

Eurohypo Capital Funding Trust I

Wilmington, Delaware, U.S.A.

(a subsidiary of Eurohypo Aktiengesellschaft, Frankfurt am Main, Germany)

600,000 Noncumulative Trust Preferred Securities

(Liquidation Preference Amount € 1,000 per Trust Preferred Security)

Date of Issuance: 23 May 2003

The 600,000 noncumulative Trust Preferred Securities (the "Trust Preferred Securities") offered hereby (the "Offering") represent preferred undivided beneficial ownership interests in the assets of Eurohypo Capital Funding Trust I, a statutory trust created under the laws of the State of Delaware, United States of America (the "Trust"). One common security of the Trust (the "Trust Common Security" and, together with the Trust Preferred Securities, the "Trust Securities") representing undivided beneficial ownership interests in the assets of the Trust, will be owned by Eurohypo Aktiengesellschaft (the "Bank") or a majority-owned subsidiary of the Bank (a "Bank Affiliate"). These assets consist of 600,000 noncumulative Class B Preferred Securities (the "Company Class B Preferred Securities") of Eurohypo Capital Funding LLC I, a Delaware limited liability company (the "Company"), which have the benefit of a support undertaking issued by the Bank.

The Trust will pass through capital payments and redemption proceeds on the Company Class B Preferred Securities as capital payments and redemptions, respectively, on the Trust Preferred Securities. Capital payments on the Company Class B Preferred Securities will be payable (i) from 23 May 2003 ("Issue Date"), on a noncumulative basis, annually in arrears on 23 May of each year, commencing 23 May 2004 at a fixed rate per annum of 6.445% and (ii), after 23 May 2013, quarterly in arrears on 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013 at a floating rate per annum determined on the basis of the three-months EURIBOR rate plus a margin of 3.67%.

The Trust Preferred Securities are not redeemable prior to the Initial Redemption Date expected to occur on 23 May 2013 (the "Initial Redemption Date"), except upon the occurrence of certain disqualification events arising from tax, U.S. Investment Company Act of 1940, as amended (the "Investment Company Act") and regulatory capital matters.

The Company expects that, upon issuance, the Trust Preferred Securities will be assigned a rating of A3 by Moody's Investors Service, Inc. ("Moody's") and BBB+ by Standard & Poor's Rating Services ("Standard & Poor's"). A rating is not a recommendation to buy, sell, or hold securities, and may be subject to revision, suspension or withdrawal at any time by the relevant rating agency.

The Trust Preferred Securities will be initially evidenced by a temporary global certificate, interests in which will be exchangeable for interests in a permanent global certificate not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership by or on behalf of the holders of such interests. The global certificates evidencing the Trust Preferred Securities will be deposited with and registered in the name of Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg"). Beneficial interests in the Trust Preferred Securities will be shown only on, and transfers thereof will be effected only through, book-entry records maintained by Clearstream, Luxembourg and the Euroclear System, with Euroclear S. A./N. V. as operator ("Euroclear"). Application has been made to admit the Trust Preferred Securities to trading and official quotation on the Luxembourg Stock Exchange.

Offering Price: € 1,000 per Trust Preferred Security.

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND ARE BEING OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"). FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON TRANSFER OF THESE SECURITIES, SEE "GENERAL INFORMATION – SELLING RESTRICTIONS".

INVESTMENT IN THESE SECURITIES INVOLVES CERTAIN RISKS. PLEASE SEE THE "INVESTMENT CONSIDERATIONS" SECTION ON PAGE 33 FOR A DESCRIPTION OF THESE RISKS.

Deutsche Bank

ABN AMRO

Citigroup

UBS Warburg

23 May 2003

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GLOSSARY

Additional Amounts means any additional amounts payable by the Company pursuant to the terms of Company Class B Preferred Securities and by the Trust pursuant to the terms of the Trust Preferred Securities as a result of deduction or withholding on payments or on repayment upon redemption thereof.

Aggregate Book Large Exposures means the situations in which the aggregate of the Investment Book Large Exposures and the Trading Book Large Exposures equal or exceed 10% of the relevant bank's or group of institutions' Own Funds.

Additional Debt Securities means the up to € 150,000,000 Subordinated Notes due 23 May 2033 issued by the Bank in excess of and on the same terms as the Initial Debt Securities.

Additional Interest Amounts means any amounts as may be necessary in order that the net amounts received by the Company as interest under the Initial Debt Securities and any repayment upon redemption thereof will equal the amounts that would have been received had no deduction or withholding for Withholding Taxes imposed by Germany, the United States or any political subdivision thereof or any other jurisdiction from which such payment is made and which is required by law to be made by the Bank had no such deduction or withholding been required; provided, that the obligation of the Bank to pay such Additional Interest Amounts shall not apply to (i) any tax which is payable otherwise than by deduction or withholding, (ii) any tax imposed on the net income of the holder of the Initial Debt Securities or that is payable by reason of the holder having some connection with the jurisdiction imposing such tax other than by reason only of the mere holding of the Initial Debt Securities, or (iii) any tax to the extent the same would not have been so imposed but for the presentation of any Initial Debt Securities for payment on a date more than 15 days after the date on which payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later.

Adjusted Comparable Yield means the yield three Business Days prior to the relevant Redemption Date on the euro benchmark security selected by the Calculation Agent, after consultation with the Bank, as having a maturity comparable to the remaining term of the Class B Preferred Securities to the Initial Redemption Date, that would be utilized, at the time of selection and in accordance with customary banking practice, in pricing new issues of corporate debt securities of comparable maturity.

Administrative Action means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body.

Auditors means KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft.

BaFin means the German Federal Agency for Financial Services (*Bundesanstalt für Finanzdienstleistungsaufsicht*).

Aggregated Financial Information means financial information which is presented on an aggregated basis as it reflects the relevant financial information added up from the unconsolidated financial information of the three Predecessor Banks.

Bank means Eurohypo Aktiengesellschaft, a stock corporation incorporated under the laws of Germany.

Bank Affiliate means any majority-owned subsidiary of the Bank.

Board of Directors means the board of directors of the Company.

Business Day means a day on which TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is operating credit or transfer instructions in respect of payments in euro.

Calculation Agent means Deutsche Bank AG, acting as calculation agent under the LLC Agreement.

Capital Payments means, with respect to the Trust Preferred Securities, the Trust Capital Payments, and, with regard to the Company Class B Preferred Securities, the Class B Capital Payments.

Class B Capital Payments means periodic distributions to holders of the Company Class B Preferred Securities declared (or deemed declared) and paid in accordance with the LLC Agreement.

Class B Liquidation Preference Amount means the liquidation preference amount of € 1,000 per Class B Preferred Security.

Class B Payment Date means (i) up to (and including) 23 May 2013, a Fixed Class B Payment Date and (ii), after 23 May 2013, a Floating Class B Payment Date.

Class B Payment Period means, for any given Class B Capital Payments payable on a Class B Payment Date, the period from and including the immediately preceding Class B Payment Date (or the Issue Date, in the case of the initial Class B Capital Payments) to but excluding the relevant Class B Payment Date.

Class B Redemption Date means the day on which the Class B Preferred Securities are due for redemption.

Clearstream, Luxembourg means Clearstream Banking, société anonyme, Luxembourg, Luxembourg.

Code means the U.S. Internal Revenue Code of 1986, as amended from time to time, or any successor legislation.

Company means Eurohypo Capital Funding LLC I, a Delaware limited liability company.

Company Class A Preferred Security means the noncumulative Class A preferred security of the Company representing an ownership interest in the Company.

Company Class B Preferred Securities means the noncumulative Class B preferred securities of the Company representing an ownership interest in the Company.

Company Common Security means the voting common security of the Company representing an ownership interest in the Company.

Company Securities means, collectively, the Company Common Security, the Company Class A Preferred Security and the Company Class B Preferred Securities.

Company Special Redemption Event means (i) a Regulatory Event, (ii) a Tax Event or (iii) an Investment Company Act Event with respect to the Company.

Company Successor Securities means other securities having substantially the same terms as the Company Class B Preferred Securities.

Debt Redemption Date means any Interest Payment Date on or after the Initial Debt Redemption Date on which the Initial Debt Securities are redeemed.

Debt Securities means the Initial Debt Securities and the Substitute Debt Securities.

Delaware Trustee means Deutsche Bank Trust Company Delaware or any successor entity in a merger, consolidation or amalgamation, in its capacity as Delaware trustee of the Trust in accordance with the Trust Agreement.

Deutsche Hyp means Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg Aktiengesellschaft into which, as a result of the Merger creating the Bank, Rheinyhp and Old Eurohypo were merged and in which Dresdner Bank AG held the majority of shares before the Merger.

Distributable Profits of the Bank for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of the Bank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), plus any profit carried forward from previous years, minus any loss

carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code and other applicable German law then in effect. In determining the availability of sufficient Distributable Profits of the Bank related to any fiscal year to permit Class B Capital Payments to be declared during the succeeding fiscal year of the Bank, any (i) Class B Capital Payments already paid in such succeeding fiscal year and (ii) any capital payments or dividends already paid during such succeeding fiscal year of the Bank on Parity Securities on the basis of such Distributable Profits for such fiscal year, shall be deducted from such Distributable Profits.

Early Redemption Price means a redemption price per Class B Preferred Securities equal to the higher of (a) the Liquidation Preference Amount thereof or (b) the Make-Whole Amount, in each case plus any accrued and Unpaid Capital Payments for the then current Payment Period to but excluding the Class B Redemption Date, and Additional Amounts, if any.

Eurohypo means the Bank.

Eurohypo Group means the Bank and its affiliated enterprises within the meaning of Section 15 of the German Stock Corporation Act.

Euroclear means the Euroclear System, with Euroclear S. A./N. V. as operator.

Fixed Class B Payment Date means, up to and including 23 May 2013, 23 May of each year, commencing 23 May 2004.

Fixed Class B Payment Period means each Class B Payment Period ending on a Fixed Class B Payment Date.

Fixed Interest Payment Date means, up to and including 23 May 2013, 23 May of each year, commencing 23 May 2004.

Fixed Payment Date means, up to and including 23 May 2013, 23 May of each year, commencing 23 May 2004.

Fixed Rate means a rate of 6.445% per annum.

Floating Class B Payment Date means, after 23 May 2013, 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013. If any Floating Class B Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Class B Payment Date shall be the immediately preceding Business Day.

Floating Class B Payment Period means each Class B Payment Period ending on a Floating Class B Payment Date.

Floating Interest Payment Date means, after 23 May 2013, 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013. If any Floating Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Interest Payment Date shall be the immediately preceding Business Day.

Floating Payment Date means, after 23 May 2013, 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013. If any Floating Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Payment Date shall be the immediately preceding Business Day.

Floating Rate means the Reference Rate plus a margin of 3.67% per annum.

Former Parent Banks means Commerzbank AG, Deutsche Bank AG and Dresdner Bank AG as the respective majority shareholders of the Predecessor Banks.

FSMA means the Financial Services and Markets Act 2000 (United Kingdom), as amended.

German Banking Act means the German Banking Act (*Gesetz über das Kreditwesen*), as amended from time to time, or any successor legislation.

German Disbursing Agent means a German bank or a German financial services institution, each as defined in the German Banking Act (including a German branch of a foreign bank or a foreign financial services institution but excluding a foreign branch of a German bank or a German financial services institution), at which the Trust Preferred Securities are kept in a custodial account maintained by a German holder.

German GAAP means German Generally Accepted Accounting Principles.

German Holder means a holder of Trust Preferred Securities that is a resident of Germany or for which income in respect of the Trust Preferred Securities is regarded as income from German sources, e.g. because such Trust Preferred Securities form part of the business property of a permanent establishment or fixed base maintained in Germany.

German Mortgage Bank Act means the German Mortgage Bank Act (*Hypothekbankgesetz*).

German Prospectus Act means the German Securities Selling Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of 13 December 1990, as amended.

Global Certificates means the Temporary Global Certificate and the Permanent Global Certificate.

Independent Enforcement Director means the independent member of the Board of Directors which may be appointed on behalf of holders of the Company Class B Preferred Securities if (i) the Company fails to pay Class B Capital Payments (plus any Additional Amounts thereon, if any) on the Company Class B Preferred Securities at the Stated Rate in full for, prior to (and including) 23 May 2013, two consecutive Class B Payment Periods and, after 23 May 2013, four consecutive Class B Payment Periods, or (ii) a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given.

Interest Payment Date means (i) up to (and including) 23 May 2013, a Fixed Interest Payment Date and (ii), after 23 May 2013, a Floating Interest Payment Date.

Interest Period means each period from and including the immediately preceding Interest Payment Date (or the Issue Date, in the case of the first Interest Payment Date) to but excluding the relevant Interest Payment Date.

Initial Debt Redemption Date means 23 May 2013.

Initial Debt Securities means the € 600,000,000 subordinated notes due 23 May 2033 issued by the Bank.

Initial Redemption Date means 23 May 2013.

Investment Book Large Exposures means the large exposures incurred in a bank's investment book.

Investment Company Act means the U.S. Investment Company Act of 1940, as amended from time to time, or any successor legislation.

Investment Company Act Event means that the Bank will have requested and received an opinion of a nationally recognized U.S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Company or the Trust is or will be considered an "investment company"; within the meaning of the Investment Company Act as a result of any judicial decision, pronouncement or interpretation (irrespective of the manner made known), the adoption or amendment of any law, rule or regulation, or any notice or announcement (including any notice or announcement of intent to adopt such law, rule or regulation) by any U.S. legislative body, court, governmental agency, or regulatory authority, in each case after the date of the issuance of the Company Class B Preferred Securities and the Trust Preferred Securities.

IRS means the U.S. Internal Revenue Service.

Issue Date means the date of initial issuance of the Company Class B Preferred Securities, which is expected to be 23 May 2003.

Junior Securities means (i) common stock of the Bank, (ii) each class of preference shares of the Bank ranking junior to the Parity Securities, if any, and any other instrument of the Bank ranking *pari passu* therewith or junior thereto, and (iii) preference shares or any other instrument of any subsidiary of the Bank subject to any guarantee or support agreement of the Bank ranking junior to the obligations of the Bank under the Support Undertaking.

Large Exposures means each of Investment Book Large Exposures, Trading Book Large Exposures and Aggregate Book Large Exposures.

Large Exposure Regulation means the Großkredit- und Millionenkreditverordnung.

Lead Manager means Deutsche Bank Aktiengesellschaft acting through its London Branch, Deutsche Bank AG London.

LLC Act means the Delaware Limited Liability Company Act, as amended.

LLC Agreement means the Amended and Restated Limited Liability Company Agreement of Eurohypo Bank Capital Funding LLC I, dated as of 23 May 2003 entered into between the Bank and the Trust.

Luxembourg Paying Agent means Deutsche Bank Luxembourg, S.A. at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Make-Whole Amount means the make-whole-amount which will be determined by the Calculation Agent as equaling the Present Value on the relevant Redemption Date of (i) the liquidation preference amount per Class B Preferred Security and (i) the remaining scheduled Class B Capital Payments to [●] 2013 (exclusive).

Managers means Deutsche Bank Aktiengesellschaft acting through its London Branch, Deutsche Bank AG London, ABN AMRO Bank N.V., Citigroup Global Markets Limited and UBS Limited.

Maturity Date means 23 May 2033, the scheduled maturity of the Initial Debt Securities.

Merger means the merger of Rheinhyp and Old Eurohypo into Deutsche Hyp, creating the Bank which was registered in the commercial register of Deutsche Hyp on 13 August 2002.

Moody's means Moody's Investors Service, Inc.

Non-U.S. Holder means a Person other than a U.S. person (as such term is defined in Regulation S).

Offering means the offering by Eurohypo Capital Fund Trust I of 600,000 noncumulative Trust Preferred Securities.

Offering Price means the initial offering price of € 1,000 per Trust Preferred Security.

Operating Profits of the Company means, for any Class B Payment Period, the excess of the amounts payable (whether or not paid) on the (i) Debt Securities or (ii) after the Initial Redemption Date, obligations and other investments that the Company may then hold in accordance with the LLC Agreement over any operating expenses of the Company not paid or reimbursed by the Bank during such Class B Payment Period.

Old Eurohypo means EUROHYPO Aktiengesellschaft Europäische Hypothekenbank der Deutschen Bank which, as a result of the Merger creating the Bank, was merged into Deutsche Hyp and in which Deutsche Bank AG held the majority of shares before the Merger.

Parity Securities means (i) each class of the most senior ranking preference shares of the Bank, if any, and (ii) preference shares or any other instrument of any Bank Affiliate subject to any guarantee or

support agreement of the Bank ranking *pari passu* with the obligations of the Bank under the Support Undertaking, if any.

Paying Agents means the Principal Paying Agent or any successor and such other paying agents in relation to the Trust Preferred Securities as may be appointed from time to time.

Payment Date means (i) up to (and including) 23 May 2013, a Fixed Payment Date and (ii), after 23 May 2013, a Floating Payment Date.

Payment Period means each period from and including the immediately preceding Payment Date (or the Issue Date, in the case of the initial Capital Payment) up to but excluding the relevant Payment Date.

Permanent Global Certificate means the single global certificate representing the Trust Preferred Securities for which the Temporary Global Certificate will be exchanged for after the Restricted Period has ended.

Permitted Investments means any of (i) debt obligations issued by a Qualified Issuer (not including the Bank) and unconditionally guaranteed by the Bank on a basis that ranks at least *pari passu* with the ranking of the Initial Debt Securities or (ii) in the event such an investment is not available, in U.S. Treasury Securities.

Predecessor Banks means Rheinhyp, Old Eurohypo and Deutsche Hyp.

Present Value means the amount determined by the Calculation Agent by discounting the liquidation preference amount per Class B Preferred Security and the remaining scheduled Class B Capital Payments to 23 May 2013 (exclusive) on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year and using the Adjusted Comparable Yield plus 0.75 %.

Principal Amount means € 600,000,000, the principal amount of the Initial Debt Securities.

Principal Paying Agent means Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, or any successor, acting as principal paying agent in relation to the Trust Preferred Securities.

Property Account means a segregated non-interest bearing trust account in the name of and under the exclusive control of the Property Trustee for the benefit of the holders of the Trust Preferred Securities to hold all payments in respect of the Company Class B Preferred Securities.

Property Trustee means Deutsche Bank Trust Company Americas, a New York banking corporation, or any successor entity in a merger, consolidation or amalgamation, in its capacity as property trustee of the Trust in accordance with the Trust Agreement.

Prospectus means this Information Memorandum, dated 23 May 2003.

Qualified Issuer means a subsidiary that is consolidated with the Bank for German bank regulatory purposes and of which more than fifty percent (50 %) of the outstanding voting stock or other equity interest entitled ordinarily to vote in the election of the directors or other governing body (however designated) and more than fifty percent (50 %) of the outstanding capital stock or other equity interest is, at the time, beneficially owned or controlled directly or indirectly by the Bank.

Rate Determination Date is the day falling two Business Days prior to the commencement of the relevant Payment Period for which the Calculation Agent is to determine the Reference Rate.

Redemption Date means the date of redemption of the Company Class B Preferred Securities.

Redemption Notice means the notice of any redemption of the Company Class B Preferred Securities given by the Board of Directors on behalf of the Company and in accordance with the LLC Agreement.

Redemption Price means the redemption price per Company Class B Preferred Security equal to the liquidation preference amount thereof, plus accrued and unpaid Class B Capital Payments for the then current Class B Payment Period to, but excluding, the date of redemption, plus Additional

Amounts, if any or, if Company Class B Preferred Securities are to be redeemed prior to the Initial Redemption Date, the higher of such redemption price and the Early Redemption Price.

Reference Banks means five banks chosen by the Calculation Agent whose offered rates were used to determine the relevant quotation when such quotation last appeared on the Screen Page prior to the relevant Rate Determination Date.

Reference Rate means, in relation to any Floating Class B Payment Period, the three-months EURIBOR rate expressed as a rate per annum as determined by the Calculation Agent for such Floating Class B Payment Period.

Regular Trustee means the two of the Trustees who will be individuals who are employees or officers of, or who are affiliated with, the Bank or one of its affiliates.

Regulation S means Regulation S under the Securities Act, as amended from time to time, or any successor legislation.

Regulatory Event means that the Bank is notified by a relevant regulatory authority that, as a result of the occurrence of any amendment to or change (including any change that has been adopted but not yet become effective) in, the applicable banking laws of Germany (or any rules, regulations or interpretations thereunder, including rulings of the relevant banking authorities) or the guidelines of the Basle Committee for Banking Supervision, the Bank is not, or will not be, allowed to treat the Class B Preferred Securities as core capital or Tier I regulatory capital for capital adequacy purposes on a consolidated basis.

REIB USA means the real estate investment banking activities of Dresdner Bank that were contributed to the Eurohypo Group at the beginning of 2003.

Registrar means Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, or any successor entity in a merger, consolidation or amalgamation in its capacity as Registrar.

Relevant Jurisdiction means Germany, the United States, the jurisdiction of residence of any obligor on the Debt Securities (or any jurisdiction from which payments are made) or in the case of Debt Securities issued by a non-German branch of the Bank, the jurisdiction in which such branch is located.

Repayment Claim means the claim for repayment of the Initial Debt Securities.

Restricted Period means the period of 40 consecutive days beginning on and including the first day after the later of (i) the Issue Date and (ii) the completion of the distribution of the Trust Preferred Securities.

Rheinyhp means RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft which, as a result of the Merger creating the Bank, was merged into Deutsche Hyp and in which Commerzbank AG held the majority of shares before the Merger.

Screen Page means page 248 of the Telerate Monitor (or such other screen page of Telerate or such other information service that is designated as the successor to Telerate Page 248 for the purpose of displaying such rates).

Securities Act means the U.S. Securities Act of 1933, as amended from time to time, or any successor legislation.

Servicer means the Servicer as defined in the Services Agreement.

Services Agreement means the services agreement dated as of 23 May 2003 among the Bank, the Company, the Trust and the Servicer.

Standard and Poor's means Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc.

Stated Rate refers to the rate at which Capital Payments accrue, being either the Fixed Rate or the Floating Rate in effect at the relevant time.

Statutory Trustee means an independent trustee appointed by the BaFin, in consultation with the mortgage bank, pursuant to the German Mortgage Bank Act.

Subscription Agreement means the subscription agreement dated 23 May 2003 among the Bank, the Company, the Trust, and each of the Managers.

Substitute Debt Securities means a subordinated bond issue issued by the Bank (acting directly or through a branch) or a Bank Affiliate that is consolidated with the Bank for German bank regulatory purposes with terms identical to those of the Initial Debt Securities, provided, that (i) such substitution or replacement does not result in a Company Special Redemption Event, (ii) the Bank, unless it itself is the substitute obligor, guarantees on a subordinated basis, at least equal to the ranking of the Initial Debt Securities, the obligations of the substitute obligor and (iii) the Bank has obtained any required regulatory approvals.

Support Undertaking means the support undertaking dated as 23 May 2003 between the Bank and the Company.

Tax Event means (i) the receipt by the Bank of an opinion of a nationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (A) any amendment to, or clarification of, or change (including any change that has been adopted but has not yet become effective) in, the laws or treaties (or any regulations promulgated thereunder) of the Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (B) any Administrative Action, or (C) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, after the date of issuance of the Company Class B Preferred Securities and the Trust Preferred Securities, there is more than an insubstantial risk that (x) the Trust or the Company is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges, or (y) the Trust, the Company or an obligor on the Debt Securities would be obligated to pay Additional Amounts or Additional Interest Amounts or (ii) a final determination has been made by the German tax authorities to the effect that the Bank, as obligor on the Debt Securities, may not, in the determination of its taxable income for the purposes of determining German corporate income tax in any year, deduct in full interest payments on the Debt Securities; provided, however, that none of the foregoing will constitute a Tax Event if it may be avoided by the Bank, the Trust or the Company taking reasonable measures under the circumstances.

Temporary Global Certificate means a means the single global certificate representing the Trust Preferred Securities which will be exchangeable for the Permanent Global Certificate after the Restricted Period has ended.

Trading Book Institutions means banks and groups of institutions which are subject to the rules of the German Banking Act relating to the trading book.

Trading Book Large Exposures means the large exposures incurred in the trading book of a bank (including the net amount of all long and short positions in debt instruments and shares of an individual issuer, the counterparty risk of certain derivatives, the counterparty risk after the agreed date of settlement and repurchase of securities lending transactions) attributable to a single client or connected to a group of clients.

Transfer Agent means Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, or any successor entity in a merger, consolidation or amalgamation, in its capacity as Transfer Agent.

Treasury Regulations means the Code, income tax regulations, including temporary and proposed regulations, promulgated under the Code by the United States Treasury Department, as such regulations may be amended from time to time (including corresponding provisions and succeeding regulations).

Trust means Eurohypo Capital Funding Trust I, a statutory trust created under the laws of Delaware.

Trust Act means the Delaware Statutory Trust Act, as amended.

Trust Agreement means the Amended and Restated Trust Agreement of Eurohypo Capital Funding Trust I dated and effective as of 23 May 2003 between, inter alia, the Trustees, the Bank and Eurohypo Capital Funding LLC I.

Trust Capital Payments means periodic distributions to the holders of the Trust Preferred Securities paid in accordance with the Trust Agreement to holders of the Trust Preferred Securities.

Trust Common Security means the noncumulative trust common security issued by the Trust.

Trustee means the four trustees of the Trust in accordance with the Trust Agreement or any successor entity in a merger, consolidation or amalgamation, in such capacity.

Trust Enforcement Event means an enforcement event under the Trust Agreement, which is the occurrence, at any time, of (i) the non-payment of Trust Capital Payments (plus any Additional Amounts thereon, if any) on the Trust Preferred Securities or the Company Class B Preferred Securities at the Stated Rate in full, for four consecutive Trust Payment Periods or (ii) a failure by the Bank to perform any of its obligations under the Support Undertaking.

Trust Payment Date means a Floating Payment Date together with the Fixed Payment Date.

Trust Preferred Securities means the Fixed/Floating rate noncumulative Trust Preferred Securities issued by the Trust.

Trust Securities means the Trust Common Security and the Trust Preferred Securities.

Trust Special Redemption Event means a Tax Event solely with respect to the Trust, but not with respect to the Company, or (ii) an Investment Company Act Event solely with respect to the Trust, but not with respect to the Company.

Trust Successor Securities means securities having substantially the same terms as the Trust Preferred Securities, and ranking the same as the Trust Preferred Securities with respect to Trust Capital Payments, distributions and rights upon liquidation, redemption or otherwise which substitute the Trust Preferred Securities.

U.S. GAAP means U.S. Generally Accepted Accounting Principles.

U.S. Person has the meaning given to such term in Regulation S.

Withholding Taxes means the deduction or withholding for or on account of any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or on behalf of the United States or Germany or any other Relevant Jurisdiction, if applicable, or by or on behalf of any political subdivision or authority therein or thereof having the power to tax.

INTRODUCTORY SUMMARY OF THE TRANSACTION

The Trust exists for the sole purposes of issuing the Trust Preferred Securities, investing the gross proceeds thereof in the Company Class B Preferred Securities and engaging in activities necessary or incidental thereto. In addition to the Company Class B Preferred Securities, the Company will also issue one voting common security (the **"Company Common Security"**) and one noncumulative Class A preferred security (the **"Company Class A Preferred Security"**, and, together with the Company Common Security and the Company Class B Preferred Securities, the **"Company Securities"**). The Company Securities will represent all of the ownership interests in the Company. The Company Common Security and the Company Class A Preferred Security will be owned by the Bank or a Bank Affiliate.

The Company will use the proceeds from the issuance of the Company Class B Preferred Securities, together with the proceeds from the issuance of the Company Class A Preferred Security and the Company Common Security, to acquire subordinated notes (the **"Initial Debt Securities"**) of the Bank. The income received by the Company from the Initial Debt Securities and any Substitute Debt Securities (as defined in "Summary – Summary of the terms of the Initial Debt Securities-Substitution") (the Substitute Debt Securities together with the Initial Debt Securities, the **"Debt Securities"**), will be available for distribution, as appropriate, to the holders of the Company Class B Preferred Securities, the Company Class A Preferred Security and the Company Common Security.

Periodic distributions to the holders of the Trust Preferred Securities paid in accordance with the Amended and Restated Trust Agreement of Eurohypo Capital Funding Trust I dated 23 May 2003 (**"Trust Agreement"**) to holders of the Trust Preferred Securities (**"Trust Capital Payments"**) are expected to be paid out of, and will be limited to, periodic distributions to holders of the Company Class B Preferred Securities (**"Class B Capital Payments"**) declared (or deemed declared) and paid in accordance with the Amended and Restated Limited Liability Company Agreement of the Company dated as of 23 May 2003 (**"LLC Agreement"**).

According to the LLC Agreement, Class B Capital Payments shall be equal to, for any given Class B Payment Period (as defined below), the excess of the amounts payable (whether or not paid) on the (i) Debt Securities or (ii) after the Maturity Date, obligations and other investments that the Company may then hold in accordance with the LLC Agreement over any operating expenses of the Company not paid or reimbursed by the Bank during such Class B Payment Period (**"Operating Profits"**).

Class B Capital Payments will be payable by the Company, from the Issue Date, on a noncumulative basis, annually in arrears on 23 May of each year, commencing 23 May 2004 (each a **"Fixed Class B Payment Date"**). After 23 May 2013, Class B Capital Payments will be payable by the Company, on a noncumulative basis, quarterly in arrears on 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013 (each, a **"Floating Class B Payment Date"** and together with the Fixed Class B Payment Dates, each a **"Class B Payment Date"**). If any Floating Class B Payment Date would otherwise fall on a day which is not a day on which TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is operating credit or transfer instructions in respect of payment in euro (a **"Business Day"**), it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Class B Payment Date shall be the immediately preceding Business Day. If any Class B Payment Date falls on a day that is not a Business Day, payment of all amounts otherwise payable on such date shall be made on the first following day that this a Business Day and the holder of the Company Class B Preferred Securities shall have no right to claim payment of any interest or other indemnity in respect of such delay in payment.

Class B Capital Payments payable on any Class B Payment Date shall accrue from and including the immediately preceding Class B Payment Date (or the Issue Date, in the case of the initial Class B Capital Payment) to but excluding the relevant Class B Payment Date (each such period, a **"Class B Payment Period"**).

For each Class B Payment Period ending on a Fixed Class B Payment Date (each a **"Fixed Class B Payment Period"**), Class B Capital Payments shall be calculated and accrue on the Class B liquidation preference amount of each Company Class B Preferred Security at a rate per annum of 6.445%. If Class B Capital Payments payable in relation to a Fixed Class B Payment Period are to be calculated

for a period of less than one year, they will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the respective annual Fixed Class B Payment Period.

For each Class B Payment Period ending on a Floating Class B Payment Date (each a **“Floating Class B Payment Period”**), Class B Capital Payments shall be calculated and accrue on the Class B liquidation preference amount of each Company Class B Preferred Security at a rate per annum equal to the three-months EURIBOR rate determined by Deutsche Bank AG, acting as calculation agent (**“Calculation Agent”**) in accordance with the LLC Agreement (the **“Reference Rate”**) plus a margin of 3.67% per annum. See “Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Reference Rate” and “Description of the Company Securities – Company Class B Preferred Securities – Capital Payments”.

If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment in respect of any Class B Payment Period, holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Payment in respect of such Class B Payment Period, and the Company will have no obligation to pay a Class B Capital Payment in respect of such Class B Payment Period, whether or not Class B Capital Payments are declared (or deemed to have been declared) and paid in respect of any future Class B Payment Period. In such a case, no corresponding Trust Capital Payments will be made for such Class B Payment Period.

For a summary of the terms of the Trust Preferred Securities and the Company Class B Preferred Securities, see “Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities”; “Description of the Trust Securities” and “Description of the Company Securities – Company Class B Preferred Securities”.

Prior to the issuance of the Company Class B Preferred Securities, the Bank and the Company will enter into a support agreement (the **“Support Undertaking”**) for the benefit of the holders of the Company Class B Preferred Securities. Pursuant to the Support Undertaking, the Bank will undertake that (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Class B Capital Payments declared (or deemed declared) on, and payments due upon redemption of, the Company Class B Preferred Securities (plus any additional amounts payable by the Company pursuant to the terms of Company Class B Preferred Securities and by the Trust pursuant to the terms of the Trust Preferred Securities as a result of deduction or withholding on payments thereon or deduction or withholding on repayment upon redemption thereof (collectively, **“Additional Amounts”**), if any), and (ii) in liquidation, the Company will have sufficient funds to pay the aggregate liquidation preference amount of the Company Class B Preferred Securities, including accrued and unpaid Class B Capital Payments for the then current Class B Payment Period to but excluding the date of liquidation and Additional Amounts, if any.

The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare Class B Capital Payments or other distributions. The Bank’s obligations under the Support Undertaking are subordinated to all of its senior and subordinated debt obligations.

For a summary of the terms of the Support Undertaking, see “Summary – Summary of the Offering – Support Undertaking” and “Description of the Support Undertaking”.

On or after the Initial Redemption Date, the Company Class B Preferred Securities shall be redeemable at the option of the Company, in whole but not in part, on any Class B Payment Date, at a redemption price per Company Class B Preferred Security equal to the liquidation preference amount thereof, plus accrued and unpaid Class B Capital Payments for the then current Class B Payment Period to, but excluding, the date of redemption (the **“Redemption Date”**), plus Additional Amounts, if any (the **“Redemption Price”**).

In case the Company Class B Preferred Securities are redeemed prior to the Initial Redemption Date, such redemption shall be at a redemption price per Class B Preferred Security equal to the higher of the Redemption Price or the Make-Whole Amount (as defined in “Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities”) (the **“Early Redemption Price”**)

The Company Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.

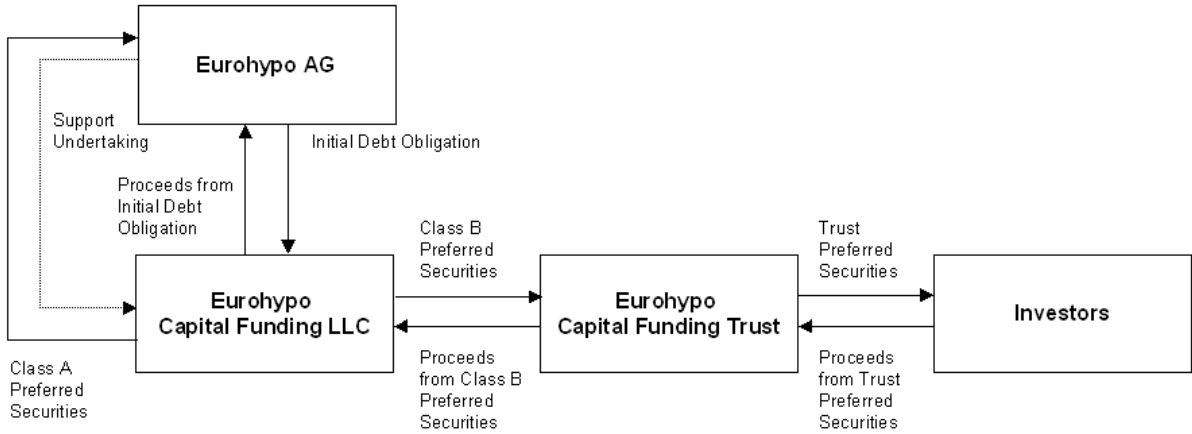
Upon the occurrence of a Trust Special Redemption Event (as defined under “Description of the Trust Securities – Redemption”) or in the event of any voluntary or involuntary dissolution, liquidation, winding up or termination of the Trust, holders of the Trust Preferred Securities will be entitled to receive a corresponding number of the Company Class B Preferred Securities. See “Description of the Trust Securities – Redemption.” Because the sole assets of the Trust are the Company Class B Preferred Securities and the holders of the Trust Preferred Securities may receive the Company Class B Preferred Securities in certain circumstances, prospective purchasers of the Trust Preferred Securities are also making an investment decision with respect to the Company Class B Preferred Securities and should carefully review all of the information regarding the Company Class B Preferred Securities. See “Description of the Company Securities – Company Class B Preferred Securities” and “Investment Considerations – Special Redemption Risks”.

Prior to or simultaneously with the completion of the Offering, the Company, the Trust and the Bank will engage in the following transactions: (i) the Company will issue to the Bank, or a Bank Affiliate, the Company Common Security; (ii) the Company will issue to the Bank, or a Bank Affiliate, the Company Class A Preferred Security; (iii) the Trust will issue to the Bank, or a Bank Affiliate, the Trust Common Security; (iv) the Trust will issue the Trust Preferred Securities to Deutsche Bank Aktiengesellschaft acting through its London Branch, Deutsche Bank AG London, (the “**Lead Manager**”) and ABN Amro Bank N.V., Citigroup Global Markets Limited and UBS AG, acting through its business group UBS Warburg (together with the Lead Manager, the “**Managers**”), who will sell the Trust Preferred Securities to investors; (v) the Company will issue to the Trust, the Company Class B Preferred Securities and (vi) the Company will acquire the Initial Debt Securities.

The Bank or a majority-owned affiliate of the Bank (“**Bank Affiliate**”) will enter into a services agreement dated 23 May 2003 (the “**Services Agreement**”) with the Company and the Trust. The Bank or a Bank Affiliate, as the holder of the Company Common Security, will elect the Board of Directors, which initially will consist of three directors.

Each holder of Company Class B Preferred Securities will be a third-party beneficiary of the Support Undertaking.

The following diagram outlines the relationship among the Company, the Trust and the Bank following completion of the Offering:



LISTING AND GENERAL INFORMATION

Subject of this Information Memorandum

The subject of this Information Memorandum (the “**Prospectus**”) are the Trust Preferred Securities issued by the Trust as authorized by the Trust Agreement and the issuance of the Company Class B Preferred Securities as authorized by the LLC Agreement of the Company.

Responsibility for the Contents of this Prospectus

The Trust, the Company and the Bank assume responsibility for the contents of this Prospectus and declare that to the best of their knowledge all information herein contained is accurate and that there are no other facts the omission of which would, in the context of the offering of the Trust Preferred Securities, make any statement in this Prospectus misleading in any material respect.

Listing

Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange in accordance with the rules of that exchange. Prior to the listing, a legal notice relating to the issue of the Trust Preferred Securities and the certified organizational documents of the Company will be deposited with the Chief Registrar of the District Court in Luxembourg, where such documents may be examined and copies obtained. Any notices to be made in accordance with the terms and conditions of the Trust Preferred Securities will be published in a Luxembourg newspaper of general circulation (which is expected to be the *Luxemburger Wort*).

The Company will maintain a paying and transfer agent in Luxembourg for as long as any of the Trust Preferred Securities are listed on the Luxembourg Stock Exchange. The Company reserves the right to vary such appointment in accordance with the terms and conditions of the Trust Preferred Securities and the Company will publish notice of such change of appointment in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

No person or entity is authorized to give information other than that contained in this Prospectus or in the listing particulars and in the documents referred to therein and which are made available for inspection by the public.

Clearing Information

The Trust Preferred Securities have been accepted for clearance through the facilities of Clearstream Luxembourg and Euroclear under the following codes:

German Security Code (*Wertpapier-Kennnummer*): 542376

ISIN: XS0169058012

Common Code: 016905801

Legal Information

The creation and issuance of the Trust Preferred Securities has been authorized by virtue of the Trust Agreement, dated 23 May 2003 between, inter alia, the Trustees, the Bank and Eurohypo Capital Funding LLC I.

Except as disclosed in this Prospectus:

- There has been no material adverse change in the Trust’s or the Bank’s financial position since 31 December 2002.

- The Trust has not been involved in any litigation, administrative proceeding or arbitration relating to claims or amounts which are material in the context of the issue of the Company Class B Preferred Securities or the Trust Preferred Securities, and, so far as the Company is aware, no such litigation, administrative proceeding or arbitration is pending or threatened.

The Eurohypo Group is involved from time to time in various claims and lawsuits incidental to the ordinary course of business. While there can be no assurances, the Bank believes that the outcome of all pending legal and arbitration proceedings, either individually or in the aggregate, will not have a material adverse effect on Eurohypo Group's financial position or results of operations. See "General Information on the Bank – Legal Proceedings"

Availability of Documents

Copies of the LLC Agreement, the Services Agreement, the Trust Agreement and the Support Agreement may be obtained free of charge at the office of the registrar and, for so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and such exchange so requires, at the office of the Luxembourg Paying Agent during normal business hours.

For so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and such exchange so requires, the most recently published consolidated and non-consolidated audited financial statements and our unaudited consolidated interim financial statements of the Eurohypo Group and the Company will also be available free of charge at the offices of the Luxembourg Paying Agent.

The accounts of the Trust will be prepared annually on an unaudited and unconsolidated basis, and such accounts will not be published.

Documents incorporated by Reference

As of the date of this Information Memorandum, the notes (Anhang) and the management report (Lagebericht) forming part of the unconsolidated financial statements for the financial year ended 31 December 2002 is incorporated into this document by reference. The incorporated document is available free of charge at the office of the Luxembourg Paying Agent during normal business hours.

Independent Auditors

The auditors of the Bank, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany, have audited the consolidated and the unconsolidated annual accounts of the Bank for the financial year ended 31 December 2002 (which accounts include the Aggregated Financial Information for the year ended 31 December 2001) and have in each case issued an unqualified auditor's opinion.

PRESENTATION OF FINANCIAL INFORMATION

The Bank in its current form was established on 13 August 2002, as the entity resulting from the merger (the “**Merger**”) of Commerzbank AG’s Rheinhyp Rheinische Hypothekenbank Aktiengesellschaft (“**Rheinhyp**”) and Deutsche Bank AG’s Eurohypo Aktiengesellschaft Europäische Hypothekenbank der Deutschen Bank (“**Old Eurohypo**”) into Dresdner Bank AG’s Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg Aktiengesellschaft (“**Deutsche Hyp**”) and together with Rheinyp and Old Eurohypo, the “**Predecessor Banks**”). See “General Information on the Bank – The Merger”. The financial information for the Bank and the Eurohypo Group as of and for the annual period ended on 31 December 2002 contained in this Prospectus is the first audited financial information of the Bank and the Eurohypo Group for financial reporting purposes and gives effect to the Merger which was registered with the relevant commercial registers of the Predecessor Banks on 13 August 2002.

The Bank’s consolidated and unconsolidated financial information as of and for the annual period ended on 31 December 2002 has been prepared in accordance with German generally accepted accounting principles (“**German GAAP**”) and has been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The Bank’s consolidated financial information as of and for the three months period ended 31 March 2003 has been prepared in accordance with German GAAP but has not been audited. All financial information presented in this Prospectus is based on the Bank’s consolidated and unconsolidated audited financial statements as of and for the annual period ended on 31 December 2002 and the Bank’s unaudited consolidated financial statements as of and for the three months period ended on 31 March 2003. The comparative financial data as of and for the annual period ended on 31 December 2001 which is contained in such audited financial statements is presented on an aggregated basis as it reflects the relevant consolidated financial information of the three Predecessor Banks added up from the audited consolidated financial information of the three Predecessor Banks as of and for the annual period ended on 31 December 2001 (“**Aggregated Financial Information**”). This Prospectus does not contain any comparative pro forma financial information giving effect to the Merger as a whole for the fiscal year ended 31 December 2001, which would give effect to the Merger as if it had occurred on 1 January 2001.

In addition, the segment reporting for the annual period ended 31 December 2002 may not reflect the financial condition of the respective segments entirely accurately due to the fact that the allocation of revenues and, in particular, expenses to the different segments was impeded by the fact that the Predecessor Banks’ segments are not consistent with the Bank’s segments. Consequently, such allocations are based on broad assumptions, partly based on a retroactive preparation of the relevant data, and on the budgeted allocation of expenses to the segments for the fiscal year 2003. Therefore, the segment reporting for the annual period ended 31 December 2002 is not necessarily indicative of the actual revenues and expenses of the Bank’s segments during such period and of what such revenues and expenses might be in the future. The Aggregated Financial Information does not include segment reporting. See page F-22.

The financial information for the first three months of 2002 contained as comparative figures in the Bank’s financial information as of and for the three months ended 31 March 2003 has been compiled by dividing the financial results from the fiscal year 2002 by four.

The Aggregated Financial Information does not purport to be indicative of what the combined financial position or results or the Distributable Profits of the Bank would have been had the Merger been in effect at the beginning of the fiscal years to which such financial information relates or of what the Bank’s Distributable Profits might be in the future.

EXCHANGE RATE AND CURRENCY INFORMATION

In this Information Memorandum, references to "euro", "EUR", and "€" are references to the common currency of the member states of the European Economic and Monetary Union, which as of 1 January 1999 replaced the respective national currencies of the relevant countries. References to "Deutsche Mark", "DEM" or "DM" are references to the former national currency of the Federal Republic of Germany prior to the introduction of the euro. References to "US\$", "USD" and "US dollars" are references to the dollar of the United States of America. The Bank publishes its financial statements in euro.

SUMMARY

This section contains a summary of the terms of the Trust Preferred Securities and the Company Class B Preferred Securities, as well as information relating to the Offering. For a more complete description of the terms of the Trust Preferred Securities, the Company Class B Preferred Securities, the Support Undertaking and the Initial Debt Securities, see "Description of the Trust Securities"; "Description of the Company Securities"; "Description of the Support Undertaking" and "Description of the Terms of the Initial Debt Securities" as well as "Distributable Profits of the Bank." For a description of the Trust, the Company and the Bank, see "Eurohypo Capital Funding Trust I", "Eurohypo Capital Funding LLC I", "General Information of the Bank" and "Business", respectively. The following summary is qualified in its entirety by the detailed information and financial data presented elsewhere in this Prospectus, including the financial information contained in this Prospectus.

Summary of the Offering

The Trust	Eurohypo Capital Funding Trust I is a Delaware statutory trust formed for the purpose of holding the Company Class B Preferred Securities. The Class B Capital Payments and redemption payments under the Company Class B Preferred Securities which will be passed through to holders of the Trust Securities in the form of Trust Capital Payments and redemption payments under the Trust Securities.
Securities Offered	The Trust will offer 600,000 Trust Preferred Securities with a liquidation preference amount of € 1,000 per Trust Preferred Security. The terms of the Trust Preferred Securities will be substantially identical to the terms of the Company Class B Preferred Securities.
Use of Proceeds	All the proceeds from the sale of the Trust Securities will be invested by the Trust in the Company Class B Preferred Securities. The Company will use the funds from the sale of the Company Class B Preferred Securities, together with funds contributed for the Company Class A Preferred Security and the Company Common Security, to make an investment in the Initial Debt Securities. The Bank intends that the proceeds of the sale of the Initial Debt Securities will be used for general corporate purposes of the Eurohypo Group and, for purposes of measuring regulatory capital adequacy, expects to treat the Company Class B Preferred Securities as consolidated Tier I regulatory capital and the proceeds received from the Company under the Initial Debt Securities as unconsolidated lower Tier II regulatory capital. For a discussion of regulatory capital and the measurement of its adequacy, see "Regulation of German Mortgage Banks".
The Company	Eurohypo Capital Funding LLC I, a Delaware limited liability company, is a wholly-owned subsidiary of the Bank which will be consolidated with the Bank for German bank regulatory purposes. The sole assets of the Company will be the Debt Securities.
Support Undertaking	The Bank will execute the Support Undertaking under which it will agree that: (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Class B Capital Payments declared (or deemed declared) on and payments due upon redemption of the Company Class B Preferred Securities plus Additional Amounts, if any, and (ii) in liquidation, the Company will have sufficient funds to pay the aggregate liquidation preference amount of the Company Class B Preferred Securities,

including accrued and unpaid Class B Capital Payments for the then current Class B Payment Period to, but excluding, the date of liquidation plus Additional Amounts, if any.

The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare a Class B Capital Payment or other distributions.

The Bank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of the Bank (including profit participation rights (*Genussscheine*)), will rank *pari passu* with the most senior ranking preference shares of the Bank, if any, and will rank senior to any other preference shares and the common shares of the Bank.

The holders of the Company Class B Preferred Securities will be third party beneficiaries of the Support Undertaking. If a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking, and such failure continues for 60 days after such notice is given, the holders of the Company Class B Preferred Securities will have the right to appoint one Independent Enforcement Director (as defined and described under "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Enforcement Rights") who will have the sole authority, right and power to enforce the rights of the Company under the Support Undertaking without prejudice to the rights or settle any claim of the holders of the Company Class B Preferred Securities thereunder.

In the Support Undertaking, the Bank will also undertake not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, any other preference shares or instruments ranking *pari passu* with or junior to preference shares of any other affiliated entity that would rank senior in any regard to the Bank's obligations under the Support Undertaking unless the Support Undertaking is amended so that the Bank's obligations thereunder rank at least *pari passu* with and have substantially equivalent rights of priority as to payment as any such other guarantee or other support agreement.

Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities

Form and Denomination

The Trust Preferred Securities, with an aggregate liquidation preference amount with respect to assets of the Trust of € 600,000,000 and a liquidation preference amount with respect to the assets of the Trust of € 1,000 per Trust Preferred Security will be evidenced by global certificates registered in the name of Deutsche Bank AG, Frankfurt am Main, as common depository for Clearstream, Luxembourg and Euroclear and will be issued in denominations of € 1,000 (or an integral multiple thereof).

The Company Class B Preferred Securities with an aggregate liquidation preference amount with respect to assets of the Company of € 600,000,000 and a liquidation preference amount with respect to the assets of the Company of € 1,000 per Company Class B Preferred Security will be evidenced by an instrument registered in the name of the Trust.

Maturity

The Trust Preferred Securities and the Company Class B Preferred Securities will not have a maturity date and will not be redeemable at any time at the option of the holders thereof.

Payment Dates

Capital Payments will be payable from the Issue date, on a noncumulative basis, until (and including) 23 May 2013, annually in arrears on 23 May of each year, commencing 23 May 2004 (each a "**Fixed Payment Date**").

After 23 May 2013, Capital Payments will be paid quarterly in arrears on 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013 (each a "**Floating Payment Date**" and together with the Fixed Payment Dates, each a "**Payment Date**"). If any Floating Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Payment Date shall be the immediately preceding Business Day.

If any Payment Date falls on a day that is not a Business Day, payment of all amounts otherwise payable on such date will be made on the first following day that is a Business Day and the holders of the Company Class B Preferred Securities or the Trust Preferred Securities, as the case may be, will have no right to claim payment of any interest or other indemnity in respect of such delay in payment.

Each period from and including the immediately preceding Payment Date (or the Issue Date, in the case of the first Capital Payment) to but excluding the relevant Payment Date is a "**Payment Period**".

"**Capital Payments**" are, with respect to the Trust Preferred Securities, the Trust Capital Payments, and, with regard to the Company Class B Preferred Securities, the Class B Capital Payments.

Stated Rate

Capital Payments to be paid on a Fixed Payment Date shall be calculated and accrue on the respective liquidation preference amounts of € 1,000 per Trust Preferred Security and € 1,000 per Company Class B Preferred Security at a rate per annum of 6.445% (the "**Fixed Rate**"). If any such Capital Payment is to be calculated for a period of less than one year, it shall be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the respective annual Payment Period.

Capital Payments to be paid on a Floating Payment Date shall be calculated and accrue on the respective liquidation preference amounts of € 1,000 per

Trust Preferred Security and € 1,000 per Company Class B Preferred Security at the Reference Rate plus a margin of 3.67 % per annum (the **"Floating Rate"**). Any such Capital Payments will be calculated by applying the Reference Rate for the relevant Payment Period to the respective liquidation preference amounts of € 1,000 per Trust Preferred Security and € 1,000 per Company Class B Preferred Security, multiplying the product by a fraction, the numerator of which is the actual number of days elapsed in the relevant Payment Period concerned and the denominator for which is 360 and rounding the resulting figure to the nearest € 0.01, with € 0.005 being rounded upwards.

Reference Rate

The Reference Rate is expressed as a rate per annum and is determined by the Calculation Agent on the day (**"Rate Determination Date"**) falling two Business Days prior to the commencement of the relevant Payment Period.

The Reference Rate shall be the three-month EURIBOR rate per annum published on page 248 of the Telerate Monitor (or such other screen page of Telerate or such other information service that is designated as the successor to Telerate Page 248 for the purpose of displaying such rates) (**"Screen Page"**) on the relevant Rate Determination Date at or about 11:00 a.m. (Brussels time) as the rate offered in the interbank market in the Euro-Zone for deposits in euro for the relevant Payment Period.

If the Reference Rate cannot be determined as aforementioned, because the Screen Page is not published and no other agency publishes the interest rate in question, or for any other reason, then the Reference Rate for the relevant Payment Period shall be the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards), determined by the Calculation Agent of the rates which five banks, whose offered rates were used to determine such quotation when such quotation last appeared on the Screen Page (**"Reference Banks"**) selected by the Calculation Agent, quote to prime banks in the interbank market in the Euro-Zone at approximately 11:00 a.m. (Brussels time) on the relevant Rate Determination Date for deposits in euro for such Payment Period.

Should two or more of the Reference Banks provide the relevant quotation, the arithmetic mean shall be calculated as described above on the basis of the quotations supplied. If only less than two Reference Banks provide a quotation, then the Reference Rate for the relevant Payment Period shall be the Reference Rate in effect on the Business Day immediately preceding the relevant Rate Determination Date.

Principal Paying Agent

Deutsche Bank Aktiengesellschaft, Frankfurt am Main

Luxembourg Paying Agent

Deutsche Bank Luxembourg, S. A.

Transfer Agent and Registrar

Deutsche Bank Aktiengesellschaft, Frankfurt am Main

Calculation Agent

Deutsche Bank Aktiengesellschaft, Frankfurt am Main

Capital Payments Excluded

Trust Capital Payments are expected to be paid out of Class B Capital Payments received by the Trust from the Company. Class B Capital Payments are expected to be paid by the Company out of its Operating Profits. If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment in respect of any Class B Payment Period, the holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Pay-

ment in respect of such Class B Payment Period, and the Company will have no obligation to pay a Class B Capital Payment in respect of such Class B Payment Period, whether or not Class B Capital Payments are declared (or deemed to have been declared) and paid on the Company Class B Preferred Securities in respect of any future Class B Payment Period.

Class B Capital Payments are authorized to be declared and paid on any Class B Payment Date to the extent that:

- (i) the Company has an amount of Operating Profits for the Class B Payment Period ending on the day immediately preceding such Class B Payment Date at least equal to the amount of such Class B Capital Payments, and
- (ii) the Bank has an amount of Distributable Profits (as defined below) for the most recent preceding fiscal year for which audited financial statements are available at least equal to the aggregate amount of such Class B Capital Payments and capital payments or dividends or other distributions or payments on Parity Securities (as defined below), if any, *pro rata* on the basis of Distributable Profits for such preceding fiscal year.

“Distributable Profits” of the Bank for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of the Bank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), plus any profit carried forward from previous years, minus any loss carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code and other applicable German law then in effect. In determining the availability of sufficient Distributable Profits of the Bank related to any fiscal year to permit Class B Capital Payments to be declared during the succeeding fiscal year of the Bank, any (i) Class B Capital Payments already paid in such succeeding fiscal year and (ii) any capital payments or dividends already paid during such succeeding fiscal year of the Bank on Parity Securities (as defined below) on the basis of such Distributable Profits for such fiscal year, shall be deducted from such Distributable Profits.

“Parity Securities” are (i) each class of the most senior ranking preference shares of the Bank, if any, and (ii) preference shares or any other instrument of any Bank Affiliate subject to any guarantee or support agreement of the Bank ranking *pari passu* with the obligations of the Bank under the Support Undertaking.

For a discussion of the calculation of Operating Profits of the Company and of Distributable Profits of the Bank, see “Description of the Company Securities – Company Class B Preferred Securities – Capital Payments” and “Distributable Profits of the Bank”

Deemed Declaration of Capital Payments

Notwithstanding the foregoing, the Company will be deemed to have declared Class B Capital Payments if the Bank or any Bank Affiliate declares or pays any dividends or makes any other payment or other distribution on any Parity Securities. The Class B Capital Payments to be made as a result of such a deemed declaration will be *pro rata* with such Parity Securities and payable on the first Class B Payment Date falling contemporaneously with or immediately after the date on which the Bank, or the Bank Affiliate, as the case may be, declared such dividend or made such payment on the relevant Parity Securities.

Further, notwithstanding the foregoing, if the Bank or a Bank Affiliate declares or pays any dividend or makes any other payment or distribution on (i) common stock of the Bank, (ii) each class of preference shares of the Bank ranking junior to the Parity Securities, if any, and any other instrument of the Bank ranking *pari passu* therewith or junior thereto, and (iii) preference shares or any other instrument of any subsidiary of the Bank subject to any guarantee or support agreement of the Bank ranking junior to the obligations of the Bank under the Support Undertaking (collectively, the “**Junior Securities**”), the Company will be deemed to have declared Class B Capital Payments at the Stated Rate.

If the Bank or any of its subsidiaries redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration except by conversion into or exchange for shares of common stock of the Bank, the Company will be deemed to have declared Class B Capital Payments at the Stated Rate in full for payment on the first four Class B Payment Dates falling contemporaneously with and/or immediately following the date on which such redemption, repurchase or other acquisition occurred. This obligation is, however, subject to certain exceptions; see “Description of the Company Securities – Company Class B Preferred Securities – Capital Payments”.

**Prohibition of
Capital Payments**

Despite sufficient Operating Profits of the Company and sufficient Distributable Profits of the Bank, the Company will not be permitted to make Class B Capital Payments on any Class B Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Agency for Financial Services (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (“**BaFin**”) or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities).

**Payments of
Additional Amounts**

All payments by the Company and the Trust on the Company Class B Preferred Securities and the Trust Preferred Securities, as the case may be, and any repayment upon redemption thereof, will be made without deduction or withholding for or on account of any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or on behalf of the United States or Germany or the jurisdiction of residence of any obligor on the Debt Securities (or any jurisdiction from which payments are made) or in case of Debt Securities issued by a non-German branch of the Bank, the jurisdiction in which such branch is located) (each, a “**Relevant Jurisdiction**”) or by or on behalf of any political subdivision or authority therein or thereof having the power to tax (collectively, “**Withholding Taxes**”), unless the Company or the Trust is required by law to make such deduction or withholding. In such event, the Company or the Trust, as the case may be, will pay, as additional Class B Capital Payments or Trust Capital Payments, as the case may be, Additional Amounts as may be necessary in order that the net amounts received by the Company and the holders of the Company Class B Preferred Securities and Trust Preferred Securities, after such deduction or withholding, will equal the amounts that would have been received had no such deduction or withholding been required.

However, no such Additional Amounts will be payable in respect of the Company Class B Preferred Securities and the Trust Preferred Securities:

- if and to the extent that the Company is unable to pay such Additional Amounts because such payment would exceed the Distributable Profits of the Bank for the most recent preceding fiscal year for which audited financial statements are available (after subtracting from such Distributable Prof-

its the amount of Class B Capital Payments and dividends or other distributions or payments on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable); or

- with respect to any Withholding Taxes that are payable by reason of a holder or beneficial owner of the Company Class B Preferred Securities (other than the Trust) or Trust Preferred Securities, as the case may be, having some connection with any Relevant Jurisdiction; or
- where such deduction or withholding can be avoided if the holder or beneficial owner of the Company Class B Preferred Securities (other than the Trust) or the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; or
- to the extent that the holder or beneficial owner of the Trust Preferred Securities is entitled to refundable credit with respect to such withholding tax against its personal or corporate income tax liability on the income from the Trust Preferred Securities.

Redemption

On or after the Initial Redemption Date, the Company Class B Preferred Securities shall be redeemable at the option of the Company, in whole or in part, on any Class B Payment Date. Any such redemption will be at the Redemption Price.

In addition, the Company may exercise its right to redeem the Company Class B Preferred Securities only if it has:

- (i) given at least 30 days' prior notice (or such longer period as may be required by the relevant regulatory authorities) to the holders of the Company Class B Preferred Securities of its intention to redeem the Company Class B Preferred Securities on the Redemption Date, and
- (ii) obtained any required regulatory approvals.

See "Description of the Company Securities – Company Class B Preferred Securities – Redemption"

Limitations on Redemption

No redemption of the Company Class B Preferred Securities for any reason may take place unless on the Redemption Date:

- the Company has sufficient funds (by reason of the Debt Securities, Permitted Investments or the Support Undertaking) to pay the Redemption Price and to pay in full an amount corresponding to the Capital Payments accrued and unpaid as of the Redemption Date, plus any Additional Amounts;
- the Bank has an amount of Distributable Profits for the preceding fiscal year at least equal to the Class B Capital Payments on the Company Class B Preferred Securities accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any; and
- no order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision is in effect prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities).

Special Redemption Events

Upon the occurrence of a Trust Special Redemption Event (as defined under "Description of the Trust Securities – Redemption") holders of the Trust Preferred Securities will be entitled, in accordance with the terms of the Trust Agreement to receive a corresponding number of the Company Class B Preferred Securities.

Upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption") the Company shall have the right to redeem the Company Class B Preferred Securities at any time, in whole but not in part, and upon at least 30 days' prior notice, subject to the Company having obtained any required regulatory approvals. Any such redemption occurring prior to 23 May 2013 shall be at the Early Redemption Price, being the higher of the Redemption Price and the Make Whole Amount.

