


Consolidated Accounts

of the German Cooperative Banking Sector



Contents

INTRODUCTION	3
1 PERFORMANCE IN 2003	9
1.1 Macroeconomic background	9
1.2 Cooperative banking sector	9
1.3 Individual partners	16
1.3.1 Local cooperative banks	16
1.3.2 DZ BANK Group	19
1.3.3 WGZ-Bank-Group	23
1.3.4 Münchener Hypothekenbank eG	26
2 STRATEGIC INITIATIVES	33
2.1 Sales initiative program	33
2.2 Bank management and risk controlling using "VR-Control"	34
2.3 BVR-II rating	35
2.4 Protection scheme	37
3 OUTLOOK FOR 2004	43
4 APPENDIX	51
4.1 Notes on consolidation methods applied	51
4.2 Data appendices	53



Introduction

With this publication, the Federal Association of German Cooperative Banks (BVR) presents for the first time consolidated accounts of the cooperative banking sector in Germany based on the 2003 individual financial statements (partly preliminary). It therefore meets the growing demand from the member banks, the media and the rating agencies as well as the broader public for a presentation of the strength and cohesiveness of the cooperative banking sector based on standardised annual accounts.

The cooperative banking sector is characterised by a wide variety of interlinked business and financial interests:

The local cooperative banks account almost in full for the capital of the cooperative banking sector – including the two central banks DZ BANK AG and WGZ-Bank eG. They service 30 million customers of which 15.3 million hold shares in the local cooperative banks as members.

The cooperative banking sector thus has a very broad ownership base and is completely in private hands. The local cooperative banks account for well over half of the business volume and the earnings of the German cooperative banking sector. The central banks DZ BANK and WGZ-Bank and product providers, which include alongside Bausparkasse Schwäbisch Hall AG, Union Asset Management Holding AG, R+V VERSICHERUNG,

Deutsche Genossenschafts-Hypothekenbank AG, VR-LEASING AG and norisbank AG also Münchener Hypothekenbank eG and WLBANK WESTFÄLISCHE LANDSCHAFT Bodenkreditbank AG, provide the local cooperative banks with a broad range of Allfinanz products and services. From this offer, each local bank puts together a customized package that – depending on its positioning in the market – meets the specific needs of its clientele.

As the local cooperative banks hold the capital of the central banks and product specialists of the cooperative banking sector, they benefit from their business success. Based on the strict subsidiary division of labor within the cooperative banking sector, each partner's success also depends on the success of the other partner: the aims of the partners within the cooperative banking sector are therefore well aligned. This is a fundamental prerequisite for considering the cooperative banking sector a single economic unit from the risk and strategy point of view.

Back in 2001 the cooperative banking sector already set up a concept for lasting successful market servicing and competitive positioning in the banking market. With its project "Joining Forces" the BVR has developed various instruments to support its members in servicing the market efficiently and fully exploiting their distribution power. Examples of this are customer segmentation and market potential analysis. In de-

fining basic offers, the intention is also to streamline the range of products in the high-volume business in order to avoid unnecessary production and distribution costs. In order to strengthen its sales activities, the BVR has also developed a sales initiative program. This “fitness program” for the sales activities of the local cooperative banks formulates standards for a quality-assured distribution process. A further strategic component can be found in the bank management and controlling system, “VR-Control”, which sets a standard for the entire group. Furthermore, the program allows for risk-adjusted, cost-related pricing.

The cooperative banks already realised early on that the business strength of the individual institutions can only be secured by a strong protection scheme and therefore set up support mechanisms offering institutional protection more than 70 years ago. Since then, this has always ensured that each cooperative banking institution could meet its payment obligations. The contributions required for this were made without reservation in good as well as in difficult times. This is proof of the high degree of solidarity between the members of the protection scheme and the cooperative banking sector and of the actual cohesion within the sector. This will remain in future as well.

In 2003, after intensive discussions the cooperative banking sector introduced a classification system for the member banks which essentially facilitates the early identification of erroneous trends. Starting in 2004 contributions are levied

based on the results of this classification process. The classification of the member banks is an essential component of the protection facility’s improved prevention system and a fundamental prerequisite for handling the protection facility’s business risk. Targeted preventive measures are intended to avoid rescue measures wherever possible, but at least to avert the high degree of value destruction which partly arose at rescue banks in the past. As a result of the new contribution structure, member banks with a good credit rating will be rewarded with reduced contributions while banks with poorer ratings which show a significantly higher probability of failure according to the classification result will be motivated through differentiated surcharges to improve their credit rating.

Even though the cooperative banking sector boasts a high degree of cooperation and cohesiveness owing to its closely interlinked business interests as well as the joint protection facility, the drawing up of consolidated annual financial statements is not a matter of course given the large number of legally independent units to be consolidated.

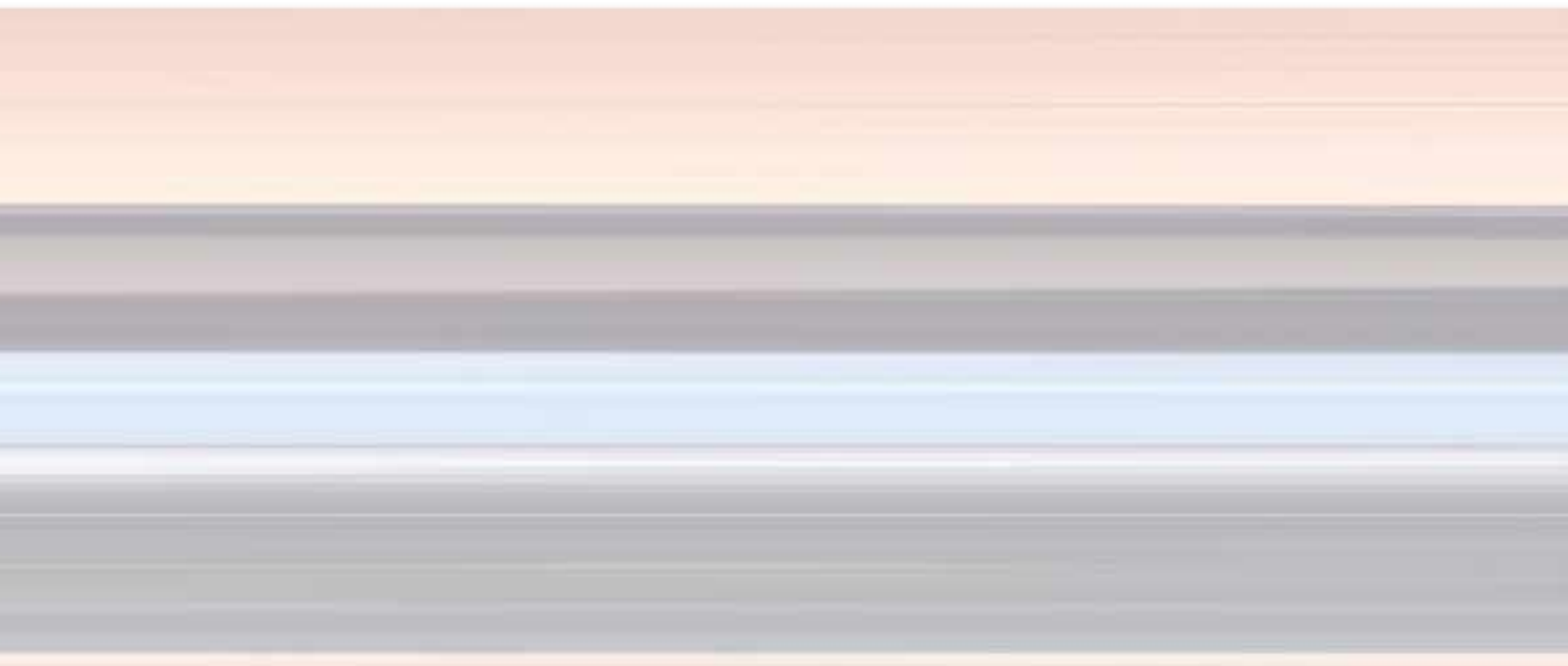
This publication would not have been possible without the close cooperation of the individual partners to whom we would like to express our warmest thanks at this point. The consolidation was carried out from the perspective of the local cooperative banks as direct or indirect owners of the cooperative banking sector based on the

aggregated balance sheet of the cooperative financial institutions and the data of the DZ BANK Group, the WGZ-Bank-Group as well as Münchener Hypothekenbank eG.

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COOPERATIVE BANKS

The Board of Managing Directors



Performance in 2003



1 Performance in 2003

1.1 Macroeconomic background

Germany recorded the lowest economic growth for ten years in 2003. After a weak preceding year which saw hardly any momentum, gross domestic product declined slightly by 0.1 percent in 2003. In the first half of the year, domestic demand remained very weak and the external trade influences had an extremely dampening effect. After three years of stagnation, the skepticism with respect to a drastic improvement in the income prospects and earnings expectations was so deeply anchored at private households and companies that even strong impetus as a result of the global economy picking up in the second half of the year spilled over to the domestic economy only hesitantly. Domestic demand only recovered gradually towards the end of the year. The domestic use of the gross

domestic product increased slightly by 0.3 percent. The 0.9 percent increase in public consumption spending contributed to this above all.

1.2 Cooperative banking sector

Significant increase in earnings and efficiency

The difficult macroeconomic environment in Germany also had an influence on the trading performance of the cooperative banking sector. Based on a successful product and distribution policy, continued cost discipline as well as a marked reduction in its risk provisioning requirements, the cooperative banking sector was able to achieve a significant increase in operating income, though.

EARNINGS POWER OF THE COOPERATIVE BANKING SECTOR – SELECTED INDICATORS

(figures in percent)	2002	2003
Return on equity (ROE before taxes)	4.20	12.20
ROE (after taxes)	5.70	5.90
Return on assets (ROA before taxes)	0.15	0.42
Operating profit before valuation in percent of total assets	0.77	0.87
Net interest income in percent of total assets	1.91	1.96

The positive trend in earnings was supported by the return to a steeper yield curve on the money and capital markets as well as by the recovery of the stock markets from the first quarter of 2003. In the light of this, all efficiency and profitability criteria of the cooperative banking sector were increased considerably in 2003. The return on equity before tax, which is of particular significance for the cooperative banking sector's operating success, was lifted by 8 percentage points to reach a level of more than 12 percent in the year under review. In terms of overall business volume, net income before taxes in percent of total assets of the cooperative banking sector almost tripled (from 0.15 percent to 0.42 percent).

Clear progress could also be observed with respect to efficiency on all levels of the cooperative banking sector in the latest financial year: the operating expense-income ratio improved at all partners by several percentage points, in particular at the two central banks DZ BANK AG and WGZ-Bank eG. As a result, an improvement of two percentage points from 70.7 to 68.6 percent was achieved for the entire sector. Costs remained more or less stable in the latest financial year which means that the improvement was driven by the clear increase in net operating income.

Total assets unchanged to a large extent

The total assets of the cooperative banking sector were influenced by contrary developments in

2003: while DZ BANK shortened its balance sheet in the wake of its new credit risk strategy by around € 6.6 billion through the targeted reduction of claims on non-bank customers, total assets at all other consolidation partners increased. The local cooperative banks, which account for a good 57 percent of the total assets of the cooperative banking sector, reported a further significant rise in particular. Overall, the consolidated balance sheet assets of the cooperative banking sector declined by € 1.3 billion or 0.2 percent in the year under review and amounted to just under € 808 billion at the end of 2003.

The most significant decline on the assets side of the consolidated balance sheet was reported for loans and advances to other banks. This item was reduced – influenced by a corresponding reduction at the local cooperative banks and at the DZ BANK Group – by € 4.2 billion to € 75.7 billion.

In line with their strong sales orientation, the local cooperative banks accounted for more than 70 percent of the cooperative banking sector's volumes in the lending business with non-banks. Despite the weak economic situation, the local cooperative banks were able to record growth of € 3.3 billion in the year under review, mainly with respect to long-term loans, owing to the comparatively favorable interest rate conditions. Claims on non-bank customers also increased at WGZ-Bank-Group and Münchener Hypothekbank eG. This growth was more than offset, though, by the con-

tinued streamlining of the lending portfolio in the DZ BANK Group: a decline in customer lending volume of 4.2 percent was recorded in 2003.

In the wake of the development on the money and capital markets, there was a clear shift within the securities heading in 2003 from equity shares to fixed-interest securities influenced mainly by the corresponding regrouping of the portfolio at DZ BANK. While fixed-interest securities were € 4.6 billion higher at the end of 2003, equity

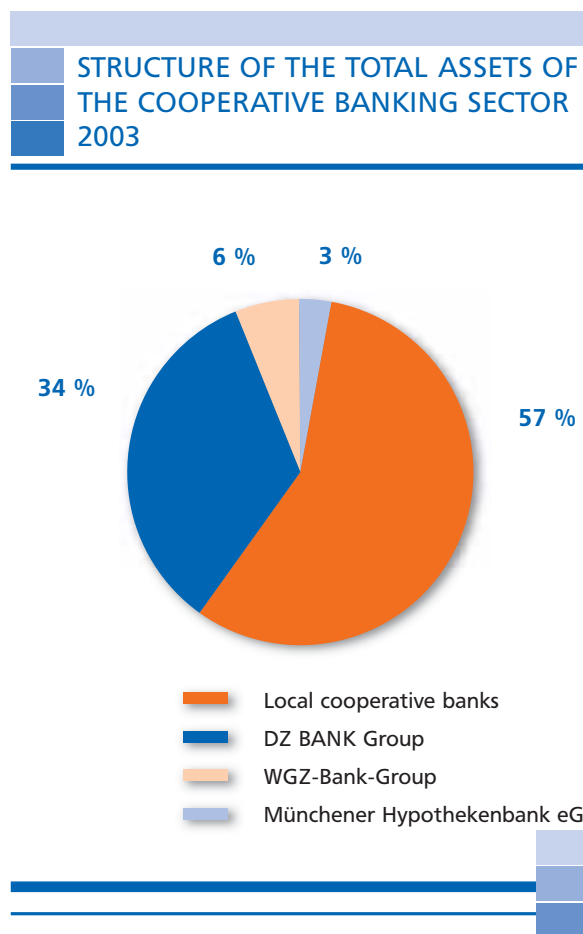
shares and other variable-yield securities declined by € 3.2 billion.

The liabilities side of the consolidated balance sheet was influenced by a positive increase in customer deposits of € 11.2 billion to € 502 billion. Within the sector, around four fifths of this balance sheet item fell upon the local cooperative banks. Strong growth at the DZ BANK Group, where customer deposits advanced by just under € 5.8 billion to € 78.5 billion in 2003, was also decisive for the rise, though, alongside the clear growth in customer deposits at the local cooperative banks.

Within customer deposits, the trend towards short-term deposits continued: owing to the low level of market interest rates, many customers are deciding in favor of short-dated forms of investment in order to remain flexible with respect to future investment arrangements. In addition to that, many institutions have started to also pay interest on sight deposits on giro accounts thus making them more attractive.

Offsetting the increase in customer deposits, there was a reduction in liabilities in certificate form. This was primarily the result of a reduction in bond issuance by DZ BANK AG and DG HYP of almost € 7 billion.

