



Annual Report 2002



Pfandbrief Bank International

PBI – LAYING A SOLID FOUNDATION FOR GROWTH

A house built on shaky ground is not likely to exist very long. That is when building a house the foundation is fundamentally for any structure. Banks generally prefer to operate in buildings that exude a sense of trust and confidence – both inside and outside. The building should be a symbol of strength and stability – for customers and employees alike.

Maybe that is why the building that we share with other units of the HVB Group fits so right to us! Photographs of this building are found throughout the annual report. Its architecture combines stability with clarity, openness and transparency. We, the employees of PBI, like working in this building because we identify with its qualities. For us, they represent values: a solid business model with conservative risk policies; a clear market profile with a high degree of transparency for our investors. This is how we generate trust as the elementary basis for our business. We create value for our shareholders, customers and investors.

That is the basis for our future!



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PREFACE I

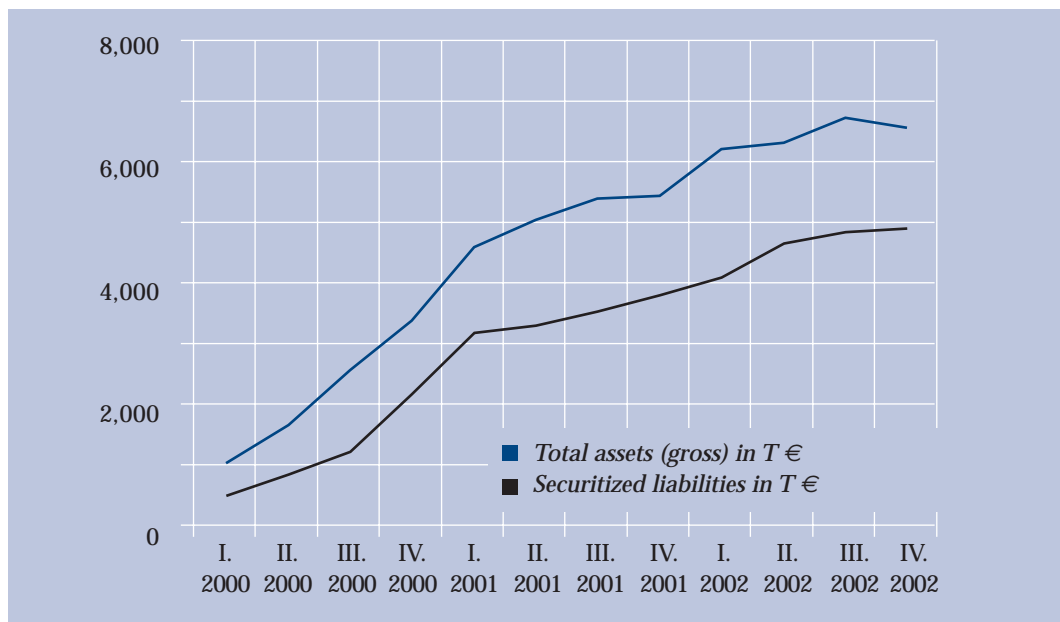


Dear business friends,

the year 2002 will be remembered as the year in which euro notes and coins were introduced, quickly becoming coveted collector's items for many Europeans. It was also a year in which the global economy was buffeted by mainly negative trends. As a result, government budgets in the United States and in many European countries were strained, entailing heightened borrowing needs. After two years of weakness, global stock

markets plumbed new lows in 2002. And European banks, particularly German banks, had to contend with substantially, in some cases dramatically lower profits.

In this environment, we worked very hard to grow the business and improve the market position of our bank, which is still quite young. After a very promising start growth was slowed



Development of total assets and securitized liabilities during the past three years

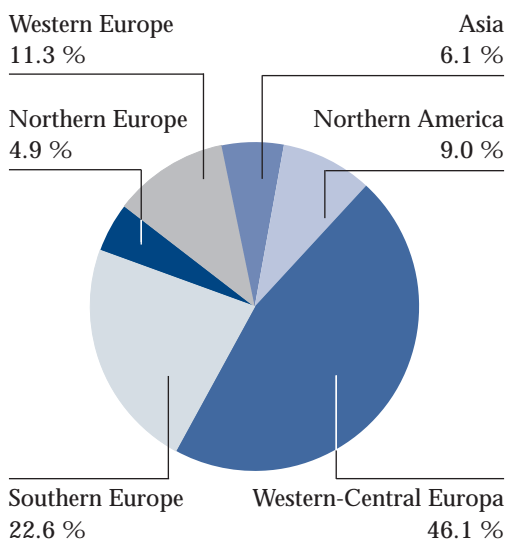


substantially in the second half by a massive deterioration of market conditions. Nonetheless, we were able to expand the bank's total assets by slightly more than 20 %, to € 6,552.8 million, although the bank's net income – due to the tax on capital increase – grew only slightly, to € 2.2 million. Without this one-off effect the net income grew by more than 17 %. To support its future growth, nearly all the bank's net income

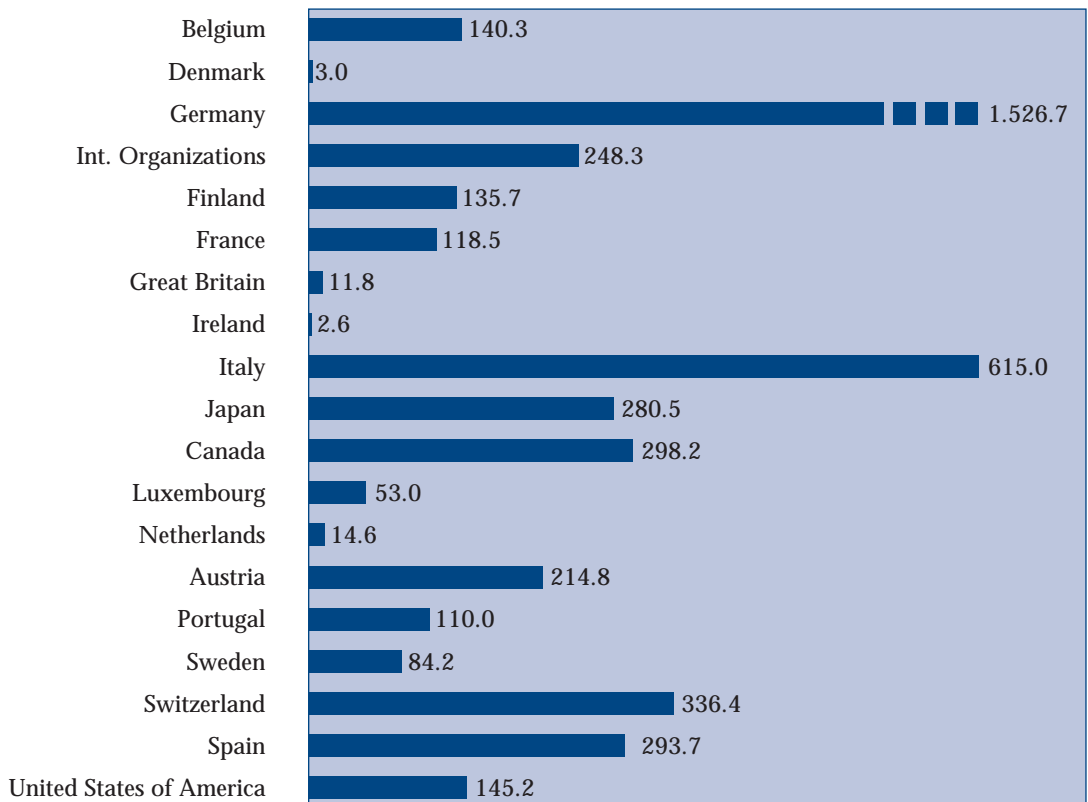
will be reinvested. Moreover, our shareholders increased the bank's core capital by € 30 million, bringing it to € 83.8 million, with total liable capital of € 117.8 million. Consequently, we have a solid foundation from which to pursue our future growth plans.