Make-Whole Amount

The "**Make-Whole Amount**" will be determined by the Calculation Agent and will equal the Present Value on the relevant Redemption Date of (i) the liquidation preference amount per Class B Preferred Security and (ii) the remaining scheduled Class B Capital Payments up to and including the Initial Redemption Date. The "**Present Value**" will be determined by the Calculation Agent by discounting the Class B Liquidation Preference Amount and the remaining scheduled Capital Payments on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year and using the Adjusted Comparable Yield plus 0.75%. The "**Adjusted Comparable Yield**" will be the yield at the Early Redemption Calculation Date on the euro benchmark security selected by the Calculation Agent, after consultation with the Bank, as having a maturity comparable to the remaining term of the Class B Preferred Securities to the Initial Redemption Date, that would be utilized, at the time of selection and in accordance with customary banking practice, in pricing new issues of corporate debt securities of comparable maturity.

Distributions at Liquidation

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, the holders of the Trust Securities will be entitled to receive a corresponding amount of the Company Class B Preferred Securities. The holders of the Trust Preferred Securities will have a preference over the holder of the Trust Common Security with respect to distributions upon liquidation of the Trust.

Upon liquidation of the Company, the holder of the Company Class A Preferred Security will receive the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon) as its liquidation distribution. Each holder of the Company Class B Preferred Securities will be entitled to receive the liquidation preference amount of such Company Class B Preferred Securities, plus accrued and unpaid Class B Capital Payments in respect of the current Class B Payment Period to but excluding the date of liquidation and Additional Amounts, if any. The Company expects that the liquidation distribution to the holders of the Company Class B Preferred Securities will be paid out of funds received from the Bank under the Support Undertaking. Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Company will not be dissolved until all obligations under the Support Undertaking have been paid in full pursuant to its terms.

Ranking

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Company, the Company Class B Preferred Securities will rank junior to the Company Class A Preferred Security, and the Company Class B Preferred Securities will rank senior to the Company Common Security; provided that any payments made by the Bank pursuant to the Support

Undertaking will be payable by the Company solely to the holders of the Company Class B Preferred Securities.

Voting Rights

Holders of the Trust Preferred Securities will not have any voting rights, except that the holders of a majority of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by the Bank or a Bank Affiliate) will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the property trustee of the Trust (the "**Property Trustee**") under the Trust Agreement. This includes the right to direct the Property Trustee, as holder of the Company Class B Preferred Securities, on how to vote the Company Class B Preferred Securities in respect of the matters on which holders of the Company Class B Preferred Securities are entitled to vote (including certain matters as to enforcement of rights under the Company Class B Preferred Securities described under "-Enforcement Rights" below). So long as any Company Class B Preferred Securities are outstanding, the Company will not, without the vote of the holders of at least 66 2/3% of the aggregate liquidation preference amount of the Company Class B Preferred Securities, voting separately as a class (excluding any Company Class B Preferred Securities held by the Bank or any Bank Affiliate):

- (i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Company Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Company Class B Preferred Securities, or
- (ii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, provided, that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the provisions of the LLC Agreement. For a description of these provisions set forth in the LLC Agreement, see "Description of the Company Securities – Mergers, Consolidations and Sales."

The Company will not, without the consent of all the holders of the Company Class B Preferred Securities (excluding any Company Class B Preferred Securities held by the Bank or any Bank Affiliate), issue any additional securities of the Company ranking prior to or *pari passu* with the Company Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company.

Enforcement Rights

If (i) the Company fails to pay Class B Capital Payments (plus any Additional Amounts thereon, if any) on the Company Class B Preferred Securities at the Stated Rate in full for, prior to (and including) 23 May 2013, two consecutive Class B Payment Periods and, after 23 May 2013, four consecutive Class B Payment Periods, or (ii) a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given, then the holders of the Company Class B Preferred Securities will have the right to appoint one independent member to the Board of Directors (the "**Independent Enforcement Director**").

Any Independent Enforcement Director so appointed will vacate office if, in such Independent Enforcement Director's sole determination:

- Class B Capital Payments (plus Additional Amounts, thereon, if any) on the Company Class B Preferred Securities have been made on the Company

Class B Preferred Securities at the Stated Rate in full by the Company for at least four consecutive Payment Periods, and

- the Bank is in compliance with its obligations under the Support Undertaking.

Listing

Application will be made to admit the Trust Preferred Securities to trading and official quotation on the Luxembourg Stock Exchange.

Notices

For so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require, all notices concerning the Trust Preferred Securities will be published in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions whether or not it shall be published on Saturday, Sunday or holidays.

Governing Law

The LLC Agreement, including the terms of the Company Class A Preferred Security and the Company Class B Preferred Securities, and the Trust Agreement, including the terms of the Trust Securities, will be governed by Delaware law. The Support Undertaking will be governed by German law.

Summary of the Terms of the Class A Preferred Security

The Bank or a Bank Affiliate will initially own the Company Class A Preferred Security issued by the Company. The Company Class A Preferred Security is expected to receive capital payments only to the extent that

- (i) Class B Capital Payments are not permitted to be paid on the Company Class B Preferred Securities in full on any Class B Payment Date due to insufficient Distributable Profits of the Bank or on such date an order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities) is in effect; and
- (ii) the Company has sufficient Operating Profits.

Summary of the Terms of the Initial Debt Securities

Maturity	23 May 2033 (the "Maturity Date").
Principal Amount	€ 600,000,000 (equal to the proceeds from the offer and sale of the Trust Securities and the resulting issuance of the Company Class B Preferred Securities plus the aggregate amounts contributed for the Company Class A Preferred Security and the Company Common Security) (the "Principal Amount") of an issue of subordinated notes of the Bank.
Interest Payments	<p>Until (and including) 23 May 2013, interest will be payable by the Bank in euro on the Principal Amount annually in arrears on 23 May of each year, commencing 23 May 2004 (each a "Fixed Interest Payment Date"), at the Fixed Rate.</p> <p>After 23 May 2013, interest will be payable by the Bank in euro on the Principal Amount quarterly in arrears 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013 (each a "Floating Interest Payment Date") and together with the Fixed Payment Dates, each an "Interest Payment Date"), at the Floating Rate. If any Floating Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Payment Date shall be the immediately preceding Business Day.</p> <p>If any Interest Payment Date falls on a day that is not a Business Day, payment of all amounts otherwise payable on such day shall be made on the first following day that is a Business Day and the holder of the Initial Debt Securities shall have no right to claim payment of any interest or other indemnity in respect of such delay in payment.</p> <p>Each period from and including the immediately preceding Interest Payment Date (or the Issue Date, in the case of the first Interest Payment Date) to but excluding the relevant Interest Payment Date is an "Interest Period".</p>
Ranking	<p>The claim for repayment of the Initial Debt Securities (the "Repayment Claim") will be subordinated in the event of insolvency or liquidation of the Bank to the claims of all other creditors which are not also subordinated and will, in any such event, only be satisfied after all claims against the Bank which are not subordinated have been satisfied. Any right to set-off the Repayment Claim against claims of the Bank will be excluded. No collateral is or will be given for the Repayment Claim; collateral that may have been or may in the future be given in connection with other indebtedness shall not secure the Repayment Claim.</p> <p>The subordination described above cannot be subsequently restricted, and the minimum term of the Initial Debt Securities cannot subsequently be shortened. Pursuant to § 10 (5a) of the German Banking Act (<i>Gesetz über das Kreditwesen</i>), the amount of any repurchase of the Initial Debt Securities prior to the Initial Maturity Date or other redemption must be refunded, notwithstanding any agreement to the contrary, unless a statutory exemption (replacement of the Principal Amount by contribution of other, at least equivalent own funds (<i>haftendes Eigenkapital</i>) or prior approval of the BaFin to the early redemption applies.</p>
Redemption	The Initial Debt Securities will not be redeemable prior to 23 May 2013 (the "Initial Debt Redemption Date"), except upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption") or in the event of replacement with Substitute Debt Securities (as defined in "– Substitution).

The Bank may, at its option, redeem the Initial Debt Securities, in whole but not (except in the event of replacement with Substitute Debt Securities) in part, on the Initial Debt Redemption Date or on any Interest Payment Date thereafter. The Bank may also at its option redeem the Initial Debt Securities in whole but not in part at any time prior to the Initial Debt Redemption Date upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption") and the election of the Company to redeem the Company Class B Preferred Securities. Any such redemption shall be made at a redemption price equal to the Principal Amount to be redeemed, plus accrued and unpaid interest thereon for the then current Interest Period to but excluding the date of redemption and Additional Interest Amounts (as defined in "Description of the Terms of the Initial Debt Securities-General"), if any, and upon at least 30 days' prior notice and subject to having obtained any required regulatory approvals.

Except as set forth under "– Substitution" below, the Initial Debt Securities may not be redeemed for any reason, unless the Company has the right to, and has given notice that it will, redeem Company Class B Preferred Securities in an aggregate liquidation preference amount equal to the aggregate Principal Amount of Initial Debt Securities to be redeemed.

Substitution

At any time, the Bank will have the right to

- (i) substitute as obligor on the Debt Securities a subsidiary that is consolidated with the Bank for German bank regulatory purposes and of which more than fifty percent (50%) of the outstanding voting stock or other equity interest entitled ordinarily to vote in the election of the directors or other governing body (however designated) and more than fifty percent (50%) of the outstanding capital stock or other equity interest is, at the time, beneficially owned or controlled directly or indirectly by the Bank ("**Qualified Issuer**"); or
- (ii) replace the Debt Securities with a subordinated bond issue issued in substitution therefor by the Bank (acting directly or through a branch) or a Bank Affiliate that is consolidated with the Bank for German bank regulatory purposes with terms identical to those of the Initial Debt Securities, provided, that (A) such substitution or replacement does not result in a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption"), and (B) the Bank, unless it, itself, is the substitute obligor, guarantees on a subordinated basis, at least equal to the ranking of the Initial Debt Securities, the obligations of the substitute obligor (the "**Substitute Debt Securities**"), issued by the Bank or a Qualified Issuer with identical terms to those of the Initial Debt Securities; and (C) the Bank has obtained any required regulatory approval.

The LLC Agreement provides that after the Maturity Date, if the Company Class B Preferred Securities have not been redeemed, the Company will invest the proceeds from the redemption of the Debt Securities in debt obligations issued by a Qualified Issuer (not including the Bank) and guaranteed by the Bank on a subordinated basis at least equal to the ranking of the Debt Securities or, alternatively, in U.S. Treasury Securities (together, "**Permitted Investments**"), provided, that such investment does not result in a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption").

Governing Law

The Initial Debt Securities will be governed by, and construed in accordance with, German law.

INVESTMENT CONSIDERATIONS

Before making an investment decision with respect to the Trust Preferred Securities, investors should carefully consider the risks relating to the legal structures underlying this offering and the business of the Bank and the Eurohypo Group described below. These are not the only risks associated with an investment in the Trust Preferred Securities; additional risks and uncertainties not presently known to the Bank, or that the Bank now believes are immaterial, could also impair the business or the financial position of the Bank or the Company's ability to make distributions on the Company Class B Preferred Securities.

Risks Associated With the Financial Condition of the Bank and the Eurohypo Group

The Bank in its current form came about as a result of the Merger, which became effective on 13 August 2002. The business activities of each of the Predecessor Banks were operationally combined on 9 September 2002. Given the short operating history of the Bank as a combined entity, there can be no assurances that it will have sufficient Distributable Profits, as shown on its unconsolidated annual financial statements for the financial year ended 31 December 2003 or any subsequent year, for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities at the Reference Rate in full. In addition, a deterioration of the Bank's financial condition could also result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking. The occurrence of any of these events would reduce the amounts of Class B Capital Payments on the Company Class B Preferred Securities, which, in turn, would reduce the amounts available to the Trust for periodic distributions to holders of the Trust Preferred Securities. In addition, if a voluntary or involuntary liquidation, dissolution, or winding up of the Bank were to occur, holders of the Trust Preferred Securities could lose all or part of their investment.

Uncertainties in Integrating Combined Business Operations

The Merger involves the integration of the Predecessor Banks, three separate legal entities that previously operated independently with different corporate structures. In addition, the Predecessor Banks have been integrated, to different degrees, into the banking groups of their respective former parent banks (Commerzbank AG, Deutsche Bank AG and Dresdner Bank AG, collectively, the "**Former Parent Banks**"). Even though the Bank considers the integration of business operations, information technology and personnel to have been successful so far, no assurances can be given that the Bank will be able to successfully integrate the operations of the Predecessor Banks and operate the Bank independently of the Former Parent Banks without encountering difficulties. Such difficulties may include, among others:

- the loss of key employees and clients;
- the disruption of ongoing business activities;
- potential difficulties in integrating and migrating the information technology infrastructure;
- establishing independent and viable operations where these were previously covered by the Former Parent Banks; or
- possible inconsistencies in standards, controls, procedures, and policies.

Any such difficulties could materially adversely affect the Bank's business, results of operations, or financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

Risks Associated With the Bank's Risk Management

The Bank may not be successful in integrating and migrating all existing and new risk management policies, procedures and assessment methods, in particular the information technology on which these risk management policies, procedures, and assessment methods are based. Additional challenges exist in areas where the Predecessor Bank's risk management tools were based on systems and support from the Former Parent Banks. As a result, the Bank's risk management policies, procedures and assessment methods may not be effective in mitigating its risk exposure in each of the markets in which it is active or against all types of risk, including risks that the Bank has failed to identify or anticipate and risks which exceed the guarantees from the Former Parent Banks; see "General Information on the Bank – Shareholder Guarantee Obligations and Loan Loss Provisions"). If the Bank's procedures for identifying, monitoring, and managing risks are insufficient or inadequate, the Bank could be exposed to material unanticipated losses that could have a material adverse effect on the Bank's business, results of operations, and financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

Losses stemming from Credit Exposure and Increased Loan Loss Provisions

The Eurohypo Group's business is subject to the risk that borrowers or other counterparties may become unable to meet their obligations to the Eurohypo Group. Although Eurohypo Group regularly reviews its credit exposure and its corresponding collateral position with regard to specific borrowers and other counterparties and to specific countries and geographic regions, defaults may arise from events or circumstances that are difficult to foresee or detect or have not yet been foreseen or detected. In addition, the Eurohypo Group may find that its collateral is insufficient to cover its credit exposure due to, for example, market or demographic developments that reduce the value of such collateral. As a result, given the current economic climate with deteriorating real estate markets and insolvencies of yet unprecedented orders of magnitude, the Eurohypo Group had to significantly increase its loan loss provisions as latent risks in the current loan portfolio became evident risks. Any continuation of these developments or any major defaults or significant numbers of defaults of borrowers of the Eurohypo Group where the collateral is insufficient to cover Eurohypo Group's exposure, could have a material adverse effect on Eurohypo Group's business, results of operations, and financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

In order to cover estimated loan losses, the Predecessor Banks have made, and the Eurohypo Group continues to make, individual value adjustments and general bad debt provisions. Although the Bank's management uses its best judgment in establishing provisions for loan losses, the Eurohypo Group may have to increase its loan loss provisions in the future as a result of a rise in the number or amount of non-performing loans in the Eurohypo Group's loan portfolio, declines in the market value of the underlying collateral or as a result of applying uniform provisioning policies to the entire portfolios of the Predecessor Banks. Any such increases in loan loss provisions in excess of existing provisions and the guarantees provided by the Former Parent Banks on a several basis and separately for the loan portfolios of the Predecessor Banks (see "General Information on the Bank – Shareholder Guarantee Obligations and Loan Loss Provisions") could have a material adverse effect on Eurohypo Group's business, results of operations, and financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

Lending and Refinancing Risks Associated with Real Estate and Public Sector Banking

The Bank conducts its business as a real estate and public sector financing specialist as a mortgage bank (*Hypothekbank*) under the prevailing German regulatory regime. Therefore, the Bank primar-

ily finances real estate assets as well as public sector assets and refinances itself through the issuance of Pfandbriefe (see "Business").

The Bank's real estate loans are typically collateralized by the underlying real estate. Hence, if borrowers of the Bank default, the Bank is exposed to the market prices of the underlying real estate. In addition, the Bank may from time to time engage in transactions in which it takes on development risks or purchases properties (financed by itself) from the borrower to avoid unfavorable market prices upon the liquidation of any collateral due to a default. The market value of real estate is subject to significant fluctuations, primarily as a result of the general economic and, in certain regions, demographic developments. In addition, major calamities such as terrorist attacks and natural disasters, as for example floods or earthquakes, can cause a significant deterioration of the value of real estate in the affected areas. Further, public sector assets can be adversely affected by a deterioration of the relevant public entity's credit standing or market perception thereof. As a result, the Eurohypo Group's business, results of operations and financial condition may be adversely affected by declining real estate prices or a declining credit standing of public entities which are its borrowers. This could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

The Bank's refinancing is primarily based on the issuance of Pfandbriefe. Given the statutory framework regulating these instruments, which aims at safeguarding asset coverage for these securities (see "Regulation of German Mortgage Banks – Regulation Pursuant to the German Mortgage Bank Act"), Pfandbriefe have typically enjoyed, homogenous high ratings. Starting in 2002, spreads and ratings for Pfandbriefe have become more and more dependent on the relevant issuer so that Pfandbriefe are not seen anymore as a homogenous asset class. Hence, the rating and the spread of Pfandbriefe issued by the Eurohypo Group will increasingly depend on its credit standing rather than the underlying statutory framework for Pfandbriefe issuance. In addition, following the Merger, the Eurohypo Group was required to obtain its own rating on a stand-alone basis, i. e. independent of the Predecessor Banks. Any assignment of unfavorable ratings to either Pfandbriefe issued by the Eurohypo Group or the Eurohypo Group on a stand-alone basis would significantly increase the Eurohypo Group's refinancing cost which could have a material adverse effect on Eurohypo Group's business, results of operations, and financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank being unable to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

Risks Associated With the Transfer of Loan Portfolios

In connection with the Merger, all rights and obligations under existing financing arrangements associated with Rheinhyp's and Old Eurohypo's real estate and public sector loan portfolios were transferred to the Bank. In addition, it has been necessary to transfer assets, such as public sector finance assets, real estate loan portfolios, participations, and other assets from the Former Parent Banks (and the corresponding collateral) to the Bank (see "General Information on the Bank – Post-Merger Contributions"). Any such transfers generally require the counterparty's (i. e. the borrower's) and, if applicable, the guarantor's consent. Moreover, legally effective transfers of real estate and collateral in real estate often require registration in a land title register, which may be costly and time-consuming. If any of the required transfers are ineffective or cannot be completed as currently contemplated, the Eurohypo Group's business, results of operations or financial condition could be materially adversely affected. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities or in the Bank being unable to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

Availability of Regulatory Capital

In the past, each of the Predecessor Banks was, for the purposes of German regulatory capital requirements, consolidated in the regulatory capital reporting of each of the respective Former Parent

Banks. For a discussion of the regulatory capital requirements, see “Regulation – Regulation under the Banking Act”. The Bank is the ultimate parent of a group of banking institutions and will itself be subject to the consolidated regulatory reporting requirements. While the Former Parent Banks have provided the Bank with sufficient regulatory capital (see “General Information on the Bank – Equity Financing Obligations”), and the Bank is attempting to raise further regulatory capital by way of this Offering, there can be no assurances that the Bank will not be restricted in its ability to conduct or expand its business as a result of insufficient regulatory capital on an unconsolidated or consolidated basis. Any failure of the Bank to maintain sufficient levels of regulatory capital would have a material adverse effect on the Eurohypo Group’s business, results of operations and financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank being unable to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

No Guaranteed Capital Payments

The Company’s ability to declare Class B Capital Payments on the Company Class B Preferred Securities (and, in turn, the Trust’s ability to make Trust Capital Payments on the Trust Preferred Securities) is limited by the terms of the LLC Agreement. Although it is the Company’s policy to distribute the full amount of its Operating Profits for each financial year as Class B Capital Payments to the holders of the Company Class B Preferred Securities, the Company’s Board of Directors has discretion in declaring and making these payments (except with respect to deemed declarations that are mandatory). See “Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments”.

Any Class B Capital Payments will be dependent on the future profits or losses of the Bank and the manner in which profits, if any, are allocated by the Bank’s management and shareholders. The Bank’s management and shareholders are under no obligation to approve sufficient Distributable Profits for purposes of declaring and making Class B Capital Payments with respect to any financial year. If the Bank records an annual surplus (*Jahresüberschuss*) for a financial year, its Distributable Profits may still be insufficient if its management and shareholders decide to allocate all of its annual surplus to reserves. Moreover, if the Bank were not to record an annual surplus in a given financial year, the Bank’s management and shareholders are under no obligation to make up the deficit from its reserves to ensure that the Bank has sufficient Distributable Profits for making Class B Capital Payments.

Even if the Bank has sufficient Distributable Profits, the Company will not be able to make Class B Capital Payments on any Class B Payment Date if, on such date, there is an order of the BaFin or any other relevant regulatory authority in effect, which prohibits the Bank from making distributions of its profits. To the extent the Company is not permitted to make Class B Capital Payments on any Class B Payment Date, this will reduce the amounts available to the Trust for Trust Capital Payments on the Trust Preferred Securities. See “Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments” and “Description of the Trust Securities – Trust Capital Payments”.

Discretionary and Noncumulative Capital Payments

Class B Capital Payments on the Company Class B Preferred Securities are discretionary. The LLC Agreement provides that it is the Company’s policy to distribute all of its Operating Profits. However, even if the Distributable Profits test has been met by the Bank, holders of the Company Class B Preferred Securities, and in turn, holders of the Trust Preferred Securities, will have no right to receive any amounts in respect of a Class B Payment Period unless the Company’s Board of Directors declares, or is deemed to have declared, Class B Capital Payments for the relevant Class B Payment Period, which would then be available to the Trust for Trust Capital Payments on the Trust Preferred Securities. See “Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments”.

Class B Capital Payments are not cumulative. Class B Capital Payments in subsequent periods will not be increased to compensate for any shortfalls in Class B Capital Payments in previous Class B Payment Periods.

Relationships with the Bank and the Eurohypo Group; No Voting Rights; Certain Conflicts of Interest

The Bank and its affiliates are, and will continue to be, significantly involved in running the Company and the Trust. The Bank will control the Company through its (or any of its majority-owned subsidiaries') power, as holder of the Company Common Security, to elect a majority of the Board of Directors. The Trust, to the extent that it is the holder of the Company Class B Preferred Securities, will generally have no right to vote to elect members of the Board of Directors. The only exception is that holders of Company Class B Preferred Securities will have the right to elect one independent member to the Board of Directors, the Independent Enforcement Director, if:

- the Company fails to make Class B Capital Payments in full (and Additional Amounts thereon) on the Company Class B Preferred Securities at the Stated Rate for four consecutive Class B Payment Periods; or
- a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any of its obligations under the Support Undertaking and this failure continues for 60 days after the date such notice is given.

The Company expects that all initial and future directors and officers of the Company, as well as the Regular Trustees of the Trust, will be officers or employees of the Bank or its affiliates. Under the Services Agreement, the Bank will also provide certain accounting, legal, tax, and other support services to the Company and the Trust. Consequently, conflicts of interest may arise for officers and employees of the Bank and its affiliates in the discharge of their duties as officers or employees of the Company or as Regular Trustees of the Trust.

It is the intention of the Bank, the Company, and the Trustees that the terms of any agreements and transactions, and in particular the LLC Agreement and the Trust Agreement, be fair to all parties and consistent with terms that could be achieved on an arm's-length basis. However, there can be no assurance that such agreements or transactions will be on terms as favorable as those that could have been obtained from unaffiliated third parties.

Special Redemption Risks

Redemption Upon Occurrence of a Company Special Redemption Event. The Company Class B Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at any time at the option of the Company, in whole but not in part, upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption"). A Company Special Redemption Event will arise if, as a result of changes in the law:

- there are changes in the tax status of the Company;
- Additional Amounts relating to withholding taxes become applicable to payments on the Company Class B Preferred Securities, the Trust Securities, or the Debt Securities;
- the Bank is not permitted to treat the Company Class B Preferred Securities as Tier I regulatory capital on a consolidated basis; or
- the Company qualifies as an "investment company" within the meaning of the Investment Company Act.

See "Description of the Trust Securities – Redemption"; and ("Description of the Company Securities – Company Class B Preferred Securities – Redemption")

Liquidation of the Trust Upon Occurrence of a Trust Special Redemption Event. If a Trust Special Redemption Event (as defined under “Description of the Trust Securities – Redemption”) occurs with respect to the Trust, the Trust will be dissolved and liquidated. Upon a dissolution and liquidation, each holder of Trust Preferred Securities will receive a corresponding number of Company Class B Preferred Securities. Holders of these Company Class B Preferred Securities and their nominees will be subject to the nominee reporting requirements under the Code, and the Company will report to the IRS, on Schedule K-1, the *pro rata* share in the Company’s income, gain, loss, deduction, or credit of each holder of Company Class B Preferred Securities for the then prior calendar year. There can be no assurance as to the market price for the Company Class B Preferred Securities that are distributed after dissolution and liquidation of the Trust or that a market for these securities will subsequently develop and be sustained thereafter. Accordingly, and as a result of the potential tax liability accruing to holders of Company Class B Preferred Securities received on dissolution and liquidation of the Trust, the Company Class B Preferred Securities may trade at a discount to the price of the Trust Preferred Securities for which they were exchanged.

No Fixed Redemption Date

There is no fixed redemption date for the Company Class B Preferred Securities and, hence, the Trust Preferred Securities. Even though the Company Class B Preferred Securities and the Trust Preferred Securities may be redeemed on the Initial Redemption Date, there can be no assurance that the Company will opt to redeem the Company Class B Preferred Securities on the Initial Redemption Date.

Whether or not the Company decides to redeem the Company Class B Preferred Securities will depend on a number of factors – most of which are outside the control of the Bank and the Company – including, for example:

- the regulatory capital and the refinancing options of the Bank at such time;
- the regulatory assessment of the Company Class B Preferred Securities and the Initial Debt Securities;
- whether the required prior consent of the BaFin has been obtained; and
- the general level of interest in the Company Class B Preferred Securities and capital market conditions.

No Guarantee Provided by the Support Undertaking

The Bank and the Company have entered into the Support Undertaking for the benefit of the Company and the holders of the Company Class B Preferred Securities. However, the Support Undertaking does not represent a guarantee from the Bank that the Company will be authorized to declare and make a Class B Capital Payment for any Class B Payment Period. Furthermore, the Bank’s obligations under the Support Undertaking and under the Debt Securities constitute obligations that are subordinated to all existing and future unsubordinated indebtedness of the Bank. Accordingly, the Company’s rights under the Subordination Agreement and the Debt Securities will rank behind the rights of all other creditors of the Bank in the event of the liquidation or dissolution of the Bank, and *pari passu* with amounts payable to the holders of the most senior preference shares of Bank. See “Description of the Support Undertaking” and “Description of the Debt Securities”. The Bank has not entered into any restrictive covenants regarding its ability to incur additional indebtedness ranking *pari passu* or prior to its obligations under the Support Agreement and the Debt Securities.

Banking Regulatory Restrictions

The Company is a subsidiary of the Bank, which is subject to German banking regulations. Banking and other regulatory authorities in Germany could make determinations regarding the Bank that could adversely affect the Company’s ability to make Class B Capital Payments in respect of the Company Class B Preferred Securities. In addition, the Bank and its subsidiaries are active in providing financial products and services throughout Europe and in the United States; following the contribu-

tion of certain assets located in the United States from Dresdner Bank AG to the Bank (see “General Information of the Bank-Post Merger Contributions”), the Bank operates a branch in New York City and representative offices in Chicago and Los Angeles. The international scope of the Bank’s business operations may result in United States federal or state authorities, European Union authorities or authorities in individual European countries exerting regulatory authority over the Bank and its subsidiaries. These regulatory authorities could make determinations regarding the Bank or its subsidiaries that could adversely affect their ability to, among other things:

- make distributions to holders of their securities;
- engage in transactions with affiliates;
- purchase or transfer assets, satisfy obligations; or
- make redemption or liquidation payments to holders of securities.

No Prior Public Market and Resale Restrictions

The Trust Preferred Securities are newly issued securities, and there is currently no public market in the Trust Preferred Securities. Application will be made to admit the Trust Preferred Securities to trading on the Luxembourg Stock Exchange and listing of the securities is expected to occur shortly following the closing of this offering. Prior to listing, there will have been no public market for the Trust Preferred Securities. There is no guarantee that the purchase price of the Trust Preferred Securities will correspond to the price at which the securities will actually be traded following the offering. Moreover, there can be no assurance that an active trading market for the Trust Preferred Securities will subsequently develop and be sustained thereafter. Investors should expect liquidity and the market prices for the Trust Preferred Securities to fluctuate with changes in:

- market and economic conditions;
- the financial condition and prospects of the Bank; and
- other factors that generally influence the secondary market prices of securities.

The Trust Preferred Securities have not been registered under the Securities Act and will be subject to a number of resale restrictions. See “General Information – Selling Restrictions”

USE OF PROCEEDS

The net proceeds from the sale of the Trust Securities, € 600,000,000, will be invested by the Trust in the Company Class B Preferred Securities. The Company will use the funds from the sale of the Company Class B Preferred Securities, together with funds contributed in return for the Company Class A Preferred Security and the Company Common Security, to make an investment in the Initial Debt Securities. The Bank intends that the proceeds of the sale of the Initial Debt Securities will be used for Eurohypo Group's general corporate purposes.

For purposes of measuring regulatory capital adequacy, the Bank expects to treat the Company Class B Preferred Securities as consolidated Tier I regulatory capital and the proceeds received from the Company under the Initial Debt Securities as unconsolidated lower Tier II regulatory capital. For a discussion of regulatory capital and the measurement of its adequacy, see "Regulation of German Mortgage Banks".

CAPITALIZATION OF THE BANK AND THE EUROHYPO GROUP

The following table sets out the regulatory capital positions of the Bank and the Eurohypo Group as at 31 March 2003 and 31 December 2002 as compared to 31 December 2001. The financial data as of 31 December 2001 is Aggregated Financial Information which is not indicative for the financial position of the Bank in the future; see "Presentation of Financial Information". The aggregated capitalization for the three Predecessor Banks as at 31 December 2001 and 2000, respectively, is Aggregated Financial Information which is not indicative for the financial position of the Bank in the future; see "Presentation of Financial Information". The regulatory capital positions have been calculated in accordance with the rules of the Basle Committee on Banking Supervision.

	As at 31 March 2003 <hr/> (unaudited)	As at 31 December 2002 <hr/> (audited)	As at 31 December 2001 <hr/> (Aggregated (*))
	€ million		
1. Regulatory capital of the Bank			
Subscribed capital	914	851	419
Capital reserves	3,992	3,535	2,259
Reserves from retained earnings	204	204	1,196
Fund for general bank risks (Section 340g German Trade Act)	218	218	110
Intangible fixed assets	- 124	- 34	-
Core capital (<i>Kernkapital</i>)	<hr/> 5,204	<hr/> 4,774	<hr/> 3,984
Supplementary capital (<i>Ergänzungskapital</i>)			
Short-term ⁽¹⁾	0	0	0
Medium-term ⁽²⁾	697	600	689
Long-term ⁽³⁾	2,528	2,457	731
Reserves for general banking risks (section 340f German Trade Act) ⁽⁴⁾	0	0	109
General loan loss provision ⁽⁵⁾	107	107	64
Deduction	-16	- 42	0
Total	<hr/> 3,316	<hr/> 3,122	<hr/> 1,593
Total regulatory capital – Bank	<hr/> <hr/> 8,520	<hr/> <hr/> 7,896	<hr/> <hr/> 5,577
2. Regulatory capital of the Eurohypo Group			
Core capital	5,206	4,797	4,005
Supplementary capital (<i>Ergänzungskapital</i>)			
Short-term ⁽¹⁾	0	0	0
Medium-term ⁽²⁾	697	600	689
Long-term ⁽³⁾	2,531	2,457	731
Reserves for general banking risks (section 340f German Trade Act) ⁽⁴⁾	0	0	109
General loan loss provision ⁽⁵⁾	107	107	64
Total	<hr/> 3,335	<hr/> 3,164	<hr/> 1,593
Deduction from equity	- 16	- 42	-
Total regulatory capital – Eurohypo Group	<hr/> <hr/> 8,525	<hr/> <hr/> 7,919	<hr/> <hr/> 5,598

- (1) Maturity of less than one year (Indebtedness with a maturity of less than one year does not qualify as Supplementary Capital).
(2) Maturity between one and five years.
(3) Maturity of more than five years.
(4) Without maturity.
(5) General loans loss provision without maturity which qualifies as Supplementary Capital.

DISTRIBUTABLE PROFITS OF THE BANK

The Company's authority to declare Class B Capital Payments on the Company Class B Preferred Securities for any Class B Payment Period depends, among other things, on the Distributable Profits of the Bank for the most recent preceding fiscal year for which audited financial statements are available.

"**Distributable Profits**" of the Bank for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of the Bank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/-fehlbetrag*), plus any profit carried forward from previous years, minus any loss carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect.

Distributable Profits are determined on the basis of the Bank's audited unconsolidated financial statements required by the German Stock Corporation Act (*Aktiengesetz*) which are prepared in accordance with accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect. Distributable Profits in respect of any fiscal year includes, in addition to annual profit (*Jahresüberschuss*), transfers made by the Bank, in its discretion, of amounts carried on its balance sheet as other profit reserves. In addition, in determining Distributable Profits for any fiscal year, capital reserves may be transferred to offset any annual loss (*Jahresfehlbetrag*) which may be incurred by the Bank; such amounts may not otherwise be used to make Class B Capital Payments.

In determining the availability of sufficient Distributable Profits of the Bank for any fiscal year to permit Class B Capital Payments to be declared with respect to the Company Class B Preferred Securities during the succeeding fiscal year of the Bank, any Class B Capital Payments already paid on the Company Class B Preferred Securities, and any capital payments or dividends already paid during the succeeding fiscal year of the Bank on Parity Securities, if any, on the basis of Distributable Profits for such fiscal year, will be deducted from such Distributable Profits.

The Distributable Profits of Eurohypo AG for the financial year ended 31 December 2002 were € 147.2 million.

The following table sets out the individual and the aggregated Distributable Profits of the three Predecessor Banks for the financial years ended 31 December 2001, 2000, 1999, 1998 and 1997, respectively. The aggregated Distributable Profits for the three Predecessor Banks for the financial years ended 31 December 2001, 2000, 1999, 1998 and 1997, respectively, is Aggregated Financial Information which is not indicative for the financial position of the Bank in the future; see "Presentation of Financial Information". **In particular, the financial information presented in the following table is not indicative of (i) what the Distributable Profits of the Bank would have been had the Merger been in effect at the beginning of the fiscal years to which such financial information relates or (ii) the Bank's Distributable Profits in the future.**

Distributable Profits in € million	2001	2000	1999	1998	1997
Rheinhyp	96.0	112.7	115.4	89.8	79.6
Old Eurohypo	271.4	138.1	55.7	54.5	55.6
Deutsche Hyp	160.6	0.9	120.5	115.6	42.6
Aggregated (*)	528.0	251.7	291.6	259.9	117.8

(*) Aggregated Financial Information is not indicative for the financial position of the Bank in the future; see "Presentation of Financial Information".

EUROHYPO CAPITAL FUNDING TRUST I

The Trust is a statutory trust formed under the Delaware Statutory Trust Act, as amended (the “**Trust Act**”), pursuant to the Trust Agreement executed by the Company, as sponsor, Deutsche Bank Trust Company Americas, as Property Trustee and Deutsche Bank Trust Company Delaware, as Delaware trustee (the “**Delaware Trustee**”), and the filing of the Trust Agreement with the Secretary of State of the State of Delaware on 4 October 2002. The Bank or a Bank Affiliate will own the Trust Common Security representing a capital contribution in respect thereof equal to € 1,000. The Trust Common Security will rank *pari passu*, and payments thereon will be made *pro rata*, with the Trust Preferred Securities, except that in liquidation and in certain circumstances described under “Description of the Trust Securities – Subordination of the Trust Common Security”, the rights of the holder of the Trust Common Security to periodic distributions and to payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the Trust Preferred Securities.

The Trust will use all the proceeds derived from the issuance of the Trust Securities to purchase the Company Class B Preferred Securities from the Company, and, accordingly, the assets of the Trust will consist solely of the Company Class B Preferred Securities. The Trust exists for the sole purposes of:

- (i) issuing the Trust Securities representing undivided beneficial ownership interests in the assets of the Trust,
- (ii) investing the proceeds from the issuance of the Trust Securities in the Company Class B Preferred Securities, and
- (iii) engaging in those other activities necessary or incidental thereto.

The Trust may also in the future issue, in one or more transactions, up to an additional 150,000 Trust Preferred Securities in consideration of the receipt of an equal number of additional Company Class B Preferred Securities.

Pursuant to the Trust Agreement, there will be five trustees of the Trust (“**Trustees**”).

Three of the Trustees will be individuals who are employees or officers of, or who are affiliated with, the Bank or one of its affiliates (the “**Regular Trustees**”). The fourth Trustee, the Property Trustee, will be Deutsche Bank Trust Company Americas, a financial institution that is unaffiliated with the Bank. The fifth Trustee will be the Delaware Trustee. Initially, Deutsche Bank Trust Company Americas, a New York Banking corporation will act as Property Trustee, and Deutsche Bank Trust Company Delaware will act as Delaware Trustee, until, in each case, removed or replaced by the holder of the Trust Common Security.

The Property Trustee will hold title to the Company Class B Preferred Securities for the benefit of the holders of the Trust Preferred Securities, and the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Company Class B Preferred Securities under the LLC Agreement.

In addition, the Property Trustee will maintain exclusive control of a segregated non-interest bearing trust account (the “**Property Account**”) to hold all payments made in respect of the Company Class B Preferred Securities for the benefit of the holders of the Trust Preferred Securities. The Bank or a Bank Affiliate, as the holder of the Trust Common Security, will have the right to appoint, remove or replace any of the Trustees and to increase or decrease the number of Trustees, provided that at least one Trustee will be the Delaware Trustee, at least one Trustee will be the Property Trustee and at least one Trustee will be a Regular Trustee.

For so long as the Trust Preferred Securities remain outstanding, the Bank will covenant:

- (i) that the Trust Common Security will be held by the Bank or by a Bank Affiliate;
- (ii) to cause the Trust to remain a statutory trust and not to voluntarily dissolve, wind up, liquidate or be terminated, except as permitted by the Trust Agreement; and

- (iii) to use its commercially reasonable efforts to ensure that the Trust will not be classified as other than a grantor trust for United States federal income tax purposes.

The rights of the holders of the Trust Preferred Securities, including economic rights, rights to information and voting rights, are as set forth in the Trust Agreement and the Trust Act. See "Description of the Trust Securities". Under the Services Agreement among the Trust, the Company and Wilmington Trust SP Services, Inc. as the servicer (the "**Servicer**"), the Servicer will be obligated, among other things, to provide legal, accounting, tax and other general support services to the Trust and the Company, to maintain compliance with all applicable U.S. and German local, state and federal laws, and to provide administrative, record-keeping and secretarial services for the Company and the Trust. The fees and expenses of the Company and the Trust, including any taxes, duties, assessments or governmental charges of whatsoever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities) will be paid by the Bank.

The location of the principal executive office of the Trust in c/o RL&F Service Corp., One Rodney Square, 10th Floor, Wilmington, Delaware 19801, USA.

The following table sets forth the capitalization of the Trust as of 21 May 2003 and as adjusted to reflect the consummation of the Offering of 600,000 Trust Preferred Securities and the use of the net proceeds therefrom as described under "Use of Proceeds":

	<u>Actual</u>	<u>As Adjusted</u>
	(in € thousands)	
Debt		
Total debt	<u>0</u>	<u>0</u>
Securityholders' Interests		
Trust Preferred Securities:		
none issued and outstanding, actual; and 750,000 Trust Preferred Securities authorized, 600,000 Trust Preferred Securities authorized, issued and outstanding, as adjusted	0	600,000
Trust Common Security:		
none issued and outstanding, actual; and 1 Trust Common Security authorized, issued and outstanding, as adjusted	0	0.1
Total securityholders' interests	<u>0</u>	<u>600,000.1</u>
Total Capitalization	<u><u>0</u></u>	<u><u>600,000.1</u></u>

EUROHYPO CAPITAL FUNDING LLC I

The Company is a limited liability company that was formed under the Delaware Limited Liability Company Act, as amended (the “**LLC Act**”) pursuant to the filing of the LLC Agreement with the Secretary of State of the State of Delaware on 4 October 2002.

Pursuant to the LLC Agreement, the Company will issue two classes of non-voting preferred securities representing limited liability company interests in the Company, the Company Class A Preferred Security and the Company Class B Preferred Securities, and one class of common security representing limited liability company interests in the Company, the Company Common Security. The Property Trustee will initially hold 100% of the issued and outstanding Company Class B Preferred Securities. The Bank or a Bank Affiliate will initially hold the issued and outstanding Company Common Security. The Bank or a Bank Affiliate will hold the issued and outstanding Company Class A Preferred Security.

The sole purposes of the Company are:

- (i) to issue the Company Class A Preferred Security, the Company Class B Preferred Securities and the Company Common Security;
- (ii) to invest the proceeds thereof in the Initial Debt Securities;
- (iii) upon any redemption of the Initial Debt Securities prior to the Maturity Date which does not involve a redemption of the Company Class B Preferred Securities, to reinvest the proceeds in Substitute Debt Securities issued by the Bank or a Qualified Issuer with identical terms to those of the Initial Debt Securities, so long as any such reinvestment does not result in a Company Special Redemption Event (as defined under “Description of the Company Securities – Company Class B Preferred Securities – Redemption”), and the Bank unconditionally guarantees, on a subordinated basis, the obligations of the new obligor, if not the Bank itself or a branch of the Bank;
- (iv) in the event of any default on the Debt Securities, to enforce its rights for payment of any overdue amounts;
- (v) after the Maturity Date, if the Company Class B Preferred Securities have not been redeemed on the Maturity Date, to invest in Permitted Investments;
- (vi) to enter into and, in certain circumstances, to enforce the Support Undertaking for the sole benefit of the holders of the Company Class B Preferred Securities; and
- (vii) to engage in those other activities necessary or incidental thereto.

The Company may also in the future issue, in one or more transactions, up to an additional 150,000 Company Class B Preferred Securities in consideration of receipt of Debt Securities in a principal amount equal to the aggregate Class B Liquidation Preference Amount of such additional Company Class B Preferred Securities.

For so long as the Company Class B Preferred Securities remain outstanding, the LLC Agreement provides that:

- (i) the Company will remain a limited liability company and, to the fullest extent permitted by law, will not voluntarily or involuntarily liquidate, dissolve, wind up or be terminated, except as permitted by the LLC Agreement;
- (ii) the Bank and the Company will use their commercially reasonable efforts to ensure that the Company will not be an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes;
- (iii) the Bank undertakes that the Bank or a Bank Affiliate will maintain sole ownership of the Company Common Security and that the Bank or a Bank Affiliate will maintain sole ownership of the Company Class A Preferred Security; and
- (iv) the Bank or a Bank Affiliate may transfer the Company Common Security to the Bank or a Bank Affiliate, as the case may be, and the Bank or a Bank Affiliate may transfer the Class A Preferred Security to the Bank or a Bank Affiliate, as the case may be, provided that prior to such transfer it

has received an opinion of a nationally recognized law firm in the United States experienced in such matters to the effect that:

- (A) the Company will continue to be treated as a partnership, and not as an association or publicly traded partnership taxable as a corporation, for United States federal income tax purposes,
- (B) such transfer will not cause the Company to be required to register under the Investment Company Act, and
- (C) such transfer will not adversely affect the limited liability of the holders of the Company Class B Preferred Securities.

The rights of the holders of the Company Class B Preferred Securities, including economic rights, rights to information and voting rights, are set forth in the LLC Agreement and the LLC Act. See "Description of the Company Securities – Company Class B Preferred Securities".

The Company's business and affairs will be conducted by its Board of Directors, which initially will consist of three members, elected by the Bank or a Bank Affiliate as the holder of the Company Common Security. However, in the event that:

- the Company fails to pay Class B Capital Payments (including Additional Amounts thereon) on the Company Class B Preferred Securities at the Stated Rate in full for, prior to (and including) 23 May 2013, two consecutive Class B Payment Periods and, after 23 May 2013, four consecutive Class B Payment Periods or
- a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of the Company Class B Preferred Securities will have the right to appoint the Independent Enforcement Director. The Independent Enforcement Director's term will end if, in such Independent Enforcement Director's sole determination Class B Capital Payments have been made on the Company Class B Preferred Securities at the Stated Rate in full for at least four consecutive Class B Payment Periods and the Bank is in compliance with its obligations under the Support Undertaking.

So long as any Company Class B Preferred Securities are outstanding, the Company will not, without the vote of the holders of at least 66 $\frac{2}{3}$ % of the aggregate liquidation preference amount of the Company Class B Preferred Securities, voting separately as a class (excluding any Company Class B Preferred Securities held by the Bank or any Bank Affiliate),

- (i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Company Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Company Class B Preferred Securities, or
- (ii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, provided, that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, also must comply with the requirements set forth under "Description of the Company Securities – Mergers, Consolidations and Sales".

The Company will not, without the consent of all the holders of the Company Class B Preferred Securities (excluding any Company Class B Preferred Securities held by the Bank or any Bank Affiliate), issue any additional equity securities of the Company ranking prior to or *pari passu* with the Company Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company.

After the Initial Redemption Date, if the Company Class B Preferred Securities have not been redeemed on the Initial Redemption Date, the Company will invest in Permitted Investments. The Company will select for purchase Permitted Investments in the following order of priority and within each category on terms that are the best available in relation to providing funds for the payment of Class B Capital Payments, any Additional Amounts and the Redemption Price:

- first, debt obligations of a Qualified Issuer, not including the Bank, unconditionally guaranteed by the Bank on a subordinated basis that ranks at least *pari passu* with the Debt Securities, and
- secondly, in the event such an investment is not available, in U.S. Treasury securities.

The Company will also enter into the Services Agreement with the Trust and the Servicer, under which the Servicer will be obligated, among other things, to provide legal, accounting, tax and other general support services to the Company and the Trust, to maintain compliance with all applicable U.S. and German local, state and federal laws, and to provide administrative, record-keeping and secretarial services for the Company and the Trust. The fees and expenses of the Trust and the Company, including any taxes, duties, assessments or governmental charges of whatever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities) will be paid by the Bank.

The holders of the Company Class B Preferred Securities are third-party beneficiaries of the Support Undertaking between the Bank and the Company. See "Description of the Support Undertaking".

The location of the principal executive offices of the Company is c/o RL&F Service Corp., One Rodney Square, 10th Floor, Wilmington, Delaware 19801, USA.

The following table sets forth the capitalization of the Company as of 21 May 2003 and as adjusted to reflect the consummation of the Offering of 600,000 Trust Preferred Securities and the use of the net proceeds therefrom as described under "Use of Proceeds":

	<u>Actual</u>	<u>As Adjusted</u>
	(in € thousands)	
Debt		
Total debt	<u>0</u>	<u>0</u>
Securityholders' Equity		
Company Class B Preferred Securities: none issued and outstanding, actual; and 750,000 Company Class B Preferred Securities authorized, 600,000 Class B Preferred Securities authorized, issued and outstanding, as adjusted	0	600,000
Company Class A Preferred Securities: none issued and outstanding, actual; and 1 Company Class A Preferred Security authorized, issued and outstanding, as adjusted	0	0.1
Company Common Security: none issued and outstanding, actual; and 1 Company Common Security authorized, issued and outstanding, as adjusted	0	0.1
Total securityholders' interests	<u>0</u>	<u>600,000.1</u>
Total Capitalization	<u><u>0</u></u>	<u><u>600,000.1</u></u>

DESCRIPTION OF THE TRUST SECURITIES

The Trust Preferred Securities will be issued pursuant to the terms of the Trust Agreement. The following describes the material terms and provisions of the Trust Preferred Securities. This description does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Trust Agreement and the Trust Act.

Form, Denomination and Title

The Trust Preferred Securities will be issued in fully registered form on 23 May 2003, without interest coupons attached, in minimum denominations of € 1,000 each, or greater integral multiples of € 1,000 in excess thereof.

The Trust Preferred Securities will not be issued in bearer form.

The Trust Agreement authorizes the Regular Trustees of the Trust to issue the Trust Preferred Securities, which represent undivided beneficial ownership interests in the assets of the Trust. Title to the Company Class B Preferred Securities will be held by the Property Trustee for the benefit of the holders of the Trust Preferred Securities. The Trust Agreement does not permit the Trust to acquire any assets other than the Company Class B Preferred Securities, issue any securities other than the Trust Preferred Securities or incur any indebtedness.

Capital Payments

Until (and including) 23 May 2013, Trust Capital Payments will accrue on the liquidation preference amounts of € 1,000 per Trust Preferred Security at a rate per annum equal to the Fixed Rate. After 23 May 2013, Trust Capital Payments will accrue on the liquidation preference amounts of € 1,000 per Trust Preferred Security at a rate per annum equal to the Floating Rate. See "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities- Stated Rate".

Until (and including) 23 May 2013, Trust Capital Payments will be paid, on a noncumulative basis, annually in arrears on 23 May of each year, commencing 23 May 2004 (each a "**Fixed Payment Date**"). After 23 May 2013, Trust Capital Payments will be paid quarterly in arrears on 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013 (each a "**Floating Payment Date**" and together with the Fixed Payment Date, each a "**Trust Payment Date**"). If any Floating Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Payment Date shall be the immediately preceding Business Day. See "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Payment Dates".

If any Trust Payment Date falls on a day that is not a Business Day, payment of all amounts otherwise payable on such date shall be made on the first following day that this a Business Day and the holder of the Company Class B Preferred Securities shall have no right to claim payment of any interest or other indemnity in respect of such delay in payment.

Trust Capital Payments on the Trust Preferred Securities are expected to be paid out of Class B Capital Payments received by the Trust from the Company. Class B Capital Payments are expected to be paid by the Company out of its Operating Profits. See "Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments". If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment on the Company Class B Preferred Securities in respect of any Class B Payment Period, the holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Payment in respect of such Class B Payment Period, and the Company will have no obligation to pay a Class B Capital Payment on the Company Class B Preferred Securities in respect of such Class B Payment Period, whether or not Class B Capital Payments are declared and paid on the Company Class B Preferred Securities in respect of any future Class B Pay-

ment Period. **In such a case, no Trust Capital Payments will be made on the Trust Securities in respect of the corresponding Payment Period.**

Each declared Trust Capital Payment will be payable to the holders of record of the Trust Preferred Securities as they appear on the books and records of the Trust at the close of business on the corresponding record date. The record dates for the Trust Preferred Securities will be

- (i) so long as the Trust Preferred Securities remain in book-entry form, one Business Day prior to the relevant Payment Date, and
- (ii) in all other cases, the 15th day prior to the relevant Payment Date.

Such Trust Capital Payments will be paid through the Property Trustee who will hold amounts received in respect of the Company Class B Preferred Securities in the Property Account for the benefit of the holders of the Trust Preferred Securities, subject to any applicable laws and regulations and the provisions of the Trust Agreement.

The right of the holders of the Trust Preferred Securities to receive Trust Capital Payments is noncumulative.

Accordingly, if the Trust does not have funds available for payment of a Trust Capital Payment in respect of any Payment Period, the holders will have no right to receive a Trust Capital Payment in respect of such Payment Period, and the Trust will have no obligation to pay a Trust Capital Payment in respect of such Payment Period, whether or not Trust Capital Payments are paid in respect of any future Payment Period.

Except as described under “ – Subordination of Trust Common Securities” below, all Trust Capital Payments and other payments to holders of the Trust Preferred Securities will be distributed among holders of record *pro rata*, based on the proportion that the aggregate liquidation preference amount of the Trust Preferred Securities held by each holder bears to the aggregate liquidation preference amount of all Trust Preferred Securities.

Payments of Additional Amounts

All payments on the Trust Preferred Securities by the Trust, and any repayment upon redemption thereof, will be made without withholding or deduction for or on account of Withholding Taxes unless the Trust is required by law to make such deduction or withholding. In such event, the Trust will pay, as additional Trust Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Trust Preferred Securities will equal the amounts that would have been received had no such deduction or withholding been required.

However, no such Additional Amounts will be payable in respect of the Trust Preferred Securities:

- if and to the extent that the Company is unable to pay corresponding amounts in respect of the Company Class B Preferred Securities because such payment would exceed the Distributable Profits of the Bank for the preceding fiscal year (after subtracting from such Distributable Profits the amount of the Class B Capital Payments on the Company Class B Preferred Securities and dividends or other distributions or payments on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable); or
- with respect to any Withholding Taxes that are payable by reason of a holder or beneficial owner of the Trust Preferred Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Trust Preferred Securities; or
- where such deduction or withholding can be avoided if the holder or beneficial owner of the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; or

- to the extent that the holder or beneficial owner of the Trust Preferred Securities is entitled to refundable credit with respect to such withholding tax against its personal or corporate income tax liability on the income from the Trust Preferred Securities.

Trust Enforcement Events

The occurrence, at any time, of:

- (i) non-payment of Trust Capital Payments (plus any Additional Amounts thereon, if any) on the Trust Preferred Securities or the Company Class B Preferred Securities at the Stated Rate in full, for, prior to (and including) 23 May 2013, two consecutive Class B Payment Periods and, after 23 May 2013, four consecutive Trust Payment Periods; or
- (ii) a failure by the Bank to perform any of its obligations under the Support Undertaking

will constitute an enforcement event under the Trust Agreement with respect to the Trust Preferred Securities (a "**Trust Enforcement Event**"); provided, that, pursuant to the Trust Agreement, the holder of the Trust Common Security will be deemed to have waived any Trust Enforcement Event with respect to the Trust Common Security until all Trust Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until such Trust Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the holders of the Trust Preferred Securities and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee with respect to certain matters under the Trust Agreement. In the case of non-payment of Capital Payments (plus any Additional Amounts thereon, if any) on the Company Class B Preferred Securities referred to in clause (i) above or the continuation of a failure by the Bank to perform any obligation under the Support Undertaking for a period of 60 days after notice thereof has been given to the Company by the Property Trustee or any holder of the Company Class B Preferred Securities, holders of the Trust Preferred Securities will have the right to appoint the Independent Enforcement Director; see "Description of the Company Securities – Company Class B Preferred Securities – Voting Rights". Upon the occurrence of a Trust Enforcement Event, the Property Trustee will have the right to enforce the rights of the holders of the Company Class B Preferred Securities, including:

- (i) claims to receive Trust Capital Payments (only if and to the extent declared or deemed to have been declared) on the Company Class B Preferred Securities;
- (ii) appointment of the Independent Enforcement Director (to the extent that such Trust Enforcement Event results from non-payment of Capital Payments on the Company Class B Preferred Securities for four consecutive Trust Payment Periods or the continuation of a failure by the Bank to perform any obligation under the Support Undertaking for a period of 60 days after notice thereof has been given to the Company by the Property Trustee or any holder of the Company Class B Preferred Securities); and
- (iii) assertion of the rights under the Support Undertaking as it relates thereto.

If the Property Trustee fails to enforce its rights under the Company Class B Preferred Securities after a holder of the Trust Preferred Securities has made a written request, such holder of record of the Trust Preferred Securities may directly institute a legal proceeding against the Company to enforce the Property Trustee's rights under the Company Class B Preferred Securities without first instituting any legal proceeding against the Property Trustee, the Trust or any other person or entity.

Redemption

Upon redemption of the Company Class B Preferred Securities, the Trust must apply the Redemption Price received in connection therewith to redeem a corresponding number of the Trust Preferred Securities.

The Company Class B Preferred Securities are redeemable at the option of the Company, in whole but not in part, on any Class B Payment Date, at the Redemption Price. The Company will also have a right to redeem the Class B Preferred Securities at any time prior to the Initial Redemption Date upon at least 30 days' prior notice, in whole but not in part, upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption").

Any redemption, whether upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption") or after the Initial Redemption Date, will be made at the Redemption Price, provided that any redemption occurring prior to 23 May 2013 shall be at the Early Redemption Price. The Company may exercise its right to redeem the Company Class B Preferred Securities only if it has:

- (i) given at least 30 days' prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Company Class B Preferred Securities of its intention to redeem the Company Class B Preferred Securities on the Redemption Date, and
- (ii) obtained any required regulatory approvals.

The Trust Agreement will provide that the Property Trustee will give notice to the holders of the Trust Preferred Securities of the Company's intention to redeem the Company Class B Preferred Securities on the Redemption Date not fewer than 30 days before the Redemption Date.

The Company Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.

Upon any redemption of the Company Class B Preferred Securities, the proceeds of such redemption will simultaneously be applied to redeem a corresponding amount of the Trust Preferred Securities. Any Company Class B Preferred Securities or Trust Preferred Securities that are redeemed will be cancelled, and not reissued, following their redemption.

Upon the occurrence of a Trust Special Redemption Event (as defined below) or in the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, holders of the Trust Preferred Securities will be entitled, in accordance with the terms of the Trust Agreement, to receive a corresponding number of the Company Class B Preferred Securities.

A "**Trust Special Redemption Event**" means

- (i) a Tax Event (as defined below) solely with respect to the Trust, but not with respect to the Company, or
- (ii) an Investment Company Act Event (as defined below) solely with respect to the Trust, but not with respect to the Company.

A "**Tax Event**" means

- (i) the receipt by the Bank of an opinion of a nationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of:
 - (A) any amendment to, or clarification of, or change (including any change that has been adopted but has not yet become effective) in, the laws or treaties (or any regulations promulgated thereunder) of the Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation;
 - (B) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body (each, an "**Administrative Action**"); or
 - (C) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or

regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, after the date of issuance of the Company Class B Preferred Securities and the Trust Preferred Securities;

there is more than an insubstantial risk that (x) the Trust or the Company is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges, or (y) the Trust, the Company or an obligor on the Debt Securities would be obligated to pay Additional Amounts or Additional Interest Amounts (as defined in "Description of the Terms of the Initial Debt Securities – General"); or

- (ii) a final determination has been made by the German tax authorities to the effect that the Bank, as obligor on the Debt Securities, may not, in the determination of its taxable income for the purposes of determining German corporate income tax in any year, deduct in full interest payments on the Debt Securities

provided, however, that none of the foregoing will constitute a Tax Event if it may be avoided by the Bank, the Trust or the Company taking reasonable measures under the circumstances.

An "**Investment Company Act Event**" means that the Bank will have requested and received an opinion of a nationally recognized U.S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Company or the Trust is or will be considered an "investment company" within the meaning of the Investment Company Act as a result of any judicial decision, pronouncement or interpretation (irrespective of the manner made known), the adoption or amendment of any law, rule or regulation, or any notice or announcement (including any notice or announcement of intent to adopt such law, rule or regulation) by any U.S. legislative body, court, governmental agency, or regulatory authority, in each case after the date of the issuance of the Company Class B Preferred Securities and the Trust Preferred Securities.

If, at any time, a Trust Special Redemption Event occurs and is continuing, the Regular Trustees will, within 90 days following the occurrence of such Trust Special Redemption Event, dissolve the Trust upon not less than 30 nor more than 60 days' notice to the holders of the Trust Preferred Securities and upon not less than 30 nor more than 60 days' notice to, and consultation with Clearstream, Luxembourg or Euroclear, with the result that, after satisfaction of the claims of creditors of the Trust, if any, Company Class B Preferred Securities would be distributed on a *pro rata* basis to the holders of the Trust Preferred Securities and the holder of the Trust Common Security in liquidation of such holders' interest in the Trust, provided, however, that, if, at such time, the Trust has the opportunity to eliminate, within such 90-day period, the Trust Special Redemption Event by taking some ministerial action (a ministerial act is an administrative action such as filing a form or making an election), or some other similar reasonable measures, which in the sole judgment of the Bank will cause no adverse effect on the Company, the Trust, the Bank or the holders of the Trust Preferred Securities and will involve no material costs, then the Trust will pursue any such measure in lieu of dissolution.

On the date fixed for any distribution of the Company Class B Preferred Securities, upon dissolution of the Trust:

- (i) the Trust Securities will no longer be deemed to be outstanding, and
- (ii) certificates representing Trust Preferred Securities will be deemed to represent the Company Class B Preferred Securities having a liquidation preference amount equal to the liquidation preference amount of the Trust Preferred Securities and the liquidation preference amount of the Trust Common Security until such certificates are presented to the Company or its agent for transfer or re-issuance.

If the Company Class B Preferred Securities are distributed to the holders of the Trust Preferred Securities, the Bank will use its commercially reasonable efforts to cause the Company Class B Preferred Securities to be eligible for clearing and settlement through Clearstream, Luxembourg, Euroclear or a successor clearing agent.

Redemption Procedures

If the Trust gives a notice of redemption in respect of the Trust Securities (which notice will be irrevocable), and if the Company has paid to the Property Trustee a sufficient amount of cash in connection with the related redemption of the Company Class B Preferred Securities, then, by 10.00 a. m., Frankfurt am Main time, on the Redemption Date, the Trust will irrevocably deposit with Clearstream, Luxembourg funds sufficient to pay the amount payable on redemption of book-entry certificates and will give Clearstream, Luxembourg irrevocable instructions and authority to pay such amount to holders of the Trust Preferred Securities. If notice of redemption will have been given and funds are deposited as required, then upon the date of such deposit, or the Redemption Date, as applicable, Capital Payments shall cease to accumulate on the Trust Securities so called for redemption and all rights of holders of such Trust Preferred Securities so called for redemption will cease, except the right of the holders of such Trust Preferred Securities to receive the redemption price for such Trust Preferred Securities, but without interest thereon.

