HypoVereinsbank

$200,000,000
200,000 Dated Silent Partnership Certificates

HVB Funding Trust III

9.00% Non-cumulative Dated Silent Partnership Certificates
(Liquidation Amount $1,000 per Dated Silent Partnership Certificate)
each representing a Dated Silent Partnership Interest in

HVB Capital LLC III

(a wholly-owned subsidiary of Bayerische Hypo- und Vereinsbank AG)

Each of the Dated Silent Partnership Certificates, stated liquidation amount $1,000 per certificate (the "Certificates"), of HVB Funding Trust III, a statutory business trust created under the laws of the State of Delaware (the "Trust"), represents an undivided interest in the assets of the Trust, which consist solely of the Dated Silent Partnership Interests, liquidation preference $1,000 per interest (each, a "Partnership Interest"), of HVB Capital LLC III, a Delaware limited liability company (the "LLC"). Payments of distributions and amounts upon early redemption, liquidation, and maturity of the Partnership Interests, when, as and if paid by the LLC to the Trust, will be passed through upon receipt by the Trust (the sole assets of which are the Partnership Interests) to the holders of the Certificates. If, as and when declared (or deemed to have been declared) by the LLC, the Partnership Interests will pay non-cumulative distributions semi-annually in arrears at a fixed rate per annum equal to 9.00%. Subject to extension under certain circumstances described herein, the Partnership Interests will mature on October 22, 2031. The Partnership Interests are callable by the LLC in whole but not in part on or after October 22, 2029 in certain circumstances as described herein. All of the common limited liability company interests of the LLC (the "LLC Common Securities") will be owned by Bayerische Hypo- und Vereinsbank AG ("HypoVereinsbank" or the "Bank" and, together with its consolidated subsidiaries, the "HypoVereinsbank Group" or the "Group"), acting through its New York branch (the "Branch").

See "Risk Factors" beginning on page 41 for a discussion of certain factors that should be considered by prospective investors in evaluating an investment in the Certificates.

THE SECURITIES OFFERED HEREBY ARE NOT AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) IN RELIANCE ON RULE 144A, AND TO A LIMITED NUMBER OF INSTITUTIONAL "ACCREDITED INVESTORS" (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT). FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON RESALES OR TRANSFERS, SEE "NOTICE TO INVESTORS".

	Price to Investors	Initial Purchaser's Commission[1]	Proceeds to Trust [2][3]
Per Certificate	$1,000	(2)	$1,000
Total	$200,000,000	(2)	$200,000,000

(1) The Trust, the LLC and the Bank, acting through the Branch, have agreed to indemnify the Initial Purchaser (as defined herein) against certain liabilities, including liabilities under the Securities Act. See "Plan of Distribution".

(2) In view of the fact that the proceeds of the Certificates will ultimately be invested in the Subordinated Note (as defined herein), the Bank, acting through the Branch, has agreed to pay the Initial Purchaser's Commission in connection with the Offering.

(3) The Bank, acting through the Branch, has agreed to pay certain expenses relating to the Offering on behalf of the Trust and the LLC.

The Certificates are offered by the Initial Purchaser, as specified herein, subject to prior sale, when, as and if issued to and accepted by the Initial Purchaser, and subject to the approval of certain legal matters by counsel for the Initial Purchaser and to certain other conditions. It is expected that delivery of the Certificates will be through the facilities of The Depository Trust Company ("DTC") and, in certain circumstances, in certificated form on or about October 22, 1999 against payment therefor in immediately available funds.

Merrill Lynch & Co.

The date of this Offering Circular is October 15, 1999.

The Total Partnership Interest Capital Contribution (as defined herein), together with the proceeds from the sale of the LLC Common Securities, will be used by the LLC to purchase a subordinated note (the "Subordinated Note") of the Bank, acting through the Branch. The Certificates that are initially sold to "qualified institutional buyers" in reliance on Rule 144A will be represented by a Global Certificate (as defined herein) deposited on or about the Closing Date (as defined herein) with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in such Global Certificate will be shown on, and transfers thereof will be effected through, records maintained by DTC and its participants. Any Certificates sold other than in reliance upon Rule 144A will be issued in registered certificated form. Except under the limited circumstances described herein, Certificates in registered certificated form will not be issued in exchange for interests in the Global Certificate. The Certificates will be initially issued and may be initially transferred only in blocks having an aggregate liquidation amount of not less than $100,000 (100 Certificates) and integral increments of $1,000 in excess thereof.

Each of The Bank of New York (Delaware) ("BNY Delaware") and The Bank of New York ("BNY") has been appointed to act as trustees of the Trust. Neither BNY nor BNY Delaware is responsible for the contents of this Offering Circular concerning the Trust, the Certificates, the Partnership Interests or any other person or matter contained herein.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE CERTIFICATES. SUCH TRANSACTIONS MAY INCLUDE OVER-ALLOTMENT, STABILIZING, SHORT-COVERING TRANSACTIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE ''PLAN OF DISTRIBUTION''.

THE SECURITIES OFFERED HEREBY ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE U.S. FEDERAL DEPOSIT INSURANCE CORPORATION (''FDIC'') OR ANY OTHER GOVERNMENTAL AGENCY.

THIS OFFERING IS BEING MADE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT FOR AN OFFER AND SALE OF SECURITIES WHICH DOES NOT INVOLVE A PUBLIC OFFERING. ACCORDINGLY, EACH PURCHASER OF CERTIFICATES, IN MAKING ITS PURCHASE, WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS RELATING TO TRANSFER RESTRICTIONS AS SET FORTH UNDER "NOTICE TO INVESTORS". THE CERTIFICATES MAY NOT BE TRANSFERRED OR SOLD EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN UNDER "NOTICE TO INVESTORS". INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF HYPOVEREINSBANK, THE LLC AND THE TRUST AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THIS OFFERING IS BEING MADE ON THE BASIS OF THIS OFFERING CIRCULAR AND ANY DECISION TO PURCHASE THE CERTIFICATES IN THIS OFFERING MUST BE BASED ON THE INFORMATION CONTAINED HEREIN. NO REPRESENTATION IS MADE TO ANY OFFEREE OR PURCHASER OF THE CERTIFICATES REGARDING THE LEGALITY OF AN INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER ANY APPLICABLE INVESTMENT OR SIMILAR LAWS OR REGULATIONS. THE CONTENTS OF THIS OFFERING CIRCULAR ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS OR HER OWN ATTORNEY, BUSINESS AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

PROSPECTIVE INVESTORS ARE HEREBY OFFERED THE OPPORTUNITY, PRIOR TO PURCHASING ANY CERTIFICATES, TO ASK QUESTIONS AND RECEIVE ANSWERS CONCERNING THE TERMS OF THE OFFERING OF THE CERTIFICATES AND TO OBTAIN ADDITIONAL INFORMATION FROM THE BANK, THE LLC, AND THE TRUST, TO THE EXTENT THAT EACH POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE, THAT IS NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION CONTAINED HEREIN OR PROVIDED PURSUANT HERETO.

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT REVIEWED THIS OFFERING CIRCULAR NOR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE TRUST AND THE INITIAL PURCHASERS RESERVE THE RIGHT (I) TO REJECT ANY OFFER TO PURCHASE, IN WHOLE OR IN PART, FOR ANY REASON, OR (II) TO SELL LESS THAN THE FULL AMOUNT OF THE CERTIFICATES OFFERED HEREBY.

THIS OFFERING CIRCULAR IS PERSONAL TO THE OFFEREE AND HAS BEEN PREPARED SOLELY FOR USE IN CONNECTION WITH THE PLACEMENT OF THE CERTIFICATES AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE CERTIFICATES. DISTRIBUTION OF THIS OFFERING CIRCULAR TO ANY PERSON OTHER THAN THE OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE SUCH OFFEREE WITH RESPECT TO THE OFFER AND SALE OF THE CERTIFICATES IS NOT AUTHORIZED, AND ANY DISCLOSURE OF ANY OF ITS CONTENTS IS PROHIBITED. EACH OFFEREE, BY ACCEPTING DELIVERY OF THIS OFFERING CIRCULAR, AGREES TO THE FOREGOING AND TO MAKE NO COPIES OF THIS OFFERING CIRCULAR AND, IF THE OFFEREE DOES NOT PURCHASE THE CERTIFICATES OR THE OFFERING IS TERMINATED, TO RETURN THIS OFFERING CIRCULAR UPON REQUEST TO: MERRILL LYNCH & CO., WORLD FINANCIAL CENTER, NORTH TOWER, NEW YORK, NEW YORK 10281, ATTENTION: SYNDICATE DEPARTMENT.

PROSPECTIVE PURCHASERS MUST CAREFULLY CONSIDER THE RESTRICTIONS ON PURCHASE SET FORTH IN ''NOTICE TO INVESTORS'' AND ''CERTAIN ERISA CONSIDERATIONS''.

NO EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (''ERISA''), AND NO PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE ''CODE'') (EACH, A ''PLAN''), NO ENTITY WHOSE UNDERLYING ASSETS INCLUDE ''PLAN ASSETS'' BY REASON OF ANY PLAN'S INVESTMENT IN THE ENTITY (A ''PLAN ASSET ENTITY''), AND NO PERSON INVESTING ''PLAN ASSETS'' OF ANY PLAN, MAY ACQUIRE OR HOLD THE CERTIFICATES OR ANY INTEREST THEREIN OR THE PARTNERSHIP INTERESTS, UNLESS SUCH PURCHASE AND HOLDING IS EXEMPT BY REASON OF U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION (''PTCE'') 96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION WITH RESPECT TO SUCH PURCHASE AND HOLDING AND, IN THE CASE OF ANY PURCHASER OR HOLDER RELYING ON ANY EXEMPTION OTHER THAN PTCE 96-23, 95-60, 91-38, 90-1 OR 84-14, SUCH PURCHASER OR HOLDER HAS COMPLIED WITH ANY REQUEST BY THE BANK, THE BRANCH OR THE TRUSTEES FOR AN OPINION OF COUNSEL OR OTHER EVIDENCE WITH RESPECT TO THE APPLICABILITY OF SUCH EXEMPTION. ANY PURCHASER OR HOLDER OF THE CERTIFICATES OR ANY INTEREST THEREIN AND ANY HOLDER OF A PARTNERSHIP INTEREST WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND/OR HOLDING THEREOF THAT EITHER (A) THE PURCHASER AND HOLDER ARE NOT PLANS OR PLAN ASSET ENTITIES AND ARE NOT PURCHASING SUCH SECURITIES ON BEHALF OF OR WITH ''PLAN ASSETS'' OF ANY PLAN OR (B) THE PURCHASE AND HOLDING OF THE CERTIFICATES OR PARTNERSHIP INTERESTS ARE EXEMPT BY REASON OF PTCE 96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION.

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Additional Information

HypoVereinsbank currently furnishes certain information to the U.S. Securities and Exchange Commission (the "SEC") in accordance with Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is currently one of the foreign private issuers that claims exemption from the registration requirements of Section 12(g) of the Exchange Act. If at any time any of HypoVereinsbank, the LLC or the Trust is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements pursuant to Rule 12g3-2(b), it will furnish, upon written request of a holder or beneficial owner of Certificates or a prospective purchaser designated by such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Enforcement of Civil Liabilities

Any final and conclusive judgment for a definite sum obtained for the recovery of amounts due and unpaid on the Certificates, the Silent Partnership Agreement (as defined herein) and the Subordinated Note in a New York State or United States Federal court sitting in the county of New York, New York, will be enforceable, upon issuance of an enforcement judgment, against the defendant in the appropriate courts of the Federal Republic of Germany ("Germany") without re-examination or re-litigation of the matters adjudicated, except that such judgment will not be so enforceable if any of the reasons for excluding enforceability set forth in Section 328(1) of the German Code of Civil Procedure (*Zivilprozeßordnung*) is present, in particular, if: (i) under German law, said New York State or United States Federal court does not have jurisdiction; (ii) the defendant has not been served with process in a proper and timely fashion and has not defended itself against the claim in court; (iii) the judgment conflicts with a prior judgment of a German court or a prior judgment of a foreign court which is to be recognized in Germany, or the litigation resulting in the judgment to be enforced conflicts with litigation previously commenced in Germany; (iv) recognition of the judgment would clearly be contrary to basic principles of German law, in particular contrary to constitutional human rights; or (v) reciprocity is not ensured.

Except for one member of the Supervisory Board *(Aufsichtsrat)*, none of the members of the Management Board (*Vorstand*) or the Supervisory Board (*Aufsichtsrat*) of HypoVereinsbank is a resident of the United States, and all or a substantial portion of the assets of such persons are located outside the United States. As a result, it may not be possible for holders or beneficial owners of the Certificates to effect service of process within the United States upon such persons, or to enforce against any of them in U.S. courts judgments obtained in such courts predicated upon the civil liability provisions of the federal securities or other laws of the United States or any state thereof.

Forward-Looking Statements

This Offering Circular contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of HypoVereinsbank and its respective consolidated subsidiaries, taken as a whole, to differ materially from the information presented herein. When used in this Offering Circular, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should", and similar expressions, as they relate to HypoVereinsbank, the Branch, the LLC or the Trust or their respective management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Neither HypoVereinsbank, the Branch, the LLC nor the Trust undertakes any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Presentation of Financial Information

In this Offering Circular, references to "€" and "Euro" are to the lawful currency of the member states of the European Union (including Germany) that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union (the "Maastricht Treaty"); references to "DM" are to Deutsche Mark, a sub-unit of the Euro (see "Exchange Rate and Currency Information"); and references to "U.S.$", "$" and "U.S. dollars" are to United States dollars.

This Offering Circular contains a translation of certain Deutsche Mark and Euro amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Deutsche Mark or Euro amounts actually represent or represented such U.S. dollar amounts or could be or could have been converted into U.S. dollars at the rates indicated. Except as otherwise indicated, amounts in this Offering Circular have been translated from Euro into U.S. dollars at a rate of Euro 0.9699 per U.S.$1.00, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on June 30, 1999, and from Deutsche Mark into Euro at the official exchange rate of DM 1.95583 per Euro 1.00. See "Exchange Rate and Currency Information" regarding the rates of exchange between each of the Deutsche Mark and the U.S. dollar for the most recent five years, and between the Euro and the U.S. dollar for 1999 through September 30. On October 14, 1999, the Noon Buying Rate was Euro 0.9260 to U.S.$1.00 (equivalent to DM 1.8111 to U.S.$1.00).

Unless otherwise indicated, any reference in this Offering Circular to the "HypoVereinsbank Group Financial Statements" is to the audited consolidated financial statements (including the notes thereto) of the HypoVereinsbank Group as of and for the year ended December 31, 1998, and any reference to the "Interim Financial Statements" is to the unaudited interim consolidated financial statements (including the notes thereto) of the HypoVereinsbank Group as of and for the six-month period ended June 30, 1999, in each case included in this Offering Circular. The HypoVereinsbank Group Financial Statements are presented in Deutsche Mark. Beginning with the Interim Financial Statements, the HypoVereinsbank Group presents its financial statements in Euro. In certain cases, statistical information appearing in this Offering Circular is derived from statutory reports and from statistical information reported to the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*) or the German Central Bank (*Deutsche Bundesbank*) for regulatory purposes. Such information is compiled as a normal part of the HypoVereinsbank Group's financial reporting and management information systems.

The HypoVereinsbank Group Financial Statements and the Interim Financial Statements are prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Committee ("IAS"). IAS relevant to the HypoVereinsbank Group differ from U.S. generally accepted accounting principles ("U.S. GAAP") in certain material respects. For a discussion of certain significant differences between IAS and U.S. GAAP relevant to the HypoVereinsbank Group Financial Statements and the Interim Financial

Statements, see "Summary of Certain Significant Differences Between IAS and U.S. GAAP". The Bank's fiscal year ends on December 31, and references in this Offering Circular to any specific fiscal year are to the twelve-month period ended December 31 of such year.

In this Offering Circular, all references to "billions" are references to one thousand millions. Due to rounding, the numbers presented throughout this Offering Circular may not add up precisely, and percentages may not precisely reflect absolute figures.

Bayerische Hypo- und Vereinsbank AG is incorporated as a stock corporation organized under the laws of Germany. As used in this Offering Circular, (i) "HypoVereinsbank" or the "Bank" refers to Bayerische Hypo- und Vereinsbank AG, which is both the primary operating bank within, and the parent company of the various subsidiaries that together with the Bank make up, the HypoVereinsbank Group and (ii) "HypoVereinsbank Group" or the "Group" refers to HypoVereinsbank and its consolidated subsidiaries.

Exchange Rate and Currency Information

Pursuant to the Maastricht Treaty, the Euro, a single unified currency, became legal currency in those member states (including Germany) of the European Monetary Union that satisfied the convergence criteria set forth in the Maastricht Treaty. The Deutsche Mark will continue to have legal tender status through a transition period ending no later than June 30, 2002. The conversion rate between the Deutsche Mark and the Euro was fixed by the Council of the European Union at DM 1.95583. For a more detailed discussion of the introduction of the Euro as it affects the Bank, see "Description of HypoVereinsbank—Risk Management—Operational Risk—Euro".

The following table shows the period end, average, high and low Noon Buying Rates for the Deutsche Mark and the Euro, expressed in Deutsche Mark per U.S.$1.00 and Euro per U.S.$1.00, for the periods and dates indicated.

	Period End	Average[1]	High	Low
Year ended December 31,		*(DM per U.S.$)*		
1994	1.5495	1.6216	1.7627	1.4920
1995	1.4345	1.4321	1.5612	1.3565
1996	1.5387	1.5049	1.5655	1.4354
1997	1.7991	1.7394	1.8810	1.5413
1998	1.6670	1.7597	1.8542	1.6060
		(Euro per U.S.$)		
1999 (through September 30, 1999)	0.9396	0.9337	0.9863	0.8466

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

Fluctuations in exchange rates that have occurred in the past are not necessarily indicative of fluctuations in the rate that may occur at any time in the future. No representations are made herein that the Deutsche Mark (or Euro) or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Deutsche Mark (or Euro), as the case may be, at any particular rate.

Notice to Investors

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Certificates.

Each purchaser of the Certificates (including the registered holders and beneficial owners of the Certificates as they exist from time to time, in each case as of the time of purchase), by their acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Trust, the LLC, the Bank, the Branch and the Initial Purchasers (as defined herein) as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser understands and acknowledges that the Certificates have not been registered under the Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) The purchaser is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Bank, the LLC or the Trust or any of their respective affiliates and is not acting on behalf of such a person, and it is:

(i) a "qualified institutional buyer" as defined in Rule 144A (a "QIB"), is aware that any sale of the Certificates to it will be made in reliance on Rule 144A and is acquiring such Certificates for its own account or for the account of another QIB over which it exercises sole investment discretion; or

(ii) an institutional "Accredited Investor" (an "Institutional Accredited Investor") within the meaning of subparagraphs (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act or, if the Certificates are to be purchased for one or more accounts ("investor accounts") for which it is acting as fiduciary or agent (except if it is a bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as described in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual capacity or in a fiduciary capacity), each such account is an Institutional Accredited Investor on a like basis; in the normal course of its business, it invests in or purchases securities similar to the Certificates (or the Partnership Interests), and it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of purchasing the Certificates; and it is aware that it (or any investor account) may be required to bear the economic risk of an investment in the Certificates (or the Partnership Interests) for an indefinite period of time and it (or such investor account) is able to bear such risk for an indefinite period; it has signed an investment representation letter in the form attached to this Offering Circular.

(3) The purchaser acknowledges that none of the Trust, the LLC, the Bank, the Branch or the Initial Purchasers nor any person representing any of them has made any representation to it with respect to the Trust, the LLC, the Bank, the Branch, the Initial Purchasers or the offering or sale of any Certificates, other than the information contained in this Offering Circular, which Offering Circular has been delivered to it and upon which it is relying in making its investment decision with respect to the Certificates. It acknowledges that no representation or warranty is made by the Initial Purchasers as to the accuracy or completeness of such materials. It has had access to such financial and other information concerning the Trust, the LLC, the Bank, the Branch, the Partnership Interests and the Certificates as it has deemed necessary in connection with its decision to purchase any of the Certificates, including an opportunity to ask questions of and request information from the Trust, the LLC, the Bank, the Branch and the Initial Purchasers.

(4) The purchaser is purchasing the Certificates for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or otherwise

for offer or sale in connection with, any distribution in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Certificates (or the Partnership Interests) pursuant to an effective registration statement under the Securities Act or pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act. The purchaser agrees on its own behalf and on behalf of any investor account for which it is purchasing Certificates (or Partnership Interests), and each subsequent holder of Certificates (or Partnership Interests) by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Certificates (or Partnership Interests) prior to the date that is two years after the later of the original issuance date thereof and the last date on which HypoVereinsbank, the Trust or any "affiliate" of either of the foregoing was the owner of such Certificates or Partnership Interests (or any predecessor securities) (the "Resale Restriction Termination Date") only (a) to HypoVereinsbank or the Trust, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) as long as the Certificates or Partnership Interests are eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S, (e) to an Institutional Accredited Investor that is purchasing the Certificates or Partnership Interests for its own account or for the account of such an Institutional Accredited Investor for investment purposes and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act, or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws; it being understood that, if any resale or other transfer of Certificates or Partnership Interests is proposed to be made pursuant to clause (e) above prior to the Resale Restriction Termination Date, the transferor shall deliver a letter of representations from the transferee to the depositary, which shall provide, among other things, that the transferee is an Institutional Accredited Investor and that it is acquiring such Certificates or Partnership Interests for investment purposes and not for distribution in violation of the Securities Act; it being understood further that HypoVereinsbank, the LLC and the Trust reserve the right prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date pursuant to clause (d), (e) or (f) above to require the delivery of an opinion of counsel, certifications and other information satisfactory to the Bank, the LLC and the Trust.

(5) The purchaser acknowledges that the Property Trustee will not be required to accept for registration of transfer any Certificates issued by the Trust acquired by it, except upon presentation of evidence satisfactory to the Trust and the Property Trustee that the restrictions set forth herein have been complied with.

(6) The purchaser agrees that it will give to each person to whom it transfers Certificates or Partnership Interests notice of any restrictions on transfer of such Certificates or Partnership Interests.

(7) The purchaser acknowledges that the Global Certificate and each Certificate will bear a legend to the following effect:

THE NONCUMULATIVE DATED SILENT PARTNERSHIP CERTIFICATES EVIDENCED HEREBY (THE "SECURITIES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. NEITHER THIS CERTIFICATE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER HEREOF BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS

DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")), (B) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT), OR (C) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS CERTIFICATE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S; (2) AGREES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS TWO YEARS (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144(k) UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS CERTIFICATE) OR THE LAST DAY ON WHICH BAYERISCHE HYPO- UND VEREINSBANK AG (THE "BANK"), HVB FUNDING TRUST III (THE "TRUST") OR ANY OF THEIR RESPECTIVE AFFILIATES (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) WAS THE OWNER OF THIS CERTIFICATE (OR ANY PREDECESSOR OF THIS CERTIFICATE) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAWS (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL OR OTHERWISE TRANSFER THIS CERTIFICATE EXCEPT (A) TO THE BANK OR THE TRUST, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER INSTITUTIONAL ACCREDITED INVESTOR FOR INVESTMENT PURPOSES, OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT; AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS CERTIFICATE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE BANK AND THE TRUST SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATION OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS CERTIFICATE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUST. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

(8) The purchaser acknowledges that the Trust, the LLC, the Bank, the Branch, the Property Trustee, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of such acknowledgments, representations and agreements is no longer accurate, it will promptly notify the Bank, the Trust, the Property Trustee and the Initial Purchasers. If it is acquiring any Certificates as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account, and that each such investor account is eligible to purchase the Certificates.

OVERVIEW

The following is a brief overview of the most significant features of the Certificates being offered. This overview is necessarily incomplete and investors are urged to read carefully the Summary and the full text of the Offering Circular for a more precise description of the Offering and the Certificates and for information concerning the Bank, the LLC and the Trust.

HVB Capital LLC III, a Delaware limited liability company (the "LLC"), all of the common limited liability company interests (the "LLC Common Securities") of which are owned by HypoVereinsbank, acting through its New York branch (the "Branch"), will issue $200,000,000 of Dated Silent Partnership Interests (the "Partnership Interests") to HVB Funding Trust III (the "Trust") and $1,000,000 of LLC Common Securities to the Bank, acting through the Branch. The LLC will invest all of the proceeds from the issuance of the Partnership Interests and the common limited liability company interests in a subordinated note (the "Subordinated Note") of the Bank, acting through the Branch, which will be the only asset of the LLC. Subject to the terms of the Subordinated Note and the Waiver and Improvement Agreement between the Bank, acting through the Branch, and the LLC (the "Waiver and Improvement Agreement"), the Subordinated Note will bear interest at the annual rate of 9.00%, payable semi-annually on June 30 and December 31, and will mature on October 22, 2031. Upon receipt of payments on the Subordinated Note, the LLC will make corresponding distributions on the Partnership Interests. Subject to extension under certain circumstances described herein, the Partnership Interests will mature on October 22, 2031, the date on which the Subordinated Note is also scheduled to mature.

For the convenience of investors, each Partnership Interest will be represented by a Non-cumulative Dated Silent Partnership Certificate (a "Certificate") of the Trust, a Delaware statutory business trust, in which neither the Bank nor any of its affiliates has any interest. The Trust will pass through to the holders of the Certificates all payments that the Trust receives on the Partnership Interests held by the Trust. Although the Trust has the right to enforce the terms of the Partnership Interests, each holder of a Certificate will also be able to institute a direct action against the LLC to enforce all rights pertaining to the Partnership Interest represented by such Certificate. Each holder of a Certificate may obtain direct ownership of the underlying Partnership Interest at any time. A holder of a Partnership Interest will have the status of a "member" of the LLC within the meaning of the Delaware Limited Liability Company Act. It should be noted that the income in respect of the Certificates may be reported for U.S. federal income tax purposes on the simple Form 1099, but that the income in respect of the Partnership Interests (including Partnership Interests acquired in exchange for Certificates) would have to be reported on the more complicated Form K-1 applicable to partnership income. Also, only the Certificates, and not the Partnership Interests, may be cleared through DTC.

The Subordinated Note and the Partnership Interests will be subject to certain linkage features that will have the effect of making the obligation of the Bank, acting through the Branch, to pay interest and principal on the Subordinated Note, and the LLC's corresponding obligation to make distributions and maturity payments on the Partnership Interests, dependent on the financial condition and certain capital ratios of the Bank. These linkage features are briefly summarized in the following paragraphs. The Bank intends to treat the proceeds of the Offering as tier one capital of the Bank on a consolidated basis for purposes of calculating compliance with regulatory capital requirements under the relevant bank regulatory provisions applicable in Germany and under the applicable international bank capital standards promulgated by the Committee on Banking Supervision at the Bank for International Settlements (on such a consolidated basis, "Tier One Capital"). Under current German law relating to regulatory capital requirements, the Partnership Interests will lose their tier one capital status two years prior to maturity.

Certain Features of the Partnership Interests. Distributions on the Partnership Interests are payable, when, as and if declared (or deemed to have been declared) by the Board of Directors of the LLC, on a non-cumulative basis out of the profits of the LLC for the fiscal semi-annual period ending on or before the distribution payment date and, except in limited circumstances, only if no accumulated deficit has been notionally allocated to the Partnership Interests. Due to the fact that the LLC does not conduct any operations other than its investment in the Subordinated Note, it is not expected to incur any losses. Because distributions are non-cumulative, the LLC will have no obligation to pay in a subsequent period any distribution that was not payable for a prior period.

When a Shift Event (as defined herein) is in effect pursuant to the Waiver and Improvement Agreement, the LLC will waive all rights to payments of principal and interest on the Subordinated Note, subject to reinstatement of (i) the obligation of the Bank, acting through the Branch, to pay interest if the Bank or certain of its subsidiaries make payments in respect of Ordinary Securities or Parity Securities (as defined herein) and (ii) its obligation to repay principal if the liquidation of the Bank is commenced, each as described in greater detail below under "Certain Features of the Subordinated Note". If the foregoing waiver is in effect, the LLC will not earn any profit and accordingly will have no obligation to make distributions on the Partnership Interests.

The Partnership Interests are scheduled to mature on October 22, 2031. Nevertheless, if the scheduled maturity occurs while a Shift Event is in effect, the maturity of the Partnership Interests and the Subordinated Note will be extended until the earlier of the discontinuation of the Shift Event or the commencement of the liquidation of the Bank.

The Partnership Interests are callable by the LLC, in whole but not in part, at any time on or after October 22, 2029 (the "First Call Date") at the current nominal value thereof plus any accrued and unpaid distributions for the current period, but only with the prior approval of the German Federal Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen)* (the "German Banking Supervisory Authority") and only if no accumulated deficit has been notionally allocated to the Partnership Interests. The Partnership Interests are redeemable, in whole but not in part, prior to the First Call Date at the current nominal value thereof or, if greater, a make whole amount, but only if (i)(A) the Partnership Interests can no longer be included in Tier One Capital under current or future regulatory requirements, (B) based on certain determinations, there is more than an insubstantial risk that the LLC or the Trust will be subject to more than a *de minimis* amount of taxes (including withholding taxes) or (C) based on certain determinations, there is more than an insubstantial risk that the LLC or the Trust will be considered an "investment company" under the U.S. Investment Company Act of 1940 (the "1940 Act"); (ii) the German Banking Supervisory Authority consents to such redemption; and (iii) no accumulated deficit has been notionally allocated to the Partnership Interests.

Shift Event. The linkage features described below come into effect only upon the occurrence of a "Shift Event" and remain in effect only so long as the Shift Event remains in effect. A Shift Event will occur if (i) the Management Board (*Vorstand*) of the Bank determines that either (A) the Bank's total capital ratio on an unconsolidated basis or its tier one capital ratio on an unconsolidated basis has declined below the minimum percentage required from time to time (as applicable to the Bank, presently 8% and 4.4%, respectively) by the German Banking Act (*Kreditwesengesetz)* (the "German Banking Act") or (B) the Bank's non-compliance with the foregoing capital ratio requirements is immediately imminent, (ii) the German Banking Supervisory Authority has filed an application for the commencement of insolvency proceedings with respect to the Bank, or (iii) the German Banking Supervisory Authority either (A) exercises its extraordinary supervisory powers pursuant to Sections 45 to and including 46a of the German Banking Act or (B) announces its intention to take such measures against the Bank.

Certain Features of the Subordinated Note. The Subordinated Note is scheduled to mature on October 22, 2031. However, if the scheduled maturity occurs while a Shift Event is in effect, the maturity of the Subordinated Note will be extended until the earlier of the discontinuation of the Shift Event or the commencement of the liquidation of the Bank. In addition, pursuant to the Waiver and Improvement Agreement, the LLC will waive all rights to payments of interest and principal on the Subordinated Note while a Shift Event is in effect, subject to the reinstatement of such payment obligations under the circumstances described below.

The obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note will be reinstated for the interest period or periods corresponding to the time period or periods for which the Bank pays any dividends or makes other payments in respect of its common shares or any of its other voting or non-voting shares (*Stammaktien* or *Vorzugsaktien*) or in respect of its securities ranking junior to the Bank Parity Securities (as defined below) (collectively, the "Ordinary Securities") or the Bank makes any payment under or in connection with any Parity Securities. "Parity Securities" encompass (i) any silent partnership agreement or any other instrument of the Bank that has rights to payment that are expressly or legally subordinated to all creditors of the Bank (including holders of *Genußscheine*, a form of profit participation obligation qualifying as tier two capital for German regulatory capital purposes) but that are senior to the rights of the Ordinary Securities of the Bank and that would qualify as tier one capital of the Bank on a consolidated basis under the relevant bank regulatory provisions applicable in

Germany (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which tier one capital treatment of such instrument is lost for a period of time prior to maturity) or as tier one capital of the Bank on a consolidated basis under the applicable international bank capital standards promulgated by the Committee of Banking Supervision at the Bank for International Settlements (the "Bank Parity Securities") and (ii) any silent partnership agreement or any other instrument of any subsidiary of the Bank that has rights to payment that are (a) expressly or legally subordinated to all creditors of such subsidiary (including holders of *Genußscheine*) and (b) linked to the Bank through any mechanism that expressly (through one or more agreements) makes such payments subordinated to all creditors of the Bank (other than creditors subject to similar agreements) but senior to the Bank's Ordinary Securities at all times or under circumstances similar to a Shift Event or other failure to comply with regulatory capital requirements and that would qualify as tier one capital on a consolidated basis (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which tier one capital treatment of such instrument is lost for a period of time prior to maturity).

The waiver by the LLC of its right to payment of principal on the Subordinated Note does not apply, if the liquidation of the Bank is commenced while a Shift Event is in effect. Therefore, in such case, the obligation of the Bank, acting through the Branch, to repay the principal remains unaffected by the occurrence of a Shift Event. However, because the Subordinated Note is subordinated to all creditors of the Bank, including holders of *Genußscheine*, in certain circumstances the LLC may not, in such liquidation proceedings, receive all or any payments in respect of its claim for the payment of principal on the Subordinated Note.

The interest payment on the Subordinated Note is subject to a gross-up to cover any withholding obligations imposed on the Bank, the LLC or the Trust by or in certain jurisdictions (other than the United States). The Subordinated Note may be called by the Bank, acting through the Branch, at any time if the LLC invests or has agreed to invest in other obligations of the Bank or any subsidiary of the Bank that satisfy certain other requirements, such as rating agency confirmation.

Independent Directors. The Bank will control the LLC at all times through its right to elect all or a majority of the Directors of the LLC. At all times, one member of the Board of Directors of the LLC must be an independent director. If the LLC has failed to pay distributions on the Partnership Interests for any semi-annual period or if a Shift Event is in effect and is continuing, the holders of the Certificates and Partnership Interests will be entitled to replace the independent director appointed by the Bank and to elect two additional independent directors. The independent directors will be entitled, acting by a majority vote, to enforce the Subordinated Note and the Waiver and Improvement Agreement and to veto various actions of the LLC that may be adverse to the interests of the holders of the Certificates and the Partnership Interests.

Other than their contingent right to vote for certain directors, the holders of the Partnership Interests (and the holders of the Certificates on a pass-through basis) will not have any voting rights other than with respect to proposed adverse changes to the terms of the Partnership Interests.

Risks. If the Bank's financial condition deteriorates to such an extent that a Shift Event occurs, the holders of the Partnership Interests and the Certificates would likely suffer direct and materially adverse consequences, including the suspension or termination of current distributions and partial or total loss of value. For additional details regarding the risks associated with an investment in the Certificates, see "Risk Factors", "Description of the Certificates" and "Description of the Subordinated Note and the Waiver and Improvement Agreement".

Summary

The following Summary is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. Certain terms used in this Summary are defined elsewhere in this Offering Circular.

The HypoVereinsbank Group

Bayerische Vereinsbank AG ("Vereinsbank") and Bayerische Hypotheken- und Wechsel-Bank AG ("HYPO-BANK") merged on September 1, 1998 (with retroactive effect to January 1, 1998) to form HypoVereinsbank. Based on consolidated assets of Euro 491 billion at June 30, 1999, HypoVereinsbank is the second largest bank in Germany and one of the largest providers of real estate finance in Europe. The merger positions HypoVereinsbank as the first "bank of the regions" in Europe, combining the strengths and economies of scale of a major European bank with the attention to customers of a regional bank.

While focusing on core competencies in real estate finance, asset management, structured trade and project finance, and selected treasury products, HypoVereinsbank and the HypoVereinsbank Group offer a comprehensive range of banking and financial products and services to a broad range of customer groups in the private, corporate and public sectors. As of June 30, 1999, the HypoVereinsbank Group had a client base of approximately 5 million retail customers and approximately 62,800 corporate and public sector customers. The full range of services and products offered by the HypoVereinsbank Group includes residential and commercial mortgage loans, public sector loans, consumer banking services, business loans, foreign trade financing, corporate finance, investment products and advisory services for consumers and financial institutions, securities underwriting, brokerage and trading, and asset management. As one of only two private sector "mixed-mortgage" banks in Germany, HypoVereinsbank is also permitted to issue *Pfandbriefe* at the parent bank level for the purpose of refinancing its mortgage and public sector loans, in addition to offering the full range of banking services offered by private universal banks.

As at June 30, 1999, the HypoVereinsbank Group had a network of approximately 1,100 branches in Germany, and approximately 350 branches and representative offices in the rest of Europe and around the world. As at June 30, 1999, the HypoVereinsbank Group had a total of 45,446 employees worldwide: 34,480 in Germany and 10,966 in the rest of Europe and around the world.

While its business is conducted primarily in Germany, the HypoVereinsbank Group has a strong international presence with a clear focus on Europe. At June 30, 1999, HypoVereinsbank had 87 fully consolidated foreign subsidiaries. In the Netherlands, the HypoVereinsbank Group offers residential and commercial real estate finance through FGH Bank N.V., Utrecht, a leading mortgage bank in the Netherlands. In Luxembourg, the HypoVereinsbank Group offers private and corporate banking and investment management services through its subsidiary HypoVereinsbank Luxembourg S.A. Throughout Central Europe, the HypoVereinsbank Group provides the services of a universal bank through subsidiaries in Austria (SKWB Schoellerbank Aktiengesellschaft, Vienna), Hungary (HypoVereinsbank Hungaria Rt., Budapest), the Czech Republic (HypoVereinsbank CZ, a.s., Prague) and Poland (HypoVereinsbank Polska, S.A., Warsaw and Bank Przemyslowo-Handlowy S.A., Cracow, which are expected to be merged). In Hungary, HypoVereinsbank also owns a mortgage banking subsidiary (HVB Jelzálogbank). Outside Central Europe, the HypoVereinsbank Group offers selected corporate banking services, primarily in North America and Asia. In the United States, the HypoVereinsbank Group maintains a branch office in New York. The HypoVereinsbank Group also has a presence in Asia, with branches in Singapore, Tokyo and Hong Kong as well as representative offices in Beijing, Shanghai, Mumbai, Hanoi and Seoul.

The HypoVereinsbank Group is one of the leading European universal banks with a geographical focus on selected, economically strong regions and clearly defined core competencies. To fully leverage this position, HypoVereinsbank has identified the following four strategic initiatives:

- ***Focused universal bank***. HypoVereinsbank aims to become a focused universal bank by targeting specific groups of customers and providing those customers with a comprehensive range of products and services in four areas of core competencies: real estate and mortgage lending, asset management for private and institutional customers, structured finance, and selected financial market products.
- ***Market leader in selected regions of Germany***. HypoVereinsbank aims to maintain and expand its leadership presence in selected regions of Germany through enhanced marketing efforts, expansion of the branch network and targeted acquisitions.
- ***Expansion in Europe***. HypoVereinsbank also intends to expand in selected regions of Europe (including Central Europe) through the consolidation of existing entities of the HypoVereinbank Group as well as through targeted acquisitions.
- ***Presence in international financial centers***. HypoVereinsbank intends to offer its customers capital market and corporate finance services in the international financial centers of Europe, North America and Asia.

In pursuing these strategic initiatives, HypoVereinsbank seeks to combine decentralized marketing and distribution through local customer proximity with the advantages of centralized support in strategy, product development, general business guidelines, risk management (including a uniform risk management system), and administrative resources (such as information technology platforms and back office processing). HypoVereinsbank is organized in five distinct business divisions: Private Customers and Professionals, Corporate Customers, Real Estate Finance and Real Estate Customers, International Markets, and Asset Management.

The Branch

The Branch, established as a branch of Vereinsbank in 1974, operates pursuant to a license granted by the Superintendent of Banks of the State of New York. On September 8, 1998, the Branch and the New York branch of HYPO-BANK formally merged their operations.

Summary Consolidated Financial and Other Data of the HypoVereinsbank Group

	Six Months Ended June 30, 1999		Year Ended December 31,		
			1998	1998	1997[1]
	(U.S.$)	(€)	(€)	(DM)	(DM)
			(in millions)		
Income Statement Data					
Net interest income	2,432	2,507	5,035	9,848	9,354
Provision for losses on loans and advances	(646)[2]	(666)[2]	(1,659)[3]	(3,245)[3]	(2,711)[3]
Net commission income	863	890	1,631	3,190	2,965
Trading profit	206	212	487	952	895
General administrative expenses	(2,179)	(2,247)	(4,324)	(8,457)	(7,740)
Other operating income	96	99	317	620	595
Other operating expenses	(72)	(74)	(226)	(441)	(486)
Operating profit	699	721	1,261	2,467	2,872
Other income	203	209	330	646	344
Other expenses	(73)	(75)	(76)	(149)	(255)
Extraordinary income[4]	—	—	3,123	6,109	1,500
Extraordinary expenses[5]	(134)	(138)	(2,023)[3]	(3,958)[3]	(1,688)[3]
Net income before tax	695	717	2,615	5,115	2,773
Income taxes	(311)	(321)	(629)	(1,231)	(1,019)
Net income[6]	384	396	1,986	3,884	1,754
Per Share Data					
Earnings per share[7][8]	0.79	0.81	1.69	3.31	3.91
Diluted earnings per share[7][9][10]	0.78	0.80	1.69	3.31	—

(1) Pro forma consolidated amounts.

(2) Pro rata amount based on total expected provision for 1999.

(3) In addition to the provision for losses on loans and advances, the HypoVereinsbank Group recorded expenses for risk provisions for joint venture and property development expenses as extraordinary expenses in the amount of DM 3,500 million (€ 1,790 million) for 1998 and DM 1,500 million for 1997. These charges did not affect net income as they were offset through the release of undisclosed reserves. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(4) In 1998 and 1997, included merger gains, realization of undisclosed reserves to cover risk provisions for joint venture and property development exposures and, in 1998, dividend received from HYPO-BANK for 1997.

(5) In 1998 and 1997, included merger expenses and risk provisions for joint venture and property development exposures. In the six months ended June 30, 1999, included merger expenses.

(6) Prior to subtraction of minority interests, which amounted to € 60 million for the six months ended June 30, 1999 and DM 142 million (€ 73 million) and DM 135 million for the years ended December 31, 1998 and 1997, respectively.

(7) Beginning with the Interim Financial Statements, HypoVereinsbank has made two changes to its method of calculating earnings per share: (i) minority interests are no longer included in the calculation and (ii) preferred shares are now included in the basis of the calculation. In order to present comparable figures, the new method has been applied to the years ended December 31, 1997 and 1998.

(8) Calculated for the six months ended June 30, 1999 using an average of the total ordinary and preferred shares outstanding as of the beginning and end of the period, which was 416,786,645 and for the years ended December 31, 1998 and 1997 using the total ordinary and preferred shares outstanding as of the end of the period, which were 415,645,975 and 414,665,627, respectively.

(9) Calculated for the six months ended June 30, 1999 using an average of the total ordinary and preferred shares outstanding on a fully diluted basis as of the beginning and end of the period, which was 421,065,560, and for the year ended December 31, 1998 using the total ordinary and preferred shares outstanding on a fully diluted basis as of the end of the period, which were 419,942,890.

(10) Figures not calculated with respect to pro forma amounts.

	As of June 30, 1999		As of December 31,		
			1998	1998	1997[1]
Balance Sheet Data	(U.S.$)	(€)	(€)	(DM)	(DM)
Assets			*(in millions)*		
Cash reserve[2]	3,529	3,639	4,824	9,435	3,939
Assets held for trading purposes	38,069	39,250	35,622	69,670	50,838
Placements with, and loans and advances to, other banks[3]	62,801	64,750	57,489	112,438	123,004
Loans and advances to customers[3]	308,791	318,374	310,112	606,526	569,973
Total provisions for losses on loans and advances	(8,290)	(8,547)	(7,983)	(15,614)	(13,514)
Investments	59,305	61,145	51,501	100,728	81,908
Property, plant and equipment	4,257	4,389	4,299	8,409	7,740
Other assets	7,396	7,626	4,871	9,527	8,791
Total assets	475,858	490,626	460,735	901,119	832,679
Liabilities					
Deposits from other banks	78,479	80,915	68,146	133,283	137,013
Amounts owed to other depositors	142,247	146,662	147,530	288,543	270,322
Promissory notes and other liabilities evidenced by paper	200,521	206,744	189,207	370,056	336,501
Provisions and accruals	4,234	4,365	4,243	8,299	7,701
Other liabilities	27,424	28,275	29,267	57,241	41,658
Subordinated capital	10,087	10,400	9,401	18,386	14,952
Minority interests	1,218	1,256	1,046	2,047	1,959
Shareholders' equity	11,648	12,009	11,895	23,264	22,573
Total liabilities	475,858	490,626	460,735	901,119	832,679

(1) Pro forma consolidated amounts.
(2) Includes cash and cash equivalents.
(3) Includes money market operations (including reverse repos), as well as loans.

	Six Months Ended June 30, 1999	Year Ended December 31,[1]	
		1998	1997[2]
Selected Ratios			
Return on equity after tax[3]	5.6%	6.1%	8.5%
Dividend payout ratio[4],[5]	—	48.4%	53.9%
Net interest margin[6]	1.10%	1.17%	1.25%
Cost-to-income ratio[7]	61.8%	59.7%	58.1%

	As of June 30, 1999	As of December 31,[1]	
		1998	1997[2]
Core capital ratio (Tier I)[8]	6.0%	6.0%	5.4%
Equity ratio (Tier I + II)[8]	10.1%	9.9%	9.2%
Equity capital ratio (Tier I + II + III)[8]	9.3%	9.3%	— [10]
Core capital (Tier I) (in billions)[9]	€13.6	(€13.0) DM 25.4	DM 22.0
Liable equity (Tier I + II) (in billions)[9]	€22.7	(€21.4) DM 41.8	DM 37.5
Equity capital (Tier I + II + III) (in billions)[9]	€24.3	(€22.7) DM 44.4	— [10]

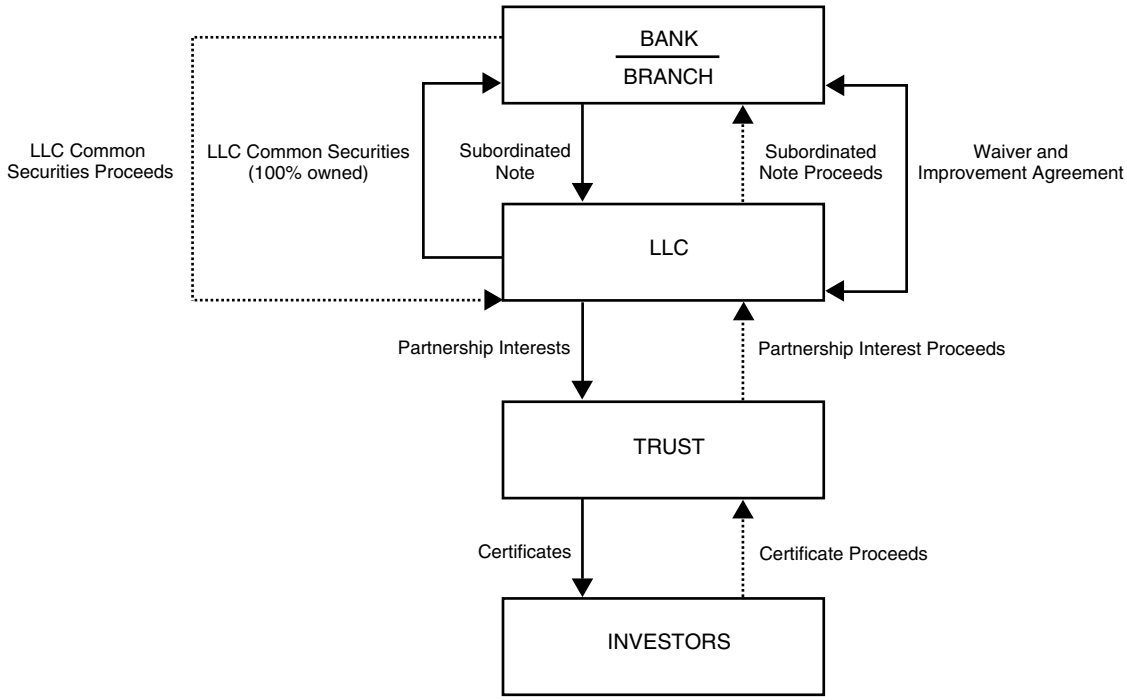
(1) After adoption of annual financial statements.
(2) Pro forma consolidated amounts.
(3) Net income (after tax) expressed as a percentage of average quarter-end shareholders' equity, in each case, excluding minority interests. Adjusted for merger effects, return on equity after tax would have been 6.9% for the six months ended June 30, 1999; 6.6% for the year ended December 31, 1998 and 9.1% for the year ended December 31, 1997.

(4) Figures not calculated on an interim basis.
(5) Total dividend declared expressed as a percentage of net income (after tax) of HypoVereinsbank.
(6) Net interest income expressed as a percentage of average total assets for the period, plus off-balance sheet contingent liabilities on rediscounted bills of exchange credited to borrowers, without risk weighting.
(7) General administrative expenses expressed as a percentage of operating income, which is net interest income, net commission income, trading profit and the balance of other operating income and expenses.
(8) Calculated pursuant to the German risk-based capital adequacy rules (Principle I) (*Grundsatz I*) on the basis of financial statements prepared in accordance with German GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Capital Resources—Capital Adequacy".
(9) Calculated pursuant to the provisions of the German Banking Act *(Kreditwesengesetz)* on regulatory capital.
(10) Calculated for the first time in 1998 in accordance with the Sixth Amendment to the Banking Act.

Formation of the Trust and the LLC

Prior to or simultaneously with the completion of the Offering, the Trust, the LLC and the Bank, acting through the Branch, will engage in the transactions described under "Certain Transactions Constituting the Formation". These transactions are designed to facilitate the Offering, including the acquisition of the Subordinated Note by the LLC and the execution of the Silent Partnership Agreement by the Trust and the LLC.

The following diagram outlines the relationship between the Trust, the LLC and the Bank, acting through the Branch, following completion of the Offering:



Certain Transactions Constituting the Formation

Prior to or simultaneously with the completion of the Offering, the Trust, the LLC, and the Bank, acting through the Branch, will engage in the transactions described below designed to facilitate (i) the issuance, offer and sale of the Certificates, (ii) the execution of the Silent Partnership Agreement by the Trust and the LLC and (iii) the acquisition of the Subordinated Note by the LLC.

The Bank, acting through the Branch, will purchase the 1,000 common limited liability company interests of the LLC (the "LLC Common Securities"), each having an issue price of $1,000 per LLC Common Security, consisting of a nominal value of $10 each and an additional contribution to capital (the "Paid Additional Capital") of $990 each, for an aggregate purchase price of $1,000,000.

The Trust will sell to the Initial Purchasers in the Offering the Certificates for $200,000,000. The Trust will enter into the Silent Partnership Agreement with the LLC, providing for the issuance and sale by the LLC of $200,000,000 of the Partnership Interests, and in connection therewith will contribute to the LLC the gross proceeds from the sale of the Certificates. The LLC will purchase the Subordinated Note from the Branch for $201,000,000.

The Bank, acting through the Branch, will enter into the Waiver and Improvement Agreement with the LLC, and will pay for the expenses incurred in connection with the Offering, the formation of the LLC and the creation and operation of the Trust.

The LLC and the Bank intend that the terms of the Subordinated Note, which will be issued by the Bank, acting through the Branch, will be fair to the LLC. However, no third-party opinion as to the fairness of the terms of the Subordinated Note has been or will be obtained for purposes of the Offering, and there can be no assurance that the terms of the Subordinated Note are no less favorable to the LLC than could have been obtained by the LLC in an arm's length transaction with an unaffiliated party.

Benefits to the HypoVereinsbank Group

HypoVereinsbank Group is required by the German Banking Supervisory Authority to maintain certain levels of capital under applicable regulatory capital requirements. The Bank intends to treat the Partnership Interests as Tier One Capital of the HypoVereinsbank Group.

In addition, the Bank believes that the capital contributions received in connection with issuance of the Partnership Interests, together with the LLC's expected treatment as a partnership for U.S. federal income tax purposes, will provide the HypoVereinsbank Group with a cost-effective means of obtaining additional Tier One Capital in a foreign currency.

The Offering

The LLC..... HVB Capital LLC III (the "LLC") is a newly formed limited liability company organized under the Delaware Limited Liability Company Act (the "LLC Act") and is operating under an amended and restated limited liability company agreement (the "Charter"). The Bank anticipates that the LLC will be treated as a partnership for U.S. federal income tax purposes.

The LLC will initially be capitalized with 1,000 common limited liability company interests (the "LLC Common Securities"). The LLC Common Securities will have an issue price of $1,000 per LLC Common Security, consisting of a nominal value of $10 each and an additional contribution to capital (the "Paid Additional Capital") of $990 each. All of the LLC Common Securities will be acquired by the Bank, acting through the Branch.

The LLC will enter into a Silent Partnership Agreement (the "Silent Partnership Agreement") with the Property Trustee, on behalf of the Trust (as described below), providing for 200,000 dated silent partnership interests (each, a "Partnership Interest"), having an aggregate liquidation preference of $200,000,000 and which mature on October 22, 2031 subject to extension as described herein. Each Partnership Interest will have an issue price of $1,000, representing a contribution to capital of $1,000 per Partnership Interest, and the Partnership Interests will rank *pari passu* among themselves. The LLC will use the proceeds from the issuance of the LLC Common Securities and the Partnership Interests to purchase a subordinated note (the "Subordinated Note") of the Bank, acting through the Branch, that matures on October 22, 2031, the same date on which the Partnership Interests are scheduled to mature, subject to extension under the same circumstances that would lead to the extension of the maturity of the Partnership Interests as described herein. The sole asset of the LLC will initially be the Subordinated Note. The rights of the LLC in respect of the Subordinated Note will be subject to a Waiver and Improvement Agreement (the "Waiver and Improvement Agreement") between the Bank, acting through the Branch, and the LLC.

The LLC was formed for the sole purposes of (i) issuing the LLC Common Securities, (ii) entering into the Silent Partnership Agreement providing for the Partnership Interests, (iii) acquiring and holding the Subordinated Note and entering into the Waiver and Improvement Agreement, (iv) if the Subordinated Note is redeemed prior to maturity, acquiring and holding certain Eligible Intercompany Investments (as defined herein), and (v) engaging in other activities incidental to the foregoing. So long as any Partnership Interests are outstanding, the LLC may not incur any indebtedness and may not issue any securities that are *pari passu* with, or rank senior to, the Partnership Interests.

For so long as any Partnership Interests are outstanding, the Bank, acting through the Branch, will covenant (i) to maintain direct or indirect ownership of 100% of the outstanding LLC Common Securities, (ii) to cause the LLC to remain a limited liability company under the LLC Act and not

to voluntarily dissolve the LLC unless the Bank is also being liquidated and (iii) to take such commercially reasonable actions as may be appropriate to prevent the LLC from being deemed to be either (A) an "investment company" required to register under the U.S. Investment Company Act of 1940, as amended (the "1940 Act"), or (B) an entity other than a partnership for U.S. federal income tax purposes.

The Trust ..... HVB Funding Trust III (the "Trust") is a newly created statutory business trust organized under the Delaware Business Trust Act (the "Trust Act"), and is operating under an amended and restated declaration of trust (the "Declaration"). The Bank anticipates that the Trust will be treated as a grantor trust for U.S. federal income tax purposes.

The Trust was formed for the sole purposes of (i) entering into the Silent Partnership Agreement providing for the Partnership Interests, holding the Partnership Interests for the benefit of the holders of the Certificates and passing through to such holders all payments received thereon, including Distributions (as defined herein under "—Distributions Other Than During a Shift Period" and "—Distributions During a Shift Period"), redemption payments, liquidation payments and payments received at maturity as well as all other rights in respect of the Partnership Interests, (ii) issuing certificates (the "Certificates") in an aggregate liquidation amount of $200,000,000, each representing an undivided interest in Trust assets, including the Partnership Interests, and (iii) engaging in other activities incidental to the foregoing. Pursuant to the terms of the Declaration, the Trust may not issue any securities other than the Certificates and may not incur any indebtedness. The sole assets of the Trust will be the Partnership Interests.

Pursuant to the Declaration, there will be two trustees (each a "Trustee") of the Trust, each of whom will be unaffiliated with the Bank and its affiliates. One Trustee (the "Property Trustee") will be a financial institution. The second Trustee (the "Delaware Trustee") will be an entity that maintains its principal place of business in the State of Delaware (satisfying a requirement of the Trust Act that at least one Trustee be located in Delaware). Initially, The Bank of New York will act as Property Trustee and The Bank of New York (Delaware) will act as Delaware Trustee. Holders of a majority in aggregate liquidation amount of the outstanding Certificates will have the right to replace any of the Trustees, subject to the foregoing Delaware statutory requirements.

The Trust will not be controlled by or consolidated with the Bank. Neither the Bank nor the LLC will have any rights to elect officers or otherwise have any voting rights over the affairs of the Trust or otherwise control or direct the actions of the Trust or the Trustees. The Bank, acting through the Branch, has agreed to provide certain administrative services for the Trust, indemnify the Trustees for certain liabilities and pay for all expenses of the Trust and the Trustees in connection with the performance of their duties under the Declaration. The Bank, acting through the Branch, will also pay all fees and expenses related to the Offering and the organization and operations of the Trust (including any taxes, duties, assessments or

governmental charges of whatever nature, imposed upon the Trust by the United States, Germany, or the jurisdiction of the obligor of any Eligible Intercompany Investments or any other taxing authority of or in any of the foregoing jurisdictions).

For so long as the Certificates remain outstanding, the Bank, acting through the Branch, in cooperation with the Property Trustee, will covenant (i) to cause the Trust to remain a statutory business trust under the Trust Act and not to voluntarily dissolve or terminate the Trust, except as permitted by the Declaration, and (ii) to take such commercially reasonable actions as may be appropriate to prevent the Trust from being deemed to be either (A) an "investment company" required to register under the 1940 Act or (B) an entity other than a grantor trust for U.S. federal income tax purposes.

The Property Trustee ..... The Property Trustee, on behalf of the Trust, will enter into the Silent Partnership Agreement providing for the Partnership Interests and will hold the Partnership Interests on behalf of the Trust for the benefit of the holders of the Certificates.

Under the terms of the Certificates, the Property Trustee will remit to the holders of the Certificates, on a *pro rata* basis, all amounts received in respect of the Partnership Interests including Distributions, redemption payments, liquidation payments and amounts payable at maturity if, as, and when received by the Trust from the LLC. The Property Trustee will also pass through to holders of Certificates any voting rights and rights of consent or approval that may arise in respect of the Partnership Interests.

Subject to the terms of the Declaration, the Property Trustee will have the right to enforce the terms of the Partnership Interests, including the right to receive payments thereon, and to enforce the covenants and other terms contained in the Silent Partnership Agreement. Notwithstanding the foregoing, any holder or beneficial owner of Certificates will be able to institute a direct action against the LLC to enforce the terms of the Silent Partnership Agreement with respect to the Partnership Interests allocable to the Certificates held by such holder or beneficially owned by such beneficial owner, including the right to receive payments on such Partnership Interests.

The Property Trustee will have no financial obligation of any kind under or with respect to the Certificates. Because the sole assets of the Trust consist of the Partnership Interests, the Trust will make payments in respect of the Certificates solely out of funds received by the Trust in respect of the Partnership Interests.

Certificates..... The Trust is offering 200,000 Certificates with an aggregate liquidation amount of $200,000,000. Each Certificate will represent an undivided interest in the Trust's assets, including the Partnership Interests.

Currency ..... The Certificates, the Partnership Interests and the Subordinated Note will be denominated in U.S. dollars.

LLC Common Securities and Control by the Bank	The LLC Common Securities will represent common limited liability company interests of the LLC. All of the LLC Common Securities will be acquired by the Bank, acting through the Branch, and the Bank, acting through the Branch, will agree to maintain, directly or indirectly, ownership of 100% of the LLC Common Securities for so long as any of the Partnership Interests are outstanding. As the holder of all the outstanding LLC Common Securities, the Bank, acting through the Branch, will have the right to elect and control the Board of Directors of the LLC, subject to (i) the right of the holders of the Partnership Interests under certain circumstances to replace the independent director initially appointed by the Bank with a new director and to elect two additional directors (provided, however, that the total number of independent directors, including those persons appointed by the Bank or elected or replaced by the holders of the Partnership Interests, always constitutes a minority of the Board of Directors) and (ii) certain rights and enforcement powers that such independent directors have. Under no circumstances will the holders of the Partnership Interests, or any directors that they may elect, have the power to amend the terms of the Silent Partnership Agreement or to cause the LLC to pay Distributions or other amounts that are not required to be paid under the terms of the Partnership Interests. So long as any Partnership Interests are outstanding, the LLC Common Securities may not be redeemed or repurchased.
Silent Partnership Agreement; Partnership Interests	The LLC and the Trust will enter into a Silent Partnership Agreement providing for 200,000 Partnership Interests with an aggregate liquidation preference of $200,000,000. Each Partnership Interest will have an issue price and a nominal value of $1,000 (such $1,000 nominal value of each Partnership Interest referred to as the "Initial Nominal Value") and a liquidation preference of $1,000 (the "Liquidation Preference"). Each Partnership Interest will also have a notional current nominal value (the "Current Nominal Value") that will initially equal the Initial Nominal Value and that will thereafter be reduced on a notional basis to reflect the allocation of any Accumulated Deficit (as defined herein under "—'Available Distributable Profits', 'Profit', 'Loss' and 'Accumulated Deficit'") in excess of Paid Additional Capital as described under "—Loss Participation". The Partnership Interests will rank *pari passu* among themselves.
Status of Partnership Interests under the Charter	The Charter will provide that a holder of a Partnership Interest will have the status of a "member" of the LLC within the meaning of the LLC Act. Accordingly, in addition to the Silent Partnership Agreement, the Charter and the LLC Act will govern the rights, duties and liabilities of a holder of a Partnership Interest. In the event that a holder of a Certificate surrenders the Certificate in order to receive a Partnership Interest (as described herein under "—Withdrawal"), such holder will become a "member" of the LLC and will be bound by the Charter and the LLC Act in addition to the Silent Partnership Agreement.

Total Partnership Interest Capital Contribution	The Total Partnership Interest Capital Contribution, which represents the aggregate capital contribution to the LLC by the Trust upon the execution of the Silent Partnership Agreement, will be $200,000,000, which amount is equal to the aggregate liquidation preference of the Partnership Interests.
Distributions Other than During a Shift Period	Periodic distributions (each, a "Distribution") in respect of the Partnership Interests will be payable on a non-cumulative basis when, as and if declared (or deemed to have been declared) by the Board of Directors of the LLC out of Available Distributable Profits (as defined herein under "—'Available Distributable Profits', 'Profit', 'Loss' and 'Accumulated Deficit'") (i) semi-annually in arrears on each June 30 and December 31, commencing December 31, 1999 and (ii) in arrears on the Partnership Interest Maturity Date (or, if the Partnership Interests are called or redeemed prior thereto, on the Call Date or the Early Redemption Date, as the case may be) (each a "Distribution Payment Date"). Distributions on each Partnership Interest will be payable at a fixed rate per annum equal to 9.00%. Distributions on the Certificates will be made semi-annually on each Distribution Payment Date by the Trust on a pass-through basis upon (and subject to) receipt by the Trust of Distributions by the LLC on the Partnership Interests, commencing December 31, 1999. The only source of funds for payment of Distributions in respect of the Certificates will be the payment of Distributions by the LLC in respect of the Partnership Interests. The LLC will be required to make Distributions in respect of the Partnership Interests to the extent that (i) such payments can be made from the Available Distributable Profits for the relevant Distribution Period and (ii) the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. To the extent that interest payments are made on the Subordinated Note in respect of any Distribution Period, the LLC is expected to have Available Distributable Profits to pay Distributions on the Partnership Interests for such period. If the Bank, acting through the Branch, does not pay interest on the Subordinated Note on any Distribution Payment Date, either because it is not obligated to do so during a Shift Period or because it has not otherwise made such payments, the LLC will not have Available Distributable Profits to pay Distributions on the Partnership Interests on such Distribution Payment Date. Distributions will not be made in respect of the Partnership Interests if, and for so long as, the Current Nominal Value of the Partnership Interests, as calculated at the end of the relevant Distribution Period, is less than the Liquidation Preference of the Partnership Interests, except to the extent that the LLC is obligated to pay Distributions in respect of the Partnership Interests out of Available Distributable Profits when the obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note has been reinstated pursuant to the Waiver and Improvement Agreement. Except possibly during a Shift Period (as defined herein under "—Shift Event; Shift Period"), the LLC does not expect that the Current Nominal Value of any Partnership Interest will be less than the Liquidation Preference of such Partnership Interest.

Distributions not declared (and not deemed to have been declared) by the LLC in respect of the Partnership Interests for any Distribution Period will not accumulate and the holders of Partnership Interests will have no right to receive a Distribution on the Partnership Interests in respect of such Distribution Period, whether or not Distributions are declared with respect to a future Distribution Period.

The obligation of the LLC to make Distributions in respect of the Partnership Interests will rank senior to the rights of the holders of the LLC Common Securities to receive distributions in respect thereof, but is subordinated in every respect to the claims of any creditors of the LLC. Accordingly, the LLC may pay distributions in respect of the LLC Common Securities for any Distribution Period only if it has paid in full the Distributions in respect of the Partnership Interests for such Distribution Period.

Distributions on the Partnership Interests and on the Certificates in respect of each Distribution Period will be calculated on the basis of a 360-day year of twelve 30-day months. Distributions payable on each Distribution Payment Date will be calculated from and including the immediately preceding Distribution Payment Date (or, in the case of the initial Distribution Payment Date, from and including the Closing Date) to but excluding the relevant Distribution Payment Date (each such period, a "Distribution Period"). If any Distribution Payment Date falls on a day that is not a Business Day, the applicable Distribution will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. "Business Day" means a day that is a day other than a Saturday, Sunday or a day on which banking institutions in the City of New York are authorized or required by law or executive order to remain closed.

Distributions During a Shift Period..... During a Shift Period, pursuant to the Waiver and Improvement Agreement, the LLC will waive payment by the Bank, acting through the Branch, of interest on the Subordinated Note except to the extent payments are made in respect of any Ordinary Securities or Parity Securities (as defined herein under "—Required Payments"). Consequently, except in such circumstances, no Distributions will be made on the Partnership Interests or the Certificates during a Shift Period.

Required Payments ..... Taken together, the Subordinated Note and the Waiver and Improvement Agreement provide, in effect, that interest must be paid on the Subordinated Note at all times other than during a Shift Period and also, during a Shift Period, if payments are being made in respect of any Ordinary Securities or Parity Securities. The Waiver and Improvement Agreement accomplishes this result during a Shift Period by providing that if, during such Shift Period, the Bank makes or declares dividends, other distributions or other payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of Parity Securities, then interest payments in full must be paid on the Subordinated Note for the following

periods (each, a "Corresponding Period") ending on: (x) the two consecutive interest payment dates, commencing with the next following interest payment date falling on or following the date on which the Bank redeems, repurchases or otherwise acquires or defeases or otherwise terminates its obligations in respect of any Ordinary Securities or any Parity Securities or provides funds to any subsidiary in respect of the redemption, repurchase or acquisition by such subsidiary of any Ordinary Securities or Parity Securities or the defeasance or other termination of the obligations of the issuer thereof in respect of any Ordinary Securities or Parity Securities (other than (i) in connection with transactions effected for the account of customers of the Bank or its subsidiaries or in connection with the distribution, trading or market-making in respect of such securities based on an authorization by the Bank's shareholders referred to in § 71 (1) No. 7 of the German Stock Corporation Act, (ii) in connection with the satisfaction by the Bank or any of its subsidiaries of its obligations under any employee benefit plans or similar arrangements, with or for the benefit of any employees, officers, directors or consultants of the bank or any of its subsidiaries, (iii) as a result of a reclassification of the capital stock of the Bank or any of its subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock, (iv) the purchase of fractional interests in shares of the capital stock of the Bank or any of its subsidiaries pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (v) a repurchase pursuant to § 71(1) No. 3 of the German Stock Corporation Act resulting from an obligation of the Bank to offer its shares to shareholders of a company that has entered into a domination or profit-and-loss-pooling agreement with, or has been integrated (*Eingliederung*) into, the Bank in exchange for the shares of that company, or in connection with an obligation of the Bank to purchase its shares from shareholders that have dissented to a split-up (*Aufspaltung*), spin-off (*Abspaltung)* or change of the legal form (*Umwandlung)* of the Bank, (vi) as a result of a merger or other succession involving less than 1% of any class of Ordinary Securities or Parity Securities and which transaction is not entered into for the purpose of, directly or indirectly, acquiring any Ordinary Securities or Parity Securities, or (vii) the satisfaction of an obligation on a regularly scheduled maturity date which is required by the terms of the applicable governing instrument); (y) the two consecutive interest payment dates, commencing with the next following interest payment date falling on or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made no more frequently than annually; and (z) the next interest payment date falling on or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made more frequently than annually.

As used herein, "Ordinary Securities" means the Ordinary Shares and any other securities of the Bank ranking junior to the Bank Parity Securities;

and "Parity Securities" means Bank Parity Securities and Subsidiary Parity Linked Securities.

For purposes of the foregoing definitions, "Ordinary Shares" means the Bank's common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*); "Bank Parity Securities" means any silent partnership agreement or any other instrument of the Bank that has rights to payment that are expressly or legally subordinated to all creditors of the Bank (including holders of *Genußscheine*) but that are senior to the rights of the Ordinary Securities and that would qualify as tier one capital of the Bank on a consolidated basis under the relevant bank regulatory provisions applicable in Germany ("German Tier One Capital") (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which tier one capital treatment of such instrument is lost for a period of time prior to maturity) or as tier one capital of the Bank on a consolidated basis under the applicable international bank capital standards promulgated by the Committee on Banking Supervision at the Bank for International Settlement ("BIS Tier One Capital"). "Subsidiary Parity Linked Securities" means any silent partnership agreement or any other instrument of any subsidiary of the Bank that has rights to payment that are (i) expressly or legally subordinated to all creditors of such subsidiary (including holders of *Genußscheine*) and (ii) linked to the Bank through any mechanism that expressly (through one or more agreements) makes such payments subordinated to all creditors of the Bank (other than creditors subject to similar agreements) but senior to the Bank's Ordinary Securities at all times or under circumstances similar to a Shift Event or other failure to comply with regulatory capital requirements and that would qualify as German Tier One Capital (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which tier one capital treatment of such instrument is lost for a period of time prior to maturity) or as BIS Tier One Capital.

"Available Distributable Profits", "Profit", "Loss" and "Accumulated Deficit" .....

As used herein, the LLC's "Available Distributable Profits" for a particular Distribution Period means the LLC's Profit with respect to the fiscal period corresponding to such Distribution Period.

"Profit" of the LLC with respect to a particular Distribution Period means the profit earned for such Distribution Period as shown in the unaudited income statement of the LLC for such Distribution Period and as determined in accordance with U.S. GAAP. "Loss" of the LLC with respect to a particular Distribution Period means the loss incurred for such Distribution Period as shown in the unaudited income statement of the LLC for such Distribution Period and as determined in accordance with U.S. GAAP. "Accumulated Deficit" means any Loss not covered by retained earnings of the LLC in respect of periods after the Closing Date, as shown on the unaudited balance sheet of the LLC as of the relevant Distribution Payment Date prepared in accordance with U.S. GAAP.

Loss Participation	If any semi-annual balance sheet of the LLC shows an Accumulated Deficit, then such Accumulated Deficit will be allocated on a notional basis first to the Paid Additional Capital of the LLC Common Securities until such Paid Additional Capital is exhausted, and then to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests in proportion to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests. The allocation of any Accumulated Deficit to the Partnership Interests and the LLC Common Securities will be solely on a notional basis for purposes of allocating loss participation between the Partnership Interests and the LLC Common Securities and, accordingly, will not result in the actual write down of the nominal value of either the Partnership Interests or the LLC Common Securities. Unless the Current Nominal Value equals the Liquidation Preference of the Partnership Interests, no Distributions may be paid in respect of the Partnership Interests or the LLC Common Securities, except to the extent interest on the Subordinated Note is paid pursuant to the requirements of the Waiver and Improvement Agreement.
Shift Event; Shift Period	A "Shift Event" will be deemed to have occurred if (i) the Management Board (*Vorstand*) of the Bank determines that either (A) the Bank's total capital ratio (equity ratio) on an unconsolidated basis or tier one capital ratio (core capital ratio) on an unconsolidated basis has declined below the minimum percentages required from time to time by the German Banking Act (*Kreditwesengesetz)* (the "German Banking Act") (as applicable to the Bank, presently 8% and 4.4%, respectively) or (B) the Bank's non-compliance with the foregoing capital ratio requirements is immediately imminent, (ii) the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*) (the "German Banking Supervisory Authority") has filed an application for the commencement of insolvency proceedings with respect to the Bank, or (iii) the German Banking Supervisory Authority either (A) exercises its extraordinary supervisory powers pursuant to the provisions of Sections 45 to and including 46a of the German Banking Act or (B) announces its intention to take such measures against the Bank. The aforementioned powers of the German Banking Supervisory Authority may be invoked, among other things, if the German Banking Supervisory Authority determines that a banking institution does not comply with the regulatory capital requirements of the German Banking Act, there is a risk that a banking institution will not meet its obligations to creditors or there is reason to suspect that effective supervision of a banking institution is not possible. A "Shift Period" is defined as any period commencing on the date of the occurrence of any Shift Event and ending upon the date immediately preceding the first date upon which no Shift Event exists.
Payment of Additional Amounts	All payments by the Trust in respect of the Certificates will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature, imposed or levied by or on behalf of Germany or the jurisdiction of residence (other than the United States) of any obligor on any Eligible

Intercompany Investments or any political subdivision or authority therein or thereof having the power to tax (each such jurisdiction, together with Germany, and each political subdivision or authority therein or thereof having the power to tax, a "Relevant Jurisdiction") (the taxes so imposed, each a "Relevant Tax"), unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay, as further Distributions, such additional amounts ("Additional Amounts") as may be necessary in order for the net amounts received by the holders of the Certificates after such withholding or deduction to equal the amount that such holders would have received in respect of the Certificates in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Certificates (or to a third party on any holder's behalf) with respect to any Certificates (i) to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Certificates) having some connection with the Relevant Jurisdiction that is imposing such tax, other than being a holder (or the beneficial owner) of such Certificates (including indirect ownership of the Partnership Interests) or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction, provided that the Bank or its agent has provided the holder or its nominee with at least 60 days prior written notice of an opportunity to make such declaration.

The LLC will pay, subject to the same exceptions set forth in the preceding paragraph as applied to the holders of the Partnership Interests and the holders of the Certificates (provided, however, that no such exceptions will apply with respect to the Trust as holder of any Partnership Interests), such Additional Amounts to each holder of Partnership Interests as may be necessary in order that every net payment in respect thereof, after withholding for any Relevant Tax, will not be less than the amount otherwise required to be paid in respect of the Partnership Interests and the Certificates.

The Bank, acting through the Branch, will also pay under the terms of the Subordinated Note, subject to the same exceptions set forth in the preceding paragraph as applied to the holders of the Partnership Interests and the holders of the Certificates (provided, however, that no such exceptions will apply with respect to the Trust as holder of any Partnership Interests or the LLC or any other holder of the Subordinated Note), such Additional Amounts to any holder of the Subordinated Note as may be necessary in order that every net payment in respect thereof, after withholding for any Relevant Tax, will not be less than the amount otherwise required to be paid in respect of the Subordinated Note, the Partnership Interests and the Certificates.