The expansion of our credit portfolio was accompanied by an intensive build-up of our credit analysis capabilities. These activities were focused in particular on the regional governments of Switzerland, Southern Europe and North America. At year-end 2002, the volume of our cover pool was equivalent to € 4,632 million. Every month we publish the current composition of our cover pool on our home page www.pbi.lu and we regularly publish the composition of the bank's overall portfolio as well. Our investors show a lively interest in these disclosures.

Despite the very difficult market conditions for Pfandbrief issuers, we placed Pfandbriefe totaling € 2,325 million in 2002, substantially more than in the previous year. Prominent transactions



Cover pool by regions, as of December 31, 2002



Cover pool by countries, as of December 31, 2002 (in millions of €)

conducted in 2002 included the placement of two public-sector issues denominated in Swiss francs, which were very well received by investors. Also, the capital markets paid close attention to our Jumbo Pfandbrief issue, the first such issue by a Luxembourg borrower after a hiatus of more than one year. Following intensive preparations, including an analyst meeting,

press conferences and a road show in various European countries, the public-sector Pfandbrief issue of € 1,000 million was launched at the beginning of May using the innovative “pot” structure. The pot structure is an allotment procedure in which the underwriting banks communicate the orders of interested investors to the issuer. This procedure allows for market-adapted



pricing and assures the optimal placement of a bond issue of this size. The use of this procedure, a first in the Luxembourg Pfandbrief market, was welcomed by market participants and consequently the issue performed very well in the secondary market. With this and other issues denominated in Euros, Swiss francs and U.S. dollars, we made good progress towards our goal of broadening our investor base. To accommodate the future growth of our business, we increased the volume of our Debt Issuance Programme, which serves as the documentation framework for all longer-maturity issues from € 7,500 million to € 10,000 million in the summer of 2002.

Despite the fact that our short-term rating was downgraded by Standard & Poor's in February 2002 as a result of the downgrade of the entire HVB Group, we utilized the limit of our Commercial Paper Programme at a volume of € 615 million by the end of 2002, after having reached more than € 900 million in January. Thanks to our flexibility with regard to maturities and currencies of the commercial paper issued, we not only reached a stable investor group, but preserved the relative price level of our short-term funding activities that we had sought. The further downgrade of the HVB Group – and therefore also of PBI – by Standard

& Poor's in December does not directly affect the short-term rating of Pfandbrief Bank International, but will nonetheless probably result in less favorable funding conditions for the Bank. The bank's Pfandbrief rating (AAA) is not affected by these rating changes.

To support our efforts to market the Luxembourg Pfandbrief, we participated in the finance forum "LuxFinance 2002" organized by the associations of financial institutions active in the Luxembourg financial center. In collaboration with the other Luxembourg Pfandbrief issuers, we hosted a panel discussion on the role of Pfandbriefe in the modern management of fixed-income portfolios. This panel discussion was heavily attended and also widely covered by the press. The panel members unanimously agreed that the Luxembourg Pfandbrief meets all the conditions for playing a major role in the European market despite the growing competition.

The demands posed by the markets and the growing complexity of transactions could not have been mastered without the tremendous dedication of our employees. This dedication was also reflected in the fact that many of our employees participated in targeted continuing education courses during the year. We wish to

take this opportunity to express our heartfelt gratitude to all our employees.

The heightened borrowing needs entailed by strained government budgets and the demand for innovative financing solutions pose a challenge to us as a specialized niche bank. At the same time, the growing sensitivity of investors to

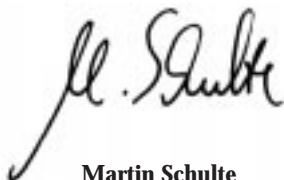
changes in the strategies and risk profiles of issuers requires great circumspection and maximum transparency. Our markets are in a state of constant flux and we will continue to take advantage of the considerable opportunities inherent in this situation.

We look forward to working with you in the future, as we have in the past!



Ralph Brödel

Directeur-Délégué



Martin Schulte

Directeur-Délégué



Gerhard M. Kainz

Administrateur-Délégué

Management Report

We continued on a course of growth in 2002, the third year of the bank's existence. In further expanding our credit portfolio, we strictly adhered to the conservative risk policy that has characterized our business from the start. The relative appeal of Pfandbrief instruments for institutional investors continued to wane in 2002. Despite the difficult operating conditions, however, we managed to strengthen our market position, as evidenced by the fact that our placement volume rose to more than € 2,300 million, well above the previous year's level.

We updated our existing "Programme for the Issuance of Debt Instruments" at the planned interval, extending it to a volume of ten billion euros. This program is used to handle longer-term issues.

In June 2002, Standard & Poor's confirmed its "AAA"-rating for our public-sector Pfandbriefe. The same rating agency adjusted our short-term rating and counterparty rating in the wake of the corrections made to the ratings of the HVB Group.

