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€500,000,000 RESPARC Securities

issued by

RESPARCS Funding II Limited Partnership

(a limited partnership established under the laws of Jersey on 17 April 2003)

for purposes of acquiring a silent capital interest in the
commercial enterprise (*Handelsgewerbe*) of

Landesbank Schleswig-Holstein Girozentrale

(a public law institution established under the laws of the German Federal State Schleswig-Holstein which is intended to be merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of merger into a newly established entity under German law (*Verschmelzung zur Neugründung*))

Issue price of the RESPARC Securities: 100 per cent.

The issue price of the €500,000,000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities in the denomination of €1,000 each (the “RESPARC Securities”), issued by RESPARCS Funding II Limited Partnership (the “Issuer”), a limited partnership established under the laws of Jersey on 17 April 2003, is 100 per cent. of their principal amount.

The RESPARC Securities will bear interest from (and including) 28 May 2003 at a rate of 7.5 per cent. per annum, payable annually in arrear on 30 June of each year, commencing on 30 June 2004. Payments may be delayed and are contingent on the Issuer’s actual receipt of funds as described in “Terms and Conditions of the RESPARC Securities”. The RESPARC Securities are redeemable in whole, but not in part, at the option of the Issuer on 30 June 2009 or on 30 June of any year thereafter as described in “Terms and Conditions of the RESPARC Securities”.

With the proceeds of the issue, the Issuer will acquire a silent capital interest (the “Participation”) in the commercial enterprise (*Handelsgewerbe*) of Landesbank Schleswig-Holstein Girozentrale (“LB Kiel”) which is intended to be merged with Hamburgische Landesbank Girozentrale (“Hamburg LB” or “HLB”) into HSH Nordbank Aktiengesellschaft (“HSH Nordbank”) with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity under German law (*Verschmelzung zur Neugründung*) (the “Merger”) (see “The Imminent Merger between LB Kiel and Hamburg LB”) in the form of a *Stille Gesellschaft* under German law pursuant to an agreement providing for an asset contribution by the Issuer to LB Kiel in the amount of €500,000,000 (the “Silent Contribution”) and dated 23 May 2003 (the “Participation Agreement”). The Issuer expects to fund interest payments on the RESPARC Securities with distributions received under the Participation Agreement and funds received from LB Kiel’s Luxembourg branch under a loan agreement.

Landesbank Schleswig-Holstein International S.A., a Luxembourg financial institution and wholly-owned subsidiary of LB Kiel, has undertaken in an undertaking agreement dated 26 May 2003 (the “Support Undertaking”) with the Issuer to ensure that the Issuer will at all times be in a position to meet its payment obligations under the RESPARC Securities. The Support Undertaking is not a guarantee or undertaking that the Issuer will at any time have sufficient assets to make payments under the RESPARC Securities. Payments under the Support Undertaking are subordinated and rank *pari passu* with payments under the Participation Agreement.

Investing in the RESPARC Securities involves certain risks. Please review the section entitled “Investment Considerations” beginning on page 23 of this Offering Circular.

The RESPARC Securities will initially be represented by a temporary global security in bearer form without coupons which will be deposited on or about 28 May 2003 (the “Issue Date”) with Clearstream Banking AG, Frankfurt am Main (“Clearstream Frankfurt”), where the RESPARC Securities have been accepted for clearance. It is expected that delivery of the RESPARC Securities will be made through Clearstream Frankfurt (including its participants Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking S.A., Luxembourg (“Clearstream Luxembourg”) against payment therefor in immediately available funds on or about the Issue Date. The temporary global security will be exchangeable for a permanent global security in bearer form upon certification as to non-US beneficial ownership. In certain limited circumstances the global securities can be exchanged for definitive RESPARC Securities.

The RESPARC Securities have not been, and will not be registered under the U.S. Securities Act of 1933, as amended (the “1933 Act”), or under any state securities laws and may not be offered, sold or delivered in the United States unless registered under the 1933 Act or if an exemption from the registration requirements of the 1933 Act is available. The RESPARC Securities are being offered and sold only to certain persons in transactions outside the United States in compliance with Regulation S under the 1933 Act.

Application has been made to list the RESPARC Securities on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam NV.

Joint Bookrunner

BNP PARIBAS

Joint Bookrunner and Structuring Advisor

LEHMAN BROTHERS

Joint Bookrunner

UBS WARBURG

Co-Lead Manager

DEUTSCHE BANK

The date of this Offering Circular is 28 May 2003

LB Kiel accepts responsibility for the information contained in this Offering Circular. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer accepts responsibility for the information in this Offering Circular about itself and the description of the Transaction (as defined in “Summary”) but does not accept responsibility for any other information contained in this Offering Circular.

In connection with the issue and sale of the RESPARC Securities, no person is authorised to give any information or to make any representation not contained in this document and in the documents referred to herein, which are made available for inspection by the public and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, LB Kiel or the Managers (as defined in “Subscription and Sale”).

The Jersey Financial Services Commission (the “Commission”) has given and has not withdrawn its consent under Article 8 of the Control of Borrowing (Jersey) Order 1958 to the creation by the Issuer of the limited partnership interests in the Issuer. The Commission is protected by the Borrowing (Control) (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that Law.

Nothing in this Offering Circular or anything communicated to holders of, or investors in, the RESPARC Securities (or any such potential Securityholders or investors) is intended to constitute, or should be construed as, advice on the merits of the purchase of, or subscription for, the RESPARC Securities or the exercise of any rights attached thereto for the purposes of the Financial Services (Jersey) Law 1998, as amended.

An investment in the RESPARC Securities is suitable only for financially sophisticated investors who are capable of fully evaluating the risks involved in making such investments and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investments.

Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for the acquisition, holding or disposal of RESPARC Securities and any foreign exchange restrictions that might be relevant to them. This offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, LB Kiel or the Managers to subscribe for or to purchase any of the RESPARC Securities.

Prospective investors should satisfy themselves that they understand all of the risks associated with making investments in the RESPARC Securities. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the RESPARC Securities, he should consult professional advisers.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, LB Kiel or the Managers that any recipient of this Offering Circular should purchase any of the RESPARC Securities. Each investor contemplating purchasing RESPARC Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and LB Kiel.

The distribution of this document and the offering or sale of the RESPARC Securities in certain jurisdictions may be restricted by law. None of the Issuer, LB Kiel or the Managers represent that this document may be lawfully distributed, or that the RESPARC Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, none of the Issuer, LB Kiel or the Managers has taken any action which would permit a public offering of the RESPARC Securities or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no RESPARC Securities may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or the RESPARC Securities may come, must inform themselves about, and observe, any such restrictions (see “Subscription and Sale” for a description, *inter alia*, of certain restrictions on offers, sales and deliveries of the RESPARC Securities). Neither the delivery of this Offering Circular nor any sale

hereunder shall create under any circumstances any implication that there has been no change in the affairs of the Issuer, LB Kiel or the LB Kiel Group (as defined in “Presentation of Financial Information”) since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

It should be noted that the RESPARC Securities do not represent partnership interests in the Issuer.

The RESPARC Securities have not been, and will not be, registered under the 1933 Act and are securities in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the RESPARC Securities may not be sold or delivered, directly or indirectly, within the United States or its possessions or to U.S. persons.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Offering Circular includes forward-looking statements. These statements relate to LB Kiel's and in particular, following the Merger, HSH Nordbank's future prospects, developments and business strategies. They are based on analyses of forecasts of future results and estimates of amounts not yet determinable or foreseeable. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references to assumptions. These statements are contained, in particular, in the sections entitled "Summary", "Investment Considerations", "Business", "The Imminent Merger between LB Kiel and Hamburg LB" and other sections of this Offering Circular.

These forward-looking statements involve risks, uncertainties and other factors that may cause the actual future results or events to be materially different from those suggested or described in this Offering Circular. Many of the factors that will determine these results or events are beyond LB Kiel's and, following the Merger, HSH Nordbank's control. Such factors include, among others, uncertainties in respect of the overall economic development, loan defaults, difficulties in integrating the operations of LB Kiel and Hamburg LB in the context of the Merger, court proceedings or other proceedings such as the formal investigation of the European Commission in respect of illegal state aid, maintenance of appropriate refinancing conditions and, generally, the economic and business framework of the markets relevant for LB Kiel's and, following the Merger, HSH Nordbank's business.

The risks described above and in the section entitled "Investment Considerations" are not comprehensive. New risks, uncertainties and other factors may emerge from time to time and it is not possible for LB Kiel to predict all such risk factors, to assess the impact of all such risk factors on its business (or, following the Merger, the business of HSH Nordbank) or the extent to which any factor, or combination of factors, may cause actual results or events to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, the investor should not place undue reliance on forward-looking statements as a prediction or guarantee of actual results or events.

PRESENTATION OF FINANCIAL INFORMATION

LB Kiel's unconsolidated and consolidated financial statements have been prepared in accordance with German GAAP and have been audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany. All of the financial information presented in this Offering Circular and relating to LB Kiel is based on LB Kiel's consolidated and unconsolidated financial statements as of and for the years ended 31 December 2000, 2001 and 2002, including the notes thereto. LB Kiel's consolidated financial statements as of and for the years ended 31 December 2000, 2001 and 2002 reflect figures of LB Kiel, including LB Kiel's economically and operationally independent business areas Landes-Bausparkasse ("**LBS**") and Investitionsbank Schleswig-Holstein ("**Investitionsbank**") and its subsidiaries Landesbank Schleswig-Holstein International, S.A. ("**LI**"), Gudme Raaschou Bankaktieselskab and LB Kiel's 49.5 per cent. interest in Hamburgische Landesbank – Girozentrale ("**Hamburg LB**") which LB Kiel consolidates according to the proportional consolidated method (together, the "**LB Kiel Group**" or "**the Group**"). LB Kiel's consolidated financial statements as of and for the years ended 31 December 2001 and 2002 also reflect figures of the casinos of Schleswig-Holstein which LB Kiel consolidated for the first time in 2001.

Hamburg LB's unconsolidated and consolidated financial statements have been prepared in accordance with German GAAP and have been audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, Germany. All of the financial information presented in this Offering Circular relating to Hamburg LB is based on the Hamburg LB's consolidated and unconsolidated financial statements as of and for the years ended 31 December 2000, 2001 and 2002, including the notes thereto.

The opening balance sheet of HSH Nordbank as of 1 January 2003 has been prepared in accordance with the provisions of the German Transformation Act (*Umwandlungsgesetz*) in combination with German GAAP and has been filed with the commercial register (*Handelsregister*) in the context of the registration procedure relating to the Merger. The opening balance sheet has not been audited.

LB Kiel and Hamburg LB publish their consolidated and unconsolidated financial statements in each case in euros. As used in this Offering Circular, "euro" or "€" means the single unified currency that was introduced in the Federal Republic of Germany and the other participating member states of the European Union on 1 January 1999. "Deutsche Mark", "DEM" or "DM" means the sub-unit of the euro designated as such within the European Union, or, with respect to any time or period before 1 January 1999, means the lawful currency of the Federal Republic of Germany.

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In connection with this issue, Lehman Brothers International (Europe) or any person acting for it may, on behalf of the Managers, over-allot or effect transactions with a view to supporting the market price of the RESPARC Securities at a higher level than that which might otherwise prevail for a limited period. However, there is no obligation on Lehman Brothers International (Europe) or any agent of it to do this. Such stabilising may be effected on the Frankfurt Stock Exchange, the Official Segment of the stock market of Euronext Amsterdam N.V. or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all relevant laws and regulations.

SUMMARY

Summary of the Transaction

*The following paragraphs contain a brief overview of the most significant features of the transaction consisting of the issuance of the RESPARC Securities by the Issuer and payment of the proceeds therefrom to LB Kiel under the Participation Agreement (the “**Transaction**”). This overview is necessarily incomplete and investors are urged to read carefully the entire summary and the full text of the Offering Circular for a more precise description of the offered RESPARC Securities and the information concerning (i) the Transaction, (ii) LB Kiel (i.e., after the Merger, HSH Nordbank) and the Issuer and (iii) the agreements among them. The following description is based on the situation on the Issue Date of the RESPARC Securities. Upon effectiveness of the Merger, HSH Nordbank will assume the legal position of LB Kiel (see “The Imminent Merger between LB Kiel and Hamburg LB”) and references to LB Kiel shall (as set forth below) be read as references to HSH Nordbank.*

The Issuer proposes to issue €500,000,000 RESPARC Securities. With the proceeds of issue of the RESPARC Securities, the Issuer will acquire a silent capital interest in the aggregate amount of €500,000,000 in the commercial enterprise (*Handels-gewerbe*) of LB Kiel in the form of *Stille Gesellschaft* under German law. As silent partner under the Participation Agreement (“**Silent Partner**”), the Issuer will make the Silent Contribution in the form of a cash contribution of €500,000,000 to LB Kiel as principal. In return, the Issuer, as Silent Partner, will earn profit participations (“**Profit Participations**”) calculated annually on the basis of the nominal amount of its Silent Contribution for each fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank) and payable annually in arrear (“**Profit Participation Payments**”). Profit Participations will not accrue if (but only to such extent that) such accrual would create or increase an annual balance sheet loss (*Jahresbilanzverlust*) as calculated under the Participation Agreement in accordance with German GAAP (“**Annual Balance Sheet Loss**”). An Annual Balance Sheet Loss is present if LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) annual unconsolidated balance sheet records no balance sheet profit (*Bilanzgewinn*) as calculated under the Participation Agreement in accordance with German GAAP. Under German GAAP, the annual balance sheet profit is derived from the annual surplus (*Jahresüberschuss*) adjusted for profits/losses carried over from previous fiscal years as well as transfers from and allocations to capital and earnings reserves (*Kapital- und Gewinnrücklagen*). After LB Kiel has changed its legal form to a German public limited company (*Aktiengesellschaft*), in the context of the proposed merger with Hamburg LB (see “The Imminent Merger between LB Kiel and Hamburg LB”), profit participations will not accrue to the extent they exceed the annual surplus adjusted for losses carried over from previous fiscal years, allocations to capital and earnings reserves and transfers only from other earnings reserves (*andere Gewinnrücklagen*) accrued during the term of the Participation Agreement. If the profits of LB Kiel (i.e., after the Merger, HSH Nordbank) do not suffice for the accrual of full Profit Participations, Profit Participations may accrue in part. In addition, the Silent Partner shares in an Annual Balance Sheet Loss in the proportion which the book value of its Silent Contribution bears in relation to the aggregate book value of all loss-sharing components of LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) regulatory liable capital (*Haftkapitalanteile*). In such case, the book value of the Silent Contribution will be reduced in the amount of its pro-rata share in the relevant Annual Balance Sheet Loss (“**Reduction**”). After a Reduction, future annual balance sheet profits will be used to write-up the book value of the Silent Contribution to €500,000,000. Future Profit Participations may only be paid after a full write-up of the Silent Contribution’s book value to €500,000,000. If the book value of the Silent Contribution has not yet been fully written-up at the time the Silent Contribution becomes due for repayment, the amount which is repaid under the Participation Agreement (the “**Repayment Amount**”) will be reduced accordingly. **Profit Participation Payments in following years will not increase to compensate for any shortfall in Profit Participation Payments during a previous year.**

Profit Participation Payments and replenishments of the Silent Contribution after a Reduction are subject to German investment income tax (*Kapitalertragsteuer*) (“**German Investment Income Tax**”) plus the “solidarity surcharge” (*Solidaritätszuschlag*) to be withheld and transferred by LB Kiel (i.e., after the Merger, HSH Nordbank) to the German tax authorities. To the extent such Profit Participation Payments received by the Issuer and to the extent such replenishments are attributable to the Issuer’s partners as taxable profit under German tax laws, such withholdings will be counted as a prepayment towards the German income tax owed by the Issuer’s partners. The Issuer’s partners will be entitled to refund claims against the German tax authorities (“**Tax Refund Claims**”) in amounts by which the prepayments in the form of withholdings exceed their respective actual German income tax liability. The Issuer’s limited partner has undertaken in a separate contribution agreement with the Issuer’s general partner dated 26 May 2003 (the “**Contribution Agreement**”) to contribute amounts to the Issuer it receives from the German Tax authorities on account of its Tax Refund Claims as and when it receives

such amounts (each such payment a “**Contribution Payment**”). As Tax Refund Claims only become due after the tax assessment for each tax year, the Issuer has entered into a loan agreement on 26 May 2003 (the “**Loan Agreement**”) with the Luxembourg branch of LB Kiel (“**LB Kiel Luxembourg**”). Under the Loan Agreement, the Issuer will be paid loan advances (each an “**Advance**”) in order to fund its obligation to pay interest on the RESPARC Securities and to replenish the Silent Contribution after a Reduction. The Issuer expects to repay the Advances with the monies it receives as Contribution Payments.

Payment of principal and interest under the RESPARC Securities is conditional upon receipt by the Issuer of (i) Profit Participations and the Repayment Amount from LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement and (ii) Advances from LB Kiel Luxembourg. Hence, payments under the RESPARC Securities are linked to Profit Participation Payments and payment of the Repayment Amount which, in turn, are dependent on LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) profitability. Therefore, (i) the Issuer’s obligation to make interest payments (“**Coupon Payments**”) and redemption payments (“**Capital Payments**”) under the RESPARC Securities are dependent on the financial condition and results of operations of LB Kiel (i.e., after the Merger, HSH Nordbank). **If LB Kiel (i.e., after the Merger, HSH Nordbank) incurs an Annual Balance Sheet Loss in any fiscal year, holders of the RESPARC Securities (the “Securityholders”) will receive no Coupon Payments under the RESPARC Securities. If there has been a Reduction of the Silent Contribution’s book value and the book value has not yet been fully written up to €500,000,000 at the time the Silent Contribution becomes due for repayment, Capital Payments will be lower than the nominal amount of the RESPARC Securities. Accordingly, Annual Balance Sheet Losses of LB Kiel (i.e., after the Merger, HSH Nordbank) may have the result that the Repayment Amount under the Participation Agreement is lower than €500,000,000 and that holders of the RESPARC Securities incur a loss on their investment upon redemption of the RESPARC Securities.**

The RESPARC Securities have an indefinite term and will only be redeemed if the Participation Agreement is terminated and the Silent Contribution is repaid to the Issuer or in the case that the Issuer chooses to exercise its right of early termination with respect to the RESPARCS Securities. The Participation Agreement runs for an indefinite period. Under its terms, the Participation Agreement may only be terminated by LB Kiel (i.e., after the Merger, HSH Nordbank) and may not be terminated by the Silent Partner. Subject to certain exceptions described in this Offering Circular, a termination of the Participation Agreement by LB Kiel (i.e., after the Merger, HSH Nordbank) may only become effective on or after 31 December 2013 and if LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) regulatory solvency ratio (*Solvabilitätskoeffizient*) sustainably exceeds nine per cent. In addition, the Participation Agreement provides for a termination notice of two years and stipulates that no termination shall become effective without prior regulatory approval. **Therefore, Securityholders should be aware that they may be required to bear the financial risks of an investment in the RESPARC Securities for an indefinite period of time.**

In the Support Undertaking, Landesbank Schleswig-Holstein International, S.A., a Luxembourg financial institution and wholly-owned subsidiary of LB Kiel (“**LB Kiel International**”), undertakes vis-à-vis the Issuer and for the benefit of the Securityholders to ensure that the Issuer will at all times be in a position to meet its payment obligations under the RESPARC Securities. The Support Undertaking is not a guarantee or undertaking that the Issuer will at any time have sufficient assets to make payments under the RESPARC Securities. Payments under the Support Undertaking are subordinated and rank pari passu with payments by LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement.

Pursuant to a fiduciary assignment agreement dated 26 May 2003 (“**Assignment Agreement**”) between the Issuer, the Issuer’s partners, LB Kiel, LB Kiel Luxembourg and HSBC Trustee (C.I.) Limited acting as a security trustee for the benefit of Securityholders (“**Security Trustee**”), the Issuer has assigned to the Security Trustee, for the benefit of the Securityholders, all present and future payment claims under the Participation Agreement, the Loan Agreement and the Contribution Agreement.

LB Kiel (i.e., after the Merger, HSH Nordbank) intends to treat the proceeds it receives as the Silent Contribution under the Participation Agreement as solo tier one capital for purposes of determining its compliance with regulatory capital requirements. For more information on the regulatory capital requirements applicable to LB Kiel and the LB Kiel Group. See “Regulation – Capital Adequacy Requirements”.

SUMMARY OF THE OFFERING

The following overview describes the most important elements of the offering and the Transaction. It is necessarily incomplete and investors are urged to read carefully the entire summary and the full text of the Offering Circular for a more precise description of the offered RESPARC Securities and the information concerning (i) the Transaction, (ii) LB Kiel and HSH Nordbank, the Issuer and the partners in the Issuer and (iii) the agreements among them. The following description is based on the situation on the Issue Date of the RESPARC Securities. Upon effectiveness of the Merger, HSH Nordbank will assume the legal position of LB Kiel (see “The Imminent Merger between LB Kiel and Hamburg LB”) and references to LB Kiel shall (as set forth below) be read as references to HSH Nordbank.

Securities Offered	€500,000,000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities; see (“—Summary of the Terms of the RESPARC Securities”).
Issuer	RESPARCS Funding II Limited Partnership, a limited partnership established for an unlimited duration in Jersey and registered under the Limited Partnerships (Jersey) Law 1994, as amended, with the Jersey Financial Services Commission on 17 April 2003. The Issuer is not a legal entity separate from its partners and has no operating history.
Partners in the Issuer	<p>The Issuer’s general partner (with less than 0.01 per cent. interest in the Issuer’s equity) is European Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Jersey (the “Issuer General Partner”). The shareholders of the Issuer General Partner are LB Kiel International (51 per cent. interest) and Mourant & Co. Trustees Limited as trustee of the European Capital Investment Charitable Trust (49 per cent. interest).</p> <p>The Issuer’s limited partner (with more than 99.9 per cent. interest in the Issuer’s equity) is European Equity Participation Management GmbH, a limited liability company (<i>Gesellschaft mit beschränkter Haftung</i>) incorporated under the laws of Germany (the “Issuer Limited Partner”). The sole beneficial shareholder of the Issuer Limited Partner is Mourant & Co. Trustees Limited as trustee of the European Funding Charitable Trust.</p>
Limited Purpose of Issuer	Apart from entering into the Participation Agreement (see “—Summary of the Terms of the Participation”), the entering into other agreements ancillary to the Transaction and the issuance of the RESPARC Securities, the Issuer General Partner has undertaken to the Issuer Limited Partner that the Issuer will not create additional liabilities, except for those liabilities which are absolutely necessary to keep its business in operation. See “RESPARCS Funding II Limited Partnership – Incorporation, Domicile, Duration and Object”.
LB Kiel	Landesbank Schleswig-Holstein Girozentrale, Kiel, Germany, a public law banking institution established under the laws of the German Federal State Schleswig-Holstein. It is intended that LB Kiel is merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity under German law (<i>Verschmelzung zur Neugründung</i>). See “The Imminent Merger between LB Kiel and Hamburg LB”.
Participation	With the proceeds of the issue, the Issuer will acquire the Participation pursuant to the Participation Agreement; see “—Summary of the Terms of the Participation”.
Contribution Agreement	In the Contribution Agreement, entered into between the Issuer Limited Partner and the Issuer General Partner, the Issuer Limited Partner has undertaken for the benefit of the Issuer to contribute to the Issuer amounts it

	receives from the German Tax authorities on account of its Tax Refund Claims. See “Description of the Contribution Agreement”.
Loan Agreement	Under the Loan Agreement, the Issuer will be paid Advances corresponding to the relevant withholdings on account of German Investment Income Tax on the Profit Participation Payments and replenishments of the Silent Contribution after a Reduction. The Issuer will use the Advances to fund its obligations to make the Coupon Payments under the RESPARC Securities and to fully replenish the Silent Contribution after a Reduction. See “—Summary of the Terms of the Loan Agreement”.
Assignment Agreement	Pursuant to the Assignment Agreement, the Issuer has assigned to the Security Trustee, for the benefit of the Securityholders, all present and future payment claims under the Participation Agreement, the Loan Agreement and the Contribution Agreement. See “Description of the Assignment Agreement”.
Support Undertaking	LB Kiel International has undertaken in the Support Undertaking with the Issuer to ensure that the Issuer will at all times be in a position to meet its payment obligations under the RESPARC Securities. The Support Undertaking is not a guarantee or undertaking that the Issuer will at any time have sufficient assets to make payments under the RESPARC Securities. Payment obligations of LB Kiel International under the Support Undertaking are subordinated and rank <i>pari passu</i> with payment obligations of LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement. See “—Summary of the Terms of the Support Undertaking”.
Principal Paying Agent	Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany.
Dutch Paying Agent	Deutsche Bank AG Amsterdam Branch, Amsterdam, The Netherlands.
Security Trustee	HSBC Trustee (C.I.) Limited, St. Helier, Jersey.
Listing	Application has been made to list the RESPARC Securities on the Frankfurt Stock Exchange and on the Official Segment of the stock market of Euronext Amsterdam N.V.
Security Codes	ISIN: DE0009842542 Common Code: 016891819 German WKN: 984254

SUMMARY OF THE TERMS OF THE RESPARC SECURITIES

The following summary refers to certain terms and conditions of the RESPARC Securities. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms and conditions of the RESPARC Securities which may be found under “Terms and Conditions of the RESPARC Securities”. The following description is based on the situation on the Issue Date of the RESPARC Securities. Upon effectiveness of the Merger, HSH Nordbank will assume the legal position of LB Kiel (see “The Imminent Merger between LB Kiel and Hamburg LB”) and references to LB Kiel shall (as set forth below) be read as references to HSH Nordbank.

Issuer	RESPARCS Funding II Limited Partnership, a limited partnership established under the laws of Jersey on 17 April 2003.
Nominal Amount	€1,000 per RESPARC Security.
Aggregate Nominal Amount	€500,000,000
Issue Price	100 per cent. of nominal amount.
Form	The RESPARC Securities will be initially represented by a temporary global security in bearer form without coupons (the “ Temporary Global RESPARC Security ”) which will be exchangeable for a permanent global security in bearer form without coupons (“ Permanent Global RESPARC Security ”) upon certification as to non-US beneficial ownership. Beneficial interests in the Permanent Global RESPARC Security will be exchangeable for definitive RESPARC Securities under limited circumstances, each in bearer form.
Issue Date	28 May 2003
Status	The RESPARC Securities constitute direct, unsubordinated and (with the exception of the collateral granted under the Assignment Agreement) unsecured conditional obligations of the Issuer ranking <i>pari passu</i> among themselves and with all other unsecured and unsubordinated liabilities of the Issuer, except for mandatory exceptions afforded by statutory law.
Maturity	The RESPARC Securities are perpetual securities and have no fixed maturity date. The Issuer may redeem the RESPARC Securities only upon the occurrence of certain events (see “—Repayment Date and Repayment Amount” and “—Early Termination and Repayment”).
Coupon Payments	Coupon Payments will be made at a rate of 7.5 per cent. <i>per annum</i> and are contingent on the Issuer’s actual receipt of Profit Participation Payments from LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement (after deduction of German Investment Income Tax) (see “—Summary of the Terms of the Participation—Profit Participation Payments and Dates” and “—Summary of the Terms of the Participation—Profit Participations Excluded”) and Advances from LB Kiel Luxembourg under the Loan Agreement (see “—Summary of the Loan Agreement—Advances”).
Coupon Payment Dates	Coupon Payments under the RESPARC Securities will be made on the dates Profit Participation Payments are payable to the Issuer under the Participation Agreement. The due dates for Profit Participation Payments under the Participation Agreement (“ Profit Participation Payment Dates ”) occur on 30 June of each year, commencing 30 June 2004. Profit Participation Payment Dates will be delayed if the annual accounts for the relevant fiscal year of LB Kiel are approved after 29 June in any year. See “—Summary of the Terms of the Participation—Profit Participation Payments and Dates”.
Record Date for Non-Principal Distributions	Coupon Payments will be paid to those persons who held the RESPARC Securities on 29 June of the relevant year, irrespective of when payment is

Repayment Date and Repayment Amount	<p>actually made and whether the person so entitled to such payment is no longer the holder of the RESPARC Security to which such payment relates.</p> <p>The RESPARC Securities will be redeemed after the Participation Agreement has been terminated by LB Kiel (i.e., after the Merger, HSH Nordbank) at its option (subject to certain restrictions set out in the Participation Agreement). In such event, the RESPARC Securities will be redeemed on the date on which the Silent Contribution is repaid in accordance with the Participation Agreement. See “—Summary of the Terms of the Participation—Repayment Date”. If the RESPARC Securities are redeemed on such date, the redemption amount will equal the Repayment Amount (subject to actual receipt thereof by the Issuer) required to be paid by LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement (see “—Summary of the Terms of the Participation—Repayment”). If there has been a Reduction of the Silent Contribution’s book value and the book value has not yet been fully written up to €500,000,000 at the time the Silent Contribution becomes due for repayment, Capital Payments will be lower than the nominal amount of the RESPARC Securities. Accordingly, Annual Balance Sheet Losses of LB Kiel (i.e., after the Merger, HSH Nordbank) may have the result that the Repayment Amount under the Participation Agreement is lower than €500,000,000 and that holders of the RESPARC Securities incur a loss on their investment upon redemption of the RESPARC Securities.</p>
Early Termination and Repayment	<p>The Issuer may call the RESPARC Securities for redemption, in whole but not in part, with effect on 30 June of each year (however, other than for tax reasons, such call for redemption shall not take effect earlier than 30 June 2009) and redeem the RESPARC Securities at their nominal amount, plus any interest accrued thereon. Any such early termination is only permissible if financing of the redemption of the RESPARC Securities at their nominal amount, plus any interest accrued thereon, has been secured through the issuance of similar debt securities or in any other way. In such case, interest accrued thereon will be calculated on the basis of the actual number of days elapsed since the last Profit Participation Payment Date.</p>
Payment of Additional Amounts	<p>If the Issuer is required to withhold or deduct amounts payable under the RESPARC Securities on account of tax, it will not, unless it receives funds from LB Kiel International to do so, gross up such payments so that the Securityholders receive the full amounts payable as if no such withholding or deduction were required. Under the Support Undertaking, subject to certain conditions, LB Kiel International is required to provide the Issuer with the amounts necessary to gross up payments under the RESPARC Securities so that the Securityholders receive the full amounts payable as if no such withholding or deduction were required.</p>
Securityholders’ Control Rights	<p>Securityholders are entitled to request copies of the Issuer’s financial statements and to ascertain their correctness through the review of the auditor’s report by an auditor or certified public accountant appointed and paid for by the relevant Securityholder. In addition, on demand, each Securityholder shall receive a statement of the Issuer’s profit/loss sharing position under the Participation Agreement and further information thereon.</p>
Compliance with German Banking Regulations	<p>Under applicable German banking regulations, any repayment of the Silent Contribution made in violation of the terms of the Participation Agreement must be repaid to LB Kiel (i.e., after the Merger, HSH Nordbank).</p>
Further Issues	<p>The Issuer may, until (and including) 31 December 2003 and without the consent of the holders of the RESPARC Securities, issue further securities having the same terms and conditions as the RESPARC Securities in all respects (or in all respects except for the date of issuance, commencement of</p>

interest and/or price of issue) so as to form a single series of securities with the RESPARC Securities.

Notices

Notices in relation to the RESPARC Securities will be published in a newspaper designated for mandatory stock exchange notices in Frankfurt (expected to be the *Börsen-Zeitung*). Provided that the rules of the stock exchange(s) where the RESPARC Securities are listed so permit, this notice requirement may be satisfied by the delivery of the relevant notice to Clearstream Frankfurt, Euroclear and/or Clearstream Luxembourg for communication by them to the Securityholders or by delivery directly to the Securityholders.

Governing law

German.

Governing Language

German.

Tax Consequences

For a discussion of the material Jersey and German tax consequences of purchasing, owning and disposing of the RESPARC Securities, see “Taxation”.

SUMMARY OF THE TERMS OF THE PARTICIPATION

The following summary refers to certain provisions of the Participation Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Participation Agreement which may be found under “Terms and Conditions of the Participation”. The following description is based on the situation on the Issue Date of the RESPARC Securities. Upon effectiveness of the Merger, HSH Nordbank will assume the legal position of LB Kiel (see “The Imminent Merger between LB Kiel and Hamburg LB”) and references to LB Kiel shall (as set forth below) be read as references to HSH Nordbank.

Bank	Landesbank Schleswig-Holstein Girozentrale, a credit institution formed under the laws of the German Federal State Schleswig-Holstein. It is intended that LB Kiel is merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity under German law (<i>Verschmelzung zur Neugründung</i>); see “The Imminent Merger between LB Kiel and Hamburg LB”.
Instrument	Silent capital interest in the commercial enterprise (<i>Handelsgewerbe</i>) of LB Kiel (i.e., after the Merger, HSH Nordbank) in the form of a <i>Stille Gesellschaft</i> under German law.
Principal Amount	The principal amount of the Silent Contribution is €500,000,000.
Denominations	The principal amount is not divided into denominations.
Issue Price	100 per cent.
Form	The Participation is not represented by a security. It is a contract between LB Kiel (i.e., after the Merger, HSH Nordbank) and the Issuer.
Issue Date	The Participation Agreement provides that the Silent Contribution must be paid to LB Kiel on 28 May 2003 (the “ Start Date ”).
Maturity	The Participation is a perpetual instrument. It may nevertheless be repaid upon the occurrence of certain events (see “—Repayment Date”).
Profit Periods	Profit Participations on the Silent Contribution accrue for profit periods (“ Profit Periods ”). Profit Periods run from (and including) 1 January to (and including) 31 December of a year. The first Profit Period (“ First Profit Period ”) commences on (and includes) the Start Date. The last Profit Period runs from 1 January of the year in which the date occurs as of which the Silent Partner ceases to share in LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) profits and losses (the “ Termination Date ”) and ends on the Termination Date (both days inclusive).
Profit Participation Payments and Dates	<p>Profit Participations shall be payable annually in arrear on the later of (i) 30 June in the year following the end of the relevant Profit Period or, if that is not a Business Day, on the next Business Day or (ii) the Business Day following the date on which LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) annual financial statements have been adopted for the fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank) to which the relevant Profit Period relates. No Profit Participation shall accrue for the Profit Period in which the Termination Date occurs.</p> <p>“Business Day” means a day on which TARGET (the Trans-European Automated Real Time Cross Settlement Express Transfer System) is operating credit or transfer instructions in respect of payments in euro and commercial banks settle payments in the general course of business in Frankfurt.</p>

Profit Participation Payment for the First Profit Period	Subject to Profit Participations being excluded in whole or in part (see “— Profit Participations Excluded”), the Profit Participation for the First Profit Period shall amount to €41,708,219. The Profit Participation Payment for the First Profit Period shall be payable on the later of (i) 30 June 2004 or, if that is not a Business Day, on the next Business Day or (ii) the Business Day following the date on which LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) annual financial statements have been adopted for the fiscal year 2003.
Profit Participation Rate for Profit Periods other than the First Profit Period	Subject to Profit Participations being excluded in whole or in part (see “— Profit Participations Excluded”), Profit Participations for Profit Periods other than the First Profit Period shall accrue on the book value of the Silent Contribution at a rate of 7.65 per cent. per annum.
Profit Participations Excluded	<p>If LB Kiel (i.e., after the Merger, HSH Nordbank) records an Annual Balance Sheet Loss in the fiscal year to which the relevant Profit Period relates, no Profit Participations will accrue for the Relevant Profit Period. Hence, no Profit Participations will accrue, and accordingly, no distributions will be made to the Securityholders in relation to the relevant fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank). As set forth in further detail in the Participation Agreement, no Profit Participations will accrue:</p> <ul style="list-style-type: none"> (i) if (but only to such extent that) accrual and/or payment thereof would lead to or increase an Annual Balance Sheet Loss for the fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank) corresponding to the relevant Profit Period; or (ii) if, as a result of losses in previous fiscal years, the principal amount of the Silent Contribution has been reduced and has not been fully written-up again by profits accruing in subsequent fiscal years (see “— Replenishment of Silent Contribution”); or (iii) in the case of insolvency or regulatory intervention in respect of LB Kiel (i.e., after the Merger, HSH Nordbank); or (iv) if LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) solvency ratio (<i>Solvabilitätskoeffizient</i>) is below nine per cent. on an unconsolidated or on a consolidated basis, to the extent that payment of such Profit Participation or accrual thereof would lead to or increase an annual loss (<i>Jahresfehlbetrag</i>) in accordance with German GAAP for the fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank) corresponding to the relevant Profit Period; or (v) if the Termination Date falls within such Profit Period.
Annual Balance Sheet Loss	An Annual Balance Sheet Loss is present if LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) annual unconsolidated balance sheet records no balance sheet profit (<i>Bilanzgewinn</i>) as calculated under the Participation Agreement in accordance with German GAAP. Under German GAAP, the annual balance sheet profit is derived from the annual surplus (<i>Jahresüberschuss</i>) adjusted for profits/losses carried over from previous fiscal years as well as transfers from and allocations to capital and earnings reserves (<i>Kapital- und Gewinnrücklagen</i>). After LB Kiel has changed its legal form to a German public limited company in the context of the proposed merger with Hamburg LB (see “The Imminent Merger between LB Kiel and Hamburg LB”), profit participations will not accrue to the extent they exceed the annual surplus adjusted for losses carried over from previous fiscal years, allocations to capital and earnings reserves and transfers only from other earnings reserves

	<p>(andere Gewinnrücklagen) accrued during the term of the Participation Agreement.</p>
Loss Participation and Reduction	<p>If LB Kiel (i.e., after the Merger, HSH Nordbank) incurs an Annual Balance Sheet Loss in any fiscal year, the Silent Partner shares in LB Kiel's (i.e., after the Merger, HSH Nordbank's) losses. The Silent Partner shares in an Annual Balance Sheet Loss in the proportion which the book value of the Silent Contribution bears in relation to the aggregate book value of all loss-sharing components of LB Kiel's (i.e., after the Merger, HSH Nordbank) regulatory liable capital (<i>Haftkapitalanteile</i>). As provided in further detail in the Participation Agreement, LB Kiel's (i.e., after the Merger, HSH Nordbank) liable capital includes all participations in the form of <i>Stille Gesellschaft</i>, all profit participation rights in the form of <i>Genussscheine</i> in accordance with the German Banking Act (<i>Kreditwesengesetz</i>) and all shareholders' equity. At 31 December 2002, LB Kiel's total liable capital amounted to €6,125 million and Hamburg LB's total liable capital amounted to €5,521 million.</p> <p>Following an Annual Balance Sheet Loss, there will be a corresponding Reduction in the book value of the Silent Contribution and the book value will be reduced in the amount of the Silent Partner's share in such Annual Balance Sheet Loss. The Silent Partner's aggregate share in Annual Balance Sheet Losses cannot exceed the principal amount of the Silent Contribution.</p>
Replenishment of Silent Contribution	<p>Following a Reduction, the book value of the Silent Contribution will be increased in subsequent fiscal years of LB Kiel (i.e., after the Merger, HSH Nordbank) in which balance sheet profits (<i>Bilanzgewinn</i>) are recorded in accordance with German GAAP. The book value of the Silent Contribution will be written-up <i>pari passu</i> with the writing-up of other silent participations. A writing-up of shareholders' equity and allocation to reserves (<i>Einstellungen in Rücklagen</i>) may only occur after the Silent Contribution has been fully written-up again to its initial principal amount.</p> <p>No such increase of the principal amount of the Silent Contribution may result in the book value of the Silent Contribution being more than the principal amount of the Silent Contribution on the Start Date. Profit Participations accruing after a Reduction of the Silent Contribution will be attributed as set forth above to the Profit Participation for the current fiscal year but not for any previous fiscal year in which a Profit Participation was not accrued or paid due to an Annual Balance Sheet Loss.</p>
Principal Payments	<p>No payments of principal will be made by LB Kiel (i.e., after the Merger, HSH Nordbank) other than on repayment of the Silent Contribution (see "—Repayment Date"). At such time, the nominal amount of the Silent Contribution, taking into account Reductions, if any, will be repaid (see "—Repayment").</p>
Termination	<p>The Participation Agreement is concluded for an indefinite period and, consequently, does not provide for a fixed maturity. Therefore, the Silent Contribution will only be repaid to the Silent Partner after termination of the Participation Agreement by LB Kiel (i.e., after the Merger, HSH Nordbank) and in accordance with the terms and subject to the conditions stated therein.</p> <p>LB Kiel (i.e., after the Merger, HSH Nordbank) is not obliged to terminate the Participation Agreement on any particular day or days of the year. As described in further detail in the Participation Agreement, LB Kiel (i.e., after the Merger, HSH Nordbank) may only terminate the Participation Agreement if:</p>

	<ul style="list-style-type: none"> (i) tax or regulatory changes occur but in no case before 31 December 2008, or (ii) on or after 31 December 2011 (with termination becoming effective on 31 December 2013) but only if LB Kiel's (i.e., after the Merger, HSH Nordbank's) solvency ratio (<i>Solvabilitätskoeffizient</i>) sustainably exceeds nine per cent. on an unconsolidated or consolidated basis. <p>LB Kiel (i.e., after the Merger, HSH Nordbank) may only terminate the Participation Agreement with two years' prior notice to the Silent Partner. Any notice of termination by LB Kiel (i.e., after the Merger, HSH Nordbank) only becomes effective upon the German Financial Supervisory Authority's (<i>Bundesanstalt für Finanzdienstleistungsaufsicht</i>, "BAFin") prior approval thereof.</p>
Termination Date	The Termination Date is the date as of which the Silent Partner ceases to participate in the profits and losses of LB Kiel (i.e., after the Merger, HSH Nordbank) as Silent Partner. This is the date on which the relevant termination notice becomes effective.
Repayment Date	The " Repayment Date " is 30 June in the fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank) after the year in which the Termination Date occurs or, if this date is not a Business Day, on the next following Business Day. If LB Kiel's (i.e., after the Merger, HSH Nordbank's) annual financial statements for the fiscal year in which the Termination Date occurred are not yet adopted on 29 June of the relevant year, the Repayment Date will be the Business Day following such adoption.
Repayment	On the Repayment Date, LB Kiel (i.e., after the Merger, HSH Nordbank) will pay the Repayment Amount to the Silent Partner.
Ranking	<p>As provided for in further detail in the Participation Agreement, LB Kiel's (i.e., after the Merger, HSH Nordbank's) payment obligations under the Participation Agreement:</p> <ul style="list-style-type: none"> (i) are subordinated to the claims of all existing and future creditors of LB Kiel (i.e., after the Merger, HSH Nordbank) (including profit participation rights in the form of <i>Genussscheine</i> in accordance with the German Banking Act); (ii) rank at least <i>pari passu</i> with all claims for the repayment of capital contributions made with respect to existing and future silent participations in LB Kiel (i.e., after the Merger, HSH Nordbank); and (iii) rank senior to all claims of equity holders of LB Kiel (i.e., after the Merger, HSH Nordbank); <p>in each case as already arisen or arising in the future.</p>
Enforcement Rights	The Participation Agreement constitutes a contract between LB Kiel (i.e., after the Merger, HSH Nordbank) and the Issuer. Therefore, in general, only the Issuer can enforce rights under the Participation Agreement against LB Kiel (i.e., after the Merger, HSH Nordbank). The Issuer has no duty to bring any action against LB Kiel (i.e., after the Merger, HSH Nordbank) in order to enforce its rights under the Participation Agreement.
Place of Performance and Place of Jurisdiction	Kiel, Germany.
Governing Law	German.
Governing Language	German.

SUMMARY OF THE TERMS OF THE LOAN AGREEMENT

The following summary refers to certain provisions of the Loan Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Loan Agreement which may be found under “Terms and Conditions of the Loan Agreement”. The following description is based on the situation on the Issue Date of the RESPARC Securities. Upon effectiveness of the Merger, HSH Nordbank will assume the legal position of LB Kiel (see “The Imminent Merger between LB Kiel and Hamburg LB”) and references to LB Kiel shall (as set forth below) be read as references to HSH Nordbank.

Parties

Landesbank Schleswig-Holstein Girozentrale, a public banking institution established under the laws of the German federal state Schleswig-Holstein, acting through its Luxembourg branch as lender. It is intended that LB Kiel is merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity under German law (*Verschmelzung zur Neugründung*); see “The Imminent Merger between LB Kiel and Hamburg LB”.

RESPARCS Funding II Limited Partnership, Jersey, Channel Islands, a limited partnership established under the laws of Jersey as borrower.

Advances

On each date on which a Profit Participation Payment becomes due, LB Kiel Luxembourg is required to pay an Advance to the Issuer in an amount corresponding to the withholding made by LB Kiel (i.e., after the Merger, HSH Nordbank) on account of German Investment Income Tax on the relevant Profit Participation Payment.

On each date on which the Silent Contribution is replenished after a Reduction, LB Kiel Luxembourg is required to pay an Advance to the Issuer in an amount corresponding to the withholding made by LB Kiel (i.e., after the Merger, HSH Nordbank) on account of German Investment Income Tax on the relevant replenishment.

Repayment and Prepayment

According to the Contribution Agreement between the Issuer’s Limited and the Issuer’s General Partner (see “Description of the Contribution Agreement”) the Issuer’s Limited Partner is obliged to contribute to the Issuer all payments it receives from the German tax authorities on account of its Tax Refund Claim. Under the Loan Agreement the Issuer has to use these monies it receives from the Issuer’s Limited Partner to promptly repay outstanding Advances (each such payment a “Prepayment”)

All outstanding Advances must be repaid on the Repayment Date at latest.

Interest

The Issuer must pay interest to LB Kiel Luxembourg on each date it makes a Prepayment. The interest rate will initially be 4 per cent. *per annum* and, after 1 January 2009, 12-month EURIBOR plus a margin of 0.3 per cent. *per annum*.

Governing Law

German.

Governing Language

German.

SUMMARY OF THE TERMS OF THE SUPPORT UNDERTAKING

The following summary refers to certain provisions of the Support Undertaking. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Support Undertaking which may be found under “Terms and Conditions of the Support Undertaking”. The following description is based on the situation on the Issue Date of the RESPARC Securities. Upon effectiveness of the Merger, HSH Nordbank will assume the legal position of LB Kiel (see “The Imminent Merger between LB Kiel and Hamburg LB”) and references to LB Kiel shall (as set forth below) be read as references to HSH Nordbank.

Parties	Landesbank Schleswig-Holstein International S.A., Luxembourg, a banking institution established under Luxembourg law and a wholly-owned subsidiary of LB Kiel. RESPARCS Funding II Limited Partnership, Jersey, Channel Islands, a limited partnership established under the laws of Jersey, as Issuer.
Nature of Obligations under the Support Undertaking	The holders of the RESPARC Securities are third-party beneficiaries of the Support Undertaking. To the extent LB Kiel International does not fulfil its obligations under the Support Undertaking, any holder of RESPARC Securities can enforce the Support Undertaking in accordance with German law. Obligations under the Support Undertaking are subordinated (see “—Ranking of Obligations”). The Support Undertaking is not a guarantee of any kind that the Issuer will at any time have sufficient assets to pay Coupon Payments and redemption payments under the RESPARC Securities.
Ranking of Obligations	LB Kiel International’s payment obligations under the Support Undertaking are subordinated to all senior and subordinated debt obligations of LB Kiel (i.e., after the Merger, HSH Nordbank) in the same manner as LB Kiel’s (i.e., after the Merger, HSH Nordbank’s) payment obligations under the Participation Agreement are subordinated (see “—Summary of the Terms of the Participation—Ranking”).
Undertaking	LB Kiel International undertakes to ensure that the Issuer will at all times be in a position to meet its obligations if and when such obligations are due and payable, including (without limitation) Coupon Payments and redemption payments under the RESPARC Securities.
Negative Pledge	LB Kiel International undertakes not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, obligations ranking <i>pari passu</i> with obligations under the Participation Agreement, that would rank senior in any regard to its obligations under the Support Undertaking, unless the Support Undertaking is amended so that it ranks at least <i>pari passu</i> with and contains substantially equivalent rights of priority as to payment and any rights granted under such other guarantee or other support agreement.
Prohibition of Amendments	So long as any RESPARC Securities remain outstanding, the Support Undertaking may not be modified or terminated without the consent of 100 per cent. of the holders of the RESPARC Securities, except for such modifications that are not adverse to the interests of the holders to the RESPARC Securities.
Governing Law	German.
Governing Language	German.

SELECTED FINANCIAL INFORMATION

LB Kiel

The following table presents selected consolidated financial information of LB Kiel as of and for the last three years ended 31 December:

	as of and for the year ended 31 December ⁽¹⁾		
	2000	2001	2002
	(€ in millions)		
Selected income statements data			
Net interest income ⁽²⁾	751	898	1,184
Net commission income ⁽³⁾	142	138	158
Net income from trading activities	27	58	71
Risk provisions ⁽⁴⁾	-171	-309	-356
Income before taxes and distributions in respect of silent participations	309	363	470
Net income	84	174	189
Selected balance sheet data			
Cash reserve	236	136	227
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks	5	6	8
Loans and advances to banks	32,369	32,390	33,734
Loans and advances to customers	58,115	64,042	66,848
Bonds and other fixed income securities	32,928	39,298	39,120
Shares and other non-fixed income securities	1,526	1,738	1,837
Trust assets	1,366	1,363	1,382
Total assets	128,085	141,020	145,506
Liabilities to banks	51,915	56,744	47,513
Liabilities to customers	24,407	28,266	30,754
Certified liabilities	40,541	44,133	53,455
Trust liabilities	1,366	1,363	1,382
Provisions	533	454	623
Total liabilities	124,393	136,738	139,909
Total equity capital	3,692	4,282	5,597

(1) Columns may not add due to rounding.

(2) Includes the following line items from the Bank's consolidated income statement: interest income; interest expense; other income; and income from profit-and-loss pooling agreements, profit transfer agreements and partial profit transfer agreements.

(3) Includes the following line items from the Bank's consolidated income statement: commission income and commission expense.

(4) Includes the following line items from the Bank's consolidated income statement: earnings from the liquidation of special reserve items; expenses from loss transfers; allocation to untaxed special reserve; write-downs and value adjustments on loans and certain securities and additions to provisions for bad debt; write-downs and value adjustments on equity investments in non-affiliated companies and securities treated as fixed assets; write-ups and value adjustments on equity investments in non-affiliated companies and securities treated as fixed assets; and allocation to the fund for general banking risks.

Hamburg LB

The following table presents selected consolidated financial information of Hamburg LB as of and for the last three years ended 31 December:

	as of and for the year ended 31 December ⁽¹⁾		
	2000	2001	2002
	(€ in millions)		
Selected income statements data			
Net interest income ⁽²⁾	704	813	961
Net commission income ⁽³⁾	103	103	111
Net income from trading activities	8	18	22
Risk provisions ⁽⁴⁾	-143	-277	-297
Income before taxes and distributions in respect of silent participations	281	271	315
Net income	59	98	113
Selected balance sheet data			
Cash reserve	65	80	260
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks	2	4	3
Loans and advances to banks	19,331	19,267	22,120
Loans and advances to customers	38,170	41,372	42,811
Bonds and other fixed income securities	23,443	27,166	23,021
Shares and other non-fixed income securities	1,674	1,654	942
Trust assets	256	297	321
Total assets	85,635	92,667	92,659
Liabilities to banks	31,919	31,630	24,333
Liabilities to customers	23,497	30,468	31,093
Certified liabilities	21,140	21,343	27,350
Trust liabilities	256	297	321
Provisions	387	270	376
Total liabilities	81,961	88,897	88,562
Total equity capital	3,674	3,770	4,097

(1) Columns may not add due to rounding.

(2) Includes the following line items from the Bank's consolidated income statement: interest income; interest expense; other income; and income from profit-and-loss pooling agreements, profit transfer agreements and partial profit transfer agreements.

(3) Includes the following line items from the Bank's consolidated income statement: commission income and commission expense.

(4) Includes the following line items from the Bank's consolidated income statement: earnings from the liquidation of special reserve items; expenses from loss transfers; allocation to untaxed special reserve; write-downs and value adjustments on loans and certain securities and additions to provisions for bad debt; write-downs and value adjustments on equity investments in non-affiliated companies and securities treated as fixed assets; write-downs of and provisions against investments, shares in affiliated undertakings and securities treated as fixed assets; and allocation to the fund for general banking risks.

HSH Nordbank⁽¹⁾

The following table presents selected consolidated financial information of HSH Nordbank derived from the unaudited pro forma consolidated opening balance sheet of 1 January 2003:

	1 January 2003 ⁽²⁾
	<i>unaudited</i>
	(€ in millions)
Selected balance sheet data	
Cash reserve.....	358
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks	10
Loans and advances to banks	46,097
Loans and advances to customers	78,876
Bonds and other fixed income securities	50,482
Shares and other non-fixed income securities.....	2,444
Trust assets.....	340
Total assets.....	181,592
Liabilities to banks	55,374
Liabilities to customers	45,395
Certified liabilities	67,267
Trust liabilities	340
Provisions	723
Total liabilities	175,814
Total equity capital	5,778

(1) See "The Imminent Merger between LB Kiel and Hamburg LB".

(2) Columns may not add due to rounding.

INVESTMENT CONSIDERATIONS

The following is a summary of certain aspects of the business of LB Kiel (and, after the Merger, HSH Nordbank) and the RESPARC Securities of which prospective investors should be aware. This summary is not intended to be exhaustive and prospective investors should carefully consider the following information in conjunction with the other information contained in this Offering Circular.

An investment in the RESPARC Securities is only suitable for investors experienced in financial matters who are in a position to fully assess the risks relating to such an investment and who have sufficient financial means to suffer any potential loss stemming therefrom.

Risks associated with the Business of LB Kiel (and, after the Merger, HSH Nordbank)

Risks relating to the Financial Condition of LB Kiel (and, after the Merger, HSH Nordbank)

The shareholders of LB Kiel and of Hamburg LB have agreed to merge LB Kiel and Hamburg LB with retroactive effect as of 1 January 2003 and form HSH Nordbank AG (“**HSH Nordbank**”) by way of a merger into a newly established entity under German law (*Verschmelzung zur Neugründung*) (the “**Merger**”). See “The Imminent Merger between LB Kiel and Hamburg LB”. Following consummation of the Merger, there will be no distributions under the Participation Agreement and, in turn, the RESPARC Securities, if HSH Nordbank records an Annual Balance Sheet Loss (see “Summary—Summary of the Terms of the Participation—Profit Participations Excluded”). Given that there is no operating history of HSH Nordbank as a combined entity from which an estimate of its future business results could be based, there can be no assurance that HSH Nordbank will show an annual balance sheet profit in future fiscal years and be able to make payments under the Participation Agreement.

Transitional Risks in the context of the Merger

The Merger involves the integration of two separate legal entities that previously operated independently of each other with different corporate structures and established business procedures in the market. Although LB Kiel and Hamburg LB consider their business strategies, areas and sites to be an ideal match and are of the opinion that their cooperation in the years preceding the Merger serves as a reliable basis upon which to grow an integrated business, there can be no assurance that HSH Nordbank will be able to integrate successfully the operations of LB Kiel and Hamburg LB without encountering significant difficulties. Such difficulties may include, among other things:

- the potential loss of key employees and clients;
- the potential disruption of ongoing business activities;
- potential difficulties in integrating and migrating the different information technology infrastructures of LB Kiel and Hamburg LB;
- potential inconsistencies in standards, controls, procedures and policies.

Any such difficulties could materially adversely affect HSH Nordbank’s business, results of operations or financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

Losses Stemming from Credit Exposure and Increased Loan Loss Provisions

LB Kiel’s business is, and HSH Nordbank’s business will be, subject to the risk that borrowers and other contractual partners may become unable to meet their obligations to LB Kiel and/or HSH Nordbank. Although LB Kiel and Hamburg LB regularly review their credit exposure and their corresponding collateral position with regard to specific borrowers and to specific countries and industries, and HSH Nordbank will continue to do so in the future, defaults may arise from events or circumstances that are difficult to foresee or detect or have not yet been foreseen or detected. In addition, LB Kiel or HSH Nordbank may find that the collateral position is insufficient to cover the respective credit exposure due to, for example, market developments reducing the value of such collateral. Any default by a major borrower of LB Kiel or, after the Merger, HSH Nordbank could have a

material adverse effect on LB Kiel's and, after the Merger, HSH Nordbank's business, results of operations or financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

In order to cover estimated loan losses, LB Kiel and Hamburg LB have made and HSH Nordbank will continue to make individual value adjustments and general bad debt provisions. Although each of LB Kiel's and Hamburg LB's management have exercised its best judgment in establishing provisions for loan losses, HSH Nordbank may have to increase its loan loss provisions in the future as a result of a rise in the number or amount of non-performing loans in its loan portfolio or as a result of applying uniform provisioning policies to the entire loan portfolio of LB Kiel and Hamburg LB. Any such increases in loan loss provisions in excess of existing provisions could have a material adverse effect on LB Kiel's and, after the Merger, HSH Nordbank's business, results of operations and financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

Risks Associated with the Risk Management Procedures and Integration thereof

Following the Merger, HSH Nordbank may not be successful in integrating and migrating all existing and new risk management policies, procedures and assessment methods, in particular the information technology on which these risk management policies, procedures and assessment methods of LB Kiel and Hamburg LB are based. As a result thereof or as a result of insufficiencies at the level of LB Kiel or Hamburg LB prior to the Merger, HSH Nordbank's risk management policies, procedures and assessment methods may not be effective in mitigating its risk exposure in each of the markets in which it is active or against all types of risk, including risks that HSH Nordbank will fail to identify or anticipate in the future or which LB Kiel or Hamburg LB have failed to identify or anticipate in the past. Notwithstanding that prior to the Merger, LB Kiel and Hamburg LB have largely cooperated in their risk management policies, procedures and assessment methods with a view to synchronisation and harmonisation thereof, particularly in relation to the future requirements of the Basel II Capital Accord, there can be no assurance that HSH Nordbank's procedure for identifying, monitoring and managing risks will be sufficient and adequate in the future. Any such insufficiency or inadequacy could expose HSH Nordbank to material unanticipated losses that would have a material adverse effect on its business, results of operations and financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

Increased Exposure to Market Risk

LB Kiel and, after the Merger, HSH Nordbank may incur significant losses from its trading and investment activities due to market fluctuations and misjudgements about market developments. In connection with LB Kiel's strategic decision to expand substantially the scope of its capital markets activities, it began entering into and maintaining substantial trading and investment positions in the debt, currency and equity markets. When entering into these kinds of positions, assessments and predictions about future developments of the financial markets are made as the revenues and profits derived from such positions and transactions are dependent on market prices and price movements. Many of the more sophisticated transactions are designed to profit from price movements and differences among prices. If prices move in a direction not anticipated by LB Kiel or, after the Merger, HSH Nordbank, it may experience substantial losses which could have a material adverse effect on its business, results of operations or financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

Availability of Regulatory Capital

In the past, each of LB Kiel and Hamburg LB reported separately for the purposes of German regulatory capital requirements. For a discussion of the regulatory capital requirements, see "Regulation—Capital Adequacy Requirements—Regulatory Banking Capital". Following the Merger, HSH Nordbank will be the ultimate parent of a group of banking institutions and, thus, will be subject to both unconsolidated and consolidated regulatory capital adequacy reporting requirements. In addition, LB Kiel and Hamburg LB will spin-off certain assets in connection with the Merger (see "The Imminent Merger between LB Kiel and Hamburg LB") which will weaken

the capital base of HSH Nordbank. While LB Kiel considers HSH Nordbank's capital base to be sufficient and LB Kiel is attempting to raise further regulatory capital by way of this offering of the RESPARC Securities, there can be no assurance that HSH Nordbank will not be restricted in its ability to conduct or expand its business as a result of insufficient regulatory capital on an unconsolidated or consolidated basis. Any failure of HSH Nordbank to maintain sufficient levels of regulatory capital would have a material adverse effect on HSH Nordbank's business, results of operations and financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

Risks Associated With the Transfer of Loan Portfolios

In connection with the Merger, all rights and obligations stemming from existing contractual relationships of LB Kiel and Hamburg LB and their respective counterparties will be transferred to HSH Nordbank. While this transfer in the context of the Merger does not require the relevant counterparty's consent, there can be no assurance that counterparties will not allege the existence of extraordinary cancellation rights vis-à-vis HSH Nordbank or ask for modifications. Although LB Kiel is of the opinion that claiming such cancellation rights will generally not be successful, uncertainties stemming from potential arguments in relation to the alleged existence of cancellation rights or request for modifications or usage of resources may materially adversely affect HSH Nordbank's business, results of operations or financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially in the future (until the full replenishment of the Silent Contribution after a Reduction).

Abolition of Maintenance Obligation (Anstaltslast) and Guarantee Obligation (Gewährträgerhaftung)

The imminent abolition of Maintenance Obligation and Guarantee Obligation dramatically changes the operating environment for LB Kiel and, after the Merger, HSH Nordbank.

The concept of Maintenance Obligation will be abolished but its economic content will be maintained by a provision in the treaty (*Staatsvertrag*) entered into by the City of Hamburg and the state of Schleswig-Holstein which stipulates the obligation of the current owners to ensure the ability of HSH Nordbank to meet its future obligations to and up until 18 July 2005. Guarantee Obligation, i.e. the liability of the owners for debts of public law credit institutions, will continue for an interim period with respect to liabilities assumed by LB Kiel and Hamburg LB and liabilities assumed by HSH Nordbank after the Merger. The basis for this continued Maintenance Obligation and Guarantee Obligation is an agreement reached between the Federal Republic of Germany and the European Commission on 17 July 2001. According to such agreement, Maintenance Obligation shall be replaced by normal ownership by 18 July 2005. Guarantee Obligation continues indefinitely for liabilities created by German Landesbanks until (and including) 18 July 2001. Liabilities maturing before 31 December 2015 and created between 19 July 2001 and 18 July 2005 inclusive will also benefit from Guarantee Obligation until maturity. There will be no Guarantee Obligation for liabilities created after 18 July 2005.

As the statutory principles of Maintenance Obligation and Guarantee Obligation have so far enabled LB Kiel and Hamburg LB to access the capital markets at any time for refinancing purposes, liquidity risk (i.e. the risk of potential asset and liability mismatches that could prevent LB Kiel and Hamburg LB from repaying borrowings as they mature or from funding new loans and investments as they arise) were previously largely irrelevant. If LB Kiel and, after the Merger, HSH Nordbank is unable to manage this risk successfully, its ability to repay borrowings and to fund new loans and investments could suffer and HSH Nordbank's business, results of operations or financial condition could be materially adversely affected. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

In addition, LB Kiel expects that the abolition of Maintenance Obligation and Guarantee Obligation will result in increased funding costs of HSH Nordbank as compared to those of LB Kiel and Hamburg LB. Any significant increase in the future in HSH Nordbank's funding costs without corresponding increases in the risk adjusted returns on the loan portfolio would materially adversely affect HSH Nordbank's profitability. To prevent greater pressure on future margins, LB Kiel and Hamburg LB have already begun, and HSH Nordbank will continue, to

seek higher yielding assets which potentially means assets with higher risks. If LB Kiel and, after the Merger, HSH Nordbank is unable to manage these risks effectively and adequately, its business, results of operations and financial condition could suffer. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

Risks Related to the Formal Investigation of the European Commission in Respect of Illegal State Aid

In the 1990's the European Commission launched investigations to determine whether German Landesbanks, including LB Kiel and Hamburg LB, had benefited from illegal state aid by virtue of transactions resulting in the contribution of assets and capital to German Landesbanks. With respect to LB Kiel, the investigation of the European Commission focuses on the merger in 1991 of various development agencies of the state of Schleswig-Holstein into a newly established entity, trading under Investitionsbank, and the integration of Investitionsbank as an economically and organisationally separate but legally dependent business area into LB Kiel. With respect to Hamburg LB, the investigation focuses on the integration of a 81.86 per cent. stake of Wohnungsbaukreditanstalt into Hamburg LB as an economically and organisationally separate but legally dependent business area. In connection with these transactions, potential state aid issues could arise due to the fact that LB Kiel and Hamburg LB were entitled to use capital not needed by the integrated entities as regulatory capital to cover risk related assets and large exposures in their respective other business areas.

Following a number of rulings and ensuing litigation in relation to an asset contribution transaction involving Westdeutsche Landesbank Group ("**WestLB**"), where the EU Commission held that illegal state aid had been granted and ordered significant retroactive consideration payments, the EU Commission launched formal proceedings in relation to five German Landesbanks, including LB Kiel and Hamburg LB in November 2002 (see "General Information on LB Kiel—Legal Proceedings"). Both LB Kiel and Hamburg LB believe that they have paid the state of Schleswig-Holstein and, respectively, the City of Hamburg adequate consideration for the relevant contributions so that EU state aid rules have not been violated, as critics, particularly competitors, have alleged. In addition, LB Kiel believes that the state of Schleswig-Holstein realised significant benefits such as cost savings and higher purchase prices when selling part of its interest in LB Kiel to WestLB, and Landesbank Baden-Württemberg ("**LBBW**") that must be taken into account when determining the adequacy of the consideration received for the asset and capital contribution. There can, however, be no assurance that the proceedings will be determined in favour of LB Kiel and Hamburg LB or, after the Merger, HSH Nordbank. If this were not the case, HSH Nordbank could suffer a significant deterioration in its results of operations and financial condition. This, in turn, could result in HSH Nordbank recording an Annual Balance Sheet Loss such that no distributions under the RESPARC Securities would be made for the relevant fiscal year and, potentially, in the future (until the full replenishment of the Silent Contribution after a Reduction).

Risks associated with an Investment in the RESPARC Securities

The following description is based on the situation on the Issue Date of the RESPARC Securities. Upon effectiveness of the Merger, HSH Nordbank will assume the legal position of LB Kiel (see "The Imminent Merger between LB Kiel and Hamburg LB") and references to LB Kiel shall (as set forth below) be read as references to HSH Nordbank.

Coupon Payments on the RESPARC Securities depend on LB Kiel's (i.e., after the Merger, HSH Nordbank's) profits and allocation of Profit Participations to the Participation.

Both the amounts payable as Coupon Payments under the RESPARC Securities to Securityholders and the amounts payable as Profit Participation Payments under the Participation Agreement depend on the future profits or losses of LB Kiel (i.e., after the Merger, HSH Nordbank) and the manner in which profits, if any, are allocated as Profit Participations under the Participation Agreement. Profit Participations will not accrue if (but only to such extent that) such accrual would create or increase an Annual Balance Sheet Loss. If the profits of LB Kiel (i.e., after the Merger, HSH Nordbank) do not suffice for the accrual of full Profit Participations, Profit Participations may accrue in part and, accordingly, the corresponding Coupon Payments will only be made in part. See "Summary—Summary of the Transaction".

Even if LB Kiel (i.e., after the Merger, HSH Nordbank) records an annual surplus (*Jahresüberschuss*) in any given fiscal year, allocation of profits to the Participation would create an Annual Balance Sheet Loss if LB Kiel's (i.e.,

after the Merger, HSH Nordbank's) management decides to allocate all of its annual surplus to reserves. Hence, there is a possibility that no Profit Participation will accrue even if LB Kiel (i.e., after the Merger, HSH Nordbank) records an annual surplus (*Jahresüberschuss*) in that particular fiscal year. If this were the case, Securityholders would not receive Coupon Payments under the RESPARC Securities.

In addition, LB Kiel (i.e., after the Merger, HSH Nordbank) cannot give any assurances as to future profits and LB Kiel's (i.e., after the Merger, HSH Nordbank's) management is under no obligation to propose that sufficient funds are taken from reserves to ensure that no Annual Balance Sheet Loss occurs. LB Kiel's (i.e., after the Merger, HSH Nordbank) owners are under no obligation to approve an annual balance sheet profit (*Bilanzgewinn*) proposed by LB Kiel's (i.e., after the Merger, HSH Nordbank) management which is sufficient to cover the Profit Participations.

After LB Kiel has changed its legal form to a German public limited company (*Aktiengesellschaft*) in the context of the proposed merger with Hamburg LB (see "The Imminent Merger between LB Kiel and Hamburg LB"), profit participations will not accrue to the extent they exceed the annual surplus adjusted for losses carried over from previous fiscal years, allocations to capital and earnings reserves and transfers only from other earnings reserves (*andere Gewinnrücklagen*) accrued during the term of the Participation Agreement (see "Summary—Summary of the Transaction").

Capital Payments on the RESPARC Securities are dependent on the Repayment Amount under the Participation Agreement

If there has been a Reduction of the Silent Contribution's book value at the time it becomes due for repayment because the Silent Contribution has participated in LB Kiel's (i.e., after the Merger, HSH Nordbank's) Annual Balance Sheet Losses and the Silent Contribution's book value has not yet been fully written up to €500,000,000, the Re-payment Amount payable under the Participation Agreement will be lower than €500,000,000. In such case, Capital Payments under the RESPARC Securities will be lower than the nominal amount of the RESPARC Securities. Accordingly, Annual Balance Sheet Losses of LB Kiel (i.e., after the Merger, HSH Nordbank) may result in the holders of the RESPARC Securities incurring a loss on their investment upon redemption of the RESPARC Securities.

Distributions on the RESPARC Securities are conditional.

The Issuer's payment obligations under the RESPARC Securities depend upon the receipt in full of the necessary amounts payable by LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement and by LB Kiel Luxembourg under the Loan Agreement. To the extent the Issuer does not receive such amounts, it has no obligation to make payments under the RESPARC Securities.

The Support Undertaking is not a Guarantee

The Issuer and LB Kiel International, a wholly owned subsidiary of LB Kiel, have entered into a Support Undertaking for the benefit of the Issuer and the holders of the RESPARC Securities. However, the Support Undertaking is not a guarantee from either LB Kiel International, LB Kiel or, after the Merger, HSH Nordbank, that the Issuer will at any time have sufficient assets to make payments under the RESPARC Securities. Furthermore, LB Kiel International's obligations under the Support Undertaking are subordinated. Accordingly, the Issuer's rights and the rights of the holders of RESPARC Securities under the Support Undertaking will rank behind the rights of all other creditors of LB Kiel International.

The RESPARC Securities have no scheduled maturity.

The RESPARC Securities have an indefinite term and will only be redeemed if the Participation Agreement is terminated and the Silent Contribution is repaid to the Issuer or if the Issuer chooses to exercise its right of early redemption in accordance with the terms of the Participation Agreement. The Participation Agreement runs for an indefinite period. Under its terms, the Participation Agreement may only be terminated by LB Kiel (i.e., after the Merger, HSH Nordbank) and may not be terminated by the Silent Partner. Subject to certain exceptions described in this Offering Circular, a termination by LB Kiel (i.e., after the Merger, HSH Nordbank) may only become effective on or after 31 December 2013 and if LB Kiel's (i.e., after the Merger, HSH Nordbank's) regulatory solvency ratio (*Solvabilitätskoeffizient*) sustainably exceeds nine per cent on a consolidated and unconsolidated

basis. In addition, the Participation Agreement provides for two years notice prior to termination and stipulates that no termination shall become effective without prior regulatory approval. Therefore, Securityholders should be aware that they may be required to bear the financial risks of an investment in the RESPARC Securities for an indefinite period of time.

Profit Participations under the Participation Agreement and Coupon Payments under the RESPARC Securities are not cumulative.

Coupon Payments under the RESPARC Securities and Profit Participation Payments under the Participation Agreement are not cumulative. The Participation Agreement provides that no Profit Participations will accrue or be payable for any Profit Period:

- (i) to the extent that payment of such Profit Participation would lead to or increase an Annual Balance Sheet Loss for the fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank) corresponding to the relevant Profit Period,
- (ii) if a Reduction has occurred and the Silent Contribution has not yet been fully written-up,
- (iii) if at any time prior to payment of such Profit Participation, an application for the institution of insolvency proceedings over the assets of LB Kiel (i.e., after the Merger, HSH Nordbank) has been filed for reasons of threatening or actual illiquidity or overindebtedness, or the BAFin has made use of its powers vested by virtue of Sections 45, 46 and 47 of the German Banking Act or the relevant successor provisions, or
- (iv) if LB Kiel's (i.e., after the Merger, HSH Nordbank's) solvency ratio is below nine per cent. on an unconsolidated or a consolidated basis and payment of such Profit Participation would lead to or increase an annual loss (*Jahresfehlbetrag* in accordance with the German Commercial Code) for the fiscal year of LB Kiel (i.e., after the Merger, HSH Nordbank) corresponding to the relevant Profit Period. See "Terms and Conditions of the Participation)".

Coupon Payments will only be paid on the RESPARC Securities to the extent that Profit Participation Payments are paid. See "Terms and Conditions of the RESPARC Securities". Profit Participation Payments and Coupon Payments in following years will not increase to compensate for any shortfall in Profit Participation Payments or Coupon Payments in a previous year.

Claims under the Participation Agreement and the Support Undertaking are subordinated.

The payment obligations of LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement and the payment obligations of LB Kiel International under the Support Undertaking constitute obligations that are subordinated to the full prior payment in cash or cash equivalents of all existing and future indebtedness of LB Kiel (i.e., after the Merger, HSH Nordbank) and LB Kiel International, respectively. Accordingly, the Issuer's rights under the Participation Agreement and the Securityholder's rights under the Support Undertaking will rank behind all creditors of LB Kiel (i.e., after the Merger, HSH Nordbank) and LB Kiel International, respectively, in the event of the liquidation or dissolution, and senior only to the respective equityholders. LB Kiel's (i.e., after the Merger, HSH Nordbank's) payment obligations under the Participation Agreement will rank *pari passu* amongst themselves, with all claims in respect of existing and future participations in the form of *Stille Gesellschaft* in LB Kiel (i.e., after the Merger, HSH Nordbank) and other Tier 1 capital instruments ranking *pari passu* therewith, and the payment of profit participations thereunder. LB Kiel has agreed in the Participation Agreement not to accept any additional participations in the form *Stille Gesellschaft* in LB Kiel ranking senior (as to participation in LB Kiel's (i.e., after the Merger, HSH Nordbank's) assets in liquidation or otherwise) to the Participation. Apart from this, LB Kiel has not entered into any restrictive covenants in connection with the Participation Agreement regarding its ability to incur additional indebtedness ranking *pari passu* or senior to the Participation.

The companies involved in the Transaction may incur additional liabilities.

The activities of the Issuer, the Issuer General Partner and the Issuer Limited Partner are contractually limited to performing their respective roles in the Transaction. There can be no assurance that the management of the Issuer, the minority shareholder and the management of the Issuer General Partner or the shareholder and management

of the Issuer Limited Partner will restrict the respective business activities to the Transaction which may result in additional liabilities. Any such additional liabilities of either the Issuer, the Issuer General Partner or the Issuer Limited Partner could adversely affect their respective ability to perform their obligations in connection with the Transaction. Any such effect would materially adversely affect the Issuer's ability to perform its obligations under the RESPARC Securities.

The Agreements among LB Kiel, the Issuer, the Issuer General Partner and the Issuer Limited Partner may not be at arms' length.

The Issuer's partners are the Issuer General Partner, which is owned by LB Kiel International (51 per cent.) and a charitable trust established for wholly charitable purposes, and the Issuer Limited Partner, which is held by a charitable trust established for wholly charitable purposes. It is the intention of LB Kiel (i.e., after the Merger, HSH Nordbank), the Issuer, the Issuer General Partner and the Issuer Limited Partner that the terms of any agreements and transactions, including the Participation Agreement, the Terms and Conditions of the RESPARC Securities, the Support Undertaking, the Contribution Agreement and the Loan Agreement by and among, *inter alia*, LB Kiel, the Issuer, the Issuer General Partner and the Issuer Limited Partner, be fair to all parties and consistent with market terms. However, there can be no assurance that such agreements or transactions are on terms as favourable to the Issuer, the Issuer General Partner or the Issuer Limited Partner as those that could have been obtained from parties unaffiliated with LB Kiel.

There has been no prior market for the RESPARC Securities.

The RESPARC Securities that are the subject of this offering are a new issue of securities. Prior to their issue, there has been no public market for the RESPARC Securities. Although application has been made to have the RESPARC Securities listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V., there can be no assurance that an active public market for the RESPARC Securities will develop. If such a market develops, neither the Managers or any other person is obligated to maintain it. The liquidity and the market for the RESPARC Securities can be expected to vary with changes in the securities market and economic conditions, the financial condition and prospects of LB Kiel (i.e., after the Merger, HSH Nordbank) and the Issuer and other factors which generally influence the market prices of securities. Such fluctuations may significantly affect liquidity and market prices for the RESPARC Securities.

Changes in the tax or supervisory environment and other changes could materially adversely affect LB Kiel (i.e., after the Merger, HSH Nordbank), the Issuer, the Issuer General Partner, the Issuer Limited Partner or Securityholders.

The Participation Agreement provides that in the event of material changes in relation to the tax or supervisory treatment of the contributions and their profit and loss sharing under such agreement, LB Kiel (i.e., after the Merger, HSH Nordbank) and the Issuer shall enter into good faith negotiations with a view to amending the Participation Agreement. There can be no assurance that any such material changes will not occur in the future. Any such changes may materially adversely affect LB Kiel's (i.e., after the Merger, HSH Nordbank's), the Issuer's, the Issuer General Partner's, the Issuer Limited Partner's or the Securityholders' tax and/or regulatory treatment in relation to the agreement.

Agreements governed by German Law may be subject to General Termination Rights.

The RESPARC Securities, the Participation Agreement, the Loan Agreement, the Assignment Agreement, the Contribution Agreement and the Support Undertaking are governed by German law. Under German law, the right to terminate continuous contracts (*Dauerschuldverhältnis*) in extraordinary circumstances (*Kündigungsrecht aus wichtigem Grund*) cannot be excluded. Even though the circumstances under which such a termination right exists are limited, there can be no assurance that a party to either of those agreements will not assert the existence of such a termination right in the future.

USE OF PROCEEDS

The net proceeds from the issue of the RESPARC Securities will amount to €500,000,000 and will be used by the Issuer to acquire a silent capital interest in the commercial enterprise (*Handelsgewerbe*) of LB Kiel in the form of a *Stille Gesellschaft* under German law pursuant to the Participation Agreement providing for an asset contribution by the Issuer to LB Kiel in the form of the Silent Contribution. In addition to the commissions payable to the Managers (see “Subscription and Sale”) LB Kiel expects the costs related to the offering of the RESPARC Securities to amount to €500,000.

CAPITALISATION, REGULATORY CAPITAL, DISTRIBUTABLE PROFITS AND DIVIDENDS

Capitalisation and Indebtedness

The tables set forth below show the capitalisation of LB Kiel, the LB Kiel Group, Hamburg LB, the Hamburg LB Group as well as of HSH Nordbank:

LB Kiel and the LB Kiel Group

The following table sets forth the capitalisation of LB Kiel and of the LB Kiel Group as at the dates specified:

	31 December 2000 ⁽¹⁾	31 December 2001 ⁽¹⁾	31 December 2002 ⁽¹⁾
	(audited)	(audited)	(audited)
	(€ in million)		
<i>Liable capital of the Bank acc. to sec. 10 of the German Banking Act (KWG)</i>			
Subscribed capital	220	220	220
Silent participations	789	1,157	2,193
Capital reserves	925	927	926
Earnings Reserves	412	504	612
Fund for general banking risks	65	89	142
Intangible fixed assets	-16	-13	-10
Core capital	2,396	2,883	4,082
Supplementary capital	1,594	1,759	2,049
Equity Investments acc. to sec. 10 para. 6a sentence 1 No. 4a of the German Banking Act	-2	-4	-6
Tier III capital	—	—	—
<i>Total liable capital — Bank</i>	<i>3,988</i>	<i>4,638</i>	<i>6,125</i>
<i>Liable capital of the Group Companies acc. to sec. 10a of the German Banking Act (KWG)</i>			
Core capital	1,304	1,323	1,484
Supplementary capital	1,169	1,207	1,212
Deduction from equity capital	-16	-16	-16
<i>Total liable capital — Group companies</i>	<i>2,457</i>	<i>2,514</i>	<i>2,680</i>
<i>Tier III capital not counting towards the capital base</i>	<i>—</i>	<i>—</i>	<i>—</i>
<i>LB Kiel Group total liable capital</i>	<i>6,445</i>	<i>7,152</i>	<i>8,805</i>

Save as disclosed above, there has been no material change in the capitalisation of the Bank and the LB Kiel Group since 31 December 2002.

(1) Columns may not add up due to rounding.

Hamburg LB and the Hamburg LB Group

The following table sets forth the capitalisation of HLB and the HLB Group as at the dates specified:

	31 December 2000 ⁽¹⁾	31 December 2001 ⁽¹⁾	31 December 2002 ⁽¹⁾
	(audited)	(audited)	(audited)
	€ in million		
<i>Liable capital of HLB acc. to sec. 10 of the German Banking Act (KWG)</i>			
Subscribed capital	250	250	255
Silent participations	1,634	1,634	1,913
Capital reserves	446	446	446
Earnings Reserves	292	358	424
Fund for general banking risks	90	110	110
Intangible fixed assets	0	0	0
Core capital	2,712	2,798	3,148
Supplementary capital	2,222	2,320	2,376
Equity Investments acc. to sec. 10 para. 6a sentence 1 No. 4a of the German Banking Act	-3	-3	-3
Tier III capital	-	-	-
<i>Total liable capital — Bank</i>	<i>4,931</i>	<i>5,115</i>	<i>5,521</i>
<i>Liable capital of the HLB's group companies acc. to sec. 10a of the German Banking Act (KWG)</i>			
Core capital	726	721	719
Supplementary capital	0	0	0
Deduction from equity capital	0	0	0
<i>Total liable capital – Group companies</i>	<i>726</i>	<i>721</i>	<i>719</i>
<i>Tier III capital not counting towards the capital base</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>HLB Group Total liable capital</i>	<i>5,657</i>	<i>5,836</i>	<i>6,240</i>

(1) Columns may not add up due to rounding.

HSH Nordbank

The following table sets forth the unconsolidated and the consolidated pro-forma capitalisation of HSH Nordbank on the basis of the information contained in the unaudited pro-forma opening balance sheet in accordance with German transformation law (*Umwandlungsrecht*) as of 1 January 2003:

	1 January 2003 ⁽¹⁾
	(unaudited)
	€ in million
<i>Liable capital of HSH acc. to sec. 10 of the German Banking Act (KWG)</i>	
Subscribed capital	450
Silent participations	4,106
Capital reserves	1,164
Earnings Reserves	0
Fund for general banking risks	252
Intangible fixed assets	-10
Core capital	5,962
Supplementary capital	4,383
Equity Investments acc. to sec. 10 para. 6a sentence 1 No. 4a of the German Banking Act	-9
Tier III capital	-
<i>Total liable capital — Bank</i>	<i>10,336</i>
<i>Liable capital of the HSH's group companies acc. to sec. 10a of the German Banking Act (KWG)</i>	
Core capital ⁽²⁾	-43
Supplementary capital	79
Deduction from equity capital	-29
<i>Total liable capital – Group companies</i>	<i>7</i>
<i>Tier III capital not counting towards the capital base</i>	<i>-</i>
<i>HSH Nordbank Group Total liable capital</i>	<i>10,342</i>

(1) See “The Imminent Merger between LB Kiel and Hamburg LB”.

(2) Columns may not add up due to rounding.

(3) Deducted from core capital is the book value of the silent participation.

Regulatory Capital

LB Kiel

The following table shows the composition of LB Kiels's regulatory capital on an unconsolidated and consolidated basis as of 31 December 2000, 2001 and 2002:

	31 December 2000 ⁽¹⁾	31 December 2001 ⁽¹⁾	31 December 2002 ⁽¹⁾
	(audited)	(audited)	(audited)
	€ in million		
Bank only⁽²⁾			
Tier I (core) capital	2,396	2,883	4,082
of which:			
Silent participations	789	1,157	2,193
Earnings Reserves	412	504	612
Tier II (supplementary) capital	1,594	1,759	2,049
Deductible items ⁽³⁾	-2	-4	-6
Tier III capital	0	0	0
Total	3,988	4,638	6,125
Group⁽⁴⁾			
Tier I (core) capital	3,699	4,206	5,566
of which:			
Silent participations	1,628	1,995	3,168
Earnings Reserves	761	886	1,048
Tier II (supplementary) capital	2,764	2,967	3,260
Deductible items ⁽³⁾	-18	-20	-22
Total	6,445	7,152	8,805

(1) Columns may not add due to rounding. For purposes of this table, regulatory banking capital, i.e., Tier I (core) capital and Tier II (supplementary) capital, has been calculated after year-end allocations to reserves and other changes to the Bank's capital made in connection with the approval of the Bank's financial statements by its owners.

(2) Unconsolidated data.

(3) Deductions pursuant to § 10 of the German Banking Act.

(4) Consolidated data.

(5) Deductions pursuant to § 10(a) of the German Banking Act.

Hamburg LB

The following table shows the composition of Hamburg LB's regulatory capital on an unconsolidated and consolidated basis as of 31 December 2000, 2001 and 2002:

	<i>31 December 2000⁽¹⁾</i>	<i>31 December 2001⁽¹⁾</i>	<i>31 December 2002⁽¹⁾</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>€ in million</i>		
Bank only⁽²⁾			
Tier I (core) capital	2,712	2,798	3,148
of which:			
Silent participations	1,634	1,634	1,913
Earnings Reserves	292	358	424
Tier II (supplementary) capital	2,222	2,320	2,376
Deductible items ⁽³⁾	-3	-3	-3
Tier III capital	—	—	—
Total liable capital	<u>4,931</u>	<u>5,115</u>	<u>5,521</u>
Group⁽⁴⁾			
Tier I (core) capital	3,439	3,519	3,867
of which:			
Silent participations	1,634	1,634	1,914
Earnings Reserves	298	359	424
Tier II (supplementary) capital	2,221	2,320	2,376
Deductible items ⁽⁵⁾	-3	-3	-3
Tier III capital	0	0	0
Total	<u>5,657</u>	<u>5,836</u>	<u>6,240</u>

(1) Columns may not add due to rounding. For purposes of this table, regulatory banking capital, i.e., Tier I (core) capital and Tier II (supplementary) capital, has been calculated after year-end allocations to reserves and other changes to the Bank's capital made in connection with the approval of the Bank's financial statements by its owners.