The Bank, acting through the Branch, will also pay under the terms of the Subordinated Note such additional amounts as may be necessary to pay any taxes that may be imposed on the Partnership Interests, the LLC, or the Trust by the United States (and each political subdivision thereof or therein having the power to tax) or any Relevant Jurisdiction.

Liquidation Preference.....	The Liquidation Preference for each Partnership Interest is $1,000.
Liquidation.....	In the event of any dissolution and liquidation of the LLC, the holders of the Partnership Interests will be entitled to receive out of the assets of the LLC available for distribution after satisfaction of any claims of creditors (whether by payment or the making of reasonable provisions for payment thereof), if any, and before any distribution of assets to the holders of the LLC Common Securities an amount per Partnership Interest equal to the sum of (i) the Liquidation Preference (notwithstanding any prior notional reduction of the Initial Nominal Value to the Current Nominal Value) and (ii) any unpaid Distributions in respect of each Partnership Interest for the then current Distribution Period (together the "Liquidation Distribution"). In the event that the Liquidation Distribution cannot be made in full because the LLC does not have sufficient funds to do so, the funds available for distribution will be distributed on a *pro rata* basis among the Partnership Interests. Upon receipt of the Liquidation Distribution by the Trust in respect of the Partnership Interests, the Trust will make a corresponding Liquidation Distribution in respect of the Certificates. So long as any of the Partnership Interests are outstanding, the Charter provides that the Bank, acting through the Branch, as the holder of the LLC Common Securities, will not cause the LLC to dissolve and to liquidate unless the Bank is also liquidated. The Charter provides that the LLC will be dissolved and liquidated if the Bank is also liquidated. Under the terms of the Charter, and to the fullest extent permitted by law, the LLC will not be liquidated until all claims under the Subordinated Note or Eligible Intercompany Investments will have been paid to the extent required by the terms of such instruments and the Waiver and Improvement Agreement. The Declaration will provide that the Trust may not be liquidated or dissolved so long as any Partnership Interests are outstanding except (i) in connection with a Trust Dissolution Event (as defined herein under "—Liquidation of the Trust upon a Trust Dissolution Event"), (ii) if no Certificates are outstanding or (iii) upon the liquidation and dissolution of the LLC. If the LLC is liquidated and dissolved, the Trust will be liquidated and dissolved. If the Bank is liquidated during a Shift Period, the LLC will be entitled to receive the repayment of principal in respect of the Subordinated Note, provided, however, that such right will be subordinated to the rights of all creditors of the Bank (including the rights under *Genußscheine*), but will rank senior to the rights of the shareholders (including common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*)) and any other Ordinary Securities and will rank *pari passu* with Bank Parity Securities and any obligations of the Bank issued or incurred in respect of any Subsidiary Parity Linked Securities.
Maturity; Maturity Payments	The Partnership Interests will mature on October 22, 2031 (the "Scheduled Partnership Interest Maturity Date"), but if the Scheduled Partnership Interest Maturity Date occurs during a Shift Period, the maturity will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of

	liquidation proceedings in respect of the Bank and (ii) the date after the Shift Period ends (such earlier date, the "Extended Maturity Date" and, together with the Scheduled Partnership Interest Maturity Date, the "Partnership Interest Maturity Date"). If the Partnership Interest Maturity Date occurs other than in connection with the commencement of the liquidation of the Bank and the LLC, the LLC will pay the Current Nominal Value, not to exceed the Liquidation Preference, of each Partnership Interest as calculated based on the most recent semi-annual unaudited balance sheet of the LLC plus accrued and unpaid Distributions for the then current Distribution Period (the "Maturity Payment"). If the Partnership Interest Maturity Date occurs in connection with the liquidation of the Bank, the holders of Partnership Interests will receive the amounts to which they are entitled in connection with the related liquidation of the LLC as set forth in "—Liquidation" above. The LLC will make the Maturity Payment out of the amounts received upon maturity of the Subordinated Note. Upon receipt by the Trust of the Maturity Payment, if any, from the LLC in respect of each Partnership Interest, the Trust will make a corresponding payment in respect of each Certificate.
Call Provisions.....	Prior to the Partnership Interest Maturity Date and except during a Shift Period, the Partnership Interests may be called, in whole but not in part, by the LLC on October 22, 2029 (the "First Call Date"), and thereafter on any Distribution Payment Date (such date, together with the First Call Date, the "Call Date") for an amount per Partnership Interest equal to the Current Nominal Value plus accrued and unpaid Distributions for the then current Distribution Period (i) with the prior consent of the German Banking Supervisory Authority and (ii) upon no less than 30 and no more than 60 days' prior written notice to holders of the Partnership Interests. The LLC may not call the Partnership Interests prior to the Partnership Interest Maturity Date unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to call the Partnership Interests, the funds will be applied by the Trust on a pass-through basis to redeem the Certificates. Unless the LLC defaults in payment of the call price, on the Call Date, all Partnership Interests will terminate and Distributions will cease to accrue on the Partnership Interests.
Early Redemption	Prior to the First Call Date and except during a Shift Period, the Partnership Interests may be redeemed in whole but not in part by the LLC upon the occurrence of an LLC Early Redemption Event (as defined below) at an amount (the "Early Redemption Amount") equal to the greater of (i) the Current Nominal Value plus accrued and unpaid Distributions for the then current Distribution Period and (ii) the Make Whole Amount, (A) with the prior consent of the German Banking Supervisory Authority and (B) upon no less than 30 and no more than 60 days' prior written notice to holders of the Partnership Interests. The LLC may not, prior to the First Call Date, as a result of an LLC Early Redemption Event, redeem the Partnership Interests unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to redeem the Partnership Interests, the funds will be applied by the Trust on a pass-through basis to redeem the Certificates.

The "Make Whole Amount" is equal to the sum of (i) the present value of the Liquidation Preference of each Partnership Interest at the date of redemption (the "Early Redemption Date") in connection with an LLC Early Redemption Event and (ii) the aggregate present value of Distributions scheduled to be made in respect of each Partnership Interest from the Early Redemption Date to the First Call Date (the "Remaining Life"), in each case discounted to the Early Redemption Date from the First Call Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (A) in the event that the Early Redemption Date occurs on or prior to October 22, 2000, 150 basis points or (B) in the event that the Early Redemption Date occurs after such date, 50 basis points.

"Treasury Rate" means, with respect to the Early Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Early Redemption Date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the Remaining Life of the Partnership Interests to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Partnership Interests. "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Bank.

"Comparable Treasury Price" means (i) the average of the Reference Treasury Dealer Quotations for the Early Redemption Date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if The Bank of New York in its role as the Calculation Agent (the "Calculation Agent") obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Calculation Agent, of the bid and offered prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding the Early Redemption Date.

"Reference Treasury Dealer" means each of CS First Boston Corporation, Goldman, Sachs & Co., Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Salomon Smith Barney, Inc. and their respective successors; provided, however, that if any of the foregoing or their affiliates will cease to be a primary U.S. Government securities dealer in the City of New York (a "Primary Treasury Dealer"), the LLC will substitute therefor another Primary Reference Dealer, in consultation with the Bank.

Unless the LLC defaults in payment of the redemption price, on the Early Redemption Date, the Partnership Interests will terminate and Distributions will cease to accrue on the Partnership Interests.

In the event that the Partnership Interests are redeemed upon the occurrence of an LLC Early Redemption Event, the Certificates will likewise be redeemed for an amount per Certificate equal to the Early Redemption Amount and both the Trust and the LLC will, upon such redemption, be liquidated.

An "LLC Early Redemption Event" means (i) a Tax Event, (ii) an Investment Company Event with respect to the LLC or (iii) a Capital Event.

A "Tax Event" means the receipt by the Bank of an opinion of a nationally recognized law firm or other nationally recognized tax adviser in the United States or any Relevant Jurisdiction, as applicable, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in the laws or treaties (or any regulations promulgated thereunder) of the United States or any political subdivision or authority therein or thereof having the power to tax, or such Relevant Jurisdiction, (ii) 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) (an "Administrative Action") or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any 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, change or Administrative Action is effective, or which interpretation, pronouncement or decision is announced, on or after the date of the execution of the Silent Partnership Agreement there is more than an insubstantial risk (A) that either the Trust or the LLC, as the case may be, is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges or (B) the Trust, the LLC, the Bank, acting through the Branch, or the obligor on any Eligible Intercompany Investments, as the case may be, would be required to pay any Additional Amounts as described herein under "—Payment of Additional Amounts".

An "Investment Company Event" means receipt by the Bank of an opinion of a nationally recognized law firm in the United States, experienced in such matters, to the effect that, as a result of the occurrence of a change in law or regulation or a written change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that the Trust or the LLC is or will be considered to be an "investment company" within the meaning of, and required to register as an investment company under, the 1940 Act, which change is made on or after the date of the original issuance of the Certificates.

	A "Capital Event" means the determination by the Bank that the Partnership Interests may not be included in Tier One Capital.
Liquidation of the Trust upon a Trust Dissolution Event……	Except in certain circumstances, upon the occurrence of a Trust Dissolution Event (as defined below), the Trust will be dissolved and the Certificates will be redeemed. Upon such dissolution of the Trust, each holder of Certificates will receive as its liquidation distribution the number of Partnership Interests represented by the Certificates held by such holder. As a result of such transfer, such holder will become a party to the Silent Partnership Agreement with respect to the Partnership Interests so transferred. As described herein, any Partnership Interest received upon the liquidation of the Trust may not be cleared through DTC and a holder of a Partnership Interest will receive annually a Form K-1 in lieu of a Form 1099 for U.S. federal income tax reporting purposes. The Partnership Interests distributed upon the liquidation of the Trust may, therefore, trade at a discount to the price of the Certificates prior to such liquidation. A "Trust Dissolution Event" means the occurrence of either a Tax Event or an Investment Company Event, in each case with respect to the Trust. A Trust Dissolution Event, absent a simultaneous LLC Early Redemption Event, will not result in the redemption of the Partnership Interests and the liquidation of the LLC.
Voting Rights……	Generally, holders of Certificates will not have any voting rights. If at any time the holders of the Partnership Interests will be entitled to vote, including with respect to the election of independent directors, the consent to amendments and other matters requiring the approval of the holders of the Partnership Interests pursuant to the terms of the Charter, the Property Trustee will (i) notify the holders of the Certificates of such rights, (ii) request specific directions of each holder of a Certificate as to the manner in which it should vote with respect to the Partnership Interests allocable to such Certificate and (iii) vote the Partnership Interests held by the Trust only in accordance with such specific directions. Except as expressly required by applicable law, or as indicated below, the holders of the Partnership Interests will not be entitled to vote. If (i) the LLC fails to pay full Distributions on the Partnership Interests for the most recent Distribution Period or (ii) a Shift Event occurs, the holders of the Partnership Interests will be entitled to replace the Designated Independent Director (as defined herein under "—Management; LLC Independent Directors") with a new director and to elect two additional directors (such replaced director and such additional directors, referred to as the "Elected Independent Directors" and, together with the Designated Independent Director, the "Independent Directors"). Any member of the Board of Directors of the LLC elected by the holders of the Partnership Interests will be deemed to be "independent" for purposes of the actions requiring, pursuant to the Charter, the approval of a majority of the Independent Directors. The Elected Independent Directors will be required to vacate office when the corresponding Shift Period ends, if applicable, or, if not

applicable, when the next full Distributions are made on the Partnership Interests, except that, if any Elected Independent Director was elected to replace a Designated Independent Director, such Elected Independent Director will be entitled to remain in office until the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities appoints another person as an Independent Director.

In addition, certain actions require the approval of holders of two-thirds in aggregate Liquidation Preference of the Partnership Interests. Other than with respect to those actions and with respect to the election, removal and replacement of the Independent Directors in the circumstances described above, the Partnership Interests will not have any voting rights.

The Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities, will at all times have the right to elect a majority of the Board of Directors of the LLC.

Management; LLC Independent Directors .....

Pursuant to the Charter, the LLC will be managed by a Board of Directors consisting initially of five directors, of whom one (1) director will be an independent director (the "Designated Independent Director"). The Designated Independent Director will be appointed by the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities and may be replaced by the Bank (except during a Shift Period or during such time as the LLC will have failed to pay full Distributions on the Partnership Interests for the most recent Distribution Period). The Designated Independent Director may not be (i) an affiliate of the Bank, (ii) an employee of the Bank or (iii) an employee of any affiliate of the Bank. The initial Designated Independent Director is Donald J. Puglisi. In addition, the holders of the Partnership Interests, upon the failure of the LLC to pay full Distributions on the Partnership Interests for the most recent Distribution Period or upon the occurrence of a Shift Event, may replace the existing Independent Director with a new director and may elect two additional Independent Directors to the Board of Directors of the LLC.

The Charter provides that, for as long as any Partnership Interests are outstanding, certain actions by the LLC must be approved by a majority of the Independent Directors as well as by a majority of the entire Board of Directors. As long as there is only one Independent Director, any action that requires the approval of a majority of the Independent Directors must be approved by such Independent Director. The following actions require approval of a majority of the Independent Directors: (i) to the fullest extent permitted by law, any liquidation of the LLC while any Partnership Interests are outstanding that is not concurrent with a liquidation of the Bank, (ii) payment of Distributions on Partnership Interests other than out of income received by the LLC on the Subordinated Note or any Eligible Intercompany Investments, (iii) the conversion of the LLC into another type of entity or the consolidation or merger of the LLC with or into any other entity, the consolidation or merger of any other entity with or into the LLC or the sale of all or substantially all of the assets of the LLC, and (iv) any transactions with the Bank or any affiliate of the Bank, including without limitation, any

	modification of any of the terms of the Subordinated Note, but excluding the reinvestment by the LLC of the proceeds received upon redemption of the Subordinated Note and any other funds then available to the LLC in Eligible Intercompany Investments in accordance with the applicable investment guidelines. A majority of the Independent Directors, acting together and without the vote or consent of the other members of the Board of Directors, will have the sole and exclusive right and obligation on behalf of the LLC to enforce, and otherwise act on behalf of the LLC with respect to, the Waiver and Improvement Agreement, the Subordinated Note, any Eligible Intercompany Investments, and documents related to the enforcement of any of the foregoing. The holders and beneficial owners of the Partnership Interests, and hence the holders of the Certificates, will have a direct right to enforce the Waiver and Improvement Agreement and the Subordinated Note only in the event the Independent Directors fail to enforce the rights of the LLC in respect thereof. However, for so long as the Partnership Interests are outstanding, the Waiver and Improvement Agreement may not be amended or modified without the consent of the holders of two-thirds of the aggregate liquidation preference of the Partnership Interests. The Charter provides that, to the fullest extent permitted by law, the Independent Directors (i) as to matters relating to the Subordinated Note, any Eligible Intercompany Investments, the Waiver and Improvement Agreement and other documents relating to the enforcement of any of the foregoing, will consider only the interests of the holders of the Partnership Interests and (ii) as to all other matters, will consider the interests of the holders of both the LLC Common Securities and the Partnership Interests in determining whether any proposed action requiring their approval is in the best interests of the LLC.
Withdrawal Rights	A holder or beneficial owner of Certificates will be entitled to surrender the Certificates and receive a number of Partnership Interests corresponding to such holder's or owner's interest in the Trust's assets, as represented by the Certificates surrendered. Any holder or beneficial owner exercising such rights will be responsible for any transfer taxes or fees incurred in connection with the surrender of the Certificates and the transfer of the Partnership Interests. As a result of such transfer, such holder or beneficial owner will become a party to the Silent Partnership Agreement with respect to the Partnership Interests so transferred. Upon the receipt of a Partnership Interest in exchange for a Certificate, a holder thereof will thereafter be precluded from retransferring the Partnership Interest to the Trust in exchange for a Certificate. As described herein, any Partnership Interests acquired in exchange for Certificates may not be cleared through DTC and the holder of a Partnership Interest will receive annually a Form K-1 in lieu of a Form 1099 for U.S. federal income tax reporting purposes. The Partnership Interests transferred upon exercise of the withdrawal rights may, therefore, trade at a discount to the price of the Certificates prior to such transfer.
Subordinated Note	The Subordinated Note will have an aggregate original principal amount of $201,000,000. The Subordinated Note will be scheduled to mature on

October 22, 2031 but if such date occurs during a Shift Period the maturity will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank and (ii) the date immediately following the last day of such Shift Period. Interest on the Subordinated Note will accrue from the original date of issue and be payable semi-annually in arrears on each Distribution Payment Date, commencing December 31, 1999. Interest on the Subordinated Note will be calculated on a semi-annual basis at a fixed rate per annum equal to 9.00% of the principal amount of the Subordinated Note. The right to receive interest payments and principal on the Subordinated Note will, under certain circumstances, be waived. See "—Waiver and Improvement Agreement". Thereafter, under certain circumstances in connection with the payment by the Bank or its subsidiaries of dividends or other distributions or other payments with respect to certain other securities or upon the discontinuation of a Shift Event, the obligation of the Bank, acting through the Branch, to pay interest and principal under the Subordinated Note will be reinstated. Any amounts not payable in respect of the Subordinated Note during a Shift Period will not accumulate and will not thereafter be paid subsequent to the termination of the relevant Shift Period. The Subordinated Note will contain call provisions and early redemption rights that correspond to the call provisions and early redemption rights applicable to the Partnership Interests as described herein under "—Call Provisions" and "—Early Redemption". The Subordinated Note may also be redeemed by the Bank, acting through the Branch, at any time prior to maturity, provided that the LLC invests the proceeds thereof in Eligible Intercompany Investments. See "—Eligible Intercompany Investments".

The Subordinated Note will constitute an unsecured obligation of the Bank, acting through the Branch, and will be subordinate and junior in right of payment to all present and future Other Obligations. See "Liquidation". "Other Obligations" means all other liabilities of the Bank (including the rights under *Genußscheine*) (a form of profit participation obligation qualifying as tier two capital) but excluding any indebtedness that by its terms is subordinated to or ranks *pari passu* with (i) the Subordinated Note or (ii) any other obligations of the Bank payments on which would, during a Shift Period, require the Bank, acting through the Branch, to make any payments in respect of the Subordinated Note as described herein under "—Required Payments".

Waiver and Improvement Agreement .....

Except as otherwise stated below, pursuant to the Waiver and Improvement Agreement, during a Shift Period, the LLC will waive (i) its right to interest under the Subordinated Note for each interest payment date that occurs during such Shift Period and (ii) its right to principal and any other payments under the Subordinated Note, and the Bank, acting through the Branch, will not be obligated to make such payments. As a result, the LLC will have no income, and no Distributions will be paid to holders of the Partnership Interests during a Shift Period. The LLC does not expect that any waiver of interest, principal and other payments under the Subordinated

Note will result in either a Loss or an Accumulated Deficit, unless a Shift Event were in certain circumstances to cause a permanent impairment in the value of the Subordinated Note.

If a Shift Period has ceased to exist, the foregoing waiver will terminate and all rights of the LLC and all obligations of the Bank, acting through the Branch, in respect of the Subordinated Note will be reinstated (i) in respect of interest payments, as of the first day following the last interest payment date during such Shift Period and (ii) in respect of other obligations, from and as of the first day following such Shift Period. Any interest not payable in respect of the Subordinated Note during the time a Shift Period was continuing is not cumulative and therefore will not be paid following the end of the Shift Period. Other than its obligations pursuant to the Subordinated Note and the Waiver and Improvement Agreement, the Bank, acting through the Branch, has no obligation to contribute any funds, whether through the subscription of additional equity or otherwise, into the LLC or to provide credit support for the obligations of the LLC.

The Subordinated Note and the Waiver and Improvement Agreement will each provide that, at all times (whether or not during a Shift Period), if the Bank makes or declares dividends, other distributions or any other payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then interest payments on the Subordinated Note must be made as described herein under "—Required Payments".

Eligible Intercompany Investments..... "Eligible Intercompany Investments" are those instruments of the Bank itself, the Bank, acting through either the Branch or another branch of the Bank, or an affiliate of the Bank that is not a U.S. Person (as defined below) that satisfy each of the following conditions prior to their substitution for the Subordinated Note as assets of the LLC: (i) each Rating Agency then rating the Certificates or the Partnership Interests then outstanding, if then rated, will have informed the Bank in writing that such substitution will not result in a downgrading of the rating then assigned by such Rating Agency to the Certificates or the Partnership Interests; (ii) the Eligible Intercompany Investments will be scheduled to mature on the same date as the Subordinated Note, subject to extension on the same terms as the Subordinated Note, if such maturity date occurs during a Shift Period; (iii) the Eligible Intercompany Investments will provide for periodic payments to the LLC in amounts sufficient to enable the LLC and the Trust to make Distributions in respect of the Partnership Interests and the Certificates in the same circumstances and to the same extent as currently provided by the Partnership Interests and the Certificates; (iv) such substitution would not give rise to a Tax Event; (v) there would be no adverse withholding tax consequences to holders of Eligible Intercompany Investments, Partnership Interests or to holders of the Certificates in the aggregate, including the imposition of more burdensome tax identification requirements with respect to residency or other certification, documentation, information or reporting requirements; (vi) if, immediately prior to such substitution, the Partnership

	Interests qualify as Tier One Capital, then upon consultation with the German Banking Supervisory Authority, the Bank will have determined that the Partnership Interests would continue to qualify as Tier One Capital; (vii) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (viii) the LLC would continue to be treated as a partnership and the Trust would continue to be classified as a grantor trust, in each case for U.S. federal income tax purposes; (ix) the investment in the Eligible Intercompany Investments will not cause a Tax Event based on either (A) present applicable law or (B) any change or prospective change in applicable law to become effective at a later date and which change is known at the time of the investment in the Eligible Intercompany Investments; (x) the prior approval of the German Banking Supervisory Authority is obtained, if required; (xi) the new obligor will have irrevocably submitted to the jurisdiction of any state or U.S. federal courts in the County of New York, State of New York; (xii) either the new obligor will have also become a party to the Waiver and Improvement Agreement or an agreement with terms substantially similar to the Waiver and Improvement Agreement will have become applicable to the Eligible Intercompany Investments; (xiii) the LLC will have delivered to the Independent Directors an officers' certificate and an opinion of counsel stating that such investment complies with the terms of the Charter and that all conditions precedent in the Charter to such substitution have been complied with; and (xiv) the obligor on the Eligible Intercompany Investment and the LLC will have acknowledged that the holders of the Partnership Interests and the Certificates will be entitled, in the circumstances set forth in the Charter and the Declaration, to directly institute legal proceedings against the obligor on the Eligible Intercompany Investment. For these purposes, a "U.S. Person" is (i) an individual citizen or resident of the U.S., (ii) a corporation or partnership organized in or under the laws of the U.S. or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of source or (iv) a trust over which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions.
Form and Denomination.....	The Certificates will be represented by one or more Global Certificates (as defined herein under "Description of the Certificates—Form; Book-Entry Procedures and Transfer"). Certificates sold to qualified institutional buyers in reliance on Rule 144A will be evidenced by a Global Certificate, which will be deposited, on or about the Closing Date, with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in such Global Certificate will be shown on, and transfers thereof will be effected through, records maintained by DTC and its participants. Any Certificates sold other than in reliance upon Rule 144A will be issued in definitive form. Except in the limited circumstances set forth herein, Certificates in definitive form will not be issued in exchange for interests in the Global Certificate. See "Description of the Certificates—Form, Book-Entry Procedures and Transfer".

Transfer Restrictions	Neither the Certificates nor the Partnership Interests have been registered under the Securities Act and may therefore not be offered, sold, pledged or otherwise transferred, except as described under "Notice to Investors". The Certificates will be initially issued only in blocks having an aggregate liquidation amount of not less than $100,000 (100 Certificates) and integral increments of $1,000 in excess thereof. See "Description of the Certificates —Form, Book Entry Procedures and Transfer" and "Notice to Investors".
Ratings.....	It is expected that, upon issuance, the Partnership Interests and the Certificates will be rated "aa3" by Moody's Investors Service Ltd., and "A" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (each, a "Rating Agency"). There can be no assurance that any future downgrading of the senior long-term debt of the Bank would not adversely affect the rating of the Partnership Interests and the Certificates by the Rating Agencies. See "Risk Factors—Risk Associated with the Financial Condition of the Bank and the Branch".
Governing Law	The Waiver and Improvement Agreement and the Subordinated Note will be governed by, and construed in accordance with, the laws of the State of New York. The Declaration, the Certificates, and the Charter will be governed by, and construed in accordance with, the laws of the State of Delaware. The Silent Partnership Agreement and the Partnership Interests provided therein will be governed by the laws of Germany and, to the extent applicable, the Partnership Interests will also be governed by the Charter and Delaware law.

Risk Factors

Prospective investors should carefully consider the following information in conjunction with the other information contained in this Offering Circular before purchasing any Certificates in the Offering. Prospective investors should also carefully consider the information regarding the HypoVereinsbank Group, HypoVereinsbank and the Branch contained herein.

Risk Associated with the Financial Condition of the Bank and the Branch

If the financial condition of the Bank were to deteriorate, including as a result of the findings of the report of BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (see "Description of HypoVereinsbank—Legal and Other Proceedings"), with the consequence that a Shift Event (as defined herein) were to occur, the LLC and the holders of the Certificates could suffer direct and materially adverse consequences, including suspension of Distributions on the Partnership Interests and, as a consequence, Distributions on the Certificates. In addition, if the Bank were liquidated, the LLC would be dissolved and liquidated and holders of the Certificates could suffer a loss of their initial investment. ***Accordingly, potential investors in the Certificates should carefully consider the descriptions contained herein of the consequences of a Shift Event and the financial and other information regarding the Bank.***

A "Shift Event" will occur if: (i) the Management Board (*Vorstand*) of the Bank determines that either (A) the Bank's total capital ratio (equity ratio) on an unconsolidated basis or tier one capital ratio (core capital ratio) on an unconsolidated basis has declined below the minimum percentages required from time to time by the German Banking Act (*Kreditwesengesetz*) (the "German Banking Act") (as applicable to the Bank, presently 8% and 4.4%, respectively) or (B) the Bank's non-compliance with the foregoing capital ratio requirements is immediately imminent; (ii) the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*) (the "German Banking Supervisory Authority") has filed an application for the commencement of insolvency proceedings with respect to the Bank; or (iii) the German Banking Supervisory Authority either (A) exercises its extraordinary supervisory powers pursuant to the provisions of Sections 45 to and including 46a of the German Banking Act or (B) announces its intention to take such measures against the Bank. The aforementioned powers of the German Banking Supervisory Authority may be invoked, among other things, if the German Banking Supervisory Authority determines that a banking institution does not comply with the regulatory capital requirements of the German Banking Act, there is a risk that a banking institution will not meet its obligations towards creditors or there is reason to suspect that effective supervision of a banking institution is not possible.

While a Shift Event is in effect, pursuant to the Waiver and Improvement Agreement the LLC will waive all rights to payments of principal and interest on and other payments under the Subordinated Note, subject to reinstatement of (i) the obligation of the Bank, acting through the Branch, to pay interest if the Bank or certain of its subsidiaries make payments in respect of Ordinary Securities or Party Securities and (ii) the obligation of the Bank, acting through the Branch, to repay principal if the liquidation of the Bank is commenced. If the foregoing waiver is in effect, the LLC will not earn any profit and accordingly will have no obligation to make distributions on the Partnership Interests.

The obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note will be reinstated for the interest period or periods corresponding to the time period for which the Bank pays any dividends or makes other payments in respect of its Ordinary Securities or the Bank makes any payment under or in connection with any Parity Securities.

The obligation of the Bank, acting through the Branch, to pay principal on the Subordinated Note will be reinstated if the liquidation of the Bank is commenced while a Shift Event is in effect. Because the Subordinated Note is subordinated to all creditors of the Bank, including holders of *Genußscheine*, in certain circumstances the LLC may not, in such liquidation proceedings, receive all or any payment in respect of its claim for the payment of principal on the Subordinated Note.

The rating trend of the commercial banking industry generally has been negative for some time. In recent years, the rating of the senior long-term debt of most German commercial banks, including the Bank, was downgraded. Moody's and Standard & Poor's both have placed the Bank's senior long-term debt rating on "negative outlook". See "Description of HypoVereinsbank—Ratings".

Distributions Not Cumulative

Distributions on the Partnership Interests are not cumulative. The Silent Partnership Agreement provides that Distributions on the Partnership Interests will be paid on each Distribution Payment Date to the extent that (i) such payments can be made from the Available Distributable Profits for any fiscal semi-annual period and (ii) the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. To the extent that interest payments are made on the Subordinated Note in respect of any semi-annual period, the LLC is expected to have Available Distributable Profits sufficient to pay Distributions on the Partnership Interests for such semi-annual period. If the Bank, acting through the Branch, does not pay interest on the Subordinated Note, whether because it is not obligated to do so during a Shift Period or whether because it has not otherwise made such payments, the LLC will not have Available Distributable Profits to pay Distributions on the Partnership Interests for such Distribution Period. If a Distribution on the Partnership Interests does not become payable in respect of a Distribution Period for any reason, the LLC will have no obligation to make a Distribution for such period, whether or not Distributions on the Partnership Interests are made for any future Distribution Period. See "Description of the Partnership Interests—Distributions Other Than During a Shift Period".

Bank Regulatory Restrictions on Operations of the LLC

Because the Subordinated Note will be issued by the Bank, acting through the Branch, the New York State Banking Department and the Board of Governors of the Federal Reserve System each has regulatory authority over the Branch and could each make determinations in the future with respect to the Branch that could adversely affect the ability of the Bank, acting through the Branch, to pay interest and principal on the Subordinated Note and, accordingly, the LLC's ability to make Distributions on the Partnership Interests. See "Supervision and Regulation —Supervision and Regulation in the United States" for a description of New York State banking law and regulations applicable to the Branch. However, the Subordinated Note is an obligation of the Bank, and upon a liquidation of the Branch or a failure by the Branch to make payments under the Subordinated Note, the Bank, in accordance with German law, remains fully responsible for all obligations of the Branch under the Subordinated Note. The Bank, acting through the Branch, has agreed with the LLC that, so long as any Partnership Interests are outstanding, it will maintain direct or indirect ownership of 100% of the LLC Common Securities. Similarly, because the LLC is a subsidiary of the Bank, the German Banking Supervisory Authority could make determinations in the future with respect to the Bank that could adversely affect the LLC's ability to make distributions to its securityholders (including Distributions to the Trust as the holder of Partnership Interests) or to redeem any of its securities, including any Partnership Interests. See "Supervision and Regulation—Supervision and Regulation in Germany" for a description of German banking regulations applicable to the Bank.

Redemption upon Occurrence of an Early Redemption Event

Prior to the First Call Date and except during a Shift Period, the Partnership Interests may be redeemed in whole but not in part by the LLC upon the occurrence of an LLC Early Redemption Event at a price equal to the Early Redemption Amount, which would be equal to the greater of (i) the Current Nominal Value plus accrued and unpaid Distributions for the then current Distribution Period and (ii) the Make Whole Amount, with (A) the prior consent of the German Banking Supervisory Authority and (B) no less than 30 and no more than 60 days prior written notice to the holders of the Partnership Interests. The LLC may not, prior to the First Call Date, as a result of an LLC Early Redemption Event, redeem the Partnership Interests unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to redeem the Partnership Interests, the funds paid by the LLC upon such a redemption will be applied by the Trust on a pass-through basis to redeem the Certificates corresponding to the Partnership Interests so redeemed. See "Description of the Partnership Interests—Early Redemption".

Liquidation of the Trust upon Occurrence of a Trust Dissolution Event

Except in certain limited circumstances, if either a Tax Event or an Investment Company Event were to occur, each with respect to the Trust, then the Trust would be dissolved and liquidated. Upon such dissolution and liquidation of the Trust, each holder of Certificates would (unless such Tax Event or Investment Company Event also constitutes an LLC Early Redemption Event and the Partnership Interests are redeemed) receive as its liquidation distribution a proportionate number of Partnership Interests. Upon such distribution, the holders of the Partnership Interests would become parties to the Silent Partnership Agreement and "members" of the LLC and would become subject to Form K-1 reporting requirements under the Internal Revenue Code of 1986, as amended. Therefore, the Partnership Interests distributed upon the dissolution and liquidation of the Trust could trade at a discount to the price of the Certificates prior to such liquidation. See "Description of the Certificates—Liquidation Upon a Trust Dissolution Event".

No Voting Rights

Holders of the Certificates will not have any voting rights, except as described under "Description of the Certificates —Voting Rights". The Partnership Interests will be non-voting, except that, if (i) the LLC fails to pay Distributions in full on the Partnership Interests for the most recent Distribution Period or (ii) a Shift Event occurs, the holders of the Partnership Interests will be entitled to replace the Designated Independent Director with a new Independent Director and to elect two additional Independent Directors. Any member of the Board of Directors of the LLC elected by the holders of the Partnership Interests will be deemed to be "independent" for purposes of the actions requiring, pursuant to the Charter, the approval of a majority of the Independent Directors. The Elected Independent Directors will be required to vacate office when the corresponding Shift Period ends, if applicable, or, if not applicable, when the next full Distribution is made on the Partnership Interests, except that, if any Elected Independent Director was elected to replace a Designated Independent Director, such Elected Independent Director will be entitled to remain in office until the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities appoints another person as an Independent Director. See "Description of the Partnership Interests—Voting Rights".

Ranking of the Partnership Interests

Although the assets of the LLC will consist of the Subordinated Note (subject to replacement in whole or in part by Eligible Intercompany Investments), upon a liquidation of the Bank the Partnership Interests will effectively rank subordinate and junior in right of payment to all Other Obligations of the Bank and rank *pari passu* with the Bank's Parity Securities. There are no agreements relating to the Offering that restrict the ability of the Bank to incur additional indebtedness.

Relationship with the Bank and its Affiliates; Conflicts of Interest

The Bank and its affiliates are involved in all aspects of the LLC. The Bank, acting through the Branch, is the sole holder of the LLC Common Securities and is the issuer of the Subordinated Note. The Bank, acting through the Branch, will have the right to elect all directors of the LLC (including the initial Independent Director) other than the Independent Directors elected by the holders of the Partnership Interests upon the failure of the LLC to pay in full Distributions on the Partnership Interests for a Distribution Period or during a Shift Period. The initial (and the LLC anticipates that all future) officers and employees of the LLC, including the officers and employees who administer the Subordinated Note (and, to the extent that the LLC acquires Eligible Intercompany Investments, such other assets of the LLC) and make decisions on behalf of the LLC with respect to the acquisition and disposition of Eligible Intercompany Investments, will also be officers or employees of the Bank or one of its affiliates. Conflicts of interest may arise between the discharge by such individuals of their duties as officers or employees of the LLC on the one hand, and the Bank and its affiliates on the other hand.

The Bank and its affiliates may have interests which are not identical to those of the LLC. Consequently, conflicts of interest may arise with respect to transactions, including without limitation the LLC's administration of the Subordinated Note or Eligible Intercompany Investments.

The LLC, the Bank, and the Bank, acting through the Branch, intend that the terms of any agreements and transactions, including the terms of the Subordinated Note, between the LLC, on the one hand, and the Bank or its affiliates, on the other hand, be fair to all parties and consistent with market terms. The requirement in the Charter that, under certain circumstances, certain actions of the LLC be approved by a majority of the Independent Directors is also intended to ensure fair dealings between the LLC and the Bank and its affiliates. However, there can be no assurance that such agreements or transactions will be on terms as favorable to the LLC as those that could have been obtained from unaffiliated third parties. In particular, no third-party opinion as to the fairness of the terms of the Subordinated Note has been or will be obtained for purposes of the Offering, and there can be no assurance that the terms of the Subordinated Note are no less favorable to the LLC than could have been obtained by the LLC in an arm's-length transaction with an unaffiliated party.

Lack of Secondary Market

The Certificates are a new issue of securities and will not be listed on any securities exchange, and there can be no assurance that an active secondary market for the Certificates will develop. The Certificates may trade at a discount to the price that the investor paid to purchase the Certificates offered by this Offering Circular. The liquidity and the market prices for the Certificates can be expected to vary 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. Such fluctuations may significantly affect liquidity and market prices for the Certificates. The Certificates have not been registered under the Securities Act and will be subject to a number of resale restrictions. See "Notice to Investors". Although the Initial Purchasers have informed the Trust and the Bank that they intend to make a market in the Certificates, the Initial Purchasers are 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. See "Plan of Distribution".

Capitalization of the HypoVereinsbank Group

The following table sets forth the consolidated capitalization of the HypoVereinsbank Group as of June 30, 1999 and as adjusted to reflect the consummation of (i) Euro 200 million silent partnership contributions to HypoVereinsbank Luxembourg Société Anonyme on July 7, 1999, as well as the $300 million dated silent partnership interests issued by HVB Capital LLC on July 15, 1999 and the £100 million dated silent partnership interests issued by HVB Capital LLC II on October 13, 1999, and (ii) the Offering. For a discussion of the unaudited consolidated financial information of the HypoVereinsbank Group as of June 30, 1999, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Financial Condition as of and for the Six Months Ended June 30, 1999".

	As of June 30, 1999			
	Actual		As Adjusted	
	(U.S.$)[1]	(Euro)	(U.S.$)[1]	(Euro)
	(in billions)			
Bonds and notes	254.1	262.0	254.1	262.0
Subordinated liabilities	8.3	8.6	9.2	9.5
of which: silent partnership contributions[2]	0.9	0.9	1.7	1.8
Participating certificates	1.7	1.8	1.7	1.8
Minority interests	1.3	1.3	1.3	1.3
Shareholders' equity:				
Subscribed capital	1.2	1.2	1.2	1.2
Capital surplus	6.9	7.1	6.9	7.1
Retained earnings	3.6	3.7	3.6	3.7
Total shareholders' equity	11.6	12.0	11.6	12.0
Total capitalization[3]	277.1	285.7	278.0	286.6

(1) For this purpose, sterling amounts have been translated into U.S.$ at the Noon Buying Rate of £1.00 per U.S.$1.5765 as of June 30, 1999 and U.S. dollar amounts have been translated into Euro at the Noon Buying Rate of Euro 0.9699 per U.S.$1.00 as of June 30, 1999.

(2) Including the silent partnership contributions (*Einlagen stiller Gesellschafter*) to HypoVereinsbank Luxembourg Société Anonyme and the issuance of dated silent partnership interests by HVB Capital LLC and HVB Capital LLC II, as well as the issuance of the Partnership Interests by the LLC.

(3) Total capitalization includes bonds and notes. The HypoVereinsbank Group's capital for bank regulatory purposes includes shareholders' equity, silent partnership contributions, participating certificates (*Genußscheine*), subordinated liabilities and the fund for general banking risks (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital—Capital Adequacy" and "Supervision and Regulation—Supervision and Regulation in Germany—Capital Adequacy Requirements").

Capital Ratios of HypoVereinsbank

The following table sets forth the capital ratios of HypoVereinsbank on a consolidated and unconsolidated basis as of June 30, 1999 and as adjusted to reflect the consummation of (i) Euro 200 million silent partnership contributions to HypoVereinsbank Luxembourg Société Anonyme on July 7, 1999, as well as the $300 million dated silent partnership interests issued by HVB Capital LLC on July 15, 1999 and the £100 million dated silent partnership interests issued by HVB Capital LLC II on October 13, 1999, and (ii) the Offering.

	As of June 30, 1999	
	Actual[1]	As Adjusted
Capital Ratios of the HypoVereinsbank Group (consolidated)		
Core capital ratio (Tier I)	6.0%	6.4%
Equity ratio (Tier I + II)	10.1%	10.5%
Capital Ratios of HypoVereinsbank (unconsolidated)		
Core capital ratio (Tier I)	6.7%	N/A[2]
Equity ratio (Tier I + II)	10.8%	N/A[2]

(1) Calculated pursuant to the Banking Act and in accordance with German GAAP as applicable to the HypoVereinsbank Group and HypoVereinsbank, respectively.

(2) The Offering and the Euro 200 million silent partnership contributions, as well as the $300 million and £100 million dated silent partnership interests will have no impact on the capital ratios of HypoVereinsbank (on an unconsolidated basis).

For a more detailed discussion of the Bank's equity capital and the capital adequacy requirements to which the Bank is subject, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Capital Resources", "Supervision and Regulation—Supervision and Regulation in Germany—Capital Adequacy Requirements" and Note 68 to the HypoVereinsbank Group Financial Statements.

Capitalization of the LLC

The following table sets forth the capitalization of the LLC as of October 15, 1999 and as adjusted to reflect the consummation of the Offering.

	As of October 15, 1999	
	Actual	As Adjusted
	($)	($)
Debt		
Total long-term debt	0	0
Securityholders' Equity		
Partnership Interests, liquidation preference $1,000 per interest: none issued and outstanding, actual; and 200,000 interests authorized, issued and outstanding, as adjusted	0	200,000,000
LLC Common Securities: 1 security authorized, none issued and outstanding, actual; and 1,000 securities authorized, issued and outstanding, as adjusted	0	1,000,000
Total securityholders' equity	0	201,000,000
Total Capitalization	0	201,000,000

Use of Proceeds

The Trust will use the proceeds from the issue and sale of the Certificates to make silent partnership contributions to the LLC against the issuance of the Partnership Interests by the LLC. The LLC will use the silent partnership contributions and the proceeds from the issue and sale of the LLC Common Securities to purchase the Subordinated Note from the Bank, acting through the Branch. The Bank, acting through the Branch, will use the proceeds from the issue and sale of the Subordinated Note for general banking purposes.

With the issuance of the Partnership Interests, HypoVereinsbank intends to improve its regulatory capital base on a consolidated basis and to provide currency diversification of its Tier One Capital.

Description of HypoVereinsbank

Introduction

Vereinsbank and HYPO-BANK merged on September 1, 1998 (with retroactive effect to January 1, 1998) to form HypoVereinsbank. Based on consolidated assets of Euro 491 billion at June 30, 1999, HypoVereinsbank is the second largest bank in Germany and one of the largest providers of real estate finance in Europe. The merger positions HypoVereinsbank as the first "bank of the regions" in Europe, combining the strengths and economies of scale of a major European bank with the attention to customers of a regional bank.

While focusing on core competencies in real estate finance, asset management, structured trade and project finance, and selected treasury products, HypoVereinsbank and the HypoVereinsbank Group offer a comprehensive range of banking and financial products and services to a broad range of customer groups in the private, corporate, and public sectors. As of June 30, 1999, the HypoVereinsbank Group had a client base of approximately 5 million retail customers and approximately 62,800 corporate and public sector customers. The full range of services and products offered by the HypoVereinsbank Group includes residential and commercial mortgage loans, public sector loans, consumer banking services, business loans, foreign trade financing, corporate finance, investment products and advisory services for consumers and financial institutions, securities underwriting, brokerage and trading, and asset management. As one of only two private sector "mixed-mortgage" banks in Germany, HypoVereinsbank is also permitted to issue *Pfandbriefe* at the parent bank level for the purpose of refinancing its mortgage and public sector loans, in addition to offering the full range of banking services offered by private universal banks.

As at June 30, 1999, the HypoVereinsbank Group had a network of approximately 1,100 branches in Germany, and approximately 350 branches and representative offices in the rest of Europe and around the world. As at June 30, 1999, the HypoVereinsbank Group had a total of 45,446 employees worldwide: 34,480 in Germany and 10,966 in the rest of Europe and around the world.

While its business is conducted primarily in Germany, the HypoVereinsbank Group has a strong international presence with a clear focus on Europe. At June 30, 1999, HypoVereinsbank had 87 fully consolidated foreign subsidiaries. In the Netherlands, the HypoVereinsbank Group offers residential and commercial real estate finance through FGH Bank N.V., Utrecht, a leading mortgage bank in the Netherlands. In Luxembourg, the HypoVereinsbank Group offers private and corporate banking and investment management services through its subsidiary HypoVereinsbank Luxembourg. Throughout Central Europe, the HypoVereinsbank Group provides the services of a universal bank through subsidiaries in Austria (SKWB Schoellerbank Aktiengesellschaft, Vienna), Hungary (HypoVereinsbank Hungaria Rt., Budapest), the Czech Republic (HypoVereinsbank CZ a.s., Prague) and Poland (HypoVereinsbank Polska S.A., Warsaw and Bank Przemyslowo-Handlowy S.A., Cracow, which are expected to be merged). In Hungary, HypoVereinsbank also owns a mortgage banking subsidiary. Outside Central Europe, the HypoVereinsbank Group offers selected corporate banking services, primarily in North America and Asia. In the United States, the HypoVereinsbank Group maintains a branch office in New York. The HypoVereinsbank Group also has a presence in Asia, with branches in Singapore, Tokyo and Hong Kong as well as representative offices in Beijing, Shanghai, Mumbai, Hanoi and Seoul.

Strategy

The HypoVereinsbank Group is one of the leading European universal banks with a geographical focus on selected, economically strong regions and clearly defined core competencies. To fully leverage this position, HypoVereinsbank has identified the following four strategic initiatives:

- ***Focused universal bank.*** HypoVereinsbank aims to become a focused universal bank by targeting specific groups of customers and providing those customers with a comprehensive range of products and services in the following four specific areas of core competencies:
  - Real estate and mortgage lending (including real estate brokerage, leasing and consulting, real estate appraisal, various financing models and real estate investment funds),
  - Asset management for private and institutional customers,

- Structured finance (including foreign trade finance, project finance and asset-backed securities products), and
- Selected financial market products (building on its strengths in the domestic money market and bond market, interest rate derivatives, foreign exchange trading and in selected emerging markets).

The customers specifically targeted by HypoVereinsbank include retail customers and small to mid-sized businesses. HypoVereinsbank aims to offer its customers comprehensive solutions for their financial needs through a "multi-optional" sales concept, whereby all their banking service needs are fulfilled by one institution with an attractive service level, a choice of service channel and a clear, understandable price structure.

- ***Market leader in selected regions of Germany.*** HypoVereinsbank aims to maintain and expand its leadership presence in selected regions of Germany. HypoVereinsbank already has a leading market position in Bavaria and northern Germany for retail customers as well as mid-sized corporate customers, and intends to increase its position in North Rhine-Westphalia, the Rhine-Main region, Baden-Württemberg and eastern Germany through enhanced marketing efforts, expansion of the branch network and targeted acquisitions.
- ***Expansion in Europe.*** HypoVereinsbank also intends to selectively expand in Europe as well as Germany. As a first step, existing entities of the HypoVereinsbank Group have been consolidated to achieve a greater market share in all business segments, primarily in Austria, Switzerland and Luxembourg as well as in certain Central European countries (see "—The Merger"). HypoVereinsbank will also continue its approach of making targeted acquisitions in order to bolster its presence in selected European regions, including Central Europe. In line with this approach, on March 31, 1998 Vereinsbank acquired FGH Bank N.V., Utrecht, a leading mortgage bank in the Netherlands, and HypoVereinsbank increased its interest in Bank Przemyslowo-Handlowy S.A., a leading Polish bank, to 50.01% in June 1999 and to 77.85% in August 1999.
- ***Presence in international financial centers.*** HypoVereinsbank intends to offer its customers capital market and corporate finance services in the international financial centers of Europe, North America and Asia.

In pursuing these strategic initiatives, HypoVereinsbank will combine decentralized marketing and distribution through local customer proximity with the advantages of centralized support in strategy, product development, general business guidelines, risk management (including a uniform risk management system), and administrative resources (such as information technology platforms and back office processing). As an important example of the decentralized marketing approach, the five mortgage banking subsidiaries of HypoVereinsbank will retain their existing (*i.e.*, pre-merger) names and continue to compete separately for customers. In certain Central European countries, former Vereinsbank and HYPO-BANK subsidiaries will continue to exist but will specialize in different areas (*e.g.*, mortgage banking as opposed to universal banking). Other subsidiaries of the HypoVereinsbank Group are being merged in order to consolidate HypoVereinsbank's market share in certain regions. See "—The Merger".

As a result of these strategic initiatives, HypoVereinsbank believes it will be well-positioned to achieve its overall goals of strong revenue growth, comprehensive cost synergies, tight risk management and efficient capital allocation.

The Merger

On July 21, 1997, Vereinsbank and HYPO-BANK announced that their respective Management Boards had approved a plan for a merger of equals. Vereinsbank, founded in 1869, was a private sector universal bank engaged in commercial, mortgage and investment banking. As of December 31, 1997, it was the fourth largest German private sector banking group on the basis of consolidated assets. Founded by royal charter in 1835, HYPO-BANK was a private sector universal bank engaged in real estate and public sector financing, as well as commercial banking and investment management. As of December 31, 1997, HYPO-BANK was the fifth largest German private sector banking group on the basis of consolidated assets.

As the first step in implementing the merger, Vereinsbank exchanged shares of Allianz AG for shares of HYPO-BANK at a ratio of one to six in September 1997, and as a result acquired 44.4% of HYPO-BANK's outstanding shares. Vereinsbank also implemented a capital increase of DM 195 million nominal amount in the fall of 1997 with a view to providing the new bank with a solid equity base.

On May 19 and May 26, 1998, respectively, the shareholders of HYPO-BANK and Vereinsbank approved the merger of HYPO-BANK into Vereinsbank to create HypoVereinsbank. In order to effect the merger, Vereinsbank increased its capital stock by DM 552.9 million nominal amount. For every four common shares of HYPO-BANK, the third-party shareholders of HYPO-BANK (*i.e.*, all shareholders except Vereinsbank) received three new common shares of Vereinsbank, plus an additional cash payment of DM 0.182, plus a corporate income tax credit for German investors of DM 0.078, per HYPO-BANK share. As a result of the merger and in accordance with the principles of German law, all outstanding obligations of HYPO-BANK became full obligations of Vereinsbank. As of September 1, 1998, Vereinsbank changed its legal name to "Bayerische Hypo- und Vereinsbank Aktiengesellschaft".

As a part of HypoVereinsbank's overall merger strategy, many of the HypoVereinsbank subsidiaries have been merged in order to consolidate the HypoVereinsbank Group's market share in specific regions. In Austria, Salzburger Kredit- und Wechsel-Bank Aktiengesellschaft merged with Schoellerbank Aktiengesellschaft on October 1, 1998 with retroactive effect to December 31, 1997 to create SKWB Schoellerbank Aktiengesellschaft ("SKWB Schoellerbank"). The new Austrian subsidiary focuses on retail customers, affluent private customers and selected real estate and corporate clients. The Swiss subsidiary Anlage- und Kreditbank AKB was integrated into Bank von Ernst & Cie AG on November 30, 1998, with retroactive effect to July 1, 1998, with a continuing emphasis on asset management expertise. In Luxembourg, Hypobank International S.A. and Vereinsbank International S.A. merged on November 1, 1998 to create HypoVereinsbank Luxembourg. In the Czech Republic, HYPO-BANK CZ a.s. and Vereinsbank (CZ) a.s. merged on January 1, 1999 to form HypoVereinsbank CZ a.s. In Poland, Vereinsbank Polska Spólka Akcyjna and Hypo-Bank Polska S.A. merged on November 1, 1998 to form HypoVereinsbank Polska S.A. In Hungary, Hypo-Bank Hungaria Rt. and activities of the former Vereinsbank have been consolidated in HypoVereinsbank Hungaria Rt. HSB. Hypo-Service-Bank AG was integrated into norisbank AG (which itself resulted from the merger of Noris Verbraucherbank GmbH and Franken WKV Bank GmbH in April 1998 with retroactive effect from January 1, 1998) with retroactive effect from July 1, 1998 in order to further consolidate the HypoVereinsbank Group's consumer finance activities. In New York, London and Hong Kong, the branches of each of Vereinsbank and HYPO-BANK were consolidated into one branch operation in each city, effective September 1998.

The overall integration of the two bank groups is targeted for completion by mid-year 2000. A Central Project Office has been created to oversee the entire process, coordinating 15 integration fields and 350 individual integration projects. Substantial progress has already been achieved. In addition to the consolidation of subsidiaries noted above, controlling systems (including risk management systems) have been combined to run off a single platform, and the back office functions serving the branch network have been fully integrated. Management reorganization was substantially completed by September 1998. In addition, corporate customers are now serviced by integrated market teams. The focus in the second half of 1999 will be the complete overhaul and integration of the retail branch network (including mainstreaming the information technology systems used throughout the network), 90% of which is scheduled for completion by December 1999. As of June 30, 1999, 149 branches of the former Vereinsbank and HYPO-BANK had been merged, with the consolidation of an additional 83 branches scheduled through merger completion.

HypoVereinsbank believes the merger offers significant revenue opportunities and cost savings potential. By the end of 2001, HypoVereinsbank expects that it will have achieved average per annum cost savings of DM 1 billion over pre-merger levels. The integration of systems and rationalization of overlapping branches and foreign subsidiaries noted above are among the areas where significant savings could be achieved. It is also envisioned that lower costs and achieved critical mass will better enable HypoVereinsbank to increase market share in its core businesses and expand those businesses into new markets.

HypoVereinsbank expects that the merger will result in significant long-term benefits. Nevertheless, the consolidation of the two groups' operations has required and will continue to require substantial changes in property holding, personnel, computer systems and other assets, operations and procedures. Management expects this process to be completed by mid-year 2000, but delays could result from factors arising both internally, from the complexity of the tasks involved, and externally from litigation and other pressures that cannot be ruled out in the course of a complex merger. Merger costs in an amount of € 234 million were included in the statement of income for the year 1998 under "extraordinary expenses". Further merger costs in an amount of approximately € 275 million are expected to be included in the 1999 statement of income, also as extraordinary expenses. There can be no assurance that the completion of the merger and post-merger changes will occur on a timely basis and will produce the revenue growth and cost savings currently anticipated.

Organization

HypoVereinsbank is organized in five distinct business divisions: Private Customers and Professionals, Corporate Customers, Real Estate Finance and Real Estate Customers, International Markets, and Asset Management. In the context of the merger, these five divisions were created from the existing divisions of Vereinsbank and HYPO-BANK in order to merge core competencies and exploit synergies between the overlapping functions in the previously existing business divisions. The Management Board determines the overall strategy of the HypoVereinsbank Group, and coordinates the business policy of the five individual divisions. Each division is led by one or more members of the Management Board, and is accountable for its own profits and losses. Individual division operating results are reflected in the HypoVereinsbank Group's segment reporting.

Private Customers and Professionals

HypoVereinsbank's Private Customers and Professionals division integrates the businesses of Vereinsbank's Private Customers division and both the Retail Banking and the Commercial Banking divisions of HYPO-BANK. In fiscal year 1998, the Private Customers and Professionals division, with 16,740 employees world-wide as of December 31, 1998, contributed DM 748 million to the HypoVereinsbank Group's net income (after risk provisions on a pre-tax basis), representing 27% of the HypoVereinsbank Group's total net income (excluding extraordinary gains resulting from the merger).

The predominant goal of the Private Customers and Professionals division is to broaden its existing customer base in Europe (particularly in Central Europe) through sound organic growth as well as strategic acquisitions and investments. Simultaneously, the division seeks to increase its existing market share in targeted regions in Germany, specifically Bavaria, northern Germany, North Rhine-Westphalia and Baden-Württemberg. The division seeks to achieve these goals in part by fostering a strong brand name identity, through emphasizing personal attention to the customer and by offering innovative products and services through state-of-the-art distribution channels. Finally, the division will continue the consolidation and overhaul of its branch network, with the goal of consolidating over 500 branches into approximately 230, 80% of which the division intends to complete by the end of 1999.

Another focus of the Private Customers and Professionals division is on private investors. HypoVereinsbank intends to reorganize its four private banking subsidiaries (Bankhaus Maffei KgaA, Bankhaus Gebrüder Bethmann, Bethmann Vermögensbetreuung GmbH and Bank von Ernst & Cie.) under the umbrella of a single holding company. The goal is to exploit synergies and cost savings, and to develop a focused approach to private investors. In connection with the reorganization, HypoVereinsbank will begin marketing to private investors a group of products and services under the brand name "HVB Private Banking," comprised of real estate management, private asset management, financial planning, and estates and foundation consulting and management.

The Private Customers and Professionals division is divided into three business units based on the target customer groups that it serves: private customers, professionals (*i.e.*, self-employed individuals and small corporations with annual sales of up to DM 10 million) and private investors (*i.e.*, high net-worth individuals). The division implements the "one face to the customer" principle throughout the division, meaning that every customer deals

with only one relationship manager at HypoVereinsbank with specialists advising with respect to particular products and services. Customer service is organized around a team concept, with 1400 teams for private customers, 225 teams for professionals and 24 teams for private investors as of December 31, 1998.

Retail Distribution Channels. The division offers its approximately four million customers the "multi-optional bank" concept, whereby the customer has the choice of multiple access channels to banking services with differing degrees of service: the branch network, telephone banking and electronic (or PC) banking. In connection with the merger, HypoVereinsbank's branch network is being restructured and streamlined. As of December 31, 1998, HypoVereinsbank's branch network consisted of 73 main branches with approximately 1,000 branches in Germany and 25 offices abroad. The planned branch network is to be more differentiated, with numerous small branches offering standard services, and mid-sized branches and "Finance Shops" offering more in-depth advice.

In addition to the branch network, customers can access retail banking services via telephone or via PC banking, through T-Online, the Internet and the newly introduced standardized software Home Banking Computer Interface (HBCI). With the sale by Vereinsbank of its direct bank, ADVANCE BANK AG, to Dresdner Bank as of January 1, 1998, HypoVereinsbank provides direct banking services (*i.e.*, services provided exclusively by telephone or computer) solely through Direkt Anlage Bank AG, HypoVereinsbank's discount brokerage subsidiary, which served approximately 67,000 clients in 1998.

Products and Services. The Private Customers and Professionals division offers its customers a wide range of products and services, including standardized investment products, real estate financing, asset management, checking and savings accounts, debit and credit cards, payment transfers, consumer loans, securities brokerage, direct brokerage, insurance products and home loan and savings products. Many of these services are offered through the support of HypoVereinsbank's various specialized subsidiaries and business partners. Core competencies of the Private Customers and Professionals division include real estate finance (supported by the Real Estate Finance and Real Estate Customers division) and asset management and investment services (supported by the Asset Management division).

The division increasingly provides investment fund products and asset management services for its customers, supported by the Asset Management division. See "—Asset Management". Investment fund products, of which DM 5 billion were sold to private customers and professionals in fiscal year 1998, include the guarantee funds Continental Star and Top Welt and the new YoungWorld fund (an entry level fund targeted at youth). In 1998, a change in German law made it possible to create new types of investment funds for long-term and retirement planning purposes and, in October 1998, HypoVereinsbank became the first German bank to market this special retirement savings account under the name "SWITCH".

Real estate lending continues to be an important source of revenue for the division. Aggregate lending volume to customers of the Private Customers and Professionals division amounted to approximately DM 149 billion in fiscal year 1998, 75% of which represented real estate lending and 25% of which represented traditional bank lending.

The division also provides specialized services to certain groups of its customers. For example, customized electronic banking services are provided to medical professionals such as doctors, dentists and pharmacists.

Cross-selling of products within the HypoVereinsbank Group is also an important feature of the division's revenue. The cooperative arrangement for the distribution of selected insurance products (including life insurance, pension products and property insurance) between Vereinsbank and Victoria, and HYPO-BANK and the Allianz group, respectively, are both continuing for HypoVereinsbank, with a geographic split between the two partners. Through its branch offices in Munich, southern Bavaria and Berlin, HypoVereinsbank distributes the products of the Allianz group, and through its branch offices in the rest of Germany it distributes products of the Victoria group. The branch offices also act as brokers for the full range of Victoria and Allianz products, respectively, and in return the Allianz group and the Victoria group refer lending business to HypoVereinsbank. In 1998, HypoVereinsbank referred more than 45,000 insurance contracts to Victoria (including 13,500 life insurance policies) for a total value of approximately DM 1.17 billion, and over 32,000 insurance contracts (including over 15,200 life insurance policies)

to Allianz for a total value of approximately DM 1.05 billion. In addition, in cooperation with Vorsorge Lebensversicherung AG, a subsidiary of Victoria, the HypoVereinsbank Group markets "Rente direkt", a standardized annuity insurance plan distributed on-line.

The HypoVereinsbank Group also has internal cross-selling arrangements in the area of home loan and savings products, which products combine an initial period of saving by the customer with a subsequent loan for the purchase, construction or improvement of residential housing at a lower than market interest rate. Approximately 57,300 contracts for home loan and savings products, with a total value of more than DM 2.3 billion, were issued by entities within the HypoVereinsbank Group in 1998. HypoVereinsbank Group home loan and savings products are marketed primarily by Vereinsbank Victoria Bauspar AG (which, as of December 31, 1998, was 70% owned by the HypoVereinsbank Group and 30% owned by the Victoria group).

Corporate Customers

The Corporate Customers division of HypoVereinsbank combines most of the Corporate Customers division of Vereinsbank and the Corporate Banking division of HYPO-BANK. In fiscal year 1998, the Corporate Customers division, with 4,871 employees world-wide as of December 31, 1998, suffered a DM 304 million loss (on a pre-tax basis after risk provisions of approximately DM 1.7 billion). Management believes that this loss can be attributed to the financial crises in Southeast Asia, Russia and Latin America, as well as the high insolvency rate among German corporations. In response, the HypoVereinsbank Group has decided to discontinue its local lending operations in non-European emerging markets and will seek to reduce risk costs on a division-wide basis through a consistent and more selective approach to new business.

HypoVereinsbank's Corporate Customers division provides a wide range of banking services to its corporate customers world-wide, including credit facilities, foreign exchange services, international trade finance, corporate, real estate and project finance, securities and derivatives trading and portfolio management. Customers of the division include small to large corporations (with annual sales ranging from DM 10 million to DM 10 billion), European multinationals, non-European multinationals with major interests in Europe, and correspondent banks. Areas of core competency for the HypoVereinsbank Group in serving corporate customers are real estate finance, structured and asset-based finance, project finance, acquisition and leverage finance, and foreign trade finance.

The HypoVereinsbank Group's strategy in the Corporate Customers division is focused on larger middle-market (*Mittelstand*) companies, particularly in Germany, in the European Union and in Central Europe. Within Germany, HypoVereinsbank seeks to build on its historic regional strengths in providing corporate services in southern Germany (through HypoVereinsbank) and in northern Germany (through Vereins- und Westbank AG) by selectively expanding its operations, primarily in Baden-Württemberg and North Rhine-Westphalia. In response to the increasingly sophisticated needs of corporate customers for more than the traditional instruments of real estate finance and foreign trade finance, and as net interest margins continue to decline, the HypoVereinsbank Group continues to seek fee-generating corporate finance business in such areas as acquisition and leverage finance and initial public offerings, rather than focusing only on traditional lending services. Through the newly created Project and Asset-Backed Finance unit, the HypoVereinsbank Group will continue to build on its international experience in asset-backed products and securitization and offer such products to its customers in Germany. Finally, the HypoVereinsbank Group will continue to offer its corporate customers advisory and related products, such as consulting services in connection with the European Monetary Union.

Distribution Channels. Corporate customer services are centered on the concept of "relationship banking": each corporate customer (given a sufficiently attractive earnings potential) has a devoted relationship manager, assisted by specialists in the various business areas, special head office units and foreign branches. Corporate customers are serviced by over 150 "market teams" within the branch network (see "—Credit Policies—Loan Approval—Corporate Customers") and can also access on-line payment systems, including an international cash management system. Utilization of these services has increased significantly, with corporate customers effecting approximately 98% of all electronic money transfers executed in the HypoVereinsbank system in 1998. The HypoVereinsbank Group continues to develop its electronic banking systems to facilitate national and international payment

transactions for its corporate customers (including a European cash management system and enhanced access through the Internet), as well as financial planning, sales order transactions and liquidity management.

Products and Services. The Corporate Customers division provides its clients with corporate finance services (through the Corporate Finance unit) including acquisition and leverage finance, loan syndications and securities offerings. The division also provides consulting and advisory services to its German corporate customers through HVB Consult GmbH, a wholly-owned subsidiary based in Munich, on matters such as management buy-outs, spin-offs and mergers and acquisitions transactions. Through the Project and Asset-Backed Finance unit, the division offers asset- and mortgage-backed securitizations, aircraft finance, lease finance and project finance. The HypoVereinsbank Group is active in creating innovative structures to arrange asset-backed commercial paper programs and other securitization products, both in Germany and abroad. In the area of project finance, the HypoVereinsbank Group recorded total new project finance lending of DM 4.6 billion in 1998, and was involved in 80 new project finance transactions. The HypoVereinsbank Group also offers advisory, arranging and lending services in this area through project finance units in Munich, London, New York, Rio de Janeiro and Singapore. Approximately 60% of the HypoVereinsbank Group's project financing activities are for projects in Western industrialized countries. The HypoVereinsbank Group provides both real estate and equipment leasing through Bayerische Immobilien Leasing GmbH and Hanseatische Leasing GmbH. Through the fund business of Bayerische Immobilien Leasing GmbH, the HypoVereinsbank Group is also able to offer leasing refinancing through leasing funds.

In response to corporate customer demand, the HypoVereinsbank Group continues to expand its range of derivatives products (in coordination with the International Markets division) for use in its customers' hedging strategies. The HypoVereinsbank Group has been particularly active in offering interest rate, index and foreign exchange products, and in the securities lending and repurchasing markets. See "—International Markets".

International Operations. The Corporate Customers division is expanding its international operations, as its customers follow the trend of increasing globalization.

In Central Europe, the HypoVereinsbank Group plays a prominent role in serving major local companies as well as foreign investors in Austria (through 15 branches and two representative offices of SKWB Schoellerbank), in the Czech Republic (through 18 branches of HypoVereinsbank CZ a.s., a member of the Prague Stock Exchange since 1993), in Hungary (through 18 branches of HypoVereinsbank Hungaria Rt.) and in Poland (through Bank Przemyslowo-Handlowy S.A. ("BPH"), through HypoVereinsbank Polska S.A., which is expected to be merged into BPH, as well as through three branches). Finally, in Slovakia, the HypoVereinsbank Group services corporate customers through HypoVereinsbank Slovakia a.s., based in Bratislava.

In Western Europe (other than Germany), the HypoVereinsbank Group services its corporate customers through HypoVereinsbank branches in London, Paris and Milan. The London, Paris and Milan branches continue to focus on the core products of trade finance, project and asset-based finance and structured finance. HypoVereinsbank Luxembourg, based in Luxembourg, focuses on providing Euro-loans. The HypoVereinsbank Group's Irish subsidiary, HypoVereinsbank (Ireland), services corporate customers from its offices in the International Financial Services Center in Dublin.

Beyond Europe, the HypoVereinsbank Group focuses on the main financial centers of East Asia (headquartered in Singapore) and North and South America (headquartered in New York). The HypoVereinsbank Group's corporate customer activities in East Asia concentrate on foreign trade finance with an emphasis on export credit agency-backed, asset-based and project financings. In North America and South America, HypoVereinsbank Group operations focus on financial products, trading, including swaps and derivatives, foreign exchange services and securitized products, as well as on structured and project finance, trade finance, public sector finance and asset-backed finance. In October 1999, HypoVereinsbank acquired a 20% interest in Babcock & Brown, San Francisco, a financial advisor for structured financings for a purchase price of $120 million. At the same time, HypoVereinsbank and Babcock & Brown agreed to form a joint venture in Germany. The completion of both transactions is subject to the approval by the Federal Reserve Bank and the German antitrust authorities.

Competition for corporate customers is fierce and in Germany consists primarily of the other large private universal banks, public sector savings banks (*Sparkassen*) and their central institutions (*Landesbanken-Girozentralen*), and co-operative banks (*Genossenschaftsbanken*). Outside Germany, competition stems mainly from major foreign and international banks.

Real Estate Finance and Real Estate Customers

The Real Estate Finance and Real Estate Customers division incorporates the businesses of Vereinsbank's Real Estate and Public Sector Lending division and HYPO-BANK's Real Estate Finance division. In fiscal year 1998, the Real Estate Finance and Real Estate Customers division, with 4,796 employees worldwide as of December 31, 1998, contributed DM 1,111 million to the HypoVereinsbank Group's net income (after risk provisions on a pre-tax basis), representing 40% of total net income (excluding extraordinary gains resulting from the merger).

In connection with the merger, the Real Estate Finance and Real Estate Customers division was completely re-organized. The division now serves a dual function within the HypoVereinsbank Group, acting as both a "profit center" and a "competence center". As a "profit center", the division functions as an independent business unit with its own distribution network for real estate customers (such as real estate investors, contractors, developers, housing associations and professional agents). As a "competence center", the division provides centralized expertise and support to the HypoVereinsbank Group's branches and local offices, and is also responsible for establishing and overseeing the risk and credit guidelines and the risk management systems for HypoVereinsbank's entire real estate lending portfolio (see "—Credit Policies"). Finally, although public sector financing activities are carried out by the Corporate Customers division, a department of the Real Estate Finance and Real Estate Customers division is responsible for public sector product development, general business guidelines and risk management.

In October 1998, HypoVereinsbank announced that it would allocate an additional DM 3.5 billion to risk provisions in 1998. Of this amount, DM 2.5 billion relates to real estate joint venture projects in which the HYPO-BANK Group participated and DM 1.0 billion relates primarily to loans to developers. Included in such DM 3.5 billion risk provision were risk provisions to cover a portion of the exposures of the HypoVereinsbank Group relating to loans from third-party generated business (*Strukturvertrieb*). See "—Litigation and Other Proceedings". The total credit exposure of these real estate joint venture projects amounted to approximately DM 8 billion as of December 31, 1998. The need for this charge arose primarily from a change in the valuation methods from those used by the HYPO-BANK Group implemented by HypoVereinsbank on the basis of the current assessment of potential sales prices and assuming optimal realization of such prices. These risk provisions were taken as an extraordinary expense and were offset by extraordinary income generated through the release of undisclosed reserves in HypoVereinsbank's securities holdings, so that the allocation did not affect the reported income of the HypoVereinsbank Group for 1998. In response to these developments, HypoVereinsbank has initiated a new strategy in the division in conjunction with a change in the respective responsibilities of members of the Management Board to concentrate on profitable, low-risk mortgage loans, to no longer enter into joint ventures of the type connected with this charge, and to reduce its exposure to professional real estate developers.

Management believes the German real estate market offers a number of attractive growth opportunities as the demand for mortgage lending increases with the stabilization of the German economy. Tax incentives such as housing and renovation subsidies have contributed to the recent growth in the market for mortgage lending, aided by the current interest rate environment. The HypoVereinsbank Group is well-positioned to take further advantage of these market opportunities and is concentrating its mortgage lending efforts on residential property. First, the HypoVereinsbank Group has developed a fast loan approval process. By using local loan application specialists, the HypoVereinsbank Group can process standardized residential loans in a single day and can approve within two days loans for owner-occupied apartments and one-and two-family owner-occupied houses. Second, HypoVereinsbank has over a thousand specially trained qualified real estate specialists in the distribution network alone. Third, it enjoys excellent internal property appraisal facilities, with the largest organization of valuers of any real estate financer in Europe, specialized both regionally and by sector of industry. Fourth, it has an efficient loan processing system, through the several regional Real Estate Service Centers. Finally, HypoVereinsbank, as a "mixed-mortgage bank", is able to issue *Pfandbriefe*, which provide an attractive long-term source of funding.

The HypoVereinsbank Group offers a wide range of products and services in the real estate sector, and also cross-sells investment and insurance products within the HypoVereinsbank Group. In addition to traditional commercial and residential mortgage lending activities, HypoVereinsbank has several specialized subsidiaries (as well as departments within the division) engaged in providing a wide range of other real estate services such as real estate development, portfolio management, structured finance, consulting and advisory services, leasing and real estate brokerage. HypoVereinsbank also offers a real estate financing program through the Internet.

Most of the HypoVereinsbank Group's real estate business originates through HypoVereinsbank's branches. HypoVereinsbank Group management believes that the integration of HypoVereinsbank's real estate financing and public sector lending activities into the distribution of HypoVereinsbank's other products through the branch network enables HypoVereinsbank to realize greater business potential for standardized residential mortgages and other retail real estate products. At the same time, however, specialized real estate marketing units allow HypoVereinsbank to focus on the particular needs of professional real estate clients.

The HypoVereinsbank Group's real estate activities are also conducted through intermediaries such as mortgage brokers, and by HypoVereinsbank's five German mortgage banking subsidiaries which determine their respective strategies independently but within the framework of HypoVereinsbank Group's risk management policies, required reporting procedures, and, in part, computer systems.

Through regional Real Estate Service Centers, HypoVereinsbank's real estate division provides centralized support to the branches and local offices, which distribute real estate and public sector products and services to customers on behalf of the Private Customers and Professionals division and the Corporate Customers divisions. Nearly 100 Real Estate Service Centers were established by Vereinsbank in 1997 and have been consolidated into 21 Real Estate Service Centers located in strategic regions on Germany. Further Service Center consolidations are planned for the remainder of fiscal year 1999 and fiscal year 2000.

Internationally, the HypoVereinsbank Group is involved in real estate financing in selected markets, primarily the United States, the United Kingdom, France, Austria, Spain, the Netherlands (through the recently acquired FGH Bank N.V.), the Czech Republic, Hungary, Poland and Slovakia. At the end of September 1999, HVB Jelzálogbank, HypoVereinsbank's newly established Hungarian mortgage banking subsidiary started its operations. HypoVereinsbank is the first foreign bank which owns a mortgage bank in Hungary. The HypoVereinsbank Group plans to expand its international real estate financing activities selectively further in its core European markets and the United States, and to work to develop the *Pfandbrief* concept in other countries. See "—International Markets".

In the German real estate market, competition is differentiated based on market segment. Competition in the market for loans to individuals to finance the purchase or construction of homes and small rental apartments includes all commercial banks, co-operative banks, savings banks, *Landesbanken* and other public and private mortgage banks, and to a certain extent insurance companies and home loan and savings associations. In the commercial and large scale residential sector, smaller savings banks, co-operative banks, insurance companies and home loan and savings associations are less of a factor. In European markets outside of Germany, HypoVereinsbank competes with local banks, home loan and savings associations and other mortgage lenders and with other foreign and international banks, including German commercial and mortgage banks.

International Markets

The International Markets division provides treasury products and services both to insurance companies, financial institutions, corporate customers, central banks, ministries of finance and large institutional investors as well as within the HypoVereinsbank Group, combining the treasury operations of both Vereinsbank and HYPO-BANK as well as a substantial part of Vereinsbank's former Financial Institutions division. In fiscal year 1998, the International Markets division, with 1,234 employees worldwide as of December 31, 1998, contributed DM 1,029 million to the HypoVereinsbank Group's net income (after risk provisions on a pre-tax basis), representing 37% of total operating results (excluding extraordinary gains resulting from the merger).

The International Markets division seeks to combine sophisticated capital markets expertise with individually tailored advice in providing its customers with a broad range of products including equity, currency and interest rate instruments and derivatives. With the introduction of the Euro in January 1999, the International Markets division has focused efforts on taking its expertise in DM-denominated products and applying it to the nascent Euro market. Special resources are dedicated to developing securitization products, driven by the New York-based treasury unit. The division also seeks to expand the market for jumbo *Pfandbrief* transactions, establishing the *Pfandbrief* as a highly liquid, European product. Finally, the International Markets division is increasingly focusing on the fixed-income markets of Central Europe.

HypoVereinsbank underwrites issues of bonds and shares (including initial public offerings) in the German and international capital markets, and also acts as a broker and dealer in securities and furnishes custodial services. The HypoVereinsbank Group also utilizes treasury operations for its own account to increase earnings while maintaining its conservative risk policies. Treasury operations contribute significantly to the HypoVereinsbank Group's asset and liability management techniques. See "—Risk Management" and "—Risk Management—Asset and Liability Management".

