

# €500,000,000 LB Kiel SPARC Securities

*Each issued on a fiduciary basis by Banque de Luxembourg (incorporated with limited liability in the Grand Duchy of Luxembourg and registered under number RC B 5310)*

for the purposes of subscribing to

€500,000,000 Class B Preference Shares in

## LB Kiel Funding I

*LB Kiel Funding I is incorporated with limited liability in the Cayman Islands and a wholly-owned subsidiary of*

## Landesbank Schleswig-Holstein Girozentrale

Issue price of the LB Kiel SPARC Securities: 100%

The issue price of the €500,000,000 LB Kiel Silent Participation Assimilated Regulatory Capital (SPARC) Securities in the denomination of €1,000 (the "SPARC Securities"), issued on a fiduciary basis by Banque de Luxembourg, a société anonyme incorporated in Luxembourg (the "Fiduciary") is 100% of their principal amounts.

With the proceeds of the issue of the SPARC Securities, the Fiduciary will, in its own name but at the sole risk of the holders of the SPARC Securities (the "Securityholders"), acquire 500,000 Class B Preference Shares (the "Class B Securities") issued by LB Kiel Funding I (the "Company"). With the proceeds of the issue of the Class B Securities, the Company will acquire a silent capital interest in the commercial enterprise (*Handelsgewerbe*) (the "Participation") of the Bank in the form of a *Stille Gesellschaft* pursuant to an agreement providing for an asset contribution to the Bank in the amount of €500,000,000 (the "Silent Contribution") and dated 15 February 2002 (the "Participation Agreement").

The Bank has undertaken in an undertaking agreement (the "Undertaking Agreement") with the Fiduciary to ensure that the Company will at all times be in a position to meet its dividend obligations under the Class B Securities.

The SPARC Securities will represent a pro rata interest in the Class B Securities (prior to redemption thereof) and (after such redemption), the Silent Contribution and all payments received by the Fiduciary thereunder. Redemption of the Class B Securities will, unless the Silent Contribution has been repaid, occur by way of a transfer ("Transfer") of the Company's rights under the Participation Agreement to the Fiduciary. The Fiduciary will hold (prior to Transfer) the Class B Securities and (after Transfer) the Participation in its own name, on a fiduciary basis, but solely at the risk and for the account of the Securityholders. The SPARC Securities will evidence the existence of fiduciary contracts between the Securityholders and the Fiduciary, the terms of which Securityholders will be deemed to have acknowledged and agreed by accepting SPARC Securities and pursuant to which the Fiduciary is only obliged to pass on funds actually received from the Company (under the Class B Securities prior to Transfer) or the Bank (under the Participation Agreement after Transfer) to the Securityholders but has no other payment obligations to the Securityholders. The amounts of distributions under the Class B Securities and the Participation Agreement depend on the profits of the Bank.

Investing in the SPARC Securities involves certain risks. Please review the section entitled "Investment Considerations" beginning on page 17 of this Offering Circular.

The SPARC Securities will initially be represented by a temporary global security in bearer form without coupons which will be deposited on or about 19 February 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 SPARC Securities have been accepted for clearance. It is expected that delivery of the SPARC 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 without coupons upon certification as to non-US beneficial ownership. In certain limited circumstances the global securities can be exchanged for definitive SPARC Securities.

The SPARC 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 an exemption from the registration requirements of the 1933 Act is available. The SPARC 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 SPARC Securities on the Luxembourg Stock Exchange.

*Bookrunner and Structuring Advisor*

**LEHMAN BROTHERS**

*Co-Lead Managers*

ABN AMRO

CREDIT SUISSE FIRST BOSTON

NATEXIS BANQUES POPULAIRES

BARCLAYS CAPITAL

HSBC

The date of this Offering Circular is 15 February 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 Company accepts responsibility for the information in this Offering Circular about itself but does not accept responsibility for any other information contained in this Offering Circular. The Fiduciary accepts responsibility for the information contained in the first paragraph of the section entitled “The Fiduciary and the Fiduciary Contract” but does not accept responsibility for any other information contained in this Offering Circular.

In connection with the issue and sale of the SPARC 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 Fiduciary, the Company, 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 Fiduciary, the Company, the Bank or the Managers that any recipient of this Offering Circular should purchase any of the SPARC Securities. Each investor contemplating purchasing SPARC Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Fiduciary, the Company and the Bank.

The distribution of this document and the offering or sale of the SPARC Securities in certain jurisdictions may be restricted by law. None of the Company, the Bank, the Fiduciary or the Managers represent that this document may be lawfully distributed, or that the SPARC 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 Company, the Bank, the Fiduciary or the Managers has taken any action which would permit a public offering of the SPARC Securities or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no SPARC 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 SPARC 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 SPARC 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 Fiduciary, the Company, the Bank or the Bank and its group of consolidated companies as defined under the German Stock Corporation Act (the “LB Kiel Group”) since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The SPARC 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 SPARC Securities may not be sold or delivered, directly or indirectly, within the United States or to U.S. persons.

In this document, all references to “EUR”, “euro”, “EURO” and “€” are to the lawful currency of those EU member states participating in the European Monetary Union.

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*In connection with this issue, Lehman Brothers International (Europe) or any person acting for Lehman Brothers International (Europe) may over-allot or effect transactions with a view to supporting the market price of the SPARC Securities at a higher level than that which might otherwise prevail for a limited period after the Issue Date. 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 OF THE TRANSACTION

*The following paragraphs contain a brief overview of the most significant features of 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 securities and the information concerning (i) the transaction, (ii) the Bank, the Company and the Fiduciary and (iii) the agreements amongst them.*

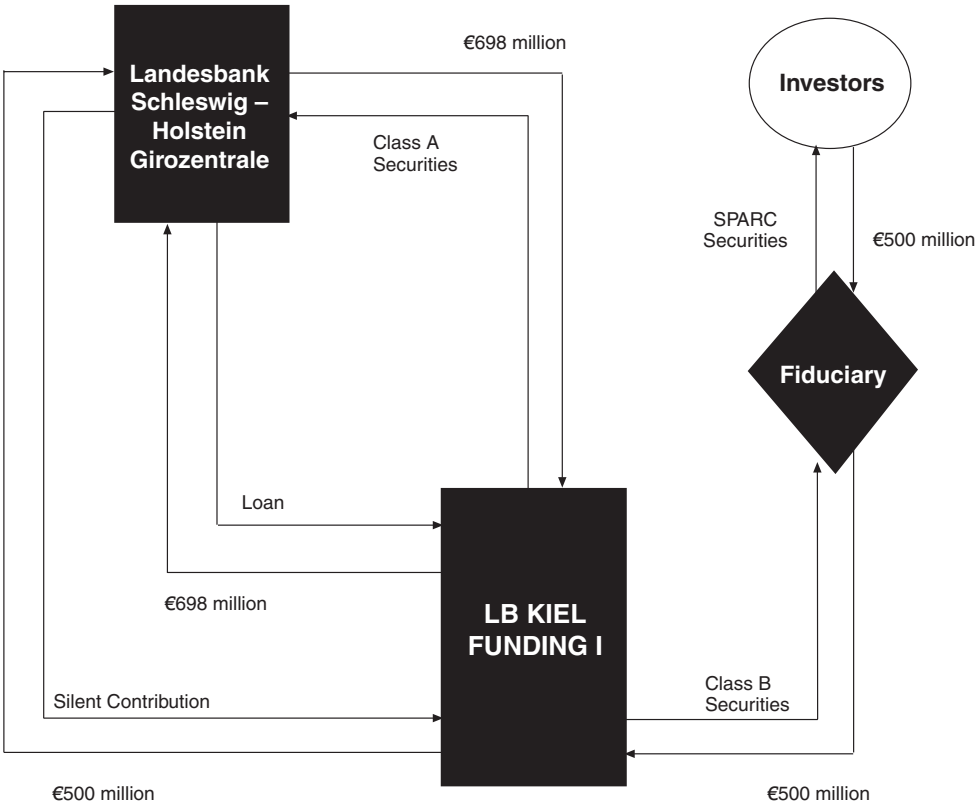
The Fiduciary proposes to issue €500,000,000 SPARC Securities on a fiduciary basis. With the proceeds of issue of the SPARC Securities the Fiduciary will acquire 500,000 Class B Securities issued by the Company, an exempted company incorporated with limited liability under the laws of Cayman Islands, of which the Bank will, at the Issue Date, own all of the ordinary shares. The Company will, with the proceeds from the issuance of the Class B Securities, acquire a silent capital interest in the aggregate amount of €500,000,000 in the commercial enterprise (*Handelsgewerbe*) of the Bank in the form of *Stille Gesellschaft* pursuant to an agreement providing for an asset contribution by the Company to the Bank in the amount of €500,000,000 to be dated on or about 15 February 2002.

In addition to its ordinary shares and the Class B Securities, the Company will issue 698,000 Class A Preference Shares (the “**Class A Securities**”) in the aggregate nominal amount of €698,000,000 to the Bank. The Company will use the proceeds from the issuance of the Class A Securities in order to extend a loan documented in the form of a German law governed *Schuldscheindarlehen* (the “**Loan**”) to the Bank. The Company will use the interest earned under the Loan to satisfy its dividend payment obligations under the Class B Securities.

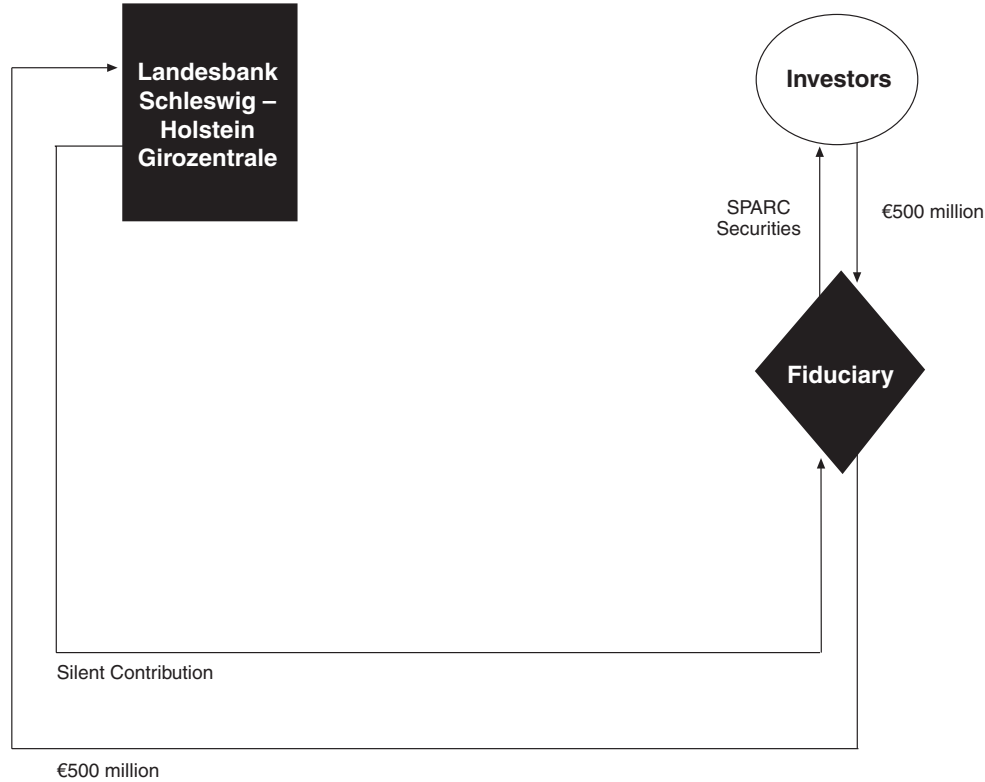
Each SPARC Securities will represent, prior to Transfer, a pro rata interest in the Class B Securities and, after Transfer, a pro rata interest in the Participation. Securityholders will have no interest in profit participations accrued for the period from the Issue Date to 31 December of the year prior to the year in which the Transfer occurs. Securityholders will be entitled, prior to Transfer, to all payments made under the Class B Securities by the Company to the Fiduciary and, after Transfer, to all payments made by the Bank to the Fiduciary under the Participation Agreement. The Fiduciary will hold, prior to Transfer, the Class B Securities and, after Transfer, the Participation in its own name, on a fiduciary basis, but solely at the risk and for the account of the Securityholders.

The terms and conditions of the SPARC Securityholders (the “**SPARC Terms**”) and the terms and conditions of the Class B Securities (the “**Class B Terms**”) are subject to certain linkage features that have the effect of linking each of them to the Participation Agreement and, therefore, making the obligation of the Company to pay dividends and capital on the Class B Securities and the Fiduciary’s corresponding obligation to pass on to Securityholders funds it receives under the Class B Securities and (after Transfer) the Participation Agreement, dependent on the financial condition of the Bank. The Bank intends to treat the proceeds under the Participation Agreement as solo tier one capital of the Bank for purposes of determining its compliance with regulatory capital requirements.

The following diagram outlines the relationship between the Bank, the Company, the Fiduciary and the Securityholders prior to Transfer:



The following diagram outlines the relationship between the Bank, the Fiduciary and the Securityholders after Transfer:



## SUMMARY OF THE TERMS OF THE SPARC SECURITIES

The following summary refers to certain provisions of the SPARC Terms and is qualified in its entirety and by the more detailed information contained elsewhere in this document. Defined terms used herein have the meaning given to them in "Terms and Conditions of the SPARC Securities" contained elsewhere herein.

<b>Issuer</b>	Banque de Luxembourg, a société anonyme incorporated in Luxembourg acting on a fiduciary basis under Luxembourg law and in particular the Grand Ducal Regulation of 19 July 1983 on Fiduciary Contracts of Credit Institutions.
<b>Nature of securities</b>	Each SPARC Security represents, before Transfer, a pro rata interest in the Class B Securities and thereafter a pro rata interest in the Participation (excluding profit participations accrued up to (and including) the fiscal year of the Bank prior to the fiscal year in which the Transfer occurs).
<b>Fiduciary obligations</b>	The Issuer will act as a fiduciary for the Securityholders. It is only obliged to pass amounts on to Securityholders to the extent that those amounts are received by or on behalf of the Issuer.
<b>Principal Amount</b>	€500,000,000.
<b>Nominal Amount</b>	€1,000 per SPARC Security.
<b>Issue Price</b>	100%
<b>Issue Date</b>	19 February 2002.
<b>Maturity</b>	The SPARC Securities are perpetual securities and have no fixed maturity date.
<b>Class B Securities</b>	The €500,000,000 Class B Securities issued by the Company.
<b>Participation</b>	The Silent Contribution in the initial aggregate principal amount of €500,000,000 in the commercial enterprise ( <i>Handelsgewerbe</i> ) of the Bank in the form of a <i>Stille Gesellschaft</i> .
<b>Form</b>	The SPARC Securities will initially be represented by a Temporary Global Security in bearer form without coupons attached which will be deposited on the Issue Date with a common depository for Euroclear and Clearstream Luxembourg. The Temporary Global Security will be exchangeable for a Permanent Global Security in bearer form without coupons attached upon certification as to non-US beneficial ownership of the SPARC Securities. In certain limited circumstances the Permanent Global Security will be exchangeable for definitive SPARC Securities with coupons and talons attached.
<b>Transfer</b>	In lieu of a payment in cash on the redemption of the Class B Securities, the Company will on redemption of the Class B Securities, if the Participation has not been repaid, transfer the Participation (excluding profit participations accrued up to 31 December of the year prior to the year in which the Transfer occurs) to the Fiduciary. Until such transfer, each SPARC Security will represent a pro rata interest in the Class B Securities and thereafter a pro rata interest in the Participation (excluding profit participations accrued up to 31 December of the year prior to the year in which the Transfer occurs.) The Class B Securities must be redeemed on those dates determined in accordance with the Class B Terms. Under the SPARC Terms, Securityholders and, if the SPARC Securities are listed on the Luxembourg Stock Exchange, the Luxembourg Stock Exchange will be informed of the occurrence of a Transfer.
<b>Non-Principal Distributions</b>	<p>For such time as the SPARC Securities represent interests in the Class B Securities, the Securityholders will be entitled to dividend amounts paid by the Company under the Class B Securities.</p> <p>For such time as the SPARC Securities represent interests in the Participation, the Securityholders will be entitled to profit participations paid by the Bank</p>

<b>Non-Principal Distribution Dates</b>	<p>under the Participation Agreement (excluding profit participations accrued up to 31 December of the year prior to the year in which the Transfer occurs.)</p> <p>The record date for entitlement to Non-Principal Distributions will be 29 June.</p> <p>For such time as the SPARC Securities represent interests in the Class B Securities, Securityholders will receive Non-Principal Distributions at such times as dividends are paid under the Class B Securities.</p> <p>For such time as the SPARC Securities represent interests in the Participation, Securityholders will receive profit participations at such times as profit participations, accrued since the Transfer, are paid under the Participation Agreement.</p> <p>The payment dates for dividends under the Class B Terms and for profit participations under the Participation Agreement are expected to be 30 June of each year. The first payment is expected to occur on 30 June 2003.</p>
<b>Fiscal and Paying agent</b>	Kredietbank S.A. Luxembourgeoise
<b>Redemption</b>	<p>If the SPARC Securities represent interests in the Class B Securities and if the Silent Contribution is repaid in cash, the SPARC Securities will be redeemed in such amounts as the Silent Contribution is repaid.</p> <p>If the SPARC Securities represent interests in the Class B Securities and the Class B Securities are redeemed by way of transfer of the Participation to the Fiduciary, the SPARC Securities will only be redeemed upon the repayment of the Silent Contribution.</p>
<b>Redemption Date</b>	<p>If the SPARC Securities represent interests in the Participation and if the Silent Contribution is repaid, the SPARC Securities will be redeemed in such amounts as the Silent Contribution is repaid.</p> <p>If the SPARC Securities represent interests in the Class B Securities and if the Silent Contribution is repaid, the SPARC Securities will be redeemed on such date as the Silent Contribution is repaid.</p> <p>If the SPARC Securities represent interests in the Participation and if the Silent Contribution is repaid, the SPARC Securities will be redeemed on such date as the Silent Contribution is repaid.</p> <p>The Redemption Date is expected to occur on 30 June of the year following the year in which the Participation Agreement is terminated, which may occur no earlier, except in the case of a termination for supervisory or tax reasons, than 30 June 2014.</p>
<b>Make-Whole Payment</b>	<p>If the SPARC Securities are redeemed prior to 30 June 2014, Securityholders will receive an amount equal to the difference, if positive, between (i) the present value of the expected Non-Principal Distributions for the period from the date of redemption to 30 June 2014 and an amount equal to the aggregate principal amount of the SPARC Securities on 30 June 2014, and (ii) the initial aggregate principal amount of the SPARC Securities. The present value will be calculated by discounting the payments on an annual basis using a Bund comparable yield plus 75 basis points.</p>
<b>Enforcement rights</b>	<p>Upon a payment default of any amount by the Company or the Bank the Fiduciary may seek at any time at its discretion and without notice any remedy available to it under applicable law. It shall only be bound to seek any such remedy in limited circumstances as more fully set out hereafter. Any action of the Fiduciary shall always be subject to full prior indemnification to the Fiduciary. If the Fiduciary becomes obliged to take legal action, and has failed to take such legal action within a reasonable time, then the Securityholders may be entitled, subject to certain conditions, to institute legal action in the Fiduciary's place.</p>
<b>Payment of Additional Amounts</b>	<p>If the Fiduciary is required to withhold or deduct amounts payable under the SPARC Securities on account of tax, the Fiduciary will not, unless it receives</p>

	funds from the Bank or Company to do so, gross up those amounts so that the Securityholders receive the full amounts payable.
<b>Listing</b>	Application has been made to list the SPARC Securities on the Luxembourg Stock Exchange.
<b>Notices</b>	A newspaper designated for mandatory stock exchange notices in Germany ( <i>Börsenpflichtblatt</i> ) and in Luxembourg ( <i>Luxemburger Wort</i> ) or such other <i>Börsenpflichtblatt</i> or Luxembourg daily newspaper as the Fiduciary may select. Provided that the rules of the stock exchange(s) where the SPARC 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.
<b>Governing law</b>	Luxembourg
<b>Clearing</b>	The SPARC Securities have been accepted for clearance and settlement through Euroclear and Clearstream Luxembourg. It is expected that delivery of the interests in the SPARC Securities will be made through the facilities of Euroclear and Clearstream Luxembourg, against payment therefor in immediately available funds, on or about the Issue Date.
<b>Security code</b>	ISIN: XS0142391894 Common Code: 14239189



## SUMMARY OF THE TERMS OF THE CLASS B SECURITIES

*The following summary refers to certain provisions of the Terms and Conditions of the Class B Securities and is qualified in its entirety and by the more detailed information contained elsewhere in this document. Defined terms used herein have the meaning given to them in "Terms and Conditions of the Class B Securities".*

<b>Principal Amount</b>	€500,000,000
<b>Form and Denomination</b>	500,000 Class B Securities consisting of Class B Preference Shares of €1,000 par value each.
<b>Dividends</b>	<p>Dividends for each calculation period of the Class B Securities (being 30 June (inclusive) to 30 June (exclusive) provided that the first Calculation Period will be from (and including) 19 February 2002 to (but excluding) 30 June 2003 or, in the case of the last Calculation Period, to (but excluding) the date of redemption of the Class B Securities) (the <b>Calculation Period</b>) are payable on the Payment Date falling on or after the end of such Calculation Period.</p> <p>Dividends for the Class B Securities for each Calculation Period shall be in an amount equal to the lower of (i) 7.4075% per annum on the paid up value of the Class B Securities and (ii) the Profit Participation accrued in accordance with the Participation Agreement, if any, for the Bank's fiscal year (being 1 January to 31 December) (the <b>Relevant Bank Fiscal Year</b>) commencing in the same calendar year as the relevant Calculation Period begins.</p> <p>If the Profit Participation for a Relevant Bank Fiscal Year is less than the maximum amount which could accrue for such Relevant Bank Fiscal Year, then the above-mentioned 7.4075% per annum shall be multiplied by the quotient of the actual Profit Participation accrued for that Relevant Bank Fiscal Year divided by such maximum Profit Participation.</p>
<b>Payment Dates</b>	The later of 30 June (or if that is not a Business Day, the following Business Day) or the first Business Day following the adoption of the annual financial statements of the Bank.
<b>Capital Repayments</b>	There shall be no capital repayments other than payment made on a Redemption Date as set out below or a return of capital on winding up of the Company.
<b>Maturity</b>	No fixed maturity.
<b>Redemption Dates</b>	<p>The Class B Securities shall either be redeemed (A) by transfer of the Participation Agreement to the Fiduciary, on a Class B Transfer Redemption Date, being the earlier of:</p> <ul style="list-style-type: none"><li>(i) 30 June 2014;</li><li>(ii) the date on which a Transfer occurs pursuant to the BAKred's requirement that the Bank induce the Company to transfer its claims under the Participation Agreement, such requirement for Transfer to be complied with only upon six months prior notice by the BAKred to the Bank; and</li><li>(iii) the date on which the Loan must be repaid in accordance with the Loan Agreement.</li></ul> <p>or (B) for cash, on a Class B Cash Redemption Date, being the date on which the Silent Contribution becomes payable in accordance with the Participation Agreement.</p>
<b>Redemption</b>	<p>On a Class B Transfer Redemption Date, by transferring to the Fiduciary all of the Company's rights in the Participation Agreement (excluding profit participations accrued up to 31 December of the year prior to the year in which the Transfer occurs.)</p> <p>On a Class B Cash Redemption Date, by paying the proceeds under the Participation Agreement (other than profit participations accrued up to 31</p>

	<p>December of the year preceding the year in which the Redemption occurs) to the Fiduciary.</p> <p>Such transfer or payment will satisfy the Company's obligations in respect of redemption of the Class B Securities, even if the value of the Silent Contribution, or the proceeds under the Participation Agreement, is less than the aggregate par value of the Class B Securities.</p> <p>There will be no partial redemption of the Class B Securities.</p>
<b>Ranking</b>	<p>In the event that the assets of the Company (other than rights under the Loan and the Participation Agreement) are insufficient to meet the claims of creditors, creditors' claims will be met with the proceeds of the Participation Agreement (other than profit participations accrued up to the repayment of the Silent Contribution or redemption of the Class B Securities).</p> <p>Subject to the following sentence, no shareholder in the Company other than the holder of the Class B Securities will have a right to share in the proceeds of the Participation Agreement. No shareholder in the Company other than the holder of the Class A Securities will have a right to share in profit participations under the Participation Agreement accrued up to 31 December of the year preceding the year in which the Transfer occurs.</p>
<b>Payment of Additional Amounts</b>	<p>If the Company is required to withhold or deduct amounts payable under the Class B Securities on account of tax, the Company will gross up those amounts so that the holders of the Class B Securities receive the full amount payable or such amount will be paid by the Bank to the Fiduciary.</p>
<b>Voting Rights</b>	<p>No voting rights other than in relation to rights attached to Class B Securities.</p>
<b>Enforcement Rights</b>	<p>The memorandum and articles of association of the Company constitute a contract between the shareholders and the Company. In order to enforce the rights of the Class B Securities under the articles of association the Fiduciary, as a shareholder, would need to bring an action against the Company for breach of contract or, alternatively, against the directors of the Company directly for breach of their fiduciary duties under Cayman Islands law. The action taken would depend on the right which the Fiduciary was seeking to enforce. Such actions would lie, for example, where the fixed dividend on the Class B Securities was not declared and paid by the directors of the Company in breach of the provisions of the articles of association and their fiduciary duties.</p>
<b>Transfer Rights</b>	<p>The Fiduciary will not be entitled to transfer its rights or obligations except to a new fiduciary as permitted by the SPARC Terms. Under the SPARC Terms, the Securityholders will be informed of the occurrence of a change of Fiduciary.</p>
<b>Governing Law</b>	<p>Cayman Islands</p>

## SUMMARY OF THE TERMS OF THE PARTICIPATION

*The following summary refers to certain provisions of the Terms and Conditions of the Participation and is qualified in its entirety and by the more detailed information contained elsewhere in this document. Defined terms used herein have the meaning given to them in "Terms and Conditions of the Participation".*

**Instrument** Silent capital interest by the Company in the commercial enterprise (*Handelsgewerbe*) of Landesbank Schleswig-Holstein Girozentrale in the form of *Stille Gesellschaft*.

**Maturity** The Participation is a perpetual instrument and has no fixed maturity date.

**Principal Amount** €500,000,000

**Profit Participations** (A) From 19 February 2002 until the earlier of (i) 31 December of the year prior to the year in which a Transfer occurs or (ii) termination of the Participation Agreement, profit participations will accrue in the following amounts for the following periods:

Fiscal year of the Bank (or relevant part thereof)	Profit Participation €
19 February 2002 to 31 December 2002	50,330,411
1 January 2003 to 31 December 2003	40,765,725
1 January 2004 to 31 December 2004	43,785,446
1 January 2005 to 31 December 2005	47,028,853
1 January 2006 to 31 December 2006	50,512,516
1 January 2007 to 31 December 2007	54,254,230
1 January 2008 to 31 December 2008	58,273,112
1 January 2009 to 31 December 2009	62,589,693
1 January 2010 to 31 December 2010	67,226,025
1 January 2011 to 31 December 2011	72,205,792
1 January 2012 to 31 December 2012	77,554,436
1 January 2013 to 31 December 2013	83,299,281

(B) for all periods beginning on 1 January of the year in which a Transfer occurs and until the earlier of the repayment of the Participation and 30 June 2014, profit participations shall accrue on the Principal Amount of the Participation at a rate of 7.4075% per annum.

(C) for all periods after 1 January 2014 until repayment of the Silent Contribution profit participations shall accrue on the Principal Amount at a rate corresponding to a EURIBOR rate (or arithmetic mean of those quoted) plus a margin of 2.15% per annum on the Principal Amount of the Participation. Such EURIBOR rate will be based on the twelve month EURIBOR rate prevailing on 30 June of the relevant period.

As set forth in further detail in the Participation Agreement, no profit participation will accrue for any fiscal year:

- (i) to the extent payment thereof would lead to or increase an Annual Balance Sheet Loss;
- (ii) if there has occurred a Reduction which has not yet been fully restored;
- (iii) in the case of regulatory intervention; or
- (iv) to the extent payment thereof would lead to or increase an annual loss (in accordance with the German Commercial Code) if the Bank's solvency ratio is less than 9% on a solo or on a consolidated basis.

**Pre-Transfer Profit Participation** From 19 February 2002 to 31 December of the year preceding the year in which the Transfer occurs, profit participations will accrue on the Principal Amount for each fiscal year of the Bank or part thereof.

No profit participation accrued under the Participation Agreement prior to 31 December of the year prior to the year in which the Transfer occurs will be

payable to the Fiduciary or the Securityholders. The amount which accrues under the Participation Agreement is nevertheless relevant to Securityholders as dividends payable on the Class B Securities are calculated to be the lower of (a) profit participations accrued for the fiscal year of the Bank and (b) 7.4075% of the nominal amount of the Class B Securities. No profit participation accrues (i) to the extent payment thereof would lead to or increase an Annual Balance Sheet Loss, (ii) if there has occurred a Reduction which has not yet been fully restored, (iii) in the case of regulatory intervention, or (iv) to the extent payment thereof would lead to or increase an annual loss (in accordance with the Germany Commercial Code) if the Bank's solvency ratio is below 9% on a solo or on a consolidated basis. No dividend will be payable under the Class B Securities until the Business Day following the adoption of the most recent annual financial statements of the Bank.

**Post-Transfer Profit Participation**

From 1 January of the year in which a Transfer occurs until the termination of the Participation Agreement, profit participations will accrue on the Principal Amount for each fiscal year of the Bank. No profit participation accrues (i) to the extent payment thereof would lead to or increase an Annual Balance Sheet Loss, (ii) if there has occurred a Reduction which has not yet been fully restored, (iii) in the case of regulatory interventions, or (iv) to the extent payment thereof would lead to or increase an annual loss if the Bank's solvency ratio is below 9% on a solo or on a consolidated basis.

Profit participations accruing after a Transfer occurs will be paid in the calendar year after they accrued on the later of (a) 30 June (or if such day is not a Business Day, then the next succeeding Business Day) and (b) the Business Day following the adoption of the most recent annual financial statements of the Bank.

**Ranking of Profit Participations**

The Bank's payment obligations under the Participation Agreement:

(a) 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 Section 10 para. 5 and para. 5a KWG);

(b) 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 *Stille Gesellschaft* and other tier 1 capital instruments ranking pari passu with profit participations in the form of *Stille Gesellschaft*; and

(c) rank senior to all claims of equity holders of the Bank;

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

**Capital Payments**

No capital payments will be made by the Bank other than on Redemption. At such time the then principal amount of the Silent Contribution shall be paid.

**Loss Participation**

The Company (prior to any Transfer) and the Fiduciary (after any Transfer) share in the losses of the Bank after allocation to/from its reserves and retained earnings (*Bilanzverlust*) up to the principal amount of the Silent Contribution. Any such losses will reduce the principal amount of the Silent Contribution. If at any time the principal amount of the Silent Contribution is reduced on account of a loss, the principal amount of the Silent Contribution will be re-credited in the years subsequent in which profits are recorded, *provided that* at no time shall the principal amount of the Silent Contribution be more than the principal amount of the Silent Contribution on the date of the Participation Agreement.

**Redemption**

The Participation Agreement does not contain a fixed redemption date and so the Participation may only be redeemed when terminated by the Bank. The Bank may, if tax or regulatory changes occur, terminate the Participation Agreement only after providing two years notice thereof and approval therefor

has been given by the German Banking Supervisory Authority (“BAKred”) and may not become effective earlier than 2007.

