

OFFERING CIRCULAR

# US\$ 300,000,000 LBKiel RESPARC Securities

issued by

## RESPARCS Funding Limited Partnership I

(a limited partnership established under the laws of Hong Kong on 26 November 2002)

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)

Issue price of the LB Kiel RESPARC Securities: 100 per cent.

The issue price of the US\$ 300,000,000 LB Kiel Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities in the denomination of US\$ 1,000 (the "**RESPARC Securities**"), issued by RESPARCS Funding Limited Partnership I (the "**Issuer**"), a limited partnership established under the laws of Hong Kong on 26 November 2002, is 100 per cent. of their principal amount.

The RESPARC Securities will bear interest from (and including) 19 December 2002 at a rate of 8 per cent. per annum, payable quarterly in arrear on 30 March, 30 June, 30 September, and 30 December of each year, commencing on 30 June 2003. 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 2008 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 (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 US\$ 300,000,000 (the "**Silent Contribution**") and dated 17 December 2002 (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 the Bank's Luxembourg branch under a loan agreement.

Landesbank Schleswig-Holstein International S.A., a Luxembourg financial institution and wholly-owned subsidiary of the Bank, has undertaken in an undertaking agreement dated 17 December 2002 (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. 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 19 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 19 December 2002 (the "**Issue Date**") with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking S.A., Luxembourg ("**Clearstream Luxembourg**"), where the RESPARC Securities have been accepted for clearance. It is expected that delivery of the RESPARC Securities will be made through Euroclear and 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 Luxembourg Stock Exchange.

Joint Bookrunner

**BNP PARIBAS**

**BCP INVESTIMENTO, SA**

Joint Bookrunner and Structuring Advisor

**LEHMAN BROTHERS**

**STANDARD CHARTERED BANK**

Co-Lead Managers

The date of this Offering Circular is 17 December 2002

**The Bank 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 and its partners accept responsibility for the information in this Offering Circular about themselves and the description of the Transaction (as defined in “Summary”) but do 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, the Bank or the Managers (as defined in “Subscription and Sale”).**

**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, the Bank 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 the Bank.**

**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, the Bank 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, the Bank 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, the Bank 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.**

**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 to U.S. persons.**

## PRESENTATION OF FINANCIAL INFORMATION

The Bank's unconsolidated and consolidated financial statements have been prepared in accordance with German GAAP and have been audited by Wollert Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany. All financial information presented in this Offering Circular is based on the Bank's consolidated and unconsolidated financial statements as of and for the years ended 31 December 1999, 2000 and 2001, including the notes thereto, and the Bank's unaudited consolidated financial data as of and for the six months period ended 30 June 2001 and 2002. The Bank's consolidated financial statements as of and for the years ended 31 December 1999, 2000 and 2001 and the Bank's unaudited consolidated financial data as of and for the six months period ended 30 June 2001 and 2002 reflect figures of the Bank, including the Bank's economically and operationally independent business areas Landes-Bausparkasse ("**LBS**") and Investitionsbank Schleswig-Holstein ("**IB**"), and its subsidiaries Landesbank Schleswig-Holstein International, S.A. ("**LI**"), Gudme Raaschou Bankaktieselskab and the Bank's 49.5 per cent. interest in Hamburgische Landesbank – Girozentrale ("**HLB**"), which the Bank consolidates according to the proportional consolidated method (together, the "**LB Kiel Group**"). The Bank's consolidated financial statements as of and for the year ended 31 December 2001 and the Bank's unaudited consolidated financial data as of and for the six months ended 30 June 2002 also reflect figures of the Spielbanken of Schleswig-Holstein, which the Bank consolidated for the first time in 2001.

The Bank publishes its consolidated and unconsolidated financial statements 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. "U.S. dollar", "USD", "US\$" or "\$" means the lawful currency of the United States of America. "Hong Kong dollar", "HKD" or "HK\$" means the lawful currency of Hong Kong.

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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 may be no obligation on Lehman Brothers International (Europe) or any agent of it to do this. Such stabilising may be effected on the Luxembourg Stock Exchange 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 the Bank 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) the Bank and the Issuer and (iii) the agreements among them.*

The Issuer proposes to issue US\$ 300,000,000 RESPARC Securities. With the proceeds of issue of the RESPARC Securities, the Issuer will acquire a silent capital interest in the aggregate amount of US\$ 300,000,000 in the commercial enterprise (*Handelsgewerbe*) of the Bank 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 US\$ 300,000,000 to the Bank 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 the Bank and payable quarterly 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 the Bank’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*). In case the Bank should change its legal form to a stock corporation (*Aktiengesellschaft*), 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 the Bank 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 the Bank’s regulatory liable capital (*Hafitkapitalanteile*). 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 the equivalent of US\$ 300,000,000. Future Profit Participations may only be paid after a full write-up of the Silent Contribution’s book value to the equivalent of US\$ 300,000,000. 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**”) is 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 the Bank 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 supplementary partnership agreement with the Issuer’s general partner dated 17 December 2002 (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, on 17 December 2002, has entered into a loan agreement (the “**Loan Agreement**”) with the Luxembourg branch of the Bank (“**LB Kiel Luxembourg**”). Under the Loan Agreement, the Issuer is 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 the Bank 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 the Bank's profitability. Therefore, (i) the Issuer's obligation to make interest payments ("**Coupon Payments**") and capital payments ("**Capital Payments**") under the RESPARC Securities are dependent on the financial condition and results of operations of the Bank. **If the Bank 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 and may not receive Capital Payments.**

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 case the Issuer chooses to exercise its right of early termination. The Participation Agreement runs for an indefinite period. Under its terms, the Participation Agreement may only be terminated by the Bank 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 the Bank may only become effective on or after 31 December 2012 and if the Bank'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 the Bank ("**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. Payments under the Support Undertaking are subordinated and rank *pari passu* with payments by the Bank under the Participation Agreement.

Pursuant to a security assignment agreement dated 17 December 2002 ("**Assignment Agreement**") between the Issuer, the Issuer's partners, the Bank, 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.

The Bank intends to treat the proceeds it receives as 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 the Bank 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) the Bank, the Issuer and the partners in the Issuer and (iii) the agreements among them.*

<b>Securities Offered</b>	US\$ 300,000,000 LB Kiel Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities; see (“—Summary of the Terms of the RESPARC Securities”).
<b>Issuer</b>	RESPARCS Funding Limited Partnership I, a limited partnership established under the laws of Hong Kong. The Issuer was registered and established on 26 November 2002.
<b>Partners in the Issuer</b>	<p>The Issuer’s general partner (with less than 0.01 per cent. interest in the Issuer’s equity) is Asian Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Hong Kong (the “<b>Issuer General Partner</b>”). The shareholders of the Issuer General Partner are LB Kiel International (51 per cent. interest) and Mourant &amp; Co. Trustees Limited as trustee of the Asian Capital Investment Charitable Trust (49 per cent. interest). The Issuer General Partner was incorporated on 19 July 2002.</p> <p>The Issuer’s limited partner (with more than 99.9 per cent. interest in the Issuer’s equity) is Asian Capital Management GmbH, a limited liability company (<i>Gesellschaft mit beschränkter Haftung</i>) incorporated under the laws of Germany (the “<b>Issuer Limited Partner</b>”). The sole beneficial shareholder of the Issuer Limited Partner is Mourant &amp; Co. Trustees Limited as trustee of the Far East Funding Charitable Trust. The Issuer Limited Partner is not affiliated with the Bank and was incorporated on 20 November 2002.</p>
<b>Limited Purpose of Issuer</b>	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 may not create additional liabilities, except for those liabilities which are absolutely necessary to keep its business in operation. See “RESPARCS Funding Limited Partnership I – Incorporation, Domicile, Duration and Object”.
<b>LB Kiel</b>	Landesbank Schleswig-Holstein Girozentrale, Kiel, Germany, a public law banking institution established under the laws of the German Federal State Schleswig-Holstein.
<b>Participation</b>	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”.
<b>Contribution Agreement</b>	In the Contribution Agreement, a supplemental partnership agreement 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”.
<b>Loan Agreement</b>	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”.

<b>Assignment Agreement</b>	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”.
<b>Support Undertaking</b>	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. Payment obligations of LB Kiel International under the Support Undertaking are subordinated and rank <i>pari passu</i> with payment obligations of the Bank under the Participation Agreement. See “—Summary of the Terms of the Support Undertaking”.
<b>Principal Paying Agent</b>	HSBC Bank plc
<b>Luxembourg Paying Agent</b>	The Bank of New York (Luxembourg) S.A.
<b>Security Trustee</b>	HSBC Trustee (C.I.) Limited
<b>Listing</b>	Application has been made to list the RESPARC Securities on the Luxembourg Stock Exchange.
<b>Security Codes</b>	ISIN: XS0159207850 Common Code: 015920785

## 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”.*

<b>Issuer</b>	RESPARCS Funding Limited Partnership I, a limited partnership established under the laws of Hong Kong on 26 November 2002.
<b>Nominal Amount</b>	US\$ 1,000 per RESPARC Security.
<b>Aggregate Nominal Amount</b>	US\$ 300,000,000
<b>Issue Price</b>	100 per cent. of nominal amount.
<b>Form</b>	The RESPARC Securities will be initially represented by a temporary global security in bearer form without coupons (the “ <b>Temporary Global RESPARC Security</b> ”) which will be exchangeable for a permanent global security in bearer form without coupons (“ <b>Permanent Global RESPARC Security</b> ”) upon certification as to non-US beneficial ownership. Beneficial interests in the Permanent Global RESPARC Security will be exchangeable for definitive RESPARC Securities (“ <b>Certificated RESPARC Securities</b> ”) under limited circumstances, each in bearer form.
<b>Issue Date</b>	19 December 2002
<b>Status</b>	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, save for mandatory exceptions afforded by statutory law.
<b>Maturity</b>	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”).
<b>Coupon Payments</b>	Coupon Payments will be made at a rate of 8 per cent. <i>per annum</i> and are contingent on the Issuer’s receipt of Profit Participation Payments from the Bank 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 Advances from LB Kiel Luxembourg under the Loan Agreement (see “—Summary of the Loan Agreement—Advances”).
<b>Coupon Payment Dates</b>	Coupon Payments under the RESPARC Securities will be made on the dates Profit Participation Payments under the Participation Agreement are payable to the Issuer. The due dates for Profit Participation Payments under the Participation Agreement (“ <b>Profit Participation Payment Dates</b> ”) are 30 March, 30 June, 30 September and 30 December of each year, commencing 30 June 2003. Profit Participation Payment Dates will be delayed if the date of the Bank’s owners’ meeting which approves the annual accounts for the relevant fiscal year of the Bank is held after 29 June in any year. See “—Summary of the Terms of the Participation—Profit Participation Payments and Dates”.
<b>Record Date for Non-Principal Distributions</b>	Coupon Payments will be paid to those persons who held the RESPARC Securities on 29 March, 29 June, 29 September and 29 December of the relevant year, irrespective of when payment is 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.
<b>Repayment Date and Repayment Amount</b>	The RESPARC Securities will be redeemed after the Participation Agreement has been terminated by the Bank at its option (subject to certain restrictions set out in the Participation Agreement). In such event the

<b>Early Termination and Repayment</b>	<p>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 receipt thereof by the Issuer) required to be paid by the Bank under the Participation Agreement (see “—Summary of the Terms of the Participation—Repayment”).</p> <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 2008) 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 a year of 360 days with twelve 30-day months.</p>
<b>Payment of Additional Amounts</b>	<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 those amounts so that the Securityholders receive the full amounts payable 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 if no such withholding or deduction were required.</p>
<b>Securityholders’ Control Rights</b>	<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 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>
<b>Compliance with German Banking Regulations</b>	<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 the Bank.</p>
<b>Notices</b>	<p>Notices in relation to the RESPARC Securities will be published in a newspaper designated for mandatory stock exchange notices in Luxembourg (expected to be the <i>Luxemburger Wort</i>) or such other Luxembourg daily newspaper as the Issuer may select. 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 Euroclear and/or Clearstream Luxembourg for communication by them to the Securityholders or by delivery directly to the Securityholders.</p>
<b>Governing law</b>	<p>German.</p>
<b>Governing Language</b>	<p>German.</p>
<b>Tax Consequences</b>	<p>For a discussion of the material Hong Kong and German tax consequences of purchasing, owning and disposing of the RESPARC Securities, see “Taxation”.</p>

## 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".*

<b>Bank</b>	Landesbank Schleswig-Holstein Girozentrale, a credit institution formed under the laws of the German Federal State Schleswig-Holstein.
<b>Instrument</b>	Silent capital interest in the commercial enterprise ( <i>Handelsgewerbe</i> ) of the Bank in the form of a <i>Stille Gesellschaft</i> under German law.
<b>Principal Amount</b>	The principal amount of the Silent Contribution is US\$ 300,000,000.
<b>Denominations</b>	The principal amount is not divided into denominations.
<b>Issue Price</b>	100 per cent.
<b>Form</b>	The Participation is not represented by a security. It is a contract between the Bank and the Issuer.
<b>Issue Date</b>	The Participation Agreement provides that the Silent Contribution must be paid to the Bank on 19 December 2002 (the " <b>Start Date</b> ").
<b>Maturity</b>	The Participation is a perpetual instrument and has no fixed maturity date. It may nevertheless be repaid upon the occurrence of certain events (see " <b>Repayment Date</b> ").
<b>Profit Periods</b>	Profit Participations on the Silent Contribution accrue for profit periods (" <b>Profit Periods</b> "). Profit Periods run from (and including) 1 January to (and including) 31 December of a year. The first Profit Period (" <b>First Profit Period</b> ") 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 the Bank's profits and losses (the " <b>Termination Date</b> ") and ends on the Termination Date (both days inclusive).
<b>Profit Participation Payments and Dates</b>	<p>Each Profit Participation shall be payable in four equal Profit Participation Payments (but for the Profit Participation payable for the First Profit Period ("<b>First Profit Participation</b>") which shall be payable in five Profit Participation Payments which are not equal; see "<b>Profit Participation Payments and Dates for the First Profit Period</b>"). The first Profit Participation Payment relating to a Profit Participation (excluding, for the avoidance of doubt, the First Profit Participation) shall be payable on the later of (i) 30 September 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. The second, third and fourth Profit Participation Payment shall be payable on 30 December, 30 March and 30 June following the end of the relevant Profit Period, respectively, or, if that is not a Business Day, the next Business Day; provided that no Profit Participation accrues for the Profit Period in which the Termination Date occurs.</p> <p><b>"Business Day"</b> means a day (other than a Saturday or a Sunday) which is neither a legal holiday nor a day on which commercial banks are authorised or required by law, regulation or executive order to close in Frankfurt am Main, Luxembourg or New York City.</p>
<b>Profit Participation Payments and Dates for the First Profit Period</b>	Subject to Profit Participations being excluded in whole or in part (see " <b>Profit Participations Excluded</b> "), the First Profit Participation shall amount to US\$ 38,940,416.67. The first Profit Participation Payment of US\$ 13,590,416.67 shall be payable on the later of (i) 30 June 2003 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 2002. The second, third, fourth and fifth

**Profit Participation Rate for Profit Periods other than the First Profit Period**

Profit Participation Payment of US\$ 6,337,500 each shall become payable on 30 September 2003, 30 December 2003, 30 March 2004, and 30 June 2004, respectively, or, if that is not a Business Day, the next Business Day. If the aggregate First Profit Participation is less than US\$ 38,940,416.67, each Profit Participation Payment payable shall be reduced to the amount resulting from multiplying the full Profit Participation Payment amount with such aggregate First Profit Participation divided by US\$ 38,940,416.67.

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 8.45 per cent. per annum.

**Profit Participations Excluded**

If the Bank 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 the Bank. As set forth in further detail in the Participation Agreement, no Profit Participations will accrue:

- (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 the Bank 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 the Bank; or
- (iv) if the Bank’s solvency ratio (*Solvabilitätskoeffizient*) is below nine per cent. on an unconsolidated or on a consolidated basis, to the extent that payment or accrual thereof would lead to or increase an annual loss (*Jahresfehlbetrag*) in accordance with German GAAP for the fiscal year of the Bank 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 the Bank’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*). In case the Bank should change its legal form to a stock corporation, 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.

**Loss Participation and Reduction**

If the Bank incurs an Annual Balance Sheet Loss in any fiscal year, the Silent Partner shares in the Bank’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 the Bank’s regulatory liable capital (*Hafitkapitalanteile*). As provided in further detail in the Participation Agreement, the Bank’s liable capital includes all participations in the form of *Stille Gesellschaft*, all profit participation rights in the form of *Genussscheine* in accordance with the German Banking Act (*Kreditwesengesetz*) and all shareholders’ equity. At 31 December 2001 the Bank’s total liable capital amounted to € 4,638 million.

**Replenishment of Silent Contribution**

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.

Following a Reduction, the book value of the Silent Contribution will be increased in subsequent fiscal years of the Bank in which balance sheet profits (*Bilanzgewinn*) are recorded in accordance with German GAAP. The book value of the Silent Contribution will be written-up *pari passu* with the writing-up of other silent participations but only after all profit participation rights in the form of *Genussscheine* in accordance with the German Banking Act have been fully written-up. A writing-up of shareholders' equity and allocation to reserves (*Einstellungen in Rücklagen*) may only occur after the Silent Contribution has been fully written-up again to its initial principal amount.

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.

**Principal Payments**

No payments of principal will be made by the Bank 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").

**Termination**

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 the Bank in accordance with its terms and subject to the conditions stated therein.

The Bank is not obliged to terminate the Participation Agreement on any particular day or days of the year. As provided with further detail in the Participation Agreement, the Bank may only terminate the Participation Agreement if:

- (i) tax or regulatory changes occur but in no case before 31 December 2007; or
- (ii) on or after 31 December 2010 (with termination becoming effective on 31 December 2012) but only if the Bank's solvency ratio (*Solvabilitätskoeffizient*) sustainably exceeds nine per cent. on an unconsolidated or consolidated basis.

The Bank may only terminate the Participation Agreement with two years' prior notice to the Silent Partner. Any notice of termination by the Bank only becomes effective upon the German Financial Supervisory Authority's (*Bundesanstalt für Finanzdienstleistungsaufsicht, "BAFin"*) prior approval thereof.

**Termination Date**

The Termination Date is the date as of which the Silent Partner ceases to participate in the profits and losses of the Bank 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 year 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 the Bank's annual financial statements for the fiscal year in which the Termination Date occurred are not yet adopted on such date, the Repayment Date will be the Business Day following such adoption.

<b>Repayment</b>	On the Repayment Date, the Bank will pay the Repayment Amount to the Silent Partner.
<b>Ranking</b>	As provided for in further detail in the Participation Agreement, the Bank's payment obligations under the Participation Agreement: <ul style="list-style-type: none"> <li>(i) are subordinated to the claims of all existing and future creditors of the Bank (including profit participation rights in the form of <i>Genussscheine</i> in accordance with the German Banking Act);</li> <li>(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 the Bank; and</li> <li>(iii) rank senior to all claims of equity holders of the Bank;</li> </ul> in each case as already arisen or arising in the future.
<b>Enforcement Rights</b>	The Participation Agreement constitutes a contract between the Bank and the Issuer. Therefore, in general, only the Issuer can enforce rights under the Participation Agreement against the Bank. The Issuer has no duty to bring an action against the Bank in order to enforce its rights under the Participation Agreement.
<b>Place of Performance and Place of Jurisdiction</b>	Kiel, Germany.
<b>Governing Law</b>	German.
<b>Governing Language</b>	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”.*

<b>Parties</b>	<p>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.</p> <p>RESPARCS Funding Limited Partnership I, Hong Kong, People’s Republic of China, a limited partnership established under the laws of Hong Kong as borrower.</p>
<b>Advances</b>	<p>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 the Bank on account of German Investment Income Tax on the relevant Profit Participation Payment.</p> <p>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 the Bank on account of German Investment Income Tax on the relevant replenishment.</p>
<b>Repayment</b>	<p>All outstanding Advances must be repaid on the Repayment Date.</p>
<b>Prepayment</b>	<p>The Issuer is required to repay outstanding Advances in the full amount of any Contribution Payments it receives from the Issuer Limited Partner under the Contribution Agreement promptly upon receipt of the relevant Contribution Payment (each such payment a “<b>Prepayment</b>”).</p>
<b>Interest</b>	<p>The Issuer must pay interest to LB Kiel Luxembourg on each date it makes a Prepayment. The interest rate will initially be 1.95 per cent. <i>per annum</i> and after 1 January 2008 12-month LIBOR plus a margin of 0.30 per cent. <i>per annum</i>.</p>
<b>Governing Law</b>	<p>German.</p>

## 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”.*

<b>Parties</b>	<p>Landesbank Schleswig-Holstein International S.A., Luxembourg, a banking institution established under Luxembourg law and a wholly-owned subsidiary of the Bank.</p> <p>RESPARCS Funding Limited Partnership I, Hong Kong, People’s Republic of China, a limited partnership established under the laws of Hong Kong, the Issuer.</p>
<b>Nature of Obligations under the Support Undertaking</b>	<p>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.</p>
<b>Ranking of Obligations</b>	<p>LB Kiel International’s payment obligations under the Support Undertaking are subordinated to all senior and subordinated debt obligations of the Bank in the same manner as the Bank’s payment obligations under the Participation Agreement are subordinated (see “—Summary of the Terms of the Participation—Ranking”).</p>
<b>Undertakings</b>	<p>LB Kiel International undertakes 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.</p>
<b>Negative Pledge</b>	<p>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.</p>
<b>Prohibition of Amendments</b>	<p>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.</p>
<b>Governing Law</b>	<p>German.</p>

**SELECTED FINANCIAL INFORMATION OF  
THE BANK AND THE LB KIEL GROUP**

The selected consolidated financial data for the years ended 31 December 1997, 1998, 1999, 2000 and 2001 set forth below are derived from the Bank's consolidated financial statements, which have been audited by Wollert Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany.

The information below should be read in conjunction with the Bank's consolidated financial statements and the other financial information that has been included elsewhere in this Offering Circular. For the Bank's unconsolidated and consolidated financial statements as of and for the two years ended 31 December 2000 and 2001, respectively, see the information set forth beginning on page F-1.

**Selected Consolidated Financial Data as of and for the  
Six Months Ended 30 June 2001 and 2002**

The following table presents selected consolidated financial information as of and for the six months ended 30 June 2001 and 2002:

	<b>As of and for the six month 30 June <sup>(1)</sup></b>	
	<b>2001</b>	<b>2002</b>
	<i>(€ in millions)</i>	
<b>Selected income statement data</b>		
Net interest income .....	426	555
Net commission income .....	67	76
Net income from trading activities .....	7	26
Risk provisions .....	(94)	(110)
Income before taxes and profit transfers .....	161	278
<b>Selected balance sheet data</b>		
Total assets .....	134,484	143,346
Loans and advances to banks .....	31,528	33,825
Loans and advances to customers .....	60,968	63,794
Liabilities to banks .....	53,515	47,684

(1) Columns may not add due to rounding.

**Selected Consolidated Financial Data as of and for the  
Five Years Ended 31 December 2001**

The following table presents selected consolidated financial information as of and for the five years ended 31 December 2001:

	As of and for the year ended 31 December <sup>(1)</sup>				
	1997 <sup>(2)</sup>	1998 <sup>(2)</sup>	1999	2000	2001
	<i>(€ in millions)</i>				
<b>Selected income statement data</b>					
Net interest income <sup>(3)</sup> .....	533	608	704	751	898
Net commission income <sup>(4)</sup> .....	69	91	100	142	138
Net income from trading activities .....	37	41	24	27	58
Risk provisions <sup>(5)</sup> .....	(122)	(154)	(178)	(171)	(309)
Income before taxes and profit transfers ...	176	215	251	309	363
Net income .....	48	94	96	84	174
<b>Selected balance sheet data</b>					
Cash reserve .....	150	114	285	236	136
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks .....	15	3	2	5	6
Loans and advances to banks .....	25,357	27,758	28,869	32,369	32,390
Loans and advances to customers .....	40,888	46,935	52,692	58,115	64,042
Bonds and other fixed income securities...	19,672	21,473	28,723	32,928	39,298
Shares and other non-fixed income securities .....	1,141	1,259	1,360	1,526	1,738
Trust assets .....	1,453	1,459	1,322	1,366	1,363
Total assets .....	89,338	100,295	115,148	128,085	141,020
Liabilities to banks .....	35,971	43,519	48,833	51,915	56,744
Liabilities to customers .....	18,231	20,727	22,106	24,407	28,266
Certificated liabilities .....	27,272	27,480	34,027	40,541	44,133
Trust liabilities .....	1,453	1,459	1,322	1,366	1,363
Provisions .....	431	422	463	533	454
Total liabilities .....	87,187	98,029	112,241	124,393	136,738
Total equity capital .....	2,152	2,266	2,907	3,692	4,282

(1) Columns may not add due to rounding.

(2) Amounts have been restated from Deutsche Marks into euros using the official fixed conversion rate of € 1.00 = DM 1.95583. The restated euro financial information depicts the same trends as would have been presented if the Bank's financial information had been continued to be presented in Deutsche Marks. The financial information will not, however, be comparable to the euro financial information of other companies that previously reported their financial information in a currency other than Deutsche Marks.

(3) 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.

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

(5) 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.

## INVESTMENT CONSIDERATIONS

*The following is a summary of certain aspects of 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.*

### **Distributions on the RESPARC Securities depend on the Bank'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 the Bank 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 the Bank 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 the Bank records an annual surplus (*Jahresüberschuss*) in any given fiscal year, allocation of profits to the Participation would create an Annual Balance Sheet Loss if the Bank's management decides to allocate all of its annual surplus to reserves. Hence, there is a possibility that no Profit Participation accrues even if the Bank recorded 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, the Bank cannot give any assurances as to future profits and the Bank's management is under no obligation to propose that sufficient funds are taken from reserves to ensure that no Annual Balance Sheet Loss occurs. The Bank's owners are under no obligation to approve an annual balance sheet profit (*Bilanzgewinn*) proposed by the Bank's management which is sufficient to cover the Profit Participations.

In case the Bank should change its legal form to a stock corporation (*Aktiengesellschaft*), 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").

### **Distributions on the RESPARC Securities are conditional.**

The Issuer's payment obligations under the RESPARC Securities depend on the receipt in full of the necessary amounts payable by the Bank 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 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 in case the Issuer chooses to exercise its right of early termination. The Participation Agreement runs for an indefinite period. Under its terms, the Participation Agreement may only be terminated by the Bank and may not be terminated by the Silent Partner. Subject to certain exceptions described in this Offering Circular, a termination by the Bank may only become effective on or after 31 December 2012 and if the Bank'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.

**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 the Bank corresponding to the relevant Profit Period,
- (ii) if there has occurred a Reduction 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 the Bank 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 the Bank's solvency ratio is below nine per cent. on a solo or on 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 the Bank corresponding to the relevant Profit Period. See "Terms and Conditions of the Participation."

No Coupon Payments will be paid on the RESPARC Securities unless 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 during a previous year.

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

The payment obligations of the Bank 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 the Bank 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 the Bank and LB Kiel International, respectively, in the event of the liquidation or dissolution, and senior only to the respective equityholders. The Bank'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 the Bank and other Tier 1 capital instruments ranking *pari passu* therewith, and the payment of profit participations thereunder. The Bank has agreed in the Participation Agreement not to accept any additional participations in the form *Stille Gesellschaft* in the Bank ranking senior (as to participation in the Bank's assets in liquidation or otherwise) to the Participation. Apart from this, the Bank 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 purpose of the business of the Issuer, the Issuer General Partner and the Issuer Limited Partner as specified in their respective constitutional documents is limited to performing their respective roles in the Transaction. There can be no assurance that management of the Issuer, the minority shareholder and management of the Issuer General Partner or management and the shareholder 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 and duties 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 the Bank, 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 held by LB Kiel International (51 per cent.) and a charitable trust transacting business on a non-profit basis, and the Issuer Limited Partner, which is held by a

charitable trust transacting business on a non-profit basis. It is the intention of the Bank, 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*, the Bank, 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 will be 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 the Bank and transacting business on a for-profit basis.

**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 Luxembourg Stock Exchange, there can be no assurance that an active public market for the RESPARC Securities will develop. If such a market were to develop, neither the Lead Manager nor 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 the Bank 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 the Bank, 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, the Bank 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 the Bank'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 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 asserts the existence of such a termination right in the future.

## USE OF PROCEEDS

The net proceeds from the issue of the RESPARC Securities are estimated to amount to US\$ 300,000,000 and will be used by the Issuer 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 the Participation Agreement providing for an asset contribution by the Issuer to the Bank in the form of the Silent Contribution.

## CAPITALISATION, REGULATORY CAPITAL, DISTRIBUTABLE PROFITS AND DIVIDENDS

### Capitalisation and Indebtedness

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

	<b>30 June 2002<sup>(1)</sup></b>	<b>31 December 2001<sup>(1)</sup></b>	<b>31 December 2000<sup>(1)</sup></b>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	€ 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.....	1,907	1,157	789
Capital reserves .....	927	927	925
Earnings Reserves.....	509	504	412
Fund for general banking risks.....	89	89	65
Intangible fixed assets.....	-13	-13	-16
<b>Core capital .....</b>	<b>3,638</b>	<b>2,883</b>	<b>2,396</b>
Supplementary capital.....	1,599	1,759	1,594
Equity Investments acc. to sec. 10 para. 6a sentence 1 No. 4a of the German Banking Act.....	-4	-4	-2
Tier 3 capital .....	—	—	—
<b>Total liable capital — Bank .....</b>	<b>5,233</b>	<b>4,638</b>	<b>3,988</b>
<i>Liable capital of the Group Companies acc. to sec. 10a of the German Banking Act (KWG)</i>			
Core capital .....	1,459	1,323	1,304
Supplementary capital.....	1,158	1,207	1,169
Deduction from equity capital.....	-16	-16	-16
<b>Total liable capital — Group companies .....</b>	<b>2,601</b>	<b>2,514</b>	<b>2,457</b>
Tier 3 capital not counting towards the capital base.....	—	—	—
<b>Group total liable capital.....</b>	<b>7,834</b>	<b>7,152</b>	<b>6,445</b>

Save as disclosed above, there has been no material change in the capitalisation of the Bank and the Group Companies since 30 June 2002.

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

## Regulatory Capital

The following table shows the composition of the Bank's regulatory capital on an unconsolidated and consolidated basis as of 31 December 1997, 1998, 1999, 2000 and 2001:

	As of 31 December				
	1997	1998	1999	2000	2001
	<i>(€ in millions)</i>				
<b>Bank only<sup>(2)</sup></b>					
Tier I (core) capital .....	1,488	1,547	1,664	2,396	2,883
Of which:					
Silent participations.....	19	77	121	789	1,157
Earnings reserves .....	327	355	393	412	504
Tier II (supplementary) capital.....	914	909	1,434	1,594	1,759
Deductible items <sup>(3)</sup> .....	(2)	(2)	(2)	(2)	(4)
Tier III capital .....	0	0	7	0	0
<b>Total .....</b>	<b>2,400</b>	<b>2,454</b>	<b>3,103</b>	<b>3,988</b>	<b>4,638</b>
<b>Group<sup>(4)</sup></b>					
Tier I (core) capital .....	2,160	2,297	2,938	3,699	4,206
Of which:					
Silent participations.....	146	380	930	1,628	1,995
Earnings reserves .....	558	606	692	761	886
Tier II (supplementary) capital.....	1,565	1,643	2,363	2,764	2,967
Deductible items <sup>(5)</sup> .....	(20)	(18)	(18)	(18)	(20)
<b>Total .....</b>	<b>3,705</b>	<b>3,922</b>	<b>5,282</b>	<b>6,445</b>	<b>7,152</b>

(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.

## Distributable Profits of the Bank

Coupon Payments on the RESPARC Securities depend, among other things, on the Distributable Profits of the Bank for the preceding fiscal year.

“**Distributable Profits**“ of the Bank for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of the Bank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus 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.

Distributable Profits in respect of any fiscal year includes, in addition to annual profit, transfers made by the Bank, in its discretion, from amounts shown on its balance sheet as “other profit reserves“. In addition, in determining Distributable Profits for any fiscal year, the amounts shown below as “capital reserve available to offset loss“ may be transferred in the Bank’s discretion to offset any losses which may be incurred by the Bank but may not be used to make any profit, dividend or other capital distribution. In case the Bank should change its legal form to a stock corporation (*Aktiengesellschaft*), 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”).

The following table sets forth, as at 31 December 1999, 2000 and 2001, the items derived from the Bank’s audited unconsolidated balance sheet that affect the calculation of the Bank’s Distributable Profits:

<i>in EURO 000's</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Annual profits after allocations to retained earnings.....	41,877	29,980	25,397
Other profit reserve .....	88,839	65,000	40,000
Capital reserve available to offset loss.....	95,553	78,539	36,705

## Dividends

The following table shows the Bank’s dividends in respect of each of the five years in the period ended 31 December 2001 in euros and in U.S. dollars. For all periods prior to 1 January 1999, the Bank 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 and into U.S. dollars using the noon buying rate for Deutsche Marks per U.S. dollar on 31 December of the relevant period. Conversely, for all periods after 1 January 1999, the Bank reported its dividends in euros, thus converting them into U.S. dollars using the average noon buying rate on 31 December of the relevant period.

<b>Year ended 31 December</b>	<b>Dividends</b>
	<b>(€)</b>
1997 .....	13,191,000
1998 .....	15,390,000
1999 .....	15,390,000
2000 .....	15,390,000
2001 .....	15,390,000

## 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 from the Bank 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

der

**US\$ 300.000.000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities**

der

**RESPARCS Funding Limited Partnership I**  
(nachstehend als *Emittentin* bezeichnet)

#### §1

##### Definitionen und Auslegung

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

**Zusätzliche Beträge** hat die in § 10 festgelegte Bedeutung.

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

**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.

**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.

### TERMS AND CONDITIONS

of the

**US\$ 300,000,000 Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities**

issued by

**RESPARCS Funding Limited Partnership I**  
(hereinafter called *Issuer*)

#### §1

##### Definitions and Interpretation

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

**Additional Amounts** has the meaning specified in § 10.

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

**BAFin** means the German Financial Supervisory 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.

**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.

**Geschäftstag** bezeichnet jeden Tag (mit Ausnahme von Samstagen und Sonntagen), der weder ein Feiertag noch ein Tag ist an dem Banken in Frankfurt am Main, Luxemburg oder New York aufgrund gesetzlicher oder behördlicher Vorgaben für den Geschäftsverkehr geschlossen sind oder geschlossen bleiben können.

