Management Report on the 2002 financial year for DZ BANK AG

DZ BANK

Contents

Key Figures

DZ BANK AG in € million	2002	Previous year
Profitability		
Operating result before risk provisioning	**932**	663
Risk provisioning	**-1,709**	-708
Operating result	**-777**	-45
Net income for the year	**55**	45
Cost-income ratio (in percent)	**50.5**	63.2 [1]
Financial status		
Assets		
Loans and advances to banks	**80,364**	84,246
Loans and advances to customers	**32,278**	43,484
Securities[2]	**58,217**	61,064
Other assets	**13,903**	13,865
Equity and liabilities		
Liabilities to banks	**106,647**	110,327
Liabilities to customers	**29,584**	35,855
Guaranteed liabilities	**31,113**	40,038
Other liabilities	**11,420**	10,924
Proprietary capital according to balance sheet [3]	**5,998**	5,515
Balance sheet total	**184,762**	202,659
Business volume[4]	**202,564**	223,399
Banking supervisory codes according to KWG (German Banking Act)		
Equity ratio	**14.5**	12.1
Core capital ratio	**10.5**	8.0
Derivatives business		
Nominal volume	**635,543**	643,166
Replacement costs	**13,494**	9,193
Annual average **staff figures** (staff figures per 03.31.2003: 4,101)	**5,300**	6,148

[1] Incl. special factors in the interest rate surplus

[2] Bonds and other fixed-interest securities plus shares and other non-fixed-interest investments

[3] Equity according to balance less cumulative earnings incl. funds for general banking risks

[4] Balance sheet total incl. contingent liabilities and other liabilities

Management Report on the 2002 financial year of the DZ BANK AG

I. Overview of trading in fiscal 2002

Background

During 2002 the economic framework confronted the entire financial services industry with challenges of a scale and severity that the present generations have never experienced. The brightening of the economic horizon promised for the second half of 2002 failed to materialize. Instead, the German economy registered growth of just +0.2 percent last year, the smallest annual rise recorded since the last recession in 1993. Only the relatively stable trend of exports prevented another slide into recession. The secondary effects of the persistent weakness of the economy – households cutting back on their consumption spending, the continued rise of joblessness, and reduced willingness to invest on the part of companies – were further exacerbated by tax and contribution increases.

In such a context, it was essential for the banking industry and therefore also the cooperative financial services sector to respond to the high rate of business failures and the resulting need to make commensurate provisions for risk by increasing the efforts to bring the cost structures back into line and stabilize the income streams – a requirement that would have been unavoidable anyway in view of the persistent structural competitive pressures in the banking sector.

Over the year just ended, the Bank systematically took advantage of the opportunity the merger had created for DZ BANK AG (DZ BANK) to maintain our significant position in the fiercely contested German banking industry by harvesting the available potential for synergies.

As laid out in the extensive multi-project "Building DZ BANK" initiative, the priority for the Bank in fiscal 2002 was the reshaping of our organization structure including the post-merger harmonization of our processes, applications and IT infrastructure. The delivery of projects on time and on

DZ BANK AG Statement of income 2002/2001

in € million	2002	Previous year	Change in percent
Net interest income[1]	**1,223**	1,272	-3.9
Net commission income	**254**	294	-13.6
Net earnings from financial activities	**205**	96	>100.0
Personnel expenses	**455**	531	-14.3
Other administrative expenses[2]	**496**	610	-18.7
Administrative expenses	**951**	1,141	-16.7
Balance of other operating expenses/income	**201**	142	+41.5
Operating result before risk provisions	**932**	663	+40.6
Risk provisions	**-1,709**	-708	>100.0
Operating result	**-777**	-45	>100.0
Balance of other expenses/income[3]	**807**	109	>100.0
Profit before taxes	**30**	64	-53.1
Taxes	**-25**	19	>100.0
Income for the year	**55**	45	+22.2

[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 investment, special items with reserve character, extraordinary expenditure/income, and other items

budget within DZ BANK is monitored by the Board-led Merger Steering Committee. A full set of procedures and standards for managing project portfolios has been implemented and is being applied in practice. The Steering Committee meets regularly to ensure that all important decisions can be taken without delay. The important project milestones set for 2002 have all been achieved. Overall, the merger activities have made rapid progress and are living proof of the effectiveness of the merger and integration management plan and the related procedures and standards.

Implementing the cost structure remodeling program initially launched during 2001 involved extensive workforce rightsizing, across-the-board reductions of non-personnel costs and the introduction of an efficient locations strategy. In addition to five branches outside Germany, our new operating premises strategy for Germany provides for four regional branches alongside the head office in Frankfurt am Main and six other sub-offices to support our market servicing.

A second urgent challenge was to create the necessary framework to support the closer integration of DZ BANK and the newly-created DZ BANK Group into the cooperative financial system's strategy for all-round (one-stop) financial services provision. The various restructuring initiatives undertaken at DZ BANK and at other leading subsidiaries of the DZ BANK Group with the strategic objective of focusing our market activities more clearly in the context of the cooperative financial system were designed to promote this objective and essentially comprised:

- 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 AG, R+V Versicherung AG and Union Asset Management Holding AG;

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

These restructuring measures were accompanied by a wide range of other initiatives aimed at expanding our sales operation in such a way as to secure and extend DZ BANK's profitability by improving the exploitation of income-growth potentials.

On this basis, the parent bank's operating income components evolved as follows in the year under report:

- Interest income net of interest expense increased by 3.9 percent over the prior-year interest surplus to € 1,223 million, partly due to exceptional factors.

- Net fee and commission income came in at € 254 million, 13.6 percent below the prior-year result.

- Net trading income contributed € 205 million to earnings, well in excess of the previous year.

- The balance of other operating income and expense amounted to € 201 million and therefore exceeded the FY 2001 result by € 59 million.

Our total operating income increased by € 79 million to € 1,883 million and contrasts with a € 190 million reduction in our general and administrative costs to € 951 million. The operating profit before provisions for risk consequently improved by € 269 million to € 932 million.

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.

The operating result after provisions for risk in the year under report amounted to € -777 million compared to € -45 million a year earlier. A positive balance of other sundry income and expense of € 807 million produced a net profit on the period of € 55 million.