**Transfer**

The Bank may not transfer its rights or obligations under the Participation Agreement. The Company may transfer its rights and obligations under the Participation Agreement, but only with the prior approval of the Bank or (without such approval) to the Fiduciary acting on a fiduciary basis for the Securityholders on a Class B Transfer Redemption Date, as determined in accordance with the Class B Terms.

**Payment of Additional Amounts**

The Bank will make, subject to certain regulatory requirements, additional payments in the event of the deduction or retention of tax or duties from the amounts payable under the Participation Agreement.

**Governing Law**

German

**Governing Language**

German

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

<b>Balance Sheet Bank</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
	<i>€ Millions</i>	<i>€ Millions</i>	<i>€ Millions</i>
<i>Assets</i>			
Cash, debt instruments issued by public institutions, bills of exchange eligible for refinancing .....	174	94	79
Claims on banks .....	22,234	19,239	16,678
Claims on customers .....	37,836	32,988	29,638
Bonds and other interest-bearing securities plus shares and other non-interest bearing securities .....	18,852	16,220	10,514
Equity investments in affiliated and non-affiliated companies .....	948	942	921
Trust assets .....	1,239	1,225	1,373
Other assets .....	850	876	373
<b>Total assets .....</b>	<b>82,133</b>	<b>71,584</b>	<b>59,576</b>
<i>Liabilities</i>			
Liabilities to banks .....	32,869	27,946	23,867
Liabilities to customers .....	12,658	11,882	10,562
Certificated liabilities .....	29,297	25,727	19,719
Trust liabilities .....	1,239	1,225	1,373
Subordinated liabilities .....	948	890	697
Profit participation capital .....	671	565	153
Fund for general bank risks .....	65	40	0
Equity capital .....	2,482	1,727	1,613
Other liabilities .....	1,904	1,582	1,592
<b>Total liabilities .....</b>	<b>82,133</b>	<b>71,584</b>	<b>59,576</b>
<b>Business volume .....</b>	<b>91,238</b>	<b>79,940</b>	<b>66,440</b>

<b>Balance Sheet Group</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
	<i>€ Millions</i>	<i>€ Millions</i>	<i>€ Millions</i>
<i>Assets</i>			
Cash, debt instruments Issued by public institutions, bills of exchange eligible for refinancing .....	241	287	117
Claims on banks .....	32,369	28,869	27,758
Claims on customers .....	58,115	52,692	46,935
Bonds and other interest-bearing securities plus shares and other non-interest bearing securities .....	34,455	30,083	22,732
Equity investments in affiliated and non-affiliated companies .....	200	186	154
Trust assets .....	1,366	1,322	1,459
Other assets .....	1,339	1,709	1,140
<b>Total assets</b> .....	<b>128,085</b>	<b>115,148</b>	<b>100,295</b>
<i>Liabilities</i>			
Liabilities to banks .....	51,915	48,833	43,519
Liabilities to customers .....	24,914	22,634	21,267
Certificated liabilities .....	40,541	34,027	27,480
Trust liabilities .....	1,366	1,322	1,459
Subordinated liabilities .....	1,758	1,464	1,127
Profit participation capital .....	1,123	987	499
Fund for general bank risks .....	110	72	19
Equity capital .....	3,692	2,907	2,266
Other liabilities .....	2,666	2,902	2,659
<b>Total liabilities</b> .....	<b>128,085</b>	<b>115,148</b>	<b>100,295</b>
<b>Business volume</b> .....	<b>142,091</b>	<b>127,981</b>	<b>111,926</b>

<b>Income Statement Bank</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
	<i>€ Millions</i>	<i>€ Millions</i>	<i>€ Millions</i>
Net interest income .....	383.6	364.5	302.6
Net commission income .....	64.4	45.7	37.9
Net trading income .....	16.0	16.6	23.6
Administrative expenses .....	(264.2)	(235.2)	(214.3)
of which:			
Personnel expenses .....	(138.7)	(124.6)	(110.4)
Operating expenses .....	(125.5)	(110.6)	(103.9)
Other operating income .....	35.8	34.3	37.8
Operating profit before risk provisions and evaluations .....	235.6	225.9	187.6
Risk provisions/evaluations .....	(85.9)	(81.8)	(52.5)
Operating profit after risk provisions and evaluations .....	149.7	144.1	135.1
Partial profits transfers .....	(32.3)	(5.6)	(5.4)
Taxes on income and revenues .....	(73.4)	(74.8)	(58.6)
Net income for the year .....	44.0	63.7	71.1
<b>Income Statement Group</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
	<i>€ Millions</i>	<i>€ Millions</i>	<i>€ Millions</i>
Net interest income .....	751.1	704.1	608.1
Net commission income .....	141.6	100.3	90.6
Net trading income .....	27.3	24.3	40.7
Administrative expenses .....	(425.3)	(379)	(346.4)
of which:			
Personnel expenses .....	(229.6)	(203.8)	(183.1)
Operating expenses .....	(195.7)	(175.2)	(163.3)
Other operating income .....	(14.9)	(20)	(24.7)
Operating profit before risk provisions and evaluations .....	479.8	429.6	368.3
Risk provisions/evaluations .....	(170.9)	(178.2)	(153.8)
Operating profit after risk provisions and evaluations .....	308.9	251.4	214.5
Partial profits transfers .....	(93.7)	(36.6)	(29.2)
Taxes on income and revenues .....	(130.9)	(119)	(90.9)
Net income for the year .....	84.3	95.8	94.4



## INVESTMENT CONSIDERATIONS

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

### **No payment obligations of the Fiduciary**

The SPARC Securities do not constitute direct debt obligations of the Fiduciary. In the event that the Company or the Bank fail in whole or in part to make a payment required to be made by them under the Class B Securities or the Participation Agreement, the Fiduciary will not be obliged to make good the shortfall from its own funds. The Fiduciary assumes no responsibility with regard to the financial condition of the Company or the Bank or the legality or enforceability of the Class B Securities or the Participation. The Fiduciary's rights under the Class B Securities and, after any Transfer, the Participation Agreement are fiduciary assets of the Fiduciary and are held solely at the risk and for the account of the Securityholders. Under the SPARC Terms and the Fiduciary Contract the Fiduciary has extremely restricted disclosure obligations to the Securityholders and is liable only in very limited circumstances.

### **Dependency on Profits of the Bank and allocation to the Participation Agreement**

The SPARC Terms provide that the Fiduciary will merely pass on moneys it receives from the Company under the Class B Securities and from the Bank under the Participation Agreement. The Fiduciary is not obliged to make any other payments.

Both the amount payable as dividends under the Class B Securities and the amount payable as profit participations under the Participation Agreement depend on the profits or loss of the Bank, previous years of profits and losses of the Bank and the manner in which those profits are allocated to the Participation Agreement.

### **Allocation of Profit and Loss to the Participation**

Profits and losses will be allocated to the Participation for each fiscal year of the Bank. From the net profit or loss of the relevant year, the Bank will:

1. add or subtract retained profits/accumulated losses brought forward from the previous year;
2. add withdrawals from the capital reserve
3. add withdrawals from the revenue reserves
  - (a) from the legal reserve
  - (b) from the reserve for treasury stock
  - (c) from reserves required by the articles of association
  - (d) from other revenue reserves
4. subtract transfers to revenue reserves
  - (a) to the legal reserve
  - (b) to the reserve for treasury stock
  - (c) to reserves required by the articles of association
  - (d) to other revenue reserves

The result will be net retained profits/net accumulated losses (*Bilanzgewinn/Bilanzverlust*) of the Bank. From this figure profits can be allocated to the Participation as profit participations.

The Bank cannot give any assurances as to future profits. The directors of the Bank are under no obligation to propose that sufficient funds are taken from reserves to ensure that the net retained profits are sufficient to propose a profit participation under the Participation in an amount equal to the maximum profit participation payable for any fiscal year of the Bank. The Owners of the Bank are under no obligation to approve the net retained profits or the profit participation for the Participation as proposed by the Bank's directors.

There is therefore a possibility that no profits are allocated to the Participation for a fiscal year of the Bank and there is a possibility that losses can be allocated to the Participation, even if the Bank had a net profit in that particular fiscal year.

### **Owner approval of the Bank's accounts**

The Owners of the Bank will approve their accounts only after those accounts have been prepared and audited and a general meeting has been called to approve them. The Owners are required by the § 22 (3) of the Statutes of the Bank to decide on the approval of the annual financial statements of the Bank within one month of their presentation. Since the amount payable as dividends under the Class B Securities and the amount payable as profit participations under the Participation Agreement both depend on allocations of profit by the Bank to the Participation from net retained profits of the Bank, and since allocations only occur when the Owners of the Bank approve all the accounts of the Bank for that fiscal year no dividends under the Class B Securities for a Calculation Period may be payable for a number of months after the end of that Calculation Period and no profit participations under the Participation Agreement for a fiscal year of the Bank will be payable for a number of months after the end of the relevant fiscal year of the Bank.

### **Subordination of the Participation**

The payment obligations of the Bank in respect of the Participation constitute obligations of the Bank that are subordinated to the full prior payment in cash or cash equivalents of all existing and future indebtedness of the Bank. Accordingly, the Company's rights (prior to Transfer) and the Fiduciary's rights (after Transfer) under the Participation Agreement will rank behind all creditors of the Bank in the event of the liquidation or dissolution of the Bank, and senior only to its Owners. In addition, the payment obligations of the Bank in respect of the Participation Agreement will rank *pari passu* amongst themselves, with all claims in respect of existing and future *Stille Gesellschaft* participations in the Bank and other Tier 1 Capital Instruments, and the payment of profit participations relating thereto. The Bank has agreed in the Participation Agreement not to accept any additional *Stille Gesellschaft* participations in the Bank or other Tier 1 Capital Instruments ranking senior (as to participation in the assets (in liquidation or otherwise) of the Bank) to the Participation. Other than 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 prior to the Participation.

### **Limited Recourse**

The liability of the Fiduciary to the Securityholders is limited to the value of its claims under the Undertaking Agreement, the Class B Securities and the Participation Agreement and is subject to receipt by the Fiduciary of amounts thereunder. Securityholders have no direct right of action against the Company or the Bank. Further, Securityholders have no direct right of action to compel the Company or the Bank (as the case may be) to comply with their respective obligations under the Class B Securities or the Participation Agreement even in the event of a failure of the Fiduciary to act. If, however, the Fiduciary has become obliged to take legal action against the Company (prior to any Transfer) or the Bank (following any Transfer) under or in respect of, respectively, the Class B Securities or the Participation Agreement and has failed to take such action within a reasonable time, then as a matter of Luxembourg law, the relevant Securityholders may be entitled to institute legal action (*action oblique*) against the Company (prior to any Transfer) or the Bank (after any Transfer) in the Fiduciary's place.

### **No prior market for SPARC Securities**

The SPARC Securities are a new issue of securities. Prior to their issue, there has been no public market for the SPARC Securities. Although application has been made to have the SPARC Securities listed on the Luxembourg Stock Exchange, there can be no assurance that an active public market for the SPARC Securities will develop. If such a market were to develop, the Manager is not obligated to maintain it. The liquidity and the market for the SPARC Securities can be expected to vary with changes in the securities market and economic conditions, the financial condition and prospects of the Company and the Bank and other factors which generally influence the market prices of securities. Such fluctuations may significantly affect liquidity and market prices for the SPARC Securities.

### **Status of Landesbanks; Relationship between the Bank and Hamburgische Landesbank**

Under the Savings Bank Act of Schleswig-Holstein, the Owners have a responsibility (*Anstaltslast*) for the obligations of the Bank and guarantee (*Gewährträgerhaftung*) the Bank's obligations.

The *Anstaltslast* requires the Owners to ensure that the Bank is in a position to perform its functions and can perform its obligations when due. Although the *Anstaltslast* is not a guarantee of the Bank's obligations by the Owners and does not give the Bank's creditors a direct claim against the Owners, the commercial effect is that the Bank's obligations are backed by the credit of the Owners.

The *Gewährträgerhaftung* makes the Owners jointly and severally liable as guarantors for the Bank's obligations. The *Gewährträgerhaftung* gives a creditor an unlimited direct claim against the Owners if the creditor should be unable to satisfy itself out of assets of the Bank.

The European Union Commission has issued a decision confirming the obligation of Westdeutsche Landesbank (a bank also benefiting from *Gewährträgerhaftung* and *Anstaltslast*) to pay higher remuneration with regard to what is alleged to be illegal state aid due to the integration of the former state-owned housing development agency into WestLB. That decision is currently contested in the European courts. To determine whether a comparable subsidy case exists with other Landesbanks, including the Bank, the European Union Commission has launched an inquiry to investigate the relevant facts through the German Federal and some State Governments.

No formal judicial proceedings are presently pending against the Bank in connection therewith or with *Gewährträgerhaftung* or *Anstaltslast*, although there can be no assurance that none will be brought. Any proceedings, if brought, would neither endanger the economic viability of the Bank nor its ability to perform its obligations under the agreements described herein.

On 17 July 2001, the European Commission and the German authorities reached an understanding concerning the concepts of *Gewährträgerhaftung* and *Anstaltslast*. The solution is based on the following principles.

*Gewährträgerhaftung* will be abolished. *Anstaltslast* will be replaced by a normal owner relationship between the owner and the public financial institution concerned. Liabilities existing at 18 July 2001, the date of acceptance by the German authorities of the Commission's recommendation of 8 May 2001, will continue to be covered by *Gewährträgerhaftung* until their maturity runs out. There will be a transitional period which will last until 18 July 2005 and during which *Anstaltslast* and *Gewährträgerhaftung* can be maintained in their present form. As of the final date of this transitional period any liability existing by then and created after 18 July 2001 will continue to be covered by *Gewährträgerhaftung* under the condition that its maturity does not go beyond 31 December 2015.

Given its shareholding of 49.5% in Hamburgische Landesbank, the Bank is subject to the legal obligations of Landesbank owners described above. In addition, the Bank may become obliged to further increase its stake in Hamburgische Landesbank (see "LB Kiel Group – Main Equity Holdings").

#### **Changes in the tax or supervisory environment**

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 agreements, the parties shall enter into good faith negotiations with a view to amending the agreement. There can be no assurance that any such material changes may not occur in the future. Any such changes may materially adversely or favourably affect the Bank's or the investors' tax and/or regulatory treatment in relation to the agreement described herein.

## TERMS & CONDITIONS OF THE SPARC SECURITIES

### § 1 GENERAL

- (1) The €500,000,000 LB Kiel Silent Participation Assimilated Regulatory Capital Securities (the **SPARC Securities**) of €1,000 each (the **Nominal Amount**) are issued by Banque de Luxembourg (the **Issuer**) on a fiduciary basis in its own name but on behalf and for the sole risk of the holders of the SPARC Securities (the **Securityholders**). The SPARC Securities are issued with the benefit of a fiscal agency agreement (the **Fiscal Agency Agreement**) dated on or about the date of issue of the SPARC Securities between the Issuer, LB Kiel Funding I (the **Company**), Kredietbank S.A. Luxembourgeoise (the **Fiscal Agent** and the **Paying Agent**) and Landesbank Schleswig-Holstein Girozentrale (the **Bank**).
- (2) The SPARC Securities together evidence the existence of a fiduciary agreement (the **Fiduciary Agreement**) between the Securityholders and the Issuer, the terms of which are set forth below and which is governed by Luxembourg Law and in particular the Grand Ducal Regulation of 19 July 1983 on Fiduciary Contracts of Credit Institutions.
- (3) The Issuer will apply the proceeds from the issue of the SPARC Securities to acquire 500,000 Class B Preference Shares (the **Class B Securities**) issued by the Company. The terms and conditions of the Class B Securities (the **Class B Terms**) are contained in the Company's articles of association.
- (4) The Company will acquire a silent capital interest in the aggregate amount of €500,000,000 in the commercial enterprise (*Handelsgewerbe*) of the Bank in the form of a *Stille Gesellschaft* (the **Participation**) pursuant to an agreement (the **Participation Agreement**) providing for an asset contribution to the Bank in the amount of €500,000,000 (the **Silent Contribution**) and dated 15 February 2002.
- (5) The Class B Terms refer to dates upon which the Company will be obliged to redeem the Class B Securities. If the Participation is redeemed on such dates, the Company will be obliged to redeem the Class B Securities with a cash payment. If the Participation has not been redeemed on such dates, the Company will, in lieu of a payment in cash, redeem the Class B Securities by transferring (a **Transfer**) all its rights and obligations under the Participation Agreement to the Issuer (other than rights to profit participations accrued up to 31 December of the year prior to the year in which the Transfer occurs (the **Aggregate Pre-Transfer Profit Participations**)).
- (6) Each SPARC Security represents (until Transfer) a proportionate economic and beneficial interest in the Class B Securities and (after Transfer) a proportionate economic and beneficial interest in the Participation. The SPARC Securities rank *pari passu* without any preference among themselves.
- (7) The Participation Agreement provides that the payment obligations of the Bank under the Participation Agreement constitute obligations of the Bank which:
  - (a) 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 Section 10 para. 5 and para. 5a KWG);
  - (b) 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 *Stille Gesellschaft* and other tier 1 capital instruments ranking *pari passu* with profit participations in the form of *Stille Gesellschaft*; and
  - (c) rank senior to all claims of equity holders of the Bank;in each case as already arisen or arising in the future.
- (8) The Bank has entered into an agreement (the **Undertaking Agreement**) with the Issuer under which, *inter alia*, the Bank has undertaken to (i) ensure that the Company will at all times be in a position to meet its dividend obligations under the Class B Securities, (ii) ensure that the Company is in a position to pay the Extraordinary Class B Dividend (as defined in the Class B Terms, the **Extraordinary Class B Dividend**) to the Issuer in the event that the Silent Contribution is redeemed prior to 30 June 2014, and (iii) if a Transfer occurs and the Silent Contribution is redeemed prior to 30 June 2014, pay to the Issuer for on-payment to the Securityholders an amount equal to what the Extraordinary Class B Dividend would have been if no such Transfer had occurred (the **Make Whole Amount**). The Company's articles of association, the Participation Agreement and the Undertaking Agreement are together the **Transaction Documents**.

- (9) The rights of the Issuer under the Class B Securities (until Transfer) and the Participation Agreement (after Transfer) are fiduciary assets of the Issuer and shall be held solely at the risk and for the account of the Securityholders.
- (10) The Issuer shall keep the Class B Securities (until Transfer), the Participation (after Transfer), the Undertaking Agreement, and its respective rights arising thereunder separate from its own assets and reflect this separation in its books.
- (11) Each SPARC Security will be subject to these terms and conditions, as may be amended from time to time pursuant to § 14 (the *Conditions*).
- (12) If the SPARC Securities are listed on the Luxembourg Stock Exchange, the Fiscal Agent on behalf of the Issuer, will notify the Luxembourg Stock Exchange that a Transfer has occurred, as soon as practicable following such Transfer.

## § 2 ISSUER

- (1) The sole purpose for issuing the SPARC Securities is to provide funds for the Issuer to acquire the Class B Securities from the Company.
- (2) The SPARC Securities do not constitute direct debt obligations of the Issuer but evidence together the existence of the Fiduciary Agreement between the Issuer and the Securityholders pursuant to which the Issuer's payment obligations are conditional upon receipt by the Issuer of payment:
  - (i) until Transfer, from or on behalf of the Company under the Class B Securities (which, in turn, are subject to the Bank's due performance of its obligations under the Loan Agreement and Participation Agreement);
  - (ii) after Transfer, from the Bank under the Participation Agreement; and
  - (iii) from the Bank under the Undertaking Agreement.
- (3) The Issuer will not be obliged to make up any payment shortfall by the Bank or the Company or make any payment in respect of the SPARC Securities, other than as expressly provided herein and in particular, the Issuer will not make any payment in respect of the SPARC Securities unless payment has been received by or on behalf of the Issuer as contemplated herein.
- (4) The Issuer makes no representation and assumes no responsibility or liability with regard to the financial condition of the Bank or the Company or the ability of either to fulfil their respective obligations under, and shall have no responsibility for the legality, validity or enforceability of any of the Transaction Documents.
- (5) By purchasing the SPARC Securities, the Securityholders are deemed to have acknowledged and agreed to these Conditions and the Fiduciary Agreement.
- (6) Without prejudice to the right of the Issuer to be indemnified out of the fiduciary assets, no commission or other remuneration will be due from the Securityholders to the Issuer for the performance of its services or exercise of its rights under any of the Transaction Documents.
- (7) Pursuant to an appointment agreement between the Issuer and the Bank, the Issuer will receive reimbursement of costs, indemnification and a remuneration by the Bank and will have no obligation to render an account to the Securityholders in respect thereof.
- (8) The Issuer and its affiliated enterprises may conduct business with the Company and the Bank and their respective affiliated enterprises without limitation and without obligation to account to the Securityholders, including, without limitation, the acceptance of deposits or the granting of loans or any other form of credit, without regard to the fiduciary relationship to the Securityholders.
- (9) The Issuer may conduct business with any Securityholder without regard to the fact that the Issuer is acting in a fiduciary capacity for the Securityholders in respect of (until Transfer) the Class B Securities or (after Transfer) the Participation Agreement.
- (10) The Issuer and its affiliated enterprises may be in possession of information about the Company or the Bank or their respective affiliated enterprises which is of significance in connection with the SPARC Securities but which is not known to the public or the Securityholders at the time when the Participation Agreement is entered into and the Class B Securities and the SPARC Securities are issued or at a later point in time. Neither the execution of the Participation Agreement nor the issuance of the Class B Securities or

the SPARC Securities or any other legal transactions conducted between the Issuer, the Company, the Bank and the Securityholders in connection therewith shall obligate the Issuer or any of its affiliated enterprises to disclose information regarding any other business transaction with the Company or the Bank to the Securityholders or to provide the Securityholders with information about the Company or the Bank or their respective affiliated enterprises (irrespective of whether such business transaction or information is confidential). Neither the Issuer nor any of its affiliated enterprises shall be subject to any liability to the Securityholders due to the fact that they will not disclose or make available any such business transaction or information.

- (11) The liability of the Issuer in respect of the SPARC Securities and its role thereunder shall be limited to its wilful misconduct or gross negligence. However, under no circumstances shall the Issuer be liable for indirect damage or consequential damage of any kind whatsoever (including lost profits), regardless of whether such indirect damage or consequential damage was foreseeable. This limitation of liability applies to all claims, regardless of their nature or legal basis.

### § 3

#### FORM OF THE SPARC SECURITIES; TRANSFERABILITY

- (1) The SPARC Securities are initially represented by a temporary global security in bearer form without coupons which may be exchanged in whole or in part upon receipt of evidence as to non-US beneficial ownership, in accordance with the terms thereof and the Fiscal Agency Agreement for a permanent global security in bearer form without coupons (both such temporary and permanent global securities being a *Global Security*).
- (2) The Global Security will be kept in custody by a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (*Euroclear*), and Clearstream Banking, société anonyme (*Clearstream Luxembourg*) until all obligations of the Issuer under the Securities have been satisfied. Interests in the SPARC Securities represented by the Global Security will be transferable only in accordance with the rules and procedures of Euroclear and Clearstream Luxembourg.
- (3) Interests in the permanent Global SPARC Security will be exchanged for definitive SPARC Securities with coupons and talons attached if (i) Euroclear or Clearstream Luxembourg are closed for a continuous period, (ii) deductions or withholdings from amounts payable under the SPARC Securities are required which would not be required were they in definitive form or (iii), at the option of securityholders, if they have not received what is due and payable under the SPARC Securities, but only at such time and in the manner set out in the terms of the permanent Global Security and the Fiscal Agency Agreement.

### § 4

#### REDEMPTION AND REPAYMENT OF THE SPARC SECURITIES

- (1) Subject to the provisions of this § 4, neither the Securityholders nor the Issuer may request the redemption or repayment of the SPARC Securities.
- (2) The Fiscal Agency Agreement provides that the Fiscal Agent will notify the Securityholders, in the manner specified in § 15, of matters relating to the redemption of the Participation and the Class B Securities including the amount to be paid in any redemption of the Participation and the Class B Securities and the date of any such redemption, in each case as such information is provided to the Fiscal Agent.
- (3) On the date on which the Participation or the Class B Securities (except in the instance of a Transfer) are due to redeem in accordance with their respective terms, the SPARC Securities will become due for redemption.
- (4) The Issuer will, on the date on which the SPARC Securities are due to be redeemed, redeem the SPARC Securities by paying an amount equal to the amount by which the Participation or Class B Securities, as the case may be, are being redeemed, in accordance with their terms, pro rata amongst the SPARC Securities.
- (5) To the extent that moneys received by or on behalf of the Issuer (in the manner contemplated in the Fiscal Agency Agreement) on the due date for redemption of the SPARC Securities (or any later date) are in aggregate less than the amount by which the Participation or Class B Securities, as the case may be, ought to be redeemed in accordance with their terms, the SPARC Securities will be repaid, on any such date of receipt, in an amount equal to the amounts received by or on behalf of the Issuer on such date, on a pro rata basis amongst the SPARC Securities. When the last redemption payment due to the Issuer under the Class B Securities or Participation, as the case may be, is received by or on behalf of the Issuer in

accordance with the terms of the Fiscal Agency Agreement, the payment of such sums by or on behalf of the Issuer, in the manner contemplated in the Fiscal Agency Agreement, on the date of any such last payment will be in full and final redemption of the SPARC Securities.

- (6) Notwithstanding this § 4, no amounts will be payable by the Issuer in redemption of the SPARC Securities unless and until the same has been received by or on behalf of the Issuer in accordance with the Fiscal Agency Agreement.
- (7) If upon redemption of the Participation or the Class B Securities the principal amount due on redemption is less than the aggregate Nominal Amount of the SPARC Securities, then the Nominal Amount of each SPARC Security will automatically be reduced by an amount equal to such difference divided by the number of SPARC Securities outstanding.

## § 5

### NON-PRINCIPAL DISTRIBUTIONS

- (1) The Fiscal Agency Agreement provides that the Fiscal Agent will notify the Securityholders, in the manner specified in § 15, of matters relating to the payment of profit participations, interest, dividends, Extraordinary Class B Dividends, Make Whole Amounts and any additional amounts under the Class B Terms, the Participation Agreement and the Undertaking Agreement and the date of any such payment, in each case as such information is provided to the Fiscal Agent.
- (2) On the date on which payments described in § 5(1), are payable under the Participation Agreement, the Class B Terms or the Undertaking Agreement to the Issuer in accordance with their respective terms, such amounts will be payable by or on behalf of the Issuer, pro rata, to the Securityholders.
- (3) The Issuer will, on the due date of any payments described in § 5(1) under the Class B Terms, the Participation Agreement or the Undertaking Agreement, pay an amount equal to the sum of such payments due on such date, pro rata, amongst the Securityholders (a *Non-Principal Distribution*).
- (4) To the extent that payments described in § 5(1) are received by or on behalf of the Issuer (in the manner contemplated in the Fiscal Agency Agreement) on the due date for a Non-Principal Distribution under the SPARC Securities are less than the respective amounts due on such date under the Class B Terms, the Participation Agreement or the Undertaking Agreement, the Non-Principal Distribution will be made only to the extent as amounts are received by or on behalf of the Issuer, pro rata amongst the Securityholders. When such amounts are paid to or on behalf of the Issuer, they shall be paid without undue delay in accordance with the provisions of the Fiscal Agency Agreement pro rata amongst the SPARC Securities.
- (5) Notwithstanding anything in this § 5, no amounts will be payable by the Issuer in respect of Non-Principal Distributions unless and until the same have been received by or on behalf of the Issuer in accordance with the Fiscal Agency Agreement.
- (6) Under the Class B Terms and the Participation Agreement, profit participations, interest and dividends will be paid on the later of (a) 30 June in any year (but if that is not a Business Day on the next following Business Day) and (b) the Business Day following the adoption by the Owners of the Bank of the Bank's annual accounts for the previous financial year of the Bank. *Business Day* means a business day in Frankfurt and Luxembourg and a day on which the Trans-European Real Time Gross Settlement Express Transfer System is operating.
- (7) The Fiscal Agency Agreement provides that the Fiscal Agent shall pay all amounts received: (a) for any Class B Calculation Period before Transfer, the Declared Ordinary Class B Dividend, together with any gross-up amount payable thereon, to those persons who held the SPARC Securities on 29 June of such Class B Calculation Period; and (b) after Transfer for any fiscal year of the Bank, the Post-Transfer Profit Participations and interest payable under §7(7) of the Participation Agreement, together with any gross-up amount payable thereon, to those persons who held the SPARC Securities on 29 June of the year following such fiscal year; irrespective of whether, when payment is actually made by the Fiscal Agent, the person so entitled to such payment by virtue of this Clause is no longer the holder of the SPARC Security to which such payment relates.

## § 6

### PAYMENTS; PAYING AGENTS

- (1) So long as any SPARC Security remains outstanding, the Issuer shall ensure that there always is a paying agent located in Luxembourg. The Issuer may at any time, by giving not less than 30 days' notice in accordance with § 15 of these Conditions and the Fiscal Agency Agreement, appoint, subject to the

approval of the Bank which shall not be unreasonably withheld, one or more additional paying agents or replace a paying agent by one or more other banks or financial institutions which assume such functions. Should the paying agent located in Luxembourg be replaced by another paying agent located in Luxembourg, the Luxembourg Stock Exchange will be notified by the Issuer, or the Fiscal Agent on its behalf, and such notice will be published in a Luxembourg newspaper of general circulation. The paying agents shall act solely as agents for the Issuer and shall not have any trustee or agency relationship with the Securityholders.

- (2) For so long as the SPARC Securities are represented by the permanent Global Security, payments on the Global Security shall be made by the Paying Agent pursuant to the terms of the Fiscal Agency Agreement to, or for credit to the accounts of the accountholders with Euroclear or Clearstream Luxembourg. No payments will be made by the Issuer in respect of the SPARC Securities to the extent that the SPARC Securities are represented by a temporary Global Security.
- (3) All payments made by or on behalf of the Issuer to, or to the order of the Fiscal Agent for payment to the Securityholders in accordance with § 6(2) shall discharge the Issuer from its obligations with respect to the SPARC Securities to the extent of the sums paid to the Fiscal Agent.

## § 7

### ENFORCEMENT OF CLAIMS

- (1) If the Issuer has become obliged to take legal action against the Company (prior to any Transfer) or the Bank (following any Transfer) under or in respect of, respectively, the Class B Securities or the Participation Agreement and has failed to take such action within a reasonable time, then as a matter of, and subject to, Luxembourg law, the relevant Securityholders may be entitled to institute legal action (*action oblique*) against the Company (prior to any Transfer) or the Bank (after any Transfer) in the Issuer's place.
- (2) Upon a payment default of any amount by the Company or the Bank, the Issuer may, at any time, at its discretion and without notice to the Securityholders, seek any remedy available under applicable law.
- (3) Under the terms of the Participation Agreement, the Issuer may not accelerate any payment or terminate the Participation Agreement. The Fiduciary Agreement does not create any right of a Securityholder to require the Issuer to seek the redemption of the Class B Securities or the termination of the Participation Agreement.
- (4) The Issuer is not required to seek any remedy or take any other enforcement action in connection with the Class B Securities, the Participation Agreement or the Undertaking Agreement (including, without limitation, to verify or to require corrections to the annual financial statements of the Company or the Bank or require any distribution be made by either of them) unless (a) it shall have been so directed by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Securityholders or so requested in writing by the holders of at least one-half of the aggregate Nominal Amount of the SPARC Securities then outstanding and (b) it shall have been indemnified by the relevant Securityholders to its reasonable satisfaction.
- (5) In the event of any enforcement or action by the Issuer against the Bank or the Company, the Issuer will be entitled to be fully indemnified out of the proceeds of such enforcement or action in priority to the claims of the Securityholders.
- (6) Any action or refraining from taking any action by the Issuer pursuant to this § 7 will be for the account of an at the cost of the Securityholders and, notwithstanding anything that may be provided to the contrary in these Conditions, the Issuer will only be liable in respect of any such action or omission constituting gross negligence, bad faith or wilful misconduct on its part.