(2) Unconsolidated data.

(3) Deductions pursuant to § 10 of the German Banking Act.

(4) Consolidated data.

(5) Deductions pursuant to § 10(a) of the German Banking Act.

HSH Nordbank⁽¹⁾

The following table shows the composition of HSH Nordbank's regulatory capital on an unconsolidated and consolidated basis referring to the unaudited pro-forma opening balance sheet data as of 1 January 2003:

	1 January 2003 ⁽²⁾
	(unaudited)
	€ in million
Bank only⁽³⁾	
Tier I (core) capital	5,962
Of which:	
Silent participations	4,106
Earnings Reserves	0
Tier II (supplementary) capital	4,383
Deductible items ⁽⁴⁾	-9
Tier III capital	0
Total liable capital	10,336
Group⁽⁵⁾	
Tier I (core) capital	5,919
Of which:	
Silent participations	4,135
Earnings Reserves	193
Tier II (supplementary) capital	4,461
Deductible items ⁽⁶⁾	-38
Tier III capital	0
Total	10,342

(1) See "The Imminent Merger between LB Kiel and Hamburg LB".

(2) Columns may not add due to rounding. For purposes of this table, regulatory banking capital, i.e., Tier I (core) capital and Tier II (supplementary) capital, has been calculated after year-end allocations to reserves and other changes to the Bank's capital made in connection with the approval of the Bank's financial statements by its owners.

(3) Unconsolidated data.

(4) Deductions pursuant to § 10 of the German Banking Act.

(5) Consolidated data.

(6) Deductions pursuant to § 10(a) of the German Banking Act.

Distributable Profits and Dividends

Coupon Payments on the RESPARC Securities depend, among other things, on the Distributable Profits of LB Kiel (i.e., after the Merger, HSH Nordbank) for the preceding fiscal year. See "Summary—Summary of the Terms of the RESPARC Securities".

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

After LB Kiel has changed its legal form to a German Public Limited Company (*Aktiengesellschaft*) in the context of the imminent merger with Hamburg LB (see "The Imminent Merger between LB Kiel and Hamburg LB"), profit participations will not accrue to the extent they exceed the annual surplus adjusted for losses carried over from previous fiscal years, allocations to capital and earnings reserves and transfers only from other earnings reserves (*andere Gewinnrücklagen*) accrued during the term of the Participation Agreement (see "Summary—Summary of the Transaction").

Annual Surplus, Distributable Profits and Dividends of LB Kiel

The following table sets forth, as at 31 December 2000, 2001 and 2002, the annual surplus (*Jahresüberschuss*) and Distributable Profits of LB Kiel:

	2000	2001	2002
	<i>€ in thousand</i>		
Annual Surplus.....	44,049	123,846	128,387
Distributable Profits	29,980	41,877	26,167

The following table shows LB Kiel's dividends in respect of each of the five years in the period ended 31 December 2001 in euros. For all periods prior to 1 January 1999, LB Kiel paid dividends in Deutsche Marks. In the table set forth below, these amounts were converted into euros using the official fixed conversion rate of €1.00 = DM 1.95583.

Year ended 31 December	Dividends
	€
1998	15,390,000
1999	15,390,000
2000	15,390,000
2001	15,390,000
2002	15,390,000

Annual Surplus, Distributable Profits and Dividends of Hamburg LB

The following table sets forth, as at 31 December 2000, 2001 and 2002, the annual surplus (*Jahresüberschuss*) and Distributable Profits of Hamburg LB:

	2000	2001	2002
	<i>€ in thousand</i>		
Annual Surplus.....	54,450	99,000	113,850
Distributable Profits	54,450	69,300	109,850

The following table shows Hamburg LB's dividends in respect of each of the five years in the period ended 31 December 2001 in euros. For all periods prior to 1 January 1999, Hamburg LB paid dividends in Deutsche Marks. In the table set forth below, these amounts were converted into euros using the official fixed conversion rate of €1.00 = DM 1.95583.

Year ended 31 December	Dividends
	€
1998	26,827,485
1999	30,370,725
2000	31,680,000
2001	33,660,000
2002	44,550,000

TERMS AND CONDITIONS OF THE RESPARC SECURITIES

The full text of the terms and conditions of the RESPARC Securities is set forth in the following. As the Issuer's payment obligations under the RESPARC Securities are contingent on receipt of Profit Participation Payments and the Repayment Amount from LB Kiel (i.e., after the Merger, HSH Nordbank) under the Participation Agreement and Advances from LB Kiel Luxembourg under the Loan Agreement, potential investors should carefully review and consider the provisions of the Participation Agreement (which can be found under "Terms and Conditions of the Participation Agreement") and the provisions of the Loan Agreement (which can be found under "Terms and Conditions of the Loan Agreement").

THE GERMAN TEXT OF THE TERMS AND CONDITIONS OF THE RESPARC SECURITIES IS
LEGALLY BINDING. THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY.

EMISSIONSBEDINGUNGEN

TERMS AND CONDITIONS

der

of the

**€500.000.000 Re-Engineered Silent Participation
Assimilated Regulatory Capital (RESPARC)
Securities**

**€500,000,000 Re-Engineered Silent Participation
Assimilated Regulatory Capital (RESPARC)
Securities**

der

issued by

RESPARCS Funding II Limited Partnership

RESPARCS Funding II Limited Partnership

(nachstehend als *Emittentin* bezeichnet)

(hereinafter called *Issuer*)

§ 1

Definitionen und Auslegung

§ 1

Definitions and Interpretation

Definitionen: Sofern aus dem Zusammenhang nicht etwas anderes hervorgeht, haben die nachstehenden Begriffe folgende Bedeutung:

Definitions: Unless the context requires otherwise, the following terms will have the following meanings:

Ausgabetag bezeichnet den 28. Mai 2003.

Issue Date means 28 May 2003.

BAFin bezeichnet die Bundesanstalt für Finanzdienstleistungsaufsicht oder eine etwaige Nachfolgebehörde, die an deren Stelle tritt.

BAFin means the German Financial Supervisory Authority or any successor agency taking its place.

Bank bezeichnet die Landesbank Schleswig-Holstein Girozentrale, eine nach dem Recht des Landes Schleswig-Holstein errichtete Landesbank mit Sitz Martensdamm 6, 24103 Kiel, Deutschland, die mit wirtschaftlicher Rückwirkung zum 1. Januar 2003 mit der Hamburgischen Landesbank Girozentrale zur HSH Nordbank Aktiengesellschaft mit Sitz in Hamburg und Kiel im Wege der Verschmelzung zur Neugründung verschmolzen werden soll.

Bank means Landesbank Schleswig-Holstein Girozentrale, a public banking institution established under the laws of the German federal state Schleswig-Holstein whose registered office is at Martensdamm 6, 24103 Kiel, Germany which is intended to be merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity.

Beendigungstag bezeichnet den Tag, ab dem die Emittentin aufgrund einer wirksamen Kündigung des Beteiligungsvertrages nicht mehr am Handelsgewerbe der Bank als typischer stiller Gesellschafter beteiligt ist.

Termination Date shall mean the date as of which the Issuer ceases to participate in the Bank's commercial enterprise as an ordinary silent partner because the Participation Agreement has been validly terminated.

Beteiligungsvertrag hat die in § 4(1) festgelegte Bedeutung.

Participation Agreement has the meaning specified in § 4(1).

Buchwert der Stillen Einlage bezeichnet den handelsrechtlichen Buchwert der Stillen Einlage, so wie dieser in der Bilanz der Bank für das Geschäftsjahr der Bank festgestellt wurde, in das der Beendigungstag fällt. Wenn sich bei Aufstellung der Bilanz der Bank für dieses Geschäftsjahr die Entstehung eines Jahresbilanzverlusts abzeichnet, so wird dieser Jahresbilanzverlust anteilig nach Maßgabe des Beteiligungsvertrags vom Buchwert abgezogen.

Clearing-System bezeichnet Clearstream Banking AG, Frankfurt am Main, einschließlich seiner Teilnehmer Clearstream Luxemburg und Euroclear.

Clearstream Luxemburg bezeichnet Clearstream Banking S.A., Luxemburg.

Darlehens-Auszahlung hat die in § 4(3) festgelegte Bedeutung.

Darlehensvertrag hat die in § 4(3) festgelegte Bedeutung.

Depotbank bezeichnet ein Bank oder sonstiges Finanzinstitut, das zum Betreiben des Wertpapierdepotgeschäfts berechtigt ist und bei dem der betreffende Emissionsgläubiger RESPARC Securities in einem Wertpapierdepot verwahren lässt und das ein Konto bei dem Clearing-System unterhält, einschließlich des Clearing-Systems.

Einzahlungsvertrag hat die in § 4(2) festgelegte Bedeutung.

Emissionsbedingungen bezeichnet diese Bedingungen der RESPARC Securities.

Emissionsgläubiger bezeichnet die Inhaber eines Miteigentumsanteils oder Rechts an der Globalurkunde oder, nach der Ausgabe effektiver RESPARC Securities, die Inhaber solcher effektiver RESPARC Securities.

Emittenten-Gesellschafter bezeichnet die Emittenten-Kommanditistin und die Emittenten-Komplementärin.

Emittenten-Kommanditistin bezeichnet European Equity Participation Management GmbH, eine nach deutschem Recht errichtete Gesellschaft mit beschränkter Haftung mit Sitz in Hamburg, Deutschland, die der *Limited Partner* der Emittentin nach Maßgabe des Limited Partnerships (Jersey) Law 1994 in der jeweils gültigen Fassung ist.

Emittenten-Komplementärin bezeichnet European Capital Investment Opportunities Limited, eine nach dem Recht von Jersey errichtete Gesellschaft mit beschränkter Haftung mit Sitz in Jersey, Kanalinseln, die der *General Partner* der Emittentin nach Maßgabe

Book Value of the Silent Contribution means the commercial law book value of the Silent Contribution as determined in the Bank's balance sheet for the Bank's fiscal year in which the Termination Date occurs. If, when drawing up the Bank's balance sheet for such fiscal year, it becomes evident that an annual balance sheet loss would arise, such annual balance sheet loss will be proportionately deducted from the book value in accordance with the Participation Agreement.

Clearing System means Clearstream Banking AG, Frankfurt am Main, including its participants Clearstream Luxembourg and Euroclear.

Clearstream Luxembourg means Clearstream Banking S.A., Luxembourg.

Advance has the meaning specified in § 4(3).

Loan Agreement has the meaning specified in § 4(3).

Custodian means any bank or other financial institution authorised to engage in securities custody business with which the relevant Securityholder maintains a securities account in respect of any RESPARC Securities and having an account maintained with the Clearing System, including the Clearing System.

Contribution Agreement has the meaning specified in § 4(2).

Terms and Conditions means these terms and conditions of the RESPARC Securities.

Securityholder means any holder of a proportional co-ownership participation or right in the Global Security or, after the issuance of definitive RESPARC Securities, any holder of such definitive RESPARC Securities.

Issuer Partners means the Issuer Limited Partner and the Issuer General Partner.

Issuer Limited Partner means European Equity Participation Management GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Germany whose registered office is at Hamburg, Germany and who is the Issuer's limited partner within the meaning of the Limited Partnerships (Jersey) Law 1994, as amended.

Issuer General Partner means European Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Jersey whose registered office is at Jersey, Channel Islands and who is the Issuer's general partner within the meaning of

des Limited Partnerships (Jersey) Law 1994 in der jeweils gültigen Fassung ist.

Emittentin hat die in § 2(1) festgelegte Bedeutung.

Erste Gewinnperiode hat die in § 4(1)(b) festgelegte Bedeutung.

Euroclear bezeichnet Euroclear Bank S.A./N.V. als Betreiber des Euroclear-Systems.

Fälligkeitstag hat die in § 4(1)(c) festgelegte Bedeutung.

Geschäftstag bezeichnet jeden Tag an dem TARGET (das Trans-European Automated Real Time Gross Settlement Express Transfer System) Buchungen oder Zahlungsanweisungen im Hinblick auf Zahlungen in Euro abwickelt und Geschäftsbanken in Frankfurt im allgemeinen Geschäftsverkehr Zahlungen abwickeln.

Gewinnbeteiligung hat die in § 4(1)(a) festgelegte Bedeutung

Gewinnbeteiligungszahlung hat die in § 4(1)(a) festgelegte Bedeutung.

Gewinnperiode hat die in § 4(1)(b) festgelegte Bedeutung.

Globalurkunde hat die in § 2(2) festgelegte Bedeutung.

Globalurkunden hat die in § 2(2) festgelegte Bedeutung.

Hauptzahlstelle hat die in § 13(1) festgelegte Bedeutung.

Kapitaleinzahlung hat die in § 4(2) festgelegte Bedeutung.

Kapitalertragsteuer bezeichnet die nach Maßgabe von § 43 EStG einbehaltene Kapitalertragsteuer zuzüglich des Solidaritätszuschlags.

KWG bezeichnet das Kreditwesengesetz.

LB Kiel International bezeichnet Landesbank Schleswig-Holstein International S.A., Luxemburg, ein Luxemburger Finanzinstitut und eine Tochtergesellschaft der Bank.

LB Kiel Luxembourg bezeichnet die Bank, handelnd durch ihre Luxemburger Zweigniederlassung.

Nachfolgerin hat die in § 14(1) festgelegte Bedeutung.

Permanente Globalurkunde hat die in § 2(2) festgelegte Bedeutung.

RESPARC Securities hat die in § 2(1) festgelegte Bedeutung.

the Limited Partnerships (Jersey) Law 1994, as amended.

Issuer has the meaning specified in § 2(1).

First Profit Period has the meaning specified in § 4(1)(b).

Euroclear means Euroclear Bank S.A./N.V. as operator of the Euroclear System.

Due Date has the meaning specified in § 4(1)(c).

Business Day means a day on which TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is operating credit or transfer instructions in respects of payments in euro and commercial banks settle payments in the general course of business in Frankfurt.

Profit Participation has the meaning specified in § 4(1)(a).

Profit Participation Payment has the meaning specified in § 4(1)(a).

Profit Period has the meaning specified in § 4(1)(b).

Global Security has the meaning specified in § 2(2).

Global Securities has the meaning specified in § 2(2).

Principal Paying Agent has the meaning specified in § 13(1)

Contribution Payment has the meaning specified in § 4(2).

German Investment Income Tax means German investment income tax levied in accordance with § 43 German Income Tax Act plus the solidarity surcharge.

KWG means the German Banking Act.

LB Kiel International means Landesbank Schleswig-Holstein International S.A., Luxemburg, a Luxembourg financial institution and wholly-owned subsidiary of the Bank.

LB Kiel Luxembourg shall mean the Bank, acting through its Luxembourg branch.

Successor has the meaning specified in § 14(1).

Permanent Global Security has the meaning specified in § 2(2).

RESPARC Securities has the meaning specified in § 2(1).

Rückzahlungsbetrag bezeichnet den Buchwert der Stillen Einlage.

Rückzahlungstag bezeichnet (i) den 30. Juni des Jahres, das auf das Geschäftsjahr der Bank folgt, in das der Beendigungstag fällt oder, falls dieser Tag kein Geschäftstag ist, den nächstfolgenden Geschäftstag oder, falls später, (ii) den ersten Geschäftstag nach Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr der Bank, in das der Beendigungstag fällt.

Sperrfrist hat die in § 2(2) festgelegte Bedeutung.

Stille Einlage hat die in § 4(1) festgelegte Bedeutung.

Support Undertaking bezeichnet die nachrangige Patronatserklärung der LB Kiel International gegenüber der Emittentin und zugunsten der Emmissionsgläubiger vom 26 Mai 2003.

Tilgungszahlung hat die in § 7(1) festgelegte Bedeutung.

U.S.-Person bezeichnet eine U.S. person im Sinne des US-amerikanischen Internal Revenue Code von 1986 in seiner jeweils gültigen Fassung.

Vorläufige Globalurkunde hat die in § 2(2) festgelegte Bedeutung.

Zahlstelle und **Zahlstellen** hat die in § 13(2) festgelegte Bedeutung.

Zinszahlung hat die in § 6(1) festgelegte Bedeutung.

Zusätzliche Beträge hat die in § 10 festgelegte Bedeutung.

Repayment Amount means the Book Value of the Silent Contribution.

Repayment Date means the later of (i) 30 June following the fiscal year in which the Termination Date occurs or, if such day is not a Business Day, the next Business Day following such day or (ii) the first Business Day after the Bank's annual financial statements are adopted for the fiscal year of the Bank in which the Termination Date occurs.

Restricted Period has the meaning specified in § 2(2).

Silent Contribution has the meaning specified in § 4(1).

Support Undertaking means the subordinated support undertaking by LB Kiel International in relation to the Issuer and for the benefit of Securityholders dated 26 May 2003.

Redemption Payment has the meaning specified in § 7(1).

U.S. Person has the meaning specified in the United States Internal Revenue Code of 1986, as amended.

Temporary Global Security has the meaning specified in § 2(2).

Paying Agent and Paying Agents has the meaning specified in § 13(2).

Interest Payment has the meaning specified in § 6(1).

Additional Amounts has the meaning specified in § 10.

§ 2

Stückelung; Verbriefung und Verwahrung; Übertragbarkeit

- (1) **Stückelung:** Die Emission der Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities im Gesamtnennbetrag von €500.000.000 (in Worten: Euro fünfhundert Millionen) der RESPARCS Funding II Limited Partnership (**Emittentin**) ist eingeteilt in 500.000 untereinander gleichrangige Teilschuldverschreibungen mit einem Nennbetrag von jeweils € 1.000 (die **RESPARC Securities**).
- (2) **Verbriefung:** Die RESPARC Securities werden zunächst durch eine vorläufige auf den Inhaber lautende Globalschuldverschreibung (die **Vorläufige Globalurkunde**) ohne Zinsscheine

§ 2

Denomination; Form and Custody, Transferability

- (1) **Denomination:** The issue of the Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities in the aggregate nominal amount of €500,000,000 (in words: euro five hundred million) by RESPARCS Funding II Limited Partnership (**Issuer**) is divided into 500,000 notes, ranking *pari passu* among themselves, in the nominal amount of € 1,000 each (the **RESPARC Securities**).
- (2) **Form:** The RESPARC Securities will initially be represented by a temporary global bearer security (**Temporary Global Security**) without interest coupons which will be exchanged not

verbriefte; die Vorläufige Globalurkunde wird nicht früher als 40 Tage (dieser Zeitraum nachfolgend die *Sperrfrist*) und nicht später als 180 Tage nach dem Ausgabetag in eine permanente auf den Inhaber lautende Globalschuldverschreibung (*Permanente Globalurkunde*), und die Vorläufige Globalurkunde gemeinsam mit der Permanenten Globalurkunde die *Globalurkunden* und jede für sich eine *Globalurkunde*) ohne Zinsscheine ausgetauscht, und zwar gegen Nachweis über das Nichtbestehen U.S.-amerikanischen wirtschaftlichen Eigentums (U.S. *beneficial ownership*) an den RESPARC Securities, der nach Inhalt und Form den Anforderungen des Rechts der Vereinigten Staaten von Amerika und den dann bestehenden Usancen des Clearing-Systems entspricht.

- (3) **Vorgaben des U.S.-amerikanischen Steuerrechts:** Im Einklang mit den Steuergesetzen und Vorschriften der Vereinigten Staaten dürfen auf den Inhaber lautende Wertpapiere nur in Transaktionen, die nach U.S.-Steuergesetzen zulässig sind, in den Vereinigten Staaten oder U.S.-Personen angeboten, verkauft oder geliefert werden.

(a) **Zusicherungen der Konsortialbanken:** Jede Konsortialbank hat zugesichert, (i) dass sie weder (x) zu irgendeinem Zeitpunkt im Zusammenhang mit der ursprünglichen Ausgabe der RESPARC Securities noch (y) innerhalb der Sperrfrist RESPARC Securities einer sich in den Vereinigten Staaten befindenden Person oder einer U.S.-Person anbietet oder verkauft, es sei denn, dies ist nach den U.S.-Steuergesetzen zulässig, und (ii) dass sie keine während der Sperrfrist verkauften RESPARC Securities in effektiven Urkunden in die Vereinigten Staaten ausliefert.

(b) **Eigentumsbestätigung:** Die RESPARC Securities dürfen (mit Ausnahme der Vorläufigen Globalurkunde) nicht ausgeliefert werden, und es dürfen keine Zinsen gezahlt werden, solange die Person, die einen Anspruch auf die RESPARC Securities oder die Zinsen hat, nicht die oben beschriebene schriftliche Bestätigung des Nicht-Bestehens U.S.-amerikanischem wirtschaftlichen Eigentums (non-U.S. *beneficial ownership*) vorlegt.

earlier than 40 days (this period hereinafter referred to as the *Restricted Period*) and not later than 180 days after the Issue Date against a permanent global bearer security (*Permanent Global Security*), and the Temporary Global Security together with the Permanent Global Security the *Global Securities* and each a Global Security) without interest coupons upon certification as to non-U.S. beneficial ownership of the RESPARC Securities the contents and form of which shall correspond to the applicable requirements of the laws of the United States of America and the then prevailing standard practices of the Clearing System.

- (3) **U.S. Tax Matters:** In compliance with United States tax laws and regulations, bearer securities may not be offered, sold or delivered within the United States or its possessions or to a U.S. Person, except in certain transactions permitted by U.S. tax regulations.

(a) **Undertakings of Syndicate Members:** Each syndicate member bank has agreed (i) that it will not, (x) at any time in connection with the original issuance of the RESPARC Securities or (y) within the Restricted Period, offer or sell RESPARC Securities to a person who is within the United States or its possessions or to a U.S. Person, except as permitted by U.S. tax regulations and (ii) that it will not deliver RESPARC Securities sold during the Restricted Period in definitive form within the United States or its possessions.

(b) **Confirmation of Ownership:** No RESPARC Securities (except for the Temporary Global Security) may be delivered, and no interest may be paid until the person entitled to receive such RESPARC Securities or such interest furnishes the written certification of non-U.S. beneficial ownership described above.

- (c) **Legende:** Auf den Globalurkunden und etwaigen effektiven RESPARC Securities und Zinsscheinen wird folgende Legende aufgedruckt: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.*" Die in der Legende genannten Vorschriften sehen abgesehen von bestimmten Ausnahmen vor, dass eine U.S.-Person in Bezug auf Erträge aus einem Verkauf oder einer Rückzahlung der RESPARC Securities bzw. des Zinsscheines keine Verlustabzüge vornehmen darf und diese Erträge auch nicht der Behandlung als Kursgewinn (*capital gain treatment*) unterliegen.
- (c) **Legend:** The following legend will appear on the Global Securities, definitive RESPARC Securities and interest coupons, if any, appertaining thereto: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.*" The sections referred to in such legend provide that, with certain exceptions, a U.S. Person will not be permitted to deduct any loss, and will not be eligible for capital gain treatment with respect to any gain, realised on the sale or redemption of such RESPARC Security or interest coupon.
- (4) **Effektive RESPARC Securities:** Falls die Emittentin (aus welchem Grund auch immer) rechtlich verpflichtet sein sollte, effektive RESPARC Securities auszugeben oder falls Clearstream Frankfurt, Clearstream Luxemburg oder Euroclear für einen Zeitraum von 21 aufeinanderfolgenden Geschäftstagen für Geschäfte geschlossen bleiben oder die Absicht bekannt geben sollte, den Geschäftsverkehr auf Dauer aufzugeben und kein Ersatz-Clearing-System zur Verfügung stehen sollte, wird die Globalurkunde in effektive RESPARC Securities ausgetauscht. In diesem Fall werden RESPARC Securities in effektiven Inhaberurkunden ausgegeben, die entweder mit Zinsscheinen versehen sind, oder bei denen der Nachweis der Zinszahlung auf einem Abschnitt der Urkunde vermerkt wird. Mit Ausnahme von den in den vorangegangenen Sätzen beschriebenen Fällen haben die Emissionsgläubiger kein Recht, die Ausgabe von effektiven Urkunden über einzelne RESPARC Securities und über Zinsscheine zu verlangen.
- (4) **Definitive RESPARC Securities:** If, for any reason, the Issuer becomes legally obligated to issue RESPARC Securities in definitive form, or if either of Clearstream Frankfurt, Clearstream Luxembourg or Euroclear should be closed for business for a period of 21 consecutive Business Days or should announce an intention permanently to cease business and no substitute clearing system should be available, the Global Security will be exchanged for RESPARC Securities in definitive bearer form. In such case, RESPARC Securities in definitive bearer form will be issued which will either have coupons attached or have a grid for recording the coupon payments endorsed thereon. Other than provided for in the immediately preceding sentences, the Securityholders shall have no right to require the issue of definitive certificates representing individual RESPARC Securities and interest coupons.
- (5) **Ausgabe und Verwahrung:** Die Vorläufige Globalurkunde und die Permanente Globalurkunde sind jeweils nur wirksam, wenn sie die eigenhändigen Unterschriften von mindestens einer durch die Emittentin bevollmächtigen Person sowie die Unterschrift eines Kontrollbeauftragten der Hauptzahlstelle tragen. Die Globalurkunden werden bei dem Clearing-System hinterlegt, bis sämtliche Verpflichtungen der Emittentin aus den RESPARC Securities erfüllt sind.
- (5) **Issuance and Custody:** Each of the Temporary Global Security and the Permanent Global Security shall only be valid if it bears the handwritten signatures of at least one duly authorised representative of the Issuer and the control signature of a person instructed by the Principal Paying Agent. The Global Securities shall be deposited with the Clearing System, until the Issuer has satisfied and discharged all its obligations under the RESPARC Securities.

- (6) **Übertragbarkeit:** Den Emissionsgläubigern stehen Miteigentumsanteile oder Rechte an den Globalurkunden zu, die nach Maßgabe des anwendbaren Rechts und der jeweils geltenden Usancen des Clearing-Systems übertragen werden können.

§ 3

Status der RESPARC Securities

Die RESPARC Securities begründen unmittelbare, nicht nachrangige und (mit Ausnahme einer Sicherungsabtretung von Zahlungsansprüchen der Emittentin an einen zugunsten der Emissionsgläubiger handelnden Sicherheitentreuhänder) nicht besicherte bedingte Verbindlichkeiten der Emittentin und stehen im gleichen Rang untereinander und mindestens im gleichen Rang mit allen anderen gegenwärtigen und zukünftigen nicht besicherten und nicht nachrangigen Verbindlichkeiten der Emittentin, soweit zwingendes Gesetzesrecht nichts anderes vorschreibt.

§ 4

Beteiligungsvvertrag; Einzahlungsvertrag; Darlehensvertrag

- (1) **Beteiligungsvvertrag:** Den Erlös aus der Ausgabe der RESPARC Securities wird die Emittentin ausschließlich zu dem Zweck verwenden, auf Grundlage eines zwischen ihr und der Bank am 23. Mai 2003 abgeschlossenen Vertrages (**Beteiligungsvvertrag**), der eine Vermögenseinlage der Emittentin bei der Bank in Höhe von €500.000.000 (**Stille Einlage**) vorsieht, eine stille Beteiligung an dem Handelsgewerbe der Bank nach deutschem Recht zu begründen.
- (a) **Gewinnbeteiligungszahlungen:** Nach Maßgabe des Beteiligungsvtrages wird die Emittentin die Stille Einlage in Höhe von €500.000.000 als Bareinlage an die Bank erbringen. Als Gegenleistung stehen der Emittentin Gewinnbeteiligungen (**Gewinnbeteiligungen**) zu, die jeweils jährlich nach Maßgabe des Beteiligungsvtrages auf Grundlage des Nennbetrages der Stillen Einlage in jedem Geschäftsjahr der Bank ermittelt und jährlich nachträglich ausgeschüttet werden (jeweils eine **Gewinnbeteiligungszahlung**).
- (b) **Gewinnperioden; Erste Gewinnperiode:** Nach Maßgabe des Beteiligungsvtrages fallen auf die

- (6) **Transferability:** The Securityholders will receive proportional co-ownership participations or rights in the Global Securities that are transferable in accordance with applicable law and applicable standards of the Clearing System.

§ 3

Status of the RESPARC Securities

The RESPARC Securities constitute direct, unsubordinated and (except for a security assignment of payment claims of the Issuer to a security trustee acting for the benefit of the Securityholders) unsecured conditional obligations of the Issuer and rank *pari passu* among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Issuer, present or future, save for mandatory exceptions prescribed by statutory law.

§ 4

Participation Agreement; Contribution Agreement; Loan Agreement

- (1) **Participation Agreement:** The proceeds of the issue of the RESPARC Securities will be used by the Issuer exclusively for the purpose of establishing a silent participation in the commercial enterprise of the Bank under German law pursuant to an agreement between the Issuer and the Bank (**Participation Agreement**) providing for an asset contribution by the Issuer to the Bank in the amount of €500,000,000 (**Silent Contribution**) and dated 23 May 2003.
- (a) **Profit Participation Payments:** Under the Participation Agreement, the Issuer will make the Silent Contribution in the form of a cash contribution of €500,000,000 to the Bank. In return, the Issuer will earn profit participations (**Profit Participations**) calculated annually in accordance with the Participation Agreement on the basis of the nominal amount of the Silent Contribution for each fiscal year of the Bank and payable annually in arrear (each a **Profit Participation Payment**).
- (b) **Profit Periods; First Profit Period:** Under the Participation Agreement, Profit Participations on the Silent

Stille Einlage Gewinnbeteiligungen für Gewinnzeiträume (jeweils eine **Gewinnperiode**) an. Gewinnperioden laufen jeweils vom 1. Januar (einschließlich) bis 31. Dezember (einschließlich) eines Jahres. Die erste Gewinnperiode (**Erste Gewinnperiode**), beginnt am Ausgabetag (einschließlich). Die letzte Gewinnperiode läuft vom 1. Januar des Jahres, in das der Beendigungstag fällt, bis zum Beendigungstag (beide Tage einschließlich).

- (c) **Fälligkeitstage der Gewinnbeteiligungszahlungen:** Jeder Tag, an dem nach Maßgabe des Beteiligungsvertrages Gewinnbeteiligungszahlungen fällig werden, ist ein **Fälligkeitstag**.

Nach Maßgabe des Beteiligungsvertrages ist jede Gewinnbeteiligung am 30. Juni eines Jahres nach Ablauf der maßgeblichen Gewinnperiode oder, falls dies kein Geschäftstag ist, am darauf folgenden Geschäftstag fällig; oder, falls später, am Geschäftstag nach dem Tag der Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr, auf das sich die maßgebliche Gewinnperiode bezieht, fällig.

- (d) **Rückzahlungsbetrag und -tag:** Nach Maßgabe des Beteiligungsvertrages zahlt die Bank der Emittentin am Rückzahlungstag den Rückzahlungsbetrag.
- (e) **Hinweis gemäß § 10(4) S. 1 Ziff. 6 KWG:** Entsprechend den Vorgaben des KWG sieht der Beteiligungsvertrag vor, dass
- (i) **Verbot nachträglicher Änderungen zum Nachteil der Bank:** nach seinem Abschluss (A) die Verlustbeteiligung der Emittentin nicht zum Nachteil der Bank verändert werden kann, (B) die Nachrangigkeit nicht eingeschränkt werden kann und (C) Laufzeit sowie Kündigungsfrist nicht verkürzt werden können; und
 - (ii) **Rückzahlungsverpflichtung:** ungeachtet anderweitiger Vereinbarungen Vorauszahlungen auf

Contribution accrue for profit periods (**Profit Periods**). Profit Periods run from (and including) 1 January to (and including) 31 December of a year. The first Profit Period (**First Profit Period**) commences on (and includes) the Issue Date. The last Profit Period runs from 1 January of the year in which the Termination Date occurs and ends on the Termination Date (both days inclusive).

- (c) **Due Dates for Profit Participation Payments:** Each date on which Profit Participation Payments fall due under the Participation Agreement is a **Due Date**.

Under the Participation Agreement, each Profit Participation is payable on the later of (i) 30 June in the year following the end of the relevant Profit Period, or if that is not a Business Day, the next Business Day; or (ii) the Business Day following the date on which the Bank's annual financial statements have been adopted for the fiscal year of the Bank to which the relevant Profit Period relates.

- (d) **Repayment Amount and Date:** Under the Participation Agreement, the Bank will, on the Repayment Date, pay to the Issuer the Repayment Amount.
- (e) **Notice in Accordance with § 10(4) s. 1 no. 6 KWG:** In accordance with the requirements of the KWG, the Participation Agreement provides that
- (i) **Exclusion of Amendments to the Bank's Detriment:** subsequent to its execution, (A) the loss participation of the Issuer may not be amended to the Bank's detriment, (B) the subordination may not be limited and (C) neither the term nor the notice period may be shortened; and
 - (ii) **Recontribution Obligation:** any premature repayment of the Silent Contribution must be

die Stille Einlage an die Bank zurückzuzahlen sind, es sei denn, (A) das Kapital wurde durch anderes mindestens gleichwertiges Eigenkapital ersetzt oder (B) die BAFin hatte der vorzeitigen Rückzahlung der Stillen Einlage zugestimmt.

repaid to the Bank notwithstanding agreements to the contrary, unless (A) the capital has been replaced by other own funds of at least equal quality or (B) the BAFin has agreed to the premature repayment of the Silent Contribution.

- (f) **Vollständiger Beteiligungsvertrag:** Die Bestimmungen des Beteiligungsvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigelegt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Beteiligungsvertrags in seiner jeweils gültigen Fassung liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstellen aus.
- (f) **Complete Participation Agreement:** The provisions of the Participation Agreement are attached to these Terms and Conditions and to the Global Security and shall be deemed to constitute one document herewith. A copy of the Participation Agreement, as amended from time to time, is available for inspection at the offices of the Paying Agents.
- (2) **Einzahlungsvertrag:** Bei Zahlung von Gewinnbeteiligungsbeiträgen an die Emittentin und Wiederauffüllungen der Stillen Einlage nach einer Herabsetzung des Buchwerts der Stillen Einlage nach Maßgabe des Beteiligungsvertrages ist die Bank verpflichtet, Kapitalertragsteuer auf die ausgeschütteten bzw. zur Auffüllung verwendeten Beträge einzubehalten. Soweit diese Einbehalte nach deutschem Steuerrecht der Emittenten-Kommanditistin zuzurechnen sind, gelten sie als Vorauszahlungen auf die von der Emittenten-Kommanditistin geschuldete deutsche Einkommensteuer. In Bezug auf diese Vorauszahlungen geht die Emittenten-Kommanditistin davon aus, dass ihr gegenüber den deutschen Finanzbehörden Steuererstattungsansprüche zustehen. In diesem Zusammenhang haben die Emittenten-Gesellschafter am 26. Mai 2003 einen Einzahlungsvertrag (*Einzahlungsvertrag*) geschlossen, nach dem die Emittenten-Kommanditistin verpflichtet ist, der Emittentin sämtliche Beträge zu zahlen, die sie von den deutschen Steuerbehörden in Bezug auf solche Steuererstattungsansprüche erhält (jede solche Zahlung jeweils eine *Kapitaleinzahlung*).
- (2) **Contribution Agreement:** Upon payment of Profit Participation Payments to the Issuer and replenishments of the Silent Contribution after a reduction of the Book Value of the Silent Contribution in accordance with the Participation Agreement, the Bank must withhold German Investment Income Tax on the amounts distributed and used for replenishments. These withholdings, to the extent attributable to the Issuer Limited Partner in accordance with German tax laws, will be counted as prepayments towards the German income tax owed by the Issuer Limited Partner. In relation to such prepayments, the Issuer Limited Partner expects to be entitled to refund claims against the German tax authorities. In this context, the Issuer Partners entered into a contribution agreement on 26 May 2003 (*Contribution Agreement*) under which the Issuer Limited Partner is required to pay to the Issuer all amounts it receives from the German tax authorities on account of such refund claims (each such payment a *Contribution Payment*).
- (3) **Darlehensvertrag:** Steuererstattungsansprüche werden erst nach der steuerlichen Veranlagung der Emittenten-Kommanditistin für jedes einzelne Steuerjahr fällig. Demgemäß hat die Emittentin am 26. Mai 2003 mit der LB Kiel Luxemburg einen Darlehensvertrag abgeschlossen (*Darlehensvertrag*), nach dem die Emittentin Auszahlungen (jeweils eine *Darlehens-Auszahlung*) erhält, um ihre Verpflichtung zur Zahlung von Zinszahlungen
- (3) **Loan Agreement:** Tax refund claims only become due after the Issuer Limited Partner's tax assessment for each tax year. Accordingly, the Issuer has entered into a loan agreement with LB Kiel Luxembourg on 26 May 2003 (*Loan Agreement*) pursuant to which the Issuer is entitled to obtain advances (each an *Advance*) in order to fund its obligations to pay Interest Payments on the relevant Due Dates or to fully replenish the Silent Contribution after a

an den jeweiligen Fälligkeitstagen nachzukommen und die Stille Einlage nach einer Herabsetzung des Buchwerts der Stillen Einlage nach Maßgabe des Beteiligungsvertrages wieder aufzufüllen. Die Emittentin erwartet, die Darlehens-Auszahlungen mit den von der Emittenten-Kommanditistin als Kapitaleinzahlungen erhaltenen Geldern zurückzuführen. Die Bestimmungen des Darlehensvertrages werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigelegt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Darlehensvertrages in seiner jeweils gültigen Fassung liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstellen aus.

reduction of the Book Value of the Silent Contribution in accordance with the Participation Agreement. The Issuer expects to repay the Advances with the monies it receives from the Issuer Limited Partner as Contribution Payments. The terms of the Loan Agreement are attached to these Terms and Conditions and to the Global Security and shall be deemed to constitute one document herewith. A copy of the Loan Agreement, as amended from time to time, is available for inspection at the offices of the Paying Agents.

§ 5

Bindung der Emittentin; Rechtsverhältnisse

- (1) **Bindung der Emittentin:** Die RESPARC Securities verbriefen die Verpflichtung der Emittentin, den Erlös aus der Ausgabe der RESPARC Securities zur Zahlung der Stillen Einlage zu verwenden und (i) die Gewinnbeteiligungszahlungen, (ii) den Rückzahlungsbetrag und eventuell darauf aufgelaufene Zinsen sowie (iii) die Darlehens-Auszahlungen zu verwenden, um ihre Zahlungsverpflichtungen gegenüber den Emissionsgläubigern nach Maßgabe dieser Emissionsbedingungen zu erfüllen. Vorbehaltlich § 6 ist die Emittentin unter keinen Umständen verpflichtet, Zahlungen an die Emissionsgläubiger zu leisten, wenn sie nicht zuvor die ihr nach Maßgabe des Beteiligungsvertrags oder des Darlehensvertrages zustehenden Beträge tatsächlich erhalten hat.
- (2) **Kein Rechtsverhältnis zwischen Emissionsgläubigern und Bank:** Durch den Beteiligungsvertrag und den Darlehensvertrag werden keine Rechte der Emissionsgläubiger gegenüber der Bank begründet.
- (3) **Kein Rechtsverhältnis zwischen Emissionsgläubigern und Emittenten-Kommanditistin:** Durch den Einzahlungsvertrag werden keine Rechte der Emissionsgläubiger gegenüber der Emittenten-Kommanditistin begründet.

§ 5

Issuer Commitment; Legal Relationships

- (1) **Issuer Commitment:** The RESPARC Securities represent the Issuer's obligation to use the proceeds from the issue of the RESPARC Securities for the purpose of paying the Silent Contribution, and to use (i) the Profit Participation Payments, (ii) the Repayment Amount, including any interest accrued thereon and (iii) the Advances to satisfy its payment obligations vis-à-vis the Securityholders under these Terms and Conditions. Subject to § 6, in no event will the Issuer be under any obligation to make payments to Securityholders without prior receipt of the relevant amounts due to the Issuer under the Participation Agreement or the Loan Agreement.
- (2) **No Relationship between Securityholders and Bank:** The Participation Agreement and the Loan Agreement do not create any rights of the Securityholders vis-à-vis the Bank.
- (3) **No Relationship between Securityholders and Issuer Limited Partner:** The Contribution Agreement does not create any rights of the Securityholders vis-à-vis the Issuer Limited Partner.

§ 6 Zinszahlungen

- (1) **Fälligkeit:** An jedem Fälligkeitstag wird die Emittentin aus der jeweiligen Gewinnbeteiligungszahlung und Darlehens-Auszahlung, die die Emittentin jeweils tatsächlich von der Bank erhalten hat, Zinsen auf die RESPARC Securities in Höhe von 7,5% p.a. des Nennbetrags der RESPARC Securities an die Emissionsgläubiger zahlen (jeweils eine **Zinszahlung**). Falls die von der Bank geschuldete Gewinnbeteiligungszahlung geringer ist als die nach dem Beteiligungsvertrag an dem betreffenden Fälligkeitstag maximal fällig werdende Gewinnbeteiligungszahlung, reduziert sich der Zinssatz von 7,5% p.a. des Nennbetrags der RESPARC Securities auf einen Zinssatz, der sich aus der Multiplikation von 7,5% mit der tatsächlich geschuldeten niedrigeren Gewinnbeteiligungszahlung dividiert durch diese maximale Gewinnbeteiligungszahlung ergibt. Auf die einzelnen RESPARC Securities entfällt ein jeweils verhältnismäßiger Anteil aller vorstehend genannten zahlbaren Beträge (auf den nächsten vollen Cent abgerundet). Zinszahlungen, die an einem Fälligkeitstag zu leisten sind, sind an diejenigen Personen zu leisten, die am 29. Juni des betreffenden Jahres Inhaber der maßgeblichen RESPARC Securities waren, und zwar unabhängig davon ob die so berechnete Person zum Zeitpunkt der tatsächlichen Zahlung nicht mehr Inhaber derjenigen RESPARC Securities ist auf die sich die betreffende Zahlung bezieht.
- (2) **Keine Nachzahlungsverpflichtung in Bezug auf Zinszahlungen:** Die Emittentin ist nicht verpflichtet, Zinszahlungen, die aufgrund von § 5(1) oder § 6(1) ausfallen oder weniger als 7,5% p.a. ausmachen, nachzuholen.

§ 7 Rückzahlung

- (1) **Rückzahlung:** Am Rückzahlungstag wird die Emittentin (a) den Rückzahlungsbetrag, (b) ihr nach Maßgabe des Beteiligungsvertrags noch zustehende Gewinnbeteiligungszahlungen und (c) die Mittel aus diesbezüglichen Darlehens-Auszahlungen, die sie jeweils tatsächlich von der Bank bzw. der LB Kiel Luxemburg erhalten hat, zur Rückzahlung der RESPARC Securities bzw. zur Zahlung aufgelaufener Zinsen auf die

§ 6 Coupon Payments

- (1) **Payment:** The Issuer shall pay on each Due Date interest on the RESPARC Securities to the Securityholders equal to 7.5% per annum of the nominal amount of the RESPARC Securities from the relevant Profit Participation Payment and Advance effectively received by the Issuer from the Bank from time to time (each an **Interest Payment**). To the extent that the Profit Participation Payment owed by the Bank should be lower than the maximum Profit Participation Payment falling due on the relevant Due Date under the Participation Agreement, the interest rate of 7.5% *per annum* on the nominal amount of the RESPARC Securities shall be reduced to an interest rate corresponding to 7.5% multiplied by the lower Profit Participation Payment actually owed divided by such maximum Profit Participation Payment. A pro rata share of the above amounts payable (rounded down to the next full cent) shall be allocated to each RESPARC Security. Interest Payments to be made on any Due Date shall be made to those persons who held the relevant RESPARC Securities on 29 June in the relevant year irrespective of whether, when payment is actually made, the person so entitled is no longer the holder of the RESPARC Security to which such payment relates.
- (2) **No Obligation to Compensate for Interest Payments:** The Issuer shall be under no obligation to subsequently compensate for Interest Payments which are not made or amount to less than 7.5% *per annum* due to § 5(1) or § 6(1).

§ 7 Redemption

- (1) **Repayment:** On the Repayment Date, the Issuer will use (a) the Repayment Amount, (b) any Profit Participation Payment due under the Participation Agreement and (c) any amounts from corresponding Advances effectively received by the Issuer from the Bank and/or LB Kiel Luxembourg, for the repayment of the RESPARC Securities and/or the payment of interest accrued on the RESPARC Securities to

RESPARC Securities an die Emissionsgläubiger verwenden (**Tilgungszahlung**). Reichen die von der Bank als Rückzahlungsbetrag und Gewinnbeteiligungszahlung sowie die von LB Kiel Luxembourg als Darlehens-Auszahlung tatsächlich gezahlten Beträge nicht aus, um eine Zahlung in Höhe des Nennbetrags der RESPARC Securities sowie Zinsen in Höhe von 7,6% p.a. des Nennbetrags der RESPARC Securities (oder dem ggf. nach Maßgabe von § 6(1) anwendbaren niedrigeren Zinssatz) zu leisten, vermindern sich Rück und Zinszahlung auf die RESPARC Securities entsprechend. Auf die einzelnen RESPARC Securities entfällt ein jeweils verhältnismäßiger Anteil aller vorstehend genannten zahlbaren Beträge (auf den nächsten vollen Cent abgerundet).

the Securityholders (**Redemption Payment**). To the extent that the amounts effectively paid by the Bank as Repayment Amount and Profit Participation Payment and by LB Kiel Luxembourg as Advances are not sufficient to pay the nominal amount of the RESPARC Securities and interest equal to 7.5% *per annum* of the nominal amount of the RESPARC Securities (or such lower applicable rate of interest determined in accordance with § 6(1)), the Redemption Payment shall be reduced accordingly. A *pro rata* share of the above amounts payable (rounded down to the next full cent) shall be allocated to the individual RESPARC Securities.

- (2) **Erlöschen der Zahlungspflichten:** Durch die Zahlung nach Maßgabe von § 7(1) an die Emissionsgläubiger gilt das Kapital der RESPARC Securities als vollständig zurückgezahlt und alle Ansprüche der Investoren gegenüber der Emittentin als erloschen.
- (3) **Bekanntmachung:** Die Emittentin wird den Beendigungstag und den Rückzahlungstag nach Maßgabe von § 15 gegenüber den Emissionsgläubigern mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen bekannt machen.

- (2) **Discharge of Payment Obligations:** Upon payment to the Securityholders in accordance with § 7(1), the principal of the RESPARC Securities shall be deemed fully repaid and all claims of the Investors vis-à-vis the Issuer shall be deemed discharged.
- (3) **Notification:** The Issuer shall notify the Termination Date and the Repayment Date to the Securityholders in accordance with § 15 with a notice period of not less than 30 and not greater than 60 days.

§ 8

Vorzeitige Kündigung und Rückzahlung

- (1) **Vorzeitige Kündigung und Rückzahlung nach Wahl der Emittentin:** Die RESPARC Securities können von der Emittentin insgesamt, jedoch nicht teilweise, durch Mitteilung nach Maßgabe des § 15 gegenüber den Emissionsgläubigern mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum 30. Juni eines jeden Jahres, erstmalig zum 30. Juni 2009, vorzeitig gekündigt und zum Nennbetrag zuzüglich aufgelaufener Zinsen zurückgezahlt werden.
- (2) **Vorzeitige Kündigung und Rückzahlung aus Steuergründen:** Die RESPARC Securities können insgesamt, jedoch nicht teilweise, nach Wahl der Emittentin mit einer Kündigungsfrist von nicht weniger als 30 und nicht mehr als 60 Tagen durch Erklärung gegenüber der Hauptzahlstelle und Mitteilung nach Maßgabe

§ 8

Early Termination and Repayment

- (1) **Early Termination and Repayment at the Option of the Issuer:** The Issuer may call the RESPARC Securities for redemption, in whole but not in part, with effect on 30 June of each year (however, with no earlier effect than 30 June 2009) and redeem the RESPARC Securities at their nominal amount plus any interest accrued, by giving not less than 30 and not more than 60 days' notice in accordance with § 15.
- (2) **Early Termination and Repayment for Tax Reasons:** If as a result of any change in, or amendment to, the laws or regulations of Jersey or the United Kingdom or any political subdivision or taxing authority thereto or therein affecting taxation or the obligation to pay duties of any kind, or any change in, or

des § 15 gegenüber den Emissionsgläubigern vorzeitig gekündigt und zum Nennbetrag zuzüglich aufgelaufener Zinsen zurückgezahlt werden, falls die Emittentin als Folge einer Änderung oder Ergänzung der Steuer oder Abgabengesetze und vorschritten Jerseys oder des Vereinigten Königreichs oder dessen politischen Untergliederungen oder Steuerbehörden oder als Folge einer Änderung oder Ergänzung der Anwendung oder der offiziellen Auslegung dieser Gesetze und Vorschriften (vorausgesetzt, diese Änderung oder Ergänzung wird am oder nach dem Ausgabetag wirksam) am nächstfolgenden Fälligkeitstag zur Zahlung Zusätzlicher Beträge verpflichtet sein wird und diese Verpflichtung nicht durch das Ergreifen zumutbarer, der Emittentin zur Verfügung stehender Maßnahmen vermieden werden kann. Eine solche Kündigung darf allerdings nicht (a) früher als 90 Tage vor dem frühestmöglichen Termin erfolgen, an dem die Emittentin verpflichtet wäre, solche Zusätzlichen Beträge zu zahlen, falls eine Zahlung auf die RESPARC Securities dann fällig sein würde, oder (b) erfolgen, wenn zu dem Zeitpunkt, zu dem die Kündigung erklärt wird, die Verpflichtung zur Zahlung Zusätzlicher Beträge nicht mehr wirksam ist. Eine solche Kündigung ist unwiderruflich, muss den für die Rückzahlung festgelegten Termin nennen und eine zusammenfassende Erklärung enthalten, welche die das Rückzahlungsrecht der Emittentin begründenden Umstände darlegt. Aufgelaufene Zinsen werden auf Grundlage der tatsächlichen Anzahl von Tagen in dem maßgeblichen Zeitraum dividiert durch die tatsächliche Anzahl von Tagen in dem maßgeblichen Jahreszeitraum (365 bzw. 366).

- (3) **Eingeschränkte Zulässigkeit der vorzeitigen Kündigung:** Die vorzeitige Kündigung der RESPARC Securities durch die Emittentin nach Maßgabe dieses § 8 ist nur zulässig, sofern die Finanzierung der Rückzahlung der RESPARC Securities zum Nennbetrag zuzüglich aufgelaufener Zinsen durch Ausgabe vergleichbarer Schuldverschreibungen oder auf andere Weise gesichert ist.

§ 9 Zahlungen

- (1) **Befreiende Zahlung an das Clearing-System:** Die Emittentin verpflichtet sich, Zahlungen auf die RESPARC Securities bei Fälligkeit in Euro

amendment to, an official interpretation or application of such laws or regulations, which amendment or change is effective on or after the Issue Date, the Issuer is required to pay Additional Amounts on the next succeeding Due Date, and this obligation cannot be avoided by the use of reasonable measures available to the Issuer, the RESPARC Securities may be redeemed, in whole but not in part, at the option of the Issuer, upon not more than 60 days' nor less than 30 days' prior notice of redemption given to the Principal Paying Agent and, in accordance with § 15 to the Securityholders, at their nominal amount together with interest accrued to the date fixed for redemption. However, no such notice of redemption may be made (a) earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts were a payment in respect of the RESPARC Securities then due, or (b) if at the time such notice is given, such obligation to pay such Additional Amounts does not remain in effect. Any such notice shall be irrevocable, must specify the date fixed for redemption and must set forth a statement in summary form of the facts constituting the basis for the right of the Issuer so to redeem. Interest accrued shall be calculated on the basis of the actual number of days elapsed during the relevant period divided by the actual number of days (365 or 366) in the relevant annual period.

- (3) **Limited Permissibility of Early Termination:** Any early termination of the RESPARC Securities by the Issuer in accordance with this § 8 is only permissible, if financing of the redemption of the RESPARC Securities at their nominal amount plus any interest accrued thereon has been secured through the issuance of similar debt securities or in any other way.

§ 9 Payments

- (1) **Discharge by Payment to the Clearing System:** The Issuer undertakes to pay, as and when due, amounts due on RESPARC

an die Hauptzahlstelle zur Weiterleitung an das Clearing-System oder dessen Order zur Gutschrift auf den Konten der jeweiligen Kontoinhaber bei dem Clearing-System zu zahlen. Vorbehaltlich § 9(3) wird die Emittentin durch Leistung der Zahlung an das Clearing-System oder dessen Order in Höhe der geleisteten Zahlung von ihrer Zahlungspflicht befreit.

- (2) **Zahlung an Geschäftstagen:** Falls eine Zahlung auf RESPARC Securities an einem Tag zu leisten ist, der kein Geschäftstag ist, so erfolgt die Zahlung am nächstfolgenden Geschäftstag. In diesem Fall steht den Emissionsgläubigern weder ein Zahlungsanspruch noch ein Anspruch auf Zinszahlungen oder eine andere Entschädigung wegen dieser Verzögerung zu.
- (3) **Zahlung bei effektiven Urkunden:** Für den Fall, dass effektive Urkunden über einzelne RESPARC Securities ausgegeben worden sind, erfolgen Zahlungen auf die RESPARC Securities gegen Vorlage und Aushändigung der betreffenden effektiven Urkunde (oder, allein im Falle von Teilzahlungen, durch Indossament), außer im Fall von Zinszahlungen, die gegen Vorlage und Aushändigung des betreffenden Zinsscheins (oder, allein im Falle von Teilzahlungen, durch Indossament) erfolgen, jeweils bei der Geschäftsstelle einer Zahlstelle.

§ 10 Steuern

Sämtliche auf die RESPARC Securities zu zahlenden Beträge sind ohne Einbehalt oder Abzug von oder aufgrund von gegenwärtigen oder zukünftigen Steuern oder sonstigen Abgaben gleich welcher Art zu leisten, die von oder in Jersey dem Vereinigten Königreich für deren jeweilige Rechnung oder von oder für Rechnung einer politischen Untergliederung oder Steuerbehörde von oder in Jersey dem vereinigten Königreich auferlegt oder erhoben werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In diesem Fall wird die Emittentin, soweit sie die dafür erforderlichen Beträge tatsächlich von der LB Kiel International unter dem Support Undertaking erhalten hat, diejenigen zusätzlichen Beträge (*Zusätzlichen Beträge*) zahlen, die erforderlich sind, damit die den Emissionsgläubigern zufließenden Nettobeträge nach diesem Einbehalt oder Abzug jeweils den Beträgen entsprechen, die ohne einen solchen Einbehalt oder Abzug von den Emissionsgläubigern empfangen worden wären; die Verpflichtung zur Zahlung solcher

Securities in euro to the Principal Paying Agent for on-payment to the Clearing System or to its order for credit to the relevant accountholders of the Clearing System. Subject to § 9(3), upon effecting the payment to the Clearing System or to its order, the Issuer shall be released from its payment obligation in the amount of the effected payment.

- (2) **Payment on Business Days:** If any payment of any amount with respect to RESPARC Securities is to be effected on a day other than a Business Day, payment shall be effected on the next following Business Day. In this case, the Securityholders shall neither be entitled to any payment claim nor to any interest claim or other compensation with respect to such delay.
- (3) **Payment on Definitive Certificates:** In the event that definitive certificates representing individual RESPARC Securities have been issued, payments of amounts due in respect of RESPARC Securities will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant definitive certificate, except that payments of interest will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant interest coupon, in each case at the office of a Paying Agent.

§ 10 Taxes

All amounts payable in respect of the RESPARC Securities shall be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction by or in or for the account of Jersey or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer will, subject to receipt thereof from LB Kiel International under the Support Undertaking, pay such additional amounts (*Additional Amounts*) as shall be necessary in order that the net amounts received by the Securityholders, after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable by the Securityholders in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable on account of any taxes or duties which:

zusätzlicher Beträge besteht jedoch nicht im Hinblick auf Steuern und Abgaben, die:

- | | |
|---|--|
| <p>(1) auf andere Weise als durch Einbehalt oder Abzug von zahlbaren Beträgen zu entrichten sind; oder</p> | <p>(1) are payable otherwise than by withholding or deduction from amounts payable; or</p> |
| <p>(2) wegen einer gegenwärtigen oder früheren persönlichen oder geschäftlichen Beziehung des Emissionsgläubigers zu Jersey zu zahlen sind, und nicht allein deshalb, weil Zahlungen auf die RESPARC Securities aus Quellen in Jersey oder dem Vereinigten Königreich stammen (oder für Zwecke der Besteuerung so behandelt werden) oder dort besichert sind; oder</p> | <p>(2) are payable by reason of the Securityholder having, or having had, some personal or business connection with Jersey and not merely by reason of the fact that payments in respect of the RESPARC Securities are, or for purposes of taxation are deemed to be, derived from sources in, or are secured in, Jersey or the United Kingdom; or</p> |
| <p>(3) aufgrund einer Richtlinie der Europäischen Union betreffend die Besteuerung von Zinserträgen, die die Schlussfolgerungen des Treffens des ECOFIN-Rates vom 26./27. November 2000 umsetzt, oder aufgrund einer gesetzlichen Vorschrift, die diese Richtlinie umsetzt oder befolgt oder deshalb erlassen wurde, um der Richtlinie zu entsprechen, von Zahlungen an eine natürliche Person einzubehalten oder abzuziehen sind; oder</p> | <p>(3) are to be withheld or deducted from a payment to an individual pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26/27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or</p> |
| <p>(4) aufgrund einer Rechtsänderung zu zahlen sind, welche später als 30 Tage nach Fälligkeit der betreffenden Zahlung von Kapital oder Zinsen oder, wenn dies später erfolgt, ordnungsgemäßer Bereitstellung aller fälligen Beträge und einer diesbezüglichen Bekanntmachung nach Maßgabe von § 15 wirksam wird; oder</p> | <p>(4) are payable by reason of a change in law that becomes effective more than 30 days after the relevant payment of principal or interest becomes due, or is duly provided for and notice thereof is published in accordance with § 15, whichever occurs later; or</p> |
| <p>(5) von einer Zahlstelle abgezogen oder einbehalten werden, wenn eine andere Zahlstelle in einem EU-Mitgliedstaat die Zahlung ohne einen solchen Abzug oder Einbehalt hätte leisten können.</p> | <p>(5) are deducted or withheld by a Paying Agent from a payment if the payment could have been made by another Paying Agent in an EU member state without such deduction or withholding.</p> |

§ 11

Kündigung durch Emissionsgläubiger

- (1) **Kündigungsgründe:** Jeder Emissionsgläubiger ist berechtigt, seine RESPARC Securities durch Erklärung gegenüber der Hauptzahlstelle zu kündigen und deren Rückzahlung zum Nennbetrag zuzüglich aufgelaufener Zinsen auf seine RESPARC Securities bis zum Tag der tatsächlichen Rückzahlung zu verlangen, falls:

- (a) Kapital oder Zinsen nicht innerhalb von 15 Tagen nach dem betreffenden

§ 11

Termination by Securityholders

- (1) **Events of Default:** Each Securityholder shall be entitled to declare due and payable by notice to the Principal Paying Agent its RESPARC Securities and demand immediate redemption thereof together with accrued interest (if any) on its RESPARC Securities to the date of repayment, in the event that:

- (a) principal or interest have not been paid within 15 days from the relevant due date in accordance with § 6 and § 7; or

Fälligkeitstag gemäß § 6 und § 7 weitergeleitet wurden; oder

- (b) die Emittentin die ordnungsgemäße Erfüllung einer sonstigen Verpflichtung aus den RESPARC Securities unterlässt und diese Unterlassung länger als 30 Tage andauert, nachdem der Hauptzahlstelle hierüber eine Benachrichtigung von einem Emissionsgläubiger erhalten hat; oder
- (c) die Emittentin ihre Zahlungen einstellt; oder
- (d) die Emittentin ihre Zahlungsunfähigkeit bekannt gibt; oder
- (e) die Emittentin aufgelöst wird, es sei denn, dies geschieht im Zusammenhang mit einer Verschmelzung, Konsolidierung oder einer anderen Form des Zusammenschlusses mit einer anderen Gesellschaft oder Kommanditgesellschaft oder im Zusammenhang mit einer Umwandlung, und diese andere oder neue Gesellschaft oder Kommanditgesellschaft übernimmt alle Verpflichtungen, die die Emittentin im Zusammenhang mit den RESPARC Securities eingegangen ist; oder
- (f) ein Gericht die Auflösung der Emittentin anordnet oder ein Insolvenzverfahren oder ein Vergleichsverfahren zur Abwendung der Insolvenz oder des Konkurses oder es wird ein vergleichbares Verfahren über das Vermögen der Emittentin eröffnet, und ein solches Verfahren nicht innerhalb von 60 Tagen aufgehoben oder ausgesetzt wird, oder die Emittentin die Eröffnung eines solchen Verfahrens beantragt oder einleitet oder eine allgemeine Schuldenregelung zugunsten ihrer Gläubiger anbietet oder trifft oder ein Dritter ein Insolvenzverfahren gegen die Emittentin beantragt und eine solche Anordnung oder ein solches Verfahren nicht innerhalb einer Frist von 60 Tagen aufgehoben oder ausgesetzt wird.

Das Kündigungsrecht erlischt, falls der Kündigungsgrund vor Ausübung des Rechts geheilt wurde.

- (2) **Quorum:** In den Fällen des § 11(1)(b) und/oder, (c), wird eine Kündigung, sofern

- (b) the Issuer fails to duly perform any other obligation arising under the RESPARC Securities and such failure continues for more than 30 days without cure after the Principal Paying Agent has received notice thereof from a Securityholder; or
- (c) the Issuer suspends its payments generally; or
- (d) the Issuer announces its inability to meet its financial obligations; or
- (e) the dissolution of the Issuer except in connection with a merger, consolidation or other form of combination with another company or limited partnership in connection with a reorganisation and such other company or limited partnership assumes all obligations undertaken by the Issuer under or in connection with the RESPARC Securities; or
- (f) a court orders the dissolution of the Issuer or institutes insolvency proceedings or composition proceedings to avert insolvency or bankruptcy, or similar proceedings against the assets of the Issuer are instituted and such proceedings are not discharged or stayed within 60 days, or the Issuer applies for institution of such proceedings in respect of its assets or offers or makes a general arrangement for the benefit of its creditors generally, or a third party applies for insolvency proceedings against the Issuer and such order or proceedings are not discharged or stayed within 60 days.

The right to declare RESPARC Securities due shall terminate if the cause of the termination has been cured before the right is exercised.

- (2) **Quorum:** In the events specified in § 11(1)(b) and/or, (c), any notice declaring RESPARC

nicht bei deren Eingang zugleich einer der in § 11(1)(a), (d), (e) oder (f) bezeichneten Kündigungsgründe vorliegt, erst wirksam, wenn bei der Hauptzahlstelle Kündigungs-erklärungen von Emissionsgläubigern im Gesamtnennbetrag von mindestens einem Zehntel des Gesamtnennbetrags der ausstehenden RESPARC Securities eingegangen sind.

- (3) **Benachrichtigung:** Eine Benachrichtigung oder Kündigung gemäß § 11(1) hat in der Weise zu erfolgen, dass der Emissionsgläubiger der Hauptzahlstelle eine schriftliche Erklärung per Bote oder durch eingeschriebenen Brief übersendet und dabei wie in § 17(3) vorgesehen nachweist, dass er im Zeitpunkt der Erklärung Inhaber der betreffenden RESPARC Securities ist.

§ 12

Vorlegungsfrist; Verjährung

Die Vorlegungsfrist gemäß § 801 (1) Satz 1 BGB für die RESPARC Securities wird auf zehn Jahre verkürzt. Die Verjährungsfrist für Ansprüche aus den RESPARC Securities, die innerhalb der Vorlegungsfrist zur Zahlung vorgelegt wurden, beträgt zwei Jahre von dem Ende der betreffenden Vorlegungsfrist an.

§ 13

Zahlstellen

- (1) **Hauptzahlstelle:** Die Deutsche Bank Aktiengesellschaft, Frankfurt am Main, ist die anfängliche Hauptzahlstelle (*Hauptzahlstelle*).
- (2) **Niederländische Zahlstelle:** Die Deutsche Bank Niederlassung Amsterdam, ist als weitere Zahlstelle (gemeinsam mit der Hauptzahlstelle, die *Zahlstellen*, und jede eine *Zahlstelle*) bestellt. Die Emittentin wird dafür sorgen, dass solange RESPARC Securities an der Frankfurter Wertpapierbörse und der Wertpapierbörse von Euronext Amsterdam N.V. notiert sind, immer eine Zahlstelle in Deutschland und in den Niederlanden bestellt ist. In keinem Fall darf die Adresse einer von der Emittentin benannten Zahlstelle innerhalb der Vereinigten Staaten oder ihrer Besitzungen liegen.
- (3) **Ersetzung von Zahlstellen:** Die Emittentin wird dafür sorgen, dass stets eine

Securities due shall, unless at the time such notice is received any of the events of default specified in § 11(1)(a), (d), (e) or (f) has occurred, become effective only when the Principal Paying Agent has received such notices from the Securityholders of at least one-tenth of the aggregate nominal amount of RESPARC Securities then outstanding.

- (3) **Notice:** Any notice in accordance with § 11(1) shall be made by means of a written declaration delivered by hand or registered mail to the Principal Paying Agent together with evidence in accordance with § 17(3) that such Securityholder, at the time of such written notice, is a holder of the relevant RESPARC Securities.

§ 12

Presentation Period; Prescription

The period for presentation of the RESPARC Securities (as provided for in § 801(1) sentence 1 of the German Civil Code) shall be reduced to ten years. The period of limitation for claims under the RESPARC Securities presented during the period for presentation shall be two years calculated from the expiration of the relevant presentation period.

§ 13

Paying Agents

- (1) **Principal Paying Agent:** Deutsche Bank Aktiengesellschaft, Frankfurt am Main, shall be the initial paying agent (*Principal Paying Agent*).
- (2) **Dutch Paying Agent:** Deutsche Bank AG, Amsterdam Branch, shall be appointed as additional paying agent (together with the Principal Paying Agent the *Paying Agents*, and each a *Paying Agent*). The Issuer shall procure that as long as RESPARC Securities are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V., respectively, there will at all times be a Paying Agent in Germany and The Netherlands, respectively. In no event shall the specified office of a Paying Agent appointed by the Issuer be within the United States or its possessions.
- (3) **Replacement of Paying Agents:** The Issuer shall procure that there will at all times be a

Hauptzahlstelle vorhanden ist. Die Emittentin ist berechtigt, Banken von internationalem Ansehen als Hauptzahlstelle zu bestellen. Die Emittentin ist weiterhin berechtigt, die Bestellung einer Bank zur Hauptzahlstelle zu widerrufen. Im Falle einer solchen Abberufung oder, falls die bestellte Bank nicht mehr als Hauptzahlstelle tätig werden kann oder will, bestellt die Emittentin eine andere Bank von internationalem Ansehen als Hauptzahlstelle. Die Emittentin wird sich, soweit möglich, darum bemühen, dass stets eine Zahlstelle mit Geschäftsstelle in einem Mitgliedsstaat der Europäischen Union vorhanden ist, die nicht verpflichtet ist, Steuern einzubehalten oder abzuziehen, die aufgrund einer Richtlinie der Europäischen Union betreffend die Besteuerung von Zinserträgen, die die Schlussfolgerungen des Treffens des ECOFIN-Rates vom 26. - 27. November 2000 umsetzt, oder aufgrund einer gesetzlichen Vorschrift, die diese Richtlinie umsetzt oder befolgt oder deshalb erlassen wurde, um der Richtlinie zu entsprechen, einzubehalten oder abzuziehen sind. Jede solche Bestellung oder ein solcher Widerruf der Bestellung ist unverzüglich gemäß § 15 oder, falls dies nicht möglich sein sollte, in sonstiger Weise öffentlich bekannt zu machen.

- (4) **Haftung der Zahlstellen:** Jede Zahlstelle haftet dafür, dass sie Erklärungen abgibt, nicht abgibt oder entgegennimmt oder Handlungen vornimmt oder unterlässt, nur, wenn und soweit sie die Sorgfalt eines ordentlichen Kaufmanns verletzt hat.
- (5) **Rechtsverhältnisse der Zahlstellen:** Die Zahlstellen sind in ihrer jeweiligen Funktion ausschließlich Beauftragte der Emittentin. Zwischen den Zahlstellen einerseits und den Emissionsgläubigern andererseits besteht kein Auftrags oder Treuhandverhältnis. Die Zahlstellen sind von den Beschränkungen des § 181 BGB und etwaigen gleichartigen Beschränkungen des anwendbaren Rechts anderer Rechtsordnungen befreit.

§ 14 Ersetzung

- (1) **Ersetzung:** Die Emittentin ist jederzeit berechtigt, ohne Zustimmung der Emissionsgläubiger eine andere Gesellschaft an ihrer Stelle als Hauptschuldnerin und Hauptgläubigerin (*Nachfolgerin*) für alle

Principal Paying Agent. The Issuer shall be entitled to appoint banks of international standing as Principal Paying Agent. Furthermore, the Issuer shall be entitled to terminate the appointment of a bank as Principal Paying Agent. In the event of such termination or such bank being unable or unwilling to continue to act as Principal Paying Agent, the Issuer shall appoint another bank of international standing as Principal Paying Agent. The Issuer shall to the extent possible procure that it will at all times maintain a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26 - 27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive. Any such appointment or termination shall be published without undue delay in accordance with § 15, or, should this not be possible, be published in another way.

- (4) **Liability of Paying Agents:** Each Paying Agent shall be held responsible for giving, failing to give, or accepting a declaration, or for acting or failing to act, only if, and insofar as, it fails to act with the diligence of a conscientious businessman.
- (5) **Paying Agent Legal Matters:** The Paying Agents, acting in such capacity, act only as agents of the Issuer. There is no agency or fiduciary relationship between the Paying Agents on the one side and the Securityholders on the other side. Each of the Paying Agents shall be exempt from the restrictions set forth in § 181 German Civil Code and similar restrictions of other applicable laws of other jurisdictions.

§ 14 Substitution

- (1) **Substitution:** The Issuer may, at any time and without the consent of the Securityholders, substitute another company for the Issuer as principal debtor and creditor (*Successor*) in respect of all obligations and rights under and in connection with the RESPARC Securities,

Verpflichtungen und Rechte aus und im Zusammenhang mit den RESPARC Securities, dem Beteiligungsvertrag und dem Einzahlungsvertrag sowie sonstigen, mit diesen Verträgen zusammenhängenden Verträge einzusetzen; allerdings nur sofern:

- (a) sie sich nicht mit einer Zahlung auf die RESPARC Securities in Verzug befindet;
 - (b) die Nachfolgerin alle Rechte und Verpflichtungen der Emittentin in Bezug auf die RESPARC Securities übernimmt;
 - (c) die Emittentin und die Nachfolgerin alle erforderlichen Genehmigungen erhalten haben und berechtigt sind, die zur Erfüllung der Zahlungsverpflichtungen aus den RESPARC Securities zahlbaren Beträge in Euro zu zahlen, ohne verpflichtet zu sein, in dem Land, in dem die Nachfolgerin oder die Emittentin ihren jeweiligen Sitz oder Steuersitz haben, erhobene Steuern oder andere Abgaben jeder Art abzuziehen oder einzubehalten;
 - (d) die Nachfolgerin sich verpflichtet hat, die Investoren hinsichtlich solcher Steuern, Abgaben oder behördlichen Lasten freizustellen, die den Emissionsgläubigern bezüglich der Ersetzung auferlegt werden; und
 - (e) die Ersetzung nicht zu einer erhöhten Belastung der (i) Nachfolgerin oder (ii) ihrer Anteilseigner (für den Fall einer Kapitalgesellschaft) bzw. Gesellschafter (für den Fall einer Personengesellschaft) mit Kapitalertrag oder sonstiger Abzugssteuer, etwaiger Vermögensteuer oder der Gewerbeertrag oder sonstiger Ertragsteuer führt.
- (2) **Bekanntmachung der Ersetzung:** Jedwede Ersetzung gemäß diesem § 14 ist den Emissionsgläubigern unverzüglich nach Maßgabe von § 15 bekannt zu machen.
- (3) **Änderung von Bezugnahmen:** Im Fall einer Ersetzung gilt jedwede Bezugnahme in diesen Emissionsbedingungen auf die Emittentin ab dem Zeitpunkt der Ersetzung als Bezugnahme auf die Nachfolgerin und jedwede Bezugnahme auf das Land, in dem die Emittentin ihren Sitz oder Steuersitz hat, als Bezugnahme auf das Land, in dem die Nachfolgerin ihren Sitz oder Steuersitz hat.

the Participation Agreement and the Contribution Agreement as well as any other agreements related thereto, provided that:

- (a) the Issuer is not in default of any payment owed under the RESPARC Securities;
 - (b) the Successor assumes all rights and obligations of the Issuer under the RESPARC Securities;
 - (c) the Issuer and the Successor have obtained all necessary permits and are authorised to comply with the payment obligations under the RESPARC Securities by paying the amounts due in euro without being obliged to withhold or deduct applicable tax or other duties of any kind in the respective country in which the Successor or the Issuer is domiciled or resident for tax purposes;
 - (d) the Successor has agreed to indemnify the Securityholders against such taxes, duties or other governmental charges as may be imposed on the Securityholders in connection with the substitution; and
 - (e) the substitution does not result in an increase in German Investment Income Tax or any other withholding tax, in property tax, if applicable, trade income or any other income tax payable by (i) the Successor or (ii) its shareholders (if incorporated as a corporation) or partners (if established as a partnership).
- (2) **Notification of Substitution:** Any substitution in accordance with this § 14 shall be notified to Securityholders in accordance with § 15 hereof without undue delay.
- (3) **Change in Reference:** Upon substitution, any references in these Terms and Conditions to the Issuer shall forthwith be deemed to be references to the Successor and any references to the country of domicile or tax residence of the Issuer shall forthwith be deemed to be references to the country of domicile or tax residence of the Successor, in each case, with effect from the substitution date.

§ 15
Bekanntmachungen

- (1) **Mitteilungen über die Presse:** Die RESPARC Securities betreffende Bekanntmachungen werden in einem Börsenpflichtblatt der Frankfurter Wertpapierbörse veröffentlicht. Eine Mitteilung gilt mit dem Tag ihrer Veröffentlichung (oder bei mehreren Mitteilungen mit dem Tage der ersten Veröffentlichung) als erfolgt.
- (2) **Unmittelbare Mitteilungen:** Sofern die Regularien der Börse, an der die RESPARC Securities notiert sind, dies zulassen, ist die Emittentin berechtigt, Bekanntmachungen auch durch eine Mitteilung an das Clearing-System zur Weiterleitung an die Emissionsgläubiger oder direkt an die Emissionsgläubiger zu bewirken. Bekanntmachungen über das Clearing-System gelten sieben Tage nach der Mitteilung an das Clearing-System, direkte Mitteilungen an die Emissionsgläubiger mit ihrem Zugang als bewirkt.
- (3) **Auslegung bei den Zahlstellen:** Die Texte sämtlicher Veröffentlichungen gemäß diesem § 15 sind außerdem in den Geschäftsräumen der Zahlstellen zugänglich zu machen.

§ 16
Kontrollrechte der Emissionsgläubiger

- (1) **Jahresabschluss:** Jeder Emissionsgläubiger ist berechtigt, (a) eine Abschrift des Jahresabschlusses der Emittentin (Bilanz mit Gewinn und Verlustrechnung sowie Anmerkungen) zu verlangen und (b) die Richtigkeit des Jahresabschlusses durch Überprüfung des Prüfungsberichtes durch einen von dem betreffenden Emissionsgläubiger beauftragten Wirtschaftsprüfer oder vereidigten Buchprüfer feststellen zu lassen.
- (2) **Auskunftsrecht:** Auf Verlangen erhält jeder Emissionsgläubiger zusammen mit dem Jahresabschluss eine Aufstellung über die Gewinn bzw. Verlustbeteiligung der Emittentin nach Maßgabe des Beteiligungsvertrages. Auf Anfrage von Emissionsgläubigern hat die Emittentin hierzu weitere Auskunft zu erteilen.

§ 15
Notices

- (1) **Newspaper Notices:** Notices relating to the RESPARC Securities shall be published in a mandatory newspaper designated by the Frankfurt Stock Exchange. A notice shall be deemed to be made on the day of its publication (or in the case of more than one publication on the day of the first publication).
- (2) **Direct Notices:** The Issuer shall also be entitled to make notifications to the Clearing System for communication by the Clearing System to the Securityholders or directly to the Securityholders provided this complies with the rules of the stock exchange on which the RESPARC Securities are listed. Notifications vis-à-vis the Clearing System shall be deemed to be effected seven days after the notification to the Clearing System, direct notifications of the Securityholders shall be deemed to be effected upon their receipt.
- (3) **Display at the Paying Agents:** The text of any publication to be made in accordance with this § 15 shall also be available at the specified office of each Paying Agent.

§ 16
Securityholders' Control Rights

- (1) **Financial Statements:** Each Securityholder shall be entitled (a) to request a copy of the annual financial statements of the Issuer (balance sheet with profit and loss accounts and notes) and (b) to ascertain the correctness thereof through the review of the auditor's report by an auditor or a certified public accountant appointed by such Securityholder.
- (2) **Information Right:** On demand, each Securityholder shall, together with the annual financial statements, receive a statement of the Issuer's profit/loss sharing position under the Participation Agreement. Upon request of a Securityholder, the Bank shall provide further information in this regard.

§ 17

Begebung weiterer RESPARC Securities

Die Emittentin ist berechtigt, bis zum 31. Dezember 2003 (einschließlich) jederzeit und ohne Zustimmung der Emissionsgläubiger weitere Wertpapiere mit gleicher Ausstattung (gegebenenfalls mit Ausnahme des Begebungstages, des Beginns der Verzinsung und/oder des Ausgabepreises) in der Weise zu begeben, dass sie mit den RESPARC Securities eine einheitliche Serie von Wertpapieren bilden.

§ 18

Schlussbestimmungen

- (1) **Anwendbares Recht:** Form und Inhalt der RESPARC Securities sowie die Rechte und Pflichten der Emissionsgläubiger, der Emittentin und der Zahlstellen bestimmen sich in jeder Hinsicht nach deutschem Recht und werden in Übereinstimmung damit ausgelegt.
- (2) **Gerichtsstand:** Jegliche aus oder im Zusammenhang mit den RESPARC Securities entstehenden Klagen oder Verfahren unterliegen der nichtausschließlichen Zuständigkeit des Landgerichts Frankfurt am Main.
- (3) **Geltendmachung von Ansprüchen:** Jeder Emissionsgläubiger kann in Rechtsstreitigkeiten gegen die Emittentin oder in Rechtsstreitigkeiten, an denen der Emissionsgläubiger und die Emittentin beteiligt sind, im eigenen Namen seine Rechte aus den ihm zustehenden RESPARC Securities unter Vorlage der folgenden Dokumente geltend machen:
 - (a) einer Bescheinigung seiner Depotbank, die (i) den vollen Namen und die volle Anschrift des Emissionsgläubiger bezeichnet (ii) den Gesamtnennbetrag von RESPARC Securities angibt, die am Ausstellungstag dieser Bescheinigung dem bei dieser Depotbank bestehenden Wertpapierdepot dieses Emissionsgläubigers gutgeschrieben sind und (iii) bestätigt, dass die Depotbank dem Clearing-System und der Hauptzahlstelle eine schriftliche Mitteilung gemacht hat, die die Angaben gemäß (i) und (ii) enthält und Bestätigungsvermerke des Clearing-Systems trägt; und

§ 17

Further Issues of RESPARC Securities

The Issuer may, until (and including) 31 December 2003 and without the consent of Securityholders, issue further securities having the same terms and conditions as the RESPARC Securities in all respects (or in all respects except for the date of issuance, commencement of interest and/or price of issue) so as to form a single series of securities with the RESPARC Securities.

§ 18

Final Clauses

- (1) **Governing Law:** The form and content of the RESPARC Securities and the rights and duties of the Securityholders, the Issuer and the Paying Agents shall in all respects be governed by, and construed in accordance with, the laws of Germany.
- (2) **Jurisdiction:** The District Court (*Landgericht*) in Frankfurt am Main shall have non-exclusive jurisdiction for any action or other legal proceedings arising out of or in connection with the RESPARC Securities.
- (3) **Enforcement:** Any Securityholder may in any proceedings against the Issuer or to which the Securityholder and the Issuer are parties protect and enforce in its own name its rights arising under its RESPARC Securities upon presentation of the following documents:
 - (a) a certificate issued by its Custodian (i) stating the full name and address of the Securityholder, (ii) specifying the aggregate nominal amount of RESPARC Securities credited on the date of such statement to such Securityholder's securities account maintained with its Custodian and (iii) confirming that its Custodian has given a written notice to the Clearing System and the Principal Paying Agent containing the information specified in (i) and (ii) and bearing acknowledgements of the Clearing System; and

- (b) einer von einem Vertretungsberechtigten des Clearing Systems oder der Zahlstelle beglaubigten Ablichtung der Globalurkunde.
- (b) a copy of the Global Security, certified as being a true copy by a duly authorised officer of the Clearing System or by the Paying Agent.
- (4) **Ersetzung von RESPARC Securities:** Falls eine Globalurkunde oder effektive Urkunden über einzelne RESPARC Securities oder Zinsscheine verloren gehen, gestohlen, verstümmelt, beschädigt oder zerstört werden, können sie bei den Geschäftsstellen der Zahlstellen ersetzt werden, vorbehaltlich anwendbaren Rechts und Anforderungen der Börsen. Der Anspruchsteller erstattet diejenigen Kosten, die mit dem Austausch verbunden sind und die aus von der Emittentin zumutbarerweise geforderten Beweis-, Sicherheits und Freistellungsgründen angefallen sind.
- (4) **Replacement of RESPARC Securities:** Any Global Security or definitive certificates representing individual RESPARC Securities or interest coupons, which are lost, stolen, mutilated, defaced or destroyed, may be replaced at the office of the Paying Agents, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement as a result of such terms as to evidence, security and indemnity as the Issuer may reasonably require.
- (5) **Teilunwirksamkeit:** Sollte eine der Bestimmungen dieser Emissionsbedingungen ganz oder teilweise unwirksam und undurchführbar sein oder werden, so bleibt die Wirksamkeit oder die Durchführbarkeit der übrigen Bestimmungen hiervon unberührt. Anstelle der unwirksamen Bestimmung soll, soweit rechtlich möglich, eine dem Sinn und wirtschaftlichen Zweck dieser Emissionsbedingungen zum Zeitpunkt der Begebung der RESPARC Securities entsprechende Regelung gelten. Unter Umständen, unter denen sich diese Emissionsbedingungen als unvollständig erweisen, soll eine ergänzende Auslegung, die dem Sinn und Zweck dieser Emissionsbedingungen entspricht, unter angemessener Berücksichtigung der berechtigten Interessen der beteiligten Parteien erfolgen.
- (5) **Severability:** Should any of the provisions of these Terms and Conditions be or become invalid or unenforceable in whole or in part, the validity or the enforceability of the remaining provisions shall not in any way be affected or impaired thereby. In this case the invalid provision shall be replaced by a provision which is, to the extent legally possible, in accordance with the meaning and the economic purposes of the Terms and Conditions at the time of the issue of the RESPARC Securities. Under circumstances in which these Terms and Conditions prove to be incomplete, a supplementary interpretation in accordance with the meaning and the purposes of these Terms and Conditions under due considerations of the legitimate interest of the parties involved shall be applied.
- (6) **Bindende Fassung:** Die deutsche Fassung dieser Emissionsbedingungen ist bindend.
- (6) **Binding Version:** The German version of these Terms and Conditions shall be the binding version.

TERMS AND CONDITIONS OF THE PARTICIPATION

THE GERMAN TEXT OF THE PARTICIPATION AGREEMENT IS LEGALLY BINDING.
THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY.

Vertrag über die Errichtung einer Stillen Gesellschaft

zwischen

RESPARCS Funding II Limited Partnership
(nachstehend als *Stiller Gesellschafter* bezeichnet)

und

Landesbank Schleswig-Holstein Girozentrale, Kiel
(nachstehend als *Bank* bezeichnet)

Präambel

Der Stille Gesellschafter und die Bank beabsichtigen die Errichtung einer stillen Gesellschaft mit dem Ziel, dass die Einlage des Stillen Gesellschafters in der Bank auf Dauer als haftendes Eigenkapital (Kernkapital) dient.

Dies vorausgeschickt, vereinbaren die Parteien folgendes:

§ 1

Definitionen und Auslegung

Definitionen: Sofern aus dem Zusammenhang nicht etwas anderes hervorgeht, haben die nachstehenden Begriffe folgende Bedeutung:

Anfangsdatum bezeichnet den 28 Mai 2003;

BAFin bezeichnet die Bundesanstalt für Finanzdienstleistungsaufsicht oder eine etwaige Nachfolgebehörde, die an deren Stelle tritt;

Bank bezeichnet die Landesbank Schleswig-Holstein Girozentrale, eine nach dem Recht des Landes Schleswig-Holstein errichtete Landesbank mit Sitz Martensdamm 6, 24103 Kiel, Deutschland, die mit wirtschaftlicher Rückwirkung zum 1. Januar 2003 mit der Hamburgischen Landesbank Girozentrale zur HSH Nordbank Aktiengesellschaft mit Sitz in Hamburg und Kiel im Wege der Verschmelzung zur Neugründung verschmolzen werden soll.

Beendigungstag bezeichnet den Tag, ab dem der Stille Gessellschafter aufgrund einer wirksamen Kündigung des Beteiligungsvertrages nicht mehr am Handelsgewerbe der Bank als typischer stiller Gesellschafter beteiligt ist.

