

SERVING MUNICH
2002 ANNUAL REPORT



Stadtparkasse München



	2002	2001	+/-
	in millions of euros	in millions of euros	in %
BALANCE SHEET TOTAL	13,091	12,992	+0.8
Total lendings	7,715	7,238	+6.6
Total deposits (including debt securities in issue)	10,758	10,619	+1.3
Turnover in securities brokerage	840	1,020	- 17.6
Equity capital	599	565	+6.0
Net income after tax	34	31	+10.8

	2002	2001	+/-
CUSTOMERS	690,600	687,200	+0.5
thereof - personal account holders	364,600	366,100	- 0.4
- corporate account holders	26,600	25,800	+ 3.3
- users of online banking services	148,900	115,600	+31.2
- users of telephone banking services	148,000	136,500	+8.4
EMPLOYEES IN BANK-SPECIFIC AREAS	2,781		
Apprentices	348		
BRANCHES	108		
Self-service points	19		
Personal banking customer support centres	16		
Corporate banking customer support centres	6		
ATMs	182		
Info terminals	204		
Service terminals	134		
Deposit machines for bank notes	17		
Deposit machines for coins	25		

THE FOCUS OF OUR BUSINESS POLICY

Directors' statement
Stadtsparkasse München

Dear customers, business partners
and employees of
Stadtsparkasse München,

In the past year, Stadtsparkasse München achieved a very satisfactory business result, in particular given the general situation, which was not exactly favourable: The economy stagnated, the number of failed businesses rose sharply and the employment situation deteriorated. The basis of this success against the trend was and is provided by both our customers and our staff, whom we thank for their confidence and commitment.

However, we also owe our success to a risk-conscious business policy and to our efforts to satisfy our customers by offering a broad range of financial services. This focus on the customer will continue to mark our decisions.

With respect to the general economic conditions we do not expect a significant improvement for 2003. We prepared at an early stage for the changes on the market and for the challenges resulting from new supervisory regulations. In order to maintain a high level of competitiveness and productivity we will continue to improve our cost management and restructure our dense network of branches.

Despite a number of imponderable factors we are optimistic about the current fiscal year: We are convinced that Stadtsparkasse München will successfully defend its position as the leading credit institution in the Munich area.

Thanks to this, Munich will continue to benefit from our achievement. Our private clients will continue to receive tailor-made solutions. Our corporate customers will continue to find competent support. Our owner, the City of Munich, and the entire Munich population will continue to profit from our financial success and our wide social commitment.

In short, our services for our customers, the City of Munich and its citizens will still be the focus of our business policy in 2003.



Executive Board, from left:
Joachim Ebener, Adolf Strack,
Harald Strötgen (Chief Executive),
Dr. Thomas Grützemacher

Strötgen

Dr. Grützemacher

Strack

Ebener

ABOUT STADTSPARKASSE MÜNCHEN

We are the largest savings bank in Bavaria and with our 127 branches and self-service points as well as additional support centres for private and corporate customers we are represented within the entire Munich city area. As a modern service provider we are a competent partner for private customers, commercial clients and municipal bodies.

With more than 690,000 customers we hold the leading position in private banking in Munich and also have a strong standing in corporate banking, particularly with small and medium-sized companies.

In close co-operation with the other institutions of the Sparkassen-Finanzgruppe network and with correspondent banks abroad we offer our customers the complete range of high-level financial products.

Our efforts focus on our customers. Impeccable service, friendliness, discretion, a trusting business relationship and competence are the values that determine our business policy.

The success of our business is based on the commitment of our staff. They are our most valuable resource. This is why we attach considerable importance to the personal and professional development and encouragement of our employees.

Through our lending business we support the economic development of the Munich area. In this context, an important task of our institution is to provide SMEs access to governmental promotion schemes.

We are a market-oriented local credit institution with a long tradition. Being the oldest credit institution in Munich, we take our social responsibilities seriously. Therefore our services for Munich are not confined to banking.

