Annual Report 2002

DZ BANK

Contents

Key Figures

DZ BANK GROUP in € million	2002	Previous year
Profitability		
Operating result before risk provisioning	**1,498**	1,045
Risk provisioning	**-2,307**	-851
Operating result	**-809**	194
Net income for the year	**351**	114
Financial status		
Assets		
Loans and advances to banks	**93,637**	107,031
Loans and advances to customers	**106,935**	119,140
Securities[1]	**85,888**	89,243
Investments from insurance business	**33,776**	31,651
Other insurance-related assets	**2,144**	2,211
Other assets	**15,875**	15,369
Equity and liabilities		
Liabilities to banks	**122,922**	129,846
Liabilities to customers	**72,649**	79,680
Guaranteed liabilities	**83,035**	98,072
Actuarial reserves	**30,838**	29,058
Other insurance-related liabilities	**4,141**	3,900
Other liabilities	**18,285**	17,669
Proprietary capital according to balance sheet[2]	**6,385**	6,420
Balance sheet total	**338,255**	364,645
Business volume[3]	**466,521**	500,726
Banking supervisory codes according to BIZ		
Equity ratio	**10,5**	9,1
Core capital ratio	**5,8**	4,9
Derivatives business		
Nominal volume	**684,282**	691,471
Replacement costs	**14,514**	9,986
Annual average **staff figures**	**25,247**	26,651

[1] Bonds and other fixed-interest securities plus shares and other non-fixed-interest investments
[2] Equity according to balance sheet less consolidated profit and other profit owing to partners incl. funds for general banking risks
[3] Balance sheet total incl. contingent liabilities, other liabilities and special assets administrated for shareholders

Dear Shareholders,

The 2002 financial year – and also the opening months of the current year – have been immensely challenging times for DZ BANK. In a period that has tested the mettle of Germany's banks and the economy as a whole more severely than the present generation has ever experienced, we were obliged to shoulder enormous burdens while at all times keeping our gaze fixed on the objectives we set at the time of the merger in 2001. However, thanks to a mighty effort all round and not least on the part of our shareholders, we were able to make good progress in our grand project to create a highly effective but still lean parent bank. Our progress on cost management is there for all to see in the income statement. As a direct consequence of our systematic program of cost reductions, general and administrative expenses fell by 17 percent over the course of FY 2002. The key factor in this outcome was the tight rein we kept on plant and equipment spending during the year, though personnel expenses were also significantly reduced as drastic workforce cuts generated substantial savings.

The biggest millstone factor however – as the bad economic situation stubbornly failed to improve – was the nexus of problems in the pre-merger lending portfolio, with the result that exceptional measures were necessary to absorb the resulting risk provisioning need. Despite these burdens, at the operational level the Bank is on a sound course for a brighter future. We were able to register improvements in the fixed income, asset management and payment systems segments especially. The realignment of our risk management business line, due to be completed in the current year, is creating the foundation for a step-change that will permanently reduce our future risk costs.

The Bank has also made big strides forward in the realization of our merger projects. For instance, last year 169 integration initiatives were combined into a coordinated planning, reporting and controlling process and a high proportion were brought to completion. In addition, around 400 business conditions were harmonized and the non-banking participations portfolio was streamlined as we exited from a good third of the previous investments. We completed the review of our operating locations strategy, and in future will concentrate our facilities to meet the needs of local cooperative banks. The integration of our organization structures is scheduled to reach the finish line before the end of the second quarter of 2003, while our processes and IT integration is planned to complete by mid-2004.

To secure the Bank's future, this restructuring has been paralleled by a drive to expand operating volumes. The post-merger capital increase we successfully undertook in Fall 2002 will materially help to underpin our business activities. The resulting 78.5 million new registered ordinary shares were placed with cooperative banks and holding companies that DZ BANK serves as central bank, as well as with other cooperative financial sector companies and foreign cooperative partners. The exercise raised € 480 million in new funds, of which € 275 million was used to strengthen the reserves. This has enabled the Bank to significantly improve its capital structure. DZ BANK sees the

The Board of Managing Directors (from left to right):

Uwe E. Flach (Deputy Chairman), Wolfgang Kirsch, Heinz Hilgert,
Dr Ulrich Brixner (Chairman), Albrecht Merz, Dr Thomas Duhnkrack,
Dietrich Voigtländer, Peter Dieckmann

(March 2003)

success of this capital increase as an exceptionally positive symbol of the unity and solidarity of the Cooperative Banking Group.

The strategically motivated restructuring initiatives affecting DZ BANK's subsidiaries were also brought to successful conclusions. They are intended to support the closer integration of market activities across individual business lines. The key cornerstones of this restructuring drive were or – where the process is still under way – are:

- the restructuring of the R+V Versicherung Group;

- the focusing of our real estate activities through the bundling of Bausparkasse Schwäbisch Hall and DG HYP into VR-Immobilien AG;

- the strengthening of cooperation on the key themes of pension provision and asset management through R+V Versicherung's acquisition of 10 percent of the share capital of Union Asset Management Holding;

- the sale of shares in Bausparkasse Schwäbisch Hall, R+V Versicherung and Union Asset Management Holding to local cooperative banks as part of the cooperative financial sector's "base placing" policy initiative.

All these measures share a common objective – the closer integration of our disparate activities (especially on the distribution front) and the realization of further synergy benefits at every level of the value creation chain.

Another important focus of activity to which we devoted intensive effort during the year under report was the rationalization and reorganization of back-office processing operations. In line with this goal and after extensive preparatory work, DZ BANK will launch a new, legally autonomous payments transaction bank on the market in the second half of 2003. This will enable banks outside the cooperative sector to also access our highly efficient and market-proven processing and systems platform on an outsourcing basis. The foundation of a stand-alone payment systems transaction bank will create a new business equipped to offer any other bank paper-free or voucher-based domestic and international payments handling on attractive terms and on either a customer or partnership basis. Initial talks are at a promising stage, including with potential non-cooperative-sector customers, and the aim is to achieve economies of scale and rationalization benefits without having to sacrifice brand identity. In other words, cooperation in the back-office sphere will not affect our customer banks' market profile.

The first steps have also been taken in another important project to position the bank for the future in the back-office market space; in the area of securities clearing, settlement and administration, we have decided to merge Bank für Wertpapierservice und -systeme (bws bank) and the savings-banks-owned WPS WertpapierService Bank in what will be the German banking industry's first-ever cross-sector combination.

The aim is to make securities administration even more efficient and cost-effective and thereby make the new joint venture the undisputed market leader in this business line, while having no impact at all on competition between the local cooperative banks on the one hand and the municipally-owned German savings banks on the other. DZ BANK and WGZ-Bank for the cooperative sector and the owners of WPS Bank for the savings bank sector will be 50/50 shareholders in the new company, which at present is unique in its structure. The integration phase is scheduled to complete by the end of 2004.

To demonstrate our profile in the national and international marketplaces and to expand our cross-border activities on behalf of the Cooperative Banking Group, during 2002 we further deepened our operating alliance with the French cooperative banking sector (Groupe Banque Populaire/Natexis) and are currently pursuing concrete partnership projects in several business lines. To strengthen the relationship, both partners have increased their reciprocal shareholdings. Our French partner used the opportunity of our Fall 2002 capital increase to raise its stake in DZ BANK to 2 percent; DZ BANK had moved earlier – in May 2002 – to lift their equity interest in Natexis to also 2 percent.

Despite all the contrary winds we have had to struggle against in a tough market climate, our first full year of operations as DZ BANK has left us in a confident mood. The many successes we have recorded to date prove that we are on the right track.

The Board of Managing Directors, March 2003

Dr Ulrich Brixner, Chairman

DZ BANK's role as partner to local cooperative banks

Working together to maximize potentials and exploit synergies

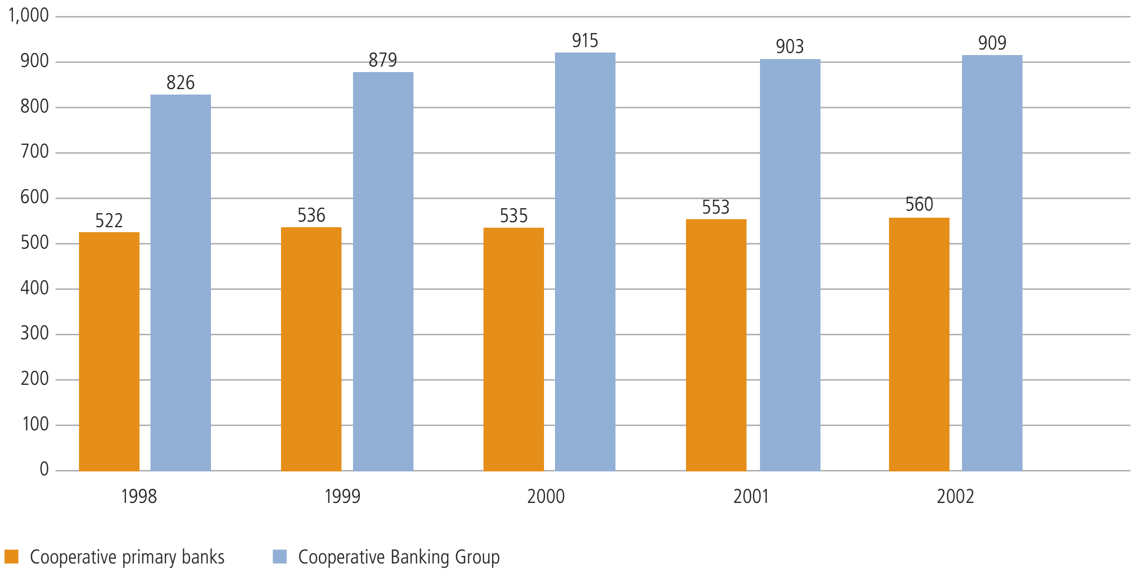
Cooperative Banking Group

DZ BANK understands its central bank role expressly as the subsidiary partner of the local and regional cooperative banks, working together with the local cooperative banks in all the product and services segments that are relevant to their corporate and private customers and helping to develop innovative sales strategies for their regional marketplace.

It is from this self-perception and this focus on the Cooperative Banking Group as our key customer category that we build the service and relationship-support model that DZ BANK has further refined during the 2002 financial year. Market and sales responsibility resides at the local level with our local cooperative bank partners; the support provided by DZ BANK and the integrated cooperative financial sector's specialist service providers in turn enables the primary level banks to concentrate even more intensively on developing their market.

Development of the Cooperative Banking Group

Cumulated balance sheet total (in € billion)



Central coordination is the mechanism that ensures that all the local cooperative banks within DZ BANK's servicing "territory" – as of the end of 2002, this was 1,204 out of Germany's total 1,489 credit cooperatives – have access to the same distribution options at the same levels of quality and quantity.

DZ BANK's key central bank functions include

- liquidity balancing and the provision of refinancing funds

- providing secure and reliable payments handling

- developing improved electronic banking solutions

- providing own-account investment product and management solutions

- combining asset management and retail products that target the local cooperative banks' private customers business

- providing information platforms

- providing sales and logistics support for the local cooperative banks' corporate clients' international operations.

Detailed descriptions of all these activities are to be found in the following chapters.

In a coordinated strategic initiative with the German cooperative banking industry association (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – Federal Association of German Cooperative Banks – BVR), DZ BANK is working to provide its partner banks with more efficient support as the sector jointly elaborates a multichannel strategy, and most importantly is aiming to provide services that help make this strategy a reality by making more intensive use of the "new" distribution channels and thereby easing the burden from the traditional channels. The Cooperative Banking Group's specialist consultancy firms have always been brought in to contribute their expertise on relevant projects, and this approach will be maintained.

The project "Telephone Banking/Call Center Marketing Offensive" was organized and rolled out nationwide to ensure that telephone banking services and the requisite investment are targeted on local cooperative banks' concrete needs. Instead of setting up a call center of its own for the Cooperative Banking Group as originally planned, Fiducia AG has now agreed to work with rbg eG to modify its range of services so as to enable local cooperative banks to offer their customers call-center services that are integrated with their standard procedures and thereby eliminate redundant processes. GAD eG will also continue to optimize its call-center offering through a dedicated subsidiary.

The trend towards the use of new media in the banking industry is as strong as ever. DZ BANK is accordingly stepping up its production of new system, product and distribution offers for the local cooperative banks, and to this end is substantially expanding its own sales and information channels (which incidentally the primary banks can also incorporate into their customer business). DZ BANK is pursuing an integrated approach that utilizes the Internet, an extranet (DZ-infoNET) and an intranet based on a central e-business platform. The necessary project work was completed in 2002, so that DZ BANK now possesses a modular electronic platform capable of supplying a seamless information offering both to our own staff and for our Cooperative Banking Group and other distribution partners. Most importantly, DZ-infoNET constitutes a central information and communications basis for local cooperative banks that opens up a range of personalization options that will permit highly targeted information management.

DZ-infoNET today allows DZ BANK to reach every single workstation in every single local cooperative bank it serves as central bank. Its usage statistics of more than 5 million page views per month make DZ-infoNET one of the Cooperative Banking Group's most highly frequented electronic information platforms just six months after the service was launched. By the end of 2002 around 35,000 local cooperative bank staff were using DZ-infoNET as a routine information and processing medium.

Our multichannel activities were also expanded during 2002. In the Internet banking area, DZ BANK provided VR-NetWorld GmbH with a wide range of support activities including the marketing of VR-NetBank – the Internet site developed specifically for local cooperative banks – and the provision of a comprehensive, user-tailored content offering.

Another important focus of our sales-centered effort during 2002 was to strengthen the primary banks' corporate customer relationships by intensifying their involvement in international business. More than 170 banks throughout DZ BANK's territory are now using the RAMA concept (Regional Acquisition Model for International Business). DZ BANK's network of regionally based RAMA managers maintain contacts with around 1,500 of the local cooperative banks' business customers. They had more than 3,000 meetings in 2002 to provide expert consultancy or advisory services. They work closely with the corporate customer relationship managers of the primary banks affiliated to the RAMA network to support their primarily small to midsize enterprise customers' international operations.

In the interests of the Cooperative Banking Group, DZ BANK will continue to invest further human resources in 2003 to

extend the RAMA concept. A monthly specialist publication, "Fachbrief Ausland", provides topical information on doing business internationally for local cooperative banks and their customers.

The staff of the responsible line department also serve as initial points of contact for primary-level banks and their corporate clients. They facilitate contacts with our cooperative partners outside Germany as well as introductions to DZ BANK's branches, representative offices and subsidiaries; they also smooth the path for negotiations, agree timetables and clarify any issues relating to investing in and forming companies abroad. More than 300 concrete inquiries of this nature were processed during 2002 and more than 150 customer accounts were introduced to foreign partners.

As well as providing continuous customer-centered advice and support, DZ BANK also organizes information initiatives and training on products and sales concepts. The activities organized under the umbrella term of "partner training" are aimed at the target groups of primary bank decision makers plus product experts, sales specialists and employees responsible for service processes. The response has been impressive; more than 7,150 representatives of the local cooperative banks in DZ BANK's territory attended the approximately 410 information and training events we organized last year. Their content focused on the themes of banks' own-account securities dealing, securities-related administration and payments handling.

We also organized programs of events to present innovative investment products that were then able to overcome the tough market conditions and achieve substantial market success.

A series of initiatives to harmonize DZ BANK's service fees structure enhanced the transparency of our terms and conditions last year and in many cases brought substantial cost savings for primary banks. The harmonization of our terms and conditions for payments handling and refinancing was an especially significant milestone. The new tariffs applying to domestic and international payments services in particular, but also those relating to electronic banking products, enabled us to pass on significant price advantages to our local bank partners.

SME Corporate Clients

DZ BANK's activities in the SME Corporate Clients business line are concentrated primarily on joint lending ("metacredits") together with local cooperative banks. All our activities promote the objective of providing more efficient servicing and support to DZ BANK's two most important customer groups – the Cooperative Banking Group and small to mid-size enterprises; this in turn makes it possible to address the market jointly with our primary level partner banks and thereby exploit synergy effects and together reap the full potential of opportunities.

The target customers are any businesses that have established relationships with the Cooperative Banking Group or a particular regional primary bank. It follows that the general working focus of the SME Corporate Clients' relationship managers is to concentrate on supporting the primary institutions' corporate clients activities in every relevant product and service segment. The emphasis of this business – reflecting the structural needs of the vast majority of small and mid-size businesses – is still on lending, and the volume concerned amounts to around € 10 billion. In line with this emphasis on localized servicing, DZ BANK restructured its SMEs-oriented operations in 2002. The new organization structure guarantees practice-responsive closeness to the local banks and sensitivity to unique regional characteristics in our Corporate Clients business.

The level of activity during fiscal 2002 in the SME Corporate Clients business line was impaired by the persistently difficult economic conditions. The internal priority for the Bank was therefore to systematically pursue the drive to optimize borrowers' credit quality and enhance profitability in the Corporate Clients segment.

In addition to a range of further initiatives and projects, DZ BANK also undertook a comprehensive portfolio review. Every single credit relationship with non-bank customers was investigated for conformity with our defined risk strategy and profitability requirements; depending on the results, appropriate action was taken to reduce the risk, increase the profitability or scale down the exposure (for detailed information, see the "Risk Report"). Though the primary focus of the portfolio review was on the lending relationship and how to restore it to profitability where necessary, even so the procedure was to examine every aspect of the customer relationship.

In the joint lending business, this review involved coordinating any action proposals in advance with the respective primary banks, with action only taken once all parties were in agreement. The completion of the portfolio review process marks the start of a new approach by DZ BANK to corporate clients business, with a clear focus on customers whose credit profile is acceptable, where lending delivers a return, and where there is a good basis for cross-selling.

The Bank has instituted sales procedures that will allow it to work with the local cooperative banks to service good-quality companies more intensively, win back lost market share for the Cooperative Banking Group, and maximize earnings potentials. A parallel Bank-wide project has been launched to deliver a series of initiatives to enhance earnings in the short and medium term. Both our efforts to rapidly boost our earnings and our medium-term growth strategies concentrate primarily on expanding our sales of interest and exchange rate derivatives, since these "non-credit" products are a logical complement to our Credit business and are largely impervious to cyclical market fluctuations.

Product quality and distribution power as key success factors

Moving forward together by satisfying market needs

Corporate Finance

DZ BANK's business with German and foreign companies profits from our sector-specific advisory and product know-how. The Bank helps our corporate clients implement value-driven management and tailors our services offer to each customer's specific circumstances. Our corporate advisory services relate in most cases to financial restructuring. This takes account – depending on the client's specific situation – of international accounting standards, the relevant tax frameworks and the current state of the capital markets. The end result is that we offer an optimized financing mix of credit and capital market instruments combined with suitable hedging tools. Our advisory offering includes the services of DZ Corporate Finance GmbH in the M&A arena and of DZ Private Equity GmbH in the venture capital area.

In the year under report, DZ BANK was able to further strengthen our positioning as an effective partner for German companies seeking capital market financing. Demand was keen in both the classic lending business and in securitization-based financing – for example borrower's note loans. Margins in the traditional loans business have improved significantly as the trend has swung back in favor of more risk-aligned pricing.

To allow us to respond better to clients' more demanding requirements, we restructured our Corporate Clients operations involving capital-market issuers and large SME companies. These activities are now focused on just a few core sectors. In this way, our customers profit from our greater depth of industry expertise and concentrated corporate finance know-how. This approach enables DZ BANK to appropriately tailor product packages for our clients' strategic projects that combine the strengths of DZ BANK and its specialist subsidiaries.

The trend of trading in the export finance, international trade finance, project finance, transport finance and structured trade finance product fields was shaped by a wide range of influences in fiscal 2002. These included the effects of the sluggish national economy, the widespread deterioration of country risks, and global slumps in key sectors of the economy such as energy, telecommunications and automotive. The aggregate effect was to enforce consolidation not only in new business but also in relation to existing exposures, and in individual cases to necessitate the scaling back of volumes in non-strategy-conformant segments. Despite the strains placed on us by the tough market environment and the tying up of extensive management capacity by merger-related reorganization and restructuring projects for long periods, we were able to maintain our market position – most importantly in the areas of export finance, international trade finance, structured trade finance and commodity finance.

We strengthened our activities in the areas of export and commodity finance especially. Framework agreements under government-insured schemes and hedging solutions using everyday marketable goods (commodities) provided platforms for financing clients' deliveries. DZ BANK also signed new national framework agreements with Egypt and India to cover Hermes-backed financing arrangements and thereby laid the foundations for future new business.

The central contact point for international trade finance established in a leading commercial center in response to Cooperative Banking Group requests, stimulated lively interest; we oversaw a lot of finance deals on behalf of primary banks' corporate clients. This initial contact point also enables local cooperative banks to access know-how on the whole area of financing and hedging international (payments) risk.

DZ BANK provides the Cooperative Banking Group and its corporate clients with a way to tap into the international financial markets. Our branches in Luxembourg, London, New York, Hong Kong and Singapore round out DZ BANK's spectrum of international services with the Treasury services they offer, by providing assistance to German clients on the spot, and through their activities relating to the local markets. Our Cooperative-Banking-Group-centered and capital-markets-oriented branch network is supplemented by representative offices, subsidiaries and strategic participations. Our 21 operating locations give DZ BANK a worldwide footprint and a presence in all the time zones and all the most important economic regions. Cooperation agreements with partner banks and a network of correspondent banks support our worldwide presence. High on our list of priorities for 2002 was the necessary redimensioning of our office network to align it with the services requirements of the local cooperative banks and their clients. This was accompanied by the further streamlining of DZ BANK's international services and product profile.

The number of share buy-back programs we arranged recorded gratifying positive growth compared to 2001. During fiscal 2002 we were also able to win several new advisory mandates. DZ BANK was a member of the placing syndicate for the capital increases of GEHE AG, Gerry Weber AG and Württembergische Hypothekenbank AG. We also advised NT plus AG on the squeeze-out of the minority shareholders of its subsidiary Phonet AG and arranged the takeover of WLZ Raiffeisen AG by BayWa AG, where an exceptionally high acceptance ratio was achieved.

Treasury

Treasury performs the central management function in respect of interest rate change risk, liquidity management and refinancing, but in all its activities it is primarily responsive to customer needs and expectations.

The Treasury unit's liquidity management brings together our customers' financing and investment needs – especially those of the local cooperative banks as our most important customer group – in the money markets. It follows that efficient business processes and a return-related pricing model are of vital importance. Recognizing this, DZ BANK has introduced a rising scale of current account interest rates that has been warmly accepted by the primary banks. Investments in the form of stepped-rate time deposits with debtor notice rights have also recorded a gratifying rise.

Multi-currency CP programs, CD programs and repo transactions, conducted in most cases with central banks inside and outside Germany, are used as a matter of routine for the purposes of cross-product portfolio management. All activities are international in scope; for instance, DZ BANK is currently the biggest foreign participant in the Swiss repo market.

The long-term refinancing of the primary cooperative banks and the management of the interest rate change risk resulting from other credit transactions are two essential elements of assets and liabilities balancing. Depending on the preference of the local cooperative bank concerned, refinancing can take the form of a loan or the purchase of a bearer bond. In particular our "AAA" rated covered bonds ("DZ BANK Briefe") provide a strong and trustworthy basis for primary banks to refinance their own lending on attractive conditions.

DZ BANK's own refinancing through the capital market mainly takes the form of issues of covered and uncovered bearer bonds as well as registered instruments such as e.g. note loans. The majority of these issues are placed within the Cooperative Banking Group and take the form of needs-oriented structured securities; international investors are also significant buyers.

The refinancing of DZ BANK's international branches is coordinated centrally in the Treasury division. This allows us to take advantage of location-specific features and deepen our exploitation of the available market potentials. Clear task demarcations and the reduction of duplications generate further synergy benefits. This is not the least persuasive reason for actively involving the international branches in the funding and liquidity management processes.

Fixed Income

DZ BANK Fixed Income operations cover all our capital market activities in fixed-income products from new issuance business through structuring, securitization, risk management and trading to consulting and sales.

Last year the Bank was able to overcome the tough climate in the market and strengthen our position in the fixed income market; we were even able to build on our previous position in the structured bonds, credit products and foreign exchange products fields.

In the year under report we refined the advisory model we introduced in 2001 for helping the primary cooperative banks to introduce our VR-Control system of current-value-based bank-wide risk management. Our specially formed teams represent the human resource core of a support strategy that remains unique in the German banking market.

In view of the growing importance of interest rate risk management in modern business management, DZ BANK's swaps and options trading units have provided concrete proof of our expertise in the professional pricing of interest-based derivative instruments.

In the year under report, the Bank was able to expand our revenue and income from structured bonds from an already high level. Amongst other factors, this growth was due to the fact that these bonds are specifically tailored to the requirements of Cooperative Banking Group customers, corporate clients and institutional investors. One consequence of the volatile markets and wider credit spreads was the strength of the demand for highly-rated quality issuers. Alongside standard products such as one-time and multi-callable bonds, as in previous years we also developed and successfully marketed innovative products such as the Digital Spread and DOPIX bonds.

The Bank can look back on its most successful year ever as far as sales of credit products are concerned. Despite the extremely difficult market environment, corporate bond sales in particular made a significant contribution to earnings. The credit linked notes issued under the COBOLD program (COrporate BOnd Linked Debt) also once again met with a very warm customer response. The same is true for sales of bank bonds, which were substantially expanded.

One transaction in the credit derivatives business that deserves a special mention was the DYNASO deal (DYNAmic Collateralized Synthetic Obligation) in the third quarter of 2002. DYNASO was the first-ever product of its type listed on the Frankfurt Stock Exchange.The PROVIDE VR and GELT transactions accounted for a significant proportion of our asset-backed securities (ABS) business. These structurings involved the development of variants that were first-time innovations for both the German and the European ABS markets. The competitive strength of DZ BANK and the advantage of our cooperation strategy (based on seeking out powerful partners in each market) are clearly demonstrated by the four successful transactions on the Spanish ABS market where DZ BANK acted as joint leader.

In terms of the classic fixed-income products government bonds, Pfandbriefe and foreign exchange, DZ BANK was able to maintain our market position. Since Fall 2002 customers have also been able to trade government bonds and Jumbo Pfandbriefe with the Bank via an electronic platform (Bloomberg Bond Trader).

In the bond issuance business, DZ BANK was able to maintain our market position in the area of corporate bonds and note loans in a universally difficult year. A special milestone was our first lead management mandate for a public bond issue by DaimlerChrysler Canada Finance Inc., which had a volume of € 500 million and a five-year maturity. When it co-lead-managed issues of benchmark corporate bonds on behalf of Deutsche Telekom, Südzucker, DaimlerChrysler and Deutsche Post, the quantity and volume of customer orders enabled the Bank to provide a compelling demonstration of the Cooperative Banking Group's placing power. Other noteworthy deals were the "ECOSAV" bonds ("European Cooperative and Savings Banks Bonds") issued under the joint leadership of DZ BANK on behalf of the State of Saxony-Anhalt (volume: € 300 million) and the Retail-Targeted Bond issue we arranged for the State of North Rhine-Westphalia (volume: € 500 million).

Our business in forex products also expanded substantially during the year under report. Our membership in the "360 T" trading system since the fourth quarter of 2002 has provided a route for DZ BANK's customers to participate directly in electronic trading. In both volume and earnings terms, our foreign exchange dealing with corporate and institutional customers has continued the previous year's healthy trend. Our meta-FX business – which refers to intermediated direct business with local cooperative banks' corporate clients – was successfully established during fiscal 2002. We added further product combinations (e.g. DZ Speed, DZ Double Speed, Participating Forward) that extended our range of forex product offerings. We also created individually tailored solutions that helped to raise the recognition and standing of DZ BANK as a top forex dealing bank.

In the area of classic money market instruments, the Bank also proved itself yet again as an expert adviser on interest rate, liquidity and currency management. The Bank is recognized as one of the top 5 players in Germany for money market dealing on behalf of customers.

In line with the continuing money market trend away from uncollateralized and in favor of credit-enhanced transactions, the Bank was able to further expand our operations in the repo market.

Sales & Brokerage

The combination of banking services, insurance offerings and asset management has a long tradition in the Cooperative Banking Group. DZ BANK's network of stakes in specialist financial institutions provides us with an exceptionally competitive platform for asset management and private banking products. Despite the persistent weakness of the market, DZ BANK was able during 2002 to help to further strengthen the Cooperative Banking Group's positioning in every segment of the fast-growing capital investment market by developing first-class products and efficient distribution concepts.

DZ BANK acts both as an intermediary and as a product developer and supplier. Our specialist division structures and combines its asset management products to meet customers' specific needs. Despite the tough capital market conditions, DZ BANK's new development approach – which focuses on private investors' risk inclination – has

enabled us to respond to the need for increased certainty perceived by many investors. Our spectrum of certificates now extends from classic products such as guaranteed-capital funds and partially guaranteed products through to creative and widely-respected market innovations such as our Participation Certificates TRACKER.

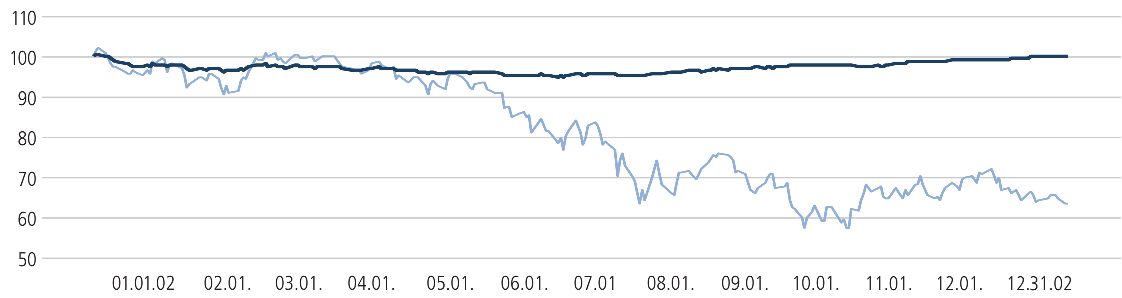
In total we issued 24 new investment certificates (warrants) on behalf of local cooperative banks during the year, through which an aggregate volume approaching € 400 million was placed with retail investors. This placing volume made DZ BANK one of Germany's three biggest issuers in the year under report. Most of the volume was attracted to guaranteed certificates issued under the "private labels" of individual local cooperative banks in order to profile their regional brand, and to general products in the area of participation certificates and variable-coupon guaranteed certificates. DZ BANK was honored with the German 2002 silver "Zertifikate Award" for its product quality; it is awarded annually to the best issuing houses by the trade magazine "Zertifikate Journal" and the daily "Die Welt". We therefore now have a good foundation to move forward and exploit the strong growth potential for dealing in structures of this nature.

Our objectives for the current year are to significantly increase our market penetration by intensifying our market processing and continuing to optimize our internal value-adding chains and thereby to secure a permanent commission income stream for the local cooperative banks' distribution channel.

Comprehensive research expertise flows into the development and marketing of all our product innovations. For instance, the Research function actively assisted the development of the DYNASO collateralized synthetic obligations issue by using the CRESTA Score rating formula to select the originally included bonds as well as subsequent replacements. This credit analysis tool is the centerpiece of our Credit Research operation, which a survey of institutional customers placed in the first rank of international research banks.

We work together with the subsidiary companies of Union Asset Management Holding to prioritize the continuous expansion of our own-account investment funds product family (public funds aimed at institutional investors), not least with the aim of opening up new alternative asset classes for the primary cooperative banks in particular to

Performance Comparison of DZ EuropaGARANTIE Certificate vs. DJ Euro STOXX 50SM*



■ DZ EuropaGARANTIE Certificate ■ DJ Euro STOXX 50SM*

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invest their own resources in. During 2002 DZ BANK prepared the ground for the flotation of an alternative investment strategies umbrella fund (a so-called "hedge fund") and assisted with the development and market launch of TR Bond Invest, Union PanAgora's total return product.

In addition to product development, DZ BANK also assists the primary cooperative banks with the day-to-day conduct and strategic orientation of their securities-related operations by providing packaged sales support solutions as well as through business-line-specific consulting initiatives.

As part of our effort to optimize the central Sales support provided for our partner banks, in the year under report we developed a package of product-group-based publications that deploy a brief but impactful style to communicate information about all our market and product recommendations and help our partner banks to sharpen their Sales focus.

On the initiative of DZ BANK, the BVR lowered the risk classification of discounted warrants and backed the view of the member banks in deciding that a license to deal in financial futures is not required for these products.