Agreement on the Establishment of a Silent Partnership

between

RESPARCS Funding II Limited Partnership
(hereinafter called *Silent Partner*)

and

Landesbank Schleswig-Holstein Girozentrale, Kiel
(hereinafter called *Bank*)

Preamble

The Silent Partner and the Bank intend to establish a silent partnership for the purpose of achieving that the Silent Partner's contribution to the Bank serves permanently as liable own capital (core capital).

This being premised, the parties agree as follows:

§ 1

Definitions and Interpretation

Definitions: Unless the context requires otherwise, the following terms shall have the following meanings:

Start Date means 28 May 2003;

BAFin means the German Financial Services Authority or any successor agency taking its place;

Bank means Landesbank Schleswig-Holstein Girozentrale, a public banking institution established under the laws of the German federal state Schleswig-Holstein whose registered office is at Martensdamm 6, 24103 Kiel, Germany which is intended to be merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity.

Termination Date shall mean the date as of which the Silent Partner ceases to participate in the Bank's commercial enterprise as an ordinary silent partner because the Participation Agreement has been validly terminated.

Buchwert bezeichnet den handelsrechtlichen Buchwert der Stillen Einlage, so wie dieser in der Bilanz der Bank für das Geschäftsjahr der Bank festgestellt wurde, in das der Beendigungstag fällt. Wenn sich bei Aufstellung der Bilanz der Bank die Entstehung eines Jahresbilanzverlusts abzeichnet, so wird dieser Jahresbilanzverlust anteilig nach Maßgabe des § 6 vom Buchwert abgezogen;

Ein **Jahresbilanzverlust** liegt dann vor, wenn die nicht konsolidierte Jahresbilanz der Bank nach Prüfung durch eine international und von der BAFin anerkannte Wirtschaftsprüfungsgesellschaft keinen Bilanzgewinn für das Geschäftsjahr in Bezug auf die maßgebliche Gewinnbeteiligung ausweist. Der Bilanzgewinn schließt den Jahresüberschuss oder fehlbetrag ein, zuzüglich des Gewinnvortrags aus den Vorjahren, abzüglich des Verlustvortrags aus den Vorjahren, zuzüglich der Entnahmen aus Kapital und Gewinnrücklagen, abzüglich Einstellungen in Gewinnrücklagen, und zwar jeweils nach Maßgabe und in Übereinstimmung mit dem Aktiengesetz und den Grundsätzen ordnungsmäßiger Buchführung der Bundesrepublik Deutschland im Einklang mit dem Handelsgesetzbuch sowie sonstigem zum maßgeblichen Zeitpunkt anwendbaren deutschen Recht getroffenen Feststellungen;

Einlagennennbetrag bezeichnet den Betrag von €500.000.000 (Euro fünfhundert Millionen);

Erste Gewinnbeteiligung bezeichnet die für die Erste Gewinnperiode aufgelaufene Gewinnbeteiligung;

Erste Gewinnperiode bezeichnet den Zeitraum vom Anfangsdatum (einschließlich) bis zum 31. Dezember 2003 (einschließlich);

Geschäftstag bezeichnet jeden Tag an dem TARGET (das Trans-European Automated Real Time Gross Settlement Express Transfer System) Buchungen oder Zahlungsanweisungen im Hinblick auf Zahlungen in Euro abwickelt und Geschäftsbanken in Frankfurt im allgemeinen Geschäftsverkehr Zahlungen abwickeln;

Gewinnbeteiligung bezeichnet die in der jeweiligen Gewinnperiode aufgelaufene Gewinnbeteiligung;

Gewinnbeteiligungszahlung hat die in § 4(1) und § 4(2) festgelegte Bedeutung;

Gewinnperiode bezeichnet jeweils den Zeitraum vom 1. Januar (einschließlich) bis 31. Dezember (einschließlich) eines Jahres, wobei die erste Gewinnperiode am Anfangsdatum (einschließlich) beginnt und die letzte Gewinnperiode vom 1. Januar (einschließlich) bis zum Beendigungstag (einschließlich) läuft;

Book Value means the financial statement book value of the Silent Contribution as determined in the Bank's balance sheet for the Bank's fiscal year in which the Termination Date occurs. If, when drawing up the Bank's balance sheet, it becomes evident that an Annual Balance Sheet Loss would arise, such Annual Balance Sheet Loss shall be proportionately deducted from the Book Value in accordance with § 6.

An **Annual Balance Sheet Loss** is present if the annual unconsolidated balance sheet of the Bank, as audited by an auditing firm which is recognised internationally and by the BAFin, does not show a balance sheet profit for the fiscal year to which the relevant Profit Participation relates. Such balance sheet profit includes the annual surplus or loss, plus any profit carried forward from previous years, minus any loss carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all in compliance, and determined in accordance, with the German Stock Corporation Act and accounting principles generally accepted in the Federal Republic of Germany in compliance with the German Commercial Code and other applicable German law then in effect;

Nominal Contribution Amount means €500,000,000 (Euro five hundred million);

First Profit Participation means the Profit Participation accrued in the First Profit Period;

First Profit Period means the period from (and including) the Start Date to (and including) 31 December 2003;

Business Day means a day on which TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is operating credit or transfer instructions in respects of payments in euro and commercial banks settle payments in the general course of business in Frankfurt;

Profit Participation means a profit participation accrued in any Profit Period;

Profit Participation Payment has the meaning specified in § 4(1) and § 4(2);

Profit Period means each period from (and including) 1 January to (and including) 31 December of a year, provided that the first Profit Period shall commence on (and include) the Start Date and that the last Profit Period shall commence on (and include) 1 January of the year in which the Termination Date occurs to (and including) the Termination Date;

Herabsetzung bezeichnet jede Herabsetzung der Stillen Einlage nach § 6(1);

KWG bezeichnet das Kreditwesengesetz;

Rückzahlungsbetrag bezeichnet entweder den Buchwert oder den Einlagennennbetrag, je nachdem welcher niedriger ist;

Rückzahlungstag bezeichnet (i) den 30. Juni des Jahres, das auf das Geschäftsjahr der Bank folgt, in das der Beendigungstag fällt oder, falls dieser Tag kein Geschäftstag ist, den nächstfolgenden Geschäftstag oder, falls später, (ii) den ersten Geschäftstag nach Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr, in das der Beendigungstag fällt;

Stille Einlage hat die in § 2(1) festgelegte Bedeutung; und

Stiller Gesellschafter bezeichnet RESPARCS Funding II Limited Partnership, Jersey, Kanalinseln.

Reduction means any reduction of the Silent Contribution pursuant to § 6(1);

KWG means the German Banking Act;

Repayment Amount means the lower of the Book Value and the Nominal Contribution Amount;

Repayment Date means the later of (i) 30 June following the fiscal year in which the Termination Date occurs or, if such day is not a Business Day, the next Business Day following such day or (ii) the first Business Day after the Bank's annual financial statements are adopted for the fiscal year in which the Termination Date occurs;

Silent Contribution has the meaning specified in § 2(1); and

Silent Partner means RESPARCS Funding II Limited Partnership, Jersey, Channel Islands.

§ 2 Vertragsgegenstand

- (1) **Stille Einlage:** Der Stille Gesellschafter ist ab dem Anfangsdatum am Handelsgewerbe der Bank als typischer stiller Gesellschafter mit einer Vermögenseinlage (**Stille Einlage**) in Höhe des Einlagennennbetrags beteiligt.
- (2) **Einzahlung der Stillen Einlage:** Die Stille Einlage wird in bar erbracht. Sie wird am Tag des Vertragsabschlusses fällig und ist spätestens am Anfangsdatum vollständig zu leisten. Die Stille Einlage geht in das Vermögen der Bank über.

§ 3 Gewinnbeteiligung

- (1) **Allgemeines:** Als Gegenleistung für die Stille Einlage stehen dem Stillen Gesellschafter vom Anfangsdatum bis zum Beendigungstag Gewinnbeteiligungen zu, deren Höhe sich nach Maßgabe dieses § 3 bestimmt.
- (2) **Gewinnbeteiligung:** Dem Stillen Gesellschafter stehen Gewinnbeteiligungen in Höhe von 7,65% p.a. in Bezug auf den Einlagennennbetrag zu, wobei die Erste Gewinnbeteiligung €41.708.219 beträgt.
- (3) **Ausschluss der Gewinnbeteiligung:** Eine Gewinnbeteiligung für eine Gewinnperiode (einschließlich der Ersten Gewinnperiode) ist ausgeschlossen:

§ 2 Subject-Matter

- (1) **Silent Contribution:** The Silent Partner participates as of the Start Date in the business of the Bank as an ordinary silent partner with an asset contribution (**Silent Contribution**) in the amount of the Nominal Contribution Amount.
- (2) **Payment of Silent Contribution:** The Silent Contribution shall be made in cash. It shall be due and payable on the date hereof and shall be paid in full no later than the Start Date. The Silent Contribution passes over into the assets of the Bank.

§ 3 Profit Participation

- (1) **General:** In consideration for the Silent Contribution, the Silent Partner shall be entitled to Profit Participations from the Start Date to the Termination Date in the amounts specified in this § 3.
- (2) **Profit Participation:** The Silent Partner shall be entitled to Profit Participations on the Nominal Contribution Amount at a rate of 7.65% *per annum*, provided that the First Profit Participation shall amount to €41,708,219.
- (3) **Profit Participations excluded:** Profit Participations for any Profit Period (including the First Profit Period) shall not accrue or be payable:

- | | |
|---|--|
| <p>(a) wenn eine Herabsetzung erfolgt ist und die Stille Einlage noch nicht wieder vollständig gemäß § 6(3) gutgeschrieben wurde; oder</p> <p>(b) soweit die Zahlung einer solchen Gewinnbeteiligung zu einem Jahresbilanzverlust in dem Geschäftsjahr der Bank, auf das sich die maßgebliche Gewinnperiode bezieht, führen oder diesen erhöhen würde; oder</p> <p>(c) wenn zu irgendeinem Zeitpunkt vor Auszahlung der Gewinnbeteiligung ein Antrag auf Eröffnung des Insolvenzverfahrens über das Vermögen der Bank aus Gründen der drohenden oder bestehenden Zahlungsunfähigkeit oder Überschuldung gestellt wurde oder die BaFin die ihr verliehenen Befugnisse gemäß §§ 45, 46a und 47 KWG bzw. entsprechender Nachfolgebestimmungen ausgeübt hat; oder</p> <p>(d) falls der Solvabilitätskoeffizient der Bank auf Instituts- oder auf Gruppenbasis unter 9% liegt, soweit die Zahlung einer solchen Gewinnbeteiligung zu einem Jahresfehlbetrag (nach Maßgabe des Handelsgesetzbuches) in dem Geschäftsjahr der Bank, auf das sich die maßgebliche Gewinnperiode bezieht, führen oder diesen erhöhen würde; oder</p> <p>(e) falls der Beendigungstag in diese Gewinnperiode fällt.</p> | <p>(a) if a Reduction has occurred and the Silent Contribution has not yet been fully replenished as provided for in § 6(3); or</p> <p>(b) if (but only to such extent that) payment of such Profit Participation would lead to or increase an Annual Balance Sheet Loss for the fiscal year of the Bank to which the relevant Profit Period relates; or</p> <p>(c) if at any time prior to payment of such Profit Participation an application for the institution of insolvency proceedings over the assets of the Bank has been filed for reasons of threatening or actual illiquidity or overindebtedness, or BaFin has made use of its powers vested by virtue of §§ 45, 46a and 47 of the KWG or the relevant successor provisions; or</p> <p>(d) if the Bank's solvency ratio is below 9% on an unconsolidated or on a consolidated basis, to the extent that payment of such Profit Participation would lead to or increase an annual loss (in accordance with the German Commercial Code) for the fiscal year of the Bank to which the relevant Profit Period relates; or</p> <p>(e) if the Termination Date falls within such Profit Period.</p> |
|---|--|

§ 4

Zahlung der Gewinnbeteiligung

- (1) **Fälligkeit von Gewinnbeteiligungen:** Jede Gewinnbeteiligung am (i) 30. Juni eines Jahres nach Ablauf der maßgeblichen Gewinnperiode oder, falls dies kein Geschäftstag ist, am darauf folgenden Geschäftstag oder, falls später, (ii) am Geschäftstag nach dem Tag der Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr, auf das sich die maßgebliche Gewinnperiode bezieht, fällig (jeweils eine *Gewinnbeteiligungszahlung*).
- (2) **Kein Ausgleich bei verspäteter Zahlung:** Falls der Tag der Zahlung der Gewinnbeteiligungszahlung nach Maßgabe des § 4(1) verschoben wird, erfolgt auf den insoweit nicht gezahlten Betrag der Gewinnbeteiligungszahlung keine Zahlung von

§ 4

Profit Participation Payment

- (1) **Payment of Profit Participations:** Each Profit Participation shall be payable on the later of (i) 30 June in the year following the end of the relevant Profit Period, or if that is not a Business Day, the next Business Day; or (ii) the Business Day following the date on which the Bank's annual financial statements have been adopted for the fiscal year of the Bank to which the relevant Profit Period relates (each a *Profit Participation Payment*).
- (2) **No Compensation for Late Payment:** No interest or further amounts of profit participations will accrue or be payable on Profit Participation Payments which are not

Zinsen und keine Zahlung von weiteren Beträgen an Gewinnbeteiligung.

paid due to the postponement of the payment date of a Profit Participation Payment under § 4(1).

§ 5

Rangstellung des Beteiligungsvertrages

Die Zahlungsverpflichtungen der Bank aufgrund dieses Beteiligungsvertrages:

- (1) sind nachrangig gegenüber Forderungen aller bestehenden und künftigen Gläubiger der Bank (einschließlich in Bezug auf das Anrecht auf Gewinnbeteiligung in Form von Genussrechten oder Genussscheinen und ggf. andere Kapitalinstrumente des Ergänzungskapitals, sowie sonstige nachrangige Verbindlichkeiten gemäß § 10(5) und (5a) KWG);
- (2) sind (prozentual zum fälligen Betrag) mindestens gleichrangig mit allen Forderungen auf Rückzahlung von Kapitaleinlagen, die in Bezug auf bestehende und künftige Gewinnbeteiligungen in Form von stillen Gesellschaften in die Bank eingebracht wurden, sowie mit anderen Kapitalinstrumenten des Kernkapitals, die gleichrangig mit Gewinnbeteiligungen in Form von stillen Gesellschaften sind; und
- (3) sind vorrangig vor allen Forderungen von Anteilseignern der Bank;

soweit diese jeweils bereits begründet wurden oder in Zukunft begründet werden.

§ 6

Verlustbeteiligung, stille Reserven

- (1) **Verlustbeteiligung des Stillen Gesellschafters:** An einem Jahresbilanzverlust nimmt der Stille Gesellschafter im Verhältnis des Buchwerts der Stillen Einlage zum Gesamtbuchwert aller am Verlust teilnehmenden Haftkapitalanteile der Bank teil. Nachrangiges Haftkapital gemäß § 10(5a) KWG ist nicht am Jahresbilanzverlust beteiligt.

Somit nehmen alle stillen Gesellschafter, alle Inhaber von Genussrechten oder Genussscheinen und alle Anteilseigner der Bank am Jahresbilanzverlust mit dem gleichen Prozentsatz des Buchwertes ihrer Einlagen bzw. ihrer Rückzahlungsansprüche oder des sonstigen ausgewiesenen Eigenkapitals teil.

§ 5

Ranking of Participation Agreement

The Bank's obligations under this Participation Agreement:

- (1) are subordinated to the claims of all existing and future creditors of the Bank (including profit participation rights in the form of *Genussrechte* or *Genussscheine* and other upper tier 2 capital instruments, if any, and any other subordinated debt in accordance with § 10(5) and (5a) KWG);
- (2) rank at least *pari passu* (by percentage of the amount payable) with all claims for the repayment of capital contributions made with respect to existing and future profit participations in the Bank in the form of silent partnerships and with other tier 1 capital instruments ranking *pari passu* with profit participations in the form of silent partnerships; and
- (3) rank senior to all claims of shareholders of the Bank;

in each case as already arisen or arising in the future.

§ 6

Sharing of Losses, Hidden Reserves

- (1) **Silent Partner's Sharing in Losses:** The Silent Partner shall share in an Annual Balance Sheet Loss in the proportion which the book value of the Silent Contribution bears in relation to the aggregate book value of all loss-sharing components of the Bank's liable capital. Subordinated liable capital in accordance with § 10(5a) KWG shall not share in an Annual Balance Sheet Loss.

Hence, all silent partners, all holders of profit participation rights in the form of *Genussrechte* or *Genussscheine* and all shareholders of the Bank shall share in an Annual Balance Sheet Loss with the same percentage of the book value of their contributions and/or repayment claims or the other stated own funds, respectively.

- (2) **Begrenzung der Verlustbeteiligung auf Vermögenseinlage:** Die Gesamtverlustbeteiligung des Stillen Gesellschafters am Jahresbilanzverlust ist auf seine Vermögenseinlage beschränkt.

- (3) **Gutschrift nach Verlustbeteiligung:** Nach einer Herabsetzung wird die Stille Einlage in jedem der Herabsetzung nachfolgenden Geschäftsjahr der Bank bis zur vollständigen Höhe des Einlagennennbetrages wieder gutgeschrieben, soweit hierdurch kein Jahresbilanzverlust entsteht oder erhöht würde.

Die Rückführung der Stillen Einlage nach einer Herabsetzung geht der Rückführung des Stammkapitals und Einstellungen in Rücklagen vor. Im Verhältnis zu anderen Kapitalgebern nach § 10(4) (Vermögenseinlagen stiller Gesellschafter) und (5) KWG (Genussrechte) erfolgt die Rückführung gemäß diesem § 6(3) in der gleichen Reihenfolge und im gleichen Verhältnis wie die Verlustbeteiligung.

- (4) **Stille Reserven:** Auf die vor oder während der Laufzeit der stillen Gesellschaft gebildeten stillen Reserven hat der Stille Gesellschafter kein Anrecht.
- (5) **Kein Pflicht zur Aufdeckung stiller Reserven:** Die Bank ist nicht verpflichtet, zur Vermeidung eines Jahresbilanzverlustes stille Reserven aufzudecken.

§ 7

Dauer der stillen Gesellschaft, Kündigung

- (1) **Unbestimmte Laufzeit:** Dieser Beteiligungsvertrag wird auf unbestimmte Zeit abgeschlossen.
- (2) **Kündigung durch den Stillen Gesellschafter:** Der Stille Gesellschafter kann diesen Beteiligungsvertrag nicht kündigen.
- (3) **Kündigung durch die Bank:** Die Bank kann diesen Beteiligungsvertrag gegenüber dem Stillen Gesellschafter mit einer Kündigungsfrist von mindestens zwei Jahren zum 31. Dezember eines jeden Jahres kündigen, wobei eine Kündigung keinesfalls vor dem 31. Dezember 2013 wirksam wird.

Darüber hinaus kann die Bank diesen Beteiligungsvertrag nur kündigen, sofern der Solvabilitätskoeffizient auf Instituts- oder auf

- (2) **Limitation of Sharing in Losses to Asset Contribution:** The Silent Partner's aggregate share in an Annual Balance Sheet Loss shall be limited to its asset contribution.

- (3) **Replenishment after Reduction:** After a Reduction, the Silent Contribution shall, in each fiscal year of the Bank following such Reduction, be replenished up to the full Nominal Contribution Amount but only if and to the extent such replenishment would not cause or increase an Annual Balance Sheet Loss.

The replenishment of the Silent Contribution after a Reduction ranks prior to the replenishment of the owners' share capital and to allocations to reserves. In relation to other capital providers in accordance with § 10(4) (silent participations) and (5) KWG (profit participation rights), the replenishment pursuant to this § 6(3) shall be effected in the same priority and in the same proportion as the sharing of losses.

- (4) **Hidden Reserves:** The Silent Partner shall not be entitled to a share in the Bank's hidden reserves built up prior to or during the term of the silent partnership.
- (5) **No Obligation to Realise Hidden Reserves:** the Bank shall not be obliged to realise hidden reserves in order to avoid an Annual Balance Sheet Loss.

§ 7

Duration of the Partnership, Termination

- (1) **Indefinite Term:** This Participation Agreement shall remain in effect for an indefinite term.
- (2) **Termination by Silent Partner:** The Silent Partner may not terminate this Participation Agreement.
- (3) **Termination by the Bank:** The Bank may only terminate this Participation Agreement upon two years' prior notice effective 31 December of any year, provided that no termination shall be effective earlier than 31 December 2013.

The Bank may only terminate this Participation Agreement, if the Bank's solvency ratio

- Gruppenbasis dauerhaft den Wert von 9% übersteigt.
- (4) **Außerordentliche Kündigung durch die Bank aus aufsichtsrechtlichen oder steuerlichen Gründen:** Wenn eine Veränderung steuerlicher oder aufsichtsrechtlicher Vorgaben gemäß § 12 eintritt, kann die Bank diesen Beteiligungsvertrag unbeschadet § 7(3) jederzeit unter Einhaltung einer Kündigungsfrist von mindestens zwei Jahren gegenüber dem Stillen Gesellschafter kündigen mit der Maßgabe, dass eine Kündigung vor dem 31. Dezember 2008 ausgeschlossen ist.
- (5) **Schriftliche Kündigung:** Jede Kündigung bedarf der Schriftform.
- (6) **Zustimmung der BAFin zu Kündigungen:** Kündigungen dieses Beteiligungsvertrages werden erst wirksam, wenn die BAFin der Kündigung zugestimmt hat.
- (7) **Rückzahlungsbetrag und -tag:** Am Rückzahlungstag zahlt die Bank an den Stillen Gesellschafter den Rückzahlungsbetrag.
- (8) **Ausschluss der Kündigung aufgrund bestimmter Ereignisse:** Von Fusionen, (Teil) Vermögensübertragungen, Änderungen der Rechtsform oder des Stammkapitals der Bank bleibt die Stille Gesellschaft unberührt.
- (9) **Insolvenz/Liquidation:** Im Falle der Insolvenz oder Liquidation der Bank wird eine Barabfindung für die Stille Einlage erst nach Befriedigung aller Gläubiger der Bank einschließlich der Inhaber von Genussrechten oder Genussscheinen sowie der Gläubiger von nachrangigem Haftkapital gemäß § 10(5a) KWG, jedoch vor der Rückzahlung von Stammkapital zugunsten der Anteilseigner gezahlt.
- (10) **Ausschluss des Kündigungsrechts des Stillen Gesellschafters:** Falls der Ausschluss des Kündigungsrechts des Stillen Gesellschafters gemäß § 7(2) unwirksam sein sollte, ist die Kündigung dieses Beteiligungsvertrages durch den Stillen Gesellschafter und/oder die Rückzahlung der Stillen Einlage nur nach Zustimmung der BAFin zulässig, mit der Maßgabe, dass eine solche Kündigung nicht vor dem 31. Dezember 2033 wirksam wird.
- sustainably exceeds 9% on an unconsolidated or consolidated basis.
- (4) **Exceptional Termination by the Bank for Regulatory or Tax Reasons:** Notwithstanding § 7(3), if a change in the tax or supervisory environment referred to in § 12 has occurred, the Bank may terminate this Participation Agreement at any time, provided that it gives the Silent Partner at least two years' prior notice thereof and no termination may occur prior to 31 December 2008.
- (5) **Notice in Writing:** Any notice of termination hereunder must be in writing.
- (6) **BAFin Approval of Terminations:** No notice of termination under this Participation Agreement shall become effective without the BAFin's prior approval thereof.
- (7) **Repayment Amount and Date:** On the Repayment Date, the Bank will pay to the Silent Partner the Repayment Amount.
- (8) **No termination by virtue of certain events:** The silent partnership shall remain unaffected in the case of a merger, transfer of assets (in part or in whole), a change in legal form or a change of the Bank's share capital.
- (9) **Insolvency/Liquidation:** In case of the Bank's insolvency or liquidation, a cash settlement in respect of the Silent Contribution shall only be paid after satisfaction of all creditors of the Bank, including the holders of profit participation rights in the form of *Genussrechte* or *Genussscheine* and creditors of subordinated capital in accordance with § 10(5a) KWG, but will be paid prior to payments towards repayment of share capital in favour of the shareholders.
- (10) **Exclusion of Silent Partner's Termination Right:** If the exclusion of the Silent Partner's termination right under §7(2) should be invalid, the termination of this Participation Agreement by the Silent Partner and/or the repayment of the Silent Contribution shall be permissible only upon BAFin's prior approval, provided that no such termination shall become effective prior to 31 December 2033.

§ 8
Gesellschafterrechte

- (1) **Jahresabschluss:** Der Stille Gesellschafter ist berechtigt, (i) eine Abschrift des Jahresabschlusses der Bank (Bilanz mit Gewinn und Verlustrechnung sowie Anmerkungen) einschließlich Lagebericht sowie Konzernabschluss und Konzernlagebericht zu verlangen und (ii) dessen Richtigkeit durch Überprüfung des Prüfungsberichtes durch einen Wirtschaftsprüfer oder vereidigten Buchprüfer feststellen zu lassen.
- (2) **Auskunftsrecht:** Zusammen mit dem Jahresabschluss erhält der Stille Gesellschafter eine Aufstellung über seine Gewinn bzw. Verlustbeteiligung. Auf Anfrage des Stillen Gesellschafters hat die Bank hierzu weitere Auskunft zu erteilen.
- (3) **Ausschluss anderweitiger Rechte:** Weitere Gesellschafter-Rechte stehen dem Stillen Gesellschafter nicht zu.

§ 9
Hinweis gemäß
§ 10(4) S. 1 Ziff. 6 KWG

- (1) **Verbot nachträglicher Änderungen zum Nachteil der Bank:** Nach Abschluss dieses Vertrages dürfen (i) weder die Verlustbeteiligung zum Nachteil der Bank verändert, (ii) noch die Nachrangigkeit eingeschränkt noch (iii) die Laufzeit oder Kündigungsfrist verkürzt werden.
- (2) **Rückzahlungsverpflichtung:** Ungeachtet anderweitiger Vereinbarungen sind Vorauszahlungen auf die Stille Einlage an die Bank zurückzuzahlen, es sei denn, (i) das Kapital wurde durch anderes mindestens gleichwertiges Eigenkapital ersetzt oder (ii) die BAFin stimmt der vorzeitigen Rückzahlung der Stillen Einlage zu.

§ 10
Begebung weiteren Haftkapitals

Die Bank behält sich das Recht vor, Verträge über weitere stille Gesellschaften zu gleichen oder anderen Bedingungen, insbesondere mit einer anderen Gewinnbeteiligung, oder Verträge über Genussrechte oder Genussscheine oder nachrangiges Haftkapital gemäß § 10(5a) KWG abzuschließen. Forderungen künftiger stiller Gesellschafter dürfen den

§ 8
Shareholder Rights

- (1) **Financial Statements:** The Silent Partner shall be entitled (i) to request a copy of the annual financial statements of the Bank (balance sheet with profit and loss accounts and notes), including the management report as well as group financial statements and group management reports and (ii) to ascertain the correctness thereof through the review of the auditor's report by an auditor or a certified public accountant.
- (2) **Information Right:** The Silent Partner shall, together with the annual financial statements, receive a statement of its profit/loss sharing position. Upon request of the Silent Partner, the Bank shall provide further information in this regard.
- (3) **Exclusion of Other Rights:** The Silent Partner shall have no further shareholder rights.

§ 9
Notice in Accordance with
§ 10(4) s. 1 no. 6 KWG

- (1) **Exclusion of Amendments to the Bank's Detriment:** After conclusion of this Participation Agreement, (i) the loss participation may not be amended to the Bank's detriment, (ii) the subordination may not be limited and (iii) neither the term nor the notice period may be shortened.
- (2) **Recontribution Obligation:** Any premature repayment of the Silent Contribution must be repaid to the Bank irrespective of agreements to the contrary, unless (i) the capital has been replaced by other own funds of at least equal quality or (ii) the BAFin agrees to the premature repayment of the Silent Contribution.

§ 10
Issue of Additional Liabe Capital

The Bank reserves the right to conclude agreements on additional silent partnerships, on identical or different terms, in particular with a different profit participation, or to conclude agreements on profit participation rights in the form of *Genussrechte* or *Genussscheine* or subordinated capital in accordance with § 10(5a) KWG. Claims of future silent partners may not rank

Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag nicht im Rang vorgehen.

senior to claims of the Silent Partner under this Participation Agreement.

§ 11

Übertragungsrechte des Stillen Gesellschafters

Die Abtretung oder anderweitige Verfügung (z.B. durch Verpfändung) über Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag bedarf der Zustimmung der Bank.

§ 11

Silent Partner's Transfer Rights

Transfers or any other disposals (e.g. by pledge) of or over the claims of the Silent Partner under this Participation Agreement require the Bank's approval.

§ 12

Änderungen steuerlicher oder aufsichtsrechtlicher Vorgaben

Im Falle wesentlicher Änderungen in der steuerlichen oder aufsichtsrechtlichen Behandlung der Einlagen und ihrer Gewinn und Verlustbeteiligung werden die Parteien dieses Beteiligungsvertrages in einvernehmliche Verhandlungen zum Zweck einer Anpassung dieses Beteiligungsvertrages an die veränderte Rechtslage eintreten. Die Stille Einlage behält bis zum Wirksamwerden einer Kündigung ihre vollen Rechte unter diesem Beteiligungsvertrag.

§ 12

Changes in the Tax or Supervisory Environment

In case of material changes in relation to the tax or supervisory treatment of the contributions and their profit and loss sharing, the parties to this Participation Agreement shall enter into good faith negotiations with a view to amending this Participation Agreement to reflect the changes in the legal situation. The Silent Contribution shall carry the full rights under this Participation Agreement until a termination becomes valid.

§ 13

Besteuerung

Alle aufgrund dieses Vertrages fälligen Zahlungen werden ohne Einbehaltung oder Abzug aufgrund derzeitiger oder künftiger Steuern oder Abgaben gleich welcher Art geleistet, die durch Einbehaltung oder Abzug durch die oder im Auftrag der Bundesrepublik Deutschland, ihrer politischen Untergliederungen oder der zur Erhebung von Steuern befugten Behörden auferlegt oder erhoben werden, es sei denn, die Einbehaltung oder der Abzug sind gesetzlich vorgeschrieben.

§ 13

Taxation

All amounts payable under this Participation Agreement shall be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction by or on behalf of the Federal Republic of Germany or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law.

§ 14

Anwendbares Recht, Erfüllungsort und Gerichtsstand, Fassungen

- (1) **Anwendbares Recht:** Das Gesellschaftsverhältnis und alle sich aus diesem Beteiligungsvertrag ergebenden Rechte und Pflichten unterliegen ausschließlich dem Recht der Bundesrepublik Deutschland.
- (2) **Erfüllungsort und Gerichtsstand:** Erfüllungsort und Gerichtsstand ist Kiel.

§ 14

Governing Law, Place of Performance and Place of Jurisdiction; Counterparts

- (1) **Governing Law:** The partnership relationship and all rights and obligations arising out of or under this Participation Agreement shall be exclusively governed by the laws of the Federal Republic of Germany.
- (2) **Place of Performance and Place of Jurisdiction:** Place of performance and of jurisdiction shall be Kiel.

(3) **Exemplare:** Dieser Beteiligungsvertrag kann in unterschiedlichen Exemplaren und von den Parteien auf verschiedenen Exemplaren ausgefertigt werden; sämtliche dieser Exemplare sind ein Originalvertrag und begründen ein und denselben Vertrag.

(3) **Counterparts:** This Participation Agreement may be executed and delivered in any number of counterparts and by the parties on separate counterparts, each of which is an original, but all of which taken together constitute one and the same instrument.

§ 15 Salvatorische Klausel

Sollte eine Vertragsbestimmung ganz oder teilweise unwirksam oder unvollständig sein oder werden, so wird hierdurch die Wirksamkeit der übrigen Bestimmungen nicht berührt. Anstelle der unwirksamen oder unvollständigen Bestimmung tritt eine Regelung, die dem wirtschaftlichen Zweck der unwirksamen Bestimmung in rechtlich zulässiger Weise am nächsten kommt bzw. die Bestimmung in Übereinstimmung mit dem mutmaßlichen Parteiwillen so gut wie möglich ergänzt.

§ 15 Severability

Should any provision of this Participation Agreement be or become invalid or incomplete in total or in part, the validity of the remaining provisions shall remain unaffected. The invalid or incomplete provision shall be replaced by such provision that achieves as closely as is legally possible the economic purpose of the invalid provision or best supplements the provision in accordance with the presumed intentions of the parties.

TERMS AND CONDITIONS OF THE LOAN AGREEMENT

THE GERMAN TEXT OF THE LOAN AGREEMENT IS LEGALLY BINDING.
THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY.

DIESER VERTRAG wird am 26 Mai 2003 abgeschlossen zwischen:

- (1) **RESPARCS FUNDING II LIMITED PARTNERSHIP**, einer nach dem Recht Jerseys errichteten Kommanditgesellschaft (*Limited Partnership*) mit eingetragenem Sitz in 22 Grenville Street, St. Helier, Jersey JE4 8PX, Kanalinseln, (die **Darlehensnehmerin**), handelnd durch ihre Komplementärin (*General Partner*) European Capital Investment Opportunities Limited; und
- (2) **LANDESBANK SCHLESWIG-HOLSTEIN GIROZENTRALE**, einem nach dem Recht des Bundeslandes Schleswig-Holstein errichteten öffentlichrechtlichen Kreditinstitut mit eingetragenem Sitz in Martensdamm 6, 24103 Kiel, die mit wirtschaftlicher Rückwirkung zum 1. Januar 2003 mit der Hamburgischen Landesbank Girozentrale zur HSH Nordbank Aktiengesellschaft mit Sitz in Hamburg und Kiel im Wege der Verschmelzung zur Neugründung verschmolzen werden soll, handelnd durch ihre Luxemburger Zweigniederlassung mit eingetragenem Sitz in 2, rue Jean Monnet, 2180 Luxembourg, Luxemburg (die **Darlehensgeberin**).

PRÄAMBEL

- (A) Die Darlehensnehmerin wurde am 17. April 2003 bei der Financial Services Commission Jersey registriert und als Kommanditgesellschaft (*limited partnership*) nach dem Recht von Jersey errichtet. Die alleinigen Gesellschafter der Darlehensnehmerin sind die Komplementärin und die Kommanditistin.
- (B) Die Darlehensgeberin ist mit der Kommanditistin nicht verbunden.
- (C) Die Darlehensnehmerin beabsichtigt die RESPARC Securities zu begeben, deren Erlös sie für den Erwerb einer stillen Beteiligung an dem Handelsgewerbe der Bank in Form einer Stillen Gesellschaft nach deutschem Recht nach Maßgabe eines Vertrages vom 23. Mai 2003 (der **Beteiligungsvertrag**) verwenden wird, der vorsieht, dass die Darlehensnehmerin eine Vermögenseinlage in Höhe von

THIS AGREEMENT is made on 26 May 2003 between:

- (1) **RESPARCS FUNDING II LIMITED PARTNERSHIP**, a limited partnership established under the laws of Jersey whose registered office is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands (the **Borrower**) acting through its general partner European Capital Investment Opportunities Limited; and
- (2) **LANDESBANK SCHLESWIG-HOLSTEIN GIROZENTRALE**, a public banking institution established under the laws of the German federal state Schleswig-Holstein whose registered office is at Martensdamm 6, 24103 Kiel, Germany, which is intended to be merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity, acting through its Luxembourg branch, whose registered office is at 2, rue Jean Monnet, 2180 Luxembourg, Luxembourg (the **Lender**).

WHEREAS

- (A) The Borrower was registered with the Jersey Financial Services Commission and established as a limited partnership under Jersey law on 17 April 2003. The Borrower's sole partners are the General Partner and the Limited Partner.
- (B) The Lender is unaffiliated with the Limited Partner.
- (C) The Borrower proposes to issue the RESPARC Securities, the proceeds of which will be used by the Borrower to acquire a silent capital interest in the commercial enterprise of the Bank in the form of a *Stille Gesellschaft* under German law pursuant to an agreement providing for an asset contribution by the Borrower to the Bank in the amount of €500,000,000 (the Silent Contribution) and

- €500.000.000 in die Bank einbringt (die *Stille Einlage*).
- (D) Als Gegenleistung für die Stille Einlage erhält die Darlehensnehmerin Gewinnbeteiligungen, die jeweils jährlich auf der Grundlage des Nennbetrages der Stillen Einlage der Darlehensnehmerin für jedes Geschäftsjahr der Bank ermittelt und nach Maßgabe des Beteiligungsvertrages jährlich nachträglich ausgeschüttet werden (*Gewinnbeteiligungszahlungen*).

(E) Gemäß den Emissionsbedingungen der RESPARC Securities sind die Inhaber der RESPARC Securities (*Emissionsgläubiger*) berechtigt, jährlich Zinszahlungen auf die RESPARC Securities (*Zinszahlungen*) zu erhalten.

(F) Wenn Gewinnbeteiligungszahlungen an die Darlehensnehmerin ausgeschüttet werden oder die Stille Einlage nach einer Herabsetzung ihres Buchwerts gemäß § 6(3) des Beteiligungsvertrages wieder gutgeschrieben wird (eine *Wiedergutschrift*), ist die Bank verpflichtet, von den ausgeschütteten Beträgen oder dem Betrag der Wiedergutschrift Kapitalertragsteuer zuzüglich Solidaritätszuschlag einzubehalten (jeweils ein *Einbehalt*), sofern nicht die Finanzbehörden Zahlungen an die Darlehensnehmerin befreit haben. Soweit die Einbehalte nach deutschem Steuerrecht der Kommanditistin zuzurechnen sind, gelten sie als Vorauszahlung auf die von der Kommanditistin geschuldete Einkommensteuer in Deutschland.

(G) Die Kommanditistin rechnet in ihrer Eigenschaft als *limited partner* der Darlehensnehmerin in jedem Jahr mit Steuererstattungsansprüchen gegenüber den deutschen Finanzbehörden (jeweils ein *Kommanditisten-Steuererstattungsanspruch*) in Höhe der Beträge, um die die Vorauszahlungen in Form der Einbehalte die jeweilige tatsächliche Einkommensteuerschuld der Emittenten-Kommanditistin in Deutschland überschreiten.

(H) In einem Vertrag zwischen der Komplementärin und der Kommanditistin, der das gleiche Datum wie dieser Vertrag trägt (*Einzahlungsvertrag*), verpflichtet sich die Kommanditistin zugunsten der Darlehensnehmerin, sämtliche Beträge, die sie von den deutschen Finanzbehörden in Bezug auf die Kommanditisten-Steuererstattungsansprüche
 - dated 23 May 2003 (the Participation Agreement).

(D) In return for the Silent Contribution, the Borrower will earn profit participations calculated annually on the basis of the nominal amount of the Borrower's Silent Contribution for each fiscal year of the Bank and, subject to the terms of the Participation Agreement, payable annually in arrear (*Profit Participation Payments*).

(E) In accordance with the terms and conditions of the RESPARC Securities, the holders of the RESPARC Securities (*Securityholders*) are entitled to receive annual interest payments on the RESPARC Securities (*Coupon Payments*).

(F) When Profit Participation Payments are distributed to the Borrower or upon a replenishment of the Silent Contribution after a reduction of its book value in accordance with § 6(3) of the Participation Agreement (a *Replenishment*), the Bank must withhold German Investment Income Tax plus the "solidarity surcharge" (each a *Withholding*) on the distributed amounts or on the amount of the Replenishment, unless the tax authorities have granted an exemption for payments to the Borrower. The Withholdings, to the extent attributable to the Limited Partner under German tax laws, will be counted as a prepayment towards the German income tax owed by the Limited Partner.

(G) The Limited Partner, in its capacity as the limited partner of the Borrower, expects to be entitled for each tax year to refund claims against the German tax authorities (each a *Limited Partner Tax Refund Claim*) in the amount by which the prepayments in the form of the Withholdings exceed the Issuer Limited Partner's actual German income tax liability.

(H) In an agreement between the General Partner and the Limited Partner dated the date hereof (*Contribution Agreement*), the Limited Partner undertakes, for the benefit of the Borrower, to contribute to the Borrower amounts it receives from the German Tax authorities on account of the Limited Partner Tax Refund Claims (each such contribution a *Contribution Payment*).

erhält, an die Darlehensnehmerin zu zahlen (jeweils eine **Kapitaleinzahlung**).

- (I) Die Darlehensnehmerin hat die Darlehensgeberin gebeten, ihr ein Darlehen einzuräumen, um damit ihre Verpflichtungen zu Zinszahlungen auf die RESPARC Securities und zur vollständigen Wiedergutschrift der Stillen Einlage nach einer Herabsetzung ihres Buchwertes gemäß dem Beteiligungsvertrag zu finanzieren.

AUF DIESER GRUNDLAGE WIRD FOLGENDES VEREINBART:

§ 1 Definitionen

Auszahlungszahltag bezeichnet jeden Tag, an dem eine Darlehens-Auszahlung gemäß § 2.2 fällig wird.

Bank bezeichnet die Landesbank Schleswig-Holstein Girozentrale, ein nach dem Recht des Bundeslandes Schleswig-Holstein errichtetes öffentlichrechtliches Kreditinstitut mit eingetragenem Sitz in Martensdamm 6, 24103 Kiel, das mit wirtschaftlicher Rückwirkung zum 1. Januar 2003 mit der Hamburgischen Landesbank Girozentrale zur HSH Nordbank Aktiengesellschaft mit Sitz in Hamburg und Kiel im Wege der Verschmelzung zur Neugründung verschmolzen werden soll.

Beteiligungsvertrag hat die in der Präambel festgelegte Bedeutung; eine Abschrift des Beteiligungsvertrages ist diesem Vertrag als Anlage I beigelegt.

Darlehen bezeichnet die ausstehenden Darlehens-Auszahlungen, die die Darlehensgeberin der Darlehensnehmerin nach Maßgabe der Bestimmungen dieses Vertrages gewährt.

Darlehens-Auszahlung bezeichnet jeden Betrag, den die Darlehensgeberin der Darlehensnehmerin gemäß § 2 gewährt.

Darlehensgeberin hat die in der Präambel festgelegte Bedeutung.

Darlehensnehmerin hat die in der Präambel festgelegte Bedeutung.

Darlehensnehmer-Steuerereignis bezeichnet ein Ereignis, das zur Folge hat, dass aufgrund der Verpflichtung der Darlehensnehmerin, gemäß § 6 Zahlungen aufgrund von Steuern zu leisten, der Gesamtbetrag der gemäß § 6 geleisteten Steuerzahlungen €100.000 überschreitet.

- (I) The Borrower has requested that the Lender make available to it a loan facility in order to fund the Borrower's obligations to pay Coupon Payments under the RESPARC Securities and to fully replenish the Silent Contribution after reduction of its book value in accordance with the Participation Agreement.

NOW THEREFORE, IT IS AGREED AS FOLLOWS:

§ 1 Definitions

Advance Payment Date shall mean each date on which an Advance becomes due in accordance with Section 2.2.

Bank shall mean Landesbank Schleswig-Holstein Girozentrale, a public banking institution established under the laws of the German federal state Schleswig-Holstein whose registered office is at Martensdamm 6, 24103 Kiel, Germany, which is intended to be merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity.

Participation Agreement has the meaning specified in the preamble; a copy of the Participation Agreement is attached to this Agreement as Schedule I.

Loan shall mean the outstanding Advances extended by the Lender to the Borrower upon the terms and conditions set out in this Agreement.

Advance shall mean each amount extended by the Lender to the Borrower as provided in Section 2.

Lender shall have the meaning specified in the preamble.

Borrower shall have the meaning specified in the preamble.

Borrower Tax Event shall mean an event that, as a result of the Borrower's obligation to make a payment pursuant to Section 6 on account of Tax, would make the aggregate of all Tax Payments made pursuant to Section 6 in excess of €100,000.

Ein **Darlehens-Ungezetlichkeitereignis** tritt ein, wenn es für die Darlehensgeberin oder –nehmerin in Deutschland, Jersey oder Luxemburg ungesetlich wird, irgendeine ihrer in diesem Vertrag vorgesehenen Verpflichtungen zu erfüllen oder den Fortbestand des Darlehens zu ermöglichen.

Einbehalt hat die in der Präambel festgelegte Bedeutung.

Einzahlungsvertrag hat die in der Präambel festgelegte Bedeutung.

Emissionsgläubiger hat die in der Präambel festgelegte Bedeutung.

Endgültiger Rückzahlungstag bezeichnet den Rückzahlungstag gemäß der Definition in den RESPARC Bedingungen.

Euro bezeichnet die einheitliche europäische Währung, die am 1. Januar 1999 in Deutschland und den anderen teilnehmenden Mitgliedstaaten der Europäischen Union eingeführt wurde.

Fälligkeitstag bezeichnet jeden Tag, an dem die Emissionsgläubiger zum Erhalt von Zinszahlungen auf die RESPARC Securities berechtigt sind.

Feste Periode bezeichnet den Zeitraum vom Datum dieses Vertrages bis zum 31. Dezember 2008 (jeweils einschließlich).

Freiwilliges Vorzeitiges Rückzahlungsereignis bezeichnet ein Darlehensnehmer-Steuerereignis oder ein Darlehens-Ungezetlichkeitsereignis.

Genehmigung bezeichnet eine Genehmigung, Zustimmung, Billigung, einen Beschluss, eine Zulassung, Befreiung, Einreichung oder Registrierung.

Geschäftstag bezeichnet jeden Tag an dem TARGET (das Trans-European Automated Real Time Gross Settlement Express Transfer System) Buchungen oder Zahlungsanweisungen im Hinblick auf Zahlungen in Euro abwickelt und Geschäftsbanken in Frankfurt im allgemeinen Geschäftsverkehr Zahlungen abwickeln.

Gewinnbeteiligungszahlungen hat die in der Präambel festgelegte Bedeutung.

Kapitaleinzahlung hat die in der Präambel festgelegte Bedeutung.

Kommanditisten-Steuererstattungsanspruch hat die in der Präambel festgelegte Bedeutung.

Kommanditistin bezeichnet die European Equity Participation Management GmbH, eine nach dem Recht Deutschlands errichtete Gesellschaft mit beschränkter Haftung mit Sitz Luruper Chaussee 125,

A **Loan Illegality Event** occurs if it becomes illegal in Germany, Jersey or Luxembourg for the Lender or Borrower to perform any of its obligations as contemplated by this Agreement or to allow the Loan to remain outstanding.

Withholding has the meaning specified in the preamble.

Contribution Agreement has the meaning specified in the preamble.

Securityholders has the meaning specified in the preamble.

Final Repayment Date shall mean the Repayment Date as such term is defined in the RESPARC Terms.

Euro refers to the single unified currency that was introduced in Germany and other participating member states of the European Union on 1 January 1999.

Due Date shall mean each date upon which the Securityholders are entitled to receive interest payments in respect of the RESPARC Securities.

Fixed Period means the period from (and including) the date hereof to (and including) 31 December 2008.

Voluntary Prepayment Event shall mean any of a Borrower Tax Event or a Loan Illegality Event.

Authorisation shall mean an authorisation, consent, approval, resolution, licence, exemption, filing or registration.

Business Day shall mean a day on which TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is operating credit or transfer instructions in respect of payments in euro and commercial banks settle payments in the general course of business in Frankfurt.

Profit Participation Payments has the meaning specified in the preamble.

Contribution Payment has the meaning specified in the preamble.

Limited Partner Tax Refund Claim has the meaning specified in the preamble.

Limited Partner shall mean European Equity Participation Management GmbH, a limited liability company incorporated under the laws of Germany whose registered office is at Luruper Chaussee 125,

22761 Hamburg, Deutschland, , die der *Limited Partner* der Emittentin im Sinne des Limited Partnership (Jersey) Law 1994 in der jeweils aktuellen Fassung ist.

Komplementärin bezeichnet die European Capital Investment Opportunities Limited, eine nach dem Recht Jerseys errichtete Gesellschaft mit beschränkter Haftung mit Sitz 22 Grenville Street, St. Helier, Jersey, Kanalinseln, die der *General Partner* der Emittentin im Sinne des Limited Partnership (Jersey) Law 1994 in der jeweils aktuellen Fassung ist.

Kündigungsgrund bezeichnet jedes Ereignis bzw. jeden Umstand, der in § 9 genannt ist.

Referenzzinssatz bedeutet den 12-Monats-EURIBOR für Euro-Einlagen, der auf Seite 248 von Telerate Monitor (oder derjenigen anderen Bildschirmseite von Telerate oder desjenigen anderen Informationsdienstes, der als Nachfolger von Telerate Seite 248 für die Zwecke der Anzeige dieser Zinssätze festgelegt wird) am maßgeblichen Zinsfestlegungstag um oder etwa um 11.00 Uhr (Brüsseler Zeit) als Angebotssatz am Europäischen Interbankenmarkt für 12-Monats-Einlagen in Euro angezeigt wird.

RESPARC Bedingungen bezeichnet die Emissionsbedingungen der RESPARC Securities, von denen eine Abschrift diesem Vertrag als Anlage II beigelegt wurde.

RESPARC Securities bezeichnet die €500.000.000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities mit einem Nennbetrag von jeweils €1.000, die die Darlehensnehmerin am 28. Mai 2003 auszugeben beabsichtigt.

Steuerabzug bezeichnet einen Abzug oder Einbehalt von einer Zahlung nach Maßgabe dieses Vertrages, der für oder aufgrund von Steuern erfolgt.

Steuergutschrift bezeichnet eine Gutschrift auf, eine Ermäßigung, einen Erlass oder die Rückerstattung von Steuern.

Steuern bezeichnet sämtliche Steuern, Abgaben, Erhebungen, Gebühren oder andere Belastungen oder Einbehalte ähnlicher Art (einschließlich aller Strafen oder Zinsen, die im Zusammenhang mit einer Nichtzahlung oder einem Zahlungsverzug derselben erhoben werden).

Stille Einlage hat die in der Präambel festgelegte Bedeutung.

Variable Periode bezeichnet jeden Zeitraum vom 1. Januar (einschließlich) (beginnend mit dem 1. Januar 2009) bis zum darauf folgenden 1. Januar (ausschließlich).

22761 Hamburg, Germany, the Issuer's limited partner within the meaning of the Limited Partnerships (Jersey) Law 1994, as amended.

General Partner shall mean European Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Jersey whose registered office is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, the Issuer's general partner within the meaning of the Limited Partnerships (Jersey) Law 1994, as amended.

Event of Default shall mean any event or circumstance specified as such in Section 9.

Reference Rate means the 12-month EURIBOR rate for deposits in Euro per annum published on page 248 of the Telerate Monitor (or such other screen page of Telerate or such other information service that is designated as the successor of Telerate page 248 for the purpose of displaying such rates) on the relevant Rate Determination Date at or around 11:00 a.m. (Brussels time) as the rate offered in the European inter-bank market for 12-month deposits in Euro.

RESPARC Terms shall mean the terms and conditions of the RESPARC Securities, a copy of which is attached to this Agreement as Schedule II.

RESPARC Securities shall mean the €500,000,000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities in the denomination of €1,000 each proposed to be issued by the Borrower on 28 May 2003.

Tax Deduction shall mean a deduction or withholding for or on account of Tax from a payment under this Agreement.

Tax Credit shall mean a credit against, relief or remission for, or repayment of any Tax.

Tax shall mean any tax, levy, impost, duty or other charge or withholding or a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

Silent Contribution has the meaning specified in the preamble.

Floating Period means each period from and including 1 January (commencing 1 January 2009) to but excluding the succeeding 1 January.

Variabler Zinssatz bezeichnet für jede Variable Periode einen Zinssatz p.a in Höhe des Referenzzinssatzes, der am Zinsfestlegungstag, der der Variablen Periode unmittelbar vorausgeht, festgelegt wird, zuzüglich einer Marge von 0,3%.

Vorzeitige Rückzahlung hat die in § 4.1 festgelegte Bedeutung.

Vorzeitiger Rückzahlungstag bezeichnet jeden Tag, an dem die Darlehensnehmerin ausstehende Darlehens-Auszahlungen gemäß § 4.1 vorzeitig zurückzahlt.

Wiedergutschrift hat die in der Präambel festgelegte Bedeutung.

Zinsfestlegungstag bezeichnet den 28. Dezember eines jeden Jahres, beginnend mit dem 28. Dezember 2008 (einschließlich), oder, falls dieser Tag kein Geschäftstag ist, den unmittelbar vorhergehenden Geschäftstag.

Zinssatz bedeutet (i) für die Feste Periode, einen Zinssatz von 4% p.a., und (ii) für jede Variable Periode den Variablen Zinssatz.

Zinszahlungen hat die in der Präambel genannte Bedeutung.

Zinszahlungsverpflichtungen bezeichnet die Verpflichtung der Darlehensnehmerin als Emittentin der RESPARC Securities, an jedem Fälligkeitstag Zinszahlungen an die Emissionsgläubiger zu leisten.

Floating Interest Rate means, for each Floating Period, a rate of interest per annum equal to the Reference Rate determined on the Rate Determination Date immediately preceding such Floating Period plus a margin of 0.3%.

Prepayment shall have the meaning specified in Section 4.1.

Prepayment Date shall mean each date on which the Borrower prepays outstanding Advances in accordance with Section 4.1.

Replenishment shall have the meaning specified in the preamble.

Rate Determination Date means 28 December of each year, commencing and including 28 December 2008 or, if such day is not a Business Day, the immediately preceding Business Day.

Rate of Interest means, (i) for the Fixed Period, a rate of interest per annum equal to 4% and, (ii) for each Floating Period, the Floating Interest Rate.

Coupon Payments shall have the meaning specified in the preamble.

Coupon Payment Obligations shall mean the obligation of the Borrower, as issuer of the RESPARC Securities, to make Coupon Payments to the Securityholders on each Due Date.

§ 2 Vertragsgegenstand

- 2.1** Die Darlehensgeberin verpflichte sich, nach Maßgabe der Bestimmungen dieses Vertrages, an jedem Zinszahltag und in Bezug auf jede Wiedergutschrift, sobald diese erfolgt, an den in § 2.2 genannten Tagen und in der in § 2.3 genannten Höhe Darlehens-Auszahlungen an die Darlehensnehmerin vorzunehmen.
- 2.2** Darlehens-Auszahlungen werden fällig an
- (a) jedem Tag, an dem eine Gewinnbeteiligungszahlung nach Maßgabe des Beteiligungsvertrages fällig wird; und
 - (b) jedem Tag, an dem eine Wiedergutschrift tatsächlich erfolgt.
- 2.3** Darlehens-Auszahlungen sind in der in diesem § 2 festgesetzten Höhe an die Darlehensnehmerin zahlbar und von dieser zurückzuzahlen.

§ 2 Loan Facility

- 2.1** Subject to, and upon the terms and conditions contained herein, the Lender agrees to make Advances to the Borrower on each Coupon Payment Date and in respect of each Replenishment as it arises, as applicable, on the dates specified in Section 2.2 and in the amounts specified in Section 2.3.
- 2.2** Advances shall become due on
- (a) each day on which a Profit Participation Payment becomes due under the Participation Agreement; and
 - (b) on each day on which a Replenishment is actually made.
- 2.3** Advances shall be payable to and repaid by the Borrower in the amounts stipulated in this Section 2.

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| <p>(a) Falls Darlehens-Auszahlungen gemäß § 2.2(a) fällig werden, sind diese in Höhe des Betrages, der dem Einbehalt von der Gewinnbeteiligungszahlung, die an dem betreffenden Auszahlungszahltag fällig wird, entspricht, an die Darlehensnehmerin in Euro zu zahlen und zurückzuzahlen.</p> <p>(b) Falls Darlehens-Auszahlungen gemäß § 2.2(b) fällig werden, sind diese in Höhe des Betrages, der dem Einbehalt von der Wiedergutschrift, die an dem betreffenden Auszahlungszahltag tatsächlich erfolgt, entspricht, an die Darlehensnehmerin in Euro zu zahlen und zurückzuzahlen.</p> | <p>(a) In the case of Advances falling due under Section 2.2(a), an Advance shall be payable to the Borrower in Euro in an amount corresponding to the Withholding on the Profit Participation Payment falling due on the relevant Advance Payment Date and such Advance shall be repaid in Euro.</p> <p>(b) In the case of Advances falling due under Section 2.2(b), an Advance shall be payable to the Borrower in Euro in an amount corresponding to the Withholding on the Replenishment being actually made on the Relevant Advance Payment Date and such Advance shall be repaid in Euro.</p> |
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| <p>2.4 Die Darlehensnehmerin wird die Erlöse aus jeder gemäß diesem Vertrag erhaltenen Darlehens-Auszahlung wie folgt verwenden:</p> <p>(a) im Fall von Darlehens-Auszahlungen, die gemäß § 2.2(a) fällig sind, zur Finanzierung ihrer Zinszahlungsverpflichtungen; und</p> <p>(b) im Fall von Darlehens-Auszahlungen, die gemäß § 2.2(b) fällig sind, zur weiteren Wiedergutschrift der Stillen Einlage.</p> | <p>2.4 The Borrower shall use the proceeds of each Advance obtained hereunder:</p> <p>(a) in the case of Advances falling due under Section 2.2(a), to fund its Coupon Payment Obligations; and</p> <p>(b) in the case of Advances falling due under Section 2.2(b), to further replenish the Silent Contribution.</p> |
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§ 3 Rückzahlung

Die Darlehensnehmerin wird das Darlehen am Endgültigen Rückzahlungstag vollständig zurückzahlen. Sämtliche Rückzahlungen müssen nach Maßgabe von § 2.3 erfolgen.

§ 3 Repayment

The Borrower shall repay the Loan in full on the Final Repayment Date. All repayments shall be made in accordance with Section 2.3.

§ 4 Vorzeitige Rückzahlung

- 4.1** Die Darlehensnehmerin ist verpflichtet, das Darlehen in Höhe des vollen Betrages aller Kapitaleinzahlungen, die sie von der Kommanditistin erhält, unverzüglich nach Erhalt der jeweiligen Kapitaleinzahlung zurückzuzahlen (jede solche Zahlung eine *Vorzeitige Rückzahlung*).
- 4.2** Die Darlehensnehmerin kann das Darlehen nach Eintritt eines Freiwilligen Vorzeitigen Rückzahlungsereignisses vorzeitig zurückzahlen, wenn sie die Darlehensgeberin mit einer Frist von mindestens fünf

§ 4 Prepayment

- 4.1** The Borrower shall be required to repay the Loan in the full amount of any Contribution Payment it receives from the Limited Partner promptly after receipt of the relevant Contribution Payment (each such payment a *Prepayment*).
- 4.2** The Borrower may prepay the Loan following a Voluntary Prepayment Event if it gives the Lender not less than five Business Days' (or such shorter period as the Lender may agree to) prior notice.

Geschäftstagen (oder derjenigen kürzeren Frist, der die Darlehensgeberin zustimmt) vorher benachrichtigt.

§ 5 Zinsen

- 5.1** Die Darlehensnehmerin zahlt Zinsen an die Darlehensgeberin, die gemäß diesem § 5 an jedem Vorzeitigen Rückzahlungstag und an dem Endgültigen Rückzahlungstag berechnet werden.
- 5.2** Zinsen fallen zum Zinssatz auf den Betrag des Darlehens an, der (klarstellungshalber) nicht die an dem unmittelbar vorhergehenden Vorzeitigen Rückzahlungstag geleistete Vorzeitige Rückzahlung umfasst.
- 5.3** Falls der Zeitraum zwischen dem unmittelbar vorhergehenden Vorzeitigen Rückzahlungstag (oder dem 28. Mai 2003 im Fall des ersten Vorzeitigen Rückzahlungstages) (einschließlich) und dem Vorzeitigen Rückzahlungstag (oder ggf. dem Endgültigen Rückzahlungstag) (ausschließlich), an dem eine Zinszahlung gemäß § 5.1 erfolgen soll, keinem vollen Jahr entspricht, wird der Zinssatz mit der tatsächlichen Anzahl von Tagen, die in diesem Zeitraum verstrichen sind, multipliziert und dividiert durch die tatsächliche Anzahl von Tagen in dem maßgeblichen Jahreszeitraum (365 bzw. 366).

§ 6 Steuerausgleich

- 6.1** In Bezug auf Steuern und Steuerabzüge:
- (a) wird die Darlehensnehmerin alle Zahlungen, die von ihr zu leisten sind, ohne Steuerabzug leisten, sofern nicht ein Steuerabzug gesetzlich vorgeschrieben ist;
 - (b) werden sich die Darlehensnehmerin und die Darlehensgeberin jeweils gegenseitig unverzüglich benachrichtigen, wenn eine von ihnen Kenntnis darüber erlangt, dass die Darlehensnehmerin zu einem Steuerabzug verpflichtet ist;
 - (c) wird die Darlehensnehmerin, falls sie zu einem Steuerabzug gesetzlich verpflichtet ist, den Betrag der von ihr zu leistenden Zahlung auf einen Betrag erhöhen, der so hoch ist, dass nach dem

§ 5 Interest

- 5.1** The Borrower shall make interest payments to the Lender to be calculated in accordance with this Section 5 on each Prepayment Date and on the Final Repayment Date.
- 5.2** Interest shall accrue at the Rate of Interest on the amount of the Loan, which (for the avoidance of doubt) shall not include the Prepayment made on the immediately preceding Prepayment Date.
- 5.3** If the period between (and including) the immediately preceding Prepayment Date (or 28 May 2003 in the case of the first Prepayment Date) and (excluding) the Prepayment Date (or, as the case may be, the Final Repayment Date) on which an interest payment is to be made in accordance with Section 5.1 does not correspond to a full year, the Rate of Interest shall be multiplied by the actual number of days elapsed during such period divided by the actual number of days (365 or 366) in the relevant annual period.

§ 6 Tax Indemnity

- 6.1** In relation to Tax and Tax Deductions:
- (a) the Borrower shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by applicable law;
 - (b) the Borrower or the Lender shall promptly notify the other upon becoming aware that the Borrower must make a Tax Deduction;
 - (c) if a Tax Deduction is required by applicable law to be made by the Borrower the amount of the payment due from the Borrower shall be increased to an amount which (after

Steuerabzug ein Betrag übrig bleibt, der der Zahlung entspricht, die fällig gewesen wäre, wenn keine Verpflichtung zu einem Steuerabzug bestanden hätte;

- (d) wird die Darlehensnehmerin, falls sie zu einem Steuerabzug verpflichtet ist, den Steuerabzug und jede im Zusammenhang mit dem Steuerabzug erforderliche Zahlung in der Frist und in dem Mindestbetrag, die/der gesetzlich vorgeschrieben sind, vornehmen; und
- (e) wird die Darlehensnehmerin der Darlehensgeberin innerhalb von dreißig Tagen nach Vornahme eines Steuerabzugs oder einer im Zusammenhang mit einem Steuerabzug erforderlichen Zahlung einen Nachweis übermitteln, dass der Steuerabzug oder ggf. eine angemessene Zahlung an die maßgeblichen Finanzbehörde erfolgt ist.

6.2 Die Darlehensnehmerin wird der Darlehensgeberin (innerhalb von drei Geschäftstagen nach Verlangen der Darlehensgeberin) einen Betrag zahlen, der dem Verlust, den Verbindlichkeiten oder den Kosten entspricht, die der Darlehensgeberin aufgrund der Steuern, die zu ihren Lasten erhoben wurden, entstanden sind, allerdings nach der Maßgabe, dass dieser § 6.2 nicht für Steuern gilt, die zu Lasten der Darlehensgeberin nach Luxemburger Gesetzen erhoben wurden, falls diese Steuern auf das von der Darlehensgeberin vereinnahmte oder ausstehende Nettoeinkommen (jedoch nicht Beträge, die als zu vereinnahmend oder ausstehend gelten) erhoben oder unter Bezugnahme darauf berechnet wurden.

6.3 Die Darlehensgeberin wird die Darlehensnehmerin in dem Fall, in dem sie eine Forderung gemäß § 6.2 stellt oder zu stellen beabsichtigt, über das Ereignis, das zum Entstehen der Forderung führen wird bzw. geführt hat, benachrichtigen.

6.4 Falls die Darlehensnehmerin eine Steuerzahlung leistet und die Darlehensgeberin feststellt, dass (a) dieser Steuerzahlung eine Steuergutschrift zugerechnet werden kann, und (b) die Darlehensgeberin diese Steuergutschrift erhalten, verwendet und einbehalten hat, wird die Darlehensgeberin der Darlehensnehmerin einen Betrag zahlen, der nach Feststellung der Darlehensgeberin diese (nach Zahlung) in dieselbe Lage nach Steuern versetzt, in der sie

making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required;

- (d) if the Borrower is required to make a Tax Deduction, it shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law; and
- (e) within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower shall deliver to the Lender evidence that the Tax Deduction had been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

6.2 The Borrower shall pay to the Lender (within three Business Days of demand by the Lender) an amount equal to the loss, liability or cost which the Lender suffers as a result of Tax assessed against it; provided that this Section 6.2 shall not apply with respect to any Tax assessed on the Lender under the laws of Luxembourg if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by the Lender.

6.3 The Lender shall, if it makes or intends to make a claim pursuant to Section 6.2, notify the Borrower of the event which will give, or has given, rise to the claim.

6.4 If the Borrower makes a Tax Payment and the Lender determines that (a) a Tax Credit is attributable to that Tax Payment and (b) the Lender has obtained, utilised and retained that Tax Credit, the Lender shall pay an amount to the Borrower which the Lender determines will leave it (after payment) in the same after-Tax position as it would have been in had the Tax Payment not been made by the Borrower.

gewesen wäre, wenn keine Steuerzahlung durch die Darlehensnehmerin erfolgt wäre.

- 6.5** Die Darlehensnehmerin wird der Darlehensgeberin alle Kosten, Verluste oder Verbindlichkeiten, die der Darlehensgeberin aufgrund jeglicher Stempelsteuern, Registrierungs und ähnlicher in Bezug auf diesen Vertrag zahlbarer Steuern entstanden sind, erstatten und sie innerhalb von drei Geschäftstagen nach Verlangen dafür entschädigen.

§ 7

Kosten und Auslagen

- 7.1** Die Darlehensnehmerin ist verpflichtet, der Darlehensgeberin sämtliche anfängliche Kosten und Auslagen, einschließlich Rechtsberatungsgebühren, die der Darlehensgeberin in Zusammenhang mit der Erstellung dieses Vertrages entstehen, sowie sämtliche mit der Wahrung oder Geltendmachung von Rechten der Darlehensgeberin aus diesem Vertrag verbundenen Kosten zu erstatten.
- 7.2** Die Darlehensnehmerin ist verpflichtet, die Darlehensgeberin für sämtliche Verluste (einschließlich entgangener Gewinne) und Verbindlichkeiten zu entschädigen, die dieser dadurch, dass eine Zahlung nicht am Tag ihrer Fälligkeit geleistet wird, entstehen.

§ 8

Zusicherungen und Gewährleistungen

Die Darlehensnehmerin gibt der Darlehensgeberin gegenüber die in diesem § 8 aufgeführten Zusicherungen und Gewährleistungen zum Datum dieses Vertrages ab.

- 8.1** Die Darlehensnehmerin ist eine nach dem Recht Jerseys ordnungsgemäß errichtete und wirksam bestehende *Limited Partnership*.
- 8.2** Die Darlehensnehmerin ist befugt, ihr eigenes Vermögen zu besitzen und ihre Geschäfte, so wie sie geführt werden, weiterzuführen.
- 8.3** Die Verpflichtungen, die die Darlehensnehmerin nach Maßgabe dieses Vertrages übernimmt, sind wirksame, rechtsverbindliche und durchsetzbare Verpflichtungen.
- 8.4** Der Abschluss dieses Vertrages und die Durchführung der hierin vorgesehenen Transaktionen durch die Darlehensnehmerin

- 6.5** The Borrower shall pay and, within three Business Days of demand, indemnify the Lender against any cost, loss or liability that the Lender incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of this Agreement.

§ 7

Costs and Expenses

- 7.1** The Borrower must pay to the Lender the amount of all initial costs and expenses, including legal fees, incurred by the Lender in connection with the preparation of this Agreement, as well as all costs associated with the preservation or enforcement of the Lender's rights under this Agreement.
- 7.2** The Borrower must indemnify the Lender for all losses (including profits foregone) and liabilities it may suffer as a result of a payment not being made on its due date.

§ 8

Representations and Warranties

The Borrower makes the representations and warranties set out in this Section 8 to the Lender on the date of this Agreement.

- 8.1** The Borrower is a limited partnership duly registered and validly existing under the laws of Jersey.
- 8.2** The Borrower has the power to own its assets and carry on its business as it is being conducted.
- 8.3** The obligations expressed to be assumed by the Borrower in this Agreement are legal valid, binding and enforceable obligations.
- 8.4** The entry into and performance by the Borrower of, and the transactions contemplated by, this Agreement do not and will not conflict with:

stehen gegenwärtig und künftig nicht im Widerspruch zu:

- (a) einem Gesetz oder einer Vorschrift, das bzw. die darauf anwendbar ist bzw. sind;
- (b) einer Vereinbarung oder einem Instrument, durch das sie oder ihr Vermögen gebunden wird.

8.5 Die Darlehensnehmerin ist befugt, diesen Vertrag und die darin vorgesehenen Transaktionen abzuschließen, zu vollziehen und zu erfüllen und hat alle erforderlichen Maßnahmen ergriffen, um diese Befugnis zu erhalten.

8.6 Sämtliche Genehmigungen, die erforderlich oder wünschenswert sind,

- (a) damit die Darlehensnehmerin diesen Vertrag rechtmäßig abschließen, ihre Rechte daraus ausüben und ihre Verpflichtungen danach erfüllen kann; und
- (b) um diesen Vertrag in Deutschland, Jersey und Luxemburg als Beweismittel zulässig zu machen,

wurden eingeholt oder in Kraft gesetzt und sind uneingeschränkt wirksam.

8.7 Ihre Zahlungsverpflichtungen aufgrund dieses Vertrages sind mindestens gleichrangig mit allen anderen unbesicherten und nicht nachrangigen Forderungen ihrer anderen Gläubiger, mit Ausnahme von Verpflichtungen, die aufgrund zwingenden Gesetzesrechts vorrangig sind.

- (a) any law or regulation applicable to it;

- (b) any agreement or instrument binding upon it or its assets.

8.5 The Borrower has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, this Agreement and the transactions contemplated by this Agreement.

8.6 All Authorisations required or desirable:

- (a) to enable the Borrower lawfully to enter into, exercise its rights and comply with its obligations in this Agreement; and
- (b) to make this Agreement admissible in evidence in Germany, Jersey and Luxembourg

have been obtained or effected and are in full force and effect.

8.7 Its payment obligations under this Agreement rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to it.

§ 9

Allgemeine Verpflichtungen

Die Verpflichtungen in diesem § 9 bleiben vom Datum dieses Vertrages an solange in Kraft, wie Darlehens-Auszahlungen gemäß diesem Vertrag ausstehen.

9.1 Die Darlehensnehmerin wird sämtliche Genehmigungen, die gemäß irgendeinem Gesetz oder einer Vorschrift erforderlich sind, um sie in die Lage zu versetzen, ihre Verpflichtungen aufgrund dieses Vertrages zu erfüllen und die Rechtmäßigkeit, Wirksamkeit, Durchsetzbarkeit und Zulässigkeit dieses Vertrages als Beweismittel in Deutschland sicherzustellen, unverzüglich einholen, einhalten und alles Erforderliche unternehmen, damit diese uneingeschränkt wirksam bleiben.

§ 9

General Undertakings

The undertakings in this Section 9 shall remain in force from the date of this Agreement for so long as any Advance is outstanding under this Agreement.

9.1 The Borrower shall promptly obtain, comply with and do all that is necessary to maintain in full force and effect any Authorisation required under any law or regulation to enable it to perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Germany of this Agreement.

9.2 The Borrower shall comply in all respects with all laws to which it may be subject, if failure so

- 9.2** Die Darlehensnehmerin wird sämtliche Gesetze, denen sie gegebenenfalls unterliegt, in jeder Hinsicht einhalten soweit die Nichteinhaltung solcher Gesetze ihre Fähigkeit zur Erfüllung ihrer Verpflichtungen aufgrund dieses Vertrages erheblich beeinträchtigen würde.

§ 10

Begebung weiteren Haftkapitals

- 10.1** Jedes der in diesem § 10.1 genannten Ereignisse oder Umstände ist ein Kündigungsgrund.

- (a)** Die Darlehensnehmerin zahlt einen gemäß diesem Vertrag fälligen Betrag nicht am Fälligkeitstag an dem Ort und in der Währung, die für die Zahlung vorgesehen sind, es sei denn, dass:
 - (i)** ihre Nichtzahlung auf einem administrativen oder technischen Fehler beruht; und
 - (ii)** die Zahlung innerhalb von fünf Geschäftstagen nach dem Fälligkeitstag erfolgt.
- (b)** Die Darlehensnehmerin erfüllt irgendeine Bestimmung dieses Vertrages nicht (mit Ausnahme der in § 10.1(a) genannten), es sei denn, dass:
 - (i)** die Nichterfüllung geheilt werden kann und innerhalb von fünf Geschäftstagen geheilt wird, nachdem die Darlehensgeberin die Darlehensnehmerin benachrichtigt hat oder die Darlehensnehmerin von ihrer Nichterfüllung Kenntnis erlangt; oder
 - (ii)** dieses Ereignis keine erheblichen Auswirkungen auf die Fähigkeit der Darlehensnehmerin zur Leistung von Zinszahlungen und Tilgungszahlungen gemäß diesem Vertrag hat.
- (c)** Eine Zusicherung oder Erklärung, die von der Darlehensnehmerin in diesem Vertrag abgegeben wurde bzw. als abgegeben gilt, ist oder erweist sich in irgendeiner wesentlichen Hinsicht als zum Zeitpunkt der Abgabe oder angenommenen Abgabe unrichtig oder irreführend, es sei denn, dass die

to comply would materially impair its ability to perform its obligations under this Agreement.

§ 10

Events of Default and Acceleration

- 10.1** Each of the events or circumstances set out in this Section 10.1 is an Event of Default.

- (a)** The Borrower does not pay on the due date any amount payable pursuant to this Agreement at the place and in the currency in which it is expressed to be payable unless:
 - (i)** its failure to pay is caused by administrative or technical error; and
 - (ii)** payment is made within five Business Days of its due date.
- (b)** The Borrower does not comply with any provision of this Agreement (other than those referred to in Section 10.1(a)), unless
 - (i)** the failure to comply is capable of remedy and is remedied within five Business Days of the Lender giving notice to the Borrower or the Borrower becoming aware of its failure to comply; or
 - (ii)** such event will not materially affect the Borrower's ability to make interest payments and principal repayments under this Agreement.
- (c)** Any representation or statement made or deemed to be made by the Borrower in this Agreement is or proves to have been incorrect or misleading in any material respect when made or deemed to be made, unless the facts and circumstances giving rise to the misrepresentation materially affect the

Tatsachen und Umstände, die die falsche Darstellung verursacht haben, keine erheblichen Auswirkungen auf die Fähigkeit der Darlehensnehmerin zur Leistung von Zinszahlungen und Tilgungszahlungen gemäß diesem Vertrag haben.

Borrower's ability to make interest payments and principal repayments under this Agreement.

10.2 Bei und jederzeit nach Eintritt eines Kündigungsgrundes, der fortbesteht, kann die Darlehensgeberin durch Mitteilung an die Darlehensnehmerin:

- (a) das Darlehen und alle unter diesem Vertrag angefallenen Beträge unverzüglich ganz oder teilweise fällig stellen, woraufhin diese unverzüglich fällig werden; und/oder
- (b) das Darlehen ganz oder teilweise für auf Verlangen zahlbar erklären, woraufhin es auf Verlangen der Darlehensgeberin unverzüglich fällig wird.

10.2 On and at any time after the occurrence of an Event of Default which is continuing, the Lender may by notice to the Borrower:

- (a) declare that all or part of the Loan and all other amounts accrued under this Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- (b) declare that all or part of the Loan be payable on demand, whereupon they shall immediately become payable on demand by the Lender.

§ 11 Wechsel der Parteien

Weder die Darlehensgeberin noch die Darlehensnehmerin sind berechtigt, irgendwelche ihrer jeweiligen Rechte aus diesem Vertrag, wie zutreffend, abzutreten oder zu übertragen oder irgendwelche ihrer jeweiligen Verpflichtungen aufgrund dieses Vertrages zu übertragen.

§ 11 Changes to the Parties

Neither the Lender nor the Borrower may assign or transfer, as applicable, any of their respective rights or transfer any of their respective obligations under this Agreement.

§ 12 Zahlungen

12.1 Die Darlehensgeberin und die Darlehensnehmerin sind nicht berechtigt, fällige Verpflichtungen, die eine von ihnen schuldet, gegen eine fällige Verpflichtung aufzurechnen, die die andere von ihnen schuldet, unabhängig vom Zahlungsort oder der Währung jeder Verpflichtung oder ob diese sich auf diesen Vertrag bezieht oder nicht.

12.2 Jede Zahlung, die an einem Tag fällig ist, der kein Geschäftstag ist, hat am darauf folgenden Geschäftstag zu erfolgen.

§ 12 Payments

12.1 The Lender and the Borrower shall not set off any matured obligations due from the other against any matured obligation owed by the other, regardless of the place of payment or currency of either obligation or whether related to this Agreement or not.

12.2 Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day.

§ 13 Kommunikation

Jede Mitteilung gemäß diesem Vertrag muss schriftlich erfolgen und per Einschreiben, Kurier, bestätigt

§ 13 Notices

Any notice to be given under this Agreement shall be in writing and shall be delivered to or sent by

Sendung oder Fax zu Händen der nachstehend genannten Personen an die jeweiligen Anschriften der Parteien oder die in diesem Vertrag genannten eingetragenen Sitze oder, bei Sendung per Fax, an die jeweils nachstehend genannten Nummern gesendet bzw. übermittelt werden:

Lender:

Landesbank Schleswig-Holstein Girozentrale –
Luxembourg Branch
Attention: Mr. Wolfgang Dürr
2 Rue Jean Monnet
2180 Luxembourg
Luxembourg
Fax: +352 427040

Borrower:

RESPARCS Funding II Limited Partnership
Attention: MIFA Corporate 3
22 Grenville Street
St. Helier, Jersey JE4 8PX
Channel Islands
Fax: +44 (0) 1534 609 333

registered, special delivery or recorded post or by facsimile transmission for the attention of the persons set out below to the parties' respective addresses or registered offices as set out in this Agreement or, in the case of facsimile transmission, to the respective numbers set out below:

Lender:

Landesbank Schleswig-Holstein Girozentrale –
Luxembourg Branch
Attention: Mr. Wolfgang Dürr
2 Rue Jean Monnet
2180 Luxembourg
Luxembourg
Fax: +352 427040

Borrower:

RESPARCS Funding II Limited Partnership
Attention: MIFA Corporate 3
22 Grenville Street
St. Helier, Jersey JE4 8PX
Channel Islands
Fax: +44 (0) 1534 609 333

§ 14

Teilunwirksamkeit

Sollte irgendeine Bestimmung dieses Vertrages aus irgendeinem Grund unwirksam, ungesetzlich oder undurchsetzbar sein, gilt sie als durch diejenige wirksame, gesetzliche und durchsetzbare Bestimmung ersetzt, die der in der betreffenden Bestimmung niedergelegten Absicht der Parteien soweit wie möglich nahe kommt, und die Wirksamkeit, Gesetzlichkeit und Durchsetzbarkeit der übrigen Bestimmungen dieses Vertrages wird hierdurch in keiner Weise berührt oder beeinträchtigt.

§ 15

Änderungen und Verzichtserklärungen

Eine Änderung oder Verzichtserklärung in Bezug auf irgendeine Bestimmung dieses Vertrages ist nur mit schriftlicher Zustimmung der Darlehensgeberin und der Darlehensnehmerin möglich.

§ 16

Schlussbestimmungen

16.1 Dieser Vertrag unterliegt dem Recht der Bundesrepublik Deutschland und die Parteien unterwerfen sich unwiderruflich dem Landgericht Frankfurt am Main als nichtausschließlichem Gerichtsstand.

§ 14

Severability

Should any provision of this Agreement be found invalid, illegal or unenforceable for any reason, it is to be deemed replaced by the valid, legal and enforceable provision most closely approximating the intent of the parties, as expressed in such provision, and the validity, legality and enforceability of the remainder of this Agreement shall in no way be affected or impaired thereby.

§ 15

Amendments and Waivers

Any term of this Agreement may be amended or waived only with the written consent of the Lender and the Borrower.

§ 16

Final Clauses

16.1 This Agreement shall be governed by, and construed in accordance with, the laws of the Federal Republic of Germany and the parties irrevocably submit to the non-exclusive jurisdiction of the district court (Landgericht) Frankfurt am Main.

16.2 Dieser Vertrag kann in mehreren Ausfertigungen und durch die Parteien in getrennten Ausfertigungen unterzeichnet und übergeben werden, von denen jede ein Original darstellt, jedoch alle zusammen ein und dasselbe Instrument bilden.

16.3 Die deutsche Fassung dieses Vertrages ist bindend.

Anlage I – Beteiligungsvertrag

Anlage II – Emissionsbedingungen der RESPARC Securities

16.2 This Agreement may be executed and delivered in any number of counterparts and by the parties on separate counterparts, each of which is an original, but all of which taken together constitute one and the same instrument.

16.3 The German version of this Agreement shall be the binding version.

Schedule I – Participation Agreement

Schedule II – Terms and Conditions of the RESPARC Securities

TERMS AND CONDITIONS OF THE SUPPORT UNDERTAKING

THE GERMAN TEXT OF THE SUPPORT UNDERTAKING IS LEGALLY BINDING.

THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY.

DIESER VERTRAG wird am 26 Mai 2003 abgeschlossen zwischen:

- (1) **LANDESBANK SCHLESWIG-HOLSTEIN INTERNATIONAL S.A.**, einer nach dem Recht Luxemburgs errichteten *société anonyme* mit Sitz in 2, rue Jean Monnet, 2180 Luxembourg, Luxembourg (die **Patronin**); und
- (2) **RESPARCS FUNDING II LIMITED PARTNERSHIP**, einer nach dem Recht Jerseys errichteten Kommanditgesellschaft (Limited Partnership) mit eingetragenem Sitz in 22 Grenville Street, St. Helier, Jersey JE4 8PX, Kanalinseln, (die **Emittentin**), handelnd durch ihre Komplementärin (General Partner) European Capital Investment Opportunities Limited.

PRÄAMBEL

- (A) Die Emittentin wurde am 17. April 2003 bei der Financial Services Commission Jersey registriert und als Kommanditgesellschaft (*limited partnership*) nach dem Recht von Jersey errichtet. Die alleinigen Gesellschafter der Darlehensnehmerin sind die Emittenten-Komplementärin und die Emittenten-Kommanditistin.
- (B) Die Patronin ist mit der Kommanditistin nicht verbunden.
- (C) Die Emittentin beabsichtigt die RESPARC Securities zu begeben, deren Erlös sie für den Erwerb einer stillen Beteiligung an dem Handelsgewerbe der Bank in Form einer Stillen Gesellschaft nach deutschem Recht nach Maßgabe eines Vertrages vom 23. Mai 2003 (der **Beteiligungsvertrag**) verwenden wird, der vorsieht, dass die Emittentin eine Vermögenseinlage in Höhe von €500.000.000 in die Bank einbringt (die **Stille Einlage**).
- (D) Als Gegenleistung für die Stille Einlage erhält die Emittentin Gewinnbeteiligungen, die jeweils jährlich auf der Grundlage des Nennbetrages der Stillen Einlage der Emittentin für jedes Geschäftsjahr der Bank ermittelt und nach Maßgabe des Beteiligungsvertrages jährlich nachträglich ausgeschüttet werden (**Gewinnbeteiligungszahlungen**).

THIS AGREEMENT is made on 26 May 2003 between:

- (1) **LANDESBANK SCHLESWIG-HOLSTEIN INTERNATIONAL S.A.**, a limited company (*société anonyme*) established under the laws of Luxembourg whose registered office is at 2, rue Jean Monnet, 2180 Luxembourg, Luxembourg (**Support Provider**); and
- (2) **RESPARCS FUNDING II LIMITED PARTNERSHIP**, a limited partnership established under the laws of Jersey whose registered office is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands (the **Issuer**) acting through its general partner European Capital Investment Opportunities Limited:

WHEREAS

- (A) The Issuer was registered with the Jersey Financial Services Commission and established as a Limited Partnership under Jersey law on 17 April 2003. The Issuer's sole partners are the Issuer General Partner and the Issuer Limited Partner.
- (B) The Support Provider is unaffiliated with the Issuer Limited Partner.
- (C) The Issuer proposes to issue the RESPARC Securities, the proceeds of which will be used to acquire a silent capital interest in the commercial enterprise (*Handelsgewerbe*) of the Bank in the form of a *Stille Gesellschaft* under German law pursuant to an agreement providing for an asset contribution by the Issuer to the Bank in the amount of €500,000,000 (the **Silent Contribution**) and dated 23 May 2003 (the **Participation Agreement**).
- (D) In return for the Silent Contribution, the Issuer will earn profit participations calculated annually on the basis of the nominal amount of the Issuer's Silent Contribution for each fiscal year of the Bank and, subject to the terms of the Participation Agreement, payable annually in arrear (the **Profit Participation Payments**).