**Clearing-System** bezeichnet Clearstream Luxemburg und Euroclear.

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

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

**Kapitaleinzahlung** hat die in § 4(2) 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.

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

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

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

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

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

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

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

**Ausgabetag** bezeichnet den 19. Dezember 2002.

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

**Emittenten-Komplementärin** bezeichnet Asian Capital Investment Opportunities Limited, eine nach dem Recht von Hongkong errichtete Gesellschaft mit beschränkter Haftung mit Sitz in Hongkong, Volksrepublik China, die der *General Partner* der Emittentin nach Maßgabe von section 3 der Limited Partnership Ordinance (Cap. 37 der Gesetze von Hongkong) ist.

**Business Day** means a day (other than a Saturday or a Sunday) which is neither a legal holiday nor a day on which commercial banks are authorised or required by law, regulation or executive order to close in Frankfurt am Main, Luxembourg or New York City.

**Clearing System** means Clearstream Luxembourg and Euroclear.

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

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

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

**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.

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

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

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

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

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

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

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

**Issue Date** means 19 December 2002.

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

**Issuer General Partner** means Asian Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Hong Kong whose registered office is at Hong Kong, People's Republic of China and who is the Issuer's general partner within the meaning of section 3 of the Limited Partnership Ordinance (Cap. 37 of the Laws of Hong Kong).

**Emittenten-Kommanditistin** bezeichnet Asian Capital Management GmbH, eine nach deutschem Recht errichtete Gesellschaft mit beschränkter Haftung mit Sitz in Preetz, Deutschland, die der *Limited Partner* der Emittentin nach Maßgabe von section 3 der Limited Partnership Ordinance (Cap. 37 der Gesetze von Hongkong) ist.

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

**KWG** bezeichnet das Kreditwesengesetz.

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

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

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

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

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

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

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

**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.

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

**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.

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

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

**Issuer Limited Partner** means Asian Capital Management GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Germany whose registered office is at Preetz, Germany and who is the Issuer's limited partner within the meaning of section 2 of the Limited Partnership Ordinance (Cap. 37 of the Laws of Hong Kong).

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

**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.

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

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

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

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

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

**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).

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

**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.

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

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

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

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

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

**Support Undertaking** bezeichnet die nachrangige Patronatserklärung der LB Kiel International gegenüber der Emittenten und zugunsten der Emissionsgläubiger vom 17. Dezember 2002.

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

**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.

**Emissionsbedingungen** bezeichnet diese Bedingungen der RESPARC Securities.

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

**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.

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

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

**Support Undertaking** means the subordinated support undertaking by LB Kiel International in relation to the Issuer and for the benefit of Securityholders dated 17 December 2002.

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

**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.

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

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

## §2

### Stückelung; Verbriefung und Verwahrung; Übertragbarkeit

- (1) Stückelung:** Die Emission der Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities im Gesamtnennbetrag von US\$ 300.000.000 (in Worten: US\$ dreihundert Millionen) der RESPARCS Funding Limited Partnership I (**Emittentin**) ist eingeteilt in 300.000 untereinander gleichrangige Teilschuldverschreibungen mit einem Nennbetrag von jeweils US\$ 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 verbrieft; 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

## §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 US\$ 300,000,000 (in words: US\$ three hundred million) by RESPARCS Funding Limited Partnership I (**Issuer**) is divided into 300,000 notes, ranking *pari passu* among themselves, in the nominal amount of US\$ 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 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

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.

**(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 Zinsschei-

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.

**(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) 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

nes keine Verlustabzüge vornehmen darf und diese Erträge auch nicht der Behandlung als Kursgewinn (*capital gain treatment*) unterliegen.

- (4) **Effektive RESPARC Securities:** Falls die Emittentin (aus welchem Grund auch immer) rechtlich verpflichtet sein sollte, effektive RESPARC Securities auszugeben oder falls 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.
- (5) **Ausgabe und Verwahrung:** Die Vorläufige Globalurkunde und die Permanente Globalurkunde sind jeweils nur wirksam, wenn sie die eigenhändigen Unterschriften von zwei durch die Emittentin bevollmächtigten Personen sowie die Unterschrift eines Kontrollbeauftragten der Hauptzahlstelle tragen. Die Globalurkunden werden bei einer gemeinsamen Verwahrstelle für das Clearing-System hinterlegt, bis sämtliche Verpflichtungen der Emittentin aus den RESPARC Securities erfüllt sind.
- (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 Sicherheitstreuhänder) 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

on the sale or redemption of such RESPARC Security or interest coupon.

- (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 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 this 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) **Issuance and Custody:** Each of the Temporary Global Security and the Permanent Global Security shall only be valid if it bears the hand-written signatures of two duly authorised representatives of the Issuer and the control signature of a person instructed by the Principal Paying Agent. The Global Securities shall be deposited with a common depository for the Clearing System, until the Issuer has satisfied and discharged all its obligations under the RESPARC Securities.
- (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.

Verbindlichkeiten der Emittentin, soweit zwingendes Gesetzesrecht nichts anderes vorschreibt.

#### § 4

##### **Beteiligungsvetrag; Einzahlungsvertrag; Darlehensvertrag**

(1) **Beteiligungsvetrag:** 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 Ausgabetag abgeschlossenen Vertrages (**Beteiligungsvetrag**), der eine Vermögenseinlage der Emittentin bei der Bank in Höhe von US\$ 300.000.000 (**Stille Einlage**) vorsieht, eine stille Beteiligung an dem Handelsgewerbe der Bank nach deutschem Recht zu begründen.

(a) **Gewinnbeteiligungszahlungen:** Nach Maßgabe des Beteiligungsvetrages wird die Emittentin die Stille Einlage in Höhe von US\$ 300.000.000 als Bareinlage an die Bank erbringen. Als Gegenleistung stehen der Emittentin Gewinnbeteiligungen (**Gewinnbeteiligungen**) zu, die jeweils jährlich nach Maßgabe des Beteiligungsvetrages auf Grundlage des Nennbetrages der Stillen Einlage in jedem Geschäftsjahr der Bank ermittelt und vierteljährlich nachträglich ausgeschüttet werden (jeweils eine **Gewinnbeteiligungszahlung**).

(b) **Gewinnperioden; Erste Gewinnperiode:** Nach Maßgabe des Beteiligungsvetrages fallen auf die 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 Beteiligungsvetrages Gewinnbeteiligungszahlungen fällig werden, ist ein **Fälligkeitstag**.

Nach Maßgabe des Beteiligungsvetrages ist jede Gewinnbeteiligung (mit Ausnahme der Gewinnbeteiligung für die Erste Gewinnbeteiligung) in vier gleichen Gewinnbeteiligungszahlungen wie folgt fällig: die

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 US\$ 300,000,000 (**Silent Contribution**) and dated the Issue Date.

(a) **Profit Participation Payments:** Under the Participation Agreement, the Issuer will make the Silent Contribution in the form of a cash contribution of US\$ 300,000,000 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 quarterly in arrear (each a **Profit Participation Payment**).

(b) **Profit Periods; First Profit Period:** Under the Participation Agreement, 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 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 (other than the Profit Participation for the First Profit Period) is payable in four equal Profit Participation Payments as follows: the first Profit Partici-

erste Gewinnbeteiligungszahlung wird am (i) 30. September 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; die zweite, dritte und vierte Gewinnbeteiligungszahlung wird jeweils an dem dem Ablauf der maßgeblichen Gewinnperiode nachfolgenden 30. Dezember, 30. März und 30. Juni oder, falls dies kein Geschäftstag ist, am darauf folgenden Geschäftstag fällig.

Der Beteiligungsvertrag sieht vor, dass die Gewinnbeteiligung für die Erste Gewinnperiode in fünf Gewinnbeteiligungszahlungen wie folgt fällig wird: Die erste Gewinnbeteiligungszahlung wird (i) am 30. Juni 2003 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 2002 fällig; die zweite, dritte, vierte und fünfte Gewinnbeteiligungszahlung werden am 30. September 2003, am 30. Dezember 2003, am 30. März 2004 und am 30. Juni 2004 fällig oder, falls dies kein Geschäftstag ist, am darauf folgenden Geschäftstag.

- (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 (iii) Laufzeit sowie Kündigungsfrist nicht verkürzt werden können; und
  - (ii) **Rückzahlungsverpflichtung:** ungeachtet anderweitiger Vereinbarungen Vorauszahlungen auf die Stille Einlage an die Bank zurückzuzahlen sind, es sei denn, (A) das Kapital

pation Payment is payable on the later of (i) 30 September 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; the second, third and fourth Profit Participation Payment is payable on 30 December, 30 March and 30 June following the end of the relevant Profit Period, respectively, or, if that is not a Business Day, the next Business Day.

The Participation Agreement provides that the Profit Participation for the First Profit Period is payable in five Profit Participation Payments as follows: the first Profit Participation Payment is payable on the later of (i) 30 June 2003 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 2002; the second, third, fourth and fifth Profit Participation Payment is payable on 30 September 2003, 30 December 2003, 30 March 2004 and 30 June 2004, respectively, or, if that is not a Business Day, the next Business Day.

- (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 (iii) neither the term nor the notice period may be shortened; and
  - (ii) **Recontribution Obligation:** any premature repayment of the Silent Contribution must be repaid to the Bank notwithstanding agreements to the contrary, unless (A) the capital has

wurde durch anderes mindestens gleichwertiges Eigenkapital ersetzt oder (B) die BAFin hatte der vorzeitigen Rückzahlung der Stillen Einlage zugestimmt.

- (f) **Vollständiger Beteiligungsvertrag:** Die Bestimmungen des Beteiligungsvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt 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.
- (2) **Einzahlungsvertrag:** Bei Zahlung von Gewinnbeteiligungszahlungen 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 17. Dezember 2002 einen ergänzenden Gesellschaftervertrag (**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**).
- (3) **Darlehensvertrag:** Steuererstattungsansprüche werden erst nach der steuerlichen Veranlagung der Emittenten-Kommanditistin für jedes einzelne Steuerjahr fällig. Demgemäß hat die Emittentin am 17. Dezember 2002 mit der LB Kiel Luxembourg einen Darlehensvertrag abgeschlossen (**Darlehensvertrag**), nach dem die Emittentin Auszahlungen (jeweils eine **Darlehens-Auszahlung**) erhält, um ihre Verpflichtung zur Zahlung von Zinszahlungen 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
- 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) **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) **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 supplementary partnership agreement on 17 December 2002 (**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) **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 17 December 2002 (**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 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.

lungen mit den von der Emittenten-Kommanditistin als Kapitaleinzahlungen erhaltenen Geldern zurückzuführen. Die Bestimmungen des Darlehensvertrages werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt 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.

## § 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.

## § 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 8 % 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

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

### 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

### Coupon Payments

- (1) **Payment:** The Issuer shall pay on each Due Date interest on the RESPARC Securities to the Securityholders equal to 8 % *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

Beteiligungsvertrag an dem betreffenden Fälligkeitstag maximal fällig werdende Gewinnbeteiligungszahlung, reduziert sich der Zinssatz von 8 % p.a. des Nennbetrags der RESPARC Securities auf einen Zinssatz, der sich aus der Multiplikation von 8 % 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).

- (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 8 % 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 erhalten hat, zur Rückzahlung der RESPARC Securities bzw. zur Zahlung aufgelaufener Zinsen auf die 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 8 % 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).
- (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.

Payment falling due on the relevant Due Date under the Participation Agreement, the interest rate of 8 % *per annum* on the nominal amount of the RESPARC Securities shall be reduced to an interest rate corresponding to 8 % 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.

- (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 8 % *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, for the repayment of the RESPARC Securities and/or the payment of interest accrued on the RESPARC Securities to 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 8 % *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) **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) **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 und die Luxemburger Börse entsprechend benachrichtigen.

## § 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 Erklärung gegenüber der Hauptzahlstelle und 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 2008, 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 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 -vorschriften Hongkongs 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 Ausgabebetrag 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

(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 and notify the Luxembourg Stock Exchange accordingly.

## § 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 2008) 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 Hong Kong 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 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

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 Umständen darlegt. Aufgelaufene Zinsen werden auf Grundlage eines Jahres von 360 Tagen mit 12 Monaten von je 30 Tagen berechnet.

- (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 US\$ 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 Teil-

accrued shall be calculated on the basis of a year of 360 days with twelve 30-day months.

- (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 Securities in US\$ 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,

zahlungen, durch Indossament) erfolgen, jeweils bei der Geschäftsstelle einer Zahlstelle.

endorsement) of the relevant interest coupon, in each case at the office of a Paying Agent.

## § 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 Hongkong für dessen Rechnung oder von oder für Rechnung einer politischen Untergliederung oder Steuerbehörde von oder in Hongkong 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 zusätzlicher Beträge besteht jedoch nicht im Hinblick auf Steuern und Abgaben, die:

- (1) auf andere Weise als durch Einbehalt oder Abzug von zahlbaren Beträgen zu entrichten sind; oder
- (2) wegen einer gegenwärtigen oder früheren persönlichen oder geschäftlichen Beziehung des Emissionsgläubigers zu Hongkong zu zahlen sind, und nicht allein deshalb, weil Zahlungen auf die RESPARC Securities aus Quellen in Hongkong stammen (oder für Zwecke der Besteuerung so behandelt werden) oder dort besichert sind; oder
- (3) aufgrund einer Richtlinie der Europäischen Union betreffend die Besteuerung von Zinsströmen, 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 erlassen wurde, um der Richtlinie zu entsprechen, von Zahlungen an eine natürliche Person einzubehalten oder abzuziehen sind; oder
- (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

## § 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 Hong Kong 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:

- (1) are payable otherwise than by withholding or deduction from amounts payable; or
- (2) are payable by reason of the Securityholder having, or having had, some personal or business connection with Hong Kong 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, Hong Kong; or
- (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
- (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,

diesbezüglichen Bekanntmachung nach Maßgabe von § 15 wirksam wird; oder

- (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.

## § 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 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 in Liquidation tritt, es sei denn, dies geschieht im Zusammenhang mit einer Verschmelzung, Konsolidierung oder einer anderen Form des Zusammenschlusses mit einer anderen Gesellschaft oder im Zusammenhang mit einer Umwandlung, und diese andere oder neue Gesellschaft übernimmt alle Verpflichtungen, die die Emittentin im Zusammenhang mit den RESPARC Securities eingegangen ist; oder
  - (f) ein Gericht ein Insolvenzverfahren oder ein Vergleichsverfahren zur Abwendung der Insolvenz oder des Konkurses oder 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 zu-

whichever occurs later; or

- (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.

## § 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
  - (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 Issuer enters into liquidation except in connection with a merger, consolidation or other form of combination with another company or in connection with a reorganization and such other or new company assumes all obligations undertaken by the Issuer under or in connection with the RESPARC Securities; or
  - (f) a court institutes insolvency proceedings or composition proceedings to avert insolvency or bankruptcy, or similar proceedings against the assets of the Issuer 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

gunsten ihrer Gläubiger anbietet oder trifft oder ein Dritter ein Insolvenzverfahren gegen die Emittentin beantragt und 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), (c), und/oder (d) wird eine Kündigung, sofern nicht bei deren Eingang zugleich einer der in § 11(1)(a), (e) oder (f) bezeichneten Kündigungsgründe vorliegt, erst wirksam, wenn bei der Hauptzahlstelle Kündigungserklärungen 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:** HSBC Bank plc ist die anfängliche Hauptzahlstelle (*Hauptzahlstelle*).
- (2) **Luxemburger Zahlstelle:** The Bank of New York (Luxembourg) S.A. 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 Luxemburger Börse notiert werden, immer eine Zahlstelle in Luxemburg bestellt ist. In keinem Fall darf die Adresse einer von der Emittentin

insolvency proceedings against the Issuer and such 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), (c), and/or (d), any notice declaring RESPARC Securities due shall, unless at the time such notice is received any of the events of default specified in § 11(1)(a), (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:** HSBC Bank plc shall be the initial principal paying agent (*Principal Paying Agent*).
- (2) **Luxembourg Paying Agent:** The Bank of New York (Luxembourg) S.A. shall be appointed as additional paying agent (together with the Principal Paying Agent the *Paying Agents*, each a *Paying Agent*). The Issuer shall procure that as long as RESPARC Securities are listed on the Luxembourg Stock Exchange there will at all times be a Paying Agent in Luxembourg. In no event shall the specified office of a Paying Agent

benannten Zahlstelle innerhalb der Vereinigten Staaten oder ihrer Besitzungen liegen.

- (3) **Ersetzung von Zahlstellen:** Die Emittentin wird dafür sorgen, dass stets eine 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 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 Verpflichtungen und Rechte

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 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

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 US\$ 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.

#### § 15 Bekanntmachungen

- (1) **Mitteilungen über die Presse:** Die RESPARC Securities betreffende Bekanntmachungen wer-

connection with the RESPARC Securities, 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 US\$ 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 Notices

- (1) **Newspaper Notices:** Notices relating to the RESPARC Securities shall be published in a

den in einer von dem Regelwerk der Luxemburger Wertpapierbörse anerkannten Zeitung (voraussichtlich das *Luxemburger Wort*) 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.

## § 17

### 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

newspaper recognised by the rules and regulations of the Luxembourg Stock Exchange (this newspaper is expected to be the *Luxemburger Wort*). 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

### 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

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
  - (b)** einer von einem Vertretungsberechtigten des Clearing Systems oder der Hauptzahlstelle beglaubigten Ablichtung der Globalurkunde.
- (4) Ersetzung von RESPARC Securities:** Falls eine Globalurkunde oder effektive Urkunden über einzelne RESPARC Securities oder Zinscheine 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.
- (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
- 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)** a copy of the Global Security, certified as being a true copy by a duly authorised officer of the Clearing System or by the Principal Paying Agent.
- (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) 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 circum-

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.

- (6) Bindende Fassung:** Die deutsche Fassung dieser Emissionsbedingungen ist bindend.

stances 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) 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 Limited Partnership I**  
(nachstehend als *Stiller Gesellschafter* bezeichnet)

und

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

### Agreement on the Establishment of a Silent Partnership

between

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

and

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

### 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:

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;

### 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:

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;

**Bank** bezeichnet Landesbank Schleswig-Holstein Girozentrale, Kiel;

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

**Buchwert** bezeichnet den 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;

**Geschäftstag** bezeichnet jeden Tag (mit Ausnahme von Samstagen und Sonntagen), der weder ein Feiertag noch ein Tag ist an dem Geschäftsbanken in Frankfurt am Main, Luxemburg oder New York aufgrund gesetzlicher oder behördlicher Vorgaben für den Geschäftsverkehr geschlossen sind oder geschlossen bleiben können;

**Erste Gewinnbeteiligung** bezeichnet die für die Erste Gewinnperiode aufgelaufene Gewinnbeteiligung;

**Erste Gewinnperiode** bezeichnet den Zeitraum vom Anfangsdatum (einschließlich) bis zum 31. Dezember 2002 (einschließlich);

**KWG** bezeichnet das Kreditwesengesetz;

**Einlagennennbetrag** bezeichnet den Betrag von US\$ 300.000.000 (US\$ dreihundert Millionen);

**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.

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

**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

**Bank** means Landesbank Schleswig-Holstein Girozentrale, Kiel;

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

**Book Value** means the 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.

**Business Day** means a day (other than a Saturday or a Sunday) which is neither a legal holiday nor a day on which commercial banks are authorised or required by law, regulation or executive order to close in Frankfurt am Main, Luxembourg or New York City;

**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 2002;

**KWG** means the German Banking Act;

**Nominal Contribution Amount** means US\$ 300,000,000 (US\$ three hundred million);

**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.

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

**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

Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr, in das der Beendigungstag fällt;

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

**Anfangsdatum** bezeichnet den 19 Dezember 2002;

**Stiller Gesellschafter** bezeichnet RESPARCS Funding Limited Partnership I, Hong Kong, Volksrepublik China

**Beendigungstag** bezeichnet den Tag, ab dem der Stille Gesellschafter nicht mehr am Handelsgewerbe der Bank als typischer stiller Gesellschafter beteiligt ist;

statements are adopted for the fiscal year in which the Termination Date occurs;

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

**Start Date** means 19 December 2002;

**Silent Partner** means RESPARCS Funding Limited Partnership I, Hong Kong, People's Republic of China

**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;

## § 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 8,45 % p.a. in Bezug auf den Einlagennennbetrag zu, wobei die Erste Gewinnbeteiligung US\$ 38.940.416,67 beträgt.
- (3) **Ausschluss der Gewinnbeteiligung:** Eine Gewinnbeteiligung für eine Gewinnperiode (einschließlich der Ersten Gewinnperiode) ist ausgeschlossen:
  - (a) 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

## § 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 8.45% *per annum*, provided that the First Profit Participation shall amount to US\$ 38,940,416.67.
- (3) **Profit Participations excluded:** Profit Participations for any Profit Period (including the First Profit Period) shall be excluded:
  - (a) 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

- (b) wenn eine Herabsetzung erfolgt ist und die Stille Einlage noch nicht wieder vollständig gemäß § 6(3) gutgeschrieben wurde; oder
  - (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
  - (d) falls der Solvabilitätskoeffizient der Bank auf Instituts- oder auf Gruppenbasis unter 9 % liegt, soweit die Zahlung einer solchen Gewinnbeteiligung zu einem Jahresfehlbetrag (nach HGB) in dem Geschäftsjahr der Bank, auf das sich die maßgebliche Gewinnperiode bezieht, führen oder diesen erhöhen würde; oder
  - (e) falls der Beendigungstag in diese Gewinnperiode fällt.
- (b) if there has occurred a Reduction and the Silent Contribution has not yet been fully replenished as provided for in § 6(3); or
  - (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
  - (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
  - (e) if the Termination Date falls within such Profit Period.

#### § 4

##### Zahlung der Gewinnbeteiligung

- (1) **Erste Gewinnbeteiligung:** Die Erste Gewinnbeteiligung wird nach Maßgabe dieses § 4(1) in fünf Raten fällig (jeweils eine **Gewinnbeteiligungszahlung**). Die erste Gewinnbeteiligungszahlung in Höhe von US\$ 13.590.416,67 wird (i) am 30. Juni 2003 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 2002 fällig. Die zweite, dritte, vierte und fünfte Gewinnbeteiligungszahlung in Höhe von jeweils US\$ 6.337.500 werden am 30. September 2003, am 30. Dezember 2003, am 30. März 2004 und am 30. Juni 2004 fällig oder, falls dies kein Geschäftstag ist, am darauf folgenden Geschäftstag.

Falls die gesamte Erste Gewinnbeteiligung aufgrund § 3(3) weniger als US\$ 38.940.416,67 betragen sollte, verringert sich jede Gewinnbeteiligungszahlung auf den Betrag, der sich aus der Multiplikation des vollen vorgenannten Betrags der jeweiligen Gewinnbeteiligungszahlung mit der tatsächlich zahlbaren gesamten Ersten Gewinnbeteiligung dividiert durch US\$ 38.940.416,67 ergibt.

#### § 4

##### Profit Participation Payment

- (1) **First Profit Participation:** The First Profit Participation shall be payable in five instalments as provided for in this § 4(1) (each a **Profit Participation Payment**). The first Profit Participation Payment of US\$ 13,590,416.67 shall be payable on the later of (i) 30 June 2003 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 2002. The second, third, fourth and fifth Profit Participation Payment of US\$ 6,337,500 each shall become payable on 30 September 2003, 30 December 2003, 30 March 2004 and 30 June 2004, respectively, or, if that is not a Business Day, the next Business Day.

If, by operation of § 3(3), the aggregate First Profit Participation payable is less than US\$ 38,940,416.67, each Profit Participation Payment payable shall be reduced to the amount resulting from multiplying the full aforesaid amount of the relevant Profit Participation Payment with such aggregate First Profit Participation and dividing it by US\$ 38,940,416.67.

- (2) **Gewinnbeteiligungen:** Jede Gewinnbeteiligung (mit Ausnahme der Ersten Gewinnbeteiligung) wird in vier gleichen Raten fällig (jeweils eine **Gewinnbeteiligungszahlung**):
- (a) Die erste Gewinnbeteiligungszahlung wird am (i) 30. September 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.
- (b) Die zweite, dritte und vierte Gewinnbeteiligungszahlung werden jeweils an dem dem Ablauf der maßgeblichen Gewinnperiode nachfolgenden 30. Dezember, 30. März und 30. Juni oder, falls dies kein Geschäftstag ist, am darauf folgenden Geschäftstag fällig.
- (3) **Kein Ausgleich bei verspäteter Zahlung:** Falls der Tag der Zahlung der Gewinnbeteiligungszahlung nach Maßgabe des § 4(1) oder § 4(2) verschoben wird, erfolgt auf den insoweit nicht gezahlten Betrag der Gewinnbeteiligungszahlung keine Zahlung von Zinsen und keine Zahlung von weiteren Beträgen an Gewinnbeteiligung.
- (2) **Profit Participations:** Each Profit Participation (other than the First Profit Participation) shall be payable in four equal instalments (each a **Profit Participation Payment**):
- (a) The first Profit Participation Payment will be payable on the later of (i) 30 September 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.
- (b) The second, third and fourth Profit Participation Payments shall be payable on 30 December, 30 March and 30 June following the end of the relevant Profit Period, respectively, or, if that is not a Business Day, the next Business Day.
- (3) **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 paid due to the postponement of the payment date of a Profit Participation Payment under § 4(1) or § 4(2).

## § 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 zum Kernkapital, die gleichrangig mit Gewinnbeteiligungen in Form von stillen Gesellschaften sind; und
- (3) sind vorrangig vor allen Forderungen von Anteilseignern der Bank;

## § 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;

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

## § 6

### Verlustbeteiligung, stille Reserven

- (1) **Verlustbeteiligung des Stillen Gsellschafters:** 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.

- (2) **Begrenzung der Verlustbeteiligung auf Vermögenseinlage:** Die Gesamtverlustbeteiligung des Stillen Gesellschafter 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.

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) **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

### 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 2012 wirksam wird.

Darüber hinaus kann die Bank diesen Beteiligungsvertrag nur kündigen, sofern der Solvabilitätskoeffizient 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 2007 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

## § 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 2012.

The Bank may only terminate this Participation Agreement, if the Bank's solvency ratio sustainably exceeds 9 %.

- (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 2007.
- (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

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 2032 wirksam wird.

## § 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 zurückzahlen, 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.

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 2032.

## § 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

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

## § 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.

## § 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.

## § 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.

## § 14

### Anwendbares Recht, Erfüllungsort und Gerichtsstand, Fassungen

(1) **Anwendbares Recht:** Das Gesellschaftsverhältnis und alle sich aus diesem Beteiligungsvertrag

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

## § 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

### 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

### 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

### 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

ergebenden Rechte und Pflichten unterliegen ausschließlich dem Recht der Bundesrepublik Deutschland.

- (2) **Erfüllungsort und Gerichtsstand:** Erfüllungsort und Gerichtsstand ist 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.

### § 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.

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) **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 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

THIS AGREEMENT is made on 17 December 2002 between:

- (1) **RESPARCS FUNDING LIMITED PARTNERSHIP I**, a limited liability partnership established under the laws of Hong Kong whose registered office is at 8/F, Prince's Building, Hong Kong, People's Republic of China (the **Borrower**) acting through its general partner Asian 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, 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 Hong Kong Registrar of Companies and established as a limited partnership under Hong Kong law on 26 November 2002. The Borrower's sole members are the General Partner and the Limited Partner.
- (B) The Lender is unaffiliated with the General Partner and 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 (*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 Borrower to the Bank in the amount of US\$ 300,000,000 (the **Silent Contribution**) and dated 17 December 2002 (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 quarterly in arrear (other than profit participations earned in respect of the 2002 fiscal year which shall, subject to the terms of the Participation Agreement, be payable in five instalments in arrear) (**Profit Participation Payments**).
- (E) Pursuant to the terms and conditions of the RESPARC Securities, the holders of the RESPARC Securities (**Securityholders**) are entitled to receive quarterly 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" (*Solidaritätszuschlag*) (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 a supplementary partnership 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**).
- (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:

## SECTION 1 DEFINITIONS

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

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

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

**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.

**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 Euro 100,000.

**Business Day** shall mean a day (other than a Saturday or Sunday) which is neither a legal holiday nor a day on which commercial banks are authorised or required by law, regulation or executive order to close in Frankfurt am Main, Luxembourg or New York City.

**Contribution Agreement** has the meaning specified in the preamble.

**Contribution Payment** has the meaning specified in the preamble.

**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.

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

**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.

**Euro Equivalent** shall mean the amount of the relevant Withholding expressed in Euro by applying the Spot Rate.

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

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

**Fixed Period** means the period from (and including) the date hereof to (and including) 31 December 2007.

**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 0.30%.

**Floating Period** means each period from and including 1 January (commencing 1 January 2008) to but excluding the succeeding 1 January.

**General Partner** shall mean Asian Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Hong Kong whose registered office is at 8/F Prince's Building, Hong Kong, People's Republic of China, the Issuer's general partner within the meaning of section 2 of the Limited Partnership Ordinance (Cap. 37 of the Laws of Hong Kong).

**Lender** shall have the meaning specified in the preamble.

**Limited Partner** shall mean Asian Capital Management GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Germany whose registered office is at Kirschenweg 36, 24211 Pretz, Germany, the Issuer's limited partner within the meaning of section 3 of the Limited Partnership Ordinance (Cap. 37 of the Laws of Hong Kong).

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

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

A **Loan Illegality Event** occurs if it becomes illegal in Germany, Hong Kong 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.

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

**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.

**Profit Participation Payments** has the meaning specified in the preamble.

**Rate Determination Date** means 28 December of each year, commencing on and including 28 December 2007 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 1.95% and, (ii) for each Floating Period, the Floating Interest Rate.

**Reference Rate** means the twelve-month LIBOR rate for deposits in US Dollars published on page 3650 of the Telerate Monitor (or such other screen page of Telerate or such other information service that is designated as the successor to Telerate Page 3650 for the purpose of displaying such rates) on the relevant Rate Determination Date at or around 11.00 a.m. (London time) as the rate offered in the London interbank market for twelve-month deposits in US Dollars.

**Replenishment** shall have the meaning specified in the preamble.

**RESPARC Securities** shall mean the US\$ 300,000,000 LB Kiel Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities in the denomination of US\$1,000 each, proposed to be issued by the Borrower on 19 December 2002.

**RESPARC Terms** shall mean the terms and conditions of the RESPARC Securities, a copy of which is attached to this Agreement as Annex 2.

**Securityholders** has the meaning specified in the preamble.

**Silent Contribution** has the meaning specified in the preamble.

**Spot Rate** shall mean with respect to US Dollars, the rate identified on the Foreign Exchange Telerate Page FXFX for the purchase of such currency with Euro on or about 10.00 a.m. Frankfurt time on such date as of which the foreign exchange computation is made.

**Replenishment** has the meaning specified in the preamble.

**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).

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

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

**US Dollars** refers to the legal currency of the United States of America.

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

**Withholding** has the meaning specified in the preamble.

## **SECTION 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.
- (a) In the case of Advances falling due under Section 2.2(a), an Advance shall be payable to the Borrower in US Dollars 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 an amount corresponding to the Euro Equivalent of the Withholding on the Profit Participation Payment falling due on such Advance Payment Date.
  - (b) In the case of Advances falling due under Section 2.2(b), an Advance shall be payable to the Borrower in US Dollars 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 an amount corresponding to the Euro Equivalent of the Withholding on the Replenishment being actually made on such Advance Payment Date.
- 2.4 The Borrower shall use the proceeds of each Advance obtained hereunder:
- (a) in the case of Advances falling due under Section 2.2(a), to fund its Coupon Payment Obligations; and
  - (b) in the case of Advances falling due under Section 2.2(b), to further replenish the Silent Contribution.

## **SECTION 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.

## **SECTION 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.

## **SECTION 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 19 December 2002 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 365.

## **SECTION 6 TAX GROSS UP AND INDEMNITIES**

- 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 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.
- 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.

## **SECTION 7 COSTS, EXPENSES, INDEMNITIES**

- 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.

## **SECTION 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 Hong Kong.
- 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:
  - (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, Hong Kong and Luxembourghave 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.

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

## **SECTION 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 Borrower's ability to make interest payments and principal repayments under this Agreement.
- 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.

## **SECTION 11 CHANGES TO THE PARTIES**

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

## **SECTION 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.

## **SECTION 13 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:

Lender:  
Landesbank Schleswig-Holstein Girozentrale – Luxembourg Branch  
Attention: Mr. Wolfgang Dürr  
2 Rue Jean Monnet  
2180 Luxembourg  
Luxembourg  
Tel: +352 424141-225  
Fax: +352 427040

Borrower:  
RESPARCS Funding Limited Partnership I  
Attention: c/o Ms. Samantha Suen/Mr. Paul Campbell  
8/F, Prince's Building  
Hong Kong  
People's Republic of China  
Tel: +852 3121 9888  
Fax: +852 2869 7352

#### **SECTION 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.

#### **SECTION 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.

#### **SECTION 16 GOVERNING LAW; JURISDICTION AND COUNTERPARTS**

- 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 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.

Annex 1 – Participation Agreement

Annex 2 – Terms and Conditions of the RESPARC Securities

## TERMS AND CONDITIONS OF THE SUPPORT UNDERTAKING

THIS AGREEMENT is made on 17 December 2002 between:

- (1) **LANDESBANK SCHLESWIG-HOLSTEIN INTERNATIONAL S.A.**, a limited liability company (*societe 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 LIMITED PARTNERSHIP I**, a limited partnership established under the laws of Hong Kong whose registered office is at 8/F, Prince's Building, Hong Kong, People's Republic of China (**Issuer**) acting through its general partner, Asian Capital Investment Opportunities Limited.