Our program of regional events under the banner of "2002 Sales Offensive on Securities-Related Business" met with a very positive response and provided a platform for DZ BANK to present our spectrum of services to support everyday customer business as well as outline current market trends. DZ BANK's customers praised our high level of expertise in market development and customer support.

Overall, DZ BANK's capital-market-facing Sales activities provide the ideal complement to the Bank's Brokerage services.

To facilitate investments by local cooperative banks' personal customers, DZ BANK deals worldwide – through stock exchanges and over the counter – in shares, bonds, investment funds, derivatives, currencies and precious metals.

The introduction of new pricing models in fiscal 2002 helped to equip the primary cooperative banks to in turn offer their customers needs-responsive services on competitive terms and conditions, and was warmly received by our partner banks.

The amalgamation of the two merging banks' fixed-income offer business substantially extended the range of available products. The advantages of active product and offers management based on a customer-needs-responsive product selection are evident from the significantly expanded take-up of our interest products offering by local cooperative banks.

DZ BANK's many years of experience in issuing low-coupon bonds enabled us to offer the most attractive bonds in the market from the tax point of view, and for many months our 1.75 percent coupon was the lowest ever offered.

Our new Exchange Traded Funds division got off to a successful start on March 1, 2002 with market making in a selection of eight Unico ETFs, to which we added the MSCI World in mid-June. This created the foundation for dealing in the Cooperative Banking Group's own ETFs, and these have now extended the spectrum of the cooperative sector's innovative product offerings.

The introduction of our Internet MailOrder facility has also opened up a wealth of new alternatives for our primary bank partners in their currency and precious metals operations. Further refinements of this procedure, a joint initiative between DZ BANK and ReiseBank, are scheduled for 2003.

In the year under report, DZ BANK also progressed significant infrastructure initiatives outside the framework of the Cooperative Banking Group and realized important projects that will indirectly benefit both our Cooperative Banking Group and other customers. For instance, DZ BANK has been acting since June 1, 2002 as the first – and still the only – intermediary dealer (central counterparty) on the INVESTRO funds trading platform. INVESTRO is an order routing system that handles the complete funds clearing and settlement process from order through to delivery with no manual interface. DZ BANK also launched an initiative in cooperation with EUWAX (European Warrant Exchange) and Stuttgart Stock Exchange to develop the certificates (warrants) market segment. EUWAX now has a German market share of more than 50 percent in this segment.

The number of stock commission transactions conducted with institutional customers inside and beyond the Cooperative Banking Group stabilized in 2002 after falling in the preceding year. Serving more than 100 institutional customers in Germany and abroad, DZ BANK remains an important partner for institutional equities business; we were even able to take advantage and gain market share as several competitors withdrew from dealing in German stocks. In contrast to direct equities investment, equity derivatives business with institutional customers and own-account trading clients expanded disproportionately. Investments by primary cooperative banks in individual stocks for own-account trading purposes declined compared to 2001.

DZ BANK develops and rolls out efficient electronic and traditional distribution channels to round out our range of specific services in support of the primary cooperative banks' retail customer business. Excellent progress was made during the year under report on harmonizing the Cooperative Banking Group's Internet brokerage systems with the objective of combining our energies and concentrating our capacity into a market-responsive offering. For example, VR-NetWorld Banking and Brokerage has extended an Internet application that has already been successful within the Cooperative Banking Group to the territory of FIDUCIA Karlsruhe and Berlin. The preparations have also been made to make this application available in the territory of FIDUCIA Stuttgart and Kassel from next year.

The roll-out of GENO Broker is also well under way throughout the territory served by DZ BANK. GENO Broker is an application for securities business advisers; it professionally supports all the processes involved in securities administration from comprehensive portfolio analysis functions, through structured client interviews to order entry, and is already in use by every local cooperative bank in Bavaria. The system has also been used for database analysis to optimize sales campaigns. With the combination of GENO Broker, VR-NetWorld Brokerage and back-up call-center-based securities-related services, DZ BANK now provides every local cooperative bank with access to an infrastructure that optimally supports their positioning as a multichannel brokerage provider. Our usage analysis covering DZ BANK's territory shows that multichannel customers are more active in securities-related business.

Research and Economics

During the year under report, DZ BANK substantially modified its Research offering so that it is now essentially centered on the primary cooperative banks' advisory needs. We have completely restructured our publications for local cooperative banks with a new focus on electronic distribution channels. In addition, the launch of our new publication "GeldWert", available in both electronic and printed form, means that local cooperative banks can now offer their wealthy personal customers a high-quality publication on the subject of private banking.

To support the primary banks' equities-related business, DZ BANK publishes a range of fundamentally and technically-based stock recommendations that has been specially tailored to retail customers' needs. The Research function develops topical investment ideas and works closely with Equity Sales to communicate them to investment advisers. We also use our global sector analysis approach to generate country and sector allocation suggestions that together with our individual stock recommendations provide our Asset Management specialists with an important tool for structuring the equity portfolios they manage. Our equities-related business with institutional clients in Germany and abroad benefits from the systematic integration of our Germany expertise into a pan-European sectoral approach. The result is that we successfully combine the regional specialist capability that results from our business-policy focus on the cooperative sector with the high standards of international sector expertise demanded by institutional asset managers and corporate customers. This model also integrates the know-how of the French market that our cooperative partner Groupe Banque Populaire/Natexis contributes.

In the area of money and forex research, we have reassigned our capacities to create a new post of money market analyst in order to better assist the primary cooperative banks' liquidity management.

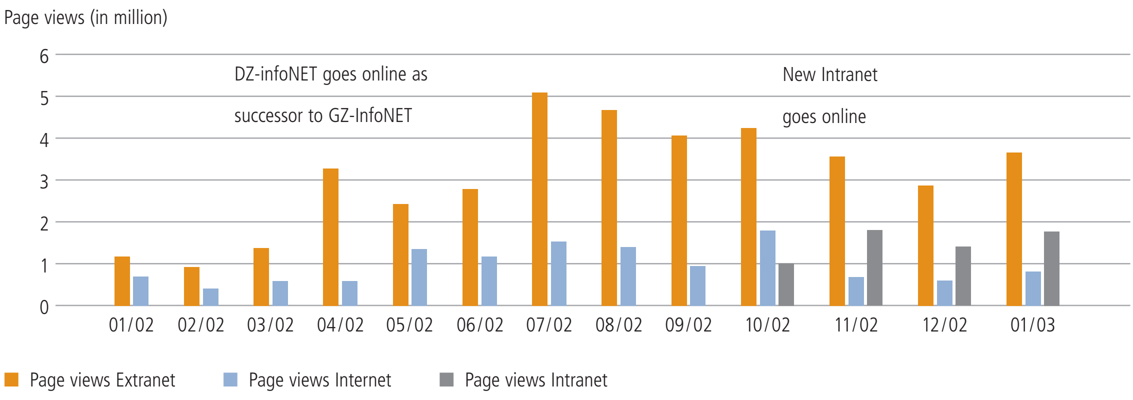
Spending less and achieving more

Optimized processes permit the systematic exploitation of the economy potentials

Information Technology/Organization

Alongside the goals formulated at the time of the merger, two of the biggest challenges facing the IT function last year were the rationalization of our organization structure at the mid-year and the subsequent insourcing of applications from the cooperative computing center (GENO-RZ) from September 1, 2002. The post-merger migration of IT systems, applications and data placed exceptionally heavy demands on the division's staff. In the area of payment systems, the migration to the destination systems is now all but completed. Following the transfer of the relevant functions and hardware, international payments are now handled at GAD in Münster for the whole of Germany. All domestic payments handling has now also been concentrated at two facilities in Hannover (GAD) and Karlsruhe (FIDUCIA) following the relocation of the relevant technical installations. Other migrations – such as those affecting the Investment Banking dealing and back-office functions – managed to both deliver savings benefits and simultaneously extend the Bank's services spectrum. In the area of E-Business/Brokerage applications, DZ BANK can now offer a powerful E-Business platform thanks to our integrated Internet, extranet and intranet presence, completed in 2002. The usage statistics show that our users appreciate DZ BANK's E-Business offerings and provide proof of the value they add for our employees, our Cooperative Banking Group partners, and our existing and potential customers. The fact that all our sites and interfaces, including the Internet site created back in 2001, are built on the same technical platform both makes them easier to use and simplifies the task of content addition and updating. We have already made a start on consolidating existing services, such as GIS-GENO-Service and SAP Account

Monthly Page Views Extranet, Internet and Intranet



Information, and integrating them into our E-Business platform. The important milestones defined for the coming year include the linking of Group subsidiaries into our extranet, the full nationwide roll-out of GENO Broker (a securities sales workstation) and XIOS (a EUREX products sales workstation) to the banks that DZ BANK serves as central bank, and the continuing harmonization of E-Brokerage securities solutions. We work to continuously improve the E-Business platform. We are also working together with all our major Cooperative Banking Group partners and DZ BANK's subsidiaries on the key objectives for the current year, to upgrade DZ-infoNET, DZ BANK's extranet platform, and transform it into VR-BankenPortal – a tool for the entire cooperative financial services sector. Our aim is to make all the information of all the participating project partners available in aggregated form to the staff of local cooperative banks, free of cost, via a single access interface that offers consistent, user-friendly navigation.

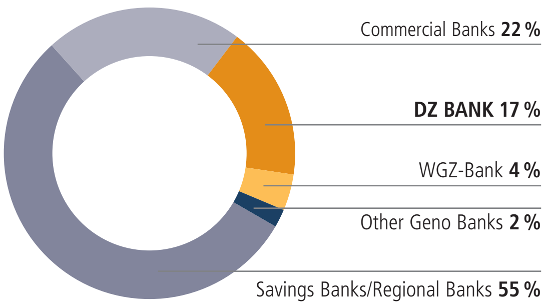
Substantial progress has been made on the replacement of ZIS by SAP with the release change to SAP Banking, and the introduction of a central counterparty and the central limit management system.

Payment systems

DZ BANK was once again able to build on our powerful position in payments handling in fiscal 2002. Our domestic and international payment transactions volume increased by around 6 percent and the 3 billion payments handled made DZ BANK by far the biggest individual player in the German clearing market.

In order to be able to offer our cooperative primary bank partners competitive conditions for handling their national and international payments traffic in a market that is getting tougher for them and still be able to guarantee efficient payments processing, the decision has been taken to spin out the Payment Systems division and turn it into an independent transaction bank specializing in payments handling, and this decision will be implemented in the course of 2003. Our main aim is to continue to attract additional payments volume from unaffiliated banks outside the cooperative sector and in the process further reduce the unit costs of payments handling beyond the synergies already realized through the merger.

Payment Transactions in Germany



The chances of success are certainly good, since our highly efficient and already market-proven processes and systems will make it easy to integrate third-party banks as potential new outsourcing customers and the demerger will ensure the market perceives the new entity as neutral.

We have continued to intensify our collaboration with the local cooperative banks in the year under report. This is true both in terms of product development and in respect of organizational initiatives and procedural improvements. For instance, the fourth quarter of 2002 saw our new international payments management process go into live operation at several field-trial banks. The core task of this application system – which was developed jointly with the computing centers and has been integrated into their banking processes – is the efficient low-cost processing of cross-border euro transfers. The background to this joint initiative is the "EU directive on cross-border payments within the European Union". This stipulates that as from July 1, 2003 banks will not be able to charge customers more for making euro transfers up to a value of € 12,500 to other EU countries than they would charge for equivalent domestic transfers. Our international payments application now provides the option of fully automated electronic transmission of cross-border payments with no manual inputs required. This ensures compliance with the EU directive, and means that the realization of this project represents another decisive contribution on the part of DZ BANK towards strengthening the competitive position of Germany's local cooperative banks in the international payments market.

2002 also saw the completion of a large number of organizational, process and technical change projects that flowed from the merger. These included most importantly the reduction of the Payment Systems division's operating locations from 9 previously to 5 sites now. The resulting synergy and efficiency gains were passed on to our local cooperative bank partners through the introduction of new and significantly lower payments handling charges with effect from October 1, 2002.

An important milestone in connection with multichannel activities was the introduction and implementation of our new, nationally consistent "VR-NetWorld 3-Product Software Strategy" comprising "VR-NetWorld GENO Cash", "VR-NetWorld PROFI Cash" and "VR-NetWorld Software for Personal Customers". The centerpiece of the initiative was to replace the "GENO lite" and "HOMEcash" software previously used by local cooperative banks with "VR-NetWorld Software for Personal Customers". The broad market penetration achieved by "VR-NetWorld Software for Personal Customers" means we have made a big step forward in terms of harmonizing the Cooperative Banking Group's product portfolio. During 2002 alone, primary cooperative banks acquired more than 350 licenses in this software. As part of executing our "3-product strategy" we also completely rewrote our software licensing conditions and significantly reduced our prices. We now supply local cooperative banks with electronic banking software based on the latest technical standards, at attractive licensing prices, that equips them to service their customers in a targeted and market-responsive manner.

During 2002 DZ BANK together with the BVR and WGZ-Bank launched a market offensive in the gold credit cards segment that utilized an interesting new concept. Starting from January 2003, the cooperative primary banks will be able to offer their customers a new, contentually optimized VISA gold card plus a companion gold card. The new VISA gold card will feature services in the areas of travel, personal services, lifestyle and culture that will be optimally complemented by the now improved insurance services of the companion EUROCARD/MasterCard gold card. This will be the first such feature-rich, rounded "EURO gold combination" on the market and its add-on benefits will not so much overlap as reciprocally enhance each other.

Administration

Building and logistics infrastructure is playing an ever more important role in DZ BANK's cost management. Restructuring initiatives and process optimization projects that flowed logically from the post-merger integration needs of the new Bank, enabled DZ BANK to harvest substantial economies during 2002 – much more than the savings budgeted for. This was true of virtually every functional area such as purchasing, facility management, post and messenger services, telephony/archive/microfiche services and staff and visitor catering. Properties surplus to our operating requirements were also sold in order to optimize our resource utilization. These sales also included space previously used by the Bank, but which had been freed through our drive to concentrate business processes and logistical functions. Two large properties were amongst those that sold quickly during the year under report.

We have now completed harmonization projects in the areas of insurance and procurement; economies of scale and the centralization of purchasing activities in particular generated price benefits and the improved terms of the renegotiated framework agreements are now available for the Group companies to enjoy as well.

Merger and Integration Management

To organize and coordinate the entire merger process, in 2001 the Bank set up a Merger and Integration Management team (FIM). FIM assists to the Steering Committee of Board Members that directs the "business line by business line integration" of the Bank's operations.

The procedures and standards that govern DZ BANK's project management activities were elaborated and implemented Bank-wide during 2002 by comparing the approaches used by similar-size enterprises and applying the best practice principle. This was the basis for producing the "master plan" in early 2002 that represented an integrated multi-project timetable that covers all the initiatives in the Bank's action portfolio. The master plan provides the foundation for reporting on project progress and for the Steering Committee's detailed direction of the overall process.

DZ BANK's projects portfolio totaled – as of January 31, 2003 – 169 separate initiatives. Alongside the original merger projects, it now includes all our legal, infrastructural and market-related change initiatives. Out of this total, 79 projects have been completed or are in the final stages. During 2002 a total of 82 new systems "went live" and 32 systems were shut down.

Combining our energies in the Cooperative Banking Group

Holdings portfolio reorganized to reflect new business policy emphases

DZ BANK has reorganized its portfolio of businesses during the year under report, most importantly to realign it with the strategic focuses that will shape our future. The organizational changes included the legal formation of VR-Immobilien AG, to which we transferred our shareholdings in Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, and Deutsche Genossenschafts-Hypothekenbank, Hamburg (DG HYP). This move is designed to further strengthen the market position of the specialist cooperative service providers in the real estate business segment.

The R+V Versicherung Group has similarly reorganized its participations structure. Its operating insurance companies are now located one level below two new divisional holding companies, R+V Komposit Holding GmbH, Wiesbaden, and R+V Personen Holding GmbH, Wiesbaden. R+V Versicherung AG, Wiesbaden, remains the head of the R+V Group as before. The insertion of a new layer to accommodate the two intermediate holding companies creates a clear demarcation between the Group's various personal and composite insurers. The end result is therefore greater transparency of profit and management responsibility. The new structure will also put R+V in a position to react more flexibly to changing market requirements.

There have also been major structural changes in the Asset Management / Private Banking business segment. The subsidiaries active in the funds sector such as Union PanAgora Asset Management GmbH (formerly DG PanAgora Asset Management), Frankfurt am Main, have now been brought under the umbrella of Union Asset Management Holding AG, Frankfurt am Main (UMH). The creation of UMH has brought into being an asset manager capable of servicing the needs of every customer group from private investors through to institutionals, with every product from securities through to real property. In parallel, the corporate structure of UMH has also been reorganized. It was in this context that DZ BANK acquired shares in UMH from Rabobank Nederland, Utrecht, and DVB Deutsche Verkehrsbank AG, Frankfurt am Main. In return the R+V Versicherung Group has taken a 10 percent stake in UMH.

This transaction is most importantly intended to stimulate the continuing development of retirement pension products and – in organizational terms – to promote the closer coordination of asset management processes within the Group.

Another focus of the wider strategic realignment of the Asset Management / Private Banking business line was on the capital restructuring of the subsidiaries active in this segment. As part of this process, DZ Private Banking Vertriebsgesellschaft was established as a three-way joint venture between DZ BANK, DZI and cosba private banking ag, Zürich (cosba), and DZ BANK's 90 percent shareholding in DZ Capital Management GmbH, Frankfurt am Main, (DZ Capital) was sold to DZ BANK International S.A., Luxembourg (DZI). The bundling together of the Private Banking subsidiaries' sales operations made it possible to reap synergies and noticeably enhance the efficiency, reach and transparency of the cooperative primary banks' servicing of their wealthy clients. The staff of DZ Private Banking Vertriebsgesellschaft know their customers and know private banking inside out, and are pleased to assist the cooperative primary banks with the planning and implementation of a multi-market private banking presence. The positive response of the primary banks is manifest in the successful take-up of the PPS product (Private Portfolio Strategy, the local cooperative banks' own asset management brand) and the business growth of cosba private banking in Switzerland, which incidentally is 25 percent owned by the Swiss agricultural credit cooperatives association (SVRB).

Bausparkasse Schwäbisch Hall

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, once again maintained its new business and earnings growth during 2002. The aggregate business conversion and sales performance of the core business units increased by 6.7 percent to a volume of € 29.5 billion. BSH's continuing market gains and earnings growth are due to its still-expanding and ambitious cooperations with local cooperative banks.

Schwäbisch Hall expanded its save-to-build new business in Germany by 5 percent to a record savings-target volume of € 21.8 billion. 900,400 new contracts were signed, which means that in 2002 every fourth save-to-build contract in Germany was signed with the sector leader. The new save-to-build business contracted by Schwäbisch Hall's foreign subsidiaries and affiliates also set another annual record in 2002 with the volume rising by 9 percent. 919,000 contracts were signed in the Czech Republic, Slovakia and Hungary with an aggregate savings target of € 4.5 billion. A total of 9 million customers in Europe are now building their future directly or indirectly on Schwäbisch Hall.

The construction finance business line can also report a positive balance. Together with their cooperative bank partners, the 3,300 Schwäbisch Hall customer advisers increased the volume of their private construction finance deals by 15.6 percent to € 6.3 billion. In total, the Cross Selling unit was able to sell 150,000 financing and investment products on behalf of its cooperative partner banks (+ 50.7 percent). In the private pension plans market segment, 141,000 contracts have so far been signed for the "4P" package product developed jointly by Schwäbisch Hall and its fellow DZ BANK Group associate Union Investment.

Deutsche Genossenschafts-Hypothekenbank

Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP) had total balance sheet assets of € 67.8 billion at the close of 2002 (-6.5 percent), making it one of Germany's biggest mortgage banks. In a tough market environment, DG HYP bucked the sector trend by posting growth of 4.9 percent (to € 2.447 billion) in its new property loan commitments – covering homebuilding, commercial and agricultural property – while the VDH industry association figures showed a fall of 17.3 percent in this measure for all German mortgage banks together. Of this total lending commitment, residential construction accounted for approximately € 1.6 billion, commercial property finance just under € 0.8 billion, and farm lending for € 62 million.

By agreeing a total of 16,240 property loans DG HYP was able to increase its market share by 1.0 percentage points to move than 6 percent. Its total loan book volume of € 62.9 billion represents a 4.7 percent contraction.

The mortgage bank intends to use its ambitious "DG HYP 2006" project to accelerate the pace of its strategic realignment. It is intensively analyzing all its processes, locations and most importantly cost headings in order to complete any necessary structural adjustments as quickly as possible.

VR Kreditwerk Hamburg-Schwäbisch Hall

A joint venture between Bausparkasse Schwäbisch Hall and DG HYP, VR Kreditwerk Hamburg-Schwäbisch Hall AG is the biggest specialist back-office services provider of its kind in Germany; it has taken over the functions of loan processing and IT services provision for its two owners primarily.

In fiscal 2002 this processing services provider posted revenues of € 230.6 million. Its workforce of 2,350 processed 11 million contracts and its telephone customer services center dealt with a total of 2.4 million inquiries. In its second full year of trading, Kreditwerk also provided basic IT services for its parent companies and conceived and implemented a series of major IT projects on their behalf. Standardization, volume aggregation and organizational improvements have already enabled this specialist services provider to achieve productivity advances in the double-digit percentage range in the processing of its parents' credit business since it commenced operations back in mid-2000.

R + V Versicherung Group

R+V Versicherung overcame the tough conditions it faced in the 2002 financial year and was once again able to gain market share in all its principal businesses. The R+V Group's premiums income grew at the above-trend rate of 5.5 percent to € 6.9 billion. This means the group performed better than the industry as a whole again in 2002, as the market expanded by just 4 percent. Its invested funds increased by 7.8 percent to € 36.2 billion.

The life insurance arm R+V Lebensversicherungen once again improved on even the exceptional prior year as it signed up around 560,000 new policies that generated a premiums volume of just under € 700 million (+10.7 percent). The combined premiums income of all the R+V life companies rose by 6 percent to € 3.1 billion. The health insurance arm R+V Krankenversicherung AG also increased its premiums income substantially again in 2002, posting a 15.8 percent advance (2001: +15.5 percent).

2002 was an exceptional year for the property and casualty businesses, where the outstanding premiums growth of 5.4 percent (market growth: 2.6 percent) to € 2.7 billion was offset by heavy claims incidence in the business and personal customer segments. Hailstorms, gales, torrential rains, the Elbe and Danube floods and major loss events in the commercial sector drove the aggregate cost of claims up by a quarter.

R+V Allgemeine Versicherung AG, the group's biggest composite insurer, registered premium growth of 3.3 percent to € 1.96 billion in its directly written business. Alongside this arm's successful financial reconstruction, sales of its newly introduced multi-cover policies for banks, businesses and (since 2003) private customers are also developing very promisingly.

Union Investment

Union Asset Management Holding AG, Frankfurt am Main, (UMH) manages assets of around € 101 billion for private and institutional investors in 760 securities and real estate funds. Measured by the assets of its public funds as reported to the BVI, Union Investment is Germany's third-biggest wealth manager; if its special funds are included, it ranks fourth.

Union Investment strengthened its position in the German investment market again in 2002, and in the process once again demonstrated the value of the close interworking between the different parts of the cooperative financial services sector. For the third time in four years, UMH occupied the top spot for new business transacted in public funds, not only leading the table in 2002 for sales of securities funds but also for the aggregate volume of securities and real estate funds sold. With a net inflow of € 7.9 billion, Union Investment recorded a much better result than the turbulent state of the stock markets would have led anyone to expect. The keenest demand was for the open real estate funds of DIFA Deutsche Immobilien Fonds AG, Hamburg, which attracted an inflow of € 2.9 billion, and for fixed-income funds, which garnered € 2.5 billion of new money. Ignoring the slump of the stock markets, savers also invested a net € 970 million in UMH equity funds.

Measured in terms of its public fund assets, UMH increased its share of the market to 17.1 percent compared to 16.7 percent a year earlier. Counter to the industry trend, Union Investment was also able to attract large numbers of new customers. Its population of custody account holders increased by 276,000 to 3.8 million. With 150,000 new plans Union Investment's offering of Riester products (government-subsidized pension contracts) struck a particular chord with pension investors, and its share of the market for funds-based Riester models rose to 69 percent. The UniProfiRente managed targeted savings plan remains an absolutely unique concept. The consumer protection group Stiftung Warentest in October 2002 rated UniProfi-Rente the best Riester product out of all the available fund-invested solutions.

Union Investment continued to enrich its range of funds with further innovative products in 2002. For instance, Union Investment launched two additional capital-guaranteed funds invested in blue chip European stocks, Uni-Garant: EURO STOXX 50 (2007) and UniGarant: EURO STOXX 50 (2007) II. In mid-November UMH also added a guaranteed fund invested in leading international stocks, UniGarant: Global Titans 50 (2008), to its product portfolio.

Swiss Rubinum, a Swiss wealth management joint venture with Julius Bär, opened its doors for business on January 1, 2002. Over the course of the year, Swiss Rubinum's four investment strategy options attracted a total of around € 445 million.

UMH's institutional business side was strengthened when Union PanAgora Asset Management GmbH, a specialist in quantitative investment strategies, joined the sub-group. Union Investment is therefore continuing the process of combining the cooperative sector's asset management units. The result is that Union Investment can now enable institutional clients to diversify not just across asset classes, but also across management styles. Union Investment increased its share of the specialist (dedicated) funds market to 6.9 percent in 2002 compared to 6.1 percent in the preceding year.

DZ BANK International

Following the completion in mid-2002 of all the post-merger adjustments, and as measured by total customer accounts and balance sheet assets, DZ BANK International S. A., Luxembourg-Strassen, (DZI) is now one of the biggest banking institutions of German origin in the Luxembourg financial center. At the end of the last financial year the bank reported total assets of € 15.2 billion, an increase of 2.6 percent. On the strength of its 25-year presence in Luxembourg, DZI now plays a leading role within the Cooperative Banking group in the area of private banking operations, as a provider of professional custody account and fund management services, and in the area of foreign currency refinancing for primary cooperative banks. This means all the cooperative sector banks can count on permanent contact with, and rapid access to, one of the world's biggest and most dynamic financial centers.

DZ BANK International plays a central role in the DZ BANK Group's new private banking strategy as a provider of asset management and back-office services to the primary cooperative banks. It also offers international clients personalized investment strategies, individual inheritance planning and administration, and lifecycle and retirement planning in the form of an integrated private banking package.

The investment funds business line makes intensive use of Luxembourg's advantageous legal framework to place competitive client-account funds business offerings with

the market. DZI's integrated electronic platform supports customized full service solutions in the third-party funds business. In the custody banking business, DZI acted as custodian for 170 investment funds with combined assets of € 13.2 billion.

DZI's integration into the DZ BANK Group's Treasury strategy has provided the bank with increased responsibilities in the area of refinancing operations and liquidity management.

cosba private banking

cosba private banking (cooperative Swiss banking), Zürich, DZ BANK's Swiss private banking subsidiary in which the Swiss agricultural credit cooperatives association (SVRB) and WGZ-Bank are also shareholders, last year expanded its operations as the Cooperative Banking Group's center of expertise in international private banking.

Last year brought a reorganization of the private banking sales activities addressed to the German primary cooperative banks. The newly established DZ Private Banking Vertriebsgesellschaft took over responsibility for the important area of initial contacts; this will give cosba private banking's customer account managers free time to devote to end-client support and direct marketing initiatives with individual local cooperative banks. This separation of functions has already generated visible synergies in the area of marketing to customer banks. cosba's cooperation initiative with the local banks in the Rhineland and Westphalia was further deepened during 2002.

The bank's progress on breaking into the Swiss market in partnership with the local agricultural credit cooperatives fell short of its expectations due to the tough climate on the capital markets. However, cosba has planned fresh initiatives to attack the market together with the SVRB, and has set ambitious targets for 2003.

DZ BANK Ireland

DZ BANK Ireland Plc, Dublin, a hundred-percent subsidiary of DZ BANK AG founded in Dublin at the end of 1994, had total assets of €5.0 billion at the close of its eighth year of operations, an increase of 6.2 percent over the prior year. The bank's profitability developed extremely positively in 2002. Its costs rose much more slowly than its income, so that its already low cost-income ratio was improved further to a year-end figure of 13.4 percent.

DZ BANK Ireland's main line of business is lending and this encompasses the provision of medium and long-term refinancing for primary-level cooperative banks in the form of fixed-rate loans and through roll-over credit. Its borrowers are mainly top-quality debtors such as banks, multinational companies and sovereign states.

DZ BANK Ireland further expanded its lending business in 2002 to an aggregate credit volume of € 4.4 billion, equivalent to a year-on-year increase of more than 7 percent. Despite a high volume of loan maturities, it was able to increase the volume of medium and long-term interbank fixed-rate credit extended to € 1.9 billion. Its roll-over credit business also continued to progress positively and the volume as of December 31, 2002 stood at € 2.5 billion. DZ BANK Ireland's ABS portfolio expanded especially strongly last year.

DZ BANK Ireland makes use of the international money and bond markets to refinance its lending business. The bank also conducts repo transactions with the ECB and on a bilateral basis. In the latter context, the bank progressively extended its circle of bilateral repo counterparties over the course of last year. The bank also has a euro commercial paper (ECP) program with a volume of USD 2 billion.

GVA GENO-Vermögens-Anlage-GmbH

GVA GENO-Vermögens-Anlage-GmbH, Frankfurt am Main, commenced operations Germany-wide on June 1, 2002 and has since then acted as the central point of contact for the DZ BANK Group's entire closed funds product offering.

The new entity's organization structure features two specialist teams in Frankfurt and Düsseldorf plus regional product managers that provide ongoing support for local cooperative banks, which ensures the high-quality and efficient servicing of this attractive business line. That this is the right approach is underlined by the positive response from, and subsequent successful partnership with, a large number of local cooperative banks.

The new entity has achieved extremely good results in a difficult economic and tax environment and as intermediary has placed more than € 205 million in limited-liability partnership capital. Its packaged-product offering covers German and international real estate funds, ship participations, leasing participations, film participations, private equity holdings as well as participation in an innovative securities portfolio.

The relationship between GAF GENO Asset Finance GmbH, a joint venture between GVA and Citigroup/Citibank, has for many years provided the Cooperative Banking Group with a steady stream of attractive and high-yielding equity participation opportunities for the primary banks to sell on to their customers. So far, all the funds floated by this successful joint venture have either performed as forecast or have even beaten the predictions.

DZ Unternehmerpartner

DZ BANK's "Corporate Finance" division (which specializes in equity finance and M&A advisory) was reorganized with effect from January 1, 2002 and its various operations were brought under the umbrella of DZ Unternehmerpartner GmbH, Frankfurt am Main, as separate subsidiaries. All equity finance business is now handled by DZ Equity Partner GmbH, Frankfurt am Main, whose portfolio of direct equity investments and fund commitments amounts to around € 240 million in total and is split between 38 exposures. The company concentrates on taking minority holdings in small and mid-size enterprises in German-speaking Europe.

The DZ Unternehmerpartner group's M&A advisory business specialist is DZ Corporate Finance GmbH, Frankfurt am Main. This company concentrates on higher-end SME companies and is also operating increasingly in partnership with the primary banks. It provides expert advice to companies in virtually every sector of the economy, but over the years it has accumulated specialist sector know-how of particular segments. In the year under report the company also expanded its cooperation activities with international partners. Despite the tough market climate, it was able to substantially increase the number of new contract wins year-on-year and also bring five mandates to a successful conclusion.