Purchases of the Trust Preferred Securities

Subject to the foregoing redemption provisions and procedures and applicable law (including, without limitation, U.S. federal securities laws), the Bank or its subsidiaries may at any time and from time to time purchase outstanding Trust Preferred Securities by tender, in the secondary market or by private agreement.

Subordination of the Trust Common Security

Payment of Trust Capital Payments and other distributions on, and amounts on redemption of, the Trust Preferred Securities will generally be made *pro rata* based on the liquidation preference amount of the Trust Preferred Securities and the capital contribution in respect of the Trust Common Security, as the case may be. However, upon the liquidation of the Trust and during the continuance of a default under the Debt Securities or a failure by the Bank to perform any obligation under the Support Undertaking, holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to payments of Trust Capital Payments and other distributions and amounts upon redemption or liquidation of the Trust.

In the case of any Trust Enforcement Event, the holder of the Trust Common Security will be deemed to have waived any such Trust Enforcement Event until all such Trust Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until all Trust Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will act solely on behalf of the holders of the Trust Preferred Securities and not on behalf of the holder of the Trust Common Security, and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to act on their behalf.

Liquidation Distribution Procedure upon Dissolution

Pursuant to the Trust Agreement and following the issuance of Trust Securities, the Trust will dissolve:

- (i) upon the bankruptcy, insolvency or dissolution of the Bank;
- (ii) upon the filing of a certificate of cancellation or its equivalent with respect to the Company or upon the vote of at least a majority of the outstanding Trust Securities, voting together as a single class, to file a certificate of cancellation with respect to the Trust;
- (iii) upon the distribution of all of the Company Class B Preferred Securities due to the occurrence of a Trust Special Redemption Event;
- (iv) upon the entry of a decree of a judicial dissolution of the Company or the Trust; or
- (v) upon the redemption of all of the Trust Preferred Securities.

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, the holders of the Trust Preferred Securities will be entitled to receive, after payment of the

liabilities of the Trust, a corresponding amount of the Company Class B Preferred Securities. The holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to distributions upon liquidation of the Trust.

Statute of Limitation

The prescription period for claims for the payment of Trust Capital Payments, Additional Amounts and the Redemption Price is three years after the date on which the respective payment has become due and payable.

Voting Rights

Except as expressly required by applicable law, or except as provided for in the Trust Agreement, the holders of the Trust Preferred Securities will not be entitled to vote on the affairs of the Trust or the Company. So long as the Trust holds any Company Class B Preferred Securities, the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to enforce the voting rights attributable to such Company Class B Preferred Securities. These voting rights may be waived by the holders of the Trust Preferred Securities by written notice to the Property Trustee and in accordance with applicable laws.

Subject to the requirement of the Property Trustee obtaining a tax opinion as set forth in the last sentence of this paragraph, the holders of a majority of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by the Bank or its affiliates) have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, and to direct the exercise of any trust or power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee, as holder of the Company Class B Preferred Securities, to:

- (i) exercise the remedies available to it under the LLC Agreement as a holder of the Company Class B Preferred Securities; or
- (ii) consent to any amendment, modification or termination of the LLC Agreement or the Company Class B Preferred Securities where such consent will be required;

provided, however, that where a consent or action under the LLC Agreement would require the consent or act of the holders of more than a majority of the Company Class B Preferred Securities affected thereby, only the holders of the percentage of the aggregate liquidation preference amount of the Trust Securities outstanding which is at least equal to the percentage of the Company Class B Preferred Securities required to so consent or act under the LLC Agreement, may direct the Property Trustee to give such consent or take such action on behalf of the Trust; see "Description of the Company Securities – Company Class B Preferred Securities – Voting Rights." Except with respect to directing the time, method and place of conducting a proceeding for a remedy as described above, the Property Trustee will be under no obligation to take any of the actions described in clause (i) or (ii) above unless, inter alia, the Property Trustee has obtained an opinion of independent tax counsel in the United States to the effect that as a result of such action, the Trust will not fail to be classified as a grantor trust for U.S. federal income tax purposes and that after such action each holder of the Trust Preferred Securities will continue to be treated as owning an undivided beneficial ownership interest in the Company Class B Preferred Securities.

Any required approval or direction of holders of the Trust Preferred Securities may be given at a separate meeting of holders of the Trust Preferred Securities convened for such purpose, at a meeting of all of the holders of the Trust Securities or pursuant to a written consent. The Regular Trustees will cause a notice of any meeting at which holders of the Trust Preferred Securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be made in the manner described below under "– Notices." Each such notice will include a statement setting forth the following information:

- (i) the date of such meeting or the date by which such action is to be taken;

- (ii) a description of any resolution proposed for adoption at such meeting on which such holders are entitled to vote or of such matter upon which written consent is sought; and
- (iii) instructions for the delivery of proxies or consents.

No vote or consent of the holders of the Trust Preferred Securities will be required for the Trust to redeem and cancel Trust Preferred Securities or distribute Company Class B Preferred Securities in accordance with the Trust Agreement.

Notwithstanding that holders of the Trust Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Trust Preferred Securities that are beneficially owned at such time by the Bank or any entity directly or indirectly controlled by, or under direct or indirect common control with, the Bank, will not be entitled to vote or consent and will, for purposes of such vote or consent, be treated as if such Trust Preferred Securities were not outstanding, except for the Trust Preferred Securities purchased or acquired by the Bank or its affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with distribution or trading or market-making activities in connection with such Trust Preferred Securities in the ordinary course of business; *provided, however*, that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged Trust Preferred Securities may vote or consent with respect to such pledged Trust Preferred Securities pursuant to the terms of such pledge.

Holders of the Trust Preferred Securities will have no rights to appoint or remove the Regular Trustees, who may be appointed, removed or replaced solely by the holder of the Trust Common Security, which will be the Bank or a Bank Affiliate.

Securityholder Meetings

Meetings of the holders of any class of Trust Securities may be called at any time by the Regular Trustees to consider and act on any matter on which holders of such class of Trust Securities are entitled to act under the terms of the Trust Agreement, the terms of the Trust Securities, the LLC Agreement, the Delaware Statutory Trust Act or other applicable law. The Regular Trustees shall call a meeting of the holders of a class if directed to do so by the holders of at least 10% in liquidation amount of such class of Trust Securities. Such direction must be given by delivering to the Regular Trustees one or more calls in writing stating that the signing holders of the Trust Securities wish to call a meeting and indicating the general or specific purpose for which the meeting is to be called.

Except to the extent otherwise provided in the terms of the Trust Securities, the following provisions shall apply to meetings of holders of the Trust Securities:

- Notice of any meeting shall be given to all the holders of the Trust Securities having a right to vote thereat at least 7 days and not more than 60 days before the date of such meeting. Any action that may be taken at a meeting of the holders may be taken without a meeting if a consent in writing setting forth the action so taken is signed by the holders owning not less than the minimum amount of Trust Securities in liquidation amount that would be necessary to authorize or take such action at a meeting at which all holders having a right to vote thereon were present and voting. Notice of the taking of action without a meeting will be given to the holders of the Trust Securities entitled to vote who have not consented in writing. The Regular Trustees may specify that any written ballot submitted to the holder for the purpose of taking any action without a meeting shall be returned to the Trust within the time specified by the Regular Trustees.
- Subject to the terms of the Trust Agreement, each holder of a Trust Security may authorize any person to act for it by proxy on all matters in which a holder is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting.
- Each meeting of the holders of the Trust Securities shall be conducted by the Regular Trustees or by such other Person that the Regular Trustees may designate.

Merger, Consolidation or Amalgamation of the Trust

The Trust may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other entity, except as described below. The Trust may, with the consent of a majority of the Regular Trustees and without the consent of the holders of the Trust Securities, the Property Trustee or the Delaware Trustee, consolidate, amalgamate, merge with or into, or be replaced by a trust organized as such under the laws of any State of the United States; provided, that:

- (i) if the Trust is not the survivor, such successor entity either
 - (A) expressly assumes all of the obligations of the Trust to the holders of the Trust Securities or
 - (B) substitutes for the Trust Securities other securities having substantially the same terms as the Trust Securities (the "**Trust Successor Securities**"), so long as the Trust Successor Securities rank the same as the Trust Securities rank with respect to Trust Capital Payments, distributions and rights upon liquidation, redemption or otherwise,
- (ii) the Company expressly acknowledges a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Company Class B Preferred Securities,
- (iii) such merger, consolidation, amalgamation or replacement does not cause the Trust Preferred Securities (including the Trust Successor Securities) to be downgraded by any statistical rating organization nationally recognized in the United States,
- (iv) such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Trust Successor Securities) in any material respect,
- (v) such successor entity has purposes substantially identical to that of the Trust,
- (vi) the obligations of the Bank pursuant to the Support Undertaking will continue in full force and effect, and
- (vii) prior to such merger, consolidation, amalgamation or replacement, the Bank has received an opinion of a nationally recognized law firm in the United States experienced in such matters to the effect that:
 - (A) such merger, consolidation, amalgamation or replacement will not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including the Trust Successor Securities) in any material respect,
 - (B) following such merger, consolidation, amalgamation or replacement, neither the Trust nor such successor entity will be required to register under the Investment Company Act,
 - (C) following such merger, consolidation, amalgamation or replacement, the Trust (or such successor trust) will be classified as a grantor trust for U.S. federal income tax purposes, and
 - (D) following such merger, consolidation, amalgamation or replacement, the Company will not be classified as an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes.

Notwithstanding the foregoing, the Trust will not, except with the consent of holders of 100% of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by the Bank and a Bank Affiliate), consolidate, amalgamate, merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it, if such consolidation, amalgamation, merger or replacement would cause the Trust or the successor entity not to be classified as a grantor trust for United States federal income tax purposes.

Modification of the Trust Agreement

The Trust Agreement may be modified and amended if approved by a majority of the Regular Trustees (and in certain circumstances the Property Trustee and the Delaware Trustee), provided, that, if any proposed amendment provides for, or the Regular Trustees otherwise propose to effect:

- (i) any action that would materially adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment to the Trust Agreement or otherwise, or
- (ii) the dissolution, winding up or termination of the Trust other than pursuant to the terms of the Trust Agreement, then the holders of the Trust Securities voting together as a single class will be entitled to vote on such amendment or proposal and such amendment or proposal will not be effective except with the approval of at least a majority of the outstanding Trust Securities affected thereby; provided, further that, if any amendment or proposal referred to in clause (i) above would adversely affect only the Trust Preferred Securities or the Trust Common Security, then only the affected class will be entitled to vote on such amendment or proposal and such amendment or proposal will not be effective except with the approval of a majority of such class of the Trust Securities outstanding.

The Trust Agreement may be amended without the consent of the holders of the Trust Securities to:

- (i) cure any ambiguity,
- (ii) correct or supplement any provision in the Trust Agreement that may be defective or inconsistent with any other provision of the Trust Agreement,
- (iii) add to the covenants, restrictions or obligations of the Bank,
- (iv) conform to any change in the Investment Company Act or the rules or regulations thereunder, or
- (v) modify, eliminate and add to any provision of the Trust Agreement to such extent as may be necessary or desirable; provided, that, no such amendment will have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities.

Notwithstanding the foregoing, no amendment or modification may be made to the Trust Agreement if such amendment or modification would:

- (i) cause the Trust to fail to be classified as a grantor trust for United States federal income tax purposes,
- (ii) cause the Company to be classified as an association or publicly traded partnership taxable as a corporation for such purposes,
- (iii) reduce or otherwise adversely affect the powers of the Property Trustee, or
- (iv) cause the Trust or the Company to be required to register under the Investment Company Act.

Form, Clearing, Transfers and Settlement

Trust Preferred Securities will be issued initially in the form of a temporary global certificate (the "**Temporary Global Certificate**"). Beneficial interests in the Temporary Global Certificate will be exchanged for beneficial interests in a permanent global certificates (the "**Permanent Global Certificate**" and, together with the Temporary Global Certificate, the "**Global Certificates**") after a period of 40 consecutive days beginning on the first day after the (i) the Closing Date or, if later, (ii) the completion of the distribution of the Trust Preferred Securities (the "**Restricted Period**") has ended.

The Global Certificates will be deposited upon issuance with, and registered in the name of, Clearstream, Luxembourg for credit to accountholders in Clearstream, Luxembourg and Euroclear.

Beneficial interests in the Trust Preferred Securities will be shown only on, and transfers thereof will be effected only through, book-entry records maintained by Clearstream, Luxembourg and Euroclear and their respective participants and, except in limited circumstances, provided for in the Trust Agreement (such as, for example, closure of the Clearing System). Trust Preferred Securities in certificated form will not be issued. Holders of beneficial interests in the Global Certificates must rely

upon the procedures of Clearstream, Luxembourg and Euroclear and (if applicable) their respective participants to exercise any rights of a holder under the Global Certificates, Transfers and payments in respect if the Trust Preferred Securities may be effected through the Paying Agents subject to the terms of the Trust Preferred Securities and the operating procedures of Clearstream, Luxembourg and Euroclear. None of the Bank, the Company or the Trust will have any responsibility or liability for any aspect of the records relating to the payments made on account of beneficial interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Certifications by Holders of the Temporary Global Certificate

On or after the expiration of the Restricted Period, a certificate must be provided by or on behalf of a holder of a beneficial interest in the Temporary Global Certificate to the Principal Paying Agent, certifying that the beneficial owner of the interest in the Temporary Global Certificate is not a U.S. Person. Unless such certificate is provided:

- (i) the holder of such beneficial interest will not receive any payments of dividends, redemption price or any other payment with respect to such holder's beneficial interest in the Temporary Global Certificate,
- (ii) such beneficial interest may not be exchanged for a beneficial interest in the Permanent Global Certificate, and
- (iii) settlement of trades with respect to such beneficial interest will be suspended.

In the event that any holder of a beneficial interest in the Temporary Global Certificate fails to provide such certification, exchanges of interests in the Temporary Global Certificate for interests in the Permanent Global Certificate and settlements of trades of all beneficial interests in the Temporary Global Certificate may be temporarily suspended.

Paying Agent, Transfer Agent and Calculation Agent, Payments

Deutsche Bank Aktiengesellschaft will act as Principal Paying Agent, Transfer Agent and Calculation Agent for the Trust Preferred Securities. Deutsche Bank Luxembourg, S.A. will act as Luxembourg Paying Agent.

Payments in respect of the Trust Preferred Securities will be made to or as directed by the Common Depository as the registered holder of the Global Certificate representing the Trust Preferred Securities. Payments made to the Common Depository shall be made by wire transfer, and Clearstream, Luxembourg or Euroclear, as applicable, will credit the relevant accounts of their participants on the applicable dates.

Registration of transfers of the Trust Preferred Securities will be effected without charge by or on behalf of the Company, but upon payment (with the giving of such indemnity as the Property Trustee may require) in respect of any tax or other governmental charges that may be imposed in relation to it; provided, that no transfer or exchange of the Trust Preferred Securities (other than a transfer of the Trust Preferred Securities as a whole by the common depository for Clearstream, Luxembourg and Euroclear to another common depository of Clearstream, Luxembourg or to another nominee of Clearstream, Luxembourg and Euroclear) may be registered except in limited circumstances. The Property Trustee will not be required to register or cause to be registered the transfer of the Trust Preferred Securities after such Trust Preferred Securities have been called for redemption.

Information Concerning the Property Trustee

The Property Trustee, prior to the occurrence of a Trust Enforcement Event, undertakes to perform only such duties as are specifically set forth in the Trust Agreement and, after such default, will exercise the same degree of care as a prudent person would exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the

powers vested in it by the Trust Agreement, though it may do so at its discretion or at the request of any holder of the Trust Preferred Securities if it is satisfied, in its sole discretion, that the repayment of funds or cover for personal financial liability is assured to it, by way of indemnity or otherwise. The holders of the Trust Preferred Securities will not be required to offer such indemnity in the event such holders, by exercising their rights, direct the Property Trustee to take any action following a Trust Enforcement Event.

Notices

For so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require, all notices concerning the Trust Preferred Securities will be published in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions whether or not it shall be published on Saturday, Sunday or holidays.

Governing Law

The Trust Agreement and the Trust Securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

Miscellaneous

The Regular Trustees are authorized and directed to conduct the affairs of and to operate the Trust in such a way that the Trust will not be required to register under the Investment Company Act.

DESCRIPTION OF THE COMPANY SECURITIES

The following describes the material terms and provisions of the limited liability company interests of the Company, including the Company Class B Preferred Securities. This description is qualified in its entirety by reference to the terms and provisions of the LLC Agreement.

Upon the execution of the LLC Agreement, the Company will issue limited liability company interests consisting of the Company Common Security, the Company Class A Preferred Security and Company Class B Preferred Securities. For so long as any Company Class B Preferred Securities remain outstanding, the Company Common Security will be owned directly by the Bank or a Bank Affiliate and the Company Class A Preferred Security will be owned by the Bank or a Bank Affiliate.

All of the Company Class B Preferred Securities will be owned by the Trust.

Company Common Security

Subject to the rights of the holders of the Company Class B Preferred Securities to appoint the Independent Enforcement Director, all voting rights are vested in the Company Common Security.

The Company Common Security is entitled to one vote per security. The Company Common Security is currently, and upon consummation of the Offering will be, held by the Bank or a Bank Affiliate.

Capital payments may be declared and paid on the Company Common Security only if all Class B Capital Payments on the Company Class B Preferred Securities, if any, in respect of the relevant Class B Payment Period have been declared and paid. The Company does not expect to pay dividends on the Company Common Security.

In the event of the voluntary or involuntary liquidation, dissolution, termination or winding up of the Company, after the payment of all debts and liabilities and after there have been paid or set aside for the holders of all the Company Preferred Securities the full preferential amounts to which such holders are entitled, the holder of the Company Common Security will be entitled to share equally and *pro rata* in any remaining assets.

Company Class A Preferred Security

The Company Class A Preferred Security is non-voting. Capital payments on the Company Class A Preferred Security will be payable when, as and if declared by the Board of Directors; such a declaration will occur only to the extent the Board of Directors does not declare Class B Capital Payments on the Company Class B Preferred Securities at the Stated Rate in full on any Class B Payment Date.

It is expected that the holder of the Company Class A Preferred Security will receive capital payments only to the extent that:

- (i) Class B Capital Payments are not permitted to be declared on the Company Class B Preferred Securities on any Class B Payment Date at the Stated Rate in full due to insufficient Distributable Profits of the Bank for the most recent fiscal year preceding such Class B Payment Period for which audited financial statements of the Bank are available or an order of the BaFin (or any other relevant regulatory authority) pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distribution of its profits (including to the holders of the Parity Securities), and
- (ii) the Company has sufficient Operating Profits.

The Company currently does not intend to pay capital payments on the Company Class A Preferred Security. The payment of capital payments on the Class A Preferred Security is not a condition to the payment of Class B Capital Payments on the Company Class B Preferred Securities.

In the event of any voluntary or involuntary liquidation, dissolution or winding up or termination of the Company, the Company Class B Preferred Securities will rank junior to the Company Class A Preferred Security, and the Company Class B Preferred Securities will rank senior to the Company Common Security; provided, that any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Company Class B Preferred Securities. Accordingly, upon any liquidation, the holder of the Company Class A Preferred Security will be entitled to receive a liquidation distribution of the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon). In the event of the liquidation of the Company, the Independent Enforcement Director will enforce the Support Undertaking solely for the benefit of the holders of the Company Class B Preferred Securities. With respect to the Company's rights under the Support Undertaking, the Company Class B Preferred Securities will rank senior to the Company Class A Preferred Security and payments thereunder will be distributed by the Company solely to the holders of the Company Class B Preferred Securities. For a description of the circumstances under which an Independent Enforcement Director may be elected, see “– Company Class B Preferred Securities – Voting Rights”

Company Class B Preferred Securities

General

The Company will observe all corporate formalities necessary to issue the Company Class B Preferred Securities under the laws of the State of Delaware and the Company Class B Preferred Securities will be validly issued, fully paid and non-assessable when they are issued. The holders of the Company Class B Preferred Securities will have no pre-emptive rights with respect to any other securities of the Company (i. e., will have no rights to acquire any additional securities issued by the Company on a preferential basis). The Company Class B Preferred Securities will not have any scheduled maturity date, will not be redeemable at any time at the option of the holders thereof, will not be convertible into any other securities of the Company and will not be subject to any sinking fund or other obligation of the Company for their repurchase or redemption. The LLC Agreement prohibits the Company, without the consent of all holders of the Company Class B Preferred Securities (excluding any Company Class B Preferred Securities held by the Bank or a Bank Affiliate), from issuing any debt obligations or any further class or series of equity securities ranking prior to or *pari passu* with the Company Class B Preferred Securities as to periodic distribution rights or rights upon liquidation or dissolution of the Company.

Capital Payments

Until (and including) 23 May 2013, Class B Capital Payments will accrue on the liquidation preference amounts of € 1,000 per Company Class B Preferred Security at a rate per annum equal to the Fixed Rate. After 23 May 2013, Trust Capital Payments will accrue on the liquidation preference amounts of € 1,000 per Company Class B Preferred Security at a rate per annum equal to the Floating Rate. See “Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Stated Rate”

Until (and including) 23 May 2013, Class B Capital Payments will be paid, on a noncumulative basis, annually in arrears on 23 May of each year, commencing 23 May 2004 each a “**Fixed Class B Payment Date**”). After 23 May 2013, Class B Capital Payments will be paid quarterly in arrears on 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013 (each a “**Floating Class B Payment Date**” and, together with the Fixed Class B Payment Date, each a “**Class B Payment Date**”). If any Floating Class B Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Class B Payment Date shall be the immediately preceding Business Day. See “Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Payment Dates”

If any Class B Payment Date falls on a day that is not a Business Day, payment of all amounts otherwise payable on such date shall be made on the first following day that this a Business Day and the

holder of the Company Class B Preferred Securities shall have no right to claim payment of any interest or other indemnity in respect of such delay in payment.

Class B Capital Payments on the Company Class B Preferred Securities are expected to be paid by the Company out amounts received on the Debt Securities or Permitted Investments held by the Company. If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment on the Company Class B Preferred Securities in respect of any Class B Payment Period, the holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Payment on the Company Class B Preferred Securities in respect of such Class B Payment Period, and the Company will have no obligation to pay a Class B Capital Payment on the Company Class B Preferred Securities in respect of such Class B Payment Period, whether or not Class B Capital Payments are declared (or deemed to have been declared) and paid on the Company Class B Preferred Securities in respect of any future Class B Payment Period.

Class B Capital Payments on the Company Class B Preferred Securities are authorized to be declared and paid on any Class B Payment Date to the extent that:

- (i) the Company has an amount of Operating Profits for the Class B Payment Period ending on the day immediately preceding such Class B Payment Date at least equal to the amount of such Capital Payments, and
- (ii) the Bank has an amount of Distributable Profits for the most recent preceding fiscal year of the Bank for which audited financial statements are available at least equal to the aggregate amount of such Class B Capital Payments on the Company Class B Preferred Securities and capital payments or dividends on Parity Securities, if any, *pro rata* on the basis of Distributable Profits for such preceding fiscal year.

Notwithstanding the foregoing, the Company will be deemed to have declared Class B Capital Payments on the Company Class B Preferred Securities if the Bank or a Bank Affiliate declares or pays any dividends or makes any other payment or other distribution on any Parity Securities.

The Class B Capital Payments to be made as a result of such a deemed declaration will be payable on the first Class B Payment Dates falling contemporaneously with or immediately after the date on which the Bank, or the Bank Affiliate, as the case may be, declared the related dividend or made the related payment. If the dividend or other payment or distribution on Parity Securities was in the full stated amount payable on such Parity Securities in the then current fiscal year through the relevant Class B Payment Date, Class B Capital Payments will be deemed declared at the Stated Rate in full for the then current fiscal year through such Payment Date. If the dividend or other payment or distribution on Parity Securities was only a partial payment of the amount so owing, the amount of the Class B Capital Payment deemed declared on the Company Class B Preferred Securities will be adjusted proportionally.

Further, notwithstanding the foregoing, if the Bank or a Bank Affiliate declares or pays any dividend or makes any other payment or distribution on its Junior Securities, the Company will be deemed to have declared Class B Capital Payments on the Company Class B Preferred Securities at the Stated Rate.

If the Bank or any of its subsidiaries redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration except by conversion into or exchange for shares of common stock of the Bank, the Company will be deemed to have declared Class B Capital Payments on the Company Class B Preferred Securities at the Stated Rate in full for payment on the first four Class B Payment Dates falling contemporaneously with and/or immediately following the date on which such redemption, repurchase or other acquisition occurred. Notwithstanding the previous sentence, no Class B Capital Payment will be deemed to have been declared for any redemption, repurchase or acquisition:

- (i) in connection with transactions effected by or for the account of customers of the Bank or a Bank Affiliate or in connection with the distribution, trading or market-making in respect of such securities,

- (ii) in connection with the satisfaction by the Bank or a Bank Affiliate of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants,
- (iii) occurring as a result of a reclassification of the capital stock of the Bank or a Bank Affiliate or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock, or
- (iv) constituting the purchase of fractional interests in shares of the capital stock of the Bank or a Bank Affiliate pursuant to the provisions of any security being converted into or exchanged for such capital stock.

Despite sufficient Operating Profits of the Company and sufficient Distributable Profits of the Bank, the Company will not be permitted to make Class B Capital Payments on any Class B Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distribution of its profits (including to the holders of the Parity Securities). The Company will have no obligation to make up, at any time, any Class B Capital Payments not paid in full by the Company as a result of insufficient Operating Profits of the Company, insufficient Distributable Profits or an order of the BaFin.

In determining the availability of sufficient Distributable Profits of the Bank related to any fiscal year for the Company to declare Class B Capital Payments, any Class B Capital Payments already paid on the Class B Preferred Securities on the basis of Distributable Profits for such fiscal year and any capital payments or dividends already paid on the Parity Securities, if any, on the basis of Distributable Profits for such fiscal year, will be deducted from such Distributable Profits.

Each declared Class B Capital Payment will be payable to the holders of record as they appear on the securities register of the Company at the close of business on the corresponding record date. The record dates for the Company Class B Preferred Securities will be:

- for those Company Class B Preferred Securities held by the Property Trustee, so long as the Trust Preferred Securities remain in book-entry form, and for Company Class B Preferred Securities held in book-entry form, one Business Day prior to the relevant Class B Payment Date, and
- in all other cases, the 15th day prior to the relevant Class B Payment Date.

Payment of Additional Amounts

All payments on the Company Class B Preferred Securities, and any repayment upon redemption thereof, will be made without any deduction or withholding for or on account of Withholding Taxes, unless the Company is required by law to make such deduction or withholding. The Company will pay, as additional Class B Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Company Class B Preferred Securities and the Trust Preferred Securities, after any deduction or withholding for or on account of Withholding Taxes, will equal the amounts that would otherwise have been received in respect of the Company Class B Preferred Securities and the Trust Preferred Securities, respectively, in the absence of such withholding or deduction.

No such Additional Amounts, however, will be payable in respect of the Company Class B Preferred Securities and the Trust Preferred Securities:

- (i) if and to the extent that the Company is unable to pay such Additional Amounts because such payment would exceed the Distributable Profits of the Bank for the most recent fiscal year for which audited financial statements are available (after subtracting from such Distributable Profits the amount of Class B Capital Payments and any dividends or other distributions or payments on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable); or

- (ii) with respect to any Withholding Taxes that are payable by reason of a holder or beneficial owner of the Company Class B Preferred Securities (other than the Trust) or Trust Preferred Securities having some connection with any Relevant Jurisdiction; or
- (iii) where such deduction or withholding can be avoided if the holder or beneficial owner of the Company Class B Preferred Securities (other than the Trust) or the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; or
- (iv) to the extent that the holder or beneficial owner of the Trust Preferred Securities is entitled to refundable credit with respect to such withholding tax against its personal or corporate income tax liability on the income from the Trust Preferred Securities.

Voting and Enforcement Rights

The Company Class B Preferred Securities will have no voting rights except as expressly required by applicable law or except as indicated below. In the event the holders of the Company Class B Preferred Securities are entitled to vote as indicated below, each Company Class B Preferred Security shall be entitled to one vote on matters on which holders of the Company Class B Preferred Securities are entitled to vote. In the event that:

- (i) the Company fails to pay Class B Capital Payments (plus Additional Amounts thereon, if any) on the Company Class B Preferred Securities at the Reference Rate in full for, prior to (and including) 23 May 2013, two consecutive Class B Payment Periods and, after 23 May 2013, four consecutive Class B Payment Periods or
- (ii) a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of the Company Class B Preferred Securities will have the right to appoint one Independent Enforcement Director.

The Independent Enforcement Director will be appointed by resolution passed by a majority of the holders of the Company Class B Preferred Securities entitled to vote thereon, as described in the LLC Agreement, present in person or by proxy at a separate general meeting of the holders of the Company Class B Preferred Securities convened for that purpose (which will be called at the request of any holder of a Company Class B Preferred Security entitled to vote thereon) or by a consent in writing adopted by a majority of the holders of the Company Class B Preferred Securities entitled to vote thereon. Any Independent Enforcement Director so appointed will vacate office if, in such Independent Enforcement Director's sole determination:

- (i) the Class B Capital Payments (plus Additional Amounts thereon, if any) have been made at the Reference Rate in full by the Company for at least four consecutive Class B Payment Periods, and
- (ii) the Bank is in compliance with its obligations under the Support Undertaking.

Any such Independent Enforcement Director may be removed at any time, with or without cause by (and will not be removed except by) the vote of a majority of the holders of the outstanding Company Class B Preferred Securities entitled to vote, at a meeting of the Company's securityholders, or of holders of the Company Class B Preferred Securities entitled to vote thereon, called for that purpose. If the office of Independent Enforcement Director will become vacant at any time during which the holders of the Company Class B Preferred Securities are entitled to appoint an Independent Enforcement Director, the holders of the Company Class B Preferred Securities will appoint an Independent Enforcement Director as provided above.

The Independent Enforcement Director will be an additional member of the Board of Directors referred to above and will have the sole authority, right and power to enforce and settle any claim of the Company under the Support Undertaking. However, the Independent Enforcement Director will have no right, power or authority to participate in the management of the business and affairs of the Company by the Board of Directors except for:

- actions related to the enforcement of the Support Undertaking on behalf of the holders of the Company Class B Preferred Securities, and
- the distribution of amounts paid pursuant to the Support Undertaking to the holders of the Company Class B Preferred Securities.

No director, including the Independent Enforcement Director, will be a resident of the Federal Republic of Germany.

So long as any Company Class B Preferred Securities are outstanding, the Company will not, without the affirmative vote of the holders of at least 66 $\frac{2}{3}$ % in aggregate liquidation preference amount of the Company Class B Preferred Securities, voting separately as a class (excluding any Company Class B Preferred Securities held by the Bank or a Bank Affiliate):

- (i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Company Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Company Class B Preferred Securities; or
- (ii) agree to modify or amend any provision of, or waive any default on the payment of any amount under the Debt Securities in any manner that would materially effect the interests of the Class B Preferred Security Holders; or
- (iii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, provided, that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the requirements set forth under “– Mergers, Consolidations and Sales.”

The Company will not, without the unanimous consent of all the holders of the Company Class B Preferred Securities (excluding any Company Class B Preferred Securities held by the Bank or any a Bank Affiliate), issue any additional equity securities of the Company ranking prior to or *pari passu* with the Company Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company.

Notwithstanding that holders of the Company Class A Preferred Security or Company Class B Preferred Securities may become entitled to vote or consent under any of the circumstances described in the LLC Agreement or in the by-laws of the Company, any Company Class A Preferred Security or any of the Company Class B Preferred Securities that are owned by the Bank, the Company or any of their respective affiliates or subsidiaries (other than the Trust), either directly or indirectly, will in such case not be entitled to vote or consent and will, for the purposes of such vote or consent, be treated as if they were not outstanding, except for a Company Class A Preferred Security or Company Class B Preferred Securities purchased or acquired by the Bank or a Bank Affiliate in connection with transactions effected by or for the account of customers of the Bank or a Bank Affiliate or in connection with the distribution or trading of or market-making in connection with such Company Class A Preferred Security or Company Class B Preferred Securities in the ordinary course of business. However, certain persons (other than a Bank Affiliate), excluding the Trust, to whom the Bank or a Bank Affiliate have pledged a Company Class A Preferred Security or Company Class B Preferred Securities may vote or consent with respect to such pledged Company Class A Preferred Security or Company Class B Preferred Securities pursuant to the terms of such pledge.

Redemption

The Company Class B Preferred Securities are redeemable at the option of the Company, in whole but not in part, on any Class B Payment Date, at the Redemption Price, provided that any redemption occurring prior to 23 May 2013 shall be at the Early Redemption Price.

The Company will also have a right to redeem the Class B Preferred Securities at any time prior to the Initial Redemption Date upon at least 30 days’ prior notice, in whole but not in part, upon the occur-

rence of a (i) Tax Event, (ii) Regulatory Event, or (iii) Investment Company Act Event in relation to the Company ("**Company Special Redemption Event**").

"Regulatory Event" means that the Bank is notified by a relevant regulatory authority that, as a result of the occurrence of any amendment to or change (including any change that has been adopted but not yet become effective) in, the applicable banking laws of Germany (or any rules, regulations or interpretations thereunder, including rulings of the relevant banking authorities) or the guidelines of the Basle Committee for Banking Supervision, the Bank is not, or will not be, allowed to treat the Class B Preferred Securities as core capital or Tier I regulatory capital for capital adequacy purposes on a consolidated basis.

Any redemption, whether upon the occurrence of a Company Special Redemption Event or after the Initial Redemption Date, will be made at the Redemption Price, provided that any redemption occurring prior to 23 May 2013 shall be at the Early Redemption Price. The Company may exercise its right to redeem the Company Class B Preferred Securities only if it has:

- (i) given at least 30 days' prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Company Class B Preferred Securities of its intention to redeem the Company Class B Preferred Securities on the Redemption Date, and
- (ii) obtained any required regulatory approvals.

The Company Class B Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.

No redemption of the Company Class B Preferred Securities for any reason may take place unless on the Redemption Date:

- (i) the Company has sufficient funds (by reason of the Debt Securities, Permitted Investments or the Support Undertaking) to pay the Redemption Price and to pay and full an amount corresponding to the Capital Payments accrued and unpaid as of the Redemption Date, plus any Additional Amounts;
- (ii) the Bank has an amount of Distributable Profits in respect of the most recent fiscal year for which audited financial statements are available at least equal to the Class B Capital Payments on the Company Class B Preferred Securities accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any, and;
- (iii) no order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision is in effect prohibiting the Bank from making any distributions of its profits (including to the holders of the Parity Securities).

In the event that payment of the Redemption Price is improperly withheld or refused and not paid, Class B Capital Payments will continue to accrue from the Redemption Date to the date of actual payment of such Redemption Price.

Any redemption of the Company Class B Preferred Securities, whether on a Class B Payment Date on or after the Initial Redemption Date or upon the occurrence of a Company Special Redemption Event, will not require the vote or consent of any of the holders of the Company Class B Preferred Securities.

Redemption Procedures

Notice of any redemption of the Company Class B Preferred Securities (a "**Redemption Notice**") will be given by the Board of Directors on behalf of the Company by mail to the record holder of each Company Class B Preferred Security to be redeemed not less than 30 days prior to the date fixed for redemption, or such other time period as may be required by the relevant regulatory authorities.

For purposes of the calculation of the Redemption Date and the dates on which notices are given pursuant to the LLC Agreement, a Redemption Notice will be deemed to be given on the day such notice is first mailed, by first-class mail, postage prepaid, to holders of the Company Class B Preferred Securities. Each Redemption Notice will be addressed to the holders of the Company Class B

Preferred Securities at the address of each such holder appearing in the books and records of the Company.

No defect in the Redemption Notice or in the mailing thereof with respect to any holder will affect the validity of the redemption proceedings with respect to any other holder.

If the Company has given a Redemption Notice (which notice will be irrevocable), and if the Company Class B Preferred Securities are held in certificated form, the Company, on the Redemption Date, will deposit with the Principal Paying Agent funds sufficient to pay the applicable Redemption Price of the amount of any such Company Class B Preferred Securities and will give to the Principal Paying Agent irrevocable instructions and authority to pay such amounts to the holders of the Company Class B Preferred Securities, upon surrender of their certificates, by check, mailed to the address of the relevant holder of the Company Class B Preferred Securities appearing on the books and records of the Company on the Redemption Date.

However, for so long as the Property Trustee holds the Company Class B Preferred Securities, payment will be made by wire transfer in same day funds to, or in accordance with the instructions of, the holder of the Company Class B Preferred Securities by 10:00 a. m., Frankfurt time, on the Redemption Date. Upon satisfaction of the foregoing conditions, then immediately prior to the close of business on the date of payment, all rights of the holders of the Company Class B Preferred Securities so called for redemption will cease, except the right of the holders to receive the Redemption Price and from and after the date fixed for redemption, such Company Class B Preferred Securities will not accrue Class B Capital Payments or bear interest.

Liquidation Distribution

Upon liquidation of the Company, the holder of the Company Class A Preferred Security has a claim senior to that of the holders of the Company Class B Preferred Securities, and the holders of the Company Class B Preferred Securities have a claim senior to that of the holder of the Company Common Security; provided that any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company pro rata solely to the holders of the Company Class B Preferred Securities. The holder of the Company Class A Preferred Security will be entitled to receive the Debt Securities (including accrued and unpaid interest thereon) as its liquidation distribution.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Company Class B Preferred Securities will, subject to the limitations described below, be entitled to receive the liquidation preference amount of such Company Class B Preferred Securities, plus, in each case, accrued and unpaid Class B Capital Payments in respect of the current Class B Payment Period and Additional Amounts, if any. The Company expects that the liquidation distribution to the holders of the Company Class B Preferred Securities will be paid out of funds received from the Support Undertaking. The holders of the Company Class B Preferred Securities will be entitled to receive their liquidation distribution before any distribution of assets is made to the holder of the Company Common Security. Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Company will not be dissolved until all obligations under the Support Undertaking have been paid in full pursuant to its terms.

Mergers, Consolidations and Sales

The Company may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other body, except as described below. The Company may, with the consent of the holders of the Class B Preferred Securities, consolidate, amalgamate, merge with or into, or be replaced by a limited partnership, limited liability company or trust organized as such under the laws of any State of the United States of America, provided, that:

- (i) such successor entity either expressly assumes all of the obligations of the Company under the Company Class B Preferred Securities or substitutes for the Company Class B Preferred Securities other securities having substantially the same terms as the Company Class B Preferred

Securities (the “**Company Successor Securities**”) so long as the Company Successor Securities are not junior to any equity securities of the successor entity, with respect to participation in the profits, distributions and assets of the successor entity, except that they may rank junior to the Company Class A Preferred Security or any successor Company Class A Preferred Security to the same extent that the Company Class B Preferred Securities rank junior to the Company Class A Preferred Security;

- (ii) the Bank expressly acknowledges such successor entity as the holder of the Debt Securities and holds, directly or indirectly, all of the voting securities (within the meaning of Rule 3a-5 under the Investment Company Act) of such successor entity;
- (iii) such consolidation, amalgamation, merger or replacement does not cause the Trust Preferred Securities (or, in the event that the Trust is liquidated, the Company Class B Preferred Securities (including any Company Successor Securities)) to be downgraded by any statistical rating organization nationally recognized in the United States;
- (iv) such consolidation, amalgamation, merger or replacement does not adversely affect the powers, preferences and other special rights of the holders of the Trust Preferred Securities or Company Class B Preferred Securities (including any Company Successor Securities) in any material respect;
- (v) such successor entity has a purpose substantially identical to that of the Company;
- (vi) prior to such consolidation, amalgamation, merger or replacement, the Company has received an opinion of a nationally recognized law firm in the United States experienced in such matters to the effect that:
 - (A) such successor entity will be treated as a partnership, and will not be classified as an association or a publicly traded partnership taxable as a corporation, for United States federal income tax purposes,
 - (B) such consolidation, amalgamation, merger or replacement would not cause the Trust to be classified as other than a grantor trust for United States federal income tax purposes,
 - (C) following such consolidation, amalgamation, merger or replacement, such successor entity will not be required to register under the Investment Company Act, and
 - (D) such consolidation, amalgamation, merger or replacement will not adversely affect the limited liability of the holders of the Company Class B Preferred Securities; and
- (vii) the Bank provides an undertaking to the successor entity under the Company Successor Securities equivalent to that provided by the Support Undertaking with respect to the Company Class B Preferred Securities.

Book-Entry and Settlement

If the Company Class B Preferred Securities are distributed to holders of the Trust Preferred Securities in connection with the involuntary or voluntary liquidation, dissolution, winding up or termination of the Trust, the Bank will use its commercially reasonable efforts to cause the Company Class B Preferred Securities (i) to be assigned the rating at which the Trust Preferred Securities are then rated and (ii) to be eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg if the Trust Preferred Securities are then eligible for clearing and settlement. As of the date of this Prospectus, the description herein of the Clearstream, Luxembourg book-entry system and Clearstream, Luxembourg practices as they relate to purchases, transfers, notices and payments with respect to the Trust Preferred Securities will apply in all material respects to any Company Class B Preferred Securities represented by one or more of such global certificates.

Paying Agent, Transfer Agent and Calculation Agent

Deutsche Bank Aktiengesellschaft will act as paying Agent, transfer agent and calculation agent for the Company Class B Preferred Securities. Registration of transfers of the Company Class B Preferred

Securities will be effected without charge by or on behalf of the Company, but upon payment (with the giving of such indemnity as the Company may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Company will not be required to register or cause to be registered the transfer of the Company Class B Preferred Securities after such Company Class B Preferred Securities have been called for redemption.

Governing Law

The LLC Agreement and the Company Class B Preferred Securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

Miscellaneous

The Board of Directors is authorized and directed to conduct the affairs of the Company in such a way that:

- (i) the Company will not be deemed to be required to register under the Investment Company Act and
- (ii) the Company will not be treated as an association or as a “publicly traded partnership” (within the meaning of Section 7704 of the Code) taxable as a corporation for United States federal income tax purposes.

In this connection, the Board of Directors is authorized to take any action, not inconsistent with applicable law or the LLC Agreement, that the Board of Directors determines in its discretion to be necessary or desirable for such purposes.

DESCRIPTION OF THE SUPPORT UNDERTAKING

The following describes the material terms and provisions of the Support Undertaking. This description is qualified in its entirety by reference to the terms and provisions of such agreement, which is attached hereto as Appendix A.

The Bank and the Company will enter into the Support Undertaking prior to the issuance of the Company Class B Preferred Securities, pursuant to which the Bank will undertake that:

- (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Class B Capital Payments declared (or deemed declared) on, and payments due upon redemption of, the Company Class B Preferred Securities (plus Additional Amounts thereon, if any), and
- (ii) in liquidation, the Company will have sufficient funds to pay the liquidation preference amounts of the Company Class B Preferred Securities, including any accrued and unpaid Class B Capital Payments for the then current Class B Payment Period to but excluding the date of liquidation and Additional Amounts, if any.

The Bank will also undertake not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, any other preference shares or instruments ranking *pari passu* with or junior to preference shares of any other affiliated entity that would rank senior in any regard to the Support Undertaking, unless the Support Undertaking is amended so that it ranks at least *pari passu* with and contains substantially equivalent rights of priority as to payment as any such other guarantee or other support agreement. So long as any Company Class B Preferred Securities remain outstanding, the Support Undertaking may not be modified or terminated without the consent of 100% of the holders of the Company Class B Preferred Securities except for such modifications that are not adverse to the interests of the holders of the Company Class B Preferred Securities. The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare a Class B Capital Payment or other distribution.

The Bank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of the Bank, will rank *pari passu* with the most senior ranking preference shares of the Bank, if any, and will rank senior to any other preference shares and the common shares of the Bank.

The holders of the Company Class B Preferred Securities will be third-party beneficiaries of the Support Undertaking. As titleholder of the Company Class B Preferred Securities for the benefit of the holders of the Trust Securities, the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Company Class B Preferred Securities under the Support Undertaking. If a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking, and such failure continues for 60 days or more after such notice is given, the holders of the Company Class B Preferred Securities (and the Trust Preferred Securities representing Company Class B Preferred Securities) will have the right to appoint the Independent Enforcement Director, who will be required to enforce the rights of the Company under the Support Undertaking.

All payments under the Support Undertaking will be distributed by the Company *pro rata* to holders of the Company Class B Preferred Securities until the holders of the Company Class B Preferred Securities receive the full amount payable under the Support Undertaking. So long as the Trust holds the Company Class B Preferred Securities, the Property Trustee will distribute such payments received by the Trust to the holders of the Trust Preferred Securities *pro rata*.

The Support Undertaking will be governed by, and construed in accordance with, German law.

DESCRIPTION OF THE SERVICES AGREEMENT

The following describes the material terms and provisions of the Services Agreement. This description is qualified in its entirety by reference to the terms and provisions of such agreement.

Under the Services Agreement, the Servicer will be obligated, among other things, to provide tax and other administrative services to the Trust and the Company. The fees and expenses of the Company and the Trust, including any taxes, duties, assessments or governmental charges of whatsoever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities), will be paid by the Bank in accordance with the LLC Agreement.

The Services Agreement does not prevent the Bank or any of its affiliates or employees from engaging in any other activities. The Services Agreement has an initial term of five years and is renewable for additional five year periods unless the Company, the Bank or the Trust delivers a notice of non-renewal in accordance with the terms of the Services Agreement.

DESCRIPTION OF THE TERMS OF THE INITIAL DEBT SECURITIES

The following describes the material terms and provisions of the Initial Debt Securities. This description is qualified in its entirety by reference to the terms and provisions of the Initial Debt Securities.

General

The Principal Amount of the Initial Debt Securities will be € 600,000,000 and will be equal to the sum of the aggregate liquidation preference amount of the Company Class B Preferred Securities plus the aggregate amounts contributed for the Company Class A Preferred Security and the Company Common Security. All of the proceeds from the issuance of the Company Class B Preferred Securities, together with the funds contributed for the Company Class A Preferred Security and the Company Common Security, will be used by the Company to purchase the Initial Debt Securities. The aggregate Principal Amount of the purchased Initial Debt Securities will be such that the aggregate interest income paid on the Initial Debt Securities on any Interest Payment Date will be sufficient to make the aggregate Class B Capital Payments on a corresponding Class B Payment Date. The purchase of the Initial Debt Securities will occur contemporaneously with the issuance of the Company Class B Preferred Securities.

The Initial Debt Securities will consist of an issue of registered subordinated notes issued by the Bank which will mature on the Maturity Date. Interest will be payable by the Bank in euro on the outstanding Principal Amount at a rate per annum equal to the Stated Rate for the relevant Class B Payment Period.

Until (and including) 23 May 2013, interest will be payable by the Bank in euro on the Principal Amount annually in arrears on the Fixed Interest Payment Dates, scheduled to be 23 May of each year, commencing 23 May 2004 at the Fixed Rate. After 23 May 2013, interest will be payable by the Bank in euro on the Principal Amount quarterly in arrears on the Floating Interest Payment Dates, scheduled to be 23 February, 23 May, 23 August and 23 November of each year, commencing 23 August 2013 at the Floating Rate. If any Floating Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Payment Date shall be the immediately preceding Business Day.

If any Interest Payment Date falls on a day that is not a Business Day, payment of all amounts otherwise payable on such date will be made on the first following day that is a Business Day and the holders of the Initial Debt Securities will have no right to claim payment of any interest or other indemnity in respect of such delay in payment.

Payment of interest on the Initial Debt Securities and any repayment upon redemption thereof, will be made by the Bank without deduction or withholding for Withholding Taxes imposed by Germany, the United States or any political subdivision thereof or any other jurisdiction from which such payment is made unless the Bank is required by law to make such deduction or withholding. In such event, the Bank will pay as additional interest such amounts ("**Additional Interest Amounts**") as may be necessary in order that the net amounts received by the Company, after such deduction or withholding, will equal the amounts that would have been received had no such withholding or deduction been required; provided, that the obligation of the Bank to pay such Additional Interest Amounts shall not apply to:

- (i) any tax which is payable otherwise than by deduction or withholding;
- (ii) any tax imposed on the net income of the holder of the Initial Debt Securities or that is payable by reason of the holder having some connection with the jurisdiction imposing such tax other than by reason only of the mere holding of the Initial Debt Securities, or
- (iii) any tax to the extent the same would not have been so imposed but for the presentation of any Initial Debt Securities for payment on a date more than 15 days after the date on which payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later.

The Initial Debt Securities will not be redeemable prior to 23 May 2013, except upon the occurrence of a Company Special Redemption Event or in the event of replacement with Substitute Debt Securities. Subject to having obtained any required regulatory approvals, the Bank may redeem the Initial Debt Securities, in whole but not in part, prior to 23 May 2013, upon:

- (i) the occurrence of a Company Special Redemption Event and the election of the Company to redeem the Company Class B Preferred Securities, and
- (ii) at least 30 days' prior notice, at a redemption price equal to the Principal Amount plus accrued and unpaid interest and Additional Interest Amounts, if any.

The Bank may, at its option, redeem the Initial Debt Securities, in whole but not (except in the event of replacement with Substitute Debt Securities) in part, on any Interest Payment Date on or after the Initial Debt Redemption Date ("**Debt Redemption Date**"), upon at least 30 days' prior notice, subject to having obtained any required regulatory approvals.

The Bank may not cause any redemption of the Initial Debt Securities prior to the Maturity Date (except upon the occurrence of a Company Special Redemption Event) unless:

- (i) the Initial Debt Securities are replaced with Substitute Debt Securities, or
- (ii) the Company is permitted and has elected to redeem an equivalent amount of the Company Class B Preferred Securities as described above, in accordance with the LLC Agreement.

Such redemption will be at a redemption price equal to the Principal Amount to be redeemed plus accrued and unpaid interest thereon, and Additional Interest Amounts, if any.

Upon the occurrence and continuation of an event of default as provided in the terms of the Initial Debt Securities, the Company may declare the Principal Amount and the interest in respect of the Initial Debt Securities to be due and payable upon seven days notice to the Bank but will not be able to accelerate the maturity of the Initial Debt Securities in the case of a default in the payment of the principal of interest on or other amounts owing under the Initial Debt Securities.

The claim for repayment of the Initial Debt Securities ("**Repayment Claim**") will be subordinated in the event of insolvency or liquidation of the Bank to the claims of all other creditors which are not also subordinated and will, in any such event, only be satisfied after all claims against the Bank which are not subordinated have been satisfied. Any right to set-off the Repayment Claim against claims of the Bank will be excluded. No collateral is or will be given for the Repayment Claim; collateral that may have been or may in the future be given in connection with other indebtedness shall not secure the Repayment Claim.

The subordination described above cannot be subsequently restricted, and the minimum term of the Initial Debt Securities cannot subsequently be shortened. Pursuant to § 10 (5a) of the German Banking Act (*Gesetz über das Kreditwesen*), the amount of any repurchase of the Initial Debt Securities prior to the Initial Maturity Date or other redemption must be refunded, notwithstanding any agreement to the contrary, unless a statutory exemption (replacement of the Principal Amount by contribution of other, at least equivalent own funds (*haftendes Eigenkapital*) or prior approval of the BaFin to the early redemption applies.

Substitution; Redemption and Reinvesting of Proceeds

At any time, the Bank will have the right to replace the Debt Securities with Substitute Debt Securities issued by the Bank or a Qualified Issuer upon identical terms to those of the Initial Debt Securities, provided, that such substitution or replacement does not result in a Company Special Redemption Event.

After the Maturity Date, if the Company Class B Preferred Securities have not been redeemed on the Maturity Date, the Company will invest the proceeds from the repayment of the Debt Securities in Permitted Investments. The Company will attempt to purchase Permitted Investments in the following order of priority, to the extent the same are available (and within each category on terms that are

the best available in relation to providing funds for the payment of Class B Capital Payments and the redemption of the Company Class B Preferred Securities):

- first, debt obligations issued by a Qualified Issuer (not including the Bank) and guaranteed by the Bank on a subordinated basis at least equal to the ranking of the Debt Securities, or
- second, in the event such investments are not available, in U.S. Treasury securities.

Additional Debt Securities

Upon the issuance of any Additional Debt Securities, the terms contained herein which apply or refer to the Initial Debt Securities shall apply or refer in the same manner to such Additional Debt Securities.

Governing Law

The Initial Debt Securities will be governed by, and construed in accordance with, German law.

GENERAL INFORMATION ON THE BANK

Incorporation, Seat and Object

Deutsche Hyp, which was renamed Eurohypo AG in connection with the Merger, resulted from the merger in 1998 of Deutsche Hypothekenbank Frankfurt Aktiengesellschaft, founded in 1862, and Hypothekenbank in Hamburg Aktiengesellschaft, founded in 1871, into Norddeutsche Hypotheken- und Wechselbank Aktiengesellschaft, which was founded in 1871.

The Bank's registered office is at Taunusanlage 9, 60329 Frankfurt am Main, Germany.

According to the Bank's Articles of Association (*Satzung*), its corporate object is the business of a mortgage bank in accordance with all applicable laws. The business is to be conducted in the form of a mixed-status mortgage bank (§ 46 of the German Mortgage Bank Act). Within the legal framework applicable to mixed-status mortgage banks, the Bank is authorized to engage in all activities which are directly or indirectly related to its corporate object. For this purpose, the Bank is also authorized to create and acquire other companies or to acquire stakes in other companies. For a discussion of the ramifications under the German Mortgage Bank Act, see "Regulation".

The Merger

The Bank in its current form was established on 13 August 2002 as a result of the Merger of Rheinhyp and Old Eurohypo into Deutsche Hyp. Pursuant to the plan of merger, Old Eurohypo and Rheinhyp, which had the status of pure mortgage banks, were merged into Deutsche Hyp, with Deutsche Hyp as the surviving entity in order to preserve its status as a mixed-status mortgage bank. This status is viewed as important to the Bank's plans to expand its foreign business further and increase the range of its product and service offerings. Simultaneously with the Merger, Deutsche Hyp was renamed "Eurohypo AG" to reflect the company's international orientation.

The general shareholders' meetings of each of Rheinhyp, Old Eurohypo, and Deutsche Hyp approved the Merger and passed the resolutions necessary to complete the Merger in June 2002. The Merger was registered at the relevant commercial registers on 13 August 2002, with economically retroactive effect to 1 January 2002.

For a discussion of certain legal and arbitration proceedings related to the Merger, see "– Legal Proceedings".

Post-Merger Contributions

With the aim of strengthening the Eurohypo Group's commercial real estate business, in particular in the field of real estate investment banking, Deutsche Bank AG and Dresdner Bank AG made several post-merger contributions to the Bank in December 2002 and February 2003 in exchange for additional shares of the Bank. Deutsche Bank AG contributed its Real Estate Finance Division and its London-based Real Estate Investment Banking (REIB) Corporate Finance Team, while Dresdner Bank contributed its U.S. Real Estate Investment Banking Division. These contributions were made to the Bank in exchange for an aggregate number of 27,698,717 ordinary no-par value bearer shares (*Inhaber-Stückaktien*) issued out of the Bank's authorized capital (*genehmigtes Kapital*); see "– Share Capital". Each of the newly issued shares represents a notional interest of € 2.60 in the Bank's aggregate share capital. Under the applicable provisions of the German Stock Corporation Act, the Bank increased its share capital against contributions in kind (*Sachkapitalerhöhung*) and the assets contributed to the Bank were subjected to an auditor's review to ascertain that their value corresponded at least to the notional interest of the shares issued by the Bank in the Bank's aggregate share capital.

Deutsche Bank Real Estate Finance Division

Deutsche Bank AG's Real Estate Finance Division included parts of its German Real Estate Centers in Munich, Stuttgart, Frankfurt, Cologne, Düsseldorf, Hamburg, Berlin and Leipzig. Prior to the Merger,

Deutsche AG and Old Eurohypo had, since 1996, operated these centers jointly as part of their strategy of being a one-stop provider of commercial real estate financing products. The centers provided mortgage banking services as well as property-related banking services. On account of Old Eurohypo's status as a pure mortgage bank, all activities of a non-mortgage-banking nature undertaken by the Real Estate Centers were allocated, for accounting purposes, to Deutsche Bank AG and not to Old Eurohypo and were conducted through Deutsche Bank AG's Real Estate Finance Division. Deutsche Bank AG's post-merger contribution to the Bank included the assets and liabilities of the Real Estate Finance Division, its employees, its client list and relationships, as well as other assets and legal relationships attributable to this division. At the time of the contribution to the Bank, Deutsche Bank AG's Real Estate Finance Division had a loan book amounting to about € 4,700 million and more than 200 employees. Deutsche Bank AG and the Bank entered into the contribution agreement on 30 December 2002. The issuance of the 16,996,026 shares to Deutsche Bank AG in exchange for the contribution was recorded in the Bank's commercial register on 20 February 2003.

Deutsche Bank's REIB Corporate Finance Team in London

Deutsche Bank AG's London-based REIB Corporate Finance Team, which as of 31 December 2002 had 14 members and a loan book of about € 300 million, was transferred to the Bank pursuant to a contribution agreement concluded on 27 December 2002. The issuance of the 3,403,460 shares to Deutsche Bank AG in exchange for the contribution was recorded in the Bank's commercial register on 29 January 2003.

Dresdner Bank's U.S. Real Estate Investment Banking Division

REIB USA, Dresdner Bank AG's former U.S. Real Estate Investment Banking Division, was founded in 1994. It offers a broad range of investment banking services to U.S. clients, including the provision of real estate M&A advisory services, syndicated loans, structured financing, credit lines, and project-development and mezzanine financing. The division places a strong emphasis on working together with U.S. real estate investment trusts. In the last three years, REIB USA has become a significant player in the provision of short- and medium-term financing, with an average annual lending volume of over € 3 billion (excluding participations and renewals). As of 31 December 2002, the US Real Estate Investment Banking Division had a loan book amounting to USD 2,104 million (with USD 1,200 million drawn down) and had 42 employees in Chicago, Los Angeles and New York. The Bank has received a license to operate a branch in New York and representative offices in Chicago and Los Angeles from the respective US regulatory authorities. These operations were commenced during January 2003. Dresdner Bank AG and the Bank entered into a contribution agreement with regard to the transfer of US REIB on 28 January 2003. The issuance of the 7,299,231 shares to Dresdner Bank AG in exchange for the contribution. The issuance of these shares was recorded in the Bank's commercial register on 27 February 2003. The Eurohypo Group's operation of a branch in New York and representative offices in Chicago and Los Angeles subjects the bank to the is subject to banking regulatory regime of the United States and the State of New York. See "Investment Considerations – Banking Regulatory Restrictions"

Share Capital

The Bank's issued share capital amounts to € 913,688,919 and is divided into 351,418,815 ordinary no-par value bearer shares (*Inhaber-Stückaktien*), each of which represents a notional amount of € 2.60 of the Bank's share capital.

The Bank's management board (*Vorstand*) is authorized until 17 June 2007 to increase the Bank's share capital with the consent of the Bank's supervisory board (*Aufsichtsrat*) up to € 122,000,000, in one or several increases, by issuing new ordinary no-par value bearer shares (*Inhaber-Stückaktien*) from authorized capital (*Genehmigtes Kapital*) in exchange for in cash or in-kind contributions. The management board is authorized to exclude shareholders' pre-emptive rights with the consent of the supervisory board if the shares are issued against consideration in kind in the context of corporate acquisitions. In connection with the post-merger contributions, the Bank authorized the issuance of shares in the amount of an increase of € 72,016,664.20 from this authorized capital, leaving

€ 50,183,335.80 of authorized capital available for future authorizations; see “– Post-Merger Contributions”.

Shareholders

Following the Merger and the post-merger contributions (see “– Post-Merger Contributions”), the Bank’s major shareholders were GENUJO Sechste Beteiligungsgesellschaft GmbH, a subsidiary of Dresdner Bank AG (28.48%), Commerzbank Inlandsbanken Holding AG, a subsidiary of Commerzbank AG (31.85%), and DB Financial Services Holding GmbH, part of Deutsche Bank Group (37.59%). Under the German Securities Trading Act (*Wertpapierhandelsgesetz*), the shares held by GENUJO SECHSTE BETEILIGUNGS-GESELLSCHAFT GmbH are attributed to Allianz Aktiengesellschaft, Munich, Germany (which indirectly holds all of the shares of Dresdner Bank AG). The remaining 2.08% of the Bank’s outstanding share capital is held by a number of smaller shareholders.

General Shareholders’ Meetings

The Bank’s ordinary shareholders’ meeting is held during the first eight months of each financial year at either its corporate seat, a city in Germany with a stock exchange or any other German city with more than 250,000 inhabitants.

