



ANNUAL REPORT 2001



Pfandbrief Bank International

PBI – MAKING MARKETS IN EUROPE

For hundreds of years, the market has been the focal point of human interaction throughout the world. Be it as a crossroads on important trade routes, the center of a vigorous public life, or a place where goods are bought and sold, the market has played a key role in the development of cities and nations for as long as mankind can recall. Our latest annual report sets out portray for you the special significance of the capital market for these developments and the supporting role played by Pfandbrief Bank International in Luxembourg.

To set the scene – high-quality products, a wide range of offers, proximity to the people, and the unrestrained joy of trading: these are the things that make a market so attractive and so successful. And what connects us, as a bank specializing in public sector financing, with all the markets in the world ...



CONTENTS

I	PREFACE	3
II	REPORT OF THE ADMINISTRATIVE BOARD	
	Management Report	8
III	ANNUAL FINANCIAL STATEMENTS	
	Balance Sheet	16
	Income Statement	18
	Auditor's Report	20
IV	NOTES OF THE FINANCIAL STATEMENTS	22
V	COMMITTEE	43

Dear business associates,

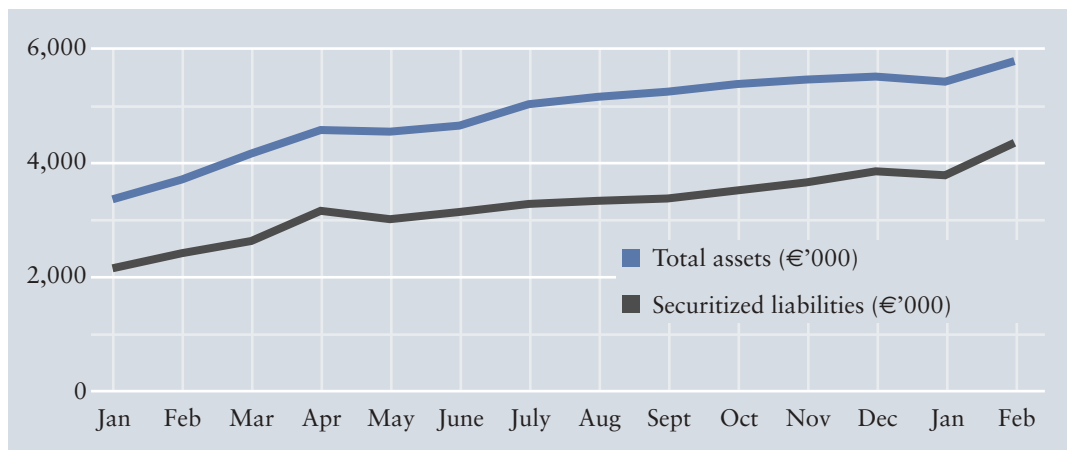
the year 2001 is one we will never forget. It was a year in which we faced a sharp economic downturn, accompanied by massive easing of interest rates by the central banks of the major industrialized nations. It was a year in which the world's leading stock markets suffered from rapidly falling prices right through to the autumn. It was a year in which we saw several spectacular corporate failures. And last but not least, it was a year in which the terrorist attacks on the highly symbolic World Trade Center in New York and the Pentagon in Washington on

September 11 represented an assault on the entire free world.

Given this background of far-reaching events, we consider it a privilege to look back on a year of commercial success as well as an indication of the solidity and attractiveness of the business we conduct, even in difficult times.

Once again in 2001, we kept our focus exclusively on expanding the Bank's operations and its market position. This resulted in a 60%

Development of total assets and issue volume, 2001 (€'000)





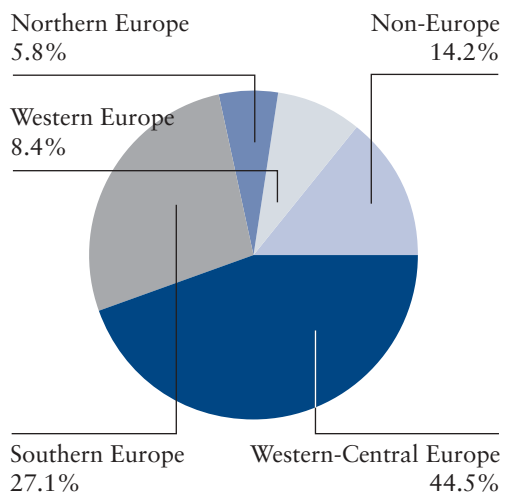
increase in total assets, up to €5,432 million. By issuing subordinated liabilities, we raised the Bank's liable equity 27%, to €75.7 million. Net income after taxes climbed 84% to reach €2.15 million. In order to reinforce our equity base, we have reinvested the net income for the year in full. Added to this, we again boosted our subordinated liabilities at the beginning of 2002, meaning that we now have €87 million in equity at our disposal in the new fiscal year.

We expanded our internationally diversified portfolio of high-quality public borrowers after applying strict selection criteria and carrying out critical studies. Specifically, we have raised our profile in Japan, Italy, Spain, Canada, and Switzerland. In doing so, our activities centered for the most part on regional governments.