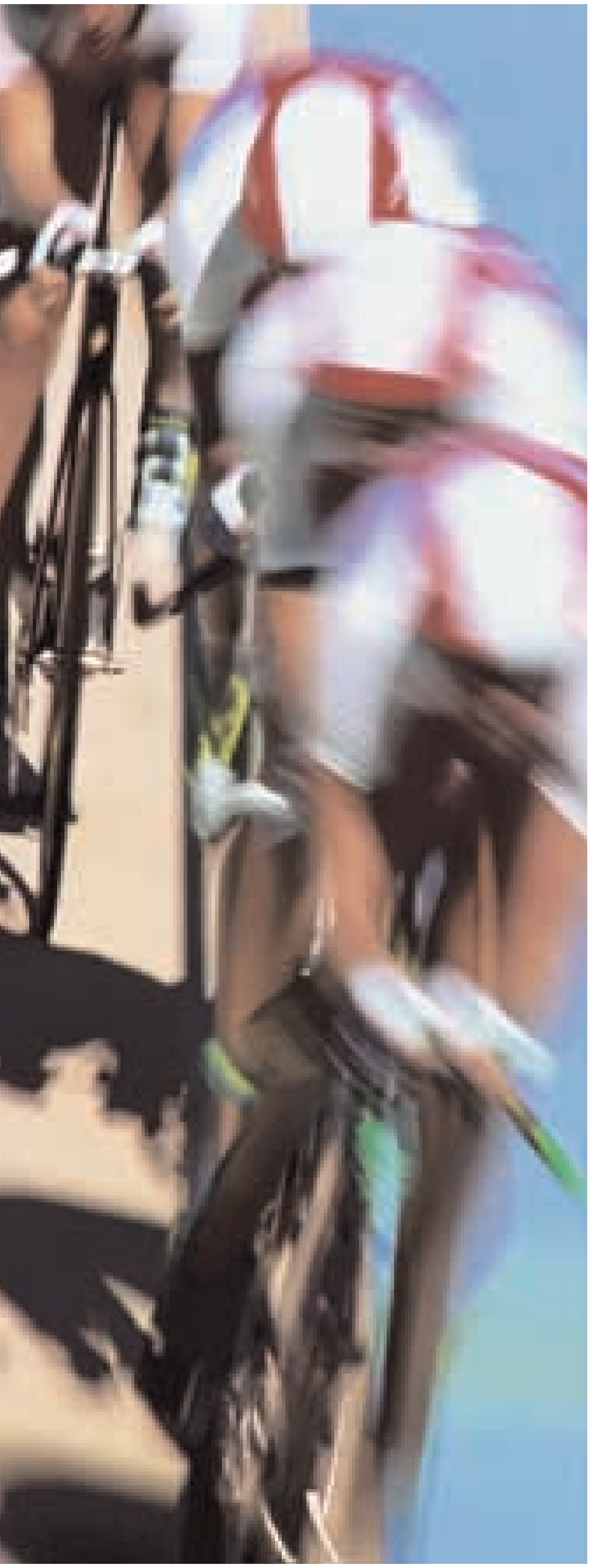
bws bank

Bank für Wertpapierservice and -systeme Aktiengesellschaft (bws bank), Frankfurt am Main, was able to maintain its market leadership position as a specialist securities transaction processing bank again in 2002. bws bank serves more than 1,500 directly or indirectly affiliated banks with more than 4 million custody accounts between them. This role involves transaction clearing, the administration and storage of securities, and transaction settlement including checking monetary and quantitative values. The bank is also responsible for coordination, planning and control functions. As part of its securities administration and storage duties, bws bank is also responsible for ensuring that all time-sensitive processing steps are performed on schedule.

Thanks to the intensification of its sales effort, 7 new contracts were won for the trans.b>wertpapiere>Full-Service product for 2003; 5 of the commissioning customers will be linked direct into bws bank and 2 will be linked via DZ BANK.

In Spring 2002 bws bank faced the challenge of integrating the securities-related dimension of the merger between DG BANK and GZ-Bank to create DZ BANK. The quantities that had to be moved – 2.8 million custody accounts, 10 million securities holdings and more than 30 million account transactions – provided compelling evidence of the power of the Cooperative Banking Group's WVS integrated securities system and the expertise of bws bank's migration team.

bws bank launched a new service in 2002 that takes over the mailing of almost all the documentation concerning securities direct to the end customers.



VR-LEASING

VR-LEASING AG, Eschborn, held its ground in 2002 despite the harsh economic climate and was able to further reinforce its strategic position during the year. The acquisition of all the shares of VR DISKONTBANK GmbH, Eschborn, further strengthened the position of the VR-LEASING group as a specialist provider of sales finance to SME businesses. The raising of the sub-group's stake in VB Leasing International Holding GmbH (VBLI), Vienna, to 50 percent was also a significant step that will further entrench the group's position as the leading German provider of leasing services in eastern Europe.

The VR-LEASING group's new business volume totaled € 2.9 billion in 2002 (2001: € 2.5 billion) and was generated by more than 1,800 employees in 9 European countries who signed up almost 93,000 new contracts (2001: 84,000). The German market accounted for just under € 2 billion of this total. The first-time consolidation of VR DISKONTBANK brought in just under € 0.6 billion of the total; its product areas include factoring, group purchasing and investment loans. The 17 percent volume decline in the German market was compensated by above-trend growth of 29 percent in eastern Europe. The aggregate volume of new business in these national markets amounted to around € 0.8 billion.

It is intended to merge VR DISKONTBANK's factoring business with a European partner during 2003 in order to help the group become a leading player in this market segment as well.

To underpin its long-term growth, in 2002 VR-LEASING tapped the bond market for refinancing through an ABS structure. The experience gained has confirmed the group in its intention to take advantage of this sort of transaction again in 2003.

DVB Bank

DVB Bank AG, Frankfurt am Main, (DVB) has successfully focused on international transport finance for several years. In mid-2002 DVB combined its previous Rail activities and its Road & Logistics forwarding business into a new Land Transport division. Now operating through 4 specialist transport finance divisions, Shipping, Aviation, Land Transport and Transport Infrastructure, DVB is one of the leading consultants and financiers for the global transport market and services its customers from 11 leading transport hubs around the world.

The DVB Capital arm (formerly Corporate Finance) in 2002 covered the following segments: structured asset finance, structured derivatives & capital market products, distribution, advisory and group investment management. It works closely with the four transport finance divisions to enable DVB Capital to offer clients tailor-made consultancy and finance solutions for complex projects.

In DVB, DZ BANK has a specialist bank subsidiary that is able to profit from the long-term growth trend of the international transport market. DVB is already a leading player in European shipping and aviation finance. Its other core products are the financing of railway rolling stock and truck and bus fleets, including the associated infrastructure projects such as rail facilities, airports and public passenger transport systems. It is focusing on the structuring and syndication of high-volume and complex transport projects and on the continued expansion of DVB Capital's advisory services. As of end-2002, DVB had total consolidated balance-sheet assets of € 9.30 billion (2001: € 10.97 billion).

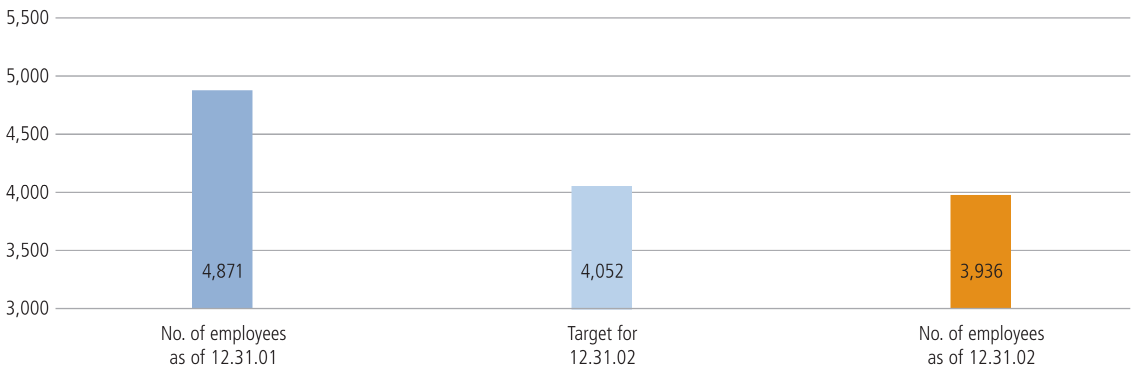
Tackling change together

A fresh start into a new future after a period of painful cuts

Necessary restructuring and organizational changes in the aftermath of the merger had substantial effects on the workforce as a whole in the year under report. The DZ BANK Group employed a total of 25,247 people (compared to 26,651 in the previous year), while DZ BANK AG employed 3,936 at the year-end (compared to 4,871 a year earlier). The decline in the employment total was essentially the result of the strategically-dictated shedding of jobs at the parent bank that was initiated following in-depth analysis of our future human resource needs at the start of 2002.

Following intensive negotiations between DZ BANK and the Employees Council, a joint settlement on staff cuts was agreed on March 18, 2002 that was extended by two supplementary agreements in June and September. A social compact that encompassed model severance agreements and temporary short-time working arrangements enabled the realization of cost savings with an immediate impact on the Bank's FY 2002 earnings, and natural turnover was used wherever possible to minimize compulsory staff redundancies.

Staff Cuts according to Employee Capacities*



*Number of employees adjusted for part-time employment

As part of a review process launched following the first phase of the merger, in the middle of 2002 the Bank implemented comprehensive changes in our organization structure and appointed new personnel to 32 head of department posts and 56 head of group posts in consultation with the Employees Council.

DZ BANK systematically relies on our employees' willingness to change and commitment to flexibility. We have backed this up with a new remuneration strategy that is consciously intended to promote commitment and motivation through the design of work processes. The core idea of our reward system is that in future performance incentives should increasingly operate through variable salary components. To this end, we started consultations at the start of 2002 on a performance-related pay system. By the end of the year outline agreement had been reached on the essentials of the overall package, so that we can expect a detailed agreement in the first half of 2003 to pave the way for a long-term workable solution.

In times of far-reaching structural change when economies are top of the agenda, it is doubly essential not to neglect the development of the next generation of leaders and to continue to equip employees with the skills they need. Although DZ BANK was obliged to drastically reduce our training and development spend last year, we remain conscious of our employment and educational responsibilities and continue to regard investing in needs-driven training as a high priority. 99 young people completed a training program with us in 2002, of whom 72 have continued into temporary or permanent employment. This activity has provided qualified personnel for the IT/Organisation, Personnel Management and Credit Management divisions in particular.

The main focuses of our work in the current year, alongside the planned implementation of the new performance-related remuneration system in combination with the agreement of performance targets, will be to begin to harmonize our human resource policy tools across the Group, to introduce a new occupational pension scheme, and to implement a new management qualifications program.

The Board of Managing Directors wishes to express our gratitude and recognition to all our coworkers who, through their energy and above all their constructive willingness to help shape the inevitable changes, have been such a big factor in the Bank's achievement of its objectives for 2002.

Reports and Annual Report 2002 of the DZ BANK Group

Management Report for the DZ BANK Group on the 2002 financial year

I. Overview of trading in fiscal 2002

2002 – a year of fundamental realignment

Following the merger in 2001, the priority task for DZ BANK AG (DZ BANK) in the year under report was to extensively restructure the new bank's organization and streamline its business processes. A second urgent challenge was to create the necessary framework to support the closer integration of the new DZ BANK Group into the cooperative financial system's strategy for all-round (one-stop) financial services provision; this essentially involved the following initiatives during the year just ended:

- the restructuring of the R+V Versicherung Group;

- the first steps in the process of uniting all the cooperative financial services providers' real estate activities under the common banner of VR-Immobilien AG;

- the placing with members of the Cooperative Banking Group of five percent of the shares respectively of Bausparkasse Schwäbisch Hall (BSH), R+V Versicherung AG (R+V) and Union Asset Management Holding AG (UMH);

- the disposal of assets that are not functionally central to DZ BANK's cooperative central bank role.

R+V Versicherung's operating subsidiaries were assigned to two newly-founded holding companies one level below the group parent R+V Versicherung AG, namely R+V Komposit Holding AG, Wiesbaden and R+V Personen Holding AG, Wiesbaden, in order to establish clear lines of demarcation and earnings responsibility for composite and per-

DZ BANK Group Statement of income 2002/2001

in € million	2002	Previous year	Change in percent
Net interest income[1]	**1,937**	2,264	-14.4
Net commission income	**853**	920	-7.3
Net earnings from financial activities	**216**	119	+81.5
Net income from insurance activities	**591**	131	>100.0
Personnel expenses	**1,172**	1,237	-5.3
Other administrative expenses [2]	**1,330**	1,480	-10.1
Administrative expenses	**2,502**	2,717	-7.9
Balance of other operating expenses/income	**403**	328	+22.9
Operating result before risk provisions	**1,498**	1,045	+43.3
Risk provisions	**-2,307**	-851	>100.0
Operating result	**-809**	194	>100.0
Balance of other expenses/income[3]	**-63**	-277	-77.3
Profit before taxes	**-872**	-83	>100.0
Taxes	**-1,223**	-197	>100.0
Income for the year	**351**	114	>100.0

[1] Inclusive of current earnings, earnings from profit transfer agreements

[2] Other administrative expenses, as well as depreciations and value adjustments on fixed and intangible assets

[3] Result from financial investments, special items with reserve character, extraordinary expenditure/income and other items

sonal insurance respectively. This divisional structure will also equip R+V to react more flexibly to new challenges in its marketplaces. Pursuing the same logic, R+V also acquired a 10 percent equity stake in UMH in order to reflect the increasing cooperation between the two groups as they service the market, especially in the marketing of pension-related asset management products.

The bundling of the Cooperative Banking Group’s real-property-related financial services providers under the umbrella of VR-Immobilien AG is similarly intended to generate substantial efficiency gains. This new joint venture will in future combine the refinancing power of Deutsche Genossenschafts-Hypothekenbank AG (DG HYP) with the distribution power of BSH and the economies of scale achieved in loan processing and administration by VR Kreditwerk Hamburg-Schwäbisch Hall AG. This strategic realignment is designed to increase the profitability of all participants and guarantee a unified and consistent market presence for the cooperative financial services sector in the real estate segment. Further options for concentrating the cooperative financial services sector’s real estate activities – beyond the present circle of participating companies – have been held in reserve.

One component of the ”Combined Energies” strategic project approved by the annual congress of the BVR (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – Federal Association of German Cooperative Banks) back in 1999 was to give the primary banks the opportunity to take a direct equity interest in some of the cooperative financial services sector’s prestigious ”specialist service providers”, and this wish has now been fulfilled. As a first step, during 2002 around 5 percent of the shares of BSH, R+V and UMH respectively were placed with members of the Cooperative Banking Group. This means the local cooperative banks can now also share directly in the growing value of these sector specialists – a desire that results primarily from the fact that their closer cooperation with the household-name specialists is the biggest factor enabling the primary banks to offer one-stop shopping for financial services. In recognition of this, they will have a another opportunity to acquire further shares in these cooperative specialists during the current financial year.

Another significant contributory factor in the creation of a lean and efficient DZ BANK Group was the series of disposals of non-operating assets completed during 2002. These included equity holdings in homebuilding associations and other companies as well as land and buildings formerly owned by DZ BANK.

Earnings

The Group’s key income ratios evolved as follows during the year under report:

The **consolidated operating result before provisions for risk** amounted to € 1,498 million (PY: € 1,045 million). Excluding the exceptional item of € 453 million relating to the R+V sub-group in this year’s accounts, the adjusted total of € 1,045 million was in line with the prior year.

The FY 2002 all-sources **operating income** total was € 4,000 million (PY: € 3,762 million). Excluding the exceptional R+V effect in fiscal 2002, this represents a year-on year change of € -215 million.

The Group’s **administrative expenses** decreased by € 215 million.

Including an endowment of the Group’s prudential reserves (§ 340f HGB), the **net new risk provisioning** of € -2,307 million was € -1,456 million higher than the preceding year.

The individual **income components** evolved as follows in fiscal 2002:

Net interest income declined by -14.4 percent year-on-year to € 1,937 million. It should be noted however that the comparatively high prior-year value was distorted by exceptional factors at both the DZ BANK and the DZ BANK Group level. Additionally, for the first time and across the whole of the Group, the interest result from securities held as part of the trading portfolio for the year under report is no longer shown under the net interest income heading but as a component of the net proprietary trading income total, as is more consonant with the operating logic. If the numbers for both years are adjusted to exclude these factors, net interest income rose by +6.8 percent. However, there was little consistency in the evolution of the interest surplus across the various subsidiaries.

After adjusting for the exceptional effects affecting both the year under report and the prior year, DZ BANK improved its net interest income (before shares of affiliates) by +18.0 percent to € 479 million.

DZ BANK's credit and money market operations made a significant contribution to the overall interest result. Although the structured finance business was unable to repeat the exceptional growth rates it had registered in the preceding years due to the pronounced weakness of the economy in both western Europe and the USA coupled with the increasingly manifest second-round effects of advancing globalization on the business cycle, it was able to hold its ground effectively in fiscal 2002. The framework agreements negotiated with foreign banks in earlier years again provided the foundation for DZ BANK to strengthen its market position in the financing of Hermes-backed export transactions. An innovation that DZ BANK introduced at the start of last year stimulated sustained interest, namely the online facility for all primary-level cooperative banks to centrally access the parent bank's entire short-term export finance product spectrum.

DVB Bank AG (DVB) posted an increase of +8.8 percent in its interest surplus. The key to this income growth was the systematic expansion of DVB's corporate finance activities, especially through the London and Rotterdam offices. Its income was also boosted by the fact that it bills the services it provides in US dollars, which means that last year DVB enjoyed the benefit of the movement in the exchange rate in favor of the American currency and against the euro.

During the year under report DG HYP continued the strategic reorientation it had launched back in 2000 by further concentrating its operations onto the "commercial real estate finance" and "portfolio investment" business segments. In a difficult economic environment, DVB was able to expand its real estate lending volumes overall thanks to livelier demand from commercial investors for credit. On the other hand, demand in the extremely tight-margin local government lending market remained subdued due to the constrained state of the public finances. The rapidly expanded use during 2002 of innovative risk- and yield-optimized portfolio management products helped DG HYP to post only a negligibly lower interest result (-1.7 percent) compared to the year-earlier outcome.

BSH was again able to record a very satisfactory improvement in its interest result in 2002. The slight fall in its interest income was dwarfed by the sharp reduction in its interest expense. The moderate decline on the income side resulted from a positioning bias towards short-dated cash investments. The reduction on the expense side was due to increased reliance on low-interest "A-program" financing in the home savings and loan business, coupled with a systematic policy of variable-rate borrowing during a period of slightly falling rates in the non-collective segment.

DZ BANK International S.A. (DZI), the product of the merger of DG BANK Luxembourg S.A. and GZ-Bank International S.A., was able to increase its net interest income from all its operations, and especially Treasury, in the year under report.

The Group's **net commission income** of € 853 million was down 7.3 percent on the prior-year value.

DZ BANK was obliged to absorb substantial falls in its securities-related business in 2002 due to the slump of prices on the financial markets; at the Group level, this was also true for DZI and the Swiss subsidiary cosba private banking ag (cosba). While DZ BANK's Treasury and Fixed Income divisions continued to progress as envisaged, the Equity side shared in the pain as the entire industry suffered. Income from new equity issuance fell sharply again over the year as the volume of new issues plumbed depths that the German capital markets have not seen since 1982.

Despite the tough conditions on the capital markets, product innovations enabled DZ BANK to position itself successfully in the private investment segment especially. One example of this success was the launching of an innovative index for participation certificates and – building on this – an ETF-style collective vehicle or "certificate of certificates" entitled "Genussschein Index TRACKER". This generated huge demand, in response to which a follow-on certificate was structured and successfully placed in the market in October; this was "Genussschein SELECT" and comprised a basket of between 10 and 15 of the most promising European participation certificates.

The payments handling division once again increased its contribution to the Group-wide commission income over the previous year's figure. On the other hand, fee income from international and credit business was lower year-on-year.

During the year under report the Union Investment Group – no longer trading since July 5, 2002 under the name of "Union Fonds Holding AG" but rather its new name of "Union Asset Management Holding AG" (UMH) – completed the strategic realignment process it began at the end of 2001 on schedule and is now positioned in the marketplace as a provider of end-to-end asset management solutions.

Despite the slide of prices on the international stock markets and the resulting progressive loss of investor confidence, further reinforced by the revelation during 2002 of a string of account manipulation cases, the Union Investment Group's net commission income came out in line with the prior year. This was primarily due to an exceptional sales performance during the year under report. UMH was once again the market leader as measured by net funds inflow, as it attracted € 7.9 billion of new money into its stable of retail funds (including open-ended real estate funds). Building on this sales success, the Union Investment Group significantly improved its ranking in the BVI retail fund assets table; as of December 31, 2002 its market share including open real estate funds stood at 17.1 percent compared to just 16.7 percent a year earlier.

The group's commission surplus is essentially dependent on the fund assets, and increased by 1.8 percent in the year just ended. Last year's exceptionally positive growth in the assets of open real estate and pension funds more than compensated for the market-induced declines in the assets of the Union retail equity funds.

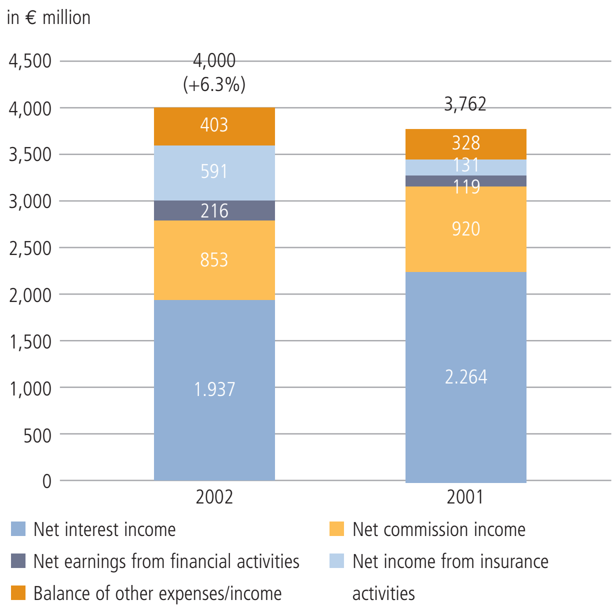
The sales of so-called Riester products (government-subsidized pension contracts) during 2002 exceeded the original expectations, not least thanks to a strong surge of demand in the fourth quarter of last year. Demand was strongest for the UniProfiRente Riester-type fund product; another product whose sales expanded strongly at the year-end was the "4P" multi-savings and pension package developed and distributed jointly with BSH. The "4P" customer offering stands for four premiums and the package includes a Union-Investment-developed fund-based pension strategy that takes advantage of the Riester allowance, an equity fund for tax-privileged wealth building, and a save-to-build contract into which customers can make both capital-building payments and privileged savings payments towards home building.

BSH was once again able to increase the volume of its home savings and loan new business year-on-year, and impressively extend its market leadership position in new save-to-build business. The further falls on the stock markets in the year under report helped to refocus investors' attention on the value of their own home as both a lower-risk retirement fund and an investment object. In addition, the generally low level of interest rates offered save-to-build clients attractive financing options.

Both BSH and DG HYP pay commissions to the local cooperative banks for the new business they sign up, and the expansion of new save-to-build plans at BSH meant it had to pay out more in fees than in the previous year. The consequence was BSH's commission expenses increased in the year under report. Since its higher expenses outweighed the income-enhancing effects of lower paid-commission rates, BSH posted a smaller commission surplus than on the preceding year. On the other hand, DG HYP's commission payments in favor of local cooperative banks were slightly down on the prior year; the bank also experienced some costs-side easing as its issuance costs were lower during 2002. Its commission income increased, primarily due to higher service charges for administering the commercial property loans portfolio, with the result that DG HYP's commission result was on balance improved.

DVB's net commission income moderated by 5.5 percent compared with the preceding year. In the first three quarters of the year under report, DVB's commission income from its securities-related services on behalf of the customers of the Sparda banks were lower year-on-year due to the general reticence of private investors to commit to purchases. This contribution to the bank's commission income was eliminated altogether when DVB stopped acting as the central bank for the Sparda banks with effect from September 30, 2002. In its core businesses however, DVB was able to expand its market position significantly – in international transport finance where advisory fees expanded impressively, and in ReiseBank's specialist services offering. The opening up of additional offices in several European countries adjacent to Germany and its moves into new businesses – such as the mail-order processing of holiday and business-travel currency – are helping to further establish DVB in the marketplace and gradually replace the fees it used to earn in earlier days from exchanging the various EU currencies.

Operating income of DZ BANK Group 2002/2001



The Group's **net income from insurance activities**, generated exclusively by R+V, increased by € 460 million to € 591 million. Out of this total, a component of € 453 million related to the strategic realignment of the R+V insurance group.

The Group's **net trading income**, which exceeded the prior year's total by € 97 million or 81.5 percent due to the first-time inclusion under this heading of the interest income net of expense from securities held in the trading portfolio, essentially depends on DZ BANK's proprietary trading activities.

The weaker income from the area of equity-price-sensitive products reflects the further grave deterioration in the performance of the international stock markets. Net income from trading interest rate risks increased substantially over the prior-year value, while net income from trading exchange rate risks was down on the high prior-year outcome.

General and administrative expenses were reduced by 7.9 percent to € 2,502 million. Non-personnel expenses reduced by 10.1 percent, while personnel expenses reduced by 5.3 percent. DZ BANK made the crucial contribution to the lowering of the Group's administration costs; its non-personnel costs moderated by 18.7 percent – covering almost every cost category – and its personnel costs fell by 14.3 percent.

In compliance with the large-scale, multi-project "Building DZ BANK" initiative, the cost-cutting program launched in the year of the merger was continued in a systematic and focused manner during the year under report. As far as personnel costs were concerned, this meant not only implementing essential workforce rightsizing measures but also realizing the internal structural reorganization necessitated by the merger of two central banks and the thoroughgoing rationalization of business processes. Other priorities were to introduce an efficient locations strategy and effect the necessary IT systems integration – one of the biggest challenges arising from the merger of DG BANK and GZ-Bank to create DZ BANK.

With the going-live last year of the centralized information and communications platform "DZ-infoNET", DZ BANK made a crucial contribution towards the implementation of a harmonized, feature-rich IT infrastructure across the cooperative financial services sector; this platform is now available not just to DZ BANK but all the local cooperative banks it serves. A future roll-out stage will transform "DZ-infoNET" into "VR Banking Portal" in order to provide all the primary banks nationwide with access to the cooperative financial services industry's comprehensive product offering through one central gateway.

The previously mentioned restructuring initiatives undertaken at the leading subsidiaries of the DZ BANK Group with the strategic objective of focusing their market activities more clearly within the cooperative financial system are of decisive importance for the positioning of not only DZ BANK but the entire DZ BANK Group in the context of the wider cooperative financial services sector.

In addition to these measures, the repositioning of DZ BANK within the private banking business segment during the year under report was also designed to support the "one-stop shopping" offer; the future distribution of products aimed at this market segment will take place exclusively through DZ Private Banking Vertriebsgesellschaft, a joint venture between DZ BANK, DZI and cosba.

This forward-looking market launch was accompanied during 2002 by a wide range of other initiatives aimed at optimizing sales management, improving the exploitation of income-growth potentials, and in the process strengthening the profitability position of every Cooperative Banking Group company.

The objective of reinforcing and expanding DZ BANK's market position was also the crucial factor in DZ BANK's decision in principle to establish a market presence in the payment systems segment through a legally autonomous transaction institution during the current year. This has now created the nucleus for possible future cooperation with other banks in a field of business that is dominated by segment-wide downsizing and cost pressures. The merger has left DZ BANK with a new payments handling arm whose 17 percent share of the German payments handling market and around 5 percent share of the Europe-wide market profile DZ BANK as an attractive business partner.

Equally, the realization of synergies is a key focus of DZ BANK's wider strategy with regard to the developing European single market. For instance, our existing alliance with Groupe Banque Populaire was strengthened during the year under report by an increase in the partners' reciprocal equity holdings. At the same time, the agreements on the potential for more intensive cooperation in selected fields of business were concretized and hand-picked project teams were tasked with implementing individual cooperative initiatives.

In another development, WPS Bank WertpapierService Bank (part of the German savings bank sector), of Düsseldorf, and Bank für Wertpapierservice and -systeme AG (bws bank – part of the cooperative financial services sector), Frankfurt am Main, are planning to combine their securities administration services in a new joint venture. Since higher transaction numbers permit significantly lower-cost back-office processing, it is expected that further securities settlement organizations will join in this new services providing pool.

Last year's improvement in the cost-income ratio to 70.5 percent (PY: 72.2 percent) after excluding the R+V-related exceptional effect of € 453 million, is still not satisfactory. Our ongoing drive to improve our cost structures and simultaneously boost our operating income remains our supreme priority.

The **balance of other operating expenses and income** of € 403 million is primarily due to the net leasing income generated exclusively by the VR LEASING sub-group (VR LEASING). Its new business expanded compared to the preceding year – not least due to the inclusion of VR DISKONTBANK GmbH in the sub-group with effect from January 1, 2002.

The extremely harsh economic climate had an overall negative impact on the credit portfolio and resulted in an increased risk provisioning requirement. The worst affected sectors of the economy were the media, energy and construction industries as well as other investment and consumption-dependent segments. In addition, the values realized from the liquidation of collateral security were markedly reduced.

As part of the ongoing fundamental review of DZ BANK's entire credit portfolio begun on completion of the merger, further progress was made on cleaning non-strategy-conformant risks out of the portfolio and new lending business was cautiously expanded subject to restrictive risk and profitability criteria. Initiatives planned for the current financial year include the systematic refinement of the parent bank's credit risk strategy, completion of the forward-looking reorganization of the risk management business segment, and the deployment of additional risk management tools – not least with a view to upcoming external standards, such as Germany's Minimum Requirements for the Conduct of Lending Business (MaK) regulations and Basle II.

The balance of the write-ups on participations, shares in related companies and securities treated as fixed assets amounted to € 181 million at the level of the DZ BANK Group following the offset of the associated expenses as permitted under section 340c.2 HGB (2001: € 73 million). The sharp improvement of this positive balance compared to the prior year includes both value adjustments on securities treated as financial assets and most importantly an earnings contribution of € 218 million resulting from the reorganization and concentration of the DZ BANK Group's business operations within the framework of the cooperative financial services system.

The **extraordinary expenses** total of € 224 million essentially comprises a sum to correct the erroneous period allocation of OTC zero swaps by DG BANK AG in the years from 1999 through 2001, personnel and non-personnel restructuring expenses incurred by the parent bank, plus expenses arising under the existing social plan from ongoing early retirement obligations.

After taxes, the **net income** on the year amounted to € 351 million compared to the previous year's € 114 million.

Volume development

The Group's **total assets** as at December 31, 2002 were € 26.3 billion or 7.2 percent lower than a year earlier, at € 338.3 billion. This volume reduction was predominantly due to developments at DZ BANK, while the balance sheet assets of DG HYP were also reduced.

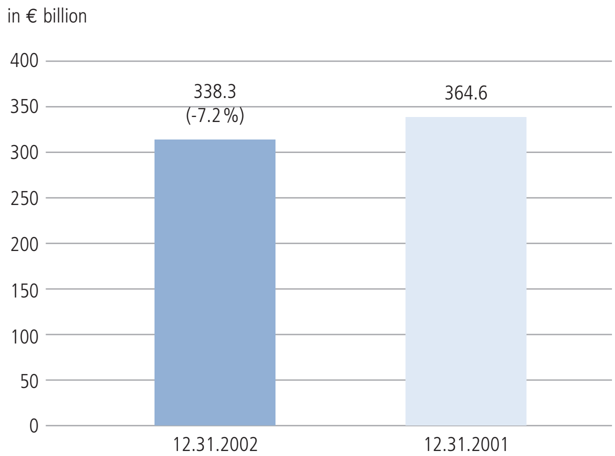
The **total volume of business** amounted at the year-end to € 466.5 billion (12.31.2001: € 500.7 billion).

The nominal volume of **off-balance-sheet futures transactions** amounted at the year-end to € 684.3 billion (12.31.2001: € 691.5 billion). The relevant replacement costs amounted to € 14.5 billion (12.31.2001: € 10.0 billion). Notes 35 and 36 to the consolidated financial statements provide a detailed breakdown of the product groups and counterparties structure of the off-balance-sheet futures transactions.

Placements with, and loans and advances to, other banks reduced by € 13.5 billion or 12.6 percent to € 93.6 billion. At DZ BANK this measure declined by € 3.9 billion. The year-on-year change at DG HYP amounted to € -3.3 billion as new state-finance business weakened.

The marked reduction in the **total consolidated loans and advances to other (non-bank) customers** by € 12.2 billion or 10.2 percent to € 106.9 billion resulted primarily from the declining trend of lending business at DZ BANK, where the pronounced weakening of the economy in the year under report produced an € 11.2 billion contraction in the debtors total. During the year DZ BANK withdrew from its activities in the area of institutional real estate funds and transferred its existing business to a specialist cooperative provider. In the case of DG HYP furthermore, the decline in local authority lending significantly outweighed the expansion of mortgage loan business and in the process shrank the credit portfolio by € 0.4 billion. On the other hand, DZI's customer loans total expanded by € 0.7 billion.

