, one on the Pacific side.

We actively leverage the network and expertise of our Shipping division (based in London and Rotterdam) to generate and analyse new port projects.

## Rail infrastructure

Following the financing of an operating concession in respect of three London Underground lines for the "Tube Lines" consortium, which we successfully concluded in December 2002, we completed, in the spring of 2003, the private sector financing for two additional concessions that will operate the remaining seven Underground lines ("Metronet"). Despite the significant volume (in excess of GBP1 billion), the transaction was significantly oversubscribed. The strong interest shown by banks reflected the innovative legal structure applied to the operating agreements, whereby the public sector retains the risk of insufficient transport usage, while the risks transferred to the new private sector operators are predominantly of a technical nature. Although similar structures involving private sector funding have been utilised for several large European rail projects during the past two years, in Germany such structures are only being considered – if at all – for the planned Transrapid high-speed magnetic-levitation train project.

## Toll roads

Spain was at the centre of this sector's attention in 2003, thanks to the privatisation of ENA, the previously State-owned motorway operator, and the awards of several toll road concessions via public tenders. Portugal and Norway also awarded operating licenses for newly-built motorway sections. In Germany, despite the compilation of various feasibility studies in relation to toll tunnels and bridges, none of these projects actually resulted in a public tender. However, the Warnow river crossing in Rostock was inaugurated in September and the success of this project – which was funded by the private sector – will prove a test case as to the acceptance of genuine toll roads in Germany. Future income from the planned motorway toll system for HGVs had been earmarked to fund various projects designed to widen notoriously congested stretches of motorway. These projects have had to be suspended, until the end of 2004 at the earliest, due to technical problems associated with the implementation of the tolling system. In the United Kingdom, the December 2003 opening of the 40-kilometre Birmingham Northern Relief Road – the first genuine toll road in England to be funded by the private sector – marked an important new development.

## Portfolio analysis

Our constantly expanding team of international transport infrastructure experts leveraged its industry experience to structure nine project finance deals in 2003. The following transactions were particularly noteworthy:

### Hato International Airport Project, Willemstad/Curaçao

Following the completion of a public tender, the concession for expanding and operating the Curaçao (Netherlands Antilles) international airport was awarded to a renowned international consortium. Our Transport Infrastructure team was mandated as Financial Adviser, Arranger, Underwriter and Facility/Security Agent for a 15-year, US$37 million loan facility. This loan was structured in the form of traditional project financing, based exclusively on the cash flow derived from future airport operations during the 30-year term of the concession. Cash flow calculations were based on projected annual passenger numbers of 1.6 million. Thanks to the historic link between the Netherlands and the Netherlands Antilles, passenger volumes at Curaçao airport – gateway to the island capital of Willemstad – have shown little fluctuation in the past. In the wake of measures taken to promote tourism in Curaçao, the extension of the airport terminal is long overdue. Current passenger volumes considerably exceed existing capacity.

### SR-125 South Toll Road Project, San Diego/USA

A concession for building and operating a 15-kilometre toll motorway was awarded in California. The new road is designed to connect the US Highway system to a residential and commercial area, situated south-east of San Diego, that has been promoted by local economic associations and municipalities and is set to receive US Federal Government subsidies. We were involved in the arrangement of a US$400 million loan facility for a SPE established by a group of companies with due experience in the construction and operation of toll roads. The SPE acts as concession operator. This facility was also structured as project financing.

### Advisory Services

We were mandated by the State of North Rhine Westphalia and the German Federal Ministry of Transport, Building and Housing to prepare a feasibility study for a ring road tunnel in the "Ruhr" region. Our study demonstrated that the largest part of the required public sector start-up financing would have to be spent on value-added tax (payable immediately), as well as on trade income tax payable on notional (but not necessarily actual) trade income throughout the term of the concession. Hence, the current tax regime would largely negate the very purpose of public-sector start-up financing, namely subsidising construction costs.

## Outlook 2004

We are closely following the developments of concession models, particularly in Europe. In view of the fact that the European Commission has identified 29 "quick-start" projects within the scope of the Trans-European Network ("TEN") programme, our focus is on European markets outside Germany. While Germany is expected to finance its TEN projects

***Transport Infrastructure portfolio 2003***

*Lending volume:*
*€470 mn*

*Loans drawn incl. guarantees and indemnities:*
*€239 mn*

*Average lending exposure:*
*€20.4 mn*

*New business volume in 2003:*
*€246 mn*

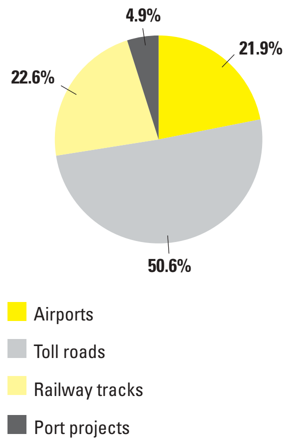
*Number of new transactions:*
*9*

*Number of clients (borrower groups)*
*23*

*Positions as agent (overall portfolio):*
*8%*

*Positions as agent (new business in 2003):*
*13%*

Transport Infrastructure portfolio by sectors (%)



*Please refer to our tombstones on the back cover for **landmark Transport Infrastructure deals in 2003**.*

largely through the use of EU funds and its own financial resources (as well as projected income from the planned HGV toll system), certain other EU member states have started to enact far-reaching privatisation laws. Spain, where deregulation of the railway industry, for instance, has made the most progress, has taken the lead in this context. The high-speed, cross-border Perpignan-Figueras rail link between France and Spain, which will be financed by the private sector, is expected to reach financial close status during the course of 2004. As soon as the HGV toll collection system has been properly launched in Germany, tenders for a series of operating concessions are expected to take place in rapid succession, with the possibility that the initial concessions may yet reach financial close in 2004. We will use our best efforts to be mandated as Financial Adviser and/or Loan Arranger by German bidder consortiums or, at least, secure a significant interest in these financings. We also expect to be awarded, and to complete in 2004, at least two of the advisory mandates which have been under negociation since 2003.

# Distribution

**A continuing dearth of M&A-driven transactions characterised the general syndicated loan market in 2003. Despite a 21% rise in borrowing volumes during the first nine months of 2003 compared with the corresponding period in 2002, deal count fell 12% – evidence of the jumbo refinancings that have largely driven borrowing.**

Although numerous jumbo transactions and a few large event related transactions (e.g. the US$10 billion refinancing of Vodafone in June 2003; the €4.5 billion acquisition of Telecom Italia in May 2003) served to keep volumes buoyant, such activity proved insufficient to soak up excess liquidity. Pricing, as a result, has remained under-pressure with margins, in some cases, at wafer-thin levels.

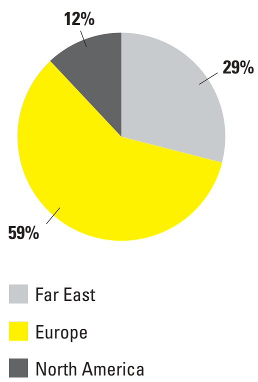
Many banks were eager to lend in order to meet yearly budgets but, for various reasons, borrowers, by and large, chose to hold back. As a result, pricing continued to compress. This is an unusual scenario for the bank market, which has largely had its own way for half a decade. The glut in liquidity has driven compression in spreads further down the credit curve. The buoyant market for corporates enabled some triple-B rated household names to benefit from aggressive terms that were once the prerogative of single-A credits. For example, Walt Disney, triple-B rated, raised US$2.25 billion at 17bps over LIBOR. For the right credits, banks were generally asset hungry.

Banks and non-banking investors have continued the march towards becoming increasingly credit-sensitive and such developments have served to impact negatively on asset-backed transactions in general. Within the transportation sector, two opposite trends shaped the market:

- The flight to quality/certainty, reflected in a stronger bias towards strong credits and/or shorter maturities; and
- Liquidity for good quality asset-backed transactions was available throughout.

These trends resulted in a strong two-tier market where pricing was compressed for strong names but weaker credits saw their access to the capital markets severely restricted. This proved particularly prevalent in the aviation market where there has been a strong bias towards club transactions and a distinct appetite for underwriting risk in relation to a few top-tier airlines. At the same time, a number of banks shied away from the aviation market in 2003, choosing to await the airlines' release of their fourth quarter results. This trend has had a significant upward impact on pricing for a number of players in the aviation market. Within the shipping sector, geographic factors resulting in pricing differentials were more apparent. Competitive conditions among domestic banks in Asia, the Nordic region and southern Mediterranean countries once again led to tighter pricing. However, banks continued to focus on conservative transaction structures.

Distribution deals by country
– volumes sold down (%)

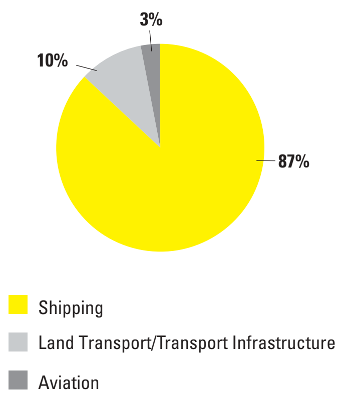



Our Distribution team is focused on three key areas:

- Syndication of primary debt transactions;
- Private placement of asset-backed debt products; and
- Development of new markets, products and structures to facilitate alternative distribution channels for DVB such as portfolio management products.

To further strengthen the business strategy, the Structured Derivatives and Debt Capital Markets team was merged into the Distribution team. This has heightened our unique focus and reinforced the close co-operation that already exists in respect of structures, markets and investors. Such action has also led to the implementation of an alternative method for the placement of risk-weighted assets bearing in mind the fact that financial institutions are increasingly attracted to structured products in the private placement market.

Distribution deals by division
– volumes sold down (%)




During 2003, our Distribution team assisted in the structuring and pricing of US$1.7 billion of syndicated transactions in the shipping, aviation, land based transportation and transportation infrastructure development sectors. A total of US$547 million was underwritten and sold down to third parties.

In 2004, our team will investigate and implement further alternative methods of placement for risk-weighted assets and, in addition, will look to widen our placement capabilities for asset-backed securities.

# DVB Capital

*Please refer to our tombstones on the back cover for **landmark DVB Capital deals in 2003.***

**DVB Capital's principal operations are based in London and Rotterdam. The focus is on three areas: Structured Asset Finance, Advisory and M&A and Investment Management. The teams, in close co-operation with our Transport Finance divisions, provide tailor-made solutions and complex financing structures to clients through their consulting services.**

## Structured Asset Finance

DVB's Structured Asset Finance teams are located in Rotterdam and London. We arrange lease and other financial transactions that provide clients with attractive funding levels and, if desired, operating lease treatment of the assets involved. The transactions often involve tax-based structuring techniques, third party equity investments and multiple jurisdictions. Our specialised knowledge of the specific operational and regulatory requirements of the respective jurisdictions enables us to design tailor-made solutions for our clients.

Prior to 2003, DVB's structured finance transactions were, in the main, carried out on behalf of clients in the shipping industry. We are pleased to report that several transactions involving aviation clients (airlines, a manufacturer and leasing companies) were initiated during 2003, three of which have already been successfully closed.

In shipfinance, the UK lease remains the product of choice for the majority of large shipping corporations. DVB remains active in this field. The UK government has indicated significant changes in the laws governing UK leasing. In order to continue to provide valuable services to DVB's clients in the future, we are developing new UK lease and finance products that are expected to survive these legislative changes.

The developments in the US where Senator Grassley recently initiated legislation that imposes significant limits on cross-border leases will not affect DVB because we do not offer US leases to our clients.

Apart from carrying out beneficial transactions for our clients, DVB's structured finance team will focus on the further development of products during 2004 while, at the same time, strengthening our relationships with investors in order to maintain a high quality of ongoing services. We strongly believe that excellence can only be achieved for our clients through rigorous focus on a limited number of products where the risk-return ratio is attractive and for which investors are available.

## Advisory and M&A

Clients of DVB will, to an increasing extent, be exposed to and/or will take the initiative in response to the trends towards consolidation. The "drivers" of global trade, transportation and competitive positioning have already proved the catalyst for M&A (mergers and acquisitions) activity throughout the transportation industry, a trend that we believe will continue. Basel II may prompt companies to strengthen their equity base in general, comprising retained earnings and paid-up capital.

The extensive experience of our Advisory and M&A team members, largely drawn from international investment banking with the focus on transportation, serves to support DVB's business focus and is integral to the expansion of our fee income business. Advisory sources its income from mandate retainers and transaction-led success fees and does not, therefore, utilise the bank's capital.

Our strategy is to capitalise on a large client base, backed by DVB's balance sheet and underwriting capacity, and provide clients with a broader base of investment banking advisory products:

- M&A advice and execution (buying, selling or merging of assets, divisions or companies);
- Private placements (raising private equity);
- Corporate advice (general advice on all matters pursuant to corporate strategy and capital and finance strategy);
- Fairness opinions (valuations of companies or assets; pricing of equity);
- Debt restructuring (restructuring of on/off-balance sheet debt); and
- Acquisition finance (bridging all or part of the purchase price of a company or business).

The year 2003 represented Advisory's first full year of operation. During the year Advisory expanded its mandate book by more than 50% and envisages an increasing pipeline of interesting project opportunities.

## Investment Management

Investment Management, which is responsible for DVB's fund management activities, is headquartered at our Rotterdam office. Our team currently acts as an advisor to the Deucalion Aviation Fund and NFC (Navigation Finance Corporation) Shipping Funds, both of which focus on investments in high yielding loans/bonds, mezzanine financings and equity participations in aviation and shipping projects. The total amount under management is US$200 million, of which US$90 million relates to the Deucalion Aviation Fund and US$110 million to NFC Shipping Funds. Through these fund management activities, DVB has been able to expand its traditional product range of senior and junior financing to clients. Today, DVB can arrange each risk layer, including the equity aspect, in the financing of transportation projects.

### Deucalion Aviation Fund

Deucalion is structured as an investment company based in the Cayman Islands. Our senior investment managers, based in London, analyse investment opportunities in the aviation business and monitor investments made on behalf of Deucalion following approval by the Deucalion Board. In 2003, Deucalion Aviation Fund's senior investment managers recommended investment in EETC paper (Enhanced Equipment Trust Certificates) purchased via the US capital markets. The pricing of EETC paper issued by major airlines remains highly attractive, reflecting sentiment in the aviation market. It should also be noted that the Fund's EETC's are secured by a fleet of modern aircraft. Based on further recommendations the Fund also concluded an investment in a low fare airline in the Far East and several mezzanine finance transactions involving a tax structure for a flag carrier. A new investor, with funds of US$10 million, joined the Deucalion Aviation Fund during 2003.

### NFC Shipping Funds

NFC is a joint venture between DVB and Northern Navigation Inc., a holding company representing a group of private investors who specialise in the shipping markets. The senior investment managers advising the NFC Shipping Funds are based in Greenwich/Connecticut, Oslo, Singapore and Rotterdam. During 2003, NFC Shipping Funds invested in seven projects that spanned various segments of the shipping industry including Panamax dry bulker, container vessels and an Aframax crude oil carrier. Four investments, with annualised yearly returns of between 17% and 70%, were disposed of.

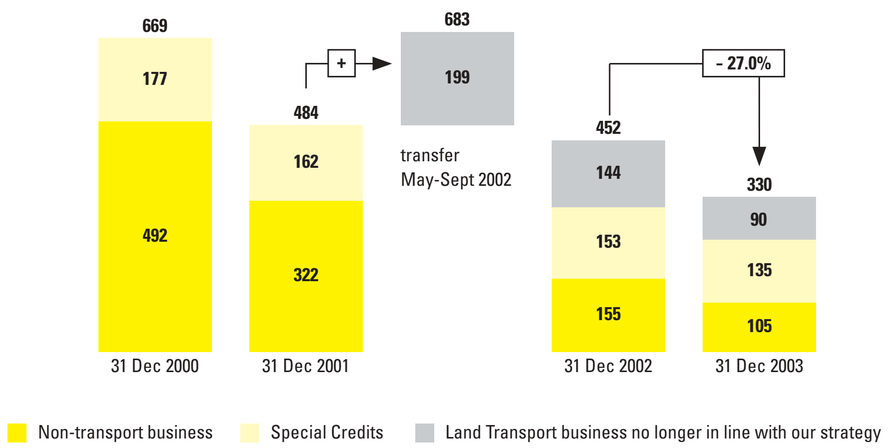
The preferred tenure for both aviation and shipping projects is between three and seven years. Typically, a project should generate a 15% to 20% return on an equity investment, 10% to 15% in respect of a mezzanine loan and 400 bps above LIBOR for relatively high yielding loans/bonds.

# D-Marketing

**Since 2000, we have separated all customer relationships and lending exposures that no longer fall within DVB's core business categories into a unit called "D-Marketing". This unit is organised in three segments: non-transport business, business with Land Transport clients which no longer meets our long-term volume and profitability requirements and lending exposures that require settlement.**

The experts in our D-Marketing unit managed to reduce exposure in this portfolio by a further 27.0%, from €452 million to €330 million, in 2003. This residual exposure is collateralised by security pledged in an aggregate amount of approximately €148 million (valued according to internal criteria). However, the ratio between loans for which valued collateral is available (or for which loan loss provisions have been set aside) and loans with unvalued collateral, further improved during 2003.

Development of the D-Marketing portfolio (€ mn)




## Successful reduction

Between October 2000 and the end of 2003 an 84.3% reduction in the original non-transport portfolio was achieved, from €669 million to €105 million. The overall risk exposure in the D-Marketing portfolio further diminished, as expected. In line with this development, the requirement for loan loss provisions fell to €5.8 million. Loan loss provisions amounted to 26% of the D-Marketing portfolio at the year-end 2003, most of which was required for the original non-transport portfolio and for loan exposures requiring settlement. Extraordinary expenses required for the reduction of the portfolio in 2003 were once again moderate – below 0.3%.

## Market environment and patterns of customer behaviour

The economic environment remained difficult throughout 2003. As a result, banks proved reluctant to lend, while the free liquidity reserves of corporate enterprises diminished further.

We did, however, observe a new phenomenon: in many instances, German companies were not prepared to use available borrowing facilities to repay loans early nor were they prepared to transfer exposures to other lenders. Nor were these customers willing to take advantage of opportunities whereby third-party banks were prepared to increase facilities or acquire their original loans. Therefore, the "friendly transfer" of loans to other financial institutions decreased significantly in 2003.

### Outlook 2004

In line with previous years, our team of experts will continue to ensure the skilled settlement of insolvencies and the smooth handling of non-performing exposures, alongside the ongoing reduction of non-transport exposures. In doing so, we will continue to co-operate closely with our customers' senior management in order to devise, on a joint basis, adequate solutions tailored to the specific requirements of each case. Given the market situation described above and the structure of the remaining exposures (long-term contracts duly collateralised, as well as non-performing exposures and those requiring settlement), the pace of the portfolio reduction is expected to slow down in 2004.

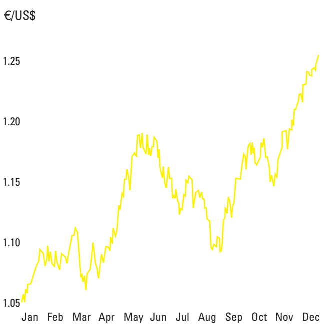
## Treasury

**DVB accelerated its issuing activities during 2003, predominantly under its Debt Issuance and Commercial Paper programmes. Tightening credit spreads and stronger demand for bank issues were supportive factors.**

### Business development in 2003

After the restructuring of the central bank function for the "Sparda" co-operative banks in 2002, there were no other changes to DVB's close working relationship with this group. We thus continued to provide and balance liquidity for "Sparda" banks during 2003. Although the trust and close co-operation developed with this group over recent years again found reflection in the deposits received, at approximately €2.1 billion these were down by around a third year-on-year.

The euro/US-dollar exchange rate




Source: Bloomberg L.P.

We concluded the restructuring of our Group Treasury unit in early 2003. Various measures to optimise internal process flows were taken, including the deployment of an improved treasury software package that provides more detailed reporting functions to support asset/liability management.

High volatility in the foreign exchange markets was particularly evident in terms of the US-dollar versus the euro. During 2003, we hedged our projected US-dollar denominated 2004 profit margin in respect of our core Transport Finance business against the euro: hence, our profitability in the current business year should not be affected by any further currency fluctuations.

## Own funds – supplementary capital

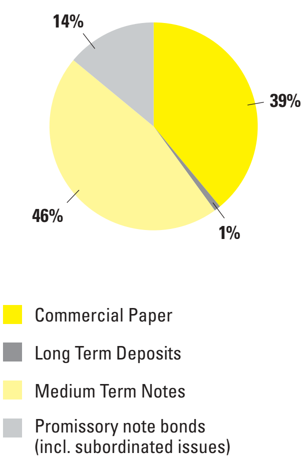
Supplementary (TIER II) capital was €314.6 million, down slightly from the previous year's level of €347.3 million. Profit-participation certificates – which form part of supplementary capital – were down by €38.4 million to €126.1 million (2002: €164.5 million). This was due to the fact that these certificates require a minimum remaining term of two years to be eligible for inclusion: one of our issues (German Securities ID 804 555) no longer qualified in this respect.

The remaining supplementary capital consists of a subordinated, euro-denominated bearer bond as well as subordinated promissory note loans denominated in both euros and US-dollars. A reduction in subordinated liabilities – due to currency translation effects on US-dollar denominated liabilities and also to a 40% cap on the inclusion of subordinated liabilities with a remaining term of less than two years under supplementary capital – was offset by issuing €30 million of subordinated promissory note loans. At the year-end, subordinated liabilities totalling €201.0 million were effectively unchanged from 2002 (€199.0 million).

## Issuing programmes gather momentum

The Bank's medium- and long-term funding activities amounted to €1,626.6 million in 2003, significantly up from the 2002 level of €526.0 million. Our funding activities focused on transactions conducted under the Debt Issuance and Commercial Paper programmes. Medium-term notes (MTNs) in particular, which were issued under the Debt Issuance programme, increased to €1,236.1 million. The volume of traditional funding instruments – promissory note loans and long-term deposits – also grew, to €390.5 million (2002: €295.7 million).

Breakdown of new issues by product group (%)




On the money market, short-term liabilities of €653.5 million, US$472.5 million and CHF5 million respectively, were issued in 2003 under the Commercial Paper programme. The association of the co-operative "Sparda" banks (Verband der Sparda Banken e.V.) terminated the agreement for the provision and balancing of liquidity with DVB Bank AG on 6 November 2003, to take effect from 31 December 2004.

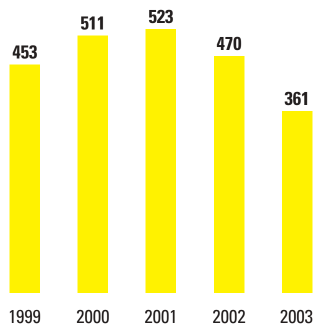
The relative weighting of the various funding instruments employed reflected the market environment for issuing programmes, profiting from tighter spreads driven by stronger investor appetite for bank credits during 2003. For example, DVB's spread for six-year MTNs narrowed by approximately ten basis points over the year.

## Outlook 2004

Funding activities scheduled for 2004 are projected at a total volume of approximately €900 million and will therefore be lower than the previous year. The amount of issuing requirements will depend on the level of new Transport Finance business generated and also on developments with regard to the euro/US-dollar exchange rate, given the high proportion of DVB's assets that are US-dollar denominated.

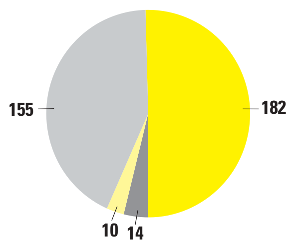
# Employees

DVB staff levels 1999-2003




from 2000 incl. Nedship Bank N.V.
without ReiseBank/CashExpress

DVB – employees
by business division




**The restructuring process initiated with the CHANGE project in 2002 was largely completed in 2003. DVB's focus on the international Transport Finance business found reflection in both the staff structure and in total employee numbers. Consequently, new employees were only hired for our international client focused operations in certain selected locations.**

Our overall business objective as a global Transport Finance specialist is to provide tailor-made advice and structuring and financing solutions for complex projects on behalf of clients. This ambitious goal is synonymous with the highest levels of quality required from all our staff. We have been successful in building a team over recent years that is both strongly focused and highly qualified. All of our employees combine practical hands-on expertise with regard to innovative structuring and financing instruments with an in-depth knowledge of their respective Transport Finance segment: Shipping, Aviation, Land Transport or Transport Infrastructure. We have hired additional experts to support our newly-established Container Business Unit.

With people embracing 26 nationalities, the staffing structure in our client focused areas reflects the international nature of our business. More than one in four of our staff have been seconded to a different workplace from their home country, or were recruited from outside their current country of residence. This mobility is a critical success factor for our business. Working in different cultures and markets, our employees gain the intercultural skills crucial to supporting constant communication with our business partners.

Personnel measures taken in 2003 regarding our central Group functions and service units continued to focus on the implementation of required staffing adjustments, as defined in the CHANGE project in 2002. We thus made further progress in aligning the staffing structure in these areas to the requirements of our core business.

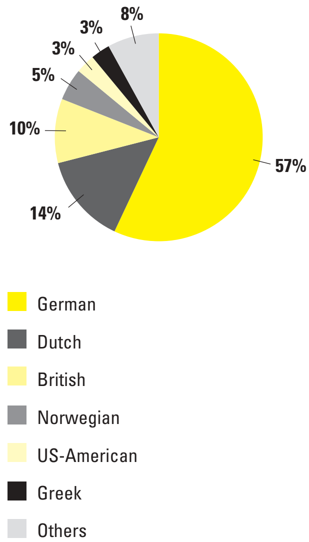
The number of employees in DVB (excl. ReiseBank/CashExpress, DVB Processing and DVB LogPay) fell to 361 at the end of 2003 (2002: 470).

## Personnel development and training

Training expenses totalled €846,000 in 2003, down from €973,000 in 2002. This investment, in relation to the reduced number of employees, illustrates the importance we attach to the ongoing education and training of our staff.

It became increasingly evident that external training programmes were only able to partly cover the highly specialised knowledge required in our core business. Recognising that each of our divisions possess a high degree of expert knowledge we have, however, initiated a special rotation programme whereby employees working in a client focused division spend several months in another client area or product environment. This process helps employees gain a broader level of practical expertise and is enhanced by a structured internal training programme where our own experts share their product- and process-related know-how within DVB. We plan to place greater emphasis on these human resources development programmes over the coming years.

DVB – employee nationalities (%)



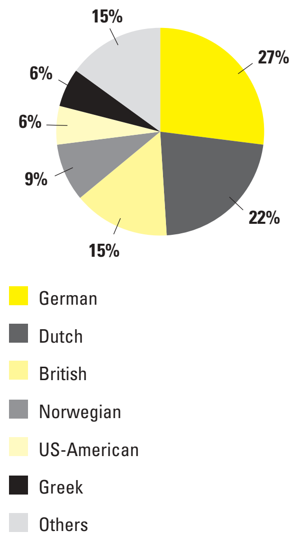

## "DVB shares 2003"

In order to allow our employees to participate in the Bank's success we continued to offer "DVB shares", the stock option programme that was introduced in 2000. All employees were eligible to take part in 2003. In addition to allowing the purchase of DVB shares at a discount, the scheme also involves the granting of free options. The average participation rate among all employees in 2003 was 11%; the executives' participation rate, however, was well above average at around 62%.