The Board will propose that the annual general meeting approves the distribution of a dividend of € 0.05 per share (new shares to qualify pro rata for the period from October 1 to December 31, 2002, i.e. € 0.0125 per share).

Regulatory capital

The composition of DZ BANK's regulatory capital was as follows at December 31, 2002:

- Tier 1 capital stood at € 5,985 million (12.31.2001: € 5,508 million);

- Supplementary capital totaled € 4,350 million (12.31.2001: € 4,789 million);

- Tier 3 capital totaled € 123 million (12.31.2001: € 377 million).

In aggregate, our regulatory capital totaled € 10,275 million (12.31.2001: € 10,485 million) on the closing day of the year under report. The KWG* total capital ratio is now 14.5 percent (12.31.2001: 12.1 percent) and the core capital ratio is 10.5 percent (12. 31.2001: 8.0 percent).

* KWG = German Banking Act

Number of branches

As of December 31, 2002, the Bank had four branch establishments in Germany and five abroad. The four German branch establishments oversee a further six business offices.

Income statement

Net interest income

DZ BANK's total interest income (net of interest expense and excluding shares of affiliates) during 2002 was € 479 million. Unlike the previous year however, which was substantially distorted by exceptional factors, this total does not include the interest result from securities held as part of the trading portfolio for the year under report; this is now shown as a component of the net proprietary trading income total, as is more consonant with the operating logic. The year-on-year change after correcting for exceptional factors shows a distinct improvement with net interest income rising by +18.0 percent.

The 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.

Income from participations (share of affiliates) increased by € 328 million to € 744 million. It should be noted that the total for the year under report includes an amount of € 513 million arising from the previously mentioned strategic reorganization of the DZ BANK Group's entire business portfolio.

Net commission income

The parent bank's **fees and commissions surplus** reduced by 13.6 percent to € 254 million.

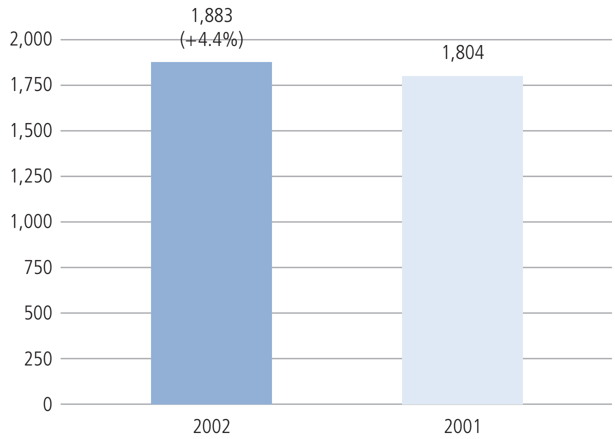
DZ BANK was obliged to absorb substantial falls in its securities-related business in 2002 due to the slump of prices on the financial markets and the resulting progressive loss of investor confidence. While DZ BANK's Treasury and Fixed Income divisions continued to progress as envisaged, the Equity side shared in the pain as the entire industry suffered. Income from new equity issuance fell sharply again over the prior 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.

Fee and commission income from the international and credit business segments was lower year-on-year. On the other hand, the payments handling segment posted a sparkling result and once again increased its contribution.

Operative income of DZ BANK AG 2002/2001

in € million



Net trading income

The result of DZ BANK's proprietary trading activities exceeded the prior year's total by € 109 million for a total contribution of € 205 million, partly due to the first-time inclusion under this heading of the interest income net of expense from securities held in the trading portfolio.

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

General and administrative expenses

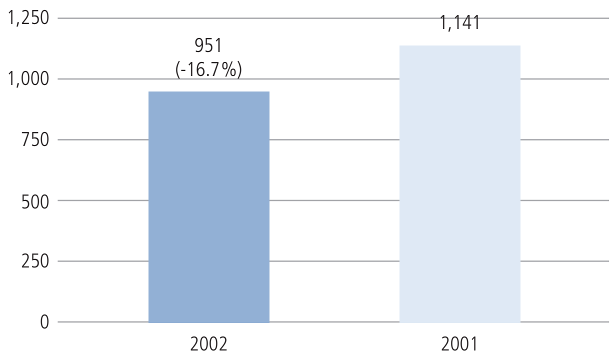
DZ BANK's general and administrative expenses were reduced by 16.7 percent to € 951 million.

Personnel expenses moderated by 14.3 percent to € 455 million. Other administrative expenses plus the depreciation and value adjustments on tangible and intangible assets reduced by 18.7 percent to € 496 million.

The cost-cutting program launched in 2001, the year of the merger, was continued in a systematic and focused manner during the year under report. The total savings volume in the area of personnel costs in 2002 was € 76 million; non-personnel costs reduced perceptibly during the same period – generating € 114 million of savings affecting almost every cost category.

Administrative expenses of DZ BANK AG 2002/2001

in € million



Net other operating income

The positive balance of other operating income and expense increased last year by € 59 million to € 201 million.

This increase was essentially due to higher transfers arising from DZ BANK's tax unity with Bausparkasse Schwäbisch Hall AG, Deutsche Genossenschafts-Hypothekenbank AG (DG HYP) and DGI Immobilien-Verwaltungsgesellschaft mbH. The parent bank has profit transfer agreements in force with these companies.

Provisions for risk

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 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.

Operating profit

Operating profit before provision for risk increased in the 2002 year by € 269 million to € 932 million. The decisive factors in this outcome were a € 79 million increase in the all-sources operating income total combined with € 190 million of aggregate cost savings. Total net new risk provisioning, which increased by € -1,001 million to € -1,709 million, includes an endowment of the parent bank's prudential reserves according to section 340f HGB.

The balance of the write-ups on participations, shares in related companies and securities treated as fixed assets amounted to € 1,094 million at the level of DZ BANK following the offset of the associated expenses as permitted under section 340c.2 HGB (2001: € 390 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 € 1,168 million resulting from the fundamental strategic realignment of DZ BANK's participations portfolio.

The extraordinary expenses total of € 220 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, plus expenses arising under the existing social plan from ongoing early retirement obligations.

The pre-tax net income on the year amounted to € 30 million compared to the previous year's € 64 million.