WHEREAS

- (A) The Issuer was registered with the Hong Kong Registrar of Companies and established as a Limited Partnership under Hong Kong law on 26 November 2002. The Issuer's sole members are the Issuer General Partner and the Issuer Limited Partner.
- (B) The Support Provider is unaffiliated with the Issuer General Partner and 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 US\$ 300,000,000 (the **Silent Contribution**) and dated 17 December 2002 (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 quarterly in arrear (other than profit participations earned in respect of the 2002 fiscal year which shall, subject to the terms of the Participation Agreement, be payable in five instalments in arrears) (the **Profit Participation Payments**).
- (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" (*Solidarit tszuschlag*) 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 a supplementary partnership 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 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

## SECTION 1 DEFINITIONS

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

**Advance** has the meaning specified in the preamble.

**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.

**BAFin** shall mean the German Financial Services Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) or any successor agency taking its place.

**Capital Payments** has the meaning specified in the preamble.

**Contribution Agreement** 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.

**Coupon Payments** has the meaning specified in the preamble.

**German Investment Income Tax** shall mean German investment income tax (*Kapitalertragsteuer*) levied in accordance with § 43 German Income Tax Act (*Einkommensteuergesetz*).

**Issuer** has the meaning specified in the preamble.

**Issuer General Partner** shall mean Asian Capital Investment Opportunities Limited, a limited liability company incorporated under the laws of Hong Kong whose registered office is at 8/F, Prince's Building, Hong Kong, People's Republic of China, the Issuer's general partner within the meaning of section 2 of the Limited Partnership Ordinance (Cap. 37 of the Laws of Hong Kong).

**Issuer Limited Partner** shall mean Asian Capital Management GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Germany whose registered office is at Kirschenweg 36, 24211 Preetz, Germany, the Issuer's limited partner within the meaning of section 3 of the Limited Partnership Ordinance (Cap. 37 of the Laws of Hong Kong).

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

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

**Loan Agreement** has the meaning specified in the preamble.

**Participation Agreement** has the meaning specified in the preamble.

**Profit Participation Payments** has the meaning specified in the preamble.

**RESPARC Securities** shall mean the US\$ 300,000,000 LB Kiel Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities in the denomination of US\$ 1,000 proposed to be issued by the Issuer on 19 December 2002.

**RESPARC Terms** shall mean the terms and conditions of the RESPARC Securities, a copy of which is attached to this Agreement as Annex 1.

**Silent Contribution** has the meaning specified in the preamble.

**Support Provider** has the meaning specified in the preamble.

**Withholding** has the meaning specified in the preamble.

**SECTION 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.

**SECTION 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.

**SECTION 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.

**SECTION 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.

**SECTION 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.

**SECTION 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.

**SECTION 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.

**SECTION 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.

**SECTION 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

Tel: +352 424141-225

Fax: +352 427040

Issuer:

RESPARCS Funding Limited Partnership I

Attention: c/o Ms. Samantha Suen/Mr. Paul Campbell

8/F, Prince's Building

Hong Kong

People's Republic of China

Tel: +852 3121 9888

Fax: +852 2869 7352

**SECTION 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.

**SECTION 12**  
**GOVERNING LAW; JURISDICTION AND COUNTERPARTS**

- 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.

Annex 1 – 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, the Bank must withhold amounts on account of German Investment Income Tax plus solidarity surcharge (*Solidaritätszuschlag*) 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 17 December 2002, the Issuer General Partner and the Issuer Limited Partner have 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 must 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, Hong Kong law.

## DESCRIPTION OF THE ASSIGNMENT AGREEMENT

On 17 December 2002, the Bank, 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 the Bank 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 so 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 case the payments due in respect of the respective Assigned Claims are not made as and when due, the Security Trustee is obliged 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

### History

The Bank is a public law institution organised under a special statute of Schleswig-Holstein and began operations as the Landesbank of the Province Schleswig-Holstein on 1 April 1917. Originally, the Bank'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*), the Bank also became responsible for providing correspondent banking services to the local savings banks. At the same time, the Bank began to grant long-term loans to corporations located in Schleswig-Holstein. In 1949, the Bank, 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 divestiture of its stake in this bank in 1989, the Bank remained actively involved in the ship finance business. 1952 marks the Bank's transformation into a universal bank offering a comprehensive set of wholesale and retail banking products and services. In 1966, the Bank received permission to expand its commercial lending activities beyond the border of Schleswig-Holstein and to do business outside Germany. In 1977, the Bank founded a Luxembourg subsidiary, which was originally called Hansebank S.A., for the purpose of expanding its international business. In 1983, the Bank changed the name of the subsidiary to Landesbank Schleswig-Holstein International S.A. ("**LI**"). In 1985, the Bank 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 Clearing Association of Schleswig-Holstein, which up to then held 100% of the Bank, sold a 39.9% stake in the Bank to former Westdeutsche Landesbank Girozentrale ("**WestLB**") and another 10% to Landesbank Baden-Württemberg. In 1997, the Bank acquired a 49.5% interest in Hamburgische Landesbank – Girozentrale.

### Overview of Organisational Structure

The rights and obligations of the Bank's management and supervisory board members and of the members of the Bank's guarantors' meeting are determined by the Savings Banks Act for the State of Schleswig-Holstein (*Sparkassengesetz für das Land Schleswig-Holstein*) and the Bank's Charter (*Satzung*). Unlike private corporations, the Bank does not have shareholders exercising voting rights at general or special meetings. Instead, the Bank is owned by "sponsoring entities" (*Anstaltsträger*) and "guarantors" (*Gewährträger*). In the Bank's case, the sponsoring entities are identical with the guarantors. In their capacity as sponsoring entities, the Bank's owners have a special "Maintenance Obligation" (*Anstaltslast*), which requires them to preserve the Bank's economic viability and to enable it, through the provision of liquid funds or otherwise, to perform the Bank's functions and meet the Bank's payment obligations when due. In their capacity as guarantors, they are subject to "Guarantee Obligation" (*Gewährträgerhaftung*). Guarantee Obligation means that the Bank's owners are jointly and severally liable for the Bank's obligations to the extent that the Bank's assets are insufficient to satisfy such obligations. In defending claims brought against them under the concept of Guarantee Obligation, the Bank's owners may raise any defense that either the Bank or any other defendant in a comparable situation as the Bank'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 such as itself by: (i) replacing Maintenance Obligation with normal ownership relations between the Bank's owners and the Bank by 18 July 2005; and (ii) abolishing Guarantee Obligation by 18 July 2005, subject to certain transitional arrangements.

The Bank has three governing bodies:

- a guarantors' meeting (*Gewährträgersammlung*);
- a supervisory board (*Verwaltungsrat*); and
- a management board (*Vorstand*).

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

## Management

### *Management Board*

Pursuant to the Bank's Charter, the Bank's management board consists of at least three members, who are appointed by the Bank's supervisory board, acting with the consent of the Bank's guarantors' meeting. The Bank's supervisory board, acting with the consent of the Bank's guarantors' meeting, is also responsible for appointing the chairman and deputy chairman of the Bank's management board. The Bank'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. The Bank's management board is required to keep the Bank's supervisory board informed of all material developments in the Bank's business and to provide it with information upon request.

The table below provides an overview of the present members of the Bank's management board, their ages at 1 November 2002, the year in which their current terms expire and their positions within the Bank:

<b>Name</b>	<b>Age</b>	<b>Term expires</b>	<b>Position</b>	<b>Principal Outside Board Memberships</b>
Dr. Dietrich Rümker <sup>(1)</sup>	65	2002	Chairman of the management board	Member of the supervisory board of DGZ Deka Bank Deutsche Kommunalbank, Frankfurt/Main, Germany; Hamburgische Landesbank – Girozentrale, Hamburg, Germany; Landesbank Schleswig-Holstein International S.A. Luxemburg, Luxemburg; Minimax GmbH, Bad Oldesloe, Germany; and Howaldtswerke-Deutsche Werft AG, Kiel, Germany
Hans Berger	52	2006	Deputy chairman of the management board	Member of the supervisory board of Deka Deutsche Kapitalanlagegesellschaft mbH, Frankfurt/Main, Germany; dvg Hannover Datenverarbeitungsgesellschaft mbH, Hannover, Germany; eBS eBanking Services Nord GmbH, Kiel, Germany; Flender Werft AG, Lübeck, Germany; Hamburgische Landesbank – Girozentrale, Hamburg, Germany; Nordex AG, Oberhausen, Germany; S-Online Schleswig-Holstein GbR, Kiel, Germany; SIZ Informatik – Zentrum der Sparkassenorganisation GmbH, Bonn, Germany; s-NetLine GmbH, Kiel, Germany; and LBS Immobilien GmbH (LBSI), Kiel, Germany
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, Germany; IKB-Leasing GmbH, Hamburg, Germany; ORGA Kartensysteme GmbH, Flintbek, Germany; Wankendorfer Baugenossenschaft eG, Wankendorf, Germany; Wirtschaftsakademie Schleswig-Holstein, Kiel, Germany; Deka Deutsche

				Sparkassen-Immobilien-Anlage-Gesellschaft mbH, Frankfurt/Main, Germany; and Deko Immobilien Investment GmbH, Frankfurt/Main, Germany
Franz S. Waas	41	2005	Member of the management board	Member of the supervisory board of Gudme Raaschou Bankaktieselskab, Copenhagen, Denmark; Landesbank Schleswig-Holstein International S.A., Luxemburg, Luxemburg; s-NetLine GmbH, Kiel, Germany; S-Online Schleswig-Holstein GbR, Kiel, Germany; Hanseatische Wertpapierbörse, Hamburg, Germany; and PCA Corporate Finance Oy, Helsinki, Finland

(1) Dr. Rümker will retire and be succeeded by Mr. Berger, effective 1 January 2003.

*Dr. Dietrich Rümker* has been a member of the Bank's management board since 1994. After holding the position of deputy chairman of the Bank's management board for two years, he was appointed chairman in 1996. Dr. Rümker started his banking career with former WestLB, where he became Chief Legal Officer in 1976 and Senior Executive Vice President in 1987.

*Hans Berger* has been a member and the deputy chairman of the Bank's management board since 1996. Prior to his appointment to the Bank's management board, Mr. Berger served in various positions at Sparkasse Kiel, where he became a management board member in 1986.

*Dieter Pfisterer* has been a member of the Bank's management board since 1993. Mr. Pfisterer spent his entire banking career with the Bank, 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* has been a member of the Bank'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.

Member of the management board Member of the management board.

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

### ***Supervisory Board***

Pursuant to the Bank's Charter, the Bank'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 Clearing Association of Schleswig-Holstein, and in addition, 18 members elected by the Bank's guarantors and 10 members elected by the Bank's employees. The term of office of the Bank's supervisory board members is four years and ends on 30 June of the fourth year following their appointment. Members may be re-elected. The Bank'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 Bank's supervisory board meets at least twice and is encouraged to meet four times a year. Its functions include:

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

The Bank's Charter requires the Bank'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 the Bank's supervisory board is unable to convene, for counseling the Bank's guarantors' meeting and supervisory board in relation to questions requiring an interpretation of the Bank's Charter and for approving certain loans to the members of the Bank's management board, the Bank's employees and other related parties. The audit committee is responsible, in particular, for reviewing the report of the Bank's auditors. The credit committee is responsible, in particular, for approving loans to the members of the Bank's management board and the Bank'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 1 September 2002, the names and functions of the members of the Bank's supervisory board, their ages, the year in which their current terms expire and their principal business activities outside of the Bank:

<b>Name</b>	<b>Age</b>	<b>Term expires</b>	<b>Principal business activities outside of the Bank</b>
<b>Chairwoman and deputy chairmen:</b>			
Heide Simonis <i>Chairwoman</i>	58	2006	Prime Minister of the state of Schleswig-Holstein
Jürgen Sengera <i>First Deputy Chairman</i>	59	2006	Chairman of the Management Board of West LB AG, Düsseldorf, Germany
Olaf Cord Dielewicz <i>Second Deputy Chairman</i>	60	2006	President of the Savings Bank and Giro Association of Schleswig-Holstein, Kiel, Germany
Heinrich Haasis <i>Third Deputy Chairman</i>	57	2006	President of the Baden-Württemberg Savings Banks Association, Stuttgart, Germany
Guarantor representatives:			
Günter Anders	62	2006	Chairman of the Management Board of Sparkasse Schleswig-Flensburg, Schleswig, Germany
Peter Deutschland	57	2006	Chairman of DGB North, Hamburg, Germany
Uwe Döring	55	2006	State Secretary at the Ministry of Finance and Energy of the state of Schleswig-Holstein, Kiel, Germany
Theo Dräger	64	2006	Chairman of the Management Board of Drägerwerk AG, Lübeck, Germany
Norbert Gansel	61	2006	Mayor of the city of Kiel, Kiel, Germany
Jorg-Dietrich Kamischke	54	2006	District Officer of the district of Flensburg, Flensburg, Germany
Hans-Peter Krämer	61	2006	Chairman of the Management Board of Kreissparkasse Köln, Köln, Germany
Dr. Hans Lukas	61	2006	Chairman of the Management Board of Sparkasse Stormarn, Bad Oldesloe, Germany
Claus Möller	60	2006	Minister of Finance and Energy of the state of Schleswig-Holstein, Kiel, Germany
Dr. Wolfgang Peiner	59	2006	Finance Senator of the city of Hamburg, Hamburg, Germany
Dr. Wolf-Albrecht Prautzsch	62	2006	WestLB AG, Münster, Germany
Michael Rocca	54	2006	State Secretary at the Ministry of Economic Affairs, Technology and Transport of the state of Schleswig-Holstein, Kiel, Germany

Erwin Rückemann	60	2006	Chairman of the Management Board of Stadtparkasse Neumünster, Neumünster, Germany
Hans Dietmar Sauer	60	2006	Chairman of the Management Board of Landesbank Baden-Württemberg, Stuttgart
Dr. Fritz Süverküp	61	2006	President of the Chamber of Industry and Commerce of Kiel, Kiel, Germany
Jorma Juhani Vaajoki	52	2006	Kauniainen, Finland

**Employee representatives:**

Astrid Balduin	39	2006	
Waltraud Fuhrmann	60	2006	
Ditmar Höret	55	2006	
Dr. Elizabeth Keßeböhmer	37	2006	
Rieka Meetz-Schawaller	41	2006	
Knuth Lausen	45	2006	
Karlheinz Ravn	52	2006	
Wolfgang Sander	61	2006	
Michael Schmalz	50	2006	
Gaby Woelk	39	2006	

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

**Compensation**

In 2001, the Bank paid the Bank's management board members compensation in the aggregate amount of € 2.4 million. Former management board members and their descendants received an amount of € 1.2 million. At 31 December 2001, accruals for the future payment of pension benefits to members of the Bank's management board totaled € 12.2 million. In 2001, the aggregate compensation that the Bank paid to the Bank's supervisory board members amounted to € 0.3 million.

**Employees**

At 31 December 2001, excluding HLB, the Bank employed 2,457 people, compared with 2,189 employees at 31 December 2000 and 2,097 employees at 31 December 1999. In 31 December 2001, the Bank consolidated for the first time Spielbanken of Schleswig-Holstein, which employed 195 employees at 31 December 2001.

As it is a public law institution, the Bank is not subject to the co-determination and the Works Constitution Act that govern private commercial banks in Germany. Instead, the Bank 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 (*Mitbestimmungsgesetz Schleswig-Holstein*), the Bank has a staff council that represents the interests of the Bank's employees. The Bank is required to notify the Bank's staff council in advance of proposed employee terminations, relocations and other matters that affect the Bank's staff as a whole or particular employees. The Bank's staff council is entitled to comment on these measures. In addition, the Bank's staff council is entitled to co-determine a variety of social matters, such as work schedules and rules of conduct. The Bank's management considers itself to be on good terms with the Bank's staff council. Constructive relations with its employees and their representatives are of central importance to the Bank. During the last three years, the Bank has not experienced any material labor disputes resulting in work stoppages.

Virtually all of the Bank'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 the Bank's ability to terminate these employees. In addition, for historical reasons, as of 1 September 2002, five of the Bank'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 the Bank except in extraordinary circumstances set forth in the statute.

## Owners

Under German administrative law, the Bank'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 the Bank's obligations to the extent that the Bank's assets are insufficient to satisfy such obligations. The Bank'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 the Bank's guarantors.

The Bank's guarantors' meeting passes resolutions unanimously. Its responsibilities include:

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

The table below shows the Bank's guarantors and their respective stakes in the Bank as of 1 September 2002:

	<b>Ownership interest (%)</b>
State of Schleswig-Holstein .....	25.05
Savings Banks and Giro Association of Schleswig-Holstein .....	25.05
WestLB AG .....	39.90
Landesbank Baden-Württemberg ("LBBW") .....	10.00

(1) WestLB AG's stake in the Bank is currently held in trust for WestLB AG by Landesbank Nordrhein-Westfalen. It is expected that, following the enactment of certain amendments to the Savings Bank Act of Schleswig-Holstein, which are currently pending legislative approval, LBNRW will transfer its stake to WestLB AG.

## Significant Subsidiaries

The Bank has subsidiaries that operate in a number of countries throughout the world. The following table provides information with respect to the Bank's significant subsidiaries as of 31 December 2001:

<i>Corporate name, location and country of incorporation</i>	<b>Equity<sup>(1)</sup></b>	<b>Ownership interest<sup>(2)</sup></b>
	<i>(€ in millions)</i>	<i>(%)</i>
Hamburgische Landesbank, Hamburg, Germany .....	3,770	49.5
Landesbank Schleswig-Holstein International S.A., Luxembourg, Luxembourg .....	215	100
Guudme 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 2001, 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 2001, the LB Kiel Group owned land and buildings with a total book value of approximately € 641 million. Of this amount, the LB Kiel Group used land and buildings with a carrying value of approximately € 124 million for its own operations and held properties with a carrying value of approximately € 21 million on account of loan foreclosures.

The Bank 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 and Compliance

Due to the nature of its business, the Bank has, is and may from time to time become involved in litigation and arbitration proceedings in Germany and a number of jurisdictions outside Germany, including the United States, arising in the ordinary course of the LB Kiel Group's business. While the Bank believes that with the exception of the litigation or arbitration proceedings described below, it is not feasible to predict the outcome of all currently pending or threatened proceedings involving the LB Kiel Group, it does not anticipate that the outcome of any of these proceedings will have a material adverse effect on its results of operations or financial condition, and, to the Bank's knowledge, no litigation or arbitration proceedings that are likely to have such an adverse effect are currently threatened.

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 the Bank's owners and the Bank by 18 July 2005; and (ii) abolishing Guarantee Obligation by 18 July 2005, subject to certain transitional arrangements. See "Regulation-Consolidated Regulation and Supervision in Germany-Principal Laws and Regulators-The Savings Banks Act for the State of Schleswig-Holstein" for more information on Maintenance Obligation and Guarantee Obligation.

While the legal status of Maintenance Obligation and Guarantee Obligation has been resolved, another dispute between the Federal Republic of Germany and the European Commission involving Landesbanks is still pending resolution. At issue in this dispute is the adequacy of the consideration paid by former WestLB to the German state of North Rhine-Westphalia in exchange for the integration of Wohnungsbauförderungsanstalt North Rhine-Westphalia into WestLB. In a decision of July 1999, the European Commission claimed that the consideration paid by WestLB had not been calculated on an arm's length basis and that therefore the transaction violated EU state aid rules. To determine whether other Landesbanks have benefited from similar allegedly illegal subsidies, the European Commission launched a comprehensive investigation in 1999, which covers, among other Landesbanks, the Bank and HLB.

In Schleswig-Holstein, the investigation of the European Commission focuses on the merger of various development agencies of the state of Schleswig-Holstein into Investitionsbank Schleswig-Holstein ("**IB**") in 1991 and the integration of IB as an economically and organisationally separate business area into the Bank. In connection with the formation of the IB business area, the capital of the former development agencies was transferred to IB. Potential state aid issues could arise due to the fact that the Bank is entitled to use capital not needed by IB in its own business as regulatory capital to cover risk related assets and large exposures in the Bank's other business areas. The Bank believes that it paid the state of Schleswig Holstein adequate consideration and that therefore the current arrangement does not violate EU state aid rules. This consideration comprised payments made by the Bank to the state, synergies and cost savings realised by the development agencies, cost caps guaranteed by the Bank to the state and an increase in the value of IB that enabled the state to realise a gain when it sold its stake in the Bank to WestLB and Landesbank Baden-Württemberg effective 1 January 1994. On 13 November 2002, the European Commission has launched formal investigation proceedings against the Bank, HLB, Norddeutsche Landesbank, Landesbank Hessen-Thüringen and Bayerische Landesbank. Should the European Commission decide that the Bank has received illegal subsidies in a significant amount, its results of operations and financial condition could suffer a significant deterioration. LB Kiel's management is confident that possible charges resulting from an unfavourable decision by the European Commission will be manageable for the LB Kiel Group.

On 11 March 2002, the Bank's owners mandated the Bank's management board to develop a plan for spinning off the Bank's IB business area so that the state of Schleswig-Holstein would become the sole owner of IB. The

consummation of the spin-off is subject to, among other things, the approval of the parliament of Schleswig-Holstein.

The formal proceeding initiated on 13 November 2002 by the European Commission also extends to HLB concerning the participation of HLB in Wohnungsbaukreditanstalt. Accordingly, HLB now has the opportunity to submit further details with regard to the consideration the City of Hamburg received for the contribution of its shares in Wohnungsbaukreditanstalt to HLB. The European Commission has indicated its willingness to consider further details concerning the profit the City of Hamburg has realised when selling a 49.5 % stake in HLB to LB Kiel. HLB's management is therefore confident that a further investigation of the relevant issues may result in a change of the Commission's current view.

## RESPARCS FUNDING LIMITED PARTNERSHIP I

### Incorporation, Domicile, Duration and Object

RESPARCS Funding Limited Partnership I was registered with the Companies Registrar in Hong Kong, under registration certificate number 346 and established on 26 November 2002. It is established for an indefinite period of time.

The business purpose of the Issuer is, pursuant to a partnership agreement entered into by the Issuer General Partner and the Issuer Limited Partner on 26 November 2002, to participate as silent partner in the business of a German credit institution and, for this purpose, to raise capital by the issue of debt securities. The Issuer is further entitled to engage in any ancillary businesses which promote the foregoing principal business purpose.

### Contributed Capital

The partnership capital of the Issuer amounts to HK\$ 1,000.10001.

### Partners

The general partner of the Issuer is Asian Capital Investment Opportunities Limited, a limited liability company incorporated under Hong Kong law whose beneficial shareholders are LB Kiel International (51 per cent. Interest) and Mourant & Co. Trustees Limited as trustee for Asian Capital Investment Charitable Trust, an independent non-profit trust domiciled in Jersey (49 per cent. interest). The Issuer General Partner was incorporated under the name of Pantamor Limited on 19 July 2002.

The limited partner of the Issuer is Asian Capital Management GmbH, a limited liability company incorporated under German law whose sole beneficial shareholder is Mourant & Co. Trustees Limited as trustee for Far East Funding Charitable Trust, an independent non-profit trust domiciled in Jersey. The Issuer Limited Partner was incorporated on 20 November 2002.

### Principal Activities

The principal activities of the Issuer correspond with the business object stipulated in the Issuer's a partnership agreement entered into by the Issuer General Partner and the Issuer Limited Partner on 26 November 2002. The Issuer has no employees.

### Management

The Issuer acts through its general partner who acts as the representative of the Issuer. The current directors of the Issuer General Partner are:

<u>Name</u>	<u>Function</u>
Prinza Limited	Director
Jarwell Limited	Director

The secretary of the Issuer is Secreco Limited.

The directors and the secretary of the Issuer General Partner can be contacted at the address of the Issuer, 8/F, Prince's Building, Hong Kong, People's Republic of China.

### Fiscal Year

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

### Auditor

As a limited partnership in Hong Kong, the Issuer is not required to appoint statutory auditors.

## **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.

## **Capitalisation on the Issue Date**

The following table sets forth the Issuer's contributed capital on the date of its inception and as adjusted for the consummation of the transaction:

<b>Date</b>		<b>Contributed Capital</b>
Inception Date	26 November 2002	HK\$ 1000.10001
Issue Date	19 December 2002	HK\$1000.10001

In addition, as of the Issue Date, the Issuer has additional liabilities of US\$300,000,000 stemming from the RESPARC Securities.

## THE ENVISAGED MERGER BETWEEN THE BANK AND HLB

### Overview

On 11 March 2002, the Bank received instructions from its owners to work with HLB to prepare a plan for a possible merger between the Bank and HLB. On 28 March 2002, HLB received similar instructions from its owners. On 9 September 2002, representatives of the owners of the Bank and of HLB achieved agreement that the two banks should merge effective 1 January 2003 and came to an understanding with respect to the basic terms of the merger. On the basis of a valuation of the two banks, the owners' representatives agreed that ownership of the merged bank (the "**Merged Bank**") would be divided as follows: (i) the city of Hamburg would receive a 32.69% stake; (ii) WestLB AG would receive a 26.86% stake; (iii) the state of Schleswig-Holstein would receive a 16.86% stake; (iv) the Savings Banks and Giro Association of Schleswig-Holstein would receive a 16.86% stake; and (v) Landesbank Baden-Württemberg would receive a 6.73% stake. The Merged Bank may take the legal form of a stock corporation (*Aktiengesellschaft*) and would have two registered offices, one in Kiel and one in Hamburg. The consummation of the merger still requires that the respective governments of the German Federal States Schleswig-Holstein and Hamburg enter into a treaty, which is subject to, among other things, the approval by the local parliaments of the two states which is expected to occur in mid-2003. Therefore, the Bank expects that the merger will occur with retroactive effect as of 1 January 2003. Maintenance and Guarantee Obligation will continue within the limits set by the agreement with the European Commission on 17 July 2001. See "Regulation—Principal Laws and Regulators—The Savings Banks Act for the State of Schleswig-Holstein".

In connection with the envisaged merger, the Bank and HLB plan to spin off Investitionsbank Schleswig-Holstein ("**IB**") and Hamburgische Wohnungsbaukreditanstalt ("**WK**"), respectively, both of which serve promotional functions.

The Bank's management expects that the envisaged merger will yield synergies of approximately € 150 million within three years after the merger is completed and that the Merged Bank will employ approximately 4,000 people. Because the business activities of the Bank and HLB are partially overlapping, the merger may result in an increased concentration in certain parts of the Merged Bank's loan portfolio, especially its shipping loan portfolio.

### Unaudited Pro Forma Financial Information with Respect to the Envisaged Merger Between the Bank and HLB

The following unaudited pro forma financial information for the Merged Bank is based on unaudited internal management reports of the Bank as of and for the year ended 31 December 2001, which serve as the basis for the preparation of the Bank's audited financial statements as of and for the year ended 31 December 2001. The unaudited pro forma income statement information for the Merged Bank has been prepared on the assumption that the merger occurred on 1 January 2001, and the unaudited pro forma balance sheet information for the Merged Bank has been prepared on the assumption that the merger occurred on 31 December 2001.

The accounts of the two banks have been combined taking into account the rules of the German Reorganisation Act (*Umwandlungsgesetz*). Adjustments have been made to reflect the effects of the merger and certain eliminations relating to mutual claims and obligations between the Bank and HLB. The pro forma adjustments are based upon available information and certain assumptions that the Bank believes to be reasonable. It should be noted that the unaudited pro forma financial information does not reflect certain adjustments that may be necessary to reconcile different applications of accounting principles, including certain valuation adjustments that the Bank and HLB may determine are necessary to ensure fully consistent valuation principles through the Merged Bank. In addition, because the Bank and HLB intend to spin off IB and WK in connection with the envisaged merger, these two entities have been excluded from the calculations.

**The unaudited pro forma financial information for the Merged Bank set forth below has been presented solely as a convenience to investors in the RESPARC Securities and does not purport to represent what the actual results of operations or financial condition of the Bank, HLB or the Merged Bank, would have been had the merger occurred on the dates indicated, or to project the results of operations or financial condition of the Bank, HLB or the Merged Bank at any future date or for any future period.**

The following table sets forth selected unaudited pro forma income statement information for the Merged Bank for the year ended 31 December 2001:

**UNAUDITED PRO FORMA INCOME STATEMENT INFORMATION<sup>(1)</sup>**

**For the year ended 31 December 2001**

	<b>The Bank<sup>(2)</sup></b>	<b>HLB<sup>(3)</sup> Adjustments</b>	<b>Merged Bank<sup>(4)</sup></b>
	<i>(€ in millions)</i>		
<i>Amounts in accordance with German GAAP</i>			
Net interest income .....	497	666	1,163
Net commission income .....	84	94	179
Net income or expense from trading activities.....	48	18	67
Total net interest, commission and trading income.....	630	779	1,409
General administrative expenses.....	(310)	(295)	(605)
Other operating income and expenses.....	81	68	149
Income before risk provisions, taxes and profit transfers.	401	553	953
Risk provisions.....	(178)	(281)	(459)
Income before taxes and profit transfers.....	223	272	494
Income tax expense.....	(27)	(49)	(76)
Income before profit transfers.....	196	222	418
Profits transferred under partial profit transfer agreement <sup>(5)</sup> .....	(76)	(124)	(200)
Net income .....	120	98	218

(1) Columns and rows may not add due to rounding.

(2) Excludes IB.

(3) Excludes WK.

(4) Assumes that the merger between the Bank and HLB had occurred on 1 January 2001; excludes IB and WK.

(5) Distributions on existing profit participation agreements.

The following table sets forth selected unaudited pro forma balance sheet information for the Merged Bank as of 31 December 2001:

**UNAUDITED PRO FORMA BALANCE SHEET INFORMATION<sup>(1)</sup>**

**For the year ended 31 December 2001**

	<b>The Bank</b>	<b>HLB</b>	<b>Adjustments</b>	<b>Merged Bank(4)(5)</b>
		<i>(in millions)</i>		
Amounts in accordance with German GAAP				
Cash reserve.....	95	80		175
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks.....	4	4		7
Loans and advances to banks.....	23,611	19,320	(383)	42,548
Loans and advances to customers.....	39,543	36,671		76,213
Bonds and other fixed income securities.....	25,458	27,166		52,623
Shares and other non-fixed income securities.....	909	1,654		2,563
Trust assets.....	71	257		329
Total assets.....	91,827	87,948	(667)	179,108
Liabilities to banks.....	38,734	29,120	(383)	67,471
Liabilities to customers.....	14,127	30,021		44,148
Certificated liabilities.....	33,137	21,343		54,480
Trust liabilities.....	71	257		329
Provisions.....	287	252		539
Total liabilities.....	89,840	85,790	(383)	175,249
Total equity capital.....	1,986	2,157	(284)	3,859

(1) Columns and rows may not add due to rounding.

(2) Excludes IB.

(3) Excludes WK.

(4) Assumes that the merger between the Bank and HLB had occurred on 31 December 2001; excludes IB and WK.

(5) In 1997, the Bank agreed with the city of Hamburg that in the event Hamburg were to purchase a stake in WK, the Bank would make a contribution to the purchase price based on a formula reflecting, among other things, the Bank's 49.5% stake in HLB. Assuming that, in connection with the proposed spin-off of WK to Hamburg, Hamburg will pay HLB an amount of € 599 million (which corresponds to the value of HLB's stake in WK, as shown in HLB's financial statements as of 31 December 2001), the Bank expects to make a contribution to the purchase price of € 219 million. Depending on the actual purchase price paid by Hamburg to HLB, the Bank's actual contribution may differ. The figures presented in the table do not reflect any of these payments and thus understate the capitalisation of the Merged Bank.

## BUSINESS

### Introduction

The LB Kiel Group is an internationally operating commercial banking group based in Germany. The LB Kiel Group has strong regional ties to northern Germany, and Scandinavia and the Baltic sea region (i.e., Denmark, Sweden, Norway, Finland, Poland, Estonia, Latvia and Lithuania), where it offers a wide range of traditional and innovative financial products and services. In addition, the Bank has a growing national and international business in selected niche markets. As a German state-owned bank (*Landesbank*), the Bank also acts as the central clearing bank for the savings banks of Schleswig-Holstein, with which it maintains a close relationship and collaborates in a variety of ways, and as a government and municipal bank for the state of Schleswig-Holstein.

In Schleswig-Holstein, which is the Bank's core home market, it is the leading commercial bank, acting as a wholesale bank and cooperating with the local savings banks as its partners in the retail market. In Germany, the savings banks have traditionally held a substantial share of the retail banking market. The Bank is also active in other parts of northern Germany. Its customers in these markets comprise commercial and industrial companies, savings banks, public entities and private individuals. Consistent with its strategic goal to establish itself as the "Bank for the North", the Bank has successfully built on its strong position in its home market, northern Germany, to become one of the leading foreign banks in Scandinavia and the Baltic sea region, where it offers its customers commercial banking and investment banking services. In addition, the Bank provides specialised financial products and services on a worldwide basis in selected niche markets, especially in the areas of transport finance and, increasingly, real estate finance and leasing refinance. In the area of ship finance, which traditionally accounts for the largest portion of its transport business, the Bank serves some of the biggest shipping companies in the world, as measured by the capacity of their vessels.

The main sources of Bank's medium and long term funding are the issuance of bonds, especially mortgage and municipal bonds, its Global Medium Term Note programme and deposits from customers. The main sources of the Bank's short term funding are interbank loans, its Euro Commercial Paper programme and its U.S. Commercial Paper programme. Recently, the Bank has become more active in the international capital markets, which it considers an increasingly important source of its funding and a means for raising its net interest, commission and trading income in the future.