## Retirement provisions

Whereas DVB Bank AG previously supported the pensions of its employees by means of its own mutual retirement fund (Pensionskasse der Deutschen VerkehrsBank V.V.a.G.), in 2003 the scheme was transferred to an industry-wide pension scheme. This decision was based on two factors: firstly, the number of contributors to the scheme had fallen as a result of reduced staff numbers. Secondly, legal and regulatory requirements had increased the administrative workload and required a higher level of advice to those insured regarding the service provided.

Transport Finance – employee nationalities (%)




DVB chose Berlin-based BVV Versicherungsverein des Bankgewerbes a.G., the mutual pension fund scheme operating on behalf of some 500 companies in the German banking sector. In addition to handling the pension schemes, BVV advises its members on all retirement provision issues and offers a broad range of supplementary insurance products.

With effect from 1 January 2003 and with the consent of the relevant bodies, all rights and duties and also the assets of the DVB retirement fund were transferred to BVV. The current pensioners thereby retained the pension entitlements acquired and the contributors retained the previous funding scheme.

This development secures our employees' company pension scheme for the long-term. At the same time, it adds to the attractions of DVB as an employer. Most German employees who join DVB will already be members of BVV and will thus be able to maintain their pension entitlements with no additional waiting or qualifying period.

# Participating interests – DVB Holding GmbH

**DVB Bank AG sold its DVB Holding GmbH subsidiary – which held DVB's interests in ReiseBank AG and CashExpress GmbH – to DZ Bank AG with effect from 31 December 2003. The sale was approved at the Extraordinary General Meeting, held on 17 December 2003, by a 99.97% majority of shareholders present. This disposal concluded the process of totally focusing the Bank's activities on the Transport Finance business. Meanwhile, the sale has served to significantly strengthen the Bank's capital base.**

At Group level, the sale consideration of €98 million realised a gain upon disposal of €87.5 million which was fully appropriated to reserves. The sum of €74 million was transferred to the fund for general banking risks, pursuant to section 340g of the German Commercial Code, with the remaining €13.5 million transferred to reserves. Based on the existing controlling and profit transfer agreement, which remained in force until 31 December 2003, net income of the ReiseBank/CashExpress (RB/CE) was included in the profit and loss account of DVB Bank AG for the last time. The amount transferred in respect of the 2003 business year was €4.3 million.

*RB/CE maintain 108 branch offices in the precise locations where travellers require their services: in Germany, for example, at 37 railway stations, four border crossings, nine trade fair grounds, 13 airports, 11 city-centre locations and four CashMobiles/CashCars. In Switzerland, RB/CE maintain six agencies and six branch offices; 13 branch offices are located in Austria, four in the Netherlands and one in France.*

## Development of DVB Holding GmbH during 2003

RB/CE faced a multitude of challenges during the 2003 business year. The rollout of euro notes and coins in 2002 continued to influence business in 2003, a year characterised by numerous other special factors such as the ongoing impact of the events of 11 September 2001, the war in Iraq, which broke out during the first quarter, and the SARS epidemic. Fear of terrorist attacks, combined with domestic economic weakness, deterred potential US tourists from visiting Germany, while fewer Germans chose to visit distant destinations. The malaise of the German economy, hand in hand with distinctly hesitant consumer sentiment, served to aggravate these negative impacts.

RB/CE's plan to expand its international branch office network to more than 100 outlets was successfully implemented, ensuring a heightened presence in key areas where traveller demand exists for their services.

### Lower net commission income

During 2003, RB/CE's net commission income fell by 3.6% to €53.2 million, while total assets rose 7.2%, from €104.4 million to €111.9 million.

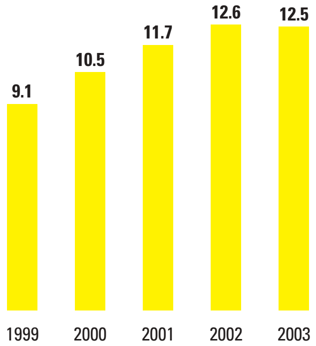
***Abbreviations RB/CE:***

*ATMs automated teller machines*

### Lower volumes and profits in foreign notes and coins

Income from exchange rate margins and commissions decreased by 20% to €18.7 million, while the number of transactions declined by 27%. This largely reflected the fact that this was the first full business year to be impacted by the introduction of euro notes and coins, albeit without the non-recurring effects experienced in the first half of 2002, when legacy currencies were exchanged into euros. This was exacerbated by the aforementioned consumer hesitation coupled with anxiety over the prospect of further terrorist attacks.

Development of commission income generated through ATMs 1999-2003 (€ mn)



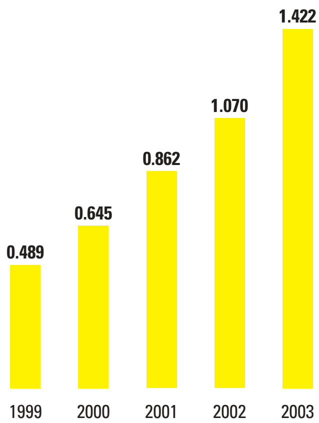

## Stable commission income from ATMs

As at year-end 2003, RB/CE operated 170 ATMs (2002: 165) which, during the course of the year, generated commission income amounting to €12.55 million (2002: €12.6 million). More than 5.1 million transactions were handled, with an aggregate volume of €616 million (2002: €673 million). Despite the difficult economic scenario, income generated by ATMs was maintained in line with the previous year, thanks to targeted product and pricing policy measures together with the acquisition of new locations.

## More than 1.4 million transactions with Western Union

The extremely successful expansion of RB/CE's global cash services, in co-operation with Western Union, continued during 2003. Special marketing campaigns and increased market recognition once again helped the business to grow considerably. By the 2003 year-end, RB/CE had registered a 33% increase in the number of transactions, from 1.070 million to 1.422 million, boosting turnover by 35.8% to €622 million (2002: €458 million). In 2003, the average amount drawn in each transaction was €438, a continuation of the slightly falling trend. Income generated by RB/CE's own German Money Transfer service grew by 8.9% to €454,000.

Business with Western Union (in mn transactions)




## Rising costs due to expansion in Europe and new business activities

Administrative expenses (incl. depreciation/write-offs of intangible and fixed assets) totalled €26.2 million in 2003. Staff expenses totalled €21.1 million, while other operating expenses amounted to €1.03 million. The 2.0% overall increase in costs was due to increased communication expenditure, higher depreciation/amortisation charges and rental costs, plus additional expenses incurred in the newly-established foreign notes and coins trading business. In view of the expansion of the RB/CE branch network, the total number of employees inside and outside Germany rose to 507 at year-end (2002: 483).

# DVB Processing GmbH

**DVB Processing GmbH – a joint venture between Deutsche Postbank AG (which holds a 51% stake) and DVB Bank AG (49%) – was founded in October 2000 following DVB's hive-off of its ec cash (debit card) network and commenced operations on 1 January 2001. During 2003, the Company maintained its position as Germany's third-largest cash network operator.**

DVB Processing has been approved as a network operator by the German Central Credit Committee ("Zentraler Kreditausschuss", a German banking institution). The Company processes cashless payment flows generated by ec cards or credit cards in everyday transactions via modern EFTPOS systems. The network operator collects the amount via a direct debit from the cardholder's bank and credits the amount to the retailer.

DVB Processing's 2003 business year was characterised by consolidation. Following the strong growth of previous years, general economic weakness in 2003 impacted on retail payment terminals, with the number of POS units operated by DVB Processing falling to 85,000 at the end of 2003 (2002: 91,000). Irrespective of this, the number of transactions processed increased by a remarkable 46%, from 37 million to 54 million. Despite the challenging market environment, operating business thus developed in line with projections.

The Company did not, however, distribute any profits to its two shareholders. This reflected faults involving three service providers that started to occur in 2002. Given that these problems persisted into early 2003, DVB Processing was handicapped in its attempts to acquire new business during the first half of the year. The Company did, however, manage to contract new distribution partners in the second half of 2003 and thus further expand its business.

The business recovery that became apparent during the second half of 2003 appears to be continuing into 2004. Hence, DVB Processing expects improved earnings and a further strengthening of its market presence.

***Abbreviations DVB Processing:***

| | |
|---|---|
| *POS* | *point of sale* |
| *EFTPOS* | *electronic funds transfer point of sale* |

# DVB LogPay GmbH

**DVB LogPay GmbH was established as a subsidiary of DVB Bank AG on 31 December 2001. The Company specialises in the collection and settlement of receivables. Acting in close collaboration with DVB, it provides specialised services modelled on factoring and claims collection for major passenger and freight transport enterprises.**

DVB LogPay commenced operations at premises in Eschborn (near Frankfurt/Main) in 2003 following a relocation exercise. Prior to this, operations were based in Frankfurt/Main and the Mainz office which was subsequently closed. Since 2003, DVB LogPay has provided its services through its own systems, using its own staff. Central functions are carried out by DVB LogPay or through the use of external service providers. Systems can be tailored to match clients' needs.

The following developments in DVB LogPay's three business units characterised the 2003 business year:

## Freight Settlement

At around €3.36 billion, DVB LogPay's 2003 volumes in the traditional freight settlement business with Railion AG (previously DB Cargo AG) and other freight forwarders slightly exceeded the previous year's level of €3.31 billion.

## Toll Settlement

DVB LogPay entered into an agreement with Toll Collect GmbH, the consortium mandated by the Federal Republic of Germany to build and operate a motorway toll system for HGVs, and AGES International GmbH & Co. KG. The agreement establishes a procedure for the settlement of toll receivables, using the "LogPay Procedure", a special direct debit process. More than 15,000 road haulage operators and companies operating their own HGV fleet have already applied for permission to use the LogPay Procedure. It should be noted that DVB LogPay will not incur any losses as a result of Germany´s delayed launch of the HGV toll system.

## Fare Settlement

Local public transport operators transferred their season ticket management services to DVB LogPay, with the consent of the clients concerned. S-Bahn Berlin, the local express train network in Germany's capital, was the first company to enter into a fare settlement procedure for local public transport season tickets. This involves the direct debit of receivables from holders of "job tickets" (employer-subsidised season tickets) employed by corporate customers of S-Bahn Berlin, and the subsequent settlement of the amounts collected with the operator.

***Abbreviations DVB LogPay:***

*HGVs* *heavy goods vehicles*

# Management Report
# (DVB Group and DVB Bank AG)

*The consolidated financial statements for the year 2003 are determined by the lending and commission-based businesses of DVB Bank AG, the Nedship Bank N.V. Group and – for the last time – ReiseBank AG/CashExpress GmbH. The following section illustrates the progress of the DVB Group (DVB) during the year 2003. References to DVB Bank AG will only be made where specifically required.*

**The year 2003 represented a milestone for DVB. The sale of Reise Bank AG and CashExpress GmbH – via the disposal of DVB Holding GmbH to DZ BANK AG on 31 December 2003 – concludes the process of implementing DVB's strategic decision to focus exclusively on international Transport Finance. This divestment has served to significantly enhance DVB's organisational transparency. Our clear focus on global Transport Finance together with the specialist expertise of our staff and a streamlined organisational structure enabled us to reinforce the competitive advantage that we enjoy over many of our large international rivals.**

The Transport Finance market segments – Shipping, Aviation, Land Transport and Transport Infrastructure – provide structured finance, distribution and corporate finance services to our global client base.

Despite a global economic environment that was virtually recessionary and is still challenging, DVB committed €1.51 billion and €0.61 billion to high-volume, long-term and collateralised new business in Shipping and Aviation respectively. By operating in an anti-cyclical fashion in line with our strategy, we again generated qualitative growth in the Transport Finance portfolios. This was evident in a higher interest margin: up 18bp to 149bp in Shipping and up 31bp to 176bp in Aviation. Correspondingly, net interest income in the Transport Finance segment increased by 25.3% from €60.2 million to €75.4 million. Lending exposures that no longer meet DVB's requirements (which are bundled into what is termed the "D-Marketing" unit) were further reduced by 27.0%, from €452 million to €330 million.

***Abbreviations Management Report:***

*GAS*
*German Accounting Standard*

*HGB*
*Handelsgesetzbuch/ German Commercial Code*

*KWG*
*Kreditwesengesetz/ German Banking Act*

*RB/CE*
*ReiseBank AG/ CashExpress GmbH*

Key drivers of our business development in 2003 were the:
- continuing growth of our Transport Finance advisory business;
- expansion of our Aviation Research team to its full staffing level;
- launch of our Container Business Unit based in London; and
- conclusion of the cost-reduction project CHANGE, which helped us to achieve substantial reductions reflected in the profit and loss account.

Two key issues had an impact on the financial statements that are presented below:

DVB's international lending and advisory businesses are sensitive to the **US-dollar/euro exchange rate** due to the fact that 93% of the Aviation portfolio and 77% of the Shipping portfolio are US-dollar denominated. As a result of the strength of the euro vis-a-vis the US-dollar in 2003, the growth in the portfolio's US-dollar business was not reflected accordingly in the euro.

■ While the **Shipping portfolio** grew by 8.0% year-on-year (31 December 2003), from US$4.62 billion to US$4.99 billion, due to exchange rate effects this translated into a 10.4% decline in euro terms: from €4.41 billion in 2002 to €3.95 billion.
■ The same applies to the **Aviation portfolio** which grew by 14.5% (from US$2.27 billion to US$2.60 billion) but declined by 6.8% in euro terms (€2.20 billion to €2.05 billion).
■ The Land Transport and Transport Infrastructure portfolios, together with D-Marketing, are mainly euro-denominated and were therefore affected to a lesser extent by currency translation.

Exchange rate developments were reflected in numerous balance sheet and profit and loss account items.

A key event in 2003 was the sale of **ReiseBank AG/CashExpress GmbH (RB/CE)** which impacted significantly on DVB's appropriation to the fund for general banking risks pursuant to section 340g of the German Commercial Code. This had the effect of strengthening DVB's own funds. Out of the sales proceeds of €98 million, €18.8 million was allocated to DVB Bank AG's reserves; at Group level, the allocation amounted to €74.0 million.

RB/CE net income was included in DVB's results due to the fact that the profit transfer agreement remained in place until 31 December 2003. However, RB/CE were no longer carried on the 2003 consolidated balance sheet.

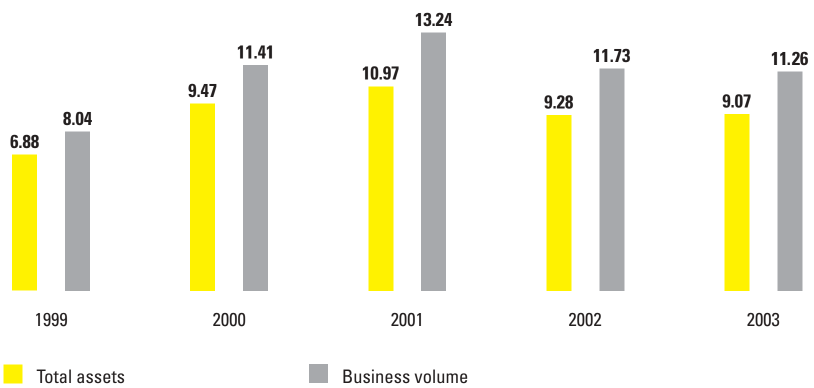
## Business development

To facilitate comparison, we have adjusted the figures for the year 2002 by eliminating amounts carried for RB/CE.

### Assets

The marginal declines in DVB's business volume and total assets in 2003 were attributable to the euro/US-dollar exchange rate. At €11.26 billion, business volume (the aggregate of total assets, guarantees, indemnities, irrevocable loan commitments and derivatives) was down 4.0% compared with the previous year (€11.73 billion). Total assets declined by 2.3% from €9.28 billion to €9.07 billion.

Total assets and business volume (€ bn)



The following table displays total **lending volume** over a **five-year period:**

| € bn | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Placements with, and loans and advances to, other banks** | 1.36 | 1.18 | 2.56 | 1.84 | 1.23 |
| **Loans and advances to customers** | 6.55 | 6.69 | 6.86 | 6.24 | 3.37 |
| **Securities (incl. participating interests)** | 0.56 | 0.82 | 1.13 | 0.90 | 1.19 |
| **Guarantees and indemnities** | 0.37 | 0.55 | 0.54 | 0.56 | 0.41 |
| **Irrevocable loan commitments** | 0.89 | 0.98 | 1.14 | 0.99 | 0.42 |
| **Derivatives** | 0.93 | 0.92 | 0.59 | 0.39 | 0.26 |
| **Lending volume** | **10.66** | **11.14** | **12.82** | **10.92** | **6.88** |

The 54.9% increase in DVB's lending volume, from €6.88 billion to €10.66 billion between 1999 and 2003 was largely attributable to the acquisition of Nedship Bank N.V. in 2000. Our market position in, and focus on, international Transport Finance were the drivers of the 94.4% increase in the volume of loans and advances to customers during the same period.

Overall **lending volume** (adjusted) was down 4.3% compared with the previous year, from €11.14 billion to €10.66 billion. The breakdown is as follows:

| | 2003 € bn | 2002 € bn | Change % |
|---|---|---|---|
| **Placements with, and loans and advances to, other banks** | 1.36 | 1.18 | 15.3 |
| **Loans and advances to customers** | 6.55 | 6.69 | –2.1 |
| **Securities (incl. participating interests)** | 0.56 | 0.82 | –31.7 |
| **Guarantees and indemnities** | 0.37 | 0.55 | –32.7 |
| **Irrevocable loan commitments** | 0.89 | 0.98 | –9.2 |
| **Derivatives** | 0.93 | 0.92 | 1.1 |
| **Lending volume** | **10.66** | **11.14** | **–4.3** |

**Placements with, and loans and advances to, other banks** rose by 15.3%, from €1.18 billion to €1.36 billion. On the other hand, **loans and advances to customers** were slightly below those for 2002 due to currency effects, down by 2.1% from €6.69 billion to €6.55 billion. **Securities** held (incl. participating interests) fell by 31.7% from €0.82 billion to €0.56 billion, reflecting the maturity of securities in 2003. **Guarantees and indemnities** were down 32.7% from €0.55 billion to €0.37 billion due to currency effects. **Irrevocable**

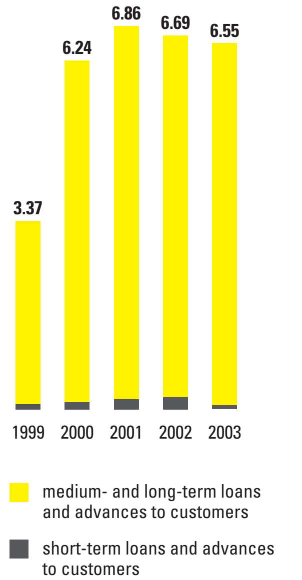
**loan commitments** also fell as a result of currency adjustments, by 9.2% from €0.98 billion to €0.89 billion.

As in previous years, DVB employed **derivative instruments** for hedging purposes and also offered them, to a limited extent, to clients. At €9.52 billion, the nominal volume of outstanding derivatives at year-end was down 31.5% from the previous year's level (€13.89 billion). At €0.93 billion, the **risk-weighted credit equivalent amount** as at 31 December 2003 was virtually unchanged from the previous year's figure of €0.92 billion.

The adjacent graph depicts the development of loans and advances to customers, differentiated by the remaining term. **Short-term loans and advances** fell by 70.5% during the year under review, from €209.0 million to €61.7 million reflecting the discontinuation of an overnight deposit placed with the German Federal Government which accounted for almost 50% of the total figure in 2002. Receivables arising from freight netting procedures accounted for the remainder. **Medium- and long-term loans and advances** to customers remained unchanged from 2002's levels, at a currency-adjusted €6.49 billion. Although the Transport Finance portfolio increased in US-dollar terms, this was neutralised by conversion into the euro.

Loans and advances to customers

(€ bn)



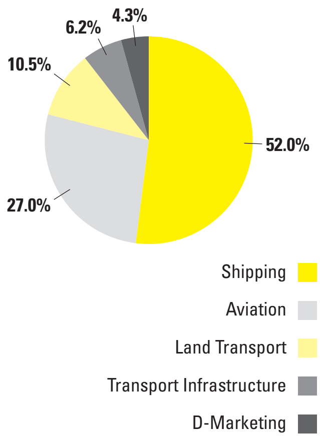

**Customer lending** (the aggregate of loans and advances to customers, guarantees and indemnities, irrevocable loan commitments and securities held as a result of customer business) to DVB's corporate Transport Finance clients, together with D-Marketing exposures that are no longer in keeping with our strategy, declined by 5.2% from €8.02 billion in 2002 to €7.60 billion. The composition of the portfolio is shown in the table below. At 52%, Shipping accounts for the largest aspect of lending exposure, followed by Aviation with 27%.

### Development of lending volume by business division

| | 2003 | | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|---|---|
| | € bn | % | € bn | % | € bn | % | € bn | % |
| **Shipping** | 3.95 | 52.0 | 4.41 | 55.0 | 4.76 | 55.3 | 3.81 | 49.7 |
| **Aviation** | 2.05 | 27.0 | 2.20 | 27.4 | 2.08 | 24.2 | 1.90 | 24.8 |
| **Land Transport** 1) | 0.80 | 10.5 | 0.69 | 8.6 | – | – | – | – |
| **Rail** 2) | – | – | – | – | 0.58 | 6.7 | 0.57 | 7.4 |
| **Road & Logistics** 2) | – | – | – | – | 0.52 | 6.1 | 0.65 | 8.4 |
| **Transport Infrastructure** | 0.47 | 6.2 | 0.27 | 3.4 | 0.19 | 2.2 | 0.07 | 0.9 |
| **D-Marketing** | 0.33 | 4.3 | 0.45 | 5.6 | 0.48 | 5.6 | 0.67 | 8.7 |
| **Total** | **7.60** | | **8.02** | | **8.61** | | **7.66** | |

*1) Since 2002, Rail and Road & Logistics have been merged under the newly-formed Land Transport division.*
*2) until 2001*

Customer lending by division
(%)




Two factors defined the **development of the portfolio** in 2003:

- Transport Finance launched the Container Business Unit towards the end of the year in order to benefit from the long-term growth potential of the global container market.
- The euro/US-dollar exchange rate impacted on Shipping and Aviation exposures which are respectively 77% and 93% US-dollar denominated. Although these portfolios expanded in their original US-dollar denomination, volume was down in euro terms.

Our strategic aim is that Shipping and Aviation should each account for 40% of the portfolio, with Land Transport/Transport Infrastructure representing 20%.

The **average loan-to-value ratio** of the individual Transport Finance segments characterises the relation between loans granted and the current market value of the financed assets. The average loan-to-value ratios developed as follows in 2003:

| Shipping | Aviation | Land Transport | Transport Infrastructure |
|---|---|---|---|
| 66.5% | 89.2% | 83.6% | 54.9% |

Overall, our **loan loss allowance** registered a slight decline at the end of 2003 to €107.2 million (2002: €118 million). The D-Marketing portfolio accounts for €76.0 million, the Shipping portfolio for €10.5 million, the Aviation portfolio for €0.6 million and the Land Transport portfolio for €0.02 million. General loan loss provisions amounted to €20.0 million. Thanks to the specific collateralisation structure in the Transport Finance business, no country risk provisions are required.

## Liabilities

DVB's liabilities fell by 4.6% overall to €8.06 billion (2002: €8.45 billion), largely reflecting the reduction in "Sparda" banks' deposits which were down 27% to €2.24 billion (2002: €3.08 billion) and also a decline in refinancing activities. **Liabilities to banks** thus fell by 22.2% from €4.86 billion to €3.78 billion. On the other hand, **liabilities to customers** rose slightly by 0.5% from €2.10 billion to €2.11 billion. The significant expansion of issues conducted under the Debt Issuance- and Commercial Paper programme drove certificated liabilities up by 46.3% from €1.49 billion to €2.18 billion.

Our **funding activities** focused on transactions conducted under the Debt Issuance- and Commercial Paper Programme. The Bank's medium- and long-term refinancing activities totalled €1,626.6 million in 2003, up €526.0 million from 2002. We thus clearly broadened the external capital available for our long-term core business. In particular, medium-term notes, which were issued under the Debt Issuance Programme, increased to €1,236.1 million. The volume of traditional funding instruments – promissory note loans and long-term deposits – grew to €390.5 million (2002: €295.7 million). On the money market, short-term liabilities of €653.5 million, US$472.5 million and CHF5.0 million, were issued in 2003 under the Commercial Paper Programme. The relative weighting of the various funding instruments reflected the market environment for issuance programmes, profiting from tighter spreads driven by a stronger appetite on behalf of investors for bank credits in 2003. On 6 November 2003, the association of the co-operative "Sparda" banks (Verband der Sparda Banken e.V.) terminated the agreement for the provision and balancing of liquidity with DVB Bank AG, with effect from 31 December 2004.

We continued to strengthen our capital base in 2003: **own funds (as defined by the German Banking Act)** rose by 2.2% in 2003 to €804 million (2002: €786.5 million).

The following factors were influential in strengthening our **Tier I core capital** by 11.4% to €489.4 million (2002: €439.2 million): New shares issued within the scope of our employee share ownership scheme "DVB shares" increased the **issued share capital** by 0.5% from €76.8 million to €77.2 million. The sum of €42.9 million (comprising €18.8 million profit from the sale of RB/CE and €24.1 million from current operations) was allocated to the fund for general banking risks of DVB Bank AG, in accordance with section 340g of the German Commercial Code. At Group level, **reserves** registered a 32.8% or €66.7 million increase to €270.1 million, allocations being as follows: €74.0 million of the capital gain on the sale of RB/CE (totalling €87.5 million) was allocated to the fund for general banking risks in accordance with section 340g of the German Commercial Code, with the remaining €13.5 million attributed to reserves. In addition, deferred taxes (€36.0 million) and part of the profit from current operations (€17.2 million) were also allocated to the reserves. **Reserves eligible for inclusion as supplementary capital,** incl. adjustments in accordance with the German Banking Act, fell 20.7% to €64.6 million.