There was a strong increase in the fund for general banking risks in the year under review of some 80 percent to € 1.7 billion – growth of € 771 mil-



**CONSOLIDATED BALANCE SHEET OF THE COOPERATIVE BANKING SECTOR:
SUMMARY**

Assets	2002 (in € m)	2003 (in € m)	Change (in € m)	(%)
Cash reserve	14,178	14,518	341	2.4
Debt instruments of public-sector entities	971	420	-552	-56.8
Placements with, and loans and advances to, other banks	79,868	75,665	-4,203	-5.3
Loans and advances to non-bank customers	478,843	478,579	-264	-0.1
Bonds and other fixed-interest securities	132,539	137,124	4,584	3.5
Equity shares and other variable-yield securities	32,251	29,051	-3,201	-9.9
Insurance-specific assets	35,920	37,864	1,944	5.4
Participations	2,871	3,128	258	9.0
Assets held on trust basis	5,776	6,048	272	4.7
Equalisation claims against government agencies	263	159	-105	-39.7
Other assets	25,351	24,953	-398	-1.6
Total assets	808,832	807,508	-1,324	-0.2
Equity and liabilities	2002 (in € m)	2003 (in € m)	Change (in € m)	(%)
Deposits from other banks	118,565	117,741	-824	-0.7
Amounts owed to other depositors	490,338	501,502	11,165	2.3
Liabilities in certificate form	97,715	81,076	-16,639	-17.0
Liabilities arising from trust operations	5,776	6,048	272	4.7
Building savings & loan guarantee fund	456	459	3	0.7
Actuarial reserves	34,979	36,920	1,941	5.5
Subordinated liabilities	7,001	6,748	-253	-3.6
Participatory capital	5,348	5,289	-59	-1.1
Capital and reserves				
Of which:	31,249	33,148	1,899	6.1
Equity of local cooperative banks	27,949	29,063	1,114	4.0
Minority interests	1,463	1,513	50	3.4
Other liabilities	17,404	18,576	1,172	6.7
Total equity and liabilities	808,832	807,508	-1,324	-0.2

Differences through rounding

lion which came almost exclusively from the local cooperative banks. There was an even stronger rise of just under € 1.2 billion in the balance-sheet equity of the cooperative banking sector in 2003. This is due essentially to the increase in capital and reserves of the local cooperative banks whose cooperative shares are still extremely attractive. The capital and reserves of the local cooperative banks increased to € 29 billion at the end of 2003. At the same time, the number of members at the local cooperative banks increased by almost 97,000 compared to the year-earlier figure. The BVR and its member banks have announced a member value-added program for members to be started in autumn 2004. This will make the cooperative shares even more attractive in future.

The financial strength of the cooperative banking sector is also clearly evident from its solvency ratio. At 11.2 percent, it was well above the supervisory requirements.

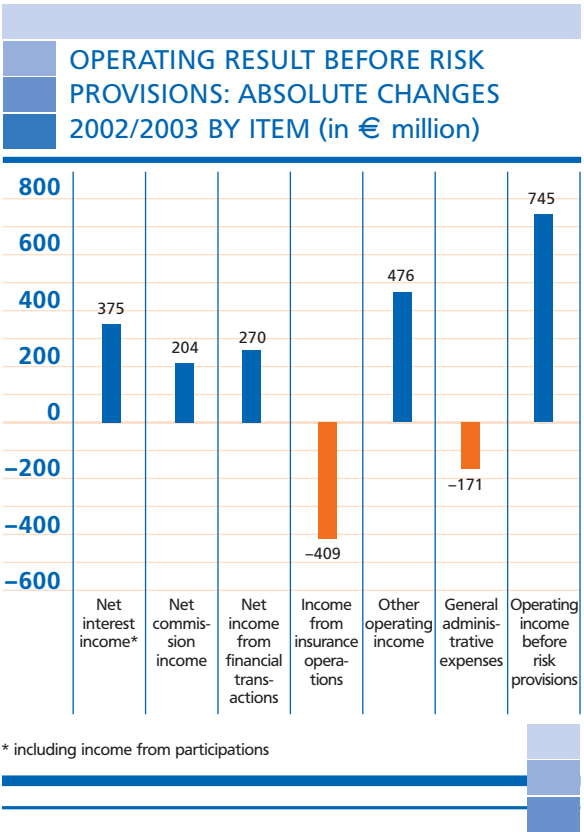
Strong growth in the operating result

There was a strong increase in the operating result of the cooperative banking sector in the latest financial year. Four fifths of the operating result (before risk provisioning) falls upon the cooperative banks.

The growth in net interest income accounted for the largest increase in the operating result before risk provisioning in 2003. This trend is attributable

above all to the growth in deposits repayable on demand which pay far lower interest compared to other forms of deposits. As a result, there was a far greater reduction in interest expense than interest income. Including income from participations, which was by and large unchanged, net interest income increased by € 375 million. At € 338 million, by far the largest part of this increase was attributable to the local cooperative banks.

In the light of extremely successful sales of certificates, building savings contracts and pension products, commission income in the cooperative banking sector advanced by 6.6 percent or just under



€ 300 million. After deducting commission expense, there was an increase in net commission income of € 204 million in 2003.

Proprietary trading positions play a minor role overall in the cooperative banking sector compa-

red to the customer business. Nevertheless, net income from financial activities doubled to € 521 million in the year under review. The favorable performance of the interest risk positions of the DZ BANK Group and the local cooperative banks was the decisive factor for this. Despite this

CONSOLIDATED INCOME STATEMENT OF THE COOPERATIVE BANKING SECTOR: SUMMARY

	2002 (in € m)	2003 (in € m)	Change (in € m)	(%)
Net interest income	15,955	16,330	375	2.4
Net commission income	4,053	4,256	204	5.0
Net earnings from financial activities	251	521	270	>100
Net income from insurance activities	591	182	-409	-69.2
Other operating income	1,013	1,489	476	47.0
Administrative expenses	-15,451	-15,622	-171	1.1
Operating result before risk provisions	6,412	7,157	745	11.6
Risk provisions	-6,353	-3,588	2,765	-43.5
Operating result after risk provisions	58	3,569	3,511	>100
Allocations to the fund for general banking risks	-507	-198	309	-61.0
Balance of other operations	1,614	165	-1,449	-89.8
Net income before taxes	1,165	3,536	2,371	> 100
Taxes on income and earnings	430	-1,828	-2,258	<-100
Net income	1,595	1,708	114	7.1

Differences through rounding

positive rise, net income from financial activities as a percentage of the overall operating result came to well below 10 percent.

Net income from insurance operations saw a significant reduction owing to a one-off effect in the DZ BANK Group in 2002. Excluding this one-off effect, the result was improved by € 44 million. This growth can be put down to the clear revival in demand for life and pensions insurance in 2003.

Despite the continuing cost discipline general and administrative expenses increased in the cooperative banking sector in 2003 by 1.1 percent or € 171 million. The cost reductions at WGZ-Bank eG, but in particular at the DZ BANK Group and Münchener Hypothekenbank eG, were exceeded by the slight increase in general and administrative expenses at the local cooperative banks. Experience shows that one-off restructuring costs are incurred in the wake of the merger activity at the local cooperative banks, which is still strong and reduced the number of banks by 97 in the year under review. The potential synergies for reducing non-personnel and personnel expenses which arise at the same time can only be realised as a rule with a time delay – for instance in the course of natural fluctuation. It is to be assumed that the cost-reduction potential which has arisen in the meantime will be gradually realised in the years to come.

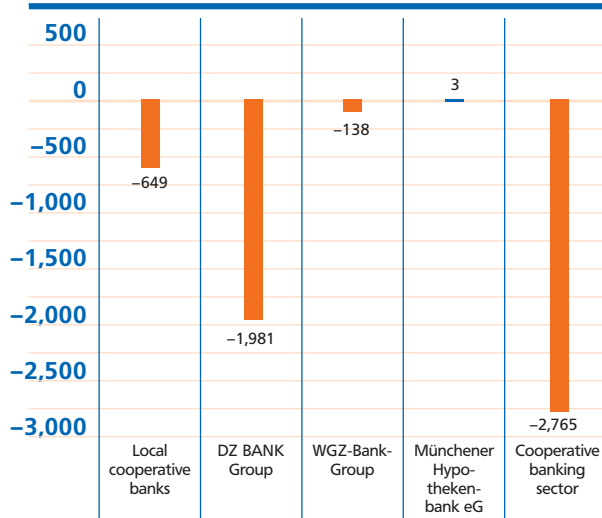
Risk provisioning falls by € 2.8 billion

There was a marked reduction in the risk provisioning requirements in the cooperative banking sector in the year under review. This is due to the improved use of credit risk management instruments as well as the cautious lending policy. Overall, risk provisions in the cooperative banking sector declined, despite the unchanged macroeconomic situation, by just under € 2.8 billion of which € 2.0 billion alone was attributable to the development at DZ BANK.

The DZ BANK Group – and above all DZ BANK AG – has contributed considerably in recent years to improving the quality of the credit portfolio by restructuring risk management, introducing a new risk-aware credit risk strategy as well as reducing risk-weighted assets. This was reflected in 2003 in specific loan loss provisions distinctly returning to normal. There was also a similarly positive trend in risk provisions at the local cooperative banks and at the WGZ-Bank-Group. At the local cooperative banks, the decline in risk provisions was brought about primarily by the higher valuation of securities in the liquidity reserve.

Risk provisions for the lending business at the local cooperative banks also include support measures provided by the BVR protection facility, such as allowances for guarantees already granted by the protection facility in previous years to protect from counterparty risks; in this respect, the result is distorted in periodic terms. In 2003, the allowances

RISK PROVISIONS: ABSOLUTE CHANGES BY CONSOLIDATION PARTNER (in € million)



for guarantees already granted in previous years were up by some € 500 million on the previous year.

Significant increase in net income for the year

Net income for the year before tax in the cooperative banking sector came to a good € 3.5 billion in 2003 and was therefore on a similar scale as the operating result after risk provisions. The decisive factor for the rise was the positive trend in operating income at the DZ BANK Group which accoun-

ted for 70 percent of the rise in net income before tax. The transfer to the reserve according to § 340 g HGB amounted to just under € 200 million for the entire sector. It was therefore on a similar level to the balance of other business which was significantly lower in 2003 at € 165 million than in 2002 (€ 1,614 million) where the positive “other income” was influenced by the write-up of the DZ BANK shares at the local cooperative banks. The tax expenditure for the entire sector amounted to a good € 1.8 billion and therefore more than 50 percent of net income before tax.

1.3 Individual partners

1.3.1 Local cooperative banks

KEY STRUCTURAL FIGURES FOR 2003

Total assets (in € billion)	563.3
Employees (in thousands)	136.9
Number of banks	1,392

Major participations

DZ BANK AG, WGZ-Bank eG, Bausparkasse Schwäbisch Hall AG, R+V VERSICHERUNG, Union Asset Management Holding AG, norisbank AG

Market position maintained in a difficult environment

Despite a weak cyclical and economic trend, the local cooperative banks were able to maintain their position more than well in 2003. Customer deposits increased in the year under review by € 5.0 billion or just below 2.0 percent to € 407.0 billion. This growth on the deposits side was driven like in previous years by the exceptional rise in deposits payable on demand.

As a result of the positive trend in deposits, the total assets of all local cooperative banks were also up at the end of 2003 by € 6.2 billion or 1.1 percent to € 563.3 billion.

Borrowing demand in the customer business was constrained in 2003, as was already the case in the previous year, by low economic growth. The lending business grew further by just under 1.0 percent or € 3.3 billion, with growth being based primarily on long-term loans owing to the continuing demand for long-term fixed-interest loans due to the low level of interest rates.

The capital and reserves of the local cooperative banks increased by more than € 1.0 billion in the year under review from € 27.9 billion (2002) to € 29.1 billion (2003).

Earnings power strengthened further

In the business year 2003 under report, the local cooperative banks were able to record encouraging operating results. The increase in administrative expenses, which was below the wage cost increases, was compensated by the growth of net commission income and net interest income plus significantly reduced risk provisioning, so that at € 5.7 billion the operating result before risk provisioning was significantly higher than in the previous year.

The local cooperative banks obtained net interest income of € 14.1 billion in 2003 thus representing an increase of 2.5 percent compared with the previous year. The increase in net interest income is due in particular to the continuous growth of the low interest-earning demand deposits and the higher allocations to short-term savings deposits. This led to a relief on the interest expense side in particular.

Net commission income improved in the business year under review by € 0.3 billion to € 3.4 billion. The reason for this improvement of net commission income was increased investor confidence in the stock markets, especially in the second half of 2003.

The general administrative expenses of the local cooperative banks increased slightly by a total of € 0.3 billion in 2003 to € 12.9 billion. The trend that has been observed for several years now,

whereby the increase in the administration expenses is below the level of the agreed pay rate increases, thus continued in 2003. This result was obtained on the back of the 97 mergers carried out in 2003, which led to additional cost burdens in the first phase in particular.

The net earnings from financial activities increased to € 129.5 million given the improvement in the stock market situation. The balance of other income and expenses turned out to be higher than in the previous year and amounted to € 1.0 billion as at the end of 2003. The significance of the com-

INCOME STATEMENT OF THE LOCAL COOPERATIVE BANKS: SUMMARY

	2002 (in € m)	2003 (in € m)	Change (in € m)	(%)
Net interest income	13,730	14,068	338	2.5
Net commission income	3,160	3,439	279	8.8
Net earnings from financial activities	3	129	127	>100
Net income from insurance activities	-	-	-	-
Other operating income	604	1,034	430	71.3
Administrative expenses	-12,674	-12,948	-274	2.2
Operating result before risk provisions	4,822	5,722	900	18.7
Risk provisions	-3,738	-3,089	649	-17.4
Operating result after risk provisions	1,084	2,633	1,549	>100
Allocations to the fund for general banking risks	-448	-173	275	-61.4
Balance of other operations	1,471	341	-1,130	-76.8
Net income before taxes	2,107	2,801	694	32.9
Taxes on income and earnings	-858	-1,492	-634	74.0
Net income	1,250	1,309	59	4.8

Differences through rounding

modity business is tending to decrease further at the local cooperative banks. The gross earnings from commodity trading and ancillary operations was nevertheless kept at the prior-year level.

As a result of all the factors impacting the success of the ordinary business, the local cooperative banks in Germany obtained an operating result before risk provisioning of € 5.7 billion in 2003. This value is € 0.9 billion higher than the corresponding value for the previous year.

The increase in the operating result before risk provisioning was reinforced additionally by a lighter burden on the valuation expense side. Write-downs on loans and market value write-downs on securities both decreased enabling the risk provisioning to decrease by € 650 million to € 3.1 billion. The post-valuation operating result consequently increased by € 1.5 billion to € 2.6 billion in 2003.

Although the balance of the other activities decreased from € 1.5 billion to € 0.3 billion in 2003, it should be noted however that some positions (balance of other income and expenses, valuation result and balance of exceptional income and expenditure) were influenced in some areas of the cooperative sector, above all in 2002 but also partially in 2003, by exceptional effects from the merger of GZ Bank and DG Bank. The write-ups on participations and exceptional income as well as the additions to taxed value adjustments and the allocations to the fund for general risks are to be men-

tioned here in connection with the creation of additional undisclosed reserves from their stake in DZ BANK.