Balance sheet

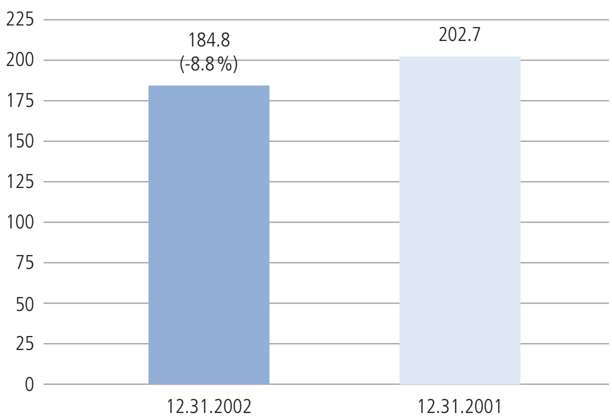
Total assets

The bank's **total assets** as at December 31, 2002 were € 17.9 billion or 8.8 percent lower than a year earlier, at € 184.8 billion. The total **volume of business** amounted at the year-end to € 202.6 billion (12.31.2001: € 223.4 billion).

The foreign branches accounted for around 9.4 percent of the balance sheet total or a volume of € 17.3 billion.

Balance sheet total of DZ BANK AG 12.31.2002/12.31.2001

in € billion



Off-balance-sheet futures transactions

The nominal volume of off-balance-sheet futures transactions amounted at the year-end to € 635.5 billion (12.31.2001: € 643.2 billion). The relevant replacement costs amounted to € 13.5 billion (12.31.2001: € 9.2 billion). Note 20 to the financial statements provides 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

Placements with, and loans and advances to, other banks reduced by € 3.9 billion to € 80.4 billion. Most of the decline related to claims on non-affiliated banks, which decreased by € 2.6 billion or 5.7 percent to € 43.0 billion. By contrast, deposits with and loans to affiliated banks only decreased by € 1.3 billion or 3.4 percent to € 37.4 billion.

Loans and advances to other (non-bank) customers

Loans and advances to non-bank customers reduced by € 11.2 billion to € 32.3 billion. The principal causes of this decline were DZ BANK's restrictive credit risk strategy, its prudent and strict control of new business through the application of demanding risk and profitability criteria, and its drive to clean non-strategy-conformant business out of the portfolio. 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.

Securities

At € 58.2 billion, the value of the parent bank's securities holdings was € 2.9 billion lower than the prior-year figure. The aggregate book value of participations and shares in related companies totaled € 8.6 billion at the accounting date of December 31, 2002 (2001: € 7.9 billion).

Deposits from other banks

Liabilities to banks reduced by € 3.7 billion to € 106.6 billion. While the liabilities to affiliated banks declined by € 1.5 billion or 3.6 percent to € 39.6 billion, deposits from non-affiliated banks fell year-on-year by € 2.2 billion or 3.2 percent to € 67.0 billion.

Non-bank customer deposits

At € 29.6 billion, customer deposits were € 6.3 billion lower than a year earlier primarily due to lower fixed-term and current account deposits and a lower volume of borrower note loans.

Certificated liabilities

Certificated liabilities closed the year at € 31.1 billion (PY: € 40.0 billion). The issuance of own bonds was reduced by € 7.1 billion to € 27.9 billion, while that of other certificated liabilities fell by € 1.8 billion to € 3.2 billion.

Capital and reserves

Out of the parent bank's reported equity of € 4.6 billion (PY: € 4.1 billion), € 0.5 billion stemmed from the capital increase effected on November 19, 2002.

Share ownership structure of DZ BANK AG

in € million

Total share capital: 2,878.43

II. Risk Report for DZ BANK AG

DZ BANK AG'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. DZ BANK AG classifies risk according to the following categories: liquidity risk, market price risk, default risk, operational risk and strategic risk.

DZ BANK AG 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)**. 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. All stock corporations are also obliged to take adequate measures to ensure the timely identification of developments capable of endangering their survival (section 91.2 AktG).

DZ BANK AG 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 implementation of the Basle requirements is being directed through a central project and supported by DZ BANK AG's regular participation in the Quantitative Impact Studies on the new capital adequacy rules as well as active involvement in the Basle consultations process.

The basis for risk supervision is the systems, procedures and standards laid down by the 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 bank's business lines, 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. **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 & Finance 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 DZ BANK AG'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.

Various **committees** support the implementation of the risk supervision strategy:

- 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 the Treasury Committee includes the heads of the Treasury, Fixed Income, Equities, Accounting, Research/Economics and Corporate Controlling & Finance divisions and the members of the Board of Managing Directors responsible for these activities.

- 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 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.

Within DZ BANK AG, 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 bank'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."

- **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.

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. 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.

The statutorily prescribed **minimum capital ratios** were complied with at all times during fiscal 2002. If we look at the pre-consolidation figures 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 (December 31, 2001: € 86.8 billion). The bank's qualifying capital at the same date was € 10.3 billion (€ 10.5 billion). This produces a **total capital ratio for the bank** of 14.5 percent at the end of 2002 (12.1 percent). The **tier 1 capital ratio** for DZ BANK AG as of December 31, 2002 was 10.5 percent (8.0 percent). The positive development of the bank's total and core capital ratios on the German formula 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.

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 bank'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 bank's market liquidity risk at present.

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. 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 acts as 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 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.

As part of the **risk management policy** 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 & Finance OE, 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 a **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. 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.

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 a **historic simulation** of the last 250 business days. 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 (BaFin) 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 (12.31.01: € 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 € million

Evolution of DZ BANK AG's aggregate daily VaR

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 € million

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 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 interest products, 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 of Central Planning operation

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

in € million

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. 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-status-related 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 his contractual obligations. 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. 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.

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 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 (BVR: Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – Federal Association of German Cooperative Banks). 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 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 at DZ BANK AG 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 counterpartyspecific 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 that correctly captures the total exposure; the system makes it possible to track and display the aggregate liability by counterparty and by borrower entity, as well as set country limits.

In view of the importance of **collaterals** in judging a proposed credit commitment, the proper provision of collaterals is checked and documented as a separate procedure. Where the assignment of collaterals is not covered by standard contracts, specific agreements are reviewed in advance by the bank's 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 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 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. 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 credit-enhanced 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.