In various committees and institutions, we seek to strengthen Munich's standing as a place to do business and we make a major contribution to the city's budget through the trade tax. With our four foundations we support a large number of cultural, social and ecological projects for the benefit of Munich's citizens. ■

WE ARE THE LARGEST SAVINGS BANK IN BAVARIA AND WITH OUR 127 BRANCHES AND SELF-SERVICE POINTS AS WELL AS ADDITIONAL SUPPORT CENTRES FOR PRIVATE AND CORPORATE CUSTOMERS WE ARE REPRESENTED WITHIN THE ENTIRE MUNICH CITY AREA.



Administration centre, lobby

SERVING MUNICH

*Interview with Stadtparkasse München
Chief Executive Harald Strötgen*



PERFORMING AS A COMPANY GOES BEYOND OFFERING GOOD PRODUCTS AND COMPETENT CUSTOMER SUPPORT. IT IS ALSO A QUESTION OF SOCIAL COMMITMENT.

Mr. Strötgen comments on the financial success of his institution and the services provided by Stadtparkasse München to its customers, the City of Munich and the Munich population:

Mr. Strötgen, last year your institution achieved a remarkable business result whereas other banks suffered losses – what are the reasons for this success?

Strötgen: The basis for this positive development was our strong position among the Munich banks: Where money is concerned every second customer in Munich chooses Stadtparkasse. As we concentrate on the local market we can adapt to the requirements of the Munich population and the local companies and are thus able to offer them tailor-made solutions.

Our business philosophy puts quality before size. Also, we do not feel the need to follow every fashion in the financial sector, such behaviour only drives expenses up. Our rather cautious business policy has a stabilising effect.

Given the record number of failed businesses, however, it is difficult to avoid setbacks in the credit business.

Strötgen: That's right. We may have been a bit lucky in this respect. In addition, we benefit from the economic strength of the Munich area. The high valuation of our loan portfolio is above all the result of the early precautions that we took in order to avoid too large risk positions.

Could you outline these precautions?

Strötgen: About seven years ago, for instance, we separated customer support and risk assessment in corporate finance and introduced the “four-eyes” principle. This means that two individuals independently analyse each request for a loan. Moreover, we take into account the individual risk in determining our conditions.

So much for the financial record; is the social record of Stadtparkasse München equally good?

Strötgen: I think so. In 2002, for instance, we increased our trade tax payments by 46 % to 17 million euros. We intentionally refrained from tax saving measures and are thus the third largest trade tax payer in Munich.

The citizens of Munich will be glad to hear that, considering the City’s tight budget situation.

Strötgen: Right. Another positive effect for Munich – more specifically the labour market – results from the fact that, at a time of severe job cuts, Stadtparkasse München refrains from layoffs despite its cost reduction programme. Moreover, we offer apprenticeships – and thus career perspectives – to more than 100 young men and women every year.

How else do Munich and its citizens benefit from the fact that Stadtparkasse München is a municipal credit institution with a public mission?

Strötgen: Together with our four foundations we spent more than 1.2 million euros last year to support cultural, social and sports projects and institutions. I would also like to mention that we fix the rents for our more than 1500 apartments at the lower end of the market price range. And the more than 10,000 accounts that we keep for people who encountered liquidity problems in the past fall under our public mission as well.

What is more, unlike many other banks at this time, we have not withdrawn from the loan business with smaller enterprises. Savings banks are particularly involved in the placement of governmental promotion schemes; for commercial loans their share reaches about 40 %, in the financing of start-up enterprises even more than 50 %. I think that is quite a respectable record, too. ■

BUSINESS REVIEW 2002

SUCCESSFUL AGAINST THE TREND

The general economic situation developed moderately in 2002. While the German GDP grew by only 0.2 % the number of business failures rose again by a two-digit figure. The major German stock market index DAX closed the year with a loss of nearly 44 %, the New Market index Nemax50 dropped by about 69 %.

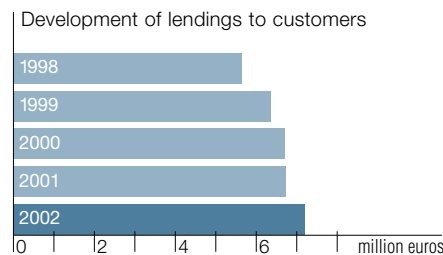
Most reports from the banking industry were also unsatisfactory: Drops in operational income and bad loans increased the pressure to cut costs, which lead to the elimination of branches and jobs.