Balance sheet total of DZ BANK Group 12.31.2002/12.31.2001



The volume of the Group's **securities** holdings closed the year under report at € 85.9 billion compared with the year-earlier total of € 89.2 billion; this was primarily due to a € 1.7 billion reduction in the value of bonds held by DZ BANK coupled with a € 1.2 billion reduction in the parent bank's holdings of stocks and other variable-yield securities. DG HYP's securities holdings stood € 0.9 billion lower at December 31, 2002 compared to a year earlier. By contrast, the value of the securities heading increased at BSH by € 0.9 billion.

Deposits from other banks amounted to € 122.9 billion at the end of the year under report and were therefore € 6.9 billion lower in total year-on-year, on a reduction in this liabilities heading of € 3.7 billion at DZ BANK.

Non-bank customer deposits moderated at the Group level by € 7.0 billion or 8.8 percent to € 72.7 billion primarily due to lower fixed-term and current account deposits and a lower volume of borrower note loans that produced a total € 6.3 billion fall in this liabilities heading at DZ BANK.

Certificated liabilities reduced by € 15.1 billion or 15.4 percent to € 83.0 billion. This was primarily the result of reduced bond issuance by DZ BANK (€ -7.1 billion) and DG HYP (€ -3.9 billion).

The Group's **capital and reserves** amounted to € 6.0 billion (PY: € 5.8 billion). Its capital on the BIS definition totaled € 12.7 billion, with core capital (BIS) accounting for € 6.4 billion of the total. The Group clearly exceeded the prescribed minimum standards with a BIS tier 1 capital ratio of 5.8 percent and a BIS total capital ratio of 10.5 percent.

II. Risk report for the DZ BANK Group

The DZ BANK Group's risk supervision system

The acceptance and management of risks as a necessary condition for realizing business opportunities is a central feature of banking transactions and financial services. Risk and return can accordingly be seen as two sides of the same coin. **Risk** is defined as a negative deviation from a predicted value. Risk therefore represents the threat of unexpected losses. The DZ BANK Group classifies risk according to the following categories: liquidity risk, market price risk, default risk, operational risk and strategic risk.

The DZ BANK Group is subject to a large number of **statutory regulations** that it is required to comply with in designing its risk monitoring system. Among the most important of these is **section 25a.1.1 of the German Banking Act (KWG),** which obliges credit institutions (and parent banks in respect of the group subsidiaries) to install suitable arrangements for managing, monitoring and controlling risks and to put in place appropriate procedures and systems to make it possible to determine the relevant bank's financial situation at any point in time. Furthermore, **section 25a.1.2 KWG** requires banks to establish and maintain an adequate and orderly business organization, an appropriate internal control system and appropriate security precautions for the deployment and operation of EDP systems. The coming into force on December 20, 2002 of the **Minimum Requirements for the Conduct of Lending Business** (MaK) rules has effected a further concretization of the provisions of section 25a.1 KWG regarding the management of default risk. Additionally, since May 1, 1998 Germany's Corporate Control and Transparency Act **(KonTraG)** has placed all joint stock corporations under an obligation to take adequate measures – and specifically to install a group-wide monitoring system – to ensure the early identification of developments that threaten the survival of the company (section 91.2 AktG). For the design of such risk early-warning systems, KonTraG stresses the central importance of the criterion of significance, i.e. how great a threat a specific risk represents to the survival of the parent company. The banking supervision regulations governing capital adequacy additionally stipulate that all banks must maintain specified relationships between their **capital** and their risk-laden transactions. Capital is therefore one of the factors that limit banks' potential for business and therefore also their risk.

The DZ BANK Group is working intensively to prepare itself to meet the future requirements of the new Basle accord on bank capital adequacy **(Basle II)**. For instance, the Group-wide implementation of the Basle requirements is being directed through a central project and supported by regular participation in the Quantitative Impact Studies on the new capital adequacy rules as well as active involvement in the Basle consultations process. The layout of this Risk Report is already based on the future Basle requirements for pillar 3 risk reporting (market discipline).

The basis for risk supervision is the systems, procedures and standards laid down by the parent bank's management to signpost its risk policy and summarized under the umbrella term **risk strategy.** The risk strategy is an expression of the desired risk inclination in each of the Group's businesses, which by prescribing risk limits marks out the boundaries of discretionary action for the risk-bearing operating units. **Risk management** encompasses the measures taken by the risk-bearing operating units to implement the risk strategy. Most importantly, these include decisions to consciously assume risks, but also decisions to reduce risk. The defining characteristic of the organization units that have risk management responsibility and simultaneously function as profit centers is that they earn profits that contribute to Group earnings. For all these market-facing units, weighing the balance of risk and return is the starting point for all business policy decisions. **Risk controlling** is concerned with the development, implementation and refinement of risk measurement methods, and with modeling and recording the portfolio results and risks of each sphere of responsibility. In addition, the risk controlling function monitors and updates risk parameters and provides top management with information on the bank's current risk and income situation. It performs these tasks separately from the management entities responsible for operational risk management right up to senior management level. Through this structure DZ BANK AG has achieved functional separation between risk management and risk controlling.

In organizational terms, the **risk controlling** function within DZ BANK AG is assigned to the Controlling section of the Corporate Controlling division and is structured into three departments: Risk Control, Market Price Risk Control and Process Risk Control. The last-named department is responsible for default risk control and operational risk control. The Risk Control department is responsible for performing cross-risk-class analyses and making recommendations for action based on its studies. This unit also ensures the integration of risk and capital management between the parent bank and the Group.

Alongside the risk controlling function, **Internal Audit** represents a second independent component of the Bank's internal supervision system. It reports direct to the Board of Managing Directors and is tasked with ensuring the functionality and effectiveness of the risk supervision system in compliance with Germany's MaIR rules (Minimum Requirements for the Organization of the Internal Audit Function). Internal Audit performs audits on the basis of a risk-driven annual audit schedule and monitors the rectification of any shortcomings identified. All the risk-relevant areas of the bank are given adequate attention by this system. As a component of the DZ BANK Group's risk supervision system, the risk early-warning system was itself the object of just such an audit in the fourth quarter of 2002 as required by KonTraG. As part of the planned upgrading of the Group's management and supervision toolkit, Internal Audit is currently also working with the Group's key subsidiaries to develop the core functionalities of a Group Audit capability.

The following **companies** are automatically involved alongside the parent bank in the specific group risk supervision activities of the Group Treasury Committee and the Group Risk Controlling Working Party: Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (BSH), Deutsche Genossenschafts-Hypothekenbank AG, Hamburg (DG HYP), DVB Bank AG, Frankfurt am Main (DVB), DZ BANK International S.A., Luxembourg-Strassen (DZI), DZ BANK Ireland, Plc, Dublin (DZ Ireland), R+V Versicherung AG, Wiesbaden (R+V), Union Asset Management Holding AG, Frankfurt am Main (UMH) and VR-LEASING AG, Eschborn (VR-LEASING). A full list of the parent bank's shareholdings is on deposit in Frankfurt am Main as part of the Commercial Register entry, and provides an overview of the DZ BANK Group's ownership structure.

Various **committees** support the implementation of the risk supervision strategy within the parent bank and the Group:

- Covering the area of DZ BANK AG's market price and liquidity risks, the **Treasury Committee** is informed regularly about the management decisions affecting the individual portfolios. The periodic reports submitted to the committee include the MaH Report, a brief summary of the bank-wide risk and earnings situation, changes in the economic environment, compliance with Principles I and II, and the bank-wide refinancing situation as required by the Minimum Requirements for the Conduct of Trading Activities (MaH). The Committee meets weekly to discuss the management of these parameters and prepares action proposals for submission to the full Board of Managing Directors. The membership of this Committee includes the heads of the Treasury, Fixed Income, Equities, Accounting, Research/Economics and Corporate Controlling divisions and the members of the Board of Managing Directors responsible for these activities.

- An additional Group-wide committee **(Group Treasury Committee)** meets quarterly to address the same themes as the parent bank's Treasury Committee, and supplements these with the default risk and operational risk categories as well as specific Group themes, and thereby integrates the Group's key subsidiaries into a coordinated management and controlling approach. The **Group Risk Controlling Working Party** is made up of representatives of the risk controlling functions of the major Group subsidiaries and also meets at least quarterly to assist the Group Treasury Committee with the management and regulatory aspects of risk themes and with operational analyses within the quarterly and ad-hoc reporting system. However, the Group Treasury Committee remains the central platform for risk management at the DZ BANK Group level.

- The Board of Managing Directors has formed a **Credit Committee** from amongst its own members and assigned it the authority to make lending decisions in the name of the full board. In the exercise of this authority, the Credit Committee – subject to the statutory exceptions defined by sections 13a/13b and 15 KWG – decides on significant loan commitments of DZ BANK AG, paying special attention to their implications for the Bank's default risk position. The Credit Committee's role also includes managing the Bank's overall credit portfolio and developing improved tools and methods for managing specific, sector and portfolio risks in the lending business.

- Before new products are added to DZ BANK AG's services offering, the **Product Introduction Team** uses a specially defined procedure to investigate whether the standard core banking risks associated with the new products can be adequately managed and also captured by the internal and external accounting systems.

- The Board-led **Steering Committee** oversees the completion of projects to budget and on schedule. This body directs the complex master projects "Cooperative Banking Group", "Mid-size and Large Companies", "Corporate and Investment Banking", "Asset Management and Private Banking", "Risk Management", "Transactions and Services" and "Corporate Controlling". These master projects bring together specific projects along the lines of DZ BANK AG's business units. The members of the Board of Managing Directors responsible for each business are systematically involved in the project work through the defined reporting and escalation channels.

- To ensure the effective functioning of the complex project organization necessitated by the merger, DZ BANK AG has set up a **Merger and Integration Management Committee.** This operates at the interface between the project complexes and the Steering Committee and coordinates all of the bank's project activities; its role is superordinate multiproject management and it reports direct to the Steering Committee.

- The members of the Board of Managing Directors of DZ BANK AG stand to become aware of any survival-endangering risks emerging at the Group's subsidiaries and affiliates through the active performance of their roles on the relevant **supervisory boards**. The members of DZ BANK AG's own Supervisory Board are additionally kept regularly informed of the wider risk situation through the quarterly Group Risk Report.

Within the DZ BANK Group, risk supervision in principle involves three **process phases** that are organized differently in respect of each risk class:

- The **risk identification** phase defines the risk fields to be covered by risk monitoring, by assigning risk classes to the Group's risk units. This is done by assessing the risk exposures by reference to the criteria of "degree of significance" and "threat to the survival of DZ BANK AG" as the Group parent company.

- **Risk measurement** covers the development, implementation and application of suitable methods for measuring the identified risks.

- **Risk management** describes the process of supplying decision-relevant risk information to the risk managers and deciding on the treatment of the indicated risks. For this purpose, the risk-bearing units are able to call on a mix of tools that allow them to either avoid, reduce or consciously accept risks.

The **progress made on upgrading and extending risk supervision** across the DZ BANK Group in 2002 now permits close coordination between DZ BANK AG and the biggest Group subsidiaries. In particular, the further progress made on harmonizing risk measurement methods and the now-quarterly production of a Group Risk Report are generating increased transparency about the risk potentials within the Group. At the same time, the DZ BANK Group's risk supervision system is characterized by extensive decentralization. The Group risk supervision mechanisms will be further refined and rolled out during 2003.

After the merger took legal effect in 2001, the priority challenge facing the bank in 2002 was to complete the process of effectively **integrating** DG BANK AG and GZ-Bank AG in organizational, personnel and hardware terms to make a practical reality of the new DZ BANK AG.

Risk tolerance capacity, aggregate risk ceiling and capital management

For the purposes of internal management within DZ BANK AG, a loss ceiling is defined to provide a yardstick for quantifying the bank's capacity to bear risk. The Board of Managing Directors identifies the overall upper loss limit by reference to the available risk-covering capital and in the process specifies, in accordance with its risk inclination, the maximum monetary amount the bank is permitted to lose in a single financial year through entering into risks. **DZ BANK AG's loss ceiling for fiscal 2002** was € 2.6 billion. The following loss ceilings were defined for the individual risk classes: market price risk € 0.5 billion, default risk € 1.6 billion, operational risk € 0.5 billion. DZ BANK AG's concept for determining its overall loss ceiling was extended in 2002 to the DZ BANK Group and approved by the Board of Managing Directors. The framework is therefore now in place to roll out a Group-wide capital and risk management system. **The DZ BANK Group's aggregate loss ceiling for fiscal 2003** has been defined at € 4.5 billion on the basis of the Group's risk tolerance capacity. This overall amount has been apportioned between the specific risk classes as follows: market price risk € 0.6 billion, default risk € 2.9 billion, operational risk € 0.6 billion and strategic risk € 0.4 billion. During the 2003 financial year, the quarterly Group Risk Reports will make it possible to compare the actual measured risk values against the risk-class-specific loss ceilings.

Further progress was made during 2002 on developing a **Group-wide regulatory capital reporting system**. As in the previous year, risk-weighted assets and equity capital have once again been incorporated into the fiscal 2003 annual planning process; at the same time, a start was made on developing intra-year controlling. The foundation for determining the DZ BANK Group's capital strategy is provided by the five-year risk-weighted assets and capital forecasts needed for translating business policy objectives.

The statutorily prescribed **minimum capital ratios** were complied with at all times during fiscal 2002. The DZ BANK Group's consolidated total of compulsorily reckonable positions as defined by Principle I stood at € 120.0 billion at December 31, 2002 (December 31, 2001: € 138.5 billion) while qualifying capital stood at € 12.8 billion (€ 13.1 billion). **The Group total capital ratio** was established at 10.6 percent (9.5 percent). If we look at the equivalent measures before consolidation for DZ BANK AG as at December 31, 2002, the total of compulsorily reckonable positions as defined by Principle I stood at € 70.8 billion (€ 86.8 billion). The parent bank's qualifying capital at the same date was € 10.3 billion (€ 10.5 billion). This produces **a total capital ratio for the parent bank** of 14.5 percent at the end of 2002 (12.1 percent). **The tier 1 capital ratio** for the DZ BANK Group as of December 31, 2002 was 7.2 percent (5.7 percent), while the equivalent measure for DZ BANK AG was 10.5 percent (8.0 percent). The DZ BANK Group's capital underpinning on the basis of the **Bank for International Settlements'** (BIS) capital adequacy recommendations was as follows at December 31, 2002: total capital ratio 10.5 percent (9.1 percent), tier 1 capital ratio 5.8 percent (4.9 percent). The BIS figures are based on the following values: risk positions € 120.9 billion (€ 141.5 billion), capital € 12.7 billion (€ 12.9 billion). The minimum ratios prescribed by the BIS were complied with. The positive development of the total and core capital ratios on the German formula **(Principle I)** at the level of the **parent bank** resulted firstly from the reduction of the risk assets total, and secondly from the addition of new capital through a capital increase. In line with the bank's new credit strategy, the reduction of risk assets in the long-term investments book made the biggest contribution to the fall in the compulsorily reckonable positions heading in 2002. There were also large-scale reductions in the imputed value of general market price risk in the trading book and of foreign-currency risks, in that these risk classes were almost totally incorporated into the bank's internal risk model.

The **consolidated volume of the DZ BANK Group's weighted assets** on the Principle I definition amounted to € 120.0 billion at December 31, 2002, a substantial 13 percent reduction on the prior year. DZ BANK AG was the biggest contributor to the Group's risk assets, at more than € 62.5 billion. DG HYP was also a significant contributor at € 18.5 billion, as were BSH at € 15.5 billion, DVB at € 7.2 billion and DZI at € 3.4 billion.

Risk-weighted Assets

Group companies	December 31, 2001 Absolute in €bn	%	December 31, 2002 Absolute in €bn	%
DZ BANK AG	68.4	49.3	62.5	52.2
DG HYP	17.8	12.9	18.5	15.4
BSH	16.0	11.6	15.5	12.9
DVB	8.3	6.0	7.2	6.0
DZI	6.0	4.3	3.4	2.8
VR-LEASING	1.6	1.2	2.5	2.1
DZ Ireland	2.1	1.5	2.2	1.8
UMH	0.3	0.2	0.3	0.2
Others	18.0	13.0	7.9	6.6
Total	**138.5**	**100.0**	**120.0**	**100.0**

Risk-weighted assets of major DZ BANK Group companies as defined by Principle I KWG, in € billion

Liquidity risk

Liquidity risk is understood to mean the unexpected loss that can arise if insufficient funds are available to fulfill due payment obligations or reduce risk positions **(liquidity risk as strictly defined)** or if funds can only be procured on more demanding conditions when needed **(refinancing risk). Market liquidity risk** is created if an institution holds financial instruments that cannot be sold or settled at all, or only at a loss, due to insufficient market depth or disturbances of the market. Market liquidity risk is defined as the potential loss from the complete liquidation of a sub-portfolio during a ten-day retention period. The following description of the monitoring and management of the Group's liquidity risk covers liquidity risk in the narrower sense and refinancing risk. Market liquidity risk is managed by the individual sub-portfolio managers and is included in the value-at-risk calculated for the purposes of supervising market price risks. There is no separate central quantification of the Group's market liquidity risk at present. The **forecasting period** for estimating the evolution of the liquidity situation focuses on a period of one year.

During 2001 the **Group-wide reporting system** for the area of liquidity risks was further progressed and institutionalized as a component of the quarterly Group Risk Report. The system involves the quarterly collection and consolidation of the Principle II data of the three relevant domestic Group affiliates with bank status (BSH, DG HYP, DVB) and the Principle-II-equivalent data of the two foreign bank subsidiaries DZI and DZ Ireland plus the two non-bank affiliates UMH and VR-LEASING AG with the Principle II data of DZ BANK AG, and the production from these data of a "Group Principle II" statement. This now makes it theoretically possible to detect survival-threatening liquidity risks within the Group. Further development and extension of this Group liquidity risk controlling is planned. As of December 31, 2002 the Group's liquidity ratio as calculated on the basis of this consolidated data stood at 1.32 (December 31, 2001: 1.50) and therefore only varied negligibly from the regulatory value for DZ BANK AG of 1.33 (1.49). In addition, cumulative liquidity ratios are calculated. In contrast to the method for calculating the Principle II observed ratios, this involves carrying forward all cash resources and payment obligations into the subsequent term bands. As of December 31, 2002 these values stood at 1.16 (1.31) for term band II, 1.10 (1.24) for term band III and 1.07 (1.22) for term band IV.

Liquidity ratios for the DZ BANK Group

	12.31.01	03.31.02	06.30.02	09.30.02	12.31.02
up to 1 month	1.50	1.39	1.45	1.43	1.32
up to 12 months	1.22	1.18	1.14	1.14	1.07

Furthermore, liquidity balances expressed in euro are calculated for the individual term bands using adjusted Principle II data that take account of Group-specific liquidity flows. This means the liquidity management function has access to information about future liquidity needs at the Group level. It is intended to further optimize the methodology, processes and reach of the Group reporting system during 2003. The DZ BANK Group's liquidity risk is not expected to increase in fiscal 2003.

In addition to banks' internal control tools, liquidity risk is also limited through the **banking regulations**. These apply both to DZ BANK AG and also the Group's relevant German and international subsidiaries and affiliates, which are all subject to equivalent regulator-defined liquidity supervision regimes. Liquidity Principle II defines the prescribed adequate liquidity level for banks required under the terms of section 11 KWG, and obliges banks to calculate their liquidity ratio and other observed ratios on a monthly basis. DZ BANK AG uses these measures as the gauge for its liquidity risk.

Within DZ BANK AG, **liquidity management** is a central function performed by the Treasury organization unit, and covers both the euro and foreign currencies. In order to exploit synergy benefits, several of the Group subsidiaries and affiliates are also already integrated into DZ BANK AG's management process. It is intended to integrate further subsidiaries and affiliates where relevant into this process. The bank's solvency is secured through daily analysis of its liquidity flows. The resulting report tracks and monitors short-term liquidity risk including deterministic cash flows. Cover surplus and shortfall positions can be promptly detected and balanced through countervailing money market transactions. The controlling of DZ BANK AG's intraday liquidity takes place within the framework of the ongoing planning of the Deutsche Bundesbank Office accounts. Additionally, an internal traffic light model is used as a tool for measuring the short-term liquidity position and a detailed structural analysis of the differentiated liabilities-side resources provides a management mechanism. This provides an early-warning system so that when necessary, action can be initiated to procure additional liquidity or reduce the need for liquidity. To secure its day-to-day liquidity, DZ BANK AG's liquidity management function has a portfolio of qualifying securities for central bank repurchase operations at its disposal that it can sell at short notice or deposit as security for refinancing transactions within the ESCB. As of 31 December 2002, this liquidity reserve stood at € 13 billion. The Board of Managing Directors members responsible for the Treasury function and the heads of the Treasury and Controlling divisions are notified daily of the changes in the bank's liquidity position. The appropriateness of the bank's management of its liquidity risk during 2002 is also demonstrated by its compliance with the regulatory requirements throughout the period. DZ BANK AG's liquidity ratio (term band I), which Liquidity Principle II requires to be calculated monthly, was above the regulatory threshold of 1.00 for every period. The maximum value recorded for this ratio was 1.59 (recorded on July 31, 2002) and the minimum value was 1.33 (December 31, 2002).

Liquidity ratios for DZ BANK AG

	12.31.01	03.31.02	06.30.02	09.30.02	12.31.02
up to 1 month	1.49	1.39	1.48	1.47	1.33

An internally defined, empirically based internal planning threshold value of 1.20 for this liquidity ratio serves as an **early-warning indicator**; the aim is not to fall below this level so as to secure the bank's permanent liquidity discretion. Targeted countervailing measures are triggered as soon as the liquidity ratio reaches or falls below the level of the planning threshold.

Market price risk

Market price risk refers to the unexpected loss that can result from detrimental changes in market prices or price-determining parameters. Market price risk further subdivides according to the underlying business object into the following component categories: interest rate and exchange rate change risk, share price risk and other price risks.

2002 saw the continuation of the **Group-wide market price risk reporting system** covering the major Group entities exposed to market price risks (DZ BANK AG, BSH, DG HYP, DVB and DZI). A quantitative report is submitted to the Board on a quarterly basis and this incorporates both value-at-risk-oriented risk statistics and also market-price-risk values calculated using the scenarios approach. The last-named values now only account for a small proportion of the all-sources market price risk and will probably also be switched to the value-at-risk measure in the course of 2003. An aggregate market price risk limit of € 806 million split between the participating companies as of December 31, 2002 compares with a cumulative risk value of € 166 million. The average market price risk of all the participating Group companies' investment and trading books stood at € 327 million. This average value reduced in the final quarter of 2002 to € 177 million as a result of methodological harmonization and the factoring in of correlation effects at the individual institution level. The participating Group companies immediately notify limit infringements at the individual institution level to DZ BANK AG as part of an **ad hoc reporting system**. No such limit breach was registered at the institution level during the year under report. Work was also continued in 2002 on establishing a **value-at-risk-based Group report** for market price risks. The aim of this report is to identify a methodologically consistent risk measure for all the participating Group companies exposed to market price risks that allows for inter-institutional hedging and correlation effects. The DZ BANK Group will continue during 2003 to pursue the same market price risk strategy as in previous years, and will base its assignment of institution-specific limits on the risk capacity of the wider Group.

As part of the **risk management strategy of** DZ BANK AG, every market price risk position, in both the dealing and long-term investment books, is assigned to one precisely defined sub-portfolio. The **management of each sub-portfolio** is distributed between sub-portfolio managers who are assigned risk and performance responsibility by the Board of Managing Directors. Risk controlling in relation to the bank's market-price-risk-exposed positions is performed by the Corporate Controlling unit, which as part of the **management reporting** structure provides information on a daily basis both to the Risk Management function and the Board members responsible for risk controlling, and to the managers responsible for the active management of the sub-portfolios, about the market price risk and performance of the bank as a whole and/or the relevant sub-portfolios.

The internal management of market price risk within DZ BANK AG is based on what is known as the **sub-portfolios concept**, under which (on the model of a portfolio tree) the bank has defined a hierarchically organized portfolio structure of sub-portfolios (portfolio hierarchy). The highest level of the portfolio hierarchy is home to the bank-wide portfolio, which is understood as the aggregation of all the market-price-risk-exposed positions of DZ BANK AG. The subordinated levels of the portfolio hierarchy disaggregate the bank-wide portfolio into sub-portfolios that parallel uniquely demarcated areas of responsibility. A distinction was retained between the sub-portfolios of the two predecessor banks for risk management and monitoring purposes through to their eventual amalgamation on March 1, 2002. For the former DG BANK, the operations affected were the dealing units of the units Investment Banking Equities / Corporate Finance / Structured Finance and Investment Banking Interest Products and Currencies, the dealing units of the New York, London and Hong Kong branches, the (non-trading) Central Planning unit and the non-trading areas of the strategic portfolios. In the case of the former GZ-Bank AG, the operations affected were the trading books of the Fixed Income, Equities Trading, Treasury and Brokerage divisions plus the bank's investment book that also took in the risk positions of its international branches in Singapore and Luxembourg. On March 1, 2002 these portfolios were combined to finally create a **unified portfolio hierarchy** for DZ BANK AG. This now distinguishes, at the level of the hierarchy below the bank-wide portfolio, the domestic trading divisions Fixed Income, Equities, Sales and Brokerage, and Treasury, plus the non-trading areas of the Central Planning unit and strategic portfolios, plus the international branches in New York, London, Hong Kong, Singapore and Luxembourg. Market price risk is managed by means of a **limits system** that applies to all the sub-portfolios and which sets limits for both the market price risk entered into – expressed as value-at-risk – and also the losses that accumulate over the course of the year. These market price risk limits are defined as asymmetrically dynamic limits. The losses run up in the financial year are set against the limit capacity while accumulated gains are ignored. For risk management purposes, the second-level sub-portfolio limits are disaggregated by the responsible managers to the subordinated hierarchy tiers. Prior to the amalgamation of the separate portfolios on March 1, 2002, the limit systems established by the two predecessor banks continued to apply. These essentially followed the same conceptual logic as the post-March 1, 2002 limits system. The former GZ-Bank AG's investment book was not subject to a formal risk limit before the harmonization of the risk management structure; instead its limit reference was the loss ceiling implied by the depreciation requirement under HGB accounting rules.

The internal measurement of market price risk within DZ BANK AG is based on the **value-at-risk** concept (VaR). The value at risk quantifies – relative to a specified portfolio retention period – the possible future loss that will not be exceeded under normal market conditions at a defined level of probability (confidence level). As required by Principle I, the value-at-risk within DZ BANK AG is calculated at a 99 percent confidence level and assuming a retention period of ten business days, including for internal risk management purposes. DZ BANK AG uses an internal risk model implemented in the MaRS computer system (Market Price Risk System) for VaR calculations, except for the risk positions that are still recorded in the former GZ-Bank AG's IT systems universe. Their value-at-risk continues to be measured on the basis of the predecessor bank's previous methods and processes, under which the calculated market price risk takes little account of correlation and hedging effects that operate between the risk factors and the sub-portfolios. The progress made during 2002 on driving forward the migration of databases and systems means that the risk positions not yet incorporated into the bank's internal model after the merger, now represent a negligibly small fraction of the total. A value-at-risk calculation is performed daily for the MaRS portfolio hierarchy with the aid of an **historic simulation** of the last 250 business days. The relevant front-office systems feed the necessary data to the business database. A second database contains daily updated market data such as prices, interest rates and yields, and volatility measures; these also remain available as historic data. MaRS uses this information to calculate market values, sensitivities and the VaR for all trading products and portfolios. The processes of calculating the overall VaR and aggregating to superordinate portfolio levels make allowances for risk-reducing correlation effects and therefore recognize the advantages of diversification.

DZ BANK AG's **internal risk model** has been approved by the German banking regulator for calculating the capital backing required for market price risk positions based on VaR – in line with Principle I. A certificate of fitness for purpose covers the head office in Frankfurt plus the international branch in New York and relates to the total forex exposure as well as the general price risk of the fixed-income and equities net positions. In addition, DZ BANK AG is permitted to allow for correlation effects when it reports to the regulators. The add-on factor (relevant to the capital backing calculation) required by Clause 33 of Principle I is currently 0.6. The fundamental design of DZ BANK AG's internal risk model gives it the capability to accurately estimate market price risks.

DZ BANK AG's **total value-at-risk** as of December 31, 2002 was € 28.5 million. (21.31.2001: € 173.1 million) The following chart shows the daily aggregate VaR of DZ BANK AG during 2002 and highlights the accounting date, minimum, maximum and average daily values:

The following table shows the daily aggregate VaR of DZ BANK AG's Frankfurt trading units in 2002 and highlights the accounting date, minimum, maximum and average daily values:

Value-at-risk of Frankfurt trading operations

12.31.02	2002 mean	2002 minimum	2002 maximum	12.31.01
14.3	15.6	8.2	30.4	15.2

in €m

The following table shows the daily VaR of DZ BANK AG's strategic portfolios in 2002 identifying the accounting date, minimum, maximum and average values for 2002:

Value-at-risk of strategic portfolios

12.31.02	2002 mean	2002 minimum	2002 maximum	12.31.01
16.5	94.6	12.5	177.2	157.4

in €m

The reduction of the value-at-risk in the strategic portfolios essentially resulted from the scaling back of the long position in the area of general interest-rate-change risks (maturity transformation).

Backtesting is performed daily to verify the quality of the risk modeling. This involves a comparison – across the entire MaRS portfolio hierarchy – of the day's losses and gains with the VaR values calculated using the internal risk model

Evolution of DZ BANK AG's aggregate daily VaR

and assuming a one-day retention period. To calculate the daily profits and losses, DZ BANK AG uses the "hypothetical value change" concept in which the market value change of the portfolios' daily closing position is calculated by reference to the following business day's official market data (clean backtesting). The model assumption for calculating the loss potential stipulates that the actual loss must not exceed the simulated VaR on more than one percent of trading days. During 2002, losses in excess of the simulated VaR at the entire trading portfolio level were experienced on one single trading day.

Weekly **stress tests** are run to factor extreme market movements into the internal risk model. These crisis tests involve simulating violent fluctuations in the risk factors influencing the bonds, forex and equities operations. The simulation serves to identify potential losses not shown by the daily VaR approach. These stress tests model both extreme market movements that have actually occurred in the past and also crisis scenarios which – irrespective of the market data history – are deemed to be economically relevant. The value losses simulated through this weekly stress testing are used as the basis for continuously reviewing the adequacy of the bank-wide limits hierarchy.

The internal management of the market price risk of the **Central Planning operations**, in other words lending and own-securities issuance business, at DZ BANK AG was converted in October 2002 from the former scenarios-based approach to the bank's internal risk model (MaRS). The following table shows the daily value-at-risk of DZ BANK AG's Central Planning operation and identifies the accounting date, minimum, maximum and average values for 2002 compared with 2001:

Value-at-risk in Central Planning

12.31.02	2002 mean	2002 minimum	2002 maximum	12.31.01
1.54	1.60	0.17	4.10	0.51

in €m

DZ BANK AG will continue to maintain the **market price risk strategy** it has applied in previous years during 2003 as well. In its dealing operations, DZ BANK AG will continue to focus basically on customer servicing and its proprietary trading will primarily aim to support customer business. In contrast to "traditional" own-account trading, which centers on the achieving of profit through risk-taking, the bank's core expertise in customer-led proprietary trading is recognized as the ability to enter into and manage risk in order thereby to be in a position to offer a customer-demand-driven product range. DZ BANK AG will also continue to expand the bank's own market position in credit products dealing. Guided by the bank's risk strategy, the Board of Managing Directors has reduced the market price risk limits for the year 2003. The limit reduction essentially relates to the strategic portfolios.

In recognition of the significance of the bank's **credit products** activities, a start was made in 2002 on creating a database of historic spread time series. The introduction of systematic measuring of general credit-spread risks is planned for 2003. DZ BANK AG's internal risk model will provide the platform. Further important extensions of the risk model, most importantly in relation to credit-spread risk factors, are planned for 2003 in addition to the incorporation of new risk factors in response to user needs in the Equities division.

Default risk

Default risk is to be understood as the risk of an unexpected loss arising from the failure of a business partner to fulfill its contractual obligations (default-centric view).