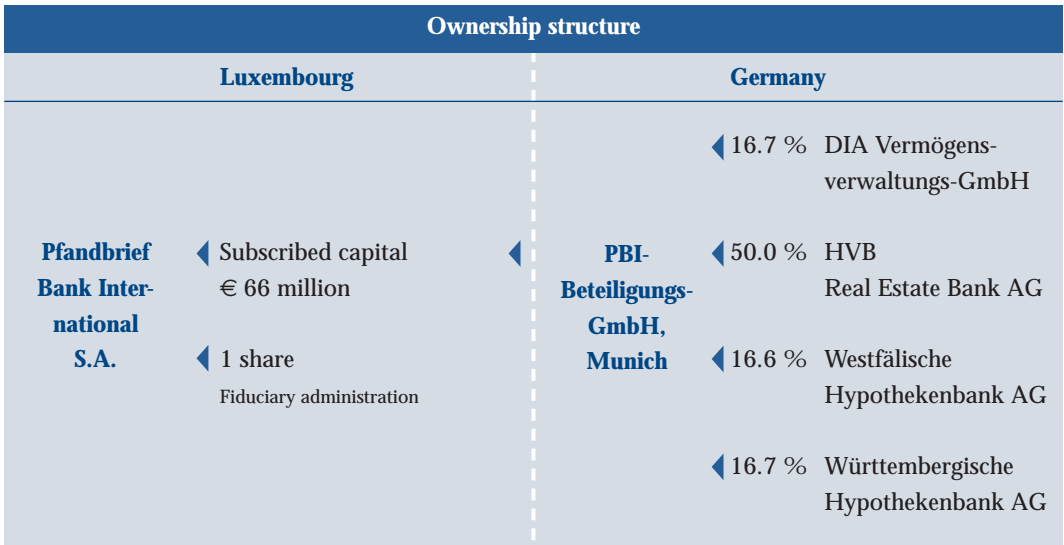
As in the preceding year, we took every opportunity to enhance relationships with our business partners. We held conferences and presentations to explain our strategy and the quality of the Luxembourg Pfandbriefe known as "lettres de gage". The road show held prior to the placement of our Jumbo Pfandbrief issue provided an extremely effective forum for this purpose, giving us the opportunity to highlight the options and capabilities we have for creatively shaping our issues to match investors' expectations and needs. We not only solidified, but expanded the group of our partners and investors. We regard this success as an affirmation of the quality and flexibility of our products and of our bank as a whole.

The Board of Directors of PBI met four times during the year to discuss and make decisions relative to the matters that fall under the competence of the board in accordance with our Articles of Association and Management Regulations. Such matters include, in particular, decisions relative to credit limits and staff changes. The board also dealt with other matters such as the continued strategic development of PBI and market trends.

As reported in the press, far-reaching strategic and organizational changes are being planned within the HypoVereinsbank Group. As part of these changes, HypoVereinsbank transferred its equity interest in PBI-Beteiligungs-GmbH, which the Group had formerly held directly, to DIA Vermögensverwaltungs-GmbH, Munich, effective at the end of 2002. This company is a wholly-owned, directly-held subsidiary of HypoVereinsbank.

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The current ownership structure of Pfandbrief Bank International is presented in the diagram below:



Pfandbrief Bank International continues to perform its originally defined mission, which is to serve as a center of competence for international public sector financing. We have fulfilled this re-

sponsibility by expanding and refining our credit research and credit risk management capabilities.



In order to achieve our ambitious goals for the future, it was necessary to increase the equity base. Our owners accommodated this need by conducting a capital increase at the end of 2002, issuing new share capital of € 15 million with an issue premium of € 15 million (which was placed in the additional paid-in capital account). Before the appropriation of net income for 2002, we have liable equity capital of € 117.8 million, which allows us to maintain issues in circulation up to a limit of € 7,070 million.

All in all, therefore, Pfandbrief Bank International has successfully grown its business and made good progress towards achieving its long-term objectives.

Lending operations

We acquired placements, loans and advances worth € 1,484 million (2001: € 2,340 million), including € 1,037 million (2001: € 2,199 million) of securities issued by public borrowers, in 2002. Where appropriate, we employed derivative financial instruments to hedge the exposure arising from market changes. Securities totaling € 405 million fell due for scheduled redemption in 2002 (2001: € 341 million). Loans and advances were redeemed on schedule in the amount

of € 31 million (2001: none). No loans and advances were pledged as security (2001: € 9 million) and no unscheduled redemptions were effected (as in 2001).

Funding operations

Covered bearer and registered public-sector Pfandbriefe ("lettres de gage publiques") were issued in the total amount of € 2,325 million (2001: € 1,148 million). No loans were taken out (2001: € 25 million). Subordinated debt instruments were issued in the total amount of € 10 million (2001: € 15 million).

Alongside drawings denominated in euros, we also issued securities denominated in U.S. dollars and Swiss francs. The bearer issues were launched in the documentation framework of our MTN-Programme (Programme for the Issuance of Debt Instruments).

Of the issues outstanding, 15 issues totaling € 1,213 million (2001: one issue in the amount of € 40 million) fell due for scheduled redemption in 2002, while three issues totaling € 84 million (2001: € 10 million) were redeemed in advance of the scheduled maturity.



We did not repurchase any of our own issues for price maintenance purposes in 2002 (2001: € 155 million). Of the own issues we held, we placed € 50 million (2001: € 50 million) back in the market.

At year-end 2002, the limit of our Commercial Paper Programme was utilized at € 615 million (2001: € 540 million). The average maturity of the CP issues during the year was 76 days. We issued commercial paper denominated in Euros, British pounds, Canadian dollars and U.S. dollars.

Assets and earnings

Total assets amounted to € 6,553 million, reflecting a 20.6 % increase over the preceding year (€ 5,432 million).

Loans and advances including securities amounted to € 6,267 million, reflecting a 20.7 % increase over the preceding year (€ 5,193 million).

Funding (refinancing) resources totaled € 6,193 million, 20.0 % higher than in the previous year (€ 5,159 million).

Statement of income in report form

(in T €)	2002	2001
Net interest income	6,024	5,789
Net commission income	- 245	- 82
Net income from financial transactions	514	1,106
Personnel expenses	1,139	1,359
Other administrative expenses	1,824	1,918
Depreciation of plant and equipment	586	869
Current expenses	3,549	4,146
Balance of other operating income and expenses	105	119
Operating result before risk provision	2,849	2,786
Balance of valuation adjustments to securities	233	- 74
Risk provision	50	50
Operating result after risk provision	3,032	2,662
Taxes	807	512
Net income for the year	2,225	2,150

We generated income in accordance with our expectations. Despite the continued difficult conditions in the Pfandbrief market and the changed ratings of the HVB Group – which in accordance with the methods employed by the rating agency also affect the subsidiaries – net income for 2002 was slightly higher than the preceding year.