In 1998, HypoVereinsbank participated in 482 syndicated DM bond issues, and 397 syndicated foreign currency bond issues in 21 currencies, for a total of 879 bond issues for German and international borrowers. This includes the DM 2 billion corporate bond issue for Allianz AG for which HypoVereinsbank served as lead manager, which at the time was the largest German corporate bond ever placed. In the public sector area, HypoVereinsbank placed the second largest allocation of German government bonds issued in 1998.

In addition, the HypoVereinsbank Group continues to expand its focus on the German *Pfandbrief* market, particularly the jumbo *Pfandbrief* market (issues of DM 1 billion and above), exploiting its developed expertise in this area. In 1998, HypoVereinsbank served as lead manager for 53 jumbo *Pfandbrief* issues of third-party issuers, totaling in the aggregate DM 108 billion and representing a market share of 53%. HypoVereinsbank also continues to participate in initiatives to develop the *Pfandbrief* market, including the development of a jumbo index concept and futures contract.

In order to fund the HypoVereinsbank Group's commercial banking and real estate and public sector finance operations, HypoVereinsbank placed DM 39 billion of bond issues. *Pfandbriefe* represented HypoVereinsbank's main funding source in 1998, with 15 jumbo *Pfandbriefe* issues totaling DM 19.75 billion for the HypoVereinsbank Group.

On the equity side, the HypoVereinsbank Group participated in 57 share issues in Germany and abroad in 1998, including the initial public offerings of 24 German companies and 14 initial public offerings in the "new market" segment. The HypoVereinsbank Group focuses its equity underwriting efforts in areas in which it has developed an expertise, such as small and mid-sized equity issuers in Western Europe.

The HypoVereinsbank Group is active in trading bonds, other debt securities, foreign exchange, shares, and other equity securities, thereby serving the needs of its institutional customers (*e.g.*, insurance companies, investment funds, corporate customers and mortgage and savings banks) and individual customers, but also acting for its own account. The HypoVereinsbank Group's market-making activities focus on products traded on Eurex (the European futures and options exchange), short-term Euro-denominated derivatives and jumbo *Pfandbriefe* of third-party issuers, as well as the HypoVereinsbank Group's own debt securities (primarily mortgage and public sector *Pfandbriefe*).

In the derivatives market, the HypoVereinsbank Group's primary activities are in the field of equity derivatives. During 1998, a total of 13 index certificates were issued with an aggregate volume of DM 1.5 billion relating to the Dow Jones Stoxx indices and DAX® (*Deutscher Aktienindex*), the principal German share index. HypoVereinsbank also launched a retail fund and offered an index certificate based on the Continental Star Index, a creation of HypoVereinsbank. In addition, HypoVereinsbank placed equity-linked bonds with an aggregate volume in excess of DM 1.2 billion in 1998.

The HypoVereinsbank Group uses derivatives instruments, such as swaps, futures, forward transactions and options, in connection with its customer business, as part of its asset and liability management and in conjunction with its trading activities. Most of these transactions are executed for hedging purposes. Trading assets, including derivatives, are marked to market in accordance with IAS. Derivatives not related to trading activities and entered into for hedging purposes are accounted for in the portfolio valuation units within which unrealized profits and losses of hedged and hedging transactions are netted against one another. Unrealized losses but not unrealized gains on derivatives entered into for trading purposes are reflected in the income statement.

In connection with the conversion to the Euro in January 1999, HypoVereinsbank has sought to minimize the loss of income resulting from a decline in the volume of its foreign exchange and international payments operations through focusing on interest-related products and transactions involving non-European currencies. HypoVereinsbank also expects that three main markets for foreign exchange trading will emerge, in which it seeks to be a well-positioned market participant: (1) trading in the three main international currencies, the U.S. dollar, the Euro and the yen; (2) trading in other currencies with efficient markets, such as Swiss francs, British pounds sterling and Canadian dollars; and (3) trading in the currencies of the most important emerging markets in East Asia, South America, Eastern Europe, the Middle East and Africa.

Asset Management

The Asset Management division of HypoVereinsbank integrates most of the former asset management divisions of both Vereinsbank and HYPO-BANK. In fiscal year 1998, the Asset Management division, with 593 employees world-wide as of December 31, 1998, contributed DM 131 million to the HypoVereinsbank Group's net income (after risk provisions on a pre-tax basis), representing 5% of total net income (excluding extraordinary gains resulting from the merger). HypoVereinsbank has identified asset management as one of the four key areas of core competence for the HypoVereinsbank Group. HypoVereinsbank seeks to become one of the leading fund managers in Germany and the United Kingdom, with the goal of having DM 500 billion in assets under management by 2003. Accordingly, the division seeks to expand its existing market share as well as increase sales volume through a focus on quality as well as through targeted acquisitions and cooperative ventures.

The division manages and distributes on a discretionary basis a wide range of mutual funds, investment trusts and *Spezialfonds*, a specifically German asset management product tailored to meet institutional investors' specific requirements. In addition, the division develops innovative asset management products designed to fill the growing needs of the HypoVereinsbank Group's diverse and growing customer base.

The asset management business of the HypoVereinsbank Group is organized primarily through two holding companies: Hypo (UK) Holdings Limited ("Hypo UK"), based in London, and HVB Asset Management GmbH ("HVB Asset Management"), based in Munich. Total assets under management of the Asset Management division amounted to approximately DM 191 billion as at December 31, 1998.

Hypo UK is responsible for all HypoVereinsbank subsidiaries and customers in the United Kingdom, including the activities of and entities comprising Hypo Foreign & Colonial Management (Holdings) Ltd. ("Foreign & Colonial"), a family of leading London fund managers. HypoVereinsbank increased its interest in Foreign & Colonial from 65% to 90% in January 1999, further demonstrating its commitment to the asset management business as well as to the market in the United Kingdom. Foreign & Colonial is one of the HypoVereinsbank Group's major fund management entities with DM 57 billion assets under management as of December 31, 1998. Foreign & Colonial provides retail and institutional asset management products to customers both in the United Kingdom and in Asia. It is also the center of competence within the Asset Management division for the United States as well as for emerging markets.

The HypoVereinsbank Group's asset management activities in Germany are coordinated through HVB Asset Management, a holding company based in Munich. As of December 31, 1998, the companies now under the umbrella of HVB Asset Management had DM 69 billion assets under management. HVB Asset Management is comprised of the institutional asset management entities of the former Vereinsbank and HYPO-BANK, the companies comprising the Allfonds-BKG group ("Allfonds-BKG"), the mutual fund companies of Hypo Capital

Management Investmentgesellschaft mbH ("Hypo-Invest Munich") and Hypo Capital Management Investmentgesellschaft Luxembourg S.A. ("Hypo-Invest Luxembourg") as well as specialized asset management subsidiaries such as Risklab GmbH Private Research Institute for Financial Studies ("Risklab") and Pension Consult Beratungsgesellschaft für Altersvorsorge mbH ("Pension Consult"). Allfonds-BKG resulted from the merger of Allfonds Gesellschaft für Investmentanlagen mbH with Bayerische Kapitalanlagegesellschaft mbH in September 1999. Through Risklab, HypoVereinsbank combines academic research in the area of risk and portfolio management (through relationships with various universities) with the development of sophisticated risk management products. Through Pension Consult, HypoVereinsbank advises corporate customers with respect to the growing pension market in Germany.

In addition, the HypoVereinsbank Group offers comprehensive asset management and investment services in Germany though certain HypoVereinsbank branches that are staffed by securities specialists. Asset management activities are also conducted through Norddeutsche Investment-Gesellschaft mbH, the fund management entity of Vereins-und Westbank AG.

In February 1999, HypoVereinsbank decided to terminate its alliance with Commerzbank through which it was joint owner of the two investment companies comprising the ADIG group, ADIG Allgemeine Deutsche Investment Gesellschaft mbH and ADIG-Investment Luxembourg S.A. The alliance, founded in 1949, no longer served the strategic purposes of both partners and, accordingly, HypoVereinsbank sold its interest in the ADIG group to Commerzbank with effect as of December 31, 1999. HypoVereinsbank intends to transfer its portion of the assets under management to its core mutual fund companies Hypo-Invest Munich and Hypo-Invest Luxembourg, which will serve as the platform for the HypoVereinsbank Group's mutual fund business as of January 1, 2000.

HypoVereinsbank's management continues to view asset management as one of the areas in which the HypoVereinsbank Group not only plans to expand its range of products and services but also to broaden the geographical coverage of its products. Despite the already intense and constantly increasing competition in this area from major investment banks, commercial and private banks and independent investment advisory firms, HypoVereinsbank's management believes the HypoVereinsbank Group will be able to benefit from the projected future increase in demand for asset management services worldwide. Asset management offers attractive profit margins, greater consistency in revenue generation and the opportunity for expansion without the use of the HypoVereinsbank Group's capital.

Credit Policies

The credit policies and procedures described below were jointly developed by Vereinsbank and HYPO-BANK. As applied to Loans, such policies and procedures which are referred to herein as the "Loan Origination, Administration and Collection Procedures" are substantially identical to the corresponding policies and procedures previously applied by Vereinsbank (prior to its merger with HYPO-BANK) and Vereinsbank International (prior to its merger with Hypobank International). The Loan Origination, Administration and Collection Procedures are applied to all Loans extended by Vereinsbank International prior to its merger and to all Loans originated by HypoVereinsbank (including in each case, in particular, the Reference Loans which form part of the Collateralized Loan Portfolio). Similar policies and procedures generally apply to the lending activities of all subsidiaries of HypoVereinsbank. There are different sets of credit policies and procedures applicable to loans to corporate customers, real estate customers and private customers, which overlap in certain respects. Loans may only be extended to sound corporate customers and real estate customers with reliable and skilled management, and to private customers of good financial standing. The decision of whether a loan will be extended to a corporate customer or real estate customer depends primarily on the customer's rating assigned under HypoVereinsbank's Internal Rating System (see "—HypoVereinsbank's Internal Rating System"), which considers factors such as the customer's financial information, market outlook, product and management ability. With respect to private customers, the level of income, the amount of assets and liabilities and other information on the personal financial situation of the customer are important factors. In all cases, the credit decision takes into account the value of any collateral posted for the loan.

The documentation on the basis of which the decision whether to extend a loan is based includes for private customers the last three years' tax returns, an evidence of current income, and asset/liability information, and for corporate customers and real estate customers balance sheets, profit and loss accounts, interim financial information, industry outlook, assessment of the customer's standing and, when the loan is extended for a particular project, a description of such project.

For approving, and setting the margin on, a loan for any borrower, HypoVereinsbank considers the return on risk adjusted capital, including the value at risk. Under this approach, the credit risk of HypoVereinsbank's overall loan portfolio is assessed. Based on the assessment, the margin for the loan is calculated. The price of each individual loan not only reflects the credit risk of such loan, but also the importance of each individual risk for the credit risk of HypoVereinsbank's overall portfolio. In addition, this approach enables the bank to determine how the bank's capital should be allocated and compensated.

When deciding whether to extend a loan, HypoVereinsbank's officers seek to avoid "remote lending", *i.e.*, loans to customers residing far away from the respective branch, since in HypoVereinsbank's experience, such loans tend to have a higher default rate than loans to borrowers who live in close proximity to the branch.

Loan Approval

General Information

Loan approvals are subject to a system of loan approval competence thresholds. Responsibility for approving credit decisions generally depends on the amount of the loan, irrespective of the type of borrower and the value of any collateral for the loan (with certain exceptions particularly in the case of certain real estate loans). A basic principle of the approval process is the need for joint action by at least two employees. Loan approval competence is assigned to individual employees and committees, depending on the assignee's professional qualification and experience, skills in evaluating risks, and entrepreneurial judgment. HypoVereinsbank also attempts to match approval authority and responsibility for financial results by tying parts of the loan approval officers' remuneration to the performance of the loans, thus making them more sensitive to the adverse financial impact of bad credit decisions.

Corporate Customers

In the case of corporate customers, HypoVereinsbank has assigned most loan approval and administration tasks to so-called "market teams" consisting of customer relations officers and credit specialists. Among others, market teams advise new and existing customers, make loan approval decisions and monitor the loans in order to recognize potential risks at an early stage. Regional market teams are responsible for small and medium-sized corporate customers, specialized market teams are responsible for larger borrowers, and multinational-corporation market teams are responsible for loans extended to certain large corporations doing business in several countries. Market teams are supervised and supported by the heads of the respective branches. In addition, market teams may get expert advice from certain analysts, industry sector specialists, and other support units within HypoVereinsbank.

Market teams in the various HypoVereinsbank branches have authority to approve loans up to € 2.6 million and, under certain circumstances, up to € 5.2 million. If HypoVereinsbank's aggregate credit exposure to a customer or group of customers, as the case may be, exceeds such approval limits, approval is required from a senior risk manager, who is part of the central credit department and who has loan approval authority of up to € 25 million or, in the case of loans originated by HypoVereinsbank's New York branch to borrowers residing in the United States, U.S. dollar 50 million. Larger credit exposures are referred to one of the two heads of the risk management department (which is part of the central credit department), who has approval authority of up to € 50 million. Engagements in excess of this limit are submitted to HypoVereinsbank's credit committee which consists of members of the Management Board and the heads of the risk management department of HypoVereinsbank, and, under certain circumstances, to the Management Board.

HypoVereinsbank has several senior risk managers for different sectors of industry, one senior risk manager for special products and three senior risk managers with regional responsibility for Eastern Europe, America and Asia, respectively.

For certain categories of customers and counterparties, the Management Board establishes separate credit limits (plafonds) for short-term, medium-term and long-term credit, and counterparty risk. Within such limits, the market teams may extend loans without further approval, even if the principal amount of such loans exceeds the credit approval authority of the market teams. The plafonds-system applies only to large corporate customers and financial institutions that are assigned the ratings 1, 2 or 3 under HypoVereinsbank's Internal Rating System. See "—HypoVereinsbank's Internal Rating System".

Real Estate Customers

HypoVereinsbank uses a market team approach for its real estate customers similar to the approach used for corporate customers described above. Loan approval authority, however, rests with the branch manager for aggregate credit exposure to a customer or group of customers, as the case may be, of up to DM 5 million and the business unit manager for aggregate credit exposure of up to DM 10 million. The approval of a senior risk manager in the central credit department is required for aggregate exposures over DM 10 million and up to DM 25 million, and the head of the central credit department for aggregate exposures over DM 25 million and up to DM 50 million. Aggregate exposures in excess of this limit are submitted to HypoVereinsbank's credit committee. Decisions on engagements of DM 100 million or more initially (and thereafter, upon increases of more than DM 100 million) are made by the entire Management Board.

The risk and credit guidelines for real estate customers are based on the requirements of the Mortgage Banking Act. The compliance of HypoVereinsbank's lending process with these requirements and with its risk and credit guidelines is audited regularly by HypoVereinsbank's independent auditors and supervised by the German Banking Supervisory Authority.

The two key elements of HypoVereinsbank's mortgage lending principles are the financial analysis of the borrower, and the risk assessment of the real estate to be mortgaged, particularly with respect to sustainable cash flows. In assessing the risk related to the real estate, the HypoVereinsbank Group uses an analysis of the applicable loan-to-value ratio, applying various internal threshold criteria. The security for mortgage loans granted by HypoVereinsbank or another mortgage bank in the HypoVereinsbank Group almost always consists of a first mortgage on the property. Under the Mortgage Banking Act, only mortgage loans with a loan-to-value ratio of no more than 60% qualify for inclusion in the asset pool covering mortgage Pfandbriefe. The HypoVereinsbank Group's valuation policies with respect to mortgage loans incorporate certain principles of the Mortgage Banking Act, including the requirement for appraisals of loans exceeding specified limits used as Pfandbriefe cover. Appraisals for mortgage loans by the HypoVereinsbank Group entities are made by HypoVereinsbank's own specialists. Appraisers or real estate specialists visit properties to confirm and finalize the contents of the valuation report.

The Mortgage Banking Act requires that the value of the real estate be determined on a long-term basis, which helps ensure that potential cyclical changes in market values are reflected in the assessed value. In evaluating loan applications for commercial mortgage loans, HypoVereinsbank takes into account the location of the property, the rental situation and other factors. In the case of contractors and developers, HypoVereinsbank reviews preliminary sales and will not approve a loan if profits are to be distributed before completion of the real estate project. For mortgage loans up to a principal amount of DM 1 million on owner-occupied apartments and one- and two-family houses, HypoVereinsbank uses a standardized approval process that relies on certain key factors, such as the individual creditworthiness of the borrower and the valuation of the property.

HypoVereinsbank issues annually certain risk principles that are intended to focus loan origination activity on certain sectors. The principles may, for example, recommend an increase in residential mortgage lending at the expense of certain types of commercial mortgage lending or point out certain industries that present special risks.

Public Sector Loans

HypoVereinsbank evaluates each public sector loan application individually, taking into account a variety of factors, such as the level of debt and the tax revenues of the borrower. In addition, HypoVereinsbank undertakes a review of the legal aspects of the loan application to ensure that the borrower has obtained all necessary approvals and authorizations for the loan. For most categories of public sector borrowers, HypoVereinsbank uses a *plafonds*-system (see "—Corporate Customers").

Private Customers

HypoVereinsbank's lending business with regard to private customers is divided into two categories: standardized lending (*Standardgeschäft*) and individualized lending (*Individualgeschäft*). Standardized lending includes loans extended for certain types of residential real estate financing with a principal amount not exceeding DM 1 million and other types of loans with individual principal amounts not exceeding DM 250,000 and aggregate principal amounts per customer or group of customers not exceeding DM 1 million. Individualized lending includes loans to private customers in excess of the thresholds set forth in the preceding sentence and loans for certain special purposes, such as establishing a business.

Most tasks in connection with the administration of loans to private customers are performed by customer relations officers (in the case of the standardized lending) and by certain credit specialists and credit advisors within the different branches (in the case of individualized lending).

With regard to standardized lending, a customer relations officer is in charge of making credit decisions. For the extension of individualized loans, approval is required by the head of a branch (if the total exposure does not exceed DM 2 million), by the head of a credit center (if the total exposure does not exceed DM 5 to DM 10 million) or the senior credit officer (if the total exposure exceeds DM 10 to DM 20 million), as the case may be. Loans whose aggregate principal amounts exceed DM 20 million are referred to the private customer credit committee which consists of a member of the Management Board, the senior credit officer and the head of the central credit department. In certain circumstances, loans must be submitted for approval to the Management Board.

HypoVereinsbank's Internal Rating System

General Information

HypoVereinsbank's Internal Rating System serves several purposes: to make a definitive judgment about a customer's creditworthiness and, thus, to support a credit decision; to identify risks at an early stage; to shift management focus away from the low risk segment of the portfolio to the higher risk segment which requires more attention; and to calculate standard risk costs. HypoVereinsbank's Internal Rating System categorizes borrowers and transactions (such as project financings) into ten categories and is used by HypoVereinsbank and its banking subsidiaries on a group-wide basis. The newly acquired Polish bank, BPH, is expected to introduce HypoVereinsbank's Internal Rating System during the course of next year. HypoVereinsbank's Internal Rating System is applicable to all corporate customers, real estate customers and private customers.

The result of the rating process reflects the borrower's repayment ability and is translated into an expected default frequency. In a second step, loss severity is measured. The combination of both factors determines the standard risk costs. The value of collateral does not affect the rating assessment. Upon completion of the assessment process, a rating ranging from "1" to "10/Z" is assigned to the customer. The ten rating categories are set forth in the following table:

HypoVereinsbank Rating Category	Definition
1	Excellent
2	Very good
3	Good
4	Above average
5	Satisfactory
6	Below average
7	Bad/watch list
8	Endangered / warning signs for impaired loan
9	Acute danger / loan loss provision
10/Z	Subject to write-off

Corporate and Real Estate Customers

In the case of corporate customers and real estate customers, the rating process is a two-prong analysis which contains forward-looking factors as well as data taken from financial reporting. Information on a borrower's financial situation, such as balance sheet information and financial ratios ("hard facts") which are assessed on the basis of a statistical model, accounts for approximately 70% of the rating. The remaining approximately 30% is determined by information on the general situation of the borrower's business. This includes factors such as business growth, management quality, procurement, production and technical sophistication, industry situation and environment ("soft facts").

HypoVereinsbank recently modified the rating process for large corporate customers. The new approach means that equal weight is given to the "hard" and "soft" factors. Under the new approach, more than ten ratings will be available, since "+" and "-" may be added to each rating category ("1+", "1-", etc.).

HypoVereinsbank also makes available to its credit officers special industry-related information that enables a credit officer to supplement the general credit analysis by criteria that are of relevance to customers in particular industries.

Private Customers

Borrowers who receive loans that fall into HypoVereinsbank's individualized lending category are assigned ratings on a basis that is similar to the one applied to corporate customers. In the case of small businesses, factors such as market share, evaluation of entrepreneurial skills and present economic situation are taken into consideration. The rating of private individuals is based on the value of their net assets as well as on their income, indebtedness and creditworthiness in the past and in the foreseeable future.

In the standardized lending category, borrowers are evaluated under a so-called "score-card system", pursuant to which a certain "score" for each customer is calculated, based on certain economic and demographic factors. The score is then translated into a rating under HypoVereinsbank's Internal Rating System. The highest internal rating that standardized lending customers can obtain upon such translation is "4", which reflects the fact that the score-card system provides a less thorough assessment of the customer's creditworthiness than the rating process applied to individualized lending customers and corporate customers as described above.

Surveillance and Reviews

The analysis and surveillance of HypoVereinsbank's Internal Rating System is automated, using various systems which are commonly used in the banking business, such as computerized account monitoring.

Ratings are reviewed annually or more frequently if warranted (e.g., if new financial information becomes available, if warning signs such as high utilization of overdraft facilities suggest increasing financial strains or if an application for additional credit is made). In the case of loans that fall into HypoVereinsbank's standardized lending category, the ratings are reviewed only if there are warning signs. HypoVereinsbank attempts to avoid rating changes that are too abrupt (i.e., rating changes of more than one category at a time) by creating incentives for the loan officers to adopt a conservative rating policy (i.e., to change ratings early). Since the compensation of loan officers is in part linked to the quality of their credit assessment, they have an incentive to downgrade a customer whenever circumstances indicate a deterioration of the customer's creditworthiness.

In addition to HypoVereinsbank's Internal Rating System, HypoVereinsbank has "traffic light" systems and "industry rating" systems for corporate customers upon which additional rules for the credit business are established. The "traffic light" systems assess the risk management quality of each of HypoVereinsbank's market teams, while the "industry rating" systems reflect industry risks. Such systems apply as well to loans extended to certain private customers.

Credit Monitoring

Total credit exposures of HypoVereinsbank are monitored electronically on a daily basis to determine the applicable threshold for approval as well as compliance with regulatory limitations on credit exposures. See "—Risk Management". In addition, information provided by the *Deutsche Bundesbank* is used to help identify potential credit risks. Under the Banking Act, each German bank must report the current amount of aggregate loans of over DM 3 million to individual borrowers or groups of borrowers to the *Deutsche Bundesbank* on a quarterly basis. Aggregate figures are in turn provided by the *Deutsche Bundesbank* to the individual banks so that the banking community is informed of other banks' total exposures to individual borrowers or groups of borrowers.

HypoVereinsbank continuously updates and refines the quality of its credit analysis in light of technological advances in an effort to improve the speed of decision making and the quality of the available information for identifying and assessing potential risks. HypoVereinsbank's credit business (including origination and risk management procedures) is regularly reviewed by the internal audit unit of HypoVereinsbank. In the corporate and real estate financing area, HypoVereinsbank's internal quality management unit regularly monitors compliance with credit procedures and suggests measures for further improving the quality of HypoVereinsbank's credit analysis and monitoring.

Credit exposures that fall into the standardized lending category are subject to standardized review. Local branch officers monitor unusual account activity and other factors indicating potential changes in creditworthiness. HypoVereinsbank's credit exposures to corporate customers, real estate customers and larger private customers are reviewed once a year or, if earlier, at the time of a new credit application as part of the HypoVereinsbank's regular updating of the rating analysis.

Loans included in the collateral pools for the HypoVereinsbank Group's public sector and mortgage *Pfandbriefe* are audited by the German Banking Supervisory Authority every two to three years, as part of the German Banking Supervisory Authority's supervision of the HypoVereinsbank Group's mortgage banking activities. Such audits include examination of the current status of loans added to the collateral pool, valuation methods used and whether the assets included in the pool meet legal requirements. The last such reviews by the German Banking Supervisory Authority covered the years 1993 through 1995, in the case of Vereinsbank's *Pfandbrief* asset pools, and the period July 1993 to June 1996, in the case of HYPO-BANK's *Pfandbrief* asset pools, and found Vereinsbank and HYPO-BANK, respectively, to be in compliance with the legal requirements.

Problem Loan Procedures

If, as a result of the reviews described above, a customer's rating falls to 7, such customer is placed on HypoVereinsbank's internal credit watch list. In addition, customers are also placed on the watch list for other reasons, for instance when, in the case of corporate customers, a problem affects a whole industry, or, in the case of

private customers, when payments are made too late or when credit lines are drawn to their maximum levels over extended periods of time.

A customer that is placed on the watch list becomes subject to detailed review and intense monitoring to enable HypoVereinsbank to develop a strategy for dealing with its exposure to the customer. Initially, the officers in charge of monitoring the loans (market teams in the case of corporate and real estate customers, and customer relations officers and credit specialists in the case of private customers) try to resolve the problem. If, however, such officers are unable to resolve the problem or if there are warning signs that ultimately a loan loss provision for the loan will have to be made, the responsibility for the loan is transferred to a restructuring unit (*Sanierungseinheit*) or work-out unit (*Abwicklungseinheit*). Such warning signs include, for instance, the extensive use of overdraft facilities, late payments on a loan or, in the case of corporate customers, the fact that the borrower covers operating losses with extraordinary income. Responsibility will mandatorily be transferred if the borrower's rating under HypoVereinsbank's Internal Rating System falls to 8. Such transfer generally takes place before a loan loss provision is made. When the transfer takes place, the officer initially in charge provides the restructuring unit with all necessary information with respect to the loan, including a proposal for a restructuring strategy based on which attempts to cure defaults under the loan will be made (a so-called initial risk report). In their attempt to cure defaults under the loan, the restructuring units may be supported by the market teams (in the case of corporate customers) and other departments as well as by outside experts, such as accountants. At this stage, HypoVereinsbank may also require the posting of additional collateral or the reduction of the borrower's credit line. Generally, it is HypoVereinsbank's policy to work with the customer in order to overcome the customer's financial difficulties. Termination and liquidation of a loan remain measures of last resort if other solutions fail.

When insolvency proceedings with respect to the customer are initiated, the restructuring unit transfers the responsibility for the loan to the work-out unit, after providing a report that contains all necessary information (a so-called follow-up risk report). The work-out unit will make attempts to recover the amounts outstanding on the loan, particularly by realizing on any collateral.

In addition to the foregoing, HypoVereinsbank relies on an automated monitoring system for private customer term loan products of up to DM 50,000. If the customer misses one payment, HypoVereinsbank will electronically generate a reminder. If the payment is not received after the second reminder, an automatic loan loss provision will be made. Other steps to prevent losses on the loan or to enforce any collateral are made by the originating branch on a case-by-case basis in light of all circumstances.

Loan Loss Provisions

A loan loss provision will be made if, in the reasonable discretion of the person authorized to make such determination, a partial or full loss on the loan is expected. This is the case, for instance, when the financial situation of the customer deteriorates substantially, when the customer continuously defaults on payments due, particularly under an agreed upon restructuring plan, or when insolvency proceedings have been initiated with respect to the customer. The amounts of HypoVereinsbank's loan loss provisions for problem loans are determined on a case by case basis based on an analysis of the overall risk of loss, taking into account all circumstances, particularly the value of any collateral, the financial condition of the borrower and the nature of the loan. Provisions may vary from a small part to the entire principal amount of the loan. For problem loans with a principal amount not exceeding DM 300,000 or, in the case of mortgage loans, DM 500,000, standardized loan loss provisions (*pauschalisierte Einzelwertberichtigungen*) are made.

Provisioning decisions are made jointly by the work-out manager and the officer who would have approval competence for such loan, except that decisions involving provisions in excess of € 500,000 have to be submitted for final approval to HypoVereinsbank's credit committee.

Risks in the loan portfolio are continually under review. Provisions are generally reversed when the economic or credit conditions leading to the making of the provisions no longer exist. In addition to provisions relating to specific problem loans, HypoVereinsbank maintains provisions for general risks inherent in the loan portfolio as a whole, as well as for specific risk elements such as country risks.

Interest Accrual and Write-Offs

After completion of any recovery proceedings, the loan will be written off and a memo account for any anticipated recoveries will be set up. In rare cases (*e.g.*, the death of the borrower), a loan can be written off without prior loan loss provisions. A memo account will only be set up if, notwithstanding the fact that recovery proceedings have partly or completely failed, there is nonetheless a reasonable expectation that further recoveries can be obtained from the customer within the following four to six years. This applies especially to natural persons whose financial conditions might improve in the future.

If, however, there is no such expectation or if such expectation later proves to be incorrect, no memo account will be set up or the memo account will be eliminated. This is the case, for instance, if, in the course of insolvency proceedings with respect to a corporation, all of the corporation's assets have been distributed to the creditors and the corporation is dissolved.

Interest no longer accrues on any problem loan for which negotiations for a restructuring plan for or insolvency proceedings with respect to the borrower have commenced. In the case of all other problem loans, management decides at what point interest should no longer be accrued as income. The HypoVereinsbank Group ceases to accrue interest if there is a high probability that such interest will not be paid, and records such interest as income only as it is actually paid. In the event that it is determined that previously accrued interest will not be paid, a provision is taken, and the accrual is eventually written off when it becomes due and is not paid.

Risk Management

General

In connection with the merger, it was determined to use Vereinsbank's risk management system as the basis for HypoVereinsbank's system. HYPO-BANK was fully integrated into this system as of the effective date of the merger on September 1, 1998. Full implementation of the computerized system for all subsidiaries in the HypoVereinsbank Group is currently underway and is expected to be substantially complete by the end of 1999. The objective of the HypoVereinsbank Group's risk management system is to identify, measure, control and monitor the risks arising from the HypoVereinsbank Group's business operations, and to correlate this data with revenue and income information. The system operates independently of the individual divisions, and responsibility for different risk areas are assigned to one or more members of the Management Board. Besides credit risk (which includes counterparty risk), the system tracks market, liquidity, settlement, operational and investment risk. Risk management and risk monitoring functions are kept organizationally separate for both market risk and credit risk. The HypoVereinsbank Group calculates standard risk costs with respect to different types of risks in order to take such costs into account in pricing credit-related products and services. In addition, the HypoVereinsbank Group has developed a value-at-risk approach for all risks arising in its lending, trading and other activities that serves as a basis for the allocation of capital to the different business units and as a means for a risk-adjusted performance measurement of all activities. Over the course of 1999, HypoVereinsbank intends to enhance its risk management in certain respects, for example with regard to the measurement of global counterparty risk and the method for depicting possible fluctuations in the value of property furnished as collateral for real estate loans. HypoVereinsbank is also developing an internal model using a value-at-risk approach for capital adequacy and large exposure purposes, and intends to submit such model to the regulatory authorities for approval during 2000.

Credit Risks

The HypoVereinsbank Group's business divisions are responsible for managing credit risks of their respective customers. In connection with the merger, new credit policies were developed for the HypoVereinsbank Group, effective as of September 1, 1998 (see "—Credit Policies"). A new risk information and control system was introduced at Vereinsbank in 1995 for business with domestic corporate customers, to complement the established system for monitoring individual credit exposures. The new system provided Vereinsbank with a more complete and precise assessment of the risks inherent in various loan portfolios at all times. HypoVereinsbank uses similar systems for real-estate financing and for credit risks from lending to private and small business customers.

Counterparty risks also arise in the HypoVereinsbank Group's derivatives business activities, where additional regulations apply. The HypoVereinsbank Group's business divisions operate within specific limits that are approved by HypoVereinsbank's Management Board. Limits reflect net exposures within a certain product category (*e.g.*, interest rate derivatives) based on netting agreements with counterparties.

For a discussion of loan loss provisioning and other credit risk monitoring, see "—Credit Policies".

Market Risks

Market risks arise as a result of price changes for interest rate products, stocks, foreign exchange, and related derivatives. These risks are identified and monitored daily throughout most of the HypoVereinsbank Group on the basis of predefined criteria by a central risk controlling department which is independent of the business divisions.

The process begins by assessing the risk of each individual transaction. Based on historical price trends, the degree to which the value of a transaction can vary over time is determined by application of the value-at-risk method which quantifies a transaction's loss potential. The value-at-risk indicator is the maximum potential change in the value of the portfolio under normal market and liquidity conditions within a given confidence interval and a given holding period. The HypoVereinsbank Group uses a model in accordance with the directions of the Bank for International Settlements that contemplates a value-at-risk determination for a ten-day holding period based on the last 250 trading days, with a probability of 99%, meaning that, based on the trading patterns of the past 250 days, the mathematical odds of a greater loss would have been 1%. Value-at-risk indicators of individual transactions are then progressively aggregated through several stages in order to arrive at aggregate value-at-risk for the entire HypoVereinsbank Group. This model incorporates stress tests and is based on HypoVereinsbank's internal assumptions and calculations. The model is unique to HypoVereinsbank and is not identical to models used by other banks for this purpose.

The risk control system is based on a hierarchical system of limits for a particular trading portfolio and the trading portfolios as a whole. The value-at-risk limit is the limit that the value-at-risk indicator may not exceed. Any net losses during the year further reduce the overall limit. Management triggers are applied, in addition to the risk limits, to provide a basis for diversifying portfolios in terms of currencies or interest periods as well as to allow business units to focus on selected trading strategies.

Risk indicators are established for the entire HypoVereinsbank Group, including operations outside of Germany, on a daily basis. Since 1996 the reporting process has been automated. Under the system developed for this purpose, data is transferred directly from the trading systems into the central reporting system in order to calculate the risk positions at the close of each trading day. By the following morning at the latest, HypoVereinsbank's risk controlling department establishes and communicates the daily risk indicators and limit utilizations to division heads and the responsible members of HypoVereinsbank's Management Board.

The following table shows the potential market risk arising from the trading portfolio of the HypoVereinsbank Group, including hedging positions, on a quarterly basis from December 31, 1997 through June 30, 1999, as estimated by management based on HypoVereinsbank's internal model.

Potential Market Risk of HypoVereinsbank Group Trading Activities (Value-at-Risk)	Average Value-at-Risk[1]	June 30, 1999	March 31, 1999	December 31, 1998	September 30, 1998	June 30, 1998[2]	March 31, 1998[2]	December 31, 1997[2]
	(DM)	(DM)	(DM)	(DM) *(in millions)*	(DM)	(DM)	(DM)	(DM)
Interest rate transactions	231	225	209	191	308	247	253	187
Foreign exchange transactions	82	72	86	68	90	109	101	49
Stock/index transactions	146	155	162	133	178	160	132	100
Other transactions	0	0	0	0	0	0	0	0
Value-at-Risk	459	452	457	392	576	516	486	336

(1) Average of figures for December 31, 1997; March 31, June 30, September 30 and December 31, 1998; and March 31, and June 30, 1999.

(2) Pro forma figures based on the value-at-risk amounts for Vereinsbank and HYPO-BANK prior to the merger.

The HypoVereinsbank Group's risk management system for market price risks arising from trading activities is coordinated with the HypoVereinsbank Group's asset and liability management to identify, measure, control and monitor the HypoVereinsbank Group's aggregate exposure to market price risks. In addition to internal controls, the German regulatory system sets limits on market price risks for trading activities.

Operational Risks

Operational risks are inherent in all aspects of HypoVereinsbank Group's banking activities. Among other things, operational risks arise in connection with communications, information and settlement systems, and human error. HypoVereinsbank has limited the risk of a breakdown of technical assistance by the immediate deployment of back-up systems and emergency plans. To reduce the risk of operational failures or errors, HypoVereinsbank has provided for a clear allocation of responsibilities, established clearly defined processes and issued clear operating instructions. HypoVereinsbank Group also places emphasis on training of employees and regular inspections. To manage legal risk, HypoVereinsbank Group tries to use standard form contracts whenever possible and requires prior consultation of the legal department in the event of any significant departure therefrom.

Euro

On January 1, 1999, the Euro was introduced with fixed exchange rates to the Deutsche Mark and the other national currencies of EMU participant countries. Such currencies will exist as sub-units of the Euro until December 31, 2001 (at the latest) when such national currencies will be replaced for all purposes by the Euro. Under German legislation, all Euro conversions must be completed by January 1, 2002, with an "unofficial" two months grace period in certain areas. The HypoVereinsbank Group has converted most of its systems to the Euro, and since January 4, 1999 has offered all customers accounts as well as most other products in both Euro and local currency. In order to coordinate all necessary steps for the introduction of the Euro, the HypoVereinsbank Group established a project ("Project EURO") consisting of employees with special expertise from various departments. HypoVereinsbank has incurred costs of approximately DM 120 million in previous years in connection with its activities relating to the conversion to the Euro, and expects to incur further costs of approximately DM 10 to DM 20 million in 1999, mostly in the areas of cash exchange services, account conversions, tax and enhanced security

systems. The HypoVereinsbank Euro conversion activities implemented to date have proceeded according to plan, and HypoVereinsbank's management does not anticipate any specific problems with further Euro conversion activities.

Year 2000

Many of the world's computer systems currently record years in a two-digit format rather than a four-digit format. If computers, software programs and semiconductors cannot distinguish between the year 1900 and the year 2000, they may stop working or produce incorrect results. The Year 2000 problem could disable systems that are essential to the function of markets, commerce, consumer products, utilities and governments throughout the world. In the financial services industry, failure of telecommunications and energy infrastructure systems and providers are of particular concern.

Vereinsbank and HYPO-BANK each began preparations in 1992 in connection with the Year 2000 issue. The HypoVereinsbank Group's Year 2000 project covers all consolidated companies in the HypoVereinsbank Group. The project consists of a steering committee staffed with five members of the Management Board and a project team which is headed by two senior officers. The project is supervised and monitored by the HypoVereinsbank Group's internal audit department. The various sections of the project submit reports to the head of the project every four weeks; the head of the project reports to the steering committee every eight weeks. The project has been structured in accordance with the officially published guidelines of various professional associations and government organizations, including the Federal Association of German Banks (*Bundesverband deutscher Banken*), the *Deutsche Bundesbank* and the *Deutsche Börse AG*.

The HypoVereinsbank Group's Year 2000 project includes checking for Year 2000 conversion of the HypoVereinsbank Group's entire information technology infrastructure, including voice and data networks, all internal systems and internally developed applications, so-called "end-user computing", products from external hardware and software suppliers and gateways to external information technology systems (particularly those of the *Bundesbank* and the *Deutsche Börse*) and also checking and/or replacement of microprocessors. In addition, representations as to Year 2000 compliance have been requested from software suppliers with respect to software products used by the HypoVereinsbank Group.

The general phases of the program, which have been substantially completed, are: (1) awareness and assessment of the issues involved; (2) analysis of the risks arising from the Year 2000 problem; (3) renovation of the systems to ensure Year 2000 compliance; (4) testing of the systems to ensure that all required changes have been made; and (5) implementation of new and renovated systems back into the existing infrastructure. Internal testing of the HypoVereinsbank Group's essential systems under Year 2000 simulated conditions already began in the second half of 1998, and this testing was completed in the second quarter of 1999. Currently, all core software programs have been tested and renovated. The tests were conducted in a testing center which was operated independently from the daily banking business. The tests performed were based on certain national and international standard tests (particularly tests developed by clearing systems). The test results have been documented in test reports. Programs that were considered fit for the Year 2000 have been given an internal certificate.

Testing of all essential systems and substantially all related implementation has been completed within the HypoVereinsbank Group. Products from external hardware and software suppliers used within the HypoVereinsbank system will continue to be closely monitored.

In addition to monitoring and testing its own systems, the HypoVereinsbank Group is actively engaged in both advising and monitoring the Year 2000 compliance of its customers, through close communication with individual customers as well as an ongoing rating system.

In certain countries, Year 2000 testing was commenced in 1998 among certain selected financial services infrastructure providers and major clients on a multilateral basis. Such testing has continued in 1999 on a broader

basis in order to ensure that the global payment transactions systems are Year 2000 compliant. The HypoVereinsbank Group, along with other international credit institutions, major financial services infrastructure providers and central banks, successfully completed a global test of this kind in June 1999.

The HypoVereinsbank Group has implemented preventive measures and developed emergency plans to reduce business and operational risks resulting from the Year 2000 issue. The HypoVereinsbank Group is continuously adjusting this emergency planning based on ongoing analysis of the potential risks, the results of the multilateral tests and reports on the Year 2000 status of key infrastructure providers for the financial services industry. If not remedied, potential risks to the HypoVereinsbank Group may include business interruption or shutdown, financial loss, reputation loss, regulatory actions and/or legal liability.

Management expects a total cost for the HypoVereinsbank Group's Year 2000 project of DM 80 million. The HypoVereinsbank Group has incurred costs of approximately DM 38 million in previous years in connection with the Year 2000 project and expects DM 42 million of costs in 1999. In the information technology area alone, approximately 1,000 employees group-wide are working on the Year 2000 project. In addition, the HypoVereinsbank Group retains external consultants in connection with certain aspects of the project.

The HypoVereinsbank Group believes that the exchange of relevant Year 2000 information among all industry participants is important for a successful outcome to the problem. Accordingly, part of the HypoVereinsbank Group's Year 2000 project includes close contact with regulatory authorities, interest groups, associations and major infrastructure providers, in order to support through coordinated initiatives the efforts of the global financial services industry to improve the Year 2000 readiness of all financial institutions. The HypoVereinsbank Group has set its compliance standards in accordance with the requirements of the Global Year 2000 Coordinating Group as well as the additional requirements of the German Banking Supervisory Authority.

The HypoVereinsbank Group's management believes that through its group-wide Year 2000 project, it is taking all commercially reasonable measures to minimize the risk of significant disruptions of its normal operations as a result of the Year 2000 problem. To further minimize the risk of a systems failure, the HypoVereinsbank Group has implemented a "frozen zone" with respect to any changes in its information technology systems during the fourth quarter of 1999. However, if major infrastructure providers, such as those supplying energy, water or telecommunication services, or major financial services infrastructure providers, such as clearing organizations, settlement systems, exchanges and information providers, experience difficulties resulting in the disruption of services to the HypoVereinsbank Group, the operations of individual members of the HypoVereinsbank Group could be affected. Accordingly, there can be no assurance that the Year 2000 problem will not affect the results of operations or financial condition of the HypoVereinsbank Group.

Derivatives

Derivative instruments are contracts whose value is derived from, among others, interest rates, foreign exchange rates, prices of securities or financial or commodity indices. Derivatives include swaps, futures, forwards and option contracts. Derivatives are generally either negotiated over-the-counter contracts or standardized contracts executed on an exchange. Standardized exchange-traded derivatives include futures and option contracts. Negotiated over-the-counter derivatives include forwards, swaps and option contracts. Over-the-counter derivatives are generally not traded like securities; however, in the normal course of business, with the agreement of the original counterparty, they may be unwound or assigned to another counterparty. The timing of cash receipts and payments related to derivatives is generally determined by contractual agreement.

The HypoVereinsbank Group's primary derivatives activities consist of activities in connection with its control of interest rate and currency exposure. The HypoVereinsbank Group's principal counterparties are large financial institutions headquartered in countries that are members of the Organization for Economic Cooperation and Development ("OECD"). With respect to counterparty risk (the risk of default by individual trading partners in derivatives operations), the division in charge of the business in question manages its own risk limits on total commitments established by the Management Board. HypoVereinsbank has also concluded master netting

agreements with its trading partners to reduce counterparty risk. These agreements provide for a reciprocal set-off of receivables and payables arising from individual derivatives transactions prior to or upon the occurrence of an event of insolvency.

For detailed information on notional amounts, market values, and counterparty structure for interest rate, foreign exchange, and stock/index contracts for the HypoVereinsbank, see Notes 64 and 65 to the HypoVereinsbank Group Financial Statements.

Asset and Liability Management

General

The HypoVereinsbank Group's policies and principal procedures for asset and liability management are established by HypoVereinsbank's Management Board. The goals of the HypoVereinsbank Group's asset and liability management, as for other major international banking groups, are to monitor and control the size and concentration of risks arising from interest rate and exchange rate fluctuations and from liquidity sensitivity in respect of the loan and investment portfolios' assets, liabilities and off-balance sheet transactions. The HypoVereinsbank Group's trading positions are monitored and controlled through position limits. See "—Market Price Risks". The Management Board has created a special Market Risk and Asset/Liability Committee ("MARALCO") (a subcommittee of the Management Board) that regularly reviews and assesses the HypoVereinsbank's loan and investment portfolio's assets, liabilities and off-balance sheet positions, and participates in making decisions on the utilization and allocation of the limits set by the Management Board to individual business areas. Within the parameters set by the overall limits, certain subsidiaries make their own risk decisions. The activities of MARALCO and the International Markets division are closely coordinated by the Management Board.

Liquidity

The objective of HypoVereinsbank's liquidity management is to ensure that sufficient funds are available to meet the HypoVereinsbank Group's commitments to its customers and counterparties, both in terms of demand for loans and repayment of liabilities and in terms of satisfying the operational liquidity needs of the HypoVereinsbank Group. The HypoVereinsbank Group is assisted in this task by the fact that a substantial portion of both its assets and liabilities are long-term and are often matched through use of *Pfandbriefe* for funding. In addition, the HypoVereinsbank Group maintains a continuing presence in the Euro money market through interbank borrowings.

The general control of liquidity exposure of German banks is regulated by the Banking Act and regulations issued by the German Banking Supervisory Authority. HypoVereinsbank and the HypoVereinsbank Group are currently in compliance with all applicable liquidity requirements.

Internal HypoVereinsbank guidelines ensure compliance with both the regulatory requirements and HypoVereinsbank's liquidity management approach. Funding is obtained within the range set forth by such guidelines, with a view to minimizing funding costs.

Interest Rate Exposure

Interest rate risks arise when there is a mismatch between assets and liabilities with respect to the repricing of interest rates or maturities. The HypoVereinsbank Group manages interest rate exposure by closely monitoring levels and interest rate sensitivity of assets, liabilities and off-balance sheet items. Interest rate exposure is decreased by the fact that a substantial portion of the HypoVereinsbank Group's assets and liabilities are fixed rate, and are coordinated on a portfolio-wide basis to secure a fixed spread.

The HypoVereinsbank Group takes very limited open market positions in order to take advantage of market opportunities with a view toward enhancing its income. Open positions are reviewed weekly by the Management Board of HypoVereinsbank. The HypoVereinsbank Group makes regular use of interest rate swaps, options and other hedging instruments to limit interest rate risks arising in the refinancing of specific assets.

Exchange Rate Exposure

The HypoVereinsbank Group strictly limits its exchange rate exposure in respect of virtually all loans denominated in foreign currencies either by hedging its liabilities with respect to the funding of such loans through the use of cross-currency swaps or by funding such loans with liabilities of the same currency. In addition, certain derivative products are used to a limited extent to hedge temporary positions in foreign currencies. Pursuant to the Mortgage Banking Act, mortgage banks, including "mixed-mortgage" banks, may have no foreign currency exposure in respect of *Pfandbriefe* and the corresponding assets constituting cover therefor.

Litigation and Other Proceedings

No court or arbitration proceedings which could have a significant effect on the business or financial condition of HypoVereinsbank, or had such an effect in the last two years, have been pending, nor is HypoVereinsbank aware, to the best of its knowledge, of any such proceedings now pending or threatened.

As a result of the risk provisions in the amount of DM 3.5 billion that HypoVereinsbank made in 1998 with respect to credit exposures to real estate joint venture projects and real estate developers incurred by the HYPO-BANK Group prior to the merger, the Supervisory Board and the Management Board of HypoVereinsbank recommended that the Annual General Meeting on May 6, 1999 appoint a special auditor for the purpose of investigating (i) the adequacy of provisions for loan losses in the annual financial statements of HYPO-BANK in 1997, (ii) the reasons for and the content of the risk provisions in the amount of DM 3.5 billion, (iii) the reasonable consideration of risks in the operations of HYPO-BANK when determining the conversion ratio for the merger (*i.e.* the number of shares of Vereinsbank issued for each share of HYPO-BANK), and (iv) the exercise of due diligence when investigating the risks and the operations of both merging banks prior to the determination of the conversion ratio. The Annual General Meeting appointed, upon the proposal of the Supervisory Board, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("BDO") as special auditor and, upon the further recommendation of the Supervisory Board, postponed the vote on the statutory discharge of the members of the Management Board and the Supervisory Board for fiscal year 1998 pending preparation of the BDO report. The BDO report is not expected to be completed and delivered to HypoVereinsbank prior to the scheduled date of closing of the Offering. As of the date of this Offering Circular, the findings of the BDO report have not been disclosed to the Management Board. Given the nature of the issues submitted to BDO, HypoVereinsbank cannot predict the results of BDO's investigation or the potential consequences of such results, including their effect on the outstanding shareholders' vote on the statutory discharge of the members of the Management Board for fiscal year 1998. Accordingly, there can be no assurance that an unfavorable result of any part of BDO's investigation will not have an adverse effect on the operations and/or the financial condition of HypoVereinsbank.

Several shareholders of the former Vereinsbank and/or the former HYPO-BANK have initiated legal proceedings against HypoVereinsbank in connection with the merger. One of the shareholders alleges that the annual financial statements of HYPO-BANK for fiscal year 1997 were void due to the overvaluation of the balance sheet position "Receivables from Customers". Two of the shareholders are disputing the possibility that KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("KPMG") may act as auditor for HypoVereinsbank for the fiscal year 1999 as appointed by the Annual General Meeting, because it gave an opinion in the merger process on the valuation of both banks. One of the shareholders has raised a damage claim because he feels that the conversion ratio is not correct and detrimental for Vereinsbank shareholders. Three shareholders of the former HYPO-BANK are maintaining in a separate legal proceeding *(Spruchstellenverfahren)* that the conversion ratio was unfavorable to former HYPO-BANK shareholders. HypoVereinsbank believes that, even if the court were to agree with the view that the annual financial statements of HYPO-BANK for the fiscal year were void, such voidness would not provide any basis for challenging the merger at this point in time. Pursuant to German law, the shareholders of both stock corporations are able to challenge the merger only within one month after they voted on the merger. Because no shareholder of either bank initiated any legal action to challenge the merger within such one-month period, the merger became effective upon registration in the commercial register on August 31, 1998. HypoVereinsbank also believes, based on new calculations by its auditors after the effective date of the merger, that there is no basis for any adjustment of the conversion ratio. Nor is there, in HypoVereinsbank's

view, any basis for any other claim for compensation by shareholders of the former Vereinsbank in connection with the merger. There is also no legal ground why KPMG should be prevented from acting as auditor for HypoVereinsbank for the fiscal year 1999. Given the novelty of some of the legal issues raised and the lack of precedents, it is not, however, possible to conclude with certainty at this stage that there is no basis for any legal action by a shareholder.

Following the announcement by HypoVereinsbank in the fall of 1998 to make significant additional risk provisions in relation to the real estate financing activities of the former HYPO-BANK Group, the state prosecutor in Munich commenced a criminal investigation against "persons responsible at Bayerische Hypotheken und Wechsel-Bank AG for the extension of credits in the commercial real estate sector". In addition to several former members of the former Management Board of HYPO-BANK, the criminal investigation also includes certain senior employees of HYPO-BANK's auditors, Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft. The state prosecutor has taken the position that there are indications that such persons may have caused financial harm to HYPO-BANK in connection with the extension of credits in the commercial real estate sector. It is unclear at present what course the investigation will take.

HypoVereinsbank is involved in legal proceedings with approximately 90 customers of the former HYPO-BANK relating to housing financing originated through external agents *(Strukturvertrieb*). These proceedings usually result from the difficulties of the borrowers in servicing their loans due to declining real estate prices and a weak rental market. Such factors also have resulted in an increase of the risk exposure of the HypoVereinsbank Group in connection with such loans. In 1998, HypoVereinsbank made further risk provisions to cover such risks. Although HypoVereinsbank plans to increase these risk provisions this year, HypoVereinsbank believes that the pending and any further legal proceedings relating to *Strukturvertrieb* financings of the former HYPO-BANK, if adversely determined, neither individually nor in the aggregate would have a material adverse effect on HypoVereinsbank's business or financial position.

On March 3, 1999, a class action was filed against HypoVereinsbank in the United States District Court in the Southern District of New York alleging the active participation of the former HYPO-BANK with and during the Nazi regime in Germany between 1933 and 1945 in seizing, consolidating, converting and profiting from stolen assets of plaintiffs' families and, among other things, seeking unspecified compensatory, punitive and exemplary damages. On April 12, 1999, the United States District Court in the Southern District of New York combined the action against HypoVereinsbank with similar class actions brought against other German and Austrian banks and industrial companies into a consolidated class action under the title "In re Austrian and German Bank Holocaust Litigation". HypoVereinsbank believes that the action filed, if adversely determined, will not have a material adverse effect on HypoVereinsbank's business or financial position.

Properties

The HypoVereinsbank Group owns most of the corporate headquarters located in Munich and leases most of its branch offices.

Supervisory Board and Management Board

Like all German stock corporations, HypoVereinsbank has a two-tier board system. The Management Board (*Vorstand*) is responsible for the management of HypoVereinsbank and the representation of HypoVereinsbank with respect to third parties, while the Supervisory Board (*Aufsichtsrat*) appoints and removes the members of the Management Board and supervises the activities of the Management Board. The Supervisory Board may not make management decisions, but under the German Stock Corporation Act (*Aktiengesetz*) and the Articles of Association (*Satzung*) of HypoVereinsbank, the Management Board must obtain the consent of the Supervisory Board for certain actions, such as the purchase of real estate for the purposes of HypoVereinsbank's business operations if the purchase price exceeds € 1,000,000, the appointment of senior officers with general power of attorney to represent HypoVereinsbank (*Prokuristen*), and the establishment of branch offices.

The Management Board must submit regular reports on the operations of HypoVereinsbank to the Supervisory Board, and the Supervisory Board is also entitled to request special reports at any time. The members of the Management Board are executive officers of HypoVereinsbank. The German Stock Corporation Act prohibits simultaneous membership on both the Management Board and the Supervisory Board.

In accordance with the German Co-Determination Law of 1976 (*Mitbestimmungsgesetz*), HypoVereinsbank's Supervisory Board must consist of an equal number of representatives elected by the shareholders and the employees. Members are elected for five-year terms, and re-election is possible. The members of the Supervisory Board elect the chairman and the deputy chairman of the Supervisory Board. At least half of the members of the Supervisory Board, including the Chairman or a Deputy Chairman, must be present or represented to constitute a quorum. Resolutions are passed by a simple majority of the Supervisory Board. The chairman, who is invariably a representative of the shareholders, has the deciding vote in the event of a deadlock.

The Supervisory Board has the authority to form committees and delegate to such committees certain of its authorities. Accordingly, it has formed, among others, a business development and credit committee as well as an audit and compliance committee. The Management Board must report to the business development and credit committee on certain matters which may have a significant impact on HypoVereinsbank, including, on an annual basis, the strategic positioning of HypoVereinsbank as well as, on an ongoing basis, transactions which may have a material effect on the profitability and liquidity of HypoVereinsbank and financings of € 250 million or more (and each additional financing thereafter). The audit and compliance committee is, among other things, responsible for the review of internal audits and compliance with regulatory capital requirements.

The composition of the Supervisory Board and the Management Board of HypoVereinsbank and the primary occupations and residences of its members are as follows:

Supervisory Board

Dr. Maximilian Hackl, Honorary Chairman of the Supervisory Board, Krailling

Kurt Viermetz, (since April 23, 1999), Chairman (since May 3, 1999), Member of the Board of Directors of J.P. Morgan & Co. Inc., New York

Herbert Betz, Deputy Chairman, HypoVereinsbank Employee, Baldham

Dr. Richard Trautner, Deputy Chairman, Krailling

Heidi Dennl, HypoVereinsbank Employee, Munich

Volker Doppelfeld, Chairman of the Supervisory Board of BMW Aktiengesellschaft, Munich

Ernst Eigner, HypoVereinsbank Employee, Dachau

Dr. Joachim Faber, Member of the Management Board of Allianz Versicherungs-AG, Munich

Helmut Gropper, (since May 7, 1999), Senior Government Officer (*Ministerialdirektor*) of the Bavarian State Ministry of Finance, Königsbrunn

Klaus Grünewald, Secretary of the Union of Employees in Commerce, Banking and Insurance (HBV), Gröbenzell

Heinz-Georg Harbauer, Member of the Bavarian Senate, Head of the Bavarian Division of the German Union of Salaried Employees (DAG), Munich

Anton Hofer, HypoVereinsbank Employee, Nuremberg

Dr. Jochen Holzer, Munich

Dr. Edgar Jannott, Chairman of the Management Board of ERGO Versicherungsgruppe AG, Düsseldorf

Max Dietrich Kley, Member of the Management Board of BASF Aktiengesellschaft, Ludwigshafen

Peter König, HypoVereinsbank Employee, Munich

Hanns-Peter Kreuser, HypoVereinsbank Employee, Munich

Dr. Eberhard Martini, Munich

Christoph Schmidt, HypoVereinsbank Employee, Schleswig

Jürgen E. Schrempp, Co-Chairman of the Management Board of DaimlerChrysler AG, Stuttgart

Helmut Wunder, HypoVereinsbank Employee, Waischenfeld

Management Board

Dr. Egbert Eisele

Dr. Peter Hoch

Dr. Norbert Juchem

Rainer Knoth

Martin Kölsch

Dieter Rampl

Dr. Eberhard Rauch

Dr. Albrecht Schmidt[1]

Dr. Stephan Schüller

Dr. Martin Schütte

Dr. Paul Siebertz

Dr. Wolfgang Sprißler

Josef F. Wertschulte

---

[1] Speaker of the Management Board

Remuneration of the Boards' Members

For 1998, aggregate emoluments by entities within the HypoVereinsbank Group to members of HypoVereinsbank's Management Board have been set at DM 22 million. For 1998, aggregate emoluments by entities within the HypoVereinsbank Group to members of HypoVereinsbank's Supervisory Board were set at DM 3 million.

In addition, an aggregate amount of DM 20 million was paid to former members of HypoVereinsbank's Management Board and their surviving dependents (including former members of Vereinsbank's Management Board and former members of HYPO-BANK's Management Board and their respective surviving dependents). At December 31, 1998, the aggregate pension reserve for retired Management Board members amounted to DM 116 million.

At December 31, 1998, the aggregate amount of outstanding loans by entities within the HypoVereinsbank Group to members of HypoVereinsbank's Management Board amounted to DM 27 million. The corresponding amount for the members of the Supervisory Boards was DM 16 million.

Employees and Labor Relations

At December 31, 1998, the HypoVereinsbank Group had 39,447 employees of which 4,299 were working in foreign representative offices, branches and subsidiaries.

In Germany, employment agreements for workers and employees below management level are generally collectively negotiated between employers' associations representing a particular industry and the relevant unions. Most of the companies in Germany, including HypoVereinsbank and its material German subsidiaries, are members of an employers' association and are bound by certain collective bargaining agreements. Such collective bargaining agreements apply to approximately 75% of the HypoVereinsbank Group's employees and are renegotiated annually.

To reward teamwork and enhance incentives to meet individual goals, HypoVereinsbank maintains a performance-based compensation system for all employees within Germany. In addition, a "total compensation" system is maintained for senior executives as well as for employees in International Markets and corporate finance, in which employees distribute their respective compensation packages among available benefits at their own discretion and which includes substantial performance-based and success-based components.

Management considers relations with its employees to be good. There has been no material disruption of work as a result of labor unrest in recent years.

Shareholdings

HypoVereinsbank's stock is quoted on the stock exchanges of Paris, Zurich and Vienna in addition to all eight German stock exchanges.

The German Securities Trading Act (*Wertpapierhandelsgesetz*) requires each investor whose investment in a German stock corporation listed on the official market of a German or European Economic Area stock exchange (including HypoVereinsbank) reaches, exceeds or falls below any of the thresholds of 5%, 10%, 25%, 50% or 75% of the voting rights of such stock corporation to notify such stock corporation and the German Securities Trading Supervisory Authority (*Bundesaufsichtsamt für den Wertpapierhandel*) promptly, but in any event within seven calendar days. HypoVereinsbank has been informed of the following shareholdings exceeding the relevant thresholds pursuant to the Securities Trading Act:

	Shareholding[1]	
	(as a percentage of HypoVereinsbank's share capital)	(as a percentage of HypoVereinsbank's voting capital)
Shareholder[2]		
Allianz group (including through AB Industriebesitz und Beteiligungen AG & Co. oHG)	17.4	18.1
Münchener Rückversicherungsgesellschaft AG	6.4	6.7
VIAG AG (through Bayernwerk AG)	8.1	8.4

(1) Difference between holding of share capital and voting capital reflects the existence of non-voting preferred stock in HypoVereinsbank's capital structure.
(2) As of October 13, 1999.

In addition, HypoVereinsbank is aware of the following individual shareholdings by Bavarian public law foundations: Bayerische Landesstiftung owns 5.4% of HypoVereinsbank's share capital and 2.1% of its voting capital, and Bayerische Forschungsstiftung owns 1.2% of HypoVereinsbank's share capital and 1.3% of its voting capital.

Ratings

HypoVereinsbank is rated by four major international credit rating agencies.

	Long Term	Short Term	Financial Strength	Pfandbrief	
				Public	Mortgage
Moody's	Aa2*	P-1	B+	Aaa	Aaa
S&P	AA-*	A-1+	—	AAA	—
Fitch IBCA	AA	F1+	B	AAA	AAA
TBW	AA+	TBW-1	A/B	AAA	—

* with negative outlook
Moody's: per October 28, 1998
S&P: per July 7, 1999

Description of the New York Branch

The Branch, established as a branch of Vereinsbank in 1974, operates pursuant to a license granted by the Superintendent of Banks of the State of New York. On September 8, 1998, the Branch and the New York branch of HYPO-BANK formally merged their operations.

As at June 30, 1999, the Bank's entire commercial banking operations in the United States were conducted through the Branch. The financial results of the U.S. banking operations are fully consolidated with the Bank's and the Group's financial statements; the Branch does not publish separate financial results. For internal accounting purposes, the Branch is included in the Bank's North American Branches unit ("HVBNA"), which as at June 30, 1999 consisted primarily of the Branch and the Bank's Cayman Island branch with total assets of $18,441 million.

The Branch provides a full range of commercial banking services to corporate customers, institutional investors and financial institutions. The Branch is particularly active in the areas of structured finance, trade finance, public sector finance (through credit enhancement arrangements on behalf of municipal issuers in the United States), asset-backed finance and securitizations, project finance and real estate finance.

The Branch funds itself by taking corporate and bank deposits, borrowing in the interbank market and issuing certificates of deposit and medium-term notes. An investment securities portfolio is maintained by the Branch, consisting primarily of investment-grade notes and bonds, including asset-backed securities, *Pfandbriefe*, floating and fixed-rate medium-term notes issued by high-quality finance companies and other corporate issuers, and U.S. Treasury and government agency securities.

The Group recently consolidated its U.S. operations while expanding the range of services offered. The Group closed the Chicago branch and the Los Angeles agency as of the end of June 1999. The Branch, together with the Bank's subsidiary HVB America Inc., will continue to have operational responsibility for North America and South America and will expand the range of products and services offered in these regions. The Group plans to be more active in the areas of real estate financings and investment advisory, project finance, asset management, risk management and derivative products, asset-backed securitization and trade finance.

The Bank's U.S. banking offices employed a total of 366 persons as of June 30, 1999, of which 147 were employed by the Branch. The Branch is located at 150 East 42nd St., New York, New York 10017-5781 and its telephone number is (212) 672-6000. The Branch is not required to be and is not a member of the Federal Deposit Insurance Corporation (the "FDIC") and the obligations of the Branch are not insured by the FDIC. For a discussion of certain regulatory provisions applicable to the Branch, see "Supervision and Regulation—Supervision and Regulation in the United States".

Selected Consolidated Financial Information

The selected consolidated financial data presented below are derived from and should be read in conjunction with, the HypoVereinsbank Group Financial Statements and the Interim Financial Statements as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations". The HypoVereinsbank Group Financial Statements as of and for the year ended December 31, 1998 have been audited jointly by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft. The selected consolidated financial data as of and for the year ended December 31, 1997 are unaudited pro forma consolidated amounts reflecting the merger of Vereinsbank and HYPO-BANK and have been presented for comparison purposes only, solely for the convenience of the reader.

The HypoVereinsbank Group Financial Statements and the Interim Financial Statements were prepared in accordance with IAS, which differ from U.S. GAAP in certain significant respects. For a discussion of certain significant differences between IAS and U.S. GAAP relevant to the HypoVereinsbank Group Financial Statements and the Interim Financial Statements, see "Summary of Certain Significant Differences Between IAS and U.S. GAAP". The selected information set forth below for the year ended or as of December 31, 1998 has been converted into Euro at the official exchange rate of € 1 = DM 1.95583, solely for the convenience of the reader. Pro forma income statement information for the first six months of 1998 has not been presented, since obtaining such figures would have involved expenditure not justified by the usefulness of the exercise.

	Six Months Ended June 30, 1999		Year Ended December 31,		
			1998	1998	1997[1]
	(U.S.$)	(€)	(€)	(DM)	(DM)
			(in millions)		
Income Statement Data					
Interest income	12,778	13,175	25,900	50,656	48,212
Interest expense	(10,347)	(10,668)	(20,865)	(40,808)	(38,858)
Net interest income	2,432	2,507	5,035	9,848	9,354
Provisions for losses on loans and advances	(646)[2]	(666)[2]	(1,659)[3]	(3,245)[3]	(2,711)[3]
Net interest income after provisions for losses on loans and advances	1,786	1,841	3,376	6,603	6,643
Fees and commission income	1,013	1,044	1,915	3,745	3,424
Fees and commission expense	(149)	(154)	(284)	(555)	(459)
Net commission income	863	890	1,631	3,190	2,965
Trading profit	206	212	487	952	895
General administrative expenses	(2,179)	(2,247)	(4,324)	(8,457)	(7,740)
Other operating income	96	99	317	620	595
Other operating expenses	(72)	(74)	(226)	(441)	(486)
Operating profit	699	721	1,261	2,467	2,872
Other income	203	209	330	646	344
Other expenses	(73)	(75)	(76)	(149)	(255)
Extraordinary income[4]	—	—	3,123	6,109	1,500
Extraordinary expenses[5]	(134)	(138)	(2,023)[3]	(3,958)[3]	(1,688)[3]
Net income before tax	695	717	2,615	5,115	2,773
Income taxes	(311)	(321)	(629)	(1,231)	(1,019)
Net income[6]	384	396	1,986	3,884	1,754
Per Share Data					
Earnings per share[7][8]	0.79	0.81	1.69	3.31	3.91
Diluted earnings per share[7][9][10]	0.78	0.80	1.69	3.31	—

(1) Pro forma consolidated amounts.

(2) Pro rata amount based on total expected provisions for 1999.

(3) In addition to the provisions for losses on loans and advances, the HypoVereinsbank Group recorded expenses for risk provisions for joint venture and property development expenses as extraordinary expenses in the amount of DM 3,500 million (€ 1,790 million) for 1998 and DM 1,500 million for 1997. These charges did not affect net income as they were offset through the release of undisclosed reserves. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(4) In 1998 and 1997, included merger gains, realization of undisclosed reserves to cover risk provisions for joint venture and property development exposures and, in 1998, dividend received from HYPO-BANK for 1997.

(5) In 1998 and 1997, included merger expenses and risk provisions for joint venture and property development exposures. In the six months ended June 30, 1999, included merger expenses.

(6) Prior to subtraction of minority interests, which amounted to € 60 million for the six months ended June 30, 1999; and DM 142 million (€ 73 million) and DM 135 million for the years ended December 31, 1998 and 1997, respectively.

(7) Beginning with the Interim Financial Statements, HypoVereinsbank has made two changes to its method of calculating earnings per share: (i) minority interests are no longer included in the calculation and (ii) preferred shares are now included in the basis of the calculation. In order to present comparable figures, the new method has been applied to the years ended December 31, 1997 and 1998.

(8) Calculated for the six months ended June 30, 1999 using an average of the total ordinary and preferred shares outstanding as of the beginning and end of the period, which was 416,768,645, and for the years ended December 31, 1998 and 1997 using the total ordinary and preferred shares outstanding as of the end of the period, which were 415,645,975 and 414,665,627, respectively.

(9) Calculated for the six months ended June 30, 1999 using an average of the total ordinary and preferred shares outstanding on a fully diluted basis as of the beginning and end of the period, which was 421,065,560, and for the year ended December 31, 1998 using the total ordinary and preferred shares outstanding on a fully diluted basis as of the end of the period, which were 419,942,890.

(10) Figures not calculated with respect to pro forma amounts.

Balance Sheet Data	As of June 30, 1999		As of December 31,		
			1998	1998	1997[1]
	(U.S.$)	(€)	(€)	(DM)	(DM)
Assets			*(in millions)*		
Cash reserve[2]	3,529	3,639	4,824	9,435	3,939
Assets held for trading purposes	38,069	39,250	35,622	69,670	50,838
Placements with, and loans and advances to, other banks[3]	62,801	64,750	57,489	112,438	123,004
Loans and advances to customers[3]	308,791	318,374	310,112	606,526	569,973
Total provisions for losses on loans and advances	(8,290)	(8,547)	(7,983)	(15,614)	(13,514)
Investments	59,305	61,145	51,501	100,728	81,908
Property, plant and equipment	4,257	4,389	4,299	8,409	7,740
Other assets	7,396	7,626	4,871	9,527	8,791
Total assets	475,858	490,626	460,735	901,119	832,679
Liabilities					
Deposits from other banks	78,479	80,915	68,146	133,283	137,013
Amounts owed to other depositors	142,247	146,662	147,530	288,543	270,322
Promissory notes and other liabilities evidenced by paper	200,521	206,744	189,207	370,056	336,501
Provisions and accruals	4,234	4,365	4,243	8,299	7,701
Other liabilities	27,424	28,275	29,267	57,241	41,658
Subordinated capital	10,087	10,400	9,401	18,386	14,952
Minority interest	1,218	1,256	1,046	2,047	1,959
Shareholders' equity	11,648	12,009	11,895	23,264	22,573
Total liabilities	475,858	490,626	460,735	901,119	832,679

(1) Pro forma consolidated amounts.

(2) Includes cash and cash equivalents.

(3) Includes money market operations (including reverse repos), as well as loans.

Selected Ratios	Six Months Ended June 30, 1999	Year Ended December 31,[1] 1998	1997[2]
Return on equity after tax[3]	5.6%	6.1%	8.5%
Dividend payout ratio[4][5]	—	48.4%	53.9%
Net interest margin[6]	1.10%	1.17%	1.25%
Cost-income ratio[7]	61.8%	59.7%	58.1%

	As of June 30, 1999	As of December 31,[1] 1998	1997[2]
Core capital ratio (Tier I)[8]	6.0%	6.0%	5.4%
Equity ratio (Tier I + II)[8]	10.1%	9.9%	9.2%
Equity capital ratio (Tier I + II + III)[8]	9.3%	9.3%	—[10]
Core capital (Tier I) (in billions)[9]	€ 13.6	(€ 13.0) DM 25.4	DM 22.0
Liable equity (Tier I + II) (in billions)[9]	€ 22.7	(€ 21.4) DM 41.8	DM 37.5
Equity capital (Tier I + II + III) (in billions)[9]	€ 24.3	(€ 22.7) DM 44.4	—[10]

(1) After adoption of annual financial statements.

(2) Pro forma consolidated amounts.

(3) Net income (after tax) expressed as a percentage of average quarter-end shareholders' equity, in each case, excluding minority interests. Adjusted for merger effects, return on equity after tax would have been 6.9% for the six months ended June 30, 1999; 6.6% for the year ended December 31, 1998 and 9.1% for the year ended December 31, 1997.

(4) Figures not calculated on an interim basis.

(5) Total dividend declared expressed as a percentage of net income (after tax) of HypoVereinsbank.

(6) Net interest income expressed as a percentage of average total assets for the period, plus off-balance sheet contingent liabilities on rediscounted bills of exchange credited to borrowers, without risk weighting.

(7) General administrative expenses expressed as a percentage of operating income, which is net interest income, net commission income, trading profit and the balance of other operating income and expenses.

(8) Calculated pursuant to the German risk-based capital adequacy rules (Principle I) (*Grundsatz I*) on the basis of financial statements prepared in accordance with German GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Capital Resources—Capital Adequacy".

(9) Calculated pursuant to the provisions of the German Banking Act (*Kreditwesengesetz*) on regulatory capital.

(10) Calculated for the first time in 1998 in accordance with the Sixth Amendment to the Banking Act.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is based on, and should be read in conjunction with, the HypoVereinsbank Group Financial Statements and the Interim Financial Statements included elsewhere in this Offering Circular. The HypoVereinsbank Group Financial Statements as of and for the year ended December 31, 1998 have been audited jointly by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft. The selected consolidated financial data as of and for the year ended December 31, 1997 are unaudited pro forma consolidated amounts reflecting the merger of Vereinsbank and HYPO-BANK and have been presented for comparison purposes only, solely for the convenience of the reader.

These financial statements have been prepared in accordance with IAS for the first time. Under the Capital Raising Promotion Act (*Kapitalaufnahmeerleichterungsgesetz*), which became effective in 1998, German companies are permitted to use IAS for the preparation of consolidated financial statements, instead of German GAAP, subject to certain conditions. IAS differ in certain material respects from U.S. GAAP. For a discussion of certain significant differences between IAS and U.S. GAAP relevant to the HypoVereinsbank Group Financial Statements and the Interim Financial Statements, see "Summary of Certain Significant Differences Between IAS and U.S. GAAP". The HypoVereinsbank Group Financial Statements also comply with the accounting policies set forth in the Seventh Council Directive (on consolidated accounts) and the EU Bank Accounting Directive.

Economic and Business Environment

The HypoVereinsbank Group's operations and earnings are affected by social, political, and economic developments and conditions in Germany, the European Union and the other countries in which the HypoVereinsbank Group operates. In addition, the HypoVereinsbank Group is also subject to general international economic conditions, the development of the international financial markets, international political events, interest rate levels and volatility, currency exchange rates and general competitive factors in the banking industry.

German Economic Developments

The German economy was characterized by a general trend of growth, although somewhat uneven, through the middle of 1998, with an overall growth in the real gross domestic product for the year of 2.8%, as compared to 2.2% in 1997 (source: German Central Bank Monthly Report (*Bundesbank Monatsbericht*), February 1999). The turmoil in emerging markets and the recession in Japan late in the year resulted in growing turbulence in European economies, including that of Germany. As a result, the German economy suffered a significant slowdown late in 1998, with a 0.4% decline in the real gross domestic product in the final quarter of 1998 as compared to the previous quarter, the first decline in three years (source: German Central Bank Monthly Report (*Bundesbank Monatsbericht*), February 1999). Economic growth was generally export-driven, although the Asian crisis eroded foreign demand towards the end of 1998. Domestic demand increased gradually over 1998, however, as the unemployment level improved slightly from the high levels of 1997 (when it reached 11.8%) to 10.7% at the end of 1998 (seasonally adjusted rates) (source: German Central Bank Monthly Report (*Bundesbank Monatsbericht*), February 1999). Nevertheless, there is no evidence as yet of a lasting reversal in the German labor market conditions. Significant contributors to German economic growth in 1998 were exports and investments in machinery and equipment, while investment in construction continued to have a negative impact. There continued to be a high corporate insolvency rate in Germany in 1998. In 1999, the German economy is expected to remain relatively flat, despite an improvement in domestic demand driven by tax relief, as export demand weakens. Similarly, other European economies are expected to experience slower economic growth in 1999.

