IKB. Annual Report 2000/2001

IKB Deutsche Industriebank

IKB Key Figures

Balance Sheet Figures	March 31, 2001	March 31, 2000	Change in %
	in EUR million		
Total assets	32 442	29 941	8.4
Claims on customers	24 332	22 635	7.5
Liabilities to banks	15 176	13 181	15.1
Securitised liabilities	10 825	10 803	0.2
Total liable funds	2 565	2 243	14.4

Income Statement Figures	2000/2001	1999/2000	Change in %
	in EUR million		
Net interest income	438.0	419.7	4.4
General administrative expenses	176.6	166.3	6.2
Risk provisioning balance	– 183.5	– 165.5	10.9
Result from ordinary activities	174.9	170.8	2.4
Net income for the year	85.9	75.5	13.8
Net income for the year of the AG	98.1	88.1	11.4
Total dividends (incl. tax credit)	96.8	96.8	0.0

Selected Ratios	March 31, 2001	March 31, 2000
Return on equity	16.8 %	16.4 %
Cost-income ratio	37.2 %	39.2 %
Equity ratio (Principle I)	10.7 %	9.8 %
Tier 1 capital ratio	6.1 %	5.5 %
Number of employees	1 314	1 248

Figures concerning the IKB Share	2000/2001	1999/2000
Result per share	EUR 1.99	EUR 1.94
Dividend per share	EUR 0.77	EUR 0.77
Tax credit	EUR 0.33	EUR 0.33
Dividend yield as of balance sheet date (incl. tax credit)	6.9 %	6.5 %
Highest share price in the financial year	EUR 17.45	EUR 20.00
Lowest share price in the financial year	EUR 15.55	EUR 16.20
Share price as of balance sheet date	EUR 15.85	EUR 16.95
Number of shares (balance sheet date)	88.0 million	88.0 million
Market capitalisation (balance sheet date)	EUR 1.4 billion	EUR 1.5 billion

IKB Shareholders	
Stiftung Industrieforschung	11 %
Allianz AG	20 %
Other insurance companies	25 %
Private and institutional shareholders	44 %

Officially quoted at the Stock Exchanges in Berlin, Düsseldorf, Frankfurt, Hamburg, Munich, and Stuttgart

The peaks and troughs of the New Economy have dominated the business headlines in recent months; developments in the Old Economy during this period have received far less public attention. As a result, many remain unaware of the strong impulses of innovation often triggered by dynamic young companies, now affecting the "old" sectors of industry. We thus welcome, that IKB in this report discusses in detail the multifaceted effects resulting from the interplay of the Old and New Economy. It is above all established, medium-sized companies that are seizing on fresh ideas and impulses from the New Economy, thereby tapping into its huge potential for innovation, and laying the groundwork for a thoroughgoing modernisation of the Germany economy.

As a bank committed to *Mittelstand* enterprise, IKB facilitates and encourages this process of innovation. Drawing on its special expertise in the field of long-term financing, last year the bank once again helped many medium-sized companies to develop successful concepts for investing in future growth. For their great efforts on behalf of young, innovative and medium-sized companies, we owe IKB and its staff our sincere appreciation and thanks.

Dr. Michael Rogowski
President
Federation of German Industry (BDI)

Dear Shareholders,

During the 2000/2001 financial year, we systematically extended the divisional structure introduced the year before. For the customer relationship officers in our core business sector, Corporate Lending, this has meant the added challenge of having to provide even more comprehensive financing advice, as they are now tasked with offering our customers the complete IKB spectrum of financing services, ranging from conventional lending through to leasing, structured financing and equity. Whenever they deem it appropriate, these customer relationship officers can use the bank's Networked Sales system to draw on the financing expertise of other divisions. In this way, our customers receive highly qualified advice concerning IKB's entire range of long-term lending and equity financing products.

But our customer relationship officers in the Real Estate Financing, Structured Financing and Equity Divisions are also faced with new challenges.

In the Real Estate Division, efforts continued to focus on welding all of our real estate activities – including those of our subsidiaries – into a single, powerful unit. This included the hiring of qualified real estate and financing experts, the development of new financing products, as well as the reorien-

tation of our marketing activities in order to reinforce the gain of commission income by means of advisory services.

Our Equity Division was hit in particular by the downturn in the stock markets. At the beginning of the financial year there were still five to six companies in the participation portfolio of IKB Venture Capital GmbH ready to take the IPO plunge; but the collapse in share prices in the Neuer Markt rendered this impossible. Accordingly, we were unable to come even close to meeting our ambitious targets for the period under review.

Our Structured Finance Division continued to press ahead with its strategy of internationalisation. On the one hand, this involves acquisition financing in Europe, where, in recent years – and due not least to our branches in London and Paris – we have now emerged as a significant player; we fully intend to expand on this strong position. On the other hand, this applies equally to the United States, where we founded IKB Capital Corporation in New York in order to gain greater access to the local market.

Taken together, these division-level activities form a basis for sound growth, enabling us to improve still further our market position and earnings performance both at home and abroad in the current and coming financial years.

The Trend in Earnings

During the financial year ending at March 31, 2001, the results of the IKB Group developed as follows: net interest and commission income rose by 5.5 % to EUR 451 million. As planned, administrative expenses grew by 6.2 % to EUR 177 million. This was due not least to the hiring of highly qualified new staff made necessary by the expansion of our operational divisions. The result from ordinary activities rose by 2.4 % to EUR 175 million. Return on equity reached 16.8 % (1999/2000: 16.4 %), the cost-income ratio came to 37.2 % (1999/2000: 39.2 %). In light of these developments, the Board of Managing Directors and the Supervisory Board propose a dividend payment of EUR 0.77, in line with the figure for the previous year. Including the corporation tax credit, eligible shareholders will receive a gross dividend of EUR 1.10 per share. Based on the bank's share value at the balance sheet date (March 31, 2001), this corresponds to a gross dividend yield of 6.9 %.

The Basle Accord

For our customers, the Basle Accord continues to be a source of considerable concern. The fact that in future every company will have to undergo a rating process, leading to a spread of credit margins and possibly causing banks to subject borrowers to more stringent selection criteria, has been especially worrisome for Germany's Mittelstand of medium-sized companies.

This has prompted us to provide our customers with comprehensive information and advice on the topic. Last autumn, we held informational events at all of our branch offices, which were extremely well received by our customers. This spring we issued a brochure on the Basle Accord, several thousands of which were requested by our customers within a matter of weeks. This informational campaign was accompanied by a large number of workshops at which we discussed with our customers all questions and problems relating to the Basle Accord.

It is precisely in this modified competitive environment that we wish to remain a reliable partner of Germany's Mittelstand.

For IKB itself, the Basle Accord means that – even more than before – the question of equity has become a matter of central strategic concern. Thus, in the period under review, we outplaced loan risks on the basis of a credit volume of EUR 2.5 billion in the form of collateralised loan obligations (CLO) in close co-operation with Kreditanstalt für Wiederaufbau. This was the first transaction of its kind ever to take place in Germany.

As a result of this outplacement, we succeeded in easing the pressure on our Principle I equity, as well as improving our return on equity, and not least of all in laying the groundwork for growing the bank's loan business. Attracting lending business with the emphasis firmly on strong financial standing and structural diversity was – and is – a prerequisite for this.

In future, too, our objective is to outplace loan risks via CLO transactions in order to avoid capital increases – and the accompanying dilution effect – or delay them respectively.

IKB Stock

Last year the stock markets were highly unsettled. In such a turbulent environment, IKB shares displayed a high degree of stability. Although we were unable to avoid entirely the downward trend in the markets, the IKB share price proved on the whole to be comparatively stable, with the bank's positive earnings performance, high dividend yield, and – by no means least – a convincing reorientation of Group structure all combining to make it an attractive investment.

This has been confirmed in numerous discussions with German and international analysts and investors. Only recently, an in-depth study by the investment bank Credit Suisse First Boston (CSFB) concluded that IKB enjoys a unique position in German banking, with every opportunity to turn this factor into increased earnings.

Accordingly, we look with optimism to the future development of the bank, encouraged by a number of important considerations:

- IKB has as its clients Germany's most successful medium-sized enterprises

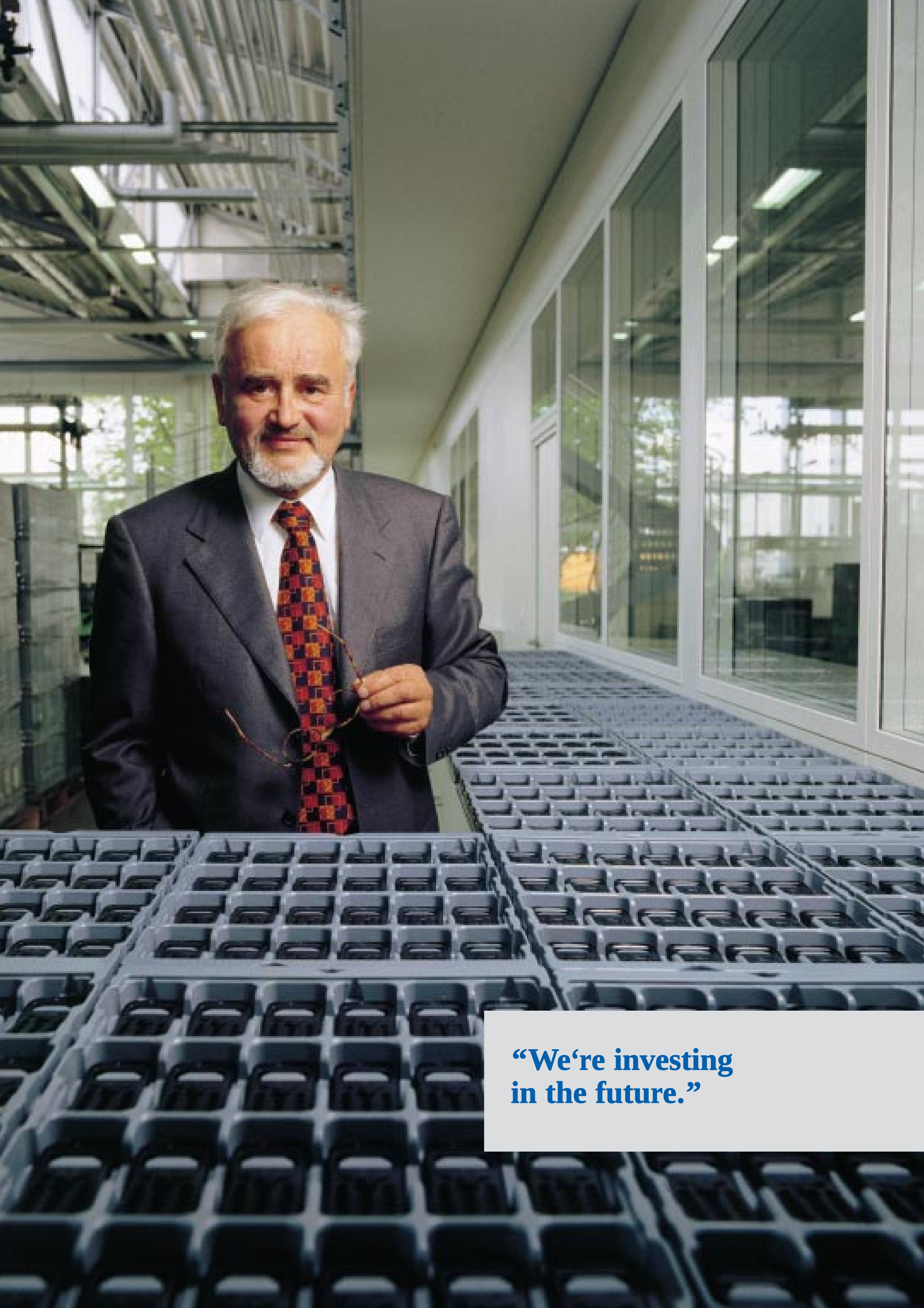
- by reorganising the bank into operational divisions, we are able to offer every important product in the field of long-term lending and equity finance

- our people are experienced and highly motivated; they enjoy the complete confidence of our customers

- our Networked Sales system is enabling us to exploit new synergies and generate additional earnings.

You are cordially invited to attend our General Meeting, which will take place at 11 o'clock on September 7, 2001, at the Maritim proArte Hotel Berlin, Friedrichstrasse 151, 10117 Berlin.
We very much look forward to seeing you there.

Dr. Alexander v. Tippelskirch
Chairman of the Board of Managing Directors
IKB Deutsche Industriebank AG



“We‘re investing in the future.”

OECHSLER AG, Ansbach

Dipl.-Ing. Justus M. Leyde
CEO

It's not by chance that this company, founded in 1864 by button-maker Matthias Oechsler, is known today for top quality high-tech plastics. Dynamism and open-mindedness with regard to new developments are the source of OECHSLER AG's extraordinary success. The company specialises in the manufacture of precision plastic components and subassemblies, primarily for the automotive, medical and electrical engineering sectors. The value-added chain is strengthened by such activities as product development, prototyping, product management and highly specialised tool making. Today, the company employs 800 people at three locations.

Conquering new Markets with innovative Products

"Our future will be secure only if we constantly adapt to new challenges – a principle that's firmly anchored in our corporate philosophy", confirms Dr. Claudius Kozlik, COO. The company implements this policy by applying the latest technologies and state-of-the-art equipment, as well as by tapping into new fields of business. The success of this formula has been demonstrated by OECHSLER time and again. Numerous awards and prizes, including the prestigious Bavarian Prize for Innovation last year, confirm the huge potential for innovation embodied in this medium-sized enterprise. The latest coup is a completely new type of high-precision gearing. What's special about the company's patented "WAVE DRIVE" principle is that all the parts are made of plastic, which, as opposed to conventional manufacturing, can be cheaply produced using injection moulding. This project enjoys the backing of the Bavarian High-Tech Offensive programme and the Bavarian Research Foundation.

Another forward-looking area is the comparatively new field of manufacturing injection-moulded parts including electrical leads. Here, 3D-MID (moulded interconnected devices) technology is used, an area whose potential OECHSLER was quick to recognise, and whose future possibilities it continues to explore. This technique is gaining in importance, particularly when mechanical, electronic and information technologies are interlinked to create "mechatronical" subassemblies.

New Impulses through mobile Communication

There's no question that OECHSLER's order book has benefited greatly from fast growth in the communications sector. For instance, within the framework of a strategic partnership, the company is supplying SIEMENS with assembled housings for the latest generation of mobile phones. OECHSLER was quick to take on the role of system supplier, completely automating the fabrication and assembly of components and subassemblies.

Huge Potential for Growth

The dynamism of the company, which IKB Deutsche Industriebank AG and IKB Beteiligungsgesellschaft mbH have furnished with capital, remains unbroken. This year, with its order book full, the company substantially increases its sales. By successfully converting OECHSLER into a joint stock company last year, Justus Leyde and Dr. Claudius Kozlik have laid the groundwork for further growth, opening a new chapter in the history of the company.

IKB and its Customers

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Federal Ministry of Finance

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Dipl.-Ing. Hans Peter Stihl, Waiblingen
Personally Liable Partner and Chairman of
the Board of Managing Directors
STIHL AG

Ulrich Wernecke, Düsseldorf*

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

* Elected by the staff

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President
WGL – Wissenschaftsgemeinschaft
Gottfried Wilhelm Leibnitz e.V

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tegut... Gutberlet Stiftung & Co.

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ERGO-Versicherungsgruppe AG

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Döhler-Euro Citrus Natural Beverage
Ingredients GmbH

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Kleinewefers Beteiligungs-GmbH

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Zschimmer & Schwarz Chemie GmbH

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Hugo Kern und Liebers GmbH & Co.

Dipl.-Kfm. Rainer Thiele, Halle/Saale
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KATHI Rainer Thiele GmbH

Dr. Karl V. Ullrich, Freiburg i. Br.
Managing Director
WVIB Wirtschaftsverband Industrieller
Unternehmen Baden e.V.

Dr. Martin Wansleben, Frankfurt (Main)
Managing Director
Verbandes Deutscher Maschinen- und
Anlagenbau e.V.

Dr. Ludolf v. Wartenberg, Berlin
Managing Director
Federation of German Industry

Dr. Axel Wiesenhütter, Kaiserslautern
Managing Partner
Schuster & Sohn Kommanditgesellschaft

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Heidelberger Zement AG

Board of Managing Directors

Claus Momburg

Joachim Neupel

Stefan Ortseifen

Georg-Jesko v. Puttkamer

Dr. Alexander v. Tippelskirch

Dr. Markus Guthoff (Deputy)

Market Units and their Heads

Corporate Lending

Leo von Sahr	Berlin-Leipzig
Wolf-Herbert Weiffenbach	
Helmut Laux	Düsseldorf
Willi Rugen	Frankfurt
Hajo Köhler	Hamburg
Burckhard W. Richers	
Norbert Mathes	Munich
Dr. Klaus Eisele	Stuttgart
Joachim Rostek	

Real Estate Financing

Joachim Schwarz	Berlin
Klaus Neumann	Düsseldorf

Equity

Rolf Brodbeck	Düsseldorf
Anne Osthaus	
Walter Zickenrott	

Structured Financing

Dr. Frank Schaum	Düsseldorf
Stefan Rensinghoff	Frankfurt

Treasury and Financial Products

Michael Braun	Düsseldorf
Winfried Reinke	

Divisions Co-ordination

Frank Braunsfeld	Düsseldorf
Clemens Jahn	
Theodor Kruse	
Paul-Eduard Meyer	

Central Divisions and their Heads

Accounting and Taxes
Jürgen Rauscher

Controlling
Christoph Müller-Masiá

Organisation and Information Management
Manfred Knols

Personnel and Service
Martin Verstege

Legal Department and Office of the Board of Managing Directors
Panagiotis Paschalis

Internal Audit
Dr. Manfred Pütsch

Risk Management
Claus-Dieter Wagner

Corporate Development
Frank Schönherr

Economics, Investor Relations and Public Relations
Dr. Kurt Demmer
Dr. Gert Schmidt

Subsidiaries and their Heads

IKB Capital Corporation, New York
David Snyder

IKB International S. A., Luxembourg
Dr. Alfons Schmid
Raphael Karl Walisko

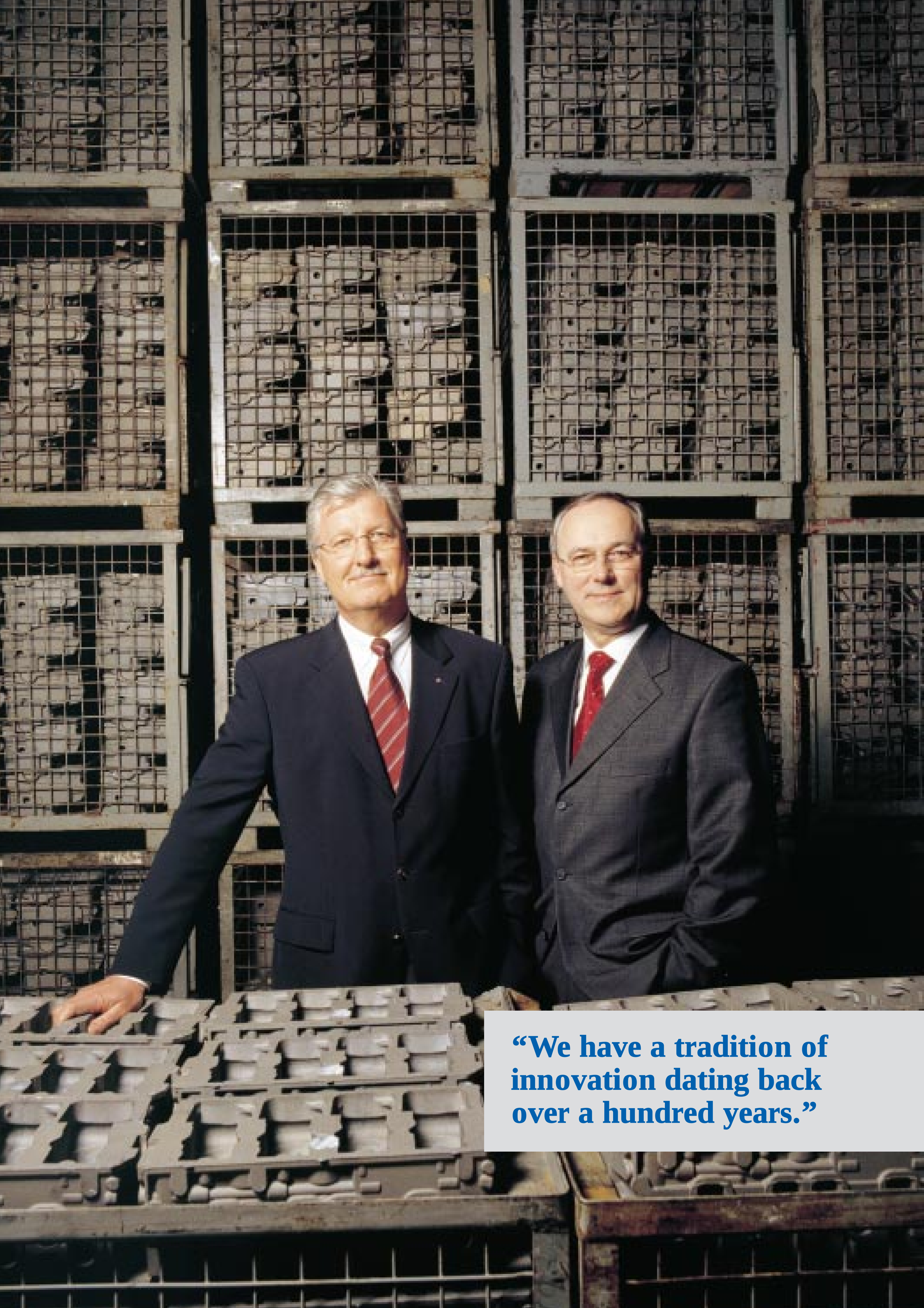
IKB Beteiligungsgesellschaft mbH, Düsseldorf
Rolf Brodbeck
Walter Zickenrott

IKB Venture Capital GmbH, Düsseldorf
Anne Osthaus
Walter Zickenrott

IKB Leasing GmbH, Hamburg
Wolfgang Brzuska
Michael Fichter
Wilhelm Lindemann

IKB Immobilien Leasing GmbH, Düsseldorf
Alexander Boye
Norbert W. Porten
Heribert Wicken
Heinz Winkendick

IKB Immobilien Management GmbH, Düsseldorf
Theodor Honrath
Dr. Fritz Kehlbeck
Mauritz von Strachwitz
Heribert Wicken



“We have a tradition of innovation dating back over a hundred years.”

Rautenbach AG, Wernigerode

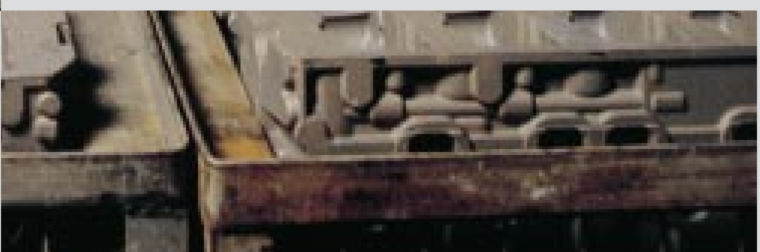
Burghard Scheel (left)
Member of the Board of Management

Dr.-Ing. Franz Mnich (right)
Member of the Board of Management

In the automotive industry the name Rautenbach stands for technical competence and top-quality castings. Located in Wernigerode in Saxony-Anhalt, Rautenbach AG is one of Germany's largest makers of aluminium castings. Following the fall of the Wall and privatisation by the former owners, the Rautenbach family, the company has re-emerged as a well-run, competitive enterprise. The results of this systematic strategy are plain to see: last year, the Rautenbach Group's 500 employees generated sales of nearly EUR 120 million.