- (E) Gewinnbeteiligungszahlungen und Wiedergutschriften der Stillen Einlage nach einer Herabsetzung ihres Buchwerts nach Maßgabe des Beteiligungsvertrages unterliegen der deutschen Kapitalertragsteuer zuzüglich Solidaritätszuschlag, die von der Bank einzubehalten und an die deutschen Finanzbehörden abzuführen sind. Diese Einbehalte (jeweils ein **Einbehalt**) gelten, soweit sie nach deutschem Steuerrecht der Emittenten-Kommanditistin zuzurechnen sind, als Vorauszahlung auf die von der Emittenten-Kommanditistin geschuldete deutsche Einkommensteuer.
- (F) Die Emittenten-Kommanditistin rechnet in ihrer Eigenschaft als *limited partner* der Emittentin in jedem Jahr mit Steuererstattungsansprüchen gegenüber den deutschen Finanzbehörden (jeweils ein **Kommanditisten-Steuererstattungsanspruch**) in Höhe der Beträge, um die die Vorauszahlungen in Form der Einbehalte die jeweilige tatsächliche Einkommensteuerschuld der Emittenten-Kommanditistin in Deutschland überschreiten.
- (G) Zum Datum dieses Vertrages haben die LB Kiel Luxemburg und die Emittentin einen Darlehensvertrag (**Darlehensvertrag**) abgeschlossen, gemäß dem die Emittentin berechtigt ist, Darlehens-Auszahlungen (jeweils eine **Darlehens-Auszahlung**) in Höhe des Betrages der jeweiligen Einbehalte von den Gewinnbeteiligungszahlungen und jeweiligen Wiedergutschriften der Stillen Einlage nach Herabsetzung ihres Buchwertes nach Maßgabe des Beteiligungsvertrages zur Finanzierung ihrer Verpflichtungen zu Zinszahlungen auf die RESPARC Securities und zur vollständigen Wiedergutschrift der Stillen Einlage nach einer solchen Herabsetzung zu erhalten.
- (H) In einem Vertrag zwischen der Emittenten-Komplementärin und der Emittenten-Kommanditistin, der das gleiche Datum wie dieser Vertrag trägt (**Einzahlungsvertrag**), verpflichtet sich die Emittenten-Kommanditistin zugunsten der Emittentin, sämtliche Beträge, die sie von den deutschen Finanzbehörden in Bezug auf die Kommanditisten-Steuererstattungsansprüche erhält, an die Darlehensnehmerin zu zahlen (jeweils eine Kapitaleinzahlung).
- (I) Zinszahlungen (**Zinszahlungen**) und Kapitalzahlungen (**Kapitalzahlungen**) auf die RESPARC Securities sind davon abhängig, ob die Emittentin (i) Gewinnbeteiligungszahlungen
- (E) Profit Participation Payments and replenishments of the Silent Contribution after reduction of its book value in accordance with the Participation Agreement are subject to German Investment Income Tax plus the “solidarity surcharge” to be withheld and transferred by the Bank to the German tax authorities. These withholdings (each a **Withholding**), to the extent attributable to the Issuer Limited Partner under German tax laws, will be counted as a prepayment towards the German income tax owed by the Issuer Limited Partner.
- (F) The Issuer Limited Partner, in its capacity as the limited partner of the Issuer, expects to be, for each tax year, entitled to refund claims against the German tax authorities (each a **Limited Partner Tax Refund Claim**) in the amount by which the prepayments in the form of the Withholdings exceed the Issuer Limited Partner’s actual German income tax liability.
- (G) On the date hereof, LB Kiel Luxembourg and the Issuer have entered into a loan agreement (**Loan Agreement**) under which the Issuer is entitled to draw down advances (each an **Advance**) corresponding to the relevant withholdings on the Profit Participation Payments and replenishments of the Silent Contribution after reduction of its book value in accordance with the Participation Agreement in order to fund its obligations to pay Coupon Payments under the RESPARC Securities and to fully replenish the Silent Contribution after such a reduction.
- (H) In an agreement between the Issuer General Partner and the Issuer Limited Partner dated the date hereof (**Contribution Agreement**), the Limited Partner undertakes, for the benefit of the Issuer, to contribute to the Issuer amounts it receives from the German Tax authorities on account of the Limited Partner Tax Refund Claims (each such contribution a **Contribution Payment**).
- (I) Coupon payments (**Coupon Payments**) and capital payments (**Capital Payments**) under the RESPARC Securities are conditional upon receipt by the Issuer of (i) Profit Participation

und Rückzahlungsbeträge gemäß dem Beteiligungsvertrag von der Bank und (ii) Darlehens-Auszahlungen gemäß dem Darlehensvertrag von der LB Kiel Luxembourg erhalten hat.

- (J) Die Patronin beabsichtigt sich zugunsten der Emittentin und der Inhaber der RESPARC Securities zu verpflichten, dass die Emittentin jederzeit in der Lage ist, ihre Verpflichtungen, einschließlich ihrer Verpflichtung zu Zinszahlungen (einschließlich ggf. darauf anfallender Zusätzlicher Beträge) und zu Kapitalzahlungen (einschließlich ggf. darauf anfallender Zusätzlicher Beträge), zu erfüllen.

AUF DIESER GRUNDLAGE WIRD FOLGENDES VEREINBART:

§ 1 Definitionen

BAFin bezeichnet die Bundesanstalt für Finanzdienstleistungsaufsicht oder eine etwaige Nachfolgebehörde, die an deren Stelle tritt.

Bank bezeichnet die Landesbank Schleswig-Holstein Girozentrale, ein nach dem Recht des Bundeslandes Schleswig-Holstein errichtetes öffentlichrechtliches Kreditinstitut mit eingetragenem Sitz in Martensdamm 6, 24103 Kiel, das mit wirtschaftlicher Rückwirkung zum 1. Januar 2003 mit der Hamburgischen Landesbank Girozentrale zur HSH Nordbank Aktiengesellschaft mit Sitz in Hamburg und Kiel im Wege der Verschmelzung zur Neugründung verschmolzen werden soll.

Beteiligungsvertrag hat die in der Präambel festgelegte Bedeutung.

Darlehens-Auszahlung hat die in der Präambel festgelegte Bedeutung.

Darlehensvertrag hat die in der Präambel festgelegte Bedeutung.

Einbehalt hat die in der Präambel festgelegte Bedeutung.

Einzahlungsvertrag hat die in der Präambel festgelegte Bedeutung.

Emittenten-Kommanditistin bezeichnet die European Equity Participation Management GmbH, eine nach deutschem Recht errichtete Gesellschaft mit beschränkter Haftung mit Sitz Luruper Chaussee 125, 22761 Hamburg, Deutschland, die der Limited Partner der Emittentin im Sinne des Limited Partnership (Jersey) Law 1994 in der jeweils aktuellen Fassung ist.

Payments and repayment amounts from the Bank under the Participation Agreement and (ii) Advances from LB Kiel Luxembourg under the Loan Agreement.

- (J) The Support Provider wishes to undertake for the benefit of the Issuer and the holders of RESPARC Securities that the Issuer will at all times be in a position to meet its obligations, including its obligation to make the Coupon Payments (including Additional Amounts thereon, if any) and the Capital Payments (including Additional Amounts thereon, if any).

NOW THEREFORE, IT IS AGREED AS FOLLOWS:

§ 1 Definitions

BAFin shall mean the German Financial Services Supervisory Authority or any successor agency taking its place.

Bank shall mean Landesbank Schleswig-Holstein Girozentrale, a public banking institution established under the laws of the German federal state Schleswig-Holstein whose registered office is at Martensdamm 6, 24103 Kiel, Germany, which is intended to be merged with Hamburgische Landesbank Girozentrale into HSH Nordbank Aktiengesellschaft with retroactive effect as of 1 January 2003 by way of a merger into a newly established entity.

Participation Agreement has the meaning specified in the preamble.

Advance has the meaning specified in the preamble.

Loan Agreement has the meaning specified in the preamble.

Withholding has the meaning specified in the preamble.

Contribution Agreement has the meaning specified in the preamble.

Issuer Limited Partner shall mean European Equity Participation Management GmbH, a limited liability company incorporated under the laws of Germany whose registered office is at Luruper Chaussee 125, 22761 Hamburg, Germany, the Issuer's limited partner within the meaning of the Limited Partnerships (Jersey) Law 1994, as amended.

Emittenten-Komplementärin bezeichnet die European Capital Investment Opportunities Limited, eine nach dem Recht Jerseys errichtete Gesellschaft mit beschränkter Haftung mit Sitz 22 Grenville Street, St. Helier, Jersey, Kanalinseln, die der General Partner der Emittentin im Sinne des Limited Partnership (Jersey) Law 1994 in der jeweils aktuellen Fassung ist.

Emittentin hat die in der Präambel festgelegte Bedeutung.

Gewinnbeteiligungszahlungen hat die in der Präambel festgelegte Bedeutung.

Kapitaleinzahlung hat die in der Präambel festgelegte Bedeutung.

Kapitaleinzahlungsansprüche bezeichnet die Ansprüche der Emittentin auf Leistung der Kapitaleinzahlungen nach Maßgabe des Einzahlungsvertrages.

Kapitalertragsteuer bezeichnet nach Maßgabe von § 43 EstG einbehaltene Kapitalertragsteuer.

Kapitalzahlungen hat die in der Präambel festgelegte Bedeutung.

Kommanditisten-Steuererstattungsanspruch hat die in der Präambel festgelegte Bedeutung.

LB Kiel Luxemburg bedeutet die Bank, handelnd durch ihre Luxemburger Zweigniederlassung.

Patronin hat die in der Präambel festgelegte Bedeutung.

RESPARC Bedingungen bezeichnet die Emissionsbedingungen der RESPARC Securities, von denen eine Abschrift diesem Vertrag als Anlage I beigelegt wurde.

RESPARC Securities bezeichnet die €500.000.000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities mit einem Nennbetrag von jeweils €1.000, die die Darlehensnehmerin am 28. Mai 2003 auszugeben beabsichtigt.

Stille Einlage hat die in der Präambel festgelegte Bedeutung.

Zinszahlungen hat die in der Präambel genannte Bedeutung.

Zusätzliche Beträge hat die in § 10 der RESPARC Bedingungen festgelegte Bedeutung.

Issuer General Partner shall mean European Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Jersey whose registered office is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, the Issuer's general partner within the meaning of the Limited Partnerships (Jersey) Law 1994, as amended.

Issuer has the meaning specified in the preamble.

Profit Participation Payments has the meaning specified in the preamble.

Contribution Payment has the meaning specified in the preamble.

Contribution Payment Claims shall mean the Issuer's claims for payment of the Contribution Payments under the Contribution Agreement.

German Investment Income Tax shall mean German investment income tax levied in accordance with § 43 German Income Tax Act.

Capital Payments has the meaning specified in the preamble.

Limited Partner Tax Refund Claim has the meaning specified in the preamble.

LB Kiel Luxembourg shall mean the Bank, acting through its Luxembourg branch.

Support Provider has the meaning specified in the preamble.

RESPARC Terms shall mean the terms and conditions of the RESPARC Securities, a copy of which is attached to this Agreement as Schedule I.

RESPARC Securities shall mean the €500,000,000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities in the denomination of €1,000 each proposed to be issued by the Borrower on 28 May 2003.

Silent Contribution has the meaning specified in the preamble.

Coupon Payments shall have the meaning specified in the preamble.

Additional Amounts has the meaning specified in Section 10 of the RESPARC Terms.

§ 2
Vertragsgegenstand

- 2.1** Die Patronin verpflichtet sich sicherzustellen, dass die Emittentin jederzeit in der Lage ist, ihre Verpflichtungen bei Fälligkeit zu erfüllen, einschließlich ihrer Verpflichtungen zu Zinszahlungen (einschließlich Zusätzlicher Beträge in Bezug darauf) und Kapitalzahlungen (einschließlich Zusätzlicher Beträge in Bezug darauf) bei jeweiliger Fälligkeit.
- 2.2** Die Verpflichtungen der Patronin aufgrund dieses § 2 sind gegenüber allen vorrangigen und nachrangigen schuldrechtlichen Verpflichtungen der Patronin nachrangig.
- 2.3** Es bestehen keine Verpflichtungen der Patronin aufgrund dieses § 2, soweit der Bank eine solche Zahlung nicht gestattet wäre, wenn die betreffende Verpflichtung (a) eine eigene Verpflichtung der Bank und (b) mit den Verpflichtungen der Bank aufgrund des Beteiligungsvertrages gleichrangig wäre.
- 2.4** Dieser Vertrag ist keine Garantie und keine sonst wie geartete Verpflichtung, dass die Emittentin zu jeglichem Zeitpunkt über ein ausreichendes Vermögen verfügt oder gemäß den RESPARC Bedingungen die Befugnis besitzt, um Zinszahlungen (einschließlich Zusätzlicher Beträge in Bezug darauf) und Kapitalzahlungen (einschließlich Zusätzlicher Beträge in Bezug darauf) bei jeweiliger Fälligkeit zu leisten.

§ 3
Drittbegünstigte und Geltendmachung von Rechten

Die Parteien dieses Vertrages vereinbaren, dass dieser Vertrag als echter Vertrag zugunsten Dritter gemäß § 328 Abs. 2 BGB zugunsten der Emittentin und aller gegenwärtigen und zukünftigen Inhaber der RESPARC Securities abgeschlossen wird und dass die Emittentin und jeder Inhaber von RESPARC Securities die Verpflichtungen der Bank gemäß § 2 unabhängig voneinander geltend machen kann.

§ 2
Support Undertaking; Subordination

- 2.1** The Support Provider undertakes to ensure that the Issuer will at all times be in a position to meet its obligations if and when such obligations are due and payable, including its obligations to make Coupon Payments (including Additional Amounts thereon) and Capital Payments (including Additional Amounts thereon) as and when due.
- 2.2** The obligations of the Support Provider under this Section 2 will be subordinated to all senior and subordinated debt obligations of the Support Provider.
- 2.3** There shall be no obligations of the Support Provider under this Section 2 to the extent that the Bank would not be allowed such a payment if the relevant obligation (a) were the Bank's own obligation and (b) would rank *pari passu* with the Bank's obligations under the Participation Agreement.
- 2.4** This Agreement shall not constitute a guarantee or undertaking of any kind that the Issuer will at any time have sufficient assets, or be authorised pursuant to the RESPARC Terms, to make Coupon Payments (including Additional Amounts thereon) and Capital Payments (including Additional Amounts thereon) as and when due.

§ 3
Third Party Beneficiaries and Enforcement of Rights

The parties hereto agree that this Agreement is entered into as a third party beneficiary contract within the meaning of Section 328(2) of the German Civil Code (*echter Vertrag zugunsten Dritter gem. § 328 Abs. 2 Bürgerliches Gesetzbuch*) for the benefit of the Issuer and all current and future holders of the RESPARC Securities and that the Issuer and any holder of any such RESPARC Securities may severally enforce the obligations of the Bank under Section 2.

§ 4

Nichtausübung von Rechten

Die Patronin wird solange kein Recht auf Aufrechnung, Gegenforderung oder Subrogation, das sie gegebenenfalls gegenüber der Emittentin besitzt, ausüben, wie RESPARC Securities ausstehen.

§ 4

No Exercise of Rights

The Support Provider will not exercise any right of set-off, counterclaim or subrogation that it may have against the Issuer as long as any RESPARC Securities are outstanding.

§ 5

Anscheinsbeweis; Beweislast

- 5.1** Jedwede Nichtleistung der Emittentin von Zinszahlungen (und Zusätzlicher Beträge in Bezug darauf) oder Kapitalzahlungen (und Zusätzlicher Beträge in Bezug darauf) bei Fälligkeit gilt als Anscheinsbeweis eines Verstoßes der Patronin gegen ihre Verpflichtungen aufgrund dieses Vertrages.
- 5.2** Die Patronin trägt die Beweislast, dass der Eintritt eines solchen Verstoßes weder auf einem fahrlässigen noch vorsätzlichen Fehlverhalten ihrerseits beruht.

§ 5

Prima Facie Evidence; Burden of Proof

- 5.1** Any failure of the Issuer to make Coupon Payments (plus Additional Amounts thereon) or Capital Payments (plus Additional Amounts thereon) as and when such amounts are due shall constitute *prima facie* evidence of a breach by the Support Provider of its obligations hereunder.
- 5.2** The Support Provider shall have the burden of proof that the occurrence of such breach results neither from its negligent nor its intentional misconduct.

§ 6

Unterlassungsverpflichtung

Die Patronin verpflichtet sich, keine Garantie oder ähnliche Versprechen in Bezug auf mit Verpflichtungen aufgrund des Beteiligungsvertrages gleichrangigen Verpflichtungen der Bank abzugeben, oder eine Vereinbarung zu deren Sicherung oder Zahlung von Beträgen darauf abzuschließen, wenn eine solche Garantie, ein solches Versprechen oder eine solche Vereinbarung in irgendeiner Hinsicht in Bezug auf den Zahlungsanspruch vor ihren Verpflichtungen aufgrund dieses Vertrages vorrangig wäre, sofern nicht die Parteien diesen Vertrag so ändern, dass die Verpflichtungen der Patronin aufgrund dieses Vertrages mit einer solchen anderen Garantie oder Sicherungsvereinbarung mindestens gleichrangig sind und im wesentlichen gleichwertige Vorrechte in Bezug auf Zahlung und irgendwelche darunter gewährte Ansprüche enthalten.

§ 6

Negative Pledge

The Support Provider undertakes that it shall not give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to, the support or payment of any amounts in respect of any obligations ranking *pari passu* with the Bank's obligations under the Participation Agreement, that would in any regard rank senior in right of payment to the Support Provider's obligations under this Agreement, unless the parties hereto modify this Agreement such that the Support Provider's obligations under this Agreement rank at least *pari passu* with, and contain substantially equivalent rights of priority as to payment and any other rights granted under, such other guarantee or other support agreement.

§ 7

Änderung und Kündigung

Solange RESPARC Securities ausstehen, darf dieser Vertrag nicht ohne die Zustimmung von 100 % der Inhaber der RESPARC Securities geändert oder gekündigt werden, mit Ausnahme solcher Änderungen, die für die Interessen der Inhaber der RESPARC Securities nicht nachteilig sind.

§ 7

Modification and Termination

So long as RESPARC Securities remain outstanding, this Agreement may not be modified or terminated without the consent of 100 per cent. of the holders of the RESPARC Securities, except for such modifications that are not adverse to the interests of the holders of the RESPARC Securities.

§ 8

Zusicherungen und Gewährleistungen

Sofern in diesem Vertrag nichts anderes bestimmt ist, darf keine Partei ohne vorherige Zustimmung der jeweils anderen Partei sämtliche oder einzelne Rechte aus diesem Vertrag abtreten, übertragen, belasten oder anderweitig darüber verfügen oder Rechte oder Beteiligungen daran gewähren, festlegen, begründen oder veräußern.

§ 9

Allgemeine Verpflichtungen

Dieser Vertrag ist für alle Rechtsnachfolger der Parteien rechtsverbindlich und bleibt von einer Zusammenlegung, Verschmelzung oder Fusion der Patronin mit einem anderen Rechtssubjekt oder der Übertragung aller oder im wesentlichen aller Vermögenswerte der Patronin auf ein anderes Rechtssubjekt unberührt.

§ 10

Kommunikation

Jede Mitteilung gemäß diesem Vertrag muss schriftlich erfolgen und per Einschreiben, Kurier, bestätigter Sendung oder Fax zu Händen der nachstehend genannten Personen an die jeweiligen Anschriften der Parteien oder die in diesem Vertrag genannten eingetragenen Sitze oder, bei Sendung per Fax, an die jeweils nachstehend genannten Nummern gesendet bzw. übermittelt werden:

Patronin:

Landesbank Schleswig-Holstein International S.A.

Attention: Mr. Wolfgang Dürr

2 Rue Jean Monnet

2180 Luxembourg

Luxembourg

Fax: +352 427040

Emittentin:

RESPARCS Funding II Limited Partnership

Attention: MIFA Corporate 3

22 Grenville Street

St. Helier, Jersey JE4 8PX

Channel Islands

Fax: +44 (15) 34609-333

§ 8

No Assignment

Except as otherwise provided herein, neither party may assign, transfer, charge or otherwise deal with all or any of its rights under this Agreement nor grant, declare, create or dispose of any right or interest in it without the prior consent of the other party.

§ 9

Successors and Reorganisation

This Agreement will be binding upon successors to the parties and shall remain unaffected if the Support Provider consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity.

§ 10

Notices

Any notice to be given under this Agreement shall be in writing and shall be delivered to or sent by registered, special delivery or recorded post or by facsimile transmission for the attention of the persons set out below to the parties' respective addresses or registered offices as set out in this Agreement or, in the case of facsimile transmission, to the respective numbers set out below:

Support Provider:

Landesbank Schleswig-Holstein International S.A.

Attention: Mr. Wolfgang Dürr

2 Rue Jean Monnet

2180 Luxembourg

Luxembourg

Fax: +352 427040

Issuer:

RESPARCS Funding II Limited Partnership

Attention: MIFA Corporate 3

22 Grenville Street

St. Helier, Jersey JE4 8PX

Channel Islands

Fax: +44 (15) 34609-333

§ 11
Teilunwirksamkeit

Sollte irgendeine Bestimmung dieses Vertrages aus irgendeinem Grund unwirksam, ungesetzlich oder undurchsetzbar sein, gilt sie als durch diejenige wirksame, gesetzliche und durchsetzbare Bestimmung ersetzt, die der in der betreffenden Bestimmung niedergelegten Absicht der Parteien soweit wie möglich nahe kommt, und die Wirksamkeit, Gesetzlichkeit und Durchsetzbarkeit der übrigen Bestimmungen dieses Vertrages wird hierdurch in keiner Weise berührt oder beeinträchtigt.

§ 12
Schlussbestimmungen

12.1 Dieser Vertrag unterliegt dem Recht der Bundesrepublik Deutschland und die Parteien unterwerfen sich unwiderruflich dem Landgericht Frankfurt am Main als nichtausschließlichem Gerichtsstand.

12.2 Dieser Vertrag kann in mehreren Ausfertigungen und durch die Parteien in getrennten Ausfertigungen unterzeichnet und übergeben werden, von denen jede ein Original darstellt, jedoch alle zusammen ein und dasselbe Instrument bilden.

12.3 Die deutsche Fassung dieses Vertrages ist bindend.

Anlage I – Emissionsbedingungen der RESPARC Securities

§ 11
Severability

Should any provision of this Agreement be found invalid, illegal or unenforceable for any reason, it is to be deemed replaced by the valid, legal and enforceable provision most closely approximating the intent of the parties, as expressed in such provision, and the validity, legality and enforceability of the remainder of this Agreement shall in no way be affected or impaired thereby.

§ 12
Final Clauses

12.1 This Agreement shall be governed by, and construed in accordance with, the laws of the Federal Republic of Germany and the parties irrevocably submit to the non-exclusive jurisdiction of the district court (*Landgericht*) Frankfurt am Main.

12.2 This Agreement may be executed and delivered in any number of counterparts and by the parties on separate counterparts, each of which is an original, but all of which taken together constitute one and the same instrument.

12.3 The German version of this Agreement shall be the binding version.

Schedule I – Terms and Conditions of the RESPARC Securities

DESCRIPTION OF THE CONTRIBUTION AGREEMENT

Upon distribution of Profit Participation Payments to the Issuer or the replenishment of the Silent Contribution following a Reduction, LB Kiel must withhold amounts on account of German Investment Income Tax plus solidarity surcharge (*Solidarit tszuschlag*) payable on the distributed amounts and/or on the amount of replenishment pursuant to   43 (1) No. 3 German Income Tax Act (*EStG*), unless the tax authorities have granted a tax exemption for such payments.

The withholding of such amounts is treated as a prepayment towards the corporate income tax liability of the Issuer's profits attributable to the Issuer Limited Partner under German tax laws. To the extent that any such prepayment exceeds the definitive amounts of corporate income tax payable by the Issuer Limited Partner, the Issuer Limited Partner will have a Tax Refund Claim against the German tax authorities.

On 26 May 2003, the Issuer General Partner and the Issuer Limited Partner entered into the Contribution Agreement according to which the Issuer Limited Partner is obliged to contribute to the Issuer all payments it receives from the German tax authorities on account of its Tax Refund Claims. Under the Contribution Agreement, the Issuer is obliged to use the monies received as Contribution Payments to make Prepayments under the Loan Agreement.

The Contribution Agreement is governed by, and construed in accordance with, German law.

DESCRIPTION OF THE ASSIGNMENT AGREEMENT

On 26 May 2003, LB Kiel, LB Kiel Luxembourg, the Issuer, the Issuer General Partner, the Issuer Limited Partner and HSBC Trustee (C.I.) Limited, acting as security trustee for the benefit of Securityholders have entered into the Assignment Agreement.

Under the Assignment Agreement, the Issuer assigned to the Security Trustee all its (present and future, conditional and unconditional) payment claims against LB Kiel under the Participation Agreement. In addition, the Issuer assigned to the Security Trustee all its (present and future, conditional and unconditional) payment claims against LB Kiel Luxembourg under the Loan Agreement and against the Issuer Limited Partner under the Contribution Agreement. The payment claims assigned under the Assignment Agreement are the “**Assigned Claims**”. The Assignment Agreement provides that any existing payment claims under the Participation Agreement, the Contribution Agreement and the Loan Agreement, respectively, shall pass to the Security Trustee immediately and that any and all future payment claims under the Participation Agreement, the Contribution Agreement and the Loan Agreement, respectively, shall pass to the Security Trustee as they arise.

The purpose of the assignment of the payment claims under the Assignment Agreement is to create collateral for the benefit of Securityholders in order to secure the Securityholders’ claims for Coupon Payments and Capital Payments under the RESPARC Securities.

Under the Assignment Agreement, the Security Trustee holds the Assigned Claims in trust for the benefit of the Securityholders to secure payments to be made to the Securityholders under the RESPARC Securities. The Security Trustee is not allowed to dispose of the Assigned Claims without the prior written consent of the holders of 100 per cent. of the RESPARC Securities or in transactions which are adverse to the interests of the holders of the RESPARC Securities.

In addition, the Security Trustee is obliged to provide assistance to the effect that the payments to be made in respect of the Assigned Claims are properly effected and passed on to the Securityholders in accordance with the RESPARC Terms. In the event that the payments due in respect of the respective Assigned Claims are not made as and when due, the Security Trustee is entitled to immediately assert any such Assigned Claims against the relevant debtor thereof.

The Assignment Agreement further provides that the Issuer may not dispose of the Assigned Claims and that the Issuer Limited Partner may not dispose of its Tax Refund Claims. In particular, the Issuer and the Issuer Limited Partner are prohibited from encumbering the Assigned Claims and the Tax Refund Claims, respectively, with any third-party rights or taking any action which might adversely affect or jeopardise the Assigned Claims and the Tax Refund Claims, respectively.

The Assignment Agreement is governed by, and construed in accordance with, German law.

LANDESBANK SCHLESWIG-HOLSTEIN GIROZENTRALE (LB KIEL)

History

LB Kiel is a public law institution (*Anstalt öffentlichen Rechts*) organised under a special statute of Schleswig-Holstein and began operations as the Landesbank of the Province Schleswig-Holstein on 1 April 1917. Originally, LB Kiel's function was to grant loans to the Province and the districts and municipalities of Schleswig-Holstein as well as to savings banks, administrative unions, ecclesiastical and school communities, public corporations and cooperatives, private non-profit institutions and urban and rural landowners. In 1940, following its merger with the central clearing bank for the savings banks of Schleswig-Holstein (*Girozentrale*), LB Kiel also became responsible for providing correspondent banking services to the local savings banks. At the same time, LB Kiel began to grant long-term loans to corporations located in Schleswig-Holstein. In 1949, LB Kiel, together with the government of the state of Schleswig-Holstein and the city of Lübeck, formed the Schiffshypothekenbank zu Lübeck AG, a bank specialising in ship mortgage financing. Following the sale of its stake in this bank in 1989, LB Kiel remained actively involved in the ship finance business. 1952 marks LB Kiel's step to becoming a universal bank offering a comprehensive set of wholesale and retail banking products and services. In 1966, LB Kiel received permission to expand its commercial lending activities beyond the border of Schleswig-Holstein and to do business outside Germany. In 1977, LB Kiel founded a Luxembourg subsidiary, which was originally called Hansebank S.A., for the purpose of expanding its international business. In 1983, LB Kiel changed the name of the subsidiary to Landesbank Schleswig-Holstein International S.A. ("LI"). In 1985, LB Kiel issued foreign currency denominated bonds in combination with interest and currency swaps for the first time. In 1994, the state of Schleswig-Holstein and the Savings Banks and Giro Association of Schleswig-Holstein, which up to then held 100% of LB Kiel, sold a 39.9% stake in LB Kiel to Westdeutsche Landesbank Group and another 10% to Landesbank Baden-Württemberg ("LBBW"). In 1997, LB Kiel acquired a 49.5% interest in Hamburg LB.

Overview of the corporate constitution

The rights and obligations of LB Kiel's management and supervisory board members and of the members of LB Kiel's guarantors' meeting are determined by the Savings Banks Act for the State of Schleswig-Holstein (*Sparkassengesetz für das Land Schleswig-Holstein*) and LB Kiel's Charter (*Satzung*). Unlike private corporations, a public law banking institution does not have shareholders. Instead, LB Kiel is owned by "sponsoring entities" (*Anstaltsträger*) and "guarantors" (*Gewährträger*). In LB Kiel's case, the sponsoring entities are identical with the guarantors. In their capacity as sponsoring entities, LB Kiel's owners have a special "Maintenance Obligation" (*Anstaltslast*), which requires them to preserve LB Kiel's economic viability and to enable it, through the provision of liquid funds or otherwise, to perform LB Kiel's functions and meet LB Kiel's payment obligations when due. In their capacity as guarantors, they are subject to "Guarantee Obligation" (*Gewährträgerhaftung*). Guarantee Obligation means that LB Kiel's owners are jointly and severally liable for LB Kiel's obligations to the extent that LB Kiel's assets are insufficient to satisfy such obligations. On 17 July 2001, the Federal Republic of Germany agreed with the European Commission to change the regulatory framework applicable to Landesbanks such as itself by: (i) replacing Maintenance Obligation with normal ownership relations between LB Kiel's owners and LB Kiel by 18 July 2005; and (ii) abolishing Guarantee Obligation by 18 July 2005, subject to certain transitional arrangements.

LB Kiel has three governing bodies:

- the guarantors' meeting (*Gewährträgersversammlung*);
- the supervisory board (*Verwaltungsrat*); and
- the management board (*Vorstand*).

The corporate governance structure of LB Kiel follows the dual system of German corporate law by separating LB Kiel's management from the responsibility to oversee and supervise LB Kiel's management. Whereas LB Kiel's management board is solely responsible for managing LB Kiel within the confines of the directives established by LB Kiel's supervisory board, the latter is responsible for supervising the actions of LB Kiel's management board. LB Kiel's management board represents LB Kiel in its dealings with third parties.

Management

Management Board

Pursuant to LB Kiel's Charter, its management board consists of at least three members, who are appointed by LB Kiel's supervisory board, acting with the consent of LB Kiel's guarantors' meeting. LB Kiel's supervisory board, acting with the consent of LB Kiel's guarantors' meeting, is also responsible for appointing the chairman and deputy chairman of LB Kiel's management board. LB Kiel's management board takes decisions with a simple majority of the votes cast. If one or more members do not vote, the consent of at least half of the board members is required. LB Kiel's management board is required to keep LB Kiel's supervisory board informed of all material developments in LB Kiel's business and to provide it with information upon request.

The table below provides an overview of the present members of LB Kiel's management board, their ages at 31 December 2002, the year in which their current terms expire, their positions within LB Kiel and their positions outside the management board:

Name	Age	Term expires	Position	Principal Outside Board Membership
Hans Berger	53	2006	Chairman	Member of the supervisory board of Deka Investment GmbH Frankfurt/Main; Finanz IT GmbH, Hannover; eBS eBanking Services Nord GmbH, Kiel; Flender Werft AG, Lübeck; Hamburg LB, Hamburg; Nordex AG, Norderstedt; S-Online Schleswig-Holstein GbR, Kiel; SIZ Informatik – Zentrum der Sparkassenorganisation GmbH, Bonn; S-NetLine GmbH, Kiel; LBS Immobilien GmbH, Kiel; Landesbank Schleswig-Holstein International S.A., Luxembourg; Deka-Bank Deutsche Girozentrale, Frankfurt am Main; PLUS BANK AG, Hamburg and schleswig-holstein.de GmbH & Co. KG, Kiel
Ulrich W. Ellerbeck	50	2007	Member of the Management Board	Member of the supervisory board of Gudme Raaschou Bankaktieselskab, Copenhagen; PCA Corporate Finance Oy, Helsinki and HAW Hamburger Aluminium Werke GmbH, Hamburg
Dieter Pfisterer	63	2003	Member of the Management Board	Member of the supervisory board of eBS eBanking Services Nord GmbH, Kiel; Gesellschaft für Wagniskapital Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH – MBG – , Kiel; IKB-Leasing GmbH, Hamburg; ORGA Kartensysteme GmbH, Flintbek; Wankendorfer Baugenossenschaft eG, Wankendorf; Wirtschaftsakademie Schleswig-Holstein, Kiel; Deka Immobilien Investment GmbH, Frankfurt/Main; LBS-Immobilien GmbH, Kiel; AGV Anlagen- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Wiesbaden; AGV Anlagen-Grundstücksvermietungs- und Geschäftsführungsgesellschaft mbH, Wiesbaden; BIG Bau-

				Investitionsgesellschaft, Kronshagen; BIG Heimban AG, Kronshagen and Hamburg LB, Hamburg
Frank S. Waas	42	2005	Member of the Management Board	Member of the supervisory board of Gudme Raaschou Bankaktieselskab, Copenhagen; Landesbank Schleswig-Holstein International S.A., Luxemburg; S-NetLine GmbH, Kiel; S-Online Schleswig-Holstein GbR, Kiel; Hanseatische Wertpapierbörse, Hamburg; and PCA Corporate Finance Oy, Helsinki

Hans Berger started his career within the savings banks' organisation while graduating in business management. Mr. Berger served in various responsible positions at Sparkasse Kiel for many years. Prior to his appointment to LB Kiel's management board, he was responsible manager of the board secretary for three years. In 1986 he became a management board member and he was appointed deputy chair man in 1996 and chairman in 2003.

Dieter Pfisterer has been a member of LB Kiel's management board since 1993. Mr. Pfisterer spent his entire banking career with LB Kiel, serving in a number of different positions. In 1975, he became Head of the General Credit Department and Head of the National Corporate Clients and Financial Institutions Department.

Franz S. Waas, Ph.D., has been a member of LB Kiel's management board since 2001. Mr. Waas started his professional career at Bayerische Vereinsbank AG, now Bayerische Hypo- und Vereinsbank, where he served in various national and international positions. In 1999, Mr. Waas joined Landesbank Baden-Württemberg as General Manager of the New York and Cayman Island branches.

Ulrich W. Ellerbeck joined LB Kiel in 1980 after graduating in economics and served in various responsible positions for many years. Since 1996 he was responsible for the growth and development of LB Kiel's business activities in northern Europe. At the beginning of 2001 he changed to Hamburg LB where he became general manager for the corporate client and banking business. In 2003 Mr. Ellerbeck was appointed to the management board of LB Kiel.

The business address of the members of LB Kiel's management board is the same as LB Kiel's business address: Martensdamm 6, D-24103 Kiel, Germany.

Supervisory Board

Pursuant to LB Kiel's Charter, LB Kiel's supervisory board consists of the Prime Minister (*Ministerpräsident*) or another member of the government of Schleswig-Holstein, as determined by the cabinet of the government, the Chairman of the Savings Banks and Giro Association of Schleswig-Holstein, and in addition, 18 members elected by LB Kiel's guarantors and 10 members elected by LB Kiel's employees. The term of office of LB Kiel's supervisory board members is four years and ends on 30 June of the fourth year following their appointment. Members may be re-elected. LB Kiel's supervisory board passes resolutions with a simple majority of the votes cast, with the chairman having a deciding vote in the event of a deadlock.

The supervisory board is called by the chairman usually four times a year, it must be called two times a year. Its functions include:

- the adoption of rules of procedures;
- subject to the approval of LB Kiel's guarantors' meeting, the appointment and dismissal of the members of LB Kiel's management board and the appointment of the chairman of LB Kiel's management board;
- the adoption of directives for LB Kiel's management board of guidelines for the grant of loans; and
- the approval of transactions of fundamental importance.

LB Kiel's Charter requires LB Kiel's supervisory board to form various committees, including an executive committee, an audit committee and a credit committee. The executive committee is responsible, in particular, for making decisions in urgent cases when LB Kiel's supervisory board is unable to convene, for counseling LB

Kiel's guarantors' meeting and supervisory board in relation to questions requiring an interpretation of LB Kiel's Charter and for approving certain loans to the members of LB Kiel's management board, LB Kiel's employees and other related parties. The audit committee is responsible, in particular, for reviewing the report of LB Kiel's auditors. The credit committee is responsible, in particular, for approving loans to the members of LB Kiel's management board and LB Kiel's employees, to the extent that such loans do not fall within the responsibility of the executive committee.

The following table sets forth, as of 15 April 2003, the names and functions of the members of LB Kiel's supervisory board, their ages, the year in which their current terms expire and their principal business activities outside of LB Kiel:

Name	Age	Term expires	Principal business activities outside of LB Kiel
Chairwoman and deputy chairmen:			
Heide Simonis <i>Vorsitzende</i>	59	2006	Prime Minister of the state of Schleswig-Holstein
Jürgen Sengera <i>First Deputy Chairman</i>	60	2006	Chairman of the Management Board of West LB AG, Düsseldorf
Olaf Cord Dielewicz <i>Second Deputy Chairman</i>	61	2006	President of the Savings Banks and Giro Association of Schleswig-Holstein, Kiel
Heinrich Haasis <i>Third Deputy Chairman</i>	57	2006	President of the Baden-Württemberg Savings Banks Association, Stuttgart
Guarantor representatives:			
Günter Anders	62	2006	Chairman of the Management Board of Sparkasse Schleswig-Flensburg, Schleswig
Peter Deutschland	57	2006	Chairman of DGB North, Hamburg
Uwe Döring	55	2006	State Secretary at the Ministry of Finance of the state of Schleswig-Holstein, Kiel
Theo Dräger	64	2006	Chairman of the Management Board of Drägerwerk AG, Lübeck
Norbert Gansel	61	2006	Mayor of the city of Kiel, Kiel
Jorg-Dietrich Kamischke	54	2006	District Officer of the district of Flensburg, Flensburg
Hans-Peter Krämer	61	2006	Chairman of the Management Board of Kreissparkasse Köln, Köln
Dr. Hans Lukas	62	2006	Chairman of the Management Board of Sparkasse Stormarn, Bad Oldesloe
Dr. Wolfgang Peiner	59	2006	Finance Senator of the city of Hamburg, Hamburg
Dr. Wolf-Albrecht Prautzsch	62	2006	WestLB AG, Münster
Michael Rocca	54	2006	State Secretary at the Ministry of Economic Affairs, Technology and Transport of the state of Schleswig-Holstein, Kiel
Erwin Rückemann	60	2006	Chairman of the Management Board of Stadtparkasse Neumünster, Neumünster
Hans Dietmar Sauer	60	2006	Chairman of the Management Board of Landesbank Baden-Württemberg, Stuttgart

Dr. Ralf Stegner	42	2006	Finance Minister for the state of Schleswig-Holstein, Kiel
Dr. Fritz Süverküp	61	2006	President of the Chamber of Industry and Commerce of Kiel, Kiel
Jorma Juhani Vaajoki	52	2006	Kauniainen, Finland

Employee's representatives:

Astrid Balduin	39	2006
Helmut Gründel	45	2006
Ditmar Höret	55	2006
Dr. Elisabeth Keßeböhmer	37	2006
Knuth Lausen	45	2006
Karl-Heinz Ravn	52	2006
Wolfgang Sander	61	2006
Rieka Meetz-Schawaller	41	2006
Michael Schmalz	50	2006
Gaby Woelk	39	2006

The business address of the members of LB Kiel's supervisory board is the same as its business address: Martensdamm 6, D-24103 Kiel, Germany.

Compensation

In 2002, LB Kiel paid its management board members compensation in the aggregate amount of €2,5 million. Former management board members and their descendents received an amount of €1,3 million. At 31 December 2002, accruals for the future payment of pension benefits to members of LB Kiel's management board totalled €12,6 million. In 2001, the aggregate compensation that LB Kiel paid to its supervisory board members amounted to €0,3 million.

Employees

At 31 December 2002, excluding Hamburg LB, LB Kiel employed 2,568 people, compared with 2,457 employees at 31 December 2001 and 2,189 employees at 31 December 2000.

As a public law institution, LB Kiel is neither subject to employee's participation in decision-making (*Mitbestimmung*) according to the German Co-determination Act (*Mitbestimmungsgesetz*) nor to the German Works Constitution Act (*Betriebsverfassungsgesetz*) that govern private commercial banks in Germany. Instead, LB Kiel is subject to the same laws and regulations that regulate staff representation with respect to German agencies, courts and other public law entities. Under the State Staff Council Act (*Landes-Personalvertretungsgesetz Schleswig-Holstein*), LB Kiel has a staff council that represents the interests of its employees. LB Kiel is required to notify its staff council in advance of proposed employee terminations, relocations and other matters that affect LB Kiel's staff as a whole or particular employees. LB Kiel's staff council is entitled to comment on these measures. In addition, LB Kiel's staff council is entitled to co-determine a variety of social matters, such as work schedules and rules of conduct. LB Kiel's management considers itself to be on good terms with LB Kiel's staff council. Constructive relations with its employees and their representatives are of central importance to LB Kiel. During the last three years, LB Kiel has not experienced any material labor disputes resulting in work stoppages.

Virtually all of LB Kiel's German employees are either covered by, or otherwise benefit from, a collective bargaining agreement that covers the entire banking industry in Germany (*Tarifvertrag für das private*

Bankgewerbe und die öffentlichen Banken). The German Termination Protection Act (*Kündigungsschutzgesetz*) imposes various restrictions on LB Kiel's ability to terminate these employees. In addition, for historical reasons, as of 1 September 2002, five of LB Kiel's employees had the status of civil servants. As a result of their special status, the terms and conditions of their employment and the benefits to which they are entitled are governed by statute, rather than by contract. They hold tenured positions and may not be unilaterally terminated by LB Kiel except in extraordinary circumstances set forth in the statute.

Owners

Under German administrative law, LB Kiel's owners have the legal status of guarantors, i.e., they have a Guarantee Obligation as a result of which they are jointly and severally liable for LB Kiel's obligations to the extent that LB Kiel's assets are insufficient to satisfy such obligations. LB Kiel's guarantors' meeting consists of the Prime Minister (*Ministerpräsident*) or another member of the government of Schleswig-Holstein, as determined by the cabinet of the government, the Chairman of the Savings Banks and Giro Association of Schleswig-Holstein and other representatives of LB Kiel's guarantors.

LB Kiel's guarantors' meeting passes resolutions unanimously. Its responsibilities include:

- the approval of the appointment and dismissal of the members of LB Kiel's management board and the appointment of the chairman of LB Kiel's management board;
- employment matters in relation to LB Kiel's management board;
- the appointment of LB Kiel's auditors;
- the approval of acts of LB Kiel's management board in instances where such approval is required; and
- the approval of LB Kiel's annual financial statements.

The table below shows LB Kiel's guarantors and their respective stakes in LB Kiel as of 31 December 2002:

	Stake in per cent.
State of Schleswig Holstein.....	25,05
Savings Banks and Giro Association Schleswig-Holstein	25,05
WestLB Beteiligungs Holding GmbH ⁽¹⁾	39,90
LBBW ⁽²⁾	10,00

(1) The shares in LB Kiel originally held by Westdeutsche Landesbank Girozentrale are now held by WestLB Beteiligungs Holding GmbH, a wholly owned subsidiary of WestLB AG, which was officially designated and appointed to perform this holding company function by way of a state government notification dated December 19, 2002.

(2) LBBW's stake will be sold to the state of Schleswig-Holstein (40 per cent.), to the city of Hamburg (40 per cent.) and to the Savings Banks and Giro Association Schleswig-Holstein, before the Merger comes into effect.

Significant Subsidiaries

LB Kiel has subsidiaries that operate in a number of countries throughout the world. The following table provides information with respect to LB Kiel's significant subsidiaries as of 31 December 2002:

Corporate name, location and country of incorporation	Equity⁽¹⁾	Ownership Interest⁽²⁾
	<i>€ in millions</i>	<i>(%)</i>
Hamburgische Landesbank, Hamburg, Germany.....	3,770	49,5
Landesbank Schleswig-Holstein International S.A., Luxembourg, Luxembourg	200	100
Gudme Raaschou Bankaktieselskab, Copenhagen, Denmark.....	14	100

(1) Figures calculated in accordance with German GAAP.

(2) Ownership interest equals proportion of voting power held.

Properties

At 31 December 2002, the LB Kiel Group operated 11 facilities in eight countries, of which four were located in Germany. The LB Kiel Group leases a majority of its offices and branches under long-term agreements. At 31 December 2002, the LB Kiel Group owned land and buildings with a total book value of approximately €680 million. Of this amount, the LB Kiel Group used land and buildings with a carrying value of approximately €79 million for its own operations and held properties with a carrying value of approximately €22 million on account of loan foreclosures.

LB Kiel continually reviews its property requirements worldwide and intends to enter into new leases or purchase additional property for office space in some locations in the short- to medium-term future.

Legal Proceedings

LB Kiel and its affiliated companies are involved in a large number of court and out-of-court lawsuits in Germany and abroad concerning their ordinary business operations. Although LB Kiel cannot necessarily predict the outcome of all pending and threatened proceedings, except for the matters stated below, it expects that the outcome of none of these proceedings will have a material adverse effect on its business or financial condition. As far as it is aware, LB Kiel is also not threatened by proceedings which might have such effect.

In the 1990s, the EU Commission launched a formal investigation to determine whether German Landesbanks, including LB Kiel and Hamburg LB, had benefited from illegal state aid. The subject-matter of the initial proceedings was the contribution of Wohnungsbauförderungsanstalt of the state of North-Rhine Westphalia into Westdeutsche Landesbank and the question whether the state of North-Rhine Westphalia has received fair market consideration for such contribution. Following a number of rulings of the EU Commission and ensuing litigation in relation to an asset contribution transaction involving Westdeutsche Landesbank, where the EU Commission held that illegal state aid had been granted and ordered significant retroactive consideration payments, the EU Commission launched proceedings in relation to five German Landesbanks, including LB Kiel and Hamburg LB, in November 2002.

With respect to LB Kiel, the investigation of the EU Commission focuses on the integration of Investitionsbank as an economically and organisationally separate but legally dependent business area into LB Kiel in 1991. With respect to Hamburg LB, the investigation of the EU Commission focuses on the integration of Wohnungsbaukreditanstalt into Hamburg LB. In connection with these transactions, potential state aid issues could arise due to the fact that LB Kiel and Hamburg LB were entitled to use capital not needed by the integrated entities as regulatory capital to cover risk related assets and large exposures in their respective other business areas. Both LB Kiel and Hamburg LB believe that they have paid the state of Schleswig-Holstein and, respectively, the City of Hamburg adequate consideration for the relevant contributions such that EU state aid rules have not been violated, as critics, particularly competitors, have alleged. In addition, LB Kiel believes that the state of Schleswig-Holstein realised significant benefits such as cost savings and a higher purchase price when selling part of its interest in LB Kiel to WestLB and LBBW that must be taken into account when determining the adequacy of the consideration received for the asset and capital contribution. There can, however, be no assurance that the proceedings will be determined in favour of LB Kiel and Hamburg LB or, after the Merger, HSH Nordbank. If this were not the case and legal remedies against an unfavourable decision of the EU Commission were unsuccessful, this could have a material adverse effect on LB Kiel (i.e., after the Merger, HSH Nordbank). See “Investment Considerations – Risks associated with the Business of LB Kiel (and, after the Merger, HSH Nordbank) – Risks Related to the Formal Investigation of the European Commission in Respect of Illegal State Aid” and “Management Report and Consolidated Management Report”.

RESPARCS FUNDING II LIMITED PARTNERSHIP

Incorporation, Domicile and Duration

The Issuer was established and registered under the name RESPARCS Funding II Limited Partnership under the Limited Partnerships (Jersey) Law 1994, as amended, with the Jersey Financial Services Commission on 17 April 2003. The Issuer was established for an unlimited duration and is not a legal entity separate from its partners and has no operating history.

Contributed Capital

The partnership capital of the Issuer amounts to €1,000.10 (one thousand Euro and ten cents).

Partners

The Issuer's General Partner is European Capital Investment Opportunities Limited, a limited liability company incorporated under Jersey law whose beneficial shareholders will be, upon consummation of the offering described herein, LB Kiel International (51 per cent. interest) and Mourant & Co. Trustees Limited as trustee for the European Capital Investment Charitable Trust, an independent charitable trust domiciled in Jersey (49 per cent. interest). The Issuer's Limited Partner is European Equity Participation Management GmbH, a limited liability company incorporated under German law and domiciled in Hamburg, Germany. The sole beneficial shareholder of the Limited Partner is Mourant & Co. Trustees Limited as trustee for European Funding Charitable Trust, an independent charitable trust domiciled in Jersey.

Principal Activities

The business purpose of the Issuer is, pursuant to a limited partnership agreement entered into by the Issuer General Partner and the Issuer Limited Partner on 17 April 2003, to participate as silent partner in the business of LB Kiel, and, for this purpose, to raise capital by the issuance of the RESPARC Securities and conducting certain activities related thereto. The Issuer is further entitled to engage in any ancillary businesses which promote the foregoing principal business purpose.

The principal activities of the Issuer correspond with the business purpose stipulated in the limited partnership agreement. The Issuer has no employees.

Management

The Issuer acts through the Issuer General Partner who has the sole power to represent the partnership. The Issuer General Partner may be contacted at the address of the Issuer which is 22 Grenville Street, St. Helier, Jersey JE4 8PX. The current directors of the Issuer General Partner are:

Name	Age	Function
Nicola Davies	36	Director
Gareth Essex-Cater	44	Director
Helen Grant	36	Director

Fiscal Year

The fiscal year of the Issuer corresponds to the calendar year.

Auditor

The auditor of the Issuer is PricewaterhouseCoopers having its address at 22 Colomberie, St. Helier, Jersey JE1 4XA, Channel Islands.

The audited accounts of the Issuer may be obtained at the Issuer's office at 22 Grenville Street, St. Helier, Jersey JE4 8PX.

Litigation

The Issuer is not involved in any litigation or arbitration proceedings which may have any material adverse effect on the financial position of the Issuer. The Issuer is not aware that any such proceedings or arbitration proceedings are imminent or threatened, which could adversely affect the Issuer's business, results of operations or financial condition.

Material Adverse Change

Unless otherwise disclosed in this Offering Circular, there has been no material adverse change in respect of the financial situation of the Issuer since the date of its establishment on 17 April 2003.

Capital Contributions

Under the limited partnership agreement, the Issuer General Partner and the Issuer Limited Partner have agreed to make an initial capital contribution (respectively, its "Capital Contribution") to the Issuer in the following amounts:

	EUR
Issuer General Partner	0.10
Issuer Limited Partner	1000.00

Provided that the Issuer Limited Partner does not become involved with the management of the Issuer other than in the circumstances provided in the Limited Partnership Agreement, the liability of the Limited Partner for the debts or obligations of the Issuer will be limited to its Capital Contribution and any additional capital contribution it has made or agreed to make to the Issuer.

Capitalisation on the Issue Date

The following table sets forth the Issuer's contributed capital on the date of its establishment:

Opening balance sheet as of and for 17 April 2003

	Assets		Liabilities
	17 April 2003		17 April 2003
	€		€
Cash	1,000.10	Capital Contribution	1,000.10

THE IMMINENT MERGER BETWEEN LB KIEL AND HAMBURG LB

HSH Nordbank will emerge from the merger of LB Kiel and Hamburg LB and will be incorporated in the legal form of a German public limited company (*Aktiengesellschaft*) upon its registration in the commercial registers of Hamburg and Kiel in June 2003. For tax and accounting purposes, the merger will take effect retroactively as of 1 January 2003.

On 9 September 2002, the shareholders of LB Kiel and Hamburg LB decided to merge the two institutions. The treaty (*Staatsvertrag*) between the City of Hamburg and the State of Schleswig-Holstein (the “Treaty”), which constitutes the legal framework for the merger, was signed on 4 February 2003. The Treaty passes into law upon the final consent of the parliaments of the State of Schleswig-Holstein and the City of Hamburg scheduled for May 2003. Pursuant to sec. 1 para. 6 of the Treaty, all assets and liabilities of LB Kiel and Hamburg LB, except of those incurred by the spun off business areas (see “— Spin-off of Promotional Banking Activities and the Building Association Business”), will pass to HSH Nordbank. HSH Nordbank will carry on the businesses of LB Kiel and Hamburg LB under the new name.

The merger will create a bank with total assets of approximately €180 billion and approximately 4,500 employees

Ownership Structure

Prior to the merger becoming effective, Landesbank Baden-Württemberg (“LBBW”) will sell a 10 per cent. share in LB Kiel to the State of Schleswig-Holstein (40 per cent. of the share), to the City of Hamburg (40 per cent. of the share) and to the Savings Banks and Giro Association Schleswig-Holstein (20 per cent. of the share). As a result, the shareholdings in HSH Nordbank will be as follows: The City of Hamburg 35.38 per cent., the State of Schleswig-Holstein 19.55 per cent., the Savings Banks and Giro Association Schleswig-Holstein 18.21 per cent. and WestLB Beteiligungs Holding GmbH, a 100% subsidiary of WestLB AG, 26.86 per cent. The City of Hamburg, the State of Schleswig-Holstein and the Schleswig-Holstein Savings and Giro Association, which together will hold 73.14 per cent. in HSH Nordbank following the merger, have entered into an agreement pursuant to which they undertake to each other to jointly hold not less than 50.1 per cent. of the share capital carrying voting rights until 31 December 2013.

Transitional arrangement regarding Maintenance Obligation and Guarantee Obligation

The German Government and the EU Commission agreed on 17 July 2001 that Maintenance Obligation (*Anstaltslast*) and Guarantee Obligation (*Gewährträgerhaftung*) with respect to Landesbanks will be abolished with effect as of 18 July 2005. Following the merger Maintenance Obligation will be replaced by normal ownership until 18 July 2005. However, it has been agreed with the EU Commission that liabilities will continue to be covered by Guarantee Obligation if they have been agreed by the respective Landesbank until (and including) 18 July 2005, and also, subject to certain transitional arrangement, if agreed between 19 July 2001 and 18 July 2005. Under the Treaty, Guarantee Obligation will continue for the liabilities of HSH Nordbank and Maintenance Obligation will be replaced by the obligation of the current owners to ensure the ability of HSH Nordbank to meet its future obligations up until 18 July 2005, both pursuant to the agreement of 17 July 2001.

Deposit Security Reserve

HSH Nordbank will continue to be a member of the deposit security reserve (*Sicherungsreserve*) of the Landesbanken and will therefore continue to participate in the security system (*Sicherungssystem*) of the German savings banks group. The previous memberships of Hamburg LB in the support fund (*Stützungsfonds*) of the Hamburg Savings Bank Association and the membership of LB Kiel in the security reserve of the Landesbanken are combined in the security reserve. The scope of the support functions will not change as a result thereof. The security reserve is intended to safeguard the protection of its member banks, in particular their liquidity and solvency. Therefore, only the member institutions have claims against the security reserve, if any.

Spin-off of Promotional Banking Activities and the Building Association Business

The regional building association (Landes-Bausparkasse) (“LBS”), which has been conducting the home loan and savings business as a legally dependant but organisationally independent division of LB Kiel, will not participate in the Merger. According to the applicable regulation of the state of Schleswig-Holstein and with economic

retroactive effect to 1 January 2003, LBS will be spun off from LB Kiel to become a wholly-owned subsidiary of HSH Nordbank as a newly established entity in the legal form of a public limited company under German corporate law, trading under the name of “Landesbausparkasse Schleswig-Holstein AG”. The Savings Banks and Giro Association Schleswig-Holstein intends to purchase Landesbausparkasse Schleswig-Holstein AG from HSH Nordbank.

In addition, the Investitionsbank Schleswig-Holstein (“**Investitionsbank**”), which has been a legally dependent but organisationally independent division of LB Kiel and has been conducting the development business, will not participate in the Merger. With effect as of 1 June 2003, Investitionsbank will be spun off from LB Kiel, according to a state’s act of Schleswig-Holstein, and shall become a newly established public law entity trading under the name of “Investitionsbank Schleswig-Holstein”. HSH Nordbank will not hold a stake in the Investitionsbank Schleswig-Holstein and, accordingly, Investitionsbank will not be considered in HSH Nordbank’s opening balance sheet as of 1 January 2003.

Prior to the Merger coming into effect, Hamburg LB will also transfer its 81.86 per cent. stake in Hamburgische Wohnungsbaukreditanstalt to the city of Hamburg with the purchase price being determined by independent auditors. This transfer will have economic retroactive effect to 1 January 2003. As with Investitionsbank, Hamburgische Wohnungsbaukreditanstalt will not be, as a consequence, considered in HSH Nordbank’s opening balance sheet as of 1 January 2003.

Mortgage Bond Privilege

The merger of LB Kiel and Hamburg LB into a German public limited company will mean that HSH Nordbank will not have a right to issue mortgage bonds pursuant to the German Public Mortgage Bank Act (*Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditinstitute*). However, LB Kiel and Hamburg LB expect federal legislation in the near future that will allow HSH Nordbank to continue to act as successor to LB Kiel and Hamburg LB with respect to legal positions established by them under this Act. In order to be able to also issue mortgage bonds in the future, the establishment of a mortgage bank is being considered.

Management of HSH Nordbank

Management Board (as at 1 June 2003)

The members of the management board were appointed concurrently with the merger decision on 9 September 2002.

Name	Age	Term Expires	Position
Alexander Stuhlmann	54	30 June 2006	<i>Chairman</i>
Hans Berger	53	30 September 2006	<i>Vice Chairman</i>
Ulrich W. Ellerbeck	50	31 December 2007	<i>Board member</i>
Peter Rieck	50	30 April 2008	<i>Board member</i>
Hartmut Strauß	54	31 March 2005	<i>Board member</i>
Franz S. Waas, Ph.D.	42	31 December 2005	<i>Board member</i>

Alexander Stuhlmann, born 17 May 1948, joined Hamburg LB in 1976 after graduating in Law. Having worked in several responsible and complex positions with the legal department and the management board staff, in 1992 he took over the leadership of the management board staff. In 1996, he joined the management board and was appointed chairman in 1998.

Hans Berger, born 22 April 1950, started his career within the savings banks organisation where he studied Business Administration. Following his graduation, he worked in different positions for the savings bank Kiel for many years. Before joining the management board in 1986, he had been managing the secretary’s office of the management board. In 1996 he was appointed deputy chairman and in 2003 he was appointed chairman of LB Kiel.

Ulrich W. Ellerbeck, born 16 June 1952, graduated in Economics and joined LB Kiel in 1980, where he worked on several responsible positions. In particular, he led the growing activities of LB Kiel in the Scandinavian and Baltic Sea region. At the beginning of 2001, he moved to Hamburg LB where he became general manager for the corporate and banking business area. In 2003, Ulrich W. Ellerbeck joined the management board of LB Kiel.

Peter Rieck, born 22 November 1952 joined Landesbank Schleswig-Holstein Girozentrale after graduating in Business Administration in 1978. After working in several departments he held a leading position in the board secretary and the department Corporations Germany/Banks. In 1995 Peter Rieck became speaker of the executive board of Investitionsbank Schleswig-Holstein. In 1998 he was appointed vice president of the board of Hamburg LB.

Hartmut Strauß, born 4 March 1949, graduated in Business Administration before starting his career with Norddeutsche Landesbank in 1975. In 1977 he moved to Hamburg LB where he worked in several responsible positions, finally managing the department for controlling, accountancy and tax. In 2001 he joined the management board of Hamburg LB.

Franz S. Waas, Ph.D., born 19 November 1960, began to work for Bayerische Vereinsbank in 1985, when he had graduated in Business Administration. Later he obtained his Ph.D. in International Business Administration. In 1994 he took over managing the branches in New York and on the Cayman Islands. In 1999 he moved to Landesbank Baden-Württemberg as general manager of their branches in New York and on the Cayman Islands. In 2001 Franz S. Waas was appointed to join the management board of LB Kiel being responsible for the business areas Capital Markets, Asset Liability Management, Private Banking as well as for Landesbank Schleswig-Holstein International S.A. in Luxembourg.

Supervisory Board (as at the beginning of June 2003)

Under its articles of association, HSH Nordbank's supervisory board will have twenty members. Ten of these members will be elected by the owners with the remaining ten being elected by the employees. In relation to the owners' representatives, the future shareholders of HSH Nordbank have agreed that for a period of three years after effectiveness of the Merger, Heide Simonis, Prime Minister of the State of Schleswig-Holstein will act as chairperson of the supervisory board. In addition, the Free and Hanseatic City of Hamburg will delegate three representatives to the supervisory board, WestLB AG will delegate two representatives, the State of Schleswig-Holstein one further representative and the Savings Banks and Giro Association Schleswig-Holstein two representatives. One further member of the supervisory board is jointly appointed by the City of Hamburg, the State of Schleswig-Holstein and Savings Banks and Giro Association for Schleswig-Holstein. The supervisory board members representing the owners will be appointed in the context of the Merger until the first general shareholder meeting of HSH Nordbank at which all of them will be newly elected. The ten supervisory board members representing the employees will be court-appointed at the suggestion of HSH Nordbank until new employee representatives have been elected by all of HSH Nordbank's employees in accordance with applicable laws.

As member of the Supervisory Board will be appointed:

Name	Age	Principal Business Activities outside of the Bank
Heide Simonis <i>Chairwoman</i>	59	Prime Minister of the State of Schleswig-Holstein
Dr. Wolfgang Peiner <i>Deputy Chairman</i>	59	Finance Senator of the city of Hamburg
Dr. Jürgen Sengera	60	Chairman of the Management Board of WestLB AG
Olaf Cord Dielewicz	61	President of the Savings Banks and Giro Association Schleswig Holstein, Kiel
Dr. Ralf Stegner	42	Finance Minister of the State of Schleswig-Holstein

Name	Age	Principal Business Activities outside of the Bank
Dr. Rainer Klemmt-Nissen	59	Senate Director of the Ministry of Finance of the city of Hamburg
Dr. Hans Lukas	62	Director of the Savings Bank of Stormarn, Bad Oldesloe
Alexander Otto	35	Chairman of the Management Board of ECE Projektmanagement GmbH&Co KG
Dr. Manfred Puffer	39	Member of the Management Board of WestLB AG
Gunnar Uldall	62	Senator for Economics and Labor of the city of Hamburg

BUSINESS

In the course of the intended merger of LB Kiel with Hamburg LB (see “The Intended Merger of LB Kiel and Hamburg LB”), the operations of LB Kiel and Hamburg LB (LB Kiel and Hamburg LB are referred to collectively as the “**Predecessor Banks**”) will be combined in HSH Nordbank. The following description refers to the business activities of the Predecessor Banks as it will exist after this combination.

Overview of the Predecessor Banks

Both LB Kiel and Hamburg LB can look back on many years of experience and successful development. Founded in 1917 and 1938, respectively, LB Kiel and Hamburg LB are today among the 20 largest financial institutions in Germany. As of 31 December 2002, Hamburg LB had total assets of €87.2 billion, and the LB Kiel Group’s total assets (including the 49.5% stake in Hamburg LB) stood at €145.5 billion. As of 31 December 2002, Hamburg LB Group employed 2,747 persons worldwide, whereas the LB Kiel Group’s total staff (not including Hamburg LB) included 2,568 employees around the world.

As public law institutions (*Anstalten des öffentlichen Rechts*), both Landesbanks are majority owned by public sector shareholders. The largest shareholder of Hamburg LB is the Free and Hanseatic City of Hamburg (50.5%). Since 1997, LB Kiel has held a 49.5% stake in Hamburg LB. The owners of LB Kiel include the Federal State of Schleswig-Holstein (25.05%), the Savings Banks and Giro Association of Schleswig-Holstein (25.05%), the WestLB Group (39.9%) and Landesbank Baden-Württemberg (10.0%). The change in shareholders that will result from the merger of LB Kiel and Hamburg LB into a German public limited company is described under “The Intended Merger of LB Kiel and Hamburg LB—Shareholder Structure.” The shareholders are jointly and severally liable for the liabilities of the respective institutions. The transitional rules with respect to Maintenance Obligation (*Anstaltslast*) and Guarantee Obligation (*Gewährträgerhaftung*) agreed with the EU Commission apply to both Predecessor Banks. The rules governing the elimination of Maintenance Obligation and Guarantee Obligation are described in greater detail under “The Imminent Merger of LB Kiel and Hamburg LB”.

LB Kiel and Hamburg LB are very similar in terms of their strategy. Both banks are the largest financial institutions and clear market leaders in their respective core regions, Hamburg and Schleswig-Holstein, in terms of total assets. With strong roots in this economically closely knit region, they offer their customers, particularly mid-sized companies (*Mittelstand*), a wide range of traditional and innovative financial services. Both LB Kiel and Hamburg LB focus on lending to corporate customers. As the central bank for savings banks, LB Kiel also provides services to savings banks in Schleswig-Holstein, and as a state and municipal bank, it supports the financing projects of local governments in, and the state government of, Schleswig-Holstein.

Both banks have a strong niche position internationally as specialised financiers. Both of them focus on ship, real estate and transportation financing and leasing refinance. Hamburg LB is one of the world’s top three ship financiers. In addition, both Predecessor Banks are active worldwide with corporate customers in selected industries and conduct both bank financing and, increasingly, loan syndication as well. Both LB Kiel and Hamburg LB engage in international non-customer lending business for purposes of portfolio management and diversification, such as through the use of credit derivatives and asset-backed securities.

LB Kiel and Hamburg LB are recognised, innovative participants in the domestic and international capital markets. They particularly focus on tailored financial products for investors and customers. The traditional money market, currency and securities business rounds off the offerings of both banks.

LB Kiel and Hamburg LB fund their operations in the medium- and long-term primarily by issuing bonds (such as via their respective medium-term note programmes) and through customer deposits. Their ability to fund their operations using mortgage bonds (*Pfandbriefe*) will be eliminated as a result of the intended merger of the Predecessor Banks (see “The Intended Merger of LB Kiel and Hamburg LB—Mortgage Bond Privilege”). LB Kiel expects the German legislator to adopt rules in the near future that will allow HSH Nordbank to continue the portfolio of existing mortgage bonds issued by the Predecessor Banks. In order to issue mortgage bonds in the future, establishing a mortgage bank subsidiary of HSH Nordbank is currently being considered. The short-term refinancing of LB Kiel and Hamburg LB’s operations primarily involves interbank transactions and the issuance of commercial paper under their respective commercial paper programmes. In the light of the Brussels Agreement on Elimination of State Guarantees dated 17 July 2001, it will be increasingly important to fund operations as efficiently as possible (see “Investment Considerations—Risks associated with the Business of LB Kiel—Abolition of Maintenance Obligation (*Anstaltslast*) and Guarantee Obligation (*Gewährträgerhaftung*)”). In this

context, both LB Kiel and Hamburg LB have recently strengthened their presence in the international capital markets, such as via the innovative securitisation of silent partnerships eligible as regulatory core capital through the issuance of RESPARC Securities and the issuance of several benchmark bonds.

Overview of the Business of HSH Nordbank

Like the Predecessor Banks, HSH Nordbank will be authorised pursuant to its charter to conduct all types of banking business and to act as the state bank for the City of Hamburg and the Federal State of Schleswig-Holstein. In this capacity, it will conduct the banking transactions of the Free and Hanseatic City of Hamburg and of the State of Schleswig-Holstein and of public sector companies and other affiliates of these states.

In addition, like the Predecessor Banks, HSH Nordbank will offer its customers (publicly-held companies, industrial and commercial companies, institutional investors and private customers) a comprehensive range of banking services, both in Germany and abroad: short-term advances, granting of medium- and long-term loans, issuing of guarantees and other indemnities, purchase and sale of receivables and other factoring transactions or structured financings. Like the Predecessor Banks, HSH Nordbank will make loans to borrowers from both the public and the private sectors, provide mortgage loans for commercial and residential real estate, engage in export finance and provide guarantees. Also like the Predecessor Banks, HSH Nordbank will accept deposits of all kinds and engage in payment processing, be active in securities and currency trading, and engage in securities and money market instrument trading as well as the underwriting of public and private debt placements. It will also provide securities settlement services for private customers, institutional investors and other providers of financial services.

As with LB Kiel in the past, HSH Nordbank will serve as the central clearing house for the savings banks in Schleswig-Holstein and co-operate with them on joint credit financings. In addition, it will support the savings banks in their international activities and in securities trading, product development as well as balance sheet management.

Strategy and Business Areas

HSH Nordbank will be one of the leading Northern European banks. It will:

- be the market leader in its core region Hamburg / Schleswig-Holstein jointly with the Schleswig-Holstein savings banks and be one of the leading foreign banks in the Baltic sea region;
- act as an industry specialist with an international orientation in selected business areas; and
- strive to be an effective and innovative member of the domestic and international capital markets.

At the regional level, with its broad range of financial services, HSH Nordbank will focus, just like the Predecessor Banks, on mid-market customers in the Hamburg / Schleswig-Holstein economic region, where it will be the market leader, in close cooperation with the savings banks. It will also be among the leading foreign banks in the Baltic region, where it will focus, just as LB Kiel has, on medium-sized to large corporate customers and also on small to medium-sized banks.

Globally, HSH Nordbank, as an industry specialist with international reach, will focus on its Core Business Areas Shipping, Real Estate, Corporate Customers and Structured Financings. In its Core Business Area Corporate Customers and Structured Financings, where it primarily serves the mid-sized customers in its home market, it will concentrate its supra-regional and international activities on the energy, waste disposal, infrastructure and healthcare sectors. In these sectors and in the Core Business Areas of Shipping and Real Estate, the Predecessor Banks acquired a considerable amount of know-how and expertise. On this basis, HSH Nordbank will be in a position to offer products and solutions that are tailored to the special demands of its customers and business partners.

HSH Nordbank intends to build systematically upon the Predecessor Banks' strong position as frequent issuer trader and provider of complex products such as structured financings and asset backed securities in the domestic and international capital markets. In so doing, the Bank will particularly focus on the Core Business Areas of Credit Investments and Funding. The Credit Investments Business Area includes the non-customer lending business which serves as a means of portfolio management and diversification. The Funding Business Area will be responsible for acquiring refinancing for HSH Nordbank (with the exception of own funds).

In keeping with its international orientation, HSH Nordbank, like the Predecessor Banks, will be represented at financial and business locations around the world. As a leading Northern European commercial bank, it will focus on the Baltic Sea and Scandinavia region, where it will have branches and representative offices in Copenhagen, Helsinki, Stockholm, Oslo, Warsaw and Tallinn. Its business activities in this region, which HSH Nordbank considers to be strategically attractive, will be carried out primarily by the Copenhagen branch, as is the case with LB Kiel's activities in this area. In addition, HSH Nordbank will be represented as a partner in the most important capital markets worldwide, i.e., in London, Luxembourg, New York and Hong Kong, and will also have a presence in Guernsey. In response to the significant role that the Asian economy plays in Hamburg's foreign trade, HSH Nordbank will maintain the presence established by Hamburg LB in Singapore, Shanghai and Hanoi.

HSH Nordbank's business areas will be customer-oriented and build on its strategic image. Given this fact, the future management has decided to qualify the business as follows:

- Core Business Areas
- Growing Business Areas
- Basic Business Areas
- Opportunity Business Areas

In addition, certain central functions that apply to different Business Areas will be performed by other competence centres, such as Controlling/Finance, Portfolio Management, Asset Liability Management, Legal and Tax.

Core Business Areas

HSH Nordbank will concentrate on business areas where it can capitalise on the Predecessor Banks' extensive experience and expertise that can make significant and lasting contributions to its earnings. These "Core Business Areas" will have a high priority in terms of staffing, IT and capital. HSH Nordbank is active in the following Core Business Areas:

- Shipping;
- Real Estate;
- Corporate Customers and Structured Financings;
- Credit Investments;
- Funding.

Core Business Area Shipping

HSH Nordbank will be the world's leading ship financier. Hamburg LB's and LB Kiel's respective credit portfolios, which are highly diversified in terms of both region and sector, were €11.5 billion and €4.2 billion, respectively, at 31 December 2002. In addition to traditional and structured ship financings, HSH Nordbank will offer all related financing and loan collateralisation products, particularly those tailored to the special needs of international shipping companies, just as the Predecessor Banks did. This offering will be complemented by a broad range of other banking products. The customers of the Core Business Areas Shipping are primarily headquartered in Germany, Scandinavia, Greece and the United States. Asia and the rest of Europe are also strongly represented. LB Kiel's and Hamburg LB's current customers mainly operate container and bulk freighters for dry loads (bulkers) and wet loads (crude oil and oil product tankers), ferries and cruise liners. HSH Nordbank intends to continue the Predecessor Banks' policy of diversifying the ship financing portfolio with a wide range of industries and countries so as not to be subject to the cyclical developments in the shipping industry's individual sectors and regions.

In the Core Business Area Shipping, HSH Nordbank will be able to make quick, flexible decisions because of Hamburg LB's and LB Kiel's long years of experience in ship financing, and will be able to capitalise on their longstanding customer relationships.

Core Business Area Real Estate

HSH Nordbank will operate its real estate business not only from Hamburg, Kiel and Berlin but also increasingly from London, New York and Copenhagen. As with the Predecessor Banks, the Core Business Areas Real Estate will focus on domestic financings of commercial and residential real estate in Northern Germany and in the West German population centres. HSH Nordbank will finance both new constructions and acquisitions of existing property. HSH Nordbank intends to continue the Predecessor Banks' reduction of their commitments in the former East Germany in order to pursue a broad diversification of the portfolio. In this regard, it is also planned to step up the Predecessor Banks' commitment to highly attractive properties in top locations in large North American and European cities. As it continues with the Predecessor Banks' strategic orientation, the Core Business Area Real Estate will be expanded to cover all real-estate-related needs, and will increasingly offer innovative new products in real estate investment banking in addition to traditional financings. Hamburg LB's real estate loan portfolio stood at approximately € 13.1 billion on 31 December 2002, whereas LB Kiel's was approximately € 9.9 billion.

Core Business Area Corporates/Structured Finance

As the leading bank in the Hamburg / Schleswig-Holstein metropolitan region in terms of total assets, HSH Nordbank will have a special responsibility for the larger mid-size companies in that region. In this regard, foreign trade, trade, services, logistics and the port industry will be the most important sectors, and HSH Nordbank, like the Predecessor Banks, will set its focus accordingly. In this regard, HSH Nordbank plans to offer its longstanding mid-sized customers advisory services, e.g., with respect to M&A activities and innovative refinancing products and by so doing, to expand the bandwidth of the products and services that it offers to its regular customers.

In continuation of the Predecessor Banks' strategy of concentrating international activities on selected sectors, HSH Nordbank will position itself as a project and special financier for the energy, utilities, infrastructure and healthcare industries, where the Predecessor Banks have developed considerable know-how and longstanding customer relationships. HSH Nordbank's Core Business Areas Corporate Customers and Structured Financings will also focus on selected acquisition financings.

The asset volume of the two Predecessor Banks in the two areas that will be assigned to the new Core Business Area Corporate Customers and Structured Financings stood at approximately € 13 billion as of 31 December 2002.

Core Business Area Credit Investments

The Core Business Area Credit Investments will be responsible for HSH Nordbank's investment activities in tradable domestic and international credit risks. The primary tool for risk diversification and the targeted acquisition of risk in this Core Business Area will be derivatives. Credit derivatives such as credit default swaps, through which targeted default risks and other credit risks can be acquired without extending loans to specific borrowers, as well as innovative transaction structures will be used in addition to asset-backed securities and basket products. The policy goal of Core Business Area Credit Investments will be to support an active, risk/yield-oriented management of the entire bank as a strategic investor in credit risks and on this basis, to contribute to a risk-minimising diversification of the entire bank portfolio.

Core Business Area Funding

As for the Predecessor Banks, an efficient maturity-matched funding strategy will be the basis for a successful lending and investment business for HSH Nordbank. The Core Business Area Funding will be responsible for obtaining the debt funding that will be needed to implement this strategy, and it will be guided by strict earnings-based guidelines.

The strategic management of the funding of the bank's operations will be handled by the Asset Liability Management competence centre. This competence centre will also make the funding available to the individual active Business Areas in the course of the continuing business planning. The funding strategy formulated by Asset Liability Management will then be implemented by the Core Business Area Funding by borrowing funds on the domestic and international money markets and capital markets.

In order for HSH Nordbank to have the same funding opportunities as were available to the Predecessor Banks, it will establish an EMTN Programme and a Euro- and US Dollar Commercial Paper Programme immediately following the Merger. On this basis, it will follow the Predecessor Banks in issuing traditional debt funding products such as bearer notes, registered debt securities and German law *Schuldschein* loans. In addition to the outstanding issues of the Predecessor Banks, HSH Nordbank intends to continue and expand the issuance of benchmark bonds and structured notes that are tailored to meet specific investor requirements. The ability to fund operations by issuing mortgage bonds, which were used by the Predecessor Banks, will be eliminated as a result of the intended merger (see “The Imminent Merger of LB Kiel and Hamburg LB—Mortgage Bond Privilege”).

HSH Nordbank will rely on the longstanding expertise of the Predecessor Banks as frequent issuers and on their bases in the world’s leading financial centres to expand their international investor base and to tap into new sources of operations funding.

Growing Business Areas

In addition to expanding its activities in the Core Business Areas, HSH Nordbank plans to build and expand in its “Growing Business Areas” high-performance areas with significant growth potential. The plan is to review the individual Growing Business Areas at the end of a pre-determined period of time to ascertain their contribution to the bottom line and then to continue them as either a Core, a Basic or an Opportunity Business Area. On the basis of their strategic potential, personnel, IT and capital will be assigned to these Growing Business Areas with the same priority as the Core Business Areas. The current Growing Business Areas are:

- Savings Banks/Public Law Clients; and
- Transportation

The range of services to savings banks, which will be both customers and co-owners of HSH Nordbank, will be further expanded. To this end, HSH Nordbank will offer the savings banks both specially tailored innovative financial products and advisory and financial services for the savings banks themselves, e.g. risk and portfolio management.

The Growing Business Area Transportation includes, in particular, the significant area of aircraft financings, in which HSH Nordbank will follow the Predecessor Banks’ tradition of servicing airlines, aircraft manufacturers and suppliers as well as financial service providers in the area of aviation in their predominantly long-term investments. In this Growing Business Area, HSH Nordbank will also continue the railroad financing as well as infrastructure and logistics projects in the airport and railway industry transacted by the Predecessor Banks.

Basic Business Areas

The “Basic Business Areas” of HSH Nordbank will be the basis for the operation of the Core Business Areas and for maintaining the general banking functions. HSH Nordbank’s primary Basic Business Area will be Capital Markets (but for the activities of the Core Business Area Funding which, organisationally, are assigned to Capital Markets), which is oriented around trading activities for customer needs.

Opportunity Business Areas

Those activities of the Predecessor Banks that are not among the Core Business Areas of HSH Nordbank but are nevertheless attractive from a profit standpoint will be maintained as “Opportunity Business Areas”. Opportunity Business Areas will be regularly reviewed as to their success and if necessary, will be re-oriented. The Opportunity Business Areas will include “Leasing Refinancing”, “Financial Institutions/Global Trade Finance” and “Private and Corporate Customers”. In Leasing Refinancing, HSH Nordbank, in line with the the Predecessor Banks’ activities, will refinance leasing companies (such as via factoring transaction) and be one of Germany’s largest financiers of manufacturer-independent leasing companies. The Opportunity Business Area Financial Institutions/Global Trade Finance will continue the Predecessor Banks’ interbank business (including transactions with insurance companies and sovereign borrowers) and export finance activities (including providing guarantees). The Predecessor Banks’ Private and Corporate Customer business will also be continued in the Opportunity Business Area (primarily wealthy private customers in Hamburg and Schleswig-Holstein). Along with 57,000 private customers, HSH Nordbank does business for 4,000 corporate customers (small and medium sized companies and freelancers etc.).

Management Tools

HSH Nordbank will be managed using comprehensive management tools which will integrate both earnings and risk components. The basic tool set is designed from both a business administration and a regulatory standpoint. The earnings and profitability targets to be set by HSH Nordbank management will be carried over for the individual organisational units to internal management elements such as contribution margin calculations. In addition, HSH Nordbank plans to implement the “global head principle” which is intended to ensure the universal worldwide management of the business areas by means of uniform guidelines with respect to financial targets (including yields), industry and product focus and priorities, margin and price policy, risk management and equity allocation.

In this regard, HSH Nordbank will use a uniform RAROC (Risk Adjusted Return on Capital) approach to calculate the value contribution of its business activities. Equity capital costs are calculated for this approach on the basis of rating, exposure and LGD (loss given default) information which is then taken into account in the price calculation of the risk margin. In addition, a comprehensive bank management system and active portfolio management will ensure that the Bank not only achieves optimal equity capital allocation but also avoids risk concentration in the Core Business Areas. Particular attention will be paid to constantly expanding and fine-tuning the RAROC management, preliminary calculation procedure and the equity capital allocation mechanisms with a view to the Basle II requirements.

As part of the overall management of HSH Nordbank, active portfolio management will be used to optimise the bank’s strategic orientation. This approach should allow HSH Nordbank to evolve from being a risk-taker to being a risk-manager. It will do so, just as LB Kiel has done, by creating a separate division: the Portfolio Management division will be responsible for strategic management of the bank’s portfolio and active management of its loan portfolio, as well as active market positioning of the bank. Portfolio Management will also be responsible for formulating the bank’s equity strategy, for all equity procurement and release measures, and for the internal allocation of equity capital. In addition, the division will take on the active management of credit risk at the bank-wide level. This is intended to enable the recognition and management of structural risks in the portfolio, such as concentrations in one industry or region, across the board.

Risk Management

HSH Nordbank will manage its individual risk components as part of a Bank-wide management system which will be developed and implemented chiefly by the Controlling/Finance and Portfolio Management divisions. As with its Predecessor Banks, this framework will make it possible to identify, measure and monitor key risks (counterparty default, market, liquidity and operational risks) and keep them within pre-defined limits. To this end and in keeping with regulatory provisions, HSH Nordbank, like the Predecessor Banks, will form committees that are responsible for constantly capturing and controlling the Bank’s risk exposure as part of a sophisticated system of risk reporting. HSH Nordbank also intends to carry on the practice established by its Predecessor Banks of continually testing and improving the methods and procedures used in risk measurement and management for their flexibility. The ultimate goal of HSH Nordbank’s conservative risk strategy will be the creation of a balanced portfolio free from large and concentrated exposures.

Counterparty Default Risk

The risk of financial loss resulting from a change in the credit rating of a counterparty or default by a counterparty is known as counterparty default risk. Typically, counterparty default risk is subdivided into credit risk and settlement risk. In addition to the risks posed by counterparties, country risk represents another default risk that the Bank will face. As was the case with HSH Nordbank’s predecessors, these risks will be managed within limits and levels of expertise established by the Managing Board, and risk management will be monitored by the relevant committees. In keeping with the policies established by the Predecessor Banks, individual and overall limits will be established for the lending business, while country risks will be controlled with a rating system that is applied to portfolios as a whole and to pools of investments within portfolios. In addition, credit rating risks will be assessed on the basis of risk classes. Such assessment and classification is and will remain a vital component in the advance determination of risk margins and cover for anticipated and unanticipated losses on the basis of default probability calculations. In its divisions that are involved in lending, HSH Nordbank will continue to use proprietary rating systems which already meet to a large extent the standard set by Basle II. Due to the anticipated separation of front-office and rating responsibility in future credit rating operations foreseen in this context, HSH

Nordbank will be strict in adapting its organisational structure to the expected requirements and, as a result, will set up an independent rating department.

Market Price Risk

As its Predecessor Banks have done, HSH Nordbank will use the value-at-risk (VaR) approach to measure and manage market price risks. VaR is used to estimate the likelihood that the potential losses of a portfolio of financial instruments will not exceed a specific amount within a specified period of time, with the risks being compared to allowable loss limits. Just as the Predecessor Banks have done, reports will be sent to the Managing Board and to the relevant trading units on a daily basis. New products will be incorporated into the risk measurement process constantly. As in the past, the portfolios will be regularly subjected to stress tests that simulate extreme market movements.

Liquidity Risk

Liquidity risk refers to the risk that the Bank will not have sufficient liquidity available to meet its payment obligations in full or on time. As at its Predecessor Banks, liquidity risk management at HSH Nordbank will be based on a framework of conditions established by the Managing Board on the recommendation of the Asset Liability Management (ALM). Structural liquidity will be the responsibility of ALM, while operating liquidity (including the ability to meet payment obligations and minimum reserve requirements at any time) will be the responsibility of Capital Markets. Using worst-case scenario calculations, ALM will monitor and manage the Bank's day-to-day compliance with the KWG's liquidity requirement (known as Principle II) with forecasts generated by worst-case scenario calculations. The goal will be to keep the liquidity ratio above the regulatory minimum at all times.

As in the past, the ALM Committee will manage the Bank's structural liquidity risk by using the maturities of assets and liabilities to regularly generate a detailed report of liquidity status. Stochastic variables such as the likelihood of prolongation will be modeled separately in an additional step. Doing so will yield an extensive analysis of the effects that future maturity dates and potential changes will have on HSH Nordbank's liquidity, liquidity structure and liquidity ratios. To the extent that any ratios determined exceed predefined limits approved by the Managing Board, contingency plans, like those maintained by the Predecessor Banks, will go into effect immediately. This will enable the ALM Committee to discern potential risks arising from intentional or existing liquidity gaps early enough to introduce counteractive measures. In addition, these risks will also be kept in check by a liquidity-at-risk (LaR) limit that the Risk Controlling unit of HSH Nordbank will establish.

The refinancing risk will be managed using long-term strategies established by ALM and will serve as the basis for concrete refinancing plans. The impact of any movement in the Bank's rating because of the elimination of guarantor liability and changes to institutional liability were already taken into account by the Predecessor Banks. Their work will be continued at HSH Nordbank by a joint team.