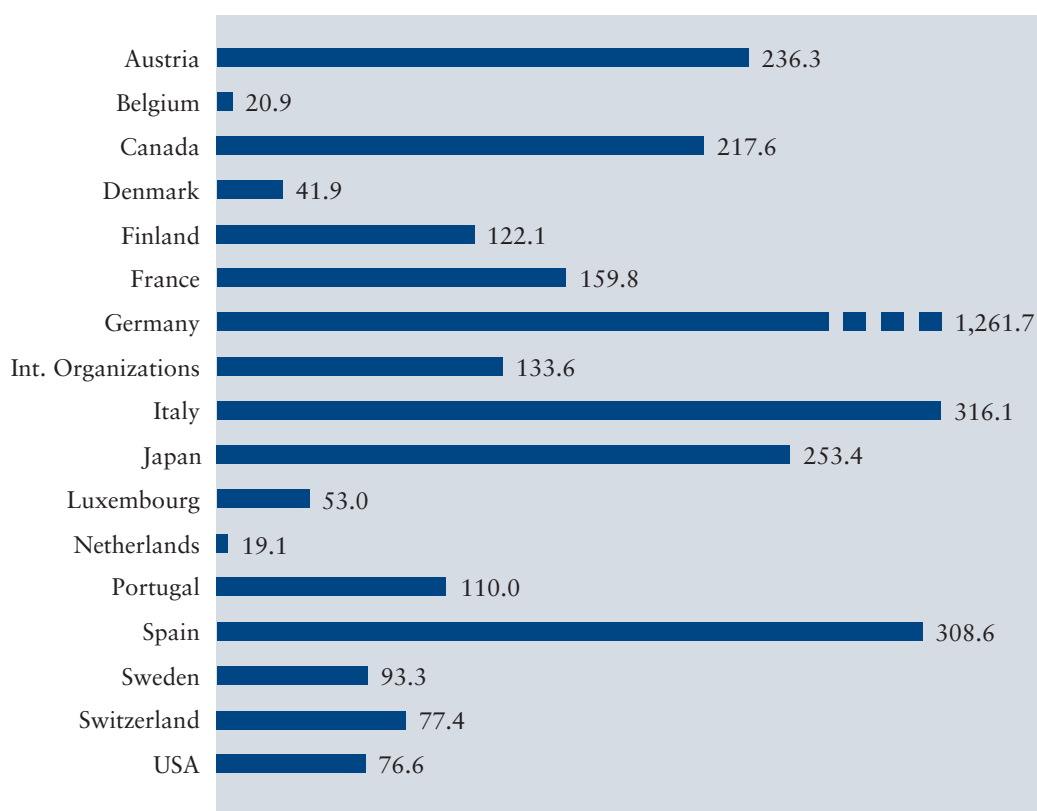
At year-end, the volume of our cover portfolio had exceeded the equivalent of €3,500 million. The kind of credit-analysis we have developed to examine local authorities, which is constantly being refined, will continue to form the basis of our portfolio strategy in the future. Each month, we update the detailed information on the composition of our cover pool, which we

make available to our partners and investors on our homepage (www.pbi.lu).

It were not only the events listed above that affected the development of the capital markets in 2001. Just about over the year as a whole, we observed a constant narrowing of the yield spreads between government bonds and the swap market. This generally resulted in Pfandbriefe becoming less attractive in relative terms and consequently led to waning interest on the part of investors. Given this backdrop, it proved more difficult than before to place large-volume Pfandbriefe, so we concentrated more on serving investor interests by bringing customized issues



Cover pool by regions, as of January 31, 2002



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

to the markets. We achieved this with a range of issues denominated in Euro, U.S. dollar, Japanese yen, and Swiss franc, enabling us to increase our Pfandbriefe in circulation by more than €1,000 million. All told, the aggregate total for Luxembourg Pfandbriefe issued had breached the €11,000 million threshold by the end of 2001. We expect this success to continue unabated this year. In January 2002, we succeeded in marketing customized issues in three different currencies for investors, worth an aggregate volume of €380 million.

We supported our issues by maintaining regular contact with investors through telephone conferences, presentations, and personal conversations. We intend to pursue and intensify these efforts in the future. At the same time, we cooperate with our Luxembourg-based peers to market the Luxembourg Pfandbrief.

At the end of January 2001, we launched our €1,000 million Commercial Paper Programme, giving us access to new investor groups and permitting greater flexibility for refinancing in the



money market. The programme was warmly received by the market.

As the volume of business we conduct is growing dynamically and the transactions we perform are becoming more complex, it is all the more important for us to systematically expand our pool of qualified personnel. At the same time, we remain committed to investing in the ongoing education of our existing people.

We have set lofty goals for ourselves in 2002. A high level of uncertainty will continue to dominate the market. The bar is constantly being raised for banks in general, and providers of long-term finance in particular. We do, however, consider ourselves well positioned in the marketplace. We have made a very promising start to the first quarter of 2002. As a result, we can face up to the varied challenges of the new year with great optimism, and are pleased to have you on board as we do so!

Theodor Knepper

Managing Director

Gerhard M. Kainz

Managing Director

MANAGEMENT REPORT

In the Bank's second full year of operation, we once more focused on building up and expanding our organization and asset base. Last year's goals, which we already made good progress toward achieving, again had an impact on our activities in the year under review.

In particular, we concentrated on further expanding the volume of business we conducted, boosting the importance of the Luxembourg Pfandbrief in the European capital market, and increasing its market volume.

Despite a difficult climate in the Pfandbrief market, we succeeded in both tangibly expanding our volume and significantly extending our counterparty relationships.

One of the factors no doubt underlying this success was the launch of a Commercial Paper Programme at the beginning of the year under review. With an issue framework of €1 billion, this step brought the Bank firmly into this segment.

We updated our existing MTN programme, which is the standard documentation for longer-term issues. Another important decision for us came in the summer when the triple-A rating for our Pfandbriefe was confirmed.