The main competitive Advantage: Competence in Innovation

Every year, more than 1.6 million cylinder heads leave the plant destined for VW, Audi, Porsche and other carmakers. A recognised expert in its field, the company is already gearing up for new challenges: for example, entirely new engine components like cylinder crankcases, as well as such traditional mainstays as motorcycle frames and light alloy cast car parts.



In a parallel development, a second product area has since emerged, with the emphasis on product and – more particularly – process development. Among other things, work focuses here on innovative materials and production techniques, aimed at bolstering the company's competitiveness and growth potential, enabling it to branch out beyond its traditional core business in order to boost sales.

Computer-supported R&D on the cutting Edge

As soon as the company was privatised every effort was made to establish the name of Rautenbach as a brand. The foundation stone was laid in 1994 when the company established its own technology unit, Rautenbach Aluminium Technologie GmbH. Here, precision aluminium castings are quickly and efficiently developed in a process extending from the first sketch to finished prototypes ready for in-series production. In order to turn these ideas into reality, the unit has at its disposal 3D-CAD systems with constantly updated software and state-of-the-art rapid prototyping equipment. This assures quick, economically efficient transformation of ideas into near-reality prototypes. A comprehensive technology database guarantees fast access to all development and production data.

In every phase of the process, great emphasis is placed on close co-operation with the customer. Thus, data is electronically transmitted to the customer or the design engineer, enabling joint solutions to be arrived at as quickly as possible.

A well-qualified Workforce is crucial to Success

Given the company's high technical standards, having a well-qualified workforce is crucially important to Rautenbach. Accordingly, a Training and Technology Centre was established last year, which, apart from daily hands-on training (supervised by VW Coaching), offers an outstanding means of training apprentices and skilled workers alike. To finance it, IKB Deutsche Industriebank AG arranged (among other things) for development resources from KfW. Dr. Franz Mnich and Burghard Scheel see in the creation of the Centre an important step in securing the company's future growth.

IKB and its Customers

I. The Performance of the AG and IKB Group in Brief

During the 2000/2001 financial year, we systematically expanded the new divisional structure introduced the previous year. In introducing this structure, we have succeeded in broadening still further the product range of our core business, namely long-term corporate financing. Our traditional mainstay of long-term lending, which also embraces real estate financing, has now been augmented by structured financing and, most especially, by equity financing.

At the balance sheet date, for the first time we fully consolidated the company IKB Immobilien Leasing GmbH, a wholly owned subsidiary of the bank. Specifically, this entailed the inclusion of over 400 special purpose entities. The major changes are explained in the notes to the financial statement. In this context, we adjusted the previous year‘s annual accounts and profit and loss figures accordingly. In a further modification, instead of the operating result we now show the result from ordinary activities. This presentation will serve as the basis for future IAS financial statement.

The key performance data of the IKB Group for the past financial year are as follows:

- net interest and commission income rose by 5.5 % to EUR 451 million;
- the interest margin – based on average risk assets – improved from 1.90 % to 1.96 %;
- as planned, administrative expenditure rose by 6.2 % to EUR 177 million;
- the result from ordinary activities rose by 2.4 % to EUR 175 million;
- the cost-income ratio came to 37.2 % (previous year: 39.2 %);
- the return on equity reached 16.8 % (previous year: 16.4 %).

In light of these developments, the Board of Managing Directors has proposed a dividend payment of EUR 0.77 per share, in line with the figure for the previous year.

Loan Volume and Asset Items

At March 31, 2001, Group loan volume amounted to EUR 27.8 billion, representing an increase of 7 % or EUR 1.9 billion compared to the year before. Claims on customers accounted for the bulk of this growth, expanding by 7 % or EUR 1.7 billion to EUR 24.3 billion. Contributing to this increase was a EUR 0.7 billion change in the statement of exemptions from liability on loans from Kreditanstalt für Wiederaufbau (KfW) and Deutsche Ausgleichsbank (DtA). In these accounts such loans are shown in gross terms, i.e. including the part of the loan exempt from liability. Once again, claims on banks contracted, principally due to a smaller volume of money dealing transactions at the balance sheet date.

Debentures rose by 44 % or just under EUR 1.2 billion to EUR 3.8 billion. On the one hand, this resulted from the purchase of securities at the beginning of the financial year amounting to EUR 0.6 billion in connection with our US CLO transaction. These securities largely served as secondary collateral for subscribers of bonds issued by the bank. We also purchased EUR 0.5 billion in floaters to serve as security for our tendering operations with the European Central Bank.

The decline in investments and shares in associated and subsidiary companies mainly had to do with the sale of our stake in National-Bank AG. This was offset by a write-up of EUR 9 million made on our participation in Natexis Banques Populaires in compliance with German Statutory requirements. New in this year‘s balance sheet is the item “Outstanding capital of minority shareholders”. This refers to outstanding capital contributions from minority shareholders (concerning votes) in special purpose entities belonging to IKB Immobilien Leasing, which have not yet been called up.

The Group balance sheet total grew by 8 % or EUR 2.5 billion to EUR 32.4 billion (AG: +10 % or EUR 2.8 billion to EUR 32.3 billion).

Funding

We funded our business operations predominantly by drawing on long-term funds from public-sector development banks, especially KfW and DtA. The stated EUR 2 billion-increase in liabilities to banks resulted partly from the aforementioned altered method of showing the liability exemption of these institutions, which amounted to EUR 0.7 billion. Two items, “Liabilities to customers” and “Securitised liabilities”, remained virtually unchanged. In the case of the latter, repayments of EUR 2.1 billion were balanced by new issues of equal amount. Appearing for the first time in the consolidated financial statements of the IKB Group is the item “Participations of minority shareholders”, i.e. the participation of non-Group shareholders in special purpose entities of IKB Immobilien Leasing.

Equity

During the period under review, we further strengthened Group equity. With respect to tier 1 capital, in November 2000 we augmented silent

IKB Group Credit Volume				
	March 31, 2001 in EUR million	March 31, 2000 in EUR million	Change in EUR million	in %
Loans to customers	24 332	22 635	1 697	7.5
Loans to banks	216	317	–101	–31.9
Leasing items	2 239	2 114	125	5.9
Guarantees	989	803	186	23.2
Group credit volume	**27 776**	**25 869**	**1 907**	**7.4**

Summarised IKB Group Balance Sheet				
	March 31, 2001 in EUR million	March 31, 2000 in EUR million	Change in EUR million	in %
Assets				
Liquid funds	1	12	– 11	–91.7
Claims on banks	802	1 650	–848	–51.4
Claims on customers	24 332	22 635	1 697	7.5
Debentures	3 814	2 652	1 162	43.8
Shares and other non-fixed interest securities	36	13	23	>100
Investments and holdings in associated and subsidiary companies	68	91	–23	–25.3
Fixed assets	212	214	– 2	– 0.9
Leasing items	2 239	2 114	125	5.9
Outstanding capital of minority shareholders	49	61	–12	–19.7
Other assets	889	499	390	78.2
Total assets	**32 442**	**29 941**	**2 501**	**8.4**
Liabilities				
Liabilities to banks	15 176	13 181	1 995	15.1
Liabilities to customers	2 436	2 414	22	0.9
Securitised liabilities	10 825	10 803	22	0.2
Provisions	269	266	3	1.1
Subordinated liabilities	803	582	221	38.0
Participation certificate capital (Genussrechtskapital)	439	439	–	–
Fund for general bank risks	80	80	–	–
Participations of minority shareholders	27	45	–18	–40.0
Equity capital	1 243	1 142	101	8.8
Other liabilities	1 144	989	155	15.7
Total liabilities	**32 442**	**29 941**	**2 501**	**8.4**

capital by EUR 70 million to EUR 170 million via our Luxembourg subsidiary, IKB International. In addition to this, we allocated an amount of EUR 31 million to the revenue reserves. Totalling the tier 1 capital came to EUR 1.3 billion within the Group and EUR 1.1 billion for the AG. Furthermore, subordinated loans were increased by EUR 221 million to EUR 803 million.

At March 31, 2001, the Group fulfilled the Principle I criteria with an overall capital ratio of 10.7 % (9.8 %); the tier 1 capital ratio was 6.1 % (5.5 %). The improvement in capital ratios resulted primarily from the two successful CLO transactions, so that despite the 8 % increase in the balance sheet total, risk assets declined by EUR 1.1 billion to EUR 21.8 billion. Within the AG the overall figure also totalled by 10.7 % (9.7 %); the tier 1 capital ratio came to 5.7 % (5.1 %).

The Trend in Earnings

Group net interest and commission income rose by 5.5 % to EUR 451 million. This was due in part to growth in our loan business; moreover net commission income also increased by more than EUR 5 million to EUR 13 million. The principle sources of commission income were our Corporate Lending, Real Estate Financing and Structured Financing Divisions.

Compared with the previous year, income from securities and participatory investments declined by EUR 27 million to EUR 10 million, largely due to a significantly lower payout by IKB Beteiligungsgesellschaft (–EUR 20 million). In contrast to the 1999/2000 financial year, in which we benefited greatly from the initial public offerings of young companies in our participation portfolio, the difficult situation in the stock markets during the period under review – especially in the *Neue Markt* – meant that we were unable to reproduce these results.

Moreover, in the previous financial year we still had significant dividend income from our former holdings in BHF-BANK AG and National-Bank AG.

Net result from finance operations moved smartly back into positive territory, rising by EUR 5 million to EUR 2.5 million. Both share and bond trading contributed to this improved performance.

Administrative Expenditure

As planned, administrative expenditure grew by 6.2 % or EUR 10 million to EUR 177 million. Two-thirds of this increase (EUR 7 million) related to personnel costs, which rose by 6.5 % to EUR 114 million. This trend resulted both from the increase in staff during the previous financial year (+100 employees), whose impact on salary costs did not appear in full measure until the period under review, and to the hiring of a further 64 employees during the 2000/2001 financial year.

Other administrative expenses increased by 5.6 % to EUR 62 million. This was essentially due to higher depreciations on office equipment and fixtures relating in particular to investments in IT made necessary by the transition to the EURO, as well as for averting potential Y2K problems. Added to this were increased consultant costs for projects aimed at increasing the efficiency of bank-internal processing flows, as well as for our CLO transactions.

The balance of other operating income and expenditure rose by EUR 4 million to EUR 82 million. Contained in this item are above all the profit from the sale of our investment in National-Bank AG, as well as from the write-up on the book value of our participation in Natexis Banques Populaires resulting from the *Wertaufholungsgebot*, i.e. the requirement to reverse write-downs where the reasons for them no longer exist.

The Risk Situation

The economic climate during the year under report was largely favourable. In particular, the high demand for exports resulted in additional incoming orders for many companies. Nevertheless, there were 28,000 corporate bankruptcies, an appreciable increase on the previous year‘s figure of 26,400. The reason for this seemingly surprising development is that many companies at the

IKB Group Total Liable Funds

	March 31, 2001 in EUR million	March 31, 2000 in EUR million	Change in EUR million	 in %
Subscribed share capital	225	225	–	–
Silent capital	170	100	70	70.0
Capital reserves	568	568	–	–
Revenue reserves	280	249	31	12.4
Fund for general bank risks	80	80	–	–
Tier 1 capital	1 323	1 222	101	8.3
Participation certificate capital (Genussrechtskapital)	439	439	–	–
Subordinated liabilities	803	582	221	38.0
Total liable funds	**2 565**	**2 243**	**322**	**14.4**

IKB Group Operating Results

	April 1, 2000 to March 31, 2001 in EUR million	April 1, 1999 to March 31, 2000 in EUR million	Change in EUR million	 in %
Interest income from loan operations and money market transactions, fixed interest securities and government-inscribed debt	2 656.3	2 108.0	548.3	26.0
Earnings from securities and holdings	9.8	36.7	–26.9	–73.3
Earnings from leasing operations	432.5	416.3	16.2	3.9
Interest expenditure	2 333.9	1 831.4	502.5	27.4
Expenditure and scheduled depreciation relating to leasing operations	326.7	309.9	16.8	5.4
Net interest income	438.0	419.7	18.3	4.4
Commission income	17.9	13.1	4.8	36.6
Commission expenditure	4.9	5.4	–0.5	–9.3
Net commission income	13.0	7.7	5.3	68.8
Net result from financial operations	2.5	–2.6	5.1	> 100.0
Personnel expenditure	114.2	107.2	7.0	6.5
Salaries and wages	*87.1*	*83.2*	*3.9*	*4.7*
Social security contributions/ expenditure for retirement benefits and pensions	*27.1*	*24.0*	*3.1*	*12.9*
Other administrative expenditure	62.4	59.1	3.3	5.6
Administrative expenditure	176.6	166.3	10.3	6.2
Balance of other operating income and expenditure	81.5	77.8	3.7	4.8
Provisions for risk	–183.5	–165.5	18.0	10.9
Result from ordinary activities	**174.9**	**170.8**	**4.1**	**2.4**

beginning of an economic upswing have to finance the bulk of their activities in advance, i.e. increased inventories, new machinery and production. On the other hand – and this trend is confirmed by last year‘s figures – the level of receivables increases as customers attempt to take full advantage of long payment terms and even go beyond them. This results in a higher liquidity requirement, which frequently leads to liquidity bottlenecks or even liquidity crises. Many companies – already undercapitalised in any case – are unable to cope with this situation.

With this situation in mind, we nevertheless reduced our net provisioning by 4.7 % to EUR 206 million (AG: 10.3 % to EUR 187 million). At EUR 29 million (AG: EUR 27 million), the release of provisions during the period under review was slightly lower than in the previous financial year. We transferred EUR 4 million (AG: EUR 3 million) to general provision for bad and doubtful debts. Because revenue from securities in the liquidity reserve was EUR 28 million (same figure for the AG) lower than last year, the risk provisioning balance increased by 10.9 % to EUR 183 million (AG: +4 % to EUR 165 million). We have thus taken adequate account of all recognisable risks arising from our business operations.

A detailed analysis of allocations for specific bad and doubtful debts reveals that more than half of these resulted from real estate and corporate loans in eastern Germany and Berlin. The bulk of these loans were made in the first half of the 1990s. They represent just around 20 % of our total exposure in this sector. With regard to corporate lending to our medium-sized customers in western Germany, the opposite situation pertains. Although these loans make up nearly 50 % of our portfolio, provisions against bad and doubtful debts comprise only a quarter of the total amount.

In the Group as a whole, specific and general charges for bad and doubtful debts amounted at March 31, 2001 to EUR 825 million (EUR 759 million); in the AG, to EUR 779 million (EUR 711 million).

We expect provisions for risk to decline appreciably during the 2001/2002 financial year. This view is based on the fact that the credit quality of our loan portfolio has steadily and significantly improved since 1996. We are pleased to note the continuation of this trend during the period under review.

The Result from Ordinary Activities

The result from ordinary activities came to EUR 175 million (AG: EUR 180 million), some 2.4 % or EUR 4 million (AG: +9 % or EUR 15 million) above the previous year's figure. After debiting the payment of EUR 1.5 million to the *Stiftungsinitiative der deutschen Wirtschaft*, profit before tax amounts to EUR 173 million (AG: EUR 179 million), an increase of 1.5 % (AG: +1,8 %) compared to the 1999/2000 financial year.

Proposal for the Appropriation of Profits

For the year under review, Group net income for the year was EUR 85.9 million (EUR 75.5 million). An accumulated deficit brought forward from the 1999/2000 financial year was the result of consolidating IKB Immobilien Leasing and its special purpose companies. The results of these special purpose companies are characterised by leasing-type cost and earnings flows in the initial years, and were attributable to a substantial degree to the non-IKB Group shareholders of these companies. After a transfer to other revenue reserves, unappropriated Group profit amounted to EUR 50.9 million.

For the AG, net income for the year amounted to EUR 98.1 million (EUR 88.1 million). After a transfer of EUR 30.3 million to other revenue reserves, unappropriated profit amounted to EUR 67.8 million. We propose to disburse this profit in the form of a dividend of EUR 0.77 per share. Including the corporation tax credit, eligible shareholders will receive a gross dividend of EUR 1.10 per share. Based on the bank‘s share price at the balance sheet date, this corresponds to a dividend yield of 6.9 %.

Risk Report

Objectives and Strategies

Risk management has always been a matter of central concern at IKB. It embraces the entire corporate process, and has the objective of optimising the yield-to-risk ratio and hence the bank's ability to bear risk. It is founded on the ability of the bank to bear risk as defined by the Board of Managing Directors, whose fundamental principle is never to take a risk that could endanger the payment of a dividend by the bank.

Handling risk successfully requires timely monitoring, professional management and a careful consideration of all aspects of risk. It is thus imperative that risk management encompass not only risk controlling but also operational risk management. The central objective is to recognise and limit potential risks at an early stage. This creates freedom of action, forming the basis for the long-term safeguarding of existing and future potential for success.

Risk Organisation

The IKB risk management system is based on a functional approach, thus ensuring the effectiveness and efficiency of the risk control process.

The Board of Managing Directors

Responsibility for risk management rests with the entire Board of Managing Directors, which sets risk policy in the form of a clear definition of strategy, of business categories and of acceptable and unacceptable risks, as well as defining the permissible level of overall risk within the framework of the bank's ability to bear risk.

The implementation of risk policy and risk management – in a continuation of the bank's traditional principle of dual control – is performed by separate Risk Controlling and Risk Management units, responsible to different members of the Board of Managing Directors. Though closely interconnected in technical terms, the units nevertheless have distinct tasks.

Risk Committees

Risk committees determine the risk profile for individual types of risks within the framework established by the Board of Managing Directors. The risk committees are composed of members of the Board of Directors and representatives of the central Risk Controlling and Risk Management Departments.

Risk Management

By consolidating its Risk Decision, Central Customer Processing and Risk Control units to form a new "Risk Management" Department, IKB has further optimised its operational risk management and, in particular, the accompanying transfer of knowledge. Risk Management is responsible for implementing and maintaining standardised risk criteria throughout the Group. Along with guidelines for lending decisions, these include the entire credit approval process and – together with the Risk Controlling unit – the sharing out of the risk limits promulgated by the Board of Managing Directors within the bank's business units.

The management of customer default risk is based on a credit approval process that features an assessment of the financial standing of the individual customer and the specific industry, as well as an evaluation of the appropriateness of the planned volume of business.

In the process, the evaluation of risk regularly takes into account the overall financial commitments of the borrower. If the company belongs to a group, the financial standing and total exposure of the bank are included in the decision. Within the framework of the credit decision-making process, portfolio considerations have gained significance, and now flow into our decisions as well.

As a means of controlling lending risk, a senior lending officer supports Risk Management in the respective divisions. This ensures that loan decisions made at division level are in conformity with IKB standards.

Risk Controlling
Risk Controlling, a component of the central division Controlling, is responsible for implementing the risk policy of the Board of Managing Directors, as well as for internal and external risk reporting and the neutral monitoring of country, market, liquidity and operational risks. As an independent entity, the Risk Controlling unit ensures that all measured risks remain within the limits defined by the Board of Managing Directors. In the process, the unit‘s reporting also focuses on risk factors too minor to pose a serious threat to the bank.

In the strategic planning and the operational budget process, Controlling supports the Board of Managing Directors when it comes to allocating capital to the divisions.

In addition, Risk Controlling is materially involved in preparing concepts for the continued development and implementation of the value-oriented strategic management of the bank. In concert with the Risk Management unit, appropriate methods are specified for measuring risk and performance. A further task carried out in close co-operation with Risk Management is the expansion of technical infrastructure for measuring risk and the integration of core risk data into the management and information systems of the bank.

Internal Audit
As an independent unit, Internal Audit monitors the operational and business activities of all organisational units subject to risk management. Internal Audit acts on behalf of the Board of Managing Directors, to which it directly reports. However, in preparing its reports and evaluating its findings, it acts independently. Beside the credit control, the bank‘s data processing flows, as well as the qualitative and quantitative methods and processes are also subject to permanent review.

This systematic division of responsibilities within the framework of operational risk management has of course been structured to exceed the standards of quality for commercial banking operations as defined by the relevant regulatory authorities. This applies equally to the provisions of Germany‘s Corporate Control and Transparency Act (*KonTraG*), which came into force on May 1, 1998.

Along with the aforementioned departments, the individual divisions are likewise embedded in the operational risk management structure. In co-operation with the central divisions Organisation and Internal Audit, they are responsible for the management of operational risks. Risk policy is co-ordinated at regular division-level meetings.

The tasks and responsibilities of all participants are described in detail in a risk management handbook, which also sets out the framework for identifying, quantifying and controlling risks. The handbook not only documents the IKB risk management process, it also serves as a vehicle for presenting and maintaining Group-wide standards for an integrated system of risk management that encompasses all risks in conformity with the legal requirements.

The Risk Management Process
IKB‘s risk management process draws together the bank‘s full range of activities, ensuring a systematic approach to risk throughout the Group.
This is a continuous process, beginning with the identification of risks. Here, all areas of activity are regularly examined, with all risks being identified and structured according to the highest original risk potential. Once risks are identified they are subjected to a qualitative evaluation.
As far as possible, the risks are quantified and expressed in such risk measurement terms as “expected loss” or “value at risk”. This process is based on recognised mathematical and statistical procedures that enable the loss potential of business transactions to be evaluated. Crucially important in this context are sensitivity and scenario analyses, which enable the impact of market changes to be depicted. The quantification of market price and customer insolvency risks is a vital prerequisite for being able to compare total risk with the risk-bearing ability of the bank.

The individual evaluations and measurement results form the basis for controlling risk, the process by which the identified risk positions are actively influenced and limited. Such control measures are designed to reduce the likelihood of risks occurring in the first place, as well as to limit the impact of those risks that do occur. This is done for example through organisational measures such as the separation of new business acquisition from decision-making, through risk limitation, the exclusion of certain creditworthiness categories, or through risk mitigation, e.g. in the form of insurance. The measures listed here are designed to help the bank steer clear of unacceptable risks, and to reduce the number of unavoidable risks to a minimum.

The final stage in the risk management process is risk monitoring, which ensures that the risk situation of the bank at no time exceeds the established upper limits for risk. It is based on the timely, continuous, comprehensive reporting of the results of risk analysis and the exploitation of the limits determined by risk controlling. Continuous performance checks by means of actual/budget comparisons ensure the smooth operation and functionality of the risk management process. Furthermore, the risk monitoring also allows the bank to keep track of changes in risk pattern over time. Permanent checks help in the early detection of unexpected developments, as well as in identifying the emergence of new risks.

The supervision and ongoing development of the risk management system is a central task of the Board of Managing Directors, and the responsibility of all of the bank‘s senior executives.

Customer Default Risk

In discussing the risk of customer default, we differentiate between credit risk and counterparty risk. A credit risk occurs when the failure of a customer prevents a loan from being paid back either fully or in part. Counterparty risk entails the compensation for hedge or re-investment respectively, or the fact that a profit not yet realised cannot be recovered. On account of the special significance of loan operations as a core competence of the bank, credit risk is subjected to exceptionally careful scrutiny.

In controlling the risk of customer default, we rely primarily on the following elements: risk policy guidelines governing the acquisition of new business, individual transaction limits, portfolio monitoring based on comprehensive portfolio analysis, and internal auditing.