After distribution of a dividend of T € 30, we intend to appropriate the remaining net income to the capital reserves in order to reinforce our equity base, as in 2001.

Net income and appropriation of profit

The Bank earned net income after taxes of T € 2,225 (2001: T € 2,150), corresponding to a 3.5 % increase over the preceding year. At the Annual Meeting of Shareholders, we will propose distributing a dividend of T € 30 to shareholders, appropriating T € 150 to the statutory reserve and appropriating T € 2,045 to retained earnings.

Risk report

Our Risk Controlling unit, which reports directly to the management, has kept pace with the bank's growth and continually refined its risk measurement and management systems in response to the constantly evolving internal and

external demands. The core functions of this unit are the following:

- To measure and monitor risk on a daily basis, employing the value-at-risk approach for market risks, credit risks, counterparty risks and liquidity risks;
- To calculate economic performance on a daily basis;
- To monitor independently the parameters used to measure risk and performance;
- To refine and execute our controlling strategies.

Effective risk controlling is assured by means of continuing improvements of the risk measurement and monitoring instruments employed and by the integration within the risk controlling system of the HypoVereinsbank Group.

We have instituted appropriate reporting paths and controlling measures to monitor and manage individual risks. The following measures are mentioned by way of example:

Liquidity risk

We maintain relationships with a number of capable banks to ensure that short-term liquidity needs can be met. A list of all future cash flows

and cumulative balances, broken down by individual currencies, is generated every day to facilitate the management of short-term payment obligations. To assure the short-term management and limitation of liquidity risks, as well as medium-term and long-term planning, our assets and liabilities are analyzed every day on the basis of so-called liquidity classes and time buckets.

Counterparty risks (credit risks or country risks)

Our counterparty and credit risks are exclusively with public-sector borrowers and OECD banks. The counterparty default risk resulting from our derivative operations is assessed regularly on the basis of gross replacement costs. These are positive net present values determined on the basis of the mark-to-market method. The utilization levels of all credit facilities are available for review on-line, both for each individual counterparty and aggregated on an intraday basis, based on market values.

Market risks

As part of our asset-liability management, we assess the interest rate risk for the bank's total position on a daily basis. The Risk Controlling unit assesses the risk position and the daily mark-to-market-result every day and verifies compliance with the pre-established limits. The management

is informed of these risks and results every day. To control and quantify interest rate risks, we employ risk sensitivities and the value-at-risk concept in use throughout the HVB Group, which is based on a 99 % confidence level for an assumed ten-day holding period. The average exposure for interest rate risks amounted to T € 3,269.

No significant currency risks existed. All assets, liabilities and off-balance sheet transactions are included in the risk calculations.

In addition to the Risk Controlling Unit, which focuses on market risk, counterparty risk, liquidity risk and operational risk, a new unit, Credit Research Public-Sector, was established in 2002. This unit analyzes credit quality in the public sector, the attractiveness of public-sector borrowers on the basis of criteria that go beyond mere creditworthiness considerations, as well as region-specific or level-specific financing solutions in the OECD zone.

Creditworthiness is assessed on the basis of a scoring model, which takes political, economic and fiscal budget factors into account, as well as regulatory conditions and qualitative aspects of the borrower unit. The internal assessment of the (potential) borrower is supported by continuous monitoring of credit-relevant information in or-



der to identify potential risks and credit trends at an early stage.

Thus, the Credit Research Unit not only supplies information about the potential credit risks in the portfolio of our bank, but also provides a good basis for pricing possible new credit commitments by the Treasury on the level of countries, government levels and products. The organization of our credit, information and decision-making processes has already been set up to comply with the “Minimum Requirements for the Lending Activities of Banks” that have now been introduced in Germany.

Other information

HypoVereinsbank AG has provided a letter of comfort for Pfandbrief Bank International. We are fully consolidated in the consolidated financial statements of HypoVereinsbank prepared in accordance with IAS.

Outlook

Decisions affecting PBI have not yet been made as part of the strategic changes in the HVB Group. We expect that these changes will have no adverse ramifications for PBI.

No events of particular significance for the assets, liabilities, and earnings situation of the past fiscal year have occurred after the balance sheet date.

Business activities and earnings have continued to develop according to expectations since December 31, 2002.

Balance Sheet at December 31, 2002

ASSETS	2002 €	2001 €
Cash on hand, balances with central banks and on postal giro accounts	1,305,198	18,750,000
Placements with, and loans and advances to other banks	768,629,387	217,594,520
Municipal loans and loans guaranteed by public institutions	418,040,846	217,401,992
Other loans and advances	350,588,541	192,528
<i>of which: Repayable on demand</i>	<i>59,656,585</i>	<i>192,528</i>
Loans and advances to customers	658,833,035	435,790,432
Municipal loans and loans guaranteed by public institutions	658,833,035	435,790,432
Debt securities and other fixed-income securities	4,840,429,859	4,539,827,894
Public-sector issuers	2,258,594,254	2,082,592,014
Other issuers	2,455,119,287	2,269,643,062
Own issues	126,716,318	187,592,818
Property, plant and equipment	227,489	736,211
Other assets	252,300	259
Prepaid expenses	283,143,041	218,845,176
Total assets	6,552,820,309	5,431,544,492



LIABILITIES

		2002	2001
		€	€
Amounts owed to banks		1,184,697,425	1,223,322,531
Registered public-sector Pfandbriefe issued	20,000,000		10,000,000
Other liabilities	1,164,697,425		1,213,322,531
<i>of which: Repayable on demand</i>	<i>856,610</i>		<i>14,015,796</i>
<i>With agreed maturity</i>			
<i>or period of notice</i>	<i>1,183,840,815</i>		<i>1,209,306,735</i>
Amounts owed to customers		120,200,000	140,200,000
Registered public-sector Pfandbriefe issued	120,200,000		140,200,000
<i>of which: With agreed maturity</i>			
<i>or period of notice</i>	<i>120,200,000</i>		<i>140,200,000</i>
Securitized liabilities		4,888,560,265	3,795,885,449
Issued debt securities	4,273,560,265		3,255,588,756
Public-sector Pfandbriefe	4,273,560,265		3,241,405,164
Other debt securities	0		14,183,592
Other	615,000,000		540,296,693
Other liabilities		134,538	205,121
Accruals Deferred income		237,380,131	192,659,248
Provisions		1,797,950	1,447,143
Deferred taxes	1,467,511		960,706
Other	330,439		486,437
Subordinated liabilities		34,000,000	24,000,000
Subscribed capital		66,000,000	51,000,000
Additional paid-in capital		15,000,000	0
Reserves		2,825,000	675,000
Net income for the year		2,225,000	2,150,000
Total liabilities		6,552,820,309	5,431,544,492