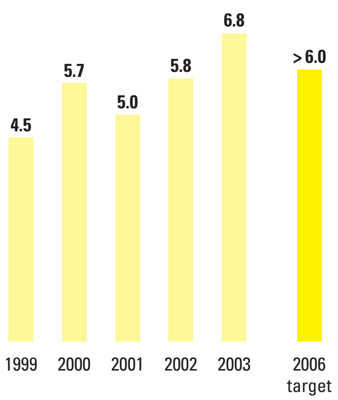
While the amount recognised for **subordinated liabilities,** in accordance with the German Commercial Code accounting rules, rose 11.6% to €226.0 million, only €201.0 million was eligible for inclusion under German Banking Act rules, due to the issue of new securities and the remaining terms of these issues. **Profit-participation certificates** were subject to a similar effect: while the amounts recognised on the balance sheet remained unchanged at €164.5 million compared to the previous year, German Banking Act rules stipulate that only issues with a minimum remaining term of two years may be included for capitalisation purposes. In 2003, a profit-participation certificate issue (German Securities ID 804555) which matures in 2004 no longer met this criterion and was excluded from the weighting. Profit-participation certificates as defined by the German Banking Act thus fell by 23.3% to €126.1 million. This had the effect of reducing **Tier II supplementary capital** by 9.4% from €347.3 million to €314.6 million.

| € mn | 2003 | 2002 incl. RB/CE | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Issued share capital** | 77.2 | 76.8 | 76.8 | 76.7 | 57.4 |
| **Reserves** | 270.1 | 203.4 | 175.3 | 175.1 | 119.7 |
| **Silent partnership certificates** | 77.5 | 77.5 | 77.5 | 77.5 | – |
| **Reserves and adjustments eligible for inclusion in accordance with the German Banking Act** | 64.6 | 81.5 | 78.4 | 99.9 | – |
| **Core capital (TIER I)** | **489.4** | **439.2** | **408.0** | **429.2** | **177.1** |
| **Subordinated liabilities** | 201.0 | 199.0 | 207.0 | 139.4 | 62.1 |
| **Profit-participation certificates** | 126.1 | 164.5 | 164.5 | 164.5 | 89.5 |
| **Reserves and adjustments eligible for inclusion in accordance with the German Banking Act** | –12.5 | –16.2 | –11.2 | 16.2 | 13.1 |
| **Supplementary capital (TIER II)** | **314.6** | **347.3** | **360.3** | **320.1** | **164.7** |
| **TIER III funds** | – | – | 3.1 | – | – |
| **Own funds in accordance with the German Banking Act*** | **804.0** | **786.5** | **771.4** | **749.3** | **341.8** |

*1) taking into consideration reserves and transfers to reserves from net income*

*We have published our core capital ratio according to the German Banking Act (the ratio of Tier I core capital to risk-weighted assets) since 2000.*

Core capital ratio (%)




We consistently complied with the Liquidity Principle 1 in accordance with sections 10 and 10 a of the German Banking Act. Because the majority of international Transport Finance exposure is US-dollar denominated (77% of the Shipping portfolio and 93% of the Aviation portfolio in 2003), the performance of the US-dollar and its exchange rate to the euro also impacted on risk-weighted assets and hence on capital ratios. While risk-weighted assets fell in euro terms due to currency effects, core capital and therefore own funds rose, benefiting from the positive effect of the sale of RB/CE. The total capital ratio thus rose from 10.4% to 11.1%. The core capital ratio also increased from 5.8% to 6.8%. Our medium-term objective is to maintain a core capital ratio in excess of 6.0%.

## Earnings development

Whereas the amounts carried for RB/CE had already been deconsolidated, the net results of RB/CE were recognised in DVB's profit and loss account due to the profit transfer agreement that remained in force until 31 December 2003.

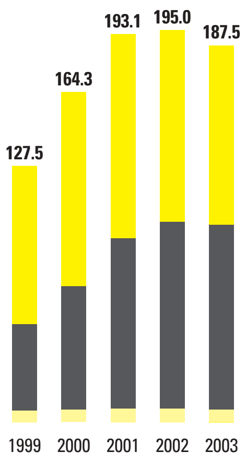
### Development of operating profit excluding loan loss provisions

**Operating profit excluding loan loss provisions** advanced 44.1% from €35.8 million to €51.6 million, driven by a 12.1% fall in administrative expenses which compensated for the slight decrease in ordinary income:

**Net interest income** declined from €97.3 million to €95.3 million reflecting the impact of the US-dollar exchange rate: 77% of the Shipping portfolio and 93% of the Aviation portfolio – approximately two-thirds of the overall portfolio – being US-dollar denominated. The strength of the euro neutralised the increase in net interest income which was realised in US-dollars. **Net commission income** fell 5.1% from €93.0 million to €88.3 million due to the cessation of the payment services and securities business within the scope of the CHANGE restructuring measures. The 20% fall in income from trading foreign notes and coins in ReiseBank's tourism business was also a contributory factor. **Net profit on financial operations** continued to decline, down from €4.7 million to €3.9 million: this development is in line with our strategy. **Ordinary income** thus fell 3.8% from €195.0 million to €187.5 million.

The 12.1% decline in **administrative expenses** (incl. amortisation and depreciation) from €162.5 million to €142.9 million reflects the cost reductions (achieved through the CHANGE project) which came into effect in 2003 and will continue to impact on the 2004 results. Staff reductions arising from the abolition of business divisions no longer integral to our strategy saw **staff expenses** decline 6% from €72.7 million to €68.4 million. In line with these developments, **other administrative expenses** (incl. amortisation and depreciation) decreased by 17.0% from €89.8 million to €74.5 million: Previously leased office space was no longer required; this also applied to office furniture and equipment, the costs of which fell by up to 20%. Advisory expenses fell by some 40%.

Development of ordinary income
(€ mn)




| | 2003 € mn | 2002 € mn | Change € mn | Change in % |
|---|---|---|---|---|
| **Ordinary income** | 187.5 | 195.0 | –7.5 | –3.8 |
| **Net interest income** | 95.3 | 97.3 | –2.0 | –2.1 |
| **Net commission income** | 88.3 | 93.0 | –4.7 | –5.1 |
| **Net profit on financial operations** | 3.9 | 4.7 | –0.8 | –17.0 |
| **Administrative expenses** | 142.9 | 162.5 | –19.6 | –12.1 |
| **Staff expenses** | 68.4 | 72.7 | –4.3 | –5.9 |
| **Other administrative expenses** | 61.7 | 74.7 | –13.0 | –17.4 |
| **Amortisation and depreciation** | 12.8 | 15.1 | –2.3 | –15.2 |
| **Net other operating income/expenses** | 7.0 | 3.3 | 3.7 | 112.1 |
| **Operating profit excl. loan loss provisions** | **51.6** | **35.8** | **15.8** | **44.1** |
| **Net loan loss provisions** | –20.9 | –19.9 | –1.0 | 5.0 |
| **Net other income/expenses** | 14.1 | 31.1 | 17.0 | –54.7 |
| **Profit from ordinary activities** | **44.9** | **47.0** | **–2.1** | **–4.5** |
| **Net extraordinary income/expenses** | 2.8 | –5.8 | 8.6 | –148.3 |
| **Net taxes/deferred taxes** | 30.8 | –1.8 | 32.6 | –1,811.1 |
| **Return on capital contributions from silent partners** | –6.8 | –6.8 | 0.0 | 0.0 |
| **Net income** | **71.6** | **32.6** | **39.0** | **119.6** |

We doubled **net other operating income and expenses** from €3.3 million to €7.0 million, the principal factor being the release of provisions in respect of personnel that were no longer required. These provisions were created as a result of restructuring measures during previous years.

## Development of profit from ordinary activities

Two factors had a material impact on **profit from ordinary activities** which fell 4.5% from €47.0 million to €44.9 million: loan loss provisions increased by 5.0% to €20.9 million, while net other income and expenses fell 54.7% to €14.1 million.

| Risk provisions | 2003<br>€ mn | 2002<br>€ mn |
|---|---|---|
| Additions to loan loss provisions | 27.9 | 23.0 |
| Amounts released | –7.0 | –3.1 |
| Net new loan loss provisions | **20.9** | **19.9** |
| Amounts released for general loan loss provisions | 0.0 | – |
| Net loan loss provisions | **20.9** | **19.9** |
| Revaluation results of securities held in the liquidity portfolio | –0.2 | – |
| Risk provisions reported in the profit and loss account | **20.7** | **19.9** |

Gross addition to loan loss provisions for 2003 amounted to €27.9 million (2002: €23.0 million): general loan loss provisions in Aviation accounted for €15.0 million, while €2.7 million was written off directly. Specific loan loss provisions were set aside as follows: €9.4 million in D-Marketing, €0.4 million in Shipping, €0.4 million in Aviation in respect of an atypical helicopter financing transaction and €14,600 in Land Transport. As in the previous year, no loan loss provisions were required for Transport Infrastructure. A total of €7.0 million was released, of which Shipping accounted for €2.0 million and D-Marketing for €4.0 million. A further €1.0 million was received in respect of loans already written-off. This resulted in **net new loan loss provisions** of €20.9 million, against €19.9 million in 2002.

The positive non-recurring item of €87.5 million generated through the sale of RB/CE, enhanced by other items amounting to €0.6 million, was included in net other income and expenses, of which we appropriated €74.0 million to DVB fund for general banking risks in accordance with section 340g of the German Commercial Code. **Net other income and expenses** thus amounted to €14.1 million.

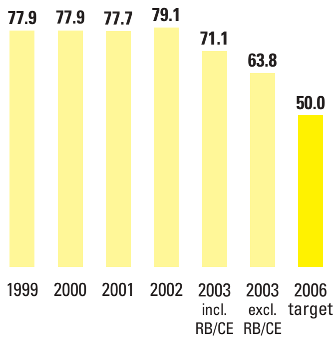
DVB Bank AG allocated €42.9 million to the fund for general banking risks: €18.8 million was attributable to the sale of RB/CE and €24.1 million to current operations, the result being correspondingly lower net other income and expenses of –€23.9 million. The profit from the ordinary activities of DVB Bank AG thus fell to €12.4 million.

## Development of cost/income ratio (CIR)

The cost/income ratio is a measure of the expenditure required to generate income, thus reflecting DVB's cost efficiency. Given that the decline in administrative expenses (thanks to the CHANGE project) exceeded the reduction in ordinary income, the CIR, excl. amortisation of goodwill and incl. RB/CE, was 71.1% which fell below the previous year's level (2002: 79.1%). Excluding RB/CE, the improvement in the CIR for 2003 would have been even more significant at 63.8%.

*The CIR is calculated as the ratio of administrative expenses (incl. depreciation of fixed assets) to operating income (sum of ordinary income and net other operating income and expenses).*

Cost/income ratio (%)




## Development of net income and appropriation of profits

**Net income** of €71.6 million (2002: €32.6 million) was influenced by the net balance of taxes and deferred taxes of €30.8 million. Deferred taxes are set aside to take account of any temporary differences between the accounting recognition and the tax treatment of an item, the subsequent release of which is likely to result in either a tax charge or tax relief. Differences incurred in 2003 were recognised accordingly in the profit and loss account. Deferred taxes amounting to €36.0 million were, for the first time, recognised as deferred tax assets in the 2003 consolidated profit and loss account in accordance with the German Accounting Standard No. 10 (GAS 10).

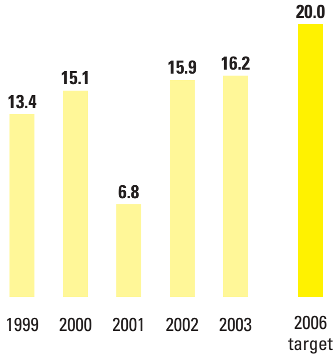
Profit from ordinary activities was also burdened by the unchanged return payable on capital contributions from silent partnership certificates of €6.8 million. The release of provisions that were no longer required, originally created at the time of the transfer of the DVB retirement fund to an external service provider, resulted in extraordinary income of €3.0 million. This was offset by extraordinary expenses of €0.2 million.

DVB transferred €65.5 million of the €71.6 million net income to retained earnings. A proposal will be made at the Annual General Meeting of DVB Bank AG to apply the remaining net income of €6.4 million (incl. €0.4 million carried forward from 2002) to the payment of a dividend of €1.50 per share plus a bonus of €0.50 per share. This represents a dividend yield of 1.71% (excl. the bonus) based on the year-end price of €87.50.

The **return on equity (RoE)** reflects the return on the capital invested in DVB. RoE, before taxes and excl. amortisation of goodwill, rose from 15.9% to 16.2% as a result of the special factors described above.

*The RoE is calculated as a ratio of net income before taxes to average equity capital as shown on the balance sheet (issued share capital, capital reserves and retained earnings).*

Return on equity (%)




## Development of DVB's ratings

The long-term BBB+ rating by **S&P** (Standard & Poor's) for DVB (with a negative outlook) remained unchanged, while the A-2 assessment in respect of the bank's short-term obligations was maintained. **Moody's** long- and short-term ratings were unchanged at A3/P-2, with a stable outlook. On 29 September 2003, against the background of the sale of RB/CE and corresponding positive effects on DVB's core capital, Moody's upgraded the outlook for the financial strength rating (C-) from negative to stable.

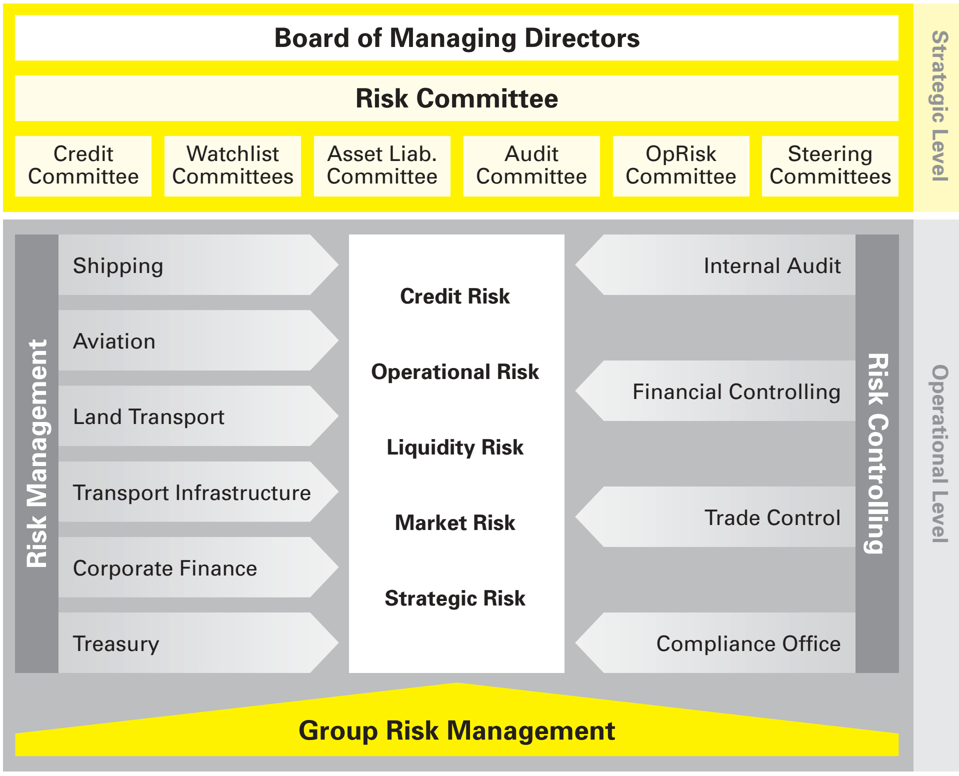
# Risk Report

**The conscious management of risks is a core element of managing our business and the creation of sustained value for the company. Our risk strategy is geared towards the controlled assumption of risks with a clear focus on generating returns commensurate with the risks taken.**

Taking into account the Bank's ability to carry and sustain risks, the Board of Managing Directors sets an overall ceiling for the tolerated maximum expected loss, in order to limit risks at Group level. To ensure a risk/reward-driven management for the Bank as a whole, DVB concentrates on determining economic capital and allocating it to the risk-taking business units.

## Organisation of the risk management and risk control process

The following chart illustrates how DVB has organised its risk management and risk control structures:




Our risk management strategy is built on the decentralised organisation of the risk management process, whereby counterparty, market, liquidity, strategic and operational risks are co-ordinated across all levels within the Bank, in accordance with the strategic risk policy guidelines set out by the Board of Managing Directors.

Strategic risk management also involves the co-ordination and backing of the risk management processes by senior committees holding the requisite decision-making powers.

The **Risk Committee,** comprising the responsible member of the Board of Managing Directors and heads of Group Risk Management, Group Financial Controlling and Group Treasury, acts as a forum for the discussion of all the main strategic and methodical issues with regard to the risk exposure of the Bank in its entirety. Its duties also include the derivation of the economic capital within the scope of the Bank's capacity to carry and sustain risks, as well as the allocation of risk capital to the business units.

Within the **Group Credit Committee,** comprising the entire Board of Managing Directors and the Credit- and Industry heads, the entire Board of Managing Directors decides on DVB's individual loan commitments not exceeding 12.5% of the Bank's liable capital. The additional approval of the Supervisory Board Credit Committee is required for exposures exceeding this threshold. Credit approval decisions are taken jointly by the heads of credit departments and industry sectors, based on DVB's applicable lending policies and within the framework of loan approval authorities for the relevant industry sector, rating level and amount.

**Watchlist Committees,** comprising the Chairman and the responsible member of the Board of Managing Directors, together with the responsible head of credit, have been established for each industry sector. These committees monitor exposures that are subject to higher potential or actual risks, making decisions as required.

The **Asset Liability Committee,** comprising the Chairman and the responsible member of the Board of Managing Directors, plus the heads of Group Treasury, Financial Institutions, Group Risk Management, Group Accounting and Taxes, and Group Financial Controlling, decides on the key elements of interest rate strategies, asset/liability positions and the Bank's liquidity management.

The **Audit Committee,** comprising the responsible member of the Board of Managing Directors and the heads of Group Audit, Group Risk Management and Operations, co-ordinates internal auditing operations, approves short- and medium-term audit planning and decides on the type and extent of special audits.

The **OpRisk Committee** consists of the responsible member of the Board of Managing Directors and the heads of Group Risk Management, Operations and Group Audit. In addition to co-ordinating the operational risk process, the committee regularly supports the management of these risks, reviews the established OpRisk framework and uses audit and operational risk reports to monitor and assess the development of these risks.

**Steering Committees,** comprising the representatives of departments involved in a project, manage and monitor project progress; they are responsible for the successful implementation of the project, in time and within budget.

***Abbreviations Risk Report:***

| | |
|---|---|
| *ABS* | *Asset-Backed Securities* |
| *ALCO* | *Asset Liability Committee* |
| *EAD* | *Exposure at default* |
| *IRM* | *Internal Rating Model* |
| *LCC* | *Low-cost carrier* |
| *LGD* | *Loss Given Default* |
| *MaK* | *Minimum Requirements for the Conduct of Lending Activities (Mindestanforderungen an das Kreditgeschäft)* |
| *OASIS* | *Object Finance Administration and Security Information System* |
| *OpRisk* | *Operational Risk* |
| *RORAC* | *Return on Risk-Adjusted Capital* |
| *VaR* | *Value-at-Risk* |

## DVB's capacity to carry and sustain risk/risk capital

The Basel II Accord, which is expected to come into effect from 1 January 2007, will implement changes to capital adequacy requirements, whereby capital backing required for regulatory purposes will become more closely aligned to the coverage required from a financial perspective.

Our risk management approach is based on quantifying all risks that the DVB Group is exposed to, thus making them comparable. We implemented a risk capital system in 2003: applying the principle of allocating economic capital, this system reflects the Bank's capacity to carry and sustain risk. By monitoring invested risk capital across the Bank as well as breaking this down by division, DVB ensures that the only risks entered into are those which are economically feasible and in line with its capacity to carry and sustain risk. In this context, risk capital has two functions: while its immediate function is to cover potential loss exposure from all types of risk categories, it also serves as a consistent, uniform and well-understood measure of risk and performance across different activities.

Risk capital has to cover all risks and is defined as the economic capital or total loss limit that we are willing to invest over one year. Risk capital must be sufficiently high to cover unexpected ("worst-case") losses, given a certain confidence interval set by the Board of Managing Directors in line with DVB's target rating (currently A-). Our rating determines, via its corresponding default probability, the required confidence level: currently, a rating of A- requires a 99.95% confidence level. Besides the rating, certain regulatory and internal requirements (as set by Basel I or the Board of Managing Directors) must also be taken into account.

Given these top-down restrictions, risk capital usage has been determined using a bottom-up approach:

- for credit risks, using the simplified portfolio model in accordance with Basel II;
- for market risks, using a Value-at-Risk ("VaR") concept incorporating historical simulations and stress testing;
- for operational risk, using the Basic Indicator Approach or the Standardised Approach; and
- using the volatility of operating income as a proxy for strategic risks, in line with established best practice.

The risk capital required for each risk category is first determined individually and then aggregated to give the total risk capital requirement for the Bank as a whole, taking into account the correlation between individual risk categories using historical market data. Based on the business plans for the ensuing years we calculate/estimate the risk capital (total loss limit) for the next year. At the end of each year, DVB's Board of Managing Directors approves the risk capital budget for the next business year.

We intend to enhance our risk management system to incorporate management tools based on risk-adjusted indicators (return on risk-adjusted capital - "RORAC") in 2004.

## Types of risk

*DVB differentiates risk according to the following categories:*
- *Counterparty risk*
- *Operational risk*
- *Liquidity risk*
- *Market risk*
- *Strategic risk*

### Counterparty risk

With respect to individual transactions, counterparty risk is managed and limited by setting a corresponding limit on the basis of cautious lending principles and sector-specific lending policies. At a portfolio level, we allocate the volume of risk-weighted assets approved by the Board of Managing Directors. In view of the international scale of our lending business, the appropriate determination and management of country risks is constantly gaining in importance. Hence, we plan and limit country risks within the scope of the overall management of the Bank and in accordance with the country limit planning of the DZ BANK Group.

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

Given the dominant position of counterparty risk in DVB's business, we started to develop an internal statistical and mathematical rating model for our global Transport Finance business as early as 2001. The model complies with the "Advanced Approach" requirements under Basel II. In addition to the probability of default associated with a given counterparty, we determine the expected loss given default ("LGD") for the unsecured portion of a loan and the anticipated extent of the claim at the time of default (exposure at default, "EAD"). The advanced approach includes the various kinds of collateral (such as mortgages on aircraft or ships, or indemnities), whereby we can establish the anticipated realisation proceeds by means of our own data.

The rating model is based on a multi-level professional system that was developed from a statistical base of externally-rated companies for which all relevant balance sheet data is available. Assigning the internal to external rating classes enables us to use external default probabilities. This is important because, like many other banks, we do not possess the historical data required to carry out this task ourselves.

The assessment of the future collateral value of financed assets is fundamental to determining the potentially impaired proportion of a specific lending exposure (LGD) in our collateralised lending business. The method used for this purpose determines the future collateral value of an asset on the basis of simulation calculations. In addition to external valuations (expert opinions) and market data, we also utilise the expertise of our own market specialists in assessing specific collateral.

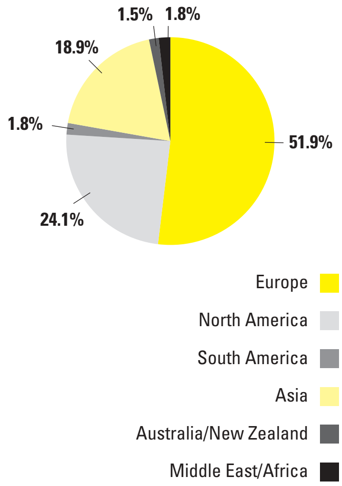
We successfully rolled out our IRM for the Aviation portfolio in mid-2003. The loan approval process is now supported by the model calculations (which provide a precise risk profile). Within the scope of determining the necessary capital backing requirements according to Basel II, the IRM also allows more precise calculation of the standard risk costs that are included as a risk premium when calculating the minimum margin.

We continued the development of the IRM in respect of the other Transport Finance portfolios throughout 2003. However, delays in finalising the new Basel Accord rules have also hampered the progress of the related project within DVB; which is why the IRM for the Shipping, Land Transport and Transport Infrastructure portfolios will only be implemented during the current year 2004. Once rolled out, the models will support loan approval for all exposures.

In a subsequent step, we plan to expand our IRM into a portfolio-based concept in the medium-term; in future, we envisage managing counterparty risks at a portfolio level within the framework of a value-at-risk approach.

**Minimum Requirements for the Conduct of Lending Activities – "MaK"**
DVB's structural and workflow organisation largely complied with MaK requirements at an early stage. Work groups have been established to deal with the remaining issues comprehensively and in good time.

Transport Finance portfolio by country
Portfolio volume: €7.27 bn




**Portfolio management and control**
DVB has organised its portfolio management and control processes on two levels. Group Risk Management is responsible for developing and implementing portfolio management tools and methodology and for preparing analyses of the Bank's overall portfolio. On a divisional level, each industry sector is responsible for analysing and managing their respective sub-portfolio within the framework set by the Board of Managing Directors and with a view to mitigating risk by way of diversification. The Bank's internal research teams provide valuable support in this process.

DVB's customised, proprietary database application OASIS is a state-of-the-art tool for analysing and managing the Bank's loan portfolio. In addition to compiling all quantitative and qualitative data covering all Transport Finance exposures, OASIS also captures the legal and economic risk structure details: it thus provides all the data required to manage the portfolio. The data capture process for the Shipping and Land Transport portfolios was completed in 2003, on schedule; this concluded the recording of our entire Transport Finance portfolio in OASIS.

OASIS permits detailed analyses of our loan portfolio according to various criteria. For instance, comprehensive information relevant to the portfolio can be provided to facilitate the structuring of risk-reducing measures such as asset-backed securitisation (ABS) transactions. OASIS also helped us to adjust our reporting system to comply with the newly-introduced MaK at a very early stage: although the legislation will not come into effect until 30 June 2004, our reporting was in line with requirements back in September 2003. Thanks to an online connection to our SAP accounting system, OASIS can provide ad-hoc reports at any time. Moreover, the database represents a core source of information for our IRM. Data entry is subject to the principle of dual control. Because it is integrated into the loan approval and administration processes, OASIS also helps to minimise operational risks.

Together with the IRM, OASIS represents the fundamental basis for developing a portfolio model for counterparty risk management based on a VaR concept, and for implementing a RORAC approach.

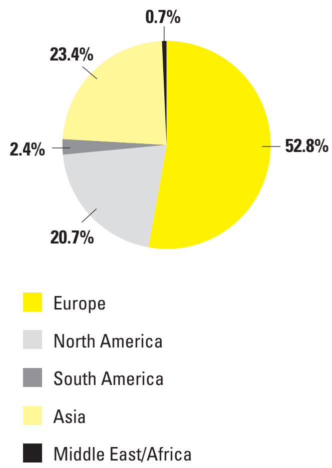
The following section deals with the risk exposure of our sub-portfolios:

**Shipping portfolio**

The boom market conditions of 2003 experienced within the principal shipping sectors had a positive influence on DVB's shipping portfolio as vessel values, in the main, appreciated. In some cases values reached record levels with double-hull tankers and dry bulk carriers leading the way. Likewise, new building prices increased across the board as yard capacity rapidly filled up, while high steel prices and the weakening US-dollar also contributed to the rise. The sinking of the "Prestige" towards the end of 2002 and the subsequent legislation that accelerated the phase-out of single-hull tankers, prompted a surge in tanker orders as owners looked to renew their fleets. This forced owners of other sectors, particularly the container carrier market, to compete with tankers for yard space. At the end of 2003, placing a new order with a completion date earlier than 2007 was almost impossible – a waiting period of at least three years. As a result, it would appear unlikely that vessel values in the main sectors will significantly depreciate during the course of 2004. Irrespective of the fact that our portfolio is diversified across the shipping market sectors, we employ an extensive early-warning system in order to monitor risk. In addition to regular valuations of the financed ships by external appraisers, all loan exposures are monitored closely to check for risk deterioration; depending on the internal rating level, reviews are conducted up to four times annually.