Inflation remained low in Germany at 1.0% for 1998, as compared to 1.9% in 1997 (source: German Statistical Office (*Statistisches Bundesamt*), January 1999). As a result, interest rates continued their downward trend, resulting

in a yield curve that was almost flat. German long-term and short-term interest rates have declined significantly since mid-1996. In 1999, short-term interest rates are expected to sink slightly in keeping with the general decline in the short-term rates of the European Central Bank, while long-term interest rates are expected to remain relatively flat.

In March 1999, the German Federal Parliament (*Bundestag*), with the approval of the Federal Council (*Bundesrat*), passed the "Tax Relief Act of 1999/2000/2002" (*Steuerentlastungsgesetz 1999/2000/2002*), which contains a number of tax reforms, particularly with respect to income tax and corporate tax. This legislation will have various effects on the German economy. The legislation will result in overall tax relief only for middle-sized enterprises. For the rest of the economy, the result will likely be to increase taxes. The overall impact of the new legislative measures on the HypoVereinsbank Group may therefore be a higher tax burden.

Changes in the Banking Industry and Competitive Environment

The integration of the European market and the introduction of the Euro at the beginning of 1999 will result in a number of significant changes in the monetary and financial environment in Europe. Funding opportunities will change, as will investments, the presentation of accounts and payment systems. In addition, competition in the banking industry will intensify. The German banking industry has generally been characterized by more intense competition and increasing consolidation in recent years, which is expected to accelerate within the countries participating in the third stage of European Monetary Union. For a description of the introduction of the Euro, see "Exchange Rate and Currency Information".

Overview

The HypoVereinsbank Group's net income was DM 3,884 million in 1998. Excluding merger gains of DM 2,364 million, net income was DM 1,520 million, a decline of 13.3%, or DM 234 million, from DM 1,754 million in 1997. Operating profit decreased 14.1%, or DM 405 million, in 1998 to DM 2,467 million from DM 2,872 million in 1997. As operating income (net interest income, net commission income, trading profit and the balance of other operating income and expenses) increased in 1998 by 6.3% to DM 14,169 million as compared to DM 13,323 million in 1997, this decline reflected higher risk provisions for losses on loans and advances, increased general administrative expenses and higher taxes as compared to 1997. The increase in general administrative expenses primarily included expenditures arising from improvements and rationalization of information technologies and the sales infrastructure of the HypoVereinsbank Group. The Corporate Customers division had a negative impact on operating profit, with a loss of DM 210 million, as compared to a profit of DM 96 million in 1997. The Asset Management division also showed a slight decline in operating profit in 1998 to DM 160 million, as compared to DM 166 million in 1997. The main contributor to operating profit was the Real Estate Finance and Real Estate Customers division, which increased DM 398 million to DM 963 million in 1998 from DM 565 million in 1997.

Excluding merger gains, net income before tax declined only slightly from the 1997 level to DM 2,751 million from DM 2,773 million in 1997. Of this amount, approximately 27%, or DM 744 million, was accounted for by commercial banking operations, a decline of 28.7% from DM 1,043 million in 1997. Mortgage banking operations produced net income before tax of DM 2,007 million, an increase of 16.0% from DM 1,730 million in 1997. These results reflected the difficult operating environment in 1998, particularly in the third quarter with the economic crisis in the emerging markets of Southeast Asia, Russia and Latin America, coupled with turmoil on the global foreign exchange and securities markets. In particular, operations in Asia generated a net loss before tax of DM 317 million in 1998, as compared to a net loss of DM 192 million in 1997, while net income before tax from operations in the Americas declined to DM 36 million from DM 151 million. Net income before tax from operations in Euro countries other than Germany and from operations elsewhere in western Europe also declined in 1998 (by 11.2% and 30.9%, respectively) partly as a result of costs related to the merger of subsidiaries in Luxembourg, Austria, Switzerland and Ireland as well as the merger of the former Vereinsbank and HYPO-BANK branches in London.

As of December 31, 1998, the HypoVereinsbank Group had total assets of DM 901.1 billion, an increase of 8.2%, or DM 68.4 billion, from DM 832.7 billion as of December 31, 1997. This growth was primarily attributable to the

6.4%, or DM 36.6 billion, increase in loans and advances to customers, the 37.0%, or DM 18.8 billion, increase in trading assets, and the 23.0%, or DM 18.8 billion, growth in investments. Placements with, and loans and advances to, other banks declined by 8.6%, or DM 10.6 billion, largely due to merger-related consolidation of interbank transactions. The HypoVereinsbank Group's total lending rose 8.0%, or DM 48.5 billion, in 1998 to DM 656.8 billion from DM 608.3 billion as of December 31, 1997. (The HypoVereinsbank Group measures its total loan portfolio according to a concept of "total lending". See "—Financial Condition as of December 31, 1998 and 1997 —Lending Operations".) As a result of the higher loan loss provision taken for current operations, as well as the special risk provision taken for exposures in the joint venture and property development portfolio, total provisions for losses on loans and advances increased by 15.5%, or DM 2.1 billion.

The increase in assets in 1998 was funded in large part through increased liabilities evidenced by paper, which rose 10.0%, or DM 33.6 billion, and amounts owed to other depositors (customers other than banks), which grew by 6.7%, or DM 18.2 billion. Other liabilities also increased 37.4%, or DM 15.6 billion. The 23.0%, or DM 3.4 billion, growth in subordinated capital reflected the issuance of an aggregate of DM 1.2 billion of silent partnership interests in HypoVereinsbank Luxembourg S.A., as well as an additional DM 2.2 billion of subordinated debt.

Results of Operations for Years Ended December 31, 1998 and 1997

Net Interest Income

Net interest income is a function of the amount of interest-earning assets, the spread (the difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-earning liabilities), the general level of interest rates and the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

The table below sets forth a breakdown of the HypoVereinsbank Group's interest income (including leasing income) and interest expense for the periods indicated.

	Year Ended December 31,			
	1998			1997[5]
Net Interest Income[1]	(€ in millions except margins)	(DM in millions except margins)	(% change)	(DM in millions except margins)
Income from:				
Lending and money market transactions	22,787	44,568	1.3	44,016
Fixed-income and book-entry government debt securities	2,565	5,017	54.6	3,245
Equity securities and other variable-yield securities	148	289	43.8	201
Participating interests	65	127	(15.3)	150
Subsidiaries	25	48	23.1	39
Companies accounted for using the equity method	32	62	(11.4)	70
Total	25,621	50,111	5.0	47,721
Leasing income from:				
Finance leases	21	41	(4.7)	43
Operating leases	258	504	12.5	448
Total leasing income	279	545	11.0	491
Total interest income	25,900	50,656	5.1	48,212
Interest expenses and similar charges for:				
Deposits	9,420	18,423	(3.9)	19,167
Promissory notes and other liabilities evidenced by paper	10,763	21,050	14.3	18,422
Subordinated capital	485	949	4.1	912
Total	20,667	40,422	5.0	38,501
Depreciation of leased equipment under operating leases	197	386	8.1	357
Total interest expense	20,865	40,808	5.0	38,858
Net interest income	5,035	9,848	5.3	9,354
Of which:				
Commercial banking operations	*2,981*	*5,831*	*(4.2)*	*6,088*
Mortgage banking operations	*2,054*	*4,017*	*23.0*	*3,266*
Net interest margin				
Commercial banking operations[2]		1.36%		1.60%
Mortgage banking operations[2],[3]		0.86%		0.77%
Total bank[2]		1.17%		1.25%
Total bank based on average risk assets[4]		2.53%		2.62%

(1) Interest and dividend income received, refinancing costs and commissions paid with respect to assets held in the trading portfolio is included in "Trading profit". See "—Trading profit".

(2) Net interest income expressed as a percentage of average total assets for the period, plus off-balance sheet contingent liabilities on rediscounted bills of exchange credited to borrowers.

(3) Blended percentage including both mortgage lending and public sector lending. Margins for public sector loans are substantially lower than margins for mortgage loans.

(4) Net interest income expressed as a percentage of average risk assets.

(5) Pro forma consolidated amounts.

The HypoVereinsbank Group's total interest income increased 5.1%, or DM 2,444 million, in 1998 as compared to 1997. Of this amount, DM 1,772 million was attributable to higher income from fixed-income and book-entry government debt securities, which rose 54.6% in 1998. This increase was due in large part to the 17.5% growth in the HypoVereinsbank Group's portfolio of debt securities and other fixed-income securities held for investment purposes. Income from lending and money market transactions increased only 1.3%, or DM 552 million, despite the 8.0% growth in the HypoVereinsbank Group's total lending, reflecting the continuing low interest rate environment in Germany.

Total interest expense increased 5.0%, or DM 1,950 million, in 1998. The effect of declining interest rates was more than offset by the growth in total liabilities required to fund the increased lending volume. Lower interest rates have also led to a decrease in the importance of savings deposits and time deposits as a funding source as customers shift funds into higher yielding investments (including mutual funds). As a result of this trend, a greater proportion of lending must be funded from comparatively more expensive sources. In 1998, the growth in liabilities was accounted for in particular by the 10.0% increase in liabilities evidenced by paper and the 6.7% increase in amounts owed to other depositors, while savings deposits remained relatively stable (0.9% higher). As a result of these trends, interest expenses for deposits declined 3.9%, or DM 744 million, while interest expenses for promissory notes and other liabilities evidenced by paper rose 14.3%, or DM 2,628 million.

The HypoVereinsbank Group's net interest income increased 5.3%, or DM 494 million, in 1998 as compared to 1997. Net interest income from mortgage banking operations increased 23% in 1998 to make up 40.8% of net interest income as compared to 34.9% in 1997. This increase was due to growth of 8.1% in total mortgage banking lending, as well a 9-basis-point improvement in the interest margin for the mortgage banking operations. A portion of this growth resulted from the acquisition of FGH Bank on March 31, 1998. Net interest income from commercial banking operations fell 4.2% in 1998 (59.2% of net interest income, as compared to 65.1% in 1997), despite the 7.7% growth in total commercial banking lending. This decline was a result of the continued downward pressure on the interest margin for the commercial banking operations, which fell 24 basis points in 1998. The causes of narrower margins in commercial banking operations were pressure on lending margins due to intense competition for borrowers with satisfactory credit standings as well as an increase in refinancing costs triggered by the decline in inexpensive savings deposits as a percentage of total liabilities. The declines in commercial banking net interest margins also reflect the growing contribution to net interest income of the HypoVereinsbank Group from international operations, since margins in international lending tend to be significantly lower than in the domestic market. Despite lower lending margins, international operations present opportunities for attractive fee-based transactions.

The total bank net interest margin fell 8 basis points in 1998 to 1.17% as measured by average total assets, and by 9 basis points to 2.53% as measured by average risk assets. Overall declines in net interest margins have been felt by all major German banks. Management believes that the effect on mixed mortgage banks such as HypoVereinsbank has generally been less than for other private sector commercial banks since margins in mortgage lending have remained more stable. Management expects this decline in net interest margin to continue. However, management believes that the value of net interest margin as an indicator of profitability is lessening as the importance of money market operations and new interest rate products has weakened the relationship between net interest margin and net income.

Provisions for Losses on Loans and Advances

The provisions for losses on loans and advances consists of loan loss provisions for counterparty risks on loans and advances, country risks and latent default risks not individually identifiable. The following table summarizes total risk provisioning amounts for HypoVereinsbank Group as of December 31 of the years indicated.

	Year Ended December 31,			
	1998			1997[2]
Provisions for Losses on Loans and Advances	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Additions to provisions:				
Counterparty risk[1]	2,185	4,274	0.0	4,275
Country risk	150	293	6.2	276
Latent risk	163	319	(10.1)	355
Total additions to provisions	2,498	4,886	(0.4)	4,906
Reversals of provisions:				
Counterparty risk	(669)	(1,309)	28.9	(1,840)
Country risk	(86)	(168)	33.9	(254)
Latent risk	(36)	(70)	(1,750.0)	(4)
Total reversals of provisions	(791)	(1,547)	(26.3)	(2,098)
Recoveries from write-offs in previous years	(48)	(94)	3.1	(97)
Total provision for losses on loans and advances[1]	1,659	3,245	19.7	2,711

(1) In addition to the provisions for losses on loans and advances, the HypoVereinsbank Group recorded risk provisions for joint venture and property development exposures as extraordinary expenses in the amount of DM 3,500 million (€ 1,790 million) for 1998 and DM 1,500 million for 1997.

(2) Pro forma consolidated amounts.

The following table provides a breakdown by business operation of total risk provisioning amounts for HypoVereinsbank Group as of December 31 of the years indicated.

	Year Ended December 31,			
	1998			1997[1]
Breakdown of Risk Provisions by Business Operation	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Commercial banking operations:				
Domestic	837	1,637	0.4	1,631
Foreign	205	401	91.0	210
Total commercial banking operations	1,042	2,038	10.7	1,841
Mortgage banking operations:				
Domestic	617	1,207	38.7	870
Foreign	—	—	—	—
Total mortgage banking operations	617	1,207	38.7	870
Total provisions for losses on loans and advances	1,659	3,245	19.7	2,711

(1) Pro forma consolidated amounts.

The HypoVereinsbank Group's provisions for losses on loans and advances (excluding the risk provisions for joint venture and property development exposures recorded as extraordinary expenses in 1997 and 1998) increased 19.7%, or DM 534 million, in 1998. For a discussion of the special risk provisions taken for joint venture and property development exposures in 1997 and 1998, see "—Extraordinary Income and Expenses". The increase in provisions in 1998 was a result of a weakening in the domestic German economy, together with exposure to risk in emerging markets and in real estate finance. The 1998 provisions also included an amount taken to cover exposures related to third-party generated business (*Strukturvertrieb*). See "—Extraordinary Income and Expenses".

The HypoVereinsbank Group's net risk provisioning (including counterparty risk and country risk) with respect to exposures in emerging markets in Russia, Asia and South America (in particular Brazil) totaled DM 442 million in 1998. DM 238 million related to Russia, of which DM 46 million comprised specific counterparty risk provisions. An aggregate of DM 139 million net provisions were taken for Indonesia, Malaysia, South Korea and Thailand, reflecting an addition of DM 205 million to specific counterparty risks and a net release of DM 66 million for country risk provisions. Net risk provisions of DM 60 million were taken for counterparty risks in China and Hong Kong. For a detailed discussion of the risk exposure and provisioning level with respect to emerging market countries, see "—Financial Condition as of December 31, 1998 and 1997—Total Provisions for Losses on Loans and Advances". The HypoVereinsbank Group did not make risk provisions or experience losses as a result of its exposure to hedge funds, which is minimal.

Much of the increase in the risk provision was attributable to higher provisioning for mortgage banking operations, which increased 38.7%, or DM 337 million, in 1998. Excluding the effect of the extraordinary risk provisions, the net addition rate in mortgage banking operations increased to 0.41% in 1998 from 0.33% in 1997, in particular as a result of a few larger problem loans. While provisioning for domestic commercial banking operations remained relatively stable in 1998, risk provisions for foreign commercial banking operations rose 91.0%, or DM 191 million, due in part to exposures in emerging markets. The overall net addition rate for commercial banking remained constant (0.86% in both 1998 and 1997, excluding the effect of the extraordinary risk provisions). The loan loss rate increased to 1.02% in 1998 from 0.76% in 1997 in commercial banking operations, and to 0.20% from 0.15% in mortgage banking operations, reflecting loan losses covered by the extraordinary risk provision taken in 1997.

The following table sets forth a breakdown of the net addition rate and loan loss rate of the HypoVereinsbank Group, as a percentage of total lending for the periods specified.

	Year Ended December 31,	
Risk Provisioning Rates	**1998**	**1997[4]**
	(in %)	
Net addition rate:[1][2]		
Commercial banking operations (including extraordinary risk provisions)	1.51	1.56
Commercial banking operations (excluding extraordinary risk provisions)	0.86	0.86
Mortgage banking operations (including extraordinary risk provisions)	0.46	0.33
Mortgage banking operations (excluding extraordinary risk provisions)	0.41	0.33
Loan loss rate:[1][3]		
Commercial banking operations	1.02	0.76
Mortgage banking operations	0.20	0.15
Total	0.56	0.42

(1) Rates expressed as a percentage of lending volume, net of municipal loans and including guarantees.

(2) Net additions are gross additions; less reversals of provisions for counterparty risk, country risk and latent risk; less recoveries from written-off loans.

(3) Loan losses are the use of provisions to cover losses on loans and advances, less recoveries from written-off loans. Amounts in 1998 include loan losses covered by the risk provisions taken on joint venture and property development exposures in 1997.

(4) Pro forma consolidated amounts.

Net Commission Income

The table below sets forth components of the HypoVereinsbank Group's net commission income for the periods indicated.

	Year Ended December 31,			
	1998			1997[3]
Net Commission Income	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Securities and custodial services[1]	1,002	1,960	9.8	1,785
Foreign trade operations	193	377	0.8	374
Money transfer operations	170	332	(4.3)	347
Lending operations	178	348	3.0	338
Other service operations[2]	88	173	43.0	121
Total	1,631	3,190	7.6	2,965
Of which:				
Total fee and commission income	*1,915*	*3,745*	*9.4*	*3,424*
Total fee and commission expense	*284*	*555*	*20.9*	*459*

(1) Includes underwriting and asset management activities.
(2) Includes insurance product sales, home-loan product sales and financial advisory activities, among others.
(3) Pro forma consolidated amounts.

The HypoVereinsbank Group's net commission income in 1998 increased 7.6%, or DM 225 million, as compared to 1997. The increase in net commission income was primarily a result of higher income from securities and custodial services, which rose 9.8%, or DM 175 million, in 1998. In particular, the strong equity market in 1998 and sales of new investment fund products (such as the Top Welt and Continental Star guarantee funds) contributed to this result.

Net commission income from other service operations grew by 43.0%, or DM52 million, in part as a result of increased net commission income from financial advisory activities.

Trading Profit

Trading profit includes interest and dividend income, funding costs and commissions corresponding to trading activities, which include trading of both cash securities and derivatives. Trading activities are accounted for on a mark-to-market basis. For a description of the HypoVereinsbank Group's trading portfolio, see "—Financial Condition as of December 31, 1998 and 1997—Trading and Investment Assets—Trading Portfolio".

The table below sets forth a breakdown of the HypoVereinsbank Group's trading profit for the periods indicated.

	Year Ended December 31,			
	1998			1997[2]
Trading Profit	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Equity contracts	177	346	(2.0)	353
Interest rate and currency contracts	310	606	11.8	542
Total trading profit[1]	487	952	6.4	895

(1) Includes interest and dividend income received, net of refinancing costs and commissions paid with respect to assets held in the trading portfolio, which amounted to DM 144 million in 1998.
(2) Pro forma consolidated amounts.

Despite the turmoil in the international capital markets in 1998, the HypoVereinsbank Group's trading profit increased by 6.4%, or DM 57 million, as compared to 1997. This increase was due largely to positive results from trading in currency contracts as a result of the volatility in the markets as well as growth in the trading portfolio. These results were offset in part by a decline in gains from trading in interest rate contracts. Trading in equity contracts produced a slight decline over the 1997 results (2.0%).

General Administrative Expenses

The following table sets forth a breakdown of the HypoVereinsbank Group's administrative expenses, number of employees and cost-income ratio for the periods indicated.

	Year Ended December 31,			
	1998			1997[4]
General Administrative Expenses	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Personnel expenses:				
Wages and salaries	1,932	3,778	6.9	3,535
Social security costs	309	604	9.6	551
Pension and other employee benefit costs	233	456	(7.1)	491
Total personnel expenses	2,474	4,838	5.7	4,577
Other administrative expenses	1,455	2,846	16.4	2,445
Depreciation and adjustments on:[1]				
Property, plant and equipment	395	773	7.7	718
Other assets	—	—	—	—
Total depreciation and adjustments	395	773	7.7	718
Total	4,324	8,457	9.3	7,740
Average number of employees[2]		39,322	0.2	39,237
Cost-income ratio[3]		59.7%		58.1%

(1) Excludes depreciation on assets related to the HypoVereinsbank Group's leasing business, and depreciation and amortization of intangible assets.

(2) Average of the number of employees as of the last day of each month of each period, including part-time employees and trainees.

(3) General administrative expenses expressed as a percentage of operating income, which is net interest income, net commission income, trading profit and the balance of other operating income and expenses.

(4) Pro forma consolidated amounts.

The HypoVereinsbank Group's general administrative expenses rose 9.3%, or DM 717 million, in 1998. Personnel expenses increased 5.7%, or DM 261 million, in 1998 due largely to the slight increase in the average number of employees and higher wages (including bonuses) and salaries paid to employees. Other administrative expenses and depreciation together increased 14.4%, or DM 456 million, in 1998. This increase primarily reflects the modernization of the technical infrastructure (including rationalization of the Vereinsbank and HYPO-BANK computer systems) and improvements in the sales organization of the HypoVereinsbank Group. In addition, significant expenses were incurred in conjunction with the introduction of the Euro and Year 2000 preparations. See "Description of HypoVereinsbank—Risk Management—Operational Risk". The HypoVereinsbank Group's cost-income ratio increased slightly to 59.7% in 1998 from 58.1% in 1997, but still remained below 60%.

Other Operating Income and Expenses

Other operating income mainly includes income from the release of provisions not related to lending or securities business, and rental income and gains from sales of real estate. Other operating expenses include expenditures for real estate not used by the HypoVereinsbank Group for ordinary operations. The following table sets out other operating income and expenses of the HypoVereinsbank Group for the periods indicated.

	Year Ended December 31,			
	1998			1997[1]
	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Other operating income	317	620	4.2	595
Other operating expenses	(226)	(441)	(9.3)	(486)
Balance	91	179	64.2	109

(1) Pro forma consolidated amounts.

The balance of other operating income and expenses increased by DM 70 million in 1998, reflecting a 4.2% increase in other operating income and a 9.3% decrease in other operating expenses.

Other Income and Expenses

The following table sets forth a breakdown of the HypoVereinsbank Group's other income and expenses for the periods indicated.

	Year Ended December 31,			
	1998			1997[2]
Other income	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Net income from investments	330	646	87.8	344
Other expenses				
Depreciation and amortization of intangible assets[1]	32	62	8.8	57
Other taxes	20	39	(78.0)	177
Losses assumed	25	48	128.6	21
Total other expenses	76	149	(41.6)	255
Balance of other income and expenses	254	497	458.4	89

(1) Includes amortization of goodwill.

(2) Pro forma consolidated amounts.

The balance of other income and expenses increased by DM 408 million in 1998, reflecting in large part a DM 302 million increase in net income from investments. The growth in net income from investments was partly a result of the sale of the HypoVereinsbank Group's participating interest in the Central-European International Bank, Budapest. Net income from investments also included net gains of DM 141 million from the sale of current investments. In addition, other expenses declined by DM 106 million in 1998, which was mainly due to a DM 138 million decrease in other taxes reflecting the elimination of the trade tax on capital and the net worth tax in 1998.

Extraordinary Income and Expenses

The following table sets forth a breakdown of the HypoVereinsbank Group's extraordinary income and expenses for the periods indicated.

	Year Ended December 31,			
	1998			1997[1]
Extraordinary income	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
HYPO-BANK dividend received for 1997	125	245	—	—
Realization of undisclosed reserves to cover risk provisions for joint venture and property development exposures	1,790	3,500	133.3	1,500
Merger gains	1,209	2,364	—	
Total extraordinary income	3,123	6,109	307.3	1,500
Extraordinary expenses				
Merger expenses	234	458	143.6	188
Risk provisions for joint venture and property development exposures	1,790	3,500	133.3	1,500
Total extraordinary expenses	2,023	3,958	134.5	1,688
Balance of extraordinary income and expenses	1,100	2,151	1,244.1	(188)

(1) Pro forma consolidated amounts.

The largest component of extraordinary income and expenses for the HypoVereinsbank Group was the risk provision of DM 3.5 billion taken primarily for losses on loans in the joint venture and property development portfolio of the former HYPO-BANK Group as an extraordinary expense in 1998. This provision was offset by extraordinary income of the same amount from the realization of appreciation on securities carried at book value in the investment portfolio. The securities sold to generate this income were immediately repurchased so as not to alter the respective holding levels. Of the DM 3.5 billion risk provision, DM 2.5 billion related to real estate joint venture projects in which the HYPO-BANK Group participated and DM 1.0 billion related primarily to loans to developers, with a portion relating to loans from third-party generated business *(Strukturvertrieb*).

The total credit exposure of the 52 real estate joint venture projects (31 in western Germany, 11 in eastern Germany and 10 in Berlin) amounted to approximately DM 8 billion as of December 31, 1998 (DM 4.8 billion in western Germany, DM 1.0 billion in eastern Germany and DM 2.2 billion in Berlin). These joint venture exposures were covered by a total of DM 4 billion of specific risk provisions as of December 31, 1998 (DM 2.2 billion relating to the projects in western Germany, at a provisioning rate of approximately 46%; DM 0.6 billion relating to the projects in eastern Germany, at a provisioning rate of approximately 60% and DM 1.2 billion relating to the projects in Berlin, at a provisioning rate of approximately 55%).

Of the HypoVereinsbank Group's total third-party generated business (*Strukturvertrieb*) of DM 26.6 billion as of December 31, 1998, DM 1.9 billion constituted problem loans. The HypoVereinsbank Group took provisions in 1998 to cover this exposure as part of the DM 3.5 billion extraordinary risk provision, as well as within the regular provisions for losses on loans and advances (see "—Provisions for Losses on Loans and Advances"). After these additions to the provisions for losses on these loans and write-offs of DM 120 million in 1998, the HypoVereinsbank Group's total provisions for losses on these loans was DM 513 million as of December 31, 1998.

In 1997, a risk provision of DM 1.5 billion was taken by the former HYPO-BANK mainly to cover significant exposure arising from loans to property developers and property development projects. This extraordinary expense was similarly offset by extraordinary income from the realization of appreciation on securities in the investment portfolio.

In addition, extraordinary income and expenses reflect gains and losses as a result of the merger. At the time of the merger, Vereinsbank held a 44.2% interest in HYPO-BANK. With the merger, this holding ceased to exist, producing gains of DM 2,364 million in 1998 resulting from the difference between the book value of the shares of the former HYPO-BANK held by the former Vereinsbank and the book value of the pro-rated shareholders' equity of the former HYPO-BANK (the effect of full consolidation of the former HYPO-BANK). Merger expenses of DM 458 million in 1998 and DM 188 million in 1997 include personnel expenses related to the creation of a uniform remuneration system, marketing expenses, consulting costs and property transfer taxes. The 1998 merger expenses were slightly more than budgeted since merger-related activities are progressing faster than originally assumed, particularly among the subsidiaries of the HypoVereinsbank Group. In addition, pursuant to a change in law, HypoVereinsbank recognized the entire property transfer tax payable in connection with the merger as an expense in 1998, rather than capitalizing it as had been originally planned. Partially offsetting these expenses in 1998 was the DM 245 million dividend paid by HYPO-BANK with respect to the 1997 fiscal year to Vereinsbank, which was recorded as extraordinary income.

Income Taxes

The following table shows the relationship between the income taxes derived from net income before tax and income taxes actually reported in the income statement by the HypoVereinsbank Group for the indicated periods.

	Year Ended December 31,			
	1998			1997[6]
Income Taxes	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Computed income tax on net income before tax[1]	1,242	2,430	81.1	1,342
Tax effects arising from:				
Prior years[2]	(4)	(7)	89.4	(66)
Foreign income[3]	(71)	(138)	21.6	(176)
Non-taxable income	(585)	(1,145)[4]	(5,625.0)	(20)
Different tax laws[5]	18	35	134.0	(103)
Non-deductible expenses	11	21	(38.2)	34
Other differences	18	35	337.5	8
Recognized income taxes	629	1,231	20.8	1,019
Of which:				
Current taxes	*701*	*1,371*	*11.6*	*1,229*
Deferred taxes	*(72)*	*(140)*	*33.3*	*(210)*

(1) Calculated at the applicable tax rate in Germany of the current corporate income tax rate of 45% plus the solidarity surcharge of 5.5% (7.5% in 1997), resulting in an effective corporate tax rate of 47.475% in 1998 (48.375% in 1997).

(2) Attributable to tax expenses for earlier years and deducted losses.

(3) Attributable to the different tax rates applicable in other countries.

(4) Attributable primarily to merger gains.

(5) Comprises primarily a reduction in the rate of German corporate income tax on profits for dividend payments and other distributions to 31.65% (30% corporate tax plus 5.5% solidarity surcharge), and the non-uniform rates of local income tax applied in Germany.

(6) Pro forma consolidated amounts.

The HypoVereinsbank Group's income taxes increased 20.8% in 1998 largely as a result of the comparatively low effective tax rate in 1997. This effect offset the reduction in income taxes as a result of non-taxable merger gains in 1998.

Financial Condition as of December 31, 1998 and 1997

Lending Operations

The HypoVereinsbank Group measures its total loan portfolio according to a concept of "total lending", which includes certain off-balance sheet items. Total lending includes loans to banks, loans and advances to customers, on-balance sheet bills of exchange and contingent liabilities on rediscounted bills of exchange and excludes money market operations and leased equipment. As of December 31, 1998, total lending represented approximately 72.9% of total assets. The following table sets out the principal components of the HypoVereinsbank Group's total lending as of the dates specified.

	As of December 31,			
	1998			1997[4]
Lending[1]	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Bills of exchange[1]	1,106	2,162	(26.7)	2,949
Loans to banks[2]	29,661	58,011	25.1	46,390
Loans and advances to customers[3]	305,064	596,652	6.7	558,940
Total lending	335,831	656,825	8.0	608,279

(1) Unless otherwise reported under loans and advances. Includes off-balance sheet liabilities on rediscounted bills of exchange.

(2) Excludes money market transactions such as reverse repos.

(3) Excludes money market transactions such as reverse repos, leasing operations and other items.

(4) Pro forma consolidated amounts.

The following table provides a breakdown of the HypoVereinsbank Group's total lending by business area as of the dates specified.

	As of December 31,			
	1998			1997[1]
	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Commercial banking operations				
Domestic	58,131	113,695	11.1	102,296
Foreign	40,066	78,358	3.1	76,035
Total commercial banking operations	98,197	192,053	7.7	178,331
Mortgage banking operations				
Residential	100,045	195,671	11.4	175,649
Commercial	49,407	96,632	8.7	88,921
Total mortgage banking operations	149,452	292,303	10.5	264,570
Of which:				
Domestic	*146,137*	*285,819*	*8.0*	*264,570*
Foreign	*3,315*	*6,484*	—	—
Public sector lending	88,182	172,469	4.3	165,378
Of which:				
Domestic	*86,471*	*169,122*	*4.4*	*162,001*
Foreign	*1,711*	*3,347*	*(0.9)*	*3,377*
Total mortgage banking operations	237,634	464,772	8.1	429,948
Of which:				
Domestic	*232,608*	*454,941*	*6.7*	*426,571*
Foreign	*5,026*	*9,831*	*191.1*	*3,377*
Total Lending	335,831	656,825	8.0	608,279

(1) Pro forma consolidated amounts.

The HypoVereinsbank Group's total lending rose 8.0%, or DM 48.5 billion, in 1998. Lending in the mortgage banking operations increased 8.1%, or DM 34.8 billion. Of this increase, DM 6.5 billion was attributable to the first-time consolidation of FGH Bank in 1998. Most of the growth occurred in the domestic operations, which accounted for 97.9% of the HypoVereinsbank Group's mortgage banking lending as of year-end 1998 (99.2% as of December 31, 1997).

Mortgage lending (excluding public sector lending) made up 62.9% of mortgage banking lending (compared to 61.5% in 1997), while public sector lending comprised 37.1% (38.5% in 1997). Mortgage lending grew 10.5%, or DM 27.7 billion, in 1998 to DM 292.3 billion from DM 264.6 billion as of December 31, 1997. Of the 1998 year-end total, 66.9% was accounted for by housing construction loans (an increase over 66.4% as of December 31, 1997), and 33.1% by loans to trade and industry (as compared to 33.6% as of year-end 1997). Public sector lending increased 4.3%, or DM 7.1 billion, in 1998 to DM 172.5 billion from DM 165.4 billion as of December 31, 1997.

New loan commitments in the mortgage banking operations grew by 8.3% to DM 88.0 billion in 1998, as compared to DM 81.3 billion in 1997. New mortgage loan commitments represented 57.5% of the total, increasing 8.6% to DM 50.6 billion in 1998 from DM 46.6 billion in 1997. Of that amount, 72.0% were residential loan commitments (as compared to 69.4% in 1997), while 28.0% were commercial mortgage loan commitments (30.6% in 1997). New municipal loan commitments grew 8.0% in 1998 to DM 37.5 billion from DM 34.7 billion in 1997.

Lending in the commercial banking operations grew 7.7%, or DM 13.7 billion in 1998, with a larger proportion of the growth occurring in the HypoVereinbank Group's domestic operations, which accounted for 59.2% of commercial banking lending as of year-end 1998 (57.4% as of December 31, 1997).

Loans and Advances

The following table provides an analysis of remaining maturities of placements with, and loans and advances to, other banks and loans and advances to customers, as set forth in the balance sheet as of December 31, 1998. For a discussion of the asset and liability management of the HypoVereinsbank Group, see "Description of HypoVereinsbank—Risk Management—Asset and Liability Management".

	As of December 31, 1998					
	On demand	Up to three months	More than three months and up to one year	More than one year and up to five years	More than five years	Total
Maturity Analysis of Loans and Advances			(DM in millions)			
Placements with, and loans and advances to, other banks[1][2]	14,100	45,413	12,164	24,357	16,404	112,438
Loans and advances to customers[1]	37,876	60,407	40,442	152,087	315,714	606,526
Total	51,976	105,820	52,606	176,444	332,118	718,964

(1) Includes money market transactions such as reverse repos, as well as loans. Also includes loans placed on a non-accrual basis. See "—Non-accrual Loans".

(2) Includes other placements, loans and advances.

In addition to loans, the HypoVereinsbank Group has loan commitments, guarantees, letters of credit, endorsements and other similar off-balance sheet liabilities. See "—Contingent Liabilities and Other Commitments".

Non-accrual Loans

Loans are placed on a non-accrual basis for each product separately within the commercial and mortgage banking operations. The total loss of interest as a result of loans placed on a non-accrual basis was DM 460 million in 1998

(as compared to DM 449 million in 1997). For a discussion of the HypoVereinsbank Group's problem loan procedures, and policies regarding interest accrual and write-offs, see "Description of HypoVereinsbank—Credit Policies".

The following table sets forth the amounts of loans placed on non-accrual status for the HypoVereinsbank Group as of the dates specified.

	As of December 31,			
	1998			1997[2]
	(€ in billions)	(DM in billions)	(% change)	(DM in billions)
Non-accrual loans	3.7	7.3	5.8	6.9
As a percentage of total lending[1]		1.4%		1.4%

(1) Net of municipal loans and including guarantees.

(2) Pro forma consolidated amounts.

Total Provisions for Losses on Loans and Advances

The following table sets forth the components of the provision for losses on loans and advances of the HypoVereinsbank Group as of the dates specified.

	As of December 31,			
	1998			1997[2]
Total Provisions for Losses on Loans and Advances (Allowance) by Type of Loan	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Placements with, and loans and advances to, other banks	369	721	40.0	515
Loans and advances to customers	7,118	13,921	13.8	12,236
Bills of exchange	—	—	—	—
Provisions for losses on loans and advances[1]	475	930	24.0	750
Other items	21	42	223.1	13
Total	7,983	15,614	15.5	13,514

(1) Provisions relating to risks identified in contingent liabilities and other commitments.

(2) Pro forma consolidated amounts.

The following table sets forth a breakdown of the provision for losses on loans and advances of the HypoVereinsbank Group as a percentage of total lending as of the dates specified.

	As of December 31,	
Risk Provisioning Rates	1998	1997[3]
Ratio of provisions to total lending[1][2]	(in %)	
Commercial banking operations	5.24	5.20
Mortgage banking operations	1.11	0.90
Total provisions	2.95	2.82

(1) Rates expressed as a percentage of lending volume, net of municipal loans and including guarantees.

(2) Provisions are provisions for counterparty risk, country risk and latent risk, and include the risk provisions taken on joint venture and property development exposures in 1997 and 1998 where they have not already been used to cover loan losses.

(3) Pro forma consolidated amounts.

The following table sets forth a breakdown of the net additions to and deductions from the provision for losses on loans and advances for the HypoVereinsbank Group as of the dates specified.

	As of December 31,			
	1998			1997[3]
	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Additions to and Deductions from Provisions for Losses on Loans and Advances (Allowance)				
Counterparty risk				
Balance as of January 1	6,084	11,900	28.4	9,266
Changes affecting income:				
Gross additions	3,029	5,925[1]	2.6	5,775[2]
Reversals of provisions	(669)	(1,309)	28.9	(1,840)
Changes not affecting income:				
Changes due to consolidation differences	—	—	—	400
Use of provisions for losses on loans and advances (write-offs)	(1,451)	(2,837)	(51.5)	(1,873)
Effects of currency translation and other changes	98	191	11.0	172
Balance as of December 31	7,092	13,870	16.6	11,900
Country risk				
Balance as of January 1	395	773	(3.5)	801
Changes affecting income:				
Gross additions	150	293	6.2	276
Reversals of provisions	(86)	(168)	33.9	(254)
Changes not affecting income:				
Changes due to consolidation differences	—	—	—	—
Use of provisions for losses on loans and advances (write-offs)	(9)	(17)	76.1	(71)
Effects of currency translation and other changes	(9)	(17)	(181.0)	21
Balance as of December 31	442	864	11.8	773
Latent risk				
Balance as of January 1	430	841	38.6	607
Changes affecting income:				
Gross additions	163	319	(10.1)	355
Reversals of provisions	(36)	(70)	(1,650.0)	(4)
Changes not affecting income:				
Changes due to consolidation differences	7	13	0	13
Use of provisions for losses on loans and advances (write-offs)	(116)	(226)	(42.1)	(159)
Effects of currency translation and other changes	2	3	(89.7)	29
Balance as of December 31	450	880	4.6	841
Total				
Balance as of January 1	6,910	13,514	26.6	10,674
Changes affecting income:				
Gross additions	3,342	6,537	2.0	6,406
Reversals of provisions	(791)	(1,547)	26.3	(2,098)
Changes not affecting income:				
Changes due to consolidation differences	7	13	(96.9)	413
Use of provisions for losses on loans and advances (write-offs)	(1,575)	(3,080)	(46.5)	(2,103)
Effects of currency translation and other changes	91	177	(20.3)	222
Balance as of December 31	7,983	15,614	15.5	13,514

(1) In addition to the DM 4,274 million provision for losses on loans and advances (see "—Results of Operations for Years Ended December 31, 1998 and 1997—Provisions for Losses on Loans and Advances"), also includes an amount of DM 1,651 million comprising the portion of the DM 3.5 billion special risk provision taken as an extraordinary expense in 1998 not used to cover loan losses in 1998.

(2) In addition to the DM 4,275 million provision for losses on loans and advances (see "—Results of Operations for Years Ended December 31, 1998 and 1997—Provisions for Losses on Loans and Advances"), also includes the DM 1.5 billion special risk provision taken as an extraordinary expense in 1997.

(3) Pro forma consolidated amounts.

For a discussion of the changes to the provision affecting income and write-offs, see "—Results of Operations for Years Ended December 31, 1998 and 1997—Provision for Losses on Loans and Advances". For a discussion of the HypoVereinsbank Group's risk provisioning policy, see "Description of HypoVereinsbank—Credit Policies—Loan Loss Provisions". For a discussion of the risk provisioning level for exposures related to third-party generated business (*Strukturvertrieb*), see "—Results of Operations for Years Ended December 31, 1998 and 1997—Extraordinary Income and Expenses".

The following table sets forth the risk exposure and provisions of the HypoVereinsbank Group as of December 31 of the years specified for emerging market countries that have experienced difficult economic conditions in recent years.

Country	Risk Exposure	Middle/Long-Term[1] Country Risk as % of Core Capital	Country Risk Provisioning Rate	Country Risk Provisions	Specific Counterparty Risk Provisions
	(DM millions)	(in %)	(in %)	(DM millions)	(DM millions)
Russia					
1998	833	2.4%	70%	434	46
1997[3]	484	N/A	50%	242	0
Asia					
Indonesia	182		50%	90	222
Malaysia	50		20%	4	0
South Korea	1,144		10%	43	0
Thailand	417		20%	28	0
Total 1998	1,793	3.0%	—	165	222
Total 1997[3]	1,159	N/A	—	231	17
China	697		—	—	30
Hong Kong	668		—	—	52
Total 1998	1,365	4.0%	—	—	82
South America					
Argentina	828		—[2]	8	4
Brazil	1,303		25%	51	0
Mexico	845		—[2]	4	0
Total South America 1998	2,976	3.2%	—	63	4
Total South America 1997[3]	N/A		—	57	5

(1) Short-term business means commercial financings of less than one year, without payment delinquency. Middle/long-term business means more than one year, after collateral.

(2) Not disclosed.

(3) Pro forma consolidated amounts.

Assets Held for Trading Purposes

The following table shows the composition of assets held by the HypoVereinsbank Group for trading purposes as of the dates indicated. All trading activities are reported at market value on the balance sheet. For the notional amounts and replacement costs of the derivatives used for trading purposes, see Note 65 of the HypoVereinsbank Group Financial Statements.

	As of December 31,			
	1998			1997[2]
Assets Held For Trading Purposes	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Debt securities and other fixed-income securities:				
Money market instruments	223	437	(75.1)	1,755
Bonds and notes issued by:				
Public sector issuers	3,503	6,852	2.7	6,675
Other issuers	5,232	10,232	23.9	8,258
Own debt securities	2,761	5,400	108.7	2,588
Total debt securities and other fixed-income securities	11,719	22,921	18.9	19,276
Equity securities and other variable-yield securities:				
Equity securities	1,715	3,355	268.3	911
Investment certificates	108	211	(11.0)	237
Other	195	381	38.5	275
Total equity securities and other variable-yield securities	2,018	3,947	177.4	1,423
Positive market values arising from derivative financial instruments[1]	20,437	39,971	39.1	28,735
Other assets held for trading purposes	1,448	2,831	101.6	1,404
Total	35,622	69,670	37.0	50,838

(1) Negative market values of trading-related derivative financial instruments are held as part of "Other liabilities" on the liabilities side of the balance sheet.

(2) Pro forma consolidated amounts.

The HypoVereinsbank Group's trading assets increased 37.0%, or DM 18.8 billion, in 1998. This growth primarily reflected the 39.1%, or DM 11.2 billion, increase in positive market values arising from derivative financial instruments. In addition, the amount of debt securities and other fixed-income securities rose 18.9%, or DM 3.6 billion, and the portfolio of equity securities grew by DM 2.4 billion (an increase of 268.3%). This growth reflects the HypoVereinsbank Group's expansion of its trading activities particularly in equity securities.

Investment Assets

The following table shows the composition of investments held by the HypoVereinsbank Group as of the dates specified. Investments in non-consolidated related companies are carried at cost, with write-downs for permanent declines in value. Investments in associated companies and joint ventures are valued at equity, except for those of minor significance, which are valued at cost. Other investments are reported at cost, with write-downs for permanent declines in value.

Securities are grouped together with related derivatives in strictly defined valuation units. Unrealized profits and losses within the same valuation unit may be netted against one another. See "Summary of Certain Significant Differences Between IAS and U.S. GAAP".

	As of December 31,			
	1998			1997[1]
Investments	*(€ in millions)*	*(DM in millions)*	*(% change)*	*(DM in millions)*
Non-consolidated subsidiaries	672	1,314	9.0	1,205
Companies accounted for using the equity method	538	1,053	1.0	1,043
Participating interests	1,372	2,684	149.0	1,078
Debt securities and other fixed-income securities:				
Money market instruments	672	1,314	(8.7)	1,439
Bonds and notes issued by:				
Public sector issuers	15,085	29,503	13.4	26,006
Other issuers	15,249	29,824	4.5	28,549
Own debt securities	11,041	21,595	54.5	13,981
Total debt securities and other fixed-income securities	42,047	82,236	17.5	69,975
Equity securities and other variable-yield securities:				
Equity securities	5,967	11,670	52.4	7,658
Investment certificates	890	1,740	89.1	920
Total equity securities and other variable-yield securities	6,872	13,441	56.2	8,607
Total investments	51,501	100,728	23.0	81,908

(1) Pro forma consolidated amounts.

Equity Participations

Unlike many other German banks, HypoVereinsbank does not have a substantial portfolio of equity investments in non-financial companies. In addition to the participations shown below, HypoVereinsbank also has a number of other small investments, which it holds either directly or through holding companies, details of which are set forth in Note 22 of the HypoVereinsbank Group Financial Statements.

As of December 31, 1998, the HypoVereinsbank Group held the following material equity participations in excess of 5% of the share capital of companies outside the banking sector.

	As of December 31, 1998		
Equity Participations	**Industry**	**Percentage of Share Capital**	**Market Value[1] (DM in millions)**
Allianz AG	Insurance	6.8	10,293
Brau und Brunnen AG[2]	Beverages and Real Estate	55.2	371
Münchener Rückversicherungs Gesellschaft AG	Insurance	13.3	9,359
Gabriel Sedlmayr Spaten-Franziskaner-Bräu Kommanditgesellschaft auf Aktien	Brewery	19.7[3]	142
VIAG AG[4]	Holding	5.3	1,380
Württembergische AG Versicherungs-Beteiligungs-gesellschaft	Insurance	15.1	927
Total			22,553

(1) Market value of the HypoVereinsbank Group's interest, based on the official spot price (*Einheitskurs*) of the shares on the Frankfurt Stock Exchange on December 31, 1998.

(2) Of the 55.2% holding in 1998, 33.6% was classified as a long-term investment and the remaining 21.6% as a current investment.

(3) Expressed as a percentage of limited partnership capital; percentage of total capital as of December 31, 1998 was 12.1%.

(4) Held by VI-Industrie-Beteiligungsgesellschaft mbH. HypoVereinsbank holds an additional 5.0% interest in VIAG AG through HI-Vermögensverwaltungsgesellschaft mbH, which is not part of the HypoVereinsbank Group since HypoVereinsbank does not hold a majority interest.

The market value of the listed equity securities set forth in the table above totalled DM 22.6 billion as of December 31, 1998. When compared with the carrying amounts, the total resulting price reserve totalled DM 10.6 billion as of December 31, 1998 (as compared to DM 10.1 billion as of December 31, 1997).

Deposits from Other Banks and Amounts Owed to Other Depositors

The following table sets forth the composition of the HypoVereinsbank Group's deposits from other banks and amounts owed to other depositors as of the dates indicated.

	As of December 31,			
	1998			1997[1]
	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Deposits from other banks:				
Registered mortgage bonds	5,215	10,200	8.7	9,382
Registered municipal bonds	3,728	7,291	3.4	7,052
Other deposits	59,204	115,792	(4.0)	120,579
Total deposits from other banks	68,146	133,283	(2.7)	137,013
Of which:				
Foreign banks	*33,933*	*66,367*	*7.0*	*62,023*
Domestic banks	*34,214*	*66,916*	*(10.8)*	*74,990*
Amounts owed to other depositors:				
Savings deposits	15,754	30,813	0.9	30,548
Home-loan savings deposits	1,933	3,781	8.3	3,490
Registered mortgage bonds	29,019	56,757	1.3	56,046
Registered municipal bonds	17,807	34,827	(6.4)	37,223
Other deposits	83,016	162,365	13.5	143,015
Total amounts owed to other depositors	147,530	288,543	6.7	270,322
Of which:				
Foreign depositors	*24,908*	*48,715*	*34.8*	*36,145*
Domestic depositors	*122,622*	*239,828*	*2.4*	*234,177*
Total deposits	215,676	421,826	3.6	407,335

(1) Pro forma consolidated amounts.

The following table provides an analysis of the remaining maturities of the HypoVereinsbank Group's deposits as of December 31, 1998. For a discussion of the asset and liability management of the HypoVereinsbank Group, see "Description of HypoVereinsbank—Risk Management—Asset and Liability Management".

	As of December 31, 1998					
	On demand	Up to three months	More than three months and up to one year	More than one year and up to five years	More than five years	Total
Maturity Analysis of Deposits			(DM in millions)			
Deposits from other banks	13,684	63,969	23,885	15,324	16,421	133,283
Amounts owed to other depositors:						
Savings deposits and home-loan savings deposits	—	29,279	961	1,596	2,758	34,594
Registered mortgage and municipal bonds, and other deposits	63,610	70,164	14,376	32,815	72,984	253,949
Total amounts owed to other depositors	63,610	99,443	15,337	34,411	75,742	288,543
Total deposits	77,294	163,412	39,222	49,735	92,163	421,826

Promissory Notes and Other Liabilities Evidenced by Paper

The following table sets forth the composition of the HypoVereinsbank Group's liabilities evidenced by paper as of the dates specified.

	As of December 31,			
	1998			1997[1]
Promissory Notes and Liabilities Evidenced by Paper	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Debt securities in issue:				
Mortgage bonds	45,378	88,751	9.0	81,387
Municipal bonds	64,768	126,675	9.2	115,962
Other debt securities	62,601	122,436	7.0	114,396
Money market instruments	15,296	29,917	41.6	21,123
Total debt securities	188,042	367,779	10.5	332,868
Other promissory notes and liabilities evidenced by paper:				
Acceptances and promissory notes in circulation	986	1,929	(27.5)	2,660
Other	178	348	(64.2)	973
Total other promissory notes and liabilities evidenced by paper	1,164	2,277	(37.3)	3,633
Total	189,207	370,056	10.0	336,501

(1) Pro forma consolidated amounts.

The following table provides an analysis of the remaining maturities of the HypoVereinsbank Group's liabilities evidenced by paper as of December 31, 1998. For a discussion of the asset and liability management of the HypoVereinsbank Group, see "Description of HypoVereinsbank—Risk Management—Asset and Liability Management".

	As of December 31, 1998					
	On demand	Up to three months	More than three months and up to one year	More than one year and up to five years	More than five years	Total
	(DM in millions)					
Debt securities in issue	—	60,602	57,316	187,566	62,295	367,779
Other promissory notes and other liabilities evidenced by paper	—	2,197	14	65	1	2,277
Total	—	62,799	57,330	187,631	62,296	370,056

Contingent Liabilities and Other Commitments

The following table sets forth the HypoVereinsbank Group's contingent liabilities and other commitments as of the dates specified.

	As of December 31,			
	1998			1997[1]
	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Contingent liabilities:				
Rediscounted bills of exchange	864	1,689	(23.3)	2,202
Guarantees and indemnities:				
Loan guarantees	4,016	7,855	28.1	6,133
Guarantees and indemnity agreements	17,712	34,642	23.9	27,952
Documentary credits	1,249	2,443	(8.9)	2,681
Total contingent liabilities	23,841	46,629	19.7	38,968
Other commitments:				
Commitments arising out of sale and option to resell transactions	8	16	(70.9)	55
Irrevocable credit commitments:				
Book credits	43,842	85,747	34.0	63,968
Guarantees	2,805	5,486	(19.0)	6,776
Mortgage and municipal loans	10,811	21,145	11.8	18,907
Bills of exchange	432	844	(17.9)	1,028
Delivery obligations arising from securities lending transactions	309	605	(80.4)	3,082
Other commitments	293	574	119.1	262
Total other commitments	58,500	114,417	21.6	94,078
Total	82,342	161,046	21.0	133,046

(1) Pro forma consolidated amounts.

Capital Resources

Liable Capital

The following table sets forth the HypoVereinsbank Group's liable capital as of the dates specified. Since the 1997 figures presented are pro forma for the merger as if it had taken place at the beginning of 1997, they incorporate the changes in shareholders' equity that occurred as a result of the merger. For a description of the effect of the merger on shareholders' equity, see Note 33 of the HypoVereinsbank Group Financial Statements.

	As of December 31,			
	1998			1997[1]
Liable Capital	(€ in millions)	(DM in millions)	(% change)	(DM in millions)
Shareholders' equity:				
Subscribed capital	1,063	2,078	0.2	2,073
Additional paid-in capital	7,158	13,999	0.1	13,988
Retained earnings	3,674	7,187	73.9	4,133
Merger gains	—	—	(100.0)	2,379
Total shareholders' equity	11,895	23,264	3.1	22,573
Subordinated capital:				
Subordinated liabilities	7,593	14,850	28.9	11,520
Participating certificates outstanding	1,808	3,536	3.0	3,432
Total subordinated capital	9,401	18,386	23.0	14,952
Minority interests	1,046	2,047	4.5	1,959

(1) Pro forma consolidated amounts.

The HypoVereinsbank Group's shareholders' equity increased 3.1%, or DM 691 million, in 1998. This increase primarily reflected the transfer to retained earnings of DM 1.9 billion from 1998 net income, plus DM 1.2 billion relating to the merger gains in 1998, as approved at the 1999 Annual General Meeting. As of December 31, 1998, the subscribed capital of HypoVereinsbank consisted of 387,568,005 common bearer shares; 13,524,370 common registered shares and 14,553,600 registered non-voting preferred shares. The HypoVereinsbank Group currently has convertible participating certificates outstanding for a total of 4,296,915 common bearer shares, which would increase subscribed capital by DM 21 million if exercised in full.

The HypoVereinsbank Group's subordinated capital increased 23.0%, or DM 3.4 billion, in 1998. This growth reflected the issuance of an aggregate of DM 1.2 billion of silent partnership interests in HypoVereinsbank Luxembourg S.A., as well as an additional DM 2.2 billion of subordinated debt. The silent partnership interests comprise an aggregate DM 612 million of silent partnership interests, which pay a non-cumulative profit participation at an annual rate of 6%, and a DM 588 million silent partnership interest, which pays a non-cumulative profit participation at a rate of DM-LIBOR plus 1.6%. These silent partnership interests have a final maturity date of December 18, 2008. The profit participation payments and final repayment of the interests are subject to participation in losses of HypoVereinsbank Luxembourg S.A.

Capital Adequacy

Regulatory capital adequacy is monitored by the HypoVereinsbank Group on the basis of the risk-based capital adequacy rules under the Banking Act. For a detailed discussion of the capital adequacy requirements applicable to the HypoVereinsbank Group pursuant to the Banking Act, see "Supervision and Regulation—Supervision and Regulation in Germany—Capital Adequacy Requirements".

Capital ratios are the principal measure of capital adequacy for international banks. These ratios compare a bank's regulatory capital with its counterparty risk and, since October 1998, market risk. Counterparty risk is measured by assets and off-balance sheet exposures weighted according to broad categories of relative credit risk. The

HypoVereinsbank Group's market risk is adjusted for risk and includes foreign exchange positions, commodities positions, options transactions positions and certain trading book positions. See "Description of HypoVereinsbank —Risk Management—Market Risks". A bank's regulatory capital is divided into three tiers (Core or Tier I Capital, Supplementary or Tier II Capital, and Tier III capital). Core or Tier I Capital consists primarily of share capital and reserves; Supplementary or Tier II Capital consists primarily of participating certificates, long-term subordinated liabilities and revaluation reserves for listed securities and for land and buildings, and Tier III capital is made up mainly of short-term, subordinated liabilities. The minimum Core (Tier I) Capital ratio is 4% of total risk-weighted assets (or 4.4% if revaluation reserves are included in Supplementary Capital), and the minimum equity ratio (Tier I + Tier II, or "liable equity") is 8% of total risk-weighted assets. As of October 1, 1998, German banks must also maintain an equity capital ratio of 8%, which is the ratio of equity capital (Tier I + Tier II + Tier III) to the total of risk-weighted assets and comparable market risk. Under the Banking Act, the amount of subordinated debt that may be included as Tier II capital is limited to 50% of Tier I capital. Total Tier II capital is limited to 100% of Tier I capital.

The following table sets forth the development of the HypoVereinsbank Group's capital and capital adequacy ratios (as a percentage of risk-weighted assets) based on the Banking Act, as well as the capital adequacy ratios based on the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements ("BIS"). The capital figures and ratios calculated pursuant to the Banking Act are based on financial statements prepared in accordance with German GAAP, rather than IAS, as permitted by the provisions of the Banking Act.

	As of December 31,[1]	
	1998	1997[2]
Capital Adequacy		
Core capital (Tier I) (DM in millions)	25,421	21,976
Liable equity (Tier I + II) (DM in millions)	41,796	37,482
Equity capital (Tier I + II + III) (DM in millions)	44,386	—[3]
Risk-weighted assets (DM in billions)	422.4	410.0
Market risk positions (DM in millions)	4,400	—[3]
Core capital ratio (Tier I)	6.0%	5.4%
Equity ratio (Tier I + II)	9.9%	9.2%
Equity capital ratio (Tier I + II + III)	9.3%	—[3]
BIS core capital ratio (Tier I)	5.4%	5.0%
BIS equity ratio (Tier I + II)	9.5%	9.5%
BIS equity capital ratio (Tier I + II + III)	9.1%	—[3]

(1) Calculated after adoption of annual financial statements, pursuant to the Banking Act.
(2) Based on pro forma consolidated amounts.
(3) Calculated for the first time in 1998 in accordance with the Sixth Amendment to the Banking Act.

The HypoVereinsbank Group strengthened its core capital (Tier I) by 15.7% and its liable equity by 11.5% in 1998, in large part through increased retained earnings and the issuance of additional subordinated capital, including DM 1.2 billion of silent partnership interests in HypoVereinsbank Luxembourg S.A. See "—Liable Capital". Tier III capital, calculated for the first time in 1998, amounted to DM 2,590 million as of December 31, 1998. Risk-weighted assets increased 3.1% in 1998, in accordance with the HypoVereinsbank Group's strategy of controlling the development of risk assets. Market risk positions, calculated for the first time in 1998, included DM 3,609 million of trading-book risk, DM 630 million of currency risk, DM 158 million of option risk and DM 3 million of commodity risk. For a more detailed discussion of the development of the HypoVereinsbank Group's regulatory capital and capital adequacy ratios, see Note 68 of the HypoVereinsbank Group Financial Statements.

Segment Information

Corporate Divisions

The following table sets forth information regarding the business segments of the HypoVereinsbank Group for the periods and as of the dates specified. This segmentation is based on the organizational structure of the HypoVereinsbank Group of five corporate divisions. See "Description of HypoVereinsbank".

The results provided for each division are reconciled with the IAS income statement and balance sheet, and overhead costs are allocated to each division proportionately. The Internal Services and Group Services divisions are treated as external providers charging fair market prices to the corporate divisions for their services. Equity capital is allocated to the individual corporate divisions as "tied core capital" in accordance with their respective share of risk-weighted assets and market risks.

The column "Other/consolidation" reflects amounts that do not fall within the sphere of responsibility of a specific corporate division, as well as income deemed to be received from the corporate divisions by the Internal Services and Group Services divisions. These amounts include net income from unconsolidated subsidiaries and from the strategic securities portfolio, as well as amounts resulting from decisions taken to manage the balance sheet and extraordinary income and expenses.

	Private Customers and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers[1]	International Markets	Asset Management	Other/ consolidation	Group
Selected Income Statement Data			(DM in millions, except percentages)				
Net interest income							
1998	3,749	2,412	2,904	963	56	(236)	9,848
1997[2]	3,562	2,120	2,462	618	78	514	9,354
Change (in %)	5.3	13.8	18.0	55.8	(28.2)	(145.9)	5.3
Provisions for losses on loans and advances							
1998	(584)	(1,669)	(1,134)	(2)	—	144	(3,245)
1997[2]	(419)	(1,059)	(1,109)	(14)	—	(110)	(2,711)
Change (in %)	(39.4)	(57.6)	(2.3)	85.7	—	230.9	(19.7)
Net commission income							
1998	2,044	651	107	188	394	(194)	3,190
1997[2]	1,851	480	49	224	374	(13)	2,965
Change (in %)	10.4	35.6	118.4	(16.1)	5.4	1,392	7.6
Trading profit							
1998	5	—	—	745	13	189	952
1997[2]	11	2	—	870	—	12	895
Change (in %)	(54.6)	—	—	(14.4)	—	1,475	6.4
General administrative expenses							
1998	(4,594)	(1,637)	(1,019)	(872)	(323)	(12)	(8,457)
1997[2]	(4,401)	(1,467)	(893)	(671)	(300)	(8)	(7,740)
Change (in %)	(4.4)	(11.6)	(14.1)	(30.0)	(7.7)	(50.0)	(9.3)
Balance of other operating income and expenses							
1998	70	33	105	21	20	(70)	179
1997[2]	87	20	56	3	14	(71)	109
Change (in %)	(19.5)	65.0	87.5	600.0	42.9	1.4	64.2
Operating profit							
1998	690	(210)	963	1,043	160	(179)	2,467
1997[2]	691	96	565	1,030	166	324	2,872
Change (in %)	(0.1)	(318.8)	70.4	1.3	(3.6)	(155.3)	(14.1)
Balance of other income and expenses							
1998	58	(94)	148	(14)	(29)	2,579	2,648
1997[2]	(72)	(37)	33	(97)	(25)	99	(99)
Change (in %)	180.6	(154.1)	348.5	85.6	(16.0)	2,505	2,775
Net income before tax							
1998	748	(304)	1,111	1,029	131	2,400	5,115
1997[2]	619	59	598	933	141	423	2,773
Change (in %)	20.8	(615.3)	85.8	10.3	(7.1)	467.4	84.5

(1) Includes the results of transactions recorded by HypoVereinsbank and performed by property developers and real estate agents, together with all the results of the HypoVereinsbank Group's mortgage banking subsidiaries. The results of real estate transactions recorded by HypoVereinsbank and performed by employees of another corporate division are allocated to that division. Results in 1998 reflect the first-time consolidation of FGH Bank.

(2) Pro forma consolidated amounts.

Selected Balance Sheet and Capital Data	Private Customers and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers[1]	International Markets	Asset Management	Other/ consolidation	Group
				(DM in millions)			
Total lending							
1998	148,823	119,351	348,218	40,079	186	168	656,825
1997[3]	140,357	149,426	302,541	13,921	27	2,007	608,279
Change (in %)	6.0	(20.1)	15.1	187.9	588.9	(91.6)	8.0
Assets held for trading purposes							
1998	29	—	1	69,638	—	2	69,670
1997[3]	34	—	—	50,804	—	—	50,838
Change (in %)	(14.7)	—	—	37.1	—	—	37.0
Amounts owed to other depositors							
1998	117,656	35,271	67,271	67,669	815	(139)	288,543
1997[3]	113,199	40,906	62,242	62,665	1,122	(9,812)	270,322
Change (in %)	3.9	(13.8)	8.1	8.0	(27.4)	98.6	6.7
Promissory notes and other liabilities							
1998	345	2,060	131,270	235,729	—	652	370,056
1997[3]	700	2,568	108,126	224,920	—	187	336,501
Change (in %)	(50.7)	(19.8)	21.4	4.8	—	248.7	10.0
Average tied core capital[2]							
1998	5,676	6,729	7,264	2,738	12	1,465	23,884
1997[3]	5,564	5,647	6,537	1,364	146	947	20,205
Change (in %)	2.0	19.2	11.1	100.7	(91.8)	54.7	18.2

(1) Includes transactions recorded by HypoVereinsbank and performed by property developers and real estate agents, together with all the results of the HypoVereinsbank Group's mortgage banking subsidiaries. The results of real estate transactions recorded by HypoVereinsbank and performed by employees of another corporate division are allocated to that division. Amounts in 1998 reflect the first-time consolidation of FGH Bank.

(2) Allocation of equity capital based on the division's respective share of risk-weighted assets and market risks.

(3) Pro forma consolidated amounts.

Selected Key Ratios and Other Data	Private Customers and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers[1]	International Markets	Asset Management	Group
			(in %, except employees)			
Cost-income ratio						
1998	78.3	52.9	32.7	45.5	66.9	59.7
1997[7]	79.9	55.9	34.8	39.1	64.4	58.1
Return on equity before taxes[2]						
1998	13.9	(4.8)	16.1	39.5	—[3]	12.1
1997[7]	11.8	1.1	9.7	72.3	—[3]	14.5
Return on equity after taxes[2],[4]						
1998	7.5	(2.8)	7.6	21.7	—[3]	6.1
1997[7]	7.0	0.2	4.9	44.5	—[3]	8.5
Employees[5]						
1998	16,740	4,871	4,796	1,234	593	39,447[6]
1997[7]	17,135	5,273	3,926	1,257	569	39,608[6]

(1) Includes the results of transactions recorded by HypoVereinsbank and performed by property developers and real estate agents, together with all the results of the HypoVereinsbank Group's mortgage banking subsidiaries. The results of real estate transactions recorded by HypoVereinsbank and performed by employees of another corporate division are allocated to that division. Results in 1998 reflect the first-time consolidation of FGH Bank.

(2) Expressed as a percentage of average tied core capital.

(3) Since the Asset Management division is allocated only minimal average tied core capital, return on equity ratios would not be meaningful and are not presented.

(4) Calculated using net income excluding minority interests. Income taxes are allocated to the corporate divisions in accordance with the HypoVereinsbank Group's tax rate.

(5) Number of employees as of the end of each period, including part-time employees and trainees.

(6) Includes employees of Internal Services and Group Services divisions of 11,213 in 1998 and 11,448 in 1997.

(7) Based on pro forma consolidated amounts.

Geographical Regions

The following table sets forth segment information by geographical region, as determined by the location of each HypoVereinsbank Group company's head office or registered office, for the periods and as the of the dates specified.

	Total Lending		Operating Income[1]		Net Income Before Tax	
	As of December 31,		Year Ended December 31,		Year Ended December 31,	
	1998	1997[2]	1998	1997[2]	1998	1997[2]
			(DM in millions)			
Germany	568,636	528,867	12,167	11,604	2,561	2,272
Other Euro countries	43,334	39,009	690	630	279	314
Other western Europe	18,918	20,066	677	652	159	230
Eastern Europe	2,628	1,760	185	123	33	(2)
Americas	15,142	11,274	301	262	36	151
Asia	8,167	7,303	149	52	(317)	(192)
Unallocable	—	—	—	—	2,364[3]	—
Total	656,825	608,279	14,169	13,323	5,115	2,773

(1) Net interest income, net commission income, trading profit and balance of other operating income and expenses.

(2) Pro forma consolidated amounts.

(3) Merger gains.

Results of Operations and Financial Condition as of and for the Six Months Ended June 30, 1999

HypoVereinsbank Group's net income (after tax) for the first six months of 1999 was € 396 million, 50.9% of the 1998 year-end net income figure (excluding merger gains). IAS earnings per share (unadjusted for merger expenses) were € 0.81 in the first half of 1999, compared with € 0.85 for one-half of 1998. Operating profit was € 721 million, reflecting 57.2% of the 1998 year-end figure. Since at € 3,634 million operating income was about one-half of the 1998 year-end figure, operating profit in the first six months of 1999 reflected proportionately lower risk provisions. The provisions for losses on loans and advances, which consist of a pro rata amount for the first half of the year based on the total expected risk provisions for 1999 as a whole, were € 666 million or 40.1% of the 1998 year-end amount. HypoVereinsbank Group decided to increase its risk provisions with respect to commercial real financing activities due to the continuing weakness in several segments of the domestic commercial real estate market. General administrative expenses, at € 2,247 million for the first half of 1999, were 3.9% more than one-half of the 1998 level, resulting in a cost-income ratio of 61.8%, slightly higher than 59.7% for 1998. The increase in general administrative expenses reflected primarily the first-time consolidation of Bank Przemyslowo-Handlowy S.A. ("BPH"), in which HypoVereinsbank increased its equity stake to 46.7% in January 1999 and to 50.1% during the second quarter of 1999. Adjusted for this effect, administrative expenses would have only risen by 0.8%.

The interest margin declined further from the year-end 1998 level in the first six months of 1999 to 1.10% for HypoVereinsbank Group overall (as compared to 1.17% in 1998), 1.25% for commercial banking operations (1.36% in 1998) and 0.82% for mortgage banking operations (0.86% in 1998). Total lending remained relatively flat in the first half of 1999, increasing only 1.5% over the year-end level, primarily due to a more cautious approach in corporate lending. As a result of these factors, net interest income was slightly less than one-half of the 1998 amount at € 2,507 million. Net commission income, at € 890 million, reached 54.5% of the 1998 year-end figure, primarily due to higher earnings in the securities, custody and other financial services business. Trading profit was € 212 million, 13.1% less than one-half of the 1998 amount, reflecting the more difficult market conditions during the second quarter of 1999. Other income of € 209 million consisted primarily of capital gains from the sale of HypoVereinsbank's 15.8% interest in Kommanditgesellschaft Allgemeine Leasing GmbH & Co., its 42.7% interest in ADIG Allgemeine Deutsche Investment-Gesellschaft mbH and its 37.5% interest in ADIG-Investment Luxembourg S.A. Extraordinary expenses of € 138 million comprised merger expenses.

Net income before taxes was € 717 million, representing slightly more than 50% of the 1998 year-end amount (excluding merger gains). Of this amount, the Private Customers and Professionals division accounted for 31.2%, Corporate Customers for 22.2%, Real Estate Finance and Real Estate Customers for 21.5%, International Markets for 43.8% and Asset Management for 19.8%. Net income before taxes of € 159 million for the Corporate Customers division was a considerable improvement over the loss of € 156 million for the 1998 fiscal year as a whole, which was primarily due to the higher level of risk provisions for losses on HypoVereinsbank Group's corporate loan portfolio in 1998. The sale of the ADIG shares allowed the Asset Management division to produce net income before taxes for the first six months of € 142 million, more than double the amount of the 1998 year-end total. Net income before taxes of the Real Estate Finance and Real Estate Customers division declined due to higher risk provisions, reaching only € 154 million compared with € 283 million for one half of 1998. The results in the International Markets division, however, at € 314 million for the first six months of 1999, were 59.5% of the division's 1998 year-end amount. Net income before taxes improved over the 1998 results, with € 72 million in the Americas (compared to € 18 million in 1998), € 45 million in Eastern Europe (compared to € 17 million in 1998) and € 1 million in Asia (compared to losses of € 162 million in 1998). Domestic pre-tax net income was € 437 million, approximately 33.3% of the 1998 year-end amount, reflecting the higher amount of domestic risk provisions in the first half of 1999 in the commercial real estate sector.

Total assets as of June 30, 1999 amounted to € 490.6 billion, an increase of 6.5% or € 29.9 billion over December 31, 1998. This growth was primarily attributable to assets held for trading purposes (an increase of 10.2% or € 3.6 billion), claims on other banks (an increase of 12.6% or € 7.3 billion) and investments (an increase of 18.7% or € 9.6 billion). Total provisions for losses on loans and advances increased by € 564 million or 7.1%, in the first half of 1999. HypoVereinsbank believes that the accumulated risk provisions of HypoVereinsbank Group are adequate to cover losses that may reasonably be expected to arise in HypoVereinsbank Group's loan portfolio. The corresponding growth in liabilities as of June 30, 1999 stemmed from higher deposits from other banks (an increase of 18.7% or € 12.8 billion) and promissory notes and other liabilities evidenced by paper (an increase of 9.3% or € 17.6 billion).

New commitments in mortgage banking operations increased by 20.8% in comparison to one-half of the 1998 figure, totaling € 25.5 billion. Of this amount, new commitments for residential housing were € 8.4 billion, for commercial mortgage lending € 4.3 billion and for municipal loans € 12.9 billion.

As of January 1, 1999 with the introduction of the Euro, HypoVereinsbank's subscribed capital was redenominated in Euro and amounted to € 1,063 million. Due to capital increases, HypoVereinsbank's subscribed capital amounted to € 1,252 million as of June 30, 1999.

HypoVereinsbank Group's total risk assets increased by 3.7% in the first half of 1999 to € 224 billion. Of this amount 1.6 percentage points were attributable to the consolidation of BPH. Through a loan portfolio collateralization program (Geldilux 99-1 Limited), HypoVereinsbank Group reduced its risk assets by € 2.2 billion. Core capital (Tier I) increased to € 13.5 billion as of June 30, 1999 from € 13.0 billion as of December 31, 1998, while equity capital (Tier I+II+III) increased to € 24.2 billion from € 22.7 billion. The core capital (Tier I) ratio was 6.0% as of June 30, 1999, while the equity capital ratio (Tier I+II+III) was 9.3%, both unchanged from December 31, 1998.

Supervision and Regulation

Supervision and Regulation in Germany

Distinctive Features of the German Banking System

The German banking system consists of a variety of public sector and private sector banks of two general types: universal banks (also known as full-service or multi-purpose banks) and specialized banks. Universal banks (including HypoVereinsbank) engage not only in deposit and lending business, but also in investment banking, underwriting and securities trading for their own account and for their customers. Specialized banks, such as mortgage banks, concentrate on certain types of credit business or have other special functions. In addition, financial services institutions exist which primarily engage in the securities business (brokerage, trading, portfolio management).

As a general rule, universal banks are permitted to engage in all the banking activities performed by specialized banks, such as mortgage lending and public sector lending, whereas specialized banks are limited to banking activities related to their special functions. However, with the exception of two universal banks with rights to operate as mixed mortgage banks including HypoVereinsbank, as described above under "Description of HypoVereinsbank—Organization—Real Estate Finance and Real Estate Customers", private sector universal banks are not permitted to refinance mortgage loans and public sector loans through the issuance of mortgage bonds (*Pfandbriefe*). This ability to refinance certain types of loans through the issuance of *Pfandbriefe* is the principal benefit of having the status of a mixed mortgage bank.

Universal banks can be divided into three broad types: private sector commercial banks (*private Geschäftsbanken*) such as HypoVereinsbank, public sector savings banks (*Sparkassen*) and their central institutions (*Landesbanken-Girozentralen*), and co-operative banks (*Genossenschaftsbanken*) and their central institutions.

At the end of June 1999, there were 285 private sector commercial banks in Germany with a total business volume (balance sheet total plus endorsement liabilities on bills of exchange) of € billions 1,408. In addition, there were 597 public sector savings banks with 13 central institutions, 2,187 cooperative banks with four central institutions, 32 mortgage banks, 34 building and loan associations and 14 credit institutions with special purposes. Moreover, there were 145 foreign banks, including 82 branches of foreign banks and 63 credit institutions in which foreign banks held a majority interest. At the end of June 1999, the public sector banks had a 35.62% share in the total business volume of all categories of banks, the private sector commercial banks had a 25.73% share and the cooperative banks had a 13.28% share. (Source: *Bundesbank Monatsbericht*, August 1999).

Principal Laws and Regulators

HypoVereinsbank and the HypoVereinsbank Group are subject to comprehensive supervision and regulation by German supervisory authorities. HypoVereinsbank is authorized to carry on its general banking business under, and subject to the requirements of, the Banking Act and its mortgage banking business primarily under and subject to the special requirements of, the Mortgage Bank Act. HypoVereinsbank and the HypoVereinsbank Group are supervised and regulated by the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*), the Federal Securities Trading Supervisory Authority (*Bundesaufsichtsamt für den Wertpapierhandel*) and the Bundesbank.

The Banking Act contains the principal rules for German bank supervision, including the requirements for a banking license, and regulates the general business activities and capital adequacy of German banks. The Mortgage Bank Act sets forth specific requirements for the extension of loans secured by mortgages and public sector loans that are to serve as cover for the issuance of mortgage and public sector *Pfandbriefe*. Securities trading in Germany is supervised by the Federal Securities Trading Supervisory Authority.