Statement of Income for the Period from January 1 to December 31, 2002

EXPENSES	2002 €	2001 €
Interest and similar expenses	624,622,624	516,298,156
Fee and commission expenses	508,689	481,665
General administrative expenses	2,963,005	3,276,908
Personnel expenses	1,138,722	1,359,254
of which: Wages and salaries	1,027,227	1,146,191
Expenses for		
social security	89,701	73,765
<i>of which for pensions</i>	63,350	53,422
Other administrative expenses	1,824,283	1,917,654
Amortization and depreciation of intangible assets and property, plant and equipment	586,170	868,729
Depreciation and provisions for placements, loans and advances and additions to contingent liabilities and credit risks	50,000	50,000
Depreciation and amortization on securities held as investments, participating interests and shares in affiliated companies	13,319	73,500
Other operating expenses	66	0
Taxes on income from ordinary activities	506,805	262,390
Taxes not included in the items above	300,000	250,000
Net income for the year	2,225,000	2,150,000
Total expenses	631,775,678	523,711,348



I N C O M E

	2002	2001
	€	€
Interest and similar income	630,647,057	522,087,255
of which: from fixed-income securities	278,759,236	235,618,263
Commission earnings	263,179	399,453
Net income from financial transactions	513,578	1,105,961
Other operating income	105,360	118,679
Income from the reversal of depreciation of securities held as investments, participating interests and shares in affiliated companies	246,504	0
of which: Net gains on the sale of fixed-income securities held as investments	246,504	0
Total income	631,775,678	523,711,348



Auditor's Report

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of the Pfandbrief Bank International S.A. for the year ended December 31, 2002 and have read the related management report. These annual accounts and the management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to check the consistency of the management report with them.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Pfandbrief Bank International S.A. as of December 31, 2002 and of the results of its operations for the year then ended.

The management report is in accordance with the annual accounts.

Luxembourg, February 17, 2003

KPMG Audit

Réviseurs d'Entreprises

Thomas Feld

1. General Information

Pfandbrief Bank International S.A. was formed in Luxembourg on July 27, 1999. On September 14, 1999 the Finance Minister of the Grand Duchy of Luxembourg granted a license allowing the Bank to operate as a mortgage bank under Luxembourg law (“banque d’émission de lettres de gage”).

The entry in the Register of Companies was made on August 16, 1999 under the number 71104 (Section B). The legal rules and regulations underlying the operation of a mortgage bank can be found in Sections 12-1 to 12-9 of the Law of April 5, 1993 on the Finance Sector (as amended).

The Bank was formed by Bayerische Hypo- und Vereinsbank AG (“HypoVereinsbank”) and its German mortgage banking subsidiaries, each one of which holding an equal equity interest, in the form of a holding company construction. In 2001, the mortgage banks were affected by a reorganization of the HVB Group, which produced a change in the ownership structure of PBI-Beteiligungs-GmbH, which holds the equity capital of the Bank. As part of the further strategic reorganization of the corporate group,

HypoVereinsbank transferred its equity shares to DIA Vermögensverwaltungs-GmbH, Munich, in 2002.

The equity shares in PBI-Beteiligungs-GmbH are now held as follows:

- HVB Real Estate Bank AG,
Munich: 50 %
- DIA Vermögensverwaltungs-GmbH,
Munich: 16.67 %
- Westfälische Hypothekenbank AG,
Dortmund: 16.67 %
- Württembergische Hypothekenbank AG,
Stuttgart: 16.67 %

The business purpose of PBI-Beteiligungs-GmbH is to “hold and manage participating interests in domestic and foreign mortgage and public-sector finance banks.” The subscribed capital of the Bank is fully paid-up and is held by PBI-Beteiligungs-GmbH.

Pfandbrief Bank International S.A. is included in the consolidated financial statements of HypoVereinsbank. The consolidated financial statements may be obtained from the parent company’s head office in Munich, Germany.

2. Accounting and Valuation Methods

The accounting and valuation methods of the Bank are in compliance with the regulations applicable in the Grand Duchy of Luxembourg and specifically with the Law of June 17, 1992 concerning the annual financial statements and consolidated financial statements of financial institutions.

The bank's reporting currency is Euro (€).

2.1 Non-current assets

Intangible assets

The expenses incurred in connection with the formation of the Bank were capitalized in 1999 and amortized over a period of two years.

Property, plant and equipment

Property, plant and equipment is carried on the balance sheet at acquisition or production cost

less accumulated depreciation. Items of property, plant and equipment are subject to value depletion over time, which must be accounted for by way of scheduled depreciation. Depreciation charges are determined on the basis of the customary useful lives of the assets in question.

The depreciation rates applied at the balance sheet date are detailed in the table below.

Purchased assets with acquisition or production costs of not more than € 868 or for which the useful life is less than one year are written off in full in the year of acquisition.

	Depreciation rate	Method
Office and business equipment	20.00 %	Straight-line
Data processing equipment	33.33 %	Straight-line



Investments

The debt securities and other fixed-income securities held to maturity for operating purposes and meeting the requirements of the bank oversight authority are valued at acquisition cost, or if there is likely to be a permanent decline in value, at the lower market price. Some of these securities are hedged by interest rate swaps (asset swaps).

All securities of the cover pool are valued at acquisition cost. The remaining debt securities and other fixed-income securities are valued at the lower market price.

Accruals and deferrals are created for issue premiums and discounts and are expensed pro rata temporis over the remaining life of the securities.

2.2 Current assets

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities not classified as long-term investments are carried at acquisition cost and are attributed to the liquidity portfolio.

These securities are valued strictly at the lower of cost or market in accordance with the “principle of retention”. They are valued at the lower market price on the balance sheet date, or if such a market price cannot be determined, at the probable sale value or the price that best reflects the value of the securities.

Own debt securities repurchased and hedged by means of an asset swap are valued at acquisition cost.

Placements, loans and advances

Placements, loans and advances are carried at their nominal values. Accrued interest not yet payable is shown under accruals and deferrals on the assets side of the balance sheet. Accruals and deferrals are established for issue premiums and discounts in accordance with the respective maturities.

Provisions for current assets

The bank generally applies a policy of establishing specific loan-loss provisions to cover the risk of loss or default on existing placements, loans and advances.