Shipping portfolio by country

Portfolio volume: €3.95 bn



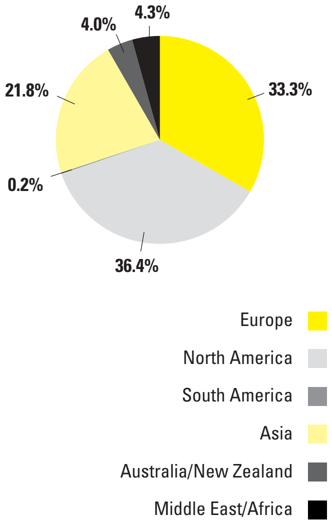

New specific loan loss provisions of €0.4 million were required during the year under review; these were offset by amounts released of €2.0 million. We attribute this development to an improving market, the high credit quality of our clientele and our pro-active approach to risk control.

**Aviation portfolio**

The crisis in the commercial aviation sector originally triggered by the events of 11 September 2001 deteriorated in early 2003 in the wake of the war in Iraq and the spread of SARS. As a consequence, numerous international banks cut back their activities in aircraft financing, or withdrew completely from this market segment. DVB once again capitalised on the situation in line with our anti-cyclical strategy. We continued throughout 2003 to support our clients, to their benefit as well as to our own advantage, with new loan commitments, albeit within the strict standards set by our lending policy.

Although 2003 proved a difficult year as a whole for the commercial aviation sector, the summer months heralded the start of the long anticipated turnaround. In contrast to the experience in early 2003, global air traffic started to increase in September. This significant improvement will not result in positive figures for the past year but augurs well for 2004. Traffic growth alone does not yet guarantee that airlines will return to profitability.

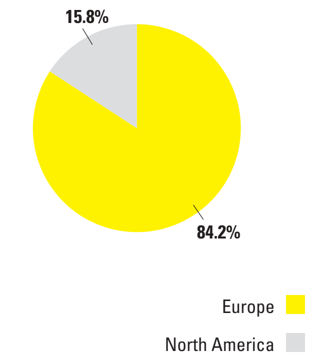
Aviation portfolio by country
Portfolio volume: €2.05 bn




Low-cost carriers ("LCC's") that offer a basic product at a significantly discounted price are taking an increasing share of the short to medium haul segment of the market. After North America and Europe, Asia is now experiencing a wave of start-up LCC's. Pressure on ticket-prices will continue to limit the profitability of many traditional network airlines. Although the sector closed down excess capacity after 11 September 2001, the current high load-factors will not be sufficient to achieve satisfactory profitability. With liberalisation high on the political agenda and protected market niches disappearing, airlines need to cut costs in order to return to profitability. Mergers and ever further reaching alliances are likely to continue in an effort to optimise economies of scale. Selectivity in terms of the type of aircraft thus remains paramount for us in asset-based financing. Against this background, we have further enhanced our asset analysis methodology and, among other things, closely monitor the development of certain new aircraft concepts that may impact on the value of today's aircraft in coming years.

A direct write-off amounting to €1.3 million was required in Aviation during the year under review; in addition, a specific loan loss provision of €0.4 million was set aside in respect of an atypical helicopter financing – a business line that we discontinued in 2002. Moreover, we allocated €15.0 million in general loan loss provisions as coverage in respect of potential risk exposure in Aviation, bringing the total provisioning volume to €17.0 million at the year-end 2003.

Land Transport portfolio by country
Portfolio volume: €0.80 bn




**Land Transport portfolio**

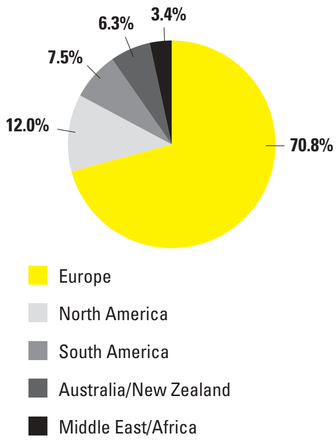
The Land Transport market is characterised by durable assets, medium- to long-term usage or transport agreements and strategic investment decisions. The market, which is highly segmented in certain international regions, is generally regarded as inherently stable. Many European segments continue to be dominated by public-sector transport operators, the investment decisions of which are driven by structural provisions to provide for public and social security. This holds particularly true in Germany. Investments by the public sector in trains, trams and buses tend to safeguard basic capacity utilisation for manufacturers, particularly in terms of new orders and maintenance agreements. In the fundamentally stable US rail market, we are witnessing growth in freight car production. Given that this represents an early indication of an improvement in overall investment sentiment, we envisage rising wagon leasing rates. The Bank's Land Transport portfolio is appropriately diversified in terms of regions, clients and financed assets. Reflecting the market structure, freight cars account for the largest part of our portfolio and provide the foundation for its stability. We only assume residual value risks in selected cases, having conducted thorough due diligence using our own analysis, supported by external expertise where appropriate. In the logistics sector, we continue to focus on outstanding projects in top-quality locations. Our close contact with core clients helps us identify such opportunities. The exposure of our business to cyclical developments or market risks is low.

A marginal write-down of €14,600 for a single exposure was the only provisioning required during the 2003 business year.

### Transport Infrastructure portfolio

The Transport Infrastructure portfolio comprises a broadly diversified mix of exposures to all transport segments such as airports, maritime ports, toll roads, tunnels and railways. In future, pipeline transport systems will also be included. The infrastructure projects that we finance are backed by long-term concession agreements, generally with a minimum term of 25 years. The lending terms, in contrast, are much shorter. It is thus possible to generate additional proceeds from the projects over time, covering the eventuality of any delays in repayment. We determine the market value of infrastructure projects on the basis of the proceeds generated, using in-house analyses as well as expert opinion from independent international surveyors. The low elasticity of demand is decisive in this context: as a basic demand, the use of transport infrastructure is not exposed to material fluctuations. Based on these factors, we are thus able to accurately predict the future income generated by such infrastructure projects. The sustained profitability of the projects we finance is also based on the fact that – given a lack of alternatives – transport infrastructure concessions often represent a monopolistic structure. When assessing project sponsors (e.g. operators and construction companies), our focus is not confined to their international market expertise and reputation. We also place considerable emphasis on these sponsors sharing a significant proportion of risks, by way of equity investments or payment guarantees, in order to ensure successful project implementation.

Transport Infrastructure portfolio by country
Portfolio volume: €0.47 bn




The stability of usage forecasts, plus the monopolistic character of the transport infrastructure projects that we finance, are key to ensuring that our loan claims will be serviced over the long-term. No provisions were required in the business year under review.

### Continued reduction of loan exposures that are no longer in line with our strategy

Loan exposures that are no longer in line with our strategy have been managed by the "D-Marketing" unit since 2000. We were able to reduce this lending volume by just under a quarter from €452 million at the end of 2002 to €330 million at the year-end 2003. Net loan loss provisions totalling €5.8 million were set aside for the D-Marketing portfolio in 2003. At €76.0 million, we expect the total loan loss allowance for this aspect of our portfolio to adequately account for the higher risk exposure in this segment.

## Operational risk

In terms of importance, operational risk is second only to counterparty risk at DVB. Monitoring and managing operational risks largely comprises the development of a methodology for identifying, quantifying and managing risk and introducing an adequate risk reporting system. In view of the moderate degree of complexity of the processes and the clear structures of our Bank, we consider the so-called Basic Indicator Approach as appropriate. Given that we do not possess, in common with many other banks, the historical volume of data required for a well-founded statistical observation, we will not implement the Advanced Approach.

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

In early 2003 we set up a project across DVB whereby the requirements of the Basic Indicator Approach – implementing the organisational infrastructure and framework to measure and manage operational risk – were defined. The concept was approved by the Board of Managing Directors in mid-2003 and was implemented during the second half of the year. Organisational measures taken include the establishment of a central OpRisk Committee, as well as the creation of an OpRisk Manager for all of DVB's worldwide locations. The tools we have successfully implemented to manage and contain operational risk are a self-assessment procedure, carried out at least once a year in respect of each location on a divisional or departmental level, plus the loss database where losses incurred due to operational risks are recorded. Quarterly reports are submitted to the Board of Managing Directors; where appropriate, this is supported by ad-hoc reporting.

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

## Liquidity risk

Our liquidity risks are analysed and managed centrally on the basis of Treasury guidelines laid down by the Board of Managing Directors. Group Treasury, which reports to both the ALCO and the entire Board of Managing Directors, assumes responsibility for this process. Decisions on major refinancing projects are made by the ALCO.

Anticipated cash flows are calculated, aggregated and offset by transactions on the money and capital markets, on the basis of permanently updated plans for liquidity flows and cash flow forecasts. These are prepared using SAP data and state-of-the-art asset-liability management software. The position limit system, designed to match the ratio set out in the Liquidity Principle in accordance with the German Banking Act, ensures that timely and appropriate corrective measures can be taken. Ample access to short-term money market liquidity and extensive liquidity provisions ensure that the Bank has access to adequate liquidity reserves. Various medium- and long-term refinancing measures were used to further strengthen the Bank's structural liquidity position. The Liquidity Principle according to the German Banking Act was consistently adhered to during 2003.

*We define market risk as the potential loss incurred through price fluctuations in the equities, foreign exchange and interest rate markets (incl. associated derivatives).*

## Market risk

Group Treasury is responsible for managing market risks in both the banking and trading books. The ALCO meets fortnightly to review the market risk exposure for the entire Bank and to reach fundamental agreements on risk orientation. We use a consistent VaR method for calculating the market risk in our banking and trading books. Using historical simulation techniques, this approach quantifies the maximum loss that can be incurred through market price fluctuations over a one-day holding period, with a confidence level of 99%.

Trading Control, which is responsible for monitoring market risks, has direct access to the trading and settlement systems, allowing it to observe whether limits are maintained. Any excessive utilisation or infringements of limits in the banking and trading book immediately trigger a response, and the return to compliance with these limits is monitored in real-time. The market risks incurred are therefore subject to constant measurement and limit monitoring through Trading Control, which reports to the Board of Managing Directors on a daily basis.

The risk positions are managed on the basis of limits approved by the Board of Managing Directors. In addition, we subject our positions to a monthly stress test based on an entire interest rate cycle. The calculations applied to such stress tests are discussed regularly in the ALCO. This is designed to ensure a timely reaction to developments. We also used the results of monthly stress testing as a parameter when determining market risk limits for 2004.

## Strategic risk

*We define strategic risk as the potential decrease in our enterprise value that could arise from our strategic positioning in a constantly changing environment involving markets, clients, competitors and the political and legal frameworks, etc.*

DVB's business policy is managed by way of strategic decisions taken within the scope of closed-door strategy meetings by the entire Board of Managing Directors and, where appropriate, by the Supervisory Board. Strategic risk measurement is based on historical fluctuations of costs and income, taking current developments into consideration. The framework of the general profit and cost management forms the basis for the operative management process.

# Events after 31 December 2003

**in accordance with section 289 (2) No. 1 of the German Commercial Code (HGB)**

(as at 3 March 2004)

## Harmonisation of legal structures within DVB and alignment of corporate names at an international level

With effect from 1 January 2004 we incorporated "DVB Bank AG Representative Office Greece" in Piraeus, Greece. Since 1 March 2004, Nedship Bank N.V. in Rotterdam, Netherlands, has been trading under the name of DVB Bank N.V. The structural alignment of the other corporate names within the DVB Group at an international level is planned for 2004.

## Other events

On 17 January 2004, an action challenging the resolution regarding agenda item 1 of the Extraordinary General Meeting dated 17 December 2003 was filed with the Frankfurt/Main Regional Court (Landgericht). DVB Bank AG was served with the statement of claim on 3 March 2004.

At the General Meeting dated 17 December 2003, the plaintiff had, inter alia, declared its opposition to the resolution regarding agenda item 1 for the notarial record, the resolution being for the "Approval of the conclusion of a share purchase and transfer agreement regarding the sale of the shareholding in DVB Holding GmbH, Frankfurt/Main, (and thus in the subsidiaries Reisebank Aktiengesellschaft, Frankfurt/Main, and Cash Express Gesellschaft für Finanz- und Reisedienstleistungen mbH, Frankfurt/Main) between DVB Bank Aktiengesellschaft, Frankfurt/Main, as the seller and DZ BANK AG Deutsche Zentral-Genossenschaftsbank, with registered offices in Frankfurt/Main, as the buyer". Essentially, the plaintiff disagrees with the determination of the purchase price and the underlying expert opinion on the value by PwC.

DVB Bank AG believes that the action will be dismissed and continues to regard the said expert opinion as being an appropriate and correct valuation of DVB Holding GmbH. DVB Bank AG does not expect any material losses to arise from this action.

There were no other issues of material importance to the assessment of the income and financial situation of DVB Bank AG and the DVB Group after the conclusion of the 2003 business year. Statements made in the outlook have been confirmed by the development of business during the first months of the 2004 business year.

# Outlook

## pursuant to section 289 (2) No. 2 of the German Commercial Code (HGB)

(as at: 3 March 2004)

### Prospects for international transport markets in 2004

The prospect of a sustained recovery in the world economy improved significantly towards the end of the year and at the outset of 2004. While the IFO Institute, the Munich-based think tank, witnessed another increase in its global business climate index in October 2003, the International Monetary Fund stated in the New Year that "on the threshold of 2004, the world economy has decisively turned the corner." In response to these leads, various economic research units and financial institutions raised their forecasts for the global economy in 2004. In view of the fact that a stronger momentum for the world economy will automatically lead to increased growth in transport volumes, DVB holds a fundamentally optimistic outlook for 2004.

**Maritime shipping** can be expected to benefit from any rise in demand for transport, with China remaining a dominant force in shipping markets. The container markets are becoming increasingly reliant on the continued strength of Chinese exports generating sufficient excess demand to soak up the large delivery schedule. Likewise, Chinese imports will also have a major influence on the bulk carrier markets. However, the delivery schedule of bulkers in 2004 suggests that this year's impact on the market will be moderate. The tanker markets are a little more difficult to predict due to the fact that they continue to be strongly influenced by political events. The impact of tonnage taken out of the market as a result of single-hull legislation will be offset to some extent by the high delivery schedule for tankers. The lack of yard capacity for new builds will help to keep ship values at stable levels throughout 2004. In the **aviation** sector, DVB expects growth rates of between 4% and 7% on the back of a global recovery. This forecast would only have to be revised downwards in the event of renewed terrorist attacks, disease epidemics or the introduction of draconian security measures – with the course of oil prices remaining a further risk factor. In view of the stabilisation of leasing rates that became evident during 2003, aircraft values are expected to further strengthen in 2004. The **land transport** sector is also expected to benefit from the impending economic recovery. This sector, which has proved highly resilient to the economic weakness of recent years, is only indirectly exposed to changes in commodity prices and exchange rates. Our focus on regions with a stable political environment and reliable jurisdiction provides protection against violent fluctuations in asset values and cash flows. The trend towards privatisation in **transport infrastructure** is set to continue in 2004, with public-private partnerships expected to remain popular with the public sector and private investors alike. Long-term bank facilities could thus be repaid early, using the proceeds of bond issues, which would reduce the tenor of banks' loan portfolios. One positive example was the strong demand seen for London Underground debt.

## The outlook for DVB in 2004

- We will continue to focus on **stabilising and improving our ratings** by Standard & Poors and Moody's.
- The effects of the restructuring of DVB's businesses, which has been completed, will have an impact on results in 2004 – we are therefore optimistic with regard to **DVB's results** for the current year. The Bank's **ordinary income** will be generated exclusively in the core Transport Finance business for the first time in 2004. The success of our business strategy will thus continue to rely on our anti-cyclical and risk averse lending policy, combined with our sophisticated risk management infrastructure. We aim to increase the interest margin through focusing on profit margins, thus achieving an improvement in **net interest income.** At the same time, we will continue to boost **net commission income,** particularly in our Corporate Finance units. In line with our strategy, net profit on financial operations will continue to decline. The i-CHANGE project launched in 2003 has optimised the administrative structures and processes of our international offices. Thanks to the resulting stabilisation of expenditure, we expect a slight decline in **administrative expenses** in 2004. Overall, we expect **profit from ordinary activities** to remain at the previous year's level.
- Our medium-term financial objectives are to reduce the **cost/income ratio** (excl. amortisation of goodwill) to below 50% by 2006 and achieve a sustained **return on equity** (before taxes and excl. amortisation of goodwill) of at least 15%. Our long-term target RoE – depending on the interest rate level – is 20%. We will continue to strengthen our capital base, with our **core capital ratio** targeted to remain well in excess of 6% on a medium-term horizon.
- We will focus, in particular, on establishing a strong market presence for our new Container Business Unit, the conversion of our accounts to comply with IFRS, developing a data warehouse, implementing a concept to manage the Bank's ability to carry and sustain risk and on the sound advancement of our liable capital.

## Branch offices of the DVB Group

The structure of the DVB Group, including all branch offices and subsidiaries, is illustrated on page 132 of the Annual Report.

## Report of the Board of Managing Directors on relations with affiliated companies in accordance with section 312 of the German Stock Corporation Act (AktG)

Pursuant to sections 15 and 18 of the German Stock Corporation Act, DVB Bank AG is affiliated to DZ BANK AG Deutsche Zentral-Genossenschaftsbank and its Group companies. As at 31 December 2003, DVB Bank AG has been included in the consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank.

In accordance with section 312 (3) of the German Stock Corporation Act, the Board of Managing Directors has disclosed to the Supervisory Board the extent of the relationship with affiliated companies: "Adequate consideration was received by our company, in line with circumstances in which transactions subject to reporting requirements were carried out, of which the Board of Managing Directors were aware of at the time. During the year under review, the Board of Managing Directors did not carry out or omit any reportable measures."

## Balance Sheet of the DVB Group as at 31 December 2003

| Assets (€ mn) | | | | 2003 | 2002 excluding DVB Holding GmbH | 2002 |
|---|---|---|---|---|---|---|
| 1 Cash reserve | | | | | | |
| a) Cash on hand | | | 0.008 | | 0.012 | 62.215 |
| b) Balances with central banks | | | 215.914 | | 246.368 | 246.544 |
| including: with Deutsche Bundesbank | 214.912 | | | | 244.837 | 246.544 |
| c) Balances with Postal Giro Offices | | | | | 0 | 0.880 |
| | | | | **215.922** | **246.380** | **309.639** |
| 2 Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks | | | | | | |
| a) Treasury bills, non-interest-bearing treasury notes and similar sovereign debt | | | | | | |
| including: eligible for refinancing with Deutsche Bundesbank | | | | | | |
| b) Bills of exchange | | | | | | |
| including: eligible for refinancing with Deutsche Bundesbank | | | | | | |
| | | | | | | |
| 3 Placements with, and loans and advances to, other banks | | | | | | |
| a) payable on demand | | | 286.947 | | 263.137 | 213.592 |
| b) Other placements, loans and advances | | | 1,075.183 | | 920.031 | 920.031 |
| | | | | **1,362.130** | **1,183.168** | **1,133.623** |
| 4 Loans and advances to customers | | | | **6,547.296** | **6,693.799** | **6,684.701** |
| including: secured by mortgage charges | | | | | | |
| Loans to local authorities | 239.224 | | | | 367.879 | 367.879 |
| 5 Bonds and other fixed-income securities | | | | | | |
| a) Money market instruments | | | | | | |
| aa) Public-sector issuers | | | | | | |
| ab) Other issuers | | | | | | |
| b) Bonds and notes | | | | | | |
| ba) Public-sector issuers | | 7.777 | | | 18.119 | 18.119 |
| including: Securities eligible as collateral with Deutsche Bundesbank | 7.777 | | | | | 7.784 |
| bb) Other issuers | | 498.723 | 506.500 | | 723.759 | 723.759 |
| including: Securities eligible as collateral with Deutsche Bundesbank | 180.239 | | | | | 229.199 |
| c) Own debentures | | | 0.031 | | 0.031 | 0.031 |
| Nominal amount | 0.030 | | | | | 0.030 |
| | | | | **506.531** | **741.909** | **741.909** |
| 6 Equities and other non-fixed income securities | | | | | | |
| 7 Participating interests | | | | | | |
| a) Participating interests | | | 56.097 | | 68.192 | 68.192 |
| including: Interests in banks | 0.296 | | | | 0.296 | 0.296 |
| b) Members' capital contributions in co-operative societies | | | 0.039 | | 0.039 | 0.039 |
| including: Co-operative banks | 0.036 | | | | 0.039 | 0.039 |
| | | | | **56.136** | **68.231** | **68.231** |
| 8 Interests in affiliated companies | | | | **1.313** | **12.743** | **2.287** |
| including: Interests in banks | | | | | | |
| including: Interests in financial services providers | | | | | | |
| 9 Intangible assets | | | | **79.513** | **100.997** | **105.858** |
| 10 Fixed assets | | | | **38.475** | **50.827** | **60.332** |
| 11 Treasury shares | | | | **0.049** | **0.033** | **0.033** |
| Nominal amount | 0.015 | | | | | **0.010** |
| 12 Other assets | | | | **251.083** | **180.358** | **184.503** |
| 13 Deferred items | | | | **6.761** | **4.577** | **4.581** |
| **Total assets** | | | | **9,065.209** | **9,283.022** | **9,295.697** |

**Balance Sheet of the DVB Group**
**as at 31 December 2003**

| **Liabilities and capital (€ mn)** | | | **2003** | **2002** excluding DVB Holding GmbH | **2002** |
|---|---|---|---|---|---|
| 1 Liabilities to banks | | | | | |
| a) payable on demand | | 1,552.471 | | 2,443.076 | 2,442.131 |
| b) with agreed term or period of notice | | 2,228.317 | | 2,412.967 | 2,412.967 |
| | | | **3,780.788** | **4,856.043** | **4,855.098** |
| 2 Liabilities to customers | | | | | |
| 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 | 187.586 | | | 366.835 | 366.735 |
| bb) with agreed term or period of notice | 1,920.678 | 2,108.264 | | 1,728.878 | 1,728.878 |
| | | | **2,108.264** | **2,905.713** | **2,095.613** |
| 3 Certificated liabilities | | | | | |
| a) Bonds issued | | 1,944.364 | | 1,488.962 | 1,488.962 |
| b) Other certificated liabilities | | 234.047 | | | |
| | | | **2,178.411** | **1,488.962** | **1,488.962** |
| including: Money market instruments | 234.047 | | | | |
| Own acceptances and promissory notes outstanding | | | | | |
| 4 Other liabilities | | | **27.936** | **37.740** | **39.195** |
| 5 Deferred items | | | **6.499** | **4.910** | **4.910** |
| 6 Provisions | | | | | |
| a) Provisions for pensions and similar obligations | | 7.213 | | 8.103 | 8.221 |
| b) Tax provisions | | 16.028 | | 11.526 | 11.697 |
| c) Other provisions | | 35.860 | | 48.240 | 54.025 |
| | | | **59.101** | **67.869** | **73.943** |
| 7 Special item with partial reserve character | | | | | |
| 8 Subordinated liabilities | | | **226.040** | **202.510** | **202.510** |
| 9 Profit-participation certificates | | | **164.476** | **164.476** | **164.476** |
| including: maturing within two years | | | | | |
| 10 Fund for general banking risks | | | **82.400** | **8.400** | **8.400** |
| 11 Capital and reserves | | | | | |
| a) Subscribed capital | | | | | |
| aa) Issued share capital | 77.209 | | | 76.842 | 76.842 |
| ab) Silent partnership certificates | 77.500 | | | 77.500 | 77.500 |
| | | 154.709 | | 154.342 | 154.342 |
| b) Capital reserve | | 107.103 | | 106.750 | 106.750 |
| c) Retained earnings | | | | | |
| ca) Legal reserve | 1.278 | | | 1.278 | 1.790 |
| cb) Reserve for treasury shares | 0.049 | | | 0.033 | 0.033 |
| cc) Statutory reserves | | | | | |
| cd) Other retained earnings | 161.701 | | | 89.174 | 94.853 |
| | | 163.028 | | 90.485 | 96.676 |
| d) Net retained profit | | 6.454 | | 4.822 | 4.822 |
| | | | **431.294** | **356.399** | **362.590** |
| | | | | | |
| **Total liabilities and capital** | | | **9,065.209** | **9,283.022** | **9,295.697** |
| 1 Contingent liabilities | | | | | |
| a) Liabilities from guarantees and indemnity agreements | | 374.126 | | 548.667 | 548.667 |
| | | | **374.126** | **548.667** | **548.667** |
| 2 Other commitments | | | | | |
| a) Irrevocable loan commitments | | 889.712 | | 983.882 | 983.882 |
| | | | **889.712** | **983.882** | **983.882** |

## Balance Sheet of DVB Bank AG as at 31 December 2003

| Assets (€ mn) | | | | 2003 | 2002 |
|---|---|---|---|---|---|
| 1 Cash reserve | | | | | |
| a) Cash on hand | | | | | |
| b) Balances with central banks | | | 214.912 | | 244.837 |
| including: with Deutsche Bundesbank | 214.912 | | | | 244.837 |
| c) Balances with Postal Giro Offices | | | | | |
| | | | | **214.912** | **244.837** |
| 2 Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks | | | | | |
| a) Treasury bills, non-interest-bearing treasury notes and similar sovereign debt | | | | | |
| including: eligible for refinancing with Deutsche Bundesbank | | | | | |
| b) Bills of exchange | | | | | |
| including: eligible for refinancing with Deutsche Bundesbank | | | | | |
| | | | | | |
| 3 Placements with, and loans and advances to, other banks | | | | | |
| a) payable on demand | | | 285.876 | | 292.451 |
| b) Other placements, loans and advances | | | 3,626.492 | | 3,958.740 |
| | | | | **3,912.368** | **4,251.181** |
| 4 Loans and advances to customers | | | | **3,935.834** | **3,576.025** |
| including: secured by mortgage charges | | | | | |
| Loans to local authorities | 239.224 | | | | 367.879 |
| 5 Bonds and other fixed-income securities | | | | | |
| a) Money market instruments | | | | | |
| aa) Public-sector issuers | | | | | |
| ab) Other issuers | | | | | |
| b) Bonds and notes | | | | | |
| ba) Public-sector issuers | | 7.777 | | | 18.119 |
| including: Securities eligible as collateral with Deutsche Bundesbank | 7.777 | | | | 7.783 |
| bb) Other issuers | | 483.927 | 491.704 | | 703.289 |
| including: Securities eligible as collateral with Deutsche Bundesbank | 180.239 | | | | 229.199 |
| c) Own debentures | | | 0.031 | | 0.031 |
| Nominal amount | 0.030 | | | | 0.030 |
| | | | | **491.735** | **721.439** |
| 6 Equities and other non-fixed income securities | | | | | |
| 7 Participating interests | | | | | |
| a) Participating interests | | | 17.953 | | 17.955 |
| including: Interests in banks | 0.296 | | | | 0.296 |
| b) Members' capital contributions in co-operative societies | | | 0.039 | | 0.039 |
| including: Co-operative banks | 0.036 | | | | 0.036 |
| | | | | **17.992** | **17.994** |
| 8 Interests in affiliated companies | | | | **260.855** | **393.108** |
| including: Interests in banks | 259.559 | | | | 312.599 |
| including: Interests in financial services providers | | | | | |
| 9 Intangible assets | | | | **4.416** | **5.279** |
| 10 Fixed assets | | | | **5.130** | **5.402** |
| 11 Treasury shares | | | | **0.049** | **0.033** |
| Nominal amount | 0.015 | | | | 0.010 |
| 12 Other assets | | | | **209.124** | **170.110** |
| 13 Deferred items | | | | **6.363** | **3.549** |
| **Total assets** | | | | **9,058.778** | **9,388.967** |