The following table shows certain key figures (consolidated and calculated in accordance with German GAAP) relating to the Bank's business as of and for the years ended 31 December 1999, 2000 and 2001:

	As of and for the year ended 31 December		
	1999	2000	2001
	(€ in millions)		
Net interest, commission and trading income .....	829	920	1,094
Net income .....	96	84	174
Total .....	115,148	128,085	141,020
Total liabilities .....	112,241	124,393	136,738
Total equity capital .....	2,907	3,692	4,282

As a German Landesbank, the Bank has traditionally benefited from two administrative law concepts known as "Maintenance Obligation" (*Anstaltslast*) and "Guarantee Obligation" (*Gewährträgerhaftung*). Under the concept of Maintenance Obligation, the Bank's owners are required to preserve the economic viability of the Bank, 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. In addition, under the concept of Guarantee Obligation, the Bank's owners are jointly and severally liable for the Bank's obligations to the extent that the Bank'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 by: (i) replacing Maintenance Obligation with normal ownership relations between the Bank's owners and the Bank by 18 July 2005; and (ii) abolishing Guarantee Obligation by 18 July 2005, subject to certain transitional arrangements. It is expected that the holders of the RESPARC Securities will not be adversely affected by these changes. See "Regulation – Consolidated Regulation and Supervision in Germany –

Principal Laws and Regulators – The Savings Banks Act for the State of Schleswig – Holstein” for more information on Maintenance Obligation and Guarantee Obligation and the recent changes to these two concepts. In response to the impending abolishment of Maintenance Obligation and Guarantee Obligation, the Bank has decided to make an effort to raise its profitability in order to strengthen its core capital basis. To this end, the Bank has decided to concentrate on its traditional core competencies: its strong regional ties to northern Germany, and Scandinavia and the Baltic sea region, its special know-how in the areas of transport finance, real estate finance and leasing refinance, and its capital markets activities.

To strengthen its position in its core markets, the Bank acquired a 49.5% stake in HLB in 1997. HLB is a Landesbank domiciled in the state of Hamburg. The focus of HLB’s business is on corporate banking, real estate finance, ship finance and credit investments. In addition, HLB is engaged in leasing refinance, aviation finance, private banking, capital markets activities and the clearing of securities transactions. See “–Business–HLB” for more information on HLB and its business. The Bank is currently preparing for a possible merger with HLB. On 9 September 2002, representatives of the owners of the Bank and of HLB have achieved agreement that the two banks should merge effective 1 January 2003 and came to an understanding with respect to the basic terms of the merger. However, the consummation of the merger still requires that the governments of Schleswig-Holstein and Hamburg enter into a treaty, which is subject to, among other things, the approval by the local parliaments of the two states, which is expected by mid-2003. Assuming the merger had occurred on 1 January 2001, the Merged Bank would have had pro forma net interest, commission and trading income of € 1,409 million and net income of €218 million in 2001, and assuming the merger had occurred on 31 December 2001, the combined entity would have had total assets of € 179,108 million, total liabilities of € 175,249 million and total equity capital of € 3,859 million at 31 December 2001. For more information on the merger, see “The Envisaged Merger Between the Bank and HLB”.

At 31 December 2001, excluding HLB, the Bank employed 2,457 people in nine countries. The legal name of the Bank is Landesbank Schleswig-Holstein Girozentrale. The Bank’s principal executive offices are located at Martensdamm 6, D-24103 Kiel, Germany, and the telephone number is +49 (0) 431-900- 01.

## **Strategy**

The Bank’s mission is to build on its strong position in northern Germany, and Scandinavia and the Baltic sea region, and its expertise as an international provider of specialised financing solutions in selected niche markets to achieve sustained growth and to improve the risk-adjusted returns on its loan portfolio.

To attain this goal, the Bank’s strategy is to

- Expand its position as the “Bank for the North” with a strong regional focus on northern Germany, and Scandinavia and the Baltic sea region;
- Expand its offering of specialised financing solutions in selected niche markets; and
- Expand its capital markets activities to optimise its funding, to improve its risk/return structure and to give its clients access to sophisticated financing solutions.

## **Overview of Organisation**

At 31 December 2001, the Bank had six business areas, each of which comprised one or more units. The following list provides an overview of the Bank’s business areas as of 31 December 2001:

- Commercial Lending, comprising
  - Corporates, which comprises financial products and services for medium sized companies and the customers of the savings banks of Schleswig-Holstein;
  - Private Banking, which comprises investment advisory and asset management services as well as special investment vehicles for wealthy private clients in Schleswig-Holstein and, to a lesser extent, other parts of Germany;
  - Savings Banks and Municipalities, which comprises refinancing, correspondent banking and advisory services and related products and services for the savings banks of Schleswig-Holstein, the administration in collaboration with the savings banks of certain promotional programmes

established by the Federal Republic of Germany, and the performance of a “house bank” function for the state and municipalities of Schleswig-Holstein;

- Scandinavia and Baltic Sea Region, which comprises the Bank’s commercial and investment banking activities in Scandinavia and the Baltic sea region, i.e., Denmark, Sweden, Norway, Finland, Poland, Estonia, Latvia and Lithuania;
- International Financial Institutions and International Corporates, which comprises financial products and services for international financial institutions, insurance companies and governments as well as international corporate customers;
- Real Estate Finance, which comprises wholesale commercial and residential real estate finance; and
- Landesbank Schleswig-Holstein International, S.A. (“**LI**”), which comprises the commercial lending and private banking products and services of the Bank’s Luxembourg subsidiary.
- Transport and Structured Finance, comprising
  - Ship Finance; and
  - Other Transport and Structured Finance, which comprises aviation, railway, logistics and infrastructure finance and leasing refinance.
- Capital Markets Activities, comprising
  - Sales and Trading, which comprises fixed income and equity trading and sales, foreign exchange, money markets and derivatives trading, and capital markets research; and
  - Asset Liability Management, which is responsible for the group-wide management of the Bank’s financial resources and for managing its strategic risk/return structure.
- *Landes-Bausparkasse* (“**LBS**”), which is economically and operationally independent from the rest of the Bank, comprising government-sponsored real estate finance for the retail customers of the savings banks of Schleswig-Holstein.
- *Investitionsbank* (“**IB**”), which is economically and operationally independent from the rest of the Bank, comprising promotional lending activities, in the areas of housing, small and medium sized enterprises (“SMEs”), municipalities and certain other areas.
- *Hamburgische Landesbank* (“**HLB**”), comprising the Bank’s 49.5% interest in HLB, a Landesbank active in, among other things, corporate banking, real estate finance, ship finance and credit investments.

The following table provides a breakdown of the Bank’s net interest, commission and trading income by business area for the year ended 31 December 2001:

## Net interest, commission and trading income by business area<sup>(1)</sup>

	<b>For the year ended 31 December 2001</b>
	<i>(€ in millions)</i>
Commercial Lending.....	273
Transport and Structured Finance .....	91
Capital Markets Activities.....	104
LBS .....	40
IB.....	16
HLB <sup>(2)</sup> .....	463
Other <sup>(3)</sup> .....	107
Total .....	<u>1,094</u>

(1) Columns may not add due to rounding.

(2) As the Bank consolidates HLB according to the proportional consolidation method, the figure includes only 49.5% of the net interest, commission and trading income of HLB. For more information on the principles governing the consolidation of HLB.

(3) Includes net interest, commission and trading income not allocable to any other business area and intra-bank consolidation items.

Effective 1 January 2002, in part in response to the impending abolishment of Maintenance Obligation and Guarantee Obligation, the Bank has decided to make certain changes to its organisational structure, which it believes better aligns its activities with the strategic mission and expertise of its various business areas and units. While the financial figures presented in this offering circular are based on the Bank's organisational structure as of 31 December 2001, the description of its various business areas takes into account the organisational changes that have occurred since 1 January 2002. These changes, which the Bank is in the process of implementing, may be summarised as follows:

- Effective 1 January 2002, the Bank's Commercial Lending business area has become responsible for the Bank's leasing refinance business, which was formerly handled by its Transport and Structured Finance business area.
- The Bank's IB business area has assumed the responsibility for the administration in collaboration with the savings banks of certain promotional programmes established by Federal Republic of Germany from the Bank's Commercial Lending business area.
- In addition, the Bank has reallocated the internal division of responsibilities between the units of certain business areas, as described in greater detail in connection with the discussion of the relevant business areas.

### **Commercial Lending**

In 2001, the Bank's Commercial Lending business area generated net interest, commission and trading income of € 273 million, contributing 24.9% to its total net interest, commission and trading income in that year.

The monthly average balance of the interest earning assets of the Bank's Commercial Lending business area in that year was € 50,090 million.

### **Corporates**

*Products and services.* In its Corporates unit, the Bank offers a wide range of commercial banking products and services. The Bank's historic focus was to provide long-term financing to medium sized enterprises located in Schleswig-Holstein and other parts of Germany. In recent years, the Bank has begun to enlarge its portfolio to include short-term operating credits and advisory services. At the same time, the Bank has started to expand its activities beyond the German border. At 31 December 2001, the Bank's Corporates loan portfolio was € 5,084 million, compared with € 4,584 million at 31 December 2000. In 2001, the Bank utilised accumulated individual value adjustments in the amount of € 9 million to write off loans in its Corporates loan portfolio and made net

new individual value adjustments in the amount of € 23 million. At 31 December 2001, the Bank's accumulated individual value adjustments on loans to corporate customers were € 92 million, and the total amount of loans to corporate customers on which individual value adjustments had been made was € 168 million. In 2001, the monthly average balance of the interest earning assets of the Corporates unit was € 4,260 million.

The Bank's corporate lending activities in its home market, northern Germany, and especially Schleswig-Holstein, focuses on medium sized enterprises, i.e., enterprises with annual revenues of at least € 15 million. The Bank believes that these companies, which form the backbone of the German economy, are natural targets of the Bank, as it is able to provide them with products and services that are not easily available to them from the local savings banks. Among these companies, the Bank seeks to identify those that it believes have a high growth potential. The Bank's goal is to build close relationships with these companies and to act as their principal bank.

The Bank also serves medium and large sized companies outside its home market. In doing so, the Bank concentrates on companies in the health care, utilities, automotive and energy sectors, which are industries in which the Bank possesses special know-how. In the energy sector, the Bank finances, among other things, alternative energy projects, such as wind parks. In regional terms, the Bank concentrates on Germany, and, increasingly, other parts of Western Europe, the United States and selected regions of Eastern and Central Europe.

In addition, the Bank collaborates with the savings banks of Schleswig-Holstein in developing innovative financial products and services for their customers. This collaboration with the savings banks focuses on commercial lending and trading. For the provision of other specialised products and services to the savings banks, the Bank earns fees and commissions, either from the banks themselves or directly from their customers.

The Bank's decision to supplement its offering of long-term financing with short-term operating credits and advisory services has been well-received by its customers, and the Bank is continuously enlarging its portfolio of financial products and services.

Effective 1 January 2002, the Bank has considerably enlarged the offering of its Corporates unit by transferring the principal responsibility for its leasing refinance business from its Other Transport and Structured Finance unit to its Corporates unit. In its leasing refinance business, the Bank refinances the cash flows of leasing companies both on a "recourse" and on a "non-recourse" basis. In other words, the Bank not only grants refinancing loans to leasing companies but also purchases receivables from them. In doing so, the Bank intends to build a diversified portfolio. The focus of the Bank's leasing refinance activities is on chattels, electronic data processing equipment, machinery and commercial real estate. To a lesser extent, the Bank also finances leasing transactions itself. While the Bank's business is currently predominantly national, the Bank plans to build on its success in Germany to strengthen its international activities in the future.

The Bank believes that the concentration of its corporate banking activities in a single unit positions it well to exploit the growing need of medium sized companies for innovative financing solutions and the international markets for leasing refinance. The Bank anticipates that, following the adoption of the Basel II Capital Accord, many medium sized companies will have difficulty qualifying for traditional debt financing. As a result, it expects that there will be a growing demand for alternative sources of financing priced consistently with the cost of obtaining funding in the capital markets.

In anticipation of this development, the Bank has recently reinforced its venture capital and private equity activities and is actively seeking new investment opportunities through two subsidiaries: Schleswig-Holsteinische Kapital-Beteiligungsgesellschaft mbH, which has been engaged in providing equity financing to companies located in Schleswig-Holstein for more than 30 years, and the newly formed LB Kiel Unternehmensbeteiligungsgesellschaft mbH subsidiary. Both companies invest in established enterprises in need of financing as well as startup companies that the Bank considers to have promising prospects. In addition, the Bank holds participations in several private equity funds.

Furthermore, the Bank offers a wide range of investment banking products and services through its LB Kiel Corporate Finance GmbH subsidiary. Effective 1 September 2002, HLB acquired a 50% stake in this entity, and the entity was renamed into LB Kiel Hamburg Corporate Finance GmbH ("**LB Kiel Hamburg CF**"). LB Kiel Hamburg CF provides consulting services in relation to merger and acquisition ("**M&A**") transactions, including the purchase and sale of equity stakes in companies, private equity funding and venture capital transactions. In addition, it offers advice in connection with capital market transactions, including securities offerings, listings and delistings, the implementation of stock option plans and the issuance of corporate and government bonds.

The activities of LB Kiel Hamburg CF concentrate on the energy, transport, logistics, real estate and health care industries. The Bank considers LB Kiel Hamburg CF to be a natural partner of medium sized enterprises in the formulation of business strategies and the development and implementation of innovative business methods. It also functions as a competence center for savings banks and their customers, which it offers a wide range of products and services, including market analyses, company evaluations and assistance with the search for investors. In addition, the Bank believes that the corporate finance expertise of LB Kiel Hamburg CF makes it an interesting partner of governments in the privatisation of state-owned enterprises.

*Sales and marketing.* In its dealings with medium sized companies in its home market, northern Germany, the Bank's principal sales and marketing strategy is to build close relationships with its customers. In industries where it possesses special expertise, such as health care, utilities, automotive and energy, the Bank considers relationship banking to be of critical importance. Accordingly, the Bank has established a network of key account managers, who are responsible not only for existing customers but also for making direct contacts with potential new customers. Outside its home market, the Bank relies on a mixture of key account managers and participations in loan syndicates, depending on its position in the relevant markets. As far as its corporate finance activities are concerned, the Bank is currently in the process of building a sales and marketing organisation.

*Competition.* In dealing with medium sized companies in northern Germany, the Bank primarily competes with commercial banks and other public banks. Outside this market, the Bank also competes with a wide variety of other banks. In the leasing refinance business, which has been dominated by German Landesbanks for many years, the Bank's main competitors are other Landesbanks. In its corporate finance business, the Bank competes in niche markets. Its competitors in this field are other German banks and, to a limited extent, globally operating investment banking firms.

### ***Private Banking***

*Products and services.* The Private Banking unit serves wealthy private clients, primarily in Schleswig-Holstein but also in other parts of Germany. At 31 December 2001, it maintained custodial accounts with assets of € 717 million for its customers and had assets of € 117 million under management. In 2001, the monthly average balance of the interest earning assets of the Private Banking unit was € 380 million.

The offering of the Private Banking unit comprises investment advisory and asset management services as well as special investment vehicles, which are products that the Bank has designed to enable its customers to make interest arbitrage gains by taking out foreign currency denominated loans in order to purchase securities or life insurance contracts and using the income derived from these instruments to repay the loans. The Bank targets this offering at wealthy private clients who live in Schleswig-Holstein and who meet certain threshold criteria in terms of net worth. In the past, the Bank also accepted customers who did not fulfil the aforementioned threshold criteria. While the Bank continues to provide asset management services to its existing retail customers, it does not accept new retail customers.

Due to the limited size of the Bank's private banking business and because there exists a certain amount of overlap between the Bank's clients and the customers served by savings banks of Schleswig-Holstein, various options for divesting the Private Banking unit are currently being considered. Among other things, the Bank intends to transfer the unit's expertise for the investment vehicles described above to its Corporates unit.

*Sales and marketing.* The focus of the Private Banking unit's sales and marketing activities is to provide its customers with superior service. In doing so, the Bank hopes to persuade its existing clients to recommend it to third parties. In addition, the Bank advertises its products and services in the media and by sponsoring events. The Bank also publishes a bulletin that it distributes to clients.

*Competition.* The Bank's main competitors are German private banks, especially those located in and around Hamburg. In addition, it competes with internationally operating banks.

### ***Savings Banks and Municipalities***

*Products and services.* In its Savings Banks and Municipalities unit, the Bank provides a variety of products and services to the savings banks of Schleswig-Holstein and, to a more limited extent, to savings banks located in other parts of Germany. In addition, the unit acts as a government and municipal bank for the state of Schleswig-Holstein.

Until 31 December 2001, the Bank's Savings Banks and Municipalities unit was also responsible for collaborating with the savings banks in the administration of various government-funded promotional programmes established by the Federal Republic of Germany. In connection with the recent reorganisation of Bank's business, however, effective 1 January 2002, the responsibility for administering these programmes has been transferred to the Bank's IB business area. In 2001, the monthly average balance of the interest earning assets of the Savings Banks and Municipalities unit was € 12,953 million. The Savings Banks and Municipalities unit is substantially less profitable than its other business areas and units.

As the central clearing bank for the savings banks of Schleswig-Holstein, the Bank maintain close ties with the savings banks of Schleswig-Holstein and, to a more limited extent, to savings banks located in other parts of Germany. The Bank's traditional role was to offer these banks correspondent banking services, including liquidity and refinancing. In order to increase the profitability of its Savings Banks and Municipalities unit, the Bank has recently begun offering the savings banks, among other things, access to the products and services offered by its Capital Markets Activities business area, such as investment opportunities in the money markets as well as settlement and custodian services for securities held by them or their customers. In the future, the Bank intends to also offer the savings banks a broad range of advisory services, e.g., in relation to the structuring of their balance sheets. In addition, the Bank cooperates with the savings banks in developing and providing innovative products and services for their customers. More recently, the Bank has extended its cooperation with the savings banks to other areas. For example, in 2000, the Bank created a common payment clearing platform in collaboration with the savings banks of Schleswig-Holstein and Hamburger Sparkasse. Several follow-on projects are currently being prepared.

The Bank also acts as a government and municipal bank for the state of Schleswig-Holstein. In this capacity, it advises the state government and its municipalities on financial matters and extends loans to state and local governments.

*Sales and marketing.* The Bank believes that its historic relationship and close contact with the savings banks and the government and municipalities of Schleswig-Holstein greatly facilitates its sales and marketing activities in this area. In addition, the savings banks frequently contact the Bank out of their own initiative to request products and services.

*Competition.* Given its traditional role as the central clearing bank for the savings banks of Schleswig-Holstein, the Bank considers itself a natural partner of these banks in a number of areas. Owing to the Bank's status as a state bank, the same applies to its dealings with the state government and municipalities. As a result, the Bank faces a limited amount of competition in this area of its business.

### ***Scandinavia and Baltic Sea Region***

*Products and services.* The Scandinavia and Baltic Sea Region unit is responsible for coordinating the Bank's activities in Scandinavia and the Baltic sea region, which the Bank considers to be one of the most interesting economic regions in Europe given its high technological potential and liberal regulatory environment. Consistent with the Bank's strategic goal to establish itself as the "Bank for the North", the Bank considers Scandinavia and the Baltic sea region to encompass Denmark, Sweden, Norway, Finland, Poland, Estonia, Latvia and Lithuania. In 2001, the monthly average balance of the interest earning assets of the Bank's Scandinavia and Baltic Sea Region unit was € 4,998 million.

The commercial banking activities of the Scandinavia and Baltic Sea Region unit are coordinated by the Bank's Copenhagen branch, which it acquired from former WestLB in 1996 and which has emerged as one of the leading foreign banks in Scandinavia and the Baltic sea region. In dealing with its customers, the branch uses the "LB Kiel" brand. The branch is supported by a network of three other branches and representative offices in Sweden, Norway and Finland. In addition, in 1995, the Bank was one of the first foreign banks to open a representative office in Tallinn, Estonia, which are managed directly by the Bank's headquarters in Kiel. The Bank's Tallinn office functions as a hub for activities in the Baltic countries, Estonia, Latvia and Lithuania.

The target customers of the Scandinavia and Baltic Sea Region unit are the 100 largest companies in each of the countries in which the unit is active, provided that they either are listed on a stock exchange or have revenues of at least € 130 million. In targeting these companies, the Bank aims not to compete with the local banks of Scandinavia and the Baltic sea region, but rather tries to become the preferred "second" bank of these companies. The Bank's Copenhagen branch is actively engaged in structured finance and leasing refinance. A further focus of its commercial banking activities is the financing of real estate projects. In recent years, the

Bank participated in several high-profile projects in various countries of Scandinavia and the Baltic sea region, including a new building for the University of Jyväskylä in Finland.

The Bank's Copenhagen branch maintains close ties with the regional banks of Scandinavia and the Baltic sea region, with which it collaborates in, among other things, the syndicated loan market. The Bank believes that these banks perceive its Copenhagen branch as a German bank with a selected interest in Scandinavia and the Baltic sea region that does not actively compete with them in the retail market. This perception has fostered a close relationship between the Bank's Copenhagen branch and especially the smaller local banks, which has turned the branch into a trusted partner of these banks. The Bank believes that the local banks of Scandinavia and the Baltic sea region, especially those located in Denmark and Norway, already regard it as their preferred provider of liquidity and refinancing. Similar to its approach in Schleswig-Holstein, where it built upon the historic relationship with the local savings banks in order to offer them advisory services and innovative financial products and services for their customers, the Bank intends to strengthen its relationship with the local banks of Scandinavia and the Baltic sea region by offering them innovative products and services. For example, the Bank is currently developing an Internet-based trading platform for these banks.

In Scandinavia and the Baltic sea region, the Bank has recently begun to provide investment banking services through two subsidiaries: Gudme Raaschou Bankaktieselskab, which is domiciled in Denmark, and PCA Corporate Finance Oy, a company based in Finland of which the Bank owns 71%. Both firms closely cooperate with the Bank's recently formed subsidiary LB Kiel Hamburg Corporate Finance GmbH, which is responsible for the Bank's investment banking activities in Germany. See "–Corporates" for more information on the German corporate finance business. In providing investment-banking services, the Baltic Sea Region unit focuses on companies that are too small to warrant the attention of global investment banking firms. It should be noted that in its 2001 financial statements, the Bank did not account for its investment banking activities in Scandinavia and the Baltic sea region in its Scandinavia and Baltic Sea Region segment. Instead, it accounted for the net interest, commission and trading income of Gudme Raaschou in the Other segment. In addition, the Bank did not consolidate PCA Corporate Finance in its 2001 financial statements.

*Sales and marketing.* The Scandinavia and Baltic Sea Region unit generates almost all of its business using its own sales and marketing organisation. In doing so, it relies on a team of key account managers, who are in direct contact with approximately 200 of the largest companies of Scandinavia and the Baltic sea region, and special project managers.

*Competition.* The Bank's Copenhagen branch competes with both foreign and domestic banks. In dealing with large international companies, it faces significant competition from various globally operating commercial banks based in London. In the small and medium sized company segment, Bank's main competitors are the regional banks of Scandinavia and the Baltic sea region. The Bank believes that, given the ongoing consolidation of the banking sector in this region, its Copenhagen branch is well positioned to capture additional market share.

### ***International Financial Institutions and International Corporates***

*Products and services.* In its International Financial Institutions and International Corporates unit, the Bank provides financing to international financial institutions, sovereigns and insurance companies and is also engaged in export finance. In addition, the International Financial Institutions and International Corporates unit is responsible for providing intra-group refinancing to the Bank's subsidiaries and its economically and operationally independent business areas LBS and IB. Until 31 December 2001, the unit was also responsible for the Bank's international energy business. Effective 1 January 2002, however, the Bank transferred this business to its Corporates unit. In exchange, the International Financial Institutions and International Corporates unit assumed the responsibility for the Bank's "non-core" corporate customers as well as for leveraged and management buyout financings from the Bank's Corporates unit. "Non-core" corporate customers are customers operating both outside the Bank's core geographic regions, i.e., northern Germany, and Scandinavia and the Baltic sea region, and outside its core industries, i.e., transport, real estate, health care, utilities and energy. The Bank has renamed its International Financial Institutions and International Corporates unit "Financial Institutions/Syndications/Leveraged Finance". In 2001, the monthly average balance of the interest earning assets of the International Financial Institutions and International Corporates unit was € 12,401 million. Of this amount, however, € 4,814 million was accounted for by intra-group refinancing loans, which had no effect on the Bank's consolidated income statement.

The bulk of the Bank's dealings with international financial institutions, sovereigns and insurance companies, which is the fastest-growing business of its International Financial Institutions and International Corporates unit, is accounted for by participations in loan syndicates arranged by other banks. Going forward, the Bank expects that its margins in this business will come under pressure as a result of the abolishment of Maintenance Obligation and Guarantee Obligation. In response to this development, the Bank is currently in the process of shifting the focus of its syndicated lending business away from merely participating in loan syndicates arranged by third parties towards arranging syndicates itself and obtaining lead positions in them. To support this shift, the Bank intends to make active use of its loan syndication desk, which it opened in London in July 2002.

While the geographic focus of its business with international financial institutions, sovereigns and insurance companies is on the European Union and North America, the Bank is, to a lesser extent, also active in those Central and Eastern European countries that are expected to become EU members over the next several years. The Bank's activities in Central and Eastern Europe benefit from its geographic proximity to this region and its experience with industries in transitioning economies. To support its activities in this area, the Bank established a representative office in Tallinn, Estonia, in 1995. In addition, the Bank does a limited amount of business in selected countries in Asia and Latin America, which offer better margins than OECD countries. While its activities in these markets expose it to certain risks, the Bank believes that it possesses the expertise necessary to assess and successfully manage the exposure to these risks.

In the area of export finance, which remains a very important business, the Bank finances exports of companies, especially of companies located in Germany, and Scandinavia and the Baltic sea region. The focus of its export finance business is on the so-called emerging markets of this world, especially the growing markets of Latin America, the Middle East and Russia, which offer attractive opportunities in areas where the Bank believes that it has the ability to control the risks associated with doing business in these markets. Going forward, the Bank intends to shift the focus of its export finance business away from providing export finance credits itself towards arranging such credits.

The Bank believes that the international scope of its operations enables its International Financial Institutions and International Corporates unit to stay abreast of new developments in the world of finance and syndicated lending. Since its dealings with non-core corporate customers concentrate on syndicated lending, the Bank believes that the recent changes to its organisational structure, which resulted in the transfer of the responsibility for non-core customers from its Corporates unit to its International Financial Institutions and International Corporates unit effective 1 January 2002, naturally tie in with the traditional focus of this unit on syndicated lending.

*Sales and marketing.* The International Financial Institutions and International Corporates unit is supported by a network of sales representatives who pay regular visits to financial institutions, governments and insurance companies in foreign countries to seek positions in other banks' syndicates and to offer assistance with financing exports. The Bank hopes that, following its opening of a loan syndication desk in London in July 2002, it will be able to play a more active role in the syndicated lending market. In northern Germany, especially Schleswig-Holstein, and in Scandinavia and the Baltic sea region, the Bank also offers export finance credits to its customers directly.

*Competition.* The International Financial Institutions and International Corporates unit competes with a variety of international banks. As far as its provision of export finance credits to companies located in northern Germany, and Scandinavia and the Baltic sea region is concerned, the Bank's main competitors are the local banks active in these markets, including other Landesbanks and commercial banks.

### ***Real Estate Finance***

*Products and services.* In its Real Estate Finance unit, the Bank offers commercial and residential real estate finance, both in relation to the construction of new buildings and the purchase of existing buildings, and related advisory services. The Bank's customers comprise institutional investors, real estate developers, housing societies and wealthy private investors in Germany and abroad. In recent years, the Bank has focused its strategy away from being a pure lender to a provider of comprehensive financing and advisory services. At 31 December 2001, the Bank's real estate loan portfolio was € 9,230 million, compared with € 7,805 million at 31 December 2000. Virtually all of its outstanding real estate loans as of that date were secured by collateral. Approximately 71% of them were secured by senior mortgages and had a loan-to-value ("LTV") ratio of 60% or less. The LTV ratio measures the amount of a loan to the appraised market value of the underlying property. In 2001, the Bank

utilised accumulated individual value adjustments in the amount of € 5 million to write off loans in its real estate loan portfolio and made net new individual value adjustments in the amount of € 1 million. At 31 December 2001, the Bank's accumulated individual value adjustments on its real estate loan portfolio were € 50 million, and the total amount of its real estate loans on which individual value adjustments had been made was € 105 million. In 2001, the monthly average balance of the interest earning assets of the Bank's Real Estate Finance unit was € 8,150 million.

The following table shows a breakdown of the Bank's real estate finance loan portfolio by geographic region at 31 December 2001:

#### REAL ESTATE LOANS BY GEOGRAPHIC REGION<sup>(1)</sup>

	<b>As of 31 December 2001</b>
	<i>(€ in millions)</i>
Schleswig-Holstein .....	2,400
Germany (excl. Schleswig-Holstein) <sup>(2)</sup> .....	5,630
International .....	1,200
<b>Total</b> .....	<b>9,230</b>

(1) Column may not add due to rounding.

(2) Includes € 1,569 million of real estate loans purchased from another financial institution over a period of several years.

At 31 December 2001, about 62% of the Bank's real estate loan portfolio was accounted for by residential real estate projects, especially multi-family dwellings, with the remaining 38% being accounted for by commercial real estate projects.

The traditional focal point of the Bank's German real estate business was Schleswig-Holstein, which still accounts for approximately one quarter of its national activities today. In the early 1990s, the Bank expanded its operations beyond the borders of Schleswig-Holstein to other parts of Germany. Its domestic lending activities are currently concentrated in the metropolitan areas of the Western Germany, including Berlin, Hamburg, Cologne, Frankfurt and Munich.

In the past, the Bank also financed housing projects in eastern Germany. Due to the unfavourable demand situation in the eastern German market, however, the Bank has continuously reduced its activities in this market in recent years. At 31 December 2001, approximately one third of the Bank's total real estate loans were collateralised by properties located in eastern Germany. Approximately two thirds of these loans were either secured by senior mortgages on the first 60% of the appraised value of the underlying properties or guaranteed by the government. 21% of the Bank's total real estate loans as of 31 December 2001 were accounted for by loans to borrowers domiciled in eastern Germany.

The Bank's international real estate business, which has grown consistently over the past five years, focuses on the U.S. West and East Coast and Canada. In these regions, the Bank concentrates on central business district office buildings, shopping malls and multifamily dwellings in prime locations of metropolitan areas. In 2001, the Bank was engaged as a lead lender in three projects with an average size of \$ 100 million and participated in a number of syndicated financings arranged by third parties. To a more limited extent, the Bank is also active in the U.K. real estate market. In the future, the Bank intends to expand its international real estate activities to France, Poland, Hungary and the Czech Republic. In seeking new engagements in the international arena, the Bank is very selective and focuses on projects sponsored by institutional investors. When the Bank enters a new market, it typically starts out by participating in loan syndicates led by experienced local banks. As the Bank establishes a presence in a market, it makes direct contacts with potential customers and providers of ancillary services, such as lawyers, engineers and appraisers, and seeks lead positions.

In selecting new real estate business, the Bank focuses on buildings in prime locations with the potential for long-term leases to financially healthy institutions and wealthy private lessees. In its international lending business, the Bank ordinarily requires a LTV ratio of no more than 70% as a condition for financing new

projects. The Bank offers both fixed and floating rate financings with LTV ratios of around 70%, with 75% being the maximum it is willing to accept for senior mortgages. At 31 December 2001, the weighted average term of LB Kiel Group's real estate loans was 4.1 years.

*Sales and marketing.* The Bank maintains a network of relationship managers who are continuously out in the market contacting customers directly. It is also in frequent contact with other Landesbanks and commercial banks to form loan syndicates.

*Competition.* In Germany, the Bank's main competitors are other Landesbanks, mortgage banks, and, to a more limited extent, commercial banks. Internationally, the Bank competes with commercial banks, life insurance companies and conduit lenders. A conduit is an entity through which income may be flowed to the owners of the conduit without taxation at the conduit level. Instead, the income is taxed at the level of the owners of the conduit. The Bank believes that it operates in a niche market characterised by high volumes, low leverage and customised loans secured by quality property.

## **LI**

*Products and services.* The LI unit, which is organised as a legally independent subsidiary domiciled in Luxembourg, focuses on commercial lending and private banking. The Bank formed its LI unit to improve its presence in one of the leading financial market places in the world and to facilitate its access to the euro money markets. In 2001, the monthly average balance of the interest earning assets of the Bank's LI unit was € 7,497 million. Of this amount, however, only € 6,949 million related to assets that were accounted for in the Bank's Commercial Lending business area. The balance of € 548 million related to assets accounted for in Bank's Transport and Structured Finance business area.

The commercial lending activities of the LI unit focus on participations in international loan syndicates. In extending loans to corporate customers and banks, the unit collaborates with other units of the Bank, especially the Corporates unit and the International Financial Institutions and International Corporates unit. To a more limited extent, the LI unit also collaborates with the Ship Finance unit and Other Transport and Structured Finance unit. Accordingly, for financial reporting purposes, the Bank allocates the net interest income generated by its LI unit from syndicated lending among its Commercial Lending segment and its Transport and Structured Finance segment. In 2001, the monthly average balance of interest earning assets administered by the LI unit in collaboration with the International Financial Institutions and International Corporates unit was € 643 million, whereas the monthly average balance of interest earning assets administered by the LI unit in collaboration with the Bank's Ship Finance unit and its Other Transport and Structured Finance unit was € 548 million. In addition to participating in loan syndicates, the LI unit works together with the Corporates unit and the savings banks of Schleswig-Holstein and other parts of northern Germany to offer the customers short and medium term euro financings, an area in which the LI unit has special expertise. In cooperation with the Corporates unit, the LI unit is also active in leasing refinance, where it focuses on discrete aspects of complex leasing refinance transactions. While the LI unit is equipped to operate on a stand-alone basis, it receives back office support from other units of the Bank, including in the area of risk management.

In its private banking business, which operates independently of the Private Banking unit, the LI unit offers clients with deposits of at least € 50,000 a variety of private banking products and services. Its portfolio includes deposit-taking, securities custody accounts, asset management, lombard credits, i.e., collateral loans for the purchase of securities, and the purchase and sale of precious metals. The LI unit possesses special expertise in the area of convertible bonds. In addition, it operates three investment funds of its own.

*Sales and marketing.* In its commercial lending business, the LI unit maintains close contact with its customers and collaborates with other units of the Bank to originate new business.

In the area of private banking, the LI unit relies on brokers, referrals by its existing customers, other business areas and units of the Bank and the savings banks of Schleswig-Holstein.

*Competition.* Because the LI unit closely aligns its commercial lending activities with other units of the Bank, it does not itself actively compete in the marketplace.