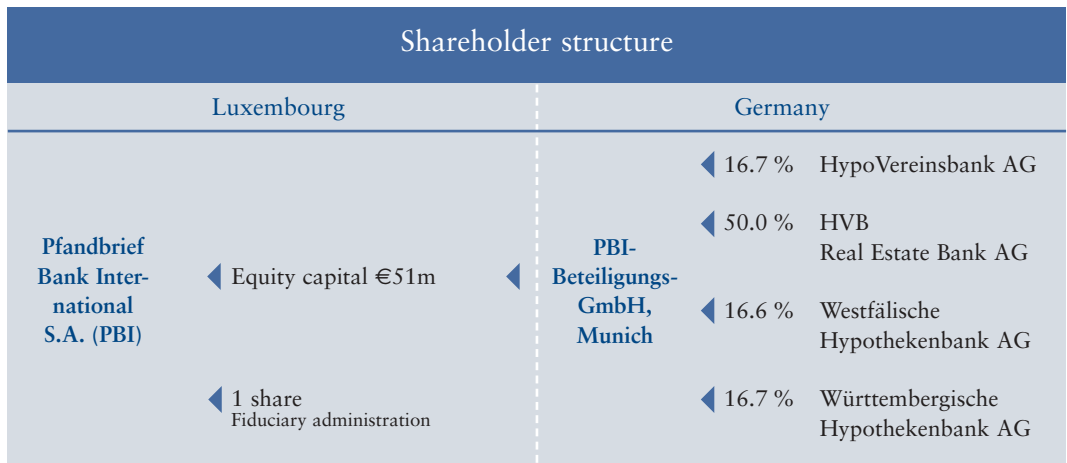
Furthermore, we set up numerous visits to investors, conferences and presentations both inside and outside Luxembourg with a view to explaining our strategy and the market rewards for the "lettre de gage." This gave us the opportunity to highlight the options and capabilities we have for creatively shaping our issues to match investors' expectations and requirements. We amply demonstrated that this can be done flexibly with top quality in a slew of transactions on both the asset and liability side, to the satisfaction of all concerned.

As reported widely in the press, the HypoVer-einsbank Group implemented some major strategic and organizational changes in 2001.



Bayerische Handelsbank, Nürnberger Hypothekenbank and Süddeutsche Bodencreditbank have merged to form HVB Real Estate Bank AG.

While this step has not fundamentally altered our ownership structure, the chart below does show the new situation.



Pfandbrief Bank International retains the function assigned to it at its inception, namely that of a center of competence for international public-sector financing. We aim to perform this function by systematically expanding our credit research and credit risk management abilities and exploiting the many years of experience gained by the institutions involved in the group.

Working in conjunction with the other mortgage banks in the HypoVereinsbank Group, we are able to deploy this historical expertise in long-term finance and as an issuer to the benefit of all concerned.

All in all, therefore, we have made good progress toward achieving our long-term objectives.



Assets

During the year under review, we acquired placements, loans and advances worth €2,340 million (2000: €3,147 million), including €2,199 million (2000: €2,428 million) of securities issued by public borrowers. Where appropriate, we employed derivative financial instruments in order to hedge the exposure arising from changes in market interest rates. Securities totaling €341 million (2000: €104 million) fell due for repayment on schedule in 2001, and we pledged receivables worth €9 million (2000: €5 million) as security. There were no non-scheduled repayments (2000: €5 million).

Liabilities

We issued bearer and registered public-sector Pfandbriefe (lettre de gage publique) in a total of €1,148 million (2000: €2,293 million). Moreover, the Bank took out loans amounting to €25 million, and issued bearer unsecured debentures not requiring cover amounting to €14 million and subordinated funds amounting to €15 million (2000: zero in both cases).

Alongside drawings denominated in Euros, we also issued securities denominated in Swiss franc, Japanese yen, and U.S. dollar. All the issues were set up as part of our MTN programme.

One of our issues currently in circulation fell due for repayment (€40 million) on schedule during the year under review, and we repaid one issue prematurely (€10 million).

In price-smoothing operations, we bought back our own bonds worth a nominal €155 million in 2001, €50 million of which were then placed again, with the rest remaining in our portfolio.

The scope of our Commercial Paper Programme was fully utilized at year-end for a total of €540 million. The average term of the commercial paper issued during the course of the year was 78 days. We issued Commercial Paper denominated in Euro, Swiss franc, pound sterling, Japanese yen, and U.S. dollar.

Assets and earnings

Total assets amount to €5,432 million. This represents a 61.3% increase year-on-year.

The portfolio of placements, loans and advances, including securities, totals €5,193 million, a rise of 60.8% over last year's total of €3,230 million. Funding capital amounts to €5,159 million, or 62.2% more than last year (€3,180 million).

Earnings continued to develop in line with plans and expectations. Despite all the negative external factors, we consider this a success in a generally difficult climate for the Pfandbrief market. We intend to allocate the net income for the year to reinforce our capital base.

Income Statement in Vertical Format

in thousands of €	2001	2000
Net interest income	5,789	5,692
Net commission income	- 82	- 269
Net income from financial transactions	1,106	- 126
Personnel expense	1,359	1,083
Other administrative expenses	1,918	1,608
Depreciation on property, plant and equipment	869	900
Current expenses	4,146	3,591
Balance of other operating income and expenses	119	17
Operating result before risk provision	2,786	1,723
Risk provision	124	107
Operating result after risk provision	2,662	1,615
Taxes	512	448
Net income for the year	2,150	1,167



Net annual income and appropriation of profit

The Bank generated net income of €2,150,000 after taxes in 2001, representing a rise of 84.2% over the 2000 total of €1,167,198. We will propose to the Annual General Meeting that €150,000 will be allocated to statutory reserves and €2,000,000 to retained earnings.