Analysis of DZ BANK AG's **credit portfolio structure** also provides clues to possible risk concentration. Liabilities to the 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 in 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 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**

For the purposes of helping to manage the **geographical risk concentration** dimension of DZ BANK AG's lending business, the country limit approved by the Credit Committee represents an internal value ceiling up to which it is permitted to assume the country risk arising from banking transactions with customers within the meaning of section 19 KWG. The categorization of DZ BANK AG'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 **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.

Take-up of facilities by country risk groups at DZ BANK AG at Dec. 31, 2002

Country risk group	€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
No classification	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 DZ BANKS's lending business is widely diversified over other industries.

Take-up of facilities by sector at DZ BANK AG 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 industry 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 of 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 DZ BANK's non-bank-customer loans exposure to the SMEs, large corporate customers and international business segments was systematically pursued.

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 loans outstanding at DZ BANK AG as of December 31, 2002, 22 were in favor of companies active in the financial sector. The biggest single liability of a large-scale borrower to DZ BANK AG as of December 31, 2002 within the meaning of section 13.a.4 KWG 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 applies for the valuation of collaterals. 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 still 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.

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 (MaK), at the same time however it is also intended to reduce the operational risks that result from deficiencies in processes and systems. The 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 bank's default risk strategy**, the realization of the forward-looking reorganization of the Risk Management OE 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, and the establishment of supervision capability at the borrower and portfolio levels. Another prime 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 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.

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 bank'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 bank's existing 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."

The estimated loss potential from operational risks is based on the standard methodology proposed in the Basle II consultation papers, i.e. is calculated by reference to 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 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.

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.

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 Division 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. 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. 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 functional 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.

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** 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 bank's 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. DZ BANK has built a strong foundation from which to attack its markets more intensively in a phase of emerging economic recovery. 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.

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 Christoph Pleister
Chairman of the Supervisory Board of DZ BANK AG

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 Subcommittee pursuant to section 27.3 of the German Codetermination 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 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

ASSETS

in € million	(Notes)				12.31.2002	12.31.2001
1. Cash reserve					**221**	**582**
a) Cash on hand				8		8
b) Balances with central banks				213		574
of which: with Deutsche Bundesbank		188				(554)
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks					**17**	**14**
Treasury bills as well as non-interest-earning treasury notes and similar debt instruments of public-sector entities				17		14
of which: eligible for refinancing at Deutsche Bundesbank		2				(6)
3. Placements with, and loans and advances to, other banks	(3, 5)				**80,364**	**84,246**
a) Repayable on demand				2,531		4,223
b) Term deposits and loans				77,833		80,023
4. Loans and advances to non-bank customers	(3)				**32,278**	**43,484**
of which: secured by mortgages		1,029				(1,279)
local authority loans		2,121				(4,046)
5. Bonds and other fixed-interest securities	(3, 11)				**51,716**	**53,356**
a) Money market instruments issued by				60		16
aa) public sector issuers			-			(15)
ab) other issuers			60			(1)
of which: qualifying as repo collateral at Deutsche Bundesbank		20				-
b) Bonds issued by				49,031		50,995
ba) public sector issuers			4,355			(4,672)
of which: qualifying as repo collateral at Deutsche Bundesbank		3,870				(3,930)
bb) other issuers			44,676			(46,323)
of which: qualifying as repo collateral at Deutsche Bundesbank		30,309				(32,736)
c) Own bonds				2,625		2,345
Nominal volume		2,539				(2,183)
6. Equity shares and other variable-yield securities	(11)				**6,501**	**7,708**
of which: own participation shares		25				(21)
Nominal value		24				(21)
7. Participations	(11, 12)				**300**	**463**
of which: in banks		187				(153)
in financial services institutions		3				(1)
8. Shares in related companies	(11, 12)				**8,292**	**7,450**
of which: in banks		1,196				(3,409)
in financial services institutions		34				(44)
9. Assets held on trust basis	(7)				**1,857**	**1,894**
of which: trust loans		470				(507)
10. Equalization claims against government agencies including claims converted into bonds					**221**	**303**
11. Intangible assets	(12)				**0**	**1**
12. Property and equipment	(12)				**321**	**426**
13. Own equity or partnership shares	(13)				**24**	**19**
Nominal value		10				(4)
14. Other assets	(15)				**2,274**	**2,358**
15. Accrued income and deferred expenses	(16)				**376**	**355**
TOTAL ASSETS					184,762	202,659

EQUITY AND LIABILITIES

in € million	(Notes)				12.31.2002	12.31.2001
1. Deposits from other banks	(3, 5)				**106,647**	**110,327**
a) Repayable on demand				28,093		26,681
b) Fixed-term or agreed notice				78,554		83,646
2. Amounts owed to other depositors	(3)				**29,584**	**35,855**
a) Saving deposits				0		3
aa) With three months notice term			0			(3)
ab) With more than three months notice term			0			(0)
b) Other liabilities				29,584		35,852
ba) Repayable on demand			5,294			(7,449)
bb) Fixed-term or agreed notice			24,290			(28,403)
3. Liabilities in certificate form	(3)				**31,113**	**40,038**
a) Issued bonds				27,914		34,984
b) Other certificated liabilities				3,199		5,054
of which: money market instruments		3,199				(5,049)
own acceptances and promissory notes in circulation		-				(5)
4. Liabilities arising from trust operations	(7)				**1,857**	**1,894**
of which: trust loans		470				(507)
5. Other liabilities	(17)				**3,093**	**2,131**
6. Accrued expenses and deferred income	(16)				**350**	**417**
7. Provisions					**1,214**	**1,026**
a) Provisions for pensions and similar obligations				439		434
b) Provisions for taxes				101		84
c) Other provisions				674		508
8. Subordinated liabilities	(18)				**2,649**	**3,074**
9. Participatory capital	(19)				**2,205**	**2,331**
of which: maturing within two years		175				(271)
10. Fund for general banking risks					**1,428**	**1,428**
11. Capital and reserves	(14)				**4,622**	**4,138**
a) Subscribed capital				2,879		2,674
b) Capital reserve				803		528
c) Surplus reserves				888		885
ca) Statutory reserve			5			(2)
cb) Reserve for own shares			24			(19)
cc) Other surplus reserves			859			(864)
d) Cumulative earnings				52		51
TOTAL EQUITY AND LIABILITIES					**184,762**	**202,659**

1. Contingent liabilities		**4,921**	**4,824**
Liabilities arising from guarantees and warranties provided[1)]	4,921		4,824
2. Other obligations		**12,881**	**15,916**
Irrevocable credit commitments	12,881		15,916