Contrary to this trend, we completed the fiscal year 2002 successfully.

LOAN PORTFOLIO EXPANDED DESPITE ECONOMIC SLOWDOWN

In total our lendings to customers increased to 7.7 billion euros (+ 6.6 %). Loans to public bodies reached 559 million euros (+ 121.2 %). Private and corporate borrowing, however, was rather moderate due to the modest overall development, the high costs weighing on companies and rising unemployment.

We increased our exposure to commercial clients to 3.9 billion euros (+ 1.9 %) and lendings to private customers to 3.6 billion euros (+ 3.3 %). While demand for consumer credits was rather low the construction financing business reached a volume of 3.5 billion euros (+ 4.3 %).



As a result, our balance sheet total grew to 13.1 billion euros (+ 0.8 %).

ONLY SLIGHT GROWTH IN DEPOSITS DUE TO EURO SIDE EFFECTS

On-balance sheet deposits including debt securities in issue increased by 138.7 million euros to 10.8 billion euros (+ 1.3 %). The main reason for this relatively modest growth was a side effect of the introduction of the euro coins and notes: At the end of 2001 our customers paid most of their DM cash into their accounts in order to have the money automatically converted into euros. Then, in early 2002, a major part of these funds, which represented a nine digit amount, was withdrawn again. This drain could not be compensated until the second half of the year.

PURCHASES OF SECURITIES EXCEED SALES AGAIN

With regard to stocks and interest-bearing securities issued by third parties, purchases predominated again after the net sales of securities recorded in 2001. Sales of investment trust units remained virtually unchanged. However, since the volume of stock transactions diminished in comparison to the previous year the overall turnover realised in securities brokerage decreased to 840 million euros (-17.6 %).

RESPECTABLE RESULTS IN THE SERVICES AND BROKING BUSINESS

In the service business we defended our leading position in the Munich area once again with the number of our customers growing to 619,000 (+ 0.5 %). Statistically, every second inhabitant of Munich is a customer of our bank.

Sales of endowment policies increased by nearly 7 %, the total of the contributions even by more than 12 %. The number of savings contracts brokered for the LBS Bayern building society rose by 22 %, the volume even grew by 35 % to reach 208 million euros. This makes us the most successful agent for LBS Bayern. ▶



Inside our headquarters building

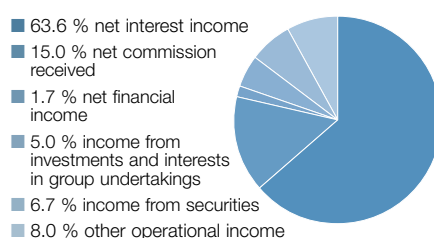
► In real estate broking, however, we recorded a decrease by nearly 7 %. The general decline in demand for real property reflects the uncertain overall situation and the resulting reluctance to contract debts.

NET INCOME UP 11 %

Our cost/income ratio was reduced from 73.4 % to 69.7 %. We intend to further improve our income situation through a profitability programme started in 2002 in order to stay competitive and be able to continue providing a comprehensive service to our customers.

Interest income increased to about 300 million euros (+ 8.1 %). Net commission received diminished slightly to 61 million euros (- 1.5 %). A major cause for this was the decline in the foreign currency exchange business which resulted from the introduction of the euro coins and notes. Despite turbulent stock market conditions the net financial income increased to 7.0 million euros (+ 42.9 %).

Composition of Stadtsparkasse München's ordinary income



Staff costs rose to approximately 160 million euros (+ 7.4 %). This increase was essentially due to paid overtime and the need for temporary staff during the introduction of the euro coins and notes as well as a one-time bonus for our employees.

Taxes paid increased to 38 million euros (+ 13.1 %); this sum includes 17 million euros in trade tax, which are directly available to the City of Munich.

Our overall surplus reached 34.1 million euros, exceeding the result of the previous year by 10.8 %. The solid valuation result of 50.1 million euros (previous year: 49.8 million euros) reflects the sound risk structure of our loan portfolio. We will make every effort to keep it that way.