A general loan-loss provision has been established for latent risks. Such provisions are deducted directly from the respective asset items.

2.3 Liabilities and provisions

Liabilities are stated at their nominal or repayment amounts and provisions are established in the necessary amount according to the exercise of sound business judgment.

2.4 Acquisition or production costs of similar inventory items and all fungible assets, including securities

The bank applies the weighted average price method for determining acquisition costs.

2.5 Currency translation

Assets and liabilities not denominated in euros are translated to the currency of account at the median spot exchange rate on the balance sheet date.

Income and expenses denominated in foreign currencies are translated to the currency of account at the respective daily exchange rates.

Foreign exchange losses resulting from the application of these valuation principles are recognized in the income statement.

The imparity principle is applied to valuation results from uncovered positions. Covered spot or forward positions are valued without effect on the income statement.

2.6 Valuation of financial derivatives

Derivative financial instruments are recorded as off-balance sheet items on the trade date. At year-end, they are valued at market prices unless they serve to hedge the overall market risk position of the Bank.

3. Notes on Assets

3.1 Assets at December 31, 2002

Maturity schedule

(in T €)	Due from banks (including balances with central banks)		Due from customers	
	Dec. 31, 2002	Prior year	Dec. 31, 2002	Prior year
	Repayable on demand	60,962	18,943	–
Up to 3 months	290,932	–	–	–
From 3 months up to 1 year	22,556	38,121	42,038	–
From 1 year up to 5 years	125,575	114,520	52,267	25,000
More than 5 years	269,909	64,761	564,528	410,790
Total	769,934	236,345	658,833	435,790
of which: Subordinated loans and advances	–	–	–	–

Placements with and loans and advances to banks repayable on demand include balances with the central bank totaling T € 1,305.

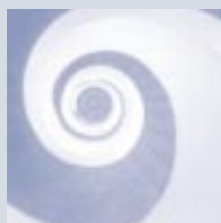
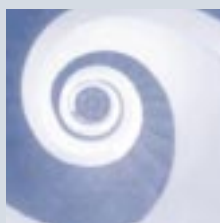
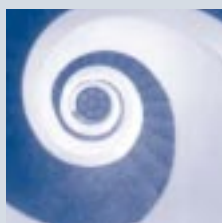
3.2 Loans and advances or debt securities and other fixed-income securities to affiliated companies or companies in which a participating interest is held

(in T €)	Affiliated companies		Companies in which a participating interest is held	
	Dec. 31, 2002	Prior year	Dec. 31, 2002	Prior year
Placements with, loans and advances to banks	361,476	23,011	–	–
Loans and advances to customers	–	–	–	–
Debt securities and other fixed-income securities	303,363	424,272	–	–
Total	664,839	447,283	–	–
of which: Subordinated loans and advances	–	–	–	–

The placements with, loans and advances to banks include claims for restitution of lent securities (to affiliated companies) in the amount of T € 290,932.

3.3 Breakdown by standardized risk weighting classes

On-balance-sheet risk volume (in T €)	Nominal amount	Risk weighting	Risk equivalent
Secured by local authorities in Zone A (0 % eligibility)	0	0 %	0
Secured by local authorities in Zone A (20 % eligibility)	20,287	20 %	4,057
Due from central governments and central banks in Zone A	1,959,665	0 %	0
Due from multilateral development banks	201,557	20 %	40,311
Due from regional and local governments (0 % eligibility)	1,370,739	0 %	0
Due from regional and local governments (20 % eligibility)	1,093,671	20 %	218,734
Due from other banks in Zone A ≤ 1 year	464,991	20 %	92,998
Due from other banks in Zone A > 1 year	363,349	20 %	72,670
Debt securities of banks	794,778	10 %	79,478
Collection items	671	20 %	134
Accruals and deferrals	60,347	50 %	30,174
Property, plant and equipment	227	100 %	227
Grand total	6,330,282		538,784



Derivatives (in T €)	Nominal amount	Risk weighting	Risk equivalent
Transactions without netting			
Interest rate transactions ≤ 1 year to maturity	0	20 %	0
Interest rate transactions > 1 ≤ 5 years to maturity	9,246	20 %	1,849
Interest rate transactions > 5 years to maturity	8,276	20 %	1,655
Foreign exchange transactions ≤ 1 year to maturity	0	20 %	0
Foreign exchange transactions > 1 ≤ 5 years to maturity	805	20 %	161
Foreign exchange transactions > 5 years to maturity	0	20 %	0
Transactions with netting	61,360	20 %	12,272
Grand total	79,687		15,937

3.4 Information on credit risk

Placements, loans and advances, debt securities and other fixed-income securities (before deduction of provisions and writedowns) at the balance sheet date break down as follows:

(in T €)	Remaining maturity				Total
	≤ 1 year	> 1 year ≤ 5 years	> 5 years ≤ 10 years	> 10 years	
Banks					
Europe	588,180	750,731	895,470	71,233	2,305,614
Japan	15,226	42,013	72,402	0	129,641
USA	1,919	21,999	19,947	0	43,865
Total	605,325	814,743	987,819	71,233	2,479,120
Public-sector borrowers (excluding banks)					
Europe	153,567	347,230	990,857	1,244,402	2,736,056
Japan	30,932	187,270	168,083	120,705	506,990
Canada	0	57,691	106,218	271,739	435,648
USA	0	80,841	19,934	9,507	110,282
Total	184,499	673,032	1,285,092	1,646,353	3,788,976
Grand total	789,824	1,487,775	2,272,911	1,717,586	6,268,096



3.5 Debt securities and other fixed-income securities and participating interests

(in T €)	Dec. 31, 2002	Prior year
Exchange-listed securities	4,721,082	4,535,786
Not listed securities	119,348	4,042
Total	4,840,430	4,539,828

The debt securities and other fixed-income securities due for redemption in the following year amount to T € 382,919.

The item of “debt securities” (after deduction of writedowns) breaks down as follows:

(in T €)	Dec. 31, 2002	Prior year
Securities carried as long-term investments	4,713,714	4,301,719
Securities carried in liquidity portfolio	126,716	238,109
Total	4,840,430	4,539,828

At the balance sheet date, accumulated premiums totaled T € 2,362 and accumulated discounts totaled T € 2,021. Repurchase obligations under repurchase agreements totaled T € 752,225.

3.6 Accruals and deferrals

This item primarily contains accrued interest and amortized premiums on debt issues and loans.

