



Offering Circular



## **Hamburgische Landesbank - Girozentrale -**

*(Incorporated as a credit institution under public law in the Federal Republic of Germany)*

and

## **Hamburgische Landesbank London Branch**

and

## **Hamburgische LB Finance (Guernsey) Limited**

*(Incorporated in Guernsey)*

**€20,000,000,000**

## **Euro Medium Term Note Programme**

Under the €20,000,000,000 Euro Medium Term Note Programme (the "Programme"), Hamburgische Landesbank - Girozentrale - (the "Bank"), Hamburgische Landesbank London Branch ("HLB London") and Hamburgische LB Finance (Guernsey) Limited ("HLB Guernsey") and, together with the Bank and HLB London, the "Issuers" and each, in relation to Notes issued by it, an "Issuer", subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "Notes" which will include Senior Notes and Subordinated Notes (each as defined herein)). Notes issued by HLB Guernsey will be unconditionally and irrevocably guaranteed by the Bank (in such capacity, the "Guarantor", although references to "the Bank" should be construed as references to the Bank in its capacities as Issuer or Guarantor, as the context so requires).

The maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed €20,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to an increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified on page 7 and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Application has been made to list the Notes issued pursuant to the Programme on the Luxembourg Stock Exchange. In relation to Notes listed on the Luxembourg Stock Exchange this Offering Circular is valid for a period of one year from the date hereof. Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, and any other terms and conditions not contained herein which are applicable to, the Notes of each Tranche (as defined on page 17) will be set forth in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be admitted to the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer. Each Issuer may also issue unlisted Notes.

The Notes of each Tranche will be represented on issue by a temporary global Note or a permanent global Note which will be deposited on the issue date thereof with a common depositary on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and/or any other agreed clearance system. The provisions governing the exchange of interests in global Notes for other global Notes and definitive Notes are described in "Form of the Notes" below.

### **Arranger**

**Merrill Lynch International**

### **Dealers**

**BNP PARIBAS**

**Deutsche Bank**

**JPMorgan**

**Morgan Stanley**

**Schroder Salomon Smith Barney**

**Credit Suisse First Boston**

**Hamburgische Landesbank - Girozentrale -**

**Merrill Lynch International**

**Nomura International**

**UBS Warburg**

*The Bank accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Bank (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. HLB Guernsey accepts responsibility for the information contained in this Offering Circular relating to it. To the best of the knowledge and belief of HLB Guernsey (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular relating to it is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*Neither the Dealers nor the Arranger have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Arranger as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by any of the Issuers or the Guarantor in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of the Issuers or the Guarantor under the Programme.*

*No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuers, the Guarantor, or any of the Dealers or the Arranger.*

*Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by any of the Issuers, the Guarantor or any of the Dealers or the Arranger that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers and/or the Guarantor. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer by or on behalf of the Issuers, the Guarantor or any of the Dealers or the Arranger to any person to subscribe for or to purchase any Notes.*

*The delivery of this Offering Circular does not at any time imply that the information contained herein concerning the Issuers or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Arranger expressly do not undertake to review the financial condition or affairs of the Issuers or the Guarantor during the life of the Programme. Investors should review, inter alia, the most recently published audited annual non-consolidated financial statements of the Bank and the most recently published audited annual non-consolidated financial statements of HLB Guernsey when deciding whether or not to purchase any Notes.*

*The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Guarantor, the Dealers and the Arranger do not represent that this document may be lawfully distributed, or that any Notes 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, no action has been taken by the Issuers, the Guarantor or the Dealers or the Arranger which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes 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 and the Dealers have represented that all offers and sales by them will*

*be made on the same terms. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom, Germany, Guernsey, Japan and the Netherlands (see "Subscription and Sale") below.*

*The Notes have not been and will not be registered under the United States Securities Act 1933, as amended (the "Securities Act") and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see "Subscription and Sale" below).*

*All references in this document to "U.S. dollars", "U.S.\$" and "U.S. cent" refer to the currency of the United States of America, those to "Japanese Yen" and "Yen" refer to the currency of Japan, those to "Sterling" and "£" refer to the currency of the United Kingdom and those to "euro", "EUR" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community.*

*In connection with any Tranche (as defined in "Summary of the Programme"), one of the Dealers will act as a stabilising agent (the "Stabilising Agent"). The identity of the Stabilising Agent will be disclosed in the relevant Pricing Supplement. References in the next paragraph to "this issue" are to each Tranche in relation to which a Stabilisation Agent is appointed.*

*In connection with the issue of any Tranche, the Stabilising Agent or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.*

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## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (i) the most recently published non-consolidated and consolidated audited annual financial statements of the Bank; and
- (ii) the most recently published non-consolidated audited annual financial statements (if any) of HLB Guernsey; and
- (iii) all supplements to this Offering Circular, including the relevant Pricing Supplement, circulated by the Issuers from time to time in accordance with the provisions of the Programme Agreement described herein,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Each of the Issuers and the Guarantor will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the relevant Issuer or, as the case may be, the Guarantor, at its office set out at the end of this Offering Circular. In addition, such documents will be available, without charge, from the principal office in England of Merrill Lynch International and of the paying agent in Luxembourg.

## **SUPPLEMENTARY OFFERING CIRCULAR**

Each of the Issuers and the Guarantor has agreed, in connection with the listing of the Notes on the Luxembourg Stock Exchange to supply the Luxembourg Stock Exchange with such documents and information as may be necessary in connection with the listing of the Notes on the Luxembourg Stock Exchange. Each of the Issuers and the Guarantor will prepare a revised or Supplemental Offering Circular setting out the changes in the operations and financial condition of the Issuers and the Guarantor at least every year after the date of this Offering Circular and each subsequent Offering Circular.

Each Issuer with respect to itself and the Bank with respect to HLB Guernsey has given an undertaking to the Dealers and to the Luxembourg Stock Exchange that if at any time during the duration of the Programme there is a significant change affecting any matter contained in this Offering Circular whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Offering Circular, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank or, as the case may be, HLB Guernsey, and the rights attaching to the Notes, each of the Bank, HLB London and HLB Guernsey shall prepare an amendment or supplement to this Offering Circular for use in connection with any subsequent offering of the Notes and shall supply to each Dealer and to the Luxembourg Stock Exchange such number of copies of such supplement hereto as such Dealer and the Luxembourg Stock Exchange may reasonably request.

## SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

<b>Issuers:</b>	Hamburgische Landesbank - Girozentrale - Hamburgische Landesbank London Branch Hamburgische LB Finance (Guernsey) Limited
<b>Guarantor in respect of Notes issued by Hamburgische LB Finance (Guernsey) Limited:</b>	Hamburgische Landesbank - Girozentrale -
<b>Description:</b>	Euro Medium Term Note Programme
<b>Arranger:</b>	Merrill Lynch International
<b>Dealers:</b>	BNP Paribas Credit Suisse First Boston (Europe) Limited Deutsche Bank AG London Hamburgische Landesbank - Girozentrale - Merrill Lynch International J.P. Morgan Securities Ltd. Morgan Stanley & Co. International Limited Nomura International plc Salomon Brothers International Limited*
	UBS AG, acting through its business group UBS Warburg
	The Issuers may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches (which means Notes which are identical in all respects (including the listing of them)) or in respect of the entire Programme. References in this Offering Circular to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons which are appointed as dealers in respect of the entire Programme (and whose appointment has not been terminated). References to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
<b>Agent:</b>	Deutsche Bank AG London
<b>Size:</b>	Up to €20,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of

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\* Schroder is a trademark of Schroders Holdings plc and is used under license by Salomon Brothers International Limited



the Programme Agreement.

**Distribution:**

Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

**Clearing Systems:**

Clearstream, Luxembourg, Euroclear, and, in relation to any Series, such other clearing system as may be agreed between the Issuer, the Agent and the relevant Dealer.

**Currencies:**

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer.

Issues of Notes denominated in Swiss Francs or carrying a Swiss Franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8 November 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2 December 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the Lead Manager (the “Swiss Dealer”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchange and Securities Trading of 24 March 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.

Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale” beginning on page 72).

**Maturities:**

Subject to compliance with all relevant laws, regulations and directives, such maturities as may be agreed between the relevant Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent authority) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Unless otherwise permitted by then current laws, regulations and directives, Subordinated Notes will have a

minimum maturity of five years.

**Issue Price:**

Notes may be issued on a fully-paid or a partly-paid basis (the issue price of which will be payable in two or more instalments) and at an issue price which is at par or at a discount to, or premium over, par.

**Form of Notes:**

Each Tranche of Notes will be represented on issue by a temporary global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "Summary of the Programme - Selling Restrictions"), otherwise such Tranche will be represented by a permanent global note. Permanent global Notes will be exchangeable, unless otherwise specified in the applicable Pricing Supplement, in limited circumstances, in whole but not in part for definitive Notes upon not less than 60 days' written notice to the Agent as described in "Form of the Notes" below.

**Initial Delivery of Notes:**

On or before the issue date for each Tranche, the temporary global Note representing Notes may (or, in the case of Notes listed on the Luxembourg Stock Exchange, shall) be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Temporary global Notes relating to Notes that are not listed on the Luxembourg Stock Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system provided that, the method of such delivery has been agreed in advance by the relevant Issuer, the Agent and the relevant Dealer.

**Fixed Rate Notes:**

Fixed interest will be payable in arrear on such date or dates as may be agreed between the relevant Issuer, the Guarantor (where relevant) and the relevant Dealer (as indicated in the applicable Pricing Supplement) and on redemption.

Interest will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each or on the Actual/Actual - ISMA basis as specified in the applicable Pricing Supplement (or such other basis as may be agreed as indicated in the applicable Pricing Supplement).

**Floating Rate Notes:**

Floating Rate Notes will bear interest at a rate determined either:

- (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc.; or
- (ii) on the basis of a reference rate appearing on the

agreed screen page of a commercial quotation service; or

- (iii) on such other basis as may be agreed between the relevant Issuer, the Guarantor (where relevant) and the relevant Dealer, as indicated in the applicable Pricing Supplement.

The Margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.

**Index Linked Notes:**

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as the relevant Issuer, the Guarantor (where relevant) and the relevant Dealer may agree, as indicated in the applicable Pricing Supplement.

**Interest Periods and Interest Rates:**

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Tranche. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.

**Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:**

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as selected prior to issue by the relevant Issuer, the Guarantor (where relevant) and the relevant Dealer, will be payable on such Interest Payment Dates specified in, or determined pursuant to, the applicable Pricing Supplement and will be calculated on the basis of the Day Count Fraction or such other method as may be indicated in the applicable Pricing Supplement.

**Dual Currency Notes:**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer, the Guarantor (where relevant) and the relevant Dealer may agree, as indicated in the applicable Pricing Supplement.

**Zero Coupon Notes:**

Zero Coupon Notes will be offered and sold at their nominal amount or at a discount to it and will not bear interest other than in the case of late payment.

**Other Structured Notes:**

Notes may also have any other structure as the relevant Issuer, the Guarantor (where relevant) and the relevant Dealer may agree, as set out in the relevant Pricing Supplement.

**Redemption:**

The Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement. Unless otherwise permitted by then current laws and regulations, Notes (including Notes issued by HLB Guernsey denominated in Sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

**Redemption by Instalments:**

The Pricing Supplement may provide that Notes may be repayable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

**Denomination of Notes:**

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank, stock exchange (or equivalent authority) or any laws or regulations applicable to the relevant Specified Currency.

Unless otherwise permitted by then current laws and regulations, Notes issued by HLB Guernsey denominated in Sterling which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

**Withholding Tax:**

All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the Federal Republic of Germany, the United Kingdom, or Guernsey, as the case may be, subject to customary exceptions (including the IPMA Standard EU Exception), all

	as described in Condition 7.
<b>Negative Pledge:</b>	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 3.
<b>Cross Default:</b>	The terms of the Senior Notes will contain a cross-default provision as further described in Condition 9.
<b>Status of the Senior Notes:</b>	The Senior Notes and the relative Receipts and Coupons will constitute, subject to the provisions of Condition 3, direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> and without preference among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
<b>Senior Guarantee:</b>	The Senior Notes issued by HLB Guernsey and the relative Receipts and Coupons will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such senior guarantee will be, subject to the provisions of Condition 3, direct, unconditional and unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (save for certain debts required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.
<b>Status of the Subordinated Notes:</b>	The Subordinated Notes and the relative Receipts and Coupons will constitute direct, unconditional, subordinated and unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> and without preference among themselves. The payment obligations of the relevant Issuer under the Subordinated Notes and the relative Receipts and Coupons shall be subordinated to the claims of all present or future unsubordinated creditors including depositors (if any) of the relevant Issuer (but only in the circumstances referred to in Condition 2(e)) but shall rank at least <i>pari passu</i> with all other present or future subordinated obligations of the relevant Issuer.
<b>Subordinated Guarantee:</b>	The Subordinated Notes issued by HLB Guernsey and the relative Receipts and Coupons will (subject as provided in the subordinated guarantee) be unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor.
<b>Listing:</b>	Application has been made to list the Notes issued under the Programme on the Luxembourg Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer, the Guarantor (where relevant) and the relevant Dealer in relation to each Series.  Unlisted Notes may also be issued.

The Pricing Supplement relating to each Tranche of Notes will state whether or not and, if so, on which stock exchange(s) the Notes are to be listed.

**Governing Law:**

The Notes will be governed by, and construed in accordance with, English law.

**Selling Restrictions:**

There are selling restrictions in relation to the United States, the United Kingdom, Germany, Guernsey, Japan and the Netherlands, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “Subscription and Sale” below.

The Guarantor is Category 2 for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

## FORM OF THE NOTES

Each Tranche of Notes will be represented on issue by a temporary global Note or, as the case may be, by a permanent global Note, in either case without receipts, interest coupons or talons, which will be delivered to a common depositary for Euroclear and Clearstream, Luxembourg. Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made against presentation of the temporary global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section "Form of the Notes" to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Agent.

On and after the date (the "Exchange Date") which is 40 days after the date on which any temporary global Note is issued, interests in such temporary global Note will be exchangeable (free of charge) upon a request as described therein for interests in a permanent global Note without receipts, interest coupons or talons or, if so provided in the relevant Pricing Supplement, for definitive Notes against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date, unless exchange of that temporary global Note for a permanent global Note or definitive Notes, as the case may be, has been improperly withheld or refused. Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes" below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the permanent global Note without any requirement for certification. Unless otherwise specified in the applicable Pricing Supplement, a permanent global Note will be exchangeable in the limited circumstances set out therein (free of charge), in whole but not in part for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon not less than 60 days' written notice to the Agent as described therein. Global Notes and definitive Notes will be issued pursuant to the Agency Agreement.

The following legend will appear on all global Notes and definitive Notes which have an original maturity of more than 365 days and on all receipts, interest coupons and talons relating to such Notes:

"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 provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

A Note may be accelerated by the holder thereof in certain circumstances described in "Terms and Conditions of the Notes — Events of Default". In such circumstances, where any Note is still represented by a global Note and a holder of such Note so represented and credited to his securities account with Euroclear or Clearstream, Luxembourg gives notice that it wishes to accelerate such Note, unless within

a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such global Note, such global Note will become void. At the same time, holders of interests in such global Note credited to their accounts with Euroclear or Clearstream, Luxembourg will become entitled to proceed directly against the relevant Issuer or the Guarantor (where relevant) on the basis of statements of account provided by Euroclear and Clearstream, Luxembourg, on and subject to the terms of a deed of covenant (the "Deed of Covenant") dated 7 June 2002, executed by the Issuers and the Guarantor.



## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note. Reference should be made to "Form of the Notes" above for a description of the content of Pricing Supplements which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Hamburgische Landesbank -Girozentrale- ("the Bank"), Hamburgische Landesbank London Branch ("HLB London") or Hamburgische LB Finance (Guernsey) Limited ("HLB Guernsey") (each an "Issuer" and together the "Issuers") pursuant to the Agency Agreement (as defined below).

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency;
- (ii) definitive Notes issued in exchange for a global Note; and
- (iii) any global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement dated 8 June 2001 (the "Amended and Restated Agency Agreement") as supplemented by a First Supplemental Agency Agreement dated 7 June 2002 (the "First Supplemental Agency Agreement" and, together with the Amended and Restated Agency Agreement, the "Agency Agreement") (as further amended or supplemented as at the date of issue of the Notes (the "Issue Date"). The Agency Agreement is made among the Issuers, the Guarantor, Deutsche Bank AG London as issuing and paying agent (the "Agent" which expression shall include any successor agent specified in the applicable Pricing Supplement) and the other paying agents named therein (together with the Agent, the "Paying Agents" which expression shall include any additional or successor paying agents).

Notes issued by HLB Guernsey on an unsubordinated basis will have the benefit of an unconditional and irrevocable unsubordinated guarantee (the "Senior Guarantee") by Hamburgische Landesbank -Girozentrale- (the "Guarantor") and Notes issued by HLB Guernsey on a subordinated basis will have the benefit of an irrevocable and (subject as provided in the relevant guarantee) unconditional subordinated guarantee by the Guarantor (the "Subordinated Guarantee", together with the Senior Guarantee, the "Guarantees" and each a "Guarantee"). In the case of Notes issued by the Bank and HLB London all references to the "Guarantor", the "Subordinated Guarantee" and the "Guarantees" in these Terms and Conditions are not applicable.