## § 8

### EXERCISING SHAREHOLDER/SILENT PARTNER RIGHTS

- (1) The Issuer will not exercise any rights as a holder of the Class B Securities or as a silent partner under the Participation Agreement other than (a) when such action relates to enforcement of a right, in accordance with § 7 or (b) otherwise, unless it has been instructed to do so by an Ordinary Resolution (as defined in the Fiscal Agency Agreement) of Securityholders and it has been indemnified to its reasonable satisfaction.
- (2) The Issuer will accept any notice or certificate from the Bank or the Company as to any calculation or determination made pursuant to the Participation Agreement and shall not be liable in respect thereof or be obliged to make any verification in respect thereof.



**§ 9**  
**TAXATION**

- (1) All payments in respect of the SPARC Securities shall be made by the Issuer without deduction or withholding for or on account of any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or in or on behalf of the Grand Duchy of Luxembourg or by or on behalf of any political subdivision or authority therein or thereof having power to tax, unless such deduction or withholding is required by law.
- (2) If the Issuer is required pursuant to § 9(1) to make a deduction or withholding when it passes a payment received from the Company on to Securityholders it shall advise the Company of the amount (the ***Luxembourg Gross-Up Amount***) by which the Company would have to increase any payment made to the Issuer to enable (after the Issuer so withholds or deducts) the Issuer to pay Securityholders an amount equal to the payment which would have been due if the Issuer would not so withhold or deduct and furnish the Company with documentation evidencing the deduction or withholding obligation and the Luxembourg Gross-Up Amount provided, that no such Luxembourg Gross-Up Amounts shall be payable with respect to any payment on a SPARC Security: (i) to, or to a third party on behalf of, a Securityholder who is subject to taxation in respect of SPARC Securities by reason of his having some connection with Luxembourg other than the mere holding of SPARC Securities; (ii) if and to the extent paid by the Bank to the Issuer, such payment could not be made without leading to or increasing an Annual Balance Sheet Loss for the relevant fiscal year of the Bank; (iii) by reason of a change in law that becomes effective more than 30 days after the relevant payment becomes due, or is duly provided for; or (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 or any other conclusions or decisions relating to the outcome of that meeting or any law implementing or complying with, or introduced in order to conform to, such directive; or (v) presented for payment by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant SPARC Security to another paying agent in a EU Member State. Under the Class B Terms, the Company is obliged to pay the Issuer such Luxembourg Gross-Up Amount. Under the Participation Agreement, the Bank is not obliged to pay the Issuer any additional amounts for deductions or withholding on account of Luxembourg tax. After a Transfer occurs, the Bank is obliged to pay the Issuer such Luxembourg Gross-Up Amount under the Undertaking Agreement.
- (3) The Issuer will have no obligation to pay amounts by way of gross-up with respect to any amounts withheld or deducted pursuant to § 9(1) other than to pass on Luxembourg Gross-Up Amounts (less amounts which must be deducted or withheld therefrom pursuant to § 9(1)) received by or on behalf of the Issuer pursuant to the Fiscal Agency Agreement to Securityholders. Luxembourg Gross-Up Amounts received in such manner will be paid pro rata amongst the SPARC Securities.
- (4) Both the Class B Terms and the Participation Agreement provide that the Company and the Bank, respectively, will gross-up in respect of amounts withheld or deducted by the Company and the Bank on account of tax under, respectively, the Class B Securities and the Participation Agreement.

**§ 10**  
**PRESERVATION OF REGULATORY CAPITAL**

- (1) By purchasing the SPARC Securities, the Securityholders are deemed to acknowledge and agree that the Issuer is permitted to refrain from paying them any payment in respect of distributions on the Class B Securities and under the Participation or redemption of the Class B Securities and early repayment of the Silent Contribution (or part thereof) received from the Company or the Bank if the Issuer reasonably believes that such payment or early repayment has been made otherwise than in accordance with the Class B Terms and/or the Participation Agreement. The Issuer shall not incur any liability, if such determination is made based on the opinion of counsel of recognised standing selected by the Issuer.
- (2) Under German law, any prepayment of the Silent Contribution must be refunded to the Bank irrespective of any contractual obligation to the contrary unless (a) the Silent Contribution repaid has been replaced by an equal amount of other at least equivalent regulatory capital (or any other own funds of at least equivalent regulatory status) of the Bank or (b) all required consents or approvals under applicable banking laws (or any rules, regulations or interpretations thereunder, including rulings of the relevant banking authorities), including, if required, any consent or approval by the BAKred, have been obtained for the payment or early repayment. By purchasing the SPARC Securities the Securityholders are deemed to acknowledge and agree to repay to the Issuer any amount received in breach of the preceding sentence.

**§ 11**  
**SET-OFF**

- (1) The Securityholders may not set-off any claims arising under the SPARC Securities against any claims of the Issuer, the Company or the Bank.
- (2) The Issuer will not be obliged to exercise, for its own or the Securityholders' benefit, any rights of set-off, banker's lien or to combine accounts of counter-claim that may arise out of other transactions between the Issuer, the Company and the Bank.

**§ 12**  
**RESIGNATION AND SUBSTITUTION**

- (1) The Bank may, without the consent of the Securityholders or the Issuer, at any time, substitute another financial institution (the *New Issuer*) for Banque de Luxembourg, as the Issuer and, in the event of a liquidation of the Issuer, is obliged to use its best efforts to substitute the Issuer with a New Issuer, *provided however*, in each case, that (a) the Class B Securities and all rights of the Issuer under the Participation Agreement do not form part of the New Issuer's estate available for the satisfaction of the New Issuer's preferred and general creditors under applicable liquidation and insolvency laws and are not available for attachment or otherwise by or for such creditors, (b) the New Issuer assumes all rights and obligations (if any) under the Participation Agreement, the Class B Securities, the Fiduciary Agreement, the Undertaking Agreement and the SPARC Securities, (c) the New Issuer has obtained all necessary regulatory and other approvals for the substitution, (d) the substitution in respect of the obligation of the Bank does not result in the obligation to pay additional amounts due to withholding tax pursuant to the Participation Agreement, and (e) the substitution does not result in any violation of law.
- (2) Upon any substitution pursuant to paragraph (1), Banque de Luxembourg shall be released from all of its obligations under the Class B Securities and the Participation Agreement, the Fiduciary Agreement and the SPARC Securities and any reference in the Transaction Documents to the Issuer shall be deemed to refer to the New Issuer, and any reference to Luxembourg in § 9 of these Conditions shall be deemed to refer to the jurisdiction in which the New Issuer is organised or resident for tax purposes.
- (3) No substitution will occur pursuant to this § 12(1) or § 12(4) until 30 days' prior notice thereof has been given to the Securityholders specifying the name, address and fax number of any such New Issuer and the date when such New Issuer will be assume the rights and obligations of the Issuers.
- (4) The Issuer may not resign as Issuer prior to 30 June 2014. Thereafter the Issuer may resign upon giving not less than six months' prior notice in writing to the Bank (but such notice may not expire during either the one month period before or after a date on which a Non-Principal Distribution becomes payable under the Class B Securities (until Transfer) or Participation Agreement (after Transfer). If no New Issuer is appointed by the Bank in accordance with § 12(1) in such 6 month period, the Issuer will have the right to appoint a New Issuer. However no resignation will take effect unless the provisos of § 12(1) have been satisfied and until a New Issuer has been appointed.

**§ 13**  
**FINANCIAL INFORMATION**

The Fiscal Agency Agreement provides that the Fiscal Agent will make available to the Securityholders all copies of the latest published annual reports and other financial information of the Bank and the Company as it receives.

**§ 14**  
**MEETINGS OF SECURITYHOLDERS; MODIFICATIONS**

- (1) Meetings of the Securityholders shall be held in accordance with Luxembourg law applicable to the convening and conduct of meetings of bondholders and Schedule 3 of the Fiscal Agency Agreement.
- (2) Notices convening meetings of the Securityholders shall, in addition to publication in accordance with § 15 of these Conditions, be published in the *Mémorial* in Luxembourg.
- (3) Any resolution passed at any meeting of the Securityholders will be binding on all the Securityholders (whether or not they were present or represented at the meeting at which such resolution was passed).
- (4) The Issuer will not agree to any modification to the Transaction Documents (including these Conditions) unless authorised to do so by a resolution of the Securityholders or pursuant to this § 14(5).

- (5) The Issuer may agree, without the consent of the Securityholders, to (i) any modification of these Conditions or any Document if the Issuer determines that any such modification, waiver or authorisation does not materially prejudice the interests of the Securityholders or (ii) authorise any modification of these Conditions or any Document which is of formal, minor or technical nature or to correct a manifest error.
- (6) In exercising its powers and discretions the Issuer shall have regard to the best interests of the Securityholders as a class and shall not have regard to the consequences of the exercise of its powers or discretion for individual Securityholders except to the extent provided for in § 7 of these Conditions.
- (7) Any modification, waiver or authorisation made in accordance with the preceding conditions shall be binding on the Securityholders and any modification shall be notified to the Securityholders as soon as practicable thereafter by publication in accordance with § 15 of these Conditions.

#### **§ 15 NOTICES**

- (1) Subject to this § 15(2), all notices to the Securityholders are published in a newspaper designated for mandatory stock exchange notices in Germany (*Börsenpflichtblatt*) and in a widely circulated Luxembourg newspaper (which is expected to be *Luxemburger Wort*) as required by the rules and regulations of the Luxembourg Stock Exchange. Any such notice given by publication shall be deemed to have been given on the date of publication or, if so published more than once on different dates, on the date of the first publication.
- (2) Provided that the rules of the stock exchange(s) where the SPARC Securities are from time to time listed so permit, for as long as the Global Security is held in its entirety on behalf of Euroclear and/or Clearstream Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream Luxembourg for communication by them to the Securityholders. Any such notice shall be deemed to have been given to the Securityholders on the seventh day after the day on which the said notice was delivered to Euroclear and/or Clearstream Luxembourg.

#### **§ 16 SEVERABILITY**

Should any provisions of these Conditions be held by a court of competent jurisdiction to be invalid, void, unenforceable or incomplete, in whole or in part, the other provisions of these Conditions shall remain in full force. Any invalid, void, unenforceable or incomplete provision shall be replaced by a valid provision which accomplishes as far as legally possible the economic effects of the invalid, void, unenforceable or incomplete provision.

#### **§ 17 GOVERNING LAW; JURISDICTION**

- (1) The SPARC Securities, these Conditions and the Fiduciary Agreement thereby entered into will be governed by, and construed in accordance with, the laws of the Grand Duchy of Luxembourg and in particular the Grand Ducal Regulation of 19 July 1983 on Fiduciary Contracts of Credit Institutions. The Participation Agreement is governed by the laws of Germany. The Company's articles of association are governed by the laws of the Cayman Islands.
- (2) Actions against the Issuer may be brought only in the district court of Luxembourg.

## TERMS & CONDITIONS OF THE CLASS B SECURITIES

The terms and conditions of the Class B Securities are contained in the Company's articles of association. The Company's articles of association regulate the rights and obligations of the Company and the holders of all shares in the Company, including the holders of the Class B Securities. Article 1 (the definitions article) and Article 6(C) (an article dealing exclusively with the Class B Securities) are reproduced below; however, those articles not reproduced below are of general application to all holders of shares in the Company, including the Class B Securities.

1. In these Articles Table A in the Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

<b>Aggregate Pre-Transfer Profit Participation</b>	has the meaning given to it in the Participation Agreement.
<b>Articles</b>	means the articles of association of the Company.
<b>Auditor</b>	means the person for the time being performing the duties of auditor of the Company (if any).
<b>BAKred</b>	has the meaning given to it in the Participation Agreement.
<b>Bank</b>	means Landesbank Schleswig-Holstein Girozentrale of Kiel, Germany or its legal successors.
<b>Business Day</b>	means a day on which the TARGET System is operational and banks are open for business in Frankfurt and Luxembourg.
<b>Calculation Period</b>	means any of a Class A Calculation Period, Class B Calculation Period or Ordinary Calculation Period.
<b>Class A Calculation Period</b>	means the period from (and including) 30 June to (but excluding) 30 June provided that the first Class A Calculation Period will be from (and including) 19 February 2002 to (but excluding) 30 June 2003 or, in the case of the last Class A Calculation Period, to (but excluding) the date of redemption of the Class A Securities.
<b>Class A Dividend</b>	means the dividends for the Class A Securities calculated in accordance with Article 6(B)(a) of the Articles.
<b>Class A Ring-Fenced Assets</b>	means (a) the Company's rights to Loan Repayment Amount and (b) the Company's right to the Aggregate Pre-Transfer Profit Participation.
<b>Class A Securities</b>	means (a) the initial 698,000 redeemable Class A Preference Shares in the capital of the Company with a par value of €1,000 each having the rights attaching thereto prescribed in these Articles and (b) any redeemable Class A Preference Shares issued to holders of Class A Preference Shares from time to time.
<b>Class A Shareholder</b>	means a holder of a Class A Security.
<b>Class B Calculation Period</b>	means the period from (and including) 30 June to (but excluding) 30 June provided that the first Class B Calculation Period will be from (and including) 19 February 2002 to (but excluding) 30 June 2003 or, in the case of the last Class B Calculation Period, to (but excluding) the date of redemption of the Class B Securities.
<b>Class B Cash Redemption Date</b>	means the date on which the Silent Contribution must be repaid in accordance with the Participation Agreement.
<b>Class B Dividend</b>	means the dividends for the Class B Securities calculated in accordance with Article 6(C)(a).
<b>Class B Securities</b>	means the 500,000 redeemable Class B Preference Shares in the capital of the Company with a par value of €1,000 each having the rights attaching thereto prescribed in the Articles.
<b>Class B Redemption Amount</b>	means an amount equal to the Repayment Amount.

<b><i>Class B Ring-Fenced Assets</i></b>	means (a) the Company's rights to interest accrued under the Loan Agreement to the earlier of the Class B Cash Redemption Date and the Class B Transfer Redemption Date, (b) the Company's rights to funding of the Extraordinary Class B Dividend, (c) the Company's rights to the Repayment Amount payable under the Participation Agreement (d) the Company's rights to the interest payable to the Company on such date by virtue of § 7(7) of the Participation Agreement, and (e) the Company's rights to funding of the Luxembourg Gross-Up Amount.
<b><i>Class B Shareholder</i></b>	means a holder of a Class B Security.
<b><i>Class B Transfer Redemption Date</i></b>	means the earlier of: <ul style="list-style-type: none"> <li>(a) 30 June 2014;</li> <li>(b) following the BAKred requiring the Bank to procure the Company transfer its claims under the Participation Agreement, the date specified by the BAKred for such transfer or, if no such date is specified, a date determined by the Company for such transfer; and</li> <li>(c) the Loan Repayment Date.</li> </ul>
<b><i>Company</i></b>	means LB Kiel Funding I
<b><i>Declared Extraordinary Class B Dividend</i></b>	means the Extraordinary Class B Dividend declared by the Company in accordance with Article 6(C)(a)(viii).
<b><i>Declared Ordinary Class B Dividend</i></b>	means the Ordinary Class B Dividend declared by the Company in accordance with Article 6(C)(a)(vi).
<b><i>Directors</i></b>	means the directors for the time being of the Company.
<b><i>Dividend Payment Date</i></b>	means, in respect of any Calculation Period, the later of (a) 30 June, however if such day is not a Business Day, the next Business Day and (b) the first Business Day following Owner approval of the Bank's annual financial statements for the fiscal year of the Bank commencing in the same calendar year as the Calculation Period commences.
<b><i>Electronic Record</i></b>	has the same meaning as in the Electronic Transactions Law (2000 Revision).
<b><i>Extraordinary Class B Dividend</i></b>	means a dividend equal to (A) the difference, if positive, between (i) an amount equal to the present value (as defined below) of (x) the dividends that would be payable on the Class B Securities for the period from the Redemption Date to (and including) 30 June 2014 as if no Redemption had taken place and Class B Dividends had been paid in full for such period and (y) an amount equal to the initial Silent Contribution deemed to be paid on 30 June 2014; and (ii) the initial Silent Contribution and (B) any gross-up required thereon pursuant to Article 6(c)(g). The " <b>present value</b> " will be calculated by discounting the cash flows under (i) above of the adjusted comparable yield (as defined below) plus 75 basis points. The " <b>adjusted comparable yield</b> " will be the annualised 5% Bund security due 2012 (or, should this bond no longer be available, the successor Bund security selected by the Bank and approved by an investment bank of international repute as having a maturity comparable to 30 June 2014).
<b><i>Fiduciary</i></b>	means Banque de Luxembourg, a société anonyme incorporated in Luxembourg.
<b><i>Fiduciary Agreement</i></b>	means the fiduciary agreement between the Fiduciary and the Securityholders evidenced by the SPARC Securities dated on or about 15 February 2002.
<b><i>LB Kiel Funding I Bank Accounts</i></b>	means the bank account number 53005375 of the Company held with Landesbank Schleswig-Holstein Girozentrale and the bank account number 603904 held with Queensgate Bank & Trust Co.
<b><i>Loan</i></b>	means the advance made under the Loan Agreement.

<b><i>Loan Agreement</i></b>	means the loan agreement in the form of a German law governed <i>Schuldscheindarlehen</i> to be dated on or about 19 February 2002 between the Company and the Bank.
<b><i>Loan Repayment Amount</i></b>	means all outstanding principal repayments receivable by the Company under the Loan.
<b><i>Loan Repayment Date</i></b>	means the date on which the Loan must be repaid or prepaid in accordance with the terms of the Loan Agreement.
<b><i>Luxembourg Gross-Up Amount</i></b>	means the amount by which payments to the Securityholders would have to be increased to enable the Fiduciary (after it makes any Luxembourg Tax Deduction) to pay Securityholders an amount equal to the payment which would have been due if no Luxembourg Tax Deduction had been required.
<b><i>Luxembourg Tax Deduction</i></b>	means a deduction or withholding for or on account of Luxembourg Tax from a payment under the SPARC Securities.
<b><i>Member</i></b>	has the same meaning as in the Statute.
<b><i>Memorandum</i></b>	means the memorandum of association of the Company.
<b><i>Ordinary Class B Dividends</i></b>	means dividends on the Class B Securities as calculated in accordance with Article 6(C)(a)(iii), (iv) and (v) and any gross-up required thereon pursuant to Article 6(c)(g).
<b><i>Ordinary Resolution</i></b>	means (i) a resolution passed by a simple majority of the Members as, being entitled to do so, vote in person, (ii) where proxies are allowed, by proxy at a general meeting, or (iii) a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the regulations of the Company.
<b><i>Ordinary Shares</i></b>	means the 10 Ordinary Shares in the capital of the Company with a par value of €1,000 each having the rights attaching thereto prescribed in these Articles.
<b><i>Paid-up Value</i></b>	means the price at which each relevant Share is issued credited as fully paid-up comprising the nominal value thereof.
<b><i>Participation Agreement</i></b>	means the agreement dated on or about 15 February 2002 between the Bank and the Company pursuant to which the Company acquires a silent capital interest in an amount of €500,000,000 in the commercial enterprise of the Bank in the form of a <i>Stille Gesellschaft</i> .
<b><i>Pre-Transfer Profit Participation</i></b>	has the meaning given to it in the Participation Agreement.
<b><i>Preference Securities</i></b>	means the Class A Securities and the Class B Securities.
<b><i>Profit Participation</i></b>	means the profit participation which accrued for a Relevant Bank Fiscal Year under the Participation Agreement.
<b><i>Register of Members</i></b>	means the register maintained in accordance with the statute and includes (except where otherwise stated) any duplicate Register of Members
<b><i>Registered Office</i></b>	means the registered office for the time being of the Company.
<b><i>Relevant Bank Fiscal Year</i></b>	means the fiscal year of the Bank commencing in the same calendar year as commences the Calculation Period to which a Dividend Payment Date relates.
<b><i>Repayment Amount</i></b>	has the meaning given to it in the Participation Agreement.
<b><i>Repayment Date</i></b>	has the meaning given to it in the Participation Agreement.
<b><i>Seal</i></b>	means the common seal of the Company and includes every duplicate seal.
<b><i>Secretary</i></b>	includes an assistant secretary and any person appointed to perform the duties of secretary of the Company.
<b><i>Securityholders</i></b>	means the holders of the SPARC Securities.
<b><i>Share and Shares</i></b>	means a share or shares in the Company and includes a fraction of a share.

<i><b>SPARC Securities</b></i>	means the €500,000,000 LB Kiel Silent Participation Assimilated Regulatory Capital (SPARC) securities issued by the Fiduciary.
<i><b>Special Resolution</b></i>	has the same meaning as in the Statute, and includes a unanimous written resolution.
<i><b>Statute</b></i>	means the Companies Law (2001 Second Revision) of the Cayman Islands.
<i><b>TARGET System</b></i>	means the Trans-European Automated Real-time Gross Settlement Express Transfer System.
<i><b>Tax</b></i>	means 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.)
<i><b>Tax Deduction</b></i>	means a deduction or withholding for or on account of Tax from a payment under the Articles.
<i><b>Transaction Documents</b></i>	means the Participation Agreement, the Loan Agreement and the Articles.
<i><b>Transfer</b></i>	means a transfer of the Company's rights and obligations under the Participation Agreement (excluding the Aggregate Pre-Transfer Profit Participations) to the Class B Shareholder in accordance with Article 6(C)(d)(i).
<i><b>Transfer and Redemption Confirmation</b></i>	means a confirmation substantially in the form attached to the Articles of the Company as Exhibit 1.
<i><b>Undertaking Agreement</b></i>	means the undertaking agreement dated on or about 15 February 2002 between the Bank and the Fiduciary.

#### Article 6

(C) the rights attaching to the Class B Security are as follows:

(a) **Income**

- (i) Subject to the provisions below, each Class B Security shall confer on the Class B Shareholder a right to receive a dividend on each Class B Preference Share held.
- (ii) Dividends on the Class B Securities shall be paid in respect of each Class B Calculation Period annually in arrear.
- (iii) Dividends will be in an aggregate amount equal to the lower of (A) 7.4075% per annum of the Paid-up Value of the Class B Securities (subject to adjustment pursuant to Article 6(C)(a)(v) below) and (B) the Profit Participation, if any, which accrued in respect of the Relevant Bank Fiscal Year (plus any interest payable under § 7(7) of the Participation Agreement.)
- (iv) If the Company redeems the Class B Securities by transferring all of the Company's rights and obligations under the Participation Agreement to the Class B Shareholder, no dividends shall be payable for the Class B Calculation Period in which such redemption occurs;
- (v) If the Profit Participation for a Relevant Bank Fiscal Year is less than the maximum amount which could accrue for that Relevant Bank Fiscal Year under the Participation Agreement, then the 7.4075% per annum mentioned in Article 6(C)(a)(iii)(A) shall be multiplied by the quotient of the actual Profit Participation accrued for that Relevant Bank Fiscal Year divided by such maximum Profit Participation.
- (vi) The Directors will declare Ordinary Class B Dividends on or before the Dividend Payment Date. Declared Ordinary Class B Dividends will be paid on the Dividend Payment Date.
- (vii) Extraordinary Class B Dividends on the Class B Securities will be payable upon a Repayment Amount becoming payable to the Company under the Participation Agreement on the Repayment Date.

(viii) The Directors will declare Extraordinary Class B Dividends on or before the Repayment Date. Declared Extraordinary Class B Dividends will be paid on the Repayment Date.

(ix) Dividends per Class B Security will be calculated by dividing the Declared Class B Dividend by the number of Class B Securities outstanding.

(x) Dividends shall accrue from day to day. Each Class B Security will cease to accrue dividends from its due date for redemption. The Class B Securities shall not confer any further rights of participation in the profit of the Company.

**(b) Capital**

On a winding-up of the Company or other return of capital (other than a purchase or redemption of any Class B Security):

(i) the Class B Shareholders will be entitled to share in the Class B Ring-Fenced Assets, but no further assets of the Company;

(ii) no other holders of shares in the Company will be entitled to any part of the Class B Ring-Fenced Assets;

(iii) if the proceeds of the Class B Ring-Fenced Assets are insufficient to repay in full the Paid-up Value of each Class B Security together with any Declared Ordinary Class B Dividend and Declared Extraordinary Class B Dividend, such proceeds shall be apportioned pro rata amongst the Class B Securities;

(iv) if the aggregate value of claims of the Company's creditors exceed the Company's assets (minus the Class A Ring-Fenced Assets and the Class B Ring-Fenced Assets), the rights of the Class B Shareholders in the assets of the Company will rank junior to the rights of the Class A Shareholders up to an amount equal to the sum of the Loan Repayment Amount and the Aggregate Pre-Transfer Profit Participations (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class A Shareholders), but senior to the holders of other shares in the Company up to an amount equal to the Class B Ring-Fenced Assets (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class B Shareholders).

**(c) Voting**

The Class B Shareholder shall be entitled to receive notice of general meetings of the Company but shall not be entitled to attend or vote thereat.

**(d) Redemption**

The Class B Securities shall be redeemed by the Company upon and subject to the provisions of the applicable laws in the Cayman Islands and the following terms and conditions:

(i) the Company will redeem all of the Class B Securities (but not some only) on the Class B Transfer Redemption Date, which obligation will be satisfied in full by the Company transferring all of the Company's rights and obligations under the Participation Agreement (excluding the Aggregate Pre-Transfer Profit Participations) to the Class B Shareholder on the Class B Transfer Redemption Date (which transfer will be effected by the Class B Shareholder and the Company executing the Transfer and Redemption Confirmation) whereupon the Class B Securities shall be deemed to have been redeemed in full, irrespective of the value of the Silent Contribution (excluding the Aggregate Pre-Transfer Profit Participations) and that such value may be less than the aggregate par value of the Class B Securities. Redemption of the Class B Securities will not release the Company from its obligations under Article 6(C)(g).

(ii) the Company will redeem all of the Class B Securities (but not some only) on the Class B Cash Redemption Date, which obligation will be satisfied in full by the Company paying to the Class B Shareholders an amount equal to the Class B Redemption Amount, any unpaid Declared Ordinary Class B Dividends and any unpaid Declared Extraordinary Class B Dividends on the Class B Cash Redemption Date whereupon the Class B Securities shall be



deemed to have been redeemed in full, irrespective of either (x) the value of the Class B Redemption Amount, Declared Ordinary Class B Dividends or Declared Extraordinary Class B Dividends or (y) the Class B Redemption Amount being lower than the Paid-up Value of the Class B Securities.

(e) **Return of capital – General**

(i) In the event that the Class B Redemption Amount is insufficient to repay in full the Paid-up Value of each Class B Security and unpaid Declared Ordinary Class B Dividends, the Class B Redemption Amount will be apportioned pro rata amongst the Class B Securities as payment in full for the Class B Securities.

(ii) The Class B Securities may not be redeemed or any capital returned in respect thereof other than pursuant to Article 6(C)(d) or on a winding up of the Company.

(f) **Notice to Class B Shareholder**

(i) The Company will, forthwith upon becoming aware that the Class B Securities will be redeemed, notify the Class B Shareholder of (A) the date on which they will be redeemed, (B) whether they will be redeemed by way of transferring the Company's rights under the Participation Agreement (other than the Aggregate Pre-Transfer Profit Participations) to the Issuer or by way of a payment in cash (C) if the Class B Securities are to be redeemed by way of a payment in cash, the amount thereof.

(ii) The Company will, forthwith upon becoming aware that the Participation Agreement will terminate, notify the Class B Shareholder thereof.

(g) **Gross-Up**

(i) The Company shall make all payments to the Class B Shareholder pursuant to these articles of association without any Tax Deduction, unless a Tax Deduction is required by law.

(ii) If a Tax Deduction is required by law to be made by the Company the amount of the payment due from the Company 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.

(iii) If the Class B Shareholder (A) is required under the SPARC Securities to make a Luxembourg Tax Deduction when it passes a payment from the Company on to Securityholders or from the Bank on to the Securityholders (under the Undertaking Agreement) and (B) advises the Company of the Luxembourg Gross-Up Amount, the Company shall make such payment to the Class B Shareholder together with such Luxembourg Gross-Up Amount.

(h) **Negative covenant**

The Company shall not, without the written consent of the Class B Shareholder:

(i) make any payment to any holder of any shares in the Company with the proceeds of the Class B Ring-Fenced Assets except:

(A) to the Class B Shareholder; or

(B) to the Class A Shareholder, but only in an amount equal to or less than the Class A Dividend Cash Amount.

(ii) engage in any business or any other activities other than:

(A) the performance of its obligations under the Transaction Documents and any other agreement which have been entered into in connection with the issue of the Class B Securities;

(B) the enforcement of its rights;

(C) the performance of any acts which are necessary or desirable in connection with (A) or (B);

- (D) the execution of all further documents and undertaking of all other actions, at any time and to the extent permitted by law, which, in the opinion of the Class B Shareholder, are necessary or desirable having regard to the interests of the Securityholders, in order to ensure these articles of association remain valid; and
- (iii) hold shares in any entity;
- (iv) dispose of any assets or any part thereof or interest therein;
- (v) pay dividends or make any other distribution to its shareholders other than dividends to Class A Shareholders and Class B Shareholders in accordance with this Article 6;
- (vi) incur any indebtedness;
- (vii) have any employees or own any real estate asset;
- (viii) create or permit to subsist any mortgage, lien, pledge, security interest or other encumbrance in respect of any of its assets;
- (ix) consolidate or merge with or into any other person;
- (x) issue new shares or acquire shares (other than Class A Securities for the purposes of paying Declared Class A Dividends in accordance with this Article 6);
- (xi) open or maintain any bank accounts (other than the LB Kiel Funding I Bank Accounts);
- (xii) agree to the modification of any Transaction Document.