Risk report

We have raised staff levels in our Risk Controlling unit in order to keep pace with the requirements arising from the greater volume of business. The core functions of this unit, which reports directly to the management, are as follows:

- To measure and monitor risk on a daily basis, based on the value-at-risk approach for market, credit, counterparty, and liquidity risk;
- To calculate economic performance on a daily basis;
- To monitor the parameters used to measure risk and performance on an independent basis; and
- To refine and implement our control strategies.

The Bank has an effective system of risk control thanks to the constant development of our measurement and control instruments coupled with the integration into the risk monitoring methods applied by the HypoVereinsbank Group.

We have set up appropriate reporting channels and control measures with a view to monitoring and controlling individual risks. The following are mentioned by way of example:

Liquidity risk

A list of all future cash flows and cumulative balances for each currency is provided every day to facilitate the management of short-term payment obligations. We are in contact with a number of capable banks should the need arise to procure liquidity at short notice. In terms of medium- and long-term planning, we evaluate our assets and liabilities according to so-called liquidity classes and time buckets.

Counterparty risk (credit risk or country risk)

Our counterparty risk relates exclusively to public-sector borrowers and OECD banks. The risk of counterparty default from derivatives transactions is assessed regularly using the gross



replacement values, among other factors. These are the positive cash values determined under the marked-to-market method. The utilization levels for all credit lines are available online for every counterparty individually and aggregated on an intraday basis, based on current market values.

Market risk

Within the framework of our asset/liability management, we determine interest rate risk for the Bank's overall position on a daily basis. Risk Controlling calculates the aggregate risk position and economic performance each day, and monitors compliance with the limits set. Management is informed about exposures and performance every day. To control and quantify interest rate risk, we employ risk sensitivities and the value-at-risk concept implemented by the corporate group, based on a 99% confidence level with an assumed holding period of ten days. The average exposure for interest rate risk totaled €1,984k.

There were no material currency risks. All assets, liabilities and off-balance-sheet transactions are included in the risk calculations.

Other information

HypoVereinsbank 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

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

The rating for our public-sector Pfandbriefe, our most important funding instrument, remains triple-A. Hence we do not expect the change in the counterparty ratings for the HVB Group to have any major impact on our earnings situation.

Business activities and earnings have continued to develop according to plan since December 31, 2001.

BALANCE SHEET AT DECEMBER 31, 2001

ASSETS	2001 €	2000 €
Cash on hand, balances with central banks and on postal giro accounts	18,750,000	3,146
Placements with, and loans and advances to, other banks	217,594,520	192,426,736
Municipal loans and loans guaranteed by public institutions	217,401,992	124,099,052
Other loans and advances	192,528	68,327,684
<i>of which: Repayable on demand</i>	192,528	49,176,767
Loans and advances to customers	435,790,432	394,967,369
Municipal loans and loans guaranteed by public institutions	435,790,432	394,967,369
Debt securities and other fixed-income securities	4,539,827,894	2,642,588,123
Public-sector issuers	2,082,592,014	854,474,422
Other issuers	2,269,643,062	1,708,089,383
Own issues	187,592,818	80,024,318
Intangible assets	0	173,899
Property, plant and equipment	736,211	1,367,257
Other assets	259	223
Prepaid expenses	218,845,176	135,932,530
Total Assets	5,431,544,492	3,367,459,283



LIABILITIES

		2001 €	2000 €
Accounts due to other banks		1,223,322,531	896,766,638
Issued registered public-sector Pfandbriefe	10,000,000		10,000,000
Other liabilities	1,213,322,531		886,766,638
<i>of which: Repayable on demand</i>	<i>14,015,796</i>		<i>50,040,891</i>
<i>With agreed maturity</i>			
<i>or period of notice</i>	<i>1,209,306,735</i>		<i>846,725,747</i>
Accounts due to customers		140,200,000	123,700,000
Registered public-sector Pfandbriefe issued	140,200,000		123,700,000
<i>of which: With agreed maturity</i>			
<i>or period of notice</i>	<i>140,200,000</i>		<i>123,700,000</i>
Securitized liabilities		3,795,885,449	2,159,336,712
Issued debt securities	3,255,588,756		2,159,336,712
Public-sector Pfandbriefe	3,241,405,164		2,159,336,712
Other debt securities	14,183,592		0
Other	540,296,693		0
Other liabilities		205,121	18,199,832
Deferred income		192,659,248	107,932,359
Provisions and accruals		1,447,143	818,742
Tax deferrals	960,706		448,316
Other	486,437		370,426
Subordinated liabilities		24,000,000	9,000,000
Subscribed capital		51,000,000	51,000,000
Reserves		675,000	0
Profit (loss) carried forward		0	- 462,198
Net income for the year		2,150,000	1,167,198
Total liabilities		5,431,544,492	3,367,459,283
Notes:			
Credit commitments		-	8,691,962