In consideration of the results obtained, net income for the year before taxes increased by € 0.7 billion to € 2.8 billion in 2003. Taxes on income and earnings at the local cooperative banks almost doubled accordingly to € 1.5 billion in 2003. The net income after taxes amounted to € 1.3 billion at the end of 2003.

In summary we can state that the earnings situation of the local cooperative banks improved through higher interest and commission income with largely constant administration expenses. The positive development was reinforced through a further reduction of the need for risk provisioning.

1.3.2 DZ BANK Group

The DZ BANK Group was able to improve its earnings and risk situation significantly in the business year 2003 and thus reached the targets it set at the time of the merger in 2001.

Total assets decreased because of targeted reduction of risk assets

Due to the targeted reduction of risk assets at DZ BANK AG that are not in line with the new risk strategy, the total balance sheet assets of the

KEY STRUCTURAL FIGURES FOR 2003

Total assets (in € billion)	331.7
Employees (in thousands)	25.3

Major participations

Bausparkasse Schwäbisch Hall AG, Deutsche Genossenschafts-Hypothekenbank AG, DZ BANK International S.A. Luxembourg, norisbank AG, R+V VERSICHERUNG, Union Asset Management Holding AG, VR-LEASING AG

DZ BANK Group decreased by € 6.6 billion or 2.0 percent in 2003. The group-wide reduction of loans and advances to customers by € 4.4 billion or 4.1 percent to € 102.5 billion resulted largely from the development of the lending business at DZ BANK AG. On the other hand, the claims on customers in the Group increased by € 2.7 billion. This was essentially due to the first-time consolidation of norisbank AG.

Operating income increased significantly

Despite the continuing difficult economic environment in the business year 2003 the DZ BANK Group was able to record a significant improvement in its operating income compared with the adjusted prior-year basis. This was obtained not

least through the further intensification of cooperation with the local cooperative banks. The debate over the reform of Germany's social provision and the various proposals put forward for modifying the legal framework governing life insurance and home building finance in particular, have enabled R+V VERSICHERUNG and Bausparkasse Schwäbisch Hall AG to boost their revenues.

The DZ BANK Group's net interest income (including shares of affiliates) increased by 1.4 percent to € 1,965 million in fiscal 2003. However, DZ BANK AG's net interest income development was influenced by exceptional effects. Based on a comparable prior-year, DZ BANK AG increased its net interest income (excluding shares of affiliates) by 2.3 percent. While the interest income from money market operations increased considerably in the DZ BANK Group, the targeted reduction of loans and advances and other assets not in conformance with the defined strategy – especially at DZ BANK AG – impaired the interest income from the lending business. The net interest income from the building savings and loan business benefited from a significant reduction of interest expenses while interest income remained virtually unchanged. The interest result of norisbank AG, which was consolidated for the first time in 2003, had a positive effect. norisbank AG has belonged to the DZ BANK Group since October 1, 2003.

Commission income in the DZ BANK Group increased by 7.0 percent to € 1,847 million in the year under report. This is attributable among

other things to the successful development of the securities business and the rise in demand for DZ BANK certificates. However, the increase of commission income was significantly lower than the growth of commission expenses. The reason for this is the sharp rise in new business with save-to-build contracts and property loans: both BSH

and DG HYP pay commissions to the local cooperative banks for the new business they sign up. BSH was able to increase the volume of its home savings and loan new business by more than 40 percent year-on-year and thus further extended its market leadership position in Germany. DG HYP's new business volume increased by

INCOME STATEMENT OF THE DZ BANK GROUP: SUMMARY

	2002 (in € m)	2003 (in € m)	Change (in € m)	(%)
Net interest income	1,937	1,965	28	1.4
Net commission income	853	773	-80	-9.4
Net earnings from financial activities	216	335	119	55.1
Net income from insurance activities	591	182	-409	-69.2
Other operating income	397	445	48	12.1
Administrative expenses	-2,502	-2,403	99	-4.0
Operating result before risk provisions	1,492	1,297	-195	-13.1
Risk provisions	-2,307	-326	1,981	-85.9
Operating result after risk provisions	-815	971	1,786	>100
Allocations to the fund for general banking risks	0	0	0	-
Balance of other operations	-152	-275	-123	80.9
Net income before taxes	-967	696	1,663	>100
Taxes on income and earnings	1,318	-314	-1,632	<-100
Net income	351	382	31	8.8

Differences through rounding

17.1 percent. As a result, the net commission income in the Group decreased by 9.4 percent to € 773 million.

The increase in the net earnings from financial activities shows the good performance of DZ BANK AG's trading divisions in particular (55.1 percent growth). Strong year-on-year income growth was recorded both in the area of equity-price sensitive products and in the results from trading exchange rate and especially interest rate risks.

The Group's net income from insurance activities, generated exclusively by the R+V VERSICHERUNG subgroup, amounted to € 182 million in 2003. The key factor behind the development was the marked pick up in the demand for life and pension insurance as well as higher health insurance revenues. However, if we exclude the equity interests disposal gains component of € 453 million from the prior-year total, the net income from the insurance operations improved by € 44 million in the business year 2003.

Administrative expenses were also further reduced in fiscal 2003 (by 4.0 percent), whereby personnel and non-personnel expenses decreased by approximately the same amount. The key factor for this development was efficiency gains at DZ BANK AG still partly reflecting merger-necessitated synergies. The reduction of the variety of different systems deployed in the IT division and the switch to standard software made a considerable contribution to the reduction of administration expenses.

One result was that IT costs were already reduced by 30 percent in 2003 compared with the total in 2001, the first year of the merger.

The DZ BANK Group's operating profit before risk provisioning in 2003 was thus approximately € 200 million below the comparable prior-year value. However, if one adjusts the 2002 result for the exceptional income in the insurance operations, this produces an increase in the amount of some € 250 million. Adjusted for this one-time effect the cost-income ratio improved from 71.9 percent to 65.0 percent.

Risk provisioning requirement decreased significantly

Net new risk provisioning amounted to € -326 million in 2003 compared with a prior-year total of € -2,307 million. The key factor in this big improvement was the significant reduction in the write-downs on credit exposures compared with the difficult 2002 year. They are closely connected with the risk-aware credit policy of the past years and the redesign of the structural and process organisation in DZ BANK AG's Risk Management business segment. New business, which as far as Germany is concerned was once again overshadowed in 2003 by the clear signs of demand and growth weakness, remained subject to the binding risk limits and profitability criteria imposed immediately after the merger.

The DZ BANK Group's operating result after risk provisioning reached an amount of € 971 million in the business year 2003; at € 382 million the net income after taxes surpassed the prior-year value by almost 9 percent.

1.3.3. WGZ-Bank-Group

KEY STRUCTURAL FIGURES FOR 2003

Total assets (in € billion)	61.3
Employees (in thousands)	1.5

Major participations

WL-BANK WESTFÄLISCHE LANDSCHAFT Bodenkreditbank AG, DZ Beteiligungsgesellschaft mbH, R+V VERSICHERUNG, Union Asset Management AG, VR-LEASING AG, GVA GENO-Vermögens-Anlage-Gesellschaft mbH



The WGZ-Bank-Group can look back on good development for the year 2003. The operating result in particular in some areas surpassed the estimates for 2003 considerably. This development is not so much growth induced but is rather the result of improved processes at WGZ-Bank eG and in the regional cooperative banking sector. Appreciable growth stimulus also failed to materialise in the year 2003 under report due to the continued weak macroeconomic development.

Total assets increased by 2.3 percent

The total balance sheet assets and the business volume of the WGZ-Bank-Group in 2003 only increased accordingly by 2.3 percent and 2.2 percent respectively to € 61.3 billion and € 62.0 billion. This moderate growth is largely attributable to the real estate lending business, which benefited strongly from the changes to the subsidies for private homebuilding as of the year 2004.

The business with the 253 member banks in 2003 was characterised by the decline in the deposits at WGZ-Bank eG: comparatively, the liabilities to affiliated banks decreased significantly by 19 percent to € 9.2 billion. In the course of the year under report it was already possible to recognise that the local cooperative banks used the development on the capital markets in order to switch short-term investments at their central bank into securities investments. After years of very high deposit volumes (as a consequence of the introduction of the euro, more adverse interest rate developments in connection with the exceptional "parking" of customers' funds on the accounts) the decrease in the course of 2003 in the overall very high level did not come as a surprise. The volume of lendings to affiliated banks decreased slightly by 2.7 percent. The continued very good liquidity situation of the member banks enabled them to reduce their liabilities to WGZ-Bank eG.

The claims on customers remained more or less constant at € 21.1 billion. The growth in the built

ding loan business was offset by a reduction in the lending business with corporate customers, which according to most commentators in the cooperative banking sector (where the decreases were significantly lower than in the other private banking sectors) was attributable to the significantly reduced propensity to invest in the past years. The weak economic climate and uncertainty in small and medium-sized companies about the future economic climate crippled almost all activities. WGZ-Bank eG also used the year 2003 to continue its strategy of focussing on small and medium-sized companies. In connection with the introduction of risk-adjusted pricing, WGZ-Bank eG thus created the pre-conditions for further profitable growth.

Certificated liabilities increased by 2 percent to € 18.9 billion in 2003. They consist for the most part of public pfandbriefe and mortgage pfandbriefe from the mortgage bank subsidiary WL-Bank and are still rated by Standard & Poor's with the best possible rating "AAA". The WGZ-Bank-Group has still got comfortable capital resources: the balance sheet equity rose by 4.9 percent to € 2.5 billion in 2003. The core capital increased to € 1.5 billion and the liable capital rose to € 2.0 billion. The total capital ratio defined by Principle I rose to 11.6 percent.

Earnings situation improved significantly

The WGZ-Bank-Group's earnings situation improved significantly compared to the previous year and

surpassed the budget estimates. The development was thus satisfactory compared with the rest of the sector. Net interest income including current income increased by 4 percent to around € 0.3 billion. This good result is attributable in particular to the yield curve which almost returned to normal in the short-term area coupled with correct allocation decisions. The net commission income was able to increase significantly by 10.8 percent to around € 0.1 billion. This growth is attributable to the improved securities business again as well as the stable development in the other business segments dependent on commission. The net earnings from financial activities increased significantly year-on-year by 75.3 percent to around € 0.1 billion.

Administration expenses decreased by 1.2 percent to € 0.2 billion. The strategic and structural measures initiated at WGZ-Bank eG in the year under report in order to strengthen the bank's distribution power and to streamline business processes and structures have already had an impact on this development. The trend will continue in 2004. All in all the WGZ-Bank-Group recorded a 28.3 percent increase in the pre-valuation operating result which amounted to € 0.2 billion. The cost-income ratio decreased sharply from 61.0 percent to 54.6 percent. The development of this ratio points up the strengths of the WGZ-Bank-Group in the operating business.

**INCOME STATEMENT OF THE WGZ-BANK-GROUP:
SUMMARY**

	2002 (in € m)	2003 (in € m)	Change (in € m)	(%)
Net interest income	267	278	11	4.0
Net commission income	47	52	5	10.8
Net earnings from financial activities	32	56	24	75.3
Net income from insurance activities	–	–	–	–
Other operating income	13	10	–3	–22.0
Administrative expenses	–220	–217	3	–1.2
Operating result before risk provisions	140	180	40	28.5
Risk provisions	–290	–152	138	–47.7
Operating result after risk provisions	–150	29	178	>100
Allocations to the fund for general banking risks	–59	–25	34	–57.6
Balance of other operations	295	100	–196	–66.3
Net income before taxes	86	103	17	19.4
Taxes on income and earnings	–12	–17	–5	40.0
Net income	74	86	12	16.1

Differences through rounding

Risk provisioning halved

Risk provisioning – which almost halved to a total amount of € 0.15 billion – contains a significant increase in the undisclosed prudential reserves according to Section 340 f of the German Commercial Code. WGZ-Bank eG still continued to deter-

mine its write-off requirements using strict and cautious standards. After allocations to the fund for general banking risks and following the deduction of taxation expenses, the WGZ-Bank-Group's net income for the year improved by 16.1 percent to around € 0.1 billion.

1.3.4 Münchener Hypothekbank eG

KEY STRUCTURAL FIGURES FOR 2003

Total assets (in € billion)	31.2
Employees (in thousands)	0.4
Major participations	–



Although the economy showed a change for the better in some sub-sectors, a general and sustainable recovery did not take place in 2003. This was particularly true for the real estate markets where private residential homebuilding was the only positive sector in an environment marked by uncertainty and declining investments.

New business

Against the background of this economic climate MünchenerHyp was able to increase the volume of new mortgage commitments by 19.4 percent year-on-year to € 1.6 billion.

Within the residential property finance segment the volume of new commitments rose by an above average 38.7 percent and totalled € 1.1 billion. In contrast, commercial property finance deals fell by

8.5 percent to € 490.0 million due to the weaker domestic market. Outside of Germany the commercial property business climbed by 25.6 percent to € 311.7 million thanks to good business opportunities in neighbouring European countries. MünchenerHyp continued to place high emphasis on prime properties with long term rental agreements that will provide a stable cash flow and thus present solid financing opportunities even during times of difficult market conditions. Financing activities were started in the USA.

No signs of a sustainable economic upswing were seen in the domestic residential property construction sector. Modernisation measures needed to maintain the quality of apartments built in the 1960s and 1970s and the need for private retirement efforts helped stabilise the situation in this sector.

The real estate financing business segment is still of central importance for the local cooperative banks. The expansion of the market position of the cooperative banking sector is reflected in the increasing volume of referral business sent to MünchenerHyp.

Government financing commitments rose year-on-year by 28.8 percent to € 5.8 billion (previous year: € 4.5 billion).

In the domestic business area MünchenerHyp acquired a total volume of € 5.1 billion in securities and negotiable promissory notes from federal states, local and regional authorities and public-sector banks (resp. paper guaranteed by them).

The new business activities abroad were also focused on very creditworthy debtors. Within this area of business MünchenerHyp signed agreements worth a total of € 0.7 billion, of which € 110 million were with Spanish, € 108 million with Austrian and € 100 million with Hungarian borrowers.

MünchenerHyp cooperated closely with the local cooperative banks in the area of classical municipal loans to cities, communities and other public-law bodies and institutions. The aim here was to support the partners locally with this product offer.

Balance sheet/equity capital

Total balance sheet assets rose by € 1.3 billion to € 31.1 billion (+4.3 percent). Together with the almost unchanged € 76.1 million in member share capital deposits, undisclosed participations valued at € 133.5 million, profit sharing right capital of € 103.3 million, subordinated liabilities of € 66.3 million and the members' uncalled liability, MünchenerHyp has adequate liable funds for future expansion.

Refinancing

MünchenerHyp tapped the capital markets for a total gross volume of € 9.1 billion in 2003 (previous year € 8.4 billion). Throughout the year there was a continuous and strong demand for MünchenerHyp's pfandbriefe and its other issues.

Thanks to its good ratings MünchenerHyp remained a sought after address for institutional investors. Two recognised advantages are that the bank is a "rare name" and does not belong to any group. The legally independent MünchenerHyp is positioned outside of any group limitations and thus broadens the refinancing platform of the cooperative banking sector.