## TERMS & 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  
LB Kiel Funding 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  
LB Kiel Funding 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

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

*Gesamt-Prä-Transfer-Gewinnbeteiligung* steht für die Summe aller Prä-Transfer-Gewinnbeteiligungen;

Ein *Jahresbilanzverlust* liegt dann vor, wenn die nicht konsolidierte Jahresbilanz der Bank nach Prüfung durch eine international und vom BAKred 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 der in Übereinstimmung mit dem Aktiengesetz und den Grundsätzen ordnungsmäßiger Buchführung der Bundesrepublik Deutschland im Einklang mit dem Handelsgesetzbuch sowie sonstigem zum

### 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

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

*Aggregate Pre-Transfer Profit Participation* means the sum of all Pre-Transfer Profit Participations;

*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 BAKred, 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 as determined in accordance with the German Stock Corporation Act and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code and other applicable German law then in effect;

maßgeblichen Zeitpunkt anwendbaren deutschen Recht getroffenen Feststellungen;

**BAKred** steht für das Bundesaufsichtsamt für das Kreditwesen oder eine etwaige Nachfolgebehörde, die an seine Stelle tritt;

**Buchwert** steht für 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** steht für jeden Tag, an dem das TARGET System geöffnet ist und Geschäftsbanken und Devisenmärkte in Frankfurt und Luxemburg im allgemeinen Geschäftsverkehr Zahlungen abwickeln;

**Berechnungs-Geschäftstag** steht für jeden Tag (mit Ausnahme von Samstagen oder Sonntagen), an dem das Trans European Real Time Gross Settlement Express Transfer System geöffnet ist;

Das **Class B Transfer-Rückzahlungsdatum** hat die ihm in den Statuten der LB Kiel Funding I beigelegte Bedeutung;

**Treuhänderin** steht für die Banque de Luxembourg, eine in Luxemburg errichtete société anonyme, die nach luxemburgischem Recht auf treuhänderischer Basis für die Wertpapierinhaber tätig wird, bzw. für ihre Nachfolgerin oder Zessionarin;

**Zinsfestlegungstag** steht für den zweiten Berechnungs-Geschäftstag vor dem 30 Juni des laufenden Gewinnzeitraums;

**KWG** steht für das Kreditwesengesetz;

**Einlagennennbetrag** steht für den Betrag von €500,000,000 (fünfhundert Millionen euro);

**Beteiligungssatz** steht für den Zinssatz zuzüglich 2,15%;

**Post-Transfer-Gewinnbeteiligung** steht für die in der jeweiligen Post-Transfer-Gewinnperiode aufgelaufene Gewinnbeteiligung;

**Post-Transfer-Gewinnperiode** steht für jeden Zeitraum vom (einschließlich) 1. Januar bis (einschließlich) 31. Dezember. Die erste Post-Transfer-Gewinnperiode beginnt am 1. Januar des Jahres, in welches der Transfer-Tag fällt. Falls der Transfer-Tag vor dem oder am 31. Dezember 2002 eintreten sollte, beginnt die erste Post-Transfer-Gewinnperiode am Anfangsdatum;

**BAKred** means the German Banking Supervisory 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 on which the TARGET System is operational and commercial banks and foreign exchange markets settle payments in the general course of business in Frankfurt and Luxembourg;

**Calculation Business Day** means any day (other than a Saturday or a Sunday) on which the Trans European Real Time Gross Settlement Express Transfer System is operating;

**Class B Transfer Redemption Date** has the meaning given to Class B Transfer Redemption Date in the articles of association of LB Kiel Funding I;

**Fiduciary** means Banque de Luxembourg, a société anonyme incorporated in Luxembourg or its successor or transferee acting on a fiduciary basis under Luxembourg law for the Securityholders;

**Interest Determination Date** means the second Calculation Business Day prior to 30 June of the current Profit Period;

**KWG** means the German Banking Act;

**Nominal Contribution Amount** means €500,000,000 (five hundred million euro),

**Participation Rate** means the Rate of Interest plus 2.15%;

**Post-Transfer Profit Participation** means a profit participation accrued in any Post-Transfer Profit Period;

**Post-Transfer Profit Period** means each period from (and including) 1 January to (and including) 31 December. The first Post-Transfer Profit Period shall commence on 1 January of the year in which the Transfer Date occurs. If the Transfer Date occurs on or before 31 December 2002, the first such Post-Transfer Profit Period shall commence on the Start Date;

**Prä-Transfer-Gewinnbeteiligung** steht für die in der jeweiligen Prä-Transfer-Gewinnperiode aufgelaufene Gewinnbeteiligung;

**Prä-Transfer-Gewinnperiode** steht jeweils für den Zeitraum vom 1. Januar (einschließlich) bis 31. Dezember (einschließlich) eines Jahres, wobei die erste Prä-Transfer-Gewinnperiode am Anfangsdatum (einschließlich) beginnt und die letzte Prä-Transfer-Gewinnperiode vom 1. Januar (einschließlich) bis zum 31. Dezember 2002 (einschließlich) desjenigen Jahres läuft, das dem Jahr vorangeht, in welches der Transfer-Tag fällt. Falls der Transfer-Tag vor den 31. Dezember 2002 fällt, gibt es keine Prä-Transfer-Gewinnperiode;

**Gewinnbeteiligung** steht für eine Prä-Transfer-Gewinnbeteiligung oder eine Post-Transfer-Gewinnbeteiligung;

**Gewinnzeitraum** steht für eine Prä-Transfer-Gewinnperiode oder eine Post-Transfer-Gewinnperiode;

**Zinssatz** steht für das arithmetische Mittel (ggf. auf das nächste Tausendstel eines Prozentpunktes gerundet wobei 0,0005 aufgerundet wird) der Angebotssätze (ausgedrückt als Prozentsatz per annum) für Euro-Einlagen auf 12 Monate am 30. Juni des maßgeblichen Gewinnzeitraums, die am maßgeblichen Zinsfestlegungstag auf der Bildschirmseite um 11 Uhr (Brüsseler Ortszeit) erscheinen, wie diese von der Bank festgestellt werden. Wenn die Bildschirmseite nicht am Zinsfestlegungstag um 11 Uhr (Brüsseler Ortszeit) zur Verfügung steht oder kein Angebotssatz oder weniger als drei Angebotssätze angezeigt werden, wird die Bank vier von ihr ausgewählte Referenzbanken um deren entsprechende Angebotssätze (ausgedrückt als Prozentsatz per annum) für Euro-Einlagen auf 12 Monate am 30. Juni des maßgeblichen Gewinnzeitraums ersuchen, die diese führenden europäischen Banken auf dem Eurozonen-Interbankenmarkt gegen 11 Uhr (Brüsseler Ortszeit) am Zinsfestlegungstag anbieten. Wenn zwei oder mehr Referenzbanken der Bank derartige Angebotssätze zur Verfügung stellen, wird der Zinssatz für den entsprechenden Gewinnzeitraum aus dem arithmetischen Mittel dieser Angebotssätze (ggf. auf das nächste Tausendstel eines Prozentpunktes gerundet, wobei 0,0005 aufgerundet wird) ermittelt. Wenn der Zinssatz nicht in der vorbeschriebenen Weise festgestellt werden kann, gilt als Zinssatz der Angebotssatz oder das arithmetische Mittel aus Angebotssätzen von der Bildschirmseite gemäß vorstehender Beschreibung vom letzten Tag vor dem Zinsfestlegungstag, an dem diese Angebotssätze veröffentlicht wurden. Wenn nach

**Pre-Transfer Profit Participation** means a profit participation accrued in any Pre-Transfer Profit Period;

**Pre-Transfer Profit Period** means each period from (and including) 1 January to (and including) 31 December of a year provided, however, that the first such Pre-Transfer Profit Period will commence on (and include) the Start Date and provided, further, the last Pre-Transfer Profit Period will be from (and include) 1 January to (and include) 31 December of the year which precedes the year in which the Transfer Date occurs. Except, however, if the Transfer Date occurs before 31 December 2002, there shall be no such Pre-Transfer Profit Period;

**Profit Participation** means a Pre-Transfer Profit Participation or a Post-Transfer Profit Participation;

**Profit Period** means a Pre-Transfer Profit Period or a Post-Transfer Profit Period;

**Rate of Interest** means the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards) of the offered quotations (expressed as a percentage rate per annum) for 12 months deposits in euro on 30 June of the relevant Profit Period, which appear on the Screen Page as of 11:00 a.m. (Brussels time) on the relevant Interest Determination Date, all as determined by the Bank. If the Screen Page is not available, no quotation appears or fewer than three such offered quotations appear at 11:00 a.m. (Brussels time) on the Interest Determination Date, the Bank shall request four Reference Banks selected by it to provide it with their respective offered quotation (expressed as a percentage rate per annum) 12 months deposits in euro on 30 June of the relevant Profit Period commences to leading European banks in the Euro-zone interbank market at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date. If two or more Reference Banks provide the Bank with such offered quotations, the Rate of Interest for the relevant Profit Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards). If the Rate of Interest cannot be determined in such manner, the Rate of Interest shall be the offered quotation or the arithmetic mean of the offered quotations on the Screen Page, as described above, on the last day preceding the Interest Determination Date on which such quotations were offered. If for the preceding sentences five or more such offered quotations are available on the Screen

Maßgabe der Festlegungen in den vorstehenden Sätzen fünf oder mehr Angebotssätze auf der Bildschirmseite zur Verfügung stehen, lässt die Bank zur Feststellung des arithmetischen Mittels den höchsten (falls der Höchstkurs mehrfach angeboten wird, diesen nur einmal) und den niedrigsten (falls der Niedrigstkurs mehrfach angeboten wird, diesen nur einmal) außer Acht;

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

**Referenzbank** steht für eine Bank in Eurozonen-Interbankenmarkt;

**Rückzahlungsbetrag** steht entweder für den Buchwert oder den Einlagennennbetrag, je nachdem welcher niedriger ist;

**Rückzahlungstag** steht für (i) den 30. Juni des Jahres, das auf das Geschäftsjahr der Bank folgt, in das der Beendigungstag fällt oder, falls der 30. Juni kein Geschäftstag ist, den nächsten Geschäftstag nach dem 30. Juni oder, falls später, (ii) den ersten Frankfurter Geschäftstag nach Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr, in das der Beendigungstag fällt;

**Bildschirmseite** steht für die Telerate-Page 248 "EURIBOR Screen Page" (oder jede andere Bildschirmseite von Telerate oder sonstiger Informationsanbieter, die als Nachfolger der Telerate-Page 248 zur Darstellung derartiger Sätze bestimmt wurden);

**Wertpapierinhaber** steht für die Inhaber der LB Kiel Silent Participation Assimilated Regulatory Capital (SPARC) Securities über €500,000,000, die zum oder nach dem Datum dieses Beteiligungsvertrages von der Treuhänderin ausgegeben werden;

**Anfangsdatum** steht für den 19. Februar 2002;

**TARGET System** bezeichnet das Trans-European Automated Real-time Gross settlement Express Transfer-Zahlungssystem;

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

**Transfer-Tag** steht für das Datum, an welchem die Rechte des anfänglichen Stillen Gesellschafters aus diesem Beteiligungsvertrag auf die Treuhänderin nach Maßgabe der Bestimmungen von § 11 übergehen.

2. **Auslegung.** Sofern aus dem Zusammenhang nicht etwas anderes hervorgeht, bedeutet ein Verweis auf § einen Verweis auf einen Abschnitt dieses Vertrages.

Page, the highest (but if the highest is quoted more than once, only one such quote) and the lowest (but if the lowest is quoted more than once, only one such quote) shall be disregarded by the Bank for the purpose of determining the arithmetic mean;

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

**Reference Bank** means a bank in the Euro-zone interbank market;

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

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

**Screen Page** means Telerate Page 248, "EURIBOR Screen Page" (or such other screen page of Telerate or such other information service, which has been designated as the successor to Telerate Page 248 for the purpose of displaying such rates);

**Securityholders** means the holders of €500,000,000 KB Kiel Silent Participation Assimilated Regulatory Capital (SPARC) Securities issued by the Fiduciary on or about the date of this Participation Agreement;

**Start Date** means 19 February 2002;

**TARGET System** means the Trans-European Automated Real-time Gross settlement Express Transfer System;

**Termination Date** shall mean the date as of which the Silent Partner ceases to participate in the Business of the Bank as an ordinary silent partner;

**Transfer Date** means the date on which the initial Silent Partner's rights under this Participation Agreement are transferred to the Fiduciary as contemplated in § 11.

2. **Interpretation:** Unless the context otherwise requires, a reference to a § means a reference to a section of this Participation Agreement.

**§ 2**  
**Vertragsgegenstand**

1. 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. 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 für den Zeitraum vom Anfangsdatum bis zum 31. Dezember vor dem Transfer-Tag nach Maßgabe von § 3(2), für den Zeitraum vom 1. Januar des Gewinnzeitraums, in den der Transfer-Tag fällt, bis zum 31. Dezember 2013 nach Maßgabe von § 3(3) und für den Zeitraum nach dem 31. Dezember 2013 nach Maßgabe des § 3(4) berechnet wird.
2. **Prä-Transfer-Gewinnbeteiligungen:** Vorbehaltlich § 4 wachsen Gewinnbeteiligungen für Gewinnzeiträume vor dem Gewinnzeitraum, in den der Transfer-Tag fällt, für den jeweiligen, nachstehend aufgeführten Zeitraum in Höhe des jeweils gegenüber aufgeführten Betrages an:

Geschäftsjahr der Bank (bzw. entsprechender Teil)	Betrag in euro
19. Feb. 2002 bis 31. Dez. 2002	50.330.411
1. Jan. 2003 bis 31. Dez. 2003	40.765.725
1. Jan. 2004 bis 31. Dez. 2004	43.785.446
1. Jan. 2005 bis 31. Dez. 2005	47.028.853
1. Jan. 2006 bis 31. Dez. 2006	50.512.516
1. Jan. 2007 bis 31. Dez. 2007	54.254.230
1. Jan. 2008 bis 31. Dez. 2008	58.273.112
1. Jan. 2009 bis 31. Dez. 2009	62.589.693
1. Jan. 2010 bis 31. Dez. 2010	67.226.025
1. Jan. 2011 bis 31. Dez. 2011	72.205.792
1. Jan. 2012 bis 31. Dez. 2012	77.554.436
1. Jan. 2013 bis 31. Dez. 2013	83.299.281

3. **Feste Post-Transfer-Gewinnbeteiligung:** Für sämtliche Gewinnzeiträume nach dem Transfer-Tag und dem Gewinnzeitraum, in den der Transfer-Tag fällt, und die (i) am 31. Dezember 2013 oder, falls früher, (ii) dem Beendigungstag enden, stehen dem Stillen Gesellschafter vorbehaltlich § 4 Gewinnbeteiligungen in Höhe von 7,4075% p.a. in Bezug auf den Einlagennennbetrag zu.

**§ 2**  
**Subject Matter**

1. 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. The Silent Contribution will be made in cash. It is 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 § 3(2) (for the period from the Start Date to 31 December prior to the Transfer Date), in the amounts specified in § 3(3) (for the period from 1 January of the Profit Period during which the Transfer Date occurs to 31 December 2013) and in the amounts specified in § 3(4) (after 31 December 2013).

2. **Pre-Transfer Profit Participations:** Subject to § 4, Profit Participations for Profit Periods prior to the Profit Period, during which the Transfer Date occurs, will accrue in respect of each of the periods below in the amount set out opposite such period:

Fiscal year of the Bank (or relevant part thereof)	Amount in euro
19 Feb. 2002 to 31 Dec. 2002	50,330,411
1 Jan. 2003 to 31 Dec. 2003	40,765,725
1 Jan. 2004 to 31 Dec. 2004	43,785,446
1 Jan. 2005 to 31 Dec. 2005	47,028,853
1 Jan. 2006 to 31 Dec. 2006	50,512,516
1 Jan. 2007 to 31 Dec. 2007	54,254,230
1 Jan. 2008 to 31 Dec. 2008	58,273,112
1 Jan. 2009 to 31 Dec. 2009	62,589,693
1 Jan. 2010 to 31 Dec. 2010	67,226,025
1 Jan. 2011 to 31 Dec. 2011	72,205,792
1 Jan. 2012 to 31 Dec. 2012	77,554,436
1 Jan. 2013 to 31 Dec. 2013	83,299,281

3. **Fixed Post-Transfer Profit Participation:** For all Profit Periods following the Transfer Date and the Profit Period during which the Transfer Date occurs and ending on the earlier of (i) 31 December 2013 and (ii) the Termination Date, the Silent Partner shall, subject to § 4, be entitled to Profit Participations on the Nominal Contribution Amount at a rate of 7.4075% per annum.

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| <p>4. <b>Variable Post-Transfer-Gewinnbeteiligungen:</b> Ab dem 1. Januar 2014 werden die Gewinnbeteiligungen für die einzelnen Gewinnzeiträume durch Multiplikation des Einlagennennbetrags mit dem anwendbaren Beteiligungssatz errechnet.</p> <p>5. <b>Berechnung von Gewinnbeteiligungen:</b> Fällt der Beendigungstag auf einen anderen Tag als einen 31. Dezember, berechnet sich die Gewinnbeteiligung bis zum Beendigungstag durch Multiplikation des Betrages, den die Gewinnbeteiligung ergeben hätte, wenn der Beendigungstag nicht eingetreten wäre, mit dem Quotienten aus der tatsächlichen Anzahl der Tage von (einschließlich) 1. Januar bis (ausschließlich) zum Beendigungstag dividiert durch die tatsächliche Anzahl der Tage des Kalenderjahrs, in das der Beendigungstag fällt.</p> <p>6. <b>Ausschluss der Gewinnbeteiligung:</b> Eine Gewinnbeteiligung für einen Gewinnzeitraum wächst nicht an bzw. wird nicht zur Auszahlung fällig:</p> <p>(a) soweit die Zahlung einer solchen Gewinnbeteiligung zu einem Jahresbilanzverlust in dem Geschäftsjahr der Bank, das dem maßgeblichen Gewinnzeitraum entspricht, führen oder diesen erhöhen würde;</p> <p>(b) wenn eine Herabsetzung erfolgt ist und die Stille Einlage noch nicht wieder vollständig gemäß § 6(3) gutgeschrieben wurde;</p> <p>(c) wenn zu irgendeinem Zeitpunkt vor Auszahlung der Gewinnbeteiligung ein Antrag auf Eröffnung des Insolvenzverfahrens über das Vermögen der Bank aus Gründen der drohenden oder bestehenden Zahlungsunfähigkeit oder Überschuldung gestellt wurde oder das BAKred die ihm verliehenen Befugnisse gemäß §§ 45, 46a und 47 KWG bzw. entsprechender Nachfolgebestimmungen ausgeübt hat;</p> <p>(d) falls der Solvabilitätskoeffizient der Bank auf Instituts- oder auf Gruppenbasis unter 9% liegt, soweit die Zahlung einer solchen Gewinnbeteiligung zu einem Jahresfehlbetrag (nach HGB) in dem Geschäftsjahr der Bank, das dem maßgeblichen Gewinnzeitraum entspricht, führen oder diesen erhöhen würde.</p> | <p>4. <b>Floating Post-Transfer Profit Participations:</b> From 1 January 2014 Profit Participations for each Profit Period will be calculated by multiplying the Nominal Contribution Amount by the applicable Participation Rate.</p> <p>5. <b>Calculation of Profit Participations:</b> If the Termination Date occurs other than on 31 December, the amount of the Profit Participation up to the Termination Date shall be calculated by multiplying the amount of the Profit Participation, had there been no Termination Date, by the quotient of the actual number of days from (and including) 1 January to (but excluding) the Termination Date divided by the actual number of days in the calendar year in which the Termination Date occurs.</p> <p>6. <b>Profit Participations excluded:</b> No Profit Participation will accrue or be payable for any Profit Period:</p> <p>(a) 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;</p> <p>(b) if there has occurred a Reduction and the Silent Contribution has not yet been fully re-credited as provided for in § 6(3);</p> <p>(c) if at any time prior to payment of such Profit Participation an application for the institution of insolvency proceedings over the assets of the Bank has been filed for reasons of threatening or actual illiquidity or overindebtedness, or BAKred has made use of its powers vested by virtue of Sections 45, 46a and 47 of the KWG or the relevant successor provisions;</p> <p>(d) if the Bank's solvency ratio is below 9% on a solo 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 corresponding to the relevant Profit Period.</p> |
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#### § 4

#### Zahlung der Gewinnbeteiligung

1. **Prä-Transfer-Gewinnbeteiligungen:** Prä-Transfer-Gewinnbeteiligungen werden nicht vor (i) dem 30. Juni des Jahres, das auf das Geschäftsjahr folgt, in das der Beendigungstag fällt oder, falls der 30. Juni kein Geschäftstag ist, dem nächsten Geschäftstag nach dem 30. Juni oder (ii) dem Geschäftstag nach dem Tag der

#### § 4

#### Profit Participation Payment

1. **Pre-Transfer Profit Participations:** Pre-Transfer Profit Participations will not be payable until the later of (i) 30 June following the fiscal year in which the Termination Date occurs or, if 30 June is not a Business Day, the next Business Day following 30 June or (ii) the Business Day following the day on which Bank's annual



Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr, in das der Transfer-Tag fällt, je nachdem, welcher Tag später liegt, zur Zahlung fällig. Die Gesamt-Prä-Transfer-Gewinnbeteiligung wird an diesem Tag zur Zahlung fällig.

2. **Post-Transfer-Gewinnbeteiligungen:** Post-Transfer-Gewinnbeteiligungen werden erst bei Eintreten des späteren der nachstehenden Ereignisse fällig:
  - (a) am 30. Juni eines Jahres nach Ablauf der maßgeblichen Post-Transfer-Gewinnperiode oder, falls dies kein Geschäftstag ist, am darauf folgenden Geschäftstag;
  - (b) am Geschäftstag nach dem Tag der Feststellung des Jahresabschlusses der Bank für das Geschäftsjahr, auf das sich die maßgebliche Post-Transfer-Gewinnperiode bezieht.
3. **Kien Ausgleich bei verspäteter Zahlung:** Falls der Tag der Zahlung der Gewinnbeteiligung aufgrund § 4(2) verschoben wird, erfolgt auf den insoweit nicht gezahlten Betrag der Gewinnbeteiligung keine Zahlung von Zinsen und keine Zahlung von weiteren Beträgen an Gewinnbeteiligung.

## § 5

### Rangstellung des Beteiligungsvertrages

Die Zahlungsverpflichtungen der Bank aufgrund dieses Beteiligungsvertrages:

- (a) 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 Abs. 5 und Abs. 5a KWG);
- (b) 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;
- (c) sind vorrangig vor allen Forderungen von Anteilseignern der Bank;

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

financial statements have been adopted for the fiscal year of the Bank in which the Transfer occurs. The Aggregate Pre-Transfer Profit Participation will be payable on that date.

2. **Post-Transfer Profit Participations:** Post-Transfer Profit Participations will not be payable until the later of:
  - (a) 30 June in the year following the end of the relevant Post-Transfer Profit Period, or if that is not a Business Day, the next Business Day;
  - (b) 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 Post-Transfer Profit Period relates.
3. **No compensation for late payment:** No interest or profit participations will accrue or be payable on unpaid Profit Participations due to the postponement of the day of payment of a Profit Participation by virtue of §4(2).

## § 5

### Ranking of Participation Agreement

The Bank's obligations under the Participation Agreement:

- (a) 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 Section 10 para. 5 and para. 5a KWG);
- (b) 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 *Stille Gesellschaft* and other tier 1 capital instruments ranking pari passu with profit participations in the form of *Stille Gesellschaft*; and
- (c) rank senior to all claims of equity holders of the Bank;

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

## § 6

### Verlustbeteiligung, stille Reserven

1. 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 Abs. 5a KWG ist nicht am Jahresbilanzverlust beteiligt.

Somit nehmen alle stillen Gesellschafter, alle Inhaber von Genussrechten 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. Die Gesamtverlustbeteiligung des Stillen Gesellschafters am Jahresbilanzverlust insgesamt ist auf seine Vermögenseinlage beschränkt.
3. Wenn eine Herabsetzung erfolgt ist, wird die Stille Einlage in jedem der Herabsetzung nachfolgenden Geschäftsjahr der Bank bis zur vollständigen Höhe des Einlagennennbetrages wieder gutgeschrieben, dies jedoch nur dann, wenn 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 Abs. 4 (Vermögenseinlagen stiller Gesellschafter) und Abs. 5 KWG (Genussrechte) erfolgt die Rückführung gemäß diesem § 6 Abs. 3 in der gleichen Reihenfolge und im gleichen Verhältnis wie die Verlustbeteiligung.

4. Auf die vor oder während der Laufzeit der Stillen Gesellschaft gebildeten Stillen Reserven hat der Stille Gesellschafter kein Anrecht.
5. Die Bank ist nicht verpflichtet, zur Vermeidung eines Jahresbilanzverlustes stille Reserven aufzudecken.

## § 7

### Dauer der stillen Gesellschaft, Kündigung

1. **Unbestimmte Laufzeit:** Dieser Beteiligungsvertrag wird auf unbestimmte Zeit abgeschlossen.
2. **Kündigung durch den Stillen Gesellschafter:** Der Stille Gesellschafter kann diesen Beteiligungsvertrag nicht kündigen.
3. **Kündigung durch die Bank:** Die Bank kann diesen Beteiligungsvertrag gegenüber dem Stillen Gesellschafter mit einer Kündigungsfrist

## § 6

### Sharing of Losses, Hidden Reserves

1. 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 capital in accordance with Section 10 para. 5a KWG shall not share in an Annual Balance Sheet Loss.

Hence, all silent partners, all holders of profit participation rights 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 to the other stated own funds, respectively.

2. The Silent Partner's aggregate share in an Annual Balance Sheet Loss shall be limited to his asset contribution.
3. If a Reduction has occurred, the Silent Contribution shall, in each fiscal year of the Bank following such Reduction, be re-credited up to the full Nominal Contribution Amount, but only if and to the extent such re-crediting would not cause or increase an Annual Balance Sheet Loss.

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

4. 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. The Bank shall not be obliged to realise hidden reserves in order to avoid an Annual Balance Sheet Loss.

## § 7

### Duration of the Partnership, Termination

1. **Indefinite term:** This Participation Agreement shall remain in effect for an indefinite term.
2. **Termination by Silent Partner:** The Silent Partner may not terminate this Participation Agreement.
3. **Termination by the Bank:** The Bank may only terminate this Participation Agreement on 31 December of any year provided it gives the

von mindestens zwei Jahren zum 31. Dezember eines jeden Jahres kündigen, wobei eine Kündigung keinesfalls vor dem 31. Dezember 2013 wirksam wird. Die Bank kann 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 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 des BAKred zu Kündigungen:** Kündigungen dieses Beteiligungsvertrages werden erst wirksam, wenn das BAKred der Kündigung zugestimmt hat.
7. **Rückzahlungsbetrag und -tag:** Am Rückzahlungstag zahlt die Bank an den Stillen Gesellschafter den Rückzahlungsbetrag. Sollte die Kündigung dieses Vertrages an einem anderen Tag als einem 31. Dezember erfolgen, wird der Rückzahlungsbetrag vom Stillen Gesellschafter als Darlehen kreditiert und zahlt die Bank am Rückzahlungstag an den Stillen Gesellschafter zusätzlich und anteilig berechnet gemäß § 3(5) für den Zeitraum vom Beendigungstag (einschließlich) bis zum folgenden 31. Dezember (einschließlich) Zinsen in Höhe von entweder 7,4075% p.a. oder, falls der Beendigungstag nach dem 31. Dezember 2013 liegt, in Höhe des Beteiligungssatzes, und zwar entweder auf den Buchwert oder auf den Einlagennennbetrag, je nachdem, welcher Betrag niedriger ist. Auf den aufgrund dieses § 7(7) nicht gezahlten Rückzahlungsbetrag sowie die darauf auflaufenden Zinsen für den Zeitraum vom dem Beendigungstag folgenden 1. Januar (einschließlich) bis zum Rückzahlungstag (einschließlich) erfolgt keine Zahlung von Zinsen und keine Zahlung von weiteren Beträgen an Gewinnbeteiligung.
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

Silent Partner at least two years' prior notice thereof, however, in no case shall termination be effective earlier than 31 December 2013. The Bank may only terminate this Participation Agreement, if the solvency ratio sustainably exceeds 9%.

4. **Exceptional termination by the Bank for supervisory or tax reasons:** Notwithstanding § 7(3), if a change has occurred pursuant to § 12, the Bank may terminate this Participation Agreement at any time provided it gives the Silent Partner at least two years' prior notice thereof and provided further that no termination may occur prior to 31 December 2007.
5. **Notice in writing:** Any notice of termination hereunder must be in writing.
6. **BAKred approval of terminations:** Any notice of termination under this Participation Agreement shall become effective only upon the BAKred's prior approval thereof.
7. **Repayment Amount and Date:** On the Repayment Date, the Bank will pay to the Silent Partner the Repayment Amount. In addition, should termination of this Participation Agreement occur on any date other than 31 December, the Repayment Amount shall extend to the credit of the Silent Partner as a loan, and the Bank shall, on the Repayment Date, pay to the Silent Partner an interest payment in the amount of either 7.4075% per annum, or, if the Termination Date occurs after 31 December 2013, the Participation Rate, on the lower of the Book Value and the Nominal Contribution Amount, calculated on a pro-rata basis in accordance with § 3(5) for the period beginning on (and including) the Termination Date and ending on (and including) the following 31 December. No interest or profit participations will accrue or be payable on an unpaid Repayment Amount or interest accruing pursuant to this §7(7) for the period from (and including) 1 January following the Termination Date to (and including) the Repayment Date.
8. **No termination by virtue of certain events:** The silent partnership shall remain unaffected in the case of a merger, a (partial) transfer of assets, 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,

einschließlich der Inhaber von Genussrechten sowie der Gläubiger von nachrangigem Haftkapital gemäß § 10 Abs. 5a KWG, jedoch vor der Rückzahlung von Stammkapital zugunsten der Anteilseigner gezahlt.

10. **Ausschluss des Kündigungsrechts des Stillen Gesellschafters:** Falls der Ausschluss des Kündigungsrechts des Stillen Gesellschafters gemäß § 7(2) unwirksam sein sollte, ist die Kündigung dieses Beteiligungsvertrages durch den Stillen Gesellschafter und/oder die Rückzahlung der Stillen Einlage nur nach Zustimmung des BAKred zulässig, mit der Maßgabe, dass eine solche Kündigung nicht vor dem 31. Dezember 2032 wirksam wird.

#### **§ 8 Gesellschafterrechte**

1. 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. 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. Weitere Rechte stehen dem Stillen Gesellschafter nicht zu.

#### **§ 9 Hinweis gemäß § 10 Abs. 4 Satz 1 Ziffer 6 KWG**

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.

Ungeachtet anderweitiger Vereinbarungen sind Vorauszahlungen an die Bank zurückzuzahlen, es sei denn, (i) das Kapital wurde durch anderes mindestens gleichwertiges Eigenkapital ersetzt oder (ii) das BAKred stimmt der vorzeitigen Rückzahlung zu.

#### **§ 10 Begebung weiteren Haftkapitals**

Die Bank behält sich das Recht vor, Verträge über weitere stille Gesellschaften zu gleichen oder anderen Bedingungen, insbesondere mit einer anderen Gewinnbeteiligung, oder Verträge über Genussrechte oder nachrangiges Haftkapital gemäß § 10 Abs. 5a

including the holders of profit participation rights and creditors of subordinated capital in accordance with § 10 para. 5a KWG, but will be paid prior to payments towards repayment of share capital in favour of the shareholders.

10. **Exclusion of Silent Partner's Termination Right:** If the exclusion of the Silent Partner's termination right under § 7(2) should be invalid, the termination of this Agreement by the Silent Partner and/or the repayment of the Silent Contribution shall be permissible only upon BAKred's prior approval, provided, that no such termination shall become effective prior to 31 December 2032.

#### **§ 8 Partnership Rights**

1. 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. The Silent Partner shall, together with the annual financial statements, receive a statement of his profit/loss sharing position. Upon request of the Silent Partner, the Bank shall provide further information in this regard.
3. The Silent Partner shall have no further rights.

#### **§ 9 Notice in accordance with Section 10 para. 4 sentence 1 no. 6 KWG**

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.

Any prepayment must be repaid to the Bank notwithstanding agreements to the contrary, unless (i) the capital has been replaced by other own funds of at least equal quality or (ii) the BAKred agrees to the premature repayment.

#### **§ 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 or subordinated capital in accordance with § 10 para.

KWG abzuschließen. Forderungen künftiger stiller Gesellschafter dürfen den Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag nicht im Rang vorgehen.