Interest bearing definitive Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("Coupons") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the “applicable Pricing Supplement” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference herein to “Noteholders” shall mean the holders of the Notes, and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to “Receiptholders” shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (as amended or supplemented as at the Issue Date, the “Deed of Covenant”) dated 7 June 2002, and made by the Issuers and the Guarantor. The Deed of Covenant is held by a common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Agent and the other Paying Agents. A copy of the Pricing Supplement applicable to this Note may be obtained during normal business hours at the specified office of each of the Agent and the other Paying Agents, save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

## **1 Form, Denomination and Title**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Amount Note, an Instalment Note, a Dual Currency Note, a Partly Paid Note or an Other Structured Note or a combination of any of the foregoing, depending upon the Interest and Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date) Coupons and Couponholders in these Terms and Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The relevant Issuer, the Guarantor, the Replacement Agent (as defined in the Agency Agreement) and any Paying

Agent may deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear Bank S.A./N.V., Brussels office, as operator of the Euroclear System ("Euroclear") and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream Banking, société anonyme ("Clearstream, Luxembourg")) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the Guarantor, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Note shall be treated by the relevant Issuer, the Guarantor, the Agent and any other Paying Agent as the holder of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the relevant Issuer, the Guarantor and the Agent.

## **2 Guarantee and Status of the Notes**

### *(a) Senior Guarantee*

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by HLB Guernsey under the Senior Notes issued by it and the relative Receipts and Coupons. Its obligations in that respect are contained in the Deed of Covenant.

### *(b) Senior Notes*

The Senior Notes (being those Notes that specify their status as Senior) and the relative Receipts and Coupons are (subject to the provisions of Condition 3) direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and shall at all times rank *pari passu* and without preference among themselves. The payment obligations of the relevant Issuer under the Senior Notes and the relative Receipts and Coupons and of the Guarantor under the Senior Guarantee (save for certain debts required to be preferred by law) shall rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer and the Guarantor respectively, from time to time outstanding.

### *(c) Subordinated Guarantee*

The Guarantor has irrevocably and (subject as provided in the Subordinated Guarantee) unconditionally guaranteed on a subordinated basis the due payment of all sums expressed to be payable by HLB Guernsey under the Subordinated Notes issued by it and the relative Receipts and Coupons. Its obligations in that respect are contained in the Deed of Covenant.

(d) *Subordinated Notes*

The Subordinated Notes (being those Notes that specify their status as Subordinated) and the relative Receipts and Coupons constitute unconditional and unsecured obligations of the relevant Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the relevant Issuer under the Subordinated Notes and the relative Receipts and Coupons shall be subordinated to the claims of all present or future unsubordinated creditors including depositors (if any) of the relevant Issuer (but only in the circumstances referred to in Condition 2(e)) but shall rank at least *pari passu* with all other present or future subordinated obligations of the relevant Issuer.

(e) *Payments on Subordinated Notes*

If and for so long as the relevant Issuer shall be subject to dissolution proceedings or other proceedings by or as a result of which, or in consequence of which, the relevant Issuer may be dissolved, liquidated, wound up or may cease to exist as a legal entity (but without prejudice to the right of the Noteholders and Couponholders to make claims under the Subordinated Guarantee for the full amount that would otherwise be due in respect of the Subordinated Notes where the relevant Issuer is HLB Guernsey) then no payments in respect of the Subordinated Notes or the relative Receipts or Coupons shall be made to the holders thereof until all prior ranking claims against the relevant Issuer have been fully satisfied, but subject thereto the holders of Subordinated Notes and the relative Receipts and Coupons shall be entitled to claim payment in full in respect of the Subordinated Notes and those Receipts and Coupons in respect of which the Instalment Date, the Fixed Interest Date or the Interest Payment Date, as appropriate, shall have occurred and which shall be unpaid *pari passu* and rateably with all other subordinated obligations of the relevant Issuer that are subordinated to unsubordinated obligations of the relevant Issuer but that are not subordinated further.

Where the relevant Issuer is the Bank or HLB London, pursuant to the Hamburg Act regarding the Incapability of Public Law Corporations to be Subject to Bankruptcy Proceedings of 1988 (the "Hamburg Insolvency Act"), the Bank will not be subject to the general provisions of the German Insolvency Act of 5 October, 1994 relating to insolvency of corporate entities until 19 July 2005. This means that bankruptcy proceedings cannot be initiated against the bank until that date. Due to the given legal situation until 19 July 2005, the Bank's owners have to guarantee that the Bank is in a position to meet its obligations at any time under the obligation of *Anstaltslast*. In order to implement the understanding between the European Commission and the Federal Government concerning German State Guarantees for public sector banks, the Hamburg Insolvency Act has been amended on 3 April 2002. As a consequence of this amendment the above exception will be abolished as of 19 July 2005. From that date on the Bank and HLB London can be subject to bankruptcy proceedings according to the German Insolvency Act.

*Also see below "The Bank - Guarantee obligation and Maintenance obligation."*

(f) *No Set-off or Counterclaim*

No holder of Subordinated Notes or the relative Receipts or Coupons shall at any time be entitled to exercise or claim before any court or otherwise, any right of set-off or counterclaim in respect of any amounts due and unpaid in respect of the Subordinated Notes or the relative Receipts or Coupons.

(g) *Effect of Subsequent Agreements*

No subsequent agreement shall have the effect of limiting the provisions set out above with regard to the subordination of the payment obligations of the relevant Issuer under the Subordinated Notes and the relative Receipts and Coupons, and the due date for redemption of the Subordinated Notes (as provided in Condition 6(a)) may not be amended to any earlier date and the applicable period of notice of redemption required pursuant to Condition 6(b) may not be shortened nor may the

obligations of the relevant Issuer in respect of the Subordinated Notes and the relative Receipts and Coupons be secured by any security of whatever kind provided by such Issuer or any third party (other than the Guarantee in the case of Notes issued by HLB Guernsey).

(h) *Repayment of Subordinated Notes prior to Maturity Date*

If the Subordinated Notes are repurchased or otherwise repaid prior to the Maturity Date (otherwise than pursuant to Condition 6(b) or by way of payment in any such proceedings as referred to in Condition 2(e) upon the claims of all unsubordinated creditors of the relevant Issuer having been satisfied in full), then the amount so repaid on such repayment shall be returned to the relevant Issuer irrespective of any agreement to the contrary unless, at, or immediately prior to, the time of such repurchase or repayment, as the case may be, such Issuer or if the relevant Issuer is HLB Guernsey, the Guarantor shall have substituted an equal amount of capital with liable own funds (*Haftendes Eigenkapital*) ranking at least equivalent to the Subordinated Notes or the Federal Agency for Financial Market Supervision (*Bundesanstalt für Finanzdienstleistungsaufsicht*) consents to the premature repayment. The Bank shall, however, be entitled to purchase Subordinated Notes issued by itself, for the purpose of market stabilisation, of up to 3 per cent. of their aggregate principal amount (the intention to make such purchase must be notified to the German Banking Supervisory Authority and to the German Federal Bank (*Deutsche Bundesbank*) without undue delay), or as commission agent. Such amount shall be treated as if it had never become due for payment by the relevant Issuer and, once returned, as if it had never been paid by such Issuer. For the avoidance of doubt, this Condition 2(h) shall not apply to any payment made on or in respect of the Receipts and Coupons relating to the Subordinated Notes or any of them on or after the relevant Instalment Date, the relevant Fixed Interest Date or the relevant Interest Payment Date, as appropriate, and no such payment shall be considered as payment or repayment of the Subordinated Notes for the purposes of the first sentence of this Condition 2(h).

(i) *Issuer's Undertaking*

The relevant Issuer undertakes that, while any Subordinated Note is outstanding, it will not create or permit to be outstanding any subordinated debt obligation (including a guarantee or indemnity or the like) of the relevant Issuer which is not expressed by its terms to, or which does not, rank *pari passu* with or junior to the Subordinated Notes.

Holders of Subordinated Notes shall have no right upon default of any payment in respect of the Subordinated Notes or the relative Receipts or Coupons or in the performance by the relevant Issuer of any of its obligations in respect of the Subordinated Notes or the relative Receipts or Coupons, to accelerate the maturity of their Subordinated Notes.

### **3 Negative Pledge**

Whilst any of the Senior Notes remain outstanding neither the relevant Issuer nor the Guarantor will create any mortgage, charge, pledge, or other encumbrance (other than arising by statute or otherwise by operation of law) upon the whole or any part of its undertaking or assets, present or future, to secure relevant obligations for borrowed moneys or any guarantee thereof unless the relevant Issuer's obligations under the Senior Notes and the relative Receipts and Coupons or, as the case may be, the Guarantor's obligations under the Senior Guarantee are secured equally and rateably therewith. For the purpose of these Conditions "relevant obligation" means any note or bond issue except municipal bonds (*Kommunalschuldverschreibungen*), mortgage bonds (*Pfandbriefe*) and public mortgage bonds (*öffentliche Pfandbriefe*) issued by the relevant Issuer or the Guarantor and any other notes or bonds expressly preferred under the law of the jurisdiction of the relevant Issuer or the Guarantor.

## 4 Interest

### (a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date will be the Fixed Coupon Amount.

The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date and, if the first anniversary of the Interest Commencement Date is not an Interest Payment Date, will amount to the Broken Amount.

If the Maturity Date is not an Interest Payment Date, interest from (and including) the preceding Interest Payment Date (or the Interest Commencement Date, as the case may be) to (but excluding) the Maturity Date will amount to the Broken Amount.

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any sub-unit being rounded upwards or otherwise in accordance with applicable market conventions.

In this Condition:

“Day Count Fraction” means

- (i) if “30/360” is specified in the applicable Pricing Supplement on the basis of a 360-day year consisting of 12 months of 30 days each; or
- (ii) if Actual/Actual-ISMA is specified in the applicable Pricing Supplement on the following basis:
  - (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
  - (b) if the Calculation Period is longer than one Determination Period, the sum of:
    - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
    - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“Determination Date” means the date specified as such thereon or, if none is so specified, the Interest Payment Date

or as otherwise specified in the applicable Pricing Supplement.

In this Condition:

“Calculation Period” means the period of time from and including the first day of such period to but excluding the last.

(b) *Interest on Floating Rate Notes, Index Linked Interest Notes and Other Structured Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest and such interest will be payable in arrear on either:

- (a) the Specified Interest Payment Date(s) in each year (the period from and including the Interest Commencement Date to but excluding the first Specified Interest Payment Date and each successive period from and including a Specified Interest Payment Date to but excluding the next Specified Interest Payment Date each being a “Specified Period”); or
- (b) if no Specified Interest Payment Date(s) is/are given in the applicable Pricing Supplement, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

If a business day convention is specified in the applicable Pricing Supplement and if any date referred to in these Conditions would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (1) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such date shall be brought forward to the immediately preceding Business Day and (B) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment; or
- (2) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day; or
- (3) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

In this Condition 4:

“Business Day” means:

- (a) in the case of a currency other than euro, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (b) in the case of euro, a day on which the TARGET system is open (a “TARGET Business Day”); and/or
- (c) in the case of a currency and/or one or more Additional Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets

settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes, Index Linked Interest Notes and Other Structured Notes will be determined by the Agent specified in the applicable Pricing Supplement and in accordance with the provisions below and the manner specified in the applicable Pricing Supplement.

(a) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be determined by the Calculation Agent or by the Determination Agent, as the case may be, as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (a), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. unless otherwise specified in the applicable Pricing Supplement (the “ISDA Definitions”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is the first day of that Interest Period unless otherwise specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (a), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Reset Date”, “euro-zone” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(b) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page at the Relevant Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent or by the Determination Agent, as the case may be. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent or by the Determination Agent, as the case may be, for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.



The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or the EURIBOR offered rate, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

*(iii) Minimum and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

*(iv) Determination of Rate of Interest and Calculation of Interest Amounts*

The Calculation Agent or the Determination Agent, as the case may be, in the case of Floating Rate Notes, Index Linked Interest Notes and Other Structured Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes and Other Structured Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Calculation Agent or the Determination Agent, as the case may be will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes, Indexed Linked Interest Notes or Other Structured Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention:

In this Condition:

"Day Count Fraction" means, in respect of the calculation of an Interest Amount:

- (i) If "Actual/365" or "Actual/Actual - ISDA" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

- (iv) If “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February in which case the month of February shall not be considered to be lengthened to a 30-day month)

or as otherwise specified in the applicable Pricing Supplement.

(v) *Notification of Rate of Interest and Interest Amounts*

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Agent and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes or Other Structured Notes are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth day on which commercial banks and foreign exchange markets settle payments in London thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes or Other Structured Notes are for the time being listed and to the Noteholders in accordance with Condition 13.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b) shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Guarantor, the Agent, the Calculation Agent, the Determination Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the relevant Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent or the Determination Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue at the same rate until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given in accordance with Condition 13 or individually.

## **5 Payments**

(a) *Method of Payment*

Subject as provided below payments in a Specified Currency will be made by transfer to an account denominated in the relevant Specified Currency maintained by the payee with, or by a cheque payable in such Specified Currency drawn on, a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(b) *Presentation of Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against surrender of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against surrender of the relevant Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Index Linked Redemption Amount Notes) shall be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment.

Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant global Note against presentation or surrender, as the case may be, of such global Note at the specified office of any Paying Agent. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the relevant Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the relevant Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of such global Note.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:

- (i) the relevant Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the relevant Issuer and the Guarantor, adverse tax consequences to such Issuer or the Guarantor.

(c) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the

relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day (other than a Saturday or a Sunday) which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) any Additional Financial Centre specified in the applicable Pricing Supplement; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

*(d) Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

## **6 Redemption and Purchase**

*(a) At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the relevant Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date. The Subordinated Notes may not be redeemed or repaid prior to the Maturity Date, save as permitted pursuant to Condition 6(b) and save for any payment in any proceedings referred to in Condition 2(e) of the relevant Issuer, subject to and as provided in Condition 2.

*(b) Redemption for Tax Reasons*

The Notes may be redeemed at the option of the relevant Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note nor an Other Structured Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note or an Other Structured Note), on giving, in the case of Notes which are not Subordinated Notes, not less than 30 nor more than 60 days' notice, or in the case of

Subordinated Notes, not less than 24 months' notice (or such shorter period as may be permitted by applicable bank supervisory laws or regulations, provided that the status of the Subordinated Notes shall remain unchanged for capital purposes, but in any event not less than 30 days' notice) to the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the relevant Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 or the Guarantor would be unable for reasons outside its control to procure payment by the relevant Issuer and in making payment itself would be required to pay such additional amounts as a result of any change in, or amendment to, the laws or regulations of the Federal Republic of Germany in respect of any Issuer, the United Kingdom in respect of HLB London, or Guernsey in respect of HLB Guernsey, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the relevant Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the relevant Issuer shall deliver to the Agent a certificate signed by two Directors or other equivalent senior officers of such Issuer or, as the case may be, two Directors or other equivalent senior officers of the Guarantor stating that such Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the relevant Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the relevant Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

*(c) Redemption at the Option of the Issuer*

If the relevant Issuer is specified in the applicable Pricing Supplement as having an option to redeem (the "Call Option"), such Issuer shall, having given not less than 15 nor more than 30 days' notice (or such other notice period as may be specified in the applicable Pricing Supplement) to the Noteholders in accordance with Condition 13 (which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive

Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

*(d) Redemption at the Option of the Noteholders*

If the Noteholders are specified in the applicable Pricing Supplement as having an option to redeem (the "Put Option"), upon the holder of any Note giving to the relevant Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice (or such other notice period as may be specified in the applicable Pricing Supplement) the relevant Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 9.

*(e) Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 9, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes the Final Redemption Amount of which is their nominal amount but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at their nominal amount;
- (iii) in the case of Zero Coupon Notes the Final Redemption Amount of which is their nominal amount, at an amount (the "Amortised Face Amount") equal to the sum of:
  - (a) the Reference Price; and

- (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction (as defined in Condition 4(b)) specified in the Pricing Supplement or such other calculation basis as may be specified in the applicable Pricing Supplement; or
  - (iv) in the case of Notes with a Final Redemption Amount specified in the relevant Pricing Supplement, at the Final Redemption Amount so specified.
- (f) *Instalments*  
 If the Notes are repayable in instalments, they will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.
- (g) *Partly Paid Notes*  
 If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.
- (h) *Purchases*  
 The relevant Issuer, the Guarantor or any of its Subsidiaries (as defined in the Agency Agreement) may at any time purchase Notes in the open market or otherwise at any price (provided if they should be cancelled under paragraph (i) below, that they are purchased together with all unmatured Receipts, Coupons and Talons relating to them). Any purchase by tender shall be made available to all Noteholders alike. The Notes so purchased, while held by or on behalf of the relevant Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a).
- (i) *Cancellation*  
 All Notes so redeemed or purchased and any unmatured Receipts, Coupons and Talons attached to or surrendered with them will be cancelled and may not be re-issued or resold except for any Notes or Receipts, Coupons and Talons purchased in the ordinary course of a business of dealing in securities which may be resold.
- (j) *Late payment on Zero Coupon Notes*  
 If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:
  - (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
  - (ii) five days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to the Noteholders either in accordance with Condition 13 or individually.