## **Transport and Structured Finance**

The Bank's Transport and Structured Finance business area provides a wide range of conventional and structured financing solutions to companies in the shipping industry on the one hand and the aviation, railway, logistics and infrastructure industries on the other. It is also active in leasing refinance and advises governments in connection with the privatisation of state-owned infrastructure. The Bank's goal is to cover all sectors of the transport industry. Despite the Bank's decision to transfer the principal responsibility for its leasing refinance business to its Corporates unit effective 1 January 2002, due to the importance of industry-specific know-how in the transport industry, the Transport and Structured Finance business area remains responsible for leasing refinance insofar as it relates to transport.

The portfolio of financial products and services offered by the Transport and Structured Finance business area comprises corporate loans, lease financings, asset-backed financings, project financings, investment credits, pre-delivery financings, export credit financings and advisory services. The customers include manufacturers, operators and international lessors of transport infrastructure and vehicles. The Bank frequently acts as arranger and underwriter, in particular with respect to aircraft financings.

In 2001, the Transport and Structured Finance business area had net interest, commission and trading income of € 91 million, contributing 8.3% to LB Kiel Group's total net interest, commission and trading income in that year. In 2001, the monthly average balance of the interest earning assets of the Transport and Structure Finance business area was € 9,768 million. This amount includes monthly average balances of interest earning assets of the Bank's LI unit in the amount of € 548 million. While the LI unit is described in the Bank's Commercial Lending business area, for financial reporting purposes, interest income generated by these assets is reflected in the Transport and Structured Finance business area.

### ***Ship Finance***

*Products and services.* The Ship Finance unit assists shipping companies with financing the construction and purchase of new ships as well as the acquisition and conversion of second hand vessels. In addition, it funds the working capital needs of companies active in this industry. To a limited extent, the unit is also active in financing shipyards (mostly construction period finance), especially in Schleswig-Holstein. The Bank's strategic focus is on corporate customers that own a number of ships and that have long-term relationships with their customers, which ensures that their vessels are fully utilised.

At 31 December 2001, the loan portfolio of the Ship Finance unit was € 4,280 million, compared with € 3,600 million at 31 December 2000. In 2001, the Bank did not utilise any of its accumulated individual value adjustments on loans in its ship loan portfolio and made net new individual value adjustments in the amount of € 8 million. At 31 December 2001, Bank's accumulated individual value adjustments on its ship loan portfolio was € 16 million, and the total amount of ship loans on which individual value adjustments had been made was € 40 million. In 2001, the monthly average balance of the interest earning assets of the Ship Finance unit was € 4,254 million.

By spreading its lending activities across different segments of the shipping industry, including container ships, bulk cargo ships, oil tankers, chemical tankers, cruise ships and passenger ferries, interim construction financing, roll-on/roll-off and car ferries, and offshore (i.e., infrastructure used by oil companies to operate platforms located in maritime areas), and across different geographic regions, the Bank seeks to insulate itself from the business cycles experienced by its customers.

The Bank's ship finance business is predominantly international. The largest part of its international loan portfolio is accounted for by loans to shipping companies based in Scandinavia, Greece, North America and selected markets in Asia.

Consistent with the Bank's function as a Landesbank, the focus of its German ship finance business is to fund the shipyards of Schleswig-Holstein, primarily in connection with the construction of new ships. In addition, the Bank finances shipping companies domiciled in Schleswig-Holstein. To a more limited extent, the Bank also provides financing to shipping companies located in other areas of Germany. Despite its size, however, it does not consider Germany a strategic focus of its business. The reason is that most German shipping companies own only one ship and have no direct access to cargo business. Given the relatively small size of these companies and the volatility of their business, the Bank considers Germany to be a less interesting market than the larger international markets in which it does business.

In Scandinavia and the Baltic sea region, the Bank is among the leading foreign providers of ship loans and maintains close ties with virtually all shipping companies of the region.

The Bank's ship finance business outside Germany, and Scandinavia and the Baltic sea region is coordinated through the Bank's London office. Since the opening of this office in 1995, the Bank's international business has grown steadily. In North America, the Bank is among the leading ship finance banks and does business with approximately two-thirds of the 18 companies that are considered targets in this market. In Asia, a region where the regulatory environment varies significantly from country to country, the Bank focuses on the main shipping markets, i.e., Japan, Hong Kong, Taiwan and Singapore.

While participations in loan syndicates organised by other banks currently account for the majority of its ship finance business, the Bank intends to compete for more lead positions in the future. The Bank believes that its strategic focus on corporate customers with long-term financing needs has enabled it to create a secure loan portfolio. As mentioned above, in 2001, the Bank did not utilise any of its accumulated individual value adjustments to write off ship loans. To preserve the quality of its ship loan portfolio, the Bank carefully evaluates the management of potential customers and the cash flow of proposed projects before agreeing to provide financing. In addition, it pays regular visits to its customers. With respect to second hand vessels, Bank's policy is to make inspections before approving proposed financings in order to assure itself of the condition of the ships in question. In assessing and managing the risks inherent in its ship loan portfolio, the Bank benefits from its in-house legal and insurance related expertise.

*Sales and marketing.* In Germany, the Bank maintains close relationships with the major shipping companies and the shipyards of Schleswig-Holstein, who contact it out of their own initiative when they need funding. Outside Germany, the Bank relies on a network of sales representatives, who regularly visit existing and potential new customers. In addition, the banks active in the international ship lending markets, including the Bank itself, are in close contact with each other and frequently call on their peers to participate in loan syndicates.

*Competition.* The Bank's main competitors in the ship finance business are the Scandinavian banks, which are active in a number of markets around the world. In addition, the Bank competes with German, French and Dutch banks.

### ***Other Transport and Structured Finance***

*Products and services.* Based on its strong position in the ship finance market and the expertise that it has gained since it entered this business in the 1950s, the Bank made the strategic decision in the early 1990s to enter the market for aviation finance. The Bank made its entry at a time when the Gulf war caused a great deal of volatility in the market, which prompted many finance providers to withdraw, thereby opening up opportunities for the Bank. In entering the aviation finance business, the Bank benefited from its experience in the ship finance industry, which is a similarly cyclical business. Over the past decade, the Bank has been able to acquire expertise in the financing of a broad range of aircraft and has been involved in the arranging, structuring and underwriting of a wide range of financial products and services, such as tax leases. For example, in 1998, the Bank acted as agent, underwriter and syndication agent in one of the largest cargo aircraft financings undertaken in Europe to this date. In addition to financing standard commercial aircraft, the Bank has acquired expertise in selected niche markets, including cargo and regional aircraft. In the wake of the wave of privatisations that hit Europe in the mid-1990s, the Bank entered the international market for railway finance. More recently, the Bank has branched out into logistics and infrastructure finance, where it focuses on financing containers, harbours, airports and distribution centers.

At 31 December 2001, the loan portfolio of the Other Transport and Structured Finance unit was € 5,312 million, compared with € 4,144 million at 31 December 2000. In 2001, the Bank utilised accumulated individual value adjustments in the amount of € 2 million to write off loans in its other transport and structured finance loan portfolio and made net new individual adjustments in the amount of € 12 million. At 31 December 2001, the Bank's accumulated individual value adjustments on its other transport and structured finance loan portfolio were € 43 million, and the total amount of other transport and structured finance loans on which individual value adjustments had been made was € 98 million. In 2001, the monthly average balance of the interest earning assets of the Other Transport and Structural Finance unit was € 4,966 million. The aforesaid numbers reflect figures from the Bank's leasing refinance business, which were accounted for in the Other Transport and Structured Finance unit until 31 December 2001. In connection with the recent reorganisation of its business, the Bank transferred the principal responsibility for its refinance business to its Corporates unit effective 1 January 2002.

Similar to its approach in the ship finance business, the Bank pursues a conservative risk strategy in financing aviation, railway, logistics and infrastructure finance projects. The great majority of the Bank's financings are secured by collateral, and the Bank evaluates its borrowers thoroughly before extending new loans. When the Bank is asked to provide asset-related financing, its procedures include obtaining appraisals of the relevant assets. After granting a new loan, the Bank constantly updates its information on the borrower and keeps in close contact with its management.

Although the aviation industry has suffered a setback as a result of the terrorist attacks of 11 September 2001, the Bank expects the situation on the financing side to improve. The Bank also sees good prospects for its railway finance business. The Bank's goal is to take part in the upcoming privatisation of the European railway networks and to finance independent railway operators as they build their own operations. In addition, it intends to expand its financing activities in the United States. The Bank considers the U.S. market to be especially interesting, as the companies in these markets demand specialised services that are too complex for many commercial banks.

As far as logistics and infrastructure finance is concerned, the Bank believes that it is well-positioned for further growth. The Bank was involved in three of the first four privately financed infrastructure projects in Germany as a financial advisor, including the Trave tunnel, the Strelasund crossing and the Hochmosel crossing, and believes that as a result of its successful participation in these projects, it has become a valued partner of the German government when it comes to advising on the privatisation of existing, and the financing of new, infrastructure projects. In addition, the Bank is in the process of rolling out its logistics and infrastructure finance business in Scandinavia and the Baltic sea region, where it is financing, among other things, a highway in Norway.

In 2001, the Bank closed a \$ 643 million synthetic securitisation of a part of its aviation loan portfolio to free up capital and credit lines for new business. Securitisation is the process of distributing risks among investors by repackaging loans and selling securities that entitle their holders to some or all of the repayments on the loans.

*Sales and marketing.* The Bank's primary goal is to make frequent and direct contact with potential customers in order to generate business directly, rather than through other banks.

In addition, the Bank seeks to maintain good relationships with other banks, which allows it to form syndicates and to participate in syndicates arranged by third parties. In recent years, the Bank has increased its market presence through its London office, which it opened in 1995. To improve its presence in the syndication market, the Bank plans to make active use of its loan syndication desk, which it opened in London in July 2002. The planned formation of a branch in New York in the course of this year will provide the Bank with direct access to North America which is the world's most important transport finance market.

*Competition.* In the aviation, railway, logistics and infrastructure finance industry, the Bank mainly competes with European banks. Over the past several years, capital market-based financings have become an additional source of competition, especially in the area of aviation finance.

### **Capital Markets Activities**

The Capital Markets business area is engaged in the sales and trading of securities. In addition, it is responsible for managing the Bank's financial resources.

In 2001, the Capital Markets business area had net interest, commission and trading income of € 104 million, contributing 9.5% to the Bank's total net interest, commission and trading income in that year. For financial reporting purposes, the Bank's net trading income of the Capital Markets Activities business area includes income of the Bank's Scandinavia and Baltic Sea Region unit and, to a limited extent, the Bank's LI unit, both of which form part of the Bank's Commercial Lending segment.

The main sources of Bank's medium and long term funding are the issuance of bonds, especially mortgage and municipal bonds, its Global Medium Term Note Programme and deposits from customers. The main sources of Bank's short term funding are interbank borrowings, its Euro Commercial Paper programme and its U.S. Commercial Paper programme. At 31 December 2001, Bank had issued and outstanding securities of € 33,023 million. In 2001, Bank issued securities in the amount of € 13,190 million. In 2001, the monthly average balance of the interest earning assets of the Capital Markets Activities business area was € 21,484 million. In July 2002, Bank initiated a new programme under which it plans to finance its ABS portfolio by transferring portions from its balance sheet to independent entities that refinance them in the commercial paper market.

## ***Sales and Trading***

*Products and services.* The Bank engages in proprietary and customer related trading and sales of fixed income, equity, foreign exchange and money market instruments. Fixed income instruments pay a fixed rate of return or a return that is fixed based on objective criteria. Issuers of such instruments include governments, municipalities, banks and corporate customers. Equity instruments give investors a claim on a portion of an issuer's net income as well as on the residual value of its business in the event of liquidation. Common stock is the most widespread equity instrument. Foreign exchange instruments are instruments relating to non-euro denominated currencies. Money market instruments are forms of debt that mature in less than two years and are very liquid. In addition, the Bank trades in a wide range of derivatives, including interest rate swaps, currency swaps, options and forwards. Interest rate swaps are arrangements whereby two parties enter into an agreement to exchange periodic interest payments. One party typically agrees to pay the other party a fixed rate of interest in exchange for a floating rate. In a currency swap, two parties sell each other a currency with a commitment to re-exchange the principal amount at the maturity of the deal. Options are contracts that permit the option holder, depending on the type of option, to purchase or sell an asset or currency at a fixed price or exchange rate on or before a specified date. Forwards are contracts in which the seller agrees to provide the buyer with a fixed amount of a currency or commodity at a given future date at a fixed rate of exchange or price. The Bank typically enters into derivative contracts only to hedge certain risks so as to limit its exposure to these risks.

One purpose of the Bank's proprietary trading activities is to support its short-term liquidity management and the management of its short-term exposure to foreign currency risk. To manage its short-term liquidity, the Bank trades money market instruments in the inter-corporate and inter-bank markets. In trading money market instruments, the Bank focuses on loans, deposits, repurchase and reverse purchase agreements, commercial paper and government bills. A repurchase agreement is the current sale of an asset with a simultaneous agreement to repurchase the asset at a specified price at a given future date. The arrangement is economically equivalent to a loan for the original seller using the asset as collateral. A reverse repurchase agreement is the purchase of an asset with a simultaneous agreement to resell the asset at a specified price on a given date. Reverse repurchase transactions are economically equivalent to extension of a loan that is secured by the asset to which the agreement relates. Commercial paper is an umbrella term for unsecured, short-term loans. To hedge its exposure to foreign currency risk, the Bank acquires spot, forward and option positions in a wide range of currencies of member countries of the Organisation for Economic Co-operation and Development.

Another purpose of the Bank's proprietary trading activities is to generate trading income within the Bank's authorised limits, in particular its Value at Risk ("**VaR**") limits. VaR is a statistical risk measure for calculating the market risk of a portfolio of financial instruments, assets and/or liabilities. It can be defined as the maximum potential change in the value of any such portfolio that may arise due to fluctuations of certain parameters. See "Risk Management—Organisational Framework" for more information on the Bank's risk management and "Risk Management—Market Risk" for information on how the Bank calculates and uses VaR.

Besides trading securities for its own account, the Bank purchases and sells securities for its customers acting as their broker. Its customers include the savings banks of Schleswig-Holstein and certain institutional investors, especially mutual funds and insurance companies. Over the past several years, the Bank has developed a sizeable special funds business. Currently it provides advisory and custodial services to more than 60 special funds.

In addition to the sales and trading of securities, the Bank engages in capital markets research. In connection with its research activities, the Bank publishes reports on selected industries, such as alternative energies and utilities. Its research activities are an important source of new business for its sales and trading related activities. Going forward, the Bank intends to shift the focus of its research from primary to secondary research, i.e., in addition to doing research on enterprises that are active in industries in which the Bank possesses special expertise, it intends to compile information published by other institutions, such as investment banking firms, and to prepare tailored reports based on this information for its customers.

*Sales and marketing.* The Bank uses key account managers to serve its customers. To improve its customer orientation, the Bank is currently in the process of creating a sales platform that puts its key account managers in direct touch with the Bank's specialist units, thereby enabling them to offer clients tailor-made solutions and to realise the benefits of cross-selling.

*Competition.* Given the Bank's historic relationship with the savings banks of Schleswig-Holstein, it does not face significant competition in dealing with them. In its dealings with institutional investors and corporate clients, the Bank mainly competes with large commercial banks, other Landesbanks and cooperative banks.

## ***Asset Liability Management***

The purpose of the Bank's asset liability management is to manage its financial resources, including liquidity, equity capital, debt capital and the Bank's strategic risk/return structure. Maintaining a strategic risk/return structure means keeping a balance between the returns that the Bank wants to achieve and the risks that it has to take on in order to achieve these returns. The Bank is currently in the process of reorganising its asset liability management activities and hopes to complete this process by the end of this year. The purpose of this reorganisation is to unify and standardise Bank's asset liability management on a bank-wide basis and, ultimately, to achieve an optimal capital allocation across the LB Kiel Group. While the LI unit and Bank's Copenhagen branch will continue to manage their financial resources independently until the Bank has completed this process, they cooperate with the rest of the Bank's group in their asset liability management.

A key function of Bank's asset liability management is to ensure that the Bank maintains a sufficient cash flow to fund its operations and to meet its obligations and other commitments in a timely and cost-effective manner. The Bank funds its short-term liquidity needs mainly through its European and U.S. Commercial Paper programs and through repurchase agreement facilities established with the European Central Bank, the Swiss National Bank and the Danish National Bank.

In addition, the Bank's asset liability management is responsible for managing its structural interest rate risk. Structural interest rate risks arise from the differing repricing characteristics of the Bank's assets and liabilities. The Bank analyses its structural interest rate risk by assessing its outstanding assets and liabilities for both fixed and floating rate products. The Bank's policy is to keep its structural interest rate risk at a conservative level, i.e., it tries to structure its assets and liabilities in a way so that changes in interest rates do not have a significant impact on the LB Kiel Group's net interest income. To this end, the Bank typically match-funds new transactions, i.e., the Bank finances each new asset with a liability of a similar maturity. As a result, increases or decreases in the value of the LB Kiel Group's assets are typically compensated by corresponding increases or decreases in the value of the LB Kiel Group's liabilities and vice versa. Similarly, increases or decreases in the LB Kiel Group's interest income are typically compensated with similar increases or decreases in the LB Kiel Group's interest expense and vice versa. In special situations, however, e.g., when the Bank has the opportunity to obtain additional maturities at a favourable price, the Bank funds new transactions with longer-term funding.

The Bank is currently in the process of implementing a new project aimed at optimising the allocation of capital across its various business areas. Under the new system, once implemented, the Bank will allocate capital to its various business areas on the basis of a competitive bidding process. Each business area will have to pay for the capital that it employs in its projects. The Bank expects that the creation of this internal market place for capital will enable it to allocate capital more dynamically.

To support its asset liability management, the Bank is actively engaged in devising structured finance solutions. Structured finance is a technique for isolating assets with more or less predictable cash flows and using these assets as collateral for newly issued securities. This technique allows the originator of the assets to transfer the risks related to these assets to other market participants. One of the Bank's main applications of this technique is to securitise portions of its loan portfolio. In 2000, the Bank was the first Landesbank to package and place in the market a portfolio of real estate loans in an asset-backed securitisation of € 1 billion. In 2001, the Bank closed a \$ 643 million synthetic securitisation of a part of its aviation loan portfolio.

Over the past several years, the Bank has complemented its lending activities by considerably expanding its investments in highly rated asset-backed securities and other credit related products, such as credit default swaps. In a credit default swap, one party agrees, for an upfront or continuing fee, to compensate the other party upon the occurrence of a specified event such as the default or downgrading of an obligor. At 31 December 2001, the Bank's portfolio of asset-backed securities was € 3.70 billion and its portfolio of other credit-related products was € 6.95 billion, compared with portfolio sizes of € 1.05 billion and € 5.72 billion at 31 December 2000, respectively. At 31 December 2001, the LB Kiel Group's portfolio of credit-default swaps was € 3.06 billion, compared with € 0.53 billion at 31 December 2000.

## **LBS**

*Products and services.* The Bank's Landes-Bausparkasse ("**LBS**") business area, which is economically and operationally independent of the Real Estate Finance unit of the Commercial Lending business area, offers government-sponsored home loans and related interim financing to customers in Schleswig-Holstein. In 2001, the LBS business area generated net interest, commission and trading income of € 40 million, contributing 3.6%

to the LB Kiel Group's total net interest, commission and trading income in that year. In 2001, the monthly average balance of the LB Kiel Group's interest earning assets was € 1,599 million.

The Bank believes it is the leading home loan association in Schleswig-Holstein, where it operates in a mature market environment. To the extent it grants government-sponsored home loans (*Bauspardarlehen*), the Bank is required to operate its LBS business area as a "closed system", i.e., in funding new home loans, the Bank may use only cash flows generated by its LBS business area from payments by existing customers. This restriction does not apply to the provision by the LBS business area of interim financing. The special status of the LBS business area is reflected in the fact that the German banking regulator treats LBS as a separate financial institution.

*Sales and marketing.* The Bank markets its home loans mainly through the savings banks of Schleswig-Holstein. In addition, the Bank relies on a network of sales representatives. With these two distribution channels, the Bank covers the entire market in which it operates.

*Competition.* Although the Bank is the leading home loan association in Schleswig-Holstein, it faces intense competition from a variety of private home loan associations.

## **IB**

The Bank's Investitionsbank Schleswig-Holstein ("**IB**") business area is engaged in the promotion of small and medium sized enterprises, housing, environmental and energy technologies, and infrastructure projects in collaboration with local municipalities. In addition, it provides agricultural credits. The IB business area is also responsible for administering the INTERREG IIC promotional programme established by the European Union on an EU-wide basis. INTERREG IIC is an EU initiative financed by the European Regional Development Fund that seeks to stimulate interregional cooperation in Scandinavia and the Baltic sea region. In 2000, the IB business area opened a representative office in Brussels to deepen its relations with the EU institutions. In 2001, the IB business area had net interest, commission and trading income of € 16 million, contributing 1.5% to LB Kiel Group's total net interest, commission and trading income in that year. In 2001, the monthly average balance of its interest earning assets was € 5,186 million.

The Bank is subject to a special statute that requires it to operate its IB business area on a nonprofit basis and that in dealing with banks, e.g., in connection with refinancing promotional projects of these banks, it cause its IB business area to afford all banks, including the Bank itself, equal treatment. To give effect to these principles, the Bank is required to keep the activities of its IB business area economically and operationally separate from its other business areas. In return, the Bank's IB business area benefits from Maintenance Obligation and Guarantee Obligation.

In the sector of small and medium sized enterprises, the Bank's IB business area promotes the formation of new companies by providing startup advice and seed financing and also grants investment subsidies to existing enterprises. As far as housing is concerned, the Bank's IB business area promotes general and social welfare housing projects and the construction of student dormitories. In the area of environmental and energy technologies, the Bank's IB business area promotes environmentally friendly energy technologies and acts as an interface between the energy producing industry, public and private energy consumers and the relevant political decision-makers. In addition, consistent with its promotional function, the Bank's IB business area assists local municipalities with infrastructure projects, including the construction of schools and the preservation of historic monuments. Prior to 1980, the Bank's IB business area also granted agricultural loans, many of which had original maturities extending beyond 100 years.

On 11 March 2002, the Bank's owners mandated the Bank's management board to develop a plan for spinning off the IB business area into a separate legal entity. As a result of this transaction, the state of Schleswig-Holstein will become the sole owner of IB. The consummation of the spin-off is subject to, among other things, the approval of the parliament of Schleswig-Holstein. Because a considerable proportion of the LB Kiel Group's equity capital is accounted for by the equity capital of IB, the proposed spin-off could have a negative impact on the LB Kiel Group's capitalisation. In response to this potential outflow of equity capital, the Bank intends to, among other things, raise new capital by issuing silent participations and actively manage its balance sheet using derivatives and securitisation. Since 31 December 2001, the Bank has issued silent participations in an aggregate amount of €750,000,000.

## **HLB**

The HLB business area comprises the Bank's 49.5% interest in Hamburgische Landesbank – Girozentrale –, a Landesbank incorporated in the state of Hamburg (“**HLB**”). As an internationally oriented wholesale bank with a comprehensive portfolio of banking products and services in its home market and a special focus on the worldwide shipping, aviation and, to a lesser extent, real estate industries, HLB operates in many of the same areas as the Bank. The focus of HLB's business is on corporate banking, real estate finance, ship finance and credit investments. In addition, it is engaged in leasing refinance, aviation finance, private banking, capital markets activities and the clearing of securities transactions. In 2001, the HLB business area generated net interest, commission and trading income of € 463 million, contributing 42.3% to the Bank's total net interest, commission and trading income in that year. The monthly average balance of its interest earning assets in that year was € 43,542 million. In 2001, the HLB group had net interest, commission and trading income of € 933 million and net income of € 98 million. At 31 December 2001, the HLB group had total assets of € 92,667 million, total liabilities of € 88,897 million and total equity capital of € 3,770 million.

### ***Corporate Banking***

In its corporate banking business, HLB grants loans to medium sized enterprises in Germany. While it has a particularly strong market position in the harbor industry, it is also active in the wholesale and retail trade markets. In geographic terms, HLB concentrates on the metropolitan area of Hamburg, in which it has a longstanding experience, and other parts of northern Germany. HLB's goal is to offer its clients a comprehensive set of products and services. To stay close to its customers as they expand their business into other countries, HLB has established branches in London and South East Asia. In addition, it has decided to enlarge the scope of its offering of corporate banking products and services. HLB's main competitors in the field of corporate banking are the German regional banks.

### ***Real Estate Finance***

In the area of real estate finance, HLB is active both in and outside Germany. In Germany, HLB's focus is on commercial real estate projects, particularly CBD office buildings, shopping centers and hotels in northern Germany, especially in the metropolitan area of Hamburg and Berlin. In Hamburg itself, HLB has participated in many high-profile real estate ventures, including the Europa Passage, which is a shopping mall in the center of Hamburg with associated offices and apartments, the Elbtunnelröhre tunnel, the Color Line Arena, which is a multifunctional high-tech convention, concert and sports center, the AOL Arena, which is a soccer and concert arena, and a number of other offices, hotels and shopping malls. While HLB also finances housing developers and funds the restoration of family dwellings, it does not consider the financing of private real estate projects a focus of its business. HLB frequently finances German real estate projects on a stand-alone basis but also participates in syndicates, frequently in a lead position. In recent years, HLB has begun to gradually expand the scope of its real estate activities beyond the German border. Outside Germany, HLB concentrates on commercial real estate projects. In geographic terms, its focus is on the United States, and to a lesser extent, the United Kingdom, France and The Netherlands. In its international business, HLB typically participates in syndicated loans in collaboration with experienced local partners, including commercial and mortgage banks as well as insurance companies. While participations in syndicates currently account for the majority of HLB's international real estate lending activities, it intends to compete actively for lead and arranger positions in the future. In addition, HLB provides financing through various investment funds managed by itself. HLB's main competitors are other Landesbanks and mortgage banks.

### ***Ship Finance***

Ship finance is one of HLB's core businesses. HLB's focus is on financing the construction of new ships and the acquisition of secondhand vessels, especially container ships, tankers and bulk cargo ships, which together account for approximately 90% of HLB's ship loan portfolio. The majority of HLB's ship loan customers are accounted for by medium and large sized companies whom HLB, based on its long-standing experience in the ship finance markets, considers to be on a sound financial footing and to have a high level of management expertise. HLB's business is roughly equally divided between Germany and the major international shipping markets, including Greece, other member states of the European Union, Norway, the United States, Japan, China, South Korea and Turkey. With few exceptions, HLB is not active in Latin America and Africa. Although

shipping companies frequently use vessels for 25 years and more, the ships in HLB's loan portfolio are substantially newer. Because HLB has been active in financing shipping companies for more than 50 years, it has been able to establish long-term relationships with its customers. Its main competitors are international banks, especially the Scandinavian regional banks.

### ***Credit Investments***

In its credit investments business, HLB invests in securitised loans to sovereigns and banks with investment grade credit ratings located in OECD countries. Investment grade loans are loans with ratings of BBB or higher and are usually eligible for investments by fiduciaries. More recently, HLB has begun to also invest in asset backed securities. By comparison, securitised loans to companies do not account for a significant portion of HLB's credit investments portfolio. The geographic focus of HLB's portfolio is The Western Europe, especially France, the United Kingdom and Italy, and the United States. In addition to investing in credit investments itself, HLB offers its expertise in this area to institutional investors.

### ***Leasing Refinance***

HLB is also active in refinancing leasing companies, including the in-house leasing banks of manufacturing companies. One of the leading leasing refinance providers in Germany, the focus of HLB's German business is on refinancing the leasing of real estate, chattels and airplanes. By contrast, HLB's international leasing refinance business focuses on airplanes. In both markets, its main competitors are other Landesbanks, including itself.

### ***Aviation Finance***

In the area of aviation finance, HLB funds the construction of new airplanes as well as the restoration of second-hand planes. In addition, it finances aircraft leasing transactions. HLB's customers comprise both airlines and, to a lesser extent, airplane manufacturing companies. In geographic terms, the focus of HLB's aviation finance business is on North America and Europe. HLB's principal competitors are other Landesbanks.

### ***Private Banking***

HLB's private banking services are targeted at wealthy private clients. In addition, HLB relies on its private banking unit to serve smaller companies located in Hamburg that it does not serve in its regular corporate banking business. Reflecting the twofold structure of its customer base, HLB's private banking portfolio comprises, on the one hand, the full range of traditional private banking products and services, including asset management, investment advice, inheritance planning, custodial accounts, securities and foreign currency trading and property loans, and, on the other hand, a variety of corporate banking products and services, including payment transaction systems. HLB does not actively advertise its private banking business. Instead, it generates new business from customers of its other businesses and referrals. HLB's main competitors are commercial banks.

### ***Capital Markets Activities***

HLB is active in the capital markets. In addition to propriety trading for liquidity management purposes, HLB offers its expertise in this area to savings banks. The trading activities of HLB range from plain vanilla bonds via money market/foreign exchange derivatives to highly structured and innovative financial instruments.

### ***Clearing of Securities Transactions***

Another business in which HLB is actively involved is the clearing of securities transactions. HLB's portfolio in this area comprises a variety of products and services surrounding the execution and settlement of securities trades, ranging from mere IT services to complete solutions for the processing, execution and settlement of entire transactions. Its customers include other banks, primarily cooperative banks, savings banks and private banks. To further strengthen its position in this market, HLB established a securities clearing bank subsidiary in July 2002.

## RISK MANAGEMENT

### Overview

The LB Kiel Group's liquidity, results of operations and financial condition are subject to a variety of bank-specific risks, which include:

- *Counterparty risk.* Counterparty risk arises from the potential default or deterioration of the credit rating of the LB Kiel Group's customers.
- *Market risk.* Market risk arises from uncertainty concerning changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk), share prices (share price risk) as well as the prices of commodities and other tradable goods (other price risk). With options and derivatives, additional market risk results from volatility of the underlying prices.
- *Liquidity risk.* Liquidity risk is the risk of potential asset liability mismatches that could prevent the LB Kiel Group from repaying borrowings as they mature or from funding new loans and investments as they arise.
- *Operational risk.* Operational risk results from potential human, organisational or technical failures or inadequacies and external factors.
- *Legal risk.* Legal risk is the risk of losses that may arise in connection or as a result of contractual or other rights and obligations as well as legal, administrative and regulatory proceedings.

Because HLB has a different organisational structure than the Bank and uses different electronic data processing equipment, the risk management systems of the two banks currently operate independently. The Bank is, however, collaborating with HLB to ensure that the results of the risk reporting of the two banks are comparable. The following discussion first describes the Bank's own risk management, followed by a brief overview of the risk management activities of HLB.

### Organisational Framework

The Bank considers active risk management to be an important and integral part of its overall management. Accordingly, the Bank has developed a variety of methods and procedures that are used throughout the Bank to identify, measure and manage each type of risk based on pre-defined parameters. In anticipation of the adoption of the Basel II Capital Accord, the Bank is constantly improving its existing procedures. In 2001, it made substantial progress in this area. For example, the Bank now calculates its counterparty risk in accordance with the internal ratings based ("**IRB**") approach envisaged by the Basel II Capital Accord. The IRB approach is designed to align more accurately the capital requirements of a bank with the intrinsic amount of credit risk to which the bank is exposed. The Bank uses the IRB approach in setting targets for its risk-adjusted return on capital, in making preliminary costing calculations in connection with its decisions to extend new loans and on what terms to grant them and in allocating capital among its various business areas. In 2002, the Bank intends to continue to optimise its risk management. In addition to reflecting the requirements resulting from proposed new regulations in Germany and the Basel II Capital Accord in its organisation, the Bank plans to focus its activities in this area on developing and implementing a uniform risk measurement process for the LB Kiel Group. See "Regulation—Regulation and Supervision in Germany—Capital Adequacy Requirements—The Basel II Capital Accord" for additional information on the Basel II Capital Accord.

The Bank pursues a conservative risk strategy and tries to maintain a balanced portfolio with no material risk concentrations. The overall responsibility for the Bank's risk management lies with its management board, which receives support from the controlling department, the audit department, the legal department, the management teams of the Bank's business units and, as far as country risks are concerned, the Bank's International Financial Institutions and International Corporates business area, which possesses special expertise in dealing with foreign countries.

In mid-2001, the Bank formed a new department, the Middle Office, which supports its management board by monitoring the LB Kiel Group's counterparty and market risk exposure and the associated risk limits on a day-to-day basis. Further support is provided by the Risk Committee, the Foreign Business Committee and the Asset Liability Committee.

The Risk Committee is comprised of the members of the Bank's management board and the heads of the controlling department, the independent credit office, the Asset Liability Management unit, the International Financial Institutions and International Corporates business area and the IT department. The Risk Committee is responsible for:

- formulating the Bank's overall risk strategy;
- adopting guidelines for the measurement and management of the Bank's risk exposure based on its risk strategy;
- determining how much capital is available at any given time to cover risks;
- monitoring the Bank's risk exposure; and
- formulating criteria for the further development and implementation of the Bank's risk management systems.

The Risk Committee is supported by the Risk Working Committee, which the Bank formed in January 2002 and which is charged with collecting risk related data in the Bank and assisting the Risk Committee with analyzing that data.

The Foreign Business Committee is comprised of one member of the Bank's management board and the heads of various departments with special expertise in foreign transactions. The Foreign Business Committee is responsible for:

- formulating country risk strategies and fixing country risk ratings;
- adopting country limits; and
- setting targets for a risk and return oriented management of these limits.

The Asset Liability Committee is comprised of three members of the Bank's management board and the heads of various departments that possess special expertise in the area of asset liability management. Its responsibilities include:

- managing the Bank's liquidity and market risk; and
- creating a framework that enables the Bank to continuously improve the returns of its market risk management activities.

### **Counterparty risk**

The Bank manages its exposure to counterparty risk for each individual counterparty as well as at the portfolio level. The Risk Committee fixes counterparty risk limits based on the Bank's expected future profitability. The Bank regularly revisits these limits in light of changes in the credit ratings of its customers, its customer structure and the countries and geographic regions in which it is active. The results of these analyses are made available to the relevant decision-makers, who, if necessary, take appropriate measures. In addition, the Bank has established country limits to limit its exposure to country-specific counterparty risks. Based on a bank-wide upper limit, the Bank has established specific country limits for particular countries and geographic regions. The Bank's International Financial Institutions and International Corporates business area monitors these limits on an ongoing basis.