[1)] See also disclosure in Note 28 "Other financial obligations"

Income Statement

in € million	(Notes)			2002	2001
1. Interest income from	(22)		**6,383**		**9,399**
a) Lending and money market operations		4,926			6,601
b) Fixed-interest securities and government-inscribed debt		1,457			2,798
2. Interest expense			**6,166**	**217**	**8,857**
3. Current income from				**893**	**646**
a) Equity shares and other variable-yield securities			262		314
b) Participations			18		29
c) Shares in associated companies			613		303
4. Income from profit pools and profit transfers or profit-sharing agreements				**113**	**84**
5. Commission income			**447**		**509**
6. Commission expense			**193**	**254**	**215**
7. Net income from financial transactions	(22)			**205**	**96**
8. Other operating income	(24)			**264**	**162**
9. Income from liquidation of special items with reserve portion				**-**	**35**
10. General administrative expenses				**862**	**1,019**
a) Personnel expenses					
aa) Wages and salaries		357			417
ab) Compulsory social security contributions and expenses for pension benefits and welfare		98	455		114
of which: for pensions provision		48			60
b) Other administrative expenses			407		488
11. Depreciation and write-downs on tangible and intangible assets				**89**	**122**
12. Other operating expenses	(25)			**63**	**20**
13. Depreciation and write-downs on loans and advances and certain securities, plus additions to provisions on lending business				**1,709**	**708**
14. Income from write-ups on participations, shares in related companies and securities treated as fixed assets				**1,094**	**390**
15. Expenses from the assumption of losses				**69**	**186**
16. Result of ordinary operations				**248**	**194**
17. Exceptional income			**2**		**6**
18. Exceptional expenses	(26)		**220**		**136**
19. Net exceptional result			**-218**	**-218**	**-130**
20. Taxes on income			**-29**		**10**
21. Other taxes not included under "Other operating expenses" heading			**4**	**-25**	**9**
22. Net income on period				**55**	**45**

Income Statement

in € million	(Notes)		2002	2001
23. Prior year's earnings carried forward			**0**	**8**
24. Withdrawals from surplus reserves			**5**	**0**
from other surplus reserves		5		0
25. Allocations to surplus reserves			**8**	**2**
a) To statutory reserve		3		2
b) To own-shares reserve		5		0
c) To other surplus reserves		-		-
26. Cumulative earnings			**52**	**51**

Notes to the financial statements of DZ BANK AG for the year to December 31, 2002

Basis

The financial statements of DZ BANK AG 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 financial statements are in compliance with the provisions of Germany's Joint Stock Corporations Act (AktG), the DG BANK Transformation Act and DZ BANK AG's own statutes.

All monetary values are shown in millions of euro (€m). For the sake of clarity, certain balance sheet and income statement headings have been aggregated.

Separate notes have been prepared for DZ BANK AG and the DZ BANK Group.

(1) Presentation and valuation methods

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 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.

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 global provisions, applied in accordance with the responsible authority's rules for the tax recognition of general provisions by banks. The basis of calculation is the average actual loan loss incurred in the preceding five financial years.

All securities held as current assets were valued in the reporting period strictly at the lower of cost or market. Securities held as fixed assets that are subject to enduring value diminution were similarly written down to the lower of cost or market. Only where the value loss on securities held as fixed assets was temporary in nature was 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 € 1,361 million for the balance sheet item "Bonds and other fixed-interest securities" and € 4,783 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. Where standardized, listed 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.

Current interest payments on swaps (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.

To ensure the accurate relation of earnings to operating units, for the first time these 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 net trading income.

Shares in related companies and participations are shown at cost of acquisition or updated book value.

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.

Intangible fixed assets are capitalized at cost of acquisition or production. Tangible fixed assets 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.

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.

Liabilities are shown at their repayment value. The difference between their nominal and actual amounts has been taken to accruals and deferrals.

Provision in respect of contingent liabilities and anticipated losses on uncompleted transactions was made in the amount required on the basis of reasonable commercial judgment.

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 to the extent that they are not offset by unrealized profits.

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).

The value of the fund for general banking risks required by section 340g HGB is unchanged at € 1,428 million. Prudential reserves have also been created pursuant to section 340f HGB.

Expense from financial investments is set off against corresponding income; in the same way expense and income from the valuation of lending business and securities in the liquidity reserve are shown net.

(2) Currency translation

In the financial statements of DZ BANK AG, foreign book assets, liabilities and securities holdings are translated into euro using the European Central Bank's official "ESCB reference rate" on the balance sheet date. Currency translation is fully in harmony with section 340h HGB and Statement 3/95 of the German Institute of Public Accountants (IDW).

Where specifically covered, shares in related companies and participations denominated in foreign currencies are translated using the official "ESCB reference rate" at the valuation and accounting date in line with section 340h HGB. "Specifically covered" refers to all investment assets internally released from Treasury to the care of the forex dealing unit for the purposes of managing currency risks.

Sufficient unrealized profits from unsettled foreign currency forward transactions in the trading portfolio are offset against unrealized losses in the same currency across all maturities to cancel out said losses.

The remaining unrealized profits are offset against the realized losses from currency translation until exhausted, provided the required criteria are fulfilled. A balancing item is included in the balance sheet to the value of the unrealized profits offset in this way. Provisions for impending losses from unsettled transactions are made in the commercial accounts in respect of the remaining unrealized losses. No entry is made in respect of the balance of any unrealized profits remaining after offsetting.

Where foreign currency forward transactions were entered into for the purpose of hedging interest-bearing assets and liabilities, their swap income and expense are treated as interest income or expense, reflecting their interest character.