Earnings development

In line with the stability of the assets in the portfolio, interest income and expenses, the two major items in the profit and loss statement, developed continually. The net interest and commission income amounted to € 114.9 million, remaining close to € 114.8 million posted in the previous year, while total administrative expenses declined by 3.4 percent to € 53.8 million. This meant that the operating result before risk provisioning amounted to € 61.3 million or € 2.8 million (+4.8 percent) above the prior-year level.

The weak economic conditions continued to have a negative effect on the real estate markets. The additions to the provisions for non-performing loans thus increased again. Adjusted for profits generated by the securities business and after the dissolution of taxed reserves, the allocations for risk provisions amounted to € 21.1 million or € 2.6 million more than in the previous year. To ensure tax-exempt status, profits were also realised

on financial investments. For this reason the tax burden declined to € 5.1 million.

The operating result after risk provisioning amounted to € 48.4 million and remained at last year's level.

The net income for the year of € 34.8 million was significantly higher than the prior-year value. This meant the allocation to the reserves could almost be doubled (€ 30 million compared to € 16 million the previous year).

INCOME STATEMENT OF MÜNCHENER HYPOTHEKENBANK: SUMMARY

	2002 (in € m)	2003 (in € m)	Change (in € m)	(%)
Net interest income	121.8	122.5	0.7	0.6
Net commission income	-7.0	-7.6	-0.6	8.7
Net earnings from financial activities	-	-	-	-
Net income from insurance activities	-	-	-	-
Other operating income	-0.7	0.1	0.8	>100
Administrative expenses	-55.7	-53.8	1.9	-3.4
Operating result before risk provisions	58.4	61.2	2.8	4.8
Risk provisions	-18.4	-21.1	-2.6	14.4
Operating result after risk provisions	39.9	40.1	0.2	0.4
Allocations to the fund for general banking risks	0.0	0.0	0.0	-
Balance of other operations	-0.2	-0.2	0.0	15.5
Net income before taxes	39.8	39.9	0.1	0.4
Taxes on income and earnings	-18.7	-5.1	13.6	-72.7
Net income	21.1	34.8	13.7	65.2

Differences through rounding



Strategic initiatives



2 Strategic initiatives

To ensure the members of the cooperative banking sector are able to enjoy continuing business success, the BVR has launched a series of joint initiatives with our sector partners to support the member banks' sales, risk controlling and preventive management efforts.

2.1 Sales initiative program

Following a period in which managing costs and risks has been the top priority, the "sales" theme is now becoming the focus of the local cooperative banks' business policy discussions again. Many banks have already made this "strategic shift" with great success. As far as the earnings situation of the grouping as a whole is concerned however, a substantial roll-out of proactive sales policy initiatives is now essential.

The objective must be sustained growth at above the market-average rate. The key parameters are the efficient designing of standard processes on the one hand and high-quality advisory and consultancy services on the other. By providing sales intensification strategies, the BVR aims to help its member banks increase their market share relative to competing bank groupings and financial services providers and realise a medium-term target of 30 percent of the relevant market volume. The BVR has also targeted an average cost-income ratio for the sector of maximum 65 percent which will be achieved by standardising our product and service offering, permanently optimising our busi-

ness processes and efficiently managing our human and physical resources.

In order to directly assist the local cooperative banks with the optimisation of their sales process the BVR has developed a sales initiative program. The accompanying manual systematically describes all the individual steps involved in an efficient sales process that complies with a quality-assured standard. Special attention is devoted to sales management as it relates to the deployment of sales strategies and sales support tools, to staff training and coaching, and to leadership in the sales context.

The systematic and comprehensive mapping of these "soft" factors in the sales process is an increasingly important determinant of a bank's distribution success. At the sales management level the focus of attention is the individual human being, in other words how the salesperson interfaces with the customer and their level of skills and qualifications. This is precisely where the local cooperative banks can exploit their competitive edge. The sales initiative program also defines the goals that have to be delivered at the system level in a quality-assured sales process: market and commercial transparency, customer segmentation and selection, sales planning and control. By specifying these sub-stages, the BVR offers its bank members the basis to create a quality checklist of their own sales processes.

As well as the quality standards description, the BVR sales initiative program includes two further modules: a campaigns guide and a system of key sales ratios. The campaigns provide a tool that helps to mobilise sales personnel and the bank's existing sales structures and involve them in the initiative program. At the same time they act as a medium that carries the "spirit" of the initiative program into the bank and trains the translation of the program into everyday practice. The campaigns provide the basis for a strengths and weaknesses analysis of the existing sales processes and help the bank rapidly harvest potential and boost earnings.

The sole purpose of the third module, the key sales ratios system, is to permit the measurement of a bank's sales performance in a given period. With these tools, progress can be monitored at two levels: firstly the results are evaluated internally by comparing the changes in the bank's sales performance over several periods; secondly the bank can perform a variance analysis to identify its performance relative to the average and to the benchmark for other participating banks in a similar market environment. This enables the bank to identify gaps in its performance and see where changes are required.

The BVR sales initiative program is therefore a sort of fitness regime that equips the local cooperative banks to fine-tune their sales operation to peak performance.

2.2 Bank management and risk controlling using "VR-Control"

"VR-Control" is the cooperative banking organisation's control concept. More than 60 experts from the banks, associations, academies and computing centers came together between July 1999 and December 2001 to jointly develop a sector-wide, standardised and logically integrated management concept to act as a specification model for IT development and training initiatives.

The "VR-Control" concept is a strategy for market-value-based bank management that brings together a series of controlling instruments that are widely established in the market and used in practice. The system not only fulfills the central requirements of Basel II. Most importantly, its present-value focus means it also performs an early warning function.

"VR-Control" is initially a technical solution that needs to be customised to each bank's business structure, product structure, resources etc.. The individual modules that comprise the total model follow a perspective progression from an individual transaction through a portfolio view to a bank-wide view and this logic should also be applied in implementing the system. The rating procedures are used to identify a default probability for an individual transaction. The customer business management function then prices the discrete transaction. The "DB-III" marginal contribution calcula-

tion is at the heart of “VR-Control’s” customer return management function. This measure includes all the significant earnings components (conditions contribution, commission result, risk premium and standard unit costs) and comparing it with the defined return requirement makes it possible to evaluate the profitability of the individual transaction relative to the specific customer or a customer group, relative to product groups or profit centers, right up to a bank-wide customer return view.

Moreover the counterparty risk module permits the early detection of counterparty risks at the portfolio level and the market price risk module supports maturity transformation to ensure asset optimisation. At the bank-wide management level, the concept ensures reasonable risk tolerance by aggregating all risks. In addition to the method descriptions, the concept also incorporates process descriptions for each component of the management control loop – planning, controlling and plan/actual comparison.

One of the concept’s central objectives is the management of income, costs and risks in a bank’s individual operating divisions according to a system derived from analysis of the earnings of a model bank. Any bank should be able to fill out this report. The necessary tools are provided.

Improved management of market price risk is already delivering the first profitability improvements. The aggregated risk and return analyses by portfolios (interest book, special funds, real

estate, trading books etc.) and risk types (interest, equities etc.) shows the optimal allocation of risk capital. This puts members banks in a position to invest their assets according to the same criteria that, say, fund managers have been doing for years – but naturally not without first underpinning the whole disposition structure with a closed limits system. The systematic deployment of risk/return management in relation to, say, the strategic interest book shows that it is possible to achieve significantly better returns without greater risk or the same returns at lower risk – and to prove it through the income statement.

A standardised software tool is now being used throughout the sector. This is substantially reducing IT development costs for the cooperative banking sector. It is also creating a platform for increasing the scale of risk transfer in future. Some 900 banks will have installed the software by the end of 2004.

2.3 BVR-II rating

The new BVR-II rating procedures identify the default probability values required for customer business management and also provide the parameters for the “VR-Control” portfolios model. One required quality feature of modern, statistically based rating systems is a specific focus on the target customer segment. A single rating methodology covering all the customer segments is no longer felt to be acceptable given the differences bet-

ween the characteristics of the individual segments.

We are therefore in the process of developing and applying a dedicated procedure for each identified customer segment. We are developing these rating procedures on an empirical-statistical basis using best-practice methods that are tailored to our member banks' credit processes. All the rating systems build on pooled, anonymised data from the cooperative banking sector that the BVR has selected for development purposes. In some cases data has been gathered on a very large scale, for instance up to 34 million data sets were used to derive the average portfolio loss rates (CT) and to determine the calibration functions used in developing our personal customer rating. The individual ratings are mapped to the BVR master scale to ensure comparability.

Another quality characteristic of rating systems is their resolution or discrimination power, which is measured by reference to variables such as the PowerStat or Gini coefficient. This shows the degree of safety or reliability with which the rating is capable of distinguishing good from bad risks. To be as objective and consistent as possible, a rating system should always produce the same results given identical circumstances and equal scores on the relevant criteria. The required outcome of the procedure is to identify a default probability that plays a crucial role in subsequent credit risk measurement and control. The developed BVR-II rating procedures are very high-

resolution systems that earn PowerStat values of between 70 percent and approximately 90 percent. To maintain the quality of the rating procedures, they are regularly updated in centers of specialist expertise and also subjected to backtesting.

The cooperative banking sector's existing plans have set a target date of 2005 for all the rating procedures to be developed and finalised. The first two out of a total of 16 identified target rating segments – the BVR-II Mittelstand and upper Mittelstand rating systems (for SMEs and large SMEs) – were released for live operational deployment by local cooperative banks during 2003. This means that a creditworthiness evaluation system is now in place that covers a high initial proportion of the local banks' corporate customers business. The end of the design phase of the BVR-II rating procedures for small business and self-employed customers means a further important segment is now covered. We have also produced a lean and easy-to-use procedure for tradespeople based on a comfortable data set. Our computing centers will be making the procedure for this segment available for live operational use in mid-2004 together with the rating procedure for non-profit organisations we have developed jointly with the church welfare banks.

The use of these rating procedures makes risk-adjusted pricing a possibility. This is a further step forward that will help to secure the profitability of bank transactions.

2.4 Protection scheme

§ 4 of the statutes of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. requires the BVR to institute and maintain a protection scheme. This is explicitly identified as an institutional protection system (i.e. one that ensures the continued survival of a member bank) in § 12 of the law implementing the EC deposit protection and investor compensation directive (Gesetz zur Umsetzung der EG-Einlagensicherungs- und Anlegerentschädigungsrichtlinie). As a result the BVR protection scheme has been subject since August 1, 1998 to supervision by the German financial services regulator BaFin (§ 12 para. 1 in conjunction with § 7 para. 3 of the above-named law).

The protection scheme's objects are to pre-empt or remedy imminent or actual financial difficulties involving the affiliated banks and to prevent impairment of the public's trust in the cooperative banks. To help it perform the necessary rescue and rehabilitation tasks, the protection scheme has at its disposal a guarantee fund and a guarantee federation.

As of December 31, 2003 a total of 1,403 (PY: 1,498) cooperative credit institutions including the two central banks DZ BANK AG and WGZ-Bank eG) were affiliated to the BVR protection scheme. The number of member banks has reduced only because of mergers.

Apart from the scheme's ongoing rescue and rehabilitation work, the outstanding developments of fiscal 2003 resulted from the resolutions passed by the members' meetings of December 4, 2002 and March 26, 2003. The BVR's members voted on these occasions to amalgamate the previous regional rescue funds and to introduce a classification procedure for determining banks' credit status. This classification process serves two ends; firstly it provides a basis for linking the contributions to the guarantee fund levied on member banks to their credit status, secondly it provides a starting point for the scheme's preventive work.

Classification procedure

The classification system assigns the member banks to one of eight credit classes (A+, A, A-, B+, B, B-, C and D) by reference to eight measures of their financial strength, profitability and risk situation, with the size of their contribution to the protection scheme linked to each bank's credit score. The classification system relies solely on quantitative ratios, mainly taken from the banks' audited annual financial statements and audit reports.

In principle the classification procedure applies for all the banks affiliated to the protective mechanism. Under the BVR statutes however, cooperative sector banks that have a credit rating from an external ratings provider are not classified. This includes most importantly the central banks, the

mortgage banks and Bausparkasse Schwäbisch Hall AG (home savings & loan).

The results of the annual classification process provide an early warning indicator that the protection scheme relies on specifically for its preventive work. The classification system is a precise discriminator (resolution measured at around 75 percent) and a valuable tool for identifying those banks that represent an enhanced potential risk for the protection scheme.

2004 will be the first year in which the members' guarantee fund contributions, which are levied at the full maximum rate permitted by the BVR's statutes of 2.00 ‰ of the "loans and advances to non-bank customers" balance sheet heading, will be based on the new, rating-class-related contribution system. The contributions levied will be based on each member bank's credit classification result as per their 2003 annual financial statements.

Preventive management

The results of the BVR's classification procedure also constitute the basis for the protection scheme's systematic preventive management. Apart from a few exceptions, all the banks that were classified B- or worse were written to in the second quarter of 2003 to survey their risk situation in greater depth. The aim of this initiative, which was conducted in close consultation with

the regional audit associations, was to provide early-stage hands-on support to banks in structurally anomalous positions so as to pre-empt subsequent demands on the protection scheme's resources.

During the course of this preventive process, it became clear that many of the banks concerned had themselves already recognised and responded to the weaknesses identified and had also initiated forward-looking action to improve their situation. The banks welcomed the analysis of their weak points and are already working to remedy the anomalies highlighted. Only in a very few cases was it necessary for the BVR to have recourse to the right defined in its statutes to require the bank to elaborate a restructuring strategy. In many cases, the procedure itself has sharpened the risk awareness of the banks' executive boards and is therefore having a direct influence on the business policy of the banks concerned.