Regulation by the German Banking Supervisory Authority

The German Banking Supervisory Authority, an independent federal regulatory authority (under the supervision of the Federal Minister of Finance), is authorized to issue regulations and guidelines implementing the provisions of the German banking laws and other laws affecting German banks. The main purpose of the German banking laws is to protect the soundness of the German banking system. The Banking Act implements certain recommendations on banking supervision issued by the Basle Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements (the "Basle Committee") and certain European Council Directives relating to banks. Such directives relate to accounting, regulatory capital, risk-based capital adequacy, the creation of a single EU-wide banking market with no internal barriers to the provision of cross-border banking services, the establishment of branches within the European Union, consolidated supervision, and monitoring and control of large exposures. The Mortgage Bank Act was amended in 1990 to permit mortgage banks to grant mortgage loans with respect to real estate located in other EU member states, to grant public sector loans to central and regional governments of, and municipalities in, other EU member states and to issue *Pfandbriefe* based on such loans. The German legislation implementing the revised European Council Directive on consolidated supervision and the directive on monitoring and control of large exposures took effect as of December 31, 1995. The European Council Directive of March 15, 1993 on the capital adequacy of investment firms and credit institutions, dealing with the capital adequacy for market risks resulting from transactions in securities, derivative products and foreign exchange, and the European Council Directive of May 10, 1993 on services in the securities field were incorporated into German law through the Act on the Implementation of EC Directives Regarding the Harmonization of Banking and Securities Trading Regulations (*Gesetz zur Umsetzung von EG-Richtlinien zur Harmonisierung bank- und wertpapieraufsichtsrechtlicher Vorschriften*), including the sixth amendment to the Banking Act, which entered into effect on January 1, 1998 (except for certain provisions which became effective, following the publication of the sixth amendment to the Banking Act in the Federal Gazette (*Bundesgesetzblatt*), on October 29, 1997).

Under the Banking Act, each enterprise that is engaged in one or more of the financial activities defined therein as "banking business" is a banking institution (*Kreditinstitut*) and is subject to the licensing requirements and other provisions of the Banking Act. The German Banking Supervisory Authority supervises the operations of German banks to ensure that they conduct their business in accordance with the provisions of the Banking Act and other applicable German laws and regulations. Particular emphasis is placed on compliance with capital adequacy and liquidity requirements, large exposure limits and restrictions on certain activities imposed by the Banking Act and the regulations issued thereunder.

The German Banking Supervisory Authority is also responsible for supervising the compliance of mortgage banks, including mixed mortgage banks, with the provisions of the Mortgage Bank Act, in particular for the approval of valuation guidelines for mortgaged property, the approval of the principal characteristics of the terms of the loans, the enforcement of the limitation on an issuer's aggregate amount of outstanding mortgage and public sector *Pfandbriefe* to 48 times (in the case of mixed mortgage banks) or 60 times (in the case of other private mortgage banks) such issuer's Regulatory Banking Capital (as defined below) and the resolution of disputes between the mortgage bank and the independent trustee. In addition, the German Banking Supervisory Authority conducts audits of the assets utilized as security for the outstanding *Pfandbriefe* and entered into the coverage register (*Deckungsregister*), typically every two to three years.

Regulation by the Bundesbank

The German Banking Supervisory Authority carries out its supervisory role in close cooperation with the Bundesbank in its capacity as the German central bank. Although the German Banking Supervisory Authority and the Bundesbank work closely together, the functions of the German Banking Supervisory Authority and the Bundesbank are distinct. While the authority to issue administrative orders (*Verwaltungsakte*) binding on banks is vested solely with the German Banking Supervisory Authority, the German Banking Supervisory Authority must consult with the Bundesbank before it issues general regulations (*Verordnungen*) and must obtain the consent of the Bundesbank if the regulations affect the functions of the Bundesbank, as, for example, in the case of regulations affecting capital adequacy and liquidity requirements. The Bundesbank is responsible for organizing the collection

and analysis of statistics and other reports from the banks (as described in more detail below). These statistics and other reports are analyzed by the regional office (*Landeszentralbank*) of the Bundesbank responsible for the state in which the bank has its corporate seat. HypoVereinsbank reports to the *Landeszentralbank* for the State of Bavaria, which is based in Munich.

Since the commencement of stage three of the European Economic and Monetary Union ("EMU") on January 1, 1999, the responsibility for monetary policy and control, including minimum reserve requirements, in those states which participate in the EMU, such as Germany, lies with the European Central Bank which began its operations on June 1, 1998.

The European Central Bank sets the minimum reserves for the institutions active in the deposit and lending business with customers. Such minimum reserves must equal a percentage of the liabilities resulting from certain deposits taken, as well as bonds and money market instruments issued. Liabilities vis-à-vis credit institutions which are located in the territory of the EMU and which themselves are subject to minimum reserve requirements and liabilities vis-à-vis the European Central Bank and the national central banks within the European System of Central Banks are exempt from the minimum reserve requirements. Since January 1, 1999 the minimum reserve rate set by the European Central Bank amounts to 2%. The minimum reserves must be deposited with the respective national central bank.

Capital Adequacy Requirements

The German capital adequacy principles based on the principle of risk adjustment (in particular, "Principle I" (*Grundsatz I*)) provide for capital adequacy requirements dealing with counterparty risk (*Adressenausfallrisiko*) and market risk (*Marktrisiko*). The counterparty risk must be covered by Regulatory Banking Capital, whereas the market risk must be covered by Own Funds, comprising Regulatory Banking Capital and Tier III Capital. The capital adequacy requirements dealing with market risk were introduced in Germany by the sixth amendment to the Banking Act and revised Principle I. The sixth amendment to the Banking Act came into effect on January 1, 1998. Since October 1, 1998 amended Principle I, which was completely revised by the German Banking Supervisory Authority to reflect the necessary amendments resulting from the sixth amendment to the Banking Act and the implementation of the Capital Adequacy Directive, applies. The sixth amendment to the Banking Act and revised Principle I did not fundamentally change the capital adequacy requirements dealing with counterparty risk. Pursuant thereto, 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. These rules implement the corresponding provisions of the EC Own Funds Directive and the EC Solvency Ratio Directive, which in turn are based on the recommendations of the Basle Committee.

Pursuant to the Banking Act, for a bank that is organized as a stock corporation (such as HypoVereinsbank), "Regulatory Banking Capital" (the numerator of the solvency ratio), consists principally of (i) paid-in subscribed capital, (ii) capital reserves, (iii) earnings (revenue) reserves, (iv) the fund for general banking risks (an item which a bank may create on the liability side of its balance sheet in its reasonable commercial judgment in the light of the special risks inherent in the banking business), (v) reserves for general banking risks (a bank may record on its balance sheet certain receivables, including loans and securities, which are neither investment securities nor part of the trading portfolio, at a lower value than that permitted for industrial and other non-banking entities if the use of a lower value is in its reasonable commercial 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, (vi) capital paid in consideration of silent partnership interests (*stille Beteiligungen*) or profit-participation rights (*Genußrechte*) meeting certain conditions set out in the Banking Act, including a minimum term of five years and the requirement that the capital paid in consideration thereof participates in the bank's losses and the rights of the holders thereof be subordinated to the rights of all other creditors in the event of insolvency or liquidation, (vii) longer-term subordinated debt meeting certain conditions set out in the Banking Act, including a minimum term of five years and the requirement that the rights of the holders thereof be subordinated to the rights of all other creditors in the event of insolvency or liquidation, (viii) certain unrealized reserves (described below),

and (ix) reserves pursuant to Section 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 Banking Act requires that losses, certain intangible assets (including goodwill) and certain participations in banks, financial services institutions or other financial enterprises be deducted in computing Regulatory Banking Capital.

Unrealized reserves which may be counted as Regulatory Banking Capital are essentially composed of the following components: (x) up to 45% of the difference between the book value and the lending value of land and buildings, and (y) up to 35% of the difference between the book value plus provisioning reserves and (a) the market value of securities listed on a stock exchange, and (b) the published redemption price of shares issued by certain securities or real estate funds. Unrealized reserves can be included in Regulatory Banking Capital only if the Core Capital (as defined below) of the bank amounts to at least 4.4% of the risk-adjusted assets, and only up to a maximum amount equal to 1.4% of such risk-adjusted assets. For the purposes of such calculation, the trading book positions may be included in the investment book positions.

The Banking Act further divides those items qualifying as Regulatory Banking Capital into Core Capital (*Kernkapital*) and Supplementary Capital (*Ergänzungskapital*). Core Capital, as this term applies to banks that are organized as stock corporations, such as HypoVereinsbank, consists of (i) paid-in subscribed capital, (ii) capital reserves, (iii) earnings (revenue) reserves, (iv) the fund for general banking risks and (v) capital paid in consideration of silent partnership interests meeting certain conditions set out in the Banking Act, including a minimum term of five years and the requirement that the capital paid in consideration thereof participates in the bank's losses and the rights of the holders thereof be subordinated to the rights of all other creditors in the event of insolvency or liquidation, less own shares, preferred shares with cumulative dividend rights, losses and certain intangible assets (which include goodwill). 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 Banking Act provides that 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.

Under revised Principle I, the risk-adjusted value of assets of a bank (the sum of which is the denominator of the Solvency Ratio) is computed as follows: assets are assigned to one of five basic categories of relative credit risk (0%, 10%, 20%, 50% and 100%) depending on the debtor or the type of collateral, if any, securing the respective 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 that (i) are secured by mortgages on residential property which is or will be occupied or rented out by the borrower, (ii) meet the loan-to-value ratio of 60% and (iii) meet the valuation principles set out in the Mortgage Bank Act are assigned a risk weighting of 50%, unless the borrower constitutes a better credit risk. Until January 1, 2006 this 50% risk weighting also applies to mortgage loans secured by mortgages on commercial property, such as office buildings and other multi-functional commercial property, up to an amount of 50% of its market value or 60% of its loan collateral value (*Beleihungswert*), whichever is lower, provided that such property (i) is located in Germany or an other member state of the European Union which assigns a 50% risk weighting to such loans and applies strict valuation criteria and (ii) is occupied or rented out by the owner. The 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 (in the case of guarantees and letters of credit, their amount, and in the case of swaps and other derivatives, the value computed on a market or time basis) is adjusted according to their risk classification (20%, 50% and 100%) depending on the type of instrument. Then the off-balance sheet items are assigned, like balance sheet assets, to the credit risk categories depending on the type of the counterparty or the debtor or the type of collateral, if any, securing the respective assets and multiplied by the applicable percentage weight.

Under the Banking Act's provisions on consolidated supervision, each group of institutions (*Institutsgruppe*) taken as a whole, as well as each bank within the group taken separately, must meet the Regulatory Banking Capital requirements. A group of institutions exists if (i) another bank, financial services institution, financial enterprise or

bank service enterprise is a subsidiary (*nachgeordnetes Unternehmen*) of a bank or financial services institution (subsidiary being defined in terms of voting majority or controlling influence of the parent bank or financial services institutions) or (ii) a member of the group of institutions (A) owns, directly or indirectly, at least 20% of the shares of such other bank, financial services institution, financial enterprise or bank service enterprise, (B) manages such bank, institution or enterprise jointly with other enterprises and (C) is liable for the obligations of such bank, institution or enterprise in proportion to its capital investment in such bank, institution or enterprise. At the end of 1998, the HypoVereinsbank group of institutions included 39 banks, 13 financial services institutions, 28 financial enterprises and 47 bank service enterprises.

In addition to the capital adequacy requirements dealing with counterparty risk, revised Principle I also lays down principles relating to capital adequacy requirements covering the market risk, which are different from those applicable to counterparty risk. The market risk positions of a bank are comprised of (i) its foreign exchange positions, (ii) its commodities positions, (iii) certain of its trading book positions, including those involving counterparty risk, as well as interest rate and share market risk and (iv) its options transactions positions. The market risk positions are net positions, risk-adjusted in accordance with detailed rules set forth in Principle I. Special rules exist for the capital adequacy of market risk positions. 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 (i) the difference between its Regulatory Banking Capital and 8% of its aggregate amount of risk-adjusted risk assets and (ii) 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" (*"Drittrangmittel"*), the new category of capital which was introduced by the sixth amendment to the Banking Act, consists of (i) 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 (A) all foreseeable expenses and distributions and (B) losses resulting from the investment book which would likely arise upon a liquidation of the bank, and (ii) short-term subordinated debt meeting certain conditions set out in the 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. The "trading book" of a bank consists primarily of (i) financial instruments which a bank holds in its portfolio for the purpose of resale or which a bank acquires for utilizing existing or expected spreads between the purchase and sale price or utilizing price and interest rate movements, (ii) positions and transactions for the purpose of hedging market risks arising from the trading book as well as related refinancing transactions, (iii) transactions subject to the designation of the counterparty (*Aufgabegeschäfte*), (iv) payment claims in the form of fees, commissions, interest, dividends and margins directly linked to trading book positions and (v) repurchase, lending and similar transactions with respect to trading book positions. The "investment book" of a bank consists of all positions and transactions which are not part of the trading book. The Own Funds requirements must be met by each group of institutions taken as a whole, as well as by each institution within the group separately.

Until September 30, 1998, Principle Ia dealt with the coverage of the market risk. Former Principle Ia was repealed when revised Principle I entered into effect on October 1, 1998.

Liquidity Requirements

Each bank must invest its funds in a manner designed to provide adequate liquidity at all times. Principles II and III, which prescribe specific liquidity requirements, are applicable to universal banks, including mixed mortgage banks such as HypoVereinsbank. Under Principle II, the aggregate amount of long-term loans (loans having an original term of four years or more) and certain other assets of an illiquid nature must not exceed the aggregate amount of a bank's capital and reserves, long-term liabilities (liabilities having an original term of four years or more) and specified percentages of certain other liabilities. Under Principle III, the aggregate amount of a bank's short- and medium-term loans and investments must not exceed the aggregate amount of its short- and medium-term liabilities and specified percentages of certain other liabilities. Pursuant to an announcement of the German Banking Supervisory Authority dated November 25, 1998, Principle II has been revised as of January 1, 1999.

Revised Principle II replaces Principles II and III applicable so far. Banks may apply Revised Principle II as from January 1, 1999; however, only as of July 1, 2000 they are obligated to apply revised Principle II. Until the changeover to new Principle II, reporting must be continued in accordance with previous Principles II and III.

Monitoring of Borrowers; Limitations on Large Exposures

The Banking Act requires banks to monitor the creditworthiness of borrowers continuously if the aggregate amount of loans issued to them exceeds DM 500,000. In particular, banks are obligated to have such borrowers provide their annual financial statements, if any, or any other documents relevant for the evaluation of their financial condition. Banks may refrain from requesting the borrower to disclose financial information if such request for disclosure obviously is unjustified in light of the provided collateral or of the co-debtor, if any. In the case of loans secured by first-priority mortgages on owner-occupied residential property, banks may decide in their own discretion whether or not to conduct on-going monitoring of the borrower's creditworthiness, if certain other requirements are met. Certain other loans, such as mortgage loans not exceeding 60% of the value (determined in accordance with the Mortgage Bank Act) of the mortgaged property, are exempted from such on-going monitoring.

The Banking Act, together with a regulation on large exposures adopted thereunder by the German Banking Supervisory Authority (*Großkredit- und Millionenkreditverordnung*, "Large Exposure Regulation"), also limits the concentration of credit risks through restrictions on large exposures (*Großkredite*, "Large Exposures") of banks and groups of institutions. The new Large Exposure rules which were introduced by the sixth amendment to the Banking Act and the revised Large Exposure Regulation, and which HypoVereinsbank had to apply as of October 1, 1998, distinguish between (i) banks and groups of institutions with minor trading book positions (see "—Capital Adequacy Requirements") which are not subject to the rules relating to the trading book and (ii) banks and groups of institutions which are subject to the rules relating to the trading book ("Trading Book Institutions"), such as HypoVereinsbank and the HypoVereinsbank Group. 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 are situations in which the risk-adjusted assets attributable to a single client or connected group of clients equal or exceed 10% of the relevant bank's or group of institutions' Regulatory Banking Capital. Aggregate Large Exposures are 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.

Trading Book Institutions are subject to the following limitations on Large Exposures: (i) The Aggregate Book Large Exposures must not exceed in the aggregate eight times such bank's or group's Own Funds; (ii) the Investment Book Large Exposures must not exceed in the aggregate eight times such bank's or group's Regulatory Banking Capital; (iii) 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; (iv) Investment Book Large Exposures 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; (v) 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 (vi) 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 ceilings. A bank or group of institutions must, however, notify the German Banking Supervisory Authority and the Bundesbank without delay if it exceeds one or more of these ceilings, and the amount of any Large Exposure in excess of the relevant ceiling must be subtracted from the Regulatory Banking Capital of the bank or of the group of institutions in the case of (ii), (iii) and (iv) above or from the Own Funds of the bank or of the group of institutions in the case of (i), (v) and (vi) above for purposes of determining compliance with the capital adequacy requirements discussed above. See "—Capital Adequacy Requirements". In addition, the Trading Book Exposures to a single client or group of clients

must not exceed five times the bank's or group of institutions' Own Funds, to the extent such Own Funds are not required to meet the capital adequacy requirements with respect to the investment book. Aggregate Trading Book Exposures to a single client or group of clients in excess of the aforementioned limit are impermissible.

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").

The Large Exposure rules applicable to banks or groups of institutions which are not Trading Book Institutions are substantially identical to those in effect for all banks before October 1, 1998. In particular, uniform Large Exposure restrictions apply to all Large Exposures attributable to the bank or group of institutions.

Limitations on Significant Participations

The nominal value (as opposed to the book value or price paid) of the Significant Participations of a deposit credit institution (such as HypoVereinsbank) (as defined below) in an enterprise (other than an institution, financial enterprise, insurance company or a bank service enterprise) must not exceed 15% of the Regulatory Banking Capital of the bank, and the aggregate nominal value of all Significant Participations of a deposit taking bank must not exceed 60% of such bank's Regulatory Banking Capital. A bank may exceed the 15% and 60% limitations on Participations if it covers the Significant Participations in excess of these limits by Regulatory Banking Capital and does not include such portion of its Regulatory Banking Capital in the calculations to determine compliance with the capital adequacy rules. "Significant Participation" is defined in the Banking Act as a participation (i) that directly or indirectly constitutes at least 10% of the capital or the voting rights of an enterprise or (ii) that affords the possibility of exercising a significant influence over the management of the enterprise in which the participation exists. This does not apply to Significant Participations which are not intended to serve the business operations of the bank by the establishment of a permanent relationship. All the participations in an enterprise which the bank owns indirectly through one or more subsidiaries are fully attributed to the bank. The limitations on participations also apply on a consolidated basis. Mixed mortgage banks, such as HypoVereinsbank, are not subject to the more stringent limitations on permissible investments set forth in the Mortgage Bank Act.

Policies on Trading Activities

On October 23, 1995, the German Banking Supervisory Authority issued a release concerning certain minimum requirements that German banks must observe with respect to transactions relating to money market activities, securities, foreign exchange, precious metals and derivatives. The release stresses the responsibility of senior management for the proper organization and monitoring of trading and sales activities, requires that banks adopt written policies regarding such activities, imposes specific requirements with respect to activities in new products and deals with the qualifications and remuneration of trading and sales staff, record retention, risk controlling and management and the internal organization of trading, sales, settlement and accounting.

Financial Statements and Audits

The financial statements determining compliance with the capital adequacy requirements are prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) and the Regulation on Accounting by Credit Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute*). The Regulation on Accounting by Credit Institutions, which mandates a uniform format for the presentation of financial statements for all banks, reflects the EC Council Directive of December 8, 1986 on annual accounts and consolidated accounts of banks and other financial institutions. Pursuant to an amendment to the German Commercial Code which became effective on April 23, 1998, exchange-listed companies such as HypoVereinsbank are permitted to prepare their consolidated financial statements in accordance with internationally recognized accounting principles meeting certain requirements, including IAS. Although HypoVereinsbank chose to prepare its consolidated annual financial statements as at December 31, 1998 in accordance with IAS, compliance with the capital adequacy requirements on a consolidated basis as at such date had, and currently still has, to be determined on the basis of consolidated financial statements prepared in accordance with German GAAP.

Under German law, HypoVereinsbank and its consolidated group must be audited annually by a certified public accountant (*Wirtschaftsprüfer*) who is appointed by the shareholders' general meeting and mandated by the Supervisory Board. The German Banking Supervisory Authority must be informed of and may reject such appointment. Under the Banking Act, a bank's certified public accountant is required to inform the German Banking Supervisory Authority 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 annually a detailed and comprehensive audit report (*Prüfungsbericht*), which is submitted to the Supervisory Board of the bank, the German Banking Supervisory Authority and the Bundesbank. The contents of the report are prescribed in a regulation issued by the German Banking Supervisory Authority. In particular, the certified public accountant must confirm that the bank has complied with: (i) the regulatory reporting requirements; (ii) the Large Exposures limitations; (iii) the limitations on extension of credit to borrowers forming a unit of borrowers; (iv) the principles as to capital adequacy and liquidity; and (v) regulations concerning the prudential granting of credit. The audit report must also discuss in detail certain large loans or loans important for other reasons and confirm compliance with certain provisions of the 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, respectively.

Furthermore, the auditors of the bank report to the Federal Securities Trading Supervisory Authority on the bank's internal compliance organization for preventing the misuse of insider information and the bank's compliance with the rules of conduct for securities firms under the German Securities Trading Act (*Wertpapierhandelsgesetz*).

Reporting Requirements

In order to enable the German Banking Supervisory Authority and the Bundesbank to monitor compliance with the Banking Act and other applicable legal requirements and to obtain information on the financial condition of banks, the German Banking Supervisory Authority and the Bundesbank require the filing of comprehensive information.

Each bank must provide the German Banking Supervisory Authority or the Bundesbank or both with, inter alia, the following information:

(i) immediate notice of certain organizational changes (including certain proposed 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); and

(ii) on an annual basis, audited unconsolidated and consolidated financial statements for the bank.

Further reports must, inter alia, be submitted to the Bundesbank (which will convey copies thereof to the German Banking Supervisory Authority):

(i) on a monthly basis, balance sheet and statistical information;

(ii) on a monthly basis, compliance statements with regard to the capital adequacy rules and the requirements on liquidity and statements on foreign lending if loans to borrowers who are not residents of countries which are members of the OECD or of countries which have entered into certain agreements with the International Monetary Fund exceed DM 50,000,000 in the aggregate; and

(iii) on a quarterly basis, a list of the borrowers to whom the reporting bank has granted loans of DM 3,000,000 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 DM 3,000,000.

If several banks report to the Bundesbank loans of DM 3,000,000 or more to the same borrower, the Bundesbank must inform the reporting banks of the total reported indebtedness and of the type of such indebtedness of such borrower and of the number of reporting lending banks.

If a bank is the parent bank of a group of institutions (as defined under "—Capital Adequacy Requirements"), such bank must have access to information as to the capital and the Large Exposures of the other companies belonging to the group of institutions in order to comply with the requirements of the Banking Act (and regulations issued thereunder) with respect to capital adequacy requirements and limitations on Large Exposures, including the duty to report on a consolidated basis. The Banking Act obliges German companies that are part of a group of institutions to provide such information to the German parent bank and obliges the German parent bank to agree with foreign companies that are part of its group of institutions on the supply of appropriate information. If it is not possible for the parent bank to obtain the information necessary for the consolidation procedure from a group company, the book value of the participation in such company must be deducted when computing the Own Funds of the parent bank.

Enforcement of Banking Regulations; Investigative Powers

To ensure that German banks fully comply with all applicable regulatory and reporting requirements, the German Banking Supervisory Authority requires the maintenance of an effective internal auditing department adequate in size and quality and procedures for monitoring and controlling their own activities. Further, a bank must establish a written plan of organization which must set forth the responsibilities of the employees and operating procedures and the internal audit department must examine compliance with this plan and these responsibilities and procedures. The German Banking Supervisory Authority conducts audits of banks on a random basis as well as for particular reasons.

In order to secure compliance with the Banking Act and the regulations issued thereunder, the German Banking Supervisory Authority and the Bundesbank may require information and documents from a bank and the German Banking Supervisory Authority may conduct investigations of a bank without having to give any particular reason. Investigations may also be conducted at a foreign subsidiary that forms a group of institutions with a bank, if necessary to verify the correctness of data relevant for consolidation, Large Exposure limitations and reports relating thereto, to the extent permitted under the law of the country where such subsidiary has its registered office. In addition, the German Banking Supervisory Authority may attend meetings of the bank's supervisory board and of the bank's shareholders (and require such meetings to be convened).

In the event that the German Banking Supervisory Authority discovers irregularities, it has a wide range of enforcement powers. The German Banking Supervisory Authority can remove the bank's managers from office or prohibit their further activity. If the Own Funds of a bank are not adequate, or if the liquidity requirements are not met, and if the bank has failed to remedy the deficiency within a period determined by the German Banking Supervisory Authority, the German Banking Supervisory Authority 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 German Banking Supervisory Authority may also prohibit further investments in illiquid assets.

If a bank is in danger of defaulting on its obligations to creditors, the German Banking Supervisory Authority may take emergency measures to avert default. In this context it may, inter alia: (i) issue instructions relating to the management of the bank, (ii) prohibit the acceptance of deposits and the extension of credit, (iii) prohibit or restrict the managers of the bank from carrying on their functions, and (iv) appoint supervisors. If these measures are inadequate, the German Banking Supervisory Authority may revoke the bank's license and, if appropriate, order that the bank be closed. To avoid the insolvency of a bank, the German Banking Supervisory Authority has the authority to prohibit payments and disposals of assets, to close customer services, and to prohibit the acceptance of payments other than in payment of debt owed to the bank. Violations of the Banking Act may result in criminal and administrative penalties.

Deposit Protection

The Law on Deposit Insurance and Investor Compensation (*Einlagensicherungs- und Anlegerentschädigungsgesetz*, the "Deposit Guarantee Act"), which is part of the Law on the Implementation of the EU Directive on Deposit Guarantee Schemes and the EU Directive on Investor Compensation Schemes (*Gesetz zur Umsetzung der EG-Einlagensicherungsrichtlinie und der EG-Anlegerentschädigungsrichtlinie*) and became effective on August 1, 1998, for the first time introduced a mandatory deposit insurance system in Germany. Under the Deposit Guarantee Act, each bank must belong to one of the licensed government-controlled investor compensation institutions (*Entschädigungseinrichtungen*). The investor compensation institutions are supervised by the German Banking Supervisory Authority. Private sector banks, such as HypoVereinsbank, have been assigned to the *Entschädigungseinrichtung deutscher Banken GmbH* as the competent investor compensation institution. The investor compensation institutions are responsible for the collection and administration of the contributions of the member banks and the settlement of investor compensation claims in accordance with the Deposit Guarantee Act. Under the Deposit Guarantee Act, creditors (except banks and financial institutions, insurance companies, investment funds, Germany, the German Federal States, municipalities, medium-sized and large corporations and other groups of creditors) of a bank which, due to its financial condition, is permanently unable to repay deposits or perform its obligations under securities transactions have a claim against the respective investor compensation institution.

The liability of the investor compensation institution is limited to the payment of obligations resulting from deposits and securities transactions of customers which are denominated in the legal tender of a state that is a contract party to the Treaty on the European Economic Area (EEA) or in Euro and are not represented by a debt instrument in bearer form or to order. In addition, the liability of the investor compensation institution to a creditor of a failed bank is limited in amount, respectively, to 90% of the aggregate value of the deposits of the creditor with such bank and to 90% of the aggregate value of the obligations arising from securities transactions, in each case limited to a maximum of Euro 20,000 (or the equivalent in any other currency). Members of an investor compensation institution are required to file their annual financial statements and auditing report with, and give all necessary information to, the relevant institution. The investor compensation institutions conduct inspections of banks in order to reduce the risk of failures.

In addition to the mandatory deposit insurance system, liabilities to creditors which are not covered under the Deposit Guarantee Act may be covered by one of the various protection funds set up by the banking industry on a voluntary basis. HypoVereinsbank takes part in the Deposit Protection Fund of the Association of German Banks (*Einlagensicherungsfonds des Bundesverbandes Deutscher Banken*). The Deposit Protection Fund covers liabilities to customers (liabilities to other banks are specifically excluded) up to an amount equal to 30% of the Core Capital and the Supplementary Capital (to the extent that the Supplementary Capital does not exceed 25% of the Core Capital). The obligations of banks represented by bearer instruments are not covered by the Deposit Protection Fund.

Furthermore, depositors and other creditors of German banks are protected by the arrangements with *Liquiditäts-Konsortialbank GmbH* ("LIKO"), a bank founded by the German government in 1974 in order to provide funding for any German bank that experiences liquidity problems. The Bundesbank owns 30% of the shares of LIKO, the remaining shares are held by all other German banks and banking associations. The shareholders have provided DM 372 million of nominal capital to fund LIKO. HypoVereinsbank's participation is DM 16.8 million. In addition, HypoVereinsbank is severally liable, together with the other members of the association, for an additional capital contribution in the amount of DM 474 million.

Supervision and Regulation in the United States

Generally

In the United States, the Bank maintains the Branch and has recently consolidated its U.S. banking operations to be centered in New York.

As a result of its U.S. banking operations, the Bank is subject to supervision, examination and extensive regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and by state banking regulators in the states in which these offices are located. Under the International Banking Act of 1978 (the "IBA"), the Bank Holding Company Act of 1956, as amended (the "BHCA"), and applicable state laws, the Bank's offices and affiliates in the United States are subject to examination by the Federal Reserve Board and state banking authorities. The Bank is required to file with U.S. banking regulators various reports containing detailed information with respect to the Bank and its U.S. activities and affiliates, and may be required to furnish additional information to these authorities upon request.

Under the IBA, the BHCA and Federal Reserve Board regulations, the Bank is subject to extensive federal regulation. The Bank is subject to federal and state restrictions on opening new U.S. domestic deposit-taking branches, or establishing or acquiring U.S. subsidiary banks in states outside its "home state" (which is New York), although these restrictions have been relaxed since 1994. The Bank is prohibited from engaging in certain "tying" arrangements in connection with any extension of credit or provision of any property or services. In addition, the Bank's U.S. branches and agency are subject to Federal Reserve Board reserve requirements on deposits and to restrictions on the payment of interest on demand deposits. Deposits with the Bank's U.S. branches and agency are not insured (or eligible for deposit insurance) by the Federal Deposit Insurance Corporation.

Federal and state banking laws and regulations contain certain restrictions on the Bank's ability to engage, directly or through subsidiaries, in non-banking activities in the United States. With limited exceptions, the BHCA generally restricts the Bank from, directly or indirectly, acquiring more than 5% of the voting shares of any U.S. company engaged in non-banking activities in the United States unless the Federal Reserve Board has determined, by order or regulation, that such proposed activities are so closely related to banking or managing or controlling banks as to be a proper incident thereto. Federal law also imposes certain limitations on the ability of the Bank and its subsidiaries to engage in certain aspects of securities business in the United States. In addition, the BHCA requires the Bank to obtain the prior approval of the Federal Reserve Board before acquiring, directly or indirectly, the ownership or control of more than 5% of the voting shares of any U.S. bank or bank holding company.

The Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA") (part of the Federal Deposit Insurance Corporation Improvement Act of 1991, or "FDICIA") increased the degree of federal bank regulation of and supervision over the U.S. offices of foreign banks. Among other things, FDICIA provides that a state-licensed branch or agency of a foreign bank may not engage in any type of activity that is not permissible for a federally-licensed branch (which in turn is generally subject to regulations pertaining to national banks), unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice. FDICIA also subjects a state branch or agency to the same single-borrower lending limits that apply to a federal branch or agency, which generally are the same as the lending limits applicable to a national bank (with the limits based on a ratio of capital of the entire foreign bank).

FDICIA authorizes the Federal Reserve Board to terminate the activities of any U.S. office of a foreign bank if it determines that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country (unless the home country is making demonstrable progress toward establishing such supervision), or that there is reasonable cause to believe that such foreign bank or an affiliate has violated the law or engaged in an unsafe or unsound banking practice in the United States and, as a result of such violation or practice, the continued operation of the U.S. office would be inconsistent with the public interest or with the purposes of federal banking laws. If the Branch were to be closed by the Federal Reserve Board pursuant to this authority, or the Bank were voluntarily to discontinue the operations of the Branch, holders of the Branch's debt obligations would have recourse only against the Bank, except to the extent of any arrangements made for the payment of the liabilities of the Branch by the New York Superintendent of Banks (the "Superintendent") or other regulatory authorities.

The Branch

The Branch, established as a branch of Vereinsbank in 1974, is licensed by the Superintendent to conduct a commercial banking business. The Branch is examined by the New York State Banking Department and the Federal Reserve Board and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch.

Under the New York Banking Law (the "NYBL") and currently applicable regulations, the Branch must maintain with banks in the State of New York eligible assets (which consist of specified types of governmental obligations, U.S. dollar deposits, investment-grade commercial paper, obligations of certain international financial institutions and other specified obligations) in an amount equal to 5% of the liabilities of the Branch (excluding liabilities to other offices and wholly-owned subsidiaries of the Bank and liabilities of the Branch that are booked in its international banking facility), as security for the protection of depositors and certain other creditors of the Branch. The NYBL empowers the Superintendent to require any branch of a foreign bank to maintain in New York specified assets equal to such percentage of the branch's liabilities as the Superintendent may designate. At present, the Superintendent has set this percentage at 0%, although specific asset maintenance requirements may be imposed upon individual branches on a case-by-case basis. No such requirement has been prescribed for the Branch.

The NYBL authorizes the Superintendent to take possession of the business and property of a New York branch of a foreign bank under circumstances similar to those which would permit the Superintendent to take possession of the business and property of a New York state-chartered bank. These circumstances include, among other things, the violation of any law, the conduct of business in an unsafe manner, impairment of capital, the suspension of payment of obligations, or the initiation of liquidation proceedings against the foreign bank at its domicile or elsewhere.

Under the NYBL, the Branch is generally subject to the same lending limits to a single borrower, expressed as a ratio of capital, that apply to a New York state-chartered bank, except that for the Branch such limits are based on the capital of the Bank. As noted above, under federal law the Branch also is subject to the same lending limits that apply to a federally-licensed branch and a national bank. Compliance with the FBSEA-imposed limits has not required the Branch to alter its lending activities in a material manner.

Other Jurisdictions

Elsewhere in the world, the HypoVereinsbank Group's operations are subject to regulation and control by local central banks and monetary authorities.

Management of the LLC

Directors and Executive Officers of the LLC

The LLC's Board of Directors will initially be composed of five members, one of whom will be an independent director (the "Designated Independent Director"). The directors will serve three-year terms (five years in the case of the Independent Director), subject to earlier resignation or removal. There is no current intention to alter the number of directors comprising the Board of Directors and the Amended and Restated Limited Liability Company Agreement of the Company (the "Charter") will provide that the Board of Directors may not consist of more than seven members. Except with respect to the Subordinated Note, any Eligible Intercompany Investments or the Waiver and Improvement Agreement and any other documents relating to the enforcement of any of the foregoing, the Charter provides that the Independent Directors are required to take into account the interests of the holders of both Partnership Interests and the LLC Common Securities in assessing the benefit to the LLC of any proposed action requiring their consent. With respect to the Waiver and Improvement Agreement, the Subordinated Note, the Eligible Intercompany Investments and any documents relating to the enforcement of the foregoing, the Independent Directors shall, to the fullest extent permitted by law, only take into account the interests of the holders of the Partnership Interests. In considering the interests of the holders of Partnership Interests, the Independent Directors shall owe the holders of Partnership Interests the same duties which the Independent Directors owe to the holders of the LLC Common Securities.

It is expected that each of the following persons will serve as an initial director and, where applicable, hold the executive office of the LLC shown below.

Name	Position and Offices Held at the Branch and/or Within the Group
Stephan Bub	Managing Director and Chairman of the Management Committee HVB Americas
Gabrielle Falger	Managing Director and General Counsel
Gregor Medinger	Managing Director and Member of the Management Committee HVB Americas
Mark Cutis	Managing Director

The following is the summary of the experience of each of the directors and the executive officers of the LLC:

Stephan Bub is Managing Director and Chairman of the Management Committee for HVB Americas. Before starting his current position in New York in 1996, Mr. Bub was based in the Bank's headquarters in Munich, Germany, as Head of Treasury with responsibility for asset and liability management, fixed income and capital markets. From 1985 until 1993, Mr. Bub worked for BHF Bank, holding positions in Frankfurt (as Head of Derivative Trading and Capital Markets Engineering) and in New York (as Head of Treasury). He holds a bachelors of arts degree from Boston University and a masters degree from Mannheim University, Germany.

Gabrielle Falger is a Managing Director of HVB America Inc. Since 1997 she has also served as General Counsel to the U.S. offices, subsidiaries and affiliates of HypoVereinsbank and has primary responsibility for the overall legal risk management of the Bank's U.S. operations. In addition, Ms. Falger serves as the Secretary to the Management Committee of HVB Americas. She also serves as the Secretary for each of the Bank's wholly-owned subsidiaries in the United States. Prior to joining the Bank, Ms. Falger held positions as staff counsel at a French bank and at another German bank. Ms. Falger commenced her legal career as an associate at a major Wall Street law firm where she was involved in numerous corporate finance and bank regulatory transactions. Ms. Falger is a graduate of Yale Law School and of Innsbruck University Law School, Austria.

Gregor Medinger is a member of the Management Committee for HVB Americas and President of HVB Capital Corp., the holding company of the U.S. investment banking and asset management subsidiaries of the Bank. Previously he served as President of Vereinsbank Capital Corporation where he advised U.S. and European companies in a variety of transatlantic transactions, including acquisitions and public and private financings. He studied law and economics at the University of Vienna in Austria and received a doctorate in law in 1965.

Mark Cutis is a Managing Director, a Branch manager and the Treasurer of the Branch. His responsibilities include asset and liability management, money market and foreign exchange. Prior to joining the Branch, Mr. Cutis served as President of an investment fund, and prior thereto held various positions at Merrill Lynch and in the treasury department of the European Bank for Reconstruction and Development.

Independent Directors

The Designated Independent Director will be appointed by the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities and may be replaced by the Bank (except during a Shift Period or during such time as the LLC will have failed to pay Distributions on the Partnership Interests for the most recent Distribution Period). The Designated Independent Director may not be an affiliate of the Bank or an employee of the Bank or of any affiliate of the Bank. The LLC's initial Designated Independent Director is Donald J. Puglisi.

The Charter will require that, so long as any Partnership Interests are outstanding, certain actions by the LLC must be approved by a majority of the Independent Directors of the LLC. See "Description of the Partnership Interests—Rights of Enforcement". For so long as there is only one Independent Director, any action that requires the approval of a majority of Independent Directors must be approved by such Independent Director.

In addition, the holders of the Partnership Interests, upon the failure of the LLC to pay Distributions on the Partnership Interests for the most recent Distribution Period or upon the occurrence of a Shift Event, may replace the existing Independent Director with a new director and may elect two additional Independent Directors to the Board of Directors of the LLC (such new director and the two additional Independent Directors, collectively, the "Elected Independent Directors"). The term of the Elected Independent Directors will terminate, and the total number of directors will be decreased by two, upon (x) full Distributions having been paid or declared and a sum sufficient for payment thereof set apart for payment on the Partnership Interests in accordance with the Silent Partnership Agreement or (y) if the number of directors was increased as a result of a Shift Event, the related Shift Period shall having terminated (with termination determined as set forth in "Description of the Partnership Interests —Shift Event, Shift Period"), *provided, however*, that the Elected Independent Director elected to replace the Designated Independent Director shall remain in office until the holders of the LLC Common Securities elect a replacement Designated Independent Director.

The Partnership Interest holders will have the right to remove any such Elected Independent Director at any time with or without cause. Removal of an Elected Independent Director will require the vote of the Partnership Interest holders holding a majority (by liquidation preference) of the outstanding Partnership Interests. Election of an Elected Independent Director will require the majority by liquidation preference of votes cast for such an election. A meeting of the holders of Partnership Interests may be called by the holders of at least 25% (by liquidation preference) of the outstanding Partnership Interests.

Compensation of Directors and Officers

The LLC intends to pay the Independent Directors fees for their services as directors. An Independent Director (including any Elected Independent Director) will receive annual compensation of $6,000.

The LLC will not pay any compensation to its officers and employees or to directors who are not Independent Directors.

Limitation on Liability of Directors and Officers

The Charter will provide that the LLC's directors and officers have no personal liability to the LLC or its security holders for monetary damages for breach of, in the case of a director, such director's fiduciary duty (if any) or, in the case of a director or an officer, for any act or omission performed or omitted by such director or officer in good faith on behalf of the LLC, except for such director's or officer's gross negligence or willful misconduct. The Charter will also provide that the Bank, acting through the Branch, will indemnify any director or officer of the LLC for any

act or omission performed or omitted by such director or officer in good faith on behalf of the LLC and in a manner reasonably believed to be within the scope of authority conferred on such director or officer by the Charter, except with respect to any act or omission determined by a court of competent jurisdiction to have constituted gross negligence or willful misconduct of such director or officer; *provided, however*, that holders of Partnership Interests will have no personal liability on account thereof.

Description of the Partnership Interests

The Partnership Interests will be provided for in the Silent Partnership Agreement, dated on or about October 22, 1999 (the "Silent Partnership Agreement") between the LLC and the Property Trustee, on behalf of the Trust. A holder of a Partnership Interest will also have the status of a "member" of the LLC within the meaning of the LLC Act. The following summary sets forth the material terms and provisions of the Partnership Interests, and is qualified in its entirety by reference to the terms and provisions of the Silent Partnership Agreement, the Charter and the LLC Act. Copies of the Silent Partnership Agreement and the Charter are available from the LLC or the Initial Purchasers upon request.

General

The Partnership Interests are preferred limited liability company interests in, and represent preferred rights to participate in the profits of, the LLC, the terms of which are set forth in the Silent Partnership Agreement, and as such entitle the holders thereof to participate in the profits of the LLC. In addition to the Silent Partnership Agreement, the Charter and the LLC Act will govern the rights, duties and liabilities of a holder of a Partnership Interest. When issued and paid for pursuant to the terms of the Silent Partnership Agreement, the Partnership Interests will be validly issued, fully paid and non-assessable. The holders of the Partnership Interests will have no pre-emptive or similar rights with respect to any limited liability company interests in the LLC or any other securities of the LLC convertible into or carrying rights or options to purchase any such securities. Partnership Interests are not convertible into LLC Common Securities or any other class or series of limited liability company interests in, or preferred rights to participate in the profits of, the LLC and are not subject to any sinking fund or other obligation of the LLC for its repurchase or retirement. The obligations of the LLC to make payments in respect of the Partnership Interests, and the rights of the holders of Partnership Interests to participate in the profits of the LLC, will rank senior to the rights of the holders of the LLC Common Securities to receive payments in respect thereof, but are subordinated in every respect to the claims of any creditors of the LLC. Accordingly, the LLC may pay distributions in respect of the LLC Common Securities for any Distribution Period only if it has paid in full the Distributions in respect of the Partnership Interests for such Distribution Period. In addition, so long as any Partnership Interests are outstanding, the LLC may not incur any debt obligations and may not issue any other securities that rank *pari passu* with, or senior to, the Partnership Interests.

Each Partnership Interest will have a nominal value of $1,000 (such $1,000 nominal value of each Partnership Interest referred to as the "Initial Nominal Value") and a liquidation preference of $1,000 (the "Liquidation Preference"). Each Partnership Interest will also have a notional current nominal value (the "Current Nominal Value") that will initially equal the Initial Nominal Value and that will thereafter be reduced on a notional basis to reflect the allocation of any Accumulated Deficit (as defined herein under "—'Available Distributable Profits', 'Profit' and 'Accumulated Deficit'") in excess of Paid Additional Capital as described under "—Loss Participation".

Distributions Other Than During A Shift Period

Periodic distributions (each a "Distribution") in respect of the Partnership Interests will be payable on a non-cumulative basis when, as, and if declared (or deemed to have been declared) by the Board of Directors of the LLC out of Available Distributable Profits (as defined herein under "—'Available Distributable Profits', 'Profit' and 'Accumulated Deficit'") (i) semi-annually in arrears on each June 30 and December 31, commencing December 31, 1999 and (ii) in arrears on the Partnership Interest Maturity Date (or, if the Partnership Interests are called or redeemed prior thereto, on the Call Date or the Early Redemption Date, as the case may be) (each, a "Distribution Payment Date"). Distributions on each Partnership Interest will be payable at a fixed rate per annum equal to 9.00%. Upon receipt by the Trust of a Distribution in respect of each Partnership Interest from the LLC, the Trust will make a corresponding Distribution in respect of each Certificate. As used herein, all references to "Distributions" in respect of the Partnership Interests shall be deemed to include any Additional Amounts in respect of the Partnership Interests. See "—Payment of Additional Amounts". Except as described in this section, holders of the Partnership Interests will have no right to participate in the profits of the LLC.

The LLC will be required to make Distributions in respect of the Partnership Interests to the extent that (i) such payments can be made from the Available Distributable Profits for the relevant Distribution Period and (ii) the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. To the extent that interest payments are made on the Subordinated Note in respect of any Distribution Period, the LLC is expected to have Available Distributable Profits sufficient to pay Distributions on the Partnership Interests for such fiscal semi-annual period. If the Bank, acting through the Branch, does not pay interest on the Subordinated Note on any Distribution Payment Date, either because it is not obligated to do so during a Shift Period (as defined herein under "—Shift Event; Shift Period) or because it has not otherwise made such payment, the LLC will not have Available Distributable Profits to pay Distributions on the Partnership Interests on such Distribution Payment Date.

In addition, Distributions will not be made in respect of the Partnership Interests and, accordingly, Distributions will not be made in respect of the Certificates if, and for so long as, the Current Nominal Value of the Partnership Interests, as calculated at the end of the relevant Distribution Period, is less than the Liquidation Preference of the Partnership Interests, except to the extent that the LLC is obligated to pay Distributions in respect of the Partnership Interests for such Distribution Period out of Available Distributable Profits when the obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note has been reinstated pursuant to the Waiver and Improvement Agreement. Except during a Shift Period, the LLC does not expect that the Current Nominal Value of any Partnership Interest will be less than the Liquidation Preference of such Partnership Interest.

Distributions not declared (and not deemed to have been declared) by the LLC in respect of the Partnership Interests for any Distribution Period will not accumulate and the holders of Partnership Interests will have no right to receive a Distribution on the Partnership Interests in respect of such Distribution Period, whether or not Distributions are declared with respect to a future Distribution Period.

Distributions on the Certificates and on the Partnership Interests in respect of each Distribution Period will be calculated on the basis of a 360-day year of twelve 30 day months. Distributions payable on each Distribution Payment Date will be calculated from and including the immediately preceding Distribution Payment Date (or in the case of the initial Distribution Payment Date, from and including the Closing Date) to but excluding the relevant Distribution Payment Date (each such period, a "Distribution Period"). If any Distribution Payment Date falls on a day that is not a Business Day, the applicable Distribution will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. "Business Day" means a day that is a day other than a Saturday, Sunday or a day on which banking institutions in the City of New York are authorized or required by law or executive order to remain closed.

The only source of funds for payment of Distributions in respect of the Partnership Interests will be the payments received by the LLC in respect of the Subordinated Note or the Eligible Intercompany Investments, as the case may be. See "Description of the Subordinated Note and Waiver and Improvement Agreement".

Distributions During A Shift Period

Pursuant to the terms of the Waiver and Improvement Agreement and the Subordinated Note, during a Shift Period, the LLC will waive its right to interest, principal and other payments under the Subordinated Note, and the Bank, acting through the Branch, will not be obligated to make such payments. In such event, the LLC will have no income. As described herein under "—Loss Participation", if any semi-annual balance sheet of the LLC shows an Accumulated Deficit, then such Accumulated Deficit will be allocated on a notional basis first to the Paid Additional Capital of the LLC Common Securities until such Paid Additional Capital is exhausted and then to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests in proportion to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests.

Under certain circumstances in connection with payments by the Bank in respect of any Ordinary Securities or Parity Securities during a Shift Period or upon the end of a Shift Period, the obligation of the Bank, acting through the Branch, to pay interest, principal and other payments under the Subordinated Note will be reinstated. In

particular, the Waiver and Improvement Agreement provides that, during a Shift Period, if the Bank makes or declares dividends, other distributions or other payments in respect of its Ordinary Securities, or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then interest payments in full must be paid on the Subordinated Note for the Corresponding Period. See "—Required Payments". The Bank's current practice is to pay dividends in respect of its Ordinary Securities in May of each year with respect to its fiscal year ended on the preceding December 31.

If a Shift Period has ceased to exist, pursuant to the Waiver and Improvement Agreement, the waiver thereunder will terminate and all rights of the LLC and all obligations of the Bank, acting through the Branch, in respect of the Subordinated Note will be reinstated (i) in respect of interest payments, as of the first day following the last interest payment date during such Shift Period and (ii) in respect of other obligations, from and after cessation of the Shift Period. Any interest not payable in respect of the Subordinated Note during the time a Shift Period was continuing is not cumulative and therefore will not be paid following the end of the Shift Period. Other than its obligations pursuant to the Subordinated Note and the Waiver and Improvement Agreement and its liability for all debts and obligations of the LLC pursuant to the Charter, the Bank, acting through the Branch, has no obligation to contribute any funds, whether through the subscription of additional equity or otherwise, into the LLC or to provide credit support for the obligations of the LLC.

Required Payments

Taken together, the Subordinated Note and the Waiver and Improvement Agreement provide, in effect, that interest must be paid on the Subordinated Note at all times (i) other than during a Shift Period and (ii), during a Shift Period, if the Bank makes payments in respect of any Ordinary Securities or Parity Securities. During a Shift Period the Waiver and Improvement Agreement accomplishes this result by providing that if, during such Shift Period, the Bank makes or declares dividends or other distributions or makes any payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then interest in full must be paid on the Subordinated Note for the following periods (each, a "Corresponding Period") ending on: (x) the two consecutive interest payment dates, commencing with the next following interest payment date falling on or following the date on which the Bank redeems, repurchases or otherwise acquires or defeases or otherwise terminates its obligations in respect of any Ordinary Securities or any Parity Securities or provides funds to any subsidiary in respect of the redemption, repurchase or acquisition by such subsidiary of any Ordinary Securities or Parity Securities or the defeasance or other termination of the obligations of the issuer thereof in respect of any Ordinary Securities or Parity Securities (other than (i) in connection with transactions effected for the account of customers of the Bank or its subsidiaries or in connection with the distribution, trading or market-making in respect of such securities based on an authorization by the Bank's shareholders referred to in § 71(1) No. 7 of the German Stock Corporation Act, (ii) in connection with the satisfaction by the Bank or any of its subsidiaries of its obligations under any employee benefit plans or similar arrangements, with or for the benefit of any employees, officers, directors or consultants of the Bank or any of its subsidiaries, (iii) as a result of a reclassification of the capital stock of the Bank or any of its subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock, (iv) the purchase of fractional interests in shares of the capital stock of the Bank or any of its subsidiaries pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (v) a repurchase pursuant to § 71(1) No. 3 of the German Stock Corporation Act resulting from an obligation of the Bank to offer its shares to shareholders of a company that has entered into a domination or profit-and-loss-pooling agreement with, or has been integrated (*Eingliederung*) into, the Bank in exchange for the shares of that company, or in connection with an obligation of the Bank to purchase its shares from shareholders that have dissented to a split-up (*Aufspaltung*), spin-off (*Abspaltung*) or change of the legal form (*Umwandlung*) of the Bank, (vi) as a result of a merger or other succession involving less than 1% of any class of Ordinary Securities or Parity Securities and which transaction is not entered into for the purpose of, directly or indirectly, acquiring any Ordinary Securities or Parity Securities, (vii) the satisfaction of an obligation on a regularly scheduled maturity date which is required by the terms of the applicable governing instrument); (y) the two consecutive interest payment dates, commencing with the next following interest payment date falling on or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on

any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made no more frequently than annually and (z) the next following interest payment date falling on or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made more frequently than annually.

As used herein, "Ordinary Securities" means the Ordinary Shares and any other securities of the Bank ranking junior to the Bank Parity Securities; and "Parity Securities" means Bank Parity Securities and Subsidiary Parity Linked Securities.

For purposes of the foregoing definitions, "Ordinary Shares" means the Bank's common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*); "Bank Parity Securities" means any silent partnership agreement or any other instrument of the Bank that has rights to payment that are expressly or legally subordinated to all creditors of the Bank (including holders of *Genußscheine*) but that are senior to the rights of the Ordinary Securities of the Bank and that would qualify as German Tier One Capital or as BIS Tier One Capital (each as defined in "Summary—The Offering—Required Payments"). "Subsidiary Parity Linked Securities" means any silent partnership agreement or any other instrument of any subsidiary of the Bank that has rights to payment that are (i) expressly or legally subordinated to all creditors of such subsidiary (including holders of *Genußscheine*) and (ii) linked to the Bank through any mechanism that expressly (through one or more agreements) makes such payments subordinated to all creditors of the Bank (other than creditors subject to similar agreements) but senior to the Ordinary Securities at all times or under circumstances similar to a Shift Event or other failure to comply with regulatory capital requirements and that would qualify as German Tier One Capital or BIS Tier One Capital.

"Available Distributable Profits", "Profit", "Loss" and "Accumulated Deficit"

As used herein, the LLC's "Available Distributable Profits" for a particular Distribution Period (which term shall include the final Distribution Period) means the LLC's Profit with respect to the corresponding fiscal period of the LLC. The Distribution Period will in each case be a semi-annual period, except in the case of the initial Distribution Period and the final Distribution Period.

"Profit" of the LLC with respect to any Distribution Period means the profit earned in such Distribution Period as shown in the unaudited income statement of the LLC for such Distribution Period and as determined in accordance with U.S. GAAP.

"Loss" of the LLC with respect to any Distribution Period means the loss incurred in such Distribution Period as shown in the unaudited semi-annual income statement of the LLC for such Distribution Period and as determined in accordance with U.S. GAAP.

"Accumulated Deficit" means any Loss not covered by retained earnings of the LLC accumulated in respect of periods after the Closing Date, as shown on the unaudited balance sheet of the LLC as of the relevant Distribution Payment Date prepared in accordance with U.S. GAAP.

Loss Participation

Pursuant to the Silent Partnership Agreement and the Charter, a holder of the Partnership Interests will participate in any Accumulated Deficit of the LLC. If any semi-annual balance sheet of the LLC shows an Accumulated Deficit, then such Accumulated Deficit will be allocated on a notional basis first to the Paid Additional Capital of the LLC Common Securities until such Paid Additional Capital is exhausted and then *pro rata* to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests in proportion to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests.

The allocation of any Accumulated Deficit to the Partnership Interests and the LLC Common Securities will be solely on a notional basis for purposes of allocating Losses among the Partnership Interests and the LLC Common Securities and, accordingly, will not result in the actual write down of the nominal value of either the Partnership

Interests or the LLC Common Securities. Unless the Current Nominal Value of the Partnership Interests equals their Liquidation Preference, no Distributions may be paid in respect of the Partnership Interests, except to the extent Distributions are required to be paid pursuant to the Waiver and Improvement Agreement.

Shift Event, Shift Period

A "Shift Event" will be deemed to have occurred if (i) the Board of Management (*Vorstand*) of the Bank determines that either (A) the Bank's total capital ratio (equity ratio) on an unconsolidated basis or tier one capital ratio (core capital ratio) on an unconsolidated basis has declined below the minimum percentages required from time to time by the German Banking Act (*Kreditwesengesetz*, the "German Banking Act") (as applicable to the Bank, presently 8% and 4.4%, respectively) or (B) the Bank's non-compliance with the foregoing capital ratio requirements is immediately imminent, (ii) the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*) (the "German Banking Supervisory Authority") has filed an application for the commencement of insolvency proceedings with respect to the Bank, or (iii) the German Banking Supervisory Authority either (A) exercises its extraordinary supervisory powers pursuant to the provisions of Sections 45 to and including 46a of the German Banking Act or (B) announces its intention to take such measures against the Bank. The aforementioned powers of the German Banking Supervisory Authority may be invoked, among other things, if the German Banking Supervisory Authority determines that a banking institution does not comply with the regulatory capital requirements of the German Banking Act, there is a risk that a banking institution will not meet its obligations towards creditors or there is reason to suspect that effective supervision of a banking institution is not possible.

A "Shift Period" is defined as any period commencing on the date of the occurrence of any Shift Event and ending upon the date immediately preceding the first date upon which no Shift Event exists.

Payment of Additional Amounts

All payments on the Partnership Interests and the Certificates will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature, imposed or levied by or on behalf of Germany, or the jurisdiction of residence (other than the United States) of any obligor on any Eligible Intercompany Investments or any political subdivision or authority therein or thereof having power to tax (each such jurisdiction, together with Germany, and each political subdivision or authority therein or thereof having the power to tax, a "Relevant Jurisdiction") (the taxes so imposed, each a "Relevant Tax"), unless the withholding or deduction of such Relevant Tax is required by law. In that event, the LLC will pay, as further Distributions, such additional amounts ("Additional Amounts") as may be necessary in order for the net amounts received by the holders of the Partnership Interests and the Certificates after such withholding or deduction to equal the amount that such holders would have received in respect of the Partnership Interests and the Certificates, respectively, in absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Partnership Interests or Certificates (or to a third party on any holder's behalf) with respect to any Partnership Interests or Certificates (i) to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Certificates) (other than the Trust) having some connection with the Relevant Jurisdiction that is imposing such tax, other than being a holder (or the beneficial owner) of such Certificates (including indirect ownership of the Partnership Interests) or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction provided that the Bank or its agent has provided the holder or its nominee with at least 60 days prior written notice of an opportunity to make such declaration.

The Bank, acting through the Branch, will also pay under the terms of the Subordinated Note, subject to the same exceptions set forth in the preceding paragraph as applied to the holders of the Partnership Interests and the holders of the Certificates (provided, however, that no such exceptions will apply with respect to the Trust as holder of any Partnership Interests or the LLC or any other holder of the Subordinated Note), such Additional Amounts to any holder of the Subordinated Note as may be necessary in order that every net payment in respect thereof, after withholding for any Relevant Tax, will not be less than the amount otherwise required to be paid in respect of the Subordinated Note, the Partnership Interests or the Certificates. The Bank, acting through the Branch, will also pay

under the terms of the Subordinated Note such additional amounts as may be necessary to pay any taxes that may be imposed on the Partnership Interests, the LLC, or the Trust by the United States (and each political subdivsion thereof or therein having the power to tax) or any Relevant Jurisdiction.

Liquidation

In the event of any dissolution and liquidation of the LLC, holders of Partnership Interests will be entitled to receive out of the assets of the LLC available for distribution after satisfaction of any claims of creditors (whether by payment or the making of reasonable provisions for payment thereof), if any, and before any distributions of assets to the holders of the LLC Common Securities an amount per Partnership Interest equal to the sum of (i) the Liquidation Preference (notwithstanding any prior notional reduction of the Initial Nominal Value to the Current Nominal Value) and (ii) any unpaid Distributions in respect of each Partnership Interest for the then current Distribution Period (together, the "Liquidation Distribution"). In the event that the Liquidation Distribution cannot be made in full because the LLC does not have sufficient funds to do so, the funds available for distribution will be distributed on a *pro rata* basis among the Partnership Interests. So long as any of the Partnership Interests are outstanding, the Charter provides that the Bank, acting through the Branch, as the holder of the LLC Common Securities, to the fullest extent permitted by law, will not cause the LLC to dissolve and to liquidate unless the Bank is also liquidated. The Charter also provides that the LLC will be dissolved and liquidated if the Bank is liquidated. Under the terms of the Charter, and to the fullest extent permitted by law, the LLC will not be dissolved and liquidated until all claims under the Subordinated Note or Eligible Intercompany Investments have been paid to the extent required by the terms of such instruments and the Waiver and Improvement Agreement. Upon receipt of the Liquidation Distribution by the Trust in respect of the Partnership Interests, the Trust will make a corresponding Liquidation Distribution in respect of the Certificates. If the LLC is liquidated and dissolved, the Trust will also be liquidated and dissolved.

Notwithstanding the foregoing, the Declaration will provide that the Trust may not be liquidated and dissolved so long as any Partnership Interests are outstanding except (i) in connection with a Trust Dissolution Event (as defined herein under "Description of the Certificates—Liquidation upon a Trust Dissolution Event"), (ii) if no Certificates are outstanding or (iii) upon the liquidation and dissolution of the LLC.

If the Bank is liquidated during a Shift Period, the LLC will be entitled to receive the repayment of principal in respect of the Subordinated Note, provided, however, that such right will be subordinated to the rights of all creditors of the Bank (including the rights under *Genußscheine*), but will rank senior to the rights of the shareholders (including the holders of common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*)) of the Bank and the rights of the holders of any other Ordinary Securities and will rank *pari passu* with Bank Parity Securities and any obligations of the Bank issued or incurred in respect of any Subsidiary Parity Linked Securities.

Maturity; Maturity Payments

The Partnership Interests will mature on October 22, 2031 (the "Scheduled Partnership Interest Maturity Date"), but if the Scheduled Partnership Interest Maturity Date occurs during a Shift Period, the maturity will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank or (ii) the date after the Shift Period ends (such earlier date, the "Extended Maturity Date" and, together with the Scheduled Partnership Interest Maturity Date, the "Partnership Interest Maturity Date"). If the Partnership Interest Maturity Date occurs other than in connection with the commencement of the liquidation of the Bank and the LLC, the LLC will pay the Current Nominal Value, not to exceed the Liquidation Preference, of each Partnership Interest as calculated based on the most recent semi-annual unaudited balance sheet of the LLC plus accrued and unpaid Distributions for the then current Distribution Period (the "Maturity Payment"). If the Partnership Interest Maturity Date occurs in connection with the liquidation of the Bank, the holders of Partnership Interests will receive the amounts to which they are entitled in connection with the related liquidation of the LLC as set forth in "—Liquidation" above. If any Partnership Interest Maturity Date falls on a day that is not a Business Day, the applicable Maturity Payment will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. The LLC will

make the Maturity Payment out of the amounts received upon maturity of the Subordinated Note. Upon receipt by the Trust of the Maturity Payment, if any, from the LLC in respect of each Partnership Interest, the Trust will make a corresponding payment in respect of each Certificate.

Call Provisions

Prior to the Partnership Interest Maturity Date and except during a Shift Period, the Partnership Interests may be called in full and not in part by the LLC on October 22, 2029 (the "First Call Date"), and thereafter on any Distribution Payment Date (such date, together with the First Call Date, the "Call Date") for an amount per Partnership Interest equal to the Current Nominal Value plus accrued and unpaid Distributions for the then current Distribution Period (i) with the prior consent of the German Banking Supervisory Authority and (ii) upon no less than 30 and no more than 60 days' prior written notice to the holders of the Partnership Interests. The LLC may not call the Partnership Interests prior to the Partnership Interest Maturity Date unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. If the Call Date falls on a day that is not a Business Day, the applicable amount payable as a result of the call will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. In the event that the LLC exercises its option to call the Partnership Interests, the funds paid by the LLC upon such a call will be applied by the Trust on a pass-through basis to redeem the Certificates.

The LLC shall promptly notify the registrar and transfer agent for the Partnership Interests in writing of the call.

Early Redemption

Prior to the First Call Date and except during a Shift Period, the Partnership Interests may be redeemed in whole but not in part by the LLC upon the occurrence of an LLC Early Redemption Event (as defined below) at an amount (the "Early Redemption Amount") equal to the greater of (i) the Current Nominal Value plus accrued and unpaid Distributions for the then current Distribution Period and (ii) the Make Whole Amount, (A) with the prior consent of the German Banking Supervisory Authority and (B) upon no less than 30 and no more than 60 days' prior written notice to holders of the Partnership Interests. The LLC may not, as a result of an LLC Early Redemption Event, redeem the Partnership Interests unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to redeem the Partnership Interests, the funds paid by the LLC upon such a redemption will be applied by the Trust on a pass-through basis to redeem the Certificates.

The "Make Whole Amount" is equal to the sum of (i) the present value of the Liquidation Preference of each Partnership Interest at the date of redemption (the "Early Redemption Date") in connection with an LLC Early Redemption Event and (ii) the aggregate present value of Distributions scheduled to be made in respect of each Partnership Interest from the Early Redemption Date to the First Call Date (the "Remaining Life"), in each case discounted to the Early Redemption Date from the First Call Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (A) in the event that the Early Redemption Date occurs on or prior to October 22, 2000, 150 basis points or (B) in the event that the Early Redemption Date occurs after such date, 50 basis points.

"Treasury Rate" means, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Early Redemption Date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the Remaining Life of the Partnership Interests that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the Remaining Life of such Partnership Interests. "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the calculation agent after consultation with the Bank.

"Comparable Treasury Price" means, (i) the average of the Reference Treasury Dealer Quotations for the Early Redemption Date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if The Bank of New York, in its role as the calculation agent (the "Calculation Agent"), obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer, the average, as determined by the Calculation Agent, of the bid and offered prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the calculation agent by such Reference Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding the Early Redemption Date.

"Reference Treasury Dealer" means each of CS First Boston Corporation, Goldman, Sachs & Co., Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Salomon Smith Barney, Inc. and their respective successors; *provided, however*, that if any of the foregoing or their affiliates will cease to be a primary U.S. Government securities dealer in the City of New York (a "Primary Treasury Dealer"), the Company will substitute therefor another Primary Reference Dealer in consultation with the Bank.

Unless the LLC defaults in payment of the redemption price, on the Early Redemption Date, the Partnership Interests will terminate and Distributions will cease to accrue on the Partnership Interests.

In the event that the Partnership Interests are redeemed upon the occurrence of an LLC Early Redemption Event, the Certificates will likewise be redeemed for an amount per Certificate equal to the Early Redemption Amount and both the Trust and the LLC will, upon such redemption, be dissolved and liquidated.

An "LLC Early Redemption Event" means (i) a Tax Event, (ii) an Investment Company Event with respect to the LLC or (iii) a Capital Event.

A "Tax Event" means the receipt by the Bank of an opinion of a nationally recognized law firm or other nationally recognized tax adviser in the United States or any Relevant Jurisdiction, as applicable, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in the laws or treaties (or any regulations promulgated thereunder) of the United States or any political subdivision or authority thereof or therein having the power to tax, or any Relevant Jurisdiction, (ii) 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) (an "Administrative Action") or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any 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, change or Administrative Action is effective, or which interpretation, pronouncement or decision is announced, on or after the date of the original execution of the Silent Partnership Agreement, there is more than an insubstantial risk that (A) the LLC or the Trust is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges or (B) the Trust, the LLC, the Bank, acting through the Branch, or the obligor on any Eligible Intercompany Investments, as the case may be, would be required to pay any Additional Amounts as described herein under "—Payment of Additional Amounts".

An "Investment Company Event" with respect to the LLC means receipt by the Bank of an opinion of a nationally recognized law firm in the United States, experienced in such matters, to the effect that, as a result of the occurrence of a change in law or regulation or a written change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that the LLC is or will be considered an "investment company" within the meaning of, and required to register as an "investment company" under, the 1940 Act, which change is made on or after the date of the original issuance of the Certificates.

A "Capital Event" means the determination by the Bank that the Partnership Interests may not be included in Tier One Capital.

Voting Rights

Except as expressly required by applicable law, or as indicated below, the holders of Partnership Interests will not be entitled to vote. In the event the holders of Partnership Interests are entitled to vote as indicated below, each Partnership Interest will be entitled to one vote. Any voting rights in respect of the Partnership Interests will be passed through by the Property Trustee to such Certificate holders. Generally, holders of Certificates will not have any voting rights. If at any time the holders of the Partnership Interests will be entitled to vote, including with respect to the election of certain of the independent directors, the consent to amendments to the Charter and the Partnership Interests and other matters requiring the approval of the holders of Partnership Interests pursuant to the terms of the Charter, the Property Trustee will (a) notify the holders of the Certificates of such rights, (b) request specific directions of each holder of a Certificate as to the vote with respect to the Partnership Interests allocable to such Certificate and (c) vote the Partnership Interests held by the Trust only in accordance with such specific directions. The Board of Directors of the LLC will seek instructions with respect to matters requiring a vote by holders of the Partnership Interests, and the Property Trustee will vote the Partnership Interests held by the Trust solely in accordance with instructions received from the holders of Certificates. In the absence of specific instructions from a holder of Certificates, the Property Trustee will not vote or cause to be voted the Partnership Interests represented by such Certificates.

If (i) the LLC fails to pay full Distributions on the Partnership Interests for the most recent Distribution Period or (ii) a Shift Event occurs, the holders of the Partnership Interests will be entitled to replace the Designated Independent Director (see "Management of the LLC—Directors and Executive Officers of the LLC") with a new director and to elect two additional directors (such replaced director and such additional directors, referred to as the "Elected Independent Directors" and, together with the Designated Independent Director, the "Independent Directors"). Any member of the Board of Directors of the LLC elected by the holders of the Partnership Interests will be deemed to be "independent" for purposes of the actions requiring, pursuant to the Charter, the approval of a majority of the Independent Directors. The Elected Independent Directors will be required to vacate office when the corresponding Shift Period ends, if applicable, or, if not applicable, when the next full Distribution is made on the Partnership Interests, except that, if any Elected Independent Director was elected to replace a Designated Independent Director, such Elected Independent Director will be entitled to remain in office until the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities appoints another person as an Independent Director.

Any Elected Independent Director may be removed by, and shall not be removed except by, the vote of the holders of record of the outstanding Partnership Interests entitled to vote, voting as a single class of the LLC's securityholders. As long as Distributions on the Partnership Interests shall not have been paid in full for an applicable Distribution Period or during a Shift Period, any vacancy in the office of any Elected Independent Director may be filled by the vote of the holders of the outstanding Partnership Interests voting together as a single class at a meeting of the holders of the Partnership Interests called for that purpose.

So long as any Partnership Interests are outstanding, the LLC shall not, without the consent or vote of the holders of at least two-thirds of the outstanding Partnership Interests (based on aggregate Liquidation Preference), voting separately as a class, (i) amend, alter or repeal or otherwise change any provision of the Silent Partnership Agreement (including the terms of the Partnership Interests), the Subordinated Note or the Waiver and Improvement Agreement if such amendment, alteration, repeal or change would materially and adversely affect the rights, preferences, powers or privileges of the Partnership Interests, (ii) merge, consolidate, reorganize or effect any other business combination involving the LLC unless (A) the resulting entity will thereafter have no class or series of equity securities either authorized or outstanding ranking prior to the Partnership Interests as to Distributions, or as to the distribution of assets upon liquidation, dissolution or winding up, except the same number of shares of such equity securities with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to Distributions, or other distributions, qualifications or terms or conditions of redemption as the equity securities of the LLC that are authorized and outstanding immediately prior to such transaction, (B) each holder of Partnership Interests immediately prior to such transaction shall receive securities with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to Distributions, or other distributions, qualifications or terms

or conditions of redemption of the resulting entity the Certificates being delisted or removed from any securities exchange on which the Certificates are then listed or quoted or as the Partnership Interests held by such holder immediately prior thereto, (C) such transaction does not result in the Certificates being downgraded by any Rating Agency then rating such securities, or the Partnership Interest holders or the Certificate holders recognizing any gain or loss for U.S. federal income tax consequences, (D) such successor entity shall not be treated as an association or publicly traded partnership subject to tax as a corporation for U.S. federal income tax purposes, and (E) such transaction shall not adversely affect the limited liability of the holders of the Partnership Interests, (iii) cause itself to be dissolved or liquidated except in connection with a liquidation of the Bank or (iv) sell the Subordinated Note and do other than invest the proceeds from such sale in Eligible Intercompany Investments. So long as any Partnership Interests are outstanding, the LLC shall not, without the consent of the holders of each outstanding Partnership Interest, authorize, create or increase the authorized amount of or issue any class or series of any equity securities of the LLC, or any warrants, options or other rights convertible or exchangeable into any class or series of any equity securities of the LLC.

Notwithstanding that the holders of the Partnership Interests are entitled to vote or consent under the limited circumstances described above, any Partnership Interests that are beneficially owned at such time by the Bank or any of its affiliates shall not be entitled to vote or consent and shall, for purposes of such vote or consent, be treated as if such Partnership Interests were not outstanding, except for the Partnership Interests purchased or acquired by the Bank or its affiliates in connection with transactions effected for the account of customers of the Bank or any of its affiliates or in connection with the distribution or trading of or market-making in connection with such Partnership Interests; *provided, however*, that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged Partnership Interests may vote or consent with respect to such pledged Partnership Interests pursuant to the terms of such pledge.

The Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities, will at all times have the right to elect a majority of the Board of Directors of the LLC.

Rights of Enforcement

The Property Trustee, on behalf of the Trust, for so long as the Partnership Interests are held by the Property Trustee, will have the right to enforce the terms of the Partnership Interests, including the right to receive payments thereon, and to enforce the covenants and other terms contained in the Silent Partnership Agreement.

Notwithstanding the foregoing paragraph, a holder of Certificates will be able to institute a direct action against the LLC to enforce the terms of the Silent Partnership Agreement with respect to the Partnership Interests represented by the Certificates held by such holder, including the right to receive payments on the Partnership Interests.

A majority of the Independent Directors, acting together and without the vote or consent of the other members of the Board of Directors, shall have the sole and exclusive right and obligation on behalf of the LLC to enforce the Waiver and Improvement Agreement, as well as the Subordinated Note and the Eligible Intercompany Investments, if any, held by the LLC. The holders of the Partnership Interests, and hence the holders of the Certificates, will not have any direct right to enforce the Waiver and Improvement Agreement absent the failure by the Independent Directors to enforce the LLC's rights thereunder. However, for so long as the Partnership Interests are outstanding, the Waiver and Improvement Agreement may not be amended or modified without the consent of the holders of two-thirds of the aggregate Liquidation Preference of the Partnership Interests.

The Property Trustee

The Property Trustee, on behalf of the Trust, will execute the Silent Partnership Agreement and hold the Partnership Interests for the holders of the Certificates. To induce the Property Trustee to act as trustee, the LLC and the Bank, acting through the Branch, will agree to indemnify the Property Trustee for certain liabilities incurred in connection with the performance by the Property Trustee of its duties with respect to the Partnership Interests

and the holders of the Certificates. The LLC will also agree to provide certain information to the Property Trustee and to perform certain administrative tasks with respect to payments and notices to the Property Trustee on behalf of the Certificate holders.

The Property Trustee will account to the holders of the Certificates for all payments in respect of the Partnership Interests if, as and when received from the LLC and will take certain other actions in connection with the administration of the Partnership Interests, including the transfer of an individual Partnership Interest upon surrender of a Certificate by a holder thereof and the initiation of enforcement actions against the LLC on behalf of the Certificate holders other than any Certificate holder that has chosen to bring an enforcement action directly.

The Property Trustee, in its role as trustee, is entitled to enforce the Partnership Interests on behalf of the Trust, including the right to receive payments with respect to the Partnership Interests. Notwithstanding the foregoing, each holder of Certificates may bring an action directly against the LLC to enforce the rights of such holder under the Partnership Interests evidenced by the Certificates held by such holder.