INCOME STATEMENT FOR THE PERIOD FROM JANUARY, 1 TO DECEMBER 31, 2001

EXPENSES	2001 €	2000 €
Interest expense and similar charges	516,298,156	208,690,469
Fee and commission expense	481,665	295,208
Expenses from financial transactions	–	125,579
General administrative expenses	3,279,908	2,691,341
Personnel expense	1,359,254	1,083,129
of which: Wages and salaries	1,146,191	943,118
Expenses for social security	73,765	62,012
of which: for pensions	53,422	43,745
Other administrative expenses	1,917,654	1,608,212
Depreciation and amortization on intangible assets and property, plant and equipment	868,729	900,084
Depreciation and provisions for placements, loans, advances and additions to contingent liabilities and credit risks	50,000	100,000
Depreciation and amortization on securities held as investments, and on participating interests and shares in affiliated companies	73,500	7,671
Taxes on income from ordinary activities	262,390	197,566
Taxes not included in items above	250,000	250,750
Net income for the year	2,150,000	1,167,198
Total expenses	523,711,348	214,425,866



I N C O M E

		2001 €	2000 €
Interest and similar income		522,087,255	214,382,648
of which: from fixed-income securities	235,618,263		111,662,873
Commission earnings		399,453	25,910
Net income from financial transactions		1,105,961	–
Other operating income		118,679	17,308

Total income		523,711,348	214,425,866
---------------------	--	--------------------	--------------------



AUDITOR'S REPORT

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of Pfandbrief Bank International S.A. for the year ended December 31, 2001, 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 Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Pfandbrief Bank International S.A. as at December 31, 2001 and of the results of its operations for the year then ended.

The management report is in accordance with the annual accounts.

Luxembourg, March 1, 2002

KPMG Audit

Réviseurs d'Entreprises

Thomas Feld



I . GENERAL COMMENTS

Pfandbrief Bank International S.A. (the “Bank”) 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 Pfandbriefbank under Luxembourg law (banque d’émission de lettres de gages).

The entry in the Register of Companies was completed on August 16, 1999, under the record number 71104 (section B). The legal rules and regulations underlying the operation of a mortgage bank can be found in section 12-1 through 12-9 of the law of April 5, 1993, regarding the financial sector (in the currently applicable version).

The Bank was established by Bayerische Hypo- und Vereinsbank AG (“HypoVereinsbank”) and its German mortgage banking subsidiaries, each with the same participating interest, via a holding structure. The mortgage banks were affected by a reorganization of the corporate group during the year under review. This resulted in a change in the ownership struc-

ture of PBI-Beteiligungs-GmbH, which holds the Bank’s equity capital.

The shares held in the Bank’s capital are now as follows:

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

The 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 is fully paid-in 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 are available from the parent company’s head office in Munich, Germany.



2. SIGNIFICANT ACCOUNTING POLICIES

The Bank's accounting policies comply with the regulations applicable in the Grand Duchy of Luxembourg and specifically with the law of June 17, 1992, regarding the annual financial statements and the consolidated financial statements of financial institutions. The accounting currency is the euro (€).

2.1 Non-current assets

Intangible assets

The expenses accrued in conjunction with establishing the Bank were capitalized in 1999 and are being amortized over a two-year period.

Property, plant and equipment

Property, plant and equipment is carried in the balance sheet at acquisition or production cost, less cumulative depreciation. Items of property, plant and equipment are subject to a loss of value over time, which is reflected in scheduled

depreciation. Depreciation is based on the expected useful lives of the assets.

The table below shows the depreciation rates applied at the balance sheet date.

Assets acquired at an acquisition or production cost of less than €868, or with an expected useful life of less than one year, are expensed in full in the year of acquisition.

	Depreciation rate	Method
Plant and office equipment	20,00%	Straight-line
Computer equipment	33,33%	Straight-line

Investments

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

In consultation with the bank supervisory authority, all securities making up the cover pool are valued at acquisition cost. The remaining fixed-income securities are valued at the lower of exchange or market price.

Accruals for premiums and discounts are created in the statement of income pro rata temporis for the remaining maturity 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 classified as held for liquidity purposes.

The securities are valued strictly at the lower of cost or market price in conjunction with the

“principle of retention.” The value is stated either at the exchange price at the balance sheet date, or, if this cannot be determined, the likely sales value, or the price that best reflects the value of the securities.

Placements, loans and advances

Placements, loans and advances are carried at their nominal values. Accrued interest that is not yet payable is carried as prepaid expenses on the assets side of the balance sheet. Accruals for premiums and discounts are created in accordance with the remaining maturity.

Provisions for current assets

The Bank generally pursues a policy of creating specific provisions to cover the risk of loss or default on existing placements, loans and advances.

A general loan-loss provision for latent risks has been created. Provisions are deducted from the current asset item concerned.



2.3 Liabilities, provisions/accruals

Liabilities are reported at their nominal or repayment amounts, and provisions/accruals are stated at the amount likely to be required.

2.4 Acquisition or production cost of similar inventories, and all fungible assets, including securities

The Bank applies the weighted average price method to determine the acquisition cost.

2.5 Foreign currency translation

Assets and liabilities not denominated in euros are translated into the accounting currency using the mean spot rate at the balance sheet date.

Income and expenses denominated in foreign currency are translated into the accounting currency using the respective current rate.

Exchange losses arising from these valuation principles are charged against income.

The principle of imparity is applied to valuation gains or losses arising from non-covered positions. Covered cash and forward positions are treated in a way that does not affect income.

2.6 Valuation of financial derivatives

Derivative financial instruments are booked as off-balance-sheet items on the day the contract is completed. At year-end, they are valued at market price, unless they serve to hedge the Bank's overall interest position.