Rescue management

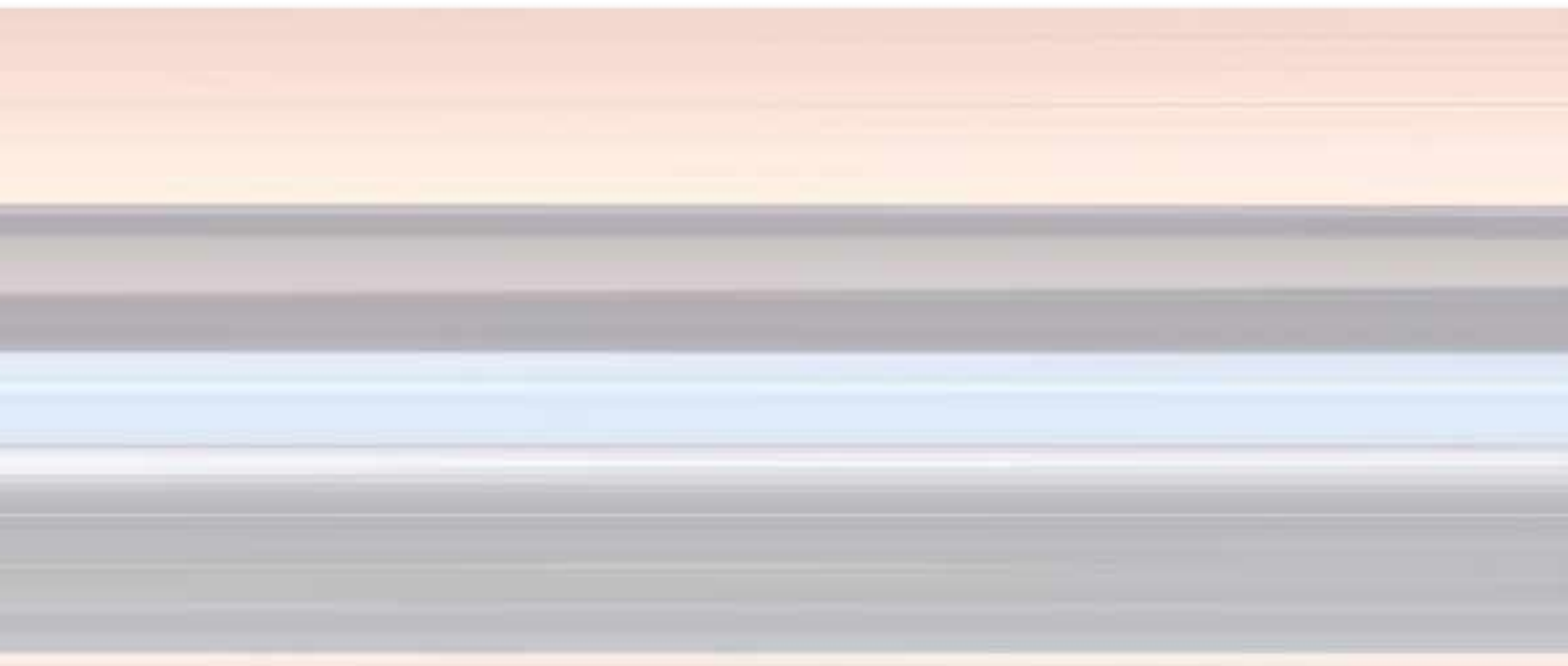
In addition to enabling the banks concerned to put forward certifiable annual financial statements through the provision of emergency support (guarantees, cash injections), the primary focus of the support mechanism's activity in the area of rescuing and rehabilitating member banks is making the banks healthy businesses again. This was why one of the priority activities for the protection scheme in 2003 was to obtain sector-wide agreement on

harmonised standards for the treatment and support of banks that have called on the assistance of the guarantee fund.

Thanks to the work of joint projects with the regional audit associations and the boards of various primary banks that either currently are, or previously have been, the subject of rescue exercises, these support standards have been gathered together into a “manual for banks in rehabilitation” and defined as the binding standard for bank rescues. The principles documented in the manual provide the banks affected with a guideline to rehabilitation and show how to devise a strategy for restoring a basic level of profitability. By definition,

it was too early for this conceptual groundwork to produce a reduction in the demands on the guarantee fund in 2003.

The development of a sector-wide, standardised and mandatory prevention and rescue management code was accompanied by the recruitment of additional staff and the reorganisation of the BVR protection scheme designed to create the foundation for building sustained confidence in the affiliated banks and therefore also in the cooperative banking sector through systematic preventive effort and for minimising the burden of guarantee fund contributions for all member banks.



Outlook for 2004



3 Outlook for 2004

After three years of stagnation, the economic upturn finally arrived at the start of 2004. Growth is being driven by exports. The demand for German manufactured products has revived under the influence of the strong growth of the global economy. Export demand rose especially strongly in the second quarter. Domestic demand has only provided very little stimulus through to the mid-year. We only expect domestic demand to strengthen perceptibly when the upturn has become more firmly established and the situation on the jobs market has improved. Overall real gross domestic product will probably expand by a good 1.5 percent this year – the fastest rate of growth since the end of the Nineties. Against the backdrop of the improving macroeconomic environment, we can expect the earnings situation to improve again in the current year.

Local cooperative banks

The first available earnings forecasts based on the trading trend of the first half of 2004 show that the local cooperative banks are set to repeat last year's good showing again in 2004. Their aggregate interest and commission surplus will be in the same proportion to average total assets as last year, and administration expenses will also be broadly in line, so operating profit before valuation effects will also match last year's outcome. In view of the anticipated emergence of a pick-up in the economy and the first drop in the rate of business failures for 10 years, the risk provisioning requirement will also continue to reduce so pre-tax profit is also set to increase again.

With credit risks extensively hedged, we expect a reduced volume of rescue expenses in fiscal 2004.

DZ BANK Group

The DZ BANK Group has more than doubled its earnings after provisions for risk in the first half of 2004 compared with H1-2003 and has therefore built on the encouraging trend that was beginning to emerge last year in the first six months of the current year. With the income streams significantly stronger, operating profit after provisions for risk improved to € 110 million (H1-03: € 55 million) at DZ BANK AG and € 529 million (H1-03: € 194 million) for the DZ BANK Group.

These results are evidence of the sustained improvement of operating profitability, the credit for which is due to the strong demand for the retail-banking products the parent bank provides for the local cooperative banks, the new more market-responsive structure of the investments portfolio, rationalisation of the process and cost structures, and the adoption of a risk-centric lending policy. The cost-income ratio for the first half was 60 percent.

WGZ-Bank-Group

The WGZ-Bank-Group undertook an internal reorganisation last year that has left it with a stronger focus on sales than before. The traffic lights are at green for the bank's business with its target custo-

mers – the local cooperative banks in the Rhineland and Westphalia, SME corporate customers and capital market partners. WGZ-Bank has created the foundation for rewarding growth.

WGZ-Bank was able to further improve its good results in the first half of 2004, and this is reflected above all in the operating figures and in the reduction of the cost-income ratio to 51 percent.

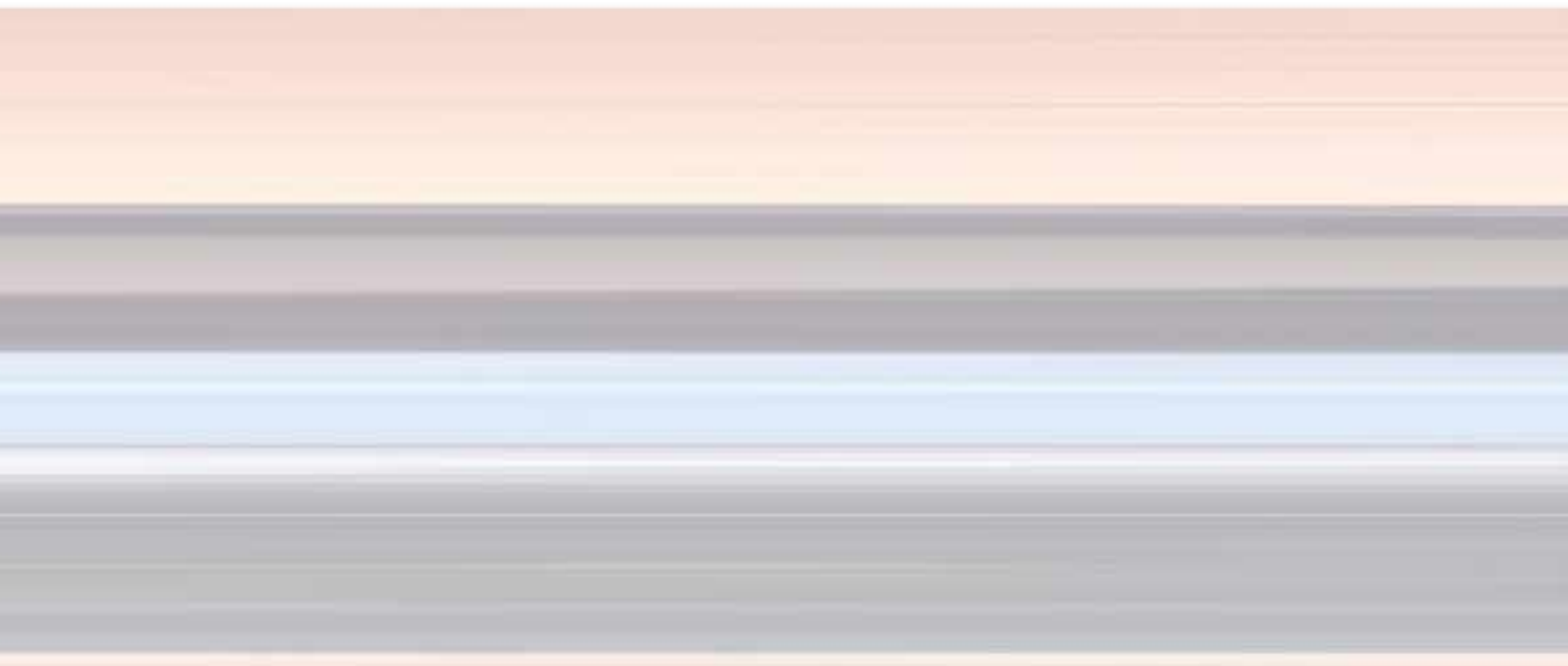
Münchener Hypothekenbank eG

Consumer and investor confidence will be crucial if the faltering economic recovery is to gain breadth and momentum. The cutting of the tax burden should inject substantial positive stimulus into

consumption and investment. However, the real estate finance climate is likely to remain difficult in the medium term. The big challenge, both for the integrated cooperative banking sector as a whole and for MünchenerHyp as a subsidiary finance provider, will be to win increased market share in direct competition with the other bank groupings.

MünchenerHyp expects to transact increased new mortgage business in the current year.

The ratios for the first half of 2004 show that the strategic initiatives that are under way are beginning to have an effect and that the cooperative banking sector is significantly improving its competitive position.



Appendix



Contents

4.1	Notes on consolidation methods applied	51
4.2	Data appendices	53

BALANCE SHEET 2002/2003

4.2.1	Cooperative Banking Sector	53
	Consolidated assets/liabilities Cooperative Banking Sector	54
4.2.2	Consolidation activities	55
	Information on consolidation	56
4.2.3	Individual balance sheets	57
	Local cooperative banks	58
	DZ BANK Group	59
	WGZ-Bank-Group	60
	Münchener Hypothekenbank eG	61

INCOME STATEMENT 2002/2003

4.2.4	Cooperative Banking Sector	63
	Consolidated income statement: Cooperative Banking Sector	64
4.2.5	Consolidation activities	67
	Income statement: Information on consolidation	68
4.2.6	Individual income statements	69
	Local cooperative banks	70
	DZ BANK Group	72
	WGZ-Bank-Group	74
	Münchener Hypothekenbank eG	76

CONSOLIDATED OVERVIEW AS PER PRINCIPLE I KWG

4.2.7	Overview of risk assets, market risk position and equity backing	80
4.2.8	Equity as defined by § 10 and 53 KWG	82

KEY FINANCIAL RATIOS OF THE COOPERATIVE BANKING SECTOR



4 Appendix

4.1 Notes on consolidation methods applied

Sphere of consolidation

These first-ever consolidated annual financial statements for the cooperative banking sector as prepared by the BVR incorporate the data for

the local cooperative banks,

the DZ BANK Group,

the WGZ-Bank-Group and

Münchener Hypothekenbank eG.

The data for the DZ BANK Group, the WGZ-Bank-Group and Münchener Hypothekenbank eG were gathered from the responses to specific survey questionnaires largely based on these banks' published annual reports.

The BVR's annual sector study provided the basis for calculating the aggregate balance sheet and aggregate income statement for the local cooperative banks. There were 1,392 local cooperative banks in existence at the end of 2003, 1,354 of which were included in the annual sector study. The survey ultimately covered 96.2 percent of the combined total assets of all the local cooperative banks. The remainder not covered by the survey was extrapolated on the basis of the assets total identified.

The analysed and reported data for the local cooperative banks also includes specialist institutions such as BAG Bankaktiengesellschaft, Deutsche Apotheker- und Ärztebank eG, plus the Sparda and the PSD banks. The aggregate balance sheet for the local cooperative banks also includes the BVR's support mechanism's free assets. The income statement includes the guarantee fund contributions. The data for Südwestbank AG are already consolidated into the DZ BANK Group.

Consolidation activities

The consolidation measures undertaken during the preparation of the annual financial statements concentrated primarily on three positions on the assets side of the balance sheet; these were placements with, and loan and advances to, other banks, bonds and other fixed-interest securities, and participations. The main equity-and-liabilities-side headings involved were deposits from other banks, liabilities in certificate form, subordinated liabilities, participatory capital, and equity. In the case of these positions, banks were asked to identify which subpositions were held within the cooperative banking sector during the period under report. The necessary data was gathered by a survey of the banks concerned. The consolidation information for the local cooperative banks was then the mirror image of the positions reported by the DZ BANK Group, the WGZ-Bank-Group and Münchener Hypothekenbank eG.

To establish the book values of the local cooperative banks' stakes in DZ BANK AG, a separate survey was conducted of the holding companies. The resulting average price of a DZ BANK share then provided the basis for calculating the book value of a stake in DZ BANK AG. In the cases of Münchener Hypothekenbank eG and WGZ-Bank eG, it was assumed that the local cooperative banks would carry their holdings in these two sector constituents at nominal value. It should be noted finally that the book values of the local cooperative banks' direct holdings in the cooperative sector's specialist service providers have not been consolidated on the grounds of triviality.

In the income statement, consolidation affected the following expense headings: interest expense, commission expense and expense from insurance operations. On the income side, the positions affected were: interest income, current income from

participations, and commission income. The required data was gathered from the same sources as for the balance sheet consolidation activities.

The cooperative banking sector's consolidated overview of equity capital and risk assets as required by Principle I KWG was calculated by consolidating the sector constituents' reported equity and other compulsorily reckonable positions, and the capital consolidation at the level of the DZ BANK Group and at WGZ-Bank eG naturally had its equivalent in the local cooperative banks' participations segment. In the case of the compulsorily reckonable positions, the consolidation related to overlaps in the balance sheet assets, traditional off-balance-sheet and derivatives transactions as subcategories of risk assets, plus counterparty default risk positions within the market risk positions. The necessary data were gathered using specific survey questionnaires.