**Balance Sheet of DVB Bank AG**
**as at 31 December 2003**

| **Liabilities and capital (€ mn)** | | | **2003** | **2002** |
|---|---|---|---|---|
| 1 Liabilities to banks | | | | |
| a) payable on demand | | 1,552.176 | | 2,439.544 |
| b) with agreed term or period of notice | | 2,407.097 | | 2,613.361 |
| | | | **3,959.273** | **5,052.905** |
| 2 Liabilities to customers | | | | |
| 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 | 134.313 | | | 264.223 |
| bb) with agreed term or period of notice | 1,830.535 | 1,964.848 | | 1,677.545 |
| | | | **1,964.848** | **1,941.768** |
| 3 Certificated liabilities | | | | |
| a) Bonds issued | | 1,944.364 | | 1,488.962 |
| b) Other certificated liabilities | | 234.047 | | |
| | | | **2,178.411** | **1,488.962** |
| including: Money market instruments | 234.047 | | | |
| Own acceptances and promissory notes outstanding | | | | |
| 4 Other liabilities | | | **22.417** | **26.152** |
| 5 Deferred items | | | **4.884** | **4.360** |
| 6 Provisions | | | | |
| a) Provisions for pensions and similar obligations | | 7.213 | | 8.103 |
| b) Tax provisions | | 3.975 | | 2.204 |
| c) Other provisions | | 32.275 | | 47.827 |
| | | | **43.463** | **58.134** |
| 7 Special item with partial reserve character | | | | |
| 8 Subordinated liabilities | | | **226.040** | **202.510** |
| 9 Profit-participation certificates | | | **164.476** | **164.476** |
| including: maturing within two years | 38.347 | | | |
| 10 Fund for general banking risks | | | **164.384** | **121.470** |
| 11 Capital and reserves | | | | |
| a) Subscribed capital | | | | |
| aa) Issued share capital | 77.209 | | | 76.842 |
| ab) Silent partnership certificates | 77.500 | | | 77.500 |
| | | 154.709 | | 154.342 |
| b) Capital reserve | | 107.103 | | 106.750 |
| c) Retained earnings | | | | |
| ca) Legal reserve | 1.278 | | | 1.278 |
| cb) Reserve for treasury shares | 0.049 | | | 0.033 |
| cc) Statutory reserves | | | | |
| cd) Other retained earnings | 60.989 | | | 61.005 |
| | | 62.316 | | 62.316 |
| d) Net retained profit | | 6.454 | | 4.822 |
| | | | **330.582** | **328.230** |
| | | | | |
| **Total liabilities and capital** | | | **9,058.778** | **9,388.967** |
| 1 Contingent liabilities | | | | |
| a) Liabilities from guarantees and indemnity agreements | | 669.074 | | 871.815 |
| | | | **669.074** | **871.815** |
| 2 Other commitments | | | | |
| a) Irrevocable loan commitments | | 1,686.401 | | 1,969.884 |
| | | | **1,686.401** | **1,969.884** |

## Profit and Loss Account of the DVB Group for the period from 1 January to 31 December 2003

| € mn | | | | 2003 | 2002 |
|---|---|---|---|---|---|
| 1 Interest income from | | | | | |
| a) Lending and money market transactions | | 350.995 | | | 401.104 |
| b) Fixed-income securities and government debt | | 31.128 | 382.123 | | 41.482 |
| 2 Interest expenses | | | 287.302 | | 353.608 |
| | | | | **94.821** | **88.978** |
| 3 Current income from | | | | | |
| a) Equities and other non-fixed income securities | | | 0 | | 5.998 |
| b) Participating interests and capital contributions in co-operative banks | | | 0.506 | | 0.030 |
| c) Interests in affiliated companies | | | | | 2.326 |
| | | | | **0.506** | **8.354** |
| 4 Commission income | | | 91.235 | | 103.313 |
| 5 Commission expenses | | | 2.915 | | 10.336 |
| | | | | **88.320** | **92.977** |
| 6 Net profit on financial operations | | | | **3.947** | **4.689** |
| 7 Other operating income | | | | **12.951** | **6.989** |
| 8 General administrative expenses | | | | | |
| a) Staff expenses | | | | | |
| aa) Wages and salaries | | 56.991 | | | 61.125 |
| ab) Compulsory social security contributions and expenses for pensions and other employee benefits | | 11.439 | 68.430 | | 11.565 |
| including: Retirement benefits | 3.452 | | | | 4.151 |
| b) Other administrative expenses | | | 61.705 | | 74.696 |
| | | | | **130.135** | **147.386** |
| 9 Depreciation/amortisation of, and write-downs on, intangible and fixed assets | | | | **12.804** | **14.011** |
| 10 Other operating expenses | | | | **5.985** | **4.783** |
| 11 Depreciation/amortisation of, and write-downs on, claims and certain securities, additions to loan loss provisions | | | 20.655 | | 19.888 |
| | | | | **20.655** | **19.888** |
| 12 Income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets | | | 87.932 | | 39.467 |
| | | | | **87.932** | **39.467** |
| 13 Expenditure for assumption of losses | | | | **0.005** | |
| 14 Transfers to the fund for general banking risks | | | | **74.000** | **8.400** |
| **15 Profit from ordinary activities** | | | | **44.893** | **46.986** |
| 16 Extraordinary income | | | | **2.993** | |
| 17 Extraordinary expenses | | | | **0.199** | **5.817** |
| 18 Income taxes | | | | **5.241** | **1.787** |
| 19 Deferred tax assets | | | | **36.009** | |
| 20 Other taxes not reported under item #18 | | | | **0.072** | **0.013** |
| 21 Profits transferred under a profit pool, profit transfer agreement or partial profit transfer agreement | | | | **6.797** | **6.797** |
| **22 Net income** | | | | **71.586** | **32.572** |
| 23 Profit carried forward | | | | **0.414** | **0.313** |
| 24 Transfer to retained earnings | | | | | |
| a) Amounts transferred to other retained earnings | | | | **65.546** | **28.063** |
| | | | | | |
| **25 Net retained profit** | | | | **6.454** | **4.822** |

## Profit and Loss Account of DVB Bank AG
## for the period from 1 January to 31 December 2003

| € mn | | | | 2003 | 2002 |
|---|---|---|---|---|---|
| 1 Interest income from | | | | | |
| a) Lending and money market transactions | | 312.313 | | | 347.386 |
| b) Fixed-income securities and government debt | | 30.386 | 342.699 | | 40.589 |
| 2 Interest expenses | | | 282.331 | | 333.541 |
| | | | | **60.368** | **54.434** |
| 3 Current income from | | | | | |
| a) Equities and other non-fixed income securities | | | 0 | | 5.998 |
| b) Participating interests and capital contributions in co-operative banks | | | 0.030 | | 0.030 |
| c) Interests in affiliated companies | | | 32.225 | | 29.734 |
| | | | | **32.255** | **35.762** |
| 4 Income from profit pools, profit transfer agreements or partial profit transfer agreements | | | | **7.242** | **5.852** |
| 5 Commission income | | | 19.555 | | 28.183 |
| 6 Commission expenses | | | 1.930 | | 6.369 |
| | | | | **17.625** | **21.814** |
| 7 Net profit on financial operations | | | | **1.415** | **3.614** |
| 8 Other operating income | | | | **11.394** | **6.363** |
| 9 General administrative expenses | | | | | |
| a) Staff expenses | | | | | |
| aa) Wages and salaries | | 29.382 | | | 34.509 |
| ab) Compulsory social security contributions and expenses for pensions and other employee benefits | | 5.756 | 35.138 | | 5.966 |
| including: Retirement benefits | 2.177 | | | | 2.576 |
| b) Other administrative expenses | | | 30.412 | | 40.519 |
| | | | | **65.550** | **80.994** |
| 10 Depreciation/amortisation of, and write-downs on, intangible and fixed assets | | | | **3.444** | **4.040** |
| 11 Other operating expenses | | | | **1.515** | **2.881** |
| 12 Depreciation/amortisation of, and write-downs on, claims and certain securities, additions to loan loss provisions | | | 22.216 | | 19.569 |
| | | | | **22.216** | **19.569** |
| 13 Income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets | | | 18.980 | | 39.429 |
| | | | | **18.980** | **39.429** |
| 14 Expenditure for assumption of losses | | | | **1.228** | **0.173** |
| 15 Transfers to the fund for general banking risks | | | | **42.914** | **42.080** |
| **16 Profit from ordinary activities** | | | | **12.412** | **17.531** |
| 17 Extraordinary income | | | | **2.993** | |
| 18 Extraordinary expenses | | | | **0.199** | **5.816** |
| 19 Income taxes | | | | **2.369** | **0.409** |
| 20 Profits transferred under a profit pool, profit transfer agreement or partial profit transfer agreement | | | | **6.797** | **6.797** |
| **21 Net income** | | | | **6.040** | **4.509** |
| 22 Profit carried forward | | | | **0.414** | **0.313** |
| 23 Transfer to retained earnings | | | | | |
| a) Amounts transferred to other retained earnings | | | | | |
| | | | | | |
| **24 Net retained profit** | | | | **6.454** | **4.822** |

# Notes to the Financial Statements of the DVB Group and DVB Bank AG as at 31 December 2003

***References:***

*Banking Committee of the German Institute of Auditors → BFA*

*German Accounting Directive for Banks → Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV)*

*German Accounting Standard (GAS) → Deutscher Rechnungslegungs Standard (DRS)*

*German Banking Act → Kreditwesengesetz (KWG)*

*German Commercial Code → Handelsgesetzbuch (HGB)*

*German Standardisation Committee → Deutscher Standardisierungsrat (DRS)*

*German Stock Corporation Act → Aktiengesetz (AktG)*

*German Tax Relief Act → Steuerentlastungsgesetz*

## Preliminary remarks

The annual financial statements of DVB Bank AG and the consolidated financial statements for the 2003 business year were prepared in accordance with the provisions of the German Commercial Code and the German Accounting Directive for Banks taking into account the regulations of the German Stock Corporation Act.

The notes to the financial statements of DVB Bank AG and the DVB Group have been combined. Unless indicated otherwise, the explanatory notes apply to both sets of financial statements. The subdivisions required for co-operative central institutions are also included in the balance sheet structure. As a general rule, explanatory notes to both the balance sheet and the profit and loss account have been included in the notes.

The possibilities of set-off permitted by the provisions of the German Commercial Code and the German Accounting Directive for Banks have been utilised.

## Group of consolidated companies

The consolidated group of companies in accordance with section 294 of the German Commercial Code comprises the majority stakes of DVB Bank AG which fall under unified management, i.e. DVB LogPay GmbH, Frankfurt/Main, International Transport Finance Ltd., (ITFL), London, and Nedship Bank N.V., Rotterdam, as well as these companies' subsidiaries (see overview of affiliates and affiliated companies on pages 98-99). All of the above companies are wholly owned by DVB Bank AG.

Majority stakes which do not fall under unified management have not been included. Likewise, in accordance with section 296 (2) of the German Commercial Code, companies of minor importance have also not been included in the consolidated financial statements.

## Consolidation policies

The financial statements of the companies included in the consolidated financial statements have been prepared as per the Group balance sheet date.

Capital was consolidated at book value. Any shareholders' equity acquired on a pro-rata basis is set off at cost at the time of acquisition. Positive goodwill is disclosed under intangible assets and depreciated over its useful life. All claims and liabilities as well as income and expense existing between enterprises included in the consolidated financial statements have been set off. Intragroup profits were eliminated in line with section 304 of the German Commercial Code.

## Accounting and valuation principles

The financial statements of all companies included in the consolidated financial statements have been prepared in accordance with the uniform accounting and valuation principles of DVB Bank AG.

**Receivables** (asset items 3 and 4) are reported at their nominal values. A sufficient risk provision has been set aside for receivables vulnerable to default. Based on the default ratio experienced over the past five financial years, we have set aside general loan loss provisions for potential lending risks. Premiums paid and discounts received are carried as prepaid expenses/deferred income and are recognised as income or expense over the capital commitment period on a pro-rata basis.

**Fixed-income securities held as investments or as part of current assets** (asset item 5) are valued at the lower of cost or market at their historical cost or lower market value; securities collateralised using physical collateral are valued at their historical cost. The requirement to reinstate original values (pursuant to the German Tax Relief Act 1999/2000/2002; section 280 (1) of the German Commercial Code) has been complied with. **Participating interests** (asset item 7) are carried at cost or fair value (if lower). Stakeholdings resulting from contributions are carried at their fair value on the date the contribution was made.

**Fixed assets** (asset item 10) are carried at purchase or production costs reduced by depreciation on a pro-rata basis. Additions to moveable assets are depreciated on a pro-rata basis using the straight-line method. Low-value assets are written down in full in the year of acquisition.

A fixed value was set for the **inventories of forms.**

**Liabilities** (liabilities items 1 and 2) are carried at the amounts to be repaid. Discounts paid are carried as deferred income and are written back over the capital commitment period on a pro-rata basis.

**Provisions** for pensions (liabilities item 6) are calculated on the basis of an actuarial opinion and valued by way of the cost ("Teilwert") method. The calculations are based on the actuarial tables for 1998, published by Dr Klaus Heubeck, applying an interest rate of 6.0% p.a. The other provisions are measured in such a way as to account for all identifiable risks.

The provisions for anniversary bonuses are allocated at the values permitted by German commercial law.

The translation of receivables, liabilities, securities, participating interests and tangible assets held in **foreign currency** as well as pending cash transactions is carried out at the spot rate in accordance with statement 3/1995 issued by the Banking Committee of the German Institute of Auditors (BFA), while the translation of pending forward contracts is carried out at the relevant forward rate. Any currency translation gains arising from collateralised items are identified in the profit and loss account. To the extent that these positions are not specifically covered, any gains are set off against translation losses in the same currency. Foreign subsidiaries of DVB Bank AG that carry out currency transactions are refinanced using liabilities with matching maturities. Any interests held are therefore identified in the subsidiary’s functional currency and valued at current exchange rates. The earnings of the company's foreign branches and a subsidiary are translated at the respective prevailing exchange rates; the earnings of the other foreign subsidiaries are translated at the year-end rate.

**Derivative financial instruments** are valued in accordance with the principles set out in the statements 2/93 and 2/95 issued by the Banking Committee of the German Institute of Auditors, applying section 340h of the German Commercial Code accordingly. The splitting of the forward price is performed regardless of whether a foreign exchange transaction relates to balance sheet items or to customer-initiated hedging transactions. Using objective criteria, valuation units have been created among this product group and with selected traditional financial instruments. Hedged items are valued in accordance with the principle of loss-free valuation.

The annual results of any subsidiaries in which the Bank holds a majority interest are allocated to DVB Bank AG within the relevant periods by way of a profit and loss transfer or corresponding shareholders’ resolutions.

In accordance with sections 274 and 306 of the German Commercial Code, deferred tax items are recognised only in respect of differences between the profit for commercial law and tax law purposes which will probably be reversed in subsequent financial years (timing concept). In addition to the German Commercial Code, the DVB Bank AG applied German Accounting Standard 10 (GAS 10) Deferred Taxes in Consolidated Financial Statements for the first time in 2003. GAS 10 was adopted by the German Standardisation Committee (DSR) on 18 January 2002 and, in accordance with section 342 (2) of the German Commercial Code, published by the Federal Ministry of Justice on 9 April 2002, is to be applied for the first time to business years commencing after 31 December 2002.

Under GAS 10, the German Commercial Code’s income statement-oriented approach is transformed into a balance sheet-oriented approach. Deferred tax assets and liabilities are thus recognised in the amount of the difference between the book value of an asset or liability and its tax value. Deferred taxes are set aside in respect of any temporary differences between the accounting recognition and the tax treatment of an item, the release of which in subsequent periods is likely to result in a tax burden or tax relief, respectively. Deferred taxes are calculated using the tax rate likely to prevail when the timing differences reverse, applying the tax rate specific to the respective enterprise. In Germany, this leads to a tax rate of 40.1%, taking corporation tax, solidarity surcharge and trade tax into account. Deferred taxes are not discounted to their present value.

Any effects of the initial application of GAS 10 are recognised directly in capital and reserves insofar as they relate to differences that arose in previous years. Differences that arose in 2003 are taken to the profit and loss account, insofar as the difference affects the result.

At the balance sheet date, DVB Bank AG is applying German Accounting Standard 11 (GAS 11) Related Party Disclosure for the first time. Insofar as transactions with related parties which have been included in the consolidated financial statements under full or partial consolidation or under the equity method are concerned, these are not reported due to the fact that they are eliminated in the course of consolidation.

Furthermore, DVB Bank AG prepares a report on relationships with affiliated enterprises in accordance with section 312 of the German Stock Corporation Act, which is audited in accordance with section 313 of the German Stock Corporation Act. The subordinate status report covers the relationships between DVB Bank AG and DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, ("DZ BANK"), and the enterprises affiliated thereto. Relationships with affiliated enterprises are carried out under normal market conditions. Thus an unqualified opinion was given with regard to the subordinate status report.

DVB Bank AG formed DVB Holding GmbH in October 2000, and contributed its entire holdings in ReiseBank AG and CashExpress GmbH to DVB Holding GmbH with effect from 31 December 2000, by way of a contribution in kind. Under a contract dated 26 September 2003, DVB Bank AG sold DVB Holding GmbH and thus the indirectly held shares in Reise Bank AG and CashExpress GmbH to DZ BANK. The consideration of €98 million was based on the valuation of an independent auditor. An Extraordinary General Meeting of DVB Bank AG approved the sale on 17 December 2003. The profit on the sale amounting to €88 million has been appropriated to reserves at Group level and thereby strengthens the basis for future lending business in line with our strategy.

In addition to this, DVB Bank AG carried out numerous banking transactions with DZ BANK, including short-term borrowings and deposits as well as foreign exchange and repo transactions. DVB Bank AG has close relations with DZ BANK and other affiliated enterprises in the DZ BANK Group, particularly in the refinancing business. Transactions involving derivatives such as interest rate options, interest rate swaps or foreign exchange forwards are also entered into.

Out of reported liabilities to banks amounting to €3.8 billion, €0.4 billion (2002: €0.6 billion out of €4.9 billion) relate to affiliated enterprises in the DZ BANK Group. A total of €0.7 billion out of €1.4 billion placements with, and loans and advances to, other banks are related to the DZ BANK Group (2002: €0.4 billion out of €1.1 billion).

All banking transactions were entered into under normal market conditions without exception.

## Explanatory notes to the individual balance sheet items

**Other placements with, and loans and advances to, banks** with an agreed maturity or period of notice (asset item 3b) have a residual term of:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Less than three months | 2,561.9 | 849.2 | 2,618.2 | 642.2 |
| Minimum of three months but less than one year | 700.5 | 62.9 | 945.7 | 64.0 |
| Minimum of one year but less than five years | 332.9 | 142.6 | 321.6 | 150.8 |
| Five years or longer | 31.1 | 20.5 | 73.2 | 63.0 |
| **Total** | **3,626.4** | **1,075.2** | **3,958.7** | **920.0** |

The total amount of placements with, and loans and advances to, banks for both DVB Bank AG and the Group also comprises loans and advances to affiliated enterprises totalling €3,302.8 million within DVB Bank AG (Group: €699.3 million) including €2,603.5 million to Nedship Bank N.V., €621.1 million to DZ BANK, €78.2 million to ReiseBank AG, Frankfurt/Main, and loans and advances to affiliated "Sparda" banks of €196.0 million.

There are no claims against companies in which a participating interest is held. We invested €402.4 million in repurchase agreements. DVB Bank AG holds subordinated claims from affiliated companies totalling €95.0 million (Group: €0.0 million).

**Loans and advances to customers** (asset item 4) have a residual term or notice period of:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Payable on demand | 50.2 | 61.6 | 210.5 | 200.1 |
| Less than three months | 318.3 | 346.3 | 220.6 | 253.8 |
| Minimum of three months but less than on year | 479.5 | 549.0 | 323.8 | 414.5 |
| Minimum of one year but less than five years | 1,296.6 | 2,115.8 | 1,403.2 | 2,507.3 |
| Five years or longer | 1,791.2 | 3,474.6 | 1,417.9 | 3,309.0 |
| **Total** | **3,935.8** | **6,547.3** | **3,576.0** | **6,684.7** |

Of the DVB Bank AG total, €244.2 million is related to loans and advances to affiliated companies and €1.7 million to companies in which a participating interest is held. At Group level, €23.9 million is related to loans and advances to affiliated companies. Loans and advances include subordinated shareholder loans to subsidiaries totalling €1.7 million.

**Bonds and other fixed-income securities** of DVB Bank AG (asset item 5) include securities negotiable at a stock exchange of €482.0 million, of which €459.2 million are exchange-listed. Securities collateralised using physical collateral totalling US$38.5 million are valued at their historical cost, other securities are valued at the lower of cost or market.

Bonds and other securities amounting to €166.1 million (nominal value) will mature in 2004.

## Group companies and other interests held by DVB Bank AG

| | Interest in % of capital | Book value of investment (€) | Net profit/ loss (€) | Capital and reserves (€) |
|---|---|---|---|---|
| **I. Companies included in consolidated financial statements** | | | | |
| DVB Bank AG, Frankfurt/Main | | | | |
| DVB LogPay GmbH, Eschborn [1] | 100 | 250,000 | 1,685,931.39 | 250,000 |
| International Transport Finance Limited, London [2] | 100 | 14,188 | 633,813.86 | 14,188.42 |
| Nedship Bank N.V., Rotterdam | 100 | 259,558,842 | 31,591,453 | |
| Nedship Shipping B.V., Rotterdam | 100 | 1,217,874 | 0 | 1,217,874 |
| Shipping Capital B.V., The Hague | 100 | 7,503,344 | 3,846 | 7,503,344 |
| Hollandse Scheepsbank Hypotheekbank N.V., Rotterdam | 100 | 707,073 | –3 | 707,073 |
| Illios Tourist Houses Development Ltd., Piraeus | 100 | 0 | 0 | 1 |
| DVB Group Merchant Bank (Asia) Ltd., Singapore | 100 | 77,710,178 | 10,628,518 | 77,710,178 |
| Nedship Financial Consultants E.P.E., Piraeus, Greece | 100 | 592,693 | –421,419 | 592,693 |
| Nedship International Inc., Greenwich, CT 06830/USA | 100 | 1,095,179 | 42,199 | 1,095,179 |
| DVB NedshipBank Amerika N.V., Curaçao | 100 | 89,008,559 | 3,784,800 | 89,008,559 |
| Nedship Participation (Norway B.), Rotterdam | 100 | 18,839 | 475,393 | 18,839 |
| Infifon XI B.V., The Hague | 100 | 22,771 | 0 | 22,771 |
| Participate Maatschappij Majestic B.V., Groningen | 100 | 22,689 | 151,750 | 22,689 |
| Scheepvaart Maatschappij Peter B.V., Rotterdam | 100 | 45,378 | 595 | 45,378 |
| Infifion 111 B.V., The Hague | 100 | 635,292 | 17,150 | 635,292 |
| Sea Sparow Shipping Co., Nicosia | 100 | 0 | 0 | 0 |
| Everhard Beleggingen B.V., Rotterdam | 100 | –14,462 | –784,470 | –14,462 |
| Scheepvaart Maatschappij Ewout B.V., Rotterdam | 100 | 16,316 | 0 | 16,316 |
| Nedship Scheepvaarthuis B.V., Rotterdam | 100 | –61,268 | –52,662 | –61,268 |
| Beheer-en Beleggingsmaatschappij Elrosa B.V., Rotterdam | 100 | 22,793 | 0 | 22,793 |
| Shipping Capital Antilles N.V., Willemstad, Curaçao | 100 | 15,196,534 | 173,669 | 15,196,534 |
| AER Holdings N.V., Willemstad, Curaçao | 100 | 1,235 | 83,154 | 1,235 |
| Beheer-en Beleggingsmaatschappij Holuco B.V., Utrecht | 100 | 21,634 | 0 | 21,634 |
| Caseforum Holding Ltd., Nicosia | 100 | 0 | 0 | 0 |
| Kalydna Compania Naviera S.A, Panama | 100 | 0 | 0 | 0 |
| Netherlands Shipmortgage Corporation Ltd., Hamilton | 100 | 0 | | 0 |
| **II. a.) Affiliated companies not included in the consolidated financial statements** | | | | |
| Hangar Vermietungs- u. Verpachtungs GmbH, Frankfurt/Main | 100 | 25,000 | [3] | |
| DVB Capital Partners Limited, London | 100 | 1 | [3] | |
| Zweite GfW Gesellschaft für Waggonleasing mbH & Co. KG, Hamburg | 99.5 | 5,087 | [3] | |
| DVL Deutsche Verkehrs-Leasing GmbH, Eschborn | 39 | 1,001,406 | [3] | |
| Sextant Finance (Holding) Ltd., (Navigation), Brit. Virgin Islands | 50 | 281,136 | 0 | 281,136 |

| | Interest in % of capital | Book value of investment (€) | Net profit/ loss (€) | Capital and reserves (€) |
|---|---|---|---|---|
| **II. b.) Companies not included in the consolidated financial statements** | | | | |
| DVB Processing GmbH, Frankfurt/Main | 49 | 8,817,656 | | 61,250 |
| Crosby Court GmbH & Co. KG, Eschborn | 100 | 102,258 | 887 | 0 |
| Liquiditäts-Konsortialbank GmbH, Frankfurt/Main | 0.23 | 295,743 | | 3) |
| Münchener Hypothekenbank eG, Munich | 500 shares | 35,000 | | 3) |
| Löcknitzer Vermietungs GmbH & Co. KG, Hanover | 50.00 | 100,000 | | 3) |
| Deusa International GmbH, Bleicherode | 24.90 | 1 | | 3) |
| West Supply III AS, Haugesund | 22.22 | 60,117 | 0 | 60,117 |
| West Supply III KS, Haugesund | 20.00 | 506,361 | 475,392 | 506,361 |
| Anna Elisabeth B.V., Veere | 20.00 | 17,785 | 0 | 17,785 |
| Anna Gabriele B.V., Veere | 20.00 | 17,785 | 0 | 17,785 |
| Anna Catharine B.V., Veere | 20.00 | 17,785 | 0 | 17,785 |
| Anna Constance B.V., Veere | 20.00 | 17,785 | 0 | 17,785 |
| Navigations Finance Corp. N.V., Brit. Virgin Islands | 50.00 | 0 | 0 | 0 |
| Buccaneer Navigation Ltd., Bahamas | 25.00 | 0 | 0 | 0 |
| Rederij M.S. Prins Alexander, Rotterdam | 5.00 | 0 | –711 | 0 |
| Gemeenschappelijk Belang "Scheepvaart" C.V., Breskens | 33.33 | 0 | 0 | 0 |
| Motorship European Express C.V., Breskens | 30.65 | 0 | 0 | 0 |
| C.V.M.S. "Inger", Delfzijl | 10.00 | 181,512 | 0 | 181,512 |
| Carisbrooke Shipping CV 2, Rotterdam | 0.69 | 1 | 0 | 1 |
| Carisbrooke Shipping CV 3, Rotterdam | 0.69 | 1 | 0 | 1 |
| Leuvestein V.O.F, Rotterdam | 33.33 | 0 | 0 | 0 |
| Subsea & Workover Contractors B.V., Rotterdam | 22.22 | 0 | 0 | 0 |
| Seamoss CO SA, Panama | 50.00 | 914,489 | 0 | 914,489 |
| OOCL Shipping B.V, Rotterdam | 37.50 | 36,411,322 | 0 | 36,411,322 |
| **III. Other material investments 3)** | | | | |
| KRAVAG-HOLDING AG, Hamburg | 10.00 | 8,634,697 | | |