Operational Risks

Operational risks are defined as the threat of direct or indirect losses caused by the failure or inadequacy of equipment, organisation and personnel or from external influences. As in the past, the control and management of operational risks at HSH Nordbank is intended to meet expected regulatory requirements and help optimise the basis for cost accounting and business planning. As before, there will be three instruments used to assess and analyse operational risks. First, all units will make regular self-assessments of the qualitative risks they face using standardised sets of questions. Secondly, the loss event database currently under construction will capture all losses throughout the Bank in a uniform manner. Thirdly, risk indicators that assist in the early recognition of operational risks will be developed.

Corporate Governance Code

HSH Nordbank will develop its own corporate governance code. This code will contain the major statutory provisions governing the Bank's management and supervision, as well as nationally and internationally recognised standards of good, responsible corporate governance that HSH Nordbank, the Supervisory Board and the Managing Board will be committed to following.

As an institution operating internationally, HSH Nordbank will strive, even though it is not a listed company and its obligation is voluntary, to make its corporate governance system transparent and easy to understand for customers, employees and the public at large, both in Germany and abroad, thereby increasing their confidence in HSH Nordbank. Most of the content and wording of the voluntary corporate governance code will reflect that of the German Corporate Governance Code published by the Cromme Commission.

Like all German stock corporations, HSH Nordbank will be governed by a dual system of administration: executive responsibilities will be divided between two bodies, the Managing Board and the Supervisory Board. The Managing Board will be responsible for managing the company, while the Supervisory Board will be responsible for appointing, advising and supervising the Managing Board. In general, members of supervisory boards are appointed by the shareholders. However, when companies have more than 2,000 employees in Germany (as is the case with HSH Nordbank), half of the supervisory board is made up of shareholder representatives. When membership of the supervisory board is divided in this way, the chairman of the supervisory board, who nearly always is a shareholder representative, has two votes in the event of a tie. Shareholder representatives and employee representatives are equally obligated to act within the company's interests.

The corporate governance rules will be updated to reflect current circumstances. Each year in the annual report, the Bank will give an account of its compliance with the corporate governance rules.

REGULATION

The following explains certain regulatory matters which are of significance for the business of the LB Kiel Group. Unless different legal circumstances are expressly indicated, the explanations in the following also apply for the regulation of the HSH Nordbank's business after the Merger.

Overview

The LB Kiel Group's operations throughout the world are subject to the banking supervisory regimes of the various jurisdictions in which the LB Kiel Group conduct business. Banking supervisory regulations contain, *inter alia*, restrictions on LB Kiel's banking and non-banking activities, capital adequacy requirements, limitations of large exposures, conduct of business rules, requirements as to LB Kiel's organisational structure and numerous reporting requirements. They furthermore provide various regulatory authorities with investigative and enforcement powers with respect to the LB Kiel Group. In addition, a number of countries in which LB Kiel operates impose limitations on (or which affect) foreign or foreign-owned or controlled banks and financial services institutions, which have an impact on its business activities including:

- restrictions on the opening of local offices, branches or subsidiaries and the types of banking and non-banking activities that may be conducted by those local offices, branches or subsidiaries;
- restrictions on the acquisition of local banks or requirements of specified percentages of local ownership or specified numbers of local management personnel; and
- restrictions on investment and other financial flows in and out of the country.

Changes in the regulatory and supervisory regimes of the countries in which the LB Kiel Group operates determine, to some degree, its ability to expand into new markets, the services and products that it is able to offer in those markets, the costs of providing such services and products and how LB Kiel structures its specific operations.

The LB Kiel Group's principal supervisor is the BaFin, the German Financial Services Supervisory Authority. Additionally, many of LB Kiel's operations outside Germany are regulated by local supervisors. Within countries that are member states of the European Union or other contracting states of the Agreement on the European Economic Area (i.e., Iceland, Liechtenstein and Norway), LB Kiel's branches generally conduct regulated business under the so-called "European Passport". The European Passport is a single banking license that permits LB Kiel to spread its activities throughout the European Union, either via branches or by offering products and services in other member states. Under the European Passport, LB Kiel's EU and EEA branches are subject to regulation and supervision primarily by the German Financial Services Supervisory Authority. When it opens a branch in another member state, LB Kiel is required to notify the host country regulator, which can require that LB Kiel submit to it any information that it makes available to regulatory authorities in Germany. In addition, the host country regulator is entitled to impose certain restrictions on LB Kiel in the public interest. When LB Kiel forms a subsidiary in another member state of the European Union or the European Economic Area, it must obtain a separate authorisation from the relevant local bank regulator. In the United States, LB Kiel's New York branch is supervised mainly by the New York Banking Department and the Board of Prime Ministers of the Federal Reserve System.

The following sections provide a description of the regulatory framework applicable to LB Kiel and, after the Merger, HSH Nordbank in Germany, which LB Kiel views as the most significant jurisdiction in which it does (and, following the Merger, HSH Nordbank will do) business.

Outside Germany and the European Economic Area member states, where, as noted, LB Kiel conducts business on the basis of the European Passport, local country regulations generally have a limited impact on LB Kiel's operations.

Principal Laws and Regulators

LB Kiel is authorised to conduct general banking business and to provide financial services under and, subject to the requirements set forth in, the German Banking Act (*Kreditwesengesetz*). In addition, LB Kiel is subject to the provisions of the Savings Banks Act for the State of Schleswig-Holstein (*Sparkassengesetz für das Land*

Schleswig-Holstein); upon the Merger of LB Kiel and Hamburg LB into HSH Nordbank, the Savings Bank Act for the State of Schleswig-Holstein will cede to apply to the merged entity.

LB Kiel, as well as those of its German subsidiaries that engage in the banking or financial services business and those that have banking or financial service related operations, are subject to comprehensive regulation and supervision by the German Central Bank (*Bundesbank*) and the German Financial Services Authority. The Financial Services Authority, which was only recently established, combines the functions of the former German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*), the former German Insurance Supervisory Authority (*Bundesaufsichtsamt für das Versicherungswesen*) and the former German Securities Trading Supervisory Authority (*Bundesaufsichtsamt für den Wertpapierhandel*). The European Central Bank regulates LB Kiel in regard to minimum reserves on deposits.

The German Banking Act

The German Banking Act contains the basic set of rules applicable to German banks, including the requirement for a banking license, and regulates the business activities of German banks. The German Banking Act defines a “banking institution” (*Kreditinstitut*) as an enterprise that engages in one or more of the financial activities defined in the Act as “banking business.” The German Banking Act also applies to “financial services institutions” (*Finanzdienstleistungsinstitute*). Banking institutions and financial services institutions are subject to the licensing requirements and other provisions of the German Banking Act.

The German Banking Act and the rules and regulations adopted thereunder implement certain recommendations of the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, at LB Kiel for International Settlements, or “BIS”, as well as certain European Council directives relating to banks. These directives address issues such as accounting standards, regulatory capital, risk-based capital adequacy, consolidated supervision, the monitoring and control of large exposures, the establishment of branches within the European Union and the creation of a single European Union-wide banking market with no internal barriers to cross-border banking services.

The Savings Banks Act for the State of Schleswig-Holstein

The Savings Banks Act for the State of Schleswig-Holstein (*Sparkassengesetz für das Land Schleswig-Holstein*) constitutes the legal basis for LB Kiel’s operations. It provides that LB Kiel is a public law institution based in Kiel and defines LB Kiel’s status as that of a government bank, a clearing agency for the savings banks of Schleswig-Holstein and a commercial bank assigns the following tasks to LB Kiel:

- carry out banking business for the state of Schleswig-Holstein;
- support the savings banks of Schleswig-Holstein with the fulfillment of their duties;
- extend loans to municipalities; and
- promote the state’s economy.

In carrying out its commercial banking activities, LB Kiel is required to take into account the concerns of Schleswig-Holstein and the savings banks based in that state. Upon the Merger of LB Kiel and Hamburg LB into HSH Nordbank, the Savings Bank Act for the State of Schleswig-Holstein will cease to apply to the merged entity.

The Act also contains the legal basis for the two administrative law principles known as “Maintenance Obligation” (*Anstaltslast*) and “Guarantee Obligation” (*Gewährträgerhaftung*) that apply to LB Kiel’s operations as a Landesbank. Under the concept of Maintenance Obligation, LB Kiel’s owners are required to preserve the economic viability of LB Kiel, to keep it in a position to perform its functions and to enable it, through the provision of liquid funds or otherwise, to meet its payment obligations when due and to maintain a sound financial condition. Under the concept of Guarantee Obligation, LB Kiel’s owners are jointly and severally liable for its obligations to the extent that its assets are insufficient to satisfy such obligations. In defending claims brought against LB Kiel’s owners under the concept of Guarantee Obligation, the owners may raise any defense that either LB Kiel or any other defendant in a comparable situation as LB Kiel’s owners could raise. On 17 July 2001, the Federal Republic of Germany agreed with the European Commission to change the regulatory framework applicable to Landesbanks by: (i) replacing Maintenance Obligation with normal ownership relations between LB

Kiel's owners and LB Kiel by 18 July 2005 and (ii) abolishing Guarantee Obligation by 18 July 2005, subject to certain transitional arrangements.

The German Public Mortgage Bond Act

The German Public Mortgage Bond Act (*Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditinstitute*) entitles LB Kiel to issue public mortgage bonds (*öffentliche Pfandbriefe*) and related securities. As this Act only applies to public law financial institutions, it will not apply to HSH Nordbank. LB Kiel expects federal legislation which will allow HSH Nordbank to continue to act a successor of LB Kiel and Hamburg LB with respect to the legal positions established by them under this Act. HSH Nordbank will consider the establishment of a mortgage bank subsidiary which would be allowed to issue mortgage bonds (*Pfandbriefe*) in the future.

Supervision by the Financial Services Supervisory Authority

The German Financial Services Supervisory Authority is a federal regulatory authority supervised by the German Federal Minister of Finance. It has the power to adopt administrative acts (*Verwaltungsakte*), regulations (*Verordnungen*) and guidelines (*Verlautbarungen und Rundschreiben*) that implement German banking laws and other laws affecting German banks.

The Financial Services Supervisory Authority supervises the operations of German banks to ensure that they are in compliance with the German Banking Act and other applicable German laws and regulations. It places particular emphasis on compliance with capital adequacy and liquidity requirements, large exposure limits and restrictions on certain activities imposed by the German Banking Act and related regulations.

Regulation by the Bundesbank

The Financial Services Supervisory Authority carries out its supervisory role in close cooperation with the Central Bank. Nevertheless, these two institutions have distinct functions. While only the Financial Services Supervisory Authority has the authority to issue administrative orders, it is required to consult with the Central Bank before it issues general regulations. In addition, the Financial Services Supervisory Authority must obtain the Central Bank's consent before it issues any general regulations that would affect the Central Bank's operations, such as the Principles on Own Funds and Liquidity of Institutions (*Grundsätze über die Eigenmittel und Liquidität der Institute*), which consist of two regulations (*Grundsätze I und II* or "Principles I and II") on capital adequacy and liquidity requirements.

The Central Bank is responsible for the collection and analysis of statistics and reports from German banks. The Central Bank has nine regional offices (*Hauptverwaltungen*). These regional offices analyse the statistics and reports of all German banks that have their corporate seat in the federal states they are responsible for. LB Kiel reports to the Central Bank's regional office in Hamburg which will also be responsible for HSH Nordbank.

Securities Regulation by the Financial Services Supervisory Authority

Under the German Securities Trading Act (*Wertpapierhandelsgesetz*), the Financial Services Supervisory Authority regulates and supervises securities trading in Germany. The German Securities Trading Act prohibits, among other things, insider trading with respect to securities admitted to trading or included in the over-the-counter market at a German exchange or the exchange in another country that is a member state of the European Union or another contracting state of the Agreement on the European Economic Area.

To enable the Financial Services Supervisory Authority to carry out its supervisory functions, banking institutions are subject to comprehensive reporting requirements with respect to securities and derivatives transactions. The reporting requirements apply to transactions for the banking institution's own account as well as for the account of its customers. The German Securities Trading Act also contains rules of business conduct. These rules apply to all businesses that provide securities services. Security services include, in particular, the purchase and sale of securities or derivatives for others and the intermediation of transactions in securities or derivatives. The Financial Services Supervisory Authority has broad powers to investigate businesses providing securities services to monitor their compliance with the rules of conduct and the reporting requirements. In addition, the German Securities Trading Act requires an independent auditor to perform an annual audit of the securities services provider's compliance with its obligations under the German Securities Trading Act.

The European Central Bank

The European Central Bank sets the minimum reserve requirements for institutions that engage in the customer deposit and lending business. These minimum reserves must equal a certain percentage of the institutions' liabilities resulting from certain deposits, plus the issuance of bonds and money market instruments.

Capital Adequacy Requirements

German capital adequacy principles are based on the principle of risk adjustment. German capital adequacy principles, as set forth in Principle I, address capital adequacy requirements for both counterparty risk (*Adressenausfallrisiko*) and market price risk (*Marktrisiko*). German banks are required to cover counterparty and market risks with Tier I capital (*Kernkapital* or “core capital”) and Tier II capital (*Ergänzungskapital* or “supplementary capital”) (together, *haftendes Eigenkapital* or “regulatory banking capital”). They may also cover market price risk with Tier III capital (*Drittrangmittel*) and (to the extent not required to cover counterparty risk) with regulatory banking capital. The calculation of regulatory banking capital and Tier III capital is set forth below.

Principle I requires each German bank to maintain a solvency ratio (*Eigenkapitalquote*) of regulatory banking capital to risk-weighted assets (*gewichtete Risikoaktiva*) of at least 8%. The calculation of risk-weighted assets is explained below. The solvency ratio rules implement the European banking consolidation directive, which in turn, is based on the recommendations of the Basel Committee at the BIS. See “–The Basel II Capital Accord” as to proposed changes to the current recommendation of the Basel Committee.

Regulatory Banking Capital

Under the German Banking Act, regulatory banking capital (*Eigenkapital*), the numerator of the solvency ratio, consists of:

Tier I (core) capital:

- Paid-in share capital (for public law banks: *Dotationskapital*).
- Capital reserves.
- Earnings reserves.
- *Special fund for general banking risks*. A bank may record this fund on the liability side of its balance sheet to reflect special risks inherent in the banking business. A bank must use its reasonable commercial judgment in making this determination.
- *Silent partnership interests (stille Beteiligungen)*. Silent partnership interests are hybrid participations in the business of a bank. Such interests are subject to certain conditions, including a minimum term of five years, noncumulative dividends, participation in the bank's losses and subordination to the rights of all creditors in the event of insolvency or liquidation of the bank.

Treasury shares held by the bank, losses and certain intangible assets are subtracted from the Tier I capital calculation.

Tier II capital (limited to the amount of Tier I capital):

- *Participation rights (Genussrechte)*. These rights are subject to certain conditions, including a minimum term of five years, participation in the bank's losses and subordination to the rights of all non-subordinated creditors in the event of insolvency or liquidation of the bank.
- *Longer-term subordinated debt* (limited to 50% of the amount of Tier I capital). This debt is subject to certain criteria, including a minimum term of five years and subordination to the rights of all non-subordinated creditors in the event of insolvency or liquidation of the bank.
- *Reserves pursuant to Section 6b of the German Income Tax Law (Einkommensteuergesetz)*. A bank may include 45% of these reserves in regulatory banking capital. However, any reserves included in PS-

55. regulatory banking capital must have been created from the proceeds of the sale of real property, property rights equivalent to real property or buildings.

- *Reserves for general banking risks.* A bank may record certain receivables on its balance sheet at a lower value than would be permitted for industrial and other non-banking entities. Such receivables include loans and securities that are neither investment securities nor part of the trading portfolio. The bank may record these receivables at a lower value if the use of a lower value is advisable, in its reasonable commercial judgment, to safeguard against the special risks inherent in the banking business. Reserves for general banking risks may not exceed 4% of the book value of the receivables and securities recorded.
- *Certain unrealised reserves.* These may include up to 45% of the difference between the book value and the lending value (*Beleihungswert*) of land and buildings, and up to 35% of the difference between the book value of unrealised reserves (including provisioning reserves) and the sum of the market value of securities listed on a stock exchange and the published redemption price of shares issued by certain securities or real estate funds. A bank may include these reserves in Tier II capital only if its Tier I capital amounts to at least 4.4% of its risk-weighted assets. Reserves may be included in Tier II capital only up to a maximum amount of 1.4% of risk-weighted assets.

Capital components that meet the above criteria and which a bank has provided to another bank, financial services institution or financial enterprise which is not consolidated with the bank for regulatory purposes, are subtracted from the bank's regulatory banking capital if the bank holds more than 10% of the capital of such other bank, financial services institution or financial enterprise or to the extent the aggregate book value of such investments exceeds 10% of the bank's regulatory banking capital.

Risk-weighted Assets

The calculation of risk-weighted assets, the denominator of the solvency ratio, is set forth in Principle I. Assets are assigned to one of six basic categories of relative credit risk based on the debtor and the type of collateral, if any, securing the respective assets. Each category has a risk-classification multiplier (0%, 10%, 20%, 50%, 70% and 100%). The balance sheet value of each asset is then multiplied by the risk-classification multiplier for the asset's category. The resulting figure is the risk-weighted value of the asset.

Off-balance sheet items, such as financial guarantees, letters of credit, swaps and other financial derivatives, are subject to a two-tier adjustment. First, the value of each item is determined. The value of each item is multiplied by one of three risk-classification multipliers (20%, 50% and 100%) depending on the type of instrument. In the second step, the off-balance sheet item is assigned to one of the six credit risk categories set forth above for balance sheet items. Selection of an appropriate risk multiplier is based on the type of counterparty or debtor and the type of collateral, if any, securing the asset. The adjusted value of the off-balance sheet item is then multiplied by the risk multiplier to arrive at the risk-weighted value of the off-balance sheet item.

Tier III Capital and Market Price Risk

Principle I also sets forth the principles governing capital adequacy requirements for market price risk. The market price risk positions of a bank include the following:

- foreign exchange positions;
- commodities positions;
- certain trading book positions, including those involving counterparty risk, interest rate risk and share price risk; and
- options positions.

The net risk-weighted market price risk positions must be covered by Own Funds (*Eigenmittel*) that are not required to cover counterparty risk. Own Funds consist of regulatory banking capital (Tier I plus Tier II capital) and Tier III capital. The calculation of risk-weighted market price risk positions must be made in accordance with specific rules set forth in Principle I or, at the request of a bank, in whole or in part in accordance with the bank's internal risk rating models approved by the Financial Services Supervisory Authority.

At the close of each business day, a bank's total net risk-weighted market price risk positions must not exceed the sum of:

- the difference between the bank's regulatory banking capital and 8% of its aggregate amount of risk-weighted risk assets; and
- the bank's Tier III capital.

Tier III capital consists of the following items:

- *Net profits.* Net profits are defined as the proportionate profit of a bank which would result from closing all trading book positions at the end of a given day minus all foreseeable expenses and distributions and minus losses resulting from the investment book which would likely arise upon a liquidation of the bank.
- *Short-term subordinated debt.* This debt must meet certain criteria, including a minimum term of two years, subordination to the rights of all non-subordinated creditors in the event of insolvency or liquidation of the bank and suspension of the payment of interest and principal if such payment would result in a breach of the Own Funds requirements applicable to the bank.

Net profits and short-term subordinated debt qualify as Tier III capital only up to an amount which, together with the supplementary capital not required to cover risks arising from the investment book (as described below), does not exceed 250% of the core capital required to cover risks arising from the investment book.

The German Banking Act defines the investment book as all positions and transactions, which are not part of the trading book. The trading book is defined as consisting primarily of the following:

- financial instruments that a bank holds in its portfolio for resale or that a bank acquires to exploit existing or expected spreads between the purchase and sale price or price and interest rate movements;
- positions and transactions for the purpose of hedging market price risks arising from the trading book and related refinancing transactions;
- transactions subject to the designation of the counterparty (*Aufgabengeschäfte*);
- payment claims in the form of fees, commissions, interest, dividends and margins directly linked to trading book positions; and
- repurchase, lending and similar transactions related to trading book positions.

The Basel II Capital Accord

The capital adequacy requirements applicable to LB Kiel are based upon the 1988 capital accord of the Basel Committee on Banking Supervision (the "BIS"). The BIS is a committee of central banks and bank supervisors/regulators from the major industrialised countries that develops broad policy guidelines that each country's supervisors can use to determine the supervisory policies they apply. In January 2001, the BIS released a proposal to replace the 1988 capital accord with a new capital accord. In January 2001, the Basel Committee published proposals for an overhaul of the existing international capital adequacy standards. The two principal goals of the proposals are: (i) to align capital requirements more closely with the underlying risks; and (ii) to introduce a capital charge for operational risk (comprising, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). The proposals are expected to be adopted by the Basel Committee during the course of 2003 and to become effective in the various countries that participate in the Basel Committee in 2006. If these proposals become effective, LB Kiel may need to maintain higher levels of capital for bank regulatory purposes, which could increase its financing costs. During its 10 July 2002 meeting, the BIS reached agreement on a number of important issues that the committee has been exploring since releasing its January 2001 consultative paper and confirmed its timetable for finalising the new accord.

Consolidated Regulation and Supervision

The German Banking Act's provisions on consolidated supervision require that each group of institutions (*Institutsgruppe*) taken as a whole meets the Own Funds requirements. Under the German Banking Act, a group of institutions consists of a bank or financial services institution, having its corporate seat in the Federal Republic

of Germany as the parent company, and all other banks, financial services institutions, financial enterprises and bank service enterprises in which the parent company holds more than 50% of the capital or voting rights or on which the parent company can otherwise exert a controlling influence. Special rules apply to joint venture arrangements that result in the joint management of another bank, financial services institution, financial enterprise or bank service enterprise by a bank and one or more third parties.

Liquidity Requirements

The German Banking Act requires German banks and certain financial services institutions to invest their funds so as to maintain adequate liquidity at all times. Principle II prescribes these specific liquidity requirements applicable to banks and to certain financial services institutions. The liquidity requirements set forth in Principle II are based on a comparison of the remaining terms of certain assets and liabilities. Principle II requires maintenance of a ratio (*Liquiditätskennzahl* or “one-month liquidity ratio”) of liquid assets to liquidity reductions expected during the month following the date on which the ratio is determined of at least one. German banks and certain financial services institutions are required to report the one-month liquidity ratio and estimated liquidity ratios for the next eleven months to the Financial Services Supervisory Authority on a monthly basis. The liquidity requirements set forth in Principle II do not apply on a consolidated basis.

Limitations on Large Exposures

The German Banking Act and the Large Exposure Regulation (*Grosskredit- und Millionenkreditverordnung*) limit a bank’s concentration of credit risks on an unconsolidated and a consolidated basis through restrictions on large exposures (*Grosskredite*). The large exposure rules distinguish between the following two types of institutions:

- banks and groups of institutions with minor trading book positions that are not subject to the rules relating to the trading book; and
- banks and groups of institutions that are subject to the rules relating to the trading book (trading book institutions).

LB Kiel and, following the merger, HSH Nordbank, is subject to the large exposure rules applicable to trading book institutions. These rules contain separate restrictions for large exposures related to the investment book (investment book large exposures) and aggregate large exposures (aggregate book large exposures) of a bank or group of institutions.

Investment book large exposures are exposures incurred in the investment book and related to a single client (and clients affiliated with it) that equal or exceed 10% of a bank’s or group’s regulatory banking capital.

Individual investment book large exposures must not exceed 25% of the bank’s or group’s regulatory banking capital (20% in the case of exposures to affiliates of the bank that are not consolidated for regulatory purposes).

Aggregate book large exposures are created when the sum of investment book large exposures and the exposures incurred in the trading book related to a client (and clients affiliated with it) (trading book large exposures) equals or exceeds 10% of the bank’s or group’s Own Funds. The 25% limit (20% in the case of unconsolidated affiliates), calculated by reference to a bank’s or group’s Own Funds, also applies to aggregate book large exposures. Exposures incurred in the trading book include:

- the net amount of long and short positions in financial instruments involving interest rate risk (interest net positions);
- the net amount of long and short positions in financial instruments involving equity price risk (equity net positions); and
- the counterparty risk arising from positions in the trading book.

In addition to the above limits, the total investment book large exposures must not exceed eight times the bank’s or group’s regulatory banking capital, and the aggregate book large exposures must not exceed in the aggregate eight times the bank’s or group’s Own Funds.

A bank or group of institutions may exceed these ceilings only with the approval of the Financial Services Supervisory Authority. In such a case, the bank or group is required to support the amount of the large exposure

that exceeds the ceiling with regulatory banking capital (in the case of ceilings calculated with respect to regulatory banking capital) or with Own Funds (in the case of ceilings calculated with respect to Own Funds) on a one-to-one basis.

Furthermore, total trading book exposures to a single client (and clients affiliated with it) must not exceed five times the bank's or group's Own Funds, to the extent such Own Funds are not required to meet the capital adequacy requirements with respect to the investment book. Total trading book exposures to a single client (and clients affiliated with it) in excess of the aforementioned limit are not permitted.

Limitations on Significant Participations

The German Banking Act places limitations on the investments of deposit-taking banks in enterprises outside the financial and insurance industry, where such investment (called a "significant participation"):

- directly or indirectly amounts to 10% or more of the capital or voting rights of an enterprise; or
- would give the owner significant influence over the management of the enterprise.

Participations that meet the above requirements are not counted as significant participations if the bank does not intend for the participation to establish a permanent relationship with the enterprise in which the participation is held. For purposes of calculating significant participations, all indirect participations held by a bank through one or more subsidiaries are fully attributed to the parent bank.

The nominal value (as opposed to book value or price paid) of a bank's significant participation in an enterprise must not exceed 15% of the bank's regulatory banking capital. Furthermore, the aggregate nominal value of all significant participations of a bank must not exceed 60% of the bank's regulatory banking capital. A bank may exceed those ceilings only with the approval of the Financial Services Supervisory Authority. The bank is required to support the amount of the significant participation or participations that exceed a ceiling with regulatory banking capital on a one-to-one basis.

The limitations on significant participations also apply on a consolidated basis.

Financial Statements and Audits

Compliance with the capital adequacy requirements is determined based on financial statements prepared in accordance with German GAAP. German GAAP for banks primarily reflect the requirements of 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 requires a uniform format for the presentation of financial statements for all banks.

Under German law, LB Kiel (and, following the merger, HSH Nordbank) is required to be audited annually by a certified public accountant (*Wirtschaftsprüfer*). The Financial Services Supervisory Authority must be informed of and may reject the accountant's appointment.

The German Banking Act requires that a bank's accountant inform the Financial Services Supervisory Authority of any facts that come to the accountant's attention that would lead it to refuse to certify or to limit its certification of the bank's annual financial statements or which would adversely affect the financial position of the bank. The accountant is also required to notify the Financial Services Supervisory Authority in the event of a material breach by management of the bank's articles of association or of any other applicable law.

The accountant is required to prepare a detailed and comprehensive annual audit report (*Prüfungsbericht*) for submission to the bank's administrative board, the Financial Services Supervisory Authority and the Central Bank.

Reporting Requirements

The Financial Services Supervisory Authority and the Central Bank require German banks to file comprehensive information in order to monitor compliance with the German Banking Act and other applicable legal requirements and to obtain information on the financial condition of banks.

Internal Auditing

The Financial Services Supervisory Authority requires every German bank to have an effective internal auditing department. The internal auditing department must be adequate in size and quality and must establish adequate procedures for monitoring and controlling the bank's activities.

Banks are also required to have a written plan of organisation that sets forth the responsibilities of the employees and operating procedures. The bank's internal audit department is required to monitor compliance with the plan.

Investigations and Official Audits

The Financial Services Supervisory Authority conducts audits of banks on a random basis, as well as for cause. It may require banks to furnish information and documents in order to ensure that the bank is complying with the German Banking Act and its regulations. The Financial Services Supervisory Authority may conduct investigations without having to state a reason for its investigation.

The Financial Services Supervisory Authority may also conduct investigations at a foreign entity that is part of a bank's group for regulatory purposes in order to verify data on consolidation, large exposure limitations and related reports. Investigations of foreign entities are limited to the extent that the law of the jurisdiction where the entity is located restricts such investigations.

The Financial Services Supervisory Authority may attend meetings of a bank's administrative board and shareholders' meetings. It also has the authority to require that such meetings be convened.

Enforcement Powers

The Financial Services Supervisory Authority has a wide range of enforcement powers in the event it discovers any irregularities. It may remove the bank's managers from office or prohibit them from exercising their current managerial capacities. If a bank's Own Funds are inadequate or if a bank does not meet the liquidity requirements and the bank fails to remedy the deficiency within a given period, then the Financial Services Supervisory Authority may prohibit or restrict the bank from distributing profits or extending credit. This prohibition also applies to the parent bank of a group of institutions in the event that the Own Funds of the group are inadequate on a consolidated basis. If a bank fails to meet the liquidity requirements, the Financial Services Supervisory Authority may also prohibit the bank from making further investments in illiquid assets.

If a bank is in danger of defaulting on its obligations to creditors, the Financial Services Supervisory Authority may take emergency measures to avert default. These emergency measures may include:

- issuing instructions relating to the management of the bank;
- prohibiting the acceptance of deposits and the extension of credit;
- prohibiting or restricting the bank's managers from carrying on their functions; and
- appointing supervisors.

If these measures are inadequate, the Financial Services Supervisory Authority may revoke the bank's license and, if appropriate, order the closure of the bank.

To avoid the insolvency of a bank, the Financial Services Supervisory Authority may prohibit payments and disposals of assets, close the bank's customer services, and prohibit the bank from accepting any payments other than payments of debts owed to the bank. Only the Financial Services Supervisory Authority may file an application for the initiation of insolvency proceedings against a bank.

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

TAXATION

The statements below regarding taxation are based on the law and practice of the relevant specified jurisdiction at the date of this Offering Circular and are subject to any subsequent changes in law or practice (which could be made on a retroactive basis). The following statements do not constitute tax advice and do not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the RESPARC Securities and may not apply equally to all persons. Prospective purchasers of the RESPARC Securities are advised to consult their own tax advisers concerning the tax consequences of their ownership of the RESPARC Securities.

Jersey

Investors (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, sale or other disposition of RESPARC Securities. Payments of interest on RESPARC Securities will be made by the Issuer without withholding or deduction for or on account of Jersey income tax.

No stamp duties are payable in Jersey on the acquisition, ownership, redemption, sale or other disposal of RESPARC Securities. Stamp duty is payable in Jersey on the registration of Probate or Letters of Administration relating to the death of an individual holder of RESPARC Securities with assets situate in Jersey (which may, in some circumstances, extend to the RESPARC Securities) which is calculated by reference to the value of the holder's estate in Jersey.

Taxation in the Federal Republic of Germany

This chapter "Taxation in the Federal Republic of Germany" contains a summary of some important German fiscal provisions that are relevant in connection with the acquisition, the holding and the sale or redemption of RESPARC Securities. This summary is not intended to be a comprehensive and complete representation of all aspects under tax law that could be relevant to investors. This summary is based on German tax law in force at the time of preparing the Offering Circular. It may be subject to changes at short notice which may even have a retrospective effect. We strongly recommend that potential investors seek advice from their professional tax consultant with regard to the tax implications of the acquisition, the holding and the sale or redemption of RESPARC Securities.

Investors resident within Germany

As a rule, all interest payments made by the issuer to investors domiciled within Germany are subject to income or corporate tax plus a solidarity surcharge in the amount of 5.5% of the relevant income or corporate tax liabilities. Where RESPARC Securities are held as assets of a German business, these interest payments are also subject to trade tax (*Gewerbesteuer*). Where RESPARC Securities are held in the custody of a domestic bank (including the German branches of foreign banks), interest income tax (*Zinsabschlag*) in the amount of 30% (plus a 5.5% solidarity surcharge on the tax amount, i.e. a total of 31.65%) will be withheld. The amount of withholding tax and the solidarity surcharge will be set off against the final income or corporate tax debt of the investor.

Profits from the sale or redemption of RESPARC Securities, including the profits achieved by a second or subsequent purchaser, are deemed to be interest income and are subject to personal income or corporate tax plus solidarity surcharge. Where RESPARC Securities are held as part of a German business, the profits are also subject to trade tax.

Where RESPARC Securities are held in the custody of a domestic bank or financial services provider (including the German branches of foreign banks), the paying agent will be required to withhold interest income tax in the amount of 30% (plus a 5.5% solidarity surcharge) on the difference between the sale or redemption amount and purchase price of the note if said note has been in the custody of the relevant bank or financial services provider since its acquisition. If the paying agent has changed since acquisition of the RESPARC Security, the advance deduction of interest income tax (*Zinsabschlag*) will be 30% on the sale or redemption proceeds. The advance deduction will in turn be set off against the personal income or corporate tax debt of the investor.

Investors resident outside Germany

Investors domiciled outside Germany are not subject to German taxation and there is no advance deduction of interest income tax (even if RESPARC Securities are held in the custody of a German bank or financial services provider), unless the RESPARC Securities are held as business assets of a German branch of the investor.

Inheritance and Gift Tax

German inheritance or gift tax is not charged if, in the case of inheritance tax, neither the deceased nor the beneficiary is domiciled within Germany or, in the case of gift tax, neither the donor nor the donee is domiciled within Germany unless the RESPARC Security is part of German business assets for which a permanent establishment is being maintained within Germany or for which a permanent representative has been appointed in Germany. Certain former tax residents may be subject to tax.

German Draft Legislation

On January 21, 2003 the EU Ministers of Finance have found an agreement regarding the principles of the cross border taxation of interest income of individuals. The aim is an exchange of information. As of January 2004 the following directive shall be implemented; all EU member states with the exception of Austria, Belgium and Luxembourg shall, by national privilege, direct the paying agents, to inform the tax authorities of an other member states of the capital income of an individual, which is resident in the other member state. Austria, Belgium and Luxembourg will raise a withholding tax of 15% until December 31, 2006, as of January 1, 2007 of 20% and as of January 1, 2010 of 35% instead. These countries will change to the principle of exchange of information if and when the EU has reached corresponding agreements with certain none EU countries. Special rules shall apply with associated overseas territories and none-self-governing territories of EU countries.

Change of German Tax Law

The taxation of income from capital and of private capital gains is subject to draft legislation at the moment, which, if implemented, might have an effect on the taxation principles described above.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 23 2003, BNP Paribas, Lehman Brothers International (Europe) UBS Limited, UBS Warburg AG and Deutsche Bank AG London (collectively, the “**Managers**”) have agreed to subscribe for the aggregate principal amount of €500,000,000 RESPARC Securities at the price of 100 per cent. of their principal amount in order to sell the RESPARC Securities to investors. LB Kiel has agreed to pay to the Managers a combined management underwriting and selling commission of 2.25 per cent. of the principal amount of the RESPARC Securities.

The Issuer and LB Kiel have undertaken to indemnify and hold harmless each of the Managers of any liability incurring in the context of the subscription and sale of the RESPARC Securities. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to the issue of, and payment for, the RESPARC Securities.

Selling Restrictions

United States

The RESPARC Securities have not been and will not be registered under the US Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or its possessions or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act or in such offer or sale in accordance with Regulation S of the Securities Act.

United Kingdom

This Offering Circular may only be distributed and its distribution by others may only be permitted in case para. 21 (1) of the Financial Services and Markets Act 2000 (United Kingdom) (“FSMA”) is not applicable.

The Issuer has not granted permission for any offer of bonds not maturing within one year according to the Public Offer of Securities Regulation 1995 (“Regulations”). Such bonds may not be offered or sold to persons within the United Kingdom except in certain circumstances which do not lead to a public offer within the United Kingdom according to these Regulations or in such offer or sale in accordance with all Regulations.

Jersey

Each of the Managers has represented and agreed that it has not offered or sold, and will not offer or sell, the RESPARC Securities to any person resident for income tax purposes in Jersey.

Singapore

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering circular or any other document or material in connection with any offer of the RESPARC Securities may not be issued, circulated or distributed and, the offer of RESPARC Securities or any invitation to subscribe for or purchase any RESPARC Securities (or any one of them) may not be made, directly or indirectly, to the public or any member of the public in Singapore, other than (a) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act 2001 of Singapore (the “Singapore Securities and Futures Act”); (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Singapore Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the Singapore Securities and Futures Act.

Hong Kong

Each Manager represents, warrants and agrees that it has not issued and will not issue any advertisement, invitation or document relating to the Resparcs Securities in Hong Kong or elsewhere other than (i) with respect to Resparcs Securities intended to be disposed of (a) only to persons outside Hong Kong, or (b) in Hong Kong only to professional investors within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), or (ii) in circumstances which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance.

General

Any offer or sale of the RESPARC Securities offered by this Offering Circular in a jurisdiction legally restricting such offer or sale may only be executed in compliance with all applicable restrictions.

Stabilisation

In connection with the issue, Lehman Brothers International (Europe) or any person acting on its behalf may, on behalf of the managers, over-allot or effect transactions with a view to supporting the market price of the RESPARC Securities at a higher level than that which might otherwise prevail for a limited period. However, there is no obligation on Lehman Brothers International (Europe) or any agent of it to do this. Such stabilising may be effected on the Frankfurt Stock Exchange, the Amsterdam Stock Exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and, which in any case, will not exceed a period of 30 days after (and including) the date of issue of the RESPARC Securities. Such stabilising shall be in compliance with all relevant laws and regulations which might substantially differ from regulations and customs for such stabilisation measures applicable in other jurisdictions.

Delivery of the RESPARC Securities

The RESPARC Securities will be represented by a global security in bearer form without coupons (the “**Global Security**”) and will be deposited with and held by Clearstream Frankfurt. The Global Security will be held by Clearstream Frankfurt also for holders of RESPARC Securities which are being held through Clearstream Luxembourg or Euroclear. The Global Security will bear the handwritten signature of the Issuer’s management.

Co-ownership interests in RESPARC Securities may be transferred according to the applicable rules of Clearstream Frankfurt. It is expected that the delivery of the RESPARC Securities will be made through Clearstream Frankfurt against payment therefore in immediately available funds on 28 May 2003. Physical certificates or interest coupons will not be issued. A copy of the Global Security will be free of charge available with the paying agent named below.

Listing

Application has been made for the listing of the RESPARC Securities on the official market of Frankfurt Stock Exchange and on the Official Market of the stock market of Euronext, Amsterdam N.V.

RECENT DEVELOPMENTS AND OUTLOOK

Given the currently difficult economic climate and on the basis of its traditionally careful business policy, LB Kiel started with a moderate growth rate into the financial year 2003. In comparison to 2002, business volume changed only slightly. This is also the case for total assets and outstanding loans. With respect to the development of earnings, LB Kiel was able to continue the positive trend of the preceding fiscal year, especially in the business areas Corporates and Transport, as well as in relation to its trading activities.

The moderate changes in the aforementioned balance sheet line items stem from, among other things, LB Kiel's business focus on increasing profitability, something already implemented in the past. In addition, LB Kiel's risk-oriented pricing policy does not allow for significant volume growth in a weak economic climate, as is currently the case.

For the financial year 2003, LB Kiel expects a very difficult year for banks, given the forecasts for the economic environment in Germany and worldwide. Ultimately, it will be crucial for a positive development of LB Kiel's, and after the Merger HSH Nordbank's, earnings that LB Kiel and Hamburg LB can successfully be integrated into HSH Nordbank and that the overall loan loss provisions do not have to be increased (due to, for example, unforeseeable loan losses).

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FINANCIAL STATEMENTS OF HSH NORDBANK

CONSOLIDATED BALANCE SHEET AS OF 1 JANUARY 2003

HSH Nordbank AG

Unaudited Consolidated pro-forma Opening Balance Sheet as at January 1st, 2003

Assets	T€	T€	T€	T€
1. Cash reserve				
a) cash in hand			13,870	
b) balances with central banks			344,353	
thereof:				358,223
with Deutsche Bundesbank	270,594			
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks				
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions			4,489	
thereof: refinancable at Deutschen Bundesbank	1,196			
b) bills of exchange			5,584	
thereof:				10,073
refinancable at Deutschen Bundesbank	5,584			
3. Loans and advances to banks				
a) payable on demand			7,011,055	
b) other loans and advances			39,086,088	
thereof:				46,097,143
of lower rank	83,362			
thereof on participated banks	981,062			
4. Loans and advances to customers				78,875,604
thereof:				
secured by mortgage	16,866,971			
municipal loans	14,525,853			
secured by ship mortgages	12,153,335			
of lower rank	2,184			
on associated company	757,573			
on participations	460,407			
5. Bonds and other fixed-income securities				
a) money market instruments				
aa) issued by public issuers		512,876		
thereof:				
eligible for refinancing with Deutsche Bundesbank	507,769			
ab) issued by other issuers		1,041,775		
thereof:			1,554,651	
eligible for refinancing with Deutsche Bundesbank	—			
b) bonds				
ba) issued by public issuers		13,727,015		
thereof:				
eligible for refinancing with Deutsche Bundesbank	10,142,948			
bb) issued by other issuers		33,146,341		
thereof:			46,873,356	
eligible for refinancing with Deutsche Bundesbank	12,785,844			
of lower rank	774,768			
c) own bonds			2,054,289	
nominal amount	1,987,318			
thereof:				50,482,296
on associated company	64,464			
on participations	871,266			
6. Shares and other non-fixed income securities				2,443,847
thereof: of lower rank	27,569			
7. Equity investments in non-affiliated companies				528,855
thereof: in banks	52,981			
in financial service institutions	1,000			
8. Equity investments in affiliated companies				712,007
thereof: in banks	97,074			
9. Trust assets				339,835
thereof: trust loans	61,397			
10. Intangible fixed assets				241,441
thereof: Goodwill	231,242			
11. Tangible fixed assets				154,894
12. Other assets				1,007,180
13. Prepaid expenses				341,038
thereof: Discount from liabilities/loans	188,273			
Premiums on claims	20,588			
Total assets				181,592,436

HSH Nordbank AG
Unaudited Consolidated pro-forma Opening Balance Sheet as at January 1st, 2003

Liabilities	T€	T€	T€	T€
1. Liabilities to banks				
a) payable on demand.....			4,146,265	
b) with agreed maturities or at agreed notice periods			51,228,157	
.....				55,374,422
thereof:				
on associated company	0			
on participations	3,650,457			
2. Liabilities to customers				
a) savings deposits				
aa) savings deposits with agreed notice of three months....		122,616		
ab) savings deposits with agreed notice of more				
than three months		4,928		
.....			127,544	
b) other liabilities				
ba) payable on demand		7,778,952		
bb) with agreed maturities or at agreed notice periods		37,488,049		
.....			45,267,001	
thereof:				45,394,545
on associated company	41,315			
on participations	85,451			
3. Certificated liabilities				
a) bonds issued			53,958,580	
b) other certificated liabilities.....			13,307,966	
thereof:				67,266,546
money market instruments	13,298,019			
thereof:				
on associated company	493			
on participations	205,106			
4. Trust liabilities				339,835
thereof:				
trust loans	61,397			
5. Other liabilities				1,578,338
6. Deferred income				361,606
thereof:				
Debt discount from claims.....	189,909			
7. Provisions				
a) provisions for pensions and similar obligations.....			338,686	
b) tax provisions			106,645	
c) other provisions			278,018	
.....				723,349
8. Special reserve item (acc. to §52(16) s.3 German Income Tax Act (Einkommensteuergesetz) in conjunction with §6(1) no. 1 and 2 German Income Tax Act)				521
9. Subordinated debt				3,027,305
10. Profit-sharing rights.....				1,496,565
thereof:				
due in less than two years	51,100			
11. Fund for general banking risks				251,641
12. Equity capital				
a) subscribed capital				
aa) share capital (45 million shares).....		450,000		
ab) preferred shares (5 million shares)		50,000		
ac) silent participations.....		4,106,256		
.....			4,606,256	
b) capital reserves			1,163,653	
c) Group reserves			1,281	
d) Minority interests			3,870	
e) Retained earnings of the previous year			2,703	
.....				5,777,763
Total liabilities				181,592,436
1. Contingent liabilities from guarantees and indemnity agreements				13,736,290
2. Other commitments				
irrevocable lending commitments				9,549,220

UNCONSOLIDATED BALANCE SHEET AS OF 1 JANUARY 2003

HSH Nordbank AG

Unaudited unconsolidated pro-forma Opening Balance Sheet as at January 1st, 2003

Assets	T€	T€	T€	T€
1. Cash reserve				
a) cash in hand			11,190	
b) balances with central banks			332,935	
thereof:				344,125
with Deutsche Bundesbank	270,594			
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks				
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions			4,489	
thereof:				
refinancable at Deutschen Bundesbank	1,196			
b) bills of exchange			5,584	
thereof:				10,073
refinancable at Deutschen Bundesbank	5,584			
3. Loans and advances to banks				
a) payable on demand			6,715,976	
b) other loans and advances			39,782,742	
thereof:				46,498,718
of lower rank	83,362			
thereof:				
on associated company	2,496,436			
on participated banks	981,062			
4. Loans and advances to customers				77,871,785
thereof:				
secured by mortgage	16,813,144			
municipal loans	14,106,885			
secured by ship mortgages	12,030,627			
of lower rank	2,184			
on associated company	757,573			
on participations	460,407			
5. Bonds and other fixed-income securities				
a) money market instruments				
aa) issued by public issuers		512,876		
thereof:				
eligible for refinancing with Deutsche Bundesbank	507,769			
ab) issued by other issuers		1,041,775		
thereof:			1,554,651	
eligible for refinancing with Deutsche Bundesbank	0			
b) bonds				
ba) issued by public issuers		13,374,664		
thereof:				
eligible for refinancing with Deutsche Bundesbank	10,117,233			
bb) issued by other issuers		29,052,235		
thereof:			42,426,899	
eligible for refinancing with Deutsche Bundesbank	12,007,834			
on lower rank	690,413			
c) own bonds			1,996,327	
nominal amount	1,938,393			45,977,877
thereof:				
on associated company	78,574			
on participations	871,266			
6. Shares and other non-fixed income securities				2,421,413
thereof:				
on lower rank	27,569			
7. Equity investments in non-affiliated companies				528,855
thereof:				
in banks	52,981			
in financial services institutions	1,000			
8. Equity investments in affiliated companies				1,398,749
thereof:				
in banks	789,899			
9. Trust assets				339,835
thereof:				
trust loans	61,397			
10. Intangible fixed assets				10,199
11. Tangible fixed assets				128,284
12. Other assets				989,147
13. Prepaid expenses				333,836
thereof:				
Discount from liabilities/loans	183,872			
Premiums on claims	20,588			
Total assets				176,852,896

Liabilities	T€	T€	T€	T€
Liabilities to banks				
a) payable on demand			3,667,742	
b) with agreed maturities or at agreed notice periods			57,476,718	
				61,144,460
thereof:				
on associated company	10,879,660			
on participations	3,650,457			
Liabilities to customers				
a) savings deposits				
aa) savings deposits with agreed notice of three months ..		122,615		
ab) savings deposits with agreed notice of more than three months		4,929		
			127,544	
b) other liabilities				
ba) payable on demand		7,548,683		
bb) with agreed maturities or at agreed notice periods		37,274,271		
			44,822,954	
thereof:				
on associated company	42,858			
on participations	85,451			44,950,498
Certificated liabilities				
a) bonds issued			44,046,703	
b) other certificated liabilities			13,298,019	
				57,344,722
thereof:				
on associated company	2,727			
on participations	114,468			
Trust liabilities				339,835
thereof:				
trust loans	61,397			
Other liabilities				1,589,574
Deferred income				335,238
thereof:				
Debt discount from claims	189,909			
Provisions				
a) provisions for pensions and similar obligations			334,729	
b) tax provisions			92,440	
c) other provisions			250,082	
				677,251
Special reserve item (acc. to § 52(16) s.3 German Income Tax Act (Einkommenssteuergesetz) in conjunction with § 6(1) no.1 and 2 German Income Tax Act)				521
Subordinated debt				2,952,683
Profit-sharing rights				1,496,565
thereof:				
due in less than two years	51,100			
Fund for general banking risks				251,641
Equity capital				
a) subscribed capital				
aa) share capital (45 million shares)		450,000		
ab) preferred shares (5 million shares)		50,000		
ac) silent participations		4,106,256		
			4,606,256	
b) capital reserves			1,163,652	
				5,769,908
Contingent liabilities				176,852,896
Contingent liabilities from guarantees and indemnity agreements				23,014,276
Other commitments				
irrevocable lending commitments				9,395,766

FINANCIAL STATEMENTS OF LB KIEL

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2002

Group Balance Sheet as at December 31, 2002

Assets

€ thousands		prev. year
1. Cash reserve		
a) cash in hand	9,973	6,457
b) balances with central banks	217,053	129,362
thereof:		
with Deutsche Bundesbank	144,261	106,385
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks		
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions	2,826	1,820
thereof:		
eligible for refinancing with Deutsche Bundesbank	1,196	–
b) bills of exchange	5,585	3,751
thereof:		
eligible for refinancing with Deutsche Bundesbank	5,585	3,751
3. Loans and advances to banks <i>1, 2, 3, 4, 10</i>		
a) payable on demand	3,828,842	2,280,594
b) other loans and advances	29,905,145	30,109,520
thereof:		
building loans of Landes-Bausparkasse	80	102
4. Loans and advances to customers <i>2, 3, 4, 10</i>		
thereof:		
secured by mortgages	15,007,688	13,765,683
municipal loans	13,016,264	13,628,374
secured by ship mortgages	7,700,422	7,958,348
building loans of Landes-Bausparkasse		
from allocations (building society loans)	395,200	405,598
for prefinance facilities and interim financing	1,016,258	921,586
other	39,491	42,155
thereof:		
secured by mortgages	1,253,833	1,187,942
5. Bonds and other fixed-income securities <i>2, 3, 4, 5, 10, 11</i>		
a) money market instruments		
aa) issued by public issuers	510,297	1,895,327
thereof:		
eligible for refinancing with Deutsche Bundesbank	507,769	1,353,397
ab) issued by other issuers	564,473	509,496
thereof:		
eligible for refinancing with Deutsche Bundesbank	–	126,109
b) bonds		
ba) issued by public issuers	11,692,956	8,802,379
thereof:		
eligible for refinancing with Deutsche Bundesbank	9,508,284	5,647,142
bb) issued by others issuers	24,628,967	26,481,874
thereof:		
eligible for refinancing with Deutsche Bundesbank	10,392,897	8,979,539
c) own bonds	1,723,328	1,608,429
nominal amount	1,674,704	1,580,916
6. Shares and other non-fixed income securities <i>4, 5, 11</i>		
To be carried forward:	141,774,512	137,609,109

Group Balance Sheet as at December 31, 2002

Liabilities

€ thousands		prev. year
1. Liabilities to banks ^{12, 13, 14, 24}		
a) payable on demand	3,124,908	3,875,920
b) with agreed maturities or at agreed notice periods	44,386,523	52,866,129
c) savings deposits of Landes-Bausparkasse (LBS)	1,570	2,071
thereof:	47,513,001	56,744,120
for allocated contracts	593	770
2. Liabilities to customers ^{13, 14, 24}		
a) savings deposits		
aa) savings deposits with agreed notice periods of three months	82,263	82,205
ab) savings deposits with agreed notice periods of more than three months	3,647	4,271
ac) savings deposits of Landes-Bausparkasse	877,537	831,172
thereof:		
on terminated contracts	6,881	6,219
on allocated contracts	17,102	15,158
	963,447	
b) other liabilities		
ba) payable on demand	5,193,189	3,974,973
bb) with agreed maturities or at agreed notice periods	24,597,570	23,373,613
	29,790,759	
	30,754,206	28,266,234
3. Liabilities of Investitionsbank relating to federal promotion programmes with agreed maturities or agreed notice periods of four years or more		
	481,669	500,328
4. Certificated liabilities ^{13, 14, 24}		
a) bonds issued	42,372,882	35,476,155
b) other certificated liabilities	11,081,992	8,657,309
thereof:	53,454,874	44,133,464
money market instruments	11,072,046	8,647,363
5. Trust liabilities ¹⁶		
thereof:	1,381,849	1,363,179
trust loans	1,233,468	1,228,617
6. Other liabilities ¹⁷		
	867,288	684,014
7. Deferred income ¹⁸		
	394,360	384,447
8. Provisions		
a) provisions for pensions and similar obligations	302,282	273,958
b) tax provisions	87,139	57,712
c) other provisions	233,102	121,911
	622,523	453,581
9. Interest equalization fund		
	894,338	923,106
10. Special reserve item		
	1,213	17,194
11. Subordinated debt ²⁰		
	2,285,944	2,011,937
To be carried forward:	138,651,265	135,481,604

Group Balance Sheet as at December 31, 2002

Assets

€ thousands		prev. year
Carried forward:	141,774,512	137,609,109
7. Equity investments in non-affiliated companies ^{3, 11}	385,401	200,144
thereof:		
in banks	43,719	62,236
in financial services institutions	495	495
8. Equity investments in affiliated companies ^{2, 6, 11}	354,241	123,787
thereof:		
in banks	32,147	9,240
9. Trust assets ⁷	1,381,849	1,363,179
thereof:		
trust loans	1,233,656	1,228,617
10. Intangible fixed assets ¹¹	10,315	13,266
11. Tangible fixed assets ¹¹	760,659	712,956
12. Other assets ⁸	583,127	757,866
13. Prepaid expenses ⁹	214,425	215,957
14. Deferred taxes	41,748	23,334
Total assets	145,506,277	141,019,598

Group Balance Sheet as at December 31, 2002

Liabilities

€ thousands		prev. year	
Carried forward:		138,651,265	135,481,604
12. Capital with profit-sharing rights ²¹		1,061,554	1,112,684
thereof:			
due in less than two years	–		51,129
13. Fund for general banking risks		196,091	143,289
14. Equity capital ²²			
a) subscribed capital	2,412,562		1,376,492
b) capital reserves			
appropriated reserves of Investitionsbank	1,088,969		1,083,066
c) earnings reserves			
ca) statutory reserves	491,000		391,000
cb) statutory reserves of Landes-Bausparkasse	80,273		77,205
cc) appropriated reserves of Investitionsbank	40,740		35,883
	612,013		
d) Group reserves	1,243,895		1,089,706
e) minority interests	149,330		148,974
f) Group net retained earnings	90,598		79,695
		5,597,367	4,282,021
Total liabilities		145,506,277	141,019,598
1. Contingent liabilities ²³			
a) contingent liabilities			
from discounted bills of exchange passed on		734	–
b) liabilities from guarantees and indemnity agreements		12,234,749	7,080,622
2. Other commitments			
irrevocable lending commitments		9,287,013	8,352,769

**CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM
1 JANUARY 2002 THROUGH 31 DECEMBER 2002**

Group Statement of Income

January 1 – December 31, 2002

€ thousands		prev. year	
1. Interest income from ²⁶			
a) lending and money market transactions	6,795,210		7,515,279
thereof:			
interest income of Landes-Bausparkasse (LBS)			
from LBS loans	18,907		19,578
from prefinance facilities and interim financing	56,346		50,681
from other building loans	2,701		2,934
b) debt securities and other fixed income securities	1,580,158		1,839,912
	8,375,368		
2. Interest expense	7,320,864		8,557,015
thereof:		1,054,504	798,176
on savings deposits of Landes-Bausparkasse	23,401		22,518
3. Current income from ²⁶			
a) shares and other non-fixed income securities	63,424		70,953
b) equity investments in non-affiliated companies	28,872		13,504
c) equity investments in affiliated companies	35,761		13,607
		128,057	98,064
4. Income from profit-and-loss pooling agreements, profit transfer agreements and partial profit transfer agreements		1,736	1,790
5. Commission income ²⁶	228,610		190,616
thereof:			
commission income of Landes-Bausparkasse			
on contracts signed and arranged	7,576		6,401
from loans granted after allotment			
of building saving contracts	2,488		2,486
from the allocation and administration of prefinance facilities and interim financings	2		6
6. Commission expense	71,105		52,946
thereof:		157,505	137,670
commissions on contracts signed and arranged			
of Landes-Bausparkasse	9,267		7,375
7. Net income or expense from trading activities ²⁶		70,665	57,985
8. Other operating income ^{26, 27}		212,739	227,907
9. Earnings from the liquidation of special reserve items		15,980	18,172
10. General administrative expenses			
a) personnel expenses			
aa) wages and salaries	213,467		192,792
ab) social security contributions, retirement pensions and other benefits	80,610		69,562
thereof:		294,077	
for retirement pensions	48,515		41,292
b) other administrative expenses	239,415		185,721
		533,492	448,075
11. Depreciation of and adjustments to intangible and tangible fixed assets		50,840	48,645
To be carried forward:		1,056,854	843,044

Group Statement of Income

January 1 – December 31, 2002

€ thousands		prev. year
Carried forward:	1,056,854	843,044
12. Other operating expenses ²⁸	183,615	120,755
13. Write-downs and value adjustments on loans and certain securities and additions to provisions for bad debt	389,904	278,365
14. Write-downs and value adjustments on equity investments in non-affiliated companies, affiliated companies and securities treated as fixed assets	–	12,559
15. Income from write-ups on equity investments in non-affiliated companies, affiliated companies and securities treated as fixed assets	78,739	–
16. Allocations to the fund for general banking risks	52,802	33,640
17. Expenses from loss transfers	7,522	2,918
18. Result from normal business operations	501,750	394,807
19. Taxes on income and revenue	90,071	51,199
20. Other taxes not shown under other operating expenses (item 12)	31,496	32,250
	121,567	83,449
21. Profits transferred under partial profit transfer agreements	190,828	137,397
22. Net income for the year	189,355	173,961
thereof:		
Landes-Bausparkasse	3,068	3,068
23. Retained earnings carried forward from the previous year	4,868	3,592
24. Allocation of net income to earnings reserves		
a) statutory reserves of Landesbank	100,000	81,000
b) statutory reserves of Landes-Bausparkasse	3,068	3,068
c) appropriated reserves of Investitionsbank	–	–
d) Group reserves	299	12,227
25. Profit/loss shares of minority shareholders	258	1,563
26. Group net retained earnings	90,598	79,695

UNCONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2002

Balance Sheet of LB Kiel as at December 31, 2002

Assets

€ thousands		prev. year
1. Cash reserve		
a) cash in hand	3,454	2,578
b) balances with central banks	80,574	85,198
thereof:		87,776
with Deutsche Bundesbank	20,140	68,670
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks		
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions	1,196	–
thereof:		–
eligible for refinancing with Deutsche Bundesbank	1,196	–
b) bills of exchange	5,585	3,751
thereof:		3,751
eligible for refinancing with Deutsche Bundesbank	5,585	3,751
3. Loans and advances to banks <i>1, 2, 3, 4, 10</i>		
a) payable on demand	1,122,408	871,387
b) other loans and advances	22,093,364	21,706,451
thereof:		22,577,838
building loans of Landes-Bausparkasse	80	102
4. Loans and advances to customers <i>2, 3, 4, 10</i>		44,892,651
thereof:		42,169,117
secured by mortgages	7,918,069	7,740,061
municipal loans	10,457,382	11,240,034
secured by ship mortgages	3,335,685	3,614,944
building loans of Landes-Bausparkasse		
from allocations (building society loans)	395,200	405,598
from prefinance facilities and interim financing	1,016,258	921,586
other	39,491	42,155
thereof:		
secured by mortgages	1,253,833	1,187,942
5. Bonds and other fixed-income securities <i>2, 3, 4, 5, 10, 11</i>		
a) money market instruments		
aa) issued by public issuers	507,769	1,895,327
thereof:		
eligible for refinancing with Deutsche Bundesbank	507,769	1,353,397
ab) issued by other issuers	96,762	127,270
thereof:	604,531	
eligible for refinancing with Deutsche Bundesbank	–	126,109
b) bonds		
ba) issued by public issuers	9,208,270	5,490,865
thereof:		
eligible for refinancing with Deutsche Bundesbank	8,719,389	4,456,577
bb) issued by other issuers	12,936,480	13,830,261
thereof:	22,144,750	
eligible for refinancing with Deutsche Bundesbank	7,329,971	5,841,250
c) own bonds	1,380,472	1,249,562
		24,129,753
nominal amount	1,360,077	1,234,289
6. Shares and other non-fixed income securities <i>4, 5, 11</i>		1,353,571
To be carried forward:	93,682,556	88,341,324

Balance Sheet of LB Kiel as at December 31, 2002

Liabilities

€ thousands		prev. year
1. Liabilities to banks ^{12, 13, 14, 24}		
a) payable on demand	2,381,109	2,811,239
b) with agreed maturities or at agreed notice periods	30,075,929	35,097,730
c) savings deposits of Landes-Bausparkasse	1,570	2,071
thereof:		
for allocated contracts	593	770
2. Liabilities to customers ^{13, 14, 24}		
a) savings deposits		
aa) savings deposits with agreed notice periods of three months	42,710	40,945
ab) savings deposits with agreed notice periods of more than three months	2,391	2,806
ac) savings deposits at Landes-Bausparkasse	877,537	831,172
thereof:		
on terminated contracts	6,881	6,219
on allocated contracts	17,102	15,158
	922,638	
b) other liabilities		
ba) payable on demand	2,634,783	1,432,649
bb) with agreed maturities or notice periods	11,839,281	10,216,042
	14,474,064	
	15,396,702	12,523,614
3. Liabilities of Investitionsbank relating to federal promotion programmes with agreed maturities or notice periods of four years or more		
	481,669	500,328
4. Certificated liabilities ^{13, 14, 24}		
a) bonds issued	30,480,888	26,015,696
b) other certificated liabilities	8,890,152	7,007,376
thereof:		
money market instruments	8,890,152	7,007,376
5. Trust liabilities ¹⁶		
thereof:		
trust loans	1,212,269	1,208,388
6. Other liabilities ¹⁷		
	345,850	181,824
7. Deferred income ¹⁸		
	263,811	254,990
8. Provisions		
a) provisions for pensions and similar obligations	212,343	190,804
b) tax provisions	46,206	30,116
c) other provisions	139,939	73,124
	398,488	294,044
9. Interest equalization fund		
	894,338	923,107
10. Special reserve item		
	1,213	3,941
11. Subordinated debt ²⁰		
	1,484,640	1,173,133
To be carried forward:	92,319,166	88,005,284

Balance Sheet of LB Kiel as at December 31, 2002

Assets

€ thousands		prev. year
Carried forward:	93,682,556	88,341,324
7. Equity investments in non-affiliated companies ^{3, 11}	951,569	872,580
thereof:		
in banks	744,049	758,097
8. Equity investments in affiliated companies ^{2, 6, 11}	193,900	168,703
thereof:		
in banks	145,151	119,995
9. Trust assets ⁷	1,222,807	1,216,191
thereof:		
trust loans	1,212,458	1,208,388
10. Intangible fixed assets ¹¹	10,199	13,115
11. Tangible fixed assets ¹¹	710,158	614,217
12. Other assets ⁸	336,919	442,450
13. Prepaid expenses ⁹	85,819	94,020
14. Deferred taxes	41,748	23,334
Total assets	97,235,675	91,785,934

Balance Sheet of LB Kiel as at December 31, 2002

Liabilities

€ thousands		prev. year
Carried forward:	92,319,166	88,005,284
12. Capital with profit-sharing rights ²¹	635,158	686,288
thereof:		
due in less than two years	–	51,129
13. Fund for general banking risks	141,641	88,839
14. Equity capital ²²		
a) subscribed capital	2,412,561	1,376,492
b) capital reserves		
appropriated reserves of Investitionsbank	1,088,969	1,083,066
c) earnings reserves		
ca) statutory reserves	491,000	391,000
cb) statutory reserves of Landes-Bausparkasse	80,273	77,205
cc) appropriated reserves of Investitionsbank	40,740	35,883
	612,013	
d) net retained earnings	26,167	41,877
	4,139,710	3,005,523
Total liabilities	97,235,675	91,785,934
1. Contingent liabilities ²³		
liabilities from guarantees and indemnity agreements	9,604,661	5,080,209
2. Other liabilities		
irrevocable lending commitments	7,245,483	6,429,911

**UNCONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM
1 JANUARY 2002 THROUGH 31 DECEMBER 2002**

Statement of Income of LB Kiel

January 1 – December 31, 2002

€ thousands		prev. year
1. Interest income from ²⁶		
a) lending and money market transactions	5,063,482	5,569,727
thereof:		
interest income of Landes-Bausparkasse (LBS)		
from LBS loans	18,907	19,578
from prefinance facilities and interim financing	56,346	50,681
from other building loans	2,701	2,934
b) debt securities and other fixed income securities	983,631	
	6,047,113	1,024,473
2. Interest expense	5,497,339	6,206,071
thereof:		
on savings deposits of Landes-Bausparkasse	23,401	388,129
		22,518
3. Current income from ²⁶		
a) shares and other non-fixed income securities	25,229	34,966
b) equity investments in non-affiliated companies	45,844	26,604
c) equity investments in affiliated companies	58,862	14,484
		129,935
		76,054
4. Income from profit-and-loss pooling agreements, profit transfer agreements and partial profit transfer agreements		2,109
		2,453
5. Commission income ²⁶	135,751	104,550
thereof:		
commission income of Landes-Bausparkasse		
on contracts signed and arranged	7,576	6,401
from loans granted after allotment		
of building saving contracts	2,488	2,486
from the allocation and administration		
of prefinance facilities and interim financing	2	6
6. Commission expense	46,380	37,919
thereof:		
commissions on contracts signed and arranged of Landes-Bausparkasse	9,267	66,631
		7,375
7. Net income or expense from trading activities ²⁶		54,612
		38,520
8. Other operating income ^{26, 27}		103,147
		100,063
9. Earnings from the liquidation of special reserve items		2,728
		2,533
10. General administrative expenses		
a) personnel expenses		
aa) wages and salaries	119,113	105,805
ab) social security contributions, retirement pensions and other benefits	52,393	44,957
thereof:	171,506	
for retirement pensions	34,276	29,269
b) other administrative expenses	146,812	111,969
		318,318
		262,731
11. Depreciation of and adjustments to intangible and tangible fixed assets		37,135
		32,091
To be carried forward:	576,223	379,561

Statement of Income of LB Kiel

January 1 – December 31, 2002

€ thousands		prev. year
Carried forward:	576,223	379,561
12. Other operating expenses ²⁸	55,383	10,847
13. Write-downs and value adjustments on loans and certain securities and additions to provisions for bad debt	184,047	123,547
14. Income from write-ups on equity investments in non-affiliated companies, affiliated companies and securities treated as fixed assets	26,486	782
15. Allocations to the fund for general banking risks	52,802	23,838
16. Expenses from loss transfers	7,522	2,918
17. Result from normal business operations	302,955	219,193
18. Taxes on income and revenue 53,060		19,102
19. Other taxes not shown under other operating expenses (item 12) 498		603
	53,558	19,705
20. Profits transferred under partial profit transfer agreements	121,010	75,642
21. Net income for the year	128,387	123,846
thereof:		
Landes-Bausparkasse 3,068		3,068
22. Retained earnings carried forward from the previous year	848	2,099
23. Allocation of net income to earnings reserves		
a) statutory reserves of Landesbank	100,000	81,000
b) statutory reserves of Landes-Bausparkasse	3,068	3,068
c) appropriated reserves of Investitionsbank	-	-
24. Net retained earnings	26,167	41,877

NOTES AND CONSOLIDATED NOTES 2002

Legal Form and Ownership

Landesbank Schleswig-Holstein Girozentrale (LB Kiel) is a legal entity under public law.

The Bank's owners are WestLB Beteiligungsholding GmbH^{*)}, Düsseldorf (39.9%), Landesbank Baden-Württemberg^{**)}, Stuttgart (10%), the State of Schleswig-Holstein (25.05%) and the Savings Banks and Giro Association for Schleswig-Holstein (25.05%).

The State of Schleswig-Holstein, the Savings Banks and Giro Association for Schleswig-Holstein, WestLB Beteiligungsholding GmbH as well as Landesbank Baden-Württemberg are jointly and severally liable for

obligations of the Landesbank that cannot be met from its assets.

The State of Schleswig-Holstein is liable for the obligations arising from the business activities of the Investitionsbank.

Governmental control is exercised by the Minister of Economic Affairs, Technology and Transport of the State of Schleswig-Holstein.

Principles of Consolidation and Companies included in the Group Accounts

The accounts of the individual companies of the Group are prepared in accordance with the accounting and valuation methods applicable to LB Kiel. Claims and liabilities, expenses and income between companies included in the Group accounts are eliminated.

Investitionsbank Schleswig-Holstein (IB) and Landesbausparkasse Schleswig-Holstein (LBS) are organizationally independent but legally dependent central departments of LB Kiel.

As the central promotion institute, Investitionsbank supports the State of Schleswig-Holstein in fulfilling economic and structural tasks, offering impartial services in the fields of industry, residential construction, the environment and energy, municipal promotion, urban and agricultural development as well as project management.

The branches in Luxembourg, Copenhagen, Helsinki, Stockholm and New York are also included.

The Group annual accounts include LB Kiel, the Landesbank Schleswig-Holstein International S.A. Group, Luxembourg, LB Schleswig-Holstein Finance B.V., Amsterdam, Gudme Raaschou Bankaktieselskab, Copen-

hagen, as well as the 49.5% investment in the Hamburgische Landesbank Group, Hamburg and the Schleswig-Holstein casinos. Moreover, LB Kiel Nord Capital GmbH, Kiel, which was established in the past fiscal year, was for the first time included in the Group annual accounts from the time of acquisition. Pursuant to sec. 301 para. 1 sentence 1 of the German Commercial Code, capital consolidation was effected according to the book value method.

In accordance with sec. 296 para. 2 of the German Commercial Code (HGB), companies that are not material for the Group's net assets, earnings and financial position were not included in the Group accounts.

^{*)} The shares in LB Kiel originally held by Westdeutsche Landesbank Girozentrale are now held by WestLB Beteiligungsholding GmbH, a wholly owned subsidiary of WestLB AG, which was officially designated and appointed to perform this holding-company function by way of a state government notification dated December 19, 2002.

^{**)} LBBW will sell its 10% share in LB Kiel to the State of Schleswig-Holstein, the Free and Hanseatic City of Hamburg and the Savings Banks and Giro Association for Schleswig-Holstein before the merger takes effect. A purchase by a third party is possible.

Accounting and Valuation Principles

General Principles

The annual accounts of LB Kiel and the Group have been compiled in accordance with the German Commercial Code (HGB) and Ordinance Regarding Accounting for Banks (RechKredV).

The balance sheet and the statement of income of LB Kiel contain the assets and liabilities as well as the expenditure and income of Investitionsbank Schleswig-Holstein and Landes-Bausparkasse, which publish separate annual accounts, unless stated otherwise.

Assets, liabilities and pending transactions are valued in accordance with sec. 252 et seq. and sec. 340 et seq. of the German Commercial Code (HGB).

In accordance with sec. 9 of the Ordinance Regarding Accounting for Banks (RechKredV), claims on banks and customers and liabilities to banks and customers, savings deposits as well as certificated liabilities have been broken down according to residual maturities.

Pro-rata interest is not to be broken down according to residual maturities pursuant to sec. 11 (3) of the Ordinance Regarding Accounting for Banks (RechKredV) and is stated in the first maturity band.

Currency Translation

Assets and liabilities in foreign currencies are converted at the official mean rate of exchange prevailing on the balance-sheet date. Income from currency translations are reported only if it is specifically covered or covered in the same currency.

The Copenhagen, Helsinki, Stockholm and New York branches' as well as the Copenhagen subsidiary's financial statements, which are compiled in foreign currencies, are also converted at the official mean rate of exchange.

Derivatives

Derivatives held in the context of own trading are valued and reported as of the balance sheet date applying general valuation principles according to the German Commercial Code (HGB) and taking the realization and imparity principle into account.

Securities in the trading portfolio and derivatives that are regarded as an entity in profit and risk terms are grouped into valuation units or portfolios; the valuation results are netted against each other.

Interest rate and currency swap agreements are used to hedge open positions and to control overall interest rate positions.

Derivatives taken out to hedge balance sheet items outside the trading portfolio are not valued.

Gross results from interest rate swap agreements are shown separately under interest income and expense. The conclusion of internal agreements is subject to conditions including the essential condition to conclude them at market terms.

Claims and Liabilities

Claims are stated with the nominal amount outstanding and liabilities with the amount repayable. Discounts and premiums are stated under deferred items as an asset or liability accordingly and are dissolved pro rata temporis.

Value adjustments and specific provisions are made to sufficiently cover all discernible risks in the loan portfolio. Latent risks in the loan portfolio are covered by general bad debt provisions. Individual value adjustments and general bad debt provisions are offset against the loan portfolio in the balance sheet.

Securities

The securities held in the Bank's and the Group's trading portfolio and in the liquidity reserve are valued strictly according to the lower of cost or market principle at market or lower book values.

Securities held in the investment portfolio of the Group were partly valued according to the diluted lower of cost or market principle as they are intended for long-term investment.

This part consists of bonds and other fixed-income securities in the amount of € 5.8 billion and shares and other non-fixed income securities in the amount of € 0.5 billion.

Original values are reinstated both in the commercial balance sheet and the tax balance sheet as required under the 1999/2000/2002 Tax Relief Act.

Equity Investments

Equity investments in affiliated and non-affiliated companies are stated at cost less depreciation, if applicable.

Tangible Fixed Assets

Tangible fixed assets whose use is limited by time are written off in accordance with the relevant tax regulations. Minor-value assets are fully written off in the year they were purchased.

Portfolio Valuation

Euro-denominated securities and derivatives held in the trading portfolio are grouped into an interest rate portfolio. All elements of the interest rate portfolio are valued at the market value as of December 31, 2002.

To properly reflect the results from trading activities, a portfolio valuation for interest rate derivatives in foreign currencies was performed for the first time. Impending losses of € 30.2 million arising in the Bank across all currency portfolios and unrealized profits of € 38.3 million were set off against each other. Provisions for impending losses were established for a negative USD balance. Positive balances are not taken into account.

Option Premiums

Option premiums paid are carried at their purchase costs. They are written down to their market price in accordance with the lower of cost or market principle. In the case of options sold, provisions are made for potential losses. Valuation units are taken into account.

Deferred Taxes

Deferred tax claims pursuant to sec. 274 para. 2 of the German Commercial Code in the amount of € 41.7 million at Group level are stated under "Deferred taxes". They result from the difference between the result in the commercial balance sheet and the result in the tax balance sheet. The amount of deferred taxes is calculated based on the tax rates applicable. Deferred taxes will be written back in future years upon the tax benefits taking effect. The limitation on profit distribution pursuant to sec. 274 para. 2 sentence 3 of the German Commercial Code was respected.

Provisions

Provisions for pension obligations have been established on the basis of actuarial principles based on the life tables of Dr. Klaus Heubeck and are valued pursuant to German GAAP. Apart from provisions for contingencies resulting from the duty to grant benefits to pensioners and surviving dependants, provisions for active employees were established for the first time in fiscal 2002 in line with a decision taken by the Federal Fiscal Court in 2002. Total appropriations amounted to € 2.2 million at Bank level.

Adequate provisions relating to early retirement have been made. In addition, indirect pension-like obligations in accordance with art. 28 (2) EGHGB exist at Group level.

At € 64.3 million, costs relating to the merger with Hamburgische Landesbank account for a major portion of the Group's other provisions.

Interest Equalization Fund

The interest equalization fund represents a value adjustment for all interest-free or low-interest claims arising from the promotion programmes of the Investitionsbank which were disbursed by December 31, 1994 and from 1999 to 2001. The claims are carried as assets at their nominal value. Therefore, the fund functions as a provision. Regarding the interest-free or low-interest claims disbursed between 1995 and 1998, the State of Schleswig-Holstein is obliged to purchase these claims at their nominal values upon request.

Special Reserve Item

The appreciation of balance sheet assets due to the 1999/2000/2002 Tax Relief Act was effected pursuant to sec. 280 (1) of the German Commercial Code. Such appreciation, which had been allocated in part to the special reserve item in the fiscal year 1999 according to sec. 273 of the German Commercial Code in conjunction with sec. 52 (16) of the German Income Tax Act, amounting to € 16.0 million at Group level was written back in the fiscal year 2002. This impacted earnings. As far as assets were disposed of during the fiscal year, the corresponding amount of the special reserve item was fully written back.

Fund for General Banking Risks

In order to hedge general bank risks, an amount of € 52.8 million at Group level was allocated to the “fund for general banking risks”. Allocations are stated separately in the statement of income.

Equity Capital

Silent participations accepted in the fiscal year in order to strengthen the Bank's equity capital base comply with the requirements contained in sec. 10 (4) of the German Banking Act (KWG) and are classified as liable capital. In the balance sheet, silent participations are stated under subscribed capital. Unrealized reserves of € 31.0 million on securities in the bank's banking book were identified. These qualify as supplementary capital pursuant to sec. 10 para. 2b sentence 1 No. 7 KWG in conjunction with sec. 10 para. 4a and 4c KWG.

Capital is consolidated on the basis of the values applicable on the date of first-time consolidation for the relevant companies.

The difference arising from capital consolidation pursuant to sec. 301 para. 1 sentence 2 No. 1 of the German Commercial Code is included in the Group reserves. The liabilities-side difference stated in the Group reserves from the capital consolidation of a total of € 1,243.9 million is the result of netting an assets-side difference of € 36.5 million against a liabilities-side difference of € 1,280.4 million.

The item “minority interests” contains shares in fully consolidated companies which are held by third parties. Group profits carried forward from the previous year amount to € 2.8 million.

Lending Commitments

The Bank's liabilities resulting in a credit risk are shown as irrevocable lending commitments.

Investitionsbank

Investitionsbank has payment obligations resulting from promotion activities for construction and investment loans. The item “other operating income” of Investitionsbank includes lease income of the “state properties” special-purpose fund. It amounts to € 36.4 million in the fiscal year. In 2002, the “federal promotion funds” unit was transferred to Investitionsbank because of the public promotion character of its business activities.

Information on the Balance Sheet and Statement of Income as well as the Group Balance Sheet and Group Statement of Income

Information on Assets (as at December 31)

1	Claims on Associated Savings Banks	€ million	Bank	Group 2002	Bank	Group 2001
	Loans and advances to banks include claims to associated savings banks:	<i>Claims on Associated Savings Banks</i>	7,063.1	7,652.4	7,031.3	7,919.5
2	Claims on Affiliated Companies	€ million	Bank	Group 2002	Bank	Group 2001
	The following items include claims on affiliated companies in securitized or non-securitized form:	<i>Loans and advances to banks</i>	2,490.9	–	1,599.4	–
		<i>Loans and advances to customers</i>	149.3	149.3	118.7	113.0
		<i>Bonds and other fixed-income securities</i>				
		Bonds	74.6	60.5	2.2	2.2
3	Claims on Companies in which Equity Investments are Held	€ million	Bank	Group 2002	Bank	Group 2001
	Claims on companies in which equity investments are held are included in the following items:	<i>Loans and advances to banks</i>	407.1	626.8	130.2	248.0
		<i>Loans and advances to customers</i>	82.1	88.8	86.7	86.9
		<i>Bonds and other fixed-income securities</i>				
		Bonds	806.3	1,010.0	751.3	780.0
4	Subordinated Claims	€ million	Bank	Group 2002	Bank	Group 2001
	The following items include subordinated claims:	<i>Other loans and advances to banks</i>	66.9	75.1	93.0	98.6
		<i>Loans and advances to customers</i>	8.1	8.1	7.0	7.0
		<i>Bonds and other fixed-income securities</i>	130.4	484.3	101.8	401.0
		<i>Shares and other non fixed-income securities</i>	–	13.6	–	16.4

5 Details on Securities

€ million	Bank	Group 2002	Bank	Group 2001
<i>Bonds and other fixed-income securities:</i>				
<i>Money market instruments issued by public and other issuers</i>				
Money market instruments listed on a stock exchange	507.8	529.0	1,529.6	1,529.6
Marketable money market instruments not listed on a stock exchange	96.8	545.8	493.0	875.2
<i>Bonds</i>				
<i>- issued by public issuers</i>				
Bonds listed on a stock exchange	9,125.6	10,904.4	5,460.4	7,990.9
Marketable bonds not listed on a stock exchange	82.6	788.5	30.4	811.5
<i>- issued by other issuers</i>				
Bonds listed on a stock exchange	12,504.1	22,003.7	13,256.0	23,498.7
Marketable bonds not listed on a stock exchange	432.4	2,625.3	574.3	2,983.2
<i>Own bonds</i>				
Bonds listed on a stock exchange	1,367.1	1,679.7	1,228.8	1,551.1
Marketable bonds not listed on a stock exchange	13.4	43.7	20.8	57.3
<i>Shares and other non-fixed income securities:</i>				
Shares and other non-fixed income securities listed on a stock exchange	14.9	47.2	21.8	55.9
Marketable shares and other non-fixed income securities not listed on a stock exchange	1,338.7	1,789.7	887.7	1,682.1

Agreements to repurchase securities sold to other banks amount to € 1.6 billion at Group level.

6 Equity Investments in Affiliated Companies

The item “equity investments in affiliated companies” includes:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Equity investment in affiliated companies</i>				
Shares listed on a stock exchange	23.1	23.1	23.1	23.1
Marketable shares not listed on a stock exchange	53.0	53.0	44.3	44.3

7 Trust Assets

Trust assets comprise the following:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Trust assets:</i>				
<i>Loans and advances to banks</i>				
payable on demand	4.0	4.0	3.0	3.0
other loans and advances	31.2	31.7	4.3	4.7
<i>Loans and advances to customers</i>	1,187.6	1,346.1	1,208.9	1,355.4

8 Other Assets

The main components of this item are:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Other assets</i>				
Adjustment item for foreign currency conversion	–	57.2	126.5	306.2
Claims under options (caps and floors) and collateral	0.1	1.8	0.1	22.4
Swap deferrals	5.8	144.6	1.6	1.8
Claims under options	41.1	70.3	27.3	47.8
Collection documents, bonds due as well as interest and dividend coupons due	129.9	130.9	134.3	152.6
Land acquired for temporary use	12.9	22.0	11.7	20.9

9 Prepaid Expenses

Prepaid Expenses include:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Prepaid Expenses</i>				
Deferred discounts	65.9	108.6	73.0	110.7
Deferred premiums	11.6	16.1	20.4	27.2

10 Breakdown by Residual Maturities

Assets according to residual maturities:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Other loans and advances to banks</i>				
up to three months	10,185.1	11,933.1	5,440.0	7,834.9
more than three months up to one year	2,236.3	4,361.5	1,960.0	3,493.5
more than one year up to five years	5,509.5	8,212.6	8,457.7	11,304.1
more than five years	4,162.4	5,397.9	5,848.7	7,477.0
<i>Loans and advances to customers</i>				
up to three months	5,771.2	8,484.7	3,696.9	6,528.8
more than three months up to one year	4,115.2	6,489.1	3,122.2	4,820.6
more than one year up to five years	13,505.5	19,883.1	13,048.9	19,158.9
more than five years	20,960.1	30,567.8	21,881.8	31,729.2
loans and advances with undetermined maturity	540.7	1,423.5	419.3	1,804.6
<i>Bonds and other fixed-income securities</i>				
Bonds maturing in the following year	5,943.4	8,658.9	3,468.3	4,244.1

II Fixed Assets

Tangible Fixed Assets

€ million	Land and buildings (excluding fixed assets under construction)		thereof: owner-occupied land and buildings		Advance pay- ments and fixed assets under construction		Office equipment	
	Bank	Group	Bank	Group	Bank	Group	Bank	Group
Acquisition cost	592.8	687.2	66.7	154.1	–	–	132.8	228.5
Additions	98.0	98.1	0.4	0.4	0.4	0.4	32.6	50.0
Subtractions	0.7	1.2	0.1	0.1	–	–	1.8	16.3
Appreciation/transfers	–	64.7	–	62.5	0.2	0.2	–	0.1
Depreciation in current business year	11.2	11.6	1.4	1.7	–	–	23.0	36.2
Cumulated depreciation	32.5	39.5	9.1	12.9	–	–	111.5	182.0
Book value on December 31, 2002	657.6	679.9	57.9	79.0	0.2	0.2	52.3	80.5

Intangible fixed assets

€ million	Bank	Group
Acquisition cost	29.2	29.9
Additions	–	–
Subtractions	–	–
Appreciation/transfers	–	–
Depreciation in current business year	2.9	3.0
Cumulated depreciation	19.0	19.6
Book value on December 31, 2002	10.2	10.3

The depreciation of € 2.9 million reflects scheduled amortization of the goodwill of the Copenhagen Branch over a period of ten years.