The point of departure for the risk management process is joint planning by the Board of Managing Directors and the divisions, supported by the Corporate Development and Controlling Departments. Based on the bank‘s ability to bear risk and its growth and earnings targets, risk is explicitly included in the planning process. The objectives derived from this include not only the volume of new business, net interest and commission income and operating and personnel costs, but also the costs of risk and equity. In planning the risk costs, the creditworthiness and collateral structure is agreed so as to be able to exercise a sustained influence on the sourcing of new business and the way in which existing business is managed.

It is, however, not only the agreed risk policy objectives which count when acquiring new business, but also the credit calculation of the respective transaction on a net present value basis taking into account the directly attributable costs, and the standard risk costs. The volume, yield and risk figures deriving from new business are compared on a timely basis with the target figures, and form the subject of a monthly report submitted to the Board of Managing Directors and the divisions.
It is the task of the Controlling Department in this context to identify, analyse and elucidate any discrepancies.

Of crucial importance in the lending process is the credit analysis by the Risk Management Department, which operates independently of the divisions, thereby fulfilling the requirement to keep the acquisition of new business separate from the loan decision-making process. Within the framework of a graduated system of decision-making authority, individual lending transactions are approved, either within the divisions, or centrally by the loan units in the Risk Management Central Division, or by the Board of Managing Directors on the basis of volume, the financial standing of the borrower, and collateral. The principle of dual control is invariably maintained. Likewise, loan and contract processing is handled by the bank‘s legal personnel, who operate independently of the divisions which have acquired the business.

In monitoring and managing existing business, having an overview of the bank‘s entire loan portfolio is of crucial importance. By regularly gathering and analysing current information on our customers, the divisions ensure the timely evaluation of the creditworthiness of borrowers and hence of the risk structure of our lending portfolio as a whole. Whenever necessary, the value of collateral is also updated. The study of individual industries and market changes is conducted by the bank‘s Economics Department. The point of departure for determining portfolio factors, which are oriented to the bank‘s strategic objectives and risk policy guidelines, is a regular review of the various portfolios by the Risk Management Division. Here, the risk structure of the portfolios and their change over time are analysed on the basis of various dimensions, including creditworthiness classes, payment delays and maturities, but also with regard to quantitative risk sizes (e.g. expected loss). Sector risks and general economic factors affecting individual industries are identified on a timely basis by the Economics Department and analysed at portfolio level by the Risk Management Division and, if necessary, transformed into risk control measures. Variances from the planned portfolio structure or undesired concentrations are thus subject to early detection, allowing countermeasures to be taken. Portfolio limit settings are decided on by the Board of Managing Directors based on proposals made by Risk Management. The Board establishes the guidelines, principles, methods and standards for the bank‘s lending operations.

The management of high-risk loans is performed by a special team. By calling these units in at an early stage and involving loan officers with special expertise, it is possible to introduce measures capable of preserving a company‘s status as a going concern or, should these efforts fail, to limit substantially the ensuing degree of economic damage.

A further important measure for ensuring the quality of our loan portfolio consists of regular internal audits. Above all, these audits focus on adherence to the bank‘s loan extension guidelines, as well as on the quality standards of the entire loan approval process.

The central element of the overall loan process is the evaluation of our customers‘ creditworthiness. As a specialist bank with a strong focus on long-term business and credit relationships with medium-sized companies, we impose exceptionally stringent criteria with regard to the credit quality and the potential recovery of collateral when selecting our business partners. In so doing we place particularly great emphasis on a sustained, positive earnings performance on the part of our customers. Corresponding credit guidelines make this commitment to quality an operational reality.

In assessing creditworthiness, we make use of computer-supported rating procedures tailored to the customer‘s industry and the specific form of financing. The various aspects of a customer‘s creditworthiness characteristics are correspondingly weighted and measured on a 10-point scale ranging in steps of 0.5 from 1.0 (the best rating) to 6.0 (default).

In our corporate lending operations we apply a corporate customer rating scheme, which, based on core financial data derived from past and projected economic data, also takes into account the customer‘s individual characteristics. Particular aspects of project financing and other special forms of financing are subject to a different rating process in which greater significance is attached to cash flow requirements. The rating system used in the bank‘s real estate finance operations assesses creditworthiness based on specific property and investor information.

Today, these systems already form the core of our internal, risk-based lending risk management system, and will form the basis for the implementation of the Basle Accord on minimum capital requirements, which comes into force in 2004.

An individual “probability of insolvency” is calculated for each creditworthiness level and regularly subjected to backtesting. Taking into account collateral proceeds, we calculate the “expected loss”.

As a part of normal reporting procedures on earnings trends, special attention is paid to the risk situation, thereby enabling appropriate measures to be taken in the event of conspicuous changes.

Taking adequate account of risk when pricing new business ensures that when the terms of a transaction are fixed, the expected losses from loan and (where relevant) transfer risks are considered, as is the corresponding rate of return on the equity to be maintained.

Market Price and Liquidity Risks

Also relevant are the various types of market price risks. Among others, these include interest rate risks, currency risks, and price change risks for shares and other assets, which can have an impact on net present value risk or net interest income risk.

We define liquidity risk as the risk that the bank will not be able to meet its payment obligations in full when they fall due. Treasury conducts regular liquidity analyses and cash flow forecasts in order to guarantee solvency at all times. To ensure adequate liquidity we also hold marketable, variable interest rate securities that can be sold or lent against at any time. This eliminates short-term liquidity risk.

Management of liquidity takes place in adherence to external factors. Furthermore, it is our policy to avoid maturity-related risks by funding our assets largely at matching maturities.

Management of these risks within the framework of the bank‘s risk management process conforms to the “Minimum Standards for Commercial Transactions”, which has been adopted by IKB as a basic regulatory framework.

The key element in managing market price risk is a sophisticated limit system, which – based on planned price gains or interest income – limits possible undershooting of the plan. Based on the ability of the bank to bear risk, the aforementioned planning dimensions are agreed between the Board of Managing Directors and Treasury.

Based on this limit system and taking into account our own rules in conformity with the minimum regulatory requirements – which include limiting ourselves to permissible products – Treasury implements its market expectations in its investment and funding strategies. IKB keeps separate its trading for own account, investment of own funds, and asset funding portfolios.

The trading for own account and equity investment positions are evaluated daily. Their risk content is measured by means of a value-at-risk system oriented to net present value. Based on this evaluation and the risk ratios, the degree of utilisation of the risk and loss limits is calculated daily for both normal and worst-case scenarios. Our backtesting demonstrates that the actual changes in results in both trading for own account and investments of own funds are accurately revealed by our value-at-risk estimates.

Other market price risks can arise from mismatched maturities in loan funding operations and investments of own funds. In order to quantify and limit these risks, IKB utilises its own asset and liability management system. With the help of this system, interest rate spreads are set for asset transactions, including loan approvals and their subsequent funding as well as for investments of own funds, including the funds themselves. Interest-free positions are included in line with historical experience. On the basis of these interest fixation account, Risk Controlling determines the interest income that can be attained without risk during the current and coming financial year. In addition, an "interest at risk" for normal and worst case scenarios is calculated. These two factors, the interest income attainable for the various financial years and interest at risk, are set against interest income limits, so that the minimum income requirements of the bank are assured.

The normal case scenarios both for net present value- and interest income-oriented risk measurements are determined for a ten-day period and a confidence ratio of 99 %. The worst case scenarios are calculated based on an historical analysis of the past 20 to 30 years.

In order to monitor market price risks and support the risk management process, the Board of Managing Directors and Treasury receive comprehensive daily reports on the earnings and risk situation in the aforementioned portfolios. Once a month, the member of the Board responsible for Controlling reports to the entire Board of Managing Directors on market developments, results and the risk situation of these positions.

Operational Risks

We define operational risks as the potential occurrence of losses due to unforeseen events, operational interruptions, inadequate controls or the failure of systems. These include, among other things, all IT risks, but also personnel-oriented risks, risks related to wrong investment decisions and processing errors, as well as contractual risks.

Such risks can occur very suddenly, for example, when EDP systems fail. But they can also be the result of a creeping process, due, for instance, to a failure to adapt one's products and services to changing customer requirements. Being so heterogeneous, operational risks have to be monitored and contained through the co-ordinated action between the various units of the bank and by specific organisational procedures.

Against this background, and in conformity with the requirements imposed by the *KonTraG*, IKB previously established a working group charged with identifying, analysing and evaluating operational risks within the Group. Based on this inquiry, the individual risks and related arrangements and organisational instructions were examined from the following standpoints:

- possibilities of early recognition
- measures aimed at minimising the probability of a risk occurring
- measures aimed at minimising the impact of risk
- precautions and conduct in emergency situations.

The aforementioned analysis revealed that operational risks can be detected and controlled by a unified system only with difficulty; individual attention is generally required. This relates above all to the standards of security that are deemed necessary, and thus the costs of guarding against such potential dangers. In each of the divisions, activities necessary for reducing operational risks and accordingly for ensuring the quality of existing processes were identified and implemented. These include, for example, technical and organisational measures for maintaining IT operations at all times in the event of an emergency and the installation of a firewall system for protecting the network against outside attack. An access authorisation system for all applications guarantees the confidentiality and integrity of all data and information stored in the bank's computer network. All expenditure of this type is expensed immediately against current earnings and is thus taken into account when calculating the ability of the bank to bear risk. Adherence to the principle of dual control in the bank's operational flows, and a whole host of monitoring and control processes, complement and complete the aforementioned measures.

Within the framework of our risk analysis activities, we have determined that the bank faces no operational risks that pose a threat to its existence. For each of the risks identified, measures for avoidance and possibilities of early recognition of undesirable developments and emergency precautions do exist or appropriate insurances have been effected.

The central and operational divisions are responsible for the analysis, evaluation and reporting of operational risks. The bank‘s Internal Audit Department supports them in this task not only by inspecting the internal control system, but especially by systematically monitoring the operational and administrative flows of every part of the bank to ensure proper functioning. These also include checks on the functionality, economic efficiency, and security of the bank‘s operational processes, as well as its information and control systems.

In order to optimise our previous measures for managing operational risks, we plan to support the systematic and consistent registration of operational risks by creating a reporting system focusing on early detection and the development of specific risks. In this way we intend to document and ensure the long-term quality of the bank‘s internal processes.

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

Strategic Risks and Reputation Risk

Strategic risks relate to the threat posed to the long-term success of the bank. These can take the form of changes in the relevant legal and social environment, but can also result from changing market and competition conditions, or from our customers or funding sources. Since there is nothing routine about strategic risks, they are hard to grasp as special risks in an integrated system.

Such risks are specially observed and regularly analysed by the Board of Managing Directors and selected central division units. This entails a regular review of the division-level strategies within the framework of a systematic planning process, as well as the resulting strategic initiatives and investments.

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

Risk Reporting and Risk Communication

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

As part of this process, Risk Controlling produces a daily report for the Board of Managing Directors, the Treasury and other relevant units containing an evaluation of the bank‘s trading for own account positions, the liquidity status, net interest result from the funding of asset operations, and investments of own funds. This report also features a statement of net present value risk under normal case and worse case scenarios. In analogous fashion, the risk of change in the bank‘s net interest income is also reported on in both scenario variants. This report discusses the utilisation of market price limits, as well as containing commentary on unusual developments.

In support of the bank‘s loan operations, the resulting income and risk figures are compared on a regular, timely basis with the planned and or target figures, and reported to the Board and the heads of division, in order to be able to react at an early stage in case of variances.

The Outlook for the Group in 2001/2002

The German economy got off to a somewhat less dynamic start in 2001 than the year before. The reason for this is the gradual slowdown in what had previously been double-digit rates of growth in export orders. On the one hand the weak EURO continues to provide German companies with a competitive advantage, but on the other hand world trade this year has expanded only slightly, due first of all to the economic downturn in the United States. Indeed, several economists see the US sinking into recession, with a correspondingly negative impact on world trade.

We do not share this view. The tremendous innovative strength of American companies, coupled with a highly flexible labour market, instead tends to argue in favour of a return to economic growth in autumn of this year. The expansionist monetary policy of the Federal Reserve and the planned tax cuts of the US government are bound to lend added impetus to this trend.

We conclude from this that, following a somewhat difficult first half, the German economy will begin to accelerate again by late autumn of this year. Tax reductions already decided on by the German government should also have a positive impact on the economic climate in coming years.

In light of this situation, we expect our operational divisions to develop along the following lines. Our Corporate Lending and Real Estate Financing Divisions will grow at a moderate rate this year. This is partly due to the prevailing economic situation, but also has to do with our selection criteria for new business, which will remain stringent. We expect to see strong growth in our Structured Financing Division. Especially our branches in London and Paris – but also our subsidiary in New York – have since earned an excellent reputation in their local markets, and are participating to an increasing degree in the expanding transaction financing sector.

Our Equity Division will invest this year in a substantial number of innovative young companies and established medium-sized firms. Because of the ongoing weakness of the stock market, the number of companies in our participation portfolio aiming at an IPO this year is of course limited. Furthermore, we expect that many companies will opt for sale to an industrial investor. On account of the tax reform, in many cases this will not take place before 2002. There is good reason to think that Equity will generate increased income again only once the stock markets – and especially the *Neue Markt* – begin to show clear signs of recovery.

We expect the risk situation to ease appreciably during the course of the current financial year. This is based on the fact that the creditworthiness structure of our new loan business has significantly improved in recent years, a process which is set to continue during the current financial year.
We thus look forward to a clear reduction in net risk provisioning. All in all, we are confident of achieving a satisfactory result for the 2001/2002 financial year.

Düsseldorf and Berlin, May 15, 2001
IKB Deutsche Industriebank AG
The Board of Managing Directors

“Competent investors are supporting our programme of strategic expansion.”

Bizerba GmbH & Co. KG, Balingen

Hans-Georg Stahmer

Chairman of the Board of Management

With its forward-looking system solutions and systematic policy of internationalisation, Bizerba GmbH & Co. KG continues to expand its technological lead. Based in Balingen in south-west Germany, this high-tech company is one of the world's leading manufacturers of static and dynamic weighing, information and food service technology for retail applications, the craft sector and industry. Founded 135 years ago, today Bizerba employs a staff of 2,450; with 14 wholly owned foreign subsidiaries and representatives in 55 countries, the company is present worldwide.

An Industry in Flux

If the 20th century was still primarily characterised by a technology-driven push for machines and equipment which were faster, more precise and ever more efficient, the 21st century will be epitomised by the networking of information and communications. Subapplications and isolated applications will merge, thereby opening up new opportunities for more efficient operational processes, as well as improved planning and management of product and money flows.

Networked Systems

By introducing intelligent scales, inventory management systems and cash points that can be interconnected and linked to upstream systems with uniform menu and data structures, Bizerba has already exercised a decisive and early influence on these developments. As a result, retail and craft sector users of these systems now have a full array of operationally relevant management information ready to hand.

Greater Flexibility for Retailers

For example, Bizerba's wireless technology offers retailers innovative solutions for scales and cashpoint management, in which scales and cash register systems are remotely controlled rather than connected by cable. In some cases, the components necessary for wireless transmission are already directly integrated in the systems. A Profi-BUS link is used for networking the scales and cash registers.

Wireless data transmission is particularly useful when staging spontaneous sales promotion events and end-of-season specials. Counters can be quickly moved around without having to go to the expanse and trouble of laying new cable, and when the scales and cash registers are switched on, the data is always up to date.

Young Products

"When it comes to financing the kind of investment necessary for technological advances of this magnitude, Bizerba works together with competent investors and providers of capital like IKB, who think along entrepreneurial lines and are prepared to back our strategic expansion over the long haul", explains Hans-Georg Stahmer, Chairman of the Board of Management of the company, which is predominantly in family hands. Young products, which are still in the growth phase of the product life-cycle, today already account for 71 % of sales. Thus, Bizerba is actively shaping an everfaster succession of trends and technologies. Consequently, investment in research and development in the financial year 2000 accounted for 4 % of group turnover of EUR 333 million. This ensures that the company and its brands will continue to stand for outstanding innovation in future, too.

IKB and its Customers

1. The Underlying Conditions

The underlying conditions affecting the market operations of our Corporate Lending, Real Estate Financing, Structured Financing and Equity Divisions during the period under review were highly varied. Economic growth developed along positive lines. As revealed by the *IKB-Barometer* shown below, the German economy experienced a considerable upswing. Gross domestic product in 2000 grew by 3.0 %, the highest rate in a decade.

II. Group Business Trends

This trend was powered primarily by demand for exports. As the graph shows, incoming industrial orders from abroad reached record levels last year. In total, German exports rose by 13 % compared with the previous year.

The reasons for this export boom were a strong upsurge in world trade, coupled with a weak EURO. There were phases when the weakness of the EURO equated – seen from the German point of view – to a conversion rate of DM 2.30/US$. Since numerous German companies are capable of competing in world markets even at significantly less favourable exchange rates, the weakness of the EURO has given them an extra competitive edge.

Developments in the capital markets also proved positive. As the graph below makes clear, there was a step-by-step decline in long-term interest rates, illustrated by bonds with a ten-year residual maturity.

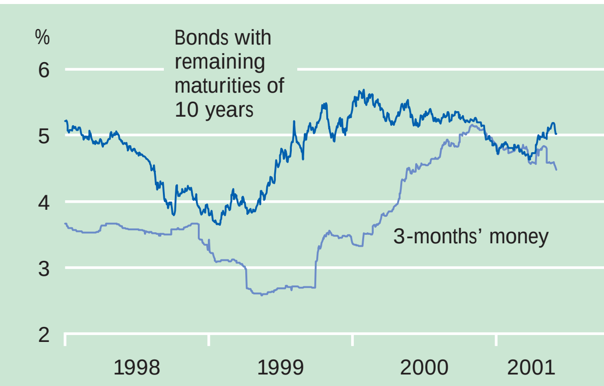
This was triggered above all by a decline in yields in the United States, the result of an economic slowdown and slackening inflation. Accordingly, the US Federal Reserve pursued a moderate monetary policy line.

Conversely, the European Central Bank (ECB) adhered to a far more stringent monetary policy. This is reflected, among other things, in the fact that our central bank increased key interest rates in 2000 by a total of 1.75 % to 4.75 %. As a result, there were phases when the three months' money rose above 5 %.

Less gratifying during the period under review was the trend in the stock markets, i.e. the most important markets for raising equity capital. As can be seen from the graph in the right column, the DAX suffered an appreciable downturn starting in spring of last year, following the virtual collapse of the distinctly overvalued NEMAX.

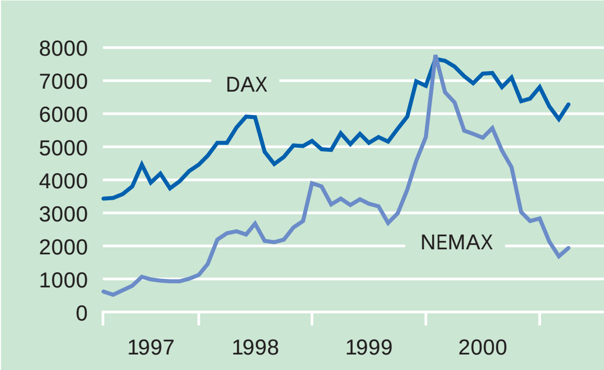
Particularly among medium-sized corporate borrowers, there was considerable unease at the

Interest Rate Development in Germany



Sources: DRI; IKB

DAX and NEMAX Performance Index



Source: FERI

announcement of the Basle Committee for Banking Regulations that in future the equity backing of loans is to be strictly coupled with the creditworthiness of the borrower. This procedure not only means that in future every company will have to undergo a rating process; it also implies an appreciable widening in the spread of credit margins. In practical terms, this means that for many medium-sized companies borrowing will be more expensive than was preciously the case.

But the anxiety of medium-sized companies in particular runs deeper; they worry that individual banks will withdraw from the loan business altogether if additional – and more profitable – transactions cannot be realised. In a series of informational events and numerous discussions with customers, we have made it clear that IKB continues to see financing the German *Mittelstand* as its prime task.

Now that the initial commotion has settled down, we expect matters to proceed along the following lines:

(1) In future, every company will undergo a rating process.

(2) The interest rate margin will be fixed individually depending on the results of the rating. This will result in wider margin spreads. Moreover,

the margin will no longer be fixed for the entire period of the loan, but will instead be adjusted in accordance with the Covenant to match the evolving creditworthiness of the borrower. But regardless of these changes, long-term loans will continue to be the mainstay of *Mittelstand* financing in Germany.

(3) In future, many medium-sized companies will have to reinforce their equity base in order to improve their rating and stabilise their financing situation. If this cannot be achieved through cash flow, it will be necessary to take up external equity.

(4) Also in future, banks will be outplacing their loan risks to a greater degree. This can take the form of asset-backed securities or collateralised loan obligations. In the first case, the claims and risks are outplaced, in the second, only the risks. Broadly speaking, this means that the loan portfolio of banks will become more mobile without, however, affecting the individual care of customers.

2. Corporate Lending

With the restructuring of the bank, our Corporate Lending Division has adapted smoothly to the new challenges facing it. In the first half of the past decade, additional income was largely achieved by expanding the volume of business; during the course of the second half, it became increasingly apparent that these yields no longer stood in a balanced ratio to the risks. This is particularly true of loan exposure in eastern Germany.

In addition – and this also became increasingly clear during the course of the 1990s – the standard margin of 1 % in long-term lending operations no longer seemed acceptable without closer scrutiny of creditworthiness. All the more so since bank loans in many cases have in part to assume the role of equity. On the contrary, the terms of recently issued corporate bonds indicate what the markets deem to be adequate: depending on the creditworthiness of the issuing corporation, the margin varies between 0.7 % and 2.5 %.

Against the background of this trend, we have altered the orientation of our domestic lending operations, which continue to be the mainstay of the bank. An essential innovation is that our customer service officers in the branches now act as relationship managers. Specifically, this means that they negotiate and discuss not only loan-related matters with the entrepreneur, but also respond to his or her requirements in the fields of equity, structured financing, real estate financing, leasing and special insurance services (such as company pension schemes). Thus, our Corporate Lending staff remains at the forefront of our market activities.

Whenever they deem it appropriate, our customer relationship managers can arrange for additional expert advice from the bank‘s other divisions. The active exchange of business leads between the bank‘s division forms the basis of our new Networked Sales system. This has proved quite successful during the period under review, with numerous financing transactions, and hence extra income, resulting.

However, with regard to customer care and customer acquisition, we have also focused our attention on other issues. These include the Basle Accord and an Innovation Offensive.

The Basle Accord

During the period under review, our customers were particularly eager to discuss this topic, especially the tightening of legal guidelines on equity backing and the coupling of bank loans to creditworthiness and company ratings; not least because in future every borrower will be affected by new requirements laid down by the Basle Commitee for Bank Regulations.

We have dealt with this issue very intensively, for instance publishing a rating brochure for our customers, all of whom have received a copy. Moreover, large numbers of this brochure were ordered via the Internet by customers and non-customers alike.

Furthermore, we have begun to discuss with our customers the implications of the Basle Accord in a series of in-depth workshops. Discussions centre on the following points:

- a presentation of the Basle II system
- the value and usefulness of a rating for a company
- a presentation of our current credit analysis system, which forms the core of our future rating system, as well as
- a review of the implications for credit operations with our customers.

For our customers, the introduction of a rating process will have significant future consequences, including greater openness with respect to business data, strategy, customer and supplier structures, as well as possible successor arrangements.