Balance Sheet 2002/2003

Cooperative Banking Sector



CONSOLIDATED ASSETS/LIABILITIES COOPERATIVE BANKING SECTOR

ASSETS

(in € '000)	2002	2003
1. Cash Reserve	14,177,606	14,518,418
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	971,465	419,569
3. Placements with, and loans and advances to, other banks	79,868,414	75,665,013
4. Loans and advances to non-bank customers	478,842,867	478,578,885
5. Bonds and other fixed-interest securities	132,539,202	137,123,556
6. Equity shares and other variable-yield securities	32,251,375	29,050,680
6a. Inventory	163,447	165,906
7. Insurance-related investments after offsets	33,776,000	35,715,000
8. Other insurance-specific assets	2,144,000	2,149,000
9. Participations	1,244,294	1,509,182
10. Participations in associated companies	181,681	251,639
11. Shares in related companies	1,444,658	1,367,558
12. Assets held on trust basis	5,776,205	6,048,469
13. Equalization claims against government agencies – Including claims converted into bonds	263,166	158,632
14. Intangible assets	57,123	48,423
15. Property and equipment	14,895,571	14,489,024
16. Liability of shareholders for subscribed capital	0	0
17. Own equity or partnership shares	24,000	24,000
18. Other assets	6,280,504	6,297,254
19. Deferred tax assets	1,960,000	1,933,000
20. Accrued income and deferred taxes	1,851,396	1,963,496
21.	119,016	31,782
TOTAL ASSETS	808,831,990	807,508,485

EQUITY AND LIABILITIES

(in € '000)	2002	2003
1. Deposits from other banks	118,564,736	117,741,176
2. Amounts owed to other depositors	490,337,622	501,502,163
2a. Liabilities from transactions in commodities	23,044	21,435
3. Liabilities in certificate form	97,715,435	81,076,174
4. Liabilities arising from trust operations	5,776,205	6,048,469
5. Other liabilities	5,595,335	5,557,575
6. Accrued expenses and deferred income	3,568,689	3,717,923
7. Provisions	8,127,893	9,243,772
8. Building savings & loan guarantee fund	456,000	459,000
9. Actuarial reserves	30,838,000	32,540,000
10. Other insurance-specific liabilities	4,141,000	4,380,000
11. Untaxed special reserve	89,153	35,231
12. Subordinated liabilities	7,001,091	6,747,924
13. Participatory capital	5,348,455	5,289,379
14. Fund for general banking risks	966,000	1,736,581
15. Difference from consolidation of investments	871,213	835,698
16. Equity of cooperative banks	27,949,476	29,063,315
17. Minority interests	1,462,642	1,512,671
TOTAL EQUITY AND LIABILITIES	808,831,990	807,508,485
1. Contingent liabilities	27,697,213	26,886,076
2. Other liabilities	34,565,346	34,447,692
3. Specialist funds managed on behalf of shareholders	98,846,685	108,765,658
Business volume	836,529,203	834,394,561

Balance Sheet 2002/2003

Consolidation activities



INFORMATION ON CONSOLIDATION

ASSETS

(in € '000)

2002

2003

1. Cash Reserve		
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks		
3. Placements with, and loans and advances to, other banks	113,100,386	106,689,212
4. Loans and advances to non-bank customers		
5. Bonds and other fixed-interest securities	57,834,090	67,674,619
6. Equity shares and other variable-yield securities		
6a. Inventory		
7. Insurance-related investments after offsets		
8. Other insurance-specific assets.		
9. Participations	5,337,934	5,530,010
10. Participations in associated companies		
11. Shares in related companies.		
12. Assets held on trust basis		
13. Equalization claims against government agencies – Including claims converted into bonds		
14. Intangible assets		
15. Property and equipment		
16. Liability of shareholders for subscribed capital		
17. Own equity or partnership shares		
18. Other assets		
19. Deferred tax assets.		
20. Accrued income and deferred taxes		
21.		
TOTAL ASSETS	176,272,410	179,893,841

EQUITY AND LIABILITIES

(in € '000)

2002

2003

1. Deposits from other banks	113,100,386	106,689,212
2. Amounts owed to other depositors		
2a. Liabilities from transactions in commodities		
3. Liabilities in certificate form	57,618,032	67,400,687
4. Liabilities arising from trust operations		
5. Other liabilities		
6. Accrued expenses and deferred income		
7. Provisions		
8. Building savings & loan guarantee fund		
9. Actuarial reserves		
10. Other insurance-specific liabilities		
11. Untaxed special reserve		
12. Subordinated liabilities	35,718	93,592
13. Participatory capital	180,340	180,340
14. Fund for general banking risks		
15. Difference from consolidation of investments		
16. Equity	5,337,934	5,530,010
TOTAL EQUITY AND LIABILITIES	176,272,410	179,893,841

Differences through rounding

Balance Sheet 2002/2003

Individual Balance Sheets



LOCAL COOPERATIVE BANKS

ASSETS

(in € '000)

	2002	2003
1. Cash Reserve	13,086,403	13,242,405
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	392,670	316,230
3. Placements with, and loans and advances to, other banks	70,392,589	65,033,879
4. Loans and advances to non-bank customers	333,813,076	337,104,514
5. Bonds and other fixed-interest securities	93,049,403	100,233,469
6. Equity shares and other variable-yield securities	23,916,980	25,167,947
6a. Inventory	163,447	165,906
7. Insurance-related investments after offsets	0	0
8. Other insurance-specific assets	0	0
9. Participations	5,001,832	5,349,350
10. Participations in associated companies	0	0
11. Shares in related companies	539,107	542,967
12. Assets held on trust basis	3,389,335	3,586,581
13. Equalization claims against government agencies – Including claims converted into bonds	42,166	25,632
14. Intangible assets	36,123	27,423
15. Property and equipment	9,363,152	9,070,138
16. Liability of shareholders for subscribed capital	0	0
17. Own equity or partnership shares	0	0
18. Other assets	3,140,724	2,803,594
19. Deferred tax assets	0	0
20. Accrued income and deferred taxes	630,826	559,831
21.	119,016	31,782
TOTAL ASSETS	557,076,849	563,261,648

EQUITY AND LIABILITIES

(in € '000)

	2002	2003
1. Deposits from other banks	77,807,129	77,330,863
2. Amounts owed to other depositors	401,952,934	406,913,919
2a. Liabilities from transactions in commodities	23,044	21,435
3. Liabilities in certificate form	33,156,032	32,216,849
4. Liabilities arising from trust operations	3,389,335	3,586,581
5. Other liabilities	1,564,012	1,617,916
6. Accrued expenses and deferred income	952,998	905,144
7. Provisions	5,023,649	5,907,729
8. Building savings & loan guarantee fund	0	0
9. Actuarial reserves	0	0
10. Other insurance-specific liabilities	0	0
11. Untaxed special reserve	87,065	35,231
12. Subordinated liabilities	2,897,040	2,732,027
13. Participatory capital	2,232,134	2,145,058
14. Fund for general banking risks	42,000	785,581
15. Difference from consolidation of investments	0	0
16. Equity	27,949,476	29,063,315
TOTAL EQUITY AND LIABILITIES	557,076,849	563,261,648
1. Contingent liabilities	13,613,730	13,206,804
2. Other liabilities	14,999,308	16,851,993
3. Specialist funds managed on behalf of shareholders	0	0
Business volume	570,690,579	576,468,452
Average number of employees	136,951	136,901

DZ BANK GROUP

ASSETS

(in € '000)

	2002	2003
1. Cash Reserve	878,000	879,000
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	38,000	74,000
3. Placements with, and loans and advances to, other banks	93,637,000	89,264,000
4. Loans and advances to non-bank customers	106,935,000	102,462,000
5. Bonds and other fixed-interest securities	78,090,000	82,732,000
6. Equity shares and other variable-yield securities	7,798,000	3,212,000
6a. Inventory	0	0
7. Insurance-related investments after offsets	33,776,000	35,715,000
8. Other insurance-specific assets	2,144,000	2,149,000
9. Participations	449,000	423,000
10. Participations in associated companies	180,000	251,000
11. Shares in related companies	905,000	824,000
12. Assets held on trust basis	2,326,000	2,411,000
13. Equalization claims against government agencies – Including claims converted into bonds	221,000	133,000
14. Intangible assets	21,000	21,000
15. Property and equipment	5,309,000	5,206,000
16. Liability of shareholders for subscribed capital	0	0
17. Own equity or partnership shares	24,000	24,000
18. Other assets	2,798,000	3,107,000
19. Deferred tax assets	1,960,000	1,933,000
20. Accrued income and deferred taxes	766,000	903,000
21.	0	0
TOTAL ASSETS	338,255,000	331,723,000

EQUITY AND LIABILITIES

(in € '000)

	2002	2003
1. Deposits from other banks	122,922,000	115,417,000
2. Amounts owed to other depositors	72,649,000	78,521,000
2a. Liabilities from transactions in commodities	0	0
3. Liabilities in certificate form	83,035,000	75,612,000
4. Liabilities arising from trust operations	2,326,000	2,411,000
5. Other liabilities	3,535,000	3,555,000
6. Accrued expenses and deferred income	2,460,000	2,661,000
7. Provisions	2,873,000	3,067,000
8. Building savings & loan guarantee fund	456,000	459,000
9. Actuarial reserves	30,838,000	32,540,000
10. Other insurance-specific liabilities	4,141,000	4,380,000
11. Untaxed special reserve	0	0
12. Subordinated liabilities	3,602,000	3,567,000
13. Participatory capital	2,685,000	2,680,000
14. Fund for general banking risks	741,000	743,000
15. Difference from consolidation of investments	0	0
16. Equity	5,992,000	6,110,000
TOTAL EQUITY AND LIABILITIES	338,255,000	331,723,000
1. Contingent liabilities	13,262,000	12,916,000
2. Other liabilities	16,158,000	14,195,000
3. Specialist funds managed on behalf of shareholders	98,846,685	108,765,658
Business volume	351,517,000	344,639,000
Average number of employees	25,247	25,313

WGZ-BANK-GROUP

ASSETS

(in € '000)

	2002	2003
1. Cash Reserve	167,824	335,142
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	540,795	29,339
3. Placements with, and loans and advances to, other banks	24,051,480	22,369,717
4. Loans and advances to non-bank customers	21,028,338	21,111,904
5. Bonds and other fixed-interest securities	11,853,290	15,054,828
6. Equity shares and other variable-yield securities	411,111	414,108
6a. Inventory	0	0
7. Insurance-related investments after offsets	0	0
8. Other insurance-specific assets	0	0
9. Participations	1,111,576	1,240,599
10. Participations in associated companies	1,681	639
11. Shares in related companies	0	40
12. Assets held on trust basis	60,343	50,399
13. Equalization claims against government agencies – Including claims converted into bonds	0	0
14. Intangible assets	0	0
15. Property and equipment	114,477	105,322
16. Liability of shareholders for subscribed capital	0	0
17. Own equity or partnership shares	0	0
18. Other assets	298,989	316,420
19. Deferred tax assets	0	0
20. Accrued income and deferred taxes	265,809	235,941
21.	0	0
TOTAL ASSETS	59,905,713	61,264,398

EQUITY AND LIABILITIES

(in € '000)

	2002	2003
1. Deposits from other banks	29,043,093	29,780,031
2. Amounts owed to other depositors	9,362,104	9,504,684
2a. Liabilities from transactions in commodities	0	0
3. Liabilities in certificate form	18,508,636	18,876,551
4. Liabilities arising from trust operations	60,343	50,399
5. Other liabilities	228,820	192,903
6. Accrued expenses and deferred income	97,021	100,324
7. Provisions	204,972	239,529
8. Building savings & loan guarantee fund	0	0
9. Actuarial reserves	0	0
10. Other insurance-specific liabilities	0	0
11. Untaxed special reserve	2,088	0
12. Subordinated liabilities	471,469	476,189
13. Participatory capital	508,380	541,380
14. Fund for general banking risks	183,000	208,000
15. Difference from consolidation of investments	0	0
16. Equity	1,235,787	1,294,408
TOTAL EQUITY AND LIABILITIES	59,905,713	61,264,398
1. Contingent liabilities	799,697	751,005
2. Other liabilities	2,889,080	2,929,517
3. Specialist funds managed on behalf of shareholders	0	0
Business volume	60,705,410	62,015,403
Average number of employees	1,525	1,477

MÜNCHENER HYPOTHEKENBANK EG

ASSETS

(in € '000)

	2002	2003
1. Cash Reserve	45,379	61,871
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	0	0
3. Placements with, and loans and advances to, other banks	4,887,731	5,686,629
4. Loans and advances to non-bank customers	17,066,453	17,900,467
5. Bonds and other fixed-interest securities	7,380,599	6,777,878
6. Equity shares and other variable-yield securities	125,284	256,624
6a. Inventory	0	0
7. Insurance-related investments after offsets	0	0
8. Other insurance-specific assets	0	0
9. Participations	19,820	26,243
10. Participations in associated companies	0	0
11. Shares in related companies	551	551
12. Assets held on trust basis	527	489
13. Equalization claims against government agencies – Including claims converted into bonds	0	0
14. Intangible assets	0	0
15. Property and equipment	108,942	107,564
16. Liability of shareholders for subscribed capital	0	0
17. Own equity or partnership shares	0	0
18. Other assets	42,791	70,240
19. Deferred tax assets	0	0
20. Accrued income and deferred taxes	188,761	264,724
21.	0	0
TOTAL ASSETS	29,866,838	31,153,280

EQUITY AND LIABILITIES

(in € '000)

	2002	2003
1. Deposits from other banks	1,892,900	1,902,494
2. Amounts owed to other depositors	6,373,584	6,562,560
2a. Liabilities from transactions in commodities	0	0
3. Liabilities in certificate form	20,633,799	21,771,461
4. Liabilities arising from trust operations	527	489
5. Other liabilities	267,503	191,755
6. Accrued expenses and deferred income	58,670	51,454
7. Provisions	26,272	29,514
8. Building savings & loan guarantee fund	0	0
9. Actuarial reserves	0	0
10. Other insurance-specific liabilities	0	0
11. Untaxed special reserve	0	0
12. Subordinated liabilities	66,300	66,300
13. Participatory capital	103,281	103,281
14. Fund for general banking risks	0	0
15. Difference from consolidation of investments	0	0
16. Equity	444,002	473,971
TOTAL EQUITY AND LIABILITIES	29,866,838	31,153,280
1. Contingent liabilities	21,786	12,267
2. Other liabilities	518,958	471,183
3. Specialist funds managed on behalf of shareholders	0	0
Business volume	29,888,624	31,165,547
Average number of employees	378	377

Consolidated Income Statement 2002/2003

Cooperative Banking Sector



CONSOLIDATED INCOME STATEMENT: COOPERATIVE BANKING SECTOR

EXPENSES

(in € '000)

2002

2003

1. Interest expense	24,284,789.9	21,101,906.0
2. Commission expense	582,102.0	708,868.3
3. Expense from insurance operations	8,917,000.0	9,050,000.0
4. General administrative expenses	14,140,827.1	14,379,186.8
5. Depreciation and write-downs on tangible and intangible assets	1,310,469.0	1,242,720.9
6. Other operating expense	2,111,487.0	2,147,725.0
7. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business	8,719,750.6	6,173,343.7
8. Transfers to the fund for general banking risks § 340 g HGB	507,140.0	197,807.0
9. Depreciation and write-downs on participations, shares in related companies and securities treated as fixed assets	241,741.4	272,778.6
10. Expenses from the assumption of losses	97,884.0	62,202.0
11. Transfer to untaxed special reserves	21,789.0	16,821.0
12. Exceptional expense	288,470.0	180,553.0
13. Taxes on income and earnings	-429,675.6	1,827,911.7
14. Other taxes	42,136.4	34,728.2
15. Earnings paid out under profit pools and profit transfer or profit sharing agreements	55,399.0	55,398.7
16. Net income	1,594,832.4	1,708,482.8
TOTAL EXPENSES	62,486,142.1	59,160,433.5
1. Net income	1,594,832.4	1,708,482.8
2. Attributable to minority interests	298,596.0	90,130.0
Profit/loss carried forward from the previous year	18,015.6	27,688.2
3. Withdrawals from surplus reserves	94,332.0	11,693.0
4. Withdrawals from participatory capital	915.0	296.0
5. Transfer to surplus reserves	420,185.0	608,082.0
6. Restoration of participatory capital	0.0	632.0
7. Consolidated earnings	989,314.0	1,049,316.0

INCOME

(in € '000)