Financial Assets

€ million	Equity investments in non-affiliated companies		Equity invest- ments in affiliated companies		Securities treated as fixed assets	
	Bank	Group	Bank	Group	Bank	Group
Book value on December 31, 2001	872.6	200.1	168.7	123.8	8,457.6	16,264.2
Additions	226.2	359.4	53.5	270.7	2,495.8	6,081.7
Subtractions	145.3	171.4	28.3	38.9	1,763.8	6,246.4
Depreciation in current business year	1.9	2.7	–	1.4	0.7	66.3
Book value on December 31, 2002	951.6	385.4	193.9	354.2	9,188.9	16,033.2

Information on Liabilities (as at December 31)

12	Liabilities to Associated Savings Banks	€ million	Bank	Group 2002	Bank	Group 2001
	The item “liabilities to banks” includes liabilities to associated savings banks in the amount of:	<i>Liabilities to associated savings banks</i>	1,425.0	1,523.9	1,221.7	1,308.4
13	Liabilities to Affiliated Companies	€ million	Bank	Group 2002	Bank	Group 2001
	Liabilities to affiliated companies are included in the following items:	<i>Liabilities to banks</i>	1,544.5	–	1,875.0	–
		<i>Liabilities to customers</i>	7.6	6.1	9.5	9.5
		<i>Certificated liabilities</i>				
		Bonds issued	2.7	0.5	3.6	3.6
14	Liabilities to Companies in which Equity Investments are Held	€ million	Bank	Group 2002	Bank	Group 2001
	Liabilities to companies in which equity investments are held are included in the following balance sheet items:	<i>Liabilities to banks</i>	3,599.7	3,734.2	361.8	459.6
		<i>Liabilities to customers</i>	59.2	63.4	62.3	62.5
		<i>Certificated liabilities</i>				
		Bonds issued	102.0	43.2	1,786.4	1,698.5
15	Assets Pledged as Collateral	€ million	Bank	Group 2002	Bank	Group 2001
	The assets pledged as collateral are claims under loan agreements assigned as part of the promotion activities and securities deposited with the ECB in the pledged securities account in the context of open-market transactions.	<i>Assets Pledged as Collateral</i>	8,994.9	11,654.7	9,658.9	12,797.1
16	Trust Liabilities	€ million	Bank	Group 2002	Bank	Group 2001
	Trust liabilities comprise the following:	<i>Liabilities to banks</i>				
		payable on demand	2.0	2.0	1.4	1.4
		with agreed maturities or at agreed notice periods	31.3	38.0	133.8	141.4
		<i>Liabilities to customers</i>				
		payable on demand	0.4	0.4	–	6.9
		with agreed maturities or at agreed notice periods	1,189.1	1,341.5	1,080.9	1,213.5

17 Other Liabilities

This item mainly comprises:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Other liabilities</i>				
Accrued interest on subordinated debt, profit-sharing rights	183.8	216.7	140.7	203.4
Liabilities under options and collateral	24.0	50.3	21.5	47.2
Adjustment item for foreign currency conversion	117.1	–	–	–

18 Deferred Income

This item includes:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Deferred Income</i>				
Deferred discounts	239.4	282.0	236.6	285.6
Deferred premiums	10.1	15.1	6.4	12.9

19 Deferred Taxes

Provisions for deferred taxes in the amount of € 4.2 (2001: 3.2) million have been established in the Group. Deferred taxes are not netted against accrued taxes.

20 Subordinated Debt

€ million	Bank	Group 2002	Bank	Group 2001
<i>Subordinated debt</i>	1,484.6	2,285.9	1,173.1	2,011.9

Expenses of € 61.4 (2001: 66.4) million were incurred in the Bank in connection with subordinated debt. At Group level, they amounted to € 91.5 (2001: 107.7) million.

The funds were raised in GBP, CAD, YEN, NLG, PTE, LUF, USD, DEM and EUR in an equivalent amount of € 2,285.9 million (Group level).

Carrying interest between 2.4% and 16.0%, these liabilities have original maturities of 2 to 40 years.

The subordination cannot be limited and the maturity and notice period cannot be shortened; otherwise the terms of subordination are in accordance with the relevant provisions of the German Banking Act (KWG).

Each of the following subordinated liabilities exceeded 10% of the total subordinated debt:

Amount in € million	Currency	Interest rate in %	Maturity
154.0	GBP	6.5	Feb. 4, 2004
154.0	GBP	variable	Dec. 28, 2006

21 Capital with Profit-Sharing Rights

The capital with profit-sharing rights in the Bank amounts to € 635.2 (2001: 686.3) million. Group capital with profit-sharing rights amounts to € 1,061.6 (2001: 1,112.7) million.

22 Statement of Changes in Equity

Capital

The statement of changes in equity capital shows the development of the Bank and the Group capital and the overall Bank and Group result. It was drawn up closely in line with the German Accounting Standard No. 7 (DRS 7). The development of subscribed capital, capital reserves, earnings reserves and net retained earnings are stated separately. The “other changes” stated in connection with the development of the Group capital and reserves result from Group capital consolidation and related allocations of net income to earnings reserves of Group companies.

Bank	2002	2001
€ million		
Subscribed capital, previous fiscal year	1,376.5	1,009.0
Allocations to silent participations	1,036.0	367.5
<i>Subscribed capital, current fiscal year</i>	<i>2,412.5</i>	<i>1,376.5</i>
Capital reserves, previous fiscal year	1,083.1	1,031.2
Allocations to capital reserves	5.9	51.8
<i>Capital reserves, current fiscal year</i>	<i>1,089.0</i>	<i>1,083.1</i>
Earnings reserves, previous fiscal year	504.0	412.2
Allocations of net income to earnings reserves, current fiscal year	103.1	84.1
Allocations of net income to earnings reserves, previous fiscal year	4.9	7.7
<i>Earnings Reserves, current fiscal year</i>	<i>612.0</i>	<i>504.0</i>
Net retained earnings, previous fiscal year	41.9	30.0
Dividend, previous fiscal year	-15.4	-15.4
Other changes, current fiscal year	-25.6	-12.5
Net income for the year, current fiscal year	128.4	123.8
Allocations of net income to earnings reserves, current fiscal year	-103.1	-84.1
<i>Net retained earnings, current fiscal year</i>	<i>26.2</i>	<i>41.9</i>
<i>Equity capital of the Bank, current fiscal year</i>	<i>4,139.7</i>	<i>3,005.5</i>
Group	2002	2001
€ million		
Subscribed capital and reserves, previous fiscal year	2,963.7	2,452.5
Allocations to silent participations	1,036.0	367.5
Allocations to capital reserves	5.9	51.8
Allocations of net income to earnings reserves	107.9	91.8
<i>Subscribed capital and reserves, current fiscal year</i>	<i>4,113.5</i>	<i>2,963.6</i>
Group reserves, previous fiscal year	1,089.7	1,020.5
Allocations to Group reserves	154.2	69.2
<i>Group reserves, current fiscal year</i>	<i>1,243.9</i>	<i>1,089.7</i>
Minority interest, previous fiscal year	149.0	148.3
Other changes	0.3	0.7
<i>Minority interest, current fiscal year</i>	<i>149.3</i>	<i>149.0</i>
Group net retained earnings, previous fiscal year	79.7	70.5
Dividend, previous fiscal year	-32.2	-31.2
Net income for the year, current fiscal year	190.3	174.0
Other changes, current fiscal year	-147.2	-133.5
<i>Group net retained earnings, current fiscal year</i>	<i>90.6</i>	<i>79.7</i>
<i>Group equity capital, current fiscal year</i>	<i>5,597.3</i>	<i>4,282.0</i>

23 *Contingent Liabilities*

The majority of contingent liabilities are loan guarantees.

These include written credit default swaps:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Contingent liabilities</i>	9,604.7	12,235.5	5,080.2	7,080.6
Written credit default swaps	6,282.9	6,974.2	2,317.9	3,055.4

24 *Breakdown by Residual Maturities*

Liabilities according to residual maturities:

€ million	Bank	Group 2002	Bank	Group 2001
<i>Liabilities to banks with agreed maturities or at agreed notice periods</i>				
up to three months	17,726.3	24,516.7	19,554.8	29,532.7
more than three months up to one year	2,872.0	4,942.8	5,567.1	8,902.7
more than one year up to five years	4,613.9	7,333.9	4,542.4	7,127.8
more than five years	4,863.8	7,593.1	5,433.4	7,302.9
<i>Savings deposits</i>				
up to three months	43.1	82.8	41.3	82.8
more than three months up to one year	1.1	1.3	–	0.2
more than one year up to five years	0.9	1.8	2.4	3.4
more than five years	–	0.1	–	0.1
<i>Other liabilities to customers with agreed maturities or at agreed notice periods</i>				
up to three months	1,858.2	8,541.1	1,859.5	8,240.5
more than three months up to one year	354.2	208.4	257.2	553.4
more than one year up to five years	3,114.0	5,129.2	3,139.9	5,268.4
more than five years	6,512.9	10,718.9	4,959.4	9,311.3
<i>Certificated liabilities</i>				
<i>Bonds issued</i>				
Bonds issued				
maturing in the following year	12,894.4	13,557.0	7,017.9	8,325.8
<i>Other certificated liabilities</i>				
up to three months	6,084.3	8,028.1	4,202.0	5,719.4
more than three months up to one year	2,805.8	3,043.9	2,805.3	2,927.9
more than one year up to five years	–	–	–	–
more than five years	–	–	–	–

Information on the Statement of Income

25 | Group Segment Report

The Group segment report presents the segments like independent companies with own profit and cost responsibility. The segment results are based on internal controlling data and external data included in the 2002 financial statements.

The segment report was prepared closely in line with the German Accounting Standards No. 3-10 (DRS 3-10) regarding segment reports of financial institutions.

The following segments were formed:

- General lending business
Transactions including Leasing with corporate and real estate clients, savings banks, private clients as well as banks and foreign clients – including the client business of our branches in Scandinavia, USA and our subsidiary in Luxembourg.
- Transport finance
Mainly comprises aircraft, railways, infrastructure and ship finance – including the corresponding activities of our subsidiary in Luxembourg.
- Financial Markets
Money, foreign exchange and securities trading and services – including the activities of our foreign subsidiaries and branches.
- Promotion
This segment presents the result of our Investitionsbank central division.
- LBS
This segment presents the result of our Landes-Bausparkasse central division.
- HLB
This segment presents the result of our 49.5 % investment in HLB.
- Others/Overhead/Consolidation
Subsidiaries which cannot be assigned to any of the other segments, overhead and results of the consolidation.

Income and expenses were generally assigned to segments according to the principle of causation. Net interest income is calculated according to the market interest rate method.

Risk provisions reflect the values shown in the statement of income and have been assigned to the segments in which they originated.

Risk positions and the resulting equity capital requirements are stated in accordance with the banking supervisory regulations (annual averages).

Segment assets include the annual average balance sheet assets of the respective segment. The return on regulatory capital is the ratio between operating profit after risk provisions and average employed equity capital. The cost-income ratio is the ratio between administrative expenses and total income (net interest income, net commission income, net income from trading and the balance of other operating income and expenses).

The reported ROE is the quotient of net income before taxes, adjusted for allocations to reserves pursuant to sec. 340 g of the German Commercial Code, and the average on-balance-sheet equity capital adjusted for net retained earnings and reserves pursuant to sec. 340 g of the German Commercial Code. The figures in brackets each apply to the previous fiscal year.

€ million	General lending business	Transport finance	Financial Markets	Promotion	LBS	HLB 49,5%	Others/ Overhead/ Consolidation	Group
Net interest income	258.8 (224.5)	58.5 (51.9)	159.7 (70.2)	19.5 (17.0)	37.9 (37.2)	475.7 (402.2)	174.2 (95.0)	1,184.3 (898.0)
+ Net commission income	65.5 (50.0)	21.0 (19.1)	37.0 (12.0)	2.0 (2.5)	1.8 (2.7)	55.1 (50.8)	-24.8 (0.6)	157.5 (137.7)
+ Net income from trading	0.0 (0.0)	0.0 (0.0)	62.8 (48.3)	0.0 (0.0)	0.0 (0.0)	7.9 (9.7)	0.0 (0.0)	70.7 (58.0)
+ Balance of other operating income/expenses	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	39.2 (37.2)	1.9 (2.2)	-58.3 (-35.8)	14.9 (71.3)	-2.3 (74.9)
= Total income	324.3 (274.5)	79.5 (71.0)	259.5 (130.5)	60.7 (56.7)	41.6 (42.1)	480.4 (426.9)	164.3 (166.9)	1,410.2 (1,168.6)
./ Personnel expenses	36.7 (33.7)	5.7 (4.7)	17.0 (11.9)	19.4 (18.0)	15.3 (14.5)	92.9 (81.1)	107.1 (98.5)	294.1 (262.4)
./ Operating expenses	26.4 (22.2)	4.5 (4.9)	35.1 (20.9)	25.1 (22.9)	16.2 (15.4)	87.6 (73.5)	95.5 (74.5)	290.3 (234.4)
= Operating profit before risk provisions	261.2 (218.6)	69.2 (61.4)	207.4 (97.7)	16.2 (15.8)	10.1 (12.2)	299.9 (272.3)	-38.2 (-6.1)	825.8 (671.9)
./ Risk provisions	103.1 (75.4)	1.7 (18.4)	142.4 (39.8)	10.2 (-6.3)	3.3 (4.3)	144.3 (137.9)	-49.5 (39.9)	355.5 (309.3)
= Operating profit after risk provisions	158.1 (143.3)	67.5 (43.0)	65.0 (57.9)	6.0 (22.1)	6.8 (7.9)	155.6 (134.4)	11.3 (-46.0)	470.3 (362.6)
Segment assets	52,343.4 (48,735.1)	6,617.0 (5,860.7)	28,170.0 (24,730.6)	7,100.8 (6,091.0)	1,785.6 (1,598.7)	45,360.7 (43,542.3)	1,885.5 (4,007.7)	143,262.9 (134,566.1)
Risk positions	25,377.4 (22,542.5)	6,126.0 (5,978.5)	13,504.0 (8,352.9)	4,179.2 (4,109.1)	994.3 (938.1)	26,206.4 (24,497.5)	2,398.0 (1,481.1)	78,785.3 (67,899.7)
Average employed equity capital ^{*)}	2,030.2 (1,803.4)	490.1 (478.3)	1,080.3 (668.2)	334.3 (328.7)	79.5 (75.0)	2,096.5 (1,959.8)	191.8 (118.5)	6,302.8 (5,432.0)
Return on regulatory capital	7.8% (7.9%)	13.8% (9.0%)	6.0% (8.7%)	1.8% (6.7%)	8.5% (10.5%)	7.4% (6.9%)		7.5% (6.7%)
Cost-income ratio (CIR)	19.4% (20.3%)	12.9% (13.5%)	20.1% (25.2%)	73.3% (72.1%)	75.7% (71.0%)	37.6% (36.2%)		41.4% (42.5%)
ROE						8.0% (7.8%)		10.4% (9.8%)

^{*)} The average employed equity capital is the regulatory capital requirement.

The geographic breakdown is based on the domicile of the respective Group company or branch.

€ million	Germany	Europe excl. Germany	Asia	Others/ Consolidation	Group
Operating profit before risk provisions	619.5	249.7	16.0	-59.4	825.8
	(543.5)	(149.0)	(11.6)	(-32.2)	(671.9)
./. Risk provisions	156.0	201.5	0.8	-2.7	355.5
	(194.4)	(104.4)	(0.0)	(10.5)	(309.3)
= Operating profit after risk provisions	463.5	48.2	15.2	-56.7	470.3
	(349.2)	(44.6)	(11.6)	(-42.8)	(362.6)
Risk positions	55,793.1	20,409.9	3,452.6	-870.4	78,785.3
	(51,229.9)	(15,597.3)	(3,741.7)	(-2,669.2)	(67,899.7)
Average employed equity capital	4,463.4	1,632.8	276.2	-69.6	6,302.8
	(84,098.4)	(1,247.8)	(299.3)	(-213.5)	(5,432.0)
Cost-income ratio (CIR)	45.5 %	22.2 %	29.6 %		41.4 %
	(44.6 %)	(29.9 %)	(37.1 %)		(42.5 %)

26 Breakdown of Statement of Income Components Based on the Domicile of the Respective Group Company or Branch:

€ million	Germany	Europe excl. Germany	Asia	USA	Germany	Europe excl. Germany	Asia	USA
				2002				2001
Interest income	6,415.2	1,830.5	129.6	–	6,883.9	2,287.1	184.2	–
Current income (from shares and other non-fixed income securities, equity investments in non-affiliated and affiliated companies)	128.2	0.8	–	–	97.5	0.6	–	–
Commission income	149.7	76.2	2.7	–	143.1	45.2	2.3	–
Other operating income	205.1	6.5	1.1	–	224.4	3.4	0.1	–
Net income from trading	58.2	12.3	0.2	–	43.2	14.8	–	–

27 Other Operating Income

This item mainly comprises:

€ million	Bank	Group 2002	Bank	Group 2001
Refund of expenses by third parties	27.5	37.4	25.6	32.1
Income from the disposal of office equipment and land and buildings	–	–	36.9	36.9
Refund of taxes from past years	–	10.9	1.6	1.6

28 Other Operating Expenses

€ million	Bank	Group 2002	Bank	Group 2001
Restructuring expenses in conjunction with the expected merger	43.1	64.3	–	–

29 Group Cash Flow Statement

The cash flow statement shows the development of the Group cash flows. Cash flows from operating activities, cash flows from investing activities and cash flows from financing activities are shown separately. The sum of these cash flows corresponds to the change in financial resources between the beginning of the period under review and the end of the period. Financial resources

comprise the balance sheet item "cash reserve". Hamburgische Landesbank accounts for € 128.9 (2001: 39.7) million of the cash reserve.

The cash flow statement was drawn up in accordance with the banking-specific German Accounting Standard No. 2-10 (DRS 2-10).

Mio €	2002	2001
1. Net income for the period	189.4	174.0
<i>Adjustments</i>		
2. Write-downs, value adjustments and appreciation on claims, tangible and financial fixed assets	706.1	462.8
2.a) Write-downs on tangible and financial fixed assets, allocations to value adjustments	917.1	677.1
2.b) Appreciation on tangible and financial fixed assets, reversal of value adjustments	-211.1	-214.3
3. Change in provisions	168.9	-79.5
4. Other non-cash expenses/income	-16.0	-18.2
5. Profit/loss from the disposal of tangible and financial fixed assets	-315.2	-89.6
5.a) Losses	86.5	40.2
5.b) Profits	-401.7	-129.8
6. Other adjustments	-888.8	-677.2
<i>7. Subtotal</i>	<i>-155.7</i>	<i>-227.7</i>
8. Change in loans and advances	-4,150.1	-5,947.6
8.a) to banks	-1,343.9	-20.7
8.b) to customers	-2,806.2	-5,926.9
9. Change in securities (excl. financial fixed assets)	456.2	-2,371.9
10. Change in other assets from operating activities	157.9	-278.3
11. Change in liabilities	-6,743.1	8,688.3
11.a) to banks	-9,231.1	4,828.8
11.b) to customers	2,488.0	3,859.5
12. Change in certificated liabilities	9,321.4	3,592.1
13. Change in other liabilities from operating activities	188.3	-315.8
14. Interest and dividends received	8,505.2	9,455.0
15. Interest paid	-7,334.7	-8,354.1
16. Taxes on income paid	-109.6	-83.4
<i>17. Cash flows from operating activities</i>	<i>135.9</i>	<i>4,156.6</i>
18. Inflow from the disposal of	12,649.0	840.3
18.a) financial fixed assets	12,583.9	740.5
18.b) tangible fixed assets	65.1	99.8
19. Outflow for investments in	-13,856.5	-5,590.3
19.a) financial fixed assets	-13,696.8	-5,344.7
19.b) tangible fixed assets	-159.7	-245.6
<i>20. Cash flows from investing activities</i>	<i>-1,207.6</i>	<i>-4,750.0</i>
21. Inflow from equity capital contributions	1,165.7	419.3
22. Distributions from equity capital	-224.7	-173.4
22.a) Dividend payments	-36.0	-36.0
22.b) Partial profit transfer	-188.7	-137.4
23. Changes in funds from other capital	221.9	244.4
<i>24. Cash flows from financing activities</i>	<i>1,162.9</i>	<i>490.3</i>
25. Financial resources at the beginning of the period	135.8	236.0
26. Cash flows from operating activities	135.9	4,156.6
27. Cash flows from investing activities	-1,207.6	-4,750.0
28. Cash flows from financing activities	1,162.9	490.3
29. Changes in financial resources due to changes of exchange rates, scope of consolidation and valuation	0.0	2.9
<i>30. Financial resources at the end of the period</i>	<i>227.0</i>	<i>135.8</i>

Other Information

Liabie Capital

Including allocations to reserves and other changes resulting from the 2002 annual accounts, the Bank's total liable capital amounts to € 6,124.7 (2001: 4,670.3) million. Group total liable capital amounts to € 8,804.9 (2001: 7,184.2) million.

The supplementary capital in the balance sheet includes unrealized reserves of € 31.0 million relating to securities in the investment book.

The capital resources of € 163.0 (2001: 156.3) million with which Investitionsbank was provided in conjunction with the formation of the "state properties" special-purpose funds are not used to back risk-weighted assets of the Bank's commercial business.

€ million	2002	2001
<i>Liabie capital of the Bank acc. to sec. 10 of the German Banking Act (KWG)</i>		
Subscribed capital	219.9	219.9
Silent participations	2,192.7	1,156.6
Capital reserves	926.0	926.7
Earnings Reserves	612.0	504.1
Fund for general banking risks	141.6	88.8
Intangible fixed assets	-10.2	-13.1
Core capital	4,082.0	2,883.0
Supplementary capital	2,048.4	1,791.2
Equity investments acc. to sec. 10 para. 6a sentence 1 No. 4a of the German Banking Act	-5.7	-3.9
Tier 3 capital	–	–
Total liable capital – Bank	6,124.7	4,670.3
<i>Liabie capital of the Group companies acc. to sec. 10a of the German Banking Act (KWG)</i>		
Core capital	1,484.1	1,322.7
Supplementary capital	1,212.0	1,207.3
Deduction from equity capital	-15.9	-16.1
Total liable capital – Group companies	2,680.2	2,513.9
Tier 3 capital not counting towards the capital base	–	–
Group total liable capital	8,804.9	7,184.2

Principles of the German Banking Act (KWG)

Having consistently complied with the capital adequacy and liquidity stipulations under German Banking Law during the year under review, the Bank has fulfilled the requirements for recognition as a qualified bank as defined by sec. 54a para. 2 No. 9c of the German Insurance Supervision Act (VAG).

Deposit Insurance Fund

The Bank is a member of the Landesbanken/Giro-zentralen deposit insurance fund, which falls under the deposit protection system of the German Savings Bank Organization.

The deposit protection system ensures the liquidity and solvency of all affiliated institutions.

Contingencies Not Shown in the Balance Sheet

As a result of being a shareholder in six smaller companies, the Bank is obliged to pay up certain fractions of share capital not yet fully subscribed and paid totalling to € 1.4 million.

With respect to the Bank's stake in Liquiditäts-Konsortialbank GmbH, the Bank has an additional funding obligation and a limited contingent liability for the additional funding obligations of other shareholders.

Landesbank Schleswig-Holstein holds a 49.5 % stake in Hamburgische Landesbank.

Furthermore, the Bank has concluded long-term rental agreements with two of its subsidiaries.

Letter of Comfort

Landesbank Schleswig-Holstein will, except in the case of political risk, ensure that the following Group companies will be able to meet their obligations: Landesbank Schleswig-Holstein International S.A., Luxembourg, and LB Schleswig-Holstein Finance B.V., Amsterdam.

Forward Transactions

The Bank's and the Group's unsettled foreign currency, interest-related and other forward transactions outstanding at year-end were primarily entered into in order to hedge interest rate and market price volatility. The Bank and the Group are mainly involved in:

Currency-Related Forward Transactions:

- Forward exchange transactions
- Forex swap deals
- Interest-rate/currency swaps
- Written currency options
- Purchased currency options

Interest-Related Forward Transactions:

- Forward securities transactions
- Stock futures transactions
- Forward rate agreements
- Written interest-rate options
- Interest-rate swaps
- Interest-rate forward transactions
- Purchased interest-rate options
- Interest-rate futures

Other Forward Transactions:

- Written share options
- Index forward transactions
- Written index options
- Purchased share options
- Purchased index options

Credit derivatives:

- Credit default swaps (guarantee/guarantor)
- Total return swaps (guarantor)
- Credit spread options (guarantor)

Derivatives Business

Derivatives business developed favourably in the past fiscal year. At year-end 2002, the nominal volume of the Group's interest-based business amounted to € 167.3 billion, with interest-rate swaps accounting for € 151.1 billion. The short-term maturity band accounted for most of the volume growth.

Forward exchange transactions (€ 36.7 billion) accounted for the bulk of the Group's currency-based business (€ 46.0 billion).

Contracts with a term of less than one year dominated the Group's and Bank's currency-based business.

The Group's volume of equity transactions and transactions with other price risks amounted to € 1.4 billion. Most of these contracts held in the investment book have a term of more than one year.

Own trading transactions accounted for € 95.9 billion or approx. 45 % of the Group's total derivatives business.

The Group's and the Bank's derivatives business is solely conducted with counterparties of immaculate credit standing. Over 92 % of the total nominal volumes were transacted with OECD banks.

Derivative Business – Volume Development

€ million	Nominal amounts Dec. 31, 2002	Nominal amounts Dec. 31, 2001	Credit risk equivalents ⁷⁾ Dec. 31, 2002	Replacement costs ^{7a)} Dec. 31, 2002
<i>Interest-rate contracts</i>				
Interest-rate swaps	151,098.9	128,460.2	881.3	3,098.4
FRAs	9,989.3	19,777.3	2.3	9.1
Interest-rate options				
- long positions	368.3	138.5	4.0	15.5
- short positions	162.1	450.8	–	–
Caps, floors	2,456.0	831.2	7.2	16.5
Stock market contracts	1,742.7	2,856.5	–	–
Other interest-rate forward transactions	1,514.1	1,832.8	1.5	0.6
<i>Interest rate contracts – total</i>	<i>167,331.4</i>	<i>154,347.3</i>	<i>896.3</i>	<i>3,140.1</i>
<i>Currency contracts</i>				
Forward exchange transactions	36,708.1	42,655.7	275.2	931.4
Interest-rate / currency swaps	5,413.7	6,976.3	104.0	202.5
Currency swaps	–	–	–	–
Currency options				
- long positions	2,012.0	1,334.7	24.3	74.5
- short positions	1,834.5	1,050.1	–	–
Stock market contracts	–	–	–	–
Other currency-related forward transactions	–	–	–	–
<i>Currency contracts – total</i>	<i>45,968.3</i>	<i>52,016.9</i>	<i>403.5</i>	<i>1,208.4</i>
<i>Equity transactions and transactions with other price risks</i>				
Stock futures transactions	4.7	1.2	0.5	2.1
Stock options				
- long positions	51.9	17.8	2.8	2.0
- short positions	45.7	–	–	–
Stock market contracts	2.0	3.6	–	–
Other forward transactions	1,326.5	1,620.0	25.8	13.2
<i>Equity transactions and transactions with other price risks – total</i>	<i>1,430.8</i>	<i>1,642.7</i>	<i>29.1</i>	<i>17.2</i>
<i>Derivatives business – market price risks – total</i>	<i>214,730.4</i>	<i>208,006.9</i>	<i>1,328.9</i>	<i>4,365.6</i>

The volume development stated includes the gross volume of all long and short positions.

⁷⁾ The credit risk equivalents are calculated in accordance with Principle I using the standard method (mark-to-market method).

^{7a)} Replacement costs are defined as the potential expenditure which would be incurred in connection with a replacement trade required to restore a position following a counterparty default.

Derivatives Business – Trading Transactions ^{*)}

€ million	Nominal amounts	Nominal amounts	Credit risk equivalent Dec. 31, 2002	Replacement costs Dec. 31, 2002
	Dec. 31, 2002	Dec. 31, 2001		
Interest-rate contracts	85,036.7	70,344.1	446.4	1,514.1
Currency contracts	10,850.4	19,071.8	103.8	324.2
Equity trading	8.6	8.3	0.5	2.1
Total	95,895.8	89,424.1	550.7	1,840.4

Derivatives Business – Breakdown by Counterparties

€ million	Nominal amounts	Nominal amounts	Credit risk equivalent Dec. 31, 2002	Replacement costs Dec. 31, 2002
	Dec. 31, 2002	Dec. 31, 2001		
OECD banks	197,180.5	194,629.7	1,094.9	4,051.2
Non-OECD banks	404.0	342.4	2.7	3.4
Non-banks	15,265.0	11,818.6	231.2	311.1
Authorities	1,880.9	1,216.2	–	–
Total	214,730.4	208,006.9	1,328.9	4,365.6

Derivatives Business – Breakdown by Maturities ^{**)}

€ million	Interest-rate risks		Currency risks		Stock price and other price risks	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
Residual maturities						
up to three months	37,996.9	38,852.4	29,596.9	29,945.0	104.9	128.0
up to one year	35,113.9	35,430.1	11,418.4	15,797.0	237.3	143.8
between one and five years	46,899.4	38,755.7	3,412.3	4,323.0	987.6	1,094.6
more than five years	44,321.2	41,309.2	1,540.7	1,951.9	101.0	276.3
Total	167,331.4	154,347.3	45,968.3	52,017.0	1,430.8	1,642.7

Foreign Currency Business

€ million	Bank	Group 2002	Bank	Group 2001
Foreign currency assets	23,550.6	41,671.9	24,199.6	43,528.5
Foreign currency liabilities	26,308.9	39,659.2	24,014.8	37,729.0

^{*)} Trading transactions are defined as contracts concluded to make a profit from short-term changes in market prices or from dealer's margins. The result of these transactions is shown under net income from trading.

^{**)} The breakdown by maturities is based on the residual maturities of the contracts. For interest-rate futures, this is the residual maturity of the underlying, for currency futures and transactions with equity and other price risks, the residual maturity of the contract.

Coverage

€ million	Bank	Group 2002	Bank	Group 2001
<i>Coverage for Mortgage bonds</i>				
Bearer bonds	-2,154.8	-3,242.4	-2,729.9	-3,619.7
Registered bonds	-2,675.0	-3,752.2	-2,708.2	-3,607.2
Registered bonds used as collateral	-669.9	-693.9	-656.7	-684.6
Redeemed and terminated bonds	-0.1	-0.1	-0.1	-0.1
	-5,499.8	-7,688.5	-6,094.9	-7,911.6
<i>Coverage</i>				
Loans and advances to customers	6,723.9	9,416.5	6,579.2	9,216.6
Loans and advances to banks	—	—	—	—
- Securities issued by public issuers/ Substitute cover	650.0	650.0	—	—
<i>Surplus coverage</i>	<i>1,874.1</i>	<i>2,378.1</i>	<i>484.3</i>	<i>1,305.0</i>
<i>Coverage for Municipal bonds</i>				
Municipal bearer bonds	-7,227.0	-8,903.0	-8,233.9	-10,129.4
Registered municipal bonds	-6,569.8	-8,368.7	-6,620.3	-8,587.0
Registered bonds used as collateral	-1,394.4	-1,413.3	-1,196.5	-1,225.5
Redeemed and terminated bonds	—	—	—	—
	-15,191.2	-18,685.0	-16,050.7	-19,941.9
<i>Coverage</i>				
Loans and advances to customers	9,681.0	10,824.1	10,181.6	11,396.0
Loans and advances to banks	6,820.9	9,356.9	6,730.0	9,717.0
Securities and borrower's note loans issued by public issuers	—	—	—	—
Substitute cover	—	—	—	—
	16,501.9	20,180.9	16,911.6	21,113.0
<i>Surplus coverage</i>	<i>1,310.7</i>	<i>1,496.0</i>	<i>860.9</i>	<i>1,171.1</i>

Average Number of Employees in 2002

	female	male	total	2001
Bank excl. LBS and IB	774	862	1,636	1,540
Landes-Bausparkasse (LBS)	124	90	214	211
Investitionsbank (IB)	201	133	334	322
<i>Subtotal</i>	<i>1,099</i>	<i>1,085</i>	<i>2,184</i>	<i>2,073</i>
LB Schl.-Holst. International S.A.	66	61	127	84
Hamburgische Landesbank ¹⁾	1,293	1,287	2,580	2,391
Gudme Raaschou	14	55	69	79
Casino	56	135	191	195
<i>Total</i>	<i>2,528</i>	<i>2,623</i>	<i>5,151</i>	<i>4,822</i>
thereof: part-time employees	630	88	718	639
plus: apprentices	68	92	160	171

¹⁾ Total headcount of Hamburgische Landesbank

Remuneration Paid to the Members of the Managing Board and the Supervisory Board

The total remuneration paid to the Managing Board in 2002 was € 2.5 (2001: 2.4) million, including € 0.1 (2001: 0.1) million from the subsidiaries. Remuneration paid to the Supervisory Board amounted to € 0.3 (2001: 0.3) million. Total remuneration paid to former members of the Managing Board or their surviving dependants was € 1.3 (2001: 1.2) million. Pension provisions in an amount of € 12.6 (2001: 12.2) million have been made for members or former members of the Managing Board or their surviving dependants.

Loans to Members of the Executive Bodies

€ million	Bank	Group 2002	Bank	Group 2001
Managing Board	0.6	0.6	0.7	0.7
Supervisory Board	2.6	2.6	2.8	2.8

Seats of the Members of the Managing Board on other Supervisory Boards (as at Dec. 31, 2002)

Dr. Dietrich Rümker

- DGZ Deka Bank Deutsche Kommunalbank, Frankfurt/Main
- Hamburgische Landesbank - Girozentrale -, Hamburg
- Howaldtswerke-Deutsche Werft AG, Kiel
- Landesbank Schleswig-Holstein International S.A., Luxembourg
- Minimax GmbH, Bad Oldesloe
- Stiftung Schloss Neuhardenberg GmbH, Berlin

Hans Berger

- Deka Investment GmbH, Frankfurt/Main
- dvG Hannover Datenverarbeitungsgesellschaft mbH, Hannover
- eBS eBanking Services Nord GmbH, Kiel
- Hamburgische Landesbank - Girozentrale -, Hamburg
- Landesbank Schleswig-Holstein International S.A., Luxembourg
- LBS Immobilien GmbH (LBSI), Kiel
- Nordex AG, Norderstedt
- schleswig-holstein.de Beteiligungs GmbH & Co. KG
- SIZ Informatik – Zentrum der Sparkassenorganisation GmbH, Bonn
- s-NetLine GmbH, Kiel
- S-Online Schleswig-Holstein GbR, Kiel

Dieter Pfisterer

- AGV Anlagen- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Wiesbaden
- Deka Immobilien Investment GmbH, Frankfurt
- eBS eBanking Services Nord GmbH, Kiel
- Gesellschaft für Wagniskapital Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH – MBG, Kiel
- LBS-Immobilien GmbH (LBSI), Kiel
- ORGA Kartensysteme GmbH, Flintbek
- Wankendorfer Baugenossenschaft für Schleswig-Holstein eG, Kiel
- Wirtschaftsakademie Schleswig-Holstein, Kiel
- IKB Leasing GmbH, Hamburg

Franz Sales Waas, Ph.D.

- Gudme Raaschou Bankaktieselskab, Copenhagen/Denmark
- Hanseatische Wertpapierbörse, Hamburg (BÖAG)
- Landesbank Schleswig-Holstein International S.A., Luxembourg
- PCA Corporate Finance Oy, Helsinki/Finland
- s-NetLine GmbH, Kiel
- S-Online Schleswig-Holstein GbR, Kiel

Shareholdings Pursuant to sec. 285 No. 11 of the German Commercial Code (HGB)

The Group Financial Statements include Companies 1) to 14). The other companies were not consolidated as they are not material to depict a true and fair view of

the net assets, financial condition and earnings of the Group. All computations reflect the companies' most recent financial statements.

Number, Name, Headquarters	Capital share in %	Equity capital € thousands	Result € thousands
1) Landesbank Schleswig-Holstein International S.A., Luxembourg	100.00	200,087	20,000
2) LB Schleswig-Holstein Finance B.V., Amsterdam	100.00	2	2)
3) Hamburgische Landesbank Group, Hamburg	49.50	3,770,049	97,942
4) Gudme Raaschou Bankaktieselskab, Copenhagen	100.00	TDKK 102,914	TDKK -35
5) Nobis Société des Banques Privées S.A., Luxembourg	80.00	12,947	2)
6) Spielbank SH GmbH, Kiel	100.00	26	1), 2)
7) Spielbank SH GmbH & Co. Casino Stadtzentrum Schenefeld KG, Schenefeld	100.00	2,096	2)
8) Spielbank SH GmbH & Co. Casino Lübeck-Travemünde KG, Lübeck-Travemünde	100.00	700	2)
9) Spielbank SH GmbH & Co. Casino Kiel KG, Kiel	100.00	2,352	2)
10) Spielbank SH GmbH & Co. Casino Westerland auf Sylt KG, Westerland	90.00	1,313	2)
11) Spielbank SH GmbH & Co. Casino Flensburg KG, Flensburg	90.00	3,013	2)
12) LB Kiel Nord Capital GmbH, Kiel	100.00	25	26,034
13) International Fund Services & Asset Management S.A., Luxembourg	51.61	646	2)
14) LB Kiel Funding I, Grand Cayman	58.26	1,198,010	31,999
15) Baltic Sea GmbH, Kiel	100.00	26	1), 2)
16) Gudme Raaschou Asset Management Holding A/S, Copenhagen	100.00	TDKK 2	2)
17) PCA Corporate Finance Oy, Helsinki	71.16	4,681	2)
18) LB Kiel Nordic Finance AB, Stockholm	100.00	TSEK 85,494	2)
19) LBS Immobilien GmbH, Kiel	100.00	256	1), 2)
20) LB Kiel Real II GmbH, Kiel	100.00	26	1), 2)
21) Bausteine für Kinder, Kindertagesstätten Bau- und Entwicklungs GmbH, Lockstedt	100.00	26	1), 2)
22) Kieler Förde-Verwaltungsgesellschaft mbH, Kiel	100.00	26	1), 2)
23) LBSH Leasing Verwaltungs GmbH, Lockstedt	100.00	26	1), 2)
24) Gudme Raaschou AB, Stockholm	100.00	TSEK 120	2)
25) W. Jacobsen Aktiengesellschaft, Kiel	92.51	9,322	2)
26) MDK Holdings Ltd., London	33.33	21	2)
27) Gebäudemanagement Schleswig-Holstein, Kiel	24.90	25,934	2)
28) Schleswig-Holsteinische Kapital-Beteiligungsgesellschaft mbH, Kiel	100.00	511	1), 2)
29) ECOMARES GmbH & Co. KG, Büsum	25.00	39	2)
30) LB Kiel Färgaren AB, Stockholm	100.00	TSEK 120	2)
31) LB Kiel Färgaren KB, Häsleholm	99.93	TSEK 100	2)
32) Fastighetsbolag Jyväskylä Agora Oy, Jyväskylä	100.00	8	2)
33) LB Kiel Gnarp AB, Stockholm	100.00	TSEK 100	2)
34) Schleswig-Holstein ImmobilienPartner GmbH, Kiel	33.33	252	2)
35) Anker Schiffsbetreuungsgesellschaft mbH, Kiel	100.00	26	1), 2)
36) Cape May Shipping Company, Monrovia	100.00	1	2)
37) Verwaltungs- und Treuhandgesellschaft von 1963 mbH, Kiel	100.00	26	1), 2)
38) Wirtschafts- und Aufbaugesellschaft Stormarn mbH, Bad Oldesloe	24.00	26,567	2)
39) BIG Bau-Investitions-Gesellschaft mit beschränkter Haftung, Kiel	24.00	16,598	2)
40) eBankingServices Nord GmbH, Kiel	50.00	30	2)
41) LILUX Management S.A., Luxembourg	100.00	733	2)
42) Schleswig-Holsteinische Immobilienfonds Kommanditgesellschaft, Kiel	100.00	190	2)
43) LB Kiel Unternehmensbeteiligungsgesellschaft mbH, Kiel	100.00	1,100	1), 2)
44) FMS Facility Management Service GmbH, Kiel	100.00	50	1), 2)
45) West Private Equity Fund 2000 (5) GmbH & Co. KG, Düsseldorf	99.98	6,994	2)
46) P.E.R. Flucht- und Rettungssysteme GmbH, Barsbüttel	34.09	404	2)
47) BTE Hybrid Tech. GmbH, Grube	29.85	-1,510	2)
48) Aura Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Wiesbaden	94.00	25	2)
49) LB Kiel Lärkan AB, Stockholm	99.00	TSEK 100	2)
50) Oy FoxNord AB, Helsinki	100.00	8	2)

Number, Name, Headquarters	Capital share in %	Equity capital € thousands	Result € thousands
51) LB Kiel As AB, Stockholm	100.00	TSEK 100	²⁾
52) LB Kiel Pildammen AB, Stockholm	99.00	TSEK 100	²⁾
53) LB Kiel Tunnan AB, Stockholm	100.00	TSEK 100	²⁾
54) Azur Grundstücksverwaltungsgesellschaft mbH & Co. LBSH KG, Wiesbaden	94.00	59,314	²⁾
55) LB Kiel Martensdamm Alpha GmbH, Kiel	100.00	25	²⁾
56) LB Kiel Linden AB, Linden	100.00	TSEK 100	²⁾
57) LB Kiel Munkeröd AB, Stockholm	100.00	TSEK 100	²⁾
58) AGV Anlagen-, Grundstücksvermietungs- und Geschäftsführungsgesellschaft mbH, Wiesbaden	45.00	83	²⁾
59) AGV Anlagen- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Wiesbaden	45.00	562	²⁾
60) Tapes GmbH & Co. KG, Pöcking	94.00	64,050	²⁾
61) LB Kiel Blekholmen AB, Stockholm	100.00	TSEK 100	²⁾
62) Cabronita Oy, Helsinki	100.00	3	²⁾
63) Aurora Gate Oy, Helsinki	100.00	3	²⁾
64) PCA Property Finance Oy, Helsinki	54.95	6	²⁾
65) Altium Capital CICs, Moskau	37.12	TUSD 369	²⁾
66) GreenStream Network Oy, Helsinki	40.00	44	²⁾
67) Aegean Baltic Bank S.A., Kifissia	51.00	18,000	²⁾
68) LB Kiel Hamburg Corporate Finance GmbH, Kiel	50.00	5,050	²⁾
69) LB Kiel Kongress AB, Stockholm	100.00	TSEK 100	²⁾
70) LB Kiel Eyravallen AB, Stockholm	100.00	TSEK 100	²⁾
71) LB Kiel Lillhällom AB, Stockholm	100.00	TSEK 100	²⁾
72) Kieler Grunderwerbgesellschaft mbH, Kiel	100.00	26	^{1), 2)}
73) LB Kiel Real I GmbH, Kiel	100.00	32	^{1), 2)}
74) Gesellschaft für Wagniskapital Mittelständische Beteiligungsgesellschaft Schleswig-Holstein mbH, Kiel	56.10	28,482	²⁾
75) HVG-HEIMBAU-Verwaltungsgesellschaft mbH, Kronshagen	32.80	22,050	²⁾
76) Gudme Raaschou Fondsmaeglerselskab A/S, Copenhagen	100.00	TDKK 10,000	²⁾
77) Gudme Raaschou Administration A/S, Copenhagen	100.00	TDKK 1,000	²⁾
78) Ohltec socialinformatic GmbH, Gettorf	22.00	0	²⁾
79) ohltec AG i. L., Gettorf	23.89	0	²⁾
80) Marc Marco Polo Ventures GmbH & Co. KG, Krefeld	91.00	5,278	²⁾
81) Real Estate Capital Fonds I GmbH, Hamburg	29.40	5,660	²⁾
82) AMVV Gesellschaft für Mobilverwaltung mbH & Co. KG, Wiesbaden	33.33	78	²⁾
83) Activate Business Consulting GmbH i. L., Grönwohld	20.00	0	²⁾
84) Dynatechnik Messsysteme GmbH i. L., Hamburg	40.00	0	²⁾

Notes:

¹⁾ There is a control and a profit and loss transfer agreement with the company.

²⁾ Not published according to sec. 286 para. 3 sentence 1 and sec. 313 para. 2 No. 4 of the German Commercial Code (HGB).

Guarantors' Meeting

(as at December 31, 2002)

Chairwoman

[Heide Simonis](#)

Minister President of the State of Schleswig-Holstein,
Kiel

First Deputy Chairman

[Jürgen Sengera](#)

Chairman of the Managing Board WestLB AG,
Düsseldorf

Second Deputy Chairman

[Olaf Cord Dielewicz](#)

President of the Savings Banks and Giro Association
for Schleswig-Holstein, Kiel

Third Deputy Chairman

[Heinrich Haas](#)

President of the Baden-Württemberg Savings Banks
Association, Stuttgart

*Members Representing the State of Schleswig-Holstein
acc. to sec. 8 para. 2 of the Statutes of LB Kiel*

[Claus Möller](#)

Minister of Finance and Energy of the State of
Schleswig-Holstein, Kiel

[Michael Rocca](#)

State Secretary at the Ministry of Economic Affairs,
Technology and Transport of the State of Schleswig-
Holstein, Kiel

*Members Representing the Savings Banks and Giro
Association for Schleswig-Holstein acc. to sec. 8 para. 2
of the Statutes of LB Kiel*

[Jörg-Dietrich Kamischke](#)

District Administrator of the Schleswig-Flensburg
district, Schleswig

[Dr. Hans Lukas](#)

Chairman of the Managing Board Sparkasse Stormarn,
Bad Oldesloe

*Members Representing WestLB Beteiligungsholding
GmbH^{*)} acc. to sec. 8 para. 2 of the Statutes
of LB Kiel*

[Dr. Karlheinz Bentele](#)

President of the Rhineland Savings Banks
and Giro Association, Düsseldorf

[Dr. Wolf-Albrecht Prautzsch](#)

WestLB AG, Münster

*Member Representing Landesbank Baden-Württemberg
acc. to sec. 8 para. 2 of the Statutes of LB Kiel*

[Hans Dietmar Sauer](#)

Chairman of the Managing Board Landesbank
Baden-Württemberg, Stuttgart

^{*)} The shares in LB Kiel originally held by Westdeutsche Landesbank Girozentrale are now held by WestLB Beteiligungsholding GmbH, a wholly owned subsidiary of WestLB AG, which was officially designated and appointed to perform this holding-company function by way of a state government notification dated December 19, 2002.

Supervisory Board

(as at December 31, 2002)

Chairwoman

[Heide Simonis](#)

Minister President of the State of Schleswig-Holstein, Kiel

Substitute acc. to sec. 11 para. 3 of the Statutes of LB Kiel

[Ulrike Wolff-Gebhardt](#)

State Secretary, Head of the State Chancellery of the State of Schleswig-Holstein, Kiel (since April 16, 2002)

[Klaus Gärtner](#)

State Secretary, Head of the State Chancellery of the State of Schleswig-Holstein, Kiel (up to April 15, 2002)

First Deputy Chairman

[Jürgen Sengera](#)

Chairman of the Managing Board WestLB AG, Düsseldorf

Substitute acc. to sec. 11 para. 3 of the Statutes of LB Kiel

[Dr. Adolf Franke](#)

Member of the Managing Board WestLB AG, Düsseldorf

Second Deputy Chairman

[Olaf Cord Dielewicz](#)

President of the Savings Banks and Giro Association for Schleswig-Holstein, Kiel

Substitute acc. to sec. 11 para. 3 of the Statutes of LB Kiel

[Werner Helms-Rick](#)

Association Director of the Savings Banks and Giro Association for Schleswig-Holstein, Kiel

Third Deputy Chairman

[Heinrich Haasis](#)

President of the Baden-Württemberg Savings Banks Association, Stuttgart

Substitute acc. to sec. 11 para. 3 of the Statutes of LB Kiel

[Michael Horn](#)

Member of the Managing Board Landesbank Baden-Württemberg, Stuttgart (since August 1, 2002)

[Gerd Wolf](#)

Member of the Managing Board Landesbank Baden-Württemberg, Stuttgart (up to July 31, 2002)

Members Representing the State of Schleswig-Holstein

[Peter Deutschland](#)

Chairman of the DGB Nord, Hamburg

[Uwe Döring](#)

State Secretary at the Ministry of Finance and Energy of the State of Schleswig-Holstein, Kiel

[Claus Möller](#)

Minister of Finance and Energy of the State of Schleswig-Holstein, Kiel

[Michael Rocca](#)

State Secretary at the Ministry of Economic Affairs, Technology and Transport of the State of Schleswig-Holstein, Kiel

Members Representing the Savings Banks and Giro Association for Schleswig-Holstein

[Günter Anders](#)

Chairman of the Managing Board Sparkasse Schleswig-Flensburg, Schleswig

[Norbert Gansel](#)

Lord Mayor of the City of Kiel, Kiel

[Jörg-Dietrich Kamischke](#)^{*)}

District Administrator of Schleswig-Flensburg district, Schleswig (since July 1, 2002)

^{*)} Member representing the State of Schleswig-Holstein and the Savings Banks and Giro Association for Schleswig-Holstein

Günter Kröpelin

District Administrator of the Herzogtum Lauenburg district, Ratzeburg (up to May 31, 2002)

Dr. Hans Lukas

Chairman of the Managing Board Sparkasse Stormarn, Bad Oldesloe

Erwin Rückemann

Chairman of the Managing Board Stadtparkasse Neumünster, Neumünster

Members Representing WestLB Beteiligungsholding GmbH^{)}*

Theo Dräger

Chairman of the Managing Board Drägerwerk AG, Lübeck

Hans-Peter Krämer

Chairman of the Managing Board Kreissparkasse Köln, Köln

Dr. Wolfgang Peiner

Senator, Head of the Ministry of Finance of Free and Hanseatic City of Hamburg, Hamburg (since May 29, 2002)

Dr. Wolf-Albrecht Prautzsch

WestLB AG, Münster

Dr. Fritz Süverkrüp

President of the Chamber of Industry and Commerce of Kiel, Kiel

Jorma Juhani Vaajoki

Kauniainen, Finland

Member Representing Landesbank Baden-Württemberg

Hans Dietmar Sauer

Chairman of the Managing Board Landesbank Baden-Württemberg, Stuttgart

Members elected by the Employees

Astrid Balduin

Kiel

Waltraud Fuhrmann

Vice President, Kiel

Ditmar Höret

Kiel

Dr. Elisabeth Keßeböhmer

Vice President, Kiel (since July 1, 2002)

Knuth Lausen

Kiel

Rieka Meetz-Schawaller

Senior Vice President, Kiel (since July 1, 2002)

Karl-Heinz Ravn

Vice President, Kiel

Wolfgang Sander

Vice President, Kiel (since July 1, 2002)

Michael Schmalz

Kiel

Gaby Woelk

Kiel

Katharina Blanking

Copenhagen (up to June 30, 2002)

Helmut Gründel

Kiel (up to June 30, 2002)

Bettina Scholtys

Kiel (up to June 30, 2002)

^{*)} The shares in LB Kiel originally held by Westdeutsche Landesbank Girozentrale are now held by WestLB Beteiligungsholding GmbH, a wholly owned subsidiary of WestLB AG, which was officially designated and appointed to perform this holding-company function by way of a state government notification dated December 19, 2002.

Managing Board

[Dr. Dietrich Rümker](#)

Chairman (up to December 31, 2002)

[Hans Berger](#)

Deputy Chairman (up to December 31, 2002)

Chairman (since January 1, 2003)

[Ulrich W. Ellerbeck](#)

(since January 1, 2003)

[Dieter Pfisterer](#)

[Franz S. Waas, Ph. D.](#)

[Dr. Erwin Sell](#)

(up to September 30, 2002)

MANAGEMENT REPORT AND CONSOLIDATED MANAGEMENT REPORT

The Economic Environment

Contrary to what had been expected, the economic upswing failed to materialize in 2002. Following a short interruption in the first half of the year, the slump in equity prices and the decline in interest rates continued in the further course of the year.

2002 Sees World Economy Stagnate Again

With the immediate after-effects of September 11 gradually subsiding, the world economy initially made a dynamic start to the year 2002. Nevertheless, several shocks, especially in the second half of the year, prevented the widely expected recovery of the world economy from materializing.

In the first half of the year, the stock markets still felt the uncertainties caused by the various financial reporting scandals, so that the slump in stock prices continued. From mid-year, asset losses and, to an increasing extent, the Iraq conflict weighed on investor and consumer activity. In Latin America, economic activity was affected by the crises in Argentina and Uruguay and later in Brazil. The government crisis in Venezuela and the geopolitical uncertainties in the Middle East finally sent the oil price rising to a 10-year high. Overall, this caused the economic recovery to come to a standstill towards the end of 2002.

And yet there were some rays of hope as the recovery in South-East Asia and China continued, while the Central and Eastern European economies remained robust.

Upward Trend in the US Still Intact – Euro-zone Lacking Momentum

The important US economy presented a mixed picture in the course of the year, starting off with strong growth in the first quarter but failing to continue this trend in the months that followed. And yet, despite the many burdens, the US economy did not fall back into recession. Overall, the moderate upward trend in the USA remained intact, so that the economy grew by a relatively solid 2.4%.

Expanding at a rate of 0.8%, the euro-zone economy failed to gain in momentum. Growth in the German economy stagnated at only 0.2%, as capital spending continued to decline and consumer spending stayed at the previous year's level. Towards year-end, euro-zone exports weakened as a result of the stagnating world economy and the appreciation of the euro in the second half of 2002.

Central Banks Continue to Lower Interest Rates

As in 2001, the central banks responded to the continued weakness of the economy by lowering their interest rates. The US Fed reduced its key rate by 0.5 percentage points to an all-time low of 1.25% in 2002. The ECB initially lowered its key rate to 2.75% at year-end 2002. Following another rate cut by 0.25 percentage points in the first quarter of 2003, the ECB may well loosen its reins even further in the course of the year.

The capital markets reflected the ups and downs of the economy with their typical exaggerations. In the first half of the year, the initially favourable economic data sent long-term yields rising clearly on both sides of the Atlantic. In the second half of the year, capital market yields declined again. In view of the global uncertainties, investors switched from equities to bonds.

2003: Recovery in the Shadow of the Iraq Conflict

A robust recovery is unlikely to materialize before the end of the Iraq conflict. In this case, the US economy should continue its moderate upward trend. Even then, the euro-zone economy would only move sideways. Capital market yields may rise again slightly, with moderate economic and inflationary prospects preventing a stronger increase.

A continuation of the unstable situation in the Middle East would severely affect economic sentiment, which would have negative consequences for economic activity and growth. Central banks would probably respond by further lowering their key rates while capital market yields would also be likely to decline.

The Banking Environment and the EU Proceedings

The banking environment was marked by the weak economy and the persisting confidence crisis in the financial markets. Sentiment has deteriorated noticeably, especially for German banks. With regard to the EU proceedings, the issue of “Anstaltslast” (maintenance obligation) and “Gewährträgerhaftung” (guarantee obligation) was settled through the legal implementation of the agreement of July 17, 2001.

Strong Increase in Risk Provisions and Declining Reserves

2002 was a very difficult year for the banking sector in general and for German banks in particular. The persisting weakness of the economy, the loss of confidence in the financial markets, which is attributable to the cases of fraud especially in the USA, and the declining securities business clearly left their marks on banks' balance sheets. In Germany, the number of insolvencies rose from roughly 28,000 to 38,000 in the 2001–2002 period, and a further increase is expected for 2003. This trend was reflected in banks' loan loss provisions. As the ratings of many issuers were downgraded, strongly increased provisions were also required for the securities portfolios. At the same time, the continued decline in stock prices caused the reserves of many banks to melt down.

In view of the pronounced weakness of the German economy, the environment for the German banks, in particular, has deteriorated noticeably. The positive results achieved by revised strategies and major cost-cutting efforts were eaten up by declining income and rising risk provisions. We are nevertheless convinced that the adjustments now being implemented by many banks will have positive effects. In our opinion, the German banking sector is in the midst of an earnings crisis but not caught in a structural crisis.

Anstaltslast and Gewährträgerhaftung Issue Settled

In the so-called EU state aid dispute between the European Commission and the German government, an agreement about Anstaltslast and Gewährträgerhaftung was reached on July 17, 2001. In 2002, this agreement has been translated into law within the period specified. According to the new law, Anstaltslast will be replaced by a “normal commercial relationship”, while Gewährträgerhaftung will be abolished. A transitional period of four years ending on July 18, 2005 has been agreed for the implementation of these measures. There will be no changes to the liability of public law banks with respect to funding operations that existed at the time the agreement was reached. Liabilities entered during the transitional period will be covered by Gewährträgerhaftung if their term does not extend beyond 2015 (grandfathering).

The resulting tougher competitive conditions for the German Landesbanks has already led to a strong increase in funding costs, which had to be compensated for in the past fiscal year.

On March 1, 2002, EU Commissioner Mario Monti and State Secretary Caio Koch-Weser also reached an agreement about Germany's special credit institutions. Anstaltslast and Gewährträgerhaftung will remain in place for these banks provided that they fulfil public promotional tasks that comply with the EU's state aid regulations. Agreement II provides for the authorities to define the activities of the promotional banks in the respective laws by March 31, 2004. Commercial activities must be given up or spun off from the state-guaranteed institutions into a legally independent company not backed by state support.

No Solution to the Liable Capital Issue Yet

On the reporting date, the second dispute with the EU Commission, which is unrelated to Anstaltslast and Gewährträgerhaftung, had not been solved. This issue concerns the amount of remuneration paid for the integration of Wohnungsbauförderungsanstalt (Wfa), previously owned by the State of North Rhine-Westphalia, into WestLB. In its decision of July 8, 1999, the EU Commission considered the remuneration paid by WestLB to the state to be inconsistent with general market practice and concluded that this represents an infringement of the EU state subsidy regulations and that WestLB is obliged to (re)pay the balance. This has led to a number of proceedings at the European courts.

In the so-called "implementation proceedings", i.e. the dispute between the EU Commission and the Federal Republic of Germany about the improper claim for the repayment of state aid, the European Court of Justice accepted the Commission's action for implementation on December 12, 2002. At the same time, the European Court of Justice ruled that non-cash implementation of the claim for repayment of state aid is generally consistent with EU legislation. On March 6, 2003, the European Court of First Instance declared the Commission's decision of July 8, 1999 null and void on the grounds of insufficient substantiation. According to the Court, the Commission failed to properly substantiate the 9.3% interest rate which it claimed to represent appropriate remuneration. However, the Court did confirm that the Wfa integration represented state aid.

To determine whether other Landesbanks benefit from similar cases of illegal state aid, the EU Commission launched an investigation in 1999, which also covers the State of Schleswig-Holstein. In 1991, Investitionsbank Schleswig-Holstein (IB) was established as the central promotion institute of the State of Schleswig-Holstein and integrated into LB Kiel. The IB capital not

used by IB for backing its own transactions may be used as liable capital by LB Kiel. In a letter dated November 13, 2002, the EU Commission opened the official proceedings about alleged state aid by the State of Schleswig-Holstein to LB Kiel against the Federal Republic of Germany; the timing of the proceedings is not known yet. The same applies to four other Landesbanks including Hamburgische Landesbank.

The LB Kiel differs from the WestLB case in material terms. By selling part of LB Kiel to WestLB and Landesbank Baden-Württemberg with effect from January 1, 1994, the State of Schleswig-Holstein has already realized certain economic benefits, which would have to be taken into account in determining the scope of a retroactive retransfer of assets. Moreover, the integration of Investitionsbank into LB Kiel has resulted in substantial cost advantages for the State of Schleswig-Holstein. LB Kiel believes that the financial burden resulting from a possible EU notification would be manageable, even though it cannot be quantified at this time; this view is supported by the fact that the Bank's owners have already agreed to cap a potential cash drain. IB will be spun off from LB Kiel into an independent promotional special credit institution in the course of the year.

Hamburgische Landesbank does not expect the proceedings to have negative effects for the bank given that appropriate interest payments have been made on the capital provided.

LB Kiel's Strategic Approach

LB Kiel's strategy provides for fast and consistent action in order to master the challenges resulting from the abolition of the state guarantees. Building on the successful strategic positioning in recent years, the merger with Hamburgische Landesbank will be the next step.

Three Strategic Pillars

In view of the imminent abolition of Anstaltslast and Gewährträgerhaftung and the resulting downgrading of our rating, LB Kiel, like other Landesbanks, will be facing the challenge of securing a good standing in the capital market on a sustained basis. To achieve this, our profitability has to be increased further.

LB Kiel today benefits from the fact that it prepared for the tougher funding conditions at an early stage. In 1999, for instance, we introduced RAROC targets that define specific risk-adjusted margins for the market units' business activities. In strategic terms, LB Kiel has concentrated on its core competencies. The strategy developed in recent years builds on three pillars:

1. The regional focus on northern Germany and the Scandinavian and Baltic Sea region
Together with the savings banks and Hamburgische Landesbank, we are the market leader in the closely integrated metropolitan region of Hamburg and Schleswig-Holstein. In the Scandinavian and Baltic Sea region, we are among the leading foreign banks, with our financing solutions mainly targeted at medium-sized to large corporate clients as well as small to medium-sized banks.
2. The international positioning as a product and sector specialist
Our international activities are primarily aimed at the ship and transport sectors (aircraft, railway and infrastructure finance), real estate and leasing refinancing. Our corporate finance operations mainly focus on the energy/utilities and healthcare sectors.

3. The selective expansion of our capital market activities to complement the above operations
In this context, we aim to optimize our own refinancing operations, to expand our international investor base and to optimize the risk-return structure in our balance sheet. However, we have also increasingly used capital market products as components of structured finance solutions for our corporate and savings banks clients.

Merger with Hamburgische Landesbank

The result generated in the past fiscal year shows that this strategy has been implemented successfully. The September 9, 2002 decision by the shareholders of LB Kiel and Hamburgische Landesbank to merge the two banks is another important step towards ensuring our long-term viability. The two banks are an excellent fit in terms of their respective core competencies and also ideally complement each other with regard to their international branches and representative offices. Thanks to its strong regional roots and its international standing as a product and sector specialist in defined core segments, the post-merger HSH Nordbank AG will successfully master the challenges of the future.

Business Development

LB Kiel impressively held its ground in the difficult environment that prevailed in fiscal 2002 and successfully continued its policy of qualitative growth. The Group operating profit and the individual accounts showed a strong increase both before and after risk provisions, which were expanded significantly.

Distinction between Group Accounts and Individual Accounts

The individual accounts comprise the Bank including its branches as well as its two legally dependent and economically independent central divisions, Investitionsbank Schleswig-Holstein (IB) and Landes-Bausparkasse (LBS). IB and LBS prepare their own annual accounts. As of the beginning of 2002, the Bank had branches in Lübeck, Luxembourg, Copenhagen and Helsinki. In the course of 2002, a new branch was opened in New York and the representative office in Stockholm was upgraded to branch status.

The Group accounts comprise the individual account, the Landesbank Schleswig-Holstein International S.A. Group, Luxembourg (LI), LB Schleswig-Holstein Finance B.V., Amsterdam, Gudme Raaschou Bankaktieselskab, Copenhagen, LB Kiel Nord Capital GmbH, Kiel, the Schleswig-Holstein casinos and the 49.5% investment in Hamburgische Landesbank (HLB).

Net Assets and Financial Position: Qualitative Growth

In 2002, we steadily continued our strategy of qualitative growth, i.e. the selective expansion of our market position in profitable market segments. When making use of business opportunities that arise in the market, our units have to meet return targets that match the underlying risks. As a result of this policy, earnings increased more strongly than volumes.

Consolidated total assets were up 3.2% on the previous year to € 145.5 (2001: 141.0) billion. The Group's business volume^{*)} increased by 7.4% to € 171.3 (2001: 159.5) billion, while the lending volume^{*)} rose to € 168.8 (2001: 157.2) billion. The Bank's total assets (individual accounts) amounted to € 97.2 (2001: 91.8) billion at year-end, which represents a 5.9% increase. The business volume^{*)} rose to € 116.0 (2001: 104.5) billion, while the lending volume^{*)} increased to € 114.0 (2001: 102.6) billion.

Growth Driven by Loans and Advances to Customers

Loans and advances to customers remained the main growth driver. They represented the largest asset item in the Group balance sheet and increased by 4.4% to € 66.8 (2001: 64.0) billion. While loans and advances to banks rose by 4.0% to € 33.7 (32.4) billion, the securities portfolio remained almost unchanged at € 41.0 billion.

Among the loans and advances to customers, low-margin municipal loans were reduced. Both loans and advances secured by mortgages and other loans and advances showed growing volumes. Loans and advances secured by ship mortgages declined slightly. This was not least due to the depreciation of the US dollar, given that many of the loans and advances secured by ship mortgages are denominated in US dollars.

At Group level, loans and advances secured by mortgages rose by 8.7% to € 15.0 (2001: 13.8) billion, while other loans and advances to customers climbed 8.4% to € 31.1 (2001: 28.7) billion. The Group's loans and advances secured by ship mortgages declined by 2.5% to € 7.7 (7.9) billion. Municipal loans amounted to € 13.0 (2001: 13.6) billion at year-end 2002.

^{*)} volumes excl. individual value adjustments, general bad debt provisions and reserves pursuant to sec. 340 f German Commercial Code (HGB)

Group Balance Sheet 1998–2002

as at December 31

€ million	2002	2001	2000	1999	1998
Assets					
Cash, debt instruments issued by public institutions and bills of exchange eligible for refinancing	235	141	241	287	117
Loans and advances to banks	33,734	32,390	32,369	28,869	27,758
Loans and advances to customers	66,848	64,042	58,115	52,692	46,936
Portfolio of securities	40,957	41,036	34,455	30,083	22,732
Equity investments in affiliated and non-affiliated companies	740	324	200	186	154
Trust assets	1,382	1,363	1,366	1,322	1,459
Other assets	1,610	1,724	1,339	1,709	1,139
Total assets	145,506	141,020	128,085	115,148	100,295
Liabilities					
Liabilities to banks	47,513	56,744	51,915	48,833	43,519
Liabilities to customers	31,236	28,767	24,914	22,634	21,267
Certificated liabilities	53,455	44,133	40,541	34,027	27,480
Trust liabilities	1,382	1,363	1,366	1,322	1,459
Subordinated debt	2,286	2,012	1,758	1,464	1,127
Capital with profit-sharing rights	1,062	1,113	1,123	987	499
Fund for general banking risks	196	143	110	72	19
Equity capital ^{*)}	5,597	4,282	3,692	2,907	2,266
Other liabilities	2,779	2,463	2,666	2,902	2,659
Total liabilities	145,506	141,020	128,085	115,148	100,295
Business volume	171,255	159,511	142,091	127,981	111,926

^{*)} includes net retained earnings

At Bank level, loans and advances to banks increased by a moderate 2.7% to € 23.2 (22.6) billion, while loans and advances to customers rose by 6.4% to € 44.9 (42.2) billion. The securities portfolio increased to € 25.5 (2001: 23.5) billion.

In the individual accounts, municipal loans declined more strongly than in the Group accounts, by 6.3% to € 10.5 (2001: 11.2) billion. The same applied to loans and advances secured by ship mortgages, which were down 8.3% to € 3.3 (2001: 3.6) billion. Other loans and advances to customers rose by € 3.6 billion to € 23.2 (2001: 19.6) billion, while loans and advances secured by mortgages increased to € 7.9 (2001: 7.7) billion.

Our financial derivatives activities are characterized by a conservative, hedging-oriented approach. Interest-rate derivatives accounted for more than three quarters, while the remainder was accounted for by currency derivatives. Equity and other price risks were negligible. At Group level, the nominal volume of financial derivatives amounted to € 215 (2001: 208) billion as of December 31, 2002. The risk measured in terms of credit risk equivalents amounted to € 1.3 (2001: 1.0) billion. At year-end, the nominal volume of credit derivatives stood at € 10.1 (6.4) billion.

Strong Increase in Certificated Liabilities

With a view to optimizing our funding operations in the long term, funding through bank borrowings has increasingly been replaced by own issues. As a result, certificated liabilities meanwhile account for the biggest portion of our funding. As of December 31, 2002, the Group's outstanding bearer bonds and registered bonds stood at € 65.6 (2001: 56.3) billion. Of this total, € 53.5 (2001: 44.1) billion were accounted for by bearer bonds, which are shown under certificated liabilities in the balance sheet. Registered bonds in an amount of € 12.1 (2001: 12.2) billion are shown under liabilities to customers/banks. Accordingly, liabilities to banks declined to € 47.5 (2001: 56.7) billion, while liabilities to customers totalled € 31.2 (2001: 28.8) billion.

The annual accounts of the Bank showed a similar structure, with bearer bonds at € 39.4 (2001: 33.0) billion and registered bonds at € 9.3 (9.3) billion. In addition to traditional own issues including mortgage bonds and municipal bonds, the Bank refinances its activities by silent participations qualifying as core capital, profit-sharing rights and subordinated debt, which were placed with German savings banks, other selected institutional investors and the State of Schleswig-Holstein. The Bank issued short-term and medium-term foreign currency securities under its Global Medium Term Note (GMTN) programme. LB Kiel furthermore uses a Euro Commercial Paper (ECP) and a US Commercial Paper (USCP) programme.

Group Liab Capital up to € 8.5 Billion

The Group's liable capital consists primarily of on-balance-sheet equity capital and the fund for general banking risks (core capital) as well as subordinated debt and capital with profit-sharing rights (supplementary capital). As of December 31, 2002, the Group's liable capital amounted to € 8.5 billion (excl. allocations to reserves from the 2002 net income), which represents an increase of € 1.5 billion on the previous year (€ 7.0 billion). Some € 1.0 billion thereof were accounted for by silent participations qualifying as core capital, of which € 250 million were placed with the State of Schleswig-Holstein. Another € 786 million were raised in the international capital market, which helped us expand our international investor base. The remaining increase in liable capital was attributable to the assumption of subordinated debt as well as an increase in capital with profit-sharing rights.

On the balance sheet date, the ratio between own funds qualifying as liable capital and risk-weighted assets as well as market price risk positions (solvency ratio) stood at 10.3 % (2001: 9.4 %) for the Group and at 11.2 % (2001: 9.7 %) for the Bank. The solvency ratio of the LB Kiel Group exceeded 9 % throughout the fiscal year.

Solvency ratio	31/12/2002	31/12/2001
Principle I – Bank	11.2 %	9.7 %
Principle I – Group	10.3 %	9.4 %
Core capital ratio		
	31/12/2002	31/12/2001
Bank	7.5 %	5.9 %
Group	6.5 %	5.5 %

Positive Earnings Trend Intact Despite Difficult Environment

In 2002, the LB Kiel Group continued the positive profit development of the previous years. In a difficult economic environment, the operating profit after risk provisions and evaluation rose by a clear 29.7 % or € 107.7 million to € 470.3 (2001: 362.6) million.

In the same period, the Group's return on equity^{*)} rose from 9.8% to 10.4% before taxes. In this context, it has to be taken into account that the underlying on-balance sheet equity capital surged 22.5% to € 4.9 (2001: 4.0) billion. The Bank also reported a positive development, with net income before taxes up from € 218.6 million to € 302.5 million.

The Group's operating profit before risk provisions and evaluation rose by € 153.9 million or 22.9% to € 825.8 (2001: 671.9) million. While earnings increased by € 241.5 million, expenses were up € 87.6 million. A key contribution to this favourable development was again made by net interest income, but also by net income from trading and net commission income. On the balance sheet date, the Bank's operating profit before risk provisions and evaluation stood at € 517.6 (2001: 365.6) million.

Strong Increase in Net Interest and Net Commission Income and in Net Income from Trading

In 2002, net interest income rose by 31.9% or € 286.3 million at Group level, making a significant contribution to earnings growth. Strong increases were reported in the client business, where strict RAROC management enabled us to generate higher margins. The capital market units also made very gratifying contributions. Net interest income amounted to € 1,184.3 (2001: 898.0) million at Group level and to € 681.8 (2001: 466.6) million at Bank level.

Net commission income was up on the previous year. The continued decline in securities commissions was offset by a strong increase in commissions from international lending activities. Net commission income reached € 157.5 (2001: 137.7) million at Group level and € 89.4 (66.6) million at Bank level.

Against the background of a volatile market, net income from trading again increased strongly, not least thanks to the reorientation of our capital market activities initiated in 2002, which has put a special focus on the client business. Net income from trading amounted to € 70.7 (2001: 58.0) million at Group level and to € 54.6 (2001: 38.5) million at Bank level.

Merger-related Restructuring Expenses Already Included in 2002 Accounts

Other operating income/expenses declined noticeably at both Group and Bank level. In the Group, they were down € 77.3 million to € -2.3 (2001: 75.0) million. The decline was mainly attributable to restructuring expenses in excess of € 60 million for the merger with Hamburgische Landesbank that will become effective in the current fiscal year. This means that the bulk of the restructuring expenses necessitated by the merger were included in the 2002 accounts. The cash effect of these expenses will materialize only in 2003 and the following years. The costs incurred in 2002 in conjunction with the preparation of the merger are included in operating expenses. At Bank level, other operating income/expenses declined by € 41.6 million to € 47.2 (2001: 88.8) million.

Further Expansion of the Workforce ...

In fiscal 2002, LB Kiel continued to invest in staff with special qualifications in order to strengthen its market position in strategic business segments. As of year-end 2002, the headcount of the LB Kiel Group (excl. HLB and casinos) rose by 144 to 2,558 (2001: 2,414) people. Including the Schleswig-Holstein casinos, Group staff numbers increased to 2,780 (2001: 2,652). In the same period, Hamburgische Landesbank's headcount increased by 206 from 2,532 to 2,738 people. Group personnel expenses were up 12.1% to € 294.1 (2001: 262.4) million, while personnel expenses at Bank level rose by 13.7% to € 171.5 (2001: 150.8) million. The increase was due to the higher percentage of highly qualified staff, new hirings, standard wage increases as well as additional pension provisions.

^{*)} calculated as follows: (net income before taxes + allocations to reserves pursuant to sec. 340 g of the German Commercial Code) / (average on-balance-sheet equity capital - net retained earnings + average reserves pursuant to sec. 340 g of the German Commercial Code)

... and Continued Optimization of the Controlling Systems and Processes

The renewed strong increase in operating expenses by 23.8% to € 290.3 (2001: 234.4) million at Group level and by 27.6% to € 183.9 (2001: 144.1) million at Bank level is mainly attributable to the fact that we again pushed ahead the optimization of systems and processes particularly leading to increased IT consulting expenses in conjunction with the introduction of SAP. In view of the necessity to ensure the Bank's standing in the capital markets beyond 2005, new projects had to be completed (e.g. optimization of lending processes and development of a credit portfolio management system) in addition to existing projects for the modernization of IT systems and the implementation of legal requirements (e.g. Basle II rating approach, IAS accounting). Additional expenses were caused by the opening of the New York branch and the preparations for the merger.

Cost-Income Ratio Improved to 41.4%

The increase in operating expenses was more than offset by the positive earnings development, so that the cost-income ratio (CIR) improved at both Group and Bank level. The CIR is the ratio between administrative expenses and total operating income, which comprises net interest income, net commission income, net income from trading and other net operating income. The Group's CIR stood at € 41.4% (2001: 42.5%), while the Bank reported a CIR of 40.7% (2001: 44.6%).

Renewed Increase in Risk Provisions, All Discernible Risks Accounted for

Against the background of the continued weakness of the economy, both the LB Kiel Group and the Bank clearly expanded their risk provisions. The operating result for 2002 allows us to provide for all discernible risks with a view to the merger and to give HSH Nordbank a head start.

Loan loss provisions increased by 29.6% to € 220.0 (2001: 169.8) million at Group level and by 19.3% to € 95.7 (80.2) million at Bank level. Provisions for risks in the securities portfolio were expanded strongly to € 256.9 (2001: 74.4) million in the Group accounts and to € 150.9 (2001: 28.4) million in the Bank's individual accounts. The continued deterioration of issuers' creditworthiness played a key role in this context.

Non-current extraordinary income from the contribution of the shares in Deka-Bank to a joint venture of the Landesbanks led to a significantly better evaluation result from equity investments. LB Kiel primarily used this income for allocations to reserves pursuant to sec. 340 f/g of the German Commercial Code. These allocations amounted to € 141.8 (2001: 99.1) million at Group level and to € 117.3 (2001: 61.1) million at Bank level. Overall, the risk provisions/evaluations item rose by 14.9% to € 355.5 (2001: 309.3) million for the Group and to € 215.2 (2001: 147.0) million for the Bank.

Further Increase in Operating Profit after Risk Provisions

Thanks to the continued positive earnings performance, operating profit after risk provisions and evaluation rose by an impressive 29.7% to € 470.3 million despite the strong increase in risk provisions. The Bank even posted a 38.4% increase to € 302.5 (2001: 218.6) million. Taxes on income and revenues rose to € 90.1 (2001: 51.2) million at Group level and to € 53.1 (2001: 19.1) million at Bank level. The increase was due, among other things, to higher allocations to taxed reserves. Dividends on silent participations (partial profit transfers) amounted to € 190.8 (2001: 137.4) million at Group level and to € 121.0 (2001: 75.6) million at Bank level. The Group's net income rose to € 189.4 (2001: 174.0) million, while the Bank reported net income of € 128.4 (2001: 123.8) million.

Group Statement of Income

	31/12/2002 € million	31/12/2001 € million	Change 2002/2001 € million %	
1. Net interest income	1,184.3	898.0	286.3	31.9
2. Net commission income	157.5	137.7	19.8	14.4
3. Net income from trading	70.7	58.0	12.7	21.9
4. Administrative expenses	-584.4	-496.8	-87.6	17.6
thereof:				
- Personnel expenses	-294.1	-262.4	-31.7	12.1
- Operating expenses	-290.3	-234.4	-55.9	23.8
5. Other operating expenses/income	-2.3	75.0	-77.3	> -100
6. Operating profit before risk provisions and evaluations	825.8	671.9	153.9	22.9
7. Risk provisions/evaluations	-355.5	-309.3	-46.2	14.9
thereof:				
- Loan loss provisions	-220.0	-169.8	-50.2	29.6
- Securities	-256.9	-74.4	-182.5	>100
- Equity investments	254.1	19.7	234.4	>100
- Reserves pursuant to sec. 340 f/g German Commercial Code	-141.9	-99.1	-42.8	43.2
- Changes to special reserve item	16.0	18.2	-2.2	-12.1
- Other	-6.8	-3.9	-2.9	74.4
8. Operating profit after risk provisions and evaluations	470.3	362.6	107.7	29.7
9. Extraordinary income	0.0	0.0	0.0	0.0
10. Net income before taxes	470.3	362.6	107.7	29.7
11. Dividends on silent participations	-190.8	-137.4	-53.4	38.9
12. Taxes on income and revenues	-90.1	-51.2	-38.9	76.0
13. Net income for the year	189.4	174.0	15.4	8.9

Profit Appropriation

Of the Bank's net income (individual accounts) of € 128.4 (2001: 123.8) million, a constant dividend of 7 % after taxes on the share capital of € 220 million will be paid out to the shareholders. A remuneration of € 3.9 (2001: 3.8) million will be paid to the State of Schleswig-Holstein in return for the liable capital of Investitionsbank used by the Bank.

In addition, the state will receive a dividend of € 2.6 (2001: 16.9) million from IB. A total of € 108.0 (2001: 89.0) million will be allocated to the Bank's earnings reserves. € 100.0 (2001: 81.0) million will be accounted for by LB Kiel, € 3.1 (2001: 3.1) million by LBS and € 4.9 (2001: 4.9) million by IB. The residual net income of IB will be carried forward to fiscal 2003.

Risk Report

Efficient, active risk management is an integral element of the Group's business management. In 2002, we again made good progress in expanding and optimizing our controlling instruments throughout the Group. With a view to the imminent merger, both banks took comprehensive measures to further align their management and controlling elements.

We present the Group's risk situation by providing a detailed description of the risk management systems of LB Kiel followed by the key results of HLB.

Risk Management System of LB Kiel

Risk is generally understood as the possibility of future developments having a direct or indirect negative effect on the Bank's financial, earnings and liquidity position. The Bank distinguishes counterparty, market price, liquidity, operational and other risks. The risk management process involves the development of methods and procedures for the measurement and management of risks which will then be used to identify, measure, monitor and manage risks based on set limits.

LB Kiel's risk management process is integrated into its overall bank controlling concept, meaning that the monitoring of risk and return potentials is closely linked. The tools used have been developed with a view to both economic and supervisory requirements.

The earnings and return targets set for the Bank by its Managing Board are transferred to the internal controlling tools of the individual organizational units (e.g. contribution margin accounting). To optimize liable capital allocation, an internal liable capital market was installed in 2002 with a view to ensuring fulfilment of the Principle I target coefficient and achieving efficient reallocation of liable capital throughout the year. In the internal liable capital market, the market units may acquire unused liable capital from other market units if required. Newly raised liable capital is allocated to the most productive use via this market. The liable capital market was organized at regular quarterly intervals; the quarter-on-quarter growth in volumes reflects the effectiveness of this scheme.

The individual organizational units are responsible for managing their business units, which includes the management of risks. The comprehensive set of risk controlling tools enables LB Kiel to consciously assume a well-balanced level of risk.

The Controlling department is principally responsible for this wide range of risk management tools. In addition to the Controlling department, the risk monitoring activities of the Managing Board are supported by Auditing and Legal department (incl. the Compliance unit) as well as by the management teams of the market departments and, as far as country risks are concerned, by the Financial Institutions/Syndications/Leveraged Finance department. The Transaction Services/Middle Office department is responsible for the operative measurement of market price risks, the monitoring of market price risk limits and the monitoring of counterparty and issuer risks by means of methods developed by the Controlling department. Management of the Bank's major risks is additionally in the hands of the expert committees Risk Committee, Committee for Foreign Business and Asset Liability Committee. Decision-making lines, information lines and functional responsibilities have been clearly defined.

In 2002, LB Kiel continued to optimize its risk measurement and risk management procedures. With a view to Basle II, the existing RAROC approach, the preliminary costing process and the liable capital allocation mechanisms have again been considerably expanded.

The optimization of our controlling instruments also focused on liquidity risk monitoring in the past fiscal year. In autumn 2002, we improved the liquidity limit model on the basis of deterministic cash flows up to 365 days; in 2003, this approach will be refined towards a liquidity at risk model.

LB Kiel continued to pursue a conservative risk strategy, attaching particular importance to a well-balanced portfolio structure which avoids large-scale counterparty risks as well as counterparty risk clusters. Given that trading activities are deliberately restricted, market price risks are less important. Major liquidity risks do not exist.

Counterparty Risks

The term counterparty risk refers to a potential loss which may result from the default or deterioration of the credit rating of business partners, guarantors, investments or countries. LB Kiel manages the risks involved in exposures to individual counterparties as well as at portfolio level.

Limits for all counterparty risks have been fixed in line with the Bank's risk cover potential and future profitability. The results of the risk controlling analyses are reported to the decision-making committees in charge, which immediately initiate suitable measures for the management of risks if required.

LB Kiel uses a uniform rating-based process to measure and manage all counterparty risks. Major elements of this process include internal rating procedures and historic default probabilities. These factors are linked with accounting data in order to enable, for instance, segment analyses according to different risk criteria such as sector, domicile of company, credit rating category or organizational units. The entire risk measurement process is reviewed constantly by means of back-testing; the risk parameters of some units were adjusted slightly in 2002.

Rating procedures based on scorecard and simulation techniques were developed in co-operation with other Landesbanks and the German Savings Banks and Giro Association in 2002. Some initial rating modules have been completed and are available for use in the Bank.

Large-scale risks are monitored and managed across the Group on a daily basis based on counterparty limits and utilization. In addition, the independent credit office systematically monitors the risks of individual exposures. This is done by way of voting as well as a review of ratings and collateral.

In 2002, the Bank optimized in particular the monitoring of individual counterparty risks of the trading units. Key developments included the introduction of a consistent limit system for monitoring the Bank's counterparty and issuer risks and the start of the "Netting/Collateral Management" project, which aims to further reduce the counterparty risks from trading activities. In 2002, LB Kiel concluded netting agreements with a number of major counterparties to hedge the counterparty and issuer risks of the trading units.

The risk which may result from the impairment in value of equity capital due to equity investments or the opening of new branches is managed by the equity investment unit attached to the Board office. The focus is on due diligence reviews and ongoing target/actual comparisons of results from equity investments. Risks associated with existing equity investments are acceptable. Corresponding contractual arrangements ensure that the business development can be monitored and influenced. Internal reporting is another tool used to monitor the risk of equity investments: In the course of the fiscal year, the Controlling department provides regular reports detailing the critical success factors of all equity investments to the responsible committees.

An additional country limit system controls the country risk, which also needs to be taken into account in conjunction with the counterparty risk. Based on an upper limit for all Group-wide country risks, upper limits for individual countries and country groups are determined on the basis of a country rating. Die Compliance with these limits is monitored on an ongoing basis by Financial Institutions/Syndications/Leveraged Finance.

Foreign exposure primarily focus on Europe and North America. As at December 31, 2002, the country portfolio had the following structure:

Foreign Exposure

In € million	Group Exposure excl. HLB (Dec. 31, 2002)	HLB pro-rata (Dec. 31, 2002)	Group Exposure (Dec. 31, 2002)	Percentage share in Group exposure (Dec. 31, 2002)
Europe ^{*)}	32,131.1	13,805.7	45,936.8	64.2
Central and Eastern Europe	1,105.5	680.9	1,786.4	2.5
Other industrialized countries	12,990.5	7,291.3	20,281.8	28.4
Latin America	673.8	140.9	814.6	1.1
Asia	1,298.8	975.1	2,273.9	3.2
Africa	82.9	15.6	98.5	0.1
Other	222.6	159.4	382.0	0.5
Total	48,505.2	23,068.9	71,574.0	100.0

^{*)} excl. Central and Eastern Europe

The overall cautious risk policy is reflected in the total volume of individual value adjustments:

Value adjustments

	Individual value adjustments		Share of individual value adjustments ^{*)}		General bad debt provisions ^{**)}
	Dec. 31, 2002 € million	Previous year € million	Dec. 31, 2002 in %	Previous year in %	Dec. 31, 2002 € million
LB Kiel	351	282	0.33	0.29	33.7
IB	88	81	1.34	1.84	14.2
LBS	4	4	0.21	0.23	0.6
LB International	33	41	0.39	0.55	—
HLB	894	733	0.85	0.71	88

^{*)} in the credit volume

^{**)} Landesbank Schleswig-Holstein International S.A., Luxembourg,
calculates global bad debt provisions

Market Price Risks

Market price risks are potential losses which may result from future market price fluctuations of our positions due to changes in the yield curve (interest rate risks), exchange rates (currency risks), share prices (share price risks) as well as prices of commodities, precious metals and other tradable goods (other price risks). For positions comprising options, additional risks result from the fluctuations of the volatilities determining the prices.

LB Kiel has adopted the value at risk (VaR) approach to measure and control market price risks. The value at risk projects the maximum potential change in value of a portfolio of financial instruments which may arise due to fluctuations of the evaluation parameters. The potential change in value is calculated in such a way that it would not be exceeded with a likelihood (confidence level) of 95 %.