Mandatory Offer

The German Tender Offer Act (*Wertpapiererwerbs- und Übernahmegesetz*) requires that once a shareholder acquires a controlling stake of 30% or more of a German stock corporation, the shareholder must make a mandatory offer for the shares of all remaining shareholders. In the Merger, Commerzbank AG and Deutsche Bank AG received newly issued shares in the Bank, in each case exceeding 30% of the Bank’s issued share capital. However, given the other significant shareholder of the Bank, Dresdner Bank AG, has a 28.48% interest in the Bank, neither Deutsche Bank AG nor Commerzbank AG will be able to control the Bank. Accordingly, Deutsche Bank AG and Commerzbank AG submitted applications to the BaFin seeking relief from the mandatory offer provisions of the German Tender Offer Act on the grounds that (i) neither of them controls the Bank and (ii) that the Former Parent Banks are not acting in concert. The BaFin denied the application stating however that the decision by the Former Parent Banks on the Merger had been taken in 2001, i. e. prior to the enactment of the German Tender Offer Act. Accordingly, the BaFin is of the view that the mandatory offer provisions of the German Tender Offer Act do not apply in relation to Commerzbank AG’s and Deutsche Bank AG’s shareholdings in the Bank so that no mandatory offer is required. In addition, the BaFin ruled that notwithstanding its ruling on the mandatory offer requirements, the three Former Parent Banks’ voting rights in the Shares have to be regarded as a voting pool in accordance with section 30 para. 2 of the German Tender Offer Act.

Regulatory Capital Financing Obligations

In connection with the Merger, Commerzbank AG, Deutsche Bank AG and Dresdner Bank AG agreed to ensure that the combined capital quota of the Eurohypo Group would meet the 10% capital ratio recommended by the Bank for International Settlements, consisting of 6% Tier I capital and 4% Tier II capital, in each case on the basis of projected risk-weighted assets as of 31 December 2002. The Former Parent Banks deemed this capitalization necessary for the independent operation of the Eurohypo Group, given that as the Predecessor Banks, for regulatory capital purposes, had been integrated with the groups of the Former Parent Banks; see “Investment Considerations – Availability of Regulatory Capital”. In addition, this capitalization is required in order to operate the branch in New York associated with Dresdner Bank AG’s former U.S. Real Estate Investment Banking Division. The Eurohypo Group’s US REIB operations subject it to U.S. and New York banking regulatory supervision (see “– Post-Merger Contributions – Dresdner Bank AG’s U.S. Real Estate Investment Banking Division”).

In order to meet these regulatory capital obligations, Rheinhyp increased its share capital in November 2001 by 10%, which added about € 199 million of Tier I capital. In August 2002, Commerzbank contributed an amount of € 200 million (plus interest thereon accrued since 1 January 2002) to the capital reserves of Rheinhyp. Dresdner Bank contribute Tier I capital in the amount of € 273 million (plus interest since 1 January 2002) to Deutsche Hyp, for which Deutsche Hyp increased its share capital by 17.65%. The arrangement did not contemplate any additional contributions by Deutsche Bank AG to Old Eurohypo.

Shareholder Guarantee Obligations and Loan Loss Provisions

Pursuant to the plan of merger, each of the Former Parent Banks has given the Bank a guarantee up to a maximum amount covering potential loan losses on the credit portfolios of Old Eurohypo, Deutsche Hyp and Rheinhyp, respectively. Each of the guarantees covers loan losses in excess of the risk provisioning and write-off amounts projected in the respective business plans of the Predecessor Banks and arising out of credit transactions that were entered into by the Predecessor Banks prior to 1 January 2002 and is valid from 1 January 2002 up to the date on which the Bank's financial statements for the financial year ending 31 December 2006 are confirmed by the Bank's supervisory board. Net of tax effects, Deutsche Bank AG's guarantee covers Old Eurohypo's loan portfolio up to a maximum amount of € 283 million, and Commerzbank AG's guarantee covers Rheinhyp's loan portfolio up to a maximum of € 191 million. Dresdner Bank AG's guarantee covers Deutsche Hyp's loan portfolio up to a maximum amount of € 228 million. The amount of Dresdner Bank AG's guarantee can decrease by a net amount of up to € 96 million if any of the specific loan loss provisions set up for Deutsche Hyp's loan portfolio as of 31 December 2001 are reversed during the term of the guarantee. Given that the Bank currently expects such a reversal, it estimates that the overall amount of Dresdner Bank AG's guarantee will be € 132 million (i. e. € 228 million less a deduction of € 96 million). Accordingly, the net aggregate amount of guarantees available to the Bank as of 1 January 2002 amounted to € 606 million. The following table sets forth the net guarantee amounts available (taking into account the reduction of Dresdner Bank's guarantee) and the amounts in which these guarantees have been used up in the financial year ended 31 December 2002:

Net Guarantee Amount in Million €	Commerz- bank AG	Deutsche Bank AG	Dresdner Bank AG
Net amount as of 1 January 2002	191	283	132
Use of Guarantees	97	21	74
Remaining Guarantee as of 1 January 2003	94	262	58

Overall, the guarantees of the Former Parent Banks were used up in an aggregate amount of € 192 million during the financial year ended on 31 December 2002 which corresponds to approximately 32% of the overall amount available. Commerzbank AG's guarantee has been used up in an amount corresponding to approximately 52%, Deutsche Bank AG's guarantee has been used up in an amount corresponding to approximately 7% and Dresdner Bank AG's guarantee has been used up in an amount corresponding to 56% (32.5% if no reduction of the guarantee amount were to occur). Overall, the guarantees of the Former Parent Banks reduced the net effect of the Bank's overall risk provisions for the financial year ended 31 December 2002 from € 417.9 million to € 225.8 million.

The Eurohypo AG Group of Companies

Eurohypo AG is the parent entity to a group of companies as set forth in the notes to the consolidated financial statements of the Bank for the financial year ended 31 December 2002. For the purposes of its consolidated financial statements, the Bank consolidated Eurohypo AG, Europäische Hypothekbank S.A., Luxembourg and RHEINHYP BANK Europe plc., Dublin. The other companies in which Eurohypo AG holds interests are not included in the consolidated financial statements as they are deemed to be immaterial to convey a true and fair view of the group's assets, liabilities, financial position and earnings. The Company and the Trust are both directly held subsidiaries of Eurohypo AG.

Management

As a German stock corporation, the Bank has a two-tier board system. The management board is responsible for the management of the Bank and the representation of the Bank with respect to third parties, while the supervisory board appoints and removes the members of the management board and supervises the board's activities.

Management Board

The following table shows the current members of the management board and their respective principal areas of responsibility:

<u>Name</u>	<u>Position</u>	<u>Principal responsibilities</u>
Dr. Karsten von Köller	Chairman	Commercial Real Estate Clients Continental Europe Internal Auditing Strategy and Communication Operations Global Markets
Bernd Knobloch	Deputy Chairman	Commercial Real Estate Clients United States Legal Services
Dirk Wilhelm Schuh	Deputy Chairman	Risk Management/Credit Market and Operational Risks Human Resources
Dr. Matthias Danne	Member	Retail Residential clients IT/Organization
Joachim Plessner	Member	Commercial Real Estate Clients Germany Internal and External Reporting
Henning Rasche	Member	Money/Capital Markets/Treasury Public Sector Financing

Dr. Karsten von Köller, born in 1940 in Berlin, commenced his professional career with BHF-BANK in Frankfurt following his second state examination in law and doctoral graduation in 1971. Following a secondment for the bank in New York in 1981, he was appointed as general manager responsible for corporate client business in Northern and Western Europe and the United States. He was appointed to the Board of Managing Directors of Rheinyp in Frankfurt in 1984.

Bernd Knobloch, born in 1951 in Munich, studied law and business administration. In 1977, he became managing partner of Allgemeine Bauträgersgesellschaft mbH & Co – Cederbaum und Partner KG, Munich. In 1991, he moved to Old Eurohypo as a manager with general power of attorney and was appointed one year later as a member of the Board of Managing Directors.

Dirk Wilhelm Schuh, born in 1956 in Soest/Westphalia, joined the Dresdner Bank Group in 1979 where he assumed a variety of managerial roles in local offices and in the head office of the Dresdner Bank in Frankfurt. These roles included head of the department in the Corporate Credit/Risk Management division, head of the Commercial Client Strategy project and Spokesman for regional management South/East. He was appointed to the Board of Managing Directors of Deutsche Hyp in 2000.

Dr. Matthias Danne, born in 1959 in Elze/Lower Saxony, joined Rheinyp in 1986, following a banking traineeship with Deutsche Hypothekenbank (Aktien-Gesellschaft) in Hanover and studying economics. In 1987, he engaged in part-time doctoral studies and, in 1989, spent one year with McKinsey. He has been a member of the Board of Managing Directors of Rheinyp since 2000.

Joachim Plessner, born in 1947 in Arnsberg/Westphalia, trained as Bankkaufmann with Deutsche Bank Düsseldorf. In 1986, he joined the Board of Managing Directors of Deutsche Kreditbank für Baufinanzierung in Cologne and, following its incorporation into Deutsche Bank, he was appointed Head of

the Construction Financing and Real Estate division at the head office in Frankfurt. In 1990, he joined the Board of Managing Directors of Deutsche Centralbodenkredit AG, Cologne which merged with Frankfurter Hypothekenbank in 1995. Subsequently, he became a member of the Board of Managing Directors of Old Eurohypo.

Henning Rasche was born in 1953 in Hanover. After Bankkaufmann training with Deutsche Bank in Hanover and attending the Banking Academy to qualify as a Bankfachwirt, he held a variety of positions including as the bank's Stock Exchange Trader and Head of Bond Trading. In 1987, he moved to Deutsche Hyp, Frankfurt as Head of the Funding Division. In 1989, he returned to Deutsche Bank Group as Head of the Treasury Department of Frankfurter Hypothekenbank. He was appointed to the Board of Managing Directors of Deutsche Hyp in 2001.

The members of the management board received total remuneration of about € 6.4 million in the financial year 2002. As of 31 December 2002 loans granted to members of the management board amounted to about € 1.5 million.

Supervisory Board

The supervisory board consists of twelve members. Six members are elected by the shareholders at their general meeting, and six members are elected by the employees of the Eurohypo Group in accordance with the German Codetermination Act. In connection with the Merger, the size of the supervisory board was reduced from eighteen to twelve members. The membership of the former 18 members ended one month after the announcement of the reduction in accordance with the German Codetermination Act. The six shareholder representatives who were elected at the Bank's last shareholders' meeting joined the board as of the registration of the amendment to the Bank's articles of association reducing the supervisory board's size, which occurred on 24 September 2002. Pending a uniform election of the employee representatives for the Eurohypo Group, which is scheduled to take place in May 2003, the local court in Frankfurt am Main has appointed six interim employee representatives, effective as of 26 September 2002.

The following table sets forth the current members of the supervisory board:

Name	Position	Principal occupation
Dr. Joachim von Harbou	Chairman	Lawyer
Brigitte Siebert (*)	Deputy Chairwoman	Bank Employee
Jürgen Fitschen	Deputy Chairman	Member of the Group Executive Committee of Deutsche Bank AG
Herbert Bayer (*)	Member	Secretary of ver.di, the German services industry union, Frankfurt District
Dr. Hugo Banziger	Member	Chief Credit Officer of Deutsche Bank AG
Peter Birkenfeld (*)	Member	Bank Employee
Martin Blessing	Member	Member of the Management Board, Commerzbank AG
Klaus Müller-Gebel	Member	Attorney
Dr. Andreas Georgi	Member	Member of the Management Board, Dresdner Bank AG
Cornelia Pielenz (*)	Member	Attorney with ver.di, the German services industry union, Central Office Berlin
Wolf Eckhart Schröder (*)	Member	Bank Employee
Jens Tiedemann (*)	Member	Bank Employee

(*) Employee Representative

As of 31 December 2002 loans granted to members of the supervisory board amounted to approximately € 0.1 million. The business address of members of the supervisory board is Taunusanlage 9, 60329 Frankfurt am Main, Germany.

Employees

As of 31 December 2002, the Eurohypo Group had 2,559 employees, excluding employees assumed in connection with the post-merger contributions of Deutsche Bank AG's domestic Real Estate Finance activities and Dresdner Bank AG's United States Real Estate Investment Banking Activities from the relevant Former Parent Banks; see "– Post-Merger Contributions". About 5% of Eurohypo Group's employees are based outside Germany. In the context of the contribution of Deutsche Bank AG's domestic Real Estate Finance activities and Dresdner Bank AG's United States Real Estate Investment Banking Activities, an additional 263 employees were added to Eurohypo Group's workforce in the course of January 2003, 42 of which are based in the United States.

In order to fulfil the underlying rationale of the Merger and to fully integrate the Predecessor Banks, one of the Bank's main objectives is the streamlining of its operations. This will require, among others, a reduction of headcount as certain operational departments of the Predecessor Banks are integrated. The Bank is committed to achieving a mutually acceptable solution to this challenging task on the basis of a wide-reaching consensus with the employee representatives of all three Predecessor Banks.

Financial Year

The Bank's financial year is the calendar year.

Independent Auditors

The Bank's independent auditors are KPMG, Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany.

Legal Proceedings

The Eurohypo Group is involved from time to time in various claims and lawsuits incidental to the ordinary course of business.

Old Eurohypo and Deutsche Hyp each have been named as respondents in appraisal proceedings (*Spruchverfahren*) in connection with mergers that these banks undertook prior to the Merger. The proceedings involving Old Eurohypo are being heard at the local court in Lübeck and were initiated in connection with the merger of Lübecker Hypothekbank AG into Old Eurohypo. The proceedings involving Deutsche Hyp are being heard in the local courts in Hamburg and Frankfurt am Main and were initiated in connection with the merger of Hypothekbank in Hamburg Aktiengesellschaft and of Deutsche Hypothekbank Frankfurt AG into Norddeutsche Hypotheken- und Wechselbank AG, which changed its name to Deutsche Hyp in the context of that merger. In these proceedings, the courts are being asked whether the exchange ratio for each of these mergers was fair and whether the former shareholders of the acquired banks are entitled to additional compensation. If either of the courts finds that an exchange ratio was not fair, the former shareholders of Lübecker Hypothekbank AG or Deutsche Hypothekbank Frankfurt AG, as the case may be, would be entitled to receive a cash payment from the Bank, as legal successor to Old Eurohypo and Deutsche Hyp, in an amount equal to the difference between the value of the shares received in the relevant merger and the value of shares held by the shareholders in the acquired bank at the time of the relevant merger. In the context of these proceedings, Deutsche Bank AG and Dresdner Bank AG have waived their rights to additional compensation. In addition, they will compensate for any additional payments ordered by the court by making contributions to the Bank's reserves. The cost of the proceedings will be borne by the Bank.

In addition, Rheinyp and Old Eurohypo have been named as respondents in appraisal proceedings in connection with the Merger. These proceedings will be heard at the local court in Frankfurt am Main and have been initiated by former shareholders of Rheinyp and Old Eurohypo. Moreover, Deutsche Hyp has submitted to voluntary appraisal proceedings before an arbitration tribunal. Simi-

lar to the appraisal proceedings described in the previous paragraph, the court (in relation to Rheinhyp and Old Eurohypo) and the arbitration tribunal (in relation to Deutsche Hyp) is being asked whether the exchange ratio for the Merger was fair to the shareholders of the Predecessor Banks. If the court finds that the exchange ratio was not fair, the former shareholders of the relevant Predecessor Banks (Old Eurohypo and Rheinhyp) would be entitled to receive a cash payment from the Bank, in an amount equal to the difference between the value of the shares held in the relevant Predecessor Bank immediately prior to the Merger and the value of their shares in the Bank immediately following the Merger. The relevant Former Parent Banks have waived any such potential claims. The Former Parent Banks have agreed to compensate the shareholders of the Bank prior to the Merger (i. e. the shareholders of Deutsche Hyp) with additional shares in the Bank if the arbitration tribunal finds that the exchange ratio was not fair. Such compensation will be equal to the value difference determined by the arbitration tribunal.

There can be no assurances as to when the courts or the arbitration tribunal will issue rulings in any of the foregoing appraisal proceedings. If additional cash payments as compensation for unfair exchange ratios are awarded in any of these proceedings, all shareholders of the relevant acquired bank would be entitled to receive such compensatory payments.

While there can be no assurances, the Bank believes that the outcome of all pending legal and arbitration proceedings, either individually or in the aggregate, will not have a material adverse effect on the Eurohypo Group's financial position or results of operations.

After granting antitrust clearance for the Merger, the German Federal Antitrust Agency (*Bundeskartellamt*) instigated an investigation into the question of whether the merger of the three Predecessor Banks and the co-ordination of the real estate activities of the Former Predecessor Banks constitutes an unlawful cartel agreement among the Former Parent Banks. This investigation has not yet concluded, however, the German Federal Antitrust Authority has not taken any steps against the Bank's activities.

Related-Party Transactions

The Former Parent Banks have agreed to provide to the Eurohypo Group the services that they provided to the respective Predecessor Banks to the extent that the Eurohypo Group elects to receive such services. Among others, Eurohypo Group continues to use the services of some or all of the Former Parent Banks for its money market and derivatives transactions and for its IT needs.

The Eurohypo Group has also entered into sales agency agreements with two of the Former Parent Banks to use their respective branch banking networks to market its residential loan products to private clients in Germany. Commerzbank AG has agreed to act as a sales agent for the Bank for a five-year term, beginning 1 January 2002; and Deutsche Bank AG has agreed act as a sales agent through its branch banking network Deutsche Bank 24.

Given that the Predecessor Banks, until registration of the Merger with the commercial register on 13 August 2002 majority-owned by the Former Parent Banks, respectively, each of the Predecessor Banks was a subordinated company (*abhängiges Unternehmen*) within the meaning of the German Stock Corporation Act. Accordingly, the Bank was required to prepare a subordination report (*Abhängigkeitsbericht*) about Deutsche Bank AG's relationship to Old Eurohypo, Commerzbank AG's relationship Rheinhyp and Dresdner Bank AG's relationship to Deutsche Hyp, respectively, for the financial year 2002 up to and including 12 August 2002. The subordination report states that the Bank believes all transactions entered into with the Former Parent Bank during such period were entered into on an arm's length basis and that the Predecessor Banks have not been adversely affected by the taking or the omitting of any measures.

In addition, the Bank believes that all of the transactions with the Former Parent Banks following the Merger and the ongoing transactions with the Former Parent Banks are on terms consistent with transactions done on an arm's-length basis.

BUSINESS

Overview

The Bank is a specialist provider of financing in the real estate and public sector markets. It engages in real estate and public sector financing activities, both directly and through its subsidiaries, throughout Europe and in the United States. With total assets of € 228.5 billion as of 31 December 2002, the Eurohypo Group is Germany's largest mortgage bank and one of Europe's largest commercial property lenders.

The Bank, in its current form, was established in 2002 by the Merger of the mortgage banks of three of Germany's four largest commercial banks: Commerzbank AG's Rheinhyp, Deutsche Bank AG's Old Eurohypo and Dresdner Bank AG's Deutsche Hyp. See "General Information on the Bank – The Merger".

Following the Merger, each of Deutsche Bank AG and Dresdner Bank made post-merger contributions to the Bank. On 27 December 2002, Deutsche Bank AG transferred a significant portion of its London-based Real Estate Investment Banking ("REIB London") Corporate Finance Team to the Bank. Furthermore, Deutsche Bank Frankfurt contributed its Real Estate Finance division ("REF") to the Bank on 30 December 2002. On 28 January 2003, Dresdner Bank AG transferred its U.S. Real Estate Investment Banking Division ("REIB USA") to the Bank. See "General Information on the Bank – Post-Merger Contributions".

The Eurohypo Group operates the following business divisions:

- Commercial Real Estate Clients Germany;
- Commercial Real Estate Clients Continental Europe;
- Commercial Real Estate Clients United Kingdom ;
- Commercial Real Estate Clients USA;
- Retail Residential Clients; and
- Global Markets / Public Sector Finance / Treasury.

The business divisions form the basis for the segment accounting of the Eurohypo Group introduced following the Merger. The Eurohypo Group's consolidated financial statements for the fiscal year ended 31 December 2002 encompass the segments "Commercial Real Estate Clients Germany", "Commercial Real Estate Clients Continental Europe", "Commercial Real Estate Clients United Kingdom", "Retail Residential Clients" and "Global Markets/Public Sector Finance/Treasury". The segment "Commercial Real Estate Clients United Kingdom" includes REIB London, whereas REF is included in the "Commercial Real Estate Clients Germany" segment and REIB USA forms the separate segment "Commercial Real Estate Clients USA" for financial reporting purposes as from 1 January 2003.

As of 31 December 2002, Eurohypo's total outstanding real estate loans were € 95.6 billion and its total public sector assets amounted to € 121.1 billion (including investments in public sector bonds).

The Eurohypo Group raises funding for its real estate and public sector financing and refinancing commitments primarily through the issuance of mortgage and public sector Pfandbriefe and, to a lesser extent, the issuance of other fixed-income securities. As of 31 December 2002, Eurohypo's total outstanding securities of € 217.8 billion were comprised of € 51.3 billion worth of mortgage Pfandbriefe and € 111 billion worth of public sector Pfandbriefe. In 2002, the Bank issued mortgage Pfandbriefe in the aggregate amount of € 3.8 billion and public sector Pfandbriefe and Lettres de Gages in the aggregate amount of € 6.5 billion. In terms of volume, Eurohypo AG is the largest issuer of Pfandbriefe, and had a market share of approximately 15% as of 31 December 2002. Eurohypo's Luxembourg subsidiary, Europäische Hypothekenbank S. A., is currently one of the leading issuers of Lettres de Gage Publiques in the Grand Duchy of Luxembourg. At the beginning of 2003, the Eurohypo AG completed its first benchmark floatation with a € 3 billion Global Pfandbrief offering.

For the year ended 31 December 2002, the Eurohypo Group had operating profits (after taking into account risk provisions and evaluation) of € 561.7 million and net income of € 293.5 million.

Rationale for the Merger

The key rationale for the Merger was to combine the assets, product range, expertise and business relationships of the Predecessor Banks to create one of Europe's strongest institutions in the real estate and public sector financing markets as well as the Pfandbrief market.

The Eurohypo Group is currently seeking to realize synergies from the Merger by rationalizing and combining the overlapping functions and facilities of the Predecessor Banks and by creating lean business organisations. The Bank believes that, beginning in 2004, the Merger will generate annual cost savings of approximately € 120 million. The Eurohypo Group incurred restructuring costs in connection with the Merger of approximately € 233 million in 2002. Further restructuring costs resulting from the Merger are anticipated for in 2003 and 2004 but it is expected that these costs will be significantly lower than those recorded in 2002.

Strategy

The Eurohypo Group's goal is to capitalise on the historically strong positions of the Predecessor Banks, following the Merger, in order to become one of the leading providers of real property and public sector financing in Europe and the United States. To this end, the bank has adopted the following strategies:

- Increase focus on commercial real estate financing.
- Intensify activities in business areas showing higher profit potential such as real estate investment banking and provision of loan administration services to third parties.
- Strengthen leading market position in the provision and refinancing of standardised retail residential loans in Germany through a network of intermediaries and cooperation partners.
- Improve profits in public sector financing by expanding primarily in the higher margin foreign business.
- Gain refinancing advantage by establishing itself as a benchmark issuer in the market for Pfandbriefe.

The Eurohypo Group sees strong growth opportunities in real estate markets outside Germany and believes its financial strength, expertise and international network make it a strong partner for institutional property investors throughout Europe and in the United States. Accordingly, the Eurohypo Group expects the percentage of its total revenues and lending commitments attributable to activities outside of Germany to increase in the future.

Commercial Real Estate Clients Germany

Through its head office in Frankfurt and ten regional offices throughout the country, the Eurohypo Group provides a wide range of real estate financing products to its professional client base in Germany. These products include:

- classic real estate loans secured by first-ranking and subordinated mortgages;
- structured financing, such as equity, acquisition and performance-linked financing;
- cash-flow-linked financing at the senior, mezzanine and subordinated levels;
- financing of equity investments in real estate companies; and
- interest rate and exchange rate management for clients.

The Commercial Real Estate Clients Germany division focuses on financing medium- and large-scale projects with a volume of not less than € 2.5 million to a professional real estate client base. The Eurohypo Group provides professional real estate financing for all types of income-producing properties, provided they are able to meet the Eurohypo Group's sustainable-debt criteria for credit worthiness, location, quality and long-term rental potential.

As of 31 December 2002, the Eurohypo Group's total commercial real estate financing volume in Germany was € 40.0 billion and accounted for 41.8% of the Eurohypo Group's total real estate loan portfolio. Eurohypo recorded € 5 billion of new professional real estate loan commitments in Germany in 2002 which accounted for 35.8% of the Eurohypo Group's total new real estate loan commitments in 2002. . Most loans were extended for properties in the greater Frankfurt and Munich areas, followed by the cities of Dusseldorf and Cologne. Effective as of 1 January 2003, the transfer of Deutsche Bank's REF division to Eurohypo resulted in an increase of the real estate loan portfolio of the Commercial Real Estate Clients Germany by € 4.3 billion.

The market environment for commercial real estate finance in Germany continues to be a difficult one. Low economic growth rates have, with a time delay, led to a rise in vacancy rates for commercial properties and effected a decrease of real estate prices and leases in 2002. The significant rise in bankruptcies has led to a deterioration of credit quality (particularly in the eastern regions of the country). As a result of these developments, a portion of the latent risks in the Eurohypo' Group's current loan portfolio evolved into evident risks in 2002. Gross provisions for credit risks related to German professional real estate loans amounted to € 222.1 million in 2002. In connection with the Merger, each of Eurohypo AG's three major shareholders, Commerzbank AG, Deutsche Bank AG and Dresdner Bank AG, agreed to assume guarantees covering certain risks attributable to the credit portfolios that they each contributed to Eurohypo. See "General Information on the Bank – Shareholder Guarantee Obligations and Loan Loss Provisions". After taking into account the partial absorption of provisions for credit risks by virtue of such guarantees, net provisions of the Eurohypo Group for credit risks arising in the Commercial Real Estate Clients Germany division amounted to € 112.3 million in 2002.

Net Interest income of the Commercial Real Estate Clients Germany division amounted to € 349.2 million, while fee income amounted to € 18 million in 2002. Net income before taxes attributable to commercial real estate activities in Germany amounted to € 157.0 million for the annual period ended 31 December 2002.

The Eurohypo Group believes the results of its professional real estate financing activities in Germany have been affected by some of the structural burdens that were inherited by virtue of the Merger. For example, the small loan amounts of a number of the loans in the professional real estate portfolio for Germany greatly compounds the matching of income to risks. In addition, a number of the portfolio's large loans do not presently meet Eurohypo's targets for adequate margin returns. Eurohypo attaches high priority to the gradual restructuring of its portfolio of German loans to improve the overall return on this portfolio.

Commercial Real Estate Clients Continental Europe

The Commercial Real Estate Clients Continental Europe division provides commercial real estate financing services through 13 local offices and branches in 12 continental European countries. The division combines the market and financing expertise of its local real estate experts with the structuring capabilities of the Bank's international transaction teams based in Frankfurt. Furthermore, it draws upon the Bank's real estate investment banking and syndication know-how and, thereby, is able to offer its clients a comprehensive range of professional real estate financing services. The division's loan portfolio is administered centrally in Frankfurt.

Target clients of the Commercial Real Estate Clients Continental Europe division include institutional real estate investors, real estate investment companies and professional private clients with financing requirements per project in excess of € 10 million.

The generally unfavourable economic climate in Continental Europe has affected commercial real estate markets in 2002. In Northern and Central Europe, the demand for office and retail buildings has declined and the leasing side has decreased while vacancy rates have increased. The real estate market in France was characterised by stagnation on a high level. In Southern Europe, especially in Italy and Spain, the situation was more stable, partly as a result of the attractiveness of these markets for institutional real estate investors. The real estate markets of the future EU member states of Poland, Hungary, the Czech Republic and Slovakia have experienced a stabilisation on the leasing

front, and the Bank expects that these markets will become increasingly attractive to institutional investors as legal stability improves.

As of 31 December 2002, the total financing volume of the Commercial Real Estate Clients Continental Europe division amounted to € 13.8 billion and accounted for 14.4% of the Eurohypo Group's total real property loan portfolio. The Eurohypo Group recorded € 5.4 billion of new professional real estate loan commitments in continental Europe in 2002, accounting for 38.6% of the Eurohypo Group's total new real estate loan commitments in 2002. In regional terms, Spain accounted for 10.7% of total new commitments, followed by France (9.5%, respectively) and Italy (5.3%). The central European reform countries accounted for 2.2% of new commitments. The focus of the Eurohypo Group's financing activities by type of property rests upon office and retail buildings.

Net Interest income of the Commercial Real Estate Clients Continental Europe division amounted to € 170.1 million, while fee income amounted to € 25.9 million in 2002. Gross provisions for credit risks related to continental European commercial real estate loans amounted to only € 3.7 million in 2002 and to € 1.9 million in 2002 after taking account the shareholder guarantees. See "General Information on the Bank – Shareholder Guarantee Obligations and Loan Loss Provisions". This resulted in net income before taxes attributable to commercial real estate activities in Continental Europe amounting to € 153.3 million, representing 25% of the Eurohypo Group's net income before taxes. The return on equity, calculated on the basis of regulatory capital, used in commercial real estate activities in Continental Europe was 17.2% in 2002.

Commercial Real Estate Clients United Kingdom

Eurohypo Group's Commercial Real Estate Clients United Kingdom division is located in London. It comprises the London activities of the Predecessor Banks and the former Real Estate Investment Banking unit of Deutsche Bank AG (REIB London) which was contributed to the Bank by Deutsche Bank AG on 27 December 2002 with economic effect as of 1 January 2002.

The focus of the division focuses is to offer a comprehensive range of real estate financing facilities and to target professional clients wishing to obtain finance for large scale commercial projects throughout the United Kingdom but with an emphasis upon the City of London. In addition, the division, through its unit REIB London, engages in a broad range of complex structured real estate transactions throughout Europe, including solutions for capital market-oriented and mezzanine financing. It also advises institutional real estate investors with respect to the acquisition and disposal of real estate investment portfolios.

The market for commercial real estate financing in the United Kingdom is characterised by intense competition. In 2002, the market for new office space in London was affected by a decrease in rental demand and falling rents in London resulting from the difficulties facing the London financial market, as well as by a 10% increase in new office space. However, the London market for trade properties and warehouses remained stable throughout 2002. The markets for office space in other regional markets have been supported by demand from the public sector.

As of 31 December 2002, the total financing volume of the Commercial Real Estate Clients United Kingdom division amounted to € 7 billion, and the portfolio of syndicated loans managed by the London branch amounted to € 16 billion. New commitments for professional real estate loans in 2002 amounted to € 2.2 billion. According to Bank of England data, the UK branch had a 5% share of the total commercial property lending by banks regulated in the United Kingdom in 2002. The Eurohypo Group believes that its United Kingdom branch's professional real estate portfolio contains a balanced and diversified pool of loans, with loans relating to office and trade properties accounting for approximately 40% each and loans relating to retail space, warehouses and special-purpose properties accounting for the remainder. As of 31 December 2002, 7.3% of the Eurohypo Group's total real estate loans were attributable to its United Kingdom branch.

The United Kingdom branch earned net interest income of € 89.5million in 2002 and commission revenues amounted to € 25.3 million. No risk provisioning was required in 2002 as a result of effective risk management. Net income before taxes, excluding amounts due under the shareholder guaran-

tees, attributable to the Commercial Real Estate Clients UK activities amounted to € 95.4 million for the period ended 31 December 2002. 15.6% of the Eurohypo Group 2002 net profits before taxes were generated by the Commercial Real Estate Clients United Kingdom division. The division's return on equity, calculated on the basis of regulatory capital, amounted to 22.9% in 2002.

Commercial Real Estate Clients USA

This division was created as a result of the transfer of the US Real Estate Investment Banking unit of Dresdner Bank AG (REIB USA) to the Bank which took effect in January 2003. Upon the transfer REIB USA, total financing volume amounted to approximately € 1.9 billion. The division serves its United States clients through a branch office of the Bank in New York and representative offices in Chicago and Los Angeles. These offices are able to provide clients with support for both their United States and European investments.

Due to its regulatory status in the United States, the Bank is able to offer its clients a broad range of real estate-related financial services. The main focus of the Commercial Real Estate Clients USA division is upon structuring and financing major investments, providing interest rate and exchange rate management for clients, syndications, securitisations and advice to clients in the United States in connection with the acquisition and disposal of real estate portfolios. Clients include owners and managers of large diversified real estate portfolios investment funds, Real Estate Investment Trusts (REITs) and other institutional real estate investors.

The professional real estate market in the United States is currently in the midst of a prolonged cyclical downturn, as evidenced by overall high vacancy rates and declining rents. However, the Eurohypo Group believes that the major market corrections associated with some of the previous downturns have been largely avoided in the current downturn due to more conservative expectations on the part of investors.

In light of the fact that the Commercial Real Estate Clients USA division was only established in January 2003, as a result of the transfer of Dresdner Bank AG's REIB USA unit to the Bank, no segment financial information for this division is contained in the Eurohypo Group's consolidated financial information for the year ended 31 December 2002.

Retail Residential Clients

Eurohypo's private real estate financing activities primarily involve the provision of standardised residential mortgage loans to borrowers in Germany. With a private real estate loan portfolio valued at approximately € 35 billion and approximately 330,000 loans under its administration, Eurohypo is one of the leading private real estate lenders in Germany.

Eurohypo's private real estate clients include:

- individuals financing the purchase or construction of owner-occupied and smaller rental properties;
- housing associations;
- real estate investment companies; and
- to a lesser extent, real estate developers financing larger residential housing projects.

The Eurohypo Group distributes its private client products primarily through a network of approximately 2,500 independent sales agents, as well as through the branch banking networks of its cooperation partners, Commerzbank AG and Deutsche Bank AG. See "General Information on the Bank – Related Party transactions". Eurohypo provides support for, and coordinates the activities of, its independent sales agents through its network of 16 branches and 30 regional offices. Outstanding loans are administered by five service centers. To increase the quality and the efficiency of its private real estate financing services, the Bank will merge its existing service centers into two new units to be

located in Ahrensburg and Rüsselsheim by the middle of 2003. Eurohypo intends to implement more efficient loan processing systems at its new service centers.

In order to more effectively manage credit risks in its retail residential division, the Eurohypo Group is focusing upon the traditional retail business involving the financing of the acquisition of existing and construction of new one- to three-family dwellings, owner-used apartments, as well as the acquisition of existing multi-family dwellings. In early 2003, the Retail Residential Client division further implemented a uniform statistic-based scoring system that ensures that credit approvals are based exclusively on objective criteria.

Through the Bank's wholly-owned subsidiary, prompter AG, the Retail Residential Client division also provides loan administration services for retail residential loans extended by other financial institutions. As of 31 December 2002, prompter AG's clients were Commerzbank AG, Deutsche Bank Privat- und Geschäftskunden AG, Hypothekenbank in Essen AG and Mannheimer Lebensversicherungs AG. prompter AG administered approximately 15,000 loans with a total volume of € 1.6 billion.

The business environment for Eurohypo's Retail Residential Clients division has continued to be challenging in 2002. Due to the weak condition of the German economy, the construction of new residential buildings was significantly reduced in 2002. New business was largely generated by replacing existing real estate financing. Due to the withdrawal of many financial institutions from this business segment and the more selective approval of new loans, the Bank has observed a certain tightening of conditions which has resulted in more risk-adequate interest margins.

The total volume of outstanding loans of the Retail Residential Client division was € 35 billion as of 31 December 2002 which represented 36.5% of the Eurohypo Group's total real estate financing portfolio. Total new private real estate loan commitments amounted to € 1.4 billion in 2002, of which € 0.8 billion were generated by independent sales agents and € 0.6 billion were received from cooperation partners.

Net interest and provision income of the Retail Residential Client division amounted to € 307.3 million, in 2002. Gross provisions for credit risks related to Retail Residential Client loans amounted to € 163 million in 2002 and to € 82.5 million in 2002, after taking account the shareholder guarantees. See "General Information on the Bank – Shareholder Guarantee Obligations and Loan Loss Provisions". This resulted in net income before taxes attributable to the retail residential client activities amounting to € 94.3 million which represented 15.4% of the Eurohypo Group's net income. The return on equity, calculated on the basis of regulatory capital, used in retail residential client activities was 7% in 2002.

Global Markets / Public Sector Finance / Treasury

Public Sector Financing

The Eurohypo Group has combined its public sector financing activities and its refinancing and treasury functions within the Global Markets / Public Sector Finance / Treasury division. The generation of positive results in the low-margin public sector financing business often requires the management of interest rate risk. As the Treasury division is responsible for the management of the Eurohypo Group's interest rate risk exposures, the Bank has decided to also allocate its public sector financing activities to the same business division.

Eurohypo's public sector financing activities cover a broad array of services related to the financing of public sector financing requirements ranging from general budgets to major infrastructure projects. Non-German sovereign borrowers within the European Union and the European Economic Area also form an important part of Eurohypo Group's public sector financing activities. The German Mortgage Bank Act was amended in the summer of 2002 to expand the list of sovereign and sub-sovereign entities loans which may be included in the pools underlying public sector Pfandbriefe, and this development has already positively influenced the Eurohypo Group's level of financing commitments to non-German public sector borrowers.

The Bank provides the Group's public sector financing services to German public borrowers, as well as to the central governments of the G7, the European Union, the European Economic Area, the Eastern European OECD countries and Switzerland. New public sector business with international, sub-sovereign borrowers is conducted by Eurohypo Luxembourg S.A. and its branch office in Dublin, as well as by RHEINHYP Bank Europe plc which is also based in Dublin. The latter Dublin subsidiary is expected to be merged into the Dublin branch office of Eurohypo Luxembourg S.A. in the first half of 2003.

The overall market for public sector financing declined in 2002. Margins, particularly in the national public sector finance business, were often insufficient to generate adequate returns. The Eurohypo Group's strategy is to engage in new public sector financing commitments only on the basis of sufficient counterparty creditworthiness and risk return. Through the active and efficient management of its public sector portfolio, the Eurohypo Group aims to continue to improve its margins.

As of 31 December 2002, public sector financings represented 55.8% of the Eurohypo Group's total outstanding financings as of 31 December 2002. International (i. e. non-German) public sector finance assets amounted to € 28.6 billion, or 23.6% of total public sector finance assets of which 21.6% was attributable to Italy and 14.8% attributable to Austria. The Eurohypo Group's new public sector commitments for 2002 amounted to € 4.9 billion. € 2,3 billion, or 47%, of the new public sector financings in 2002 originated from Germany, € 0,6 billion or 13% from Italy and € 0,4 billion or 8% from Austria.

In 2002, 86% of the Eurohypo Group's total public financing volume was risk-weighted at 0% for regulatory capital adequacy purposes, 5% had a risk-weighting of 10% and 9% had a 20% risk-weighting. The high proportion of 0% weighted financings reflects the conservative risk structure of the Eurohypo Group's cover fund.

Despite the overall difficult economic climate facing capital markets worldwide, including the public sector financing markets, Eurohypo Group's net interest and commission income for 2002 was € 148.3 million. Net income before tax, including revenues from sales and redemptions of the Eurohypo Group's own securities, was € 110.9 million in 2002. 18.1% of the Eurohypo Group's net income before taxes was derived from public sector financing activities in 2002.

Funding and Securitisation

The Eurohypo Group funds its financing operations through the issuance of Pfandbriefe and, to a lesser extent, the issuance of unsecured securities in the German domestic and international fixed-income markets. In addition, the Eurohypo Group resorts to money market borrowings from other banks to support its liquidity requirements.

The Eurohypo Group's investor base includes institutional investors, assets managers, financial institutions and housing sector and real estate clients, as well as retail customers in relation to targeted issues. The group has an international sales team serving institutional investors and asset managers.

The market for the issuance of Pfandbriefe was negatively affected in 2002 by several factors such as the downgrading of some German mortgage banks, the weak economic growth and the rise of risk provisions for credit and market risk.

Total securities – including profit – participation rights (Genussscheine) of Eurohypo Group outstanding as of 31 December 2002 amounted to € 221.6 billion. In 2002, the Eurohypo Group issued Pfandbriefe in the aggregate amount of € 10.4 billion, of which € 6.5 billion were public Pfandbriefe and Lettres de Gages Publique and € 3.9 billion were mortgage Pfandbriefe. The Eurohypo Group's issuance of other debt instruments amounted to € 6.9 billion in 2002. To increase the group's total capital ratio, additional subordinated issuances of € 1.8 billion were made in 2002.

The following table sets forth information relating to the funding of the Eurohypo Group:

	As of 31 March 2003 (in € million) (*)
Mortgage Pfandbriefe	48,459
Public sector Pfandbriefe (including Lettres de Gages Publique)	110,069
Unsecured bonds outstanding	26,390
Profit-participation rights (Genussrechte)	701
Other liabilities to banks and to customers	36,348
Subordinated liabilities	3,195
Total	225,162

(*) Amounts include interest accrued.

The following table sets forth the ratings that have been assigned by Moody's Investors Service and Standards & Poor's to the debt instruments of the Eurohypo Group:

Debt instrument	Moody's	Standard & Poor's
Public sector Pfandbriefe	Aaa	AAA
Mortgage Pfandbriefe	Aa1	AAA
Senior unsecured debt	A1	A
Subordinated debt	A2	A-
Commercial paper and other short-term obligations	P-1	P-1

All of the foregoing ratings take into account the guarantees from Eurohypo's major shareholders, which, in connection with the Merger, were extended to 2006. See "General Information on the Bank – Shareholder Guarantee Obligations and Loan Loss Provisions": The ratings have been judged as "stable" by these rating agencies.

The Eurohypo Group expects to increasingly use sales of loan portfolios and securitisations, including credit derivatives, to increase the efficiency of its use of capital and to increase commission income as a percentage of total income. Securitisation will enable Eurohypo Group to employ capital that currently supports the securitised assets in other income-generating activities and will, thereby, act as an incentive for employees to seek better income-generating opportunities.

Pfandbrief Coverage

As of 31 December 2002, mortgage loans in the aggregate amount of € 54.1 billion were included in Eurohypo AG's mortgage Pfandbrief asset pool, and public sector loans in the aggregate amount of € 68.7 billion were included in its public sector Pfandbrief asset pool.

The following table sets forth information relating to the composition of Eurohypo AG's asset pools for mortgage Pfandbriefe and public sector Pfandbriefe:

	As of 31 December 2002
	<u>(in € million) (*)</u>
Mortgage Pfandbrief asset pool	
Ordinary cover	
Mortgage loans to banks	12
Mortgage loans to customers	54,139
Substitute cover	
Other loans and advances to banks	500
Bonds and other fixed income securities	1,055
Total cover	<u>55,706</u>
Total mortgage Pfandbrief outstanding	<u>50,318</u>
Surplus cover	<u>5,388</u>
Public sector Pfandbriefe asset pool	
Ordinary cover	
Claims on banks	15,707
Claims on customers	68,671
Bonds and other fixed income securities	19,753
Total	<u>104,131</u>
Substitute cover	0
Total cover	104,131
Total public sector Pfandbriefe outstanding	<u>102,702</u>
Surplus cover	<u>1,429</u>

The following table sets forth a breakdown of the asset pool for public sector Pfandbriefe issued by Eurohypo AG, according to the nature of the borrowing entity:

	As of 31 December 2002
	<u>(in € million)</u>
German federal government (*)	15,546
German federal states	54,231
Municipalities	1,822
Public law financial institutions	15,333
Other public sector entities	849
Mortgage loans guaranteed by public sector entities	<u>2,521</u>
Total domestic public sector loans	90,302
Public sector entities of countries in the European Union, the European Economic Area and OECD	14,102
Total public sector loans	<u>104,131</u>

(*) Includes obligations of certain agencies of the German federal government, the liabilities of which are direct obligations of the German federal government and, therefore, are included in its budget.

Risk-weighted assets and regulatory capital ratios

The following table sets forth the consolidated risk-weighted assets and capital ratios in respect of Eurohypo AG as of 31 March 2003 (as calculated in accordance with the rules of the Basle Committee on Banking Supervision):

<u>Weighted risk assets</u>	<u>100%</u>	<u>50%</u>	<u>25%</u>	<u>20%</u>	<u>10%</u>	<u>Total</u>
			(in millions of €)			
On-balance-sheet transactions	59,895	17,817	–	2,798	–	80,510
Off-balance-sheet transactions	27	2,669	92	–	2	2,790
Derivative transaction	–	149	–	336	–	485
Total	<u>59,922</u>	<u>20,635</u>	<u>92</u>	<u>3,134</u>	<u>2</u>	<u>83,785</u>
Core capital ratio (in %)						6.2
Total capital ratio (in %)						10.2

The following table sets forth the consolidated risk-weighted assets and regulatory capital ratios for the Eurohypo Group as of 31 March 2003 (as calculated in accordance with the rules of the Basle Committee on Banking Supervision):

<u>Weighted risk assets</u>	<u>100%</u>	<u>50%</u>	<u>25%</u>	<u>20%</u>	<u>10%</u>	<u>Total</u>
			(in millions of €)			
On-balance-sheet transactions	60,053	17,990	–	3,585	–	81,628
Off-balance-sheet transactions	27	2,671	115	12	2	2,827
Derivative transaction	–	149	–	587	1	737
Total	<u>60,080</u>	<u>20,810</u>	<u>115</u>	<u>4,184</u>	<u>3</u>	<u>85,192</u>
Core capital ratio (in %)						6.1
Total capital ratio (in %)						10.0

Recent Developments and Outlook

The Bank anticipates that the difficult market conditions prevailing in the real estate financing markets in 2002 are likely to continue throughout the year 2003. In Germany in particular, commercial and residential markets are negatively affected by low growth rates of the economy as a whole, high unemployment and a sharp rise of bankruptcies to yet unprecedented levels. The difficult geopolitical situation as well as protracted uncertainty regarding the implementation of major structural reforms in the area of tax, social security and labour law make it unlikely that investment activity in Germany will significantly improve before 2004. The Bank also expects that the European market as a whole will not show growth rates in 2003 comparable to those of the US market.

Against this background and given that the Bank does not intend to compromise on its risk management policies, the Bank expects overall new real estate financing commitments in 2003 to not exceed the levels of 2002. The Bank anticipates that its European business divisions will experience a reduction of new commitments as compared to the previous year. This development may be partly offset by new business in the US market.

Although an estimation of the earnings situation of the Eurohypo Group and the Bank for 2003 is especially difficult given current market uncertainties, the Bank currently anticipates that interest and provision income should be at or slightly above 2002 levels. The Bank believes that its European and American real estate investment banking activities as well as ancillary financial services (such as interest and exchange rate management) will lead to an improvement of provision income from professional clients inside and outside Germany.

On the cost side, the Eurohypo Group continues to work on realising cost synergies from the Merger in order to improve cost income ratios of all divisions and, hence, profitability. However, owing to the

prevailing difficult market situation, risk provisions will not be below, but might actually exceed 2002 levels. In this context, the Eurohypo Group will be able to partly draw on the guarantees provided by the Former Parent Banks. See "General Information on the Bank and Loan Loss Provisions"

REGULATION

Introduction

The Bank is subject to the regulatory framework for German mortgage banks. This framework is governed by the German Mortgage Bank Act (*Hypothekbankgesetz*) and the German Banking Act (*Gesetz über das Kreditwesen*) and includes comprehensive supervision by the Federal Financial Services Supervisory Agency (*Bundesanstalt für Finanzdienstleistungsaufsicht*, “**BaFin**”), which is supported in its function by the Deutsche Bundesbank, the German central bank.

The German banking system consists of a variety of private sector and public sector banks of two general types: universal banks (also known as full-service or multi-purpose banks) and specialized banks. Universal banks are generally authorized to engage in the banking activities that specialized banks perform as well as a wide variety of other financial activities, whereas specialized banks are limited to banking activities related to their special functions. Mortgage banks make up the most significant group of the specialized banks in Germany.

The German Mortgage Bank Act details the types of banking activities that mortgage banks may engage in and generally limits them to providing residential and commercial property financing with mortgage loans and to providing public sector financing. The act also grants private sector banks the privilege to refinance their mortgage and public sector loans through the issuance of Pfandbriefe, or bonds secured by private property mortgages or public sector loans, to mortgage banks. The confinement of the activities of mortgage banks to lower-risk types of property finance and public sector lending is one of the reasons why Pfandbriefe are viewed as relatively safe investments, which, in turn, enables mortgage banks to obtain attractive conditions for refinancings.

Types of Mortgage Banks

There are two types of mortgage banks: “pure” mortgage banks and “mixed-status” mortgage banks. Beyond the scope of activities conducted by pure mortgage banks, mixed-status banks are also licensed to engage in the activities of universal banks. Mortgage banks may now only be founded as pure mortgage banks. Today’s mixed-status institutions are an exception, as they were already engaged in a variety of banking activities when the German Mortgage Bank Act entered into force in 1900.

Regulatory Oversight

The BaFin is responsible for supervising the compliance of mortgage banks with the provisions of the German Mortgage Bank Act, in particular for:

- approving valuation guidelines for mortgaged property;
- approving the principal characteristics of loan terms;
- enforcing the limitations on an issuer’s aggregate amount of outstanding mortgage and public sector Pfandbriefe to 48 times (in the case of mixed-status mortgage banks) or 60 times (in the case of other pure mortgage banks) the issuer’s regulatory banking capital; and
- resolving disputes between mortgage banks and their independent trustees.

In addition, the BaFin supervises the operations of mortgage banks to ensure that they conduct their business in accordance with the licensing and other provisions of the German Banking Act and other applicable German laws and regulations. The BaFin places particular emphasis on ensuring compliance with:

- capital adequacy and liquidity requirements;
- large exposure limits;
- and restrictions on certain activities imposed by the German Banking Act and the regulations issued thereunder.

Regulation Pursuant to the German Mortgage Bank Act

Pfandbriefe

Pfandbriefe are standardized German-law debt instruments, the quality and standards of which are regulated by the German Mortgage Bank Act and reviewed by the BaFin. Pfandbriefe typically have an original maturity of two to ten years and are secured, or “covered” (*gedeckt*), at all times by a pool of specified qualifying assets (*Deckungsvermögen*), principally real property mortgages or public sector loans. Pfandbriefe are recourse obligations of the issuing bank, and no separate vehicle is created for their issuance generally or for the issuance of any specific series of Pfandbriefe. Holders are not entitled to call Pfandbriefe for redemption prior to maturity.

Besides private sector mortgage banks, only public sector Pfandbrief issuers (primarily the 12 German Landesbanken and DGZ-DekaBank) and two ship mortgage banks are entitled to issue Pfandbriefe. The primary funding instruments of the mortgage banks are Pfandbriefe, which make up the largest segment of the German bond market.

Pfandbrief Coverage

A single pool of assets covers a mortgage bank’s entire outstanding mortgage Pfandbriefe (*Hypothekendarlehen*), and a separate pool covers all of its outstanding public sector Pfandbriefe (*Öffentliche Darlehen*). In the case of mortgage Pfandbriefe, only first mortgage loans issued on residential and commercial property with a loan-to-value ratio not exceeding 60% qualify for inclusion in the asset pool. The portion of a pure mortgage bank’s portfolio that does not so qualify may not exceed 20% of the total volume of the bank’s mortgage lending. For pure mortgage banks, there is also a ceiling of 10% on the proportion of loans originating from countries in which the prior claims of creditors on the cover pool are not guaranteed. For public sector Pfandbriefe, the underlying assets are loans to, or securities issued or guaranteed by, public law institutions and authorities. Within each pool up to 10% of the amount of the outstanding Pfandbriefe may be covered by certain other collateral, including cash and credit balances with the Bundesbank and other qualifying banks.

The assets in each pool are listed in a register (*Deckungsregister*) maintained by the mortgage bank together with its independent trustee and each pool is required to be replenished when necessary to ensure that all Pfandbriefe issued by the mortgage bank are fully covered. Pursuant to the German Mortgage Bank Act, an independent trustee appointed by the BaFin, in consultation with the mortgage bank (*Staatlicher Treuhänder*, the “**Statutory Trustee**”), to supervise each register of qualifying assets to ensure that adequate coverage is being maintained. The Statutory Trustee must verify that a qualifying asset satisfies the statutory criteria prior to its inclusion in the register. The trustee is also required to ensure the safekeeping of assets included in the asset pool and related documents under joint control with the mortgage bank. The trustee may release assets to the mortgage bank only as permitted by the German Mortgage Bank Act. The trustee must also certify that new mortgage Pfandbriefe or public sector Pfandbriefe issues meet the coverage requirements. Further, the addition of new loans to the pools is audited by the BaFin, typically every two or three years.

Insolvency

The German Mortgage Bank Act accords creditors of Pfandbriefe a preferential claim on the collateral in the relevant asset pool in the event the issuing mortgage bank encounters payment difficulties. If a mortgage bank becomes insolvent (e.g., as a result of either the mortgage bank’s inability generally to pay its debts (*Zahlungsunfähigkeit*) or an excess of its liabilities over its assets (*Überschuldung*)), both asset pools securing the Pfandbriefe generally remain unaffected. The German Mortgage Bank Act provides that assets included in the asset pools for Pfandbriefe may only be seized and sold in execution proceedings to satisfy claims arising from the Pfandbriefe issued against such pools.

If an asset pool is unable to satisfy the obligations arising from the Pfandbriefe, or if such obligations exceed the pool’s assets, the BaFin may initiate separate insolvency proceedings against this pool. In these proceedings, each holder of Pfandbriefe ranks *pari passu* with other holders of the Pfandbriefe covered by the pool. Because Pfandbriefe constitute general liabilities of the issuing mortgage bank,

the holders also have recourse to any assets of the mortgage bank outside the pools. However, as regards these assets, the holders of the Pfandbriefe rank equal with other secured and unsubordinated creditors of the mortgage bank.

Recent Legislative Developments

The German Mortgage Bank Act was amended effective 1 July 2002, with the aim of adapting its framework to the new challenges being created by the on-going Europeanization of the market for Pfandbriefe, the globalisation of the financial markets, and changing customer requirements. The three most significant new provisions in the act are as follows:

- The geographical limitations of the German Mortgage Bank Act have been reduced to foster further growth in lending. Mortgage banks, whose public-sector lending activities were previously restricted to the member states of the European Union and the European Economic Area, are now authorized to grant loans to sovereign and sub-sovereign authorities in the United States, Canada, Japan, and Switzerland, as well as to central government bodies of the Central European OECD countries Poland, Czech Republic, Slovakia, and Hungary, and to include such loans in Pfandbrief collateral cover pools. Mortgage banks have also been authorized to engage in mortgage banking activities in certain countries outside Europe, including the United States, Canada and Japan, provided that these activities are not funded with Pfandbriefe.
- Mortgage banks may now provide additional ancillary and related services in connection with their mortgage and public sector financing activities, such as the management and brokerage of mortgage and public sector loans, property valuations, and location analyses.
- Mortgage banks have been expressly authorized to engage in derivative operations. In addition, the inclusion of derivatives in the collateral cover pools is permitted under certain conditions, e.g., for derivatives entered into for the purpose of hedging interest rate or exchange rate positions.

Regulation Pursuant to the German Banking Act

In addition to the rules of the German Mortgage Bank Act, mortgage banks are also subject to supervision pursuant to the general rules and regulations contained in the German Banking Act, including the capital adequacy requirements and the limitations on large exposures.

Capital Adequacy Requirements

The German capital adequacy requirements provide that banks guard against counterparty risk (*Adressenausfallrisiko*) and market risk (*Marktrisiko*) by possessing certain levels of minimum capital. Counterparty risk is covered by "Regulatory Banking Capital" (*haftendes Eigenkapital*), whereas market risk is covered by "Own Funds" (*haftende Eigenmittel*) comprising Regulatory Banking Capital and "Tier III Capital". Pursuant to "Principle I" of the BaFin, each bank must maintain a ratio (the "**Solvency Ratio**") of Regulatory Banking Capital to risk-adjusted assets (including financial swaps, financial forward transactions, options, and other off-balance-sheet items) of at least eight percent.

Pursuant to the German Banking Act, the Bank, as a bank that is organized as a stock corporation, Regulatory Banking Capital (the numerator of the Solvency Ratio) consist of "Core Capital" (*Kernkapital*) and "Supplementary", or "Tier II", Capital (*Ergänzungskapital*). The distinction between Core Capital and Supplementary Capital reflects the different degrees of loss or insolvency protection provided by the individual Regulatory Banking Capital items. The Supplementary Capital may be taken into account only up to the amount of the Core Capital. In addition, longer-term subordinated debt is recognized as Regulatory Banking Capital only up to 50% of the amount of Core Capital.

Core Capital comprises:

- paid-in subscribed capital;
- capital reserves;
- earnings reserves;
- funds for general banking risks (an item that a bank may create on the liability side of its balance sheet, in its reasonable commercial judgment, to reflect the special risks inherent in its banking business);
- capital paid in consideration of silent partnership interests (*stille Beteiligungen*).

Supplementary Capital consists of:

- reserves for general banking risks (a bank may record on its balance sheet certain receivables at a lower value than that is permitted for commercial and other non-banking entities if the use of a lower value is, in the bank's reasonable business judgment, advisable to safeguard against the special risks inherent in the banking business), provided that such reserves do not exceed 4% of the book value of such receivables and securities;
- capital paid in consideration of profit-participation rights (*Genussrechte*) meeting certain conditions set out in the German Banking Act;
- longer-term subordinated debt meeting certain conditions set out in the German Banking Act;
- certain unrealized reserves; and
- reserves pursuant to § 6b of the German Income Tax Law (*Einkommensteuergesetz*), such reserves being included in Regulatory Banking Capital in the amount of 45% thereof to the extent that they were created from the proceeds of the sale of real property, property rights equivalent to real property, and buildings.

The German Banking Act requires that the following be deducted in computing Regulatory Banking Capital;

- losses;
- certain intangible assets (including goodwill); and
- certain participations in banks, financial services institutions, or other financial enterprises.

Under Principle I, the risk-adjusted value of assets of a bank (the sum of which is the denominator of the Solvency Ratio) is computed by assigning assets to one of five basic categories of relative credit risk (i.e., 0%, 10%, 20%, 50%, and 100%) depending on the debtor or the type of collateral securing the assets. The balance sheet value of each asset item is multiplied by the percentage weight applicable to its risk category to arrive at the risk-adjusted value. Mortgage loans are assigned a risk weighting of 50%, unless the borrower carries a better credit risk, if they:

- are secured by mortgages on residential property which is or will be occupied or rented out by the borrower;
- meet the loan-to-value ratio of 60%; and
- meet the valuation principles set out in the German Mortgage Bank Act.

Until 1 January, 2006, this 50% risk weighting also applies to mortgage loans secured by mortgages on commercial property, such as office buildings and other multi-purpose commercial property, up to an amount of 50% of the property's market value or 60% of its loan collateral value (*Beleihungswert*), whichever is lower, provided that such property:

- is located in Germany or another member state of the European Union that assigns both a 50% risk weighting and strict valuation criteria to such loans; and
- is occupied or rented out by the owner.

Off-balance-sheet items, such as financial guarantees, letters of credit, swaps, and other financial derivatives, are subject to a two-tier adjustment. First, their value (or in the case of guarantees and letters of credit, their amount, or in the case of swaps and other derivatives, the value computed on a market or time basis) is adjusted according to their risk classification (i. e., 20%, 50% and 100%) depending on the type of instrument. Then the off-balance-sheet items are assigned, similar to balance-sheet assets, to credit risk categories depending on the type of the counterparty, debtor, or type of collateral, if any, securing the respective assets and multiplied by the applicable percentage weight.

In addition to the capital adequacy requirements for counterparty risk, Principle I also lays down principles relating to capital adequacy requirements covering market risk. The market-risk positions of a bank are comprised of:

- its foreign exchange positions;
- its commodities positions;
- certain of its trading book positions, including those involving counterparty risk, as well as interest-rate and share-market risk; and
- its options transactions positions.

The market risk positions are net positions, risk-adjusted in accordance with the detailed rules set forth in Principle I. As of the close of each business day, the sum of the net risk-adjusted market-risk positions of a bank must not exceed the sum of:

- the difference between its Regulatory Banking Capital and 8% of its aggregate amount of risk-adjusted risk assets; and
- its Tier III Capital.

Thus, the market risk positions must be covered by Own Funds that are not required to cover counterparty risk. “Tier III Capital” (*Dritrangmittel*) consists of:

- net profits (i. e., the proportionate profit of a bank which would result from closing all trading-book positions at the end of a given day), less:
- all foreseeable expenses and distributions and
- losses resulting from the investment book that are likely to arise upon a liquidation of the bank; and
- short-term subordinated debt meeting certain conditions set out in the German Banking Act, including a minimum term of two years and the requirement that the rights of the holder thereof be subordinated to the rights of all other creditors in the event of insolvency or liquidation.

Net profits and short-term subordinated debt qualify as Tier III Capital up to an amount which, together with the Supplementary Capital not required to cover risks arising from the investment book, does not exceed 250% of the Core Capital not required to cover risks arising from the investment book.