Our customers were eager to find out what they could do to improve their rating, thereby optimising their loan terms. Here, we provide structured, highly detailed advice as to which “control levers” an individual company can adjust in order to enhance its creditworthiness. In talks with our customers we have stressed the possibility of strengthening the equity basis by taking up mezzanine or direct capital.

As these workshops have been very well received, we continue to offer them to our customers this year as well.

The IKB Innovation Offensive

The objective of our Innovation Offensive is to act more forcefully as a prospective financial partner to companies in sectors with high growth potential but where our market share is still comparatively low. To do this, we have drawn up a catalogue of measures containing the following building blocks:

- identification, analysis and assessment of target customers;
- development of a special financing proposal;
- preparation of a detailed sector analysis report to be sent to target customers;
- exploitation of the media in our marketing efforts;
- acquisition.

We pursued this sector-specific sales strategy during the period under review, contacting existing and prospective customers in the field of communications engineering. The first results indicate that we have succeeded in presenting ourselves as a competent and knowledgeable financial partner to companies not yet our customers. During the current financial year, we intend to carry out marketing offensives targeted at producers of electronic components, sensors and productronics sectors. We are confident of gaining numerous new customers in this way.

New Business

During the period under review, the Corporate Lending Division disbursed EUR 2.8 billion (1999/2000: EUR 3.7 billion). The result from ordinary activities came to EUR 111 million; return on equity reached 17.9 %, while the cost-income ratio was 26.2 %.

The reasons for the distinct decline in new business were as follows:

1. An important target group of our bank, the larger, export-oriented companies of Germany‘s *Mittelstand*, benefited greatly last year from the strong world economy and the weakness of the EURO. Their earnings situation is correspondingly good. As a result, these companies have financed the bulk of their investments from cash flow. Overall demand for long-term loans during the past financial year was generally quite restrained.

2. Declining interest rates in the long-term sector encouraged many companies to finance their investments with short-term loans. In doing so, these companies were also opting for a cautious course in response to the increasing slowdown in the US economy and the rather expansionist monetary policy being pursued by the Federal Reserve. In the meantime, however, the time of waiting for these companies is probably drawing to a close, due to the fact that long-term interest rates in the United States and Germany have already bottomed out.

3. During the period under review, we continued to adhere to our strict creditworthiness criteria when considering new loans. As a consequence, more than half of our new loans fell within the bank's highest creditworthiness categories, 1 and 2. In this context, it is all the more gratifying that our Corporate Lending Division succeeded in increasing the margin of its new loans from 0.99 % to 1.13 %.

Sector Structure

The structure of our disbursements during the period under review was markedly different compared with the 1999/2000 financial year. Particularly noteworthy was the shift in emphasis in disbursements to companies in the manufacturing sector and the service sector. During the 1999/2000 financial year, 29.2 % of new loans went to companies in the service sector; in the period under review, this figure dropped to just 21.7 % (see table on page 41). The opposite situation pertained in the manufacturing sector, where the share rose from 61.8 % in 1999/2000 to 68.9 % in 2000/2001. The share of disbursements made to wholesalers and retailers remained relatively constant at 9.4 % (1999/2000: 9.0 %).

But there were also appreciable changes within the manufacturing sector itself. This was most apparent in the capital goods industry, whose share rose from 15.5 % to 20.2 %. This reflects the general economic situation, and can be seen in practically every business cycle, with companies in the capital goods industry expanding most strongly in the boom phase. For producers of basic materials and producer goods, the opposite situation holds sway. Growth in this field is most dynamic at the beginning of an economic upswing, with the industry serving as a something of a precursor of economic recovery. Accordingly, our disbursements to companies in this sector eased back from 26.5 % to 24.5 %.

The consumer goods industry accounted for a greater share of total disbursements, rising to 24.2 % (19.8 %). Here, it was primarily printing companies and plastic makers that succeeded in expanding their business. However, the largest single recipient in our disbursements portfolio continued to be the food industry, whose strategy of globalisation entailed more and more investment abroad.

Within the highly diverse service sector, disbursements to companies in the information technology, media and telecommunications industries gained in relative importance. We are thus taking account of the positive prospects for growth in these industries, even though the individual companies are unlikely to be able to maintain last year's fast pace of expansion. But the telecommunications industry in particular continues to offer excellent opportunities to our medium-sized customers in their capacity as subcontractors. This applies equally to the expansion of the fixed line network and the telephone equipment market, which are set to receive new impulses from UMTS technology.

Attractive Public Programme Loans

Low interest loans from public development banks once again proved highly interesting to our customers, though total demand declined compared with the previous year. Nevertheless, the share of our investment loans financed via development banks rose from 24 % in 1999/2000 to 35 % in 2000/2001.

Kreditanstalt für Wiederaufbau

Once again, Kreditanstalt für Wiederaufbau was our most important source of funding during the past financial year, accounting for some 70 % of

Disbursements and Loan Volume of the Corporate Lending Division by Sector			
Sectors	Disbursements 2000/2001	Disbursements 1999/2000	Loan volume March 31, 2001
	Shares in %		
Producing Industry	**68.9**	**61.8**	**64.1**
Basic and producer goods industries	**24.5**	**26.5**	**23.2**
Energy, water resources	5.9	2.5	3.1
Construction	1.1	1.6	1.4
Non-metallic minerals	4.0	7.1	5.0
Iron and steel, foundry products	1.6	1.4	1.6
Non ferrous metals and semi-finished metal products	1.2	2.4	1.5
Wire-drawing and cold rolling mills, steel forging, surface treatment	2.0	2.9	2.7
Chemicals and petroleum refining	3.8	4.2	3.7
Wood working; paper & pulp	3.9	3.1	3.3
Other sectors	1.0	1.3	0.9
Capital goods industries	**20.2**	**15.5**	**18.7**
Steel construction	0.5	1.1	1.1
Mechanical engineering	6.9	5.8	6.9
Automotive industry	3.8	2.3	3.4
Electrical engineering	5.2	3.9	4.1
Metal working	2.0	1.6	1.8
Other sectors	1.8	0.8	1.4
Consumer goods industries	**24.2**	**19.8**	**22.2**
Ceramics and glass	1.2	0.8	1.8
Wood, paper and cardboard processing	2.2	2.5	3.0
Printed materials	4.9	2.0	2.6
Plastic products	4.0	2.9	3.2
Textiles and garments	2.4	2.9	2.9
Food and beverages	8.8	8.6	8.1
Other sectors	0.7	0.1	0.6
Services	**21.7**	**29.2**	**20.9**
Transport	1.9	3.7	3.6
Asset management	2.2	5.5	1.8
Equipment leasing	0.2	1.4	0.1
Sport and leisure facilities	0.3	0.5	0.2
Self-employed professionals, engineer's offices	0.0	2.8	0.0
Data processing, media, telecommunications	3.0	2.8	1.5
Waste management	1.4	1.9	1.8
Other services	10.4	8.4	8.9
Financial services	2.3	2.2	3.0
Distributive Trades	**9.4**	**9.0**	**15.0**
Wholesale trade	4.4	4.0	7.6
Retail trade	5.0	5.0	7.4
Total	**100.0**	**100.0**	**100.0**

disbursed public programme loans. In structuring their domestic and foreign investment projects, our customers again opted predominantly for loans from the KfW programme for medium-sized companies, which continues to be the centrepiece of our public programme loan business. However, development loans from KfW's innovation and environmental programmes also gained in significance.

In light of shortened product and technology cycles, the development of new technologies and products occupies a key role in international competition. However, owing to the considerable risks involved, the financing of research and development projects can be difficult, especially for medium-sized companies. KfW's ERP innovation programme offers public programme funding specifically earmarked for this purpose. Thus, long-term loans for R&D projects are offered without commitment commission, with comfortable call time limits and fixed interest rates, generally set at below-market level. The executing bank can be relieved of up to 60 % of the liability. The ERP innovation programme thus makes a substantial contribution to safeguarding the technological edge of German companies in international competition.

The KfW environment programme promotes investment used in improving the environment, especially the reduction of air, water and soil pollution, as well as energy efficiency and, by no means least, protecting the climate. Here, too, the financing programmes are long-term in nature; appropriate public programme loans are offered at a favourable rate of interest, fixed for periods up to twenty years, thereby providing our customers with a secure basis for calculation.

As in previous years, our working relationship with KfW was friendly, successful, efficient and characterised by a high degree of mutual trust.

Deutsche Ausgleichsbank

During the past financial year, we once again succeeded in increasing our disbursements of programme loans from Deutsche Ausgleichsbank. This growth, however, was due largely to loan approvals made during the previous financial year, which our customers did not draw on until the current financial year. Demand focused chiefly on the ERP and DtA environmental programmes. This once again makes clear the effective contribution made by DtA in the field of environmental protection.

Apart from this, our customers were also interested in funds from DtA's corporate start-up programme. This programme supports young companies in their first years of existence, helping them to procure the necessary machinery and equipment or to implement innovative business ideas. The programme is aimed not least at creating new jobs, and thus makes an important contribution in terms of the overall economy.

Co-operation with DtA during the past financial year proved to be partner-like, pleasant and goal-oriented.

Development Banks of the *Länder*

Our working relations with the development banks of Germany's *Länder* (states) during the past financial year were efficient and co-operative. Meriting mention are the Bayerische Landesanstalt für Aufbaufinanzierung, Investitionsbank NRW, Landeskreditbank Baden-Württemberg and Investitionsbank Rheinland-Pfalz. Their promotion once again revealed itself to be a sensible supplement to national public programmes, for instance when *Land*-level banks make KfW and DtA resources more attractive by enabling even lower interest rates.

The European Investment Bank

As in previous years, promotional funds of the European Investment Bank once again met with great interest on the part of our medium-sized customers. We have since succeeded in using nearly the entire current EUR 125 million-global loan facility, and have thus been able to draw on a further source of low-interest financing on behalf of our medium-sized customers. These loans are particularly advantageous because they can be used as a supplement to national public programmes, and feature great flexibility. The global loan facility thus covers a wide variety of development aims, ranging from the promotion of medium-sized enterprise through to environmental protection, innovative technologies, education, health, and infrastructure projects.

Negotiations concerning a new global loan are already underway, and we thus assume that we will continue to be able to offer our customers this attractive form of promotional financing. In future, however, EIB will focus on promoting small and medium-sized businesses, regardless of the investment project to be financed.

As in the past, our co-operation with EIB during the period under review was pleasant, straightforward and based on trust.

The Development Bank of the Council of Europe

Following a EUR 250 million-global loan facility, which we completely expended during the past two financial years, we intend in future to draw on development resources for customers in eastern Central Europe. In light of the positive, in some cases very dynamic economic growth we have been observing for a number of years especially in Poland, Hungary and the Czech Republic, we consider this to be a logical supplement to our range of products and services.

Given this background, we look forward to being able to continue our professional, success-oriented co-operation with the Development Bank of the Council of Europe in the coming year.

Equipment Leasing Operations

Our equipment leasing operations are run by IKB Leasing GmbH of Hamburg and IKB Leasing Berlin GmbH.

In 2000, the German leasing sector invested EUR 36.7 billion in mobile capital goods, representing growth of 4.7 % compared with the previous year. Of this amount, the manufacturer leasing companies accounted for a volume of EUR 18.4 billion. Institutional leasing companies invested nearly the same amount, EUR 18.3 billion. The share of leasing in overall capital goods investment in Germany amounted to 18.6 %.

During the period under review, our equipment leasing companies achieved a volume of new business of EUR 414 million. Compared with the previous year (EUR 387 million), this represents a rise of 6.9 %, a rate of growth exceeding that of the market as a whole. Turnover rose to EUR 307 million (EUR 284 million). Net income for the year of the two companies came to EUR 14.2 million (EUR 2.6 million).

The contract portfolio reached EUR 1.4 billion, up from EUR 1.3 billion in the year before. The consolidated balance sheet total of both companies amounted to EUR 804 million (EUR 715 million).

The satisfactory performance of our equipment leasing business is the result of our subsidiaries‘ clear orientation to the market. By largely concentrating on defined item groups like production machines, floor conveyers and vehicles for medium-sized companies, they have succeeded in positioning themselves in – and standing out from – the market. Moreover, intensified co-operation with our domestic branch offices within the IKB Networked Sales system has lead to a welcome increase in new business.

The foreign activities of our equipment leasing companies, which have subsidiaries in Poland and Hungary, have continued to develop successfully. In both countries, we are now well positioned in the equipment leasing market. Growth has largely been borne by customers and sales partners from Germany.

In terms of personnel, organisation and infrastructure, the companies are now virtually complete, meaning that we can look forward to continued expansion of operations and earnings in coming years.

3. Real Estate Financing

During the period under review, the activities of our Real Estate Finance Division were heavily influenced by the difficult situation in the real estate and construction sectors. This applies not least to conditions in eastern Germany, where empty buildings and over-capacity characterise numerous locations.

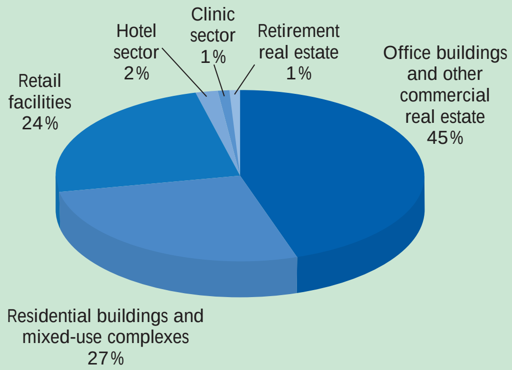
Against this background, but also on account of our still highly restrictive risk policies, last year we disbursed EUR 530 million, considerably less than during the 1999/2000 financial year (EUR 610 million).

Sector Structure

In selecting new commitments, we financed only those buildings with an above average financial standing and a good location. The breakdown by sector is shown in the following graph: 45 % of all disbursements went into office buildings and other commercial real estate; in second place, with 27 %, were mixed-use complexes including apartment buildings; retail facilities accounted for 24 % of disbursements

Real Estate Financing Disbursements

Shares by sector in 2000/2001



The high percentage of disbursements in the office building and other commercial real estate sector reflects improvement in the market, at least in western Germany. With respect to office buildings, areas in the best central locations in major German cities were sought. Accordingly, prices have in some cases risen significantly. This trend was triggered not least by the sustained expansion of information and communications services companies. This is also true of the segment “other commercial real estate”, where the financing of logistics facilities gained in importance, responding to the growing need for just-in-time delivery services, as well as e-commerce.

New business in the field of retail real estate benefited for the first time from the somewhat better mood in a market that was characterised by the following trends: on the one hand, first-class downtown locations in western German cities enjoyed renewed popularity; on the other, an unbroken trend toward “experience shopping” in spacious stores requiring a suburban location with good transport links.

In the hotel sector, difficult market conditions led us to scale back our disbursements again in many segments, and to focus exclusively on projects with top creditworthiness ratings. This also applies to the retirement home segment. While this market remains highly attractive on account of demographic trends in Germany, increasing differentiation with respect to quality and price criteria call for a thorough, highly selective assessment of risks. We do not finance property developers and investors speculating on a profitable dividing up of buildings.

We are pleased at having concluded major transactions in the field of property insurance and life insurance with Allianz last year, coupled with corresponding loans.

Consolidation and Recruitment

Apart from loan operations, work last year was dominated by the consolidation of our real estate activities and the recruitment and integration of new personnel.

Given the tight market, the recruitment of qualified employees for our acquisition teams proved to be a demanding, time-consuming task. We nevertheless succeeded in filling all but a few of our vacancies. We also increased the number of staff in our loan offices after it became apparent that, owing to their risk structure and complexity, the existing loans required very intensive management.

The consolidation of our activities in the real estate sector entailed, among other things, the transfer of the entire real estate financing portfolio consisting of some 1,400 loans and 3,500 properties from the branches to the loan offices. We successfully completed this transfer process by the end of the period under review.

The result from ordinary activities in the Real Estate Finance Division for the period under review reached EUR 24 million; return on equity was 12.2 %, the cost-income ratio, 27.3 %.

IKB Immobilien Leasing GmbH

During the period under review we increased our stake in IKB Immobilien Leasing GmbH to 100 %, resulting in the company being fully consolidated for the first time. This entailed the inclusion of more than 400 special purpose entities.

The chief task of Immobilien Leasing GmbH continues to be to manage the entire planning process of a real estate project from the initial idea through to final construction, performed within the framework of an all-encompassing technical and commercial project management structure. By combining made-to-measure leasing products with a clear focus on selected market segments, e.g. logistics facilities, the company, in unison with IKB Baumanagement GmbH and IKB Immobilien Management GmbH, aims to reinforce and expand its strong position in the field of new building leasing for medium-sized commercial sector companies.

During the last financial year (January 1 to December 31, 2000) IKB Immobilien Leasing GmbH achieved a new loan volume of EUR 421 million, representing a rise of 2.6 % compared with the same period the previous year. Since we were able to arrange for a number of the completed leasing properties to be insured by Allianz AG, commission earnings also resulted. At the end of 2000, the company's contract volume was valued at EUR 2.7 billion, representing an increase of 16 % compared with the previous year.

IKB Immobilien Management GmbH

IKB Immobilien Management GmbH focuses on supporting the Real Estate Finance Division, providing independent project management advice, controlling the real estate projects of our customers, as well as analysing and appraising individual properties and real estate portfolios.

In financial year 2000 (January 1 to December 31, 2000), the company earned EUR 3 million in fees, an 11 % increase on the previous year's performance. This trend was due first and foremost to a welcome increase in turnover in the area of project development/project management for customers, which grew from EUR 0.7 million to EUR 1.2 million. More than two-fifths of turnover came from non-Group companies; last year the figure was 30 %. The result from ordinary activities came to EUR 0.5 million (EUR 0.7 million). A dividend of EUR 0.4 million (EUR 0.5 million) was disbursed to the parent company, including the corporation tax credit.

At July 1, 2001, the two companies IKB Immobilien Management GmbH and IKB Baumanagement GmbH merged, coming into force with retroactive effect on January 1, 2001. The new company is called IKB Immobilien Management GmbH. Apart from greater synergy, the goal of this company is to offer our customers a complete range of real estate-related services from a single source. These include the planning, development, financing and construction management of commercial, industrial and office buildings, as well as retail, logistics and special facilities, whether for a new building project, the remodelling of an existing structure, or a conversion. The Real Estate Division, together with IKB Immobilien Management, is one of the only companies in Germany capable of offering the entire real estate value-added chain from a single source. Accordingly, in coming years we expect Real Estate Division earnings to grow.

4. Structured Financing

In the Structured Financing Division we differentiate between the following areas of activity:

- cash flow-oriented acquisition financing of companies at home and abroad;
- domestic and foreign project finance, including Hermes-covered export finance;
- and the financing of direct investment by German companies abroad.

Acquisition Financing

The core competence of the Structured Financing Division is the financing of cash flow-oriented corporate acquisitions. This business focuses on the financing of corporate takeovers by institutional and industrial investors in Germany and abroad.

In recent financial years, we have succeeded in systematically expanding our market position in Europe. Our branches in Frankfurt, London and Paris have made a major contribution in this respect.

Our activities in Frankfurt and Paris centre on the cross-border financing of corporate acquisitions by medium-sized companies. During the period under review, we structured and arranged 30 corporate takeovers ranging in value from EUR 10 million to EUR 100 million. What sets IKB apart from its German and foreign competitors is our special knowledge of the nature of medium-sized enterprises, foreign countries, and business sectors. This means that even in the case of these mid cap transactions, we are able to bring the core competence of the bank fully to bear.

In the United Kingdom, we take part in larger-scale transactions either in the capacity of co-underwriter or participant. Our activities in the project finance field continue to expand.

In entering the US market, we have pursued much the same course as in Great Britain. We participate primarily in acquisition and transaction financing projects syndicated by arranger banks in New York. On account of the need for immediate access to the market, since September 2000 we have been operating in the US in the form of a newly founded company, IKB Capital Corporation.

During the past financial year, our acquisition team in Frankfurt generated a volume of disbursement amounting to EUR 130 million. The corresponding figure for our branches in Paris was EUR 210 million, in London EUR 190 million. In New York, we achieved a volume of new business totalling US$ 340 million.

Project Financing

Project financing at home and abroad, together with Hermes-insured export finance, also proved highly successful during the year under review, with EUR 190 million being disbursed. Within the framework of our Networked Sales system, additional new lending was realized, chiefly due to the efforts of our Corporate Lending Division.

In recent years, the market for project finance has been strongly shaped by increasing demand in the energy and telecommunications sectors. The trend for large companies to opt for off-balance sheet ways of financing new investments continues unabated worldwide.

During the period under review, we have helped to finance a number of power plants, having augmented our in-house expertise in this area by hiring new, highly qualified employees. Our portfolio in the energy sector now embraces 15 projects with a total volume of EUR 330 million. In high-risk countries, we reduce our exposure with the aid of Hermes. Generally speaking, however, repayment of our project finance loans depends on future cash flow. In OECD countries, we have also participated in power plants whose output is marketed in local power exchanges.

In the telecommunications field we have built up a diversified portfolio in recent years in what has now become a globalised market. We now have 20 loan commitments with a total volume of EUR 100 million in ten countries, most of them OECD members. The loans were used either to finance investment in plant and equipment or to purchase other companies. On account of the uncertain earnings prospects of companies investing in licences, e.g. in the UMTS field, we have so far opted against involvements in this area.

With regard to world regions, Latin America – and Brazil in particular – has been the prime focus of our Hermes-insured export finance business. Against a background of strong economic growth, last year Brazil imported capital goods on a large scale, in no small part from Germany. We have supported these exports through Hermes-covered financing. Specifically, we financed German machine and plant exports destined for investment projects in the construction, textile and pharmaceutical industries. The Brazilian economy is not expected to grow so strongly this year as in 2000, mainly on account of the economic slowdown in the US and an increasingly severe energy crisis at home. We nevertheless expect a renewed increase in investment. Accordingly, we look forward to financing a series of deliveries by German exporters this year, too.

Financing of Direct Investment

Last year as well, central and eastern Europe – and Poland in particular – continued to be the prime field for direct investment by medium-sized German companies. On account of its still-low wage levels, Poland continues to be an attractive production location; but it is also developing into an increasingly important market in its own right. The reasons for the latter lie, on the one hand, in the country's large population (40 million); on the other hand, Poland's gross domestic product has grown by an average of 5 % p.a. for the past five years.

When it comes to financing the projects of German companies in Poland, but also in Hungary and the Czech Republic, we differentiate between the following two approaches: if the investment relates to the subsidiary of a German company that is already established in the local market, financing is provided directly to the subsidiary largely on the basis of local collateral. In the case of start-ups, collateral is provided by the parent company during the initial phase of operations. However, if the subsidiary develops successfully, we are prepared to dispense with joint liability by the parent company. In a second phase, financing can be refered directly to the foreign subsidiary.

These two financing variants have met with great interest on the part of our customers. The stimulus for this type of transaction reaches our specialist team in Düsseldorf almost exclusively from our customer relationship managers in the branch offices. In close co-operation with the Corporate Lending Division, last year we contracted a credit volume totalling EUR 100 million.

The result from ordinary activities in the Structured Finance Division reached EUR 46 million during the period under review; return on equity was 32.9 %, while the cost-income ratio came to 26.5 %.

5. Equity

Our Equity Division has two main target groups:

- established medium-sized companies corresponding to the core target group of the bank, and
- young, innovative enterprises that have already passed through the start-up phase and whose products have in many cases already been successfully launched on the market.

During the period under review we again hired additional staff, further augmenting the effectiveness of our consultation and financing team. Last year, the number of staff rose from 29 to 40.