4. Notes on Liabilities

4.1 Liabilities at December 31, 2002

Maturity schedule

(in T €)	Owed to banks		Owed to customers	
	Dec. 31, 2002	Prior year	Dec. 31, 2002	Prior year
Repayable on demand	856	129	–	–
Up to 3 months	1,103,841	1,130,296	–	–
More than 3 months up to 1 year	30,000	32,898	–	–
More than 1 year up to 5 years	30,000	60,000	28,000	28,000
More than 5 years	20,000	–	92,200	112,000
Total	1,184,697	1,223,323	120,200	140,200

Of the amounts owed to banks, T € 852,249 relate to repurchase agreements.

(in T €)	Securitized Liabilities at December 31, 2002			
	Public-sector Pfandbriefe	Other debt securities	Other	Total
Repayable on demand	–	–	–	–
Up to 3 months	566,033	–	595,000	1,161,033
More than 3 months up to 1 year	268,738	–	20,000	288,738
More than 1 year up to 5 years	2,982,408	–	–	2,982,408
More than 5 years	456,381	–	–	456,381
Total	4,273,560	–	615,000	4,888,560

The securitized liabilities due in the following year amount to T € 1,449,771.



4.2 Amounts owed to affiliated companies or companies in which a participating interest is held

Amounts owed to affiliated companies totaled T € 17,624, of which T € 17,624 was owed to banks.

At the balance sheet date, there were no amounts owed to banks under repurchase agreements.

4.3 Deferred income

This item consisted mainly of deferred interest and discounts.

4.4 Provisions

The other provisions stated on the balance sheet consist mainly of outstanding invoices relating to business conducted in the past fiscal year.

4.5 Subordinated liabilities

At December 28, 2000 the Bank accepted a “silent partner’s contribution” in the amount of T € 9,000. The term is indefinite and the interest is dependent on profits. In 2002, interest in the amount of T € 456 was charged to the income statement. For bank oversight purposes, this silent partner’s contribution is classified as

upper Tier II capital. Effective January 1, 2003 the silent partner’s contribution was converted into a subordinated debt issue. Interest is still dependent on profits, the term is indefinite and the regulatory classification is upper Tier II capital.

On May 18, 2001 the Bank issued subordinated debt in the amount of T € 15,000. The final principal repayment on this subordinated debt, repayable in installments beginning May 18, 2017, is scheduled for May 18, 2026. The interest rate is 6.8 % p.a. At January 30, 2002 the subordinated debt was increased by T € 10,000 to T € 25,000 under identical conditions. In 2002, interest in the amount of T € 2,125 was charged to the income statement. For bank oversight purposes, the subordinated debt is classified as lower Tier II capital.

4.6 Equity

By resolution of the shareholders at the Annual Meeting of December 18, 2002, the subscribed capital was increased by T € 15,000 to T € 66,000. The capital is divided into 66,000 non-par bearer shares. There is no authorized capital. As part of the capital increase, an issue premium of T € 15,000 was allocated to the additional paid-in capital account.

Pursuant to the Luxembourg Law of August 10, 1915 on Commercial Companies, the Bank must allocate at least 5 % of its annual net income to a statutory reserve every year until such time as this reserve reaches 10 % of the subscribed capital. No distributions may be made from the statutory reserve. At the balance sheet date, the statutory reserve totaled T € 225 and retained earnings totaled T € 2,600.

The bank exercises the capital tax credit option allowed under tax law. At the balance sheet date, the retained earnings reserve contained T € 1,250 for the capital tax credit. For 2002, a similar allocation to this reserve will be effected.

In accordance with the profit appropriation proposal, an amount of T € 150 will be allocated to the statutory reserve and T € 2,045 to retained earnings.

4.7 Assets deposited as collateral for own liabilities

Assets (securities) in the amount of T € 135,500 have been deposited as collateral with the central bank.

5. Notes regarding Off-balance Sheet Items

The Bank engages in transactions involving derivative financial instruments in the OTC market exclusively for hedging purposes as part of its asset-liability management program. No trading activities involving derivatives were conducted. As a general rule, the bank has entered into netting agreements with its trading partners in the derivatives business to reduce the associated risks.

In 2002, we included a small number of interest rate and currency swaps in the cover pool for the first time. We entered into contractual agreements with the respective counterparties to govern the relevant information and cooperation duties.

At year-end 2002, the notional volume of off-balance sheet transactions totaled € 9,820 million, of which € 3,009 million was with affiliated companies. The counterparty risks resulting from derivatives were determined on the basis of gross replacement costs, among other factors. These costs are calculated as the sum total of all positive market values without taking netting agreements into account. At year-end 2002, the counterparty risk (maximum default risk) thus

defined totaled € 166 million, or 1.7 % of the outstanding notional volume. After consideration of netting agreements, the counterparty risk is reduced to € 24 million.

When add-ons and risk weighting are additionally applied for potential future risks in accordance with bank oversight standards, the counterparty risk according to the market value method amounted to € 16 million at year-end 2002. In the future, the Bank will continue to pay strict attention to its counterparty risk, keeping it within narrow limits by means of active management. Our counterparties for derivative transactions are exclusively OECD banks.



(in mio €)	Notional amount RM* up to 1 year	Notional amount RM* 1 to 5 years	Notional amount RM* more than 5 years	Total notional	Positive market values	Counterparty risks
Interest rate derivatives						
Interest rate swaps (same currency)	783	3,875	3,483	8,141	161	
Interest rate options – purchased	0	2	0	2	0	
Interest rate options – written	0	80	25	105	0	
Other interest rate contracts	0	0	0	0	0	
Currency derivatives						
Foreign exchange swaps	820	0	0	820	4	
Cross-currency swaps	236	44	472	752	1	
Total	1,839	4,001	3,980	9,820	166	16

* RM = Remaining maturity

6. Notes on the Statement of Income

6.1 Geographical origin of income

Most of the bank's income is generated from business relationships with counterparties based in Europe.

6.2 Balance of expenses/income from financial transactions

This item contains the net income/expense from securities attributed to the liquid portfolio (including the allocation to depreciation and income from the reversal of depreciation).

7. Other Information

7.1 Personnel

The average number of employees during 2002 is indicated below:

- Management: 3.4
- Other employees: 13.0

At the end of 2002, the management board was composed of three persons. Non-management employees numbered thirteen.

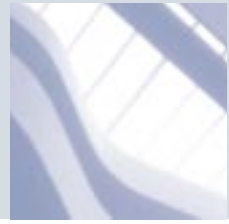
7.2 Compensation and loans to management board and board of directors

No loans were extended to members of the management board or to any members of the Board of Directors.