Under the German Banking Act’s provisions on consolidated supervision, each group of institutions (*Institutgruppe*) on a consolidated basis, as well as each bank within the group on an unconsolidated basis, must meet the Regulatory Banking Capital requirements. A group of institutions is deemed to exist if:

- another bank, financial services institution, financial enterprise, or bank service enterprise is a subsidiary (*nachgeordnetes Unternehmen*) of a bank or financial services institution (with subsidiary being defined in terms of possessing a voting majority or controlling influence of the parent bank or financial services institutions); or
- a member of the group of institutions:
- owns, directly or indirectly, at least 20% of the shares of such other bank, financial services institution, financial enterprise, or bank service enterprise;

- manages such bank, institution, or enterprise jointly with other enterprises; and
- is liable for the obligations of such bank, institution, or enterprise in proportion to its capital investment in such bank, institution, or enterprise.

Prior to the Merger, each of the three Predecessor Banks was, for purposes of the consolidated regulatory capital adequacy requirements, included in their respective Former Parent Bank's groups of institutions. Therefore, none of the Predecessor Banks was itself required to monitor its regulatory capital adequacy on a consolidated basis. The Merger has resulted in the Predecessor Banks being removed from the consolidated groups of each of the respective Former Parent Bank. Now, the Bank is the parent company for a group of institutions that is required to meet the consolidated capital requirements. In addition to calculating and reporting Regulatory Banking Capital under the German Banking Act, the Bank calculates and reports its consolidated capital adequacy ratios in accordance with the recommendations of the Basle Committee. The Basle Committee guidelines provide that banks should maintain, on a consolidated basis, a risk-based core capital ratio of 4% and a risk-based regulatory banking capital ratio of at least 8%. The calculation of these ratios is different from the calculation pursuant to Principle I under the German Banking Act in some respects (e.g., in the treatment of goodwill and commercial real estate loans).

Limitations on Large Exposures

The German Banking Act, together with the regulation on large exposures (*Großkredit- und Millionenkreditverordnung*, the "**Large Exposure Regulation**"), is designed to limit the concentration of credit risks through restrictions on large exposures (*Großkredite*, "**Large Exposures**") of banks and groups of institutions. The Large Exposure rules and the Large Exposure Regulation distinguish between:

- banks and groups of institutions with minor trading book positions (see "– Capital Adequacy Requirements") that are not subject to the rules relating to the trading book; and
- banks and groups of institutions which are subject to the rules relating to the trading book ("**Trading Book Institutions**").

For Trading Book Institutions, the Large Exposure rules contain different restrictions for Large Exposures related to the investment book ("**Investment Book Large Exposures**") and aggregate large exposures ("**Aggregate Book Large Exposures**") of the bank or group of institutions. Investment Book Large Exposures exist where the assets of a bank attributable to a single client or connected group of clients equals or exceeds 10% of the relevant bank's or group of institutions' Regulatory Banking Capital. Aggregate Book Large Exposures mean situations in which the aggregate of the Investment Book Large Exposures and the exposures incurred in the trading book (including the net amount of all long and short positions in debt instruments and shares of an individual issuer, the counterparty risk of certain derivatives, the counterparty risk after the agreed date of settlement, and repurchase and securities lending transactions) attributable to a single client or connected group of clients (the "**Trading Book Large Exposures**") equal or exceed 10% of the relevant bank's or group of institutions' Own Funds.

The following limitations apply to Large Exposures of Trading Book Institutions:

- all Aggregate Book Large Exposures taken together must not exceed eight times such bank's or group's Own Funds;
- the Investment Book Large Exposures must not exceed in the aggregate eight times such bank's or group's Regulatory Banking Capital;
- the Investment Book Large Exposures to a single client or group of clients must not exceed 25% of the bank's or group of institutions' Regulatory Banking Capital;
- Investment Book Large Exposures in relation to an affiliated enterprise of the bank or group of institutions outside the group of institutions must not exceed 20% of the bank's or group of institutions' Regulatory Banking Capital;
- the aggregate amount of Trading Book Large Exposures and Investment Book Large Exposures to a client or group of clients must not exceed 25% of the bank's or group of institutions' Own Funds; and

- the aggregate amount of Trading Book Large Exposures and Investment Book Large Exposures must not exceed 20% of the bank's or group of institutions' Own Funds.

With the approval of the German Banking Supervisory Authority, a bank or group of institutions may exceed these thresholds.

For banks and groups of institutions that are not Trading Bank Institutions, Large Exposures are comparable to the Investment Book Large Exposures of a Trading Book Institution and are subject to the following limitations:

- Large Exposures of a bank or group may not exceed in the aggregate eight times the bank's or group's Regulatory Banking Capital;
- no Large Exposure to a single client or group of clients may exceed 25% of the bank's or group's Regulatory Banking Capital; and
- no single Large Exposure to an unconsolidated affiliate of the bank or group may exceed 20% of the bank's or group's Regulatory Banking Capital.

With the approval of the German Banking Supervisory Authority, a bank or group may exceed one or both of the first two of these thresholds.

The Bank is currently not a Trading Book Institution.

The term "group of institutions" for purposes of the Large Exposure limitations is defined in the same manner as for capital adequacy purposes. See "– Capital Adequacy Requirements".

Financial Statements and Audits

The financial statements on the basis of which compliance with the capital adequacy requirements is assessed must be prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) and the Regulation on Accounting by Credit Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute*).

Under German law, the Bank must be audited annually by a certified public accountant (*Wirtschaftsprüfer*) who has been appointed by the shareholders' general meeting and mandated by the supervisory board. A bank's certified public accountant is required to inform the BaFin of any facts coming to the accountant's attention which give reason to deny or qualify the certifications of the bank's annual financial statements or adversely affect the financial position of the bank, as well as of any material breach by the bank's management of the law or the bank's articles of association. The certified public accountant is required to prepare a detailed and comprehensive annual audit report (*Prüfungsbericht*), which is submitted to the supervisory board of the bank, the BaFin, and the Bundesbank. In the report, the accountant must confirm that the bank has complied with:

- the regulatory reporting requirements;
- the Large Exposures limitations;
- the limitations on extension of credit to borrowers forming a unit of borrowers;
- the principles as to capital adequacy and liquidity; and
- regulations concerning the prudential granting of credit.

In addition, the audit report must:

- discuss in detail certain large loans and other important loans;
- confirm compliance with certain provisions of the German Banking Act;
- match assets and liabilities bearing interest at fixed rates according to maturity and assets and liabilities bearing interest at floating rates according to interest periods; and
- explain the effect of a change in interest rates on the unmatched portion of such assets and liabilities.

Reporting Requirements

In order to enable the BaFin and the Bundesbank to monitor compliance with the German Banking Act and other applicable legal requirements, banks are required to file the following information with the BaFin and the Bundesbank:

- immediate notice of certain organizational changes, the acquisition or sale of more than 10% of the equity of another company or changes in the amount of such equity share, loss of 25% of the Regulatory Banking Capital, the commencement or termination of certain non-banking activities, the acquisition or termination of a significant participation in the bank giving notice, the bank's status as subsidiary, the existence, change in or termination of any "close relationship" with another company (i. e., ownership of at least 20% of the capital or voting rights);
- on an annual basis, audited unconsolidated and consolidated financial statements for the bank;
- on a monthly basis, balance sheet and statistical information;
- on a monthly basis, compliance statements with regard to the capital adequacy rules and the requirements on liquidity; and
- on a quarterly basis, a list of the borrowers to whom the reporting bank has granted loans of € 1.5 million or more and certain information about the amount and the type of loan, including syndicated loans exceeding this amount even if the reporting bank's share does not exceed € 1.5 million.

If several different banks notify the Bundesbank of loans of € 1.5 million or more to the same borrower, the Bundesbank must inform each of the reporting banks of the total reported indebtedness and of the type of such indebtedness of the borrower.

Enforcement of Banking Regulations; Investigative Powers

To ensure that German banks fully comply with all applicable regulatory and reporting requirements, the BaFin requires that banks maintain an effective internal auditing department to monitor and control their activities. In order to secure compliance with the German Banking Act and the regulations issued thereunder, the BaFin and the Bundesbank may require information and documents from a bank and the BaFin may conduct investigations of a bank. In addition, the BaFin may attend or convene meetings of the bank's supervisory board and of the bank's shareholders.

The BaFin has a wide range of enforcement powers. It can remove the bank's managers from office or prohibit them from engaging in banking activities. If the Own Funds of a bank are not adequate or if the liquidity requirements are not met (provided the bank has failed to remedy the deficiency within a certain period), the BaFin may prohibit or restrict the distribution of profits or the extension of credit. These prohibitions also apply to the parent bank of a group of institutions if the Own Funds of the bank's group enterprises do not meet the legal requirements. If the liquidity requirements are not met, the BaFin may also prohibit further investments in illiquid assets.

If a bank is in danger of defaulting on its obligations to creditors, the BaFin may take emergency measures to avert a default, including, among others:

- issuing instructions relating to the management of the bank;

- prohibiting the acceptance of deposits and the extension of credit;
- prohibiting or restrict the managers of the bank from carrying on their functions; and
- appointing supervisors.

If these measures are inadequate to remedy the situation, the BaFin may revoke the bank's license and, if appropriate, order that the bank be shut down. In order to prevent the insolvency of a bank, the BaFin has the authority to:

- prohibit payments and disposals of assets;
- close customer services; and
- prohibit the acceptance of payments other than in payment of debt owed to the bank.

Violations of the German Banking Act may result in criminal and administrative penalties.

TAXATION

PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS AS TO THE U. S. FEDERAL AND GERMAN INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF TRUST PREFERRED SECURITIES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

Certain U. S. Federal Income Tax Considerations

The following is a summary based on present law of certain U. S. federal income tax considerations for a prospective purchaser of the Trust Preferred Securities. This summary addresses only the tax considerations for a prospective purchaser that acquires Trust Preferred Securities on their original issue at their original offering price (a "**Trust Preferred Securityholder**") and that is not a U. S. Person (a "**Non-U. S. Holder**"). For this purpose, a U. S. Person is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or its political subdivisions, (iii) an estate the income of which is subject to U. S. federal income taxation regardless of its source or (iv) a trust subject to the control of a U. S. person and the primary supervision of a U. S. court.

This summary does not address all tax considerations for a beneficial owner of the Trust Preferred Securities and does not address the tax consequences to a Non-U. S. Holder in special circumstances. For example, this summary does not address a Non-U. S. Holder subject to U. S. federal income tax on a net income basis. Moreover, this summary does not apply to a direct or indirect shareholder of the Bank that holds Trust Preferred Securities or to a Trust Preferred Securityholder that is a "controlled foreign corporation" (as defined in the Code) related to the Bank. This summary is based upon the Code, income tax regulations, including temporary and proposed regulations, promulgated under the Code by the United States Treasury Department, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations) ("**Treasury Regulations**"), IRS rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect).

Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to the tax treatment of the Trust Preferred Securities and no assurance can be given that the IRS will not take contrary positions. Moreover, no assurance can be given that the tax consequences described herein will not be challenged by the IRS or, if challenged, that such a challenge would not be successful.

Tax Treatment of the Trust and the Company

Assuming full compliance with the terms of the Trust Agreement and the LLC Agreement (and certain other transaction documents described herein), neither the Trust nor the Company will be classified for U. S. federal income tax purposes as a corporation or be subject to U. S. federal income tax.

In purchasing the Trust Preferred Securities, each Trust Preferred Securityholder agrees with the Bank, the Company and the Trustee that the Bank, the Company, the Trustee and the Trust Preferred Securityholders will treat the Trust as a grantor trust and the Trust Preferred Securityholders for all U. S. federal income tax purposes as holders of an undivided interest in the Trust assets, including the Company Class B Preferred Securities, and not as holders of an interest in the Bank or in any other person. The Bank will treat the Company as a partnership for all U. S. federal income tax purposes. The following assumes that such treatments are correct.

Income and Withholding Tax

The Company intends to operate so that it will not be treated as engaged in the conduct of a U. S. trade or business. Until the Maturity Date the Company expects to hold only obligations the interest from which is not from U. S. sources. Accordingly, the Company expects that until the Maturity Date a Non-U. S. Holder will not be subject to withholding of U. S. federal income tax on payments in respect

of the Trust Preferred Securities and that a Non-U.S. Holder also will not be subject to U.S. federal income tax on its allocable share of the Company's income unless such income is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States. Should, however, the Company at any time hold securities issued by a U.S. branch of the Bank (or of another Qualified Issuer) or by a Qualified Issuer organized in the United States or, after the Maturity Date, U.S. Treasury securities, interest income from such securities would be from U.S. sources and thus Non-U.S. Holders would be subject to withholding unless an exemption applies. In general, an exemption from U.S. withholding tax would be available to non-U.S. Holders that provide proper certification of foreign status.

A Non-U.S. Holder will not be subject to U.S. withholding tax on gain realized on the sale or exchange of the Trust Preferred Securities. A Non-U.S. Holder also will not be subject to U.S. federal income tax on such gain, unless (i) such gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or (ii) in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Backup Withholding

Backup withholding may apply to payments to, and proceeds of disposition by a non-corporate holder. However, in general, no backup withholding will be required for payments to Non-U.S. Holders that provide proper certification of foreign status. Even without such certification, backup withholding will not apply to payments of non-U.S. source income made outside the United States. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided certain required information is furnished to the IRS.

German Taxation

The following is a discussion of certain German tax considerations that may be relevant to a holder of Trust Preferred Securities that is a resident of Germany or for which income in respect of the Trust Preferred Securities is regarded as income from German sources, *e.g.*, because such Trust Preferred Securities form part of the business property of a permanent establishment or fixed base maintained in Germany (a "**German Holder**"). The information contained in this summary is not to be construed as tax advice. It is based on an interpretation of the German tax laws as of the date hereof and is subject to change. Any such change may be applied retroactively and may adversely affect the tax consequences described herein. This summary does not purport to deal with all aspects of taxation that may be relevant to investors in the light of their individual circumstances. Prospective investors are advised to consult their own tax advisors with respect to the tax consequences of purchasing, holding, redeeming or disposing of Trust Preferred Securities.

Income Taxation

Trust Capital Payments received by a German Holder with respect to the Trust Preferred Securities will be subject to German personal or corporate income tax (plus a "Solidarity surcharge" thereon, which is currently levied at 5.5%), and, in the case of a German Holder who is an individual, may be subject to church tax. Upon the sale or redemption of the Trust Preferred Securities, a German Holder will also be required to include in its taxable income the difference between the amount realized on such sale or redemption and the cost of acquisition (or adjusted tax base) of the Trust Preferred Securities. Income derived from the Trust Preferred Securities will also be subject to German municipal trade tax on income (*Gewerbeertragsteuer*) if the Trust Preferred Securities form part of the property of a German business establishment for trade tax purposes or are held by a German corporate investor.

A German Holder who is an individual and does not hold the Trust Preferred Securities as a business asset will be entitled to a standard deduction (*Werbungskosten-Pauschbetrag*) of € 51 in computing

his or her investment income (including income derived from the Trust Preferred Securities) as well as an exemption (*Sparer-Freibetrag*) of € 1,550 with respect to such investment income.

German Withholding Tax

If the Trust Preferred Securities are kept in a custodial account maintained by a German Holder with a German bank or a German financial services institution, each as defined in the German Banking Act (*Gesetz über das Kreditwesen*) (including a German branch of a foreign bank or a foreign financial services institution, but excluding a foreign branch of a German bank or German financial services institution) (a "**German Disbursing Agent**"), the German Disbursing Agent will generally be required to withhold tax (*Zinsabschlagsteuer*) at a rate of 30% (plus solidarity surcharge thereon at a rate of 5.5%, resulting in an aggregate withholding rate of 31.65%) of the gross amount paid as income with respect to the Trust Preferred Securities. Upon the sale or redemption of the Trust Preferred Securities, a German Disbursing Agent will generally be required to withhold tax at an aggregate rate of 31.65% on:

- (i) the excess of the sale or redemption proceeds of the Trust Preferred Securities over the holder's acquisition cost, if the Trust Preferred Securities have been acquired through or purchased from and have since been held in custody with such German Disbursing Agent, or
- (ii) an amount equal to 30% of the sale or redemption proceeds of the Trust Preferred Securities, if the Trust Preferred Securities have not been so held with such German Disbursing Agent.

Tax withheld by the German Disbursing Agent will be credited against the German Holder's final liability for personal or corporate income tax or refunded if in excess of such final tax liability.

Proposed German Tax Reform

The German Government has proposed a reform of the taxation of interest income for individuals subject to tax in Germany. Under this proposal the rate of withholding tax would be reduced to 25% (plus solidarity surcharge, thereon, at a rate of 5.5% resulting in an aggregate withholding rate of 26.375%). It is further proposed that such withholding tax is definitive, i. e. the rate for income tax on interest would be limited to 25% (with the possibility for individual taxpayers to elect for the interest income to be included into the general assessment in order to obtain a lower rate, if the individual rate is below 25%). The proposal is still pending. Implementation is intended for 1 January 2004.

Proposed EU Savings Directive

On 31 January 2003 the EU finance ministers have agreed on a general concept of cross border taxation of interest income for individual persons. The agreement is based on exchange of information as the ultimate objective. Beginning 1 January 2004 a directive shall enter into force: All EU member states with the exception of Austria, Belgium and Luxembourg are required to implement an obligation of disbursing agents to provide the fiscal authorities of another member state with information regarding capital investment income of individual persons resident in the other member state. Austria, Belgium and Luxembourg instead will impose a withholding tax at a rate of 15% until 31 December 2006, of 20%, beginning 1 January 2007 and of 35%, beginning 1 January 2010. The revenue of this tax shall be shared between the country of source and the country of residence of the beneficial owner of the interest in the ratio of one quarter to three quarters. These countries will change their system to exchange of information once the EU has entered into respective agreements with certain third countries. Special arrangements are intended with certain dependent and associated territories of EU member states.

Gift and Inheritance Taxation

The gratuitous transfer of the Trust Preferred Securities by a holder as a gift or by reason of death is subject to German gift or inheritance tax, based on the market value of the Trust Preferred Securities at the time of the transfer, if the holder of the Trust Preferred Securities or the recipient is a resident, or deemed to be a resident, of Germany. German gift or inheritance tax is also levied if the Trust Pre-

ferred Securities form part of the property of a permanent establishment or a fixed base maintained by the holder of the Trust Preferred Securities in Germany.

Other German Taxes

There are no German transfer, stamp or other similar taxes which would apply to the sale or transfer of the Trust Preferred Securities.

SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in a subscription agreement (the "**Subscription Agreement**") dated 21 May 2003, among the Bank, the Company, the Trust, and each of the Managers, the Trust has agreed to sell to each of the Managers and each of the Managers has severally agreed to purchase such number of Trust Preferred Securities as is provided for in the Subscription Agreement.

Under the terms and conditions of the Subscription Agreement, the Managers are committed to take and pay for all shares of the Trust Preferred Securities offered hereby, if any are taken.

The purchase price for the Trust Preferred Securities will be the initial offering price of € 1,000 per Trust Preferred Security (the "**Offering Price**"). The Bank or a Bank Affiliate, as the holder of the Company Common Security, will pay the Managers a combined underwriting and selling commission of € 10 per Trust Preferred Security. The Managers proposes to offer the Trust Preferred Securities at the Offering Price. After the Trust Preferred Securities are released for sale, the Offering Price and other selling terms may from time to time be varied by the Managers.

In view of the fact that the proceeds from the sale of the Trust Preferred Securities will be used to purchase the Initial Debt Securities, the Subscription Agreement provides that the Bank will reimburse the Managers for certain expenses of the Offering.

The Trust Preferred Securities will be issued on 23 May 2003. Payment and delivery will be through the facilities of Clearstream, Luxembourg and Euroclear.

The Trust Preferred Securities are a new issue of securities with no established trading market. The Bank and the Company have been advised by the Lead Managers that it currently intends to make a market in Trust Preferred Securities. However, the Lead Manager is not obligated to do so and any such market making activity will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time without notice.

In connection with the Offering, the Lead Manager, on behalf of the Managers, may engage in transactions that stabilize, maintain or otherwise affect the price of the Trust Preferred Securities. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Managers, and the imposition of a penalty bid, in connection with the Offering.

Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Trust Preferred Securities; and short positions created by the Managers involve the sale by the Managers of a greater number of the Trust Preferred Securities than they are required to purchase from the Trust in the Offering. The Managers may also impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the Trust Preferred Securities sold in the offering may be reclaimed by the Managers if such Trust Preferred Securities are repurchased by the Managers in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Trust Preferred Securities, which may be higher than the price that might otherwise prevail in an independent market. These activities, if commenced, may be discontinued at any time.

Certain of the Managers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Bank and its affiliates, for which such Managers or their affiliates have received or will receive customary fees and commissions.

Selling Restrictions

United States

Each Manager has severally agreed that it will offer or sell Trust Preferred Securities only in offshore transactions in reliance on Regulation S and each purchaser of Trust Preferred Securities offered hereby will be deemed to have represented and agreed that such purchaser understands that the Trust Preferred Securities have not been registered under the Securities Act and may not be offered, sold or delivered in the United States or to, or for the account of, any U.S. Person (as that term is

defined in Regulation S, “**U.S. Person**”), unless an exemption from the registration requirements of the Securities Act is available (terms used above that are defined in Regulation S are used above as therein defined).

The Trust Preferred Securities may not be purchased by or transferred to any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4795 of the U.S. Internal Revenue Code of 1986, as amended from time to time or any successor legislation (the “**Code**”), or any entity whose underlying assets include the assets of any such employee benefit plans, plans or arrangements.

United Kingdom

Each Manager has severally represented, warranted and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date, will not offer or sell any Trust Preferred Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (United Kingdom), as amended;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (United Kingdom), as amended (“**FSMA**”) received by it in connection with the issue of sale of any Trust Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Trust; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom.

Germany

No German selling prospectus (*Verkaufsprospekt*) within the meaning of the German Securities Selling Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of 13 December 1990, as amended (the “**German Prospectus Act**”), has been or will be prepared and/or published and, insofar as and to the extent the German Prospectus Act is applicable to any offeror of the Trust Preferred Securities or such offeror’s activities, each offeror is responsible to ascertain whether or not the German Prospectus Act would require the preparation and/or publication of a German selling prospectus. This Prospectus is not a German selling prospectus, and is not to be used as part of or in connection with a public offer of the Trust Preferred Securities to private investors in Germany.

The Netherlands

The Trust Preferred Securities may not be offered, issued, transferred and/or sold in or from The Netherlands other than to natural persons, who or legal entities which, in the course of their occupation or business, deal or invest in securities as referred to in article 2 of the Exemption Regulation of the Act on the Supervision of the Securities Trade 1995 of 21 December 1995 (*Vrijstellingsregeling wet toezicht effectenverkeer 1995*).

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Trust Preferred Securities, of possession or distribution of the Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Each Manager has severally agreed that it will, to the best of its knowledge and belief, comply with all relevant securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Trust Preferred Securities or has in its possession or distributes this Prospectus or any other offering material.

ANNEX A – SUPPORT UNDERTAKING

This Support Undertaking (the **Agreement**), dated 23 May 2003, is entered into between Eurohypo Aktiengesellschaft, a German stock corporation, (the *Bank*) and Eurohypo Capital Funding LLC I, a Delaware limited liability company (the *Company*).

Preamble

WHEREAS, the Bank owns the Common Security (as defined below) of the Company;

WHEREAS, pursuant to the LLC Agreement (as defined below), the Company will issue a Class A Preferred Security to the Bank and all of the Class B Preferred Securities to the Trust (each as defined below);

WHEREAS, pursuant to the Trust Agreement (as defined below), the Trust will issue the Trust Preferred Securities upon the same terms as, and representing corresponding amounts of, the Class B Preferred Securities;

WHEREAS, the Company intends to use the proceeds from the issuance of the Class B Preferred Securities to purchase subordinated notes of the Bank;

WHEREAS, the Company may from time to time declare Capital Payments (as defined below) on the Class B Preferred Securities pursuant to and in accordance with the LLC Agreement; and

WHEREAS, the Bank wishes, prior to the issuance of the Class B Preferred Securities, to undertake for the benefit of the Company and the holders of Class B Preferred Securities that (i) the Bank shall maintain direct or indirect ownership of the Class A Preferred Security and the Common Security, (ii) the Company shall at all times be in a position to meet its obligations, if and when such obligations are due and payable, including its obligation to make Capital Payments (including Additional Amounts (as defined below) thereon), to pay the Redemption Price (as defined below), the Early Redemption Price (as defined below) and the Make Whole Amount (as defined below), if any, and (iii) in liquidation or dissolution, the company will have sufficient funds to pay the Liquidation Preference Amounts (as defined below).

NOW, THEREFORE, the parties agree as follows:

Section 1 Certain Definitions

Additional Amounts has the meaning specified in Section 7.04(c) of the LLC Agreement.

Agreement has the meaning specified in the preamble.

Bank has the meaning specified in the preamble.

Capital Payments means any capital payments or other distributions at any time after the date hereof declared by the Board of Directors of the Company (or deemed declared in accordance with the LLC Agreement), but not yet paid, on the Class B Preferred Securities.

Class A Preferred Security means the class of preferred limited liability company interests in the company designed as Class A.

Class B Preferred Securities mean the class of preferred limited liability company interests in the Company designed as Class B, with a liquidation preference amount of € 1,000 per security.

Common Security means the security of the Company representing the common limited liability company interest, without par value, of the Company.

Company has the meaning specified in the preamble.

Early Redemption Price shall be the price for redemption of the Class B Preferred Securities prior to [•] 2013 as specified in Section 7.04(d)(iii) of the LLC Agreement.

Independent Enforcement Director means the independent member of the board of directors of the Company elected by the holders of the Class B Preferred Securities upon the occurrence of certain events in accordance with, and under the terms set forth in, the LLC Agreement.

Liquidation Preference Amount means the stated Liquidation Preference Amount of the Class B Preferred Securities and any other amounts due and payable under the LLC Agreement upon the voluntary or involuntary liquidation, dissolution, winding up or termination of the company to the holders of the Class B Preferred Securities.

LLC Agreement means the limited liability company agreement of the Company dated as of 4 October 2002 between the Bank and the Trust, as amended and restated as of 23 May 2003, and as the same may be further amended from time to time in accordance with its terms.

Make Whole Amount shall be the make-whole amount as determined under Section 7.04(d)(iii) of the LLC Agreement.

Payment Period has the meaning set forth in the LLC Agreement.

Person means any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company, or other legal entity or organization.

Preferred Securities mean the Class A Preferred Security and the Class B Preferred Securities, collectively.

Redemption Price shall be the price at which the Class B Preferred Securities are redeemable at the option of the Company pursuant to Section 7.04(d)(i) of the LLC Agreement.

Trust means Eurohypo Capital Funding Trust I, a Delaware statutory trust established pursuant to a Trust Agreement dated as of 4 October 2002, as amended and restated as of 23 May 2003 and as the same may be further amended from time to time in accordance with its terms.

Trust Preferred Securities means the noncumulative trust preferred securities issued by the Trust.

Section 2 Support Undertaking

- (a) The Bank undertakes to ensure that the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable, including its obligations to pay Capital Payments (including Additional Amounts thereon), the Redemption Price, the Early Redemption Price and the Make Whole Amount, if any.
- (b) The Bank undertakes to ensure that in the event of any liquidation of the Company, the Company shall have sufficient funds to pay the Liquidation Preference Amount (including accrued and unpaid Capital Payments for the then current Payment Period to, but excluding, the date of liquidation), Additional Amounts, the Redemption Price, the Early Redemption Price and the Make Whole Amount, if any.
- (c) The obligations of the Bank under this Section 2 shall be subordinated to all senior and subordinated debt obligations of the Bank, and will rank *pari passu* with the most senior ranking preference shares of the Bank, if any, and shall rank senior to any other preference shares and the common shares of the Bank.
- (d) This Agreement shall not constitute a guarantee or undertaking of any kind that the Company will at any time have sufficient assets, or be authorized pursuant to the LLC Agreement, to declare a Capital Payment or other distribution.

Section 3
Third Party Beneficiaries and Enforcement of Rights

- (a) The parties hereto agree that this Agreement is entered into as a third party beneficiary contract within the meaning of Section 328(2) of the German Civil Code (*echter Vertrag zugunsten Dritter gem. § 328 Abs. 2 BGB*) for the benefit of the Company and all current and future holders of the Class B Preferred Securities and that the Company and any holder of any such Class B Preferred Securities may severally enforce the obligations of the Bank under Section 2.
- (b) The Parties hereto acknowledge that, as provided in the LLC Agreement, if a holder of Class B Preferred Securities has notified the Company that the Bank has failed to pay any amount then due hereunder, and such failure continues for sixty (60) days after such notice is given, the holders of the Class B Preferred Securities shall have the right to appoint one Independent Enforcement Director who will have the sole authority, right and power to enforce the rights and settle any claim of the Company under this Agreement.

Section 4
No Exercise of Rights

The Bank shall not exercise any right of set-off, counterclaim or subrogation that it may have against the Company as long as any Class B Preferred Securities are outstanding.

Section 5
Burden of Proof

Any failure of the Company to pay Capital Payments, the Redemption Price, the Early Redemption Price, the Make Whole Amount, or Liquidation Preference Amounts (or any part thereof), plus, in either case, Additional Amounts, if any, as and when such amounts are due shall constitute prima facie evidence of a breach by the Bank of its obligations hereunder. The Bank shall have the burden of proof that the occurrence of such breach results neither from its negligent nor its intentional misconduct.

Section 6
No Senior Support to Other Subsidiaries

The Bank undertakes that it shall not give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support or payment of any amounts in respect of any other preference shares (or instruments ranking *pari passu* with or junior to preference shares) of any other affiliated entity that would in any regard rank senior in right of payment to the Bank's obligations under this Agreement, unless the parties hereto modify this Agreement such that the Bank's obligations under this Agreement rank at least *pari passu* with, and contain substantially equivalent rights of priority as to payment as such guarantee or support agreement.

Section 7
Continued Ownership of the Class A Preferred Security and the Company Common Security

The Bank undertakes to maintain direct or indirect ownership of the Class A Preferred Security and the Company Common Security as long as any Class B Preferred Securities remain outstanding.

Section 8
No Dissolution of the Company

Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Bank shall not permit the Company to be dissolved until all obligations under this Agreement have been paid in full pursuant to its terms.

Section 9
Modification and Termination

So long as Class B Preferred Securities remain outstanding, this Agreement may not be modified or terminated without the consent of 100% of the holders of the Class B Preferred Securities as provided

in the LLC Agreement, except for such modifications that are not adverse to the interests of the holders of the Class B Preferred Securities.

**Section 10
No Assignment**

So long as any Class B Preferred Securities remain outstanding, the Bank shall not assign or transfer its rights or obligations under this Agreement to any Person without the consent of the holders of such Class B Preferred Securities.

**Section 11
Successors**

This Agreement shall be binding upon successors to the parties.

**Section 12
Severability**

Should any provision of this Agreement be found invalid, illegal or unenforceable for any reason, it is to be deemed replaced by the valid, legal and enforceable provision most closely approximating the intent of the parties, as expressed in such provision, and the validity, legality and enforceability of the remainder of this Agreement shall in no way be affected or impaired thereby.

**Section 13
Governing Law and Jurisdiction**

This Agreement shall be governed by, and construed in accordance with, the laws of the Federal Republic of Germany and the parties irrevocably submit to the non-exclusive jurisdiction of the district court (*Landgericht*) Frankfurt am Main.

EUROHYPO AKTIENGESELLSCHAFT

By: _____
Name:
Title:

By: _____
Name:
Title:

EUROHYPO CAPITAL FUNDING LLC I

By: _____
Name:
Title:

By: _____
Name:
Title:

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**Consolidated Financial Statements
of the Eurohypo Group for 2002**

EUROHYPO GROUP

BALANCE SHEET AS AT DECEMBER 31, 2002

Assets			Dec. 31, 2002	Dec. 31, 2001
	€	€	€	T€
Cash reserve				
a) Cash on hand		78,128.44		63
b) Balances with central banks		151,843,676.75		275,185
			151,921,805.19	275,248
thereof: with Deutsche Bundesbank	125,491,582.80			(215,329)
Claims on banks				
a) Repayable on demand		678,629,655.03		2,077,415
b) Other claims		21,133,055,100.56		29,500,602
			21,811,684,755.59	31,578,017
thereof: mortgage loans	88,026,457.37			(47,388)
loans to public sector entities	17,596,150,017.04			(20,942,970)
Claims on customers			166,899,159,288.31	173,361,936
thereof: mortgage loans		95,690,503,641.12		(91,876,738)
loans to public sector entities		70,607,962,322.83		(79,683,794)
other loans collateralized against charges on real estate		0.00		(111,957)
Bonds and other fixed-income securities				
b) Bonds and notes				
ba) of public sector issuers	27,630,099,245.36			32,592,152
thereof: eligible as collateral for				
Deutsche Bundesbank advances	22,220,272,222.59			(21,324,287)
bb) of other issuers	6,686,491,169.91			6,745,999
thereof: eligible as collateral for				
Deutsche Bundesbank advances	4,283,728,386.85			(4,288,279)
		34,316,590,415.27		39,338,151
c) Own debt instruments		2,451,172,273.12		2,982,986
			36,767,762,688.39	42,321,137
Nominal amount	2,398,827,610.03			(2,920,102)
Shares and other non-fixed income securities			2,729,020.42	24,309
Participating interests			21,726,319.15	26,289
thereof: in banks	16,705,895.76			(16,706)
Shares in related companies			16,342,354.17	109,079
thereof: in banks	62,704.91			(102,932)
in financial services institutions	8,723,200.00			(0)
Assets held on a trust basis			182,761,534.41	213,528
thereof: loans on a trust basis	182,761,534.41			(213,528)
Intangible assets			33,856,831.48	0
Tangible assets			188,096,171.24	118,487
Other assets			1,215,067,535.10	1,172,311
Tax deferrals			21,029,371.59	34,102
Deferred items				
a) From issuing and lending business		1,151,901,360.20		1,489,446
b) Other		3,428,486.29		3,570
			1,155,329,846.49	1,493,016
Total assets			228,467,467,521.53	250,727,459

Liabilities				Dec. 31, 2002	Dec. 31, 2001
	€	€	€	T€	
Liabilities to banks					
a) Repayable on demand		1,319,387,514.80		188,862	
b) With an agreed term or notice period		29,654,871,710.91		31,370,397	
			30,974,259,225.71	31,559,259	
thereof: Registered Hypothekendarlehenpfandbriefe issued	3,719,939,568.48			(3,413,106)	
Registered Öffentliche Pfandbriefe issued	3,158,101,513.29			(2,934,515)	
Given to lenders to secure loans taken up					
– Registered Hypothekendarlehenpfandbriefe and	16,361,340.21			(29,144)	
– Registered Öffentliche Pfandbriefe	60,985,590.89			(105,629)	
Liabilities to customers					
b) Registered Hypothekendarlehenpfandbriefe issued		16,725,782,422.59		18,021,980	
c) Registered Öffentliche Pfandbriefe issued		15,780,594,703.39		16,715,552	
d) Other liabilities					
da) repayable on demand	669,107,946.65			365,008	
db) with an agreed term or notice period	8,309,345,507.55			8,475,351	
		8,978,453,454.20		8,840,359	
			41,484,830,580.18	43,577,891	
thereof: given to lenders to secure loans taken up					
– Registered Hypothekendarlehenpfandbriefe and	332,602,535.96			(341,956)	
– Registered Öffentliche Pfandbriefe	518,553,191.59			(574,360)	
Liabilities in certificate form					
a) Bonds issued					
aa) Hypothekendarlehenpfandbriefe		30,810,463,828.23		32,898,694	
ab) Öffentliche Pfandbriefe		92,032,260,395.74		109,389,156	
ac) other bonds		22,446,555,156.32		24,466,728	
			145,289,279,380.29	166,754,578	
Liabilities held on a trust basis					
thereof: loans on a trust basis	182,761,534.41		182,761,534.41	213,528	
				(213,528)	
Other liabilities					
			69,825,615.63	176,874	
Deferred items					
a) From issuing and lending business		965,203,103.07		1,183,699	
b) Other		24,455,638.17		46,285	
			989,658,741.24	1,229,984	
Provisions					
a) Provisions for pensions and similar obligations		193,796,108.00		186,445	
b) Tax provisions		137,415,132.99		141,654	
c) Other provisions		242,147,031.53		140,331	
			573,358,272.52	468,430	
Special items with partial reserve character					
			88,817,476.75	98,185	
Subordinated liabilities					
			3,129,258,949.40	1,406,194	
Participation certificates					
thereof: due within two years	25,564,594.06		701,364,126.74	701,364	
				(25,565)	
Fund for general banking risks					
			218,446,914.24	109,928	
Capital and reserves					
a) Subscribed capital		841,672,254.80		419,312	
b) Contribution for the implementation of the capital increase agreed		72,823,424.25			
c) Capital reserve		3,471,092,882.20		2,259,213	
d) Revenue reserves					
da) statutory reserve	4,163,794.91				
dd) other revenue reserves	212,907,964.30	217,071,759.21		1,208,986	
e) Minority interests		15,740,782.86		15,726	
f) Distributable profit of Eurohypo AG		147,205,601.10		528,007	
			4,765,606,704.42	4,431,244	
Total liabilities			228,467,467,521.53	250,727,459	
Contingent liabilities					
b) Liabilities under guarantees and indemnity agreements			189,804,759.84	425,595,721	
Other commitments					
c) Irrevocable credit commitments			6,719,132,950.01	6,437,526,293	

EUROHYPO GROUP

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM JANUARY 1, 2002 TO DECEMBER 31, 2002

Expenses				
			2002	2001
	€	€	€	T€
Interest expenses			10,745,622,720.03	13,062,586
Commission expenses			66,852,633.73	68,511
General administrative expenses				
a) Staff expenses				
aa) wages and salaries		174,453,369.83		183,747
ab) social security contributions and expenses for pensions and other employee benefits		56,426,994.35		61,389
thereof: for pensions	26,308,192.41	230,880,364.18		245,136
b) Other administrative expenses		167,652,433.37		173,373
			398,532,797.55	418,509
Write-downs, depreciation of and value adjustments to intangible assets and tangible assets			33,547,936.79	40,943
Other operating expenses			13,564,521.31	15,127
Write-downs of and value adjustments to claims and certain securities as well as additions to provisions for possible loan losses			115,760,778.61	256,440
Additions to fund for general banking risks			108,519,159.78	0
Write-downs of and value adjustments to participating interests, shares in affiliated companies and securities treated as fixed assets			3,034,840.88	0
Expenses from assumption of loss			1,266,346.82	0
Allocations to special items with partial reserve character			1,528,895.94	85,680
Extraordinary expenses			233,070,362.69	54,700
Income taxes			30,274,648.27	110
Other taxes, where not shown under "Other operating expenses"			1,256,745.08	- 10,300
Net income for the year			293,539,984.01	517,050
Total expenses			12,046,372,371.49	14,509,356
Net income for the year			293,539,984.01	517,050
Profit due to other shareholders			1,015,239.27	1,281
Withdrawals from revenue reserves				
d) from other revenue reserves			0.00	40,000
Allocations to revenue reserves				
d) to other revenue reserves			145,319,143.64	27,762
Distributable profit of Eurohypo AG			147,205,601.10	528,007

Income				
			2002	2001
	€	€	€	T€
Interest income from				
a) Lending and money market business		10,448,570,884.63		12,085,031
b) Fixed-income securities and book-entry securities		1,439,142,371.44		2,040,585
			11,887,713,256.07	14,125,616
Current income from				
a) Shares and other non-fixed income securities		255,645.94		52,181
b) Participating interests		560,060.56		1,381
c) Shares in related companies		6,747,479.19		24,107
			7,563,185.69	77,669
Income from profit pooling, profit transfer or partial profit transfer agreements			1,451,853.51	995
Commission income			84,087,394.86	93,075
Income from write-ups of claims and certain securities and also from writing back of provisions for possible loan losses			0.00	0
Income from write-ups to participating interests, shares in related companies and securities treated as fixed assets			0.00	284
Other operating income			63,332,523.68	210,068
Income from the writing back of special items with partial reserve character			2,224,157.68	1,649
Total income			12,046,372,371.49	14,509,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The merger

The merger of Eurohypo AG Europäische Hypothekenbank der Deutschen Bank and RHEINHYP Rheinische Hypothekenbank AG with Deutsche Hyp Deutsche Hypothekenbank, Frankfurt-Hamburg AG, which was agreed by the General Meetings of the three companies last year, came into effect upon entry in the Commercial Register on August 13, 2002. In order to implement the merger and the related exchange of shares in the former Eurohypo and Rheinhyp for Deutsche Hyp shares, the share capital was increased by Deutsche Hyp by € 596,679,454.80, up from € 244,992,800.00 to € 841,672,254.80, by issuing 229,492,098 new no par value bearer shares. The capital increase and its implementation were entered in the Commercial Register at the Frankfurt/Main district court on August 5, 2002, for Deutsche Hyp as the absorbing company.

The inclusion of part of the Real Estate Investment Banking activities of Deutsche Bank London (REIB London), announced as part of the merger, effective retrospectively as at January 1, 2002, was completed upon the signing of the corresponding agreement on December 27, 2002. The consideration which Deutsche Bank received for REIB London consisted of 3,403,460 no par value shares in Eurohypo AG.

The capital increase of € 8.8 million, which was only entered in the Commercial Register on January 29, 2003, for the inclusion of REIB London, effective retrospectively on January 1, 2002 and the contribution of € 64 million allocated to the capital reserve were shown

under the balance sheet position “Capital and reserves” as “Contribution for the implementation of the capital increase agreed”, at the level of € 72.8 million as at December 31, 2002.

The agreement concerning the previously announced inclusion of the Real Estate Finance (REF) section of Deutsche Bank Frankfurt as at January 1, 2003 was signed on December 30, 2002. The consideration received by Deutsche Bank for REF consisted of 16,996,026 no par value shares in Eurohypo AG. In addition, the inclusion of the Real Estate Investment Banking activities of Dresdner Bank in North America (REIB USA) on January 1, 2003 was completed upon the signing of the corresponding agreement on January 28, 2003. Dresdner Bank received 7,299,231 no par value shares in Eurohypo AG for REIB USA.

With the approval of the Supervisory Board, the Board of Managing Directors of Eurohypo agreed to use € 72,016,664 of the total authorized capital of € 122,200,000, created by the 2002 General Meeting, for the inclusion of REIB London, REF and REIB USA.

The capital increase for the implementation of REIB London as at January 1, 2002 was entered in the Commercial Register for Eurohypo at the Frankfurt/Main district court on January 29, 2003, for REF on February 20, 2003 and for REIB USA on February 27, 2003.

The take-over of the assets of the former Eurohypo and Rheinhyp by Deutsche Hyp took place internally with effect from December 31, 2001. From January 1, 2002 onwards, all actions and transactions of the former Eurohypo and Rheinhyp are deemed as undertaken for the account of Deutsche Hyp.

Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG has been operating as Eurohypo AG since the merger came into effect on August 13, 2002.

The combined, consolidated figures of the three merged banks, together with the companies included in the consolidated financial statements, have been shown as comparable figures to provide a better presentation of the assets, liabilities, financial position and profit or loss.

Accounting Regulations

The consolidated financial statements for Eurohypo AG have been drawn up in accordance with the regulations of the German Commercial Code (HGB), in conjunction with the Ordinance governing Accounting for Banks (RechKredV) of 11 December 1998, taking into account the regulations under the German Stock Corporation Act and the German Mortgage Bank Act. The balance sheet structure specified for commercial banks has been supplemented by mortgage bank entries in accordance with Section 24 of the German Mortgage Bank Act.

Scope of consolidation

The following companies are included in the consolidated financial statements – in addition to Eurohypo AG:

Europäische Hypothekenbank S.A.,
Luxembourg
RHEINHYP BANK Europe plc., Dublin

The remaining related and other companies have not been consolidated, in accordance

with Section 296 (2) German Commercial Code, as they are of minor significance in terms of the obligation to provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The Notes contain details of the companies in which participating interests are held.

Principles of consolidation

We have drawn up the consolidated financial statements in a uniform manner, in accordance with the accounting and valuation principles described in this section. For the capital consolidation as at January 1, 2002, the book values of the participating interests have been set off against the proportional capital and reserves in accordance with Section 301 Paragraph 1 No. 1 of the German Commercial Code. The resultant differences on the liabilities side have been allocated to the Group revenue reserves. The distributable profit for the year for Eurohypo AG is shown as the Group distributable profit. The net income of the subsidiaries included, together with all consolidation measures which impact on income, are therefore set off against the other revenue reserves.

Claims and liabilities of the companies included in the consolidated financial statements against each other are offset, as are reciprocal income and expenses. The income from participating interests in consolidated companies received during the reporting year has been netted out. Intra-group profits resulting from the transfer of assets within the Group are eliminated, unless they are not of minor significance.

Accounting and valuation principles

Claims are reported at nominal value in accordance with Section 340 e Paragraph 2 of the German Commercial Code. The difference between the amount payable and the nominal amount is shown under deferred items.

All discernible individual risks from lending activities have been accounted for by the formation of specific value adjustments and provisions. Unforeseen risks are taken into account by means of a general value adjustment. In addition, there are precautionary reserves in accordance with Section 340 g of the German Commercial Code. We have made use of the opportunity for cross-compensation of all expenses and income in accordance with Section 340 f Paragraph 3 of the German Commercial Code under the item "Write-downs of and value adjustments to claims and certain securities as well as additions to provisions for possible loan losses".

Securities which are allocated to the liquid reserve have been valued at the cost of acquisition or at stock market prices on the reporting date where these prices were lower. Securities reported as ordinary cover are allocated to fixed assets. These securities were valued at the cost of acquisition, whereby the premiums and discounts incurred upon purchasing the securities spread over the remaining term, are reported in net interest income on the profit & loss account.

Participating interests and shares in related companies are valued at the cost of acquisition, in accordance with the rules appli-

cable for fixed assets. Write-downs are undertaken for any prospective lasting impairment in value.

Tangible assets are entered at the cost of acquisition less scheduled straight-line depreciation. In the case of IT systems which do not form part of the target systems of Eurohypo AG, an adjustment has been made to the remaining service life up until the data has been migrated to equipment which has been adapted to the target system of Eurohypo AG. The resulting additional depreciation is included in the restructuring expenses. Minor-value assets are written off in full in the year of acquisition.

Liabilities are reported at their repayment amount. The difference between the nominal amount and the issue amount is included in deferred items. Non-interest bearing liabilities, such as Zero Bonds, are shown at cash value. There are provisions for uncertain liabilities in the amount of the prospective claim. Provisions for pensions are calculated in accordance with actuarial principles at their present value after discounting at a rate of 6%.

Contingent liabilities are reported at the nominal amount less provisions created.

Assets and liabilities in foreign currency were translated at the foreign exchange mid-rate on the reporting date. Expenses and income were entered in the profit & loss account at the translation rates for the respective day. Income from currency translation was offset – where cover was available in the same currency – up to the amount of the expense resulting from the valuation of the transactions serving as cover.

Maturity breakdown according to residual term

in T€	Claims on Banks		Claims on customers		Liabilities to banks		Liabilities to customers	
	2002	2001	2002	2001	2002	2001	2002	2001
On demand	678,629	2,077,415	2,107,967	1,488,795	1,319,388	188,862	659,725	844,981
Up to three months	4,687,959	10,069,588	12,979,780	10,127,834	12,182,099	15,121,737	2,330,061	1,518,407
More than three months								
Up to one year	2,114,594	2,310,493	14,637,867	11,959,357	6,208,210	5,521,978	2,535,723	1,821,048
More than one year								
Up to five years	8,334,399	9,604,469	67,579,464	59,293,419	6,712,243	5,003,171	16,663,874	18,816,765
More than five years	5,996,104	7,516,052	69,594,081	90,492,531	4,552,319	5,723,511	19,295,448	20,576,690
Total	21,811,685	31,578,017	166,899,159	173,361,936	30,974,259	31,559,259	41,484,831	43,577,891

in T€	Up to five years		More than five years		Total	
	2002	2001	2002	2001	2002	2001
Bonds and notes						
of public sector issuers	11,748,044	14,021,037	15,882,055	18,571,115	27,630,099	32,592,152
of other issuers	3,541,399	4,289,345	3,145,092	2,456,654	6,686,491	6,745,999
Total	15,289,443	18,310,382	19,027,147	21,027,769	34,316,590	39,338,151
Liabilities in certificate form	114,547,036	88,574,583	30,742,243	78,179,995	145,289,279	166,754,578

Of the balance sheet position “Liabilities in certificate form”, the amount of T€ 26,044,282 matures in the following year. Of the balance sheet position “Bonds and notes”, the amount of T€ 3,644,126 matures in the following year.

Claims on and liabilities to companies with a participating interest relationship and related companies

in T€	Companies with a participating interest relationship		Related companies	
	2002	2001	2002	2001
Claims on banks	18,958	8,877	151,727	20,597
Claims on customers	836,668	863,001	184,580	163,497
Bonds and other fixed-income securities	0	0	0	0
Total	855,626	871,878	336,307	184,094
Liabilities to banks	0	0	98,267	15,443
Liabilities to customers	85	0	5,472	656,914
Liabilities in certificate form	0	0	0	0
Subordinated liabilities	0	0	0	0
Total	85	0	103,739	672,357

Development of fixed assets

in T€	Cost of acquisition or manufacture as at Jan. 1, 2002				Write-downs/ depreciation	Write-downs/ depreciation	Residual book value	Residual book value
		Additions 2002	Disposals 2002	Transfers 2002	cumulative 2002	2002	Dec. 31, 2002	Dec. 31, 2001
Fixed assets								
I. Participating interests	26,722	2	1,121	-3,134	743	310	21,726	26,289
II. Shares in related companies	109,079	9,723	102,869	3,134	2,725	2,725	16,342	109,079
III. Bonds and other fixed-income securities	33,033,935	1,935,605	6,366,130	-	166,738 ¹⁾	70,820 ¹⁾	28,436,672	32,927,239
IV. Intangible assets	-	33,857	-	-	-	-	33,857	-
V. Tangible assets								
1. Office furniture and equipment	316,019	22,212	5,978	-	273,808	66,174 ²⁾	58,445	104,229
2. Minor-value assets	-	433	433	-	-	433	-	-
3. Land and buildings	25,798	14,522	1,490	-	10,734	475	28,096 ³⁾	14,258
4. Advance payments on buildings under construction	-	101,555	-	-	-	-	101,555 ⁴⁾	-
Total tangible assets	341,817	138,722	7,901	-	284,542	67,082	188,096	118,487
Total	33,511,553	2,117,909	6,478,021	-	454,748	140,937	28,696,693	33,181,094

1) The premiums and discounts incurred upon purchasing bonds and other fixed-income securities are distributed over the term. They are reported as part of the interest under "Interest income from fixed-income securities and book-entry securities" and shown as write-downs/depreciation in the above asset schedule.

2) In the case of IT systems which do not form part of the target systems of Eurohypo AG, an adjustment has been made to the remaining service life up until the data has been migrated to equipment which has been adapted to the target system of Eurohypo AG. The resulting additional depreciation in the amount of T€ 33,708 is included in the restructuring expenses.

3) Of the residual book value for "Land and buildings", T€ 17,852 relate to premises used by the bank itself.

4) The advance-payment on our future "Helfmann Park, Eschborn" premises has been capitalized in the amount of T€ 101,555.

Securities eligible for stock market listing
Classification of securities eligible for stock market listing,
included in the following balance sheet positions

in T€	2002		2001	
	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	33,215,390	3,459,466	39,001,011	3,225,125
Shares and other non fixed-income securities	2,729	–	24,309	–
Participating interests	–	–	609	–
Shares in related companies	–	–	–	–
Total	33,218,119	3,459,466	39,025,929	3,225,125

As at the reporting date, securities from public issues totalling T€ 2,530,900 had been sold subject to repurchase agreements.

Of the balance sheet position “Bonds and other fixed-income securities” a partial amount of T€ 3,864,460 matures in the following year.

Assets and liabilities held on a trust basis

in T€	2002	2001
Assets held on a trust basis		
Claims on customers	182,762	213,528
Liabilities held on a trust basis		
banks	12,341	12,710
customers	170,421	200,818
Total	182,762	213,528

Deferred items

in T€	2002
Deferred items on the assets side, arising from issuing and lending business, include the following:	
discounts from issuing business	605,755
premiums from lending business	412,170
premiums and settlement payments from derivatives	133,976
Deferred items on the liabilities side, arising from issuing and lending business, include:	
premiums from issuing business	104,692
discounts from lending business	541,313
premiums and settlement payments from derivatives	319,198

Other assets

Other assets include claims for tax refunds of T€ 685,394. These resulted mainly from claims against local authorities from the single-entity relationship for trade tax purposes from previous years and from claims to the offsetting of corporation and capital gains tax in connection with securities lending transactions undertaken by the former Deutsche Hyp in 2001. The claims from the single-entity relationship for trade tax purposes are matched for the most part by liabilities reported under Liabilities to banks. A further significant position among other assets are amounts already credited of T€ 433,791 to loan accounts within the context of the direct debiting process, subject to receipt.

Tax deferrals

The existing deferrals on the assets side for deferred tax of T€ 34,102 in accordance with Section 274 Paragraph 2 of the German Commercial Code, were completely written back during the reporting year. We have created a deferred tax position of T€ 21,029 on the assets side of the balance sheet for the corporation tax balance further to § 37 of the corporation tax code relating to the dividends to be distributed in 2003 for financial year 2002.

Liabilities in certificate form

Other bonds contain index-linked bonds issued totalling T€ 76,878.

Other liabilities

Other liabilities mainly include interest for profit-participation rights of T€ 41,816 and taxes and social security contributions yet to be paid of T€ 13,385.

Special items with partial reserve character

In the reporting year, T€ 1,529 from the profit on the sale of the bank's Mannheim building was transferred to the position special items with partial reserve character. After the release of T€ 2,224 and setting off an amount of T€ 8,672 against the property acquired in Eschborn (future seat of the head office in Helfmann Park, Eschborn), special items with partial reserve character pursuant to Section 6b Income Tax Act and of T€ 87,168, pursuant to Section 52 Paragraph 16, Sentence 3 of the Income Tax Act of T€ 1,649, are reported for financial year 2002.

Subordinated liabilities

Borrowings of more than 10% of the total amount

	Nominal amount in T€	Nominal interest in %	Maturity
Schuldscheindarlehen	593,000	3-months-Euribor plus 130 basis points	Sept. 30, 2009

In addition, there are borrowings of T€ 2,470,326, which fall due during the period from 2003 to 2022.

Eurohypo is not subject to any early repayment obligation for the above subordinated borrowing. In the event of liquidation, bankruptcy, composition proceedings or other proceedings to avoid bankruptcy, the claims and interest claims resulting from these liabilities are subordinate to the claims of all Eurohypo's creditors, which are not likewise subordinated.

The interest expenses for total subordinated liabilities were T€ 111,416 in the reporting year.

Participatory capital

Year of issue	Nominal amount in T€	Interest	Date of maturity	Repayment	Special conditions ^{*)}
1992 ^{**)}	107,371	9.000%	31.12.2004	01.07.2005	Call right on Dec. 31, 1997 at the earliest
1993	25,565	7.375%	31.12.2003	30.06.2004	Call right on Dec. 31, 1998 at the earliest
1994	12,782	8.250%	31.12.2004	30.06.2005	Call right on Dec. 31, 1999 at the earliest
1995	122,710	6-month Libor plus 120 basis points	31.12.2005	30.06.2006	Call right on Dec. 31, 2000 at the earliest
1997	132,936	6.875%	31.12.2007	30.06.2008	Call right on Dec. 31, 2002 at the earliest
1999 ^{**)}	100,000	Euribor twelve-month deposits plus 110 basis points on 2 nd working day prior to start of the interest period	31.12.2004	30.06.2005	
2000 ^{**)}	200,000	Euribor twelve-month deposits plus 150 basis points on 2 nd working day prior to start of the interest period	31.12.2012	01.07.2013	

*) The bank can call the participation certificates by giving at least 2 years notice at the end of any calendar year, if a legal regulation is adopted, amended or applied in the Federal Republic of Germany in such a way that the bank would incur a tax charge on the interest payment, in the form of trade or corporation tax, or the profit participation capital cannot be deducted as debt items for wealth tax purposes.

**) When the Eurohypo AG merger came into force, the holders of participation certificates in the former Rheinhyp were granted equal participation certificates, with a corresponding payment commitment to the relevant holders, which are subordinate to all liabilities due to other creditors, but rank equally with all participation certificates already issued.

The participation certificates grant holders the right to an annual distribution, which has priority over the share in profits of the shareholders; they are subordinate to liabilities to other creditors, provided that such liabilities are not likewise subordinated. Repayment takes place at the nominal amount, subject to the provisions concerning participation in losses.

Authorization for the issue of participation rights

On June 22, 1998, the General Meeting authorized the Board of Managing Directors to issue participation rights for a total nominal amount of up to € 306,775,128.72, on one or several occasions.

The participation rights must comply with the conditions of Section 10 Paragraph 5 of the German Banking Act, according to which the capital contributed against the granting of participation rights can be allocated to the liable share capital. The term of the participation rights can be up to fifteen years. In utilizing the authorization, the Board of Managing Directors can exclude residual amounts from the shareholders' subscription rights.

In addition, the Board of Managing Directors was authorized to exclude shareholders' subscription rights for an amount totalling € 153,387,564.36. This authorization can only be used, however, if the participation rights are structured in the same way as bonds, which means that they do not convey any rights of membership or subscription or conversion rights to shares, or grant participation in liquidation proceeds and that the level of interest is not geared to the net income for the year, the distributable profit or the dividend.

In addition, the interest and the amount issued for the participation rights in this instance must correspond to the current market conditions for comparable borrowings at the time of the issue. The Board of Managing Directors was authorized to determine the further details and terms of the issues, particularly the interest rate, issue price and term of the participation rights.

If the subscription right is not excluded, issues of participation rights shall be underwritten by a consortium of banks, with the obligation of offering them to the shareholders.

The Board of Managing Directors has made no use of the authorization to issue participation rights during the reporting year.

Subscribed capital

The subscribed capital of Eurohypo AG as at December 31, 2002 was € 841,672,254.80, divided into 323,720,098 no par value bearer shares.

Authorized capital

On June 22, 1998, the General Meeting authorized the Board of Managing Directors to increase the share capital of the bank on one or several occasions up until June 21, 2003, with the approval of the Supervisory Board, by a total of up to € 43,459,809.90, against a cash contribution from the issue of new shares, if necessary also excluding the shareholders' subscription rights for residual amounts.

This authorization was partially utilized by the Board of Managing Directors, with the approval of the Supervisory Board, on April 25, 2002, and the share capital of the company was increased from € 201,758,312.60 by € 43,234,487.40 to € 244,992,800.00 by means of the issue of 16,628,649 no par value bearer shares with entitlement to dividend from January 1, 2002, at the issue amount of € 16.40 per no par value share. The shareholders were granted a subscription right at the ratio of 14:3.

On June 18, 2002, the General Meeting cancelled the remaining authorization for the unutilized portion of € 225,322.50 and authorized the Board of Managing Directors to increase the share capital of the company by a total of up to € 122,200,000.00 up until June 17, 2007, with the approval of the Supervisory Board, by the issue of new no par value bearer shares against cash or non-cash contributions, on one or several occasions. The Board of Managing Directors was authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board, as long as the capital increase takes place against contributions in kind for the purpose of the acquisition of companies, company divisions or units, or participating interests in companies. If the shareholders' subscription rights are not excluded, they shall be granted a subscription right, subject to the condition that the new shares should be underwritten by a consortium of banks with the obligation of offering them to the shareholders. In addition, the Board of Managing Directors was authorized to exclude residual amounts from the shareholders' subscription rights, with the approval of the Supervisory Board.

The Board of Managing Directors made partial use of this authorization in November 2002, with the approval of the Supervisory Board, and increased the share capital from € 841,672,254.80 by € 8,848,996.00 to € 850,521,250.80, through the issue of 3,403,460 no par value bearer shares.

The REIB Structured Finance team, with 14 staff, located in London was brought in by Deutsche Bank, together with the business handled by the team, including client relationships. The shares from the capital increase carry entitlement to dividends from January 1, 2002.

In December 2002, the Board of Managing Directors also decided to make partial use of the authorization again, and increased the share capital by a further € 44,189,667.60 to € 894,710,918.40, by issuing 16,996,026 no par value bearer shares against contributions in kind. The business with commercial real estate clients of Deutsche Bank Aktiengesellschaft was included as the contribution in kind with effect from January 1, 2003, and has been incorporated into the sub-section "Real Estate Finance" (REF sub-section). The shares from this capital increase carry entitlement to dividends from January 1, 2003.

The entry of both capital increases in the Commercial Register for the company took place in January and February 2003 respectively.