In measuring and managing its counterparty risk, the Bank uses a uniform rating system, whose main elements are internal ratings that the Bank assigns to its counterparties and historic default probabilities. To the extent the Bank relies on external ratings, it transforms them in order to make them comparable with its internal ratings. Before the Bank enters into a transaction with a particular counterparty, it calculates risk costs for the proposed transaction in accordance with its rating system. These costs form the basis of the Bank's costing calculations and determine the level of decision-making authority that it requires to approve the transaction and the price that it charges the counterparty. To validate its calculations, the Bank compares its risk costs with the risk costs of other banks using market data as benchmarks.

To determine its overall exposure to counterparty risk at any given point, the Bank conducts subgroup analyses based on various criteria, such as industry sector, country of incorporation and credit rating. Subgroup analyses help the Bank determine whether its counterparty risk exposure remains within or exceeds certain limits.

The Bank validates the results of these analyses by using back testing methodologies. Back testing involves a comparison of the actual losses that the LB Kiel Group has incurred as a result of defaults by counterparties in a given time period versus the predicted maximum losses.

Before approving a loan, the Bank carries out a detailed assessment of every counterparty risk associated with the proposed loan and the borrower to whom the loan is proposed to be granted. A first assessment of the LB Kiel Group's risk exposure is carried out by the responsible business area. In doing so, the responsible business area considers both the creditworthiness of the prospective borrower and specific risks presented by the type of loan, looking both to general factors and to specific factors that the Bank perceives as being the key risk drivers for the particular borrower. Depending on the resulting risk rating and the amount of the loan, the Bank may call on the Bank's independent credit office (*Kreditsekretariat*) to deliver a second risk assessment. The rating assigned to the borrower and the amount of the loan not only affect the outcome of the Bank's decision but also influence the level of decision-making authority that the Bank requires to extend the loan (for example, whether the Bank makes the extension of the loan subject to prior approval by the management board or certain of its members). Both factors also determine the terms of the loan and the procedures the Bank applies in monitoring its ongoing exposure.

Once the Bank has granted a loan, it assesses the counterparty risk associated with it on a yearly basis. If the annual review of the LB Kiel Group's loan portfolio reveals that a particular loan has turned or may turn into a problem loan, as might be suggested, for example, by a significant deterioration in the borrower's financial condition or the fact that the borrower has reported losses that are not merely of a temporary nature, the Bank's credit office takes over the responsibility for dealing with that borrower. To limit the Bank's risk in these situations, the Bank's credit office typically tries to obtain collateral and work with the client to develop a restructuring plan, frequently coordinating its actions with other banks. Large-scale counterparty risks, i.e., counterparties to whom the LB Kiel Group's exposure exceeds 5% of the LB Kiel Group's total regulatory capital, are monitored on a daily basis to ensure that the LB Kiel Group's exposure to these counterparties remains within pre-defined limits.

The following table provides a breakdown of the LB Kiel Group's loan portfolio by geographic region at 31 December 2001:

**Loan portfolio by geographic region<sup>(1)</sup>**

	Group		Group	
	W/o HLB	HLB <sup>(2)</sup>	(€ in millions)	(%)
Europe, excl. Central and Eastern Europe.....	27,670	12,870	40,541	61.7
Central and Eastern Europe <sup>(3)</sup> .....	946	375	1,321	2.0
United States of America.....	5,642	3,623	9,265	14.1
Other industrialised countries <sup>(4)</sup> .....	3,475	2,584	6,059	9.2
Off-shore banking centers <sup>(5)</sup> .....	2,415	2,128	4,543	6.9
Latin America.....	598	136	734	1.1
Asia.....	985	754	1,739	2.6
Africa.....	112	835	947	1.4
Other.....	324	212	536	0.8
<b>Total.....</b>	<b>42,166</b>	<b>23,519</b>	<b>65,685</b>	<b>100.0</b>

(1) Columns may not add due to rounding.

(2) Comprises the LB Kiel Group's 49.5% interest in HLB.

(3) Includes primarily Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Russia and Slovenia.

(4) Includes primarily Australia, Canada, Japan, New Zealand, Switzerland, Taiwan and Turkey.

(5) Includes primarily the Bahamas, the Bermudas, the Cayman Islands, Hong Kong, Panama and Singapore.

The Bank makes individual value adjustments (*Einzelwertberichtigungen*) to cover estimated losses on particular loans where the Bank identifies a specific risk of default. General bad debt provisions

(Pauschalwertberichtigungen) are made to cover unidentified risks inherent in the LB Kiel Group's loan portfolio, including country risks and latent counterparty risks.

The following table breaks down the LB Kiel Group's accumulated individual value adjustments on loans by business area at 31 December 2001:

	<b>As of 31 December 2001<sup>(1)</sup></b>	
	<i>(€ in millions)</i>	<i>(%)</i>
Commercial Lending.....	223	28.9
Transport and Structured Finance .....	59	7.7
Capital Markets Activities .....	0	0.0
LBS .....	4	0.5
IB .....	81	10.5
HLB .....	363	47.1
Other .....	41	5.3
Total.....	771	100.0

(1) Columns may not add due to rounding.

At 31 December 2001, the LB Kiel Group's accumulated general bad debt provisions on loans were € 94 million.

In 2001, the Bank launched the so-called "Netting/Collateral Management" project to reduce its exposure to counterparty risks arising from trading activities. The goal of this project, which the Bank is currently in the process of implementing, is to reduce the LB Kiel Group's risk exposure by entering into netting agreements with counterparties and collateralising their obligations to the LB Kiel Group. At 5 September 2002, the Bank netted approximately half of all those bilateral payment obligations between it and its counterparties that qualified for netting.

The Bank manages counterparty risk arising from debt investments on a similar basis as it manages the credit risk in its loan portfolio. As far as equity investments are concerned, the Bank manages its risk exposure by conducting due diligence reviews before making such investments and by continuously monitoring its income from these investments. In order to be able to better manage its exposure to this type of risk, the Bank has entered into arrangements with many of the companies in which the Bank holds significant stakes that afford it an influence over their management.

## **Market Risk**

To manage its market risk exposure, the Bank uses the value-at-risk ("VaR") approach. VaR is a statistical risk measure for calculating the market risk of a portfolio of financial instruments, assets and/or liabilities. It may be defined as the maximum potential change in the value of any such portfolio that may arise due to fluctuations of certain parameters. The potential change in value is calculated in such a way that it will not be exceeded with a confidence level of 95% and a holding period of one day. In performing VaR calculations, the Bank uses time series of interest rates, exchange rates and security prices over the preceding 201 days. The Bank measures its risk exposure against predefined loss limits and reports the results to its management board and the relevant trading units on a daily basis. To improve the quality of its risk management, the Bank is constantly enlarging the scope of the Bank's VaR analyses.

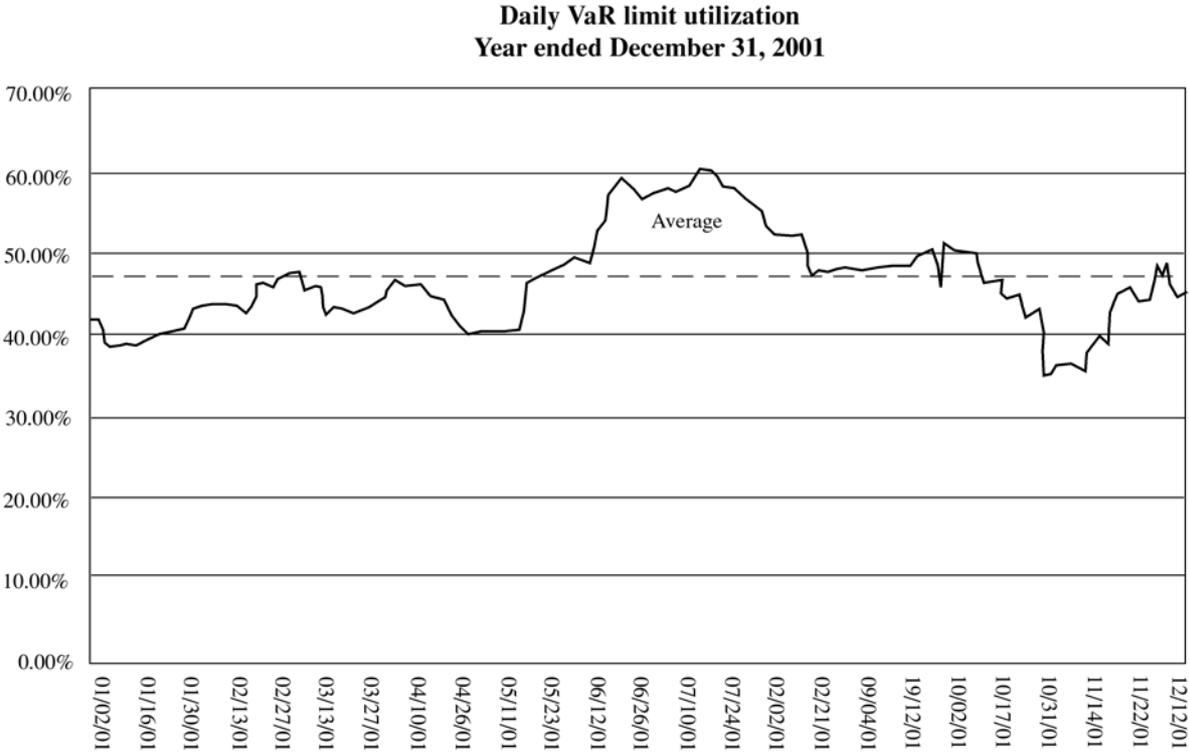
The Bank monitors its interest rate risk exposure to the world's principal markets, including the U.S. dollar and the euro market, as well as to certain other less important markets. To control its interest rate risk exposure, the Bank calculates the net present value of the future cash flows generated by its interest earning assets and interest bearing liabilities, including derivatives for transactions subject to interest rate risk, using the yield to maturity of the relevant asset or liability. The yield curve is a function that describes the relationship between the yield on a given type of debt and the maturity of that debt. To manage its exposure to foreign currency risk and share and option price risk, the Bank uses extrapolations of historic data.

The Bank's management board is responsible for fixing Bank-wide VaR limits. To ensure compliance with these limits, the Bank has implemented an early warning system that triggers corrective measures according to a predefined procedure when the Bank's VaR limit utilisation exceeds certain thresholds.

As both HLB and LI have their own risk management systems, the VaR data provided below do not reflect figures from the HLB business area and the LI unit.

During 2001, the Bank’s VaR limit was € 55 million. At 2 January 2001, the Bank’s VaR was € 23 million, corresponding to a VaR limit utilisation of 42.1%. At 31 December 2001, the Bank’s VaR was € 26 million, corresponding to a VaR limit utilisation of 47.3%. In 2001, the Bank’s VaR limit utilisation varied between 35.0% and 60.5%, with an average of 46.9%.

The following graph shows the Bank’s daily VaR limit utilisation in 2001:



At 30 September 2002, the LB Kiel Group’s VaR was € 20 million, corresponding to a VaR limit utilisation of 36.5%.

The Bank supplements its VaR analyses with stress tests, “worst case” scenario analyses and back testing. Because VaR calculations are based on relatively recent historical data and assume normal market conditions, the Bank performs stress tests to determine the effects of potentially extreme market developments on the values of the Bank’s assets. The stress tests that the Bank performs are based on a confidence level of 99% (as opposed to 95%). The Bank’s simulations in 2001 have shown that even with a confidence level of 99%, its established VaR limits are not exceeded. “Worst-case” scenario analyses involve examining the most unfavorable scenario that could have occurred for a given trading portfolio over the course of a period of ten years. Back testing involves comparing the maximum loss to be expected on a given trading day, the VaR for that day and the actual change in results for the relevant trading portfolio.

**Liquidity Risk**

Liquidity risk used to be largely irrelevant for the Bank, as the statutory principles of Maintenance Obligation changes to the regulatory framework applicable to Landesbanks, however, will lead to the abolishment of these principles. See “Regulation–Consolidated Regulation and Supervision–Principal Laws and Regulators–The Savings Banks Act for the State of Schleswig-Holstein” for more information on Maintenance Obligation and Guarantee Obligation. The Bank expects that the impending changes to Maintenance Obligation and Guarantee Obligation will increase its refinancing costs and create a risk of asset liability mismatches. As a result, the Bank expects to take a more active role in managing its liquidity as Maintenance Obligation and Guarantee Obligation have so far enabled the Bank to raise funds in the capital markets at any time. To this end, it has recently begun the process of reorganising its Asset Liability Management unit.

The responsibility for managing the Bank's liquidity risk lies with the Bank's Asset Liability Committee. The Bank's Treasury department is responsible for ensuring that the LB Kiel Group complies with all applicable regulatory requirements relating to liquidity, e.g., minimum reserve requirements and solvency ratios. In that respect, it acts under the supervision of the Bank's Controlling department. See "Regulation" for more information on the regulatory requirements applicable to the LB Kiel Group's business.

At 31 December 2001, the Bank's liquidity ratio calculated in accordance with the so-called Principle II of the German Banking Act was 1.29, compared with 1.15 at 31 December 2000. Principle II stipulates certain liquidity requirements for banks and certain financial services institutions, based on a comparison of the maturity profile of certain types of assets and liabilities. Principle II requires that the Bank maintain a ratio of liquid assets to liquidity requirements expected to arise during the month following the date on which the ratio is determined (so-called "one-month liquidity ratio" or *Liquiditätskennzahl*) of at least 1. In 2001, the Bank's liquidity ratio never fell below the statutory threshold. For more detailed information on the German Banking Act and the liquidity requirements applicable to the Bank by virtue of Principle II of the Act, see "Regulation—Regulation and Supervision in Germany—Liquidity Requirements".

### **Operational Risk**

The Bank has determined that, based on the basic indicator approach set forth in the proposed Basel II Capital Accord, operational risks are not significant to its operations. The basic indicator approach is one of three approaches for calculating operational risk charges under the proposed Basel II Capital Accord. Under this approach, a single indicator serves as a proxy for a bank's operational risk exposure to allocate operational risk capital.

The Bank has rolled out a bank-wide project risk management system that operates under the guidance of a special Project Commission. Based on proposals by the Project Commission, the Bank's management board decides which projects will be implemented. For each project, the Bank forms a Project Committee that consists of members of the management teams of those of the LB Kiel Group's business areas to which the project relates and, depending on the size and importance of the project, a member of the Bank's management board. The Bank's various Project Committees work under the supervision of the Project Controlling Unit, which is responsible for monitoring each Project Committee's compliance with budgets, resources and schedule. In order to avoid resource misallocations, the Bank combines projects into clusters. At regular intervals, each Project Committee is informed about the current status of the relevant project as well as of critical events that could influence its success or timing. To ensure the quality of its project management, the Bank has formed review teams consisting of experts within the LB Kiel Group, who are responsible for drafting reports on each project upon completion.

To safeguard against operational risks in the information technology area, the Bank has updated its network infrastructure and improved its overall stability by using fault-tolerant components. To improve the security of its information technology architecture, the Bank has recently developed a comprehensive bank-wide encryption concept, which it expects to implement over the coming years, and is constantly updating its network to shield it against attacks from the outside.

To counteract risks in the personnel area, the Bank has devised criteria and processes for the selection, training and promotion of the Bank's employees. These programs are designed to identify the potential of the Bank's employees and to promote their personal and professional qualifications.

### **Legal Risk**

To limit its exposure to legal risk, the Bank uses nationally and internationally recognised standard framework agreements as well as standard agreements published by the German Association of Savings Banks and Landesbanken, the Association of German Public Sector Banks and the so-called "Allianzbanken", which is a group of Landesbanks, consisting of the Bank itself, WestLB AG, Landesbank Baden-Württemberg, Landesbank Rheinland-Pfalz and HLB. The responsibility for all legal decisions lies with the Bank's legal department, which supports the LB Kiel Group's business areas.

Particular legal risks may result from regulatory changes. For example, on 17 July 2001, the Federal Republic of Germany agreed with the European Commission to change the regulatory framework applicable to Landesbanks by replacing Maintenance Obligation with normal ownership relations between the banks and their owners and

by abolishing Guarantee Obligation. The changes are expected to take effect on 18 July 2005, subject to certain transitional arrangements. Because the impending changes concern the relationship between the banks and their owners but have no impact on the banks' abilities to fulfil their obligations, the Bank believes that these changes should not afford its contractual partners a right to terminate their agreements with the LB Kiel Group. See "Regulation–Consolidated Regulation and Supervision–Principal Laws and Regulators–The Savings Banks Act for the State of Schleswig-Holstein" for more information on Maintenance Obligation and Guarantee Obligation.

## **HLB**

In 2001, HLB revised the strategic orientation and organisational structure of its risk management. The tools used by HLB to manage its exposure to counterparty, market and liquidity risk are largely comparable to those used by the Bank. Like the Bank, HLB is currently preparing itself for the adoption of the proposed Basel II Capital Accord. In anticipation of the proposed new rules, HLB has established an independent rating unit.

Another focus of HLB's risk management activities is the development and expansion of its processes for the measurement and monitoring of operational risks. Additional bank-wide projects are currently being rolled out to ensure that adverse developments in HLB's risk structure are detected at an early stage and adequately dealt with in the bank's risk management.

At 31 December 2001, HLB's accumulated individual value adjustments on loans were € 743 million. At 2 January 2001, HLB's VaR limit was € 235 million. HLB changed its VaR limit several times during the year. At 31 December 2001, HLB's VaR limit was € 266 million. At 2 January 2001, its VaR was € 116 million, corresponding to a VaR limit utilisation of 49.4%. At 31 December 2001, HLB's VaR was € 100 million, corresponding to a VaR limit utilisation of 37.7%. In 2001, HLB's VaR limit utilisation varied between 35.6% and 58.6%, with an average of 45.4%. At 30 August 2002, HLB's VaR was € 96 million, corresponding to a VaR limit utilisation of 47.1%. HLB calculates its VaR on a different basis than the Bank does. Among other things, HLB uses a confidence level of 99% over a holding period of 10 days, rather than 95% over a holding period of one day. Accordingly, HLB's VaR calculations are not directly comparable to the Bank's own calculations. At 31 December 2001, HLB's liquidity ratio calculated in accordance with Principle II of the German Banking Act was 1.3.

## REGULATION

### 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. These regulations contain, *inter alia*, restrictions on the Bank's banking and non-banking activities, capital adequacy requirements, limitations of large exposures, conduct of business rules, requirements as to the Bank'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 the Bank operates impose limitations on (or which affect) foreign or foreign-owned or controlled banks and financial services institutions, 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 the Bank structures its specific operations.

The LB Kiel Group's principal supervisor is the German Financial Services Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*). Additionally, many of the Bank'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), the Bank's branches generally conduct regulated business under the so-called "European Passport". The European Passport is a single banking license that permits the Bank 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, the Bank'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, the Bank is required to notify the host country regulator, which can require that the Bank 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 the Bank in the public interest. Apart from that, however, the host country regulator's powers are essentially limited to regulating such matters as liquidity requirements. When the Bank 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, the Bank's New York branch will be 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 the Bank in Germany, which the Bank views as the most significant jurisdiction in which it does business.

Beyond these countries and the European Economic Area member states, where, as noted, the European Passport applies, local country regulations generally have a limited impact on the Bank's operations.

### Principal Laws and Regulators

The Bank 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, the Bank is subject to the provisions of the Savings Banks Act for the State of Schleswig-Holstein (*Sparkassengesetz für das Land Schleswig-Holstein*).

The Bank, 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 the Bank in regard to minimum reserves on deposits. The Financial Services Authority also regulates and supervises securities trading in Germany. The Bank is materially in compliance with the German laws that are applicable to its business.

### ***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 the Bank's operations. It provides that the Bank is a public law institution based in Kiel and defines the Bank's status as that of a government bank, a clearing agency for the savings banks of Schleswig-Holstein and a commercial bank. In clarifying the Bank's mandate as a Landesbank, the Act provides that the Bank shall:

- carry out banking tasks 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, the Bank is required to take into account the concerns of Schleswig-Holstein and the savings banks based in that state.

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 the Bank's operations as a Landesbank. Under the concept of Maintenance Obligation, the Bank's owners are required to preserve the economic viability of the Bank, 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, the Bank'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 the Bank's owners under the concept of Guarantee Obligation, the owners may raise any defense that either the Bank or any other defendant in a comparable situation as the Bank'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 the Bank's owners and the Bank by 18 July 2005; and (ii) abolishing Guarantee Obligation by 18 July 2005, subject to certain transitional arrangements.

### ***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 the Bank 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 Unionwide banking market with no internal barriers to cross-border banking services.

### ***The German Public Mortgage Bond Act***

As a public bank, the Bank falls within the scope of the German Public Mortgage Bond Act (*Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditinstitute*), which entitles it to

issue public mortgage bonds (*öffentliche Pfandbriefe*) and related securities. Under the act, the repayment of mortgage bonds issued by public banks is collateralised by a pool of loans to public sector entities. Since the act applies only to public banks, its applicability to the Bank will change following a merger if the Bank changes its legal form to a stock corporation (*Aktiengesellschaft*).

### ***Banking Regulation 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 of adopting 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. The Bank reports to the Central Bank's regional office in Hamburg.

### ***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 (*Drittangmittel*) 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

Regulatory banking capital (*Eigenkapital*), the numerator of the solvency ratio, is defined in the German Banking Act for banks, such as itself, that are organised as public law Institutions, as consisting principally of the following items:

Tier I (core) capital:

- Paid-in share capital (*Dotationskapital*).
- Capital reserves.
- Earnings reserves.
- *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.

As of 31 December 2001, the Bank had unconsolidated Tier I capital of € 2,883 million and unconsolidated Tier II capital of € 1,759 million. These figures reflect the Bank's regulatory capital after year-end allocations to reserves and other changes to its capital made in connection with the approval of its financial statements by its owners.

### ***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 the Bank 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, the Bank 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).

The Bank 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, such as the Bank, 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, the Bank 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.

## **Investigative Powers by Regulatory Authorities; Enforcement of Banking Regulations**

### ***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.*

### **Hong Kong**

#### ***Withholding Tax***

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the RESPARC Securities.

#### ***Profits Tax – General considerations***

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

In certain circumstances, amounts may be deemed to arise from the carrying on of a trade, profession or business in Hong Kong and / or to arise in or be derived from Hong Kong.

#### ***Profit Tax on the Interest on ReSPARC Securities***

Under current law and practice (both of which are subject to change), interest on the RESPARC Securities should not be considered to arise in or be derived from Hong Kong. As such, interest on the RESPARC Securities should not be subject to Hong Kong tax in the hands of a person or corporation holding those securities, other than a person who is a financial institution as defined in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong).

However, interest on the RESPARC Securities would be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong, and therefore subject to Hong Kong Profits Tax, if such interest is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)) and arises through or from the carrying on by that financial institution of its business in Hong Kong.

Hong Kong profits tax may be charged on profits which arise in or are derived from Hong Kong and are derived by a person other than a financial institution (as defined in the Inland Revenue Ordinance (Chapter 112 of the laws of Hong Kong)) upon the sale, disposal or redemption of RESPARC Securities where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong. Profits derived by a financial institution upon the sale, disposal or redemption of RESPARC Securities will be assessable to the extent that those profits arise through or from the carrying on by the financial institution of its business in Hong Kong.

#### ***Stamp Duty***

No stamp duty will be payable in Hong Kong on the issue of any RESPARC Securities or on any subsequent transfer of any RESPARC Securities.

#### ***Estate Duty***

Estate Duty may be payable on the RESPARC Securities upon passing on death of the holder.

### ***Tax Status of the Issuer***

It is expected that the Issuer will not have any material liability to Hong Kong Profits Tax.

### **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 will be set off against the final income or corporate tax debt of the Securityholder.

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 these assets are held as part of a German business, they 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 domiciled 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 Securityholder.

#### ***Inheritance and Gift Tax***

In accordance with German law, 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 and the RESPARC Security does not form part of German business assets for which an operation is being maintained within Germany or for which a permanent representative has been appointed in Germany. Exceptions apply to certain former tax residents.

#### ***Proposed EU Interest Taxation Directives***

In accordance with a proposal which is currently being reviewed by the European Union as part of a larger set of measures, as of 2004 all EU member states may be required to direct, by national privilege, the paying agencies within the meaning of the Directive, that are based in the relevant EU member state, to withhold either (a) a tax deduction of 15%, and as of 2007 of 20%, on interests, issuing discounts or redemption premiums paid to individuals who are tax residents of another EU member state for their account, or (b) to notify that member state

of such payment in which the payee is a tax resident. As of 2010, only notification as per (b) would be required and would replace any tax deduction as outlined under (a). As the implementation of this proposal depends on whether certain non-EU countries and associated overseas territories and non-self-governing territories on non-EU countries will also introduce a tax deduction or agree to provide information, it is currently foreseeable whether, and in what form, the draft proposal will ultimately be implemented.

## SUBSCRIPTION AND SALE

Under a subscription agreement entered into between Lehman Brothers International (Europe) and BNP Paribas (collectively, the “**Lead Managers**”), BCP Investimento – Banco Commercial Português de Investimento, SA and Standard Chartered Bank (collectively the “**Co-Lead Managers**”, and together with the Lead Managers, the “**Managers**”), the Bank and the Company on 17 December 2002 (the “**Subscription Agreement**”), the Managers have agreed to subscribe for the RESPARC Securities at the issue price of 100 per cent. of their principal amount. The Bank has agreed to pay to the Managers a combined management and underwriting commission of 1.5 per cent. and a selling commission of one per cent. of the principal amount 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.

### 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The RESPARC Securities are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder. Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver RESPARC Securities (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells RESPARC Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of RESPARC Securities within the United States or to, or for the account or benefit of, US persons. In addition, until 40 days after the commencement of the offering, an offer or sale of RESPARC Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has severally represented, warranted and agreed that:

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

### Hong Kong

Each Manager has severally represented and agreed that unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued, or had in its possession and will not issue, or have in its possession for the purposes of issue, any advertisement, invitation or document relating to the RESPARC Securities other than with respect to RESPARC Securities intended to be disposed of to persons outside Hong

Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

### **Singapore**

Each Manager has severally acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has severally represented and agreed that it will not offer or sell the RESPARC Securities, make the RESPARC Securities the subject of an invitation for subscription or purchase, or circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the RESPARC Securities, whether 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.

### **Japan**

Each Manager has severally represented and agreed that none of the RESPARC Securities have been nor will be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”). Each Manager has further severally agreed that it will not offer or sell any RESPARC Securities, directly or indirectly, in Japan to, or for the benefit of, any resident of Japan (which term as used herein means any persons resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan. Investors should be aware that the RESPARC Securities may not fall within the definition of “securities” under the Securities and Exchange Law.

### **Germany**

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

### **General**

No action has been taken in any jurisdiction that would permit a public offering of any of the RESPARC Securities, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will, to the best of its knowledge and belief, comply with all relevant securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers RESPARC Securities or has in its possession or distributes this Offering Circular or any other offering material and neither the Bank nor any Manager shall have responsibility therefor.

## GENERAL INFORMATION

- (1) Application has been made to list the RESPARC Securities on the Luxembourg Stock Exchange. In connection with the application to list the RESPARC Securities on the Luxembourg Stock Exchange a legal notice relating to the issue of the RESPARC Securities and copies of the constitutional documents of the Issuer will be deposited with the Chief Registrar of the District Court in Luxembourg where such documents may be examined and copies obtained.
- (2) Each of the Issuer and the Bank have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the RESPARC Securities and the Participation.
- (3) The RESPARC Securities have been accepted for clearance and settlement through Euroclear and Clearstream Luxembourg under Common Code 015920785 and have been assigned the ISIN XS0159207850.
- (4) All RESPARC Securities will carry a legend to the following effect “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 United States persons, with certain exceptions, will not be entitled to deduct any loss, and will not be entitled to capital gains treatment with respect to any gain, realised on any sale, exchange or redemption of RESPARC Securities.
- (5) Other than as disclosed herein, neither the Issuer, the Bank nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings relating to claims of amounts which are material in the context of the issue of the RESPARC Securities or the Participation Agreement nor, so far as the Issuer or the Bank is aware, are any such proceedings pending or threatened.
- (6) There has been no material adverse change in the financial position of the Issuer since 26 November 2002, the date of its inception, or the Bank since 31 December 2001.
- (7) Copies of the audited annual unconsolidated accounts of the Bank and audited consolidated accounts of the LB Kiel Group for the financial years 2000 and 2001 and unaudited financial information of the LB Kiel Group for the six month interim period ended 30 June 2002 and all future audited annual accounts and unaudited interim financial information will be available free of charge at the specified office of the Paying Agent during normal business hours, for as long as any of the RESPARC Securities are outstanding. In addition, copies of the latest unaudited annual accounts of the Issuer will be available free of charge at the specified office of the Paying Agents during normal business hours. Copies of the following documents will be available for inspection at the specified office of the Paying Agents during normal business hours, for so long as any of the RESPARC Securities are outstanding: the Support Undertaking, the Participation Agreement, the Contribution Agreement, the Assignment Agreement and the Loan Agreement.