3 . A S S E T S

3.1 Assets at December 31, 2001

Maturity schedule

(in thousands of €)	Placements with, and loans and advances to other banks (including balances with central banks)		Loans and advances to customers	
	Dec. 31, 2001	Prior year	Dec. 31, 2001	Prior year
Repayable on demand	18,943	49,177	–	–
Up to 3 months	–	19,151	–	–
From 3 months to 1 year	38,121	–	–	–
From 1 year to 5 years	114,520	81,412	25,000	–
More than 5 years	64,761	42,687	410,790	394,967
Total	236,345	192,427	435,790	394,967
of which: subordinated placements, loans and advances	–	–	–	–

The placements with, and loans and advances to, other banks repayable on demand include balances with the central bank totaling €18,750k.

3.2 Placements with, and loans and advances to, affiliated companies and companies in which a participating interest is held

(in thousands of €)	Affiliated companies		Companies in which a participating interest is held	
	Dec. 31, 2001	Prior year	Dec. 31, 2001	Prior year
Placements with, and loans and advances to, other banks	23,011	30,792	–	–
Loans and advances to customers	–	–	–	–
Debt securities and other fixed-income securities	424,272	378,058	–	–
Total	447,283	408,850	–	–
of which: subordinated placements, loans and advances	–	–	–	–

3.3 Breakdown by solvency level

On-balance-sheet risk volume (in thousands of €)	Nominal amount	Charging	Risk equivalent
Collateralized by local authorities in Zone A (0% eligibility)	40,128	0 %	0
Collateralized by local authorities of Zone A (20% eligibility)	20,287	20 %	4,057
Loans and advances to central governments and central banks in Zone A	1,840,668	0 %	0
Loans and advances to local and regional governments in Zone A (0% eligibility)	1,273,865	0 %	0
Loans and advances to local and regional governments (20% eligibility)	593,975	20 %	118,795
Placements with, and loans and advances to, other banks in Zone A, maturity ≤ 1 year	248,933	20 %	49,787
Placements with, and loans and advances to, other banks in Zone A, maturity > 1 year	1,110,981	20 %	222,196
Collection items	0	20 %	0
Prepaid expenses	110,207	50 %	55,104
Property, plant and equipment	736	100 %	736
Total	5,239,780		450,675

Derivatives (in thousands of €)	Nominal amount	Charging	Risk equivalent
Contracts without netting			
Interest rate derivatives maturity ≤ 1 year	935	20 %	187
Interest rate derivatives maturity > 1 ≤ 5 years	5,601	20 %	1,120
Interest rate derivatives maturity > 5 years	7,831	20 %	1,566
Foreign exchange derivatives maturity ≤ 1 year	0	20 %	0
Foreign exchange derivatives maturity > 1 ≤ 5 years	1,301	20 %	260
Foreign exchange derivatives maturity > 5 years	0	20 %	0
Contracts with netting	36,438	20 %	7,288
Total	52,106		10,421



3.4 Information on credit risk

The following table shows the breakdown at the balance sheet date of placements, loans and advances, debt securities and other fixed-income securities (before depreciation / risk provision):

(in thousands of €)	Remaining maturity				Total
	< 1 year	> 1 year ≤ 5 years	> 5 years ≤ 10 years	> 10 years	
Banks					
Europe	261,314	728,766	722,438	47,467	1,759,985
Japan	0	22,895	95,447	11,873	130,215
USA	18,117	11,000	19,947	0	49,064
Subtotal	279,431	762,661	837,832	59,340	1,939,264
Public-sector borrowers (excluding banks)					
Europe	159,943	403,734	949,517	1,067,060	2,580,254
Japan	0	67,245	212,501	130,062	409,808
Canada	0	52,242	85,541	78,618	216,401
USA	0	33,745	13,906	0	47,651
Subtotal	159,943	556,966	1,261,465	1,275,740	3,254,114
Total	439,374	1,319,627	2,099,297	1,335,080	5,193,378

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

Debt securities and other fixed-income securities (in thousands of €)	Dec. 31, 2001	Prior year
Listed securities	4,535,786	2,638,546
Unlisted securities	4,042	4,042
Total	4,539,828	2,642,588

Debt securities and other fixed-income securities maturing next year total €401,052k.



The following table shows the breakdown of the portfolio of debt securities:

(in thousands of €)	Dec. 31, 2001	Prior year
Held for investment purposes	4,301,719	2,008,987
Held for liquidity purposes	238,109	633,601
Total	4,539,828	2,642,588

At the balance sheet date, accumulated premiums totaled €1,730k and accumulated discounts €1,520k. Commitments arising from repurchase agreements totaled €1,047,850k.

3.6 Prepaid expenses

This item primarily contains deferred tax assets and written-down premiums arising from issuing and lending operations.

4. LIABILITIES

4.1 Liabilities at December 31, 2001

Maturity schedule

(in thousands of €)	Deposits from other banks		Liabilities to customers	
	Dec. 31, 2001	Prior year	Dec. 31, 2001	Prior year
Repayable on demand	129	50,041	–	–
Up to 3 months	1,130,296	770,808	–	–
From 3 months to 1 year	32,898	30,918	–	–
From 1 year to 5 years	60,000	45,000	28,000	28,000
More than 5 years	–	–	112,000	95,700
Total	1,223,323	896,767	140,200	123,700

Deposits from other banks include €1,047,850k from repurchase agreements.