Development and composition of capital and reserves

in T€	Contributions for implemen- tation of agreed capital				Minority share- holders	Distri- butable profit	Capital and reserves
	Subscribed capital	capital increases ²⁾	Capital reserve	Other reserves			
As at Dec, 31,12.2001 ¹⁾	419,312	–	2,259,213	1,208,986	15,726	528,007	4,431,244
Dividend for financial year 2001					–1,000	–528,007	–529,007
Changes from the merger:							
movement of capital reserve to subscribed capital	379,126		–379,126				–
Movement of other reserves/capital reserve			1,137,234	–1,137,234			–
Payment obligation from cash addition/share exchange			–1,938				–1,938
Addition from capital increases in 2002	43,234		455,710				498,944
Capital increase from inclusion of Deutsche Bank REIB London division		72,824					72,824
Allocation from net income 2002				145,319	1,015		146,334
Distributable profit 2002						147,206	147,206
As at Dec. 31, 2002	841,672	72,824	3,471,093	217,071	15,741	147,206	4,765,607

1) The combined, consolidated capital and reserves of the three merged institutions and consolidated companies

2) The capital increase brought about by the inclusion of the Deutsche Bank REIB London (Real Estate Investment Banking) division was entered in the Commercial Register on January 29, 2003. The amount of T€ 8,849 was entered as subscribed capital and T€ 63,975 was allocated to the capital reserve.

Contingent liabilities

in T€	2002
Liabilities under indemnities and guarantees	189,805
Loan guarantees	90,830
Other indemnities and guarantees	98,975

Irrevocable credit commitments

in T€	2002
Short term current account credits	43,214
Medium term current/open account credits	69,299
Other loans	13,236
Mortgage loans/Loans to public sector entities	6,593,384
Total	6,719,133

Contribution commitments and joint liability

There is an obligation to make an additional contribution of T€ 95 arising from our participation in Liquiditäts-Konsortialbank GmbH, Frankfurt/Main, in accordance with Section 26 of the Law governing Limited Liability Companies, together with joint liability under Article 5, Paragraph 4 of the Articles of Association. In addition there is joint liability of T€ 12 from our participation in BWF Beteiligungsgesellschaft Wirtschaftsförderung mbH of Hamburg, in accordance with Section 24 of the Law governing Limited Liability Companies.

Foreign currency positions

in T€	2002	2001
Total amount of all assets and liabilities in foreign currencies (excluding currencies of EMU member states)		
Assets	21,444,170	21,256,260
Liabilities	17,017,477	21,553,372
Outstanding balance sheet positions are matched by corresponding forward forward contracts or currency swaps with matching maturities		

Subordinated assets

in T€	2002	2001
Breakdown according to balance sheet entries		
Claims on banks	16,529	16,529
Claims on customers	7,760	5,295
Shares and other non-fixed-income securities	2,729	2,729
Total	27,018	24,553

Financial derivatives

In business with financial derivatives, credit risks arise where a contractual partner is not able to fulfil his obligations. In contrast to traditional lending business, the risks arising from business in financial derivatives do not relate to the notional volume. The size of the default risk depends rather on the replacement costs, i.e. the cost of closing the resulting open position. The figure reported for credit risks from financial derivatives, in accordance with international standards, is the current replacement cost.

With a total notional volume of € 228.0 billion, the bank's credit risk from business in financial derivatives as at December 31, 2002 was € 1,694.2 million compared with € 1,354.3 million in the previous year. A new volume of € 36.8 billion was concluded in the reporting year, compared with disposals of € 42.3 billion. Trading in derivatives did not take place at any time.

There are strict requirements for the credit standing of counterparties. 78.6 % of the portfolio is rated "A" or higher.

Classified by credit rating, the overview is as follows

Rating category	Notional values € million	Current	
		replacement costs € million	in % of the notional value
AAA	13,324.0	89.5	0.67 %
AA+	10,979.5	40.4	0.37 %
AA	16,670.9	192.8	1.16 %
AA-	61,434.2	548.1	0.89 %
A+	74,184.0	693.2	0.93 %
A	2,601.0	55.6	2.14 %
A-	48,556.9	74.4	0.15 %
BBB+	196.0	0.1	0.05 %
NA	89.0	0.1	0.11 %
Total	228,035.5	1,694.2	0.74 %

Specific credit lines have been opened for all counterparties. Utilization is monitored on a daily basis.

Maturity breakdown

The maturity breakdown of business in financial derivatives is as follows:

in € million	Notional amounts with remaining life				As at
	up to 1 year	1-5 years	5-10 years	more than 10 years	Dec. 31, 2002 Total
AAA	953.6	6,043.5	5,301.6	1,025.3	13,324.0
AA+	2,158.4	4,489.5	3,544.6	787.0	10,979.5
AA	1,130.7	6,845.8	7,669.7	1,024.7	16,670.9
AA-	7,641.2	27,650.4	17,799.9	8,342.7	61,434.2
A+	12,621.0	34,516.8	21,843.4	5,202.8	74,184.0
A	203.0	1,104.0	1,094.0	200.0	2,601.0
A-	5,459.7	24,656.4	14,764.4	3,676.4	48,556.9
BBB+	35.0	81.0	40.0	40.0	196.0
NA	79.0	10.0	-	-	89.0
Total	30,281.6	105,397.4	72,057.6	20,298.9	228,035.5

Financial derivatives/remaining term breakdown for OTC derivatives

in € million	Notional amounts with remaining life				As at
	up to 1 year	1-5 years	5-10 years	more than 10 years	Dec. 31, 2002 Total
Financial derivatives					
Currency-related deals:					
Currency swaps	1,592.1	2,874.9	1,830.3	1,648.3	7,945.6
Currency forward deals	3,283.0	-	-	-	3,283.0
Interest rate-related deals:					
Interest rate swaps (same currency)	22,467.5	98,574.5	68,552.3	18,538.6	208,132.9
Caps bought	117.0	355.0	219.0	10.0	701.0
Caps sold	51.0	179.0	-	-	230.0
Floors bought	51.0	-	-	-	51.0
Floors sold	-	256.0	-	-	256.0
FRAs bought	-	500.0	-	-	500.0
FRAs sold	478.0	-	-	-	478.0
Swaptions bought	500.0	-	-	-	500.0
Swaptions sold	1,193.0	2,454.0	1,328.0	-	4,975.0
Warrants bought	23.0	10.0	-	-	33.0
Warrants sold	511.0	-	-	-	511.0
Loan options sold	15.0	194.0	128.0	102.0	439.0
Total	30,281.6	105,397.4	72,057.6	20,298.9	228,035.5

Taxes

Up to August 13, 2002, the date of entry of the merger in the Commercial Register, there was a single-entity relationship for sales tax purposes between the predecessor institutions with their relevant parent companies.

Income taxes have been allocated to the results of ordinary business activities. The enforcement of guarantees provided by the major shareholders in the course of the merger is regarded as tax-exempt income.

Extraordinary expenses

The extraordinary expenses of T€ 233,070 relate to restructuring expenses in connection with the merger.

Other operating income

Other operating income of T€ 63,333 includes income from the sale of the participating interest in Deutsche Börse AG of T€ 29,443, together with the income from the disposal of real estate of T€ 11,646.

Information concerning the cash flow statement

The Cash flow statement shows the change in cash and cash equivalents at the Eurohypo Group as a result of cash flow from operational business activity, investment activity and financing activity. The analysis is carried out in accordance with the German Accounting Standard, DRS 2, supplemented by the specific German Accounting Standard for banks, DRS 2-10.

The allocation of cash flow from operational business activity takes place in accordance with the demarcation of the operating result. The cash flow from investment activity mainly results from incoming and outgoing payments in connection with the sale or acquisition of financial assets or tangible assets. All cash flow from transactions with share capital, together with subordinated capital and participatory capital are reported under financing activity.

In accordance with the restricted definition, the cash and cash equivalents shown includes purely the cash reserve, which comprises the cash on bank and credit balances with central banks.

During the reporting year, the Real Estate Investment Banking division of Deutsche Bank's London branch was brought into Eurohypo by means of the capital increase against contributions in kind. As a result, the assets and liabilities in the consolidated financial statements changed as follows:

	Additions T€
Assets	
Claims on banks	19,026
Claims on customers	298,086
Intangible assets	33,857
Deferred items	2,966
Liabilities	
Liabilities to banks	257,112
Subordinated liabilities	24,000
Capital and reserves	
– Contribution made to implement the capital increase agreed	72,823

Cash flow statement

	Dec. 31, 2002
	in T€
Net income for the year	293,540
Non-cash items included in net income and transfer to the cash flow from current business activity	
Write-downs of, value adjustments and write-ups to claims, tangible and financial assets	382,033
Increase (balance) in provisions	196,107
Other non-cash expenses/income	-104,537
Result from the sale of financial and tangible assets	-40,267
Other adjustments (balance)	-982,380
Subtotal	-255,504
Change in the assets and liabilities from current business activity	
Claims	
– on banks	9,377,654
– on customers	6,485,736
Securities (not included under financial assets)	537,650
Other assets from current business activity	-214,568
Liabilities	
– to banks	-759,957
– to customers	-2,039,622
Liabilities in certificate form	-20,912,939
Other liabilities from current business activity	73,137
Interest and dividends received	11,825,719
Interest paid	-10,783,159
Extraordinary incoming payments	-
Extraordinary disbursements	-71,172
Income tax payments	-13,310
Cash flow from current business activity	-6,750,335
Incoming payments from disposals of	
– financial assets	5,208,347
– tangible assets	13,139
Disbursements for investments in	
– financial assets	-91,165
– tangible assets	-138,722
Incoming payments from the sale of consolidated companies and other business units	-
Disbursements from the acquisition of consolidated companies and other business units	-
Changes in funds from other investment activity (balance)	-
Cash flow from investment activity	4,991,599
Incoming payments from additions to capital and reserves	498,945
Disbursements to company owners and minority shareholders	
– dividend payments	-529,007
– other disbursements	-1,938
Changes in funds from other capital (balance)	1,667,410
Cash flow from financing activity	1,635,410
Non-cash changes in cash and cash equivalents	-123,326
Changes in cash and cash equivalents brought about by exchange rates, consolidation and valuation	-
Cash and cash equivalents Jan 1, 2002	275,248
Cash and cash equivalents on Dec. 31, 2002	151,922

Segment reporting

in € million	Commercial Real Estate Clients Germany	Commercial Real Estate Clients Conti- nental Europe	Commercial Real Estate Clients UK	Retail Residential Business	GKST ¹⁾	Cross- divisional positions	Eurohypo Group
Net interest income	349.2	170.1	89.5	323.5	152.3	66.5	1,151.1
Net commission income	18.0	25.9	25.3	-16.2	-4.0	-31.8	17.2
Net interest and commission income	367.2	196.0	114.8	307.3	148.3	34.7	1,168.3
Administrative expenses	-97.7	-40.5	-29.0	-122.3	-44.3	-98.3	-432.1
Other expenses and income	-0.2	-0.3	9.6	-5.2	5.4	40.5	49.8
Risk provisioning prior to effect of guarantee	-222.1	-3.7	-	-163.0	1.5	163.0 ²⁾	-224.3 ²⁾
Risk provisioning after effect of guarantee	-112.3	-1.9	-	-82.5	1.5	-29.1	-224.3
Extraordinary result	-	-	-	-3.0	-	-0.5	-3.5
Restructuring expenses	-	-	-	-	-	-233.1	-233.1
Net income before tax	157.0	153.3	95.4	94.3	110.9	-285.8	325.1
Volume of financing	40,006.0	13,762.5	7,003.0	35,007.0	121,099.7	-	216,878.2
Average staff capacity	407	124	37	613	69	1,186	2,436
Cost/income ratio in %	26.6 %	20.7 %	25.3 %	39.8 %	29.9 %	-	37.0 %
Return on equity in %³⁾	6.9 %	17.2 %	22.9 %	7.0 %	-	-	7.3 %⁴⁾

1) Money Market, Capital Market, Public Sector Finance, Treasury

2) Inclusive of guarantee effect in the amount of € 192.1 million

3) Net income before tax/average tied capital (6.1 % of RWA – risk-weighted assets according to BIS)

4) Adjusted net income before tax/average capital and reserves

The segment report as part of value-orientated Group management

We have utilized the merger of the three predecessor institutions not only for harmonization purposes, but to further develop our management systems. The basis for the new philosophy of management within the Eurohypo Group is a clear orientation towards the capital markets centred around the concept of “value added”. The management systems therefore support the Bank’s business targets.

Value added (VA) means the result achieved following deduction of the capital costs specific to the business sector. In order to achieve consistent management, the VA is calculated at all levels of management (Group, business divisions, profit centres, individual transactions).

The result included in the VA calculations is derived from the financial accounting net of special features. The capital costs of the Group have been based in particular on our business model. They amount to an average of 8 % after tax for all business divisions and are therefore higher than the capital costs for traditional mortgage banks.

The structure of the management systems is in line with the structure of the Group.

Consistent segmentation of our business activities

The segmentation of our business activities is based on a clear client focus on the sales process and the processes for compliance with technical and risk requirements in the back-office. The divisions Commercial Real Estate Clients Germany, Continental Europe, UK and, from January 1, 2003, USA as well as GKST (Money Markets, Capital Markets, Public Sector Finance and Treasury) are mana-

ged as independent divisions of the business, each with a Board member responsible for their own results. Our activities in Real Estate Investment Banking in Europe have been integrated into the Commercial Real Estate Clients, UK division. In traditional public sector finance, positive results are only achieved in part through the temporary acceptance of interest rate risks. The responsibility for the control of such risks and for the refinancing of the bank lies with GKST itself. As a result, we have combined the public sector finance, money markets, capital markets and treasury into one business division. The results of Europäische Hypothekenbank S.A. Luxembourg, and also of RHEINHYP BANK Europe plc, Dublin, which operate in similar fields, are also included in this division. The activities of our subsidiaries, prompter AG and eXtrahyp AG, are integrated into the Retail Residential Business division.

The principles of segment reporting

The segment report shows the income and expenses incurred directly in the individual segments or which are allocated to them on a causal basis. For 2002, the year of the merger, it was only possible to allocate the figures, particularly on the expenses side, by means of lump sum assumptions in some cases. This was necessary as a result of the varying information bases of the predecessor institutions. In part, these institutions had different principles for business management, which meant that data material had to be reprocessed and some of the old segments had to be adapted to the new segmentation arrangement. Where we had to rely on assumptions in this process, these are explained by the following. By submitting a segment report for the 2002 merger year and taking into account some uncertainties, we are emphasizing our efforts to provide a high degree of transparency. In addition, we are meeting the requirements under Section 297 of the German Commercial Code, as well as German Accounting Standard DRS 3 (supplemented by the specific German Accounting Standard for banks, DRS 3-10) to submit a segment report as part of the consolidated financial statements.

The segment report is based on the profit and loss account for the Eurohypo Group in terms of the method used. Net interest income is calculated on the basis of the market (current) interest rate method and was subsequently determined for each individual loan. The balance of the non-interest bearing balance sheet items (in the form of tied capital and reserves) was reported using the long-term risk-free interest rate for calculation purposes and added onto the net interest income for the segment, in relation to the regulatory capital used (in accordance with BIS). Net commission income was allocated to the segment on an individual transaction basis. The commission from cross-divisional transactions, such as, for example, securitization measures, are shown in the "Cross-divisional position" column.

An exact allocation of the administrative expenses could not be undertaken as a result of the insufficient availability of data already mentioned. Staff and material expenses (excluding IT) have been divided among the segments using the same ratios as in the 2003 business plan for the individual segments. IT expenses have in part been divided equally between all the divisions and, for reasons of simplification, allocated in accordance with the number of staff or accounts.

Risk provisioning allocated to the divisions contain new specific value adjustments and recoveries on loans written off. We have allocated the impact from the guarantee provided by the major shareholders to the segments according to their risk provisioning arrangements. General value adjustments are reported in the cross-divisional position. The financing volumes correspond to the mortgage/public sector lending volumes shown in the balance sheet.

The return on equity ratio shows the segment result in relation to the average capital tied up in the segment. This arises from the BIS-risk assets (risk-weighted-assets) based on 6.1% tier I capital.

Further development of the reporting and management concept

The Group-wide offsetting of costs and services on a causal basis will enable us to eliminate the uncertainties in the 2002 segment report from financial year 2003 onwards.

Value added management systems will apply consistently in 2003. Business planning, which has been carried out both bottom-up and top-down in a multi-stage process, will be used to determine targets for value added and also the return on equity of new business, on a specific divisional basis. The capital costs of the individual divisions have been calculated on the basis of theoretical capital market knowledge.

Management starts at the level of the individual transaction. To this end, Eurohypo has developed tools which sales staff can use to compare the profitability of individual transactions to the agreed targets, prior to conclusion of the transaction. In the follow-up calculation, the achievement of targets will be reported and deviations analysed. This process guarantees that the sales activities are in line with the bank's targets.

Cover calculation

The following cover calculation contains the cover assets and Pfandbriefe requiring cover, in accordance with the provisions of the German Mortgage Bank Act.

Hypothekpfandbriefe	T€	T€
Ordinary cover		
Claims on banks		
mortgage loans	12,048	
Claims on customers		
mortgage loans	54,139,078	54,151,126
Substitute cover		
other claims on banks	500,000	
bonds and other fixed-income securities	1,055,338	1,555,338
Total cover assets		55,706,464
Hypothekpfandbriefe requiring cover		50,318,384
Surplus cover		5,388,080

Öffentliche Pfandbriefe	T€	T€
Ordinary cover		
Claims on banks		
Mortgage loans (1b-loans)	813	
Loans to public sector entities	15,706,506	
Claims on customers		
Mortgage loans (1b-loans)	2,519,852	
Loans to public sector entities	66,151,208	
Bonds and other fixed-income securities	19,752,785	104,131,164
Substitute cover		
other claims on banks	0	
bonds and other fixed income securities	0	0
Total cover assets		104,131,164
Öffentliche Pfandbriefe requiring cover		102,702,152
Surplus cover		1,429,012

Cover mortgages

In accordance with the provisions of the German Mortgage Bank Act, 319,956 mortgages totalling T€ 54,151,126 were entered in the Cover Register to cover Hypothekenpfandbriefe.

Classified by size

T€	Number	T€
up to 50	109,468	3,201,044
up to 500	198,667	22,343,547
more than 500	11,821	28,606,535
Total	319,956	54,151,126

Classified by federal state and country

	Number	T€
Baden-Württemberg	24,065	3,271,531
Bavaria	18,559	3,887,998
Berlin	15,249	5,783,352
Brandenburg	9,025	1,641,455
Bremen	5,697	775,551
Hamburg	8,816	2,155,404
Hessen	27,465	5,314,166
Lower Saxony	36,373	3,711,926
Mecklenburg-Vorpommern	7,661	1,305,043
North-Rhine Westphalia	97,717	12,223,872
Rhineland-Palatinate	13,963	1,675,466
Saar	3,146	323,137
Saxony	17,044	3,722,055
Saxony-Anhalt	8,581	1,657,059
Schleswig-Holstein	16,957	1,553,500
Thuringia	9,270	1,474,527
Germany	319,588	50,476,042
Austria	14	185,905
Belgium	8	96,003
Denmark	3	18,829
Finland	2	48,835
France	84	748,818
Italy	4	63,152
Luxembourg	16	2,785
Netherlands	62	499,253
Norway	2	15,618
Portugal	4	14,635
Spain	47	451,846
Sweden	49	411,445
Switzerland	54	628,910
United Kingdom	19	489,050
International	368	3,675,084
Total	319,956	54,151,126

Classified by property

	Number	T€
Properties in commercial/industrial use	17,252	21,121,482
Properties in residential use	300,914	32,511,284
Land for building purposes	213	73,752
Unfinished, as yet non-profit earning new buildings	1,577	444,608
Total	319,956	54,151,126

Cover loans to public sector entities, and debt instruments in certificate form of public issuers

In accordance with the provisions of the German Mortgage Bank Act.

	T€	T€
Federal Republic of Germany incl. special funds		15,545,898
Federal States		
Baden-Württemberg	3,648,393	
Bavaria	3,053,751	
Berlin	5,627,177	
Brandenburg	2,397,075	
Bremen	718,878	
Hamburg	3,249,090	
Hessen	3,670,921	
Lower Saxony	5,530,795	
Mecklenburg-Vorpommern	1,327,315	
North-Rhine Westphalia	12,837,611	
Rhineland-Palatinate	1,924,115	
Saar	742,440	
Saxony	1,451,014	
Saxony-Anhalt	1,972,291	
Schleswig-Holstein	2,337,549	
Thuringia	2,296,332	
Federal states regional treasury bonds	1,446,436	54,231,183
Cities and municipalities		1,822,531
Public law banks		15,333,371
Other institutions and public law corporations		848,759
Mortgage loans guaranteed by public sector entities		2,520,665
Total domestic loans to public sector entities		90,302,407
Public sector in EU member states		13,243,859
Public sector in other OECD states		584,898
Total loans to public sector entities		104,131,164

Cover calculation

The following cover calculation contains the cover assets and Pfandbriefe requiring cover, in accordance with the provisions of the Luxembourg Pfandbrief Act.

Öffentliche Pfandbriefe	T€	T€
Ordinary cover		
Claims on banks		
loans to public sector entities	972,395	
Claims on customers		
loans to public sector entities	1,254,748	
Bonds and other fixed-income securities	4,321,230	6,548,373
Substitute cover		
other claims on banks		568,738
Total cover assets		7,117,111
Öffentliche Pfandbriefe requiring cover		5,848,903
Surplus cover		1,268,208

Cover loans to public sector entities and debt instruments in certificate form of public issuers

in accordance with the provisions of the Luxembourg Pfandbrief Act.

	T€	T€
Federal Republic of Germany incl. special funds		89,476
Federal states		
Hessen	25,565	
North-Rhine Westphalia	76,694	
Saxony	25,565	127,824
Public law banks		173,309
Total domestic loans to public sector entities		390,609
Public sector in EU states		2,332,672
Public sector in other OECD states		3,825,092
Total loans to public sector entities		6,548,373

Distraint measures

Pending as at December 31, 2002

	Number of cases	thereof relating to	
		Properties in commercial/ industrial use	Properties in residential use
Compulsory auction proceedings	6,522	930	5,592
Compulsory administration proceedings	3,626 ^{*)}	689	2,937
Compulsory auction proceedings completed in 2002	930	117	813

^{*)} In 2,995 of the total of 3,626 cases of compulsory administration, compulsory auction was also pending.

2 properties were taken over to prevent losses. In the course of the financial year, 9 properties were sold. Of the properties sold, three were in commercial/industrial use.

Mortgage interest arrears

During the period October 1, 2001 to September 30, 2002, there were mortgage interest arrears in the amount of € 223.0 million (previous year € 134.0 million), of which the amount of € 189.9 million (previous year € 108.6 million) was written off.

The interest arrears were split as follows:	Thereof written off	
	€ million	€ million
Properties in commercial/industrial use	110.5	91.7
Properties in residential use	112.5	98.2
Total	223.0	189.9

Repayments

The following repayments were made on mortgage loans:

	€ million
Scheduled payments	6,777
Unscheduled payments	6,730
Total	13,507

Staff

2002 annual average	Female	Male	Total
Full-time	994	1,380	2,374
Part-time	156	6	162
Trainees	4	3	7
Apprentices	23	19	42
Total	1,177	1,408	2,585

Remuneration of management bodies

In the reporting year, the total emoluments of the Board of Managing Directors, including the three predecessor institutions, amounted to € 6,409,883.21, of which € 2,028,881.90 related to fixed components and € 2,868,651.31 to profit-related components. € 1,512,350.00 related to long-term incentive components, which arose from the compensation scheme of one of the predecessor institutions. The adoption of a long-term incentive component is envisaged for future years.

The emoluments of the Supervisory Board amounted to € 709,620.66, of which € 119,967.07 related to fixed components and € 589,653.59 to variable components.

The total remuneration of former members of the Board of Managing Directors and their surviving dependants was € 7,315,352.50. The sum of € 46,316,121.00 was provisioned for pension obligations towards these persons.

Loans to management bodies

Loans granted to members of the Board of Managing Directors amounted to € 1,532,202.32 as at Dec. 31, 2002. There were also loans in the amount of € 106,810.10 to members of the Supervisory Board.

Shareholdings

The following list contains shareholdings pursuant to Section 285 No. 11 of the German Commercial Code. The figures relate in each case to the latest annual financial statements of the companies.

No., Name/ Domicile	Capital share in %	Capital T€	Profit T€
1. AGV Allgemeine Grundstücksverwaltungs- und Verwertungsgesellschaft mbH, Ludwigshafen	100.0	38	417 ¹⁾
2. CASIA Immobilienmanagement GmbH, Frankfurt/Main	100.0	26	0 ¹⁾
FORUM Immobiliengesellschaft mbH, Frankfurt am Main	100.0	25	0 ²⁾
FUTURA Hochhausprojektgesellschaft mbH, Frankfurt am Main	100.0	25	8 ²⁾
UNICA Immobiliengesellschaft mbH, Frankfurt am Main	100.0	25	0 ²⁾
3. Eurohypo Investment Banking Limited, London (formerly Deutsche Equus Limited)	100.0	497	36 ²⁾
4. Eurohypo Systems GmbH, Frankfurt/Main (formerly ESG EDV-Service Gesellschaft für Hypothekenbanken mbH)	100.0	5,513	5,002 ³⁾
5. Europäische Hypothekenbank S.A., Luxembourg ¹⁾	90.0	157,408	10,152
6. eXtrahyp.de Aktiengesellschaft, Frankfurt/Main	100.0	1,242	-1,061
7. Frankfurter Gesellschaft für Vermögenanlagen mbH, Frankfurt/Main	100.0	51	357 ^{1) 3)}
BACUL Vermietungsgesellschaft mbH i. L., Düsseldorf	100.0	26	-1 ^{1) 2)}
BAMUS Vermietungsgesellschaft mbH i. L., Düsseldorf	100.0	29	-1 ^{2) 3)}
BARIS Vermietungsgesellschaft mbH i. L., Düsseldorf	100.0	32	-1 ^{2) 3)}
BELUS Vermietungsgesellschaft mbH, Düsseldorf	100.0	-441	6 ^{2) 3)}
BONUS Vermietungsgesellschaft mbH, Düsseldorf	30.0	77	36 ^{2) 3)}
CAMPANIA Vermietungsgesellschaft mbH, Düsseldorf	100.0	26	292 ^{1) 2)}
FHB Immobilienprojekte GmbH, Frankfurt/Main	100.0	51	-2 ^{1) 2) 3)}
FI Pro-City GmbH, Frankfurt/Main	100.0	26	0 ^{2) 3)}
SB Baurträger Gesellschaft mbH, Frankfurt/Main	100.0	51	4 ^{1) 2) 3)}
SB Baurträger GmbH & Co Urbis Hochhaus KG, Frankfurt/Main	100.0	256	135 ^{2) 3) 5)}
SB Baurträger GmbH & Co Urbis Verwaltungs KG, Frankfurt/Main	100.0	256	-1 ^{2) 3)}
8. GBG Verwaltungs- und Verwertungsgesellschaft für Grundbesitz mbH, Frankfurt/Main	100.0	256	66

No., Name/ Domicile	Capital share in %	Capital T€	Profit T€
9. GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen ^{*)}	7.1	193,950	17,361 ³⁾
10. G-G-B Gebäude- und Grundbesitz GmbH, Frankfurt/Main	100.0	256	130 ¹⁾
11. gr Grundstücks GmbH Objekt Corvus, Frankfurt/Main	100.0	26	34 ²⁾
12. gr Grundstücks GmbH Objekt Corvus & Co. Sossenheim KG, Frankfurt/Main	100.0	3,068	191 ³⁾
13. GVG Gesellschaft zur Verwendung von Grund- besitz mbH, Ludwigshafen/Rhine	100.0	26	362 ²⁾
14. IVV Immobilien-Verwaltungs- und Verwertungs- gesellschaft mbH, Ludwigshafen/Rhine	100.0	26	58 ²⁾
15. MARIUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hannover KG, Düsseldorf	21.0	-7,685	353 ³⁾
16. MINERVA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Radolfzell KG, Düsseldorf	21.0	-91	41 ³⁾
17. Nordboden Immobilien- und Handels- gesellschaft mbH, Hamburg	100.0	666	-131
18. prompter Aktiengesellschaft, Mainz	100.0	-4,232	-2,734 ⁴⁾
19. RHEINHYP BANK Europe plc., Dublin ^{*)}	100.0	119,859	12,358
20. RHEINHYP Finance N.V., Amsterdam	100.0	593	527 ³⁾
21. RHEINHYP-BRE BANK Hipoteczny S.A., Warsaw ^{*)}	50.0	35,223	1,921 ²⁾
22. WESTBODEN-Bau- und Verwaltungsgesellschaft mbH, Frankfurt/Main	100.0	51	0
CAP Kiel Betriebs GmbH, Kiel	25.5	1,055	470 ^{2) 3)}
23. Wohnbau-Beteiligungsgesellschaft mbH, Lübeck	90.0	384	3 ³⁾
Westend Grundstücksgesellschaft mbH, Lübeck	100.0	255	-1 ^{2) 3)}

*) Large corporations pursuant to Section 340 a Paragraph 4 No. 1 of the German Commercial Code

1) Profit transfer agreement

2) Including shares held indirectly in accordance with Section 16 Paragraph.4 Stock Corporation Act

3) Financial statement figures from December 31, 2001

4) The loss is matched by subordinated loans granted by Eurohypo of 7.76 million

5) Reserve declaration by Eurohypo

Corporate Governance – first declaration of conformity pursuant to Section 161 Stock Corporation Act

On December 16, 2002, the Board of Managing Directors and Supervisory Board of Eurohypo gave the first declaration of conformity pursuant to Sections 161 Stock Corporation Act, 15 EG Stock Corporation Act, which shareholders can access on the Internet at www.eurohypo.com (Investor Relations).

Participation relationships

As a result of the merger and the capital increases agreed in 2002 for the inclusion of further business units, there have been changes to the participation relationships of the former Deutsche Hyp, as the absorbing institution. The Deutsche Bank Group holds 38.39%, the Commerzbank Group 32.52% and the Allianz Group 29.96% of the shares. The remaining 2.13% is in free float.

The main shareholders stated in the Merger Agreement that they did not wish to exercise individual or joint controlling influence on, or joint management of the Bank. There is no agreement among the main shareholders for the pooling of votes for voting at the General Meeting, or for their representatives on the Supervisory Board. Eurohypo AG therefore operates as a company which is independent from the major shareholders.

Proposed application of profits

It will be proposed at the General Meeting on May 19, 2003 that the distributable profit of € 147,205,601.10 should be used to pay a dividend of € 0.45 per no par value share on the ordinary share capital of € 850,521,250.80 which is divided into 327,123,558 no par value shares entitled to dividends.

Management bodies

The Supervisory Board

Dr. Joachim v. Harbou

Chairman

Brigitte Siebert^{*)/(**)}

First Deputy Chairman⁾

until September 23, 2002

and since September 26, 2002

Jürgen Fitschen

Additional Deputy

Chairman⁾

since September 24, 2002

Dr. Hugo Banziger

since September 24, 2002

Wolfgang Barth^{**)}

until September 23, 2002

Herbert Bayer^{**)}

since September 26, 2002

Peter Birkenfeld^{**)}

since September 26, 2002

Martin Blessing

since September 24, 2002

Volker Breckamp

until September 23, 2002

Harald Geib^{***)}

until September 23, 2002

Dr. Manfred Gentz

until September 23, 2002

Dr. Andreas Georgi

(Deputy Chairman

until September 23, 2002)

since September 24, 2002

Prof. Dr. Hans D. Kalscheuer

until September 23, 2002

Jörg Klawuhn^{***)}

until September 23, 2002

Dr. Ulrich Middelmann

until September 23, 2002

Gert Jürgen Müller

from April 14, 2002

until September 23, 2002

Klaus Müller-Gebel

since September 24, 2002

Cornelia Pielenz^{*)}

since September 26, 2002

Dr. Gerhard Rupprecht

until September 23, 2002

Dr. Klaus G. Schlede

until September 23, 2002

Wolf-Eckhart Schröder^{*)}

since September 26, 2002

Jens Tiedemann^{*)}

since September 26, 2002

Dr. Frank Trömel

until September 23, 2002

Heinz-Joachim Wagner

until September 23, 2002

Hannelore Wendt^{***)}

until September 23, 2002

Sven Winkelmann^{***)}

from January 1

until September 23, 2002

Bernd Wrede

until September 23, 2002

Board of Managing Directors

Dr. Karsten von Köller

Chairman

since August 13, 2002

Bernd Knobloch

Deputy Chairman

since August 13, 2002

Dirk Wilhelm Schuh

Spokesman

until August 12, 2002

Deputy Chairman

since August 13, 2002

Dr. Matthias Danne

since August 13, 2002

Joachim Plesser

since August 13, 2002

Henning Rasche

Werner Schulz

until August 13, 2002

Hans-Jürgen Steuber

until July 31, 2002

*) since September 27, 2002

**) Employee Representative, court appointed
from September 26, 2002

***) Employee Representative

Frankfurt/Main, March 11, 2003

Eurohypo Aktiengesellschaft

Board of Managing Directors



Dr. Karsten von Köller



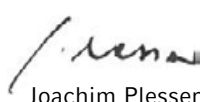
Bernd Knobloch



Dirk Wilhelm Schuh



Dr. Matthias Danne



Joachim Plesser



Henning Rasche

AUDITORS' REPORT

"We have audited the consolidated financial statements and the group management report prepared by the Eurohypo Aktiengesellschaft, Frankfurt am Main, for the business year from January 1, 2002 to December 31, 2002. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB ["Handelsgesetzbuch: German Commercial Code"] and the German 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 consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined

primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Frankfurt/Main, March 12, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Auditors



Wohlmannstetter
Auditor



Bors
Auditor

MANAGEMENT REPORT

INTEGRATION AND STRATEGIC ORIENTATION

Increased competition and the significant costs involved in the necessary use of IT coupled with the increasing demands placed on equity backing and ever greater expectations in terms of return on equity were the main reasons for the merger between Deutsche Hyp, the “old” Eurohypo and Rheinhyp to form Eurohypo AG.

By virtue of its mixed bank status and increased size, the new bank is in an excellent starting position among its competitors as the leading European specialist for real estate and public sector finance. The new dimension has also brought about an increase in efficiency and a sustained strengthening in earning capacity.

Eurohypo’s most important business objective is to generate return on equity which is higher than the cost of capital. To achieve this objective, a “Business Model” integration team made up of senior members of staff was set up in the pre-merger phase to formulate the future business policy of the Eurohypo Group. The results were incorporated in the “Equity Story”, which was presented to investors and the media on November 6, 2001.

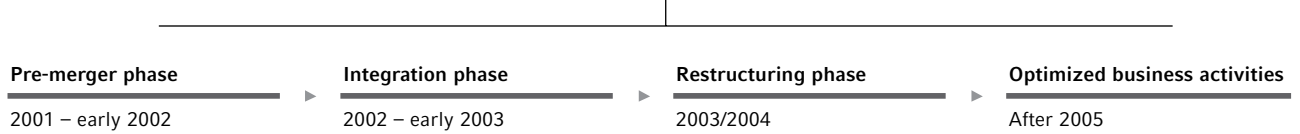
The strategic goals laid down in that document and aimed at improving the return on equity (RoE) still hold true and are as follows:

- Focusing on commercial real estate finance
- Expanding Real Estate Investment Banking
- Developing other markets

- Increasing commission income through syndicated business as well as by establishing a presence as a major provider in the newly emerging market of loan management for third parties
- Operating Retail Residential Business via a network of independent sales partners and cooperation agreements with major shareholders and other larger financial services providers
- Concentrating on foreign public sector finance with higher margins, as well as
- Establishing a presence as a benchmark issuer.

In addition to developing the “Equity Story” and determining the strategic framework conditions for the new bank, the pre-merger phase also saw us laying the foundation for speedy integration and implementation of the identified strategies. A structure was put in place to ensure the speedy integration of the three banks once the merger had legally come into effect. Thanks to solid preparation work, it was possible to successfully complete the integration phase on schedule at the beginning of 2003. The new organizational structure was implemented on time and responsibility transferred from the old to the new management. We succeeded in amalgamating the network infrastructure of the predecessor institutions in a single system platform and all systems and data files (except for the loan portfolio of the former Deutsche Hyp, which will be transferred in May 2003 to the core system of Eurohypo) were integrated in autumn 2002.

Strategic development steps



Restructuring projects are currently underway in the individual divisions aimed at optimizing the existing business processes and taking full advantage of potential synergies.

One of these projects includes the ongoing further development of our business model, including intensively monitoring the development of other sales markets as well as the continuous further development of our management policy which is based on value added and return on equity.

Consolidated financial statements

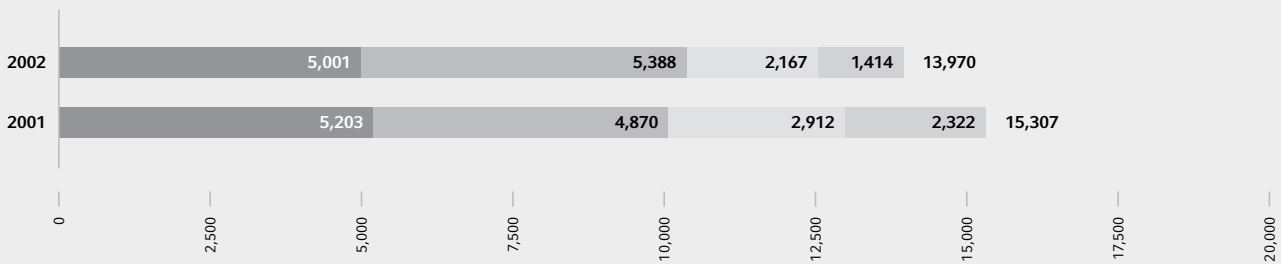
In addition to Eurohypo AG, the consolidated financial statements include Europäische Hypothekbank S.A., Luxembourg as well as RHEINHYP BANK Europe plc, Dublin. The other companies have not been included in the consolidation due to their minor importance pursuant to Section 296 Para. 2 of the German Commercial Code (HGB).

The comparative figures stated in the annual report for the three predecessor institutions as well as to the companies included in the consolidated financial statements relate to the summarized figures of the previous year.

NEW REAL ESTATE FINANCE BUSINESS

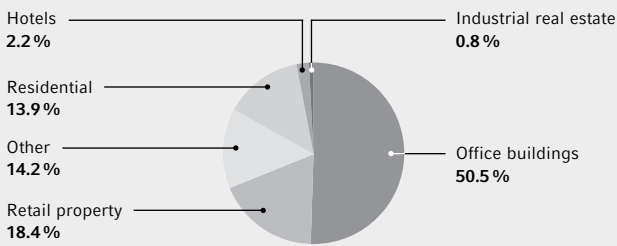
By segment

in € million



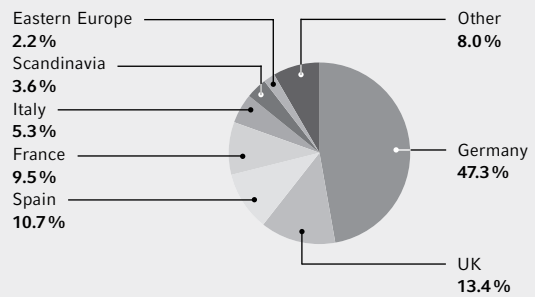
- Commercial Real Estate Clients, Germany
- Commercial Real Estate Clients, Continental Europe
- Commercial Real Estate Clients, UK
- Retail Residential Business

By property type



Total: € 13,970 million

By region



Total: € 13,970 million

COMMERCIAL REAL ESTATE CLIENTS GERMANY

Difficult market conditions

Weak economic growth and modest expectations for the current year have, after the usual time-delay, impacted on the commercial real estate market in Germany. Continuing high unemployment, structural problems in some sectors as well as the pervasive lack of confidence that a short-term solution will be found to the bottleneck in tax and social security reforms are all suppressing demand. Falling retail sales as well as a significant rise in vacancies coupled with falling rentals are the result. This trend has affected office and retail real estate markets equally.

For our Commercial Real Estate Clients division in Germany, thanks to our market presence and expertise we still see promising opportunities to successfully work together with investors of a high credit-quality making real estate investments despite the unfavourable framework conditions. In this context, it is increasingly to our advantage that a number of competitors have withdrawn from this line of business and that the market has since come to accept adequate margins. With respect to office buildings, we are concentrating on properties with a well-balanced risk/return profile which we analyze carefully together with investors. Even where retail property is concerned, we believe we are able to make a choice that is in line with the market, prevailing conditions and risk despite a drop in sales opportunities. With respect to special type properties such as hotels, old people's homes and leisure facilities, all of which are subject to especially short revitalization cycles, our credit exposure is extremely limited.

By means of comprehensive risk analysis, we are able to very accurately determine the market potential of these properties and on this basis make our credit decision. In the process of the merger we were able to pool the expertise for credit exposures of this kind in our Centre of Competence, Real Estate Management.

Consistent new strategic direction

With respect to Commercial Real Estate Clients in Germany, Eurohypo consistently concentrates on professional real estate clients (investors, property developers and developers) with a target volume over € 2.5 million per property. We service this target group as part of a comprehensive relationship approach which builds on maintaining a business relationship with the client for as long as possible. Under the motto "all business is local", speedy decisions are facilitated by means of decentralized client support and a high degree of local expertise. Close contact with our clients is ensured by having 10 locations – seven branches and three sub-branches – in the most important sales areas in Germany. Here, our clients can meet contact partners with extensive networks who have in-depth knowledge of attractive real estate locations.

Thanks to its mixed bank status, Eurohypo can offer a wide-ranging product spectrum to meet its target group's requirements. The local Relationship Manager, as the client's primary contact, acts as the co-ordination point and when needed, involves product specialists from Head Office, e.g. in Syndications

and Real Estate Investment Banking, to formulate individual solutions for our clients. Our product range includes, in particular, interest rate and currency management, where we offer our clients our expertise in the international money and capital markets.

The interaction between the demand for customized credit and increasingly complex financing options is becoming more intense. Our reputation and success in the syndications market not only benefits us in terms of the easing of pressure on our capital and the risk spreading that is often necessary, but also directly benefits our clients provided that the necessary room for new business has been put in place.

The final structure of the Commercial Real Estate Clients, Germany division emerged once the Real Estate Finance Division of Deutsche Bank was included on January 1, 2003. In this context, over 200 employees and a business volume of around € 4.7 billion originating from the real estate centres formerly jointly operated by Deutsche Bank and the “old” Eurohypo were integrated within Eurohypo. (See “Eurohypo shares”, page 13 f.)

Moreover, we have profited from the fact that our three major shareholders, namely Commerzbank, Deutsche Bank and Dresdner Bank, have ceased their activities in commercial real estate finance. As a result, we have been able to further expand our business acquisition network.

Successful new business

Already five months after the merger was registered, the integration process in the

Commercial Real Estate Clients Germany was to a large extent complete. In addition to stabilizing our sales performance at a high level, we laid the strategic and organizational foundations for the successful positioning of Commercial Real Estate Business, Germany. Despite difficult market conditions and the extraordinary effort required as part of the merger preparations and the subsequent integration measures, we recorded new business of € 5.0 billion which is slightly below the combined previous year’s result of the three predecessor institutions. Additionally, in 2002 we syndicated a volume of € 0.3 billion to third party banks.

The percentage of new business in Commercial Real Estate Clients Germany to the total new commitments in real estate finance thus reached 35.8%. On a regional basis, the majority of credit by far was granted in the Greater Frankfurt and Munich areas, followed by Düsseldorf and Cologne.

At the end of 2002, the financing volume in Germany amounted to € 40.0 billion. The percentage attributable to the total real estate financing portfolio of Eurohypo amounts to 41.8%.

Profit contribution

Net income before tax amounted to € 157.0 million. The cost/income ratio stood at 26.6% and return on equity before taxes, calculated on the basis of the average amount of tied-up capital, was 6.9%. Net interest income and net commission income was recorded at € 367.2 million. Net commission income included in this figure, resulting from our consis-

tent endeavours to achieve an appropriate return on our lending business as well as due to success in the sale of additional services, reached € 18.0 million. Administrative expenses amounted to € 97.7 million. The high level of risk provisioning amounting to € 222.1 million can be attributed in particular to the persistently weak economic situation with bankruptcy figures reaching record levels, as well as continuing problems of a serious nature in real estate markets in eastern Germany. Against this background, latent risks from the existing portfolio increasingly turned into evident risks that warranted a corresponding level of provision. For risks above a certain threshold, the three major shareholders, Commerzbank, Deutsche Bank and Dresdner Bank, provided guarantees that had been agreed during the course of the merger. Thanks to these guarantees, the risk provision was reduced by € 109.8 million, so that in the end analysis an amount of € 112.3 million was taken to the profit and loss account. (See Notes, page 109 f.)

Structural change requirements

The division Commercial Real Estate Clients, Germany, is currently in a phase of structural upheaval. Whereas new business has since managed to achieve adequate margins, the portfolio contains numerous loans, including large ones, that have margins which in no way meet our current target return. Ongoing fixed-rate arrangements, some of which are long-term, mean that we are not able to rectify

this unsatisfactory state of affairs. Moreover, the “piecemeal” nature of the portfolio that has arisen over the years has resulted in a highly unfavourable cost/income ratio. Although we have given gradual restructuring of the credit portfolios the highest priority, this will take some time for a finance provider that traditionally has entered into medium- to long-term commitments.

Outlook

We will continue to consistently follow our business policy in commercial real estate financing in Germany. As an upturn in the real estate markets is expected by 2004 earliest, we assume that new business will not quite reach the high level of 2002. At the same time, we will continue to adhere to our principle of “income before volume” and our criteria when lending will increasingly concentrate on risk-adequate margins and an appropriate level of return on equity. However, we do not expect any easing of the situation with respect to risk provisioning. To some extent, we will be able to rely on the protection against risks arising from the existing portfolios of the predecessor institutions by virtue of the guarantees given by the major shareholders. We are expanding our activities in the growing area of syndications as well as continuing to develop our range of supplementary services. In this context, we see good opportunities for increasing our commission income.

COMMERCIAL REAL ESTATE CLIENTS CONTINENTAL EUROPE

Real estate markets in consolidation stage

The generally unfavourable economic situation in Continental Europe has also had an effect on the performance of real estate markets. In Northern and Central Europe, demand for office and retail space has dropped, rents have fallen and vacancy rates increased. The situation in Southern Europe has been better, particularly in Italy. On the Spanish peninsula and south of the Brenner Pass, numerous listed companies and institutional investors have entered into commitments. The French real estate market went through a period of consolidation at a high level.

In 2002, market activities in Scandinavia were dominated by the diversification strategies of international investors. In the future EU member states - Poland, Hungary, the Czech Republic and Slovakia – the correction to rents is largely complete. Since the legal framework conditions have continued to improve, these markets are becoming increasingly attractive to global investors thanks to the opportunities for growth that they present.

A positive development is the fact that an increasing number of real estate investments are only being entered into on the basis of sustainable user concepts and in the context of conservative financial criteria. Both the risk-conscious behaviour of institutional investors and the cautious lending approach adopted by the financing banks are therefore contributing to the avoidance of large-scale market imbalances.

Integration successfully completed

The new bank is represented in Continental Europe with established teams in 13 locations in 12 countries. Our locally recruited employees have an in-depth knowledge of the local real estate markets, their characteristics and the legal and tax regulations. Processing takes place locally in our branches in Paris, Madrid, Amsterdam, Lisbon and Milan. We have our own real estate experts in Paris, Madrid, Amsterdam, Warsaw and shortly, also in Stockholm. Credit Risk Management, which is represented locally in our large branches in Paris and Madrid, is involved in credit decisions. Employees on both the business acquisition side as well as those working in risk management work closely together at all stages of the lending process and are jointly involved in decision-making. Thanks to this process, we can guarantee our clients a speedy and competent credit decision.

We have increased staffing levels at our representative offices. Their main responsibility is to build up client contacts for new business.

The branches and representative offices are supported by several Transaction Teams located at our Head Office in Frankfurt, with team members drawn from an international pool. These team members carry out the transaction management for the representative offices. Furthermore, these team members are responsible for analyzing the relevant markets and they prepare decisions on entry into new markets in Continental Europe.

Market position clearly strengthened

We have assumed a leading position in the Continental European market for large-volume real estate financing, thanks to our international focus and presence in nearly all major countries, coupled with our extensive product knowledge and advisory expertise. Overall in Continental Europe, we service clients in 16 countries with a financing volume of € 13.8 billion. Our target clients are real estate companies, institutional investors and private individuals acting in a professional capacity with a financing requirement of more than € 10 million.

For professional real estate clients we see ourselves as a relationship bank with a comprehensive service approach. We work closely with the Syndicated Loans and Real Estate Investment Banking Divisions and in addition to conventional real estate finance, we offer the full range of services connected with real estate financing. Thanks to our strong equity base and financing competence, we are able to arrange large commitments by means of syndication.

In Italy, for example, we financed a logistics centre in Milan with a loan of € 159 million to the AIG/Lincoln Group. In Poland, we assisted an American investor (Apollo-Rida Poland) with the acquisition of an inner-city office block with a financing volume of US\$ 75 million. In France, we provided an investor group with financing amounting to € 135 million to build a 60,000 m² administration centre for the Renault Group. In Finland, as mandated co-arranger and underwriter, we structured – jointly with Scandinavian banks

– all the external financing for the listed real estate company, Citycon Oy.

New business 11 % up on previous year

Despite difficult market conditions and considerable charges occasioned by the merger, the performance of our new business in Continental Europe was very satisfactory. With new business worth € 5.4 billion, we exceeded the high level achieved by the three predecessor institutions in the previous year by 10.6 %. Additionally in 2002, we syndicated a lending volume of € 1.2 billion to third party banks. The main regions with respect to financing were Spain with 28.5 %, France with 25.5 % and Italy with 14.1 %. The Central European transition countries accounted for 6.0 %. We financed predominantly office and administrative buildings as well as commercial properties.

The total financing volume in Continental Europe at the end of 2002 amounted to € 13.8 billion or 14.4 % of the Bank's total real estate financing portfolio. The financing volume is widely diversified with 25.2 % attributable to Spain and 20.0 % to France. Properties in the Central European transition countries account for 4.2 %.

Profit contribution

Net income before tax amounted to € 153.3 million. As we concentrated on large finance projects which are managed by lean transaction teams, the cost/income ratio was very low at 20.7 %. Return on equity before taxes, calculated on the basis of the average amount of tied-up equity, amounted to 17.2 %.

Net interest income reached € 170.1 million. Commission income of € 25.9 million is a result of the high levels of commission income traditionally earned in international business. Thus, net interest income and commission income posted € 196.0 million. Administrative expenses amounted to € 40.5 million. Due to a very low risk provision of only € 3.7 million before the effect of guarantees and € 1.9 million after the effect of guarantees, we were able to achieve above-average profit in this line of business. (See Notes page 109 f.)

Outlook

The value of our financing activities is determined primarily by locations which meet users' needs in the long-term as well as by the fixtures and fittings in the properties. The trend for market players to view real estate as an asset class in much the same way as the capital market does, as well as the increasing level of professionalism ensure that

even against the background of the overall difficult economic situation, there are still promising business opportunities in this area.

In Europe, we will continue to concentrate on large-volume, complex, structured real estate finance. Consistent expansion of these activities forms a central part of our business model. The Continental European markets offer attractive growth potential. By making intensive use of the international network of the three predecessor institutions and thanks to our consistent presence in nearly all Continental European markets, we will be able to target our efforts to maximize opportunities. Consideration is being given to the expansion of existing locations as part of this process. In new business we assume that in view of market developments, we will no longer be able to achieve the high level of the previous year. However, thanks to our additional range of services we see an opportunity to increase our commission income.

COMMERCIAL REAL ESTATE CLIENTS UK

Commercial real estate market – signs of consolidation

Falling sales of floor space, lower demand and higher vacancies with falling rents at the top end of the market have all affected the situation in the office space market in the UK in 2002. In London the vacancy rate for office space rose to 10% and top rents fell at the same time by 8%. Predominantly in the City of London the situation remained tense due to job cuts in banks and insurance companies. On the other hand, the market in the West End of London, the home of companies in PR and advertising, has to date been stable. In the South East of England, falling demand from the technology and telecommunications had impacted on the office market. The other regional markets were in part helped by increasing demand for office space from the government sector.

Another important property category for our business is retailing property. Due to high retail sales, this market has to date been spared any problems. Rents for retail property and warehouses were extremely stable.

Integration successfully completed

Only a few months after registration of the merger, the integration process in the UK was largely complete. As with the large branches in Continental Europe, loans are processed locally in the London branch. Moreover, real estate experts and Credit Risk Management are directly on site. In this respect, we are able to guarantee our clients speed and competence when making credit decisions.

Real estate finance down on previous year

It was not possible to match the high level of the previous year as the market in general was slowing. Furthermore, this is a market characterized by intense competition as many banks act as bidders for prestigious mandates. Our new commitments amounted to € 2.2 billion (€ 2.9 billion). Additionally, we syndicated a volume of € 1.1 billion to third party banks. With this volume of commitments, the London branch once again enjoyed an excellent market position. According to a survey conducted by the Bank of England, our market share – relative to commercial real estate finance conducted in the UK – was 5%.

In 2002 we again concentrated on large-scale lending and we provided financing for a large office building of 400,000 sq ft¹⁾ in Tower Place in London of € 250 million. The owner of the property, which was practically finished last year, is a consortium of investors led by Tishman Speyer and let to Marsh McLennan. Furthermore, in our capacity as lead manager, we arranged a loan for the amount of € 200 million for a European fund sponsored by Hines Real Estate.

The total financing volume at the end of the fiscal year amounted to € 7.0 billion. The syndicated loans managed by our branches amount to around € 16 billion. Our loan portfolio is well-balanced and diversified: 40% is attributable each to office and retail properties and 20% to warehouses and logistics facilities as well as some specialist properties.

1) square feet (sq ft), 10 sq ft correspond to 0.93 m²

Profit contribution

Despite the reduced volume, we were able to maintain our high profit level thanks to the increased profitability of individual transactions.

Net income before tax amounted to € 95.4 million. This figure also includes the income contractually due to us from Real Estate Investment Banking Europe (REIB), which we took over with retroactive effect from January 1, 2002 from Deutsche Bank, London. This amount is reported under “Other income and expenditure”. The cost/income ratio was 25.3%. Return on equity before taxes, calculated on the basis of the average amount of tied-up equity, amounted to 22.9%.

This above-average level is partly attributable to the high level of income from REIB,

which ties up comparatively little regulatory equity capital. Net interest and commission income reached € 114.8 million. Commission income, predominantly originating from syndicated business, amounted to € 25.3 million. Administrative expenses amounted to € 29.0 million. (See Notes page 109 f.)

Outlook

Due to the difficult situation in the British real estate market, the overall rise in risks and fierce competition in traditional real estate finance, we do not expect any significant rise in new commitments. However, thanks to the numerous potential business opportunities, we are confident of further progress during the year.

REAL ESTATE INVESTMENT BANKING EUROPE

Real Estate Investment Banking Team of Deutsche Bank AG London taken over

The London branch is the home not only to our traditional real estate finance business but also to Real Estate Investment Banking Europe. The “old” Eurohypo had already been active in this segment for several years in cooperation with Deutsche Bank London. With the take-over of part of Deutsche Bank’s London Division – Real Estate Investment Banking (REIB London) – in 2002 we were able to significantly strengthen our market position in this field. (See also “Eurohypo shares”, page 13 f.)

The former Deutsche Bank team consisting of 14 international experts will soon be increased to 20. By employing new specialists in securitization of real estate risks and real estate portfolios as well as specialists in interest hedging instruments, we will be rounding off our product range in Real Estate Investment Banking in the near future.

This unit will cover the entire value added chain of complex real estate transactions throughout Europe. Services include comprehensive consultancy as well as the design of customized solutions for capital-market

oriented financing options. Alongside advisory services for investors when acquiring or selling real estate portfolios and companies and the structuring of investment possibilities, our services also include mezzanine financing. We also support our German clients by means of a team located in Frankfurt.

Activities in Real Estate

Investment Banking

Excellent market and product knowledge enable REIB London to provide institutional investors with customized services, which means that we have an appreciable competitive advantage. Whilst the market conditions in the UK remain difficult, in 2002 REIB London was able to significantly expand its activities, predominantly in Continental Europe and won a number of major deals. The Investment Banking Team was commissioned by Merwede und Lehman Brothers Real Estate as co-advisor on the acquisition of Uni-Invest, a corporation listed on the Amsterdam stock exchange. The REIB team advised the companies on the Uni-Invest take-over worth € 1.8 billion. We introduced Lehman Brothers Real Estate to this transaction as an investor, and we arranged structured finance of € 700 million. We then syndicated designated tranches of this to international banking partners. Furthermore, the REIB Team was responsible for providing advisory services to the Marriott

Group on the incorporation of “Marriott European Hotels”, which acquired leased hotel real estate.

Additionally, in December the REIB Team structured a € 100 million sale-and-lease-back transaction in Spain consisting of seven shopping malls belonging to the Grupo Eroski, one of the leading Spanish food retailers, and arranged corresponding finance.

Outlook

Due to increased efforts on the part of European companies, including those in the public sector, to sell their real estate holdings, especially in Continental Europe the importance of the Real Estate Investment Banking team will continue to grow. In addition to this, it is becoming increasingly the case with real estate investments that competitive yields can only be generated by providing customized financing models. We see this as a future growth market and one in which we wish to become more involved. By taking over the REIB London Division and rounding off the product range we offer, we have laid the foundations for above-average participation in the growth of this market segment. The year 2003 will also see the REIB Team identifying corresponding business opportunities. We are confident that our profit level will rise, especially as a result of higher commission income in this segment.

COMMERCIAL REAL ESTATE CLIENTS USA REAL ESTATE INVESTMENT BANKING

New business line

With the take-over of the Real Estate Investment Banking activities of Dresdner Bank in the USA (REIB USA) at the beginning of 2003, we have a new business line that is very promising, especially in terms of growth and income opportunities. From Dresdner Bank we acquired a team of 42 employees as well as a financing volume of around € 1.9 billion. (See "Eurohypo shares", page 13f.)

Since 1994, REIB USA has established itself firmly in the US market and with its three offices in New York, Chicago and Los Angeles has a presence in the major real estate locations.

The US business has provided us with the opportunity of further diversifying our portfolio and therefore making ourselves less dependent on the cyclical developments to be found in the real estate business.

Strategic focus

In the USA, we are concentrating our main efforts on the structuring and financing of large-scale investments as well as the advisory services business. Our clients are mainly proprietors or managers of large diversified real estate portfolios containing high-quality Real Estate Investment Trusts (REITs), funds, institutional investors as well as professional private real estate companies. In the last few years we have forged good business relations with renowned investors.

With the advantage provided by our mixed bank status, we can offer our clients the full product range in connection with real estate financing. This encompasses short- and long-term real estate finance, interest rate and currency management, syndication, securitization as well as advisory services connected with acquisitions and sales.

New business

The commercial real estate market in the USA is in the middle of a cyclical downturn with on average higher vacancy rates and falling rents. Unlike in earlier recessions, investors have, however, been highly disciplined so that dramatic market imbalances have been avoided. REIB USA has succeeded in slightly expanding new business. Representative transactions which were later syndicated on the US and European banking market, were as follows:

- The long-term financing of a top quality office building in Midtown Manhattan for US\$ 300 million as the sole arranger.
- A working capital credit line for US\$ 350 million as administrative agent and co-arranger for General Growth Properties.
- Real estate finance for shopping mall “Stony Point Fashion Park” in Richmond, Virginia, in the sum of US\$ 105 million as the sole arranger and administrative agent for Taubman Centers.

On December 31, 2002 the total commitments remaining after syndication in the real estate finance division amounted to US\$ 2.1 billion. The credit portfolio is of high quality and widely diversified, both according to type of property as well as region. Since its incorporation, REIB USA has no loan defaults to report.

Outlook 2003

With a capitalization of US\$ 4.63 trillion, the US real estate market is the largest and most liquid market in the world. Almost 50% of this market is attributable to institutional investors with an external financing volume of 1.8 trillion US\$. In addition to the size of the market, the historically low interest rates together with the overall adequate equity base of investors in connection with the underwriting capacity and placing potential of Euro-hypo are factors which provide further momentum for our activities in 2003. Although the US economy is recovering rather slowly and real estate investors are tending to hold back for the time being, due to the foreseeable need for funding in the market we nevertheless assume that in 2003, REIB USA will at least achieve new business to match the previous year's level.

Moreover, we expect further growth impulses from the launch of a unit specializing in the securitization of commercial real estate financings. This type of funding which is usual for long-term financing in the USA will round off our product range for the US real estate investor.

SYNDICATED LOANS

Syndicated loans successfully expanded

During the integration year 2002, the Syndicated Loans division again expanded its market position. Within the context of a clear syndication policy, the Syndication Desk was linked with the sales units and Credit Risk Management and is therefore an integral part of our business model (ranging from arrangement and underwriting to syndication and final hold) and able to independently pursue its main goals. These goals include assisting with large scale financings, the near-real time release of tied-up equity capital as well as optimized risk distribution. It is important to our syndication partners that we only place those loans that fit in with our risk/credit policy and in this respect, we also keep a large tranche of the loan on our own books. This “final hold” depends on the relevant transaction and usually fluctuates between 20 % – 50 % of underwriting.