2002

2003

1. Interest income	38,789,505.0	36,057,758.0
2. Current income	1,384,913.6	1,305,746.9
3. Income from profit pools and profit transfer or profit sharing agreements	65,383.0	68,863.0
4. Commission income	4,429,948.1	4,724,365.5
5. Income from insurance operations	9,713,000.0	9,473,000.0
6. Net income from financial transactions	250,793.8	520,710.7
7. Income from write-ups on receivables and specific securities and from dissolution of risk provisions	2,366,583.5	2,585,652.7
8. Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
9. Exceptional income	1,174,502.0	364,543.0
10. Income from write-ups on participations, shares in related companies and securities treated as fixed assets	1,025,144.8	313,785.9
11. Other operating income	3,011,179.4	3,521,792.8
12. Gross income from commodities dealing	155,624.0	149,855.0
13. Income from the assumption of losses	0.0	0.0
14. Income from the dissolution of special untaxed reserves	119,565.0	74,360.0
TOTAL INCOME	62,486,142.1	59,160,433.5

CONSOLIDATED INCOME STATEMENT: COOPERATIVE BANKING GROUP

(in € '000)

2002

2003

Net interest income (incl. leasing)	15,764,103.8	16,143,981.9
Interest income	38,789,505.0	36,057,758.0
Interest expense	-24,284,789.9	-21,101,906.0
Current income (equity shares)	1,259,388.7	1,188,129.9
Income from investments	190,907.8	186,480.0
Current income (participations and shares in related/associated companies)	125,524.9	117,617.1
Income from profit pools	65,383.0	68,863.0
Net interest income (incl. income from investments and leasing activities)	15,955,011.6	16,330,462.0
Net commission income	4,052,846.1	4,256,497.1
Commission income	4,429,948.1	4,724,365.5
Commission expense	-377,102.0	-467,868.3
General administrative expenses	-15,451,296.0	-15,621,907.5
Personnel expenses	-8,779,095.8	-8,924,230.9
Other administrative expenses	-5,361,731.2	-5,454,955.9
Depreciation	-1,310,469.0	-1,242,720.9
Net income from financial activities	250,793.8	520,710.7
Net income from insurance activities	591,000.0	182,000.0
Balance of other operating expense/income	1,013,180.0	1,489,194.7
Other operating expense	-2,153,623.4	-2,182,453.1
Other operating income	-2,111,487.0	-2,147,725.0
Other taxes	-42,136.4	-34,728.2
Other operating income incl. commodities dealing	3,166,803.4	3,671,647.8
Other operating income	3,011,179.4	3,521,792.8
Gross income from commodities dealing	155,624.0	149,855.0
Operating result before risk provisions	6,411,535.5	7,156,957.0
Risk provisions	-6,353,167.1	-3,587,691.0
Depreciation on receivables and securities	-8,719,750.6	-6,173,343.7
Write-ups on receivables and securities	2,366,583.5	2,585,652.7
Operating result after risk provisions	58,368.4	3,569,266.0
Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
Transfers to the fund for general banking risks § 340 g HGB	-507,140.0	-197,807.0
Balance of other income	1,613,928.4	164,935.6
Depreciation on participations	-241,741.4	-272,778.6
Write-ups on participations	1,025,144.8	313,785.9
Transfer to untaxed special reserves	-21,789.0	-16,821.0
Dissolution of special untaxed reserves	119,565.0	74,360.0
Exceptional expense	-288,470.0	-180,553.0
Exceptional income	1,174,502.0	364,543.0
Expense from the assumption of losses	-97,884.0	-62,202.0
Income from the assumption of losses	0.0	0.0
Profit transfer	-55,399.0	-55,398.7
Net income before taxes	1,165,156.8	3,536,394.6
Taxes	387,539.3	-1,862,639.9
Taxes on income and earnings	429,675.6	-1,827,911.7
Other taxes	-42,136.4	-34,728.2
Net income	1,594,832.4	1,708,482.8

Differences through rounding

Consolidated Income Statement 2002/2003

Consolidation activities

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INCOME STATEMENT: INFORMATION ON CONSOLIDATION

EXPENSES

(in € '000)

2002

2003

1. Interest expense	7,124,404.9	6,684,818.2
2. Commission expense	765,442.0	882,073.0
3. Expense from insurance operations	205,000.0	241,000.0
4. General administrative expenses		
5. Depreciation and write-downs on tangible and intangible assets		
6. Other operating expense		
7. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business		
8. Transfers to the fund for general banking risks § 340 g HGB		
9. Depreciation and write-downs on participations, shares in related companies and securities treated as fixed assets		
10. Expenses from the assumption of losses		
11. Transfer to untaxed special reserves		
12. Exceptional expense		
13. Taxes on income and earnings		
14. Other taxes		
15. Earnings paid out under profit pools and profit transfer or profit sharing agreements		
16. Net income	101,114.9	103,628.9
TOTAL EXPENSES	8,195,961.8	7,911,520.1
1. Net income	101,114.9	103,628.9
2. Attributable to minority interests		
Profit/loss carried forward from the previous year		
3. Withdrawals from surplus reserves		
4. Withdrawals from participatory capital		
5. Transfer to surplus reserves		
6. Restoration of participatory capital		
7. Consolidated earnings		

INCOME

(in € '000)

2002

2003

1. Interest income	7,124,404.9	6,684,818.2
2. Current income	101,114.9	103,628.9
3. Income from profit pools and profit transfer or profit sharing agreements		
4. Commission income	970,442.0	1,123,073.0
5. Income from insurance operations		
6. Net income from financial transactions		
7. Income from write-ups on receivables and specific securities and from dissolution of risk provisions		
8. Dissolution of funds for general banking risks § 340 g HGB		
9. Exceptional income		
10. Income from write-ups on participations, shares in related companies and securities treated as fixed assets		
11. Other operating income		
12. Gross income from commodities dealing		
13. Income from the assumption of losses		
14. Income from the dissolution of special untaxed reserves		
TOTAL INCOME	8,195,961.8	7,911,520.1

Consolidated Income Statement 2002/2003

Individual Income Statements

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INCOME STATEMENT: LOCAL COOPERATIVE BANKS

EXPENSES

(in € '000)

2002

2003

1. Interest expense	16,390,055.8	14,613,699.0
2. Commission expense	380,886.0	411,038.9
3. Expense from insurance operations	0.0	0.0
4. General administrative expenses	11,586,808.1	11,902,967.8
5. Depreciation and write-downs on tangible and intangible assets	1,086,927.0	1,045,036.2
6. Other operating expense	323,927.0	318,436.4
7. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business	6,039,233.1	5,580,443.6
8. Transfers to the fund for general banking risks § 340 g HGB	448,140.0	172,807.0
9. Depreciation and write-downs on participations, shares in related companies and securities treated as fixed assets	240,862.4	147,113.6
10. Expenses from the assumption of losses	26,884.0	20,202.0
11. Transfer to untaxed special reserves	21,789.0	16,821.0
12. Exceptional expense	64,470.0	82,953.0
13. Taxes on income and earnings	857,612.4	1,492,000.0
14. Other taxes	35,495.4	38,204.6
15. Earnings paid out under profit pools and profit transfer or profit sharing agreements	0.0	0.0
16. Net income	1,249,618.2	1,309,074.4
TOTAL EXPENSES	38,752,708.4	37,150,797.6
1. Net income	1,249,618.2	1,309,074.4
2. Attributable to minority interests	0.0	0.0
Profit/loss carried forward from the previous year	2,587.6	7,534.1
3. Withdrawals from surplus reserves	55,332.0	11,693.0
4. Withdrawals from participatory capital	915.0	296.0
5. Transfer to surplus reserves	330,185.0	296,082.0
6. Restoration of participatory capital	0.0	632.0
7. Consolidated earnings	978,267.8	1,031,883.5

INCOME

(in € '000)

2002

2003

1. Interest income	29,047,771.9	27,603,623.5
2. Current income	1,029,797.4	1,035,582.0
3. Income from profit pools and profit transfer or profit sharing agreements	42,383.0	42,863.0
4. Commission income	3,540,471.1	3,849,772.3
5. Income from insurance operations	0.0	0.0
6. Net income from financial transactions	2,712.8	129,464.7
7. Income from write-ups on receivables and specific securities and from dissolution of risk provisions	2,301,491.0	2,491,436.5
8. Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
9. Exceptional income	879,802.0	229,846.0
10. Income from write-ups on participations, shares in related companies and securities treated as fixed assets	835,903.8	305,569.7
11. Other operating income	807,401.4	1,240,511.8
12. Gross income from commodities dealing	155,624.0	149,855.0
13. Income from the assumption of losses	0.0	0.0
14. Income from the dissolution of special untaxed reserves	109,350.0	72,273.0
TOTAL INCOME	38,752,708.4	37,150,797.5

CONSOLIDATED INCOME STATEMENT: LOCAL COOPERATIVE BANKS

(in € '000)

2002

2003

Net interest income (incl. leasing)	13,553,653.8	13,878,893.1
Interest income	29,047,771.9	27,603,623.5
Interest expense	-16,390,055.8	-14,613,699.0
Current income (equity shares)	895,937.7	888,968.6
Income from investments	176,242.7	189,476.4
Current income (participations and shares in related/associated companies)	133,859.7	146,613.4
Income from profit pools	42,383.0	42,863.0
Net interest income (incl. income from investments and leasing activities)	13,729,896.5	14,068,369.5
Net commission income	3,159,585.1	3,438,733.4
Commission income	3,540,471.1	3,849,772.3
Commission expense	-380,886.0	-411,038.9
General administrative expenses	-12,673,735.0	-12,948,004.0
Personnel expenses	-7,474,999.8	-7,647,866.5
Other administrative expenses	-4,111,808.2	-4,255,101.3
Depreciation	-1,086,927.0	-1,045,036.2
Net income from financial activities	2,712.8	129,464.7
Net income from insurance activities	0.0	0.0
Balance of other operating expense/income	603,603.0	1,033,725.8
Other operating expense	-359,422.4	-356,641.0
Other operating income	-323,927.0	-318,436.4
Other taxes	-35,495.4	-38,204.6
Other operating income incl. commodities dealing	963,025.4	1,390,366.8
Other operating income	807,401.4	1,240,511.8
Gross income from commodities dealing	155,624.0	149,855.0
Operating result before risk provisions	4,822,062.4	5,722,289.4
Risk provisions	-3,737,742.1	-3,089,007.1
Depreciation on receivables and securities	-6,039,233.1	-5,580,443.6
Write-ups on receivables and securities	2,301,491.0	2,491,436.5
Operating result after risk provisions	1,084,320.3	2,633,282.3
Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
Transfers to the fund for general banking risks § 340 g HGB	-448,140.0	-172,807.0
Balance of other income	1,471,050.4	340,599.1
Depreciation on participations	-240,862.4	-147,113.6
Write-ups on participations	835,903.8	305,569.7
Transfer to untaxed special reserves	-21,789.0	-16,821.0
Dissolution of special untaxed reserves	109,350.0	72,273.0
Exceptional expense	-64,470.0	-82,953.0
Exceptional income	879,802.0	229,846.0
Expense from the assumption of losses	-26,884.0	-20,202.0
Income from the assumption of losses	0.0	0.0
Profit transfer	0.0	0.0
Net income before taxes	2,107,230.7	2,801,074.4
Taxes	-893,107.7	-1,530,204.6
Taxes on income and earnings	-857,612.4	-1,492,000.0
Other taxes	-35,495.4	-38,204.6
Net income	1,249,618.4	1,309,074.4

Differences through rounding

INCOME STATEMENT: DZ BANK GROUP

EXPENSES

(in € '000)

2002

2003

1. Interest expense	11,277,000.0	9,478,000.0
2. Commission expense	873,000.0	1,074,000.0
3. Expense from insurance operations	9,122,000.0	9,291,000.0
4. General administrative expenses	2,299,000.0	2,226,000.0
5. Depreciation and write-downs on tangible and intangible assets	203,000.0	177,000.0
6. Other operating expense	1,756,000.0	1,787,000.0
7. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business	2,307,000.0	326,000.0
8. Transfers to the fund for general banking risks § 340 g HGB	0.0	0.0
9. Depreciation and write-downs on participations, shares in related companies and securities treated as fixed assets	0.0	108,000.0
10. Expenses from the assumption of losses	71,000.0	42,000.0
11. Transfer to untaxed special reserves	0.0	0.0
12. Exceptional expense	224,000.0	78,000.0
13. Taxes on income and earnings	-1,318,000.0	314,000.0
14. Other taxes	6,000.0	-4,000.0
15. Earnings paid out under profit pools and profit transfer or profit sharing agreements	47,000.0	47,000.0
16. Net income	351,000.0	382,000.0
TOTAL EXPENSES	27,218,000.0	25,326,000.0
1. Net income	351,000.0	382,000.0
2. Attributable to minority interests	296,000.0	88,000.0
Profit/loss carried forward from the previous year	0.0	0.0
3. Withdrawals from surplus reserves	39,000.0	0.0
4. Withdrawals from participatory capital	0.0	0.0
5. Transfer to surplus reserves	42,000.0	239,000.0
6. Restoration of participatory capital	0.0	0.0
7. Consolidated earnings	52,000.0	55,000.0

INCOME

(in € '000)

2002

2003

1. Interest income	12,812,000.0	11,099,000.0
2. Current income	379,000.0	318,000.0
3. Income from profit pools and profit transfer or profit sharing agreements	23,000.0	26,000.0
4. Commission income	1,726,000.0	1,847,000.0
5. Income from insurance operations	9,713,000.0	9,473,000.0
6. Net income from financial transactions	216,000.0	335,000.0
7. Income from write-ups on receivables and specific securities and from dissolution of risk provisions	0.0	0.0
8. Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
9. Exceptional income	2,000.0	0.0
10. Income from write-ups on participations, shares in related companies and securities treated as fixed assets	181,000.0	0.0
11. Other operating income	2,159,000.0	2,228,000.0
12. Gross income from commodities dealing	0.0	0.0
13. Income from the assumption of losses	0.0	0.0
14. Income from the dissolution of special untaxed reserves	7,000.0	0.0
TOTAL INCOME	27,218,000.0	25,326,000.0

CONSOLIDATED INCOME STATEMENT: DZ BANK GROUP

(in € '000)

2002

2003

Net interest income (incl. leasing)	1,853,000.0	1,893,000.0
Interest income	12,812,000.0	11,099,000.0
Interest expense	-11,277,000.0	-9,478,000.0
Current income (equity shares)	318,000.0	272,000.0
Income from investments	84,000.0	72,000.0
Current income (participations and shares in related/associated companies)	61,000.0	46,000.0
Income from profit pools	23,000.0	26,000.0
Net interest income (incl. income from investments and leasing activities)	1,937,000.0	1,965,000.0
Net commission income	853,000.0	773,000.0
Commission income	1,726,000.0	1,847,000.0
Commission expense	-873,000.0	-1,074,000.0
General administrative expenses	-2,502,000.0	-2,403,000.0
Personnel expenses	-1,172,000.0	-1,140,000.0
Other administrative expenses	-1,127,000.0	-1,086,000.0
Depreciation	-203,000.0	-177,000.0
Net income from financial activities	216,000.0	335,000.0
Net income from insurance activities	591,000.0	182,000.0
Balance of other operating expense/income	397,000.0	445,000.0
Other operating expense	-1,762,000.0	-1,783,000.0
Other operating income	-1,756,000.0	-1,783,000.0
Other taxes	-6,000.0	4,000.0
Other operating income incl. commodities dealing	2,159,000.0	2,228,000.0
Other operating income	2,159,000.0	2,228,000.0
Gross income from commodities dealing	0.0	0.0
Operating result before risk provisions	1,492,000.0	1,297,000.0
Risk provisions	-2,307,000.0	-326,000.0
Depreciation on receivables and securities	-2,307,000.0	-326,000.0
Write-ups on receivables and securities	0.0	0.0
Operating result after risk provisions	-815,000.0	971,000.0
Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
Transfers to the fund for general banking risks § 340 g HGB	0.0	0.0
Balance of other income	-152,000.0	-275,000.0
Depreciation on participations	0.0	-108,000.0
Write-ups on participations	181,000.0	0.0
Transfer to untaxed special reserves	0.0	0.0
Dissolution of special untaxed reserves	7,000.0	0.0
Exceptional expense	-224,000.0	-78,000.0
Exceptional income	2,000.0	0.0
Expense from the assumption of losses	-71,000.0	-42,000.0
Income from the assumption of losses	0.0	0.0
Profit transfer	-47,000.0	-47,000.0
Net income before taxes	-967,000.0	696,000.0
Taxes	1,312,000.0	-310,000.0
Taxes on income and earnings	1,318,000.0	-314,000.0
Other taxes	-6,000.0	4,000.0
Net income	351,000.0	382,000.0