Notes to the Balance Sheet

(3) Maturity structure of…

…asset positions

in € million	12.31.2002	12.31.2001
Claims on other banks		
- less than 3 months	**27,860**	29,842
- between 3 months and 1 year	**10,723**	9,057
- between 1 year and 5 years	**19,659**	20,608
- more than 5 years	**19,591**	20,516
Claims on non-bank customers		
- less than 3 months	**5,364**	9,958
- between 3 months and 1 year	**4,499**	5,305
- between 1 year and 5 years	**10,030**	11,177
- more than 5 years	**8,763**	13,467
- no fixed term	**3,622**	3,577
Bonds and other fixed-interest securities		
- maturing in the subsequent year	**12,374**	7,263

…liability positions

in € million	12.31.2002	12.31.2001
Liabilities to other banks with an originally agreed term or notice period		
- less than 3 months	**38,083**	40,505
- between 3 months and 1 year	**8,288**	10,981
- between 1 year and 5 years	**16,045**	16,386
- more than 5 years	**16,138**	15,774
Liabilities to non-bank customers		
a) Savings deposits with an agreed notice period of more than three months		
- between 3 months and 1 year	**0**	0
- between 1 year and 5 years	**0**	-
b) Other liabilities with an agreed term or notice period		
- less than 3 months	**7,569**	10,419
- between 3 months and 1 year	**1,268**	1,190
- between 1 year and 5 years	**4,286**	4,712
- more than 5 years	**11,167**	12,082
Liabilities in certificate form		
a) Bonds issued		
- maturing in the subsequent year	**7,957**	8,647
b) Other certificated liabilities		
- less than 3 months	**2,631**	3,917
- between 3 months and 1 year	**568**	1,137

(4) 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	11,323	6,200
Loans and advances to non-bank customers	1,709	1,719
Bonds and other fixed-interest securities	3,343	3,857
Amounts owed to other banks	4,587	4,618
Amounts owed to non-bank customers	1,280	463
Certificated liabilities	208	130
Subordinated liabilities	24	0

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	17,996	18,283
Loans and advances to non-bank customers	1,099	960
Bonds and other fixed-interest securities	3,246	3,142
Amounts owed to other banks	19,336	19,667
Amounts owed to non-bank customers	328	1,291
Certificated liabilities	5,477	7,122
Subordinated liabilities	63	67

A complete list of the investment holdings is lodged in the Commercial Register in Frankfurt am Main. A summary of the principal holdings is available on request from DZ BANK AG direct.

(5) Claims and liabilities in respect of affiliated banks

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	**37,419**	38,682
of which: from cooperative central banks	82	281
Due to affiliated banks	**39,619**	41,145
of which: to cooperative central banks	27	1,084

(6) 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	305	276
Loans and advances to non-bank customers	197	302
Bonds and other fixed-interest securities	844	340
Shares and other variable-yield securities	400	235

(7) Trust operations

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

in € million	12.31.2002	12.31.2001
Placements with, and loans and advances to, other banks	469	506
Loans and advances to non-bank customers	1	1
Participations	1,387	1,387
Trust assets	1,857	1,894
Amounts owed to other banks	470	507
Amounts owed to non-bank customers	1,387	1,387
Trust liabilities	1,857	1,894

(8) Foreign-currency positions

Values of assets and liabilities in foreign currencies:

in € million	12.31.2002	12.31.2001
Assets	24,684	29,321
Liabilities	21,354	30,074

(9) Business subject to repurchase agreements

The book value at December 31, 2002 of the assets committed to sale and repurchase operations was € 14,879 million (2001: € 13,090 million).

(10) Assets assigned as security

Assets with the value stated below were assigned in respect of the following liabilities:

in € million	12.31.2002	12.31.2001
Amounts owed to banks	**33,997**	31,944
Amounts owed to other depositors	**1,869**	1,930

A total of € 2,696 million (2001: € 713 million) was additionally deposited as security for stock exchange forward transactions and under the terms of collateral agreements for OTC trading transactions.

(11) Securities eligible for stock exchange listing

Listed securities as a proportion of the total securities eligible for stock exchange listing in each category:

in € million	12.31.2002	12.31.2001
Bonds and other fixed-interest securities eligible for stock exchange listing	**51,716**	53,356
of which: listed	46,160	48,389
Shares and other variable-yield securities eligible for stock exchange listing	**1,472**	1,777
of which: listed	806	1,048
Participations eligible for stock exchange listing	**138**	118
of which: listed	138	118
Shares in related companies eligible for stock exchange listing	**1,813**	176
of which: listed	291	176

(12) Fixed assets structure and movements

	Cost of acquisition/production					Depreciation		Residual book value at	
in € million	01.01.02	Additions	Disposals	Reclass.	Revaluation	Current year	Cumulative	12.31.02	12.31.01
I. Intangible fixed assets	1	0	1	0	0	0	0	**0**	1
II. Tangible fixed assets	1,044	55	16	-70	0	89	692	**321**	426
1. Land and buildings	205	16	8	-74	0	3	44	**95**	150
2. Equipment	839	39	8	4	0	86	648	**226**	276
				Net changes					
III. Financial assets									
1. Participations	543			-243				**300**	463
2. Shares in related companies	7,387			905				**8,292**	7,450
3. Securities forming part of fixed assets	12,083			3,928				**16,011**	11,955

The book value of the land and buildings in use by DZ BANK AG in the course of its own operations amounted on December 31, 2002 to € 83 million (12.31.2001: € 92 million).

(13) 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 DG BANK's 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."

(14) Changes in capital structure

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

The parent bank's equity capital evolved as follows during the year under report:

in € million	01.01.2002	Additions/ (-) Withdrawals	12.31.2002
Subscribed capital	**2,674**		**2,879**
Capital increase of November 19, 2002		205	
Capital reserve	**528**		**803**
Endowment from capital increase		275	
Surplus reserves	**885**		**888**
- Statutory reserve	2	3	5
- Reserve for own-shares	19	5	24
- Other surplus reserves	864	-5	859
	4,087	483	**4,570**
Cumulative profit	**51**		**52**
- Appropriation/distribution from prior year	51	-51	-
- Cumulative profit 2002	-	52	52
	4,138	484	**4,622**

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 bank 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.

(15) Other assets

The "Other assets" heading most importantly reports valuation gains from trading transactions after the offset of realized losses plus premiums for acquired option rights.

(16) Accruals and deferrals

The asset and liability side accruals and deferrals headings include premiums/discounts totaling as follows:

in € million	12.31.2002	12.31.2001
Premium on receivables	**-**	2
Discount on payables	**149**	158
Discount on receivables	**132**	141
Premium on payables	**37**	41

(17) Other liabilities

This heading includes most importantly deferred option premiums received.