OPTIMISTIC OUTLOOK

In order to comply with the new capital adequacy regulations for credit institutions resulting from the Basle II accord we introduced a new risk evaluation system for our commercial borrowers in the spring of 2003.

We assume to be able to consolidate our lead in private banking in the Munich area and our important position in the financing of small and medium-sized enterprises.

On the whole, we expect to achieve a constant result in fiscal year 2003. ■

FINANCIAL STATEMENTS



BALANCE SHEET

as of December 31, 2002

ASSETS amounts in thousands of euros

Dec. 31, 2001

1. Cash reserve				
a) Cash in hand		86.663		55.587
b) Balance with Deutsche Bundesbank		40.132		112.397
c) Balance with postal giro bodies		—		—
			126.795	167.984
2. Debts of public bodies and bills of exchange which are admitted for refinancing at the Deutsche Bundesbank				
a) Treasury bills and non-interest-bearing treasury bonds as well as related debts of public bodies		—		—
b) Bills of exchange		—		246
			—	246
3. Debts receivable from credit institutions				
a) payable daily		201.984		64.680
b) other debts receivable		889.429		1.182.009
			1.091.413	1.246.689
4. Debts receivable from customers			7.714.540	7.237.823
thereof: secured by mortgages	1.038.161			(1.017.405)
loans to local authorities	751.333			(439.662)
5. Bonds and other securities with a fixed interest rate				
a) Money market securities				
aa) by public issuers		—		—
thereof: eligible as collateral at the Deutsche Bundesbank		—		(—)
ab) by other issuers		—		—
thereof: eligible as collateral at the Deutsche Bundesbank		—		(—)
			—	—
b) Loans and bonds				
ba) by public issuers		—		25.279
thereof: eligible as collateral at the Deutsche Bundesbank		—		(14.797)
bb) by other issuers		2.941.419		3.154.683
thereof: eligible as collateral at the Deutsche Bundesbank	1.659.520			(2.129.240)
		2.941.419		3.179.962
c) Own bonds		43.527		45.883
Nominal amount	41.530			(43.946)
			2.984.946	3.225.845
6. Shares and other non-interest-bearing securities			605.038	561.542
7. Investments			216.995	187.665
thereof: in credit institutions		—		(—)
in financial services institutions		—		(—)
8. Interests in group undertakings			526	526
thereof: in credit institutions		—		(—)
in financial services institutions		—		(—)
9. Trust assets			57.342	58.886
thereof: loans on a trust basis	57.342			(58.886)
10. Equalisation claims against public authorities including bonds resulting from the conversion of those claims			—	—
11. Intangible assets			—	—
12. Tangible fixed assets			185.968	191.542
13. Other assets			99.402	103.503
14. Prepayments and accrued income			7.819	9.637
TOTAL			13.090.784	12.991.888