(in thousands of €)	Securitized liabilities at December 31, 2001			
	Public-sector Pfandbriefe	Other securitized liabilities	Other	Total
Repayable on demand	–	–	–	–
Up to 3 months	380,000	14,184	479,126	873,310
From 3 months to 1 year	819,478	–	61,171	880,649
From 1 year to 5 years	2,030,580	–	–	2,030,580
From 5 years and over	11,347	–	–	11,347
Total	3,241,405	14,184	540,297	3,795,886

Securitized liabilities maturing next year total €1,754k.

4.2 Deposits from affiliated companies and companies in which a participating interest is held

Deposits from affiliated companies totaled €197,300k, including deposits from other banks totaling €197,300k.

The deposits from other banks include €193,800k from repurchase agreements.

4.3 Deferred income

This item primarily includes deferred tax liabilities and discounts.



4.4 Provisions and accruals

The provisions/accruals disclosed were created for invoices relating to the completed fiscal year that were outstanding at the balance sheet date.

4.5 Subordinated liabilities

As per December 28, 2000, the Bank took on a “silent capital contribution” equal to €9,000k. The maturity is unlimited, and interest depends on earnings. In the year under review, an amount of €471k was booked to the income statement for interest. For banking supervisory purposes, this contribution is classified as Tier II (junior subordinated) capital.

During the year under review, the Bank issued subordinated funds of €15,000k as per May 18, 2001. These funds are repayable in installments starting May 28, 2015, with the last payment due on 18 May, 2026. The annual interest rate is 6.8%. During the year under review, an amount of €631k was booked to the income statement for interest. For banking supervisory purposes, these funds are classified as Tier II (senior subordinated) capital.

4.6 Equity

The subscribed capital has remained unchanged at €51,000k since formation, and is subdivided into 51,000 registered shares with no nominal value. There is no authorized capital.

Compliant with the Luxembourg law of August 10, 1915, regarding commercial companies, the Bank is required to make an annual payment of at least 5% of net income for the year into a statutory reserve until this reserve has reached 10% of the subscribed capital. Amounts in the statutory reserve are not available for distribution. At the balance sheet date, the Bank had a statutory reserve of €75k and retained earnings of €600k.

In accordance with the proposal on the appropriation of profits, an amount of €2,150k is to be allocated to statutory reserves and retained earnings.

4.7 Assets supplied as collateral for Bank liabilities

Assets with a total value of €306,811k were deposited with the central bank as collateral.

5. NOTES TO OFF-BALANCE SHEET ITEMS

The Bank only conducts transactions in derivative financial instruments on the OTC market for hedging purposes within the framework of asset/liability management. No transactions involving derivatives were conducted for trading purposes. The Bank has generally concluded risk-reducing netting agreements with its trading partners in derivatives contracts.

At year-end 2001, the nominal volume of outstanding, off-balance-sheet transactions totaled €7,090 million, of which €2,620 million related to affiliated companies. Since the nominal

volume provides no information about the risk inherent to this derivatives, the counterparty risk is calculated using the gross replacement costs. These are computed as the aggregate of all positive market values, not taking into account any netting agreements. The credit risk thus defined (maximum default risk) amounted to €78 million at the end of 2001, or 1.1% of the outstanding nominal volume. Taking netting agreements into account reduces counterparty risk is reduced to €6 million.

(in millions of €)	Nominal amount RM* up to 1 year	Nominal amount RM* up to 5 year	Nominal amount RM* over 5 years	Total nominal	Positive market values	Counter- party risk
Interest rate derivatives						
Single currency swaps	1,207	1,883	2,540	5,630	74	
Interest rate options – buy	0	0	0	0	0	
Interest rate options – sell	0	60	0	60	0	
Other interest rate contracts	100	0	0	100	0	
Foreign exchange derivatives						
FOREX swaps	545	0	0	545	0	
Cross-currency swaps	275	133	347	755	4	
Total	2,127	2,076	2,887	7,090	78	7

*RM = remaining maturity



If, in addition, add-ons and risk additions are applied under banking supervisory standards, then the resultant counterparty risk under the marked-to-market method at the end of 2001 is €7 million. The Bank will continue to pay strict

attention to keeping counterparty risk within very narrow bounds. The only counterparties in derivatives transactions are OECD banks.

6. NOTES TO ITEMS IN THE INCOME STATEMENT

6.1 Regional breakdown of income

The preponderant majority of the Bank's income results from business relationships with counterparties based in Europe.

6.2 Net income from financial transactions

This item contains the earnings from securities held for liquidity purposes (including the allocations to provisions and income from the release of write-downs on securities).

7. OTHER INFORMATION

7.1 Personnel

The average number of people employed during the year under review was as follows: management: 2.5; other employees: 11.5.

At year-end, there were two managing directors, plus two further executives in management positions. There were twelve other members of the workforce.



7.2 Loans and advances to executives

No loans or advances were extended to executives (managing directors and executive officers) or to members of the Administrative Board.

The following remuneration was paid to executives and members of the Administrative Board in the year under review:

■ Executives

(four people at December 31, 2001) €406k

■ Administrative Board

(six people at December 31, 2001) €79k

7.3 Deposit guarantee scheme

The Bank is a member of the “Association pour la Garantie des Dépôts, Luxembourg” (AGDL) and hence of the deposit guarantee fund for the banking sector in the Grand Duchy of Luxembourg. It was not necessary to create any provisions for possible obligations.

7.4 Items not denominated in the accounting currency

At year-end, the total amount of assets denominated in foreign currencies (excluding euro currencies) was €915,745k. Liabilities in foreign currencies totaled €651,782 at year-end.