The result from ordinary activities in the Equity Division came to EUR 8 million; the cost-income ratio was 32.0 %, while return on equity reached 31.2 %. These results fell well below our projected figures, due first and foremost to the extremely turbulent conditions in Germany‘s *Neue Markt*.

Established Medium-sized Companies

At the balance sheet date, IKB Beteiligungsgesellschaft mbH had interests in 55 medium-sized companies, representing a total volume of investment of approximately EUR 200 million. This makes our subsidiary one of the larger companies of its kind in Germany. During the period under review, the bulk of new business resulted from the Networked Sales system, i.e. business leads from customer relationship officers in our Corporate Lending Division.

The market for equity during the year under review experienced considerable growth. In light of the difficult stock market situation alluded to above, this was hardly a forgone conclusion. However, in this context it must also be seen that the kind of equity capital available to companies already operating successfully in the market is entirely different in character from the type of capital to be invested, for example, in the *Neue Markt*. Accordingly, there was no shortage in the supply of capital last year. On the contrary, banks, insurance companies, financial intermediaries and funds for private investors all made abundant quantities of equity capital available for investment.

A rise in the demand for equity capital could also be detected. The fact that German medium-sized companies are expanding to an increasing degree, that they invest a disproportionate amount of their resources in research and development, and that they are increasingly setting up distribution and production units in foreign countries, means greater risk and hence heightened demand for equity. Moreover, the Basle Accord has prompted many companies to take up addition capital so as to improve their creditworthiness and rating respectively. If anything, we expect this trend to gather momentum in future.

In the last two years, IKB has succeeded in appreciably expanding its role as a source of equity financing for established medium-sized companies, triggered not least by our Networked Sales system. The objective of our equity capital company is to attain the same position as a provider of equity to medium-sized companies that IKB enjoys in the German long-term lending market.

Innovative Young Companies

At the end of the last financial year, IKB Venture Capital GmbH had holdings in 25 innovative young companies, with a combined worth of EUR 46 million.

Once again, our participatory investments focused on the following areas:

- information and communication technologies
- life sciences, including biotechnology, and
- high-tech production technologies.

As a matter of policy, we have never invested in the Internet sector, having long since viewed the ratio of purchase price to earning potential as out of balance.

Last year was marked by heavy turbulence in the stock markets. The *Neue Markt* was especially hard hit. For the VC business this had two main consequences: on the one hand, the price of new investments fell to an acceptable level, after having previously reached exorbitant heights; on the other hand, a number of companies were unable to proceed with their IPO plans. We assume that the latter situation will pertain this year as well, with no companies in our VC portfolio going public prior to 2002.

But last year‘s stock market crash also had another effect. Previously, practically every innovative young company was interested in an IPO at the earliest possible date; in the meantime, however, trade sales, i.e. the sale of the company to an industrial investor, are gaining new significance as a possible exit strategy for young enterprises.

A further result of the highly volatile stock markets has been the significant decline in the number and volume of new investments. This has led to a certain consolidation in the market. For our venture capital unit, this means that the number of enquiries from innovative young companies during the period under review was down compared with the previous year – combined with an overall improvement in quality. Nevertheless, the ratio of enquiries to actual investments last year was still greater than 50 to 1.

We attribute the great interest shown by so many innovative young companies in IKB Venture Capital to the following factors:

- we have since made a name for ourselves in the VC market;
- we not only furnish the companies with capital, but also provide them with strategic coaching if necessary;
- we are able to offer young enterprises access to a network of customers and suppliers in a client base that has taken IKB decades to build;
- we have become specialists in the aforementioned sectors, and are capable of discussing technological matters with entrepreneurs on an even footing.

In future, too, our goal is to invest in eight to ten selected companies each year and, following a transitional period, to help launch them on the stock market or serve as intermediaries in selling them to a strategic investor.

6. Treasury and Financial Products

Funding

Apart from using financial resources drawn from national and international development banks, during the period under review the bank also funded its operations by issuing bearer debentures. In total, we placed EUR 2.1 billion; with repayments in equal amount, the volume of securitised liabilities remained unchanged compared to the last balance sheet date, EUR 10.8 billion. Contained here are bearer debentures worth US$ 534 million (EUR 574 million), which we issued in connection with our first securitisation transaction with syndicated US loans in the 1999/2000 financial year, the value date of which was in April 2000.

Furthermore, we also placed EUR 169 million in certificates of indebtedness (*Schuldscheindarlehen*); after repayments, they amounted to EUR 2.3 billion.

We have thus pressed forward with our successful strategic product mix of tap issues and certificates of indebtedness, resulting in cost-conscious funding. In future, too, these will once again include jumbo-sized issues on a floating interest rate basis, which we have already successfully placed in the past through syndicates. In addition, so-called structured debt-instruments in bearer form or otherwise, e.g. issues with different types of call options, continue to form an important element in our cost-optimised approach to funding.

Bearer debentures, which were launched in 1999 within the framework of the bank‘s debt issuance programme, were issued in structured and subordinated form, in line with the bank‘s strategy.

The successful issue of bonds and notes on tap, which we have placed with numerous investors in recent years, entails intensive care and management of the market. Within the framework of our asset and liability management programme, we continue to adhere to the goal of a matching maturity funding policy.

Global Placements

Starting in the previous financial year, the bank outplaced the risks emanating from loans to its customers on a large scale for the first time. To this end, we issued the aforementioned credit-linked notes, whose repayment is linked with the performance of a reference portfolio of syndicated US loans.

This was the start of a strategy with multiple aims: first, this kind of transaction relieves tier 1 capital ratio. It enables growth in our core business without the negative effects of dilution which capital increases inevitably entail. Second, it contributes directly to improving return on equity.

A prerequisite for transactions of this type is our success in attracting loan assets with a strong credit standing and a high degree of diversification. In this way, we can bring growth, risk, diversification and earnings into an even more profitable equilibrium. This is a vital condition for the bank's successful positioning in a rapidly changing capital markets environment.

On the heels of the relatively small pilot transaction in the 1999/2000 financial year, during the period under review we executed a securitised transaction with a volume of EUR 2.5 billion, concluded in December of last year. In co-operation with Kreditanstalt für Wiederaufbau (KfW) we made use for the first time of its framework programme "PROMISE" in order to outplace on a portfolio basis risks relating to public promotional loans which we have extended to medium-sized companies. To implement this transaction, the investment bank Merrill Lynch was assigned the mandate of placing the risk with German and foreign investors. As part of this process, the bank selected a representative sample of some 2,500 KfW loans, which, in conformity with our loan policy standards, featured a high credit rating and a good sectoral and regional diversification.

During the seven-year term of this transaction, capital repayments can be replaced by new loans from KfW and DtA resources, as well as by capital market-financed *Mittelstand* loans from IKB. The capital serving risks of the reference portfolio – but not the claims themselves – were initially taken over by KfW in the form of a credit default swap against a standard risk premium. This led to a substantial relief of the tier 1 capital ratio risk weighting regarding the loans in the reference pool.

As is usually the case in transactions of this type, the reference portfolio was analysed with respect to a comprehensive range of risks by three rating agencies, and categorised in risk classes representing the different default probabilities in the reference pool. Over 90 % of the loans in our reference pool were granted an AAA rating; the rest were divided into four other tranches, each tranche representing an increasing level of risk of borrower default.

Individual company data relating to our customers was not provided. Furthermore, the processing of all loans contained in the reference pool continues to remain exclusively in IKB hands.

Having initially taken the risks on its books, KfW has hedged itself by placing these risks with other investors. Effectively these investors receive the risk premiums paid by IKB, which vary depending on the risk category of the individual tranche.

In co-operation with KfW, we have thus succeeded in the large-scale sale to domestic and foreign investors of risks deriving from non-rated *Mittelstand* loans, as well as in opening up the market for investments of this type. This pioneering step represents an important contribution in the field of *Mittelstand* finance. For it turns the classic corporate loan into a marketable instrument, giving non-listed companies – with IKB and KfW acting as intermediaries – indirect access to capital markets.

Simultaneously, this transaction improved our equity ratio by one percentage point. In this way we have created new room for growth in our loan operations.

The Trend in Equity

To reinforce our equity base, we increased both our tier 1 and tier 2 capital. Just as last year, our Luxembourg subsidiary IKB International placed EUR 70 million in certificates for securitising silent participations with domestic and foreign investors. This enabled us to increase our tier 1 capital on a consolidated basis by 0.3 percentage points. Additionally, in net terms we were able to place EUR 221 million in subordinated bearer debentures and subordinated certificates of indebtedness with investors to strengthen our tier 2 capital.

Designated Sponsor of IKB Shares

For several years we have performed our task as designated sponsor for IKB shares. In this capacity, we assure the marketability and liquidity of our own shares throughout the trading day by quoting bid and offered rates in the electronic trading system Xetra. Our performance of this task has led Deutsche Börse AG once again to award us with their highest seal of performance, an AA rating. During the year under review be bought and resold 1.4 million of our own shares.

Derivative Operations

The bank continues to make significant use of financial derivatives. These are used for hedging interest rate and currency positions, as well as in a fixed income investment element. Interest rate swaps are of special importance in this context. These swaps are used to hedge fixed interest assets in our loan operations; within the framework of investment of our own capital, variable interest rate bonds (floaters) are coupled with swaps in order to transform variable interest into fixed interest rates. Simultaneously connecting these swaps with options results in additional optimisation of yield emanating from these investments.

The total reference volume of derivatives rose compared to the previous year by EUR 3.5 billion to EUR 25.8 billion. In loan operations, this corresponds to a risk equivalent of EUR 0.8 billion. We engaged in derivative transactions solely with top-rated domestic and foreign banks.

Trading Activities

Our trading for own account operations have long since focused on the euro interest rate and euro stock markets. Despite the difficult underlying conditions and highly volatile markets, we produced the gratifying result of EUR 2.5 million. This represents a return to the positive results of trading for own account experienced in past years.

IKB International S.A. and the IKB Luxembourg Branch

Both of the bank‘s Luxembourg units, the branch and the subsidiary IKB International, concentrate on preparing customised loans for companies in Germany and abroad. During the period under review, more than 20 % of the bank‘s disbursements were executed from Luxembourg. Demand for foreign currency loans and derivatives was especially strong, as these provide our customers not only with additional flexibility and planning security, but also cost advantages.

The desire for more complex credit structures has been growing for years; we have responded by continuously expanding our consulting and marketing activities. Our range of services extends from on-site advice to individually structured loan and interest rate hedge concepts to workshops on current aspects of interest rate and foreign currency management.

Growth at IKB International proved to be a continuation of the previous year‘s positive performance. The balance sheet total at March 31, 2001 was EUR 5.6 billion. At the balance sheet date, claims on customers amounted to EUR 3.5 billion. Net income for the year, EUR 9 million, was entirely transferred to reserves.

7. Human Resources

Personnel Management in a Period of far-reaching Change

From the standpoint of personnel management, the 2000/2001 financial year was characterised above all by the continued expansion our new divisional structure. Thanks to their commitment and professional skill, the creation of new processes and structures within the divisions and the Group as a whole was successfully pursued by the entire staff.

Given the fact that our staff grew by over 5 % during the past financial year, this is all the more notable. Along with advanced training and personnel development, attracting and integrating new staff thus continues to play a very important role in the process of structural change. For us, this represents a future-oriented investment in the competitiveness of the Group.

We would like to thank the men and women of our staff for their great efforts and outstanding commitment.

Recruitment and Integration of New Staff

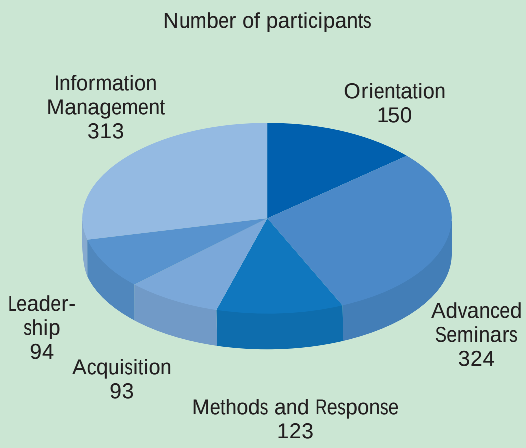
The main challenge in recruiting highly qualified new staff was to attract the best applicants from the small pool of suitable candidates. We thus made greater efforts to exploit more fully the technical possibilities presented by the Internet. For instance, the bank's home page now includes an extra orientation guide to assist would-be applicants. At the same time, it is now possible to make quick online enquiries and applications. In this way, we succeeded in significantly extending the reach and success rate of our vacancy advertisements.

Our Introduction Workshops once again proved to be an effective means of integrating new personnel. They afford an opportunity to get to know the bank's organisational structures and product range, as well as the chance to meet people. This is particularly important, since we see intensive personal networking as the key to integrating new employees.

Initial and Advanced Training

Last year, too, the need for constant adaptation and continuing training with respect to professional skills, methodology and conduct was reflected in the healthy level of participation in our programme of initial and advanced training courses. The number of participants taking part in internal seminars during the 2000/2001 financial year breaks down as follows:

IKB Training Seminars



The training of bank officers and computer specialists proceeded on a highly systematic basis. Our one-year programme for promoting the development of junior staff has proved highly effective in recent years. In times of rapid change, a systematic, ongoing programme of continuing education and training is a crucial factor in achieving business success, meaning that we will be placing even greater emphasis in this area in future.

Personnel Development

Beyond the current system of initial and advanced training courses, the carefully targeted development of candidates who show potential is an important aspect of our set of promotional programmes.

During the past financial year, a systematic programme for promoting the development of junior staff was successfully established for employees in our core market units. We are thus able to offer promising candidates clear prospects for advancement and professional development, as well as positioning ourselves as an attractive potential employer.

Furthermore, the careful preparation of junior staff for executive positions continues to be another important, forward-looking activity at IKB. Thus, during the last financial year, we launched a special programme for systematically encouraging employees with appropriate potential.

A major focus of our personnel development activities consisted of our "qualification offensive" aimed at optimising the way our Networked Sales system works. With this object in mind, all of our customer relationship managers underwent a combined training programme to develop their professional and interpersonal skills. In this context, our particular aim was to ensure the active, practical application of the training content. Thus, senior staff in the sales units were specifically prepared for their role as sales coaches. Successful implementation indicates that we are on the right track.

Restructuring our Personnel Systems

In the area of personnel systems, we pressed ahead during the last financial year with moves to modernise the organisation of our working environment. For example, we launched a bank-wide pilot programme aimed at expanding the possibilities for telecommuting by both back office employees and customer service officers. Initial results from the project indicate considerable potential in this direction.

Another aspect that is gaining in importance is the active design of flexible, innovative and individualised work-time solutions. In this context, flexible starting and finishing times were introduced at all of our locations. Moreover, the introduction of time accounts has made working practices at the bank substantially more flexible.

The third component in the modernisation of our personnel systems was the total overhaul of our system of performance-related compensation, which came into effect at the beginning of 2001/2002 financial year. The core element of the new system is the linking of performance-related compensation with a bank-wide system of goal setting. In this combination we see the chance to bring together the abilities and expectations of the employees and the objectives of the bank. This system of compensation also has the advantage of improving the transparency of individual performance, assuring motivation through reward.

Key Figures from the Human Resources Division

At the end of the financial year, the Group had 1,314 employees (1999/2000: 1,248, 90 of whom stemming from the expanded consolidation within the Group). Of our 1,314 employees, 555 were in market units, 422 in the central divisions, and 337 in subsidiaries. In the Group, 15 trainees were undergoing bank officer training.

During the 2000/2001 financial year, 194 new people joined IKB, while 128 employees left the bank. Thus, in a welcome development, the termination-related fluctuation rate dropped from 6.2 % the previous year to 5.1 %.

Women account for 41 % of the staff. The average age of our employees dropped to 41 (41.3), the average length of service, to 9.1 years (10.1).

Last year, 75 employees celebrated their 10th anniversary with the bank, and 11 their 25th. The subscription ratio for staff shares remained at the high level of 75 %; the resulting cost to the Group was EUR 140,000.

Co-operation with Staff Representatives

In a situation characterised by permanent change, a close and candid dialog between the Board, the Human Resources Division and the Staff Representative committees is an indispensable factor for the successful implementation of modern personnel management instruments and organisational adjustments.

We would like to thank the Staff Representatives for their constructive and valuable work during the past financial year.

“Innovation and entrepreneurial thinking are the key to success.”

Merck KGaA, Darmstadt

Prof. Dr. Bernhard Scheuble
Chairman of the Executive Board

Merck is a leading European corporate group operating in the business sectors of Pharmaceuticals, Specialty Chemicals, Laboratory Products and Laboratory Distribution. In the year 2000, 209 companies of the Merck Group in 52 countries generated sales of around EUR 6.7 billion. Some 33,500 people are employed worldwide at 60 production facilities and eight research centers. The Merck Group is headquartered in Darmstadt, where the company was founded in 1668 when Jacob Merck purchased the "Angel Pharmacy". After the 1995 IPO 74 % of the share capital still belong to the Merck family. With its ethicals (prescription drugs), particularly those used for treating metabolic (type 2 diabetes) and cardiovascular diseases, Merck occupies a leading position in the market.

In July 2000, Prof. Bernhard Scheuble was appointed Chairman of the Executive Board. His vision for the future is clear: Merck will be number one in its cores businesses through innovations created by talented, entrepreneurial employees.

Innovation – the creative Force for the Future

That Merck is capable of swiftly transforming new ideas into innovative products for growth markets like telecommunications and information technology is demonstrated by the example of the Specialty Chemicals business sector. Although many are unaware of it – most times picking up a mobile phone is picking up a triple combination of Merck: the pearl luster pigments in the fashionable plastic casing, the liquid crystals and special glass of the LC display and, indirectly, electronic chemicals used to manufacture the high-performance chips. Moreover, the Merck Group keeps pace with the burgeoning growth of the biotechnology sector, introducing several hundred new products each year in the Scientific Laboratory Products division. Likewise, its worldwide, e-business-based Laboratory Distribution activities meet the needs of globally operating companies.

Focussed Research in Cancer Therapies

Innovation cannot be achieved without research. With research facilities in Darmstadt, Lyon, Chilly-Mazarin near Paris, Cambridge, Southampton and Barcelona in Europe, Lexington near Boston in the United States, and in Atsugi in Japan, Merck is present in major international markets. To maintain a leading global position in the future, too, the company is continuously expanding its research activities – through strategic collaborations with universities and market-oriented institutes, as well as through cooperations with other companies and acquisitions of new companies.

A glance at the balance sheet shows just how much Merck invests in research: last year, the company increased R&D spending by 10 % to EUR 546 million. A major focus of pharmaceutical research is the development of new cancer therapies: Merck has expanded its own capabilities in the field of oncology through well-targeted acquisitions as well as intelligent alliances, e.g. with the German Cancer Research Center in Heidelberg.

Entrepreneurial Success Starts with People

Merck intends to achieve its ambitious goals through the actions of talented, entrepreneurial employees. The encouragement and promotion of personal initiative are the prerequisites for the creative process that culminates in success. Merck's employees share in this through performance-related incentives, e.g. the company's results-oriented bonus program and stock option program. Merck enjoys an excellent reputation for its responsibility toward its employees.

Consolidated Balance Sheet of IKB Deutsche Industriebank

Assets	EUR	EUR	EUR	March 31, 2000 EUR thousand
Liquid funds				
a) Cash		42 431.10		127
b) Balances with the central banks		809 737.75		11 526
of which: with the Deutsche Bundesbank EUR 12 071.96				(11 022)
c) Balances on postal giro accounts		15 317.31		7
			867 486.16	11 660
Claims on banks				
a) payable on demand		245 510 297.35		721 115
b) other claims		556 872 684.17		928 926
			802 382 981.52	1 650 041
Claims on customers			24 332 098 790.61	22 634 938
of which: loans to public authorities EUR 1 891 271 872.28				(989 124)
Debentures and other fixed interest securities				
a) Bonds and debentures				
aa) from government issuers	–			–
ab) from other issuers	3 737 923 794.13			2 445 007
including: eligible as collateral for advances from the Deutsche Bundesbank EUR 2 738 485 390.50		3 737 923 794.13		2 445 007 (2 167 282)
b) own bonds		75 795 135.01		207 355
face value EUR 74 026 540.12				(206 353)
			3 813 718 929.14	2 652 362
Shares and other non-fixed interest securities			36 138 907.56	13 392
Investments			38 906 427.56	29 214
of which: in banks EUR 37 268 659.67				(26 758)
of which: in financial services companies EUR –				(–)
Investments in associated companies			–	35 641
of which: in banks EUR –				(35 641)
of which: in financial services companies EUR –				(–)
Shares in subsidiary companies			28 732 931.97	26 446
of which: in banks EUR –				(–)
of which: in financial services companies EUR –				(–)
Trust assets			6 800 388.02	7 381
of which: loans on a trust basis at third party risk EUR 5 307 777.63				(5 868)
Fixed assets			211 502 171.58	213 788
Leasing items			2 239 422 373.41	2 113 904
Outstanding capital of minority shareholders			49 183 800.62	60 945
Treasury shares			528 717.48	213
nominal amount EUR 86 067.20				(32)
Other assets			728 830 390.52	327 021
Deferred items			153 298 539.19	164 363
Total assets			32 442 412 835.34	29 941 309

as at March 31, 2001

Liabilities	EUR	EUR	EUR	March 31, 2000 EUR thousand
Liabilities to banks				
a) payable on demand		501 559 297.50		85 040
b) with agreed maturity or period of notice		14 674 054 092.57		13 095 628
			15 175 613 390.07	13 180 668
Liabilities to customers				
Other liablities				
a) payable on demand		43 942 026.89		39 510
b) with agreed maturity or period of notice		2 392 022 656.13		2 374 160
			2 435 964 683.02	2 413 670
Securitised liabilities				
Bonds and notes			10 825 072 402.72	10 802 912
Trust liabilities			6 800 388.02	7 381
of which: loans on a trust basis at third party risk EUR 5 307 777.63				(5 868)
Other liabilities			563 526 912.91	409 743
Deferred items			514 089 276.58	497 804
Provisions				
a) for pensions and similar obligations		110 404 026.72		101 014
b) tax provisions		117 560 087.85		117 188
c) other provisions		41 365 682.90		47 875
			269 329 797.47	266 077
Special items including reserves			8 935 324.99	10 053
Subordinated liabilities			803 413 276.13	582 358
Participation certificate (Genussschein) capital			439 259 342.59	439 259
of which: with maturities of less than two years EUR –				(–)
Fund for general bank risks			80 000 000.00	80 000
Participations of minority shareholders			26 508 051.65	45 295
Equity				
a) subscribed capital		225 280 000.00		225 280
contingent capital: EUR 48 128 000.00				(48 128)
b) silent capital		170 000 000.00		100 000
c) capital reserves		567 415 527.13		567 416
d) revenue reserves				
da) statutory reserves	2 398 573.84			2 399
db) reserves for treasury shares	528 717.48			213
dc) other revenue reserves	277 426 607.28			246 275
		280 353 898.60		248 887
e) consolidated profit		50 850 563.46		64 506
			1 293 899 989.19	1 206 089
Total liabilities			32 442 412 835.34	29 941 309
Contingent liabilities				
a) contingent liabilities arising from rediscounted bills of exchange		395 820.25		285
b) contingent liabilities arising from guarantees and indemnity agreements		988 856 406.61		803 066
			989 252 226.86	803 351
Other obligations				
Irrevocable loan commitments			2 309 365 809.78	1 996 410