LIABILITIES amounts in thousands of euros

Dec. 31, 2001

1. Liabilities to credit institutions			
a) payable daily		73.400	55.964
b) subject to an agreed term or period of notice		1.221.169	1.322.188
			<u>1.378.152</u>
		1.294.569	
2. Liabilities to customers			
a) savings deposits			
aa) subject to an agreed period of notice of three months	4.690.067		4.562.706
ab) subject to an agreed period of notice of more than three months		155.776	173.403
			<u>4.736.109</u>
		4.845.844	
b) other deposits (liabilities)			
ba) payable daily	3.508.473		3.413.244
bb) subject to an agreed term or period of notice		1.482.400	1.562.179
			<u>4.975.423</u>
		4.990.873	
		9.836.717	9.711.532
3. Debt securities in issue			
a) bonds issued		921.019	907.502
b) other debt securities in issue		–	–
<i>thereof: money market securities</i>	–		(–)
<i>acceptances and promissory notes in circulation</i>	–		(–)
			<u>907.502</u>
		921.019	
4. Trust liabilities			57.342
<i>thereof: trust loans</i>	57.342		(58.886)
5. Other liabilities			21.538
6. Accruals and deferred income			33.373
7. Provisions and reserves			
a) for pensions and related obligations		123.340	122.381
b) for taxes		901	47
c) other		112.705	87.775
			<u>210.203</u>
		236.946	
8. Special items including a reserve element			660
9. Subordinated liabilities			89.549
10. Profit participating rights capital			–
<i>thereof: payable within two years</i>	–		(–)
11. Fund for usual risks of banking business			–
12. Equity capital			
a) subscribed capital		–	–
b) capital reserve		–	–
c) revenue reserve			
ca) contingency reserve	582.000		549.588
cb) other reserves		–	–
		582.000	549.588
d) net profit for the year		17.071	15.412
			<u>565.000</u>
		599.071	
TOTAL			13.090.784
			12.991.888
1. Contingent liabilities			
a) from bills sold and cleared		–	–
b) from guarantees and performance bonds		257.441	321.565
c) collateral provided for third party liabilities	–	–	–
			<u>321.565</u>
		257.441	
2. Other obligations			
a) repurchase obligations arising from security sale agreements		–	–
b) obligations arising from placements and underwritings		–	–
c) unqualified loan commitments		185.624	250.566
			<u>250.566</u>
		185.624	

PROFIT AND LOSS ACCOUNT

for the period from January 1 to December 31, 2002

amounts in thousands of euros

Jan. 1 to
Dec. 31, 2001

1. Interest income from			
a) lending and money market transactions	545.116		583.305
b) fixed-interest bearing securities and debt register claims	<u>144.638</u>		<u>138.954</u>
		689.755	722.259
2. Interest expenditure		<u>433.192</u>	<u>500.304</u>
		256.563	221.955
3. Current income from			
a) shares and other securities which do not bear a fixed interest rate		26.852	36.877
b) investments		18.247	19.472
c) interests in group undertakings		<u>1.773</u>	<u>2.294</u>
		46.871	58.643
4. Income from profit pools and profit transfer agreements		35	10
5. Commissions receivable		66.036	66.106
6. Commissions payable		<u>5.579</u>	<u>4.722</u>
		60.457	61.384
7. Net financial income or expenses		7.042	4.930
8. Other operational income		32.446	43.360
9. Transfers from special tax-allowable reserves		2.395	5.351
		405.810	395.633
10. General administrative expenses			
a) Staff costs			
aa) Wages and salaries	121.298		112.834
ab) social insurance contributions and expenses for pensions and benefits thereof: for pensions	<u>43.038</u>		<u>41.858</u>
	16.857	164.335	(18.845)
		154.692	154.692
b) other administrative expenses		<u>71.780</u>	<u>66.635</u>
		236.115	221.327
11. Depreciation and amortisation of intangible and tangible fixed assets		30.115	33.063
12. Other operational expenses		18.059	29.909
13. Provisions for bad and doubtful debts and depreciation of specific securities		50.067	49.750
	–	–	–
14. Reversal of provisions for bad and doubtful debts and appreciation of specific securities		–	–
		50.067	49.750
15. Depreciation and amortisation of investments, interests in group undertakings and securities recorded as fixed assets		–	–
16. Appreciation of investments, interests in group undertakings and securities recorded as fixed assets		318	2.489
		318	2.489
17. Expenses arising from the transfer of losses		–	–
18. Transfers to special tax-allowable reserves		14	–
19. Profit or loss on ordinary activities		71.758	64.073
20. Extraordinary income		–	–
21. Extraordinary expenses		–	–
22. Extraordinary profit or loss		–	–
23. Taxes on income and profit		37.042	32.712
24. Other taxes not shown under item 12		<u>646</u>	<u>610</u>
		37.687	33.322
25. Profit for the year		34.071	30.751
26. Profit/loss brought forward from previous year		–	–
		34.071	30.751
27. Withdrawals from revenue reserves			
a) from contingency reserve		–	–
b) from other reserves		–	–
		–	–
		34.071	30.751
28. Allocations to revenue reserves			
a) to contingency reserve		17.000	15.339
b) to other reserves		–	–
		17.000	15.339
29. Net profit for the year		17.071	15.412

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