The risk of an unexpected loss can however also result from a downgrade of the counterparty's credit rating that reduces the probability that it will fulfill its contractual obligations (value-centric view). A further prerequisite for the ability to identify and manage default risk is quantifying the anticipated loss from an individual business partner. This predicted loss is factored as a cost component into the bank's required contribution margin calculation. The **forecasting horizon** for estimating default risks focuses on a period of one year. The non-fulfillment of contractual obligations on a stand-alone transaction view **(Basle II definition of discrete-transaction-related default)** is assumed in the following five cases, which are also mirrored in DZ BANK AG's master ratings scale: 1) more than 90 days overdrawn, 2) formation of specific loan loss provisions, 3) suspension of interest payments, 4) insolvency and 5) compulsory winding up or write-off.

Progress continued during 2002 on developing a **Group credit portfolio risk reporting system**. The Group Treasury Committee is informed on a quarterly basis about the risk situation in the Group. The measurement of risk is based on an approximative value-at-risk method. This calculates the potential unforeseen loss from the fluctuations in the net risk provisioning ratios of the participating group companies. These provide the basis for investigating correlations between the companies, show the extent to which the Group's default risk is diversified and finally provide an indication of the economic capital tied up Group-wide by default risks. To supplement this **indicative default risk calculation**, the DZ BANK Group uses a second technique based on empirical benchmarking. Even on this more conservative estimate, the identified portfolio risk value of approximately € 2.4 billion is still significantly below the Group-wide default risk loss ceiling of € 2.9 billion defined for the 2003 financial year. Analysis of the portfolio risk reveals a significant diversification effect acting within the Group. The aggregate unforeseen loss for the Group is much smaller than the sum of the unexpected losses of the Group companies. Comparisons of the **average credit weightings** over time provide additional clues to the evolution of the risk content of the lending portfolio. The changes in the average credit weightings – calculated as the ratio of weighted risk assets on the Principle I formula to unweighted risk assets including the volumes of zero-weighted risk assets – over time reveal the level of risk-taking relative to the total exposure of the individual institution and sub-group concerned. The Group Treasury Committee receives a quarterly report on the evolution of this ratio. Compared to the prior year, the DZ BANK Group's average credit weighting reduced from 42.7 percent to 41.0 percent.

In fiscal 2002 the DZ BANK Group incurred default risks primarily through its extensive business with SME customers, both direct lending and metacredits, through its large customers business and through its real estate lending business.

For the purposes of helping to manage the **geographical risk concentration** dimension of the DZ BANK Group's lending business, the country limit defined by DZ BANK AG's Credit Committee in consultation with the Group subsidiaries represents an internal value ceiling up to which the Group companies are permitted to assume the country risk arising from banking transactions with customers within the meaning of section 19.1 KWG. The categorization of the DZ BANK Group's credit exposures into country risk classes is based on DZ BANK AG's **country risk model**.

Each country's risk factors – essentially, macroeconomic risk ratios and certain political risk measures – are evaluated by the country risk model on the basis of a scoring approach that automatically generates a country risk index, whose reading determines the assignment of that state to one of the seven country risk classes. The best risk class A expresses a very low long-term risk, while the worst risk class G implies acute danger of losses. The following table shows the distribution of country limits and their utilization across the DZ BANK Group:

Country Limits and Country Limits Distribution within the DZ BANK Group

Country Risk Class	Country Limit within Group	Country Limits Distribution within Group 12.31.01 gross	net	12.31.02 gross	net
A countries	unlimited	77,620	73,437	79,421	69,634
B countries	1,690	1,360	1,200	1,311	1,086
C countries	4,063	3,684	2,399	4,211	1,852
D countries	2,990	1,786	1,047	2,360	841
E countries	465	885	274	1,095	328
F countries	88	437	104	131	27
G countries	individual decision	14	6	84	9
No classification	10[1]	3	0	30	24
Off-shore countries[2]	unlimited	5,545	5,256	187	157
Total		**91,333**	**83,722**	**88,830**	**73,957**

in € million

[1]For each country not rated, there is a trifling limit of € 2.5 million; for individual transactions, the trifling limit amounts to € 0.25 million.

[2]In the figures as of 12.31.01, the Cayman Islands are included with € 4,916 million, and the Bermuda Islands with € 526 million (gross), respectively € 4,734 million and € 446 million (net). As of 12.31.02, these countries are included under Great Britain.

The gross take-up totals cover the types of banking transactions defined in section 19.1 KWG. Deducting collateral securities and allowing for third-country cover identifies the net utilization total. As of December 31, 2002 more than 98 percent of group exposures fell into the country risk classes A through C. As of the year-end, no country risk provisions had been formed in respect of these three best risk classes. The reduction of the gross country limit utilization by barely 3 percent and of the net country limit utilization by more than 11 percent year-on-year is the result of the conservative risk policy adopted by the DZ BANK Group. The country limits for Argentina, Brazil, Ivory Coast, Turkey, Uruguay and Venezuela are currently suspended due to the crisis situations prevailing there. No new business may be transacted in these countries until further notice.

To evaluate the **creditworthiness** of individual business partners, DZ BANK AG performs a detailed analysis of the counterparty's balance sheet and financial strength as well as a sector-peers comparison. The financial analysis looks at cash flow in order to eliminate subjective valuation factors from the credit judgment. The scoring system also used by the parent bank has the character of an early warning system and provides timely clues to any potential threat of insolvency at the company under review. The key financial ratios and estimates generated by this analysis are then aggregated. To reach a final assessment of the customer, the quality of the customer's management and relationship to the bank, DZ BANK's sector rating and the company's likely future development are all factored into the equation. The overall risk assessment of the customer is then expressed as a credit quality judgment in the form of a **BVR I** rating. Modules of the **BVR II** ratings system – developed by DZ BANK in cooperation with WGZ-Bank as part of the "VR-Control" BVR project – replaced the BVR I ratings system during 2002 for the "Larger SMEs"(domestic non-bank customers reporting annual sales between € 5 million and € 1 billion) and "Smaller SMEs" (annual sales of less than € 5 million) customer segments. Work on developing a customized BVR II ratings module for the "Large Corporate Customers" segment made big strides forward during 2002. The deployment of this ratings module is planned as part of a project scheduled for 2003. Also as part of this project, equivalent BVR II ratings systems will be developed for the other customer segments in succession. The aim is that once all the development work is complete, all the BVR II ratings modules will satisfy the Basle II requirements for an internal ratings-based (IRB) approach. It is also intended to review and improve the discrimination resolution of all existing rating systems and to upgrade the standard risk costs system for additional customer segments.

In addition to limiting default risk through credit quality assessment tools, it is important for the bank to adequately price and charge out its residual default risk. To compensate for the average predicted losses due to borrower defaults, **standard risk costs** are calculated both for proposed transactions and for the purposes of historical verification. The methodology used to calculate standard risk costs for domestic lending business was subjected to a thorough overhaul in 2002. Standard risk costs are now determined by reference to empirically established "probabilities of default" (PD) assigned to each borrower's internal rating scores. Other factors that also feed into the calculation of standard risk costs are the cumulative drawdown at the time of the default ("exposure at default", EAD) and the predicted loss at the time of the default ("loss given default", LGD) after deducting the value of the collaterals furnished by the borrower. This approach to the calculation of standard risk costs will guarantee rating-differentiated pricing and a more accurate balance between the incidence of value adjustments and direct write-downs versus charged-out standard risk costs as a whole. For domestically driven international lending business, present-value default risk costs are calculated on the basis of the rating awarded to the customer by an external rating agency, where applicable, plus the customer's historic default probability. Where no external rating is available, the calculation reverts to the method used for domestic lending business.

To guarantee that **internal default risk management** is total-exposure-based, line systems have been established both at DZ BANK AG and in the relevant subsidiaries and affiliates that ensure that exposures are not entered into vis-à-vis individual business partners that exceed the ceilings approved by the Board of Managing Directors. At DZ BANK AG, equivalent counterparty-specific global limits are systematically apportioned between default risks from the classic lending business and default risks from trading business. Analyses covering selected strategic portfolios are also possible by countries, product groups or sectors. 2002 saw the implementation of a new interface for trading transactions between the Murex Limit Controller and the SAP ZLMS system **(Central Limit Management System)**. ZLMS maps all the channels of all the line-management systems; the system can track and display the aggregate exposure by counterparty and by borrower entity. As well as setting limits for discrete exposures and borrower entities, ZLMS also limits country exposures and produces reports on other strategic portfolios. From 2003 on, DZ BANK AG plans to progressively extend the ZLMS system's capability to track and manage aggregate exposures to cover additional risk positions of the subsidiary companies. The medium-term objective is for the DZ BANK Group to possess a default risk control system that centers on the total exposure per borrower entity.

In view of the importance of **collaterals** in judging a proposed credit commitment, the proper provision of collaterals is checked and documented. Where the assignment of collaterals is not covered by standard contracts, specific agreements are reviewed in advance by the internal Legal department.

DZ BANK AG has built up a wide range of **tools for managing default risks arising from its classic lending business**. For instance, during 2002 a Yellow List (an early-warning system for detecting at-risk cases) was added to the parent bank's credit monitoring system to back up the existing reporting elements, namely the Watch List (a list of credit exposures at latent risk of default) and EWB List (a list of credit exposures at acute risk of default). Data is input locally by the responsible analysts on the basis of predefined criteria and the system permits extensive and timely reporting to the management tiers and the Board. Quarterly credit structure analyses are also produced to assist the portfolio managers. Sector-specific analyses, produced with the cooperation of the responsible market-servicing and market-watching units and submitted to the Board's Credit Committee, also provide clues to possible concentrations of risk in DZ BANK AG's credit portfolio. To assist their supervision role, the oversight units are supplied with at least quarterly reports analyzing deficiencies of compliance with supervisory requirements or with the provisions of section 18 KWG, and listing limit infringements. The reporting on the classic credit operations is rounded off by the submission to the Board of Managing Directors of a report on the new business transacted in each quarter. The inclusion of the relevant Group companies in this credit supervision system (Yellow List, Watch List und EWB List) is planned for 2003.

The core system for the methodologically consistent measurement and **monitoring of the default risk** arising from dealing transactions is the Murex Limit Controller introduced in 2002. Following the connection of additional front-office systems, the capability to consistently measure the exposures resulting from the vast majority of DZ BANK AG's dealing transactions has now been created. In all cases, the replacement risks on trading products (including settlement risks) are counted according to the market valuation method. The approach for fulfillment risks focuses on the payments due from the counterparty over an assumed "fulfillment period." To ensure close-to-real-time limit supervision, **early-warning processes** have been implemented for the event that limits are approaching exhaustion and processes for the event that limits are overshot, and the limit sizes are reviewed on at least a yearly cycle as part of rating-dependent credit monitoring. In addition to the daily reporting of limit excesses where they exist, we have established a system of monthly reporting of open forward transactions with significant counterparties, in which inter alia limits and limit take-ups are shown broken down by credit rating classes. To take advantage of the risk-reducing effects of contractually-defined **netting**, the Murex Limit Controller has been linked into a framework contracts database. Due to the small number of collateralization agreements in force, a manual process has also been established to record existing collaterals. A Collateral Management project team has started work, tasked with providing DZ BANK AG with a harmonized automated collateral processing capability based on the SENTRY **Collateral Management System** in the area of default risk from dealing operations. The project team plans to complete the interlinking of all front-office systems with SENTRY by mid-2003. The number of collateralization agreements in force, and therefore also the number of collateralized counterparties, was increased over the year under report. During 2002 DZ BANK AG's OTC trading positions with collateralized customers were hedged on the basis of a CSA (Credit Support Annex) to the ISDA Master Agreement or alternatively a collateralization annex to the German Framework Contract. The limits on the default risks from dealing business are supervised on a daily basis by the Risk Control organization unit, with allowance made for existing netting agreements and applicable collaterals.

As part of the **reporting system for default risk** on trading transactions, the Risk Control unit submits a daily written report to the Board of Managing Directors member responsible for risk monitoring, identifying any overshoots of counterparty lines in respect of replacement risk (including settlement risk), fulfillment risk and issuer risk above a Board-defined limit of € 15 million. In addition to the daily reporting of limit infringements (where applicable), there also exists a monthly procedure for reporting of open forward transactions with significant counterparties, in which inter alia limits and limit take-ups are shown broken down by credit rating classes. The monthly MaH Report also provides the Board with regular counterparty risk information.

The linking of additional front-office systems to the Murex Limit Controller and the integration of all the international branches' not-yet-covered dealing transactions into the counterparty risk management structure have been scheduled for 2003. Also on the agenda is the interfacing of the Collateral Management System with the Murex Limit Controller to permit the automatic recognition of collaterals on dealing transactions. A new credit-rating-dependent limit structure has already been introduced to improve the measurement and monitoring of issuer risk. Other methodological improvements have also been made to our financial offsetting techniques. A project was launched in 2002 with the task of making the measurement and monitoring of issuer risk even more accurate, fast and consistent; it is due to complete its work in the course of 2003.

The DZ BANK Group systematically uses the **securitization of receivables** as a credit portfolio management tool and in order to free up regulatory capital. During 2001 DZ BANK AG took advantage of the Kreditanstalt für Wiederaufbau PROMISE platform to securitize loans the parent bank had advanced to German SMEs with an aggregate volume of approximately € 1 billion; and in 2002 both the Group and the cooperative financial services sector followed its lead and intensified their receivables securitization. The bank was involved in the **structuring of asset backed securities (ABS)**. The transactions it executed included a securitization of private residential mortgage loans, the first-ever German ABS deal to aggregate the receivables of multiple originators into a single securitization transaction. PROVIDE, another securitization platform established by Kreditanstalt für Wiederaufbau, was used to bundle loans advanced by DG HYP and several local cooperative banks into a transaction volume of around € 623 million. Another transaction bought in lease receivables from VR-LEASING and placed the risks from these bought-in assets with the market through a synthetic securitization deal. Finally a € 500 million credit-linked note was issued and placed on behalf of Bankaktiengesellschaft Hamm, with the credit link referenced to a replenishable portfolio of non-performing loans at the stage of imminent default. Both the Group and the cooperative financial services system plan to **further intensify their ABS primary market activity** in the future in order to lighten their regulatory capital burden and as a tool of active default risk management with the goal of optimizing their risk/return ratios.

Analysis of DZ BANK AG's **credit portfolio structure** also provides clues to possible risk concentration. Liabilities to the parent bank (both the actual take-up of credit and open commitments, and in respect of both the classic lending business and dealing activities) are therefore recorded and analyzed by reference to their country, sector, credit rating and customer group breakdown. The credit portfolio is coded on the basis of the credit regulations defined by section 19.1 KWG. Valuation differences between the HGB accounting rules and the KWG reporting requirements means there is a variance of € 2.1 billion between the total exposure recorded in the Risk Report (€ 224.7 billion) and the equivalent sum of DZ BANK AG's default-threatened business volume (on-balance-sheet and off-balance-sheet assets) (€ 222.6 billion). The latter view states the value of the default-threatened balance sheet positions before the deduction of loan-loss provisions in order to achieve a degree of comparability with the reported data. The difference between the default-threatened balance sheet positions and the aggregate sum of the balance sheet assets is essentially explained by positions under the own securities, trust assets, other assets and tangible assets headings. These balance sheet components do not generate default risk for DZ BANK AG. There is no prior-year comparison of the credit portfolio data because it was necessary to modify the data basis for credit structure analyses in the course of the post-merger systems harmonization.

The volume of DZ BANK AG's lending **business by type of credit** as defined by section 19.1 KWG was € 224.7 billion as of December 31, 2002.

Take-up of facilities by credit type at DZ BANK AG as at December 31, 2002

Credit type	€bn	%
Classic on-balance-sheet transactions	114.8	51.1
Classic off-balance-sheet transactions	46.6	20.7
Dealing book transactions	58.3	26.0
Derivative transactions	5.0	2.2
Total	**224.7**	**100.0**

The **geographical distribution** of DZ BANK AG's credit portfolio as of December 31, 2002 reveals a concentration in high-credit-quality countries (country risk classes A through C). These are essentially all OECD countries. The categorization of credit exposures into country risk classes is based on use of the parent bank's country risk model.

Take-up of facilities by country risk class at DZ BANK AG as at December 31, 2002

Country risk class	€bn	%
A countries	69.4	83.4
B countries	5.0	6.0
C countries	1.8	2.1
D countries	1.0	1.2
E countries	0.9	1.1
F countries	0.1	0.1
G countries	0.1	0.2
Unrated	4.9	5.9
Total	**83.2**	**100.0**

Analysis of the business partners' **sector structure** shows that more than half of all lending business is conducted with banks, which as a rule are subject to extensive regulation. After the banking sector, other significant sectors in relation to DZ BANK AG's credit portfolio are the similarly tightly regulated leasing and insurance industries, plus services and the construction and residential property market. The remaining 13 percent of the parent bank's lending business is widely diversified over other industries.

Take-up of facilities by sector at DZ BANK AG as at December 31, 2002

Sector	€bn	%
Banks	156.0	69.4
Services companies	13.9	6.2
Leasing and insurance companies	13.6	6.1
Real estate and construction	11.1	4.9
Manufacturing sector	8.8	3.9
Public sector	6.4	2.9
Mining, energy and water supply	4.3	1.9
Trading (retail, wholesale)	4.2	1.9
Miscellaneous	6.4	2.8
Total	**224.7**	**100.0**

The following table shows the take-up of facilities in the lending business broken down by the **BVR I credit rating classes**; the ascending order of the ratings in the table expresses a descending order of borrower credit quality. The "miscellaneous" heading covers business partners that did not require a credit quality judgment under the provisions of section 18 KWG or internal rules, plus borrowers not yet included in the rating classes system. Under DZ BANK AG's default risk strategy, new lending business can be taken on up to a qualifying rating class ceiling of 3, provided the other ancillary conditions are fulfilled. Existing credit exposures that conflict with the credit risk strategy accordingly need to be reduced. All credit exposures subject to a specific risk provision are assigned to rating classes 6 and 7.

Take-up of facilities by BVR I credit rating classes at DZ BANK AG as at December 31, 2002

Rating class	€bn	%
1	34.2	15.2
2	93.6	41.6
3	22.6	10.1
4	4.9	2.2
5	1.4	0.6
6	3.2	1.4
7	2.4	1.1
Miscellaneous[1]	62.4	27.8
Total	**224.7**	**100.0**

[1] Includes facilities taken up by credit cooperatives to the value of € 43.4 billion

In 2002 DZ BANK AG recorded a decline in the take-up of credit facilities by all **customer groups** compared to 2001. In line with the risk strategy, the policy of actively reducing the parent bank's non-bank-customer loans exposure to the SMEs, large corporate customers and international business segments was systematically pursued.

Alongside the commercially oriented controlling tools, default risks within the DZ BANK Group are also limited by the extensive regulatory requirements imposed by the German Banking Act (KWG). Like the parent bank, Group subsidiaries and affiliates exposed to significant default risks are also subject to equivalent regulations. This means that the DZ BANK Group's default risks are monitored both on a local basis through the duties and procedures imposed on the relevant subsidiaries and affiliates by their regulators, and also centrally by DZ BANK AG as the Group parent company as it produces a consolidated view as required by Principle I and the rules governing large-scale loans.

Alongside the analysis of the credit portfolio structure, possible risk clusters can also be identified by looking at **large-scale loans** as defined by the regulators in sections 13a/13b KWG and GroMiKV. Of the 27 reportable large-scale loans outstanding at the DZ BANK Group as of December 31, 2002, 22 were in favor of companies active in the financial sector. The size of the biggest single large-scale loan within the meaning of section 13b.4 KWG was € 2.1 billion. The situation was similar at DZ BANK AG where 22 out of 27 large-scale loans had been made to the financial sector. The biggest single liability of a large-scale borrower to DZ BANK AG as of December 31, 2002 amounted to € 1.8 billion.

Under the terms of **DZ BANK AG's current risk provisioning** guidelines, a specific loan loss provision must be formed when the probability of a credit default is identified as exceeding the normal default risk or when there are indications that the borrower will not be able to service the loan long-term and the outstanding entitlement cannot be covered by collaterals. The specific risk provision must comply with the requirements of the Commercial Code, i.e. be prudently dimensioned. In other words, it must be sufficiently large to at least cover the probable loss in the circumstances of the individual case. This requirement also includes an extremely cautious valuation of collateral securities. In all cases the value of the provision must cover the difference or the relevant share of the difference between the amount owed and the collaterals, plus outstanding interest and specified costs. Cover surpluses and shortfalls arising from different claims on a single legal entity are netted off after allowing for the value of collateral.

Once again in 2002, increased **risk provisioning** was a feature of the year for DZ BANK AG. The general economic situation produced marked changes in sector structures and sector risks. Sales and earnings fell sharply in the sectors of the economy dependent on investment and all the sectors where consumption went beyond the satisfying of basic needs. The structural after-effects of the previous year's terrorist attacks were also in evidence. These trends had a particularly severe impact on DZ BANK AG's key

SMEs portfolio. Furthermore, the changed behavior that several German banks had started to display in the previous year with regard to the work-outs of non-performing syndicated loans continued to become more commonplace. Several times again in 2002, this attitude resulted in the abandonment of agreed or even in-process rehabilitation programs so that cash squeezes turned remorselessly into insolvencies. Another trend that was much in evidence when companies got into crisis, was that the lead financiers could no longer rely on the other creditors to fully support them in necessary or feasible rescue operations in line with their proportional share of the overall credit exposure.

The DZ BANK Group's **total provision** against default risk was increased by € 972 million compared to December 31, 2001 and totaled € 3,922 million at December 31, 2002. Within this total, specific risk provisions were increased by € 993 million to € 3,652 million, global loan loss provisions were reduced by € 7 million to € 174 million, and country risk provisions were reduced by € 14 million to € 96 million. DZ BANK AG's total provision against default risk was increased by € 923 million compared to December 31, 2001, and totaled € 3,185 million at December 31, 2002. Within this total, specific risk provisions were increased by € 956 million to € 2,972 million, country risk provisions were reduced by € 14 million to € 95 million, and global loan loss provisions were reduced by € 19 million to € 115 million. The Luxembourg branch's existing global loan loss provision (required by local law) was unchanged year-on-year at € 3 million.

The Credit Management division has a key role to play in **completing the merger** of DZ BANK AG. Important steps have already been taken to integrate the two predecessor institutions. Although the organizational **repositioning of Credit Management** is being driven by the more demanding standards that will be imposed on loan processing by Basle II and Germany's Minimum Requirements for the Conduct of Lending Business, at the same time however it is also intended to reduce the operational risks that result from deficiencies in processes and systems. The parent bank is determined to further reduce the non-strategy-conformant risks in its credit portfolio and to expand its new business on a profitability- and risk-oriented basis. Since both of DZ BANK AG's predecessor banks had worked together on the BVR's VR Control project and had prioritized the development of superior **rating methods** even before the merger, the current task of harmonizing rating models is not a new challenge for the parent bank. In the area of default risk from dealing operations, as part of the merger process the FX and money market portfolios have been completely migrated from the former GZ-Bank AG's front-office systems onto the destination DZ BANK AG front-office system and are therefore now part of the Murex Limit Controller's default risk monitoring universe. Furthermore, with just a few exceptions the trading lines of the two predecessor institutions have now been combined, so that their automatic forwarding to the Murex Limit Controller is now assured. The two banks' framework contracts and collateralization agreements have also been harmonized, creating the foundation for the consistent collateralization of dealing positions. With the goal of improving our ability to handle future unforeseen losses, 2003 will see the systematic refinement of the parent bank's default risk strategy, the realization of the forward-looking reorganization of the Risk Management unit and the implementation of additional risk control instruments. New capabilities will include the incorporation of risk tolerance capacity into the default risk strategy, the establishment of sector expertise centers, the implementation of a consistent Group-level credit monitoring strategy, and the establishment of a Group supervision functionality at the borrower and portfolio levels. Another focus will be extending the portfolio management capability in order to optimize the credit portfolio and risk structure and refining the risk classification methodology to incorporate external requirements such as the Minimum Requirements for the Conduct of Lending Business and Basle II. In this connection, the new Process Management function will help optimize quality and efficiency in the area of Risk Management.

Operational risk

Operational risk is understood as the risk of a direct or indirect unforeseen loss caused by human misperformance, process or project management weaknesses, technological failures or negative external influences. The **management of operational risks** proceeds on a decentralized basis in both the DZ BANK Group and DZ BANK AG. To preserve the separation of functions, DZ BANK AG has set up a specialist Operational Risk Control unit that is independent of management. As well as designing methods for managing and **controlling operational risk** and gathering, monitoring and processing information for management purposes, this unit also heads up the Operational Risk Sub-Working Party that has been tasked by the Group Risk Controlling Working Party with harmonizing the Group's risk control toolkit.

Building on the groundwork undertaken in the past and relating this to the objective of further systematizing the management and controlling of operational risks, a **preliminary study** was performed in the year under report that encompassed a stocktake of the existing range of instruments, an outline concept and specification for the required toolkit including an implementation plan, a cost-benefit analysis, and a preliminary software selection. The intention is to build in the missing elements of this solution as part of an already running implementation project based on the proposed outline concept. The following **key elements** are part of the draft plan:

- producing an **operational risk framework** that defines the Group's risk policy, organization and process structures, responsibilities (preserving functional separation) and **reporting channels and subject matter. Definitions** and **data structures** will be specified to provide the foundation for the management and controlling of operational risks;

- creating the procedure for **gathering loss data** that will include external loss data – not least from a shared collection of loss data involving a range of Group companies – and scenarios;

- developing **self-assessment** techniques to create transparency in hard-to-quantify situations;

- upgrading the existing parent bank and group process for surveying **risk indicators** as a component of the implementation project;

- deploying an Advanced Measurement Approach to determine selected businesses' **economic capital** and from that their regulatory capital – within the meaning of Basle II's definition of "partial use".

During 2002 the consolidated Risk Report for the DZ BANK Group for the first time included an estimate of the loss potential from operational risks. Using the standard methodology proposed in the Basle II consultation papers, this estimate is based on the average gross income of the business lines defined by Basle II and the current prescribed specific weighting rates (beta factors) for each business line. The capital backing threshold identified in this way is a relevant variable for the DZ BANK Group. The standard approach is based on empirical loss ratios per business line as identified by the regulatory authorities from survey data. Although this measurement method is not suitable for setting operating limits, it does provide an initial indication of the operational risks that need to be factored into a risk tolerance capacity analysis and the scale of the anticipated capital underpinning required for DZ BANK AG and the DZ BANK Group. The Group value identified by this method in 2002 was around € 500 million.

The DZ BANK Group's risk-indicators-based **early-warning system** has also been upgraded. The risk indicators included in the system reflect the risk categories suggested in the discussion papers on the reform of the Basle bank capital adequacy rules and support a provisional indication of operational risk. Design work is currently under way to enhance the system by adding an **ad-hoc reporting procedure** for notifying survival-threatening risks in selected group companies.

Apart from the previously described central project to establish a toolkit for the management and controlling of operational risks, the following supplementary projects have been either completed or launched in support of this wider objective:

- **Security standards and security guidelines** have been defined for the entire IT arena. They address the themes of applications, data, operations, support, systems and networks.

- A start has been made on developing an emergency and disaster strategy for the trading divisions.

- As part of the **Outsourcing Controlling** project, tools for managing and controlling external IT providers are being overhauled.

In cooperation with the relevant representative bodies, during the year under report DZ BANK AG played a lead role in the **consultation processes** on the relevant papers put forward by the Basle Committee on Banking Supervision and the Commission of the European Union. The bank also took part in the **Quantitative Impact Study III** in relation to operational risks (Loss Data Collection Exercise) as well as a survey relating to the further rationalization of the rules for crediting insurance cover towards the calculation of the capital backing requirement for operational risks.

The risk of unexpected losses through employee misperformance is reduced within DZ BANK AG inter alia by the implementation of suitable organizational rules and arrangements such as, for instance, mandating dual-authority procedures ("two pairs of eyes") or the separation of functions. Additional measures to limit the risk of impairment of the bank's human resources are identified by the Personnel function on the basis of regular surveys of the key personnel-management statistics and implemented in cooperation with the line department concerned. As well as pointing to specific necessary remedial action, these data surveys are also intended to act as an early warning system by identifying emerging trends within the staffing sphere. Human resource risks are also limited by bank-wide human resource planning and an employee-centered staff development program.

Unforeseen losses arising from **deficient management of project activities** are prevented inter alia through the fifty-fifty sharing of the project management for all organizational and DP initiatives between the Organization and Information Technology unit and the relevant line department. To overcome the extreme complexity of project organization following the merger, a new Merger and Integration Management team was set up as early as

2001 to provide multiproject management. One of its top priorities will be combining the market price risk and default risk databases. This committee reviews all projects to ensure they comply with detailed and extensive standards. Each individual project is also subjected to an economic efficiency analysis by a dedicated controller.

The responsibility for efficient **process organization** lies with the individual line units. Organizational and technical-systems initiatives are taken to assist the prevention of unforeseen losses caused by process deficiencies. Selected processes are also subject to emergency drills.

To minimize the **risk flowing from contractual agreements**, the Legal/Compliance department has been assigned the following tasks:

- producing model contracts and forms;

- checking the compliance of all non-standard contracts;

- developing standardized framework contracts for the settlement of dealing transactions;

- verifying the legal enforceability of contracts prior to their conclusion;

- helping in the drafting and updating of interdepartmental guidelines;

To limit tax-related risks, it also systematically consults the Accounting / Taxation department.

The risks arising from **current litigation** involving DZ BANK AG are regularly quantified, compiled into a litigation report and notified to the Board of Managing Directors. No actions are currently pending that could pose a significant existential threat to DZ BANK AG. The same is true for the current administrative court proceedings arising from the merger.

The risk of **technology failure** is reduced inter alia by transferring the running of operational software applications to specialist computing centers. In the year under report, a series of projects has been launched to further improve the security of our systems and work has begun on the migration of databases following the merger. The framework and detailed targets for this work have been defined in a network design plan and a migration plan. Possible risks from these transfers, which are based on a comprehensive outsourcing strategy, are limited by defined service level agreements and a system of performance certificates based on the requirements of section 25a KWG. A specialist unit has been set up inside the Services Management department to manage and control IT outsourcing. A range of (primarily merger-related) projects aimed at further improving systems security and migrating databases were either completed or launched during the year under report (for instance, the predecessor banks' business partners systems were integrated during 2002). The framework and detailed targets for this work were defined in the network design plan and migration plan. DZ BANK AG counters the risk of impaired performance on the part of building technical systems, the buildings themselves and other plant and equipment through a systematic maintenance program. In the event that malfunctions occur, separate management procedures and structures have been put in place that extend up to the level of Board Staff crisis teams and permit appropriate action to be taken without delay. Insurance policies have also been taken out to cover the financial consequences of disruptions of this kind.

To limit the risks of losses arising from **external influences** to the extent possible, suitable bank-wide processes and emergency plans have been implemented. In addition to planning and coordinating the necessary response action, the existing crisis teams are also responsible for communication with external helpers. In addition, insurance cover has been obtained to cap the potential financial losses.

The **project to deliver** a comprehensive set of tools for managing and controlling operational risks will roll out a succession of new instruments that will be put straight to work. It will not be long before important project outcomes are handed over for integration into the routine management and controlling of operational risks. It is also intended to further intensify the cooperation between the Group companies participating in the Operational Risk Sub-Working Party. Their aims include setting up a periodic risk indicator reporting system and a Group-wide loss data collection.

Strategic risk

Strategic risk refers to the hazard to the bank's success that results from fundamental policy decisions on the bank's business positioning in response to given environmental conditions. These decisions relate to the bank's chosen fields of business, business partners and internal potentials.

The **system for supervising strategic risk** within the DZ BANK Group encompasses the forward-looking assessment of success factors and the resulting strategic risks and opportunities they present to DZ BANK AG's key affiliates. This assessment provides the basis for setting targets for the subsidiaries and affiliates whose achievement is monitored through a management information system. This is founded on a revolving planning process that periodically updates the strategic plan and the annual operating plans. Major restructuring initiatives affecting the Group subsidiaries were successfully implemented during the year under report to create a stronger market profile for individual related businesses. The cornerstones of this activity were the restructuring of the R+V Group and the concentration of the group's real estate activities under the banner of VR-Immobilien AG. To build a stronger international market presence for the future, since the end of 2001 DZ BANK AG has also prioritized the translation of its **strategic alliance** with the French cooperative banking group (Groupe Banque Populaire / Natexis) to the Group level.

The strategic risks that arise for DZ BANK AG from the integration of its two predecessor institutions are managed and monitored primarily through the Merger and Integration Management committee. The **"Building DZ BANK"** program was also the source of substantial progress on integration during 2002. Integration at the management and business process level is now complete; the target for completing the EDP technical systems integration is now mid-2004.