Merger, Consolidation or Amalgamation of the LLC

The LLC 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 or elsewhere herein. The LLC may, without the consent of the holders of the Partnership Interests, 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 (x) expressly assumes all of the obligations of the LLC under the Partnership Interests or (y) substitutes for the Partnership Interests other agreements having substantially the same terms as the Partnership Interests (the "LLC Successor Securities") so long as the LLC 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, (ii) the Bank expressly acknowledges such successor entity as the holder of the Subordinated Note or equivalent Eligible Intercompany Investment, (iii) such merger, consolidation, amalgamation or replacement does not cause the Certificates (or, in the event that the Trust is liquidated in connection with a Trust Dissolution Event, the Partnership Interests (including any LLC Successor Securities)) to be downgraded by any Rating Agency, (iv) such merger, consolidation, amalgamation or replacement does not adversely affect the powers, preferences and other special rights of the holders of the Certificates or Partnership Interests (including any LLC Successor Securities) in any material respect, (v) such successor entity has a purpose substantially identical to that of the LLC, and (vi) prior to such merger, consolidation, amalgamation or replacement, the LLC has received an opinion of a nationally recognized law firm experienced in such matters to the effect that (A) such successor entity will be treated as a partnership, and will not be treated as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes, (B) such merger, consolidation, amalgamation or replacement would not cause the Trust to be classified as other than a grantor trust for U.S. federal income tax purposes, (C) following such merger, consolidation, amalgamation or replacement, such successor entity will not be required to register under the 1940 Act and (D) such merger, consolidation, amalgamation or replacement will not adversely affect the limited liability of the holders of the Partnership Interests or the LLC Successor Securities.

Withdrawal Rights

A holder or beneficial owner of Certificates will be entitled to surrender the Certificates and receive a number of Partnership Interests corresponding to such holder's or owner's interest in the Trust's assets, as represented by the Certificates surrendered. Any holder or beneficial owner exercising such rights will be responsible for any transfer taxes or fees incurred in connection with the surrender of the Certificates and the transfer of the Partnership Interests. As a result of such transfer, such holder will become a party to the Silent Partnership Agreement with respect to the Partnership Interests so transferred. In the case of Certificates in definitive form, such transfers will be made upon presentation by the holders thereof of the Certificates to a registrar and transfer agent in exchange for which holders will receive an instrument of transfer of the Partnership Interests represented by the Certificates surrendered. Upon the receipt of a Partnership Interest in exchange for a Certificate, a holder will thereafter be

precluded from retransferring the Partnership Interest to the Trust in exchange for a Certificate. Any Partnership Interest transferred in exchange for a Certificate may not be cleared through DTC, and the holder of a Partnership Interest will receive annually a Form K-1 in lieu of a Form 1099 for U.S. federal income tax reporting purposes. The Partnership Interests transferred upon exercise of the withdrawal rights may, therefore, trade at a discount to the price of the Certificates prior to such transfer.

Registrar, Transfer Agent, Paying Agent and Calculation Agent

The Bank of New York will act as registrar, transfer agent, paying agent and Calculation Agent for the Partnership Interests.

Registration of transfers of Partnership Interests will be effected without charge by or on behalf of the LLC, but upon payment (with the giving of such indemnity as the LLC may require) in respect of any tax or other governmental charges that may be imposed in relation to it.

The LLC will not be required to register or cause to be registered the transfer of Partnership Interests after the Partnership Interests have been called for redemption.

Miscellaneous

The Board of Directors of the LLC is authorized and directed to conduct the affairs of the LLC in such a way that (i) the LLC will not be deemed to be required to register under the 1940 Act and (ii) the LLC will be treated as a partnership for U.S. federal income tax purposes. In connection therewith, the Board of Directors of the LLC is authorized to take any action, not inconsistent with applicable law or the Charter, that the Board of Directors determines in its discretion to be necessary or desirable for such purposes, so long as such action does not adversely affect the interests of the holders of the Partnership Interests.

Description of the Certificates

The Certificates will be issued by the Trust pursuant to the terms of the Amended and Restated Declaration of Trust of the Trust (the "Declaration"). The aggregate liquidation amount of the Certificates is $200,000,000. The Bank of New York will act as the Property Trustee and The Bank of New York (Delaware) will act as Delaware Trustee (together with the Property Trustee, the "Trustees"). The following summary of the material terms and provisions of the Certificates does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Declaration (a copy of which is available upon request from the Trust or the Initial Purchasers) and the Delaware Business Trust Act (the "Trust Act").

General

The Declaration authorizes the Trust to issue the Certificates, each of which represents (i) an undivided beneficial ownership interest in the assets of the Trust and (ii) the right to receive the underlying Partnership Interest upon the exercise of the holder's withdrawal rights, as described herein. Accordingly, an investment in the Certificates will have substantially the same risks and rewards as an investment in the Partnership Interests. See "Description of the Partnership Interests". The Declaration does not permit the issuance by the Trust of any securities other than the Certificates or the incurrence of any indebtedness for borrowed money by the Trust. Pursuant to the Declaration, the Property Trustee will hold legal title to the Partnership Interests purchased by the Trust for the benefit of the holders of the Certificates, provided that, upon exercise of a holder's withdrawal rights, as described herein, such holder will then hold legal title to the Partnership Interests.

The Trust's funds available for distribution to the holders of the Certificates will be limited solely to payments received from the LLC as Distributions, redemption payments, liquidation payments, amounts payable at maturity and other payments in respect of the Partnership Interests, which payments will be passed through, on a *pro rata* basis, if, as and when received by the Trust from the LLC to the holders of the Certificates. See "Description of the Partnership Interests—Distributions Other Than During a Shift Period" and "—Distributions During a Shift Period". Consequently, if the LLC does not make any payments in respect of the Partnership Interests, the Trust will not have sufficient funds to make the corresponding payments on the Certificates. The Property Trustee will pass through to the holders of the Certificates any voting rights, rights to consent, and other related matters requiring the approval of the holders of the Partnership Interests.

The Declaration provides that, to the fullest extent permitted by law, the Property Trustee, in its role as trustee, is entitled to enforce the terms of the Partnership Interests on behalf of the Trust, including the right to receive payments thereon and to enforce the covenants and other terms contained therein and in the Silent Partnership Agreement. Notwithstanding the foregoing, each holder of Certificates may bring an action directly against the LLC to enforce the terms of the Silent Partnership Agreement and the Partnership Interests represented by the Certificates held by such holder, including the right to receive payments on such Partnership Interests.

Distributions

Distributions on the Certificates will be made by the Trust on a pass-through basis upon (and subject to) receipt by the Trust of Distributions by the LLC on the Partnership Interests. Distributions in respect of each Certificate will be made semi-annually in arrears on each Distribution Payment Date, commencing December 31, 1999. The only source of funds for payment of Distributions in respect of the Certificates will be the payment of Distributions by the LLC in respect of the Partnership Interests. See "Description of the Partnership Interests—Distributions Other Than During a Shift Period" and "—Distributions During a Shift Period". Distributions not payable on the scheduled Distribution Payment Date will not accumulate, and the holders of the Certificates will not be entitled to recover such Distributions, whether or not Distributions on the Certificates are paid in any future Distribution Period. If any Distribution Payment Date or other payment date falls on a day that is not a Business Day, the applicable Distribution or other payment will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. "Business Day" means a day that is a day other than a Saturday, Sunday or a day on which banking institutions in the City of New York are authorized or required by law or executive order to remain closed.

The assets of the LLC will initially consist only of the Subordinated Note. Prior to the occurrence of a Shift Event, to the extent that the Bank, acting through the Branch, as issuer of the Subordinated Note, fails to make any interest payment, Maturity Payment or payment of any other amount due in respect of the Subordinated Note, the LLC will not have sufficient funds to pay and will not make payment of Distributions and other payments on the Partnership Interests and, accordingly, Distributions and other payments will not be made in respect of the Certificates. In addition, Distributions will not be made in respect of the Partnership Interests and, accordingly, Distributions will not be made in respect of the Certificates if, and for so long as, the Current Nominal Value of the Partnership Interests, as calculated at the end of the relevant Distribution Period, is less than the Liquidation Preference of the Partnership Interests except in the limited circumstances described herein.

In certain circumstances, including during a Shift Period, no Distributions will be paid on the Partnership Interests. Notwithstanding the existence of a Shift Period, however, upon the occurrence of certain events, including, among other things, upon the payment of dividends or other distributions or other amounts in respect of any Ordinary Securities or Parity Securities, the payment of Distributions on the Partnership Interests will be mandatory, except for certain limitations. See "Description of the Partnership Interests—Distributions Other Than During a Shift Period" and "—Distributions During a Shift Period".

Distributions and other payments on the Certificates will be payable to the holders thereof as they appear on the books and records of the Trust on the relevant record dates, which, if the Certificates are solely in book-entry form, will be one Business Day prior to the relevant payment dates. Such payments will be paid by the Property Trustee, who will hold amounts received in respect of the Partnership Interests for the benefit of the holders of the Certificates. Subject to any applicable laws and regulations and the provisions of the Declaration, each such payment will be made as described under "—Form, Book-Entry Procedures and Transfer" below. In the event that the Certificates are not solely in book-entry only form, the relevant record dates shall be the fifteenth day of the month of the relevant payment dates.

Payment of Additional Amounts

All payments by the Trust in respect of the Certificates will be made without withholding or deduction for or on account of any Relevant Tax imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay, as further Distributions out of additional payments received from the LLC, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Certificates after such withholding or deduction will equal the amount that such holders would have received in respect of the Certificates in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Certificates (or to a third party on any holder's behalf) with respect to any Certificates (i) to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Certificates) having some connection with the Relevant Jurisdiction that is imposing such tax, other than being a holder (or the beneficial owner) of such Certificates (including indirect ownership of the Partnership Interests) or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction provided that the Bank or its agent has provided the holder or its nominee with at least 60 days prior written notice of an opportunity to make such declaration.

Maturity; Maturity Payments

Upon receipt by the Trust of the Maturity Payment, if any, from the LLC in respect of each Partnership Interest on the Partnership Interest Maturity Date, the Trust will make a corresponding payment in respect of each Certificate.

Call Provisions

In the event that the LLC exercises its option to call the Partnership Interests as described herein under "Description of the Partnership Interests—Call Provisions", the funds will be applied by the Trust on a pass-through basis to redeem the Certificates representing the Partnership Interests. See "—Form, Book-Entry Procedures and Transfer" below.

Early Redemption

In the event that the Partnership Interests are redeemed upon the occurrence of an LLC Early Redemption Event as described under "Description of the Partnership Interests—Early Redemption", the Certificates will likewise be redeemed for an amount per Certificate equal to the Early Redemption Amount.

Notice of Call or Redemption

If the Trust gives a notice of call or redemption in respect of the Certificates (which notice will be irrevocable), then, by 12:00 noon, New York City time, on the redemption date, provided that the LLC has paid to the Property Trustee cash in the amount of either the call price (being an amount per Partnership Interest equal to the Current Nominal Value plus accrued and unpaid Distributions for the then current Distribution Period) or the Early Redemption Amount in connection with the redemption of the Partnership Interests, the Trust will irrevocably deposit with DTC funds sufficient to pay the applicable redemption amount in respect of Certificates in book-entry form for payment to the beneficial owners of the Certificates represented by Global Certificates (as defined herein) and will irrevocably deposit with the paying agent for the Certificates funds sufficient to pay such applicable redemption amount in respect of any Certificates in definitive form and will give such paying agent irrevocable instructions and authority to pay such amount to the holders thereof on surrender of their Certificates. See "—Form, Book-Entry Procedures and Transfer". If notice of an early call or redemption shall have been given and funds deposited as required, then, immediately prior to the close of business on the date of such deposit, all rights of the holders of the Certificates will cease, except the right of the holders of the Certificates to receive the applicable redemption amount (but without interest on such redemption amount). Certificates called or redeemed as described above will be cancelled.

Subject to the foregoing and applicable law (including, without limitation, U.S. federal securities laws), the Bank may, at any time and from time to time, purchase outstanding Certificates by tender, in the open market or by private agreement.

Liquidation upon a Trust Dissolution Event

Upon the occurrence of a Trust Dissolution Event (as defined below), the Trust will, except in the limited circumstances described below, be liquidated and dissolved and the Certificates redeemed. Upon such liquidation of the Trust, after satisfaction of creditors of the Trust, if any, Partnership Interests with an aggregate liquidation preference equal to the aggregate liquidation amount of the Certificates will be distributed by way of a transfer to the holders of the Certificates in liquidation of such holders' interests in the Trust on a *pro rata* basis within 90 days following the occurrence of such Trust Dissolution Event; *provided, however*, that in the case of the occurrence of a Trust Dissolution Event, such dissolution and distribution shall be conditional upon (i) the Trust's receipt of a written opinion of a recognized independent U.S. tax counsel experienced in such matters (a "No Recognition Opinion"), which opinion may rely on published revenue rulings of the U.S. Internal Revenue Service, to the effect that the holders of the Certificates whose functional currency is the U.S. dollar will not recognize any gain or loss for U.S. federal income tax purposes as a result of such liquidation and distribution of Partnership Interests and (ii) the LLC being unable to avoid such Trust Dissolution Event within such 90 day period by taking some ministerial action or pursuing some other reasonable measure that will have no adverse effect on the Trust, the Bank, the LLC or the holders of the Certificates.

If, after the occurrence of a Tax Event with respect to the Trust, the Trust is informed by U.S. tax counsel that it cannot deliver a No Recognition Opinion to the Trust, the LLC will have the right, upon not less than 30 nor more than 60 days' notice to the holders of the Certificates, to redeem the Partnership Interests for cash within 90 days following the occurrence of such Trust Dissolution Event, and, following such redemption, the Certificates shall be redeemed by the Trust on a *pro rata* basis**;** *provided, however*, that, if at the time there is available to the LLC or the Trust the opportunity to eliminate a Tax Event with respect to the Trust within such 90 day period by taking some ministerial action, such as filing a form or making an election, or pursuing some other reasonable measure that has no adverse effect on the Trust, the Bank, the LLC or the holders of the Certificates or the Partnership Interests, the LLC or the Trust will pursue such measure in lieu of redemption.

A "Trust Dissolution Event" means the occurrence of either a Tax Event or an Investment Company Event, in each case with respect to the Trust.

A "Tax Event" with respect to the Trust means the receipt by the Bank of an opinion of a nationally recognized law firm or other nationally recognized tax adviser in the United States or any Relevant Jurisdiction, as applicable, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in the laws or treaties (or any regulations promulgated thereunder) of the United States or any political subdivision or authority therein or thereof having the power to tax, or any Relevant Jurisdiction, (ii) 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) (an "Administrative Action") or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any 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, change or Administrative Action is effective, or which interpretation, pronouncement or decision is announced, on or after the date of the original execution of the Silent Partnership Agreement, there is more than an insubstantial risk that (A) the Trust is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges or (B) the Trust would be required to pay any Additional Amounts.

A Trust Dissolution Event, absent a simultaneous LLC Early Redemption Event, will not result in either the liquidation of the LLC or the redemption of any Partnership Interests.

An "Investment Company Event" with respect to the Trust means that the Bank shall have requested and received an opinion of a nationally recognized law firm in the United States, experienced in such matters, to the effect that there is more than an insubstantial risk that the Trust is or will be considered an "investment company", and required to register as an "investment company" under the 1940 Act.

Effect of Liquidation of the Trust

Pursuant to the Declaration, the Trust will dissolve (i) upon liquidation of the Bank, (ii) upon the filing of a certificate of dissolution or its equivalent with respect to the LLC, (iii) upon the entry of a decree of judicial dissolution of the Trust, (iv) when the Certificates shall have been called for redemption by call or early redemption and the amounts necessary for redemption thereof shall have been paid to the holders in accordance with the terms of the Certificates; (v) upon the election of the Property Trustee, following the occurrence and continuation of a Trust Dissolution Event, pursuant to which the Trust shall have been dissolved in accordance with the terms of the Certificates and all of the Partnership Interests shall have been distributed to the holders of the Certificates in exchange for all of the Certificates or cash paid in lieu of distribution of Partnership Interests; or (vi) before the issuance of any Certificates, with the consent of the Trustees and the LLC, as grantor of the Trust.

In the event of any voluntary or involuntary liquidation, dissolution, winding-up or termination of the Trust, the then holders of the Certificates will be entitled to receive out of the assets of the Trust, after satisfaction of the Trust's liabilities to creditors (whether by payment or the making of reasonable provisions for payment thereof) (i) distributions in an amount equal to the call price or the Early Redemption Amount upon call or early redemption of the Partnership Interests, as the case may be, (ii) the Maturity Payment upon maturity of the Partnership Interests or (iii) upon a Trust Dissolution Event, Partnership Interests in an aggregate Liquidation Preference equal to the aggregate liquidation amount of the Certificates to be redeemed in connection with such Trust Dissolution Event or cash paid in lieu of distribution of such Partnership Interests.

If, upon any such liquidation, the call price or Early Redemption Amount can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate call price or Early Redemption Amount, then the amount payable directly by the Trust on the Certificates shall be paid on a *pro rata* basis as described below under "—Form, Book-Entry Procedures and Transfer".

Withdrawal Rights

Any holder or beneficial owner of a Certificate may withdraw, by way of a transfer by the Trust to such holder or beneficial owner, any or all of the Partnership Interests represented by such Certificate. In order to receive Partnership Interests, a holder or beneficial owner of Certificates must provide written notice to the Property Trustee, together with (i) evidence of beneficial ownership in a form satisfactory to the Property Trustee; if applicable, certification as to the beneficial ownership by a Non-U.S. Person (as defined in Regulation S); and (ii) provision to the LLC of such documents or information as are requested by the LLC for tax reporting purposes. Such notice shall also be deemed to be such beneficial owner's agreement to be subject to the terms of the Charter and the Silent Partnership Agreement applicable to the rights of holders of Partnership Interests. Within a reasonable time period after such request has been properly made, the Property Trustee will reduce the Partnership Interests represented by the Global Certificates held by the Property Trustee by the aggregate stated liquidation amount of the Certificates to be so withdrawn by the owners and to declare such owners' Certificates null and void and non-transferable or, if the Partnership Interests are represented by a Certificated Security (as defined below), cancel such Certificated Security. The LLC will then transfer Partnership Interests in an aggregate Liquidation Preference equal to the aggregate liquidation amount of the Certificates withdrawn. The Property Trustee, on behalf of the owner exercising such right, shall notify the registrar for the Partnership Interests of the withdrawal and the identity of the transferee of the Partnership Interests. Any owner exercising such rights will be responsible for any transfer taxes or fees incurred in connection with the surrender of the Certificates and the transfer of Partnership Interests. Upon the receipt of a Partnership Interest in exchange for a Certificate, a holder thereof will thereafter be precluded from retransferring the Partnership Interest to the Trust in exchange for a Certificate. As described herein, any Partnership Interest transferred in exchange for a Certificate may not be cleared through DTC and the holder of a Partnership Interest will receive annually a Form K-1 in lieu of a Form 1099 for US federal income tax reporting purposes. The Partnership Interests transferred upon exercise of the withdrawal rights may, therefore, trade at a discount to the price of the Certificates prior to such transfer.

Voting Rights

Generally, holders of Certificates will not have any voting rights. However, if at any time the holders of the Partnership Interests shall be entitled to vote, including with respect to the election of Independent Directors, or to consent to amendments and other matters requiring the approval of the holders of the Partnership Interests pursuant to the terms of the Charter, the Property Trustee will (i) notify the holders of the Certificates of such rights, (ii) request specific directions of each holder of a Certificate as to the vote with respect to the Partnership Interest represented by such Certificate and (iii) vote the Partnership Interests held by the Trust only in accordance with such specific directions. See "Description of the Partnership Interests—Voting Rights".

Upon receipt of notice of any meeting at which the holders of the Partnership Interests are entitled to vote, the Property Trustee is required, as soon as practicable thereafter, to mail to the holders of the Certificates a notice, which notice must contain (i) such information as is contained in such notice of meeting, (ii) a statement that the holders of the Certificates will be entitled, subject to any applicable provision of law, to direct the Property Trustee specifically as to the exercise of the voting rights pertaining to the number of Partnership Interests represented by their respective Certificates, and (iii) a brief statement as to the manner in which such specific directions may be given.

Upon the written direction of a holder of Certificates, the Property Trustee will vote or cause to be voted a corresponding amount of Partnership Interests represented by such Certificates in accordance with the instructions set forth in such direction. In the absence of specific instructions from a holder of Certificates, the Property Trustee will not vote or cause to be voted the Partnership Interests represented by such Certificates.

Modification of the Declaration

The Declaration may be modified and amended by a written instrument approved and executed by the Trustees; *provided, however*, that no such amendment will be effective for so long as any Partnership Interests are outstanding unless the holders of two-thirds of the Partnership Interests by Liquidation Preference voting as a class consent to

the terms of such amendment; such consent shall not be required if (i) the proposed amendment would not materially and adversely affect the rights, preferences, powers or privileges of the Trust, (ii) the Trust has received a letter from each Rating Agency then rating the Partnership Interests or the Certificates, as the case may be, to the effect that such amendment will not result in a downgrading of its respective rating then assigned to the Partnership Interests or the Certificates, as the case may be, and (iii) a majority of the Independent Directors have consented to such modification or amendment.

Notwithstanding the foregoing, no amendment or modification may be made to the Declaration if such amendment or modification would (i) cause the Trust to be classified for purposes of U.S. federal income taxation as other than a grantor trust, or (ii) cause the Trust to be deemed an "investment company" which is required to be registered under the 1940 Act.

Form, Book-Entry Procedures and Transfer

The Certificates will be issued in fully registered form, without coupons.

Global Certificate; Book-entry Form. Except as provided below, Certificates sold to "qualified institutional buyers", as defined in Rule 144A (each a "QIB"), will be evidenced by one or more global certificates in registered form representing Certificates (collectively, the "Global Certificates"), which will be deposited on or about the Closing Date with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Global Certificate will be shown on, and transfers thereof will be effected through, records maintained by DTC and its participants. The Global Certificates (and any Certificates issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Declaration and will bear the legend regarding such restrictions set forth under "Notice to Investors".

A QIB may hold its interests in a Global Certificate directly through DTC if such QIB is a participant in DTC, or indirectly through organizations which are participants in DTC (the "Participants"). Transfers between Participants will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in a Global Certificate to such persons may be limited.

Investors may hold their interests in a Global Certificate through DTC, if they are Participants, or indirectly through organizations that are Participants. All interests in a Global Certificate will be subject to the procedures and requirements of DTC. Upon exercise of withdrawal rights, holders of Certificates will receive Partnership Interests having an equal aggregate Liquidation Preference and thereafter will not be able to re-transfer such Partnership Interests for Certificates. Holders who have exercised their withdrawal rights will subsequently receive tax reporting information regarding their Partnership Interests from the LLC on a Form K-1 rather than from the Trust on a Form 1099. Any Partnership Interest transferred in exchange for a Certificate may not be cleared through DTC.

QIBs and Non-U.S. Persons who are not Participants may beneficially own interests in a Global Certificate held by DTC only through Participants or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("Indirect Participants"). So long as Cede & Co. ("Cede"), as the nominee of DTC, is the registered owner of a Global Certificate, Cede for all purposes will be considered the sole holder of such Global Certificate. Except as provided below, owners of beneficial interests in a Global Certificate will not be entitled to have Certificates registered in their names, will not receive or be entitled to receive physical delivery of Certificates in definitive form, and will not be considered holders thereof.

Conveyance of notices and other communications by DTC to Participants, by Participants to Indirect Participants and by Participants and Indirect Participants to owners of beneficial interests in the Global Certificate held by DTC will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time. Redemption notices shall be sent to Cede, as nominee for DTC. If less than all of the Certificates are being redeemed, DTC will reduce the amount of the interest of each Participant in such Certificates in accordance with its procedures.

Although voting with respect to the Certificates is limited, in those cases where a vote is required, neither DTC nor Cede will itself consent or vote with respect to Certificates. Under its usual procedures, DTC would mail an omnibus proxy to the Trust as soon as possible after the record date. The omnibus proxy assigns Cede's consenting or voting rights to those Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the omnibus proxy). The Trust believes that the arrangements among DTC, Participants and Indirect Participants, and owners of beneficial interests in the Global Certificates held by DTC will enable such beneficial owners to exercise rights equivalent in substance to the rights that can be directly exercised by a holder of a beneficial interest in the Trust.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Trust, the LLC and the Bank believe to be reliable, but none of the Trust, the LLC or the Bank takes any responsibility for the accuracy thereof.

Distribution payments on the Global Certificates will be made to Cede, the nominee for DTC, as the registered owner of the Global Certificates by wire transfer of immediately available funds. Neither the Trust, the Property Trustee nor a paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Trust has been informed by DTC that, with respect to any distribution payments on the Global Certificates, DTC's practice is to credit Participants' accounts on the payment date therefor with payments in amounts proportionate to their respective beneficial interests in the Certificates represented by a Global Certificate, as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to owners of beneficial interests in Certificates represented by a Global Certificate held through such Participants will be the responsibility of such Participants, as is the case with securities held for the accounts of customers registered in "street name."

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in Certificates represented by a Global Certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions with respect to such interest, may be affected by the lack of a physical certification evidencing such interest.

Neither the Trust nor the Property Trustee (or any registrar, paying agent or conversion agent under the Declaration) will have any responsibility for the performance by DTC or its Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations. DTC has advised the Trust that it will take any action permitted to be taken by a holder of Certificates (including, without limitation, the presentation of Certificates for exchange as described below) only at the direction of one or more Participants to whose account with DTC interests in a Global Certificate are credited and only in respect of the number of Certificates represented by a Global Certificate as to which such Participant or Participants has or have given such direction.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Certificates among Participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Trust within 90 days, the Trust will cause the Certificates to be issued in definitive form in exchange for the Global Certificates. Neither the Trust, the Property Trustee nor any of their respective agents will have any responsibility for the performance by DTC, the Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations, including maintaining, supervising or reviewing the records relating to, or payments made on account of, beneficial ownership interests in the Global Certificates.

Certificated Certificates. Certificates sold to investors that are not QIBs will be issued initially in definitive registered form in minimum denominations of $100,000 liquidation amount and integral multiples of $1,000 in excess thereof (the "Certificated Securities" or each a "Certificated Security"), and may not be represented by the

Global Certificates. Certificated Securities may be issued in exchange for Certificates represented by the Global Certificates if no successor depositary is appointed by the Trust as set forth above under "—Global Certificate; Book-entry Form" or in certain other circumstances set forth in the Declaration.

Restrictions on Transfer; Legends. The Certificates will be subject to certain transfer restrictions as described above under "Notice to Investors" and certificates evidencing the Certificates will bear a legend to such effect. The Certificates initially sold pursuant to Rule 144A will be issued initially only in blocks having a liquidation amount of not less than $100,000 (100 Certificates). Any transferee who has not received Certificates in accordance with the provisions described above under "Notice to Investors" shall be deemed not to be the holder of such Certificates for any purpose, including but not limited to the receipt of payments on such Certificates, and such transferee shall be deemed to have no interest whatsoever in such Certificates.

Information Concerning the Property Trustee

The Property Trustee, prior to the occurrence of a default with respect to the Certificates and after the curing of any defaults that may have occurred, undertakes to perform only such duties as are specifically set forth in the Declaration and, after default, shall exercise the same degree of care as a prudent individual 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 Declaration at the request of any holder of Certificates, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby.

Payment of Fees and Expenses of the Trust

All fees and expenses of the Trust, including the fees and expenses of the Trustees in connection with the performance of their duties under the Declaration, will be paid on behalf of the LLC by the Bank, acting through the Branch; provided that, if the Trustees incur fees, charges or expenses, for which they are not otherwise liable under the Declaration, at the request of a holder of Certificates or other person, such holder or other person will be liable for such fees, charges and expenses. The Bank, acting through the Branch, will also pay all fees and expenses related to the Offering and the organization and operations of the Trust (including any taxes, duties, assessments or governmental charges of whatever nature, imposed upon the Trust by the United States, Germany, or the jurisdiction of the obligor on any Eligible Intercompany Investments or any other taxing authority of any of the foregoing).

To assist the Trustees in carrying out their obligations, the Bank, acting through the Branch, has agreed to provide certain administrative services, and to indemnify the Trustees for certain liabilities on behalf of the LLC.

Registrar, Transfer Agent and Paying Agent

The Property Trustee will act as registrar, transfer agent and paying agent and may designate an additional or substitute paying agent at any time. Registration of transfers of Certificates will be effected without charge by or on behalf of the Trust, but upon payment (with the giving of such indemnity as the Trust may require) in respect of any tax or other government charges that may be imposed in relation to it. The Trust will not be required to register or cause to be registered the transfer of Certificates after the Certificates have been called for redemption.

Governing Law

The Declaration and the Certificates will be governed by, and construed in accordance with, the laws of the State of Delaware.

Miscellaneous

The Property Trustee is authorized and has been directed to operate the Trust in such a way that the Trust will not be required to register as an "investment company" under the 1940 Act or characterized as other than a grantor trust for U.S. federal income tax purposes. In this connection, the Property Trustee is authorized to take an action,

not inconsistent with applicable law or the Declaration, that the Property Trustee determines in its sole discretion to be necessary or desirable to achieve such end, as long as such action does not adversely affect the interests of the holders of the Certificates or vary the terms thereof.

Holders of the Certificates have no pre-emptive or similar rights.

Notices

All notices shall be deemed to have been given upon the mailing by first class, registered or certificated mail, postage prepaid, of such notices to holders of the Certificates at their registered addresses as recorded in the register of holders of Certificates. Without limiting the generality of the foregoing, notice of (i) the commencement and termination of a Shift Period, (ii) a change in the Current Nominal Value of the Partnership Interests due to an Accumulated Deficit and (iii) the call or redemption of the Certificates will be given as described in this paragraph.

Description of the Subordinated Note and the Waiver and Improvement Agreement

The following summary sets forth the material terms and provisions of the Subordinated Note, including the criteria for investments in Eligible Intercompany Investments, and the Waiver and Improvement Agreement. The descriptions of the Subordinated Note and the Waiver and Improvement Agreement do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the terms and provisions of the Subordinated Note and the Waiver and Improvement Agreement, the forms of which are available from the Property Trustee or the Initial Purchasers upon request.

General

Concurrently with the execution of the Silent Partnership Agreement with the Trust and the sale of the LLC Common Securities to the Bank, acting through the Branch, the LLC will invest the proceeds thereof in the Subordinated Note issued by the Bank, acting through the Branch. The Subordinated Note will have an aggregate original principal amount of $201,000,000. The Subordinated Note will be scheduled to mature on October 22, 2031 (the "Scheduled Subordinated Note Maturity Date"), but if such date occurs during a Shift Period the Scheduled Subordinated Note Maturity Date will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank or (ii) the day immediately following the last day of such Shift Period (such earlier date, together with the Scheduled Subordinated Note Maturity Date, the "Subordinated Note Maturity Date"). Upon maturity of the Subordinated Note, the Bank, acting through the Branch, will repay the principal in full, except during a Shift Period pursuant to the terms of the Waiver and Improvement Agreement. See "—Waiver and Improvement Agreement".

Interest

The Subordinated Note will bear interest semi-annually at a fixed rate per annum equal to 9.00% of the principal amount from the original date of issuance and will be payable (i) semi-annually in arrears on June 30 and December 31 of each year, commencing on December 31, 1999 and (ii) on the Scheduled Subordinated Note Maturity Date (or, if the Subordinated Note is called or redeemed prior thereto, on the First Call Date or Redemption Date, as the case may be) (each, an "Interest Payment Date"), which dates correspond to the Distribution Payment Dates in respect of the Partnership Interests and the Certificates, except that interest on the Subordinated Note will be waived by the LLC, and the Bank, acting through the Branch, will therefore not be obligated to pay interest, during a Shift Period pursuant to the terms of, and except as otherwise set forth in, the Waiver and Improvement Agreement. Interest payable on each Interest Payment Date will be calculated from and including the immediately preceding Interest Payment Date (or, in the case of the first Interest Payment Date, from and including the Closing Date) to but excluding the relevant Interest Payment Date (each such period, an "Interest Payment Period"). Under certain circumstances in connection with the payment by the Bank or its subsidiaries of dividends, distributions or other payments on either Ordinary Securities or Parity Securities, or upon the end of a Shift Period, the obligation of the Bank, acting through the Branch, to pay interest and principal under the Subordinated Note will be reinstated. See "—Waiver and Improvement Agreement".

Interest on the Subordinated Note in respect of each Interest Payment Period will be calculated on the basis of a 360-day year of twelve 30 day months in such Interest Payment Period. If any Interest Payment Date, or any other date on which a payment is to be made in respect of the Subordinated Note, falls on a day that is not a Business Day, then the payment due on such date will be made on the immediately preceding Business Day without any adjustment as a result of such prepayment.

Additional Amounts

All payments by the Bank, acting through the Branch, in respect of the Subordinated Note will be made without withholding or deduction for or on account of any Relevant Tax imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of such Relevant Tax is required by law. In such event, or in the

event that withholding is required with respect to distributions on the Partnership Interests or the Certificates, the Bank, acting through the Branch, will pay such Additional Amounts as may be necessary in order for every net payment of (x) the principal of and interest on the Subordinated Note, (y) Distributions on the Partnership Interests and (z) Distributions on the Certificates, after withholding or deduction for or on account of any Relevant Tax in connection with the payment of such distributions, interest or principal, to equal the amount the holders thereof would have received in respect of the Subordinated Note, the Partnership Interests or the Certificates, as the case may be, in the absence of such withholding or deduction; provided, however, that the Bank, acting through the Branch, shall not be obligated to pay such Additional Amounts (i) to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Partnership Interests or Certificates) (other than the Trust) having some connection with the Relevant Jurisdiction that is imposing such tax, other than being a holder (or the beneficial owner) of such Certificates (including indirect ownership of the Partnership Interests) or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction provided that the Bank or its agent has provided the holder or its nominee with at least 60 days prior written notice of an opportunity to make such a declaration.

The Bank, acting through the Branch, shall also pay such additional amounts as may be necessary to pay any taxes that may be imposed on the Partnership Interests, the LLC, or the Trust by the United States or any political subdivision or authority therein or thereof having the power to tax, or any Relevant Jurisdiction.

Early Call; Redemptions and Eligible Intercompany Investments

Prior to the Subordinated Note Maturity Date, the Bank, acting through the Branch, will have the right to redeem the Subordinated Note in whole (but not in part) on October 22, 2029, which date is the First Call Date in respect of the Partnership Interests and the Certificates, and thereafter on any Interest Payment Date, for a redemption price equal to 100% of the principal amount of the Subordinated Note, plus accrued and unpaid interest to the date of redemption (and from and after such date on any overdue amount) with no less than 30 and no more than 60 days' prior written notice. In addition, upon the occurrence of an LLC Early Redemption Event, the Bank, acting through the Branch, will have the right to redeem the Subordinated Note in whole (but not in part) for a redemption price equal to the greater of (i) 100% of the principal amount of the Subordinated Note and (ii) the Make Whole Amount for the Subordinated Note (as defined below), plus, in either case, accrued and unpaid interest to the date of redemption with no less than 30 and no more than 60 days' prior written notice.

The "Make Whole Amount" for the Subordinated Note will be equal to the sum, as determined by the Calculation Agent, of (i) the present value of the principal amount of the Subordinated Note at the relevant redemption date and (ii) the aggregate present value of scheduled interest payments from the relevant redemption date to the First Call Date, in each case discounted to the relevant redemption date from the First Call Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (A) in the event that the date of redemption occurs on or prior to October 22, 2000, 150 basis points or (B) in the event that the date of redemption occurs after such date, 50 basis points.

The Subordinated Note will also be redeemable by the Bank, acting through the Branch, in whole or in part at any time, provided that the LLC invests the proceeds thereof in Eligible Intercompany Investments. "Eligible Intercompany Investments" are those instruments of the Bank itself, the Bank, acting through either the Branch or another branch of the Bank, or an affiliate of the Bank that is not a U.S. Person (as defined below) that satisfy each of the following conditions prior to their substitution for the Subordinated Note as assets of the LLC: (i) each Rating Agency then rating the Certificates or the Partnership Interests then outstanding, if then rated, will have informed the Bank in writing that such substitution will not result in a downgrading of the rating then assigned by such Rating Agency to the Certificates or the Partnership Interests; (ii) the Eligible Intercompany Investments will be scheduled to mature on the same date as the Subordinated Note, subject to extension on the same terms as the Subordinated Note, if such maturity date occurs during a Shift Period; (iii) the Eligible Intercompany Investments will provide for periodic payments to the LLC in amounts sufficient to enable the LLC and the Trust to make Distributions in respect

of the Partnership Interests and the Certificates in the same circumstances and to the same extent as currently provided by the Partnership Interests and the Certificates; (iv) such substitution would not give rise to a Tax Event; (v) there would be no adverse withholding tax consequences to holders of Eligible Intercompany Investments, Partnership Interests or to holders of Certificates in the aggregate, including the imposition of more burdensome tax identification requirements with respect to residency or other certification, documentation, information or reporting requirements; (vi) if, immediately prior to such substitution, the Partnership Interests qualify as Tier One Capital, then upon consultation with the German Banking Supervisory Authority, the Bank will have determined that the Partnership Interests would continue to qualify as Tier One Capital; (vii) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (viii) the LLC would continue to be treated as a partnership and the Trust would continue to be classified as a grantor trust, in each case for U.S. federal income tax purposes; (ix) the investment in the Eligible Intercompany Investments will not cause a Tax Event based on either (A) present applicable law or (B) any change or prospective change in applicable law to become effective at a later date and which change is known at the time of the investment in the Eligible Intercompany Investments; (x) the prior approval of the German Banking Supervisory Authority is obtained, if required; (xi) the new obligor will have irrevocably submitted to the jurisdiction of any state or U.S. federal courts in the County of New York, State of New York; (xii) either the new obligor will have also become a party to the Waiver and Improvement Agreement or an agreement with terms substantially similar to the Waiver and Improvement Agreement will have become applicable to the Eligible Intercompany Investments; (xiii) the LLC will have delivered to the Independent Directors an officers' certificate and an opinion of counsel stating that such investment complies with the terms of the Charter and that all conditions precedent in the Charter to such substitution have been complied with; and (xiv) the obligor on the Eligible Intercompany Investment and the LLC will have acknowledged that the holders of the Partnership Interests and the Certificates will be entitled, in the circumstances set forth in the Charter and the Declaration, to directly institute legal proceedings against the obligor on the Eligible Intercompany Investment.

For these purposes, a "U.S. Person" is (i) an individual citizen or resident of the U.S., (ii) a corporation or partnership organized in or under the laws of the U.S. or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of source or (iv) a trust over which a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust.

Subordination

The Subordinated Note will constitute an unsecured obligation of the Bank, acting through the Branch, and will be subordinate and junior in right of payment to all Other Obligations. No payment of principal (including prepayments), or interest on the Subordinated Note may be made at any time when (i) any Other Obligations are not paid when due, (ii) any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (iii) the maturity of any Other Obligations has been accelerated because of a default. As used herein, "Other Obligations" means all other liabilities of the Bank (including the rights of holders of *Genußscheine*), but excluding any indebtedness that by its terms is subordinated to or ranks *pari passu* with the Subordinated Note, or any other instruments of the Bank payments on which would, during a Shift Period, require the Bank, acting through the Branch, to make any payments in respect of the Subordinated Note.

The Subordinated Note does not limit the aggregate amount of Other Obligations that may be issued or entered into by the Bank.

Modification and Amendment of the Subordinated Note

The Subordinated Note may be modified or amended only by the written agreement of the Bank, acting through the Branch, and the LLC; *provided, however*, that no such modification or amendment will be effective for so long as any Partnership Interests are outstanding unless the holders of two-thirds of the Partnership Interests by Liquidation Preference voting as a class consent to the terms of such modification or amendment; such consent shall not be required if (i) the proposed modification or amendment would not materially and adversely affect any of the rights, preferences, powers or privileges of the LLC under the Subordinated Note, (ii) the LLC has received a letter from

each Rating Agency then rating the Partnership Interests or the Certificates, as the case may be, to the effect that such modification or amendment will not result in a downgrading of its respective rating then assigned to the Partnership Interests or the Certificates, as the case may be, and (iii) a majority of the Independent Directors have consented to such modification or amendment.

Limitation on Mergers and Sales of Assets; Liquidation of the Branch

So long as any amount under the Subordinated Note remains unpaid, the Bank may not consolidate with, or merge into, any Person or convey or transfer its properties and assets as an entirety to any Person unless the successor entity expressly assumes the obligations of the Bank, acting through the Branch, under the Subordinated Note if such assumption does not otherwise occur by operation of law.

Upon a liquidation of the Branch, the Bank, in accordance with German law, will remain fully responsible for all obligations of the Bank, acting through the Branch, under the Subordinated Note.

Waiver and Improvement Agreement

Pursuant to the terms of the Subordinated Note and the Waiver and Improvement Agreement, upon the occurrence of a Shift Event, and during the Shift Period commenced thereby, the LLC will waive (i) its right to interest under the Subordinated Note for each Interest Payment Date which occurs during such Shift Period and (ii) its right to principal and any other payments under the Subordinated Note, and the Bank, acting through the Branch, will not be obligated to make such payments or any other payments under the Subordinated Note for the duration of the Shift Period commenced thereby, and the Bank, acting through the Branch, will not be obligated, whether upon the discontinuation of such Shift Period or otherwise, to make any payments in respect of any such interest, principal or other payment obligations under the Subordinated Note. Such waiver in respect of interest payments will apply to full semi-annual interest payments. Therefore, all interest accrued prior to the start of any Shift Period which would, absent the occurrence of such Shift Period, be due and payable on an Interest Payment Date occurring during such Shift Period, will be waived by the LLC.

If a Shift Period has ceased, the waiver by the LLC in respect of the Subordinated Note will terminate, and all rights of the LLC in respect of the Subordinated Note and all obligations of the Bank, acting through the Branch, in respect of the Subordinated Note will be reinstated (i) in respect of interest payments, as of the first day following the last Interest Payment Date which occurred during such Shift Period and (ii) in respect of other obligations, from and as of the first day following such Shift Period. Any interest or other payments not payable in respect of the Subordinated Note during such Shift Period are not cumulative, and therefore will not be paid upon the end of the Shift Period.

At all times during a Shift Period, if the Bank makes or declares dividends, other distributions or any other payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then the waiver by the LLC in respect of the Subordinated Note will not apply to the payment of interest on the Subordinated Note, and such interest must therefore be paid in full, for the Corresponding Periods.

In the event of any commencement of liquidation proceedings in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank during a Shift Period, the waiver by the LLC in respect of the Subordinated Note will not apply to the payment of principal on the Subordinated Note and therefore, the full aggregate principal amount of the Subordinated Note will become due and payable.

Pursuant to the Waiver and Improvement Agreement, the LLC will be obligated to enforce its rights thereunder by instituting legal action for that purpose or otherwise if directed by at least a majority of the Independent Directors. In the event that the Independent Directors fail to cause the LLC to enforce its rights, or fail to enforce the rights of the LLC, under the Waiver and Improvement Agreement after a beneficial holder of Partnership Interests or Certificates has provided a written notice then such beneficial holder of Partnership Interests or Certificates, as the

case may be, may, to the fullest extent permitted by law, directly institute a legal proceeding against the Bank to enforce the LLC's rights under the Waiver and Improvement Agreement without first instituting any legal proceeding against the Independent Directors, the LLC or any other person or entity.

Except in limited circumstances, for so long as any Partnership Interests are outstanding, the Waiver and Improvement Agreement may be modified or amended only upon the consent by the holders of two-thirds of the Partnership Interests by Liquidation Preference voting as a class to the terms of such modification or amendment unless (i) the proposed modification or amendment would not materially and adversely affect any of the rights, preferences, powers or privileges of the holders of the Partnership Interests, (ii) the LLC has received a letter from each Rating Agency then rating the Partnership Interests or the Certificates, as the case may be, to the effect that such modification or amendment will not result in a downgrading of its respective rating then assigned to the Partnership Interests or the Certificates, as the case may be and (iii) a majority of the Independent Directors have consented to such modification or amendment.

Governing Law

Each of the Subordinated Note and the Waiver and Improvement Agreement will be governed by and construed in accordance with the laws of the State of New York.

Certain U.S. Federal Income Tax Considerations

The following is a summary of the principal U.S. federal income tax consequences relating to an investment in the Certificates and is based on the advice of Cleary, Gottlieb, Steen & Hamilton, counsel to the LLC and the Trust. This summary addresses the tax consequences to a person that acquires Certificates on their original issue at their original offering price (a "Certificateholder") and that is a citizen or resident of the United States, a corporation or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust in respect of the Certificates (a "U.S. Holder"). The Certificates are not being marketed to persons that would not be U.S. Holders with respect to the Certificates ("Non-U.S. Holders").

This summary does not address all tax consequences that may be applicable to a U.S. Holder that is a beneficial owner of the Certificates. In particular, the following discussion does not address (i) persons that may be subject to special treatment or special circumstances under U.S. federal income tax law, such as banks, insurance companies, thrift institutions, regulated investment companies, real estate investment trusts, dealers in securities or currencies, and traders in securities that elect mark-to-market treatment, (ii) persons that will hold Certificates as part of a position in a "straddle" or as part of a "hedging", "conversion" or other integrated investment transaction for federal income tax purposes, (iii) persons with a functional currency other than the United States dollar or (iv) persons that do not hold Certificates as capital assets. Further, the following discussion does not address the U.S. federal income tax treatment of a Certificateholder during or after a Shift Period. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, Internal Revenue Service 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 Internal Revenue Service ("IRS") with respect to the tax treatment of the Certificates 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.

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

Classification of the Trust

Assuming full compliance with the Trust Agreement, the Trust will not be taxable as a corporation. The Bank intends to treat the Trust as a grantor trust for U.S. federal income tax purposes. Accordingly, for U.S. federal income tax purposes, each Certificateholder will be considered the owner of an undivided interest in the Trust assets, including the Partnership Interests held by the Trust, and will be required to include in its gross income each year its allocable share of LLC income in respect of its allocable share of the Partnership Interests. See "— Income from the Partnership Interests" for a description of income in respect of the Partnership Interests.

Treatment of the Subordinated Note for U.S. Federal Income Tax Purposes

The Bank and the LLC intend to treat the Subordinated Note as an equity interest in the Bank for U.S. federal income tax purposes. By accepting a Certificate, each Certificateholder agrees to this treatment of the Subordinated Note as an equity interest in the Bank, and further agrees to report all income (or loss) with respect to the Subordinated Note in accordance with this treatment. Pursuant to section 385(c) of the Code, this characterization will be binding on the LLC and therefore also on the Trust and the Certificateholders, but will not be binding on the IRS. The following discussion assumes that this characterization will apply for U.S. federal income tax purposes.

Tax Treatment of the LLC

In purchasing the Certificates, each U.S. Holder agrees with the Bank, the LLC and the Trustee that the Bank, the LLC, the Trustee and the U.S. Holders will treat U.S. Holders for all purposes as holders of an undivided interest in Trust assets, including the Partnership Interests, and not as holders of an underlying interest in the Bank or in any other person, and the following discussion is based on the assumption that such treatment will apply for U.S. federal income tax purposes. Assuming full compliance with the Charter, the LLC will not be taxable as a corporation and will not itself be subject to U.S. federal income tax, but will be treated as a partnership for U.S. federal income tax purposes.

Income from the Partnership Interests

A partnership is not itself a taxable entity. Instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction of the partnership in computing its U.S. federal income tax liability, regardless of whether distributions are made to the partner. Such income will be treated as if it were realized by the U.S. Holder directly from the same source from which it was realized by the LLC. Accordingly, each U.S. Holder will be required to include in gross income its allocable share of LLC income in respect of the underlying Partnership Interests. The Charter will provide that the net income of the LLC for each taxable year, exclusive of gains or losses arising from the disposition by the LLC of its assets, will generally be allocated on a daily basis, to each Certificate (and pro rata among such securities) in an aggregate amount not to exceed the amount of the Distributions made by the LLC on the Partnership Interests for such year. Any net income of the LLC in excess of the amount allocable to each Certificate, and all gains or losses arising from the disposition by the LLC of its assets, will be allocated to the holder of the LLC Common Securities.

Regardless of the date on which distributions are actually paid, all amounts allocated to the Certificates will be includable by a U.S. Holder for its taxable year that includes December 31 of the calendar year in which such distributions are allocated, except that if such U.S. Holder disposes of its entire holding of the Certificates, amounts allocated to it for the calendar year of such disposition will be includable by the U.S. Holder for its taxable year that includes the date of such disposition.

The LLC will distribute, on a periodic basis, all of its income that is allocable to Certificateholders. As a consequence, a U.S. Holder will not recognize income in respect of the Certificates without receiving the corresponding cash distribution unless such U.S. Holder sells or otherwise disposes such Certificates between record dates for distributions on such Certificates. In the case of a sale between record dates, a U.S. Holder will recognize ordinary income in an amount equal to the accrued distribution from the previous record date to the date of such sale or other disposition. The amount included in a U.S. Holder's income on such a sale would increase its basis in the Certificates, which would reduce the gain (or increase the loss) recognized on the sale or other disposition.

No portion of the income derived by a U.S. Holder in respect of its allocable share of the underlying Partnership Interests will be eligible for the dividends received deduction generally available to corporations.

In the case of a U.S. Holder that is a tax-exempt employee's pension trust or other domestic tax-exempt entity, the U.S. Holder's allocable share of the LLC's net income will not constitute "unrelated business taxable income" unless the U.S. Holder has borrowed to acquire or carry its Certificates. Under the Charter, the LLC must use its reasonable best efforts not to perform any act that would subject any holder of the Certificates to a tax on "unrelated business taxable income".

Disposition of the Certificates

A U.S. Holder will recognize gain or loss on a sale, exchange or other disposition of the Certificates (including the receipt of a distribution solely of cash in redemption of a U.S. Holder's Certificates) in an amount equal to the difference between its adjusted tax basis in the Certificates and the amount realized on the disposition of such

Certificates. Any gain or loss so recognized generally will be capital gain or loss. Long-term capital gains recognized by an individual U.S. Holder in respect of the Certificates held for more than one year generally will be subject to a maximum rate of 20 percent.

The Certificates may trade at a price that does not fully reflect the value of accrued but unpaid income that may be allocated to the underlying Partnership Interests. A U.S. Holder that disposes of a Certificate will generally be required to include its share of any accrued but unpaid income of the LLC allocated to the underlying Partnership Interests through the date of disposition of the Certificate and to add such amount to the U.S. Holder's adjusted tax basis in such Certificate. Accordingly, such a U.S. Holder will generally recognize a capital loss to the extent the selling price (which may not fully reflect the value of accrued but unpaid income of the LLC allocated to the U.S. Holder with respect to the underlying Partnership Interests) is less than the U.S. Holder's adjusted tax basis (which will generally include accrued but unpaid income of the LLC allocated to the U.S. Holder with respect to the underlying Partnership Interests). Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for U.S. federal income tax purposes. Prospective investors should consult their tax advisors in this regard.

A U.S. Holder's adjusted tax basis in Certificates generally will equal the amount paid for the Certificates, increased by the amount of income allocated to such U.S. Holder and reduced by the amount of any cash distributed to such U.S. Holder with respect to the Certificates. A U.S. Holder who acquires Certificates at different prices may be required to maintain a single aggregate adjusted tax basis in all of its Certificates and, upon sale or other disposition of some of such Certificates, to allocate a pro rata portion of such aggregate tax basis to the Certificates sold (rather than maintaining a separate tax basis in each Certificate for purposes of computing gain or loss on a sale of that Certificate).

Receipt of the Partnership Interests Upon Liquidation of the Trust

Under certain circumstances, as described under the caption "Description of the Certificates—Liquidation upon a Trust Dissolution Event", Partnership Interests may be distributed to U.S. Holders in exchange for their Certificates and in liquidation of the Trust. Unless the liquidation of the Trust occurs as a result of the Trust being treated as a corporation for U.S. federal income tax purposes, or the Trust assets otherwise being subject to U.S. federal income tax with respect to income accrued or received on the Partnership Interests, such a distribution to a U.S. Holder would, for U.S. federal income tax purposes, be treated as a nontaxable event to each U.S. Holder, each U.S. Holder would receive an aggregate tax basis in the Partnership Interests equal to such U.S. Holder's aggregate tax basis in its Certificates and a U.S. Holder's holding period in the Partnership Interests so received in liquidation of the Trust would include the period during which the Certificates were held by such U.S. Holder. Such U.S. Holder holding Partnership Interests would be subject to the same U.S. federal income tax treatment as when it held Certificates, but would hold a partnership interest rather than an interest in a trust. If, however, the liquidation of the Trust were to occur because the Trust is subject to U.S. federal income tax with respect to income accrued or received on the Partnership Interests, the distribution of the Partnership Interests or cash to U.S. Holders by the Trust would likely be a taxable event to each U.S. Holder, and a U.S. Holder would recognize gain or loss as if the U.S. Holder had exchanged its Certificates for Partnership Interests or cash it received upon the liquidation of the Trust. Such gain or loss would be equal to the difference between the U.S. Holder's aggregate tax basis in its Certificates surrendered in the exchange and the aggregate fair market value of the Partnership Interests or cash received in the exchange.

Information Reporting and Backup Withholding

It is expected that income on the Certificates will be reported to U.S. Holders by financial institutions that hold the Certificates on behalf of such U.S. Holders on an IRS Form 1099, which form should be mailed to U.S. Holders by January 31 following each calendar year. A U.S. Holder that directly holds Partnership Interests will receive a Form K-1 from the LLC each year in lieu of Form 1099 with respect to its U.S. federal income tax reporting obligations.

The amount of income paid or accrued on the Certificates will be reported to the IRS. A U.S. Holder will be subject to backup withholding at a rate of 31% with respect to payments made on the Certificates and payment of proceeds from a disposition of Certificates unless (i) the U.S. Holder furnishes its taxpayer identification number in the manner prescribed in applicable Treasury regulations, certifies that such number is correct, certifies as to no loss of exemption from backup withholding and meets certain other conditions or (ii) the U.S. Holder is otherwise exempt from backup withholding.

Certain ERISA Considerations

Before investing in the Certificates, fiduciaries of plans subject to Title I of ERISA or Section 4975 of the Code should consider, among other matters, (a) ERISA's fiduciary standards, (b) whether such investment in the Certificates by the plan satisfies the prudence and diversification requirements of ERISA, taking into account the overall investment policy of the plan, the composition of the plan's portfolio and the limitations on the marketability of the Certificates, (c) whether such fiduciaries have authority to make such investment in the Certificates under the applicable plan investment policies and governing instruments and (d) rules under ERISA and the Code that prohibit plan fiduciaries from causing a plan to engage in certain "prohibited transactions".

Section 406 of ERISA and Section 4975 of the Code prohibit plans subject to Title I of ERISA, as well as individual retirement accounts and Keogh and other plans subject to Section 4975 of the Code and any entity whose underlying assets include "plan assets" by reason of any such plan's or account's investment in the entity ("Plans"), from, among other things, engaging in certain transactions involving assets of a Plan with persons who are "parties in interest" under ERISA or "disqualified persons" under Section 4975 of the Code ("Parties in Interest") with respect to such Plan. In this regard, based on the reasoning of the United States Supreme Court in *John Hancock Life Ins. Co. v. Harris Trust and Sav. Bank,* 114 S. Ct. 517 (1993), an insurance company's general account may be deemed to include assets of the Plans investing in the general account *(e.g.*, through the purchase of an annuity contract), and the insurance company might be treated as a Party-in-Interest with respect to a Plan by virtue of such investment. A violation of these "prohibited transaction" rules may result in imposition of an excise tax or other liabilities and adverse consequences under ERISA and/or Section 4975 of the Code for Parties in Interest, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under a regulation (the "Plan Assets Regulation") issued by the U.S. Department of Labor (the "DOL"), the assets of the Trust (and, consequently, the assets of the LLC) would be deemed to include assets of Plans for purposes of ERISA and Section 4975 of the Code if Plans acquire significant equity interests in the Trust (and indirectly in the LLC), unless an exception is applicable. An "equity interest" is defined under the Plan Assets Regulation as any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. For those purposes, a beneficial interest in a trust is deemed to be an equity interest.

Pursuant to an exception contained in the Plan Assets Regulation, the assets of the Trust (and the LLC) would not be deemed to include Plan assets if, immediately after the most recent acquisition of any equity interest in the Trust, less than 25% of the value of each class of equity interests in the Trust were held by Plans and other employee benefit plans not subject to ERISA or Section 4975 of the Code (collectively, "Benefit Plan Investors"). No monitoring or other measures will be taken to limit the value of the Certificates held by Benefit Plan Investors to less than 25% of the total value of such Certificates at the completion of the initial offering or thereafter. Thus, the conditions of the exception may not be satisfied.

Under the terms of the Plan Asset Regulation, if the Trust and the LLC were deemed to hold Plan assets by reason of a Plan's investment in the Certificates, such Plan assets would include an undivided interest in the assets held by the Trust (such as the Partnership Interests) and the assets held by the LLC (such as the Subordinated Note). In such event, transactions involving such assets would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and the Code. In this regard, if the person or persons with discretionary responsibility with respect to such assets were affiliated with the Branch or the Bank, any such discretionary actions taken with respect to such assets could be deemed to constitute a prohibited transaction under ERISA or the Code (for example, the use of such fiduciary authority or responsibility in circumstances under which such persons have interests that may conflict with the interests of the Plans for which they act and affect the exercise of their best judgment as fiduciaries). The authority of the Trustees of the Trust and the members of the Board of Directors of the LLC to take discretionary actions with respect to the assets of the Trust and the LLC, respectively, has been limited. In this regard, each investing Plan, by purchasing one or more Certificates will be deemed to have (i) directed the Trustees of the Trust to invest in the Partnership Interests, (ii) appointed the Independent Directors of the LLC and (iii) directed the directors of the LLC to invest in the Subordinated Note.

In addition, certain transactions involving the Trust, the LLC and/or the Certificates could be deemed to constitute direct or indirect prohibited transactions under ERISA and Section 4975 of the Code with respect to a Plan if assets of the Trust were deemed to include Plan assets. For example, if the Bank is a Party in Interest with respect to an investing Plan (or becomes a Party in Interest in connection with this transaction), indirect extensions of credit between the Bank and the Trust (as represented by the Subordinated Note and the Trust's ownership of 100% of the Partnership Interests) would likely be prohibited by Section 406(a)(1)(B) of ERISA and Section 4975(c)(1)(B) of the Code, unless exemptive relief were available under an applicable administrative exemption (see below).

The DOL has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions that may arise from the purchase or holding of the Certificates. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts), and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers).

Because of the foregoing, the Certificates and the Partnership Interests may not be purchased or held by any Plan, unless such purchase or holding is exempt by reason of PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. Each purchaser or holder of the Certificates or any interest therein or any holder of a Partnership Interest will be deemed to have represented by its purchase and holding thereof that either (a) it is not a Plan and is not purchasing such securities on behalf of or with assets of any Plan or (b) the purchase and holding of the Certificates or Partnership Interests is exempt from the prohibited transaction rules by reason of PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. If a purchaser or holder of the Certificates or Partnership Interests that is a Plan elects to rely on an exemption other than PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, the Bank, the Branch or the Trustees may require a satisfactory opinion of counsel or other evidence with respect to the availability of such exemption for such purchase and holding.

Even if the conditions of one or more of the foregoing exemptions are satisfied, no assurance can be given that such exemptions would apply to discretionary actions taken with respect to the assets of the Trust and the LLC. For this reason, in order to address certain potential conflicts of interest, although the Bank will control the LLC at all times through its right to elect a majority of the Directors of the LLC, one of which must be an Independent Director, if the LLC has failed to pay semi-annual distributions on the Partnership Interests for any such semi-annual period or if a Shift Event is in effect, the holders of the Certificates and Partnership Interests will be entitled to replace the Independent Director appointed by the Bank and to elect two additional Independent Directors. The Independent Directors will be entitled to enforce the Subordinated Note and the Waiver and Improvement Agreement and to veto various actions of the LLC that may be adverse to the interests of the holders of the Certificates and Partnership Interests. Notwithstanding the foregoing, the proceeds from the maturity or redemption of the Subordinated Note may be invested by the LLC in Eligible Intercompany Investments without any action by the Directors or Independent Directors of the LLC. No assurance can be given that such provisions eliminate the possibility that discretionary actions taken with respect to the assets of the Trust or LLC may constitute prohibited transactions under ERISA or the Code.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in nonexempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Certificates on behalf of or with assets of any Plan consult with their counsel regarding the potential consequences if the assets of the Trust or the LLC were deemed to be Plan assets and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or any other applicable exemption.

State laws or regulations governing the investment and management of the assets of governmental plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and the Code discussed above. Accordingly, fiduciaries of governmental plans, in consultation with their advisors, should consider the impact of their respective state pension codes on investments in the Certificates and the considerations discussed above, to the extent applicable.

Plan of Distribution

Subject to the terms and conditions set forth in the Purchase Agreement, dated as of October 15, 1999 (the "Purchase Agreement") between Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Initial Purchaser"), HypoVereinsbank, acting through the Branch, the LLC and the Trust, the Trust has agreed to sell to the Initial Purchaser, and the Initial Purchaser has agreed to purchase, all of the Certificates offered hereby. The Initial Purchaser will be obligated to take and pay for all the Certificates, if any are taken.

The Purchase Agreement provides that the obligations of the Initial Purchaser to pay for and accept delivery of the Certificates are subject to, among other conditions, the delivery of certain legal opinions by its counsel.

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold except in certain transactions exempt from the registration requirements of the Securities Act and in accordance with all applicable securities laws of the states of the United States. The Initial Purchaser proposes to offer the Certificates for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A under the Securities Act. The Initial Purchaser has agreed that it will not offer or sell the Certificates except in the United States (i) to persons it reasonably believes to be QIBs in reliance on Rule 144A or (ii) to a limited number of Institutional Accredited Investors. Each purchaser of the Certificates offered hereby in making its purchase will be deemed to have made certain acknowledgments, representations and agreements as set forth under "Notice to Investors" and, in the case of purchasers which are Institutional Accredited Investors, will be required to complete and deliver to the Initial Purchaser a form of Investment Representation Letter, the form of which is attached hereto, prior to acceptance of any order. The Certificates will initially be offered at the price of $1,000 per Certificate. After the initial offering of the Certificates, the offering price and other selling terms of the Certificates may from time to time be varied by the Initial Purchaser.

It is expected that delivery of the Certificates will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this Offering Circular, which will be the fourth business day following the date of pricing of the Certificates (such settlement being herein referred to as "T+4"). Under Rule 15(c)6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Certificates on the date of pricing will be required, by virtue of the fact that the Certificates initially will settle in T+4, to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Certificates who wish to trade the Certificates on the date of pricing should consult their own advisor.

In view of the fact that the proceeds from the sale of the Certificates will ultimately be invested in the Subordinated Note, the Bank, acting through the Branch, has agreed to pay the Initial Purchaser's aggregate commissions of $2,000,000 in connection with the Offering.

The Purchase Agreement provides that the LLC and the Bank have agreed to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act.

In connection with the Offering, certain persons participating in the Offering may engage in transactions that stabilize, maintain or otherwise affect the price of the Certificates. Specifically, the Initial Purchaser may bid for and purchase Certificates in the open market to stabilize the price of the Certificates. The Initial Purchaser may also overallot the Offering, creating a syndicate short position, and may bid for and purchase the Certificates in the open market to cover the syndicated short position. In addition, the Initial Purchaser may bid for and purchase the Certificates in market-making transactions and impose penalty bids. These activities may stabilize or maintain the market price of the Certificates above market levels that may otherwise prevail. The Initial Purchaser is not required to engage in these activities and, if commenced, may end these activities at any time.

No action has been taken in any jurisdiction (including the United States) by the Trust, the LLC, HypoVereinsbank or the Initial Purchaser that would permit a public offering of the Certificates. Accordingly, the Certificates may not be offered or sold, directly or indirectly, nor may this Offering Circular or any other offering material or advertisements in connection with the offer and sale of the Certificates be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this Offering Circular comes are advised to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this Offering Circular. This Offering Circular is not an offer to purchase or a solicitation of an offer to sell any of the Certificates offered in any jurisdiction in which such an offer or a solicitation is unlawful.

There is no existing market for the Certificates. There can be no assurance as to the liquidity of any market that may develop for the Certificates, the ability of the holders of the Certificates to sell their Certificates, or the price at which holders would be able to sell their Certificates. The Trust has been advised by the Initial Purchaser that following completion of the Offering, the Initial Purchaser currently intends to make a market in the Certificates. The Initial Purchaser is not obligated to make a market in the Certificates and any market-making activities with respect to the Certificates may be discontinued at any time without notice.

For a description of restrictions on the transfer of the Certificates, see "Notice to Investors".

From time to time the Initial Purchaser has provided investment advisory services to the Bank.

Legal Matters

The validity of and certain other legal matters relating to the Certificates, the Silent Partnership Agreement and the Subordinated Note will be passed upon for the LLC and the Trust (i) with respect to certain issues of German law by Dr. Dieter Münich, Chief Legal Counsel of the Bank, (ii) with respect to certain issues of New York and German law, by Cleary, Gottlieb, Steen & Hamilton, United States and German counsel for the Bank, and (iii) with respect to certain matters of Delaware law, by Richards, Layton & Finger P.A., special Delaware counsel to the LLC and the Trust. The validity of and certain other legal matters relating to the Certificates, the Silent Partnership Agreement and the Subordinated Note will be passed upon for the Initial Purchaser, with respect to German law by Hengeler Mueller Weitzel Wirtz, German counsel for the Initial Purchaser, and with respect to New York law by Skadden, Arps, Slate, Meagher & Flom LLP, United States counsel for the Initial Purchaser.

Auditors

The HypoVereinsbank Group Financial Statements included in this Offering Circular have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft, as indicated in their report with respect thereto, and are included herein in reliance upon such report given upon the authority of such firms as experts in accounting and auditing.

Custody, Clearance and Settlement

The Certificates sold pursuant to Rule 144A will be represented by one or more global certificates in registered form to be deposited on or about the Closing Date with a custodian for, and registered in the name of the nominee of, DTC. Certificates sold to investors who are not QIBs will be issued initially as certificated securities in definitive registered form and may not be represented by the Global Certificate.

For additional information regarding the form in which the Certificates will be issued and may be held, see "Description of the Certificates—Form, Book-Entry Procedures and Transfer".

Custody

Investors who hold accounts with DTC may acquire, hold and transfer Security Entitlements with respect to the Certificates against DTC and its property by book-entry to accounts with DTC. "Security Entitlement" means the rights and property interests of an account holder against its securities intermediary under applicable law in or with respect to a security, including any ownership, contractual or other rights. Investors who do not have accounts with DTC may acquire, hold and transfer Security Entitlements with respect to the Certificates against the securities intermediary and its property with which such investors hold accounts by book-entry to accounts with such securities intermediary, which in turn may hold a Security Entitlement with respect to the Certificates through DTC, which will annually provide the Trust with the names of the Participants (account holders at DTC) on whose behalf the Certificates are held and the amounts paid to such Participants.

DTC

DTC has advised the Trust as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its Participants deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Participants in DTC include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. The rule applicable to DTC and its Participants are on file with the U.S. Securities and Exchange Commission.

Disclaimer

Although DTC has agreed to the applicable procedures in order to facilitate the acquisition, holding and transfer of security entitlement with respect to the Certificates, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither the Trust nor the Initial Purchasers will have any responsibility for the non-performance or misperformance (as a result of insolvency, mistake, misconduct or otherwise) of DTC or any other securities intermediary through which an investor may acquire, hold or transfer a security entitlement with respect to the Certificates or such securities intermediary's obligations under the rules, procedures or contractual provisions governing their operations.

Initial Distribution and Secondary Market

Investors electing to acquire Security Entitlements with respect to the Certificates through an account with DTC or some other securities intermediary must follow the settlement procedures of its securities intermediary with respect to the settlement of new issues of securities. Security Entitlements with respect to the Certificates to be acquired through an account with DTC will be credited to such an account as of the settlement date against payment in U.S. Dollars for value as of the settlement date.

Investors electing to acquire, hold or transfer security entitlements with respect to the Certificates through an account with DTC or some other securities intermediary other than in connection with the initial distribution of the Certificates must follow the settlement procedures of their securities intermediary with respect to the settlement of secondary market transaction in securities.

The information in this section concerning DTC has been obtained from sources that the Trust believes to be accurate, but the Trust assumes no responsibility for the accuracy thereof. The Trust has no responsibility for the performance by DTC of its obligations as described herein or under the rules and procedures governing their respective operations.

Summary of Certain Significant Differences Between IAS and U.S. GAAP

The HypoVereinsbank Group Financial Statements and Interim Financial Statements included in this Offering Circular were prepared in accordance with International Accounting Standards (IAS), as applicable to banks, which differ in certain significant respects from U.S. GAAP. Some important differences are summarized below. These differences, individually or in the aggregate, could be material.

Investments in debt and equity securities

Under IAS, debt and equity securities are categorized as either trading or investment. Trading securities are carried at fair value with changes reported in earnings. Investment securities are treated in accordance with IAS 25: Accounting for Investments, that is valued at amortized cost, less any write downs for other than temporary declines in the carrying amounts. Such write downs are charged to earnings, however, if conditions change, the write downs can be restored through earnings. The recently approved IAS 39: Financial Instruments: Recognition and Measurement will establish three categories for classifying debt and equity securities, similar to U.S. GAAP. IAS 39 is effective in 2001.

Under U.S. GAAP equity and debt securities are categorized as either: trading, available for sale or held to maturity. Trading Securities are carried at fair value with changes in fair value reported in earnings. Available for Sale securities are also carried at fair value, however, changes in fair value are reported as a component of stockholders equity. Debt securities, which the bank has the intent and ability to hold to maturity, are classified as held-to-maturity and are carried at amortized cost less any write down for permanent impairment. There are no recoveries allowed for write downs for permanent impairment.

Derivative Financial Instruments used for hedging purposes and not held for trading

Currently, IAS does not provide specific guidance on hedge accounting. Derivative Financial Instruments held for non-trading purposes are carried as off balance sheet transactions. Interest income and interest expenses on the derivative instruments are accrued. IAS 39: Financial Instruments: Recognition and Measurement, effective in 2001, will modify the accounting for hedge transactions.

Under U.S. GAAP, there are several pronouncements and interpretations that establish specific criteria for the use of hedge accounting. If the specific criteria for hedge accounting treatment are met, generally the gains or losses associated with the derivative instrument are recognized as an adjustment of the carrying amount of the asset or liability being hedged. If the criteria for hedge accounting are not met, derivatives are carried at fair value with changes in fair value reported in earnings.

Provisions for Loan Losses

Both under IAS and U.S. GAAP, loans are carried at the contractual amount of the loan outstanding with premiums or discounts and loan fees being amortized over the life of the loan. Loan loss provisions are shown separately as a reduction of the loan balance. Under IAS, loan loss provisions are provided for loans specifically identified as being uncollectable and for loans not specifically identified but experience indicates are uncollectable. IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions expresses that the assessment of loan losses depends on the judgement of management and that it is essential, that management applies its assessments in a consistent manner from period to period. In the notes, a bank should disclose the accounting policy which describes the basis on which uncollectable loans are recognized as an expense and written off.

Under U.S. GAAP, the measurement of loan impairment is more prescriptive requiring review of the forecasted cash flows from the loans, the loan's market price or, in certain circumstances, the value of underlying collateral.

Accounting for investments under the equity method

Under IAS and U.S. GAAP, an investment should be accounted for using the equity method, if the investor has significant influence over the investee. If the investor owns more than 20% of the voting capital of an investee, there is a presumption of significant influence unless that presumption can be overcome. Although similar, there are different definitions under IAS and U.S. GAAP as to what constitutes significant influence. For that reason, in certain cases the treatment under IAS 28: Accounting for Investments in Associates may differ from U.S. GAAP.

Leasing

The accounting guidance IAS 17: Leases is similar to that of SFAS No. 13: Accounting for Leases and other related pronouncements under U.S. GAAP; that is, both standards prescribe similar lease accounting approaches based on whether a lease transfers substantially all of the risks and rewards incident to ownership of the leased property. However, the guidance in IAS 17 is broader and less specific than that of U.S. GAAP and often requires judgmental or subjective determinations to be made. SFAS No. 13 generally is more formula-driven than IAS 17, and also provides more specific and extensive accounting guidance in many areas. Certain lease contracts may be treated differently under U.S. GAAP.

Other Provisions

Currently there is no specific IAS guidance in place related to the measurement of other provisions; instead, the general concepts set forth in the IAS Framework are applied. A comprehensive standard IAS 37: Provisions, Contingent Liabilities and Contingent Assets will be effective 2000.

Under U.S. GAAP the rules are more prescriptive requiring that provisions for contingencies be established when it is probable and estimatable that a loss, liability or impairment has occurred. There is also specific guidance on the measurement of restructuring charges.

Treasury Shares

Under IAS, it is not prevented by a standard to record trading positions in the bank's own stock as assets at fair value with changes reported in income. A recently issued interpretation of its Standing Interpretation Committee (SIC-16), effective 2000, will require that treasury shares should be presented in the balance sheet as a deduction from capital and that no gain or loss should be recognized in the income statement on the sale, issuance or cancellation of treasury shares.

Under U.S. GAAP, shares of the bank's stock owned by the bank are recorded as treasury stock. Treasury stock is presented as a reduction of stockholders' equity and is recorded at cost.

Trading profit

Both under IAS and U.S. GAAP, trading assets and trading liabilities are marked-to-market with changes reported in earnings as Trading Profit. In addition, under IAS, interest and dividend income and funding costs and commission income that is related to trading activity are shown on a combined basis as trading profit in the statement of earnings.

Under U.S. GAAP, interest income, dividend income, funding costs (interest expense) and commission income are shown as individual items in the statement of earnings.

Income Taxes

IAS 12 (revised 1996): Income Taxes has been effective since 1998 and covers the same temporary concept and methodology as required under U.S. GAAP. For that reason, an significant accounting difference between IAS and U.S. GAAP no longer exists.

However, prior to 1998, the old version of IAS 12 (reformatted 1994): Income Taxes, which was based on the timing concept and an other methodology, was applicable. Therefore, figures prior to 1998 are not fully comparable.

Accounting for Business Combinations

The business combination between Vereinsbank and HYPO-BANK has been accounted for in conformity with the merger accounting rules of the German Reorganization Act. Under these merger rules, the consolidated financial statements of HypoVereinsbank are based on the respective carrying values of the assets and liabilities of the two banks.

The business combination between Vereinsbank and HYPO-BANK, as reflected in the HypoVereinsbank Group Financial Statements included in this Offering Circular, has been accounted for in conformity with IAS merger accounting rules using the pooling of interests method. This involved transferring the net assets of HYPO-BANK to Vereinsbank at book values of Bayerische Vereinsbank's interest in HYPO-Bank. The difference between the book value of the holding and the higher prorated shareholders' equity is recorded as merger gains.

In addition to the important differences mentioned above, there are several other measurement, presentation and disclosure differences that exist between IAS and U.S. GAAP. Further details of the manner in which HypoVereinsbank has applied IAS are set out in the Notes to the HypoVereinsbank Group Financial Statements.