Differences through rounding

INCOME STATEMENT: WGZ-BANK-GROUP

EXPENSES

(in € '000)	2002	2003
1. Interest expense	2,282,705.0	2,241,829.0
2. Commission expense	83,393.0	93,164.0
3. Expense from insurance operations	0.0	0.0
4. General administrative expenses	205,289.0	202,169.0
5. Depreciation and write-downs on tangible and intangible assets	14,530.0	14,910.0
6. Other operating expense	29,038.0	40,047.0
7. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business	355,092.5	245,830.2
8. Transfers to the fund for general banking risks § 340 g HGB	59,000.0	25,000.0
9. Depreciation and write-downs on participations, shares in related companies and securities treated as fixed assets	879.0	17,665.0
10. Expenses from the assumption of losses	0.0	0.0
11. Transfer to untaxed special reserves	0.0	0.0
12. Exceptional expense	0.0	19,600.0
13. Taxes on income and earnings	12,013.0	16,815.0
14. Other taxes	530.0	436.0
15. Earnings paid out under profit pools and profit transfer or profit sharing agreements	0.0	0.0
16. Net income	74,246.0	86,209.0
TOTAL EXPENSES	3,116,715.5	3,003,674.2
1. Net income	74,246.0	86,209.0
2. Attributable to minority interests	2,596.0	2,130.0
Profit/loss carried forward from the previous year	14,950.0	19,564.0
3. Withdrawals from surplus reserves	0.0	0.0
4. Withdrawals from participatory capital	0.0	0.0
5. Transfer to surplus reserves	35,000.0	47,000.0
6. Restoration of participatory capital	0.0	0.0
7. Consolidated earnings	51,600.0	56,643.0

INCOME

(in € '000)	2002	2003
1. Interest income	2,487,100.0	2,479,623.0
2. Current income	63,043.0	40,443.0
3. Income from profit pools and profit transfer or profit sharing agreements	0.0	0.0
4. Commission income	130,663.0	145,548.0
5. Income from insurance operations	0.0	0.0
6. Net income from financial transactions	32,081.0	56,246.0
7. Income from write-ups on receivables and specific securities and from dissolution of risk provisions	65,092.5	94,216.2
8. Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
9. Exceptional income	292,700.0	134,697.0
10. Income from write-ups on participations, shares in related companies and securities treated as fixed assets	0.0	0.0
11. Other operating income	42,821.0	50,814.0
12. Gross income from commodities dealing	0.0	0.0
13. Income from the assumption of losses	0.0	0.0
14. Income from the dissolution of special untaxed reserves	3,215.0	2,087.0
TOTAL INCOME	3,116,715.5	3,003,674.2

CONSOLIDATED INCOME STATEMENT: WGZ-BANK-GROUP

(in € '000)

2002

2003

Net interest income (incl. leasing)	236,089.0	249,755.0
Interest income	2,487,100.0	2,479,623.0
Interest expense	-2,282,705.0	-2,241,829.0
Current income (equity shares)	31,694.0	11,961.0
Income from investments	31,349.0	28,482.0
Current income (participations and shares in related/associated companies)	31,349.0	28,482.0
Income from profit pools	0.0	0.0
Net interest income (incl. income from investments and leasing activities)	267,438.0	278,237.0
Net commission income	47,270.0	52,384.0
Commission income	130,663.0	145,548.0
Commission expense	-83,393.0	-93,164.0
General administrative expenses	-219,819.0	-217,079.0
Personnel expenses	-106,417.0	-109,698.0
Other administrative expenses	-98,872.0	-92,471.0
Depreciation	-14,530.0	-14,910.0
Net income from financial activities	32,081.0	56,246.0
Net income from insurance activities	0.0	0.0
Balance of other operating expense/income	13,253.0	10,331.0
Other operating expense	-29,568.0	-40,483.0
Other operating income	-29,038.0	-40,047.0
Other taxes	-530.0	-436.0
Other operating income incl. commodities dealing	42,821.0	50,814.0
Other operating income	42,821.0	50,814.0
Gross income from commodities dealing	0.0	0.0
Operating result before risk provisions	140,223.0	180,119.0
Risk provisions	-290,000.0	-151,614.0
Depreciation on receivables and securities	-355,092.5	-245,830.2
Write-ups on receivables and securities	65,092.5	94,216.2
Operating result after risk provisions	-149,777.0	28,505.0
Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
Transfers to the fund for general banking risks § 340 g HGB	-59,000.0	-25,000.0
Balance of other income	295,036.0	99,519.0
Depreciation on participations	-879.0	-17,665.0
Write-ups on participations	0.0	0.0
Transfer to untaxed special reserves	0.0	0.0
Dissolution of special untaxed reserves	3,215.0	2,087.0
Exceptional expense	0.0	-19,600.0
Exceptional income	292,700.0	134,697.0
Expense from the assumption of losses	0.0	0.0
Income from the assumption of losses	0.0	0.0
Profit transfer	0.0	0.0
Net income before taxes	86,259.0	103,024.0
Taxes	-12,543.0	-17,251.0
Taxes on income and earnings	-12,013.0	-16,815.0
Other taxes	-530.0	-436.0
Net income	74,246.0	86,209.0

Differences through rounding

CONSOLIDATED INCOME STATEMENT: MÜNCHENER HYPOTHEKENBANK EG

EXPENSES

(in € '000)

2002

2003

1. Interest expense	1,459,434.0	1,453,196.2
2. Commission expense	10,265.0	12,738.5
3. Expense from insurance operations	0.0	0.0
4. General administrative expenses	49,730.0	48,049.9
5. Depreciation and write-downs on tangible and intangible assets	6,012.0	5,774.6
6. Other operating expense	2,522.0	2,241.6
7. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business	18,425.0	21,069.9
8. Transfers to the fund for general banking risks § 340 g HGB	0.0	0.0
9. Depreciation and write-downs on participations, shares in related companies and securities treated as fixed assets	0.0	0.0
10. Expenses from the assumption of losses	0.0	0.0
11. Transfer to untaxed special reserves	0.0	0.0
12. Exceptional expense	0.0	0.0
13. Taxes on income and earnings	18,699.0	5,096.8
14. Other taxes	111.0	87.5
15. Earnings paid out under profit pools and profit transfer or profit sharing agreements	8,399.0	8,398.7
16. Net income	21,083.0	34,828.2
TOTAL EXPENSES	1,594,680.0	1,591,482.0
1. Net income	21,083.0	34,828.2
2. Attributable to minority interests	0.0	0.0
Profit/loss carried forward from the previous year	478.0	590.1
3. Withdrawals from surplus reserves	0.0	0.0
4. Withdrawals from participatory capital	0.0	0.0
5. Transfer to surplus reserves	13,000.0	26,000.0
6. Restoration of participatory capital	0.0	0.0
7. Consolidated earnings	8,561.0	9,418.4

INCOME

(in € '000)

2002

2003

1. Interest income	1,567,038.0	1,560,329.8
2. Current income	14,188.0	15,350.8
3. Income from profit pools and profit transfer or profit sharing agreements	0.0	0.0
4. Commission income	3,256.0	5,118.2
5. Income from insurance operations	0.0	0.0
6. Net income from financial transactions	0.0	0.0
7. Income from write-ups on receivables and specific securities and from dissolution of risk provisions	0.0	0.0
8. Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
9. Exceptional income	0.0	0.0
10. Income from write-ups on participations, shares in related companies and securities treated as fixed assets	8,241.0	8,216.2
11. Other operating income	1,957.0	2,467.0
12. Gross income from commodities dealing	0.0	0.0
13. Income from the assumption of losses	0.0	0.0
14. Income from the dissolution of special untaxed reserves	0.0	0.0
TOTAL INCOME	1,594,680.0	1,591,482.0

CONSOLIDATED INCOME STATEMENT: MÜNCHENER HYPOTHEKENBANK EG

(in € '000)

2002

2003

Net interest income (incl. leasing)	121,361.0	122,333.9
Interest income	1,567,038.0	1,560,329.8
Interest expense	-1,459,434.0	-1,453,196.2
Current income (equity shares)	13,757.0	15,200.3
Income from investments	431.0	150.5
Current income (participations and shares in related/associated companies)	431.0	150.5
Income from profit pools	0.0	0.0
Net interest income (incl. income from investments and leasing activities)	121,792.0	122,484.4
Net commission income	-7,009.0	-7,620.3
Commission income	3,256.0	5,118.2
Commission expense	-10,265.0	-12,738.5
General administrative expenses	-55,742.0	-53,824.5
Personnel expenses	-25,679.0	-26,666.3
Other administrative expenses	-24,051.0	-21,383.6
Depreciation	-6,012.0	-5,774.6
Net income from financial activities	0.0	0.0
Net income from insurance activities	0.0	0.0
Balance of other operating expense/income	-676.0	137.9
Other operating expense	-2,633.0	-2,329.1
Other operating income	-2,522.0	-2,241.6
Other taxes	-111.0	-87.5
Other operating income incl. commodities dealing	1,957.0	2,467.0
Other operating income	1,957.0	2,467.0
Gross income from commodities dealing	0.0	0.0
Operating result before risk provisions	58,365.0	61,177.5
Risk provisions	-18,425.0	-21,069.9
Depreciation on receivables and securities	-18,425.0	-21,069.9
Write-ups on receivables and securities	0.0	0.0
Operating result after risk provisions	39,940.0	40,107.6
Dissolution of funds for general banking risks § 340 g HGB	0.0	0.0
Transfers to the fund for general banking risks § 340 g HGB	0.0	0.0
Balance of other income	-158.0	-182.5
Depreciation on participations	0.0	0.0
Write-ups on participations	8,241.0	8,216.2
Transfer to untaxed special reserves	0.0	0.0
Dissolution of special untaxed reserves	0.0	0.0
Exceptional expense	0.0	0.0
Exceptional income	0.0	0.0
Expense from the assumption of losses	0.0	0.0
Income from the assumption of losses	0.0	0.0
Profit transfer	-8,399.0	-8,398.7
Net income before taxes	39,782.0	39,925.1
Taxes	-18,810.0	-5,184.3
Taxes on income and earnings	-18,699.0	-5,096.8
Other taxes	-111.0	-87.5
Net income	21,083.0	34,828.3

Differences through rounding

Consolidated Principle I Overview*

Overview of risk assets, market risk positions
and equity backing

* Partly estimated or extrapolated figures

PRINCIPLE I OVERVIEW OF RISK ASSETS, MARKET RISK POSITIONS AND EQUITY BACKING (GB 1/QG 1)

			Aggregate positions for the Cooperative Banking Sector	Sum of consolidation positions	Consolidated aggregate positions for the Cooperative Banking Sector
All figures quoted are in € '000 as of end-December 2003					
Risk assets	Source				
Total risk-weighted assets	050	500/04 = A	467,940,925	24,227,256	443,713,669
Market risk positions					
Reckonable amount of market risk positions	170	Sum = B	1,658,407	711	1,657,696
Equity backing/capital adequacy ratios					
Sum of reckonable positions	200	(A) + (12,5 x B) = C	488,671,015	24,236,141	464,434,874
Liable equity capital	210	SA 3: 460 = D	56,827,306	4,768,483	52,058,823
Reckonable equity capital (excl. unutilised third-tier funds)	220	SA 3: 490 = E	56,960,209	4,768,483	52,191,726
Equity ratio	240	(D x 100 divided by A) = Q1	12,1%		11,7%
Total capital ratio	250	(E x 100 divided by C) = Q2	11,7%		11,2%

Differences through rounding

Consolidated Principle I Overview*

Equity as defined by §§ 10 and 53 KWG

* Partly estimated or extrapolated figures

PRINCIPLE I EQUITY AS DEFINED BY §§ 10, 53 KWG (SA 3/QS 2)

		Aggregate positions for the Cooperative Banking Sector	Sum of consolidation positions	Consolidated aggregate positions for the Cooperative Banking Sector
All figures quoted are in € '000 as of end-December 2003				
Core capital	420	37,525,820	4,778,500	32,747,320
Supplementary capital – medium-/long-term –	440	22,333,736	435,000	21,898,736
Total capital	450	56,831,889	4,768,483	52,063,406
Total capital applying § 2 para. 1 of Principle I	460	56,827,306	4,768,483	52,058,823
Free core capital as per § 10 para. 2 c sentence 2 KWG	461	13,562,609	0	13,562,609
Free supplementary capital as per § 10 para. 2 c sentence 2 KWG	462	3,482,209	0	3,482,209
Supplementary capital – short term –	480	366,108	0	366,108
Total regulatory capital (item 450 and 480)	485	57,197,996	4,768,483	52,429,513
Total regulatory capital applying § 2 para. 2 and 3 of Principle I (item 460 + 480 ./ 488 ./ 489)	490	56,960,209	4,768,483	52,191,726

Differences through rounding

Key financial ratios for the cooperative banking sector



KEY FINANCIAL RATIOS FOR THE COOPERATIVE BANKING SEKTOR

	2002	2003
Profitability		
Return on equity (ROE before taxes) in percent	4.20	12.20
ROE (after taxes) in percent	5.70	5.90
Return on assets (ROA before taxes) in percent	0.15	0.42
Operating profit before valuation in percent of total assets	0.77	0.87
Net interest income in percent of total assets	1.91	1.96
Efficiency		
Cost-income ratio in percent	70.70	68.60
General administration expenses in percent of total assets	1.85	1.87
General administration expenses in percent of interest surplus	0.97	0.96
General administration expenses per employee in € '000	94.20	95.20
Asset quality		
Risk provisions in percent of pre-tax profit	545.30	101.50
Risk provisions in percent of loans and advances	1.14	0.65
Customer loans to customer deposits	97.70	95.40
Cash reserve in percent of total assets	1.75	1.80
Customer deposits in percent of total refinancing	80.50	81.00
Liabilities to banks in percent of total refinancing	19.50	19.00
PRINCIPLE I (CAPITAL ADEQUACY) MEASURES		
Core capital ratio in percent	–	7.4
Equity ratio in percent	–	11.7
Total capital ratio (solvency ratio) in percent	–	11.2

Differences through rounding