## **§ 11**

### **Übertragungsrechte des Stillen Gesellschafters**

1. Mit Ausnahme der im nachstehenden Absatz enthaltenen Regelung bedarf die Abtretung oder anderweitige Verfügung (z. B. durch Verpfändung) über Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag der vorherigen Zustimmung der Bank.
2. Am Class B Transfer-Rückzahlungsdatum kann der Stille Gesellschafter ohne Zustimmung der Bank alle seine Forderungen und Verbindlichkeiten (allerdings nicht nur einzelne hiervon) an die Treuhänderin übertragen; dies jedoch mit der Maßgabe, dass diese Übertragung die Gesamt-Prä-Transfer-Gewinnbeteiligungen nicht einschließt, so dass nach der Übertragung alle Forderungen und Verbindlichkeiten (mit Ausnahme der Gesamt-Prä-Transfer-Gewinnbeteiligungen) auf die Treuhänderin, die auf treuhänderischer Basis für die Wertpapierinhaber handelt, übergehen. Dieser Beteiligungsvertrag wird von der Übertragung gemäß diesem § 11(2) nicht berührt. Insbesondere gewährt die vorgenannte Übertragung der Bank kein Recht zur Kündigung.
3. Der Stille Gesellschafter zeigt der Bank jede Übertragung gemäß diesem § 11 im voraus schriftlich an.

## **§ 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

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**

1. Except as set out in the following paragraph, transfers or any other disposals (e.g., pledge) of or over the claims of the Silent Partner under this Participation Agreement require the Bank's prior approval.
2. On a Class B Transfer Redemption Date, the Silent Partner may, without the Bank's approval, transfer all its claims and obligations (but not some only) to the Fiduciary; provided, that such transfer shall not include the Aggregate Pre-Transfer Profit Participation so that after such transfer all claims and obligations (but for the Aggregate Pre-Transfer Profit Participation) shall inure to the Fiduciary acting on a fiduciary basis for the Securityholders. This Participation Agreement shall remain unaffected by any such transfer in accordance with this § 11(2). In particular, any such transfer shall not give rise to a right of termination for the Bank.
3. The Silent Partner will notify the Bank in writing in advance of any transfer in accordance with this § 11.

## **§ 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 the 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

aufgelegt oder erhoben werden, es sei denn, die Einbehaltung oder der Abzug sind gesetzlich vorgeschrieben. In diesem Fall leistet die Bank solche zusätzlichen Zahlungen (die **Zusätzlichen Zahlungen**), die erforderlich sind, um sicherzustellen, dass die dem Stillen Gesellschafter zugehenden Nettobeträge nach Einbehaltung bzw. Abzug den Beträgen entsprechen, auf die er ohne die vorstehende Einbehaltung oder den vorstehenden Abzug Anspruch gehabt hätte; dies jedoch mit der Maßgabe, dass keine Zusätzlichen Zahlungen im Hinblick auf Steuern oder Abgaben anfallen, sofern:

- (i) diese, soweit sie von der Bank geleistet werden, nicht gezahlt werden könnten, ohne zu einem Jahresbilanzverlust oder dessen Erhöhung für das entsprechende Geschäftsjahr der Bank zu führen;
- (ii) diese auf Grund einer Gesetzesänderung anfallen, die mehr als 30 Tage nach Fälligkeit oder einer ordnungsgemäßen Bereitstellung der entsprechenden Zahlung in Kraft tritt; oder
- (iii) der wirtschaftlich Begünstigte dieser Zusätzlichen Zahlungen (A) (bei Zusätzlichen Zahlungen bis zum Transfer-Tag einschließlich) deutscher Steuerinländer ist, oder (B) auf seine Ansprüche gemäß diesem § 13 verzichtet.

#### § 14

##### **Geltendes Recht, Erfüllungsort und Gerichtsstand**

Das Gesellschaftsverhältnis und alle sich aus diesem Beteiligungsvertrag ergebenden Rechte und Pflichten unterliegen ausschließlich dem Recht der Bundesrepublik Deutschland.

Erfüllungsort und Gerichtsstand ist Kiel.

#### § 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.

power to tax unless such withholding or deduction is required by law. In such event, the Bank will pay such additional amounts (the **Additional Amounts**) as shall be necessary in order that the net amounts received by the Silent Partner, after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in the absence of such withholding or deduction; provided, that no such Additional Amounts shall be payable on account of any taxes or duties:

- (i) if and to the extent paid by the Bank, such payment could not be made without leading to or increasing an Annual Balance Sheet Loss for the relevant fiscal year of the Bank;
- (ii) are payable by reason of a change in law that becomes effective more than 30 days after the relevant payment becomes due, or is duly provided for; or
- (iii) if the economic beneficiary of such Additional Amounts (A) is (regarding Additional Amounts up to and including the Transfer Date) a German tax resident, or (B) waives his rights under this § 13.

#### § 14

##### **Governing Law, Place of Performance, Jurisdiction**

The partnership relationship and all rights and obligations arising out of or under this Participation Agreement shall be exclusively governed by the laws of the Federal Republic of Germany.

Place of performance and of jurisdiction shall be Kiel.

#### § 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.

## DESCRIPTION OF THE COMPANY SECURITIES

### **Debt Securities**

The Company has not issued any debt securities.

### **Authorised and Issued Share Capital**

The Company's authorised share capital comprises 10 ordinary shares of €1,000 each, 1,406,000 Class A Preference Shares of €1,000 each and 500,000 Class B Preference Shares of €1,000 each, of which 10 ordinary shares have been issued as at the date of this Offering Circular.

### **Ordinary Shares**

The Company has an issued ordinary share capital of €10,000 divided into 10 ordinary shares of €1,000 each, all of which are held on the date of the Offering Circular by Landesbank Schleswig-Holstein. The ordinary shares rank junior to the Class A Securities and the Class B Securities.

### **Class A Securities**

The Company has or will, on or about the Issue Date, have issued 698,000 Class A Securities all of which will be held by Landesbank Schleswig-Holstein Girozentrale.

The Class A Securities will be redeemed on the day on which the Loan must be repaid pursuant to the Loan Agreement.

### **Class B Securities**

The Company shall issue to the Fiduciary, on or about the Issue Date, 500,000 Class B Securities. (see "Terms and Conditions of the Class B Securities").

## DESCRIPTION OF THE UNDERTAKING AGREEMENT

The Bank has entered into an agreement with the Fiduciary under which it undertakes to the Fiduciary to ensure that the Company will at all times be in a position to meet its dividend obligations under the Class B Terms.

The Bank further undertakes to procure that dividends on the Class B Securities are declared and paid as contemplated in the Company's articles of association and to make every reasonable effort to be in a position to adopt the annual financial statements for any given year by no later than 25 June of the following year.

If the SPARC Securities are redeemed prior to 30 June 2014 the Bank will be obliged, under the Undertaking Agreement, to pay to the Fiduciary for on-payment to the Securityholders, the Make Whole Amount (as defined in § 1(8) of the Terms & Conditions of the SPARC Securities.)

The Bank has undertaken to use its best endeavours to ensure that a Transfer does not occur at any time between 1 January and the later of 30 June and the business day following the date on which the Bank's annual financial statements have been adopted for the fiscal year of the Bank preceding such period of any year.

The Bank has undertaken, as soon as it has established the same for any fiscal year during the lifetime of the Undertaking Agreement, to furnish the Issuer, for communication to the holders of the SPARC Securities, the Bank's solvency ratio on a solo and consolidated basis, which the Bank also undertakes to include in its annual report relating to such fiscal year.

The Undertaking Agreement provides that the Bank's obligations thereunder:

- (a) 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 Section 10 para. 5 and para. 5a KWG);
- (b) 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 *Stille Gesellschaft*; and other tier 1 capital instruments ranking *pari passu* with profit participations in the form of *Stille Gesellschaft*; and
- (c) rank senior to all claims of equity holders of the Bank;

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



## DESCRIPTION OF THE LOAN FINANCING

The Company will, on 19 February 2002, enter into a term loan agreement (the “**Loan Agreement**”) with the Bank under which the Company has made a €698,000,000 term loan facility in the form of a German law governed *Schuldscheindarlehen* (the “**Loan**”) available to the Bank.

The purpose of the Loan is to enable the Company to meet its dividend obligations in relation to the Class B Securities if and when they arise under the Class B Terms. The Loan will mature on 30 June 2014.

The Loan Agreement provides for a make whole clause containing terms similar to those prevailing for the Make Whole Amount (as defined in § 1(8) of the “Terms & Conditions of the SPARC Securities”).

## LB KIEL FUNDING I

### General

The Company was registered and incorporated on 28 January 2002 in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands under the name LB Kiel Funding I and registration number 115476. The registered office of the Company is at PO Box 309, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Company has no prior operating history.

### Capitalisation at date of this Offering Circular

The authorised share capital of the Company as at the date of this Offering Circular is €10,000 principal amount of ordinary shares divided into 10 ordinary shares of €1,000 each, €1,406,000,000 principal amount of Class A Securities divided into 1,406,000 Class A Securities of €1,000 each and €500,000,000 principal amount of Class B Securities divided into 500,000 Class B Securities of €1,000 each.

All authorised ordinary shares of the Company have been issued and fully paid up and are registered in the name of Landesbank Schleswig-Holstein Girozentrale. No other authorised capital has been issued or allotted.

The Company has no loan capital outstanding and has no term loans or other borrowings or indebtedness in the nature of borrowings nor any contingent liabilities or guarantees.

### Capitalisation at Issue Date

On the Issue Date the authorised share capital of the Company will remain unchanged from the date hereof but the issued share capital of the Company will be €10,000 principal amount of ordinary shares divided into 10 ordinary shares of €1,000 each, €698,000,000 principal amount of Class A Securities divided into 698,000 Class A Securities of €1,000 each and €500,000,000 Class B Securities divided into 500,000 Class B Securities of €1,000 each. The Company would have a total issued share capital of €1,198,010,000.

### Business

The objects of the Company are limited by the Memorandum of Association of the Company to entering into the Transaction Documents and exercising its rights and performing its obligations in connection therewith. The Company's articles of association restrict the Company from borrowing moneys outside borrowing required under the Transaction Documents.

Since the date of its incorporation the Company has not engaged in any business other than the transaction described in this Offering Circular. No dividends have been paid and no borrowings or indebtedness in the nature of borrowings, other than the Company's costs and expenses of incorporation, has been incurred by the Company and the Company has no employees. The Company has no subsidiaries.

The only assets of the Company available to meet the claims of the holder of the Class B Securities are the amounts due to the Company under the Participation (other than profit participations accrued up to (and including) the fiscal year of the Bank prior to the fiscal year in which the Transfer occurs) and the interest payments under the Loan.

The Class B Securities are the obligations of the Company alone and not of the directors or shareholders of the Company.

### Directors

The directors of the Company as at the date of the Offering Circular are as follows:

Name	Occupation
Dr Reinhard Sievers	Attorney-at-law, Officer of the Bank
Martin Halblaub	Bank director, Officer of the Bank
Phillip Hinds	Senior vice president of QSPV Limited
Hugh Thompson	Senior vice president of QSPV Limited
Stephen O'Donnell	Assistant vice president of QSPV Limited

Each of the directors of the Company is entitled to be reimbursed for costs and expenses properly and reasonably incurred in connection with his duties.

### **Liquidation**

The Company may be liquidated either (i) at the option of the voting shareholders of the Company by the passing of a special resolution, which requires not less than two thirds of the voting shares (the Class B Securities are not voting shares) to vote in favour of the resolutions or (ii) on the presentation of a petition to the court for winding up made by creditors or contributories of the Company. The court can wind up a company if it can be shown that either the Company's business has been suspended for one year or the Company is unable to pay its debts. In addition the court has power to wind up a company if it is of the opinion that it is just and equitable to do so.

### **Financial year and financial statements**

Since the date of incorporation no financial statements of the Company have been prepared. The financial statements of the Company will be produced on an annual basis and will not be audited. The Company will not produce any interim accounts. The Company's financial year is from 30 June to 29 June of each year.

## **USE OF PROCEEDS**

The net proceeds from the issue of the SPARC Securities are estimated to amount to €500,000,000 and will be used by the Fiduciary to purchase the Class B Securities from LB Kiel Funding I.

LB Kiel Funding I will use the proceeds from the sale of the Class B Securities to acquire a silent capital interest in the commercial enterprise of the Bank pursuant to an agreement providing for an asset contribution by LB Kiel Funding I to the Bank.

## THE FIDUCIARY AND THE FIDUCIARY CONTRACT

The Fiduciary is Banque de Luxembourg, a bank incorporated as a société anonyme under the laws of Luxembourg.

The sole purpose of the issue of the SPARC Securities is to provide the funds to the Fiduciary for the purchase of the Class B Securities. Prior to Transfer, the SPARC Securities will represent pro rata interests of the Securityholders in the Class B Securities. In lieu of payment upon redemption of the Class B Securities the Company will (if the Silent Contribution has not been repaid) transfer its rights and obligations under the Participation to the Fiduciary. After Transfer the SPARC Securities will represent pro rata interests of the Securityholders in the Participation.

Dividend amounts payable under the Class B Securities will be no greater than the profit participations accrued under the Participation. If redemption of the Class B Securities occurs without Transfer, principal amounts payable under the Class B Securities will be no greater than the amount of Silent Contribution which is repayable under the Participation. If redemption of the Class B Securities occurs by way of Transfer, no principal amounts will be payable under the Class B Securities other than by way of a transfer of rights under the Participation (but excluding any profit participations accrued on the Silent Contribution up to (and including) the fiscal year of the Bank prior to the fiscal year in which the Transfer occurs).

Profit participations payable under the Participations will not accrue if, for the relevant fiscal year of the Bank, a loss occurred or there is insufficient profit. The Silent Contribution will be reduced if the Bank incurs a loss in any fiscal year and a portion of that loss is allocated to the Participations. In a year following an allocation of a loss to the Silent Contribution, the Silent Contribution can be reinstated to the extent that profits are made by the Bank and are allocated to the Participations.

The sole obligation of the Fiduciary will be to account to the Securityholders for such payments by the Company made in relation to the Class B Securities (prior to any Transfer) and by the Bank made in relation to the Participation (after any Transfer) when, as and if actually received by or for the account of the Fiduciary pursuant to the Class B Securities and the Participation Agreements, respectively.

Pursuant to the Fiduciary Contract, the SPARC Securities do not constitute direct debt obligations of the Fiduciary but instead evidence the existence of the Fiduciary Contract pursuant to which the Securityholders shall be deemed to have acknowledged and agreed (by the acceptance of the SPARC Securities) that the Fiduciary's payment obligation under the SPARC Securities are conditional upon the due performance by the Bank of its obligations under the Participation Agreements, the Undertaking Agreements and the Company's performance of its obligation under the Class B Securities. Thus, in the event that the Bank or the Company do not make their respective payments required to be made by them under the Participation Agreement, the Undertaking Agreements and the Class B Securities, respectively, or fail to make the full amount of such required payments, respectively, the Fiduciary shall not be obliged to make up for such shortfall from its funds, and in no event shall the Fiduciary be liable to make any payment in respect of the SPARC Securities other than expressly provided in the Terms and Conditions of the SPARC Securities.

The rights of the Fiduciary (prior to a Transfer) under the Class B Securities and (after a Transfer) under the Participation Agreement of Fiduciary assets of the Fiduciary will be held solely for the account of the Securityholders. No commission or other remuneration will be due from the Securityholders to the Fiduciary for the performance of services in respect of the SPARC Securities, except for certain rights of indemnification as described in the SPARC Terms.

The Fiduciary makes no representation or warranty and assumes no responsibility for the legality, validity or enforceability of the Class B Securities, the Undertaking Agreement or the Participation.

## CAPITALISATION OF THE BANK AND THE LB KIEL GROUP

The following table sets out the capitalisation of the Bank and the Group Companies as at the dates specified.

	As at 30 June 2001	As at year end 31 December	
	(unaudited)	2000	1999
		(audited)	
		€ million	
1. <i>Liable capital of the Bank according to § 10 of the German Banking Act</i>			
Subscribed capital (including dormant equity contributions) . . . . .	1,334.0	1,009.0	340.5
Capital reserves . . . . .	925.3	925.3	909.7
Reserves from retained earnings . . . . .	412.2	412.2	393.1
Fund for general bank risks . . . . .	65.0	65.0	40.0
Intangible fixed assets.. . . . .	-16.0	-16.0	-18.9
Core capital . . . . .	2,720.5	2,395.5	1,664.4
Supplementary capital . . . . .	1,834.7	1,594.4	1,433.6
Equity Investments acc. to § 10 section 6a clause 1 No. 4a of the German Banking Act . . . . .	-1.3	-2.1	-2.0
Tier 3 capital . . . . .	–	–	7.2
<i>Total liable capital – Bank</i> . . . . .	4,553.9	3,987.8	3,103.2
2. <i>Liable capital of the Group Companies according to § 10a of the German Banking Act</i>			
Core capital . . . . .	1,299.6	1,303.5	1,273.1
Supplementary capital . . . . .	1,218.4	1,169.1	928.9
Deduction from equity . . . . .	-15.6	-15.8	-15.7
<i>Total liable capital – Group companies</i> . . . . .	2,502.4	2,456.8	2,186.3
Tier 3 capital not counting towards the capital base . . . . .	–	–	-7.2
<i>Total liable capital – Group</i> . . . . .	7,056.3	6,444.6	5,282.3

Save as disclosed above, there has been no material change in the capitalisation of the Bank and the Group Companies since 31 December 2000.

## DISTRIBUTABLE PROFITS OF THE BANK

The Company's ability to declare dividends on the Class B Securities for any Payment Period depends, 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 (*Jahresueberschuss/-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.

The following table sets forth, as at 31 December 1998, 1999 and 2000, the items derived from the Bank's audited unconsolidated balance sheet that affect the calculation of the Bank's Distributable Profits:

<i>in € 000's</i>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Annual profits after allocations to retained earnings . . . . .	29,980	25,397	43,063
Other profit reserve . . . . .	65,000	40,000	–
Capital reserve available to offset loss . . . . .	78,539	36,705	63,138

The Bank paid total dividends on its ordinary shares of €15.39 million, €15.39 million and €15.39 million in respect of 1998, 1999 and 2000 respectively.

## THE BANK AND THE LB KIEL GROUP

### History and Ownership

The Bank is an institution under German public law and was established on 1 April 1917. The Bank's capital stock is held by the State of Schleswig-Holstein (25.05%), the Savings Bank and Giro Association for Schleswig-Holstein (25.05%), Westdeutsche Landesbank Girozentrale ("WestLB") (39.9%) and Landesbank Baden-Württemberg ("LBBW") (10%) (together the "Owners").

### Introduction to the Bank

The Bank has three functions. Firstly it is a universal bank which offers the full range of traditional and innovative financial products and is positioned as the "Bank of the North" focusing on its core markets of northern Germany and the Baltic Sea region.

Secondly, the Bank is the central clearing institution for the savings banks of Schleswig-Holstein to which it provides supplementary group services and with which it cooperates in the building society market through Landes-Bausparkasse ("LBS"). Although LBS is considered to be part of the Bank it operates on an arm lengths basis, being economically and organisationally independent, producing its own accounts.

Thirdly, it is a state and local government bank, granting loans to public bodies and to the state of Schleswig-Holstein and issuing and placing bonds. Through Investitionsbank Schleswig-Holstein ("IB"), it supports the federal state in its economic and structural tasks. IB, like LBS, is considered to be part of the Bank but operates on an arm lengths basis, being economically and organisationally independent, producing its own accounts.

Consolidated total assets of €128 billion in 2000 (€115 billion in 1999) make the Bank and its consolidated subsidiaries (together the "Group") one of the 15 largest German banking groups. Approximately one-third of the Group's total business volume is non-German.

### The Bank's guarantee and support mechanism

Under the Savings Bank Act of Schleswig-Holstein, the Owners have a support responsibility (an *Anstaltslast*) for the obligations of the Bank and guarantee (*Gewährträgerhaftung*) the Bank's obligations.

The *Anstaltslast* requires the Owners to ensure that the Bank is in a position to perform its functions and can perform its obligations when due. Although the *Anstaltslast* is not a guarantee of the Bank's obligations by the Owners and does not give the Bank's creditors a direct claim against the Owners, the commercial effect is that the Bank's obligations are backed by the credit of the Owners.

The *Gewährträgerhaftung* makes the Owners jointly and severally liable as guarantors for the Bank's obligations. The *Gewährträgerhaftung* as unlimited guarantee gives the creditor a claim against the Owners, which is payable on first demand if the creditor should be unable to satisfy itself out of assets of the Bank.

For more information about *Anstaltslast* and *Gewährträgerhaftung* see "Recent Developments".

### Main equity holdings

Entity	Percent ownership
Hamburgische Landesbank	49.5
Landesbank Schleswig-Holstein International S.A., Luxembourg	100
Gudme Raaschou Bankaktieselskap, Copenhagen	100
PCA Corporate Finance OY, Helsinki (held by Gudme Raaschou)	51

Hamburgische Landesbank ("LB Hamburg") is the same kind of legal entity as the Bank, namely an institution under German public law. LB Hamburg is the eighth largest of the 12 German Landesbanks and is the main banker to the City of Hamburg, its largest owner. LB Hamburg is a wholesale bank with an increasing focus on core businesses, such as ship finance, real estate lending and a growing credit investment portfolio. As an owner of LB Hamburg, the Bank is liable for the obligations of LB Hamburg under the principals of *Anstaltslast* and *Gewährträgerhaftung*. The Bank closely co-operates with LB Hamburg regarding syndicated loans, risk management, IT, payment systems and eBanking services. Should the City of Hamburg wish to sell all or part of its remaining stake in LB Hamburg, it would be legally obligated to offer it to the Bank, which would in turn be obliged to purchase the shares, subject to certain predefined conditions.



Landesbank Schleswig-Holstein International S.A. (“**LB Luxembourg**”) is a bank incorporated in Luxembourg which focuses on euro loans and money market, foreign exchange and securities trading and which has a private client business. In 2000 LB Luxembourg acquired an 80% stake in NOBIS Société des Banques Privées Luxembourg, which focuses on private client business. With the acquisition, the Group has expanded its range of investment fund services in Luxembourg and LB Luxembourg intends to expand its customer base and to realise operating synergies following the acquisition.

As at 31 December 2000 LB Luxembourg’s total assets of €7.7 billion were lower in value than at the same time in 1999 (€8.2 billion), however net profit after taxes increased by 75% from €20 million to €35 million.

Gudme Raaschou Bankaktieselskap (“**Gudme**”) is a Danish investment bank based in Copenhagen, active in equities (trading, sales and research) asset management and mergers and acquisitions.

PCA Corporate Finance OY (“**PCA**”) is a Finnish financial services provider based in Helsinki, which is 51% owned by Gudme. It focuses on mergers and acquisitions, procuring equity capital for companies through private placements and providing consulting services on debt finance and project finance.

### Group’s assets

As of 31 December 2000 the Group’s consolidated assets were as follows:

Entity	<u>Total assets</u> <i>in € billions</i>	<u>Total assets</u> <i>in € billions</i>
Group .....		128.1
<i>consisting of:</i>		
Bank .....		82.1
<i>of which</i> Investitionsbank Schleswig-Holstein .....	5.7	
<i>of which</i> Landes-Bausparkasse .....	1.5	
Landesbank Schleswig-Holstein International S.A. ....		7.8
Hamburgische Landesbank .....		42.4

### Group segment report

The following Group results for 2000 are based on audited and unaudited data. Income and expenses are allocated according to the principle of causation. Risk provisions are based on standard risk costs. For those divisions and subsidiaries of the Bank which prepare a separate income statement (namely IB, LBS and LB Hamburg), risk provisions correspond to those shown in the income statement.

€ million	Lending and services <sup>1</sup>	Structured and project finance <sup>2</sup>	Trading <sup>3</sup>	IB <sup>4</sup>	LBS <sup>5</sup>	LB Hamburg <sup>6</sup>	Other <sup>7</sup>	Total
Total income .....	280.3	57.3	52.8	49.7	40.2	346.2	78.6	905.1
Administrative expenses ..	77.4	9.3	29.1	38.5	29.9	135.7	105.4	425.3
Risk provisions .....	49.5	12.2	0.0	5.3	1.1	71.4	31.5	170.9
Operating profit after risk provisions .....	153.4	35.8	23.7	5.9	9.2	139.1	(58.2)	308.9

### Business of the Bank

The Bank’s strategy is both geographically focused and product/sector based.

### Geographic Focus - The Bank for the North

The Bank’s geographic focus is on Northern Germany and the Baltic Sea region and it is the market leader in Schleswig-Holstein.

- 
- 1 transactions by the Bank with German domestic corporate and real estate clients, savings banks, private clients as well as banks and foreign clients (including the client business of Luxembourg and Copenhagen branches and Luxembourg subsidiary).
  - 2 leasing, project, aircraft and ship finance, asset backed securities as well as international real estate finance
  - 3 money, foreign exchange and securities trading and services incl. the activities of the Bank’s foreign subsidiaries and branches as well as trade processing
  - 4 this segment presents the result of the IB
  - 5 this segment presents the result of the LBS
  - 6 this segment presents the result of the 49.5% share in LB Hamburg
  - 7 results predominantly from central treasury activities and consolidation effects

### *Schleswig-Holstein*

Schleswig-Holstein is the home of the Bank and its clients in that market include corporates, savings banks, real estate and private banking clients, and state and municipal government and authorities.

A large proportion of the Bank's German corporate loan portfolio consists of small and medium-sized companies in Schleswig-Holstein. As at 31 December 2000, companies in Schleswig-Holstein accounted for roughly two-thirds of the Bank's €4.6 billion loan portfolio to German corporate clients.

The Bank acts as a central clearing bank in Schleswig-Holstein, providing refinancing and liquidity to local savings banks, offering them a broad range of investment vehicles from short-term time deposits to portfolio management and supporting them with innovative financial products and services such as asset/liability management and balance sheet structuring advice.

As at 31 December 2000 the Bank's loan portfolio to Schleswig-Holstein savings banks amounted to €9.4 billion and to Schleswig-Holstein state and municipal government and authorities €10.6 billion.

### *Hamburg*

The Bank has a 49.5% shareholding in LB Hamburg with which it co-operates for a better coverage of the Schleswig-Holstein and Hamburg region.

### *Baltic Sea Region*

In the Baltic Sea region, the Bank is one of the leading foreign banks with branches in Copenhagen and Helsinki and representative offices in Stockholm, Oslo and Tallinn. The Bank's key business areas are syndicated lending, increasingly as an arranger, real estate finance and structured finance. Business with small and medium-sized local financial institutions is growing in importance.

The Bank has built up a considerable loan portfolio to corporate, institutional and public clients in Latvia, Lithuania and Estonia. The Bank's business in those countries is conducted through its representative office in Tallinn and through PCA but is supervised by the Bank's head office.

The Bank's activities in the remaining Baltic Sea Region are supervised by the Bank's Copenhagen branch ("LBC"). In Denmark, LBC is of growing importance. In 2000 it was amongst the biggest arrangers of syndicated loans in Denmark. It is the only foreign bank appointed by the Danish Central Bank and Banking Association to provide CIBOR rates (Copenhagen Interbank Offered Rate). In 2000, LBC's total business volume increased to €8.9 billion.

To widen the Group's product range the Bank has investment banking subsidiaries in Denmark (100% of the shares in Gudme) and Finland (51% of the shares in PCA, which are held by Gudme).

### *Other countries and regions*

For many years the Bank has been an active lender to corporate clients, financial institutions and local authorities in a wide variety of countries outside its core regions. At the end of 2000 the total loan portfolio, excluding the Bank's core regions of Germany and the Baltic Sea, reached €6.4 billion.

The Bank intends to open a branch in New York in 2002 to expand its US Dollar funding base subsequently to its growing international business and to further develop existing US activities as a special finance provider.

The following is a table illustrating the geographical diversification of the Group's foreign loan portfolio, excluding LB Hamburg, as at 31 December 2000.

<b>Region</b>	<b>€ millions</b>
Scandinavia incl. Finland . . . . .	6,158.3
EMU-members excluding Finland . . . . .	2,524.5
EU countries excluding EMU-members and excluding Scandinavia . . . . .	2,288.0
Other industrialised countries . . . . .	4,789.6
Central and Eastern Europe . . . . .	806.9
Offshore Banking Centers . . . . .	792.4
Asia . . . . .	507.5
Latin America . . . . .	445.5
Africa . . . . .	160.5
International Agencies . . . . .	32.3

## Product/sector focus

As at 31 December 2000 the Bank had a loan portfolio of €15.5 billion in ship, transport and real estate financings, fields in which the Bank has advanced expertise.

### *Ship finance*

The Bank has a high-quality portfolio of ship loans focusing on clients with long-term shipping needs and strong cash flow. The ship loan portfolio amounted to €3.6 billion in 2000 (€2.7 billion in 1999), making the Bank one of the leading international providers of ship finance. The portfolio is well diversified both geographically and in terms of ship type. Geographically the focus is on the Scandinavian, Greek, North American and Far Eastern markets with a relatively smaller emphasis on the German market.

### *Transport finance*

The Bank's loan portfolio consists of financing aircraft, railways, logistics and other transportation and leasing refinancing. Its transport loan portfolio is geographically diversified and as at 31 December 2000 amounted to €4.1 billion (€4.0 billion in 1999).

### *Real Estate Finance*

In recent years the Bank has diversified its real estate finance portfolio geographically with the intention of reducing its exposure to the real estate business cycle in Germany. As at 31 December 2000 the Bank's real estate portfolio amounted to €7.8 billion (€6.6 billion in 1999), €5.1 billion of which was residential and €2.7 billion commercial.

### *Lending by customer type*

As at 31 December 2000, the Bank's lending by customer type was as set out in the table below.

Lending type	Amount	Percentage
	€ billions	
Public sector lending . . . . .	11.7	31.0
Mortgage lending . . . . .	7.9	20.9
Ship lending secured by ship mortgages . . . . .	3.0	7.9
Other customer lending . . . . .	15.2	40.2
Total . . . . .	37.8	100

## Investment banking activities

The Bank is able to optimise the risk and return structure of its loan portfolio by means of structured finance techniques such as asset backed securities and credit derivatives. It also uses those techniques to provide structured finance solutions for its corporate and savings bank clients.

International capital markets are increasingly used to fund the Bank's activities, primarily through its US\$20 billion Global Medium Term Note Programme and its US\$5 billion US Commercial Paper Program.

The Bank's investment banking division underwrites its client's capital market issues and manages the Bank's own investments. The Bank's capital markets unit also focuses on money market and foreign exchange trading, bond trading and sales, derivatives trading as well as equity business.

## General lending policy

The Bank traditionally follows a cautious lending policy. It rigorously assesses credit limits and client exposures, taking into account not only the Bank's internal rating of the client but also the industry sector and country risk. Exposures are considered on both an individual and portfolio basis. Following review by the Bank's credit committee, new lending may have to be approved by at least one board director, depending on the borrower, amount and security. To achieve its target rates of return the Bank has been using RAROC targets (Risk Adjusted Return On Capital) since 1999 as a key control tool for allocating equity resources in the individual business segments. The RAROC tools have been modified to accommodate Basle II. The Bank monitors country risks using a system of internal ratings, country and total foreign exposure limits.

LB Hamburg maintains its own credit appraisal system although the Bank monitors the consistency of LB Hamburg's and the Group's credit policies.

## **Loan loss experience and reserves**

The Bank strives to identify potential problem loans at an early stage and charges specific provisions as soon as the borrower's financial situation suggests that full repayment cannot be expected and collateral is insufficient. General reserves are established for potential unsecured risks based on past write-off experience.

In 2000 the Group's (excluding LB Hamburg) total loan loss reserves were equivalent to 1.7% of the Group's (excluding LB Hamburg) lending and other financial commitments (excluding public sector) with write-offs equivalent to 0.19% of total lending (excluding public sector).