Top player in Europe

Our market position as the largest commercial real estate finance provider enables us to structure and arrange large and complex financings and ultimately place them in the market. Our underwriting and recognized syndication capacity makes us the partner of choice, particularly for large properties. In 2002 we again ranked - just like the “old” Eurohypo in the previous two years – in first place as mandated arranger for commercial real estate financings in the Dealogic Loanware League Table, ahead of Barclays and Royal Bank of Scotland. With 17 transactions

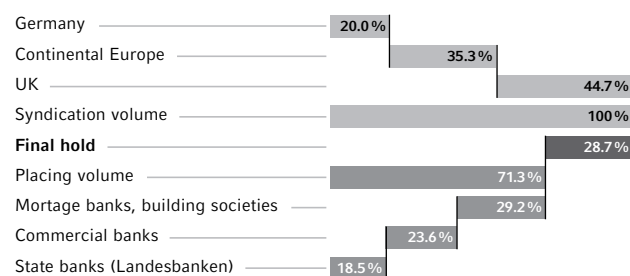
in Europe, we demonstrated the strength of our performance. Examples of effective and efficient international co-operation in terms of structuring, arranging, underwriting and syndicating are as follows:

- Financing the purchase of the Uni-Invest share package, for which we as co-arranger and co-underwriter with Rabo Bank arranged a loan of € 700 million.
- The bridge loan and final financing € 200 million for the Klara Zenit property in Stockholm predominantly used as office space.
- Construction financing and long-term end-financing of Torre Espacia, a 215 m high office block on Paseo de la Castellana in Madrid, for € 280 million.
- Financing of an office building in Frankfurt for € 170 million.

Syndicated loans	
in € million	2002
Syndication performance ¹⁾	3,303
– of which guarantees	705

1) Primary and secondary syndications to bank partners

Syndication volume by country and partner



Partner basis further expanded

Expansion and maintenance of the close links with our syndication partners are the responsibility of the teams in Frankfurt (for Continental Europe), London (UK) and since the beginning of 2003, New York (for USA). In addition, the central department Administration & Agency Services looks after syndicated business for the entire duration of the term.

Throughout Europe we work with over 70 banking partners who we invite to participate in syndicated transactions according to their strategic focus. One of the keys to our success is that we have consistently specialized in real estate finance and the syndication thereof. We have therefore earned a reputation with not only specialist banks such as mortgage banks but also with commercial banks and German Landesbanken as a competent partner in this financing segment. Of the volumes arranged and designated for syndication in Germany, Continental Europe and the UK, over the last two years we passed on to our banking partners on average a good 70%; nearly 30% was retained by ourselves. With a share of just under 30%, specialist banks are our biggest business partners.

Outlook

We assume that the process of consolidation in the European banking industry will continue. Further mergers and restructurings will mean that the number of market players, and thus the number of potential banking partners, may reduce but on the other hand, larger units may arise that are prepared to take part as co-arrangers and co-underwriters for large syndicated loans. For medium-sized and smaller banking partners, the question arises as to whether the cost-intensive establishment of their own representative offices or branches outside Germany is worthwhile. In this respect, due to our wide international presence and our open and friendly co-operation, we expect that the circle of banking partners who participate in our transactions will widen even further. Against this background, we are increasingly entering into individual partner strategies.

RETAIL RESIDENTIAL BUSINESS

Difficult market conditions remain

In 2002, the framework conditions in the retail residential business again did not improve on the previous year. The construction of one- and two-family houses, which accounts for the majority of construction activity by far, continues to be in a downturn. The construction of multi-storey housing is practically at a standstill. For the banks belonging to the Association of German Mortgage Banks, residential financing is down 22.8 % on the previous year. This downturn stems not only from the multi-dwelling sector but also from finance for new owner-occupied properties or existing housing, the former mainstay of residential finance, which has fallen significantly. On the other hand, the mortgage banks have recorded an appreciable plus on the redemption of third party loans.

Overall, we are dealing with a market that is currently stagnating, but its large volume offers attractive business opportunities. The mortgage banks are tending to withdraw from this business segment, and large banks, savings banks and co-operative banks are all becoming increasingly price-conscious when stipulating their terms and conditions. What is interesting in the retail residential business is the effect of imminent changes due to Basel II, which is expected to be binding from 2007 onwards. In the retail business, the new capital adequacy requirements, which foresee a close link with the actual risk structure of the portfolio, together with professional risk management are likely to lead on average to considerably less pressure on equity.

Strategic new direction in sales, processing and risk policy

Retail Residential Business is one of the four core areas of our business model. With a loan portfolio of around € 35 billion and the transaction management of around 330,000 loans, we are one of the leading providers in Germany.

Due to cost considerations, we do not sell directly to end-clients, but acquire new business solely via a network of professional sales partners (agents). In addition, our co-operation partners (Commerzbank, Deutsche Bank) sell our loans via their established distribution operations and channel the business acquired to us for funding and processing. We service our sales partners via 16 offices and 30 regional offices. For financial service providers, who only want to outsource the processing of retail residential business they have acquired and refinanced themselves, we can offer a highly customized range of services via our subsidiary "prompter AG" in Mainz. (See page 85 f.).

In order to increase the quality and profitability of loan processing, by mid-2003 we will consolidate the five Service Centres originating from before the merger in two new locations (Ahrensburg and Rüsselsheim). Linked with this physical consolidation of location is the introduction of significantly more streamlined processes. In this way, we will be able to noticeably reduce production costs and clearly improve the quality of service for our clients. Efficient sales and processing structures can only be realized if there is a clear focus for activities. This focus is achieved

by consistently concentrating on the traditional retail business (predominantly 1- to 3-family houses, freehold apartments and completed multi-dwellings). In addition to this consistent focus on low-risk properties, we are tackling the unsatisfactory development of risk costs over the last few years by means of the mathematical and statistical scoring system successfully introduced in January 2003. Using this system, Retail Residential Business now has a completely objective credit-decision-making process. Our policy of risk limitation is supported by a system based on the scoring process to calculate the standard risk costs.

New commitments below previous year – trends in own and third party sales vary

The volume of new business has suffered from the generally difficult situation in the housing market. Our newly-formulated risk and price policy and the restructuring of the branch office network also initially had a restraining effect, especially in own sales. Overall, in 2002 new commitments amounted to € 1.4 billion (€ 2.3 billion). At € 0.8 billion (€ 1.8 billion), business acquired via sales partners (own sales) was clearly down on the previous year's level. New business via cooperation agreements (third party sales) rose by a good € 0.6 billion (almost € 0.5 billion). Our loan business partners were our major shareholders, Commerzbank and Deutsche Bank.

The total financing volume in Retail Residential Business at the year-end was € 35.0

billion. Retail residential business accounts for 36.5% of the overall real estate finance portfolio. Of this, 45.7% is attributable to owner-occupied homes, 32.9% to multi-family-dwellings and 21.4% to individual flats.

Servicing via "prompter" expanded

In 2002, prompter AG took over the long-term servicing of around 9,200 properties. This corresponds to a new business volume of € 0.9 billion. For the parent company, prompter ensures the administration of all loan business allocated in the so-called direct commitment process via Commerzbank. The first half of 2003 will also see the corresponding loan business allocations from Deutsche Bank Privat- und Geschäftskunden AG. In addition, prompter also carries out considerable activities for a private mortgage bank and for a renowned insurance company. At the end of 2002, a total of around 15,000 properties were managed. This corresponds to a credit volume of € 1.6 billion.

Profit contribution

Net income – before taxes amounted to € 94.3 million. The cost/income ratio was 39.8%. The return on equity before taxes, calculated on the basis of the average amount of equity capital tied up, was 7.0%. Commission expenses immediately charged to the profit and loss account amounted to € 16.2 million. These result from sales agreements entered into with Deutsche Bank and Commerzbank as well as the corresponding commissions paid to sales partners. Net interest income

achieved a highly satisfactory level with € 323.5 million. This produces net interest and commission income of € 307.3 million. Administrative expenses amounted to € 122.3 million. As a result of the ongoing difficulties in the market and in eastern Germany in particular, risk provisioning of € 163.0 million remains unsatisfactorily high. The necessary level of risk provision related largely to investor finance, real estate used for commercial or mixed use purposes or complex redevelopment measures. These types of financings – even in 2002 – no longer formed part of the target business of Retail Residential Business. The three major shareholders Commerzbank, Deutsche Bank and Dresdner Bank guarantee risks above a certain threshold on the basis of agreements entered into during the merger. These guarantees ease the pressure on risk provisioning by € 80.5 million, so that ultimately a sum of € 82.5 million was taken to the profit and loss account. The extraordinary expenses of € 3.0 million results mainly from the write-down on our participating interest, eXtrahyp AG.

Outlook

The framework conditions are unlikely to see any sustainable improvement in 2003. The persistent economic downturn as well as the foreseeable reduction in home ownership incentives and fewer opportunities for write-

offs accompanied by high taxes and levies will all, despite lower mortgage rates and favourable building prices, impact negatively on the financing of residential real estate.

Despite consistent focusing as early as 2002 of our sales and risk policy on low-risk finance, due to run-on effects from the old portfolio, we again expect a high requirement for risk provisioning in this business segment.

With regard to new business, in 2003 we expect to match the previous year's volume as a result of the decrease in competitive pressure and the easing of pressure on profit margins, together with our favourable market position and the foreseeable effects of Basel II in the medium-term. Even if the market stagnates rather than grows, we see potential for growth with profitability above the costs of capital.

Our most important challenges lie in further automating the processes in sales and linking our focused business model with earlier sales successes. The year 2002 saw us take the first important step.

As there is a clear increase in the willingness on the part of many banks and insurance companies to outsource their loan processing, we will expand our subsidiary prompter AG as service provider for the "industrial" processing of private, standardized home finance. Eurohypo itself will also increase its presence as a client of prompter AG.

PUBLIC SECTOR FINANCE

Difficult market conditions

The public sector finance activities of the banks in the Association of German Mortgage Banks declined overall in 2002. The reasons for this are multi-faceted. On the one hand, the original margins, particularly those for lending activities in Germany, were often not sufficient for an adequate level of income; on the other hand the mortgage banks were less inclined to take risks when carrying out such transactions by means of maturity transformations. Another factor has been the continuation of the strategic re-orientation towards business with higher profit margins, which the mortgage banks and Landesbanken started some years ago.

The amendment to the German Mortgage Bank Act (HBG) of 2002 had a positive effect on foreign public sector finance. Pursuant to this amendment, the German mortgage banks are also allowed to grant credit to sovereign and sub-sovereign institutions in the EU as well as in the non-European G7 countries USA, Canada, Japan and Switzerland in the context of covering transactions. Moreover, financings can also be granted to sovereign bodies of the eastern European OECD countries Poland, the Czech Republic, Slovakia and Hungary.

Drop in new business

In 2002, new commitments by Eurohypo AG totalled € 2.7 billion (€ 12.3 billion), a decrease of 78%. Of these new commitments, € 2.0 billion, or 74.1%, was attributable to Germany and € 0.7 billion, or 25.9%, to out-

side Germany. The public bonds acquired in the context of public sector finance business amounted to merely € 0.7 billion, because it was in general only possible to achieve positive margins for this type of business by accepting interest rate risks. The new public sector commitments by Europäische Hypothekenbank S.A., Luxembourg (Eurohypo Luxembourg), and RHEINHYP BANK Europe plc, Dublin, amounted to € 1.3 billion (€ 2.5 billion) and € 0.9 billion (€ 2.7 billion) respectively. Particularly important business transactions were concluded with Italian and Canadian debtors. The expansion of Public Sector Finance activities in the USA was successfully continued.

Eurohypo AG		
in € million	2002	2001
New business	2,660	12,280
Financing volume	108,919	127,629

Europäische Hypothekenbank S.A., Luxemburg		
in € million	2002	2001
New business	1,283	2,501
Financing volume	7,541	6,931

RHEINHYP BANK Europe plc, Dublin		
in € million	2002	2001
New business	932	2,672
Financing volume	4,639	4,361

New business by the Eurohypo Group therefore amounted to € 4.9 billion (€ 17.5 billion).

Overall, we acted very cautiously in the low-margin public sector finance segment. In line with our business policy, all decisions were based on credit-standing and earnings factors not on volume.

Financing volume with high credit-standing

The analysis of our debtors' creditworthiness is for us of major importance. This analysis is carried out by Credit Risk Management (CRM). Our credit decisions are based on internal evaluation criteria as well as external studies and counterparty ratings. The assumption of regional risks takes place as part of regional risk management by means of specific limits for the Eurohypo Group. Compliance with these limits is monitored by Credit Risk Management.

The Eurohypo Group's financing volume amounted to € 121.1 billion (€ 138.9 billion) at the year-end. When calculating risk-weighted assets, 86% of our financing volume has been given a 0% weighting, a further 5% a 10% weighting and 9% a 20% weighting. The volume of international business amounted to € 28.6 billion. The largest percentage of this was attributable to public debtors in Italy with 21.6% followed by Austria with 14.8%. The high percentage of 0% risk-weighted financings attests to the excellent risk structure of the cover assets of the Eurohypo Group.

Co-ordinated market approach for our target groups

Eurohypo AG operates its public sector finance business with all German public sector debtors as well as with the central governments of the G7 countries and the EU/EEA, the eastern European OECD countries and Switzerland from Frankfurt. New business with international sub-sovereign counterparties in OECD countries is primarily processed via our subsidiaries Eurohypo Luxembourg, including its branch in Dublin, and RHEINHYP BANK Europe plc in Dublin.

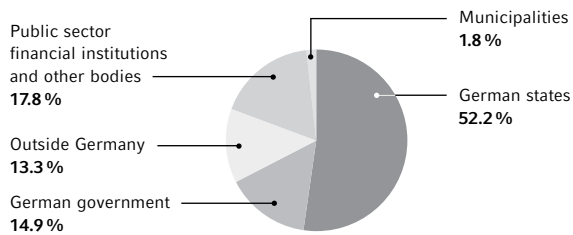
There are plans to incorporate RHEINHYP BANK Europe plc within the Dublin branch of Eurohypo Luxembourg during the course of 2003. This amalgamation will result in the pooling of expertise in international public sector finance business already present in Luxembourg and Dublin. At the same time, this will enable long-term funding of the entire portfolio by means of Lettres de Gage Publique (Pfandbriefe under Luxembourg law). The Luxembourg Lettres de Gage, which over the years have become well-established with international investors, give us a second funding source in the "covered bond" sector.

Profit contribution

The overall positive market conditions prevailing for Public Sector Finance, Money and Capital Market and Treasury, which is responsible for the bank's asset liability management, are reflected in the joint result for this business segments.

Public sector finance

Structure of Eurohypo AG's cover assets



Total: € 104.1 billion

Net interest and commission income amounted to € 148.3 million. Including income from the sale or redemption of the bank's own securities of € 1.5 million, we achieved net income before tax of € 110.9 million. The cost/income ratio amounted to 29.9%.

We achieved this above-average result and continued to maintain low market risk levels. Detailed information on this is given in the risk report on page 72 f.

Outlook

In the future, we will continue to only enter into new business if the risk and income factors are right. By means of active portfolio management, with due observance of the limits imposed by a non-trading book institution, we will further optimize our margins.

We will expand our business activities in the field of structured public sector finance in particular. The public sector is involving the private sector more and more in infrastructure financing. These new forms of financing are suitable for numerous large projects, such as motorways, bridges and public buildings. In this area we see a huge need for advisory services, structuring and financing. By establishing an international team of specialists we plan to become active in this area and to increase our participation in national and international project and infrastructure financing. This will enable us to clearly increase our net interest and commission income.

FUNDING

Not an easy year for the Pfandbrief market

Trends varied in 2002: on the one hand, the extended scope of the German Mortgage Bank ACT (HBG amendment 2002) enhanced the competitive position of the mortgage banks resulting in a strengthening of the Pfandbrief.

On the other hand however, the Pfandbrief market suffered from numerous negative developments concerning the German banking industry. The downgrading of the ratings given to German banks, the generally difficult business situation and in particular the growing need for risk provisioning to cover credit and market risks at individual mortgage banks, all resulted in the widening of Pfandbrief spreads to swap rates. With Jumbo Pfandbrief yields, the spread compared to swaps in the second and third quarters in the long-term maturity segment widened to 20 basis points. Moreover, spreads varied among individual Pfandbriefe depending on the relevant issuer and in this respect, investors no longer see the Pfandbrief as a homogenous product.

The new issue volume of Jumbo Pfandbriefe was therefore lower than in the previous year. At the end of 2002, the outstanding Jumbo volume of around € 401 billion was in the region of the previous year's level. Due to a clear increase in the sales of traditional Pfandbriefe, the raising of funds by the banks belonging to the Association of German Mortgage Banks was on the whole higher than in 2001.

Funding below previous year's level

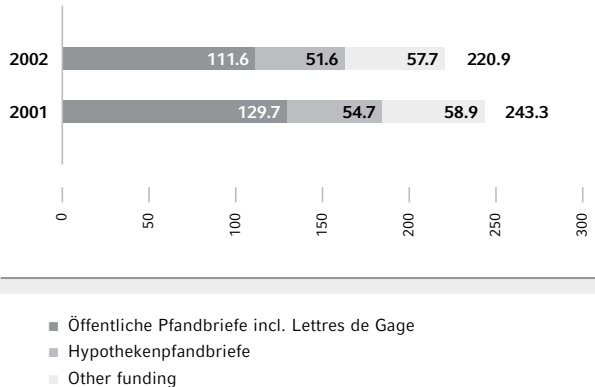
The levels of borrowing of the Eurohypo Group were lower due to the reduction in public sector finance business. In addition, we were deliberately cautious where new issues were concerned. As the first issuer, despite the planned EU interest Directive, we topped up old issues which had been issued before March 1, 2001. This guaranteed their liquidity and meant that we successfully improved the secondary market performance of Eurohypo Pfandbriefe compared to the overall market.

In total, the Eurohypo Group raised € 25.9 billion (€ 37.0 billion) of new funding. We issued Pfandbriefe to the value of € 10.4 billion (€ 20.9 billion); of which € 6.5 billion was attributable to Öffentliche Pfandbriefe and € 3.9 billion to Hypothekenpfandbriefe. Other bonds amounted to € 6.9 billion (€ 9.8 billion). These bonds are also used to fund our European real estate business, which due to the stipulations laid down in the German Mortgage Bank Act can only be partially included in the Pfandbrief cover. Moreover, in order to improve the overall capital ratio, subordinated issues of € 1.8 billion were raised after no financing of this type had been undertaken in the previous year.

As a result of the lower level in new business, the new funding raised by our subsidiaries in Luxembourg and Dublin (the figures for which are included in the consolidated financial statements) was also lower than before. Eurohypo Luxembourg funded

Funding volume in year-on-year comparison

in € billion



€ 2 billion (€ 5.2 billion) in the following currencies: US dollar, Swiss franc, pound sterling and euro. Eurohypo Luxembourg became the first non-Swiss issuer to issue a Lettre de Gage Publique with a term of 12 years in Swiss franc. The nominal amount of this issue was SFr 200 million. Furthermore, it was possible to successfully top up the Lettre de Gage Publique in US dollars which was due to mature in October 2005 to 1.25 billion and thus achieve the same nominal value as the Jumbo issues denominated in euro issued by Eurohypo Luxembourg. Over 70% of the bank's loan portfolio is financed by Lettres de Gage Publique. At € 5.3 billion, the amount of funds raised by Rheinhyp Dublin in the money market in 2002 was only slightly below the previous year's level (€ 5.4 billion).

Largest Pfandbrief issuer by volume outstanding

At € 220.9 billion (€ 243.3 billion), the volume of securities outstanding of the Eurohypo Group was 9.2% down on the previous year. Furthermore, Öffentliche Pfandbriefe accounted for the majority of funding with € 111.6 billion (€ 129.7 billion). Outstanding Lettres de Gage – public sector Pfandbriefe under

Luxembourg law – accounted for € 6.1 billion (€ 5.2 billion) of this volume. The Hypothekendarlehen in circulation amounted to € 51.6 billion (€ 54.7 billion) and the other funding to € 57.7 billion (€ 58.9 billion). Of the total outstanding, € 8.5 billion was attributable to Eurohypo Luxembourg and € 5.4 billion to Rheinhyp Dublin.

In terms of outstanding volume of all German Pfandbriefe totalling approx. € 1,100 billion, Eurohypo AG is the largest Pfandbrief issuer with a market share of approx. 15%. Eurohypo Luxembourg is the leading issuer of Lettres de Gage Publiques in the Principality of Luxembourg.

Debt issuance programme updated

Each of the three predecessor institutions had set up its own debt issuance programme. When the merger was registered, the three programmes accounted for 143 issues with a total volume of € 16.7 billion.

With the entry of the merger in the Commercial Register, the debt issuance programmes of the "old" Eurohypo and Rheinhyp Frankfurt and Dublin were closed for new issues. We continued the debt issuance programme of Deutsche Hyp. The prospectus on

which the programme is based was updated on the basis of the new Eurohypo's quarterly figures as at September 30, 2002. The programme was reactivated in December with an issuance framework of € 10 billion. The programme, which was launched on the Luxembourg stock exchange, is popular with institutional investors investing in euros due to the internationally recognized standard documentation.

It is easier to market to international investor circles because the programme allows investors' requirements in euros as well as in foreign currencies to be quickly and flexibly accommodated. Eurohypo Luxembourg also updated its debt issuance programme and topped it up to € 10 billion.

Global commercial paper programme introduced

In December 2002, the contract for a global CP programme for US\$ 15 billion was signed. The programme had been presented at investor conferences in Europe and the USA and includes issues not listed with a term of one year or less. The top priority is to ensure liquidity in the key currencies. By the end of December, 15 tranches in 3 currencies (€, SFr, US\$) with an equivalent value of € 522 million had already been placed. The short-term funding activities of Eurohypo Luxembourg as well as Rheinyp Dublin will be supported by interbank borrowing and repo transactions as well as by means of a euro commercial paper programme. The issue of commercial paper and conclusion of repo transactions take place primarily via Dublin.

Ratings on stand-alone basis

Even before registration of the merger, Standard & Poor's and Moody's had already standardized the ratings of the three predecessor institutions and used these to categorize the new Eurohypo as follows: A/A1 for senior unsecured issues, AAA/Aaa for Öffentliche Pfandbriefe as well as AAA(Creditwatch)/Aa1 for Hypothekenpfandbriefe. Our commercial paper short-term rating is A-1/P-1.

These ratings reflect the positive evaluation of our business model by the rating agencies in addition to taking into account the guarantees given by our major shareholders in the course of the merger until 2006. The new Eurohypo AG has been rated on a stand-alone basis, which means that changes to the ratings of the major shareholders do not automatically result in a corresponding change to the ratings awarded to our bank. After Standard & Poor's took our rating for Hypothekenpfandbrief off the "watchlist" in February 2003, all of our bank's ratings have been categorised as "stable".

Our Luxembourg subsidiary currently only has a rating from Standard & Poor's. The AAA rating for the Lettres de Gage Publique as well as the senior unsecured A rating and the short-term A-1 rating correspond to the ratings of Eurohypo Frankfurt.

Transparency builds trust

In our first road show in November and December 2002 in Europe (particularly Germany), Asia and the USA, we provided our investors with comprehensive information about our new bank, our business model as well as our

Eurohypo's Rating		
	Standard & Poors	Moody's
Öffentliche Pfandbriefe	AAA	Aaa
Hypothekendarlehen	AAA	Aa1
Senior unsecured issues	A	A1
Subordinated bonds	A –	A2
Commercial paper and short-term debt	A-1	P-1
Financial strength	–	B –

Status: mid-February 2003

funding strategy. A core statement of our funding strategy is our “benchmark commitment”. By this, we have undertaken to issue at regular intervals highly-liquid Pfandbrief issues with first-class ratings and a target size of € 3 billion. As a result of intensive preparatory work, we ensure wide placement of the issues. By involving investors in the pricing process, we ensure a positive take-up in the primary market and a good performance in the secondary market.

In 2002, we worked with the Association of German Mortgage Banks on the formulation of a “Code of Conduct for Jumbo Pfandbrief Issuers” and we take this code into account as part of our funding policy. We provide detailed information on the quality and composition of our cover assets over and above the statutory requirements, both in the Notes on page 111 ff of our annual report as well as on our website at www.eurohypo.com. Furthermore, we publish the key figures for

interest rate risk that the mortgage banks must regularly report to the German Financial Supervisory Authority (see Risk report, page 73). With this high degree of transparency, we provide our investors and interested members of the general public with additional information which they can use to assess the quality of our Pfandbriefe.

Voluntary restriction on the investment of liquid funds

In June 2002, Eurohypo adopted the proposal of the Association of German Mortgage Banks to voluntarily restrict the investment of liquid funds pursuant to Section 5 Para. 3 No. 3 d and No. 5 of the German Mortgage Bank Act. Under this proposal, Eurohypo undertakes when investing liquid funds only in debt that has been given at least a A-/A3 rating by Moody's, Standard & Poor's or Fitch IBCA. This voluntary restriction has been welcomed by the capital market as well as the rating agencies.

Outlook 2003

In January 2003 we launched our first benchmark issue, a 10-year Öffentlicher Pfandbrief with a volume of € 3 billion. The extremely positive market response was reflected in the fact that the issue was heavily oversubscribed. Investors originated from Germany (46%), Europe (38%) as well as to a lesser extent from Asia and the USA. The most important investor groups were international funds (45%), banks (33%) as well as insurance companies (10%). We attribute the success of this placing predominantly to our extensive roadshows

and we were able to place half of the issues with investors visited at these events, which were held in November and December.

This year we are planning a further benchmark issue of up to € 3 billion. This will consolidate our position as the market-leader in the Pfandbrief segment. As we do not intend to top up our issues above our target volume of € 3 billion, we can assure our investors of a good performance on the secondary market.

Since the beginning of 2003, we have been issuing commercial paper in the US market mainly to fund our business activities in America. Furthermore, in the first half of 2003 we plan to securitize commercial real estate loans in Europe with a volume of € 1.5

– € 2 billion. We will build on the successful securitization tradition of the “old” Eurohypo and Rheinhyp. By transferring credit risks and releasing equity capital using these CMBS (Commercial Mortgage Backed Securities) transactions, we are pursuing our objective of creating additional scope for additional new business and generating a higher return on equity.

For Eurohypo Luxembourg, we are expecting an upturn in issuance activities this year. When drawing up its issue plans the bank will follow investors’ wishes and will also be able to react flexibly on the funding side thanks to the diversity of currencies in its lending business.

INCOME SITUATION

Net interest and commission income slightly up on previous year

At € 1,151 million (€ 1,142 million), net interest income was up 0.8% on last year's level. Adjusted for the non-recurrent special effect from a securities lending transaction carried out by the former Deutsche Hyp, we achieved an increase of 3.4%. We recorded this positive development alongside a simultaneous decrease in the balance sheet total of 8.9%. This was mainly achieved by targeted restructuring of our credit portfolio, namely by reducing our portfolios in public sector finance in favour of higher-margin business in real estate finance. Within the real estate finance business, we further expanded our German and international commercial real estate business, which offers better prospects for earnings.

The reduction of net commission income from € 24.6 million to € 17.2 million is attributable to the fall in commission income from € 93.1 million to € 84.1 million. This is due primarily to the reduction in one-off commissions in new business. The largest contribution to commission income was from international real estate business which accounted for € 51.2 million, followed by German commercial real estate business with € 18.0 million. In both business lines, commission income was mainly generated in the arranging and syndication business. Overall, net interest and commission income in the reporting period at € 1,168 million (€ 1,166 million) was up 0.2% on the previous year.

Figures from the profit and loss account

in € million	2002	2001	Change
Net interest income	1,151.1	1,141.7	0.8%
Commission income	17.2	24.6	-29.8%
Net interest and Commission income	1,168.3	1,166.3	0.2%
Staff expenses	230.9	245.1	-5.8%
Other administrative expenses incl. depreciation and write-downs	201.2	214.4	-6.1%
Administrative expenses	432.1	459.5	-6.0%
Balance of other operating income/expenses	49.8	194.9	-74.5%
Operating result before risk provisioning	786.0	901.7	-12.8%
Net risk provisioning	-224.3	-256.4	-12.5%
Income from writing back provisions for general banking risks pursuant to Section 340 f German Commercial Code (HGB)	108.5	-	-
Allocation to fund for general banking risks pursuant to Section 340 g HGB	-108.5	-	-
Operating result after risk provisioning	561.7	645.3	-13.0%
Result from other income and expenses	-3.5	-83.7	>100%
Extraordinary expenses	233.1	54.7	>100%
Net income before taxes	325.1	506.9	-35.9%
Taxes	31.6	-10.2	>100%
Net income after taxes	293.5	517.1	-43.2%
Adjusted net income before taxes (see page 55)	310.0	414.7	-25.2%
Adjusted net income after taxes	217.1	444.0	-51.1%

Administrative expenses reduced

We were able to reduce administrative expenses by 6.0% to € 432.1 million. The main factor in this development was the 5.8% cut in personnel expenses, mainly due to the restructuring measures undertaken at Deutsche Hyp in the run-up to the merger. We also achieved a 6.1% reduction in other administrative expenses including depreciation of tangible assets despite the rental payments (€ 6.7 million) which fell due for the first time for the Taunustor und Junghofstrasse building in Frankfurt as well as the Pariser Platz in Berlin sold in 2001. Thus, we recorded the first noteworthy cost-savings as part of the merger. The cost/income ratio – the ratio of administrative expenses without restructuring expenses compared to net interest and commission income – improved to reach 37.0% (39.4%).

Operating result before risk provisioning below previous year's level

The operating result before risk provisioning amounted to € 786.0 million and was therefore down by 12.8% on the previous year. This fall is due solely to the other operating income of € 49.8 million compared to € 194.9 million in the previous year. In 2001, this entry included one-off disposal gains from the real estate sales made by Rheinhyp and the “old” Eurohypo as well as sales of participating interests sold by Deutsche Hyp and Rheinhyp. In 2002, the result was mainly generated by capital gains from the sale of the participating interest held in Deutsche Börse AG.

Risk provisioning 2002

in € million	2002	2001	Change
Allocations to specific bad debt charges/ provisions including direct write-downs	529.5	458.5	15.5 %
Write backs and amounts received with respect to bad debts written off	153.9	149.6	2.9 %
Allocation to general credit risk provisioning	42.3	13.4	>100 %
Net risk provisioning in the lending business prior to effect of guarantees	417.9	322.3	29.7 %
Effect of guarantees given by the major shareholders	192.1	–	–
Net risk provisioning in the lending business	225.8	322.3	–30.0 %
Securities result	1.5	65.9	–97.7 %
Total net risk provisioning	224.3	256.4	–12.5 %

Taking the guarantees into account for risk provisioning

Risk provisioning shows the balance of the risk provisioning in the lending business as well as the result from securities held in the liquidity portfolio; the writing back of the provision for general banking risks pursuant to Section 340 f of the German Commercial Code is shown here separately. We have taken into account all recognizable risks in the real estate finance business by means of appropriate specific bad debt charges and risk

provisions. The increase in risk provisioning in the lending business results from the clear downturn in the economy and its effects on the real estate markets. As a result, potential risks became evident so that we had to increase the risk provisioning in the lending business by 29.7% to € 417.9 million. Some of the bank's provisioning requirement – taking into account tax effects of net € 192.1 million – is protected by the guarantees provided by our major shareholders in the course of the merger which are in place until 2006; these guarantees amount to € 702 million net as at January 1, 2002. The writing back of specific value adjustments, which Deutsche Hyp had formed as early as December 31, 2001, can reduce the guarantee given by Dresdner Bank by a maximum net amount of € 96 million. According to our present information, we assume that the guarantees will in total amount to € 606 million.

The guarantees as well as their usage to date, are distributed amongst our major shareholders as follows:

Guarantees in € million	Commerz- bank	Deutsche Bank	Dresdner Bank
Net	191	283	132
Guarantee effect	97	21	74
Remaining guarantee	94	262	58

Taking into account these guarantees, we had to use € 225.8 million for risk provisioning in the lending business. The result from securities business offset with provisioning

achieved a positive balance of € 1.5 million (€ 65.9 million). The high figure for the previous year compared to 2002 resulted mainly from the realization of capital gains in the course of the disposal of securities from the liquidity reserve held by the former Rheinhyp. It was not necessary to carry out any notable write-downs on securities. Overall, risk provisioning was reported at € 224.3 million and was thus 12.5% down on the previous year. The entries "Proceeds from the writing back provisions for general banking risks" and "Allocation to the fund for general banking risks", the balances of which cancel each other out, refer to the rededication of a taxed hidden provision pursuant to Section 340 f of the German Commercial Code to become the fund for general banking risks pursuant to Section 340 g of the German Commercial Code. By means of this rededication, we were able to strengthen our tier I capital.

Restructuring expenses of € 233.1 million

We achieved an operating profit after risk provisioning of € 561.7 million (€ 645.3 million). In 2001, the "Result from other income and expenses" included transfers from special items with partial reserve character as part of the creation of a reserve pursuant to Section 6b of the Income Tax Act (EstG) reserve for Rheinhyp and the "old" Eurohypo of € 85.7 million. "Extraordinary expenses" of € 233.1 million refer to merger-related restructuring expenses. In the previous year, this entry contained the cost of restructuring measures

undertaken at Deutsche Hyp in the sum of € 54.7 million. In the run-up to the merger, we had planned restructuring expenses of € 210.0 million. After the announcement of the merger in November 2001, we decided, not least because of tax considerations, not to use any of the existing buildings in Frankfurt as the bank's Head Office, but to construct a new building in Eschborn. This meant additional restructuring expense to carry out the remaining expansion and the necessary sub-letting of one of the properties rented by the former Rheinhyp. Moreover, until our new building in Eschborn is ready to move into, we have to rent additional floor space and deal with a large number of intermediate relocations. We have included these expenses retroactively so that they are included in the restructuring expenses, at the same time taking these expenses into account when making our investment decision in favour of Eschborn. We have also optimized our premises at other locations in and outside Germany and likewise recorded any subsequent costs in this expense item.

Profit at a satisfactory level

Net income before taxes amounted to € 325.1 million after € 506.9 million in the previous

year. The tax payable amounted to € 31.6 million (€ –10.2 million). The relatively low amount of tax payable is mainly attributable to the tax-free income from the disposal of participating interests (Deutsche Börse AG) as well as usage of the guarantees given by the major shareholders. In the previous year, due to tax refund claims and the accumulated tax losses of the former Deutsche Hyp, there was a tax earning. Net income after taxes amounted to € 293.5 million (€ 517.1 million). Net of all special factors in 2002 and 2001 (real estate sales, income from securities lending business, sales of participating interests held in other companies, restructuring expenses) as well as those amounts in risk provisioning, which are covered by the guarantees given by the major shareholders, we achieved adjusted net income before taxes of € 310.0 million after € 414.7 million. The fall in adjusted net income is mainly attributable to the higher risk provisions, to an increase in net interest and commission income as well as a reduction in administrative expenses. Adjusted net income after taxes fell from € 444.0 million to € 217.1 million.

Return on equity before taxes and net of all special factors was 7.3% (10.7%) and after taxes, 5.1% (11.4%).

APPLICATION OF PROFIT AND CAPITAL FUNDS, EUROHYPO AG

The Board of Managing Directors and the Supervisory Board of Eurohypo have decided to transfer € 145.0 million of the net income for the year to the bank's other profit reserves. The reserves therefore amount to a total of € 3,674.8 million. Including subscribed capital of € 841.7 million and the contribution of € 72.8 million for the purposes of the

resolved capital increase, the capital funds reported stand at € 4,589.3 million. We will propose to the AGM on May 19, 2003 the payment of a dividend of € 0.45 per no par value share. In relation to the year-end price of € 10.70, our shareholders will gain a dividend yield of 4.2%.

EQUITY AND CAPITAL RATIOS – EUROHYPO GROUP

The share capital of Eurohypo AG on December 31, 2002 amounted to € 841,672,254.8 and was divided into 323,720,098 no par value bearer shares each having a mathematical denomination of € 2.60.

As at December 31, 2002, the Eurohypo Group had reported capital of € 4,618.4 million. The Core capital ratio calculated according to the rules of the Bank for International

Settlements (BIS) amounts to 6.1% (5.2%) and total capital ratio 10.1% (7.4%) with risk weighted assets in the sum of € 78.4 billion (€ 77.5 billion). These figures show we have an appropriate level of capital both with respect to the expected regulations in connection with Basel II as well as with respect to our activities in North America.

RELATIONSHIPS WITH RELATED COMPANIES

Up until registration of the merger on August 13, 2002, Commerzbank held the majority of the share capital of Rheinhyp, Deutsche Bank held the majority of the share capital of the "old" Eurohypo and Dresdner Bank held the majority of the share capital of Deutsche Hyp. The dependency report to be drawn up pursuant to Section 312 of the German Stock Corporation Act (AktG), which gives details of the relationship of Commerzbank with

Rheinhyp, Deutsche Bank with Eurohypo and Dresdner Bank with Deutsche Hyp up to and including August 12, 2002, closes with the following statement: "For the legal transactions and measures detailed in our report on the relationship with related companies, our company has received suitable remuneration befitting the circumstances which were known to us at the time when the transactions were carried out for each legal transaction and has

not been disadvantaged by the fact that measures were instigated or omitted.”

According to the circumstances of which we were aware at the time the transactions and measures were carried out, with regard to such transactions and measures listed in the report on relationships with related parties, our company at all times received an appropriate counter-performance and was not disadvantaged by the result of measures being either taken or not taken.”

Following the change in the participation relationships, when carrying out transactions with the major shareholders Eurohypo AG also received an appropriate level of counter-performance as would be usual with any third party. Eurohypo AG has furthermore not allowed any measures which would have disadvantaged the bank. Eurohypo AG operates as a corporation that is independent of the major shareholders, and as such acts accordingly vis-à-vis all contractual partners.

OUTLOOK FOR THE RESULTS FOR 2003

Framework conditions

The promising slight economic upturn in the first half of 2002 was followed in the latter part of the year by another downturn, which was more severe than that expected on the basis of experience from previous economic cycles.

The already gloomy situation following the poor performance of the stock markets and rising unemployment in the USA, was aggravated by the threat of war in the Middle East. In Germany, the emergence of significantly higher public spending deficits led to a debate which served to accentuate the pessimistic mood and curbed both demand as well as supply, and induced a general wait-and-see attitude. Since then, forecasts for the economy's prospects have been noticeably more sceptical and no reversal in the trend is expected in 2003.

We are assuming a best case scenario of flat economic growth. Even Europe as a whole will probably not return to a sufficiently high growth trend in 2003. The economies of the large European nations are continuing to experience structural problems which are curbing investment; this means that growth rates will lag behind those of the USA. We expect that there will be no sign of stabilization in the European economy until 2004.

The effects of the global economy were also clearly felt in the real estate markets in the reporting year. This negative development is likely to continue in 2003. We do not expect a return to a satisfactory growth trend until 2004 at the earliest.

New real estate finance business

Against this backdrop, we expect trends in real estate finance to vary, but that overall

the volume of new commitments will be in line with the volume achieved in the reporting year. Within the individual divisions, we are forecasting a drop in new business from the European markets, but this should be offset by new business opportunities in the US market. In addition, we see growth potential in Real Estate Investment Banking.

Earnings outlook

It is particularly difficult to forecast the result for the whole of 2003 at this moment in time given the high degree of uncertainty surrounding future economic and geopolitical developments.

From the current standpoint, we are assuming that net interest and commission income will be above last year's level. The Real Estate Investment Banking activities in Europe and the USA, as well as the Real Estate Finance division taken over from Deutsche Bank in Germany, will make a significant profit contribution. We expect further positive contributions from our supplementary range of services in connection with real estate finance, especially in the areas of interest and

currency management. We believe that this additional range of services will generate increasing commission income in commercial real estate business in and outside Germany. Furthermore, we will continue to consistently apply our demanding policy of "income before volume".

On the expenses side, we expect considerable progress from leveraging cost synergies. With the associated reduction in administrative expenses, we will move one step nearer our goal of significantly improving the cost/income ratio and thus profitability over the coming years.

Due to the ongoing difficulties in the real estate markets, risk provisioning for the lending business will not fall below last year's level and is more likely to exceed it. To some extent, we will be able to once again rely on the guarantees granted by the major shareholders for the existing portfolios of the predecessor institutions.

From the current standpoint, on the whole we expect a satisfactory earnings trend, not least due to the clear drop in restructuring expenses.

RISK REPORT

Introduction

During the course of the merger of the three predecessor institutions, Eurohypo completely restructured its risk management. This process took into account the current difficulties experienced by the global economy, the volatile situation in various real estate sub-markets as well as the changing legal and regulatory framework. The results of discussions in connection with Basel II and the Minimum Requirements for the Lending Business of Banks (MaK) have been consistently applied to the new processes and the way in which the new organization has been structured.

Risk management

Objectives

The bank only enters into risks within its business strategy, its core competences and its risk-bearing capacity. Active risk management means dealing with risks in a responsible and careful manner at all times.

All risks must be made transparent, then measured and evaluated. An individual risk or the linking of individual risks (which influence each other) must not reach proportions that could impair the sound financial base of Eurohypo. For the risks that we enter into we wish to achieve an appropriate level of risk-adjusted income and limit such risks by means of our risk policy safeguards and limitation structures in order to protect the bank from unexpected losses.

Risk management system

Principles of risk management

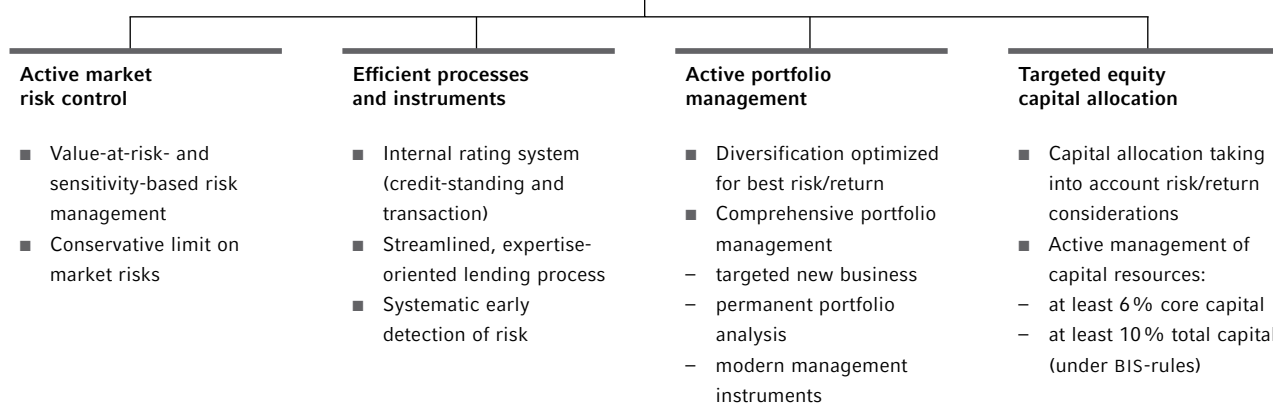
Risk management is one of the core competences of the new Eurohypo. The risk management system of Eurohypo builds on the following principles:

- The full Board of Managing Directors is responsible for all of the bank's risks. The Supervisory Board regularly reviews the bank's risk profile.
- Risk Management is functionally independent of the business units and reports directly to a member of the Board of Managing Directors, namely the Chief Risk Officer (CRO).
- The Risk Management Committee (RiMCo) of Eurohypo, chaired by the Chief Risk Officer, coordinates the management and control of risks.
- The structure of Risk Management is closely linked to the structure of the divisions.

The four elements of Eurohypo's risk management system are as follows: active market risk management; the management of operational risks through efficient systems and processes; active portfolio control to manage lending risks; and in collaboration with other business departments of the Bank, targeted equity capital allocation according to risk/return considerations.

The identification, measurement, control and monitoring of risks within a market area that offers attractive opportunities but which is also dominated by fierce competition and rising risks, embody for Eurohypo a key factor for success and competitive advantage.

Risk management system



Against this background, optimizing the risk/income ratio of individual transactions and portfolios becomes especially important and proactive future-oriented risk management also becomes more important.

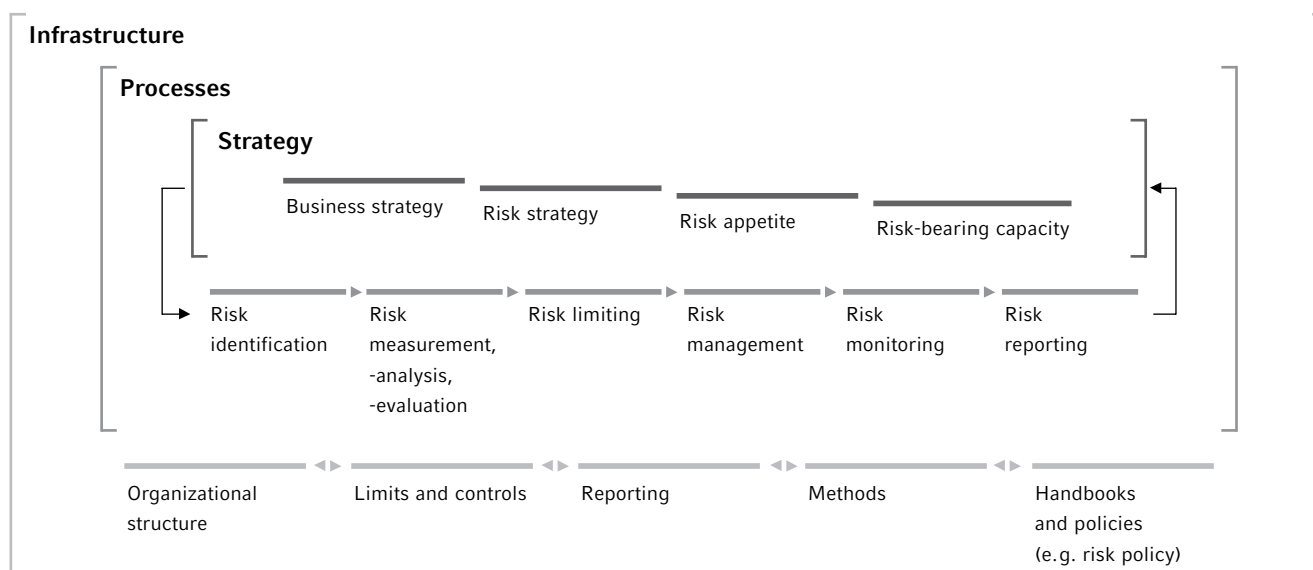
Risk management systematically controls the risks that accompany the bank's business activities and ensures seamless cooperation amongst all divisions involved in the risk process.

Moreover, the main responsibilities of risk management also include the develop-

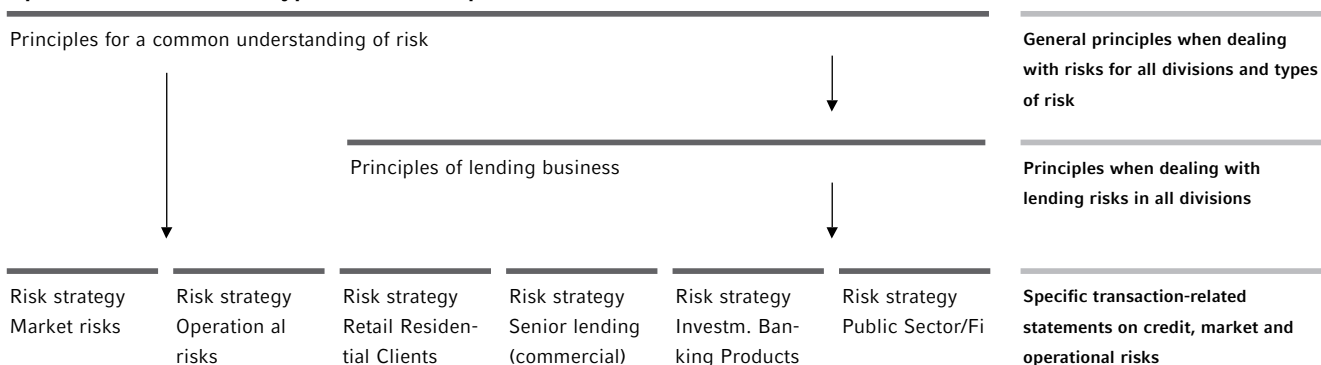
ment of guidelines and processes to deal with risks as well as the design of methods to calculate such risks. In addition to implementing the statutory supervisory requirements regarding risk, the preparation of information as well as the formulation of quantitative and qualitative risk analyses and characteristic data are also core elements.

Structure

We manage risks using a basic framework of risk principles, organizational structures and



Building on general principles
Specific statements on types of risk and product areas



processes for measuring and monitoring risks. These are closely geared towards the operating and strategic requirements of Eurohypo.

Risk strategy

The principles and guidelines on risk policy have been formulated on the basis of the risk strategy resolved by all the members of the Board of Managing Directors. The basis is formed by generally binding principles for a common understanding of risk that applies equally to all divisions of the bank. Our risk philosophy is based on open communication independent of hierarchical grades, as well as on personal integrity, professional competence and a responsible attitude amongst management and staff.

On the basis of these principles, it is possible to derive principles for future dealings with market and operational risks as well as lending risks.

The principles formulated in the risk strategy are to be understood as safeguards for future business policy. A clear commitment to these risk principles on the part of business and risk management divisions is the basis for smooth cooperation, ensuring that Eurohypo's corporate image is successful.

Along the same lines, the credit, market and liquidity and operational risk policy has firmly established the principles of Eurohypo's risk management system by consistently implementing the statutory and internal requirements, and in the same manner binding standards have been established for dealing with our clients. In this way, the policies define the framework conditions for evaluating and managing risks by means of uniform methods and processes.

Roles and responsibilities

The roles and responsibilities of the divisions and the corporate centre are clearly described and documented in the policies. Areas of competence are regulated with no areas of overlap. Every manager is responsible for being aware of risks and for complying with the principles, whilst at the same time working with corresponding control mechanisms.

Operational risk management is carried out for the various types of risk in the relevant trading and sales division.

Board of Managing Directors

It is the responsibility of all members of Eurohypo's Board of Managing Directors to

ensure the proper organization and monitoring of the risk management system as well as to ensure the necessary framework by means of stipulating strategies and guidelines and to also ensure risk limitation by approving limit structures as well as limits themselves.

Risk management is an independent part in the organization of the bank and part of the corporate centre. It reports directly to the competent member of the Board of Managing Directors, i.e. the Chief Risk Officer (CRO). He is responsible for implementing the guidelines on risk policy throughout the Group. Risk management thus has a key role to play in implementing the risk policy stipulated by the Board of Managing Directors. By virtue of its independence from other divisions of the bank, Risk Management is able to ensure objective reporting and monitoring up to the level of the Board of Managing Directors.

CRM

Credit Risk Management (CRM) is responsible for evaluating and managing counterparty and property risks. The independent credit assessment made by CRM is the basis for any

decision relating to granting credit in the lending business. Credit Risk Management – established both centrally and locally – is responsible for managing the lending portfolio including by means of partial portfolio analyses, and is also responsible for the credit approval process whilst exercising its own credit authorities for up-to-date and continuous monitoring of credit risks and the development of process and guidelines. Operative risk management of the exposure is carried out decentrally in the risk management units of CRM. On the basis of the guidelines that prevail Group-wide as well as the Group’s risk strategy, local risk managers are responsible for analysis and monitoring whilst taking into account considerations of income, risk and concentration.

ICD (Work Out Department)

The ICD looks after higher-risk exposures as well as problem exposures. These are looked after, sub-divided according to German and international, in the context of reorganization or back-office activities by authorized persons in the ICD department.



RMR

The Risk Methodology & Reporting (RMR) department is responsible for risk methodology and monitoring the market, credit and operational risks entered into by Eurohypo.

RAC

The accredited professionals in Real Estate Appraisal & Consulting (RAC) are responsible for the impartial valuation of financed real estate as well as for the associated processes and systems.

Committees

In its decision-making, the Board of Managing Directors makes use of specific committees for pooling and monitoring risk-relevant decisions.

The mandate of the Risk Management Committee (RiMCo) covers not only cultivating the risk culture and promoting discussions on risk, but also providing support with respect to risk processes and organization.

The Asset Liability Committee (ALCo) is the central management body for market and liquidity risks as well as for exposure in the public sector and with banks.

Auditing

Overall risk management is regularly audited by internal auditors with respect to its appropriateness and efficiency. The internal Audit department in its capacity as a process-independent monitoring body reports directly to the Chairman of the Board of Managing Di-

rectors with respect to audit results, analyses and evaluations as well as any recommendations.

Regulatory requirements

The bank's risk management is geared towards the responsibilities of the business divisions, internal requirements as well as statutory regulations. These statutory regulations include in particular the German Banking Act (KWG), the Minimum Requirements for the Trading Activities of Banks (MaH) and the Minimum Requirements for the Lending Business of Banks (MaK).

The German Federal Financial Supervisory Authority (BaFin) published MaK in December 2002. These minimum requirements must be observed by all banks in order to limit the risks arising from lending, taking into account the particular type of transaction and its size. These minimum requirements include:

- Strict separation of the "market" and "market-related" areas, especially when making credit decisions
- Drawing up a credit risk strategy for the entire area of planning and developing the lending business
- Defining the procedures for credit processing, credit processing controls, work out, non-performing loan processing as well as risk provisioning
- Establishing risk classification procedures to evaluate counterparty risk as well as property/project risk
- Establishing processes for identifying, managing and monitoring credit risks

BAFin has allowed implementation of the minimum requirements to take place in two stages. The first stage must be completed by June 30, 2004, the second stage covering the necessary changes in the IT area, by December 31, 2005.

The bank is well-equipped to implement MaK within the stipulated time-frame. The bank already has fulfilled the main requirements in whole or in part by means of its credit risk policy that applies to its entire lending business as well as by means of its risk strategy, which is continuously developed, reviewed and adapted in line with the risk situation. The organizational structure of the bank is such that the bank is able to ensure the required separation of the "market" and "market-related" areas up to management level. This "functional separation" is stipulated in the credit processes applicable to the entire bank and is put into practice in everyday business. Most of the other requirements for structuring credit processes have already been included in the regulations issued during the merger.

The rating/scoring processes used in the predecessor institutions and further developed in the course of the merger are implemented in the bank's data processing, as well as being linked to the lending processes and are suitable for assessing the risks of counterparty default and property/project risks. In the IT area, the bank has also initiated important developments. Monitoring, managing and the early detection of credit risks at the individual exposure level are ensured by a specifically

developed IT process. By setting up a database into which relevant facts in terms of credit and risk are entered, the bank has achieved an important milestone for procedures relating to monitoring and managing the entire portfolio.

The objective of the bank is to go beyond these minimum requirements and integrate these separate procedures into a cross-divisional procedure for the management of the bank as a whole, taking into account the interdependencies between individual types of risk.

Moreover, the bank-wide implementation of the requirements stipulated by Basel II requires attention.

Basel II will have a major impact on lending by German banks and this also applies to real estate financing. To ensure that we comply with the capital requirement for banks, at the same time ensuring that we can use the structural framework of a real estate bank, we have chosen the advanced internal rating approach. Only by using this approach is it possible to adequately account for the collateral value of land security. As early as 2002 we started to carry out an internal rating of all existing clients and ascertain the counterparty default probability of loans. We intend to complete this investigation by the end of 2003. Moreover, the valuations of the properties serving as collateral are being reviewed.

With this procedure for the advanced internal rating approach, which has been developed in-house, we provide our clients with risk-adjusted and transparent terms.

Types of risk

Eurohypo differentiates between credit, market, liquidity and operational risks.

Credit risk

Credit risk is the risk of a loss that occurs due to default on the part of a business partner or downgrading of a business partner's credit-standing. Under the term "credit risks", are included credit risks in the narrower sense, replacement risks and settlement risks, which are summarized below. The risk of a reduction in the collateral value is a major risk factor in the context of the real estate financing business of a mortgage bank. Country risks, which also count as credit risks, will be dealt with separately.

Lending policy/risk strategy

Core elements of the lending policy are as follows:

- sound, independent credit analyses as the basis for making a decision on every lending transaction,
- standardized rating and scoring procedures as the basis for calculating risk costs and appropriate risk provisioning,
- systematic early risk identification by using early warning systems,
- active market monitoring and, if necessary, a quick response in terms of modifying the lending policy/risk criteria,
- avoiding cluster risks through active syndication of new and existing business.

Credit risk process

The basis of every external loan commitment is a credit limit that has been authorized by means of an internal approval process. Any decision on individual transactions will also take into account principles that have been adopted in the context of the risk strategy as well as sublimits adopted in the context of partial portfolio reviews with respect to property types, regions or large borrower units.

In the context of credit risk identification, the sales units and CRM ascertain the credit-standing of the borrower when entering into new business transactions and when carrying out the regular follow-up approval of existing transactions, also using rating procedures in the Commercial Real Estate division and scoring procedures in the Retail Residential division. Careful evaluation of risk and income is the basis for making a decision on granting new loans or extending existing commitments. The valuation of real estate collateral is undertaken by certified (HypZert) professionals in the RAC department. Outside Germany, we additionally rely on external expert reports.

When carrying out analyses as well as for the purpose of the approval process, Eurohypo views the borrowing units according to Section 19 (2) of the German Banking Act (KWG).

Commercial real estate financing

By means of conservative loan-to-value ratios, appropriate use of equity on the part of borrowers as well as rental income to cover

repayments of principal and redemption rates in line with projects, Eurohypo is able to limit the downside risks of falling real estate prices and rising vacancy rates. We usually only finance project developments on the basis of appropriate levels of advance marketing or projects with an adequate level of equity.

A risk-adequate margin for an appropriate level of return on capital employed – also in the run-up to the changed equity capital requirements according to Basel II – is one of the essential parameters when making a decision about granting a new loan or adapting the terms.

In order to measure the default risks in the Commercial Real Estate division, Eurohypo uses its rating system called IRIS (= integrated real estate and information system), by means of which it is possible to calculate the standard risk costs for each commitment. In developing IRIS, the requirements of Basel II have already been taken into account. The probability of default is determined by the credit-standing of the borrower, taking into account the specific risk structures of the commercial real estate financing business. The processes used are continually monitored and, if necessary, modified.

Retail residential clients – home finance business

Risk management in the Retail Residential division is based on a comprehensive system the most important components of which are as follows:

- clear business focus,
- appropriate safeguards and principles in terms of risk strategy for the business division and
- a scoring-based, efficient credit-decision process.

In this context, scoring assumes particular importance. In retail residential business – also in view of Basel II – Eurohypo uses application scoring as an integral component of the lending process. The valuation algorithm used has been derived and validated on the basis of proven statistical processes and is continually reviewed to monitor its selectivity.

In order to optimize the final decision-making process, statistically-based and expert credit reports are combined in the credit process.

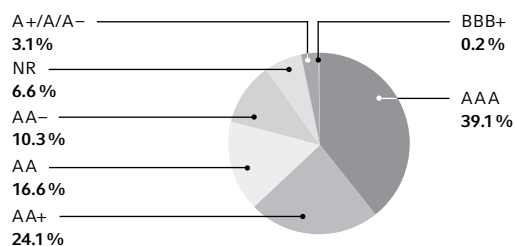
Public sector and financial institutions

Public sector financing is clearly focused on central and regional governments as well as selected central and/or local government bodies and other public sector entities with above-average credit-standing.

Target clients in the Financial Institutions division are central banks, private and public sector financial institutions as well as supra-national entities with above-average credit-standing. The counterparty risks result from securities and money market transactions as well as derivatives.

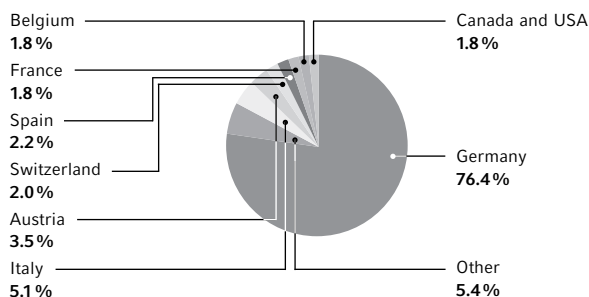
In this context, with regard to the rating categories, we focus on financial institutions with particularly good credit-standing within the investment grade range and on regional

Public sector financing portfolio by rating (Standard & Poor's)



Breakdown as at Dec. 31, 2002
Total: 117.6 € billion
excluding pro rata interest
Securities at nominal value

Public sector financing by country



Breakdown as at Dec. 31, 2002
Total: 117.6 € billion
excluding pro rata interest
Securities at nominal value

borrowers in OECD countries in Europe and North America. We place particular value on efficient diversification of this part of the bank's portfolio.

As part of the regular credit analysis, we rely on external information sources (e.g. rating agencies) as well as internal research. The stipulations laid down in the risk strategy for this business division form the framework for the qualitative risk analysis and decision-making. Thus, for example, we link our maximum level of willingness to take on risks to the fundamental financial indicators of our clients and our internal rating.

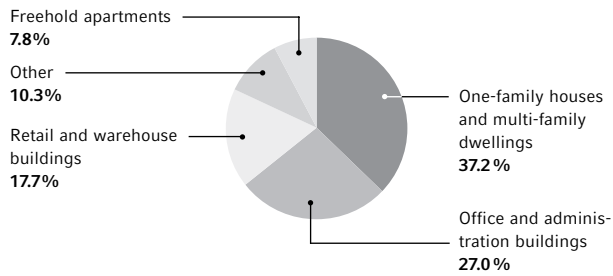
As in commercial real estate financing, we also use a risk classification procedure for all borrowers in this line of business. Categorization of a borrower in a risk category is one of the decisive factors when determining the credit authority level and the subsequent interval for resubmission of the exposure after the initial approval.