## FINANCIAL STATEMENTS

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*Annual Accounts and Group Annual  
Accounts of LB Kiel for 2001*

## Group Balance Sheet as at December 31, 2001

## Assets

€ thousands	prev. year		prev. year	
<b>I. Cash reserve</b>				
a) cash in hand			6,457	8,594
b) balances with central banks			129,362	227,404
thereof:				
with Deutsche Bundesbank	106,385	(191,476)		
			135,819	235,998
<b>2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks</b>				
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions			1,820	912
thereof:				
refinancable at Deutsche Bundesbank	–	(–)		
b) bills of exchange			3,751	4,490
thereof:				
refinancable at Deutsche Bundesbank	3,751	(4,490)		
			5,571	5,402
<b>3. Loans and advances to banks</b>				
a) payable on demand			2,280,594	2,035,567
b) other loans and advances			30,109,520	30,333,865
thereof:				
building loans of Landes-Bausparkasse (LBS)	102	(124)		
			32,390,114	32,369,432
<b>4. Loans and advances to customers</b>			64,042,065	58,115,144
thereof:				
secured by mortgages	13,765,683	(13,022,183)		
municipal loans	13,628,374	(14,246,252)		
secured by ship mortgages	7,958,348	(6,622,006)		
building loans of Landes-Bausparkasse				
from allocations (building society loans)	405,598	(419,455)		
for prefinance facilities and interim financing	921,586	(746,324)		
other	42,155	(38,525)		
thereof:				
secured by mortgages	1,187,942	(1,105,383)		
<b>5. Bonds and other fixed-income securities</b>				
a) money market instruments				
aa) issued by public issuers			1,895,327	–
thereof:				
eligible for refinancing with Deutsche Bundesbank	1,353,397	(–)		
ab) issued by other issuers			509,496	269,951
thereof:				
eligible for refinancing with Deutsche Bundesbank	126,109	(147,336)		
thereof:				
eligible for refinancing with Deutsche Bundesbank	126,109	(147,336)		
b) bonds				
ba) issued by public issuers			8,802,379	8,650,389
thereof:				
eligible for refinancing with Deutsche Bundesbank	5,647,142	(5,929,372)		
bb) issued by others issuers			26,481,874	22,616,386
thereof:				
eligible for refinancing with Deutsche Bundesbank	8,979,539	(8,709,392)		
thereof:				
eligible for refinancing with Deutsche Bundesbank	8,979,539	(8,709,392)		
c) own bonds			1,608,429	1,391,743
nominal amount	1,580,916	(1,376,536)		
			39,297,505	32,928,469
<b>6. Shares and other non-fixed income securities</b>			1,738,035	1,526,447
To be carried forward:			137,609,109	125,180,892

**Group Balance Sheet as at December 31, 2001**

**Liabilities**

€ thousands	prev. year		prev. year	
<b>1. Liabilities to banks</b>				
a) payable on demand		3,875,920		4,064,183
b) with agreed maturities or at agreed notice periods		52,866,129		47,845,473
c) savings deposits of Landes-Bausparkasse (LBS)		2,071		5,669
thereof:			56,744,120	51,915,325
for allocated contracts	770	(3,230)		
<b>2. Liabilities to customers</b>				
a) savings deposits				
aa) savings deposits with agreed notice of three months		82,205		77,172
ab) savings deposits with agreed notice of more than three months		4,271		5,226
ac) savings deposits of Landes-Bausparkasse		831,172		792,002
thereof:				
on terminated contracts	6,219	(5,348)		
on allocated contracts	15,158	(17,557)		
			917,648	
b) other liabilities				
ba) payable on demand		3,974,973		2,754,682
bb) with agreed maturities or at agreed notice periods		23,373,613		20,777,620
		27,348,586	28,266,234	24,406,702
<b>3. Liabilities of Investitionsbank relating to federal promotion programmes with agreed maturities or agreed notice periods of four years or more</b>			500,328	507,482
<b>4. Certificated liabilities</b>				
a) bonds issued		35,476,155		34,277,493
b) other certificated liabilities		8,657,309		6,263,914
thereof:			44,133,464	40,541,407
money market instruments	8,647,363	(6,263,914)		
<b>5. Trust liabilities</b>			1,363,179	1,366,188
thereof:				
trust loans	1,228,617	(1,251,175)		
<b>6. Other liabilities</b>			684,014	741,984
<b>7. Deferred income</b>			384,447	400,449
<b>8. Provisions</b>				
a) provisions for pensions and similar obligations		273,958		251,689
b) tax provisions		57,712		149,129
c) other provisions		121,911		132,236
			453,581	533,054
<b>9. Interest equalization fund</b>			923,106	954,824
<b>10. Special reserve item</b>			17,194	35,366
<b>11. Subordinated debt</b>			2,011,937	1,757,676
To be carried forward:			135,481,604	123,160,457

**Group Balance Sheet as at December 31, 2001**

**Assets**

€ thousands	prev. year		prev. year	
Carried forward:			137,609,109	125,180,892
<b>7. Equity investments in non-affiliated companies</b>			200,144	102,094
thereof:				
in banks	62,236	(63,313)		
in financial services institutions	495	(495)		
<b>8. Equity investments in affiliated companies</b>			123,787	97,842
thereof:				
in banks	9,240	(9,725)		
<b>9. Trust assets</b>			1,363,179	1,366,188
thereof:				
trust loans	1,228,617	(1,251,175)		
<b>10. Intangible fixed assets</b>			13,266	16,165
<b>11. Tangible fixed assets</b>			712,956	576,468
<b>12. Other assets</b>			757,866	502,867
<b>13. Prepaid expenses</b>			215,957	242,316
<b>14. Deferred taxes</b>			23,334	–
<b>Total assets</b>			<b>141,019,598</b>	<b>128,084,832</b>

**Group Balance Sheet as at December 31, 2001****Liabilities**

€ thousands	prev. year		prev. year	
Carried forward:			135,481,604	123,160,457
<b>12. Profit-sharing rights</b>			<b>1,112,684</b>	<b>1,122,993</b>
thereof:				
due in less than two years	51,129	(76,438)		
<b>13. Fund for general banking risks</b>			<b>143,289</b>	<b>109,550</b>
<b>14. Equity capital</b>				
a) subscribed capital		1,376,492		1,008,993
b) capital reserves				
appropriated reserves of Investitionsbank		1,083,066		1,031,244
			2,459,558	
c) earnings reserves				
ca) statutory reserves		391,000		310,000
cb) statutory reserves of Landes-Bausparkasse		77,205		74,137
cc) appropriated reserves of Investitionsbank		35,883		28,107
			504,088	
d) Group reserves			1,089,706	1,020,550
e) minority interests			148,974	148,316
f) Group net retained earnings			79,695	70,485
			4,282,021	3,691,832
<b>Total liabilities</b>			<b>141,019,598</b>	<b>128,084,832</b>
<b>1. Contingent liabilities from guarantees and indemnity agreements</b>			<b>7,080,622</b>	<b>4,182,890</b>
<b>2. Other commitments</b>				
a) placing and underwriting commitments			–	602
b) irrevocable lending commitments			8,352,769	7,679,176

## Group Statement of Income

January 1 – December 31, 2001

€ thousands	prev. year		prev. year	
<b>1. Interest income from</b>				
a) lending and money market transactions		7,515,279		6,842,013
thereof:				
interest income of Landes-Bausparkasse (LBS)				
from LBS loans	19,578	(20,001)		
from prefinance facilities and interim financing	50,681	(39,087)		
from other building loans	2,934	(2,352)		
b) debt securities and other fixed income securities		1,839,912		1,786,227
		9,355,191		
<b>2. Interest expense</b>		8,557,015		7,978,057
thereof:			798,176	650,183
on savings deposits of Landes-Bausparkasse	22,518	(22,027)		
<b>3. Other income</b>				
a) shares and other non-fixed income securities		70,953		86,258
b) equity investments in non-affiliated companies		13,504		6,927
c) equity investments in affiliated companies		13,607		5,432
			98,064	98,617
<b>4. Income from profit-and-loss pooling agreements, profit transfer agreements and partial profit transfer agreements</b>			1,790	2,276
<b>5. Commission income</b>		190,616		197,036
thereof:				
commission income of Landes-Bausparkasse				
on contracts signed and arranged	6,401	(6,281)		
from loans granted after allotment				
of building saving contracts	2,486	(2,475)		
from the allocation and administration of prefinance facilities and interim financings	6	(6)		
<b>6. Commission expense</b>		52,946		55,470
thereof:			137,670	141,566
commissions on contracts signed and arranged of Landes-Bausparkasse	7,375	(7,557)		
<b>7. Net income or expense from trading activities</b>			57,985	27,310
<b>8. Other operating income</b>			227,907	118,475
<b>9. Earnings from the liquidation of special reserve items</b>			18,172	26,500
<b>10. General administrative expenses</b>				
a) personnel expenses				
aa) wages and salaries		192,792		164,064
ab) social security contributions, retirement pensions and other benefits		69,562		65,558
thereof:		262,354		
for retirement pensions	41,292	(39,939)		
b) other administrative expenses		185,721		157,656
			448,075	387,278
<b>11. Depreciation of and adjustments to intangible and tangible fixed assets</b>			48,645	37,998
To be carried forward:			843,044	639,651

## Group Statement of Income

January 1 – December 31, 2001

€ thousands	prev. year		prev. year	
Carried forward:			843,044	639,651
<b>12. Other operating expenses</b>			120,755	131,156
<b>13. Write-downs and value adjustments on loans and certain securities and additions to provisions for bad debt</b>			278,365	146,294
<b>14. Write-downs and value adjustments on equity investments in non-affiliated companies, affiliated companies and securities treated as fixed assets</b>			12,559	13,517
<b>15. Allocations to the fund for general banking risks</b>			33,640	37,251
<b>16. Expenses from loss transfers</b>			2,918	298
<b>17. Results from normal business operations</b>			394,807	311,135
<b>18. Taxes on income and revenue</b>	51,199			130,938
<b>19. Other taxes not shown under other operating expenses (item 12)</b>	32,250		83,449	2,199
				133,137
<b>20. Profits transferred under partial profit transfer agreements</b>			137,397	93,674
<b>21. Net income for the year</b>			<b>173,961</b>	<b>84,324</b>
thereof:				
Landes-Bausparkasse	3,068	(3,068)		
<b>22. Retained earnings carried forward from the previous year</b>			3,592	6,071
<b>23. Allocation of net income to earnings reserves</b>				
a) statutory reserves of Landesbank			81,000	15,775
b) statutory reserves of Landes-Bausparkasse			15,295	3,068
c) appropriated reserves of Investitionsbank			–	691
d) profit attributable to shareholders outside the Group			413	376
<b>24. Minority interests</b>			1,150	–
<b>25. Group net retained earnings</b>			<b>79,695</b>	<b>70,485</b>



## Balance Sheet of LB Kiel as at December 31, 2001

## Liabilities

€ thousands	prev. year		prev. year	
<b>I. Liabilities to banks</b>				
a) payable on demand		2,811,239		3,032,374
b) with agreed maturities or at agreed notice periods		35,097,730		29,830,826
c) savings deposits of Landes-Bausparkasse (LBS)		2,071		5,669
thereof:			37,911,040	32,868,869
for allocated contracts	770	(3,230)		
<b>2. Liabilities to customers</b>				
a) savings deposits				
aa) savings deposits with agreed notice of three months		40,945		38,111
ab) savings deposits with agreed notice of more than three months		2,806		3,453
ac) savings deposits at Landes-Bausparkasse		831,172		792,002
thereof:				
on terminated contracts	6,219	(5,348)		
on allocated contracts	15,158	(17,557)		
			874,923	
b) other liabilities				
ba) payable on demand		1,432,649		772,862
bb) with agreed maturities or notice periods		10,216,042		10,544,356
		11,648,691	12,523,614	12,150,784
<b>3. Liabilities of Investitionsbank relating to federal promotion programmes with agreed maturities or notice periods of four years or more</b>			500,328	507,482
<b>4. Certificated liabilities</b>				
a) bonds issued		26,015,696		25,118,275
b) other certificated liabilities		7,007,376		4,178,388
thereof:			33,023,072	29,296,663
money market instruments	7,007,376	(4,178,388)		
<b>5. Trust liabilities</b>			1,216,191	1,239,441
thereof:				
trust loans	1,208,388	(1,229,076)		
<b>6. Other liabilities</b>			181,824	374,310
<b>7. Deferred income</b>			254,990	256,178
<b>8. Provisions</b>				
a) provisions for pensions and similar obligations		190,804		174,719
b) tax provisions		30,116		68,723
c) other provisions		73,124		67,817
			294,044	311,259
<b>9. Interest equalization fund</b>			923,107	954,825
<b>10. Special reserve item</b>			3,941	6,474
<b>11. Subordinated debt</b>			1,173,133	947,978
To be carried forward:			88,005,284	78,914,263

**Balance Sheet of LB Kiel as at December 31, 2001**

**Assets**

€ thousands	prev. year		prev. year	
Carried forward:			88,341,324	79,095,868
<b>7. Equity investments in non-affiliated companies</b>			872,580	778,061
thereof:				
in banks	758,097	(758,057)		
<b>8. Equity investments in affiliated companies</b>			168,703	169,897
thereof:				
in banks	119,995	(119,583)		
<b>9. Trust assets</b>			1,216,191	1,239,441
thereof:				
trust loans	1,208,388	(1,229,075)		
<b>10. Intangible fixed assets</b>			13,115	16,029
<b>11. Tangible fixed assets</b>			614,217	486,916
<b>12. Other assets</b>			442,450	241,442
<b>13. Prepaid expenses</b>			94,020	105,358
<b>14. Deferred taxes</b>			23,334	–
<b>Total assets</b>			<b>91,785,934</b>	<b>82,133,012</b>



## Statement of Income of LB Kiel

January 1 – December 31, 2001

€ thousands	prev. year		prev. year	
<b>I. Interest income from</b>				
a) lending and money market transactions		5,569,727		4,738,435
thereof:				
interest income of Landes-Bausparkasse (LBS)				
from LBS loans	19,578	(20,001)		
from prefinance facilities and interim financing	50,681	(39,087)		
from other building loans	2,934	(2,352)		
b) debt securities and other fixed income securities		1,024,473		975,056
		6,594,200		
<b>2. Interest expense</b>		6,206,071		5,416,160
thereof:			388,129	297,331
on savings deposits of Landes-Bausparkasse	22,518	(22,027)		
<b>3. Other income</b>				
a) shares and other non-fixed income securities		34,966		47,606
b) equity investments in non-affiliated companies		26,604		19,001
c) equity investments in affiliated companies		14,484		17,386
			76,054	83,993
<b>4. Income from profit-and-loss pooling agreements, profit transfer agreements and partial profit transfer agreements</b>			2,453	2,276
<b>5. Commission income</b>		104,550		104,417
thereof:				
commission income of Landes-Bausparkasse				
on contracts signed and arranged	6,401	(6,281)		
from loans granted after allotment				
of building saving contracts	2,486	(2,475)		
from the allocation and administration				
of prefinance facilities and interim financing	6	(6)		
<b>6. Commission expense</b>		37,919		40,048
thereof:			66,631	64,369
commissions on contracts signed and arranged of Landes-Bausparkasse	7,375	(7,558)		
<b>7. Net income or expense from trading activities</b>			38,520	15,976
<b>8. Other operating income</b>			100,063	44,547
<b>9. Earnings from the liquidation of special reserve items</b>			2,533	8,519
<b>10. General administrative expenses</b>				
a) personnel expenses				
aa) wages and salaries		105,805		95,653
ab) social security contributions, retirement pensions and other benefits		44,957		43,073
thereof:			150,762	
for retirement pensions	29,269	(28,166)		
b) other administrative expenses		111,969		99,429
			262,731	238,155
<b>11. Depreciation of and adjustments to intangible and tangible fixed assets</b>			32,091	26,101
To be carried forward:			379,561	252,755

## Statement of Income of LB Kiel

January 1 – December 31, 2001

€ thousands	prev. year		prev. year	
Carried forward:			379,561	252,755
<b>12. Other operating expenses</b>			10,847	8,268
<b>13. Write-downs and value adjustments on loans and certain securities and additions to provisions for bad debt</b>			123,547	73,611
<b>14. Income from write-backs on equity investments in non-affiliated companies, affiliated companies and securities treated as fixed assets</b>			782	4,544
<b>15. Allocations to the fund for general banking risks</b>			23,838	25,000
<b>16. Expenses from loss transfers</b>			2,918	298
<b>17. Results from normal business operations</b>			219,193	150,122
<b>18. Taxes on income and revenue</b>	19,102			73,332
<b>19. Other taxes not shown under other operating expenses (item 12)</b>	603			427
			19,705	73,759
<b>20. Profits transferred under partial profit transfer agreements</b>			75,642	32,314
<b>21. Net income for the year</b>			<b>123,846</b>	<b>44,049</b>
thereof:				
Landes-Bausparkasse	3,068	(3,068)		
<b>22. Retained earnings carried forward from the previous year</b>			2,099	5,046
<b>23. Allocation of net income to earnings reserves</b>				
a) statutory reserves of Landesbank			81,000	15,775
b) statutory reserves of Landes-Bausparkasse			3,068	3,068
c) appropriated reserves of Investitionsbank			–	272
<b>24. Net retained earnings</b>			<b>41,877</b>	<b>29,980</b>

## Legal Form and Shareholders

Landesbank Schleswig-Holstein Girozentrale (LB Kiel) is a legal entity under public law.

The Bank's subscribed capital is held by Westdeutsche Landesbank Girozentrale, Düsseldorf/Münster (39.9%), Landesbank Baden-Württemberg, Stuttgart (10%), the State of Schleswig-Holstein (25.05%) and the Savings Banks and Giro Association of Schleswig-Holstein (25.05%).

The State of Schleswig-Holstein, the Savings Banks and Giro Association of Schleswig-Holstein, Westdeutsche Landesbank as well as the Landesbank Baden-Württemberg are jointly and severally liable for

obligations of LB Kiel 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.

## Consolidation Principles 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 as well as interim results between companies included in the Group accounts are eliminated.

Investitionsbank Schleswig-Holstein (IB) and Landesbausparkasse Schleswig-Holstein (LBS) are organisationally independent but legally dependent central departments of LB Kiel.

As the central funding and 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 and Helsinki 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, Copenhagen, as well as the 49.5% investment in the Hamburgische Landesbank Group, Hamburg. In addition, the Group annual accounts include the Schleswig-Holstein casinos as wholly owned subsidiaries for the first time.

# Accounting and Valuation 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 assets and liabilities as well as the expenditure and income of the Investitionsbank Schleswig-Holstein and the Landes-Bausparkasse, which publish separate annual accounts, are consolidated in the balance sheet and statement of income of LB Kiel 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 and Helsinki 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.

Forward transactions and hedging operations specifically related to such transactions have been treated as valuation units.

## Interest Rate and Currency Swap Agreements

The Bank has entered into interest rate and currency swap agreements to hedge open positions, to control its overall interest rate position and for trading purposes. In the fiscal year 2001, results from internal interest rate swap agreements are included in EUR in the statement of income for the first time. The conclusion of internal agreements is subject to conditions including the essential condition to conclude them at market terms. Internal transactions did not have a material impact on the result. Gross results from interest rate swap agreements are shown separately under interest income and expense.

## 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 cover 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.

Unlike previous years, securities held in the investment portfolio of the Group were partly valued according in 2001 to the diluted lower of cost or market principle as they are intended for long-term investment.

This parts consists of bonds and other fixed-income securities in the amount of € 4.0 billion and shares and other non-fixed income securities in the amount of € 0.2 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.

All interest-bearing securities held in the trading portfolio and denominated in EUR are included in a single interest-bearing portfolio. All elements of the interest-bearing portfolio are valued at the market value as of December 31, 2001. The resulting unrealized losses and profits are balanced out. Reserves for anticipated losses are formed for a negative balance. A positive balance is not taken into account.

#### **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.

The Bank has sold land and buildings worth € 92.0 million to subsidiaries and has concluded long-term lease agreements for their continued use by the Bank under a sale and leaseback transaction. This resulted in a reduction of on-balance sheet fixed assets of the Bank by € 55.3 million.

#### **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**

In the fiscal year 2001, deferred taxes in the amount of € 23.3 million are stated for the first time by the Bank pursuant to sec. 274 (2) of the German Commercial Code. They result from the different treatment for tax and commercial balance sheet purposes of option premiums received and reserves for anticipated losses. 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.

#### **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. The adjustment amount resulting from the adoption of the actuarial tables published in 1998 is fully allocated to provisions for commercial balance sheet and tax purposes up to 2001.

Reserves for contingencies resulting from the duty to grant benefits to pensioners and dependants were also established by the Bank in the FY 2001; moreover, in line with a decision by the Federal Constitutional Court relating to sec. 18 of the Law Relating to Company Pension Plans, a reserve of € 2.1 million was established to cover certain employees' non-forfeitable legal rights to future pension payments.

Adequate provisions relating to early retirement have been made. In addition, indirect pension-like obligations in accordance with art. 28 (2) EG HGB exist at Group level.

#### **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, was written back pro rata temporis in the fiscal year 2001 as planned. 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 € 33.6 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 € 21.5 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 € 1,089.7 million is the result of netting an assets-side difference of € 27.7 million against a liabilities-side difference of € 1,117.4 million.

The item “minority interests” contains shares in fully consolidated companies which are held by third parties.

#### **Lending Commitments**

The Bank's liabilities resulting in a credit risk are shown as irrevocable lending commitments.

#### **Investitionsbank**

In addition to Investitionsbank's payment obligations resulting from promotion activities for construction and investment loans, Investitionsbank has a payment obligation of € 38.3 million for the future acquisition of state properties.

In the fiscal year, Investitionsbank sold its shares of LEG Schleswig-Holstein Entwicklungsgesellschaft mbH at a gain of € 24.6 million. The item “other operating income” of Investitionsbank includes lease income of the “state properties” special-purpose fund. It amounts to € 30.0 million in the fiscal year.

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)

<b>Claims on Associated Savings Banks</b>	€ million	Bank	Group	Bank	Group
		2001	2000	2001	2000
Loans and advances to banks include loans and advances to associated savings banks:					
<i>Claims on Associated Savings Banks</i>		7,031.3	7,919.5	6,608.0	7,602.5

<b>Claims on Affiliated Companies</b>	€ million	Bank	Group	Bank	Group
		2001	2000	2001	2000
The following items include claims on affiliated companies in securitized or non-securitized form:					
<i>Loans and advances to banks</i>		1,599.4	–	1,263.7	1,726.3
<i>Loans and advances to customers</i>		118.7	113.0	90.7	90.8
<i>Bonds and other fixed-income securities</i>					
<i>Bonds</i>		2.2	2.2	2.1	20.4

<b>Claims on Companies in Which Equity Investments Are Held</b>	€ million	Bank	Group	Bank	Group
		2001	2000	2001	2000
Claims on companies in which equity investments are held are included in the following items					
<i>Loans and advances to banks</i>		130.2	248.0	93.0	81.2
<i>Loans and advances to customers</i>		86.7	86.9	246.0	248.0
<i>Bonds and other fixed-income securities</i>					
<i>Bonds</i>		751.3	780.0	514.9	544.8

<b>Subordinated Claims</b>	€ million	Bank	Group	Bank	Group
		2001	2000	2001	2000
The following items include subordinated claims:					
<i>Loans and advances to banks</i>		93.0	98.6	98.1	98.5
<i>Loans and advances to customers</i>		7.0	7.0	6.0	6.2
<i>Bonds and other fixed-income securities</i>		101.8	401.0	37.4	348.7
<i>Shares and other non fixed-income securities</i>		–	16.4	–	14.5

<b>Information on Securities Items</b>	€ million	Bank	Group	Bank	Group
			2001		2000
<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		1,529.6	1,529.6	268.8	268.8
Marketable money market instruments not listed on a stock exchange		493.0	875.2	1.1	1.1
<i>Bonds</i>					
<i>- issued by public issuers</i>					
Bonds listed on a stock exchange		5,460.4	7,990.9	5,488.2	7,744.7
Marketable bonds not listed on a stock exchange		30.4	811.5	135.8	905.7
<i>- issued by other issuers</i>					
Bonds listed on a stock exchange		13,256.0	23,498.7	10,518.2	19,740.8
Marketable bonds not listed on a stock exchange		574.3	2,983.2	668.7	2,875.6
<i>Own bonds</i>					
Bonds listed on a stock exchange		1,228.8	1,551.1	1,037.0	1,318.7
Marketable bonds not listed on a stock exchange		20.8	57.3	47.2	73.0
<i>Shares and other non-fixed income securities:</i>					
Shares and other non-fixed income securities listed on a stock exchange		21.8	55.9	37.6	76.9
Marketable shares and other non-fixed income securities not listed on a stock exchange		887.7	1,682.1	649.1	1,449.5
<b>Equity Investments in Affiliated and Non-Affiliated Companies</b>	€ million	Bank	Group	Bank	Group
The item "equity investments in affiliated and non-affiliated companies" includes:			2001		2000
<i>Equity investment in affiliated and non-affiliated companies</i>					
Shares listed on a stock exchange		23.1	23.1	19.4	19.4
Marketable shares not listed on a stock exchange		44.3	44.3	43.9	43.9

## Notes

### Trust Assets

Trust assets comprise the following:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Trust asset:</i>				
<i>Loans and advances to banks</i>				
payable on demand	3.0	3.0	4.9	4.9
other loans and advances	4.3	4.7	8.2	8.7
<i>Loans and advances to customers</i>	1,208.9	1,355.4	1,226.3	1,352.6

### Other Assets

The main components of this item are:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Other assets</i>				
Adjustment item for foreign currency conversion	126.5	306.2	–	109.2
Claims under options (caps and floors) and collateral	0.1	22.4	0.1	28.4
Swap deferrals	1.6	1.8	–	–
Claims under options (foreign exchange and Eurex dealings)	27.3	47.8	52.7	79.0
Collection documents, bonds due as well as interest and dividend coupons due	134.3	152.6	43.9	110.0
Land acquired for temporary use	11.7	20.9	11.2	20.3

### Prepaid Expenses

Prepaid Expenses include:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Prepaid Expenses</i>				
Deferred discounts	73.0	110.7	80.1	121.7
Deferred premiums	20.4	27.2	25.0	33.9

### Breakdown by Residual Maturities

Assets according to residual maturities:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Other loans and advances to banks</i>				
up to three months	5,440.0	7,834.9	6,201.5	10,193.9
more than three months up to one year	1,960.0	3,493.5	2,595.4	2,755.7
more than one year up to five years	8,457.7	11,304.1	7,105.3	9,865.3
more than five years	5,848.7	7,477.0	5,570.6	7,518.9
<i>Loans and advances to customers</i>				
up to three months	3,696.9	6,528.8	3,025.9	5,984.4
more than three months up to one year	3,122.2	4,820.6	2,712.9	4,294.2
more than one year up to five years	13,048.9	19,158.9	10,410.0	15,895.4
more than five years	21,881.8	31,729.2	21,125.3	30,751.1
loans and advances with undetermined maturity	419.3	1,804.6	561.8	1,190.0
<i>Bonds and other fixed-income securities</i>				
Bonds maturing in the following year	3,468.3	4,244.1	3,837.8	5,005.3

**Fixed Assets****Tangible Fixed Assets**

€ million	Land and buildings (excluding fixed assets under construction)		there of: owner-occupied land and buildings		Advance pay- ments for fixed assets under construction		Office equipment	
	Bank	Group	Bank	Group	Bank	Group	Bank	Group
Acquisition cost	487.4	582.6	147.0	237.0	0.3	0.3	113.5	191.1
Additions	189.7	189.9	3.6	3.6	0.1	0.1	22.2	44.1
Subtractions	84.5	85.3	84.3	86.9	–	–	2.9	6.7
Appreciation/transfers	–	–	–	–	-0.4	-0.4	–	–
Depreciation in current business year	12.3	14.3	3.6	5.6	–	–	16.8	31.0
Cumulated depreciation	21.3	46.5	7.3	29.3	–	–	89.9	156.2
Book value on December 31, 2001	571.3	640.7	59.0	124.4	–	–	42.9	72.3

**Intangible Fixed Assets**

€ million	Bank	Group
Acquisition cost	29.2	29.8
Additions	–	0.1
Subtractions	–	–
Appreciation/transfers	–	–
Depreciation in current business year	2.9	2.9
Cumulated depreciation	16.1	16.6
Book value on December 31, 2001	13.1	13.3

**Financial Assets**

€ million	Equity investments in non-affiliated companies		Equity invest- ments in affiliated companies		Securities stated as fixed assets	
	Bank	Group	Bank	Group	Bank	Group
Book value on December 31, 2000	778.1	102.1	169.9	97.8	5,881.5	13,216.4
Changes in 2001	94.5	98.0	-1.2	26.0	2,576.1	3,047.8
Book value on December 31, 2001	872.6	200.1	168.7	123.8	8,457.6	16,264.2

## Information on Liabilities (as at December 31)

<b>Liabilities to Associated Savings Banks</b>	€ million	Bank	Group 2001	Bank	Group 2000
The item "liabilities to banks" includes liabilities to associated savings banks in the amount of:	<i>Liabilities to associated savings banks</i>	1,221.7	1,308.4	1,022.7	1,121.8

<b>Liabilities to Affiliated Companies</b>	€ million	Bank	Group 2001	Bank	Group 2000
Liabilities to affiliated companies are included in the following items:	<i>Liabilities to banks</i>	1,875.0	–	2,349.7	16.3
	<i>Liabilities to customers</i>	9.5	9.5	7.0	7.0
	<i>Certificated liabilities</i>				
	Bonds issued	3.6	3.6	24.3	0.5

<b>Liabilities to Companies in Which Equity Investments Are Held</b>	€ million	Bank	Group 2001	Bank	Group 2000
Liabilities to companies in which equity investments are held are included in the following balance sheet items:	<i>Liabilities to banks</i>	361.8	459.6	502.8	232.6
	<i>Liabilities to customers</i>	62.3	62.5	51.3	51.9
	<i>Certificated liabilities</i>				
	Bonds issued	1,786.4	1,698.5	1,785.9	1,767.5

<b>Assets Pledged as Collateral</b>	€ million	Bank	Group 2001	Bank	Group 2000
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>	9,658.9	12,797.1	6,240.7	9,366.1

<b>Trust Liabilities</b>	€ million	Bank	Group 2001	Bank	Group 2000
Trust liabilities comprise the following:	<i>Liabilities to banks payable on demand with agreed maturities or at agreed notice periods</i>	1.4	1.4	1.6	1.6
	<i>Liabilities to customers payable on demand with agreed maturities or at agreed notice periods</i>	133.8	141.4	105.0	113.6
		–	6.9	8.9	8.9
		1,080.9	1,213.5	1,123.9	1,242.1

**Other Liabilities**

This item mainly comprises:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Other liabilities</i>				
Accrued interest on subordinated debt, profit-sharing rights	140.7	203.4	96.4	162.1
Liabilities under options and collateral	21.5	47.2	47.7	78.1
Adjustment item for foreign currency conversion	–	–	206.4	–

**Deferred Income**

This item includes:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Deferred Income</i>				
Deferred discounts	236.6	285.6	228.3	283.2
Deferred premiums	6.4	12.9	5.6	12.9

**Deferred Taxes**

Provisions for deferred taxes in the amount of € 3.2 million (2000: 2.9 million) have been established in the Group. Deferred taxes are not netted against accrued taxes.

**Subordinated Debt**

€ million	Bank	Group 2001	Bank	Group 2000
<i>Subordinated Debt</i>	1,173.1	2,011.9	948.0	1,757.7

Expenses of € 66.4 (2000: 59.3) million were incurred in the Bank in connection with subordinated debt. At Group level, they amounted to € 107.7 (2000: 87.2) million.

The funds were raised in GBP, CAD, YEN, NLG, PTE, LUF, USD, DEM and EUR in an equivalent amount of € 2,011.9 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).

**Profit-Sharing Rights**

The profit-sharing rights in the Bank raised in DEM and EUR amount to € 686.3 million (2000: 671.3 million). Group profit-sharing rights amount to € 1,112.7 million (2000: 1,123.0 million).

Of the profit-sharing rights stated in the Bank's balance sheet, € 40 million were raised in the year under review.

### 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.

€ 23.3 million (deferred taxes) of the Group net income for the year of € 174.0 million are subject to a limitation on profit distribution pursuant to sec. 274 para. 2 sentence 3 of the German Commercial Code (HGB).

<b>Bank</b>	2001	2000
€ million		
Subscribed capital, previous fiscal year	1,009.0	340.5
Allocations to silent participations	367.5	668.5
<i>Subscribed capital, current fiscal year</i>	<i>1,376.5</i>	<i>1,009.0</i>
Capital reserves, previous fiscal year	1,031.2	967.6
Allocations to capital reserves	51.8	63.6
<i>Capital reserves, current fiscal year</i>	<i>1,083.1</i>	<i>1,031.2</i>
Earnings reserves, previous fiscal year	412.2	393.1
Allocations of net income to earnings reserves, current fiscal year	84.1	19.1
Allocations of net income to earnings reserves, previous fiscal year	7.7	0.0
<i>Earnings Reserves, current fiscal year</i>	<i>504.0</i>	<i>412.2</i>
Net retained earnings, previous fiscal year	30.0	25.4
Dividend, previous fiscal year	-15.4	-15.4
Other changes, current fiscal year	-12.5	-5.0
Net income for the year, current fiscal year	123.8	44.0
Allocations of net income to earnings reserves, current fiscal year	-84.1	-19.1
<i>Net retained earnings, current fiscal year</i>	<i>41.9</i>	<i>30.0</i>
<i>Equity capital of the Bank, current fiscal year</i>	<i>3,005.5</i>	<i>2,482.5</i>
<b>Group</b>	2001	2000
€ million		
Subscribed capital and reserves, previous fiscal year	2,452.5	1,701.3
Allocations to silent participations	367.5	668.5
Allocations to capital reserves	51.8	63.6
Allocations of net income to earnings reserves	91.8	19.1
<i>Subscribed capital and reserves, current fiscal year</i>	<i>2,963.6</i>	<i>2,452.5</i>
Group reserves, previous fiscal year	1,020.5	1,002.2
Allocations to Group reserves	69.2	18.3
<i>Group reserves, current fiscal year</i>	<i>1,089.7</i>	<i>1,020.5</i>
Minority interest, previous fiscal year	148.3	145.1
Other changes	0.7	3.2
<i>Minority interest, current fiscal year</i>	<i>149.0</i>	<i>148.3</i>
Group net retained earnings, previous fiscal year	70.5	58.3
Dividend, previous fiscal year	-31.2	-30.6
Net income for the year, current fiscal year	174.0	84.3
Other changes, current fiscal year	-133.5	-41.6
<i>Group net retained earnings, current fiscal year</i>	<i>79.7</i>	<i>70.5</i>
<i>Group equity capital, current fiscal year</i>	<i>4,282.0</i>	<i>3,691.8</i>

**Contingent Liabilities**

The majority of contingent liabilities are loan guarantees.

These include written credit default swaps:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Contingent liabilities</i>	5,080.2	7,080.6	2,808.5	4,182.9
Commitments from short positions	2,317.9	3,055.4	250.5	525.8

**Breakdown by Residual Maturities**

Liabilities according to residual maturities:

€ million	Bank	Group 2001	Bank	Group 2000
<i>Liabilities to banks with agreed maturities or at agreed notice periods</i>				
up to three months	19,554.8	29,532.7	14,568.6	25,294.3
more than three months up to one year	5,567.1	8,902.7	4,813.3	7,526.9
more than one year up to five years	4,542.4	7,127.8	5,037.8	8,300.7
more than five years	5,433.4	7,302.9	5,411.1	6,723.6
<i>Savings deposits</i>				
up to three months	41.3	82.8	38.7	78.0
more than three months up to one year	–	0.2	–	0.3
more than one year up to five years	2.4	3.4	2.8	4.1
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	1,859.5	8,240.5	1,982.1	6,536.0
more than three months up to one year	257.2	553.4	422.9	779.4
more than one year up to five years	3,139.9	5,268.4	2,226.5	4,180.5
more than five years	4,959.4	9,311.3	5,912.9	9,281.6
<i>Certificated liabilities</i>				
<i>Bonds issued</i>				
Bonds issued				
maturing in the following year	7,017.9	8,325.8	11,877.7	14,115.5
<i>Other certificated liabilities</i>				
up to three months	4,202.0	5,719.4	2,090.6	3,683.7
more than three months up to one year	2,805.3	2,927.9	2,087.8	2,580.2
more than one year up to five years	–	–	–	–
more than five years	–	–	–	–

## Information on the Statement of Income

### Segment Report

The Group segment report published for the first time in this form 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 2001 financial statements.

The segment report was prepared in accordance with the German Accounting Standards No. 3-10 (DRS 3-10) regarding segment reports of financial institutions.

The Bank made use of the option not to include previous year's figures in the segment report.

The following segments were formed:

- General lending business  
Transactions with corporate and real estate clients, savings banks, private clients as well as banks and foreign clients – incl. the client business of our branches in Scandinavia and our subsidiary in Luxembourg.
- Transport finance  
Mainly comprises aircraft, railways, leasing, infrastructure and ship finance – incl. the corresponding activities of our subsidiary in Luxembourg.
- Trading  
Money, foreign exchange and securities trading and services – incl. 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 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.

For those units not preparing financial statements, risk provisions are based on the standard risk costs. For those units preparing financial statements, risk provisions correspond to those stated in the statement of income.

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.