As at 31 December 2000 the Group's (excluding LB Hamburg) only significant emerging markets exposures subject to reserves were Russia and Indonesia. The Group's (excluding LB Hamburg) Russian exposure was significantly reduced following a substantial write-off and sale of part of the remaining debt. As at 31 December 2000 the Group (excluding LB Hamburg) has loan loss reserves for Russian and Indonesian loans equivalent to, respectively, 32% and 51.2% of the par value of those loans.

## **Risk Management**

Since the ratio of rate of return to counterparty risk, market price risk and operational risk is a key factor for the Bank, active risk management is an integral part of the Group's business management. The Group therefore attaches great importance to the continuous development of the risk measurement and risk management structures and methodologies used throughout the Group.

The Bank has a comprehensive set of risk management tools, most of which are managed and developed on an on-going basis by the Bank in accordance with economic and supervisory requirements. The Bank has, for example, developed a differentiated RAROC approach for different business sectors.

The Bank has a conservative risk strategy, attaching particular importance to a well diversified portfolio which avoids high exposure to any particular counterparty or to counterparties with similar risk factors. The Bank closely manages liquidity risk and market price risk.

### *Counterparty Risks*

The Bank uses a limit system for monitoring counterparty and issuer risks which is used alongside a limit system for monitoring country risk. Limits for counterparty default risks have been fixed in line with the Bank's risk cover potential and future profitability. Limits for country and region risk are based on the Group's limit for country risks.

The Bank monitors country risk using that country's credit rating.

The Bank measures and manages counterparty default risks with a ratings-based method which includes internal rating procedures and market-related historic default probabilities. These factors are linked with accounting data in order to enable segment analyses according to different criteria such as sector, country of incorporation, credit rating category or organisational units.

To monitor and manage the risk which may result from the impairment of equity due to equity investments (investment risk), the Bank has initiated the development of an investment monitoring process. The focus is on so-called due diligence reviews which must be undertaken before an equity investment is made. Corresponding contractual arrangements and business management systems ensure that the business development can be monitored and influenced.

Compliance with limits is monitored on an ongoing basis by the Bank. Large-scale risks are monitored and managed across the Group on a daily basis based on counterparty limits and utilisation. The results of risk analyses of the Bank's counterparties are reported monthly to the Bank's managing board and quarterly to the Bank's risk committee.

The Bank uses a uniform limit system for monitoring the counterparty and issuer risks of the trading units. The risks resulting from transactions are assessed according to the market valuation method. To hedge these risks, the Bank has concluded netting agreements with a number of major counterparties. The systematic integration of liquidity netting in the Bank's reporting process took place on 1 January 2001.

The risk measurement method is reviewed constantly and, on the basis of the Bank's default history, the Bank considers that it has been working well. The results of the Bank's risk measurement method and its cautious risk policy is reflected in the Bank's (excluding IB and LBS) total volume of specific bad debt charges of €227 million in 2000 (€220 million in 1999). Percentage wise against credit volume those bad debt charges were 0.27% in 2000 and 0.30% in 1999. The Bank's general bad debt charges for 2000 amounted to €19 million (€17 million in 1999).

In 2001 the Bank started a project to comply with all Basel II requirements. The Bank's intention is to calculate the capital requirement by an IRB-approach, at the minimum the foundation approach.

#### *Market Price Risks*

The Bank has adopted the value-at-risk (VaR) approach to measure and control market price risks. VaR projects the maximum potential change in value of a portfolio of financial instruments which may arise due to fluctuations of the evaluation parameters based on a confidence level of 95% and a holding period of one day. Historical interest rates, exchange rates and equity prices over the past 201 trading days are used for these projections. The risks are measured against predefined loss limits and reported to the Bank's managing board and the responsible trading units on a daily basis. New products are included in risk measurement.

The Bank uses a cash value-oriented procedure to record and control interest rate risks. An important element of this procedure is the determination of an accumulated cash value, which is calculated on the basis of the net cash flows generated by the interest-bearing assets and liabilities including derivatives for transactions subject to interest risks.

In addition to interest rate risks, currency risks and price risks for equities and investment certificates of the liquidity reserve are also included in global risk management on a VaR basis. In order to limit the global market price risk, the Bank's managing board has defined a risk limit for the Bank which in 2000 was used only moderately and was not exceeded at any time. The Bank has an early warning system which triggers corrective action when risk levels approach the limit.

Central Risk Controlling measures and monitors risks and limits independently of the market departments.

#### *Liquidity Risks*

The Bank's disposition committee is responsible for defining the conditions and strategies for planning and controlling liquidity and takes the measures required for implementation, especially the covering of financing requirements. Day-to-day cash management and compliance with minimum reserve requirements are the responsibility of the Bank's money market and foreign exchange trading divisions.

Compliance with supervisory regulations is monitored by the Bank's asset liability management department. Since July 1, 2000, the Bank calculates the liquidity ratio according to the new Principle II of the Federal Banking Supervisory Office. As at December 31, 2000, the ratio was 1.15, i.e. above the required minimum value of 1.0.

#### *Operational Risks*

The Bank has taken a large number of measures to identify and limit technical and organisational risks. In order to meet the requirements of § 25a of the German Banking Law and the Act on Corporate Control and Transparency, the Bank launched a project to analyse and prioritise risks of all risk categories and to take and monitor ongoing preventive measures.

In information technology, the Bank has defined procedures for updating and expanding its contingency plans.

### **Capital structure**

The Group's capital structure consists of its own capital funds, perpetual silent participations (core capital), subordinated liabilities and profit participation capital (supplementary capital). As at 31 December 2000, the Group's liable capital amounted to €6.3 billion (excluding allocations to reserves) representing an increase of €1.1 billion on the previous year (which was €5.2 billion including allocations to reserves). Of that €1.1 billion increase, €668.5 million was perpetual silent participations qualifying as core capital and the rest was attributable to the assumption of subordinated liabilities as well as an increase in profit participation capital.

As at 31 December 2000, the ratio between own funds qualifying as core capital and risk-weighted assets as well as market price risk positions (solvency ratio) were unchanged at 10.2% for the Group and 10.5% for the Bank.

In the first half of 2001 the Bank raised a further €325 million through undated silent participations (mainly injected by the State of Schleswig-Holstein). As a result, the Group's capital ratios have been maintained (Tier 1(Principal I)/total capital ratios: 5.9% and 10.3% at the end of the first half of 2001). The Bank plans to further strengthen its capital base through silent participations and accessing the capital markets which may include securities similar to the SPARC Securities denominated in euro and other currencies.

Liable capital and solvency ratio of the Bank<sup>1,2</sup>:

€ million calculated at each year end	Core capital	Silent participations contained in core capital	Reserves from retained earnings contained in core capital	Supple- mentary capital	Deductables	Tier 3 capital	Total liable capital	Solvency ratio (Principle I)	Tier 1 ratio (Principle I)
1991	—	—	—	—	—	—	1,228	7.6%	—
1992	—	—	—	—	—	—	1,144	8.9%	—
1993	1,133	—	232	60	(12)	—	1,181	8.6%	8.3%
1994	1,178	—	245	438	(2)	—	1,614	11.2%	8.2%
1995	1,248	—	262	448	(2)	—	1,694	10.6%	7.8%
1996	1,309	—	280	462	(2)	—	1,769	9.0%	6.7%
1997	1,396	19	299	880	(2)	—	2,274	10.4%	6.4%
1998	1,492	77	327	913	(2)	—	2,403	9.0%	5.6%
1999	1,566	121	355	1,411	(2)	56	3,031	10.1%	5.2%
2000	2,336	789	393	1,552	(2)	—	3,886	10.5%	6.3%

Liable capital and solvency ratio of the Group<sup>1,2</sup>:

€ million calculated at each year end	Core capital	Silent participations contained in core capital	Reserves from retained earnings contained in core capital	Supple- mentary capital	Deductables	Tier 3 capital	Total liable capital	Solvency ratio (Principle I)	Tier 1 ratio (Principle I)
1991	—	—	—	—	—	—	1,231	8.0%	—
1992	—	—	—	—	—	—	1,152	9.4%	—
1993	1,154	—	232	108	(12)	—	1,250	8.3%	7.7%
1994	1,204	—	278	524	(2)	—	1,726	11.1%	7.8%
1995	1,293	—	314	527	(2)	—	1,817	10.3%	7.3%
1996	1,362	—	332	520	(2)	—	1,880	8.8%	6.4%
1997	1,889	146	499	1,414	(20)	—	3,283	8.9%	5.1%
1998	2,210	380	558	1,633	(18)	19	3,844	8.6%	5.0%
1999	2,824	930	624	2,379	(18)	—	5,185	10.2%	5.6%
2000	3,616	1,628	705	2,697	(19)	—	6,294	10.2%	5.9%

**Dividend policy**

The Bank has traditionally followed a policy of continuity in its distribution of dividends. Profits were to a large extent retained to build up liable capital.

Dividends and payments on silent participations of the Bank:

€ thousand	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Net income before										
payments on SP	20,944	19,023	21,505	29,786	32,739	34,282	46,122	76,549 <sup>3</sup>	69,250	76,363
Payments on SP	—	—	—	—	—	—	647	5,441	5,553	32,314
SP outstanding	—	—	—	—	—	—	76,693	76,693	120,636	789,136
Dividends	4,755	6,749	7,158	10,993	13,191	13,191	13,191	15,390	15,390	15,390
Share capital	158,500	168,726	219,856	219,856	219,856	219,856	219,856	219,856	219,856	219,856
Dividend yield	3%	4%	4%	5%	6%	6%	6%	7%	7%	7%
Profits retained	16,189	11,504	13,381	16,873	18,407	18,510	28,143	28,044	38,300	19,115
Profits retained in LB										
Luxembourg	2,556	7,669	10,226	3,170	15,339	19,940	7,669	12,782	20,000	25,000

1 figures for liable capital shown here are taken forward on a day-to-day basis and are therefore not directly comparable with those contained in the capitalisation table under the heading "Capitalisation of the Bank and the LB Kiel Group".

2 because of the new legislation on Principle I, figures before 1993 are not directly comparable.

3 extraordinary effect of extra remuneration to the State of Schleswig-Holstein

## Executive Bodies

As at 31 December 2001, the executive bodies of the Bank are the Guarantors' Meeting (i.e. the meeting of the Owners), the Supervisory Board and the Managing Board.

### *Guarantors' Meeting*

#### *Chairwoman*

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

#### *First Deputy Chairman*

Jürgen Sengera Chairman of the Managing Board Westdeutsche Landesbank Girozentrale, Düsseldorf

#### *Second Deputy Chairman*

Olaf Cord Dielewicz President of the Savings Bank and Giro Association for Schleswig-Holstein, Kiel

#### *Third Deputy Chairman*

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

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

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

Michael Rocca State Secretary at the Ministry of Economic Affairs, Technology and Transport of the State of Schleswig-Holstein, Kiel

### *Members Representing the Savings Banks and Giro Association*

Jörg-Dietrich Kamischke District Administrator of the Schleswig-Flensburg District

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

### *Members Representing Westdeutsche Landesbank Girozentrale*

Dr. Karlheinz Bentele President of the Rhineland Savings Banks and Giro Association, Düsseldorf

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

### *Member Representing Landesbank Baden-Württemberg*

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

### *Supervisory Board*

#### *Chairwoman*

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

#### *First Deputy Chairman*

Jürgen Sengera Chairman of the Managing Board of Westdeutsche Landesbank Girozentrale, Düsseldorf

#### *Second Deputy Chairman*

Olaf Cord Dielewicz President of the Savings Bank and Giro Association for Schleswig-Holstein, Kiel

#### *Third Deputy Chairman*

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

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

Peter Deutschland Chairman of DGB's Nordmark District, Hamburg

Uwe Döring State Secretary at the Ministry of Finance and Energy of the State of Schleswig-Holstein, Kiel

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

Michael Rocca State Secretary at the Ministry of Economic Affairs, Technology and Transport of the State of Schleswig-Holstein, Kiel

### *Members Representing the Savings Banks and Giro Association for Schleswig-Holstein*

Günter Anders Chairman of the Managing Board of Sparkasse Schleswig-Flensburg, Schleswig

Norbert Gansel Lord Mayor of the City of Kiel, Kiel

Günter Kröpelin District Administrator of the Herzogtum Lauenburg District, Ratzeburg

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

Erwin Rückemann Chairman of the Managing Board of Stadtparkasse Neumünster, Neumünster

*Members Representing Westdeutsche Landesbank Girozentrale*

Theo Dräger	Chairman of the Managing Board of Drägerwerk AG, Lübeck
Hans-Peter Krämer	Chairman of the Managing Board of Kreissparkasse Köln, Cologne
Dr. Ingrid Nümann-Seidewinkel	Head of the Ministry of Finance of Free and Hanseatic City of Hamburg, Hamburg
Dr. Wolf-Albrecht Prautzsch	Deputy Chairman of the Managing Board of Westdeutsche Landesbank Girozentrale, Münster
Dr. Fritz Süverkrüp	President of the Chamber of Industry and Commerce of Kiel, Kiel
Jorma Juhani Vaajoki	President and CEO of Metsä-Serla Corporation, Espoo/Finland

*Members Representing Landesbank Baden-Württemberg*

Hans Dietmar Sauer	Chairman of Managing Board Landesbank Baden-Württemberg, Stuttgart
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*Members Elected by the Employees*

Astrid Balduin	Kiel
Katarina Blanking	Copenhagen
Waltraut Fuhrmann	Kiel
Helmut Gründel	Kiel
Ditmar Höret	Kiel
Knuth Lausen	Kiel
Karl-Heinz Ravn	Kiel
Michael Schmalz	Kiel
Bettina Scholtys	Kiel
Gaby Woelk	Kiel

*Managing Board*

Dr. Dietrich Rümker	Chairman
Hans Berger	Deputy Chairman
Dieter Pfisterer	
Franz Sales Waas	
Dr. Erwin Uwe Sell	

**Recent Developments**

On 8 July 1999, the European Commission ruled that the State of North-Rhine Westphalia had granted to WestLB capital assets in the form of the former state-owned *Wohnungsbauförderungsanstalt* (housing development agency) on preferential terms during the years 1992 to 1998.

In the opinion of the European Commission, the fees charged for the use of the transferred capital were not in accordance with market conditions. The aid granted was said not to be compatible with European Union subsidy rules and compensation would need to be made.

WestLB, the German Federal Government, the State of North-Rhine Westphalia as well as other German federal states including the State of Schleswig-Holstein have strongly rejected the European Union ruling. In this context the German Federal Government, WestLB and the State of North-Rhine Westphalia have each filed a lawsuit against the European Union ruling in the European courts.

In order to determine whether a comparable subsidy case exists with other Landesbanken including the Bank, the European Commission has launched an inquiry via the German federal and Schleswig-Holstein governments to investigate the relevant facts.

No formal judicial proceedings are presently pending against the Bank in connection therewith, although there can be no assurance that this will not ultimately be the case. However, such proceedings would neither endanger the economic viability of the Bank nor its ability to perform its obligations under the Participation, the Loan or the Undertaking Agreement.

On 17 July 2001 the European Commission and the German authorities reached an understanding concerning the concepts of *Gewährträgerhaftung* and *Anstaltslast*. The solution is based on the following principles.

*Gewährträgerhaftung* will be abolished. *Anstaltslast* will be replaced by a normal owner relationship between the owner and the public financial institution concerned. Liabilities existing at 18 July 2001, the date of acceptance by the German authorities of the Commission's recommendation of 8 May 2001, will continue to be covered by *Gewährträgerhaftung* until their maturity runs out. There will be a transitional period which will last until 18 July





## TAXATION

*The following disclosure are summaries of the current taxation treatment of the SPARC Securities and certain tax matters arising under Cayman Islands law, Luxembourg law and German law. It does not purport to be a comprehensive disclosure of all tax considerations which may be relevant to a decision to purchase the SPARC Securities. The disclosure is based on the tax laws of the Cayman Islands, Luxembourg and Germany in effect on the date of this Offering Circular, which are subject to change, possibly with retroactive effect. The disclosure does not consider any specific facts or circumstances that may apply to a particular Securityholder. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.*

### **Taxation in the Cayman Islands**

The Cayman Islands does not, under existing legislation, have any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax of application to the Company. Accordingly under the current Cayman Islands law the allotment and issue of the Class B Securities will not be subject to taxation in the Cayman Islands. The Cayman Islands are not party to any double taxation treaties.

Any holder of Class B Securities who brings into the Cayman Islands any instrument of transfer of the Class B Securities may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such instrument of transfer.

The Company has applied for and can expect to receive an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of 20 years from the date of grant of such undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on the shares, debentures or other obligations of the Company or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution or income or capital by the Company to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Company.

### **Taxation in the Grand Duchy of Luxembourg**

Under current Luxembourg tax law, no Luxembourg withholding tax is levied on payments by the Fiduciary of dividends or repayment of capital (whether this be by way of payment in cash or a transfer of rights under the Participation Agreement) under the Class B Securities nor on profit participations or repayments of the Silent Contribution under the Participation Agreement.

No payments received by the Fiduciary on behalf of the Securityholders under or in connection with the SPARC Securities, the Class B Securities or the Participation will be subject to any taxes, duties, assessments or charges of whatever nature imposed or levied by or on behalf of Luxembourg or any political subdivision or authority thereof or therein.

Securityholders who are neither resident in, nor engaged in a trade or business through a permanent establishment in, Luxembourg will not be subject to taxes or duties in Luxembourg with respect to payments under the SPARC Securities or gains realised upon disposal or repayment of the SPARC Securities.

Securityholders not resident in Luxembourg at the time of death will not be subject to inheritance or other similar taxes in Luxembourg in respect of the SPARC Securities and the Securityholders will not be deemed to be resident, domiciled or carrying on business in Luxembourg solely by reason of holding the SPARC Securities.

No stamp, value, issue, registration, transfer or similar taxes or duties will be payable in Luxembourg by Securityholders in connection with the issue of the SPARC Securities.

Securityholders who are domiciled in Luxembourg or maintain a permanent establishment therein with which the SPARC Securities are effectively connected will be subject to Luxembourg taxation as provided for by applicable tax provisions.

## Taxation in the Federal Republic of Germany

The following contains certain German tax considerations that may be relevant to a holder of SPARC Securities. It describes some tax consequences for three different categories of prospective investors:

1. a resident of Germany (“**German Resident**”)
2. Non-German residents being assessed for German income taxes with the income deriving from SPARC Securities, e.g., because such SPARC Securities form part of the business property of the permanent establishment or fixed base maintained in Germany (“**Assessed Non-German Resident**”).
3. a resident in a country other than Germany (“**Other Non-German Residents**”)

The information is based on an interpretation of the German tax laws as of the date of this Offering Circular, and is subject to change. Any such change may be applied retroactively and may adversely affect the tax consequences described herein. The information may not deal with all aspects of taxation that may be relevant for prospective investors regarding their individual circumstances. Prospective investors are therefore advised to contact their tax advisors for advice on the German tax consequences of purchasing, holding, redeeming or disposing of SPARC Securities as well as the effect of any foreign tax laws.

Since each SPARC Security will represent a pro rata interest in Class B Securities (before Transfer) or the Participation (after Transfer), from a tax perspective income generated by the Class B Securities (before Transfer) and the Participation (after Transfer) will be attributed – pro rata – to SPARC Securityholders and will not be attributed to the fiduciary.

### Income tax / Trade Tax

- I. Period of time during which SPARC Securities represent interests in the Class B Securities

#### German Residents

As the Company has its registered seat in the tax haven of the Cayman Islands, German Resident SPARC Securityholders will be subject to an add back under the German CFC Code with respect to their shareholding in the Company (represented by SPARC Securities). This means that, for tax purposes, income of the Company will be attributed to German Resident SPARC Securityholders.

#### *Add back pursuant to German CFC Code*

##### *– Holding Quota –*

In general, an attribution of income pursuant to the German CFC Code requires that individual or corporate tax residents in Germany hold more than one half of the voting capital or the nominal capital in a corporation having neither its central management nor its corporate seat in Germany and not qualifying as a tax exempt organisation under section 3 (1) Corporate Income Tax Code. Pursuant to the new CFC Code revised by the German Tax Reform Act 2002 (UntStFG / Unternehmenssteuerfortentwicklungsgesetz) and becoming effective (retroactively) from 1st January 2001, CFC rules will apply irrespective of the holding quota if the company earns exclusively or almost exclusively investment income within the meaning of section 10 (6) sentence 2 CFC Code. The term investment income comprises interest income, income from receivables, securities and comparable instruments (other than dividend income).

The latter is relevant for the case at hand because the Company earns exclusively interest income deriving from the Loan and distributions under the Participation<sup>1</sup> which are both investment income within the meaning of section 10 (6) sentence 2 CFC Code. Thus, CFC rules will be applicable irrespective of the holding quota.

##### *– Income of Company attributable to a German Resident –*

In principle, the part of the income for which the Company is an intermediate company shall be included in the income of each of the German Resident SPARC Securityholders in proportion to their participation in the Company.

A foreign company is considered to be an intermediate company for income which is subject to a low tax rate (effective tax rate below 25%) and which does not result from so-called active income within the meaning of section 8 (1) CFC Code.

<sup>1</sup> Please note that so called Pre-Transfer Profit Participations will not be payable until the later of (i) 30 June following the fiscal year in which the Participation Agreement is terminated or (ii) the Business Day (as defined in the relevant Participation Agreement) following the day on which the Bank’s annual financial statements have been adopted for the fiscal year of the Bank in which the Date of Transfer falls. The Aggregate Pre-Transfer Profit Participation will be payable on that date.

If the participation in the capital of the foreign company is not relevant for the distribution of its profits or if the foreign company does not have a share capital, then the actual distribution of its profits shall be the basis for the allocation of its profits.

According to the Company's shareholder agreement, distributions under Class B Securities are only made on the basis of the Company's profits deriving from the loan issued by the Company to the Bank. Hence, only such income is (pro rata) subject to an add back to the income of German Resident SPARC Securityholders.

– Tax treatment of add back amount –

Pursuant to the revised version of the CFC Code the add back amount is income within the meaning of section 20 (1) No. 1 German Income Tax Code a provision which covers e. g. the tax treatment of dividends. It will be taxed at standard rates (the so-called *Halbeinkünfteverfahren*, according to which only half of the dividends paid to a German individual are subject to tax, and the tax exemption pursuant to section 8 b (1) German Corporate Income Tax Code are not applicable). This applies for (corporate) income tax and trade tax on income.

**A subsequent distribution of already taxed profits will be tax-exempt.**

“Assessed Non-German Residents”

Taxpayers not liable to German resident taxation are not subject to an add back pursuant to the German CFC Code. Therefore, the taxation of dividends and capital gains depends only on the German (Corporate) Income Tax Code or the German Trade Tax Code.

There may be tax consequences regarding a) income distributions under the SPARC Securities and b) capital gains deriving from the disposal of SPARC Securities.

*Taxation of dividends*

– Income tax –

From a German perspective, distributions under SPARC Securities (representing a dividend on the Class B Securities) qualify as dividends within the meaning of Section 20 (1) no. 1 German Income Tax Code, which are paid by a foreign company.

Only half of the income distributions under the SPARC Securities (representing a dividend on the Class B Securities) distributed to German individual Assessed Non-German Residents are subject to German income tax (the so-called *Halbeinkünfteverfahren*). Correspondingly, only half of the expenses related to the SPARC Securities (when they represent interests in Class B Securities) are deductible.

The income tax is calculated using the general income tax rate. On the assessed income tax liability, a 5.5% solidarity surcharge is levied.

Income distributions under the SPARC Securities (representing a dividend on the Class B Securities) to a corporate “Assessed Non-German Resident” are tax exempt. However, 5% of the foreign dividends are deemed non-deductible expenses. This means that, finally, 5% of the dividends are liable to (corporate) income tax. Since January 1, 2001, German corporations have generally been subject to corporate income tax at a uniform rate of 25%. This tax rate applies also to, e.g., a branch of a foreign corporation. An additional solidarity surcharge of 5.5% is levied on the determined corporate tax liability amounting to a total tax burden of 26.375%.

The tax exemption with respect to the dividends does not apply if the SPARC Securities are held by banks and financial service institutions (within the meaning of the German Banking Act (*Kreditwesengesetz*)) and if the SPARC Securities are accounted for in the trading books (*Handelsbuch*) pursuant to § 1(12) of the German Banking Act. The same applies if the SPARC Securities are acquired by a financial institution (within the meaning of the German Banking Act) in order to obtain a short-term capital gain. This also applies for banks, financial services institutions and financial institutions with a statutory seat in an EU member state or in another country that is a signatory to the Treaty on the European Economic Area (*EWV-Abkommen*).

– Trade Tax –

Pursuant to the new German Trade Tax Code revised by the German Tax Reform Act 2002 (UntStFG / Unternehmenssteuerfortentwicklungsgesetz) dividends distributed by a foreign company are not exempt from trade tax if the shareholding in the foreign company amounts to less than 10%. Additionally, a trade tax exemption regarding dividends requires that the foreign company's profits originate from activities within the meaning of section 8 (1) no. 1 – no. 6 German CFC Code (so-called “active income”). Since the Company's business cannot

be attributed to such activities income distributions under the SPARC Securities (representing a dividend under the Class B Securities) are fully taxable for trade tax purposes.

#### *Taxation of Capital gains*

Individual Assessed Non-German Residents will only be subject to income tax on half of the capital gains deriving from the disposal of SPARC Securities (for such time as the SPARC Securities represent interests in the Class B Securities). This applies also for trade tax purposes.

Capital gains of shareholders liable to corporate income tax are generally tax-exempt. If a Securityholder is a bank or financial services institution within the meaning of the German Banking Act, and if the SPARC Securities (representing interests in the Class B Securities) disposed of are accounted for in the trading books (*Handelsbuch*), pursuant to §1(12) of the German Banking Act, the capital gains are fully taxable. The same applies if the SPARC Securities (representing interests in the Class B Securities) disposed of were acquired by a finance company within the meaning of the Banking Act with the aim of realising short-term gains to their own account. It also applies to banks, financial services institutions and finance companies having their seat in a member state of the European Union or another country that is signatory to the Treaty on the European Economic Area.

#### *“Other Non-German Residents”*

The tax consequences of dividends or capital gains with respect to Class B Securities regarding Other Non-German Residents are dependent on the respective foreign tax law applicable for the respective investor.

#### II. Period of time during which the SPARC Securities represent interests in the Participation

##### *German Residents / Assessed Non-German Residents*

Income distributions paid under the SPARC Securities (representing a participation or interest under the Participation) are liable to income tax up to the full distribution amount for both a corporate German Resident / Assessed Non-German Resident as well as an individual German Resident / Assessed Non-German Resident.

Individual German Residents holding an interest in the SPARC Securities (when they represent interests in the Participation) as personal assets are generally tax-free if the distributions paid (and other income from capital assets) does not exceed the saver’s exemption (*Sparerfreibetrag*) and the lump sum deduction for income-related expenses (*Werbungskostenpauschbetrag*) in the amount of €1,601 (€3,202 for married couples filing jointly).

On the assessed income tax liability, a 5.5% solidarity surcharge is levied.

#### *“Other Non-German Residents”*

In general, income distributions made under the SPARC Securities (representing a participation or interest under the Participation) is liable to German non resident taxation. However, the double tax treaty which is applicable for the respective investor has to be taken into account.

So far the income distributions made under the SPARC Securities (representing profit participations or interest under the Participation) is not received via a permanent establishment in Germany the limited tax liability is discharged by withholding tax to be withheld by the Bank.

#### Withholding Tax

##### *Class B Securities*

Income distributions made under the SPARC Securities (representing dividends on the Class B Securities) are not subject to German withholding tax.

##### *Participation*

In contrast, income distributions made under the SPARC Securities (representing profit participations or distributions under the Participation) are liable to a 25% withholding tax. In addition, the solidarity surcharge of 5.5% is levied on the withholding tax.

Withholding tax is triggered when the distributions under the Participation are paid by the Bank.

### *German Residents / Assessed Non-German Residents*

At the level of a German Resident or an Assessed Non-German Resident withholding tax can be credited or refunded if a withholding tax certificate referring to the respective Securityholder as debtor of withholding tax (creditor of interest) is provided to the tax authorities.

#### *“Other Non-German Residents”*

For Other Non-German Residents who do not receive the distributions via a permanent establishment, a tax credit with regard to withholding tax is not available. However, the double tax treaty applicable for the respective Securityholder may allow for a reduction of withholding tax. Such withholding tax reduction is granted by the German tax authorities upon application (Bundesamt für Finanzen, Friedhofstr. 1, D-53225 Bonn, Germany) by refunding the difference between the tax withheld, including the solidarity surcharge, and the withholding tax due under the applicable double taxation treaty.

#### Inheritance and gift tax

The transfer of SPARC Securities representing either Class B Securities or the Participation to other persons by virtue of inheritance or gift is, in principle, only subject to German inheritance and gift tax if at the time of the transfer of the Securities

1. the testator (donor) or the heir (donee or any other beneficiary) had his residence or habitual abode in Germany or is a German citizen who has not been living abroad for more than five years without having a residence in Germany; or
2. the testator's or donor's Securities formed part of the assets of a business property for which a permanent establishment is maintained in Germany or a permanent representative has been appointed in Germany.

The few double taxation treaties in force for inheritance and gift tax (e.g. the treaty with the United States) usually provide that German inheritance and gift tax may only be imposed in case (1) and, with restrictions, in case (2).

#### Other German taxes

There are no German transfer, stamp or other similar taxes which would apply to the sale or transfer of the Class B Securities. Net-worth tax (*Vermögensteuer*) ceased to be levied by Germany on 1 January 1997 and trade tax on capital (*Gewerbesteuer*) ceased to be levied by Germany on 1 January 1998.

#### **Proposed EU Directive on the taxation of savings income**

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that member states of the European Union (the “**First Member State**”) will be required to provide to the tax authorities of another member state of the European Union (the “**Second Member State**”) details of payments of interest or other similar income paid by a person in the First Member State to an individual resident in the Second Member State, subject to the right of certain member states of the European Union to opt instead for a withholding system for a transitional period in relation to such payments.

## SUBSCRIPTION AND SALE

Under a subscription agreement entered into between Lehman Brothers International (Europe) (the “**Lead Manager**”), ABN AMRO Bank N.V., Barclays Bank PLC, Credit Suisse First Boston (Europe) Limited, HSBC Bank plc and Natexis Banques Populaires (collectively the “**Co-Lead Managers**”, and together with the Lead Manager, the “**Managers**”) the Bank and the Company on 15 February 2002 (the “**Subscription Agreement**”), the Managers, have agreed to subscribe for the SPARC 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, underwriting and selling commission of 1 per cent. of the principal amount of the SPARC Securities. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to the issue of, and payment for, the SPARC Securities.

### United States

The SPARC 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 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 SPARC 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 SPARC 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 SPARC Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of SPARC 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 SPARC 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 SPARC 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 SPARC Securities in circumstances in which section 21(1) of the FSMA does not apply to the Fiduciary; 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 SPARC Securities in, from or otherwise involving the United Kingdom.

### Germany

No German selling prospectus (*Verkaufsprospekt*) within the meaning of the German Securities Selling Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of 13 December 1990, as amended (the “**German Prospectus Act**”), has been or will be prepared and/or published and, insofar as and to the extent the German Prospectus Act is applicable to any offeror of the SPARC 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 SPARC Securities to private investors in Germany.

**The Netherlands**

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

**Luxembourg**

Each Manager has further represented and agreed that the SPARC Securities will not be offered or sold directly to the public in the Grand Duchy of Luxembourg.