*1) There is a profit and loss transfer agreement with DVB Bank AG.*

*2) Net profit distributed to DVB Bank AG within the relevant period.*

*3) The option given in section 286 (3) sentence 1 No. 1 German Commercial Code was utilised with regard to the figures for the annual results and equity capital.*

## Fixed assets and non-trading assets

### List of investments – DVB Bank AG

| | Purchase/production cost 1 Jan 2003 | Additions (current year) | Disposals (current year) | Currency translation adjustments | Write-ups (current year) | Depreciation (current year) | Accumulated depreciations and write-ups (–) | Residual book value 31 Dec 2003 | Residual book value 31 Dec 2002 |
|---|---|---|---|---|---|---|---|---|---|
| | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn |
| **Securities held as fixed assets** | 52.160 | 11.840 | 13.354 | –6.674 | 0.218 | 0 | 0.001 | 43.971 | 51.629 |
| **Participating interests with and capital contributions in co-operative banks** | 9.918 | 0 | 0.002 | 0 | 0 | 0 | –8.076* | 17.992 | 17.994 |
| **Interests in affiliated companies** | 393.108 | 0.025 | 79.237 | –53.041 | 0 | 0 | 0 | 260.855 | 393.108 |
| **Land and buildings** | 1.143 | 0 | 0 | 0 | 0 | 0.018 | 0.517 | 0.626 | 0.635 |
| **Office furniture and equipment** | 22.642 | 4.905 | 9.631 | 0 | 0 | 2.543 | 13.412 | 4.504 | 4.767 |
| **Fixed assets** | 23.785 | 4.905 | 9.631 | 0 | 0 | 2.561 | 13.929 | 5.130 | 5.402 |
| **Intangible assets** | 7.058 | 0.020 | 0.084 | 0 | 0 | 0.883 | 2.578 | 4.416 | 5.279 |
| **Total** | **486.029** | **16.790** | **102.308** | **–59.715** | **0.218** | **3.444** | **8.432** | **332.364** | **473.412** |

** This item comprises write-ups resulting from the contribution of the electronic cash business to DVB Processing GmbH during 2000.*

## List of investments – DVB Group

| | Purchase/production cost 1 Jan 2003 | Additions (current year) | Disposals (current year) | Currency translation adjustments | Write-ups (current year) | Write-ups (previous year) | Depreciation (current year) | Depreciation and write-downs (previous years) | Depreciation and write-downs (disposals) | Net depreciations and write-ups | Residual book value 31 Dec 2003 | Residual book value 31 Dec 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn |
| **Securities held as fixed assets** | 72.434 | 12.114 | 17.848 | –7.932 | 0.218 | 0.094 | 0 | 0.429 | 0.116 | 0.001 | 58.767 | 72.099 |
| **Participating interests with and capital contributions in co-operative banks** | 59.843 | 0.203 | 0.526 | –11.542 | 0.206 | 0.171 | 0.036 | –8.215 | –0.398 | –8.158* | 56.136 | 68.231 |
| **Interests in affiliated companies** | 2.343 | 0.025 | 0.835 | –0.220 | 0 | 0 | 0 | 0.056 | 0.056 | 0 | 1.313 | 2.287 |
| Land and buildings | 6.677 | 1.130 | 0 | –0.009 | 0 | 0.411 | 0.305 | 1.128 | –1.121 | 2.143 | 5.655 | 5.960 |
| Office furniture and equipment | 49.208 | 6.893 | 33.929 | –0.063 | 0 | 0.365 | 6.338 | 33.784 | 23.509 | 16.248 | 5.861 | 15.789 |
| **Equipment used by the Group** | 55.885 | 8.023 | 33.929 | –0.072 | 0 | 0.776 | 6.643 | 34.912 | 22.388 | 18.391 | 11.516 | 21.749 |
| **Leased assets** | 39.680 | 0.278 | 3.352 | –5.804 | 0 | 0 | 2.746 | 1.097 | 0 | 3.843 | 26.959 | 38.583 |
| **Fixed assets** | 95.565 | 8.301 | 37.281 | –5.876 | 0 | 0.776 | 9.389 | 36.009 | 22.388 | 22.234 | 38.475 | 60.332 |
| Goodwill | 132.172 | 0 | 5.578 | –31.140 | 0 | 0 | 5.220 | 16.820 | 1.274 | 20.766 | 74.688 | 100.579 |
| Software | 7.058 | 0.488 | 0.084 | 0 | 0 | 0 | 0.942 | 1.779 | 0.084 | 2.637 | 4.825 | 5.279 |
| **Intangible assets** | 139.230 | 0.488 | 5.662 | –31.140 | 0 | 0 | 6.162 | 18.599 | 1.358 | 23.403 | 79.513 | 105.858 |
| **Total** | **369.415** | **21.131** | **62.152** | **–56.710** | **0.424** | **1.041** | **15.587** | **46.878** | **23.520** | **37.480** | **234.204** | **308.807** |

** This item comprises write-ups resulting from the contribution of the electronic cash business to DVB Processing GmbH during 2000, and from the sale of a 51% interest to Postbank AG in 2001.*

€8.6 million of **participating interests** (Group and DVB Bank AG) (asset item 7) are negotiable at a stock exchange but not listed. €259.6 million of **interests in affiliated companies** (asset item 8) held by DVB Bank AG are negotiable at a stock exchange but not listed.

Both DVB Bank AG's commercially-used building (€626,000) and the commercially-used building of Nedship Bank N.V. are used by the owners themselves. The premises are partially let to third parties.

The aeroplanes or machine parts acquired from ITFL Ltd., London, as part of sale-and-lease-back arrangements and the ships acquired from Nedship N.V. are carried under the Group's **leased assets.**

**Intangible assets** (Group: asset item 9) amounting to €79.5 million mainly consist of the goodwill of Nedship Bank N.V. of €74.7 million (amortised over a still applicable useful life of 20 years) as well as SAP software costs amounting to €4.8 million.

The Group's **other assets** (asset item 12) totalling €251.1 million comprise the following individual items:

| **€ mn** | **2003** | | 2002 | |
|---|---|---|---|---|
| | **DVB Bank AG** | **Group** | DVB Bank AG | Group |
| **Option premiums** | 2.9 | 2.1 | 7.1 | 7.1 |
| **Taxes** | 2.4 | 43.4 | 4.3 | 4.3 |
| **Currency valuation** | 203.4 | 203.4 | 158.1 | 162.4 |
| **Other assets** | 0.4 | 2.2 | 0.6 | 10.7 |
| **Total** | **209.1** | **251.1** | **170.1** | **184.5** |

In accordance with GAS 10, taxes include a total of €39.1 million relating to deferred taxation on general loan loss provisions as well as the fund for general banking risks. Deferred tax liabilities totalling €5.3 million relating to participating interests and interests in affiliated companies are reported under tax provisions.

**Deferred items** (asset item 13; Group: €6.8 million; DVB Bank AG: €6.4 million) include capitalised discounts in line with section 268 (6) of the German Commercial Code in the amount of €5.0 million (DVB Bank AG: €5.0 million) and premiums recognised in line with section 340e (2) of the German Commercial Code amounting to €1.0 million (DVB Bank AG: €0.7 million).

**Liabilities to banks** with an agreed maturity or period of notice (liabilities item 1b) have a residual term of:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Up to three months | 903.2 | 697.3 | 912.0 | 659.5 |
| More than three months but less than one year | 443.8 | 470.9 | 319.2 | 358.9 |
| More than one year but less than five years | 699.7 | 699.7 | 1,011.0 | 1,023.4 |
| More than five years | 360.4 | 360.4 | 371.2 | 371.2 |
| **Total** | **2,407.1** | **2,228.3** | **2,613.4** | **2,413.0** |

€851.4 million is related to DVB Bank AG's uncertificated liabilities to affiliated companies. This amount includes liabilities to DZ BANK of €228.0 million, to DZ BANK International S.A., Luxembourg, of €158.9 million and to Nedship Bank N.V. of €424.3 million. There are no uncertificated liabilities to companies in which a participating interest is held. The total amount in respect of DVB Bank AG also comprises liabilities to affiliated "Sparda" banks totalling €2,237.6 million.

At the balance sheet date there were no liabilities for open-market transactions collateralised by securities.

**Other liabilities to customers** with an agreed maturity or period of notice (liabilities item 2bb) have a residual term of:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Up to three months | 72.9 | 98.5 | 88.5 | 96.1 |
| More than three months but less than one year | 42.2 | 65.4 | 68.1 | 101.1 |
| More than one year but less than five years | 407.3 | 412.0 | 340.7 | 351.4 |
| More than five years | 1,308.1 | 1,344.8 | 1,180.3 | 1,180.3 |
| **Total** | **1,830.5** | **1,920.7** | **1,677.6** | **1,728.9** |

Of the DVB Bank AG total, €75.6 million is related to uncertificated liabilities to affiliated companies (Group: €75.5 million) and €5.9 million to companies in which a participating interest is held.

**Securitised liabilities** (liabilities item 3) for both the Group and DVB Bank AG, amounting to €2,178.4 million, include €1,944.4 million in bonds issued and €234.0 million of other Commercial Paper issues. Of this total, a nominal amount of €473.7 million will fall due in 2004 and €254.7 million in the next three months.

The bonds issued are bearer securities. The total amount includes liabilities to affiliated companies (DZ BANK) with a nominal value of €770.0 million, of which €69.6 million is denominated in foreign currencies.

The Group's **other liabilities** (liabilities item 4) totalling €27.9 million include:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| **Currency valuation** | 0.0 | 0.0 | 0.0 | 0.0 |
| **Option premiums** | 3.0 | 2.2 | 6.8 | 6.8 |
| **Interest on profit-participation certificates** | 11.5 | 11.5 | 11.5 | 11.5 |
| **Interest on silent partnerships** | 6.8 | 6.8 | 6.8 | 6.8 |
| **Other commitments** | 1.1 | 7.4 | 1.1 | 14.1 |
| **Total** | **22.4** | **27.9** | **26.2** | **39.2** |

The Group's **deferred items** (liabilities item 5) totalling €6.5 million also include discounts from purchased or directly extended loans in the amount of €3.7 million.

**Provisions** (liabilities item 6) were set aside in the total of €59.1 million (Group) and €43.5 million (DVB Bank AG), respectively. The other provisions comprise the following items:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| **Credit risks** | 3.7 | 3.7 | 9.0 | 9.0 |
| **Staff remuneration** | 10.7 | 10.9 | 9.1 | 11.9 |
| **Other commitments** | 17.9 | 21.3 | 29.7 | 33.1 |
| **Total** | **32.3** | **35.9** | **47.8** | **54.0** |

Other liabilities include provisions for extraordinary measures:

Since the year 2000, the European Commission has been investigating several European banks due to alleged unlawful agreements on the fee structure for transactions in foreign notes and coins. ReiseBank AG is affected by these investigations but in our opinion the facts do not indicate any matters that are liable for prosecution. In 2001 we set aside provisions to cover any legal costs and the possibility of an unfavourable outcome to the proceedings. The course of the investigation to date does not give us any cause to increase the provisions. The sale of ReiseBank AG has no effect on the potential commitment and therefore none on the provision recognised.

**Subordinated liabilities** of DVB Bank AG and the Group (liabilities item 8) totalling €226.0 million include the following issues:

| | Amount in € 2003 | Currency 2003 | Interest rate % 2003 | Maturity 2003 |
|---|---|---|---|---|
| **Bearer debentures** | 57,500,000.00 | € | 6.00 | 17/08/2011 |
| **Promissory note loans** | 34,837,688.04 | US$ | 2.07 | 31/05/2005 |
| | 10,225,837.62 | € | 5.24 | 20/10/2008 |
| | 10,000,000.00 | € | 5.12 | 24/03/2009 |
| | 10,000,000.00 | € | 6.50 | 04/11/2008 |
| | 5,112,918.81 | € | 5.14 | 16/09/2008 |
| | 5,112,918.81 | € | 5.12 | 16/09/2008 |
| | 5,112,918.81 | € | 5.23 | 10/09/2008 |
| | 5,112,918.81 | € | 5.24 | 20/10/2008 |
| | 5,000,000.00 | € | 6.11 | 08/08/2018 |
| | 5,000,000.00 | € | 6.00 | 20/08/2018 |
| | 5,000,000.00 | € | 5.66 | 22/08/2013 |
| | 5,000,000.00 | € | 5.60 | 12/08/2013 |
| | 5,000,000.00 | € | 5.64 | 12/08/2013 |
| | 5,000,000.00 | € | 5.69 | 31/07/2013 |
| | 5,000,000.00 | € | 6.70 | 02/08/2010 |
| | 5,000,000.00 | € | 6.71 | 16/08/2012 |
| | 5,000,000.00 | € | 6.68 | 13/10/2010 |
| | 5,000,000.00 | € | 6.32 | 15/08/2011 |
| | 3,500,000.00 | € | 5.55 | 24/06/2011 |
| | 2,556,459.41 | € | 5.06 | 26/11/2008 |
| | 2,556,459.41 | € | 5.15 | 10/09/2008 |
| | 2,556,459.41 | € | 5.18 | 08/09/2008 |
| | 2,556,459.41 | € | 5.01 | 22/09/2008 |
| | 2,556,459.41 | € | 5.01 | 22/09/2008 |
| | 2,556,459.41 | € | 5.08 | 23/03/2009 |
| | 2,500,000.00 | € | 6.67 | 04/02/2010 |
| | 2,500,000.00 | € | 6.26 | 17/08/2011 |
| | 2,300,813.47 | € | 5.05 | 23/03/2009 |
| | 2,000,000.00 | € | 6.53 | 21/06/2010 |
| | 500,000.00 | € | 6.53 | 21/06/2010 |
| | 255,645.94 | € | 5.05 | 23/03/2009 |

The total amount includes subordinated funds from affiliated companies (R+V Allgemeine Versicherung AG, Wiesbaden, Germany) with a total nominal value of €3.5 million. With regard to subordinated liabilities, DVB Bank AG is under no obligation to redeem securities prior to maturity. In the event of bankruptcy, liquidation or composition proceedings, any claims from these liabilities, incl. interest claims, will be subordinated to all unsubordinated claims by any of the issuer's creditors. There is no agreement in respect of the conversion of these liabilities to equity capital or any other form of debt. These liabilities therefore meet the requirements of supplementary capital as set out in section 10 (5a) of the German Banking Act.

During the business year, expenses amounting to €10.6 million were incurred in relation to the liabilities reported under this item.

DVB Bank AG's **profit-participation certificates** (liabilities item 9) of €164.5 million include the following issues:

| | Amount in € mn 2003 | Amount in € mn 2002 | Listed | Interest rate (%) | Maturity |
|---|---|---|---|---|---|
| | 38.3 | 38.3 | DEM | 6.750 | 2004 |
| | 51.1 | 51.1 | DEM | 6.270 | 2007 |
| | 75.0 | 75.0 | € | 7.585 | 2009 |
| **Total** | **164.4** | **164.4** | | | |

The profit-participation certificates approved by resolutions of the Annual General Meetings in 1993, 1998 and 2000 meet the requirements of section 10 (5) of the German Banking Act for supplementary capital. The total amount of these certificates may be used to cover losses. The profit-participation certificates due in 2004 no longer meet the requirements of section 10 (5) of the German Banking Act. Interest payments cannot exceed any net retained profit. The redemption rights of the profit-participation certificate holders are subordinated to the entitlements of other creditors.

During 2003, expenses in the amount of €11.6 million were related to interest payments on profit-participation certificates and reported under "Other liabilities".

The **fund for general banking risks** (liabilities item 10) for DVB Bank AG includes the previous year's balance of €121.5 million and an appropriation of €42.9 million for the current year. Within the Group, €74.0 million was added from earnings for the period under review, while additional amounts were included in other retained earnings.

At the end of 2003, the Group's **capital and reserves** (excl. net retained profit; liabilities item 11) totalled €424.8 million.

The **subscribed capital** comprises the Bank's issued share capital of €77.2 million plus contributions from silent partnerships totalling €77.5 million. The **issued share capital** of €77.2 million comprises 3,020,147 notional no-par value shares ("unit shares"). Out of this total, 3,144 shares were subscribed for by employees as part of a stock option plan. The number of unexercised options as at 31 December 2003 was 68,222. The issued amount was allocated to the issued share capital in the amount of €80,000 and to the capital reserve in the amount of €113,000. DZ BANK holds a 92.27% stake in the issued share capital. The remaining shares are held in free float.

**Silent partnerships** account for capital contributions of €77.5 million. In line with the approval by the Extraordinary General Meeting on 8 March 2000, the Bank has concluded agreements on the establishment of silent partnerships – partial profit transfer agreements within the meaning of sections 292 and 293 of the German Stock Corporation Act – with five shareholders. In accordance with section 10 (4) of the German Banking Act, any capital contributions by silent partners are added to the Bank's core capital and are therefore subject to the following restrictions:

- The total amount of capital contributions is used to cover losses incurred by the Bank. In the event of losses, no profits will be distributed to silent partners in the relevant business year.
- In the case of insolvency proceedings in respect of the Bank's assets or liquidation of the Bank, these capital contributions will be repaid only after all creditors have been satisfied; they rank pari passu with the repayment claims of other silent partners whose capital contributions also count towards the Bank's own funds.
- The capital contribution may not be repaid during the entire term (until 31 December 2010).
- Termination of the silent partnership is excluded for the entire term.
- Any losses which reduce the silent partner's repayment claim during the term of the capital contribution may be compensated for only through the use of profits arising prior to the silent partner's withdrawal.
- The loss-sharing arrangement cannot be subsequently changed to the detriment of the Bank, nor can the subordination be subsequently limited or the term or period of notice shortened.

With regard to **further capital adjustments,** the Board of Managing Directors holds the following authorisations:

- Subject to approval by the Supervisory Board, the company is authorised to increase the issued share capital by up to a total amount of €36.0 million by issuing new shares, for a contribution in cash, up until 12 June 2007.
- Special-purpose authorisations for the increase of issued share capital to cover any commitments that may arise from stock option plans.
- Authorisation effective until 7 March 2005 to issue profit-participation certificates on one or several occasions up to a total amount of €25.0 million with subscription rights granted to shareholders as a general rule.

Furthermore, the Bank was authorised by the Annual General Meeting on 12 June 2003 to purchase its own shares for trading purposes pursuant to section 71 (1) No. 7 of the German Stock Corporation Act. This is subject to the proviso that the trading portfolio of shares purchased under this authority may not exceed 5% of the Bank's issued share capital at the close of any one day. The price for which treasury shares may be purchased must not fall below the price fixing for the relevant shares at the Frankfurt Stock Exchange on the trading day prior to the purchase, less 10%. The highest price for treasury shares must not exceed the price fixing plus 10%. On the balance sheet date, the Bank held treasury shares in the amount of €51,000. The lowest price we recorded in our trading activities was €73.00 per share, the highest was €87.80 per share. During 2003, we purchased a total of 81,672 unit shares of DVB Bank AG at an average purchase price of €78.68. A total of 81,497 unit shares were sold at an average selling price of €87.20, thus realising gains of €620,800. During the year, the maximum holding of treasury shares on any one day was 78,309 unit shares; this corresponds to 2.59% of our share capital. At the end of 2003, DVB Bank AG's trading portfolio contained 583 shares (asset item 11) at a book value of €48,550. A reserve for treasury shares was formed in the same amount pursuant to section 272 (4) of the German Commercial Code. The increase of €15,910 during the business year 2003 was taken from other retained earnings. Companies included in consolidated financial statements do not hold shares in the parent company.

The Group's liable capital is enhanced by capital reserves recognised as capital for regulatory purposes. The capital reserves counting towards the liable capital in accordance with section 10 (2b) sentence 1 No. 6 of the German Banking Act in conjunction with section 10 (4a) sentence 1 of the German Banking Act amount to €1.5 million (DVB Bank AG and Group). Capital reserves within the meaning of section 10 (2a) sentence 1 No. 7 of the German Banking Act totalled €184.70 million.

The Group's **contingencies** include €374.1 million in guarantees and indemnity agreements. DVB Bank AG has pledged €235.3 million as collateral for subsidiaries' liabilities.

**Other liabilities** totalling €889.7 million consist of irrevocable loan commitments in respect of aviation, shipping and railway finance.

## Contingent liabilities not recognised on the balance sheet

An obligation to provide extra funds of up to five times the value of the interest held (31 December 2003: €2.3 million) exists with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt/Main. In addition, the Bank holds an interest in Münchener Hypothekenbank eG, Munich, for which the obligation to provide extra funds totalled €0.1 million as of 31 December 2003.

## Other information

DVB Bank AG is a member of the deposit insurance scheme of the Federal Association of German Credit Unions and Rural Banking Co-operatives (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken).

Moreover, DVB Bank AG historically supported the pensions of its employees by means of its own retirement fund (Pensionskasse der Deutschen VerkehrsBank V.V.a.G.). With effect from 1 January 2003 and with the consent of the relevant bodies, all rights and duties and also the assets of the DVB retirement fund were transferred to BVV Versicherungsverein des Bankgewerbes a.G., domiciled in Berlin, the mutual pension fund scheme organised for the German banking sector. The current pensioners thereby retain the pension entitlements acquired, while the contributors retain the previous funding scheme.

The consolidated balance sheet includes assets denominated in foreign currency to the equivalent of €5,699.5 million (DVB Bank AG: €5,669.9 million) and liabilities to the equivalent of €1,205.2 million (DVB Bank AG: €1,230.8 million).

The market risk is largely hedged by spot purchases of currencies totalling €0.2 million, currency forward purchases totalling €10.6 million, spot sales of currencies in the amount of €1.4 million, currency forward sales in the amount of €4,444.4 million and cross currency swaps and currency options of €168.8 million.

## Explanatory notes to the individual profit and loss account items

The Group's **interest income** (item 1) totalling €382.1 million includes income from Bank balances (€43.9 million), fixed income securities (€31.1 million) and loans to customers (€307.1 million). Interest income generated with international clients amounted to €70.5 million for DVB Bank AG, London Branch, €99.8 million for Nedship Bank Group and €17.7 million for subsidiary ITFL Ltd.

The Group's **commission income** (item 4) amounting to €91.2 million includes commission for consulting on and the structuring and management of international loans. Of this total amount, commission income of €53.0 million was recorded by ReiseBank and CashExpress, which mainly comprises commissions from transactions in foreign currencies, income from ATMs (Automatic Teller Machines), Western Union global cash transfers, the sale of "vignettes" (prepaid motorway fee coupons, e.g. in Austria or Switzerland), payment fees on credit cards and other commission income.

The Group's **net profit on financial operations** (item 6) of €3.9 million includes items such as earnings from trading foreign notes and coins, precious metals and numismatics (€0.6 million), securities and financial instruments (€0.6 million) and currencies (€2.7 million).

**Other operating income** totalling €13.0 million (Group: item 7) or €11.4 million (DVB Bank AG: item 8), generated almost exclusively in Germany, is broken down as follows:

| € mn | 2003 | | 2002 | |
|---|---|---|---|---|
| | DVB Bank AG | Group | DVB Bank AG | Group |
| Release of provisions | 5.2 | 5.9 | 1.6 | 3.1 |
| Tax refund claims | 0.5 | 0.5 | 0.3 | 0.3 |
| Rental income | 0.4 | 0.4 | 0.0 | 0.0 |
| Income from the disposal of fixed assets | 0.3 | 0.3 | 0.2 | 0.2 |
| Income from intra-group services | 4.4 | 0.0 | 3.6 | 0.0 |
| Leasing income | 0.0 | 3.2 | 0.0 | 2.1 |
| Other income | 0.6 | 2.7 | 0.7 | 1.3 |
| **Total** | **11.4** | **13.0** | **6.4** | **7.0** |

**General administrative expenses** (Group: item 8; DVB Bank AG: item 9) comprise personnel costs and other administrative expenses. These are broken down as follows:

**Staff expenses:**

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Wages and salaries | 29.4 | 57.0 | 34.5 | 61.1 |
| Social security contributions | 3.6 | 8.0 | 3.4 | 7.4 |
| Expenses for pensions | 0.7 | 0.8 | 1.0 | 1.0 |
| Retirement fund | 1.0 | 1.3 | 1.1 | 2.2 |
| Other expenses for retirement provisions | 0.4 | 1.3 | 0.5 | 1.0 |
| **Total** | **35.1** | **68.4** | **40.5** | **72.7** |

**Other administrative expenses:**

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Occupancy expenses | 4.3 | 13.9 | 6.2 | 15.4 |
| Joint Fund for Securing Customer Deposits (Einlagensicherungsfonds) | 5.5 | 5.5 | 3.8 | 3.8 |
| Operating costs | 7.0 | 16.3 | 9.5 | 21.3 |
| External services | 13.1 | 24.4 | 19.0 | 29.9 |
| Other operating expenditure | 0.5 | 1.6 | 2.0 | 4.3 |
| **Total** | **30.4** | **61.7** | **40.5** | **74.7** |

**Depreciation/amortisation of intangible and fixed assets** excl. amortisation on leasing (Group: item 9; DVB Bank AG: item 10) is broken down as follows:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Office furniture and equipment | 2.54 | 6.34 | 3.16 | 7.79 |
| Land and buildings | 0.02 | 0.31 | 0.01 | 0.28 |
| Intangible assets | 0.88 | 6.16 | 0.87 | 7.04 |
| **Total** | **3.44** | **12.81** | **4.04** | **15.11** |

**Goodwill** is subject to scheduled amortisation over its useful life.

**Other operating expenses** (Group: item 10; DVB Bank AG: item 11) totalling €5.99 million (Group) and €2.10 million (DVB Bank AG) which relate to the German domestic market are broken down as follows:

| € mn | 2003 DVB Bank AG | 2003 Group | 2002 DVB Bank AG | 2002 Group |
|---|---|---|---|---|
| Losses from the disposal of assets | 0.00 | 0.00 | 0.02 | 0.03 |
| Expenses for intra-group services | 0.51 | 0.00 | 1.18 | 0.00 |
| Staff expenditure | 0.77 | 1.13 | 0.69 | 1.03 |
| Depreciation of leased assets | 0.00 | 2.75 | 0.00 | 1.09 |
| Other expenses | 0.23 | 2.11 | 0.99 | 2.63 |
| **Total** | **1.51** | **5.99** | **2.88** | **4.78** |

As in the previous year, other operating expenses do not include any significant amounts which should be attributed to other business years.