## 7 Taxation

### (a) *Grossing up of Payments*

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, Receipts and the Coupons by the relevant Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Federal Republic of Germany in the case of the Bank and the Guarantor, the Federal Republic of Germany or the United Kingdom in the case of HLB London or Guernsey in the case of HLB Guernsey, or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the relevant Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders, the Receiptholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note, Receipt or Coupon presented for payment:

- (i) in the Federal Republic of Germany, in the case of sums payable by the Bank or the Guarantor, in the Federal Republic of Germany or the United Kingdom in the case of sums payable by HLB London or Guernsey in the case of HLB Guernsey; or
- (ii) by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the Federal Republic of Germany, the United Kingdom or Guernsey, as the case may be, other than the mere holding of the Note, Receipt or Coupon; or
- (iii) by, or on behalf of a Noteholder, Receiptholder or Couponholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if (a) such compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or reduction in the rate of, such deduction or withholding and (b) at least 30 days prior to the first Interest Payment Date with respect to which the relevant Issuer shall apply this clause (iii), the relevant Issuer shall have notified the holders of the Notes that such holders or beneficial owners of the Notes will be required to comply with such requirement; or
- (iv) more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note, Receipt or Coupon for payment on the last day of such period of 30 days; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

“Relevant Date” means, in respect of any payment, whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in the relevant place of payment by the Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders in accordance with Condition 13. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

(b) *Substitution of the Issuer - withholding tax*

In the event that such withholding or deduction is required, the relevant Issuer may upon not less than 30 days' notice to the Noteholders in accordance with Condition 13, substitute another body corporate (the "Substituted Debtor") in its place as principal debtor under the Notes provided that:

- (A) the Substituted Debtor is at least 40 per cent. directly or indirectly, owned by the Bank;
- (B) the Substituted Debtor is incorporated and resident in a jurisdiction from which all payments in respect of the Notes may, at the time of substitution, be made without deduction or withholding for or on account of any taxes or duties of whatever nature imposed or levied by or on behalf of that jurisdiction;
- (C) the Substituted Debtor executes a deed poll substantially in the form set out in Schedule 6 to the Agency Agreement whereby it assumes all the obligations of the relevant Issuer under the Notes and, in the case of Subordinated Notes, if the Substituted Debtor is incorporated, domiciled or resident in a territory other than any territory in which the Issuer that it is substituting is incorporated, domiciled or resident, such deed poll may contain such amendments to the provisions of the Notes so as to ensure that the obligations of the Substituted Debtor in respect of the Subordinated Notes and the relative Receipts and Coupons are subordinated in a basis similar or as similar thereto as may be possible to the obligations of the relevant Issuer under the Subordinated Notes in accordance with the laws of the jurisdiction of incorporation, domicile or residence (as the case may be) of the Substituted Debtor and/or as may be required by the relevant banking supervisory authorities in the Federal Republic of Germany in order to ensure that the status of the Subordinated Notes remains unchanged for capital purposes;
- (D) if the Substituted Debtor is not the Bank, the obligations of the Substituted Debtor in respect of the Notes shall be (or, where HLB Guernsey is the relevant Issuer, shall continue to be) irrevocably and unconditionally guaranteed by the Bank on the same basis (including, in the case of Subordinated Notes, on a subordinated basis) and to the same extent as provided in these Conditions in respect of Notes issued by HLB Guernsey, such guarantee to be substantially in the form set out in such deed poll;

In the event of such substitution, all references to the relevant Issuer in the Notes shall be deemed to be references to the Substituted Debtor and the relevant Issuer shall be released from its obligations under the Notes in its capacity as issuer of the Notes and the references in Conditions 6(b) and 7(a) to any territory in which the relevant Issuer is incorporated, domiciled or resident shall be replaced by the territory or territories in which the Substituted Debtor is incorporated, domiciled and/or resident. In addition, if the Substituted Debtor is not the Bank and the relevant Issuer is not HLB Guernsey, the Conditions shall, with effect from such substitution, be amended so as to include references to the Bank as Guarantor on terms *mutatis mutandis* to the terms that would have applied to the Notes, Receipts, Coupons and Talons if they had been issued by HLB Guernsey, and references to the "Guarantee" included the deed poll by which the Bank guarantees the obligations of the Substituted Debtor.

## **8 Prescription**

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

## 9 Events of Default

### (a) Events

In the case of Senior Notes only, if any one or more of the following events (each an “Event of Default”) shall occur and is continuing:

- (i) the relevant Issuer is in default, for any reason whatsoever, for more than 30 days in the payment of any amounts due under the Notes and, where the relevant Issuer is HLB Guernsey, such default has not been remedied by the Guarantor making such payment; or
- (ii) the relevant Issuer or the Guarantor is in default in the performance of any of its obligations under the Notes or the Guarantee and such default shall continue for more than 60 days after written notification requiring such default to be remedied shall have been given to such Issuer or the Guarantee by any Noteholder through the Agent; or
- (iii) the relevant Issuer or the Guarantor fails to fulfil any payment obligations arising from any other bond or note issues having an aggregate principal amount of €5,000,000 or more or its equivalent in other currencies or from any guarantee or indemnity given in respect thereof and such default is continuing for more than 30 days after notice thereof is given to such Issuer or the Guarantor by a Noteholder through the Agent, or the relevant Issuer or the Guarantor becomes liable to fulfil any such payment obligation prior to its specified maturity by reason of default of such Issuer or the Guarantor unless, in such case, such payment obligation is being contested in good faith or the relevant Issuer or the Guarantor shall have been ordered not to make such payments by a competent court; or
- (iv) subject to paragraph (b) below, bankruptcy or court composition proceedings are commenced before a court against the relevant Issuer or the Guarantor which shall not have been discharged or stayed within 60 days after the commencement thereof, or the relevant Issuer or the Guarantor institutes such proceedings or suspends payments or offers or makes a general arrangement for the benefit of all its creditors; or
- (v) the relevant Issuer or the Guarantor goes into liquidation, unless such liquidation is to take place in connection with a merger, consolidation or other combination with another company and such company assumes all obligations of such Issuer or the Guarantor under these Conditions; or
- (vi) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect;

then any Noteholder may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare the Note held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 6(e)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

### (b) Substitution of the Issuer - bankruptcy

In the event that bankruptcy or court composition proceedings are commenced before a court against HLB London or HLB Guernsey, which would otherwise constitute an Event of Default under paragraph (a)(iv) above, HLB Guernsey or HLB London, as the case may be, may, upon not less than 30 days’ notice to the Noteholders in accordance with Condition 13 and within 60 days after the commencement of such proceedings, substitute the Bank in its place as principal debtor under the Notes provided that the Bank executes a deed poll in the form set out in Schedule 6 to the Agency Agreement whereby it assumes all the obligations of HLB London or HLB Guernsey, as the case may be.

In the event of such substitution, all references to HLB London or HLB Guernsey, as the case may be, in the Notes shall be deemed to be references to the Bank, and HLB London or HLB Guernsey,

as the case may be, shall be released from its obligations under the Notes in its capacity as Issuer of the Notes and the references in Condition 6(b) and 7(a) to any territory in which the relevant Issuer is incorporated, domiciled or resident shall be replaced by the Federal Republic of Germany.

For the avoidance of doubt, if such substitution is effected within the 60 days, no Event of Default shall occur pursuant to Condition 9(a)(iv).

## **10 Replacement of Notes, Receipts, Coupons and Talons**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **11 Agent and Paying Agents**

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The relevant Issuer and the Guarantor are entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place or places as may be required by the rules and regulations of the relevant stock exchange;
- (ii) there will at all times be a Paying Agent with a specified office in a major European city;
- (iii) there will at all times be an Agent;
- (iv) there will be a Calculation and/or Determination where the Terms and Conditions so require; and
- (v) there will at all times be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive.

In addition, the relevant Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 5(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

## **12 Exchange of Talons**

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

## 13 Notices

All notices regarding the Notes shall be published (i) in a leading English language daily newspaper of general circulation in London and, (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Financial Times* in London and the *Luxemburger Wort* in Luxembourg. The Issuers shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication in such newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange, the stock exchange agrees and the rules of such stock exchange so permit), so long as the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes except that, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 14 Meetings of Noteholders; Modification

### (a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by the relevant Issuer, the Guarantor (where relevant) or Noteholders holding not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or Maximum Interest Rate, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for calculating the Final Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to change the currency or currencies of payment or denomination of the Notes or the Coupons, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (viii) to substitute the relevant Issuer with another body (other than pursuant to Condition 7(b)); or (ix) to prepay the principal on the Notes (other than pursuant to Condition 6(b)) in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or

at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. **Any Extraordinary Resolution duly passed shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.**

*(b) Modification of Agency Agreement*

The relevant Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

## **15 Further Issues**

The relevant Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **16 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term of condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

## **17 Governing law and submission to jurisdiction**

*(a) Governing Law*

The Notes, the Receipts, the Coupons and the Talons are governed by and shall be construed in accordance with English law.

*(b) Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts, the Coupons and the Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("Proceedings") may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the Noteholders, Receiptholders, Couponholders and Talonholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

*(c) Agent for Service of Process*

Each of the Bank and HLB Guernsey irrevocably appoints HLB London currently at Moorgate Hall, 155 Moorgate, London EC2M 6XB as its agent in England to receive service of process in any Proceedings in England based on any of the Notes, the Receipts, the Coupons or the Talons. If for any reason either of the Bank or HLB Guernsey does not have such an agent in England, the Bank or HLB Guernsey, as the case may be, will promptly appoint a substitute process agent and notify

the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used, in the case of issues by each of the Bank and HLB London, for its general corporate purposes and, in the case of issues by HLB Guernsey, to on-lend to the Bank and to Hamburgische Landesbank (Guernsey) Ltd., a bank which is a wholly-owned subsidiary of the Bank.



## **THE BANK**

### **Introduction**

Hamburgische Landesbank - Girozentrale - was founded on 1 March 1938 by special legislation providing for the establishment of a state bank of the Free and Hanseatic City of Hamburg (the "City of Hamburg"), one of the 16 states which make up the Federal Republic of Germany. The Bank's head office is at Gerhart-Hauptmann-Platz 50, 20095 Hamburg. The Bank has international branches in London, Hong Kong and Singapore, international representative offices in Hanoi, Shanghai and Warsaw and a domestic representative office in Berlin.

The Bank is a public law entity and as such is regulated by, duly incorporated and validly existing under public law in the Federal Republic of Germany and conducts its business according to its Statutes as amended on 31 May 2002 (the "Statutes") and subject to the Act concerning Hamburgische Landesbank - Girozentrale - dated as of 27 August 1997, as amended and re-enacted (the "Bank Act").

### **Overview of the business of the Bank**

The Bank is authorised by its Statutes to conduct all types of banking business. The functions of the Bank are laid down by the Bank Act and it acts as the state bank for the City of Hamburg, conducting the banking business of the City of Hamburg and all public law corporations within and enterprises owned by the City of Hamburg.

As regards its non-state customers, the Bank offers its customers (public corporations, commercial and industrial companies, institutional investors and private individuals) a comprehensive range of banking services, both domestically and internationally. The Bank makes short-term advances, grants medium- and long-term loans, both floating and fixed rate, issues guarantees and other indemnities, acquires and sells receivables and assists customers through the purchase, sale, acceptance and drawing of bills. The Bank provides loans to public and corporate sector borrowers, mortgage loans on residential and commercial property, export finance and guarantees. The Bank accepts deposits of all kinds and transacts payments and financing instruments and deals in foreign exchange. The Bank trades in securities and money-market paper and acts as manager and underwriter of many types of public and private debt instruments. It provides custodial services to private and institutional investors and other financial institutions.

The Bank also acts as one of the clearing houses within the German savings banks' network. It undertakes credit business in conjunction with savings banks and provides them with support in international business and securities transactions.

The Bank's summary consolidated financial statements, which appear below on pages 56 to 63 include Hamburgische LB Finance (Guernsey) Ltd., Hamburgische Landesbank (Guernsey) Ltd., Hamburgische Wohnungsbaukreditanstalt ("WK"), and Kommanditgesellschaft Altstadt Verwaltungsgesellschaft & Co. Grundstücksgesellschaft ("KG"). Hamburgische Landesbank (Guernsey) Ltd., which operates under a banking licence in Guernsey, was established in 1998. Hamburgische LB Finance (Guernsey) Ltd., which was also established in 1998, assists the Bank particularly in the area of refinancing. WK finances the construction and modernisation of housing as well as urban development and environmental projects in the Hamburg region. KG owns the properties and buildings which the Bank leases for use as its Hamburg head office.

## Ownership

Since 1997 the City of Hamburg has held 50.5 per cent. of the Bank, 1 per cent. of which is held by HLB - Beteiligungsgesellschaft mbH, a wholly owned subsidiary of the City of Hamburg and Landesbank Schleswig-Holstein Girozentrale ("LB Kiel") has held the remaining 49.5 per cent. of the Bank. The City of Hamburg has an option to sell a further stake in the Bank to LB Kiel which became effective at the beginning of 2001. In April 2002 the Bank issued a press release stating that its owners, the City of Hamburg and LB Kiel, had charged the Bank's Board of Managing Directors with the task of engaging in talks with LB Kiel's board of managing directors about a possible merger of the two banks. The Bank's chairman explained in the press release that the approval of both of the banks' executive bodies as well as the parliaments and governments of the federal states of Hamburg and Schleswig-Holstein would be a prerequisite to such a merger. If such merger proceeds, it will not take effect until 2003 at the earliest.

## Organisation

The Bank is organised in a three tier structure. The Board of Managing Directors, which consists of at least five members, manages the Bank on a day-to-day basis. The Supervisory Board, which consists of 24 members who represent the interests of the owners and the employees, supervises the management activities of the Board of Managing Directors. The Shareholders' Assembly is responsible for matters, including, for example, the formulation and amendment of principles concerning the business policy and risk policy to be pursued by the Bank and the issuance of guidelines for the banking business. The rules for the nomination of members to the Board of Managing Directors, to the Supervisory Board and to the Shareholders' Assembly as well as the principles of the three tier structure are laid down in the Bank Act.

## Supervision

Banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the Federal Agency for Financial Market Supervision (*Bundesanstalt für Finanzdienstleistungsaufsicht*), an independent federal authority with regulatory powers, and the German Central Bank (*Deutsche Bundesbank*) in accordance with the German Banking Act (*Gesetz über das Kreditwesen*). This law contains the basic principles for banking supervision and regulates the Bank's business activities, capital adequacy and liquidity.

In addition to the federal banking supervision, the Landesbanks are subject to supervision by their respective federal states.

## Guarantee obligation and Maintenance obligation

### Introduction

On 8 May 2001 the European Commission (the "Commission") made a decision and expressed the view that the State guarantees for public law credit institutions ("*Anstaltslast*" and "*Gewährträgerhaftung*") constitute existing state aid within the meaning of the EC-Treaty. The Commission proposed to the German Government so-called "appropriate measures" in order to render the guarantee system compatible with the State aid rules of the EC-Treaty. By way of a press release dated 17 July 2001, the Commission announced that the EU Competition Commissioner and the German delegation reached an understanding (the "Understanding") on the key principles of a solution as well as on the process and timing, including transitional arrangements. The City of Hamburg has implemented the Understanding by amending the Bank Act correspondingly. The amendment entered into force on 4 April 2002.

## **Guarantee obligation (“*Gewährträgerhaftung*”)**

Section 2(1) of the Bank Act provides that the obligations of the Bank are secured by its assets as well as by the unlimited liability of the City of Hamburg and Landesbank Schleswig-Holstein Girozentrale as joint and several guarantors (*Gewährträgerhaftung*), provided, however, that recourse to the guarantors is possible only in the event that the assets of the Bank are insufficient to satisfy the Bank's obligations. Furthermore, pursuant to the Hamburg Act regarding the Incapability of Public Law Corporations to be Subject to Bankruptcy Proceedings of 1988, bankruptcy proceedings cannot legally be invoked by or against the Bank.

## **Maintenance obligation (“*Anstaltslast*”)**

Under the German law principle of *Anstaltslast*, the owner of a public law entity - in the case of the Bank, the City of Hamburg and Landesbank Schleswig-Holstein Girozentrale jointly and severally - has the obligation to such entity to keep it in a position to enable it to carry out its functions and to perform its obligations when due. In relation to the Bank, the *Anstaltslast* is set out in Section 2(2) of the Bank Act. The effect of this legal principle is that the Bank's obligations are fully backed by the credit of the City of Hamburg and Landesbank Schleswig-Holstein Girozentrale.

## **Summary of the Understanding**

The Understanding, as expressed in the following extracts of a press release, 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 comparable to the relationship of a private company and its shareholders.