**General**

No action has been taken in any jurisdiction that would permit a public offering of any of the SPARC 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 SPARC 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 SPARC Securities on the Luxembourg Stock Exchange. In connection with the application to list the SPARC Securities on the Luxembourg Stock Exchange a legal notice relating to the issue of the SPARC Securities and copies of the constitutional documents of the Companies will be deposited with the Chief Registrar of the District Court in Luxembourg where such documents may be examined and copies obtained.
- (2) The Fiduciary, the Company and the Bank have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the SPARC Securities, the Class B Securities and the Participation.
- (3) The SPARC Securities have been accepted for clearance and settlement through Euroclear and Clearstream Luxembourg under Common Code 14239189 and have been assigned the ISIN XS0142391894.
- (4) All SPARC 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 a SPARC Securities.
- (5) Neither the Bank nor any of its subsidiaries (including the Company) 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 SPARC Securities, the Class B Securities or the Participation Agreement nor, so far as 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 Bank since 31 December 2000.
- (7) Copies of the latest audited annual unconsolidated accounts of the Bank and consolidated accounts of the LB Kiel Group and latest selected financial information of the LB Kiel Group for the most recent six month interim period 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 SPARC Securities are outstanding. For so long as the SPARC Securities represent interests in the Class B Securities, copies of the latest unaudited annual accounts of the Company will be available free of charge at the specified office of the Paying Agent during normal business hours. Copies of the following documents will be available for inspection at the specified office of the Paying Agent during normal business hours, for so long as any of the SPARC Securities are outstanding: the Undertaking Agreement, the Participation Agreement and the Loan Agreement.

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## GROUP BALANCE SHEET AS AT DECEMBER 31, 2000

## ASSETS

€ thousands	prev. year		prev. year	
<b>I. Cash</b>				
a) cash on hand			8,594	8,482
b) balances with central banks			227,404	276,736
including:				
with Deutsche Bundesbank	191,476	(274,719)		
			235,998	285,218
<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			912	–
including: eligible for refinancing with Deutsche Bundesbank	–	(–)		
b) bills of exchange			4,490	2,129
including: eligible for refinancing with Deutsche Bundesbank	4,490	(2,129)		5,402
				2,129
<b>3. Claims on banks</b>				
a) payable on demand			2,035,567	1,397,209
b) other			30,333,865	27,471,991
including:				32,369,432
loans of Landes-Bausparkasse	124	(165)		28,869,200
<b>4. Claims on customers</b>			58,115,144	52,691,543
including:				
secured by mortgages	13,022,183	(11,557,385)		
loans to public authorities and entities under public law	14,246,252	(15,177,236)		
secured by ship mortgages	6,622,006	(5,241,834)		
loans of Landes-Bausparkasse				
from allocation (LBS loans)	419,455	(421,779)		
pre and interim financing	746,324	(582,695)		
other	38,525	(34,341)		
including:				
secured by mortgages	1,105,383	(939,160)		
<b>5. Bonds and other interest-bearing securities</b>				
a) money market instruments				
aa) of public issuers			–	100,099
including: eligible as collateral for Deutsche Bundesbank advances	–	(50,010)		
ab) of other issuers			269,951	75,652
including: eligible as collateral for Deutsche Bundesbank advances	147,336	(55,615)	269,951	
b) bonds and notes				
ba) of public issuers			8,650,389	7,658,377
including: eligible as collateral for Deutsche Bundesbank advances	5,929,372	(4,837,886)		
bb) of other issuers			22,616,386	19,356,108
including: eligible as collateral for Deutsche Bundesbank advances	8,709,392	(5,475,754)	31,266,775	
c) bonds issued by the Bank			1,391,743	1,533,092
principal amount	1,376,536	(1,514,072)		32,928,469
				28,723,328
<b>6. Shares and other non-interest-bearing securities</b>			1,526,447	1,360,045
<i>To be carried forward:</i>			125,180,892	111,931,463

## GROUP BALANCE SHEET AS AT DECEMBER 31, 2000

## LIABILITIES

€ thousands	prev. year		prev. year	
1. Liabilities to banks				
a) payable on demand			4,064,183	3,039,403
b) with agreed maturity or period of notice			47,845,473	45,782,574
c) deposits of Landes-Bausparkasse			5,669	11,120
including:				
for allocated contracts	3,230	(-)	51,915,325	48,833,097
2. Liabilities to customers				
a) saving deposits				
aa) with agreed period of notice of three months			77,172	88,642
ab) with agreed period of notice of more than three months			5,226	5,900
ac) deposits of Landes-Bausparkasse			792,002	776,343
including:				
for terminated contracts	5,348	(6,165)		
for allocated contracts	17,557	(17,953)		
			874,400	
b) other liabilities				
ba) payable on demand			2,754,682	2,799,541
bb) with agreed maturity or period of notice			20,777,620	18,435,694
			23,532,302	
			24,406,702	22,106,120
3. Liabilities of Investitionsbank relating to federal promotion programmes with agreed maturity or period of notice of four years or more			507,482	527,734
4. Certificated liabilities				
a) bonds issued by the Bank			34,277,493	29,854,167
b) other			6,263,914	4,172,541
including:				
money market instruments	6,263,914	(4,172,541)	40,541,407	34,026,708
5. Trust liabilities			1,366,188	1,321,961
including:				
trust loans	1,251,175	(1,237,209)		
6. Other liabilities			741,984	1,036,134
7. Deferred items			400,449	394,397
8. Provisions				
a) for pensions and similar obligations			251,689	229,592
b) tax reserve			149,129	110,395
c) other			132,236	122,549
			533,054	462,536
9. Interest equalization fund			954,824	947,201
10. Special item with partial reserve character			35,366	61,866
11. Subordinated liabilities			1,757,676	1,464,163
<i>To be carried forward:</i>			123,160,457	111,181,917

## GROUP BALANCE SHEET AS AT DECEMBER 31, 2000

## ASSETS

€ thousands	prev. year		prev. year
<i>To be carried forward:</i>			<i>125,180,892 111,931,463</i>
7. Equity investments in non-affiliated companies			102,094 110,655
including:			
banks	63,313	(76,032)	
financial services institutions	495	(-)	
8. Equity investments in affiliated companies			97,842 75,756
including:			
banks	9,725	(5,599)	
9. Trust assets			1,366,188 1,321,961
including:			
trust loans	1,251,175	(1,237,209)	
10. Equalization claims against public authorities			
including bonds and notes issued in substitution thereof			- 7,596
11. Intangible assets			16,165 19,083
12. Fixed assets			576,468 204,392
13. Other assets			502,867 1,213,714
14. Deferred items			242,316 263,201
<i>Total assets</i>			<u><i>128,084,832 115,147,821</i></u>

## GROUP BALANCE SHEET AS AT DECEMBER 31, 2000

## LIABILITIES

€ thousands	prev. year		prev. year
<i>Carried forward:</i>			<i>123,160,457 111,181,917</i>
12. Profit participation capital			1,122,993 986,793
including:			
due in less than two years	76,438	(25,309)	
13. Fund for general bank risks			109,550 72,175
14. Equity capital			
a) subscribed capital	1,008,993		340,492
b) capital reserves			
appropriated reserves of Investitionsbank	1,031,244		967,631
		2,040,237	
c) reserves from retained earnings			
ca) statutory reserves	310,000		294,225
cb) reserves of Landes-Bausparkasse	74,137		71,070
cc) appropriated reserves of Investitionsbank	28,107		27,835
		412,244	
d) Group reserves	1,020,550		1,002,257
e) equalizing items for shares of other shareholders	148,316		145,098
f) Group profit	70,485		58,328
		3,691,832	2,906,936
<i>Total liabilities</i>			<i>128,084,832 115,147,821</i>
1. Contingent liabilities			
a) liabilities on rediscounted bills of exchange			– –
b) liabilities from guarantees and indemnity agreements			4,182,890 3,950,666
2. Other commitments			
a) placing and underwriting commitments			602 –
b) irrevocable credit commitments			7,679,176 6,859,987

## GROUP STATEMENT OF INCOME

January 1 - December 31, 2000

€ thousands	prev. year		prev. year	
1. Interest from				
a) lending and money market transactions		6,842,013		5,627,953
including:				
interest of Landes-Bausparkasse				
from LBS loans	20,001	(20,276)		
from pre and interim financing	39,087	(32,811)		
from other building loans	2,352	(2,403)		
b) interest-bearing securities and Government-inscribed debt		<u>1,786,227</u>		1,259,550
			8,628,240	
2. Interest paid			<u>7,978,057</u>	<u>6,255,568</u>
including:			650,183	631,935
for deposits at Landes-Bausparkasse	22,027	(21,905)		
3. Current income from				
a) shares and other non-interest-bearing securities			86,258	60,741
b) equity investments in non-affiliated companies			6,927	5,054
c) equity investments in affiliated companies			<u>5,432</u>	<u>4,617</u>
			98,617	70,412
4. Income from profit pooling, profit transfer and partial profit transfer agreements			2,276	1,760
5. Commission income			197,036	148,028
including:				
commission income of Landes-Bausparkasse				
from contracts signed and arranged	6,281	(7,859)		
from loan arrangements after allocation	2,475	(2,394)		
from provision and handling of pre and interim financing	6	(8)		
6. Commission paid			<u>55,470</u>	<u>47,717</u>
including:			141,566	100,311
for signed and arranged contracts of Landes-Bausparkasse	7,557	(9,337)		
7. Net result from trading activities			27,310	24,268
8. Other operating income			118,475	102,967
9. Income from the liquidation of the special item with partial reserve character			26,500	-
10. General administrative expenses				
a) personnel expenses		164,064		146,753
aa) wages and salaries				
ab) compulsory social security contributions and expenses for pensions and other employee benefits		<u>65,558</u>		57,060
including:			229,622	
for pensions	39,939	(33,145)		
b) other			<u>157,656</u>	<u>144,809</u>
			387,278	348,622
11. Depreciation and value adjustments on intangible and tangible fixed assets			37,998	30,331
<i>To be carried forward:</i>			<u>639,651</u>	<u>552,700</u>

## GROUP STATEMENT OF INCOME

January 1 - December 31, 2000

€ thousands	prev. year	prev. year
Carried forward:	639,651	552,700
12. Other operating expenses	131,156	125,033
13. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions	146,294	132,955
14. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	13,517	–
15. Income from allocations to equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	–	69,679
16. Allocations to the fund for general bank risks	37,251	53,061
17. Expenses from the assumption of losses	298	57
18. Allocations to special item with partial reserve character	–	61,866
19. Profit or loss on ordinary activities	311,135	249,407
20. Taxes on income and revenues	130,938	119,001
21. Other taxes not shown under item 12	2,199	-1,955
	133,137	117,046
22. Profits transferred under a partial profit transfer agreement	93,674	36,542
23. Net income for the year including:	84,324	95,819
Landes-Bausparkasse	3,068	(3,068)
24. Profit carried forward from the previous year	6,071	810
25. Allocation of net income to reserves from retained earnings		
a) statutory reserves of Landesbank	15,775	35,000
b) statutory reserves of Landes-Bausparkasse	3,068	3,068
c) appropriated reserves of Investitionsbank	691	232
d) profit attributable to shareholders outside the Group	376	–
26. Group profit	70,485	58,329



## BALANCE SHEET OF LB KIEL AS AT DECEMBER 31, 2000

## ASSETS

€ thousands	prev. year		prev. year	
<b>I. Cash</b>				
a) cash on hand			4,009	4,337
b) balances with central banks			<u>165,615</u>	<u>87,615</u>
including:				169,624
with Deutsche Bundesbank	163,471	(86,397)		91,952
<b>2. Bills of exchange eligible for refinancing</b>				
with central banks				4,490
including: eligible for refinancing with Deutsche Bundesbank	4,490	(2,129)		2,129
<b>3. Claims on banks</b>				
a) payable on demand			761,468	884,129
b) other			<u>21,472,800</u>	<u>18,355,016</u>
including:				22,234,268
loans of Landes-Bausparkasse	124	(165)		19,239,145
<b>4. Claims on customers</b>				
including:				37,835,943
secured by mortgages	6,819,705	(5,923,531)		32,987,862
loans to public authorities + entities under public law	11,705,659	(11,501,284)		
secured by ship mortgages	3,012,983	(2,307,268)		
loans of Landes-Bausparkasse				
from allocation (LBS loans)	419,455	(421,780)		
pre and interim financing	746,324	(582,695)		
other	38,525	(34,341)		
including:				
secured by mortgages	1,105,383	(939,160)		
<b>5. Bonds and other</b>				
interest-bearing securities				
a) money market instruments				
aa) of public issuers			-	100,099
including: eligible as collateral for Deutsche Bundesbank advances	-	(50,010)		
ab) of other issuers			<u>269,898</u>	<u>75,552</u>
including: eligible as collateral for Deutsche Bundesbank advances	147,336	(55,615)	269,898	
b) bonds and notes				
ba) of public issuers			5,623,923	4,515,490
including: eligible as collateral for Deutsche Bundesbank advances	5,092,271	(3,838,115)		
bb) of other issuers			<u>11,186,842</u>	<u>9,836,291</u>
including: eligible as collateral for Deutsche Bundesbank advances	5,182,405	(2,516,023)	16,810,765	
c) bonds issued by the Bank				
principal amount	1,072,961	(1,162,951)	<u>1,084,158</u>	<u>1,174,786</u>
				18,164,821
				15,702,218
<b>6. Shares and other non-interest-bearing securities</b>				
				686,722
				517,920
<i>To be carried forward:</i>			79,095,868	68,541,226

## BALANCE SHEET OF LB KIEL AS AT DECEMBER 31, 2000

## LIABILITIES

€ thousands	prev. year		Prev. year
1. Liabilities to banks			
a) payable on demand			3,032,374
b) with agreed maturity or period of notice			29,830,826
c) deposits of Landes-Bausparkasse			5,669
including:			32,868,869
for allocated contracts	3,230	(-)	27,945,759
2. Liabilities to customers			
a) saving deposits			
aa) with agreed period of notice of three months			38,111
ab) with agreed period of notice of more than three months			3,453
ac) deposits at Landes-Bausparkasse			792,002
including:			
for terminated contracts	5,348	(6,165)	
for allocated contracts	17,557	(17,953)	
			833,566
b) other liabilities			
ba) payable on demand			772,862
bb) with agreed maturity or period of notice			10,544,356
			11,317,218
3. Liabilities of Investitionsbank relating to federal promotion programmes with agreed maturity or period of notice of four years or more			12,150,784
			507,482
4. Certificated liabilities			
a) bonds issued by the Bank			25,118,275
b) other			4,178,388
including:			29,296,663
money market instruments	4,178,388	(3,118,561)	25,727,030
5. Trust liabilities			1,239,441
including:			
trust loans	1,229,075	(1,214,752)	1,225,205
6. Other liabilities			374,310
7. Deferred items			256,178
8. Provisions			
a) for pensions and similar obligations			174,719
b) tax reserve			68,723
c) other			67,817
			311,259
9. Interest equalization fund			954,825
10. Special item with partial reserve character			6,474
11. Subordinated liabilities			947,978
12. Profit participation capital			671,288
including:			
due in less than 2 years	51,129	(-)	564,788
To be carried forward:			79,585,551
			69,817,282

## BALANCE SHEET OF LB KIEL AS AT DECEMBER 31, 2000

## ASSETS

€ thousands	prev. year		prev. year	
<i>Carried forward</i>			79,095,868	68,541,226
7. Equity investments in non-affiliated companies			778,061	777,912
including:				
banks	758,057	(759,300)		
8. Equity investments in affiliated companies			169,897	163,648
including:				
banks	119,583	(112,940)		
9. Trust assets			1,239,441	1,225,205
including:				
trust loans	1,229,075	(1,214,752)		
10. Intangible assets			16,029	18,943
11. Fixed assets			486,916	135,289
12. Other assets			241,442	603,599
13. Deferred items			105,358	118,109
<i>Total assets</i>			<u>82,133,012</u>	<u>71,583,931</u>

## BALANCE SHEET OF LB KIEL AS AT DECEMBER 31, 2000

## LIABILITIES

€ thousands	prev. year	prev. year
<i>Carried forward:</i>		<i>79,585,551 69,817,282</i>
13. Fund for general bank risks		65,000 40,000
14. Equity capital		
a) subscribed capital	1,008,992	340,492
b) capital reserves		
appropriated reserves of Investitionsbank	1,031,245	967,630
	2,040,237	
c) reserves from retained earnings		
ca) statutory reserves	310,000	294,225
cb) reserves of Landes-Bausparkasse	74,137	71,070
cc) appropriated reserves of Investitionsbank	28,107	27,835
	412,244	
d) profit	29,980	25,397
		2,482,461 1,726,649
<i>Total liabilities</i>		<i>82,133,012 71,583,931</i>
1. Liabilities from guarantees and indemnity agreements		2,808,459 2,306,393
2. Other commitments		
a) placing and underwriting commitments		602 –
b) irrevocable credit commitments		5,476,161 4,954,279

## STATEMENT OF INCOME OF LB KIEL

January 1 - December 31, 2000

€ thousands	prev. year		prev. year
1. Interest from			
a) ending and money market transactions		4,738,435	3,724,053
including:			
interest of Landes-Bausparkasse			
from LBS loans	20,001	(20,276)	
from pre and interim financing	39,087	(32,811)	
from other building loans	2,352	(2,403)	
b) interest-bearing securities and Government-inscribed debt		975,056	669,756
		5,713,491	
2. Interest paid		5,416,160	4,076,462
including:			297,331
for deposits of Landes-Bausparkasse	22,027	(21,905)	317,347
3. Current income from			
a) shares and other non-interest-bearing securities		47,606	21,991
b) equity investments in non-affiliated companies		19,001	17,337
c) equity investments in affiliated companies		17,386	6,103
			83,993
			45,431
4. Income from profit pooling, profit transfer and partial profit transfer agreements			2,276
			1,760
5. Commission income		104,417	82,643
including:			
commission income of Landes-Bausparkasse			
from contracts signed and arranged	6,281	(7,859)	
from loan arrangements after allocation	2,475	(2,394)	
from provision and handling of pre and interim financing	6	(8)	
6. Commission paid		40,048	36,940
including:			64,369
for signed and arranged contracts of Landes-Bausparkasse	7,558	(9,337)	45,703
7. Net result from trading activities			15,976
			16,550
8. Other operating income			44,547
			38,365
9. Income from the liquidation of the special item with partial reserve character			8,519
			–
10. General administrative expenses			
a) personnel expenses			
aa) wages and salaries		95,653	88,101
ab) compulsory social security contributions and expenses for pensions and other employee benefits		43,073	36,524
including:			138,726
for pensions	28,168	(22,688)	
b) other		99,429	91,788
			238,155
			216,413
11. Depreciation and value adjustments on intangible and tangible fixed assets			26,101
			18,845
To be carried forward:			252,755
			229,898

## STATEMENT OF INCOME OF LB KIEL

January 1 - December 31, 2000

€ thousands	prev. year		prev. year
Carried forward:			252,755
12. Other operating expenses			8,268
13. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions			73,611
14. Income from allocations to equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			4,544
15. Allocations to the fund for general bank risks			25,000
16. Expenses from the assumption of losses			298
17. Allocations to special item with partial reserve character			–
18. Profit or loss on ordinary activities			150,122
19. Taxes on income and revenues			73,332
20. Other taxes not shown under item 12			427
21. Profits transferred under a partial profit transfer agreement			32,314
22. Net income for the year including:			44,049
Landes-Bausparkasse	3,068	(3,068)	
23. Profit carried forward from the previous year			5,046
24. Allocation of net income to reserves from retained earnings			
a) statutory reserves of Landesbank			15,775
b) statutory reserves of Landes-Bausparkasse			3,068
c) appropriated reserves of Investitionsbank			272
25. Profit			29,980

Landesbank Schleswig-Holstein Girozentrale (LB Kiel) is an institution incorporated 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 and the Savings Banks and Giro Association of Schleswig-Holstein (25.05% each).

The State of Schleswig-Holstein, the Savings Banks and Giro Association of Schleswig-Holstein, Westdeutsche Landesbank as well as Landesbank Baden-Württemberg are jointly and severally liable for other obligations of the Landesbank that cannot be met from its assets.

The State of Schleswig-Holstein is liable for the obligations arising from the business activities of the Investitionsbank.

Governmental control is exercised by the Minister for 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 Group companies are uniformly prepared in accordance with the accounting and valuation methods applicable to LB Kiel. Claims and liabilities, expenses and income as well as interim results existing or arising between companies included in the Group accounts are eliminated.

Investitionsbank Schleswig-Holstein (IB) and Landes-Bausparkasse Schleswig-Holstein (LBS) are organizationally 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 and Copenhagen are included as well.

In addition to LB Kiel, the Group annual accounts include the Landesbank Schleswig-Holstein International S.A. Group, Luxembourg (including NOBIS Société des Banques Privées S.A., Luxembourg, an 80 % stake in which company was acquired during the fiscal year), LB Finance B.V., Amsterdam, Gudme Raaschou Bankaktieselskab, Copenhagen, as well as the 49.5 % investment in the Hamburgische Landesbank Group, Hamburg.



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 both publish separate annual accounts, are consolidated in the corresponding items of the balance sheet and statement of income of LB Kiel unless otherwise stated. Assets, liabilities and pending transactions are valued in accordance with §§ 252 et seq. and §§ 340 et seq. of the German Commercial Code (HGB).

In accordance with § 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 not to be broken down according to residual maturities pursuant to § 11 (3) of the Ordinance Regarding Accounting for Banks (RechKredV) is shown in the first maturity band.

Assets and liabilities in foreign currencies are translated at the official mean rate of exchange prevailing on the balance-sheet date. Foreign currency assets treated as fixed assets were valued in the same way, as they are specifically covered in the same currency. Income from currency translation is reported only if it is specifically covered or covered in the same currency.

The Copenhagen branch's and the Copenhagen subsidiary's financial statements, which were compiled in a foreign currency, were also converted at the official mean rate of exchange.

Forward transactions and hedging operations specifically related to them have been treated as an integrated whole. 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.

Results from interest-rate swap agreements are carried gross under interest income and expenditure respectively. Claims are shown with the principal amount outstanding, liabilities with the amount repayable. Discounts and premiums are shown under deferred items as an asset or liability accordingly and dissolved pro rata temporis.

Value adjustments and specific provisions are made to cover discernible risks in the loan business. Adequate account was taken of risks in respect of outstanding claims by way of general provisions on receivables.

The securities held in the Bank's and the Group's trading portfolio, investment portfolio and in the liquidity reserve are valued strictly according to the lower of cost or market principle at market or lower book values.

Equity investments in affiliated and non-affiliated companies are shown at cost less depreciation, if any.

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-earning securities held in the trading portfolio and denominated in EU currencies are shown in an interest-rate portfolio. All elements of the interest-rate portfolio are valued at the market value as at December 31, 2000. The resulting impending losses and unrealized profits are balanced out; the balance is treated according to the imparity principle.

Tangible assets whose use is limited by time are written off in accordance with the relevant tax regulations. Low-value assets are written off in full in their year of purchase.

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, provision has been made for potential losses. Valuation units are taken into account.

Provisions for pension obligations have been established on the basis of actuarial principles based on the new tables of Dr. Klaus Heubeck and are shown at their commercial values. Of the adjustment amount resulting from the adoption of the actuarial tables published in 1998, three fourths are allocated to provisions for commercial balance sheet purposes up to 2000 and two thirds for tax purposes. Reserves for contingencies resulting from the duty to grant benefits to pensioners and surviving dependants were also established in FY 2000; moreover, in line with a decision by the Federal Constitutional Court relating to § 18 of the Law Relating to Company Pension Plans, a new reserve of € 2.0 million was established to cover certain employees' non-forfeitable legal rights to future pension payments. Adequate provision for obligations relating to early retirement has been made. In addition, indirect pension-like obligations in accordance with Art. 28 (2) EG HGB exist at Group level.

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. The claims are carried as assets at their nominal value. The fund thus functions as provisions. As regards the interest-free or low-interest claims disbursed between 1995 and 1998, the State of Schleswig-Holstein is obliged to take over these claims at their nominal values upon request.

The write-ups of balance sheet assets due to the 1999/2000/2002 Tax Relief Act were effected pursuant to § 280 section 1 of the German Commercial Code. These write-ups, which had been allocated in part to the special item with partial reserve character in fiscal 1999 according to § 273 of the German Commercial Code in conjunction with § 52 section 16 of the German Income Tax Law, were written back in fiscal 2000 as planned on a pro rata temporis basis with an impact on the result.

Write-ups on assets written off in the fiscal year were released in full.

An amount of € 37.3 million was allocated to the "fund for general bank risks", an item established to hedge against general bank risks. Allocations are shown separately in the statement of income.

Dormant equity contributions accepted in the fiscal year in order to strengthen the Bank's equity base comply with the requirements contained in § 10 (4) of the German Banking Law and are classed as subscribed capital. Securities in the investment book were for the first time identified as including unrealized reserves of € 41,8 million which qualify as supplementary capital pursuant to § 10 para. 2b sentence 1 No. 7 KWVG in conjunction with § 10 para. 4a and 4c KWVG.

Capital consolidation is effected on the basis of the values applicable on the date of first-time consolidation of the companies in question. The difference arising from capital consolidation pursuant to § 301 section 1 sentence 2 No. 1 of the German Commercial Code is included in the Group reserves.

The liabilities-side difference shown in the Group reserves from the capital consolidation of a total of € 1,020.6 million is the result of netting an assets-side difference of € 24.8 million against a liabilities-side difference of € 1,045.4 million.

The item entitled "equalization items for shares of other shareholders" contains shares in a fully consolidated company not belonging to two Group companies.

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

In addition to Investitionsbank's payment obligations resulting from the development activities for construction and investment loans, Investitionsbank has a payment obligation of € 99.8 million for the future acquisition of state properties.

Information on the Balance Sheet and Statement of Income as well as the  
Group Balance Sheet and Statement of Income

		INFORMATION ON ASSETS as at December 31			
<i>Claims on Associated Savings Banks</i>	€ million	Bank	Group	Bank	Group
			2000		1999
Claims on banks include claims on associated savings banks:	<i>Claims on associated savings banks</i>	6,608.0	7,602.5	6,535.3	7,552.6
<i>Affiliated Companies</i>	€ million	Bank	Group	Bank	Group
			2000		1999
The following items include claims on affiliated companies in securitized or non-securitized form:	<i>Claims on banks</i>	1,263.7	1,726.3	30.6	–
	<i>Claims on customers</i>	90.7	90.8	525.6	525.9
	<i>Bonds and other interest-bearing securities</i>				
	<i>Money market instruments</i>	–	–	–	–
	<i>Bonds and notes</i>	2.1	20.4	1.9	28.6
<i>Companies in Which Interests Are Held</i>	€ million	Bank	Group	Bank	Group
			2000		1999
Claims on companies in which interests are held are included in the following items:	<i>Claims on banks</i>	93.0	81.2	85.5	160.5
	<i>Claims on customers</i>	246.0	248.0	271.4	273.5
	<i>Bonds and other interest-bearing securities</i>				
	<i>Money market instruments</i>	–	–	–	–
	<i>Bonds and notes</i>	514.9	544.8	24.0	62.6
<i>Subordinated Claims</i>	€ million	Bank	Group	Bank	Group
			2000		1999
The following items include subordinated claims:	<i>Other claims on banks</i>	98.1	98.5	62.9	63.3
	<i>Claims on customers</i>	6.0	6.2	5.2	6.3
	<i>Bonds and other interest-bearing securities</i>				
	<i>Shares and other interest-bearing securities</i>	–	14.5	–	17.1

### Information on Securities Items

€ million	Bank	Group 2000	Bank	Group 1999
<i>Bonds and other interest-bearing securities</i>				
<i>Money market instruments of public and other issuers</i>				
Marketable bonds and debentures listed on a stock exchange	268.8	268.8	155.7	155.7
Marketable bonds and debentures not listed on a stock exchange	1.1	1.1	19.9	20.0
<i>Bonds and debentures of public issuers</i>				
Marketable bonds and debentures listed on a stock exchange	5,488.2	7,744.7	4,468.7	7,012.2
Marketable bonds and debentures not listed on a stock exchange	135.8	905.7	46.8	646.2
<i>of other issuers</i>				
Marketable bonds and debentures listed on a stock exchange	10,518.2	19,740.8	8,603.0	16,387.0
Marketable bonds and debentures not listed on a stock exchange	668.7	2,875.6	1,233.3	2,969.2
<i>Bonds issued by the Bank</i>				
Marketable bonds and debentures listed on a stock exchange	1,037.0	1,318.7	1,146.9	1,454.1
Marketable bonds and debentures not listed on a stock exchange	47.2	73.0	27.9	79.0
<i>Shares and other non-interest-bearing securities</i>				
Marketable shares listed on a stock exchange and other non-interest-bearing securities	37.6	76.9	12.3	70.8
Marketable shares not listed on a stock exchange and other non-interest-bearing securities	649.1	1,449.5	23.3	30.2

<i>Equity Investments in Affiliated and Non-Affiliated Companies</i>	€ million	Bank	Group 2000	Bank	Group 1999
The item "equity investments in affiliated companies" includes:					
		<i>Equity investments in affiliated companies</i>			
		<hr/>			
		<i>Marketable shares listed on a stock exchange</i>			
		19.4	19.4	19.4	19.4
		<hr/>			
		<i>Marketable shares not listed on a stock exchange</i>			
		43.9	43.9	37.3	37.3

<i>Trust Assets</i>	€ million	Bank	Group 2000	Bank	Group 1999
Trust assets comprise the following:					
		<i>Trust assets</i>			
		<hr/>			
		<i>Claims on banks</i>			
		<hr/>			
		<i>payable on demand</i>			
		4.9	4.9	3.4	3.4
		<hr/>			
		<i>other claims</i>			
		8.2	8.7	12.5	12.9
		<hr/>			
		<i>Claims on customers</i>			
		1,226.3	1,352.6	1,209.3	1,305.6

<i>Other Assets:</i>	€ million	Bank	Group 2000	Bank	Group 1999
The main components of this item are:					
		<i>Other assets</i>			
		<hr/>			
		<i>Equalization item for foreign currency conversion</i>			
		–	109.2	275.3	335.7
		<hr/>			
		<i>Claims under options and collateral</i>			
		0.1	28.4	0.1	15.8
		<hr/>			
		<i>Swap deferrals</i>			
		–	–	4.1	445.3
		<hr/>			
		<i>Claims under options</i>			
		52.7	79.0	23.6	32.5
		<hr/>			
		<i>Collection documents, bonds and debentures due as well as interest and dividend coupons due</i>			
		43.9	110.0	23.6	31.4
		<hr/>			
		<i>Land acquired for temporary use</i>			
		11.2	20.3	11.1	20.2

<i>Deferred Items</i>	€ million	Bank	Group 2000	Bank	Group 1999
Deferred items include:					
		<i>Deferred items</i>			
		<hr/>			
		<i>Deferred discounts</i>			
		80.1	121.7	84.6	120.8
		<hr/>			
		<i>Deferred premiums</i>			
		25.0	33.9	33.2	46.2

*Breakdown by Residual Maturities*  
 Assets according to original  
 maturities:

€ million	Bank	Group	Bank	Group
		2000		1999
<i>Other claims on banks</i>				
up to three months	6,201.5	10,193.9	4,683.8	7,878.8
more than three months up to one year	2,595.4	2,755.7	1,833.2	2,865.8
more than one year up to five years	7,105.3	9,865.3	6,110.2	8,805.8
more than five years	5,570.6	7,518.9	5,727.8	7,921.6
<i>Claims on customers</i>				
up to three months	3,025.9	5,984.4	1,580.1	4,960.1
more than three months up to one year	2,712.9	4,294.2	2,112.5	3,887.3
more than one year up to 5 years	10,410.0	15,895.4	9,435.2	14,310.7
more than five years	21,125.3	30,751.1	19,151.6	28,255.7
Claims with undetermined maturity	561.8	1,190.0	708.5	1,277.7
<i>Bonds and debentures and other interest-bearing securities</i>				
Bonds and debentures maturing in the following year	3,837.8	5,005.3	4,005.5	4,854.7

Fixed Assets

Tangible Assets

€ million	Land and buildings (excluding tangible assets under construction)		including: used for the Bank business		Advance payments and tangible assets under construction	
	Bank	Group	Bank	Group	Bank	Group
Acquisition cost	139.3	213.6	139.2	202.2	3.3	3.3
Additions	357.3	378.6	17.3	30.4	0.2	0.2
Subtractions	8.4	8.8	8.4	8.4	3.2	3.2
Write-ups / transfers	-0.9	-0.9	-0.9	13.1	-	-
Depreciation in current business year	8.9	10.4	3.4	4.9	-	-
Cumulated depreciation	38.1	61.8	32.7	52.7	-	-
Book value on December 31, 2000	449.2	520.8	114.5	184.6	0.3	0.3

€ million	Office equipment		Intangible assets	
	Bank	Group	Bank	Group
Acquisition cost	96.4	156.9	29.1	29.8
Additions	22.3	34.8	-	-
Subtractions	5.3	7.5	-	0.1
Write-ups / transfers	-	-0.4	-	-
Depreciation in current business year	14.2	24.9	2.9	2.9
Cumulated depreciation	75.7	128.1	13.1	13.6
Book value on December 31, 2000	37.7	55.7	16.0	16.2

Financial Assets

€ million	Equity investments in non-affiliated companies		Equity investments in affiliated companies		Securities shown as fixed assets	
	Bank	Group	Bank	Group	Bank	Group
Book value on December 31, 1999	777.9	110.7	163.6	75.8	6,573.8	13,818.1
Changes in 2000	0.2	-8.6	6.3	22.0	-692.3	-601.7
Book value on December 31, 2000	778.1	102.1	169.9	97.8	5,881.5	13,216.4





<i>Other Liabilities</i>	€ million	Bank	Group	Bank	Group
This item mainly comprises:			2000		1999
	<i>Other liabilities</i>				
	Interest rates on subordinated liabilities, profit participation rights	96.4	162.1	56.0	112.2
	Liabilities under options and collateral	47.7	78.1	22.7	-43.3
	Swap deferrals	-	-	-	408.7
	Equalization item for foreign currency conversion	206.4	-	-	-

<i>Deferred Items</i>	€ million	Bank	Group	Bank	Group
Deferred items include:			2000		1999
	<i>Deferred items</i>				
	Deferred discounts	228.3	283.2	215.4	272.4
	Deferred premiums	5.6	12.9	7.0	14.5

<i>Subordinated Liabilities</i>	€ million	Bank	Group	Bank	Group
Volume of subordinated liabilities:			2000		1999
	<i>Subordinated Liabilities</i>	948.0	1,757.7	890.0	1,464.2

Expenditure of € 59.3 (1999: 50.7) million was incurred in connection with subordinated liabilities. At Group level, it amounted to € 87.2 (1999: 73.9) million.