III. Outlook

After a very disappointing year for the economy in 2002, the start of the new 2003 year was also marked by pessimism that affected companies, consumers and investors alike. On the most favorable scenario, modest economic growth is the best we can expect for the current year and even this is unlikely to be enough to produce a clear turnaround on the labor market and perceptibly slow the flood of company insolvencies.

In this climate DZ BANK once again does not expect the new year to bring any substantial relief from the earnings-depressing factors at play in the economy. In this context, our plan to systematically refine our credit risk strategy and also deploy additional risk management tools assumes predominant importance.

The focus of our efforts this year – alongside the continued optimizing of our risk/cost structure – will be on initiatives to open up income opportunities. The sales offensive we launched during the year under report should deliver near-term earnings enhancements. The partial refocusing of our marketing effort is also aimed at developing potential medium-term earnings sources. To improve our international market presence as well, DZ BANK has given the highest priority since the end of 2001 to advancing our strategic alliance with the French cooperative banking group (Groupe Banque Populaire / Natexis).

The Bank's internal merger initiatives are also progressing right on schedule; the organizational integration of all our operations is likely to be completed before the end of the first half of 2003; and the integration of our IT systems, one of the biggest challenges facing us as a result of the merger, is scheduled for completion in mid-2004.

The closer integration of the Group is also making substantial progress, and promises considerable cost synergies. A whole string of subsidiaries are currently actively engaged on improving their readiness position for the business challenges they will face in the future, by sharpening their strategic profiles, optimizing their value-added depths, and streamlining their production processes. The necessary change processes will generate the first benefits before the current year is out. Overall, the companies operating in the Group's key business segments can be expected to maintain or further strengthen their powerful competitive positions. However, the weakness of the capital markets is such that their earnings contribution will still reduce slightly compared to earlier years. DZ BANK has built a strong foundation both at the Group level and at the parent bank level from which to attack its markets more intensively in a phase of emerging economic recovery.

Despite our impressive successes in realizing the merger and despite the last two years of intensive preparatory work to realign our strategy for the future, the persistently poor prospects for the economy mean that strict cost discipline will remain essential for a long time to come. This is because even though our earnings-enhancing initiatives have all got off to a good start so far and even unlocked the door to major sales advances, boosting our earnings significantly will need a following wind from the economy that will not start to blow before 2004 at the earliest.

Report of the Supervisory Board

Dr Christopher Pleister
Chairman, Supervisory Board

As required by the law and the Articles of Association, the Supervisory Board and its sub-committees have monitored the conduct of the business by the Board of Managing Directors during the 2002 financial year and have discussed and voted on the proposed transactions requiring their consent.

The Supervisory Board was kept regularly informed by the Board of Managing Directors about the situation and progress of the bank and the Group and the general trend of trading. The Supervisory Board held a total of six meetings whose primary focuses, in addition to the in-depth discussion of current business developments, were the future business policy of the bank including its principal strategic and organizational dimensions, and key issues concerning the integrated cooperative financial system.

Most importantly, the Supervisory Board concerned itself with the immediate developments and changes flowing from the merger of GZ-Bank and DG BANK to form DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and the continuing integration process.

The Supervisory Board was also kept informed about the bank's and the Group's risk situation and the refinement of their systems and procedures for controlling risks, especially market price and default risks and the other risks typical of the banking industry. Significant individual business transactions were submitted to the Supervisory Board for approval.

To enable it to perform its duties and comply with the statutory requirements, the Supervisory Board formed a Personnel Sub-committee, an Audit Sub-committee, a Credit and Investments Sub-committee and a Mediation Sub-committee pursuant to section 27.3 of the German Co-determination Act. The first three sub-committees met on several occasions. The full Supervisory Board was kept regularly informed about the activities of its sub-committees.

Outside of formal meetings, the chairman of the Supervisory Board and the chairmen of the Audit and the Credit and Investments Sub-committees were kept informed of key decisions and exceptional business occurrences through regular discussions with the chairman of the Board of Managing Directors.

Mr Jürgen Partenheimer retired from the Supervisory Board with effect from the end of the ordinary general meeting of shareholders held on June 25, 2002 and was replaced by his substitute member Mr Bernhard Sorge.

The following individuals retired from the Board of Managing Directors of DZ BANK during the year: Dr Friedrich-Leopold Freiherr von Stechow with effect from February 28, 2002; Dr Berthold Eichwald with effect from March 31, 2002; Mr Bedo Panner with effect from April 30, 2002; and Mr Dieter Wößner with effect from September 30, 2002. Mr Wolfgang Kirsch was appointed as a full member of the Board of Managing Directors with effect from April 8, 2002.

Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main (operating since February 18, 2003 under the name of Deloitte & Touche GmbH, Frankfurt am Main), and Ernst & Young Deutsche Allgemeine Treuhand AG, Frankfurt am Main, jointly audited the bookkeeping records, annual financial statements and management report of DZ BANK for the year to December 31, 2002 presented by the Board of Managing Directors as well as the consolidated financial statements and the Group management report, and found them to be in conformance with the statutory regulations. The auditors accordingly issued an unqualified audit certificate in both cases. The audit reports were submitted to the members of the Supervisory Board and comprehensively examined and discussed. The Supervisory Board is in agreement with the findings of the auditors.

Representatives of the auditors attended the meeting of the Supervisory Board called to approve the annual financial statements in order to report in detail on the key audit outcomes. They also made themselves available to the members of the Supervisory Board to answer any queries.

The Supervisory Board and the Audit Sub-committee chaired by Mr Rolf Hildner have examined in detail the annual and consolidated financial statements and management reports for DZ BANK AG and the DZ BANK Group as well as the proposed appropriation of profits. We have no objections to raise.

At its meeting on April 15, 2003 the Supervisory Board approved the annual financial statements for the year to December 31, 2002 prepared by the Board of Managing Directors, which are therefore formally adopted. The Supervisory Board is in agreement with the proposal from the Board of Managing Directors for the appropriation of the available profits.

The Supervisory Board thanks the Board of Managing Directors and all employees for their exceptional personal commitment and efforts on behalf of the bank and the Group in 2002.

Frankfurt am Main, April 15, 2003

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank AG,
Frankfurt am Main

Dr Christopher Pleister
Chairman, Supervisory Board

Financial Statements 2002

of the DZ BANK Group

Group Financial Statements as of December 31, 2002

ASSETS

in € million	(Note)	12.31.2002	12.31.2001
1. Cash reserve		**878**	**952**
a) Cash on hand		87	97
b) Balances with central banks		790	855
of which: with Deutsche Bundesbank		(509)	(763)
c) Balances with postal giro agencies		1	0
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks		**38**	**45**
a) Treasury bills, discountable Treasury notes and similar debt instruments of public-sector entities		17	14
of which: eligible for refinancing at Deutsche Bundesbank		(2)	(6)
b) Bills of exchange		21	31
of which: eligible for refinancing at Deutsche Bundesbank		(21)	(31)
3. Placements with, and loans and advances to, other banks	(7)	**93,637**	**107,031**
a) Repayable on demand		2,907	5,536
b) Term deposits and loans		90,730	101,495
of which: relating to saver's building loans		(90)	(115)
relating to mortgage loans		(247)	(230)
relating to local authority loans		(9,268)	(11,541)
4. Loans and advances to non-bank customers	(7)	**106,935**	**119,140**
of which: secured by mortgages		(26,791)	(26,598)
a) Mortgage loans		24,911	24,544
b) Local authority loans		19,220	21,920
c) Construction loans advanced by Bausparkasse Schwäbisch Hall		20,462	20,474
of which: secured by mortgages		(15,119)	(15,033)
ca) Allocations of saver's building loans		10,836	11,282
cb) Preliminary and bridge finance		8,574	8,102
cc) Other		1,052	1,090
d) Other loans and advances		42,342	52,202
5. Bonds and other fixed-interest securities	(7, 19, 20)	**78,090**	**79,916**
a) Money market instruments issued by		99	26
aa) public-sector issuers		-	16
of which: qualifying as repo collateral at Deutsche Bundesbank		(-)	(-)
ab) other issuers		99	10
of which: qualifying as repo collateral at Deutsche Bundesbank		(60)	(10)
b) Bonds issued by		74,121	76,371
ba) public-sector issuers		11,620	9,425
of which: qualifying as repo collateral at Deutsche Bundesbank		(11,047)	(8,575)
bb) other issuers		62,501	66,946
of which: qualifying as repo collateral at Deutsche Bundesbank		(44,675)	(48,642)
c) Own bonds		3,870	3,519
Nominal value		(3,754)	(3,329)
6. Equity shares and other variable-yield securities	(19, 20)	**7,798**	**9,327**
7. Insurance-related investments after offsets	(13)	**33,776**	**31,651**
8. Other insurance-specific assets	(14)	**2,144**	**2,211**
9. Participations	(20, 21)	**440**	**539**
of which: in banks		(205)	(179)
in financial services institutions		(12)	(10)
10. Participations in associated companies	(20, 21)	**180**	**165**
of which: In banks		(171)	(165)
In financial services institutions		(9)	(-)

ASSETS

in € million	(Note)	12.31.2002	12.31.2001
11. Shares in related companies	(20, 21)	**905**	**888**
of which: in banks		(161)	(104)
in financial services institutions		(39)	(47)
12. Assets held on trust basis	(15)	**2,326**	**2,361**
of which: trust loans		(750)	(790)
13. Equalization claims against government agencies – Including claims converted into bonds		**221**	**303**
14. Intangible assets	(21)	**21**	**21**
15. Property and equipment	(21)	**5,309**	**5,598**
16. Own equity or partnership shares	(22)	**24**	**63**
Nominal value		(10)	(40)
17. Other assets	(25)	**2,807**	**3,242**
18. Deferred tax assets	(26)	**1,960**	**392**
19. Accrued income and deferred expenses	(27)	**766**	**800**
a) from issuance and lending operations		512	558
b) other		254	242
TOTAL ASSETS		**338,255**	**364,645**

EQUITY AND LIABILITIES

in € million	(Note)	12.31.2002	12.31.2001
1. Deposits from other banks	(7)	**122,922**	**129,846**
a) Repayable on demand		30,015	29,613
b) Fixed-term or agreed notice		92,907	100,233
of which: issued registered mortgage Pfandbriefe		(630)	(613)
issued registered public Pfandbriefe		(929)	(942)
issued registered mortgage and public Pfandbriefe assigned to lenders as security on loans taken out		(34)	(28)
savings deposits under save-to-build plans		(182)	(221)
of which: on advanced saver's building loans		(1)	(1)
2. Amounts owed to other depositors	(7)	**72,649**	**79,680**
a) Deposits under save-to-build plans and on savings accounts		25,314	24,699
aa) Savings deposits with three months notice term		352	464
ab) Savings deposits with more than three months notice term		105	70
ac) Savings deposits under save-to-build plans		24,857	24,165
of which: relating to plans under notice		(59)	(54)
relating to allocated saver's building loans		(93)	(102)
b) Other liabilities		47,335	54,981
ba) Repayable on demand		8,412	11,631
bb) Fixed-term or agreed notice		38,923	43,350
of which: issued registered public Pfandbriefe		(4,052)	(4,100)
issued registered mortgage Pfandbriefe		(4,170)	(4,259)
issued registered mortgage and public Pfandbriefe assigned to lenders as security on loans taken out		(140)	(167)
3. Liabilities in certificate form	(7)	**83,035**	**98,072**
a) Issued bonds		77,785	90,968
aa) Mortgage Pfandbriefe		13,161	13,926
ab) Public Pfandbriefe		29,880	31,840
ac) Other bonds		34,744	45,202
b) Other certificated liabilities		5,250	7,104
of which: money market instruments		(3,199)	(5,261)
own acceptances and promissory notes in circulation		(-)	(5)
4. Liabilities arising from trust operations	(15)	**2,326**	**2,361**
of which: trust loans		(750)	(790)
5. Other liabilities	(28)	**3,535**	**2,688**
6. Accrued expenses and deferred income	(27)	**2,460**	**2,594**
a) From issuance and lending operations		376	341
b) Other		2,084	2,253
7. Provisions	(7, 26, 29)	**2,873**	**2,497**
a) Provisions for pensions and similar obligations		877	860
b) Provisions for taxes		478	271
c) Other provisions		1,518	1,366
8. Building savings & loan guarantee fund		**456**	**511**
9. Actuarial reserves	(30)	**30,838**	**29,058**
10. Other insurance-specific liabilities	(31)	**4,141**	**3,900**
11. Special item with reserve portion	(33)	**-**	**7**
12. Subordinated liabilities	(7, 34)	**3,602**	**4,087**

EQUITY AND LIABILITIES

in € million	(Note)	12.31.2002	12.31.2001
13. Participatory capital	(7, 32)	**2,685**	**2,820**
of which: Maturing within two years		(233)	(314)
14. Fund for general banking risks		**741**	**741**
15. Capital and reserves	(23)	**5,992**	**5,783**
a) Subscribed capital		2,879	2,674
b) Capital reserve		528	528
c) Surplus reserves		107	390
ca) Statutory reserve		5	2
cb) Reserve for own shares		24	63
cc) Other surplus reserves		78	325
d) Balancing item for minority interests		2,426	2,140
e) Cumulative profit		52	51
TOTAL EQUITY AND LIABILITIES		**338,255**	**364,645**

1. Contingent liabilities	**13,262**	**16,425**
Liabilities arising from guarantees and warranties provided	13,262	16,425
2. Other obligations	**16,158**	**20,059**
Irrevocable credit commitments	16,158	20,059
3. Specialist funds managed on behalf of shareholders	**98,846**	**99,597**
Sum of inventory values	98,846	99,597
Number of specialist funds administered 685 (PY: 711)		

Consolidated Income Statement

in € million	(Note)	2002	2001
1. Interest income from	(40)	**12,812**	**16,034**
a) Lending and money market operations		10,151	12,058
of which: relating to saver's building loans		(561)	(580)
relating to preliminary and bridge finance		(473)	(456)
relating to other construction loans		(63)	(64)
b) Fixed-interest securities and government-inscribed debt		2,661	3,976
2. Interest expense	(40)	**11,277**	**14,212**
of which: on savings deposits under save-to-build plans		(700)	(715)
3. Current income from		**379**	**438**
a) Equity shares and other variable-yield securities		318	361
b) Participations		28	31
c) Shares in associated companies		10	14
d) Shares in related companies		23	32
4. Income from profit pools and profit transfer or profit sharing agreements		**23**	**4**
5. Commission income	(38)	**1,726**	**1,835**
of which: Business conclusion and introduction fees from Bausparkasse Schwäbisch Hall		(164)	(153)
Loan administration fees following allocation by Bausparkasse Schwäbisch Hall		(52)	(55)
6. Commission expense	(38)	**873**	**915**
of which: Business conclusion and introduction fees paid to Bausparkasse Schwäbisch Hall		(408)	(382)
7. Net income from financial transactions	(39, 40)	**216**	**119**
8. Income from insurance operations	(41)	**9,713**	**8,576**
9. Expense from insurance operations	(42)	**9,122**	**8,445**
10. Other operating income	(44)	**2,159**	**1,977**
11. Income from liquidation of special item with reserve portion	(33)	**7**	**37**
12. General administrative expenses		**2,299**	**2,475**
a) Personnel expenses		1,172	1,237
aa) Wages and salaries		930	976
ab) Compulsory social security contributions and expenses for pension benefits and welfare		242	261
of which: for pensions provision		(108)	(124)
b) Other administrative expenses		1,127	1,238
13. Depreciation and write-downs on tangible and intangible assets		**203**	**242**
14. Other operating expenses	(44)	**1,756**	**1,649**
15. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business		**2,307**	**851**
16. Income from write-ups on participations, shares in related companies and securities treated as fixed assets		**181**	**73**
17. Expenses from the assumption of losses		**71**	**189**
18. Result of ordinary operations		**-692**	**115**

Consolidated Income Statement

in € million	(Note)	2002	2001
19. Exceptional income	(45)	**2**	**-**
20. Exceptional expenses	(45)	**224**	**152**
21. Taxes on net exceptional income	(46)	**-89**	**-**
22. Net exceptional result		**-133**	**-152**
23. Taxes on the result of ordinary operations	(46)	**-1,229**	**-211**
24. Other taxes not included under "Other operating expenses" heading		**6**	**14**
25. Earnings paid out under profit pools and profit transfer or profit sharing agreements		**47**	**46**
26. Net income on period		**351**	**114**
27. Attributable to minority interests		**296**	**53**
28. Withdrawals from surplus reserves		**39**	**-**
a) from statutory reserve		-	-
b) from own-shares reserve		39	-
c) from other surplus reserves		-	-
29. Allocations to surplus reserves		**42**	**10**
a) to statutory reserve		3	2
b) to own-shares reserve		-	8
c) to other surplus reserves		39	-
30. Cumulative earnings		**52**	**51**

A. General information

(1) Legal basis on which these Consolidated Financial Statements have been drawn up

These Consolidated Financial Statements of the DZ BANK Group for the year ending December 31, 2002 have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the Order on the Accounting of Credit Institutions and Financial Services Institutions (RechKredV). At the same time, the Consolidated Financial Statements are in compliance with the provisions of Germany's Joint Stock Corporations Act (AktG) and the DG BANK Reorganization and Transformation Act (UmwG), as well as the articles of association ("statutes") of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (DZ BANK AG). The Consolidated Financial Statements additionally comply with all standards drawn up by the German accountings standards committee (Deutscher Standardisierungsrat, DSR) and officially promulgated by the Federal Justice Ministry (Bundesministerium der Justiz, BMJ) as required by section 342.2 HGB.

On February 26, 2002 the federal government's Corporate Governance Commission presented its German Corporate Governance Code. The currently valid version was published in the online Federal Gazette on November 26, 2002. This code brings together all the important legal requirements regulating the leadership and supervision of German stock corporations (Aktiengesellschaften, public limited companies) as well as internationally recognized standards of best practice in responsible corporate governance.

The German Act to Promote Transparency and Public Information through the Further Reform of Company and Accounting Law (TransPuG), incorporated into the Joint Stock Corporations Act through the addition of a new section 161 AktG, makes this Code an integral component of the reporting duties of all listed companies' executive and supervisory boards.

The DZ BANK Group has one stock exchange listed company in DVB Bank Aktiengesellschaft, Frankfurt am Main (DVB). As required by the law and within the set time frame, on December 31, 2002 DVB published a declaration of conformity within the terms of section 161 AktG in conjunction with section 15 EG AktG.

All monetary values are stated in euro in compliance with section 298.1 HGB in conjunction with section 244 HGB. Advantage has been taken of the option to provide information through the notes rather than the balance sheet. In the interests of clarity, we have aggregated certain balance sheet and income statement headings.

The separate financial statements of all the companies consolidated into the group were prepared using the same presentation and valuation principles that applied for DZ BANK AG. Separate notes have been prepared for DZ BANK AG and the DZ BANK Group.

Significant information on the Group's building savings & loan business has been included in the standard forms prescribed by the RechKredV. In addition, aggregated headings from the reporting forms prescribed for insurance companies have been included in the balance sheet and income statement. Insurance-specific items have been expanded on in the Notes. The Consolidated Financial Statements also comply with the special rules for reporting on leasing and investment companies.

(2) Sphere of consolidation

The Consolidated Financial Statements for the year to December 31, 2002 include, in addition to DZ BANK AG as the parent company, 19 subsidiary companies and four sub-groups making a total of 841 companies.

The DZ BANK Group's sphere of consolidation has changed as follows from the end-2001 position:

4 new companies were consolidated for the first time at December 31, 2002. These are:

- VR-Immobilien AG, Frankfurt am Main
- VR-Immobilien SAGA GmbH, Frankfurt am Main
- VR GbR, Frankfurt am Main
- DZ Beteiligungsgesellschaft mbH Nr. 2, Frankfurt am Main

In addition, Schleswig-Holsteinische Landschaft Hypothekenbank AG, Kiel, (SHL) was merged into Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP) during the year under report. The exit of all other members from DZ Vierte Beteiligungsgesellschaft mbH & Co. Verwaltungs KG, Frankfurt am Main, and GAG GZ-Anlage GbR, Stuttgart, left these companies in the sole ownership of DZ BANK AG.

All the shares of Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (BSH) and 94.9 percent of the shares of DG HYP were transferred to VR-Immobilien AG, and are therefore now indirectly held by DZ BANK AG. As part of an undisclosed third-party capital contribution, 12.08 percent of the shares of BSH were transferred to VR-Immobilien SAGA GmbH and were therefore also consolidated for the first time.

A total of 145 related companies were not included in the Consolidated Financial Statements because of their overall minor significance to the Group's assets and liabilities, financial position and profit situation as defined by section 296.2 HGB.

It was decided not to apply the at-equity method in the case of 10 associated companies on the grounds of triviality, as permitted by section 311.2 HGB.

The complete list of shareholdings is listed in the Frankfurt am Main Commercial Register. An overview of the Group's major participations is available on request from DZ BANK AG.

(3) Principles of consolidation

In line with previous practice, capital consolidation was carried out according to the book value method based on the valuations at the date of the first-time consolidation of the equity interests. The resulting goodwill of € 530 million for FY 2002 following the proportional disclosure of undisclosed reserves in the acquired assets less liabilities-side valuation differences of € 26 million have been set directly against the surplus reserves.

These values also include one transaction by one sub-group – R+V Versicherung AG, Wiesbaden, (R+V) – that produced an asset-side valuation difference of € 421 million; after the disclosure of undisclosed reserves to the value of € 153 million, the residual difference is € 268 million.

We show a balancing item to reflect minority interests.

The Group's shares in associated companies are valued and reported at equity based on their book values at the time of first-consolidation. In accordance with section 312 HGB, their valuation has not been aligned with the Group-wide valuation methods.

Österreichische Volksbanken-AG, Wien, (ÖVAG) and VB-Leasing International Holding GmbH, Vienna, are valued as associated companies, i.e. at equity under the terms of section 312 HGB and DRS 8, because their business and financial policy is subject to significant control by the Group. Their existing goodwill has been set against the surplus reserves in accordance with section 312.2.3 HGB in conjunction with section 309.1.3 HGB.

VB-Leasing International Holding GmbH was included for the first time in the DZ BANK Group's sphere of consolidation with effect from January 1, 2002 via the VR Leasing sub-group; this generated an assets-side valuation difference as of December 31, 2002, which is included in the 2002 goodwill total stated previously. Its annual accounts are prepared to International Accounting Standards (IAS) and reconciled with German GAAP (HGB) for inclusion in DZ BANK's consolidated financial statements.

Intra-Group receivables, liabilities, provisions, accrued and deferred items, contingent liabilities, and income and expenditure have been consolidated. Intra-Group profits and losses have been eliminated. However, this consolidation has been dispensed with where the sums involved were trivial.

In variance of these principles, the Group insurance subsidiaries' results were included in these Consolidated Financial Statements on an unadjusted basis due to the unique nature of this business. Their intra-Group components have accordingly not been consolidated.

(4) Presentation and valuation rules

Claims on banks and non-bank customers

Claims on banks and non-bank customers (placements, loans and advances) are shown at their nominal value or cost of acquisition. Differences between their nominal value and disbursement value are apportioned pro rata to time and shown under accrued and deferred items. Note receivables and registered bonds purchased from third parties are shown at purchase cost. Without exception, all receivables fall under current assets and are valued strictly at the lower of cost or market. The total shown for loans and advances to non-bank customers includes registered bonds assigned to the bank's investment book that are matched by corresponding hedge transactions. The registered bonds and hedge transactions constitute distinct valuation units.

The provision for risk in the lending business encompasses write-downs and loan-loss provisions in respect of all foreseeable credit, country and latent default risks plus the fund for general banking risk (section 340f.1 HGB). Appropriate provision at the level of the anticipated loss was made in respect of all identifiable credit and country risks. Latent risks in the lending business are covered by a global provision, based on the average actual loan loss incurred in the preceding five balance sheet dates. This is in accordance with the responsible authority's rules for the tax recognition of general provisions by banks.

Bonds and other fixed-interest securities and equity shares and other variable-yield securities

Bonds and other fixed-interest securities and equity shares and other variable-yield securities regarded as current assets (holdings in the dealing portfolio and liquidity reserve) are valued strictly at the lower of cost or market, i.e. shown at cost of acquisition or the market value if lower.

Only where the value loss on securities held as fixed assets is temporary in nature is their value retained under the terms of section 340e.1 HGB. The value of the securities not carried at the lower of cost or market (a disclosure required by section 35.1.2 RechKredV) is € 4,018 million for the balance sheet item "Bonds and other fixed-interest securities" and € 4,831 million in respect of the balance sheet item "Equity shares and other variable-yield securities". In the case of specifically identified securities held as fixed assets or as part of the liquidity reserve, their valuation has been linked with corresponding hedging transactions.

Financial trading transactions – including note loans and registered bonds – were valued at market prices or their synthetic valuations at the end of the year. These transactions are essentially all performed by DZ BANK AG. Where standardized, exchange-traded products are concerned, the valuation is based on the end-of-year closing prices of the relevant stock exchanges. Swap trading positions were valued on the basis of the prevailing yield curves using the present value method.

Valuation gains and losses and the current interest payments on swaps held for trading purposes (including accrued and deferred items) and price gains and losses on note loans and registered bonds held for trading purposes are shown in the income statement under the heading of net income from financial activities. Those trading transactions in foreign exchange, securities and derivatives which are subject to the same market price change risk or credit risk (interest, exchange rate and other price risks plus spread risks) are also aggregated for accounting purposes into cross-product portfolios that form part of the bank's harmonized risk management system.

Within a portfolio, unrealized valuation losses are offset against unrealized valuation gains. Furthermore, realized losses are offset against residual valuation gains within the same portfolio provided the required criteria are fulfilled. A balancing item is included in the balance sheet under the other assets heading to the value of the unrealized profits offset against realized losses.

In all cases, dividend income from shares and other variable-yield securities is shown under the heading of "Current income from shares and other variable-yield securities".

To ensure the accurate relation of earnings to operating units, for the first time these Consolidated Financial Statements show the interest and dividend income from securities held for dealing purposes and the refinancing expenses assignable to dealing transactions as part of the net trading result.

The revaluation of assets and liabilities acquired from Genossenschaftsbank Berlin (GBB) in 1990 resulted in a claim for compensation against the currency conversion compensation fund (Ausgleichsfonds Währungsumstellung) under the terms of section 40 of the Accounting Act (D-Markbilanzgesetz – DMBilG). The values shown for these items are subject to future adjustment under the terms of section 36 of the same act.

Participations and shares in related companies

Shares in related companies and participations are shown at updated cost of acquisition. The shares in associated companies include participating interests valued by the at-equity method.

Tangible and intangible fixed assets

Intangible fixed assets are capitalized at updated cost of acquisition. Tangible fixed assets (property and equipment) are valued at cost of acquisition or production less regular depreciation over their expected service life, based in all cases on the values shown in the tables published by the German tax authorities. Minor-value assets are written off in full in the year of acquisition.

The property and equipment heading includes leasing assets as well as operating equipment and office accoutrements. As a rule operating equipment and systems, including office furniture, are depreciated on a straight-line basis. Depreciation is taken for the full year on acquisitions made in the first half of the year and for a half-year on additions in the second half of the year.

Where value diminutions are expected to be enduring in nature, exceptional write-downs are made. If the causes of the write-down cease to apply, the value is written up again.

Liabilities

Liabilities are shown at their repayment value. The difference between their nominal and repayment values has been taken to accruals and deferrals and apportioned pro rata.

Provisions

Pension reserves are calculated according to actuarial principles. Current pension commitments to retired pensioners and contributions on behalf of ex-employees with pension entitlement are shown at their pro-rata value. The pension entitlements of still-active future beneficiaries are shown in accordance with section 6a of the Income Tax Act (Einkommensteuergesetz – EStG).

Provisions for actual tax liabilities and other provisions were formed in accordance with the German tax regulations or on the basis of prudent business judgment to correspond with the group’s uncertain liabilities or threatened losses from uncompleted transactions.

Unrealized losses on uncompleted transactions aggregated together with other trading transactions in cross-product portfolios, are only shown as separate provisions in the commercial financial statements if they are exceptional in scale and cause a loss “excursion”.

Insurance-specific positions

Investments made for the account and at the risk of holders of life assurance policies are shown at their present value.

The shares and equity funds treated as fixed assets under the terms of section 341b HGB are valued at a maximum of the year’s-average price plus 10 percent where they offer sufficient price recovery potential. Where their value diminution is likely to be long-lasting, they are written down to their market value at December 31, 2002. Where necessary, their book value is retained if lower. In the case of mixed funds, their equity component is valued on the same basis as directly held equities and their fixed-income component is reported at the nominal value. Derivative hedging transactions are included at the hedged price.

Receivables from directly concluded insurance business are shown at their nominal value. Where necessary, value adjustments are undertaken.

The formation of actuarial reserves encompasses the following positions and approaches: The insurance cover provisions reflect the individual value of all policies. The calculation of the provisions for outstanding insurance claims is also individualized. The provision for premium reimbursements ("bonus reserve") was formed in accordance with statutory requirements as well as contractual agreements. The equalization reserve and similar provisions were formed in accordance with the relevant statutory requirements. The other actuarial provisions were dimensioned to cater for the anticipated need.

(5) Deferred taxation in the Consolidated Financial Statements (DRS 10)

Under the provisions of sections 274 and 306 HGB, deferred tax positions have been formed solely in respect of differences between the results shown in the commercial (HGB) financial statements and the tax accounts that are expected to be neutralized in the subsequent financial years (timing differences concept).

In addition to the HGB rules, DZ BANK has also applied German Accounting Standard No. 10 (DRS 10) "Deferred Taxation in Consolidated Financial Statements".

DRS 10 was approved by the German Standardization Council (Deutscher Standardisierungsrat, DSR) on January 18, 2002 and formally promulgated under the powers of section 342.2 HGB by the Federal Justice Ministry (BMJ) on April 9, 2002, and must be applied to all financial years commencing after December 31, 2002. Assuming however that the new regime constitutes best practice for drawing up consolidated accounts (GoB), this standard has also been applied to the 2002 financial year.

DRS 10 replaces the HGB's earnings-oriented approach with a balance-sheet-centric view. This means that deferred tax entitlements and obligations have to be derived from the reported valuation differences between an asset or liability in the balance sheet and in the tax balance sheet.

Deferred tax positions are shown for timing differences whose resolution can be expected to generate tax liabilities or reliefs in future years. These timing differences also include quasi-permanent differences. Asset-side deferred tax positions are reported for timing differences and also for tax-allowable loss carryovers and tax credits whose realization is sufficiently probable.

Deferred tax credits and debits are valued by reference to the tax rate that is anticipated to apply at the date when the timing differences are resolved. With the exception of section 340f and 340g HGB reserves, individual tax rates are applied for each company. Deferred taxes may not be discounted.

Irrespective of the underlying origination dates, the full effects of the first-time application of DRS 10 have been taken to the income statement and set against earnings as required by section 272.3 HGB. Out of the total non-recurring effect, € 465 million arises from brought-forward differences.

The deferred taxes relating to existing and newly-formed provisions against general banking risks (section 340f HGB reserves) are allocated back to these reserves in order to maintain their risk tolerance capacity unchanged. This has the effect of increasing the reported deferred taxes and write-downs headings in the balance sheet without write-downs having been made. To this extent, the reported write-downs total is higher than would be necessitated by, say, credit risks.

The aggregate value of exceptional income is shown in the income statement after the deduction of taxes on income (i.e. net).

(6) Currency translation

Assets and liabilities, and rights and delivery obligations arising from foreign exchange transactions, are translated in accordance with the principles defined in section 340h HGB and Statement 3/1995 of the German Institute of Public Accountants (IDW).

For the purposes of the Consolidated Financial Statements, the accounting data of foreign Group subsidiaries are translated using the relevant official "ESCB reference rate" on the balance sheet date as announced by the European Central Bank. Gains and losses arising out of the translation of the capital and reserves are taken through the balance sheet and offset against the surplus reserves and minority interests. Translation gains and losses arising from the consolidation of liabilities, expenses and income are also taken through the balance sheet.

Assets and debts denominated in foreign currency and spot deals not yet settled are in all cases translated in the preconsolidation accounts of DZ BANK AG and its consolidated subsidiaries at the ESCB reference rate on the balance sheet date, while forward exchange deals are translated at the forward rate on the balance sheet date. Securities holdings are translated by reference to Deutsche Börse Clearing AG's euro fixing rates. Income and expenses arising from currency translation are reported in the income statement in compliance with section 340h HGB.