(18) Subordinated liabilities

Out of the total volume of subordinated liabilities as at December 31, 2002, € 1,996.5 million is recognized as qualifying (liable) capital within the definition of section 10.5a of the German Banking Act (KWG) and € 122.5 million as third-tier capital within the definition of section 10.7 KWG.

The subordinated borrowings do not involve any early redemption obligation. 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 or liquidation.

There is no agreement or intention to convert these funds to capital or another form of debt.

The subordinated liabilities have an average interest rate of 6.06 percent (2001: 6.04 percent) and initial terms of between 3 and 20 years.

The overall figure does not include any single item which exceeds 10 percent of the aggregate value of the subordinated liabilities.

In the year under review, the liabilities shown under this heading resulted in expense amounting to € 171 million at DZ BANK AG (2001: € 180 million).

(19) Participatory capital

Out of the total volume of participatory capital as at December 31, 2002, € 1,975.4 million is recognized as qualifying (liable) capital within the definition of section 10.5 of the German Banking Act (KWG).

Participatory capital participates to the full extent in potential losses. Interest payments are only made subject to the availability of unappropriated profit. Participation certificate holders' entitlements to repayment of their capital are subordinate to the rights of other creditors.

The following series of bearer participation certificates have been issued:

Year of issue	Nominal amount in € millions	Interest rate in percent	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*	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**	2011

*Tied to market rate: H1: 4.719 percent, H2: 4.988 percent.

**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.

Registered participation certificates with an aggregate nominal volume of € 1,016 million have been issued. This total is composed of 430 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 € 151 million in 2002 (2001: € 149 million).

(20) Off-balance-sheet futures business…

…by product structure

The following table shows the breakdown of off-balance-sheet futures transactions by product area:

	Nominal amount					Replacement costs	
	Residual term			Total			
in € million	<= 1 year	1–5 years	> 5 years	12.31.02	12.31.01	12.31.02	12.31.01
Interest-based transactions	**154,670**	**284,426**	**148,800**	**587,896**	573,923	**12,569**	7,864
a) OTC products							
FRAs	1,379	14,383	10	15,772	31,542	8	61
Interest swaps (same currency)	99,787	205,703	126,911	432,401	457,533	11,962	7,357
Interest options – calls	1,671	26,485	8,356	36,512	28,043	596	443
Interest options – puts	4,991	28,534	13,326	46,851	9,746	-	-
Other interest contracts	-	497	197	694	275	3	3
b) Exchange-traded products							
Interest futures	46,497	8,764	-	55,261	46,774	-	-
Interest options	345	60	-	405	10	-	-
Forex-based transactions	**20,445**	**12,461**	**4,645**	**37,551**	55,593	**805**	1,238
a) OTC products							
Forward exchange transactions	13,977	751	25	14,753	26,219	194	296
Cross-currency swaps	1,899	11,710	4.620	18,229	25,425	592	930
Forex options – calls	2,586	-	-	2,586	2,046	19	12
Forex options – puts	1,982	-	-	1,982	1,902	-	-
b) Exchange-traded products							
Forex futures	1	-	-	1	1	-	-
Equity and index-based transactions	**1,837**	**2,761**	**222**	**4,820**	7,852	**62**	**12**
a) OTC products							
Equity and index options – calls	32	100	195	327	116	62	12
Equity and index options – puts	160	2,654	27	2,841	6,270	-	-
b) Exchange-traded products							
Equity and index futures	933	-	-	933	962	-	-
Equity and index options	712	7	-	719	504	-	-
Credit derivatives	**216**	**4,878**	**182**	**5,276**	5,798	**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	3,468	20	6
b) Total return swaps							
DZ BANK as hedge beneficiary	-	62	-	62	66	4	4
DZ BANK as hedge provider	-	30	-	30	-	-	-
Total	**177,168**	**304,526**	**153,849**	**635,543**	643,166	**13,494**	9,193

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. The nominal volume of all transactions totaled € 635,543 million (2001: € 643,166 million). The replacement-purchase cost (the sum of positive market values) amounted to € 13,494 million without taking netting agreements into account (2001: € 9,193 million).

…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	**12,783**	8,675
Financial services institutions in OECD countries	**416**	249
Other companies and private individuals	**276**	260
Non-OECD governments	**-**	-
Banks in non-OECD countries	**3**	3
Financial services institutions in non-OECD countries	**-**	-
Total	**13,494**	9,193

Notes to the Income Statement

(21) Breakdown of income by geographical markets

The following table shows the breakdown between the domestic and international markets for the aggregate of interest income, current income from shares and other variable-yield securities, participations and shares in related companies, commission income, net income from financial transactions, and other operating income:

in € million	2002	2001
Germany	**7,128**	9,026
International	**1,063**	1,785

(22) 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 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 € -372 million, as part of net trading income. The consequences of this reporting change are to reduce the bank's interest result by € 157 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 € 388 million instead of € 542 million) and the proprietary trading result would have been increased by the same amount (at € 250 million instead of € 96 million).

(23) Administration and agency services provided for third parties

Services to third parties relate most significantly to securities custody administration and trust assets administration, plus the intermediation of insurance business.

(24) Other operating income

The "Other operating income" heading in the financial statements includes (amongst other items) income from refunds of tax arising from intra-Group transfers, from the writing back of provisions, from fixed-asset disposals, plus rent revenues and revenues from organized seminars and publications.

(25) Other operating expenses

The "Other operating expenses" heading includes (amongst other items) a writedown on the value of a no longer permanently used property, expenses arising from litigation risks, expenses from the VISA card business, non-personnel costs in relation to buildings not used for banking, and sundry social security payments.

(26) Exceptional expenses

The "Exceptional expenses" heading essentially includes an amount to correct the erroneous period allocation of OTC zero swaps by 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.

Other disclosures

(27) Shareholder information

The proportion of DZ BANK AG's share capital held by cooperative enterprises was approximately 92 percent at December 31, 2002. The definition of cooperative enterprises includes the cooperative societies, the central cooperative institutions and other corporate entities and trading companies.

(28) Other financial obligations

The total amount of these liabilities is € 274 million (2001: € 322 million).

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

DZ BANK AG has indemnified the protection scheme operated by the BVR (BVR: Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – 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 Aktiengesellschaft, 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.

In respect of its directly and indirectly held equity interests in banks, financial services institutions, finance companies and companies providing banking-related ancillary services, and which are listed in the list of shareholdings required by section 285.11 HGB 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.