Time series of interest rates, exchange rates and securities prices over the past 201 days are used for these projections. The risks are measured against pre-defined loss limits and reported to the Managing Board and the responsible trading units on a daily basis. New products are constantly included in risk measurement.

LB Kiel uses a present value-oriented procedure to record and control interest rate risks in the banking book. An important element of this procedure is the determination of an accumulated present value, which is calculated on the basis of the net cash flows generated by the fixed income assets and liabilities including derivatives for transactions subject to interest rate risks.

The present value of the calculated net cash flows is calculated on the basis of maturity-oriented market interest rates derived from the yield curve.

In addition to interest rate risks for main and secondary currencies, price risks for shares and investment share certificates of the liquidity reserve are also included in global risk management on a VaR basis.

In order to limit the global market price risk, the Managing Board has defined a risk limit for the Bank. In the year under review, the risk limit was used only moderately and complied at all times. An early warning system which triggers corrective decisions by a pre-defined procedure prevents limit from being exceeded.

In mid-2002, the calculation of market price risks in the trading books (incl. money-market trading) was migrated to SAP. The new system enables us to perform differentiated risk compensations, prepare refined stress scenarios and calculate and monitor the VaR on a near-time basis throughout the day.

By spring 2003, market price risk calculation for the complete banking books will also have been migrated to SAP. This will mark the successful completion of the multi-year "Market Price Risks" project.

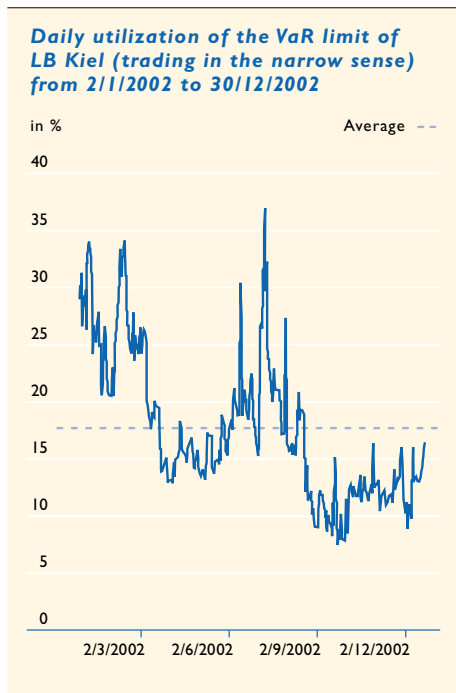
Back-Testing and Worst-Case Scenarios

Back-testing comprises a comparison between the maximum loss to be expected on one trading day, the VaR, and the actual change in the result for the individual trading portfolios. Each test is based on a period of 100 trading days. In 2002, the Bank identified one "outlier"; however, its causes did not necessitate an adjustment of the process.

The stress tests performed are based on a shift in the confidence level from 95 % to 99 %. Simulations have shown that even with a confidence level of 99 %, the risk cover potential was not exceeded.

In the context of statistical approaches, the "worst-case" is the most unfavourable scenario that would have occurred for a given portfolio in the past. The calculation of the worst-case scenario is based on the risk parameters that would have meant the greatest loss in value for the portfolio over the past ten years. None of the worst-case scenarios calculated in 2002 showed an unacceptable risk for the Bank.

As per December 31, 2002, the value at risk was € 2.4 (2001: 4.4) million (trading in the narrow sense). The average VaR limit utilization was 17.7% (2001: 18.9%) for trading risks, with the minimum at 7% (2001: 7%) and the maximum at 37% (2001: 27%).



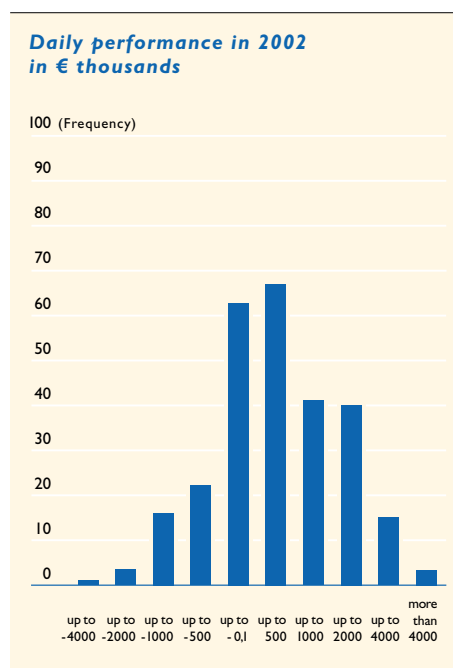
From January 2, 2002 to June 17, 2002, the VaR limit was € 17.4 million; the limit for trading in the narrow sense was reduced to € 14.9 million on June 18, 2002 and pooled with the limit for trading in the wider sense. The € 14.9 million limit remained unchanged till the end of the year. The average daily value at risk for the three risk categories is shown below:

Average daily value at risk

In € thousand	1/1/ up to 31/12/2002	1/1/ up to 31/12/2001
Interest rate risks	2,705	2,185
Currency risks	427	114
Other market price risks	197	259

Average calculation based on 253 trading days
(previous year: 255 trading days).

The daily performance of trading operations in 2002 is shown below:



Losses did not exceed € 5.88 million on any trading day (2001: € 2.05 million).

Liquidity Risks

The term liquidity risk describes the risk of the Bank becoming unable to maintain sufficient liquidity and hence unable to properly meet its payment obligations on a timely basis and in full. Liquidity risks are taken into account in the liquidity strategies and plans.

The Bank's Asset Liability Committee is responsible for defining the conditions and strategies for planning and controlling liquidity. Sole responsibility for the management of supervisory requirements (e. g. minimum reserve, Principle II) and economic risks lies with the Treasury unit. Treasury (liquidity management) takes the measures required for implementation, especially the covering of financing requirements as well as day-to-day cash management.

With a view to meeting the future BIS Basle regulatory requirements ("Sound Practices for Managing Liquidity in Banking Organisations"/Basle Committee on Banking Supervision) already today, we have developed a liquidity risk management model which initially uses deterministic liquidity risks. In 2003, the model will be expanded to include stochastic liquidity risks. Based on this model, financing requirements will be defined by terms, volumes and instruments in order to cover deterministic and stochastic liquidity risks in the long term.

The diversification of funds by instruments, regions, currencies and investors is an integral element of our liability profile. Moreover, financed, liquid assets effectively protect the Bank against short-term liquidity bottlenecks. These assets allow the Bank to cover unexpected drawings under committed credit facilities at any time.

Compliance with supervisory regulations is monitored by the Controlling department. As at December 31, 2002, the liquidity ratio according to the Principle II of the Federal Financial Supervisory Authority (BaFin) was 1.26 (2001: 1.29). It never fell below the required minimum value of 1.0 during the year under review.

Operational Risks

The term operational risk comprises potential direct or indirect losses resulting from human, organizational or technical failure or inadequacies or external factors. Key operational risks were identified, analyzed and managed by our risk management and monitoring system on an ongoing basis in 2002.

In addition, detailed records of key risks at the Copenhagen Branch, Landesbank Schleswig-Holstein International S.A. and the LBS and IB central divisions were established in 2002. These key risks were generally considered to be negligible.

In view of the Basle II consultation papers, LB Kiel has regularly performed calculations, which have shown that operational risks will play a minor role in terms of future equity capital requirements. The methods used to monitor and manage operational risks nevertheless continue to be refined on an ongoing basis. In the context of a new project, a technical solution to operational risk controlling will be introduced, which comprises a database for recording actual operational loss events.

In 2002, the Bank's ability to address emergencies appropriately and in a damage-reducing manner was improved further. In this context, the Bank appointed an Emergency Officer and installed emergency teams. Regular emergency tests are conducted with a view to ongoing optimization.

In the IT segment, an e-mail encryption system has been installed, which allows users to exchange secure e-mails with business partners and clients. Preparations have also been made for the future use of a public key infrastructure (PKI), i.e. comprehensive certificate-based encryption.

In addition, a number of organizational regulations increasing the Bank's security standards were introduced.

To counteract risks in the personnel area, the Bank has established suitable programmes for the selection, training and employment as well as for the promotion and further development of its employees. These programmes focus on identifying the potential of the Bank's employees and promoting their personal and professional qualification. The programmes ensure appropriate management of resources that responds to processes of change.

To counteract legal risks, LB Kiel uses nationally and internationally acknowledged standard framework agreements (ISMA, ISDA, DRV), scrutinizes individual agreements and regularly adapts contractual documentation to current legislation and applicable court-decisions; in addition, the Bank's own legal department supports the market departments.

Risk Management Process and Risk Situation of Hamburgische Landesbank (HLB)

Active risk management continues to play an important role also at Hamburgische Landesbank. In 2001, Hamburgische Landesbank had revised the strategic and organizational orientation of its risk management process and thereby further improved the foundations for the management of its business. In 2002, the bank continued to advance its processes and methods to measure, monitor and control risks.

Hamburgische Landesbank's tools for the management of market price, counterparty and liquidity risks are largely comparable to those of LB Kiel. Several projects taking into account the future requirements resulting from Basle II have been pushed ahead. In 2002, activities focused on the development of future rating modules to meet the requirements of the advanced internal rating approach, the expansion of the existing collateral database and the refinement of market price risk measurement. Other bank-wide projects are currently being implemented to ensure that negative developments of Hamburgische Landesbank's risk structure are detected early on and considered in the Bank's risk management.

In 2002, HLB's risk strategy continued to be characterized by a cautious business policy. Retaining its strict evaluation principles, Hamburgische Landesbank established sufficient provisions for all discernible risks. At year-end, risk provisions for counterparty risks (individual value adjustments and provisions) amounted to € 922 (2001: 743) million. The Bank's liquidity ratio (Principle II in accordance with sec. 11 of the German Banking Law) was 1.5 at year-end, thus clearly exceeding the minimum requirement (> 1.0). HLB's liable capital as defined by the German Banking Law – incl. supplementary capital – after profit appropriation amounted to € 5,521.1 million. Its overall Principle I ratio stood at 10.8% (ratio of weighted risk assets incl. market price positions to liable capital at year-end 2002).

Risk Outlook

In 2003, the Group will continue to optimize its management systems. In addition to the further integration of the requirements resulting from MaK and Basle II, LB Kiel will primarily develop its concepts and technical systems towards a uniform bank-wide risk measurement process.

Personnel

LB Kiel recruited specialists despite the imminent merger

Despite the ongoing preparations for the merger with Hamburgische Landesbank, LB Kiel expanded its regular workforce by 4.5% in the past fiscal year. As of December 31, 2002, the LB Kiel Group (excl. HLB) employed 2,568 (2001: 2,457) people. Specialists for the Capital Markets and Asset Liability Management units as well as the international lending units such as Transport Finance and Financial Institutions/Syndications/Leveraged Finance were recruited in co-operation with our merger partner. A workforce of 29 people was set up for the new branch in New York, which was officially opened in December 2002. Nine NY-based expatriates will assist in the start-up and expansion of our US business activities for a period of two to three years.

2003 will be clearly marked by the merger also in personnel terms.

Key staff figures (LB Kiel Group excl. HLB)

as at December 31

	2002	2001	2000
<i>Total staff employed</i>	2,780	2,652	2,361
of whom female	1,348	1,257	1,115
<i>Regular Staff</i>	2,568	2,457	2,189
thereof:			
Bank excl. LBS and IB	1,644	1,561	1,501
Landes-Bausparkasse (LBS)	215	215	197
Investitionsbank (IB)	333	323	324
LB Schl.-Holst. Int. Luxemburg	131	84	82
Gudme Raaschou	64	79	85
Casinos	181	195	–
<i>Apprentices</i>	74	84	96
<i>Temporary staff/trainees</i>	138	111	76
<i>Staff on maternity and parental leave</i>	72	77	91
<i>Part-time staff in %</i>	14.7	14.9	13.6
<i>Average age</i>	41	40	40
<i>Retired staff and surviving dependants/</i>			
<i>Employees in early retirement</i>	1,006	984	956
<i>New appointments</i>	224	262	228

Merger with Hamburgische Landesbank and Outlook

Fiscal 2003 will be marked by the merger with Hamburgische Landesbank and a difficult banking environment. Our aim will be to achieve tangible success before the abolition of the state guarantees in 2005.

HSH Nordbank AG Making Good Progress

The further outlook will mainly be marked by the merger with Hamburgische Landesbank. The merged bank is scheduled to operate as a public limited company under the name of "HSH Nordbank" from June 1, 2003. In taxation and accounting terms, the merger will take retroactive effect from January 1, 2003.

The preparations for the merger date back to March 2002. The shareholders of Hamburgische Landesbank and LB Kiel instructed the two Managing Boards to develop a concept for merging the two banks. Following detailed and swift feasibility studies, the shareholders decided on September 9, 2002 to merge the two banks, with the Free and Hanseatic City of Hamburg holding 32.69 %, the State of Schleswig-Holstein 16.86 %, the Savings Banks and Giro Association for Schleswig-Holstein 16.86 %, WestLB Group 26.86 % and Landesbank Baden-Württemberg (LBBW) 6.73 %. LBBW will sell its 10 % share in LB Kiel to the State of Schleswig-Holstein, the Free and Hanseatic City of Hamburg and the Savings Banks and Giro Association for Schleswig-Holstein before the merger takes effect. A purchase by a third party is possible.

On February 4, 2003, the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein signed the state treaty, which defines the legal foundation for the merger. The state parliaments of Schleswig-Holstein and Hamburg are expected to give their approval in May 2003, to make the state treaty legally effective.

Total Assets of € 200 Billion, some 4,500 Employees and Headquarters in Kiel and Hamburg

The post-merger bank will have total assets of approx. € 200 billion and some 4,500 employees. HSH Nordbank AG will be headquartered in Kiel and Hamburg, with permanent competences distributed evenly between the two head offices. The merged bank will commit itself to a Corporate Governance Code. As a public limited company, the new bank will lose the Pfandbrief privilege under the German ÖPG act. We expect a general law to be passed in the near future which will allow HSH Nordbank AG to continue the mortgage portfolio related to existing Pfandbriefe. With a view to issuing Pfandbriefe in the future, we are currently examining the possibility of establishing a mortgage bank subsidiary.

Leading Commercial Bank in Northern Europe

The business policies of both banks are reflected in the strategic mission of the merged bank. HSH Nordbank will be positioned as a leading commercial bank in Northern Europe. Together with the savings banks, HSH Nordbank is the market leader in its core region of Hamburg/Schleswig-Holstein. On an international scale, the merged bank will operate as a sector specialist in selected business areas such as ship and real estate finance and corporate clients; for improved portfolio diversification, the bank will also operate in the credit investments segment. HSH Nordbank will be a recognized partner in the international capital markets and have a wide network of domestic and international representative offices and branches, with Hamburgische Landesbank's traditional focus on Asia and LB Kiel's focus on the Scandinavian and Baltic Sea region. The merged banks will also have a local presence in London, Luxembourg and New York.

Guarantee Obligation Also for the Public Limited Company

HSH Nordbank's foundation as a public limited company will take legal effect upon registration with the Commercial Registers (Handelsregister) of Hamburg and Kiel. The new bank will continue all business operations of LB Kiel and Hamburgische Landesbank under the new name. All claims, other assets and liabilities will be transferred to HSH Nordbank AG by act of law. The agreement reached with the EU Commission on July 17, 2001 about the abolition of maintenance obligation (Anstaltslast) and guarantee obligation (Gewährträgerhaftung) will also apply to HSH Nordbank AG irrespective of the public limited company status. The states of Schleswig Holstein and Hamburg have laid down in the state treaty that Gewährträgerhaftung shall be applicable in full to the merged bank. This means that the situation regarding Gewährträgerhaftung will be no different from that of the two banks in their current status as public law banks.

Merger Pushed ahead Swiftly

The merger will bring together two partners that are a perfect fit in terms of their business strategies and geographic presence. Moody's has ranked both banks among the leading Landesbanks in terms of their financial strength. Given that the early definition of the future decision-making structures is of major importance in the merger process, the future Managing Board was appointed when the merger was decided in September 2002. In its capacity as the steering committee, the future Managing Board immediately appointed the next lower of the three management levels. Milestones that have been passed so far include the distribution of centers of competences and the organizational structure, the definition of the methods for overall bank management and the agreement on an IT system.

The new bank aims to realize cost and income synergies worth € 150 million p.a. three years after the merger which will be an important step to secure the bank's long-term access to the capital markets after 2005. We are confident that the merger will be a success.

Investitionsbank Schleswig-Holstein and Landes-Bausparkasse to Become Independent

Legislation requires HSH Nordbank AG to spin off the promotion activities and the savings and loan business. This is why Investitionsbank Schleswig-Holstein (IB) and Landes-Bausparkasse (LBS), LB Kiel's legally dependent and organizationally independent promotion and loan and savings arms, will be spun off from LB Kiel with effect from June 1, 2003. The spin-off of IB will also facilitate implementation of the Brussels Agreement II. As IB's activities will be restricted exclusively to public promotional activities, the bank will continue to benefit from Anstaltslast and Gewährträgerhaftung. LBS will be spun off from LB Kiel as a public limited company (LBS-AG) and become a wholly-owned subsidiary of HSH Nordbank AG. The Savings Banks and Giro Association for Schleswig-Holstein will acquire LBS-AG from HSH Nordbank AG.

Outlook

Available forecasts on the development of the German and global economic environment suggest that 2003 will be another difficult year for the banking sector. We are nevertheless confident that we will be able to tie up with the positive earnings trend of the previous years.

Apart from the medium-term potential of the merger, we will continue to benefit from our approved success factors – a clear strategic focus, close customer relationships and a management approach based on risk-adjusted return targets. We also feel that the earnings potential of our capital market activities, which have been reorganized in recent years, has not been fully exploited yet. A key issue is the expansion of our co-operation with the savings banks, which represents a solid basis on which to expand our product range with a view to putting our relationships on a broader base. The success achieved so far suggests that our corporate finance activities will also make growing profit contributions. Finally, active and more efficient portfolio management is expected to result in promising potential.

We are convinced that the merger into HSH Nordbank will show tangible success in time for the abolition of the state guarantees in 2005.

AUDITOR'S REPORT

Independent Auditor's report

We have audited the annual financial statements, together with the bookkeeping system, of the Company Landesbank Schleswig-Holstein Girozentrale, Kiel, as well as the consolidated financial statements and its report on the position of the Company and the Group prepared by the Company for the business year from January 1, 2002, to December 31, 2002. The preparation of these documents in accordance with German commercial law and supplementary provisions in the statute is the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, as well as on the consolidated financial statements and the report on the position of the Company and the Group, based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch, German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual and the consolidated financial statements in accordance with principles of proper accounting and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control

system and the evidence supporting the disclosures in the books and records, the annual and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and consolidated financial statements and the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Landesbank Schleswig-Holstein Girozentrale, Kiel, and the Group, respectively, in accordance with principles of proper accounting. On the whole the report on the position of the Company and the Group provides a suitable understanding of the Company's and the Group's position and suitably presents the risks of future development.

Kiel, April 7, 2003

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft



Dr. Göttgens
German Public Auditor



Hammelstein
German Public Auditor

FINANCIAL STATEMENTS OF HAMBURG LB

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2002

Assets

	€ '000	€ '000	€ '000	€ '000
1. Liquid funds			260,409	80,382
2. Debt certificates issued by public bodies and bills of exchange eligible for refinancing with central banks			3,293	3,678
3. Receivables from banks				
a) Due at sight		5,660,404		3,091,672
b) Other receivables		<u>16,459,458</u>		<u>16,175,214</u>
			22,119,862	19,266,886
4. Receivables from customers			42,811,250	41,371,578
Thereof:				
Secured by property mortgages	€ 14,269,231 k			
(2001: € 12,172,975 k)				
Community loans	€ 4,453,856 k			
(2001: € 4,502,786 k)				
5. Debt securities and other fixed-interest securities				
a) Money-market funds		949,977		772,174
b) Bonds and debt securities		21,516,268		25,826,669
c) Own debt securities		<u>554,298</u>		<u>566,884</u>
			23,020,543	27,165,727
6. Shares and other variable-yield securities			942,056	1,653,514
7. Investments			289,374	74,690
8. Shares in affiliated undertakings			466,325	152,606
9. Trust assets			321,297	296,947
10. Immaterial assets			235	306
11. Tangible fixed assets			54,993	149,935
12. Other assets			2,119,096	2,216,766
13. Prepaid and deferred expenses			250,084	233,727
Total			<u>92,658,817</u>	<u>92,666,742</u>

Liabilities

31/12/2001

	€ '000	€ '000	€ '000	€ '000
1. Liabilities to banks				
a) Payable on demand		1,341,008		1,482,768
b) With an agreed term or notice period		<u>22,991,684</u>		<u>30,147,400</u>
			24,332,692	31,630,168
2. Liabilities to customers				
a) Savings deposits		82,444		86,313
b) Other liabilities				
ba) Payable on demand	4,723,722			4,690,928
bb) With an agreed term or notice period	<u>26,286,709</u>			<u>25,691,103</u>
		31,010,431	31,092,875	30,382,031
				30,468,344
3. Certificated liabilities				
a) Debt securities issued		22,941,978		18,029,749
b) Other certificated liabilities		<u>4,407,867</u>		<u>3,313,105</u>
			27,349,845	21,342,854
4. Trust liabilities			321,297	296,947
5. Other liabilities			2,436,379	2,150,420
6. Deferred income			213,957	220,999
7. Accrued expenses				
a) Pensions and similar accruals		181,694		165,741
b) Tax accruals		55,942		41,060
c) Other accrued expenses		<u>137,943</u>		<u>63,219</u>
			375,579	270,020
8. Special item with accrual character			—	26,772
9. Subordinated liabilities			1,468,044	1,518,762
10. Capital with participation rights			861,407	861,407
11. Fund for general banking risks			110,000	110,000
12. Equity				
a) Subscribed capital		2,168,550		1,914,380
b) Capital reserves		445,602		445,602
c) Revenue reserves				
ca) Legal reserves	—			142,855
cb) Other reserves	<u>354,361</u>			<u>179,301</u>
		354,361		322,156
d) Exceptional amount due to capital consolidation		721,073		721,073
e) Revenue share of dormant partner		1,335		523
f) Profit for the year		113,298		73,792
g) Adjustment item for shares of other stockholders		<u>292,523</u>		<u>292,523</u>
			4,096,742	3,770,049
Total			<u>92,658,817</u>	<u>92,666,742</u>
1. Contingent liabilities				
Liabilities on guarantees of bills and cheques and on warranties			4,769,174	4,100,725
2. Other commitments				
Irrevocable lines of credit granted			3,814,300	3,664,716

**CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM
1 JANUARY 2002 THROUGH 31 DECEMBER 2002**

Condensed Profit and Loss Account for the Period from January 1 to December 31, 2002 Group

2001

	€ '000	€ '000	€ '000	€ '000
1. Interest income from				
a) Loans and money-market transactions	3,048,237			3,312,134
b) Fixed-interest securities and debt securities	<u>867,563</u>			<u>1,285,091</u>
		3,915,800		4,597,225
2. Interest expenses		<u>3,105,042</u>	810,758	<u>3,876,077</u>
				721,148
3. Income from				
a) Shares and other variable rate securities		76,981		72,559
b) Investments		3,714		5,537
c) Shares in affiliated undertakings		<u>69,582</u>		<u>13,342</u>
			150,277	91,438
4. Commission income		148,146		125,396
5. Commission expenses		<u>36,884</u>	111,262	<u>22,841</u>
				102,555
6. Net income from financial operations			21,516	18,298
7. Other operating income			71,408	84,132
8. Income from promotion business			66,970	63,176
9. Income from special item with accrual character			26,772	31,595
10. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	136,309			120,354
ab) Social security contributions, pension and welfare expenses	<u>51,409</u>			<u>43,429</u>
		187,718		163,783
b) Other administrative expenses		<u>157,840</u>		<u>122,717</u>
			345,558	286,500
11. Amortisation and depreciation of intangible and tangible fixed assets			19,220	25,790
12. Other operating expenses			54,377	14,630
13. Expenses for promotion business			200,459	204,761
Carry forward			639,349	580,661

*Condensed Profit and Loss Account
for the Period from January 1 to December 31, 2002
Group*

	2001			
	€ '000	€ '000	€ '000	€ '000
<i>Carry forward</i>			639,349	580,661
14. Write-downs of and provisions against receivables and certain securities and additions to accruals relating to the credit business		421,610		245,780
15. Income from reversals of write-downs of receivables and certain securities and income from reversal of accruals relating to the credit business		—	421,610	—
				245,780
16. Transfers to fund for general banking risks			—	19,800
17. Write-downs of and provisions against investments, shares in affiliated undertakings and securities treated as fixed assets		—		43,125
18. Income from reversals of write-downs of receivables and certain securities and income from reversal of accruals relating to the credit business		97,718	97,718	—
				43,125
19. Results from normal operations			315,457	271,956
20. Taxes on income		60,420		49,232
21. Other taxes, if not reported in position 12		1,150		441
			61,570	49,673
22. Profit transferred as a result of a partial profit transfer agreement			136,416	122,135
23. Revenue entitlement of atypic dormant partner			4,284	2,206
24. Net profit			113,187	97,942
25. Profit brought forward from the previous year			4,111	—
26. Transfer into other revenue reserves			—	24,150
27. Pre-Payout to the owners			4,000	—
28. Profit for the year			113,298	73,792

UNCONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2002

31/12/2001

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Liabilities

31/12/2001

	€ '000	€ '000	€ '000	€ '000
1. Liabilities to banks				
a) Payable on demand		1,340,475		1,498,195
b) With an agreed term or notice period		<u>29,002,422</u>		<u>32,672,678</u>
			30,342,897	34,170,873
2. Liabilities to customers				
a) Savings deposits		82,444		86,313
b) Other liabilities				
ba) Payable on demand	4,683,374			4,633,111
bb) With an agreed term or notice period	<u>25,420,866</u>			<u>24,994,666</u>
		30,104,240		29,627,777
			30,186,684	29,714,090
3. Certificated liabilities				
a) Debt securities issued		13,565,815		12,248,041
b) Other certificated liabilities		<u>4,407,867</u>		<u>3,313,105</u>
			17,973,682	15,561,146
4. Trust liabilities			279,208	257,460
5. Other liabilities			2,373,806	2,063,894
6. Deferred income			212,742	219,294
7. Accrued expenses				
a) Pensions and similar accruals		161,252		149,609
b) Tax accruals		54,980		40,407
c) Other accrued expenses		<u>133,040</u>		<u>57,935</u>
			349,272	247,951
8. Special item with accrual character			—	26,772
9. Subordinated liabilities			1,468,044	1,518,762
10. Capital with participation rights			861,407	861,407
11. Fund for general banking risks			110,000	110,000
12. Equity capital				
a) Subscribed capital		2,168,550		1,914,380
b) Capital reserves		445,602		445,602
c) Revenue reserves				
ca) Legal reserves	—			142,855
cb) Other reserves	<u>353,741</u>			<u>179,056</u>
		353,741		321,911
d) Revenue share of atypic dormant partner		1,335		523
e) Profit for the year		<u>109,850</u>		<u>69,300</u>
			3,079,078	2,751,716
Total			<u>87,236,820</u>	<u>87,503,365</u>
1. Contingent liabilities				
Liabilities on guarantees, endorsements of bills and cheques, and on warranties			13,638,833	9,337,385
2. Other liabilities				
Irrevocable lines of credit granted			2,497,385	2,437,395

**UNCONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM
1 JANUARY 2002 THROUGH 31 DECEMBER 2002**

Condensed Profit and Loss Account for the Period from January 1 to December 31, 2002 Bank

			2001	
	€ '000	€ '000	€ '000	€ '000
1. Interest income from				
a) Loans and money-market transactions	2,718,884			2,976,651
b) Fixed-interest securities and debt securities	<u>840,867</u>	3,559,751		<u>1,251,842</u>
				4,228,493
2. Interest expenses		<u>2,903,584</u>	656,167	3,657,886
				570,607
3. Income from				
a) Shares and other variable rate securities		76,936		72,559
b) Investments		3,714		5,537
c) Shares in affiliated undertakings		<u>78,695</u>		<u>22,492</u>
			159,345	100,588
4. Commission income		118,440		116,261
5. Commission expenses		<u>31,684</u>	86,756	23,030
				93,231
6. Net income from financial operations			21,523	18,222
7. Other operating income			74,658	80,584
8. Income from special item with accrual character			26,772	31,595
9. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	120,538			111,265
ab) Social security contributions, pension and welfare expenses	<u>46,442</u>			<u>40,154</u>
		166,980		151,419
b) Other administrative expenses		<u>150,205</u>	317,185	125,001
				276,420
10. Amortisation and depreciation of intangible and tangible fixed assets			16,439	19,840
11. Other operating expenses			54,120	14,585
Carry forward			637,477	583,982

*Condensed Profit and Loss Account
for the Period from January 1 to December 31, 2002
Bank*

	2001			
	€ '000	€ '000	€ '000	€ '000
<i>Carry forward</i>			637,477	583,982
12. Write-downs of and provisions against receivables and certain securities and additions to accruals relating to the credit business		419,803		249,681
13. Income from reversals of write-downs of receivables and certain securities and income from reversal of accruals relating to the credit business		—	419,803	—
				249,681
14. Transfer to funds for general banking risks			—	19,800
15. Write-downs of and provisions against investments, shares in affiliated undertakings and securities treated as fixed assets		—		42,141
16. Income from reversal of write-downs of investments, shares in affiliated undertakings and securities treated as fixed assets		97,718	97,718	—
				42,141
17. Result from normal operations			315,392	272,360
18. Taxes on income		59,692		48,578
19. Other taxes, if not reported in position 12		1,150		441
			60,842	49,019
20. Profit transferred as a result of a partial profit transfer agreement			136,416	122,135
21. Revenue entitlement of atypic dormant partner			4,284	2,206
22. Net profit			113,850	99,000
23. Transfer into other revenue reserves			—	29,700
24. Advanced payout to the owners			4,000	—
25. Profit for the year			109,850	69,300

NOTES AND CONSOLIDATED NOTES 2002

Condensed Appendix

Shareholders/ legal basis

The capital stock of Hamburgische Landesbank – Girozentrale – is held by the Free and Hanseatic City of Hamburg (FHH, 50.5%) and Landesbank Schleswig-Holstein (LB Kiel, 49.5%). Of the City of Hamburg's shares, 1% is held by HLB-Beteiligungsgesellschaft mbH, a corporation of the City, as an atypical dormant partner.

Hamburgische Landesbank –Girozentrale –, being a member of the Sparkassen- Stützungsfonds (savings banks' deposit guarantee fund) of Hanseatischer Sparkassen- und Giroverband, is affiliated to the security system of the German savings organisations. The affiliated institutes are secured by this system their liquidity and solvency being guaranteed in particular.

Notwithstanding the above, in line with a decision by the European Commission on

Maintenance and Guarantee Obligations in Germany the guarantors of Hamburgische Landesbank – Girozentrale are liable. According to this transitional rule, liabilities established by July 18, 2001 are covered by the Guarantee Obligation, irrespective of their term to maturity. Liabilities established after that point in time but prior to July 18, 2005 are likewise covered by the said Guarantee Obligation if their term to maturity does not extend beyond December 31, 2015.

The financial statements of Hamburgische Landesbank for the year ending December 31, 2002 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Rules for the Preparation of Financial Accounts by Banks (RechKredV).

Companies consolidated

The following changes have taken place in relation to the previous year in terms of the companies consolidated in the Group. In accordance with §296 par. 2 of HGB (German Commercial Code), the limited partnership KG Altstadt Grundstücksgesellschaft, Hamburg (formerly: Kommanditgesellschaft Altstadt Verwaltungsgesellschaft & Co., Grundstücksgesellschaft, Hamburg) will no

longer be included in the consolidated financial statements on account of its current subordinated significance for the Group's asset, financial and earnings situation. METONO GmbH, Hamburg, and PLUS BANK AG, Hamburg (established in 2002) will be included in the consolidated financial statements for the first time.

Name and registered address of not included companies	Capital share (%)
Hamburgische Wohnungsbaukreditanstalt, Hamburg	82
Hamburgische Landesbank (Guernsey) Ltd., Guernsey	100
Hamburgische LB Finance (Guernsey) Ltd., Guernsey	100
METONO GmbH, Hamburg	100
PLUS BANK AG, Hamburg	100 ¹⁾

¹⁾ including indirect shares of capital

Hamburgische Landesbank's shareholding in companies according to § 313 para. 2 No.1 HGB, which due to subordinate importance are not included in the accounting, the consolidated account and the annual financial statements according to § 296 para. 2 HGB, is shown as follows:

Name and registered address of not included companies	Capital share (%)
AKF – Telekabel TV und Datennetze GmbH, Frankfurt am Main	85 ¹⁾
Alchemy Plan (HLB) L.P., Guernsey	99.5 ¹⁾
Alster International Trading Co. Pte. Ltd., Singapur	75 ¹⁾
Altstadt Verwaltungsgesellschaft mbH, Hamburg	100
AMC Asset-Management-Consulting GmbH, Hamburg	100
ARCHIMEDES Gesellschaft für Computerhandel mbH, Hamburg	100
ARCHIMEDES Gesellschaft für Maschinenhandel mbH, Hamburg	100
Barrington Enterprises S. A., Panama	100 ¹⁾
BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100
Bossini Fashion GmbH, Norderstedt	75 ¹⁾
BTO Grundstücksvermietungsgesellschaft mbH & Co. Verwaltungs KG, München	94
BURGVILLE INVESTMENTS LIMITED, London	100
Colourful Express Trading Pte Ltd., Singapur	75 ¹⁾
„Die Möwe“ Grundstücksverwaltungs GmbH, Hamburg	100 ¹⁾
DYNAMENE GmbH, Hamburg ³⁾	100 ¹⁾
EALING INVESTMENTS LIMITED, London	100
Entwicklungsgesellschaft Sophienterrasse 14 mbH, Hamburg ⁴⁾	100 ¹⁾
EQUILON GmbH, Hamburg	100
Erigone GmbH, Hamburg	100

Name and registered address of not included companies	Capital share (%)
FARONA GmbH & Co. KG, Hamburg	100 ²⁾
Galena GmbH, Hamburg	100
GEHAG GmbH, Berlin ⁵⁾	85 ²⁾
GEHAG Immobilien GmbH & Co. KG, Berlin	85 ¹⁾
GEHAG Versicherungsvermittlungs- und Vermögensverwaltungs-GmbH, Berlin	85 ¹⁾
GEHAG Wohnungsverwaltungs- und Vertriebs-GmbH, Berlin	85 ¹⁾
GEHAG-Fonds III GbR, Berlin	59.05 ¹⁾
Gemeinnützige Aufbau-Gesellschaft der GEHAG Gesellschaft mit beschränkter Haftung, Berlin	85 ¹⁾
GODAN GmbH, Hamburg	100
Grundstücksentwicklungsgesellschaft Gartenstadt Wismar mbH & Co. KG, Hamburg	93
Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100 ²⁾
GVT Grundstücksgesellschaft Taucha mbH & Co KG, Hamburg	100 ²⁾
Hamburgische Betriebsverwaltungs-Gesellschaft am Gerhart-Hauptmann-Platz m.b.H., Hamburg	100
„Hanson“ Im-und Export GmbH, Norderstedt	75 ¹⁾
HGA 425 fifth Avenue GmbH, Hamburg	100
HGA Capital Grundbesitz und Anlage GmbH, Hamburg	100 ¹⁾
HGA Hamburgische Grundbesitz Beteiligungs AG, Hamburg ⁶⁾	100
HGA Investment GmbH, Hamburg ⁷⁾	100 ¹⁾
HGA Objekt Hamburg 4 GmbH & Co. KG, Hamburg	100 ²⁾
HGA Objekt Hamburg 10 GmbH & Co. KG, Hamburg	100 ¹⁾
HGA Objekt Hamburg 13 GmbH & Co. KG, Hamburg	100 ²⁾

Name and registered address of not included companies	Capital share (%)
HGA Objekt Hamburg 14 GmbH & Co. KG, Hamburg	100 ²⁾
HGA Objekt Hamburg 15 GmbH & Co. KG, Hamburg	100 ²⁾
HGA Objekt Hamburg 16 GmbH & Co. KG, Hamburg	100 ²⁾
HGA Objekt Hamburg 17 GmbH & Co. KG, Hamburg	100 ²⁾
HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	80.5 ²⁾
HGA USA IV fifth Avenue GmbH & Co. KG, Hamburg ⁸⁾	100 ²⁾
HLB Immobilien Holding GmbH, Hamburg ⁹⁾	100
HPF Hamburgische Projektmanagement und Finanzconsult GmbH, Hamburg	100
HSG Hamburgische Städtebauförderungsgesellschaft mbH, Hamburg	100
ICE Immobilien Conception und Entwicklung GmbH, Hamburg ¹⁰⁾	100 ¹⁾
IHG Biron GmbH, Hamburg	100 ¹⁾
IHG Inamori GmbH, Hamburg	100 ¹⁾
IHG Korund GmbH, Hamburg	100 ¹⁾
Iobates GmbH, Hamburg	100
Jac Tissot Fashion GmbH, Norderstedt	75 ¹⁾
JANTAR GmbH, Hamburg	100
Jefferson GmbH, Norderstedt	75 ¹⁾
JUPITER Verwaltungsgesellschaft mbH, Hamburg	100
KALAIIS GmbH, Hamburg	100
Kalydon GmbH, Hamburg	100
Kanida GmbH, Hamburg	100
KAPLON GmbH & Co. KG, Hamburg	100 ²⁾

Name and registered address of not included companies	Capital share (%)
„Katharinen“ Verwaltungsgesellschaft mbH, Hamburg	100 ¹⁾
Katharinenhof Senioren-Wohn- und Pflegeanlage Betriebs-GmbH, Berlin	64.58 ¹⁾
KG Altstadt Grundstücksgesellschaft, Hamburg ¹¹⁾	100
KG Archimedes GmbH & Co., Hamburg ¹²⁾	100
Koronos GmbH, Hamburg	100 ¹⁾
Lamatos GmbH, Hamburg	100
Latono GmbH, Hamburg	100
Leashold Verwaltungs-GmbH & Co. KG, Hamburg	100 ²⁾
LIBELLE GmbH, Hamburg	100
Match Winner Vertriebs-GmbH, Norderstedt	75 ¹⁾
Melusina Pictures B.V., Rotterdam	100
METACOS GmbH & Co. KG, Hamburg	100 ²⁾
Miles (Hong Kong) Ltd., Hongkong	75 ¹⁾
Miles (NL) B.V., Utrecht	75 ¹⁾
Miles Handelsgesellschaft International mbH, Norderstedt	75 ¹⁾
MINIMOA GmbH, Hamburg	100
Molea GmbH, Hamburg	100
MONTALE Grundstücks-Verwaltungsgesellschaft mbH & Co. Projekt Nr. 3 KG, Grünwald	100
NEREUS Verwaltungsgesellschaft mbH, Hamburg	100
Niederelbe Beteiligungs GmbH, Hamburg ¹³⁾	100
Numitor GmbH, Hamburg	100
ORSOF Verwaltung GmbH & Co. Vermietungs KG, München	98

Name and registered address of not included companies	Capital share (%)
PERIMEDES GmbH, Hamburg	100
PREGU GmbH, Hamburg	100
RELAT Beteiligungs GmbH & Co. Vermietungs-KG, München	100
ROSENSTRASSE 35 Beteiligungsgesellschaft mbH, Hamburg	100
Rumina GmbH, Hamburg	100
Sanierungs- und Gewerbebau-AG & Co. Kommanditgesellschaft, Aachen	85 ¹⁾
Sanierungs- und Gewerbebau-Aktiengesellschaft, Berlin	84.52 ¹⁾
SCHU-WES Verwaltung GmbH & Co. Objekt Schenefeld KG, München	100
Seleno GmbH, Hamburg	100
SHIPEXPRESS SHIPPING ENTERPRISES Ltd., Zypern	100 ²⁾
Taggart Enterprises Inc., Monrovia/Liberia	100
TALAOs GmbH, Hamburg	100 ¹⁾
TERRANUM Gewerbebau GmbH & Cie., Hamburg	100
TERRANUM Gewerbebau Verwaltungs-GmbH, Hamburg	100
Teukros GmbH, Hamburg	100
THESTOR GmbH, Hamburg	100
Timene GmbH, Hamburg	100
Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100
Ventana Bekleidungsfabrikation GmbH, Norderstedt	75 ¹⁾
Verwaltungsgesellschaft Gartenstadt Wismar mbH, Hamburg	100
Virtis GmbH, Hamburg	100
YONDAN GmbH, Hamburg	100

- ¹⁾ indirect share of capital
²⁾ including indirect share of capital
³⁾ formerly: DYNAMENE Verwaltungsgesellschaft für Schiffsbeteiligungen mbH
⁴⁾ formerly: ARIONO GmbH
⁵⁾ formerly: GEHAG Aktiengesellschaft
⁶⁾ formerly: TIMABACA 6. Verwaltungs AG
⁷⁾ formerly: TENEDOS GmbH
⁸⁾ formerly: HGA Objekt Hamburg 12 GmbH & Co. KG
⁹⁾ formerly: MOGARO GmbH
¹⁰⁾ formerly: KAPANEUS GmbH
¹¹⁾ formerly: Kommanditgesellschaft Altstadt Verwaltungsgesellschaft & Co., Grundstücksgesellschaft
¹²⁾ formerly: Kommanditgesellschaft ARCHIMEDES Gesellschaft für Computerhandel mbH & Co.
¹³⁾ formerly: NIEDERELBE Verwaltungsgesellschaft für Beteiligungen mbH

Methods of consolidation

The individual accounts of the companies included in the consolidated account are stated in accordance with the accounting and valuation methods of Hamburgische Landesbank (group parent company). The annual financial statements of these enterprises and the consolidated account refer to the same reporting date. Where necessary annual financial statements have been adjusted to the forms required for banks.

para. 1 No. 1 HGB. The effective date for the first consolidation is the date of the first application of the regulation on group accounting (1/1/1993) or the date of first inclusion into the group consolidation. For the extension of all companies to be consolidated in fiscal year 2002 the acquisition time was challenged to decisive dates. (Art. 27 para. 2 EG HGB resp. § 301 para. 2 HGB).

In the consolidation of capital the book value of share holdings has been offset against equity capital following the book value method in accordance with § 301

Claims and liabilities as well as expenses and income between included companies have been consolidated.

Accounting and valuation methods

Tangible fixed assets whose use is limited by time are written off on the basis of systematic depreciation in accordance with the applicable taxation regulations. Low-value assets are written off in full in the year of acquisition.

cally related financial instruments have been combined in separate valuation units, which also include parts of our derivatives portfolio. Valuation gains and losses are offset within these units. (Handling of valuation accounts by imparity principle).

Shares and investments in affiliated companies are shown at their purchase cost or the lower applicable value.

By balancing structured products the reporting advice of the Institute of accountants in Germany e.V. (IDW) is observed, RH BFA 1,003. All structured products are balanced as uniform property, because they don't subject an interest risk higher than market risk. A large proportion of the securities and derivatives within the trading book has been

The lion's share of securities held as fixed assets, and all the securities kept as part of the liquidity reserves or of the trading portfolio, are valued according to the strict lower of cost or market principle. Economi-

	<p>subject to portfolio valuation. The formation of valuation units is in accordance with the one used by the Bank's risk management.</p> <p>Options acquired by the Bank are shown at their purchase cost. Where necessary, the effects of the minimum value principle as well as position risks resulting from options sold are covered by means of provisions for anticipated losses from uncompleted transactions. Options with identical base values are partly combined in separate valuation units. Received or paid option premiums will only affect net income at the time of the onward sale of the option right at close out or with the maturity or exercise of the option.</p> <p>Where, in the case of derivatives, the variation margin system is used, the imparity principle is covered by carrying the margin as an asset or liability. If necessary, provisions are set up as well. Receivables are shown at their nominal</p>	<p>value resp. purchase costs or at their lower applicable value in accordance with the strict minimum value principle.</p> <p>Credit-risks have been covered by effecting individual value adjustments or by setting up provisions as well as by making lump-sum valuation allowances for bad debts. General provision for contingent loan losses, as opposed to specific provisions are set apart from the net book.</p> <p>The strict requirement to reinstate original values implemented by the Tax Relief Law 1999/2000/2002 is applied to commercial as well as to tax-based valuation.</p> <p>Liabilities are shown at the amount to be repaid.</p> <p>Provisions are set up on the basis of a reasonable commercial appraisal of the foreseeable risk.</p>
<i>Provisions for pension liabilities</i>	<p>Provisions for pension liabilities are based on actuarial computation and new mortality charts and carried at the partial value permissible under commercial law for liabilities for current pension payments and pension rights. Additional pension obligations totalling € 183,288.00 (previous year: € 264,919.00) are not carried as liabilities,</p>	<p>they are subject to the prohibition of recapturing for taxation purposes. Additional provisions have been set up to cover the early-retirement scheme provided for in collective agreements. In addition, there are indirect pension-like liabilities pursuant to Section 28 (2) EG HGB totalling € 12,723,735.12 (previous year: € 11,376,762.86).</p>
<i>Currency translation principles</i>	<p>Currency conversions are subject to § 340 h HGB as well as comments by banks expert committee (BFA) of IDW, BFA 3/95.</p> <p>Foreign currency assets and liabilities are translated at the mean spot rates prevailing on December 31, 2002. Where these are treated as fixed assets, they are shown at their historic purchase price. Uncompleted spot deals are translated using the spot exchange rate applicable on the closing date, while uncompleted forward trans-</p>	<p>actions are translated at the forward rate applicable on the closing date of this balance sheet. Differences resulting from the conversion of hedged balance sheet items and their respective hedging transactions are shown netted against other assets. Swap expenditures and revenues resulting from these hedging transactions are accrued pro rata temporis and are shown in the net interest income.</p>

Balance sheet items in foreign currency and pending current asset transactions are classified and assessed in accordance with § 340 h para. 2 sentence 2 HGB. In principle, therefore, all expenditure and revenue resulting from currency conversions are shown in the profit and loss account according to § 340 h para. 2 sentence 1 and 2 HGB.

Foreign-currency assets and liabilities total € 33,528 million and € 24,045 million, respectively (previous year: € 35,212 million and € 24,337 million, respectively), in the Group € 34,359 million and € 24,997 million (previous year: € 36,039 million and € 25,099 million).

Notes on the balance sheet and the consolidated balance sheet

Assets					
Receivables from affiliated savings banks	The item “Receivables from banks” (Item 3) includes receivables from affiliated savings banks:				
		€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001
		1,065,299	1,511,485	1,065,299	1,512,620
Associated companies	The following items include receivables from associated companies in the form of both loans granted and bond holding:				
	Item 3	Receivables from banks			
	Item 3 a	Due at sight	2,710	261	—
	Item 3 b	Other receivables	2,865	—	—
	Item 4	Receivables from customers	637,568	409,103	637,568
					306,339
Companies in which investments are held	Receivables from companies in which investments are held are set out in the following item of the balance sheet:				
	Item 3	Receivables from banks			
	Item 3 a	Due at sight	222,179	150,885	222,179
	Item 3 b	Other receivables	353,000	507,567	321,544
	Item 4	Receivables from customers	378,374	621,008	378,374
	Item 5	Debt securities and other fixed-interest securities			
	Item 5 bb	Bonds and debt securities	67,077	114,194	67,077
					114,194
Subordinated assets	Subordinated assets are included in the following items:				
	Item 3	Receivables from banks			
	Item 3 b	Other receivables	16,426	11,207	16,426
	Item 5	Debt and securities and other fixed-interest securities			
	Item 5 bb	Bonds and debt securities	560,023	604,438	560,023
					604,438

		€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001
Item 6	Shares and other variable-yield securities	27,569	33,192	27,569	33,192
Details of securities	Additional details of the securities are contained in the items set out below:				
Item 5	Debt securities and other fixed-interest securities				
Item 5a	Money-market funds				
	This item includes:				
	Money-market funds marketable and quoted on a stock exchange	48,016	—	48,016	—
	Money-market funds marketable on a stock exchange but not quoted	901,961	772,174	901,961	772,174
Item 5 b	Bonds and debt securities				
	Bond and debt securities marketable and quoted on a stock exchange	15,246,882	18,663,148	15,954,583	19,378,442
	Bond and debt securities marketable on a stock exchange but not quoted	5,451,060	6,377,598	5,561,685	6,448,217
Item 5 c	Own debt securities				
	This item includes:				
	Debt securities marketable on a stock exchange	492,365	494,867	493,216	498,439
	Debt securities marketable on a stock exchange but not quoted	43,581	59,037	61,082	68,445

Of the bonds and other fixed-interest securities shown, a total of € 4,078,747 k (Group: € 4,083,783 k) will be maturing in 2003.

A share of € 1,341,657 k (Group: € 1,341,657 k) of bounds of fixed assets and other fixed interest securities are valued according to the diluted lower of		cost or market principle. This share was separated from the shares of fixed assets which were valued according to the strict lower of cost or market principle.			
		€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001
Item 6	Shares and other variable-yield securities				
	Shares and other variable-yield securities marketable and quoted on a stock exchange	56,680	62,096	57,071	62,096
	Shares and other variable-yield securities marketable on a stock exchange but not quoted	89,704	60,538	89,704	60,538
Item 7	Holdings				
	Shares and other variable-yield securities marketable and quoted on a stock exchange	44,752	6,645	44,752	6,645
	Shares and other variable-yield securities marketable on a stock exchange but not quoted	1,000	2,565	1,000	2,565
Item 8	Shares in affiliated companies				
	Shares and other variable-yield securities marketable on a stock exchange but not quoted	99,557	53	95,998	53

Genuine securities repurchase agreements	Repo transactions with banks, in which the Bank acts as pledgor, amount to € 407,000 k in nominal terms; those in which the Bank acts as pledgee amount to € 122,000 k.		
Shareholdings	In addition to the shares in affiliated enterprises Hamburgische Landesbank's and the Group' direct shareholding in enterprises (§ 285 No.11 and § 313 para. 2 No.4 HGB) – is shown as follows:		
Name and registered address	Equity Capital as at 31/12/2001 (€ '000)	Capital share (%)	2001 result (€ '000)
ALIDA Grundstücksgesellschaft mbH & Co. KG, Hamburg	8,945 ¹⁾	45	2 ¹⁾
ALIDA Grundstücksverwaltungs GmbH, Hamburg	27 ¹⁾	45	-13,897 ¹⁾
BEG Baugrundentwicklungsgesellschaft mbH, Hamburg	2,644	30	606
BHN Neukölln Arcaden Grundstücksgesellschaft mbH & Co. KG, Essen	13,500	25	— ²⁾
BIKO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	-863	100 ³⁾	12
DOLANA Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Sehnde KG, Bad Homburg v.d.H.	101 ⁴⁾	28.5	51 ⁴⁾
DOL-ZIRCON Grundstücksverwaltungsgesellschaft mbH & Co., Objekt Hamburg KG, Bad Homburg v.d.H.	-1,026 ⁴⁾	99 ⁵⁾	40 ⁴⁾
eBankingServices Nord GmbH, Kiel	0	50	-1,096
Erste Grundstücksgesellschaft Wohnen am Elbschloß mbH, Hamburg	2,574	40	2,534
hamburg.de Beteiligungs GmbH, Hamburg	51	30.1	5
hamburg.de GmbH & Co. KG, Hamburg	— ⁶⁾	43.9	— ⁶⁾

Name and registered address	Equity Capital as at 31/12/2001 (€ '000)	Capital share (%)	2001 result (€ '000)
HWF Hamburgische Gesellschaft für Wirtschaftsförderung mbH, Hamburg	51	20	0
LB Kiel Hamburg Corporate Finance GmbH, Kiel	— ⁶⁾	50	— ⁶⁾
LEG Beteiligungs GmbH, Hamburg	54,214	20	-1,006
Meta-Export-Gesellschaft mbH, Hamburg	51	50	0
NGV Grundstücksverwaltungsgesellschaft mbH, Düsseldorf	31	40	0
NGV Grundstücksverwaltungsgesellschaft mbH & Co. KG, Objekt Brunsbüttel, Düsseldorf	50	40	49
PL Projekt-Anlagen Leasing Beteiligungs- gesellschaft mbH, Hamburg	56	50	3
PL Projekt-Anlagen Leasing Beteiligungsgesell- schaft mbH & Co. Objekt Hemmingen, Hamburg	190	50	9
PL Projekt-Anlagen Leasing Beteiligungs- gesellschaft mbH & Co. Objekt Osterholz KG, Hamburg	26	50	4
PL Projekt-Anlagen Leasing Beteiligungs- gesellschaft mbH & Co. Objekt Rastatt, Hamburg	50	50	7
PLUTON Grundstücks-Verwaltungs- gesellschaft mbH & Co. KG, Grünwald	-6,299	100 ³⁾	-256
PMD Grundstücksverwaltung Gesellschaft mit beschränkter Haftung i.L., Hamburg	22	50	3
schleswig-holstein.de Beteiligungs-GmbH, Kiel	21	20	-3
schleswig-holstein.de GmbH & Co. KG, Kiel	2,000	20	-3,055
SLK GmbH für Immobilien-Leasing & Co. KG Objekt Berlin Pohlstraße, Stuttgart	-12,000	100 ⁷⁾	-542

Name and registered address	Equity Capital as at 31/12/2001 (€ '000)	Capital share (%)	2001 result (€ '000)
TAPOR GmbH & Co. KG, Hamburg ⁸⁾	0	30.1	-6,675
VTM 13. Verwaltungsgesellschaft mbH, Hamburg	— ⁶⁾	43.9	— ⁶⁾

¹⁾ Data as at December 31, 2000

²⁾ Purchase of holding in 2002

³⁾ Voting share 50 %

⁴⁾ Data as at September 30, 2001

⁵⁾ Voting share 33.33 %

⁶⁾ Incorporation in 2002

⁷⁾ Voting share 40 %

⁸⁾ formerly: hamburg.de GmbH & Co. KG

Hamburgische Landesbank as an unlimited partner (§285 No. 11 a HGB):

GLB GmbH & Co. OHG, Frankfurt am Main

Furthermore there exists following holdings according to §340 a para. 4 No. 2 HGB:

Bürgschaftsgemeinschaft Hamburg GmbH, Hamburg

Deutsche Real Estate Aktiengesellschaft, Berlin

Norddeutsche Affinerie AG, Hamburg

Assets held in trust

Assets held in trust are divided into the following categories:

	€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001
Receivables from banks	991	991	13,417	991
Receivables from customers	278,217	256,469	307,880	295,956

Other assets

This item primarily includes:

Receivables under options, swaptions, initial margins	62,758	41,868	62,758	41,868
Swap deferrals	1,414,100	1,593,276	1,398,163	1,576,905
Adjustment item arising from foreign currency conversion	346,115	342,800	352,129	402,641
Premium deferrals due to interest options, swaptions and interest limiting agreements	3,499	3,391	3,499	3,391
Receivables due from Free and Hanseatic City of Hamburg in respect of its support of housing programmes in the City	—	—	23,309	19,224
Collection papers, bonds, debt securities due for repayment as well as interest and dividend coupons due for repayment	1,963	36,923	1,963	36,923
Claims on the tax office and the Federal Finance Office	59,752	60,017	59,752	60,017
Investments in specific property funds	19,403	20,710	19,403	20,710
Temporary acquired properties and buildings	163,135	—	163,135	—
Rescue acquisitions	18,407	18,407	18,407	18,407

		€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001
<i>Prepaid and deferred expenses</i>	This item includes				
	prepaid discounts on liabilities and bonds issued	80,247	67,605	80,987	68,508
	and deferred premiums received on receivables	9,137	13,916	9,137	13,916
<i>Unexpired terms</i>	The following balance sheet items are classified according to their unexpired terms:				
	Item 3 b				
	Receivables from banks				
	– less than three months	5,439,407	4,966,544	5,503,574	4,992,654
	– three months or more but less than one year	4,121,641	3,203,140	4,283,491	3,262,447
	– one year or more but less than five years	4,322,146	4,761,397	4,322,154	4,756,292
	– more than five years	2,357,146	3,177,002	2,350,239	3,163,821
	Item 4				
	Receivables from customers				
	– less than three months	5,880,076	4,776,607	6,010,187	4,936,404
	– three months or more but less than one year	4,384,585	3,104,807	4,554,365	3,246,709
	– one year or more but less than five years	11,364,848	11,182,409	12,185,889	11,900,803
	– more than five years	14,481,879	14,844,128	18,354,432	18,575,135
	– indeterminated term	1,706,377	2,715,800	1,706,377	2,712,527

Fixed assets

Bank	Historical acquisition cost as of 1/1/2002 € '000	Additions / appreciation in value € '000	Disposals / transfers € '000	Accumulated depreciation as of 31/12/2002 € '000	Depreciation 2002 € '000	Book value as of 31/12/2002 € '000	Book value as of 31/12/2001 € '000
Securities	14,688,908	7,116,585	8,829,180	195,722	127,280	12,780,591	14,632,210
Investments	676,099	255,145	31,275	11,605	1,650	888,364	673,680
Shares in affiliated undertakings	281,113	374,298	29,123	3,119	2,840	623,169	272,398
Real-estate	9,290	7,093	869	6,440	87	9,074	2,890
thereof own use	354	7,093	—	219	6	7,228	141
Office furniture and fixtures	128,459	24,957	10,535	108,315	16,352	34,566	31,369
Total	15,783,869	7,778,078	8,900,982	325,201	148,209	14,335,764	15,612,547

Fixed assets

Group	Historical acquisition cost as of 1/1/2002 € '000	Additions / appreciation in value € '000	Disposals / transfers € '000	Accumulated depreciation as of 31/12/2002 € '000	Depreciation 2002 € '000	Book value as of 31/12/2002 € '000	Book value as of 31/12/2001 € '000
Securities	15,207,748	7,116,585	8,841,261	195,722	127,280	13,287,350	15,151,050
Investments	77,109	255,145	31,275	11,605	1,650	289,374	74,690
Shares in affiliated undertakings	161,057	337,270	29,148	2,854	2,840	466,325	152,606
Real-estate	154,843	28	131,609	8,686	169	14,576	108,930
thereof own use	140,761	18	126,325	2,376	63	12,078	101,118
Office furniture and fixtures	154,898	29,312	28,189	115,604	18,946	40,417	41,005
Immaterial fixed assets	1,359	55	20	1,159	105	235	306
Total	15,757,014	7,738,395	9,061,502	335,630	150,990	14,098,277	15,528,587

Liabilities**Liabilities to
associated savings
banks**

The item liabilities to banks includes liabilities to associated savings banks.

	Bank		Group
€ '000	€ '000	€ '000	€ '000
2002	2001	2002	2001
84,332	234,286	84,332	234,286

**Liabilities to
affiliated
companies**

Liabilities to affiliated companies are included in the following items:

Item 1	Liabilities to banks				
Item 1 a	Payable on demand	23,467	339	—	—
Item 1 b	With an agreed term or notice period	9,311,716	5,856,883	—	—
Item 2	Liabilities to customers				
Item 2 ba	Payable on demand	22,477	28,980	22,449	28,193
Item 2 bb	With an agreed term or notice period	12,779	29,770	12,779	29,770

**Companies in which
shares are held**

The liabilities to companies in which shares are held are set out in the following balance sheet item:

Item 1	Liabilities to banks				
Item 1 a	Payable on demand	36,324	58,870	36,324	58,870
Item 1 b	With an agreed term or notice period	87,803	573,487	549,534	953,898
Item 2	Liabilities to customers				
Item 2 ba	Payable on demand	15,495	7,096	15,495	7,096
Item 2 bb	With an agreed term or notice period	10,708	13,981	10,708	13,981
Item 3	Certificated liabilities				
Item 3 a	Debt securities issued	71,257	60,890	161,895	151,523

**Assets used as
security**

As of the closing day of this balance sheet, receivables totalling € 287,589 k (previous year: € 315,550 k) had been assigned to third parties. € 89,346 k in collateral security was deposited to enable the Bank to participate in stock exchange and clearing facilities. Further securities of € 42,997 k

had been transferred to counterparties by collateral-agreements.

As at the reference date a securities account amounting to € 4,999,283 k was pledged to the ECB which was not utilised as at December 31, 2002.

Liabilities held in trust	Liabilities held in trust are divided as follows:				
	€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001	
	Liabilities to banks	991	991	13,417	15,256
	Liabilities to customers	278,217	256,469	307,880	281,691
Other liabilities	This item contains:				
	Interest payable on subordinated liabilities and dividends on participating certificates not yet distributed	82,718	89,822	82,718	89,822
	Swap deferrals	1,123,809	1,156,885	1,117,796	1,153,144
	Liabilities under options, swaptions and other derivative instruments	60,038	61,259	60,038	61,259
	Security commitments	961,416	681,783	961,416	681,783
	Reserve Fund of Free and Hanseatic City of Hamburg	—	—	64,985	89,257
Deferred income	This item contains:				
	Prepaid discounts on receivables	86,085	99,088	86,216	99,123
	Deferred premiums on liabilities and debt securities issued	4,576	5,331	3,729	5,353
Deferred taxes	A reserve amounting to € 8,552 k was set up for deferred taxes (previous year: € 6,494 k). Deferred taxes relating to	assets have not been set off against those relating to liabilities.			
Special item with accrual character	In accordance with the Tax Relief Law 1999/2000/2002 and § 280 para.1 HGB the Bank exercised 1999 write-ups on assets. They were partly allocated to the special item	with accrual character (§ 273 HGB resp. § 52 para.16 EstG), which was released in the years 2000 – 2002.			

Subordinated liabilities	Subordinated liabilities amounting to € 1,468,044 k (previous year: € 1,518,762 k) have original terms of between 8 and 40 years. They bear interest between 2.4% and 12.9 % p.a.. Subordinated funds amounting to yen 24.1 billion have been raised, all other funds being denominated in German marks and euro. The term of these and the other subordinated funds comply with § 10 para. 5a of the German Banking Act (Kreditwesengesetz). Expenditure for subordinated liabilities amount to € 52,368 k (previous year: € 71,469 k).				
Debt securities issued	Of the debt securities issued and shown in the balance sheet, a volume valued at	€ 2,565,565 k (Group: € 3,852,310 k) will be maturing in 2003.			
Contingent liabilities			Bank		Group
		€ '000	€ '000	€ '000	€ '000
		2002	2001	2002	2001
	Liabilities on guarantees and guarantee agreements	13,638,833	9,337,385	4,769,174	4,100,725
Other financial obligations	In relation to equity, there are liabilities for unsubscribed nominal capital in the field of equity investment in the amount of € 237.9 million. It is the Bank's policy to ensure that subsidiaries abroad will be able to fulfil their obligations.				
Unexpired terms	The following balance sheet items are classified according to their unexpired terms:				
		€ '000	Bank	€ '000	Group
		2002	€ '000	€ '000	€ '000
			2001	2002	2001
Item 1b	Liabilities to banks				
	– less than three months	7,798,148	12,867,401	7,820,409	13,338,196
	– three months or more but less than one year	3,197,726	3,929,344	3,045,744	4,097,894
	– one year or more but less than five years	11,432,727	9,440,232	6,613,974	6,589,471
	– more than five years	6,573,821	6,435,701	5,511,557	6,121,839

		€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001
Item 2 ab	Liabilities to customers				
	Saving deposits				
	– less than three months	390	530	390	530
	– three months or more but less than one year	373	393	373	393
	– one year or more but less than five years	1,678	1,968	1,678	1,968
	– more than five years	97	69	97	69
Item 2 bb	Other liabilities				
	– less than three months	12,284,582	11,853,921	12,777,121	12,134,378
	– three months or more but less than one year	987,330	541,749	1,034,750	567,141
	– one year or more but less than five years	3,762,917	3,948,793	3,998,478	4,209,531
	– more than five years	8,386,037	8,650,203	8,476,360	8,780,053
Item 3 b	Other certificated liabilities				
	– less than three months	3,926,877	3,065,427	3,926,877	3,065,427
	– three months or more but less than one year	480,990	247,678	480,990	247,678

Notes on profit and loss account

Profit and loss account by geo- graphical markets

Following positions of the Bank's and the Group's profit and loss account are shown by geographical markets:

Bank

in € '000	Germany	other Europe	2002 Asia	Germany	other Europe	2001 Asia
Interest income	3,023,049	274,885	261,817	3,567,612	288,733	372,148
Income from shares and other variable rate securities, investments and shares in affiliated undertakings	159,345	—	—	100,588	—	—
Commission income	105,827	7,205	5,408	105,265	6,317	4,679
Net income from financial operations	17,462	3,575	486	14,936	3,338	-52
Other operating income	71,127	1,222	2,309	79,213	1,247	124

Group

in € '000	Germany	other Europe	2002 Asia	Germany	other Europe	2001 Asia
Interest income	3,337,640	316,342	261,818	3,881,132	343,944	372,148
Income from shares and other variable rate securities, investments and shares in affiliated undertakings	150,227	—	—	91,438	—	—
Commission income	134,594	8,144	5,408	113,488	7,229	4,679
Net income from financial operations	17,462	3,567	487	14,936	3,414	-52
Other operating income	67,795	1,304	2,309	82,788	1,221	123

Other operating income	This item primarily covers:	
	Reimbursed costs	€ 18,041 k
	Refunds from the tax office	€ 31,512 k
	Capital gains by sale of tangible assets and other assets	€ 9,933 k
	Current income from electronic data processing services	€ 4,894 k
Other operating expenses	This item primarily covers:	
	Reorganisation expenses in connection with the merger	€ 42,870 k
	Help for flood tide victims	€ 2,143 k
Items relating to another business year	The amount of income tax stated was influenced by subsequent tax refunds for previous years (€ 36 k). Other operating income	includes tax credits for previous years amounting to € 22,055 k.

Other information

Liable equity capital Taking into account the allocation to reserves in the annual financial statement 2002 as well as the allocation of the fund for general banking risks liable equity capital amounts to € 5,521.1 million (in the Group to € 6,240.3 million).

	€ 'mn 2002	Bank € 'mn 2001	€ 'mn 2002	Group € 'mn 2001
Subscribed capital	2,168.6	1,884.4	2,168.6	1,884.4
Capital reserves	445.6	445.6	445.6	445.6
Revenue reserves				
by operation of law ¹⁾	—	142.9	—	142.9
other	423.7	215.0	423.7	215.7
Exceptional amount due to capital consolidation	—	—	721.1	721.1
Fund for general banking risks	110.0	110.0	110.0	110.0
Immaterial assets	—	—	-1.9	-0.3
Core capital	3,147.9	2,797.9	3,867.1	3,519.4
Tier II Capital	2,376.1	2,319.7	2,376.1	2,319.7
Investments according to § 10 para. 6 sentence 1 No. 1 and No. 4 KWG	2.9	3.1	2.9	3.1
Liable equity capital	5,521.1	5,114.5	6,240.3	5,836.0

¹⁾ Formed according to the law on Hamburgische Landesbank – Girozentrale – valid until 1997; assigned in other revenue reserves as at January 1, 2002.

**Principle I –
overall-ratio /
BIS equity ratio**

The Principle I – overall-ratio which shows the ratio of allowable equity capital and the amount of compulsory apportionment of

risk assets and market risk positions in % as well as corresponding BIS equity ratio developed as follows:

	31/12/2002 in %	31/12/2001 in %
Principle I – overall-ratio ¹⁾ (Bank)	10.8	10.2
Principle I – overall-ratio ¹⁾ (Group)	11.0	10.8
BIS-equity ratio ¹⁾ (Group)	10.7	10.4

¹⁾ Before determination of the financial statements and decision on the allocation of the unappropriated profits.

Staff

	male	Annual average 2002 female	total	Bank 2001	male	Annual average 2002 female	total	Group 2001
Full time	1,080	833	1,913	1,910	1,250	995	2,245	2,121
Part time	39	250	289	253	43	292	335	270
	1,119	1,083	2,202	2,163	1,293	1,287	2,580	2,391
Trainees	33	47	80	80	37	50	87	87
Total	1,152	1,130	2,282	2,243	1,330	1,337	2,667	2,478

**Remuneration paid
to the Board of
Managing Directors
and the Supervisory
Board**

Total remuneration paid to the Board of Managing Directors in 2002 came to € 2,435 k (previous year: € 2,157 k). Remuneration paid to the members of the Supervisory Board amounted to € 101 k (previous year: € 94 k). As at December 31, 2002, € 5,961 k had been transferred to the Bank's reserves to cover pension liabilities towards former members of the Board and their dependants (previous year: € 5,959 k). Pension payments

made in the business year under review came to € 649 k (previous year: € 714 k). Advances, loans and other obligations extended to members of the Board of Managing Directors equaled € 4,761 k as at December 31, 2002 (previous year: € 4,815 k). Those extended to members of the Supervisory Board equaled € 1,034 k (previous year: € 695 k).

**Assignments to
advisory boards**

Assignments to advisory boards of big (§ 340 a para. 4 No.1 HGB resp.
incorporated firms as at December 31, 2002 § 267 para. 3 HGB) are shown as follows:

Members of the Board of Managing Directors

Alexander Stuhlmann

DekaBank Deutsche Girozentrale, Frankfurt am Main

Member of the Administrative Board

equitrust AG, Hamburg

Member of Supervisory Board

Hamburgische Wohnungsbaukreditanstalt, Hamburg

Member of the Administrative Board

HEIN GAS Hamburger Gaswerke GmbH, Hamburg

Member of Supervisory Board

HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsverwaltung mbH, Hamburg

Member of Supervisory Board

LBS Bausparkasse Hamburg Aktiengesellschaft, Hamburg

Member of Supervisory Board

Peter Rieck

AGIV Real Estate Aktiengesellschaft, Hamburg

Member of Supervisory Board

B & L Immobilien AG, Hamburg

Member of Supervisory Board

DEKA Immobilien Investment GmbH, Frankfurt am Main

Member of Supervisory Board

Deutsche Real Estate Aktiengesellschaft, Berlin

Deputy Chairman of the Supervisory Board

GEHAG GmbH, Berlin

Chairman of the Supervisory Board

HGA Investment GmbH, Hamburg

Chairman of the Supervisory Board

LEG Schleswig-Holstein Landesentwicklungsgesellschaft mbH, Kiel

Member of Supervisory Board

PLUS BANK AG, Hamburg

Chairman of the Supervisory Board

SpriAG - Sprinkenhof AG, Hamburg

Member of Supervisory Board

Ulf Gänger

VON ESSEN KG Bankgesellschaft, Essen

Chairman of the Administrative Board

HELM AG, Hamburg

Chairman of the Supervisory Board

Uwe Kruschinski

DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg
 Member of the Administrative Board (until 31/12/2002)
 Gudme Raaschou Bankaktieselskab A/S, Kopenhagen
 Member of Supervisory Board (until 31/12/2002)
 HGA Investment GmbH, Hamburg
 Deputy Chairman of the Supervisory Board (until 31/1/2003)
 PLUS BANK AG, Hamburg
 Deputy Chairman of the Supervisory Board (until 18/12/2002)

Employees of the Bank**Klaus Boritzka**

HGA Investment GmbH, Hamburg
 Member of Supervisory Board
 PLUS BANK AG, Hamburg
 Member of Supervisory Board

Ulrich Ellerbeck

Hamburger Aluminium-Werk GmbH, Hamburg
 Member of Supervisory Board
 Gudme Raaschou Bankaktieselskab A/S, Kopenhagen
 Member of Supervisory Board

KWG-principles	The bank always complied to German legal provisions on equity capital and liquidity of	banks as laid down in the Kreditwesengesetz (KWG).
Forward transactions	As of December 31, 2002, the following forward transactions were uncompleted.	These can be classified as follows:
	1. Forward transactions in foreign currencies	
	Forward exchange deals/trade transactions	
	Currency swaps/hedging transactions	
	Interest and currency swaps/trade transactions	
	Interest and currency swaps/hedging transactions	
	Standby obligation under currency options sold/trade transactions	
	Currency options/trade transactions	
	Currency options/hedging transactions	
	2. Interest-related forward transactions	
	Forward transactions with fixed-interest securities/trade transactions	
	Forward transactions with fixed-interest securities/hedging transactions	
	Interest futures/trade transactions	
	Interest futures/hedging transactions	

Forward Rate Agreements/trade transactions
 Forward Rate Agreements/hedging transactions
 Standby obligations resulting from interest options sold/trade transactions
 Standby obligations resulting from interest options sold/hedging transactions
 Interest options/trade transactions
 Interest options/hedging transactions
 Interest swaps/trade transactions
 Interest swaps/hedging transactions

3. Forward transactions with other price risks

Forward transactions on shares/trade transactions
 Forward transactions on shares/hedging transactions
 Share related swaps/hedging transactions
 Standby obligations for share options/trade transactions
 Share options/hedging transactions
 Standby obligations resulting from index-linked options sold/trade transactions
 Index-linked options/trade transactions
 Index-linked options/hedging transactions
 Index-linked swap/hedging transactions

4. Credit derivatives

Credit Default Swaps/hedging transactions
 Total returns swaps/hedging transactions
 Standby obligations resulting from credit-spread options/trade transactions

Derivatives

In the following, the Group's derivative transactions are shown. Due to only marginal differences, a corresponding description for the Bank was abstained from.

Hamburgische Landesbank's derivative transactions increased by about 12% on the reporting date. The increase is mainly due to the raised portfolio in interest rate swaps.

Derivative financial instruments are being employed to a considerable degree to manage risks efficiently and take advantage of available market opportunities, but also to provide for customers' specific financing requirements including credit derivatives to secure credit risks. The nominal volumes of the off-balance sheet transactions amounted to € 128,814 million

at the end of the year, or approximately 139% of total assets. Of this volume, roughly 24% is accounted for by trade related business. About 94% of our transactions in derivatives have been conducted with banks within the OECD. The credit-risk equivalents relating to these transactions are determined by the market evaluation method.

For a comprehensive representation of risks, replacement costs are shown as well. Replacement costs are the potential expenditure for a replacement transaction which would be necessary to re-establish a position if a counterparty failed to meet its obligations. Replacement costs refer to contracts with positive values, and there has been no setting-off against contracts

with a negative market value. In the breakdown of counterparties, the different products are set off against each other respectively in those cases where a netting agreement exists.

The tables below illustrate the nominal amounts of the contracts, subdivided into interest rate risks, currency risks and other price risks. The tables also provide information on the structure of maturities, on the breakdown of counterparties and on trade related business involving derivatives.

In addition to the derivatives set out in the tables, credit derivatives are also entered into in order to hedge credit risks. These are allocated solely to the investment book. The volume of credit default swaps and total return swaps in which the Group acted as the buyer was valued at € 1,245 million on December 31, 2002 (previous year: € 315 million). Credit derivatives for which the Group acted as the seller under total return swaps and credit spread options were valued at € 1,152 million at the end of the year (previous year: € 2,939 million). In addition, credit default swaps valued at € 1,396 million (previous year: € 1,490 million) are carried as contingent liabilities.

Derivatives – Volumes –

€ mn	Nominal amounts		Credit-risk equivalents		Replacement costs	
	2002	2001	2002	2001	2002	2001
Derivatives transactions with interest rate risks						
Interest rate swaps	89,725	68,513	694	490	2,712	1,787
FRAs	205	710	–	–	1	1
Interest rate options						
– Purchases	89	50	4	–	21	1
– Sales	120	–	–	–	–	–
Caps, Floors	581	597	3	2	13	5
Contracts quoted on exchanges	553	1,206	–	–	–	–
Other interest rate futures	2,276	3,093	1	–	1	–
Interest rate risks – total –	93,549	74,169	702	492	2,748	1,794

Derivatives – Volumes –

€ mn	Nominal amounts		Credit-risk equivalents		Replacement costs	
	2002	2001	2002	2001	2002	2001
Derivatives transactions with exchange rate risks						
Forward exchange transactions	23,653	26,929	226	176	809	395
Currency swaps/Cross-currency interest rate swaps	5,539	8,681	98	189	143	436
Currency options						
– Purchases	1,653	1,142	23	16	67	31
– Sales	1,541	812	–	–	–	–
Contracts quoted on exchanges	–	–	–	–	–	–
Other forward exchange transactions	–	–	–	–	–	–
Currency risks – total –	32,386	37,564	347	381	1,019	862
Derivatives transactions with stock and other price risks						
Stock futures	–	3	–	–	–	–
Stock options						
– Purchases	105	50	6	2	4	2
– Sales	92	–	–	–	–	–
Contracts quoted on exchanges	2	7	–	–	–	–
Other forward transactions	2,680	3,273	52	93	27	159
Stock and other price risks – total –	2,879	3,333	58	95	31	161

Derivatives – Structure of maturities –

Nominal amounts € mn	Interest rate risks		Currency risks		Stock and other price risks	
	2002	2001	2002	2001	2002	2001
Time to maturity						
– up to 3 months	19,218	8,207	21,415	22,463	203	259
– up to 1 years	21,879	14,718	5,771	7,339	477	305
– up to 5 years	23,177	23,414	3,162	4,667	1,995	2,211
– more than 5 years	29,275	27,830	2,038	3,095	204	558
Maturities –total–	93,549	74,169	32,386	37,564	2,879	3,333

Derivatives – Structure of counterparties –

€ mn	Nominal amounts		Credit-risk equivalents		Replacement costs	
	2002	2001	2002	2001	2002	2001
OECD banks	120,589	108,652	956	794	1,263	709
Non-OECD banks	756	1,179	7	13	9	26
OECD public authorities	26	25	–	–	–	–
Other counterparties ¹⁾	7,443	8,464	144	165	81	89
Counterparties –total–	128,814	118,320	1,107	972	1,353	824

¹⁾ Including contracts quoted on exchanges.

Derivatives – Trading deals –

Interest rate contracts	23,304	15,471	153	52	583	167
Foreign exchange contracts	7,711	17,859	84	118	235	190
Stock contracts	6	17	–	–	–	–
Trading deals – total –	31,021	33,347	237	170	818	357

Coverage

	€ '000 2002	Bank € '000 2001	€ '000 2002	Group € '000 2001
Coverage for mortgage bonds				
Bearer bonds	2,197,061	1,797,510	2,197,061	1,797,510
Registered bonds	2,176,056	1,816,133	2,176,056	1,816,133
Registered bonds released as collateral	48,358	56,340	48,358	56,340
	4,421,475	3,669,983	4,421,475	3,669,983
Coverage				
Receivables from banks	—	—	—	—
Receivables from customers	5,439,565	5,371,299	5,439,565	5,328,059
	5,439,565	5,371,299	5,439,565	5,328,059
Surplus coverage	1,018,090	1,701,316	1,018,090	1,658,076
Municipal government coverage				
Municipal bearer bonds	3,385,881	3,829,388	3,385,881	3,829,388
Registered municipal bonds	3,634,062	3,973,221	3,634,062	3,973,221
Registered municipal bonds released as collateral	38,121	58,509	38,121	58,509
	7,058,064	7,861,118	7,058,064	7,861,118
Coverage				
Receivables from banks	5,148,728	6,084,401	5,123,163	6,034,401
Receivables from customers	2,309,233	2,453,242	2,309,233	2,453,242
	7,457,961	8,537,643	7,432,396	8,487,643
Surplus coverage	399,897	676,525	374,332	626,525

Executive bodies of the Bank

Shareholders' Meeting

Hans Berger

Chairman of Landesbank Schleswig-Holstein
Girozentrale (as of 01/01/2003)
Chairman (as of 01/01/2003)

Dr. Dietrich Rümker

Chairman of Landesbank Schleswig-Holstein
Girozentrale (until 31/12/2002)
Chairman (until 31/12/2002)

Dr. Wolfgang Peiner

Senator, Head of the Ministry of Finance
of Free and Hanseatic City of Hamburg
Deputy Chairman

Dr. Robert Heller

Council of State, Ministry of Finance
of Free and Hanseatic City of Hamburg

Dr. Rainer Klemmt-Nissen

Executive Director of Government, Ministry of Finance
of Free and Hanseatic City of Hamburg

Claus Möller

Minister of State of Schleswig-Holstein

Dieter Pfisterer

Member of the Board of Managing Directors of Landesbank
Schleswig-Holstein Girozentrale (as of 01/01/2003)

Dr. Wolf-Albrecht Prautzsch

Deputy Chairman (emeritus) of Westdeutsche Landesbank
Girozentrale

Dr. Andreas Reuß

Managing Director of HGV Hamburger Gesellschaft für
Vermögens- und Beteiligungsverwaltung mbH

Visiting participant:

Olaf Cord Dielewicz

President of Sparkassen- und Giroverband für Schleswig-Holstein

Supervisory Board

Dr. Wolfgang Peiner

Senator, Head of the Ministry of Finance
of Free and Hanseatic City of Hamburg
Chairman

Hans Berger

Chairman of Landesbank Schleswig-Holstein
Girozentrale (as of 01/01/2003)
Deputy Chairman
(as of 01/01/2003)

Dr. Dietrich Rümker

Chairman of Landesbank Schleswig-Holstein
Girozentrale (until 31/12/2002)
Deputy Chairman (until 31/12/2002)

Horst Baecker

Assistant Vice President, Hamburgische Landesbank
(as of 01/07/2002)

Olaf Behm

Vice President, Hamburgische Landesbank

Dr. Werner Bohl

Accountant, Lawyer

Margitta Dauck

Sparkassenfachwirtin, Hamburgische Landesbank

Olaf Cord Dielewicz

President of Sparkassen- und Giroverband für Schleswig-Holstein

Heinrich Haasis

President of SparkassenVerband Baden-Württemberg

Jens Heiser

Managing Member of the Board of Managing Directors
of Baugenossenschaft Dennerstraße-Selbsthilfe eG

Dr. Robert Heller

Council of State, Ministry of Finance of Free and Hanseatic City of
Hamburg

Dr. Thomas Kabisch

Chairman of Managing Directors
MEAG MUNICH ERGO AssetManagement Gesellschaft mbH

Jutta Langmack

Vice President, Hamburgische Landesbank

Sven Mahnke

Director of Department, Hamburgische Landesbank
(until 30/06/2002)

Dr. Werner Marnette

Chairman of Norddeutsche Affinerie AG

Mario Mettbach

Senator, Head of the Ministry of Housing and Construction and
Transport of Free and Hanseatic City of Hamburg
(until 10/04/2002)

Claus Möller

Minister of State of Schleswig-Holstein

Alexander Otto

Chairman of the Management of
ECE Projektmanagement G.m.b.H. & Co. KG

Dieter Pfisterer

Member of the Board of Managing Directors of Landesbank
Schleswig-Holstein Girozentrale (as of 01/01/2003)

Dr. Wolf-Albrecht Prautzsch

Deputy Chairman (emeritus) of Westdeutsche Landesbank
Girozentrale

Susanne Rüschmann

Vice President, Hamburgische Landesbank

Dr. Klaus Schmid-Burgk

Staff Lawyer, Hamburgische Landesbank

Dr. Stefan Schulz

Council of State, Ministry of Housing and Construction of Free and
Hanseatic City of Hamburg
(as of 28/05/2002)

Hans-Joachim Schwandt

Application Programmer, Hamburgische Landesbank

Bernd Steingraeber

Director of Department, Hamburgische Landesbank

Gunnar Uldall

Senator, Head of the Ministry of Economics and Employment
of Free and Hanseatic City of Hamburg

Carola Zehle

Manager of Carl Tiedemann (GmbH & Co.)

**Board of Managing
Directors**

Alexander Stuhlmann
Chairman

Peter Rieck
Deputy Chairman

Ulf Gänger

Uwe Kruschinski
(until 31/12/2002)

Hartmut Strauß

**State
Supervision**

Ministry of Finance
of Free and Hanseatic City of Hamburg

Hamburg, February 15, 2003

Board of Managing Directors

Stuhlmann

Rieck

Gänger

Strauß

Cash Flow Statement

The capital flow account reflects the changes in financial funds as well as Group payment flows. The cash flow is structured according to operating activity, investment activity and financing activity, strictly in accordance with German accounting stan-

dard No. 2-10 on capital flow accounts of credit institutions. The delineation of the financial fund is geared to the balance-sheet item "cash reserves".

€ (mn)	2002	2001
1. Earnings for the period	113.2	97.9
<i>Reconciliation</i>		
2. Depreciation, value adjustments and writeups on receivables, tangible and financial assets	612.9	347.9
Depreciation on tangible and financial assets, additions to value adjustments	679.3	435.3
Writeups on tangible and financial assets, reversal of value adjustments	-66.4	-87.4
3. Change in provisions	105.5	-116.6
4. Other cash expenses/income	-26.7	-33.7
5. Profit/loss from sale of financial and/or tangible assets	-298.0	-7.5
Losses	34.1	27.2
Profits	-332.1	-34.7
6. Other adjustments	-759.5	-636.4
7. Subtotal	-252.6	-348.4
8. Changes in receivables	-4,292.6	-3,136.6
a) to banks	-2,853.0	64.5
b) to customers	-1,439.6	-3,201.1
9. Changes in securities (excluding those held as financial assets)	418.5	-1,443.8
10. Changes in other assets from operating business	81.3	-42.1
11. Changes in liabilities	-6,672.9	6,682.0
a) to banks	-7,297.4	-289.3
b) to customers	624.5	6,971.3
12. Changes in securitised liabilities	6,006.9	202.4
13. Changes in other liabilities from operating business	278.9	105.7
14. Interest and dividends received	4,066.0	4,688.7
15. Interest paid	-3,112.4	-3,871.0
16. Income tax payments	-60.4	-49.2
17. Cash flow from operating activities	-3,539.3	2,787.7

€ (mn)		2002	2001
18. Payments received from the disposal of		11,425.2	4,443.5
a) financial assets	11,318.0		4,443.1
b) tangible assets	107.2		0.4
19. Payments made for investments in		-7,738.4	-7,118.8
a) financial assets	-7,709.0		-7,086.4
b) tangible assets	-29.4		-32.4
20. Cash flow from investing activities		3,686.8	-2,675.3
21. Payments received from additions to equity		250.0	30.0
22. Capital dividends		-174.2	-154.5
a) Dividend payments	-37.8		-32.4
b) Partial profit transfer	-136.4		-122.1
23. Changes in other capital		-43.3	27.7
24. Cash flow from financing activities		32.5	-96.8
25. Cash and cash equivalents at the beginning of period		80.4	64.8
26. Cash flow from operating activities		-3,539.3	2,787.7
27. Cash flow from investing activities		3,686.8	-2,675.3
28. Cash flow from financing activities		32.5	-96.8
29. Cash and cash equivalents at the end of period		260.4	80.4

Reporting by Segment

Segment reporting, the presentation of which is effected closely in line with German Accounting Standard No. 3-10 on segment reporting by banks, provides further particulars on specific corporate divisions of the Group as a whole.