Consolidated Income Statement of IKB Deutsche Industriebank

Expenses	EUR	EUR	EUR	1999/2000 EUR thousand
Interest expenses			2 333 897 440.29	1 831 422
Commission expenses			4 854 630.92	5 365
Net expenses from finance operations			–	2 594
General operating expenses				
a) Personnel expenses				
aa) Salaries and wages	87 099 123.61			83 292
ab) Social security contributions and employee benefit and pension expenditure	27 053 085.35			24 037
of which: for pensions EUR 15 673 386.54				(13 315)
		114 152 208.96		107 329
b) other administrative expenses		46 405 921.64		43 827
			160 558 130.60	151 156
Depreciation and value adjustments on intangible and fixed assets			18 236 497.50	26 542
Depreciation of leasing items			312 245 418.41	300 605
Rental expenditure on leasing items and other service related expenses			14 462 158.82	9 303
Other operating expenses			24 155 287.57	14 346
Write-downs and value adjustments to claims and securities, plus transfer to provisions for possible loan losses			183 465 103.90	165 546
Write-downs and value adjustments on investments, holdings in subsidiary companies and securities treated as long-term investments			87 256.95	228
Expenditure for loss takeovers			–	136
Allocations to special items including reserves			–	1 022
Transfer to the fund for general bank risks			–	3 306
Taxes on income and earnings			83 208 406.57	80 268
Other taxes not entered under “other operating expenses”			4 291 936.03	5 050
Profits transfered on the basis of a profit pool, a profit transfer agreement or a partial profit transfer agreement			–	6 706
Net income for the year			85 911 327.65	75 456
Total expenses			3 225 373 595.21	2 679 051
Net income for the year			85 911 327.65	75 456
Attributable to other partners				
Profit			-2 831 285.71	-2 638
Loss			17 637 317.00	10 800
Loss carried forward from the previous year (profit carried forward)			-10 161 291.60	10 563
			90 556 067.34	94 181
Release of revenue reserves				
of revenues for own shares			–	347
Allocation to revenue reserves				
to revenues for own shares			-315 469.32	–
to other revenue reserves			-39 390 034.56	-30 022
Unappropriated profit			50 850 563.46	64 506

for the Period April 1, 2000 to March 31, 2001

Income	EUR	EUR	1999/2000 EUR thousand
Interest income from			
a) lending and money market operations	2 477 456 426.53		2 037 521
b) fixed interest securities and government-inscribed debt	178 814 679.81		70 503
		2 656 271 106.34	2 108 024
Current income from			
a) shares and other non-fixed interest securities	318 424.97		4 554
b) investments	1 372 954.78		884
c) holdings in subsidiary companies	–		36
		1 691 379.75	5 474
Income from profit pooling, profit transfer, and partial profit transfer agreements		7 107 141.56	27 018
Income from investments in associated companies		986 736.58	4 191
Commission income		17 862 386.81	13 053
Net income from finance operations		2 539 566.12	–
Earnings from write-ups relating to investments, holdings in associated companies, and securities treated as fixed assets		8 506 772.14	2
Income from leasing operations		431 360 020.04	416 263
Earnings from the release of special items including reserves		1 117 726.54	–
Other operating income		97 930 759.33	105 026
Total income		3 225 373 595.21	2 679 051

Balance Sheet of IKB Deutsche Industriebank AG

Assets	EUR	EUR	EUR	March 31, 2000 EUR thousand
Liquid funds				
a) Cash		35 607.44		120
b) Balances with central banks		118 949.70		11 321
of which: with the Deutsche Bundesbank EUR –				(11 022)
c) Balances on postal giro accounts		2 602.11		3
			157 159.25	11 444
Claims on banks				
a) payable on demand		276 891 996.95		1 439 029
b) other claims		4 906 586 529.47		3 822 502
			5 183 478 526.42	5 261 531
Claims on customers			22 238 573 937.94	20 845 949
of which: loans to public authorities EUR 1 891 271 872.28				(989 124)
Debentures and other fixed interest securities				
a) Bonds and debentures				
aa) from government issuers	–			–
ab) from other issuers	3 570 639 379.55			2 275 463
		3 570 639 379.55		2 275 463
of which: eligible as collateral for advances from the Deutsche Bundesbank EUR 2 614 080 529.82				(2 037 549)
b) own bonds		75 795 135.01		207 355
face value EUR 74 026 540.12				(206 353)
			3 646 434 514.56	2 482 818
Shares and other non-fixed interest securities			13 477 453.18	10 613
Investments			1 091 010.11	21 203
of which: in banks EUR 293 570.67				(20 296)
of which: in financial services companies EUR –				(–)
Shares in subsidiary companies			353 786 018.14	315 713
of which: in banks EUR 164 839 454.84				(164 839)
of which: in financial services companies EUR –				(–)
Trust assets			6 800 388.02	7 381
of which: loans on a trust basis at third party risk EUR 5 307 777.63				(5 868)
Fixed assets			53 442 816.49	54 943
Treasury shares			528 717.48	213
nominal amount EUR 86 067.20				(32)
Other assets			689 055 731.90	290 662
Deferred items			147 573 610.97	160 231
Total assets			32 334 399 884.46	29 462 701

as at March 31, 2001

Liabilities	EUR	EUR	EUR	March 31, 2000 EUR thousand
Liabilities to banks				
a) payable on demand		652 354 704.98		722 772
b) with agreed maturity or period of notice		15 281 457 413.27		12 678 112
			15 933 812 118.25	13 400 884
Liabilities to customers				
Other liabilities				
a) payable on demand		36 327 422.53		44 688
b) with agreed maturity or period of notice		2 301 677 830.45		2 239 801
			2 338 005 252.98	2 284 489
Securitised liabilities				
Bonds and notes			10 770 793 333.43	10 794 596
Trust liabilities			6 800 388.02	7 381
of which: loans on a trust basis at third party risk EUR 5 307 777.63				(5 868)
Other liabilities			435 207 225.40	366 707
Deferred items			153 934 882.56	174 142
Provisions				
a) for pensions and similar obligations		98 146 948.35		90 274
b) tax provisions		107 623 563.04		107 587
c) other provisions		30 667 368.00		28 593
			236 437 879.39	226 454
Subordinated liabilities			803 413 276.13	582 358
Participation certificate (Genussschein) capital			439 259 342.59	439 259
of which: with maturities of less than two years EUR –				(–)
Fund for general bank risks			80 000 000.00	80 000
Equity				
a) subscribed capital		225 280 000.00		225 280
contingent capital: EUR 48 128 000.00				(48 128)
b) capital reserves		567 415 527.13		567 416
c) revenue reserves				
ca) statutory reserves	2 398 573.84			2 399
cb) reserves for treasury shares	528 717.48			213
cc) other revenue reserves	273 353 367.26			243 363
		276 280 658.58		245 975
d) distributable profit		67 760 000.00		67 760
			1 136 736 185.71	1 106 431
Total liabilities			32 334 399 884.46	29 462 701
Contingent liabilities				
a) contingent liabilities arising from rediscounted bills of exchange		395 820.25		286
b) contingent liabilities arising from guarantees and indemnity agreements		2 901 673 769.14		2 551 643
			2 902 069 589.39	2 551 929
Other obligations				
Irrevocable loan commitments			1 704 910 226.49	1 799 395

Income Statement of IKB Deutsche Industriebank AG

Expenses	EUR	EUR	EUR	1999/2000 EUR thousand
Interest expenses			2 380 994 777.60	1 834 206
Commission expenditure			3 420 153.31	2 835
Net expenses from finance operations			–	2 626
General operating expenses				
a) Personnel expenditure				
aa) Salaries and wages	67 348 989.72			65 820
ab) Social security contributions and employee benefit and pension expenditure	22 699 722.75			20 324
of which: for pensions EUR 13 884 878.97				(11 945)
		90 048 712.47		86 144
b) other administrative expenses		42 860 913.18		41 926
			132 909 625.65	128 070
Depreciation and value adjustments on intangible and fixed assets			12 124 575.73	10 832
Other operating expenses			12 438 464.97	12 974
Write-downs and value adjustments to claims and securities, plus transfers to provisions for possible loan losses			164 751 037.45	158 597
Write-downs and value adjustments on investments, holdings in subsidiary companies and securities treated as long-term investments			87 256.95	225
Expenditure for loss takeovers			9 457 665.19	7 498
Transfer to the fund for general bank risks			–	3 306
Taxes on income and earnings			79 690 538.03	72 348
Other taxes not entered under “other operating expenses”			958 343.01	1 464
Net income for the year			98 065 503.88	88 141
Total expenses			2 894 897 941.77	2 323 122

Net income for the year	98 065 503.88	88 141
Release of revenue reserves		
of revenues for own shares	–	347
Allocation to revenue reserves		
to reserves for own shares	315 469.32	–
to other revenue reserves	29 990 034.56	20 728
Unappropriated profit	67 760 000.00	67 760

for the Period April 1, 2000 to March 31, 2001

Income	EUR	EUR	1999/2000 EUR thousand
Interest income from			
a) lending and money market operations	2 568 268 552.13		2 093 570
b) fixed interest securities and government-inscribed debt	169 269 856.97		65 166
		2 737 538 409.10	2 158 736
Current income from			
a) shares and other non-fixed interest securities	318 424.97		4 554
b) investments	3 108 694.30		3 978
c) holdings in subsidiary companies	5 871 147.06		5 830
		9 298 266.33	14 362
Income from profit pooling, profit transfer, and partial profit transfer agreements		26 458 227.89	36 016
Commission income		29 523 279.43	24 452
Net income from finance operations		2 249 661.50	–
Earnings and write-ups relating to investments, holdings in associated companies, and securities treated as fixed assets		8 506 772.13	2
Other operating income		81 323 325.39	89 554
Total income		2 894 897 941.77	2 323 122

Notes to the Consolidated and the AG's Financial Statements

Legal Basis and Accounting Principles

The consolidated Group accounts and the financial statements of IKB Deutsche Industriebank AG are prepared in accordance with regulations contained in the German Commercial Code (HGB), in conjunction with the accounting regulations for financial institutions (RechKredV), as well as with the relevant provisions of German Company Law. Furthermore the financial statements of the IKB Deutsche Industriebank Group are drawn up in accordance with the Seventh Council Directive of June 13, 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts (83/349/EEC) and Council Directive of December 8, 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (86/635/EEC).

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

Consolidated Companies

Apart from the parent company, seven domestic and four foreign companies are included in the consolidated financial statements at March 31, 2001. For the first time, we fully consolidated IKB Immobilien Leasing GmbH – previously valued using the equity method – and its 413 special purpose entities, including the general partner companies in the form of limited liability companies (GmbH). We exercise unified direct control over these subsidiaries via direct or indirect majority voting rights. In accordance with Article 285, No. 11 of the German Commercial Code (HGB) and Article 313, Section 2, HGB we have entered the consolidated companies in the List of Investments under "A.", while in accordance with Articles 325 and 287, HGB the list of 413 special purpose entities will be filed with the Commercial Register in a separate schedule.

Partnerships eligible for exemption in accordance with Article 264 b HGB are listed in a separated category. The company AIVG Allgemeine Verwaltungsgesellschaft mbH of Düsseldorf was included in the Group accounts for the first time. This company handles the execution of business within the IKB Immobilien Leasing group.

In the interests of comparability, the consolidated figures from the previous year were correspondingly adapted in accordance with Article 294, Section 2, HGB. The most significant changes in the adjusted consolidated accounts from the previous year were the increase in the portfolio of leasing items (EUR 1.6 billion) and the EUR 0.9 billion-decline in claims on customer. In addition, the items "Outstanding capital of minority shareholders (concerning votes)" and "Participations of minority shareholders (concerning votes)" were also included for the first time in the consolidated accounts. Consolidation of the IKB Immobilien Group led to an increase in the consolidated balance sheet total of EUR 0.8 billion. Net income for the 1999/2000 financial year declined to EUR 75.5 million. Two thirds of this decline related to other shareholders. The remaining third was essentially due to administrative expenses within the IKB Immobilien Group.

On April 3, 2000, we established IKB Capital Corporation in Delaware. Located in New York, the company is a wholly owned subsidiary of IKB. The company‘s financial statements are prepared in accordance with US GAAP. Whenever material, US accounting principles are adjusted to accord with German accounting principles.

The investment in the associated company National-Bank AG, Essen, was sold in full during the period under review, and deconsolidated.

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

Principles of Consolidation

The Group accounts were prepared in strict accordance with IKB Deutsche Industriebank AG accounting and valuation methods contained in the following section. The financial statements of the companies included were adapted to conform with the accounting and valuation regulations of the parent company. Foreign currency amounts were converted to D-mark at exchange rates ruling at the balance sheet dates, with the exception of fixed assets.

Capital consolidation was carried out in accordance with the book value method. For Group companies, the cost of investment is set against the Group’s share of equity at the date of acquisition or first-time consolidation. Debit differences amounted to EUR 37.8 million, and credit differences EUR 6.2 million. These amounts were set off with revenue reserves.

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

Normally the financial statements of consolidated companies and those of the parent company are drawn up at the same accounting date. Differing from this rule the annual financial statements of the companies listed below are dated December 31, 2000:

AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf
IKB Capital Corporation
IKB Financière France S.A.
IKB Immobilien Leasing GmbH
IKB Immobilien Management GmbH
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Wilhelm-Bötzkes-Str. KG.

In the case of IKB Capital Corporation, we prepared interim accounts at March 31, 2001 in accordance with Article 299, Section 3 HGB.

Accounting and Valuation Methods

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

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

Securities, which are disclosed under the heading "Debentures and other fixed interest securities", as well as "Shares and other non-fixed interest securities" are valued in accordance with the lower of cost or market principle, i. e. the lower of cost and quoted prices. Pursuant to Article 280 of the German Commercial Code (HGB), we were obliged to write up the value of securities written down in previous years at the current market value, the maximum amount of which is the historical purchase price. Fixed asset securities are not included in the portfolio.

Investments in subsidiary companies and companies in which the bank has a participatory interest are shown at the rolled-forward historical cost. During the year under review, a write-up amounting to EUR 8.5 million was taken on the book value of our holding in Natexis Banques Populaires, partially written down in the previous years; this was in accordance with the *Wertaufholungsgebot*, i.e. the requirement to reverse write-downs where the reasons for them no longer exist.

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

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

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

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

Currency Conversion

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

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

Only translation gains and losses in accordance with Article 340 h, Section 2, HGB are recognized in the income statement.

Notes to the Balance Sheet and Income Statement

Breakdown of Maturities of Selected Balance Sheet Items (According to Remaining Maturities)

Group in EUR million		up to three months	more than three months up to one year	more than one year up to five years	more than five years
Claims on banks	March 31, 2001	102	239	153	64
	March 31, 2000	320	327	194	88
Claims on customers	March 31, 2001	3 315	2 404	10 878	7 735
	March 31, 2000	2 437	2 133	10 822	7 243
Liabilities to banks	March 31, 2001	4 051	1 430	4 685	4 508
	March 31, 2000	3 628	1 401	4 612	3 455
Liabilities to customers	March 31, 2001	154	182	1 130	926
	March 31, 2000	227	107	1 295	746

AG in EUR million		up to three months	more than three months up to one year	more than one year up to five years	more than five years
Claims on banks	March 31, 2001	4 309	335	221	43
	March 31, 2000	2 972	530	257	63
Claims on customers	March 31, 2001	3 095	2 306	9 899	6 939
	March 31, 2000	2 060	2 018	10 685	6 083
Liabilities to banks	March 31, 2001	5 188	1 426	4 628	4 040
	March 31, 2000	3 698	1 408	4 616	2 956
Liabilities to customers	March 31, 2001	77	158	1 114	953
	March 31, 2000	118	91	1 285	746

Of the debentures and other fixed interest securities in the Group EUR 194 million and in the AG EUR 173 million will mature next year. Of the issued debentures included in the balance sheet under securitised liabilities, EUR 1,650 million will come due next year in the Group and in the AG.

Treasury Shares

At the General Meetings held on September 3, 1999 and September 8, 2000, we obtained authorisation to acquire our own shares for the purpose of securities trading (max. 5 % of share capital).

During the 2000/2001 financial year, we purchased 1,386,773 treasury shares. Including the beginning balance of 12,670 shares on April 1, 2000, the average purchasing price was EUR 16.11. A total of 1,365,823 shares were sold at an average price of EUR 16.19. The resulting revenues of EUR 108,000 are included in the net result from financial operations. The highest daily balance of treasury shares amounted to 0.29 % of subscribed capital. Our affiliates did not engage in the sale or purchase of IKB shares. As at the balance sheet date, 33,620 shares with a calculated value of EUR 86,067.20 were held by the bank, corresponding to a 0.04 % share of subscribed capital. The book value amounts to EUR 528,717.48.

According to Article 272, Section 4, HGB, we have formed a reserve for treasury shares, the amount corresponds to the book value of treasury shares on the asset side of the balance sheet.

In order to enable our employees to acquire shares under employee purchase schemes during the year under review we purchased 17,694 shares at an average price of EUR 15.80, of which we then sold 13,523 to the employees of the AG at a preferential rate of EUR 7.90. A further 4,171 shares were acquired under the same conditions from employees of the Group.

Fixed Asset Schedule

Fixed Assets of the Group

in EUR million	Cost of acquisition	Additions	Disposals	Reclassification	Accumulated depreciation	Depreciation financial year	Net book value March 31, 2001	Net book value March 31, 2000
Tangible fixed assets	335.2	19.2	9.4	–	133.5	18.2	211.5	213.8
Investments	39.3	4.5	2.5	–0.7	1.7	0.1	38.9	29.2
Investments in associated companies	35.6	8.6	44.2	–	–	–	–	35.6
Shares in subsidiary companies	26.6	2.5	1.0	0.7	0.1	–	28.7	26.4
Leasing items	2 779.8	533.3	347.9	–	725.8	312.2	2 239.4	2 113.9

Fixed Assets of the AG								
in EUR million	Cost of acquisition	Additions	Disposals	Reclassification	Cumulative depreciation	Depreciation financial year	Net book value March 31, 2001	Net book value March 31, 2000
Tangible fixed assets	123.2	13.4	9.1	–	74.1	12.1	53.4	54.9
Investments	22.4	10.5	30.5	–	1.3	0.1	1.1	21.2
Shares in subsidiary companies	374.9	39.1	1.0	–	59.2	–	353.8	315.7

On March 31, 2001, the book value of the Group's land and buildings used by the Group amounted to EUR 183.2 million, and those of the AG to EUR 31.8 million. The principle item in the Group was the headquarters building in Düsseldorf, where we shifted from declining-balance depreciation to linear depreciation during the financial year. The same applies to certain equipment categories in our equipment leasing operations.

On the Group balance sheet, equipment and furniture, amount to EUR 24.0 million, and for that of the AG, to EUR 20.3 million. They are included in "Tangible fixed assets".

With regard to Group fixed assets, in participations we offset the EUR 8.5 million write-up on our investment in Natexis Banque Populaires with the accumulated write-downs.

For the Group and the AG alike, the most significant change in investments in associated companies was the sale of our shares in National-Bank AG, Essen.

Negotiable Securities

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

in EUR million	Group			AG		
	Total	Listed	Not Listed	Total	Listed	Not Listed
Debentures and other fixed interest securities	3 792.9	3 770.2	22.7	3 626.3	3 612.3	14.0
Shares and other non-fixed interest securities	0.9	0.9	–	0.9	0.9	–
Investments	37.1	–	37.1	0.2	–	0.2
Shares in subsidiary companies	–	–	–	151.9	–	151.9

Receivables and Payables Relating to Subsidiary and Related Companies

in EUR million	Group		AG	
	Subsidiary companies	Related companies	Subsidiary companies	Related companies
Claims on banks	–	4.0	4 637.8	4.0
Claims on customers	286.3	41.8	1 936.3	41.8
Debentures and other fixed interest securities	–	4.0	–	4.0
Liabilities to banks	–	0.0	1 753.4	0.0
Liabilities to customers	–	5.9	87.5	5.9

Trust Transactions

in EUR million	Group		AG	
	March 31, 2001	March 31, 2000	March 31, 2001	March 31, 2000
Claims on customers	5.3	5.9	5.3	5.9
Investments	1.5	1.5	1.5	1.5
Trust assets	**6.8**	**7.4**	**6.8**	**7.4**
Liabilities to customers	6.8	7.4	6.8	7.4
Trust liabilities	**6.8**	**7.4**	**6.8**	**7.4**

Subordinated Assets

Subordinated assets are included in the following balance sheet items:

in EUR million	Group	AG
Claims on customers	6.2	6.2
Shares and other non-fixed interest securities	0.5	0.5
Shares in subsidiary companies	–	71.6

Foreign Currency Assets and Liabilities

Currency amounts converted into euros are presented in the following table. Transactions denominated in the currencies of countries participating in the launch of the EURO are not included. The differences between assets and liabilities are covered by currency hedging transactions.

in EUR million	Group		AG	
	March 31, 2001	March 31, 2000	March 31, 2001	March 31, 2000
Assets	5 055	3 447	4 698	3 137
Liabilities	2 665	1 807	2 620	1 805

Other Assets and Other Liabilities

For both the Group and the AG, the largest single item in Other assets are amounts due from direct debits totalling EUR 351 million. These direct debits could not be credited to our LZB account, as the balance sheet date (March 31, 2001) was not a workday. A further significant item contained here is the pro rata interest earned on interest rate swap and interest rate and currency swap transactions (Group with EUR 283 million/AG with EUR 276 million). The remaining amount relates besides activations of claims to profit against associated companies primarily to trade receivables and claims for reimbursement.

In both the Group and AG financial statements, the amounts distributed on the participation certificate capital for 2000/2001 (EUR 33 million), the pro rata interest for the subordinated liabilities with EUR 17 million and EUR 22 million, as well as the interest expenditure for the silent capital in the Group with EUR 10 million, are entered under Other Liabilities. The pro rata interest from interest rate swap agreements constitute the largest item in the Group (EUR 265 million) and AG (EUR 258 million). Other significant items include trade payables, containing EUR 52 million and EUR 17 million respectively.

Accrued and Deferred Income

Prepaid expenses of the Group and AG, each amounting to EUR 141 million relate to differences pursuant to Article 250, Section 3 of the German Commercial Code and Article 340 e, Section 2, Sentence 3 of the German Commercial Code (Discounts from the nominal value of liabilities reported in the balance sheet.)

Deferred income of the Group amounting to EUR 152 million (AG: EUR 143 million) was posted, which show differences pursuant to Article 250, Section 2 of the German Commercial Code and Article 340 e, Section 2, Sentence 2 of the German Commercial Code (Discounts from the nominal value of claims reported in the balance sheet.)

Special Items including Reserves

The special items including reserves absorbed by the Group from the special purpose entities of IKB Immobilien Leasing GmbH represent with EUR 1.7 million a reserve in accordance with Article 6b of the German Income Tax Act and with EUR 7.2 million investment grants.

Subordinated Liabilities

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

Individual items which exceed 10 % of the total amount:

Year of issue	Book value EUR million	Issue Currency	Interest rate in %	Maturity
1992/93	90.8	NLG	8.00	Jan. 08, 2003
1995/96	90.8	NLG	7.75	June 16, 2005
1999/00	125.0	EUR	5.00	Dec. 28, 2007
2000/01	100.0	EUR	6.00	Feb. 27, 2009

Subordinated liabilities in the Group and AG amount to EUR 803.4 million. Interest expense on this amount during the financial year came to EUR 47.7 million (1999/2000: EUR 38.6 million).