Liabilities existing at 18.7.2001, the date of acceptance by the German authorities of the Commission's recommendation of 8.5.2001, will continue to be covered by *Gewährträgerhaftung* until their maturity runs out. There will be a transitional period which will last until 18.7.2005 and during which the *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 18.7.2001 will continue to be covered by *Gewährträgerhaftung* under the condition that its maturity does not go beyond 31.12.2015. These transitional arrangements taken together will allow the financial institutions concerned to restructure their activities and organisation in view of the changed legal and economic environment.”

According to a press release issued by the Commission on 28 February 2002, the Competition Commissioner and a delegation of German officials led by Mr. Caio Koch-Weser, State Secretary in the German Federal Ministry of Finance, reached certain conclusions concerning details regarding the process of implementing the Understanding into German legislation. The conclusions are designed to ensure effectively the replacement of *Anstaltslast* and the abolition of *Gewährträgerhaftung*.

The press release states that the following provisions regarding grandfathering of *Gewährträgerhaftung* are to be put into the relevant legal texts:

“The owners of the savings banks and the Landesbank at 18.7.2005 are responsible for the honouring of all liabilities of the respective institution existing at this date. For the liabilities agreed by 18.7.2001 this applies without time limits; for those agreed afterwards until 18.7.2005, this applies only if their maturity does not go beyond 31.12.2005. The owners will immediately honour their obligations from *Gewährträgerhaftung* vis-à-vis the creditors of liabilities agreed until 18.7.2005 as soon as they have stated, when these liabilities come due, in due manner and in writing that the

creditors of these liabilities cannot be satisfied out of the assets of the institution. Liabilities of the Landesbank or savings banks from their own *Gewährträgerhaftung* or of comparable responsibilities or those resulting from membership in a savings banks association are founded and come due in the sense of sentences 1 and 2 at the same time as a liability secured by such responsibility. Several owners are collectively responsible, in their internal relationships according to their shares [or: according to the provisions in the by-law of the institution.]”

Corresponding explanations are to be provided in the recitals.

The text of the press release issued on 28 February 2002 is attached to this Offering Circular as an Appendix.

## **Commission Proceedings**

During 1999 decisions were taken at the level of the Commission that might also have an impact on the Bank. Specifically, the Commission determined on 8 July 1999 that, in connection with the lack of a return on the assets contributed as capital by the Wohnungsbauförderungsanstalt (housing promotion agency) in 1992, Westdeutsche Landesbank (“WestLB”) had received unlawful assistance from the State of North Rhine-Westphalia. WestLB, the Federal Government and the State of North Rhine-Westphalia appealed against this decision. The case is still pending before the European Court of First Instance. Furthermore, the Commission has requested that the Federal Government states its position with regard to what in the Commission’s view amounts to similar circumstances surrounding six other Landesbanks - including the Bank. This request has been answered, on the Bank’s behalf and with the Bank’s co-operation, by the Federal Ministry of Finance. The facts are as follows: In the years 1986 and 1993, the City of Hamburg brought in to the capital of the Bank a total of about 82 per cent. of its shares in WK as a contribution in kind. Since it was not the assets of WK, but the shares of the City of Hamburg that were contributed to the capital, the method of contribution used in Hamburg differs substantially from the WestLB case. Furthermore, the City of Hamburg received a return on its capital contribution which is equivalent to the return a private investor would expect under market conditions. From 1986 to 1996, the Bank has effectively paid to the City of Hamburg as the shareholder an annual net dividend of approximately 9 per cent. From 1997 onwards, this dividend increased substantially and reached approximately 21 per cent. in 1999. In addition, the value of the Bank increased substantially. The increased value could be realized by the City of Hamburg with respect to a 49.5 per cent. stake when it sold this stake to Landesbank Schleswig-Holstein in 1997. For these reasons, management is of the opinion that the contribution of the WK shares made by the City of Hamburg was made in the sense of a profit-oriented private investor with a long-term view and cannot be qualified as unlawful state aid.

## **Lending Business**

In the financial year ended 31 December 2001, the Bank’s total assets grew from €80.7 billion to €87.5 billion (an 8.4 per cent. increase compared to 2000). Lending activities increased and lending volumes expanded by 9.2 per cent., compared to 2000, to €98.5 billion. During the same financial year business volumes rose by 10.1 per cent. to €103.7 billion.

Consolidated total assets came to €92.7 billion in the financial year ended 31 December 2001. This represents an increase of 8.2 per cent. over 2000. Business volumes expanded by 7.4 per cent. to €104.8 billion, while lending volumes came to €99.4 billion, up 6.4 per cent. on the previous year.

During 2001, the Bank’s activities in the area of interbank lending were dominated by business in loans with maturities in the range of three months to one year. The Bank noticed a trend amongst banks to reduce total borrowings with maturities of less than three months or greater than five years during 2001. In the area of corporate lending demand expanded across the board for short, medium- and long-term loans. Securitised lending rose during 2001 with operations growing by approximately 10 per cent. (compared to 14 per cent. in 2000), to €26 billion. Within the Group as a whole, new long-term loans

played a greater role than in the Bank itself due to the importance of such loans in WK's financing business.

Loans to companies and banks rose by 6 per cent. to €9 billion in 2001. Corporate customer business lending volumes cannot always be compared to the previous year on account of internal restructuring measures in the Bank during the past years which have resulted in new departments being created and the boundaries of existing departments changing. In general, it was possible to agree greater margins in this area than could be achieved in 2000 and within the corporate customer segment, commission business was up on 2000.

Lending to industrial companies was affected by the worldwide economic slowdown although demand for international finance for this segment grew. The Bank's lending to the transportation sector was selective in 2001 as this segment was also adversely affected by the economic slowdown. Growth was experienced by the Bank in its lending to port-related industries, the wholesale/retail sector and in the area of foreign trade during 2001.

### **Leasing Finance**

In 2001, with the volume of new business amounting of €1.1 billion in finance for leasing companies, total leasing financing operations slowed compared to 2000 rising by 6.1 per cent. to €3.9 billion. However, the relatively high repayments made by borrowers in this sector dampened growth in the Bank's overall exposure in this area. In the so-called "big-ticket" segment, which includes real estate and aircraft, new business was generally better than during 2000.

### **Real Estate Finance**

Real estate financing, one of the core business areas for the Bank, once again contributed to the growth of the Bank. Mortgage lending expanded by 14.4 per cent. during 2001 to €12 billion. The Bank's share of commission-generating business in this area also increased. In Northern Germany, including Hamburg and Berlin, the Bank participated in financing a number of urban-development projects, including shopping centres, office buildings and hotels. Business with real estate companies improved both in the area of financing existing properties as well as the financing of new development projects. For companies in the construction sector, especially in the residential building sector, growth was limited in 2001 and the number of new projects was small. The Bank confined itself to managing existing loans in this area and in the residential segment focused on providing finance for the modernisation and subsequent sale of residential properties.

The international real estate financing business performed well in 2001 and the Bank was able to expand its commitments in this sector. More than one-third of the Bank's real estate exposure in 2001 related to international projects mainly in the United States, the Netherlands and the United Kingdom. Including lending by its foreign offices, the Bank's international exposure stood at €2.8 billion at the end of 2001.

### **Ship Finance**

Following on from 2000 (which proved to be the most successful year for the Bank in the area of ship financing during the last 30 years) during the second half of 2001, business in this area slowed in the wake of the global economic downturn in all three main shipping sectors (container, tank and bulk shipping). Growth in sea-borne trade also slowed appreciably. Despite these developments, the Bank was able to extend its international market position in this area. The Bank continued with its cautious lending policy preferring newer ships, which tend to involve fewer risks, over older vessels. The volume of new loans in this area amounted to €3.4 billion. The shipping loan portfolio grew by about 17 per cent.

to €11 billion. The volume of deferred and outstanding repayments remained relatively low at 0.3 per cent. of the Bank's total volume of ship lending.

## **Aircraft Finance**

The Bank established an independent "Airlines" department on 1 April 2000. This department is dedicated to looking after airline companies as well as aircraft manufacturers and their predominantly long-term investments. During the department's first year of business, the Bank's loan portfolio rose by 17.4 per cent. to €2.4 billion or, in currency-adjusted terms, by approximately 13 per cent. during 2001. The Bank increased its direct financing and lead-management of syndicates. The new business gained from U.S. airlines prior to 11 September 2001 made a contribution in this respect. During 2001, the Bank's share of financing for well-reputed, regional carriers with modern aircraft fleets almost doubled compared to 2000. The Bank will continue with its cautious lending policy in this area following the events of 11 September 2001 after which market values of aircraft fell sharply.

## **Private Banking**

As at 1 April 1999, the Bank established a new department called "PrivatKunden" ("Private Banking") aimed at providing services to its private customers. During 2001 the Bank gained new asset management contracts in this area and also mandates for managing trusts and selling closed-ended funds. Business for corporate customers, including professionals and other self-employed people, increased during 2001 due to cross-product selling. The securities accounts managed for private customers grew in value by 3.6 per cent. to €3 billion. Lending business which is predominantly made up of real-estate loans, stood at €1.5 billion at the end of 2001.

## **Commercial Foreign Operations**

During 2001 the Bank increased the level of its activities in Western European countries, specifically France, the United Kingdom and Italy, in South East Asia and, to a lesser extent selected countries in Eastern Europe. Despite the difficult economic conditions in the United States, the Bank continued to conduct business in this market and extended its exposure in 2001. The Hong Kong branch's business was affected by the weak local economy during 2001 and loans to local companies, particularly in the area of syndicated businesses, declined as did trade-related financing. In contrast, money-market and foreign exchange trading as well as deposit taking businesses were stable in 2001. In this respect the Hong Kong branch worked closely with the Bank's office in Hanoi. During its first full year of business, the Singapore branch's focus on commodity trade finance was extended. Working closely with the Hong Kong branch, deposits were accepted from Asian banks which strengthened the Bank's funding operations. The Bank's Shanghai office, which opened for business in 2000, was able to use its knowledge of local conditions to support the Hong Kong and Singapore branches during 2001 in areas including documentary and trade-related financing. The Bank's London branch enjoyed good business performance during 2001 and the Bank's subsidiary bank in Guernsey also performed well with international real-estate business, credit investments and money-market and foreign exchange trading contributing to its growth.

## **Funding**

The Bank raises the funds required for its lending operations through:

- (i) issuing fixed and floating rate bonds on an unsecured and secured basis. In the case of secured bonds, these are secured either on the Bank's mortgage portfolio or its loans to the public sector;

- (ii) loans; and
- (iii) accepting interbank and customer deposits of all kinds.

By the end of 2001 total funding had reached approximately €76 billion compared to €71 billion in 2000. Of this, about €30 billion, or 39 per cent., was raised in the money-market and about €46 billion in the capital market. More than three-quarters of the funds raised in the money-market were call money or term deposits with the rest constituted by money-market paper and funds borrowed from the European Central Bank. During 2001 two-thirds of money market funds raised were denominated in foreign currencies. Among the refinancing funds raised in the capital market, the largest share of €30 billion was in the form of borrower's note loans and registered paper, with *Pfandbriefe* accounting for 13 per cent., security bonds and municipal bonds for 15 per cent. and foreign-currency bonds the rest. This means that at 40 per cent., borrower's note loans and registered paper made the biggest contribution to the Bank's funding operations in 2001. The Bank's own issues also represented an important source of funding, providing about one-fifth of the total with unsecured paper playing an increasingly important role. During 2001 due to uncertainties relating to the implementation of the euro, issues with maturities falling after 2015 were restricted. As part of the Bank's EMTN (European Medium-Term Note) programme, the Bank expanded its presence in the international capital market in 2001. The first issue of a 10-year euro benchmark bond was made under the programme with a volume of €1 billion being placed in the market. Euro Medium Term Note issues accounted for roughly one-tenth of all funding of the Bank during 2001.

In September and October 2001 the ratings assigned to the Bank's long-term liabilities were confirmed: AAA from Fitch, Aa1 from Moody's and AA from Standard & Poor's.

### **Money-Market Trading**

To improve the ratio between funds raised in the money market and capital market respectively, in 2001, the Bank continued shifting the focus of its money-market trading operations from short-term to long-term maturities. There was a slight increase in securities-lending business as well as repo trading.

### **Foreign Currency Trading**

Although the exchange rate of the euro moved within a relatively small range during 2001, trading volumes increased within the Bank. In particular, there was great demand for transactions in Japanese yen. The Bank extended its relations with small and medium-sized banks in Eastern and Southern Europe during 2001. The level of customer business which grew during the first eight months of the year contracted sharply following the events of 11 September 2001.

### **Securities Trading**

The Bank's securities business comprises (i) the issuance of its medium- and long-term floating rate and fixed rate securities, (ii) underwriting, placing and selling securities on behalf of other issuers and (iii) trading in securities, both for the Bank's own account and on behalf of customers. It plays a leading role in bond trading in the Hamburg area. The Bank is a member of all eight German Stock Exchanges and is a general clearing member of the *Eurex*, *Europäische Terminbörse*.

The Bank uses financial derivative instruments to hedge interest rate and currency risks - both on the liability side and the asset side of its business - but also to take advantage of market opportunities and to cover specific financing requirements of customers.

During 2001, the Bank's own-account trading of shares was very cautious with volumes remaining below those achieved during 2000. Trade in fixed-income securities grew during 2001. In the market for *Pfandbriefe* and borrowers' note loans, the Bank managed to extend its market position in segments

such as euro-denominated treasuries, jumbo *Pfandbriefe* and corporate bonds. Swap trades were used for the Bank's refinancing activities in euro and in foreign currencies.

## **Credit Investments**

The volume of receivables from securities and loans in connection with credit investments reached €24.0 billion by the end of 2001, an increase of 9.4 per cent. compared to 2000. Commitments in the form of credit derivatives amounted to a nominal value of €4.3 billion, a decline compared to 2000. In this segment new business was not able to offset the high volume of maturities in the year 2001 because the premiums that could have been achieved were too small. As in 2000, the Bank again managed to expand its portfolio of asset-backed securities. The portfolio grew to more than €5.6 billion (€3.3 billion in 2000) and consisted predominantly of securities backed by receivables from securities or loans as well as mortgage backed securities. In 2001 the Bank increased its investments in corporate bonds.

## **Derivatives Business**

During 2001, the Bank continued to expand its business in the field of derivative instruments used by customers to meet their special financing needs and to minimise risk while exploiting market opportunities. As at 31 December 2001, the volume of swaps (the sum total of interest, currency and interest currency swaps) amounted to €80.3 billion, an increase of almost 18.6 per cent. compared to 2000. Turnover on forward rate agreements reduced by 90 per cent. to €1.1 billion during 2001. During 2001, the Bank used an increasing number of swaps to hedge its positions and an increasing number of futures for trading purposes.

## **Portfolio of equity-holdings**

The Bank's equity-holdings business increased by 11.2 per cent. or €95.2 million in 2001. At the end of 2001, the total volume stood at €946.1 million (including WK) and comprised a total of 127 holdings including the Bank's holding in WK. The Bank's holdings are primarily used to intensify business relations with corporate customers and to acquire new business. The aims are to generate additional income, enter special areas of business and promote the region's economic development. The Bank acquires strategic and investment-oriented holdings as well as business-support holdings.

The strategic holdings - which the Bank defines as engagements in specialist areas of business as well as holdings aimed at promoting the economic region of Hamburg - account for the largest segment in volume terms. WK, the largest single holding, is responsible for subsidising the construction, maintenance and modernisation of residential housing as well as urban development and environmental projects. Hamburgische Landesbank does not exert any influence on WK's business policy and carries this company as a neutral item on its income statement.

According to management, the Bank has laid decisive foundations for the strategic realignment in the field of securities services. The stake held in WPS WertpapierServiceBank AG was sold to WestLB after both partners agreed to perform and further develop securities clearing operations separately. The Bank then created the basis for its own securities services. The Bank's EWS Plus securities settlement system handled a total of 3.7 million securities orders from the recording to the delivery stage for the Bank's 72 clients. The number of securities accounts managed rose by over 8 per cent. over the previous year to roughly 560,000.

The investment-oriented holdings constitute the most recent additions to the Bank's portfolio. The Bank invests in private equity with the aim of achieving reasonable returns on the capital employed in the light of risk-considerations; by the end of 2001, the Bank had a committed volume of €175 million, of which €37.7 million had already been paid out. In order to minimise the risk involved the Bank primarily invests in funds or fund-of-funds constructions.



## **Equity capital base**

The Bank's subscribed capital currently stands at €1,914.4 million. As at 31 December 2001, €20 million was paid into the fund for general banking risks. Of the profit for the year, €30 million was allocated in advance to revenue reserves, and a further €36 million was added from the unappropriated profit. This means that the Bank's total equity capital amounts to €2,717.9 million. The City of Hamburg and LB Kiel have each held a 50 per cent. share in the capital stock since 1997. HLB-Beteiligungsgesellschaft mbH, a subsidiary of the City of Hamburg, holds, as an atypic dormant partner, a further share in the Bank. After allocation to revenue reserves, the Group has total equity of €3,731.7 million, of which €292.5 million is held by non-Group shareholders.

The Bank's liable equity capital as defined in the German Banking Act - including supplementary capital - increased by €183.8 million to €5,114.5 million during 2001; of this sum, €2,797.9 million constitutes core capital. The Group's liable equity capital rose by almost the same amount (€178.7 million) and stands at €5,836.0 million; of this sum, €3,519.4 million represents core capital.