B. Notes to the Balance Sheet

(7) Maturity structure of ...

... asset positions

in € million	12.31.2002	12.31.2001
Other claims on banks	**90,730**	**101,495**
- less than 3 months	24,313	29,770
- between 3 months and 1 year	10,389	12,212
- between 1 year and 5 years	27,796	28,939
- more than 5 years	28,232	30,574
Claims on non-bank customers	**106,935**	**119,140**
- less than 3 months	9,955	14,641
- between 3 months and 1 year	10,088	11,046
- between 1 year and 5 years	29,297	30,725
- more than 5 years	53,599	58,806
- no fixed term	3,996	3,922
Bonds and other fixed-interest securities	**78,090**	**79,916**
- less than 3 months (= maturing in the subsequent year)	5,172	3,305
- between 3 months and 1 year (= maturing in the subsequent year)	12,509	8,239
- between 1 year and 5 years	35,774	42,942
- more than 5 years	24,635	25,427
- no fixed term	-	3

... liability positions

in € million	12.31.2002	12.31.2001
Liabilities to other banks with an originally agreed term or notice period (excluding savings deposits under save-to-build plans)	**92,725**	**100,012**
- less than 3 months	45,417	49,072
- between 3 months and 1 year	8,810	12,502
- between 1 year and 5 years	19,521	19,629
- more than 5 years	18,977	18,809
Liabilities to non-bank customers		
Savings deposits with an agreed notice period of more than three months	**105**	**70**
- less than 3 months	16	7
- between 3 months and 1 year	79	39
- between 1 year and 5 years	10	23
- more than 5 years	-	1
Other liabilities with an agreed term or notice period	**38,923**	**43,350**
- less than 3 months	9,821	13,271
- between 3 months and 1 year	2,128	1,916
- between 1 year and 5 years	9,321	9,707
- more than 5 years	17,653	18,456
Liabilities in certificate form		
Bonds issued	**77,785**	**90,968**
- of which: maturing in the subsequent year	11,826	19,335
Other certificated liabilities	**5,250**	**7,104**
- less than 3 months	2,954	5,279
- between 3 months and 1 year	1,296	1,531
- between 1 year and 5 years	852	168
- more than 5 years	148	126
Provisions	**2,873**	**2,497**
- less than 3 months	823	755
- between 3 months and 1 year	379	249
- between 1 year and 5 years	551	460
- more than 5 years	1,120	1,033
Subordinated liabilities	**3,602**	**4,087**
- less than 3 months	288	234
- between 3 months and 1 year	463	386
- between 1 year and 5 years	1,316	1,570
- more than 5 years	1,535	1,897
Participatory capital	**2,685**	**2,820**
- less than 3 months	172	179
- between 3 months and 1 year	51	109
- between 1 year and 5 years	919	814
- more than 5 years	1,543	1,718

(8) Arrears of interest and capital payments on building loans advanced by Bausparkasse Schwäbisch Hall

The "Loans and advances to non-bank customers" heading includes arrears of € 63 million (2000: € 51 million) outstanding on the interest and capital payments on building loans advanced by Bausparkasse Schwäbisch Hall.

(9) Building loans agreed but not yet paid out by Bausparkasse Schwäbisch Hall

The following construction loans were committed but not yet paid out on the accounting date:

in € million	12.31.2002	12.31.2001
To banks	**412**	**408**
of which: allocated	412	408
To non-bank customers	**2,579**	**2,360**
of which: a) allocated	2,123	1,984
b) preliminary or bridging finance	413	334
c) other	43	42

(10) Related companies and companies with which a participation relationship exists

Claims and liabilities in respect of related companies:

in € million	12.31.2002	12.31.2001
Placements with, and loans and advances to, other banks	**181**	82
Loans and advances to non-bank customers	**663**	856
Bonds and other fixed-interest securities	**109**	105
Amounts owed to other banks	**1,393**	1,426
Amounts owed to non-bank customers	**503**	275
Certificated liabilities	**3,055**	3,450
Subordinated liabilities	**104**	72

Claims and liabilities in respect of companies with which a participation relationship exists:

in € million	12.31.2002	12.31.2001
Placements with, and loans and advances to, other banks	**18,504**	18,742
Loans and advances to non-bank customers	**1,111**	1,009
Bonds and other fixed-interest securities	**3,315**	3,076
Amounts owed to other banks	**19,372**	19,727
Amounts owed to non-bank customers	**348**	1,314
Certificated liabilities	**5,477**	7,122
Subordinated liabilities	**76**	80

(11) Claims and liabilities in respect of affiliated banks[1)]

The reported claims and liabilities totals include the following sums due from or to affiliated banks:

in € million	12.31.2002	12.31.2001
Due from affiliated banks	**42,505**	**43,463**
of which: from cooperative central banks	578	732
Due to affiliated banks	**43,631**	**41,510**
of which: to cooperative central banks	191	1,236

[1)] Defined as cooperative banks (Volksbanken und Raiffeisenbanken).

(12) Subordinated assets

Subordinated assets are included in the following headings:

in € million	12.31.2002	12.31.2001
Placements with, and loans and advances to, other banks	**341**	316
Loans and advances to non-bank customers	**224**	335
Bonds and other fixed-interest securities	**901**	406
Equity shares and other variable-yield securities	**402**	235

(13) Insurance-related investments

The structure of the insurance-related investments is as follows:

a) Own-account investments:

in € million	Balance sheet value 12.31.2001	Additions	Reclassi-fications	Disposals	Write-ups	Write-downs	Balance sheet value 12.31.2002
Land, leasehold rights and buildings including buildings on third-party land	**756**	332	-	38	63	119	**994**
Participations, shares in related companies	**342**	218	-	63	20	-	**517**
Lending to companies with which a participation relationship exists and to related companies	**2,609**	1,212	4	1,313	-	2	**2,510**
Equity shares, investment holdings and other variable-yield securities	**7,372**	1,901	-1	798	59	698	**7,835**
Bearer bonds and other fixed-interest securities	**4,291**	3,561	-3	3,725	30	43	**4,111**
Claims secured by mortgages, land charges and annuity land charges	**3,740**	250	-	184	-	-	**3,806**
Registered bonds, promissory notes, loans and other lending	**11,310**	2,323	-	1,300	-	3	**12,330**
Deposits with other banks	**128**	46	-	-	-	3	**171**
Other investments	**93**	182	-	62	2	1	**214**
Custody receivables from reinsurance business	**338**	168	-	-	-	-	**506**
Total	**30,979**	**10,193**	**-**	**7,483**	**174**	**869**	**32,994**

b) Investments for the account and at the risk of life assurance policy holders:

Specialist funds in € million	Shares	12.31.2002
R+V Aktien Europa	3,659,819	20
R+V Anleihen Europa	1,445,622	17
R+V-Kurs	30,199,395	116
R+V-Zins	23,743,105	125
UniDeutschland	105,843	6
UniEuroKapital	245,486	14
UniEuropa	31,821	29
UniEuropaRenta	331,199	14
VR-VermögensKonzept (A30, A50, A70)	193,124	7
VR-VermögensKonzept R	72,098	3
PIU' FUTURO (CRESCENTE + BRILLANTE)	673,784	3
EUROQUOTA (PRUDENTE + EQUILIBRATA + AGGRESSIVA)	10,465,347	43
RAIFFPLANET (PRUDENTE + EQUILIBRATA + AGGRESSIVA)	16,673,282	63
VALORE UNICO NIKKEI I + II		43
VALORE UNICO MIX		23
PIANETA BORSA		61
PIANETA BORSA 1-99		12
PIANETA BORSA 2-99		26
PIANETA BORSA 1-00		12
INDEX AUREO		8
INDEX SHARE		21
NEW INDEX SHARE		18
INDEX EUROPE		16
INDEX BEST EUROPE		10
INDEX 4 YOU		8
INDEX FOR 8		6
INDEX USA&EUROPE		5
INDEX LIGHT		26
INDEX LIGHT NOVEMBRE		13
Miscellaneous		14
Total		**782**

(14) Other insurance-specific assets

in € million	12.31.2002	12.31.2001
Receivable on directly written insurance business	**323**	**296**
a) from insurance customers	208	204
b) from insurance intermediaries	115	92
Settlement receivables on reinsurance business	**138**	**103**
Other receivables	**1,683**	**1,812**
Total	**2,144**	**2,211**

The "Other assets of insurance companies" heading comprises mainly entitlements arising from insurance transactions and due from policy holders, intermediaries and reinsurance providers, current balances with banks, plus interest and rent receivables.

(15) Trust operations

The total value of the Group's trust assets and liabilities is apportioned between the following assets-side and liabilities-side headings:

in € million	12.31.2002	12.31.2001
Trust assets		
a) Placements with, and loans and advances to, other banks	623	657
b) Loans and advances to non-bank customers	282	283
c) Participations	1,421	1,421
Total	**2,326**	**2,361**
Trust liabilities		
a) Deposits from other banks	715	534
b) Amounts owed to other depositors	1,577	1,793
c) Other	34	34
Total	**2,326**	**2,361**

(16) Foreign currency positions

Assets and liabilities denominated in foreign currencies exist in the following amounts:

in € million	12.31.2002	12.31.2001
Assets	**40,162**	46,130
Liabilities	**32,138**	40,907

(17) Business subject to repurchase agreements

As of December 31, 2002 the book value of assets sold subject to a repurchase agreement (but with the pledgor) amounted to € 18,939 million (2001: € 13,343 million).

(18) Assets assigned as security

Assets with the (aggregate) value stated below were assigned in respect of the following liabilities and contingent liabilities:

in € million	12.31.2002	12.31.2001
Deposits from other banks	**36,058**	33,489
Amounts owed to other depositors	**1,869**	1,930
Other obligations such as liabilities arising from securities loan transactions	**2,720**	753
Total value of assigned security	**40,647**	**36,172**

(19) Structure of securities portfolio by purpose

The securities portfolio breaks down into the following categories according to the purpose of the holding:

in € million	12.31.2002	12.31.2001
Bonds and other fixed-interest securities	**78,090**	**79,916**
- Investment portfolio	24,590	24,654
- Trading portfolio	16,978	19,019
- Liquidity reserve	36,522	36,243
Equity shares and other variable-yield securities	**7,798**	**9,327**
- Investment portfolio	5,216	985
- Trading portfolio	1,229	1,473
- Liquidity reserve	1,353	6,869

(20) Securities eligible for stock exchange listing

The following assets-side headings include securities eligible for stock exchange listing in the amounts stated:

in € million	12.31.2002	12.31.2001
Bonds and other fixed-interest securities	**78,072**	**79,782**
- of which: listed	70,786	72,846
Equity shares and other variable-yield securities	**1,694**	**2,077**
- of which: listed	922	1,075
Participations	**147**	**135**
- of which: listed	138	118
Participations in associated companies	**9**	**-**
- of which: listed	-	-
Shares in related companies	**84**	**-**
- of which: listed	83	-

(21) Fixed assets structure and movements

in € million	Cost of acquisition/ production	Addi-tions	Dis-posals	Reclass.	Write-ups	Cumulative depre-ciation and write-downs	Book value at 12.31.2002	Book value at 12.31.2001	Depreciation and write-downs in 2002
Intangible fixed assets	32	1	4	6	-	14	**21**	21	7
Land and buildings	884	14	70	-6	-	352	**470**	546	24
of which: used for own operations	(684)	(13)	(20)	(-8)	(-)	(300)	(369)	(401)	(18)
Operating and office equipment	1,485	130	139	15	-	1,146	**345**	445	172
Other physical assets	9	-	2	-	-	-	**7**	9	-
Leasing assets	6,701	1,430	1,391	-	-	2,333	**4,407**	4,531	913
Prepayments made	67	50	22	-15	-	-	**80**	67	-
Total tangible and intangible fixed assets	**9,178**	**1,625**	**1,628**	**-**	**-**	**3,845**	**5,330**	**5,619**	**1,116**

The depreciation on leasing assets is included in other operating expenses.

Financial assets structure and movements

in € million	Net changes	Book value at 31.12.2002	Book value at 31.12.2001
Bonds and other fixed-interest securities	-64	**24,590**	24,654
Shares and other variable-yield securities	4,231	**5,216**	985
Participations	-99	**440**	539
Participations in associated companies	15	**180**	165
Shares in related companies	17	**905**	888
Total financial assets	**4,100**	**31,331**	**27,231**

(22) Own shares

At the accounting date, DZ BANK AG held a total of 3,665,569 of its own registered unit shares representing in total € 9,530,479.40 or 0.3311 percent of the company's share capital.

At the opening date of the year under report, DZ BANK AG's direct holdings and those of companies controlled or majority-owned by DZ BANK AG had included 15,574,869 of its own registered unit shares representing in total € 40,494,659.40 or 1.4068 percent of the share capital.

Of this total, 200,000 shares had passed from the federal government to DG BANK AG on August 19, 1998 under the terms of section 2.2 of the DG BANK Transformation Act. This is equivalent to € 520,000.00 or 0.0181 percent of the company's share capital. DG BANK AG had also acquired a further 293,000 of its own shares on September 30, 1999 under the powers of a time-limited authority to acquire its own shares, approved by the general meeting held on June 15, 1999 and effective through October 31, 2000. This is equivalent to € 761,800.00 or 0.0265 percent of the company's share capital. Subsequently, DG BANK AG acquired a further 1,220,000 of its own unit shares on November 15, 1999. This is equivalent to € 3,172,000.00 or 0.1102 percent of the company's share capital.

On the strength of the resolution passed by the extraordinary general meeting held on August 16, 2001 to approve a time-limited authority, effective through January 31, 2003, permitting DZ BANK AG to acquire its own shares for purposes other than securities trading (section 71.1.8 AktG) up to an aggregate ceiling of 10 percent of the current share capital, DZ BANK AG acquired a further 5,082 of its own shares on December 28, 2001 equivalent to € 13,213.20 or 0.0005 percent of the company's share capital. This purchase was in connection with the partial consolidation of DZ BANK AG's circle of shareholders following the merger.

One of the effects of the merger (effective September 18, 2001) of GZ-Bank AG Frankfurt/Stuttgart and DG BANK Deutsche Genossenschaftsbank AG, Frankfurt am Main, to create DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, was to give rise to majority ownership positions that require declaration in these accounts under the terms of section 160.1.2 AktG. As of the effective date of the merger, companies controlled or majority-owned by DZ BANK AG held 10,901,582 shares in the company with an aggregate value of € 28,344,113.20. This is equivalent to 0.9847 percent of the registered capital.

Within the framework of the time-limited authority – effective through January 31, 2003 – approved by the extraordinary general meeting held on August 16, 2001 permitting the acquisition of own shares for purposes other than securities trading up to an aggregate ceiling of 10 percent of the current share capital, during the period from September through December 2001 companies controlled or majority-owned by DZ BANK AG acquired a total of 2,955,911 shares with an aggregate value of € 7,685,368.60 or 0,2670 percent of the share capital. In all cases, the purchases involved minor stakes and were made in connection with the partial consolidation of DZ BANK AG's circle of shareholders following the merger.

In two cases during December 2001, controlled or majority-owned companies sold a total of 706 of DZ BANK AG's own registered shares with an aggregate value of € 1,835.60 equivalent to 0.0001 percent of the share capital.

The extraordinary general meeting held on August 16, 2001 approved a time-limited authority, effective through January 31, 2003, permitting DZ BANK AG to acquire its own shares for purposes other than securities trading up to an aggregate ceiling of 10 percent of the current share capital. The unit purchase price of the shares to be acquired may not exceed or undershoot by more than 10 percent the weighted average share price of the most recent five title transfers not performed at par.

On the basis of this resolution DZ BANK AG in January 2002 acquired 475,648 own shares at a purchase price of € 1,236,684.80. This is equivalent to € 1,236,684.80 of the registered capital and a share of the increased registered capital of 0.0430 percent. In February 2002 DZ BANK AG acquired 536,772 own shares at a purchase price of € 1,354,948.12, equivalent to € 1,395,607.20 of the registered capital and a share of the increased registered capital of 0.0485 percent. In March 2002 DZ BANK AG acquired 859,848 own shares at a purchase price of € 2,235,604.80, equivalent to € 2,235,604.80 of the registered capital and a share of the increased registered capital of 0.0777 percent. In April 2002 DZ BANK AG acquired 75,219 own shares at a purchase price of € 195,569.40, equivalent to € 195,569.40 of the registered capital and a share of the increased registered capital of 0.0068 percent. These purchases were effected in connection with the partial consolidation of DZ BANK AG's circle of shareholders.

Within the framework of the time-limited authority approved by the extraordinary general meeting held on August 16, 2001 permitting the acquisition of own shares, in January 2002 companies controlled or majority-owned by DZ BANK AG acquired a total of 612,812 of the company's shares with an aggregate nominal value of € 1,593,311.20 or 0.0554 percent of the increased registered capital. The purchase price was € 1,593,311.20 and the acquisition was made in connection with the consolidation of DZ BANK AG's circle of shareholders. Also in January 2002, 411,150 shares were sold at a disposal price of € 1,068,990.00. This is equivalent to 1,068,990.00 of the registered capital and a share of the increased registered capital of 0.0371 percent. The proceeds were allocated to current assets, and no gain was made on the transaction.

The ordinary general meeting held on June 25, 2002 suspended the authority to purchase own shares approved by the meeting of August 16, 2001 and instead authorized the company to acquire its own shares for purposes other than securities trading up to an aggregate ceiling of 10 percent of the current share capital through to November 30, 2003. The purchase price to be paid per share must not be less than the notional nominal value of € 2.60 per share and must not be more than 235 percent of the notional nominal value.

In June 2002 companies controlled or majority-owned by DZ BANK AG sold 9,686,433 shares at a purchase price of € 59,184,105.63, equivalent to € 25,184,725.80 of the registered capital and a share of the increased registered capital of 0.8749 percent. In August 2002 companies controlled or majority-owned by DZ BANK AG sold 60 shares at a purchase price of € 366.60, equivalent to € 156.00 of the registered capital and a share of the increased registered capital of 0.000005 percent. In December 2002 companies controlled or majority-owned by DZ BANK AG sold 4,371,956 shares at a purchase price of € 26,712,651.16, equivalent to € 11,367,085.60 of the registered capital and a share of the increased registered capital of 0.3949 percent. The disposals of these own shares generated price gains that were recorded as "gains on the disposal of capital investments".

A very minor proportion of the companies controlled or majority-owned by DZ BANK AG is not included in the DZ BANK Group's consolidated financial statements. This marginally changes the consolidated total of own shares held within the Group compared to the above figures. At the start of the year under report, the companies actually consolidated had held a total of 15,531,903 shares in DZ BANK AG accounting in aggregate for € 40,382,947.80 of the share capital or a percentage share of 1.4030 percent. As of the accounting date, the DZ BANK Group held a total of 3,665,569 of the parent company's own registered shares or € 9,530,479.40 of the share capital. This is equivalent to a share of 0.3311 percent of the registered capital. These figures are identical with DZ BANK AG's holding of own shares.

(23) Changes in capital structure

The Group's subscribed capital consists of DZ BANK AG's registered capital of € 2,878,427,240.00. The subscribed capital is divided into 1,107,087,400 registered shares each conveying a notional proportional entitlement in the share capital of € 2.60.

The DZ BANK Group's equity capital evolved as follows during the year under report:

in € million	Change in 2002	12.31.2002	12.31.2001
Subscribed capital	**205**	**2,879**	**2,674**
- Capital increase by DZ BANK AG	205		
Capital reserve	**-**	**528**	**528**
- Premium from capital increase by DZ BANK AG	275		
- Partial offset of goodwill	-275		
Surplus reserves	**-283**	**107**	**390**
- Statutory reserve	3	5	2
- Reserve for own-shares	-39	24	63
- Other surplus reserves	-247	78	325
Balancing item for minority interests	**286**	**2,426**	**2,140**
- Adjustment due to changes in the sphere of consolidation, proportional holdings and earnings entitlements of shareholders	286		
	208	**5,940**	**5,732**
Cumulative profit	**1**	**52**	**51**
- Appropriation/distribution of prior-year profit	-51	-	51
- Cumulative profit 2002	52	52	-
Consolidated shareholders' equity	**209**	**5,992**	**5,783**

The general meeting held on August 16, 2001 authorized the Board of Managing Directors, with the consent of the Supervisory Board, to increase the share capital of DZ BANK AG by up to € 50 million in total by issuing shares against cash contributions or contributions in kind on one or more occasions through to July 31, 2006. Provided the Supervisory Board agrees, the Board of Managing Directors may exclude the right of existing shareholders to subscribe to either a capital increase against cash contributions or a capital increase against contributions in kind where the capital increase is intended to finance the issue of new staff shares, the acquisition of companies or equity stakes in companies, or to make available equity interests in the company to underpin strategic partnerships. Furthermore the Board of Managing Directors is empowered, with the consent of the Supervisory Board, to exclude the right of existing shareholders to subscribe in relation to fractional amounts ("Authorized capital I").

The general meeting also authorized the Board of Managing Directors, with the consent of the Supervisory Board, to increase the share capital of DZ BANK AG by up to € 100 million in total by issuing shares against cash contributions on one or more occasions through to July 31, 2006. The Board of Managing Directors may, with the consent of the Supervisory Board, exclude the right of existing shareholders to subscribe in relation to fractional amounts ("Authorized capital II").

The Board of Managing Directors did not make use of these authorities during the year under report.

Three shareholders have appealed to the courts under section 34 UmwG to increase the cash settlement of DM 470.00 for each former GZ-Bank AG share offered under the merger agreement in respect of 74,199 GZ-Bank AG shares. If the court rules in their favor and they accept the higher offer, the merger agreement will then oblige DZ BANK AG to acquire further own-shares in a permissible transaction within the meaning of section § 71 AktG. The outstanding shareholders appointed a joint representative during the year under report. This had the effect of increasing the number of shares involved in the dispute to 75,300; a further increase is excluded for procedural reasons.

The general meeting of June 25, 2002 voted to increase the bank's registered capital by € 204,109,250.80 to € 2,878,427,240.00. The performance of this capital increase against cash contributions through the issue of 78,503,558 registered shares of no-par-value common stock was recorded in the company's Commercial Register entry on November 19, 2002. The new shares qualify to participate in profits from October 1, 2002.

Part of the € 275,547,488.57 endowment of the capital reserve through this capital increase was used to offset goodwill within the DZ BANK Group.

(24) Shareholder disclosures

The proportion of the share capital held by cooperative undertakings at the end of the financial year under report was approximately 92 percent. Cooperative undertakings include the cooperative societies, the cooperative central institutions and other corporate entities and trading companies.

(25) Other assets

The "Other assets" heading primarily comprises capitalized results from trading transactions and premiums for acquired option rights. This item also includes potential corporation tax reliefs within the provisions of section 37.2 KStG totaling € 345 million.

(26) Tax deferrals

Deferred tax entitlements and provisions for deferred tax liabilities are shown for the valuation differences between the commercial and the tax balance sheets in respect of the following balance-sheet headings:

Deferred tax entitlements in € million	**12.31.2002**
Assets-side positions	
- Tax-allowable loss carryovers	626
- Loans and advances to non-bank customers	439
- Securities	30
- Participations / Shares in related companies	4
- Intangible fixed assets	3
- Property and equipment	3
- Other assets	2
Liabilities-side positions	
- Provisions	347
- Fund for general banking risk and building savings & loan guarantee fund	471
- Other liabilities	35
Deferred tax credits	**1,960**

Deferred tax liabilities in € million	**12.31.2002**
Assets-side positions	
- Placements with, and loans and advances to, other banks	7
- Loans and advances to non-bank customers	6
- Securities	85
- Participations / Shares in related companies	54
- Property and equipment	45
- Other assets	1
Liabilities-side positions	
- Amounts owed to other depositors	5
- Provisions	6
- Other liabilities	7
Provisions for deferred tax liabilities	**216**

Deferred tax credits on unutilized tax-allowable loss carryovers are taken to the balance sheet when it appears probable that the company concerned will generate sufficient taxable profits in the future.

DZ BANK AG and its subsidiaries and affiliates have claimed deferred tax assets on tax-allowable loss carryovers that will reduce their actual future tax expenses.

Under the terms of DRS 10, deferred tax entitlements have not been shown in respect of € 63 million of tax-allowable loss carryovers.

Thanks to the management action taken in the area of risk provisioning and to limit credit risks, coupled with the Group's cost-cutting drive and the synergy benefits that will flow from the merger, and assuming an improvement in the wider economic framework, the Group is confident of achieving a level of sustained taxable earnings that will allow it to realize the tax benefits of its brought-forward losses.

(27) Accruals and deferrals

in € million	12.31.2002	12.31.2001
Assets side	**766**	**800**
a) Discounts on payables	402	443
b) Premiums on receivables	110	115
c) Other deferred expenses and accrued income	254	242
Liabilities side	**2,460**	**2,594**
a) Discounts on receivables	268	269
b) Premiums on issued bonds	108	72
c) Deferred proceeds from sales of leasing receivables	1,632	1,691
d) Other deferred income and accrued expenses	452	562

(28) Other liabilities

This heading includes most importantly option premiums received.

(29) Provisions

The aggregate deferred tax provisions pursuant to sections 274.1 and 306 HGB in conjunction with DRS 10 amounted to € 216 million and correspond with the anticipated tax liability arising from the differences between the fiscal and commercial income statements based on the applicable national tax rates.

Provisions relating to leasing business totaled € 99 million (PY: € 94 million).

(30) Actuarial reserves

in € million	12.31.2002	12.31.2001
Actuarial reserves	**30,056**	**28,386**
a) Premium transfers	1,009	954
b) Level premium reserve	22,812	21,207
c) Outstanding claims reserve	3,096	2,744
d) Reserve for refund of premiums (bonus fund)	2,517	2,817
e) Equalization fund and similar reserves	574	633
f) Other actuarial reserves	48	31
Life-assurance-related actuarial reserves on which the policy holders bear the investment risk	**782**	**672**
Level premium reserve	782	672
Total	**30,838**	**29,058**

The actuarial reserves represent the insurer's obligations to policy holders and qualifying claimants and need to be backed by investments on the assets side of the balance sheet.

(31) Other insurance-specific liabilities

in € million	12.31.2002	12.31.2001
Custody liabilities from reinsurance business	**731**	**724**
Payable on directly written insurance business	**2,491**	**2,388**
a) to insurance customers	2,435	2,336
b) to insurance intermediaries	56	52
Settlement payables on reinsurance business	**143**	**125**
Other liabilities	**776**	**663**
Total	**4,141**	**3.900**

The "Other liabilities of insurance companies" heading comprises mainly liabilities arising from insurance transactions and payable to policy holders, intermediaries and reinsurance providers.

(32) Participatory capital

The total volume of participatory capital recognized as qualifying (liable) capital within the definition of section 10.5 of the German Banking Act (KWG) was € 2,397 million.

Participation certificate holders' entitlements to repayment of their capital are subordinate to the rights of other creditors. DZ BANK AG has issued the following series of bearer participation certificates:

Year of issue	Nominal amount (in € millions)	Interest rate (in %)	Due
1984	148	8.50	2011
1987	102	7.25	2006
1989	42	7.50	2009
1993	26	6.75	2003
1993	26	7.00	2008
1994	36	6.75	2006
1994	26	6.25	2005
1995	26	7.25	2004
1995	64	7.50	2006
1996	51	7.50	2006
1996	41	7.25	2007
1997	9	6.50	2004
1997	38	6.75	2008
1998	1	3.09	2004
1998	22	6.50	2010
1999	160	4.988 [1)]	2009
1999	1	7.00	2010
2000	60	6.25	2009
2000	1	2.75	2006
2001	100	5.50	2008
2001	61	7.60	2006
2002	11	6.50 [2)]	2011

[1)] Tied to market rate: H1: 4.719 %, H2: 4.988 %.

[2)] Distribution in respect of FY 2002 is scheduled to be paid together with 2003 payout on July 1, 2004

The issue terms of the 1984, 1987, 1998 (maturing through 2004), and 2000 participatory capital tranches (maturing through 2006) make the eventual distribution dependent on the dividend declared.

Other issues by Group companies:

Year of issue	Nominal amount (in € millions)	Interest rate (in %)	Due
1993	128	7.00 - 7.25	2003 - 2013
1994	26	6.50	2007
1994	38	6.75	2004
1994	9	7.50	2004
1995	15	7.75	2005
1995	51	= dividend (min. 7.00)	2011
1998	51	6.27	2007
1998	6	6.00	2008
2000	75	7.59	2009
2001	11	6.50	2011
2002	11	6.50	2012

Registered participation certificates with an aggregate nominal volume of € 1,040 million have been issued by DZ BANK Group companies. This total is composed of 439 separate issues with original terms of between 6.6 and 15 years and bearing interest of between 5.38 percent and 7.63 percent.

Servicing the interest on the participation certificate stock involved expense of € 172 million in 2002 (2001: € 177 million), shown as part of the "Participatory capital" total.

(33) Special item with reserve portion

The special item with reserve portion was formed under the terms of section 6b EStG and section 52.16 sentences 3 – 5 EstG and was taken back to the income statement in fiscal 2002.

(34) Subordinated liabilities

The subordinated borrowings do not involve any early redemption obligation on the part of the issuers.

The rights arising from these liabilities (including entitlement to interest) are secondary to the non-subordinated claims of all the issuer's other creditors in the event of bankruptcy, liquidation or composition.

There is no agreement or intention to convert these funds to capital or another form of debt. The DZ BANK Group companies have issued subordinated liabilities totaling € 3,503 million altogether. On the BIS definition, € 2,605 million (2001: € 2,914 million) of longer-term liabilities and € 123 million (2001: € 377 million) of short-term liabilities qualify as junior capital.

Subordinated liabilities are mainly issued in the form of fixed-interest securities, variable-rate securities and reverse floaters.

The consolidated financial statements for 2002 do not include any single item which exceeds 10 percent of the total value of the subordinated liabilities.

The interest expense on the group's subordinated liabilities amounted to € 234 million (2001: € 241 million).

Deferred interest totaling € 99 million payable in a later period is included in the "Subordinated liabilities" heading.

(35) Off-balance-sheet futures business by product structure

The following table shows the breakdown of the DZ BANK Group's off-balance-sheet futures transactions by product area:

in € million	Nominal amount					Replacement costs	
	Residual term			Total			
	<=1 year	1–5 years	>5 years	12.31.2002	12.31.2001	12.31.2002	12.31.2001
Interest-based transactions	**168,234**	**295,604**	**170,456**	**634,294**	**620,361**	**13,391**	**8,600**
a) OTC products							
- FRAs	1,737	14,405	10	16,152	31,542	8	62
- Interest swaps (same currency)	112,701	216,608	148,829	478,138	498,657	12,754	8,039
- Interest options – calls	1,845	26,708	9,214	37,767	30,006	626	496
- Interest options – puts	5,109	28,562	12,206	45,877	12,375	-	-
- Other interest contracts	-	497	197	694	287	3	3
b) Exchange-traded products							
- Interest futures	46,497	8,764	-	55,261	47,484	-	-
- Interest options	345	60	-	405	10	-	-
Forex-based transactions	**25,478**	**12,435**	**4,596**	**42,509**	**63,598**	**1,003**	**1,296**
a) OTC products							
- Forward exchange transactions	18,945	762	25	19,732	35,104	376	395
- Cross-currency-swaps	1,915	11,673	4,571	18,159	24,543	608	889
- Forex options – calls	2,610	-	-	2,610	2,047	19	12
- Forex options – puts	2,007	-	-	2,007	1,903	-	-
b) Exchange-traded products							
- Forex futures	1	-	-	1	1	-	-
Equity and index-based transactions	**1,790**	**187**	**222**	**2,199**	**1,703**	**62**	**11**
a) OTC products							
- Equity and index options – calls	32	100	195	327	89	62	11
- Equity and index options – puts	112	80	27	219	141	-	-
b) Exchange-traded products							
- Equity and index futures	933	-	-	933	967	-	-
- Equity and index options	713	7	-	720	506	-	-
Other transactions	**4**	**-**	**-**	**4**	**10**	**-**	**-**
- Precious metals transactions	4	-	-	4	10	-	-
Credit derivatives	**216**	**4,878**	**182**	**5,276**	**5,799**	**58**	**79**
a) Credit default swaps							
- DZ BANK as hedge beneficiary	59	2,617	59	2,735	2,264	34	69
- DZ BANK as hedge provider	157	2,169	123	2,449	3,469	20	6
b) Total return swaps							
- DZ BANK as hedge beneficiary	-	62	-	62	66	4	4
- DZ BANK as hedge provider	-	30	-	30	-	-	-
Total	**195,722**	**313,104**	**175,456**	**684,282**	**691,471**	**14,514**	**9,986**

A substantial proportion of the transactions listed here were entered into to hedge interest rate, exchange rate or market price fluctuations. The bulk of these transactions related to trading activities.