ANNEX A

FORM OF INVESTMENT REPRESENTATION LETTER

Bayerische Hypo- und Vereinsbank AG,
acting through its New York branch
150 East 42nd Street
New York, New York 10017
Attention: Mark Cutis and Gabrielle Falger

HVB Funding Trust III
c/o Bayerische Hypo- und Vereinsbank AG,
acting through its New York branch
150 East 42nd Street
New York, New York 10017
Attention: Mark Cutis and Gabrielle Falger

HVB Capital LLC III
c/o Bayerische Hypo- und Vereinsbank AG,
acting through its New York branch
150 East 42nd Street
New York, New York 10017
Attention: Mark Cutis and Gabrielle Falger

The Bank of New York,
as trustee of HVB Funding Trust III
101 Barclay Street—21W
New York, New York 10286

Re: 9.00% Non-Cumulative Dated Silent Partnership Certificates

Ladies and Gentlemen:

This letter is delivered in connection with the purchase by the undersigned (the "Purchaser") of $[ ] aggregate 9.00% Non-cumulative Dated Silent Partnership Certificates referenced above (the "Certificates"). Terms used but not defined herein shall have the meanings ascribed thereto in the Amended and Restated Declaration of Trust dated as of October 22, 1999 (the "Trust Agreement"), by and among HVB Capital LLC III, The Bank of New York, as Property Trustee and The Bank of New York (Delaware), as Delaware Trustee.

In connection with such purchase, the undersigned hereby confirms that:

1. [[For Institutional Accredited Investors only.] We are an "institutional accredited investor" (an entity meeting the requirements of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act of 1933, as amended (the "Securities Act")) and have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Certificates, and we and any accounts for which we are acting are each able to bear the economic risk of our or its investment. We are acquiring the Certificates purchased by us for our own account or for one or more accounts (each of which is an "institutional accredited investor") as to each of which we exercise sole investment discretion. We are not acquiring the Certificates with a view to distribution thereof (within the meaning of the Securities Act) or with any present intention of offering or selling any of the Certificates, provided that the disposition of our property and the property of any accounts for which we are acting shall remain at all times within our control.]

   [[For Qualified Institutional Buyers only.] The Purchaser is a "qualified institutional buyer" within the meaning of Rule 144A ("Rule 144A") promulgated under the Securities Act of 1933, as amended (the "Securities Act").

The Purchaser is aware that the transfer to it is being made in reliance on Rule 144A, and the Purchaser has had the opportunity to obtain the information required to be provided pursuant to paragraph (d)(4)(i) of Rule 144A.]

2. The Purchaser has reviewed the final Offering Circular dated October 15, 1999, relating to the Certificates (the "Offering Circular") and the agreements and other materials referred to therein and has had the opportunity to ask questions and receive answers concerning the terms and conditions of the transactions contemplated by the Offering Circular. The Purchaser understands that the Certificates will be delivered to it in certificated, registered form only and that they will bear legends to the effect set forth in the Offering Circular under "Notice to Investors".

3. The Purchaser acknowledges that the Certificates have not been and will not be registered or qualified under the Securities Act or the securities laws of any state or any other jurisdiction. The Purchaser agrees on its own behalf and on behalf of each account for which it is acting that the Certificates may not be reoffered, resold, pledged or otherwise transferred except (A)(i) to a person whom it reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A of the Securities Act in a transaction meeting the requirements of Rule 144A, (ii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), (iii) to an "institutional accredited investor" within the meaning of Rule 501(a)(1), (2), (3), or (7) under the Securities Act or (iv) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S and (B) in each case, in accordance with any applicable federal securities laws and any applicable securities laws of any state of the United States or any other jurisdiction.

4. The Purchaser hereby undertakes to be bound by the terms and conditions of the Trust Agreement in its capacity as an owner of the Certificates in all respects as if it were a signatory thereto. This undertaking is made for the benefit of the Trust, the Registrar and all holders of Certificates present and future.

5. The Purchaser will not sell or otherwise transfer any portion of the Certificates, except in compliance with the Trust Agreement (including the provisions thereof requiring delivery of an investment representation letter and such other certifications, opinions of counsel or other information as the Registrar shall require to confirm that such sale or transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and in compliance with the provisions hereof.

6. Either (A) the assets used to purchase the Certificates are not the assets of (i) an "employee benefit plan" that is subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a "plan" within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), (iii) a person or entity the underlying assets of which include plan assets by reason of Department of Labor Regulation Section 2510.3-101 or otherwise, or (iv) a governmental plan that is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (B) the purchase, holding and disposition of such Certificates and the transactions contemplated thereby will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar federal, state or local law) for which an exemption is not available, all the conditions of which have been satisfied.

7. Check one of the following:

   ☐ The Purchaser is a "U.S. Person" and it has attached hereto an Internal Revenue Service ("IRS") Form W-9 (or successor form).

   ☐ The Purchaser is not a "U.S. Person" and under applicable law in effect on the date hereof, no taxes will be required to be withheld by the Property Trustee (or its agent) with respect to distributions to be made on the Certificates. The Purchaser has attached hereto either (i) a duly executed IRS Form W-8BEN (or successor form), which identifies such Purchaser as the beneficial owner of the Certificates and states that such Purchaser is not a U.S. Person or (ii) two duly executed copies of IRS Form W-8ECI (or successor form),

which identify such Purchaser as the beneficial owner of the Certificates and state that amounts allocated to the Certificates are, or are expected to be, income effectively connected with a U.S. trade or business. The Purchaser agrees to provide to the Registrar updated IRS Forms W-8BEN or W-8ECI, as the case may be, any applicable successor IRS forms, or such other certifications as the Registrar may reasonably request, on or before the date that any such IRS form or certification expires or becomes obsolete, or promptly after the occurrence of any event requiring a change in the most recent IRS form of certification furnished by it to the Registrar.

For this purpose, "U.S. Person" means a citizen or resident of the United States for U.S. federal income tax purposes, a corporation, partnership or other entity created or organized in or under the laws of the United States or any of its political subdivisions, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if (i) a U.S. court is able to exercise primary supervision over the trust administration and (ii) one or more U.S. persons have the authority to control all of the trust's substantial decisions.

Please make all payments due on the Certificates:**

(a) by wire transfer to the following account at a bank or entity in New York, New York, having appropriate facilities therefor:

Account number:_____

Institution:_____

(b) by mailing a check to the following address:_____

_____

_____

** Please select (a) or (b); however, wire transfers are only available if the Certificates have an aggregate initial balance of at least U.S. $5,000,000.

We acknowledge that the addressees hereof and others will rely on our confirmations, acknowledgments and agreements set forth herein. THIS LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

Very truly yours,

[Name of Purchaser]

By:_____
Name:
Title:

Dated:

Index to Financial Statements

HypoVereinsbank Group Financial Statements
(as at and for the year ended December 31, 1998)

Consolidated Balance Sheet F-2

Consolidated Income Statement and Appropriation of Net Income F-4

Consolidated Statement of Changes in Shareholders' Equity F-7

Cash Flow Statement F-8

Notes F-11

Report of Independent Auditors F-65

Interim Financial Statements
(as at and for six months ended June 30, 1999)

Summary Highlights F-66

Consolidated Income Statement F-67

Consolidated Balance Sheet F-68

Consolidated Statement of Changes in Shareholders' Equity F-69

Cash Flow Statement F-70

Notes F-71

Consolidated Balance Sheet at December 31, 1998

	Notes	1998	1997	Change	
		millions of DM	millions of DM	millions of DM	%
Assets in DM					
Cash reserve	3, 15	9,435	3,939	5,496	>+ 100.0
Assets held for trading purposes	4, 16	69,670	50,838	18,832	+ 37.0
Placements with, and loans and advances to, other banks	5, 17, 19	112,438	123,004	(10,566)	− 8.6
including: Mortgage loans		746	778	(32)	− 4.1
Municipal loans		42,707	35,466	7,241	+ 20.4
Loans and advances to customers	5, 18, 19, 20	606,526	569,973	36,553	+ 6.4
including: Mortgage loans		291,557	263,792	27,765	+ 10.5
Municipal loans		129,762	129,912	(150)	− 0.1
Total provisions for losses on loans and advances	6, 21	(15,614)	(13,514)	(2,100)	− 15.5
Investments	7, 22	100,728	81,908	18,820	+ 23.0
Property, plant and equipment	8, 23	8,409	7,740	669	+ 8.6
Other assets	24	9,527	8,791	736	+ 8.4
Total assets		901,119	832,679	68,440	+ 8.2

	Notes	1998	1997	Change	
		millions of DM	millions of DM	millions of DM	%
Shareholders' Equity and Liabilities in DM					
Deposits from other banks	11, 27	133,283	137,013	(3,730)	− 2.7
including: Registered mortgage bonds and municipal bonds in issue		17,491	16,434	1,057	+ 6.4
Amounts owed to other depositors	11, 28	288,543	270,322	18,221	+ 6.7
including: Registered mortgage bonds and municipal bonds in issue		91,584	93,269	(1,685)	− 1.8
Promissory notes and other liabilities evidenced by paper	11, 29	370,056	336,501	33,555	+ 10.0
including: Registered mortgage bonds and municipal bonds in issue		215,426	197,349	18,077	+ 9.2
Provisions and accruals	12, 30	8,299	7,701	598	+ 7.8
Other liabilities	31	57,241	41,658	15,583	+ 37.4
Subordinated capital	32	18,386	14,952	3,434	+ 23.0
Minority interest		2,047	1,959	88	+ 4.5
Shareholders' equity	33	23,264	22,573	691	+ 3.1
Subscribed capital		2,078	2,073	5	+ 0.2
Additional paid-in capital		13,999	13,988	11	+ 0.1
Retained earnings		7,187	4,133	3,054	+ 73.9
Merger gains		—	2,379	(2,379)	− 100.0
Total shareholders' equity and liabilities		901,119	832,679	68,440	+ 8.2

	Notes	1998	1997	Change	
		millions of EUR	millions of EUR	millions of EUR	%
Assets					
Cash reserve	3, 15	4,824	2,014	2,810	> + 100.0
Assets held for trading purposes	4, 16	35,622	25,993	9,629	+ 37.0
Placements with, and loans and advances to, other banks	5, 17, 19	57,489	62,891	(5,402)	− 8.6
including: Mortgage loans		381	398	(17)	− 4.1
Municipal loans		21,836	18,134	3,702	+ 20.4
Loans and advances to customers	5, 18, 19, 20	310,112	291,423	18,689	+ 6.4
including: Mortgage loans		149,071	134,875	14,196	+ 10.5
Municipal loans		66,346	66,423	(77)	− 0.1
Total provisions for losses on loans and advances	6, 21	(7,983)	(6,910)	(1,073)	− 15.5
Investments	7, 22	51,501	41,879	9,622	+ 23.0
Property, plant and equipment	8, 23	4,299	3,957	342	+ 8.6
Other assets	24	4,871	4,495	376	+ 8.4
Total assets		460,735	425,742	34,993	+ 8.2

	Notes	1998	1997	Change	
		millions of EUR	millions of EUR	millions of EUR	%
Shareholders' Equity and Liabilities					
Deposits from other banks	11, 27	68,146	70,054	(1,908)	− 2.7
including: Registered mortgage bonds and municipal bonds in issue		8,943	8,402	541	+ 6.4
Amounts owed to other depositors	11, 28	147,530	138,213	9,317	+ 6.7
including: Registered mortgage bonds and municipal bonds in issue		46,826	47,688	(862)	− 1.8
Promissory notes and other liabilities evidenced by paper	11, 29	189,207	172,050	17,157	+ 10.0
including: Registered mortgage bonds and municipal bonds in issue		110,145	100,903	9,242	+ 9.2
Provisions and accruals	12, 30	4,243	3,938	305	+ 7.8
Other liabilities	31	29,267	21,299	7,968	+ 37.4
Subordinated capital	32	9,401	7,645	1,756	+ 23.0
Minority interest		1,046	1,002	44	+ 4.5
Shareholders' equity	33	11,895	11,541	354	+ 3.1
Subscribed capital		1,063	1,060	3	+ 0.2
Additional paid-in capital		7,158	7,152	6	+ 0.1
Retained earnings		3,674	2,113	1,561	+ 73.9
Merger gains		—	1,216	(1,216)	− 100.0
Total shareholders' equity and liabilities		460,735	425,742	34,993	+ 8.2

Consolidated Income Statement and Appropriation of Net Income for the Year Ended December 31, 1998

	Notes	1998	1997	Change	
		millions of DM	millions of DM	millions of DM	%
Expenses/Income in DM					
Interest and similar income	38	50,656	48,212	2,444	+ 5.1
Interest expense and similar charges	38	40,808	38,858	1,950	+ 5.0
Net interest income	38	9,848	9,354	494	+ 5.3
Provisions for losses on loans and advances	39	3,245	2,711	534	+ 19.7
Net interest income after provisions for losses on loans and advances		6,603	6,643	(40)	− 0.6
Fee and commission income	40	3,745	3,424	321	+ 9.4
Fee and commission expense	40	555	459	96	+ 20.9
Net commission income	40	3,190	2,965	225	+ 7.6
Gains less losses arising from trading securities (trading profit)	41	952	895	57	+ 6.4
General administrative expenses	42	8,457	7,740	717	+ 9.3
Other operating income	43	620	595	25	+ 4.2
Other operating expenses	44	441	486	(45)	− 9.3
Operating profit		2,467	2,872	(405)	− 14.1
Other income	47	646	344	302	+ 87.8
Other expenses	48	149	255	(106)	− 41.6
Extraordinary income	49	6,109	1,500	4,609	> + 100.0
Extraordinary expenses	50	3,958	1,688	2,270	> + 100.0
Net income before tax	51	5,115	2,773	2,342	+ 84.5
Income taxes	14, 52	1,231	1,019	212	+ 20.8
Net income		3,884	1,754	2,130	> + 100.0
Minority interest in net income		(142)	(135)	(7)	− 5.2
Net income adjusted for minority interest		3,742	1,619	2,123	> + 100.0
Transfers to retained earnings		1,902	746	1,156	> + 100.0
Consolidated profit		1,840	873	967	> + 100.0
Proposed dividend payout to shareholders		667	873	(206)	− 23.6
Proposed transfers to retained earnings		1,173	—	1,173	+ 100.0

	Notes	1998	1997	Change	
		millions of EUR	millions of EUR	millions of EUR	%
Expenses/Income in Euro					
Interest and similar income	38	25,900	24,650	1,250	+ 5.1
Interest expense and similar charges	38	20,865	19,868	997	+ 5.0
Net interest income	38	5,035	4,782	253	+ 5.3
Provisions for losses on loans and advances	39	1,659	1,386	273	+ 19.7
Net interest income after provisions for losses on loans and advances		3,376	3,396	(20)	− 0.6
Fee and commission income	40	1,915	1,751	164	+ 9.4
Fee and commission expense	40	284	235	49	+ 20.9
Net commission income	40	1,631	1,516	115	+ 7.6
Gains less losses arising from trading securities (trading profit)	41	487	458	29	+ 6.4
General administrative expenses	42	4,324	3,957	367	+ 9.3
Other operating income	43	317	304	13	+ 4.2
Other operating expenses	44	226	248	(22)	− 9.3
Operating profit		1,261	1,469	(208)	− 14.1
Other income	47	330	176	154	+ 87.8
Other expenses	48	76	131	(55)	− 41.6
Extraordinary income	49	3,123	767	2,356	> + 100.0
Extraordinary expenses	50	2,023	863	1,160	> + 100.0
Net income before tax	51	2,615	1,418	1,197	+ 84.5
Income taxes	14, 52	629	521	108	+ 20.8
Net income		1,986	897	1,089	> + 100.0
Minority interest in net income		(73)	(69)	(4)	− 5.2
Net income adjusted for minority interest		1,913	828	1,085	> + 100.0
Transfers to retained earnings		972	381	591	> + 100.0
Consolidated profit		941	447	494	> + 100.0
Proposed dividend payout to shareholders		341	447	(106)	− 23.6
Proposed transfers to retained earnings		600	—	600	+ 100.0

Earnings per Share	**1998**	**1997**
Net income[1] (in millions of DM)	1,520	1,735
− Dividends on preferred stock (in millions of DM)	25	25
Earnings (related to common stock) (in millions of DM)	1,495	1,728
Number of common shares	401,092,375	399,112,027
Earnings per share (in DM)	3.73	4.33
Adjustments for diluted earnings per share		
Earnings (in millions of DM)	1,495	
+ Interest income on convertible participating certificates (in millions of DM)	10	
= Diluted earnings (in millions of DM)	1,505	
Number of common shares	401,092,375	
+ Additional common shares arising from conversion	4,296,915	
= Diluted number of shares	405,389,290	
Diluted earnings per share (in DM)	3.71	

[1] 1998: excluding merger gains

Earnings per share (adjusted) according to DVFA

In contrast to the earnings per share calculated under IAS rules, net income adjusted for special factors and minority interest in net income is used as the basis for calculating earnings per share according to DVFA. In addition, the calculation is based on the full number of 415,645,975 shares.

Earnings per share according to DVFA totaled DM 3.60 (1997: DM 4.19).

The DVFA earnings figure is based on a joint recommendation of the German Association of Financial Analysts and Investment Advisors (DVFA) and the Financial Statements Committee of the Association of German Banks. This figure is intended to express net income for the year after adjustment for special, non-recurring circumstances. The DVFA figure is considered to be a more accurate indicator of the overall earnings trend of a company over time than the posted net income for the year.

Statement of Changes in Shareholders' Equity

millions of DM

Shareholders' equity at January 1	22,573	
Subscribed capital of HypoVereinsbank AG		
Balance at January 1	2,073	
Increase in subscribed capital from conversion of participating certificates	5	
Balance at December 31		2,078
Additional paid-in capital of HypoVereinsbank AG		
Balance at January 1	13,988	
Transfer of premiums from conversion of participating certificates	37	
Change in merger gains due to changes in percentage interest	1	
Additional cash payment in conjunction with exchange of shares	(27)	
Balance at December 31		13,999
Retained earnings		
Balance at January 1	4,133	
Transfer from net income	1,902	
Transfer proposed at Annual General Meeting of Shareholders	1,173	
Changes in group of consolidated companies	(2)	
Effects of changes in foreign exchange rates	(19)	
Balance at December 31		7,187
Merger gains		
Balance at January 1	2,379	
Change in merger gains due to changes in book value of participating interest or percentage interest	(15)	
Reversal as extraordinary income	(2,364)	
Balance at December 31	—	
Shareholders' equity at December 31, 1998		23,264

The impact of the merger on shareholders' equity is explained in the notes.

Cash Flow Statement[1]

millions of DM	1998	1997
Cash flows from operating activities calculated by deducting non-cash components from net income		
Net income	3,884	
Merger gains	(2,364)	
Net income excluding merger gains	1,520	1,754
Write-downs, depreciation, adjustments and write-ups on bad and doubtful debts and additions to provision for losses on loans and advances	3,338	4,308
Write-downs and depreciation less write-ups on long-term assets	1,488	1,377
Change in other non-cash positions	6,226	(426)
Profit from the sale of investments, property, plant and equipment	(735)	(2,104)
Other adjustments (mainly income taxes paid and interest received less interest paid and dividends received)	(11,157)	(7,652)
Subtotal	680	(2,743)
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (−)		
Decrease in assets/increase in liabilities (+)		
Assets held for trading purposes	(7,724)	15,540
Amounts receivable	(20,666)	(54,107)
Other assets from operating activities	(1,175)	(1,052)
Liabilities	7,253	28,585
Promissory notes and other liabilities evidenced by paper	31,612	28,806
Other liabilities from operating activities	1,458	(30,328)
Income taxes paid	(1,449)	(1,216)
Interest received	50,182	46,683
Interest paid	(37,237)	(38,149)
Dividends received	490	395
Extraordinary payments	(222)	(137)
Cash flows from operating activities	23,202	(7,723)
Proceeds from the sale of investments, property, plant and equipment	3,933	3,958
Payments for the acquisition of investments, property, plant and equipment	(24,105)	(4,098)
Effects of the change in the group of companies included in consolidation	(426)	165
Cash flows from investing activities	(20,598)	25
Proceeds from capital increases	41	1,649
Dividends paid	(873)	(798)
Other financing activities, net (mainly subordinated capital)	3,483	6,178
Extraordinary proceeds	245	—
Cash flows from financing activities	2,896	7,029
Cash and cash equivalents at end of previous period	3,939	4,620
Net cash provided/used by operating activities	23,202	(7,723)
Net cash provided/used by investing activities	(20,598)	25
Net cash provided/used by financing activities	2,896	7,029
Effects of exchange rate changes on cash and cash equivalents	(4)	(12)
Cash and cash equivalents at end of period	9,435	3,939

[1] cf. detailed description in note (54)

Notes-Contents

Summary of Significant Accounting Policies and Notes to the Consolidated Financial Statements F-11

Merger F-13

Accounting and Valuation

(1) Companies included in consolidation F-14
(2) Principles of consolidation F-17
(3) Cash reserve F-17
(4) Assets held for trading purposes F-17
(5) Placements, loans and advances F-18
(6) Provisions for losses on loans and advances F-18
(7) Investments F-18
(8) Property, plant and equipment F-18
(9) Lease operations F-19
(10) Intangible assets F-19
(11) Liabilities F-19
(12) Provisions and accruals F-19
(13) Foreign currency translation F-20
(14) Income taxes F-20

Notes to the Consolidated Balance Sheet

(15) Cash reserve F-21
(16) Assets held for trading purposes F-21
(17) Placements with, and loans and advances to, other banks F-22
(18) Loans and advances to customers F-22
(19) Lending volume F-23
(20) Amounts receivable from lease operations F-24
(21) Provisions for losses on loans and advances F-25
(22) Investments F-26
(23) Property, plant and equipment F-29
(24) Other assets F-30
(25) Subordinated liabilities F-31
(26) Repurchase agreements F-31
(27) Deposits from other banks F-31
(28) Amounts owed to other depositors F-32
(29) Promissory notes and other liabilities evidenced by paper F-33
(30) Provisions and accruals F-34
(31) Other liabilities F-35
(32) Subordinated capital F-36
(33) Shareholders' equity F-37
(34) Treasury stock F-40
(35) Foreign-currency assets and liabilities F-41
(36) Trust business F-41
(37) Assets assigned or pledged as security for own liabilities F-42

Notes to the Consolidated Income Statement

(38) Net interest income F-42
(39) Provisions for losses on loans and advances F-43
(40) Net commission income F-43
(41) Gains less losses arising from trading securities (trading profit) F-43
(42) General administrative expenses F-44
(43) Other operating income F-44

(44) Other operating expenses F-44
(45) Operating income F-44
(46) Effects of changes in foreign exchange rates F-45
(47) Other income F-45
(48) Other expenses F-45
(49) Extraordinary income F-45
(50) Extraordinary expenses F-45
(51) Net income before tax F-46
(52) Income taxes F-46
(53) Statement of value added F-47

Notes to the Cash Flow Statement
(54) Notes to items in the cash flow statement F-48

Segment Reporting by Corporate Division
(55) Notes to segment reporting F-49
(56) Income statement, broken down by division F-50
(57) Key ratios, broken down by division F-51
(58) Tied core capital, broken down by division F-51
(59) Operating performance, broken down by division F-51
(60) Employees, broken down by division F-52

Reporting on Financial Instruments
(61) Fair value of financial instruments F-52
(62) Significant concentrations of assets and liabilities F-53
(63) Credit risk F-53
(64) Concentration of credit risk in derivatives operations F-54
(65) Futures and options contracts F-54
(66) Market risk F-55
(67) Operational risk F-56

Other Information
(68) Key capital ratios F-56
(69) Contingent liabilities and other commitments F-58
(70) Statement of responsibility F-60
(71) Information on relationships with related parties F-61
(72) Mortgage banking F-62
(73) Employees F-63
(74) Offices F-63
(75) Executive boards F-64

Notes

Summary of Significant Accounting Policies and Notes to the Consolidated Financial Statements

Consolidated Financial Statements Prepared in Accordance with IAS

The German Capital-Raising Facilitation Act (KapAEG), which came into force in 1998 allows listed companies to publish exempting consolidated financial statements prepared in accordance with the International Accounting Standards (IAS) or comparable international rules. Under Section 292a of the German Commercial Code, the main requirements permitting the exemption are that the consolidated financial statements prepared in accordance with internationally accepted accounting principles comply with the seventh EU directive (regarding consolidated accounts) and with the EU Bank Accounts Directive, and that they must have the same informative value as consolidated financial statements prepared in accordance with the German Commercial Code.

In formulating the new law, German legislators, taking the investigation made by the contact committee of the EU Commission looking into compliance of the EU accounting regulations with the IAS, worked on the assumption that, with two exceptions, compliance is fundamentally provided. These exceptions concern the recognition of negative goodwill arising on consolidation on a systematic basis required by IAS 22.49 (excess of the acquirer's interest in the company to be consolidated over the cost of acquisition) and the requirement to include subsidiaries in consolidation when they have dissimilar business activities, as set forth in IAS 27.14.

Neither of these instances applied at the Bayerische Hypo- und Vereinsbank Group (the "Bank" or "HypoVereinsbank") during the year under review, which means that the consolidated financial statements of HypoVereinsbank prepared in accordance with IAS comply with the accounting policies set forth in the EU directives.

The International Accounting Standards only require a few items to be included in the balance sheet and income statement. To ensure that the consolidated financial statements comply with the EU directives, the Bank has included the items requiring disclosure under the Bank Accounts Directive in the notes to the consolidated financial statements prepared in accordance with IAS. Accordingly, where they are not already required by IAS, the Bank has provided the disclosures required by EU law in the notes to financial statements.

Alongside the requirements of Section 315 (1,2), German Commercial Code, the Management Report also meets the criteria for a Financial Review set forth in IAS (revised 1997). Also incorporated is a risk report, a mandatory requirement under Section 315 (1), German Commercial Code, as of fiscal 1999.

Moreover, the exemption permitted under Section 292a, German Commercial Code, requires the main differences between the IAS accounting and consolidation policies and German accounting legislation to be mentioned. These differences are as follows.

Disclosure of Assets Held for Trading Purposes at Market Values

Whereas Section 340c (1), German Commercial Code, does not, with the exception of portfolio settlements, permit disclosure of any unrealized gains in net income on financial transactions, IAS 25.19 allows assets held for trading purposes to be carried at market value at the balance sheet date, irrespective of their realization date. In contrast to German accounting practice, this results in any reserves included in assets held for trading purposes (including derivatives) being recognized as income.

Deferral of Prepayment Penalties and Close-out Income and Expenses

Based on the principles of realization set forth in Section 252 (1) 4, German Commercial Code, prepayment penalties and income and expenses arising from close-outs of derivatives contracts are to be realized in full in a way that affects income in financial statements prepared in accordance with the German Commercial Code. In financial statements prepared in accordance with IAS, the corresponding income and expenses are distributed over the original maturity in a way that affects income.

Prohibition to Create Reserves in a Way That Reduces Income

In contrast to Section 340f and g of the German Commercial Code, IAS 30.44 does not allow reserves for general banking risks to be deducted from income.

Prohibition to Deduct From Retained Earnings the Excess of Cost Over Net Assets Acquired When Consolidating Investments

Under IAS 22.42, it is not permitted to deduct goodwill from retained earnings compliant with Section 309 (1) 3, German Commercial Code. Any deductions from retained earnings recognized in prior years are to be reversed. Goodwill is capitalized under intangible assets and amortized over a period of 15 years.

Incorporation of Future Developments When Calculating Pension Obligations

In contrast to the generally static valuation method required by German law (tax-based discount value method compliant with Section 6a of the German Income Tax Act), IAS 19 (revised) requires future economic and demographic changes, including for example future salary increases and career trends, to be taken into account dynamically when calculating pension provisions.

This results in the obligations entered into by the disclosing company being reflected more accurately. All other things being equal, this results in higher pension provisions and expenses resulting compared with those calculated under German legal requirements.

Prohibition to Take Depreciation That Does Not Correspond to Actual Loss of Value

In contrast to German accounting legislation, IAS 4.13 requires depreciable amounts to be calculated irrespective of taxation considerations. Under German commercial legislation, given the accounting principle that any particular method of treatment chosen for tax purposes has to be reflected in the commercial accounts, as set forth in Section 5 (1), German Income Tax Act, depreciation is often taken more with tax provisions in mind, without taking the actual economic loss of value into account. Special depreciation and carrying amounts permitted under German tax provisions are not included in the consolidated financial statements prepared in accordance with IAS.

Capitalization of Self-Produced Computer Software

In contrast to the prohibition to capitalize under Section 248 (2), German Commercial Code, IAS 9.17 in conjunction with Exposure Draft 60.18 requires expenses for the development of computer software to be recognized as an asset, when certain criteria are met, and amortized on a systematic basis.

Recognition of Deferred Tax Assets and Liabilities

Under Sections 274 and 306 of the German Commercial Code, tax accruals are only created for differences between net income shown in the financial statements and net income under tax regulations, which will probably be equalized in later fiscal years (timing concept).

IAS 12 (revised), on the other hand, fundamentally requires deferred tax assets and liabilities to be recognized for every difference between the disclosures in the balance sheet prepared in accordance with IAS and the taxable values (temporary differences), irrespective of when they arise and whether they are likely to be equalized (temporary concept). Under IAS, the requirement to disclose deferred tax assets also applies to the recognition as an asset of sufficiently likely benefits arising from tax losses carried forward.

First Application of IAS

Based on the German Capital-Raising Facilitation Act, the first consolidated financial statements of the HypoVereinsbank Group have been prepared in accordance with the IAS International Accounting Standards for the 1998 fiscal year.

The Bank has ensured that the prior years figures presented provide appropriate comparative information by preparing the opening balance sheet at January 1, 1997, in accordance with IAS. Compliant with IAS 8.49, the adoption of IAS has been applied retrospectively. Consequently, the adjustments resulting from the change in accounting policy to IAS are to be applied retrospectively. Resulting adjustments are carried as transfers to or from retained earnings at January 1, 1997, in a way that does not affect income.

The following table shows the main effects of transfers to and from retained earnings:

in millions of DM	Jan. 1, 1997
Transfers to retained earnings	1,723
of which:	
Restatement of trading assets/liabilities at market values	96
Recognition of reserves created affecting income	879
Adjustments for goodwill	717
Provisions for pensions and service anniversary awards	(974)
Adjustments for tax-based depreciation	491
Capitalization of self-produced software	—
Deferred tax assets and liabilities	620
Other	(106)

To ensure the informative value of the figures provided for comparison purposes, the consolidated financial statements complying with IAS have been prepared on the basis of the new Group structure. In this, alongside the International Accounting Standards to be applied with binding effect at year-end 1998, IAS 1 revised (Presentation of Financial Statements), IAS 14 revised (Segment Reporting), IAS 19 revised (Employee Benefits) and Exposure Draft 60 (Intangible Assets) have been applied voluntarily to take account of the latest IAS developments.

Merger

When duly filed with the Commercial Register on August 31, 1998, the merger of Bayerische Vereinsbank AG ("Vereinsbank") and Bayerische Hypotheken- und Wechselbank AG ("HYPO-BANK") to create HypoVereinsbank was completed retroactively to January 1, 1998 (merger date). The Bank has assumed a notional merger date of January 1, 1997, when calculating comparable prior year figures shown in the present consolidated financial statements.

The merger by way of absorption was completed by transferring the assets and liabilities of HYPO-BANK to Vereinsbank. At the merger date, Vereinsbank held a 44.2% interest in HYPO-BANK. As contractual consideration for the transfer of assets, the shareholders of hypo-bank received three shares in the new Bayerische Hypo- und Vereinsbank AG for four shares in HYPO-BANK plus an additional cash payment of DM 0.182 and a tax credit of DM 0.078 (total DM 0.26) for each common bearer share exchanged.

In accounting terms, the merger was completed using the pooling of interests method. This involves transferring the net assets at book values. The difference of DM 2,364 million between the book value of the holding and the higher prorated shareholders' equity is recorded as merger gains. In 1997, this amount was carried as a separate item under shareholders' equity and has been reversed in 1998 under extraordinary income. The difference of DM 4,448 million between the nominal value of the new shares issued and the higher prorated shareholders' equity, has been recorded as additional paid-in capital. The subscribed capital of HypoVereinsbank has been increased accordingly by the new shares issued to the outstanding shareholders with a nominal amount of DM 553 million.

The total assets and liabilities transferred to HypoVereinsbank by Vereinsbank and HYPO-BANK are stated in the Merger Report dated March 17, 1998 (pages 27 et seq.).

Accounting and Valuation

The consolidated financial statements of HypoVereinsbank and the separate financial statements of the domestic and foreign subsidiaries included in the consolidated financial statements are prepared in accordance with uniform principles of accounting and valuation. Figures stated in the financial statements of associated companies are retained unchanged. Given the importance of mortgage banking operations for the Group, additional information on these have activities has been incorporated in the balance sheet and the notes.

The following companies, which were fully consolidated in the previous year, are no longer included in the consolidated financial statements for 1998:

(1) Companies Included in Consolidation

In addition to Bayerische Hypo- und Vereinsbank AG, the 1998 consolidated financial statements include 128 (1997: 88) domestic and 87 (1997: 95) foreign companies. The annual financial statements of all fully consolidated companies were prepared at December 31, 1998.

To determine the figures provided for comparison purposes, the Bank has prepared consolidated financial statements complying with IAS for the year ending December 31, 1997, on the basis of the new Group structure.

Due to the merger, HypoVereinsbank has grown to new dimensions. As a result, the Bank has redefined the companies included in consolidation to take account of materiality criteria. This was based on the lists of companies included in the consolidated financial statements of HYPO-BANK and Vereinsbank prepared in accordance with the German Commercial Code.

Alkmene Immobilien-Verwaltungs GmbH, Munich
Alkmene Immobilien-Verwaltungs GmbH & Co. KG Objekt Mainzer Landstrasse, Munich
Allparta Kapitalbeteiligungs- und Unternehmensberatungsgesellschaft mit beschränkter Haftung, Munich
Amphitryon Immobilien-Verwaltungs GmbH, Munich
Amphitryon Immobilienverwaltungs GmbH & Co. Grundbesitz oHG, Munich
Anwa Gesellschaft für Anlagenverwaltung mbH, Unterföhring
Archeterra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
Argentaurus Immobilien-, Vermietungs- und Verwaltungs GmbH, Munich
Betaterra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
Deltaterra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
Fera Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung, Unterföhring
Gesellschaft für Grundbesitz mbH, Bochum
GfR-Gesellschaft für Rechenzentrumsleistungen mbH, Stuttgart
H.C.M. Hypo Capital Management Vermögensbetreuungs-Aktiengesellschaft, Munich
H.C.M. Hypo Capital Management Vermögensbetreuungsgesellschaft mbH, Vienna
H.E.L.B. Hypo EDV-Leistungen für Banken GmbH, Munich
HKM Hypo Kapitalbeteiligungs-Management GmbH, Munich
HMT Informations Systeme GmbH, Grasbrunn
Hypo Consult GmbH, Munich
Hypo Fonds-Marketing GmbH, Unterföhring
Hypo Managementtraining und -beratung GmbH, Munich
Hypo Reality spol. s.r.o., Prague
Hypo Securities Inc., New York
Hypo Stavebni sporitelna a.s., Prague
Hypo Tech-Finance Unlimited, Dublin
Hypo Techno-Finance Ltd., Dublin
Hypo U.S. Finance Inc., Wilmington/Delaware
Hypo-Bank (Suisse) SA, Freienbach

Hypo-Bank Verwaltungszentrum GmbH and Bayerische Hypotheken- und Wechsel-Bank AG GbR Objekt Unterföhring, Munich
Hypo-Bank Verwaltungszentrum GmbH, Ismaning
Hypo-Immobilien spol.s.r.o., Bratislava
Hypo-Immobilien-Service-Gesellschaft mit beschränkter Haftung, Munich
Hypo-Leasing Hungaria Kft., Budapest
Hypolux Portfolio Management S.A., Luxembourg
Hypo-Real Generalbau GmbH, Munich
Hypo-Real Haus & Grundbesitz GmbH & Co. Immobilien-Vermietungs KG, Munich
Hypo-Real Immobilien- und Projektentwicklungs GmbH, Munich
Hypo-Tecta Immobilienentwicklungs und -verwaltungs GmbH, Munich
Hypo-Treuhand spol., s.r.o., Bratislava
Imwa Gesellschaft für Immobilienverwaltung mbH, Unterföhring
Interra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
Metaterra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
NRS Grundstücksverwaltungsgesellschaft mbH, Munich
Orestos Immobilien-Verwaltungs GmbH, Munich
Pegasus Project Stadthaus Halle GmbH, Unterföhring
Perterra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
PHW Vermögensverwaltung GmbH, Munich
Portia Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung, Ismaning
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Ismaning
Rotus Immobilien-Verwaltungs GmbH & Co. Objekt Eggenfeldener Str. KG, Munich
SKWB Schoellerbank Invest AG, Salzburg
Synterra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
Terronda Development b.v., Amsterdam
Transterra Gesellschaft für Immobilienverwaltung mbH, Unterföhring
Westfalen Kapitalverwaltungsgesellschaft mbH, Bochum
Westhyp Finance B.V., Amsterdam
WHI-Securities Trading Company Limited, Dublin

That these companies were no longer included in consolidation had no material impact on the consolidated financial statements as their profits and losses were either insignificant or are included in the consolidated financial statements through the financial statements of other companies included in consolidation.

The real estate project companies are also no longer consolidated as their activities have been restructured. Their results are included in the consolidated financial statements through the parent bank.

Internationale Immobilien-Institut GmbH, Munich, which was accounted for using the equity method and owned jointly by HYPO-BANK and Vereinsbank, has been fully consolidated in the present financial statements.

ADVANCE BANK AG, Munich, was sold by Vereinsbank at year-end 1997 and hence is no longer included in the 1998 consolidated financial statements. Start-up losses and proceeds from the sale in 1997 are largely offsetting, so no adjustments have been made to the consolidated figures for 1997.

In 1998, the Bank has included the following companies in the consolidated financial statements for the first time:

Assumij Beheer B.V., The Hague (held by FGH Bank N.V., Utrecht)
FGH Bank N.V., Utrecht (subgroup)
FMIS Financial Markets Information Services GmbH, Unterföhring
IFIS Immobilienfinanzierung Information Service GmbH, Unterföhring
Probank GmbH, Munich

The initial consolidation of FGH Bank is the only event having a significant effect on the financial statements. In 1998, the Bank acquired a 100% holding in Assumij Beheer B.V., The Hague, for around DM 632 million. Assumij in turn holds 99% of the capital of FGH (subgroup with 16 consolidated companies) Bank, Utrecht, one of the most important providers of construction finance in the Netherlands. In 1998, FGH Bank generated profits of DM 73 million. Without FGH Bank, the consolidated profit for the year would have risen 115.8% instead of 121.7%.

In the 1998 consolidated financial statements, the subgroups Bayerische Immobilien-Leasing GmbH & Co. Verwaltungs-KG, Munich, and HYPO Foreign & Colonial Management (Holdings) Ltd., London, included 98 companies (1997: 87 companies) and 34 companies (1997: 30 companies) respectively.

In 1998, the following subsidiaries were merged, or had their operations amalgamated, within the consolidated group:

Hypobank International S.A., Luxembourg, and Vereinsbank International S.A., Luxembourg, to form *HypoVereinsbank Luxembourg S.A., Luxembourg*;

Salzburger Kredit- und Wechsel-Bank Aktiengesellschaft, Salzburg, and Schoellerbank Aktiengesellschaft, Vienna, to form *SKWB Schoellerbank Aktiengesellschaft, Vienna*;

Anlage- und Kreditbank AKB, Zurich, and Bank von Ernst & Cie AG, Bern, to form *Bank von Ernst & Cie. AG, Bern*;

In Ireland, Hypo-Bank Ireland, Dublin, has transferred its banking operations to *HypoVereinsbank Ireland, Dublin*;

In Poland, the banking operations of Hypo-Bank Polska S.A., Warsaw, have been transferred to *HypoVereinsbank Polska, S.A., Warsaw.*

In addition, Noris Verbraucherbank GmbH, Nuremberg, merged with Franken WKV Bank GmbH, Nuremberg, previously included in Vereinsbank's consolidated financial statements, to form *norisbank Aktiengesellschaft, Nuremberg.*

With the exception of the merger costs incurred, mergers among the companies included in consolidation group had no material effect on the economic situation of the Group. The costs incurred by merging consolidated subsidiaries in 1998, totaling DM 85 million, are carried as extraordinary expenses.

Overall, the changes in the group of companies included in consolidation have not had a significant impact on the Group's assets or financial position, or earnings.

Of the 25 jointly controlled entities and 78 affiliated companies, the Bank has included 6 companies in the consolidated financial statements using the equity method.

The remaining jointly controlled entities are carried at acquisition cost under investments. They do not have a significant impact on the Group's assets or financial position, or earnings.

The Bank holds a 55.2% interest in Brau und Brunnen Aktiengesellschaft, Berlin and Dortmund. In 1996, a 24.9% interest was acquired with the intention of reselling the holding in the short term. During the year under review, 3.3% of this holding was sold. This holding is shown under current investments as the intention at the balance sheet date was still to resell. The remaining holding in Brau und Brunnen AG of 33.6% has been excluded from consolidation as a minority industrial interest. This holding is carried under long-term investments.

A total of 351 affiliated companies, comprising 238 domestic and 113 foreign companies, were neither fully consolidated nor accounted for using the equity method.

The proportion of consolidated net income for the year made up by these companies is less than 0.25% of the consolidated profit for the year, while such companies also provide around 0.83% of consolidated assets. The interests in these companies are carried as investments.

	1997	Additions	Disposals	1998
Total number of subsidiaries	392	201	27	566
Consolidated companies	183	42	10	215
Non-consolidated companies	209	159	17	351
Joint ventures	20	8	3	25
of which: Valued at equity	5	—	3	2
Associated companies	94	—	16	78
of which: Valued at equity	5	—	1	4

A full list of participating interests complete with all subsidiaries included and not included in the consolidated financial statements, joint ventures, associated companies, and other participating interests is filed with the Commercial Register in Munich.

(2) Principles of Consolidation

Consolidation is performed using the net carrying amount method. The purchase price of a subsidiary is offset against the value of the interest held in the shareholders' equity of the consolidated subsidiary at the time of acquisition. The excess of cost over net assets acquired is allocated to the assets of the subsidiary insofar as the current value exceeds the carrying amount. Any remaining difference that cannot be allocated is recognized as goodwill under other assets in the balance sheet and amortized over the estimated useful life. The same principles are applied when consolidating associated companies and joint ventures using the equity method.

The profit of Bayerische Hypo- und Vereinsbank AG available for distribution is shown as consolidated profit. The amount intended for distribution to the Bank's shareholders is shown under other liabilities as it primarily represents outside capital in economic terms. The remaining amount has been allocated to retained earnings in anticipation of the Annual General Meeting of Shareholders adopting the resolutions proposed by the Board of Managing Directors and Supervisory Board.

Business transactions between consolidated subsidiaries are eliminated. Any intermediate profits or losses arising from intercompany transactions have been eliminated, except where of negligible amount or where the cost of calculating the intermediate profit or loss is disproportionately high taking cost-benefit considerations into account.

(3) Cash Reserve

Zero-interest Treasury notes are carried at present value.

(4) Assets Held for Trading Purposes

Assets held for trading purposes are carried at market value. The carrying value of derivative financial instruments not traded on the stock exchange is calculated using internal pricing models based on net present value computations and option price models. Gains and losses arising from trading activities are carried in the income statement as gains less losses arising from trading securities, irrespective of whether they are realized or not.

Provided they are held for trading purposes, note loans, registered bonds and Treasury bills are carried as other assets held for trading purposes.

(5) Placements, Loans and Advances

Placements with, and loans and advances to, other banks and customers are carried at their nominal values. Deferred items are created for premiums and discounts. Prepayment penalties are recognized over a period of three years (average remaining maturity). Interest and similar income is no longer recognized when-irrespective of the legal position-an inflow of interest receivables is no longer expected.

(6) Provisions for Losses on Loans and Advances

Anticipated future loan losses, the structure and quality of the loan portfolios, and general economic factors are taken into account when calculating provisions for losses on loans and advances.

Specific loan-loss provisions to the amount of the anticipated loss have been made throughout the Group to cover all identifiable risks arising from domestic and foreign lending operations. Specific loan-loss provisions are reversed as soon as the value of the loan receivable has increased accordingly.

The Bank makes general loan-loss provisions and sets up reserves for guarantees in accordance with uniform guidelines throughout the Group for cross-border loans involving acute transfer risk. Country-specific risk provisions are created to cover renegotiated loans, other finance facilities (due in more than one year), and commercial loans (due in less than one year) where payments have been disrupted. Sound assets pledged as security to the Bank reduce the Bank's exposure to loan-loss risk. The group of countries with acute transfer risk and the size of the corresponding write-down rate are updated regularly to take account of the current risk situation.

Risks related to commitments in foreign currencies have been hedged in the same currency to protect against fluctuations.

Latent lending risks are covered by general provisions. The Bank recognizes loan losses for which adequate specific provisions have not been created, as consumption of general provisions.

(7) Investments

Compliant with IAS 25, investments are classified as either current or long-term assets, depending on the amount of time they are anticipated to be held. Current investments are not normally held in the portfolio for more than one year and are used primarily to invest liquid assets for a short period of time. They are carried at the lower of cost and market value. Any reductions to market value and reversals of such reductions are recognized as income or expense, as appropriate. In the case of write-ups, the acquisition cost forms the upper value limit. Long-term investments are generally held permanently or, in the case of fixed-interest securities, to maturity, and are carried at updated acquisition cost. In other words, premiums and discounts are added or deducted pro rata temporis. Write-downs are taken where there is a permanent decline in value. If the reasons for the write-down no longer apply, a write-up is recognized totaling no more than the acquisition cost.

Investments in non-consolidated subsidiaries are carried at cost or at the lower carrying amount at the balance sheet date if there is a permanent decline in value. Investments in associated companies and investments in joint ventures are valued using the equity method, provided they are not of minor significance.

(8) Property, Plant and Equipment

Property, plant and equipment is valued at acquisition or production cost less scheduled depreciation-insofar as the assets are depreciable-using the straight-line method based on the assets' expected useful lives. Fixtures in rented buildings are depreciated over the term of the rental contract, taking into account any extension options, if this is shorter than the normal useful life of the asset concerned.

Property, plant and equipment	Useful economic life
Land and buildings	25–50 years
Fixtures in buildings not owned	10–25 years
Computer equipment	3–5 years
Other plant and office equipment	3–25 years

Non-scheduled depreciation is taken on property, plant and equipment whose value is additionally reduced. Should the reasons for the non-scheduled depreciation no longer apply, a write-up is recognized totaling no more than the updated acquisition or production cost.

Subsequent expenditure relating to an item of property, plant and equipment is capitalized, provided additional future economic benefits will flow to the Bank. Expenditure on repairs or maintenance of property, plant and equipment is recognized as expense in the fiscal year of accrual.

(9) Lease Operations

The Bank classifies leases on the basis of the distribution of economic risks and rewards arising from a leased asset between lessor and lessee.

The Bank as lessor
Assets held under finance leases are recognized as a receivable at an amount equal to the net investment in the lease. Interest and similar income is recognized on the basis of a constant, periodic rate of return relating to the net investment outstanding.

Assets held under operating leases are recognized as, and valued using the same principles as, property, plant and equipment. Rental income is recognized on a straight line bases over the lease term.

The Bank as lessee
Under a finance lease, the asset is recognized as property, plant and equipment, and the obligation as a liability. The amounts stated are equal to the fair value of the leased asset at the inception of the lease or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the interest rate implicit in the lease is applied.

The rental payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognized as interest expense, and the rental payments relating to operating leases are recognized as rental expense.

(10) Intangible Assets

The main item included in intangible assets is goodwill, which is amortized over the assumed useful life of 15 years. Factors to be considered when estimating the useful life primarily include the strategic orientation and the anticipated future income of the subsidiary.

(11) Liabilities

Liabilities are reported at the amounts to be repaid. Any difference between this amount and the issue amount is shown under prepaid expenses or deferred income, and written down pro rata temporis. However, non-interest-bearing liabilities, such as zero bonds and other discounted paper, are shown at cash value.

(12) Provisions and Accruals

Provisions and accruals are assessed conservatively at the anticipated amounts to be drawn for liabilities of uncertain amount and anticipated losses on pending transactions.

In accordance with IAS 19 (revised 1998), the Bank uses actuarial principles to determine the provisions for pensions and similar commitments. The amounts are calculated using the projected unit credit method, taking into account the present value of the defined benefit obligations, the current interest cost, and unrealized actuarial gains and losses. Causes of such gains and losses include, for example, irregularities in the risk profile (e.g., higher or lower rates of early retirement or mortality than anticipated in the calculation principles applied) or changes in the applicable parameters.

Actuarial gains and losses are recognized in accordance with the corridor method. Under this approach, gains and losses are not recognized as income or expense in subsequent years unless the cumulative gains or losses at the balance sheet date exceed the greater of 10% of the present value of the defined benefit obligation or 10% of the assets of an external retirement benefit corporation.

The discount rate is based on the long-term interest rate for first-class, fixed-yield corporate bonds at the balance sheet date. The amount of the provisions recognized in the balance sheet is calculated using the provisions recognized in the prior year plus the pension expense determined at the beginning of the fiscal year less payments for the current fiscal year affecting liquidity.

(13) Foreign Currency Translation

Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for foreign currency monetary items and spot transactions not completed at the reporting date to be translated into German marks at the reporting date using the average spot rate. Non-monetary items carried at cost are translated using the rate applicable at the time of acquisition.

Non-monetary items carried at fair value are translated using the rate applicable at the time of valuation. Outstanding forward contracts are translated using the forward rate applicable at the balance sheet date.

Income and expense items arising from foreign currency translation are carried in the appropriate items of the income statement.

Where they are not stated in German marks, the balance sheet, income and expense items reported by the Bank's foreign subsidiaries are translated using the official average spot rate set in Frankfurt on December 30, 1998. Foreign-currency gains or losses resulting from consolidation are carried as retained earnings.

(14) Income Taxes

Income taxes are accounted for in accordance with the principles set forth in IAS 12 (revised). Apart from a few exceptions provided for in the standard, deferred tax assets and liabilities are recognized for all temporary differences between the values stated in accordance with IAS and the values stated for tax-reporting purposes. Deferred tax assets arising from unused losses carried forward for tax-reporting purposes are shown provided the necessary conditions are met.

Since the concept is based on the presentation of future tax assets and liabilities under the liability method, the assets and liabilities are computed using the tax rates that are expected to apply when the differences are reversed.

Notes to the Consolidated Balance Sheet

(15) Cash Reserve

in millions of DM	1998	1997
Cash on hand and balances with central banks	8,295	3,041
Treasury bills and other bills eligible for rediscounting with central banks	1,140	898
Treasury bills, zero-interest Treasury notes and similar debt instruments of public-sector entities	689	228
Bills of exchange	451	670
Total	9,435	3,939

Assets held for trading purposes are carried at market value. The difference between market value and cost of acquisition of listed securities totals DM 618 million.

(16) Assets Held for Trading Purposes

in millions of DM	1998	1997
Debt securities and other fixed-income securities	22,921	19,276
Money market instruments	437	1,755
Bonds and notes	22,484	17,521
issued by public-sector issuers	6,852	6,675
issued by other issuers	10,232	8,258
own debt securities	5,400	2,588
of which:		
Securities traded on stock exchange	22,910	19,267
listed	20,220	17,308
unlisted	2,690	1,959
Equity securities and other variable-yield securities	3,947	1,423
Equity securities	3,355	911
Investment certificates	211	237
Other	381	275
of which:		
Securities traded on stock exchange	3,834	1,295
listed	3,831	1,293
unlisted	3	2
Positive market values arising from derivative financial instruments	39,971	28,735
Other assets held for trading purposes	2,831	1,404
Total	69,670	50,838

Debt securities and other fixed-income securities receivable from subsidiaries and companies in which a participating interest is held

in millions of DM	1998	1997
Subsidiaries	—	—
Companies in which a participating interest is held	—	20
Total	—	20

(17) Placements With, and Loans and Advances to, Other Banks

Placements with, and loans and advances to, other domestic and foreign banks, broken down by type of business

	Domestic banks		Foreign banks	
in millions of DM	**1998**	**1997**	**1998**	**1997**
Loans	46,336	36,998	11,675	9,392
of which: Mortgage loans	741	772	5	6
Municipal loans	41,890	34,557	817	909
Money market transactions	17,411	16,292	32,407	42,611
of which: Reverse repos	2,621	2,686	5,402	4,788
Other placements, loans and advances	4,060	10,448	549	7,263
Total	67,807	63,738	44,631	59,266

Placements with, and loans and advances to, other banks, broken down by maturity

in millions of DM	**1998**	**1997**
Repayable on demand	14,100	18,551
With agreed maturities	98,338	104,453
up to 3 months	45,413	46,588
from 3 months to 1 year	12,164	17,798
from 1 year to 5 years	24,357	24,172
from 5 years and over	16,404	15,895
Total	112,438	123,004

Accounts receivable from subsidiaries and companies in which a participating interest is held

in millions of DM	**1998**	**1997**
Subsidiaries	61	35
Companies in which a participating interest is held	70	342
Total	131	377

(18) Loans and Advances to Customers

Loans and advances to customers, broken down by type of business

in millions of DM	**1998**	**1997**
Loans	599,603	566,259
of which:		
Mortgage loans	291,557	263,792
Municipal loans	129,762	129,912
Other loans secured by real-estate liens	23,751	26,180
Money market transactions	6,923	3,714
of which:		
Reverse repos	5,070	3,202
Total	606,526	569,973

Loans and advances to customers, broken down by location

in millions of DM	1998	1997
Domestic customers	530,231	509,469
Foreign customers	76,295	60,504
Total	606,526	569,973

Loans and advances to customers, broken down by maturity

in millions of DM	1998	1997
Repayable on demand	37,876	28,112
With agreed maturities	568,650	541,861
up to 3 months	60,407	60,440
from 3 months to 1 year	40,442	39,915
from 1 year to 5 years	152,087	118,590
from 5 years and over	315,714	322,916
Total	606,526	569,973

Loans and advances to subsidiaries and companies in which a participating interest is held

in millions of DM	1998	1997
Subsidiaries	3,754	2,027
Companies in which a participating interest is held	1,760	3,736
Total	5,514	5,763

(19) Lending Volume

Breakdown by content

in millions of DM	1998	1997
Bills[1]	2,162	2,949
Loans to banks	58,011	46,390
Loans and advances to customers	596,652	558,940
Total	656,825	608,279

[1] unless shown under loans and advances

Breakdown by commercial and mortgage banking business, and location

	Domestic		Foreign	
in millions of DM	1998	1997	1998	1997
Commercial banking operations	113,695	102,296	78,358	76,035
Mortgage banking operations	454,941	426,571	9,831	3,377
of which: Mortgage loans	285,819	264,570	6,484	—
Municipal loans	169,122	162,001	3,347	3,377

Breakdown by geographic segment

in millions of DM	1998	1997
Germany	568,636	528,867
Other Euro countries	43,334	39,009
Other western Europe	18,918	20,066
Eastern Europe	2,628	1,760
Americas	15,142	11,274
Asia	8,167	7,303
Total	656,825	608,279

The assignment of lending volume to geographic segment is based on the location of the Group company's head office or registered office.

Analysis of mortgage banking business

in millions of DM	1998	1997
New mortgage loan commitments	50,593	46,591
Housing loans	36,443	32,312
Loans to trade and industry, and other loans	14,150	14,279
New municipal loan commitments	37,456	34,684
Total	88,049	81,275
Disbursements under mortgage loans	49,804	45,052
Disbursements under municipal loans	37,200	33,605
Total	87,004	78,657
Extensions of mortgage loans	29,430	24,600
Extensions of municipal loans	1,564	1,869
Total	30,994	26,469

(20) Amounts Receivable From Lease Operations

in millions of DM	1998	1997
Loans and advances to customers		
Gross investment value	700	527
Unearned finance income	97	63
Amounts receivable under finance leases (net investment)	603	464
Unguaranteed residual values	59	38

The gross investment in the lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor. The unguaranteed residual value is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured. The residual value of the leased asset is estimated at the inception of the lease. Unearned finance income is the difference between the lessor's gross investment in the lease and its present value (net investment).

(21) Provisions for Losses on Loans and Advances

	Counterparty risk		Country risk		Latent risk		Total	
	1998	1997	1998	1997	1998	1997	1998	1997
in millions of DM								
Analysis of provisions for losses on loans and advances								
Balance at January 1	11,900	9,266	773	801	841	607	13,514	10,674
Changes affecting income								
+ Gross additions	5,925	5,775	293	276	319	355	6,537	6,406
− Write-backs	1,309	1,840	168	254	70	4	1,547	2,098
Changes not affecting income								
+/− Changes in the balance due to initial and final consolidations	—	400	—	—	13	13	13	413
− Use of existing provisions for losses on loans and advances	2,837	1,873	17	71	226	159	3,080	2,103
+/− Effects of currency translation and other changes not affecting income	191	172	(17)	21	3	29	177	222
Balance at December 31	13,870	11,900	864	773	880	841	15,614	13,514

Breakdown of provisions for losses on loans and advances

in millions of DM	1998	1997
Placements with, and loans and advances to, other banks	721	515
Loans and advances to customers	13,921	12,236
Bills of exchange	—	—
Provisions for losses on loans and advances	930	750
Other items	42	13
Total	15,614	13,514

Loans put on a non-accrual basis

Placements with, and loans and advances to, other banks and customers includes loans totaling DM 7.3 billion (1997: DM 6.9 billion) put on a non-accrual basis. The loans are put on an accrual basis for each product separately within commercial and mortgage banking operations. This resulted in a loss of interest totaling DM 460 million in 1998 (1997: DM 449 million).

Risk provision rates[1]

in %	1998	1997
Net addition rate[2]		
commercial banking operations, including special risk provision taken in 1997 and 1998	1.51	1.56
commercial banking operations without effects of special risk provisions taken in 1997 and 1998	0.86	0.86
mortgage banking operations	0.46	0.33
mortgage banking operations without effects of special risk provisions taken in 1997 and 1998	0.41	0.33
Loan-loss rate[3]		
commercial banking operations	1.02	0.76
mortgage banking operations	0.20	0.15
Ratio of provisions to total lending[4]		
commercial banking operations	5.24	5.20
mortgage banking operations	1.11	0.90

(1) These rates are based on the lending volume, net of municipal loans and including guarantees

(2) Net additions = gross additions less write-backs of provisions for counterparty risk, country risk, and latent risk, less payments received for written-off loans

(3) Loan losses = use of existing provisions for losses on loans and advances less payments received for written-off loans. This includes the loan losses covered by the risk provisions taken on joint venture and property development exposures in 1997

(4) Total provisions for losses on loans and advances = provisions for counterparty risk, country risk and latent risk. The total provisions for losses on loans and advances include the risk provisions taken on joint venture and property development exposures in 1997 and 1998 where they have not already been consumed by loan losses

(22) Investments

in millions of DM	1998	1997
Analysis of investments		
Non-consolidated subsidiaries	1,314	1,205
of which: banks	169	95
financial services institutions	33	64
Companies accounted for using the equity method	1,053	1,043
of which: banks	164	83
financial services institutions	—	—
Participating interests	2,684	1,078
of which: banks	804	236
financial services institutions	9	9
Debt securities and other fixed-income securities	82,236	69,975
of which: long-term investments	11,420	6,234
Equity securities and other variable-yield securities	13,441	8,607
of which: long-term investments	12,562	7,858
Total	100,728	81,908

in millions of DM	Non-consolidated subsidiaries	Companies accounted for using the equity method	Participating interests	Debt securities and other fixed-interest	Equity securities and other variable-yield securities	Total
Breakdown of carrying amounts at December 31, 1998						
Tradable securities	499	—	1,664	80,557	12,327	95,047
listed securities	450	—	1,587	75,751	11,494	89,282
unlisted securities	49	—	77	4,806	833	5,765

Interest and dividend income totaling DM 5,523 million was realized on investments. There were no restrictions on the disposal or collection of income from investments.

DM 9,436 million of the debt securities and other fixed-interest securities mature in 1999.

in millions of DM	Non-consolidated subsidiaries	Companies accounted for using the equity method	Participating interests	Debt securities and other fixed-interest securities	Equity securities and other variable-yield securities	Total
Analysis of long-term investments						
Cost of acquisition						
Balance at Jan. 1, 1998	1,221	1,043	1,146	6,235	7,919	17,564
Changes in consolidated group	—	—	34	—	—	34
Changes arising from foreign currency translation	2	—	—	3	(2)	3
Additions	323	31	1,568	4,729	6,529	13,180
Reclassifications	46	—	95	1,367	(48)	1,460
Disposals	119	—	63	913	1,762	2,857
Balance at Dec. 31, 1998	1,473	1,074	2,780	11,421	12,636	29,384
Write-ups during fiscal year	1	—	—	—	1	2
Cumulative change resulting from accounting using the equity method	—	(21)	—	—	—	(21)
Write-downs						
Balance at Jan. 1, 1998	16	—	68	1	61	146
Changes in consolidated group	—	—	2	—	—	2
Changes arising from currency translation	—	—	—	—	—	—
Write downs and amortization	1	—	26	1	15	43
Reclassifications	143	—	—	—	—	143
Disposals	—	—	—	1	1	2
Balance at Dec. 31, 1998	160	—	96	1	75	332
Carrying amounts						
Balance at Dec. 31, 1998	1,314	1,053	2,684	11,420	12,562	29,033
Balance at Dec. 31, 1997	1,205	1,043	1,078	6,234	7,858	17,418

The following tables show the breakdown of debt securities and other fixed-income securities, and equity securities and other variable-yield securities:

in millions of DM	1998	1997
Debt securities and other fixed-income securities	82,236	69,975
Money market instruments	1,314	1,439
Bonds and notes	80,922	68,536
issued by public-sector issuers	29,503	26,006
issued by other issuers	29,824	28,549
own debt securities	21,595	13,981
Equity securities and other variable-yield securities	13,441	8,607
of which:		
Equities	11,670	7,658
Investment certificates	1,740	920

Debt securities and other fixed-income securities payable to subsidiaries and companies in which a participating interest is held

in millions of DM	1998	1997
Subsidiaries	—	27
Companies in which a participating interest is held	8	8
Total	8	35

Market value of investments

The market value of the listed securities totals DM 22.6 billion. When compared with the carrying amounts, the resulting upside price potential totals DM 10.6 billion (1997: DM 10.1 billion).

The Bank does not have any entrepreneurial objectives with regard to the interests listed above and does not exercise any influence over financial or operational decisions.

The following table shows the market values of the major investments in listed non-banks held by HypoVereinsbank and the Group companies in excess of a 5% interest in the capital stock of the company concerned:

	1998		1997	
	Interest in %	Market value in millions of DM	Interest in %	Market value in millions of DM
Market value of investments				
Agrob AG	52.7	44	52.7	34
Aktienbrauerei Kaufbeuren AG	75.7	23	75.7	25
Allianz AG	6.8	10,293	6.9	7,335
Brau und Brunnen AG	55.2[1]	371	58.5[1]	472
Münchener Rückversicherungs Gesellschaft AG	13.3	9,359	13.4	7,430
Rheinhold & Mahla Aktiengesellschaft	12.7	14	12.7	20
Gabriel Sedlmayr Spaten-Franziskaner-Bräu Kommanditgesellschaft auf Aktien	19.7[2]	142	20.8[2]	120
VIAG AG[3]	5.3	1,380	5.3	1,373
Württembergische ag Verischerungs-Beteiligungsgesellschaft	15.1	927	—	—
Total		22,553		16,809

(1) Of the 55.2% holding in 1998, 33.6% is classified as long-term and the remaining 21.6% as current investments. In 1997, 33.6% of the 58.5% holding was classified as long-term and 24.9% as current investments

(2) As a percentage of limited partnership capital; percentage of total capital = 12.1% (1997: 12.8%)

(3) Only the shares held by VI-Industrie-Beteiligungsgesellschaft mbH are shown. The Bank holds an additional 5.0% interest in VIAG AG through HI-Vermögensverwaltungsgesellschaft mbH. This company is not consolidated as the Bank does not hold a majority interest

(23) Property, Plant and Equipment

in millions of DM	Land and buildings equipment	Plant and operating computer software	of which: self-produced	Leased assets	Total
Acquisition/production cost					
Balance at Jan. 1, 1998	4,912	4,949	50	2,818	12,679
Changes in consolidated group	155	43	—	5	203
Changes arising from foreign currency translation	(8)	(2)	—	—	(10)
Additions	338	1,125	38	921	2,384
Reclassifications	(1)	—	—	(99)	(100)
Disposals	166	464	—	526	1,156
Balance at Dec. 31, 1998	5,230	5,651	88	3,119	14,000
Write-ups during fiscal year	—	—	—	—	—
Depreciation					
Balance at Jan. 1, 1998	1,041	3,061	2	837	4,939
Changes arising from foreign currency translation	(1)	(1)	—	—	(2)
Changes in consolidated group	43	9	—	(12)	40
Depreciation	217	682	8	386	1,285
Reclassifications	—	—	—	—	—
Disposals	40	408	—	223	671
Balance at Dec. 31, 1998	1,260	3,343	10	988	5,591
Carrying amounts					
Balance at Dec. 31, 1998	3,970	2,308	78	2,131	8,409
Balance at Dec. 31, 1997	3,871	1,888	48	1,981	7,740

During the year under review, the Bank took non-scheduled depreciation on property, plant and equipment totaling DM 128 million (1997: DM 39 million). No write-ups were recorded during the year under review.

Plant and operating equipment includes the cost of internal software development totaling DM 78 million, of which DM 8 million was depreciated using the straight line method during the year under review. The underlying useful life is five years. Computer development costs are collated and allocated, broken down by personnel and other operating expenses, using an internal cost accounting systems.

The Bank used land and buildings with a carrying amount of DM 3,729 million (1997: DM 3,677 million) in its operations.

Property, plant and equipment includes payments of DM 252 million made for construction in progress. This item also includes obligations of DM 180 million for the acquisition of items of property, plant and equipment.

Items of property, plant and equipment totaling DM 12 million are pledged as security for liabilities. There were restrictions on disposal totaling DM 12 million.

The market value of land and buildings rented to third parties totaled DM 269 million at the balance sheet date.

(24) Other Assets

in millions of DM	1998	1997
Intangible assets	624	661
Tax assets	2,523	2,065
Current tax assets	299	219
Deferred tax assets	2,224	1,846
Other assets	3,288	3,779
Prepaid expenses	3,092	2,286
Total	9,527	8,791

Intangible assets
This item includes primarily goodwill resulting from the acquisition of subsidiaries:

in millions of DM	Development of goodwill
Acquisition/production cost	
Balance at Jan. 1, 1998	920
Changes in consolidated group	4
Changes arising from foreign currency translation	(23)
Additions	43
Reclassifications	—
Disposals	—
Balance at Dec. 31, 1998	944
Write-ups during fiscal year	—
Amortization	
Balance at Jan. 1, 1998	260
Changes in consolidated group	—
Changes arising from foreign currency translation	—
Amortization	62
Reclassifications	—
Disposals	—
Balance at Dec. 31, 1998	322
Carrying amounts	
Balance at Dec. 31, 1998	622
Balance at Dec. 31, 1997	660

Other assets
This item includes option premiums paid on assets not held for trading purposes as well as checks and notes due. No other material items are contained in other assets.

Prepaid expenses
This item includes:

in millions of DM	1998	1997
Discounts on funds borrowed	1,517	1,572
Premiums on amounts receivable	471	406

(25) Subordinated Liabilities

The following balance sheet items include subordinated liabilities:

in millions of DM	1998	1997
Placements with, and loans and advances to, other banks	346	487
of which:		
to subsidiaries	—	—
to companies in which a participating interest is held	8	1
Loans and advances to customers	1,123	*1,246
of which:		
to subsidiaries	262	358
to companies in which a participating interest is held	762	864
Assets held for trading purposes	276	21
Debt securities and other fixed-income securities	135	11
Equity securities and other variable-yield securities	141	10
Investments	239	132
Debt securities and other fixed-income securities	139	131
Equity securities and other variable-yield securities	100	1
Total	1,984	1,886

* restated

(26) Repurchase Agreements

As a seller under repurchase agreements, the Bank entered into sales and repurchase transactions for securities with a carrying amount of DM 12,965 million. These securities continue to be capitalized, with the respective compensation received being classified as a liability. For the most part, the agreements include open-market transactions with Deutsche Bundesbank and international money market transactions.

(27) Deposits From Other Banks

Deposits from other banks, broken down by type of business

in millions of DM	1998	1997
Registered mortgage bonds in issue	10,200	9,382
Registered municipal bonds in issue	7,291	7,052
Other deposits	115,792	120,579
Total	133,283	137,013

Deposits from other banks, broken down by location

in millions of DM	1998	1997
Domestic banks	66,916	74,990
Foreign banks	66,367	62,023
Total	133,283	137,013

Deposits from other banks, broken down by maturity

in millions of DM	1998	1997
Repayable on demand	13,684	14,231
With agreed maturities	119,599	122,782
up to 3 months	63,969	78,421
from 3 months to 1 year	23,885	14,712
from 1 year to 5 years	15,324	14,087
from 5 years and over	16,421	15,562
Total	133,283	137,013

Amounts owed to subsidiaries and companies in which a participating interest is held

in millions of DM	1998	1997
Subsidiaries	246	219
Companies in which a participating interest is held	126	345
Total	372	564

(28) Amounts Owed to Other Depositors

Amounts owed to other depositors, broken down by type of business

in millions of DM	1998	1997
Savings deposits and construction loan savings deposits	34,594	34,038
Savings deposits	30,813	30,548
Construction loan savings deposits	3,781	3,490
Registered mortgage bonds in issue	56,757	56,046
Registered municipal bonds in issue	34,827	37,223
Other deposits	162,365	143,015
Total	288,543	270,322

Amounts owed to other depositors, broken down by location

in millions of DM	1998	1997
Domestic depositors	239,828	234,177
Foreign depositors	48,715	36,145
Total	288,543	270,322

Amounts owed to other depositors, broken down by maturity

Savings deposits and home-loan savings deposits

in millions of DM	1998	1997
With agreed maturities		
up to 3 months	29,279	27,507
from 3 months to 1 year	961	3,332
from 1 year to 5 years	1,596	1,247
from 5 years and over	2,758	1,952
Total	34,594	34,038

Registered mortgage bonds and municipal bonds in issue, and other deposits

in millions of DM	1998	1997
Repayable on demand	63,610	49,425
With agreed maturities	190,339	186,859
up to 3 months	70,164	60,263
from 3 months to 1 year	14,376	13,538
from 1 year to 5 years	32,815	34,110
from 5 years and over	72,984	78,948
Total	253,949	236,284

Amounts owed to subsidiaries and companies in which a participating interest is held

in millions of DM	1998	1997
Subsidiaries	955	980
Companies in which a participating interest is held	102	339
Total	1,057	1,319

(29) Promissory Notes and Other Liabilities Evidenced by Paper

Promissory notes and other liabilities evidenced by paper, broken down by type of business

in millions of DM	1998	1997
Debt securities in issue	367,779	332,868
Mortgage bonds	88,751	81,387
Municipal bonds	126,675	115,962
Other debt securities	122,436	114,396
Money market instruments	29,917	21,123
Other promissory notes and liabilities evidenced by paper	2,277	3,633
Acceptances and promissory notes in circulation	1,929	2,660
Other	348	973
Total	370,056	336,501

Promissory notes and other liabilities evidenced by paper, broken down by maturity

Debt securities in issue

in millions of DM	1998	1997
With agreed maturities		
up to 3 months	60,602	50,005
from 3 months to 1 year	57,316	48,500
from 1 year to 5 years	187,566	180,117
from 5 years and over	62,295	54,246
Total	367,779	332,868

Other promissory notes and other liabilities evidenced by paper

in millions of DM	1998	1997
With agreed maturities		
up to 3 months	2,197	3,130
from 3 months to 1 year	14	117
from 1 year to 5 years	65	286
from 5 years and over	1	100
Total	2,277	3,633

Promissory notes and other liabilities evidenced by paper payable to subsidiaries and companies in which a participating interest is held

in millions of DM	1998	1997
Subsidiaries	1	1
Companies in which a participating interest is held	37	22
Total	38	23

(30) Provisions and Accruals

in millions of DM	1998	1997
Provisions for pensions and similar obligations	3,575	3,436
Tax obligations	2,787	2,381
Current tax liabilities	1,602	1,395
Deferred tax liabilities	1,185	986
Other provisions and accruals	1,937	1,884
of which:		
Bonus payments on savings plans	140	124
Service anniversary awards	199	197
Early retirement payments	98	117
Total	8,299	7,701

Provisions for pensions

The Bank's pension obligations comprise direct commitments arising from company pension plans. In addition, Group companies make contributions for commitments made by independent pension organizations.

The cost of funding defined contribution plans through pension funds or retirement benefit corporations with matching cover totaled DM 64 million (1997: DM 58 million).

The provisions for pensions and similar obligations include the direct commitments to Group employees under company pension plans.

The following parameters were applied when calculating the amounts of these commitments:

Underlying biometric data	December 31, 1998 1998 Heubeck standard table (rt98)	December 31, 1997 1982 Heubeck standard table (rt82)
Probability (%) of values in standard tables		
Invalidity	50	50
Mortality	100	75
Discount rate	6.0%	6.5%
Rate of increase in pension obligations	1.5% p.a.	2.0% p.a.
Rate of increase in future compensation and vested rights of employees and early retirees	2.5% p.a.	3.0% p.a.
Rate of increase over career	0–1.5% p.a.	0–1.5% p.a.
Increase in the contribution base for state-funded pension plan...	2.5% p.a.	3.0% p.a.

The present value of the the Bank's defined benefit obligations totaled DM 3,368 million (1997: DM 3,306 million).

Unrealized actuarial losses amounted to DM 200 million (1997: DM 52 million).

The 10% corridor was not exceeded.

Movements in the provisions for pension plans shown in the balance sheet are as follows:

Balance at Jan. 1, 1998	DM 3,436 million
+ Pension expense	DM 307 million
− Payments affecting liquidity	DM 168 million
Balance at Dec. 31, 1998	DM 3,575 million

Pension expense comprises the current service cost of DM 83 million (1997: DM 79 million) and interest cost of DM 217 million (1997: DM 209 million).

(31) Other Liabilities

in millions of DM	1998	1997
Liabilities held for trading purposes	45,415	30,654
Other liabilities	4,096	3,648
Deferred income	7,063	6,483
Consolidated profit	667	873
Total	57,241	41,658

Liabilities held for trading purposes
The negative market values arising from derivative finance instruments are carried as liabilities held for trading purposes.

Other liabilities
Among other things, this item includes realized option premiums on liabilities not held for trading purposes totaling DM 394 million.

Deferred income

This item includes:

in millions of DM	1998	1997
Premiums on funds borrowed	131	139
Discounts on amounts receivable	3,420	3,746

(32) Subordinated Capital

in millions of DM	1998	1997
Subordinated liabilities	14,850	11,520
Participating certificates outstanding	3,536	3,432
Total	18,386	14,952

Subordinated liabilities

Subordinated liabilities include no individual items exceeding 10% of the total amount.

The borrower cannot be obliged to make early repayment in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated loans are only repaid after all primary creditors have been reimbursed. For the purposes of the Bank's funds as defined under banking supervisory regulations, subordinated liabilities are regarded as supplementary capital.

The Bank incurred interest expenses of DM 785 million in connection with subordinated liabilities. The item includes pro rata interest of DM 308 million.