Within Credit Risk Management, a department specialized in this type of business is responsible for the approval, monitoring and management of all credit limits in this business division.

A major part of our business relationship with financial institutions is based on transactions in financial derivatives. Nowadays, the only way in which flexible asset/liability management is possible is by using financial derivatives. In principle, we only use these for transactions where they will create advantages for us in comparison to, or to supplement, our balance sheet transactions. The use of financial derivatives serves only to hedge against interest rate and currency risks as well as to increase income. In principle, transactions in financial derivatives are always in connection with the main business transactions; we do not trade in derivatives.

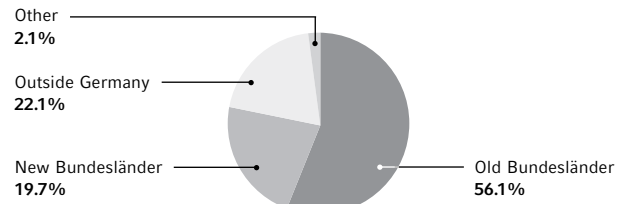
On this basis, we made use of financial derivatives amounting to € 228,036 million in the reporting year. The counterparty risk arising from these transactions has been rated in accordance with the Standard & Poor's rating. 78.6% of the portfolio was with business partners with a credit-rating of A+ or better. The total amount of current replacement costs as at December 31, 2002, amounted to € 1,694 million. A detailed overview can be found in the Annex, page 105 f.

Real estate financing portfolio by property type



Breakdown as at Dec. 31, 2002
 Total: € 102.4 billion
 incl. disbursement obligations

Real estate financing portfolio by country



Breakdown as at Dec. 31, 2002
 Total: € 102.4 billion
 incl. disbursement obligations

Loan portfolio management

Portfolio management is a fundamental component of credit risk management. Portfolio management is geared towards ensuring that Eurohypo has a well-balanced risk portfolio and also sets the parameters for making individual decisions. The objective is to prevent risks so that the relative size and volatility of risk costs in the lending business can be optimized.

The ultimate goal of diversifying the loan portfolio in order to accommodate the bank's risk-bearing capacity and optimize the risk/return ratio, is achieved by means of the following:

- permanent portfolio analyses on the basis of modern measuring and control instruments,
- setting limits on part portfolios (e.g. for specific property types, rating categories or regions),
- targeted new business in the context of the defined risk strategy,
- implementation of suitable portfolio measures (e.g. securitization) in order to transfer risk.

The precondition for portfolio analyses is that the existing portfolio is comprehensively trans-

parent. This transparency must be particularly evident with respect to the following criteria: "regions", "property types", "client groups", "maturities" as well as "rating" and "risk/return". Portfolio transparency already exists with regard to the first-named aspects.

Given that the opportunity to introduce uniform rating and scoring procedures only arose following registration of the merger on August 13, 2002, the bank will still require the rest of 2003 to run all commercial loans through the new rating procedure.

The Board of Managing Directors and the Supervisory Board are informed about all available evaluations and analyses in the monthly and quarterly risk report respectively, and are thus able to monitor and manage the portfolio. In the context of risk reporting, the information relating to the largest borrowers, major cases of work out and risk provisioning is also provided.

Additionally, we regularly carry out "part portfolio reviews" for a detailed analysis of specific portfolios. The results of this analysis are reviewed, both with regard to the risk-bearing capacity of our portfolios and existing exposure strategies for our major clients.

The necessity of setting limits on part portfolios (e.g. for individual property types, rating categories or regions) emerges when any discrepancies in the required target portfolio are ascertained (e.g. due to cluster risks) or due to a changed business and risk strategy (e.g. anticipation of cyclical economic fluctuations).

The credit portfolio of Eurohypo displays a high degree of diversification with respect to property types and regions. We will gradually impose management-related limits on the portfolio limit structure specified in our credit risk policy, further assisted during the course of 2003 and will also apply experience gained from continued rating of the portfolio.

Portfolio limits will, in principle, be approved by the Board of Managing Directors on the basis of recommendations from Risk Management.

Risk-adjusted management of new business is essential for the acquisition of target business. The basis for this is a risk-adjusted pricing system integrated within Eurohypo's overall bank management. The risk costs ascertained on the basis of the probability of default rating (PD) and the loss given default (LGD) are included in the pre- and post-calculation of the return on capital employed. In this context, in addition to the return on the regulatory capital we already show in parallel the return on the portion of capital that, pursuant to Basel II, must be committed, in order to set an early course for long-term targeted management mechanisms. The next stage will cover management on the basis of the economic capital employed.

In addition to these control mechanisms, in the context of pricing, the risk strategy stipulates supplementary policies and corresponding part-portfolio limits as well as the framework conditions for our target business taking into account risk considerations. In the context of our syndication policy, for example, it has been stipulated with binding effect in which cases syndication is compulsory in order to avoid risk concentrations at borrower level.

The predecessor institutions, Rheinhyp and Eurohypo, already successfully securitized their credit risks.

In addition to securitization, we also use syndication and avalization. In future, we expect a considerably higher degree of market transparency and liquidity in the securitization market.

Country risk provisions

Country risk is defined as any loss arising from cross-border business due to the transfer and conversion risk and any loss arising from local business transacted by the non-German offices. When apportioning country risk, what is important for Eurohypo given its business activities, is not only the location of the relevant borrower but also the location of the property.

Evaluation of the country risk relating to individual transactions and collateral takes place as part of the credit risk process. The country risk is rated on the basis of externally available country ratings by the international rating agencies Fitch, Moody's and Standard & Poor's.

In principle, country risks are limited on the basis of these country ratings. However, Eurohypo's Risk Management reserves the right to set limits for specific countries on the basis of internal knowledge. Constant monitoring and management of the country limits is the responsibility of Risk Management.

22% of the total credit portfolio relates to international risks, of which 81% in the EU, and 3% of the remaining 19% is attributable to EU accession candidates.

Non-performing loans

Non-performing loans, but also exposures which according to upstream analyses/monitoring instruments signal increased risk, are immediately passed on to ICD according to specific criteria so that ICD can take all the necessary measures to reduce or limit the risk.

If there is an imminent danger of default, the necessary risk provisions are set up in line with accounting regulations. For this purpose, ICD immediately draws up a corresponding value adjustment report, which also provides information on the causes of the adverse development and, if necessary, forms the basis for further developing our risk policy. Additionally, we have accounted for potential risks by means of a general value adjustment.

Commerzbank AG, Deutsche Bank AG and Dresdner Bank AG have provided guarantees to the new bank for defaults arising from the credit portfolio of Deutsche Hyp, the "old" Eurohypo and Rheinhyp. These guarantees cover risks originating from credit trans-

actions entered into before January 1, 2002, which exceed the risk provisioning requirement laid down in the budget. Each guarantee runs from January 1, 2002 up until the financial statements for 2006 are drawn up. With regard to current implementation of the guarantees, refer to page 54.

Market and liquidity risks

At the centre of market risk management is the active management and the competent monitoring of risks. Market risk management is geared towards the requirements of the Money/Capital Market division, Public Sector Financing, Treasury (GKST) as well as the stipulations laid down in MaH. The core functions of risk identification, analysis, assessment and continuous monitoring are carried out by RMR Market Risk, whereas "Finance, Financial Controlling, Tax" (FCS) is responsible for periodic reporting.

Market and liquidity risk policy

The market and liquidity risk policy documents the risk management and controlling system of Eurohypo for market and liquidity risks, with due compliance with the regulatory requirements. This policy delineates conceptual ideas as well as clearly defining roles and responsibilities.

The escalation policy for market and liquidity risks regulates procedure in the event that the limits set for market and liquidity risks are exceeded, as well as all roles and responsibilities. Moreover, this policy takes account of the early warning system because

the competent members of the Board of Managing Directors must be notified once 80% of a limit has been reached.

The market & liquidity risk policy and the associated escalation policy are maintained by the Risk Methodology Reporting (RMR) department and approved by the Board of Managing Directors.

Market risk

Market risk means the danger of sustaining losses due to changes to market parameters. The main parameters of relevance for Eurohypo in the context of market risk are interest rates. Eurohypo is significantly less sensitive vis-à-vis the volatility implicit in options and exchange rates.

Interest rate risk

The interest rate risk describes the risk of loss arising when the benchmark interest curve changes. Eurohypo uses the swap curve of the relevant currency as the benchmark interest rate curve. In individual cases, other benchmark curves can be used.

The interest rate risk is quantified daily as part of the cash value concept by using delta to ascertain interest rate sensitivity, net direction and yield curve data. In order to ascertain these indicators, the cash flows expected from all assets and liabilities on the balance sheet and the cash flows expected from all derivatives are calculated, combined according to maturities and the cash flow for each maturity netted. The delta for a specific maturity is the cash-equivalent loss incurred

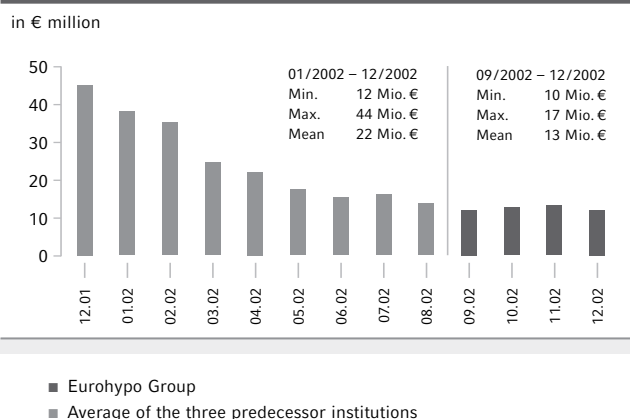
if the benchmark interest rate curve rises by one basis point in this maturity band. The net direction is the total of the deltas ranging across all maturities.

At Eurohypo, a limit is set on this measurement of interest rate sensitivity. The utilization rate on the cutoff date was 29%. Another effective means of managing the interest rate risk is using the yield curve. In order to calculate this figure, the deltas of the individual maturities are gradually accumulated. The resulting amounts should not exceed the yield curve limit, the utilization rate of which was 20% on the cut-off date. By means of the yield curve limit it can be ensured that cash flows within the maturities are not distributed unevenly.

A further means of quantifying the interest rate risks is the value-at-risk method (VaR). The VaR quantifies risk as a negative deviation from the current value of all of the bank's financial transactions. The VaR is calculated daily on the basis of a variance/covariance approach. The variances and covariances are estimated by us statistically, using market data with a history of 250 days. Thus, the consistency of all parameters used in calculating VaR is ensured. Eurohypo uses 99% as a confidence level. The holding period is set at one day. Thus, the probability that the cash value drops by more than the VaR due to market changes within one day is less than 1%.

For the purposes of limiting market risks, a limit is set on the VaR. The limit stands at € 40 million; the amount of the VaR on the

Value-at-risk performance



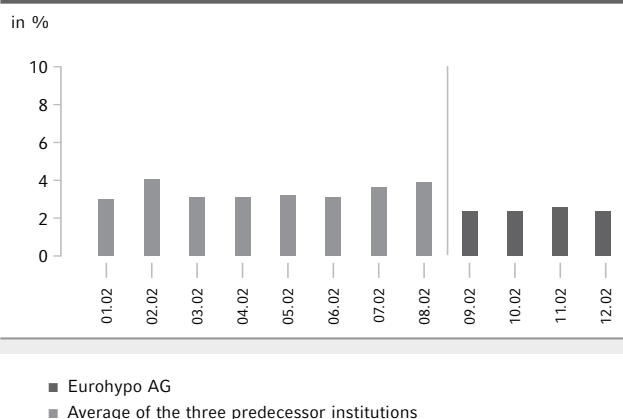
cut-off date was € 12 million, which represents a utilization rate of 30%.

Another effective instrument for managing interest rate risk is by means of the notification of the interest rate risks entered into, which must be submitted to the German Federal Financial Supervisory Authority (BaFin) every month. The BaFin indicator, which reflects the relationship between interest rate sensitivity in relation to one per cent and the liable equity, amounted to 2.44% for Eurohypo AG on the cut-off date and thus fell far below the first threshold of 10% stipulated by BaFin.

Option risk

Option risk describes the risk of a loss arising due to a value impairment of option transactions. The option risk is measured daily using the vega indicator. Vega corresponds to the value by which the cash value changes if the implicit volatilities rise in absolute terms by 1%. The vega limit is used to limit the option risk; on the cutoff date the utilization rate of the vega limit was 68%. A strict limit is deliberately selected in order to comply with the principle of the least amount of unhedged

BAFin indicators to quantify the interest rate risk



option risks. In order to further improve the management of these option risks, in future a different vega limit will be introduced which will limit the option risks arising from statutory call rights.

Liquidity risk in the narrower sense of the term

The term “liquidity risk” in the narrower sense is understood to mean the risk of not being able to comply with current or future payment obligations or only being able to comply with these obligations under unfavourable terms. In order to quantify the liquidity risk in the narrower sense, we calculate the “accumulated cash outflow” figure every day. For this purpose, the near future is subdivided into maturities. For every maturity, we calculate the balance of all the disbursements and incoming payments expected for this day. These cash outflows are gradually added up, starting with the first maturity in order to obtain the accumulated cash outflow.

The maximum cash outflow limit serves to set a limit on the liquidity risk in the narrower sense. This limit limits the accumulated cash outflows over the next 56 days. During

the reporting period, neither the predecessor institutions Deutsche Hyp, Eurohypo and Rheinyp nor the new institution resulting from the merger in September 2002 have had any liquidity bottlenecks.

Currency risk

The exchange rate risk is the risk of incurring losses due to changes in the exchange rates. This risk is determined by means of balance overviews, in compliance with the provisions of the German Banking Act (KWG). This risk is restricted by means of a volume limit which sets a limit on the balanced portfolio of open foreign currency positions. It is the business policy of Eurohypo to tightly restrict currency risks.

Stress tests

In order to investigate the sensitivity of all positions to extreme market developments, stress tests are carried out at regular intervals. These tests provide forecasts on the effects of above-average fluctuations in the essential market parameters, namely interest rates, volatility and exchange rates. When carrying out these tests, Eurohypo differentiates between static and historic stress tests, whereby historic stress tests investigate how the portfolio value would probably change if historic crises were to repeat themselves. In the future, Eurohypo plans to introduce other limits for specific stress tests.

Back-testing

The VaR model in use is validated by means of back-testing. The efficiency of such statis-

tical tests requires a large volume of data, which due to the merger and the associated methodological and technical IT changes, are not yet available. The indicative back-testing introduced since the merger has not indicated any outliers.

Operational risks

Definition

We define “operational risk” as the risk of a loss resulting from shortcomings or errors in processes, controls or projects that are caused by technology, employees, organization or external factors.

Operational risk policy

Eurohypo’s operational risk policy documents the operational risk framework for comprehensive, uniform and complete control and management of risks. Implementation of the framework, selection of its elements as well as the necessary IT applications are based on an in-depth analysis of the instruments and processes already established or planned by the predecessor institutions as well as on the internal requirements and external requirements expected in the future. One element of the capital regulations planned pursuant to Basel II is the first-time explicit equity backing for operational risks. For this purpose, the bank intends to continue with the measures already introduced in order to fulfil the requirements for acceptance of an internal model for equity capital measurement (advanced approach), thereby optimizing the employment of its equity capital.

The policy lists objectives, the principles, the definition, the risk categories, the methods and procedures, the IT systems and the reports; the tasks as well as responsibilities in the identification process, evaluation, reporting, management and monitoring are clearly specified.

Just as for the other types of risk, operational risks are also subject to the principle of keeping the functions risk management and risk control separate.

Active Risk Management is responsible for risk management, i.e. for measures to avoid, reduce or hedge against these risks. The relevant divisions, the corporate centres and subsidiaries are responsible for this area. In order to help this process as well as to carry out centrally-controlled activities for identification, evaluation and monitoring, at least one OR officer must be nominated by each of the relevant units. Within Risk Methodology Reporting (RMR), one of the major tasks of the Operational Risks department is to further develop and establish the quantitative methods, procedures and instruments for ensuring a uniform and structured way of dealing with these risks within Eurohypo.

Methods

By mapping the process and in collaboration with OR officer, the essential products, processes, locations, organizational units and head office tasks are recorded and illustrated in a structured form. Additional methods build on this basis. Structured Self-Assessment (SSA) uses standard questionnaires to establish the process quality and operational

risks, or these factors are estimated by process “experts” in the relevant organizational units. OR losses that have actually been incurred are structured using a web-based application and recorded in a database according to the criteria expected under Basel II as well as other internal criteria.

Organization

There are written rules organizing the business in the form of standing rules, workflow descriptions, credit authority regulations and specific professional guidelines for proper and secure processing of transactions. These are available in the Organizational Handbook (OHB), which can also be accessed by all employees on the Intranet. The process design and redesign is carried out in collaboration with the organizational department and the documentation made available on the Intranet.

IT risks (Eurohypo Systems GmbH)

The analysis of the potential of technological risks, which could particularly manifest themselves by failure of important IT infrastructure components, IT applications or building or workplace facilities, is given particular weight. This analysis is helped by the contingency planning which contributes to risk avoidance and minimization. The experience of September 11, 2001 has been used in developing a contingency plan. In 2003, existing activities will be pooled as part of an IT risk assessment in order to counter, in particular, increasing external threats.

An increased risk arose during the process of integrating the heterogeneous IT sys-

tem environments of the merger partners to form a compatible target architecture as well as during the migration of data by means of an IT integration project.

Legal risks

We use the term “legal risk” to designate potential losses arising from changes to the legal framework conditions, court rulings as well as contractual agreements. The management and control of legal risks is the responsibility of the Legal department, which is also responsible for dealing with court cases. The Legal department is involved at an early stage and cooperates in the decision-making processes to ensure that legal risks are prevented to a large extent. There are no processes pending which could have a tangibly negative effect on earnings.

Personnel risks

In order to avoid and reduce operational risks, the continuous training of employees plays an important role. Especially with respect to the conversion of the IT systems to an IT architecture that was completely new for the majority of our employees required an increased level of training expenditure on the part of the bank. In collaboration with Eurohypo

Systems GmbH, employees were trained in accordance with their relevant areas of activity.

As a result of the merger and the associated redundancies, there is, in particular, a risk of a loss of expertise at all levels and in all functions. Attention is therefore paid to retaining qualified employees.

Summary and outlook

Eurohypo has a modern risk management concept that has already been largely implemented since the merger. This concept is based on standards applicable throughout the Group including active portfolio management and efficient systems and processes. We are therefore equipped to deal appropriately with the continuing difficult economic situation, downward trends in the individual real estate markets and the resulting risks. In view of the imminent finalization of the Basel II Accord, Eurohypo is endeavouring to achieve the advanced approach for its internal rating approach. This applies both to the Credit department and the Operational Risks department. Here we are able to rely on the comprehensive preparatory work of the predecessor institutions. We are therefore confident that we will successfully conclude the development work by the current deadline.

OUR EMPLOYEES

Integration successfully completed

The success of the merger is mainly due to the commitment and flexibility of our employees. They all deserve our heartfelt thanks and special respect for their exceptional level of commitment, high level of achievement and hard work.

As early as the end of 2001, we began to prepare for the new organizational and management structure. During the reporting period, this process was rigorously continued and successfully completed once all management levels had been filled. This year, by creating levels of responsibility alongside the traditional management levels, we will make the organizational structure even more flexible.

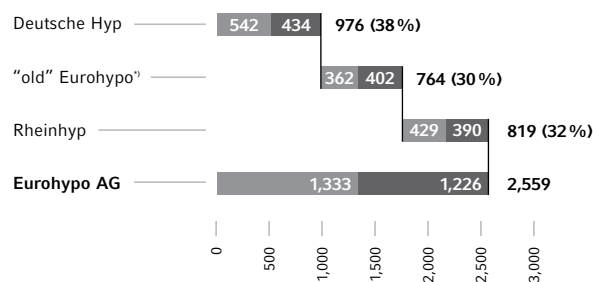
These levels of responsibility are designed to accommodate the functional requirements of the individual posts, where necessary without taking into account management responsibility. In future, our bank's remuneration system will be based on these levels of responsibility. Once the merger took effect, all staff employed by the predecessor institutions were absorbed into the bank's, or its subsidiaries', new organizational structure. The divisions, departments and teams swiftly started their work and responsibility was transferred from the old to the new managers on September 9, 2002. By using natural fluctuation and voluntary termination of contracts, we achieved human resources synergies in the reporting period, which already exceed our targets. This year, we will continue with the job assignment process below management levels. The primary objective here will be to achieve the synergy goals set in line with the merger.

Bringing together the three corporate cultures that had evolved represented and represents another human resources challenge posed by the integration. Combining the organization units geographically, which has now been achieved, and holding employee and management meetings were the first steps towards creating a single corporate culture shared by everyone. In this respect, the management principles derived from Eurohypo's corporate model and adopted by the Board of Managing Directors in November 2002 provide an important guide.

Staff numbers reduced

As at December 31, 2002, Eurohypo AG employed 2,559 staff both at home and abroad, including part-time employees, apprentices and trainees. This number comprised employees from the three merger parties and employees of Deutsche Bank London who had been taken on by December 31, 2002. As part of the takeover of Deutsche Bank's Real Estate Finance Division in Germany and Dresdner Bank's Real Estate Investment Banking Division in the USA, a further 263 employees moved over to Eurohypo AG in January 2003. At the same time, 167 Eurohypo AG staff transferred to its subsidiary Eurohypo Systems GmbH. In line with our strategy of positioning Eurohypo AG as an international real estate financier, staffing our branches and representative offices abroad ranks highly. We currently employ 120 staff at our international locations. The number of employees abroad rose by 42 in 2003 when Dresdner Bank's US REIB business was taken over. In

Structure and origin of our employees



■ Female employees

*) including REIB London

■ Male employees

As at December 31, 2002

the Group, we employ 16 members of staff at Europäische Hypothekenbank S.A., Luxembourg, 5 at its branch in Dublin and 12 at RHEINHYP BANK Europe plc, Dublin.

Making sure our employees are qualified and looking after young talent

Providing professional training for our employees is a mainstay of our human resources policy. Establishing and developing IT know-how characterized our training activities in the 2nd half year 2002. For example, 2,450 employees have already attended appropriate

technical training programs as part of the implementation of the new IT target system called MARK (Modular Application System for Real Estate Credit Institutions). In addition, employees made use of the events offered under the three predecessor institutions' ongoing vocational training programme. This included both professional improvement and management training. Our trainees and apprentices worked in all the bank's appropriate departments and gained extensive knowledge of the Corporate Centre's business divisions and departments.

Internationale employee structure		
As at December 31, 2002		in %
Domestic	2,439	95
Foreign	120	5
London	52	44
Madrid	14	13
Paris	13	12
Milan	5	6
Lisbon	6	6
Other locations	30	19
Total	2,559	100

**A word of thanks to the
staff representatives**

The staff representatives have commented on our human resources work in a constructively critical fashion and have thus greatly contributed to the success of our integration work. Special thanks go to the staff councils and those representing senior executives.

Outlook

The main human resources focus points for 2003 will be the introduction of a value-based remuneration system, the harmonization of social security benefits, the creation of standard working hours models, the introduction of integral staff development and the achievement of our synergy goals.

COMMUNICATION AND MARKETING

According to a long term study conducted by the management consultants A.T. Kearney, half of all mergers do not achieve the goals set by the management. This failure is primarily due to a lack of shared vision and different corporate cultures, amongst other factors. 86 percent of companies surveyed stated that communication about the merger was inadequate. This study is not isolated; academic studies reach very similar conclusions.

We were aware of this problem area when we had to bring together three banks with rich traditions and established corporate cultures and then credibly and competently position the new bank on the market with a name that was already established. This is why a systematic information process, both internally and externally, is so important to us. It includes communicating with employees, the press, shareholders, investors and our clients and business friends.

Information facilitates integration and gives strategic focus

Taking the established corporate cultures with different group affiliations and creating a new entity, keeping employees informed about new strategies and structures and winning them over to successfully implement our corporate goals, these are all important to the new institute. Right at the very start of the merger process, an internal communications concept was developed, with the joint Intranet launch “eurohypo intern” as its centrepiece. “eurohypo intern” serves as both an information platform and a means of communicating with employees. The newsletter “Integration kompakt” also kept staff informed

about the latest decisions and watersheds on a fortnightly basis.

As well as using modern communication media, we also made a conscious effort to establish personal contact. The concept of getting to know each other was at the heart of the big employee meeting held in October 2002 at the Naxoshalle in Frankfurt. Some 2,000 employees travelled from all locations around the world in order to meet each other and the new Board of Managing Directors.

Alongside communicating with our employees, informing our clients and business friends also played an important role. Only by making a unified market entrance and having a speedy and adequate information policy could we avoid adversely affecting the business through the merger. As well as sending an initial letter of information directly after the merger decision had been made, we used an image brochure to inform our clients of the strategic focus of our core business activities once the merger had been entered in the Commercial Register. The events held at the German commercial real estate branches were another important step towards establishing client communication. The merger proved that Eurohypo has strategic vision and “vision” was then adopted as a theme for these events. At the beginning of 2003, corresponding client meetings followed at our international branches and at the retail residential branches in Germany.

Equally important in terms of client communication were the new bank’s first trade fair appearances in Barcelona (Barcelona Meeting Point), Munich (Expo Real) and Cannes (Mipim). A trade stand bearing the new

corporate design, comprehensive information about the new bank and, above all, with capable people to talk to attracted current and potential clients.

Alongside clients and employees, journalists from the financial and specialist press make up the third most important communication target group. Particularly during the difficult transition period and for Eurohypo's new market launch, a global concept for these three areas was indispensable. All activities were coordinated as regards content, structure and timing.

Rapidly and reliably keeping journalists informed about merger developments and the new Eurohypo strategy was the most important piece of presswork in the past year. As well as press conferences, many talks and interviews were arranged.

Investor Relations Department created

As a result of the merger and in view of the stock market floatation planned for the medium term, we have set up an Investor Relations Department. Its aim is to develop and foster links with financial analysts and institutional as well as private investors and to generate further interest in our company. As early as the merger stage, we began to project our corporate policy in a credible and clear fashion. We aim to convince our capital market partners of our bank's strategic direction, its earnings and growth potential and its competitive advantages.

The annual report is our most important financial communication tool. From 2003

onwards, we will also be publishing three interim reports detailing the latest developments at our bank. We also regularly post up-to-date information on our Internet page (www.eurohypo.com).

Comprehensive image campaign underway

We decided to adopt the name which best describes our business activities, "Eurohypo". Because the old group affiliations ended with the merger, we were faced with the challenge of presenting this name in a new form and of creating a new independent corporate identity.

The first step was to develop a new brand image. The perfect solution was the corporate colour "Eurohypo red" which radiates energy and dynamism and produces a pictorial link to our business activities around real estate financing; the way the letters are arranged conjures up an image of buildings in silhouette. The upwardly directed letters and red bar bearing the name represent the bank's business aim: solid growth. The brand was the starting point and benchmark for the entire new corporate design, ranging from designing the annual report and other corporate literature through to business provisions (e.g. letterheads and business cards), advertising and the Internet launch. In the run-up to the merger a new advertising campaign was devised which got underway just after the new bank had been entered in the Commercial Register. By way of the example of the business divisions, the motifs not only illustrate the bank's new level of performance, they also convey the values that the bank

stands for: intelligence, quality, client focus and trust. The slogan “A passion for solutions” represents the way we deal with our business partners. The ads appeared in the German opinion-making press and in national and international specialist publications. The campaign is very successful, as confirmed by an advertising efficiency survey commissioned by us. We were able to increase our recall rating through advertising from 45 % to 55 % and significantly increase our standing in the industry. We are also very pleased with the

recall rate of our advertisements: one in three decision-makers was aware of our ads.

Success not measurable in figures

A successful communication process can rarely be measured in figures. However, this does not apply to the communication costs themselves. In the past year, Eurohypo spent about € 4.9 million on internal and external communications. 4.5 % of this went on the Internet, 14.5 % on trade fairs, 62.0 % on advertising and 19.0 % on communication.

INFORMATION SYSTEMS

As a result of the merger, the three predecessor institutions' IT faced huge challenges, particularly in the following areas:

- Separating the mortgage banks' systems from the technical infrastructure in place at the former parent companies
- Designing a compatible and efficient target architecture for the new bank
- Combining the stored data in one system and subsequently managing implementation and training needs

Integration

An IT project comprising a core team of c. 100 IT specialists was set up to implement this ambitious integration program. At peak times, team numbers were strengthened to over 300 employees. In just 9 months, the operating systems for the target system plat-

form were able to come on line straight after the merger date and yet still comply with high quality requirements and restructuring budgets. At no point did the system fail.

A main task as regards IT integration was planning and realizing the migration of the predecessor institutions' stored operating data to the target system MARK (Modular Application System for Real Estate Credit Institutions). Thanks to several migration steps, Eurohypo was able to run all operating applications, including financial accounting and bank management, as well as credit risk and market risk management on one standard system, just six weeks after the merger date. The only exception was the former Deutsche Hyp's loan portfolio.

Parallel to the migration project, the target architecture for the new Eurohypo was

also developed during an initial stage and actively implemented by the merger date. Substantial enhancements included the integration of the SAP current account module to round off the product range in the Commercial Real Estate Business, linking an advisory and decision-making module, including scoring, to support Retail Residential Business and connecting application systems for Risk Management (rating, risk-adjusted pricing, etc.). The implementation of application systems and the technical infrastructure for Real Estate Investment Banking in the UK and USA completed the restructuring measures at year-end.

Eurohypo now has a highly integrated and cutting-edge IT architecture largely based on standard software.

Eurohypo Systems GmbH

In line with Eurohypo's new direction, all the bank's IT activities were combined in Eurohypo Systems GmbH (formerly ESG-EDV-Service-Gesellschaft mbH). As a result, all IT employees from the predecessor institutions were transferred to this wholly owned subsidi-

ary on January 1, 2003. As well as providing all IT services for the new Eurohypo Group, Eurohypo Systems will also service a number of other renowned financial services companies (see Participating Interests Report p.86)

Outlook

As well as completing the integration process, consolidation and reorganization projects are the main items on Eurohypo Systems' agenda for 2003. For example, the system platform for dealings and market risk management will be transferred to the target architecture. The company-wide data warehouse system is also due to be further developed. In Retail Residential Business, the application systems will be expanded with a view to noticeably speeding up processes.

Alongside the project and technical tasks, the management and organizational structure will also be optimized in 2003. The aim is to provide professional and cost-effective IT services and to meet the desired synergy objectives in line with the Eurohypo Group's business focus.

PARTICIPATING INTERESTS

Europäische Hypothekenbank S.A., Luxembourg, RHEINHYP BANK Europe plc, Dublin, prompter AG, Mainz, Casia Immobilien-Management GmbH, Frankfurt, and Eurohypo Systems GmbH, Frankfurt, are among Eurohypo AG's strategic participating interests. These companies have special operating responsibilities and are an integral part of the bank's group-wide organizational structure. Given their importance, Europäische Hypothekenbank S.A. and RHEINHYP BANK Europe plc are consolidated in the financial statements.

Management of the bank's other participating interests falls to the Strategy and Participating Interests Department. Responsibilities include managing participating interests and setting up and developing an investment plan with a view to optimizing the bank's total portfolio. See the Notes (page 116 f.) for an overview of Eurohypo AG's shareholdings.

Europäische Hypothekenbank S.A. and RHEINHYP BANK Europe plc

Currently, the Eurohypo Group still has two companies which act as a Centre of Competence for the Public Sector Finance Business with international regional entities in the OECD. These are Europäische Hypothekenbank S.A., Luxembourg, (Eurohypo Luxembourg) and RHEINHYP BANK Europe plc. There are plans to incorporate RHEINHYP BANK Europe plc into Europäische Hypothekenbank S.A. in 2003 with a view to standardizing the capital market presence. Business activities in Ireland will then be looked after by Eurohypo Luxembourg's existing branch in

Dublin. To simplify the integration process, Eurohypo AG acquired Nürnberger Versicherung's 10% interest in Eurohypo Luxembourg in January 2003 so that Eurohypo AG now holds a 100% stake in this subsidiary.

With a balance sheet total of € 8.8 billion, Europäische Hypothekenbank S.A.'s equity as at December 31, 2002, was € 147.3 million. Aggregate net interest income and net commission received fell by 2.8% to € 16.9 million. A profit of € 10.2 million was posted after tax.

As at December 31, 2002 RHEINHYP BANK Europe plc's equity was € 103.3 million with a balance sheet total of € 5.5 billion. Aggregate net interest income and net commission received, including income from participating interests, rose slightly by 0.6% to € 15.9 million. Net income rose by 5.4% to € 12.4 million.

Results for both companies are shown in the segment report within the Money & Capital Markets, Public Sector Finance and Treasury Business division. (For more information on the two companies, see Public Sector Finance Business p.43 ff.).

prompter AG

Set up in the year 2000, prompter AG is a service company offering other financial services companies a complete processing and management service for private home finance.

Thanks to the latest technology and lean processes, the company is able to offer its services at attractive rates. In particular, prompter AG currently handles new business arising from Eurohypo AG's third party sales.

Other clients include Hypothekenbank in Essen AG and Mannheimer Lebensversicherungs AG. (See also www.prompter-ag.de).

Share capital amounts to € 5 million; it is wholly owned by Eurohypo AG. At the end of 2002, the company had dealt with around 15,000 loans in total. Around 9,200 new loans were added in the past financial year. The loss amounting to € 2.7 million is due to high investment costs for setting up and further developing the company. The company is not scheduled to achieve an operating break-even point until 2005.

The company's result is shown in the segment report in the Retail Residential Business segment. (For more information on the company, see also Retail Residential Business p.40 ff.).

Eurohypo Systems GmbH

As a result of the merger, Eurohypo Systems GmbH emerged from ESG-EDV-Service-Gesellschaft mbH. "Old" Eurohypo had a 40% stake, Deutsche Hyp had a 40% stake and Deutsche Bank and Dresdner Bank each had a 10% stake in this company. The interests of the two big banks were acquired in December 2002, meaning that Eurohypo Systems is now a wholly owned subsidiary of Eurohypo AG. The IT system MARK (Modular Application System for Real Estate Credit Institutions), which has been in use since 1997, is Eurohypo AG's target system. It shows all business transactions for mortgage banks based on SAP standard modules and specific developments. Eurohypo Systems owns all

rights to MARK and also makes it available to clients outside the Group with supplementary standard software. As at January 1, 2003, the entire merged bank's IT activities, including employees working in this area, were transferred to Eurohypo Systems in order to make optimum use of synergy effects. All legal requirements were met. Combining the entire know-how laid the foundations for efficiently illustrating all business processes and their innovative development.

In the past financial year the company's main task was to support Eurohypo AG's migration projects. Eurohypo Systems also helped to install MARK at three external client companies.

With a balance sheet total of € 11.5 million, Eurohypo Systems' nominal capital was € 0.5 million as at December 31, 2002. Despite special charges relating to the merger, at € 5.0 million the exceptionally good profit for 2001 (€ 5.5 million) was nearly matched.

Casia Immobilien-Management GmbH

Casia Immobilien-Management GmbH is a service provider for real estate-specific projects within the Eurohypo Group. For example, it has taken on the role of principal for building the new Eurohypo headquarters in Eschborn.

Eurohypo AG's wholly owned subsidiary has a company capital of € 25 thousand. In 2002, Casia made a profit on ordinary activities of € 1.1 million (€ 0.9 million) and achieved a balance sheet total of € 1.6 million (€ 1.3 million).

**Rheinhyp-BRE Bank Hipoteczny S.A.,
Warsaw**

Formed in 1999 as a joint venture between Rheinhyp and BRE Bank S.A., Rheinhyp-BRE Bank Hipoteczny S.A. is a mortgage bank under Polish law. Commercial real estate and retail residential finance in Poland is its core business activity. Refinancing of the lending business is achieved by issuing Polish mortgage Pfandbriefe, amongst other things. The

bank is now one of Poland's leading mortgage banks.

At December 31, 2002, the company's nominal capital was PLZ 135 million, equivalent to c. € 33.5 million, with Eurohypo and BRE-Bank each having a 50% stake. The balance sheet total increased by 83.1% to PLZ 1,041.4 million thanks to new business. Detailed information on the company can be found at www.rhb.com.pl.

**CORPORATE CITIZENSHIP –
EUROHYPO'S SOCIAL RESPONSIBILITIES**

As a leading specialist bank for real estate and public sector finance, Eurohypo not only feels an obligation towards its clients, shareholders and employees, it also has social, cultural and public responsibilities. As part of Eurohypo's Corporate Citizenship program, we are committed to four areas, some of which are still at the planning stage or are at the final stage of being legally implemented.

The Eurohypo Foundation

Following the merger, the three predecessor institutions' commitment to social, charitable and scientific activities are currently being reorganized. During the course of the year, the Eurohypo Foundation will commence its activities. It will be created from Rheinhyp Rheinische Hypothekenbank's Rheinhyp Foundation and Deutsche Hyp Deutsche

Hypothekenbank Frankfurt-Hamburg's Pfälzische Hypothekenbank Foundation.

The foundation will have assets of € 5 million. To mark the merger, the Eurohypo Board of Managing Directors decided to increase the foundation's assets from € 3.1 million (€ 2.6 million from the Rheinhyp Foundation and € 0.5 million from the Pfälzische Hypothekenbank Foundation) to € 5 million.

The Eurohypo Foundation will use interest income to support charitable and social organizations as well as promote projects in the fields of science and research, education and training and art and culture, with particular emphasis on Germany. The new foundation is therefore following in the footsteps of its two predecessors by pursuing the same goals. The foundation's committee will consist of the Chairman of Eurohypo's Board of

Managing Directors, Dr. Karsten von Köller, Deputy Chairman of the Board of Managing Directors, Dirk Wilhelm Schuh, Frau Karin Meulenbergh, Frankfurt/Main, and Professor Theodor Baums from the Institut für Bankrecht (banking law institute) at Frankfurt/Main University.

Commitment to science and culture

Another indication of its social commitment is Eurohypo's membership of well-known organizations promoting science, art and culture and of associations and federations which have similar business aims to the bank. The Institut für bankhistorische Forschung (banking history research institute) is one of these, as is the European Business School, the Friends of the Johann Wolfgang Goethe-University and also the Kulturkreis im Bundesverband der Deutschen Industrie e.V. (Federation of German Industries). When promoting culture, Eurohypo mainly concentrates on Frankfurt/Main. Even though the bank will move its headquarters to Eschborn in 2004, it will continue to support important cultural organizations in this region. These include the Frankfurt Goethe Museum, the Museum of Modern Art, the Städel gallery and also the Alte Oper in Frankfurt/Main.

Donations

The third element of Eurohypo's social commitment comprises donations it makes outside of the Eurohypo Foundation. For many years, the predecessor institutions made donations to support social organizations and projects. Eurohypo is continuing with this work. Through donations it supports organizations for disabled people, youth organizations, hospitals, organizations such as the Deutsche Multiple Sklerose Gesellschaft (German multiple sclerosis society) and the Krebshilfe (German Cancer Aid), to name but a few. It also offers immediate assistance in the event of any disaster.

Art collection

Following the merger, Eurohypo is taking its commitment to art in a new direction. At the moment, the three banks' art collection is being systematically recorded and a new concept for presenting the art at the new Eschborn offices is being developed. The concept will focus on making the art collection accessible to both clients and employees.

**Unconsolidated Financial Statements
of Eurohypo AG for 2002 (Excerpt)**

Liabilities			Dec. 31, 2002	Dec. 31, 2001
		€	€	T€
Liabilities to banks				
a) Repayable on demand		1,332,630,501.18		187,209
b) With an agreed term or notice period		24,266,640,126.52		25,221,417
			25,599,270,627.70	25,408,626
thereof: Registered Hypothekendarlehenpfandbriefe issued	3,788,677,539.34			(3,413,106)
Registered Öffentliche Pfandbriefe issued	3,145,501,762.87			(2,929,854)
Given to lenders to secure loans taken up				
– Registered Hypothekendarlehenpfandbriefe and	16,361,340.21			(29,144)
– Registered Öffentliche Pfandbriefe	60,985,590.89			(105,629)
Liabilities to customers				
b) Registered Hypothekendarlehenpfandbriefe issued		16,725,782,422.59		18,021,980
c) Registered Öffentliche Pfandbriefe issued		15,661,026,392.71		16,588,997
d) Other liabilities				
da) repayable on demand	669,107,946.65			365,008
db) with an agreed term or notice period	8,250,757,126.10			8,314,601
		8,919,865,072.75		8,679,609
			41,306,673,888.05	43,290,586
thereof: given to lenders to secure loans taken up				
– Registered Hypothekendarlehenpfandbriefe and	332,602,535.96			(341,956)
– Registered Öffentliche Pfandbriefe	518,553,191.59			(574,360)
Liabilities in certificate form				
a) Bonds issued				
aa) Hypothekendarlehenpfandbriefe		30,810,463,828.23		32,898,693
ab) Öffentliche Pfandbriefe		85,960,107,349.09		104,170,008
ac) other bonds		20,452,949,206.71		22,113,238
			137,223,520,384.03	159,181,939
Liabilities held on a trust basis			182,761,534.41	213,528
thereof: loans on a trust basis	182,761,534.41			(213,528)
Other liabilities			294,928,486.18	311,038
Deferred items				
a) From issuing and lending business		905,709,898.75		1,112,448
b) Other		24,186,521.10		46,283
			929,896,419.85	1,158,731
Provisions				
a) Provisions for pensions and similar obligations		193,212,397.00		185,943
b) Tax provisions		129,867,087.32		134,736
c) Other provisions		241,069,232.30		139,241
			564,148,716.62	459,920
Special items with partial reserve character			88,817,476.75	98,185
Subordinated liabilities			3,129,258,949.40	1,406,194
Participation certificates			701,364,126.74	701,364
thereof: due within two years	25,564,594.06			25,565
Fund for general banking risks			218,446,914.24	109,928
Capital and reserves				
a) Subscribed capital		841,672,254.80		419,312
b) Contribution for the implementation of the capital increase agreed		72,823,424.25		–
c) Capital reserve		3,471,092,882.20		2,259,213
d) Revenue reserves				
da) statutory reserve	4,163,794.91			
dd) other revenue reserves	199,583,642.24	203,747,437.15		1,195,981
e) Distributable profit of Eurohypo AG		147,205,601.10		528,007
			4,736,541,599.50	4,402,513
Total liabilities			214,975,629,123.47	236,742,552
Contingent liabilities				
b) Liabilities under guarantees and indemnity agreements			189,804,759.84	425,596
Other commitments				
c) Irrevocable credit commitments			6,624,553,200.01	6,301,734

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM JANUARY 1, 2002 TO DECEMBER 31, 2002

Expenses				
			2002	2001
	€	€	€	T€
Interest expenses			9,994,963,138.60	12,215,381
Commission expenses			66,287,756.85	68,005
General administrative expenses				
a) Staff expenses				
aa) wages and salaries		171,831,881.12		181,069
ab) social security contributions and expenses for pensions and other employee benefits		55,796,014.35		60,776
		227,627,895.47		241,845
thereof: for pensions	26,114,585.48			(29,388)
b) Other administrative expenses		164,708,663.22		170,260
			392,336,558.69	412,105
Write-downs, depreciation of and value adjustments to intangible assets and tangible assets			33,226,883.41	40,637
Other operating expenses			13,516,280.66	14,904
Write-downs of and value adjustments to claims and certain securities as well as additions to provisions for possible loan losses			115,760,778.61	257,165
Additions to fund for general banking risks			108,519,159.78	-
Write-downs of and value adjustments to participating interests, shares in affiliated companies and securities treated as fixed assets			3,034,840.88	-
Expenses from assumption of loss			1,266,346.82	-
Allocations to special items with partial reserve character			1,528,895.94	85,680
Extraordinary expenses			233,070,362.69	54,700
Income taxes			25,395,899.51	-4,196
Other taxes, where not shown under "Other operating expenses"			1,008,348.83	-10,520
Net income for the year			292,205,601.10	513,007
Total expenses			11,282,120,852.37	13,646,868
1. Net income for the year			292,205,601.10	513,007
2. Withdrawals from revenue reserves				
d) from other revenue reserves			--	40,000
3. Allocations to revenue reserves				
d) to other revenue reserves			145,000,000.-	25,000
4. Distributable profit of Eurohypo AG			147,205,601.10	528,007

AUDITORS' REPORT

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Eurohypo Aktiengesellschaft for the business year from January 1, 2002 to December 31, 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 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 § 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (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 accounting-related 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 management, as well as evaluating the overall presentation of the annual financial statements and 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, March 12, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wohlmannstetter)

(Bors)

Wirtschaftsprüfer

Wirtschaftsprüfer

**Consolidated Financial Statements
of the Eurohypo Group as at 31 March 2003**

EUROHYPO GROUP
BALANCE SHEET AS AT MARCH 31, 2003

Assets			
	31.3.2003	31.12.2002	Change
	€ million	€ million	in %
Claims on banks	21,281.1	21,811.7	-2.4
a) repayable on demand	735.7	678.6	8.4
b) other claims	20,545.4	21,133.1	-2.8
thereof:			
Mortgage loans	87.5	88.0	-0.6
Loans to public sector entities	16,937.9	17,596.2	-3.7
Claims on customers	171,230.7	166,899.2	2.6
thereof:			
Mortgage loans	96,193.4	95,690.5	0.5
Loans to public sector entities	68,577.4	70,608.0	-2.9
Bonds and other fixed-income securities	37,394.5	36,767.8	1.7
Participating interests, shares in related companies	36.7	38.1	-3.7
Tangible assets	178.8	188.1	-4.9
Remaining assets	2,732.1	2,762.6	-1.1
Total Assets	232,853.9	228,467.5	1.9

Liabilities			
	31.3.2003	31.12.2002	Change
	€ million	€ million	in %
Liabilities to banks	33,340.6	30,974.3	7.6
a) repayable on demand	1,263.4	1,319.4	-4.2
b) with agreed term or notice period	32,077.2	29,654.9	8.2
thereof:			
Registered Hypothekendarlehenpfandbriefe issued	3,543.3	3,719.9	-4.7
Registered Öffentliche Pfandbriefe issued	2,931.8	3,158.1	-7.2
Liabilities to customers	40,977.8	41,484.8	-1.2
b) Registered Hypothekendarlehenpfandbriefe issued	16,177.3	16,725.8	-3.3
c) Registered Öffentliche Pfandbriefe issued	15,318.1	15,780.6	-2.9
d) Other liabilities	9,482.4	8,978.4	5.6
da) repayable on demand	790.2	669.1	18.1
db) with agreed term or notice period	8,692.2	8,309.3	4.6
Liabilities in certificate form	146,948.2	145,289.4	1.1
a) Bonds issued	146,984.2	145,289.4	1.1
aa) Hypothekendarlehenpfandbriefe	28,738.9	30,810.5	-6.7
ab) Öffentliche Pfandbriefe	91,819.0	92,032.3	-0.2
ac) Other bonds	26,390.3	22,446.6	17.6
Provisions	576.4	573.4	0.5
Special items with partial reserve character	88.4	88.8	-0.5
Subordinated liabilities	3,195.2	3,129.3	2.1
Profit-sharing certificates outstanding	701.4	701.4	0.0
Fund for general banking risks	218.4	218.4	0.0
Capital and reserves	5,118.9	4,618.4	10.8
Subscribed capital	913.7	841.7	8.6
Contribution for the implementation of the capital increase agreed	0.0	72.8	-100.0
Reserves	4,205.2	3,688.2	14.0
Minority interests	0.0	15.7	-100.0
Remaining liabilities	1,688.6	1,389.3	21.5
Total Liabilities	232,853.9	228,467.5	1.9

EUROHYPO GROUP
PROFIT AND LOSS ACCOUNT FROM 1.1.2003 TO 31.3.2003

Profit and Loss Account from 1.1.2003 to 31.3.2003				
	1.1. - 31.3.2003	3/12 of 2002	Change	Change
	€ million	€ million	€ million	in %
Interest income ¹⁾	2,758.9	2,974.2	-215.3	-7.2
Interest expenses	2,440.1	2,686.4	-246.3	-9.2
Net interest income	318.8	287.8	31.0	10.8
Commission income	25.0	21.0	4.0	19.0
Commission expenses	19.0	16.7	2.3	13.8
Net commission income	6.0	4.3	1.7	39.5
Net interest and commission income	324.8	292.1	32.7	11.2
Wages and salaries	51.2	43.6	7.6	17.4
Compulsory social security contributions ²⁾	15.6	14.1	1.5	10.6
Staff expenses	66.8	57.7	9.1	15.8
Other administrative expenses	47.0	41.9	5.1	12.2
Normal depreciation of tangible assets	8.5	8.4	0.1	1.2
Administrative expenses	122.3	108.0	14.3	13.2
Balance of other operating income/expenses	8.0	12.4	-4.4	-35.5
Net risk provisioning	-109.8	-56.1	53.7	95.7
Proceeds from the writing back of provisions for general banking risks pursuant to § 340f CommC	0.0	27.1	-27.1	-
Allocation to fund for general banking risks pursuant to § 340g CommC	0.0	-27.1	27.1	-
Operating profit	100.7	140.4	-39.7	-28.3
Other income/expenses net	0.5	-0.8	1.3	>100.0
Depreciation of goodwill	4.5	0.0	4.5	
Extraordinary expenses	10.0	58.3	-48.3	-82.8
Net income before taxes	86.7	81.3	5.4	6.6
Tax expenses	33.5	7.9	25.6	>100
Net income	53.2	73.4	-20.2	-27.5

1) from lending and money market business, fixed-income securities, government-inscribed debt, equity shares and other variable-yield securities, participating interests and shares in related undertakings (including profit-transfer agreements)

2) including expenses for pensions and other employee benefits

Companies included in the consolidation

In addition to EUROHYPO AG, we have included EUROHYPO Europäische Hypothekenbank S.A. Luxembourg, RHEINHYP BANK Europe plc, Dublin, and for the first time, Eurohypo Systems GmbH in the interim report. The other companies have not been consolidated further to Section 296 (2) HGB (German Commercial Code) due to their minor importance.

Income situation

At € 318.8 million, net interest income was 10.8% above the pro rata figure for 2002. Net commission income increased by 39.5% to € 6.0 million. Administrative expenses increased by 13.2% to € 122.3 million. Two thirds of the increase in net interest and commission income, as well as the full increase in staff and material costs are attributable to the scheduled contribution of additional business units by the major shareholders. Without these additional costs, we were increasingly able to continue at the beginning of the current financial year, the cost saving measures already evident in 2002. The ongoing weakness in the economy resulted in an increase in risk provisioning in credit business to € 123.7 million, (€ 104.5 million). Part of the provisioning requirement – € 39.5 million net after allowing for tax effects – is covered by the guarantees of the major shareholders provided in the course of the merger. As a result, only € 84.2 million (€ 56.5 million) was taken to income in the profit and loss account. Taking into ac-

count the usage under the guarantees which took place in 2002, the remaining amount of the guarantees is € 374.4 million. The result from securities business posted in the risk provision shows a negative balance of € 25.6 million (+ € 0.4 million). By redeeming registered securities early, we gave the insurance business, as one of our most important group of investors, the opportunity of realizing price gains and this will ease our interest expenses in subsequent years. “Extraordinary expenses” include merger-related restructuring expenses of € 10.0 million (€ 58.3 million). Overall, net income before tax rose from € 81.3 million in the pro rata time period in 2002 to € 86.7 million.

Following the significantly higher tax charge of € 33.5 million (€ 7.9 million) due mainly to the once only effect of the Tax Relief Abolition Act (Steuervergünstigungsabbaugesetz) of April this year, net income after tax amounted to € 53.2 million (€ 73.4 million).

Commercial Real Estate Clients, Germany

In this area of the business, we achieved net income before tax of € 51.4 million, which is 30.8% more than the pro rata figure in the previous year. The above-average rise in net interest and commission income as a result of the inclusion of the Real Estate Finance Division of Deutsche Bank on January 1, 2003 is of particular significance. In addition, our margin-based approach to new business and

to upcoming renewals had a positive impact. We wrote down the goodwill in connection with the contribution by € 1.0 million.

€ 61.1 million was allocated to the risk provisions. Taking into account the guarantees provided by the major shareholders, € 41.8 million was set off against income in the profit and loss account.

As a result of the difficult market environment, and our “profitability before volume” policy, new commitments fell to € 1.0 billion, (€ 1.2 billion). We syndicated an amount of € 119.0 million to third-party banks.

Commercial Real Estate Clients, Continental Europe

In this business sector, we exceeded the previous year’s level – pro rata – by 18.0% with net income before tax of € 45.2 million. This positive trend is a result of the high level of growth in the volume of financing in past years and significantly higher margins in new business and also in renewals.

New business reached the same level as the previous year at € 0.8 billion.

The main areas for financings were France, Scandinavia and Italy. We syndicated an amount of € 135.0 million to third-party banks.

Commercial Real Estate Clients, UK

At € 17.6 million, this business sector saw a decline in net income before tax of 26.4%. In addition to senior lending in the UK, this division is also responsible for Real Estate Investment Banking.

The goodwill for the Real Estate Investment Banking unit, contributed by Deutsche Bank, London, was written down by € 1.7 million.

New commitments at London branch amounted to € 0.3 billion (€ 0.5 billion) during the first three months of this year. The London team structured and financed – amongst others – the purchase of the Winchester House office building, the headquarters of Deutsche Bank London, for an international investor.

Commercial Real Estate Clients, USA

The contribution of this business sector by Dresdner Bank took place with effect from 28.1.2003. We are thereby represented by powerful units in three locations on the North American Continent, which is of increasing significance for us. We have written down € 1.8 million of the accumulated goodwill from the contribution. This, together with the additional costs from the start-up of business operations, as well as setting up a new team specializing in the securitization of commercial real estate financing, is responsible for this unit achieving net income before tax of only € 1.8 million. New commitments totalled € 0.2 billion. We syndicated € 334.4 million to third-party banks.

Retail Residential Business

In this area of the business we achieved net income before tax of € 9.3 million (€ 23.6 million). The high risk provisioning requirement of € 60.2 million, caused mainly by old credits which are no longer in line with our

present target portfolio, exceeded the progress already made through reduced administrative costs, increased interest income and the implementation of a more stringent risk policy. As a result of the existing guarantees from the major shareholders, only € 41.2 million of the risk provisions were taken to income in the profit and loss account.

New commitments in Retail Residential Business amounted to € 326 million during the first three months of 2003. At € 113 million (€ 239 million), this represents a further downturn in business acquired via our sales partners – primarily as a result of our conscious focus on traditional retail business.

New business acquired by means of cooperation agreements is developing satisfactorily, showing significant growth at € 213 million (€ 154 million). The company promoter AG took over approx. 4,600 loans for servicing during this period. A total of 19,600 property loans are now being administered, which corresponds to a loan volume of € 2.1 billion.

Public Sector Finance

In this area of the business – this includes income from public sector lending, money- and capital markets as well as treasury which is responsible for the asset/liability management of the bank – we recorded net income before tax of just € 2.0 million (€ 27.8 million) as a result of the negative balance of € 25.6 million on the reporting date of the securities results set off against the risk provision. The losses realized from the early

redemption of registered securities will be matched by reduced interest expenses in subsequent years, and we anticipate a balanced securities result for the year as a whole.

During the first three months of the current year, new commitments by the Eurohypo Group amount to a total of € 4.7 billion (€ 1.6 billion). Of this amount € 3.3 billion is attributable to Eurohypo AG. New foreign public sector finance business with sub-sovereign counterparties is primarily the responsibility of Eurohypo Luxembourg and Rheinhyp Dublin, which have achieved new business totalling € 1.4 billion. In the meantime, we have transferred Rheinhyp Dublin's share of the business to Eurohypo Luxembourg; in the next phase, the operational business will be transferred in the coming months to the Dublin branch of Eurohypo Luxembourg.

Funding

During the reporting period the Eurohypo Group raised funds totalling € 18.7 billion (€ 9.5 billion). Of this, € 5.4 billion was attributable to Pfandbriefe, € 0.9 billion to Lettres de Gage, the Pfandbrief under Luxembourg law, € 5.2 billion to commercial paper and € 7.2 billion to other forms of funding. Primary sales by Eurohypo AG amounted to € 16.2 billion; Eurohypo Luxembourg issued € 0.9 billion and Rheinhyp Europe raised funds amounting to € 1.6 billion.

The clear increase in other refinancing funds is primarily attributable to our European Property Finance business, which is not generally financed by means of Pfandbriefe.

Eurohypo intends to issue a tier 1 capital issue of at least € 500 million in May 2003 through a bank syndicate. This will serve to increase our tier 1 capital calculated according to BIS rules and will thereby support our risk/return orientated growth policy. Discussions are currently being held with institutional investors in Europe, primarily in Germany, concerning pricing and placing of the issue. The planned issue will be Eurohypo AG's first hybrid capital issue.

Market price risk

The key figure for the interest rate risk to be reported to the German Federal Financial Supervisory Authority (BaFin) was 2.56 % of the liable capital as at March 31, 2003 for Eurohypo AG. We were therefore well below the threshold values set at 10 % and 20 % respectively. The value-at-risk for the Eurohypo Group as at March 31, 2003 was € 14.9 million with a confidence level of 99 % and a holding period of one day. The internal limit for the Eurohypo Group is € 40 million.

Outlook

Financial year 2002 was dominated by the merger as well as the restructuring and reorientation. These special factors will have significantly less impact on the 2003 results. In addition, the business units transferred in by Deutsche Bank and Dresdner Bank will make a significant contribution to profits. We still do not anticipate any easing of the pressure in terms of risk provisioning, in view of the continuing difficulties in the real estate markets and the level of net additions will be higher than in the previous year. This is also a result of the new risk management strategy and the associated improvement in the early identification of credit risks. The consistent implementation of our new business model will have a positive impact on the income situation for 2003. We will therefore continue to pursue our goal of moving away from the traditional approach of business volume and balance sheet growth, towards profit awareness and increased commission income, as well as the active management of our loan portfolio, in order to achieve a balanced risk profile.

Segment reporting

in Mio. €	Commercial Real Estate Clients Germany		Commercial Real Estate Clients Continental Europe		Commercial Real Estate Clients UK		Commercial Real Estate Clients USA		Retail Residential Business		GKST ¹⁾		Cross-divisional positions		Eurohypo Group	
	1.1.- 31.3.03	3/12 of 2002	1.1.- 31.3.03	3/12 of 2002	1.1.- 31.3.03	3/12 of 2002	1.1.- 31.3.03	3/12 of 2002	1.1.- 31.3.03	3/12 of 2002	1.1.- 31.3.03	3/12 of 2002	1.1.- 31.3.03	3/12 of 2002	1.1.- 31.3.03	3/12 of 2002
	Net interest income	116.8	87.3	49.8	42.5	22.6	22.4	6.2	-	89.8	80.9	35.3	38.1	-1.7	16.6	318.8
Net commission income	6.4	4.5	6.4	6.5	5.1	6.3	3.7	-	-5.7	-4.1	-0.8	-1.0	-9.1	-8.0	6.0	4.3
Net interest and commission income	123.2	91.8	56.2	49.0	27.7	28.7	9.9	-	84.1	76.8	34.5	37.1	-10.8	8.7	324.8	292.1
Administrative expenses	-28.7	-24.4	-8.9	-10.1	-8.1	-7.3	-7.8	-	-24.9	-30.6	-10.0	-11.1	-33.9	-24.6	-122.3	-108.0
Other expenses and income	-0.3	-0.1	0.0	-0.1	0.0	2.4	1.5	-	-8.7	-1.3	3.1	1.4	12.4	10.0	8.0	12.4
Risk provisioning																
credit prior to effect of guarantee	-61.1	-55.5	-3.1	-0.9	-0.5	0.0	0.0	-	-60.2	-40.8	0.0	0.0	40.7 ²⁾	40.8 ²⁾	-84.2 ²⁾	-56.5 ²⁾
credit after effect of guarantee	-41.8	-28.1	-2.1	-0.5	-0.3	0.0	0.0	-	-41.2	-20.6	0.0	0.0	1.2	-7.3	-84.2	-56.5
securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	-25.6	0.4	0.0	0.0	-25.6	0.4
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	-0.8	0.0	0.0	0.5	0.0	0.5	-0.8
Restructuring expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	-10.0	-58.3	-10.0	-58.3
Depreciation of goodwill	-1.0	0.0	0.0	0.0	-1.7	0.0	-1.8	-	0.0	0.0	0.0	0.0	0.0	0.0	-4.5	0.0
Net income before tax	51.4	39.3	45.2	38.3	17.6	23.9	1.8	-	9.3	23.6	2.0	27.8	-40.6	-71.4	86.7	81.3
Volume of financing (in billion €)																
As per 31.3.2003 compared to 31.12.2002	43.6	40.0	14.7	13.8	6.6	7.0	1.6	-	34.5	35.0	120.9	121.1	-	-	221.9	216.9
Average staff capacity	577	407	106	124	49	37	41	-	562	613	79	80	1,188	1,175	2,602	2,436

1) Money market, Capital Market, Public sector Finance, Treasury

2) Inclusive of guarantee effect in the amount of € 39.5 million (3/12 of 2002: € 48.0 million)

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