## **Risk Management**

The shareholders set the framework for the risk policy of the Bank and its subsidiaries in the "Guidelines for Banking Business". On the basis of these guidelines the Board of Managing Directors decides risk policy, including the methods and procedures to be used for risk assessment purposes, monitoring and control. Implementation of risk policy and the co-ordination of risk control are supported by cross-departmental committees - "International Business", "Liquidity Management" and a committee responsible for strategic investments in market risk positions. Our risk management system, which is being developed further in accordance with business management and supervisory law related criteria, is integrated in controls applicable to the Bank as a whole. In this respect, the control of business activities, taking their specific return and risk profiles into account, is gaining further significance.

### ***Risk management system***

The Bank defines risk as unfavourable future developments that may have an immediate or delayed negative effect on the asset or earnings position of the Bank. The Bank distinguishes between counterparty default, liquidity and market risk, as well as operational and miscellaneous risks. Each acceptance of market or credit risks is subject to the higher-ranking principle of risk acceptability, which implies strict risk limitation measures. Such limitation is carried out on the basis of quantitative risk management figures, as well as comprehensive qualitative analyses of risk-entailing processes and market developments. The total overall risk capacity is regularly defined to allow for counterparty default and market risks. The Board of Managing Directors is responsible for fixing overriding upper limits in terms of loss and, therefore, the limitation of risk positions. The risk management process encompasses the identification, monitoring and control of risks. In this regard, the information and decision-making channels within the Bank as a whole are clearly defined. The development of methods for measuring, monitoring and controlling risks is carried out by the Central Risk Controlling unit.

The Bank manages its fields of business in accordance with the "Global Head" principle. This extends to include risk management. For this purpose, the Board of Managing Directors assigns the various business sectors global limits, individual limits or competence levels in qualitative terms. Independent review of the risk management system is performed by the Auditing Department, which regularly tests the appropriateness and effectiveness of the risk management processes.

### ***Credit risk***

Defined under credit risk are counterparty and issuer risk, country risk, as well as risk of equity holdings. Credit risk refers to loss potential caused by a business partner defaulting. The management of these

risks takes place on the basis of limits and competence levels defined by the Board of Managing Directors. The bank utilises its own rating systems for risk classification in the lending divisions.

Counterparty risk is confined by limits which depend on creditworthiness and are evaluated using the mark-to-market principle. The Bank is currently introducing an integrated system for credit and counterparty risk management with a view to expanding the risk management system.

A rating-based limit system limits country risks at the level of the Bank as a whole. Within the framework of managing the credit portfolio structure, international exposure is limited in relation to the entire volume of credit.

#### **Foreign exposure by region as at 31 December 2001**

Region	Percentage of foreign exposure 2001	Percentage of foreign exposure 2000
African countries	0.2%	0.1%
Asia-Pacific region	6.1%	7.2%
International organisations	0.4%	0.9%
Latin America	0.6%	0.7%
Central and Eastern Europe	1.3%	1.2%
Middle East	0.1%	0.1%
North America	13.8%	15.5%
Western Europe	77.5%	74.3%
Total	100%	100%

Within the framework of risk management, the Bank places the most focus on counterparty default risks. The Bank's prudent business policy is reflected in the continuing low proportion of losses of 0.05 per cent in the fiscal year ended 2001 (previous year: 0.17 per cent), or 0.08 per cent (previous year: 0.08 per cent) on average over the last 5 years. Risk provisioning in the form of specific provisions as at 31 December 2001 amounted to € 743 million for the Bank as a whole (previous year: € 672 million), corresponding to a ratio of 0.75 per cent in relation to the credit volume (previous year: 0.74 per cent). General loan loss provisions amounted to € 87 million (previous year: € 44 million).

The Bank is currently in the process of refining its credit risk management. In the wake of the revision of the New Capital Adequacy Framework (Basel II), the existing rating procedures are being further developed in the form of projects for the whole organisation of savings banks and Landesbanks and internal rating modules for all credit risk segments are defined. In this respect, numerous internal projects were initiated during 2001, aimed at improving credit risk management from regulatory as well as economic perspectives. The detailed rating information from the respective operating banking divisions will form the basis for comprehensive credit portfolio management in the future.

#### ***Liquidity risk***

The Board of Managing Directors determines the framework for managing liquidity risk, which is implemented by the Liquidity Management Committee in the form of management strategies. Central co-ordination within this committee is handled by the Asset-Liability Division, which is also responsible for structural liquidity management for periods of less than and of more than one year. Operational liquidity management is handled by the Money and Forex Trading Division.

Asset-Liability Management monitors observation of the Liquidity Convention II of the German Banking Act. In 2001, the liquidity ratio moved between 1.2 and 1.5 (previous year: between 1.3 and 1.7) and

therefore was at all times above the minimum of 1.0 as required by KWG. As at 31 December 2001 it stood at 1.3 (previous year: 1.5).

Asset-Liability Management compiles a detailed liquidity status report on a monthly basis for the Board of Managing Directors and the Liquidity Management Committee, which reflects all due dates or value dates of lending and deposit-taking transactions over the subsequent twelve months. In this process, the Bank examines the consequences of future stock due dates and known new transactions on the liquidity, liquidity structure and liquidity ratio of the Bank.

For the purpose of managing the refinancing risk, the Liquidity Management Committee decides on long-term strategies that serve as the basis for concrete refinancing plans. The possibility of rating deterioration as a result of the withdrawal of the Maintenance obligation and Guarantee obligation have already been taken into account. By means of a defined liquidity corridor and notional liquidity costs, the Liquidity Management Committee manages the balance of the refinancing structure.

Potential losses that may result from a disruption of market liquidity are taken into account within the framework of market risk control and limited through value-at-risk limits ("VaR limits").

### **Market risk**

Market risks define potential losses that may result from unfavourable market changes in the Bank's exposure on the basis of changes in the interest rate structure (interest risks), exchange rates (fx risks), equity prices (equity risks), as well as prices of precious metals, commodities, funds and other trading items (miscellaneous price risks). The Board of Managing Directors stipulates the methods and processes for risk assessment, limitation and management and, upon recommendation of Central Risk Controlling, budgets an overriding VaR limit with respect to market risks. Within the framework of this upper limit for losses, the risks pertaining to trading transactions and strategic transactions are limited through a system of result-oriented VaR limits. Daily reports keep the Board of Managing Directors and business divisions constantly informed regarding the extent of existing market risks and the utilisation of limits. The management of market risks on the basis of trading positions is handled by the Capital Markets and Money and Forex Trading divisions; Asset-Liability Management handles and manages the interest risks pertaining to the Bank's entire payment flow from credit transactions in euros and the most viable foreign currencies. The strategic positions with market risks are monitored by the "Investment Strategy Committee", which advises the Board of Managing Directors on the basis of current market assessments and the Bank's current risk position to increase or liquidate strategic positions. An organisational separation of risk monitoring and management in compliance with the German Minimum Requirements for Performing Trading Business is guaranteed at all levels.

The basis of the Bank's system for measuring and managing market risks is the VaR approach. The determination of risks takes place via parameters calculated in accordance with standards of the Basel Committee on Banking Supervision on the basis of historical market fluctuations. These are subject to a confidence level of 99 per cent, a retention period of 10 days (in terms of trading positions) or 20 days (in terms of strategic positions) and a historical observation period of 250 trading days. A VaR value calculated on the basis of these parameters represents the potential loss that is not exceeded at a confidence level of 99 per cent when holding a position for a period of 10 or alternatively 20 days. Corresponding to the various influencing factors, separate parameters are established with respect to interest, equity and currency risks, which are updated quarterly or when significant market changes occur, and are constantly validated on the basis of back-testing.

In order to determine the degree of utilisation of the VaR limits, the reported VaR values are contrasted against the current VaR limits (allowing for the realised and unrealised profits and losses).

The VaR limit for market risks from trading and strategic transactions (incl. charges to profit and loss) as end-2001 amounted to € 265 million (previous year € 267 million), and transaction risk to € 100 million (previous year € 125 million). This corresponds to a utilisation of 38 per cent of the VaR limit for the entire Bank (previous year 47 per cent).

In compliance with the German Minimum Requirements for Performing Trading Business, the Bank, in addition to daily risk assessment, conducts stress tests at least quarterly, which examine the effects of extraordinary market fluctuations on all types of market risk. During the financial year 2001, the VaR limit in terms of market risks was observed throughout, despite particularly unfavourable market movements.

### ***Operational risk***

Operational risk refers to the risk of direct and indirect losses brought about by the failure or incapability of technology, organisations and personnel or by external influences. In 2001 the Bank has significantly expanded the control and management of its operational risks, both in order to comply with new supervisory requirements and in order to improve operational calculation and planning foundations. Central Risk Controlling assesses and analyses the operational risks of the Group. In addition, it develops assessment methods, is responsible for the implementation of risk assessment and monitoring and in this respect regularly reports to the Board of Managing Directors. Operational risk management is in principle organised in a decentralised manner in the Bank's divisions.

The evaluation and analysis of operational risks rests on three instruments. The loss instance database which is being compiled will serve the standardised documentation and collection of claim instances across the entire Bank. The transparency achieved in this way facilitates a detailed analysis of operational risks. Moreover, risk assessments are regularly carried out via so-called self-assessments on the basis of standardised questionnaires in all divisions. As the third instrument, risk indicators are being developed, which are set to support early identification of operational risks.

### ***Miscellaneous risks***

Miscellaneous risks are defined as loss potential that emanates from initiated, planned or neglected strategic measures. Miscellaneous risks are analysed and managed by special project teams within the framework of the strategic planning process. The results of a project initiated in 1999 for the strategic and organisational restructuring of the Bank were implemented further. As a follow-up in 2001, a review process was initiated for the purpose of further improving business activities.

### ***Overall successful risk management***

Further projects concerning the entire Bank that are still in the process of being implemented guarantee that negative developments within the risk structure can be recognised at an early stage and taken into consideration by measures of risk management. Given continuous strict evaluation criteria, management believes the Bank has sufficiently provided for all recognisable risks. Risk provisions (specific provisions and general loan loss provisions) in terms of counterparty default risks at the end of 2001 amounted to € 743 million (previous year € 672 million). The liquidity ratio of the Bank (Principle II in accordance with § 11 of the German Banking Act) stood at as 1.3 at the end of 2001, and therefore exceeded minimum requirements. The Bank's investment in non-liquid markets has to date been very limited, as in previous years. The liable equity capital defined in accordance with the German Banking Act – including supplementary capital – after revenue allocation amounted to € 5 114.5 million. The total ratio in accordance with Principle I was 10.2 per cent (ratio of weighted risk assets including market risk positions to liable equity capital).

## **Operating Profit**

During 2001 net interest income was once again the main source of the Bank's earnings; the 20 per cent. increase was primarily due to the growth in interest-bearing operations. The Bank profited from increasing margins in the Bank's traditional business. Net commission income remained stable during the year. Growth in administrative expenditure - necessitated by spending on staff as well as on technical resources - increased 16 per cent. over the previous year but even so, remained relatively low. The operating profit of the Bank before risk provisions and adjustments in 2001 reached €552 million, up almost a third on 2000. The Bank transferred €20 million to the Fund for General Banking Risks, thereby raising core capital. Expenditure for net risk-provisioning and valuation almost doubled in 2001 compared

to 2000 reflecting the difficult financial market environment. Income from the writeback of the special item with an accrual character was met by increased valuation charges for securities and equity interests. Income taxes were more than halved compared to the previous year. Following the partial profit transfer of €122 million (no change over the previous year) the Bank's profit for the year - taking into account the share held by HLB-Beteiligungsgesellschaft mbH, a subsidiary of the City of Hamburg - exceeded that of the previous year by approximately 82 per cent.

## **Shareholder Assembly**

The current members of the Bank's Shareholder Assembly are:

Dr. Dietrich Rümker	Chairman
Dr. Wolfgang Peiner	Deputy Chairman
Hans Berger	
Olaf Cord Dielewicz	Guest
Dr. Robert Heller	
Dr. Rainer Klemmt-Nissen	
Claus Möller	
Dr. Andreas Reuß	

## **Supervisory Board**

The current members of the Bank's Supervisory Board are:

Dr. Wolfgang Peiner	Chairman
Dr. Dietrich Rümker	Deputy Chairman
Olaf Behm	
Hans Berger	
Dr. Werner Bohl	
Margitta Dauck	
Olaf Cord Dielewicz	
Heinrich Haasis	
Jens Heiser	
Dr. Robert Heller	
Dr. Thomas Kabisch	
Jutta Langmack	
Sven Mahnke	
Dr. Werner Marnette	
Claus Möller	
Alexander Otto	
Susanne Rüschemann	
Dr. Klaus Schmid-Burgk	
Hans-Joachim Schwandt	
Bernd Steingraeber	
Gunnar Uldall	
Carola Zehle	
Dr. Stefan Schulz	

**Board of Managing Directors**

The current members of the Bank's Board of Managing Directors are:

Alexander Stuhlmann	Chairman
Peter Rieck	Deputy Chairman
Ulf Gänger	
Uwe Kruschinski	
Hartmut Strauss	

## CAPITALISATION OF THE BANK

### Capitalisation

The following table shows the unaudited capitalisation of the Bank as at 31 December 2001:

	(in millions of €)
Capital Stock <sup>(1)</sup> .....	250.8
Non-voting preferred share capital <sup>(2)</sup> .....	1,663.6
Reserves .....	877.5
Subordinated capital <sup>(3)</sup> .....	2,380.2
Total capital and reserves .....	5,172.1
Long-term unsubordinated debt to financial institutions and customers (with an outstanding maturity of more than five years) .....	15,086.0
Short-term and medium-term unsubordinated debt to financial institutions and customers (with an outstanding maturity of up to five years) .....	48,799.0
Other debt in form of bonds or other issued securities .....	15,561.1
<b>Total capitalisation<sup>(4)</sup> .....</b>	<b>84,618.2</b>

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#### Notes:

- (1) The capital stock is held by the City of Hamburg (50.5 per cent.) and LB Kiel (49.5 per cent.).
- (2) Non-voting preferred share capital was increased by €250,000,000 in March 2002.
- (3) Subordinated Capital includes both subordinated capital loan stock (*Genussscheine*) and subordinated debt in the form of bonds or loans. A part of the Subordinated Capital qualifies as Tier II Capital. As at 31 December 2001 this figure amounted to €2,217,000,000.
- (4) Except as disclosed above, there have been no material changes in the capitalisation since 31 December 2001.