Subordinated capital, broken down by maturity.

in millions of DM	1998	1997
With agreed maturities		
up to 3 months	515	229
from 3 months to 1 year	704	1,237
from 1 year to 5 years	6,503	5,001
from 5 years and over	10,664	8,485
Total	18,386	14,952

Subordinated liabilities payable to subsidiaries and companies in which a participating interest is held.

in millions of DM	1998	1997
Subsidiaries	23	—
Companies in which a participating interest is held	10	—
Total	33	—

Participating certificates outstanding

The participating certificates outstanding comprise the following issues:

Issuer	Year of issue	Type	Nominal amount in millions of DM	Interest rate	Maturity
Bankhaus Neelmeyer AG	1991	Participating certificate	10	9.22%	2001
Bayerische Handelsbank AG	1995	Participating certificate	125	FRN	2006
Bayerische Handelsbank AG	1995	Participating certificate	75	8.00%	2006
Bayerische Handelsbank AG	1995	Participating certificate	50	8.25%	2006
Bayerische Hypo- und Vereinsbank AG	1997	Participating certificate	1,000	6.75%	2008
Bayerische Hypo- und Vereinsbank AG	1990	Participating certificate with warrants	500	9.50%	2001
Bayerische Hypo- und Vereinsbank AG	1989	Participating certificate	484	7.75%	2000
Bayerische Hypo- und Vereinsbank AG	1991	Convertible participating certificate	191	9.25%	2002
norisbank AG	1993	Participating certificate	10	7.30%	2003
Nürnberger Hypothekenbank AG	1998	Registered participating certificate	100	6.13%	2009
Vereins- und Westbank AG	1995	Participating certificate	200	8.50%	2006
Vereins- und Westbank AG	1993	Participating certificate	100	7.75%	2004
Westfälische Hypothekenbank AG	1998	Participating certificate	100	FRN	2009
Westfälische Hypothekenbank AG	1993	Participating certificate	75	7.00%	2008
Westfälische Hypothekenbank AG	1992	Participating certificate	15	8.55%	2007
Westfälische Hypothekenbank AG	1990	Participating certificate	15	9.10%	2005
Westfälische Hypothekenbank AG	1990	Participating certificate	15	9.00%	2000
Westfälische Hypothekenbank AG	1989	Participating certificate	10	8.20%	2004
Westfälische Hypothekenbank AG	1989	Participating certificate	10	8.00%	2014
Westfälische Hypothekenbank AG	1990	Participating certificate	10	9.25%	2000
Westfälische Hypothekenbank AG	1990	Participating certificate	5	9.10%	2000
Württembergische Hypothekenbank AG	1994	Participating certificate	100	7.90%	2004

The claims of holders of participating certificates to receive interest payments will be reduced if such payout would lead to a net loss for the year or accumulated loss. Certificate holders only have a claim to subsequent payment arising from the convertible participating certificates of 1991. If the Bank records a net loss for the year, the certificate holders participate in the loss through a reduction of their repayment claim. The reduction is in the same proportion as the claim for repayment to the amount of subscribed capital as shown in the balance sheet plus retained earnings and capital surplus and participating certificates outstanding.

The repayment from net income in subsequent years will return to the nominal amount. Holders of participating certificates are subordinated creditors and are not entitled to a share of the proceeds on company liquidation. For the purposes of a bank's funds under banking supervisory regulations, participating certificates outstanding are regarded as supplementary capital, provided the claim for repayment is not due in less than two years or can become due as a result of the contract.

(33) Shareholders' Equity

Effects of the merger on shareholders' equity

The Merger Concept set forth in the Merger Report dated March 17, 1998 (merger by absorption as consideration for the granting of new shares within the meaning of Section 2 No. 1, German Transformation of Companies Act) gives rise to the following accounting adjustments. These changes have a material impact notably on the size and structure of Bayerische Hypo- und Vereinsbank AG's shareholders' equity.

Adjustments to subscribed capital

When the merger was duly registered on August 31, 1998, HYPO-BANK's subscribed capital ceased to exist for accounting purposes as of the merger date, January 1, 1998. The subscribed capital stated for Vereinsbank became the subscribed capital of Bayerische Hypo- und Vereinsbank AG.

This capital was increased by issuing new ownership interests. The increase in capital stock was calculated in accordance with the conversion rate of four HYPO-BANK shares for three Vereinsbank shares together with an additional payment, as specified in the Merger Agreement and confirmed by the independent auditor in charge of the audit.

Given the proportion of the former capital stock of HYPO-BANK held by outside shareholders, the conversion rate required Vereinsbank's subscribed capital to be raised by a nominal amount of DM 553 million to DM 2,073 million.

After the Merger Agreement dated March 17, 1998, was signed and before the merger was duly recorded in the Commercial Register, HYPO-BANK's capital stock increased as a result of conversion rights attached to the 1991/2001 convertible participating certificates being exercised. As set forth in Section 23 of the German Transformation of Companies Act, any conversion rights not exercised when the merger was registered were adjusted to reflect the conversion rate (cf. Section 6 (2) of the Merger Agreement).

Hence Vereinsbank increased its conditional capital by DM 26 million twice by issuing up to 5,277,263 new shares with a par value of DM 5.00 each (or no-par shares) in order to fulfill the conversion rights regardless of whether they were exercised prior to or following the merger.

The new shares issued in connection with the merger-related capital increase participate in profits as of January 1, 1998. The shares issued in connection with the exercise of conversion rights participate in profits as of the beginning of the fiscal year in which the conversion election takes effect.

Adjustments to additional paid-in capital

When the merger was filed with the Commercial Register, there was a difference of DM 4,448 million between the nominal value of the shares issued in connection with the capital increase and the book value of the prorated shareholders' equity of HYPO-BANK. This sum is to be recorded as a premium under the item additional paid-in capital.

The additional cash payment of DM 0.182 per share to outside shareholders of HYPO-BANK, totaling DM 27 million, was charged to additional paid-in capital in 1998.

When the merger was duly registered, HYPO-BANK's additional paid-in capital ceased to exist for accounting purposes.

Merger gains

Vereinsbank held a participating interest in HYPO-BANK at the merger date. The difference between the book value of this holding and the book value of the prorated shareholders' equity of HYPO-BANK totaled DM 2,379 million. At December 31, 1997, this amount was similarly recorded as a separate item under additional paid-in capital in the 1997 financial statements. In 1998, this item was reversed as extraordinary income totaling DM 2,364 million, taking into account conversion options exercised in the meantime.

Analysis of subscribed, authorized and conditional capital of HypoVereinsbank AG

	Subscribed capital	Authorized capital	of which: excluding subscription rights	Conditional capital
in millions of DM				
Balance at Jan. 1, 1998	2,073	196	12	326
Increase compliant with AGM resolution of May 26, 1998	—	500	370	—
Subscription against submission of warrants	5	—	—	(5)
Balance at Dec. 31, 1998	2,078	696	382	321

Analysis of subscribed capital
In accordance with a resolution adopted by the Annual General Meeting of Shareholders, Bayerische Hypo- und Vereinsbank AG converted its existing shares with a par value of DM 5,00 each to no par shares to prepare for the introduction of the single European currency on January 1, 1999. This has not resulted in any changes to subscribed capital or the number of shares. The no par shares each participate in the subscribed capital to the same extent.

As a result, at December 31, 1998, the subscribed capital of Bayerische Hypo- und Vereinsbank AG totaled DM 2,078 million and consisted of the following:

387,568,005 shares	common bearer stock
13,524,370 shares	registered common stock
14,553,600 shares	registered non-voting preferred stock

Authorized Capital

Year authorized	Original amount in millions of DM	Amount remaining in millions of DM	Available until
1994	500	196	May 6, 99
1998	500	500	May 26, 03

Conditional Capital

in millions of DM	Dec. 31, 1998	End of period
AGM resolution 1995	300	May 11, 2000
Conversion rights attached to 1991 convertible participating certificates not yet exercised	21	Dec. 15, 1999
Total conditional capital	321	

The following table shows changes to conditional capital II under Article 5 (6) of the Bank's Articles of Incorporation:

in millions of DM	
Balance at AGM 1998	26
Use arising from conversion of participating certificates before filing of merger	(5)
Total	21

This portion of authorized capital ceased to exist when the merger was duty filed.

DM 21 million of conditional capital III under Section 5 (6) of the Bank's Articles of Incorporation is still required to cover the conversion of participating certificates.

Breakdown of Retained Earnings

in millions of DM	1998	1997
Legal reserve	110	110
Reserve for treasury stock	—	—
Reserves stipulated under Bank's Articles of Incorporation	—	—
Other retained earnings	7,077	4,023
Total	7,187	4,133

The merger gains were reversed as extraordinary income in the year under review and transferred to retained earnings at December 31, 1998, as part of the appropriation of net income.

(34) Treasury Stock

On May 26, 1998, the Annual General Meeting of Shareholders adopted resolutions calling among other things for Vereinsbank's name to be changed to "Bayerische Hypo- und Vereinsbank Aktiengesellschaft" and for the existing shares with fixed par values to be converted to no par shares. After the merger was duly filed with the Commercial Register on September 3, 1998, the official listing of the common bearer shares (securities identification number 802 200) was switched to the new name at every German stock exchange. All the publicly held shares of HYPO-BANK were converted into shares of Bayerische Hypo- und Vereinsbank AG. At the same time, all the shares of the new company were converted from the previous unit of one share with a par value of DM 5.00 one-for-one into no par shares.

At the start of 1998, neither Vereinsbank nor any controlled companies or companies in which a majority interest is held had shares in Vereinsbank in their portfolios. Similarly, at the same point in time, neither HYPO-BANK nor any controlled companies or companies in which a majority interest is held had shares in HYPO-BANK in their portfolios.

At December 31, 1998, neither the Bank nor any controlled companies or companies in which a majority interest is held had shares in Bayerische Hypo- und Vereinsbank AG in their portfolios.

In May 1998, the Annual General Meeting of Shareholders authorized Vereinsbank to buy and sell, until the conclusion of its next ordinary General Meeting, however not later than October 31, 1999, Vereinsbank shares for trading purposes pursuant to Section 71 (1) No. 7 of the German Stock Corporation Act. The acquisition prices must not exceed or undercut by more than 10% the share's average standard price as traded on the Bavarian Stock Exchange on the three consecutive trading days preceding each acquisition. The shares acquired and held for such purposes must not exceed 5% of Vereinsbank's capital stock at the end of each day.

To ensure an orderly market in shares of Vereinsbank and to facilitate trading as permitted under Section 71 (1) No. 1 and Section 71 (1) No. 7 of the German Stock Corporation Act, respectively, and in accordance with the applicable legal requirements, a total of 11,679,621 shares of treasury stock were purchased by the Bank and controlled or majority-owned companies at an average price of DM 139.86 per share, and resold at an average price of DM 140.38 per share up to August 31, 1998, as part of normal securities trading. This amounts to the equivalent of DM 58,398,105, or 3.8% of capital stock.

HYPO-BANK and controlled or majority-owned companies acquired for the same purposes 6,116,356 shares of Bayerische Hypotheken- und Wechsel-Bank AG stock at an average purchase price of DM 103.18 per share, and resold at an average price of DM 99.07per share up to August 31, 1998, as part of normal trading. This amounts to the equivalent of DM 30,581,780, or 2.3% of capital stock.

Between September 1 and December 31, 1998, Bayerische Hypo- und Vereinsbank AG and controlled or majority-owned companies acquired for the same purposes 9,343,719 shares of Bayerische Hypo- und Vereinsbank AG stock at an average purchase price of DM 131.40 per share, and resold them at an average price of DM 133.36 per share. This amounts to the equivalent of DM 46,718,595, or 2.2% of capital stock.

Up to August 31, 1998, the highest number of shares of treasury stock held by Vereinsbank on any given day was 738,865 - equivalent to DM 3,694,325, or 0.24% of capital stock - of treasury stock held by HYPO-BANK 2,428,818 - equivalent to DM 12,144,090, or 0.92% of capital stock - and, as of September 1, 1998, of treasury stock held by Bayerische Hypo- und Vereinsbank AG 253,914 - equivalent to DM 1,269,570, or 0.06% of capital stock.

Within the scope of lending operations, the Bank and its controlled or majority-owned companies had received a total of 1,234,284 shares of treasury stock as collateral in accordance with Section 71e (1) 2 of the German Stock Corporation Act. This represents DM 6,171,420, or 0.30% of capital stock.

(35) Foreign-Currency Assets and Liabilities

Assets denominated in foreign currency totaled the equivalent of DM 141.8 billion, while liabilities denominated in foreign currency amounted to the equivalent of DM 191.3 billion. Of these totals, the most important foreign currencies for the Bank are as follows:

in millions of DM	1998	1997
Foreign-currency assets	141,833	144,554
of which:		
US dollars	53,821	72,238
Currencies of Euro countries (excl. Germany)	31,692	21,572
Japanese yen	9,207	8,128
Swiss francs	8,796	8,555
Foreign-currency liabilities (excl. equity capital)	191,275	187,567
of which:		
US dollars	83,707	89,570
Currencies of Euro countries (excl. Germany)	33,069	31,164
Japanese yen	6,653	6,504
Swiss francs	9,168	9,689

Shifts in parities between foreign currencies resulted in changes to total assets of DM 1,008 million.

The above amounts represent the DM equivalents of all currencies. The differences in amount between assets and liabilities arise as only balance sheet items are shown in this list. Off-balance sheet items, and hence also transactions concluded for hedging purposes, are not included.

(36) Trust Business

The following tables show the volume of trust business not stated in the consolidated balance sheet.

Trust assets

in millions of DM	1998	1997
Placements with, and loans and advances to, other banks	1,753	1,102
Loans and advances to customers	813	1,039
Equity securities and other variable-yield securities	3	4
Debt securities	—	—
Participating interests	42	18
Other assets	3	—
Total	2,614	2,163

Trust liabilities

in millions of DM	1998	1997
Deposits from other banks	375	606
Amounts owed to other depositors	2,235	1,554
Other liabilities	4	3
Total	2,614	2,163

(37) Assets Assigned or Pledged as Security for Own Liabilities

Assets totaling DM 25,502 million were assigned or pledged as security for the following assets:

in millions of DM	1998	1997
Deposits from other banks	20,649	24,446
Amounts owed to other depositors	4,853	852

The assets pledged as security can be broken down as follows:

in millions of DM	1998	1997
Assets held for trading purposes	8,830	5,216
Placements with, and loans and advances to, other banks	681	3
Loans and advances to customers	10,321	10,348
Investments	5,658	9,731
Property, plant and equipment	12	—

Assets pledged as security for own liabilities concern mostly funds of the *Kreditanstalt für Wiederaufbau* and similar institutions, which we have issued as loans in compliance with their conditions.

Without being classified as collateral for specific liabilities, securities worth a nominal DM 1,705 million were pledged by the Group as collateral for transactions with EUREX and with CEDEL in Luxembourg, and for securities lending transactions performed by Deutsche Börse Clearing AG, Frankfurt.

Notes to the Consolidated Income Statement

(38) Net Interest Income

in millions of DM	1998	1997
Income from		
lending and money market transactions	44,568	44,016
fixed-income securities and government-inscribed debt	5,017	3,245
equity securities and other variable-yield securities	289	201
participating interests	127	150
subsidiaries	48	39
companies accounted for using the equity method	62	70
Interest expense and similar charges for		
deposits	18,423	19,167
promissory notes and other liabilities evidenced by paper	21,050	18,422
subordinated capital	949	912
Leasing operations		
Income receivable from		
finance leases	41	43
operate leases	504	448
Depreciation on leased equipment under operate leases	386	357
Total	9,848	9,354

Interest margin

Based on average risk assets

in %	1998	1997
Total bank	2.53	2.62

Based on average volume of business (without risk weighting)

in %	1998	1997
Commercial banking operations	1.36	1.60
Mortgage banking operations	0.86	0.77
Total bank	1.17	1.25

(39) Provisions for Losses on Loans and Advances

in millions of DM	1998	1997
Additions	4,886	4,906
Reversals	(1,547)	(2,098)
Payments received for written-off loans	(94)	(97)
Total	3,245	2,711

Breakdown of Provisions for Losses on Loans and Advances

	1998			1997		
in millions of DM	Domestic	Foreign	Total	Domestic	Foreign	Total
Commercial banking operations	1,637	401	2,038	1,631	210	1,841
Mortgage banking operations	1,207	—	1,207	870	—	870
Total	2,844	401	3,245	2,501	210	2,711

(40) Net Commission Income

in millions of DM	1998	1997
Securities and custodial services	1,960	1,785
Foreign trade operations	377	374
Money transfer operations	332	347
Lending operations	348	338
Other service operations	173	121
Total	3,190	2,965

(41) Gains Less Losses Arising From Trading Securities (Trading Profit)

in millions of DM	1998	1997
Equity contracts	346	353
Interest rate and currency contracts	606	542
Total	952	895

This item includes interest and dividend income totaling DM 525 million and refinancing costs resulting from trading activities totaling DM 381 million.

(42) General Administrative Expenses

in millions of DM	1998	1997
Personnel expense	4,838	4,577
Wages and salaries	3,778	3,535
Social security costs	604	551
Pension and other employee benefit costs	456	491
Other administrative expenses	2,846	2,445
Depreciation and amortization	773	718
on property, plant and equipment	773	718
on other assets	—	—
Total	8,457	7,740

(43) Other Operating Income

This item primarily includes income from the reversal of provisions other than provisions for losses on loans and advances, and rental income and gains from sales of real estate. There are no substantial individual items included in other operating income.

(44) Other Operating Expenses

The single largest item under other operating expenses is expenditures for real estate not used by the Bank for its normal operations. There are no substantial individual items included in other operating expenses.

(45) Operating Income

Breakdown of operating income

in millions of DM	1998	1997
Net interest income	9,848	9,354
Net commission income	3,190	2,965
Gains less losses arising from trading securities (trading profit)	952	895
Balance of other operating income and expenses	179	109
Total	14,169	13,323

Geographic segmentation of operating income

in millions of DM	1998	1997
Germany	12,167	11,604
Other Euro countries	690	630
Other western Europe	677	652
Eastern Europe	185	123
Americas	301	262
Asia	149	52
Merger gains	2,364	—
Total	14,169	13,323

The assignment of operating income to geographic segment is based on the location of the Group company's head office or registered office.

(46) Effects of Changes In Foreign Exchange Rates

The following table shows the effects of changes in foreign exchange rates on significant items in the income statement.

	Effect	Adjusted changes	
		in millions of DM	in %
Net interest income	(23)	+ 517	+ 5.5
Net commission income	(4)	+ 229	+ 7.7
General administrative expenses	(4)	+ 721	+ 9.3

(47) Other Income

in millions of DM	1998	1997
Net income from investments	646	344
Total	646	344

Net gains of DM 141 million were realized on the sale of current investments.

(48) Other Expenses

in millions of DM	1998	1997
Depreciation and amortization of intangible assets	62	57
Other taxes	39	177
Losses assumed	48	21
Total	149	255

Depreciation and amortization of intangible assets relates to amortization of goodwill totaling DM 62 million.

(49) Extraordinary Income

in millions of DM	1998	1997
Dividend received from HYPO-BANK for 1997	245	—
Realization of undisclosed reserves to cover risk provisions for joint venture and property development exposures	3,500	1,500
Merger gains	2,364	—
Total	6,109	1,500

(50) Extraordinary Expenses

in millions of DM	1998	1997
Merger expenses	458	188
Risk provisions for joint venture and property development exposures	3,500	1,500
Total	3,958	1,688

The expenses relating to the merger of Vereinsbank and HYPO-BANK and other Group companies include primarily personnel expenses for creating a uniform remuneration system, marketing expenses, consulting costs, and property transfer tax payable.

(51) Net Income Before Tax

Breakdown of net income before tax by commercial and mortgage banking operations

in millions of DM	1998	1997
Commercial banking operations	744	1,043
Mortgage banking operations	2,007	1,730
Merger gains	2,364	—
Total	5,115	2,773

Geographic segmentation of net income before tax

in millions of DM	1998	1997
Germany	2,561	2,272
Other Euro countries	279	314
Other western Europe	159	230
Eastern Europe	33	(2)
Americas	36	151
Asia	(317)	(192)
Merger gains	2,364	—
Total	5,115	2,773

The assignment of net income to geographic segment is based on the location of the Group company's head office or registered office.

(52) Income Taxes

This item breaks down as follows:

in millions of DM	1998	1997
Current taxes	1,371	1,229
Deferred taxes	(140)	(210)
Total	1,231	1,019

Deferred income tax assets and liabilities result from the creation and reversal of tax deferrals during the year under review, which for the most part can be attributed to temporary differences arising or reversing.

The following reconciliation shows the relationship between computed income tax and recognized income taxes:

in millions of DM	1998	1997
Net income before tax	5,115	2,773
Applicable tax rate	47.5%	48.4%
Computed income tax	2,430	1,342
Tax effects		(326)
arising from prior years	(7)	(66)
arising from foreign income	(138)	(176)
arising from non-taxable income	(1,145)	(20)
arising from different tax laws	35	(103)
arising from non-deductible expenses	21	34
arising from other differences	35	8
Recognized income taxes	1,231	1,019

The applicable tax rate comprises the current rate of corporate income tax in Germany of 45% and the solidarity surcharge of 2.5% (= 5.5% of 45%). The tax effect arising from prior years is attributable to tax expenses for earlier years and deducted losses.

The effect on tax of foreign income results from the different tax rates applicable in other countries. The increase in tax effects arising from non-taxable income can be attributed primarily to the merger gains. The item tax effects arising from different tax laws comprises primarily a reduction in the rate of German corporate income tax applicable to dividends and other distributions, and the non-uniform rates of local income tax applied in Germany.

The deferred tax assets and liabilities result from temporary differences in the following items:

in millions of DM	1998	1997
Deferred tax liabilities		
Placements with, and loans and advances to, other banks and customers	264	217
Assets/liabilities held for trading purposes	203	178
Investments	23	60
Property, plant and equipment	295	256
Other assets/liabilities	276	163
Other	124	112
Total deferred tax liabilities	1,185	986
Deferred tax assets		
Assets/liabilities held for trading purposes	35	13
Investments	109	93
Property, plant and equipment	414	295
Provisions	690	640
Other assets/liabilities	817	573
Losses carried forward	91	97
Other	68	135
Total deferred tax assets	2,224	1,846

(53) Statement of Value Added

Creation

in millions of DM	1998	1997
Operating income	14,169	13,323
Other income	646	344
Extraordinary income	6,109	1,500
Total income	20,924	15,167
Other administrative expenses	2,846	2,445
Depreciation on property, plant and equipment	773	718
Provisions for losses on loans and advances	3,245	2,711
Other expenses	149	255
Extraordinary expenses	3,958	1,688
Value added	9,953	7,350

Use

in millions of DM	1998	1997
Value added	9,953	7,350
Employees (personnel expense)	4,838	4,577
Public authorities (income taxes)	1,231	1,019
HypoVereinsbank shareholders (dividend)	667	873
Minority interest	142	135
Companies	3,075	746
of which:		
Transfer to retained earnings, net income	1,902	746
Transfer to retained earnings, AGM	1,173	—

Notes to the Cash Flow Statement

(54) Notes to Items in the Cash Flow Statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities, and financing activities for the year under review. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown are narrowly defined to include cash on hand, balances with central banks, and Treasury bills and other bills eligible for rediscounting with central banks.

Change in other non-cash positions comprises the valuation result on the trading protfolio, additions to net deferred tax assets, changes in provisions and accruals (excluding changes in provisions for losses on loans and advances), changes in prorated and deferred taxes, the reversal of premiums and discounts pro rate temporis, changes arising from valuation rising the equity method, and minority interest in net income.

During the year under review, investments in fully consolidated companies were acquired for a purchase price of DM 632 million, which resulted in a cash outflow of the same amount.

The cash and cash equivalents of fully consolidated companies acquired totals DM 282 million.

The following table summarizes the assets and liabilities of fully consolidated companies acquired during 1998:

	Companies acquired
Assets	
Cash reserve	282
Assets, held for trading purposes	1
Placements with, and loans and advances to, other banks	7
Loans and advances to customers	6,508
Total provisions for losses on loans and advances	(13)
Investments	34
Property, plant and equipment	40
Other assets	75
Liabilities in millions of DM	
Deposits from other banks	2,477
Amounts owed to other depositors	3,552
Provisions and accruals	16
Other liabilities	242

Changes in the balance of cash and cash equivalents resulting from changes in the group of consolidated companies are shown separately in the cash flow statement.

There were no investing or financing activities affecting cash and cash equivalents.

Segment Reporting by Corporate Division (Primary Segmentation)

(55) Notes to Segment Reporting

The HypoVereinsbank Group is managed in business segments. A detailed description of the operations and products of the segments served by the Bank is provided in the reports of the five corporate divisions (Volume 1 of the Annual Report). The divisions operate as autonomous companies with their own equity resources and responsibility for profit and losses. Responsibility for serving customers is the criterion used to delimit corporate divisions. The segments served by the Bank are known as primary segments.

The Bank's segment reporting is based on its division controlling instrument. The results provided are reconciled with the income statement prepared in accordance with IAS, with the overhead costs being allocated to the correct division according to causation. The Internal Services and Group Services divisions are treated as external providers charging fair market prices to the corporate divisions for their services.

Equity capital is allocated to the individual corporate divisions in accordance with their respective shares of risk assets or the underlying market risks as set forth in Principle I of Section 10, German Banking Act. The average tied core capital for each corporate division forms the basis for computing return on equity. When calculating return on equity after taxes, the Bank uses net income excluding minority interest. Income taxes are allocated to the corporate divisions in accordance with the Group tax rate.

The Real Estate Finance and Real Estate Customers division includes the results of transactions performed by Bayerische Hypo- und Vereinsbank AG involving property developers and real estate agents together with all the results of the Bank's mortgage banking operations. FGH Bank is consolidated for the first time in 1998.

Other/consolidation reflects amounts that do not fall under the sphere of responsibility of the corporate divisions. This includes net income from nonconsolidated subsidiaries and from the strategic securities portfolio, which are

the responsibility of the Board of Managing Directors. Also incorporated under this caption are the amounts resulting from decisions taken to manage the balance sheet together with extraordinary income and expenses.

On top of primary segment reporting, the Bank also provides information on geographic segmentation and breakdowns by commercial and mortgage banking business for selected balance sheet and income statement items.

(56) Income Statement, Broken Down by Division

in millions of DM	Private Investors and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers	International Markets	Asset Management	Other/ consolidation	Group
Net interest income							
1998	3,749	2,412	2,904	963	56	(236)	9,848
1997	3,562	2,120	2,462	618	78	514	9,354
Provisions for losses on loans and advances							
1998	584	1,669	1,134	2	—	(144)	3,245
1997	419	1,059	1,109	14	—	110	2,711
Net commission income							
1998	2,044	651	107	188	394	(194)	3,190
1997	1,851	480	49	224	374	(13)	2,965
Gains less losses arising from trading securities (trading profit)							
1998	5	—	—	745	13	189	952
1997	11	2	—	870	—	12	895
General administrative expenses							
1998	4,594	1,637	1,019	872	323	12	8,457
1997	4,401	1,467	893	671	300	8	7,740
Balance of other operating income and expenses							
1998	70	33	105	21	20	(70)	179
1997	87	20	56	3	14	(71)	109
Operating profit							
1998	690	(210)	963	1,043	160	(179)	2,467
1997	691	96	565	1,030	166	324	2,872
Balance of other income and expenses							
1998	58	(94)	148	(14)	(29)	2,579	2,648
1997	(72)	(37)	33	(97)	(25)	99	(99)
Net income before tax							
1998	748	(304)	1,111	1,029	131	2,400	5,115
1997	619	59	598	933	141	423	2,773

(57) Key Ratios, Broken Down by Division

	Private Investors and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers	International Markets	Asset Management	Group
in %						
Cost-income ratio						
1998	78.3	52.9	32.7	45.5	66.9	59.7
1997	79.9	55.9	34.8	39.1	64.4	58.1
Return on equity before taxes						
1998	13.9	(4.8)	16.1	39.5		12.1
1997	11.8	1.1	9.7	72.3		14.5
Return on equity after taxes						
1998	7.5	(2.8)	7.6	21.7		6.1
1997	7.0	0.2	4.9	44.5		8.5

(58) Tied Core Capital, Broken Down by Division

	Private Investors and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers	International Markets	Asset Management	Other/ consolidation	Group
in millions of DM							
Average tied core capital							
1998	5,676	6,729	7,264	2,738	12	1,465	23,884
1997	5,564	5,647	6,537	1,364	146	947	20,205

(59) Operating Performance, Broken Down by Division

	Private Investors and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers	International Markets	Asset Management	Other/ consolidation	Group
in millions of DM							
Assets held for trading purposes							
1998	29	—	1	69,638	—	2	69,670
1997	34	—	—	50,804	—	—	50,838
Total volume of lending							
1998	148,823	119,351	348,218	40,079	186	168	656,825
1997	140,357	149,426	302,541	13,921	27	2,007	608,279
Amounts owed to other depositors							
1998	117,656	35,271	67,271	67,669	815	(139)	288,543
1997	113,199	40,906	62,242	62,665	1,122	(9,812)	270,322
Promissory notes and other liabilities evidenced by paper							
1998	345	2,060	131,270	235,729	—	652	370,056
1997	700	2,568	108,126	224,920	—	187	336,501

(60) Employees, Broken Down by Division

	1998	1997
Private Investors and Professionals	16,740	17,135
Corporate Customers	4,871	5,273
Real Estate Finance and Real Estate Customers	4,796	3,926
International Markets	1,234	1,257
Asset Management	593	569
Internal Services/Group Services	11,213	11,448
Group	39,447	39,608

Reporting on Financial Instruments

(61) Fair Value of Fnancial Instruments

The fair value stated for an on-balance-sheet and off-balance-sheet financial instrument as defined in IAS 32 is the amount for which the Bank believes the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values are calculated using the market information available at the reporting date and individual company computation methods.

in millions of DM	Carrying amount[1]	1998 Fair value
Assets		
Cash reserve	9.4	9.4
Assets held for trading purposes	69.7	69.7
Placements with, and loans and advances to, other banks incl.: associated derivatives	109.7	112.6
Loans and advances to customers incl.: associated derivatives	591.2	635.4
Investments incl.: associated derivatives	87.7	87.8
Shareholders' equity and liabilities		
Deposits from other banks incl.: associated derivatives	132.1	134.9
Amounts owed to other depositors incl.: associated derivatives	288.4	303.0
Promissory notes and other liabilities evidenced by paper incl.: associated derivatives	368.4	379.4
Subordinated capital	18.4	20.1
Liabilities held for trading purposes	45.4	45.4
Other items Derivatives not assigned	0.5	(3.7)
Contingent liabilities	46.6	46.6
Irrevocable credit commitments	85.7	85.7

(1) Not necessarily directly comparable with the carrying amounts shown in the consolidated balance sheet due to specific definitions and methods stated in IAS 32

The fair values of certain financial instruments stated at notional amounts correspond almost precisely to their carrying amounts. This includes such items as cash reserve, loans and advances, and liabilities without clear maturities or fixed interest rates. For the remaining loans and advances, and liabilities, the anticipated future cash flows are discounted using the current interest rates to give the net present value.

Quoted market prices are stated for exchange-traded securities and derivatives, and listed debt instruments. The fair values of the remaining securities are calculated as the net present value of the cash flows expected in the future.

The fair values of single currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, the Bank applies the market rates applicable for the remaining maturity of the financial instruments. The fair value of foreign exchange futures is computed on the basis of current forward rates stated in comparable contracts. Options are valued using price quotations or generally accepted models used to calculate the price of options.

Investments in non-banks have not been included.

The fair values of irrevocable credit commitments and contingent liabilities are the same as their carrying amounts.

The difference between fair value and carrying amount of assets amounts to DM 47.2 billion, of liabilities DM 30.1 billion, and of other items (DM 4.2 billion). The balance of these values is DM 12.9 billion. This amount varies over the course of time as a result of changes in the valuation parameters applied when calculating fair values and changes in the Bank's portfolio of financial instruments.

(62) Significant Concentrations of Assets and Liabilities

The Bank's lending and deposit-taking operations have a balanced structure and contain no significant concentrations.

	Share of loan portfolio in %
Mortgage loans	44.5
Housing loans	29.8
Loans to trade and industry, and other loans	14.7
Other loans secured by real-estate liens	3.6
Municipal loans	26.3
Other loans	25.6
of which: to private individuals	3.9
Total	100.0

The balanced maturity structure of the Bank's deposit-taking operations similarly does not give rise to any significant concentrations of risk.

(63) Credit Risk

The Bank defines credit risk as possible losses that could result from a counterparty defaulting or a customer's credit standing deteriorating. In quantifying these risks, a distinction is made between the average anticipated risk (standard risk costs) and the unexpected risk (value at risk).

The most important factors in determining both of these elements is the correct computation of the amounts that are actually at risk and a realistic assessment of the loss probability in each case. To measure this probability, the Bank employs statistical models designed specifically for each customer and product group. On this basis it is possible to assess the impact of macroeconomic scenarios on the value of the Bank's lending and trading portfolios at any time. This capability provides a clear view of the risk situation at the individual corporate divisions and the resulting situation for the Bank as a whole.

(64) Concentration of Credit Risk in Derivatives Operations

Gross replacement values serve as useful indicators when determining credit risk. They are computed using the mark-to-market method as the sum of all positive market prices, ignoring risk-reducing netting agreements and individual credit standings. Based on this definition, the maximum risk of default for the Group was DM 39.5 billion, or 2.0%, of the outstanding total notional amounts at the end of 1998. This value does, however, represent a worst-case scenario for credit risk as it assumes that all counterparties default simultaneously and no risk-reducing netting agreements have been concluded. Taking into account the risk-reducing effect of existing netting agreements, the risk of default falls to DM 12.7 billion at the end of 1998.

The presentation of replacement values by counterparty type aids in the evaluation of the credit quality of derivatives business.

OECD governments, banks, and financial institutions, which are rated as first-class borrowers, account for 91.6% (1997: 91.3%) of the risk of default, before netting.

According to Principle I of the German banking supervisory regulations, the risk of default after netting on derivative financial instruments in the trading and investment book totaled DM 56.4 billion at the end of 1998; weighted by credit rating (credit equivalent), the amount was DM 14.2 billion (1997 pro forma: DM 11.5 billion).

	Counterparties			
	1998 Structure in %	1998 DM million	1997 Structure in %	1997 DM million
Default Risk				
OECD governments	0.9	341	0.9	278
OECD banks	82.8	32,675	81.6	25,179
OECD financial institutions	7.9	3,130	8.8	2,733
Non-OECD governments	0.1	42	—	6
Non-OECD banks	1.6	628	2.8	851
Non-OECD financial institutions	—	—	—	—
Other companies and individuals	6.7	2,651	5.9	1,824
Total	100.0	39,467	100.0	30,871

(65) Futures and Options Contracts

The following interest rate, foreign exchange, equity and index-related futures were still outstanding at the balance sheet date. In addition to default risk, these transactions are mainly subject to price risk arising from changes in interest rates, exchange rates, and equity prices.

At year-end 1998, the notional amounts of the Group's derivative contracts totaled DM 2,000.3 billion.

The prior year figures provided for comparison purposes were calculated by aggregating the contracts of the two merging banks. At the same time, the Bank has also consolidated some of the individual positions, meaning that futures on swaps are now shown under single currency swaps or cross-currency swaps instead of other interest rate or foreign exchange contracts.

The volume of derivatives comprises DM 1,389.4 billion in interest rate contracts (69.5%), DM 560.9 billion in currency contracts (28.0%), and DM 50.0 billion in equity/index contracts (2.5%). In terms of maturity, the biggest part of the contract volume related to the shortest time band (up to one year).

The contracts mentioned above are mainly concluded for trading purposes to hedge against fluctuations in interest rates, foreign exchange rates or market prices. They also serve to provide cover for balance sheet and off-balance sheet items within the framework of asset/ liability management.

in millions of DM	Notional amount					Default risk	
	Remaining life						
	up to 1 year	1 to 5 years	more than 5 years	Total 1998	Total 1997	1998	1997
Interest rate contracts	621,483	466,593	301,283	1,389,359	1,149,872	27,525	14,016
OTC products							
FRAS	208,576	48,971	—	257,547	220,449	260	146
Single currency swaps	281,845	367,606	284,449	933,900	759,495	26,386	13,202
Interest rate options							
—purchased	11,947	19,664	7,447	39,058	39,425	871	654
—written	18,529	23,808	9,383	51,720	55,487	—	—
Other interest rate contracts	983	20	—	1,003	1,721	8	14
Exchange-traded products							
Interest rate futures	92,536	6,136	4	98,676	60,737	—	—
Interest rate options	7,067	388	—	7,455	12,558	—	—
Currency contracts	502,044	49,773	9,151	560,968	599,610	10,201	14,336
OTC products							
Forward exchange contracts(*)	449,979	18,887	118	468,984	517,280	7,351	11,916
Cross-currency swaps	13,138	30,488	9,033	52,659	50,842	2,478	2,191
Foreign exchange options(*)							
—purchased	18,105	212	—	18,317	15,002	372	229
—written	20,742	186	—	20,928	15,571	—	—
Other foreign exchange contracts	80	—	—	80	37	—	—
Exchange-traded products							
Foreign exchange futures(*)	—	—	—	—	—	—	—
Foreign exchange options(*)	—	—	—	—	878	—	—
Equity/index contracts	31,540	18,460	12	50,012	51,713	1,741	2,519
OTC products							
Equity/index swaps	—	—	—	—	—	—	—
Equity/index options							
—purchased	13,743	4,194	12	17,949	22,429	1,738	2,511
—written	13,743	10,935	—	24,678	21,919	—	—
Other equity/index-related contracts	865	3,157	—	4,022	438	3	8
Exchange-traded products							
Equity/index futures	1,384	—	—	1,384	461	—	—
Equity/index options	1,805	174	—	1,979	6,466	—	—
Total	1,155,067	534,826	310,446	2,000,339	1,801,195	39,467	30,871

(*) including precious metal contracts

(66) Market Risk

Market risk arises when the prices of interest rate, foreign exchange or equity products, and their related derivatives, change.

Initially, the Bank assesses the risk for each individual transaction. Based on historic price trends, the Bank determines how the value of positions could change within a given period of time. The resulting value-at-risk quantifies the maximum amount of the loss that could result from market price changes occurring over a holding period of ten trading days. This assessment has a 99% statistical confidence level, meaning that the probability of a higher loss is only 1%. The Bank then adds up the value-at-risk figures of individual transactions to arrive at an aggregated value-at-risk for the Bank as a whole.

On this basis, the market risk of the Bank's trading portfolio at year-end 1998 is DM 191 million for interest rate contracts, DM 68 million for currency contracts, and DM 133 million for equity/index contracts.

Potential Market Risk of Trading Positions (Value at Risk)

in millions of DM	1998 average[1]	Dec. 31, 98	Sept. 30, 98	June 30, 98	Mar. 31, 98	Dec. 31, 97
Interest rate contracts	237	191	308	247	253	187
Currency contracts	83	68	90	109	101	49
Equity/index contracts	141	133	178	160	132	100
Total	461	392	576	516	486	336

[1] arithmetic mean

(67) Operational Risk

Alongside market and counterparty risk, operational risk represents a major portion of the risk capital calculated each year, subject to economically required discounting, and is allocated to the various corporate divisions.

Operational risk comprises unexpected losses arising from flawed systems, improper processing of transactions, deficiencies in controls or processes, and events over which the Bank has no control.

The requisite risk capital is calculated robustly on a top-down basis throughout the Group. The Bank has prioritized further development of the ways in which risk capital is measured and allocated.

Other Information

(68) Key Capital Ratios (Based on German Commercial Code)

Pursuant to Sections 10 and 10a of the German Banking Act (KWG) in conjunction with Principle I of the German banking supervisory regulations, the core capital ratio (core capital divided by total weighted risk assets) must not be lower than 4%, or 4.4% if revaluation reserves are added, and the equity ratio (liable equity divided by total weighted risk assets) must exceed 8%.

As of October 1, 1998, following incorporation of the capital adequacy directive into national law, the Bank is additionally required to compute an equity capital ratio compliant with Section 2 of Principle I of the German banking supervisory regulations. This figure, which must be at least 8%, is calculated as the ratio of equity capital to the total of weighted risk assets and eligible amounts for market risk positions and option contracts multiplied by 12.5.

Pursuant to Section 10 (2), German Banking Act, the Bank's equity capital comprises the liable shareholders' equity and tier 3 capital totaling DM 44,486 million.

The liable equity consists of core capital (tier 1 capital) and supplementary capital (tier 2 capital) totaling DM 41,896 million (DM 37,482 million). The supplementary capital includes unrealized reserves pursuant to Section 10 (2b) 1 No. 6 and 7, German Banking Act, accounting for DM 2,402 million (DM 2,363 million).

The tier 3 capital includes subordinated liabilities and participating certificates outstanding amounting to DM 2,590 million.

Weighted risk-based assets amounted to DM 422.4 billion (DM 410 billion).

The positions subject to price risk comprise currency, commodity, trading-book and option risks totaling DM 4,400 million.

Based on financial statements approved by the Supervisory Board, risk assets and price risk positions at December 31, 1998, the Bank's equity capital was as follows:

Equity capital[1]	1998	1997 pro forma
		DM millions
Core capital	25,421	21,976
Supplementary capital	16,787	15,801
of which:		
Unrealized reserves pursuant to Section 10 (2b) 1 No. 6, German Banking Act	2,402	2,363
Deductible items	(312)	(295)
Liable equity	41,896	37,482
Tier 3 capital[2]	2,590	—
Total capital[2]	44,486	
Weighted risk assets		DM billions
Assets	380	364
of which:		
Loans to customers (weighted at 100%)	220	224
Mortgage loans (weighted at 50%)	102	97
Transactions with banks (weighted at 20%)	23	24
Off-balance sheet transactions I (traditional)	38	33
Off-balance sheet transactions II (derivative)	4	12
Total risk assets	422	410
Price risk positions		DM millions
Currency risk	630	—
Commodity risk	3	—
Trading-book risk	3,609	—
Option risk	158	—
Total price risk positions	4,400	—

(1) consolidated in accordance with Section 10a, German Banking Act

(2) not calculated before 1998, compliant with 6th amendment to German Banking Act

At December 31, 1998, the capital ratios (based on financial statements approved by the Supervisory Board) were as follows:

in %	Group 1998	1997 Group pro forma
Core capital ratio	6.0	5.4
Equity capital ratio	9.3	—
Equity ratio	9.9	9.2

The ratios according to the BIS rules are as follows:

in %	1998	1997
Core capital ratio	5.4	5.0
Equity capital ratio	9.1	—
Equity ratio	9.5	9.5

(69) Contingent Liabilities And Other Commitments

in millions of DM	1998	1997
Contingent liabilities		
Rediscounted bills of exchange	1,689	2,202
Guarantees and indemnities		
Loan guarantees	7,855	6,133
Guarantees and indemnity agreements	34,642	27,952
Documentary credits	2,443	2,681
Other commitments		
Commitments arising out of sale and option to resell transactions	16	55
Irrevocable credit commitments		
Book credits	85,747	63,968
Guarantees	5,486	6,776
Mortgage and municipal loans	21,145	18,907
Bills of exchange	844	1,028
Delivery obligations arising from securities lending transactions	605	3,082
Other commitments	574	262
Total	161,046	133,046

Financial commitments totaling DM 1,119 million arose from the acquisition of additional shares in Bank Przemyslowo-Handlowy s.a., Cracow, taking the participating interest to 46.7%, and an increase in the Bank's holding in Hypo Foreign & Colonial Management (Holdings) Limited, London, to 90.0%. These commitments have now been met.

There are no contingent liabilities and other commitments with respect to joint ventures.

Neither contingent liabilities nor other commitments contain significant individual items. Commitments under guarantee and indemnity agreements, and irrevocable credit commitments to non-consolidated subsidiaries amounted to DM 28 million and DM 19 million, respectively.

Other financial commitments arise primarily from rental, leasing, and maintenance agreements, and the rental of office space and use of technical equipment. The contracts run for standard market periods and no charges have been put off to future years.

Commitments for uncalled payments on shares not fully paid up amounted to DM 132 million at year-end 1998, and similar liabilities for shares in cooperatives totaled DM 2 million. Under Section 24 of the German Private Limited Companies Act, the Group was also liable for defaults in such calls in respect of 8 private limited companies for an aggregate of DM 38 million. In addition, the Bank was the co-founder of one corporation, registration of which was still pending on the balance sheet date. At the balance sheet date, the Group had unlimited personal liability arising from shares in 12 partnerships.

As part of real estate financing and development operations, the Bank assumes rental obligations or undertakes rent guarantees on a case-by-case basis to make fund constructions more marketable – in particular for those funds and (closed) KG real estate funds offered by the Bank's H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. The consolidated financial statements include expenses for short cover arising from such guarantees. The Bank has provided performance guarantees for the holders of shares in bond/money market funds offered by Hypo Capital Management Investmentgesellschaft Luxembourg S.A., Luxembourg.

Under Section 26 of the German Private Limited Companies Act and on the basis of its holding in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, the Group was liable for calls for additional capital up to DM 111 million at year-end 1998. In addition, the Bank is jointly and several liable for any defaults on such calls by member banks of the Association of German Banks, under Section 5 (4) of the Articles of Association.

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, the Bank has undertaken to indemnify the Association of German Banks against any losses it might incur as a result of action taken on behalf of banks in which the Bank has a majority interest. The Bank has made a similar representation for its Vereinsbank Victoria Bauspar AG and for Heimstatt Bauspar-Aktien-Gesellschaft in accordance with Section 3 (1) of the by-laws of the Deposit Guarantee Fund for Bank-Related Savings and Loan Associations.

As members of the respective deposit guarantee funds in their country of operation, the following banks assume liability under the applicable regulations:

Bank von Ernst & Cie AG, Bern
FGH Bank N.V., Utrecht
Hypo-Bank CZ a.s., Prague
HypoVereinsbank Hungaria Rt., Budapest
HypoVereinsbank Luxembourg S.A., Luxembourg
HypoVereinsbank Polska S.A., Warsaw
HypoVereinsbank Slovakia a.s., Bratislava
SKWB Schoellerbank Aktiengesellschaft, Vienna
Vereinsbank (CZ) a.s., Prague

(70) Statement of Responsibility(*)

Bayerische Hypo- und Vereinsbank AG ensures that, to the extent of its shareholding, the companies set forth below are in a position to meet their contractual obligations except in the event of any political risks:

Banco Popular Hipotecario S.A., Madrid
Bank von Ernst & Cie AG, Bern
Bankhaus Gebrüder Bethmann, Frankfurt/Main
Bankhaus Maffei & Co. KGaA, Munich
Bayerische Handelsbank AG, Munich
Bayerische Immobilien-Leasing GmbH & Co. Verwaltungs KG, Munich(*)
Bayerische Vereinsbank Overseas Finance N.V., Curaçao
Bayerische Vereinsbank S.A., (BV France), Paris
BV Finance Praha s.r.o., Prague
BV Finanziaria S.p.A., Milan
Direkt Anlage Bank AG, Munich
FGH Bank N.V., Utrecht
H S B. Hypo Service-Bank AG, Leipzig
Hanseatische Investitions-Bank GmbH, Hamburg
Heimstatt Bauspar-Aktien-Gesellschaft, Munich
HVB Finance (Delaware) Inc., Wilmington
HVB Jelzálogbank Rt., Budapest
Hypo-Bank CZ a.s., Prague
Hypo-Bank Polska S.A., Warsaw
HypoVereinsbank Bulgaria GmbH, Munich
HypoVereinsbank Hungaria Rt., Budapest
HypoVereinsbank Ireland, Dublin
HypoVereinsbank Luxembourg S.A., Luxembourg
HypoVereinsbank Polska S.A., Warsaw
HypoVereinsbank Slovakia a.s., Bratislava
HypoVereinsFinance N.V., Amsterdam
norisbank Aktiengesellschaft, Nuremberg
Nürnberger Hypothekenbank AG, Nuremberg
Probank GmbH, Munich
SKWB Schoellerbank Aktiengesellschaft, Vienna
Süddeutsche Bodencreditbank AG, Munich
Vereins- und Westbank Aktiengesellschaft, Hamburg
Vereinsbank CZ a.s., Prague
Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich
Westfalenbank AG, Bochum
Westfälische Hypothekenbank Aktiengesellschaft, Dortmund
Württembergische Hypothekenbank Aktiengesellschaft, Stuttgart

(*) Statements of responsibility given by Bayerische Immobilien Leasing (BIL), subgroup, and BV Grundstücksentwicklungs GmbH, subgroup, can be obtained from BIL.

(71) Information On Relationships With Related Parties

Emoluments paid to members of the Supervisory Board, Managing Directors and senior executives

in millions of DM	1998	1997
Board of Managing Directors of Bayerische Hypo- und Vereinsbank AG	22[1]	23
Supervisory Board of Bayerische Hypo- und Vereinsbank AG	3[1]	3
Former members of the Board of Managing Directors of Bayerische Hypo- und Vereinsbank AG and their surviving dependents	20	14
Heads of corporate and service divisions of Bayerische Hypo- und Vereinsbank AG	62	56

[1] Subject to the approval of the Annual General Meeting of Shareholders

At December 31, 1998, the Group had pension provisions for former members of the Board of Managing Directors and their surviving dependents totaling DM 116 million.

Loans to members of the Supervisory Board, Managing Directors and senior executives The total amount of loans and advances made and liabilities assumed at the balance sheet date were as follows:

in millions of DM	1998	1997
To members of the Board of Managing Directors of Bayerische Hypo- und Vereinsbank AG	27	25
To members of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG	16	18
To heads of corporate and service divisions of Bayerische Hypo- und Vereinsbank AG	51	78

(72) Mortgage Banking

Coverage – The following statement of coverage includes the Group mortgage banks that are subject to the provisions of the German Mortgage Banking Act:

in millions of DM	1998	1997
Mortgage bonds		
Standard coverage		
Placements with, and loans and advances to, other banks		
Mortgage loans	697	727
Loans and advances to customers		
Mortgage loans	142,203	133,248
Property, plant and equipment (land charges on land owned)	777	769
Other assets	8	12
Other eligible coverage		
Other placements with, and loans and advances to, other banks	420	53
Loans and advances to customers	—	—
Debt securities and other fixed-income securities	12,384	9,835
Subtotal	156,489	144,644
Total mortgage bonds requiring cover	153,170	141,314
Excess coverage	3,319	3,330
Municipal loans		
Standard coverage		
Placements with, and loans and advances to, other banks	41,490	35,087
Mortgage loans	—	1,096
Municipal loans	41,490	33,991
Loans and advances to customers	118,675	123,269
Mortgage loans	4,721	3,347
Municipal loans	113,954	119,922
Debt securities and other fixed-income securities	19,544	—
Other eligible coverage		
Other placements with, and loans and advances to, other banks	90	192
Debt securities and other fixed-income securities	1,176	9,965
Subtotal	180,975	168,513
Total municipal bonds requiring cover	166,679	158,642
Excess coverage	14,296	9,871

The statement of coverage shows the extent to which the Group's senior bond liabilities (mortgage bonds and municipal bonds) are covered by certain specially secured assets serving as collateral. Mortgage loans must not exceed 60% of the lending value of the loaned land and buildings when the assets serving as collateral are calculated.

Mortgage bonds used as cover for bonds, broken down by type of mortgaged property

	1998 DM millions	1998 in %	1997 DM millions	1997 in %
Commercial property	50,419	34.2	47,311	35.0
Residential property	94,660	64.3	85,231	63.0
Undeveloped real estate	568	0.4	684	0.5
Buildings under construction (non-productive)	1,558	1.0	1,941	1.4
Agricultural property	51	0.1	49	0.1
Total	147,256	100.0	135,216	100.0

(73) Employees

The average number of people employed by the Bank was as follows:

	1998	1997
Employees (excluding trainees)	37,312	37,140
Full-time	32,434	32,380
Part-time	4,878	4,760
Trainees	2,010	2,097

The employees' length of service is as follows:

Employees (excluding trainees)	1998 Women	1998 Men	1998 Total
Length of service (in %)			
25 years or more	11.6	18.8	15.0
15 to 25 years	14.7	16.4	15.5
10 to 15 years	13.0	12.9	13.0
5 to 10 years	32.1	22.4	22.5
Less than 5 years	28.6	29.5	29.0

(74) Offices

Domestic and international offices	1998	1997
Domestic		
Baden-Württemberg	66	73
Bavaria	639	691
Berlin	44	43
Brandenburg	18	19
Bremen	13	17
Hamburg	64	70
Hesse	36	38
Lower Saxony	43	45
Mecklenburg-Western Pomerania	16	18
North Rhine-Westphalia	55	55
Rhineland-Palatinate	39	42
Saarland	12	12
Saxony	77	84
Saxony-Anhalt	36	36
Schleswig-Holstein	91	97
Thuringia	45	44
Subtotal	1,294	1,384
International		
Other Euro countries	40	34
Other western Europe	10	10
Eastern Europe	53	50
Americas	12	13
Asia	11	14
Subtotal	126	121
Total	1,420	1,505

(75) Executive Boards

Supervisory Board

Dr. Klaus Götte
Chairman since May 26, 1998

Dr. Maximilian Hackl
Chairman until May 26, 1998

Herbert Betz
Deputy Chairman

Dr. Richard Trautner
Deputy Chairman

Rudolf Bauer
until May 26, 1998

Jürgen Betz
until May 26, 1998

Heidi Dennl

Volker Doppelfeld
since May 26, 1998

Ernst Eigner
since September 29, 1998

Dr. Joachim Faber
since May 26, 1998

Richard Fischhaber
from May 26 to August 31, 1998

Dr. Erhard Gröpl

Klaus Grünewald

Heinz-Georg Harbauer

Anton Hofer
since May 26, 1998

Dr. Jochen Holzer
since May 26, 1998

Dr. Edgar Jannott

Dr. Heribert Johann
until May 26, 1998

Horst Kardinal
until May 26, 1998

Max Dietrich Kley
since May 26, 1998

Peter König

Hanns-Peter Kreuser
since September 29, 1998

Dr. Eberhard von Kuenheim
until May 26, 1998

Professor
Reimar Lüst
until May 26, 1998

Dr. Eberhard Martini
since May 26, 1998

Klaus Mayer
until May 26, 1998

Dr. Alfred Pfeiffer
until May 26, 1998

Christoph Schmidt
since May 26, 1998

Jürgen E. Schrempp

Eva Maria Sureth
until May 26, 1998

Angelika Wiesenberger
from May 26 to August 31, 1998

Helmut Wunder

Board of Managing Directors

Dr. Egbert Eisele

Caspar von Hauenschild
until March 31, 1998

Dr. Peter Hoch
since April 1, 1998

Franz Huber
from April 1 to December 31, 1998

Dr. Norbert Juchem

Rainer Knoth

Martin Kölsch
since April 1, 1998

Dr. Claus Nolting
(deputy) until March 31, 1998

Dieter Rampl

Dr. Eberhard Rauch

Dr. Albrecht Schmidt

Dr. Stephan Schüller

Dr. Martin Schütte
since April 1, 1998

Dr. Paul Siebertz

Dr. Wolfgang Sprissler
until March 31, 1998 deputy

Josef F. Wertschulte
since April 1, 1998

Munich, March 16, 1999

BAYERISCHE HYPO- UND VEREINSBANK
AKTIENGESELLSCHAFT
Board of Managing Directors
Eisele Hoch Juchem Knoth
Kölsch Rampl Rauch Schmidt Schüller
Schütte Siebertz Sprissler Wertschulte

Report of Independent Auditors

We have audited the accompanying consolidated financial statements and management's discussion and analysis of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich, as of December 31, 1998. The financial statements comprise the documents required by the accounting standards published by the International Accounting Standards Committee (IASC) together with additional information required under European law. These financial statements are the responsibility of the company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, on whether these financial statements comply with the IAS International Accounting Standards.

We conducted our audits in accordance with the International Standards of Auditing published by the International Federation of Accountants (IFAC). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and management's discussion and analysis. We believe that our audits provide a reasonable basis for our opinion.

The conditions exempting the company from preparing consolidated financial statements in accordance with German legal provisions are satisfied. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bayerische Hypo- und Vereinsbank Aktiengesellschaft at December 31, 1998, and the results of their operations and cash flows for the year ended December 31, 1998, in conformity with the accounting principles of the International Accounting Standards Committee (IASC). Management's discussion and analysis provides an accurate view of the company's position and accurately presents the risks of future developments. [1]

Munich, March 17, 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Nonnenmacher
Wirtschaftsprüfer

Wohlmannstetter
Wirtschaftsprüfer

(Independent Auditor)

Wollert-Elmendorff
Deutsche Industrie-Treuhand GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Göttgens
Wirtschaftsprüfer

Mayer
Wirtschaftsprüfer

(Independent Auditor)

---

[1] As required under German law and IAS 1 (revised 1997), this audit report also contains an opinion with respect to the Management's Discussion and Analysis (comprising the Financial Review and the Risk Report) of Bayerische Hypo- und Vereinsbank Group, which was included in HypoVereinsbank's Annual Report for the fiscal year 1998. Neither the Financial Review nor the Risk Report are included in this Offering Circular. The Annual Report for the fiscal year 1998 is available upon request from Bayerische Hypo- und Vereinsbank AG.

HypoVereinsbank Group

Summary Highlights

Key indicators (in %)	1.1.-30.6.1999	1998
After-tax return on equity (adjusted for merger expense)	6.9	6.6
Return on equity after taxes (with merger expense)	5.6	6.1
Cost-income ratio	61.8	59.7
Ratio of net commission income to operational earnings	24.5	22.5

Earnings	1.1.-30.6.1999	½ of 1998
Operating profit (in millions of €)	721	631
Income before taxes (in millions of €)[1]	717	703
IAS earnings per share (adjusted for merger expense in €)	0.99	0.92
Earnings per share as per IAS (with merger expense in €)	0.81	0.85

Balance sheet figures (in billions of €)	30.6.1999	31.2.1998
Total assets	491	461
Total lending volume	341	336
Commercial banking operations	97	98
Mortgage banking operations	244	238
Shareholders' equity	12.0	11.9

Key capital ratios as per German Banking Act	30.6.1999	31.12.1998
Core capital (in billions of €)	13.6	13.0
Equity capital (in billions of €)	24.3	22.7
Risk assets (in billions of €)	224	216
Core capital ratio (in %)[2]	6.0	6.0
Total equity ratio (in %)[2]	9.3	9.3

	30.6.1999	31.12.1998
Employees	45,446	39,447
Branch offices	1,455	1,420

[1] 1998 excluding merger gains
[2] According to audited financial statements for 1998

Consolidated Income Statement from January 1 to June 30, 1999

	Notes	1.1.-30.6.1999	½ of 1998	Change	
		in millions of €	in millions of €	in millions of €	in %
Interest and similar income	1	13,175	12,950	+225	+ 1.7
Interest expense and similar charges	1	10,668	10,433	+ 235	+ 2.3
Net interest income	1	2,507	2,518	− 11	− 0.4
Provisions for losses on loans and advances	2	666	830	− 164	− 19.8
Net interest income after provisions for losses on loans and advances		1,841	1,688	+ 153	+ 9.1
Fee and commission income		1,044	958	+ 86	+ 9.0
Fee and commission expense		154	142	+ 12	+ 8.5
Net commission income	3	890	816	+ 74	+ 9.1
Gains less losses arising from trading securities (trading profit)	4	212	244	− 32	− 13.1
General administrative expenses	5	2,247	2,162	+ 85	+ 3.9
Other operating income		99	159	− 60	− 37.7
Other operating expenses		74	113	− 39	− 34.5
Operating profit		721	631	+ 90	+ 14.3
Other income	6	209	165	+ 44	+ 26.7
Other expenses	7	75	38	+ 37	+ 97.4
Extraordinary income[1]		—	957	− 957	− 100.0
Extraordinary expenses	8	138	1,012	− 874	− 86.4
Net income before tax[1]		717	703	+ 14	+ 2.0
Income taxes		321	315	+ 6	+ 1.9
Net income after tax[1]		396	389	+ 7	+ 1.8
Minority interest in net income		(60)	(37)	− 23	− 62.2
Consolidated profit[1]		336	352	− 16	− 4.5

	1.1.-30.6.1999	½ of 1998
	in €	in €
Per-share earnings[2]	0.81	0.85
Diluted per-share earnings[2]	0.80	0.84

[1] 1998 excluding merger gains

[2] To facilitate international comparison, we have converted the calculation of per-share earnings: Minimum shares have been disregarded in calculating earnings while the number of preferred shares is included in the basis for calculation.

Consolidated Balance Sheet at June 30, 1999

	Notes	30.6.1999	31.12.1998	Change	
		in millions of €	in millions of €	in millions of €	in %
Assets					
Cash reserve		3,639	4,824	− 1,185	− 24.6
Assets held for trading purposes	10	39,250	35,622	+ 3,628	+ 10.2
Payments with, and loans and advances to other banks	11	64,750	57,489	+ 7,261	+ 12.6
including: mortgage loans		380	381	− 1	− 0.3
municipal loans		24,331	21,836	+ 2,495	+ 11.4
Loans and advances to customers	11	318,374	310,112	+ 8,262	+ 2.7
including: mortgage loans		153,947	149,071	+ 4,876	+ 3.3
municipal loans		65,065	66,346	− 1,281	− 1.9
Total provisions for losses on loans and advances	12	(8,547)	(7,983)	− 564	− 7.1
Investments	13	61,145	51,501	+ 9,644	+ 18.7
Property, plant and equipment		4,389	4,299	+ 90	+ 2.1
Other assets		7,626	4,871	+ 2,755	+ 56.6
Total Assets		490,626	460,735	+ 29,891	+ 6.5

	Notes	30.6.1999	31.12.1998	Change	
		in millions of €	in millions of €	in millions of €	in %
Liabilities					
Deposits from other banks	14	80,915	68,146	+ 12,769	+ 18.7
including: registered mortgage bonds and municipal bonds in issue		9,540	8,943	+ 597	+ 6.7
Amounts owed to other depositors	15	146,662	147,530	− 868	− 0.6
including: registered mortgage bonds and municipal bonds in issue		45,702	46,826	− 1,124	− 2.4
Promissory notes and other liabilities evidenced by paper	16	206,744	189,207	+ 17,537	+ 9.3
including: registered mortgage bonds and municipal bonds in issue		116,800	110,145	+ 6,655	+ 6.0
Provisions and accruals	17	4,365	4,243	+ 122	+ 2.9
Other liabilities		28,275	29,267	− 992	− 3.4
Subordinated capital	18	10,400	9,401	+ 999	+ 10.6
Minority interests		1,256	1,046	+ 210	+ 20.1
Shareholders equity		12,009	11,895	+ 114	+ 1.0
Subscribed capital		1,252	1,063	+ 189	+ 17.8
Additional paid-in capital		7,073	7,158	− 85	− 1.2
Retained earnings		3,684	3,674	+ 10	+ 0.3
Total Liabilities		490,626	460,735	+ 29,891	+ 6.5

Statement of Changes in Shareholders' Equity

in millions of €	1999
Shareholders' equity at January 1, 1999[1]	11,895
Changes from 1.1.-30.6.1999	
a) Subscribed capital	
Capital increases	189
b) Additional paid-in capital	
Premiums from capital increases, conversions and exercise of option rights	(85)
c) Retained earnings	
Changes in group of consolidated companies and changes in foreign exchange rates	10
Shareholders' equity at June 30, 1999	12,009

[1] Including appropriation of net income available for distribution approved by the Annual General Meeting of Shareholders held on May 6, 1999.

Cash Flow Statement

in millions of €	1999	½ of 1998
Cash and cash equivalents as of January 1	4,824	2,014
Cash flow from operating activities	8,273	5,931
Cash flow from investment activities	(10,666)	(5,266)
Cash flow from financing activities	1,203	740
Effects of exchange rate changes on cash and cash equivalents	5	(1)
Cash and cash equivalents as of June 30	3,639	3,418

Changes in the balance of cash and cash equivalents are shown pro rata for 1998.

Notes To The Consolidated Income Statement[1]

(1) Net Interest Income

in millions of €	1.1.-30.6.1999	½ of1998
Earnings from		
lending and money market transactions	11,433	11,394
fixed-income securities and government-inscribed debt	1,459	1,283
Earnings in current operations from stocks and other variable-yield securities	82	74
and participating interests	22	33
shares in subsidiaries and affiliated companies	20	12
and shares in companies valuated using the equity method	7	16
Expenses		
for deposits	5,205	4,710
promissory notes and other liabilities evidenced by paper	5,044	5,382
subordinated capital	304	243
Leasing operations	37	41
Total	2,507	2,518

Breakdown of net interest income

by type of operation:

in millions of €	1.1.-30.6. 1999	½ of 1998
Commercial banking	1,515	1,491
Mortgage banking	992	1,027
Total	2,507	2,518

Interest Margin

Based on average risk assets:

in %	30.6.1999	31.12.1998
Total bank	2.47	2.53

Interest Margin

Based on average volume of business (without risk weighting):

in %	30.6.1999	31.12.1998
Commercial banking operations	1.25	1.36
Mortgage banking operations	0.82	0.86
Total bank	1.10	1.17

[1] Note (23) (Members of the Supervisory Board and Board of Managing Directors) is not included because such information is provided elsewhere in this Offering Circular.

(2) Provisions for Losses on Loans and Advances

	1.1.-30.6. 1999	½ of 1998
Additions	1,049	1,417
Reversals	365	563
Payments received for written-off loans	18	24
Total	666	830

Provisions for losses on loans and advances are calculated pro rata on the basis of the presumed annual requirements.

(3) Net Commission Income

in millions of €	1.1.-30.6.1999	½ of 1998
Securities and custodial services	550	501
Foreign trade operations	81	97
Money transfer operations	92	85
Lending operations	72	73
Other service operations	95	60
Total	890	816

(4) Gains Less Losses Arising From Trading Securities (Trading Profit)

in millions of €	1.1.-30.6.1999	½ of 1998
Equity contracts	93	89
Interest rate and currency contracts	119	155
Total	212	244

This item includes interest and dividend income totaling €256 million and refinancing costs resulting from trading activities totaling €171 million.

(5) General Administrative Expenses

in millions of €	1.1.-30.6.1999	½ of 1998
Personnel expense	1,286	1,237
Other administrative expenses	719	728
Depreciation and amortization on property, plant and equipment and other assets	242	198
Total	2,247	2,162

(6) Other Income

Other income includes the investments in the amount of €209 million (½ of 1998: €165 million).

(7) Other Expenses

in millions of €	1.1.-30.6.1999	½ of 1998
Depreciation and amortization of intangible assets	32	16
Other taxes	15	10
Losses assumed	28	12
Total	75	38

(8) Extraordinary Expenses

The extraordinary expenses refer to expenses in connection with the merger of Vereinsbank and HYPO-BANK and other consolidated companies.

(9) Segment Reporting

Operating performance, by division

	Private Investors and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers	International Markets	Asset Management	Other/ Consolidation	Group
in millions of €							
Operational earnings							
1.1.- 30.6.1999	1,596	731	805	582	121	(201)	3,634
½ of 1998	1,501	790	796	492	123	(80)	3,624
Provisions for losses on loans and advances							
1.1.- 30.6.1999	116	172	369	2	—	7	666
½ of 1998	149	427	290	1	—	(37)	830
Administrative expenses							
1.1.- 30.6.1999	1,248	405	290	225	82	(3)	2,247
½ of 1998	1,174	417	261	223	82	5	2,162
Operating profit							
1.1.- 30.6.1999	232	154	146	355	39	(205)	721
½ of 1998	178	(54)	245	268	41	(47)	631
Income before taxes[1]							
1.1.- 30.6.1999	224	159	154	314	142	(276)	717
½ of 1998	192	(78)	283	264	33	9	703

[1] 1998 excluding merger gains

Key ratios, by division

	Private Investors and Professionals	Corporate Customers	Real Estate Finance and Real Estate Customers	International Markets	Asset Management	Group
in %						
Cost-income ratio						
1.1.- 30.6.1999	78.2	55.4	36.0	38.7	67.8	61.8
1.1.- 31.12.1998	78.3	52.9	32.7	45.5	66.9	59.7
Return on equity after taxes						
1.1.- 30.6.1999	7.2	5.2	3.3	23.0	—	5.6
1.1.- 31.12.1998	7.5	(2.8)	7.6	21.7	—	6.1

Income before taxes[1], by commercial and mortgage banking business:

in millions of €	1.1.- 30.6.1999	½ of 1998
Commercial banking operations	214	190
Mortgage banking operations	503	513
Total	717	703

[1] 1998 excluding merger gains

Income before taxes, by geographic distribution[1]:

in millions of €	1.1.- 30.6.1999	½ of 1998
Germany	437	655
Other euro countries	73	71
Other Western European countries	89	41
Eastern Europe	45	8
America	72	9
Asia	1	(81)
Total	717	703

[1] 1998 excluding merger gains

Information On Balance Sheet

(10) Assets Held for Trading Purposes

in millions of €	30.6.1999	31.12.1998
Debt securities and other fixed-income securities	16,437	11,719
Equity securities and other variable-yield securities	3,624	2,018
Positive market values arising from derivative financial instruments	16,845	20,437
Other assets held for trading purposes	2,344	1,448
Total	39,250	35,622

(11) Lending Volume

By content:

in millions of €	30.6.1999	31.12.1998
Bills[1]	588	1,106
Loans to banks	30,325	29,661
Loans and advances to customers	309,953	305,064
Total	340,866	335,831

1) unless shown under loans and advances

By commercial and mortgage banking operations:

in millions of €	30.6.1999	31.12.1998
Commercial banking operations	97,143	98,197
Mortgage banking operations	243,723	237,634
of which:		
Mortgage loans	154,327	149,452
Housing loans	103,377	100,045
Loans to trade and industry and other loans	50,950	49,407
Municipal loans	89,396	88,182
Total	340,866	335,831

Analysis of mortgage banking operations

in millions of €	1.1.-30.6.1999	1.1.-30.6.1998
New mortgage loan commitments	12,662	12,332
Housing loans	8,378	8,536
Loans to trade and industry and other loans	4,284	3,796
New municipal loan commitments	12,865	8,793
Total	25,527	21,125

(12) Provisions for Losses on Loans and Advances

in millions of €	1999
Analysis of provisions for losses on loans and advances:	
Balance at January 1	7,983
Changes affecting income	
+ Additions	1,049
− Write-backs	365
Changes not affecting income	
+/− Changes in the balance due to initial and final consolidations	+50
− Use of existing provisions for losses on loans and advances	257
+/− Effects of currency translation and other changes not affecting income	+87
Balance at June 30	8,547

(13) Investments

in millions of €	30.6.1999	31.12.1998
Non-consolidated subsidiaries and affiliated companies	672	672
Companies accounted for using the equity method	544	538
Participating interests	1,263	1,372
Debt securities and other fixed-income securities	51,255	42,047
Equity securities and other variable-yield securities	7,411	6,872
Total	61,145	51,501

(14) Deposits From Other Banks, by Maturity

in millions of €	30.6.1999	31.12.1998
Repayable on demand	9,564	6,997
With agreed maturities	71,351	61,149
Total	80,915	68,146

(15) Amounts Owed to Other Depositors, by Maturity

in millions of €	30.6.1999	31.12.1998
Savings deposits and construction loan savings deposits	17,804	17,687
Other deposits	128,858	129,843
repayable on demand	30,311	32,524
with agreed maturities	98,547	97,319
Total	146,662	147,530

(16) Promissory Notes and Other Liabilities Evidenced by Paper, by Maturity

in millions of €	30.6.1999	31.12.1998
With agreed maturities		
up to 3 months	44,187	32,110
from 3 months to 1 year	35,337	29,312
from 1 year to 5 years	78,239	95,934
from 5 years and over	48,981	31,851
Total	206,744	189,207

(17) Provisions and Accruals

in millions of €	30.6.1999	31.12.1998
Provisions for pensions and similar obligations	1,812	1,828
Other provisions and accruals (including tax liabilities)	2,553	2,415
Total	4,365	4,243

(18) Other Liabilities

"Other liabilities" contains the profit for the period from 1.1. to 30.6.1999 and the profit available for distribution in the comparable figure for fiscal 1998.

In accordance with the proposal for appropriation of net income available for distribution approved by the Annual General Meeting of Shareholders on May 6, 1999, the profit available for distribution (€341 million) was used to pay a dividend of €0.82 (DM1.60) per common share and €0.89 (DM1.75) per preferred share.

(19) Subordinated Capital

in millions of €	30.6.1999	31.12.1998
Subordinated liabilities	8,648	7,593
Participating certificates outstanding	1,752	1,808
Total	10,400	9,401

Other Information

(20) Contingent Liabilities and Other Commitments

in millions of €	30.6.1999	31.12.1998
Contingent liabilities	23,465	23,841
including:		
guarantees and indemnities	23,348	22,977
Other commitments	61,176	58,500
including:		
irrevocable credit commitments	57,190	57,889
Total	84,641	82,341

(21) Futures Contracts

The following interest rate, foreign exchange, equity and index-related futures contracts were still outstanding at the balance sheet date. These transactions are subject to default risk, in particular to price risk arising from changes in interest rates, exchange rates and equity prices.

	Notional amount		Default risk	
in billions of €	**30.6.1999**	**31.12.1998**	**30.6.1999**	**31.12.1998**
Interest rate contracts	1,014	710	12	14
Currency contracts[1]	306	287	8	5
Equity/index contracts	27	26	1	1
Total	1,347	1,023	21	20

[1] including precious metal contracts

(22) Potential Market Risk of Trading Positions (Value at Risk)

Market risk arises when the prices of interest rate, foreign exchange and equity/index products and their related derivatives change. The Bank assesses the potential market risk of trading positions on a value-at-risk-basis (see Annual Report 1998, Vol. 2, p. 17 and p. 76 for more information on method of calculation).

in millions of €	**30.6.1999**	**31.12.1998**
Value at risk:		
Interest rate contracts	115	97
Currency contracts	37	35
Equity/index contracts	79	68
Total	231	200

No dealer, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer contained herein, other than those contained in this Offering Circular, and, if given or made, such information or representations must not be relied upon as having been authorized by the Trust, the LLC, HypoVereinsbank or the Initial Purchasers. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any security other than those to which it relates nor does it constitute an offer to sell, or a solicitation of an offer to buy, any security to any person in any jurisdiction in which such an offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Trust, the LLC or the HypoVereinsbank Group since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

TABLE OF CONTENTS

	Page
Additional Information	4
Enforcement of Civil Liabilities	4
Forward-Looking Statements	5
Presentation of Financial Information	5
Exchange Rate and Currency Information	6
Notice to Investors	7
Overview	10
Summary	13
Risk Factors	41
Capitalization of the HypoVereinsbank Group	45
Capital Ratios of HypoVereinsbank	46
Capitalization of the LLC	47
Use of Proceeds	48
Description of HypoVereinsbank	49
Description of the New York Branch	78
Selected Consolidated Financial Information	79
Management's Discussion and Analysis of Financial Conditions and Results of Operations	83
Supervision and Regulation	114
Management of the LLC	126
Description of the Partnership Interests	129
Description of the Certificates	141
Description of the Subordinated Note and the Waiver and Improvement Agreement	150
Certain U.S. Federal Income Tax Considerations	155
Certain ERISA Considerations	159
Plan of Distribution	161
Legal Matters	162
Auditors	162
Custody, Clearance and Settlement	162
Summary of Certain Significant Differences Between IAS and U.S. GAAP	164
Form of Investment Representation Letter	A-1
Index to Consolidated Financial Statements	F-1

HypoVereinsbank

$200,000,000

200,000
Dated Silent Partnership Certificates

HVB Funding Trust III

9.00% Non-cumulative Dated Silent Partnership Certificates
(Liquidation Amount $1,000 per Dated Silent Partnership Certificate)

Each representing a Dated Silent Partnership Interest in

HVB Capital LLC III

(a wholly-owned subsidiary of Bayerische Hypo- und Vereinsbank AG)

OFFERING CIRCULAR

Merrill Lynch & Co.

October 15, 1999