The release of provisions which were created for the transfer of the DVB retirement fund to BVV but are no longer required led to **extraordinary income** of €3.0 million (Group: item 16; DVB Bank AG: item 17).

**Extraordinary expenses** (Group: item 17; DVB Bank AG: item 18) totalling €0.2 million (DVB Bank AG and Group) include expenses and transfers to provisions due to the closure and restructuring of business units.

In respect of **income taxes** (Group: item 18; DVB Bank AG: item 19), €5.2 million (Group) relate to current taxes. €36.0 million of **deferred taxes** (Group: item 19) relate to deferred tax income. The calculated tax burden of €16.4 million is compensated by tax reductions owing to tax-free income (€35.1 million), tax increases owing to non-deductible expenses (€1.9 million) and tax reductions of €14.0 million owing to differing taxation rates.

## Segment reporting

Segment reporting illustrates how the individual business divisions contribute to the Group's overall results. It is based on the internal management reporting system which plays a key role as a forecasting, management and control instrument within DVB Group's divisional structure. Segmentation according to business areas highlights the Bank's strategic focus on its core competence in Transport Finance. The internal reporting system thereby has only limited regard to the legal structure of the Group and primarily follows the strategic orientation and classification criteria applicable thereto.

We revised the allocation of overhead costs for the year under review with the objective of keeping client-focused areas free of administrative costs over which they have no direct influence. Due to the changes in cost allocation, the values for 2002 and 2003 are only comparable to a limited extent.

The primary reporting structure provides a breakdown of Transport Finance, business which is no longer in line with our strategy (D-Marketing), Treasury/Financial Institutions and the subsidiaries. Other/Reconciliation/Consolidation is added as a further segment.

- **Transport Finance** includes DVB's activities in the areas of Shipping, Aviation, Land Transport and Transport Infrastructure, plus Corporate Finance.
- **D-Marketing** comprises the residual business that the Bank intends to dispose of over the short-term: this includes non-transport business, business with transportation clients that does not meet volume and earnings requirements over the long-term and lending exposures requiring settlement.
- **Treasury/Financial Institutions** includes DVB's central Treasury department and the coverage of institutional counterparties for the Bank's funding activities.
- The contributions by ReiseBank AG and CashExpress GmbH are presented for the last time under **Subsidiaries.** These companies were sold as at the end of 2003. DVB LogPay GmbH is also reported here.
- The contributions to results that do not fall under the individual business divisions' areas are presented under **Other/Reconciliation/Consolidation.** This also includes adjustments that are necessary in order to reconcile the management figures from internal accounting, which are shown in the segment reporting of the operational business units, with the corresponding data from external accounting. This segment includes both costs for strategic multi-business division projects as well as income from balance sheet items not allocated to specific business lines, as well as the costs of service and settlement

units. Operating expenditure in this segment also includes the amortisation of goodwill from the acquisition of Nedship Bank N.V. at 31 May 2000. The appropriation of the sales proceeds from ReiseBank and CashExpress is also reflected in this column.

## Group

| € mn | Group | | Transport Finance | | D-Marketing | | Treasury/ Financial Institutions | | Subsidiaries | | Other/Re-conciliation/ Consoli-dation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** |
| Net interest income | 95.3 | 97.3 | 75.4 | 60.2 | 3.4 | 3.1 | 15.3 | 28.4 | –0.3 | –0.7 | 1.5 | 6.3 |
| Net commission income | 88.3 | 93.0 | 37.0 | 33.9 | 0.3 | 0.5 | –0.2 | 2.9 | 56.3 | 57.9 | –5.1 | –2.3 |
| Net profit on financial opations | 3.9 | 4.7 | 5.8 | 0.0 | 0.0 | 0.0 | 1.0 | 3.7 | 0.6 | 0.0 | –3.5 | 1.0 |
| Net other operating income/expenses | 7.0 | 3.3 | 1.4 | 1.7 | 0.1 | 0.0 | 0.0 | –0.1 | –0.2 | –0.3 | 5.7 | 2.0 |
| **Total income** | **194.6** | **198.3** | **119.6** | **95.9** | **3.8** | **3.5** | **16.0** | **34.9** | **56.4** | **56.9** | **–1.3** | **7.1** |
| Staff expenses | 68.4 | 72.7 | 24.5 | 25.8 | 1.3 | 2.2 | 1.4 | 2.9 | 22.1 | 22.1 | 19.2 | 19.7 |
| Operating expenses incl. amortisation/depreciation 1) | 74.5 | 89.8 | 6.3 | 20.9 | 0.4 | 1.4 | 1.0 | 3.2 | 27.7 | 26.3 | 39.0 | 37.9 |
| **Administrative expenses incl. depreciation/amortisation** | **142.9** | **162.5** | **30.8** | **46.7** | **1.7** | **4.4** | **2.4** | **10.8** | **49.8** | **48.4** | **58.2** | **57.6** |
| **Operating profit excl. loan loss provisions** | **51.6** | **35.8** | **88.8** | **49.2** | **2.1** | **–0.9** | **13.7** | **24.1** | **6.6** | **8.6** | **–59.5** | **–50.6** |
| Net loan loss provisions | 20.9 | 19.9 | 15.1 | 0.1 | 5.8 | 17.5 | 0.0 | 0.0 | 0.0 | 0.5 | 0.1 | 1.8 |
| Net other income/expenses | 14.0 | 31.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 13.6 | 31.1 |
| **Profit from ordinary activities** | **44.9** | **47.0** | **73.8** | **49.1** | **–3.7** | **–18.4** | **14.0** | **24.0** | **6.6** | **8.1** | **–45.9** | **–21.3** |
| Net extraordinary income/expenses | 2.8 | –5.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 | –5.8 |
| Taxes/deferred tax assets | –30.8 | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –30.8 | 1.8 |
| Partial profit transfer agreements | 6.8 | 6.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.8 | 6.8 |
| **Net income** | **71.6** | **32.6** | **73.8** | **49.1** | **–3.7** | **–18.4** | **14.0** | **24.0** | **6.6** | **8.1** | **–19.2** | **–35.7** |
| Risk-weighted assets (average) | 7,483.2 | 7,911.2 | 6,344.0 | 6,518.6 | 370.5 | 374.8 | 500.9 | 650.0 | 0.0 | 0.0 | 267.8 | 367.8 |
| Capital (average) | 280.3 | 252.1 | 253.3 | 228.2 | 12.6 | 13.1 | 17.4 | 22.8 | 0.0 | 0.0 | –3.1 | –11.9 |
| **Cost/income ratio 2)** | **71.1%** | **79.1%** | **25.8%** | **48.7%** | **44.8%** | **125.2%** | **14.9%** | **0.0%** | **88.4%** | **85.0%** | | |
| **Return on equity before taxes 2)** | **16.2%** | **15.9%** | **29.1%** | **21.5%** | **–29.2%** | **–140.4%** | **80.8%** | **105.2%** | | | | |

*1) incl. amortisation of goodwill*
*2) excl. amortisation of goodwill*

The following table breaks down the core strategic Transport Finance business into its essential components: Shipping, Aviation, Land Transport/Transport Infrastructure and DVB Capital (the Corporate Finance unit).

## Transport Finance

| € mn | Transport Finance | | Shipping/ Container Business | | Aviation | | Land Transport/ Transport Infrastructure | | DVB Capital | | Other/Re-conciliation/ Consoli-dation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Net interest income | 75.4 | 60.2 | 42.5 | 37.0 | 23.4 | 14.1 | 7.6 | 9.8 | 1.9 | –0.4 | 0.0 | –0.2 |
| Net commission income | 37.0 | 33.9 | 15.9 | 17.6 | 11.0 | 7.1 | 4.1 | 3.0 | 5.3 | 6.2 | 0.8 | 0.0 |
| Net profit on financial operations | 5.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.8 | 0.0 | 0.0 | 0.0 |
| Net other operating income/expenses | 1.4 | 1.7 | 1.6 | 1.4 | –0.3 | 0.3 | 0.0 | –0.1 | 0.0 | 0.2 | 0.0 | 0.0 |
| **Total income** | **119.6** | **95.9** | **60.1** | **55.9** | **34.1** | **21.5** | **11.7** | **12.7** | **13.0** | **6.0** | **0.8** | **–0.2** |
| Staff expenses | 24.5 | 25.8 | 10.8 | 10.9 | 4.2 | 3.3 | 2.7 | 3.4 | 5.4 | 5.8 | 1.5 | 2.3 |
| Operating expenses incl. amortisation/depreciation [1] | 6.3 | 20.9 | 2.6 | 11.7 | 1.2 | 1.2 | 0.4 | 1.6 | 1.6 | 4.2 | 0.4 | 2.2 |
| **Administrative expenses incl. depreciation/amortisation** | **30.8** | **46.7** | **13.4** | **22.6** | **5.4** | **6.0** | **3.1** | **7.2** | **7.0** | **10.5** | **1.9** | **4.5** |
| **Operating profit excl. loan loss provisions** | **88.8** | **49.2** | **46.7** | **33.3** | **28.8** | **15.5** | **8.6** | **5.5** | **5.9** | **–4.5** | **–1.2** | **–4.7** |
| Net loan loss provisions | 15.1 | 0.1 | –1.6 | –0.2 | 16.7 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net other income/expenses | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Profit from ordinary activities** | **73.8** | **49.1** | **48.4** | **33.4** | **12.1** | **15.3** | **8.6** | **5.5** | **5.9** | **–4.5** | **–1.2** | **–4.7** |
| Net extraordinary income/expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxes/deferred tax assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Partial profit transfer agreements | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net income** | **73.8** | **49.1** | **48.4** | **33.4** | **12.1** | **15.3** | **8.6** | **5.5** | **5.9** | **–4.5** | **–1.2** | **–4.7** |
| Risk-weighted assets (average) | 6,344.0 | 6,518.6 | 3,438.3 | 3,717.4 | 2,011.4 | 1,834.3 | 879.4 | 953.7 | 14.9 | 13.2 | 0.0 | 0.0 |
| Capital (average) | 253.3 | 228.2 | 135.4 | 130.1 | 83.4 | 64.2 | 32.8 | 33.4 | 1.7 | 0.5 | 0.0 | 0.0 |
| **Cost/income ratio [2]** | **25.8%** | **48.7%** | **22.2%** | **40.4%** | **15.7%** | **27.9%** | **26.6%** | **56.4%** | **54.2%** | | | |
| **Return on equity before taxes [2]** | **29.1%** | **21.5%** | **35.8%** | **25.7%** | **14.5%** | **23.8%** | **26.1%** | **16.6%** | **344.7%** | | | |

*1) incl. amortisation of goodwill*
*2) excl. amortisation of goodwill*

All of the strategic client areas in DVB's Transport Finance business are globally oriented. In view of the fact that DVB's markets do not display any major geographical peculiarities, a geographical classification was dispensed with.

Owing to the specific business focus of DVB, risk-weighted assets are used to represent the **assets** of the individual segments.

The **performance** of the Group and of individual segments is measured on the basis of the profit from ordinary activities, return on equity and the cost/income ratio:

- **Return on equity** is calculated as the ratio of net income before taxes (excl. amortisation of goodwill) to the average invested equity capital, and reflects the return on the capital used in the business unit. Over the medium-term, the Group aims to achieve a sustained RoE of at least 15% before taxes.
- The **cost/income ratio** is the ratio of administrative expenses (incl. the depreciation of fixed assets, but excl. amortisation of goodwill) to operating income excl. loan loss provisions. It reflects the cost effectiveness of the individual divisions. The Group has set itself a medium-term target of a maximum cost/income ratio of 50%.

The segment reporting reflects the operative business. For this purpose, both income and expenses are generally shown at market prices and allocated to the business division responsible. The net interest income is calculated on the basis of market rates. In addition, this item also includes the return on the capital allocated to each business division. The imputed allocation of equity is in line with Liquidity Principle 1 of the German Banking Act and is based on the calculated average risk-weighted assets and the amounts to be included for market risks (risk asset equivalents). Administrative expenses include the directly allocable components of staff expenses, operating expenses and amortisation and depreciation of fixed and intangible assets. Risk provisions include both new net transfers to loan loss provisions for credit risks as well as payments on receivables that had already been written off and general loan loss provisions. Taxes are not currently allocated to the business divisions.

When combined, the individual segments' earnings total the Group's profit from ordinary activities of €44.9 million.

The result enables us to propose to the Annual General Meeting of DVB Bank AG a **dividend** of €1.50 per share, plus a bonus of €0.50 per share.

## General explanations

The Bank enters into **forward transactions** to hedge its own currency and interest-rate exposure as well as in trading with its customers.

**Foreign exchange forwards and option contracts** are primarily entered into for the purpose of hedging foreign currency loans and deposits. Furthermore, forward exchange deals, spot exchange deals and options contracts entered into on behalf of a customer are closed out using banking partners. At 31 December 2003, the nominal volume of these transactions totalled €4,625 million, of which €4,544 million were transactions entered into as direct hedges of transactions recognised on the balance sheet.

We also use **other derivative financial instruments** for trading purposes, the Bank's asset/liability management and also for hedging purposes in respect of specific transactions. At 31 December 2003, the nominal volume of these transactions at Group level totalled €9,523 million, of which €9,197 million related to interest rate swaps, €308 million were interest rate options and €18 million were forward rate agreements and interest rate futures. €2,002 million of the total €9,523 million in interest rate instruments were accounted for by trading activities. Group subsidiary Nedship Bank N.V. and another subsidiary concluded financial swaps of €35 million and €47 million respectively with DVB Bank AG.

## Employees

The average number of DVB Group employees in 2003 was:

| | **2003 excl. ReiseBank** | | 2002 excl. ReiseBank | | 2001 incl. ReiseBank | |
|---|---|---|---|---|---|---|
| | **DVB Bank AG** | **Group** | DVB Bank AG | Group | DVB Bank AG | Group |
| **Female employees** | 114 | 157 | 167 | 198 | 167 | 432 |
| **Male employees** | 190 | 249 | 249 | 304 | 249 | 518 |
| **Total** | **304** | **406** | **416** | **502** | **416** | **950** |

The average number of employees excludes vocational trainees, employees on parental leave or undertaking national or civil service, but includes temporary employees.

## Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act

Section 161 of the German Stock Corporation Act requires Boards of Managing Directors and Supervisory Boards of listed companies to issue a Declaration of Compliance with the German Corporate Governance Code on an annual basis (the first such declaration was required by the end of 2002, for the year ended 31 December 2002). They declare therein that the recommendations of the Code have been and are being complied with and comment on exceptions. DVB Bank AG's Board of Managing Directors and Supervisory Board published their Declaration of Compliance, in accordance with section 161 of the German

Stock Corporation Act, on 30 December 2003 in the electronic German Federal Gazette (elektronischer Bundesanzeiger) and simultaneously made the text permanently available to the public on the Bank's website www.dvbbank.com under "Investor Relations – Corporate Governance – Declaration of Compliance".

## Boards of DVB Bank AG

### Supervisory Board

Dr Thomas Duhnkrack, Chairman since 21 November 2003,
Member of the Supervisory Board since 12 June 2003
Dr Peter Scharpf, Deputy Chairman
Lutz Baumgartl
Axel Clemens
Uwe E. Flach, Chairman until 21 November,
Member of the Supervisory Board until 17 December 2003
Heinz Hilgert, until 12 June 2003
Cornelia Jung, until 12 June 2003
Wolfgang Kirsch, since 17 December 2003
Dr Peter Klaus
Hemjö Klein
Hermann Möller
Dr Ing Manfred Mücke
Prof Dr Manfred Schölch
Rosemarie Schur-Heimann
Wolfgang Kirsch, since 12 June 2003

### Board of Managing Directors

Wolfgang F. Driese, Chairman
Dagfinn Lunde
Rolf Michael Betz, since 1 April 2003

The professions and offices held by members of the Supervisory Board and the Board of Managing Directors are stated at the end of these notes.

## Remuneration and shareholdings of Board Members

The **emoluments** paid to Board members throughout 2003 amounted to:

| € mn | 2003 | 2002 |
|---|---|---|
| Board of Managing Directors | 0.753 | 1.671 |
| Supervisory bodies | 0.085 | 0.083 |
| Former members of the Board of Managing Directors and their surviving dependants | 0.329 | 0.444 |
| **Total** | **1.167** | **2.198** |

## Remuneration of the Board of Managing Directors

The structure of the emoluments of the Board of Managing Directors of DVB Bank AG is based, in principle, on the internal regulations for the Executive Committee of the Supervisory Board, as adopted by the plenary session of the Supervisory Board of DVB Bank AG. Following changes in the Corporate Governance Code (as amended in May 2003) concerning the remuneration structure of the Board of Managing Directors, the internal regulations for the Executive Committee of the Supervisory Board of DVB Bank AG were adapted accordingly (updated: March 2004).

The remuneration of the Board of Managing Directors of DVB Bank AG in 2003 amounted to €558,257.96 in fixed components, plus variable components totalling €195,000.00.

The variable remuneration of the members of the Board of Managing Directors is calculated on the basis of target agreements to be laid down annually between the Executive Committee and the Board member concerned. These targets relate to achieving an agreed return on investment and an improvement in the cost/income ratio of the DVB Group together with an assessment of individual performance (weighting: 1/3 each).

Payment of the variable remuneration component takes place as to 50% in each of the two subsequent business years, provided the Board member concerned has not resigned from his employment at that time.

## Options granted to Members of the Board of Managing Directors

As an additional variable remuneration component providing a long-term incentive, members of the Board of Managing Directors are annually allocated free options for the purchase of DVB shares by the Executive Committee, within the framework of the employee participation scheme "DVB shares". These options can only be exercised after a waiting period of three years, and only on the condition that the DVB Group's return on equity in the business year preceding such potential exercise has reached or exceeded a minimum threshold. This threshold was laid down in advance for each business year by the Annual General Meeting in 2000. The exercise price for each option corresponds to the unweighted average closing price of DVB Bank AG shares on the Frankfurt Stock Exchange in respect of the first five days following expiry of the waiting period, less a discount (not exceeding 50%) which increases in proportion to the extent to which the relevant performance goal has been exceeded. The exercise price is, however, at least equal to the notional share of issued share capital that one share represents. As the value of the options depends on achieving a particular return on equity in the business year prior to a potential exercise, it is not at present possible to calculate any intrinsic value. Members of the Board of Managing Directors own a total of 3,075 options to purchase shares in DVB Bank AG.

## Remuneration of the Supervisory Board

The annual remuneration for the services of the Supervisory Board members is regulated in article 18 of the Memorandum and Articles of Association of DVB Bank AG.

The total remuneration of the Supervisory Board in 2003 amounted to €85,283.51, of which the Chairman of the Supervisory Board received €14,827.47 (pursuant to Article 18 (1) sentence 4, lit. 1, Memorandum and Articles of Association) and the Deputy Chairman €8,896.48 (Article 18 (1) sentence 4, lit. 2, Memorandum and Articles of Association). The remaining members of the Supervisory Board received an amount of €5,930.99 each for their services to the Supervisory Board for the entire year (Article 18 (1) sentence 3, Memorandum and Articles of Association). In the case of Dr Thomas Duhnkrack and Mr Wolfgang Weber, the amount paid pro rata temporis in respect of their membership of the Supervisory Board was €3,262.05, while Mr Heinz Hilgert and Mrs Cornelia Jung received an amount of €2,668.94 each. In accordance with Article 18 (1) sentence 5 of the Memorandum and Articles of Association, the three members of the Credit Committee received an additional remuneration of €2,965.49.

The amounts paid to the members of the Supervisory Board in each case include value-added tax in accordance with Article 18 (2) of the Memorandum and Articles of Association.

The variable remuneration provided for by Article 18 (1) sentence 6 of the Memorandum and Articles of Association was not paid in 2003 because the factual conditions were not met.

## Shareholdings

The Members of the Board of Managing Directors hold 3,060 shares in DVB Bank AG; the Members of the Supervisory Board hold 33 shares.

DVB Bank AG has exercised the option offered by section 286 (4) of the German Commercial Code to omit some of the disclosures required by section 285 No. 9b of the German Commercial Code.

€2.6 million has been set aside as provisions in respect of pension liabilities to former Members of the Board of Managing Directors and their surviving dependants.

## Consolidated statement of cash flows

The cash flow statement provides information on the changes in the Bank's cash and cash equivalents, whereby the cash flows are categorised in accordance with their designated purpose. This is compiled through using the indirect method which is based on the extended flow-of-funds statement and can be directly derived from the Group's accounting system.

According to the very narrow definition used by DVB, cash and cash equivalents only include "cash reserve" and "debt instruments of public sector entities and bills of exchange eligible for refinancing at central banks".

## Consolidated statement of cash flows of the DVB Group 2003

| | 2003 | | | Cash flow statement incl. ReiseBank & CashExpress | | | Deconsolidation effects | | | 2002 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn | € mn |
| Net income | | 71.586 | | | 71.586 | | | | | | 32.572 | |
| Non-cash items included in net income and reconciliation to cash flow from operating activities | | | | | | | | | | | | |
| Net loan loss provisions | 6.024 | 27.916 | | 6.024 | 27.916 | | | | | 19.866 | 0.022 | |
| Depreciation, write-downs and additions on fixed assets and non-trading assets | 1.271 | 16.053 | | 1.271 | 16.053 | | | | | | 15.108 | |
| Changes in provisions/reserves | 79.454 | 6.074 | | 79.454 | | | | 6.074 | | | 5.272 | |
| Changes in other non-cash items | 42.630 | | | 42.630 | | | | | | 6.670 | | |
| Profits from the disposal of fixed assets and non-trading assets | 88.198 | 0.388 | | 88.198 | 0.388 | | | | | | 39.467 | |
| Other adjustments (predominantly interest received less interest paid) | 94.821 | | | 94.821 | | | | | | 97.332 | | |
| Transfers to the fund for general banking risks | | 74.000 | | | 74.000 | | | | | | | |
| **Subtotal** | **312.398** | **196.017** | **–116.381** | **312.398** | **189.943** | **–122.455** | **0** | **6.074** | **6.074** | **123.868** | **92.441** | **–31.427** |
| | **Application of funds € mn** | **Source of funds € mn** | **Net cash flow € mn** | **Application of funds € mn** | **Source of funds € mn** | **Net cash flow € mn** | **Application of funds € mn** | **Source of funds € mn** | **Net cash flow € mn** | **Application- of funds € mn** | **Source of funds € mn** | **Net cash flow € mn** |
| Balance carried forward | 312.398 | 196.017 | –116.381 | 312.398 | 189.943 | –122.455 | 0 | 6.074 | 6.074 | 123.868 | 92.441 | –31.427 |
| Changes in assets and liabilities from operating activities after adjustment for non-cash items | | | | | | | | | | | | |
| Placements with, and loans and advances to, other banks | 245.957 | 161.554 | | 228.507 | | | 17.450 | 161.554 | | | 1,426.691 | |
| Loans and advances to customers | | 137.405 | | | 137.405 | | | | | | 173.018 | |
| Securities | | 226.627 | | | 226.627 | | | | | | 362.512 | |
| Other assets from operating activities | 27.564 | | | 23.416 | | | 4.148 | | | 150.738 | | |
| Liabilities to banks | 1,155.037 | | | 1,074.310 | | | 80.727 | | | 562.569 | | |
| Liabilities to customers | 0.200 | 12.651 | | | 12.651 | | 0.200 | | | 614.600 | | |
| Certificated liabilities | | 689.449 | | | 689.449 | | | | | 464.352 | | |
| Other liabilities from operating activities | 9.670 | 1.456 | | 9.670 | | | | 1.456 | | 68.521 | | |
| Interest and dividends received | | 382.123 | | | 382.123 | | | | | | 450.940 | |
| Interest paid | 287.302 | | | 287.302 | | | | | | 353.608 | | |
| Commissions received | | 91.235 | | | 91.235 | | | | | | | |
| Commissions paid | 2.915 | | | 2.915 | | | | | | | | |
| Extraordinary cash inflows | | 5.235 | | | 5.235 | | | | | | | |
| **Cash flow from operating activities** | **2,041.043** | **1,903.752** | **–137.291** | **1,938.518** | **1,734.668** | **–203.850** | **102.525** | **169.084** | **66.559** | **2,338.256** | **2,505.602** | **167.346** |
| Cash received from the disposal of fixed assets and non-trading assets | | 103.734 | | | 103.734 | | | | | | 19.340 | |
| Cash paid for the acquisition of fixed assets and non-trading assets | 6.291 | | | 6.291 | | | | | | 46.895 | | |
| Impact of changes in the consolidated group of companies | 24.722 | 21.423 | | | | | 24.722 | 21.423 | | | | |
| Changes due to other investing activities | | | | | | | | | | | | |
| **Cash flow from investing activities** | **31.013** | **125.157** | **94.144** | **6.291** | **103.734** | **97.443** | **24.722** | **21.423** | **–3.299** | **46.895** | **19.340** | **–27.555** |
| Cash received from capital increases | | 0.367 | | | 0.367 | | | | | | 0.177 | |
| Dividends paid | 4.509 | | | 4.509 | | | | | | 4.505 | | |
| Profit share payable on silent participations | 6.797 | | | 6.797 | | | | | | | | |
| Changes due to other financing activities | | 23.629 | | | 23.629 | | | | | 0.137 | 0.095 | |
| Retained earnings | | | | | | | | | | 28.063 | | |
| **Cash flow from financing activities** | **11.306** | **23.996** | **12.690** | **11.306** | **23.996** | **12.690** | **0** | **0** | **0** | **32.705** | **0.272** | **–32.433** |
| Cash and cash equivalents at the end of the previous period | | | 246.379 | | | 309.639 | 63.260 | | –63.260 | | | 202.281 |
| **Cash flow from operating activities** | | | **–137.291** | | | **–203.850** | | | **66.559** | | | **167.346** |
| **Cash flow from investing activities** | | | **94.144** | | | **97.443** | | | **–3.299** | | | **–27.555** |
| **Cash flow from financing activities** | | | **12.690** | | | **12.690** | | | **0** | | | **–32.433** |
| Currency translation adjustments | | | | | | | | | | | | |
| Cash and cash equivalents at the end of the period | | | 215.922 | | | 215.922 | | | 0 | | | 309.639 |

The cash flow statement shows the changes in cash and cash equivalents by structuring the cash flows and breaking these down into operating, investing and funding activities.

The allocation to the relevant operating activities is based on a very wide definition and also relates to factors impacting on the operating profit (or loss) from the ordinary banking business. The definition of cash flow from investing activities is largely limited to payments received from the disposal of tangible or financial assets and payments made for the purchase of such assets. In view of the fact that external financing by third parties is an integral part of the ordinary and therefore operating business of banks, DVB has focused the overview of the Bank's cash flow from funding activities on equity providers.

Any changes in cash and cash equivalents over the business year resulted from the three business lines, plus any net effects from exchange rate changes. Any receivables and liabilities from transactions in foreign currencies were translated at the reporting date using the spot middle rate, all foreign currency transactions being subject to specific cover.