## SUMMARY FINANCIAL STATEMENTS OF THE BANK

### Condensed Balance Sheet as at 31 December 2001

#### Assets

		As at 31 December	
		2001	2000
		€'000	€'000
1.	Liquid funds.....	80,107	64,736
2.	Debt certificates issued by public bodies and bills of exchange eligible for refinancing with central banks	3,678	1,843
3.	Receivables from banks		
(a)	Due at sight.....	3,045,444	2,480,392
(b)	Other receivables.....	16,108,083	16,718,390
		19,153,527	19,198,782
4.	Receivables from customers.....	36,623,751	33,472,758
	Thereof:		
	Secured by property mortgages € 8,095,157*		
	(2000: € 8,486,666)*		
	Community loans € 3,932,521*		
	(2000: € 4,413,649)*		
5.	Debt securities and other fixed-interest securities		
(a)	Money-market funds .....	772,174	107
(b)	Bonds and debt securities.....	25,040,746	22,427,547
(c)	Own debt securities.....	553,904	443,813
		26,366,824	22,871,467
6.	Shares and other variable-yield securities .....	1,653,514	1,673,906
7.	Investments.....	673,680	664,517
8.	Shares in affiliated undertakings .....	272,398	186,361
9.	Trust assets .....	257,460	213,139
10.	Tangible fixed assets .....	34,259	27,939
11.	Other assets .....	2,152,951	2,088,116
12.	Prepaid and deferred expenses .....	231,216	261,204
	Total .....	87,503,365	80,724,768

\*Denotes €'000

## Liabilities

		As at 31 December	
		2001	2000
	€'000	€'000	€'000
1. Liabilities to banks			
(a) Payable on demand.....		1,498,195	2,010,491
(b) With an agreed term or notice period.....		32,672,678	30,205,805
		34,170,873	32,216,296
2. Liabilities to customers			
(a) Savings deposits.....		86,313	82,493
(b) Other liabilities .....			
(ba) Payable on demand.....	4,633,111		3,515,679
(bb) With an agreed term or notice period.....	24,994,666		19,211,790
		29,627,777	22,727,469
		29,714,090	22,809,962
3. Certificated liabilities			
(a) Debt securities issued .....		12,248,041	13,612,607
(b) Other certificate liabilities .....		3,313,105	4,213,184
		15,561,146	17,825,791
4. Trust liabilities .....		257,460	213,139
5. Other liabilities .....		2,063,894	1,902,985
6. Deferred income.....		219,294	242,586
7. Accrued expenses			
(a) Pensions and similar accruals .....		149,609	138,526
(b) Tax accruals .....		40,407	145,947
(c) Other accrued expenses .....		57,935	79,461
		247,951	363,934
8. Special item with accrual character .....		26,772	58,367
9. Subordinated liabilities .....		1,518,762	1,434,922
10. Capital with participation rights .....		861,407	912,536
11. Fund for general banking risks.....		110,000	90,000
12. Equity			
(a) Subscribed capital.....		1,914,380	1,884,380
(b) Capital reserves .....		445,602	445,602
(c) Revenue reserves			
(ca) Legal reserves.....	142,855		142,855
(cb) Other reserves .....	179,056		126,056
		321,911	268,911
(d) Revenue share of atypic dormant partner .....		523	907
(e) Profit for the year .....		69,300	54,450
		2,751,716	2,654,250
Total .....		87,503,365	80,724,768
1. Contingent liabilities .....			-
Liabilities on guarantees, endorsements of bills and cheques, and on warranties.....		9,337,385	6,141,801
2. Other liabilities .....			-
Irrevocable lines of credit granted .....		2,437,395	2,733,752

# **Condensed Profit and Loss Account for the period from 1 January to 31 December 2001**

		As at 31 December			
				2001	2000
		€'000	€'000	€'000	€'000
1.	Interest income from				
	(a) Loans and money-market transactions.....	2,976,651			2,991,409
	(b) Fixed-interest securities and debt securities .....	1,251,842			1,228,709
			4,228,493		4,220,118
2.	Interest expenses .....		3,657,886		3,742,239
				570,607	477,879
3.	Income from				
	(a) Shares and other variable rate securities .....		72,559		77,799
	(b) Investments.....		5,537		4,859
	(c) Shares in affiliated undertakings .....		22,492		280
				100,588	82,938
4.	Income from profit transfers and partial profit transfer agreements .....			-	-
5.	Commission income .....		116,261		116,776
6.	Commission expenses .....		23,030		23,627
				93,231	93,149
7.	Net income from financial operations .....			18,222	7,872
8.	Other operating income .....			80,584	41,065
9.	Income from special item with accrual character			31,595	36,327
10.	General administrative expenses				
	(a) Personnel expenses				
	(aa) Wages and salaries .....	111,265			98,475
	(ab) Social security contributions, pension and welfare expenses .....	40,154			38,414
			151,419		136,889
	(b) Other administrative expenses .....		125,001		102,763
				276,420	239,652
11.	Amortisation and depreciation of intangible and tangible fixed assets .....			19,840	16,737
12.	Other operating expenses .....			14,585	26,848
13.	Write-downs of and provisions against receivables and certain securities and additions to accruals relating to the credit business.....		249,681		115,842
14.	Income from reversals of write-downs of receivables and certain securities and income from reversal of accruals relating to the credit business .....		-		-
				249,681	115,842

		As at 31 December	
		2001	2000
		€'000	€'000
	€'000	€'000	€'000
15. Transfer to funds for general banking risks .....		19,800	24,750
16. Write-downs of and provisions against investments, shares in affiliated undertakings and securities treated as fixed assets .....	42,141		39,201
17. Income from reversal of write-downs of investments, shares in affiliated undertakings and securities treated as fixed assets .....	-		-
		42,141	39,201
18. Expenses from loss transfers .....		-	-
19. Result from normal operations .....		272,360	276,200
20. Taxes on income .....	48,578		97,343
21. Other taxes, if not reported in position 12 .....	441		446
		49,019	97,789
22. Profit transferred as a result of a partial profit transfer agreement .....		122,135	122,110
23. Revenue entitlement of atypical dormant partner .....		2,206	1,851
24. Net profit .....		99,000	54,450
25. Transfer into other revenue reserves .....		29,700	-
26. Profit for the year .....		69,300	54,450

## SUMMARY FINANCIAL STATEMENTS OF THE GROUP

### Condensed Balance Sheet as at 31 December 2001

#### Assets

		As at 31 December	
		2001	2000
	€'000	€'000	€'000
1. Liquid Funds .....		80,382	64,836
2. Debt certificates issued by public bodies and bills of exchange eligible for refinancing with central banks .....		3,678	1,843
3. Receivables from banks			
(a) Due at sight.....	3,091,672		2,520,726
(b) Other receivables.....	16,175,214		16,810,683
		19,266,886	19,331,409
4. Receivables from customers.....		41,371,578	38,170,444
Thereof:			
Secured by property mortgages	€ 12,172,975*		
	(2000: € 12,563,277)*		
Community Loans	€ 4,502,786*		
	(2000: € 4,907,249)*		
5. Debt securities and other fixed-interest securities			
(a) Money market funds.....	772,174		107
(b) Bonds and debt securities.....	25,826,669		22,995,609
(c) Own debt securities .....	566,884		446,832
		27,165,727	23,442,548
6. Shares and other variable-yield securities .....		1,653,514	1,673,906
7. Investments.....		74,690	65,527
8. Shares in affiliated undertakings .....		152,606	75,569
9. Trust assets .....		296,947	256,053
10. Immaterial assets .....		306	275
11. Tangible fixed assets .....		149,935	143,889
12. Other assets .....		2,216,766	2,145,254
13. Prepaid and deferred expenses .....		233,727	263,163
Total .....		92,666,742	85,634,716

\*Denotes €'000

## Liabilities

		As at 31 December	
		2001	2000
	€'000	€'000	€'000
1. Liabilities to banks			
(a) Payable on demand.....		1,482,768	2,041,682
(b) With an agreed term or notice period.....		30,147,400	29,877,750
		31,630,168	31,919,432
2. Liabilities to customers			
(a) Savings deposits.....		86,313	82,493
(b) Other liabilities			
(ba) Payable on demand.....	4,690,928		3,539,985
(bb) With an agreed term or notice period.....	25,691,103		19,874,542
		30,382,031	23,414,527
		30,468,344	23,497,020
3. Certificated liabilities			
(a) Debt securities issued .....		18,029,749	16,927,250
(b) Other certified liabilities .....		3,313,105	4,213,184
		21,342,854	21,140,434
4. Trust liabilities .....		296,947	256,053
5. Other liabilities .....		2,150,420	2,021,903
6. Deferred income.....		220,999	243,803
7. Accrued expenses			
(a) Pensions and similar accruals .....		165,741	154,423
(b) Tax accruals .....		41,060	146,183
(c) Other accrued expenses .....		63,219	85,999
		270,020	386,605
8. Special item with accrual character .....		26,772	58,367
9. Subordinated liabilities .....		1,518,762	1,434,922
10. Capital with participation rights .....		861,407	912,536
11. Fund for general banking risks.....		110,000	90,000
12. Equity			
(a) Subscribed capital.....		1,914,380	1,884,380
(b) Capital reserves .....		445,602	445,602
(c) Revenue reserves			
(ca) Legal reserves.....	142,855		142,855
(cb) Other reserves .....	179,301		126,900
(d) Exceptional amount due to capital consolidation .....		322,156	269,755
		721,073	721,073
(e) Revenue share of dormant partner .....		523	907
(f) Profit for the year .....		73,792	59,401
(g) Adjustment item for shares of other stockholders.....		292,523	292,523
		3,770,049	3,673,641
Total .....		92,666,742	85,634,716
Contingent liabilities			
Liabilities on guarantees of bills and cheques and on warranties		4,100,725	3,395,021
Other commitments			
Irrevocable lines of credit granted .....		3,664,716	4,041,305

## Condensed Profit and Loss Account for the period from 1 January to 31 December 2001

	As at 31 December			
	€'000	€'000	2001 €'000	2000 €'000
1. Interest income from				
(a) Loans and money-market transactions .....	3,312,134			3,305,740
(b) Fixed-interest securities and debt securities .....	1,285,091			1,261,810
		4,597,225		4,567,550
2. Interest expenses .....		3,876,077		3,946,391
			721,148	621,159
3. Income from				
(a) Shares and other variable rate securities .....		72,559		77,800
(b) Investments .....		5,537		4,859
(c) Shares in affiliated undertakings .....		13,342		279
			91,438	82,938
4. Income from profit transfers and partial profit transfer agreements .....			-	-
5. Commission income .....		125,396		126,115
6. Commission expenses .....		22,841		23,449
			102,555	102,666
7. Net income from financial operations .....			18,298	7,896
8. Other operating income .....			84,132	44,255
9. Income from promotion business .....			63,176	87,240
10. Income from special item with actual character .....			31,595	36,327
11. General administrative expenses				
(a) Personnel expenses				
(aa) Wages and salaries .....	120,354			108,762
(ab) Social security contributions, pension and welfare expenses .....	43,429			43,456
		163,783		152,218
(b) Other administrative expenses .....		122,717		100,469
			286,500	252,687
12. Amortisation and depreciation of intangible and tangible fixed assets .....			25,790	21,504
13. Other operating expenses .....			14,630	27,647
14. Expenses for promotion business .....			204,761	219,868
15. Write-downs of and provisions against receivables and certain securities and additions to accruals relating to the credit business .....		245,780		115,437
16. Income from reversals of write-downs of receivables and certain securities and income from reversal of accruals relating to the credit business .....		-		-
			245,780	115,437
17. Transfers to fund for general banking risks .....			19,800	24,750

		As at 31 December	
		2001	2000
		€'000	€'000
	€'000	€'000	€'000
18. Write-downs of and provisions against investments, shares in affiliated undertakings and securities treated as fixed assets .....	43,125		39,201
19. Income from reversal of write-downs of investments, shares in affiliated undertakings and securities treated as fixed assets .....	-		-
		43,125	39,201
20. Expenses from loss transfers .....		-	-
21. Results from normal operations .....		271,956	281,387
22. Taxes on income .....	49,232		97,579
23. Other taxes, if not reported in position 13 .....	441		446
		49,673	98,025
24. Profit transferred as a result of a partial profit transfer agreement .....		122,135	122,110
25. Revenue entitlement of dormant partner .....		2,206	1,851
26. Net profit .....		97,942	59,401
27. Transfer into other revenue reserves .....		24,150	-
28. Profit for the year .....		73,792	59,401



## HLB GUERNSEY

### Establishment and Domicile

HLB Guernsey was incorporated as a limited corporation on 30 January 1998 ("Date of Incorporation") under the laws of Guernsey for an unlimited period of time and is a wholly-owned subsidiary of the Bank. HLB Guernsey's office is located at Arnold House, St Julian's Avenue, St Peter Port, Guernsey GY1 3DA.

### Purpose

The principal purpose of HLB Guernsey is to raise funds by issuing Notes under the Programme and other debt instruments. The funds raised are lent to entities within the Bank Group.

### Share Capital

The authorised share capital of HLB Guernsey amounts to £100,000 divided into 100,000 ordinary shares of £1 par value each. As of the Date of Incorporation all 100,000 shares were issued and fully paid-up. The Bank owns all of the issued share capital of HLB Guernsey.

### Capitalisation

The following table shows the audited capitalisation and the shareholder's equity of HLB Guernsey as at 31 December 2001:

Shareholder's equity	EUR
Paid-up share capital (ordinary shares) .....	152,641
Reserves .....	623,383
Total shareholder's funds .....	776,024
Long-term unsubordinated debt to financial institutions and customers (with an outstanding maturity of more than five years) .....	1,956,857,190
Short-term and medium-term unsubordinated debt to financial institutions and customers (with an outstanding maturity of up to five years) .....	3,687,084,027
<b>Total capitalisation<sup>(1)</sup> .....</b>	<b>5,644,717,241</b>

Note:

(1) There has been no material change in the capitalisation of HLB Guernsey since 31 December 2001.

### Management

The management of HLB Guernsey is exercised by the Board of Directors, consisting of one Managing Director and four Directors:

Jeffrey L. Burton, Guernsey  
Barings (Guernsey) Limited  
Managing Director

Ralf Paulsen  
Hamburgische Landesbank - Girozentrale -  
Director

Christopher M. Mallandaine, Guernsey  
Barings (Guernsey) Limited  
Director

Constantijn P. Nieuwenhuis, Hamburg  
Hamburgische Landesbank - Girozentrale -  
Director

Stuart J. Lawson, Guernsey  
Barings (Guernsey) Limited  
Director

### **Auditors**

The auditors of HLB Guernsey are KPMG Chartered Accountants, P.O. Box 235, 2 Grange Place, The Grange, St. Peter Port, Guernsey GY1 4LD.

### **General Meeting of Shareholders**

The general meetings are held in Guernsey or elsewhere at the discretion of the Directors. There must be at least one general meeting held in every financial year.

### **Financial Year**

The financial year of HLB Guernsey is the calendar year.

### **Distribution of Profits**

The net profit of HLB Guernsey may be allocated to reserves or paid out as dividends at the discretion of the general meeting of shareholders in accordance with the Articles of Association of HLB Guernsey and Guernsey law.

## SUMMARY FINANCIAL STATEMENTS OF HLB GUERNSEY

### Revenue Account for the Year ended 31 December 2001 and 2000

	<u>2001</u>		<u>2000</u>	
	EUR	EUR	EUR	EUR
<b>Income</b>				
Commission		573,714		325,923
Loan interest		205,465,204		87,977,243
Bank interest		17,711		9,674
Exchange loss		(170)		(8,902)
		<u>206,056,459</u>		<u>88,303,938</u>
<b>Expenses</b>				
Interest on note issues	205,463,732		87,974,651	
Administration fees	130,123		80,423	
Audit fee	8,391		10,929	
Legal and professional	64,951		30,822	
Travel and entertaining	1,376		5,138	
Depreciation	1,483		1,408	
Information Systems	498		-	
Bank charges	7,516		3,254	
	<u>205,678,070</u>		<u>88,106,625</u>	
<b>Surplus for the year</b>		378,389		197,313
Retained surplus/(deficit) brought forward		244,994		47,681
<b>Retained surplus as at the end of year</b>		<u>623,383</u>		<u>244,994</u>

## SUMMARY FINANCIAL STATEMENTS OF HLB GUERNSEY

### Balance Sheet as at 31 December 2001

	2001		2000	
	EUR	EUR	EUR	EUR
<b>Assets employed</b>				
Tangible fixed assets		-		1,483
Loans to parent company repayable after more than one year		5,315,235,227		2,454,590,839
<b>Current assets</b>				
Loans to group companies	328,705,990		778,718,253	
Debtors and Prepayments	11,976		289,023	
Interest receivable	74,902,400		46,270,118	
Cash at bank	797,018		433,545	
	<u>404,417,384</u>		<u>825,710,939</u>	
<b>Liabilities falling due within one year</b>				
Capital instruments issued	328,705,990		778,718,253	
Interest payable	74,902,400		46,270,118	
Creditors and accruals	32,970		326,416	
	<u>403,641,360</u>		<u>825,314,787</u>	
<b>Net current assets</b>		776,024		396,152
<b>Total assets less current liabilities</b>		<u>5,316,011,251</u>		<u>2,454,988,474</u>
<b>Liabilities falling due in more than one year</b>				
Capital instruments issued		5,315,235,227		2,454,590,839
		<u>776,024</u>		<u>397,635</u>
<b>Financed by</b>				
<b>Shareholders' funds</b>				
Share capital		152,641		152,641
Reserves		623,383		244,994
		<u>776,024</u>		<u>397,635</u>

## TAXATION

The information below is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of Notes and/or Coupons. Prospective purchasers are urged to satisfy themselves as to the overall tax consequences of purchasing, holding and/or selling Notes and/or Coupons.

### The Federal Republic of Germany

Payments of interest on Notes to persons who are resident in the Federal Republic of Germany (that includes persons whose residence, customary place of abode, head office or central management or legal domicile or permanent establishment is located in the Federal Republic of Germany) are subject to German personal or corporate income tax and trade tax if the Notes are held as business assets. If the Notes are kept or administered in a domestic securities deposit account by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution, a 30 per cent. capital yield tax on interest payments ("Zinsabschlagsteuer"), plus a 5.5 per cent. solidarity surcharge on such tax, will be levied on interest payments, resulting in a total withholding tax charge of 31.65 per cent. If Notes or Coupons are presented for payment at the office of a paying agent in Germany, the tax rate for the Zinsabschlagsteuer is always 35 per cent. plus solidarity surcharge, resulting in a total tax charge of 36.925 per cent. Such Zinsabschlagsteuer and solidarity surcharge are later credited as prepayments against the German personal or corporate income tax and the respective solidarity surcharge.

If a Noteholder sells the Note during a current interest period, the accrued interest received in this connection will also be subject to personal or corporate income tax and trade tax if the Notes are held as business assets and the 30 per cent. Zinsabschlagsteuer plus solidarity surcharge.

Accrued interest charged to and paid by a Noteholder upon the purchase of the Notes reduces the personal or corporate income tax base and - under certain circumstances - the taxable base for the Zinsabschlagsteuer and the solidarity surcharge.