Compensation totaling T € 411 was paid to members of the management board in 2002.

8. Statement of Non-Current Assets

(in T €)	Acquisition cost	Additions 2002	Disposals 2002	Write-ups due to exchange rates
Intangible assets	567.1	0	- 567.1	0
Operational and office equipment	2,209.3	103.3	- 41.9	- 0.5
of which: data-processing equipment	1,939.9	27.9	0	- 0.5
Securities held as long-term investments	4,301,719.4	1,056,061.4	- 643,867.2	0
Total	4,304,495.8	1,056,164.7	- 644,476.2	- 0.5



7.3 Deposit insurance system

The bank is a member of the “Association pour la Garantie des Dépôts Luxembourg” (AGDL), which is the deposit insurance association for the banking sector in the Grand Duchy of Luxembourg. It was not necessary to establish a provision for this purpose.

7.4 Items not denominated in the currency of account

The total amount of assets denominated in foreign currencies (excluding € currencies) totaled T € 1,565,160.

Liabilities denominated in foreign currencies totaled T € 1,367,367 at the end of 2002.

Depreciation 2002	Depreciation disposals	Accumulated depreciation	Book value 12/31/2002	Book value 2001
0	- 567.1	0	0	0
586.2	- 25.8	2,042.7	227.5	736.2
525.2	0	1,903.3	64.0	570.8
0	0	0	4,713,913.6	4,301,719.4
586.2	- 592.9	2,042.7	4,714,141.1	4,302,455.6

9. Other Disclosures

Statement of cover assets for required cover pursuant to sections 12-1 to 12-9 of the law of April 5, 1993 on the financial sector

The information below is limited to public-sector Pfandbriefe. No mortgage-backed Pfand-

briefe were issued. Derivative financial instruments were included in the Statement of Cover Assets for the first time in 2002.

9.1 Statement of cover assets for Public-Sector Pfandbriefe

(in €)		
Value of cover assets		4,632,348,714
Other items eligible as cover	Securities	0
	Bank balances	0
Total cover		4,632,348,714
Issues outstanding	Bearer securities	4,143,059,940
	Registered securities	140,200,000
Total issues outstanding (requiring cover)		4,283,259,940
Surplus cover		349,088,774



9.2 Other breakdowns

9.2.1 Cover assets

Standard cover assets	(in €)
Placements with and loans and advances to banks	
Municipal loans or loans guaranteed by public-sector institutions	371,059,436
Loans and advances to customers	
Municipal loans or loans guaranteed by public-sector institutions	658,833,035
Debt securities of public-sector issuers	2,865,087,849
Covered public-sector Pfandbriefe	725,560,888
Derivative products	11,807,506
Sub-total	4,632,348,714
Other eligible cover assets	
Other placements with and loans and advances to banks	0
Debt securities pursuant to Section 42 (3) UCITS Act	0
Cash	0
	0
Grand total	4,632,348,714

9.2.2 Cover pool for municipal loans

Breakdown by size categories

	Quantity	(in €)
up to € 10 million	32	176,054,170
up to € 25 million	27	470,926,220
more than € 25 million	69	3,985,368,324
		4,632,348,714



9.2.3 Cover pool for public loans

Breakdown by countries

	(in €)	in %
Germany	1,526,696,449	33.0
Italy	615,016,730	13.3
Switzerland	336,443,223	7.3
Canada	298,208,334	6.4
Spain	293,685,377	6.3
Japan	280,503,184	6.1
Int. Organizations	248,252,013	5.4
Austria	214,757,840	4.6
United States of America	145,181,641	3.1
Belgium	140,267,703	3.0
Finland	135,746,050	2.9
France	118,496,412	2.5
Portugal	110,000,000	2.4
Sweden	84,200,205	1.8
Luxembourg	53,000,000	1.1
Netherlands	14,572,076	0.3
Great Britain	11,807,506	0.3
Denmark	2,957,511	0.1
Ireland	2,556,460	0.1
	4,632,348,714	100.0

9.2.4 Statement of cover assets by net present value

Beyond the statutory and regulatory requirements, we also calculate the cover assets in terms of net present value. This calculation yields the following result:

(in mio €)	Cover assets	Public-sector Pfand-briefe requiring cover*	Surplus cover	in %
Nominal	4,632	4,283	349	8.1
Net present value	5,056	4,473	583	13.0
Net present value if yield curve shifts				
+ 100 bp	4,840	4,388	452	10.3
- 100 bp	5,273	4,557	716	15.7

**(lettres de gage publiques)*

9.3 Accruals and deferrals

(in €)	
Assets: Prepayments and accrued income	
Accrued interest	254,427,102
From issuing and lending activities	18,420,072
Other	10,295,867
Total	283,143,041
Liabilities: Accruals and deferred income	
Deferred interest	204,319,083
From issuing and lending activities	2,574,648
Other	30,486,400
Total	237,380,131



9.4 Own public-sector Pfandbriefe repurchased

In 2002, the Bank did not repurchase any of its own public-sector Pfandbriefe for price maintenance purposes. On the other hand, the Bank placed € 50 million of its own debt securities back in the market. At the balance sheet date, the book value of the portfolio was T € 126,716 (nominal T € 125,000). Of this amount, T € 25,000 consists of floating-rate notes. Further replacements are planned in the future whenever market conditions warrant such an action.

Three issues totaling € 84 million were redeemed ahead of maturity. This issues were delivered to the trustee for destruction.

9.5 Interest arrears

The interest due on loans and securities in 2002 was paid in full.

No arrears exist and no writedowns or allowances were established for interest payable.

Supervisory Board

Dr. Egbert Eisele

Member of the Board of Directors,
Bayerische Hypo- und Vereinsbank AG, Munich

Dr. Paul Eisele

Member of the Board of Directors,
Württembergische Hypothekenbank AG, Göppingen

Jürgen Töniges

Member of the Board of Directors,
Westfälische Hypothekenbank AG, Dortmund

Dr. Claus Nolting

Member of the Board of Directors,
Bayerische Hypo- und Vereinsbank AG, Munich
Spokesman for the Board of Directors,
HVB Real Estate Bank AG, Munich
(Chairman of the Supervisory Board)

Theodor Knepper

Member of the Board of Directors,
HVB Real Estate Bank AG, Riemerling

Gerhard M. Kainz

Administrateur-Délégué, Luxembourg

Managing Directors

Theodor Knepper

until May 30, 2002

Gerhard M. Kainz

Martin Schulte

Ralph Brödel

Réviseur Spécial

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