The remaining funds were raised in GBP, CAD, Yen, NLG, PTE, LUF, DEM and EUR in an equivalent amount of € 1,757.7 million.

Carrying interest between 2.4% and 16.0%, these liabilities mature between 2001 and 2040. The subordination cannot be limited and the maturity and period of notice cannot be shortened; otherwise the terms of subordinations are in accordance with the relevant provisions of the German Banking Law.

*Profit Participation Capital*

The profit participation capital raised in DM and € stands at € 671.3 million (1999: € 564.8 million). Group profit participation capital stands at € 1,123.0 million (1999: € 986.8 million).

Of the profit participation capital shown, € 136.2 million were raised in the year under review.

<i>Contingent Liabilities</i>	€ million	Bank	Group 2000	Bank	Group 1999
The majority of contingent liabilities are loan guarantees.		2,808.5	4,182.9	2,306.4	4,209.8

<i>Breakdown According to Original Maturities</i>	€ million	Bank	Group 2000	Bank	Group 1999
Liabilities according to original maturities:					
<i>Liabilities to banks with agreed maturity or period of notice</i>					
up to three months		14,568.6	25,294.3	13,422.7	24,446.9
more than three months up to one year		4,813.3	7,526.9	2,047.4	6,447.0
more than one year up to five years		5,037.8	8,300.7	4,851.7	8,476.0
more than five years		5,411.1	6,723.6	5,567.5	6,412.7
<i>Savings deposits</i>					
up to three months		38.7	78.0	46.5	88.6
more than three months up to one year		–	0.3	0.6	1.1
more than one year up to five years		2.8	4.1	3.4	4.7
more than five years		–	0.1	–	0.1
<i>Other liabilities to customers with agreed maturity or period of notice</i>					
up to three months		1,982.1	6,536.0	1,180.0	5,546.3
more than three months up to one year		422.9	779.4	232.5	791.1
more than one year up to five years		2,226.5	4,180.5	1,812.7	3,201.4
more than five years		5,912.9	9,281.6	6,024.8	8,896.9
<i>Certificated liabilities</i>					
<i>Bonds issued by the Bank</i>					
Bonds issued maturing in the following year		11,877.7	14,115.2	7,718.5	9,582.9
<i>Other certificated liabilities</i>					
up to three months		2,090.6	3,683.7	2,704.1	3,570.3
more than three months up to one year		2,087.8	2,580.2	414.5	602.3
more than one year up to five years		–	–	–	–
more than five years		–	–	–	–

Information on the  
Statement of Income:

Geographic Breakdown of Profit Components:	€ million	Germany	Europe excl. Germany	Asia 2000	Germany	Europe excl. Germany	Asia 1999
Interest		6,470.5	1,948.1	209.7	5,019.1	1,713.8	154.6
Current income from shares and other non-interest- bearing securities, equity investments in non-affiliated and affiliated companies		96.4	2.2	–	70.2	0.3	–
Commission income		151.6	43.2	2.3	115.9	30.1	2.1
Other operating income		108.2	10.3	–	101.5	1.5	–
Net result from trading activities		19.7	6.4	1.2	23.8	1.2	-0.7

Other operating income	€ million	Bank	Group 2000	Bank	Group 1999
<i>This item mainly comprises</i>					
Refund of expenses by third parties		30.0	33.5	32.8	37.3
Income from promotion activities		–	–	–	42.9

Other operating expenses	€ million	Bank	Group 2000	Bank	Group 1999
<i>This item mainly comprises</i>					
Expenses related to promotion activities		–	–	–	110.5

Defferent/Accrued Taxes

Provisions for deferred/accrued taxes amount to € 2.9 (3.7) million.  
Accrued taxes are not netted with deferred taxes.

## OTHER INFORMATION

### Capital and Reserves

Including allocations to reserves, appropriation of further dormant equity contributions and other changes resulting from the 2000 annual accounts, the Bank's liable equity capital amounts to € 3,987.8 (1999: 3,103.2) million. Group liable equity capital stands at € 6,444.6 (1999: 5,282.3) million. The supplementary capital shown includes unrealized reserves of € 41.8 million relating to securities in the investment book.

The capital resources of € 105.9 (1999: 57.9) million with which Investitionsbank was provided in conjunction with the formation of the "state properties" special-purpose fund are not used to back risk-weighted assets.

### 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 suitable bank as defined by § 54a section 2 No. 9c of the German Insurance Supervision Act (VAG).

### Deposit Security Fund

The Bank is a member of the Landesbanken/Girozentralen deposit security fund, which falls under the security system of the German Savings Bank Organization. The security system serves to ensure the liquidity and solvency of all affiliated institutions at any time.

Regardless of this, LB Kiel's liabilities are fully backed by its guarantors.

in Mio €	2000	1999
<i>Liabile capital of the Bank acc. to § 10 of the German Banking Law (KWG)</i>		
Subscribed capital (dormant equity contributions)	1,009.0	340.5
Capital reserves	925.3	909.7
Reserves from retained earnings	412.2	393.1
Fund for general bank risks	65.0	40.0
Intangible fixed assets	-16.0	-18.9
<b>Core capital</b>	<b>2,395.5</b>	<b>1,664.4</b>
<b>Supplementary capital</b>	<b>1,594.4</b>	<b>1,433.6</b>
Equity investments acc. to § 10 section 6a sentence 1 No. 4a of the German Banking Law	-2.1	-2.0
Tier 3 capital	-	7.2
<b>Total liable capital - Bank</b>	<b>3,987.8</b>	<b>3,103.2</b>
<i>Liabile capital of the Group companies acc. to § 10a of the German Banking Law (KWG)</i>		
Core capital	1,303.5	1,273.1
Supplementary capital	1,169.1	928.9
Deduction from equity	-15.8	-15.7
<b>Total liable capital - Group companies</b>	<b>2,456.8</b>	<b>2,186.3</b>
Tier 3 capital not counting towards the capital base	-	-7.2
<b>Total liable capital - Group</b>	<b>6,444.6</b>	<b>5,282.3</b>

### Liability not Shown in the Balance Sheet

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

There is a commitment to put up further capital when called, resulting from the Bank's participation in the Liquiditäts-Konsortialbank GmbH as well as a limited contingent liability for the payment obligations of other shareholders.

Landesbank Schleswig-Holstein holds a 49.5% stake in Hamburgische Landesbank.

### Letter of Comfort

Landesbank Schleswig-Holstein will, except in the case of political risk, ensure that the following Group companies will be in a position to meet their obligations: Landesbank Schleswig-Holstein International S.A., Luxembourg, and LB Schleswig-Holstein Finance B.V., Amsterdam.

*Forward Transactions*

The Bank's and the Group's unsettled foreign currency, interest-related and other forward transactions outstanding at year-end were primarily entered into to cover fluctuations in interest rates and market prices. The proportion of transactions entered into for trading purposes is not significant. The following types of transactions are involved:

*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*

- Sold share options
- Index forward transactions
- Sold index options
- Purchased share options
- Purchased index options

*Credit derivatives*

- Credit default swaps (guarantee/guarantor)
- Total return swaps (guarantor)
- Credit spread options (guarantor)

Foreign Currency Assets,  
Foreign Currency Liabilities

€ million	Bank	Group 2000	Bank	Group 1999
Foreign currency assets	19,406.1	37,069.1	15,382.4	30,485.1
Foreign currency liabilities	22,073.5	34,722.9	18,067.9	27,228.9

Cover

€ million	Bank	Group 2000	Bank	Group 1999
<i>Mortgage-backed bonds</i>				
Bearer bonds	-2,193.4	-3,148.5	-2,174.1	-3,090.1
Registered bonds	-2,096.0	-2,846.2	-1,972.2	-2,531.4
Registered bonds used as collateral	-673.3	-703.3	-553.6	-581.8
Redeemed and terminated bonds	–	–	-86.3	-86.3
	-4,962.7	-6,698.0	-4,786.2	-6,289.6
<i>Assets used for covering purposes</i>				
Claims on customers	6,071.8	8,614.4	5,269.6	7,557.7
Claims on banks	–	–	–	–
<i>Excess cover</i>	<i>1,109.1</i>	<i>1,916.4</i>	<i>483.4</i>	<i>1,268.1</i>
<i>Municipal bonds used as cover</i>				
Municipal bearer bonds	-11,250.5	-13,523.8	-11,679.6	-14,152.6
Municipal registered bonds	-7,600.8	-9,674.4	-7,049.0	-9,025.1
Registered bonds used as collateral	-1,096.1	-1,147.9	-1,020.0	-1,080.0
Redeemed and terminated bonds	-0.1	-0.1	-69.7	-69.7
	-19,947.5	-24,346.2	-19,818.3	-24,327.4
<i>Assets used for covering purposes</i>				
Claims on customers	11,018.8	12,467.6	10,947.3	13,065.9
Claims on banks	6,805.2	10,114.2	7,141.4	10,449.1
Securities and bonds of public issuers	2,612.7	2,612.7	1,750.1	1,750.1
Replacement cover	269.0	269.0	800.2	800.2
	20,705.7	25,463.5	20,639.0	26,065.3
<i>Excess cover</i>	<i>758.3</i>	<i>1,117.4</i>	<i>820.7</i>	<i>1,737.9</i>

Average Number of Employees  
in 2000

	female	male	total	1999
Landesbank	689	770	1,459	1,394
Landes-Bausparkasse	121	94	215	207
Investitionsbank	191	135	326	315
<i>Sub total</i>	<i>1,001</i>	<i>999</i>	<i>2,000</i>	<i>1,916</i>
LB Schl.-Holst. International S.A.	40	35	75	65
Hamburgische Landesbank*	1,128	1,094	2,222	2,109
Gudme Raaschou	16	69	85	69
<i>Total</i>	<i>2,185</i>	<i>2,197</i>	<i>4,382</i>	<i>4,159</i>
including: part-time employees	531	62	593	540
plus: apprentices	114	75	189	182

\*Total headcount of Hamburgische Landesbank

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

The total remuneration paid to the Managing Board in the business year was € 2.1 (1999: 2.0) million, including € 0.1 (1999: 0.1) million for the subsidiaries. Remuneration paid to the Supervisory Board amounted to € 0.3 (1999: 0.3) million. Total remuneration paid to former members of the Managing Board or their survivors was € 1.0 (1999: 1.0) million. Pension provisions in an amount of € 8.7 (1999: 8.4) million have been made for members or former members of the Managing Board or their survivors.

Loans to Members of the  
Executive Bodies

€ million	Bank	Group 2000	Bank	Group 1999
Managing Board	1.2	1.2	1.2	1.2
Supervisory Board	2.6	2.6	2.6	2.6

*Seats on other supervisory boards  
of the Members of the Managing Board*

Dr. Dietrich Rümker

DGZ Deka Bank Deutsche Kommunalbank, Frankfurt/Main  
Hamburgische Landesbank – Girozentrale –, Hamburg  
Landesbank Schleswig-Holstein International S.A., Luxemburg  
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  
S-Online Schleswig-Holstein GmbH, Kiel  
SIZ Informatik – Zentrum der Sparkassenorganisation GmbH, Bonn  
s-NetLine GmbH, Kiel

Peter Pahlke

A/O WestLB Vostok, Moskau  
BIG Bau-Investitions-Gesellschaft mbH, Kronshagen  
Gudme Raaschou Bankaktieselskab, Kopenhagen  
W. Jacobsen AG, Kiel  
Landesbank Schleswig-Holstein International S.A., Luxemburg  
LBS Immobilien GmbH, Kiel  
WestInvest Westdeutsche Grundstücks-Investment GmbH, Düsseldorf  
WestLB Polska S.A., Warschau  
BIG Heimbau AG, Kronshagen  
SVEDEG-Schwedisch-Deutsche Portfolio Management GmbH, Düsseldorf  
Despa Deutsche Sparkassen-Immobilien-Anlage-Gesellschaft mbH, Frankfurt

Dieter Pfisterer

Deutsche Factoring Bank – Deutsche Factoring GmbH&Co., Bremen  
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  
Stadtwerke Kiel AG, Kiel (up to December 31, 2000)  
Wankendorfer Baugenossenschaft eG, Wankendorf  
Wirtschaftsakademie Schleswig-Holstein, Kiel

Ernst Schröder

Landesbank Schleswig-Holstein International S.A., Luxemburg  
LBS Immobilien GmbH, Kiel  
S-direkt Schleswig-Holstein Dienstleistungsgesellschaft für die  
Sparkassenfinanzgruppe GbR, Kiel



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

The Group financial statements include Companies 1) to 5). The other companies were not consolidated as they are of minor importance for meeting the obligation to

provide a true and fair view of the net assets, financial condition and earnings of the group. All computations reflect the companies' most recent financial statements.

Number, Name, Headquarters	Capital <sup>1)</sup> € million	Capital share in %	Result € million
1) Landesbank Schleswig-Holstein International S.A., Luxemburg	180.65	100.00	35.00
2) LB Schleswig-Holstein Finance B.V., Amsterdam	0.02	100.00	0.47
3) Hamburgische Landesbank – Konzern, Hamburg	3,320.81	49.50	59.40
4) Gudme Raaschou Bankaktieselskab, Kopenhagen	12.68	100.00	-0.59
5) NOBIS Société des Banques Privées, Luxemburg	15.34	80.00	2.30
6) LiLux Management S.A., Luxemburg	1.07	100.00	3)
7) Verwaltungs- und Treuhandgesellschaft von 1963 mbH, Kiel	0.03	100.00	2), 3)
8) Wirtschafts- und Aufbaugesellschaft Stormarn mbH, Bad Oldesloe	24.73	24.00	3)
9) Kieler Grunderwerbsgesellschaft mbH, Kiel	0.03	100.00	2), 3)
10) Schleswig-Holsteinische Kapital-Beteiligungsgesellschaft mbH, Kiel	0.51	100.00	2), 3)
11) Anker Schiffsbetreuungsgesellschaft mbH, Kiel	0.03	100.00	2), 3)
12) W. Jacobsen AG, Kiel	8.39	92.51	0.61
13) Schleswig-Holsteinische Immobilienfonds KG, Kiel	0.19	100.00	3)
14) BIG Bau-Investitionsgesellschaft mbH, Kiel	14.70	24.00	3)
15) LBS Immobilien GmbH, Kiel	0.26	100.00	2), 3)
16) Gesellschaft für Wagniskapital Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH, Kiel	13.83	56.10	3)
17) Grundstücksverwaltungsgesellschaft der schleswig-holsteinischen Sparkassenorganisation mbH, Kiel	0.03	100.00	3)
18) Cape May Shipping Company Ltd., Monrovia	0.001	100.00	3), 4)
19) LBSH Leasing Verwaltungs GmbH, Lockstedt	0.03	100.00	2), 3)
20) LBSH Leasing Geschäftsführungs GmbH, Lockstedt	0.02	100.00	2), 3)
21) LBSH Leasing Objekt GmbH, Lockstedt	0.03	100.00	3), 4)
22) LBSH Leasing GmbH & Co. KG, Lockstedt	7.90	100.00	3)
23) LBSH Leasing Objekt GmbH & Co. KG Immobilienprojekt Heide, Lockstedt	0.43	100.00	3)
24) LBSH Fondsmanagement GmbH, Lockstedt	0.02	100.00	2), 3), 4)
25) LBSH Fonds Verwaltung GmbH, Lockstedt	0.03	100.00	3), 4)
26) LBSH Fonds Verwaltung GmbH & Co. Objekt Mobilien LISTAR KG, Lockstedt	0.01	100.00	3)
27) LBSH Fonds Verwaltung GmbH & Co. Objekt Mobilien MERKUR KG, Lockstedt	0.01	100.00	3)
28) LBSH Fonds Verwaltung GmbH & Co. Objekt Mobilien SAMUS KG, Lockstedt	0.01	100.00	3)
29) LBSH Fonds Verwaltung GmbH & Co. Objekt Mobilien SATURN KG, Lockstedt	0.01	100.00	3)
30) Bausteine für Kinder, Kindertagesstätten Bau- und Entwicklungs GmbH, Lockstedt	0.02	100.00	2), 3)
31) Spielbank SH GmbH, Kiel	0.03	100.00	2), 3)
32) Spielbank SH GmbH & Co. Casino Stadtzentrum Schenefeld KG, Schenefeld	4.89	100.00	2.71
33) Immobilienverwaltungsgesellschaft Schleswig-Holstein mbH, Kiel	4.01	40.00	3), 4)
34) Grundstücksverwaltung O.Z.W. GmbH, Lockstedt	0.03	100.00	3), 4)
35) Spielbank SH GmbH & Co. Casino Kiel KG, Kiel	2.83	100.00	3)
36) Spielbank SH GmbH & Co. Casino Lübeck-Travemünde KG, Lübeck-Travemünde	2.32	100.00	1.18
37) Spielbank SH GmbH & Co. Casino Westerland auf Sylt KG, Westerland	1.02	90.00	3)
38) Kieler Förde-Verwaltungsgesellschaft mbH, Kiel	0.03	100.00	2), 3)
39) Baltic Sea-Verwaltungsgesellschaft mbH, Kiel	0.03	100.00	2), 3)
40) Nord-Ostsee Verwaltungsgesellschaft mbH, Kiel	0.03	100.00	3)
41) Kiel-Hörn Vermarktungsgesellschaft mbH, Kiel	0.31	24.50	3)
42) MDK Holdings Limited, London	0.05	33.33	3)
43) Gudme Raaschou AB, Stockholm	0.02	100.00	3)
44) eBanking Services Nord GmbH, Kiel	0.03	33.33	3)
45) LB Kiel Nordic Finance AB, Stockholm	5.37	100.00	3)
46) Gebäudemanagement Schleswig-Holstein, Kiel	25.57	24.90	3)

Number, Name, Headquarters	Capital <sup>1)</sup> € million	Capital share in %	Result € million
47) Spielbank SH GmbH & Co., Casino Flensburg KG, Flensburg		90.00	3)
48) Schleswig-Holstein ImmobilienPartner GmbH, Kiel	0.25	33.33	3)
49) Oy FoxNord AB, Helsinki	TFIM 50	100.00	3)
50) Gudme Raaschou Administration A/S, Kopenhagen	TDKK 1,000	100.00	3)
51) PCA Corporate Finance Oy, Helsinki (vormals: PCA Capital Associates Oy)	3.25	35.00	3)
52) Hedera Hässleholm AB, Stockholm	TSEK 100	100.00	3), 4)
53) KB Hedera Hässleholm	TSEK 100	99.93	3), 4)
54) LB Kiel Lärkan AB	TSEK 100	100.00	3), 4)
55) Fastighetsbolag Jyväskylä Agora Oy	TSEK 75	100.00	3), 4)
56) Specialbonde i Stockholm AB, Stockholm	TSEK 100	100.00	3), 4)
57) LB Kiel Gnarp AB, Stockholm	TSEK 100	100.00	3), 4)
58) ECOMARES GmbH & Co. KG	0.50	25.00	3), 4)
59) P.E.R. Flucht- und Rettungssysteme GmbH	0.04	34.10	3), 4)

Notes:

- 1) The term "Capital" corresponds to the definition in Articles 266 and 272 of the German Commercial Code (HGB)  
2) There is a profit and loss transfer agreement with the company

3) Not published according to § 286 section 3 sentence 1 and § 313 section 2 No. 4 of the German Commercial Code (HGB)

4) Indirect shareholding

5) Direct and indirect shareholding

*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

*Second Deputy Chairman*  
Olaf Cord Dielewicz  
President of the Savings Banks  
and Giro Association for  
Schleswig-Holstein, Kiel

*Third Deputy Chairman*  
Josef Schmidt  
President of the Baden Savings Banks  
and Giro Association, Mannheim  
(up to December 31, 2000)

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

Horst Günter Bülck  
Minister of Economic Affairs,  
Technology and Transport of the  
State of Schleswig-Holstein, Kiel  
(up to March 28, 2000)

Uwe Mantik  
State Secretary at the Ministry of  
Economic Affairs, Technology and  
Transport of the State of Schleswig-  
Holstein, Kiel  
(since May 16, 2000)  
(up to March 31, 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 § 8 sec. 2 of the Statutes*

Geerd Bellmann  
District Administrator of  
the Rendsburg-Eckernförde district,  
Rendsburg  
(up to June 30, 2000)

Rudolf Konegen  
Chairman of the Managing Board  
Sparkasse Elmshorn, Elmshorn  
(up to August 30, 2000)

Jörg-Dietrich Kamischke  
District Administrator of the Schleswig-  
Flensburg district, Schleswig  
(since July 1, 2000)

Dr. Hans Lukas  
Chairman of the Managing Board of Spar-  
kasse Stormarn, Bad Oldesloe  
(since July 1, 2000)

*Members Representing  
Westdeutsche Landesbank  
acc. to § 8 sec. 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

*Member Representing  
Landesbank Baden-Württemberg  
acc. to § 8 sec. 2 of the Statutes*

Heinrich Haasis  
President of the Württemberg  
Savings Banks and Giro Association,  
Stuttgart  
(up to December 31, 2000)

SUPERVISORY BOARD

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

*Substitute acc. to § 11 sec. 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

*Substitute acc. to § 11 sec. 3  
of the Statutes*  
Dr. Adolf Franke  
Member of the Managing Board  
Westdeutsche Landesbank  
Girozentrale, Düsseldorf

*Second Deputy Chairman*  
Olaf Cord Dielewicz  
President of the Savings Banks  
and Giro Association for  
Schleswig-Holstein, Kiel

*Substitute acc. to § 11 sec. 3  
of the Statutes*  
Wolfgang Stut  
Association Director of the  
Savings Banks and Giro Association  
for Schleswig-Holstein, Kiel

*Third Deputy Chairman*  
Josef Schmidt  
President of the Baden Savings Banks  
and Giro Association, Mannheim  
(up to December 31, 2000)

*Substitute acc. to § 11 sec. 3  
of the Statutes*  
Heinrich Haasis  
President of the Württemberg  
Savings Banks and Giro Association,  
Stuttgart  
(up to December 31, 2000)

*Members Representing the State of Schleswig-Holstein*

Horst Günter Bülck  
Minister of Economic Affairs,  
Technology and Transport of the  
State of Schleswig-Holstein, Kiel  
(up to March 28, 2000)

*Substitute acc. to § 11 sec. 3 of the Statutes*  
Dr. Bernd Rohwer  
State Secretary at the Ministry of  
Economic Affairs, Technology and  
Transport of the State of Schleswig-  
Holstein, Kiel  
(up to March 28, 2000)

Peter Deutschland  
Chairman of the DGB's  
Nordmark District, Hamburg

Uwe Döring  
State Secretary at the Ministry  
of Finance and Energy of the State  
of Schleswig-Holstein, Kiel

Uwe Mantik  
State Secretary at the Ministry of  
Economic Affairs, Technology and  
Transport of the State of Schleswig-  
Holstein, Kiel  
(since May 16, 2000)  
(up to March 31, 2001)

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

*Members Representing the Savings Banks and Giro Association for Schleswig-Holstein*

Günter Anders  
Chairman of the Managing Board  
Sparkasse Schleswig-Flensburg,  
Schleswig

Geerd Bellmann  
District Administrator of the  
Rendsburg-Eckernförde district,  
Rendsburg  
(up to June 30, 2000)

Norbert Gansel  
Lord Mayor of the City of Kiel

Rudolf Konegen  
Chairman of the Managing Board  
Sparkasse Elmshorn, Elmshorn  
(up to August 30, 2000)

Günter Kröpelin  
District Administrator of the  
Herzogtum Lauenburg district,  
Ratzeburg  
(since July 1, 2000)

Erwin Rückemann  
Chairman of the Managing Board  
of Stadtparkasse Neumünster,  
Neumünster  
(since September 1, 2000)

*Members 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*

Werner Schmidt  
Vorstandsvorsitzender der  
Landesbank Baden-Württemberg,  
Stuttgart  
(up to December 31, 2000)

*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, Cologne

Dr. Ingrid Nümann-Seidewinkel  
Senatrice, Head of the Ministry of  
Finance of Free and Hanseatic City of  
Hamburg, Hamburg

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  
President and CEO of Metsä-Serla  
Corporation, Espoo/Finland

MANAGING BOARD

*Members Elected by the Employees*

Astrid Balduin  
Kiel

Katarina Blanking  
Copenhagen

Waltraut 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-Hens  
Kiel

Dr. Dietrich Rümker  
Chairman

Hans Berger  
Deputy Chairman

Peter Pahlke

Dieter Pfisterer

Ernst Schröder  
(up to December 31, 2000)

Franz Sales Waas  
(since January 1, 2001)

AUDITOR'S CERTIFICATE

We have audited the Annual Accounts and accounting records of Landesbank Schleswig-Holstein Girozentrale as well as the Group Annual Accounts and the statement of financial condition of Landesbank Schleswig-Holstein Girozentrale and the Group for the year ending December 31, 1999. The preparation of these documents according to German accounting standards and the complementary provisions in the articles of partnership is the responsibility of the legal representatives of Landesbank Schleswig-Holstein Girozentrale. It is our task to assess the Annual Accounts and accounting records as well as the Group Annual Accounts and the statement of financial condition of Landesbank Schleswig-Holstein Girozentrale and the Group on the basis of our audit.

We carried out our audit of the Annual Accounts and the Group Annual Accounts in accordance with the German audit regulations in sec. 317 of the German Commercial Code (HGB) and the auditing principles of the Institut der Wirtschaftsprüfer (IDW - Institute of German Certified Public Accountants). These stipulate that the audit must be planned and carried out in such a way that it is possible to identify with reasonable certainty any errors or infringements with a material impact on the view of the asset, finance and profit situation of the company which is provided by the Annual Accounts and the Group Annual Accounts in accordance with generally accepted accounting principles and by the statement of financial condition of Landesbank Schleswig-Holstein Girozentrale and the Group. Specification of audit work is based on knowledge of the company's business operations and its economic and legal circumstances, as well as on expectations with regard to possible errors. In the course of the audit, the effectiveness of the internal control system and documentation of the information in the accounting system, the Annual Accounts and the Group Annual Accounts as well as the

statement of financial condition of Landesbank Schleswig-Holstein Girozentrale and the Group are primarily examined on a sample basis. The audit includes appraisal of the accounting and consolidation principles, the key assumptions of the legal representatives and the overall presentation of the Annual Accounts and the Group Annual Accounts as well as the statement of financial condition of Landesbank Schleswig-Holstein Girozentrale and the Group. We believe that our audit provides a sufficiently sound basis for our assessment.

Our audit produced no negative findings.

We are satisfied that the Annual Accounts and the Group Annual Accounts provide a true and fair view of the asset, finance and profit situation of Landesbank Schleswig-Holstein Girozentrale and the Group in accordance with generally accepted accounting principles. The statement of financial condition of Landesbank Schleswig-Holstein Girozentrale and the Group as a whole gives a true and fair view of the position of Landesbank Schleswig-Holstein Girozentrale and the Group and of the risks in their future development.

Kiel, April 7, 2001

Wollert-Elmendorff  
Deutsche Industrie-Treuhand GmbH  
Wirtschaftsprüfungsgesellschaft

Dr. Göttgens  
German Public Accountant

Bottermann  
German Public Accountant



**Head Office of the Bank**

**Landesbank Schleswig-Holstein Girozentrale**

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24103 Kiel  
Germany

**Registered Office of the Company**

**LB Kiel Funding I**

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George Town  
Grand Cayman, Cayman Islands  
British West Indies

**Fiduciary**

**Banque de Luxembourg**

14, boulevard Royal  
2449 Luxembourg

**Paying Agent**

**Kredietbank S.A. Luxembourgeoise**

43, boulevard Royal  
2955 Luxembourg

**Legal Advisors to the Bank**

*as to Cayman Islands Law*  
**Maples and Calder Europe**

7 Princes Street  
London EC2R 8AQ  
United Kingdom

*as to German Law*

**Allen & Overy**

Taunustor 2  
60311 Frankfurt am Main  
Germany

*as to Luxembourg Law*

**Elvinger, Hoss & Prussen**

2, Place Winston Churchill  
B.P. 425  
L-2014 Luxembourg

**Legal Advisors to the Manager**

*as to German law*

**Freshfields Bruckhaus Deringer**

Taunusanlage 11  
60329 Frankfurt am Main  
Germany

*as to Luxembourg law*

**Kremer Associés & Clifford Chance**

6 Rue Heinrich Heine  
L-1720 Luxembourg

**Auditors to the Bank**

**Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH**

Wirtschaftsprüfungsgesellschaft  
Bahnstraße 16  
40212 Düsseldorf  
Germany