Participation Rights Capital

The issued participation rights capital of EUR 439 million meets the requirements set out in Article 10, Section 5 of the German Banking Act and serve to strengthen the bank's liable capital. The entire amount is liable in the event of a loss. Interest payments are made solely on the basis of unappropriated profits for the year. The claims of holders of participation rights to repayment of the capital are subordinate to those of other creditors. Participation rights capital includes in detail:

Year of issue	Book value in EUR million	Issue Currency	Interest rate in %	Maturity
1991/92	51.2	DM	9.10	March 31, 2003
1993/94	92.0	DM	7.30	March 31, 2005
1994/95	92.0	DM	6.45	March 31, 2006
1995/96	81.8	DM	8.40	March 31, 2007
1997/98	102.3	DM	7.05	March 31, 2009
1999/00	20.0	EUR	7.23	March 31, 2010
	439.3			

Payments for the 2000/2001 financial year, amounting to EUR 32.8 million, are contained in interest expense.

The bank is authorized to issue further participation certificates – including conversion rights or warrants – of up to EUR 184.5 million until September 5, 2002.

Changes in Subscribed, Authorised and Contingent Share Capital

Subscribed share capital amounted to EUR 225,280,000.00 on March 31, 2001 and is divided into 88,000,000 shares.

The company is authorised to issue further share capital amounting to EUR 76.7 million until September 5, 2002.

Furthermore convertible or warrant-linked bonds or participation rights capital – also with conversion or option rights – the possibility exists of issuing in one or several steps up to a gross account of still EUR 184.5 million until September 5, 2002. The contingent capital amounts to EUR 25.6 million.

In order to grant conversion privileges or option rights to the bearers of convertible bonds and warrant-linked bonds with an aggregate nominal value of EUR 300 million issued before September 3, 2004, contingent capital of EUR 22.5 million exists.

In order to strengthen further the equity base of the Group, we placed a dormant holding via our subsidiary IKB International S.A. in this financial year. This silent capital complies with the provisions of Article 10, Section 4 of the German Banking Act, and thus counts as tier 1 capital.

Equity of the Group (last year's figures adjusted)

in EUR million		
As at April 1, 2000		1 206.1
Distribution of unappropriated profits for the financial year 1999/2000		– 67.8
Transfer to other revenue reserves from the Group's net income for the financial year 2000/2001	39.7	
Transfer from revenue reserves following deconsolidation of National-Bank AG	–8.3	31.4
Unappropriated profit of the AG for the financial year 2000/2001		67.8
Silent capital		70.0
Unappropriated profits and losses of consolidated subsidiaries (net)		–13.6
As at March 31, 2001		1 293.9

Equity of the AG

in EUR million	
As at April 1, 2000	1 106.4
Distribution of unappropriated profits for the financial year 1999/2000	– 67.8
Transfer to other revenue reserves from net income of the AG for the financial year 2000/2001	30.3
Unappropriated profit for the financial year 2000/2001	67.8
As of March 31, 2001	1 136.7

Key Figures relating to Bank Regulatory Requirements

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

at March 31, 2001	Attributable amounts in %				Total
in EUR million	100	50	20	10	
Balance sheet transactions	16 624	2 759	339	233	19 955
Non-balance sheet transactions	837	667	23		1 527
Derivative transactions in the investment portfolio		45	138		183
Weighted risk assets, total	**17 461**	**3 471**	**500**	**233**	**21 665**
Amount attributable for market risk					175
Total of items obligatory for inclusion					**21 840**
Liable capital[1)]					2 347
Capital eligible for inclusion					2 347
Tier 1 capital ratio (in %)					6.1
Equity ratio (in %)					10.7

[1)] Following adoption of the annual financial statements

at March 31, 2000 in EUR million	Attributable amounts in % 100	 50	 20	 10	Total
Balance sheet transactions	17 522	2 897	986		21 405
Non-balance sheet transactions	727	387	46		1 160
Derivative transactions in the investment portfolio		33	147		180
Weighted risk assets, total	**18 249**	**3 317**	**1 179**	**0**	**22 745**
Amount attributable for market risk					125
Total of items obligatory for inclusion					**22 870**
Liable capital[1)]					2 230
Capital eligible for inclusion					2 230
Tier 1 capital ratio (in %)					5.5
Equity ratio (in %)					9.8

[1)] Following adoption of the annual financial statements

The improvement in the Principle I ratio was due first of all to our two CLO transactions, which result in a reduction in risk assets in terms of bank regulatory requirements.

Contingent Liabilities / Other Commitments

Contingent liabilities	**Group** in EUR million	**AG** in EUR million
Guarantees	779	2 692
Liabilities from security for third-parties	210	210
Total	989	2 902

Other commitments	**Group** in EUR million	**AG** in EUR million
Loan commitments up to one year	1 559	1 050
Loan commitments more than one year	750	655
Total	2 309	1 705

No individual amounts that are of importance to the overall operations of the bank are contained in Contingent Liabilities or Other Commitments.

Notes to the Cash flow Statement

The cash flow statement shows the status and development of the bank’s cash flow. In conformity with its sources, the development of cash flow is divided into three parts: operating activities, investment activities and financing activities. The allocation of cash flows to operating activities corresponds in the definition of the result from ordinary activities.

Cash flow status corresponds to the balance sheet item Liquid Funds, and contains Balances held with Central Banks and Cash.

Cash flow Statement in EUR million	2000/2001	1999/2000
Net income for the year	86	75
Non-cash items contained in net income for the year and leading into the cash flow from operating activities		
Direct depreciation, allocations to/release of provisions and write-downs as well as allocations to/release of provisions for loan operations	209	231
Depreciation of fixed assets, leasing items, and investments	331	269
Changes in other non-cash items (primarily change of provisions)	70	23
Result from the sale of investments and fixed assets	–63	0
Other adjustments (primarily reallocation of received or paid interest including profits for leasing transactions and paid income tax)	–709	–668
Subtotal	**–76**	**–70**
Changes in assets and liabilities from operating activities after corrections for non-cash components		
Claims		
on banks	912	676
on customers	–1 745	–1 438
Debentures and other fixed interest securities	–1 164	–1 031
Shares and other non-fixed interest securities	–23	220
Leasing items		
Proceeds from sale	175	126
Payments for purchase	–559	–360
Other assets from operating activities	–265	92
Liabilities		
to banks	1 847	–1 476
to customers	22	–87
Securitised liabilities	22	2 522
Other liabilities from operating activities	–78	–31
Interest and dividends received	3 037	2 504
Interest paid	–2 348	–1 841
Payment of income taxes	– 92	–118
Cash flow from operating activities	**–335**	**–312**
Proceeds from the sale of		
Investments	7	0
Fixed assets	35	0
Payments for the purchase of		
Investments	–16	–18
Fixed assets	–19	–15
Effects of the sale of associated companies	86	–
Effects of the change in the set of companies to be consolidated	0	22
Cash flow from investment activities	**93**	**–11**
Dividend payments	–68	–67
Participations of minority shareholders	8	1
Changes in liquid funds deriving from other financing activities (balance)	291	230
Cash flow from financing activities	**231**	**164**
Cash and cash equivalents at the end of the previous period	**12**	**171**
Cash flow from operating activities	–335	–312
Cash flow from investment activities	93	–11
Cash flow from financing activities	231	164
Cash and cash equivalents at the end of the period	**1**	**12**

Further Information

Other Financial Commitments

Outstanding obligations to pay up share capital, and company investments and investments in related companies amounted on March 31, 2001 to EUR 0.3 million for the Group and to EUR 2.3 million for the AG.

The bank has a pro rata additional funding obligation to Liquiditäts-Konsortialbank GmbH of Frankfurt. In addition, we bear a proportional contingent liability for fulfilling the funding obligations of other partners in the Federation of the German Banking Industry.

In addition, pursuant to Article 5, Section 10 of the Statutes for the Deposit Insurance Fund, the bank has committed itself to protect the Federation of the German Banking Industry from any losses arising due to measures favouring banks in which it owns a majority interest.

At December 31, 2000, the IKB Immobilien Leasing Group had incurred EUR 0.4 billion in financial obligations arising from contracted leases not yet contained in the balance sheet leasing assets.

Declaration of Backing

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

Forward Contracts

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

Some 89 % of the Group and 91 % of the AG derivatives operations are with OECD banks with first-class ratings. The remainder consists essentially of contracts with customer companies.

The greater part of the bank‘s derivatives business volume related with an amount of EUR 19.9 million (AG: EUR 20.6 million) to interest rate transactions, with interest rate swap transactions forming the dominant product.
As a supplement to the terminated products shown in the following presentation of the forward transactions, we concluded eight loan derivative contracts (guarantors) with OECD banks in the form of credit default swaps with a transaction value of approx. EUR 117 million. In this context, we have taken over the credit risk for a loan event defined in advance.

In order to illustrate the Group’s credit risk, the following table shows, in addition to the nominal volumes, the credit-based weightings as credit equivalents and the so-called positive market values (credit risk) of the forward transactions are presented, based on the bank oversight regulations (derived from the figures for Principle I). Defined as the sum of all positive market values, the credit risk amounted to EUR 444 million (AG: EUR 501 million) at the balance sheet date, representing 2 % of the nominal value. Existing netting agreements, which, in case of insolvency, enable the setting off of existing claims and liabilities to counterparties, are not taken into account.

Breakdown of Product Groups and Remaining Maturities as of March 31, 2001 in the Group									
	Nominal amount				**Credit equivalent**				**Credit risk**
in EUR million	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	**Total**
1. Interest-rate based operations									
Over-the-counter-products (OTCs)									
Forward rate agreements	102	–	–	**102**	0	–	–	**0**	**0**
Interest swaps	3 810	4 227	7 417	**15 454**	13	59	370	**442**	**310**
Interest options	31	347	2 822	**3 200**	0	1	18	**19**	**12**
Forward bonds	1 016	117	–	**1 133**	5	10	–	**15**	**9**
Products traded on the stock exchange									
Futures	55	–	–	**55**	1	–	–	**1**	**0**
2. Currency-based operations									
Over-the-counter-products (OTCs)									
Currency futures	1 836	11	–	**1 847**	30	1	–	**31**	**12**
Cross-currency swaps	494	2 267	1 148	**3 909**	5	168	114	**287**	**100**
Currency options	54	–	–	**54**	2	–	–	**2**	**1**
3. Index-based operations									
Over-the-counter-products (OTCs)									
Share index options	–	–	–	**–**	–	–	–	**–**	**–**
Index swaps	–	20	–	**20**	–	2	–	**2**	**–**
Total	**7 398**	**6 989**	**11 387**	**25 774**	**56**	**241**	**502**	**799**	**444**

Breakdown of Product Groups and Remaining Maturities as of March 31, 2001 in the AG									
	Nominal amount				**Nominal amount**				**Credit risk**
in EUR million	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	up to 1 year	1 up to 5 years	longer than 5 years	**Total**	**Total**
1. Interest-rate based operations									
Over-the-counter-products (OTCs)									
Forward rate agreements	102	–	–	**102**	0	–	–	**0**	**0**
Interest swaps	3 781	4 871	7 822	**16 474**	13	99	401	**513**	**372**
Interest options	28	147	2 685	**2 860**	0	0	19	**19**	**14**
Forward bonds	1 016	–	–	**1 016**	5	–	–	**5**	**0**
Forward forward deposits	–	66	55	**121**	–	0	1	**1**	**0**
Products traded on the stock exchange									
Futures	55	–	–	**55**	1	–	–	**1**	**0**
2. Currency-based operations									
Over-the-counter-products (OTCs)									
Currency futures	1 756	7	–	**1 763**	29	0	–	**29**	**11**
Cross-currency swaps	489	2 138	1 124	**3 751**	5	165	112	**282**	**103**
Currency options	54	–	–	**54**	2	–	–	**2**	**1**
3. Index-based operations									
Over-the-counter-products (OTCs)									
Share index options	–	–	–	**–**	–	–	–	**–**	**–**
Index swaps	–	20	–	**20**	–	2	–	**2**	**–**
Total	**7 281**	**7 249**	**11 686**	**26 216**	**55**	**266**	**533**	**854**	**501**

Segment Report

The bank's system of reporting by business division essentially presents those components of the IKB Group responsible for producing at least 10 % of earnings, or which comprise 10 % of the segment assets of all operational segments. Segment information is presented to show the divisions as independent enterprises responsible for their own earnings and costs, and with their own capital resources. The operational divisions are:

Corporate Lending
Real Estate Financing
Structured Financing
Equity.

The activities of our equipment and real estate leasing companies are disclosed under the heading “Leasing”.

The consolidation items also contain adjustments reconciling management information by division with external reporting.

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

Income and expenses are assigned to the divisions in accordance with their responsibility; with respect to interest, income and expenses are posted for the units using the market interest method. Whenever they could be assigned on the basis of causation, 78 % of the personnel and material costs of the head office were credited to the divisions. Contained in the net interest income of the respective Group components is also the investment income derived from economic capital resources. This investment income is allocated to the respective divisions in line with the assigned average tier 1 capital. The benefits resulting from the CLO transactions are maintained in the Central Division and not assigned to the individual divisions.

The allocation of loan exposure risk costs to the divisions adheres to the method of standard risk costs using the “expected loss” technique. The risk costs of the Head Office derive from the difference between the standard risk costs calculated for the units and the provisions for risk from the Group profit and loss accounts.

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

Segment Report by Business Division for the Period April 1, 2000 to March 31, 2001

in EUR million	Corporate Lending	Real estate Financing	Structured Financing	Equity	Leasing	Head Office/ Consolidation	Total
Net interest and commission income	233.6	68.8	82.5	22.5	38.7	4.9	451.0
Administrative expenses	61.1	18.8	21.9	7.2	22.0	45.6	176.6
Personnel expenses	46.4	13.4	14.2	4.2	15.0	21.0	114.2
Other administrative expenses	14.7	5.4	7.7	3.0	7.0	24.6	62.4
Other operating result	0.0	0.0	0.0	0.0	-1.0	85.0	84.0
Risk provisioning balance	61.4	26.1	14.2	7.2	1.2	73.4	183.5
Result from ordinary activities	**111.1**	**23.9**	**46.4**	**8.1**	**14.5**	**–29.1**	**174.9**
∅ Allocated Tier 1 capital	620	196	141	26	77	–17	1 043
Loan volume at balance sheet date	16 736	5 076	4 005	237	1 594	128	27 776
Cost-income ratio in %	**26.2**	**27.3**	**26.5**	**32.0**	**58.4**		**37.2**
Return on equity in %	**17.9**	**12.2**	**32.9**	**31.2**	**18.8**		**16.8**
∅ Number of staff	**335**	**95**	**84**	**35**	**79**	**612**	**1 240**
Volume of new business	**2 754**	**528**	**1 094**	**58**	**555**		

Segment Report by Geographical Region

Assignment of the segments by geographical region occurs in accordance with the respective location of our offices or Group companies. For the region “Americas”, the allocation is based on the location of the head office of our customer companies:

in EUR million	Germany	Europe, other	Americas	Head Office/ Consolidation	Total
Net interest and commission income	349.4	79.6	17.1	4.9	451.0
Administrative expenses	118.1	10.1	2.8	45.6	176.6
Other operating result	65.9	20.4	0.2	–2.5	84.0
Risk provisioning balance	151.5	29.2	2.8		183.5
Result from ordinary activities	**159.9**	**60.7**	**11.7**	**57.4**	**174.9**

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

Allocations/Releases of Risk Provisioning at Group Level

in EUR million	2000/2001	1999/2000
Allocation to specific provisions for bad and doubtful debts/ direct depreciation	231	244
Allocation to general provisions for bad and doubtful debts	4	5
Release of provisions for bad and doubtful debts/ Payments received on loans written off	29	32
Net risk provision	206	217
Result from securities in the liquidity reserve*	23	51
Risk provisioning balance	183	166

*Previous year's figure corrected to eliminate the profit totalling EUR 78 million derived from the sale of BHF-BANK and NOBIS shares, which, in the interests of better comparability, are assigned to the other operating result using the profit and loss calculations of the Group and the AG.

Risk Provisioning Status at Group Level

in EUR million	As at April 1, 2000	Utilisation	Release	Allocation	As at March 31, 2001
Specific provisions for bad and doubtful debts/ provisions for loan operations	728	127	29	218	790
General provisions for bad and doubtful debts	31	–	–	4	35
Total risk provisioning status	759	127	29	222	825

Administrative Services

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

Remuneration of the Organs of the Bank and its Advisory Board

in EUR thousand	Group	AG
Members of the Board of Managing Directors	3 478	3 360
Members of the Supervisory Board	982	982
Members of the Advisory Board / previous Advisory Council	264	264
Former Members of the Board of Managing Directors and their surviving dependents	1 493	1 493

An amount of EUR 15.0 million was set aside for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

Loans extended to Members of the Organs

in EUR thousand	Group/AG
Board of Managing Directors	574
Supervisory Board	191

Average Number of Staff during the Year

	Group		AG	
	2000/2001	1999/2000	2000/2001	1999/2000
Male	750	703	567	540
Female	525	507	385	370
	1 275	1 210	952	910

Organs

Supervisory Board

Chairman

Dr. h. c. Tyll Necker, Bad Oldesloe

(until September 8, 2000)

Managing Director and Managing Partner
Hako Holding GmbH & Co.

(died March 29, 2001)

Dr. h. c. Ulrich Hartmann, Düsseldorf

(from September 8, 2000)

Chairman of the Board of Managing Directors
E.ON AG

a) Group mandates persuant to article 100, section 2, sentence 2 of the German Company Act (AktG) are marked with•

E.ON Energie AG •(Chairman)
VEBA OEL AG • (Chairman)
Münchener Rückversicherungs-Gesellschaft (Chairman)
RAG Aktiengesellschaft (Chairman)
Deutsche Lufthansa AG
Hochtief AG

b) Henkel KGaA

Deputy Chairman

Herbert Hansmeyer, Munich

Member of the Board of Managing Directors
Allianz Aktiengesellschaft

a) Karlsruher Lebensversicherung AG
Karlsruher Versicherung AG
Dresdner Bank Lateinamerika AG
VEBA OEL AG

b) Fireman's Fund Ins. Company
Allianz Insurance Company
Allianz Life Ins. Company of North America
Jefferson Insurance Company
Allianz Insurance Company of Canada
Allianz México S. A.

Deputy Chairman

Prof. Dr.-Ing. E. h. Hans-Olaf Henkel, Berlin

Vice-President
Federation of German Industry

a) IBM Deutschland GmbH
Audi AG
Continental AG
DaimlerChrysler Aerospace AG
EADS Deutschland GmbH
econia.com AG
SMS Demag AG

b) ETF Group
Kreditanstalt für Wiederaufbau
Merril Lynch International
Ringier AG

* Elected by the staff

a) Membership in other legally required supervisory boards

b) Membership in comparable domestic and foreign supervisory bodies

Dr. Jürgen Behrend, Lippstadt

Managing Partner
Hella KG Hueck & Co.

Jörg Bickenbach, Düsseldorf

Undersecretary of State, North Rhine-Westphalia Ministry for Economics and Medium-Sized Firms, Energy and Transport

a) Messe Düsseldorf GmbH

b) Messe- und Ausstellungsgesellschaft m. b. H.
Gesellschaft für Wirtschaftsförderung mbH (Chairman)
NRW Japan K.K.
NRW S. E. Asia Pte. Ltd.
ZENIT GmbH

Thomas Bleher, Düsseldorf *

IKB Deutsche Industriebank AG

Wolfgang Bouché, Düsseldorf *

(from September 8, 2000)

IKB Deutsche Industriebank AG

Hermann Franzen, Düsseldorf

Personally Liable Partner
Porzellanhaus Franzen KG

a) NOVA Allgemeine Versicherung AG (Vice Chairman)

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

Dr. Joachim Henke, Bonn

(until December 31, 2000)

Former Ministerial Director
Federal Ministry of Finance

Dr. Jürgen Heraeus, Hanau

Chairman of the Supervisory Board
Heraeus Holding GmbH

a) Heraeus Holding GmbH (Chairman)
TEUTONIA Zementwerk AG (Chairman)
Buderus AG
EPCOS AG
Heidelberger Druckmaschinen AG
Messer Griesheim GmbH

Gunnar John, Berlin

Head of Department VII A
Federal Ministery of Finance

Ernst Michel Kruse, New York

(until September 8, 2000)

Chairman Financial Industries Group
UBS Warburg

Roswitha Loeffler, Berlin *

IKB Deutsche Industriebank AG

Wilhelm Lohscheidt, Düsseldorf *

(from May 25, 2000)

IKB Deutsche Industriebank AG

Roland Oetker, Düsseldorf

(from September 8, 2000)

Managing Partner
ROI Verwaltungsgesellschaft mbH

a) Mulligan BioCapital AG (Chairman)
Volkswagen AG
Evotec Biosystems AG
Degussa AG
Falke Bank AG

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

Hans W. Reich, Frankfurt (Main)

Speaker of the Board of Managing Directors
Kreditanstalt für Wiederaufbau

a) ALSTOM GmbH
Deutsche Telekom AG
HUK-COBURG-Allgemeine
Versicherungs-Aktiengesellschaft
Krankenversicherungs-Aktiengesellschaft
der HUK-COBURG
Lebensversicherungs-Aktiengesellschaft
der HUK-COBURG
RAG Aktiengesellschaft
Thyssen Krupp Steel AG

b) Frachtcontor Junge & Co. GmbH
Haftpflicht-Unterstützungs-Kasse kraftfahrender
Beamter Deutschlands a. G.
HUK-COBURG Holding GmbH

Eberhard Reuther, Hamburg

(from September 8, 2000)

Chairman of the Supervisory Board
Körber Aktiengesellschaft

a) Körber AG (Chairman)
Hermes Kreditversicherungs-Aktiengesellschaft
Vereins- und Westbank AG

Randolf Rodenstock, Munich

(from September 8, 2000)

Managing Partner
Optische Werke G. Rodenstock KG

a) E.ON Energie AG
Schott DESAG AG (until April 5, 2001)

Rita Röbel, Leipzig *

IKB Deutsche Industriebank AG

Jochen Schametat, Düsseldorf *

(until September 8, 2000)

IKB Deutsche Industriebank AG

Dr. Carola Steingräber, Berlin *

IKB Deutsche Industriebank AG

Dipl.-Ing. Hans Peter Stihl, Waiblingen

Personally Liable Partner and Chairman of
the Board of Managing Directors
STIHL AG

a) Robert Bosch GmbH

b) Robert Bosch Industrietreuhand KG

Ulrich Wernecke, Düsseldorf *

IKB Deutsche Industriebank AG

Prof. Dr. h. c. Reinhold Würth, Künzelsau

Chairman of the Advisory Council
Wüth Group

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

b) Robert Bosch Stiftung GmbH
withinWürth Group:
Würth Dänemark A/S
Würth Finance International B. V.
Würth Frankreich S. A.
Würth Italien S. r. l.
Würth Nederland B. V.
Würth Neuseeland Ltd.
Würth Österreich m. b. H.
Würth Schweiz AG
Würth Spanien S. A.
Würth Group of North America Inc.
Würth South Africa
Würth Canada

Board of Managing Directors

Claus Momburg

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

Joachim Neupel

a) RAVENNA Hotelbetriebs AG

b) IKB Beteiligungsgesellschaft mbH
IKB Immobilien Leasing GmbH (Chairman)
IKB Immobilien Management GmbH
(Chairman)
IKB International S. A.
IKB Leasing GmbH (Vice-Chairman)
IKB Leasing Berlin GmbH (Vice-Chairman)
IKB Venture Capital GmbH

Stefan Ortseifen

a) Dura Tufting GmbH

b) IKB Capital Corporation (Chairman)
IKB International S. A. (Chairman)
Lohmann GmbH & Co. KG
Rich. Hengstenberg GmbH & Co.