€ million	General lending business	Transport finance	Trading	Promotion	LBS	HLB 49,5%	Others/ Overhead/ Consolidation	Group
Net interest income	223.8	71.8	44.2	13.8	37.2	402.2	105.0	898.0
+ Net commission income	48.9	19.2	11.4	2.4	2.7	50.8	2.3	137.7
+ Net income from trading	–	–	48.3	–	–	9.7	–	58.0
+ Balance of other operating income/expenses	-0.5	–	–	37.2	2.2	-35.8	71.8	74.9
= Total income	272.2	91.0	103.9	53.4	42.1	426.9	179.1	1.168.6
./. Administrative expenses	70.1	13.6	27.0	39.2	29.9	154.6	162.4	496.8
= Operating profit before risk provisions	202.1	77.4	76.9	14.2	12.2	272.3	16.7	671.8
./. Risk provisions	55.3	20.7	27.8	-6.3	4.3	137.9	69.5	309.2
= Operating profit after risk provisions	146.8	56.7	49.1	20.5	7.9	134.4	-52.8	362.6
Segment assets	50,090.3	9,767.9	21,483.5	5,186.2	1,598.7	43,542.3	2,897.2	134,566.1
Risk positions	21,761.6	8,374.8	7,371.4	3,733.8	938.1	24,497.5	1,222.5	67,899.7
Average employed equity capital <sup>*)</sup>	1,740.9	670.0	589.7	298.7	75.0	1,959.8	97.9	5,432.0
Return on regulatory capital	8.4%	8.5%	8.3%	6.9%	10.5%	6.9%		6.7%
Cost-income ratio (CIR)	25.7%	14.9%	26.0%	73.4%	71.0%	36.2%		42.5%
ROE						7.8%		9.8%

<sup>\*) The average employed equity capital is the regulatory capital requirement.</sup>

The geographic breakdown is based on the domicile of the respective Group company or branch.	€ million	Germany	Europe excl. Germany	Asia	Others/ Consoli- dation	Group
Operating profit before risk provisions		543.5	149.0	11.6	-32.3	671.8
./. Risk provisions		194.3	104.4	–	10.5	309.2
= Operating profit after risk provisions		349.2	44.6	11.6	-42.8	362.6
Risk positions		51,229.9	15,597.3	3,741.7	-2,669.2	67,899.7
Average employed equity capital		4,098.4	1,247.8	299.3	-213.5	5,432.0
Cost-income ratio (CIR)		44.6%	29.9%	37.1%		42.5%

## Notes

### **Breakdown of Statement of Income Components Based on the Domicile of the Respective Group Company or Branch:**

€ million	Germany	Europe excl. Germany	Asia 2001	Germany	Europe excl. Germany	Asia 2000
Interest income	6,883.9	2,287.1	184.2	6,470.5	1,948.1	209.7
Other income (from shares and other non-fixed income securities, equity investments in non-affiliated and affiliated companies)	97.5	0.6	–	96.4	2.2	–
Commission income	143.1	45.2	2.3	151.6	43.2	2.3
Other operating income	224.4	3.4	0.1	108.2	10.3	–
Net income from trading	43.2	14.8	–	19.7	6.4	1.2

### **Other Operating Income**

This item mainly comprises:

€ million	Bank	Group 2001	Bank	Group 2000
Refund of expenses by third parties	25.6	32.1	30.0	33.5
Income from the disposal of office equipment and land and buildings	36.9	36.9	–	–

**Group Cash Flow Statement**

The cash flow statement published for the first time in this form 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 € 39.7 million (2000: 32.0 million) of the cash reserve.

The cash flow statement was drawn up in accordance with the banking-specific German Accounting Standards No. 2-10 (DRS 2-10).

€ million	2001	2000
1. Net income for the period	174.0	84.3
<i>Adjustments</i>		
2. Write-downs, value adjustments and appreciation on claims, tangible and financial fixed assets	462.8	272.9
Write-downs on tangible and financial fixed assets, allocations to value adjustments	677.1	478.2
Appreciation on tangible and financial fixed assets, reversal of value adjustments	-214.3	-205.3
3. Change in provisions	-79.5	70.5
4. Other non-cash expenses / income	-18.2	-26.5
5. Profit/loss from the disposal of tangible and financial fixed assets	-89.6	-37.8
Losses	40.2	15.2
Profits	-129.8	-53.0
6. Other adjustments	-677.2	-516.7
7. Subtotal	-227.7	-153.3
8. Change in loans and advances	-5,947.6	-8,925.0
a) to banks	-20.7	-3,500.2
b) to customers	-5,926.9	-5,424.8
9. Change in securities (excl. financial fixed assets)	-2,371.9	-1,481.7
10. Change in other assets from operating activities	-278.3	731.7
11. Change in liabilities	8,688.3	5,382.8
a) to banks	4,828.8	3,082.2
b) to customers	3,859.5	2,300.6
12. Change in certificated liabilities	3,592.1	6,514.7
13. Change in other liabilities from operating activities	-315.8	-463.2
14. Interest and dividends received	9,455.0	8,729.2
15. Interest paid	-8,354.1	-7,816.0
16. Taxes on income paid	-83.4	-133.1
17. Cash flows from operating activities	4,156.6	2,386.1
18. Inflow from the disposal of	840.3	3,707.1
a) financial fixed assets	740.5	3,661.4
b) tangible fixed assets	99.8	45.7
19. Outflow for investments in	-5,590.3	-7,179.0
a) financial fixed assets	-5,344.7	-6,726.1
b) tangible fixed assets	-245.6	-452.9
20. Cash flows from investing activities	-4,750.0	-3,471.9
21. Inflow from equity capital contributions	419.3	732.1
22. Distributions from equity capital	-173.4	-129.2
a) Dividend payments	-36.0	-35.5
b) Partial profit transfer	-137.4	-93.7
23. Changes in funds from other capital	244.4	432.8
24. Cash flows from financing activities	490.3	1,035.7
25. Financial resources at the beginning of the period	236.0	285.2
26. Cash flows from operating activities	4,156.6	2,386.1
27. Cash flows from investing activities	-4,750.0	-3,471.9
28. Cash flows from financing activities	490.3	1,035.7
29. Changes in financial resources due to changes of exchange rates, scope of consolidation and valuation	2.9	0.9
30. Financial resources at the end of the period	135.8	236.0

## Other Information

### Liable Capital

Including allocations to reserves and other changes resulting from the 2001 annual accounts, the Bank's total liable capital amounts to € 4,638.3 (2000: 3,987.8) million. Group's total liable capital amounts to € 7,152.2 million (2000: 6,444.6 million).

The supplementary capital in the Bank's balance sheet includes unrealized reserves of € 21.5 million relating to securities in the investment book.

The capital resources of € 156.3 million (2000: 105.9 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.

€ 25 million of the reserves formed pursuant to sec. 340 f of the German Commercial Code included in the supplementary capital according to sec. 10 a of the German Banking Act totalling € 1,207.3 million cover risks in the Group annual accounts arising from the insolvency proceedings instituted against KirchMedia after preparation of the annual accounts.

€ million	2001	2000
<i>Liable capital of the Bank acc. to sec. 10 of the German Banking Act (KWG)</i>		
Subscribed capital	219.9	219.9
Silent participations	1,156.6	789.1
Capital reserves	926.7	925.3
Earnings Reserves	504.1	412.2
Fund for general banking risks	88.8	65.0
Intangible fixed assets	-13.1	-16.0
Core capital	2,883.0	2,395.5
Supplementary capital	1,759.2	1,594.4
Equity investments acc. to sec. 10 para. 6a sentence 1 No. 4a of the German Banking Act	-3.9	-2.1
Tier 3 capital	-	-
<i>Total liable capital – Bank</i>	<i>4,638.3</i>	<i>3,987.8</i>
<i>Liable capital of the Group companies acc. to sec. 10a of the German Banking Act (KWG)</i>		
Core capital	1,322.7	1,303.5
Supplementary capital	1,207.3	1,169.1
Deduction from equity capital	-16.1	-15.8
<i>Total liable capital – Group companies</i>	<i>2,513.9</i>	<i>2,456.8</i>
Tier 3 capital not counting towards the capital base	-	-
<i>Group total liable capital</i>	<i>7,152.2</i>	<i>6,444.6</i>

### Banking Law Ratios

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. 54 a para. 2 No. 9 c of the German Insurance Supervision Act (VAG).

### Deposit Insurance Fund

The Bank is a member of the Landesbanken/Girozentralen 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.

In addition to the above-mentioned, the liabilities of LB Kiel are fully backed by its guarantors.

**Contingencies Not Shown in the Balance Sheet**

As a result of being a shareholder in a number of smaller companies, the Bank is obliged to pay up certain fractions of share capital not yet fully subscribed and paid.

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.

**Introduction of Euro Notes and Coins**

In connection with the introduction of the Euro notes and coins, the Bank received € 15.5 million (Group: 35.4 million) from Deutsche Bundesbank under the frontloading procedure in the last quarter of 2001. € 7.0 million (Group: 15.9 million) thereof were passed on to customers under the sub-frontloading procedure.

**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)

## Notes

### Derivatives Business

Derivatives business developed favourably in the past fiscal year.

At year-end 2001, the nominal volume of the Group's interest-based business amounted to € 154.3 billion, with interest-rate swaps accounting for € 128.5 billion.

The short-term maturity band accounted for most of the volume growth.

Forward exchange transactions (€ 42.7 billion) accounted for the bulk of currency-based business (€ 52.0 billion).

Contracts with a term of less than one year domina-

ted the Group's and Bank's currency-based business.

The volume of equity transactions and transactions with other price risks amounted to € 1.6 billion. Most of these contracts held in the investment book have a term of more than one year.

Proprietary trading transactions accounted for € 89.4 billion or approx. 42% 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 93% of the total nominal volumes were transacted with OECD banks.

### Derivatives Business – Group Volume

€ million	Nominal amounts	Nominal amounts	Credit risk - equivalents <sup>*)</sup>	Replacement costs <sup>**)</sup>
	Dec. 31, 2001	Dec. 31, 2000		
<i>Interest-rate contracts</i>				
Interest-rate swaps	128,460.2	98,965.4	597.4	1,971.3
FRA's	19,777.3	7,238.5	7.8	21.4
Interest-rate options				
- long positions	138.5	60.8	2.3	9.3
- short positions	450.8	15.4	–	–
Caps, floors	831.2	1,009.7	2.9	7.5
Stock market contracts	2,856.5	6,410.3	–	–
Other interest-rate forward transactions	1,832.8	1,019.3	0.3	0.8
<i>Interest rate contracts – total</i>	<i>154,347.3</i>	<i>114,719.5</i>	<i>610.7</i>	<i>2,010.3</i>
<i>Currency contracts</i>				
Forward exchange transactions	42,655.7	38,998.8	196.7	482.8
Interest-rate/currency swaps	6,976.3	8,957.4	159.8	414.9
Currency swaps	–	–	–	–
Currency options				
- long positions	1,334.7	1,067.7	13.9	34.8
- short positions	1,050.1	868.5	–	–
Stock market contracts	–	–	–	–
Other currency-related forward transactions	–	–	–	–
<i>Currency contracts – total</i>	<i>52,016.9</i>	<i>49,892.3</i>	<i>370.4</i>	<i>932.4</i>
<i>Equity transactions and transactions with other price risks</i>				
Stock futures transactions	1.2	–	–	–
Stock options				
- long positions	17.8	37.7	1.0	1.2
- short positions	–	2.7	–	–
Stock market contracts	3.6	69.7	–	–
Other forward transactions	1,620.0	1,275.4	45.9	78.5
Equity transactions and transactions with other price risks – total	1,642.7	1,385.6	46.8	79.7
<i>Derivatives business – market price risks</i>	<i>208,006.9</i>	<i>165,997.3</i>	<i>1,027.9</i>	<i>3,022.4</i>

<sup>\*)</sup> The volume development stated includes the gross volume of all long and short positions.

<sup>\*\*)</sup> The credit risk equivalents are calculated in accordance with Principle I using the standard method (mark-to-market method).

<sup>\*\*\*)</sup> 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 <sup>\*)</sup>**

€ million	Nominal amounts	Nominal amounts	Credit risk equivalent Dec. 31, 2001	Replacement costs Dec. 31, 2001
	Dec. 31, 2001	Dec. 31, 2000		
Interest-rate contracts	70,344.1	48,367.7	213.8	621.3
Currency contracts	19,071.8	13,660.2	103.4	213.1
Equity trading	8.3	79.4	–	–
<i>Total</i>	<i>89,424.1</i>	<i>62,107.3</i>	<i>317.2</i>	<i>834.4</i>

**Derivatives Business – Breakdown by Counterparties**

€ million	Nominal amounts	Nominal amounts	Credit risk equivalent Dec. 31, 2001	Replacement costs Dec. 31, 2001
	Dec. 31, 2001	Dec. 31, 2000		
OECD banks	194,629.7	147,484.0	862.9	2,810.4
Non-OECD banks	342.4	402.1	2.3	7.8
Non-banks	11,818.6	16,873.1	162.7	204.2
Authorities	1,216.2	1,238.1	–	–
<i>Total</i>	<i>208,006.9</i>	<i>165,997.3</i>	<i>1,027.9</i>	<i>3,022.4</i>

**Derivatives Business – Breakdown by Maturities <sup>\*\*)</sup>**

€ million	Interest-rate risks		Currency risks		Stock price and other price risks	
	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2000
Residual maturities						
up to three months	38,852.4	15,750.4	29,945.0	24,297.3	128.0	126.1
up to one year	35,430.1	29,949.7	15,797.0	19,037.8	143.8	224.6
between one and five years	38,755.7	32,646.0	4,323.0	4,650.5	1,094.6	903.1
more than five years	41,309.2	36,373.4	1,951.9	1,906.7	276.3	131.8
<i>Total</i>	<i>154,347.3</i>	<i>114,719.5</i>	<i>52,017.0</i>	<i>49,892.3</i>	<i>1,642.7</i>	<i>1,385.6</i>

**Foreign Currency Business**

€ million	Bank	Group	Bank	Group
		2001		2000
Foreign currency assets	24,199.6	43,528.5	19,406.1	37,069.1
Foreign currency liabilities	24,014.8	37,729.0	22,073.5	34,722.9

<sup>\*)</sup> 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.

<sup>\*\*)</sup> 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.

**Cover Computation**

€ million	Bank	Group 2001	Bank	Group 2000
<i>Mortgage bond cover</i>				
Bearer bonds	-2,729.9	-3,619.7	-2,193.4	-3,148.5
Registered bonds	-2,708.2	-3,607.2	-2,096.0	-2,846.2
Registered bonds used as collateral	-656.7	-684.6	-673.3	-703.3
Redeemed and terminated bonds	-0.1	-0.1	–	–
	-6,094.9	-7,911.6	-4,962.7	-6,698.0
<i>Cover assets</i>				
Loans and advances to customers	6,579.2	9,216.6	6,071.8	8,614.4
Loans and advances to banks	–	–	–	–
<i>Excess cover</i>	<i>484.3</i>	<i>1,305.0</i>	<i>1,109.1</i>	<i>1,916.4</i>
<i>Municipal bonds used as cover</i>				
Municipal bearer bonds	-8,233.9	-10,129.4	-11,250.5	-13,523.8
Municipal registered bonds	-6,620.3	-8,587.0	-7,600.8	-9,674.4
Registered bonds used as collateral	-1,196.5	-1,225.5	-1,096.1	-1,147.9
Redeemed and terminated bonds	–	–	-0.1	-0.1
	-16,050.7	-19,941.9	-19,947.5	-24,346.2
<i>Cover assets</i>				
Loans and advances to customers	10,181.6	11,396.0	11,018.8	12,467.6
Loans and advances to banks	6,730.0	9,717.0	6,805.2	10,114.2
Securities and borrower's note loans issued by public issuers	–	–	2,612.7	2,612.7
Substitute cover	–	–	269.0	269.0
	16,911.6	21,113.0	20,705.7	25,463.5
<i>Excess cover</i>	<i>860.9</i>	<i>1,171.1</i>	<i>758.3</i>	<i>1,117.4</i>

**Average Number of Employees in 2001**

	female	male	total	2000
Bank excl. LBS and IB	726	814	1,540	1,459
Landes-Bausparkasse (LBS)	119	92	211	215
Investitionsbank (IB)	189	133	322	326
<i>Subtotal</i>	<i>1,034</i>	<i>1,039</i>	<i>2,073</i>	<i>2,000</i>
LB Schl.-Holst. International S.A.	47	37	84	75
Hamburgische Landesbank <sup>*)</sup>	1,212	1,179	2,391	2,222
Gudme Raaschou	17	62	79	85
Casinos <sup>**)</sup>	60	135	195	–
<i>Total</i>	<i>2,370</i>	<i>2,452</i>	<i>4,822</i>	<i>4,382</i>
including: part-time employees	562	77	639	593
plus: apprentices	100	71	171	189

<sup>\*)</sup> Total headcount of Hamburgische Landesbank

<sup>\*\*)</sup> For the first time the casinos were included in the Group annual accounts in 2001.

**Remuneration Paid to the Members of the Managing Board and the Supervisory Board of the Bank**

The total remuneration paid to the Managing Board in 2001 was € 2.4 (2000: 2.1) million, including € 0.1 (2000: 0.1) million from the subsidiaries. Remuneration paid to the Supervisory Board amounted to € 0.3 (2000: 0.3) million. Total remuneration paid to former members of the Managing Board or their surviving dependants was € 1.2 (2000: 1.0) million. Pension provisions in an amount of € 12.2 (2000: 8.7) 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 2001	Bank	Group 2000
Managing Board	0.7	0.7	1.2	1.2
Supervisory Board	2.8	2.8	2.6	2.6

**Seats of the Members of the Managing Board  
on other Supervisory Boards**

Dr. Dietrich Rümker

- DGZ Deka Bank Deutsche Kommunalbank, Frankfurt/Main
- Hamburgische Landesbank - Girozentrale -, Hamburg
- Landesbank Schleswig-Holstein International S.A., Luxembourg
- Minimax GmbH, Bad Oldesloe
- Howaldtswerke-Deutsche Werft AG, Kiel

Hans Berger

- Deka Deutsche Kapitalanlagegesellschaft mbH, Frankfurt/Main
- dvG Hannover Datenverarbeitungsgesellschaft mbH, Hannover
- eBS eBanking Services Nord GmbH i.G., Kiel
- Engram AG, Bremen
- Flender Werft AG, Lübeck
- Hamburgische Landesbank - Girozentrale -, Hamburg
- Nordex AG, Oberhausen
- S-Online Schleswig-Holstein GbR, Kiel
- SIZ Informatik – Zentrum der Sparkassenorganisation GmbH, Bonn
- s-NetLine GmbH, Kiel
- LBS Immobilien GmbH (LBSI), Kiel

Dieter Pfisterer

- eBS eBanking Services Nord GmbH i.G., 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
- LBS Immobilien GmbH (LBSI), Kiel
- Deka Immobilien Investment GmbH, Frankfurt

Dr. Erwin Sell (since May 1, 2001)

- Gudme Raaschou Bankaktieselskab, Kopenhagen/Denmark
- PCA Corporate Finance Oy, Helsinki/Finland
- WestLB Polska S.A., Warsaw
- A/O WestLB Vostok, Moscow
- Landesbank Schleswig-Holstein International S.A., Luxembourg

Franz S. Waas, Ph.D. (since January 1, 2001)

- Gudme Raaschou Bankaktieselskab, Kopenhagen/Denmark
- Landesbank Schleswig-Holstein International S.A., Luxembourg
- s-NetLine GmbH, Kiel
- S-Online Schleswig-Holstein GbR, Kiel
- Hanseatische Wertpapierbörse, Hamburg (BÖAG)

## Notes

### Shareholdings Pursuant to sec. 285 No. 11 of the German Commercial Code (HGB)

The Group financial statements include Companies I) to II). 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	Equity capital <sup>1)</sup> € million	Capital share in %	Result € million
1) Landesbank Schleswig-Holstein International S.A., Luxembourg	190.09	100.00	35.00
2) LB Schleswig-Holstein Finance B.V., Amsterdam	1.51	100.00	<sup>3)</sup>
3) Hamburgische Landesbank-Konzern, Hamburg	3,673.64	49.50	54.45
4) Gudme Raaschou Bankaktieselskab, Copenhagen	TDKK 98.620	100.00	<sup>3)</sup>
5) NOBIS Société des Banques Privées S.A., Luxembourg	12.82	80.00	<sup>3),4)</sup>
6) Spielbank SH GmbH, Kiel	0.03	100.00	<sup>2),3)</sup>
7) Spielbank SH GmbH & Co. Casino Stadtzentrum Schenefeld KG, Schenefeld	4.10	100.00	<sup>3)</sup>
8) Spielbank SH GmbH & Co. Casino Kiel KG, Kiel	4.60	100.00	<sup>3)</sup>
9) Spielbank SH GmbH & Co. Casino Lübeck – Travemünde KG, Lübeck-Travemünde	1.37	100.00	<sup>3)</sup>
10) Spielbank SH GmbH & Co. Casino Westerland auf Sylt KG, Westerland	2.57	90.00	<sup>3)</sup>
11) Spielbank SH GmbH & Co., Casino Flensburg KG, Flensburg	5.89	90.00	<sup>3)</sup>
12) LiLux Management S. A., Luxembourg	1.07	100.00	<sup>3),4)</sup>
13) Verwaltungs- und Treuhandgesellschaft von 1963 mbH, Kiel	0.03	100.00	<sup>3)</sup>
14) Wirtschafts- und Aufbaugesellschaft Stormarn mbH, Bad Oldesloe	0.03	24.00	<sup>3)</sup>
15) Kieler Grunderwerbgesellschaft mbH, Kiel	0.03	100.00	<sup>2),3)</sup>
16) Schleswig-Holsteinische Kapital-Beteiligungsgesellschaft mbH, Kiel	0.51	100.00	<sup>2),3)</sup>
17) Anker Schiffsbetreuungsgesellschaft mbH, Kiel	0.03	100.00	<sup>2),3)</sup>
18) W. Jacobsen AG, Kiel	4.43	92.51	<sup>3)</sup>
19) Schleswig-Holsteinische Immobilienfonds KG, Kiel	0.18	100.00	<sup>3)</sup>
20) BIG-Bau-Investitions-gesellschaft mbH, Kiel	12.79	24.00	<sup>3)</sup>
21) LBS Immobilien GmbH, Kiel	0.26	100.00	<sup>2),3)</sup>
22) Gesellschaft für Wagniskapital Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH, Kiel	14.62	56.1	<sup>3)</sup>
23) Grundstücksverwaltungsgesellschaft der schleswig-holsteinische Sparkassenorganisation mbH, Kiel	0.03	100.00	<sup>3)</sup>
24) Cape May Shipping Company Ltd., Monrovia	0.0002	100.00	<sup>3),4)</sup>
25) LBSH Leasing Verwaltungs GmbH, Lockstedt	0.03	100.00	<sup>3)</sup>
26) Bausteine für Kinder, Kindertagesstätten Bau- und Entwicklungs- GmbH, Lockstedt	0.03	100.00	<sup>2),3)</sup>
27) Kieler Förde-Verwaltungsgesellschaft mbH, Kiel	0.03	100.00	<sup>2),3)</sup>
28) Baltic Sea GmbH, Kiel	0.03	100.00	<sup>2),3)</sup>
29) Nord-Ostsee Verwaltungsgesellschaft mbH, Kiel	0.03	100.00	<sup>3)</sup>
30) Kiel-Hörn Vermarktungsgesellschaft mbH, Kiel	0.31	24.50	<sup>3)</sup>
31) MDK Holdings Limited, London	0.02	33.33	<sup>3)</sup>
32) Gudme Raaschou AB, Stockholm	TSEK 100	100.00	<sup>3)</sup>
33) eBanking Services Nord GmbH, Kiel	0.03	33.33	<sup>3)</sup>
34) LB Kiel Nordic Finance AB, Stockholm	TSEK 85.104	100.00	<sup>3)</sup>
35) Gebäudemanagement Schleswig-Holstein, Kiel	25.57	24.90	<sup>3)</sup>
36) Schleswig-Holstein ImmobilienPartner GmbH, Kiel	0.25	33.33	<sup>3)</sup>
37) Oy FoxNord AB, Helsinki	0.01	100.00	<sup>3)</sup>
38) Gudme Raaschou Administration A/S, Copenhagen	TDKK 2.116	100.00	<sup>3),4)</sup>
39) PCA Corporate Finance Oy, Helsinki	4.68	51.16	<sup>3)</sup>
40) LB Kiel Färgaren AB, Stockholm (vormals: Hedera Hässleholm AB)	TSEK 120	100.00	<sup>3),4)</sup>
41) LB Kiel Färgaren KB (vormals: KB Hedera Hässleholm)	–	99.93	<sup>3),4)</sup>
42) LB Kiel Lärkan AB, Stockholm	TSEK 100	99.00	<sup>3),4)</sup>
43) Fastighetsbolag Jyväskylä Agora Oy	TFIM 50	100.00	<sup>3),4)</sup>
44) Specialbonde i Stockholm AB, Stockholm	TSEK 100	100.00	<sup>3),4)</sup>
45) LB Kiel Gnarp AB, Stockholm	TSEK 100	100.00	<sup>3),4)</sup>
46) ECOMARES GmbH & Co. KG, Büsum	0.29	25.00	<sup>3),4)</sup>
47) P.E.R. Flucht- und Rettungssysteme GmbH, Barsbüttel	0.75	34.10	<sup>3),4)</sup>

Number, Name, Headquarters	Equity capital <sup>1)</sup> € million	Capital share in %	Result € million
48) Aura Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Wiesbaden	0.03	94.00	<sup>3)</sup>
49) Azur Grundstücksverwaltungsgesellschaft mbH & Co. LBSH KG, Wiesbaden	0.01	94.00	<sup>3)</sup>
50) FMS Facility Management Service GmbH, Kiel	0.03	100.00	<sup>2),3)</sup>
51) LB Kiel Unternehmensbeteiligungsgesellschaft mbH, Kiel	1.10	100.00	<sup>2),3)</sup>
52) Tapes GmbH & Co. KG, Pöcking	0.03	94.00	<sup>3)</sup>
53) Altium Capital CICs, Moscow	TUSD 369	37.12	<sup>3),4)</sup>
54) Aurora Gate Oy, Helsinki	0.002	100.00	<sup>3),4)</sup>
55) BTE Hybrid Tech. GmbH, Grube	0.40	29.85	<sup>3),4)</sup>
56) Cabronita Oy, Helsinki	0.25	100.00	<sup>3),4)</sup>
57) Granville Private Equity Ltd. Partnership, Jersey	18.54	21.23	<sup>3),4)</sup>
58) Green Stream Network Oy, Helsinki	0.31	20.00	<sup>3),4)</sup>
59) International Fund Services & Asset Management S.A., Luxembourg	0.62	51.61	<sup>3),4)</sup>
60) LB Kiel As AB, Stockholm	TSEK 100	100.00	<sup>3),4)</sup>
61) LB Kiel Blekholmen AB, Stockholm	TSEK 100	100.00	<sup>3),4)</sup>
62) LB Kiel Pildammen AB, Stockholm	TSEK 100	99.00	<sup>3),4)</sup>
63) LB Kiel Tunnan AB, Stockholm	TSEK 100	100.00	<sup>3),4)</sup>
64) PCA Property Finance Oy, Helsinki	0.35	54.95	<sup>3),4)</sup>
65) West Private Equity Fund 2000 (5) GmbH & Co. KG, Düsseldorf	7.00	99.98	<sup>3),4)</sup>
66) Marc Marco Polo Ventures GmbH & Co. KG, Krefeld	1.83	91.00	<sup>3),4)</sup>
67) Ohltec AG, Gettorf	3.00	23.89	<sup>3),4)</sup>
68) Dynatechnik Meßsysteme GmbH, Hamburg	0.69	40.00	<sup>3),4)</sup>

## Notes:

<sup>1)</sup> The term "Equity capital" corresponds to the definition in art. 266 and 272 of the German Commercial Code (HGB)

<sup>2)</sup> There is a profit and loss transfer agreement with the company

<sup>3)</sup> Not published according to sec. 286 para. 3 sentence 1 and sec. 313 para. 2 No. 4 of the German Commercial Code (HGB)

<sup>4)</sup> Indirect shareholdings

## Guarantors' Meeting (as at December 31, 2001)

### *Chairwoman*

Heide Simonis  
Minister President of the State of Schleswig-Holstein,  
Kiel

### *First Deputy Chairman*

Dr. h.c. Friedel Neuber  
Chairman of the Managing Board Westdeutsche  
Landesbank Girozentrale, Düsseldorf  
(up to August 31, 2001)

Jürgen Sengera

Chairman of the Managing Board Westdeutsche  
Landesbank Girozentrale, Düsseldorf  
(since September 1, 2001)

### *Second Deputy Chairman*

Olaf Cord Dielewicz  
President 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

### *Members Representing the State of Schleswig-Holstein acc. to sec. 8 para. 2 of the Statutes*

Uwe Mantik

State Secretary at the Ministry of Economic Affairs,  
Technology and Transport of the state of Schleswig-  
Holstein, Kiel (up to March 31, 2001)

Michael Rocca

State Secretary at the Ministry of Economic Affairs,  
Technology and Transport of the State of Schleswig-  
Holstein, Kiel (since April 1, 2001)

Claus Möller

Minister of Finance and Energy of the State of  
Schleswig-Holstein, Kiel

### *Members Representing the Savings Banks and Giro Association acc. to sec. 8 para. 2 of the Statutes*

Dr. Hans Lukas

Chairman of the Managing Board Sparkasse Stormarn,  
Bad Oldesloe

Jörg-Dietrich Kamischke

District Administrator of the Schleswig-Flensburg  
district, Schleswig

### *Members Representing Westdeutsche Landesbank Girozentrale acc. to sec. 8 para. 2 of the Statutes*

Dr. Karlheinz Bentele

President of the Rhineland Savings Banks  
and Giro Association, Düsseldorf

Dr. Wolf-Albrecht Prautzsch

Deputy Chairman of the Managing Board  
Westdeutsche Landesbank Girozentrale, Münster

### *Members Representing Landesbank Baden-Württemberg acc. to sec. 8 para. 2 of the Statutes*

Hans Dietmar Sauer

Chairman of the Managing Board  
Landesbank Baden-Württemberg, Stuttgart

## Supervisory Board (as at December 31, 2001)

### *Chairwoman*

Heide Simonis  
Minister President of the State of Schleswig-Holstein,  
Kiel

### *Substitute acc. to sec. 11 para. 3 of the Statutes*

Klaus Gärtner  
State Secretary, Head of the State Chancellery of  
the State of Schleswig-Holstein, Kiel

### *First Deputy Chairman*

Dr. h.c. Friedel Neuber  
Chairman of the Managing Board Westdeutsche  
Landesbank Girozentrale, Düsseldorf  
(up to August 31, 2001)

Jürgen Sengera

Chairman of the Managing Board Westdeutsche  
Landesbank Girozentrale, Düsseldorf  
(since September 1, 2001)

### *Substitute acc. to sec. 11 para. 3 of the Statutes*

Dr. Adolf Franke  
Member of the Managing Board Westdeutsche Landes-  
bank Girozentrale, 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*

Wolfgang Stut  
Association Director of the Savings Banks and Giro  
Association for Schleswig-Holstein, Kiel  
(up to September 30, 2001)

Werner Helms-Rick

Association Director of the Savings Banks and Giro  
Association for Schleswig-Holstein, Kiel  
(since Oktober 1, 2001)

### *Third Deputy Chairman*

Heinrich Haasis  
President of the Baden-Württemberg Savings Banks  
Association, Stuttgart

### *Substitute acc. to sec. 11 para. 3 of the Statutes*

Gerd Wolf  
Member of the Managing Board Landesbank Baden-  
Württemberg, Stuttgart (since January 1, 2001)

### *Members Representing the State of Schleswig-Holstein*

Uwe Mantik

State Secretary at the Ministry of Economics Affairs,  
Technology and Transport of the State of Schleswig-  
Holstein, Kiel (up to March 31, 2001)

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 (since April 1, 2001)

### *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

Günter Kröpelin  
District Administrator of the Herzogtum Lauenburg  
district, Ratzeburg

Erwin Rückemann  
Chairman of the Managing Board Stadtsparkasse  
Neumünster, Neumünster

*Member Representing both the State of Schleswig-  
Holstein and the Savings Banks and Giro Association  
for Schleswig-Holstein*

Dr. Hans Lukas  
Chairman of the Managing Board Sparkasse Stormarn,  
Bad Oldesloe

*Member Representing the Landesbank Baden-  
Württemberg*

Hans Dietmar Sauer  
Chairman of the Managing Board Landesbank Baden-  
Württemberg, Stuttgart

*Members Representing Westdeutsche Landesbank  
Girozentrale*

Theo Dräger  
Chairman of the Managing Board Drägerwerk AG,  
Lübeck

Hans-Peter Krämer  
Chairman of the Managing Board Kreissparkasse Köln,  
Köln

Dr. Ingrid Nümann-Seidewinkel  
Senatrice, Head of the Ministry of Finance of Free and  
Hanseatic City Hamburg, Hamburg (up to Oktober 31,  
2001)

Dr. Wolf-Albrecht Prautzsch  
Deputy Chairman of the Managing Board Westdeutsche  
Landesbank Girozentrale, Münster

Dr. Fritz Süverkrüp  
President of the Chamber of Industry and Commerce  
of Kiel, Kiel

Jorma Juhani Vaajoki  
Kauniainen, Finland

*Members Elected by the Employees*

Astrid Balduin  
Kiel

Katarina Blanking  
Copenhagen

Waltraud Fuhrmann  
Vice President, Kiel

Helmut Gründel  
Kiel

Ditmar Höret  
Kiel

Knuth Lausen  
Kiel

Karl-Heinz Ravn  
Vice President, Kiel

Michael Schmalz  
Kiel

Bettina Scholtys  
Kiel

Gaby Woelk  
Kiel

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## *Managing Board* (as at December 31, 2001)

Dr. Dietrich Rümker  
Chairman

Hans Berger  
Deputy Chairman

Dieter Pfisterer

Peter Pahlke  
(up to July 31, 2001)

Dr. Erwin Sell  
(since May 1, 2001)

Franz S. Waas, Ph. D.

## 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, 2001, to December 31, 2001. 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. 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 Company 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 22, 2002

Wollert-Elmendorff  
Deutsche Industrie-Treuhand GmbH  
Wirtschaftsprüfungsgesellschaft



Dr. Göttings  
Wirtschaftsprüfer  
(German Public Auditor)



Hammelstein  
Wirtschaftsprüfer  
(German Public Auditor)

**Head Office of the Bank**

Landesbank Schleswig-Holstein Girozentrale  
Martensdamm 6  
24103 Kiel  
Germany

**Issuer**

RESPARCS Funding Limited Partnership I  
8/F, Prince's Building  
Hong Kong  
People's Republic of China

**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**

HSBC Bank plc  
Mariner House  
Pepys Street  
London EC3N 4DA  
United Kingdom

**Luxembourg Paying Agent**

The Bank of New York (Luxembourg) S.A.  
Aerogolf Centre  
1A, Hoehenhof  
1736 Senningerberg  
Luxembourg

**Legal Advisors to the Managers**

*as to German law*  
Freshfields Bruckhaus Deringer  
Taunusanlage 11  
60329 Frankfurt  
Germany

*as to Hong Kong law*  
Freshfields Bruckhaus Deringer  
Two Exchange Square  
Hong Kong  
People's Republic of China

**Auditors to the Bank**

Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH  
**Wirtschaftsprüfungsgesellschaft**  
Bahnstraße 16  
40212 Düsseldorf  
Germany