(36) Off-balance-sheet futures business by counterparties structure

The following table shows the breakdown by counterparty:

Counterparties in € million	Replacement costs 12.31.2002	 12.31.2001
OECD governments	**16**	6
Banks in OECD countries	**13,981**	9,415
Financial services institutions in OECD countries	**217**	250
Other companies and private individuals	**297**	312
Banks in non-OECD countries	**3**	3
Other	**14,514**	**9,986**

C. Notes to the Income Statement

(37) Breakdown of income by geographical markets

The origin of the sum total of interest income, current income from equity shares etc., commission income, net proprietary trading income and other operating income is as follows:

in %	2002	2001
Germany	81.95	85.56
International	18.05	14.44

(38) Commission income and expense

The surplus of commission income over commission expense resulted from the following services:

in € million	2002	2001
Securities business	764	716
Lending and guarantees business	30	80
International lending and payments business	124	119
Asset management	12	12
Other	115	167
Building savings & loan business	-192	-174
Total	853	920

(39) Net trading income

The Group's surplus on proprietary dealing activities derived from the following risk classes:

in € million	2002	2001
Interest risk	216	74
Share price risk	-7	3
Currency risk	5	36
Other risks	2	6
Total	216	119

(40) Change in the reporting of net interest and net trading income

In order to present revenues in a way that adequately reflects the character of business operations, these Consolidated Financial Statements for the first time show the interest and dividend income from securities held in the dealing portfolio of € 489 million and the income from note loans and registered bonds held in the dealing portfolio of € 40 million, together with the refinancing expense resulting from dealing transactions of € 373 million, as part of net trading income. The consequences of this reporting change are to reduce the bank's interest result by € 156 million and increase its proprietary trading result by an equivalent amount compared with the previous year.

The balance of the interest and dividend income from securities, note loans and registered bonds held in the dealing portfolio less refinancing expense reported in 2001 under net interest income amounted to € 154 million. If the same reporting change had applied to the 2001 financial statements, that year's interest result would have been € 154 million lower (at € 1,668 million instead of € 1,822 million) and the net result from financial activities would have been increased by the same amount (at € 273 million instead of € 119 million).

(41) Income from insurance operations

in € million	2002	2001
Earned net premiums	**6,262**	**5,793**
a) Property and casualty insurance	3,074	2,726
b) Life and health insurance	3,188	3,067
Contributions from the gross reserve for premium refunds	**252**	**320**
Income from investments	**3,036**	**2,322**
Other actuarial income	**10**	**7**
Other non-actuarial income	**153**	**134**
Total	**9,713**	**8,576**

The rise in the Group's income from insurance operations by € 1,137 million to € 9,713 million is attributable firstly to higher net premiums on property and casualty insurance especially, and secondly to significantly stronger investment income. This also includes gains on the disposals of investments totaling € 777 million. The program of structural changes to reorganize the R+V sub-group generated gains from the disposal of shares in related companies to the value of € 453 million. These income flows were offset by bigger write-downs resulting from the bad capital market situation.

(42) Expenses from insurance operations

in € million	2002	2001
Claims	**4,649**	**3,976**
a) Property and casualty insurance	2,479	1,995
b) Life and health insurance	2,170	1,981
Change in actuarial net reserves	**1,562**	**1,747**
a) Property and casualty insurance	107	107
b) Life and health insurance	1,455	1,640
Premium refunds (bonus fund)	**279**	**736**
a) with-profits bonuses	271	728
b) non-profit-related bonuses	8	8
Operating expenses	**1,233**	**1,113**
Investment expenses	**1,061**	**472**
Other actuarial expenses	**124**	**226**
Other non-actuarial expenses	**214**	**175**
Total	**9,122**	**8,445**

The Group's expenses from insurance operations increased by € 677 million to € 9,122 million. This was due mainly to a € 673 million rise in the cost of claims to € 4,649 million. In turn this was due to a series of natural disasters, and specifically the severe flooding on the Elbe and Danube. By contrast the cost of bonuses (premium refunds), paid essentially on directly written life assurance policies, reduced substantially. This reflects the steep fall of investment income.

At € 591 million the Group's final result from insurance operations was substantially improved on the previous year's € 131 million, primarily due to large disposal gains.

(43) Administration and agency services provided for third parties

Services to third parties relate most significantly to asset management and securities custody administration, trust assets administration and intermediation of building savings & loan and real estate business.

(44) Other operating income and expense

The "Other operating income" heading in the consolidated financial statements included most importantly current income from leasing business, but also income from refunds of tax, from the writing back of provisions, rent revenues and revenues from organized seminars and publications.

The Group's "Other operating expenses" resulted primarily from sundry leasing expenses and depreciation on leased assets. The heading also included ex gratia payments, non-personnel costs in relation to buildings not used for banking, and sundry social security payments.

(45) Exceptional income and expenses

The "Exceptional expenses" heading essentially includes an amount to correct the erroneous period allocation of OTC zero swaps by the former DG BANK AG during the years from 1999 through 2001, personnel and non-personnel restructuring expenses, plus the costs of ongoing early retirement obligations under the social plan currently in force. For the year under review, the tax effect on the extraordinary result has been considered according to DRS 10.38, and has been cut by € 89 million. In the previous year, the respective effect would have amounted to € 61 million.

(46) Taxes on income

The "Taxes on income" heading encompasses the current tax liabilities on income and earnings plus the positive value of deferred taxation:

Tax expense in € million	**2002**
Taxes on actual income	**50**
of which: relating to result from ordinary operations	139
of which: relating to exceptional result	-89
Balance of deferred tax credits and debits	**-1,368**
of which: relating to result from ordinary operations	-1,368
Final taxes on income	**-1,318**

During the year under report deferred taxes totaling € 92 million were taken to the balance sheet and booked against shareholders' equity in accordance with DRS 10.16.

The following reconciliation statement shows the relationship between the reported tax outcome and the tax outcome calculated using the currently applicable German tax rate:

Reconciliation in € million	**2002**
Net income for year before taxes on income	**-967**
Group effective tax rate	40.143 %
Notional income tax expense	**-388**
Tax effects:	
Tax mitigation from tax-exempt income streams	-818
Increase in tax liability from non-deductible expenses	67
Variances in tax rates	-16
Tax in respect of earlier years	-49
Effects from legacy differences	-465
Miscellaneous	351
Final taxes on income	**-1,318**

Under German corporation tax law, the uniform tax rate applicable to corporations is 25 percent.

The basis for calculating the deferred tax effects in the 2002 reconciliation account was an effective corporation tax rate of 26.375 percent (including the solidarity surcharge) for German companies plus an effective municipal trade tax of 13.768 percent for DZ BANK and its integrated companies.

It was decided not to increase the rate of corporation tax in fiscal 2003 in connection with the Flood Victims Solidarity Act.

D. Other information

(47) Other financial obligations

The total amount of the Group's other financial obligations is € 762 million (2001: € 771 million). The commitments essentially relate to rental contracts, investment projects and unsettled transactions.

This amount does not include liabilities of € 8 million from capital shares of cooperative associations (2001: € 9 million).

DZ BANK AG has also indemnified the protection scheme operated by the BVR (Federal Association of German Cooperative Banks) in respect of any obligations incurred by the guarantee fund in relation to Deutsche Genossenschafts-Hypothekenbank AG, VR DISKONTBANK GmbH, DVB Bank AG, or Frankfurt Bukarest Bank AG.

Furthermore, DZ BANK AG has given transfer guarantee declarations to domestic companies and public institutions in respect of certain deposits at its branches in Great Britain and the USA for the event that the branches are prevented by national decision from discharging their repayment obligations.

(48) Placing and underwriting obligations

As last year, no claims have been made against the companies of the DZ BANK Group under guarantees given to issuers over the placement or underwriting of financial instruments.

(49) Declaration of backing

In respect of its directly and indirectly held equity interests in banks, financial services providers, finance companies and companies providing banking-related ancillary services, and which are listed in DZ BANK AG's List of Shareholdings and identified therein as falling within the ambit of this declaration of responsibility, DZ BANK AG will ensure the ability of these companies to fulfill their contractual obligations in proportion to its shareholding, excluding political risk.

(50) Employees

Grouped by gender and time commitment, the average number of persons employed in 2001 was as follows:

	2002	2001
Female staff	**11,431**	**12,271**
of which: full-time employees	8,747	9,368
of which: part-time employees	2,684	2,903
Male staff	**13,816**	**14,380**
of which: full-time employees	13,334	13,890
of which: part-time employees	482	490
Total employees	**25,247**	**26,651**

(51) Cover statement for DZ BANK AG

The following cover is in place for the total value of DZ BANK AG bonds in circulation (including registered bonds):

in € million	12.31.2002	12.31.2001
Regular cover	**22,421**	**25,580**
Loans and advances		
- to banks	10,329	12,038
- to non-bank customers	1,359	1,404
Bonds and other fixed-interest securities	10,596	11,980
Equalization claims	137	158
Cover requirement	**19,653**	**18,653**
Issued, covered		
- bearer bonds	8,580	8,950
- bonds registered to banks	3,438	1,819
- bonds registered to non-bank customers	7,152	7,319
Currently unissued bonds (held in treasury)	339	387
Registered bonds given over as collateral		
- to banks	8	7
- to non-bank customers	136	171
Excess cover	**2,768**	**6,927**

(52) Cover assets trustees

The trustees are appointed by the German financial services regulator (Bundesanstalt für Finanzdienstleistungsaufsicht, BAFin) and their statutory duty is to ensure that the issuance, administration and collateralization of DZ BANK AG's covered bonds comply with the legal requirements and the provisions of the bank's own statutes as well as the bonds' terms and conditions.

Trustee:
Dr Ekkehard Buchwaldt
Presiding Judge, Superior Provincial Court Frankfurt am Main (retd.)

Deputy Trustee

Dr Dieter Eschke
Presiding Judge, Superior Provincial Court
Frankfurt am Main (retd.)
(from May 1, 2002)

Dr Friedrich Quadflieg
Ministerialdirektor retd.
(to April 30, 2002)

(53) Cover statement for the mortgage bank's mortgage and local authority lending business

The liabilities listed below are collateralized as follows:

	Mortgage Pfandbriefe		Public Pfandbriefe	
in € million	**12.31.2002**	**12.31.2001**	**12.31.2002**	**12.31.2001**
Regular cover	**19,419**	**19,347**	**37,018**	**37,681**
Mortgage loans				
- to other banks	162	153	1[1]	1[1]
- to non-bank customers	19,165	19,102	402[1]	430[1]
Local authority loans				
- to other banks	-	-	609	11,248
- to non-bank customers	-	-	24,722	17,001
Securities				
- to other banks	-	-	11,284	7,916
- to non-bank customers	-	-	-	1,085
Charges over bank-owned land	92	92	-	-
Substitute cover	**13**	**421**	**1**	**1**
Securities	-	408	-	-
Other claims on banks	13	13	1	1
Total cover	**19,432**	**19,768**	**37,019**	**37,682**
Cover requirement	**17,668**	**18,586**	**34,156**	**36,205**
Pfandbriefe requiring cover	17,668	18,586	34,156	36,205
Excess cover	**1,764**	**1,182**	**2,863**	**1,477**

[1] subject to local authority guarantees

(54) Information on leasing business

The composition of the leasing business is essentially as follows:

in € million	12.31.2002	12.31.2001
Leasing assets	**4,407**	4,531
Deposits from other banks	**904**	706
Amounts owed to non-bank customers	**195**	108
Other liabilities	**198**	200
Accrued expenses and deferred income from leasing business	**1,632**	1,691
Provisions	**99**	94
Current income from leasing business	**1,810**	1,693
Depreciation on leasing assets	**913**	881
Other expenses from leasing business	**715**	625

(55) Changes in the business book of Bausparkasse Schwäbisch Hall in FY 2002

I. Overview of the changes in the number of existing save-to-build contracts and savings balances:

	Loan not allocated		**Loan allocated**		**Total**	
	Number of contracts	**Cumulative savings target** in € million	**Number of contracts**	**Cumulative savings target** in € million	**Number of contracts**	**Cumulative savings target** in € million
Position at end of previous year	**5,054,846**	**116,637**	**2,140,084**	**45,400**	**7,194,930**	**162,037**
Additions during year through:						
a) New business (activated contracts)[1]	853,699	20,148	-	-	853,699	20,148
b) Transfers	26,596	608	7,296	240	33,892	848
c) Loan not requested or revoked	5,398	140	-	-	5,398	140
d) Splits	114,678	-	1,211	-	115,889	-
e) Loan acceptances	-	-	487,806	9,345	487,806	9,345
f) Other	200,425	4,513	-	-	200,425	4,513
Total:	**1,200,796**	**25,409**	**496,313**	**9,585**	**1,697,109**	**34,994**
Retirements during year through:						
a) Loan acceptances	487,806	9,345	-	-	487,806	9,345
b) Target reductions	-	965	-	-	-	965
c) Cancellations	310,384	5,568	267,899	3,904	578,283	9,472
d) Assignments	26,596	608	7,296	240	33,892	848
e) Combinations[1]	155,693	-	147	-	155,840	-
f) Contract maturities	-	-	319,527	6,214	319,527	6,214
g) Loan not requested or revoked	-	-	5,398	140	5,398	140
h) Other	200,425	4,513	-	-	200,425	4,513
Total:	**1,180,904**	**20,999**	**600,267**	**10,498**	**1,781,171**	**31,497**
Net additions/retirements	19,892	4,410	-103,954	-913	-84,062	3,497
Position at end of year	**5,074,738**	**121,047**	**2,036,130**	**44,487**	**7,110,868**	**165,534**

[1] includes target increases

II. Contracts not activated:

	Number of contracts	Cumulative savings target in € million
a) Accounts opened prior to 01.01.2002	**30,891**	**1,151**
b) Accounts opened during year	**178,914**	**5,333**

For information on changes at different levels of the tariff structure, please refer to the annual report of Bausparkasse Schwäbisch Hall.

(56) Change in the loan allocation volume of Bausparkasse Schwäbisch Hall in FY 2002

A. Additions	in € million
I. Brought-forward from previous year (surplus)	
Not yet advanced loans	13,458
II. Additions during the year	
a) Savings inputs (including credited house building premiums)	5,854
b) Capital repayments[1] (including credited house building premiums)	2,900
c) Interest on save-to-build deposits	685
d) Building savings & loan guarantee fund	10
Sum of additions	**22,907**

B. Withdrawals	in € million
I. Withdrawals during the year	
a) Allocated loans paid out	
aa) Save-to-build deposits	5,062
ab) Construction loans	2,436
b) Repayment of save-to-build deposits on unallocated save-to-build contracts	823
c) Balancing of reduced capital repayments through term extension (debt reduction)	3
d) Building savings & loan guarantee fund	64
II. Surplus of additions (not yet advanced volume) at end of financial year [2]	**14,519**
Total withdrawals	**22,907**

[1] Capital repayments are those portions of installments used solely for loan redemption.

[2] The additions surplus includes inter alia:

a) the not yet returned save-to-build deposits of savers who have been allocated a loan	95
b) the not yet paid out loan components of allocated saver's building loans	2,534

(57) Statutory bodies

The total remuneration for members of the Board of Managing Directors of DZ BANK AG during 2002 amounted to T€ 5,191 (2001 including predecessor institutions: T€ 10,054) and T€ 462 for members of the Supervisory Board (2001 including predecessor institutions: T€ 687).

Total emoluments of T€ 6,866 were paid to former members of the Board of Managing Directors or their surviving dependents (2001: T€ 5,015), and pension reserves of T€ 67,236 (2001: T€ 57,835) were endowed to their benefit.

Board of Managing Directors

Dr Ulrich Brixner
(Chairman)

Uwe E. Flach
(Deputy Chairman)

Peter Dieckmann
(substitute member to February 28, 2002, full member from March 1, 2002)

Dr Thomas Duhnkrack
(from January 1, 2003)

Dr Berthold Eichwald
(to March 31, 2002)

Heinz Hilgert

Wolfgang Kirsch
(from April 8, 2002)

Albrecht Merz
(substitute member to February 28, 2002, full member from March 1, 2002)

Bedo Panner
(to April 30, 2002)

Dr Friedrich-Leopold Freiherr von Stechow
(to February 28, 2002)

Dietrich Voigtländer

Dieter Wößner
(to September 30, 2002)

Supervisory Board

Chairman:

Dr Christopher Pleister
President
Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V.

First Deputy Chairwoman:

Helga Preußer
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Second Deputy Chairman:

Rolf Hildner
Chairman of the Board of Managing Directors
Wiesbadener Volksbank eG

Members:

Wolfgang Apitzsch
Attorney at law

Rüdiger Beins
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Werner Böhnke
Chairman of the Board of Managing Directors
WGZ-Bank
Westdeutsche Genossenschafts-Zentralbank eG

Gerhard Bramlage
Chairman of the Board of Managing Directors
Emsländische Volksbank eG

Carl-Christian Ehlers
Chairman of the Board of Managing Directors
Kieler Volksbank eG

Dipl.-Kfm. Gerhard Engler
Chairman of the Board of Managing Directors
Volksbank Müllheim eG

Michael Groll
Management Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Siegfried Hägele
Employee
VR Kreditwerk Hamburg-Schwäbisch Hall AG

Walter Kaufmann
Secretary
ver.di
United Services Trade Union

Sigmar Kleinert
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Klaus Lambert
President &
Chairman of the Board of Managing Directors
Genossenschaftsverband Frankfurt e. V.,
Hessen/Rheinland-Pfalz/Saarland/Thüringen

Dr Rainer Märklin
Bank Director retd.
Volksbank Reutlingen eG

Jürgen Partenheimer
Bank Director retd.
Münchner Bank eG
(to June 25, 2002)

Adolf Rückl
Operations Manager
Schwäbisch Hall
Facility Management GmbH

Gudrun Schmidt
Regional Group Director
ver.di
United Services Trade Union

Bernhard Sorge
Member of the Board of Managing Directors
Raiffeisen-Volksbank Grafing-Ebersberg eG
(from June 25, 2002)

Winfried Willer
Employee
VR Kreditwerk Hamburg-Schwäbisch Hall AG

Dr h.c. Uwe Zimpelmann
Member of the Board of Managing Directors
Landwirtschaftliche Rentenbank

(58) Appointments held by members of the Board of Managing Directors and employees on the supervisory boards of major corporations

Bank officers and directors served on the supervisory boards of the following major German corporations at December 31, 2002 (Group companies are identified by (*)):

Members of the Board of Managing Directors and employees of DZ BANK AG:

Members of the Board of Managing Directors

Dr Ulrich Brixner (Chairman)	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Deputy Chairman of the Supervisory Board (*)
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Chairman of the Supervisory Board (*)
	Karlsruher Lebensversicherung AG, Karlsruhe, Member of the Supervisory Board
	R+V Versicherung AG, Wiesbaden, Deputy Chairman of the Supervisory Board (*)
	Südzucker AG, Mannheim, Member of the Supervisory Board
Uwe E. Flach (Deputy Chairman)	Andreae-Noris-Zahn AG, Frankfurt am Main, Member of the Supervisory Board
	Deutsche Börse AG, Frankfurt am Main, Deputy Chairman of the Supervisory Board
	DVB Bank AG, Frankfurt am Main, Chairman of the Supervisory Board (*)
	STADA Arzneimittel AG, Bad Vilbel, Member of the Supervisory Board
	Union Asset Management Holding AG, Frankfurt am Main, Deputy Chairman of the Supervisory Board (*)

Peter Dieckmann	VR-LEASING AG, Eschborn, Chairman of the Supervisory Board (*)
Heinz Hilgert	DVB Bank AG, Frankfurt am Main, Member of the Supervisory Board (*)
	R+V Lebensversicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	SÜDWESTBANK AG, Stuttgart, Member of the Supervisory Board (*)
	Union Asset Management Holding AG, Frankfurt am Main, Chairman of the Supervisory Board (*)
Wolfgang Kirsch	BAG Bankaktiengesellschaft, Hamm, Member of the Supervisory Board
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Member of the Supervisory Board (*)
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Member of the Supervisory Board (*)
	SÜDFLEISCH Holding AG, München, Member of the Supervisory Board
	VR-LEASING AG, Eschborn, Member of the Supervisory Board (*)

Albrecht Merz	BayWa AG, München, Member of the Supervisory Board
	R+V Allgemeine Versicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart, Member of the Supervisory Board
	SÜDWESTBANK AG, Stuttgart, Chairman of the Supervisory Board (*)
Dietrich Voigtländer	Bank für Wertpapierservice und -systeme Aktiengesellschaft (bws bank), Frankfurt am Main, Chairman of the Supervisory Board (*)
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Member of the Supervisory Board (*)
	FIDUCIA AG, Karlsruhe, Member of the Supervisory Board
	Karlsruher Hinterbliebenenkasse AG, Karlsruhe, Deputy Chairman of the Supervisory Board
	VR Kreditwerk Hamburg-Schwäbisch Hall AG, Hamburg und Schwäbisch Hall, Member of the Supervisory Board (*)

Employees of DZ BANK AG

Rolf Michael Betz	F.X. Nachtmann Crystal AG, Neustadt an der Waldnaab, Member of the Supervisory Board
	Saltus Technology AG, Solingen, Member of the Supervisory Board
	syskoplan AG, Gütersloh, Deputy Chairman of the Supervisory Board
Ulrich Dexheimer	Investitions- und Strukturbank Rheinland-Pfalz GmbH, Mainz, Member of the Advisory Committee
	RWZKT Raiffeisen-Warenzentrale Kurhessen-Thüringen GmbH, Kassel, Member of the Supervisory Board
Dr Wilhelm Esselmann	DRWZ Deutsche Raiffeisen-Warenzentrale GmbH, Frankfurt am Main, Member of the Supervisory Board
	Lohmann & Co. AG, Visbeck, Member of the Supervisory Board
	NFZ Norddeutsche Fleischzentrale GmbH, Hamburg, Member of the Supervisory Board
	RHG Nord Raiffeisen Hauptgenossenschaft-Nord AG, Hannover, Member of the Supervisory Board
	RHG Nord Raiffeisen Hauptgenossenschaft-Nord AG, Kiel, Member of the Supervisory Board
	VK Mühlen AG, Hamburg, Member of the Supervisory Board

Manfred Falkenmeier	Frankfurt Bukarest Bank AG, Frankfurt am Main, Deputy Chairman of the Supervisory Board
Jürgen Gerber	Emsland-Stärke GmbH, Emlichheim, Member of the Advisory Committee
Ulrich Schneider	Viehzentrale Südwest GmbH, Stuttgart, Member of the Supervisory Board
Siegfried Schön	Volksbank in Stuttgart AG, Stuttgart, Member of the Supervisory Board
Michael Viehoff	Anton Heggenstaller AG, Unterbernbach, Member of the Supervisory Board

Board members and employees of DZ BANK Group companies:

Board members / employees

Dr Alexander Erdland Chairman of the Board of Managing Directors (Bausparkasse Schwäbisch Hall AG)	VR Kreditwerk Hamburg-Schwäbisch Hall AG, Hamburg und Schwäbisch Hall, Chairman of the Supervisory Board (*) AGIV REAL ESTATE AG, Hamburg, Member of the Supervisory Board
Dr Matthias Metz Member of the Board of Managing Directors (Bausparkasse Schwäbisch Hall AG)	VR Kreditwerk Hamburg-Schwäbisch Hall AG, Hamburg und Schwäbisch Hall, Member of the Supervisory Board (*)

Dr Hans-Jürgen Rublé Employee (Bausparkasse Schwäbisch Hall AG)	VR Kreditwerk Hamburg-Schwäbisch Hall AG, Hamburg und Schwäbisch Hall, Member of the Supervisory Board (*)
Dr Hermann M. Remaklus Chairman of the Board of Managing Directors (Deutsche Genossenschafts- Hypothekenbank AG)	M.M. Warburg & CO Hypothekenbank AG, Hamburg, Member of the Supervisory Board
Franz-Josef Gesinn Member of the Board of Managing Directors (Deutsche Genossenschafts- Hypothekenbank AG)	VR Hausbau AG, Schwäbisch Hall, Deputy chairman of the Supervisory Board
Friedrich Piaskowski Member of the Board of Managing Directors (Deutsche Genossenschafts- Hypothekenbank AG)	VR Kreditwerk Hamburg-Schwäbisch Hall AG, Hamburg und Schwäbisch Hall, Deputy chairman of the Supervisory Board (*) Gillardon AG financialsoftware, Bretten, Chairman of the Supervisory Board
Wolfgang F. Driese Chairman of the Board of Managing Directors (DVB Bank AG)	ReiseBank AG, Frankfurt am Main, Chairman of the Supervisory Board (*) CashExpress Gesellschaft für Finanz- und Reisedienstleistungen mbH, Frankfurt am Main, Chairman of the Supervisory Board (*) KRAVAG-SACH VvaG, Hamburg, Member of the Supervisory Board

Dagfinn Lunde Member of the Board of Managing Directors (DVB Bank AG)	ReiseBank AG, Frankfurt am Main, Member of the Supervisory Board (*) CashExpress Gesellschaft für Finanz- und Reisedienstleistungen mbH, Frankfurt am Main, Member of the Supervisory Board (*)
Rainer Irmen Substitute member of the Board of Managing Directors (DVB Bank AG)	ReiseBank AG, Frankfurt am Main, Member of the Supervisory Board (*) CashExpress Gesellschaft für Finanz- und Reisedienstleistungen mbH, Frankfurt am Main, Member of the Supervisory Board (*)
Dr Jürgen Förterer Chairman of the Board of Managing Directors (R+V Versicherung AG)	R+V Allgemeine Versicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) R+V Lebensversicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) R+V Rechtsschutzversicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) R+V Krankenversicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Chairman of the Supervisory Board (*) R+V Pensionsfonds AG, Wiesbaden, Chairman of the Supervisory Board (*)
Hans-Christian Marschler Member of the Board of Managing Directors (R+V Versicherung AG)	R+V Rechtsschutzversicherung AG, Wiesbaden, Deputy chairman of the Supervisory Board (*)

Bernhard Meyer Chairman of the Board of Managing Directors (R+V Allgemeine Versicherung AG)	KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Member of the Supervisory Board (*) KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg, Member of the Supervisory Board (*)
Dr Manfred Mücke Member of the Board of Managing Directors (R+V Versicherung AG)	KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg, Chairman of the Supervisory Board (*)
Rainer Neumann Member of the Board of Managing Directors (R+V Versicherung AG)	KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Member of the Supervisory Board (*)
Hans-Dieter Schnorrenberg Member of the Board of Managing Directors (R+V Versicherung AG)	R+V Pensionsfonds AG, Wiesbaden, Member of the Supervisory Board (*)
Dr Peter Baumeister Speaker of the Board of Managing Directors (SÜDWESTBANK AG)	Union Investment Privatfonds GmbH, Frankfurt am Main, Member of the Supervisory Board (*) Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart, Member of the Supervisory Board
Waldemar Fellmeth Member of the Board of Managing Directors (SÜDWESTBANK AG)	Lavatec AG, Heilbronn, Member of the Supervisory Board

Manfred Mathes Chairman of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Privatfonds GmbH, Frankfurt am Main, Chairman of the Supervisory Board (*) Union Investment Institutional GmbH, Frankfurt am Main, Chairman of the Supervisory Board (*) DIFA DEUTSCHE IMMOBILIEN FONDS AG, Hamburg, Chairman of the Supervisory Board (*)
Dr Rüdiger Ginsberg Member of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Privatfonds GmbH, Frankfurt am Main, Deputy chairman of the Supervisory Board (*) DIFA DEUTSCHE IMMOBILIEN FONDS AG, Hamburg, Member of the Supervisory Board (*)
Horst Höger Member of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Privatfonds GmbH, Frankfurt am Main, Deputy chairman of the Supervisory Board (*)
Dr Wolfgang Mansfeld Member of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Service Bank AG, Frankfurt am Main, Chairman of the Supervisory Board (*) Union Service-Gesellschaft mbH, Frankfurt am Main, Chairman of the Supervisory Board (*)
Manfred Wich Member of the Board of Managing Directors (to December 31, 2002) (Union Asset Management Holding AG)	Union Investment Service Bank AG, Frankfurt am Main, Deputy chairman of the Supervisory Board (*) (to December 31, 2002) Union Investment Institutional GmbH, Frankfurt am Main, Member of the Supervisory Board (*) (to December 31, 2002)

Hans Joachim Reinke Managing Director (Union Investment Privatfonds GmbH)	Union Investment Service Bank AG, Frankfurt am Main, Member of the Supervisory Board (*)
Reinhard Gödel Chairman of the Board of Managing Directors (VR-LEASING AG)	KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Member of the Supervisory Board (*)
Hans-Joachim Rust Directorate member (VR Diskontbank AG)	Hyrican Informationssysteme, Kindelbrück, Deputy Chairman of the Supervisory Board

Frankfurt am Main, March 18, 2003

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Board of Managing Directors

Dr Brixner

Dieckmann Dr Duhnkrack Flach

Hilgert Kirsch Merz Voigtländer

Independent audit opinion

Based on the conclusive findings of our audit, we have issued the following unqualified audit opinion dated April 14, 2003:

"We have audited the consolidated financial statements and the Group management report of DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, for the business year from 1 January to 31 December 2002. The preparation of the consolidated financial statements and the Group management report in accordance with German commercial law is the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, April 14, 2003, Stuttgart, April 14, 2003

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Dr Kläs)
Wirtschaftsprüfer

(Apweiler)
Wirtschaftsprüfer

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

(Müller-Tronnier)
Wirtschaftsprüfer

(Dr Caduff)
Wirtschaftsprüfer

Advisory Committees of the DZ BANK AG

Members of the Advisory Committee Baden-Württemberg of the DZ BANK AG

Chairman:
Willy Köhler
Chairman of the Board of Managing Directors
Volksbank Rhein-Neckar eG

Deputy Chairman:
Hans-Georg Leute
Chairman of the Board of Managing Directors
Volksbank Tübingen eG

Dr Peter Aubin
Speaker of the Board of Managing Directors
Volksbank Göppingen eG

Manfred Basler
Chairman of the Board of Managing Directors
Volksbank Lahr-Gengenbach/Zell eG

Rainer Bauer
Chairman of the Board of Managing Directors
Volksbank Ludwigsburg eG

Winfried Baumann
Speaker of the Board of Managing Directors
Volksbank Donau-Neckar eG

Richard Bruder
Chairman of the Board of Managing Directors
Volksbank Offenburg eG

Arnhold Budick
Chairman of the Board of Managing Directors
Volksbank Schwarzwald-Neckar eG

Wolfgang Burger
Chairman of the Board of Managing Directors
Bruhrainer Volksbank eG

Heinz Frankenhauser
Speaker of the Board of Managing Directors
Volksbank Nagoldtal eG

Horst Gauggel
Member of the Board of Managing Directors
Raiffeisenbank Donau-Iller eG

Dr Roman Glaser
Chairman of the Board of Managing Directors
Volksbank Baden-Baden-Rastatt eG

Dr Wolfgang Heinle
Chairman of the Board of Managing Directors
Volksbank Kraichgau eG

Horst Heller
Chairman of the Board of Managing Directors
Volksbank Hochrhein eG

Claus Hepp
Chairman of the Board of Managing Directors
Volksbank Allgäu-West eG

Dr Albrecht Hermann
Speaker of the Board of Managing Directors
Filderbank Stuttgart eG

Ludwig Hofmann
Member of the Board of Managing Directors
Volksbank Möckmühl-Neuenstadt eG

Klaus Holderbach
Member of the Board of Managing Directors
Volksbank Franken eG

Fritz Karcher
Speaker of the Board of Managing Directors
Volksbank Breisgau Nord eG

Edgar Kipper
Chairman of the Board of Managing Directors
Volksbank Karlsruhe eG

Hans Kircher
Speaker of the Board of Managing Directors
Raiffeisenbank Bretzfeld eG

Dr Rainer Kunadt
Chairman of the Board of Managing Directors
Volksbank Pforzheim eG

Manfred Kuner
Chairman of the Board of Managing Directors
Volksbank Triberg eG

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Published by:
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