The cash outflow from operating activities, adjusted to take into account the effects of the deconsolidation of ReiseBank AG/CashExpress GmbH, amounts to €137 million, whereas cash inflows were generated from investing activities (€94 million) and financing activities (€13 million). Cash and cash equivalents declined by €30 million.

## Consolidated Financial Statements

In its capacity as a parent company, DVB Bank AG is also a subsidiary of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main, prepared consolidated financial statements and a Group management report as at 31 December 2003 which were deposited with the Frankfurt/Main District Court (Amtsgericht Frankfurt/Main). DVB Bank AG has been included in these statements and reports.

Frankfurt/Main, 3 March 2004

**DVB Bank AG**
The Board of Managing Directors

Wolfgang F. Driese | Dagfinn Lunde | Rolf Michael Betz

## Offices held on Supervisory Boards and other controlling bodies

(Disclosure pursuant to section 285 No. 10 of the German Commercial Code)

### Supervisory Board

| | |
|---|---|
| **Dr Thomas Duhnkrack** | Chairman since 21 November 2003<br>Member of the Supervisory Board since 12 June 2003<br>Bank director (Bankdirektor)<br>Member of the Board of Managing Directors<br>DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main<br>Chairman of the Supervisory Board<br>VR-Leasing AG, Eschborn |
| **Dr Peter Scharpf** | Deputy Chairman<br>Lawyer and auditor<br>Chairman of the Board of Managing Directors<br>Verband der Sparda-Banken e.V.<br>(Association of "Sparda" Banks), Frankfurt/Main<br>Member of the Supervisory Board<br>DEVK Lebensversicherungsverein aG, Cologne<br>DEVK Allgemeine Versicherungs AG, Cologne<br>etb (european transaction bank) AG, Frankfurt/Main<br>Member of the Advisory Board<br>Bausparkasse Schwäbisch Hall, Schwäbisch Hall<br>BHW Holding AG, Schwäbisch Hall<br>Member of the Board of Directors<br>DZ BANK International S.A., Luxembourg<br>Chairman of the Foundation Council<br>Paul Wilhelm von Keppler foundation, Sindelfingen |
| **Lutz Baumgartl *** | Bank officer (Bankkaufmann), DVB Bank AG, Frankfurt/Main |
| **Axel Clemens*** | BA (Business Administration), DVB Bank AG, Frankfurt/Main |
| **Uwe E. Flach** | Bank director (Bankdirektor)<br>Chairman until 21 November 2003<br>Member of the Supervisory Board until 17 December 2003 |
| **Heinz Hilgert** | Bank director (Bankdirektor)<br>Member of the Supervisory Board until 12 June 2003 |
| **Cornelia Jung*** | Bank officer (Bankkauffrau), DVB Bank AG, Frankfurt/Main<br>Member of the Supervisory Board until 12 June 2003 |

**elected by employees*

| | |
|---|---|
| **Wolfgang Kirsch** | Bank director (Bankdirektor)<br>BA Business Management (Diplom-Kaufmann)<br>Member of the Supervisory Board since 17 December 2003<br>Deputy Chairman of the Supervisory Board<br>norisbank Aktiengesellschaft, Nuremberg<br>Member of the Supervisory Board<br>BAG Bankaktiengesellschaft, Hamm<br>Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall<br>CG Nordfleisch Aktiengesellschaft, Hamburg<br>Deutsche Genossenschafts-Hypothekenbank AG, Hamburg<br>Deutsche WertpapierService Bank AG, Frankfurt/Main<br>DZ BANK Ireland plc., Dublin<br>DZ Equity Partner GmbH, Frankfurt/Main<br>EDEKABANK AG, Hamburg<br>SÜDFLEISCH HOLDING AG, Munich<br>VR-Immobilien AG, Frankfurt/Main<br>VR-LEASING Aktiengesellschaft, Eschborn |
| **Dr Peter Klaus** | Bank director (Bankdirektor)<br>Member of the Board of Managing Directors<br>Kreditanstalt für Wiederaufbau, Frankfurt/Main<br>Member of the Supervisory Board<br>debis AirFinance BV, Amsterdam<br>Frachtcontor Junge & Co, Hamburg<br>Georgsmarienhütte Holding GmbH. Georgsmarienhütte<br>Allgemeine HypothekenBank Rheinboden AG, Frankfurt/Main<br>ThyssenKrupp Technologies AG, Essen<br>STEAG AG, Essen<br>Member of the Advisory Board<br>Germanischer Lloyd, Hamburg |
| **Hemjö Klein** | Businessman (Kaufmann)<br>Chairman of the Board of Managing Directors<br>LIVE HOLDING AG, Buchschlag<br>Chairman of the Supervisory Board<br>LCC 24 AG, Berlin<br>Board of Directors<br>Convergence CT. Inc, Pleasanton, California/USA<br>Executive Council<br>Compass Partners International Limited, London |

| | |
|---|---|
| **Hermann Möller** | Bank director (Bankdirektor)<br>Chairman of the Board of Managing Directors<br>Sparda-Bank Baden-Württemberg eG, Stuttgart<br>Chairman of the Council<br>Verband der Sparda-Banken e.V.<br>(Association of "Sparda" Banks), Frankfurt/Main<br>Member of the Supervisory Board<br>DEVK Allgemeine Lebensversicherungs AG, Cologne<br>Member of the Advisory Board<br>BHW AG, Hameln |
| **Dr Ing Manfred Mücke** | Engineer<br>Chairman of the Board of Managing Directors<br>KRAVAG-SACH Versicherung des Deutschen<br>Kraftverkehrs VaG, Hamburg<br>KRAVAG-LOGISTIC Versicherungs-AG, Hamburg<br>Member of the Board of Managing Directors<br>R+V Versicherung AG, Wiesbaden<br>R+V Allgemeine Versicherung AG, Wiesbaden<br>Chairman of the Supervisory Board<br>KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg<br>KRAVAG-HOLDING AG, Hamburg<br>Member of the Board of Directors<br>HGK Handelsgesellschaft für Kraftfahrzeugbedarf<br>mbH & Co. KG, Dusseldorf |
| **Prof Dr Manfred Schölch** | Lawyer<br>Deputy Chairman of the Board of Managing Directors<br>Fraport AG, Frankfurt/Main<br>Chairman of the Supervisory Board<br>Flughafen Frankfurt-Hahn GmbH, Frankfurt-Hahn |
| **Rosemarie Schur-Heimann**** | Bank employee, ReiseBank AG, Stuttgart |
| **Wolfgang Weber*** | Bank employee, ReiseBank AG, Frankfurt/Main<br>Member of the Supervisory Board since 12 June 2003 |

**elected by employees*
*** appointed by the court as of 5 September 2000*

## Committees of the Supervisory Board

### Credit Committee

| | |
|---|---|
| **Dr Thomas Duhnkrack** | Designated Chairman from 21 November 2003 with effect from 17 December 2003 |
| **Uwe E. Flach** | Chairman until 17 December 2003 |
| **Dr Peter Klaus** | Deputy Chairman |
| **Axel Clemens** | Member |

### Executive Committee

| | |
|---|---|
| **Dr Thomas Duhnkrack** | Chairman from 21 November 2003 |
| **Uwe E. Flach** | Chairman until 21 November 2003 |
| **Dr Peter Scharpf** | Deputy Chairman |
| **Lutz Baumgartl** | Employee representative |

### Board of Managing Directors

**Wolfgang F. Driese**

Chairman of the Board of Managing Directors
- DVB Bank AG, Frankfurt/Main

Chairman of the Supervisory Board
- Nedship Bank N.V., Rotterdam
- DVB Nedship Bank America N.V., Curaçao
- ReiseBank AG, Frankfurt/Main, until 27 October 2003
- CashExpress GmbH, Frankfurt/Main, until 27 October 2003

Deputy Chairman of the Supervisory Board
- ReiseBank AG, Frankfurt/Main, since 28 October 2003
- CashExpress GmbH, Frankfurt/Main, since 28 October 2003

Member of the Supervisory Board
- KRAVAG-SACH VvaG, Hamburg

Chairman of the Board of Directors
- International Transport Finance Ltd., London

Member of the Board of Directors
- DVB Capital Partners Ltd., London
- DVB Group Merchant Bank Asia Ltd, Singapore
- Navigation Finance Corporation Ltd., Greenwich, Connecticut/USA

| | |
|---|---|
| **Dagfinn Lunde** | Member of the Board of Managing Directors<br>DVB Bank AG, Frankfurt/Main<br>Chairman and CEO<br>Nedship Bank N.V., Rotterdam<br>Member of the Board of Directors<br>DVB Bank AG, New York<br>DVB Group Merchant Bank Asia Ltd, Singapore<br>DVB Capital Partners Ltd., London<br>Navigation Finance Corporation Ltd., Greenwich, Connecticut/USA<br>Member of the Supervisory Board<br>DVB Nedship Bank America N.V., Curaçao<br>ReiseBank AG, Frankfurt/Main, until 31 December 2003<br>CashExpress GmbH, Frankfurt/Main, until 31 December 2003 |
| **Rolf Michael Betz** | Member of the Board of Managing Directors since 1 April 2003<br>DVB Bank AG, Frankfurt/Main<br>Deputy Chairman of the Supervisory Board<br>VB Investmentbank AG, Vienna, until 22 September 2003<br>syskoplan AG, Gütersloh, until 20 October 2003<br>Member of the Supervisory Board<br>DZ Unternehmerpartner GmbH, Frankfurt/Main, until 9 May 2003<br>Fördergesellschaft für Börsen und Finanzmärkte in Mittel- und Osteuropa, Frankfurt/Main, until 18 July 2003<br>BRAIN FORCE SOFTWARE AG, Vienna, until 12 June 2003<br>F.X. Nachtmann Crystal AG, Neustadt a.d. Waldnaab, until 18 February 2003 |

## Auditors' opinion

We have audited the financial statements of DVB Bank AG, Frankfurt/Main, together with its consolidated financial statements and its Management Report, covering both the company and the entire Group for the business year beginning 1 January and ending 31 December 2003. The company's legal representatives are responsible for the preparation of these documents in accordance with the German Commercial Code. Having conducted an audit which included the accounting records, our responsibility is to express an opinion on the Financial Statements and the Management Report of both the company and the entire Group.

We conducted our audit in accordance with section 317 of the German Commercial Code, observing the generally accepted German auditing principles as laid down by the German Institute of Auditors (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance on whether the Financial Statements and the Consolidated Financial Statements, based on generally accepted accounting principles, and the Management Report for both the company and the entire Group are free of material misrepresentations and present a true and fair view of the net worth, financial position and results of the company. In determining specific actions within the scope of our audit, we considered the company's business activities as well as its economic environment and legal structure. Expectations regarding potential sources of error were also taken into account. The conduct of an audit includes examining the effectiveness of the company's internal control systems and, on a sample basis, evidence supporting the information contained within the accounting records and disclosed in the Financial Statements and the Consolidated Financial Statements as well as in the Management Report for both the company and the entire Group. The scope of an audit also includes assessing the accounting principles and consolidation policies used and the significant estimates of the company's legal representatives, as well as evaluating the overall presentation of the Financial Statements, Consolidated Financial Statements and the Management Report for both the company and the entire Group. We are confident that our audit provides a sufficiently sound basis on which to make an assessment. Our audit led to no objections.

In our opinion, both the Financial Statements and the Consolidated Financial Statements present, in compliance with generally accepted accounting principles, a true and fair view of the company's and the Group's net worth, financial position and results. The Management Report gives a true and fair overall view of both the company's and the Group's situation and of any risks inherent in future developments.

Frankfurt/Main, 4 March 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Rönnberg | ppa. Thomas |
| Wirtschaftsprüfer<br>(German Chartered Accountant) | Wirtschaftsprüfer<br>(German Chartered Accountant) |

# Report of the Supervisory Board

**Dear shareholders,**

The Supervisory Board and the committees established from among its members have fulfilled the obligations imposed on them by the applicable statutes and the Bank's Memorandum and Articles of Association, decided on transactions requiring approval and continuously supervised the management of DVB Bank AG and the DVB Group during the business year 2003.

The Board of Managing Directors has regularly and comprehensively informed the Supervisory Board and its committees about the business policies to be pursued and about fundamental issues regarding company management and corporate planning, including financial, investment and human resources planning. The Supervisory Board has also been kept informed by the Board of Managing Directors, on a timely basis, of the business development and overall situation of DVB Bank AG and the DVB Group and about significant transactions. The Supervisory Board conferred with the Board of Managing Directors on the aforementioned matters. Furthermore, regular consultations concerning the Bank's strategy, business development and risk management took place between the Chairman of the Board of Managing Directors and the Chairman of the Supervisory Board in addition to such meetings. This served to ensure a steady flow of information and exchange of views between the Supervisory Board and the Board of Managing Directors throughout the 2003 business year.

**Meetings of the Supervisory Board**

The Supervisory Board met for a total of four plenary sessions in 2003. In addition to the customary information regarding the business development of the Bank, its individual divisions and core areas of business, the Board of Managing Directors regularly provided reports on the state of affairs within the various Transport Finance divisions and Group subsidiaries and informed the Supervisory Board about potential risk exposures in these areas. Within the framework of regular presentations by the Board of Managing Directors and individual department heads, the members of the Supervisory Board were able to gain an up-to-date impression of current developments in the Bank's core areas.

The emphasis of the session held on 24 March 2003 was on the key data contained in the financial statements for 2002. In addition, the Supervisory Board resolved and approved the amendments to the internal regulations of the Supervisory Board, the Executive Committee and the Board of Managing Directors arising out of the Declaration of Compliance regarding the German Corporate Governance Code. Mr Rolf Michael Betz was appointed a full Member of the Board of Managing Directors with effect from 1 April 2003.

At the meeting on 20 May 2003, the Supervisory Board and the Board of Managing Directors discussed fundamental business planning issues, in particular the key features of long-term planning for 2004 through 2007. In the session on 17 September 2003, the Supervisory Board focused its attention on the sale and transfer of the DVB Bank AG's stake in DVB Holding GmbH and the latter's subsidiaries, ReiseBank AG and CashExpress GmbH.

The last meeting of the year took place on 21 November 2003. During this meeting, the Board of Managing Directors informed the Supervisory Board, inter alia, about the Bank's proposed concept to manage its ability to carry and sustain risk and the planning framework for 2004. The Supervisory Board approved the investment budget. The members of the Supervisory Board took note of the Corporate Governance Code (as amended on 21 May 2003) and issued a Declaration of Compliance jointly with the Board of Managing Directors. Finally, Dr Thomas Duhnkrack was elected as successor to Mr Uwe E. Flach, who retired from the Supervisory Board following the Extraordinary General Meeting on 17 December 2003.

*Dr Thomas Duhnkrack*

**Committees of the Supervisory Board**

At its four meetings, the Credit Committee discussed in detail and in good time all credit exposures that had to be submitted by virtue of law, or under the Bank's Memorandum and Articles of Association, as well as more sizeable exposures or those exposures subject to higher risks. Where required, the Committee approved the respective applications. In the course of the meetings, risk management and the Bank's internal rating model were discussed in addition to the structure of the loan portfolio. Credit, market, country and liquidity risks together with operational risks were discussed in depth. The Board of Managing Directors kept the members of the Credit Committee regularly informed about non-performing exposures, those exposures subject to particular risks and unusual events in the credit sector.

In the course of two meetings during the period under review, the Executive Committee concentrated on personnel matters pertaining to the Board of Managing Directors and other tasks delegated to the Committee by the Supervisory Board. Furthermore, the Committee was kept informed by the Board of Managing Directors, as requested and always in good time, of the conclusion of employment contracts with executive staff whose annual remuneration was in excess of a set threshold.

The Annual General Meeting held on 12 June 2003 elected Dr Thomas Duhnkrack as a Member of the Supervisory Board for the residual term of office of Mr Heinz Hilgert who retired from his office with effect from the end of the aforementioned Annual General Meeting. At the Extraordinary General Meeting on 17 December 2003, Mr Wolfgang Kirsch was elected as a Member of the Supervisory Board for the residual term of office of Mr Uwe E. Flach, who retired from his office with effect from the end of the aforementioned Extraordinary General Meeting.

The Accounts, the Financial Statements and the Management Report of DVB Bank AG, as well as the Consolidated Financial Statements and the Group Management Report of DVB Group for the business year 2003 have been examined in accordance with the German

Commercial Code and certified without qualification by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the external auditors appointed by the Annual General Meeting. The auditors' reports were distributed to all members of the Supervisory Board in good time before the balance sheet meeting held on 11 March 2004. The auditors who certified the Financial Statements and Consolidated Financial Statements were present at this meeting and at the meeting of the Credit Committee on 4 March 2004. During both meetings, they gave an account of their audit as a whole and on major individual items and provided detailed answers to questions from the members of the Supervisory Board. The Supervisory Board's subsequent examination at the plenary meeting of the Financial Statements, the Consolidated Financial Statements, the Management Report and the Group Management Report as at 31 December 2003, as presented by the Board of Managing Directors together with its proposal for the appropriation of distributable profit, gave no cause for objections. The Supervisory Board approves the Financial Statements as at 31 December 2003 prepared by the Board of Managing Directors, which are thus confirmed. The Board of Managing Directors' proposal for the appropriation of the net retained profit and the payment of a dividend of €1.50 per share plus a bonus of €0.50 per share, is also endorsed by the Supervisory Board.

The Board of Managing Directors has prepared and submitted the mandatory report on business relationships with affiliated enterprises during the business year 2003; this report has been examined and certified without qualification by the external auditor, as follows: "Having duly examined and assessed this report in accordance with professional standards, we confirm that the report is free from factual misrepresentations and that the company did not pay any excessive consideration with regard to the transactions identified in the report." Following its review and examination of the report on business relationships with affiliated enterprises, the Supervisory Board approves the results of the audit of the financial statements. In particular, the Supervisory Board has no objections regarding the declaration made by the Board of Managing Directors pursuant to section 312 (3) of the German Stock Corporation Act.

The Supervisory Board would like to thank Messrs. Uwe E. Flach and Heinz Hilgert for their contributions as members of the Supervisory Board. Special thanks are due to Mr Flach for his long-standing, valuable and constructive role as Chairman of the Supervisory Board. Through immense personal commitment and his extensive professional experience, he made a huge contribution to the work of the Supervisory Board during a restructuring phase of vital importance to the Bank. The Supervisory Board would also like to thank the Board of Managing Directors and all employees for their strong personal commitment.

Frankfurt/Main, 11 March 2004
For the Supervisory Board

Thomas Duhnkrack

Dr Thomas Duhnkrack
Chairman

# Responsibilities of the Board of Managing Directors

(as at: April 2004)

| | Wolfgang F. Driese | Dagfinn Lunde | Rolf Michael Betz |
|---|---|---|---|
| Client Areas | **Aviation**<br>**Head of Industry**<br>David Goring-Thomas | **Shipping**<br>**Head of Industry**<br>Dagfinn Lunde | **Land Transport**<br>**Head of Industry**<br>Martin Metz |
| | | | **Transport Infrastructure**<br>**Head of Industry**<br>Karsten T. Landgraf |
| | **Credit Aviation**<br>Carsten Gutknecht-Stoehr | **Credit Shipping**<br>Dieter Bulling | **Credit Land and Infrastructure**<br>Mario Schubert |
| | **Aviation Industry Research**<br>Bert van Leuuwen | **Research & Strategic Planning**<br>Riaz Khan | |
| | | **Container Business**<br>Eric Snellen | |
| | **Distribution**<br>Alpa Shah<br>**D-Marketing**<br>Rainer Nothwang | | **DVB Capital**<br>**Advisory**<br>Geir Sjurseth<br>**Investment Management**<br>Bote de Vries<br>**Structured Asset Finance**<br>Gerrit Dekker<br>**Capital Markets**<br>Anthony C. Argyropoulos |
| Product/ Service Areas | **Group Corporate Communications**<br>Prof Dr Borislav Bjelicic | **Group Accounting and Taxes**<br>Dr Oliver Bernards | **Group Audit**<br>Elena Segerbarthold<br>Andrew Williams |
| | **Group Risk Management**<br>Rolf Buettner | **Group Financial Controlling**<br>Martin Kinzel | **Group Treasury**<br>Michael Braumoeller |
| | **Inhouse Consulting**<br>Hermann Siegling | **Group Human Resources**<br>Andreas Guertler | |
| | | **Central Compliance Office**<br>Arno Grunhold<br>Guenter Spieker | |
| | | **Operations & IS Information Systems & Organisation**<br>Richard Groeneveld | |
| Subsidiaries | **DVB LogPay GmbH**<br>Michael Heinz<br>Dr Horst Winzer | | |
| | **DVB Processing GmbH**<br>Walter Bucher | | |
| | **International Transport Finance Ltd.**<br>Graham Grover | | |

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(as at: 23 April 2004)


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**www.dvbbank.com**

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# IT'S ALL ABOUT RELATIONSHIPS

**MT Maritime Management Group**

Senior Secured
Revolving Credit Facility

USD 75,200,000
Co-Arranger

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Operating Lease Facility of

1 x MD-11CF

Equity provider:
Millennium Aircraft Leasing
Company Ltd.

Debt Agent

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DVB Structured Asset
Finance is advising
Cargolux on aircraft
financing in the form of a
Joint Venture structure

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**CIDO**

Term Loan

USD 87,415,652
Arranger & Agent

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DVB assisted Atlas
with financing
in connection with their
acquisition of
an aviation financing
company from
ABB Financial Services AB

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**Dynacom
Tankers Management Ltd.**

Pre- and Post-Delivery
Financing of
two crude tanker suezmaxes

USD 73,600,000
Arranger, Underwriter &
Agent

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DVB Capital advised
the company in connection
with their bid for
American Eagle Tankers

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**Curaçao Airport
Partners N.V.**

Project Finance
International Airport Curaçao

USD 37,000,000
Financial Adviser, Mandated Lead
Arranger & Agent

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**Crowley Maritime
Corporation**

Senior Secured
Term Loan

USD 30,000,000
Arranger & Facility Agent

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Japanese Operating
Lease Facility of

1 x B737-700
and
2 x A320-200

on leases arranged by
Fuyo General Lease Co., Ltd

Debt Arranger/Agent

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**Teekay Shipping
Corporation**

Senior Secured
Term Loan

USD 180,000,000
Lead Arranger &
Facility Agent

---

**ACF Industries, Inc.**

1,593 Covered Hopper
and Tank Railcars

USD 80,000,000
Co-Arranger

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DVB Capital advised
the company in
connection with
raising private equity
for financing the company´s
growth strategy

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**Middle East Airlines**

Avion Capital Ltd.

Finance Lease Facility
1 x A321-200

Agent

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NFC Shipping Funds entered
into 7 new transactions
with gross project value
in excess of
USD 100,000,000
involving Container vessels,
Dry Bulk Panamax vessels,
Crude Oil Tankers and
Product Tankers

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**Gateway Container
International Limited**

Asset-Backed
Securitisation Program

USD 240,000,000
Co-Underwriter

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**Alaska Airlines**

Term Loan Facility
B737-900

Arranger & Agent

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**Fahrzeugmanagement
Region Frankfurt
RheinMain GmbH**

Structured Financing of
22 Bombardier Itino DMU´s

EUR 40,000,000
Debt Arranger & Agent

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**ALAFCO**

Term Loan Facility
2 x B737-800

Arranger & Agent

---

DVB Capital advised
the CSL Group in
connection with
their bid for
Tordenskjold ASA´s
cement carrier business

# SOME IMPORTANT DEALS 2003

**P&O Nedlloyd Container Lines Ltd.**

Pre- and Post-Delivery Secured Term Loan

USD 236,000,000
Lead Arranger

DVB

Structured Asset Finance co-arranged structured operating leases for several Boeing aircraft on lease to Qantas

USD 250,000,000

DVB

**San Diego Expressway L.P.**

Project Finance
SR 125 South Project Toll Road

USD 400,000,000
Arranger

DVB

**Hoyer GmbH**

Financing for Tank container fleet

EUR 14,000,000
Sole Debt provider

DVB

**Bulktransfer Inc.**

Financing of three Panamax transloaders

USD 43,000,000
Arranger

DVB

NFC Shipping Funds exited 5 investments with gross project value in excess of USD 50,000,000 involving Container vessels, Self unloading Bulk Carriers, Reefer vessels, Offshore Supply Vessels and Product Tankers

DVB

**Silja Lines**

Post Acquisition Finance

USD 395,000,000
Senior Manager

DVB

DVB Capital is advising the company in connection with their bid for up to 71% of Shipping Corporation of India

DVB

**MSC Mediterranean Shipping Company SA**

Post Acquisition Financing

USD 75,000,000
Arranger & Lender

DVB

**Korean Air**

Financing of 3 x B737-900

Joint Arranger

DVB

**Mesa Airlines**

U.S. Leveraged Lease Debt
2 x CRJ-700

Agent

DVB

**Unique Zurich Airport**

US Lease to Service Contract Structure True debt Financing for modern airport car parks

USD 296,000,000
Joint Arranger

DVB

**Bonny Gas Transport Ltd.**

Vessel Finance

USD 169,000,000
Participant

DVB

**WSO Finance Pty Limited**

Project Finance
Western Sydney Orbital Toll Road

AUD 1,250,000,000
Participant

DVB

**Finland RORO KS**

Financing of five RORO Vessels on time charter to Finnlines PLC

USD 38,000,000
Arranger & Underwriter

DVB

**Club Méditerranée**

Term Loan to finance the acquisition of the Sailing Cruise Vessel Club Med 2

EUR 25,000,000
Arranger & Underwriter

DVB

DVB Capital advised the company in connection with their reefer business strategy

DVB

**Siemens Dispolok GmbH**

Operate Lease Financing for Siemens Diesel & Electric Loco Fleet

EUR 210,000,000
Co-Lead Arranger

DVB

**British Mediterranean Airways**

Operating Lease Facility of

1 x A320-200

Equity provider:
Millennium Aircraft Leasing Company Ltd.

Debt Agent

DVB

**World-Wide Shipping**

Post Acquisition Term Loan

USD 1,300,000,000
Co-Arranger

DVB

This announcement appears as a matter of record only.

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**Risks inherent in forward-looking statements**

This Annual Report contains forward-looking statements, including statements concerning the future development of DVB. These statements are based on assessments and forecasts which, in turn, are based on assumptions.

We wish to point out that these assessments and forecasts will always be subject to the risk of erroneous perception or errors of judgement and may, therefore, turn out to be incorrect. By their very nature, any deliberations regarding developments or events in the future are conjecture rather than precise predictions. Future developments may indeed diverge from expectations, not least as a result of fluctuations in capital market prices, exchange rates or interest rates, or as a result of fundamental changes in the economic environment.

Although we believe that our forward-looking statements are realistic, for the reasons referred to above we cannot accept any responsibility as to whether such statements will actually materialise. We do not intend to update any of the forward-looking statements made in this report.

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Manager Investor Relations
Marion Hein
Investor Relations

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of DVB Bank AG (page 5):
René Spalek, Offenbach/Main,
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Chairman of the Supervisory Board
of DVB Bank AG (page 129):
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