If Notes issued under the Programme are classified as Finanzinnovationen (financial innovations) under the special provisions of § 20 (2) No. 4 of the Income Tax Act, (1997) capital gains deriving from the disposal or redemption of the Notes will be subject to personal or corporate income tax and trade tax if the Notes are held as business assets. The tax base is determined by the balance of the issue price or the acquisition costs and the disposal price or redemption amount if the Notes do not have an issuing yield or the Noteholder does not bring proof for the issuing yield. An additional withholding tax may arise as follows:

If the Note is sold prior to maturity or redeemed at maturity, an additional taxation may be usually applicable. A positive difference between the purchase price paid by the Noteholder and the selling price or redemption price, as the case may be, is subject to an additional 30 per cent. Zinsabschlagsteuer plus solidarity surcharge. If the Notes are denominated in other currencies than Euro, the positive difference is firstly calculated in such other currency and then converted into Euro. However if, for example, the Note is sold or redeemed after a transfer from a securities deposit account kept with another bank, the price difference as the taxable base for the Zinsabschlagsteuer and the solidarity surcharge will be substituted by a flat amount of 30 per cent. of the selling price or the redemption price. This flat-rate taxation is not final but will be modified in the course of the relevant assessment of personal or corporate income tax and trade tax, using the price difference of the new issue rate (*besitzzeitanteilige Emissionsrendite*) or the price difference between the purchase price and the selling price or the redemption price as the taxable basis.

If Notes or Coupons are presented for payment at the office of a paying agent in Germany, the tax rate for the Zinsabschlagsteuer is always 35 per cent. plus solidarity surcharge, resulting in a total

tax charge of 36.925 per cent. If the Note is classified as financial innovation and repaid at maturity or sold prior to maturity, the Zinsabschlagsteuer of 35 per cent. plus solidarity surcharge is always calculated on 30 per cent. of the selling price or the redemption price (flat amount). This flat amount is not final but will be included in the relevant assessment of personal or corporate income tax and trade tax, using the price difference of the issue yield rate or the price difference between the purchase price and the selling price or the redemption price as the taxable basis. The Zinsabschlagsteuer and the solidarity surcharge can be set off against the German personal or corporate income tax and trade tax liability and solidarity surcharge liability.

Special rules would apply, if the Notes qualified as units in a foreign fund, which might be the case with regard to Index-Linked Notes.

Persons which are not tax resident in Germany, are in general exempt from this German Zinsabschlagsteuer plus solidarity surcharge. In the case of over-the-counter-transactions, with the exception of transactions entered into by foreign credit institutions or foreign financial services institutions, the 35 per cent. Zinsabschlagsteuer plus solidarity surcharge are applicable but can be refunded to non-residents. If according to German tax law the interest received from the Notes kept or administered in a domestic securities account are effectively connected with a German trade or business of a non-resident, the 30 per cent. Zinsabschlagsteuer plus solidarity surcharge are applicable and can be set off against the German personal or corporate income tax liability of the non-resident.

## **United Kingdom**

The following is a summary of the United Kingdom withholding tax treatment at the date hereof in relation to the payment of principal, interest, discount and premium in respect of the Notes and also contains a summary of some other salient points relating to the United Kingdom taxation treatment of Noteholders. The summary does not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. Except where the context otherwise requires, the comments relate only to the position of persons who are absolute beneficial owners of the Notes and do not deal with the position of certain classes of Noteholders such as dealers.

### **Notes issued by HLB London ("UK Notes")**

1. If UK Notes have a maturity date of less than one year from the date of issue (and the borrowing under such Notes at no time forms part of a borrowing which is intended to have a total term of one year or more), any payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax.
2. While the Bank continues to be a bank for the purposes of section 840A of the Income and Corporation Taxes Act 1988, interest not falling within paragraph 1 above ("yearly interest") but paid by it in the ordinary course of its business may be paid without withholding for or on account of United Kingdom income tax.
3. Irrespective of whether yearly interest may be paid gross in accordance with paragraph 2 above, while the UK Notes continue to be listed on a recognised stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the London and Luxembourg Stock Exchanges are currently so recognised), payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax.
4. Interest in respect of UK Notes may have a United Kingdom source. If this is the case, and paragraphs 1, 2 and 3 above are not applicable, then, subject to relief under an applicable double taxation treaty, such interest will be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.). When UK Notes are issued at a discount or redeemable at a premium, such United Kingdom withholding tax will not apply to the payment

of such discount or premium so long as it does not constitute yearly interest for United Kingdom tax purposes.

5. To the extent that payments constituting income in respect of UK Notes have a United Kingdom source, they will be chargeable to United Kingdom tax by direct assessment even if paid without withholding or deduction. However, sections 126 to 129 of the Finance Act 1995 contain provisions to the effect that income in respect of Notes with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the income is received or to which the Notes are attributable, in which case, subject to certain exemptions for income received by certain categories of agent (such as some brokers and investment managers), tax may be levied on the United Kingdom branch or agency.
6. The provisions relating to additional amounts referred to in Condition 7 of the Notes would not apply if the Inland Revenue sought to make a direct assessment on a Noteholder. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

#### **All Notes**

7. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.
8. Holders of Notes within the charge to United Kingdom corporation tax may be subject to United Kingdom corporation tax on the receipt of income in respect of Notes and their holding, disposal and redemption (including a part redemption of Notes that are redeemable in two or more instalments) of Notes. The nature of the tax charge will depend upon the terms of the Note in question and the particular circumstances of the relevant Noteholder. In particular, Noteholders within the charge to United Kingdom corporation tax should have regard to the provisions of the "loan relationship" legislation contained in the Finance Act 1996 and the capital gains legislation.
9. Holders of Notes who are individuals and who are resident or ordinarily resident in the United Kingdom or carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable, may be subject to United Kingdom income or capital gains tax on the receipt of income in respect of Notes and on the disposal or redemption (including a part redemption of Notes that are redeemable in two or more instalments) of Notes. The nature of the tax charge will depend upon the terms of the Note in question and the particular circumstances of the relevant Noteholder. In particular, individual Noteholders should have regard, where appropriate, to the capital gains tax legislation, the "accrued income scheme" legislation and the "relevant discounted securities" legislation and they should note that under certain provisions of United Kingdom tax legislation (the "relevant discounted securities" legislation) the issue of the Notes under a particular Pricing Supplement may, in certain circumstances, alter the tax treatment of Notes previously issued.

#### **Guernsey**

HLB Guernsey has applied for and has been granted tax exempted status in Guernsey pursuant to the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989, 1992 and 1996. The exemption is granted on an annual basis after payment of an annual fee to the States of Guernsey Income Tax Authority. It is the intention of the directors of HLB Guernsey to apply for such exemption annually.

No withholding tax or deduction will be made on interest payments made by HLB Guernsey in respect of any Notes issued by HLB Guernsey to non-resident Guernsey Noteholders.

Noteholders who do not engage in trade or carry on business through a permanent establishment in Guernsey for Guernsey tax purposes and who are not resident in Guernsey for Guernsey tax purposes will not suffer any charge for Guernsey income tax on any interest payments received from HLB Guernsey nor will such holders be required to file or make any return to the Income Tax Authority in Guernsey.

Under current legislation in Guernsey there is no liability to Capital Gains Tax, Wealth Tax, Capital Transfer Tax or Estate or Inheritance Tax on the issue, transfer, realisation or redemption of Notes issued by HLB Guernsey nor is any stamp duty or similar tax payable in Guernsey on the issue or transfer of such Notes.

Holders of Notes who are resident for tax purposes in Guernsey or engage in trade or carry on business in Guernsey through a branch or agency to which the Note is attributable may be subject to Guernsey income tax on the interest paid on the Notes.

In the event of the death of a sole holder of Notes, a Guernsey grant of probate or administration may be required in respect of which certain fees will be payable to the Ecclesiastical Registrar in Guernsey.

### **Proposed EU Directive on the Taxation of Savings Income**

The Council of the European Union has published a revised draft directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments and subject to the proposals not being required to be applied to Notes issued before 1 March 2002 or to tranches of Notes issued before 1 March 2002 which are fungible with Notes issued before 1 March 2001 or where the original prospectus was certified before that date. The proposed directive is not yet final, and may be subject to further amendment.



## **SUBSCRIPTION AND SALE**

### **Summary of Programme Agreement**

Subject to the terms and on the conditions contained in an amended and restated Programme Agreement dated 8 June 2001 (the “Amended and Restated Programme Agreement”) as supplemented and amended by a First Supplemental Programme Agreement dated 7 June 2002 (the “First Supplemental Programme Agreement” and together with the Amended and Restated Programme Agreement, the “Programme Agreement”), each between the Issuers, the Guarantor, the Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuers to the Permanent Dealers. However, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuers through the Dealers, acting as agents of the Issuers. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

Each of the Issuers, failing whom (where relevant) the Guarantor, will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by such Dealer. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Pricing Supplement. Each of the Issuers, failing whom (where relevant) the Guarantor, has agreed to reimburse the Arranger for their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

Each of the Issuers, failing whom (where relevant) the Guarantor, has agreed to indemnify the Dealers and the Arranger against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

### **Selling Restrictions**

#### **United States**

The Notes have not been and will not be registered under the U.S. 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, U.S. 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.

Notes having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed that, except as permitted by the Programme Agreement, it will not offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

Each Dealer has represented, warranted and agreed that:

- (i) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of a period of six months from the issue date of such Notes, will not offer or sell any such Notes 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
- (ii) in relation to any Notes which must be redeemed before the first anniversary of the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than 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 who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer
- (iii) 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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not or, would not, if it was not an authorised person, apply to the Issuer or the Guarantor and
- (iv) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

### **Germany**

Each Dealer has represented and agreed that it has only offered and sold and will only offer and sell Notes in the Federal Republic of Germany in accordance with the provisions of the Securities Sales Prospectus Act of 13 December 1990, as amended (*Wertpapier-Verkaufsprospektgesetz*) and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of Notes in the Federal Republic of Germany may only be made in accordance with the provisions of the Securities Sales Prospectus Act and any other applicable laws in the Federal Republic of Germany governing the issue, sale and offering of securities.

### **Guernsey**

Each Dealer has represented and agreed that it has not offered or sold and will not offer or sell any Notes to any person resident for the purposes of the Income Tax (Guernsey) Law 1975 in the Islands of Guernsey, Alderney or Herm.

### **Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in

Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

#### **General**

These selling restrictions may be modified by the agreement of the Issuers and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Offering Circular, any other offering material or any Pricing Supplement and none of the Issuers, the Guarantor, nor any other Dealer shall have responsibility therefor.

## FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche is set out below:

Pricing Supplement dated [•]

**[HAMBURGISCHE LANDESBANK - GIROZENTRALE -]  
[HAMBURGISCHE LANDESBANK LONDON BRANCH]  
[HAMBURGISCHE LB FINANCE (GUERNSEY) LIMITED]**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
[Guaranteed by **Hamburgische Landesbank - Girozentrale -**]  
under the **€20,000,000,000 Euro Medium Term Note Programme**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 7 June 2002 [and the supplemental Offering Circular dated [•]]. This Pricing Supplement must be read in conjunction with such Offering Circular [as so supplemented].

*[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]*

- |          |  |  |
|----------|--|--|
| <b>1</b> | (i) Issuer:  | [•]  |
|          | (ii) [Guarantor:   | Hamburgische Landesbank<br>-Girozentrale-]   |
| <b>2</b> | (i) Series Number:   | [•]  |
|          | (ii) [Tranche Number:  | [•]  |
|          | (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)] |  |
| <b>3</b> | Specified Currency or Currencies:  | [•]  |
| <b>4</b> | Aggregate Nominal Amount:  |  |
|          | (i) Series:  | [•]  |
|          | (ii) [Tranche:   | [•]]   |
| <b>5</b> | (i) Issue Price:   | [•] per cent. of the Aggregate Nominal Amount [plus accrued Interest from [insert date] ( <i>in the case of fungible issues only, if applicable</i> )] |
|          | (ii) [Net proceeds:  | [•] ( <i>Required only for listed issues</i> )]  |
| <b>6</b> | Specified Denominations:   | [•]<br>[•]   |
| <b>7</b> | (i) Issue Date:  | [•]  |

- (ii) [Interest Commencement Date (if different from the Issue Date): [•]]
- 8 Maturity Date: [specify date or (for Floating Rate Notes) Interest Payment Date falling in the relevant month and year]
- 9 Interest Basis: [[•] per cent. Fixed Rate]  
 [[*specify reference rate*] +/- [•] per cent. Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Other (*specify*)]  
 (further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]  
 [Index Linked Redemption]  
 [Dual Currency]  
 [Partly Paid]  
 [Instalment]  
 [Other (*specify*)]
- 11 Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
- 12 Put/Call Options: [Put]  
 [Call]  
 [(further particulars specified below)]
- 13 (i) Status of the Notes: [Senior/[Dated/perpetual]/Subordinated]  
 (ii) [Status of the Guarantee: [Senior/[Dated/perpetual]/Subordinated]]
- 14 Listing: [Luxembourg/Other (*specify*)/None]
- 15 Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 16 **Fixed Rate Provisions** [Applicable/Not Applicable]  
 (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate [(s)] of Interest: [•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year

- |  |  |
|--|--|
| (iii) Fixed Coupon Amount [(s)]:   | [•] per [•] in nominal amount  |
| (iv) Broken Amount:  | <i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate and specify the number of days used to calculate such amounts]</i> |
| (v) Day Count Fraction (Condition 4(a)):   | [30/360; Actual/Actual-ISMA]   |
| (vi) Determination Date(s) (Condition 4(a)):   | <i>[Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)] in each year. (Only to be completed for an issue where Day Count Fraction is Actual/Actual-ISMA)</i>                      |
| (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | [Not Applicable/give details e.g. Day Count Fraction.]   |

## 17 Floating Rate Provisions

- |  |  |
|--|--|
|  | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph.) Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate for Notes denominated in euro</i> |
| (i) Specified Period(s)/ Specified Interest Payment Dates:   | [•]  |
| (ii) Business Day Convention:  | [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]  |
| (iii) Additional Business Centre(s) (Condition 4(a)):  | [•]  |
| (iv) Manner in which the Rate(s) of Interest is/are to be determined:  | [Screen Rate Determination/ISDA Determination/other (give details)]  |
| (v) Interest Period Date(s)  | [Not applicable / specify dates]   |
| (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent) (i.e. the Determination Agent): | [•]  |
| (vii) Screen Rate Determination (Condition 4(b)(ii)(b)):   |  |
| - Relevant Time:   | [•]  |

-	Interest Determination Date(s):	<i>[•] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Period/each Interest Payment Date]</i>
-	Reference Rate:	<i>[Either LIBOR, EURIBOR or other, although additional information is required if other including fallback provisions]</i>
-	Relevant Screen Page:	<i>[•]</i>
-	Relevant Time:	<i>[•]</i>
(viii)	ISDA Determination (Condition 4(b)(ii)(a)):	
-	Floating Rate Option:	<i>[•]</i>
-	Designated Maturity:	<i>[•]</i>
-	Reset Date:	<i>[•]</i>
-	ISDA Definitions: (if different from those set out in the Conditions)	<i>[•]</i>
(ix)	Margin(s):	<i>[+/-][•] per cent. per annum</i>
(x)	Minimum Rate of Interest:	<i>[•] per cent. per annum</i>
(xi)	Maximum Rate of Interest:	<i>[•] per cent. per annum</i>
(xii)	Day Count Fraction (Condition 4(b)(iv)):	<i>[•]</i>
(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	<i>[•]</i>
<b>18</b>	<b>Zero Coupon Note Provisions</b>	<i>[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	[Amortisation/Accrual] Yield (Condition 6(e)(iii)):	<i>[•] per cent. per annum</i>
(ii)	Reference Price:	<i>[•]</i>
(iii)	Any other formula/basis of determining amount payable:	<i>[•]</i>
(iv)	Day Count Fraction (Condition 6(e)(iii)(b)):	<i>[•]</i>
<b>19</b>	<b>Index Linked Interest Note Provisions</b>	<i>[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Index/Formula:	<i>[Give or annex details]</i>

- |        |  |  |
|--------|--|--|
| (ii)   | Calculation Agent or Determination Agent responsible for calculating the interest due:                                   | [•]  |
| (iii)  | Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: | [•]  |
| (iv)   | Specified Period(s)/Specified Interest Payment Dates:  | [•]  |
| (v)    | Business Day Convention:   | [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other ( <i>give details</i> )] |
| (vi)   | Additional Business Centre(s) (Condition 4(b)(i)(a)):  | [•]  |
| (vii)  | Minimum Rate of Interest:  | [•] per cent. per annum  |
| (viii) | Maximum Rate of Interest:  | [•] per cent. per annum  |
| (ix)   | Day Count Fraction (Condition 4(b)(iv)):   | [•]  |

**20 Dual Currency Note Provisions**

- |       |  |   |
|-------|--|---|
|       |  | [Applicable/Not Applicable] ( <i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i> ) |
| (i)   | Rate of Exchange/Method of calculating Rate of Exchange:   | [Give details]  |
| (ii)  | Calculation Agent or Determination Agent, if any, responsible for calculating the principal and/or interest due: | [•]   |
| (iii) | Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:            | [•]   |
| (iv)  | Person at whose option Specified Currency(ies) is/are payable:   | [•]   |

**PROVISIONS RELATING TO REDEMPTION**

**21 Call Option**

- |      |   |   |
|------|---|---|
|      |   | [Applicable/Not Applicable] ( <i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i> ) |
| (i)  | Optional Redemption Date(s):  | [•]   |
| (ii) | Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): | [•]   |