(29) Number of employees

The average number of persons employed in fiscal 2002 was as follows:

	2002	2001
Female staff		
- Full-time employees	**1,896**	2,228
- Part-time employees	**565**	630
Male staff		
- Full-time employees	**2,742**	3,166
- Part-time employees	**97**	124
Total employees	**5,300**	6,148

(30) Cover statement

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

Issued DZ BANK AG bonds

in € million	12.31.2002	12.31.2001
Regular cover		
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
Total cover	**22,421**	25,580
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
	19,170	18,088
Currently unissued bonds (held in treasury)	339	387
Registered bonds given over as collateral		
- to banks	8	7
- to non-bank customers	136	171
Cover requirement	**19,653**	18,653
Excess cover	**2,768**	6,927

(31) 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)

(32) 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

(33) 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	Companies
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 AG (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	Companies
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

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 financial statements, together with the bookkeeping system, and the management report of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, for the business year from 1 January to 31 December 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law (and supplementary provisions in the partnership agreement) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and the generally accepted standards for the audit of 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 annual financial statements in accordance with German principles of proper accounting and in the 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the 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 annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development."

Frankfurt am Main, April 14, 2003

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

(Müller-Tronnier) Wirtschaftsprüfer

(Wagner) Wirtschaftsprüfer

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Dr Kläs) Wirtschaftsprüfer

(Apweiler) Wirtschaftsprüfer

Major subsidiaries and participating interests of DZ BANK AG

Banks

Name, Head office	Consolidated[1]	Share of capital in percent
Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (indirectly)	**x**	**82.8**
Bellevue and More AG, Hamburg		50.0
Ceskomoravska stavebni sporitelna a.s., Praha		45.0
Fundamenta Magyar-Nemet Lakastakarekpentar Rt., Budapest		99.9
Prva stavebna sprital´na a.s., Bratislava		32.5
VR Kreditwerk Hamburg-Schwäbisch Hall AG (gemeinsam mit Deutsche Genossenschafts-Hypothekenbank AG)	x	60.0
Bank für Wertpapierservice und -systeme AG, Frankfurt am Main	**x**	**83.2**
cosba private banking ag, Zürich (indirectly)[2]	**x**	**65.0**
Deutsche Genossenschafts-Hypothekenbank AG, Hamburg	**x**	**100.0**
DVB Bank AG, Frankfurt am Main[2])	**x**	**79.0**
Nedship Bank N.V., Rotterdam	x	100.0
ReiseBank AG, Frankfurt am Main	x	100.0
DZ Financial Markets LLC, New York		**100.0**
DZ BANK International S.A., Luxembourg-Strassen[2]	**x**	**89.9**
DZ CAPITAL MANAGEMENT GmbH		90.0
DZ BANK Ireland plc, Dublin[2]	**x**	**100.0**
Magyar Takarékszövetkezeti Bank Részvénytársaság, Budapest		**71.9**
Österreichische Volksbanken AG, Wien (indirectly)		**25.001[3]**
SÜDWESTBANK AG, Stuttgart	**x**	**86.3**

[1] Consolidated under terms of section 294.1 HGB; aggregate capital shares held by DZ BANK AG or the respective parent company

[2] Declaration of backing by DZ BANK AG

[3] Share of voting rights

Other specialist service providers

Name, Head office	Consolidated[1]	Share of capital in percent
Betriebswirtschaftliches Institut der Deutschen Kreditgenossenschaften BIK GmbH, Frankfurt am Main		**73.6**
DZ Unternehmerpartner GmbH, Frankfurt am Main		**100.0**
DZ Corporate Finance GmbH, Frankfurt am Main		100.0
DZ Equity Partner GmbH, Frankfurt am Main		100.0
EURO Kartensystem EUROCARD und eurocheque GmbH, Frankfurt am Main		**19.6**
Genossenschaftlicher Informationsservice GIS GmbH, Frankfurt am Main		**97.0**
GVA GENO-Vermögens-Anlage-Gesellschaft mbH, Frankfurt am Main		**66.7**
GZS Gesellschaft für Zahlungssysteme, Frankfurt am Main		**20.0**
VR-LEASING AG, Eschborn	**x**	**83.5**
BFL Leasing GmbH, Eschborn	x	62.3
VR-BAUREGIE GmbH, Eschborn	x	100.0
VR DISKONTBANK GmbH, Eschborn	x	100.0
VR-IMMOBILIEN-LEASING GmbH, Eschborn	x	100.0
VR-medico LEASING GmbH, Eschborn		100.0

[1] Consolidated under terms of section 294.1 HGB; aggregate capital shares held by DZ BANK AG or the respective parent company

Investment trusts

Name, Head office	Consolidated[1]	Share of capital in percent
Union Asset Management Holding AG, Frankfurt am Main	**x**	**64.8**
DEFO Deutsche Fonds für Immobilienvermögen GmbH, Frankfurt am Main	x	90.0
DIFA DEUTSCHE IMMOBILIEN FONDS AG, Hamburg	x	94.5
Union Investment Institutional GmbH, Frankfurt am Main	x	100.0
Union Investment Luxembourg S.A., Luxembourg	x	100.0
Union Investment Privatbank AG, Zürich	x	100.0
Union Investment Privatfonds GmbH, Frankfurt am Main	x	100.0
UNICO Asset Management S.A., Luxembourg	x	100.0

[1] Consolidated under terms of section 294.1 HGB; aggregate capital shares held by DZ BANK AG or the respective parent company

Insurance companies

Name, Head office	**Consolidated**[1]	**Share of capital in percent**
R+V Versicherung AG, Wiesbaden	**x**	**73.1**
KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg	x	100.0
KRAVAG-LOGISTIC Versicherungs-AG, Hamburg	x	51.0
R+V Allgemeine Versicherung AG, Wiesbaden	x	88.9
R+V Krankenversicherung AG, Wiesbaden	x	100.0
R+V Lebensversicherung AG, Wiesbaden	x	100.0
R+V Pensionsfonds AG, Wiesbaden (gemeinsam mit Union Holding)	x	51.0
R+V Rechtsschutzversicherung AG, Wiesbaden	x	100.0

[1] Consolidated under terms of section 294.1 HGB; aggregate capital shares held by DZ BANK AG or the respective parent company

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