Georg-Jesko v. Puttkamer

a) Vivanco Gruppe AG (Vice-Chairman)

b) Honsel Management GmbH
IKB Beteiligungsgesellschaft mbH
(Chairman, until March 31, 2001)
IKB Immobilien Management GmbH
(until March 31, 2001)
IKB Venture Capital GmbH
(Chairman, until March 31, 2001)

Dr. Alexander v. Tippelskirch

a) Deutsche Gelatine-Fabriken Stoess AG
(Chairman)

b) IKB Beteiligungsgesellschaft mbH
(Vice-Chairman)
IKB Capital Corporation (Vice-Chairman)
IKB International S. A. (Vice-Chairman)
IKB Leasing GmbH (Chairman)
IKB Leasing Berlin GmbH (Chairman)
IKB Venture Capital GmbH (Vice-Chairman)
Johanniter-Krankenhaus Rheinhausen
(Chairman)
Kreditanstalt für Wiederaufbau
nobilia-Werke J. Stickling GmbH & Co.
Wirtschaftsförderung Berlin GmbH

Dr. Markus Guthoff, Deputy (from April 1, 2001)

a) MetaDesign AG

b) IKB Beteiligungsgesellschaft mbH
(Chairman, from April 1, 2001)
IKB Venture Capital GmbH
(Chairman, from April 1, 2001)

Employees of IKB Deutsche Industriebank AG

Information persuant to article 340 a, section 4, number 1, HGB

Günter Czeczatka

Schöck AG

Manfred Knols

Gauss Interprise AG

Klaus Neumann

CURANUM AG
CURANUM Bonifatius AG

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

	Declaration of backing	Share of capital in %	Equity in EUR thousand	Profit/Loss in EUR thousand
A. Consolidated Subsidiairies				
1. Foreign banks				
IKB International S.A., Luxembourg	x	100	286 714[1]	9 400
2. Other domestic companies				
IKB Leasing GmbH, Hamburg	x	100	10 481	–[2]
IKB Leasing Berlin GmbH, Erkner	x	100	2 031	–[2]
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Wilhelm-Bötzkes-Straße KG, Düsseldorf	x	100	1 805	–9 458[3]
IKB Immobilien Leasing GmbH, Düsseldorf	x	100	5 194	–[2]
IKB Immobilien Management GmbH, Düsseldorf	x	100	323	256
MORSUS Immobilien GmbH & Co. KG Objekt Karl-Theodor-Straße, Düsseldorf	x	100	272 (2 045)	–249
AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf	x	100	658	139
3. Other foreign companies				
IKB Financière France S.A., Paris	x	100	72 248	8 258
IKB Finance B.V., Amsterdam	x	100	6 748	193
IKB Capital Corporation, New York		100	9 652	–1 525
B. Other Investments[4]				
1. Domestic				
Groß Immobilienverwaltungs GmbH & Co. Holzhausen KG, Düsseldorf	x	100	25	–
IKB Beteiligungsgesellschaft mbH, Düsseldorf	x	100	24 035	–[2]
IKB Grundstücks GmbH, Düsseldorf	x	100	25	–1
IKB Projektentwicklung GmbH, Düsseldorf	x	100	438 (257)	–252
IKB Venture Capital GmbH, Düsseldorf	x	100	1 000	–[5]
Linde Leasing GmbH, Wiesbaden		25	1 921	847[5]
MORSUS Immobilien GmbH, Düsseldorf	x	100	48	7
2. Foreign				
IKB Finanz Leasing AG, Budapest	x	100	168	–254[5]
IKB Leasing Hungaria GmbH, Budapest	x	100	176	–570[5]
IKB Leasing Polska GmbH, Posen	x	100	468	–307[5]

Figures in parentheses show capital outstanding

[1] Incl. silent capital
[2] Profit and loss transfer agreement exists
[3] Loss takeover
[4] Not included in the Group accounts, pursuant to Article 296, Section 2, HGB
[5] Indirect holding

In accordance with Articles 325 and 287, HGB, our complete investment portfolio, including the listing by name of the 413 special purpose entities of IKB Immobilien Leasing and its partnership companies, is on file in the commercial registers of the Municipal Courts of Düsseldorf (HRB 1130) and Berlin-Charlottenburg (HRB 8860); if required, we can provide a copy of the list at no charge.

Collateral Items given for our Own Liabilities

The following table shows the liabilities of the Group and of the AG, for which assets totaling EUR 7,673.5 million were pledged as security.

in EUR million	
Liabilities to Banks	7 656.6
Liabilities to Customers	16.9
	7 673.5

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

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

EUR 2,438.2 million in fixed interest securities is deposited with the Deutsche Bundesbank to serve as collateral for the tendering operations of the European Central Bank (collateral pool) At the balance sheet date, recourse had been made to credit facilities totalling EUR 1,297.0 million. For margin obligations within the framework of futures trading on the EUREX Deutschland exchange, securities with a face value of EUR 5 million are pledge to BHF-BANK AG, Frankfurt. For our securities trading operations in Luxembourg, we placed a negotiable instrument with a nominal value of EUR 7 million with Clearstream Banking, Luxembourg to serve as a security deposit.

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

Within the framework of the emission of credit-linked notes with a nominal value of US$ 534.3 million, we deposited securities from Kreditanstalt für Wiederaufbau nominally valued at US$ 351.2 million with a trustee.

Düsseldorf, May 15, 2001

IKB Deutsche Industriebank AG

The Board of Managing Directors

Auditors' Report

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has confirmed the German annual accounts of IKB Deutsche Industriebank as follows:

We have audited the annual financial statements, together with the bookkeeping system, of IKB Deutsche Industriebank Aktiengesellschaft as well as the consolidated financial statements and its report on the position of the Company and the Group prepared by the Company for the business year from April 1, 2000 to March 31, 2001. The preparation of these documents in accordance with German commercial law are the responsibility of the company‘s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, as well as on the consolidated financial statements and the report on the position of the Company and the Group based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB (*Handelsgesetzbuch*/German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the German *Institut der Wirtschaftsprüfer (IDW)*. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual and the consolidated financial statements in accordance with German principles of proper accounting and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and the evidence supporting the disclosures in the books and records, the annual and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and the consolidated financial statements and the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

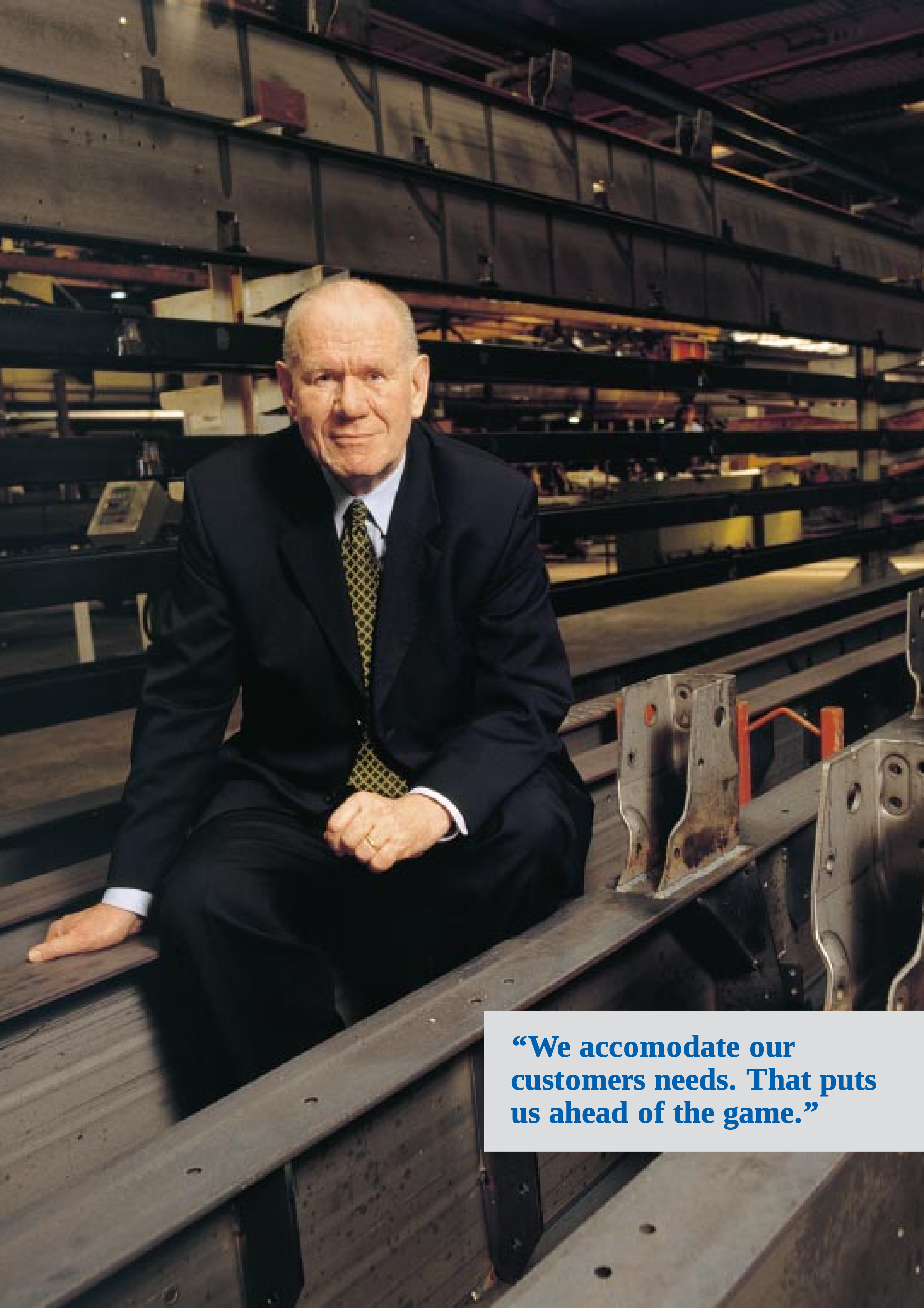
Our audit has not led to any reservations.

In our opinion, the annual and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Company and the Group, respectively, in accordance with German principles of proper accounting. On the whole the report on the position of the Company and the Group provides a suitable understanding of the Company‘s and the Group‘s position and suitably presents the risks of future development.

Düsseldorf, June 6, 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Pukropski
German Public Auditor	German Public Auditor



"We accomodate our customers needs. That puts us ahead of the game."

Schmitz Cargobull AG, Altenberge

Peter Schmitz
Chairman of the Board of Management

The origins of Schmitz Cargobull lie in rural Altenberge, some 25 km west of Münster. Founded in 1892, what began as a village smithy has since emerged as Germany's largest maker of trailers and ridget units in the commercial vehicles sector, and Europe's biggest producer of reefer semi-trailers.

Schmitz Cargobull currently has seven industrial production sites in Europe, with a total workforce of about 2,300. The company exports to every country in Europe, including the emerging markets of Central and Eastern Europe, as well as to North Africa and the Middle East. With sales last year of nearly EUR 585 million, Schmitz Cargobull occupies a leading position in the market.

Present throughout Europe with Schmitz Cargobull "Centres of Competence"

Schmitz Cargobull has been successfully involved in the commercial vehicles sector for four generations.

Consistent corporate policies, a wealth of experience and intensive problem-solving efforts on behalf of the transport industry have made the name Schmitz Cargobull synonymous with optimum engineering, top quality and high reliability in the trailer and semi-trailer market. Furthermore, the company provides excellent customer service. New Cargobull Trailer Centres are located at important Autobahn intersections near Mannheim, Berlin, Hamburg and Munich. In addition to commercial vehicle sales, these centres offer a full range of trailer services. Everything from used vehicles to financing concepts and warranty processing can be taken care of at a single, convenient location.

Moreover, 250 authorised service partners scattered from the Atlantic to the Urals and the North Cape to Sicily ensure optimum, Europe-wide provision of service and spare parts. Urgently required parts can be ordered online from the company's newly established Spare Parts Centre in Altenberge.

High-tech in the Semi-Trailer Sector

Continuous product and production development, market-oriented innovations and extensive investment assure further expansion of the company's position in the European market. The latest example is a novel telematic system for monitoring a vehicle and its cargo, which Schmitz Cargobull developed in co-operation with Minorplanet Systems PLC, the world's leading manufacturer of components for vehicle telematic systems. Important data, such as the exact running mileage of the semi-trailer, the load level, brake wear or tire pressure are transmitted via a GSM network to the central data processing facility, as is the vehicle's precise location. The information is processed and relayed immediately via the Internet to the user's PC. Direct communication with the driver is also possible. At the core of the system is the CargoCom "Bluebox", which is integrated directly in semi-trailers, reefers or dumpers. The customer can retrofit existing trailers in his vehicle fleet, equip other makes with CargoCom, or use it in rail motorcars and tractor trucks.

During the 2000/2001 financial year, the Supervisory Board has, in accordance with its duties appointed by law and the articles of association, continuously monitored the business development of the bank and the Group. The Supervisory Board exercised its responsibilities through plenary sessions and meetings of the presiding committee elected from its members.

At four meetings of the Supervisory Board and four meetings of the presiding committee held on June 29/30, September 8, November 8, 2000 and March 8, 2001, as well as at regular working meetings between the Chairman of the Supervisory Board and the Chairman of the Board of Managing Directors, all issues and questions of importance were discussed in depth. In the foreground were discussions concerning the bank's intended business policies and other fundamental questions of corporate planning, balance sheet and earnings trends, as well as the plans and profitability of the individual Divisions. The risks involved in domestic and foreign loan operations were dealt with in detail, as were measures by the bank to improve still further the creditworthiness structure of the loan portfolio and to strengthen the bank's equity position. The performance of major participations, the foundation of IKB Capital Corporation in New York, the complete takeover of IKB Immobilien Leasing GmbH of Düsseldorf, the sale of our stake in National-Bank AG of Essen, and the progress of our strategic partnership with Allianz AG of Munich were likewise discussed. A further topic of central importance was the substantial increase in the number of staff relating to the bank's reorganisation into Divisions and, the challenges this has posed to the bank‘s Human Resources Department. In addition, the Supervisory Board was briefed on the proposals of the Basle Committee for Bank Supervision regarding the future equity backing of risk assets. Furthermore, it was decided at the General Meeting in 2000 to consolidate the bank‘s two advisory committees, the Advisory Council and the Advisory Board, into a single entity bearing the name Advisory Council. In the presiding committee, topics also discussed during plenary sessions were dealt with in greater depth. The presidium also reviewed personnel matters relating to the Board of Managing Directors, as well as passing resolutions on loan transactions and the terms of issue of new bearer debentures requiring its approval under German banking law and the statutes of the bank. In its capacity as an auditing committee, it also assigned the task of auditing the annual accounts and consolidated Group accounts for 2000/2001 to the auditing company selected by the General Meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft of Düsseldorf.

The duly audited annual financial statements and consolidated financial statements, as well as the management report of both the AG and the Group, including the accounting practices, were unreservedly confirmed. The Supervisory Board received the accounting documentation timely ahead of the balance sheet meeting, as well as the draft Annual Report and the report of the auditors. In the presence of the Chairman of the Board of Managing Directors, and the member of the Board of Managing Directors responsible for accounting the Chairman of the Supervisory Board was personally informed concerning the results of the audit by the auditors. The auditors also briefed the presiding committee, discussing the findings and results of the audit. The auditors furnished all the information required. The presiding committee presented the results of the audit to the entire Supervisory Board at the balance sheet meeting. The auditor took part in the meeting, commenting on the results of the audit and answering the questions of individual board members. The Supervisory Board took note of the results of the audit, expressing its approval. Following its examination of the final results as appointed by law, the Supervisory Board had no objections to raise concerning the financial statements, the management report or the Board of Managing Directors‘ proposal for the appropriation of profits. At today‘s meeting, the Supervisory Board has approved the financial statements at March 31, 2001 and thus, in accordance with Section 172 AktG, finally adapted. The Board of Managing Directors‘ proposal for the appropriation of profits has met with our approval.

Effective April 1, 2001, Dr. Markus Guthoff, hitherto head of the bank’s Berlin branch, was appointed a Deputy Member of the Board of Managing Directors.

We mourn the loss of Dr. h. c. Tyll Necker, Chairman of the Shareholders‘ Meeting and Advisory Council of the Hako group, who died on March 29, 2001, aged 71. He belonged to the Supervisory Board from October 1985 to September 2000. From October 1995, he served as chairman of this body, as well as of the Advisory Board. Highly committed to IKB, Dr. Necker made an outstanding contribution to the growth of our bank. We owe him a deep debt of gratitude for his many achievements.

At the General Meeting held on September 8, 2000, Supervisory Board members Hermann Franzen and Dr. Joachim Henke were re-elected, whereas Roland Oetker, Eberhard Reuther and Randolf Rodenstock were newly elected. Simultaneously, the staff newly elected or re-elected Dr. Carola Steingräber, Wilhelm Lohscheidt and Wolfgang Bouché. Following the conclusion of last year’s General Meeting, Dr. Necker, Helmut Kruse and the staff representative Jochen Schametat stepped down from the Supervisory Board.
Dr. Joachim Henke, Ministerial Director in the Federal Ministry of Finance, resigned from the Supervisory Board upon entering retirement, effective December 31, 2000. We would like to take this opportunity to thank him once again for his valuable work on our behalf.

At the close of the General Meeting on September 8, 2000, the Supervisory Board gathered for its constituent meeting, and elected Dr. Ulrich Hartmann as its Chairman.

On March 22, 2001, the German government exercised its statutory right of proposal, recommending Gunnar John, Head of Department VII A of the Federal Minister of Finance, for election to the Supervisory Board to replace Dr. Joachim Henke. By order of the Municipal Courts of Düsseldorf and Berlin on March 29 and April 11, 2001, respectively, Gunnar John is appointed a member of the Supervisory Board until the General Meeting on September 7, 2001.

Düsseldorf and Berlin, June 29, 2001

The Supervisory Board

U. Hartmann

Chairman

Income Statement and Balance Sheet Trends

Income Statement Trends of the IKB Deutsche Industriebank Group

	2000/01	1999/00[1]	1998/99	1997/98	1996/97	1995/96	1994/95	1993/94	1992/93
	in EUR million								
Interest Income	2 656.3	2 108.0	2 048.5	1 863.8	1 802.2	1 828.2	1 796.1	1 754.0	1 551.7
Current income form shares, investments etc.	9.8	36.7	12.9	20.0	11.0	9.4	11.6	11.6	4.9
Income from leasing operations	432.5	416.3	285.8	275.1	291.4	279.7	324.2	267.5	251.8
Interest expenses	2 333.9	1 831.4	1 708.3	1 560.1	1 506.0	1 551.6	1 545.3	1 533.0	1 349.2
Expended and depreciation arising from leasing operations	326.7	309.9	245.3	233.6	247.9	229.1	273.0	215.4	203.0
Net interest income	438.0	419.7	393.6	365.2	350.7	336.6	313.6	284.7	256.2
Net commission income	13.0	7.7	8.8	7.6	5.6	4.0	6.0	5.5	4.2
Net earnings from financial transactions	2.5	–2.6	6.6	8.1	4.9	1.9	0.5	3.8	3.0
Personnel expenditure	114.2	107.2	87.4	82.5	78.6	76.1	73.9	70.5	66.1
Other administrative expenses including depreciation of fixed assets	62.4	59.1	51.3	49.6	41.4	39.6	36.2	35.0	33.5
Other operating result	81.5	77.8	–3.5	–8.1	–12.0	2.0	7.0	3.9	5.0
Risk provisioning balance	–183.5	–165.5	–88.4	–78.7	–80.6	–78.1	–82.0	–76.2	–60.7
Result from ordinary activities	174.9	170.8	178.4	162.0	148.6	150.7	135.0	116.2	108.1
Other income/expenditure	–1.5	–10.0	–3.1	–7.7	–	–	–	–	–
Taxes	87.5	85.3	84.3	77.9	74.6	81.2	73.8	58.5	60.6
Net income for the year	85.9	75.5	91.0	76.4	74.0	69.5	61.2	57.7	47.5

[1] Figures since 1999/2000 including IKB Immobilien Leasing-Group; therefore previous years' figures are not comparable

Balance Sheet Trends of the IKB Deutsche Industriebank Group

	31.3.2001	31.3.2000[1]	31.3.1999	31.3.1998	31.3.1997	31.3.1996	31.3.1995	31.3.1994	31.3.1993
					in EUR million				
Liquid funds	1	12	171	8	2	14	9	15	32
Claims on banks	802	1 650	2 273	1 641	1 506	1 915	2 042	1 784	2 004
Claims on customers	24 332	22 635	22 188	20 771	19 174	18 238	17 213	16 344	14 905
Debentures and other fixed interest securities	3 814	2 652	1 629	1 364	1 551	1 395	1 528	1 436	1 273
Shares and other non-fixed interest securities	36	13	153	139	2	25	24	34	31
Investments and shares in associated and subsidiary companies	68	91	176	174	199	211	196	192	43
Fixed assets	212	214	223	223	197	137	117	56	33
Leasing items	2 239	2 114	462	451	447	473	466	514	476
Outstanding capital of minority shareholders	49	61	–	–	–	–	–	–	–
Deferred items	153	164	158	166	163	161	152	148	163
Other assets	736	335	228	232	413	359	192	108	113
Liabilities to banks	15 176	13 181	13 991	11 876	10 045	10 099	9 777	9 200	9 695
Liabilities to customers	2 436	2 414	2 501	2 482	2 663	2 703	2 865	3 191	3 200
Securitised liabilities	10 825	10 803	8 280	8 053	8 333	7 464	6 899	6 213	4 325
Provisions	269	266	237	235	242	227	189	164	162
Subordinated liabilities	803	582	472	473	473	473	382	382	363
Participation rights capital	439	439	419	419	317	317	235	235	51
Funds for general bank risks	80	80	77	8	–	–	–	–	–
Participations of minority shareholders	27	45	–	–	–	–	–	–	–
Equity	1 243	1 142	1 049	1 022	1 004	990	971	770	750
Subscribed capital	*225*	*225*	*225*	*225*	*225*	*225*	*225*	*184*	*184*
Silent capital	*170*	*100*	–	–	–	–	–	–	–
Capital reserves	*568*	*568*	*568*	*568*	*568*	*568*	*568*	*420*	*420*
Revenue reserves	*280*	*249*	*256*	*229*	*211*	*197*	*178*	*166*	*146*
Deferred items	514	498	297	299	303	329	332	318	396
Other liabilities	630	491	338	302	274	326	289	158	131
Total liabilities	**32 442**	**29 941**	**27 661**	**25 169**	**23 654**	**22 928**	**21 939**	**20 631**	**19 073**

[1] Figures since 1999/2000 including IKB Immobilien Leasing-Group; therefore previous years' figures are not comparable

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Finance Almanac

Half-year figures for the financial year 2001/02	November 20, 2001
Press conference: 9-months figures for the financial year 2001/02	February 14, 2002
Preliminary figures for the financial year 2001/02	May 23, 2002
Press conference: annual accounts for the financial year 2001/02	July 4, 2002
General Meeting	August 30, 2002
Half-year figures for the financial year 2002/03	November 21, 2002

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