	(iii) If redeemable in part:	[•]
	(a) Minimum nominal amount to be redeemed:	[•]
	(b) Maximum nominal amount to be redeemed:	
	(iv) Notice period (if other than as set out in the Conditions):	[•]
<b>22</b>	<b>Put Option</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[•]
	(iii) Notice period (if other than as set out in the Conditions):	[•]
<b>23</b>	<b>Final Redemption Amount</b>	[Nominal Amount/Other/ See Appendix]
<b>24</b>	<b>Early Redemption Amount</b>	
	(i) Early Redemption Amount(s) payable on redemption for taxation reasons (Condition 6(b)) or an Event of Default (Condition 9) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[•]
	(ii) Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(b)):	[Yes/No]
	(iii) Unmatured Coupons to become void upon early redemption (Bearer Notes only) (Condition 5(b)):	[Yes/No/Not Applicable]
<b>GENERAL PROVISIONS APPLICABLE TO THE NOTES</b>		
<b>25</b>	<b>Form of Notes:</b>	<b>[Bearer Notes/ Exchangeable Bearer Notes/Registered Notes]</b>  <i>[Delete as appropriate]</i>
	(i) Temporary or permanent global Note:	[temporary global Note exchangeable for a permanent global Note which is exchangeable for definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the permanent global Note]

		[temporary global Note exchangeable for definitive Notes on [•] days' notice]
		[permanent global Note exchangeable for definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the permanent global Note]
	(ii) Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable]
26	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/give details. Note that this item relates to the place of payment, and not interest period end dates, to which item 17(iii) relates]
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/give details]
29	Details relating to Instalment Notes:	[Not Applicable/give details]
	(i) Instalment Amount(s):	[•]
	(ii) Instalment Date(s):	[•]
	(iii) Minimum Instalment Amount:	[•]
	(iv) Maximum Instalment Amount:	[•]
30	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions [annexed to this Pricing Supplement] apply]
31	Consolidation provisions:	[Not Applicable/The provisions [in Condition 15] [annexed to this Pricing Supplement] apply]
32	Other terms or special conditions: <sup>1</sup>	[Not Applicable/give details]
<b>DISTRIBUTION</b>		
33	(i) If syndicated, names of Managers:	[Not Applicable/give names]
	(ii) Stabilising Manager (if any):	[Not Applicable/give name]
34	If non-syndicated, name of Dealer:	[Not Applicable/give name]
35	Additional selling restrictions:	[Not Applicable/give details]
<b>OPERATIONAL INFORMATION</b>		
36	ISIN Code:	[•]

<b>37</b>	Common Code:	[•]
<b>38</b>	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/ <i>give name(s) and number(s)</i> ]
<b>39</b>	Delivery:	Delivery [against/free of] payment
<b>40</b>	The Agent(s) appointed in respect of the Notes are(if any):	[•]

## GENERAL

### [LISTING APPLICATION]

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the €20,000,000,000 Euro Medium Term Note Programme [of Hamburgische Landesbank - Girozentrale -/Hamburgische Landesbank London Branch/Hamburgische LB Finance (Guernsey) Limited].]

### [STABILISING]

In connection with this issue, [insert name of Stabilising Manager] (the “Stabilising Agent”) or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

### MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There]<sup>2</sup> has been no significant change in the financial or trading position of the Issuer, the Guarantor or of the Group since [*insert date of last audited accounts or interim accounts (if later)*] and no material adverse change in the financial position or prospects of the Issuer, the Guarantor or of the Group since [*insert date of last published annual accounts*].

### RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular [and the supplemental Offering Circular] referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised

[Signed on behalf of the Guarantor:

By: \_\_\_\_\_  
Duly authorised]

1. If full terms and conditions are to be used, please add the following here:

“The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary.”

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

2. If any change is disclosed in the Pricing Supplement, it will require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular [comprising supplementary listing particulars] rather than in a pricing supplement.

## GENERAL INFORMATION

- 1 In connection with the application to list the Notes issued under the Programme on the Luxembourg Stock Exchange a legal notice relating to the issue of the Notes and copies of the Statutes of the Bank and the Memorandum and Articles of Association of HLB Guernsey will be deposited with the Chief Registrar of the District Court in Luxembourg (*"Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg"*) where such documents may be examined and copies obtained so long as Notes are listed on the Luxembourg Stock Exchange. The Programme has been registered with the Luxembourg Stock Exchange under the number 12036. So long as the Notes are listed on the Luxembourg Stock Exchange there shall be a Paying Agent with a specified office located in Luxembourg.
- 2 Each of the Issuers and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the guarantee relating to them. The issue of the Notes was authorised by a resolution of the Board of Managing Directors of the Bank passed on 31 May 2002 and by a resolution of the Board of Directors of HLB Guernsey passed on 31 May 2002 and the giving of the Guarantee relating to the Notes by the Bank was authorised by a resolution of the Board of Managing Directors of the Bank passed on 31 May 2002.
- 3 Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank or HLB Guernsey since 31 December 2001 and no material adverse change in the financial position or prospects of the Bank or HLB Guernsey since 31 December 2001.
- 4 Neither the Bank nor any of its subsidiaries, including HLB Guernsey, is involved in any legal or arbitration proceedings that may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Bank or of the Bank and its subsidiaries, including HLB Guernsey, nor is the Bank aware that any such proceedings are pending or threatened.
- 5 Each Note which has an original maturity of more than 365 days and each Receipt, Coupon and Talon relating to such Note will bear the following legend: "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".
- 6 Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code and the International Securities Identification Number ("ISIN") for each Series of Notes will be set out in the relevant Pricing Supplement.
- 7 Copies of the latest annual report and accounts of the Bank and HLB Guernsey may be obtained, and copies of the Agency Agreement and the Deed of Covenant (including the guarantee) will be available for inspection, at the specified offices of each of the Paying Agent during normal business hours, so long as any of the Notes is outstanding. The Bank and HLB Guernsey do not publish interim accounts.
- 8 The Auditors of the Bank have audited, and rendered an unqualified audit report on, the accounts of the Bank for the two years ended 31 December 2001.

## Appendix

### Germany agrees on the implementation of the Understanding with the Commission on State guarantees for Landesbanken and Savings Banks

The following is an extract from a press release that was issued by the European Commission on 28 February 2002

"After intensive talks today in Brussels, Competition Commissioner Mario Monti and State-Secretary Caio Koch-Weser from Germany's Federal Ministry of Finance accompanied by Finance Ministers Peer Steinbrück (Nordrhein-Westfalen), Kurt Faltlhauser (Bavaria), Gerhard Stratthaus (Baden-Württemberg) and by the President of the German Savings Banks Association, Dietrich Hoppenstedt, reached conclusions that should clear the road to rendering the German system of State guarantees for public law credit institutions compatible with the State aid rules of the EC Treaty. The conclusions spell out the key measures for implementing the understanding reached between the German Authorities and the Commission on 17 July 2001 regarding the principles of a solution concerning the two forms of guarantees, "*Anstaltslast*" and "*Gewährträgerhaftung*", to Landesbanken and savings banks. Mr Koch-Weser confirmed that all necessary legislation both at the Federal and at Länder level will be in place by the end of 2002.

The German authorities will now notify to the Commission the final draft legal texts implementing the agreement. These texts are also being submitted to the Länder Parliaments for adoption before the end of the year. As to the Commission, Mr Monti will propose a decision on Landesbanken, and savings banks by the end of March, in order to amend the Commission decision of 8 May 2001 which had set in motion the current process. In line with Community State aid procedures, the new decision will lay down in detail the measures to be taken by Germany, as accepted by the Commission, for the system of *Anstaltslast* and *Gewährträgerhaftung*. It would be followed by close monitoring of their correct implementation.

### Background

On 8 May 2001, the European Commission adopted a decision proposing to the German Government so-called "appropriate measures" in order to make the guarantee system of *Anstaltslast* and *Gewährträgerhaftung* compatible with the State aid rules of the EC Treaty. In July 2001, the German authorities fully accepted the proposed appropriate measures, on the basis of an understanding between Commissioner Monti and State-Secretary Koch-Weser on the key principles of a solution as well as on the process and the timing, including transitional arrangements."

### Annexes

#### 1. Today's Conclusions

Conclusions on *Anstaltslast* and *Gewährträgerhaftung* following the understanding on Landesbanks and savings banks of 17.7.2001 Mr Mario Monti, Commissioner for Competition, and Mr Caio Koch-Weser, State Secretary in the German Ministry of Finance, Mr Kurt Faltlhauser, Minister of Finance of Bavaria, Mr Peer Steinbrück, Minister of Finance of Northrhine-Westphalia, Mr Gerhard Stratthaus, Minister of Finance of Baden-Württemberg and Mr Dietrich Hoppenstedt, President of the German savings banks'

association, for the Federal Republic of Germany, reached in Brussels on 28 February 2002 the following conclusions.

All engagements mentioned have to be made by 15 March 2002. For the other measures, the timetable established in the understanding of 17 July 2001 applies. The original time limit to submit the necessary legal measures to the respective legislative bodies fixed 31st December 2001 is postponed to 31st March 2002; in motivated exceptional cases this time limit can be extended to 31st May 2002 at the latest. At any rate, a preliminary report on the status of the legislative efforts has to be submitted to the Commission by 15 March 2002:

(A) **Replacement of *Anstaltslast* and abolishment of *Gewährträgerhaftung***

For the replacement of *Anstaltslast* and the abolishment of *Gewährträgerhaftung*, at least the following elements shall be contained:

In the legal text itself:

1. *Anstaltslast* is replaced by the following provisions.
2. The owner supports (unterstützt) the savings bank/Landesbank in the fulfilment of its tasks according to the following principles/provisions.
3. There is no obligation of the owner to provide the savings bank/Landesbank with funds, nor is there a right (claim) of the savings bank/Landesbank against the owner.
4. The savings bank/Landesbank is responsible for its liabilities with all its assets.
5. The responsibility (Haftung) of the owner of a Landesbank is limited to its statutory capital./The owner of the savings bank is not responsible (haftet nicht) for its liabilities.
6. All Landesbanks and savings banks must be able to go insolvent [to be reached by abolishment of Länder provisions based on 12(1) No 2 Insolvency Code].
7. Any existing provisions on *Anstaltslast* and *Gewährträgerhaftung*, which contradict the above, are to be deleted.

In the recitals (Gesetzesbegründungen):

In addition to explanations of the provisions in the legal text, the following must appear:

As far as the owner provides the savings bank/Landesbank with means, this occurs only according to the State aid discipline of the Community.

In separate engagements by the German authorities:

1. The German authorities engage themselves by a separate letter that they will notify any future provision of funds to savings banks/Landesbanks to the Commission, in case it contains State aid.
2. The German Federal and Länder authorities engage themselves by a separate letter that in the future no use will be made of the enabling clause in federal law to exempt from the insolvency procedures Anstalten under the supervision of Länder for public banks covered by the understanding of 17 July 2001.

(B) **Grandfathering of *Gewährträgerhaftung***

The following provisions are to be put into the legal text, corresponding explanations are to be provided in the recitals: "The owners of the savings banks and the Landesbank at 18.7.2005 are responsible for the honouring of all liabilities of the respective institution existing at this date. For the liabilities agreed by 18.7.2001 this applies without time limits; for those agreed afterwards until 18.7.2005, this applies only if their maturity does not go beyond 31.12.2015. The owners will immediately honour their obligations from

*Gewährträgerhaftung* vis-à-vis the creditors of liabilities agreed until 18.7.2005 as soon as they have stated, when these liabilities come due, in due manner and in writing that the creditors of these liabilities cannot be satisfied out of the assets of the institution. Liabilities of the Landesbank or savings banks from their own *Gewährträgerhaftung* or of comparable responsibilities or those resulting from membership in a savings banks association are founded and come due in the sense of sentences 1 and 2 at the same time as a liability secured by such responsibility. Several owners are collectively responsible, in their internal relationships according to their shares [or: according to the provisions in the by-law of the institution.]"

**(C) Institutional security funds (Institutssicherungsfonds)**

The German authorities engage themselves by a separate letter to abolish any obligation of owners or other public bodies to provide financial means to institutional security funds (Institutssicherungsfonds) of savings banks associations in the Länder, where this is applicable, with a clear timetable along the lines of the understanding of 17.7.01. Subsequently, the necessary measures will be taken in accordance with this engagement.

**(D) Free savings banks**

The German authorities engage themselves by a separate letter to abolish any obligation of public bodies to provide financial means to so-called free savings banks (e.g. Frankfurter Sparkasse) with a clear timetable along the lines of the understanding of 17.7.2001. Subsequently, the necessary measures will be taken in accordance with this engagement.

Brussels, on 28 February 2002

**2. Agreement of 17.07.01**

**Understanding on *Anstaltslast* and *Gewährträgerhaftung***

Mr Mario Monti, Commissioner for Competition, and Mr Caio Koch-Weser, State Secretary in the German Ministry of Finance, Mr Kurt Faltlhauser, Minister of Finance of Bavaria, Mr Peer Steinbrück, Minister of Finance of Northrhine-Westphalia, Mr Gerhard Stratthaus, Minister of Finance of Baden-Württemberg and Mr Dietrich Hoppenstedt, President of the German savings banks' association, for the Federal Republic of Germany, reached in Brussels on 17 July 2001 the following understanding:

**1 "Platform-model"**

- 1.1** The German authorities confirm that all Landesbanken and Sparkassen, including their subsidiaries in public law form, will adopt the so-called "platform-model".
- 1.2** The "platform-model" consists in the abolishment of *Gewährträgerhaftung* and the replacement of *Anstaltslast*, as it exists now, in line with what is specified under 2.

**2 Principles of changes as regards the system of *Anstaltslast* and *Gewährträgerhaftung***

- 2.1** *Gewährträgerhaftung* shall be abolished.
- 2.2** *Anstaltslast*, as it exists now, shall be replaced in order to comply with the following principles:
  - (a) The financial relationship between the public owner and the public credit institution shall be not different from a normal commercial owner relationship governed by market economy principles, just as between a private shareholder and a limited liability company.
  - (b) Any obligation of the public owner to grant economic support to the public credit institution and any automatism of economic support granted by the owner to the public credit institution shall be excluded. There shall be no unlimited liability of the owner for the liabilities of the public credit institution. There shall be no declaration of intent nor guarantee to ensure the existence of the public credit institution (no "Bestandsgarantie").



- (c) The public credit institutions shall be subject to the same insolvency rules as private credit institutions, putting their creditors in the same position as creditors of private credit institutions.
  - (d) These principles shall be without prejudice to the possibility of the owner to grant economic support in conformity with the State aid rules of the EC Treaty.
- 2.3** Explicit legal change in line with the above shall be made in all laws in Germany governing public credit institutions, which are on the platform, regardless of whether *Anstaltslast* is now explicitly prescribed in the law or not.
- 3 Commitment of implementation**
- 3.1** The German authorities offered the commitments (i) that the Federal and all Länder authorities shall submit not later than 31.12.2001 to their legislative bodies the proposals for the necessary legal measures according to what is laid down in 1. and 2. above and (ii) that all necessary legal measures shall be definitively adopted not later than 31.12.2002. These deadlines allow in particular the municipalities (cities, counties, communes) as owners of the Sparkassen an appropriate time for discussion within the framework of the democratic process of implementation.
- 3.2** The purpose of the commitments under 3.1. shall be to ensure the proper implementation of the appropriate measures laid down in the Commission's recommendation of 8.5.2001 and facilitate an early adaptation of the public law credit institutions to the new legal and economic framework.
- 3.3** Commissioner Monti welcomes these commitments which will be part of the draft decision he will submit to the Commission to amend the Commission's decision of 8.5.2001 adopting a recommendation of appropriate measures.
- 3.4** It is understood that non-compliance with these commitments by the Federal Republic or one or more Länder shall constitute the non-compliance with the Commission decision amending its decision of 8.5.2001 with respect to the non-complying Federal Republic, Land or Länder and shall have as legal effects that the state aid element involved in *Anstaltslast* and *Gewährträgerhaftung* shall be treated as new state aid as of 1.1.2003.
- 4 Transitional arrangement**
- Liabilities existing at 18.7.2001, the date of acceptance by the German authorities of the Commission's recommendation of 8.5.2001, will continue to be covered by *Gewährträgerhaftung* until their maturity runs out. The decision amending the Commission's decision of 8.5.2001 will contain a transitional period which will last until 18.7.2005 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 18.7.2001 will continue to be covered by *Gewährträgerhaftung* under the condition that its maturity does not go beyond 31.12.2015.
- 5 Further steps**
- 5.1** The German authorities shall at the latest on 18.7.2001 give their unequivocal and unconditional acceptance of the appropriate measures as recommended in the Commission's decision of 8.5.2001.
- 5.2** As soon as possible after reception of such acceptance Mr Monti will report to the Commission the results of this meeting.
- 6** Commissioner Monti and the German delegation are convinced that with the implementation of these principles the economic activities of the Landesbanken and Sparkassen will become compatible with the Community law.

Brussels on 17.7.2001"

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