For the primary report form (segment reporting by business segments) the following segments were formed:

- Corporate Banking. Corporate Banking comprises lending and deposit-taking, mortgage loans and commercial foreign operations of corporate customers as well as leasing, ship and aircraft financing.
- Investment Banking. Under this head, asset investments, corporate finance and global equities are summarised, i.e. essentially the results of structured financing operations and own-account trading in stocks, bonds, derivatives as well as money and fx trading.
- Private Banking. The segment of private Banking comprises lending, deposit-

taking and services operations to private customers throughout the Group.

- WK. This segment is represented by our Group subsidiary Wohnungsbaukreditanstalt.

Elements of the operating result are presented, with net interest income generated by specific segments being determined according to the market interest method. Segment assets include balance sheet assets of the prevailing segment. Risk positions are presented in accordance with supervisory regulations in place. The tied core capital is based on balance sheet related equity capital less Group earnings, the share of earning of the atypical dormant partner and the adjustment item for shares of other stockholders plus the fund for general banking risks. In addition, the cost-income-ratio is stated, determined as a quotient of administrative expenses and the earning surplus, along with the return on equity, which reflects the operating result after risk provisioning/ valuating in relation to the tied core capital.

Segmentation according to fields of activity (primary segmentation)

€ mn		Total	thereof: Corporate Banking	Investment Banking	Private Banking	WK	Others / consolidation	Group
Net interest income		815.5	393.1	198.9	24.1	142.9	202.0	961.0
	Previous year	671.2	326.8	199.3	24.6	146.4	115.5	812.6
Net commission income		86.8	66.4	10.9	6.8	7.8	19.4	111.3
	Previous year	93.2	46.0	19.9	5.9	8.2	22.6	102.6
Result of financial operations		21.5	0.0	21.5	0.0	0.0	0.0	21.5
	Previous year	18.2	0.0	18.2	0.0	0.0	0.1	18.3
Balance of other operating income / expenses		19.4	0.0	0.0	0.0	-133.1	15.5	-117.6
	Previous year	65.6	0.0	0.0	0.0	-141.1	68.6	-72.5
Administrative expenses		333.6	52.3	64.3	21.5	17.7	209.0	364.8
	Previous year	296.3	43.5	50.1	18.5	17.4	182.8	312.3
Operating result before risk provisions		609.6	407.2	167.0	9.4	-0.1	27.9	611.4
	Previous year	551.9	329.3	187.3	12.0	-3.9	24.0	548.7
Risk provisions / valuation		295.3	183.1	241.6	48.7	0.0	-176.3	297.1
	Previous year	260.2	117.6	83.0	2.4	-3.9	58.2	257.3
Operating result after risk provisions		314.3	224.1	-74.6	-39.3	-0.1	204.2	314.3
	Previous year	291.7	211.7	104.3	9.6	0.0	-34.2	291.4
Assets		87,236.8	37,384.0	42,716.0	1,496.3	4,839.3	6,223.2	92,658.8
	Previous year	87,503.4	35,325.9	46,684.5	1,468.2	4,794.9	4,393.2	92,666.7
Risk positions		48,815.2	33,292.2	12,982.3	1,110.5	3,618.0	1,192.0	52,195.0
	Previous year	47,713.7	31,672.6	14,064.1	1,085.8	3,599.0	665.5	51,087.0
Tied core capital		3,077.9 ¹⁾	1,498.1	584.3	50.0	162.8	1,504.4	3,799.6 ¹⁾
	Previous year	2,791.9 ¹⁾	1,425.3	632.9	48.9	162.0	1,244.1	3,513.2 ¹⁾
Return on equity		10.2% ¹⁾	15.0%	-12.8%	-78.6%	—	—	8.3% ¹⁾
	Previous year	10.4% ¹⁾	14.9%	16.5%	19.6%	—	—	8.3% ¹⁾
Cost-Income-Ratio		35.4%	13.9%	27.8%	69.6%	—	—	37.4%
	Previous year	34.9%	11.7%	21.1%	60.7%	—	—	36.3%

¹⁾ Including equity capital not underpinned with transactions at present, along with non-profitable capital elements acquired due to non-cash contributions.

For secondary segmentation (segmentation according to geographic criteria) the segments “Germany”, “other Europe” and “Asia” were selected. The allocation of figures according to geographic characteristics is dependent on the country in which

the Group member company or the Branch is headquartered. Reporting includes the operating result, risk provisions, risk positions in accordance with supervisory regulations, the tied core capital and the cost-income-ratio.

Segmentation according to geographic criteria (secondary segmentation)

€ mn		Germany	Europe without Germany	Asia	Others / consolidation	Group
Operating result before provisions for risks		535.7	52.4	32.4	-9.1	611.4
	Previous year	476.6	57.7	23.5	-9.1	548.7
Risk provisions / valuation		280.4	15.2	1.5	0.0	297.1
	Previous year	240.0	17.3	0.0	0.0	257.3
Operating result after provisions for risks		255.3	37.2	30.9	-9.1	314.3
	Previous year	236.6	40.4	23.5	-9.1	291.4
Risk positions		43,896.0	6,741.0	6,975.0	-5,417.0	52,195.0
	Previous year	42,651.0	5,804.0	7,559.0	-4,927.0	51,087.0
Fixed core capital		1,975.3	303.3	313.9	1,207.1	3,799.6
	Previous year	1,919.3	261.2	340.2	992.6	3,513.2
Cost-Income-Ratio		38.5%	24.2%	29.6%	—	37.4%
	Previous year	37.4%	19.4%	37.1%	—	36.3%

Schedule of Group Equity Movements

The schedule of Group equity movements provides an overview of the development of Group equity and overall Group earnings in line with German accounting standard No. 7. The item “Accrued other Group earnings” is the result of a capital consolidation within the Group.

In accordance with the Board’s proposal for the appropriation of profits, € 40,6 million have been earmarked for distribution to the shareholders.

	Parent company					Minority shareholder		
	Subscribed capital	Capital Reserve	Group equity generated	Accrued other Group earnings	Equity	Minority capital	Equity	Group equity
€ million								
Position as at Dec. 31, 2000	1,884.4	445.6	330.1	721.1	3,381.2	292.5	292.5	3,673.7
Shares issued	30.0	—	—	—	30.0	—	—	30.0
Dividends paid	—	—	-32.4	—	-32.4	—	—	-32.4
Other changes	—	—	0.8	—	0.8	—	—	0.8
Group profit for the year	—	—	97.9	—	—	—	—	—
Overall group earnings	—	—	—	—	97.9	—	—	97.9
Position as at Dec. 31, 2001	1,914.4	445.6	396.4	721.1	3,477.5	292.5	292.5	3,770.0
Shares issued	250.0	—	—	—	250.0	—	—	250.0
Dividends paid	—	—	-37.8	—	-37.8	—	—	-37.8
Other changes	4.1	—	-2.8	—	1.3	—	—	1.3
Group profit for the year	—	—	113.2	—	—	—	—	—
Overall group earnings	—	—	—	—	113.2	—	—	113.2
Position as at Dec. 31, 2002	2,168.5	445.6	469.0	721.1	3,804.2	292.5	292.5	4,096.7

Proposal for the Application of Profits of Hamburgische Landesbank

Allowing for distribution of € 136.4 million to the dormant shareholders and the profit entitlement of the dormant partner with an atypical silent contribution of € 4.3 million, the Bank posted net profits of € 113.9 million. Of this sum, € 4.0 million have been pre-paid out to the shareholders in the year 2002.

Our recommendation is that of the distributable profit of € 109.9 million remaining after the pre-paid out of € 4.0 million, € 40.6 million should be paid out in dividends and € 69.3 million added to other revenue reserves. Taking into account the amount transferred from the profit entitlement of the dormant partner, revenue reserves increase by € 70.0 million.

The Board of Managing Directors

Supervisory Board Report

The Supervisory Board and the Credit Committee set up from among its members fulfilled their statutory obligations and those required in terms of the bylaws in the year under review. Both bodies were briefed on a regular basis by the Board of Managing Directors on the Bank's situation and business trends. At its regular meetings, they dealt with all issues of fundamental importance along with any other essential business transactions. The Supervisory Board and Credit Committee convinced themselves of the regularity of the Management.

BDO Deutsche Warentreuhand Aktiengesellschaft audited the annual financial statements of Hamburgische Landesbank and added its unqualified auditors' certificate. The Supervisory Board and the Audit Committee set up from among its members discussed the auditors' report at length and raised no objections to the final results of the audit. In addition, the Supervisory Board recommended that the Shareholders' Meeting should confirm the annual financial statements as well as the consolidated financial statements prepared by the Board of Managing Directors for 2002, to approve the Management Report and to agree to the proposal by the Board of Managing Directors for the appropriation of the balance-sheet profit.

The following changes took place on the Supervisory Board in 2002: Senator Mario Mettbach left the Supervisory Board on April 10, 2002. His replacement was Councillor of State Dr. Stefan Schulz. Mr. Sven Mahnke also left the Supervisory Board on June 30, 2002 and was replaced by Mr. Horst Baecker. The Supervisory Board wishes to take this opportunity to thank the retiring members for their expert assistance once more.

On December 31, 2002, Dr. Dietrich Rümker also left the Supervisory Board, on which he had served as Deputy Chairman since September 17, 1997, having reached retirement age. With his skills and knowledge, he played a key role in the decisions made by the Bank's governing bodies and always supported the Bank's business policy constructively and with great commitment. The Supervisory Board wishes to thank him again most sincerely for this. Mr. Dieter Pfisterer (Member of the Board of Managing Directors of LB Kiel) was appointed to the Supervisory Board for the first time. The new Deputy Chairman of the Supervisory Board since the beginning of the year is Mr. Hans Berger.

The Supervisory Board would like to thank the Board of Managing Directors and all employees of the Bank for their dedication and successful work.

Hamburg, April 2, 2003

Chairman of the Supervisory Board

Dr. Wolfgang Peiner

Senator and President of the Treasury of the Free and Hanseatic City of Hamburg

Report of the Shareholders' Meeting

The Shareholders held four meetings in the course of the last financial year, at which they exercised the tasks assigned to them by statute and in terms of the Bank's bylaws.

On recommendation by the Supervisory Board, at the Shareholders' Meeting of April 2, 2003 the annual financial statements as well as the consolidated financial statements for 2002 and the Management Report were approved along with the proposal by the Board of Managing Directors for the appropriation of the balance-sheet profit. The Shareholders' Meeting discharged the Board of Managing Directors and the Supervisory Board of the Bank for the financial year 2002.

Dr. Dietrich Rümker retired on December 31, 2002. He had been chairman of the Shareholders' Meeting since September 17, 1997. The Shareholders' Meeting thanks him for his committed and expert service to the Bank. Mr. Dieter Pfisterer (Member of the Board of Managing Directors of LB Kiel) joined the Shareholders' Meeting on January 1, 2003.

Mr. Uwe Kruschinski, a member of the Board of Managing Directors, left Hamburgische Landesbank on December 31, 2002. The Shareholders' Meeting also takes this opportunity to thank him for his successful work in furthering the Bank's interests and wishes him all the best for the future.

Hamburg, April 2, 2003

The Chairman of the Shareholders' Meeting

Hans Berger

Chairman of the Board of Managing Directors of
Landesbank Schleswig-Holstein -Girozentrale-

MANAGEMENT REPORT AND CONSOLIDATED MANAGEMENT REPORT

Management (and Group management) Report of Hamburgische Landesbank

On Performance

Satisfactory result in hostile conditions

The financial year 2002 was characterised by substantial changes for Hamburgische Landesbank along with major challenges to be faced. The difficult situation on the German banking market continued – both in lending operations and financial market activities. Competitors responded to this by introducing quite drastic corporate policy changes, a process that had a discernible impact in terms of market presence but also resulted in adverse effects on employment in the banking sector. In these generally hostile conditions, Hamburgische Landesbank consistently adhered to its course of action and by re-adjusting certain key parameters pursued its longer-term strategy. Among the notable milestones during the financial year under review were the spin-off of securities processing and settlement activities to PLUS BANK AG and in particular the decision by the shareholders to merge Hamburgische Landesbank with Landesbank Schleswig-Holstein (LB Kiel) in 2003. Considering the difficult conditions overall, we are satisfied with the results we achieved. On this basis, and reinforced by the merger with LB Kiel, we are convinced to be well prepared for the challenges to come.

Hamburgische Landesbank's consolidated financial statements include Hamburgische LB Finance (Guernsey) Ltd., Hamburgische Landesbank (Guernsey) Ltd., Hamburgische Wohnungsbaukreditanstalt, Hamburg (WK), METONO GmbH, Hamburg, as well as PLUS BANK AG, Hamburg. METONO GmbH is a wholly-owned subsidiary of the Bank. It has a 50% holding in PLUS BANK AG. Owing to its subordinate importance in terms of the Group's annual financial statements, the limited partnership KG Altstadt Grundstücksgesellschaft, Hamburg (formerly: KG Altstadt Verwaltungsgesellschaft & Co., Grundstücksgesellschaft, Hamburg), is no longer consolidated. The Bank will continue to ensure that its foreign subsidiaries included in the consolidated financial statements will meet their financial obligations at all times. Unless stated otherwise, the following explanations about business performance relate to the Bank since its results clearly predominate the consolidated annual financial statements.

Stagnating balance-sheet growth

The Bank's balance sheet performance reflected the subdued level of economic activity. Total assets, at € 87.2 billion, remained almost unchanged (-0.3%). However, this value underestimates the actual level of growth realised. Since a significant share of our total assets is lent in foreign currency, the weakness of the U.S.-dollar last year reduced asset growth remarkably. Owing to the sharp increase in guarantees and letters of credit additionally contained in the volume of business and in the lending volume, business volume expanded by 4.7%, to reach € 108.5 billion, and the volume of lending rose by 5.1%, to € 103.7 billion.

For the Group as a whole, total assets remained unchanged year-on-year, amounting to € 92.7 billion as at the balance-sheet date. Business volume expanded slightly, by 1.5%, to € 106.3 billion. Volume of lending grew by 1.9%, to reach € 101.4 billion.

***Changes in relation
to 2001
in € millions***

<i>Assets</i>	<i>Bank</i>	<i>Group</i>
Liquid funds	180.0	180.0
Receivables from banks	2,700.6	2,853.0
Receivables from customers	1,194.0	1,439.6
Securities	-4,899.8	-4,856.6
Shares in affiliated undertakings	565.4	528.4
Other items	-6.8	-152.3
Total assets	-266.6	-7.9

Liabilities

Liabilities to banks	-3,828.0	-7,297.5
Liabilities to customers	472.6	624.6
Certificated liabilities	2,412.6	6,006.9
Capital with participation rights and subordinated liabilities	-50.8	-50.8
Equity	286.0	286.4
Other items	441.0	422.5
Total liabilities and capital	-266.6	-7.9

For information only:

Volume of business	4,878.8	1,565.8
Loan volume	5,146.4	1,897.2

***Lending dominated
by short- to
medium-term
maturities***

The volume of lending rose moderately in the year under review. The uncertain market environment was generally reflected in market participants exercising restraint; accordingly, lending for shorter terms to maturity was a great deal more dynamic than long-term operations. On the whole, claims on banks rose significantly more sharply than corporate loans. With regard to corporate customers, claims with terms to maturity of three months to one year saw robust growth, while those of one to five years only increased slightly, long-term operations remained almost unchanged and only short-term loans for up to three months were less in demand than in the previous year. Interbank business was characterised by brisk lending for short terms of up to three months as well as for maturities from three months to one year. In medium- to long-term operations, interbank lending volumes were reduced quite sharply in part. In business with public-sector borrowers, we registered increasing demand for loans with maturities of less than three months as well as those for terms exceeding five years, whereas, in contrast, receivables in the medium maturity band were reduced.

In the wake of deteriorating market conditions, securitised lending was noticeably reduced by 14%, to € 22.5 billion. The volume of credit equivalents for derivatives likewise contracted. This was on account of declining market prices for such products rather than declining business.

In the Group, long-term lending once again received a stronger weighting as long-term loans predominated in WK's promotional operations.

*Project finance
gaining ground in
corporate banking*

Lending in corporate banking operations remained more or less constant at € 6.6 billion on account of the tense risk situation. Thanks to our good market access, we managed to bring about a slight improvement in margins. In addition, we consistently extended our multi-product approach, and our range of other services within the scope of banking operations was well received by our customers. In our operations with trading companies, even though the difficult conditions continued to prevail, we registered brisk demand for new business; however, on account of the intensified risk situation we were very selective in entering into commitments in this particular segment. Our standing as a finance provider for small- to medium-scale enterprises (SMEs) in the foreign trade business remains positive. In operations with companies from the manufacturing industry, we clearly benefited from our long-standing business relationships, which we continued to intensify even further. In this segment, in the port sector and in petroleum trading and production, we increasingly participated in international project financing operations. Financing deals for the purchase of companies not listed on the stock markets, so called acquisition financing transactions, saw a substantial expansion in volume, albeit from a low level. While the number of transactions declined appreciably in the German M & A market, in the sub-market for leveraged buy-out financing deals – i.e. corporate takeovers by financial investors – we nevertheless managed to extend our good market position as regards financing transactions for German SMEs. Our general commitment to SMEs in the northern German region meets with a highly positive response.

New business was brisk in lending operations to banks in the period under review. The volume of lending in this sector rose by 32%, to reach € 3.1 billion. In this field of activity our focus was predominantly on European banks. On account of the risk factors involved, in the other regions we only entered into new commitments with selected counterparties.

*Leasing portfolio
defying general
market trend*

New operations of German leasing companies in 2002 were slightly down year-on-year. On account of a discernible decline in capital spending by companies, this still meant an increase in the leasing quota. Hamburgische Landesbank has been for years one of the leading refinancing providers for leasing companies in Germany thanks to its rich experience in this field of activity and its wide range of products. Last year we managed to stabilise our new business at a level of € 1.1 billion, bucking the general market trend, and our financing portfolio grew slightly by 1.6%, to € 3.9 billion. Our activities in the year under review focused on refinancing numerous movables leasing companies. In addition, we provided assistance to promising real-estate leasing and large-scale movables leasing projects as well as several U.S. lease transactions.

AGV Anlagen- und Grundstücksvermietungs GmbH & Co. KG, Wiesbaden, in which we have a 45% stake, delivered an encouraging performance in recording just under € 0.9 billion in new business.

*Real-estate
financing to hold
its own in difficult
times*

Once again, real-estate financing proved to be a mainstay for the Bank's development. Following a sluggish start to the year, we extended our new business to € 2.7 billion in a difficult market environment, maintaining our prudent lending policy. As a result, loans totalled € 13.1 billion, an increase of 9.1%. We had to replace significant volumes of repaid loans and to contend with currency-induced declines as a substantial amount of our credit portfolio was lent in U.S.-dollars within our international operations. We successfully forged ahead with our strategy to extend commission-related operations based on real-estate activities. Our core regions of Northern Germany and the Greater Berlin area account for 70% of domestic new business concluded. This included urban development projects in Hamburg, the Holzhafen (timber port) area, for example, or the Color Line Arena, which opened in November 2002. Business with real-estate companies was once again quite dynamic, in spite of a reversed market trend due to an increased supply of available office and residential premises, among other things, as well as longer marketing periods. Project financing operations once again proved to be a reliable mainstay; together with experienced partners we launched highly promising measures. Due to our long-standing co-operation with well-established property developers, business in this sector was satisfactory, defying the general market trend.

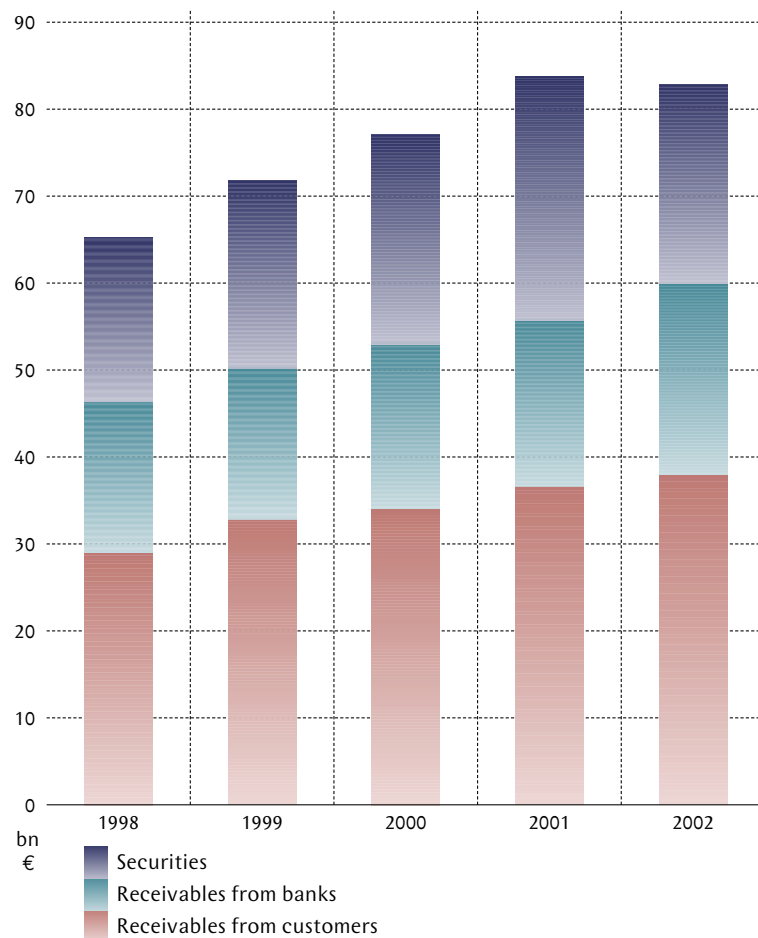
International real-estate financing was boosted again in the year under review with lendings amounting to € 2.9 billion at year-end. The U.S. market accounted for almost 60% of new foreign loan commitments. In the process, we co-operated with experienced partners and invested primarily in such metropolitan areas as New York and Washington. In Europe our key markets were the United Kingdom, Spain, France and the Netherlands. The majority of our foreign financing operations involved commercial projects, i.e. office premises, shopping centres and hotels.

*Shipping business
successful in spite
of choppy waters*

The turn of the year 2001/2002 marked an all-time low in the principal shipping markets. Growth of the sea-borne trading volume decelerated significantly year-on-year and some charter rates for bulkers, containers and tankers were far below the previous year's level. During the second half of the year, however, rates recovered again, especially in the containerised and bulk shipping market and at the turn of the year the tanker market likewise picked up. By increasing its lending volume by 4.1%, to a current total of € 11.5 billion, the Bank managed to continue its upward trend. However, this figure does not give a true indication of the actual level of growth realised. Since roughly three quarters of our lendings are in U.S.-dollars, we had to contend with a currency-induced

decline in the loan portfolio of approximately € 1.8 billion in the year under review due to the depreciation of the U.S.-dollar; adjusted for this currency effect, the growth rate would have been around 20%. Business operations with domestic shipowners largely proceeded as normal. The fund business picked up towards the end of the year once it became clear that the tonnage tax was to remain in force. Our international operations saw brisk demand from prospective customers in North America as well as in Western and Central Europe. Business with Asian and Scandinavian shipowners only picked up again towards the end of the year. The adverse market conditions resulted in a sharp increase in deferred and outstanding repayments; yet the level of these still remained comparatively low at around 1.4% of the credit portfolio. Since we maintain long-standing relationships with our partners as a rule, we consider the situation acceptable.

*Development of
lending business
(Bank)*



Expansion in aircraft financing through portfolio buying

Even though conditions were turbulent, the aircraft financing business turned out better than expected in spite of the aftermath of September 11, of declining sales by aircraft manufacturers and, not least of, the looming crisis in Iraq. Lending in this segment rose by 15.4%, to around € 2.8 billion. Adjusted for currency effects – since this business segment is also extremely sensitive to exchange-rate fluctuations due to a high proportion of foreign-currency loans – the increase came to as much as 28%. In the year under review, considering the risk factors involved, we focused primarily on activities in Europe; in addition, we slightly expanded our financing operations in Asia. On one hand, we exercised restraint in this segment in the wake of the difficulties encountered by major U.S. airlines; on the other hand, we increasingly financed the successful regional and low-cost carriers in the U.S.A. Decisive factor in aircraft loan portfolio growth was the acquisition of a selected portfolio with a volume of € 470 million from a competitor who withdrew from the international aircraft financing business. As a result, we had approximately 300 aircraft on our books at the end of the year.

Expansion of asset management in private banking

The dismal state of the capital markets and the sluggish level of economic activity also impacted on the private banking operations. In the securities business a noticeable decline in transactions was offset by an increase in the average size of orders. On balance, we managed to boost our revenues. The volume of managed portfolios currently amounts to € 5.6 billion (+6.4%). The extension of additional asset management contracts, the distribution of closed-end funds and the management of trusts proceeded successfully. We also increased our deposit-taking volume (including the Bank's own issues) to a current total of € 1.7 billion. In the wake of the turmoil on the stock markets, our private customers gave preference to demand and fixed-term deposits. In our lending operations, the volume of loans granted has stabilised at € 1.5 billion. As the residential property business still remained very subdued (our loans extended to private customers are primarily real-estate financing transactions), we consider this quite a positive result.

Credit investments facing strong headwind

Our core business sector of credit investments was impacted by the difficult situation of this market. On the one hand, the sustained high volume of new issues reaffirms that debt securitisation continues to be an established financial instrument; furthermore, large parts of the market for securitised lendings are proving to be remarkably stable. Nevertheless, the year 2002 saw a large number of corporate failures – particularly in the U.S. – and numerous downgrades in credit ratings of issuers. Positions falling due could not be replaced at adequate margins. Hamburgische Landesbank's portfolio did not manage to escape these developments; accord-

ingly, we reduced the volume of securities and loan receivables in this field of business in nominal terms. The total portfolio of credit investments at the end of the year came to € 20.7 billion, down 13.7%. As in the past, the portfolio chiefly consisted of paper issued by state or quasi-state debtors and banks in the EU or in OECD countries with outstanding ratings. With a volume of € 5.8 billion, asset-backed securities account for a significant share of our operations. The very slight change on the previous year is attributable to high amortisation payments, which we replaced very cautiously. The volume of credit derivatives fell by 55%, to € 2.4 billion. In the case of corporate bonds the focus of new business remained on the sector of established telecommunications companies and, to a lesser extent, on the automotive industry.

In the year under review, Hamburgische Landesbank performed its own synthetic securitisation for portfolio optimisation purposes for the very first time. In the course of this transaction, a volume of € 1.08 billion in mezzanine tranches of asset-backed securities was hedged.

*Network of our
international bases
extended*

We continued to prudently expand our international activities with a long-term orientation in mind. We reinforced our commitment in the countries of the European Union, particularly in the United Kingdom, Spain and the Netherlands. In Central and Eastern Europe, we operated on selected markets, e.g. in the Baltic states. In North America and in South East Asia, we kept a comparatively low profile in the year under review. Nevertheless, we consider our long-term strategy of increasingly committing ourselves to these regions as reaffirmed. For instance, in the summer of 2002 we opened a representative office in New York. Operating from this base, we intend to further extend already existing customer relations in the U.S. and to act as intermediaries for new business in the real-estate and aircraft financing markets as well as in corporate banking; in addition, we plan to tap the U.S. capital market to extend our credit investment portfolio and harness new sources of refinancing.

Our Branch in Singapore confirmed its highly promising corporate policy. Activities in the commodity trade finance division were significantly extended. The ship finance desk, newly established in the year under review – operating from Singapore, we plan to take care of our Asian shipping finance customers – was well received by our business partners. In addition, last year we consolidated our funding activities in the South East Asian region in our Singapore Branch. In line with our Asia strategy, in our Hong Kong Branch we also reduced business operations with private customers and real-

estate financing deals and focused on the local core competences in that region instead. At this Branch, development of trade finance deals (with new customers being acquired in this segment) was just as encouraging as our corporate banking activities, in which we consistently extended our range of products and services. Thanks to intermediary services to source new business contacts, particularly for trade financing, our representative offices in Hanoi and Shanghai successfully and profitably supported the activities of our Branches in Hong Kong and Singapore.

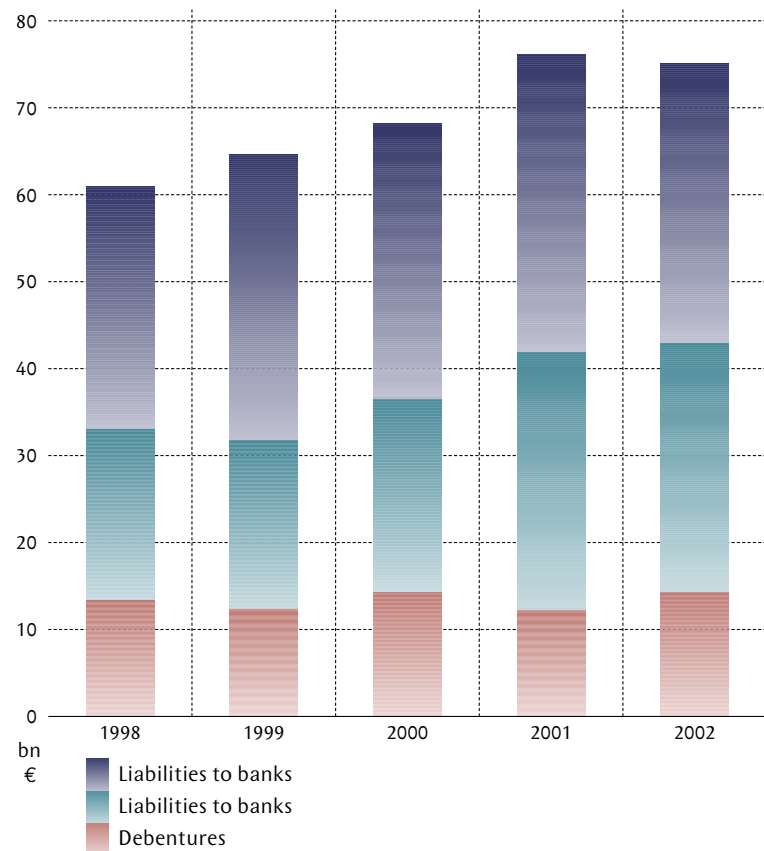
The results of our London Branch were satisfactory. This Branch mainly attended to the needs of UK businesses. In the process, we extended our corporate banking and real-estate financing activities on a similar scale. The CTF business, recently expanded to include London, registered initial successes. Our branch's commission-operations saw an encouraging expansion. The U.S.-dollar commercial paper programme, launched by the Branch for the first time in summer 2002, met with a positive response from U.S. investors across the board; we use this programme with the aim of extending our refinancing base for taking up short-term funds in U.S.-dollars. Apart from refinancing in U.S.-dollars, the London Branch provides the Bank with funding in Swiss francs and in pounds sterling. Our banking subsidiary in Guernsey recorded another successful year. With the representative office we opened in Warsaw in 2001, we aim to have direct access to the Polish market, in which the increasing integration of Poland into Europe (particularly the planned EU accession) holds good business prospects in store. Operating from the Polish capital, we assisted our German customers in Poland but also continued to extend existing business relations on site. Real-estate financing and interbank operations constitute the focal points of our activities here.

*Increasing
importance of
foreign-currency
refinancing*

In the year under review, we made further advances in preparing for the abolition of the Maintenance and Guarantee Obligation in 2005. At the end of 2002 the total portfolio of refinancing funds amounted to € 76.0 billion (excluding equity and other liabilities). On the money market, our refinancing was predominantly realised by call money and fixed-term deposits; short-term funds amounted to € 26.8 billion. Our London Branch raised an appreciably greater volume of funding in foreign currency, particularly via the U.S.-dollar commercial paper programme discussed above. As in the previous year, we increased our weighting on long-term refinancing, with the volume in this category amounting to € 49.2 billion. Looking at capital market funds, transferable loan certificate denominated in euro comprised the lion's share of about 42%. We issued secured paper amounting to a share of one quarter; more than half

of it was accounted for by collateral for municipal loans. Foreign-currency bonds were highly dynamic, if from a low starting level, rising by more than 80% to reach € 5.4 billion.

Development of borrowing (Bank)



On account of the Brussels accord of July 17, 2001, our issuing activity also remained subdued in 2002 for paper with maturities extending beyond 2015. Individual transferable loan certificates were issued on request. In the field of long-term refinancing products, our good standing with institutional investors enabled us to defy the general trend in a difficult environment. We managed to boost new business with structured liabilities in the previous year and extended our market share in this segment even further, since our ability to document and assess the most complex of products is well recognised by our hedge partners and arrangers. In addition, a substantial increase was recorded in the funds taken up in the framework of our EMTN programme. Issues under this program meanwhile account for roughly a quarter of all medium- to long-term sources of refinancing.

Via our financial subsidiary based on Guernsey, Hamburgische LB Finance (Guernsey) Ltd., we borrow on the international capital market on a long-term basis. The ratings of our long-term liabilities – AAA from Fitch, Aa1 from Moody's and AA- from Standard & Poor's provides a sound basis for the Bank's successful issuing activities.

*Money trading with
increased customer
deposits*

Substantial interest-rate fluctuations on the markets in the wake of changing interest expectations caused general money trading conditions to deteriorate. The satisfactory performance achieved in this business is, therefore, all the more encouraging. In preparing for the abandonment of Maintenance and Guarantee Obligation in 2005, we have broadened our deposit base and attracted an increasing number of customer deposits. In trading with customers a high level of liquidity was maintained by institutional investors. The reasons for this were to be found both in the weakness of the capital market and in new supervisory regulations for the insurance industry. Both led to a significant reticence of these customers on the capital markets, favouring short-term financial investments instead. We managed to raise revenues in our securities lending operations, thus further extending our market position.

FX-trading benefiting from dollar weakness

2002 saw a pronounced weakness of the U.S.-dollar. Even though liquidity normally tends to drop off substantially towards the end of the year, we succeeded in boosting our FX-trading revenues. Not only did we profit from the volatility of the U.S.-dollar, but our increased presence as market makers in the yen area also paid off here. Customers trading ended the year under review with successful figures; due to the falling U.S.-dollar, demand from importers for exchange-rate hedges was particularly brisk. Accordingly, in our currency option trading with innovative products, we also generated substantially higher revenues.

Market position affirmed in trade with fixed-income securities

The stock and bond markets moved along in 2002 in a state of flux between weak economic growth, accounting scandals, the Iraq crisis and general risk aversion among investors. While the bond markets managed to pick up substantially, the stock markets collapsed, particularly in Germany. Accordingly, the trading volume in shares remained at a low level; in the Bank's own-account trading in stocks, the previous-year figures were once again missed by a wide margin. Trading in fixed-income securities was considerably more positive. The Bank managed to defend its good market position in the case of Pfandbriefe and registered securities and also boosted the number of trading partners in business with Jumbo-Pfandbriefe and corporate bonds. Despite some reluctance on the part of investors, we managed to improve our revenues in swaps and derivatives trading; we use these products above all to hedge our refinancing activities in euro and foreign currencies. The build up of our euro-denominated option book had a very promising start. Development of our services operations was subdued. Increasing mergers among savings banks and limited venture capital among institutional investors caused revenues to drop sharply. Nevertheless, the demand for our technical asset management programme was strong and portfolios under management here also saw a considerable rise.

On September 1, 2002 we integrated our consulting activities in the corporate finance division in a subsidiary jointly owned with LB Kiel. LB Kiel Hamburg Corporate Finance GmbH is specialised in providing consultancy services to small- to medium-scale enterprises (SMEs), particularly from Northern Germany. In addition, we consult customers from business segments such as supplies and waste disposal, hospitals and healthcare, transport and logistics, real-estate and food and beverages, services on a national scale. The spectrum of advisory services ranges from M&A- to capital market consultancy.

*Derivatives to
minimise risks*

Once again, we continued to expand our business with other derivative financial instruments to meet special financial requests on the part of our customers, to minimise risk and to exploit market opportunities. As at the balance sheet date, the volume of swaps – the sum total of interest, currency and equity swaps – amounted to € 97.8 billion, an increase of almost 22%. Revenues from forward rate agreements grew by 17.6%, to reach € 1.3 billion; of this sum, just under three quarters was entered into for hedging purposes.

*Broadly-based
portfolio of
holdings*

The volume of our portfolio of holdings rose sharply, by almost 60%, in the year under review. The book value of direct holdings and shares in associated companies amounted to € 1,511.5 million (2001: € 946.1 million, each including WK). The portfolio comprises strategic holdings, those to support customers and fields of business activity and investment-oriented holdings.

In terms of its strategic holdings, the Bank is pursuing the objective of covering specialist fields of activity, establishing new ones and promoting the economic region of Hamburg as such. Among the key specialist fields of activity are the real-estate fund operations of the HGA Group and PLUS BANK. On July 1, 2002 Hamburgische Landesbank outsourced its securities processing and settlement operations to PLUS BANK AG. With a special banking licence, PLUS BANK offers its customers comprehensive commission and custody business services. As PLUS BANK is admitted to all German stock markets, direct order routings can also be executed. The basis used for the settlement of securities transactions is the EWS PLUS system, which has full multi-client capabilities. PLUS BANK customers are nation-wide and include institutions from the savings banks sector along with private banks and financial service providers. PLUS BANK and its workforce of around 350 employees offer them individually tailored, comprehensive services in wholesale and retail banking. Despite the ongoing low transaction levels on the stock markets affecting all securities settlement banks to the same extent, PLUS BANK's performance in the financial year was satisfactory.

As at January 1, 2002, Hamburgische Landesbank bundled its real-estate fund activities under the umbrella of a new subsidiary, HGA Hamburgische Grundbesitz Beteiligung AG (HGA AG). To this end, all company shares in HGA Capital Grundbesitz und Anlage GmbH, in "Katharinen" Verwaltungsgesellschaft mbH and in HGA Investment GmbH – trading as LB Immo Investment GmbH since January 9, 2003 – were integrated into the renamed holding company, HGA AG. Early in 2003 two strategic partners from the Landesbank sector joined the venture of LB Immo Investment GmbH with the aim of optimising asset acquisition and extending the distribution base.

The company will issue open-ended real-estate funds for institutional investors. An initial special asset fund was already launched in the financial year under review.

The volume of closed-end retail funds of HGA Capital was boosted in the year under review, with three new funds being added. Activities in the U.S. were particularly encouraging. After two funds with buildings in New York and Florida had been placed as early as 2001, in 2002 the HGA USA III Fund (Seagrams Building in Manhattan) was launched. In Germany, the HGA Hamburg-Hafencity Fund for SAP training centre was successfully distributed. The HGA Campus-Kronberg Fund, for a top-quality, fully rented office building near Frankfurt, is still in the placement phase at present. A shopping centre in Hungary is being jointly launched with project developer *ECE* in the current financial year. Additional projects in New York, Vienna and Germany have progressed to an advanced stage of planning.

The Bank uses holdings in support of business segments to intensify existing customer relationships and generate additional income. For instance, as at January 1, 2002 we consolidated all real-estate project development activities in HLB Immobilien Holding GmbH. This is the framework in which the Bank positions ICE Immobilien Conception und Entwicklung GmbH, a subsidiary of the holding company, as an independent service provider in the field of real-estate project development and project management. In the process, efforts are directed at achieving active co-operation on the basis of partnership relations with other project developers. In geographical terms, the key fields of activity focus on the regions of Hamburg and Berlin.

In March 2002 the former GEHAG AG was converted into a GmbH (private limited company) in the course of restructuring measures; at year-end, the Bank's direct holding in GEHAG GmbH amounted to about 60% and, via KALAIS GmbH, its indirect holding came to around 25%. All told, therefore, the Bank's share of GEHAG GmbH amounts to 85%. This company is a former non-profit residential housing company specialising in the location of Berlin. Together with its subsidiaries, GEHAG GmbH provides all kinds of services in connection with marketing and administration of residential property as well as leasehold and commercial real-estate projects. Its portfolio comprises more than 20,000 residential units in Greater Berlin.

Finally, with investment-oriented holdings, we aim to generate returns on capital deployed that are commensurate with the risks involved. By end-2002, in the form of private equity a volume of approximately € 310.7 million was approved, € 77.8 million of

which has been disbursed. The performance of the portfolio, the accumulation of which began in more favourable investment phases, remains satisfactory.

Equity base

The Bank's subscribed capital amounted to € 2,168.6 million. € 70 million of the Bank's unappropriated profit has been added to revenue reserves. This means that the Bank has total equity capital of € 3,037.9 million. Since 1997, LB Kiel has had a 49.5% holding in the Bank, and the Free and Hanseatic City of Hamburg has held 50.5%. Of the City of Hamburg's shares, 1% is held by HLB-Beteiligungsgesellschaft mbH, a corporation of the City, as an atypical dormant partner. After allocation to revenue reserves, the Group has total equity of € 4,052.1 million, of which € 292.5 million is held by non-Group shareholders.

The Bank's liable equity capital as defined in the German Banking Act — including supplementary capital — increased by € 406.6 million, to € 5,521.1 million; of this, € 3,147.9 million constitutes core capital. The Group's liable equity capital rose by almost the same amount (€ 404.3 million) and stands at € 6,240.3 million; of this, € 3,867.1 million represents core capital.

Risk provisions

In 2002 we once again adhered to our strict, tried-and-tested risk criteria. As in the previous year, our risk provisions focused especially on domestic borrowers. Provisions for foreign loan exposures had relatively little impact on the Bank's financial statements. In contrast, expenditure relating to the valuation of securities inventories saw a substantial increase year-on-year; the same valuation methods were used. As in the past, we formed sufficient provisions for all discernible and future risks.

Operating profits up once again

Our earnings situation continued to improve in line with the expansion of business. Net interest income once again was the main source of earnings, the increase of which from just under 22% was especially fuelled by interest-bearing operations and rising margins in our core fields of activity; in addition, we benefited from substantially higher income from equity interests. Net interest income was adversely impacted by the lower exchange rate of the U.S.-dollar. In our commission operations, starting in July 1, 2002 income from the processing and settlement of securities was generated by our subsidiary, PLUS BANK AG. In spite of these shortfalls in income and the generally poor stock market environment, net commission income almost matched the previous year's high level, thanks to the encouraging trend once again in other services. Net earnings from financial transactions increased by 18% year-on-year but still remain at a low level. The balance of other income and expenses

was affected by tax refunds from previous years along with restructuring expenses in the wake of the merger with LB Kiel. In order to meet the high requirements of the markets as regards banking operations, but also to comply with banking regulations, once again investments were necessary both in technical and additional human resources. Despite the accompanying increase in administrative expenses by almost 13%, it was possible to keep the cost-income ratio down to the previous year's low level of 35%. At € 610 million, last year's satisfactory earnings before risk provisioning and valuation were exceeded once again by over one tenth. Net risk provisions rose by 6%, reflecting the generally difficult economic conditions. On the one hand, we have to contend with increased spending on valuation of loans and securities; on the other hand, significantly higher income has been generated from the sale of holdings. Once again, core capital was added to revenue reserves. Taxes on income and profits turned out just over 23% higher than last year. Following higher partial profit transfers of € 136 million year-on-year, the Bank's profit for the year of € 115 million — taking into account the share held by the atypical dormant shareholder — exceeds that of the previous year by 15%.

*Extensive provisions
for the future*

The Bank's earnings situation continues to dominate earnings for the Group as a whole. Operating profit before and after risk provisioning and valuation, tax charges and profit for the year are almost identical to the Bank's figures. Deviations in individual earnings and expenditure items result predominantly from the financing business of WK which, on balance, does not have an effect on net earnings. Hamburgische Landesbank (Guernsey) Ltd. continued to improve its contribution to Group earnings; we anticipate this positive trend to continue in future, too. PLUS BANK AG was included in the Group's consolidated accounts for the first time. Despite the difficult stock market environment and the usual startup costs, this subsidiary nearly managed to reach the break-even point in 2002 – its first financial year.

Preparations for future challenges in banking operations called for significant investments to be made in technical and organisational equipment once again in 2002. As in the past, we deployed substantial financial and human resources in order to meet the requirements for the introduction of the International Accounting Standards (IAS) and implementation of the new regulations on equity capital in conformity with the Basle capital adequacy standards (Basle II). Numerous project teams are currently working on preparing for the Basle II regulations set to enter into force in 2006 and which will need to be implemented in a transitional phase by early 2007. The preparations for the changeover of the Group's annual financial statements to IAS run at full speed to be set for the legal requirements. In preparing for Basle II as well as setting up the financial accounts according to IAS Hamburgische Landesbank and LB Kiel are closely co-operating.

The establishment of a central market data pool was also an investment in the future. Consolidating all required market data into one database was a prerequisite to ensure that all internal IT systems have access to the necessary data at all times and are subject to quality proof. In addition, the IT systems of Hamburgische Landesbank were continually adjusted to state-of-the-art standards – frequently in co-operation with LB Kiel. Hamburgische Landesbank's data centre had to face an additional challenge. Following the outsourcing of securities processing and settlement services to PLUS BANK, the preconditions for that subsidiary of the Bank to take over production, test and development operations had to be created. With regard to the security of our IT Systems the events of September 11, 2001 in particular induced us to upgrade our emergency procedures for the Bank's data centre even further. To this end, on December 9, 2002 a second fully-fledged production site was commissioned in Hamburg.

In November 2002 the European Commission instituted legal proceedings against Hamburgische Landesbank along with other Landesbanks on allegations of unlawful subsidisation. Essentially, the issue is whether the contribution of equity capital in the form of shares in Wohnungsbaukreditanstalt included interest in line with the rates prevailing on the market. We assume that the proceedings will not have any negative impacts as the interest on our equity capital was appropriate.

The fact that we outsourced our securities processing and settlement services to PLUS BANK caused the Bank's workforce to decline in 2002 – for the first time in many years. A total of roughly 270 employees moved to PLUS BANK. Accordingly, at the end of the year under review, the Bank had a workforce of 2,187 employees (-131, or -5.7%); throughout the Group, this figure came to 2,747 (+8.2%). As in the past, our primary objective is to ensure that the qualifications of our employees are continually upgraded as part of an extensive personnel development plan in order to ensure that they successfully meet the future challenges of the market.

Outlook

As regards the business trend in 2003, we assume that the pace of expansion will be moderate on the whole. We intend boosting our activities in the sectors identified as our core fields of activity. As the level of borrowing demand is generally expected to be subdued, in our corporate banking activities we will continue our approach of opting for quality-oriented, selective acquisitions and, in doing so, our aim is to broaden the distribution of our products. In our real-estate financing operations, we hardly perceive any possibilities of improvement on the domestic market, especially due to the intended changes in tax legislation; only specific segments have potential, one of them being structured financing for real-estate companies. In our international real-estate business, we intend focusing on the growth markets in southern and western Europe. Our ship credit business is expected to become less dynamic. Expansion potential will tend to lie in new constructions of tankers and bulk freighters, and this will therefore primarily involve foreign customers. On the other hand, despite excess capacity in some sectors, according to recent reports the demand for new, bigger container vessels has picked up significantly. Likewise, we only expect subdued growth to emerge from the market for aircraft finance; in this segment we aim to reinforce our presence on a selective basis. With regard to our leasing operations we are also confident that we will succeed in enhancing our good market position even further. In the credit investment division we will extend the commitments with an increased level of risk awareness.

For the time being, events on the financial markets are likely to be dictated by uncertainties based on political factors. Accordingly, potential for expansion of our money and capital market operations will only be generated by offering innovative products and acquiring new customer accounts. Our business activities will become increasingly expensive to refinance in the current year, especially due to changes in the general framework (above all, the abolition of Maintenance and Guarantee Obligations from 2005). For this reason, to secure the basis of our refinancing we will be banking to a greater extent on selling structured products and reinforcing our presence on the international markets, e.g. in the form of benchmark issues.

*Merger with LB Kiel
well under way*

Early in 2002, the owners of Hamburgische Landesbank and LB Kiel commissioned their respective Boards to study the feasibility of a merger between these two institutions. On September 9, 2002 the merger was agreed. The shareholdings in the new bank were laid down as follows: Free and Hanseatic City of Hamburg (32.69%), WestLB AG (26.86%), the state of Schleswig-Holstein (16.86%), the savings banks association for Schleswig-Holstein (16.86%) and Landesbank Baden-Württemberg (6.73%). Prior to the merger, Landesbank Baden-Württemberg will sell its shares in LB Kiel to the state of Schleswig-Holstein (via a 100% subsidiary), the Free and Hanseatic City of Hamburg and the savings banks association for Schleswig-Holstein. The buyers are entitled to sell the relevant shares to a third party. Talks with strategic investors are under way on this topic. The merged bank will trade as HSH Nordbank AG and is scheduled to start in summer this year in the legal form of an AG (public limited company). The fiscal and accounting year will be backdated to January 1, 2003. This will create a bank with some € 200 billion in total assets and a workforce of about 4,500 employees. HSH Nordbank will be headquartered in Hamburg and Kiel.

While the preparatory phase from March to September 2002 predominantly consisted of feasibility studies and valuation issues, the phase after the decision to merge was characterised by a large number of key stage-setting strategies. In the form of 36 integration projects with over 100 sub-projects, the merger between the two banks proceeded on course and the future organisational structure of the merged institution was decided. Key milestones in the merger process have already been achieved in terms of personnel-related, organisational and corporate policy issues. Operating on an international scale, HSH Nordbank will be subject to a corporate governance code since it will be committed to ensuring a responsible style of management. The signing of the state treaty between the Free and Hanseatic City of Hamburg and the state of Schleswig-

Holstein on February 4, 2003 meant that a decisive step was taken by the political shareholders to pave the way for the merger.

The shareholders have already taken several fundamental decisions. The WK, which still belongs to the companies consolidated under Hamburgische Landesbank, is to be spun off prior to the merger in terms of an agreement between the Bank and the Free and Hanseatic City of Hamburg against payment of the proceeds. The Investitionsbank Schleswig-Holstein, which belongs to the LB Kiel Group, will also undergo a spin-off before the merger. Moreover, steps are under way at LB Kiel to spin off the Landesbausparkasse as a subsidiary prior to the merger and to convert the institution into a public limited company. The sale of this institution to the savings banks association for Schleswig-Holstein is planned to take place immediately after the merger. The existing portfolio of Pfandbrief operations will be maintained by HSH Nordbank AG. However, new Pfandbriefe may not be issued via HSH Nordbank AG but via a mortgage banking subsidiary which is planned to be established.

This merger unites two strong partners that are firmly entrenched in the region of Hamburg / Schleswig-Holstein. LB Kiel and Hamburgische Landesbank complement each other very well as regards their corporate strategies and locations. For this reason, we are confident that the synergy effects both in terms of income and expenses will reinforce the merged company's market position, and we consider HSH Nordbank to be well positioned to face the future challenges of the market, even after the Maintenance and Guarantee Obligation cease to apply in 2005.

The strategy of HSH Nordbank AG is based on the past strategies of the two individual banks. As a large Northern German commercial bank, it will be a market leader in its core region of Hamburg / Schleswig-Holstein along with the savings banks, and will operate as an industry specialist with an international orientation in selected fields of activity. These primarily include ship, real-estate and corporate banking as well as credit investments. Moreover, it will exploit good business potential in other industries too, such as transport or leasing refinancing deals. In addition, its claim is to have a presence on the global financial markets as a recognised partner. Thanks to the presence of its predecessors, HSH Nordbank will have a wide network of representative offices and branches at home and abroad; on the part of Hamburgische Landesbank, traditionally these tend to focus on the Asian region, while LB Kiel has had a long-standing presence in the Baltic Sea area.

In legal terms, HSH Nordbank AG's will originate as a public limited company once it has been entered in the commercial registers of Hamburg and Kiel. It will continue all operations of Hamburgische Landesbank and LB Kiel under its new name. All claims or receivables, other assets and liabilities will inure to the new bank by operation of law. The transitional arrangement agreed with the EU Commission on July 17, 2001 concerning the abolition of Guarantee Obligation also applies to HSH Nordbank AG. The changeover in legal form into a public limited company has no impact in this regard. The states of Schleswig-Holstein and Hamburg have entrenched in the state treaty that the Guarantee Obligation is to have an identical scope for the merged institution. Accordingly, in terms of Guarantee Obligation there will be no changes to the current situation of both banks as public-sector entities and institutions.

Risk Management

Active risk management continues to play a key role at Hamburgische Landesbank. All procedures and methods for risk measurement, monitoring and control are continuously developed and enhanced. In addition, we assign a great deal of importance to the continuous basic and advanced training of all employees and managerial staff responsible for the various sectors of risk management.

In terms of the “Guidelines for Banking Operations”, the shareholders set the framework for the risk policy of the Bank and its subsidiaries. Among other things, these guidelines govern the reporting and authorisation requirements in relation to the Supervisory Board. The Bank is represented in the supervisory organs of the companies included in the consolidated financial statements. In addition, the Group subsidiaries are integrated into the ongoing equity-interest controlling procedures of the Bank.

On the basis of the “Guidelines for Banking Operations” the Board of Managing Directors decides risk policy, including the methods and procedures to be used for risk assessment purposes, monitoring and control. Implementation of risk policy and the co-ordination of risk control are supported by cross-departmental committees – “International Business”, “Liquidity Management” and a committee responsible for strategic investments in market risk positions. Our risk management system, which is being developed further in accordance with business management and supervisory law related criteria, is integrated in controls applicable to the Bank as a whole. In this respect, the control of business activities, taking their specific return and risk profiles into account, is gaining further significance

Risk management system

We define risk as unfavourable future developments that may have an immediate or delayed negative effect on the asset or earnings position of the Bank. We distinguish among default, liquidity and market risk, as well as operational and miscellaneous risks. Each acceptance of market or default risks is subject to the subordinate principle of risk acceptability, which implies strict risk limitation measures. Such limitation is carried out on the basis of quantitative risk management figures, as well as comprehensive qualitative analyses of risk-entailing processes and market developments. The total overall risk capacity is regularly defined to allow for default and market risks. The Board of Managing Directors is responsible for fixing overriding upper limits in terms of loss and, therefore, the limitation of risk positions.

The risk management process entails identifying, analysing, measuring, monitoring, steering, documenting and communicating risk. In this regard, the information and decision-making channels

within the Bank as a whole are clearly defined. There are clearly defined authorisation levels and reporting duties for the approval and acceptance of business. Before introducing new or modified products, formalised examination processes must be complied with. Transactions relating to products with essentially new properties may only be concluded with the authorisation of the Board of Managing Directors, and once they have been integrated within the framework of the risk management and accounting systems. The development of methods for measuring, monitoring and controlling risks is carried out by the Central Risk Controlling unit.

Hamburgische Landesbank manages its fields of business in accordance with the Global Head principle. This extends to include risk management. For this purpose, the Board of Managing Directors assigns the various business sectors global limits, individual limits and qualitative competence regulations. Internal auditing is responsible for independently examining the risk management system.

Default risk

Default risk is divided into counterparty, country and equity-interest risk. The management of these risks takes place on the basis of limits and competence levels defined by the Board of Managing Directors. The Bank's Lending Committee is informed on a regular basis regarding existing credit risks, and in addition authorises and in some instances takes decisions regarding substantial new credits.

Counterparty default risk is defined as potential losses in value that may be caused by changes in the creditworthiness or the default of business partners. Depending on the timing, the counterparty default risk entails the credit risk and the settlement risk. Whereas the latter occurs only during the settlement period, credit risks can arise during the entire lifetime of the transaction.

Settlement risks arise between the time at which preliminary performance is instructed and receipt of counter-performance. Risk equalling the counter-performance owing is charged to the limit. Settlement risks also arise when the counterparty fails to comply with its obligations on time and the Bank sustains a disadvantage as a result of a change in market prices. For limit purposes, the risk is assumed to equal the increase in the value of the transaction pending receipt of counter-performance.

The credit risk entails the default risk arising from conventional credit transactions, the issuer risk as well as the counterparty risk under trading transactions. Counterparty risk (reinvestment risk as defined in the Minimum Requirements for Performing Trading Business) is defined as possible losses in value brought about by a change in the creditworthiness or default of a business partner, with whom, in particular, off-balance sheet transactions, e.g. derivative financial instruments, have been conducted. The counterparty risk arises only with transactions with a positive market value from the Bank's point of view in connection with which a new contract would only be possible at less favourable conditions in the market in the event of the counterparty failing to comply with its obligations. Counterparty risks are valued on a mark-to-market basis and charged to the counterparty limits.

At the end of 2002, the nominal volume of derivative transactions within the Group amounted to € 128.8 billion (previous year: € 115.1 billion). In order to hedge the risks arising from derivative transactions, the Bank has concluded collateral and netting agreements with a number of significant counterparties. The repurchase costs with respect to derivative transactions determined at year end, taking into account netting agreements, amounted to € 1,353 million (previous year: € 806 million).

Country risk encompasses the risks arising from exchange control restrictions of a country that may lead to defaults on payment obligations of counterparties from such a country. A rating-based country limit system caps country risks across the entire bank. Within the framework of managing the credit portfolio structure, overseas exposure is limited in relation to the entire volume of credit. The "International Business Committee" (Ausschuß Internationales Geschäft) keeps a constant eye on overseas exposure and, in addition, analyses the risk position and advises the Board of Managing Directors regarding the structuring of the portfolio. The Central Risk Control Division is represented on the Committee. The following table provides an overview of the breakdown of foreign country risk exposure. Foreign exposure is the unsecured share of credit and counterparty exposure, i.e. the aggregate for the facility in question less collateral not exposed to country risks. Within the framework of risk management, foreign exposure for each country is limited on a risk-adjusted basis.

<i>Foreign exposure by region as at December 31, 2002</i>	<i>Region</i>	<i>Percentage of foreign exposure</i>	
		<i>2002</i>	<i>2001</i>
	African countries	0.1	0.2
	Asia-Pacific region	6.2	6.1
	International organisations	0.3	0.4
	Latin America	0.4	0.6
	Central and Eastern Europe	1.5	1.3
	Middle East	0.1	0.1
	North America	11.8	13.8
	Western Europe	79.6	77.5
	Total	100	100

Equity-interest risk is the risk of loss arising from the provision of equity by the Bank to third parties – in particular to associated companies. The Bank is steadily extending functions for supervising its equity interests in order to limit this risk. An extensive due-diligence examination process is conducted on a central and systematic basis prior to an equity interest being acquired. To this end, a reporting system has been developed covering individual companies as well as the entire portfolio. In the year under review, we submitted regular reports to the Board of Managing Directors setting out the profit contribution margins of the main equity interests and trends in their profitability. This year, the minimum requirements for bank lending operations issued by the German Federal Financial Services Supervisory Office (BaFin) will be extended to apply to equity interests classed as loans. Moreover, the Bank words the articles of association and rules of conduct and

oversees appointments to management bodies in such a way as to ensure that it retains adequate control. In this way, it is immediately informed of any occurrences threatening the Bank or its future performance.

Within the framework of risk management, the Bank's main focus is on counterparty default risks. The Bank's prudent business policy is reflected in the continuing low proportion of losses of 0.06% (previous year: 0.05%) or 0.08% (previous year: 0.08%) on average over the last 5 years. Risk provisioning in the form of specific charges/provisions as at December 31, 2002 amounted to € 922 million (previous year: € 743 million), equivalent to a ratio of 0.89% (previous year: 0.75%). General loan loss provisions amounted to € 88 million (previous year: € 87 million).

In anticipation of Basle II, we established numerous credit-risk management projects. The future rating modules of the loans departments combine regulatory and economic factors, allowing specific ratings to be awarded as a basis for comprehensive loan portfolio management. The rating procedures have been developed in conjunction with other Landesbanken and Deutscher Sparkassen- und Giroverband and are based on scorecard and simulation methods. They all comply with the Basle II standard without exception. As part of the Landesbanken joint project, the Bank assumed responsibility for developing a simulation-based rating system for ship financing as well as a scorecard-based rating module for leasing finance. The ship financing module has been in use successfully since July 2002. In order to depict the various segments of the portfolio on a rating scale, the Bank uses a uniform master rating scale allowing comparisons with external ratings throughout the entire Bank. An LGD/EAD (loss given default/exposure at default) concept has already been developed for individual portfolio segments, with estimates performed in line with Basle II. The internal LGD estimate is incorporated in pricing procedures for counterparty risk positions. Thanks to these preparations as well as other organisational changes, the Bank already conforms to key requirements in connection with the Basle II advanced internal rating based approach for individual business segments.

Further developments to the existing securities database enhance credit risk management. As well as this, the database constitutes a key component in Basle II regulatory capital adequacy calculations. Moreover, a consolidated and active data storage system has been established and complies with the Basle II requirements with respect to the provision of data, information and cross-section functions for reporting, IAS purposes and the validation and/or calibration of rating and LGD models.

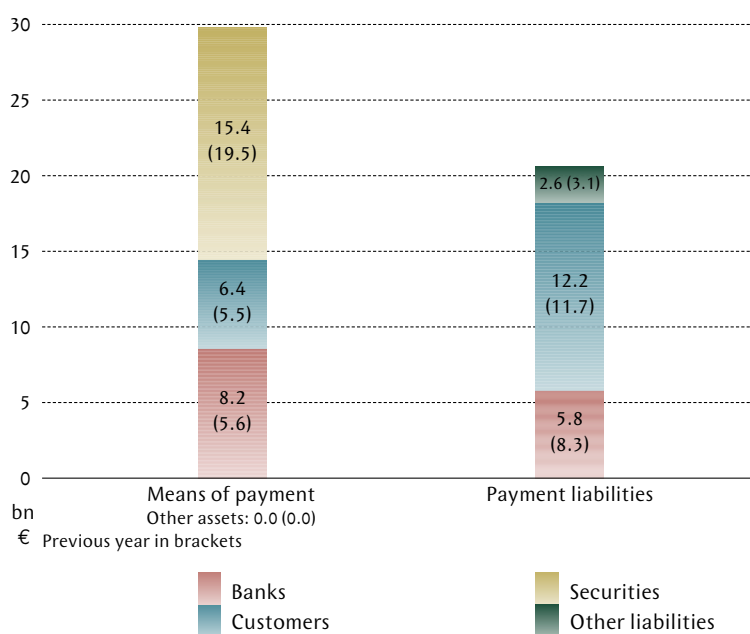
Liquidity risk

The Board of Managing Directors determines the framework conditions for managing liquidity risk, which are then converted by the central “liquidity management” committee into management strategies. Central co-ordination within this committee is handled by the Asset-Liability Management Division, which is also responsible for structural liquidity management for periods below and above one year. Operational liquidity management is handled by the Money and Forex Trading Division. The Bank makes a distinction based on liquidity risk in the stricter sense, refinancing risk and market liquidity risk.

The Money and Forex Trading Division ensures that the Bank can meet its payment obligations at all times. In order to manage this liquidity risk in the stricter sense, daily liquidity outflow statements

and cash flow summaries are utilised, as well as cash flow overviews, which are compiled according to the relevant refinancing currency by the Money and Forex Trading Division at the Head Office or the relevant Branch. The business divisions inform the Money and Forex Trading Division on an ongoing basis regarding any planned actions which affect liquidity. The Asset-Liability Management Division monitors observation of Liquidity Convention II of KWG (German Banking Act). In 2002, the liquidity ratio moved between 1.2 and 1.6 (previous year: between 1.2 and 1.5) and was therefore at all times above the supervisory law required minimum of 1.0. As at December 31, 2002 it stood at 1.5 (previous year: 1.3).

*Add-on amounts
according to
principle II
as at year-end
2002*



Asset-Liability Management compiles a detailed liquidity status report on a monthly basis, which reflects all due dates or value dates of lending and deposit-taking transactions over the subsequent twelve months. In addition, asset/liability maturities are depicted on a quarterly basis in annual bands for all maturities and summarised to form a liquidity outflow statement. Separate stochastic determinants are also modelled. In this way, it is possible to examine the impact of future portfolio maturities on the Bank's liquidity, liquidity structure and liquidity ratios. If any internal ratios exceed the limits defined, corresponding escalation mechanisms are activated. We ensure daily solvency and access to short-term liquidity via a broad funding base. Additional reserves are provided by our substantial holdings of liquid securities in the liquidity reserve, as well

as paper eligible for inclusion in collateral pools which may be used for repo transactions with the European Central Bank at all times.

Refinancing risk defines situations during which insufficient liquidity is available subject to the expected terms and conditions. For the purpose of managing the refinancing risk, the “Liquidity Management” committee decides on long-term strategies that serve as the basis for concrete refinancing plans. The possibility of a revised rating as a result of the abolition of institutional and guarantor liability has already been taken into account. The committee manages the funding structures by means of a target liquidity corridor and notional liquidity costs.

Market liquidity risk entails not being able to liquidate or settle items in consequence of such market deficiencies as lack of market depth, breadth or regeneration capacity, or only being able to do so at a loss. The absorption of market liquidity risks is limited by the existing product and country limits, as well as regulations regarding trade in new products and in new markets. In accordance with internal regulations, the Bank primarily operates in liquid markets. Potential losses that may result from a disruption of market liquidity are taken into account within the framework of market risk control and limited through value-at-risk limits (VaR limits).

Market risk

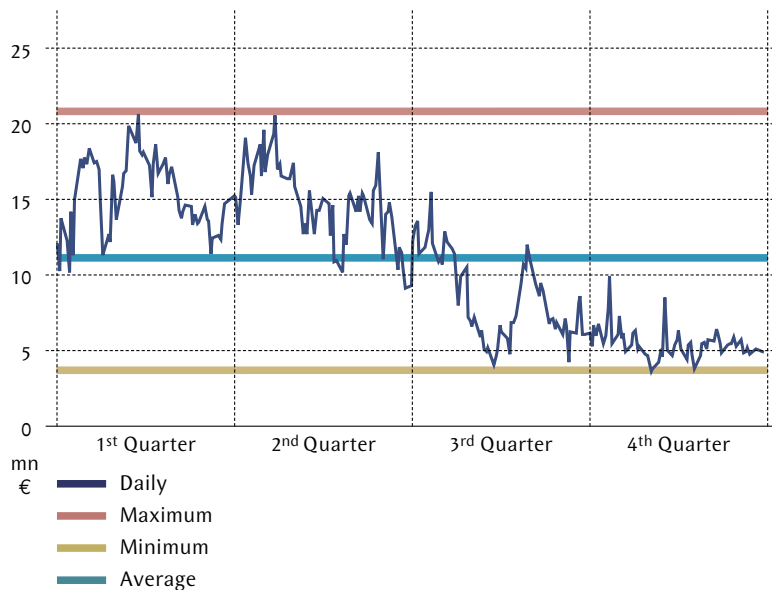
Market risks entail potential losses that may result from unfavourable market value changes of our positions on the basis of amendments to the interest rate structure (interest risks), exchange rates (currency risks), equity prices (equity risks), as well as prices of precious metals, commodities, funds and other trading items (miscellaneous price risks). In terms of positions with option components, additional risks exist in terms of fluctuations of price influencing volatilities (volatility risks). The Board of Managing Directors stipulates the methods and processes for risk assessment, limitation and management and, upon recommendation of the Central Risk Control Division, budgets an overriding VaR limit with respect to market risks. Within the framework of this upper limit for losses, the risks pertaining to trading transactions and strategic transactions are limited through a dynamic system of result-oriented VaR limits. Daily reports constantly keep the Board of Managing Directors and business divisions informed regarding the extent of existing market risks and the nearing of limits. The management of market risks on the basis of trading positions is handled by the Capital Markets and Money and Forex Trading divisions; the Asset-Liability Management Division handles and manages the interest risks pertaining to the entire bank payment stream from credit transactions in euro and the most viable foreign currencies. The strategic positions with mar-

ket risks are monitored by the “Investment Strategy Committee”, which advises the Board of Managing Directors on the basis of current market estimates and under consideration of the current risk position of the Bank to stock up on or liquidate strategic positions. An organisational separation of risk monitoring and management in compliance with the German Minimum Requirements for Performing Trading Business is guaranteed at all levels.

The basis of our system for measuring and managing market risks is the VaR approach. The determination of risks takes place via parameters calculated in accordance with standards of the Basle Committee on the basis of historical market fluctuations. These are subject to a confidence level of 99%, a retention period of 10 days (in terms of trading positions) or 20 days (in terms of strategic positions) and a historical observation period of 250 trading days. A VaR value calculated on the basis of these parameters represents the potential loss that is not exceeded at a confidence level of 99% when holding a position for a period of 10 or alternatively 20 days. Corresponding to the various influencing factors, separate parameters are established with respect to interest, equity and currency risks, which are updated quarterly or when significant market changes occur, and are constantly validated on the basis of back-testing. Work on implementing a new measuring system was commenced in the year under review to further enhance risk measurement.

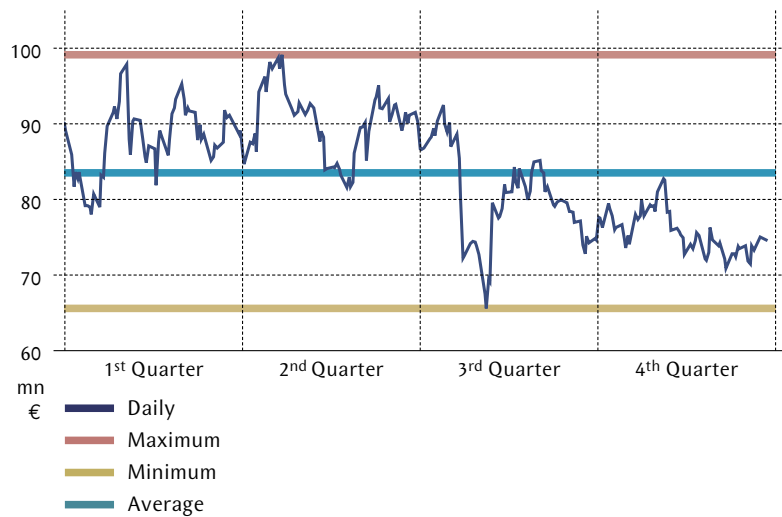
In order to determine the degree of utilisation of the VaR limits, the established VaR values are contrasted against the current VaR limits – corrected against the relevant realised and unrealised profits and losses.

Value-at-Risk for trading positions in the course of 2002



The graphic above illustrates the course of VaR in terms of trading transactions during the year under review. The VaR of trading transactions fell into a bandwidth of € 4 million to € 21 million (previous year: € 6 million to € 23 million). On the last trading day of 2002, VaR in respect of trading transactions amounted to € 5 million (previous year: € 6 million). The following illustration shows VaR according to strategic positions; it fell into a band of € 65 million to € 99 million (previous year: € 78 million to € 118 million); at the end of 2002, it reached € 73 million (previous year: € 94 million).

Value-at-Risk for strategic positions in 2002



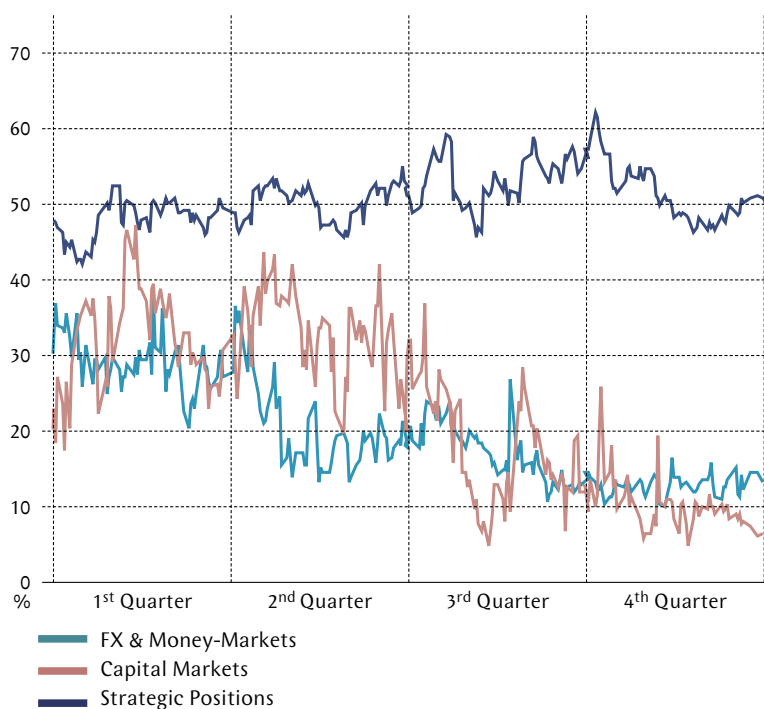
The VaR limit for market risks from trading and strategic transactions (incl. charges to profit and loss) at the end of 2002 amounted to € 199 million (previous year: € 265 million), and transaction risk to € 78 million (previous year: € 100 million). This corresponds to a utilisation of the VaR limit at a total bank level of 39% (previous year: 38%). The following table indicates the VaR according to type of risk.

Value-at-Risk; end-of-year figures 2002 and 2001

	Trading transactions	Strategic transactions	2002 (in € mn) Total	Trading transactions	Strategic transactions	2001 (in € mn) Total
Interest risks	1.1	17.1	18.2	2.3	37.2	39.5
Currency risks	2.4	7.0	9.4	2.1	8.4	10.5
Equity and miscellaneous price risks	1.1	49.3	50.4	1.4	48.8	50.2
Total	4.6	73.4	78.0	5.8	94.4	100.2

The degrees of utilisation of the VaR limits in terms of trading transactions in the capital markets and money and currency departments, as well as in terms of all strategic transactions during the course of 2002 are shown in the following illustration.

Value-at-Risk utilisation in the course of fiscal year 2002



The following table shows the average values of daily performance and VaR separated into market risk types, as well as the minimum and maximum VaR values in relation to trading transactions.

Average daily performance and Value-at Risk in terms of trading transactions in the financial years of 2002 and 2001

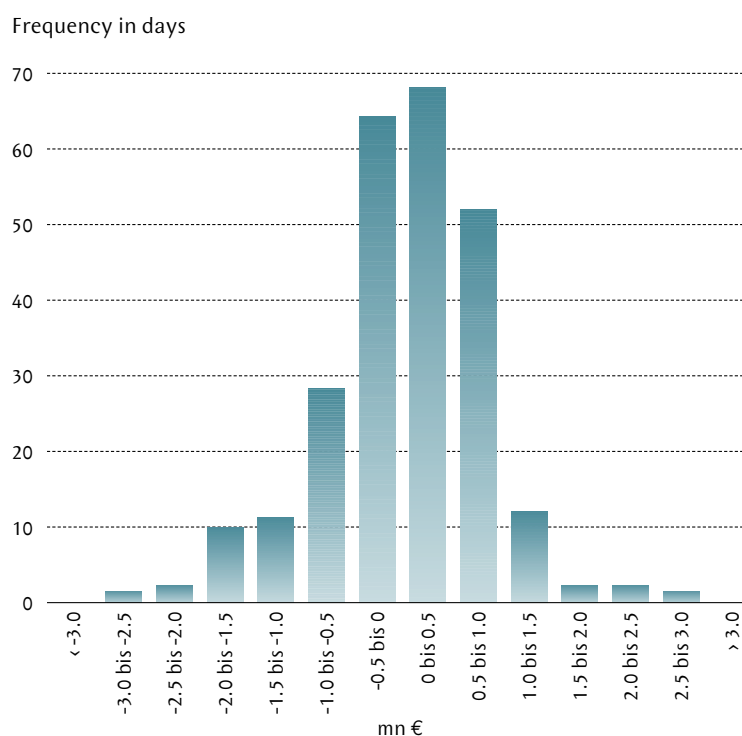
	Ø Daily performance ¹⁾	Ø VaR ²⁾	Minimum VaR	2002 (in € '000) Maximum VaR	Ø Daily performance ¹⁾	2001 (in € '000) Ø VaR ³⁾
Interest risks	12	7,048	1,061	15,486	62	7,530
Currency risks	46	2,114	1,569	3,977	39	1,697
Equity and miscellaneous price risks	-17	1,853	0	4,930	-41	2,708
Total	41	11,015	3,700	20,627	61	11,935

¹⁾ Operational profit contribution of trading operations

²⁾ Calculation of averages on the basis of 253 trading days

Profit and loss and market risks on the basis of derivative transactions are included in the indicated values, in particular volatility risks resulting from option positions. The following illustration shows the frequency spread of daily trade income. On none of the trading days were losses of higher than € 3 million (previous year: € 3 million) incurred. In this respect, the VaR limit in terms of trading transactions was not exceeded on a single occasion.

Distribution of daily performance of trading transactions in 2002



In compliance with the German Minimum Requirements for Trading Operations, the Bank additionally conducts stress tests at least quarterly with regard to daily risk assessment, which investigate the effects of extraordinary market fluctuations on all types of market risk. The Board of Managing Directors is informed of the results of stress-testing in the monthly analysis report. During the year under review, the VaR limit for market risks was complied with at all times despite particularly unfavourable market movements. In addition to these tests, separate interest stress tests are carried out quarterly, in terms of which all interest risk positions are subjected to a uniform interest shift („interest shock”). The Bank complies with the regulatory requirements provided for in the German Banking Act by calculating on a monthly basis the amount of equity capital necessary to cover market risks on the basis of the standard procedures stipulated or optional pursuant to Principle I. None of these limits were exceeded in 2002.

Operational risk

Operational risk refers to the risk of direct and indirect losses brought about by the failure or incapability of technology, organisations and personnel or by external influences. The Bank has further improved its mechanisms for controlling and managing operational risks. The Central Risk Controlling Division assesses and analyses the operational risks of the group. Beyond this, it develops assessment methods, carries signing off responsibility for the implementation of risk assessment and monitoring and in this respect regularly reports to the Board of Managing Directors. Operational risk management is in principle organised in a decentralised manner in the enterprise divisions. These, within the framework of actions specified by the Board of Managing Directors, take decisions regarding the type and extent of risks accepted, as well as the measures for risk provision and risk reduction.

The evaluation and analysis of operational risks is based on three instruments. Risk assessments are regularly carried out via so-called self-assessments on the basis of standardised catalogues of questions in all departments throughout the Bank. The claims database which is being compiled will ensure standardised documentation and collection of claims data across throughout the Bank. The transparency achieved in this way will facilitate a detailed analysis of operational risks. As the third instrument, risk indicators are being developed, which are set to support early operational risk recognition. Decentralised risk management may be represented as follows:

In the area of technical risks, the functionality of systems and data backups must particularly be ensured. To this end, all data is backed

up daily on data media stored at secure separate locations. Through physical off-site separation of backup solutions – in particular with regard to mainframe computers and trading systems – in addition, risks posed by such external factors as fire and disasters are reduced.

The establishment and development of employee competencies, as well as adjustment to changing processes and new technologies are systematically nurtured by means of targeted measures. In the personnel area, a special organisational unit concentrates on strategic human resources activities. Emphasis is placed in particular on the development of a personnel control system.

Regular monitoring of the legal regulations in terms of compliance and money laundering is ensured through our own organisational units and through the utilisation of internal auditing. Fraud and procedural risks (risks on the basis of errors or inefficiencies during business processes) are countered by the Bank through internal control systems tailored to the individual working procedures. The establishment of control systems during the introduction of new and modified products is accompanied by the Auditing Division. Existing systems are regularly evaluated by it, and the implementation of possible improvements monitored. This includes the validation of access concepts as well as their actual implementation at the data processing level against the background of data security and consistency.

Internal Auditing reports directly to the Bank's Board of Managing Directors. Its activities are determined by statutory or quasi-statutory external requirements, internal guidelines as well as regular annual resolutions passed by the Board of Managing Directors.

The activities derived from these rules and regulations are documented in a proprietary activity database. In accordance with the minimum requirements for banks' internal auditing operations all operative processes must be audited at least once every three years. Using a risk grid, Internal Auditing examines all activities in the database in the light of time-based resource commitment and particularly risk-oriented criteria. This results in an audit schedule, which is then implemented. All of Internal Auditing's activities are documented in electronic form and are subject to annual auditing.

Projects are also subjected to thorough risk management routines at the Bank. A commission decides on project execution on the basis of applications setting out the project objective, organisational factors, an assessment of benefits, as well as budgeting and

scheduling information along with a risk factor. These are determined on the basis of other projects, possible penalties and experience gained from similar ventures. The project managers compile monthly status reports, which are presented to the project committees at regular intervals for decision-making and management purposes. The quality of results is ensured by the review team appointed. In addition, the project managers are responsible for the identification and evaluation of risks throughout the entire lifetime of the project in question. The results and the measures taken are required to be submitted to the project committees and documented in the form of a report at the conclusion of the project.

The management of legal risks is governed via institutionalised processes. The Legal Department of Hamburgische Landesbank has relevant experts for all business sectors. In order to limit legal risks, all contracts utilised by the Bank are subjected to extensive legal review and monitoring. In addition, the Legal Department already offers comprehensive advice during the preparation of transactions.

For almost all derivative transactions, the Bank uses internationally recognised standardised contract documentation. These are the master contracts of the International Securities Market Association (ISMA) and the International Swaps and Derivatives Association (ISDA), which ensure an efficient handling of such transactions. This brings about an effective reduction of legal risks. The largest portion of the derivative transactions of Hamburgische Landesbank is conducted with professional partners on the interbank market. In addition, amendments to legislation are constantly monitored, reviewed for their relevance to the Bank and immediately applied where necessary.

Miscellaneous risks Miscellaneous risks refer to potential losses that emanate from initiated, planned or neglected strategic measures. Miscellaneous risks are analysed and managed by special project teams within the framework of the strategic planning process. We have been able to further improve our business activities as a result of a review process targeted at the Bank's strategic and organisational orientation.

Overall successful risk management Further overriding general bank projects that are still in the process of being implemented guarantee that negative developments within the risk structure can be recognised at an early stage and taken into consideration during risk management. Given equally strict evaluation criteria, we have sufficiently provided for all recognisable risks. Risk provisions (specific charges and general loan loss provisions) in terms of counterparty default risks at year end amounted to € 922 million (previous year: € 743 million). The liquidity ratio of the Bank (Convention II in accordance with § 11 of KWG – German Banking Act) was 1.5 at year end, and therefore clearly exceeded minimum requirements. Our investment in non-liquid markets has to date been very limited. The liable equity capital defined in accordance with KWG (German Banking Act) – incl. supplementary capital – after revenue allocation amounted to € 5,521.1 million. The total ratio in accordance with Convention I was at 10.8% (ratio of significant risk assets incl. market risk positions to liable own resources).

AUDITOR'S REPORT

Auditors' Certificate

We have audited the annual financial statements including the accounts of Hamburgische Landesbank – Girozentrale –, Hamburg, along with the consolidated financial statements prepared by the latter and its report on the situation of the Bank and the Group for the financial year ended December 31, 2002. According to German commercial law, the legal representative of the Bank is responsible for preparing and compiling the records in question. Our task is to provide an assessment, on the basis of the audit we have performed, of the annual financial statements and the accounting as well as of the consolidated financial statements prepared by the Bank and its report on the Bank's situation and that of the Group.

We conducted our audit in accordance with § 317 of the German Commercial Code, taking account of the generally in Germany accepted auditing principles laid down by the Institut der Wirtschaftsprüfer (IDW), a German auditor's association.

These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements or violations impacting on the impression conveyed by the presentation of the financial statements in line with generally accepted accounting principles applicable in Germany and of the management report relating to the asset, financial and earnings situation. In organising the audit processes, knowledge of the Bank's field of activities and its business and legal environment as well as expectations of possible errors were taken into account. Within the scope of the audit, the effectiveness of the internal control system as well as vouchers generated in the process of accounting, the annual and Group financial statements and the report on the situation of the Bank and the Group were largely analysed on the basis of samples taken. The scope of the audit also included assessing the accounting principles used and significant estimates by the legal representatives, as well as evaluating the overall presentation of the annual and group financial statements and the report on the situation of the Bank and the Group. We are confident that our audit provides a sufficiently sound basis on which to form our opinion.

Our audit gave rise to no objections.

In our opinion, the financial statements in line with the generally accepted accounting principles prevailing in Germany give a true and fair view of the Bank's asset, financial and earnings situation. The management report gives a true and fair overall view of the Bank's situation and appropriately represents the risks that lie ahead in future developments.

Hamburg, March 13, 2003

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rohardt
Wirtschaftsprüfer (Auditor)

Erlemann
Wirtschaftsprüfer (Auditor)

Head Office of the Bank

Landesbank Schleswig-Holstein Girozentrale
Martensdamm 6
24103 Kiel
Germany

Issuer

RESPARCS Funding II Limited Partnership
22 Grenville Street
St. Helier, Jersey JE4 8PX
Channel Islands

Security Trustee

HSBC Trustee (C.I.) Limited
1 Grenville Street
St. Helier
Jersey JE4 9PF
Channel Islands

Support Provider

Landesbank Schleswig-Holstein International S.A.
2, rue Jean Monnet
2180 Luxembourg
Luxembourg

Lender

Landesbank Schleswig-Holstein Girozentrale,
acting through its Luxembourg Branch
2, rue Jean Monnet
2180 Luxembourg
Luxembourg

Principal Paying Agent

Deutsche Bank AG, Frankfurt am Main
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany

Dutch Paying Agent

Deutsche Bank AG, Amsterdam Branch
Herengracht 450
Amsterdam, 1017 CA
Netherlands

Legal Advisor to the Managers

as to German Law
Freshfields Bruckhaus Deringer
Taunusanlage 11
60329 Frankfurt am Main
Germany

as to Dutch Law
Freshfields Bruckhaus Deringer
Apollolaan 151
1077 AR Amsterdam
The Netherlands

Auditors to the Bank

Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH
Wirtschaftsprüfungsgesellschaft
Bahnstraße 16
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