8. SCHEDULE OF ASSETS

(in thousands of €)	Acquisition cost	Additions in year under review	Disposals in year under review
Intangible assets	567.1	–	–
Plant and office equipment	2,151.1	58.2	–
of which: computer equipment	1,892.8	44.8	–
Securities classified as non-current assets	2,008,987.1	2,641,146.5	– 348,414.2
Total	2,011,705.3	2,641,204.7	– 348,414.2

9. ADDITIONAL INFORMATION

Calculation for the coverage required under Art. 12-1 to 12-9 of the law of April 5, 1993, regarding the financial sector

Only coverage of public-sector Pfandbriefe is shown. No mortgage Pfandbriefe were issued. Financial derivatives have not been included in the cover pool to date.

9.1 Statement of coverage for public-sector Pfandbriefe

in €		
Coverage value		3,502,221,998
Other eligible coverage		
	Securities	0
	Cash in banks	0
Total coverage		3,502,221,998
Outstanding		
	Bearer securities	3,049,900,638
	Registered securities	150,200,000
Total outstanding (requiring cover)		3,200,100,638
Over Collateral		302,121,360

Write-ups due to exchange rate movements	Depreciation in year under review	Accumulated depreciation	Residual book value at Dec. 31, 2001	Residual book value: prior year
–	173.9	567.1	–	173.9
9.3	694.8	1,482.6	736.0	1,367.3
9.3	641.5	1,376.1	570.8	1,162.2
–	–	–	4,301,719.4	2,008,987.1
9.3	868.7	2,049.7	4,302,455.4	2,010,528.3



9.2 Further breakdown

9.2.1 Collateral

Standard coverage	€
Placements with, and loans and advances to, other banks	
Municipal loans and loans guaranteed by public institutions	154,338,302
Loans and advances to customers	
Municipal loans and loans guaranteed by public institutions	435,790,432
Debt securities issued by public issuers	2,290,563,014
Covered public-sector Pfandbriefe	621,530,250
Derivative products	0
Subtotal	3,502,221,998
Other eligible coverage	
Other placements with, and loans and advances to, other banks	0
Debt securities in accordance with Article 42 (3) OGAW Act	0
Cash	0
	0
Total	3,502,221,998

9.2.2 Collateral of public loans

Breakdown by size

	Number	€
Up to €10 million	31	191,582,765
Up to €25 million	26	436,457,037
Over €25 million	49	2,874,182,196
		3,502,221,998

9.2.3 Collateral of public loans

Breakdown by countries

	€
Austria	236,317,720
Belgium	20,991,717
Canada	217,627,077
Denmark	41,975,634
Finland	122,138,736
France	159,808,917
Germany	1,261,735,472
International Organizations	133,678,341
Italy	316,184,910
Japan	253,495,852
Luxembourg	53,000,000
Netherlands	19,109,878
Portugal	110,000,000
Spain	308,680,374
Sweden	93,399,569
Switzerland	77,412,368
USA	76,665,433
	3,502,221,998



9.3 Prepaid expenses/Deferred income

as at December 31, 2001

	€
Prepaid expenses	
Accrued interest	196,999,386
from issuing and lending operations	16,107,506
Other	5,738,284
Total	218,845,176
Deferred income	
Deferred interest	167,104,109
from issuing and lending operations	1,900,933
Other	23,654,206
Total	192,659,248

9.4 Own public-sector Pfandbriefe repurchased

For reasons related to secondary market management, the Bank had bought back its own public-sector Pfandbriefe with a book value of €187,593k (nominal amount: €185,000k) by the balance sheet date. Floating rate notes account for €25,000k of this amount.

The Pfandbriefe are resold if the possibility is given in the current market situation.

9.5 Interest arrears

All interest payments due during the year under review from placements, loans, advances and securities were paid in full.

There are no arrears, and no write-downs or loan-loss provisions were created.



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

until October 23, 2001

Dr. Dittmar Hagedorn

up to April 30, 2001
Member of the Board of Directors,
Nürnberger Hypothekenbank AG, Nuremberg
since May 2, 2001
Member of the Board of Directors,
Württembergische Hypothekenbank AG

Dr. Claus Nolting

Member of the Board of Directors,
Bayerische Hypo- und Vereinsbank AG, Munich
and, since September 3, 2001,
Spokesman for the Board of Directors,
HVB Real Estate Bank AG, Munich
(Chairman of the Supervisory Board)

until October 23, 2001

Wolf Siekmann

up to September 3, 2001
Member of the Board of Directors,
Süddeutsche Bodencreditbank AG, Munich
since September 3, 2001
Member of the Board of Directors,
HVB Real Estate Bank AG, Munich

until October 23, 2001

Christof M. Schörnig

Administrateur Délégué, Luxembourg

Jürgen Töniges

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

since October 23, 2001

Gerhard M. Kainz

Administrateur Délégué, Luxembourg

since October 23, 2001

Theodor Knepper

Member of the Board of Directors,

MANAGING DIRECTORS

Christof M. Schörnig

until October 15, 2001

Theodor Knepper

since October 15, 2001

Gerhard M. Kainz

RÉVISEUR SPÉCIAL

PricewaterhouseCoopers S.À.R.L.



Pfandbrief Bank International

Pfandbrief Bank International S.A.

4, rue Alphonse Weicker

L-2721 Luxembourg

Phone (00 352) 26 41-47 00

Fax (00 352) 26 41-47 99

info@pbi.lu

www.pbi.lu